ANZ 2008 Annual General Meeting

Chairman's Address
Charles Goode

Good morning.

My name is Charles Goode and as your Chairman I welcome you to the 2008 Annual General Meeting of ANZ.

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

Let me say how very pleased we are to be in Brisbane again.

We have a significant investment and a long history in Queensland. We have 2,700 staff, 161 branches and over 500 ATMs serving 900,000 customers. We have had a continuous presence in Queensland since 1853.

As well as our substantial business presence, we have more than 56,000 shareholders in Queensland.

All of us at ANZ are very conscious of the many people in south-east Queensland, who are recovering from the series of particularly damaging storms, which began in late October and continued into November.

Many of our Queensland customers were directly affected by the storms and flooding, and we were pleased to provide an assistance package for those who were impacted; and our branches have been collecting donations to the Queensland Government's relief appeal, to which we also contributed.

To make sure as many shareholders as possible, have an opportunity to attend a meeting, we have a policy of rotating our annual general meetings around Australia's major capital cities.

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, the Chief Executive Michael Smith and I, will report on ANZ's performance, and the priorities for the period ahead. Later, there will be the opportunity for questions, or comments, on any matter related to our business.

We will then move to the six items of business before us.

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

We have recently appointed two new Board members, Peter Hay and Alison Watkins, and, during 2009, two further appointments will be made, namely, Lee Hsien Yang and Sir Rod Eddington.

These four new directors, will add further expertise and experience, and facilitate a transition, with the planned retirements of some of our longer serving Directors.

Two Directors, Margaret Jackson and Jerry Ellis, are approaching retirement under the Board's governance policy.

Margaret, will have served on the Board for 15 years in March next year and will be retiring then, in accordance with the policy.

Jerry, will reach 15 years of service in September 2010, and has said, he intends to retire at next year's Annual General Meeting.

Peter Hay and Alison Watkins joined the Board in November, and are standing for election today. Peter and Alison will address shareholders, later in the meeting.

In February next year, Lee Hsien Yang, one of Asia's most respected business leaders, will also join our Board. He is currently the Chairman of Fraser and Neave, a Director of Singapore Exchange, and The Islamic Bank of Asia, and was formerly, Chief Executive Officer of Singapore Telecommunications.

Lee Hsien Yang's experience, will be invaluable, in our goal to become a super regional bank.

I am delighted, that Sir Rod Eddington has agreed to join the Board, and succeed me as Chairman.

Sir Rod, is one of Australia's most respected business leaders, with extensive international business experience, and involvement with government.

He is a leading company director, and has spent 18 years in executive roles in Asia.

Sir Rod will join the Board, early in the second half of 2009, when he has relinquished some of his current commitments, including the Chairmanship of JP Morgan in Australia and New Zealand.

He will assume the Chair after a transition period, at which time, I will retire from the Board.

As this is Margaret Jackson's, final shareholder meeting, I would like to make special mention of her very substantial contribution, to ANZ, since she joined the Board in 1994.

Margaret has served on most Board committees, and in particular, on the Audit Committee, and, in recent years, as Chairman of the Human Resources Committee.

Her contribution has been of the highest quality, reflecting her background in accounting, and her extensive industrial, and commercial experience.

She brings to the Board, an analytical mind and, she is prepared to express her opinion.

Margaret has been a great contributor to Board discussions, and we have benefited from her undoubted ability. She has also been a wonderful colleague, and shown great strength of character during periods of adverse health, from which, I am pleased to say, she has recovered.

Margaret is widely recognized, as one of Australia's leading business and community leaders.

While, we will have the benefit of her being on the Board for a further three months, on behalf of all shareholders, I wish to take this opportunity, to acknowledge, and thank Margaret, for her very substantial contribution, and, to wish her well.

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

You can read full details on each director's experience and Board role in our annual report.

On your far left is Peter Hay. Peter is seeking election at today's meeting.

Then Ian Macfarlane. Ian is Chairman of the Governance Committee.

Next is Margaret Jackson. Margaret 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.

Next is Jerry Ellis.

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

Then John Morschel John is Chairman of the Risk Committee.

Next is Dr Greg Clark. The Technology Committee has Greg as its Chairman.

Then, Alison Watkins, who is seeking election at today's meeting.

Critical to the performance of the Bank, is our senior management team. ANZ, has a strong senior management team, and a depth of talented executives beneath them. Let me now introduce them to you.

In the front row we have:

Brian Hartzer, Chief Executive Officer, Australia

Graham Hodges, Chief Executive Officer, ANZ National in New Zealand

Alex Thursby, Chief Executive Officer, Asia Pacific and Acting Group Managing Director, Institutional

Chris Page, Chief Risk Officer

Susie Babani, Group Managing Director, Human Resources

David Cartwright, Group Managing Director, Operations, Technology and Shared Services

David Hisco, Group Managing Director, Commercial Banking, and

Margaret Payn, Group Managing Director, Strategy and Marketing.

