

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED**  
**33rd ANNUAL GENERAL MEETING**  
**CHAIRMAN'S SPEECH - GROWTH AND SUSTAINABILITY**

**Welcome**

Ladies and gentlemen, Good morning. I am Charles Goode.

As your Chairman, it is my pleasure to welcome you to the 33rd Annual General Meeting of the Company. I might say it is nice to be in Sydney.

I also welcome those shareholders listening on anz.com

As a quorum is present I declare this Annual General Meeting of shareholders open.

You should have all received a copy of the notice of meeting and with your agreement, I will take it as read.

I trust you enjoyed hearing the ANZ Staff Quartet - "Resonanz" singing Christmas Carols as you arrived. On your behalf I would like to thank them.

I would also like to thank those shareholders who submitted questions in advance of the meeting. Many of those questions are answered in this address, but if you would like more explanation, there will be an opportunity when the meeting is open for questions from the floor.

After the close of meeting I hope you will join us for refreshments, in the foyer.

Before we start the official business of the meeting let me introduce to you my fellow directors and some of ANZ's executive team.

Starting on your far right is Dr. Brian Scott. Brian lives in Sydney. He has wide experience in consulting particularly in human resources. Brian 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, Dr. Roderick Deane. Roderick lives in Wellington. He 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.

Then 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; he is a Director of a number of companies and Chancellor of Monash University. Jerry chairs ANZ's Risk Management Committee.

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, Margaret Jackson. Margaret is Chairman of Qantas Airways Limited and Methodist Ladies College, and a director of a number of companies. 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.

Next, John Dahlsen. John's background is in the law. He was a partner at Corrs Chambers Westgarth and a former Chairman of Woolworths. His directorships include: Southern Cross Broadcasting, The Warehouse and The Smith Family. He is Chairman of ANZ's Audit Committee.

I would like to express our appreciation to Gary Toomey for his valuable contribution to the Board's deliberations since 1998. Following his resignation in October this year we expect to appoint an additional director to the Board in the new year.

Now let me introduce ANZ's senior executive team.

Next to me on my left is the Chief Financial Officer, Peter Marriott. Behind me from left to right are:

Peter Hawkins, Group Managing Director of Personal Financial Services, (Peter completed 30 years with the Bank yesterday).

David Boyles , Group Managing Director of Technology and Services,

Roger Davis , Group Managing Director of Corporate Financial Services and...

Elmer Funke Kupper , Group Managing Director of Personal Customers.

These five with John McFarlane 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.

There are many other ANZ executives in the audience today. I would encourage you to introduce yourself to them. I know they, like the directors, would be pleased to meet you and discuss the Bank's progress.

## **Introduction**

ANZ performed strongly in the 2001 financial year. Our profit of nearly \$1.9 billion was a record. For the first time in nearly 20 years our return on equity was above 20 per cent.

And, as importantly, for our one hundred and eighty thousand shareholders, our share price has risen more than 20 per cent - and we have paid a record dividend for the year of 73 cents a share.

These days, when we talk about shareholders I am pleased to be able to tell you that over 89 per cent of our employees are shareholders.

The final dividend of 40 cents a share fully franked is being paid today into the bank accounts of those shareholders electing direct credit.

Cheques, dividend reinvestment plan and bonus option notices are in the mail.

The ANZ shareholder privilege card has also been mailed to eligible shareholders. There is more to these results than a record profit.

After four years of hard work ANZ is a much more competitive business than it was. We have a clearly defined and very different strategy. We have a lower risk profile. Nearly every one of our businesses is better positioned in its market. And we are taking real steps to rebuild our relationships with our customers and the community.

In today's address I will cover how we have made ANZ more competitive and more resilient.

Then I will outline our strategy and our plans for building on our strengths; addressing our weaknesses; and making a real commitment to all those who have a stake in our prosperity.

I will then ask John McFarlane, to provide an outline of the cultural transformation underway at ANZ and I will close with the outlook for the coming year.

### **Achieving growth through competitiveness**

Over the last four years we have changed ANZ. We have made the bank more competitive. We have lowered the risk profile and improved the market position of each of our businesses.

As a result in this year all but one of our 16 businesses grew and several performed outstandingly.

