

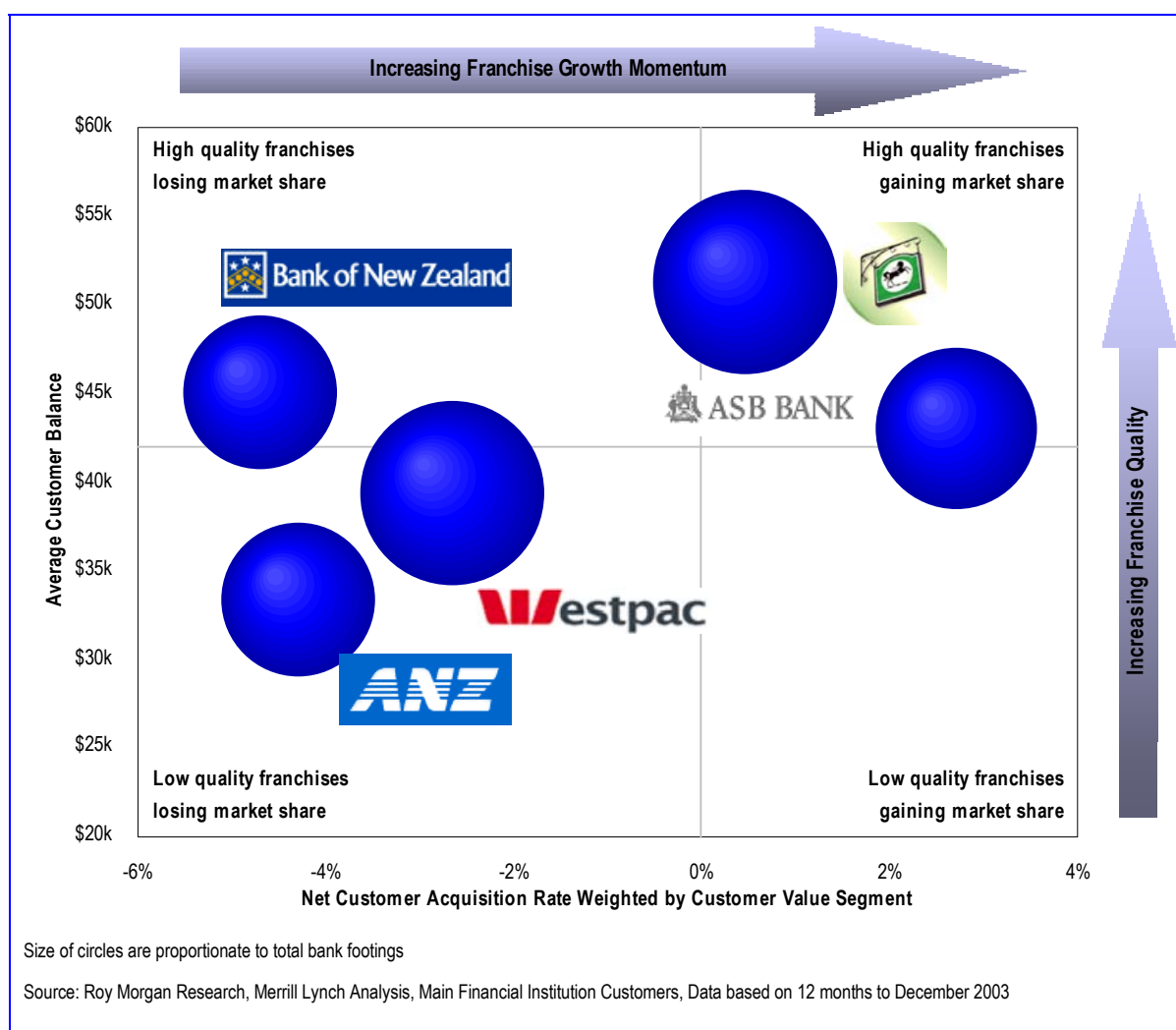
13 May 2004

Merrill Lynch Banks Team:
 Hamish Carlisle (61) 2 9226 5694
 Flynn De Freitas (61) 2 9226 5695
 firstname_surname@ml.com

Data Inquiries:
 Norman Morris (61 3 9224 5172)
 Roy Morgan Research

NZ Consumer Banking

New Zealand Franchise Review
Based on Data Supplied by Roy Morgan Research


Data supplied by:

Roy Morgan
-Research-

Major banks losing share
Price & service are key issues
Margin and cost pressures likely

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Executive Summary

This report examines the Australian banks' New Zealand operations using data gathered by Roy Morgan Research. The analysis is based largely on data for the 12 months to December 2003 although we also examine quarterly trends dating back to March 2002.

The report is structured into three parts:

1. Part A focuses on the relative investment appeal of each bank's retail banking franchise in New Zealand and the issues associated with ANZ's recent acquisition of NBNZ;
2. Part B provides an overview of each individual bank; and,
3. Part C provides an overview of each customer value segment.

At an industry level we conclude that while ASB and NBNZ are performing well, the Australian banks as a group are losing market share in New Zealand. In fact, we predict that ASB will be the only bank of the big five to actually increase its market share of retail customer relationships in the foreseeable future.

Contrary to management mantra, high fees and better deals elsewhere are important determinants of customer switching behaviour. It follows that with price a key driver of market share movements and with large players all seeking to restore market share trends we envisage substantial pressure on revenue margins in New Zealand over the short to medium term. Following the acquisition of NBNZ, ANZ is the most exposed.

Offsetting what we believe will be difficult industry conditions for ANZ, we note that net customer acquisition trends appear to have improved at NBNZ in the months following completion of the acquisition. However, customer acquisition looks to have been concentrated in lower value segments and is not yet matching the net customer outflows in ANZ's pre-existing franchise.

In short we remain cautious in relation to the outlook for the New Zealand banking market and ANZ's exposure therein.

Ranking the Banks...

Employing data from Roy Morgan Research, we have ranked the five largest New Zealand consumer banking franchises from highest to lowest. We have deliberately excluded size as a measure of franchise strength being of the view that none of the major banks operating in New Zealand benefit from any material scale advantage.

Some of the measures that we have chosen focus on the current composition of each bank's customer base – namely average footings per customer and the proportion of each bank's customers that are likely unprofitable. Other measures focus on leading indicators of growth –

namely customer satisfaction, customer acquisition and customer attrition. Our forced rankings are summarised in the table below:

Table 1: NZ Consumer Bank Franchise Scorecard

	ANZ	ASB	BNZ	NBNZ	WBC
1. Average footings per customer	\$33k	\$43k	\$45k	\$51k	\$39k
- Rank from best to worst	5	3	2	1	4
2. % customers unprofitable	43%	40%	32%	35%	35%
- Rank from best to worst	5	4	1	3	2
3. Customer satisfaction	65%	83%	75%	84%	69%
- Rank from best to worst	5	2	3	1	4
4. Customer acquisition rate	6%	8%	5%	9%	5%
- Rank from best to worst	3	2	5	1	4
5. Customer attrition rate	10%	6%	9%	6%	9%
- Rank from best to worst	5	1	3	2	4
Average ranking	4.6	2.4	2.8	1.6	3.6
- Rank from best to worst	5	2	3	1	4

Source: Roy Morgan Research, Merrill Lynch analysis
Main financial institution customers, Data based on 12 months to December 2003

Projected Relative Growth Rates...

While current franchise positioning is important, perhaps more relevant for investors is the extent to which the various banks are growing their customer bases over time and whether or not that growth is concentrated amongst higher value customers. We have examined customer acquisition and customer attrition across various customer groups to forecast relative growth. Our estimates are summarised in the table below:

Table 2: Forecast Growth Rates

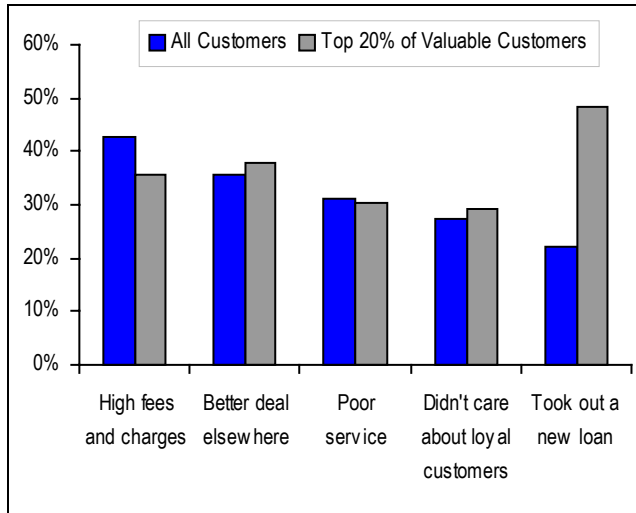
Bank	Parent	NZ Retail Banking Revenues	% of Parent Revenues	Forecast Growth Rate
ANZ	ANZ	NZ\$387m	4%	4% below system
ASB	CBA	NZ\$407m	4%	3% above system
BNZ	NAB	NZ\$389m	3%	5% below system
NBNZ	ANZ	NZ\$588m	6%	In line with system
WBC	WBC	NZ\$537m	7%	3% below system
ANZ/NBNZ	ANZ	NZ\$974m	10%	1% below system

Source: Roy Morgan Research, Merrill Lynch analysis based on main financial institution customers during 12 months to December 2003

Of particular importance is that we expect the Australian major banks in aggregate to grow at a rate below system in New Zealand. This is because, of the c180 thousand New Zealanders who switch main financial institutions each year (from one of the five largest banks), almost half move outside of the five largest banks. While part of this loss is offset by customer acquisitions from smaller institutions and market growth we still believe the major banks to be in a position of net customer outflow.

With price an important determinant of switching behaviour, market growth set to slow and all banks looking to restore market share trends, we remain cautious about the medium term outlook for New Zealand retail banking.

Chart 1: Reasons NZ Customers Switched Financial Institution



Source: Roy Morgan Research, Merrill Lynch analysis
Main financial institution customers that have switched within last 12 months, Data based on 12 months to December 2003

ANZ/NBNZ Merger

Consumer banking dynamics in New Zealand are particularly interesting at the current point in time following the acquisition of NBNZ by ANZ at the beginning of December last year. On one hand, the acquisition provides a potential means by which ANZ might improve its existing franchise – which on the basis of the Roy Morgan data is in much need of repair. On the other hand, the disruptive nature of bank mergers may mean that the acquisition presents an opportunity for the other banks to strengthen their positions.

Only time will tell how the acquisition will impact market share across the Tasman. In the interim however we note:

- (1) Falling customer service at both ANZ and NBNZ;
- (2) Improving net customer acquisition at NBNZ;
- (3) Significant customer outflow at ANZ; *and*
- (4) Net customer outflows for the combined group in high value customer segments.

With relatively flat revenues across ANZ's New Zealand businesses in recent periods along with concerning data about the health of the group's pre-existing franchise we prefer to err on the side of caution and have built incremental revenue degradation into our earnings forecasts out to the end of 2005. We will continue to monitor the New Zealand banking market with interest.

Chart 2: Proportion of customers fairly or very satisfied

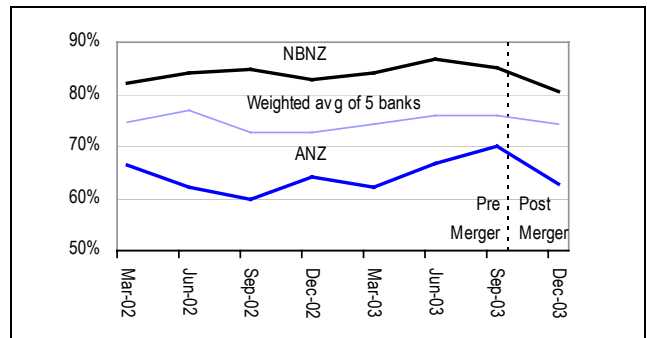


Chart 3: NBNZ – Net Retail Customer Flows

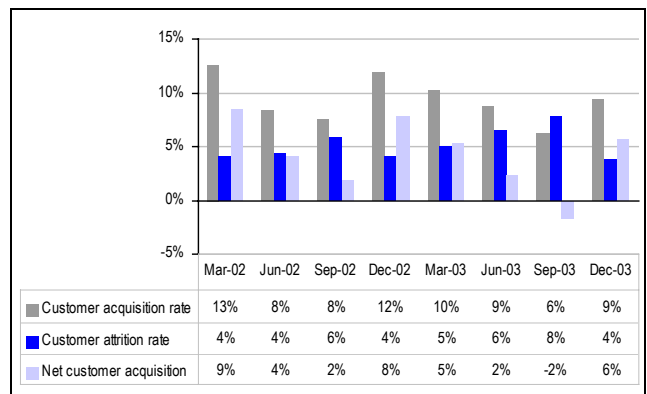


Chart 4: ANZ – Net Retail Customer Flows

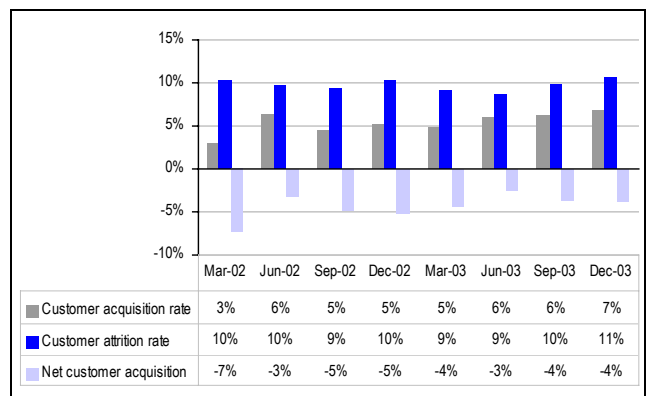
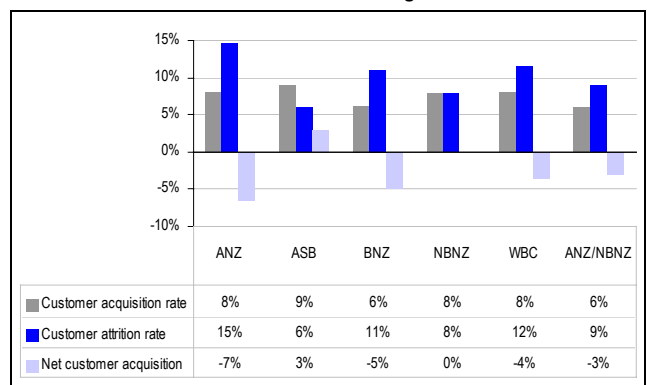


Chart 5: Net Retail Customer Flows – Highest Value Quintile



Source (all charts): Roy Morgan Research, Merrill Lynch analysis, Main financial institution customers, Charts 2,3 & 4 based on Data for 3 month periods, Chart 5 based on 12 months to December 2003

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<p>■ Merrill Lynch Australian Banks Team Hamish Carlisle (+612 9226 5694); Flynn De Freitas (+612 9226 5695)</p> <p>■ Roy Morgan Research Norman Morris (+613 9224 5172)</p>	

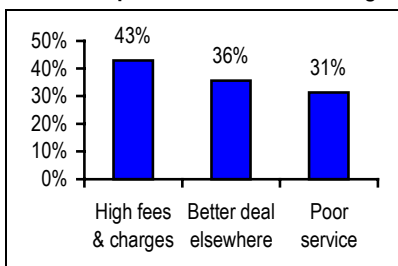
1. Ranking the Banks

This report examines retail customer trends amongst New Zealand's five largest banks using data gathered by Roy Morgan Research. We have approached our analysis of the data with a view to assessing the relative growth outlook amongst the various banks over the short to medium term. Our forecast retail banking growth rates are summarised in the table below:

We believe the Australian banks are in aggregate losing market share amongst New Zealand retail customers

Price is a key factor as is service:

Chart 6: Top 3 Reasons for Switching*



Source: Roy Morgan Research
 * Big five banks, Main Financial Institution customers, Data based on 12 months to December 2003

Which means more pressure on margins and service related investment...

At the same time as slowing credit growth...

...which all in all makes for a difficult earnings growth outlook

Table 3: Forecast Growth Rate in NZ Retail Banking Footings

Bank	Parent	Estimated NZ Retail Banking Revenue Pool	% of Parent Revenues	Forecast Growth Rate
ANZ	ANZ	NZ\$387m	4%	4% below system
ASB	CBA	NZ\$407m	4%	3% above system
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Source: Roy Morgan Research, Merrill Lynch analysis based on main financial institution customers during 12 months to December 2003

Of particular importance is that we expect the Australian major banks in aggregate to grow at a rate below system in New Zealand. This is because of the c180 thousand New Zealanders who switch main financial institutions each year (from one of the five largest banks), almost half move outside of the five largest banks. While part of this loss is offset by customer acquisitions from smaller institutions and market growth we still believe the major banks to be in a position of net customer outflow. This in itself is a remarkable statistic and begs the question as to why customers are leaving the big banks. The answer, according to Roy Morgan Research, is price and service (see adjacent chart). In our view, this probably means more revenue pressure and ongoing investment in service initiatives neither of which augur particularly well within the context of what ANZ economists believe will be a slowing credit growth environment.

Table 4: Credit Growth Forecasts (ANZ View)

Year to September	2001	2002	2003	2004	2005
Housing	7.2%	7.2%	15.5%	13.0%	6.0%
Business	8.8%	8.1%	2.7%	6.0%	6.0%
Other	10.6%	7.6%	4.8%	4.0%	4.0%

Source: ANZ

All in all it is difficult for us to be overly optimistic about the growth outlook for consumer banking profitability in New Zealand. ASB and potentially NBNZ are the exceptions although even these institutions will feel the impacts of slowing industry growth and ongoing margin degradation.

Following the recent acquisition of NBNZ, ANZ is the most exposed to the New Zealand retail banking market (10% estimated revenue contribution) followed by WBC (7%), CBA (4%) and NAB (3%). It follows that we remain cautious as to the potential impact of a benign revenue outlook in New Zealand on ANZ's broader performance.

Ranking the NZ Consumer Banking Franchises...

Employing data from Roy Morgan Research, we have ranked the five largest New Zealand consumer banking franchises from highest to lowest. We have deliberately excluded size as a measure of franchise strength being of the view that none of the major banks operating in New Zealand benefit from any material scale advantage.

Some of the measures that we have chosen focus on the current composition of each banks customer base – namely average footings per customer and the proportion of each banks customers that are likely unprofitable. Other measures focus on metrics that we believe are likely to provide leading indicators of growth – namely customer satisfaction, customer acquisition rate and customer attrition rate. Our forced rankings are summarised in the table below:

We rate NBNZ and ASB as the best consumer banking franchises in New Zealand

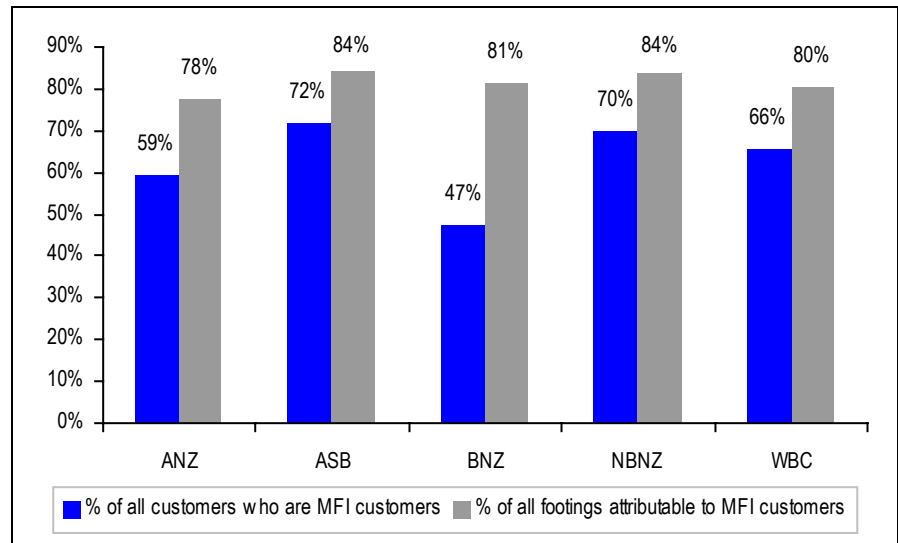
Table 5: NZ Consumer Bank Franchise Scorecard

	ANZ	ASB	BNZ	NBNZ	WBC
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2. % of customers potentially unprofitable	43%	40%	32%	35%	35%
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3. Customer satisfaction	65%	83%	75%	84%	69%
- Rank from best to worst	5	2	3	1	4
4. Customer acquisition rate	6%	8%	5%	9%	5%
- Rank from best to worst	3	2	5	1	4
5. Customer attrition rate	10%	6%	9%	6%	9%
- Rank from best to worst	5	1	3	2	4
Average retail bank franchise ranking	4.6	2.4	2.8	1.6	3.6
- Rank from best to worst	5	2	3	1	4

Source: Roy Morgan Research, Merrill Lynch analysis
Main financial institution customers, Data based on 12 months to December 2003

Our analysis focuses on main financial institution customers which represent around 80 percent of bank footings

Our analysis focuses on main financial institution (MFI) firstly because these customers account for the vast majority of bank footings customers and secondly because the approach avoids double counting.

Chart 7: Relevance of Main Financial Institution Customers


Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003

We rank **NBNZ** as the strongest retail banking franchise in New Zealand. Not only does **NBNZ** have a high quality customer base, it is also a leader in terms of customer satisfaction, customer acquisition and customer retention. **ASB** is also a strong franchise although its customer base is more skewed towards lower value customers than that of **NBNZ**.

BNZ presides over the highest value customer base but is not growing as fast as its peers

BNZ is interesting in that it probably resides over the highest value customer base of all the banks but suffers from a relatively low customer acquisition rate and a high attrition rate. We suspect these statistics may have been influenced by **BNZ**'s recent strategic decision to withdraw from the mortgage broker market. We also note that **BNZ**, being cognisant of its mature aged customer base, has been particularly focused on attracting younger customers in recent years.

Neither WBC nor ANZ rank particularly well on forward looking indicators of growth

Neither **WBC** nor **ANZ** rank particularly well on forward looking indicators of growth both with low levels of customer satisfaction, high levels of customer attrition and low rates of customer acquisition. The main differentiating feature is that **WBC** resides over a more attractive customer base than **ANZ**.

The merger of **ANZ** and **NBNZ** combines what we believe to be the worst and the best consumer banking franchises respectively. The opportunity for the combined group is in bringing the combined franchise up to performance levels in line with **NBNZ**. The risk is that some of the factors that have made **NBNZ** so successful become diluted across the combined group. We discuss the merger in more detail in Section 2.

■ Current Customer Composition

The top 20% of customers account for 65% of footings...

All the banks frequently make statements such as “the top twenty percent of customers account for the vast majority of profits”. The Roy Morgan data from New Zealand supports this view where an estimated 20 percent of customers account for around 65 percent of retail banking footings and 40 percent of customers account for nearly 90 percent of retail banking footings. As such, the importance of an attractively skewed customer base should not be underestimated.

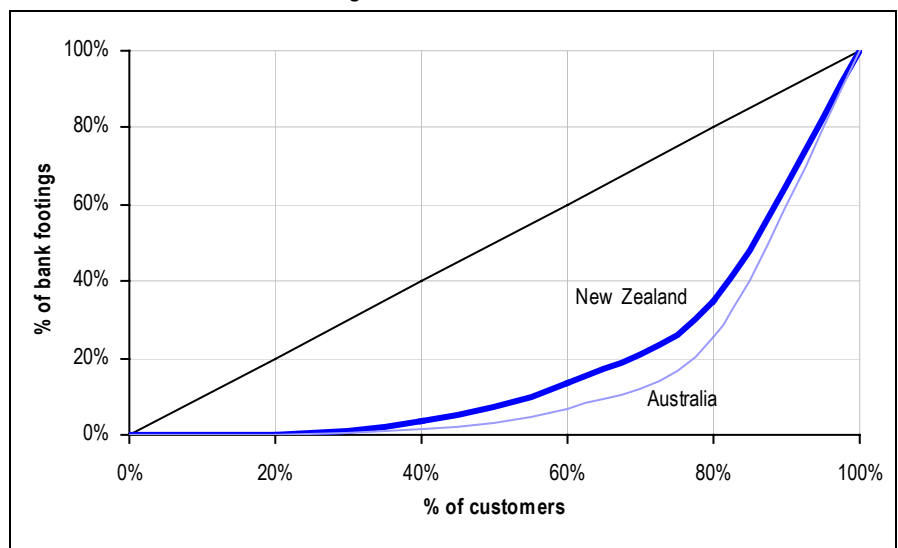
The Lorenz Curve...

The Lorenz curve, developed by Max O. Lorenz last century to measure income inequality, provides a useful representation of the distribution of retail bank footings in New Zealand. The Lorenz curve is simply a graph that shows for the bottom X percent of customers, the percentage Y of footings they account for. A perfectly equal footings distribution would be one in which every customer had the same bank balance. In this case the bottom N percent of customers would always have N percent of footings. Thus a perfectly equal distribution can be depicted by the straight line Y=X.

...and the bottom 40 percent of customers make virtually no contribution to footings

In the case of New Zealand, the bottom 40 percent of customers make virtually no contribution to banking sector footings while the next 20 percent add just 10 percent to footings. Contrary to our expectations, New Zealand footings are less skewed towards higher value customers than is the case for Australia.

Chart 8: New Zealand Bank Footings



Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003

Profit Distribution by Customer Value Segment...

Profitability skew is likely to be even more skewed towards higher value customers than balances. One money centre bank in the US found that 10 percent of its retail banking customers were subsidising losses from 60 percent of customers.

Table 6: Profitability of Retail Bank Customers

		Cost to serve		
		Low	Medium	High
Risk-Adjusted Revenue	High	Highly Profitable (10%)	Quite Profitable (3%)	Moderately Profitable (10%)
	Low	Break Even (20%)	Small Losses (40%)	Big Losses (20%)

Source: Data first reported by James McCormick of First Manhattan in 1995

Profitability is probably even more skewed to a small number of customers...

This sort of outcome seems fairly realistic to us. In the table below, we have (simplistically) estimated NZ retail banking profitability by customer segment based on the Roy Morgan data. We estimate that some 60 percent of New Zealand banking customers could be break even to loss making and that the top 20 percent of customers could account for over 90 percent of industry earnings.

With our analysis suggesting the top 20% of customers account for over 90% of profits

Table 7: Estimated Customer Profitability by Segment (S1 = Top 20% of Customers)

Customer segment	S1	S2	S3	S4	S5	Total
Total footings (\$b)	99	33	15	5	0	153
Total customers ('000)	586	566	562	622	504	2,840
Industry profitability						
Net interest income @ 2% margin	1,485	494	225	80	4	2,289
Other income @ \$60 per customer	176	170	169	187	151	852
Operating expenses @ \$750 per customer	-352	-340	-337	-373	-302	-1,704
Underlying earnings	1,130	324	57	-107	-147	1,437
% Profit contribution	91%	23%	4%	-7%	-10%	100%

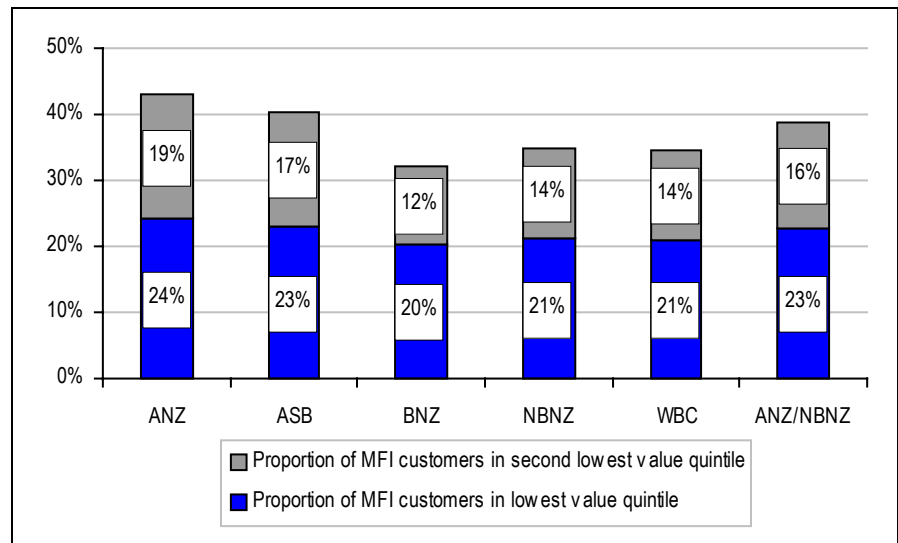
Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003

Which banks are the best positioned?

