



# Media Release

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## ANZ trading update

In a shareholder update today after 10 months of trading, ANZ announced that revenues and expenses have been high in the target ranges of 7%-10% and 5%-7% respectively. As expected, provisions have risen significantly over the previous year largely due to planned growth in Consumer Finance, together with lower recoveries in 2007 than 2006. However asset quality remains sound and there is no evidence that the credit environment has deteriorated. Asset and liability growth are relatively strong and margin decline has been as expected.

The financial environment has become more uncertain because of the recent turmoil impacting world markets. ANZ is nevertheless well capitalised, and in a strong liquidity and funding position, following the strategy implemented several years ago to extend the duration of our wholesale debt. A close watch is being kept on external developments.

While these issues have so far had negligible impact on ANZ's earnings, the increase in uncertainty makes it difficult to be definitive about the coming months. In the near-term, unusually high rates on bill funding is pressuring mortgage margins by up to 25 basis points. If this high liquidity premium between cash and bill funding rates is sustained, it would put upward pressure on mortgage rates. Pricing for corporate debt will increase as risk premiums rise, while there is likely to be some deferral of corporate activity into future periods.

Regarding the core businesses, Personal continues to perform very well, with profit before provisions growth in line with the strong performance last year. New Zealand Businesses are also performing well and Asia is delivering very high growth. Our performance in wealth management has improved significantly. The substantive issue is however the sluggish performance and lack of improvement from Institutional, particularly in New Zealand. This said, the Institutional franchise is fundamentally in good health and with new leadership taking steps to recover momentum, we expect improved performance in 2008.

There are a number of significant items below the line for the year. In the first half, we announced the profit on the sale of FleetPartners. In the second half, we will benefit from a tax ruling on our TrUEPrS buyback, which will shelter the gain on sale of FleetPartners. This will be partly offset by a write-down in the Future Income Tax Benefit associated with the recently announced tax rate change in New Zealand.

ANZ Chief Executive Officer Mr John McFarlane said: "ANZ is in good shape and well-positioned for the future. Assuming normal global markets, prospects for 2008 and beyond are good.

"We are now Australia's third largest bank, the leading bank in New Zealand and, with the most significant presence in Asia of any Australian bank, believe the growth opportunity in Asia to be very substantial.

"When I joined ANZ, my vision was to improve performance for shareholders, to add a human face to banking and ultimately to create a very different bank. Our foundation is now much stronger. There is a tangible reason why our customers should deal with us, why the community should trust and engage with us, why our people should invest their working lives in us, and why shareholders should invest in us. Therefore as I pass the reins to my successor, I am very happy with what we have achieved and believe there is much more to come at ANZ," Mr McFarlane said.

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## **Divisional Performance**

**Personal** continues to perform particularly strongly with high asset, liability and revenue growth levels, limited margin attrition, well-controlled expense growth and provisioning in line with expectations. Retail mortgage growth is up 13% over the past 12 months partly offset by further run-off in the wholesale portfolio, however the recent spike in bill rates is squeezing margins. Banking Products is very strong with deposit growth up 13% over last 12 months with stable margins. Lending growth of 12% in Consumer Finance will help drive another strong year. Investment and Insurance is seeing the benefits from investments in recent years, and is achieving very high growth. Regional, Rural and Small Business Banking is expected to perform well, and Esanda has also had a strong year. In the Pacific, good underlying performance will be partly offset by more normal provisions compared with the large recoveries last year.

**Institutional** is performing below the Group average, with income growth at the bottom of our target range. While the second half is likely to be weaker than we hoped, in part due to recent market turbulence, actions are being put in place by the recently appointed Group Managing Director Peter Hodgson to drive a material improvement in 2008. Markets is on track to deliver a reasonable full year result, with a strong sales performance partly offset by weaker trading revenue in the second half. Debt Product Group continues to be impacted by low lending growth and declining margins leading to a small decline in profit before provisions, but stronger net profit due to the large provision recovery in the first half. Trade and Transaction Services is likely to see modest growth as will Corporate Finance. While Business Banking is also expected to have modest growth in profit before provisions, the business is now seeing good volume growth after slow growth at the beginning of the year. New Zealand Institutional performance remains weak, but this is partly as a result of 2006 being unusually strong.

**New Zealand Businesses** are performing well, with profit before provisions on track to grow above the Group average. This will be partly offset by a significant rise in credit costs following the high level of provision writebacks in 2006. Each of the businesses in the portfolio is performing well, with Corporate and Commercial Banking, the two retail banks, Rural Banking, and UDC all expected to achieve double-digit growth in profit before provisions. While there are some imbalances in the New Zealand economy, overall the banking environment there remains conducive to reasonable earnings growth.

**Asia Banking** is a strategic priority for ANZ with high growth potential, and our significant strategic position materially differentiates ANZ from our domestic competitors. It will benefit from just over three months contribution from AMMB, and continued growth in existing partnerships.

**ING Australia** has experienced strong FUM flows and healthy equity markets, and has overcome its historical issues. As such it is now focused on growth, and we believe its performance compares well to industry peers.

ANZ will hold a conference call for investors at 3.00 pm this afternoon with CEO John McFarlane, and CFO Peter Marriott.

ANZ will report its Annual Results for the period ended 30 September 2007 on 25 October 2007.

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