



# Media Release

Corporate Affairs  
100 Queen Street  
Melbourne Vic 3000  
[www.anz.com](http://www.anz.com)

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## ANZ interim cash earnings per share up 8.9%

Australia and New Zealand Banking Group Limited (ANZ) today announced an operating profit after tax of \$1,492 million for the half-year ended 31 March 2005, and cash earnings per share of 85.9 cents, up 8.9%\*. (All excluding non-core items\*.)

The Interim Dividend was increased by 8.5% to 51 cents in line with ANZ's policy to increase dividends at the rate of cash earnings per share growth. Total Shareholder return over the year to 31 March 2005 was 15%.

ANZ Chief Executive Officer Mr John McFarlane said: "This is a respectable result in a rising rate environment and a highly competitive market. We are ahead of market expectations but there is more to do on the revenue side.

"Eight years ago we set out to change the face of ANZ. The results are now clear. We are continuing to move forward with commitment, energy and a sense of confidence in our future.

"In the half, asset and liability growth were very strong across the Group but this was substantially offset by a decline in margins.

"Advances grew by 14%. Net interest margins fell 13 basis points, as a result of a higher concentration of lower risk, lower yielding assets, together with intense competition in Institutional and in New Zealand mortgages, lower Treasury earnings, and a greater reliance on wholesale funding as a result of higher than expected asset levels.

"The highlight was Australia with earnings up 15% (excluding non-core items) and lending also up 15%. Personal Banking was particularly strong, reflecting the benefits of a distinctive strategy and strong execution over a number of years. ING Australia also performed well. Institutional, Corporate and Esanda performed broadly in line with plan.

"New Zealand was flat overall but this should be seen in the context of the need to prioritise the major integration and a very tight-deadline for the regulatory compliance program. The Asia Pacific business did not have the benefit of one-off earnings in Panin in 2004.

"We continued to invest in our people and in building our franchise, particularly in retail banking in Australia and New Zealand. Staff numbers rose by 6.7% or 1,861, and this contributed to expense growth of 8.0%. Our cost to income ratio rose slightly in the half but we would expect this to continue to trend downwards.

"Risks were reduced substantially and portfolio quality improved over the year resulting in a modestly lower Economic Loss Provision and a substantially lower Specific Provision", Mr McFarlane said.

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\* Comparisons with first half 2004. Non-core items are significant items and NBNZ incremental integration costs.

## **Business Commentary**

Commenting on each of ANZ's business divisions, Mr McFarlane said:

"In Personal Banking Australia our Mortgages and Deposit Products business each recorded market share gains. Strong growth was also seen in Regional Australia and in Consumer Finance where our low rate card product has been very successful.

"During the half, ANZ opened six new retail points of representation including new style retail outlets, and completed 42 refurbishments. Staff numbers grew by 4%. We would have liked to have expanded faster but were constrained by the availability of quality branch sites and skilled staff. Ten retail openings are planned in the second half with a pipeline of openings established for 2006.

"We have come a long way in Personal Banking and are now among the best performing retail banks in Australia with market leading products and the highest customer satisfaction of the major banks. This gives us the platform to take this business to a new level.

"In Institutional, very strong loan growth was offset by margin pressure, partly reflecting a cyclical contraction in global credit spreads. During the half, we restructured our Markets business by merging the Capital Markets and Foreign Exchange business units, which will deliver improved efficiency and an enhanced customer proposition. Trade and Transaction Services continued to perform well.

"Corporate performed well financially, despite a modest slowdown in system loan growth in the SME segment. In Small Business, we have employed 54 new relationship managers, as we leverage the success NBNZ has achieved in this segment in New Zealand.

"In New Zealand, a subdued overall result masked stronger performance in NBNZ Retail, Corporate and Rural, offset by subdued performance in ANZ Retail, where fees were reduced to build longer term market share, in Institutional and in UDC. Price competition was particularly intense.

"It was also a period where the priority was on completing integration, and on the major technology and operational changes required by the Reserve Bank of New Zealand. We are well advanced with integration and with the demanding regulatory agenda, and are confident they will be completed in 2005. This will enable management to refocus on building the business and enhancing financial performance, rather than on integration and regulatory matters, and we expect New Zealand to improve in the second half.

## **Sustainability**

"At ANZ, we are committed to improve the sustainability of returns and of building a base for longer term growth and return. Central to this, are our responsibilities to our broader stakeholder group, including customers, government, the community, and staff, as well as shareholders.

"In Australia, we have systematically increased market share and are the best regarded major bank in retail banking. We continue to consolidate our strong position in corporate banking. We are now the largest bank in New Zealand and in the South-Pacific, and probably have the largest Australian direct investment into Asia-Pacific.

"We have focussed on advancing our cultural change agenda and the development of enlightened values among our people. ANZ is becoming recognised globally for our achievements in this area. Staff satisfaction is at 85% and staff engagement improved from 53% to 60%. This is ahead of all major Australian companies similarly surveyed, and ahead of other major banks. We have also made good progress on staff safety. We measure ANZ values annually and are pleased that our top values across the Group are now 'customer focus' and 'community involvement'.

“Our people are increasingly involved in community activities which was evidenced in the admirable response by staff to the Boxing Day Tsunami Appeal. This, together with our innovative Group programs to create greater financial inclusion particularly for low-income earners and indigenous Australians have helped raise the regard in which we are held.

## **Outlook**

“The economic environment in Australia, New Zealand and internationally remains supportive of good earnings growth in the medium term future. We are likely to see some softening as interest rates continue to rise and the economic cycle comes off its peak. System credit growth is nevertheless likely to remain double digit for the year, including housing, but it would be prudent to remain cautious about margins.

“Our respectable performance in the first half and a favourable outlook will help underpin a solid result for the year as a whole,” Mr McFarlane said.

For media enquiries, contact:

Paul Edwards  
Head of Group Media Relations  
Tel: 03-9273 6955 or 0409-655 550  
Email: [paul.edwards@anz.com](mailto:paul.edwards@anz.com)

For analyst enquiries, contact:

Stephen Higgins  
Head of Investor Relations  
Tel: 03-9273 4185 or 0417-379 170  
Email: [higgins@anz.com](mailto:higgins@anz.com)