

## **ANZ 2007 Annual General Meeting**

### **Chairman's Address 18 December 2007**

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Good morning. My name is Charles Goode.

Welcome to the 2007 Annual General Meeting of ANZ. Let me also welcome shareholders joining us through our webcast on anz.com.

On behalf of all your directors, let me say how pleased we are to be in Perth again.

We first opened for business in Western Australia in 1841 ... 166 years ago. The Bank was then called the Bank of Australasia. It opened in Perth just four years after the opening of our first branch in Australia in Melbourne.

Today, we have more than 31,000 shareholders, 1,400 staff and 84 branches spread throughout the state.

In the last two years, we have opened 15 new branches in Western Australia. In February we will be opening another new branch in Wanneroo. Of our 84 branches, 15 are open for service on Saturday and we have over 300 ATMs, the largest ATM network in the state.

Now turning to today's meeting:

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 and copies of the annual report are available in the registration area.

At our meeting today ANZ's new Chief Executive Officer Michael Smith and I will report on ANZ's performance and the priorities for the period ahead.

I will later open the floor for questions or comments on any matter related to our business.

After the questions we will move to discussion on the formal items of business before us.

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

Now let me introduce your Directors.

On your far left is Jerry Ellis. Jerry lives in Melbourne. He is a member of the Audit Committee and the Technology Committee.

Then Ian Macfarlane. Ian joined the Board in February 2007. He lives in Sydney and is Chairman of the Governance Committee and a member of the Risk Committee and the Technology Committee.

Ian is seeking election at today's meeting in accordance with the Company's Constitution.

Next to me is Michael Smith, the Chief Executive Officer.

Michael became ANZ's Chief Executive on 1 October 2007 following the retirement of John McFarlane.

He was previously President and Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited, Chairman of Hang Seng Bank and Chairman of HSBC Bank Malaysia. He was also the Global Head of Commercial Banking for the HSBC Group.

On my left, is Peter Marriott. Peter is the Chief Financial Officer. Peter has been with ANZ since 1993 and is recognized as one of Australia's leading chief financial officers.

Next is David Meiklejohn. David lives in Melbourne and he joined the Board in October 2004. David is Chairman of the Audit Committee and a member of the Governance Committee and the Risk Committee.

David is seeking re-election at today's meeting.

Next is Dr Greg Clark. Greg lives in Sydney and New York, and is Chairman of the Technology Committee and a member of the Governance Committee.

Greg is seeking re-election at today's meeting.

Finally, there is John Morschel who lives in Sydney. John is Chairman of the Risk Committee and a member of the People Committee.

John is also seeking re-election at today's meeting.

Unfortunately Margaret Jackson is not with us today as she has been advised by her doctor not to travel. She sends her apologies.

You can read full details of the Directors' backgrounds and their qualifications in our Annual Report.

Before we move on from directors, let me acknowledge the significant contribution David Gonski made during his five years on the Board until he retired in June 2007. We thank him and wish him well.

I also wish to pay tribute to John McFarlane who retired as Chief Executive Officer on 30 September 2007.

Over the last ten years, John made an enduring contribution to ANZ's development and business in Australia.

During his period ANZ has significantly improved its staff engagement, customer satisfaction, and community recognition, as well as de-risking the Bank and delivering on many of its promises to shareholders.

On behalf of shareholders and the Board, I wish to thank John for his contribution and service.

Now let me introduce the ANZ executives on the stage. Behind me from your left are: Bob Santamaria, our new Group General Counsel and Company Secretary; Shane Buggle, Group General Manager Finance; and then John Priestley, Company Secretary .

I will now turn to discuss ANZ's performance during the year.

Our Bank had a solid result in 2007, delivering value for shareholders, customers and the community.

Net profit after tax was a record \$4.2 billion.

Dividends per share for the year increased by 9 per cent to \$1.36 fully franked and this is the fourteenth successive year in which dividends have increased.

The Final Dividend of 74 cents a share will be paid into shareholder's bank accounts this Friday, the 21st of December.

The increase in the dividend reflects a sound business performance driven by strong revenue growth and a prudent approach to risk.

For the 2007 financial year we reported the highest revenue growth and growth in profit before provisions since 2001.

