

CHIEF EXECUTIVE OFFICER'S REPORT A MESSAGE FROM MICHAEL SMITH



Two years ago, we took a decision at ANZ that although we had great individual businesses in Australia, New Zealand and Asia Pacific, there was a unique opportunity to create value for shareholders by becoming a super-regional bank – a bank of global quality with regional focus.

2009 represents a turning point in delivering that aspiration. We've worked hard to reposition ANZ to face up to what we called the 'new reality' following the global financial crisis and we've built a strong foundation through careful, disciplined management of our balance sheet, capital and liquidity.

At the same time, we've made significant progress in completing change and remediation in the business in order to place ANZ on a new footing. Together, that has allowed us to shift our focus this year to the opportunities that are available to a strongly capitalised bank and to the growth available in our region, which is now the best performing region in the world economy.



WE'VE WORKED HARD TO REPOSITION ANZ TO FACE UP TO WHAT WE CALLED THE 'NEW REALITY' FOLLOWING THE GLOBAL FINANCIAL CRISIS AND WE'VE BUILT A STRONG FOUNDATION THROUGH CAREFUL, DISCIPLINED MANAGEMENT OF OUR BALANCE SHEET, CAPITAL AND LIQUIDITY.

Our operating environment

Our 2009 financial year began just weeks after the collapse of Lehman Brothers, one of the leading Wall Street investment banks.

In the weeks that followed, some household names in finance disappeared and as at the end of 2009 financial year over 100 banks in the United States had failed and many of what were the world's largest banks are now effectively in the hands of their respective national governments.

As the financial crisis unfolded, its impact in the world economy became very clear. As a result we've seen unprecedented action by governments to save the global financial system and to rescue the world economy, which entered into the most globalised downturn since the Great Depression.

By contrast, in Australia, even with provisions at or near cyclical highs, banks are in good shape relative to their international peers. Today, Australia's four major banks – including ANZ – are among just 11 AA-rated banks left in the world.

In this very difficult environment, ANZ has consistently called the trends early in the economic cycle and the global financial situation.

Today, in Australia and in Asia, the economies are showing early positive signs of recovery and although the economic cycle is still playing out, there are reasons for optimism.

In the region, China and India are continuing to show good growth and we believe the urbanisation and fundamental transformation occurring in those economies will see that growth continue.

We strongly believe Asia will be an engine for global growth for many decades to come, and given the trade and investment flows between Australia and New Zealand and Asia, it's an essential part of the long-term growth strategy for any business.

Our business performance

In this environment, ANZ has remained financially strong, maintained momentum in the business and worked hard to position ANZ for future growth.

Underlying profit for the year was \$3.8 billion, up 10%. Taking into account the impact of some one-off items and non-continuing businesses, statutory profit decreased 11% to \$2.9 billion.

Australia performed well, with underlying profit after tax up 13% to \$2,560 million. The Retail and Institutional businesses in the region were standout performers. Commercial produced a credible result, given the difficult year experienced by middle-market and small business managers.

Importantly we are also delivering for our customers. ANZ remains the highest rated of the major banks when it comes to customer satisfaction.

PROGRESS PERFORMANCE

Part of our strategy is to design our business around our customers' needs, not our product lines.

In New Zealand, trading conditions remained challenging. New Zealand's economic downturn has been more pronounced and protracted than that in Australia and, while we maintained our market leading position, the economic environment led to a 34% decline in underlying profit after tax to \$513 million.

The Asia Pacific, Europe and America region produced an outstanding performance with underlying profit after tax up 81% to \$699 million, with strong contributions from our partnerships and the Institutional business driving much of this growth.

ANZ has continued to invest significantly in the region, including deepening the Institutional business and advancing the Retail and Wealth platforms. We've continued to build our branch networks in Indonesia, Vietnam and China, and acquired businesses in six countries in Asia from the Royal Bank of Scotland.

The Institutional Division has turned around its performance, delivering an underlying profit of \$1.4 billion, up 82% on last year. A key feature of the Institutional result was Global Markets revenue growth with both customer flow and trading revenue up strongly. Interest rate and general market volatility coupled with increased customer penetration drove the significant increase in revenue within the Global Markets business.

The Institutional team leveraged its strong revenue growth to make investments in improved systems and processes and to begin to grow frontline staff numbers.

Strategic growth

During 2009, we've been able to take advantage of the global financial crisis and ANZ's strong balance sheet to advance our super-regional strategy.

In August we reached agreement with the Royal Bank of Scotland Group to acquire selected RBS businesses in East Asia for approximately US\$550 million (A\$626 million) delivering a further stepping stone in our super-regional strategy and creating a new platform for our retail and wealth businesses in Asia.

The acquisition, which is still subject to regulatory approvals, includes the RBS retail, wealth and commercial businesses in Taiwan, Singapore, Indonesia and Hong Kong, and the institutional businesses in Taiwan, the Philippines and Vietnam.

