

# 2003 Interim Results

Australia and New Zealand Banking Group Limited

24 April 2003



# Agenda

## John McFarlane

- Introduction

## Peter Marriott

- Result review
- Portfolio performance
- Credit quality
- Other issues

## John McFarlane

- Strategy
- Outlook

# John McFarlane

Chief Executive Officer

24 April 2003



# 2003 Interim Results

v Mar 02

• NPAT	\$1,141m	↑	8.7%
• EPS	72 cents	↑	8.6%
• Cash EPS	74 cents	↑	10.4%
• Interim Dividend	44 cents	↑	12.8%
• Net Specific Provisions	\$259m	↓	29%

## Before Significant Items

• NPAT	\$1,141m	↑	7.0%
• EPS	72 cents	↑	6.8%
• Cash EPS	74 cents	↑	8.7%

# A reasonable result

- **Good underlying business performance**
- **Cards issue cost \$27m after tax**
- **Risks down**
  - **Specific provisions down 29%**
  - **New non-accruals down 50%**
  - **Net non-accruals down 28%**
- **Significant historical tax issue settled**
- **1st half normally cyclically lower than 2nd**
- **On track for 8% full year NPAT result\***

\* Excluding significant transactions



**Peter Marriott**

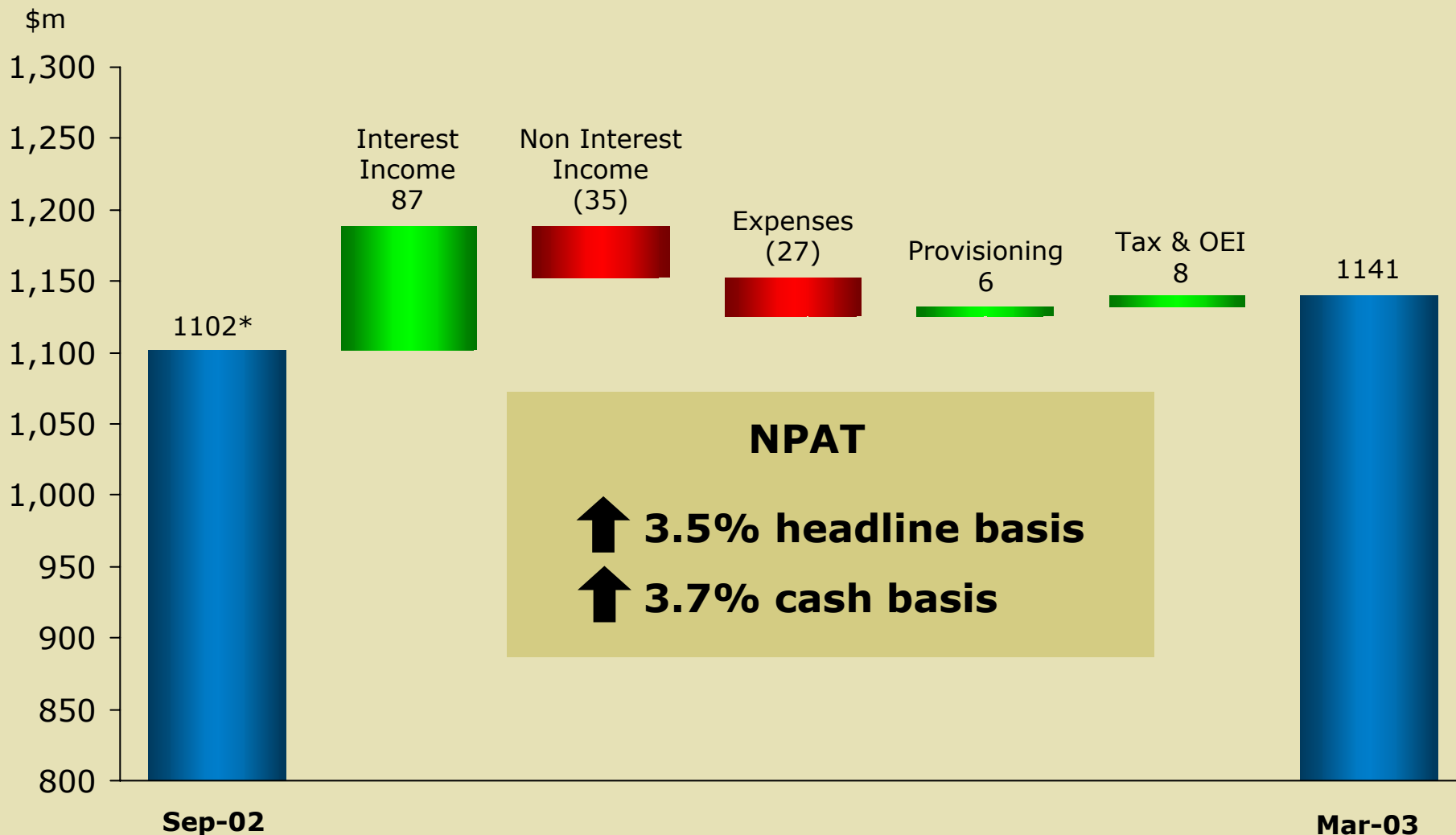
Chief Financial Officer

24 April 2003

# Outline

- Result review
  - 1H03 Overview
  - Revenue
  - Expenses
  - Doubtful debt provisions
- Portfolio performance
- Credit Quality
- Other issues

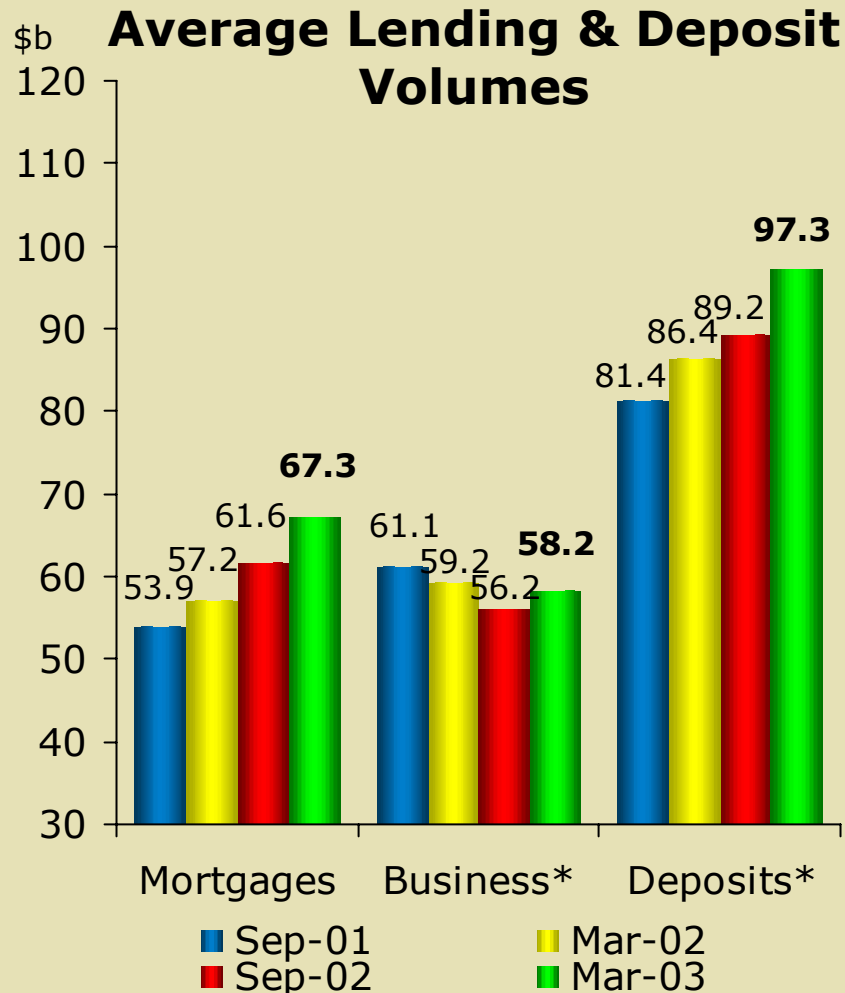
# Result driven by asset & deposit growth, non-interest income impacted by one offs



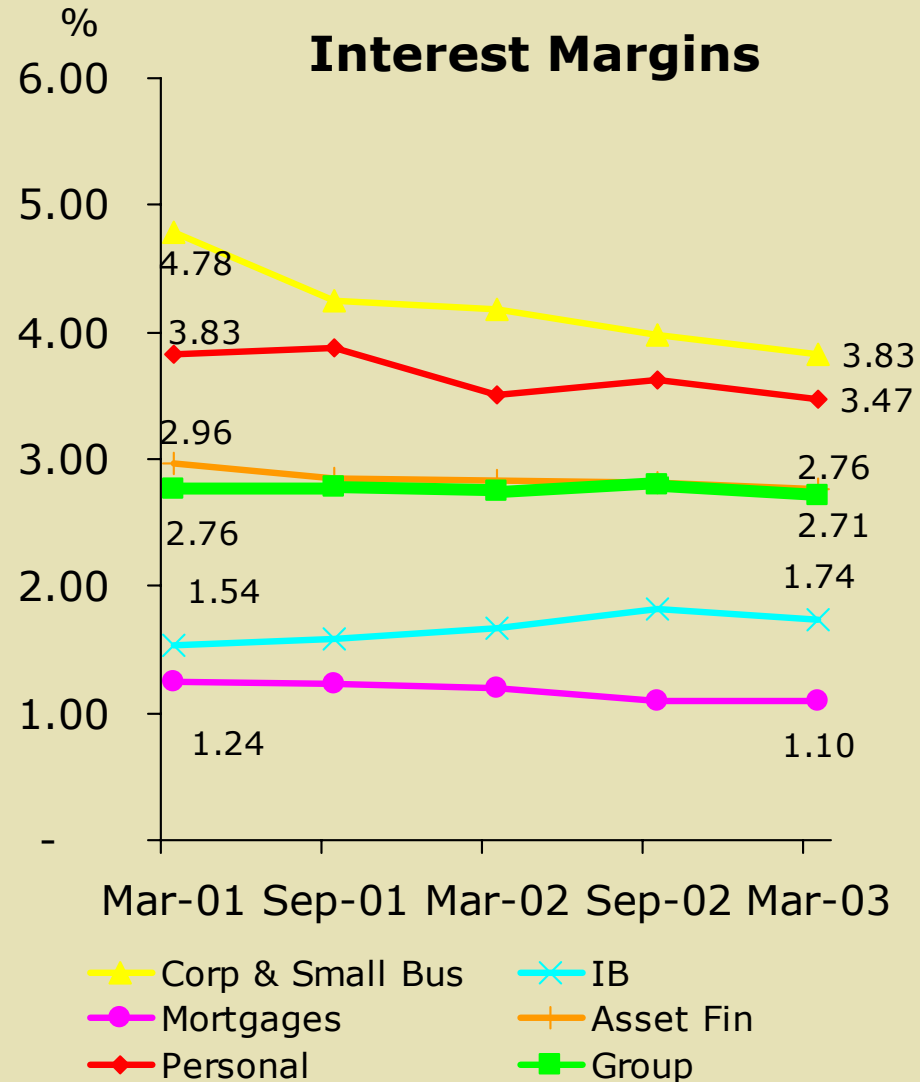
\* Sep-02 excludes significant items



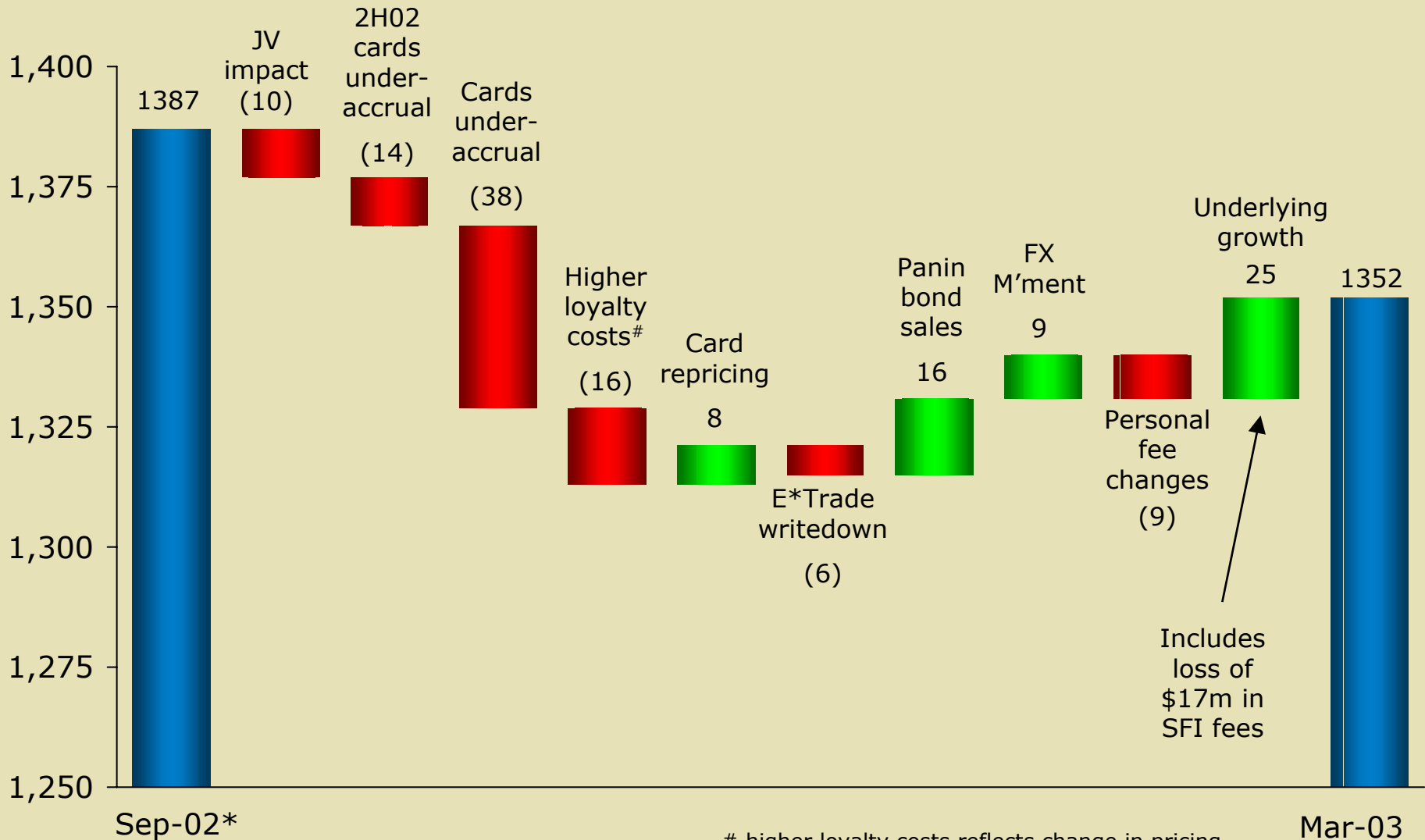
# Higher interest income, driven by strong asset growth



\*Business Lending includes Corporate & Small Business, and Institutional Segments. Deposits includes Esanda retail debentures



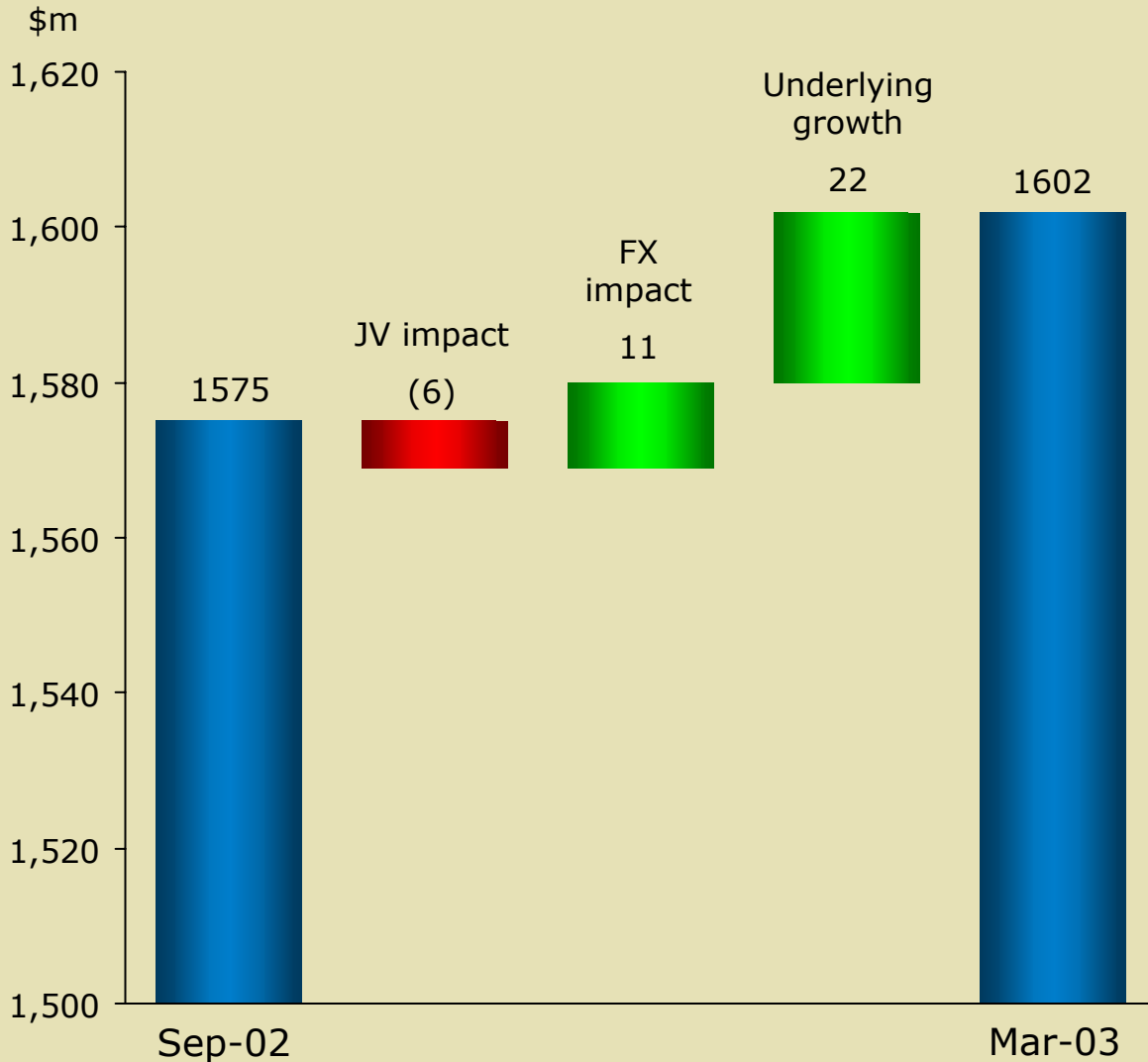
# Underlying non-interest income reasonable, but dominated by one-offs



\* Sep-02 excludes significant items

# higher loyalty costs reflects change in pricing, and does not include higher volume impact

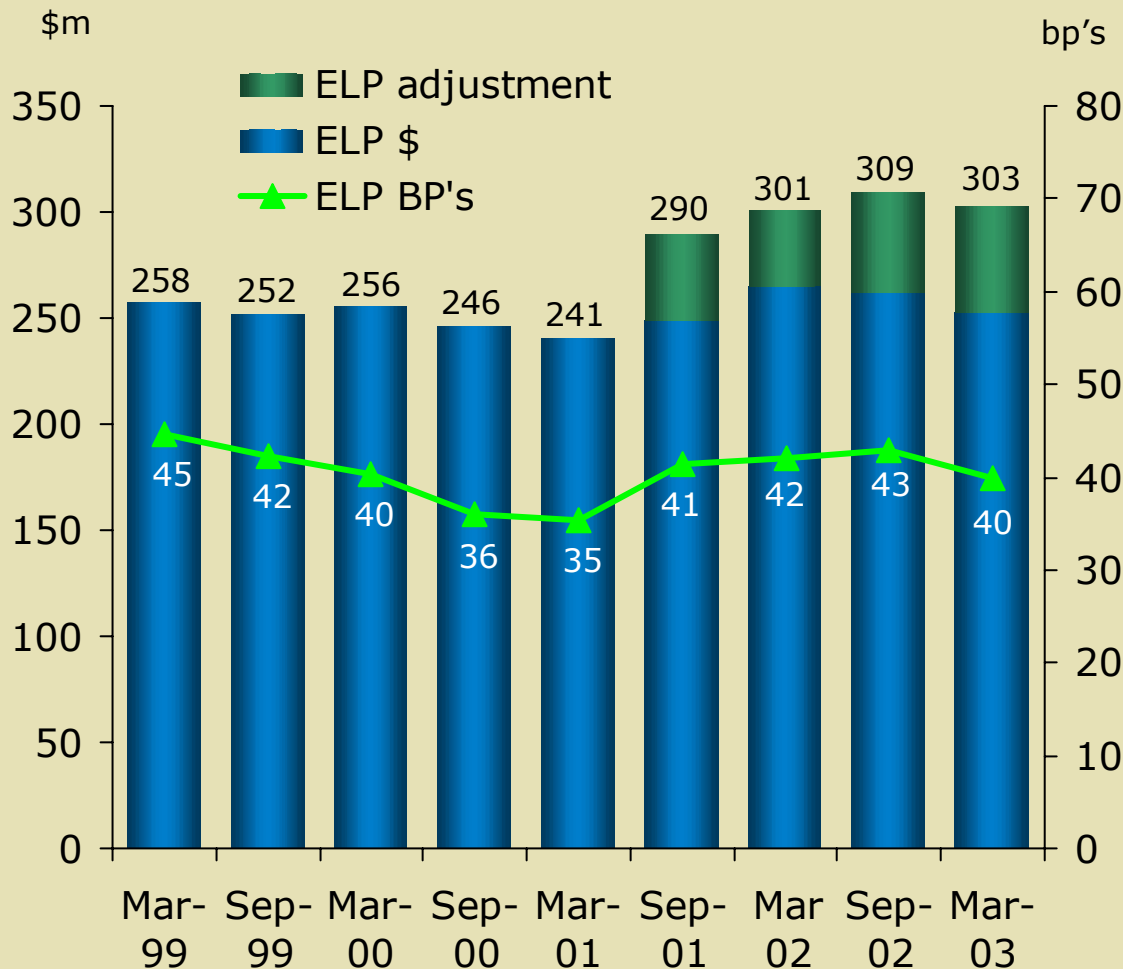
# Expenses well controlled, cost income ratio flat



- Growth spend held back due to lower income growth
- Underlying half on half cost growth of 1.4%
- Includes \$10m increase in software amortisation
- Restructuring costs of \$32m taken, in line with previous half
- Continued focus on re-engineering "business as usual" costs

# Provisioning charge reflects conservative management

## ELP Charge

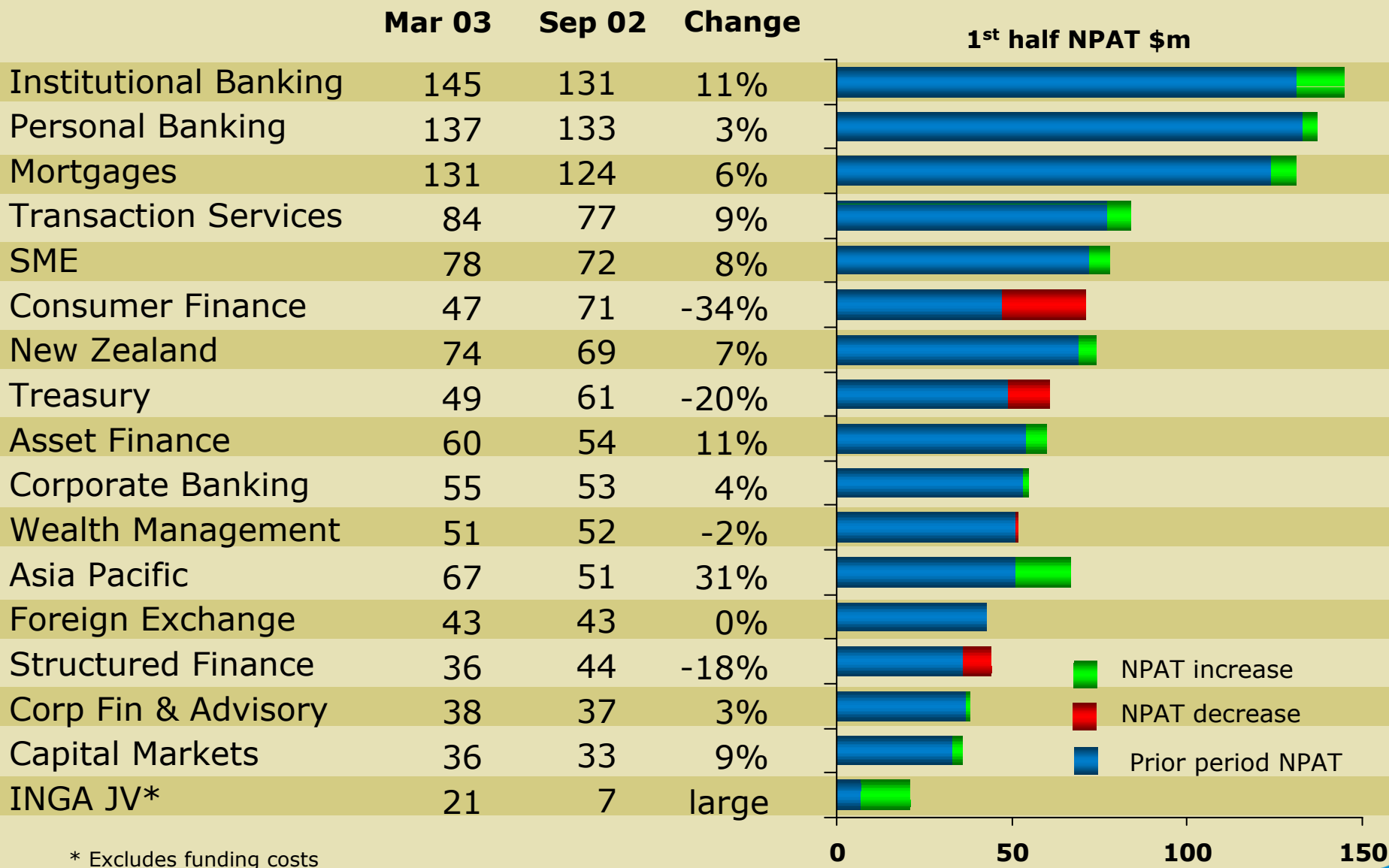


- ELP rate down 3bps – reflecting strong mortgage growth & improved risk profile
- ELP Portfolio adjustment continued
  - accruing higher level of ELP, reflecting ongoing global economic uncertainty