However, cost growth after excluding non-core items was high at 7.6%, partly affected by the consolidation of E\*Trade Australia and Stadium Australia, and the ongoing costs of investing in our businesses. Our cost to income ratio was 44.8%, almost 1% down on 2006.

The provision charge to profit in 2007 for individual impaired loans was \$484 million or 0.17% of average net lending assets. It was higher than the abnormally low level in 2006 which was helped by significant recoveries of past losses. However, the provision was well below the average expected loss across the economic cycle.

Our collective provision for impaired loans is the strongest of our peer group at 0.72% of risk weighted assets.

Our asset quality is strong with the ratio of net non performing loans to net lending assets at 0.13%, the lowest level since we started disclosing this in 1989.

Earlier this month ANZ was accredited by the Australian Prudential Regulatory Authority as an Advanced Internal Ratings Bank which is the highest status available under the new international Basel II capital accord.

Our accreditation means that our internal risk management systems meet the stringent requirements of the accord and allows us to use our internal risk models to calculate capital requirements.

The impact on the level of capital required is still to be determined in conjunction with APRA, although some reduction is anticipated. Our Tier 1 capital ratio at 30 September 2007 under the previous accord was 6.7%.

We decided to underwrite the Dividend Reinvestment Program to restore our capital position to where it was at the beginning of the year prior to investments in China and Malaysia.

Now, turning to the performance of our key businesses.

Our Personal Division had another outstanding year. The Division has a clear strategy to increase its market position in retail financial services by making ANZ's service to customers convenient, simple and responsible.

This strategy is producing results. Revenue was up 12% and earnings up 16%. Most businesses delivered double digit earnings growth.

Investment and Insurance Products was up substantially within the Division. The result in this business was assisted by the acquisition of E\*Trade Australia during the year.

This year, we were named Money Magazine's Bank of the Year and the Customer Service Institute of Australia awarded us both the national Large Business Category and "Best of the Best" awards for customer service excellence.

Our Institutional Division performed below expectations with profit growth of 6%. Geographically, Institutional had acceptable profit growth before provisions in Australia and stronger double digit growth in Asia. Profit growth was weaker in New Zealand, the United Kingdom and the United States.

However, the franchise is strong. The 2007 Peter Lee Associates large Corporate and Institutional Banking Survey showed we retained our number one relationship bank status for the second consecutive year.

Given the strength of ANZ's franchise and the initiatives to improve performance that are underway, we believe this Division is capable of producing better results.

In New Zealand, earnings were up 6% against the previous year which had benefited from very low credit provisions.

ANZ National Bank was recognised as the 2007 Institute of Finance Professionals Bank of the Year and retained its position as the Business Finance Monitor's number one bank for rural agri-business customers.

The wealth management joint venture with ING is now delivering very good momentum with earnings up 27%.

Strong results are flowing through from our network business and the banking partnerships in Asia.

During 2007 we committed approximately \$1.3 billion to investments in Asia. We acquired a 25% interest in Malaysia's AMMB Holdings; 20% of China's Shanghai Rural Commercial Bank; 60% of the Vientiane Commercial Bank in Laos; 10% of Vietnam's Saigon Securities; and 100% of the Citizens Security Bank in Guam.

We believe these investments are important steps in our Asian growth strategy and our long term future.

The rationale for these investments is clear.

Asian growth in GDP, led by China, is forecast to be more than 3 times higher than that of the 30 western countries that make up the OECD in 2008. In 1980 Asia accounted for around 20 per cent of global GDP. Today, it accounts for nearly 40 per cent.

Until recently, Chinese consumers only paid cash for their purchases. With greater deregulation and with consumer credit and credit cards becoming more widely available, there are significant opportunities for financial services providers.

As well as investing in other banks in Asia we are also investing in our own branches in the region. This is to capitalise on the links to Australia and New Zealand through trade, immigration, education and capital flows.

But to really take advantage of the opportunities in our region, there is no doubt that, over time, Australian banks will need to be of a greater scale.

There are two major reasons for this. The first is to continue to be able to successfully compete for investments. The second is to ensure we are of sufficient scale with the balance sheet to support our Australian and New Zealand clients who are increasingly making the decision to participate in Asia's growth.

