

11 March 2004

# *New Zealand Operational Briefing*



**The National Bank**



# Agenda

---

Welcome

New Zealand Economic Review

Introduction

Strategic Overview

Operational Overview

NBNZ Branch Banking

Business Banking

Rural Banking

Integration

NBNZ GDS, Conclusion and Q&A

Simon Fraser

John McDermott

Peter Marriott

Sir John Anderson

Steven Fyfe

Henry Ford

Craig Sims

Charlie Graham

Grahame Miller

Peter Marriott



11 March 2004

*New Zealand  
Operational Briefing*

**New Zealand Economic Review**

**John McDermott**

**Chief Economist, NBNZ**

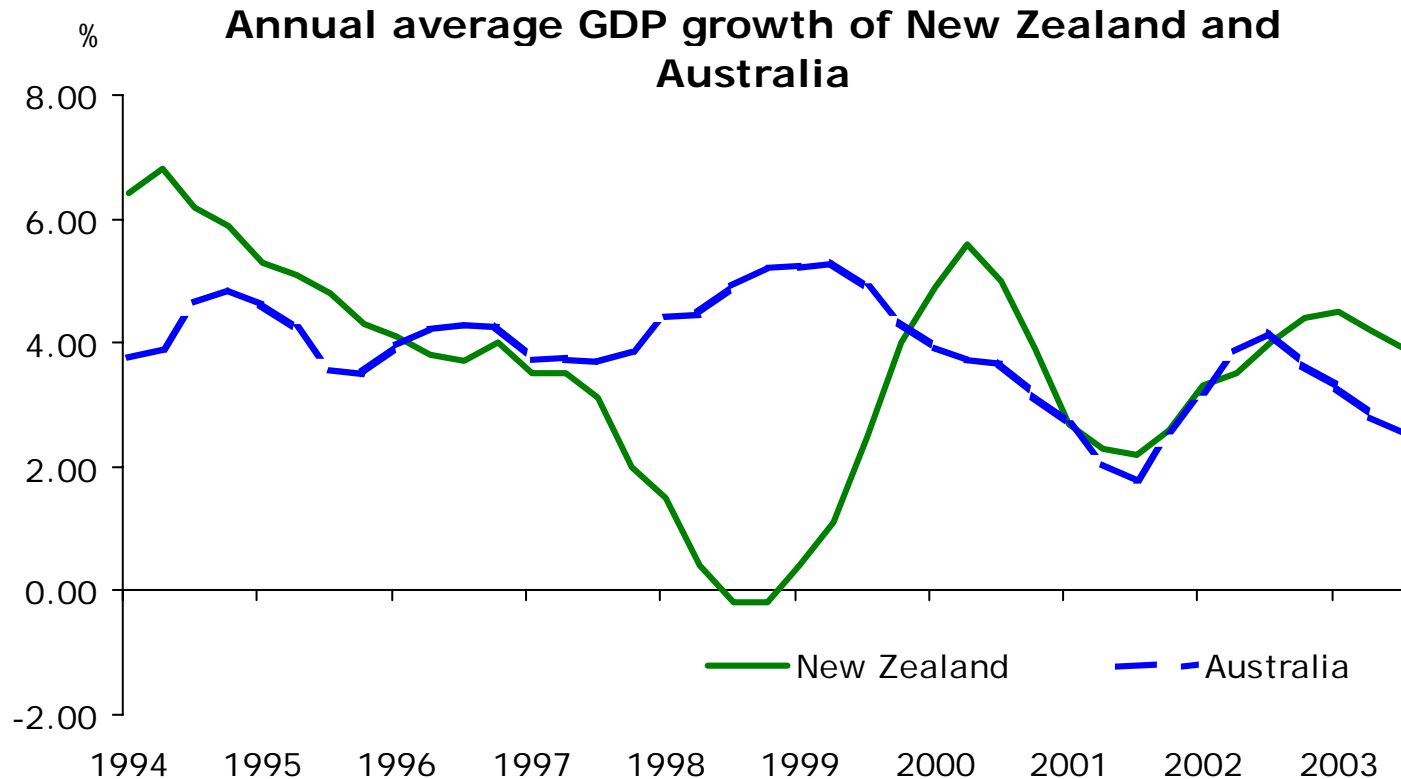


**The National Bank**



## The NZ economy: a quiet success over the last decade

But this economic strength is not just a new phenomenon. Apart from 97/98 drought and the fallout from the 'Asian' crisis, New Zealand's economic cycle has been close to that of Australia's over the past decade.

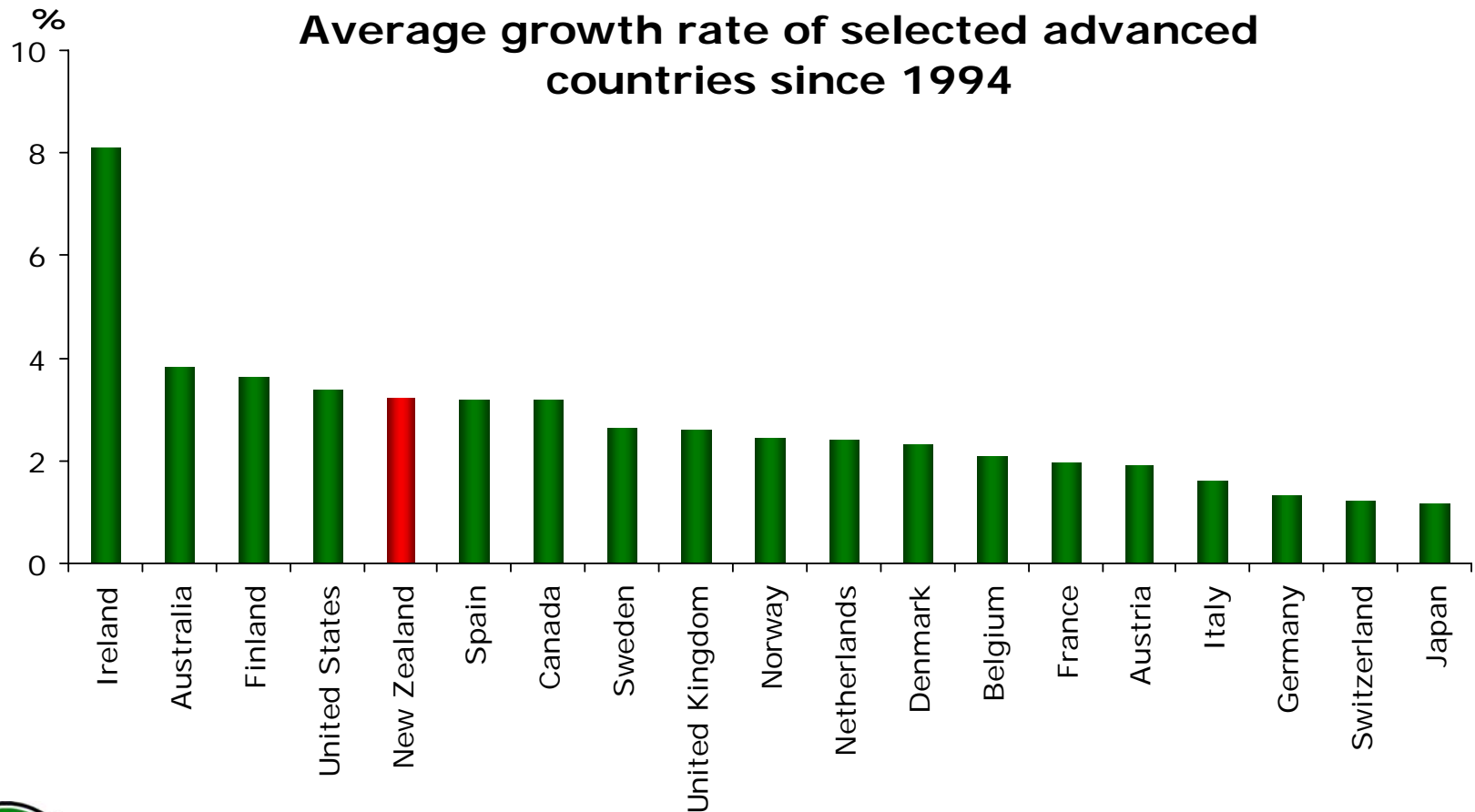


Source: Stats NZ, Gross Domestic Product, RBA, Gross Domestic Product



## NZ has been one of the leading economies over the past 10 years

When compared other advanced countries over the past decade, New Zealand has been in the top half, in terms of economic growth.

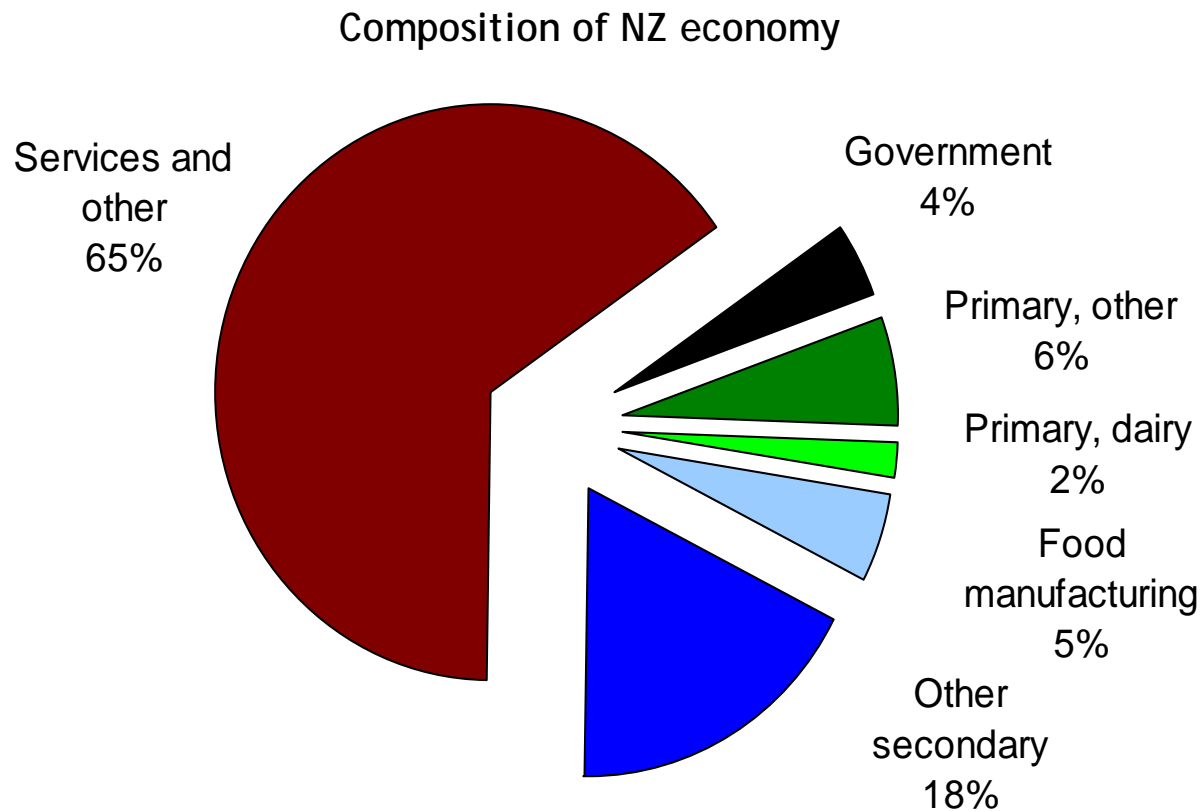


Source: OECD



# The rural sector is a key driver of the New Zealand economy

The direct contribution of New Zealand's rural sector to the rest of the economy is approximately 13%. However, the indirect and induced contribution is about this much again, illustrating the significance of the rural sector to New Zealand's economic performance.

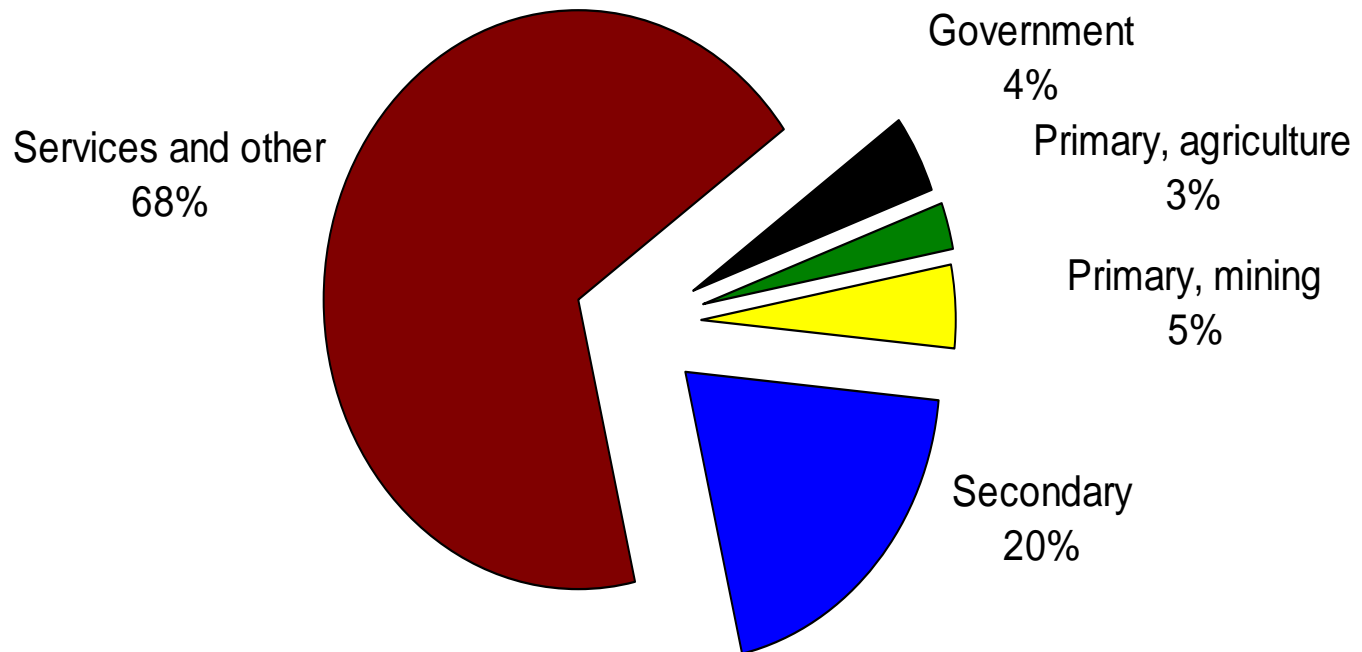


Source: Statistics NZ, Gross Domestic Product

## Australian primary sector is of comparable size

The size of the primary sectors in Australia and New Zealand are similar in contribution to total output. But the mix of commodities within the two are very different.

**Contribution of the Australian economy**

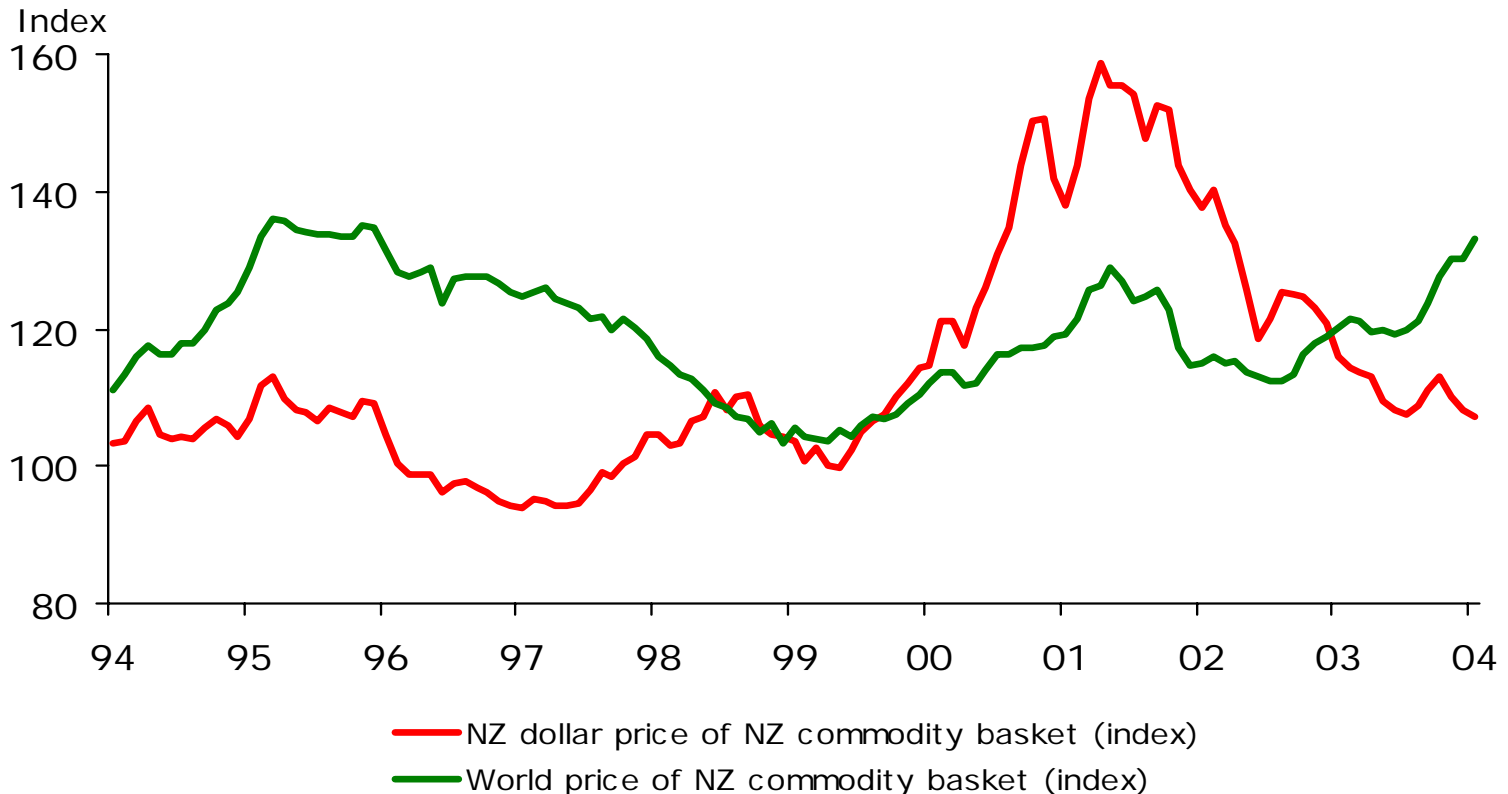


Source: Reserve Bank of Australia

## Therefore, commodity prices are a prime driver of the economy

From late-1999 the value of New Zealand's commodity basket rose strongly in world price terms. Higher commodity prices benefited rural incomes, which in turn initiated a strong economic expansion. A low exchange rate over 1999 to 2003 accentuated this boom.

