

2010 ANZ Annual General Meeting

Address by John Morschel, Chairman, ANZ

Good morning ladies and gentlemen.

Welcome to the 2010 Annual General Meeting of ANZ and thank you for joining us.

My name is John Morschel and as Chairman of the ANZ Board I will chair today's meeting.

And as today's meeting is also being webcast, let me also welcome those shareholders on-line.

Consistent with ANZ's practice, I would like to start this meeting by showing my respect and acknowledging the Kurna people who are the traditional custodians of the land on which this meeting takes place. I would also like to pay my respects to both elders past and present of the Kurna people.

As a further sign of ANZ's respect, I would now like to welcome Mr Stephen Kadlibarti Goldsmith to the stage to perform a Welcome to Country. Stephen is the Cultural Development Officer at the Living Kurna Cultural Centre.

<Following Mr Stephen Kadlibarti Goldsmith>

Thank you Stephen.

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. The minutes of the last meeting, and copies of the Annual Report, are available in the registration area.

I hope you enjoyed our video presentation this morning marking the 175th anniversary of ANZ.

2010 also marks 171 years since George Kinnear set up the Adelaide branch on the 14th of January 1839.

Since that time, we have grown our business here through expansion and through acquisition. Today, we have 78 branches in South Australia and we remain as committed to the state's future as we were back in 1839.

Given South Australia's strengths in resources, defence, food and wine, and education, ANZ's ambition to be a leading super regional bank in Asia Pacific aligns perfectly with the state's future.

China is already South Australia's second largest trading partner and I'm pleased to see that the Chinese, like others in Asia, are recognising the quality of South Australian wines.

Given South Australia's significance and our belief in the state's future, we have today announced the appointment of Jane Yuile as State Chairman South Australia.

Jane is a Director of WorkCover Corporation in South Australia, Chairman of the South Australian Film Corporation, Chairman of the Jam Factory and a Director of Razor Risk Technologies.

Her appointment will help ensure we have the capability and focus to support our customers and to drive growth in our business here in South Australia.

Let me now introduce your Directors.

On your far left is Peter Hay who chairs the Governance Committee.

Then we have Ian Macfarlane. Ian is Chairman of the Risk Committee.

Then Alison Watkins. Alison chairs the Human Resources Committee.

And next to me is Mike Smith, our Chief Executive Officer.

On my left – your right – is Peter Marriott. Peter is the Chief Financial Officer.

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

And next to David is Greg Clark who Chairs the Technology Committee.

Then finally on your far right is Lee Hsien Yang who is based in Singapore and who, in addition to his role as a director, provides advice and counsel in relation to our Asian operations.

I would also like to acknowledge the contribution of Charles Goode who retired at the end of February this year after 18 years of distinguished service on the ANZ Board including 15 as our Chairman.

Charles oversaw an extraordinary period of change at ANZ and made an outstanding contribution to business and the community, not only in Australia, but in the Asia Pacific region.

The ANZ executives, on the stage behind me, from your left are: Bob Santamaria, Group General Counsel; Jeremy Robson, Deputy Chief Financial Officer, and John Priestley, Company Secretary.

In the audience we have Michelle Hinchliffe and Mitch Craig from KPMG the Group's external auditor.

Later in the meeting, Mike will talk about our business strategy and operations.

I hope you'll take the opportunity to talk to both your directors and members of senior management over a cup of tea and something to eat after the meeting.

This morning, I will give you an overview of ANZ's performance and our view of the year ahead. I'll then ask Mike to talk to you. And after Mike 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 we need to consider today. I will ask you to vote on these resolutions by way of poll.

Let me now discuss ANZ's performance during the year.

On any measure our result for 2010 was strong with profit rising across the bank.

Importantly, while ANZ delivered a strong financial result for shareholders, we also delivered for our customers and for the community.

We can see that in the way customers in Australia ranked ANZ number one for customer satisfaction in retail banking among the major banks.

Our corporate customers in both Australia and New Zealand ranked ANZ Institutional number one in key customer satisfaction categories.

We have also been assessed as number one bank globally on the Dow Jones Sustainability Index for the fourth year running.