It is in Australia's long term economic interest to allow Australian banks to grow to a size where they can compete effectively in the region.

The environment that saw the development of the Six Pillars policy, which later become the Four Pillars policy, has gone.

There is strong competition in the banking and financial services sector. In every segment of the market where we compete there are up to 12 competitors. In the institutional market there are over 14 major players, many of whom are much larger than the Australian trading banks.

In the personal sector there are international banks, regional banks as well as specialist finance providers as well as the four major trading banks.

Rather than diminishing domestic competition, which is the concern of government and regulators, we believe moving on from existing policy would help to allow the creation of a **more competitive portfolio** of products, and act as a competitive catalyst that would deliver real benefits to Australian customers and the Australian economy.

With Michael Smith's appointment as Chief Executive, I believe we are at a new stage of ANZ's development.

So let me take stock of where ANZ is now, and look at some of the steps we are taking to continue to strengthen ANZ for the future.

On the screens behind me you will see some tables that chart our development over the last ten years.

**Table 1: Staff and Customers**

|                                         | <b>30 Sept 1997</b> | <b>30 Sept 2007</b>     |
|-----------------------------------------|---------------------|-------------------------|
| Employees (full time equivalents)       | 35,926              | 34,353                  |
| Staff Engagement                        |                     | Significant Improvement |
| Retail Customer Satisfaction            |                     |                         |
| • ANZ                                   | 69.2                | 77.2                    |
| • Ave of other 3 major Australian Banks | 68.3                | 71.4                    |

\* Source: Roy Morgan Research

The major point here is the development of a culture that has increased staff engagement and led to the highest customer satisfaction of Australia's major banks.

The ANZ culture has seen us win a number of awards including being Money Managers magazine's Bank of the Year for 7 out of the last ten years; being the top ranked bank globally in the Dow Jones Sustainability Index, and being in Fortune Magazine's Top Twenty Companies Globally for Leadership in 2007.

**Table 2: Geographic Representation**

|                                                                                                                                                                 | <b>30 Sept 1997</b>                                          | <b>30 Sept 2007</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|---------------------|
| Number of Countries Represented                                                                                                                                 | 43                                                           | 30                  |
| Countries ANZ has left since October 1997:                                                                                                                      | Countries entered since October 1997:                        |                     |
| • Argentina, Bahrain, Bangladesh, Brazil, Chile, France, Greece, Guernsey, Iran, Israel, Jersey, Jordan, Mexico, Nepal, Pakistan, Qatar, Sri Lanka, Switzerland | • Cambodia, Laos, East Timor, American Samoa, Guam, Kiribati |                     |

Over the last decade we have focused the bank on a smaller number of geographic and product areas. Management has reshaped the bank selling non-core operations, focusing on the development of personal banking and investing in new branches in high growth areas.

At the same time we have lowered our risk profile and reduced our cost income ratio from the mid-sixties to the mid-forties.

**Table 3: Financial Measures**

|                                                         | <b>30 Sept 1997</b> | <b>30 Sept 2007</b> |
|---------------------------------------------------------|---------------------|---------------------|
| No. of Shareholders                                     | 132,450             | 327,703             |
| Total Assets (\$m.)                                     | \$138,241           | \$392,613           |
| Shareholder Funds (\$m)                                 | \$6,993             | \$22,048            |
| Net Profit After Tax (\$m)                              | \$1,024             | \$4,180             |
| Earnings per Share                                      | 78.4 cents          | 224.1 cents         |
| Dividend per Share                                      | 48 cents            | 136 cents           |
| Cost Income Ratio                                       |                     |                     |
| • ANZ                                                   | 64.9%               | 44.8%               |
| • CBA                                                   | 61.1%               | 48.3%               |
| • NAB                                                   | 55.9%               | 51.0%               |
| • WBC                                                   | 60.7%               | 45.0%               |
| Risk Profile - Significant Improvement                  |                     |                     |
| Net Non Accrual Loans as a % of Net Advances            | 0.40%               | 0.13%               |
| Total Shareholder Return over 10 Years                  |                     |                     |
| • ANZ                                                   |                     | 345%                |
| • CBA                                                   |                     | 454%                |
| • NAB                                                   |                     | 203%                |
| • WBC                                                   |                     | 407%                |
| Estimated forward Price Earnings Ratio                  | 12.8                | 12.9                |
| Ave Price Earnings Ratio of other 3 major trading banks | 11.8                | 14.2                |

The focus on Personal has seen this Division become a consistently strong performer over the past four years, typically outperforming its peers.