### The price of New Zealand's commodity basket



Source: ANZ, NZ Commodity Price Index



## Employment growth has been supported by the commodity boom

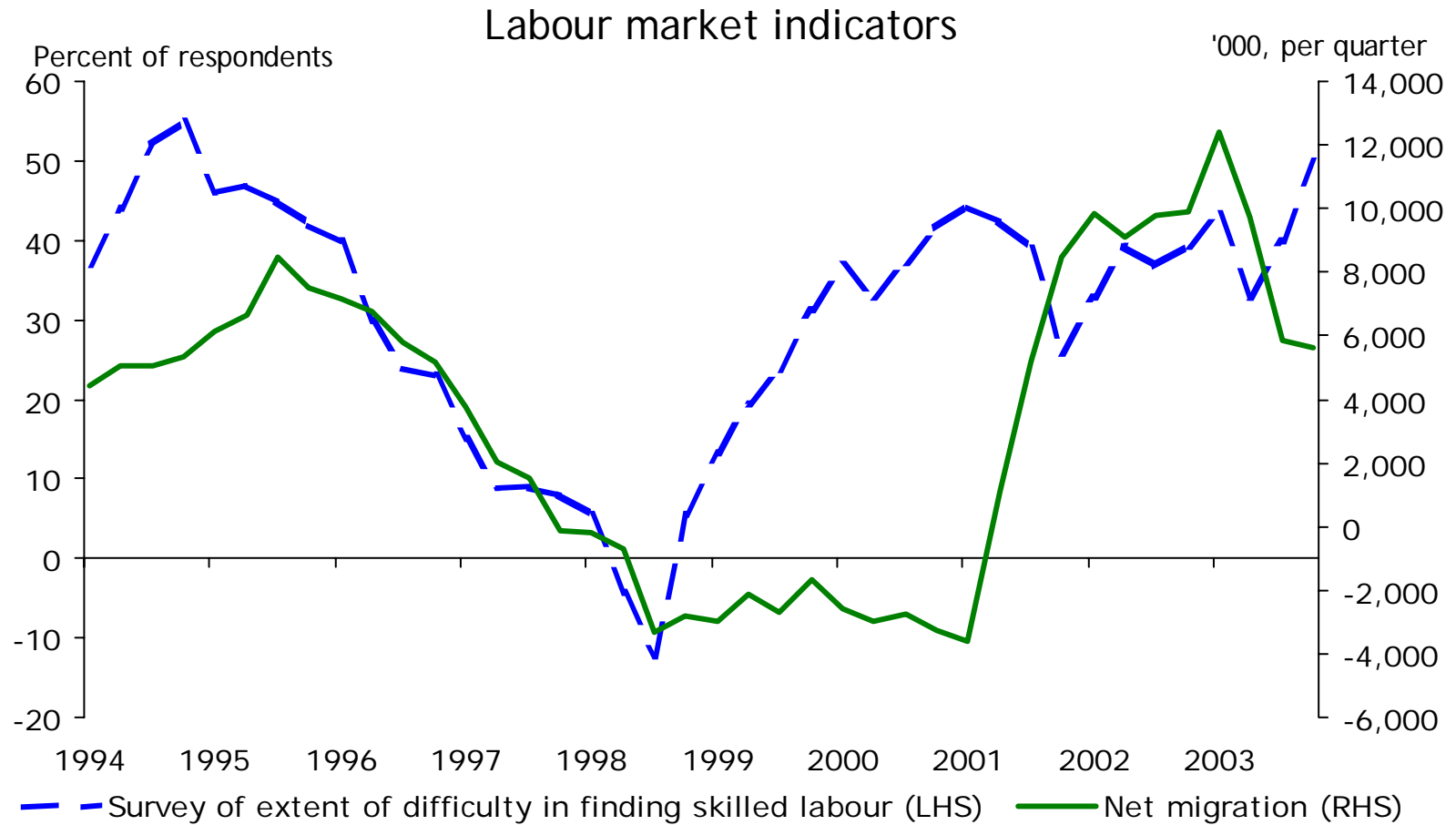
With rising incomes and a low currency (making labour relatively cheap when compared to imported capital), the prospering rural and business communities fed through into the remainder of New Zealand. This contributed to rising employment levels.



Source: Statistics NZ, Household Labour Force Statistics

## Strong job prospects made NZ an attractive destination as well as a good place to stay

Strong economic growth has made finding new employees increasingly difficult for employers, despite a surge in the number migrants adding to the size of the labour force.



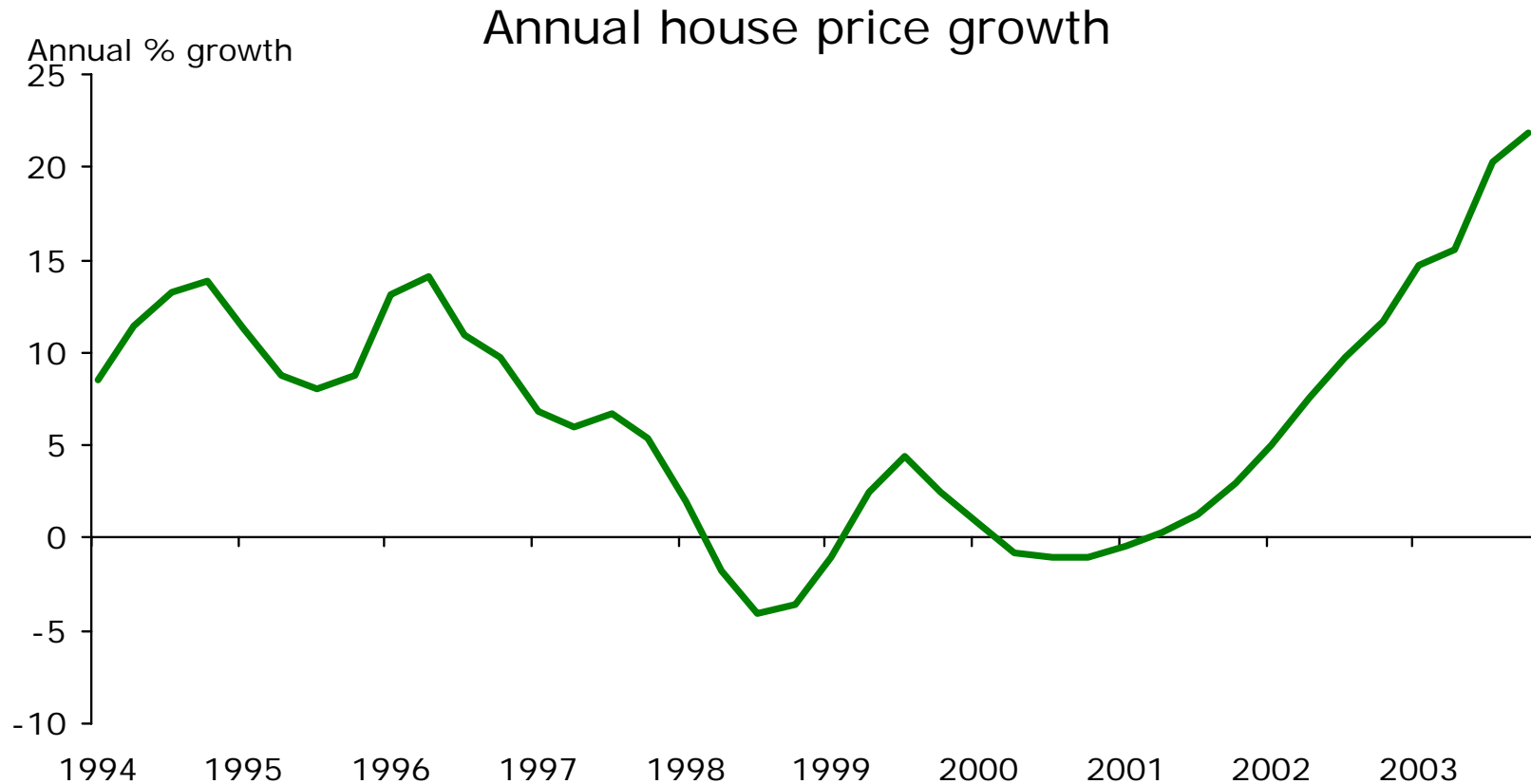
Source: Stats NZ, External Migration, NZIER, Survey of Business Opinion



## ...which has fuelled strong housing demand

---

The surge in the number of net migrants to historical highs has pushed up the demand for housing. Consequently, the price of houses has risen steeply.



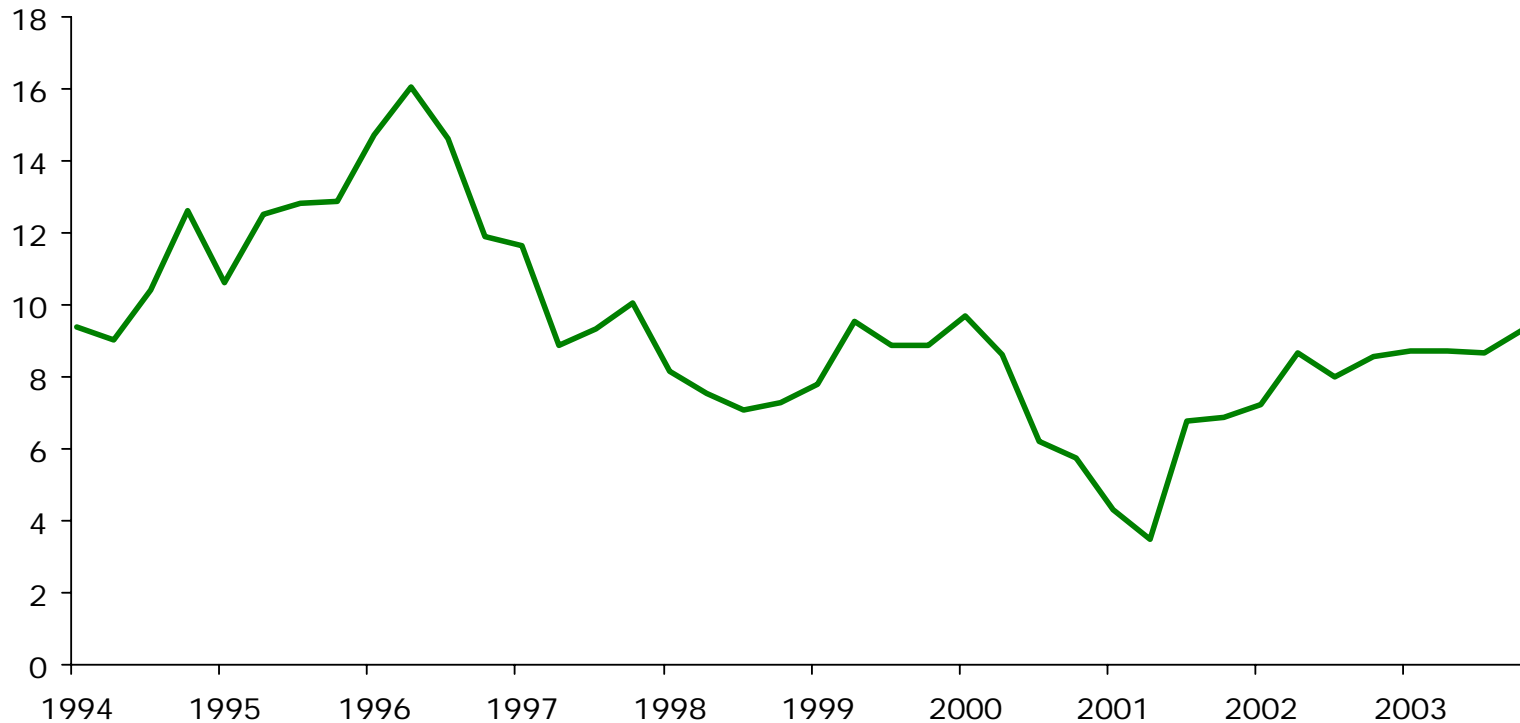
Source: QVNZ

## ... and thus contributed to an expansion in credit growth

Higher demand for housing and upgrading requires furnishings. Thus, householders' credit has also grown strongly over the past 18 months.

Annual % growth

### New Zealand credit growth

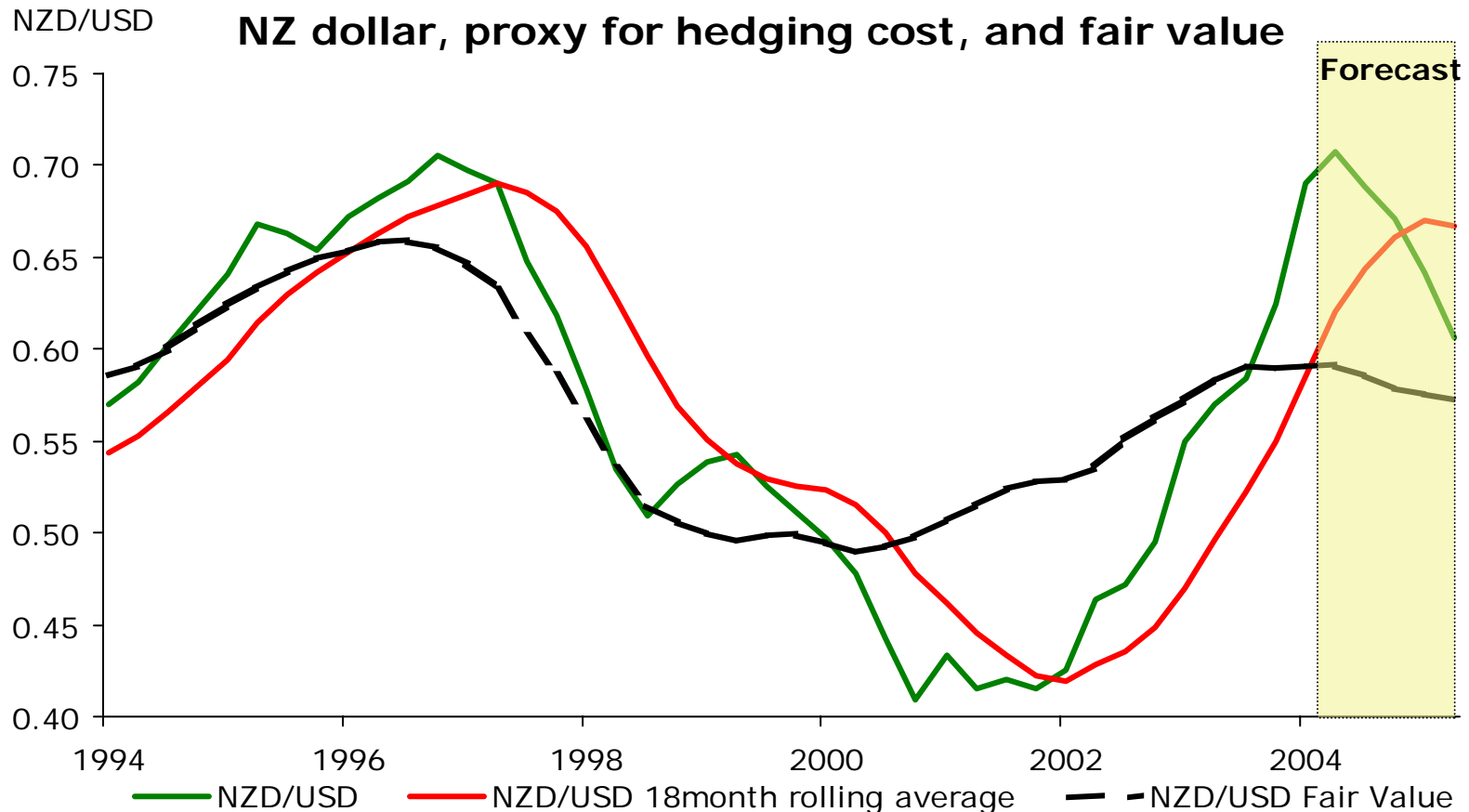


Source: RBNZ, Private sector credit ex repos



## The outlook is that eventually the strength of the NZ dollar relative to the US dollar will slow the economy

The exchange rate acts as a buffer on the economy. As economic growth has risen above trend, so the exchange has risen above its estimate of 'trend' (fair value). This appreciation will act as an anchor for growth, pulling economic growth back towards 'average' levels.



Source: NBNZ. Fair value is based on a model of economic fundamentals, such as commodity prices, terms of trade, current account balance and interest rate differentials.