There have been no more challenging times in recent history for banks around the world than in the last three years. What the financial and economic crisis demonstrated is that strong banks are critical to a strong economy.

It's in those countries where banks were shown not to be adequately capitalised and ultimately unprofitable, that their economies are continuing to suffer with high levels of unemployment and dramatic increases in government debt.

While all banks in the western world have been tarnished by the actions of banks in the northern hemisphere, the reality is that the four major Australian banks faced up to the challenge of the global crisis in a way that helped the economy through a very difficult period.

During 2010, ANZ put in a strong financial performance.

Our underlying profit was \$5 billion, up 33 per cent. Statutory profit was \$4.5 billion, up 53 per cent.

The increase in underlying profit was driven by a 6 per cent growth in profit before provisions and a 40 per cent reduction in the credit impairment charge.

ANZ is owned by over 410,000 retail shareholders and by institutional funds.

Given the index weighting of banks in Australia and New Zealand, the vast majority of Australians and New Zealanders would also have a significant portion of their retirement savings invested in this country's four major banks.

Pleasingly then, shareholders have seen the final dividend lift 32 per cent to 74 cents, bringing the total dividend paid in 2010 to around \$2.7 billion or 126 cents per share, up 24 per cent.

These dividends not only benefit shareholders but also the many Australian's who have money in superannuation given the four major banks combined represent around 22 per cent of the ASX200.

Total shareholder return in the year was relatively flat at 2 per cent after a very strong recovery in 2009 when it exceeded 40 per cent. It was pleasing however that we outperformed the ASX100 Index which recorded a negative 4 per cent return and also two of our three domestic peer banks.

We were also the only major bank to increase our share price. Our market capitalisation now stands at over \$60 billion.

ANZ remains one of the world's safest and strongest banks. We are one of only 11 banks globally that are rated double-A or better.

Tier one capital is the core measure of a bank's financial strength. ANZ's tier one Capital Adequacy Ratio is one of the highest among major banks around the world at 10.1 per cent.

The constant challenge for any large company today however, is to meet short term investor expectations while also investing for the long term.

I am pleased to report that ANZ made significant progress in 2010 against our long term super regional objective.

From 34,000 staff at the end of 2007 when we announced our super regional strategy, today we have 48,000 full time staff in 32 countries across Australia, New Zealand, Asia Pacific, Europe and America serving more than eight million customers.

We are one of the fastest growing banks in Asia and the fourth largest international bank in the region.

During the year we completed the acquisition of The Royal Bank of Scotland assets in the Philippines, Vietnam, Hong Kong, Taiwan, Singapore and Indonesia. This added 49 branches and 1.6 million customers.

We also made a further investment of \$250 million in Shanghai Rural Commercial Bank and \$126 million in the Bank of Tianjin reflecting our confidence in the partnerships we have with those banks and our long-term commitment to expanding in China.

At the same time, we made good progress with our organic growth strategy. We locally incorporated our business in China where we have plans to open up to 20 new outlets in the coming years.

We also received final approval for a foreign bank licence in India. India is one of the fastest growing major economies in the world and is now one of Australia's largest trading partners.

In Australia and New Zealand, we moved to strengthen our wealth management business with the acquisition of the 51 per cent of the ING joint venture that we did not already own.

We also invested in providing customers with greater access to small business specialists and increased our commitment to rural and regional Australia with the purchase of the Landmark Financial Services loan and deposit books.

ANZ is now the leading agribusiness bank in New Zealand and the number two agribusiness bank in Australia.

We also examined a strategic opportunity in Korea which we believe is an important market for ANZ.

After several months of due diligence on a majority stake in Korea Exchange Bank, our findings ultimately did not support making an offer for the stake to match one that had been made by a local bank - Hana Financial Group.

Our decision was in line with the acquisition disciplines that we've consistently applied.

This year we also developed a new corporate responsibility framework of five key priorities and long term commitments to ensure we are making a significant contribution to the world we work and live in.

These priorities include responsible practices, education and employment opportunities, financial literacy and urban sustainability.

We also announced new measures to attract and retain women at ANZ including a \$4,000 childcare allowance and payment of superannuation on all forms of paid parental leave.

And we began piloting a free independent debt advice service and an early assistance program to support customers experiencing financial hardship.

