



ANZ 2009 Annual General Meeting

Chairman's Address

Good morning. My name is Charles Goode and as your Chairman, it is my pleasure to welcome you to ANZ's 41st Annual General Meeting.

I would also like to welcome those of you joining us through our webcast on anz.com.

We are very pleased to be holding our Annual General Meeting in our home city of Melbourne.

As a quorum is present, I now formally declare this Annual General Meeting of Shareholders open.

I propose to take the Notice of Meeting as read.

If you need a copy of the Notice, please ask one of the attendants. Minutes of the last meeting, and copies of the Annual Report, are available in the registration area.

At our meeting today, I will talk about changes to the Board; provide an overview of ANZ's performance in 2009; and our view of the year ahead.

I'll then ask ANZ's Chief Executive Officer, Michael Smith to address you.

After Michael speaks, there will be the opportunity for questions, or comments, on any matter related to our business.

After the questions we will move to discussion on the items of business before today's meeting. I will ask you to vote on these resolutions by way of poll.

At the end of the meeting, the Directors and our senior management, would like to meet with you and talk about ANZ, over a cup of tea or coffee in the foyer.

Now let me introduce your Directors and the Chief Financial Officer.

We have ten Directors, nine of whom are independent non-executive Directors.

You can read details on their skills and experience, and the Board Committees on which they serve in our Annual Report.

On your far left is Peter Hay who joined the board in November last year.

Then Ian Macfarlane. Ian chairs the Risk Committee.

Then Alison Watkins. Alison also joined the board in November last year and is Chairman of the Human Resources Committee.

And next to me is Michael Smith, the Chief Executive Officer.

On my left is Peter Marriott. Peter is the Chief Financial Officer.

Then John Morschel. It is proposed that John will succeed me as Chairman early next year. He is Chairman of the Governance Committee and a member of each of the other Board Committees.

Next is Jerry Ellis. Jerry retires at the conclusion of this meeting after 14 years as a Director. I will say more about Jerry shortly.

Next is David Meiklejohn. David is Chairman of the Audit Committee.

Then Lee Hsien Yang, who joined the Board in February 2009. Hsien Yang is one of Asia's most respected business leaders.

He is the Chairman of Fraser and Neave, a Director of Singapore Exchange Limited, and was formerly Chief Executive Officer of Singapore Telecommunications.

Next is Dr Greg Clark. Greg chairs our Technology Committee.

As this is Jerry Ellis' final shareholder meeting, I would like to make special mention of his contribution to ANZ since he joined the Board in 1995.

Jerry has served on most Board committees. In particular, he has served on the Risk Committee for 12 years, chairing it from 2001 to 2006.

He is a person of the highest integrity and has brought to the Board an intellectual rigour, a broad view of issues and a deep understanding of the management of a large company. Jerry brought a focus to health and safety which can easily receive less attention than it deserves in a financial services group.

Jerry has made an outstanding contribution, not only to ANZ but to Australia during his long career.

On behalf of all shareholders, and his colleagues on the Board, I wish to take this opportunity, to acknowledge, and to thank Jerry for his very substantial contribution, and to wish him and his wife Ann, good health and happiness.

Turning now to the ANZ executives: on the stage behind me, from your left are: Bob Santamaria, General Counsel; Shane Buggle who was our Group General Manager Finance during the year; and John Priestley, Company Secretary.

And also here today, are Michelle Hinchliffe and Mitch Craig from KPMG, our external auditors.

Later, Michael Smith will introduce the rest of the senior management team to you and talk about their roles and experience.

This is the last Annual General Meeting of ANZ that I will have the honour of chairing after 18 years as a director and 14 years as your Chairman.

The Board has proposed that my successor will be John Morschel, one of Australia's most respected business leaders.

John joined our board in 2004. He has had a long career as an executive and as a director and chairman of major Australian and international companies.