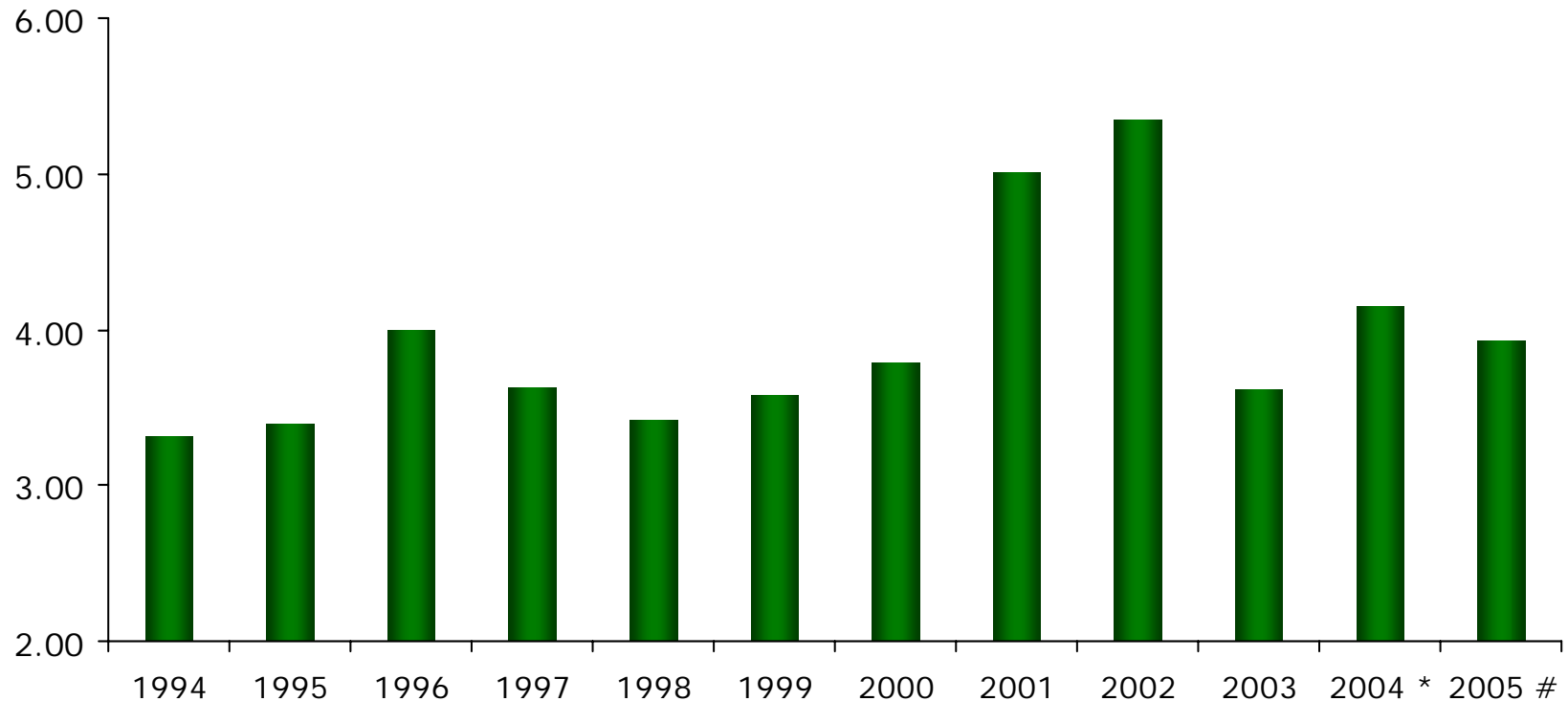
## ... and a more normal, but still robust, growth rate will return

The reversion to trend is also anticipated in specific, but high profile, indicators.

Dairy Company payouts gain significant local media attention as the rural sector is such a large component of the New Zealand economy. Although dairy payouts are expected to fall in 2005, the payments are back at more 'normal' levels, following surges in 2001 and 2002.

### Dairy Company Payout

\$/kg milksolids, June years



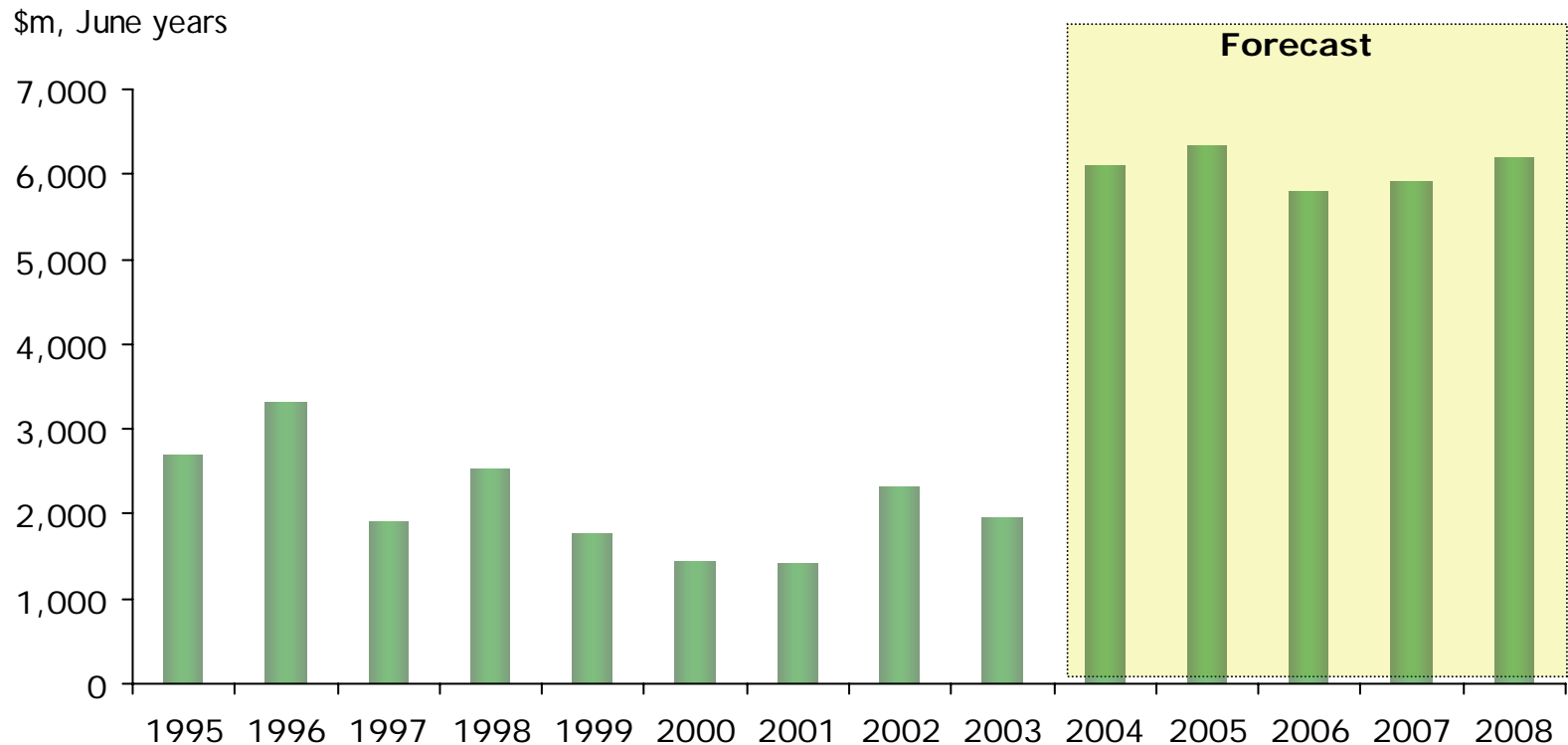
Source: Livestock Statistics, The average dairy company total payout (per kilogram of milksolids) received by dairy farmers from seasonal supply dairy companies, NBNZ \* Estimate # Forecast



## ... The Government has money to spend on infrastructure

The strong economic growth of the previous years has built up a strong tax take for the Government. As the economy slows, the Government has the ability to ease fiscal policy in order to offset the economic slowdown.

### Government Operating Balance \*



Source: The Treasury, \* Crown Revenue minus Crown Expenses

## Key macroeconomic forecasts

---

Calendar years	2003	2004	2005	2006
<b>Real GDP (aapc)</b>	<b>3.5</b>	<b>2.8</b>	<b>2.1</b>	<b>3.1</b>
<b>Unemployment Rate (Dec qtr)</b>	<b>4.6</b>	<b>4.8</b>	<b>5.2</b>	<b>4.9</b>
<b>CPI inflation</b>	<b>1.6</b>	<b>1.9</b>	<b>2.4</b>	<b>2.0</b>
<b>TWI</b>	<b>63.9</b>	<b>65.2</b>	<b>57.3</b>	<b>58.8</b>
<b>90 day bank bill rate</b>	<b>5.3</b>	<b>5.6</b>	<b>5.8</b>	<b>6.1</b>
<b>Current Account Balance <a href="#">[1]</a></b>	<b>-4.8</b>	<b>-5.7</b>	<b>-5.5</b>	<b>-4.8</b>
<b>Govt. Operating Balance <a href="#">[1, 2]</a></b>	<b>1.5</b>	<b>4.3</b>	<b>3.6</b>	<b>2.1</b>

---

*[1] Percent of GDP, [2] Refers to the June fiscal year. Underlying assumptions of these forecasts can be found in the Quarterly Economics Forecasts, found at <http://www.nbnz.co.nz/economics/forecasts/>*

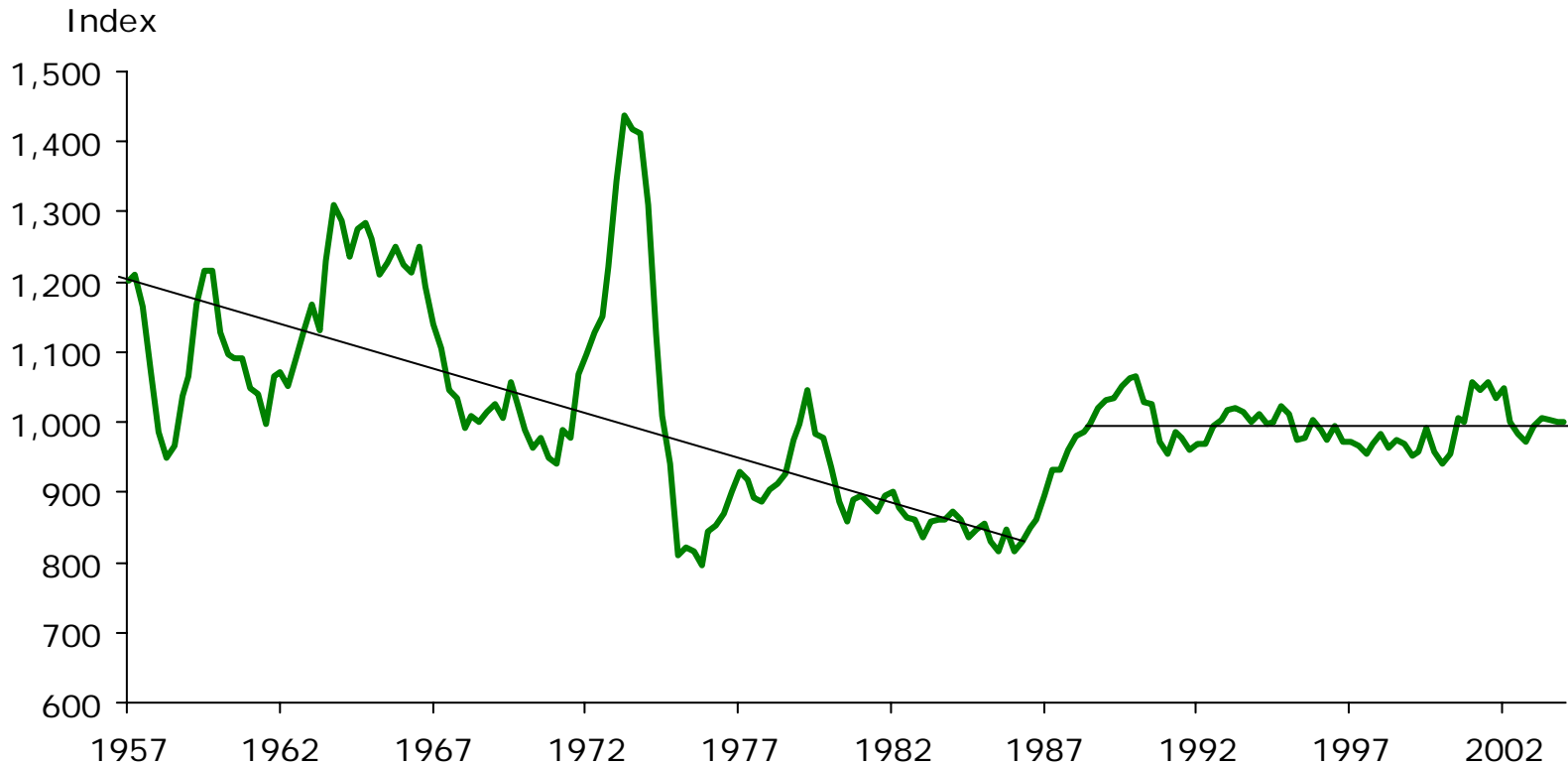




## New Zealand's terms of trade have improved in the last decade

It is well known that New Zealand's relative economic growth per capita has declined over the post-war era. In part, this can be attributed to the observed secular decline in New Zealand's terms of trade. However, the terms of trade decline has arrested over the past decade and thus New Zealand's long-term prospects have improved.

### New Zealand's Terms of Trade




Source: Statistics NZ



## Summary

---

- The NZ economy has been one of the world's leading economies over the last decade
- NZ is a low risk economy
- Strong commodity prices have been a prime driver of economic growth
- A strong employment market has fuelled increased housing demand driving recent credit growth
- Government spending on infrastructure is expected to support economic activity



***The NZ economy  
is coming off a  
cyclical boom and  
reverting back to  
normal but still  
robust growth  
levels***



11 March 2004

*New Zealand  
Operational Briefing*

**Introduction**

**Peter Marriott**

**Chief Financial Officer**



**The National Bank**



## ANZ's strong earnings momentum

---

- FY04 earnings is in line with expectations of around 9% cash EPS growth<sup>\*</sup>
- Strong performance across our portfolio of specialist businesses
- Credit quality continues to improve assisted by low specific provisions in our offshore portfolio
- Cost to income ratio at or below 45% - increasing investment in our customer franchise



*\* Excludes goodwill, net gains arising from significant transactions relating to hybrid capital and adjusting for the bonus element of the rights issue.*

## ANZ - Specialist capabilities; Leading market positions

---

ANZ has a strong platform for the future:

- Unique specialisation strategy
- Sustainable business portfolio
- World leading efficiency
- First mover cultural transformation
- Stable, well-regarded management
- Reduced risk exposure

NBNZ acquisition is a key step towards domestic leadership

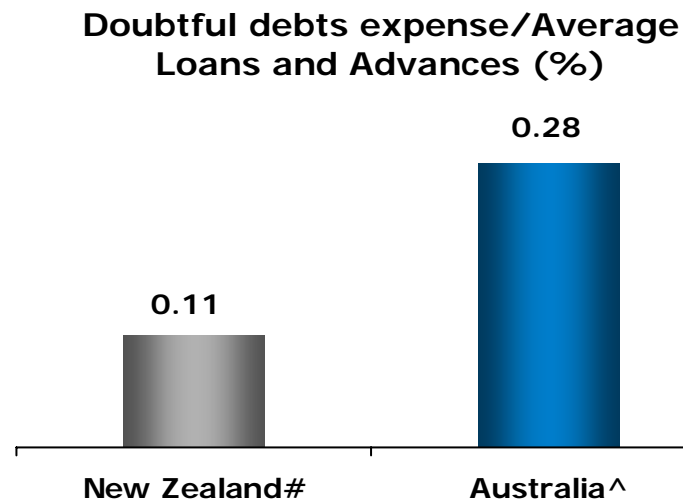
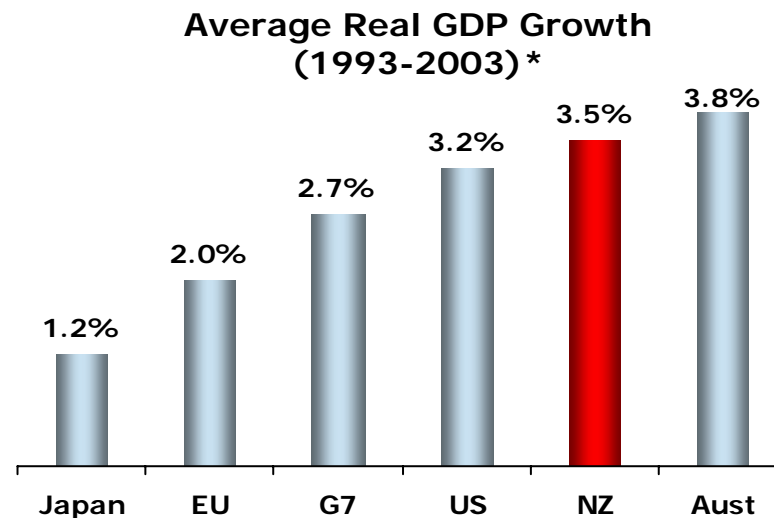
This platform is building a leading franchise:

- The leading bank in New Zealand
- The leading bank in the South Pacific
- The leading Australasian bank in Asia
- Leading positions in Australia:
  - Institutional
  - Corporate
  - Cards
  - Esanda



# National Bank of New Zealand: A very different acquisition

- Transforming for ANZ at a modest price
- New Zealand - a high return, low risk market
- Creates the leading bank in New Zealand
- Approx. 28% of ANZ NPAT now derived from NZ
- Business model developed to leverage the “best of both banks”
- Dual brand strategy and integration designed to minimise customer attrition
- Working closely with RBNZ to meet its requirements for the banking industry
- Initial customer and staff reaction more positive than expected
- Financial update on integration on 27<sup>th</sup> April



Source: \*International Monetary Fund  
# 5 top NZ banks for 2002  
^ 4 top Australian banks for 2003



11 March 2004

*New Zealand  
Operational Briefing*  
**Strategic Overview**

**Sir John Anderson**

Chief Executive Officer, The National Bank of New Zealand Limited &  
Managing Director, ANZ Banking Group (New Zealand) Limited



