

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

32nd ANNUAL GENERAL MEETING

CHAIRMAN'S SPEECH

Ladies and gentlemen, good morning. I am Charles Goode. As your Chairman, it is my pleasure to welcome you and to declare a quorum present and open the 32nd Annual General Meeting of the Company. I also welcome shareholders listening on anz.com.

I trust you enjoyed hearing the ANZ Staff Choir singing Christmas carols as you arrived, and on your behalf I thank them. I would also like to thank those shareholders who have submitted questions in advance of this meeting. I will endeavour to cover a number of the questions raised as part of my address, but if I have not answered a query or you would like a further explanation, there will be an opportunity when questions are taken from the floor.

The final dividend of 35 cents per share is being paid today into the bank accounts of those electing direct credit; while cheques, Dividend Reinvestment Plan and Bonus Option Plan notices are in the mail. The Shareholder Privilege Card will be mailed to eligible shareholders with our publication, Shareholder Contact, in January.

After we have handled the items of business on the Agenda, and the shareholders' questions, I hope you will join us for refreshments, which will be served in the foyer, after the meeting.

Now allow me to introduce to you the members of your Board, and the executives on the podium.

Starting on your far right, **Jerry Ellis**. Jerry has extensive mining and manufacturing experience both in Australia and overseas notably during his long career with BHP. He is Chairman of Sandvik Australia, the Australia-Japan Foundation, the Australia Minerals & Energy Environment Foundation and Black Range Minerals; a Director of Aurora Gold, GroPep Limited and Pacifica Group; and also Chancellor of Monash University. Jerry chairs ANZ's Risk Management Committee.

Next, **Dr. Roderick Deane**. Roderick lives in Wellington and is widely recognised as one of New Zealand's leading business executives with experience in both the public and private sectors. Roderick is the Chairman of Telecom Corporation of New Zealand Limited, Fletcher Challenge, the Museum of New Zealand and he is a director of Woolworths Limited, TransAlta Corporation, and other companies. He is the Chairman of ANZ Banking Group (New Zealand) Limited.

Next to me on my left is the Chief Financial Officer, **Peter Marriott**. Peter joined ANZ in 1993 from KPMG where he was a partner involved in their banking practice. Before being appointed to his current position Peter was head of Risk Management.

On my right is **John McFarlane**, the Chief Executive Officer. John joined us in October 1997. Before joining ANZ he had 23 years experience in banking with Citibank and Standard Chartered. In 1995 John was awarded an OBE for his services to banking.

Then, **Dr. Brian Scott**. Brian lives in Sydney and has wide experience in consulting particularly in human resources. He is Chairman of Management Frontiers and the Foundation for Development Co-operation. He is also a Director of Air Liquide Australia and the James N Kirby Foundation. Brian chairs ANZ's Human Resources Committee.

Next, **John Dahlsen**. John's background is in the law and he was a partner at Corrs Chambers Westgarth. He is Chairman of Woolworths and has other directorships including Southern Cross Broadcasting and The Smith Family. He is Chairman of ANZ's Audit Committee.

Finally, **Gary Toomey**. Gary joined the Board in March 1998. Gary has been appointed Chief Executive Officer of Air New Zealand. He was formerly Deputy Chief Executive Officer of Qantas Airways.

Margaret Jackson unfortunately is unwell and therefore unable to be with us today. Margaret is Chairman of the Victorian Transport Accident Commission, Qantas Airways and Methodist Ladies College. Margaret is also a Board member of the Howard Florey Institute and the Brain Imaging Research Foundation. She chairs the Advisory Board of ANZ Funds Management.

I believe that with this collective experience and broad reach of business and community involvement we have a well-qualified and balanced board to fulfil its responsibilities and meet the expectations of ANZ shareholders.

Behind me from left to right are: **Peter Hawkins**, Group Managing Director of Personal Financial Services, **David Boyles**, Chief Information Officer, **Roger Davis**, Group Managing Director of Corporate Financial Services and **Elmer Funke Kupper**, Group Managing Director of Strategy and International. These four with **John McFarlane** and **Peter Marriott** form the Executive Management Committee of the Bank.

Next is Bruce Brook, Deputy Chief Financial Officer, **Jane Slatter**, Group General Counsel and **Peter Mathews**, Assistant Company Secretary.

I encourage shareholders to take the opportunity to approach any one of us during refreshments and introduce yourselves and to ask questions.

Review of 2000

I would now like to review the year 2000. I hope you have taken the opportunity to read our 2000 Annual Report. We would like to receive your feedback on the report, the conduct of this meeting and on any other matter on which you would like to comment. At the conclusion of the meeting would you please take a few moments to complete the questionnaire, which was handed to you on registration.

I will discuss the events of the last year under four broad headings:

Firstly, - **Performance** – which incorporates the financial highlights and other indicators of progress.

