ANZ 2004 Annual General Meeting

Chairman's Address
17 December 2004

Ladies and gentlemen, good morning.

My name is Charles Goode.

As your Chairman, it is my pleasure to welcome you to ANZ's 36th Annual General Meeting. I also wish to welcome shareholders joining us through our webcast on anz.com.

To give as many of those shareholders as possible the opportunity to attend a meeting, we have been rotating our annual general meetings around Australia's major capital cities in recent years.

Let me say how pleased we are to be holding our Annual General Meeting in Melbourne again.

The coming year marks the 170th anniversary of the founding of our predecessor bank, the Bank of Australasia, which later joined with the Union Bank of Australia to become ANZ.

Our history has followed the history and growth of Australia and New Zealand. It started with the Bank of Australasia's first branch which opened in Sydney in December 1835 and then as the first bank to offer full banking services here in Melbourne through our branch in Little Collins Street in August 1838.

Two years later, in 1840, the Union Bank became the first bank to open in New Zealand through its branch in the Lower Hutt Valley, near Wellington.

The Group's growth has continued in 2004 through our own expansion in Australia, and with the acquisition of The National Bank of New Zealand.

Today over 200,000 Australians and New Zealanders directly own shares in ANZ.

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

At our meeting today the Chief Executive John McFarlane and I will report on ANZ's performance and the priorities for the year 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 resolutions before today's meeting. I will ask you to vote on these resolutions by way of poll.

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

Let me introduce your Directors.

On your far left is Jerry Ellis. Jerry lives in Melbourne. He chairs the Risk Management Committee and he is a member of the Audit Committee. He is seeking re-election at today's meeting in accordance with the Company's Constitution.

Next is Dr Brian Scott.

Brian lives in Sydney. He chairs the Nominations and Corporate Governance Committee, is a member of the Compensation and Human Resources Committee and represents ANZ as a Director on the Board of Metrobank Card Corporation in the Philippines.

Brian will reach retirement age from the Board in April 2005 after 20 years as a Director.

Then David Gonski. David lives in Sydney and is a member of the Risk Management Committee and the Nominations and Corporate Governance Committee, and he represents ANZ as a Director on the Board of ING Australia Limited.

Next is Margaret Jackson. Margaret lives in Melbourne and is Chairman of the Compensation and Human Resources Committee and a member of the Audit Committee.

Margaret is also seeking re-election at today's meeting in accordance with the Company's Constitution.

Next to me is John McFarlane, the Chief Executive Officer. This year marks the start of John's eighth year as Chief Executive, having joined us in October 1997.

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

Next is John Dahlsen. John lives in Melbourne. He is Chairman of the Audit Committee and a member of the Nominations and Corporate Governance Committee.

John will be retiring from the Board in February 2005. Like Brian Scott, John has also served on the ANZ Board since 1985.

Then, Dr Roderick Deane. Roderick lives in Wellington. He is Chairman of our bank in New Zealand, ANZ National Bank Limited. Roderick is also a member of the Risk Management Committee and the Compensation and Human Resources Committee.

During 2004, the Board appointed three new Directors. These appointments have added to the Board's experience and expertise and allowed careful management of a transition with the planned retirement of John Dahlsen and Brian Scott in 2005.

I would like to introduce the new Directors, each of whom is seeking election at today's meeting.

Seated next to Roderick is Dr Greg Clark. Greg joined the ANZ Board in February 2004. He lives in Sydney and New York and has had a distinguished career in technology including senior roles at major multinational companies like News Corporation and IBM.

Greg is a member of the Nominations and Corporate Governance Committee.

Then there is David Meiklejohn. David lives in Melbourne and he joined the Board in October 2004. David has a strong background in finance and accounting including at Amcor where he was Chief Financial Officer and later Executive Director until June 2000.

David is a member of the Audit Committee and the Nominations and Corporate Governance Committee. It is planned he will chair the Audit Committee following John Dahlsen's retirement.