**The National Bank**



# The National Bank of New Zealand: Strategic Overview

---

1. Introduction
2. The NBNZ story
3. Current Status
4. Future Outlook
5. Management Team





11 March 2004

*New Zealand  
Operational Briefing*  
**Operational Overview**

**Steven Fyfe**

**Chief Operating Officer (designate)**



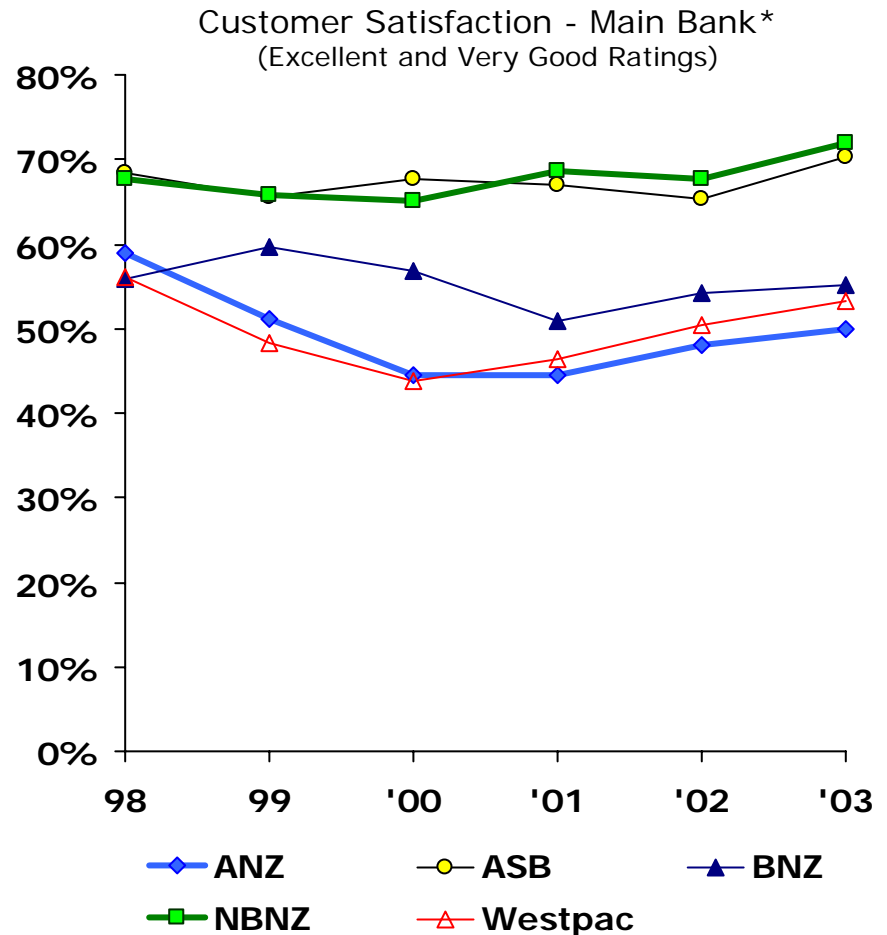
**The National Bank**



# NBNZ maintains a clear strategic focus

- Core Banking
- Excelling in Customer Service
- Relationship Banking
- Consistent Brand Values
- Leveraging NZ scale to drive efficient infrastructure

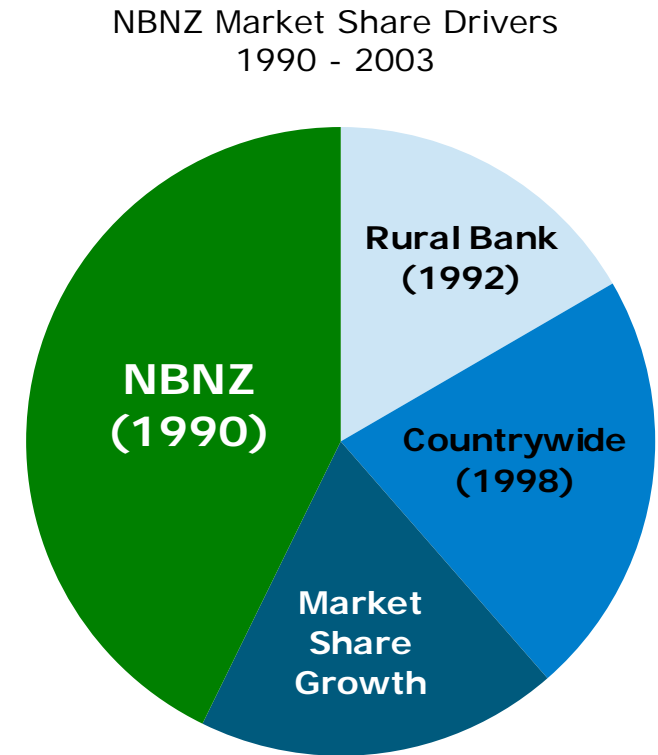
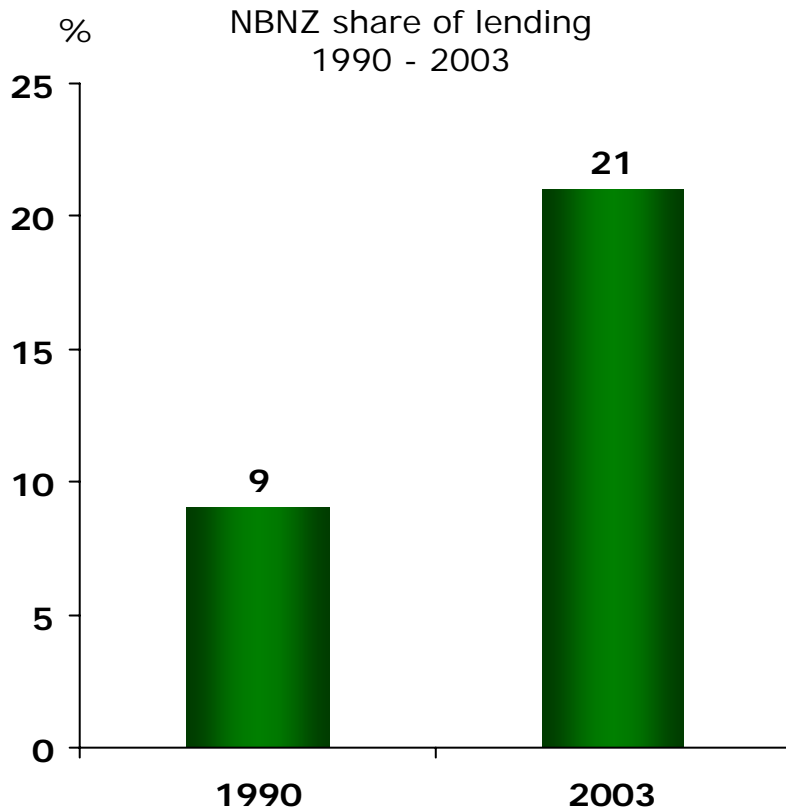
## Leading customer satisfaction



# NBNZ has undergone a significant transformation consistent with our focus

NBNZ market share has grown from 9% in 1990 to 21% in 2003...

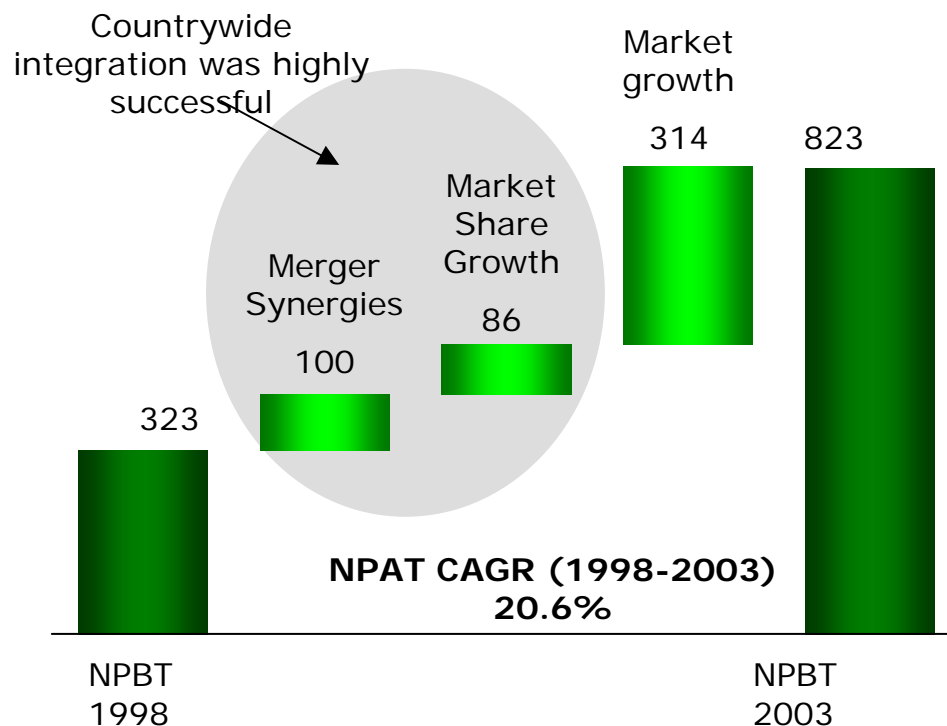
...driven by a combination of acquisition and market share growth



## We have a proven track record of successful integrations

- We have successfully integrated both Rural Bank and Countrywide
- Since 1998, following the integration of Countrywide we have grown Market Share
- We have driven substantial income growth (CAGR 8.3% 1998-2003) whilst significantly reducing Cost to Income

	<b>NBNZ/CW Pro-forma* 1998</b>	<b>NBNZ Actual** 2003</b>
<b>Income</b>	966	1,441
<b>Costs</b>	610	584
<b>Provisions</b>	33	34
<b>NPBT</b>	<b>323</b>	<b>823</b>
<b>CTI</b>	63%	41%



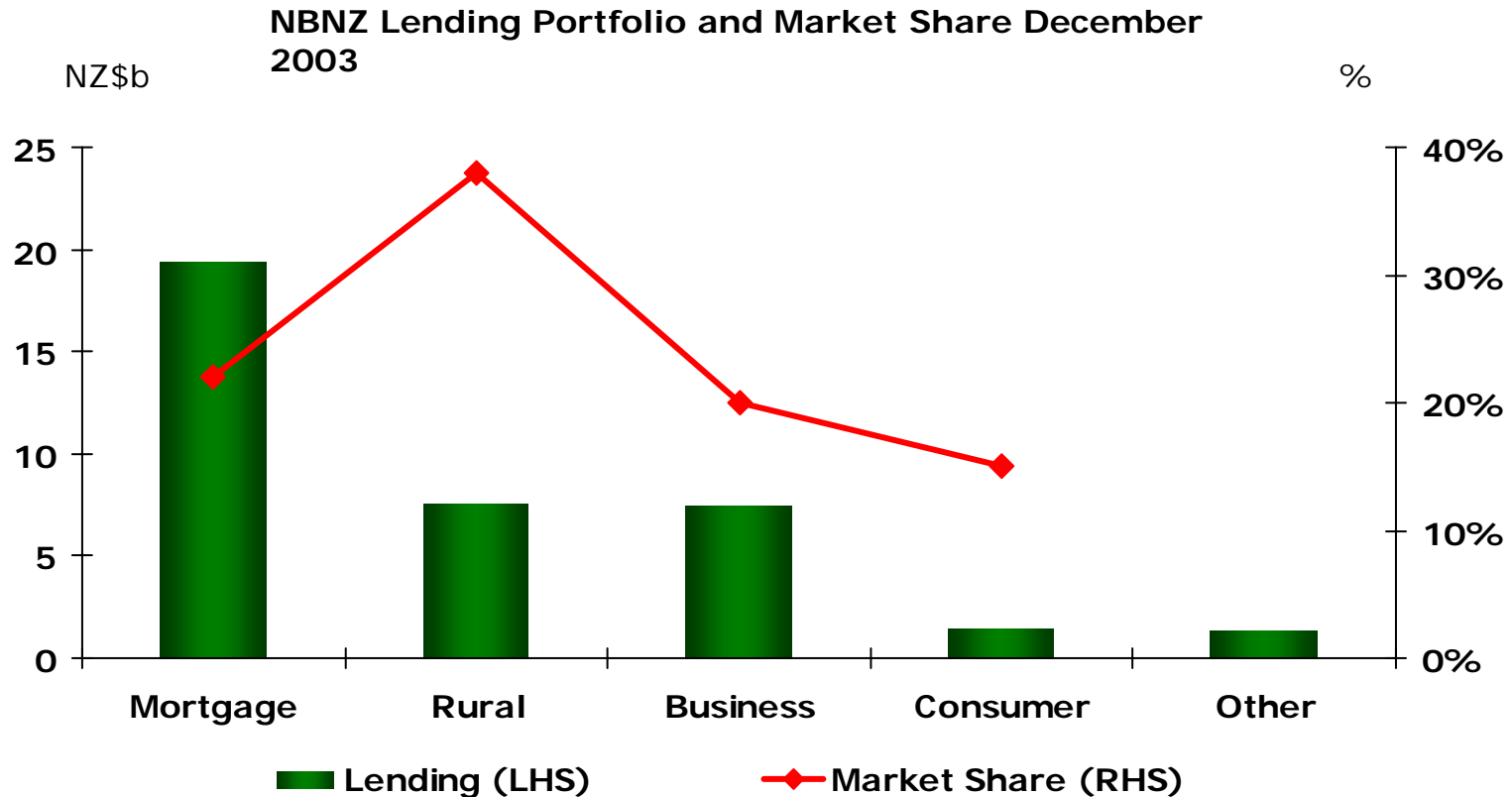
\* Merger Baseline: NBNZ and Countrywide combined for 12 months to 31/12/98

\*\* NBNZ Results to 31 December 2003, normalised for ANZ acquisition adjustments



# Quality loan portfolio, with low provisioning

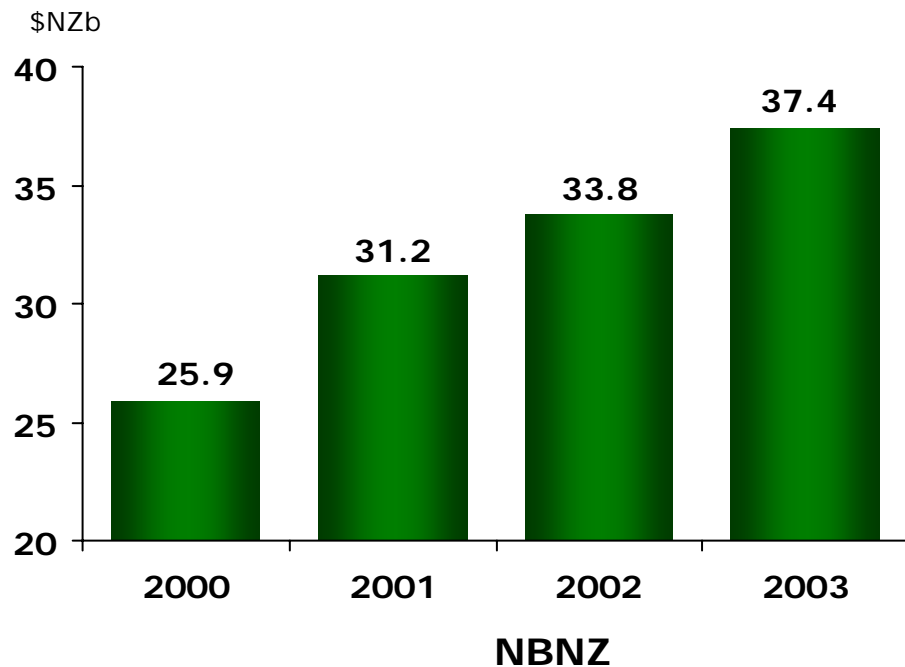
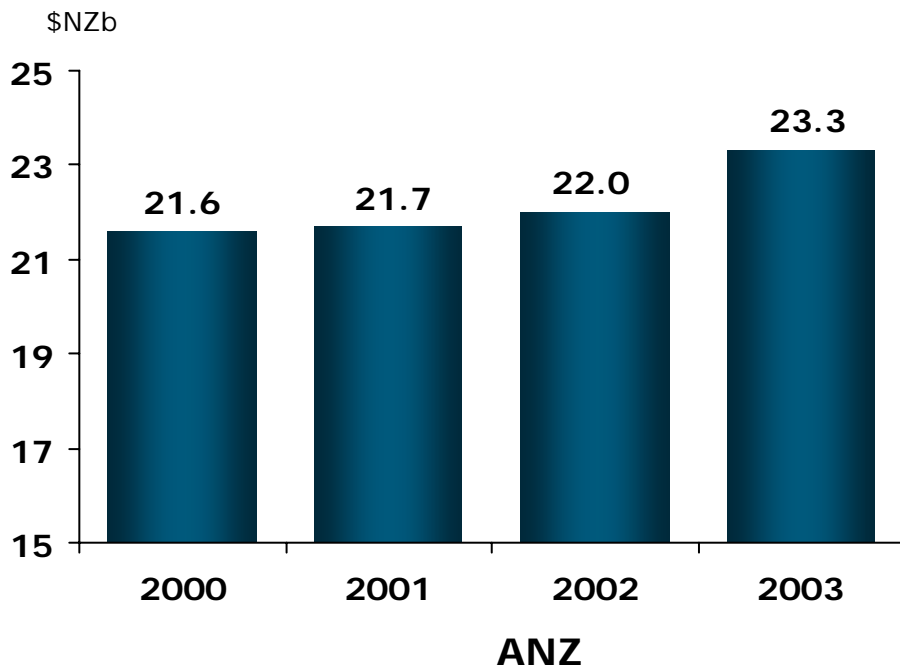
- More than 80% of the portfolio is secured by real estate
- Loan losses have averaged 0.10% since 1990



# NBNZ continued its business momentum in 2003, and ANZ growth rebounded

- NBNZ's total lending increased 10.5% in 2003, ahead of the market average (10%)
- ANZ's total lending grew 6.0% after two years of flat growth reflecting new market and management initiatives in 2003