Given the likelihood that the bottom 40 percent of customers are unprofitable and probably drive structurally higher cost to income ratios we have examined the extent to which each bank's customer base is skewed towards this segment in the chart below.

We find ANZ to have the greatest exposure to low value customers...

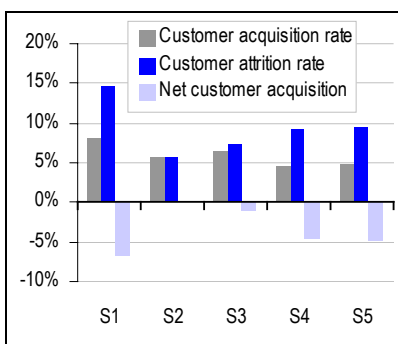
Chart 9: Proportion of Potentially Unprofitable Customers



Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003

...with little evidence to suggest that this situation is improving over time.

Chart 10: ANZ Customer Churn



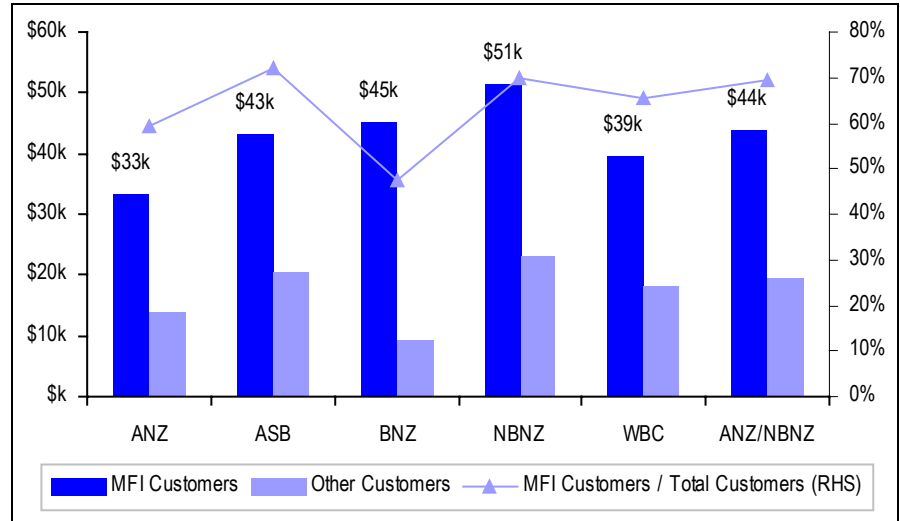
Source: Roy Morgan Research, Merrill Lynch analysis
Main financial institution customers
Data based on 12 months to December 2003

ANZ is weakest on this measure following the acquisition of Post Bank from the New Zealand Government in 1989. **ANZ** has acknowledged potential earnings upside associated with shedding lower value customers over time although given that the group has owned Post Bank for 15 years this is unlikely to happen quickly. More recent evidence in relation to customer churn would not suggest that **ANZ's** customer losses are concentrated in any particular value segment (see adjacent chart).

ASB also has a relatively high exposure to lower value customers which surprised us somewhat. The **BNZ** franchise is not unlike the **NAB** franchise in Australia with a skew towards higher value customers. **BNZ** have identified the need to build younger customers over time to compensate for its maturing, albeit higher value, clients. **WBC** reflects the combination of Trust Bank – skewed towards lower value customers – and the traditional **WBC** franchise. The group has recently consolidated the brands which will have an interesting impact on customer flows (see discussion that follows).

We have also examined average customer balances as a means to assessing the relative quality of each banks customer base. **NBNZ** is by far the best positioned of all the banks on this measure followed by **BNZ**. **ANZ** again significantly lags its peers, once more probably owing to its Post Bank heritage.

Chart 11: Average Customer Balances (NZ\$'000)



Source: Roy Morgan Research, Merrill Lynch Analysis, Data based on 12 months to December 2003

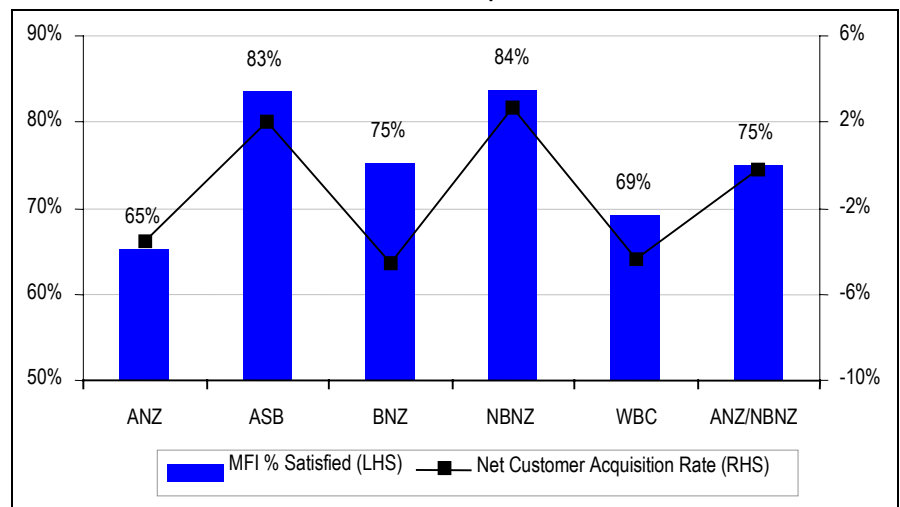
■ Assessing the Relative Growth Outlook...

While current franchise positioning is important, perhaps more relevant for investors is the extent to which the various banks are growing their customer bases over time and whether or not that growth is concentrated amongst higher value customers. We have examined customer satisfaction, customer acquisition and customer attrition as indicators of relative growth.

Customer Satisfaction...

Customer satisfaction is often seen as a leading indicator of customers' propensity to switch banks. Data from Roy Morgan Research supports this contention with higher service banks experiencing superior rates of net customer acquisition as highlighted in the chart below.

Chart 12: Customer Service & Net Customer Acquisition



Source: Roy Morgan Research, Merrill Lynch Analysis
Main financial institution customers, Data based on 12 months to December 2003

There is a strong relationship between customer satisfaction and net customer acquisition

Interestingly however, while poor service is amongst the top three reasons cited by New Zealand customers for switching banks, fees and price also appear to be important factors as highlighted in the table below:

However, price also appears to be an important determinant of switching activity

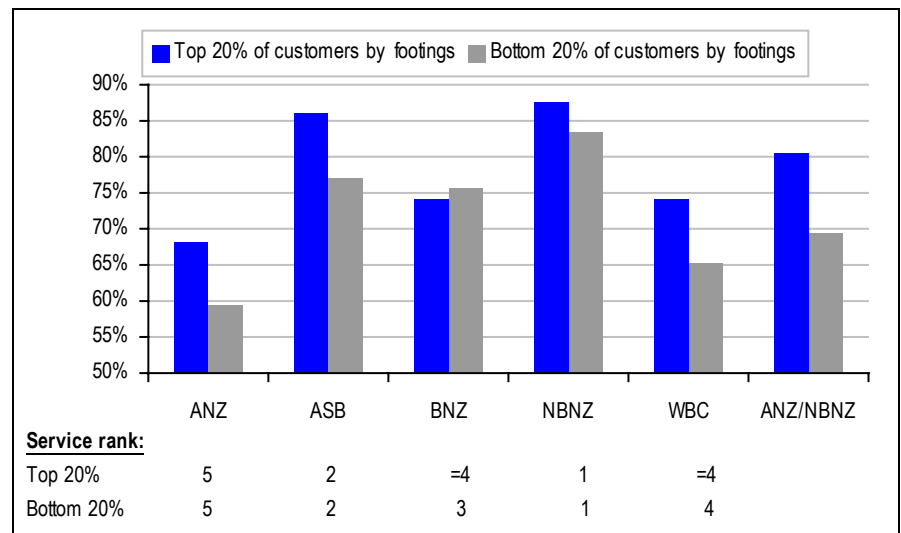
Table 8: Top Five Reasons for Switching Banks in NZ

High fees & charges	42.8%
Better deal elsewhere	35.6%
Poor service	31.3%
Didn't care about loyal customers	27.3%
Took out a new loan with my new main financial institution	22.1%

Source: Roy Morgan Research
Main financial institution customers, Data based on 12 months to December 2003

Given that profitability is highly skewed towards the top 20 percent of customers, it makes sense to examine service levels in this segment in particular. While the banks in general provide higher levels of service to this segment, relative service rankings within this segment are much the same as service rankings overall.

Chart 13: Fairly or Very Satisfied Customers by Value Segment



Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003

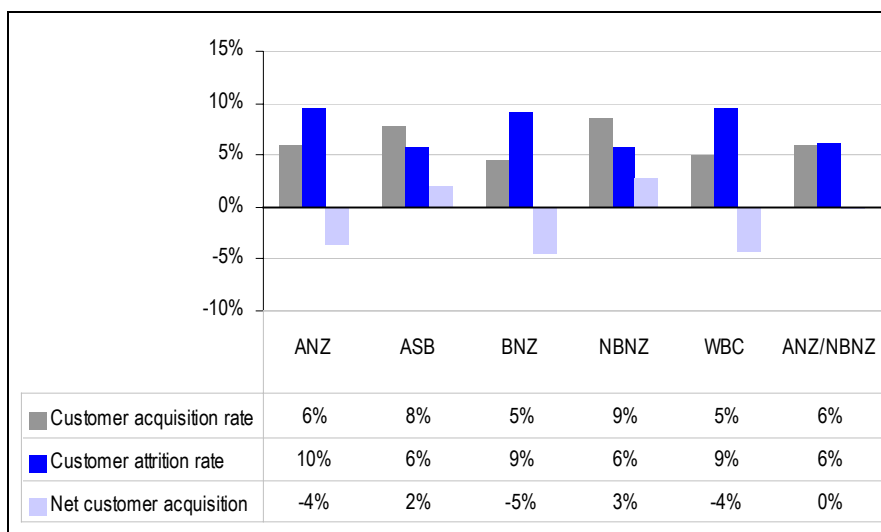
Service rankings amongst high value customers are much the same as in aggregate

Net Customer Flow...

Actions speak louder than perceptions and as such customer switching levels are probably more meaningful than customer service metrics on their own. The chart overleaf compares net customer flows over the last 12 months for the five largest banks as well as ANZ/NBNZ combined.

ASB and NBNZ are the only banks to be acquiring customers on a net basis

Chart 14: Net Customer Flow

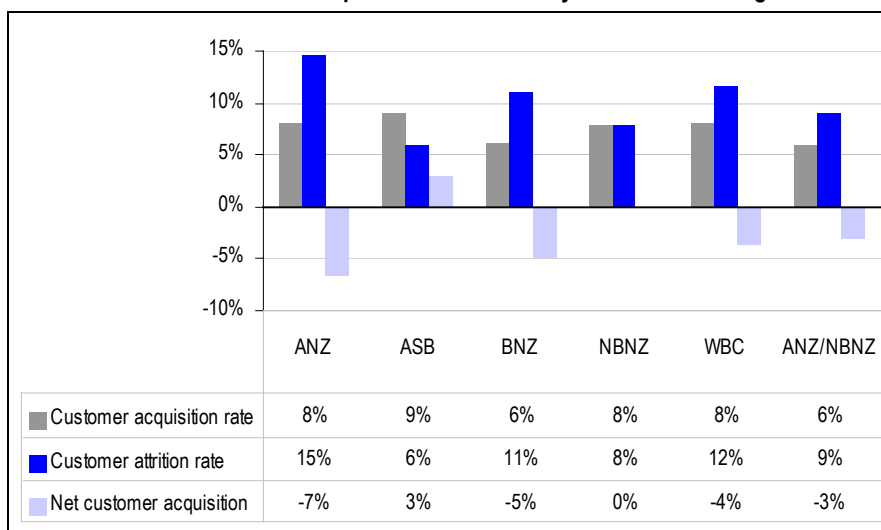


Source: Roy Morgan Research, Merrill Lynch Analysis
 Main Financial institution customers that have switched banks in the last 12 months
 Data based on 12 months to December 2003

Interestingly, only two of the five largest banks are actually acquiring customers on a net basis. Focusing exclusively on the top 20 percent of customers which we estimate account for the vast majority of industry profits further reveals that **ASB** is the only net acquirer of customers. This can hardly be viewed as a particularly positive indicator of total banking sector performance.

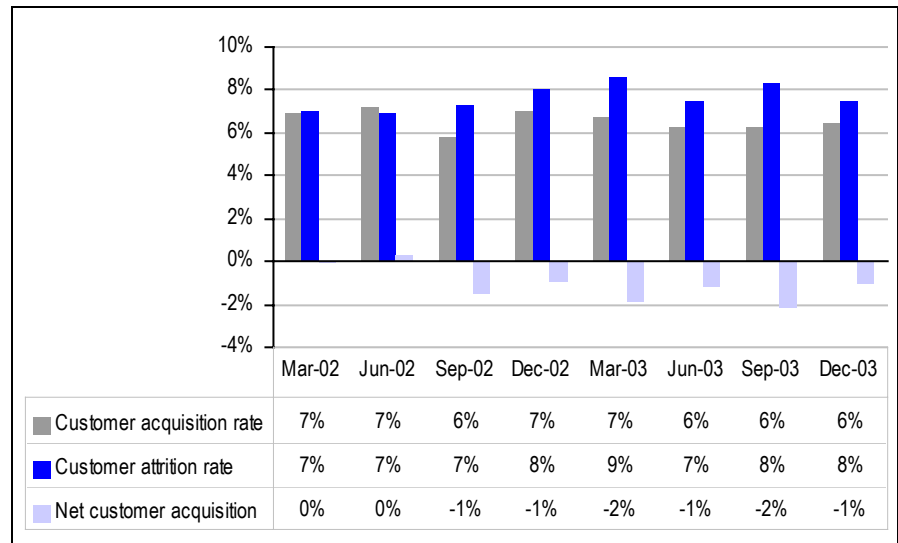
With ASB the only bank to be growing its high value customer base

Chart 15: Net Customer Flow – Top 20% of Customers by Total Bank Footings



Source: Roy Morgan Research, Merrill Lynch Analysis
 Main Financial institution customers that have switched banks in the last 12 months
 Data based on 12 months to December 2003

Looking at net customer acquisition over time reveals that the trend of net customer defections amongst the five largest banks is not a recent phenomenon. Roy Morgan Research estimates that customer attrition amongst New Zealand's five largest banks has exceeded customer acquisition for each of the last six consecutive quarters. This situation is depicted in the following chart.

Chart 16: Weighted Average of 5 Banks - Net Customer Flow Over Time


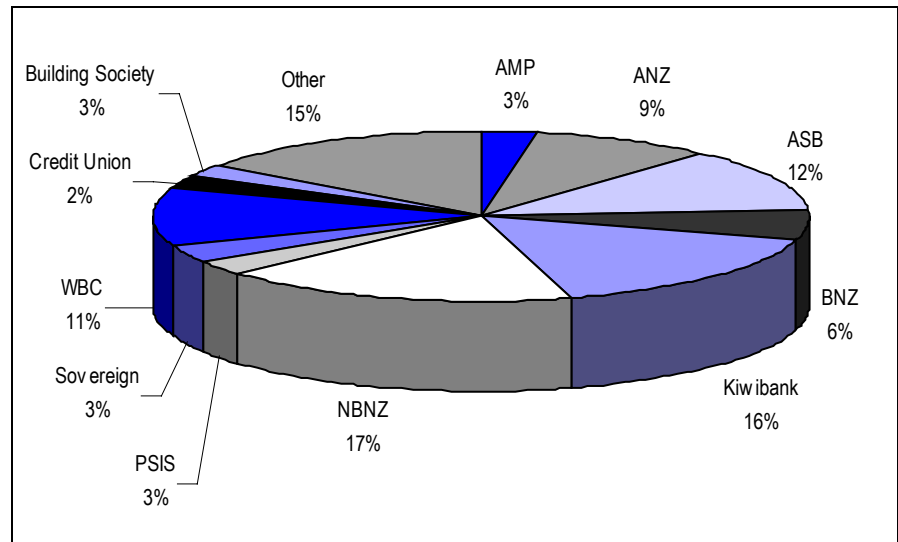
The large five banks have been losing customers for the last six quarters...

Source: Roy Morgan Research, Merrill Lynch analysis

Main Financial institution customers that have switched banks in the last 12 months, Data based on 3 month periods

...with Kiwibank a major beneficiary

Kiwibank and **NBNZ** appear to have been the greatest beneficiaries of departing big bank customers attracting 16 and 17 percent of aggregate outflows. Departing customers cited either fees, better deals elsewhere or poor service as reasons for switching. That said, **NBNZ**'s customer acquisitions have tended to be more concentrated in lower value segments.

Chart 17: Where are Big Five Bank Customers Moving?


Source: Roy Morgan Research

Main Financial institution customers that have switched banks in the last 12 months

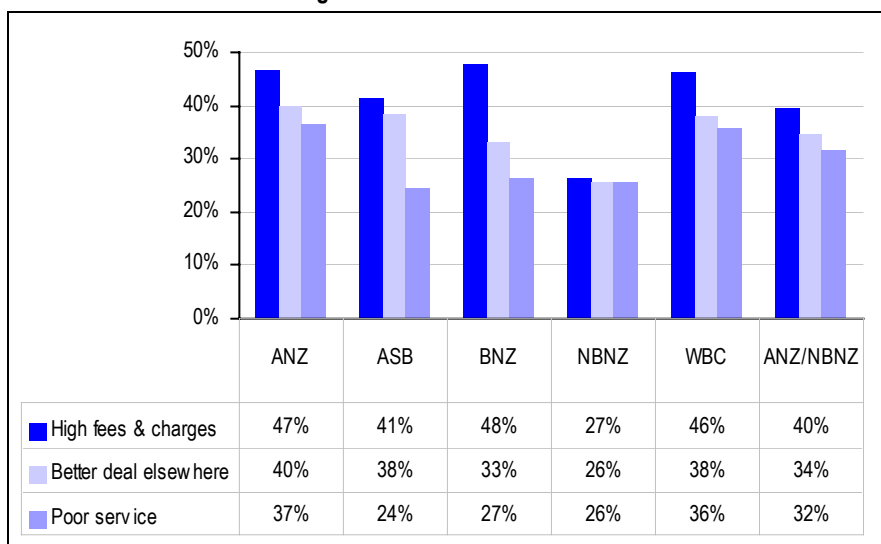
Data based on 12 months to December 2003

Why are Customers Defecting?

These charts again raise the question as to why customers are defecting for other banks. In the chart below, we compare reasons for switching for each individual institution.

Customers leave different banks for different reasons

Chart 18: Reasons for Switching Main Financial Institution



Source: Roy Morgan Research, Merrill Lynch analysis
Main financial institution customers, Data based on 12 months to December 2003

Reversing adverse switching activity will require that banks address a variety of different issues. Below we have outlined potential strategic responses along with potential costs to shareholders. We conclude that ANZ and WBC face the greatest margin, fee and cost challenges.

Table 9: Likely Competitive Response to Stem Customer Attrition

Bank	Key issues	Likely Response	Cost to shareholders
ANZ	High fees	Reduce fees	High
	High prices	Cut prices	
	Poor service	Invest in service	
ASB	High fees	Reduce fees	Moderate
	High prices	Cut prices	
		Maintain service levels	
BNZ	High fees	Reduce fees	Moderate
		Maintain competitive pricing	
		Maintain service levels	
NBNZ	No obvious issues	Maintain competitive fees	Low
		Maintain competitive pricing	
		Maintain service levels	
WBC	High fees	Reduce fees	High
	High prices	Cut prices	
	Poor service	Invest in service	

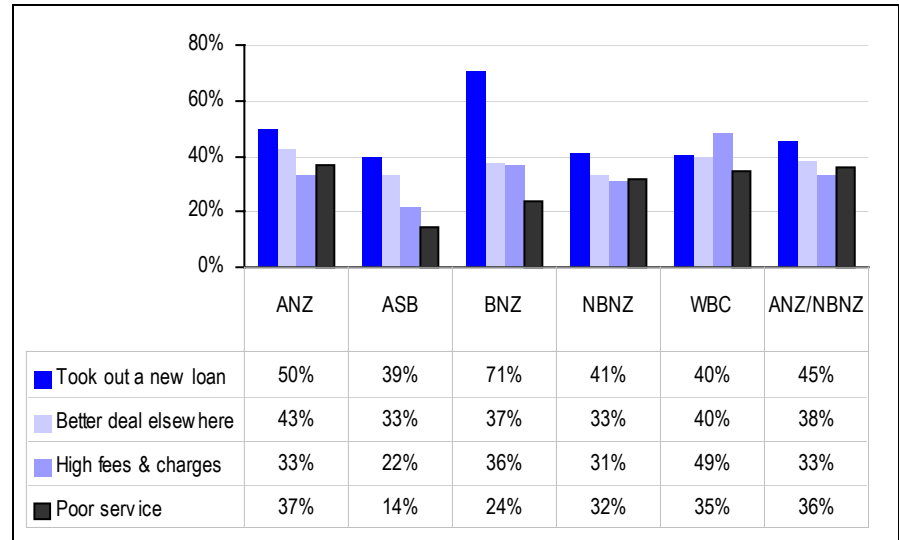
Source: Merrill Lynch

Each bank faces a different set of issues in terms of addressing switching activity

Taking out a mortgage seems to be the time customers switch bank

Examining reasons amongst higher value customers reveals that many of these customers switch bank when they take out a new loan, often finding a “better deal elsewhere”. Across the banks BNZ’s recent decision to exit the mortgage broker market is evidently having quite a significant effect.

Chart 19: Reasons for Switching Main Financial Institution – Highest Value Quintile



Source: Roy Morgan Research, Merrill Lynch analysis
 Main financial institution customers that have switched banks in the last 12 months
 Data based on 12 months to December 2003

Relative Growth Forecasts...

Given the extent to which footings are skewed towards a relatively small number of customers, focusing on aggregate customer acquisition and attrition rates can potentially be quite misleading. As such we have developed a franchise growth model that weights net customer acquisition rates to reach what we believe are more realistic estimates of relative growth momentum. Our workings are detailed overleaf and summarised in the table below:

Table 10: Forecast Growth Rate in NZ Retail Banking Footings

Bank	Parent	Estimated NZ Retail Banking Revenue Pool	% of Parent Revenues	Forecast Growth Rate
ANZ	ANZ	NZ\$387m	4%	4% below system
ASB	CBA	NZ\$407m	4%	3% above system
BNZ	NAB	NZ\$389m	3%	5% below system
NBNZ	ANZ	NZ\$588m	6%	In line with system
WBC	WBC	NZ\$537m	7%	3% below system
ANZ/NBNZ	ANZ	NZ\$974m	10%	1% below system

Source: Roy Morgan Research, Merrill Lynch analysis based on main financial institution customers during 12 months to December 2003

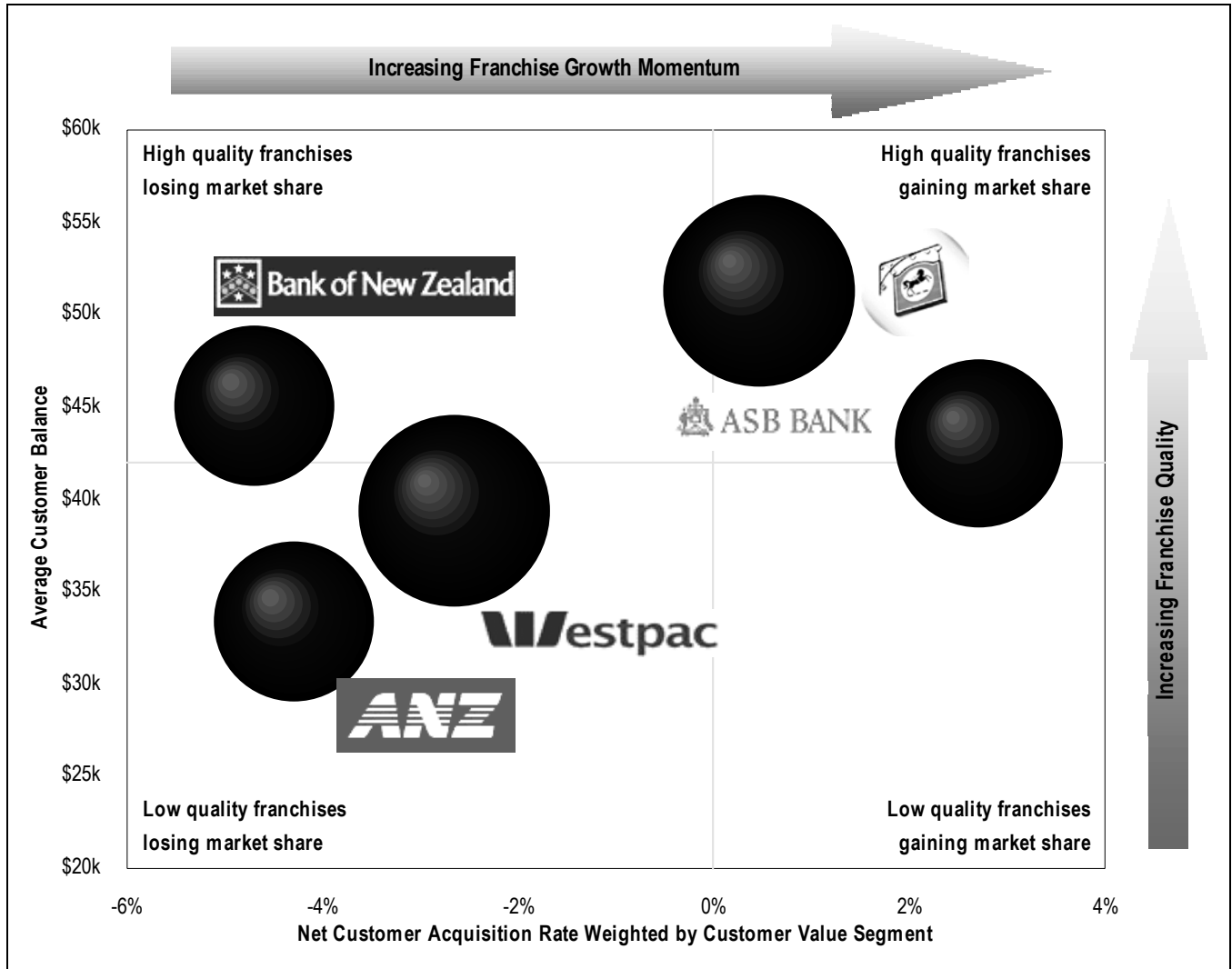
ASB is the only bank that we believe will gain New Zealand market share for the foreseeable future.

