IRD Seminar on Corporate Restructuring and Governance Wellington & Auckland May 2007

The Merger of ANZ(NZ) and the National Bank of NZ

Dr Roderick Deane

Dr Deane was Chairman of ANZ National Bank from its formation until June 2006. He was also a Director of the ANZ Banking Group 1994-2006

Background

- ANZ(NZ) top corporate bank in NZ
- NBNZ top retail bank in NZ
- ANZ had tracked NBNZ for many years
- Lloyds decided to exit NBNZ
- ANZ(NZ) acquired NBNZ $6.3 billion
- Largest merger in NZ
- Largest bank in NZ
- Market share just under 40%

Challenges

- Government introduced new legislation just as merger consummated
- Reserve Bank invented new prudential policy as it went along over next year or two
- ANZN required to duplicate systems in NZ
- Regulatory stress added greatly to organizational stress

Impact of Merger

- New prudential controls cost $250m. NPV
- Synergies of merger about $250m NPV
- So regulations wiped out synergies
- This was a substantial loss of benefits for bank customers and shareholders
- Despite that, merger successful in customer retention and market share retention

Huge Undertaking

- The merger was a huge undertaking from many points of view ….
- Legal
- Regulatory
- Financial
- Staff relations
- Customer relations
- Systems
- Logistics
- Market competitiveness

Strategies

- Combine back offices and systems
- Combine corporate groups
- Maintain separate retail brands
- Draw on best resources regardless of from which bank
- Invest to preserve and improve customer satisfaction
- Grow earnings despite pressures of merger

Banking Regulation

- RBNZ requires "standalone capability", particularly when under stress
- Major systems to be relocated to New Zealand
- Huge cost and inefficiency
- Harsh reactions to any reservations
- All third party contracts to be renegotiated/separated
- All direct reports to CEO require RBNZ approval
- No analysis that benefits of all this might exceed costs
- Individual director attestations
- Initial aim standalone capability under <u>future</u> stress situations
- Yet, RBNZ reiterates this is "light handed" regulation

Today

- Merger ranked as a success
- Earnings growing strongly
- More synergies achieved than originally estimated
- Dual brand strategy working well
- Good staff engagement scores
- Customer satisfaction improved
- Credit quality good

Lessons

- Cost much greater than anticipated
- Wholly due to Reserve Bank belated interventions
- Not clear there is any payoff from these
- Need strong management, good plans, very determined execution
- Carry customers and staff with the process
- Be innovative and flexible