# Outline

- Result review
- Portfolio performance
- Credit Quality
- Other issues

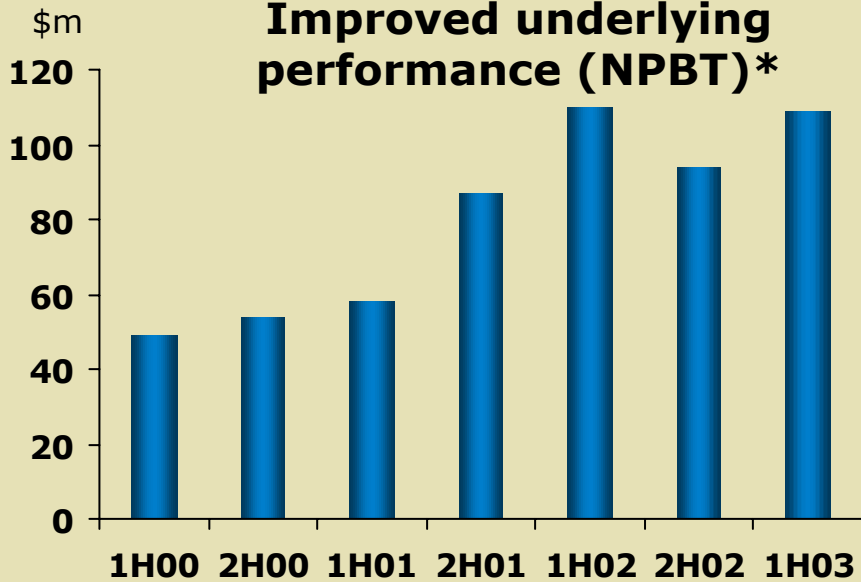
# A diversified portfolio performing well



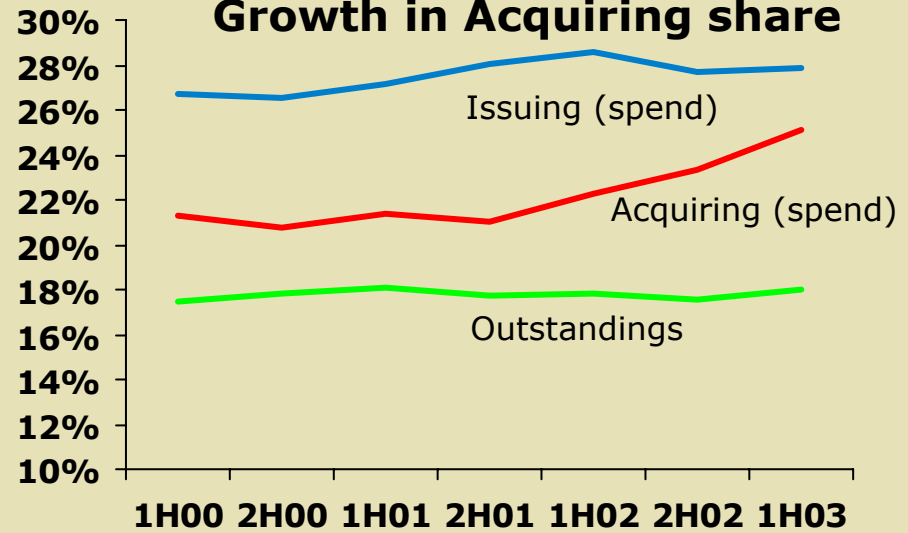
\* Excludes funding costs

# Consumer Finance – challenges, but good underlying performance

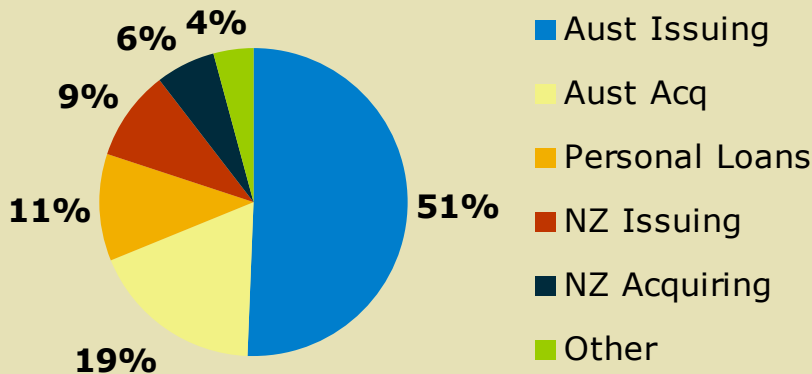
**Improved underlying performance (NPBT)\***



**Growth in Acquiring share**



**Diversifying revenue\***



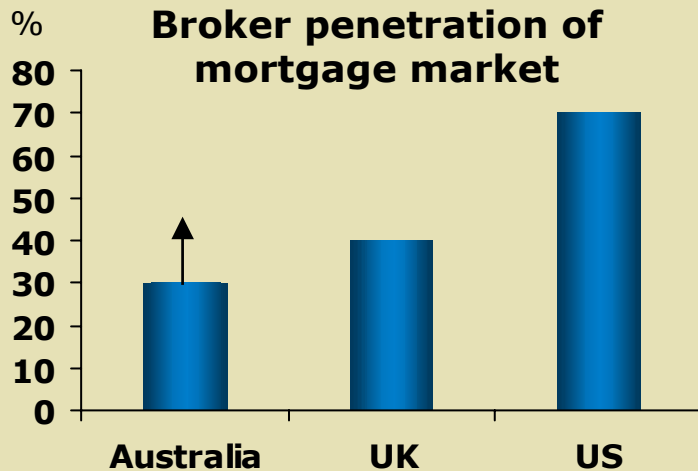
## Issues

- Loyalty schemes increasingly costly to operate
- Reduction in interchange and loyalty costs likely to impact 2004 NPAT by not more than \$40m

\* Adjusted for under-accrual of loyalty points

# Mortgages – well placed to benefit from shift to mortgage brokers

## Growing presence



- 80% of broker originated customers new to ANZ
- 92% purchase additional ANZ products (89% for network originated customers)

## And we are well placed to participate

Low cost income ratio – efficient processing platform

+

Leading broker distribution model, with high quality MIS

+

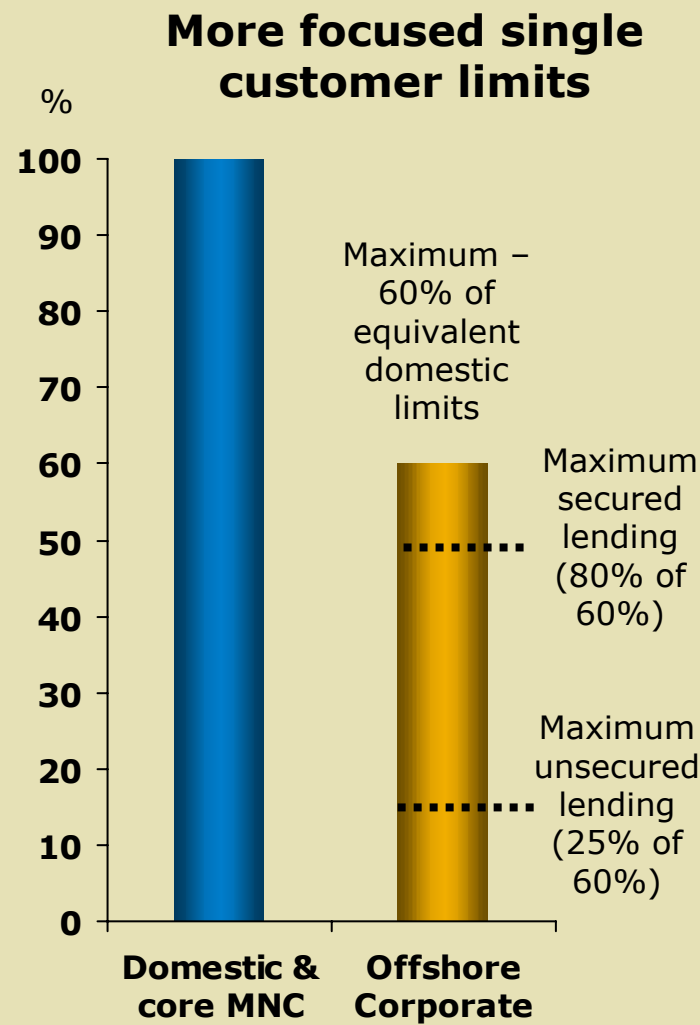
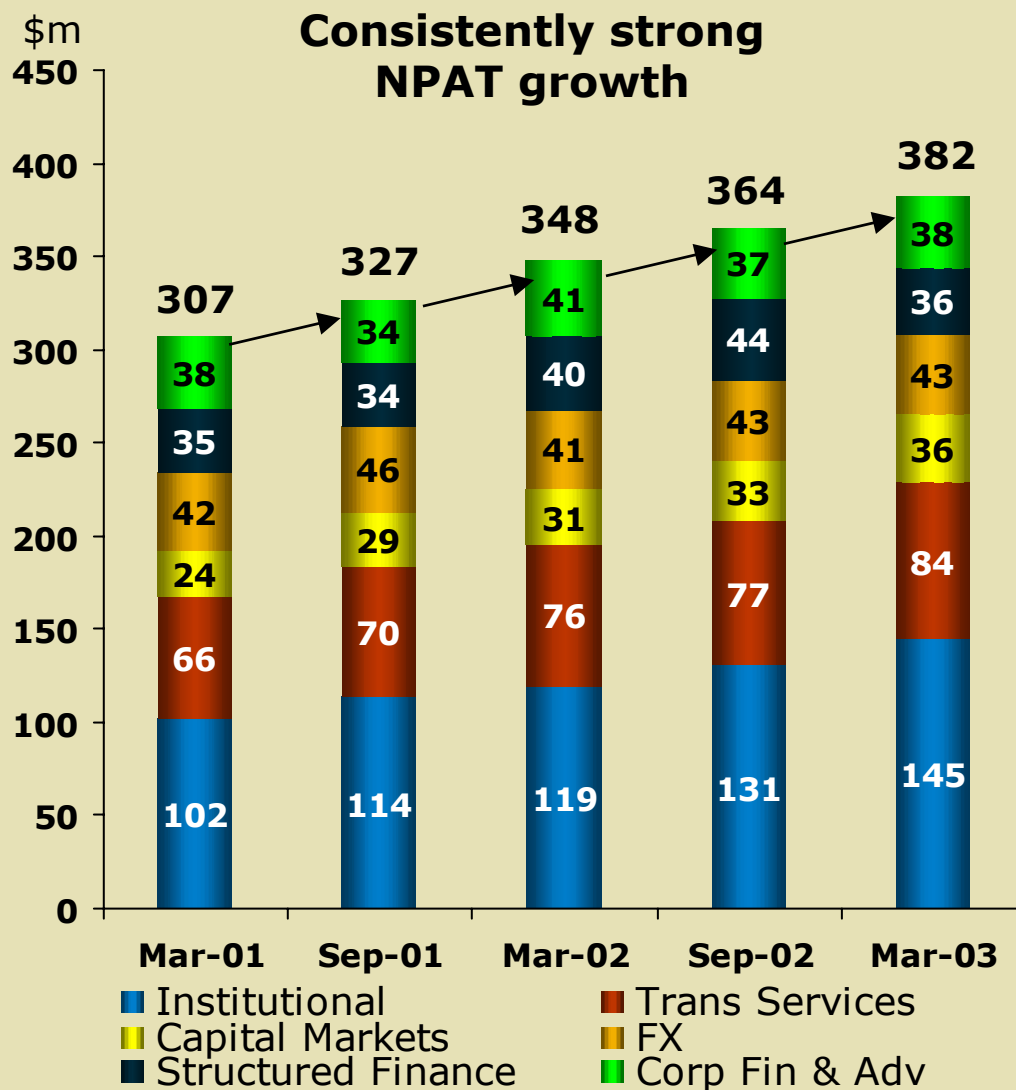
Award winning products

+

Brokers strongest in states where ANZ has weaker branch presence

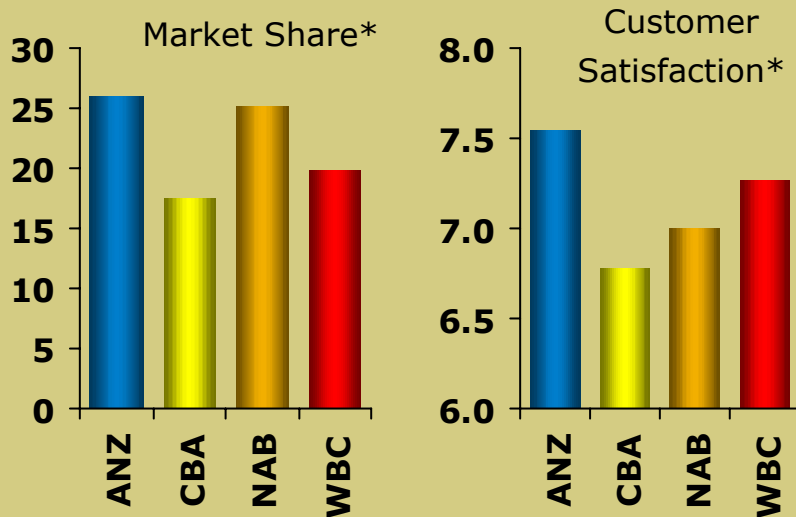


# Institutional & Investment Banking – a leading franchise



# Corporate and SME – well positioned for upswing in business lending

## A very strong Corporate franchise

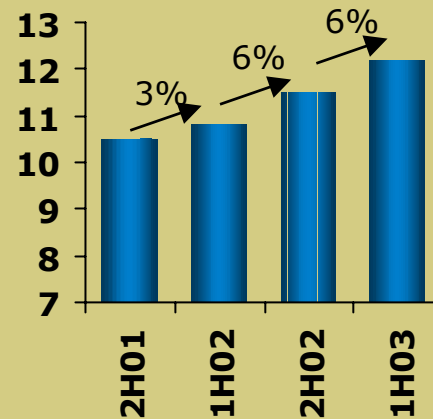


- Market advantage with “Wall St to Main Street” capability
- Strong cross selling
- Focus around total customer value to Group

\* Roberts Research 2002 (customers with turnover between \$10m-\$100m)

## Investment in SME has yielded strong balance sheet growth without loss of credit standards

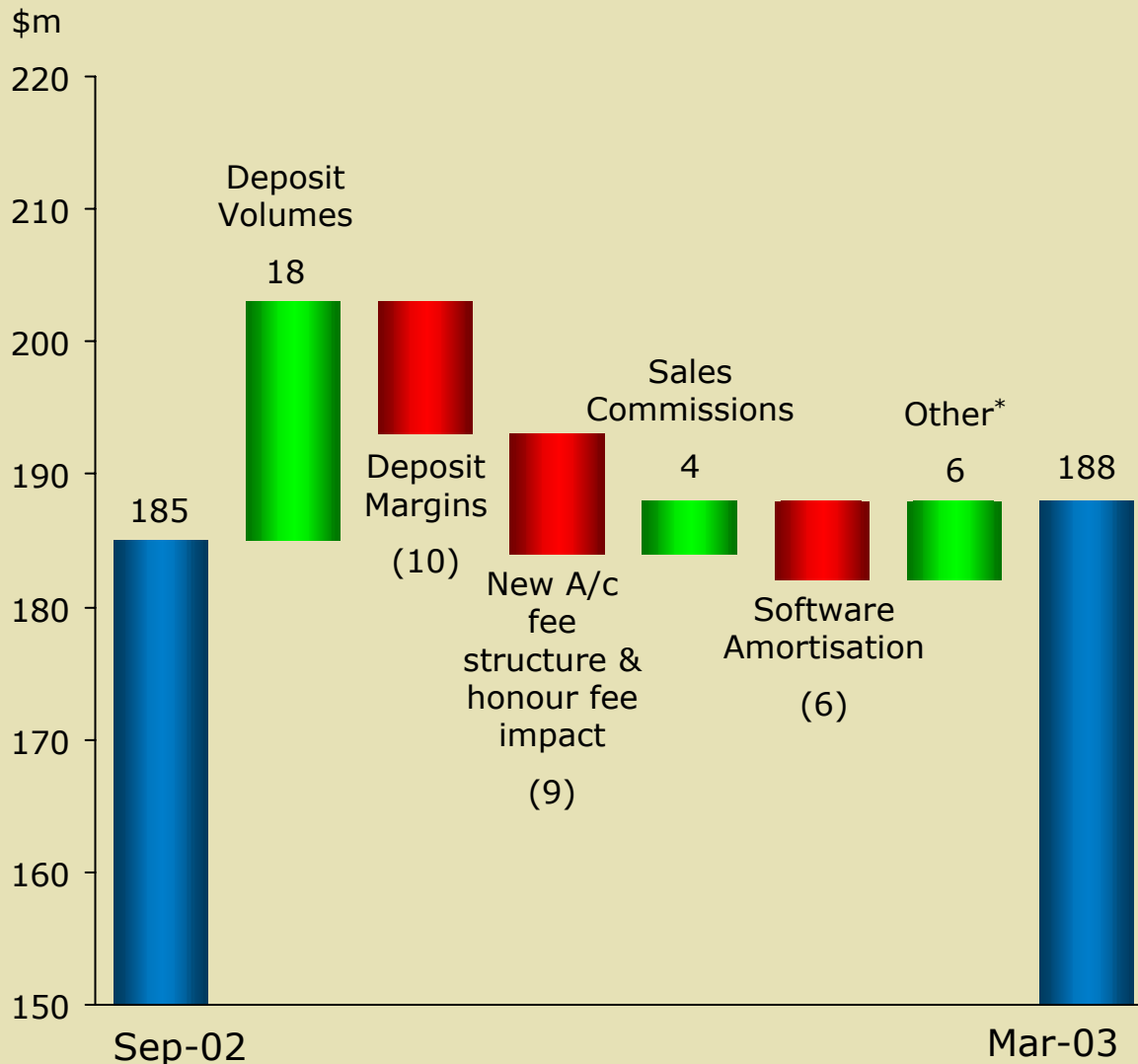
### \$b FUM (loans & deposits)



- Risk grade profile has improved over past 6 months
- 80% of portfolio fully secured

- Enhanced customer service proposition
- Disciplined business execution and a stronger performance culture
- Investment in an expanded business ‘footprint’ – customer facing staff up 10%

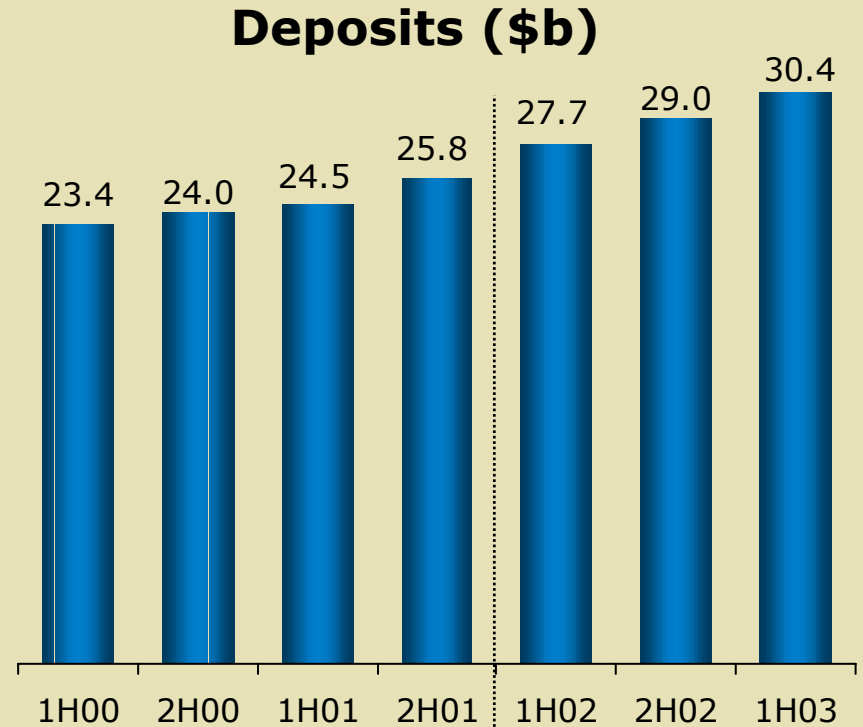
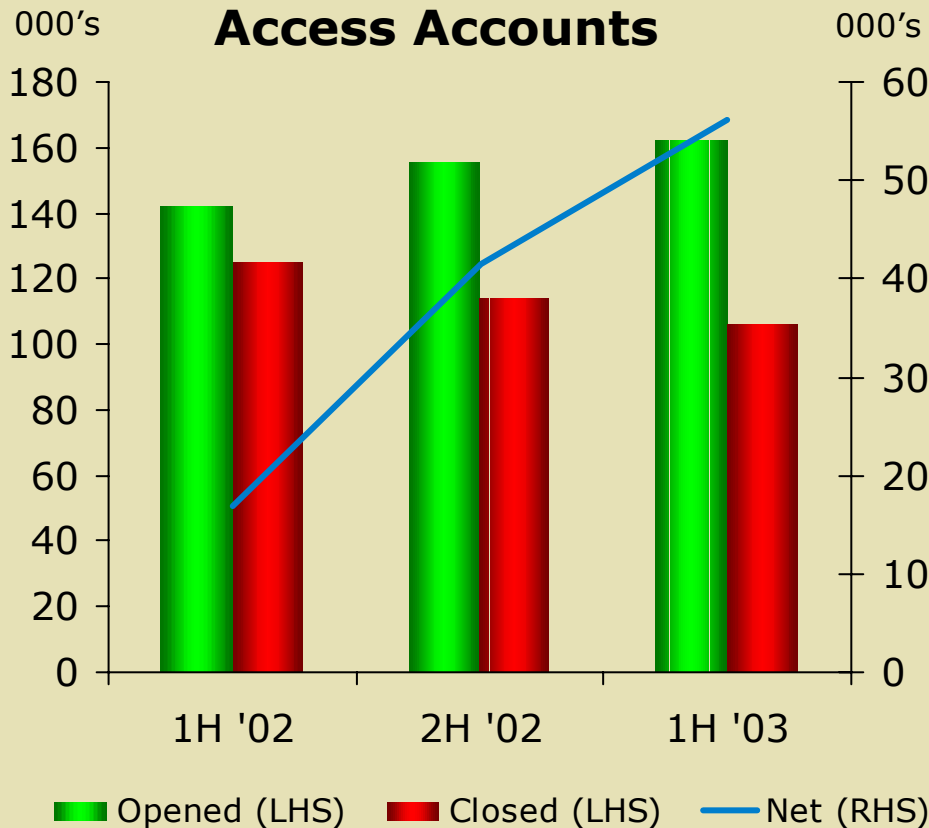
# Personal banking – impacted by margin squeeze on deposits and fee changes



\* Includes tax impact

- Overall 16 bp decline in margins due to
  - Lower interest rates over the half
  - Increased flows to higher rate deposit products such as TDs
- Fees lower due to new transaction account fee structure and lower honour fees
- RCF rolled out in NSW & Vic, remainder of States over calendar 2003

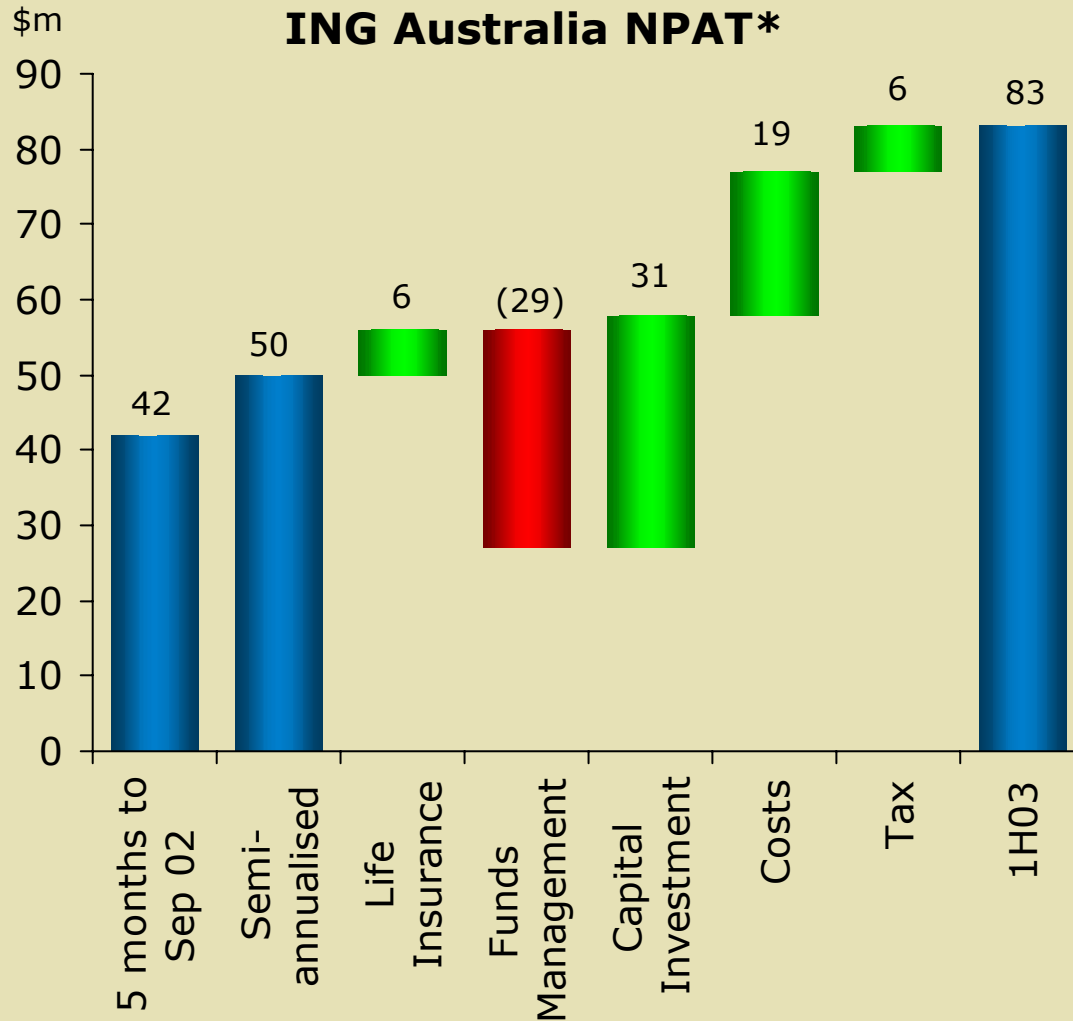
# ...but strong account and deposit growth