He has extensive experience in the finance and property industries, as well as telecommunications, building materials, and resources. John has already made a significant contribution to the Board and I believe he will make an excellent Chairman of ANZ.

Let me now make some comments on the past year.

2009 was the most difficult year for financial services for many decades. After the collapse of Lehman Brothers, financial markets all over the world began to collapse at rates not seen since the 1930s.

There was a breakdown in confidence in the global financial system and banks were not lending to each other. The banking system is the lubricant that keeps the world's economic engine running. The crisis threatened a seizure of the global economy with the gravest consequences.

This danger was recognised by governments and central banks throughout the world and there was an unprecedented, global, co-operative response to the crisis.

This rapid policy response saw the worst averted and most of the world move into a more solid position.

In Australia, the Reserve Bank reduced interest rates from 7.25 per cent to 3 per cent and made liquidity readily available to the banks.

Our Government joined moves made in other developed economies to guarantee bank deposits and banks' wholesale borrowings.

It provided a fiscal stimulus of \$68 billion, or 5.7 per cent of Gross Domestic Product, in a package of measures involving housing, education and infrastructure expenditure.

This crisis did impact on Australia lowering our annual growth rate from 3.7 per cent per annum over the previous 15 years to an estimated 0.5 per cent. But Australia came through this global financial crisis better than other OECD countries.

The main reason for Australia's resilience was that the country was in very good shape when the crisis arose.

We had a Government budget surplus of 1.7 per cent of GDP in 2007-2008 and no net Government borrowings. In 2007, the economy grew at nearly 4 per cent and high interest rates had curbed earlier exuberance and provided scope for rates to be lowered.

We had a housing industry with no over-supply; strong commercial banks; a strong trading relationship with Asia, particularly with China and Japan.

Australia also had the benefit of a good institutional framework from Government, the Reserve Bank and the bank regulator, APRA.

A second reason for Australia's resilience is that the responses of both the Reserve Bank and the Government were prompt and significant, although there are some questions as to the lasting benefits of some of the Government's expenditure.

A third reason is the strong demand that continued for our resources, particularly from China.

A further factor contributing to Australia's economic resilience is our compulsory superannuation system. This provided a stream of investment savings that was available to support substantial equity raisings as corporate Australia reduced its dependence on borrowings.

It appears that we are coming out of this world financial crisis with unemployment in Australia up from 4 per cent to 6 per cent; and Government net debt that might rise to 10 per cent of GDP.

I am not worried about a Government debt of this size, which is very low on an international comparison. We are very fortunate in Australia, compared to citizens of other countries such as the United States and the United Kingdom, who are looking at the prospect of higher taxation.

There has been a lot of discussion in Australia about the government bank guarantee.

While the major Australian banks were in a very strong financial position, competing borrowers around the world were receiving guarantees from their governments which put our banks at a major disadvantage.

The Australian Government provided a facility to guarantee the new wholesale borrowings of Australian banks which represent around 25 per cent of their total term wholesale funding.

This guarantee was not free. The Australian banks have paid the Government more than \$1 billion for these guarantees - none of which have been called or are likely to be called.

Our Government also guaranteed deposits of the banks even though deposits were not leaving the Australian system to go to other countries.

This was not requested by the major Australian banks but I assume it was introduced to maintain the composition of the Australian banking system for competitive reasons and as a precautionary move in case the world financial crisis worsened.

As financial markets improve the major Australian banks are increasingly raising their wholesale borrowings without using the Government guarantee, which we expect will be withdrawn in the near term.

ANZ has not needed to use the guarantee on a public term debt transaction since June this year.

Also, we expect in due course to see the withdrawal of the domestic guarantee on bank deposits, which we do not consider necessary. It may well be that it will be followed by a guarantee scheme for deposits with a much lower ceiling than at present.

While the financial crisis has had a relatively mild impact in Australia, in the northern hemisphere the effects have been very severe and have only improved to a limited extent.