In short, ASB is the only bank amongst the big five that we expect to gain consumer banking market share in New Zealand in the foreseeable future.

Franchise Quality vs Franchise Growth

In the chart below we have mapped average customer balances against net customer acquisition. The chart simply serves to highlight both the quality and growth momentum of the ASB and NBNZ franchises relative to the other banks.

Chart 20: New Zealand Consumer Banking Franchise Quality vs Franchise Growth



Size of circle proportionate to total footings

Source: Roy Morgan Research, Merrill Lynch Analysis, Main Financial Institution Customers, Data based on 12 months to December 2003

Table 11: New Zealand Franchise Growth Model (S1 = Top 20% of customers by total banking footings)

ANZ	S1	S2	S3	S4	S5	Total	ASB	S1	S2	S3	S4	S5	Total
Customer acquisition rate	8%	6%	6%	5%	5%	7%	Customer acquisition rate	9%	9%	4%	8%	9%	9%
Customer attrition rate	15%	6%	7%	9%	10%	11%	Customer attrition rate	6%	6%	4%	5%	7%	6%
Net customer acquisition	-7%	0%	-1%	-5%	-5%	-4%	Net customer acquisition	3%	3%	0%	2%	1%	3%
Number of customers	75k	88k	94k	109k	84k	450k	Number of customers	101k	67k	69k	92k	69k	398k
Average balance	\$169k	\$58k	\$27k	\$9k	\$1k	\$47k	Average balance	\$169k	\$58k	\$27k	\$9k	\$1k	\$59k
Size of wallet	\$12.7b	\$5.1b	\$2.5b	\$0.9b	\$0.0b	\$21.3b	Size of wallet	\$17.1b	\$3.9b	\$1.8b	\$0.8b	\$0.0b	\$23.6b
Value of customers acquired	\$1.0b	\$0.3b	\$0.2b	\$0.0b	\$0.0b	\$1.5b	Value of customers acquired	\$1.5b	\$0.3b	\$0.1b	\$0.1b	\$0.0b	\$2.0b
Value of customers defected	-\$1.9b	-\$0.3b	-\$0.2b	-\$0.1b	-\$0.0b	-\$2.4b	Value of customers defected	-\$1.0b	-\$0.2b	-\$0.1b	-\$0.0b	-\$0.0b	-\$1.4b
Ending size of wallet	\$11.8b	\$5.1b	\$2.5b	\$0.9b	\$0.0b	\$20.4b	Ending size of wallet	\$17.6b	\$4.0b	\$1.8b	\$0.8b	\$0.0b	\$24.3b
Implied growth in size of wallet	-7%	0%	-1%	-5%	-5%	-4%	Implied growth in size of wallet	3%	3%	0%	2%	1%	3%

Source: Roy Morgan Research, Main Financial Institution (MFI) customers
Source: Roy Morgan Research, Main Financial Institution (MFI) customers

BNZ	S1	S2	S3	S4	S5	Total	NBNZ	S1	S2	S3	S4	S5	Total
Customer acquisition rate	6%	4%	4%	3%	5%	5%	Customer acquisition rate	8%	6%	5%	11%	17%	6%
Customer attrition rate	11%	8%	7%	10%	10%	10%	Customer attrition rate	8%	3%	6%	6%	6%	5%
Net customer acquisition	-5%	-5%	-3%	-7%	-5%	-5%	Net customer acquisition	0%	3%	-1%	5%	11%	0%
Number of customers	81k	85k	74k	72k	41k	353k	Number of customers	127k	101k	84k	101k	66k	479k
Average balance	\$169k	\$58k	\$27k	\$9k	\$1k	\$60k	Average balance	\$169k	\$58k	\$27k	\$9k	\$1k	\$64k
Size of wallet	\$13.7b	\$4.9b	\$2.0b	\$0.6b	\$0.0b	\$21.3b	Size of wallet	\$21.5b	\$5.9b	\$2.2b	\$0.9b	\$0.0b	\$30.5b
Value of customers acquired	\$0.8b	\$0.2b	\$0.1b	\$0.0b	\$0.0b	\$1.1b	Value of customers acquired	\$1.3b	\$0.2b	\$0.1b	\$0.1b	\$0.0b	\$1.8b
Value of customers defected	-\$1.4b	-\$0.4b	-\$0.2b	-\$0.1b	-\$0.0b	-\$2.1b	Value of customers defected	-\$1.3b	-\$0.1b	-\$0.1b	-\$0.0b	-\$0.0b	-\$1.6b
Ending size of wallet	\$13.1b	\$4.7b	\$1.9b	\$0.5b	\$0.0b	\$20.2b	Ending size of wallet	\$21.5b	\$6.0b	\$2.2b	\$0.9b	\$0.0b	\$30.6b
Implied growth in size of wallet	-5%	-5%	-3%	-11%	-10%	-5%	Implied growth in size of wallet	0%	2%	-1%	5%	11%	0%

Source: Roy Morgan Research, Main Financial Institution (MFI) customers
Source: Roy Morgan Research, Main Financial Institution (MFI) customers

WBC	S1	S2	S3	S4	S5	Total	ANZ/NBNZ	S1	S2	S3	S4	S5	Total
Customer acquisition rate	8%	4%	3%	4%	5%	4%	Customer acquisition rate	6%	6%	4%	6%	9%	3%
Customer attrition rate	12%	7%	9%	10%	11%	7%	Customer attrition rate	9%	4%	6%	6%	7%	4%
Net customer acquisition	-4%	-3%	-6%	-5%	-5%	-3%	Net customer acquisition	-3%	2%	-2%	0%	1%	-1%
Number of customers	112k	127k	119k	115k	75k	548k	Number of customers	202k	189k	178k	210k	151k	930k
Average balance	\$169k	\$58k	\$27k	\$9k	\$1k	\$56k	Average balance	\$169k	\$58k	\$27k	\$9k	\$1k	\$56k
Size of wallet	\$18.9b	\$7.4b	\$3.2b	\$1.0b	\$0.0b	\$30.5b	Size of wallet	\$34.1b	\$11.0b	\$4.8b	\$1.8b	\$0.1b	\$51.8b
Value of customers acquired	\$1.0b	\$0.2b	\$0.1b	\$0.0b	\$0.0b	\$1.3b	Value of customers acquired	\$1.0b	\$0.2b	\$0.1b	\$0.0b	\$0.0b	\$1.4b
Value of customers defected	-\$1.5b	-\$0.4b	-\$0.2b	-\$0.1b	-\$0.0b	-\$2.2b	Value of customers defected	-\$1.5b	-\$0.1b	-\$0.1b	-\$0.0b	-\$0.0b	-\$1.8b
Ending size of wallet	\$18.5b	\$7.2b	\$3.0b	\$0.9b	\$0.0b	\$29.7b	Ending size of wallet	\$33.6b	\$11.1b	\$4.7b	\$1.8b	\$0.1b	\$51.3b
Implied growth in size of wallet	-2%	-2%	-5%	-5%	-6%	-3%	Implied growth in size of wallet	-1%	1%	-1%	0%	1%	-1%

Source: Roy Morgan Research, Main Financial Institution (MFI) customers
Source: Roy Morgan Research, Main Financial Institution (MFI) customers

2. ANZ - NBNZ Merger

The ANZ/NBNZ merger will no doubt impact the consumer banking landscape in New Zealand

Consumer banking dynamics in New Zealand are particularly interesting at the current point in time following the acquisition of NBNZ by ANZ at the beginning of December last year. On one hand, the acquisition provides a potential means by which ANZ might improve its existing franchise – which on the basis of the Roy Morgan data is in much need of repair. On the other hand, the disruptive nature of bank mergers may mean that the acquisition presents an opportunity for the other banks to strengthen their positions.

Only time will tell how the acquisition will impact market share across the Tasman. In the interim however we make a number of observations:

On a consolidated basis, service levels at ANZ/NBNZ remain below industry norms

On customer service – While NBNZ’s customer service levels remain high relative to its peers we note a deteriorating trend through time particularly for the December quarter. Customer service at ANZ was improving up until the acquisition of NBNZ after which point it would appear perceived levels of service have declined. On a consolidated basis service levels at ANZ/NBNZ are now lower than industry average.

And we note ongoing customer defection trends at ANZ

On net customer acquisition – Net customer acquisition trends have improved at NBNZ following the resolution of the sale process although we note that net acquisitions appear to be concentrated towards lower value customer segments. Net customer defections at ANZ continue to persist and seem unlikely to reverse in the foreseeable future.

Along with the prospect of further margin degradation we prefer to err on the side of caution with respect to ANZ’s NZ operations

The data we have analysed in no way take into account the extent to which the various banks use price to attract, retain or satisfy customers. That said, we do know that fees and price are important determinants of customer switching behaviour so there is without doubt some degree of trade-off between growth and return.

With relatively flat revenues across ANZ’s New Zealand businesses in recent periods along with concerning data about the health of the group’s pre-existing franchise we prefer to err on the side of caution and have built incremental revenue degradation into our earnings forecasts out to the end of 2005. We will continue to monitor the New Zealand banking market with interest.

NBNZ is a transforming deal for ANZ in New Zealand

Background

In November of last year, and after much speculation, ANZ announced that it would acquire the National Bank of New Zealand (NBNZ) for A\$4,940m along with a special dividend to the vendor of NZ\$575m. The deal was struck at 11.2x historic pro-forma earnings and 3.0x NTA.

In our view, the acquisition is a transforming deal for ANZ in New Zealand. Assuming a successful integration, the group will emerge as the most strongly positioned bank in New Zealand. Prior to the acquisition we were of the view that it was the weakest positioned ¹.

Table 12: Major Bank Share of New Zealand Lending & Deposits

	ANZ * 1H04A	CBA 1H04A	NAB 1H04F	WBC 1H04F
Housing lending	40%	21%	17%	21%
Non-housing lending	38%	16%	24%	22%
Total lending	39%	18%	21%	22%
Interest bearing deposits	35%	26%	15%	23%
Non-interest bearing deposits	40%	20%	22%	19%
Total deposits	36%	26%	16%	23%

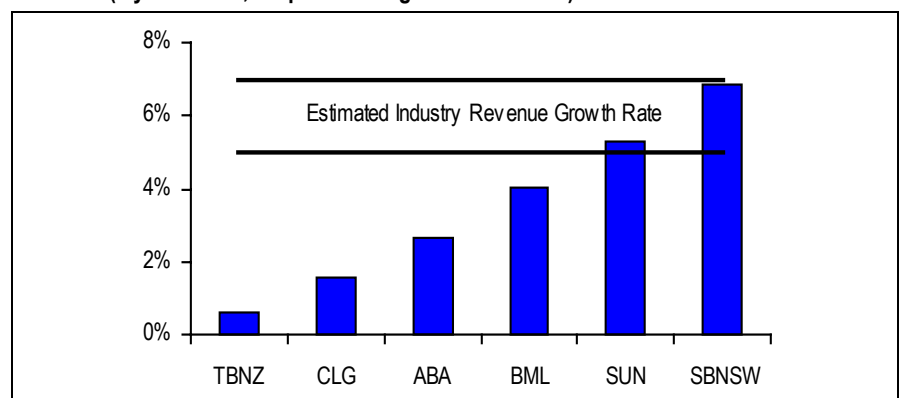
Source: Company accounts, Merrill Lynch estimates. * Includes NBNZ

But revenue attrition seems likely...

Potential Revenue Loss for ANZ in New Zealand...

ANZ management will no doubt be focused on maintaining the group's market position in New Zealand post-acquisition. The intention not to close net branches is a clear indication of the focus on retaining revenue. If history is any indication, however, this will be quite a challenge. Our recent analysis of Australian and New Zealand bank mergers² compared consolidated acquirer and target revenues prior to acquisition with group revenues three years post acquisition.

**Chart 21: Post Merger Organic Revenue Trends
(3 year CAGR, Acquirer & Target Consolidated)**



Source: Company accounts, Merrill Lynch analysis

...if history is any indication

Importantly, during the three years following acquisition, consolidated revenue growth rates fell short of industry growth rates in four out of six cases. Further, in no cases did consolidated revenue growth exceed industry growth rates.

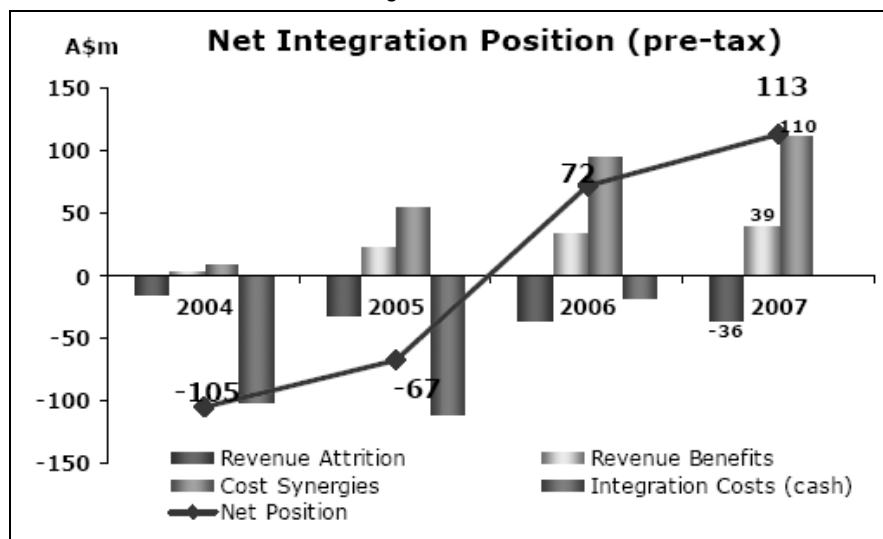
¹ Please refer to "New Zealand Banking": A structural review of the market", dated April 2003

² Please refer to "Bank merger integrations: A history of mixed successes", dated 10th September 03

Revenue loss is most likely indicative of a range of factors such as planned risk reduction, product rationalisation, franchise degradation, and / or competitor actions. Regardless of the cause, revenue loss looks to have been a consistent feature of bank acquisitions in Australia.

In the case of the ANZ/NBNZ merger, ANZ expects some loss of revenue and customers. In particular, revenue losses are expected in the institutional and corporate businesses where lending and transaction concentration issues will most likely result in customers doing less business with the combined group in order to diversify their source of funding and counter-parties.

Chart 22: ANZ Forecasts of NBNZ Merger Costs & Benefits

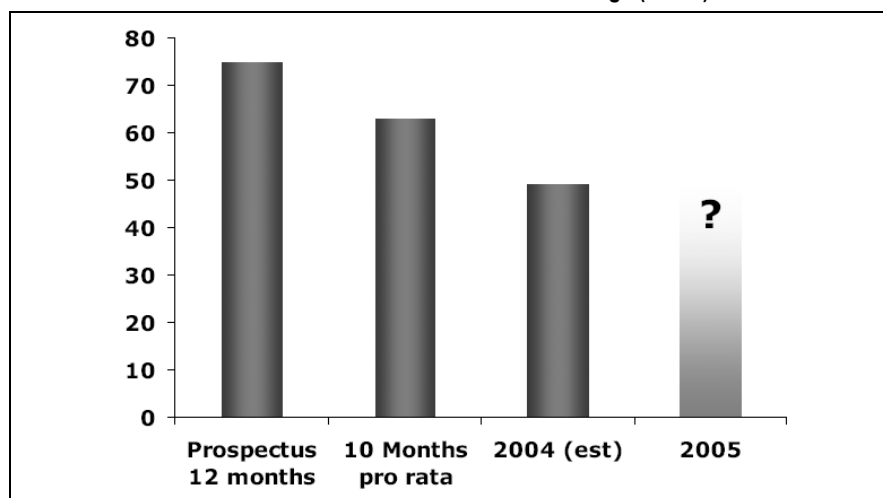


Source: Company presentation

ANZ expect some revenue loss across various elements of the group's businesses

We also note that it is ANZ's intention that NBNZ's Structured Finance business will not continue in its current form. As a result, any run-off of the existing structured finance transactions would result in a declining contribution from this business over a number of years.

Chart 23: ANZ Forecasts of NBNZ Structured Finance Earnings (NZ\$m)



Source: Company presentation

We estimate that the combined impact of institutional customer attrition and the run-off of the structured finance business could lead to a 5 percent reduction in lending volumes for the combined New Zealand businesses over a period of time. Our calculations are outlined in the table below.

Refer to important disclosures on page 64.

We estimate that 35 percent of NBNZ's institutional book will run-off...

**Table 13: NBNZ:
Impact of Institutional Loan Run-off**

NZ\$b	Structured Finance	Other Institutional	NBNZ Institutional
Lending	2.2	6.3	8.5
Expected run-off rate	50%	30%	35%
Expected run-off	1.1	1.9	3.0
% of NBNZ total lending	3%	5%	9%
% of ANZ-NZ/NBNZ lending	2%	3%	5%

Source: ANZ Prospectus, General Disclosure Statements, Merrill Lynch estimates

In addition, ANZ anticipate revenue and customer losses in the personal, rural and business segments arising from rationalisation of products and alignment of customer interfaces and technology systems. It is difficult to estimate the likely quantum of such losses but we note that retail bank mergers in Australia have resulted in market share degradations of anywhere between 6 and 20 percent as outlined in the table below.

Table 14: Lending Market Share Trends Post Merger in Home State

	Pro-Forma	+18 Months	Market Share Loss
WBC / Challenge	20%	16%	20%
Suncorp / Metway	18%	17%	6%
SGB / Advance	15%	14%	7%
WBC / Bank of Melbourne	16%	15%	6%
CBA / Colonial	24%	21%	12%

Source: APRA, Merrill Lynch Analysis

Along with 6 percent of the group's retail book

ANZ believes revenue and customer losses will be minimised by operating two branch networks, operating two brands and preserving NBNZ's business practices and procedures in the retail banking and rural segments. This distinguishes the ANZ / NBNZ merger from the examples outlined above in some respects although we note that WBC preserved the Challenge and Bank of Melbourne brands during the integration process. WBC has subsequently re-branded these operations.

We estimate that the combined impact of personal, rural and business customer attrition will lead to an additional 3 percent reduction in lending volumes for the combined New Zealand businesses over time as outlined in the table below. We believe this would be an unprecedented (positive) outcome within the context of Australia / New Zealand bank mergers.

Table 15: NBNZ - Impact of Retail Loan Run-off

NZ\$b	Personal Banking	Rural Banking	Business Banking	NBNZ Retail
Lending	13.6	7.4	5.5	26.5
Expected run-off rate	5%	10%	5%	6%
Expected run-off	0.7	0.7	0.3	1.7
% of NBNZ lending	2%	2%	1%	5%
% of ANZ-NZ/NBNZ lending	1%	1%	0%	3%

Source: ANZ Prospectus, General Disclosure Statements, Merrill Lynch estimates

In aggregate, we expect a NZ\$6b shortfall in lending volumes and a NZ\$4b shortfall in deposit volumes relative to system growth

In aggregate we therefore expect revenue growth for the combined ANZ / NBNZ New Zealand businesses to fall approximately 9 percent short of system over the next few years. The ANZ first half result was consistent with this sort of an outcome.

Table 16: Analysis of ANZ NZ Revenue Performance During 1H04

\$m	1H03	2H03	1H04	1H04 / 1H03	1H04 / 2H03
ANZ New Zealand (AUD)	322	313	312	-3%	0%
Exchange rate	1.1025	1.1252	1.1401		
ANZ New Zealand (NZD)	355	352	356	0%	1%
NBNZ revenues	718*	709*	701**		
Interest on special dividend	-14	-12	0		
Pro-forma revenues	1,059	1,049	1,057	0%	1%

Source: Company accounts, presentations & Merrill Lynch analysis

* NBNZ revenues based on general disclosure statement

*** 4 mth period annualised

Our assumptions broadly translate into a NZ\$6bn shortfall in lending volumes and a NZ\$4bn shortfall in deposits relative to system over the next 3 years. Our lending volume forecasts for ANZ are summarised in the table below:

Table 17: ANZ Lending Volume Forecasts

A\$m	FY02A	FY03A	FY04F	FY05F	FY06F
Australian lending	118,259	135,793	150,596	160,173	172,352
<i>Australian lending growth</i>	8%	15%	11%	6%	8%
New Zealand lending	19,097	20,929	55,409	58,070	62,517
<i>New Zealand lending growth</i>	4%	10%	165%	5%	8%
Overseas lending	13,714	10,538	8,876	8,010	7,229
<i>Overseas lending growth</i>	-14%	-23%	-16%	-10%	-10%
Total lending	151,070	167,260	214,880	226,253	242,098
Total lending growth	5%	11%	28%	5%	7%
Risk weighted assets	141,390	152,164	190,016	199,351	212,350
RWA growth	2%	8%	25%	5%	7%

Source: Company accounts, Merrill Lynch estimates

Monitoring New Zealand Market Dynamics...

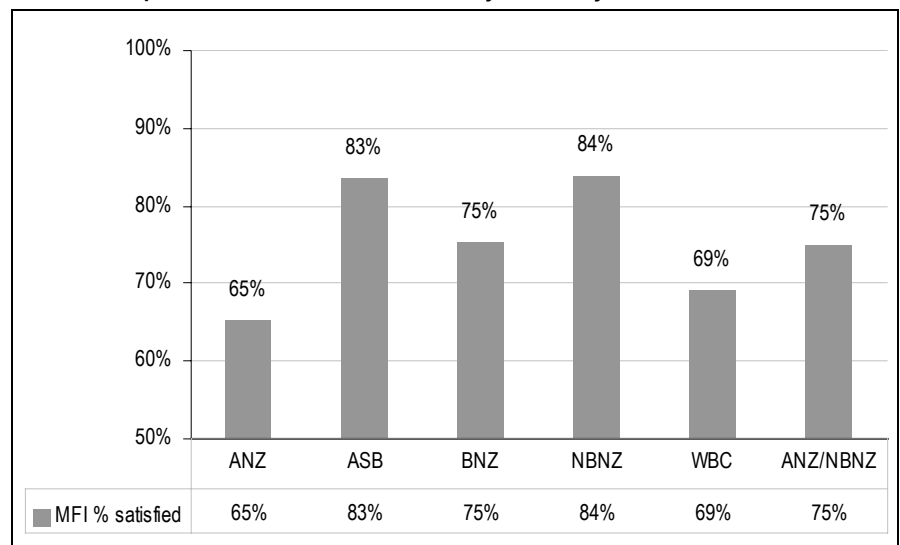
Despite our best efforts, assessing the prospective revenue implications associated with merging two banks is a tenuous exercise, particularly amongst retail customers. As such, together with Roy Morgan Research, we have compiled a series of indicators that we believe will provide early indications of changing market dynamics in New Zealand.

■ Customer Satisfaction

All the banks aspire towards providing a superior level of customer service and, by definition, only half will succeed. As we note in the preceding section, in New Zealand there is a clear distinction between NBNZ and ASB which provide superior service and the other banks.

NBNZ and ASB are the service leaders in New Zealand

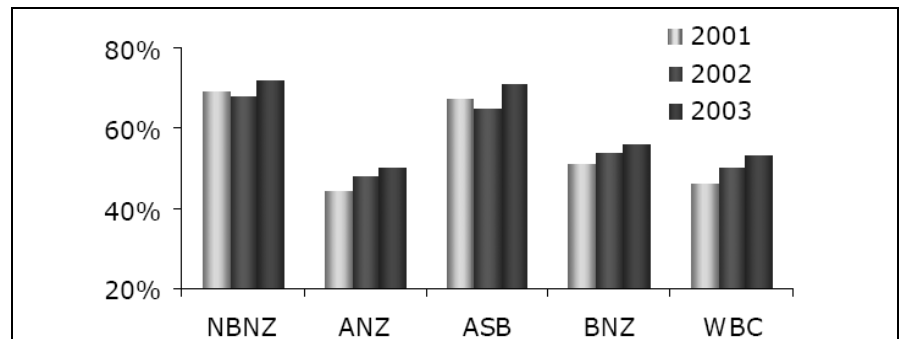
Chart 24: Proportion of Customers that are “Very” or “Fairly” Satisfied



Source: Roy Morgan Research. Main financial institution customers, Merrill Lynch analysis
Data based on 12 months to December 2003

In a relative sense, the data above is consistent with ACNielsen data provided by ANZ during recent management briefings in Auckland affirming NBNZ and ASB’s position as customer service leaders.

Chart 25: Proportion of Customers* that Rate Service as Good or Excellent

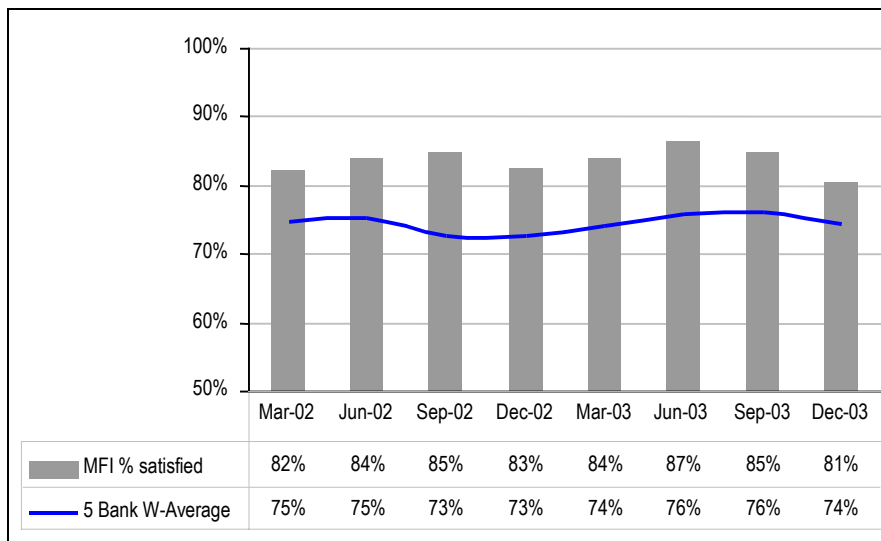


Source: ANZ from ACNielsen Consumer Finance Monitor, * Main bank

Perhaps more important than customer service levels at a particular point in time are trends over time. In this respect we note a recent downward trend in NBNZ’s customer service ratings since June of last year. We will continue to monitor trends in coming quarters.