New deposit strategy launched in Aug 01

**New accounts** up **14%**  
**Closed accounts** down **15%**  
**Net new accounts** up **229%**

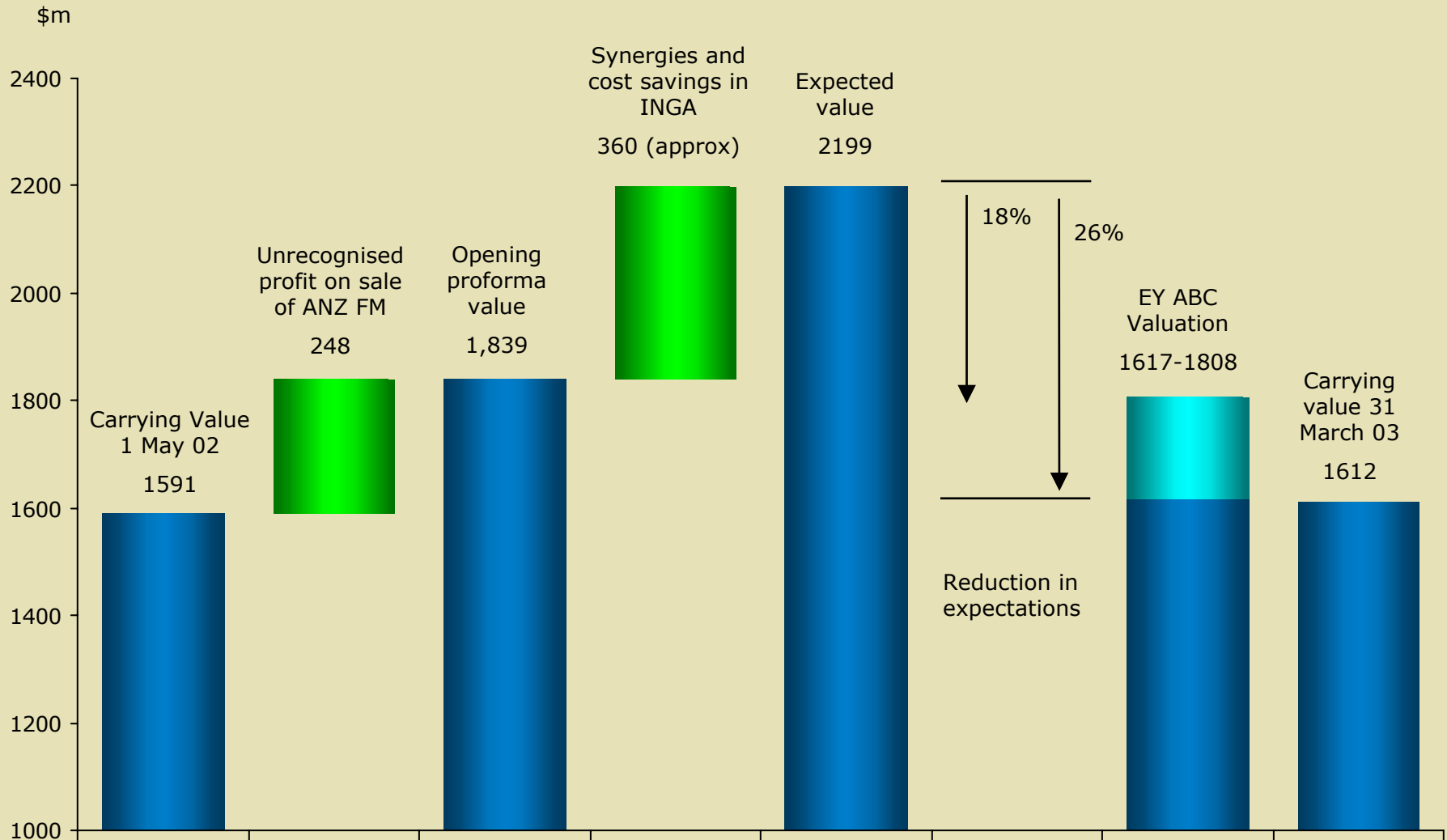
# JV performance – good insurance and expense performance, offset by FM



- Life Insurance business performing well due to improved service, efficiency, and claims management
- Subdued equity market conditions continue to impact Funds Management business
- Improved capital investment returns, combined with hedge delivering cash rate of return
- Synergies being extracted in line with expectations

\* Movements on a semi-annualised basis

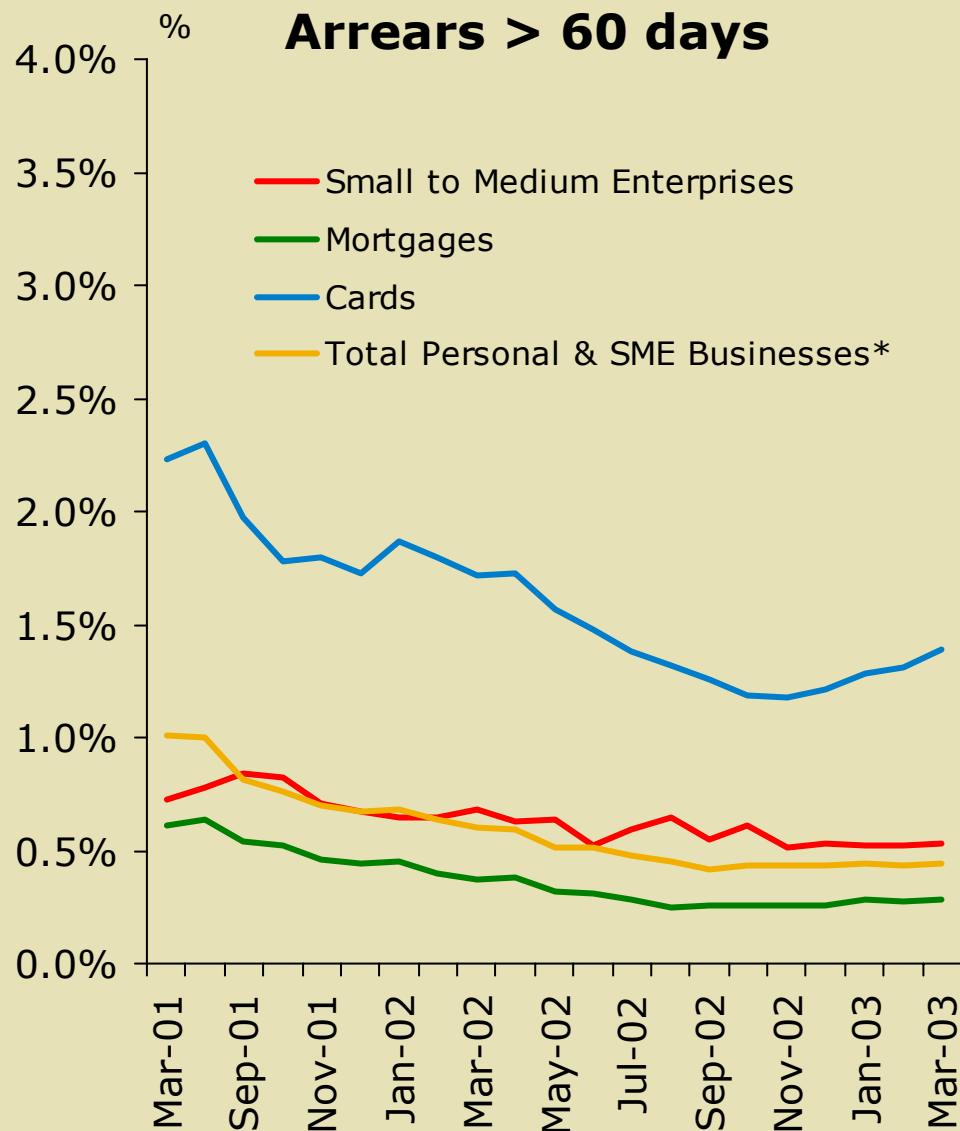
# Valuation supports carrying value of investment in INGA JV



# Outline

- Result review
- Portfolio performance
- Credit Quality
  - Consumer
    - > Arrears
    - > Mortgages
  - Corporate
    - > Domestic
    - > US Energy portfolio
    - > Global Telco portfolio
    - > Top 10 exposures
  - Specific provisions
  - Non-accrual loans
  - Provisioning coverage
- Other issues

# Arrears profile close to historical lows



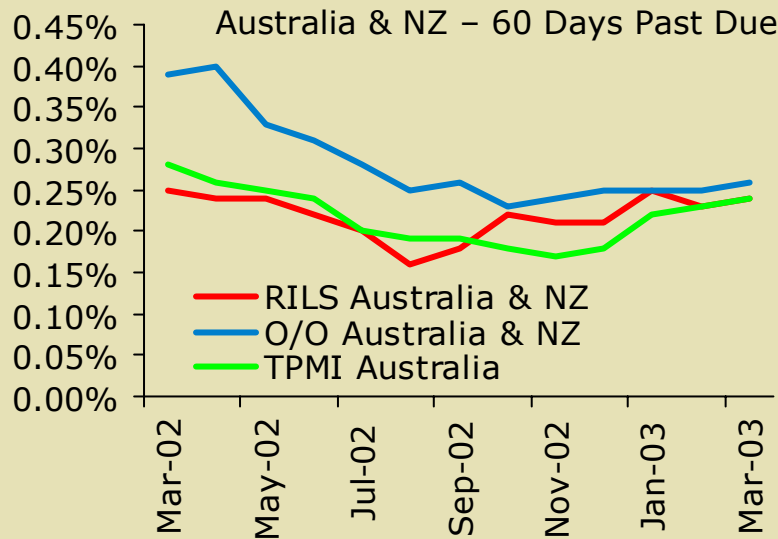
- Consumer sector in good shape, with continuing low levels of unemployment and low interest rates
- Mortgage arrears remain very low
- Ongoing focus on collections management
- Upwards movement in cards arrears expected, will be carefully managed
- Scorecards remain “tight”

\* excl Asset Finance, Pacific, Asia

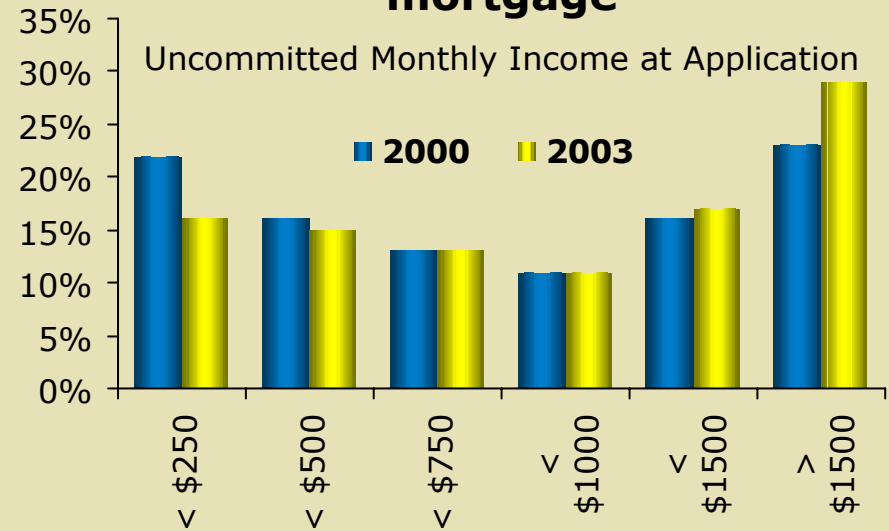


# Mortgages portfolio healthy\*

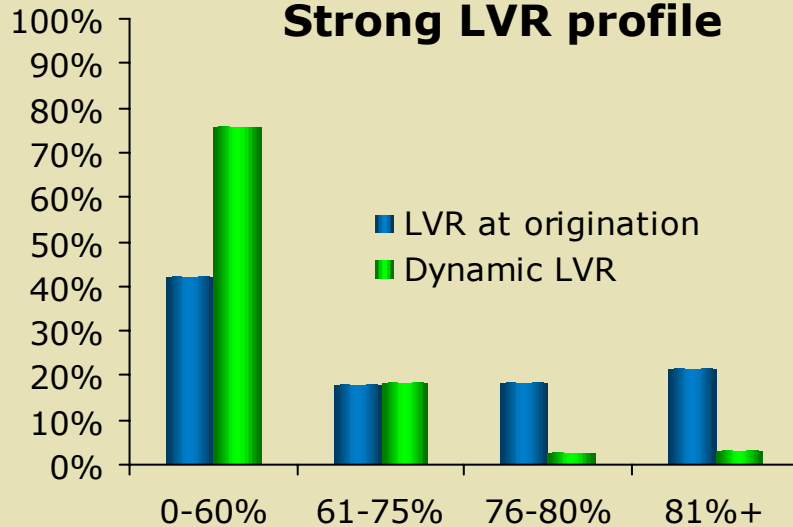
## High quality arrears profile



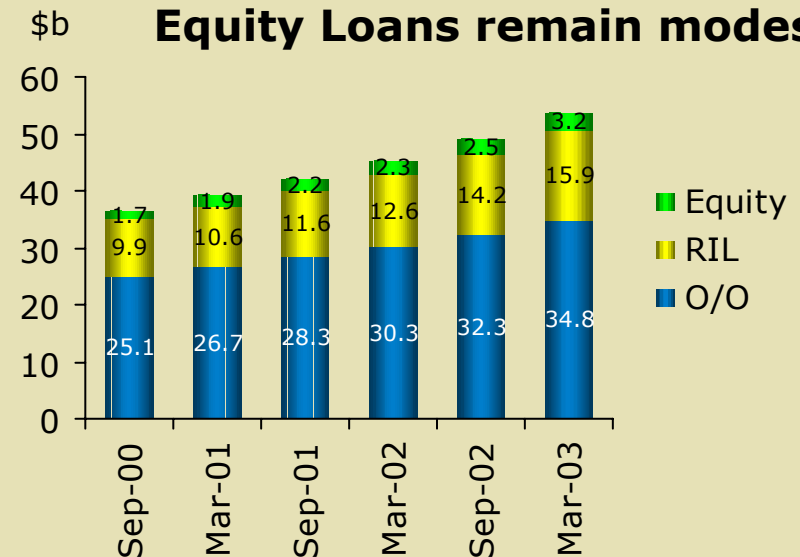
## Increasing flexibility to service mortgage



## Strong LVR profile

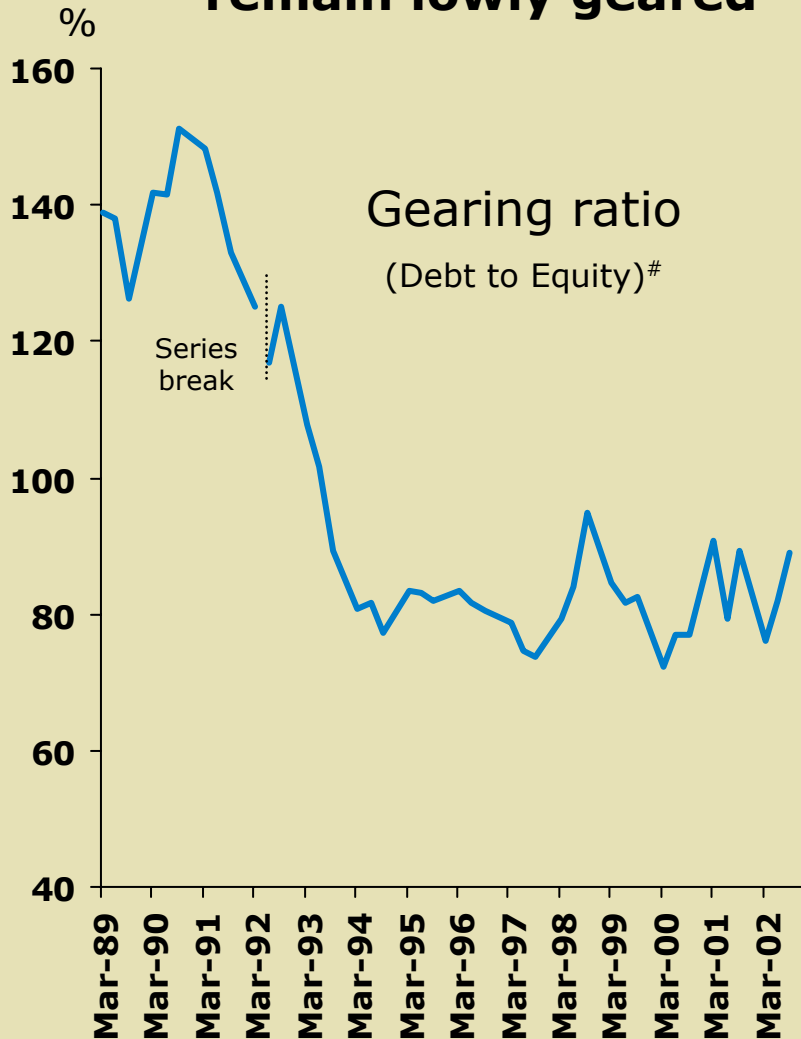


## Equity Loans remain modest



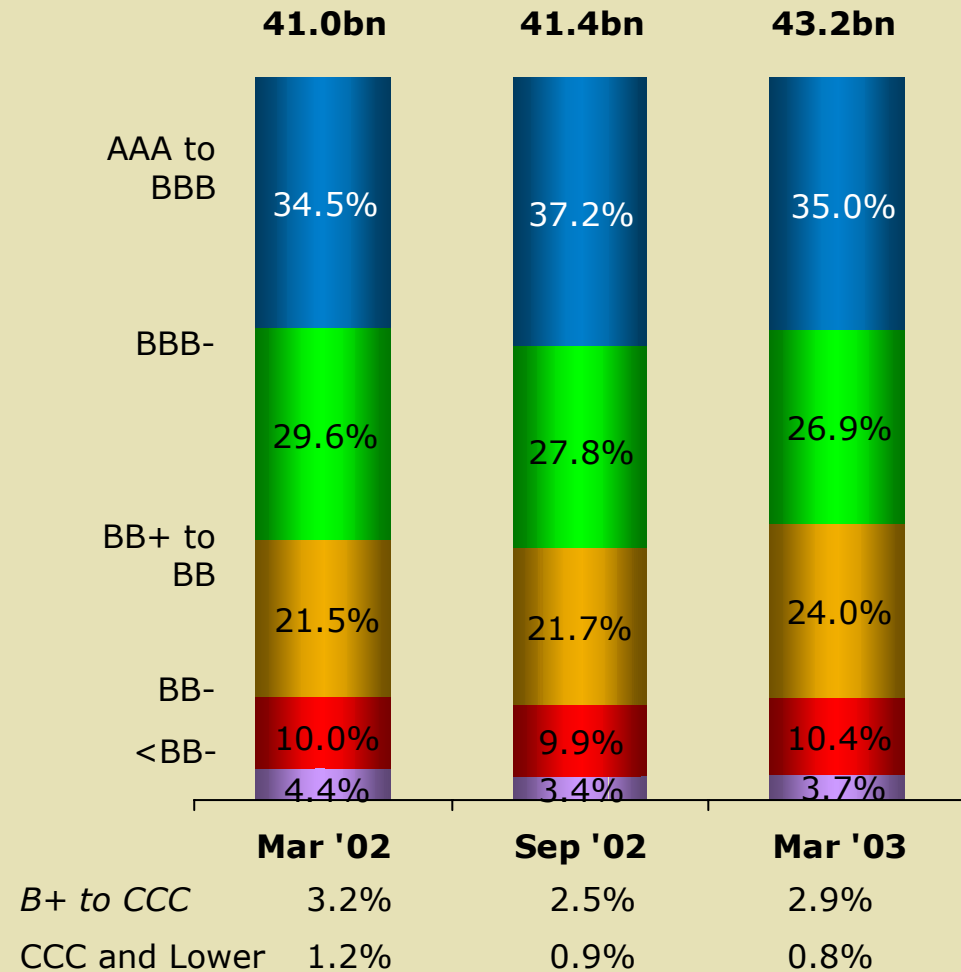
# Domestic corporates well placed

## Domestic corporates remain lowly geared



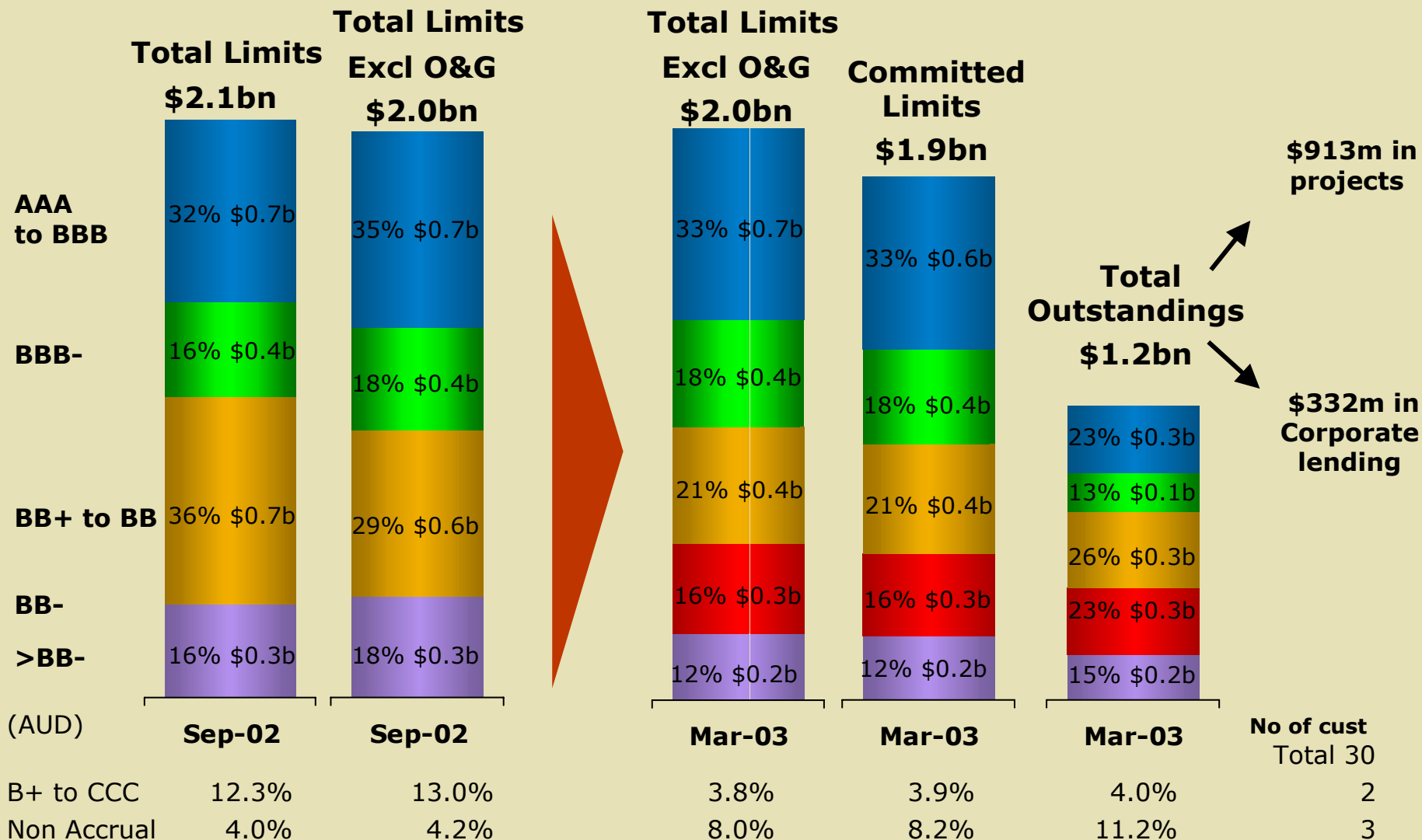
# source: ABS

## Reflected in healthy risk grade profile\*



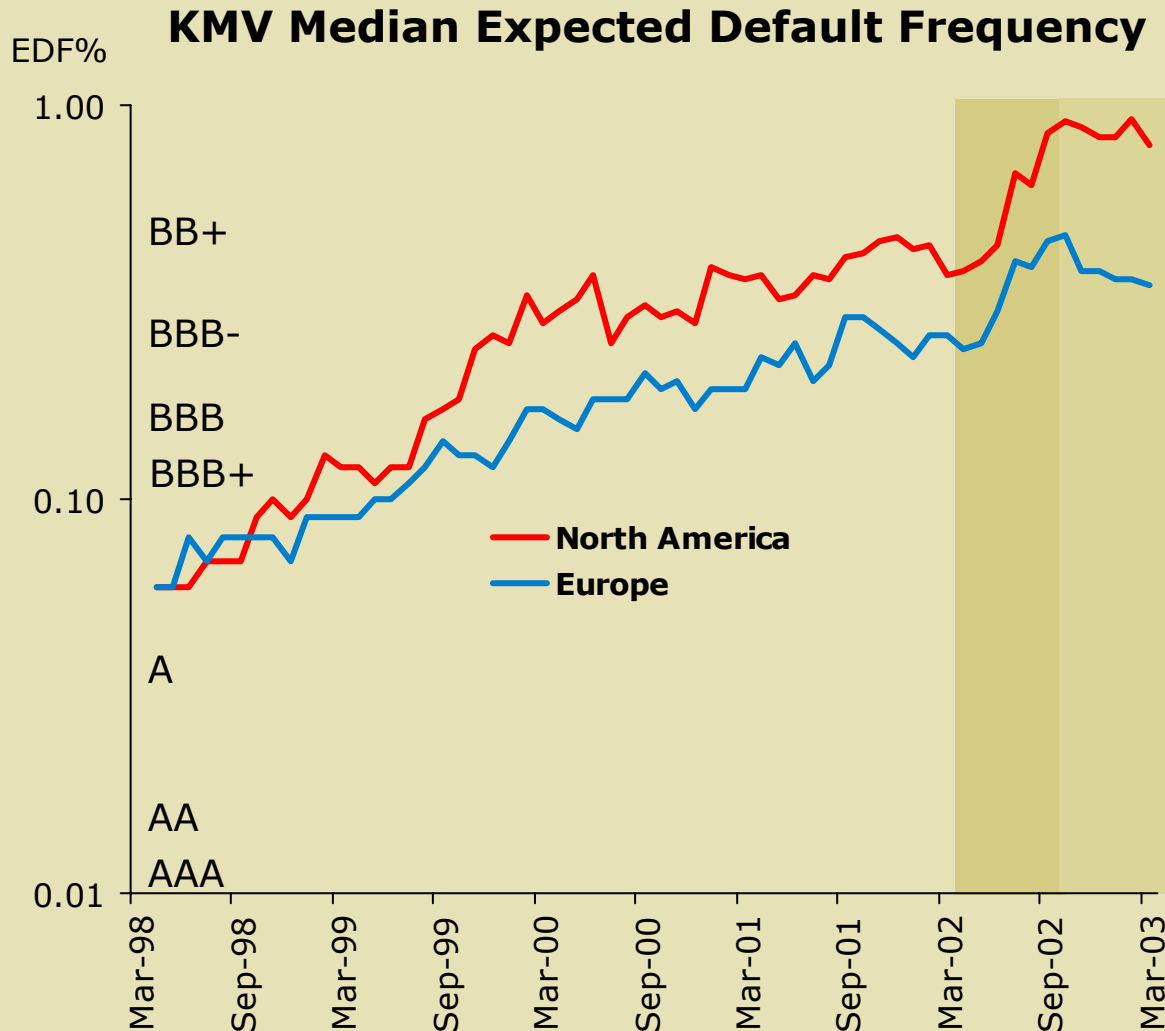
\* Institutional & Corporate Australia & NZ