As recent events in Dubai demonstrated, equity and other markets remain very fragile and sensitive to further shocks.

What is important, is that through the crisis, the position of the major Australian banks became stronger and today they stand out as amongst the safest and best capitalised banks in the world.

ANZ maintained its AA-credit rating making it one of only 11 banks remaining in the world with a AA-rating.

So, given the extraordinary environment, ANZ produced solid results in 2009.

Our statutory net profit after tax of \$2.9 billion was 11 per cent lower than the previous year. Due to a 16 per cent increase in the weighted average number of shares on issue, earnings per share were down by 23 per cent.

However we increased our underlying profit after tax by 10 per cent to \$3.8 billion. Earnings per share on this basis fell by 4 per cent.

This underlying profit excludes what we consider to be significant one-off costs associated with discontinued businesses; non-cash accounting hedging losses; the credit intermediation provisions; the increase in tax provisions relating to New Zealand conduit transactions; the loss in New Zealand related to the selling of certain ING New Zealand products; and the costs of a major restructuring of the Bank to focus on our customers.

The global financial crisis and the near recession in Australia led to much lower loan demand, some de-leveraging by businesses and individuals, and pricing to reflect risk and to recover higher funding costs.

Our mortgage lending in Australia increased by 10 per cent, our commercial lending was steady, and institutional lending reduced by 20 per cent reflecting reduced demand as a result of the subdued economic environment and a refocusing of our loan book. Overall our lending book was steady for the year.

Looking at our underlying profit performance by geography: Australia performed well in the circumstances, Asia Pacific performed strongly, New Zealand was very disappointing and there was good progress in the turnaround of Institutional. Within the Institutional business Global Markets had a particularly good year.

We maintained a positive approach to growing our business, with income rising faster than costs. Underlying income rose by 17 per cent and expenses by 12 per cent. Our underlying cost to income ratio fell from 44 per cent to 42.2 per cent.

The major impact on profit, however, was our provisions for doubtful debts. These increased from \$2 billion to \$3 billion. The individual provisions increased from \$1.1 billion to \$2.8 billion while the collective provision charge fell by around \$600 million due to the crystallisation of some losses with balances moving from the collective provision to individual provisions.

The impaired loans at year end had risen from \$1.8 billion to \$4.4 billion. However, we believe the worst is behind us in providing for doubtful debts.

The year ended with our balance sheet in a healthy state. The collective provision was 1.31 per cent of credit-risk weighted assets.

During the year we took further steps to manage our capital position and funding programs to ensure we were strongly positioned given the difficult financial and economic conditions.

In May, we undertook a fully underwritten \$2.5 billion institutional share placement.

In July, we completed a Share Purchase Plan for retail shareholders which saw us issue a further \$2.2 billion of ordinary equity.

Over 40 per cent of our retail shareholders participated, making it one of the most successful Share Placement Plans undertaken by an Australian company. The new shares were issued at \$14.40 – the same price as paid in the Institutional Placement – and this compares to ANZ's share price yesterday of \$21.58 providing a strong return to participating shareholders.

Including the Dividend Reinvestment Plan, ANZ raised \$6.6 billion of ordinary equity and the Group ended 2009 as one of the world's best capitalised banks.

ANZ's Tier 1 capital ratio was 10.6 per cent at the end of 2009 compared to 7.7 per cent a year earlier.

Adjusting for the acquisitions that we announced during the year, some of which have not been completed yet, and the recent \$2 billion preference issue, the pro-forma Tier 1 ratio is 10 per cent.

Our customer deposits increased from 50 per cent to 55 per cent of our funding.

As a result, our reliance on domestic wholesale funding was reduced from 18 per cent to 15 per cent, and on international wholesale funding from 25 per cent to 22 per cent, while hybrids and shareholder funds increased from 7 per cent to 8 per cent.

We raised our wholesale funding requirement for the year of \$25.8 billion well ahead of schedule.