Each of the main operating divisions - Corporate; Personal; and International & Subsidiaries, grew by more than 20 per cent.

The result reflects the strength in the diversity of our businesses and the benefits from focusing on each individual business under our specialisation strategy.

In the Personal Financial Services division the Mortgages and Cards businesses were particularly strong.

I'm especially pleased that our servicing of small to medium businesses is now developing new momentum.

In the Corporate Financial Services division, performances were strong across most businesses. Institutional Banking and Global Capital Markets grew profits over 30 per cent.

Our international businesses contributed strongly to profit, assisted by another solid performance in the Pacific and a turnaround in the performance from our Asian operations.

Our continuing businesses which exclude Grindlays, grew revenue by 11 per cent. Fee and other income increased faster than interest income.

New lending resulted in asset growth of 8%. This reflected strong growth in our consumer businesses and a decision to limit balance sheet growth in our corporate businesses.

We have put a lot of effort into improving productivity.

Four years ago, the costs of running the bank were more than 60% of our income. Our costs were higher than most of our competitors. Today that figure is about 47%.... making us the leader in the Australian market. By 2003 we aim to have a cost income ratio target in the mid-forties. This is very competitive even by global standards.

We are tough on costs.

This focus on costs comes from the simple understanding that the lower our costs; the more choices and the more opportunities we have....and importantly, the more sustainable our business is no matter what the stage of the economic cycle.

Over the past seven years, we have passed on more than 70% of the benefit of our cost reduction to our customers. This has been done mainly in reduced interest rate margins. So we have grown income while we have improved costs. In fact, after allowing for the sale of Grindlays, costs have been broadly stable in recent years. This means we have been able to effectively absorb volume growth and inflation, while growing revenues at 6 to 7 per cent a year.

One of the things helping us drive down costs and increase productivity is our e-Transformation strategy. Increasing use of technology is a critical element in improving our competitiveness.

Let me give you just one example: Two days ago we registered our one millionth customer on ANZ internet banking.

But it's not only our customers who are benefiting from e-transformation.

Automation has allowed us to cut the volume of branch related paper by 80 per cent over the past eight years.

Clearly this has cost benefits but it also means that our staff have been freed from a lot of repetitive work.

### **A more sustainable mix of businesses**

One of the major achievements of the last four years has been the change in the business mix. We have developed a more sustainable mix of businesses. We have reduced our exposure to higher risk businesses and higher risk markets. Our focus is on generating stable and strong earnings.

To do that we have taken four important steps. Each of these is aimed at reducing risk and creating a more sustainable portfolio of businesses.

Let me briefly outline them for you:

Historically ANZ's business was largely in corporate banking. Traditionally corporate banking has more volatile profit streams than personal financial services.

So as a first step we aggressively diversified and expanded our personal financial services businesses while maintaining our leadership position in corporate banking.

The result is that while ten years ago ANZ's assets were approximately 75% corporate and 25% personal; today the majority of our assets and profits are earned from the personal businesses.

If we look a few years out we expect two thirds of our assets will be in the personal businesses.

At the same time we will maintain our leadership position in corporate banking which is a truly quality business.

Secondly, we closed down several businesses where we considered the risks were too high.

These included trading in emerging markets debt, retail stockbroking and futures trading. We have also cut back our non-core lending activity in Asia.

Thirdly, we sold Grindlays last year. This reduced our exposure to emerging markets and sharpened our domestic and regional focus.

Finally, we diversified our lending portfolio.

For example, ten years ago commercial property was about 20 per cent of our Australian and New Zealand assets and in the early 1990's it was commercial property lending that accounted for many of our problem loans.

Today commercial property lending is only 8 per cent of our Australian and New Zealand assets and it is of significantly higher quality.

All these steps have substantially reduced ANZ's risk and improved the sustainability of earnings.

However as a major bank with a balance sheet of 185 billion dollars, we cannot expect to escape some of the consequences of a downturn in the credit cycle.

Over the last year there have been a number of company collapses, both in Australia and offshore. We have had exposure to some of these companies and where appropriate we have made provisions. At this stage we are not seeing any material deterioration in the quality of our consumer or small business lending. In fact there has been some improvement in the level of arrears in our credit card business. While this is encouraging our experience shows the credit quality cycle typically lags the economic cycle.