# US energy portfolio – some issues, remains containable



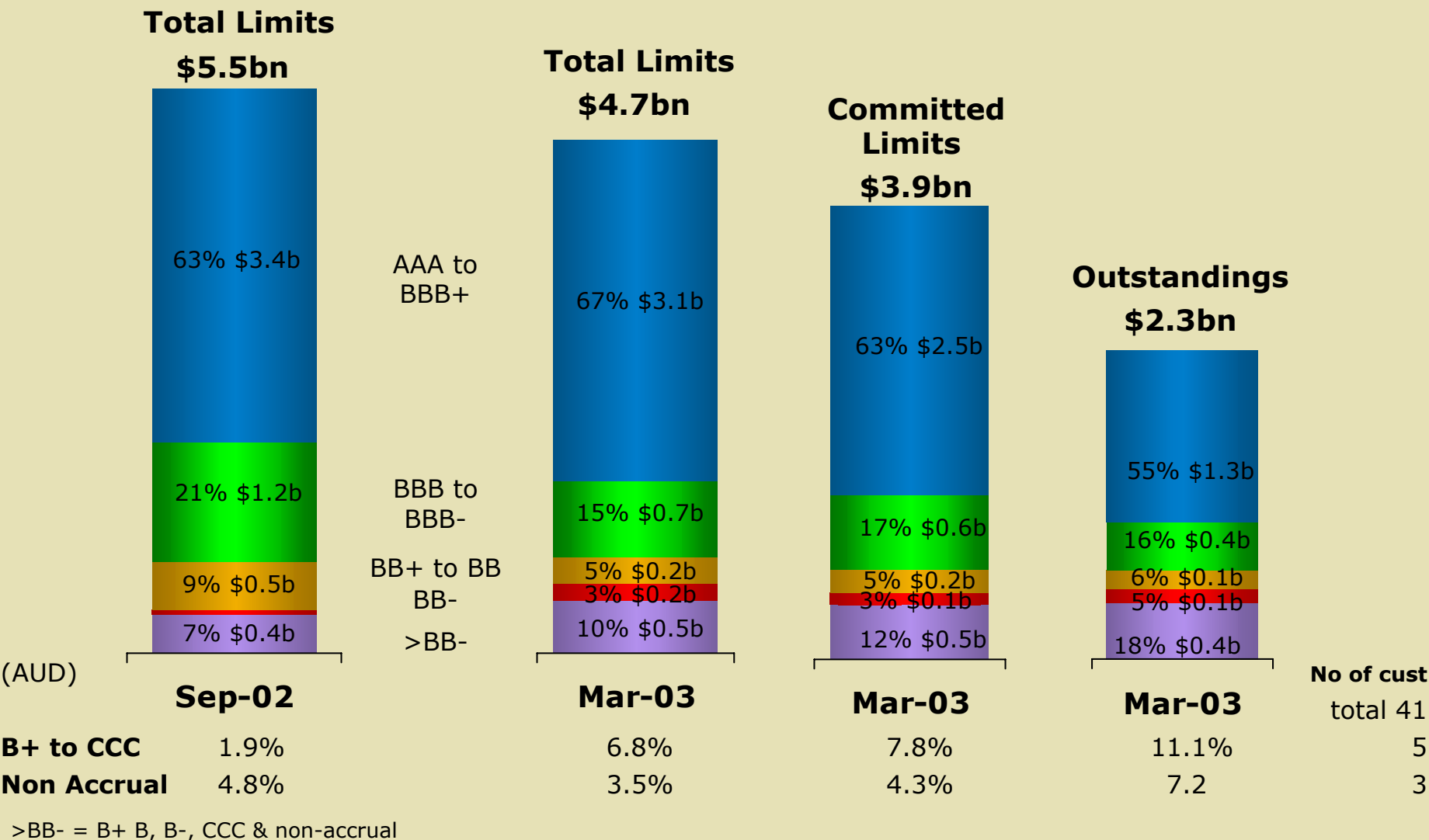
>BB- = B+ B, B-, CCC & non-accrual

# Deterioration in global electricity sector has stabilised



- Deterioration in US and European utility sectors largely occurred prior to our 2002 Annual Results announcement
- In 2002, S&P ratings actions in US power industry resulted in 182 downgrades, against 15 upgrades
- First half 2003 has seen some evidence of stabilisation

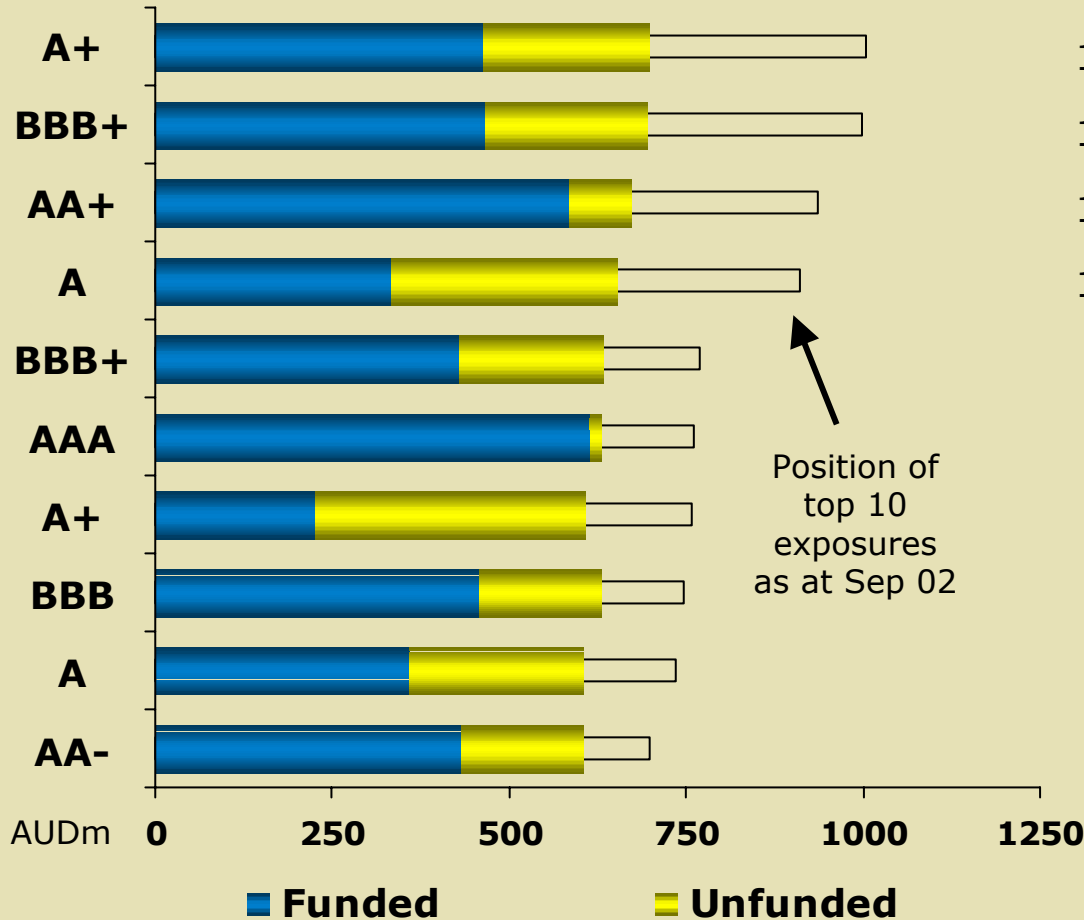
# Global Telco portfolio – no material issues expected



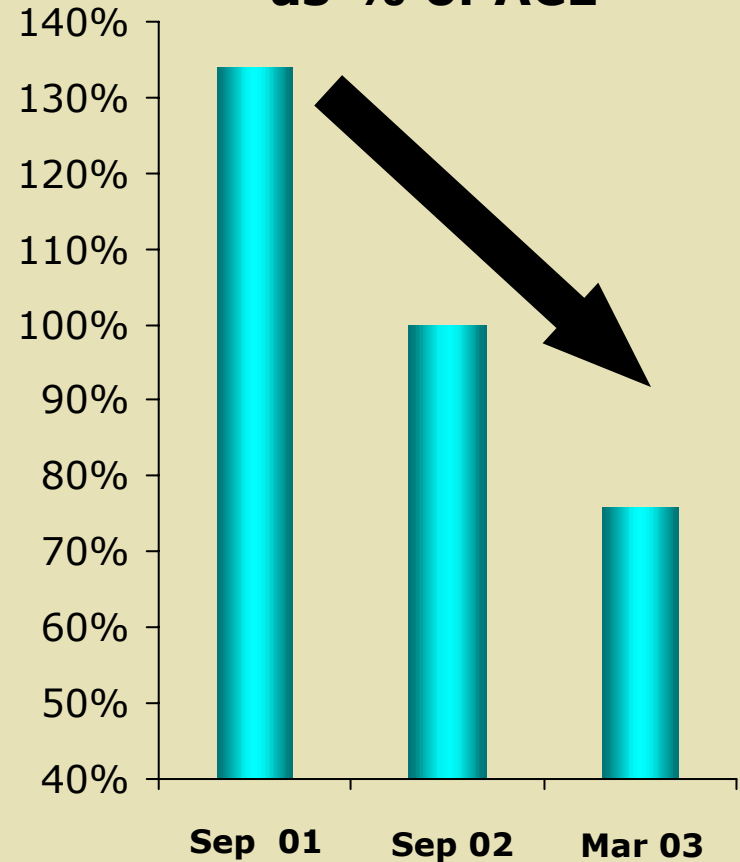
# Top 10 exposures further reduced

S & P Rating

Top 10 committed exposures



Top 10 exposures as % of ACE

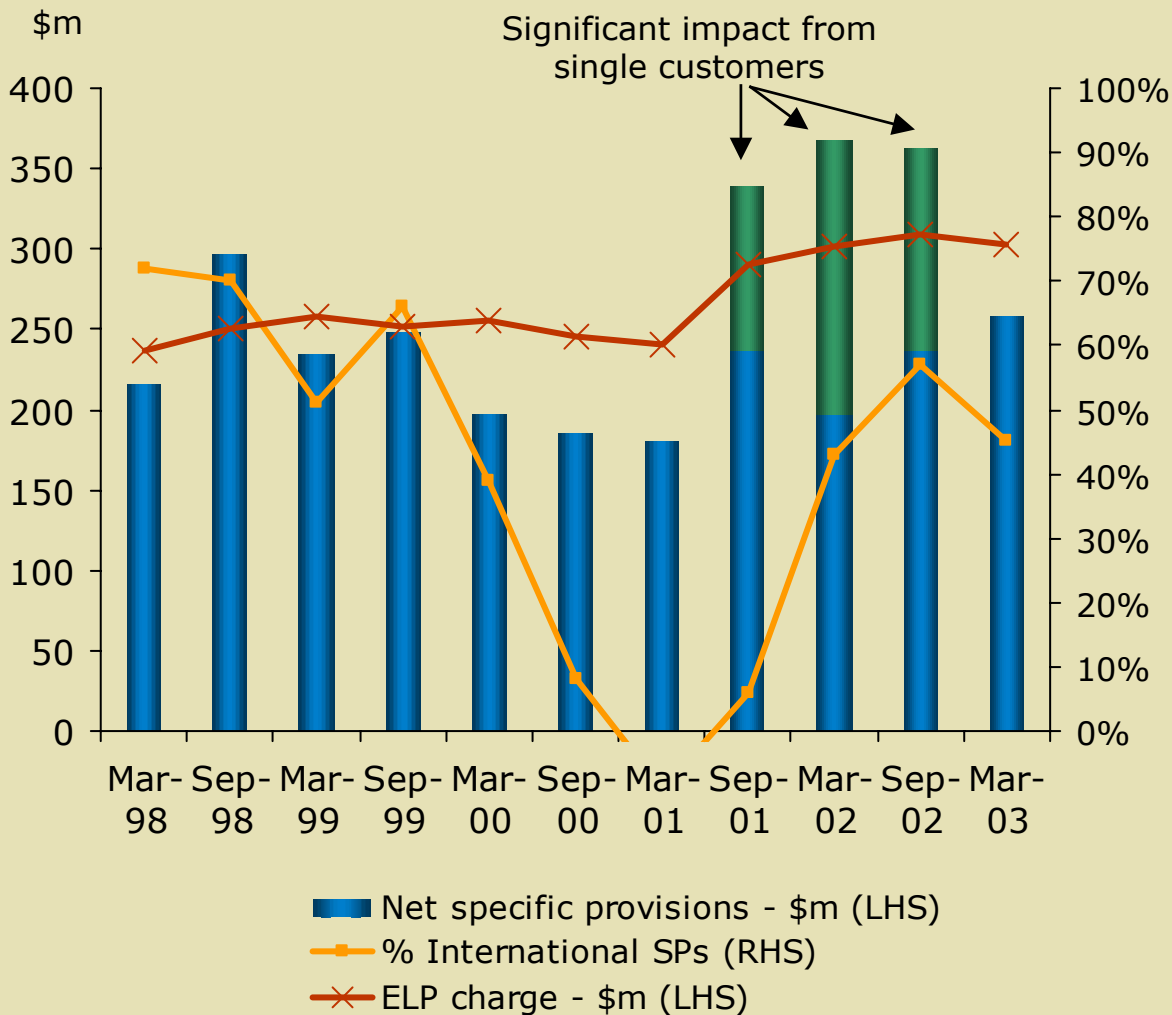


excludes non-recourse and uncommitted facilities

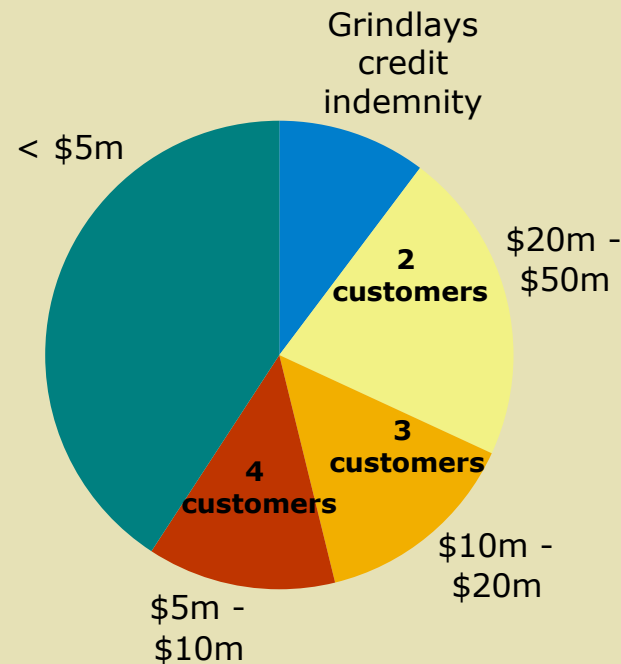
Limits represent total 7 month limits excluding uncommitted and non-recourse, net of credit derivatives

# Specific provisions down 29% – no large single provisions

## Provisions



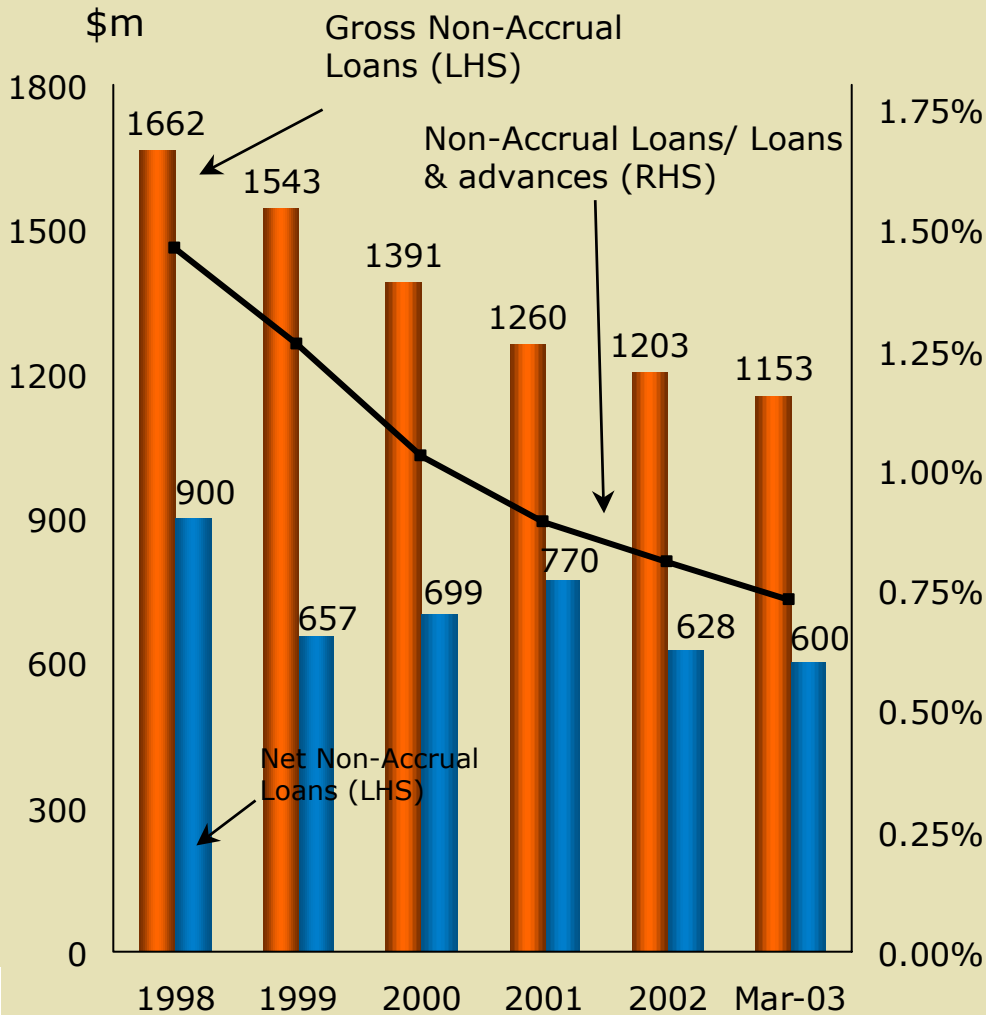
## 1<sup>st</sup> half Specific Provisions by size



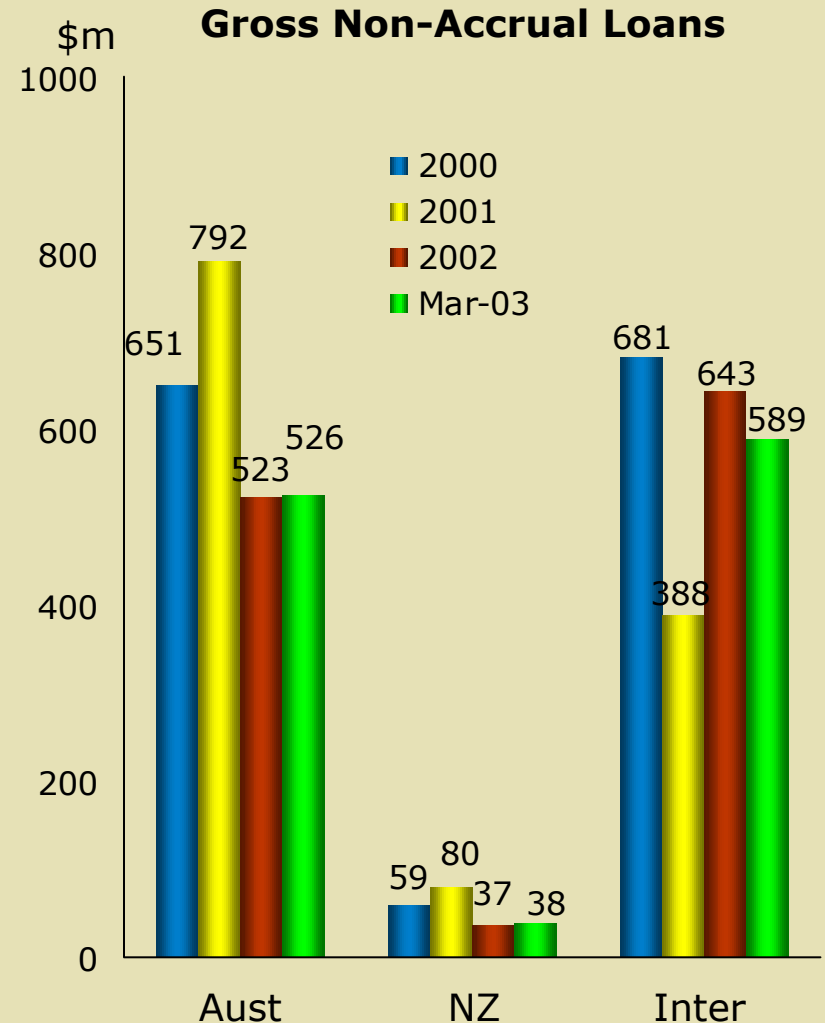
- No major individual specific provisions during the half

# Non-accrual loans continue to fall, reflecting overall health of portfolio

## Historic



## Geographic

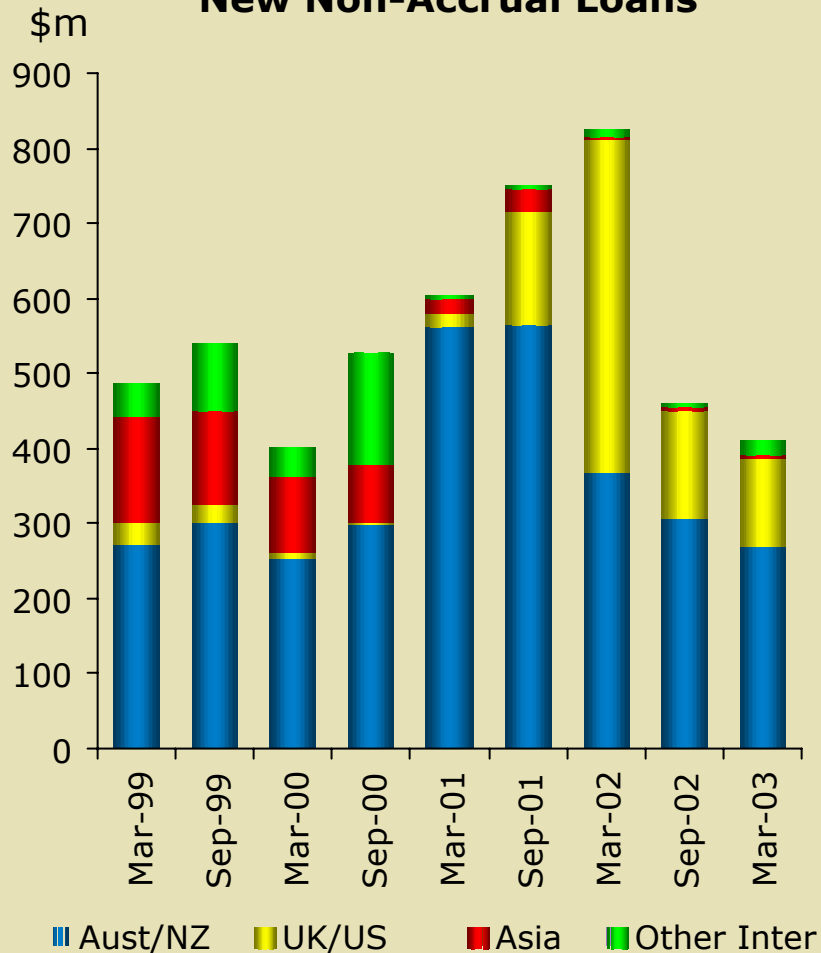




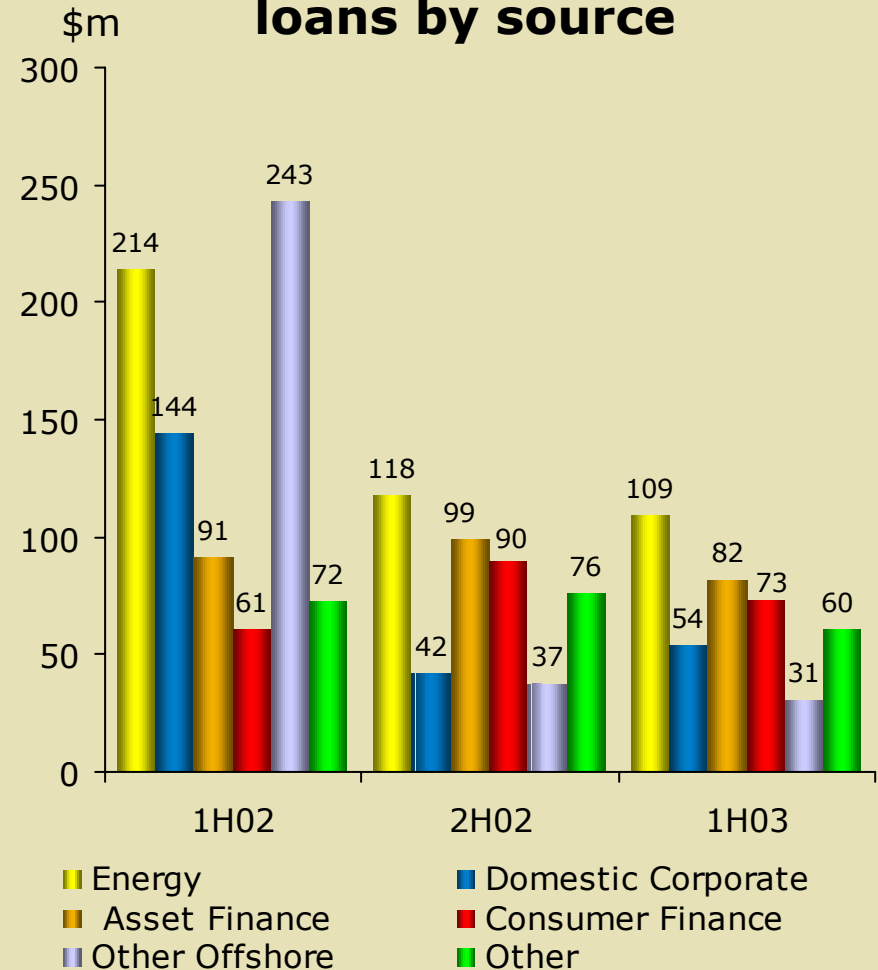
# New non-accruals down 50% on March 2002

