Media Release

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ANZ confirms earnings outlook despite weakness in cards

ANZ today issued a shareholder update confirming a stable earnings outlook for the year in line with market consensus for growth of around 8%, notwithstanding a one-off charge in its credit card issuing business in the first half. This announcement coincides with public shareholder meetings in Auckland today and Wellington next week.

ANZ confirmed trading improved in December and January following previously announced weaker performance in October and November. ANZ will also take a one-off $27 million charge after tax in its credit card issuing business arising from the prior under-accrual of loyalty points liabilities together with a non-recurring gain in Asia of $16 million after tax.

Asset and liability growth has been strong across personal and corporate businesses. Expenses were controlled, and despite recent speculation, credit quality continues to improve with ANZ expecting specific provisions for 2003 to be below 2002 and within Economic Loss Provisioning.

While ANZ expects full-year 2003 bottom-line after tax profit growth of 8% in line with market consensus, the cards issue is likely to mean the first half will be weaker than the second.

ANZ is also confident it will resolve satisfactorily its major outstanding tax dispute with the Australian Taxation Office relating to dividend product transactions.

ANZ Chief Executive Officer Mr John McFarlane said: “We are operating in a tougher environment and the current market consensus on our 2003 earnings growth is a realistic challenge.

“Despite the problem in our credit card issuing business, recent overall momentum has been good, expenses are being managed well, and international credit issues appear containable,” he said.

Business Segment Update

Consumer Finance. Underlying business conditions for the Consumer Finance business remain solid, supported by strong asset growth in the December quarter reflecting a buoyant Christmas sales period. Momentum in credit card merchant acquiring continues, with market share up to 24% of reported credit card transactions.

However, in a review of its credit card business following the Reserve Bank of Australia’s announced reforms, shortcomings have been identified in the methodology used to accrue loyalty points for some co-branded cards. Since 1999, points for the Qantas ANZ Business One Card and bonus points for international expenditure on the Qantas ANZ Card have been under-accrued. The associated one-off charge will reduce Consumer Finance’s after tax profit by a one-off charge of $27 million in the first half of 2003. As a result, ANZ has made management changes in the cards issuing area and increased financial controls within the business.

Mortgages. Mortgage outstandings were up 6.5% in the first four months. While ANZ-distributed product has held up well, the majority of improvement came from third parties who accounted for more than a third of all new mortgages by value. Third-party share of the overall market has been steadily increasing and ANZ’s third-party distribution model and product offering continues to gain a solid share of this growth.

Personal Banking. Deposit growth and mortgage sales have been solid. This has been eroded to some extent by margin pressure, reduced fees on transaction accounts and increased costs associated with branch refurbishment.

ING Joint Venture. The performance of the ING Australia Joint Venture has been flat compared to the second half of 2002. In a difficult environment for the funds management industry, it was encouraging that ASSIRT reported ING Australia had the largest net inflows in the industry for the December quarter.

Global Institutional and Investment Bank. Fee and loan volume growth have been relatively strong in Australia and New Zealand but Global Structured Finance has been subdued reflecting ANZ's strategy to contain non-core international corporate lending. Revenues from trading activities have been stable.

Corporate and Small-Medium Business. Asset and deposit growth underpin a strong performance, with positive trends in domestic business investment.

New Zealand. Performance has been relatively flat in New Zealand Dollar terms however ANZ has benefited from the appreciation of the New Zealand Dollar against the Australian Dollar.

Asset Finance. Strong business conditions, good liability growth and a more focused business model have generated positive earnings performance.

Asia-Pacific. Performance has been strong, enhanced by the one-off gain relating to PT Panin Bank.

Domestic consumer and corporate credit quality remain sound. We continue to be cautious regarding parts of the offshore investment banking portfolio, including the US energy sector. While there have been some developments, we do not believe these to be sufficient to affect our previously stated view of potential losses, and continue to believe these to be containable. Accordingly, ANZ continues to expect specific provisions from its international investment banking businesses to have peaked and for specific provisions in 2003 to be lower than 2002. In general, the overall quality of ANZ's loan portfolio continues to improve and there is scope for the underlying Economic Loss Provision charge to modestly reduce as a percentage of net lending assets.

ANZ's Adjusted Common Equity Ratio (ACE/RWA) is at the top end of its target capital adequacy range and, with asset growth and the possibility of a higher dividend payout ratio, is likely to remain around current levels in the near term.

ANZ will report its Interim Results for the six months ended 31 March 2003 on 24 April 2003.

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