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S Higgins: Good morning everybody and thank you for joining this conference call today to discuss our trading update. This morning, the CEO Mike Smith and CFO Peter Marriott will talk about the update, and will then open it up to the question and answer session. Mike, if you'd like to lead off.

M Smith: Thanks Steve. Well good morning everybody and welcome, and thank you for attending. I know it's reporting season and you're all extremely busy, so thank you for being here today. Peter Marriott's with me and he'll update you a little later in a bit more detail. But we want to cover how the business is travelling after four months trading through the end of January, and discuss some credit issues, which have emerged in the changing global conditions, and also to provide you with an update outlook for the year as a whole.

Before Peter goes into more detail, I'd just like to make a few general observations about how ANZ is travelling at the moment. There are two key messages that you need to take away from today. One is that the underlying business is in very good shape, including a turnaround in institutional, which I think is a real positive. The second is that the changing global conditions are seeing credit costs normalising, as we have predicted at the AGM in December, remembering of course they're actually coming off a very low base.

Now, if I just cover the underlying performance. Underlying growth in our financial performance is very important, because that is what will get us to our aspirational target, rather than having to rely on unsustainable low credit costs for another five years. Now, we still have quite a bit of work to do, but I'm pleased to say that we will probably grow revenues a little faster than many of you expected and if anything, our revenue momentum is actually accelerating.

We are starting to see a turnaround in institutional, although the very high lending growth that we've seen won't all flow through to the bottom line immediately. That's basically because of the way the collective provision works under IFRS. When we write a loan we effectively increase the collective provision upfront, but the revenues then come through over time.

We're also getting some real traction in Asia. In fact, I think you'll be very pleased when you see what Asia is starting to deliver for us, and we're looking to accelerate that even more.

At the same time personal continues to perform well, and while it still has some further opportunities to drive future growth, it also looks like it is doing better than others. New Zealand is delivering a reasonable performance, although we have to accept that the economic conditions there are not easy.

Now, looking at the global environment more broadly, I would recommend all of you to visit London and New York in the near future, just to see the effect of what is really happening there. This is a financial services bloodbath, and I think that the Australian banking system is in remarkably good shape in comparison. The Australian banking system has weathered the current turmoil better than any other western market.

Many of you have been concerned about the impact of the global turmoil on banks, and we can all understand that. And although there are clearly effects from what is going on globally, I believe that the opportunities that it has presented to really grow and build our business for the longer term, can actually outweigh some of the short-term negatives.

In Institutional and Mortgages for example, we've seen a number of players in the market fall by the wayside, which has allowed us to strengthen our position. We're also seeing strong growth in lending and deposits, and we expect business credit growth to remain high throughout the year, fuelled by ongoing re-intermediation.

We're also in the right region. Across in Asia, we don't expect the economies as a whole to be as seriously affected by the deepening slowdown in the US economy, as they have become much less reliant on the US over the last few years. And while China is likely to experience a modest slowing – it may go from 11.5 percent growth to 9.5 percent – Asia is in a much stronger macroeconomic position than it was a decade ago. It has a healthier balance of payments profile. It still has rising income levels, which lift domestic demand and it is still maintaining very high savings rates. This will be a source of liquidity for us going forward.

Moving onto credit costs for a moment, which I know many of you will be most interested in today. It's no surprise to anyone that credit costs have risen. They have been well below normal for quite some time, and that was clearly unsustainable. We flagged this to you at the AGM in December, and I have personally been saying that this was likely to happen in the near term. The credit cycle has changed.

Most in the market understand this, because without exception analysts forecasts have credit costs going up well above underlying earnings growth in the years ahead. Now to ensure we fully understand risk in the changing global environment, and that we are actively managing it, we have undertaken a full review of all our businesses, but particularly the markets business in institutional.

Overall, we are well placed but the changing environment is going to require steady hands running all our businesses for the next few months.

