

AUSTRALIA & NEW ZEALAND BANKING GROUP LTD
Form 6-K
July 10, 2006

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

**REPORT OF FOREIGN ISSUER
PURSUANT TO RULE 13A-16 OR 15D-16 OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the Month of July 2006

Australia and New Zealand Banking Group Limited

ACN 005 357 522

(Translation of registrant's name into English)

Level 6, 100 Queen Street Melbourne Victoria 3000 Australia

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F: Form 40-F:

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

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Yes o No: y

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

This Form 6-K may contain certain forward-looking statements, including statements regarding (i) economic and financial forecasts, (ii) anticipated implementation of certain control systems and programs, (iii) the expected outcomes of legal proceedings and (iv) strategic priorities. Such forward- looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control and which may cause actual results to differ materially from those expressed in the forward-looking statement contained in these forward- looking statements. For example, these forward-looking statements may be affected by movements in exchange rates and interest rates, general economic conditions, our ability to acquire or develop necessary technology, our ability to attract and retain qualified personnel, government regulation, the competitive environment and political and regulatory policies.

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ANZ StEPS quarterly distribution

On 15 June 2006 ANZ paid the quarterly distribution on its ANZ Stapled Exchangeable Preferred Securities (ANZ StEPS) and set the Distribution Rate for the payment due on 15 September 2006.

The distribution paid for the quarter ended 15 June 2006 for each ANZ StEPS was based on a Distribution Rate of 6.6050% p.a. as announced on 16 March 2006.

The Distribution Rate for the quarter ending 15 September 2006 has been set in accordance with clause 3.1 of the Note Terms set out in the Prospectus dated 14 August 2003. The Distribution Rate was calculated as follows:

| | |
|--|-------------|
| Market Rate (90 day bank bill rate as at 15 June 2006) | 5.9633% p.a |
| Plus the initial margin | 1.0000% p.a |
| Distribution Rate | 6.9633% p.a |

This distribution of \$1.7551 for each ANZ StEPS will be paid on 15 September 2006 with the record date being 31 August 2006.

John Priestley

Company Secretary

Australia and New Zealand Banking Group Limited

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for and on behalf of

Australia and New Zealand Banking Group Limited and

ANZ Holdings (New Zealand) Limited

16 June 2006

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06

UBS Conference

22 June 2006

Financial management issues to consider when looking at ANZ

Peter Marriott

Chief Financial Officer

www.anz.com

[LOGO]

A quick recap on the first half result

First Half NPAT - \$1,811m

Cash EPS growth - 10% (fully comparable IFRS basis)

Dividend growth - 10%

Benefits of our investment program starting to flow through

**Cash EPS in line
with peer average**

[CHART]

**But we continue to invest
heavily for future growth**

Banking expense growth*

[CHART]

**And we are already
seeing the benefits**

Banking revenue growth*

[CHART]

* Excludes wealth management, significant items, and group centre where disclosed

[LOGO]

Issues that came out of the result

What should actually constitute Cash EPS?

How does the Collective Provision work, including timing of oil shock collective provision run off?

What will happen with NZ revenue hedge, and likely impact of a softer Kiwi dollar?

How successful was the NZ integration?

Lack of understanding around nature of Markets revenues

Dividend policy and capital management

Asian strategy

ANZs definition of Cash EPS

| | | |
|---|--|---|
| | Reported NPAT | Includes deduction for share based payments & pension expense as required by IFRS |
| Distributions for equity instruments post IFRS | Hybrid Distributions +/- | |
| | Hedge Ineffectiveness +/- | Averages out to nil overtime, and actual gains/losses are accrued through the P&L anyway (see page 17) |
| Not representative of underlying performance. Typically M&A related | Significant items | |
| Options <u>not</u> diluted to avoid double counting as expense included in share based payments | Cash Earnings ÷ | Our hybrid Tier 1 instruments <u>not</u> diluted as conversion is at ANZ's control as there is a cash alternative and unlikely to occur except in an extreme scenario (see page 18) |
| | Weighted Ave Ord Shares (Basic) | |
| | Cash Earnings per Share | |

GRCL* movements not applicable as ANZ not required by APRA to create a GRCL

Treasury Shares^ adjustment required only where controlled entity beneficially holds shares in the company, which is not applicable to ANZ

*General Reserve for Credit Losses

^ANZEST, a controlled entity does hold shares but is not beneficially entitled to those shares