Next is John Morschel who lives in Sydney. He also joined the Board in October 2004. John has extensive experience in banking and financial services. He has had a distinguished career at Lend Lease and with Westpac, which included two years as an Executive Director.

John is a member of the Risk Management Committee and the Compensation and Human Resources Committee.

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

Now let me introduce the ANZ executives on the stage.

Behind me from your left are: Judith Downes, Group General Manager Finance, John Priestley, Company Secretary and then Tim L'Estrange, Group General Counsel and Company Secretary.

Also, in the front row, are our auditors, Christopher Hall and Michelle Somerville of KPMG.

Before leaving my introductory comments, I would like to give heartfelt thanks to John Dahlsen and Brian Scott for the very substantial contribution they have made to ANZ over the last 20 years.

Their contributions to Board deliberations have reflected the wisdom that comes from their considerable business knowledge and their expertise in particular areas. They have consistently made that extra contribution which is required during difficult or particularly active periods. They have expressed their views strongly in a Board culture that encourages active, objective discussion and the harmony of a team approach.

In passing, I wish to say that the contributions of John Dahlsen and Brian Scott to Board deliberations have shown the benefit of having Directors with institutional knowledge of the company and who have experienced all phases of the economic cycle. Their contributions highlight that artificial time periods for the length of directorships are not always a good way of assessing the independence or contribution of Directors.

On behalf of all shareholders, I would like to express our sincere appreciation for the contribution John and Brian have made to ANZ.

Now, moving on to reporting on our operations, I will discuss four main matters, namely:

- our performance for the year and the key factors driving that performance;

- our growth including our progress in New Zealand following the acquisition of The National Bank of New Zealand;

- corporate governance and regulation;

- and finally, the outlook for the year ahead.

Performance

2004 was a good year for ANZ.

Profit after tax, excluding significant items, was up nearly 20% to a record $2.8 billion.

Including the bonus element of the rights issue completed during the year, dividends increased by over 10 per cent to one dollar and one cent a share returning $1.6 billion to shareholders.

I am pleased to say this is the eleventh successive year the Board has increased dividends.

The increase in the dividend is comparable to the increase in cash earnings per share, which was also up 10% excluding significant items.

This year's profit included ten months' contribution from The National Bank of New Zealand, which we acquired from Lloyds TSB for 4.9 billion Australian Dollars in December last year.

The National Bank of New Zealand together with ANZ's existing operations forms the country's largest bank, ANZ National Bank Limited.

The acquisition is an important step in the growth of ANZ and shows our long-standing confidence in, and commitment to, New Zealand.

We funded the acquisition with a $3.6 billion discounted rights issue. The rights issue at $13 was highly successful and a good outcome for shareholders.

The market has recognised our progress with the market capitalisation of ANZ rising from $27.3 billion at the end of our 2003 financial year to $37.1 billion today making ANZ the fifth largest listed company on the Australian Stock Exchange by value.

The Group's capital position remains strong and slightly above our target range. This has allowed us to announce that we plan an on-market share buy back.

There have been four major areas of change impacting our performance over the last seven years, namely:

- a focus on becoming more efficient as measured by the reduction in our cost-income ratio;

- reducing risk by rebalancing our portfolio of businesses;

- moving to a specialist business model;

- and, most importantly, changing our culture.

The key measure of ANZ's productivity and our ability to deal with margin pressure is our cost-to-income ratio. This year it was 45.3% placing us in the top category of cost-efficient banks in the world.

In the mid-1990s we had one of the highest risk profiles of the Australian banks. Today ANZ's risk levels are in line with our peer banks in Australia.

We have created a more balanced portfolio of businesses, by focusing predominantly on Australia and New Zealand, and emphasising growth in personal banking as well as our traditional strength as a leading business bank.

Our retail businesses now represent a larger proportion of our business than our traditional corporate businesses.