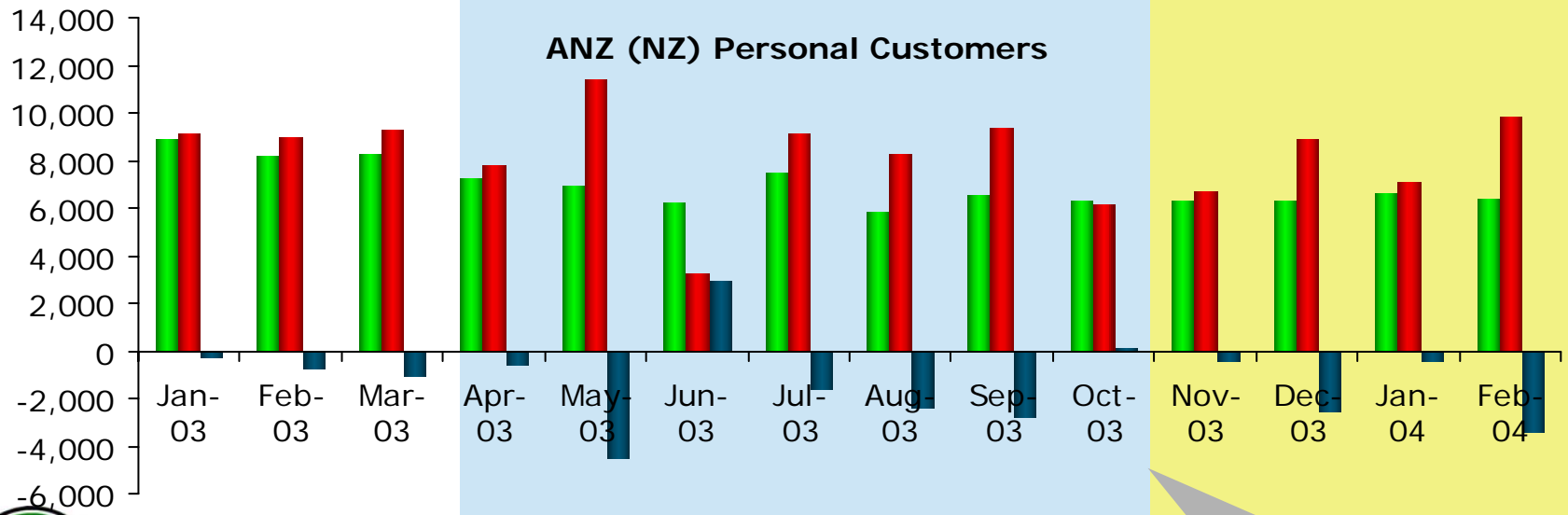
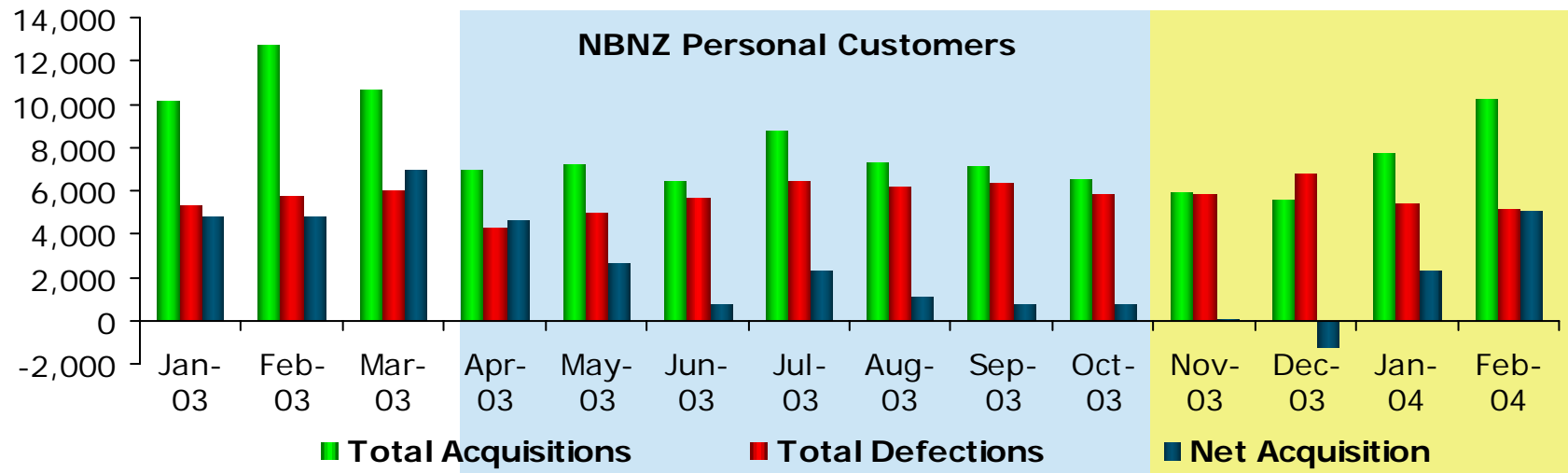
## Total Lending



Source: December General Disclosure Statements



# ... and we are seeing a positive trend in terms of net customer acquisition



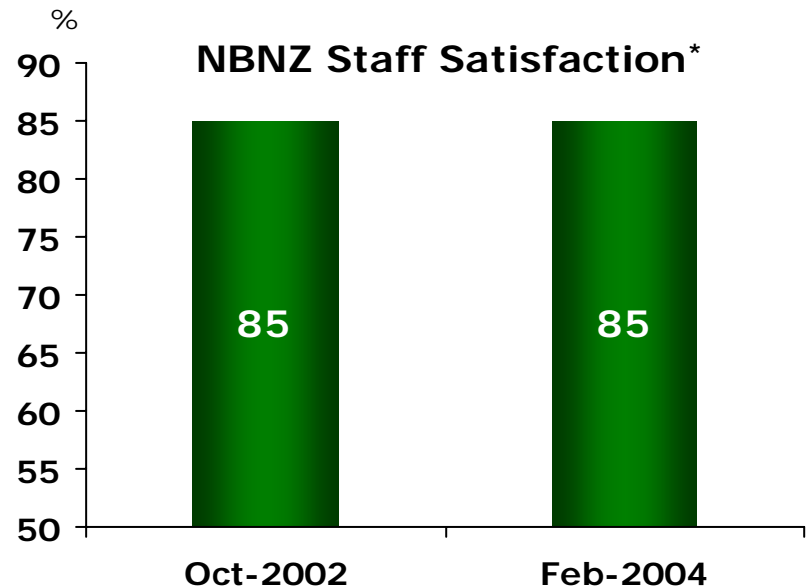
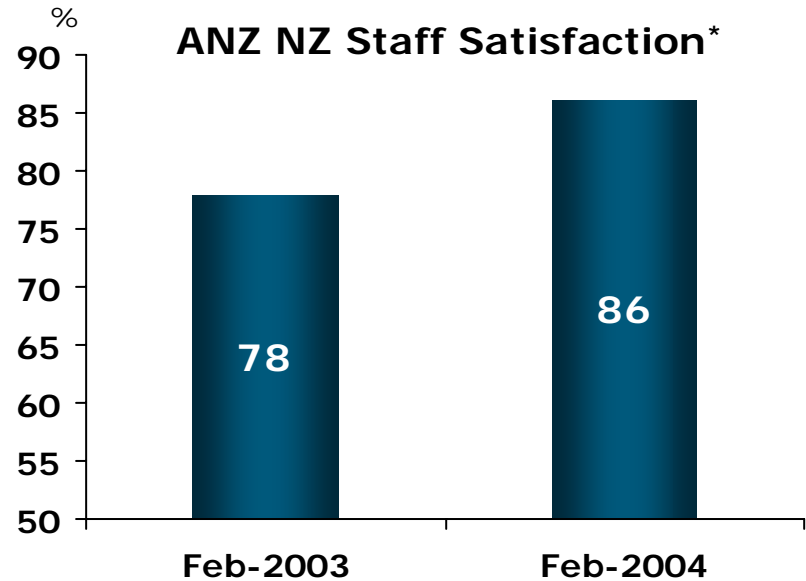
Uncertainty over sale process

Merger announced



## Our people are engaged, and satisfaction levels are strong

- Satisfaction levels measured in February 2004 remain strong after a period of uncertainty
- Our people are enthusiastic about the dual branding structure
- Appointment of Sir John Anderson has been well received
- We have devoted substantial resources to engaging staff in both banks:
  - significant investment in change management training for staff and managers
  - implemented intensive two-way communication processes to keep staff fully informed
  - staff satisfaction survey completed, and ongoing pulse surveys




\* Based on ANZ Snapshot Survey and NBNZ Viewpoint Survey



## Summary

---

- We have a clear strategic focus
- NBNZ has a strong financial track record
- We have a history of successful integrations
- Customer and growth trends are encouraging
- Our people are engaged



**A history of  
success, and well  
placed to deliver  
into the future**



11 March 2004

*New Zealand  
Operational Briefing*

**Retail Banking**

**Henry Ford**

**General Manager, Branch Network NBNZ**



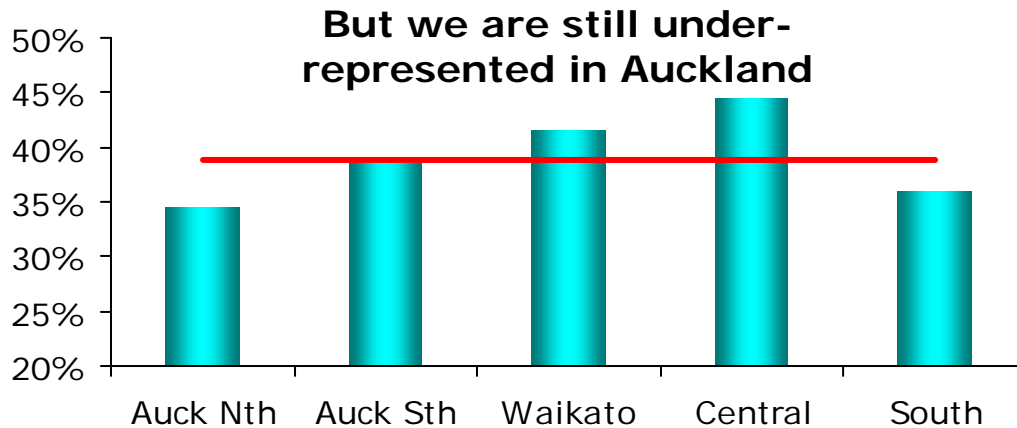
**The National Bank**



# ANZ and NBNZ are well positioned in the retail banking market

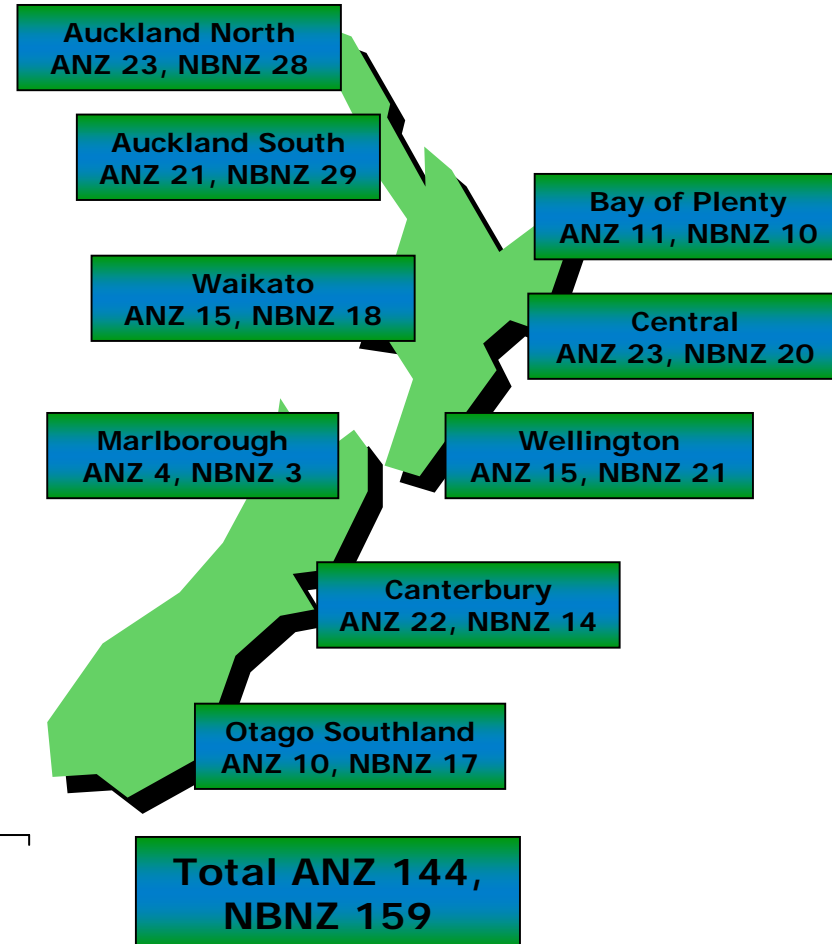
## ANZ and NBNZ Retail Banking

- Provides services to all customers of the Bank
- Delivers full suite of retail banking products including Credit Cards and Insurance
- Combined group has 1.9m retail customers
- Includes 303 branches and 3 contact centres
  - including 8 specialist "face to face" outlets that deliver sales in "Mall hours"
- We employ 5300 staff



ANZ/NBNZ – share of total branches

**Total Number of Branches 303**  
 – comprising approx 40% of total bank branches in NZ

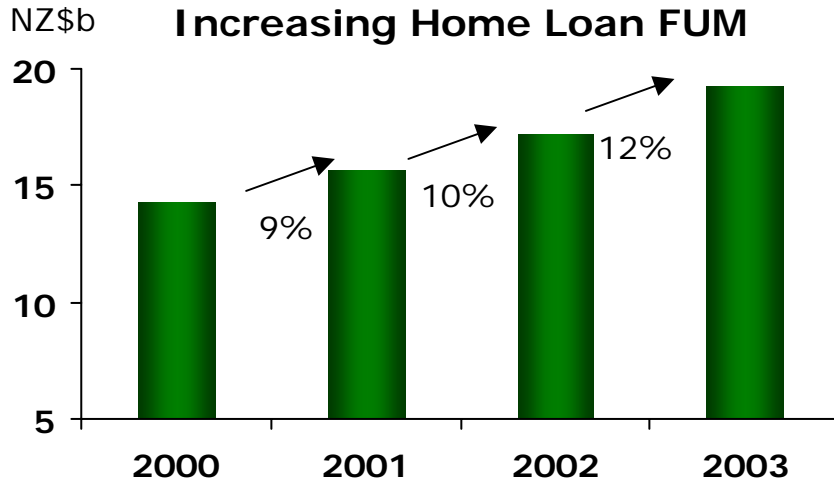


## NBNZ branches – a distinctive proposition

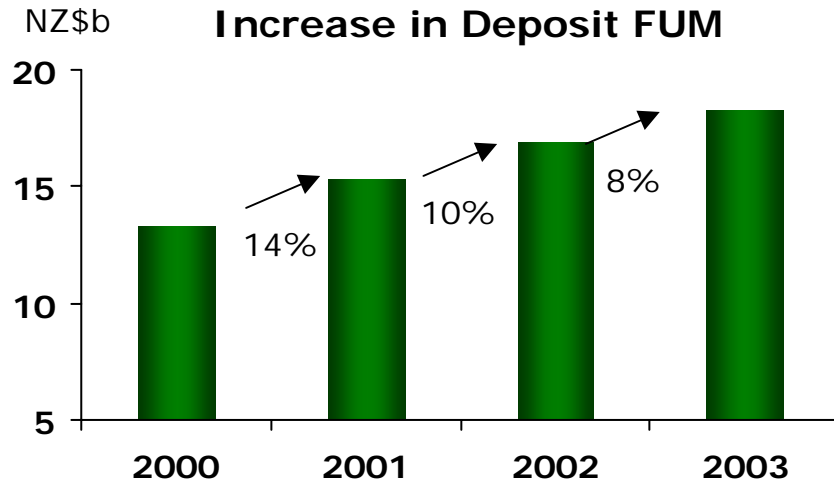
---



# NBNZ Retail Banking has experienced strong growth



- We have consistently grown Home Loan FUM
- Growth in last 12 months slightly below market

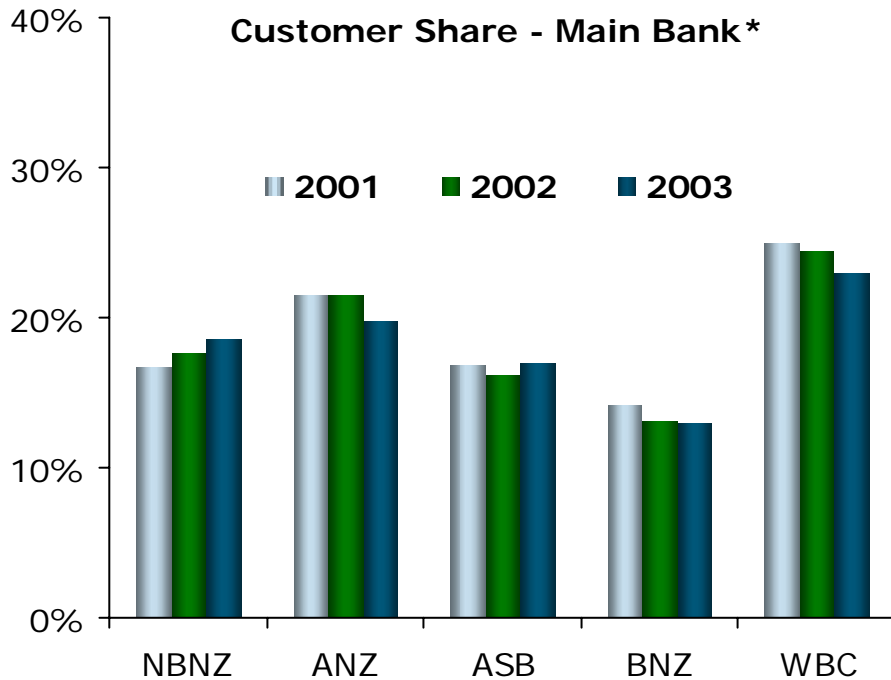


- Slowdown in deposit growth in line with market
- Retail deposits up 5.6% in year to January '04, against market growth of 5.2%

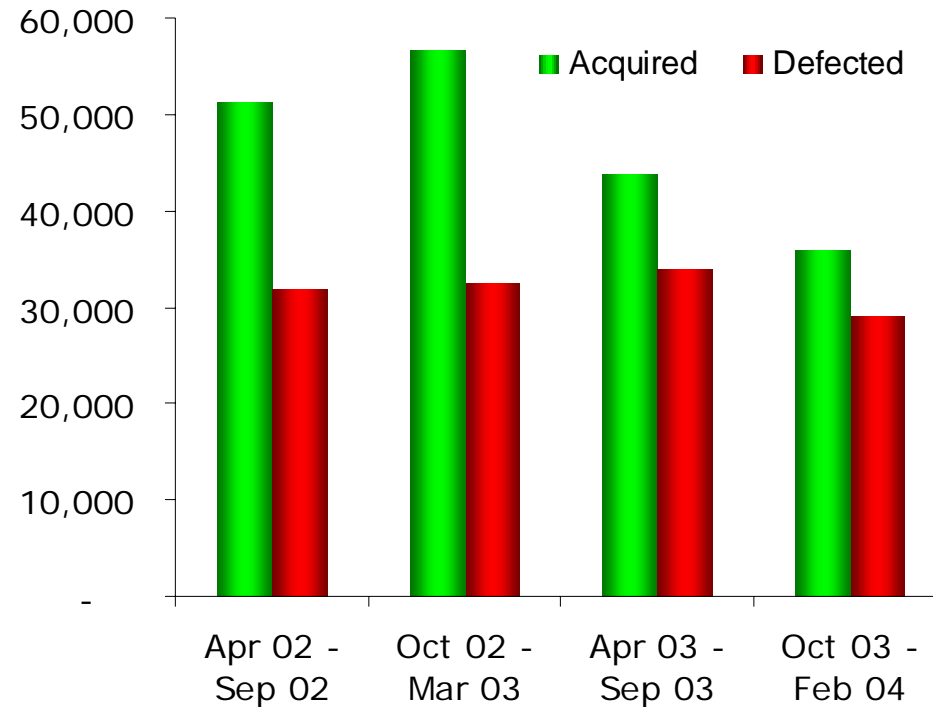


# We have a track record in growing market share

A strong track record of building market share...