Collective Provision charge driven by Cards and Esanda

1H06 Collective Provision charge[^]

| Business Unit (A\$m) | Asset Growth impact | Risk impact | Oil Scenario impact | Total |
|---------------------------------|------------------------------------|------------------------|------------------------------------|--------------|
| Group | 55.5 | 12.0 | (32.2) | 35.3 |
| Institutional | 20.7 | (8.5) | (17.3) | (5.1) |
| Personal (excl Cards & Esanda) | 6.8 | 1.3 | (3.9) | 4.2 |
| New Zealand | 12.5 | (12.8) | (6.3) | (6.6) |
| Cards (Aust.) | 14.7 | 17.9 | (3.0) | 29.6 |
| Esanda | 2.9 | 17.7 | (3.2) | 17.4 |
| Other* | (2.1) | (3.6) | 1.5 | (4.2) |

[^]based on new organisation structure

*includes International Partnerships, Private Banking and Discontinued Businesses

Cards driven by strong FUM growth and deliberate risk shift to higher revolve rate products

Esanda impacted by oil price affect on residual values, driving higher loss given default levels

Business lending balance determined as follows

CP balance is largely driven by asset growth and movement in risk profile

Individual customers assigned independent risk grades and security coverage indicators

CP methodology based on tenor, risk profile, emergence period and exposure size

Oil provision run off to be completed by Sept-09

Illustrative Assumes
status quo conditions

Oil Provision Modelled Run-Off Profile* (A\$m)

[CHART]

Divisional Run-Off Profile (% of charge released)

| | FY06 | FY07 | FY08 | FY09 |
|----------------------|------|------|------|------|
| Personal | 42% | 27% | 20% | 11% |
| Institutional | 32% | 34% | 21% | 13% |
| New Zealand | 46% | 29% | 16% | 9% |

See page 21 for an explanation of how the Oil Shock provision was determined

* Subject to changes in conditions

NZD revenue hedge a good economic outcome

Why did we hedge?

During 04/05, NZ\$ perceived to be significantly overvalued

[CHART]

The right decision! Hedge has created significant value

NZ\$ Revenue Hedge very good economic outcome for ANZ

As at mid Jun-06

| | |
|--|----------------|
| Notional Principal (NZ\$b pre-tax) | 0.7 |
| Total Market Value (A\$m post-tax) | 199# |
| 2H06 Benefit | 41 |
| Post 2006 | 158* |
| Ave. exchange rate of open position (spot) | ~ 1.095 |

95% of 2H06 NZ earnings hedged at ~1.106

based on closing rate of 1.19

** of which \$135m has been locked in*

However under IFRS, a good economic outcome becomes a not so good accounting outcome

From 1 October 2006, revenue hedges are no longer recognised under AIFRS

Therefore on adoption of this new AIFRS requirement on 1 October 2006, deferred gains and Mark to Market value of FX revenue hedges go directly to Retained Earnings

We retain the economic benefit of the hedge, but lose the accounting benefit

Going forward, we will consider hedging where the currency is perceived to be overvalued but as a mix of revenue & capital hedges

All major banks exposed to NZ\$ translation impacts

(NZ earnings as % Group[^])

[CHART]

FY07 NZ\$ EPS impact

[CHART]

**financial year*

[^]IH06 % Group earnings, NAB FY05 % Group earnings

NZ integration complete - costs impacted by RBNZ requirements, revenue attrition contained

| NZ\$m | Business Case / Prospectus | Mar-04 (est.) | Mar-06 (est.) | Comments |
|-------------------------------|-----------------------------------|----------------------|----------------------|--|
| Integration Costs | 265 | 265 | 239 | Reduced scope lowered initial estimates RBNZ requirements increased final costs |
| Revenue benefits | 31 | 45 | 50 | Driven by Institutional businesses |
| 2007 pa Cost Synergies | 126 | 126 | 70 | Reduced scope & RBNZ requirements lowered initial estimates |
| 2007 pa Revenue attrition | 88 | 42 | 34 | NZ\$26m incremental benefit in FY07 Retail attrition managed via two brand strategy |
| 2007 pa Net benefit | 69 | 129 | 86 | |

See page 20 for phasing of these numbers pre 2007

Success of integration and two brand strategy increasingly reflected in share of NZ profits

ANZN generates 40% of the Top 4 banks NPAT

[CHART]

Strategy day for ANZ National will be held in Auckland on 7 September

Source: General Disclosure Statements Top 4 Banks, half yearly results. Data from Dec 04 is restated for IFRS where known. One-off items are excluded where known e.g. integration costs for ANZN. BNZ March 2006 data (and restated March 2005 data) sourced from media release.