Secondly, - **Customer Service and the Community** – it is of critical importance for us to continue to improve in these areas and I will outline some of the steps we are taking to do this.

Thirdly, - **Staff and Culture** – here I would like to share with you some of the work being undertaken to develop our people, enhance the working environment and build a stronger, more innovative and dynamic organisation.

And finally, - **Strategy** – on which I will make a few introductory comments about the revised strategy we announced earlier this year – and then I will ask John McFarlane, the Chief Executive Officer to provide a more expansive overview of the new strategy and what it means for ANZ.

Review of performance

So, let me begin by turning to our performance. Three years ago ANZ made a number of commitments to shareholders. I would like to remind you of these and outline our progress and achievements with respect to each commitment:

- Firstly, we made a commitment to achieve superior financial performance, which meant delivering double digit earnings growth; improving the return on equity; and bringing down our cost income ratio to 53%. I am pleased to say we have achieved cumulative annual **earnings growth** of 13.3% over this period including a 15% increase in 2000. Our **return on equity** has improved from 16.9% in 1997 to 18.3% before abnormals through a combination of strong earnings performance and capital management. The dividend was increased to 64 cents per share and for the first time in recent years dividends have been fully franked. The **cost-income ratio** has been reduced from 63.1% to 51.7% - comfortably surpassing the 53% target and this places us amongst the leaders in Australia.

- Secondly, we committed to **re-balance the portfolio** and improve the sustainability of our earnings by increasing our Personal business. Here we have been very successful with the percentage of profits generated from Personal increasing from approximately 30% of the Group profit three years ago to approximately 45% today. This trend is likely to continue with further investments being made in our Personal Financial Services businesses where there are considerable growth opportunities.
- Thirdly, we aimed to enhance our leadership position in **Corporate Banking**; This too has been achieved. For several years now our Corporate Relationship Managers have, according to independent professional surveys, received the highest ratings of any bank by customers and it is pleasing to see this rating again achieved in the latest year.
- Fourthly, we made a commitment to simplify and focus our **International** business. Over the last three years we have exited emerging market bond trading, closed our Latin American offices and in July we completed the sale of our Grindlays operations in the Middle East and South Asia. Together, these moves have given us a much more focussed International business.
- Fifthly, we said we would build momentum in **eCommerce**. The progress in eCommerce during the last 12 months has been dramatic and I will speak more on this shortly.
- Finally, we committed to **reduce the risk profile** of the Bank. This has been achieved by withdrawing from some higher risk areas, re-balancing the portfolio toward Personal Financial Services, the sale of Grindlays, and an increased management focus on risk in general.

ANZ has delivered on **all of these commitments** and as a result the Bank has been positively re-rated in the share market. The substantial return to shareholders over the last 12 months is very pleasing, although this more accurately represents the fruits of two to three years of good work. On behalf of shareholders I congratulate management and staff on the Bank's progress and achievements.

I would now like to describe in more detail the performance and achievements of each of the major business areas in the latest year.

Beginning with our **Personal** business - our efforts to grow and develop this franchise have gained considerable momentum. Personal Banking has had a particularly strong year resulting in a 20% growth in assets and a 25% growth in profits. Highlights of this performance were good gains in market shares in mortgages, cards and deposits. In Australia, ANZ increased its number of customers over the year by 3.3%, which was the largest increase of any of the major trading banks. Approximately one in four of all mortgages originated in Australia during the last year was handled by ANZ – the largest proportion by any bank. The year was capped off with ANZ receiving awards as both Home Lender of the Year and Business Lender of the Year by Personal Investor magazine.

Also we are very pleased with the investment performance of our **Funds Management business** which in recent months has been attracting significantly higher fund inflows. The Bank is committed to developing further our Funds Management business, which will from mid-January be headed by Mr Bruce Bonyhady.

Our **Corporate** business enhanced its leadership position and grew profits by 15%. Our corporate product businesses of Structured Finance, Financial Markets, Capital Markets and Transaction Services received a number of accolades and awards from independent sources and made significant contributions to the Group.

Our **International** business has been substantially re-focused and simplified with the sale of Grindlays to Standard Chartered. The transaction was completed on 31 July with ANZ receiving a pre-transaction dividend of A\$900 million and consideration of A\$2.3 billion. This consideration represented a A\$1.2 billion premium over book value.

As part of the sale transaction the Group provided Standard Chartered with indemnities in respect of the dispute with the **National Housing Bank in India** and other litigation matters. Resolving these issues has become quite protracted and the Group considered it prudent to provide for these claims and ensure, to the extent possible, that there would be no adverse financial impact in the future. We are pursuing all avenues to resolve these matters quickly and in the best interests of shareholders. In relation to National Housing Bank we have recently obtained approval to expedite the hearing in the Supreme Court and this is now due to commence in April 2001. We have also applied to the Court to have the disputed funds deposited with the Court in order that interest ceases to accrue on the funds.