... and we continue to grow customer numbers



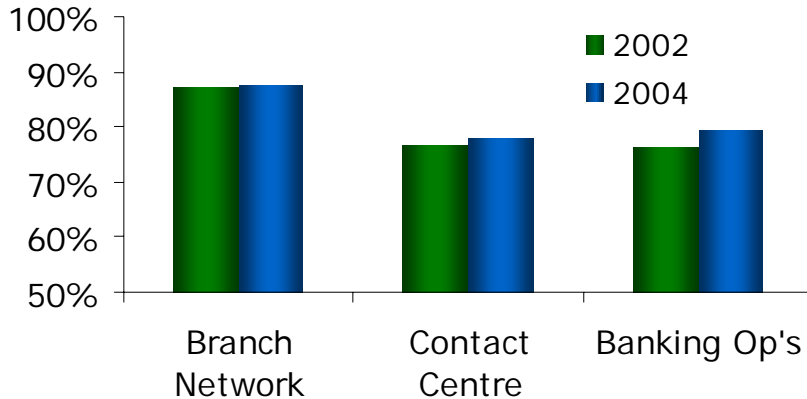
\*Source – ACNielsen Consumer Finance Monitor

# - 5 month period



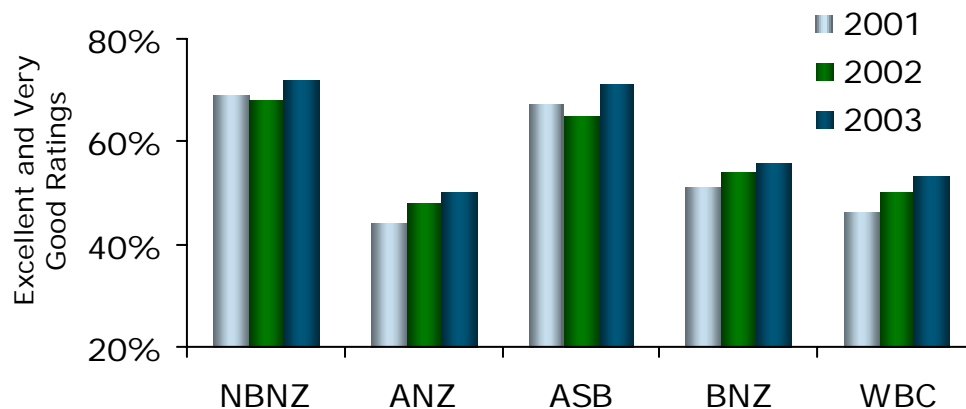
# Strong staff satisfaction has significantly influenced customer satisfaction

## NBNZ Staff Satisfaction



- Staff satisfaction in the retail bank continues to reach record levels
- All components of the business delivering increased satisfaction levels

## Customer Satisfaction - Main Bank\*



- NBNZ continues to hold a market leading position in customer satisfaction
- ANZ making strong increases in customer satisfaction



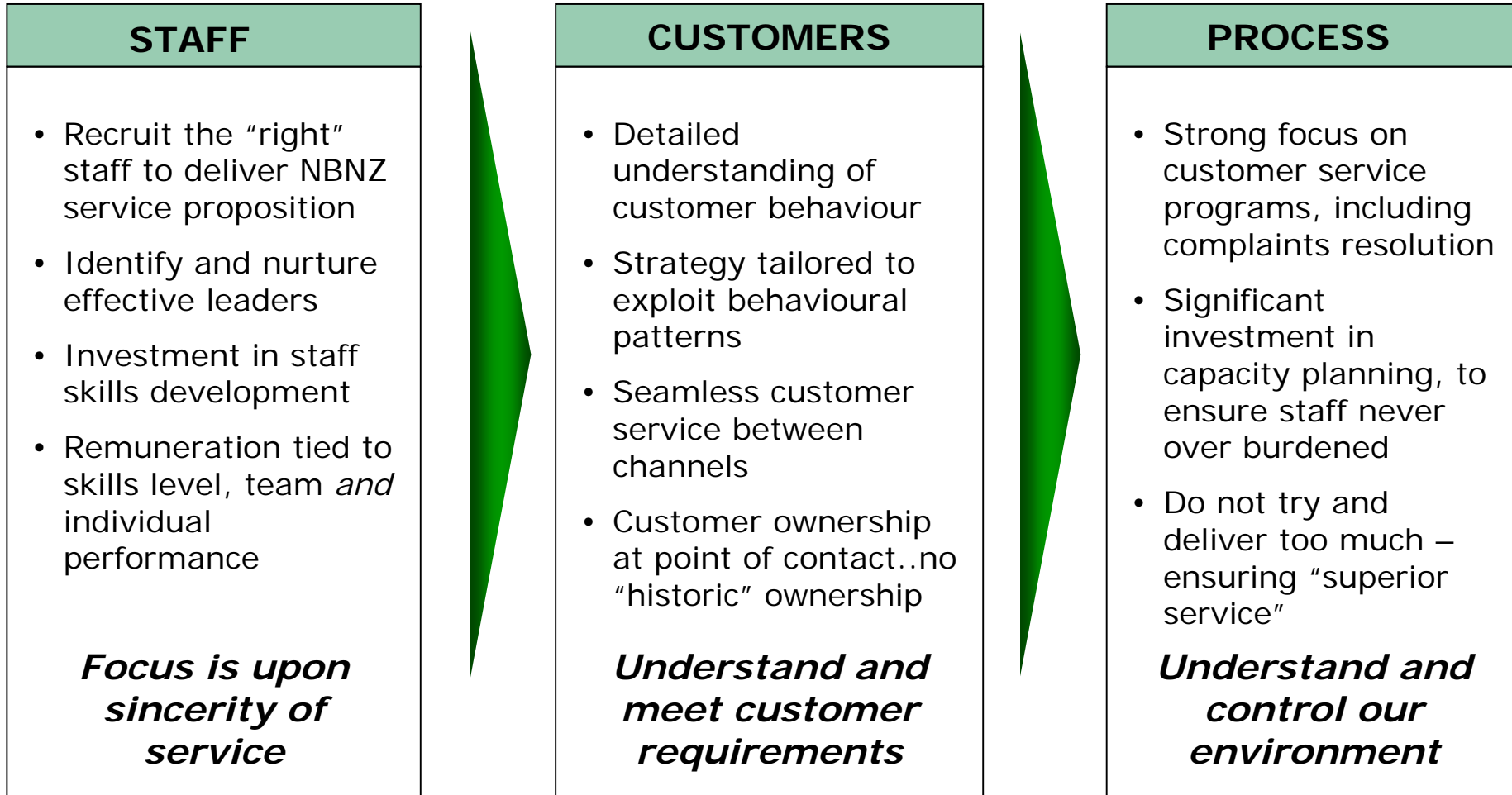
\*Source – ACNielsen Consumer Finance Monitor, based on calendar year



## A simple but effective strategy

---

A combined focus on staff, customer and processes ensures a successful strategy





## Well positioned to overcome our integration challenges

---

Our focus is to minimise disruption to maximise retention


<b>Risks</b>	<b>Key Focus</b>	<b>Opportunities</b>
<b>Customers</b>	<ul style="list-style-type: none"><li>• Two brand strategy will ensure minimal disruption to customer service</li><li>• Current strategy not impacted by integration</li></ul>	<ul style="list-style-type: none"><li>• Two brands – ongoing shared learning</li><li>• Shared access to infrastructure i.e. ATM's</li><li>• Provide genuine choice to customers</li></ul>
<b>Staff</b>	<ul style="list-style-type: none"><li>• Minimal impact of staff.</li><li>• Frontline staff unchanged.</li><li>• Strategic focus on “right” people and nurturing leaders unchanged</li></ul>	<ul style="list-style-type: none"><li>• Leverage off training programs and remuneration and incentive structures</li><li>• Career development opportunities within ANZ group</li></ul>
<b>Processes</b>	<ul style="list-style-type: none"><li>• Detailed planning and testing to ensure that systems and process changes have minimal business impact</li></ul>	<ul style="list-style-type: none"><li>• Common banking operations and support functions generating cost savings</li></ul>



## Summary

---

- A distinctive and market leading franchise
- A simple, well executed strategy delivering results
- A track record in growing market share
- We focus on our people, who in turn deliver the highest level of customer satisfaction
- The integration plan and business model going forward will maximise revenue opportunities



***A distinctive retail franchise, well placed to continue growing***



11 March 2004

*New Zealand  
Operational Briefing*

**Business Banking**

**Craig Sims**

**General Manager, Business Banking**



**The National Bank**

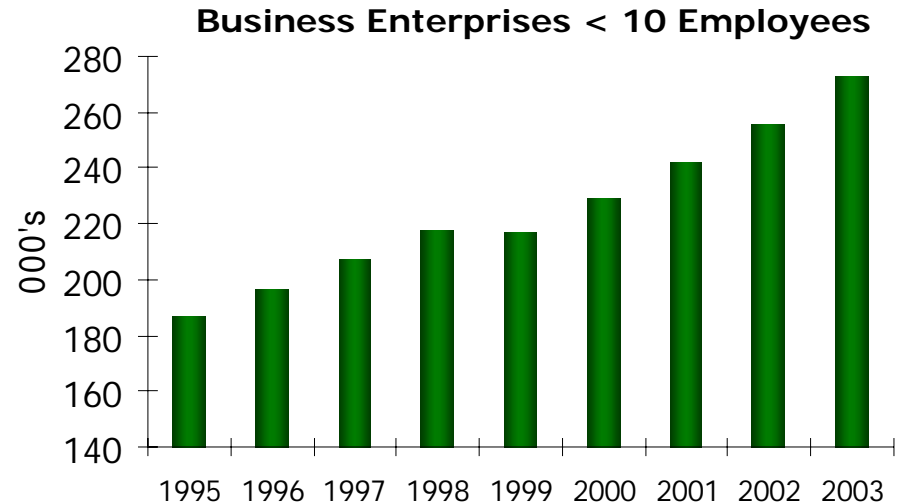


# The SME sector is increasing in size and ANZ & NBNZ are well positioned

## New Zealand SME Market

- 270,000+ Small-Medium enterprises
- Small businesses account for 30% of New Zealand's economic activity
- 92% of firms employ <10 people
- Largely owner operated

\* Source: Statistics New Zealand February 2003

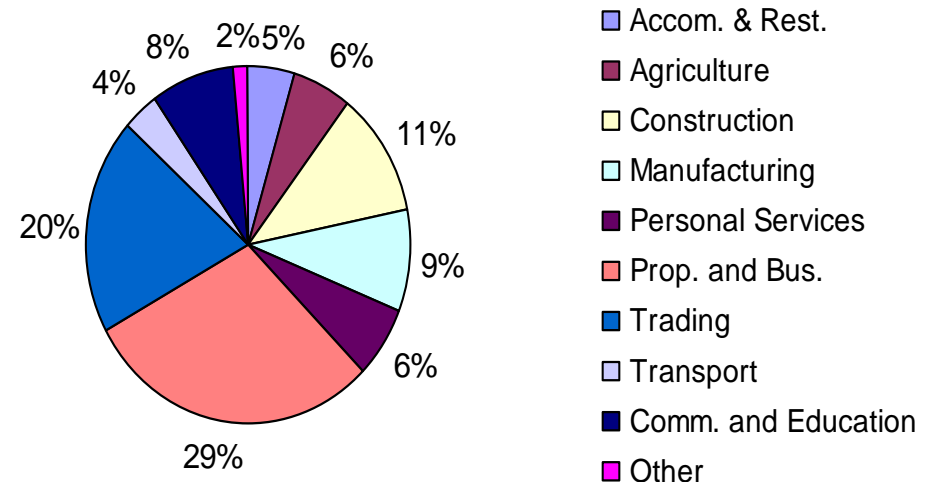


## ANZ & NBNZ Representation

Combined, ANZ & NBNZ represents

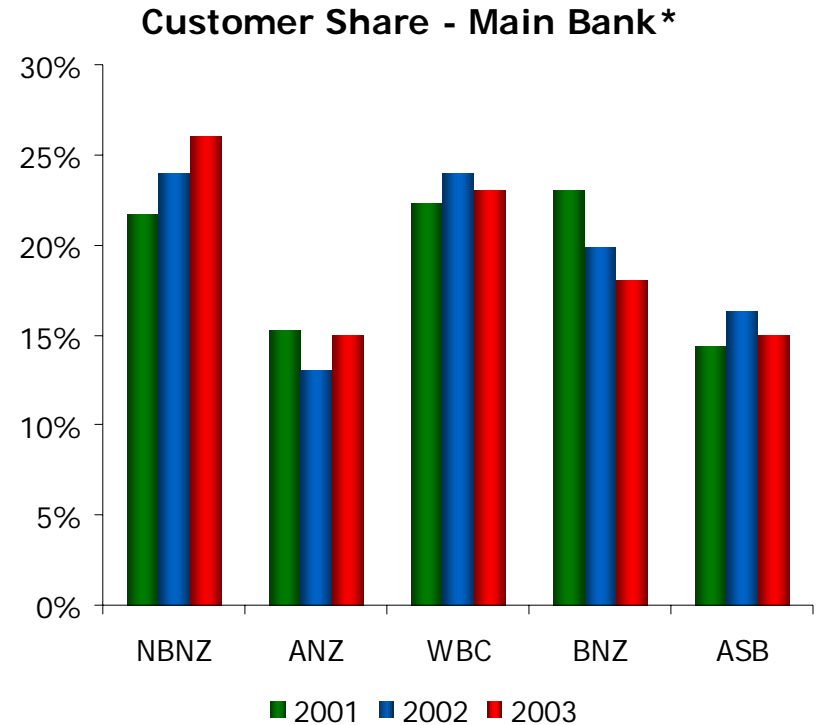
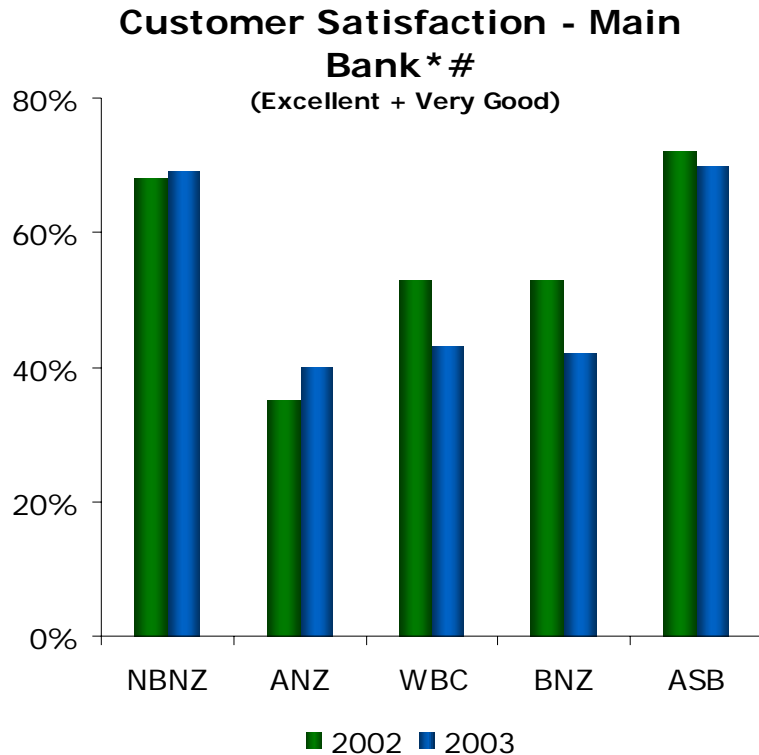
- ~40% market share in all major geographic regions
- Industry concentration is widely spread
- 79 points of representation
- 446 sales staff

## ANZ & NBNZ customer industry concentration



Note: ANZ and NBNZ Business units are not homogeneous due to differing segmentation criteria

# Our customers are satisfied, and this has helped grow our market share

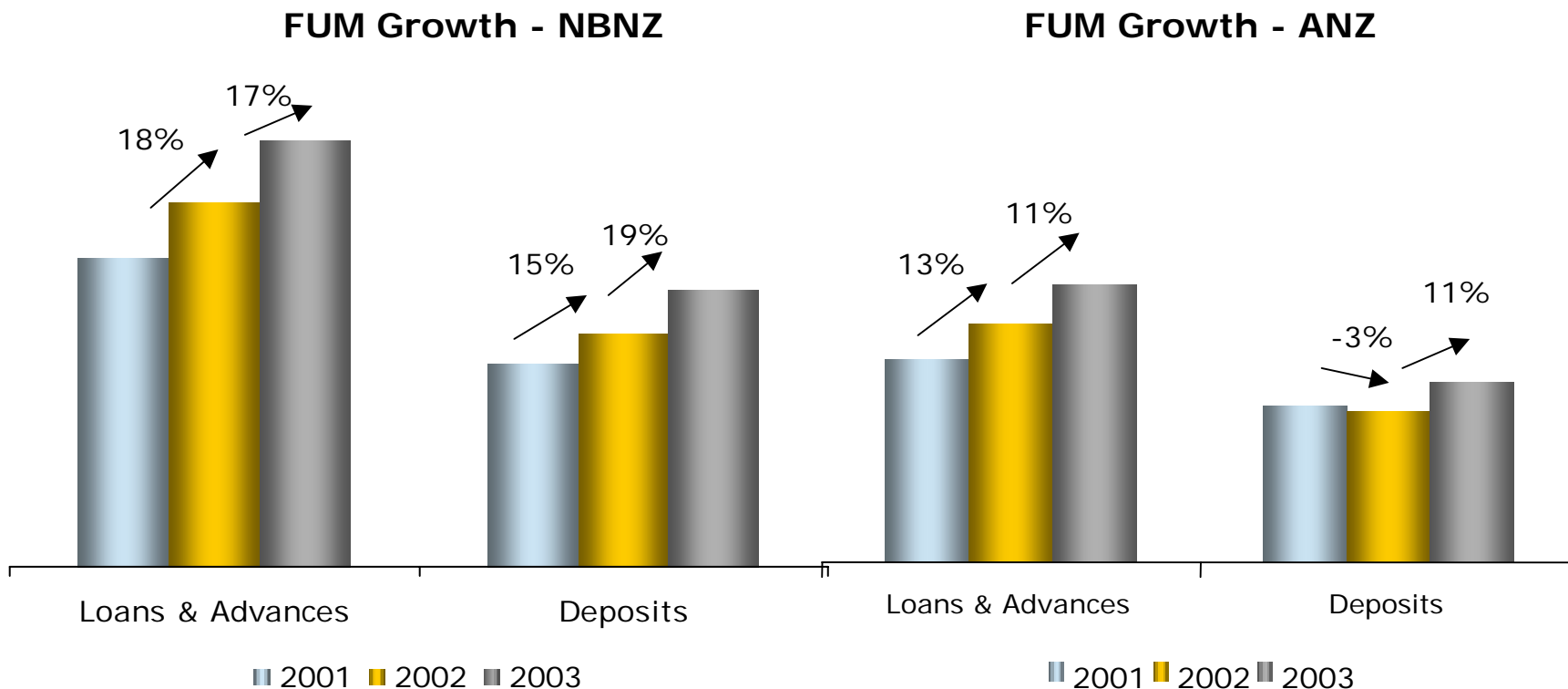


\*Source – ACNielsen Small Business Banking Monitor; businesses up to \$2.5m turnover only  
 #Customer satisfaction reported from 2002 only due to a change to the data series.