## Geographic

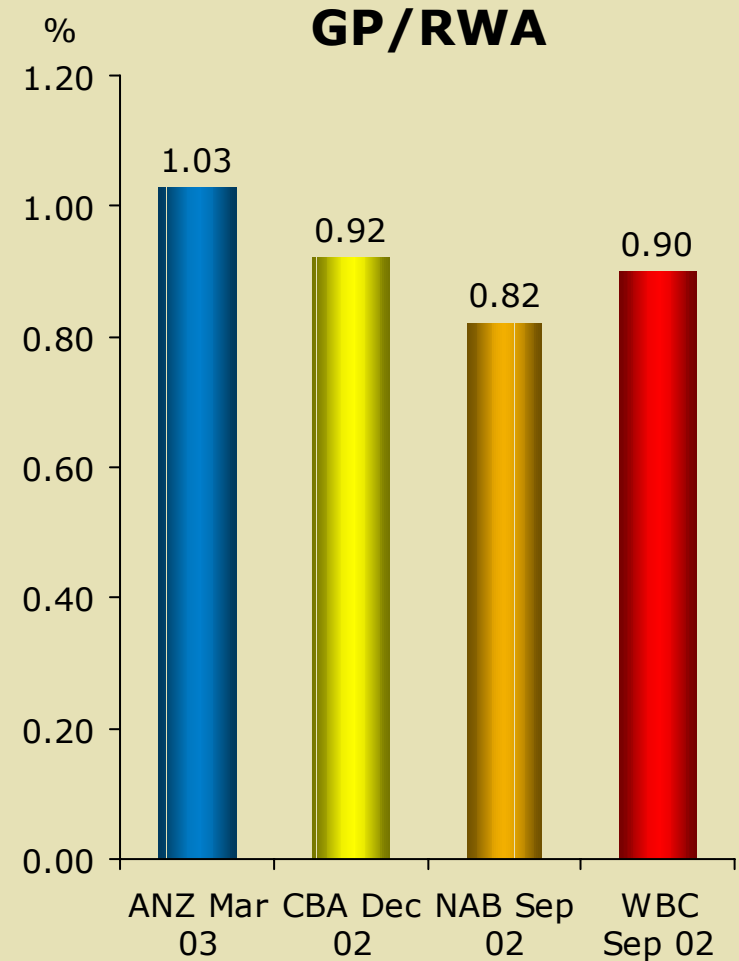
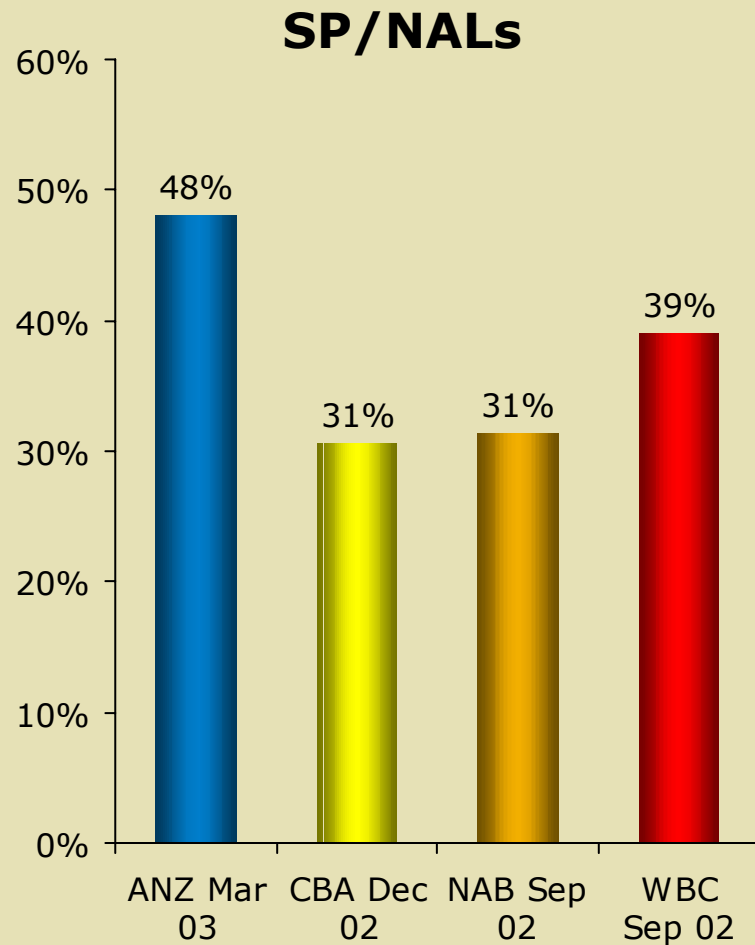
### New Non-Accrual Loans



### New non-accrual loans by source



# Existing and future problem loans well provided for



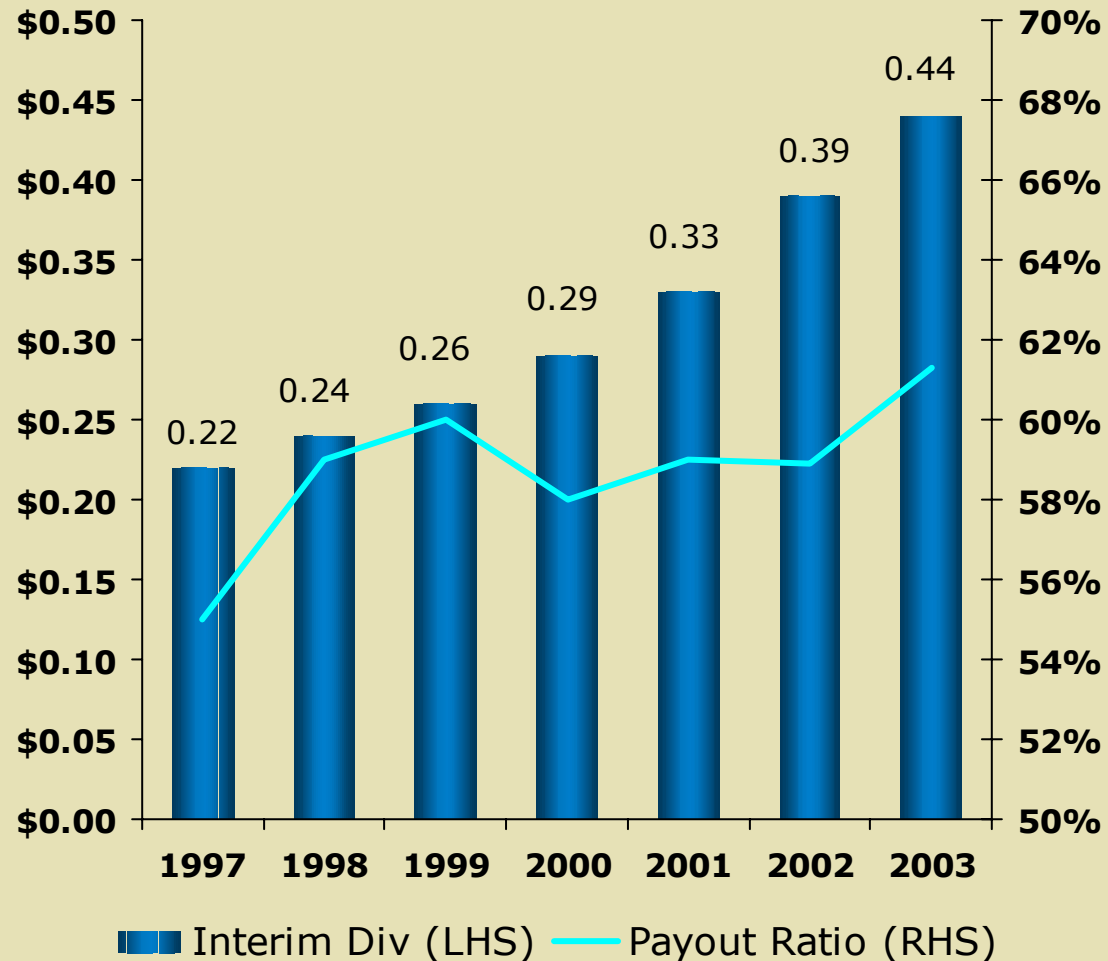
# Outline

- Result review
- Portfolio performance
- Credit Quality
- Other issues
  - Dividend policy
  - Capital levels
  - Outlook

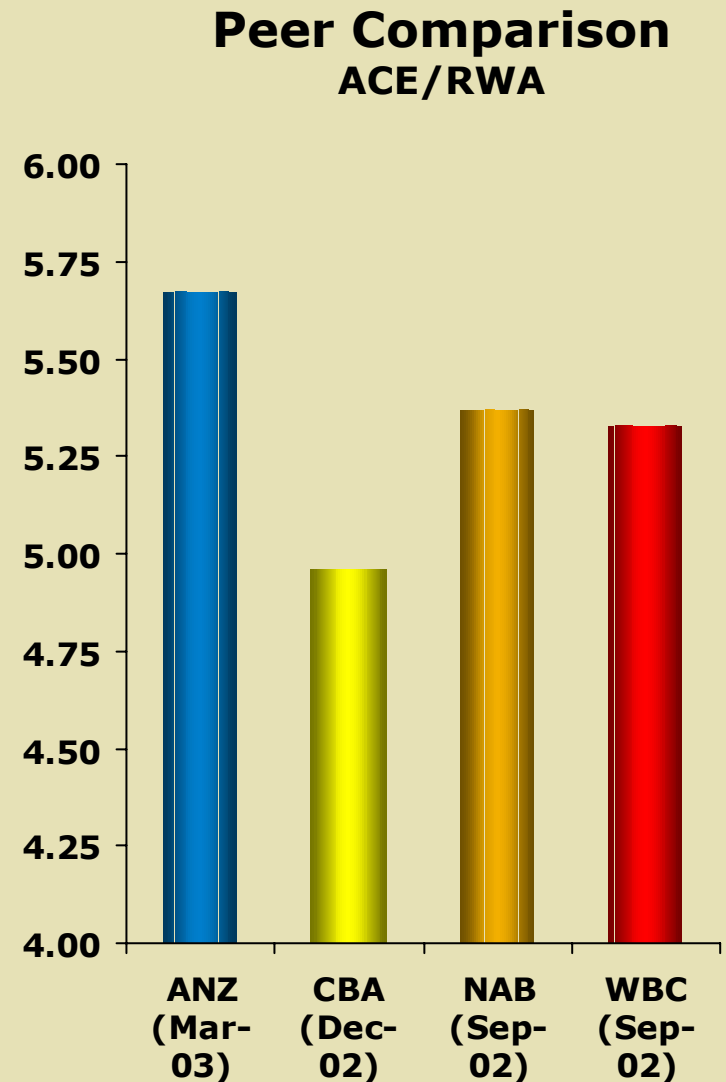
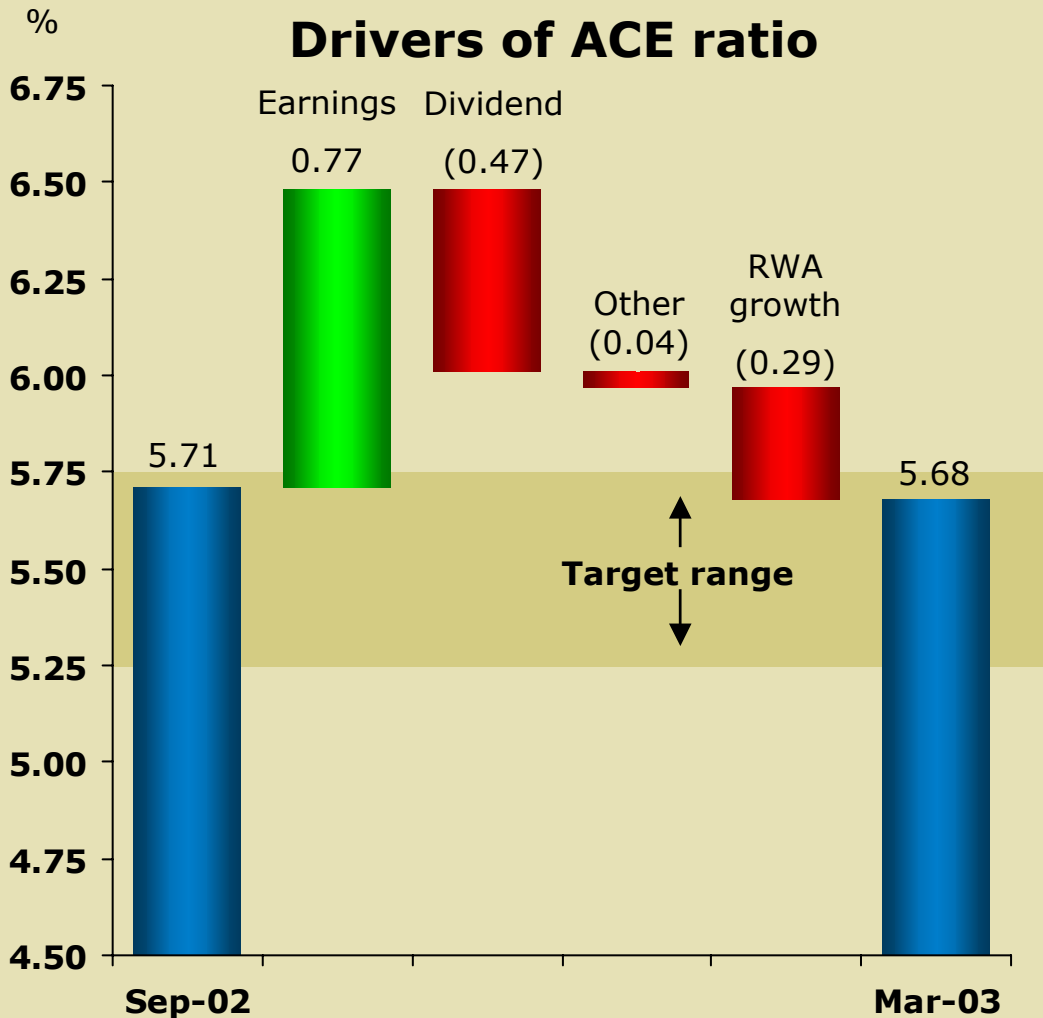
# Dividend payout ratio likely to trend upwards

- A progressive lift in the payout ratio likely over next three years towards high 60's
- Expect to maintain 100% franking

Interim Dividend has doubled in six years



# ANZ's capital position remains strong



- Buybacks likely if ACE ratio above target range

# Outlook for second half

- **Australian & NZ economies to perform relatively well, despite weakness in offshore markets**
- **Mortgage growth to be more subdued, moving towards 8-12% pa growth rate, offset by moderate rebound in business lending**
- **Specific provisions below ELP**
- **Cost growth rate to increase, but remain lower than revenue growth rate with resultant improvement in cost-income ratio**
- **Second half outlook favourable, delivering approximately 8% full year NPAT growth**

# Summary

- **A respectable result, with good underlying momentum**
  - **Strong interest income driven by asset growth**
  - **Non-interest income impacted by one-offs**
  - **Expenses well controlled**
  - **Majority of portfolio performing well**
- **Credit quality strong in Australia, offshore issues containable**
- **Remain well provisioned, with strong capital position**
- **Payout ratio likely to increase over next three years, with DPS growth greater than EPS growth**
- **On target for approximately 8% full year NPAT growth**

# John McFarlane

Chief Executive Officer

24 April 2003





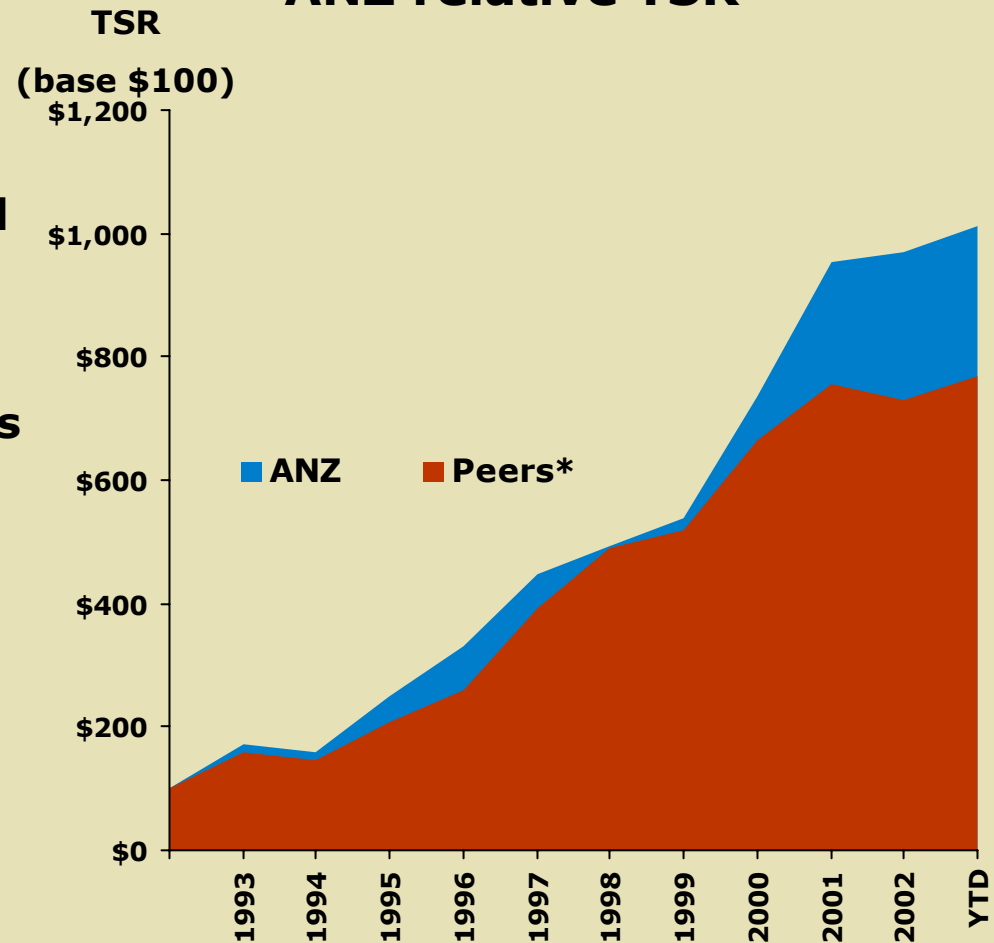
# Distinctive strategy and track record

## 4 clear themes going forward

### Core themes

- Leverage real capabilities to build sustainable strategic position
- Grow value by creating a rich portfolio of specialised businesses
- Become one of the most efficient and best-managed banks in the world
- Bold and different, leveraging a unique performance culture and business approach

### ANZ relative TSR

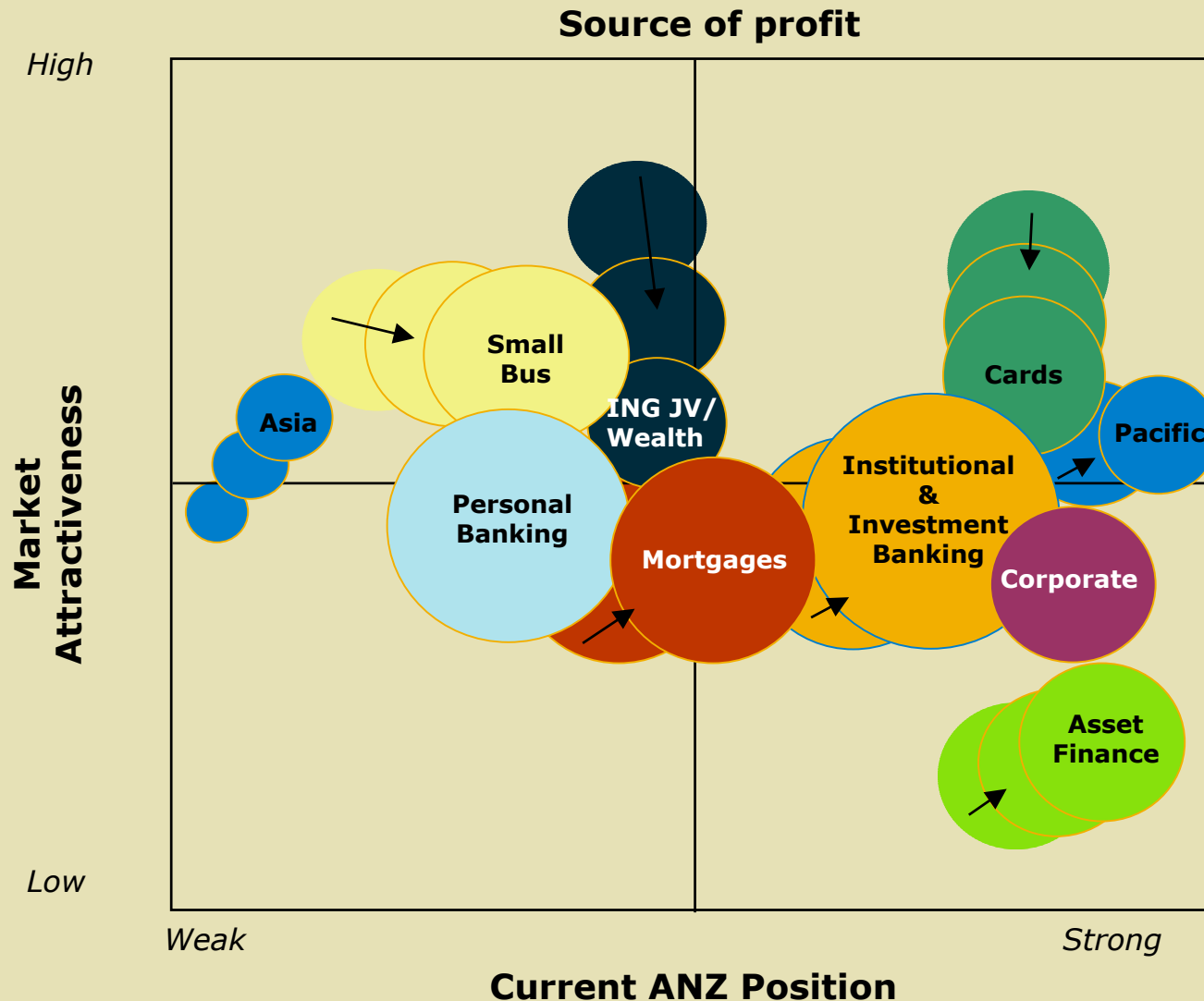


\* CBA, NAB, WBC

# Leverage real capabilities to build sustainable strategic position

- Leverage *specialisation* as distinctive strategy
- Leverage leading *product* capability to increase share
- Leverage superior *cost* position
  - *To give customers the best deal*
  - *To give shareholders sustainable and growing returns*
- Leverage ANZ's emerging and distinctive "*human face*"
  - *Unique positioning against peers*
  - *Gain traction in earning the trust of the community*

# A rich portfolio of specialised businesses - material improvement in last 2 years



- More sustainable portfolio foundation
- Each business has clear differentiated approach
- Systematically building capabilities to establish future growth options

