

2012 ANZ Annual General Meeting

CEO's Address

Thank you John and good morning.

Let me also say what a pleasure it is to be here in Perth nothing makes a traditional banker happier than being in a place where there is a lot of business activity.

Growth in this state is based on its strong connection with Asia. This includes the major investments that are taking place in the resources industry and a vibrant agricultural sector that is well positioned to support Asia's growing demand for food.

Indeed, we are so confident about Western Australia that we moved the headquarters of one of our key businesses – Institutional Banking - here to Perth.

Cathryn Carver, the Managing Director of Institutional Banking is with us today and I know she will be happy to talk to you about how we can help your business.

John has spoken to you about ANZ's super regional journey over the past five years.

What I'd like to do this morning is spend a few minutes on our 2012 results and then give you a feel for how we see the future and how we are responding to those changes to ensure that ANZ is an even more successful bank in the future.

Our 2012 results showed that ANZ is a stronger, more sustainable and more efficient bank. There are three key differences that set us apart from our peers.

- We have a real, 'on the ground' presence in Asia - the fastest growing region of the world.
- We have a management team of experienced international bankers with deep bench strength at all levels of ANZ.
- And, we have a unique regional operating model that is giving us scale and the ability to connect our clients across the region.

John spoke to you about the Group's performance in 2012 but let me highlight some of the numbers he didn't mention.

- We are delivering on our ambition for ANZ to become a super regional bank with our network in Asia Pacific Europe and America driving over 20% of Group revenue.
- We continued to invest in our business, putting over \$1 billion into technology almost a third of which was spent on new product capabilities to provide better services for our customers.

We also invested almost \$3 billion of capital in our operations including around \$1 billion in our Asian businesses. This is on top of the \$1 billion we used to strengthen our capital position.

- And while we have continued to invest in growing the business, we kept costs flat in the second half of 2012 and this saw the cost to income ratio fall 110 basis points over the half to 45%.

The success of our strategy depends on a strong base in our home markets of Australia and New Zealand.

So I am pleased to report that our Australian business put in a good financial performance in 2012 with increasing market share, tight management of margins and a strong focus on productivity.

Our retail businesses performed well and commercial banking increased customer numbers particularly in the small business segment.

New Zealand delivered another good performance based on simplification of the business, maintaining strong customer satisfaction, and market share gains in key segments.

The International and Institutional Banking Division delivered significant growth in a number of priority segments and by continuing to capitalise on the opportunities created by our international network.

This included strong performances in Natural Resources, Trade and Supply Chain Finance and Global Markets particularly Foreign Exchange, although earnings growth in Agriculture and Infrastructure were a little more subdued. We also achieved good growth in commercial banking in Asia.

Profits from the newly-formed Global Wealth and Private Banking Division were flat, reflecting market conditions. However, a new management focus and a clear strategy has improved Wealth's contribution in the second half with better insurance results, higher investment earnings and productivity improvements.

So ANZ has strong foundations and we performed well in 2012 but as John explained to you, this hasn't happened by chance.

It's what we have been working hard to create over the past five years – a bank with a clear growth strategy that consistently delivers on its promises.

Now, we are focussed on capitalising on the foundations that we have built in order to realise the full potential of our business to deliver shareholders better growth and better returns.

Our super regional strategy provides ANZ with a roadmap to do this by anticipating the future shape of economic opportunity, particularly in the Asia Pacific region.

Five years ago I used our annual meeting here in Perth to outline our super regional ambition. Today I want to use this meeting to explain our view of the future and to outline ANZ's priorities in a little more detail.

As you know, the global economy is continuing a multi-year work-out following the financial crisis where countries, businesses, and consumers are making the adjustments that are necessary to deal with the burden of excessive debt.

Those adjustments are obviously most acute in Europe but there is also a flow-on effect to the world economy.

However Asia is proving very resilient but the effect of a chronically weak Europe, and the Chinese Government's policy to pull-back growth has also seen the region slow a little.

But let's put this in perspective. Emerging economies now account for more than two-thirds of all global economic growth – with China accounting for about half of that.

The importance of this is **not just** the shift in economic growth to the East but, that we are actually approaching a tipping point.

Over the next decade Asia's middle-class will expand dramatically. This is one of the most important features of the future global economic landscape.

Just three years ago a little more than half of the world's middle-class or about one billion people lived in Europe and North America.

In 2030, the OECD expects that **two-thirds** of the world's middle-class or over **3 billion people** will live in Asia-Pacific. They will account for almost 60% of total middle-class consumption compared to just 25% in 2009.

Asia's emerging middle-class is a critical engine of growth, particularly in large countries such as China, India and Indonesia.