## Growth in share is helping drive strong financial momentum

- Strong book growth has contributed to 9 - 10% revenue growth across both business units in 2003
- Lending primarily secured by residential mortgages



# Our strategy is built around customer relationships

---

## STAFF

- Recruit the right staff
- Invest in business skills development
- Significant investment in frontline staff

**Thinking and acting like a business owner**

## CUSTOMERS

- Providing customers with a choice of 3 levels of relationship (offers)
- Dedicated relationship manager
- Focus on Value added services i.e. planning and support tools

**Helping business succeed**

## Franchise Investment

- Constant re-engineering of systems and processes
- Significant investment in marketing and promotional material



# We are well positioned to deal with integration challenges and take advantage of the opportunities that arise

---

## Risks

### Key focus

## Opportunities

### Customers

- Retain two brand strategy
- Separate integration from business as usual and continue focus on growth
- Minimise change at frontline and retain relationships where possible
- Ensure key messages are communicated

- Bringing NBNZ's customer focus to a wider ANZ customer base
- Extending our market reach through a two brands strategy at customer touch points
- Enhanced product choice

### Staff

- One Leadership structure and common core values across both brands
- Keep staff informed
- Provide clear direction, personal development and career opportunities
- Sharing of expertise across brands

- Staff development through skills transfer
- Further investment in staff - increase headcount and level of expertise

### Processes

- Identify and implement best practise from both businesses
- Work collaboratively with all service providers

- Leveraging "best" systems and processes enhancing customer service
- Knowledge sharing with Australian business to ensure industry best practice






## Summary

---

- The Business/SME market is a growing, highly attractive market
- NBNZ has a leading position in this market, ANZ has seen improvement from a low base
- Our success driven by a superior customer service proposition and ensuring staff are highly skilled and satisfied
- We are aware of the challenges posed by the integration, and have clear plans to deal with them
- The integration presents some exciting opportunities for the business



***The outlook for  
the sector is  
positive and we  
are well placed to  
benefit***



11 March 2004

*New Zealand  
Operational Briefing*

**Rural Banking**

**Charlie Graham**

**General Manager, Rural Banking**



**The National Bank**

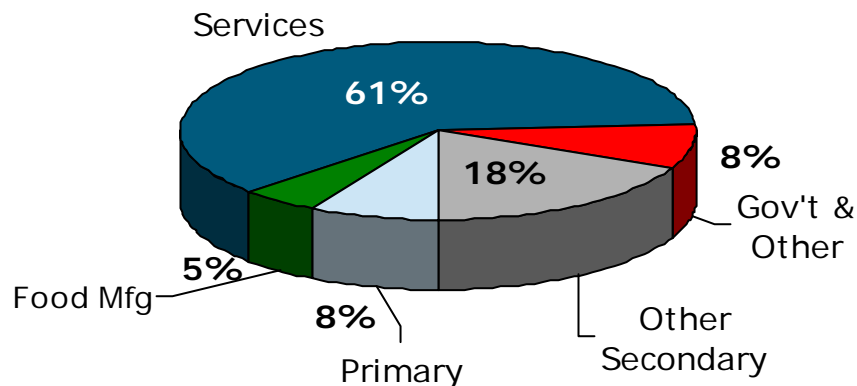


# The rural sector is a large component of the NZ economy

## ANZ & NBNZ Representation

- Combined, ANZ & NBNZ consists
  - 19,500 customers in all major geographic segments
  - 28 points of representation
  - 357 fulltime employees
  - 344 front line staff

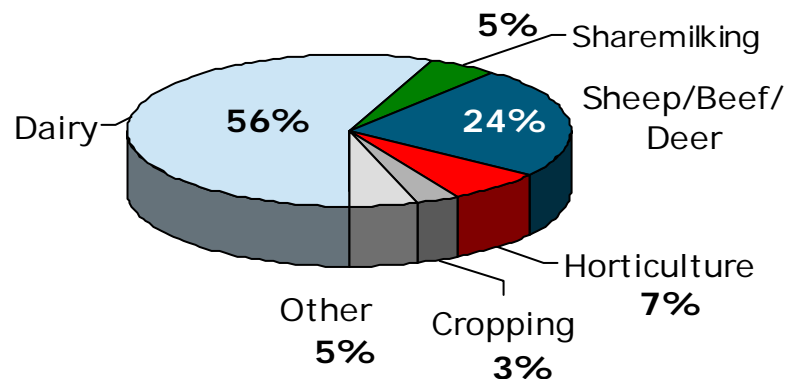
The rural sector directly and indirectly contributes over 25% to the NZ economy\*



## ANZ & NBNZ Sector Concentration

- ANZ and NBNZ have strong representation in the Dairy, Sheep and Beef industries
- Sector concentrations reflect the national agricultural debt profile

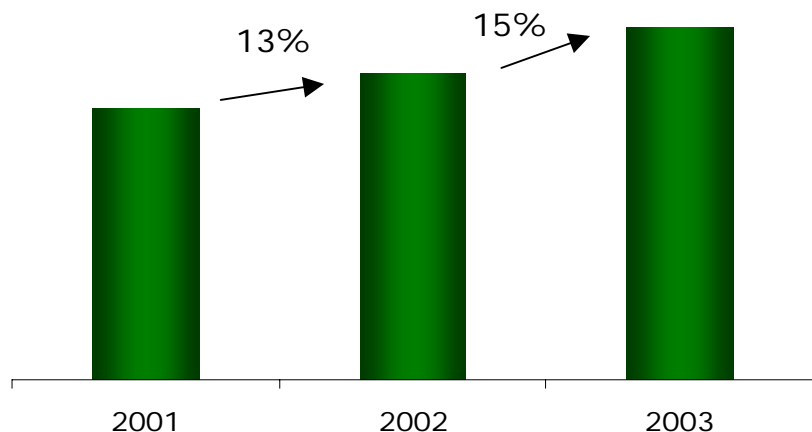
## ANZ and NBNZ sector concentrations



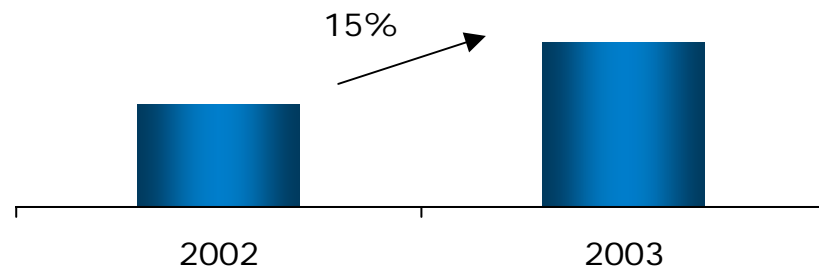
\*Source – Statistics NZ/NBNZ estimates

# NBNZ has strong financial momentum; ANZ performing well from low base

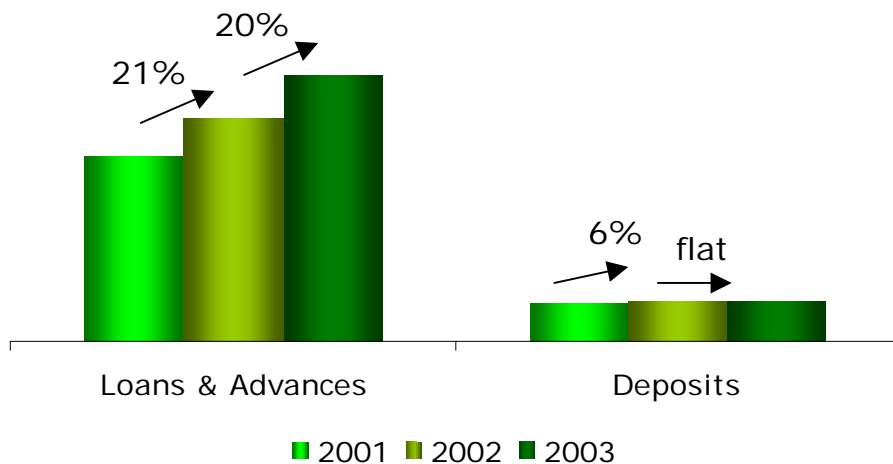
## Revenue Growth - NBNZ



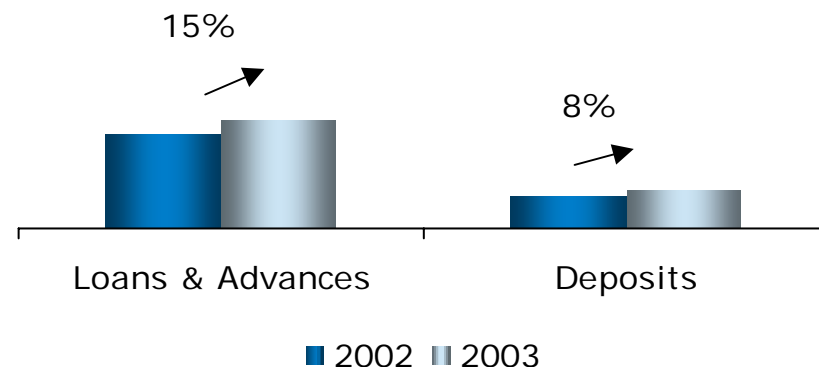
## Revenue Growth - ANZ\*



## FUM Growth - NBNZ



## FUM Growth - ANZ\*

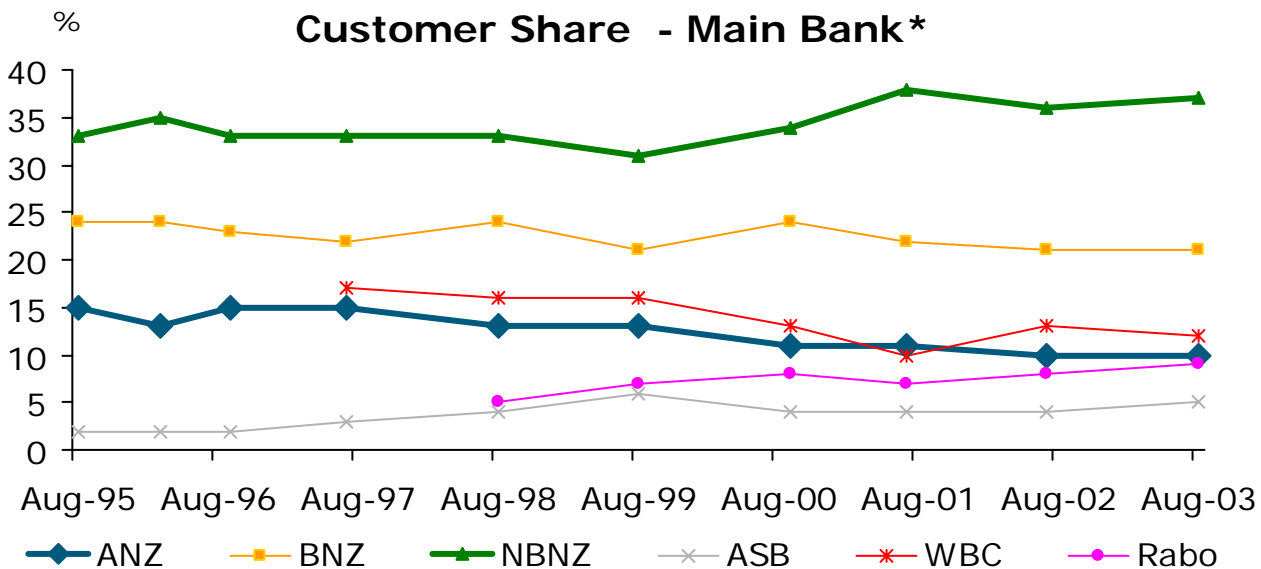


\*ANZ Rural business was combined with retail in 2001, rural specific metrics were not available



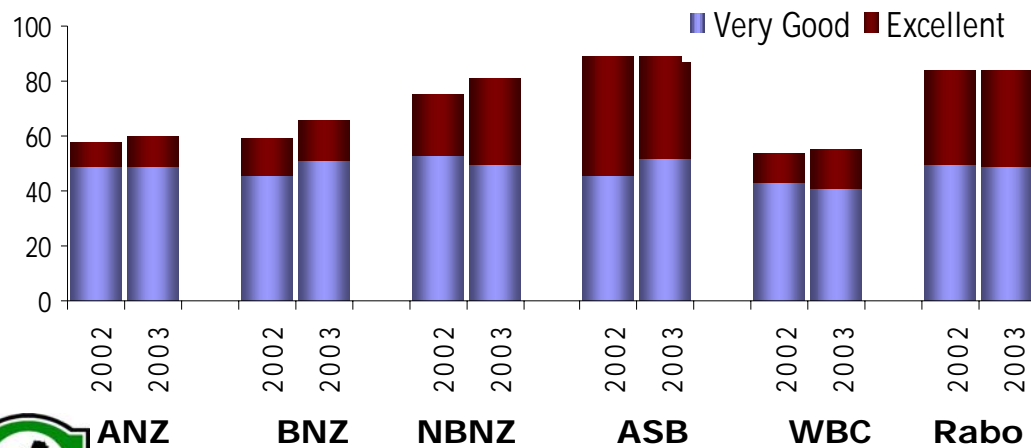
# NBNZ's strong market presence justifies a single brand model

## Customer Share - Main Bank\*



- NBNZ is a clear market leader with strong sector momentum
- ANZ market share lags
- Single brand franchise most feasible option

## Overall Satisfaction Rating - Main Bank\*\*



- Both NBNZ and ANZ seeing increased customer satisfaction
- Level of excellent service increasing for both franchises



ANZ

BNZ

NBNZ

ASB

WBC

Rabo



# ANZ customers will benefit from NBNZ's proven successful strategy

## STAFF

- Recruit people with empathy for the rural sector
- Highly trained sales and support staff
- Specialisation of staff roles where required

*Staff who understand the sector*

## CUSTOMERS

- Strong, personalised customer relationships,
- Delivering high customer satisfaction
- Ensuring minimal customer attrition

*Knowing the customer*

## PROCESS

- A strong credit culture and robust processes resulting in minimal provisions
- Innovative products and services
- Targeted marketing
- Market information leads to sales competitiveness

*Benefits of scale*



# We are well positioned to deal with integration challenges and take advantage of the opportunities that arise

---

<b>Risks</b>	<b>Key focus</b>	<b>Opportunities</b>
<b>Customers</b>	<ul style="list-style-type: none"><li>• Clearly defined single brand model (NBNZ) ensures rapid integration, minimising customer impact</li><li>• Relationship staff continue to look after 'their' customers</li><li>• Consistent approach to credit policy</li></ul>	<ul style="list-style-type: none"><li>• ANZ customers will benefit from NBNZ's service proposition and sector experience</li><li>• Single brand generates synergy benefits and greater efficiency</li></ul>
<b>Staff</b>	<ul style="list-style-type: none"><li>• One leadership structure</li><li>• Clear sense of purpose and direction</li><li>• Comprehensive training for all staff to be implemented as part of the integration process</li></ul>	<ul style="list-style-type: none"><li>• Staff to benefit from increased scale and presence</li><li>• Increased potential for training and knowledge sharing</li></ul>
<b>Processes</b>	<ul style="list-style-type: none"><li>• Utilisation of NBNZ operating model and processes</li></ul>	<ul style="list-style-type: none"><li>• More volume going through established infrastructure</li></ul>



## Summary

---

- The rural sector is a large component of the NZ economy
- NBNZ is the market leader in this segment with 38% market share; combined market share will be 45%\*
- NBNZ success driven by strong customer relationships and developing highly skilled staff
- Through the rapid adoption of the NBNZ model we are well positioned to overcome any integration challenges



***Continued business momentum***



\* Source: RBNZ M3



11 March 2004

*New Zealand  
Operational Briefing*

**Integration**

**Grahame Miller**  
Head of Integration



**The National Bank**

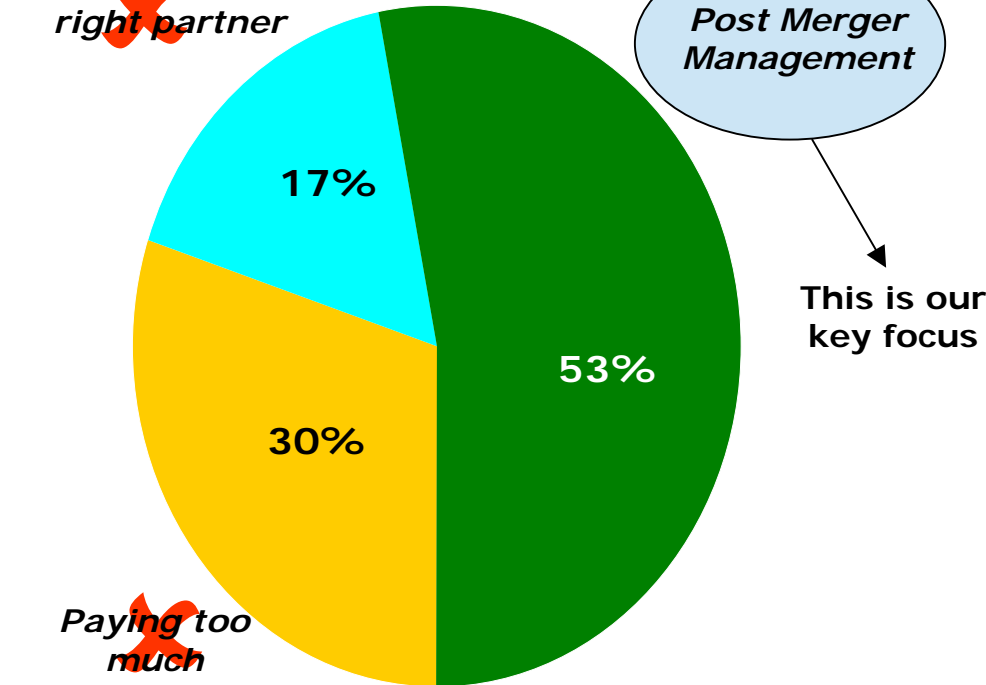


# Integration is focused on creating the leading bank in New Zealand

Integrations can be difficult, and many do not add shareholder value

Three key reasons for mergers not succeeding

~~Failure to find the right partner~~



- We have found the right partner at an attractive price
- Post merger management is our key focus
- A 1% change in revenue is equivalent to ~20% of cost synergies\* – protecting and building the franchise is critical
- Our integration objectives reflect this, with a very strong focus on the customer



Source: A.T. Kearney Global PMI Survey (1998)

\* Based on prospectus cost synergies

# The customer is at the heart of our integration objectives

---

## Integration Objectives

### Customers

- Retain the combined customer base and market share, by leveraging the strengths of both organisations
- Achieve market leading customer satisfaction ratings across all brands


### Staff

- Create the best possible place to work


### Shareholders

- Integrate the businesses carefully and as quickly as possible, targeting integration by end 2005
- Deliver the maximum revenue and cost synergies possible, without disruption to the customer base
- Deliver a cost effective platform


## Key Principles



In decision trade-offs regard for the customer will be the overriding principle



Employees will be treated in an open and honest fashion and will be kept informed of the progress of the integration



Pursue practical solutions that achieve rapid results whilst maintaining quality objectives

A business as usual focus



## A number of key milestones have been achieved

---

1. **Program Management** – process and infrastructure established
2. **Organisational Structure** – key management for the merged entity has been designated
3. **Business Model** – agreement and buy-in from new management on new business model
4. **Technology** – choice of systems agreed and communicated; integration planning underway
5. **Integration Planning** – high level planning complete. Direction agreed on business model, structures, key people, technology set, products, customer segmentation, etc. Detailed planning well advanced (due for completion in April). Implementation can proceed upon receipt of RBNZ approval to amalgamate.