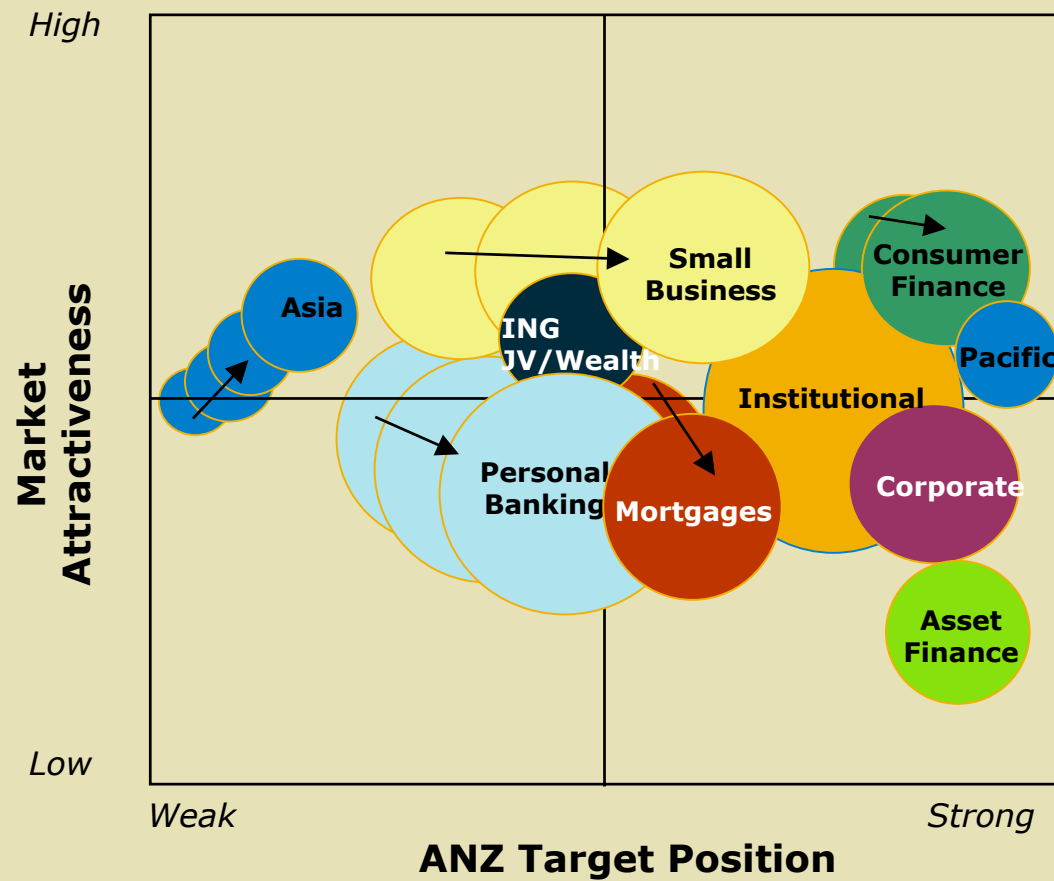
# Grow value by creating a rich and diversified portfolio of specialised businesses

**Optimise portfolio for sustainability, growth and return**

- **Raise revenue productivity in Personal Banking**
- **Lift performance and productivity in Wealth Management**
- **Develop sustainable post-interchange cards strategy**
- **Regain position in Small Business**
- **Develop Institutional while reducing risk concentrations**
- **Leverage specialised distribution in Mortgages**
- **Advance customer franchise in NZ through local approach**
- **Turn Asset Finance into a sustainable growth proposition**

**Create a portfolio of growth options**

- **Invest in high growth domestic franchises**
- **Leverage capabilities with partners in Asia-Pacific**



# Applying the lessons from Grindlays - a distinctive Asian strategy is emerging

## Asia is important

Geographic proximity

Growing political and economic linkages

Represents

- 49% of Australia's merchandise trade
- 34% of Australia's services trade
- Substantial capital flows

ANZ already has a network in Asia

### Develop Options 1999-2004

- Acquire a portfolio of low cost, low risk options
- Work with local partners who have customers & distribution network
- Combine Local & ANZ strengths to create additional value

### Develop Portfolio 2004-2006

- Develop linkages across portfolio
- Leverage product strengths
- Portfolio approach – no more than 5-10% of ACE

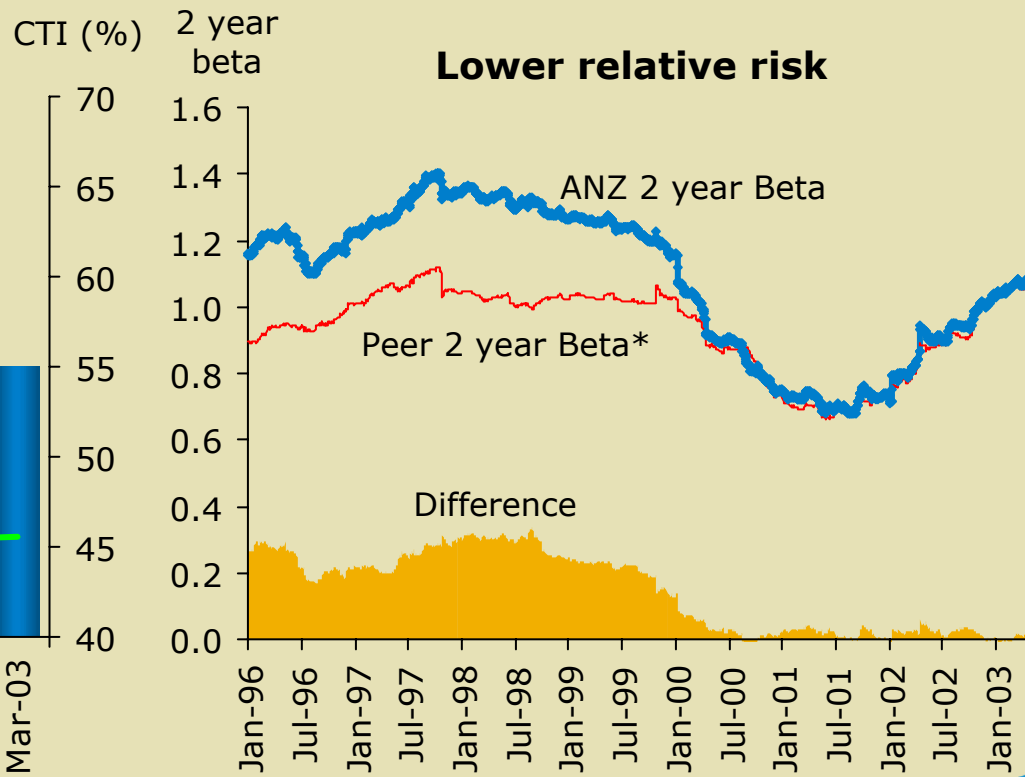
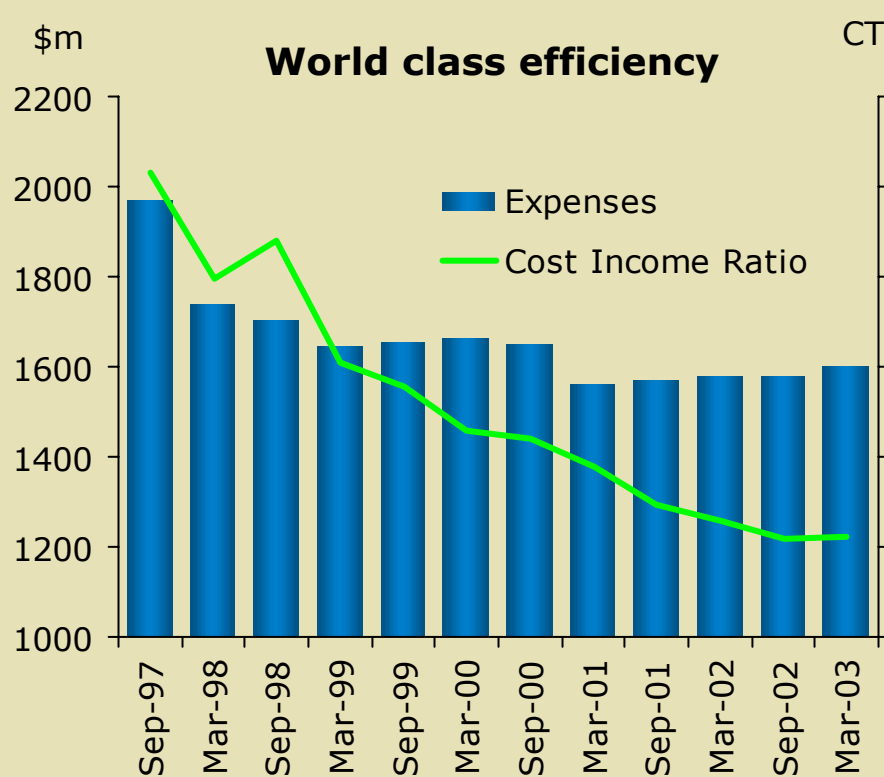
### Grow Portfolio 2006 onwards

- Potentially participate in local consolidation
- Continue to add value

## ANZ Learning and Local Knowledge

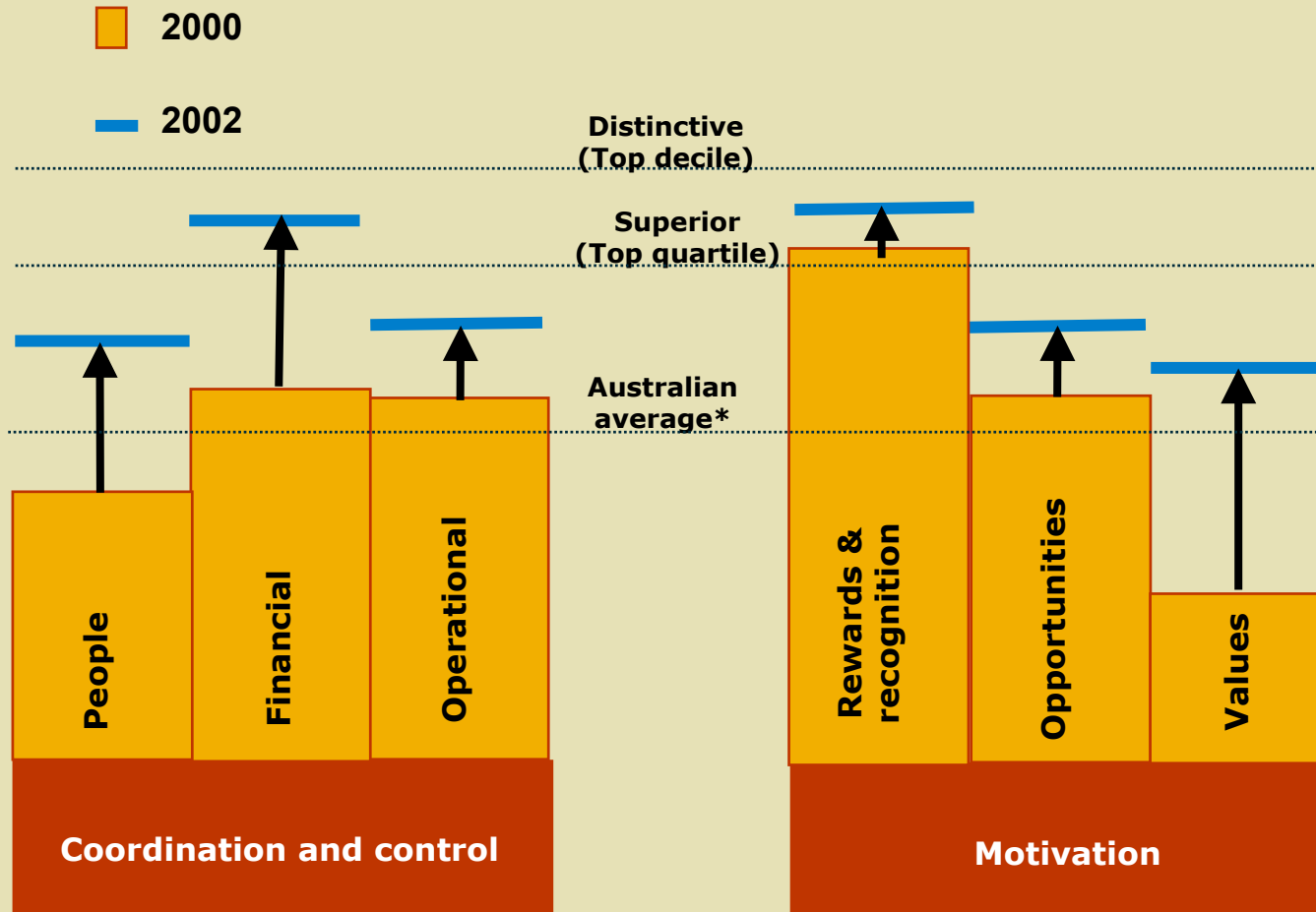
# Aim to make ANZ one of the best managed and most efficient banks in the world

- Make execution a distinctive capability
- Accelerate revenue and productivity momentum in businesses
- Rebalance higher risk segments
- Simplify operations and technology infrastructure



\* CBA, NAB, WBC

# Bold and different, leveraging a unique performance culture and business approach



- **Systematic improvement**
- **Aim to be distinctive**
  - financial
  - values
- **Build on preferred employer status**
- **Gain shareholder and community recognition**
- **Raise our game in execution to minimise surprises**

# A reasonable result

**Headline earnings up 8.7%**

**Cash EPS pre-significant items up 8.7%**


**Interim dividend up 12.8%**

**Good underlying business performance  
offset by \$27m Cards issue**

**Major progress in resolving risk issues**

- **Specific provisions down 29%**
- **Tax settlement achieved**

**Clear and distinctive strategic approach**

- 
- **On track for 8% full-year NPAT\***
  - **Comfortable with similar 2004 outlook**
  - **Dividend growth higher than earnings**

\*excluding significant transactions



**Copy of presentation  
available on**

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

The material in this presentation is general background information about the Bank's activities current at the date of the presentation. It is information given in summary form and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice when deciding if an investment is appropriate.

For further information visit

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

or contact

Philip Gentry

Head of Investor Relations

ph: (613) 9273 4185 fax: (613) 9273 4091 e-mail: [gentryp@anz.com](mailto:gentryp@anz.com)

# 2003 Interim Results

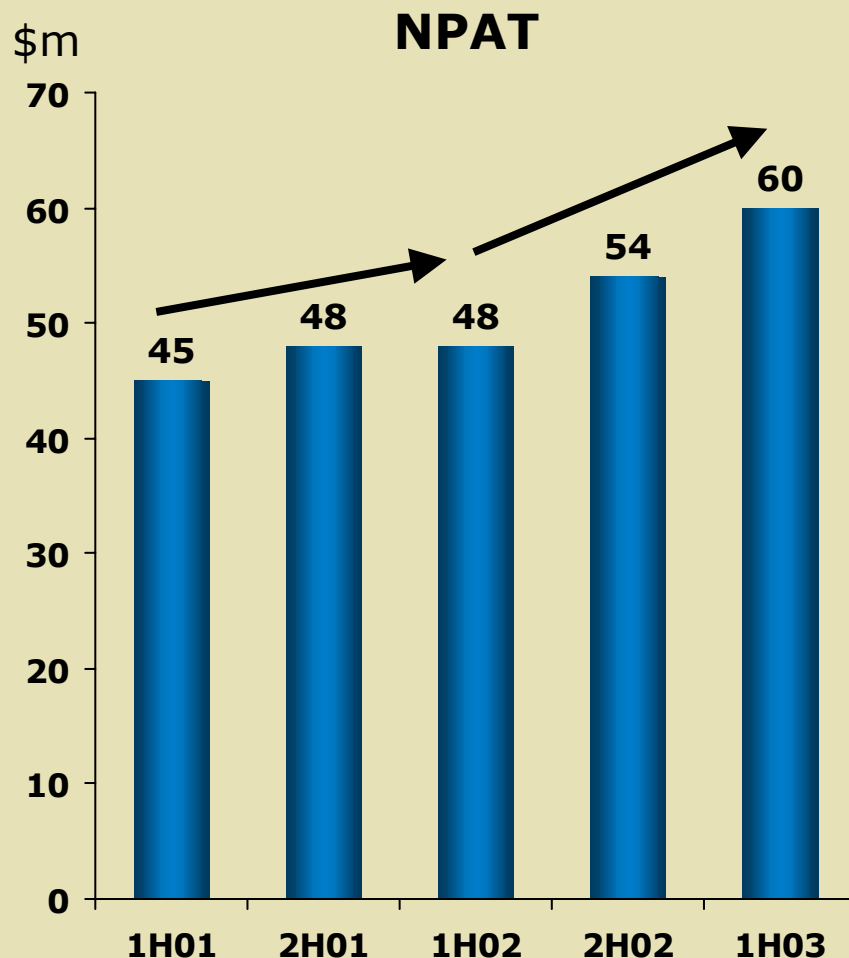
## Supplementary Information Pack

Australia and New Zealand Banking Group Limited  
24 April 2003

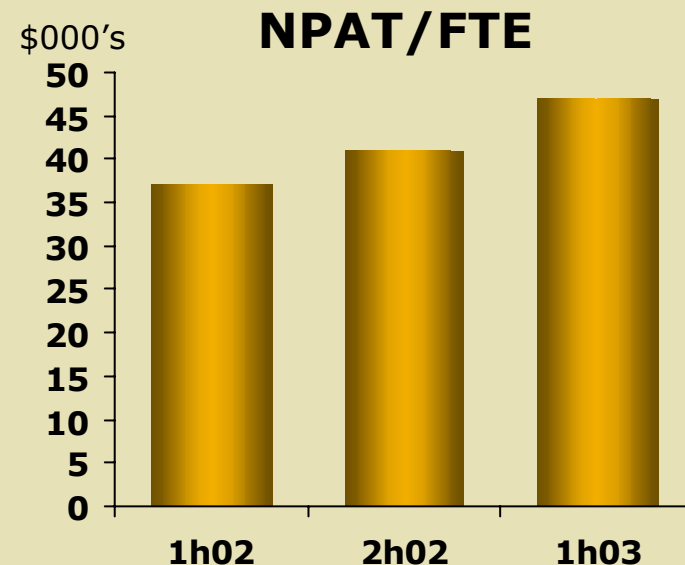


# **Additional information on businesses & strategy**

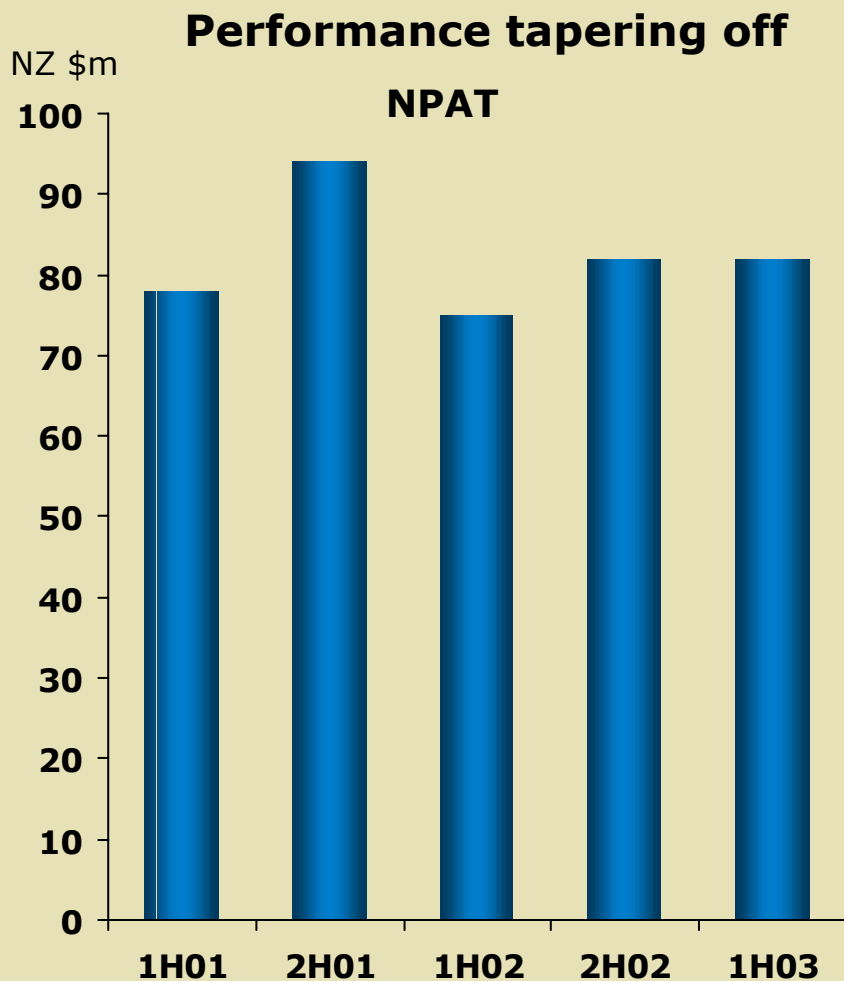
# Asset Finance – a leading position, & developing new momentum



- Reengineering undertaken in recent years now paying off
- Significant reductions in unit processing costs achieved delivering strong competitive position



# New Zealand – greater autonomy and a mandate to reinvest

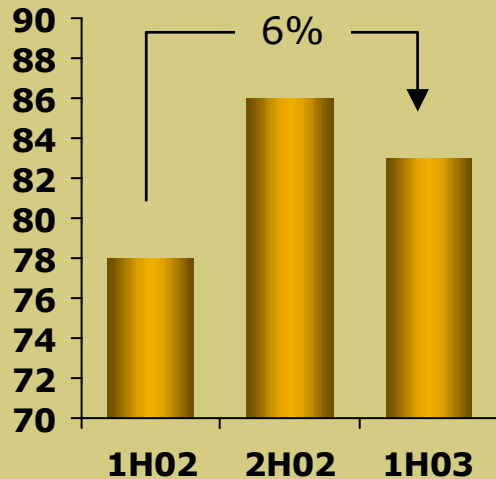


## **Greater investment required**

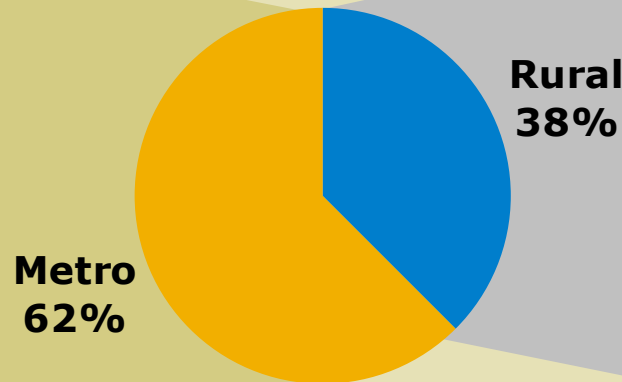
- Increased training, and greater number of sales specialists
- Strengthen brand and increase community involvement
- Upgrade branch network, and open new branches in key geographic growth centres

# Personal – significant opportunity, but clear challenges remain

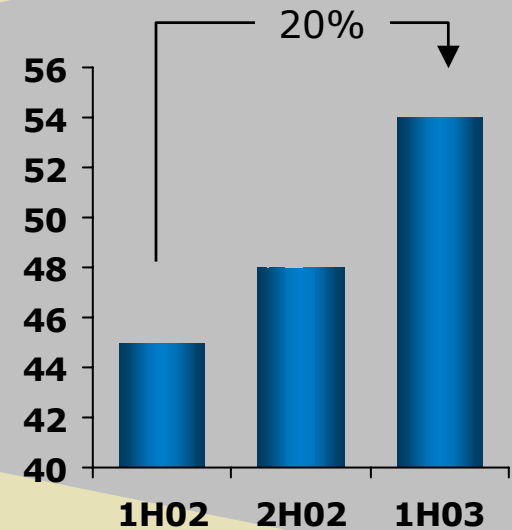
### Metro NPAT



### Personal Banking Australia NPAT



### Rural NPAT



- Underweight position
- RCF rolled out to Victoria & NSW, to roll out to other states
- Strong product capability
- More traction required on improving customer proposition

- Rural Banking completed roll out of local market model
- Good progress in devolving responsibility to front line
- Strong focus on community involvement
- Increased focus on agribusiness

# Asia - circa 450 lending relationships with 85% investment grade

## ANZ BEIJING & SHANGHAI, CHINA

- One of a small group of fully licensed foreign banks
- Restricted transactions with locals expected to be lifted gradually with WTO membership
- 40 Lending Relationships, 95% Inv Gr

## ANZ HONG KONG

- Leading Australian/NZ bank
- Focus to expand Trade Finance business
- Excess liquidity driving margins down to dangerously low levels
- 60 Lending Relationships, 82% Inv Gr

## ANZ HANOI & HO CHI MINH, VIETNAM

- Leading foreign bank in Vietnam
- Only Australian/NZ bank
- Fastest-growing Asian operation
- 50 Lending Relationships, 72% Inv Gr

## ANZ MALAYSIA & THAILAND

- Representative offices
- Regional Trade Finance support
- FI & correspondent banking

## ANZ SINGAPORE

- Centre for GSF operations in ANZ Asia
- Striving to carve a niche in the market amongst global banks operating here
- 4,000 customers/deposit base of \$2b
- 60 Lending Relationships, 87% Inv Gr

## ANZ REGIONAL OFFICE, SINGAPORE

- Product Support
- Finance & Planning
- Credit/Risk
- Corporate Portfolio Management
- Human Resource

## ANZ SEOUL, KOREA

- Strategic for Asia & network Trade
- 34 Lending Relationships, 52% Inv Gr

## ANZ TOKYO & OSAKA, JAPAN

- Largest Australian/NZ Bank
- 14,000 customers with deposit base of \$700m
- 38 Lending Relationships, 83% Inv Gr

## ANZ TAIPEI, TAIWAN

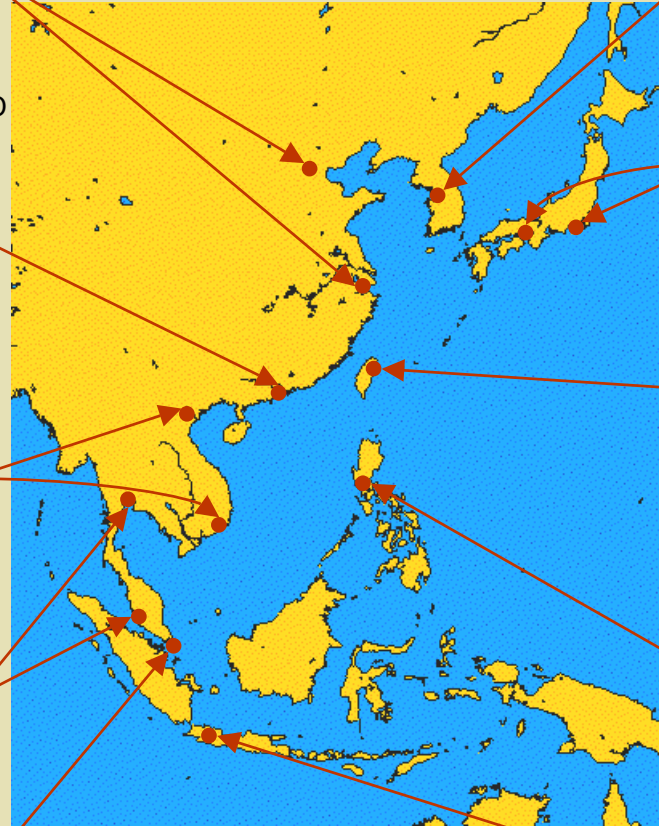
- Only Australian/NZ bank
- Highly regulated/competitive environment
- Largest number of corporate relationships in Asia
- 60 Lending Relationships, 68% Inv Gr