NBNZ service levels were maintained through the sale process but have since slipped back somewhat

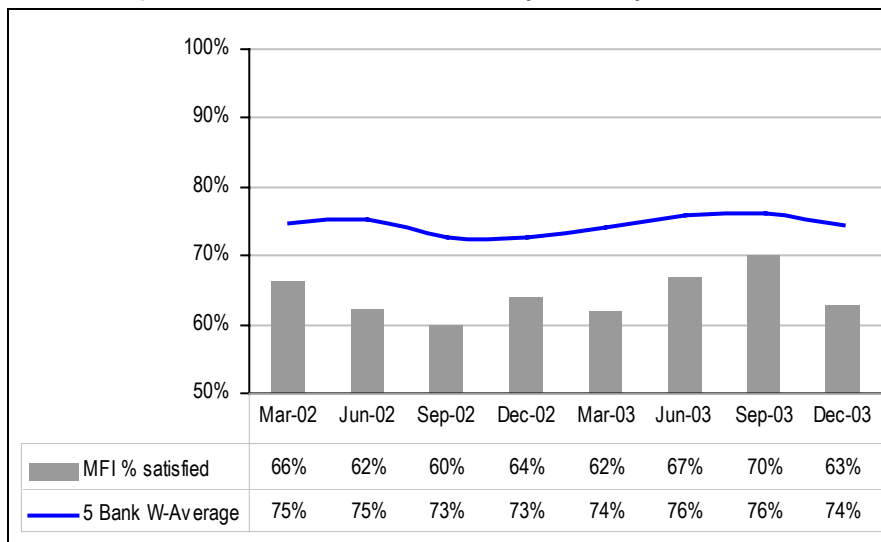
Chart 26: Proportion of NBNZ Customers that are “Very” or “Fairly” Satisfied



Source: Roy Morgan Research. Main financial institution customers, Data based on 3 month periods

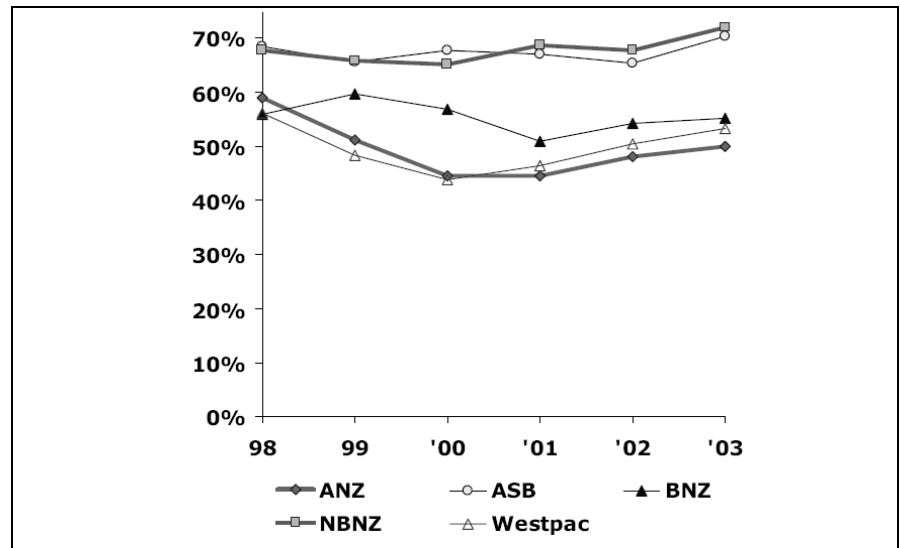
Trends within ANZ’s New Zealand business are not dissimilar with a deterioration in customer satisfaction during the December quarter to levels substantially below that of the other major banks.

Chart 27: Proportion of ANZ customers that are “Very” or “Fairly” Satisfied



Source: Roy Morgan Research. Main financial institution customers, Data based on 3 month periods

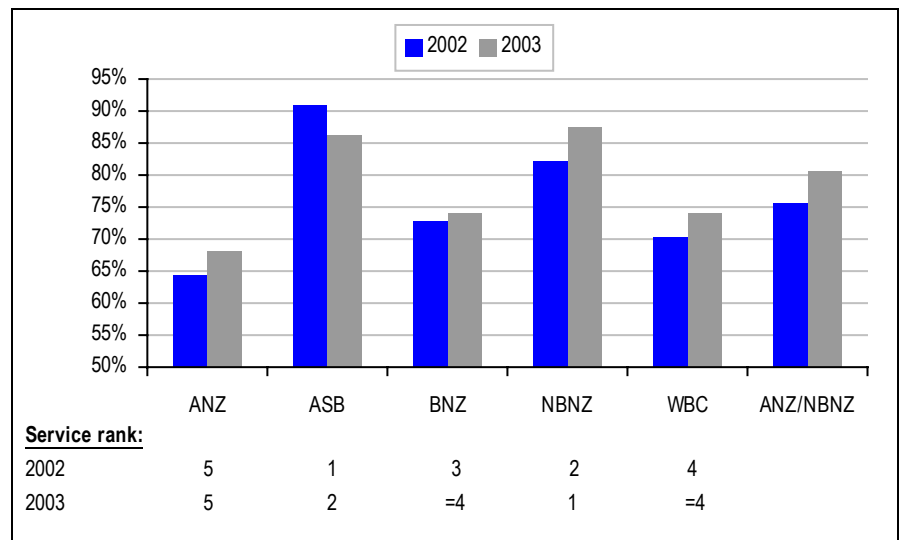
This is a slightly different message to that delivered by ANZ last month in Auckland where the company highlighted a trend of ever improving customer satisfaction levels at ANZ and NBNZ. Again we will carefully monitor developments on this front given the clear relationship between customer satisfaction and net customer acquisition discussed in Section 1.

Chart 28: Proportion of customers* that Rate Service as Good or Excellent


Source: ANZ from ACNielsen Consumer Finance Monitor, * Main bank

As we outline in Section 2, it is more important to deliver a differentiated service proposition at the premium end of the market. Amongst the top 20 percent of customers by size of total bank footings we note that NBNZ's customer service levels have improved over the course of the last 12 months.

But remain relatively high at the premium end of the market

Chart 29: Proportion of Premium Customers* that are "Very" or "Fairly" Satisfied


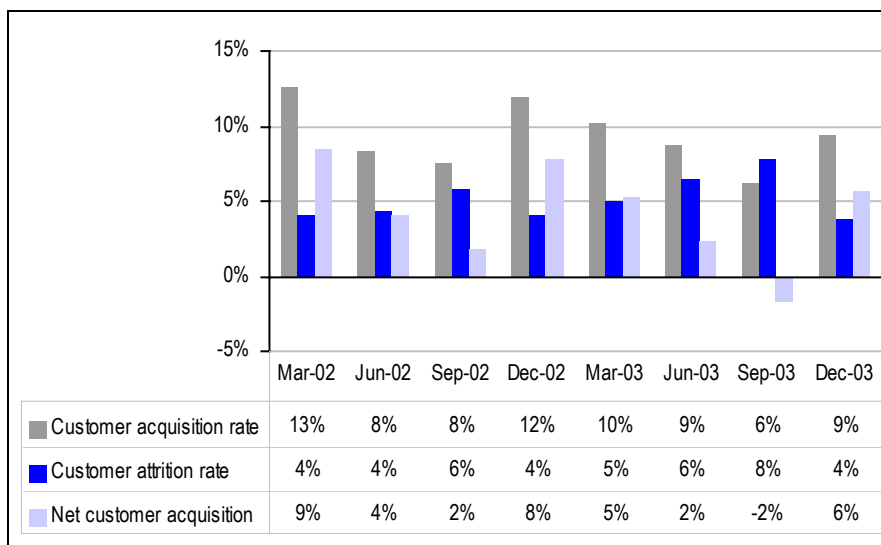
Source: Roy Morgan Research. Main financial institution customers, Merrill Lynch analysis
Data based on 12 months to December 2003

■ Net Customer Flows

It is important to again emphasise that customer satisfaction alone is not enough. Satisfaction must be converted into relationships and loyalty. Net customer acquisition trends should therefore provide a better short term indicator of market share trends.

The chart overleaf examines net customer flow at NBNZ for the last couple of years. We note significant deterioration through the sale process followed by recovery during the December quarter.

Chart 30: NBNZ – Net Customer Flow



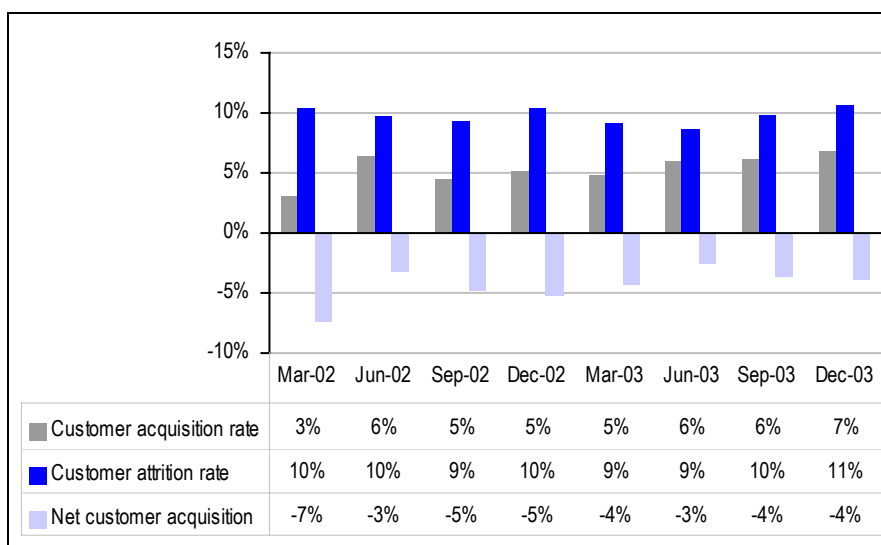
The Roy Morgan data confirms that customer losses at NBNZ have reversed in recent months

Source: Roy Morgan Research, Main financial institution customers, Data based on 3 month periods

While net customer acquisition trends look to be improving at NBNZ, the same cannot be said for ANZ’s existing businesses where we note (at least) 8 consecutive quarters of customer losses. This is probably the larger source of risk for the combined group’s revenues over the course of the next couple of years.

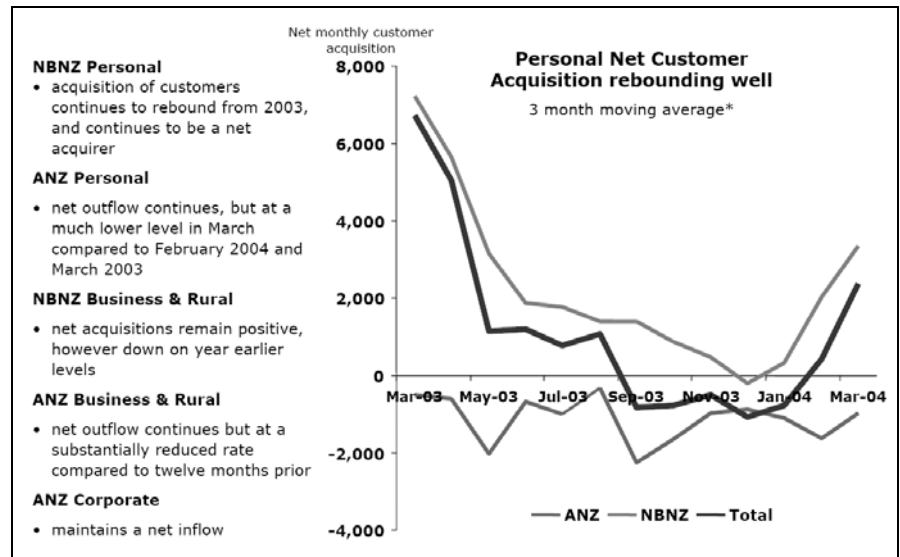
However ANZ (NZ) represents the greater source of downside over the next couple of years

Chart 31: ANZ – Net Customer Flow



Source: Roy Morgan Research, Main financial institution customers, Data based on 3 month periods

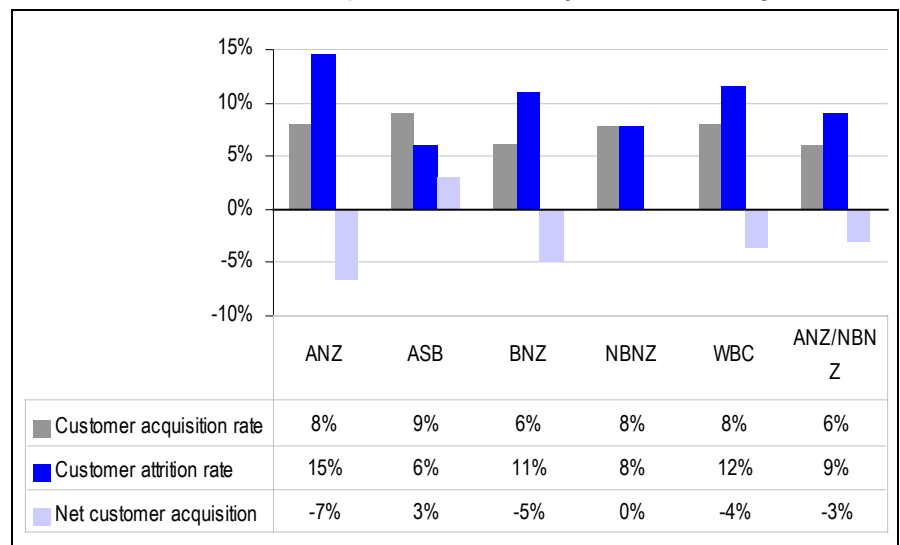
The Roy Morgan data in relation to customer flows is generally consistent with the data provided by ANZ at the time of the group’s first half result.

Chart 32: Customer Flow as per ANZ Results Presentation


Source: Company presentation

Once again, it is important to remember that a small proportion of customers generate the vast majority of bank profits and as such acquisition and retention amongst the top 20 percent of customers is of vital importance.

Amongst the top 20% of customers, ANZ's attrition rate is high and NBNZ's performance less impressive

Chart 33: Net Customer Flow – Top 20% of Customers by Total Bank Footings


Source: Roy Morgan Research, Merrill Lynch Analysis
Main Financial institution customers that have switched banks in the last 12 months
Data based on 12 months to December 2003

Focusing on the top 20 percent of customers reveals a remarkably high rate of customer attrition at ANZ (15%) and that much of NBNZ's net customer acquisition over the last 12 months has been concentrated in lower value segments.

Part A: Analysis by Bank

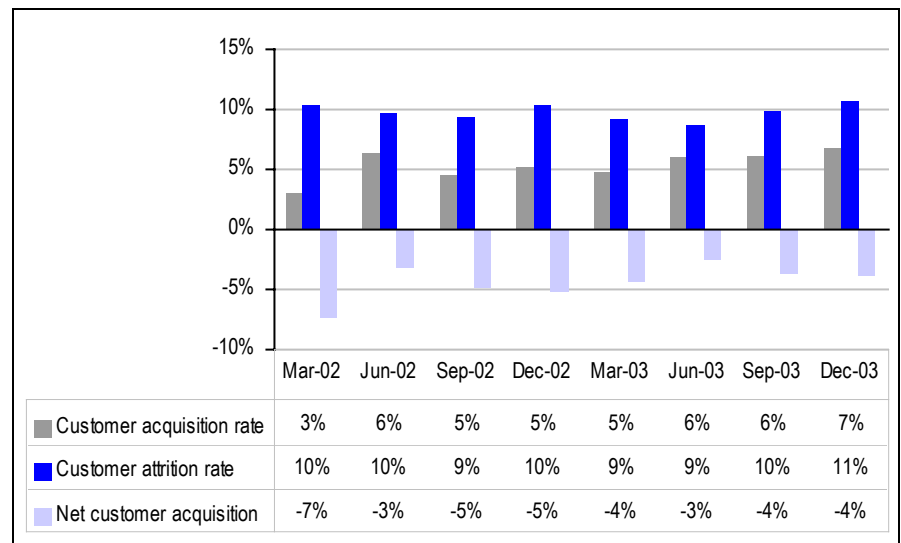
- ANZ
- ASB
- BNZ
- NBNZ
- WBC
- ANZ – NBNZ Consolidated

3. ANZ

ANZ - Customer Flows

Net customer flows at ANZ's New Zealand business have been adverse for (at least) the last eight quarters. The position follows significant branch closes over the years coupled with centralised management and a product orientated structure. ANZ have taken steps in recent times to provide its NZ business with a greater deal of autonomy. These steps, along with learnings from NBNZ are aimed at addressing this situation.

Chart 34: ANZ – Net Customer Flow Over Time

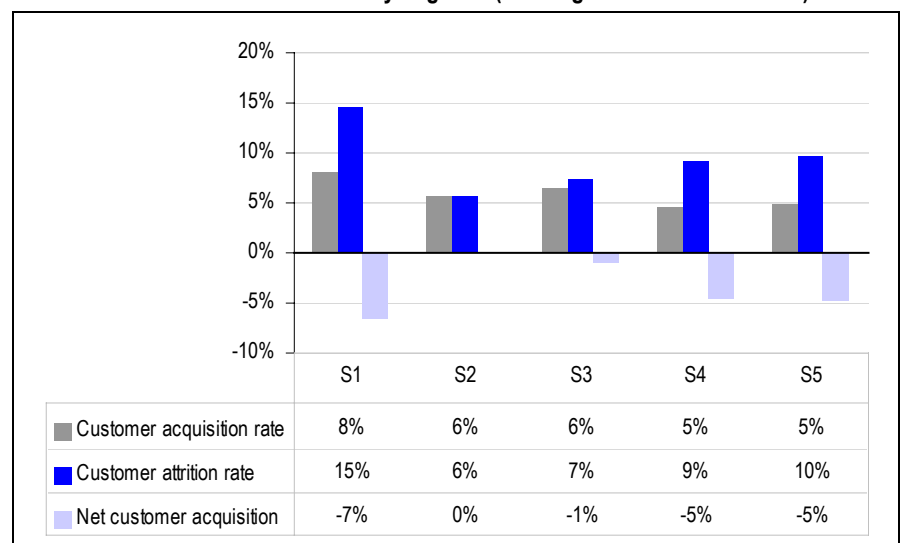


ANZ has been in a situation of net customer outflows for the last couple of years

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 3 month periods
Main Financial institution customers that have switched banks in the last 12 months

ANZ is particularly exposed to lower value customers but adverse trends in net acquisition are not limited to this segment with attrition amongst higher value clients running at the highest level of all the banks.

Chart 35: ANZ – Net Customer Flow by Segment (S1 = Highest Value Customers)



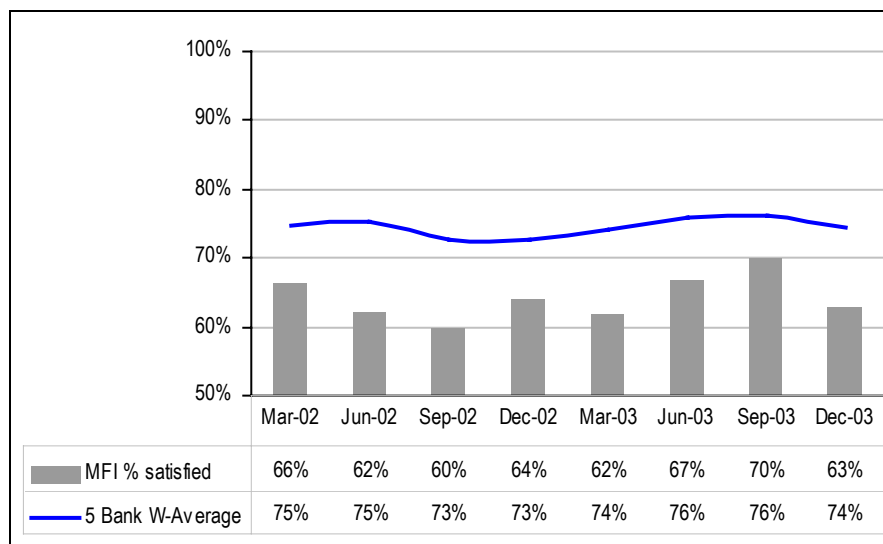
With attrition more severe amongst higher value customers

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003
Main Financial institution customers that have switched banks in the last 12 months

ANZ - Customer Satisfaction

High customer turnover can be associated with low customer satisfaction levels that while showing some signs of improvement recently took a turn for the worst. This turn coincides with the acquisition of NBNZ.

Chart 36: ANZ – Customer Satisfaction Over Time

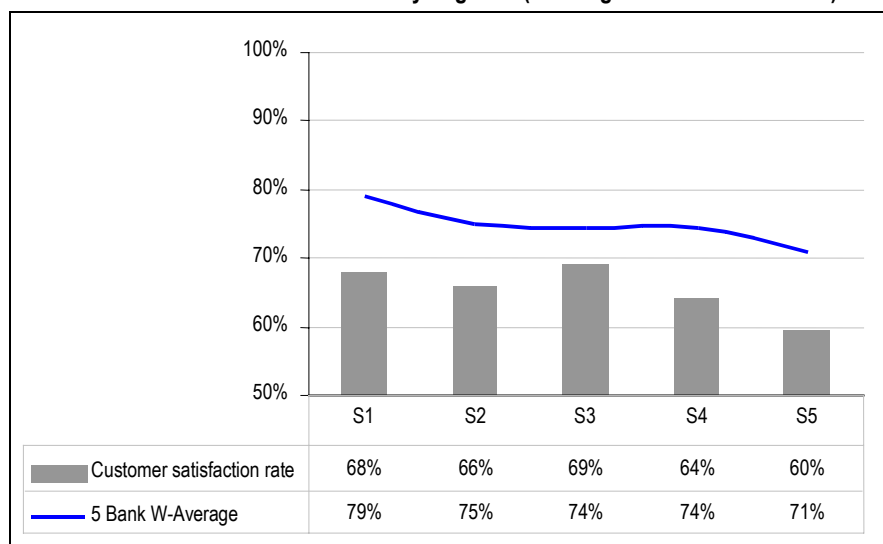


ANZ's customers are generally less satisfied than their peers

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 3 month periods
Main Financial institution customers very or fairly satisfied

Service levels amongst ANZ's high value customers will likely be a priority for new management. Industry service levels are generally higher in this category which increases the challenge.

Chart 37: ANZ – Customer Satisfaction by Segment (S1 = Highest Value Customers)



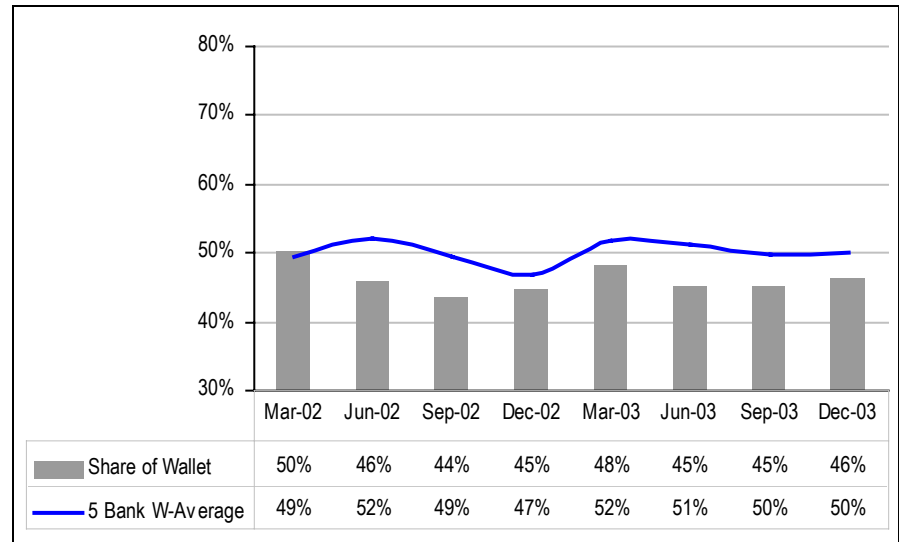
Satisfaction levels are consistently low across all customer segments

Source: Roy Morgan Research, Merrill Lynch analysis, Data for 12 months ended December 2003
Main Financial institution customers that are very or fairly satisfied

ANZ – Share of Wallet

ANZ's share of wallet is lower than its peers. This is somewhat surprising given the group's skew towards lower value customers where needs are less complex and hence banking relationships more concentrated.

Chart 38: ANZ – Share of Wallet Over Time

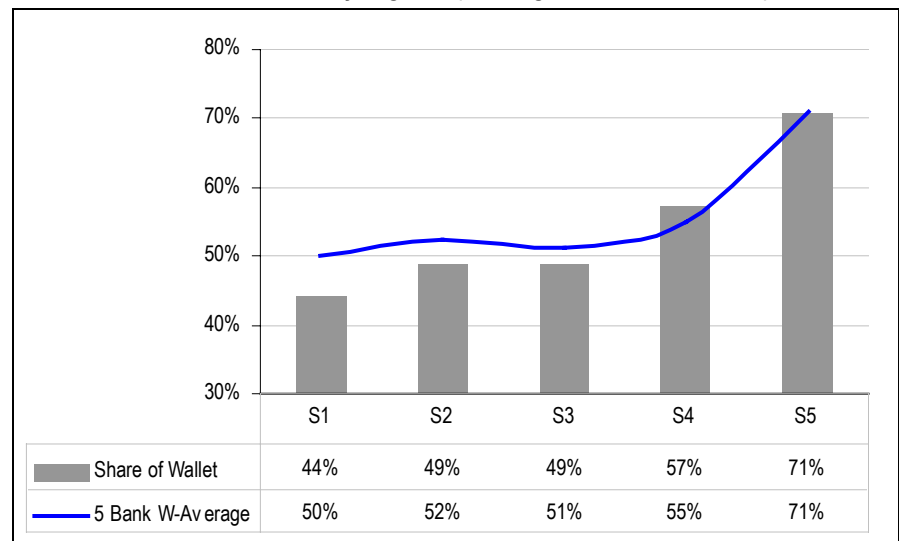


ANZ's customers are generally under penetrated

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 3 month periods
All banking customers

The opportunity for ANZ is not surprisingly at the premium end of the market where the group's customer base seems under exploited. Once again this will no doubt be an area of focus for new management.

Chart 39: ANZ – Share of Wallet by Segment (S1 = Highest Value Customers)



With the greatest opportunity presenting itself amongst higher value customers

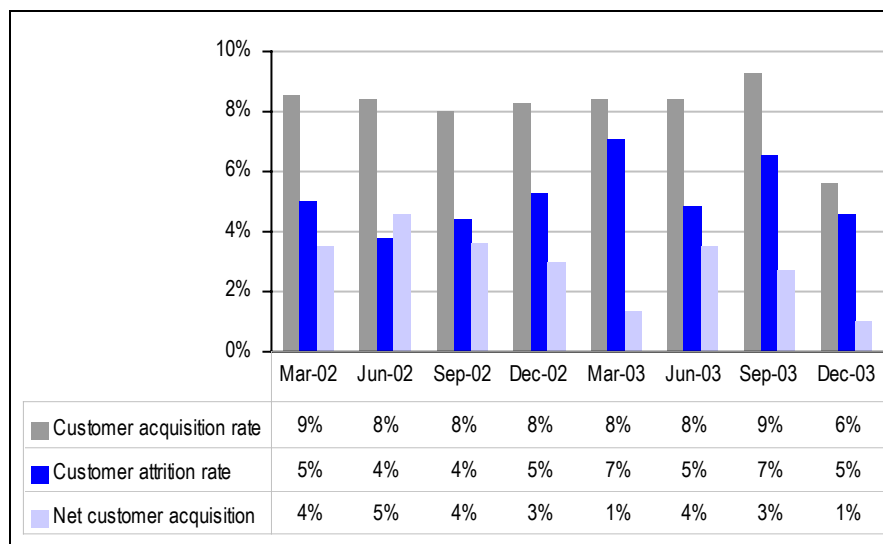
Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003
All banking customers

4. ASB

ASB - Customer Flows

ASB has been a consistent acquirer of customers although we note a substantial drop off in the first quarter of 2003. This seems to coincide with improvement at NBNZ.