Looking forward our focus will be on the Pacific where we have leading positions in eight countries and in East Asia where we will focus on trade, foreign exchange and servicing multi-nationals in countries with which there are strong trade flows with our home markets.

We have made very considerable progress with our **eCommerce** initiatives over the last year. Our achievements in this area were recognised last month when anz.com won the award for the best financial/investment web site at the Australian Financial Review Australian Internet Awards 2000.

Our eCommerce services include:

- **Internet banking** - we now have over 500,000 personal customers registered in Australia and New Zealand and we are currently increasing this number by around 10,000 per week. This rapid and consistent growth has led to ANZ having the highest internet banking penetration of its customers of any of the major banks in Australia. 14% of our personal customers use this service and 20% of our small business customers. Of those customers who have experienced the convenience and flexibility of

internet banking, 88% tell us they are either satisfied or very satisfied with the service.

- **e-payments** - which incorporates a range of financial e-products including authentication services and payments facilities to enhance customer on-line trading
- **anzebiz.com** - a set of Business-to-Business Trading solutions encompassing online procurement, supply chain automation, and online auctions
- **FX Online** – a web based system allowing customers to price automatically and to execute a variety of foreign exchange transactions
- **ANZ E*Trade** - an alliance with E*Trade to offer on-line stockbroking and associated products to our customers
- **eauto** – an online automotive and trading service which has over 700 new car dealer franchises and on a typical day over 19,000 used cars online

In addition during the year we announced a joint venture with the **OCBC Bank of Singapore** to create a new Asian banking concept. We envisage contributing around US\$50 million over three years to this initiative which will focus on the forecasted market of 40 million affluent and internet enabled consumers in East Asia by 2005. The joint venture will use the latest technology and is developing a distinctive customer proposition. We expect the internet bank will be launched in its first market around the middle of next year.

These eCommerce initiatives are investments in our future and we expect them to lead to net after tax charges against profits in the current year of around \$70 million including ANZ's share of the start-up costs for the OCBC JV.

To increase our return on equity and reduce our excess capital position we announced in April a A\$1.0 billion on-market share buyback to enhance ANZ's **capital management**. This buyback is approximately 60% complete. In October we announced that participation in the Dividend Reinvestment Plan and Bonus Option Plan would be capped at a maximum of 50,000 shares for each plan, as providing unlimited access to these plans would not be helpful to the management of our excess capital position. We are mindful of not wishing to unduly impact our shareholders, especially individual shareholders, who are traditionally supporters of these plans. We have therefore set the maximum level of participating shares at a higher level than most other companies in our market which have similar capital management issues.

Customers and Community

One of the more significant issues we need to face up to is the impact of change on our customers and the community.

Deregulation and increased competition have produced significant benefits for homeowners, small business and other customers with borrowing needs.

Lending margins have declined by almost 2% in Australia since 1995 and as a result, the overall cost of banking to our customers is lower.

Competition has also required banks to reduce costs. This has been achieved through the application of technology and by providing customers with lower cost channels of executing transactions. Approximately 85% of ANZ's cost savings have been passed on to our customers in the form of lower margins. Our shareholders have also benefited from our efforts to reduce costs in the form of higher profits and increased dividends.

We have however to face up to the reality that, through deregulation and increasing competition in banking and other financial services, some areas of the community have been adversely impacted. Some country towns have lost an important piece of their social and business fabric. Some of the least well off Australians have had to pay more for basic banking services. Electronic banking, including the use of ATMs, confuses many older Australians.

We at ANZ accept that we need to work hard on how to address these very real problems and we are determined to improve our customer service and community image.

We realise that despite many very committed staff, and an increasing focus by management in recent years, service for general banking is not consistently at the standards expected by our customers.

We understand community concerns about rising bank fees on transaction accounts, although perceptions are not always reality. You may be surprised to know that we have not made significant changes to personal transaction fees since July 1999, other than GST related increases. In fact the Internet Banking Withdrawals fee, for withdrawals over the free limit, was reduced from 40 cents to 20 cents during this period.

We are examining a number of initiatives for the coming calendar year. In particular, we are exploring the most effective means of providing a reduction in banking costs to our existing customers who are most adversely affected by financial services deregulation and competition - such as the elderly. However, we have more work to do before we can make any detailed announcement.

We have also taken some steps in respect to the **rural community**. In 1998, we announced that from then on we would not withdraw service from any rural communities in Australia. That moratorium remains in place two years later.

We realise we need to do more and we are talking to government and community groups on more creative approaches to some issues like rural branches. There seems to be a reluctance by the government to the concept of two or more banks sharing a branch and this is one matter on which we wish to have more dialogue.