## ANZ MANILA, PHILIPPINES

- Top Ten foreign bank
- Only Australian/NZ bank
- 50 Lending Relationships, 53% Inv Gr

## ANZ JAKARTA, INDONESIA

- Leading JV bank
- 130,000 cards issued
- 26 Lending Relationships, 69% Inv Gr





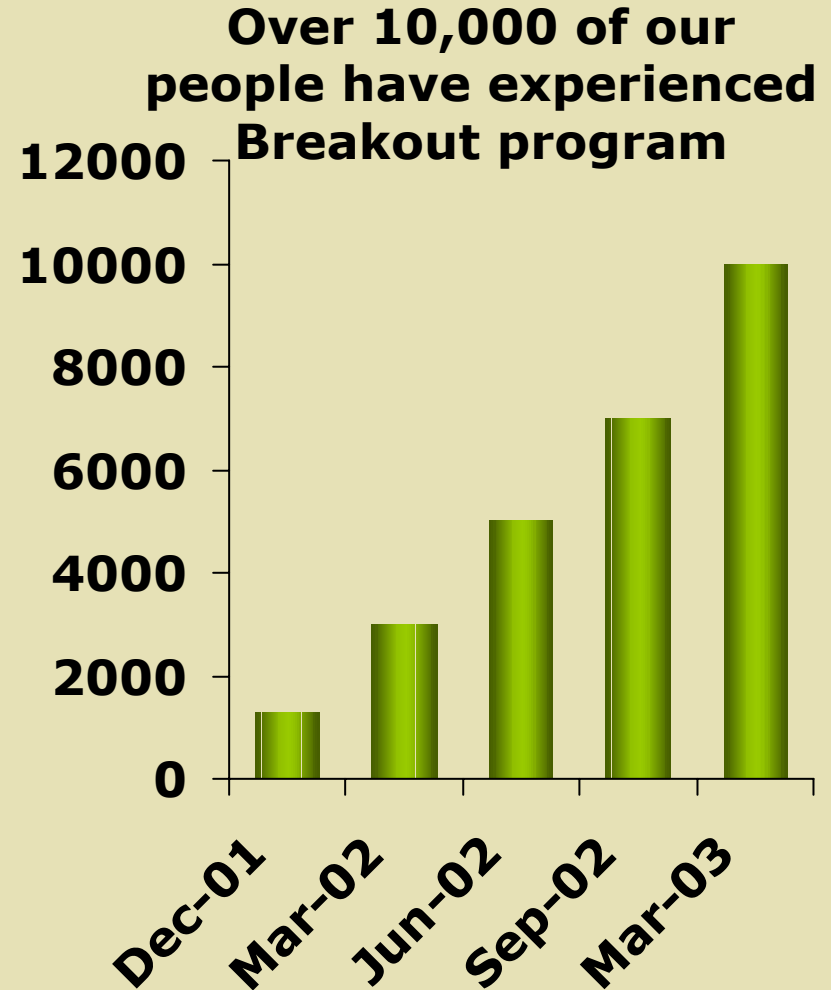
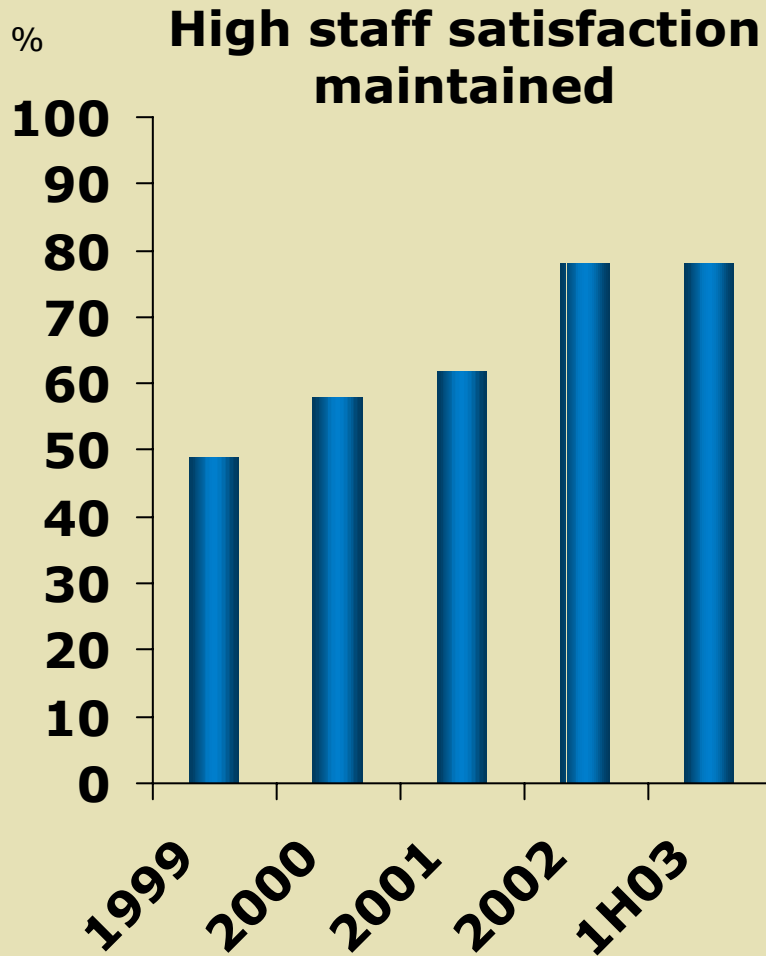
# A selective asset writing strategy in Asia

Customer Category	Customer Description
Global MNCs	Parent – Investment Grade Typically listed on local exchange Subsidiaries in network countries per Cross Border Risk Policy (10/99)
Regional MNCs	Parent – Investment Grade Typically listed on local exchange (Top 50 'blue chip') Typically externally rated
Financial Institutions	Well-established and high quality FIs In top 20 FIs in country Strong correspondent banking relationships
Major Local Corporates	Top ranking, typically listed on local exchange and recognised as 'blue chip' Investment Grade Significant foreign currency earnings in freely negotiable currencies Market capitalisation typically in excess of USD200m. Potential for significant non interest income, deposit, trade, FX or network opportunities
Middle Market Corporates SMEs	Not target market Not target market } <i>Small exceptions for Trade where collateralised, eg. Vietnam</i>

**Current/Target customer list represents:**

- established high quality names/groups, including Asian conglomerates, that have survived Asian crisis; recent CPM 'shadowing' review has validated this;
- core relationships;
- network business for Australia/NZ and Asia;
- good product penetration potential;
- leveraging relationships across Asia network.

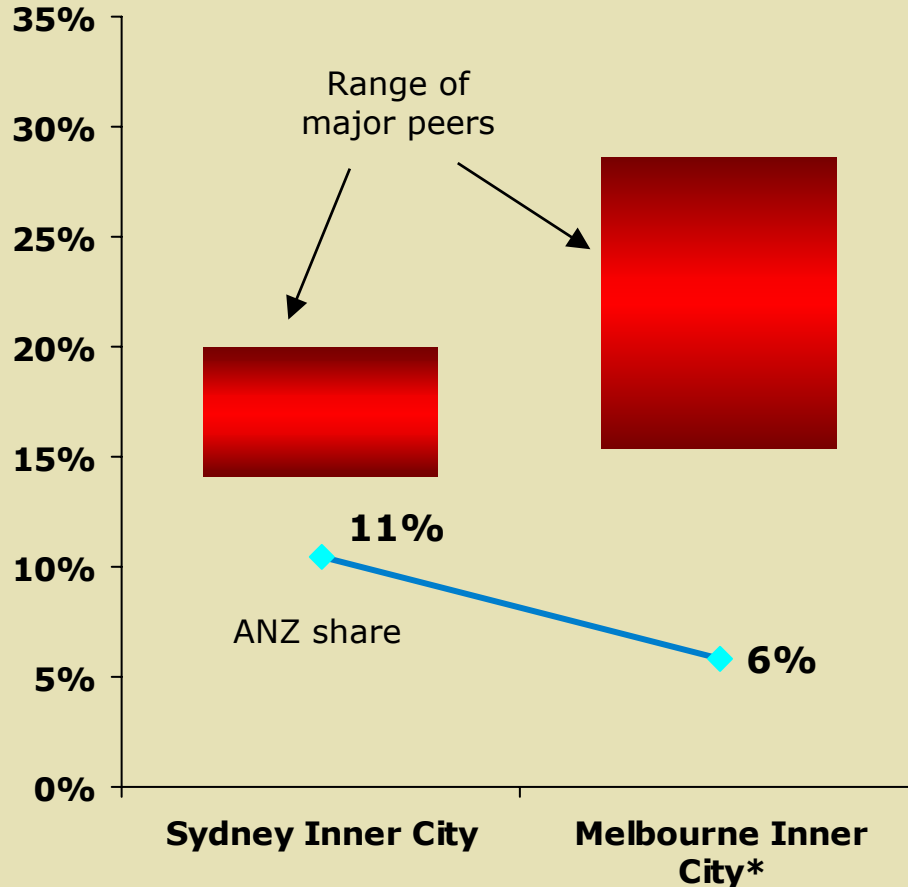
# Continuing to develop our culture



# **Additional credit quality information**

# Mortgages – low representation in inner city Sydney and Melbourne

## Market Share by location

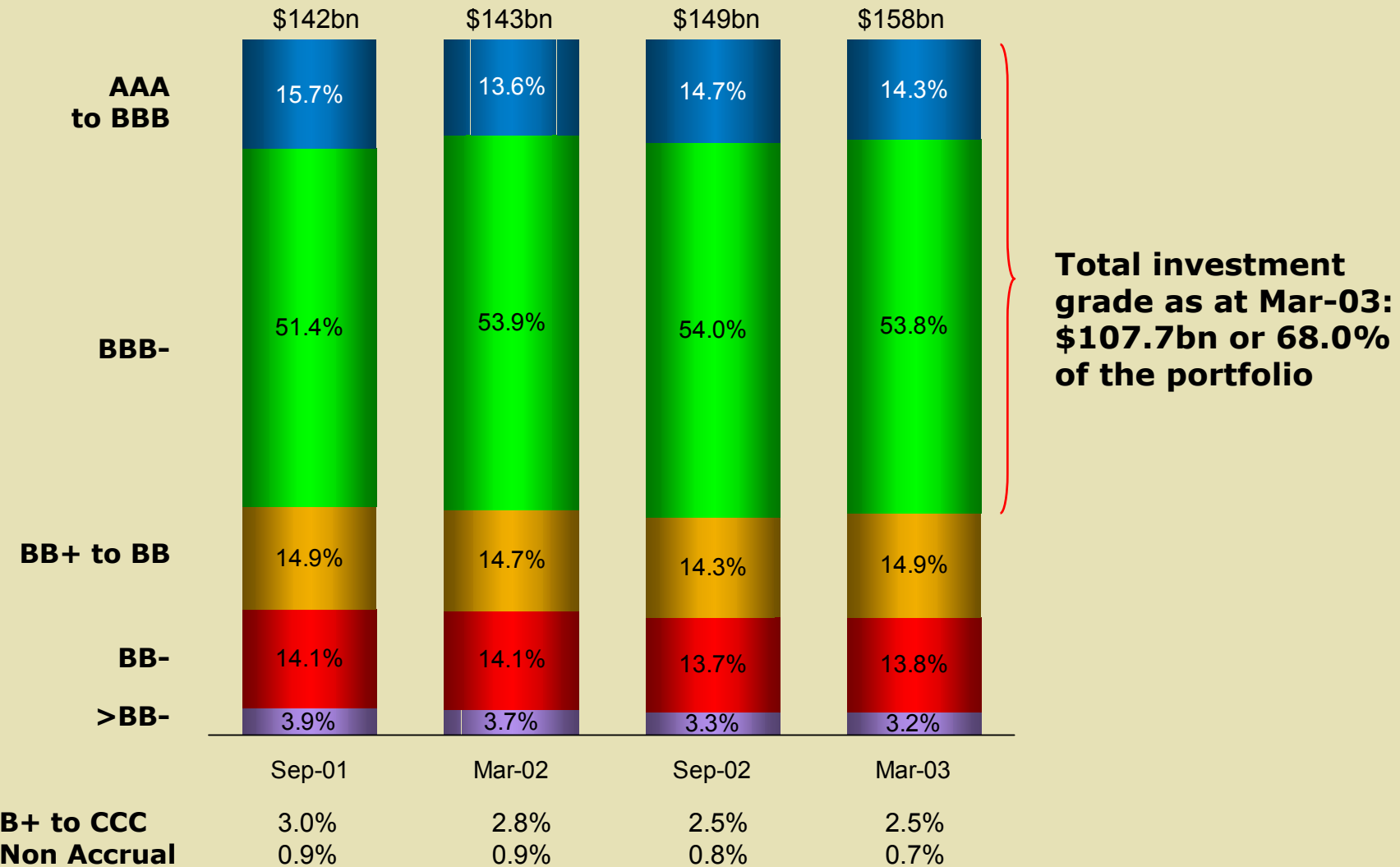


- Tightened assessment criteria for inner city investment properties
- Delinquency profile of inner city borrowers in line with average

\* limited sample size  
# source: Roy Morgan

# Group risk grade profile

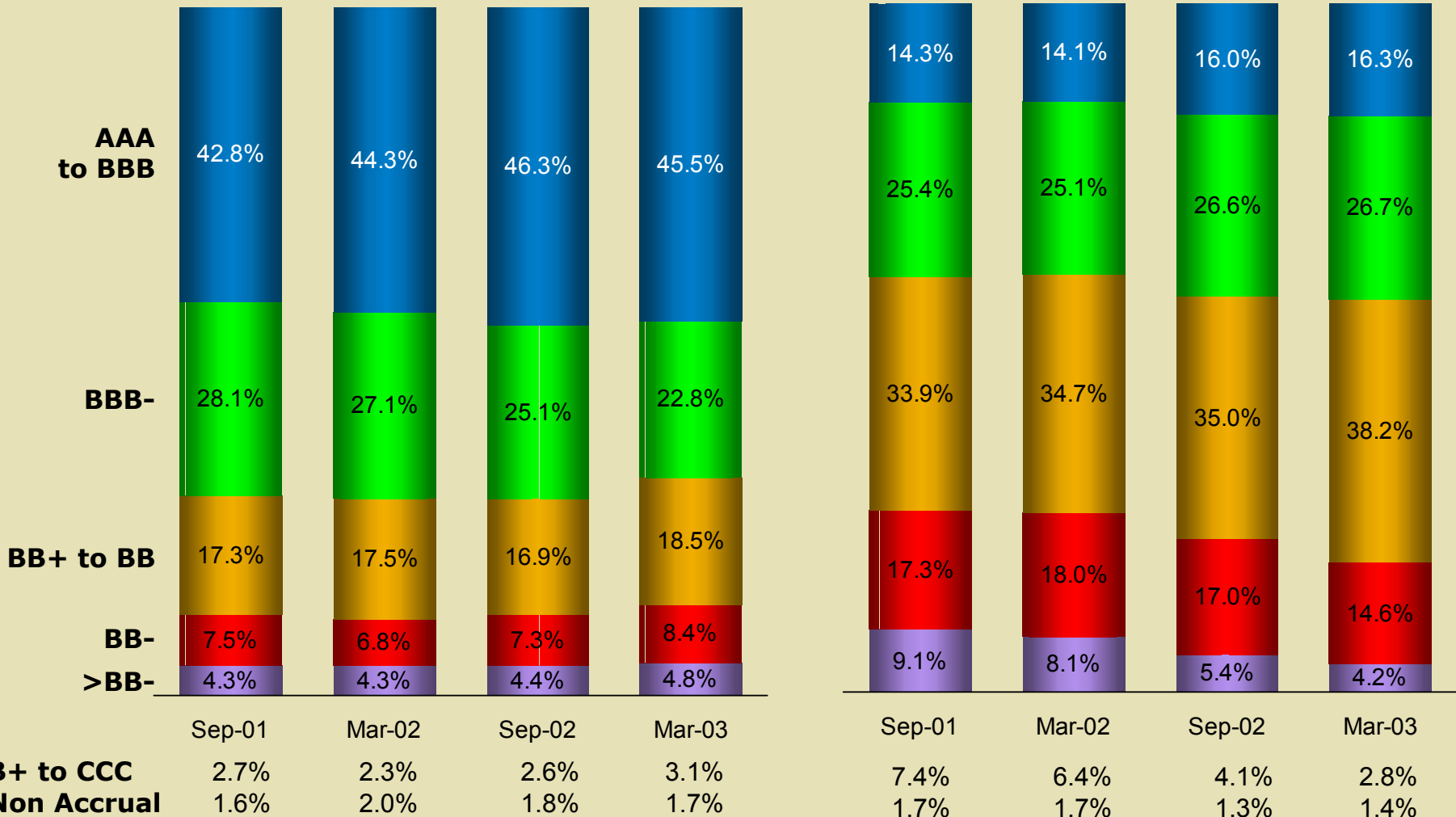
## ANZ Group - Outstandings



# Institutional & Corporate Risk Grade Profiles

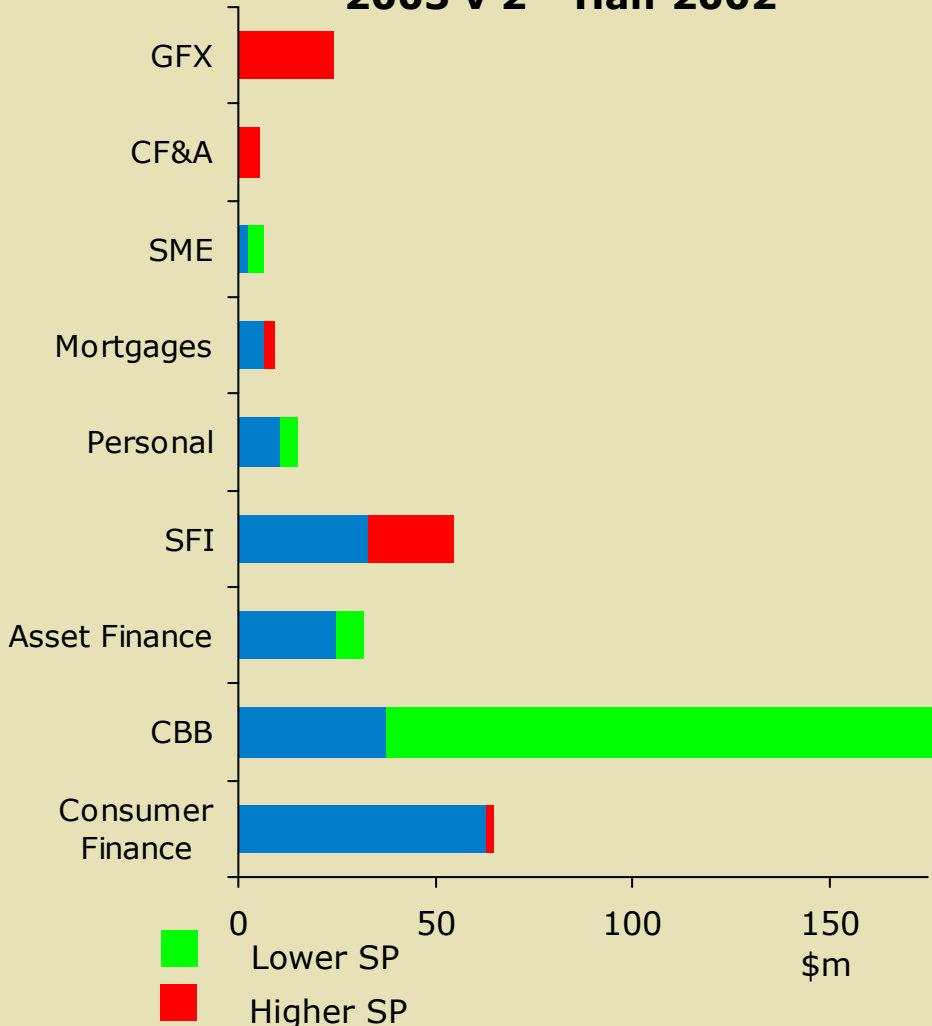
## Institutional Banking (Outstandings)

## Corporate Banking Aust. (Outstandings)

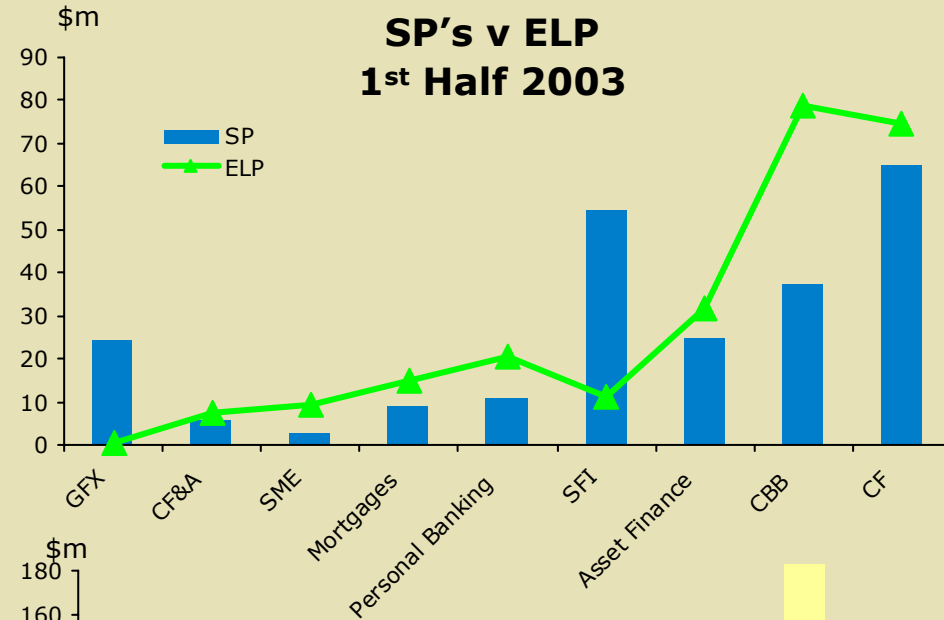


# Specific provisions in most businesses lower than expected losses

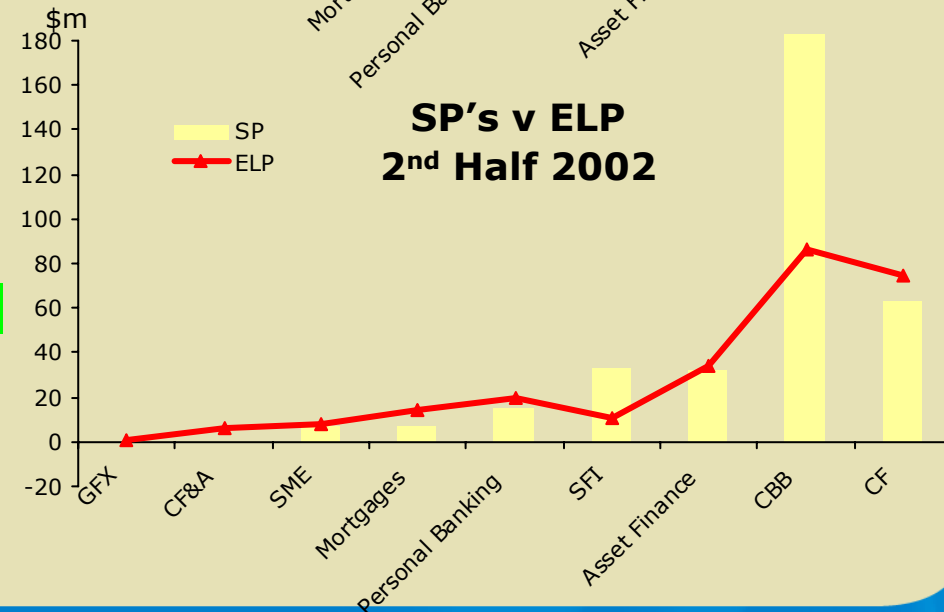
**Specific Provisions 1<sup>st</sup> Half 2003 v 2<sup>nd</sup> Half 2002**