Together, the businesses are an attractive portfolio of well provisioned banking assets at a reasonable price which complement our existing businesses across Greater China, Indochina and South East Asia and provide our franchise with further growth momentum.

In September, we signed an agreement with ING to acquire its 51% shareholding in the ANZ-ING joint ventures in Australia and New Zealand for \$1.76 billion. The transaction brings certainty to our wealth management position through full ownership of what is an established specialist wealth management and protection business with a 120-year history in Australia.

Importantly for shareholders, it will be cash earnings accretive in 2010 before some significant revenue and cost synergies.

In the medium term, it also gives us a foundation to build a significant wealth business with the flexibility to pursue further growth opportunities without the constraints of a joint venture structure. Since acquiring both businesses, integration planning has progressed well and is on track.

Organisational capability

This year we've also put a new customer focused business model and organisation structure in place. A new competitive era and strategy demanded a new business model and structure, one that can support our aspirations to become a super-regional bank.

We are now organised around three key regions – Australia, New Zealand and Asia Pacific, Europe and America with Institutional operating as a global business. We have also put in place a simpler, less complex structure for Operations, Technology, Human Resources, Finance and Risk.

We've continued to reshape our top management team during the year, with several new appointments made.

The latest addition, which completes the management team, is the appointment of Phillip Chronican to lead the Australia Division. Phillip joins ANZ after a 27-year career with Westpac, where he built a reputation as one of Australia's leading banking executives.

Also this year, Joyce Phillips joined ANZ as head of Strategy, M&A and Marketing and Innovation from GE and Citigroup, and Shayne Elliott, was appointed as head of Institutional also from Citigroup and most recently EFG-Hermes.

Our customers and brand

Part of our strategy is to design our business around our customers' needs, not our product lines. We made significant progress with this with our new organisation structure.

But we also need to shift our thinking from selling commoditised product to looking at differentiating the way we market ourselves, the way we package and segment our offering and the way we service our customers.

Part of that involves investing in developing a great regional brand and so this year we've worked hard to develop a new global brand identity and positioning for ANZ in support of our super-regional strategy.

Having one strong, unified brand across all our geographies, which tells the world that we are 'One ANZ' wherever customers choose to deal with us, is an important part of our future growth. It identifies who we are as a business and what we stand for.

The new brand identity and positioning followed 18 months of detailed research involving more than 1,300 customers and 250 staff in Australia, New Zealand and Asia Pacific that showed our customers want us to care about them as people and appreciate how complex life has become.

As part of the launch, we introduced a new global tagline, 'We live in your world'.

This aspiration is at the heart of our brand promise – no matter where our customers deal with us, we want to give them one high standard of experience, based on understanding their world better than anyone else.

We know there's a lot to do to really deliver on this and all our people are committed to the task.

2009 and the future

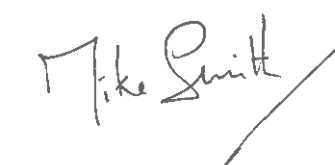
In reflecting on what has been a full year of activity at ANZ, we've remained financially very strong, we have a very clear growth strategy and we have a very experienced team of real bankers to make sure we keep hitting our targets and growing the bank with an acceptable risk profile.

In doing so, I believe we have created real value for shareholders.

Looking forward to 2010, we are going to have to manage continuing volatility in financial markets and the global economy. The recovery in Europe and the United States is still in a very sensitive position and there's going to be good and bad news in between the slow advance forward.

I also want to sound a note of caution. While the inevitable aftermath of the recent failures in the financial system and in business is going to be greater regulation, in my view, the real challenge is for governments to avoid acting on populist rhetoric. Regulators and business need to work together to identify how we create the right balance between free markets, which are the best tool we know for fostering innovation and generating wealth, and ensuring there is a watchful eye from regulators that can help markets avoid overshooting and spinning out of control.

Against this backdrop, ANZ is clearly established as one of the best capitalised banks in the world. We have largely completed much of the remediation and change needed in some parts of the business and we have taken advantage of opportunities to grow, as we progress on our journey to build a super regional bank that delivers performance and growth for our shareholders, customers and the communities in which we operate.



Michael Smith
Chief Executive Officer

OUR MANAGEMENT BOARD



GRAHAM HODGES
Deputy Chief Executive
Officer and Acting
Chief Executive
Officer, Australia



PETER MARRIOTT
Chief Financial Officer



CHRIS PAGE
Chief Risk Officer



DAVID CARTWRIGHT
Group Managing
Director, Operations,
Technology and Shared
Services (OTSS)



SUSIE BABANI
Group Managing
Director, Human
Resources



ALEX THURSBY
Chief Executive Officer
Asia Pacific, Europe
and America



DAVID HISCO
Group Managing Director
Commercial Banking



JENNY FAGG
Chief Executive Officer
New Zealand



SHAYNE ELLIOTT
Group Managing
Director, Institutional



JOYCE PHILLIPS
Group Managing
Director, Strategy, M&A,
Marketing and Innovation

Full biography details can be found on our website:
<http://www.anz.com/about-us/our-company/management/>