Banks play a critical role, and, may I say, a responsible one, in Australia's economic well being. It is in no one's long term interest for the banks to be treated as political footballs, and as we take action to address community concerns, I hope the debate over banks will become more balanced.

We have stepped up our **general community involvement**. For example, we have committed \$1 million over 5 years to support Foodbank nationally. This organisation assists welfare agencies in meeting the most basic of needs, food. Staff are also contributing their time through volunteer activities and I understand there will be a considerable increase in their involvement in 2001, the International Year of the Volunteer. We have also contributed \$1 million over three years to the Foundation for Rural and Regional Renewal and have provided \$750,000 over three years for an Intensive Care Research program. Also, we are providing \$1 million over three years to the Royal Life Saving Society of Australia in support of their Wet 'n' Wise program, which is concerned with water safety. We are also supporting Youth at Risk, a group that helps to provide employment for disadvantaged young people.

Staff and Culture

Improving our reputation in the community, creating a better experience for our customers, and delivering on our promises to shareholders requires leadership from the top and also a positive performance and service culture among **all our staff**.

We have made progress in recent years but to take our performance and service to the next level we are working to develop a more energetic, passionate, and open culture at ANZ.

We are taking this very seriously, and let me give you a few examples of the initiatives we are undertaking.

First, we have this year assisted staff to become more familiar with technology, and to have more ready access to on-line learning, by providing subsidised home PC and internet access. We were one of the first companies in Australia and in New Zealand to make such an offer, and not surprisingly it has proved to be one of our most popular staff initiatives. Over 10,000 staff have already taken up the offer.

Second, we are encouraging staff to undertake further training and education, and we are giving them tools to do so, as never before. For example a number of innovative new learning initiatives have been introduced recently, such as our on-line MBA program developed with Charles Sturt University, and "eTrain", a new on-line learning system delivered using Max - our intranet system.

Third, we have doubled the number of graduates recruited by the Bank, to the point where we are now one of the largest recruiters of graduates in Australia.

Also retention rates for graduates during their initial five years with the Bank have greatly improved.

Fourth, there is a Talent Group of 146 promising and able leaders in the Bank who receive special support and whose views on bank-related policies and issues are regularly sought.

Fifth, we have provided all of our staff with the opportunity to become shareholders in the Bank by giving them ANZ shares. So far shares to the value of \$1,000 have been granted in each of the last two years and an additional grant will be made in January. We have also introduced a staff share purchase scheme and increasingly managers are receiving deferred stock as part of their annual incentive award. All of this better aligns the interests of staff with those of shareholders.

The impact on staff has been very positive. This year our annual staff survey showed a record improvement in staff satisfaction and we are taking steps to increase this further in the year ahead. We are now creating an environment where people improve their skills through training and education, and become empowered to be more positive and pro-active in customer service and business development.

ANZ's New Strategy

I would now like to turn to ANZ's revised strategy...

As I described earlier, we have made substantial progress over the last three years. The development of the next stage in the Group's strategic direction emanates from our desire to better position the Bank, in a world where the influence of globalisation, the rise of the internet and the new economy are increasingly reshaping the competitive landscape.

Going forward, the Group's strategic direction is being built on three themes: - **specialisation, eTransformation and performance with growth.** I would now like to invite John McFarlane, the Chief Executive Officer to outline the journey on which we have embarked ...

John

(John speaks)

Thank you John

I'm sure you can see we are pursuing a distinctive strategy which is now starting to set us apart from the other banks, and which has already begun to find favour with the market.

Outlook

I would like now to conclude with the outlook for the year ahead.

The high, sustained levels of growth that Australia has experienced for much of the 1990's reflect favourable world economic conditions but are also a tribute to good economic management and the adaptability of the Australian people.

The upswing in the world economy, which began at the end of 1998, is now easing. **Global growth** is expected to slow in 2001 under the lagged impact of the higher oil prices and higher interest rates and the possibility of weaker equity markets.

While we expect Australia to experience solid export demand and continued public spending, the national economy will not be immune to a slowdown in global economic conditions. However, against this background, there is the prospect that **interest rates** may have peaked and the currency appears to be regaining lost ground.

In contrast, the **New Zealand** economy is showing signs of recovery, although with a currency driven surge in prices, the risk of a further tightening in monetary policy remains.

In this overall environment the Bank expects reasonable asset growth, although at reduced levels from those experienced in 2000. Interest margins are expected to continue to be under pressure, but bad debt experience in our domestic markets should remain moderate. Accordingly, we will continue to focus on growing revenue, holding our costs steady and reducing the risk profile of the business.

Your Directors are very encouraged by the momentum and excitement at ANZ. Over the past two years our management has met market expectations on earnings per share while at the same time making investments for growth in the future. The challenge is to continue this performance in a more subdued environment and our plans going forward have been designed to achieve this.