In contrast, the underperformance of Institutional has been a common theme across the 10 years. This started with the Asian crisis, Russian bond trading losses, credit losses from “Fallen Angels” like Enron and Marconi, the loss of income associated with de-risking including the run off of deals involving tax risk; and more recently, falling market share in Australian lending.

In New Zealand, we have grown both organically and through acquisitions giving us leading positions in all market segments in personal and institutional banking.

However, while our overall shareholder returns over the ten years have been consistently good, they were not as good as some of our peers.

There are areas of significant opportunity for us in the next stage of our growth.

These include wealth management, our share of corporate and business banking, some areas of technology and generating returns from our strategic investments in East Asia.

We are committed to rebuilding the momentum at ANZ. Our strategy will include:

- Extending our planning focus from the short-to-medium term to the medium-to-long term.
- Realising the full value from our culture and high levels of staff engagement.
- Undertaking substantial staged investment in technology to significantly improve productivity and allow process and customer service innovation.
- Reducing complexity across the Group and moving our emphasis from products to customers and from Divisions to the Group as a whole.
- More actively exploring opportunities to expand in wealth management; and,
- Bringing focus to our Asian strategy by structuring our Asian branches and investments into a single Asia Pacific Division.

While focusing on our business strategy, all of our stakeholders, employees, customers, and shareholders have higher expectations of our environmental performance.

Our approach to the environment means that we seek to operate in a way that minimises the social and environmental impacts associated with our business and we bring these values to discussions with our customers.

This includes ensuring social, ethical and environmental considerations are taken into account in our business activities and financing decisions.

Some stakeholders call for banks, including ANZ, to exclude particular clients or sectors. Our approach and preference is to work with our clients to help minimise or mitigate social and environmental impacts and, where appropriate, provide financial support to help them improve their performance.

An example of our commitment to reducing our own environmental impact is our development of Australia's largest office building in the docklands precinct in Melbourne. The new building will be completed in two years and will be home to around 6,000 ANZ staff.

It will be one of the most environmentally sustainable commercial business offices in Australia, with a 6-star green rating for the building and a 5-star green rating for the interior.

The new building will feature rainwater collection; greater use of fresh air and natural light; landscaped roof; and improved energy efficiency to reduce greenhouse emissions.

In Adelaide, ANZ has already relocated its office to the city's new 5-star green building, City Central. The most energy-efficient building in Adelaide, City Central will set the benchmark for environmentally sustainable commercial developments. ANZ's office fit-out will have a 5-star green rating.

But to continue to be able to create sustainable value for all our stakeholders we have to generate superior financial performance.

We have been operating in a very prosperous period for some time for Australia and in particular for banking.

In each of the last three years we have reported solid to good growth in earnings per share having been slightly above the average of the other three major trading banks in 2005 and below them in the last two years.

**Table 4: Cash EPS Growth 2005-2007**

|                                    | 2007  | 2006  | 2005 |
|------------------------------------|-------|-------|------|
| ANZ                                | 8.1%  | 13.2% | 8.8% |
| Ave of other 3 major trading banks | 13.6% | 14.7% | 8.1% |

Our current strategy and policies may have our earnings growth coming in below our peers for the year ahead, but that is not certain, and we expect the medium and longer term performance to be above that of our peers.

In addition to the appointment of Michael Smith as Chief Executive, we have made a number of other senior appointments to address the opportunities we have before us.

Peter Hodgson was appointed Group Managing Director Institutional. Peter was previously Chief Risk Officer at ANZ and prior to that he held leadership roles in the Institutional Division.

David Stephen was promoted to Chief Risk Officer.

We established an Asia Pacific Division and appointed Alex Thursby as Group Managing Director. Alex joined ANZ from Standard Chartered Bank.