Putting trading income in perspective accounting disclosures can be misleading

Reported Trading Income being confused with Markets income

[CHART]

Growth misleading given

\$16m cost from INGA Capital Invest. hedge in 1H05

1H06 \$28m benefit from Swap and FX contracts offset in FX earnings

There is also an interplay between trading income and interest income, as seen on next chart

To understand what is really happening in Markets income, need to look at aggregate picture

[CHART]

Growth a still healthy 21%, driven by:

Higher volatility, particularly in NZ

Increased customer activity (in part driven by increased volatility)

Greater penetration into customer base

So how are we generating our Markets income?

Majority of Markets income generated by Sales desk

[CHART]

Reflected in VaR being significantly below peers

(Ave \$m VaR @ 99% confidence level)

[CHART]

^WBC & CBA ave. for 1H06, NAB ave. for 2H05

Dividend policy & capital management consistent themes

Dividends

Dividends will grow broadly in line with Cash EPS, but seek to look through to normal provisioning

Capping DRP/BOP @ 50,000 shares limits dilution or need to buyback

Payout ratio provides scope for modest acquisitions, and support RWA growth reflective of market share gains

Current payout ratio enables 100% franking for foreseeable future

Capital

APRA recently finalised prudential standards confirming new hybrid rules phasing in over period to Jan 2010; and tougher capital deductions around capitalised software; deferred tax assets and pensions but transitioned to Jan 2008 when Basel II relief expected.

In normal course, we operate in upper half of ACE target range of 4.50% to 5.00%.

Estimated Cash payout ratios based on full year 2005#

[CHART]

Full year payout ratios used due to seasonality in payout ratios

* Impacted by lower earnings, without commensurate reduction in dividend

A CFO's view on Asian partnerships providing ANZ with a valuable growth option

Starting proposition

**Asia will have higher economic growth than Western economies
Financial services will grow more quickly than overall economy**

Key issues I look for:

Is the market attractive, and is there some relevance to Australia/NZ?

Can ANZ add value?

If not, we should return the capital and let our shareholders invest directly

Does it introduce unacceptable risk into our portfolio?

Diversification is important

Do we sufficiently understand the target?

Have we undertaken extensive due diligence

Finally, can we invest at an acceptable price?

Some closing observations

A pleasing first half, as we started to reap the benefits of our investment program

Credit conditions remain sound, but are at cyclical lows and losses more likely to increase

Overall 2006 expected to be a good year for ANZ

Looking forward, we have a clear growth strategy

Emerging proposition in Personal is compelling

Institutional being rebalanced to a more sustainable model

Our New Zealand business bouncing off low point, helping to offset cyclical NZ slowdown

Asia an attractive and sensible growth option

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

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Hedge Ineffectiveness illustration**Sample transaction (Illustrative)**

1. ANZ seeks to hedge variable rate exposure in its mortgage portfolio
2. ANZ uses a Pay Floating/Receive Fixed interest rate swap to hedge interest rate exposure
3. Interest rates fall in Year 3

| A\$m | Description | Yr 1 | Yr 2 | Yr 3 | Yr 4 | Cumulative |
|-----------------------|--|-----------|-----------|-----------|-----------|------------|
| Mortgage Accrual | Variable rate income from underlying Mortgages | 40 | 40 | 30(1) | 30 | 140 |
| Derivative Accrual | Net of Fixed rate received and Variable rate paid on swap | 10 | 10 | 20 | 20 | 60 |
| Net Accrual | Net interest accrual booked to NII * | 50 | 50 | 50 | 50 | 200 |
| Hedge Ineffectiveness | Ineffectiveness results from mispricing between cash rate & 3 month variable swap rate | 1 | 1 | -3(2) | 1 | 0(3) |

*NII unchanged from AGAAP accounting

(1) Cash rate falls, driving lower variable income, fixed rate unchanged

(2) MTM of hedge falls in line with fall in Variable rates

(3) Ineffectiveness represents portion of deriv. MTM relating to future periods, accordingly cumulative impact is 0 over life of deriv.

Diluting for hybrids not reflective of economic reality

US Hybrid as an example

Why are they in the dilution calculation?