The ANZ executives, on the stage behind me, from your left are: Bob Santamaria, Group General Counsel and Company Secretary; Shane Buggle, Group General Manager Finance; and John Priestley, Company Secretary.

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

ANZ has weathered a challenging year in 2008.

Against the background of turmoil and volatility, our results for the financial year, while down on 2007, demonstrated the strength of our business. In the Australian environment our performance was disappointing, while, in the world environment, it was commendable.

Our profit after tax, was $3.3 billion, and our cash profit, was $3 billion.

Importantly, we maintained the full year dividend at $1.36 per share fully franked. The Final Dividend of 74 cents a share, was paid into the bank accounts of shareholders today.

Lending growth for the year was 16 per cent; growth in customer deposits was 13 per cent; and our underlying revenue grew 12%.

We benefited, from being a AA-rated bank; from the performance of our Personal Bank; the relative strength of the regional economy and the quality of ANZ's franchise in the region.

The results, were adversely affected by a $1.4 billion increase in credit impairment charges on lending, giving rise to a total provision of $1.9 billion; and in addition, there was a $700 million charge for credit risk on derivatives.

In recent years, we have been saying, that Australian banks have enjoyed many years of unusually low provisions, and, that at some stage, it would return to more normal levels.

Unfortunately this year it did change, and it changed significantly.

We strengthened our collective provision, by $829 million, which now stands, at 1.1% of credit risk weighted assets, and this is prudent, in view of the deteriorating global credit environment, and the softening economic conditions.

Turning to the individual businesses:

We saw a strong performance in our Personal Division. This has remained, one of Australia's, best performing retail banks, and, one of Australia's, strongest deposit taking institutions. In Personal Banking, lending rose by 12%; customer deposits by 13%; and profit by 12%.

In the Asia Pacific Division, we are making excellent progress in building a growth business, which is delivering very good results. Profits grew 52%, reflecting the organic growth in our operations, and, successful investments in AMMB in Malaysia; Shanghai Rural Commercial Bank and the Tianjin City Bank in China; and PT Bank Panin in Indonesia.

In our Institutional Division, the business environment, and operational issues, have been significantly more difficult.

Increased provisions, on a limited number of corporate names, along with, the valuation of credit risk on derivatives, led to a 65% fall in profit.

We have begun the process of rebuilding this Division, by adjusting its business model, strengthening management, increasing our investment - especially in technology - and improving risk management. We have the benefit of, a strong core institutional customer franchise, on which to build.

In New Zealand, profit declined 17 per cent, due to a significant increase in provisioning, off a historically low base.

The New Zealand economy, has weakened considerably in 2008, and our business strategy, in this environment, is focussed on maintaining our leading market position, while driving productivity improvements.

A strong capital position, is very important, in the current, uncertain environment, and we have been active in our efforts, to strengthen capital, including exchanging StEPS for ordinary equity, underwriting the Interim, and Final Dividend, and raising, $1.7 billion, in hybrid Tier 1 capital.

ANZ's pro-forma 2008 Tier 1 capital ratio stands at 8.35%, up from 8.1%, following advice, this week, from the Australian Prudential Regulation Authority on the treatment of goodwill in associates. This compares very well globally, and is among the strongest of the major Australian banks.

ANZ's performance has been delivered in a global economic environment, which has seen, unprecedented turmoil beginning from the US sub-prime crisis.

The collapse of the US sub prime mortgage market, and the impact, on financial markets worldwide, has seen financial institutions left with losses of around US$1 trillion. Globally, banks have raised around US$930 billion of new capital of which governments have provided US$345 billion.

I am pleased to say, ANZ has remained strong, and, we have not required any capital from government.

Many banks have had to write down, the value of their assets from losses and mark to market valuations, which have had a dramatic effect, on some of the world's largest, and best known, financial institutions.

In the second half of 2008, the financial systems in the US, and Europe, came close to collapsing.

The collapse was avoided, by the biggest coordinated government interventions, we have seen in the financial system, since the 1930s.

One measure of the impact of the global financial crisis, is that only 14 banks in the world remain rated AA, and, ANZ is in this select company.

There has been a reaction, to the global financial crisis, from both, the financial institutions themselves, and the regulators.

In this new environment, financial organisations know they need better liquidity; greater capital; stronger risk management systems; better pricing for risk; and less complex loan instruments.

Regulators, are likely, over time, to increase their tests of liquidity, and market risk which were not addressed by Basel II. They are also likely to require higher tier one, and core tier one capital; mandate stronger risk management systems, and have more stress test modeling for unusual events.