We have a strong liquid position with liquidity assets of \$34 billion, excluding Residential Mortgage Backed Securities, or 10 per cent of our loans and advances. This liquidity increases to \$60 billion if we include Residential Mortgage Backed Securities.

As I mentioned earlier, our Standard & Poors' AA-rating continues. It is satisfying that four of the 11 banking groups in this category worldwide are the leading Australian banks.

Turning to the dividend, let me say that no chairman likes to report a reduction in the dividend rate.

The global financial crisis, and some issues particular to our Bank, have seen our shares on issue increase by 34 per cent over the last two years, while earnings per share have fallen by 42 per cent.

In 2008 we maintained our dividend rate but in 2009 we reduced the dividend by 25 per cent to \$1.02 per share fully franked. This is a payout ratio of 83 per cent.

As profits recover, shareholders can expect an increase in the dividend rate although we will be seeking to return over the longer term to our traditional payout ratio of 60 to 65 per cent.

One of the benefits of the financial crisis was that it helped us make three valuable strategic acquisitions.

We paid around \$600 million to buy certain banking operations of the Royal Bank of Scotland in Singapore, Indonesia, Hong Kong, Taiwan, Vietnam and the Philippines. This will speed our expansion in the East Asian region while complementing our own operations.

Since 2002, we have had a 49 per cent interest in ING Australia and ING New Zealand. These companies operate a wealth management platform and provide life and risk insurance.

In October 2009 we were able to move to 100 per cent ownership at a cost of \$1.8 billion. This will allow us to have a clearer strategy and more a cohesive management of the business.

It also increases our investment in wealth management, a field in which we have been underweight compared with other major Australian banks.

The acquisition gives ANZ total funds under management of \$45 billion and a strong distribution network with around 1,700 aligned financial advisors in Australia, relationships with non-aligned partners and the existing ANZ network.

We have also been able to increase our involvement in rural and regional Australia through the acquisition from AWB of the Landmark loan and deposit books for net book value.

This acquisition involves \$2.4 billion in loans, \$300 million in deposits and 10,000 agribusiness customers.

At ANZ, at the operating level we have continued to take very strong action to address some problems we have had to face, due to the practices and cultural issues remaining from earlier periods.

One well publicised issue was the discovery of loans to specialised margin lending firms that subsequently faced difficulty.

In one case, Opes Prime, ANZ and Merrill Lynch agreed a settlement with creditors of the company by making a payment of around \$253 million. In another, Primebroker, the matter is still subject to legal cases.

In New Zealand there was a question of mis-selling by the Bank of certain ING New Zealand products which resulted in a settlement with customers.

Also in New Zealand, the Inland Revenue Department is taking all the major banks to Court over tax allegedly due on certain conduit transactions in the year 2005 and earlier.

The amount involved for us is around \$330 million net of indemnities from Lloyds Banking Group plc in respect of the New Zealand business we bought from it in 2003.

Separately, our markets business entered into some structured credit trades between 2004 and 2007.

During the worst of the global financial crisis, credit spreads widened considerably and this led to provisions for credit intermediation losses in 2008 of \$530 million. During the first half of 2009 these provisions increased to \$1.3 billion and then reversed back to \$584 million by the end of 2009.

While these trades extend for many years to come, we hope that with the improvement in the world economic and financial landscape we have seen the worst from these exposures.

We have taken decisions either not to write new business, or to sell a number of businesses including custody services, private equity, and credit intermediation trading.

Michael Smith and his team have worked hard to change the culture.

We have refocused on the fundamentals of banking practice while retaining the positive elements of the previous culture.

The change in our culture has been from:

- one which became more suited to fair-weather conditions, to one that can withstand all weathers;
- from an organisation based on specialist silos to one working together as One ANZ;
- from seeing risk management as being a barrier and a cost, to it being the key part of the way we do business;
- from short-term performance to longer-term performance;
- from tactical to strategic planning; and
- from a focus on earnings per share, return on equity and cost-to-income ratio to a focus on the overall power of the Bank to achieve its goals with a strong capital position and good liquidity.