At this stage there is no systemic deterioration in new individual provisions. We are, however, taking an individual provision on a monoline insurer as a result of accounting standards, which we are likely to write back. At the same time we've seen a significant increase in the collective provisions, due to the very high lending growth we've had and a large impact from a credit rating downgrade for one particular customer.

Dealing with the monoline exposure that I just talked about. First, let me reinforce, we do not have any US subprime exposure, and this monoline exposure does not involve subprime assets. This exposure is associated with some credit intermediation trades over high quality corporate portfolios that were undertaken between 2005 and February 2007. Frankly, I don't regard this business as core and we won't be doing any more of this in the future. But to be fair, I can't understand the attraction a few years ago when the world was a very different place. There was high liquidity, low spreads, and this sort of business was considered low risk.

Today though, the bottom line is the derivative accounting standards mean we will take a provision on this exposure of approximately US$200 million. It is important to understand that this is driven by the accounting standards, and is based on a mark to market calculation on a market that frankly, doesn't really exist right now. This does not actually reflect the economic substance of the transaction, and it is likely a substantial portion of this provision will be written back in future periods.

The reason I say that the markets are working properly at the moment is because there are plenty of buyers of credit protection out there, but given the extreme risk aversion, there aren't too many sellers. That just drives CDS spreads well above what they should realistically be.

For ANZ to experience an actual loss on this exposure, it would require a significant number of what is a large and well diversified portfolio of corporate names to go belly up around the world. And if that happens, we're looking at an Armageddon situation, and really, we would be the last things you would have to worry about if that happened. As I've said, it is likely that over time we will end up writing back most if not all of this provision.

Now just finally on credit costs. In the last few years we have been living in an unrealistic place with unsustainably low credit costs. Bankers by their nature take credit costs very seriously, but I also think it is healthy for the system to see more normal credit. It leads to a better pricing for risk, and it reminds us that a credit cycle does exist.

So, in summary, we're making some real progress in restoring the performance of the business, with momentum starting to rebuild in Institutional. This is what I promised you was my first priority back in December. We've still got a lot to do and it will take time, but given that this isn't really factored into market expectations, I think there is potentially quite a bit of upside in the years ahead.

At the same time credit costs are clearly starting to normalise, but that is something that is largely factored into market expectations. We realise that there is a lot of turmoil globally at the moment, and that the environment is as uncertain as it has been for many years. But the Australian banking system really is quite well placed to deal with it. So, on balance as we sit here four years into the five year plan I outlined in December, I'm pleased with the momentum that we're starting to generate, and I really do think we are well placed.

Clearly in this environment though, we need to manage revenue growth, risk management and productivity improvements very tightly to deliver on those commitments that we have made.

On that note, I'll now hand over to Peter to cover some of the more detailed issues, and to help satisfy your own appetites for the numbers.

P Marriott: Thanks very much Mike. As Mike said, I'll focus on some of the business issues and hit on your likely questions, I think, arising from this trading update. Certainly the first four months I'm sure you'll appreciate have had their challenges with the much higher levels of basis risk and funding costs, and also a stronger Australian dollar. In particular, in terms of basis risk, when we think about the impacts there including the impact arising from mismatched positions, it's about a $57 million cost compared to the same four months of last year. Obviously that cost has been in large part addressed by the realignment of mortgage pricing, but it's a day by day proposition depending on what happens to the funding costs.

The stronger Australian dollar has also cost us about 1 percent, mainly because of the strength of the Australian dollar against the US dollar.

As Mike was saying, the pleasing observation though, notwithstanding those comments about basis and funding costs, is that income growth has actually been growing month by month. And we've now got very good momentum coming out of the business. If we can sustain the current rates of growth from the business, we'll be able to achieve what we've said in the trading update of a stronger PBP growth in 2008 compared to 2007.

Now, of course though, to the extent that the momentum has been building up across the half, then it will mean that the second half will be stronger than the first half, in terms of PBP growth. But as I said, overall we expect a strong PBP result for the year.