Chart 40: ASB – Net Customer Flow Over Time

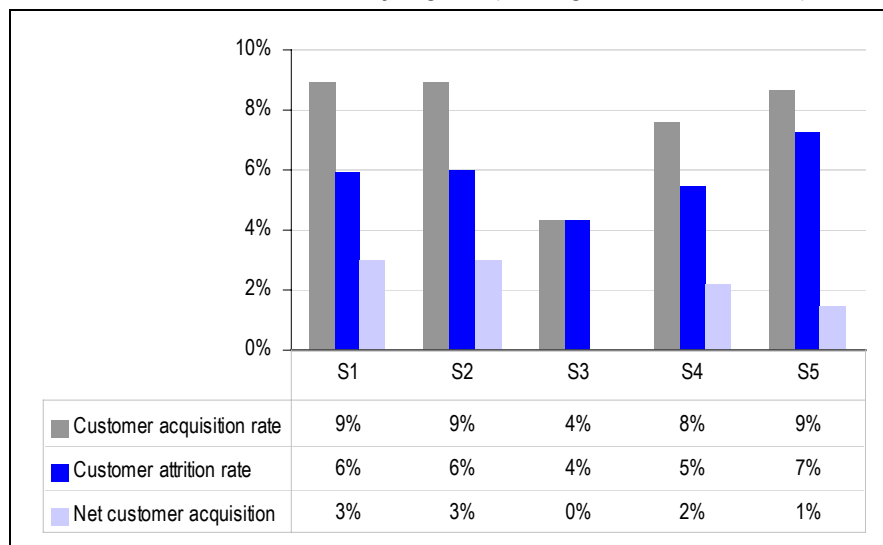


ASB has consistently been a net acquirer of customers

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 3 month periods
Main Financial institution customers that have switched banks in the last 12 months

Customer acquisition has been concentrated in higher value segments, a clear positive for ASB. As becomes evident on the next page, service is a major factor.

Chart 41: ASB – Net Customer Flow by Segment (S1 = Highest Value Customers)



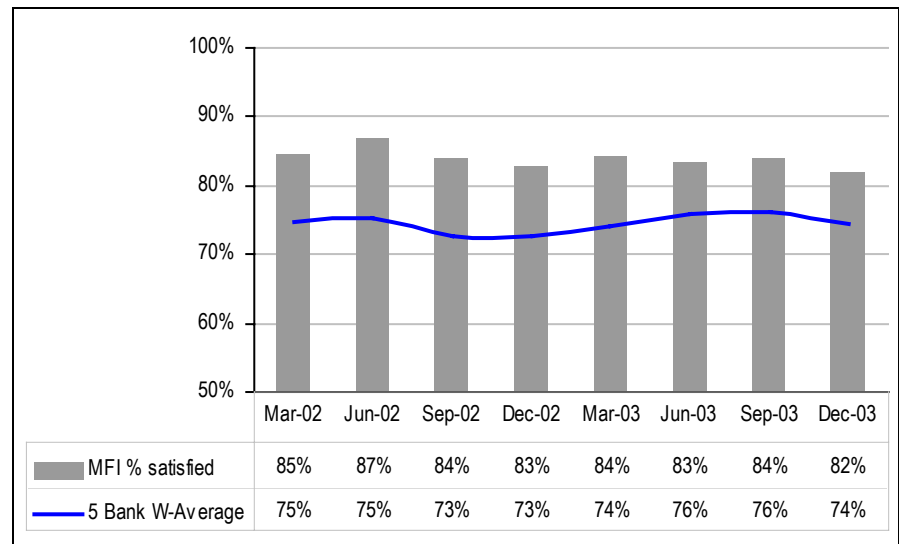
Particularly in higher value segments

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003
Main Financial institution customers that have switched banks in the last 12 months

ASB - Customer Satisfaction

Favourable customer acquisition trends correspond to appropriately favourable customer satisfaction levels where ASB has also consistently excelled. The company attributes much of its success to the implementation of the Cohen Brown sales and service model.

Chart 42: ASB – Customer Satisfaction Over Time

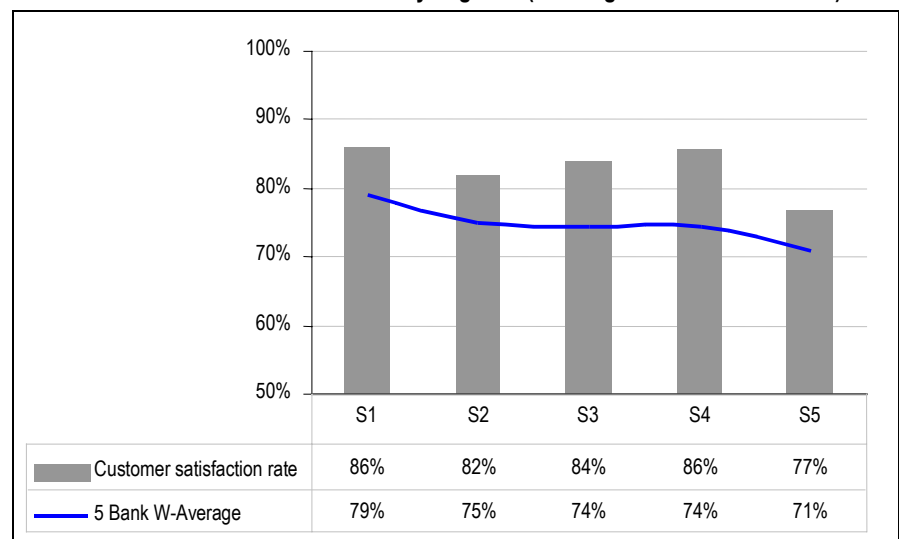


ASB has consistently provided its customers with superior levels of service

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 3 month periods
Main Financial institution customers very or fairly satisfied

Service levels are above average in all value segments although appear to have deteriorated in the top value quintile over the course of the last 12 months where satisfaction levels exceeded 90 percent in 2002.

Chart 43: ASB – Customer Satisfaction by Segment (S1 = Highest Value Customers)



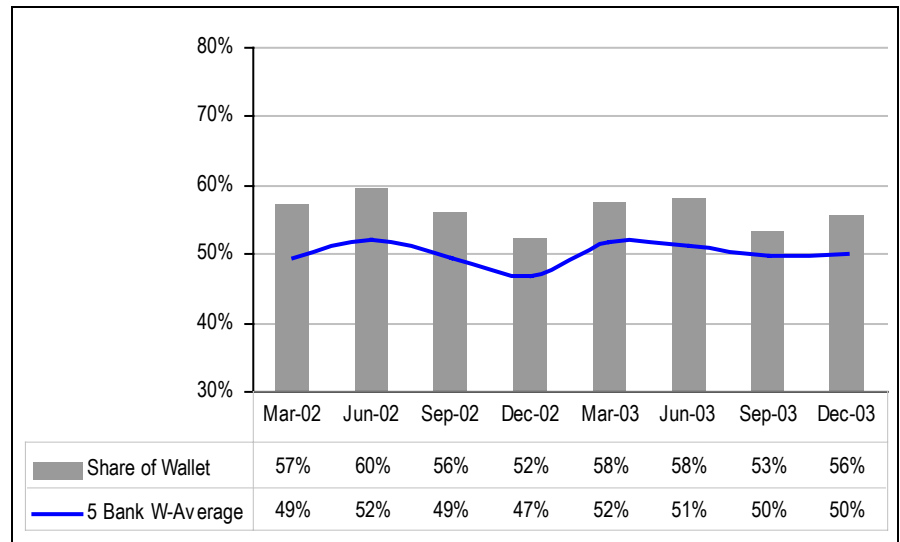
Service levels are above average in all value segments

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003
Main Financial institution customers that are very or fairly satisfied

ASB – Share of Wallet

ASB’s share of wallet is higher than its peers tracking at between 50 and 60 percent for the last two years.

Chart 44: ASB – Share of Wallet Over Time

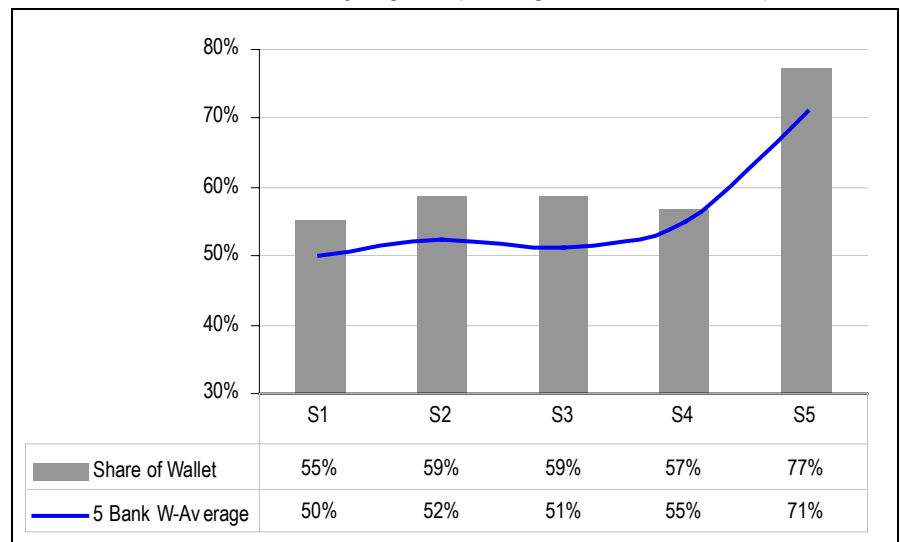


ASB has also achieved a relatively high share of wallet

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 3 month periods
All bank customers

The leading share of wallet position is consistent across all customer segments.

Chart 45: ASB – Share of Wallet by Segment (S1 = Highest Value Customers)



Once again, across all customer segments

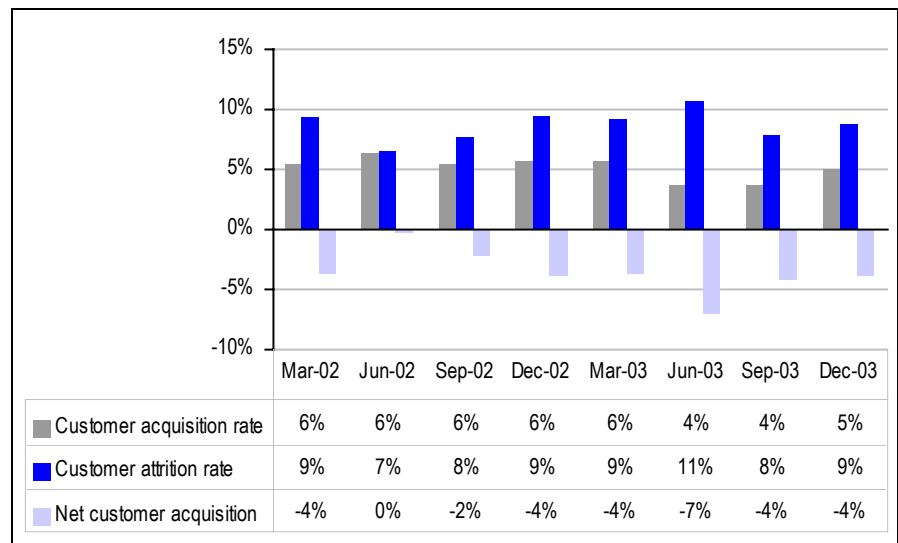
Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003
All bank customers

5. BNZ

BNZ - Customer Flows

BNZ's net customer flows has been adverse for (at least) eight quarters., though it has moderated as of late. Despite its customer segmentation capabilities, leading credit card loyalty programme and IT innovation, BNZ has failed to stem net customer outflows. We believe this is strongly correlated to its failure to maintain customer satisfaction above its peer average (see Chart 41).

Chart 46: BNZ – Net Customer Flow Over Time

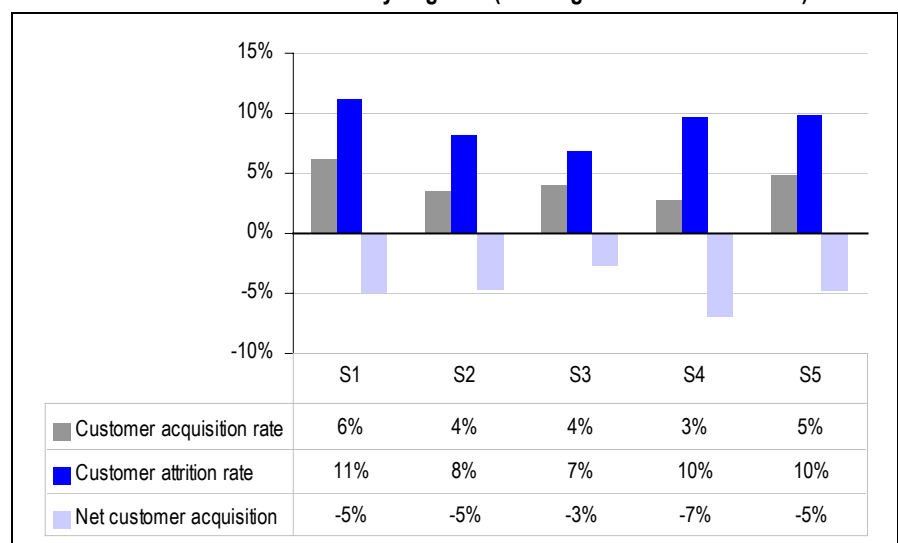


BNZ has consistently experienced a net outflow of customers

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 3 month periods
Main Financial institution customers that have switched banks in the last 12 months

Net customer outflow have been concentrated at either end of the customer value spectrum, with -5% outflows in the important S1 and S2 segments and equivalent outflows in S4 and S5 segments. Outflows in S1 are particularly significant, given BNZ has a higher proportion of older and higher net worth customers relative to its peers.

Chart 47: BNZ – Net Customer Flow by Segment (S1 = Highest Value Customers)



Outflows are concentrated in both high and low value customer segments

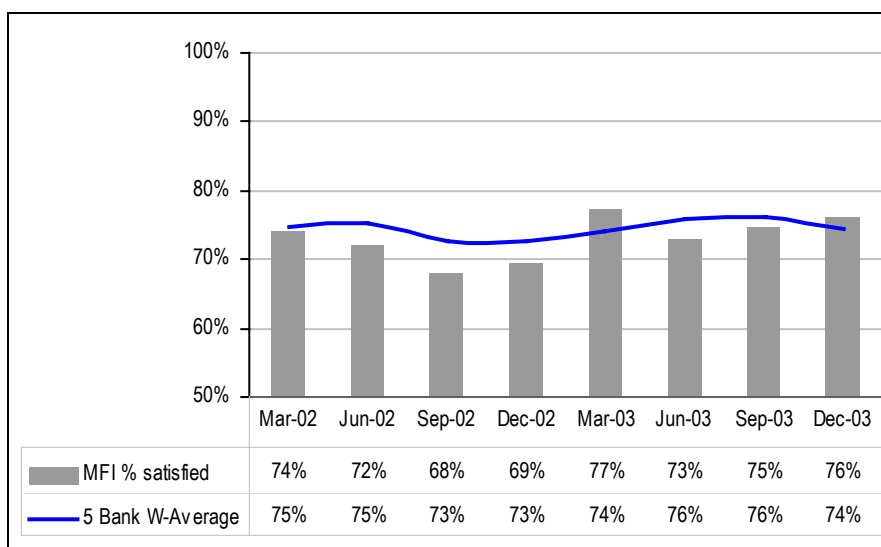
Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003
Main Financial institution customers that have switched banks in the last 12 months

BNZ - Customer Satisfaction

Poor customer satisfaction has correlated with BNZ's net customer outflows, though satisfaction has experienced an upward trend over the last three months. However, BNZ has lagged average peer satisfaction rates for six of the previous eight quarters.

Chart 48: BNZ – Customer Satisfaction Over Time

Satisfaction consistently lags peer average

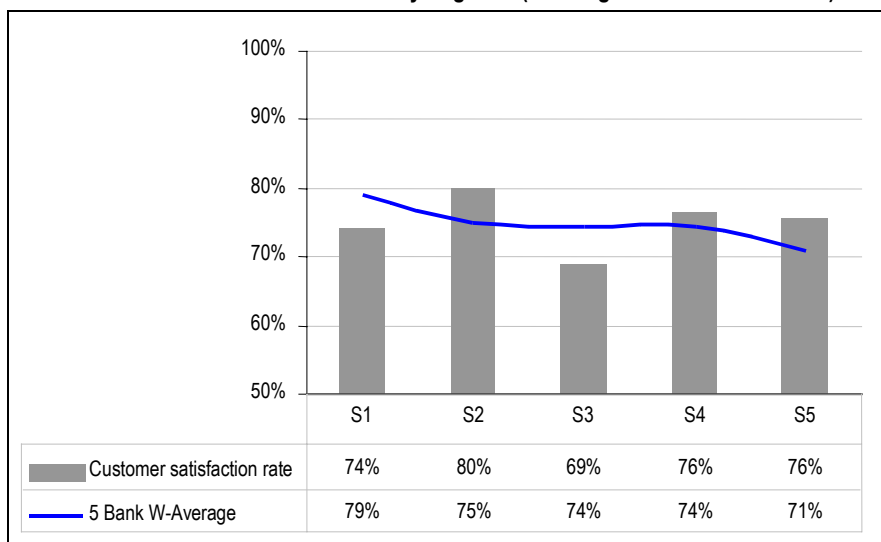


Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 3 month periods
Main Financial institution customers very or fairly satisfied

Customer satisfaction is below peer average in the high value segment S1, with above peer satisfaction rates in the low value segments of BNZ's customer base.

Chart 49: BNZ – Customer Satisfaction by Segment (S1 = Highest Value Customers)

Superior satisfaction is present in low value customers but absent in BNZ's most valuable

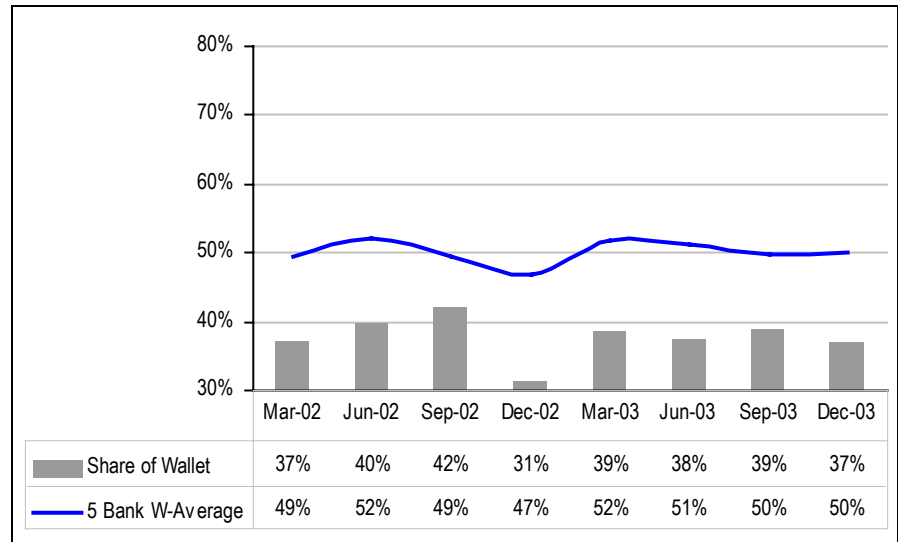


Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003
Main Financial institution customers that are very or fairly satisfied

BNZ – Share of Wallet

BNZ's share of wallet is substantially lower than any of its peers. This is primarily attributable to its credit card business, which it marketed as a customer acquisition product (in a similar fashion to ANZ's Australian card business). Despite a monopoly position as the sole provider of frequent flier points through its loyalty programme, BNZ has failed to cross-sell into its credit card customer base.

Chart 50: BNZ – Share of Wallet Over Time

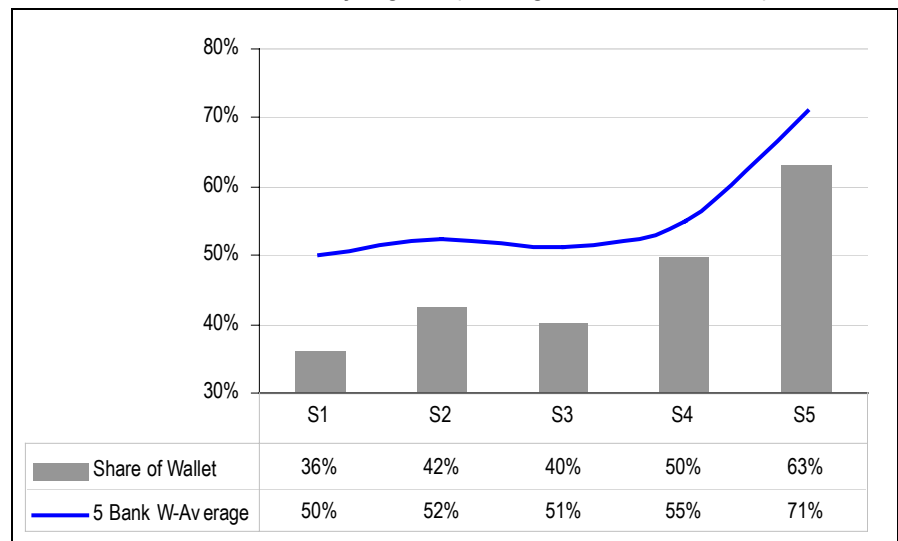


BNZ has the lowest share of customer wallet of its peers

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 3 month periods
All bank customers

Underperformance in share of wallet is most pronounced in the high value S1 and S2 segments. We believe BNZ's credit card offering is most attractive to higher net worth customers, who are predominantly transactors and hard to penetrate with cross-sell initiatives (a phenomena experienced by ANZ's card business in Australia). Hence the low share of wallet in S1 customers.

Chart 51: BNZ – Share of Wallet by Segment (S1 = Highest Value Customers)



Share of wallet is lower the more valuable the customer

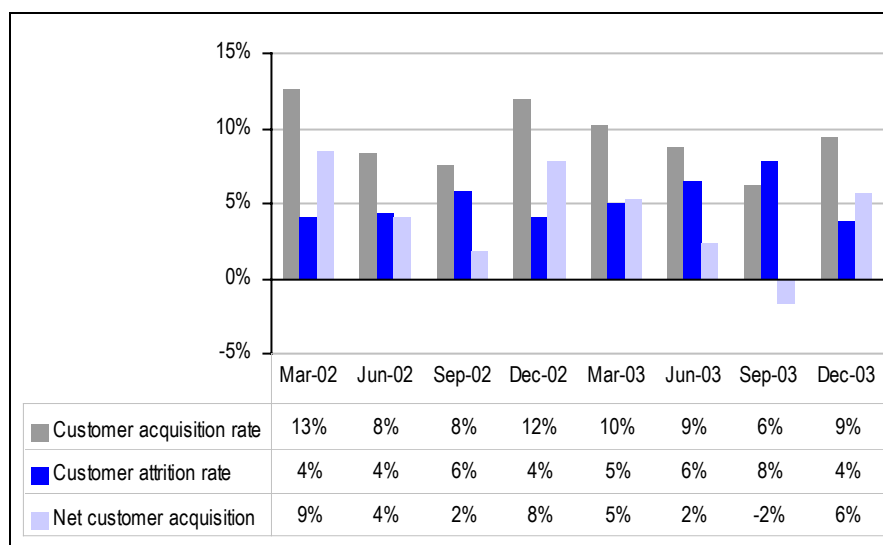
Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003
All bank customers

6. NBNZ

NBNZ - Customer Flows

After a steady decline in net customer acquisitions since Dec 02 (which coincided with the announcement of the impending sale of NBNZ by Lloyds), NBNZ has experienced a sharp reversal in customer flows. The simultaneous recovery in customer acquisitions and fall in customer attrition is consistent with ANZ's update in April and bodes positively for ANZ's initiatives to limit revenue attrition.

Chart 52: NBNZ – Net Customer Flow Over Time

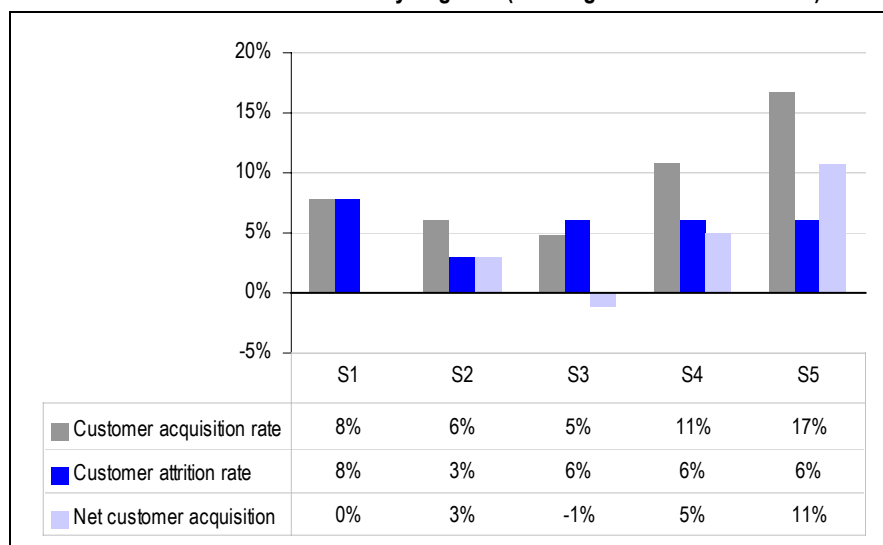


Rising customer attrition rates have reversed as NBNZ's acquisition rate recovers

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 3 month periods
Main Financial institution customers that have switched banks in the last 12 months

NBNZ's is the only bank besides ASB not to experience net customer outflows for its high net worth S1 segment, with net customer inflows concentrated in the franchise's low customer value segments.

Chart 53: NBNZ – Net Customer Flow by Segment (S1 = Highest Value Customers)



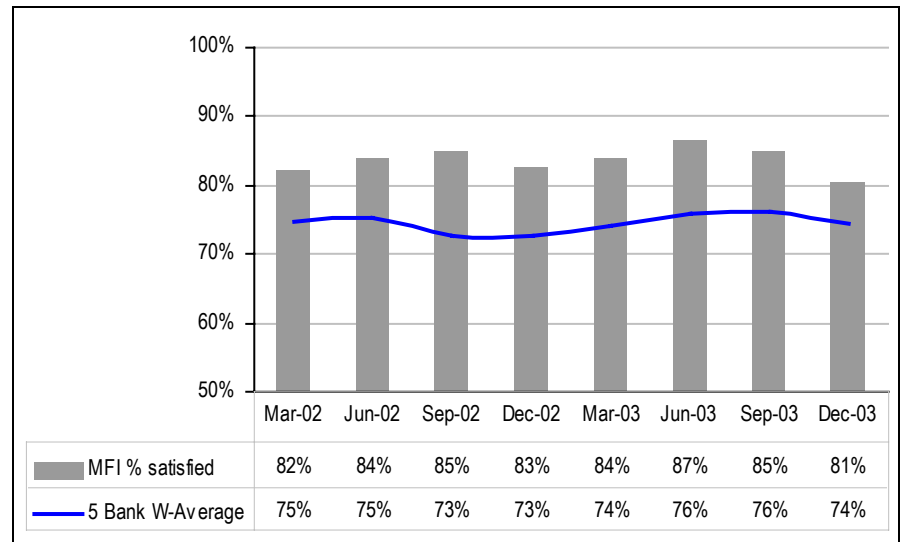
Maintains profitable customers but rapidly adding low value customers

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003
Main Financial institution customers that have switched banks in the last 12 months

NBNZ - Customer Satisfaction

NBNZ enjoys the highest customer satisfaction levels amongst its peers, though satisfaction has eased over the last two quarters. These high levels are derived from its historic rural banking and building society origins and the substantial degree of autonomy granted to local management by its previous owner (Lloyds TSB).