While we've done a great deal to deliver to our stakeholders during 2010, it is impossible to ignore the difficulties we are facing as we try to balance our commercial decisions with the expectation of our customers and the community.

There is no question that banks are facing a very different world following the global financial crisis. Our funding for example – whether it is from customer deposits or from wholesale markets is coming at a higher price. And that is here to stay.

Also here to stay are the higher costs which are coming with increased regulation – particularly the higher capital and liquidity requirements associated with Basel 3.

At the same time, the expectations of our customers and the community - and the politicians that serve them - are higher than they have ever been.

We know that our combination of competitive pricing, convenient products and customer service is attractive because we have been consistently growing market share in most of our businesses this year.

But it is also true that with our size and strength comes additional responsibility.

It is not news to anyone here however that it's proving difficult for us to balance the new post-financial crisis realities. These include:

- The increased cost of funding and greater regulation.
- The need to provide shareholders with good returns.
- And the expectation our of customers, that we will maintain the availability of credit to keep the economy performing and keep interest rates for lending low and rates for deposits high.

In this environment some aspects of the debate over consumer choice and competition has increasingly taken on a populist dimension.

While some of the banking regulatory proposals may appear superficially attractive, we need to understand that a public policy debate that is driven by populism is likely to be harmful to the economy's long-term prospects and to Australia's national prosperity.

One point that rarely gets a mention is that we have 4 times as many depositors as we do borrowers and those depositors are benefiting from significant increases in interest rates.

It's in Australia's economic interests and the interests of every Australian who wants strong employment and better living standards that we have a reasoned debate about these matters.

Nevertheless, it's very clear that as a company and as an industry we need ... and we can do better.

We need to take the lead in doing more to give customers choice and to help them manage their finances.

We need to ensure we explain our actions in a way that is transparent and understandable for our customers and for the wider community.

Earlier this week shareholders will have received a letter from me in which I addressed some of the key questions which have arisen about banking in recent months.

It's also fair to say that we need to do a better job of listening to these concerns as they are also part the new reality for us.

Mike will talk more about this as part of his address but let me assure you that the Board and management are committed to making a constructive and positive contribution to the community discussion.

Now, let me give you our view of the outlook for the year ahead.

We continue to face a multi-speed global economy. Many western economies face very difficult challenges to rebalance demand from the public to private sectors and to reduce public debt.

Despite the progress of the global economy since the financial crisis of 2008 and 2009, it is now obvious from the recent events in Ireland that the immediate dangers have not passed.

Although the eurozone seems set to survive, confidence in the EU as a political union continues to erode; and as the sovereign crisis expands from Greece to Ireland to Portugal and potentially to Spain and to Italy, European banks will need to continue to shore up their balance sheets.

While the pace of recovery will be faster in Australia - which had stronger fundamentals before the global financial crisis - I need to caution that we are likely to experience volatility as the US and Europe work through these issues and this includes potential volatility in our funding costs.

Asia is however leading the global recovery.

Next year, China is set to overtake the US as the largest producer of manufactured goods by value – only the third change in global manufacturing leadership in 250 years.

This year, Japan, China and India together have reached 24 per cent of global gross domestic product. Asia as a whole accounts for around one-third global of GDP.

Australia and New Zealand ... with their strong and growing linkages to Asia are benefiting.

The International Monetary Fund highlighted this recently when it said: "China's strong and sustained growth over the past several years has served as a linchpin for global trade benefiting exporters of commodities like Australia, Indonesia and New Zealand."

In 2011, we expect Asia - excluding Japan - to grow at about 8 per cent compared to less than 2.5 per cent in the US and Europe. Australia is expected to continue to perform well and in New Zealand the recovery is gathering momentum.

These factors, and our super regional strategy, position us well but with global economic growth likely to be soft over the medium term, the environment will remain challenging to navigate.

We have a clear direction however, and our results in 2010 highlight the momentum we've established.

I believe we will continue to deliver value and performance for our shareholders, our customers and the community in 2011.

Finally on behalf of you all please let me thank Mike Smith, the members of ANZ's Management Board and all ANZ staff for their outstanding contribution in another challenging year.

I will now ask Mike Smith to address you.