This middle income group will provide a foundation for sustained economic progress in our region by driving both consumption and domestic demand.

Australia and New Zealand are perfectly positioned to meet these opportunities provided political, business, and union leaders can find new ways to work constructively together.

We have the minerals and energy; we have the agricultural resources to meet the growing demand for quality food; and we have world class capabilities in areas such as education, medicine and professional services.

But Australia needs a long-term view that is focussed on maximising the opportunities we have as part of the Asian Century.

The strategy we put in place five years ago perfectly positions ANZ to take advantage of the dramatic expansion in Asia's middle class and what those changes mean for Australia, for New Zealand, and for the island nations of the Pacific.

For us, our unique super regional strategy with its focus on building on our strengths in Australia and New Zealand and on connectivity with trade, investment and people flows within the region means that ANZ is in the right place, at the right time, with the right strategy.

Let me now show you a short video which demonstrates our strategy in action.

<play video>

I hope that gives you an insight into how we are supporting our customers to take advantage of the Asian Century and the competitive advantage that our presence on the ground is creating for our customers and for ANZ.

So there are enormous opportunities given Australia's growing linkages to Asia but, at the same time we have an economy in transition as a result of a strong dollar, and weak business and consumer confidence.

This is having a significant impact on some of our traditional industries like manufacturing, tourism and retail which I believe will continue to go through a difficult adjustment over the coming years.

So, unlocking the potential of our 'super-regional' model over the next five years is more complex than just growing in Asia. At ANZ, it will require strong management disciplines.

- We need to continue developing our distinctive regional footprint and business mix that provides both geographic and earnings diversification.
- We need to more actively manage the trade-off between return on equity and capital growth to deliver better earnings per share.
- To help improve our return on equity, we will target a two percentage point reduction in the cost-to-income ratio over the next two to three years.
- And finally, we must ensure that we have the best funding mix and strongest balance sheet of our local peers with strong risk management disciplines and a well-diversified risk profile.

Looking at our businesses this means three areas of focus.

First, the largest part of our Asian expansion will be targeted primarily at the institutional and commercial banking segments drawing on our strong Australian and New Zealand foundations, and focussed on larger geographies which are connected to the region by trade and capital flows.

Second, there are clear roles for Australia, for New Zealand, for Wealth, and for Asia Retail.

This will include:

- continuing to grow share in Australian Retail and Commercial by focusing on growth sectors where ANZ has an advantage;
- targeting growth segments in New Zealand while also becoming more efficient to better reflect our scale position;
- and, using innovation and productivity as themes to grow our Wealth business throughout the Group.

Finally, we will share best practice across geographies and lines of business to create scale and cost savings. This will involve:

- managing global operations hubs in India, in China, in The Philippines, in Australia, in New Zealand and in Fiji to provide operating scale and to manage risk;
- greater sharing of products, platforms and processes across all our geographies;

- and increasingly basing growth on shared technology and operations infrastructure that will provide scale.

In a nutshell, our businesses in Australia and New Zealand give us a good foundation with a focus on delivering for customers and on operational efficiency and our super regional strategy gives ANZ growth opportunities that just aren't available with a domestic-only strategy.

However, I can't finish my address today without referring to the reputational challenges facing the global banking industry and the 'spill-over' issues we have seen in Australia in recent years.

At ANZ, we recognise that the contribution we make to society has to be more than just profit.

It includes the jobs we create, the salaries we pay, and the investment we make in the skills of our people.

It also includes the taxes we pay, the support we give to businesses that supply us and the products we provide to satisfy the needs of our customers.

As part of our commitment to corporate responsibility, we invest in programs aimed at increasing financial capability and literacy, and helping bridge urban and rural divides.

We believe this is not just an add-on but it's an integral part of how we run our business.

While, as John mentioned, this work saw ANZ recognised as the most sustainable bank globally in the 2012 Dow Jones Sustainability Index, we understand we have to work even harder with customers and with the wider community in the years ahead.

You can see further details on our corporate responsibility activities in our Shareholder Review and on anz.com.

So, in summary, despite a challenging year ANZ is a stronger and more sustainable bank.

We have a consistent and now proven strategy that is not only delivering for our customers and shareholders in the short term, but is providing a clear roadmap that is uniquely positioning ANZ for the opportunities that the Asian Century will deliver.

We have a business diversified by geography, by product and by people supported by a unique operating model that is providing us with significant organic growth options.

And we are delivering strongly for shareholders, for our customers, for the community, and for our employees.

So before I hand back to John let me join him in thanking everyone of our 48,000 employees working in 1,300 offices in 32 countries around the world and may I wish you all, and your families, all the very best for Christmas and for a happy and healthy New Year.

Many thanks for listening to me today.