Chart 54: NBNZ – Customer Satisfaction Over Time

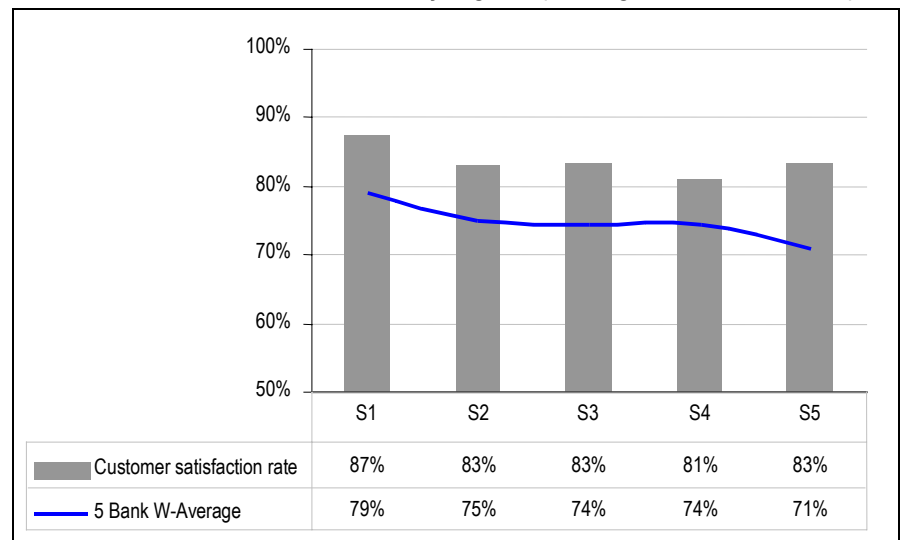


NBNZ leads its peers in terms of customer satisfaction levels

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 3 month periods
Main Financial institution customers very or fairly satisfied

Customer satisfaction is greatest for NBNZ's high value S1 customer segment and superior in all other customer segments.

Chart 55: NBNZ – Customer Satisfaction by Segment (S1 = Highest Value Customers)



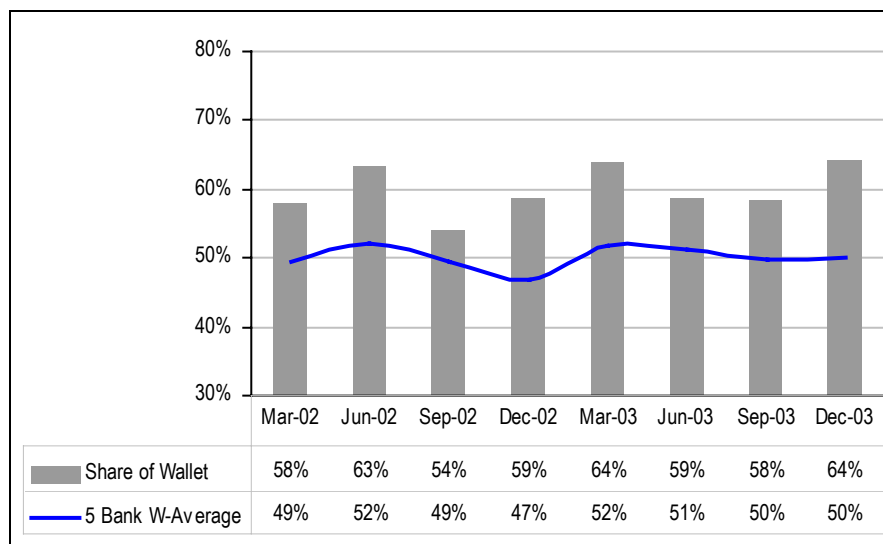
Customer satisfaction is highest amongst NBNZ's high net worth customer base

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003
Main Financial institution customers that are very or fairly satisfied

NBNZ – Share of Wallet

Despite declining customer satisfaction, NBNZ share of customer wallet rose in the last quarter. Historically, NBNZ has had the highest share of customer wallet amongst its peers.

Chart 56: NBNZ – Share of Wallet Over Time

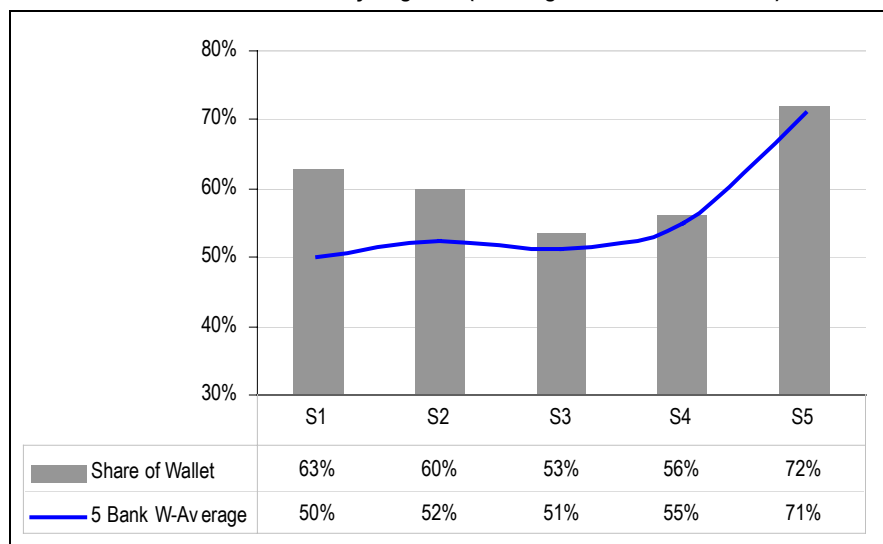


NBNZ has the highest share of customer wallet amongst its peers

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 3 month periods
All bank customers

While share of wallet is highest for its low value customers, NBNZ has the highest share of wallet for high value S1 segment customers.

Chart 57: NBNZ – Share of Wallet by Segment (S1 = Highest Value Customers)



NBNZ's share of wallet for high value customers is greater than any of its peers

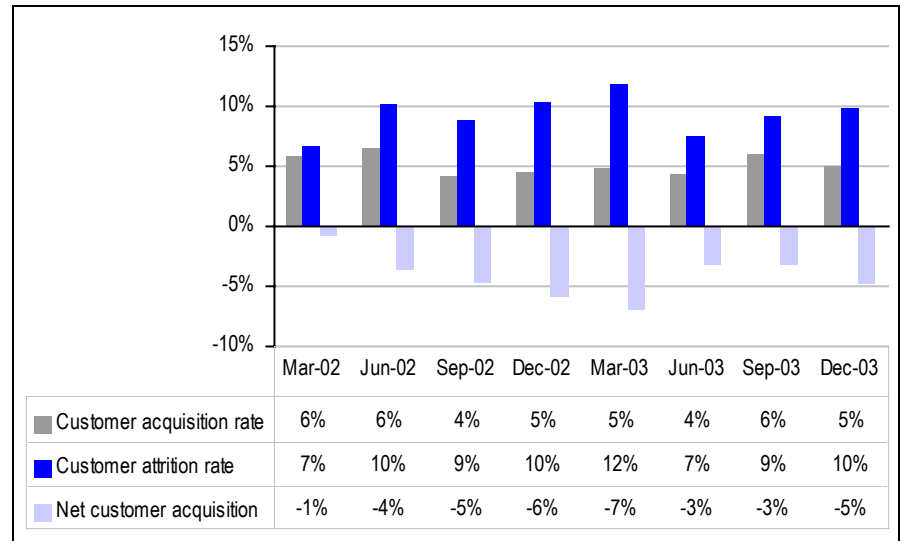
Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003
All bank customers

7. WBC

WBC - Customer Flows

WBC has experienced a rising attrition rate, which has driven net customer outflows back towards highs experienced in late 2002/early 2003. We believe the high degree of centralisation of management in Australia (NZ operates as a branch office of Australia) has inhibited the growth of the NZ franchise.

Chart 58: WBC – Net Customer Flow Over Time

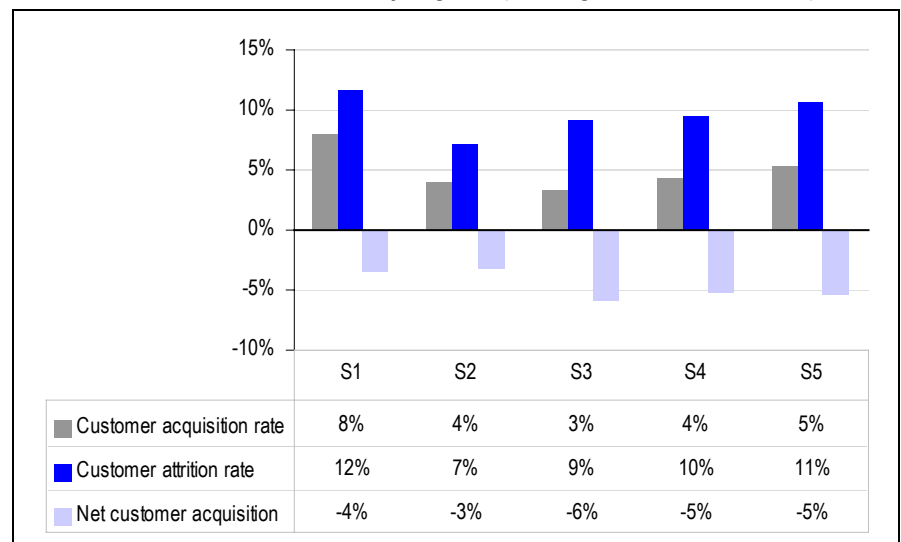


WBC is trending back towards the high net customer outflows experienced a year ago

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 3 month periods
Main Financial institution customers that have switched banks in the last 12 months

While net customer outflows are have been experienced across all customer segments, losses have been lower in the high net worth S1 and S2 segments.

Chart 59: WBC – Net Customer Flow by Segment (S1 = Highest Value Customers)



All segments bleeding but losses concentrated towards low value customer segments

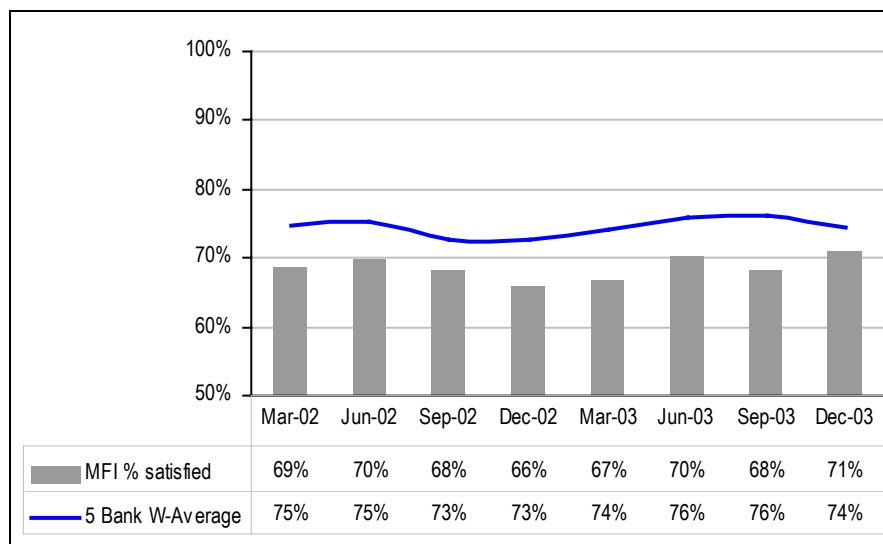
Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003
Main Financial institution customers that have switched banks in the last 12 months

WBC - Customer Satisfaction

Customer satisfaction is progressively cycling upwards, despite the progressive increase in customer net outflows. However, satisfaction is still remains below the five-bank average.

Chart 60: WBC – Customer Satisfaction Over Time

Rising satisfaction but still below five bank average

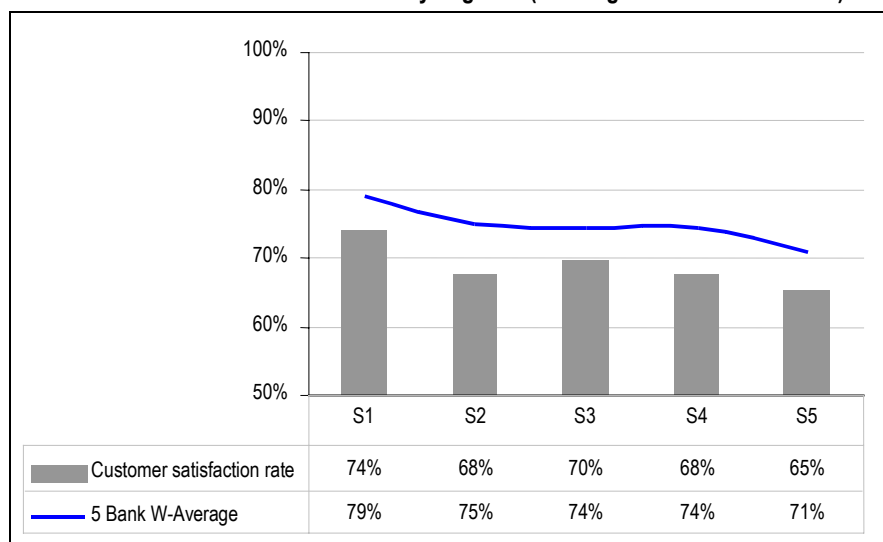


Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 3 month periods
Main Financial institution customers very or fairly satisfied

Positively, satisfaction is greatest amongst WBC’s S1 high value customer segment (and notably lowest amongst S5 customers). All customer segments, however, are below the five-bank average for customer satisfaction.

Chart 61: WBC – Customer Satisfaction by Segment (S1 = Highest Value Customers)

Satisfaction is greatest amongst high value customers

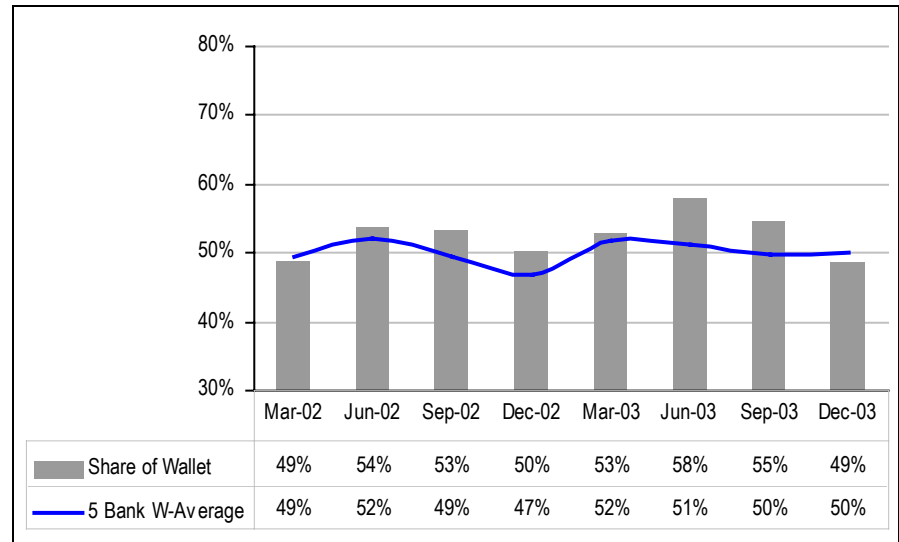


Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003
Main Financial institution customers that are very or fairly satisfied

WBC – Share of Wallet

While WBC share of wallet is historically above the five-bank average, a three quarter decline has reversed previous gains and lowered share of wallet below the five-bank average.

Chart 62: WBC – Share of Wallet Over Time

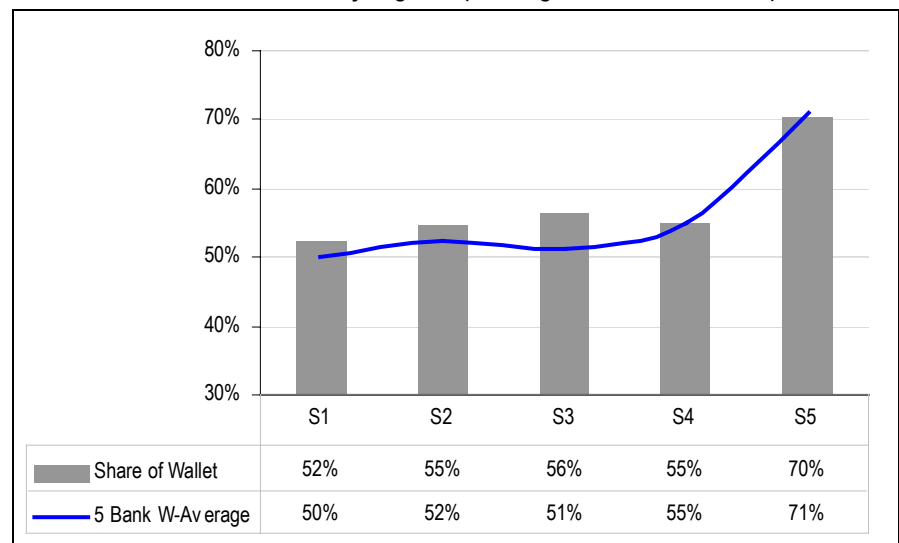


Share of wallet is historically above average but has recently trending downwards

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 3 month periods
All bank customers

In contrast to the high customer satisfaction being concentrated in S1 customers, WBC's share of wallet follows an inverse trend with the highest share of wallet found in low value S5 segment customers. We attribute this skew towards low value customers to WBC's historical roots as an amalgamation of nine Trust Banks, whose customers were predominantly well serviced but lower value.

Chart 63: WBC – Share of Wallet by Segment (S1 = Highest Value Customers)



A lower share of wallet the more valuable the customer

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003
All bank customers

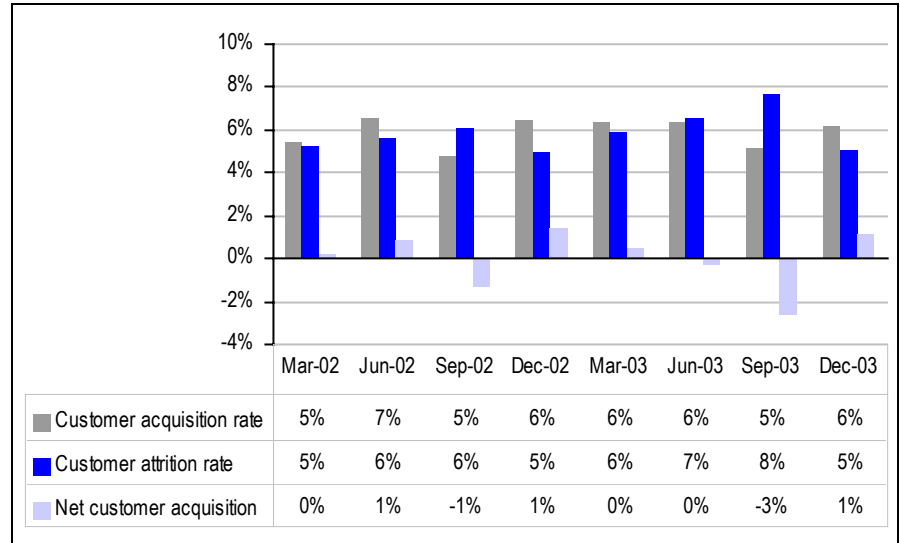
8. ANZ/NBNZ

ANZ/NBNZ - Customer Flows

As a combined group, ANZ/NBNZ experienced falling net customer acquisitions that substantially fell into negative territory at the height of the NBNZ acquisition. Since then, the attrition rate has nearly halved and acquisitions rise pushing net customer flows into positive territory

Chart 64: ANZ/NBNZ – Net Customer Flow Over Time

Is worst over for the ANZ/NBNZ group?

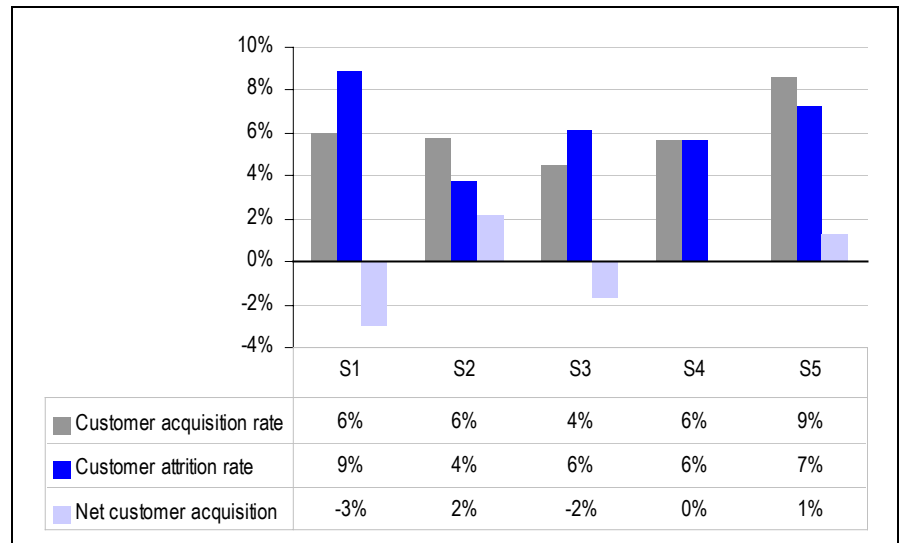


Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 3 month periods
Main Financial institution customers that have switched banks in the last 12 months

While net customer flow has returned to positive territory, gains in S2 and low value S5 segments mask the substantial losses in its high value S1 customer base.

Chart 65: ANZ/NBNZ – Net Customer Flow by Segment (S1 = Highest Value Customers)

Gaining customers but losing those most valuable

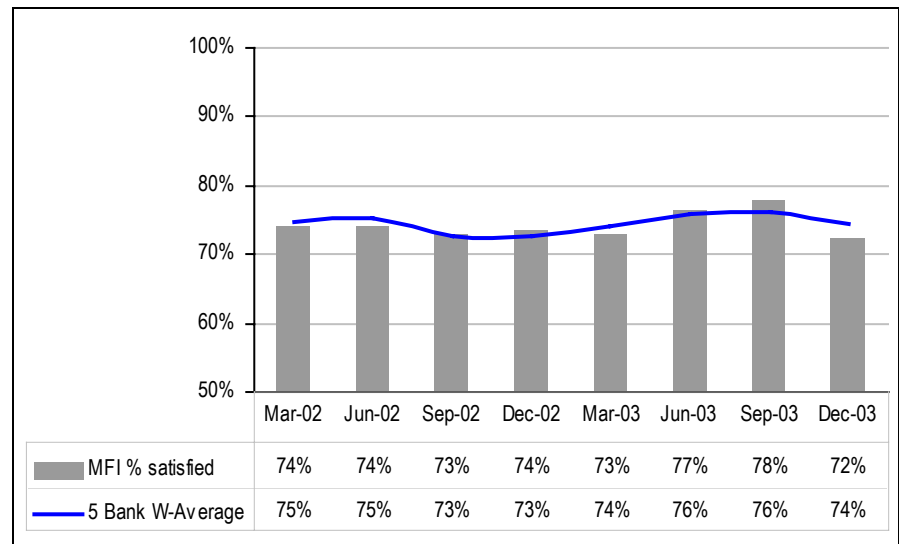


Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003
Main Financial institution customers that have switched banks in the last 12 months

ANZ/NBNZ - Customer Satisfaction

On a combined basis, NBNZ's exceptional levels of customer satisfaction balance ANZ's poor customer satisfaction levels. While the combined group's satisfaction has been in line with the five-bank average, it has recently deteriorated.

Chart 66: ANZ/NBNZ – Customer Satisfaction Over Time

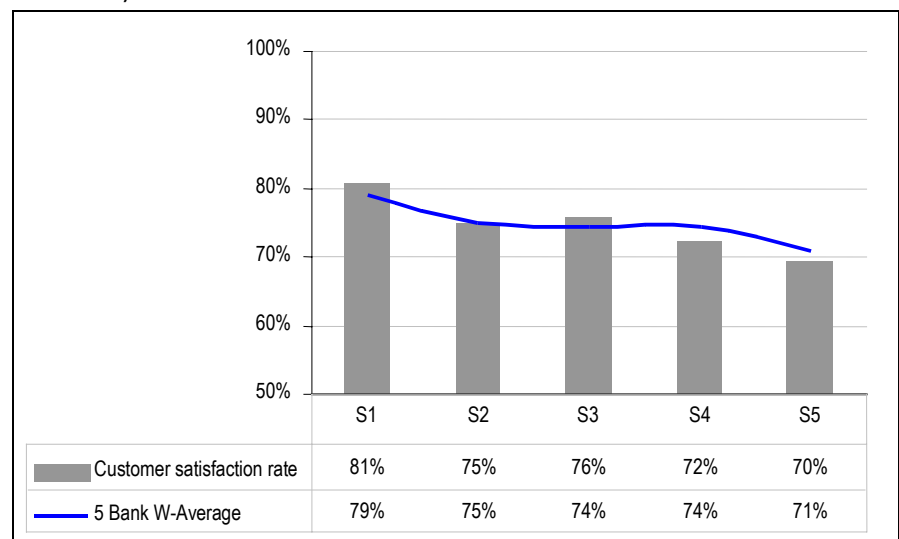


Average to below average trend in satisfaction

Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 3 month periods
Main Financial institution customers very or fairly satisfied

The net satisfaction of ANZ/NBNZ's customer segments is in line with the five-bank average and (more importantly) skewed towards high value S1 customers.

Chart 67: ANZ/NBNZ – Customer Satisfaction by Segment (S1 = Highest Value Customers)



The group is satisfying the right customers

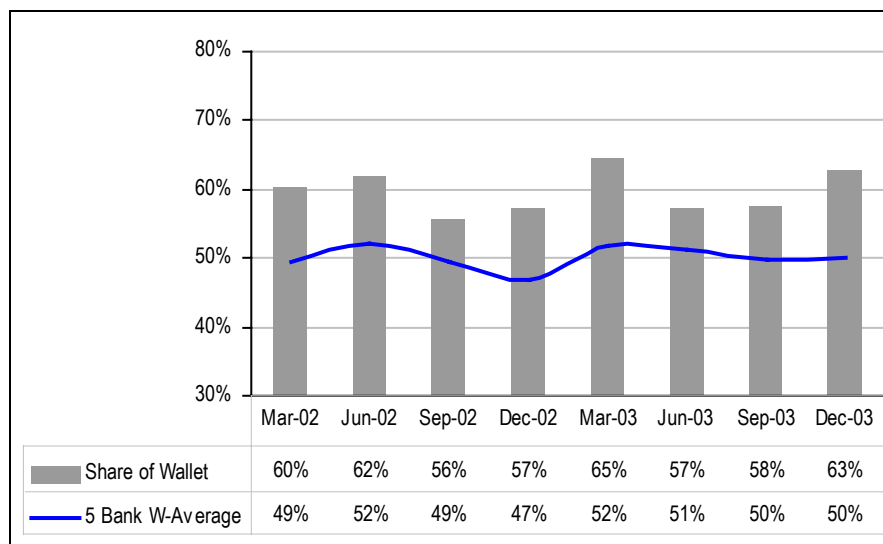
Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003
Main Financial institution customers that are very or fairly satisfied

ANZ/NBNZ – Share of Wallet

The combined share of wallet is excellent for the ANZ/NBNZ group, substantially above that of the five-bank average (despite ANZ’s standalone share of wallet being relatively weak). We believe a significant proportion of customers bank with both ANZ and NBNZ to account for the combined group’s high share of wallet.