**SP's v ELP 1<sup>st</sup> Half 2003**

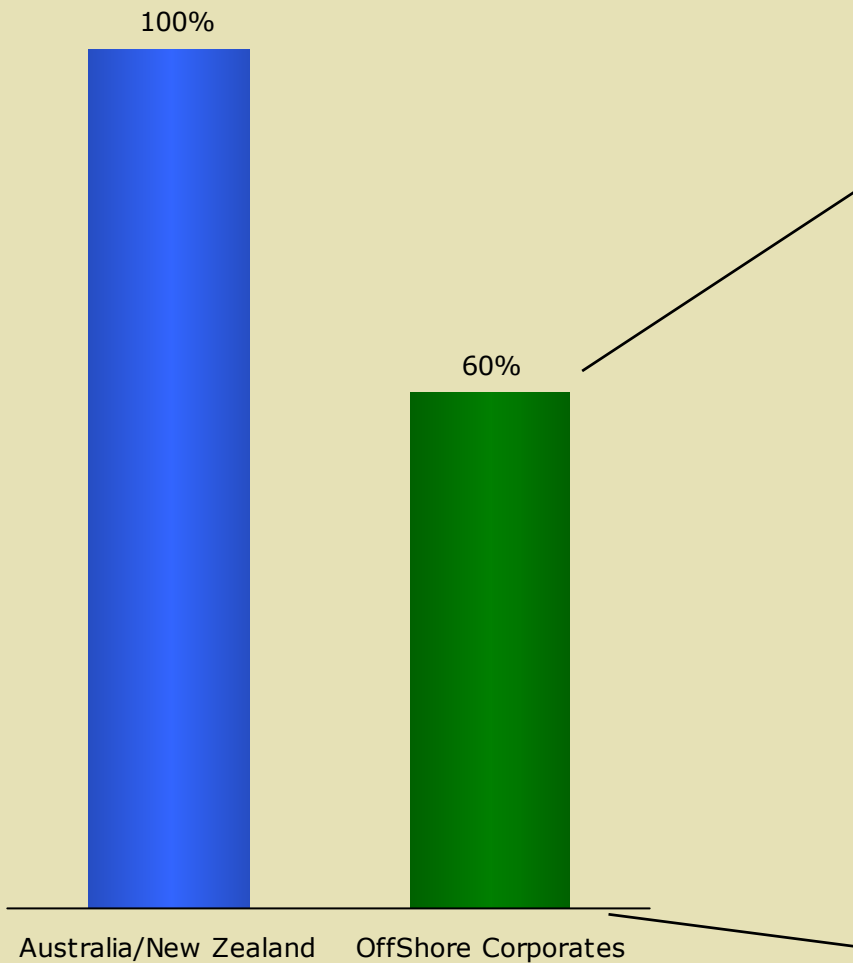


**SP's v ELP 2<sup>nd</sup> Half 2002**

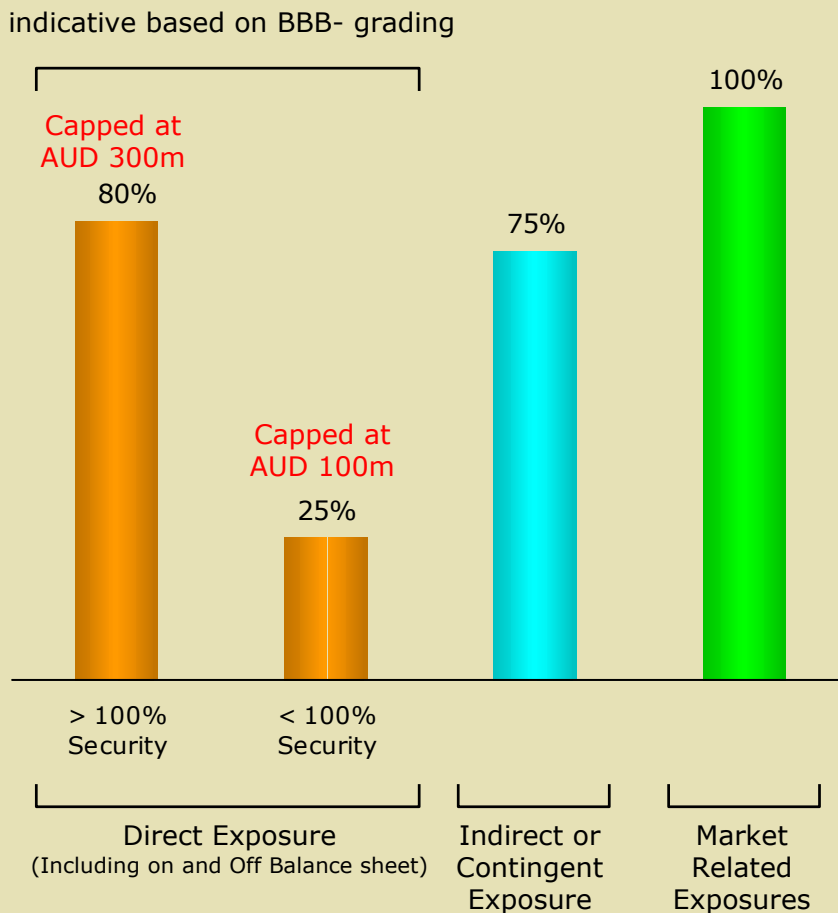


# Offshore SCCLs now in place

## Comparative SCCL Customer Limits



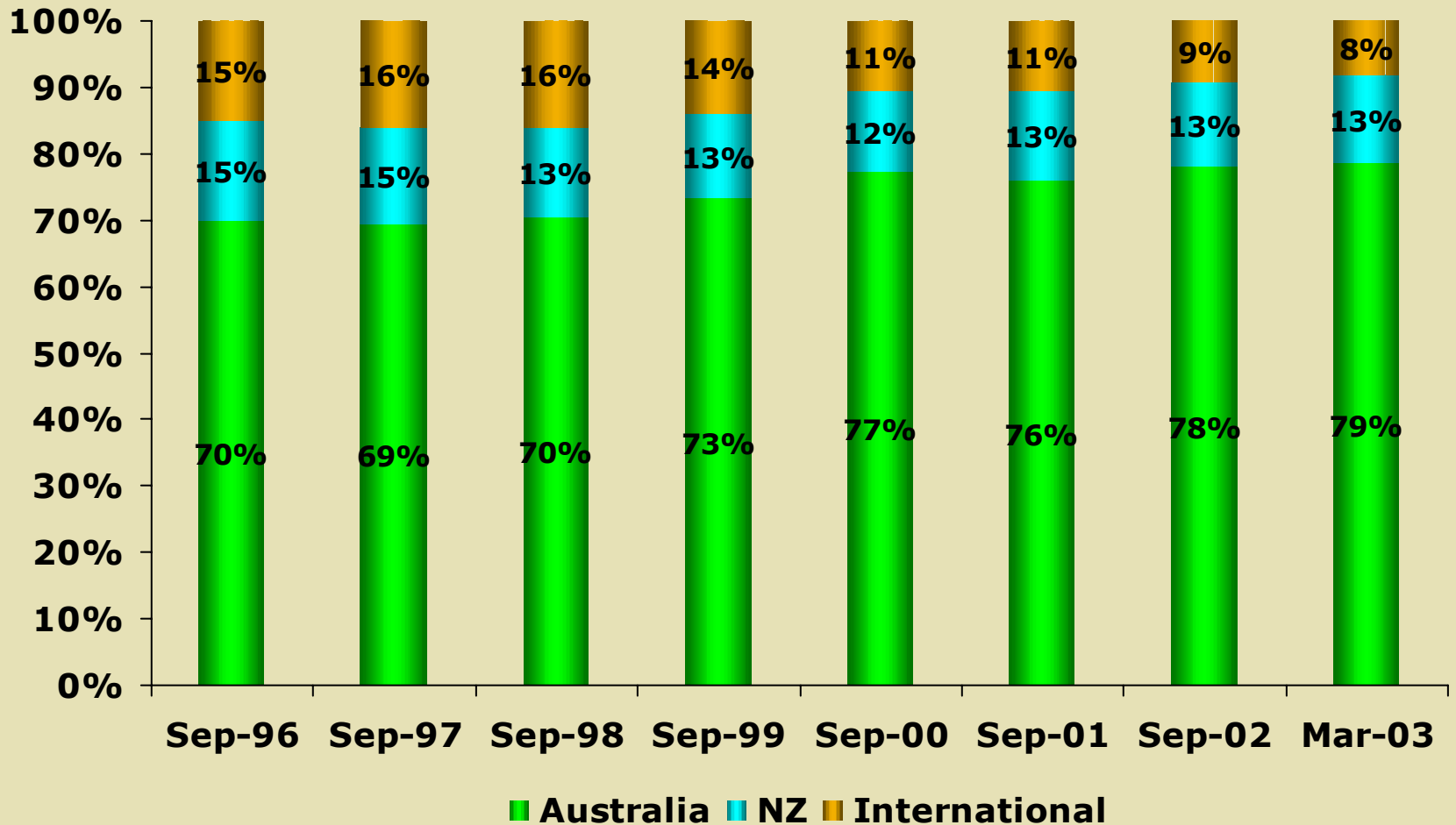
## Lending type SCCL % for offshore Corporates (excl. GSF)



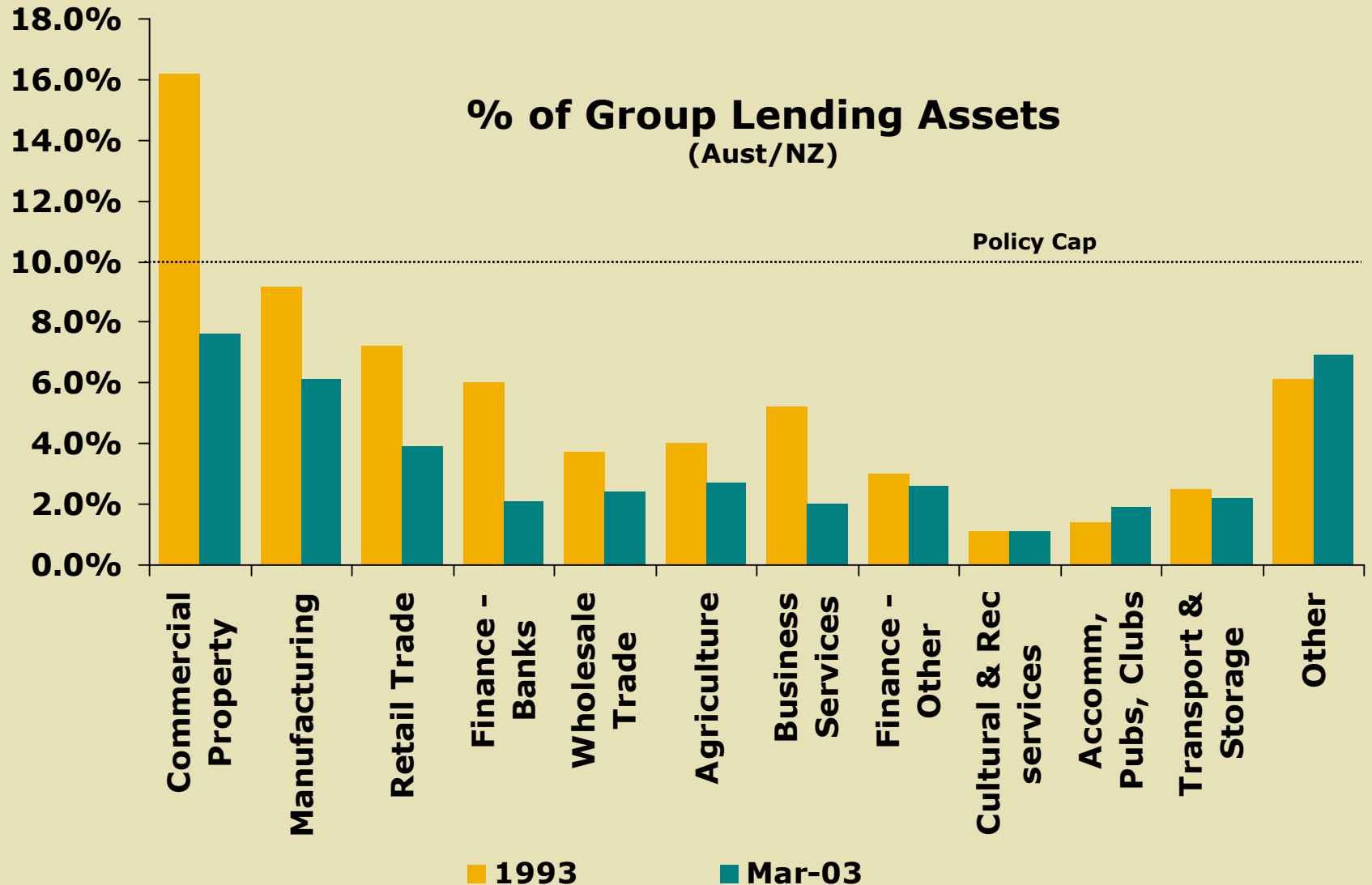
GSF Direct Exposures capped at AUD 450m for > 100% Security and AUD 200m for < 100% Security



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



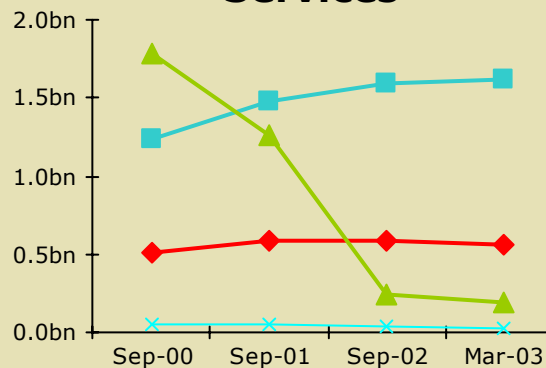
# Increased industry diversification



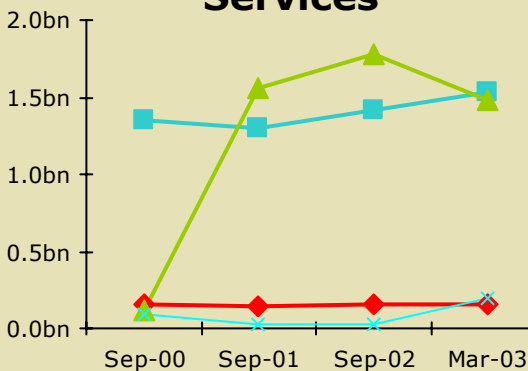
# Industry exposures – Australia & NZ

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

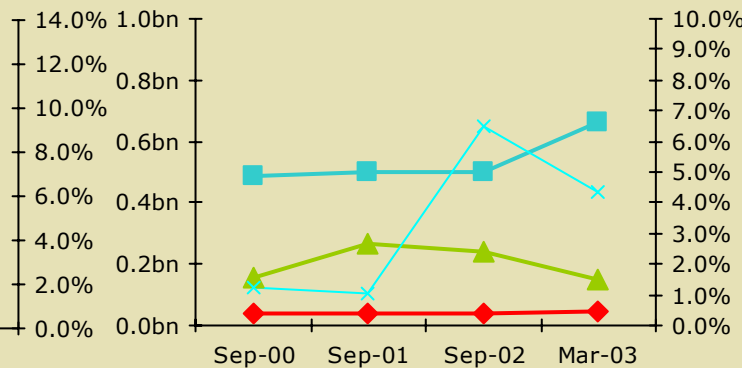
## Health & Community Services



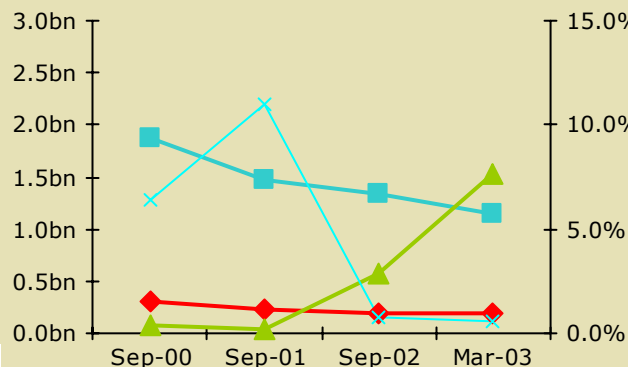
## Cultural & Recreational Services



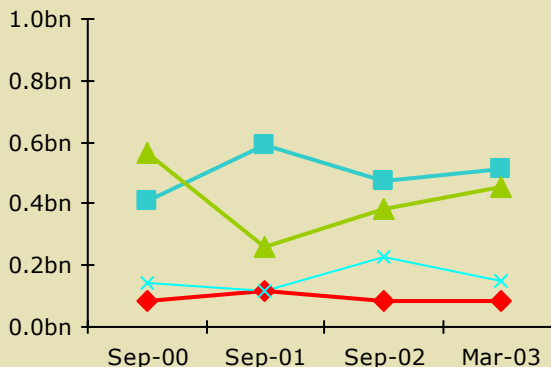
## Forestry & Fishing



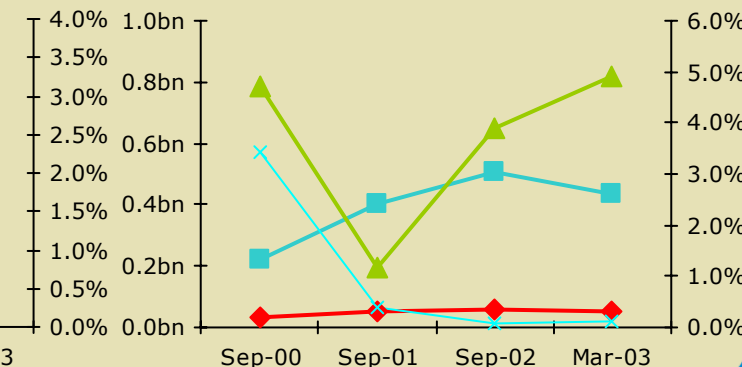
## Mining



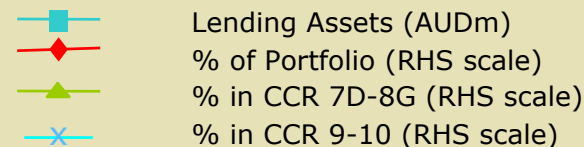
## Personal & Other Services



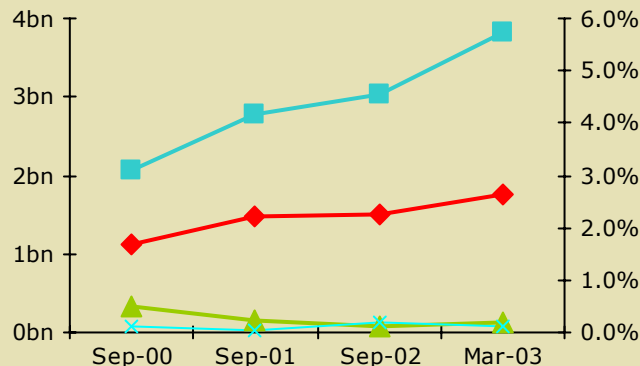
## Communication Services



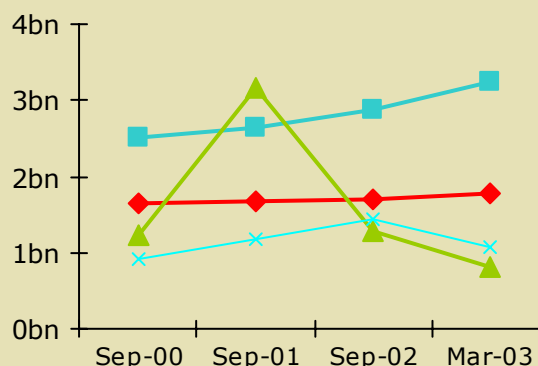
# Industry exposures – Australia & NZ



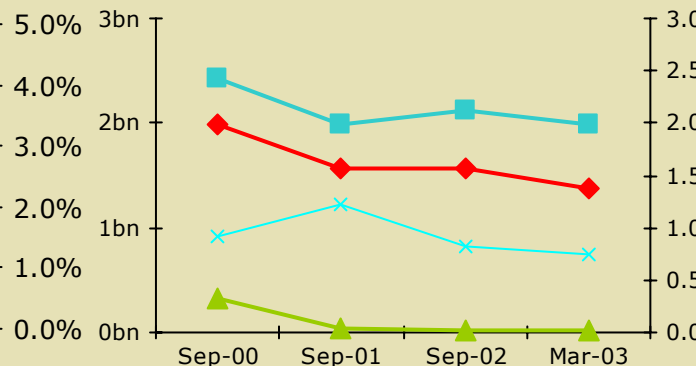
### Finance - Other



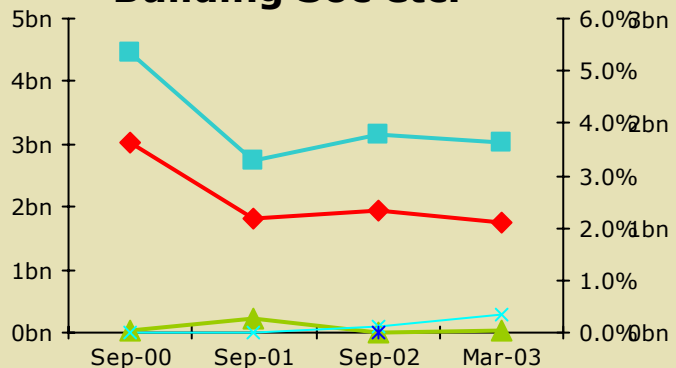
### Transport & Storage



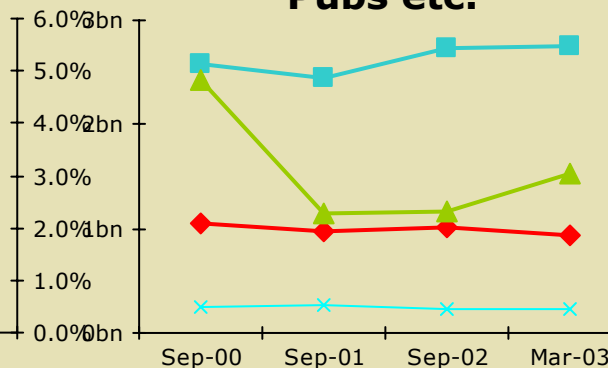
### Utilities



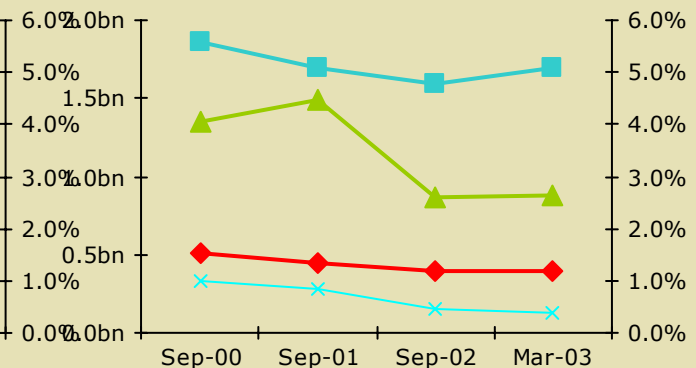
### Finance – Banks, Building Soc etc.



### Accommodation, Clubs, Pubs etc.



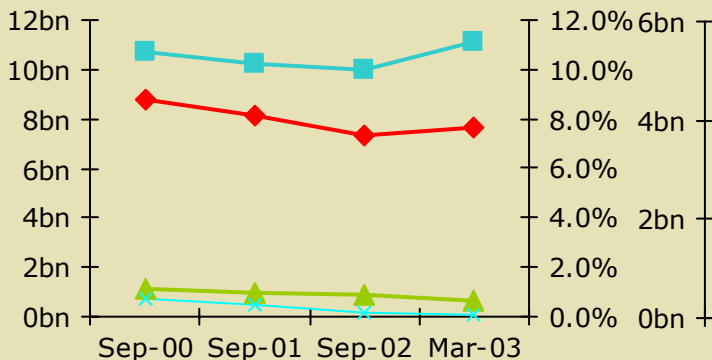
### Construction



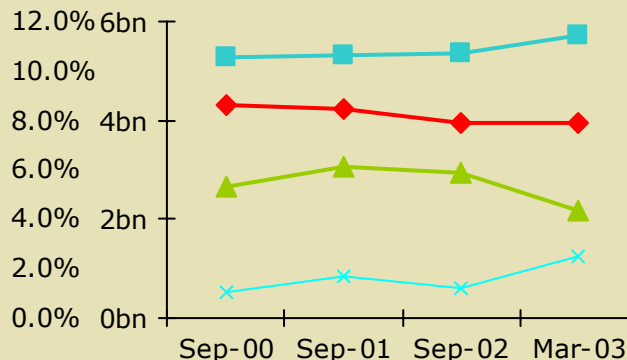
# Industry exposures – Australia & NZ

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

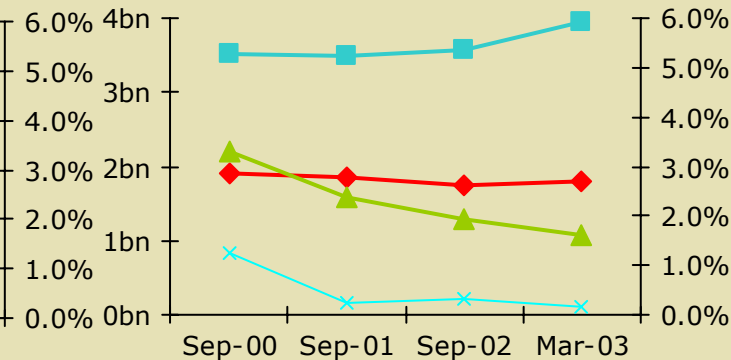
## Real Estate Operators & Dev.



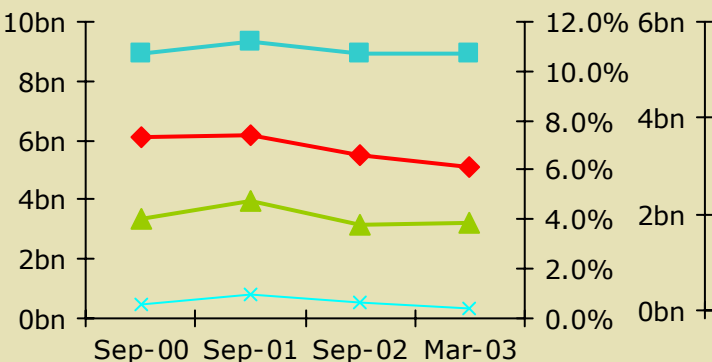
## Retail Trade



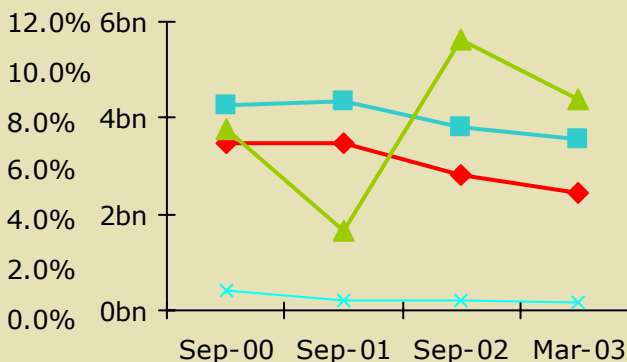
## Agriculture



## Manufacturing



## Wholesale Trade



## Business Services