One of the things that sets ANZ apart is our specialist business structure. This means ANZ is made up of a group of smaller, more focused businesses. Managers of our operating units are able to focus and act like a small business, yet with the capital and risk management systems of a large business.

During the year we clustered our specialist businesses around the customer segments of Personal, Institutional, Corporate, New Zealand and Asia-Pacific, which allows us to accelerate organic growth and build market share by harnessing the synergies between the businesses.

By investing in our people we are creating a bank with a vibrant, engaging culture which is more flexible, customer-oriented and better able to perform and to grow.

Part of that focus has been to build an experienced leadership team under the strong and effective Group-wide leadership of our Chief Executive, John McFarlane.

It has also involved engaging with and motivating our 31,000 people in 27 countries around the world. It is their actions, their decisions and the roles they play with customers and in their communities that determine our future.

Today's ANZ is now defined by a culture which has a much greater sense of ownership based on increased accountability, freedom and openness, and a common set of values.

Our focus on our people is why we continue to invest to make ANZ a better place to work.

We have developed a systematic approach to improving branch safety and creating a more attractive environment for staff and for customers. This includes a refurbishment program for branches that will be completed in 2005 at a cost of around $130 million.

While there is more to be done, the results of our progress in creating a more positive environment for staff are evident.

In 1999, when we started this program, only 50% of our staff said they were satisfied working at ANZ. Today, our annual survey reveals that staff satisfaction has reached 85%.

Reinforcing the link between the investment we make in our people and customer service, our Personal business, the business which serves individual customers, has seen customer satisfaction in Australia rise 7% to 74% in 2004.

We are also undertaking a broader role in the community at a corporate level and our people are doing the same throughout the bank.

Our approach has increasingly been to focus on those issues which directly relate to the relationship between financial services organisations and the community.

We believe by improving financial literacy, encouraging savings and developing more accessible financial products and services, we can make a long-term difference to the circumstances of many Australians.

The programs are innovative and have involved many of our people taking an active role at the branch level.

On your behalf I would like to acknowledge the work of thousands of ANZ staff who volunteered their time to help local schools, rebuild community facilities and support the needs of people in financial difficulty.

We have also recognised there is an opportunity to reduce our environmental impact and support the natural environment.

As a result we have improved our environmental rating in the Dow Jones Sustainability World Index and maintained membership of the Financial Times' FTSE4Good Index.

Recently we appointed Gavin Murray, who was formerly Director of Environment and Social Development at the International Finance Corporation, a member of the World Bank Group in Washington DC. Gavin will be involved in the development of our lending policies and procedures so there is more consideration of environmental and social issues.

While it is pleasing that we are making progress on issues that are integral to our long-term success, I want to make it clear that all of us on the Board and in the senior management team understand we cannot be complacent.

In an environment of heightened competition and rising customer expectations, our challenge is to deepen the trust customers, staff, shareholders and the community have in ANZ.

While on any measure ANZ is now a better place to work, a better place to do business, a better partner in the community and has been a more rewarding investment for our shareholders, the real test for us is to move to a new level of performance on every one of these issues.

The challenge we now face is, not just to keep that momentum going, but also to build on it, to take ANZ to a new level.

Our future depends on our ability to do that.

New Zealand

I now want to turn to progress in New Zealand which represents over one fifth of the earnings of the Group.

Our acquisition in 2003 of The National Bank of New Zealand has made ANZ the leading bank in New Zealand and the clear number three bank in Australia based on market capitalisation.

We believed in 2003 that we had bought a very good bank at a fair price. Today we know that is absolutely right. In fact, the acquisition was accretive to cash earnings per share in the first year, which is rare in most acquisitions.

Under the leadership of Sir John Anderson, the ANZ New Zealand and National Bank of New Zealand brands are managed separately. The total number of branches is the same as at the time of the acquisition.

As a result we have lost fewer customers than we expected and we have maintained customer satisfaction.

Staff in New Zealand have also reported high levels of satisfaction and engagement. Acquisitions and integration can often create uncertainty and concern among staff and it is pleasing to see this has been well managed.