Chart 68: ANZ/NBNZ – Share of Wallet Over Time

Share of wallet robustly above five-bank average

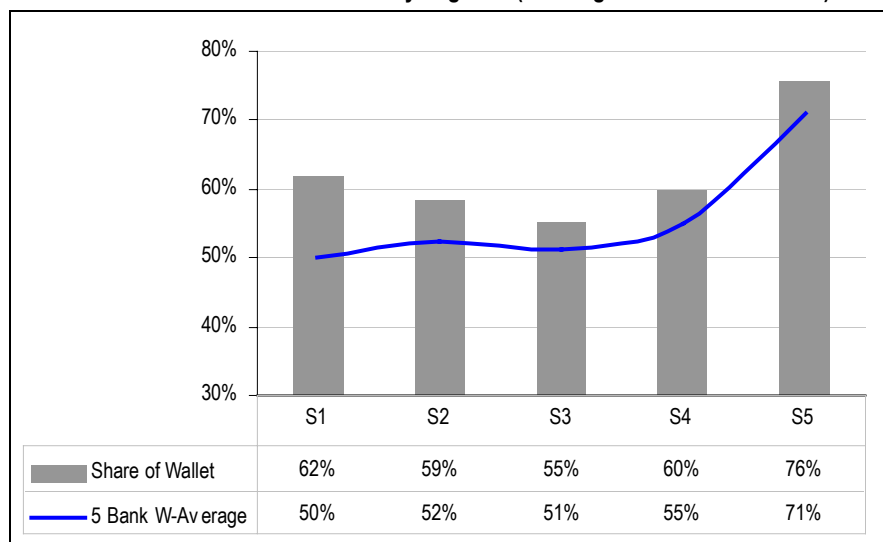


Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 3 month periods
All bank customers

The concentration of the combined group’s share of wallet is polarised firstly towards low value S5 customers and then to high value S1 customers.

Chart 69: ANZ/NBNZ – Share of Wallet by Segment (S1 = Highest Value Customers)

With share of wallet polarised towards low value and then high value customer segments



Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003
All bank customers

Part B: Analysis by Customer Segment

- All Customers
- Highest Value Quintile (S1)
- Second Highest Value Quintile (S2)
- Third Highest Value Quintile (S3)
- Fourth Highest Value Quintile (S4)
- Lowest Value Quintile (S5)

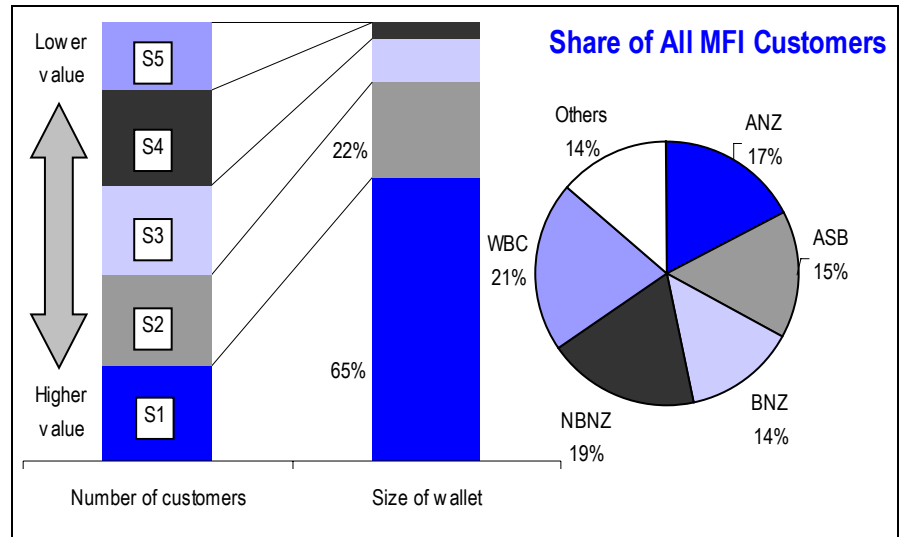
9. All Customers

All Customers – Market Shares & Flows

WBC has the highest market share of customers, followed by NBNZ and then ANZ and ASB. Remember that S1 and S2 customers account for 87% of the market share of total footings.

Chart 70: Market Share of All Customers

S1 and S2 customer are the only real game in town (representing 87% of total market share)

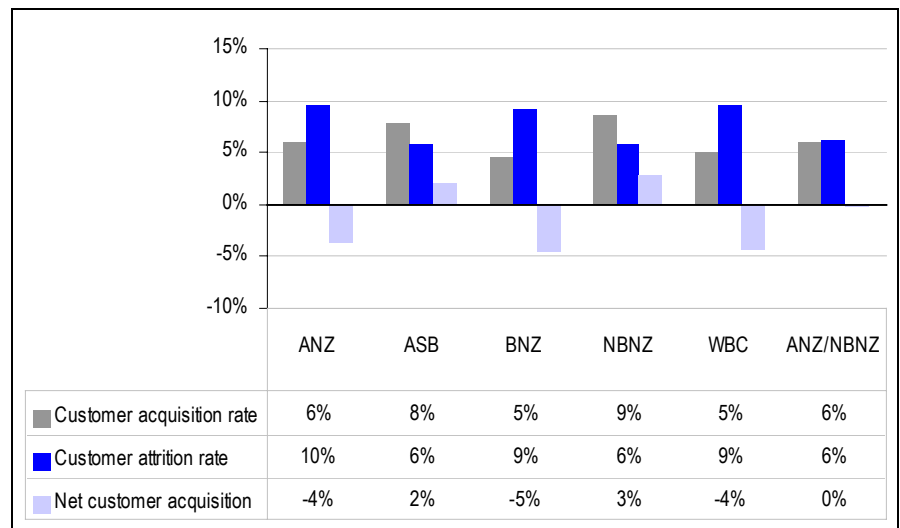


Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003

Net customer acquisition rates closely follow customer satisfaction rates, with only the two high customer satisfaction banks (NBNZ and ASB) experiencing net customer inflows.

Chart 71: Net Customer Flow for All Customers

Only NBNZ and ASB are experiencing net customer inflows

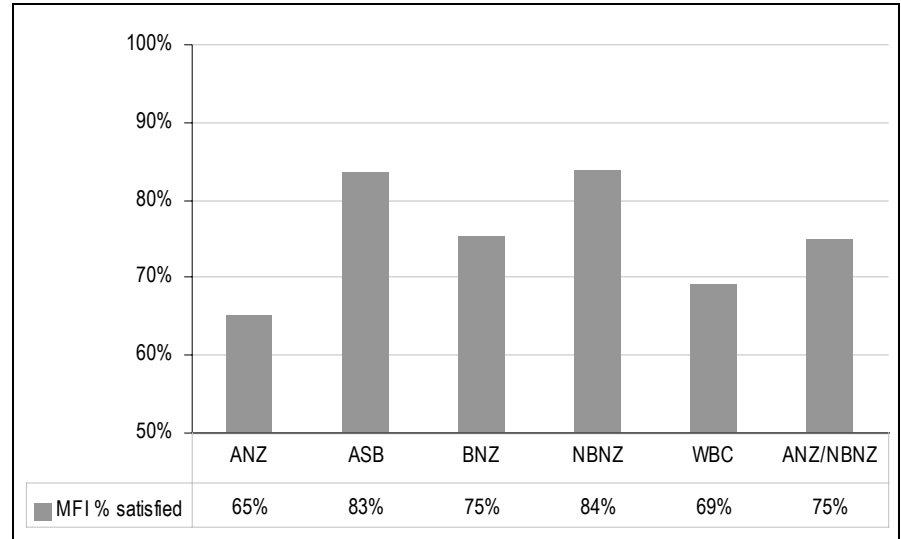


Source: Roy Morgan Research, Merrill Lynch analysis
Main Financial institution customers that have switched banks in the last 12 months, Data based on 12 months to December 2003

All Customers – Service & Penetration

NBNZ and ASB are clearly differentiated from their peers by their high levels of customer satisfaction

Chart 72: Customer Satisfaction Across All Customers

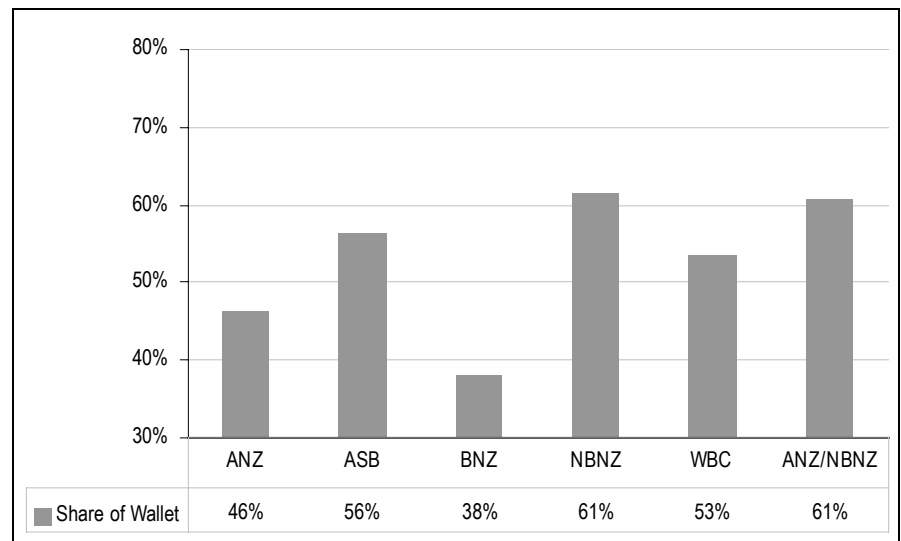


NBNZ and ASB lead the pack on customer satisfaction

Source: Roy Morgan Research, Merrill Lynch analysis
Main Financial institution customers very or fairly satisfied, Data based on 12 months to December 2003

Share of wallet generally corresponds with customer satisfaction levels, except for BNZ (which experiences lower shares due to its credit card offering). The combined NBNZ group of customers is skewed more towards NBNZ's high share of wallet than ANZ's lower share of wallet.

Chart 73: Share of Wallet Across All Customers



Customer satisfaction broadly translates into share of wallet

Source: Roy Morgan Research, Merrill Lynch analysis
Main Financial institution customers, Data based on 12 months to December 2003

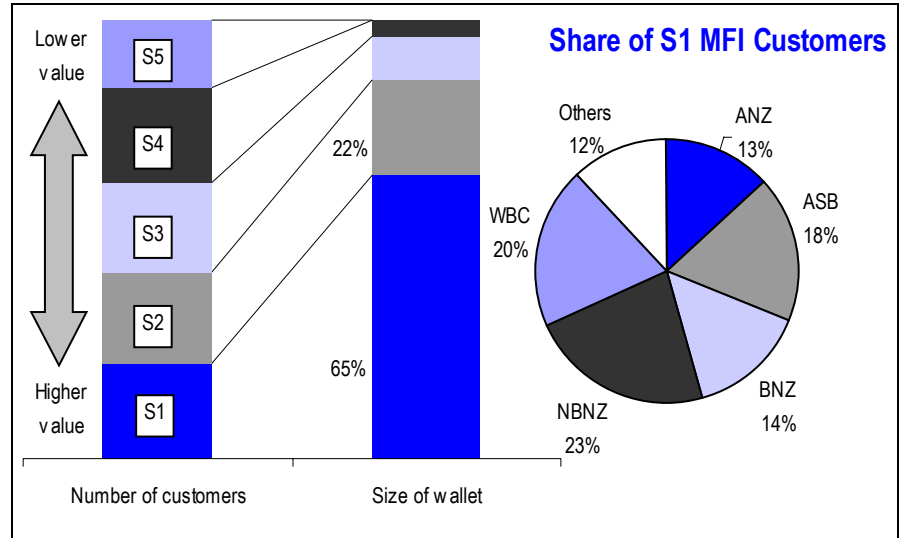
10. Highest Value Quintile Customers

Highest Value Quintile Customers – Market Shares & Flows

NBNZ holds the largest share of the high value S1 segment customers. This contrasts to WBC’s larger share of *total customers*, a fact we attribute to NBNZ’s higher satisfaction levels for S1 customers.

Chart 74: Market Share of Highest Value Quintile Customers

NBNZ ranked #1 in share of S1 MFI customers

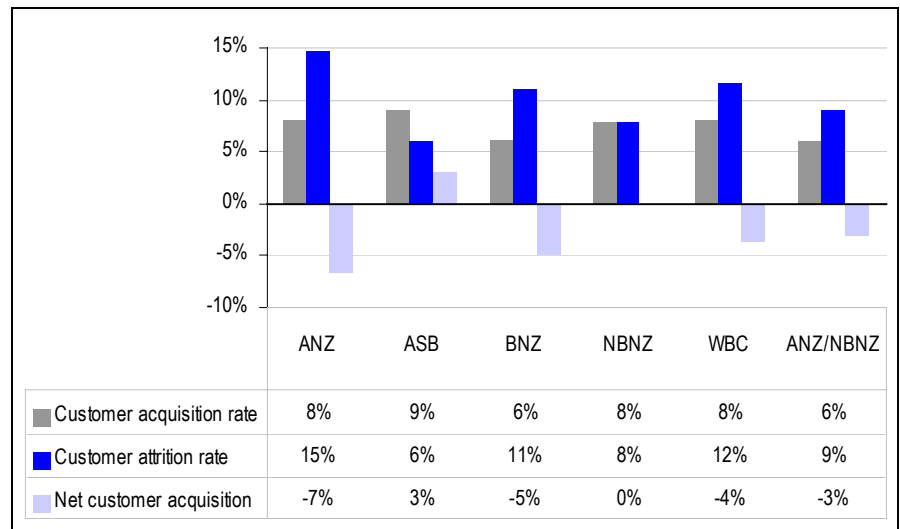


Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003

ASB is the only net acquirer of S1 customers, with NBNZ holding attrition at zero and the others losing customers to ASB or to tier two banks

Chart 75: Net Customer Flow for Highest Value Quintile Customers

High value S1 customers are leaving the group of top five banks for 2nd tier banks

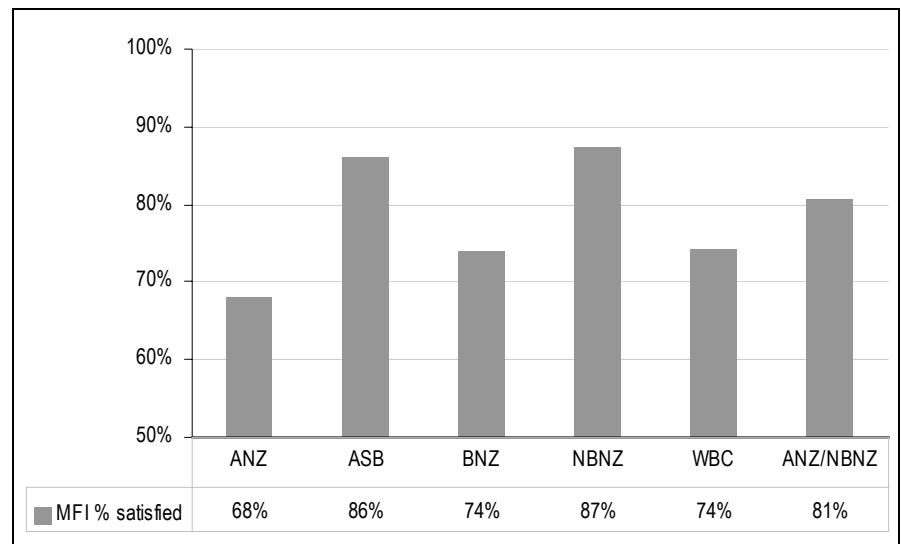


Source: Roy Morgan Research, Merrill Lynch analysis
Main Financial institution customers that have switched banks in the last 12 months, Data based on 12 months to December 2003

Highest Value Quintile Customers – Service & Penetration

Again NBNZ and ASB lead their peers in terms of S1 segment customer satisfaction, underscoring the success these banks have achieved in their customer service initiatives.

Chart 76: Customer Satisfaction Across Highest Value Quintile Customers

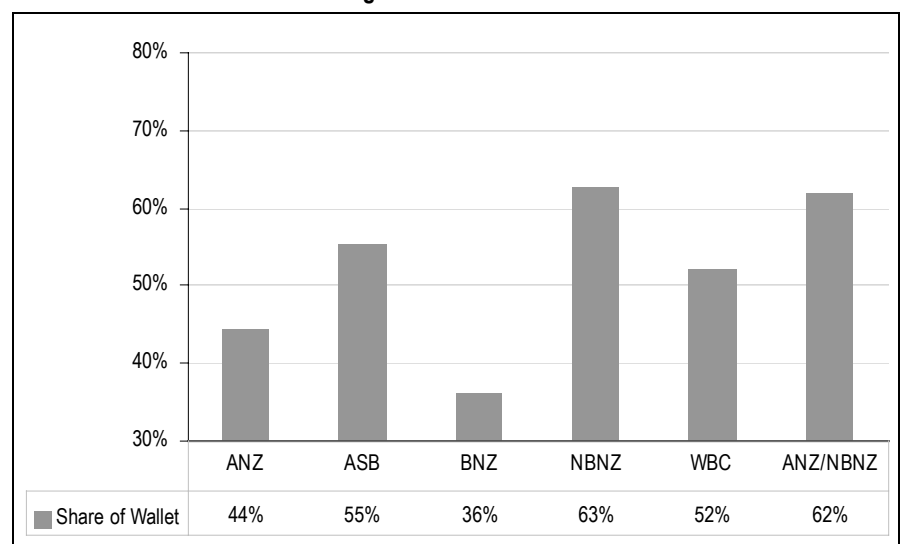


S1 segment customers are most happy at NBNZ and ASB

Source: Roy Morgan Research, Merrill Lynch analysis
Main Financial institution customers very or fairly satisfied, Data based on 12 months to December 2003

NBNZ dominates the share of S1 customer wallet amongst the top five-banks, with ANZ and BNZ being the holding the worst share of wallet

Chart 77: Share of Wallet Across Highest Value Quintile Customers



BNZ customers (predominantly credit cards) overwhelmingly choose to bank elsewhere

Source: Roy Morgan Research, Merrill Lynch analysis
Main Financial institution customers, Data based on 12 months to December 2003

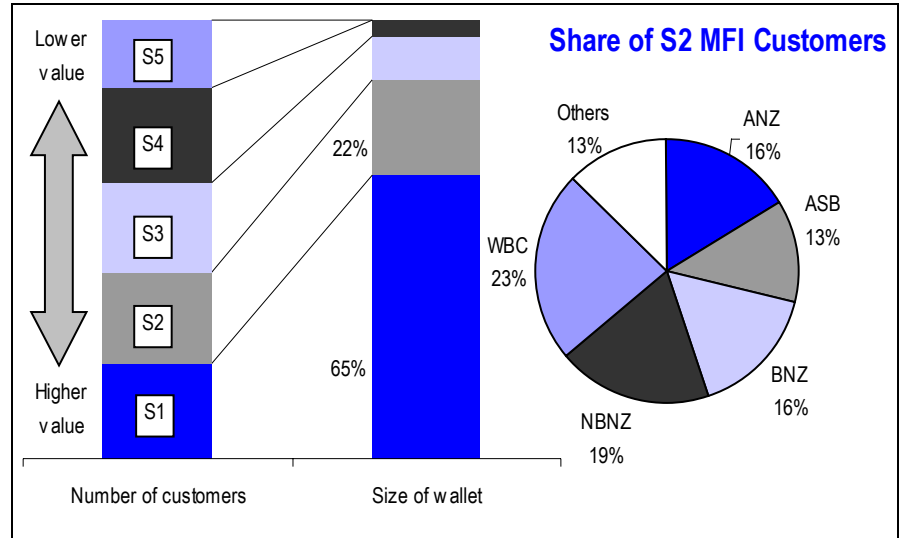
11. Second Highest Value Quintile Customers

Second Highest Value Quintile Customers – Market Shares & Flows

WBC holds the lion’s share of S2 customers, who constitute 22% of the total footings of all customers. NBNZ is well represented in this segment, while ASB lags its peers

Chart 78: Market Share of Second Highest Value Quintile Customers

WBC owns the largest share of S2 MFI customers

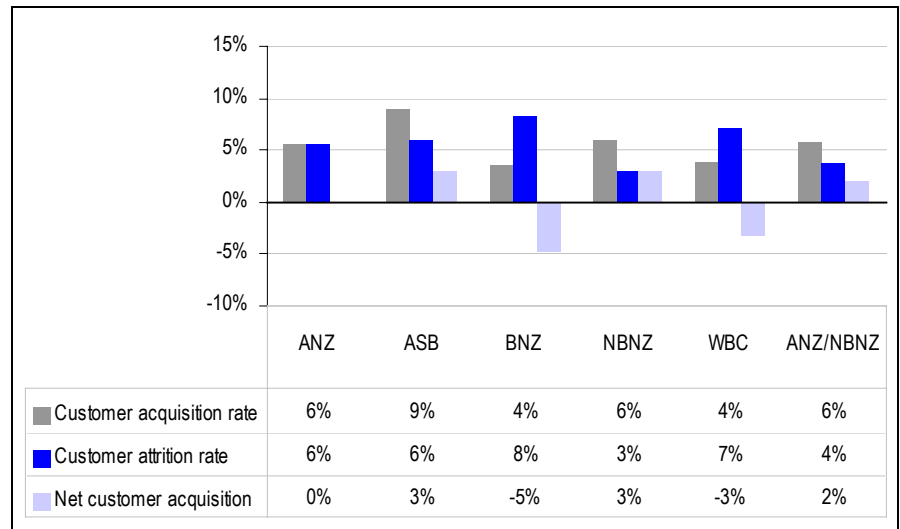


Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003

BNZ and WBC (both poor on customer satisfaction) are losing S2 customers, while their peers are making steady gains except for ANZ which is neither losing or gaining customers.

Chart 79: Net Customer Flow for Second Highest Value Quintile Customers

Despite the largest share of S2 customers, WBC lost 3% of its customers during 2003

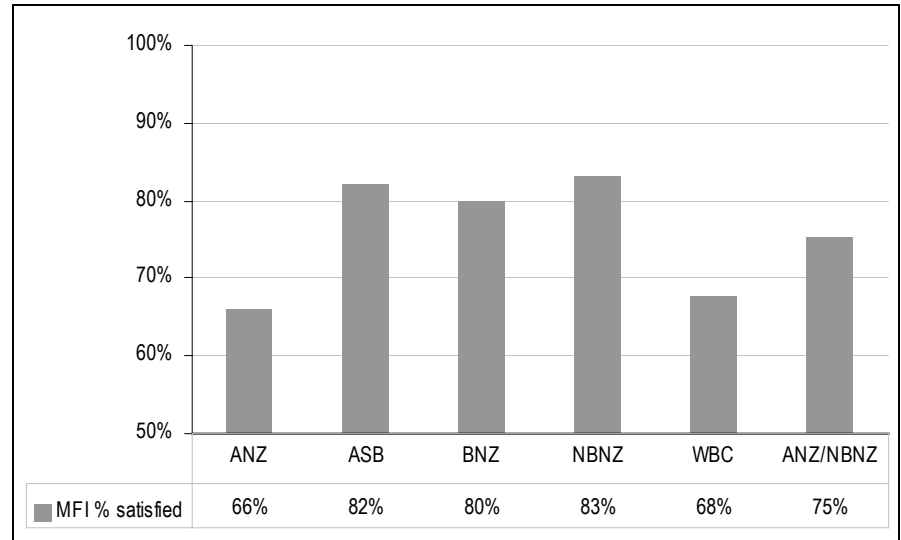


Source: Roy Morgan Research, Merrill Lynch analysis
Main Financial institution customers that have switched banks in the last 12 months, Data based on 12 months to December 2003

Second Highest Value Quintile Customers – Service & Penetration

Satisfaction is strongest in the traditionally customer orientated NBNZ and ASB franchises, but is surprisingly strong at BNZ

Chart 80: Customer Satisfaction Across Second Highest Value Quintile Customers



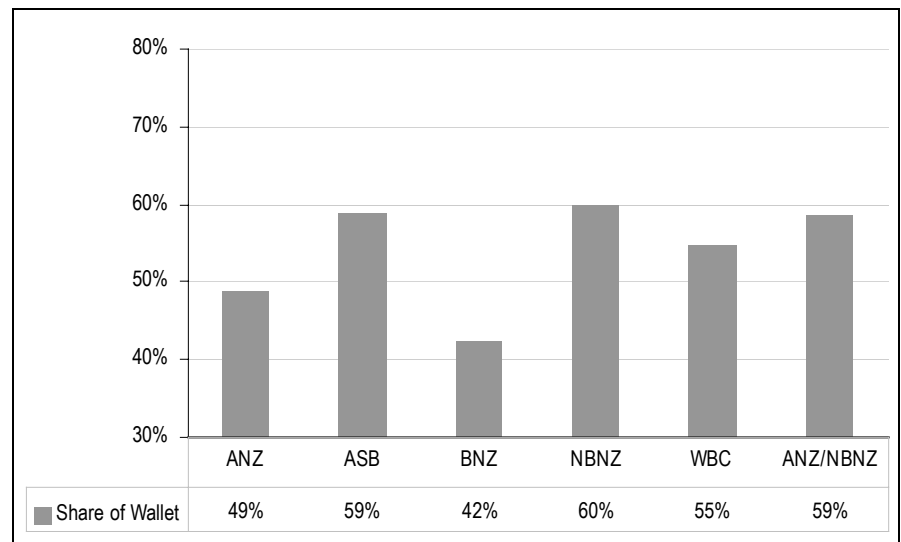
*NBNZ and ASB led the pack,
closely followed by BNZ*

Source: Roy Morgan Research, Merrill Lynch analysis

Main Financial institution customers very or fairly satisfied, Data based on 12 months to December 2003

While NBNZ and ASB's customer satisfaction correlates with their share of wallet, this is not the case for BNZ (in the negative) nor WBC (in the positive)

Chart 81: Share of Wallet Across Second Highest Value Quintile Customers



*NBNZ and ASB have the
highest share of wallet for S2
customers*

Source: Roy Morgan Research, Merrill Lynch analysis

Main Financial institution customers, Data based on 12 months to December 2003

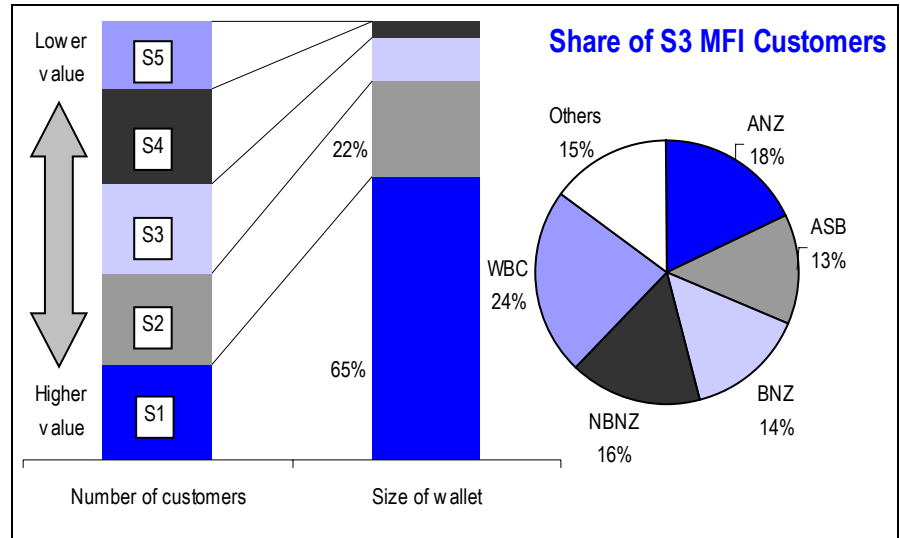
12. Third Highest Value Quintile Customers

Third Highest Value Quintile Customers – Market Shares & Flows

S3 customer constitute less than 10% of total market share of footings, with WBC dominating this customer segment.