David Cartwright was appointed Group Managing Director Operations Technology and Shared Services. David joined ANZ from Intelligent Processing Solutions, a joint venture created in the UK by Unisys, Lloyds TSB, Barclays and HSBC.

Susan Babani will join ANZ as Group General Manager Human Resources from HSBC Insurance. Shane Freeman has been appointed Managing Director Operations, Technology and Shared Services in India to lead ANZ's growing presence in Bangalore where we now have over 2,000 staff.

Bob Santamaria joined ANZ from Allens Arthur Robinson as our new Group General Counsel and Company Secretary, following the appointment of Tim L'Estrange as Managing Director and Regional Head for Europe and America.

Now let me turn to the outlook for the bank.

The major current issue is the effect of the sub-prime lending crisis in the United States.

So far banks in the US and Europe have provided around \$100 billion for the impact of the US sub-prime crisis. ANZ has no direct exposure to this market. Naturally, as a major international bank, a few of our customers have exposure to the current turmoil but we have not needed, to date, to raise any credit provision for these customers.

However the repercussions of the current turmoil can not easily be determined. We do know it has introduced considerable uncertainty and liquidity issues into the financial markets.

ANZ has sound liquidity policies and well diversified funding sources, and has been able to operate effectively during the current disruptions to debt markets. However, one of the issues we are monitoring closely is the extent and the period over which the liquidity issues associated with the sub-prime crisis are likely to affect financial markets.

ANZ has around 40% of its assets funded from the wholesale market. This funding is coming at a higher cost.

Funding costs have moved up sharply and continue to be very volatile. It is very difficult to anticipate when market conditions will improve. Conditions have been exacerbated by year-end funding pressures in the United States.

There has been a further deterioration in global credit markets in recent weeks. In Australia, the 90 day bank bill rate for short term funds is trading well above the usual margin of between 5 to 15 basis points. Most recently this spread has been as wide as 75 basis points.

Similarly, spreads for medium term wholesale funding have also deteriorated further. Medium term wholesale funding was able to be sourced at a modest premium of around 15 basis points relative to cost of short term wholesale funding. However, as a consequence of the global credit crisis, term funding of between two and five years is now being sourced at a premium of between 30 and 70 basis points.

While we have so far absorbed much of this additional funding cost, if this margin squeeze is sustained there will be a need to pass these higher funding costs on to more of our customers.

In terms of the world economy, despite the significance of a slow down in the US, we think 2008 will still be a good growth year – in Australia, we are expecting economic growth of around 3 and a ½ percent, and 1 and a ½ percent in New Zealand where tighter financial conditions are beginning to bite.

The business environment is favorable for 2008 and we expect higher earnings for the year. We have fully hedged our expected 2008 New Zealand earnings at a rate of NZ\$1.15 to \$A1.00. This means our 2008 result will not be materially impacted by changes in the value of the New Zealand Dollar.

There may also be some positives that emerge from the sub-prime crisis. One is that we are seeing more rational pricing for risk, particularly on the corporate side, and strong corporate lending volumes. We are also seeing higher application volumes in our mortgage business, as customers look to the financial strength of ANZ.

However there will be headwinds from the reverberations of the US sub-prime crisis, higher funding costs, a likely stronger Australian Dollar than the average experienced in 2007 of around 81 cents, higher credit provisions, and expenditure related to strengthening our franchise for the medium and longer term.

The Board believes we have established the right direction and leadership for ANZ and we are optimistic and confident about our medium term outlook and returns for shareholders.

I invite our Chief Executive, Michael Smith, to share with us his initial impressions and to expand on the strategy and policies of the Bank for the future.

Michael Smith joined us after twenty nine years with HSBC during which time he worked in most continents and had experience in both retail and corporate banking.

He rose to be the head of HSBC's Asian operations and the Global Head of Commercial Banking as well as Chairman of the Hang Seng Bank. The Asian division of HSBC has 60,000 employees in 27 countries with total assets of \$520 billion and profit before tax of almost \$11 billion.

Michael Smith is an outstanding all-round banker with a wealth of experience on the international banking scene.

Michael.