Our commitment to longer term planning is seen in our increased technology spend with the activation of a number of projects that had been under consideration for some years.

Moving now to our external relationships.

I think all shareholders can be proud of ANZ's commitment to the communities in which we operate.

During the year both the Bank and our staff as individuals provided financial and other support, in the wake of natural disasters including the bushfires in Victoria, the earthquakes in China and Indonesia, the Pacific tsunami, and typhoons in the Philippines and the Greater Mekong Region.

I am particularly pleased with the progress of our Saver Plus program. This program was developed by ANZ and the Brotherhood of St. Laurence to support those Australians who are often excluded from mainstream banking including women on low incomes and single parents.

Saver Plus has already helped more than 5000 people to save with matched contributions provided by ANZ. The Australian Government recently allocated \$13.5 million to expand the Saver Plus program.

Turning to our staff.

We have 38,000 staff working in 32 countries around the world who have done an excellent job in very difficult conditions this year.

On your behalf, I would like to thank them and ask Michael Smith to pass on our appreciation.

In regard to achievements this year, I am very pleased to report that we improved our health and safety performance. Our lost time injury frequency rate in Australia was reduced from 2.4 lost time injuries per million hours worked to 1.9. And there was a similar reduction in New Zealand.

During the year we strengthened our management team with the appointment of Shayne Elliott, as Group Managing Director Institutional; Joyce Phillips as Head of Strategy and Marketing; Philip Chronican as CEO Australia; and Anne Weatherston as Chief Information Officer, as well as a number of senior appointments associated with our Asian expansion.

We are also strongly committed to diversity.

Our staff at all levels reflect the diversity of the cultures and countries in which we operate.

There is also an increasing number of women in senior roles at ANZ.

Our most senior executive committee is the Management Board. This is currently made up of twelve people. Two years ago we had no women on this committee. Today we have three with another woman, Anne Weatherston joining in early 2010.

We have a reconciliation action plan that has led to the employment of 220 indigenous trainees and our disability action plan has seen us employ 36 Australians with disabilities.

There has been a lot of discussion on remuneration policies internationally and in Australia.

Our practices are explained in the remuneration report and you will see we are generally in line with current recommended policies.

On customer performance, I am pleased to report that this year we received the Most Satisfied Customers in Australia Award and the Socially Responsible Bank of the Year Award from the independent rating firm Canstar Cannex.

For the third consecutive year we were the leading bank globally in the Dow Jones Sustainability Index.

Our commitment to sustainability is reflected in our new six Green Star head office building at Docklands in Melbourne which will house 6,500 staff.

It is the largest commercial single occupancy building in the Southern Hemisphere and it will reduce the buildings in which we have occupancy in Melbourne from 13 to 8.

We have made or are making similar investments to upgrade many of our premises around the world.

Turning now to banking regulation.

The global financial crisis is likely to lead to a plethora of new regulations to reinforce the capacity of the banking system to weather any future crisis.

We realise from the financial crisis that the globally inter-connected financial system, which has been progressively deregulated over recent decades, is much more susceptible to derailment than had been thought.

It is clear that regulators need to look at the whole system as well as individual banks and take a broader view of the structure. Further, liquidity, which was not mentioned in Basel Two regulations, needs a prominent focus.

New regulations internationally are likely to require:

- higher overall Tier 1 capital;
- a focus on minimum Tier 1 and Inner Tier 1 capital under moderate and severe stress tests;
- an overall gearing ratio; and
- an array of liquidity test requirements.

Regulators are likely to apply much more differentiation in the capital required to support individual types of assets.

The regulators are unlikely to re-introduce the Glass Steagell Act which separated investment banking from commercial bank activities.