During the year we decided we would no longer plan to integrate the retail banking technology platforms, as the investment payback benefits were not compelling enough.

The decision to reduce the scope of the integration and to accelerate its completion reduces the risk and complexity of the integration program. It allows management to place more emphasis on market share and future growth. We believe the benefits of this outweigh the potential synergies of platform integration.

We are now focused on the integration tasks in our Institutional and Rural businesses and within the New Zealand head office. We expect to complete these aspects of integration by the end of calendar 2005.

Over and above the core integration costs, there have been some additional costs in New Zealand above those originally estimated and these are mainly associated with regulatory requirements.

Expansion and growth

I now want to talk about growth.

Our strategy is focused on organic expansion in Australia, consolidating our position in New Zealand, and selective investments in the Asia-Pacific region.

Our top priority is to increase market share in each of our core businesses, particularly in those businesses that are lower risk, are more sustainable and where we are underweight. These include Australian Personal Banking and banking for small and medium-size enterprises.

Our focus in retail banking will continue to be on improving service to our customers. Although we have seen early signs of progress this year, we will need to continue to invest in training and developing our people, and in providing market-leading products.

We will also invest in increasing the number of new branches and ATMs. We plan to open up to 80 new branches over the next three years in the population growth corridors around Australia, particularly in Melbourne, Sydney and Brisbane, and the coastal regions of Northern New South Wales and Queensland.

As well as traditional branches we will continue to develop innovative distribution solutions like our new mortgage franchise network.

In small and medium size business banking we have been investing in the development of better service propositions for our clients. Our aim is to be the market leader in this important part of the market.

Generally, small to medium-sized businesses have not had access to the same kind of financial solutions and advice available to large corporates.   By using our corporate and investment banking experience and staff who know and understand the issues facing smaller businesses, we believe we can provide a new level of banking service with rewards for both our customers and the bank.

We believe there will also be incremental opportunities from time to time to further advance our position in wealth management through our joint venture with ING.

Over time the boundaries of Australia and New Zealand will however become increasingly constraining and we need to look to East Asia for some of our future growth.

The future of Australia and New Zealand is closely tied to the neighboring countries in our region. We see the long-term future of ANZ being served by building a portfolio of growth options in East Asia in partnership with local entities.

Our strategy in East Asia is to find niches appropriate to our scale and competencies, to be effective in our execution and to take a long-term view.

The idea is not new for us and we have experience in making it work in Panin Bank in Indonesia and through a credit card joint venture with Metrobank in the Philippines. The results from these investments have been promising.

This year we have made an investment to establish a new bank in Cambodia with a local partner, the Royal Group.

There are several areas of China that may be of interest over time. In Shanghai, for example, we have built a relationship with the Shanghai Rural Credit Cooperatives Union and we are working with them to improve their risk management processes.

We will continue to seek modest investments in East Asia and the Pacific to provide longer-term growth opportunities.

Governance and regulation

Let me now move onto the topic of governance and regulation.

At last year's meeting, I spent some time outlining ANZ's approach to corporate governance and in this year's Annual Report this approach is updated and spelt out in some detail.

This year the regulatory focus on corporations continued to increase.

There are many new regulatory requirements including those standards associated with CLERP 9 in Australia, the US Sarbanes-Oxley Act and the International Financial Reporting Standards.

At the same time companies like ours need to take into account the principles and guidelines set out by the Australian Stock Exchange Corporate Governance Council, the New Zealand Securities Commission and the New York Stock Exchange.

The principle we work to is embracing what is considered to be best practice across the jurisdictions and to be an 'early adopter' by complying before a published law or recommendation takes effect.

During the year, the Board worked closely with management to review and update ANZ's policies in the light of changes to regulations, legislation and guidelines.

However, increasing regulation comes at a cost. We estimate the additional cost of complying with new regulations has reduced ANZ's earnings in 2004 by between a half and one percent.