Now, last year I think we spoke to all the investors and analysts, clearly the biggest focus of attention was around the disappointment on the Institutional results. And as Mike was saying, there's been a pleasing turnaround within that business. You've seen within the release that we've commented that lending assets are up by 17 percent over the last four months, and up by almost 30 percent compared to last year, so the period of time we had in 2007, where we were losing market share, has certainly been turned around.

This has been a very high quality business. It reflects us supporting our strategic clients in this time of tight liquidity, and that means, of course, that the margin on the new business is lower because of the lower risk. But it's putting a good momentum into this business and opportunities to cross-sell and build off the relationships that they have built.

We're looking at the moment in terms of the year to date income, these four months compared to the corresponding four months with income in this business being up around 12 or 13 percent, so you can get a sense of the momentum that's been building up. Obviously the bottom line results for Institutional will be impacted by the provisions for credit costs that we mentioned earlier, including the impact that growth and volume has on the collective provision. But this is building up a good base of income.

The Personal business has got up to date growth in its income of about 11 percent, a little bit slower, obviously in mortgages and also in the cards business. We're doing extremely well in banking products, where income in fact is up 16 percent. If you remember, that's a business where we have our deposits and transaction accounts and so forth.

New Zealand is okay, a little slower. The economy there is slowing slightly. Funding costs are higher in that part of the business than what they would be here in Australia, and the mismatch outcomes aren't quite as strong. So it's slowing down the rate of growth within the New Zealand business a bit, but the pleasing thing is they're actually growing market share in mortgages at the moment and the general competitive environment in the mortgage business is a little bit less than what it has been previously.

Asia is also doing very well, obviously boosted by the acquisitions in terms of bottom line growth, but it's also had very good growth in the organic parts of the business, both the retail and the Pacific and the institutional organic components for Asia. So there's a real sense of energy developing within that part of the business.

Talking a little bit about some of the individual P&L line items from an interest earning assets point of view, our average interest rate earning assets year to date are up about 16 percent. And as we've flagged in the result, the interest margin though is likely to decrease this half by more than normal. And the first obvious impact there is clearly around the effect of basis risk and funding costs, which probably will represent about five basis points in the half. Obviously very dependent upon what does happen over the next couple of months on the BBSW 90 to cash spread. I'm sure you will have all noticed how it blew out again in the last week, and we've got a gap to an overnight index swap trading at about 52 basis points, which is much higher than where it was when most of the banks realigned their mortgage pricing. So there is an issue there to keep an eye on.

Clearly there is some evidence out there of repricing, recognising the higher cost of funding generally. It's hard to specifically quantify that, because there's a lot of mix effects going on as well, but there's certainly some signs of that happening. Institutional volume is very strong, 24 percent growth in average interest earning assets compared to last year, and that will, because of the mix effects given that institutional has lower overall margins, that will obviously drag down the average reported margin.

Competition is probably a little bit less. Again, hard to measure this reliably given all of the mix issues that are going on, and some competition still evident in the mortgage market and in deposits, a little bit less competition as I mentioned earlier in mortgages in New Zealand.

Costs, we've had a couple of comments in the release on costs, and I think looking at some of the analyst expectations, I think some analysts are a little bit low in this regard. And I think it's key to stress that we are continuing to invest in the franchise. I think people need to recognise that the first half of 2007 was unusually low in costs, Personal had negative growth, and so some of that pick up in costs in the second half of 2007 will continue on. We also had very strong FTE growth across 2007, so there was a lot locked in, in terms of cost momentum.

And then we come into 2008 itself, and we have, of course, the first full year impact of all the additional branches within the Personal network, Personal has been increasing its level of advertising as well.

And we have year to date 30 percent growth in costs in Asia, recognising the growth in that part of the business, so a significant investment happening within that region.

We're still, of course, focusing on the basic philosophy of managing towards positive jaws, but remember that the jaws in the second half of 2007 were actually negative. So when we're thinking about results for the first half in PCP terms, we've got that.