They are however, likely to significantly increase the capital required to hold trading assets for structured products and non-conventional derivatives.

The global derivative market has been shown to be opaque especially in respect to counter-party risk and highly dangerous to the stability of the financial system.

We need a global move to standard derivative contracts that can be traded on a well capitalised clearing house supported by the financial system.

There will also be the identification of banks that constitute a systemic risk, with requirements for greater monitoring and higher capital, a "living will" of how the authorities might dismember a troubled bank which is systemically important, and agreed procedures for co-operation between the authorities of various countries in regulating such banks.

Various countries may well require international banks to have designated capital and liquidity under those countries' supervision, and we may see many international branch operations required to be separately incorporated.

I hope the accounting standards will be revised to allow banks to increase their collective provision in good years, to be drawn down in poor years, rather than the current pro-cyclical accounting where in a recession year banks have to increase individual doubtful debt provisions and at the same time increase their collective provision.

Further, regulators may move to specify a range for the appropriate level of Tier 1 capital, depending on where we are in the economic cycle, so that it becomes acceptable for a bank to draw down on a strong capital position in a recessionary year.

In applying the expected worldwide push for increased regulation to Australia, our authorities need to recognise that the Australian banking system has just come through a one-in-one-hundred-year stress test in admirable shape.

The need for major regulatory change is considerably smaller in Australia than in the United States, the United Kingdom or Europe.

It would be a pity if our banks in Australia were to be handicapped by having to make changes as drastic as those which are apparently needed by the severely weakened banking systems overseas.

Regulators also need to recognise that increased capital and liquidity requirements will raise the cost and reduce the availability of funds that banks have available to provide loans that facilitate the growth of our economy.

Already, ANZ deals with over 100 separate regulatory bodies globally and the annual cost to us of managing relationships with regulators and associated fees exceeds \$100 million annually.

Caution and balance must be applied when introducing new requirements, and any such requirements need to be phased in gradually as the economy returns, over time, to its former robust state.

Australian banking has long been characterised by a situation where customer deposits fall well short of loans with the difference raised in the wholesale market both domestically and internationally.

The Government should identify aspects of the current tax laws that discourage the holding of bank deposits relative to savings through superannuation, and find ways of remedying this distortion.

Turning to the outlook for the year ahead.

The recovery in the world economy is likely to be slow, as it is facing de-leveraging by business and consumers, higher capital requirements for banks, higher interest rates, and higher taxes.

However, there is good evidence that the Australian and New Zealand economies are recovering well and the Asian economies are showing strong growth.

The financial markets are also recovering and the volume of lending should pick up. Increased competition is however likely to restrain the further recovery in interest margins arising from re-pricing maturing loans.

At ANZ the level of provisions for doubtful debts should fall in the year ahead and more significantly in 2011.

Net profits should be higher but we have an increase of 14 per cent in the average weighted number of shares on issue which will adversely affect the growth in earnings per share.

Our capital is strong with a Tier 1 ratio of 10 per cent after allowing for acquisitions we have announced and the recent \$2 billion preference issue.

In the new regulatory environment, we will need higher capital than we have historically held, and with our expansionary aspirations, I cannot see capital buy-backs.

Many factors will affect the profit outlook in the year ahead, including headwinds such as uncertainty about whether our Global Markets business can continue to perform as well; a continued high level of doubtful debts in New Zealand; the adverse impact of a higher Australian Dollar; and a 14 per cent higher number of shares to be serviced.

However, we have tailwinds from the recovering economies in Australia, New Zealand and the region providing scope for improved lending growth; steady to improved interest margins; and the prospect of lower overall provisions for doubtful debts.

We have a strong management team led by an exceptional Chief Executive Officer; a sound, well-thought out strategy to be a super regional bank; a solid capital position and strong liquidity.

Our bank is being directed and managed for the medium and longer term and the outlook is for an improvement in profits in 2010 and for a strong 2011.