On 15 December 2053, there is mandatory conversion to ordinary shares **if ANZ** hasn't already redeemed them. It is this potential conversion to ordinary shares that results in them being included in the dilution calculation

However conversion to ordinary shares is extremely unlikely

ANZ can redeem the instrument for cash:

On or after 15 December 2013 (US\$750m tranche) or 15 January 2010 (US\$350m tranche)

Earlier if a tax, regulatory, or acceleration event occurs

With APRA's approval

Even if conversion is instigated by the holder of the instrument, ANZ always maintains the option of delivering cash instead of ordinary shares

Holdings are primarily fixed interest investors, who would generally have a strong preference for receiving cash rather than ordinary shares

Conversion is at a 5% discount i.e. it is very costly to allow them to convert

In what circumstances might they convert to ordinary shares?

Difficult to foresee an environment where raising ordinary capital by allowing conversion to ordinary shares makes more sense than other options available to us

Hybrid Deals

| | ANZ STEPS | US Trust Securities | Trust Securities |
|-----------------------------------|---|--|---|
| Currency & Amount | AS\$1 billion | US\$1.1 billion US\$350m Jan 2010 US\$750m Dec 2013 | EUR500 million |
| Issue Date | 24 September 2003 | 26 November 2003 | 13 December 2004 |
| Final Maturity Date | 14 September 2053 Reset date Sep 2008 | 15 December 2053 | 12 December 2053 |
| | | Fixed | |
| Interest Rate | Floating BBSW + 100bpts | US\$350m @ 4.48% | Floating Euribor + 66bpts |
| | | US\$750m @ 5.36% | |
| Innovative/Non Innovative | Innovative Step up of 100bpts at Sept 2013, or issuer call at Sept 2008 | Innovative Convertible to ordinary shares at investors option in Jan 10/Dec 13 | Innovative Step up 100bpts at Dec 2014 |
| Debt/Equity classification | Debt under IFRS | Debt under IFRS | Equity under A-IFRS as no conversion remains a preference share |
| Position to 2010 | No change anticipated | No change anticipated | No change anticipated |

NBNZ Integration is complete and all objectives met

| NZ\$m | 2004 | 2005 | 2006 (f) | 2007 (f) |
|-------------------------------------|------|------|----------|----------|
| Total Integration costs | 49 | 139 | 51 | 0(1) |
| <i>Incremental Integration Opex</i> | 29 | 85 | 42 | 0 |
| Cost synergies | 6 | 33 | 44 | 70 |
| Revenue synergies | 1 | 26 | 44 | 50 |
| Attrition | 20 | 33 | 34 | 34 |
| Net synergies | -13 | 26 | 54 | 86 |

(1) Integration Costs:

10% costs capitalised,

5% covered by restructuring provision, and;

20% from existing resources

The Integration programme was a substantial body of work at a total cost of NZ\$239m, which has successfully delivered a major programme for ANZ National Bank:

30 workstreams comprising 150 individual projects have progressed successfully in line with plans;

Around 1300 system changes have been implemented;

At its peak over 600 staff were contributing to the programme;

126 property relocations were implemented.

1H 2006 total integration costs NZ\$51m, incremental costs NZ\$42m

Why an oil shock provision?

The significant increase in oil prices was an impairment event likely to impact credit losses

WTI Crude Oil Price

[CHART]

Source: Datastream; Economics@ANZ.

As a result of this event, we undertook detailed analysis across our portfolios to determine potential impacts.

Two examples:

Example - Institutional

Analysis around regressing Oil Price movements against probability of default (PD) movements based upon S&P data from 1981 to 2003 suggested a 35% increase in average PD broadly across the Institutional segment

Affected industries represent approximately 50% of the portfolio these would experience twice the PD increase (ie 70%)

Example Personal unsecured

Analysis from ANZ Economics suggested that the increase in Oil Price could have the equivalent affect of a 0.50% increase in interest rates

This effect was translated into an effect on the household Debt Service Ratio (historically there has been a high correlation between movements in the DSR and consumer finance losses).

A 0.5% increase in rates resulted in a ~7% increase in DSR and therefore resulting in expected higher losses

There can be no assurance that actual outcomes will not differ materially from the forward-looking statements contained in the Form 6-K.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Australia and New Zealand
Banking Group Limited

(Registrant)

By:

/s/ John Priestley
Company Secretary

Date 07 July 2006