So as I mentioned just before, we're still maintaining a very strong investment focus on growing the franchise. But you'll see mentioned in the update that Mike has recently appointed someone reporting to himself, to put a big focus on strategic cost management, looking at the opportunities to achieve some step changes in our costs moving forward and looking also at structural issues.

Provisions are a key issue, and I'm sure you're going to have a number of questions on this, but just touching on a couple of points here. I think one of the key things is notwithstanding the rising interest rates and some of the general economic nervousness, the consumer credit portfolio here in Australia in particular, is very clean indeed. On many metrics it's better than what it was 12 months ago. The 90 day arrears are stable in the personal business, around 24 basis points. The 60 day arrears have actually gone down by two basis points, and so there's been very little evidence of any stress working its way through the consumer credit portfolio.

As Mike mentioned, in terms of the monoline provision, this is a mark to market provision, recognising both the unusual market conditions we have, which have blown out the valuation of the underlying derivatives, and the fact that the market price for the counter party concerned is effectively zero, requiring a write down. But as Mike was stressing before, the implied levels of probability default and loss given defaults in these market valuations, would apply a most unrealistic credit condition, so we wouldn't expect the underlying structure to lose money.

The collective provision, the additional amount there mentioned in relation to a commercial property exposure, this is just our standard model working through based on the change in the risk grade on that counter party, so there's nothing special other than our standard methodology. You'll see also there was a mention of a miner. That was a miner that in fact we mentioned last year. We took a provision last year on this one of more than 50 percent, and this year with some further developments, it's clear that recovery here is likely to be a zero. So this is not a new issue. It's just the finalisation of an existing problem exposure.

Turning onto funding, a lot of tension here obviously, and I think it's fair to say we feel quite happy with the way we're managing this in what is clearly a stressed environment. Funding is certainly available but there's obviously a clear investor preference for shorter terms and more vanilla type structures. But we've been having no difficulties raising the funding we were aiming to achieve. We've raised about $12 billion of term funding so far this year, out of what was a $25 billion programme.

That programme may increase, but you can see already we're well on track to raise the funding that we expected to, obviously at a much higher price in general. For example, five year spreads, which used to be around 15 basis points, are now between 70 and 100 basis points, and in three years have gone from 10 to 50. So we're looking at probably around 35 to 40 basis points higher average costs for this funding for the year, and that seems to be in line with what many other people are commenting.

Our liquidity position continues to be strong. We've been maintaining high levels of liquidity during this time, to make sure we've got adequate funding to handle stress scenarios.

In terms of capital, I think the first observation is that the provision we mentioned for the monoline insurer has a trivial impact on capital ratio. That's only about six basis points, so that's not a major issue. What is the major driver of our capital at the moment has been very strong risk weighted asset growth. It's obviously linked to the growth in lending and institutional we mentioned before.

For the first four months we got approaching 9 percent growth in risk weighted assets. And whilst there are benefits obviously from Basel II in terms of the lower risk profile of the assets being written, there's also the effect of downgrades of counter parties flowing onto the risk weighted assets in the same way that it flows through the collective provision.

In terms of the impacts of Basel II, to stand by all of our earlier comments that the benefits from Basel II are modest, that risk weighted asset savings are largely offset by additional deductions to leave a relatively modest benefit. But of course, we're all still working through the implications of Pillar 2, and so it's hard to be definitive here as to what the final outcome will be. But I think I'll still stand by that our Basel II won't have a significant impact on our capital ratios. So that means that clearly with the strong risk weighted asset growth, we've eaten into a large part of the additional funding that we raised at the full year last year.

Finishing up then in terms of overall conclusions, I think the key thing is that we have been showing good signs over the last few months of building momentum and income, and that's been very pleasing. Particularly then as part of that has been the turnaround in the Institutional business from the low growth rates it had last year. Income growth last year was only 7.6 percent, and I said year to date we're running at closer to 12.

The provision items that Mike and I have gone through, all three of them are very specific instances. They don't reflect an overall portfolio issue, but will obviously have a marked impact on the results for the current year in terms of the bottom line.