As a result we do expect some deterioration to flow through.... though we expect it to be short of that which would occur in a major recession.

The shock collapse of Enron represents the largest corporate failure in US history. The Enron collapse will impact a large number of banks including ANZ and our peers in Australia. Our exposure to Enron is 120 million US dollars relating to our structured financing business. While it is too early to quantify the losses, they are likely to be a significant proportion of the exposure.

In this less certain environment our strong capital base is important. It also provides the flexibility to take advantage of opportunities that may arise.

Our Tier One capital is 7.5 per cent. This is ahead of our target of 6.5% to 7%. We have achieved this despite the 500 million dollar share buy-back during the year and the growth in our risk weighted assets.

### **Building on strengths and overcoming weaknesses**

This year we began implementing our new strategy of building discrete and specialised businesses around each of our strengths.

We are already seeing the benefits including improved management focus, greater transparency, improved accountability, reduced cross subsidies, and more flexibility.

The early success of specialisation in our Mortgages and Cards businesses and several of our corporate businesses gave us the confidence to reconceive the whole bank as a portfolio of specialist businesses.

Let me give you some examples:

Our cards business has rapidly built market share over the past four years. We believe our approach to the card business is distinctive and we may be able to use it internationally. This year we launched a trial in Hong Kong of a platinum card and we are closely monitoring the results.

Our mortgage business has achieved growth rates significantly faster than the national market for most of the past five years.

Our major corporate businesses of institutional banking, global transaction services, foreign exchange, structured finance, capital markets and corporate banking have further developed their already strong market positions.

What we want to do over the longer term is to make all our businesses in the first three in each of their markets. Many of our businesses are in that position.

Our personal customer businesses Metrobanking, Regionalbanking and Small to Medium business are performing well but have smaller shares than our major competitors.

We still have a long way to go in terms of market position for our Wealth Management business and our Asian operations. Wealth Management is a growth industry. We need to be able to offer our customers a wide range of financial services.

Right now we are focussing on utilising our distribution system and providing best-of-class products.

In funds management we are interested in establishing a joint venture partnership with a global player. Negotiations on this are continuing. The main thing we need to do is get this right rather than just get it done. So we are not going to hurry the negotiations. If we cannot conclude a deal that meets our needs, then we will continue to build our existing business organically.

Following the sale of Grindlays, our Asian business is focussing on trade finance, foreign exchange and multi-national corporations.

We have a retail presence in Indonesia through our stake in Panin Bank. Asia is an increasingly important banking market, however we are aware of the risks and we are taking a cautious approach.

Our dispute with the National Housing Bank in India continues. This lengthy and complex dispute originated in 1992. Earlier this year, ANZ deposited the funds in dispute with the Court and made a full provision. This eliminated the future economic risk to the Bank.

In the last month the Supreme Court of India has recommended that the two parties discuss settlement, and earlier this week the Court suggested a specific settlement amount.

The Court's suggestion would see NHB recover more than ANZ. We consider this unusual in matters of arbitration where both parties have succeeded once in the legal process.

ANZ is considering the Court's suggestion. The parties have been asked to indicate their willingness to accept settlement at this level later today. Given the court process I cannot comment further at this time.

In the southwest Pacific we increased our leading market position by the opening of a branch in East Timor; the acquisition of Amerika Samoa Bank; and the acquisition of a majority stake in the Bank of Kiribas. Last month we acquired the Bank of Hawaii's businesses in Papua New Guinea, Fiji and Vanuatu. •

### **Restoring customer faith**

I would like to return to the businesses most familiar to our shareholders- retail banking.

At ANZ we have separated retail banking into two businesses - Metrobanking and Regionalbanking.

We know our retail banking network does not consistently meet the expectations of many of our customers.

It is clear to us that it needs to improve. This in no way reflects on the hard work and dedication of our people in the branches. It simply reflects our understanding that we need to lift our game and we are working hard to do this. For instance during the year we introduced a customer charter. The customer charter sets out explicit benchmarks for the level of service that customers should expect in five areas:

- simple and fast opening of accounts,
- access to services,
- privacy,
- plain language communication, and
- complaint resolution.