Regulators, will continue to impose, tougher regulations on commercial banks, than on other financial intermediaries.

But the "shadow banking system", is likely to be affected, by regulators insisting on more disclosure, particularly of gearing, and bringing many derivative transactions back onto exchanges.

This will put needed discipline on hedge funds, private equity firms, and what remains, of the investment banks.

Rating agencies will also be subject to considerable internal and external review.

At our Annual General Meeting in 2004, I spoke about the cost of the US Sarbanes-Oxley regulation, where complex regulation was introduced.

New financial regulation needs to take place, but we hope it will be better regulation, not just more regulation.

In our view, there needs to be considerable re-thinking by the accounting regulatory bodies, of some of the requirements they have introduced over the last few years. Some years back, banks could, in good years, increase their general provision to provide a buffer for bad years.

This had the effect of, to some extent, reflecting a “through the cycle” view of earnings.

However, the accounting bodies, judged it better for shareholders to experience the year-to-year changes in performance.

This means, however, that banks can only provide in the collective provision, for known facts, that will impact on the loan portfolio.

Now, when there is a downturn, we not only have higher individual provisions for impaired loans, but we need at the same time, to increase the collective provision, to reflect the generally lower credit state of the loan book.

The result of the accounting changes, is that banks have become more pro-cyclical with increased volatility in reported profits. I consider, the earlier accounting treatment, provided greater stability and was in the interest of shareholders.

We also are required, to mark to market, a greater range of financial instruments which are held that are quote "available for sale" and all classes of derivatives.

Accounting bodies need to consider modifying this mark to market accounting, when the prices in volatile, illiquid markets differ so much from the professional assessment of the underlying credit risk.

Like all other banks, ANZ has been impacted by the global credit crisis, and we have kept shareholders informed, by releasing trading updates, as issues have emerged during the year.

One issue particular to us, was ANZ's involvement in Securities Lending, and its relationship with broker clients, including the Opes Prime group.

In April, at the instigation of the Board, the Chief Executive, Mike Smith, began a review of our involvement, and in August, he released the findings of his Review Committee.

He was assisted in this by David Crawford, a leading independent company director, three senior ANZ executives, and considerable staff support.

Among its many findings, the Review Committee found, that although there were acceptable processes in place to monitor risk in the bank; the Board, the relevant Board Committees, and the Chief Executive Officer, were not provided with a clear understanding of the nature, and potential exposures, in respect of ANZ's Equity Finance business.

This and other management, control, and accountability issues which were identified in the report, are being addressed through a comprehensive, 13-point remediation plan.

While there remain broader legal issues to be resolved, ANZ believes, the Equity Finance business was undertaken in good faith, and has a very strong legal foundation.

The key issue for ANZ, in today's stressed global economic environment, is to continue to take the necessary action, to ensure we retain high liquidity, strong capital, a AA credit rating and make progress in our aspiration to be a super regional bank.

The Board and our management are as one in:

- adopting a longer term approach in all of our decisions;

- preparedness to address and spend money on technology;

- elevating the importance of risk management, and compliance, and upgrading our skills in these areas;

- adequately staffing our Asia Pacific Division, to support our investments, and plans for expansion in the region;

- greater integration of institutional banking into the Bank, and, improving its staff talent;

- placing less emphasis on the cost/income ratio, and more on the sound longer term development of the Bank; and

- strengthening the capital position of the Bank, with a buffer, rather than finely tuning capital to assist earnings per share.

The new management team, led by Michael Smith, has recently undertaken a number of initiatives.

Michael will talk further on these matters in his presentation, however I wish to highlight progress in four areas. These are:

- a program, to restructure ANZ, to lift customer focus, to drive performance improvement, and to become a significant bank in our region;

- refined organisational values that place more emphasis on accountability and on integrity, collaboration, respect and excellence;

- an emphasis on basic banking skills, both in hiring, training and assessment of performance;

- a human resources assessment of individual performance, which differentiates, much more, in the rewards between strong and poor performers.

We are also continuing to build diversity among our people as a source of business advantage.

By this I mean diversity in its widest sense - age, gender, cultural, racial background, and occupational history. This is about ensuring, that ANZ's people, represent the community that we are serving.

This year ANZ appointed two women to its 11 person management board.

And our Asia Pacific division has embraced the region's diversity, with a number of senior female appointments over the last year, including our Managing Director for Retail in Asia, and our country head in the Philippines and Thailand.

In the area of Corporate Responsibility, we work to help improve the social and economic wellbeing of our communities, with a particular focus, on some of the most disadvantaged people in our society.