Chart 82: Market Share of Third Highest Value Quintile Customers

WBC has the highest share of S3 MFI customers

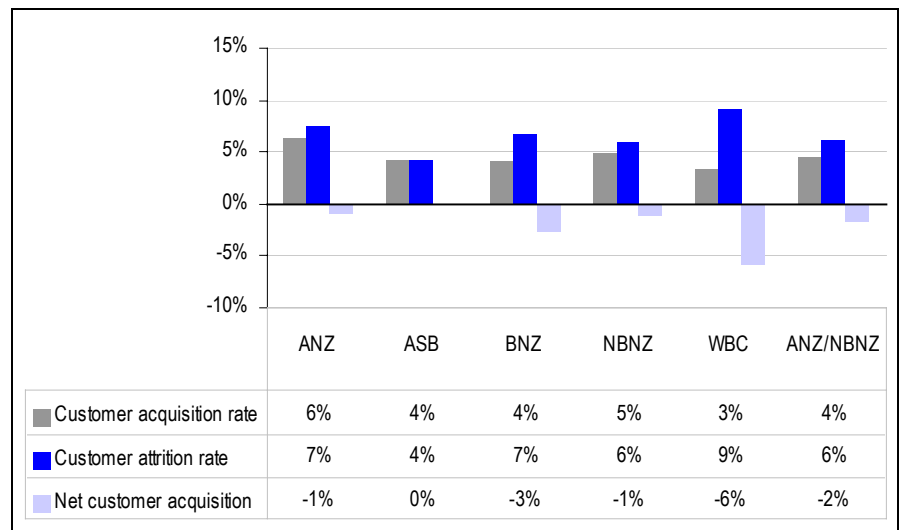


Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003

Positively, it appears that the top five banks (bar ASB) are migrating their S3 customers to tier two players.

Chart 83: Net Customer Flow for Third Highest Value Quintile Customers

S3 customers appear to be leaving for tier two banks

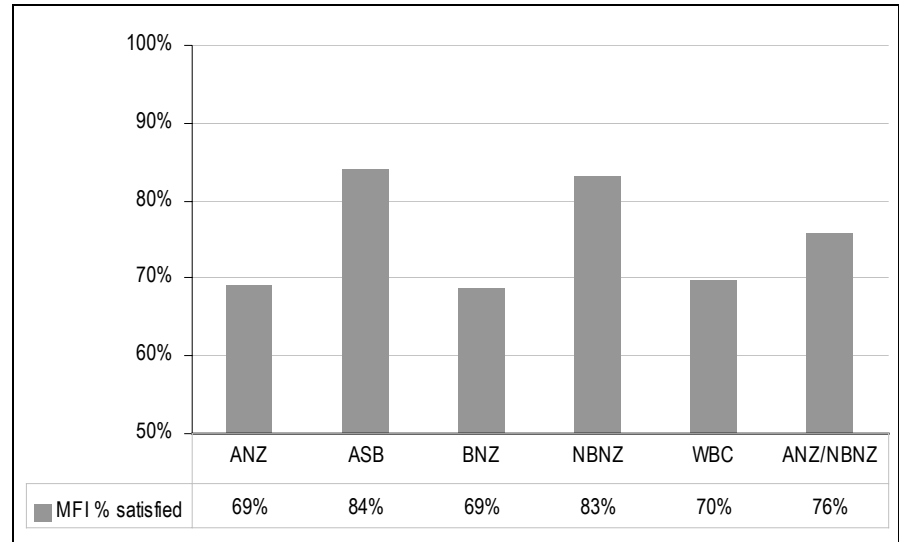


Source: Roy Morgan Research, Merrill Lynch analysis
Main Financial institution customers that have switched banks in the last 12 months, Data based on 12 months to December 2003

Third Highest Value Quintile Customers – Service & Penetration

S3 customers are most satisfied with NBNZ and ASB, with the remaining top five banks holding similar customer satisfaction levels.

Chart 84: Customer Satisfaction Across Third Highest Value Quintile Customers

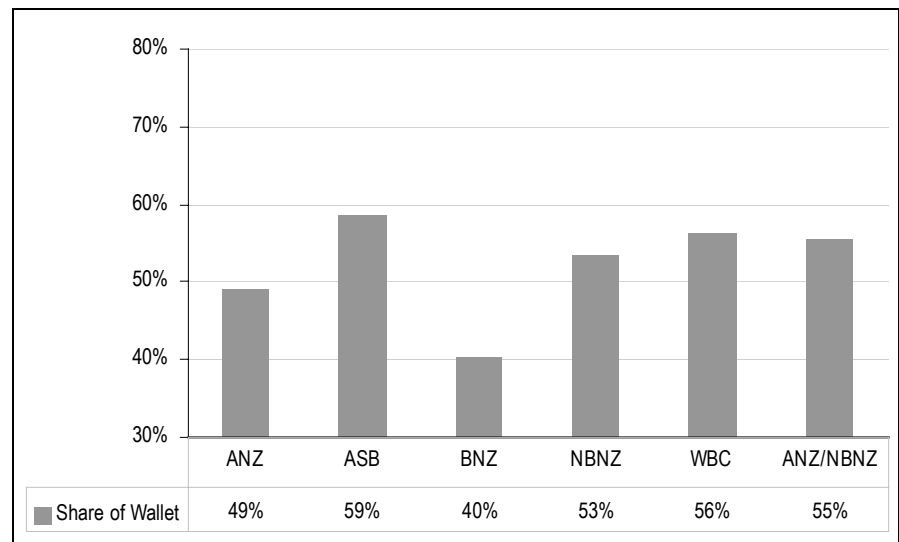


NBNZ and ASB are clear leaders in customer satisfaction for S3 customers

Source: Roy Morgan Research, Merrill Lynch analysis
Main Financial institution customers very or fairly satisfied, Data based on 12 months to December 2003

There is no clear leader for share of wallet for S3 customers, only a clear underperformer (BNZ).

Chart 85: Share of Wallet Across Third Highest Value Quintile Customers



BNZ underperforms in terms of share of wallet for S3 customers

Source: Roy Morgan Research, Merrill Lynch analysis
Main Financial institution customers, Data based on 12 months to December 2003

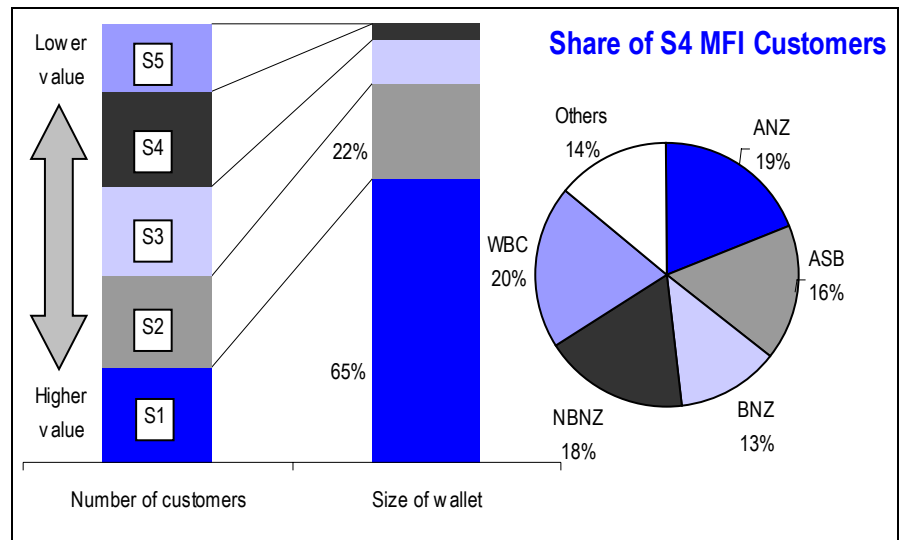
13. Fourth Highest Value Quintile Customers

Fourth Highest Value Quintile Customers – Market Shares & Flows

S4 customers make up less than five percent of the total wallet of all customers, similar to the Australian banking market. ANZ and WBC have the largest percentage of S4 customers, with 19 percent and 20 percent respectively.

Chart 86: Market Share of Fourth Highest Value Quintile Customers

S4 customer make up less than 5% of the total market

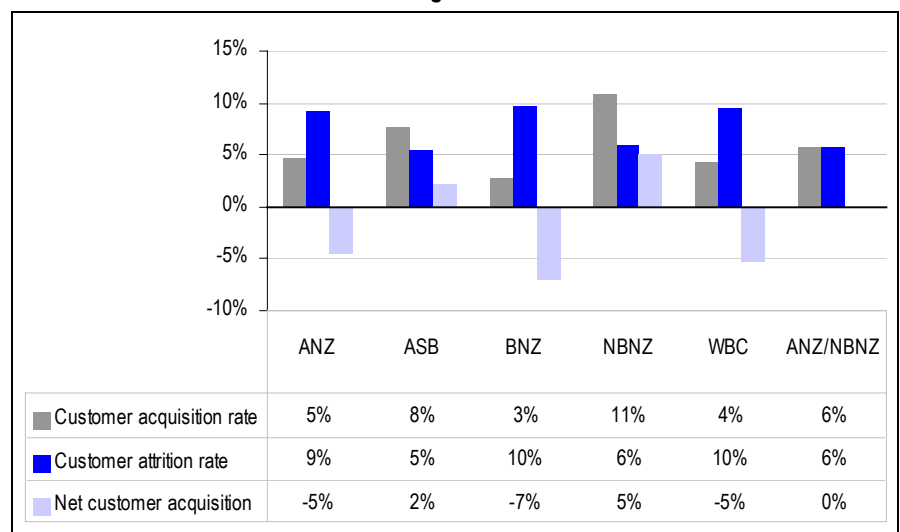


Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003

NBNZ and ASB have extended their superior service proposition to the low value S4 customer, a fact we do not regard as a net positive, being the only banks to experience net customer inflows.

Chart 87: Net Customer Flow for Fourth Highest Value Quintile Customers

NBNZ and ASB are the only net acquirers of S4 customers

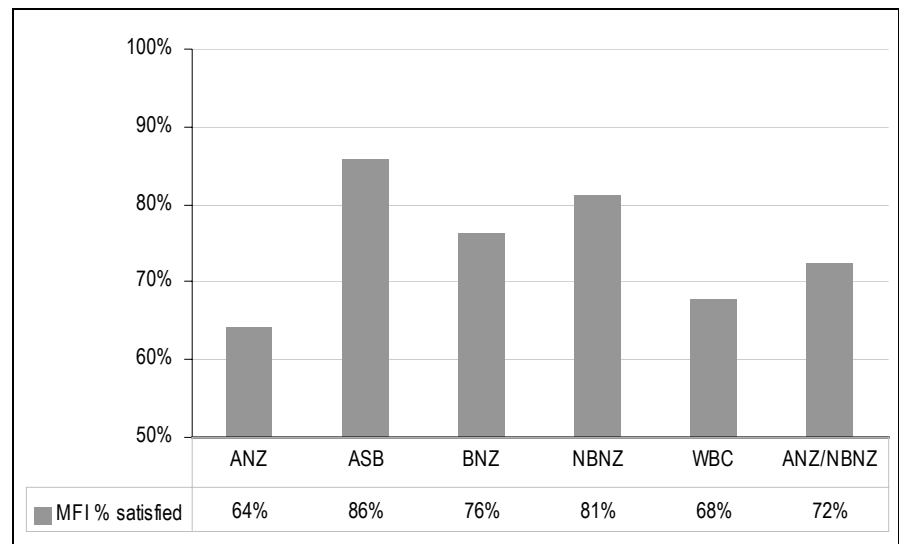


Source: Roy Morgan Research, Merrill Lynch analysis
Main Financial institution customers that have switched banks in the last 12 months, Data based on 12 months to December 2003

Fourth Highest Value Quintile Customers – Service & Penetration

Once again ASB and NBNZ have strong customer satisfaction levels, with ASB S4 customers the only customer segment in which ASB has a materially higher satisfaction level than NBNZ.

Chart 88: Customer Satisfaction Across Fourth Highest Quintile Value Customers

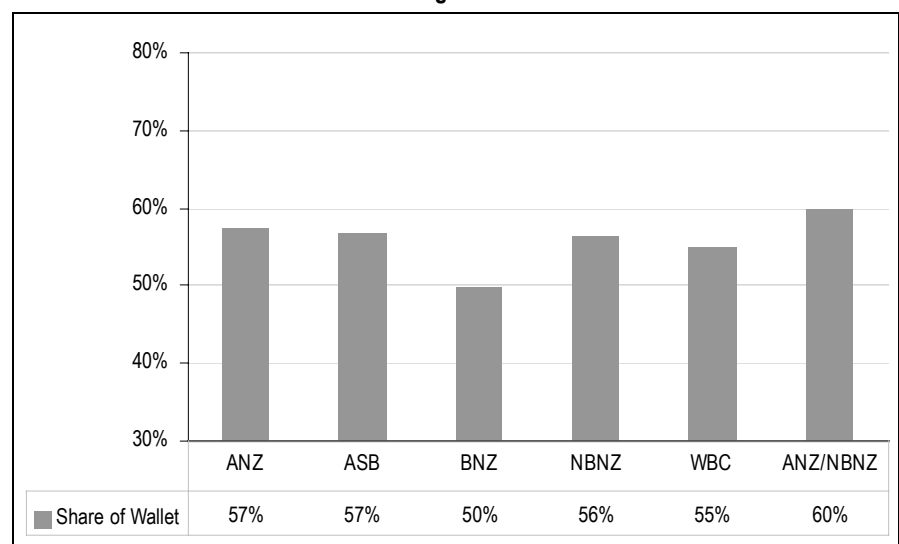


ASB and NBNZ are again have strong customer satisfaction vs the poor levels of their peers

Source: Roy Morgan Research, Merrill Lynch analysis
Main Financial institution customers very or fairly satisfied, Data based on 12 months to December 2003

Share of wallet for S4 customers is relatively even, except for BNZ (due to its larger credit card customer base).

Chart 89: Share of Wallet Across Fourth Highest Value Quintile Customers



BNZ lags share of wallet (again), while its peers hold relatively equal shares

Source: Roy Morgan Research, Merrill Lynch analysis
Main Financial institution customers, Data based on 12 months to December 2003

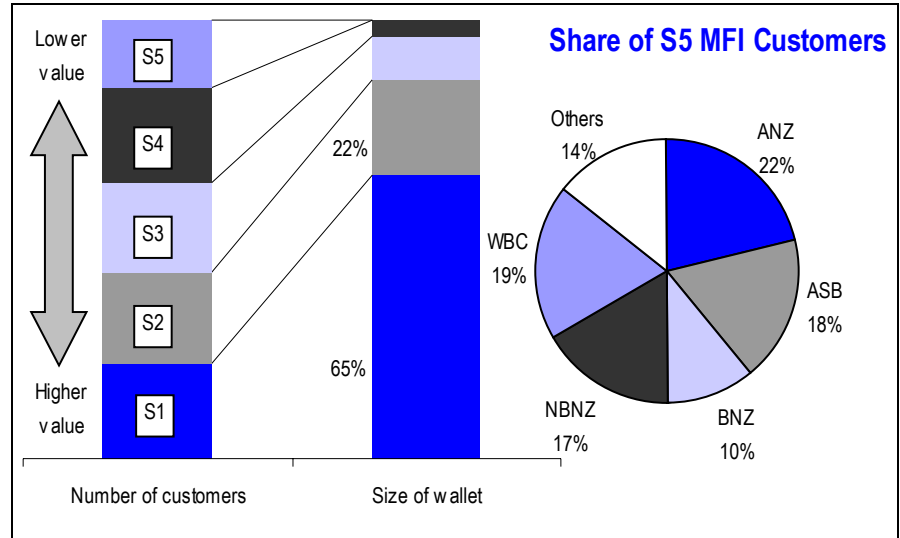
14. Fifth Highest Value Quintile Customers

Fifth Highest Value Quintile Customers – Market Shares & Flows

S5 customers contribute negligibly to total customer footings and are therefore very low value or even value destroying customers. ANZ dominates this segment.

Chart 90: Market Share of Fifth Highest Value Quintile Customers

S5 customers are low value or even value destroying customers

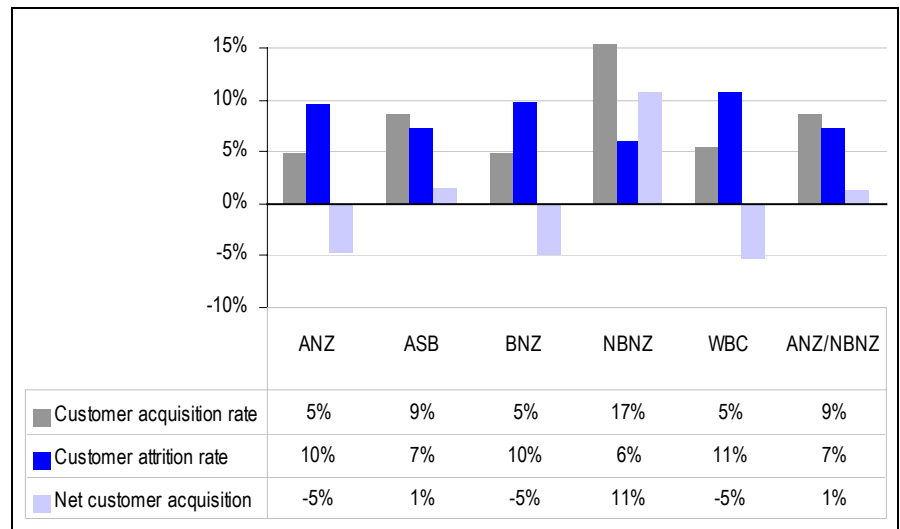


Source: Roy Morgan Research, Merrill Lynch analysis, Data based on 12 months to December 2003

NBNZ is aggressively acquiring S5 customers, a move that we believe can only be value destroying in the long run.

Chart 91: Net Customer Flow for Fifth Highest Value Quintile Customers

While other peers are exiting the S5 segment, NBNZ is growth customers at 11% pa

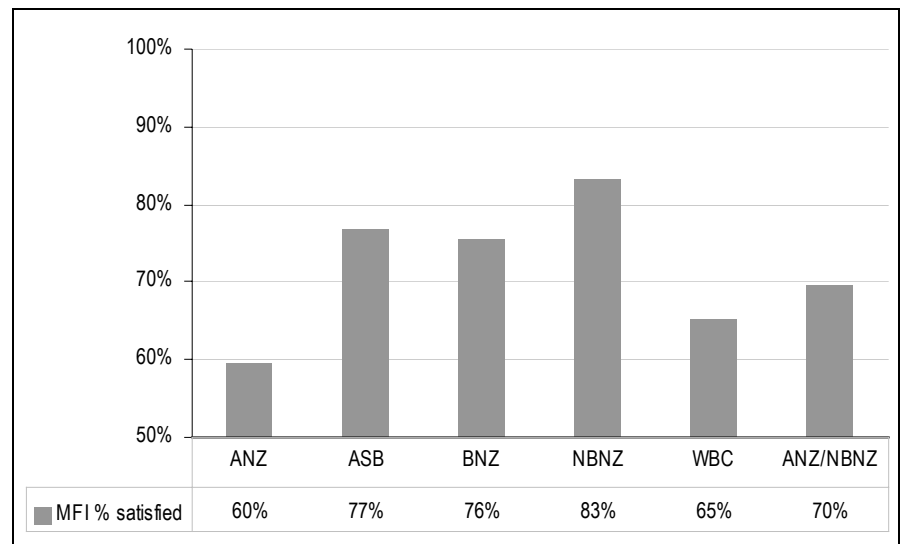


Source: Roy Morgan Research, Merrill Lynch analysis
Main Financial institution customers that have switched banks in the last 12 months, Data based on 12 months to December 2003

Fifth Highest Value Quintile Customers – Service & Penetration

Not surprising, with a strong net S5 customer inflow, satisfaction levels for low value S5 customers is quite high for NBNZ. We note, ANZ does not service this segment particularly well, given satisfaction levels.

Chart 92: Customer Satisfaction Across Fifth Highest Value Quintile Customers

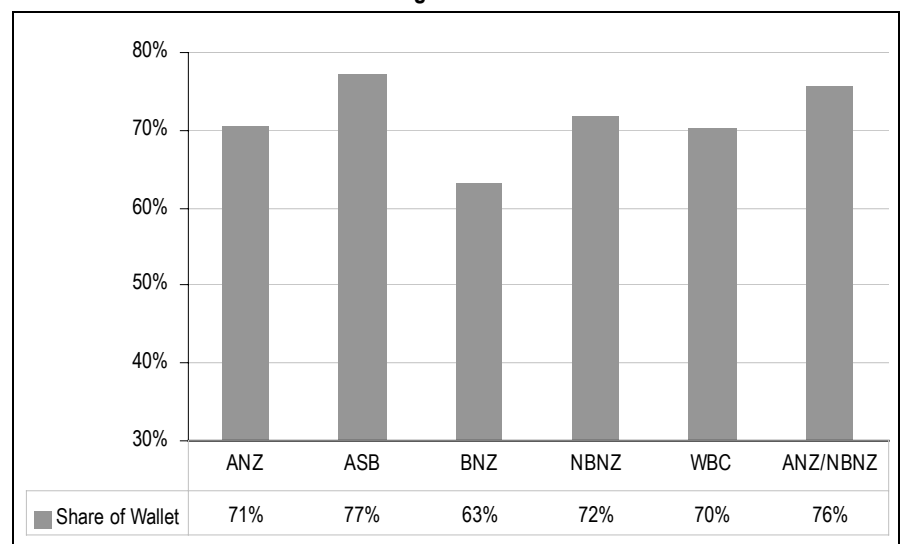


NBNZ providing high service for low value customers

Source: Roy Morgan Research, Merrill Lynch analysis
Main Financial institution customers very or fairly satisfied, Data based on 12 months to December 2003

Share of S5 wallets for all banks is relatively high, a phenomena we attribute to the lack of sophistication and thus multiple banking relationships in this customer segments.

Chart 93: Share of Wallet Across Fifth Highest Value Quintile Customers



S5 customers lack sophistication and therefore limit their banking relationships

Source: Roy Morgan Research, Merrill Lynch analysis
Main Financial institution customers, Data based on 12 months to December 2003

15. About Roy Morgan Research

Roy Morgan Research

Roy Morgan Research is the largest independent market research company in Australia. A full service research organisation, Roy Morgan has specialised in both syndicated and customised consumer and business research solutions for 60 years. In Australia Roy Morgan has offices in each state and is considered the authoritative sources for readership, financial service, voting, automotive and tourism market research. Internationally, Roy Morgan International has affiliations with leading research companies around the world, and has offices in New Zealand, the US and UK.

In Australia, Roy Morgan's financial services data is supplied to most major financial institutions, including the Reserve Bank of Australia.

Roy Morgan has been conducting interviews in New Zealand since 1997.

Norman Morris

Industry Director – Finance

Ph: +61 (03) 9224 5172

Email: Norman.Morris@roymorgan.com

Methodology

All interviews in this survey are conducted using a combination of telephone recruitment and self-completion booklets. Over 12,000 surveys were completed per year for the two years of data covered in this report. The sampling method for this survey collects information on all people aged 14 years and over. Quotas are enforced to ensure an even split of males and females and an even spread across age groups. Surveys are conducted continuously over a 12-month period with results being weighted to reflect the geographic, age and sex distribution of the population.

A commitment to quality service is fundamental to the way Roy Morgan does market research. This commitment occurs at every stage of the research process and is reflected by the recent certification of all offices of Roy Morgan Research to the AS/NZS ISO 9001:1994 quality standard.

Whilst the data provided in this publication has been prepared with all reasonable care no responsibility or liability is accepted by Roy Morgan Research for any errors or omissions or misstatements however caused.

Definitions

Cards:	All Visa, Mastercard, Bankcard and American Express cards held. "Share of Wallet" calculations based on amount carried forward
Customer:	People aged 18 and over with any type of product at the financial institution listed
Customer acquisition rate:	The proportion of customer who regard themselves as having joined a particular "Main Financial Institution" (MFI) during the last 12 months
Customer attrition rate:	The proportion of customer who regard themselves as having defected from a particular "Main Financial Institution" (MFI) during the last 12 months
Customer satisfaction:	The proportion of each group that are either "Very Satisfied" or "Fairly Satisfied" with their overall relationship with that financial institution
Deposits:	Savings and transaction accounts
Loans:	All non credit card lending
MFI:	Main financial institution as nominated by customer
Share of wallet:	The proportion of a customers total banking footings (ie loans, deposits & credit card outstandings) held with a particular financial institution
Size of wallet:	The gross value of all bank balances (ie loans, deposits & credit card outstandings) held with a financial institution.
Value quintiles:	These are based on a customer's "Size of Wallet", where S1 for example contains 20% of the population with the largest wallet value, through to S5 which represents the lowest 20% by wallet value

Companies Mentioned in this Report

Full name	Abbreviation	ASX Code	ML Ticker	Price
Australian & New Zealand Banking Group Limited	ANZ	ANZ	ANEWF/ANZ	
Commonwealth Bank of Australia	CBA	CBA	CBAUF	
National Australia Bank Limited	NAB	NAB	NAUBF/NAB	
Westpac Banking Corporation	WBC	WBC	WEBNF/WBK	
Advance Bank Limited	ABA			
Auckland Savings Bank	ASB			
Bank of Melbourne	BML			
Bank of New Zealand	BNZ			
Challenge Bank	CLG			
National Bank of New Zealand	NBNZ			
Kiwibank				
Public Service Investment Society	PSIS			
Queensland Industry & Development Corporation	QIDC			
State Bank of New South Wales	SBNSW			
Trust Bank of New Zealand	TBNZ			

Source: Merrill Lynch, Iress

Company	ML Code	Recomm	Price (12 May04)
ANZ Banking Group Ltd.	ANEWF	B-2-7	18.29
ANZ Banking Group Ltd. - A	ANZ	B-2-7	US\$64.37
Adelaide Bank	AXABF	B-1-7	8.24
Bank of Queensland	BQUEF	B-3-7	9.65
Bendigo Bank	BXRBF	C-2-7	10
Commonwealth Bank of Australia	CBAUF	A-2-7	31.36
National Australia Bank - A	NAB	A-2-7	US\$101.8
National Australia Bank	NAUBF	A-2-7	29.07
St George Bank	STGKF	B-1-7	21.92
St George Bank - A	STGKY	B-1-7	US\$30.56
Westpac Banking Corporation	WEBNF	A-2-7	16.97

Source: Prices in A\$ unless otherwise stated

Analyst Certification

I, Hamish Carlisle, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Note to Readers

/ANZ/ One of the analysts covering the company is a former employee of the company and, in that capacity, received compensation from the company within the past 12 months.



Important Disclosures

Investment Rating Distribution: Banks Group (as of 31 March 2004)					
Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	72	40.00%	Buy	44	61.11%
Neutral	95	52.78%	Neutral	41	43.16%
Sell	13	7.22%	Sell	6	46.15%
Investment Rating Distribution: Global Group (as of 31 March 2004)					
Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1085	44.03%	Buy	362	33.36%
Neutral	1215	49.31%	Neutral	306	25.19%
Sell	164	6.66%	Sell	28	17.07%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

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