There is the danger of regulation moving into the area of diminishing returns for both shareholders and the community.

Before we move to the business of the Meeting allow me to provide you with our sense of the year ahead.

Outlook

In 2004, the Australian and New Zealand economies performed well.

With growth in the world economy at its strongest pace in 28 years, there has been a strong rise in the price of many of Australia's commodity exports.

At the same time we have benefited from falling prices for many of our imports, thanks in part to the ongoing emergence of China as a major exporter of manufactured goods.

Australia is now into its 14th year of uninterrupted economic growth. This is the longest period without two quarters of negative growth in Australia's history as a nation. Unemployment is at a 27-year low and consumer confidence is very close to a 30-year high.

Similarly, the New Zealand economy continues to advance strongly, and to surprise on the upside.

Annual growth there is estimated to be around 4½% for 2004, arising from continued consumer demand, improved export performance and strong business investment. This growth is resulting in some inflationary pressures emerging in New Zealand.

Looking ahead, Australia and New Zealand should both continue to perform relatively well.

Australia's economy is again expected to grow by about 3 to 3½% in 2005.

There is likely to be some further easing in overall credit growth in Australia and an easing in housing construction. We expect growth in housing credit to return to more sustainable levels from around 20% in 2004 to around 13% during 2005. Growth in business borrowing is expected to grow by a little over 8% in 2005, broadly similar to last year.

With the strength in the Australian Dollar, we expect at this stage official interest rates will remain in the general vicinity of current levels during 2005.

Following the recent Australian election, there is the opportunity and challenge for the Australian Government to re-invigorate economic reform and to foster productivity improvements.

With the Government's forthcoming majority in the Senate, the Government is in a unique position in recent Australian political history. It has the ability to undertake reforms that would put in place the foundations for Australia's future economic growth and development.

We hope that further progress will be made by the Australian and New Zealand Governments in the mutual recognition of each country's franking credits for dividends.

In New Zealand, where monetary policy has been tightened during the past twelve months, economic growth is expected to slow to around 3% in 2005.

Overall for 2005, we believe the external environment will remain favorable although we expect credit growth to be lower than in recent years.

Competition will continue to place pressure on margins although a number of factors are likely to result in the decline being less significant than in 2004, when margins fell 18 basis points.

ANZ will be placing more emphasis on revenue growth and increased investment for the future. Naturally we will be maintaining our strong risk management framework while seeking revenue growth and we believe that cost-consciousness has now become part of our culture.

Our Personal Banking and Corporate Banking businesses in Australia as well as Esanda, are expected to perform well with high single digit and above earnings growth. We expect our Institutional business to have modest growth as it deals with the impact of the sale of the London-based project finance business, the higher Australian dollar and competition.

Costs in New Zealand will be higher to assist customer retention and develop growth in ANZ's retail arm and to meet regulatory requirements. In the year to date, credit growth has been stronger than expected in New Zealand, however this has been offset by strong competitive pressure in the mortgage market. These factors when coupled with the run off of tax-based structured deals, are expected to lead to modest earnings growth in New Zealand

While our underlying performance is likely to be quite good, a number of other factors will impact our 2005 earnings and have a modest negative impact compared to our performance in 2004.

These include the loss of earnings arising from likely more subdued investment earnings at ING Australia; lower earnings from our investment in Panin Bank in Indonesia as these were unusually high in 2004; and the negative impact on Treasury earnings of the interest rate environment. We expect the impact from these factors to be felt more in the first half of the year.

Taking into account these factors, management continue to have an internal stretch target of 8% growth in cash earnings per share in 2005, however we continue to view the guidance we have provided to shareholders of around 7% cash earnings per share growth as realistic.

We have a clear strategy, a strong management team, unifying values, a good financial foundation and a well-balanced portfolio of businesses. All of these provide the basis for us to deliver value to our shareholders, our customers, staff and the community over the longer term.

That completes my formal address. Thank you.