We have made a long-term commitment to improving adult financial literacy, and inclusion in Australia. Our work with major Australian community organisations in this area, was again recognised by a Prime Ministerial award.

We have also established a plan to help to improve the social and economic wellbeing, of Indigenous Australians, principally through our goal, to employ 300 Indigenous trainees, over the next three years. During 2008, we recruited 107 young Indigenous people, to work in ANZ branches around Australia.

We also enable our people, to get involved in the causes that are important to them, both financially and through volunteering, and in the process they support hundreds of local community charities and initiatives.

During the year, our employees contributed around 10,000 days of volunteering to these causes.

ANZ's Customer Charter sets out the specific service standards our customers should expect from us, including a formal commitment, to lending in a responsible and transparent way.

Each year, our external auditors, review our performance against our commitments, and we report the results publicly.

During the year we introduced *Customer Connect*, a program that identifies, and assists, retail customers experiencing financial difficulty.

We are also proud, that we have maintained the highest customer satisfaction rating, among the major Australian banks.

On the environment, we introduced four new social and environmental policies, to guide our business lending decisions, in the Forestry, Mining, Energy and Water sectors.

Inside ANZ, we are working to improve our energy, and fuel efficiency.

It is pleasing, that ANZ was recognised, as the number one bank globally, in the Dow Jones Sustainability Index, for the second year in a row.

This Index, provides an independent benchmark, based on economic, environmental and social criteria following a review of the largest 2,500 companies in the Dow Jones Global Index.

In the current, very challenging conditions, our people have made a significant contribution to ANZ, and the communities in which they work.

On behalf of the Board and shareholders, I wish to thank them for their contribution.

Moving to the outlook.

We see the world economy slowing significantly in 2009. The major advanced economies are in, or moving into, recession.

Emerging economies have been affected, but overall may still deliver 5 percent growth in 2009.

Although economic growth will slow significantly, Australia goes into this world economic downturn, in a significantly better position, than most developed countries. We have strong institutions, a sound banking system, and the capacity for monetary and fiscal stimulation.

What distinguishes the current crisis, from other crises, is the speed at which it has spread globally, and its broad impact on confidence.

The seriousness of the crisis, has led to an unprecedented, coordinated response by governments on the availability of liquidity, the guarantee of deposits and borrowings of financial institutions, lower interest rates, and fiscal stimulation.

This response, and that of our own Government has been commendable.

Governments however, probably do not have the power to avoid recessions, although they can considerably reduce their severity.

In doing so, they need to continue to work with the institutions that are the pillars of our market economy, and not fundamentally alter its structure, or engage in short term solutions.

We need prompt, and significant action, to be provided, in a manner that leaves our market economy in place, and does not cause a significant inflationary problem, when the economy recovers.

While the four major banks are an easy political target, it would in this environment, be helpful to see less politicising of the Banks' response, for example, to interest rate reductions.

The politicising, is far greater, than in other countries, and comes from both sides of Parliament. One would hope, there could be more support for our key institutions, and for allowing the market forces to determine these issues.

The reality is that, Australian banks are amongst the most financially strong in the world and the goal should be to ensure this continues. This strength, has been crucially important to confidence in, and the ongoing functioning of, the Australian economy.

The recent withdrawal, of two major international auto-finance suppliers, and the subsequent emergency action that had to be taken by the Australian Government, and the four major banks, is an example, of the advantages of finance providers, with a real commitment to this country.

The Government guarantee of overseas wholesale borrowings, was necessary, for us to have a level playing field with other international banks, coming to the world capital markets with sovereign guarantees.

The Government guarantee of domestic deposits of authorised deposit taking institutions, was also seen as needed to ensure stability, in view of what other countries were doing.

The task now is, in due course, when circumstances permit, to have an orderly reduction in this guarantee, which is causing some market distortions, especially in respect of financial organisations not covered by the guarantee.

The global financial crisis has not yet stabilised, but we may be three-quarters of the way to that position.

We are in the early stages of its impact on the Australian economy, which will go into near recession, or recession.

In New Zealand, the economy is expected to contract in 2009.

There will be implications for the banking industry, through bad debts, which will arise from these economic conditions.

We will be operating in an environment, where worldwide debt reduction, will prolong the difficult economic circumstances.

There will be further bad debts. There will be more regulation. There will continue to be volatility in financial markets. This will effect valuations of derivatives, and the charges we take for credit risk on derivatives will continue to be high. A loan book in such circumstances, will show credit deterioration, and therefore may require more capital to support it.

This is an environment, from which we do not expect a quick recovery, and in which a bank needs to be well capitalized, and to have sound banking practices.

Your Board believes, ANZ has the financial strength, the strategy and the management leadership, to progress through these uncertain times.

Thank you.