We have also created the position of a customer advocate. The customer advocate's job is to ensure that all customer complaints are fairly and thoroughly investigated and resolved. We are actively searching for an appropriate person to fill this senior position. We are already reviewing our charter. We will release an updated version in the first half of next year.

The banking industry as a whole has recognised and been responsive to the criticisms that have been made of it. Your Bank has been taking a leading role in this positive response.

For example, in May we introduced a basic banking account for government pension recipients. This account provides the majority of these customers with effectively fee exempt transaction banking.

We have also introduced a banking account exempt from all transaction fees for people 60 years and over. This has been very successful, with a 27% increase in customer numbers.

These are all steps in the right direction, but we know we need to do more. As a result we have launched an important new program...

It is called "Restoring Customer Faith".

The name sets out our objective. We are deeply committed to restoring our customers and the community's faith in ANZ. As part of this commitment we are exploring new ways to operate bank branches and improve customer service. We are looking at how we can address our customers core concerns. These are queues, fees and errors. At the same time we are making our services more streamlined, simpler to understand and relevant. Our staff are the key to our customer service. We want to find a way to help our people think more like customers and act more like owners. To do that we are providing our staff with more empowerment; a stronger sense of purpose; and better opportunities to share in the success of the operations under their control. Across the Bank we are creating more open, innovative and dynamic business. •

### **Developing a performance culture**

There has been an enormous transformation at ANZ over the last four years. While the financial results show risks have been reduced, costs have been contained, revenues and profits have grown and the share price has increased significantly.

The foundation on which these achievements has been based is a culture oriented much more strongly towards performance.

ANZ is now a much more dynamic and enjoyable organisation for which to work.

Good progress has been made, but dramatic cultural change, the sort that can set an organisation apart from the competition takes time.

At ANZ we have started on this journey.

I would now like to introduce John McFarlane to talk more about the changes we are making to the culture of the Bank.

## **Outlook**

Thankyou John.

Let me now turn to the outlook.

There is a synchronised slowdown in world economic activity. Global growth for this year is forecast to be less than two per cent, the weakest for nearly twenty years. Growth in 2002 is expected to be slightly higher.

Despite the global slow-down, the Australian and New Zealand economies have shown considerable resilience. In the case of both countries, weak currencies have helped to reduce the effects of recessions in the economies of our major trading partners. In Australia, low interest rates and the upswing in the housing cycle are helping to sustain growth. We have also had limited exposure to the global technology cycle and benefited from astute management of our economy by our Government and the Reserve Bank.

We expect the global economy to begin to recover by the middle of next year. On that expectation our view is that both Australia and New Zealand will be able to 'ride out' the current global downturn. However, in both countries, stronger levels of business investment will be needed to ensure economic growth over the medium term.

As we have previously indicated, specific provisioning in 2002 will be higher than in 2001, particularly in the first half of the year with the losses associated with the Bank's exposure to Enron.

Looking forward, our focus will continue to be on achieving consistent and sustainable earnings. We will continue to invest in the growth of our existing businesses and look carefully at other options for growth.

Given the economic outlook we expect a more subdued revenue environment with more modest asset growth and further pressure on margins. We will work to offset these pressures by continuing to drive productivity, increase our market share and encourage innovation.

The first two months of the financial year have been satisfactory.

In the absence of unforeseen events, we are confident of achieving our 2002 targets of earnings per share growth of at least 10% and a return on equity of over 20%.

On behalf of the Board, I would like to thank John McFarlane for the outstanding contribution he has made in leading the Bank over the last four years. I am particularly pleased that we have been able to enter into a new contract with John extending his time as Chief Executive Officer until September 2006.

On behalf of the Board and the shareholders I also wish to express our appreciation to the executive team and all members of our staff for the valuable contribution they have made to the achievements of the Bank.

Our strategy has served us well. We have reduced risk, improved earnings and created a foundation for more sustainable growth in earnings in the future. Despite a less certain economic environment, we believe we are well positioned to continue to prosper and provide further value to our shareholders, our customers, our employees and the community in the years ahead.

Thank you

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