# Full integration on track for second half 2005

## Targeted Timeline



- Acquisition announced
- Workstreams mobilised
- Acquisition completed
- Transitional management structure announced
- Integration principles agreed with regulator
- Integrated with group financial accounting processes
- Workstream planning completed
- Legal amalgamation (subject to Reserve Bank approval)
- Management Integrated
- NZ Board(s) approves integration and strategic plan
- Group Board meeting in NZ- review integration plan
- Non technology integration completed
- Complete systems detail design
- Complete non-customer systems integration
- Systems conversion complete
- All business integration complete



## Dialogue with the RBNZ continues

---

### RBNZ powers

- The RBNZ gained new regulatory powers in late 2003
- These powers apply to the banking industry broadly, not just ANZ/NBNZ. For ANZ, the primary issue is the RBNZ concern about “hollowing out”

### Amalgamation the next step

- The next step to progressing integration is to obtain RBNZ approval for “Amalgamation”. Legal amalgamation is an important step, with the RBNZ restricting any substantial merging activities prior to amalgamation
- We are about to commence detailed discussions with the RBNZ on technology and are confident our approach will meet their needs
- We will be ready to amalgamate as soon as RBNZ approval is obtained

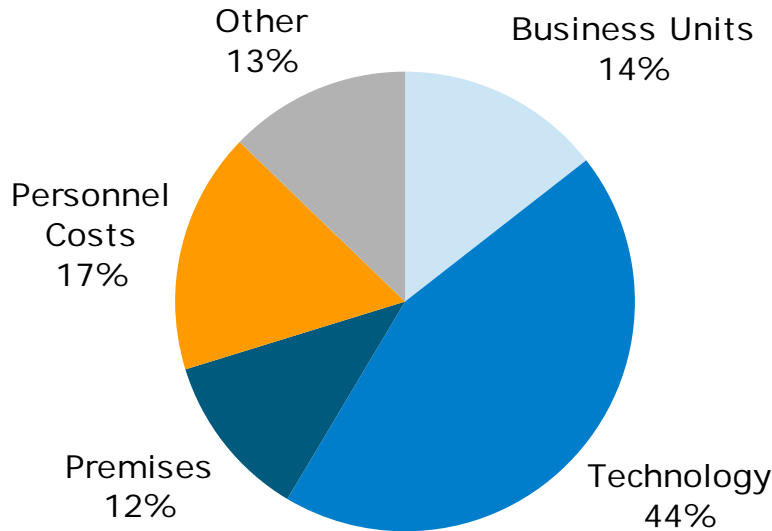
### RBNZ requirements

- RBNZ has stated that prior to approving amalgamation they want a significant level of comfort in four areas:
  - Outsourcing/ Off-shore provision of functions and systems
  - Director & Senior Appointments
  - Governance
  - Capital Requirements
- These are industry issues, and would need to be dealt with in any case by ANZ and NBNZ irrespective of the merger

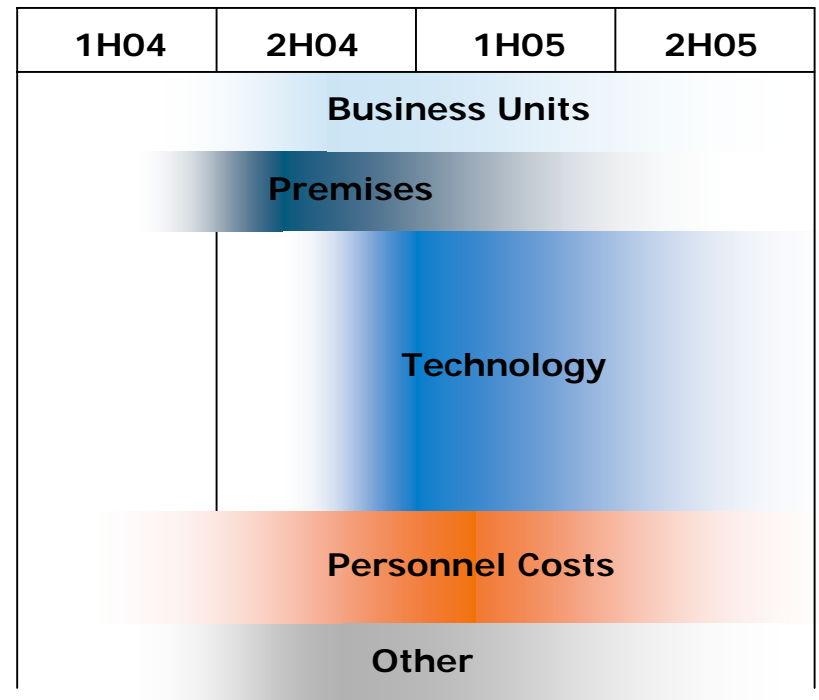


# Technology represents the core component of integration costs

Integration Spending\*



Majority of expenditure will be incurred in 2005, with integration completed by end of 2005\*




\* Indicative, and subject to finalisation of integration plans



# Decisions on technology reflect trade-offs between potential cost synergies and capabilities needed to build franchise

---

- Systems to be ANZ core suite
  - eg Hogan
- New Zealand version of ANZ core suite will accommodate product and customer features of NBNZ systems to minimise customer disruption
- We will retain a number of NBNZ front end systems to minimise staff and customer impact
  - eg internet banking, DirectLink, SDA branch system
- Where appropriate, we will roll these systems out to the ANZ network, to maximise interoperability

- 
- **Decisions involve trade-offs between maximising cost synergies and maximising revenue synergies**
  - **Success of the integration is far more heavily leveraged to revenue maximisation, and decisions reflect this**
    - 1% revenue growth equivalent to ~20% cost synergies





## Summary

---

- Integration is focused on the customer, and we have been successful to date
- Focus is growing revenue
- We are well advanced in planning
- Next milestone is legal amalgamation
- We have a team that has demonstrated success in managing integrations, while growing revenue



***This integration is different***



11 March 2004

*New Zealand  
Operational Briefing*

**NBNZ General Disclosure Statement**

**Peter Marriott**  
Chief Financial Officer



**The National Bank**



## Strong performance by NBNZ, up 12.3%

---

### Excluding Acquisition Related Adjustments and Excluding One off Items

v Dec 02

• NPAT	NZ\$565m	↑	12.3%
• Net Interest Income	NZ\$1,049m	↑	7.4%
• Operating Expenses	NZ\$593m	↑	1.2%
• Specific Provisions	NZ\$28m	↓	large

### Including Acquisition Adjustments

• NPAT	NZ\$296m	↓	large
--------	----------	---	-------



# Adjustments to results to reflect underlying performance

---

NBNZ's December 2003 GDS results are impacted by the following:

## 1. Completion Accounts

- A number of adjustments were agreed as part of the Share Sale Agreement. These adjustments impact NBNZ's profit and loss in the period to 31 December 2003

## 2. Fair Value Adjustments

- As a result of the sale, the fair value of all assets and liabilities of NBNZ was reviewed by ANZ. This resulted in a number of fair value adjustments that have been posted in the NBNZ accounts
- The fair value adjustments impacted NBNZ's December 2003 reported financial performance. However, on consolidation into ANZ (NZ) these fair value changes are reversed out of the profit and loss statement, and shown as balance sheet adjustments to goodwill

## 3. One off transactions during the year

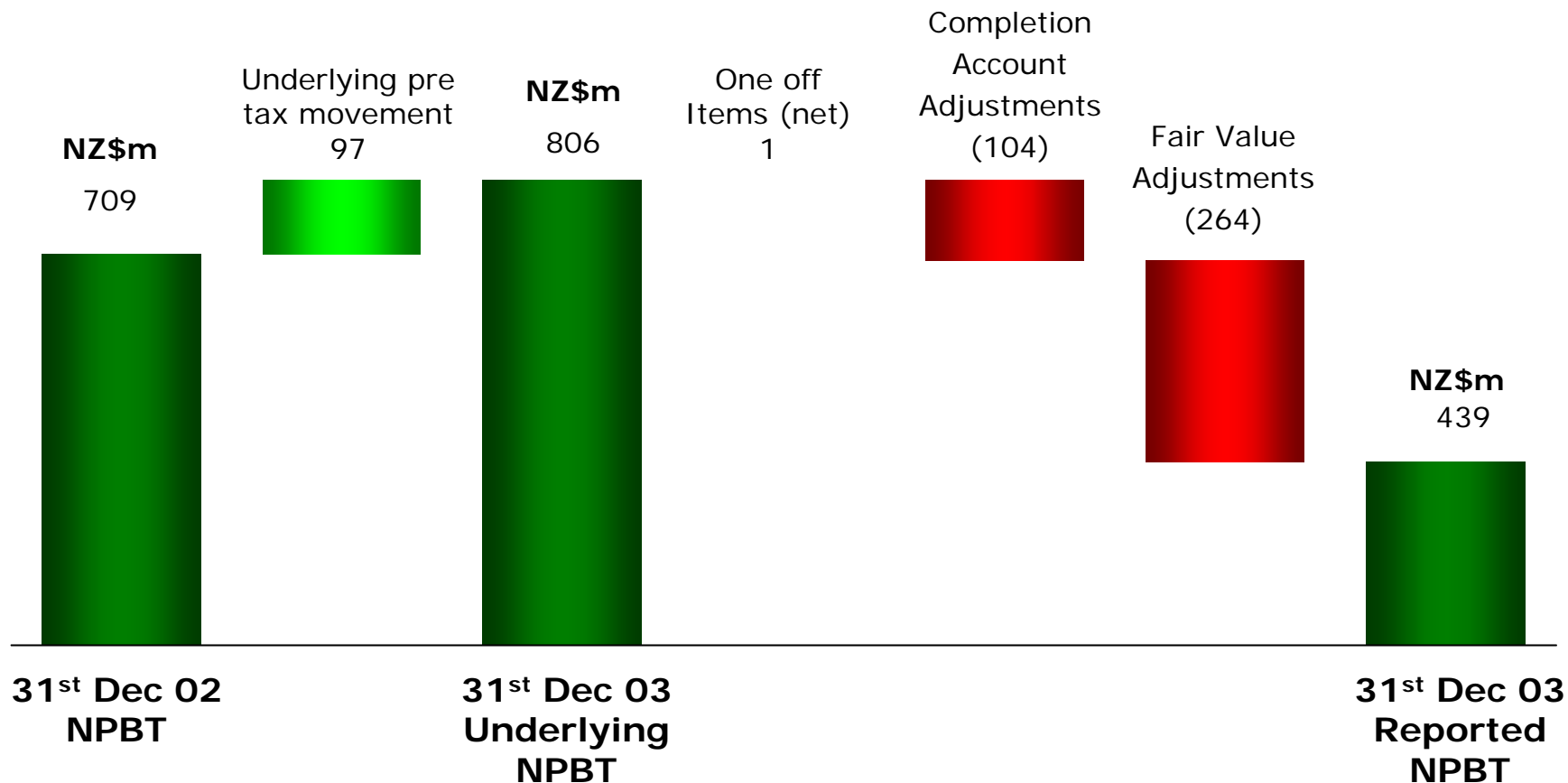
- Significant one off transactions have been adjusted so underlying performance is clear. These are as per the prospectus plus one off items in the fourth quarter

## 4. Accounting Policy Changes

- NBNZ's accounting policies have been brought into line with ANZ group policies



# Strong underlying performance impacted by fair value adjustments



## NBNZ accounting adjustments

---

	NZ\$m (pre tax)	
<b>Completion Account Adjustments*</b>		
• Superannuation contribution to cover shortfall in defined benefit scheme	(64)	
	(28)	
• Additional provision for future staff retirement allowance	<u>(12)</u>	(104)
• Market valuation of land and buildings		
<b>Fair Value Adjustments</b>		
• Depreciation adjustment to certain assets to bring in line with ANZ rates	(11)	
• Restructuring, impairment and vacant premises costs, representing best estimate of NBNZ exit costs	(22)	
• Net Provisioning, including General Provision	<u>(231)</u>	(264)
• based on APRA guidelines of at least 0.5% (after tax) of RWA's measured under APRA rules		
• Tax provision (\$20m)		



*\*booked to NBNZ's profit and loss prior to completion*

## NBNZ accounting adjustments

---

	NZ\$m (pre tax)
<b>One Off Items</b>	
• Non-recurring provision releases	31
• Adoption of ANZ accounting policies for ELP	(6)
• Acquisition expenditure incurred by Lloyds TSB	(8)
• Statistical provisioning recognised by NBNZ in the first half	<u>(16)</u>
	<u>1</u>



*\*booked to NBNZ's profit and loss prior to completion*

## NBNZ accounting policy changes

---

NBNZ have made the following significant accounting policy changes to align with ANZ policies:

### **Economic Loss Provisioning**

- The adoption of ELP methodology for recognition of loan losses. The ELP charge for NBNZ for December 2003 is 25 basis points.

### **Mortgage Broker Commissions**

- Commissions paid to third party mortgage originators will be capitalised and amortised over the average life of the mortgage loan, currently 4 years. NBNZ has been expensing these commissions up front.
- Forecast benefit in FY04 is estimated at NZ\$11 million before tax.



*Note - all changes are consistent with New Zealand and ANZ group accounting standards.*



## Goodwill on acquisition

	Prospectus A\$m	Actual A\$m	Comments
Purchase Price	4,940	4,848	<ul style="list-style-type: none"> <li>• Movements from exchange rate movements and hedging</li> <li>• acquisition costs currently \$9m less than estimated in prospectus</li> </ul>
<i>LESS</i> NTA Purchased	(1,790)	(1,913)	<ul style="list-style-type: none"> <li>• Additional retained earnings, less amounts charged to P&amp;L under share sale agreement</li> </ul>
<i>ADD</i> Fair Value Adjustments	133	172	<ul style="list-style-type: none"> <li>• General Provision net of releases \$135m (\$133m in prospectus)</li> <li>• Depreciation, restructuring and other minor adjustments</li> </ul>
<b>Goodwill*</b>	<b>3,283</b>	<b>3,107</b>	<ul style="list-style-type: none"> <li>• Includes existing goodwill of \$417m relating to Countrywide purchase</li> <li>• Goodwill will be amortised in line with Australian Accounting Standards</li> </ul>



\* subject to finalisation of completion accounts with Lloyds TSB

## 2H03 underlying performance impacted by margin compression, timing of specific provisions and unusually high 1<sup>st</sup> half institutional fees

	NZ\$m (underlying performance) *				YoY Change (%)
	FY02	1H03	2H03	FY03	
Net Interest Income	977	525	524	1,049	7.4
Other Income	357	193	185	378	5.9
<b>Total Income</b>	<b>1,334</b>	<b>718</b>	<b>709</b>	<b>1,427</b>	<b>7.0</b>
Operating Expenses	(586)	(291)	(302)	(593)	(1.2)
<b>Operating Profit</b>	<b>748</b>	<b>427</b>	<b>407</b>	<b>834</b>	<b>11.5</b>
Provisions	(39)	(7)	(21)	(28)	28.2
<b>NPBT</b>	<b>709</b>	<b>420</b>	<b>386</b>	<b>806</b>	<b>13.7</b>
Income Tax	(206)	(122)	(119)	(241)	(17.0)
<b>NPAT</b>	<b>503</b>	<b>298</b>	<b>267</b>	<b>565</b>	<b>12.3</b>



\*This table excludes items on pages 70 & 71

11 March 2004

*New Zealand  
Operational Briefing*

**Conclusion**

**Peter Marriott**

**Chief Financial Officer**



**The National Bank**



## Conclusion

---

- NBNZ acquisition is transforming for ANZ creating New Zealand's leading bank
- A different type of acquisition – focus is on customers
- Customer attrition has been negligible
- Staff satisfaction at both banks is high
- Key foundation for a successful acquisition: the right partner at a fair price
- Detailed integration planning is well-progressed with a number of key milestones achieved
- We are confident our approach will meet the RBNZ's requirements
- We will be ready to amalgamate as soon as RBNZ approval is received

