2011 ANZ Annual General Meeting
CEO's Address

Mike Smith
Chief Executive Officer

Many thanks John and good morning everyone.

Four years ago, nearly to the day, I had the honour of addressing shareholders at my first Annual General Meeting of ANZ.

I was then barely three months into the job.

Today I am going to roll out that old cliché and say the world has changed a lot since then …. unfortunately, in many ways, not for the better.

In 2007 I raised a few eyebrows when I suggested that the world economy, particularly Europe and the United States, would face a serious downturn and that the banking industry was going to face fundamental change.

I also spoke about the realignment of the world economy towards Asia, particularly the growth of China and India.

It was in that context, that I laid out our vision for ANZ to be a super regional bank while reinvigorating our domestic franchises in Australia and New Zealand.

Given all the uncertainty and volatility in the global economy, this morning I want to talk to you about the foundation ANZ has been building over the last four years to strengthen the bank, while also positioning ourselves to take advantage of the dramatic shifts occurring in the global economy.

Changing any company, particularly a company the size of ANZ and more particularly a bank, takes time.

The two linked foundations of change at ANZ over the last four years have been:

- Our unwavering conviction in the fundamental shift taking place in the global economy as growth moves from West to East.

- And the enormous opportunities that this shift presents for Australia and for New Zealand.

This reflects our strong belief that a portfolio diversified by geography, by customer segment and by product will deliver differentiated revenue growth and long-term shareholder value – growth and value that are simply not available with a domestic only strategy.

Over the last decade, the rise of China and the emergence of India have transformed the world economy, and this change has been accelerated by the global financial crisis.

Until the year 2000, developed economies such as the United States and Europe accounted for about two-thirds of world economic growth.

Today that paradigm has been turned on its head. Emerging economies now account for more than two-thirds of global growth of which China accounts for about half – and we expect this trend to continue for the foreseeable future.

Let me briefly talk about the magnitude of what is occurring as the growth economies of Asia urbanise and industrialise and the effect this will have on Australia.

At present, around 45 million people each year in Asia are moving from rural areas to cities. By 2050, it is predicted that three-quarters of the world's population will urbanise and many people will be living in megacities of more than 10 million people each.

In Asia, where only 40 per cent of people now live in cities, there is still an enormous amount of infrastructure to build in order to support this migration and expansion. This is occurring at an incredible pace – particularly in China.

For example, in 1980 Shanghai had just 120 buildings over eight stories high. By 2005, it had more than 10,000. And today Shanghai has more skyscrapers than New York.

And since 1995, Shanghai has built the world's longest metro system. The Shanghai Government plans to double it again by 2020.

As this process of urbanisation and industrialisation continues, electricity generation has tripled in China over the past ten years; China now has 900 million mobile phone users, adding 11 million new users every month; and China has 100 million cars – a number which is growing by nearly 10 million cars each year.

All of these metrics tell the same story: the rise of the Chinese economy is extraordinary …. and increasingly, India, Indonesia and Vietnam are following the same path.

This is a good news story for our region, and a good news story for Australia and for New Zealand because this shift presents enormous opportunities for both countries.

Some of these opportunities were highlighted in an *ANZ Insight* report we released earlier this year.

The report set out the unprecedented scale of investment required in Australia to support the growing demand for resources and agricultural commodities. As a country we will need around $1.8 trillion of investment over the next 20 years. And this in turn will create 1.5 million new jobs.

While other OECD countries worry about the problem of a lack of growth; our problem in Australia is how best to manage and to maximize the opportunity we have – in its size, its extent and its duration.

There are also challenges - we will see some sectors grow strongly while others will experience significant pressure.

With the balance of the global economy changing, it follows that global finance is changing as well. As economic activity grows and incomes rise in Asia and in our region, so does the requirement for capital and the scale and scope, and sophistication of financial activity.

And so it's not just about the centre of gravity for economic growth shifting to Asia – importantly, the weight of financial assets is also shifting.

It's therefore clear where Australia and New Zealand's future lies.

That is why at ANZ we have been working on five key drivers to enable the Group to take advantage of this new economic reality. These drivers are:

- Improving the composition of our balance sheet and the diversity of our funding: in other words making ANZ one of the world's strongest banks.

- Increasing our management bench strength and creating a world-class team of experienced international bankers. John introduced some of our team to you earlier.

- Strengthening our domestic franchises in Australia and New Zealand to support our customers by driving innovation and creating greater connectivity in our business - connectivity that allows us to capture more opportunities associated with our super regional strategy.

- Investing in Asia …. to move from what was just a presence four years ago, to what is now a real business, with real momentum. This includes nurturing our key partnerships with banks in China, Indonesia and Malaysia.

- And finally, we have been focusing on productivity by creating centres of excellence in our operations and technology hubs to ensure we produce better outcomes for customers at lower cost; and to better support our business as it expands.

Looking at this slide you can see a report card for our progress in 2011.

- We reported an underlying net profit after tax up 12% to $5.7 billion.

- Your bank remains strongly capitalised with tier one capital of 10.9% as defined by APRA making us one of the world's strongest banks. When using the FSA standards that apply in the UK and Europe, this equates to a tier one capital ratio of over 14%.

- Importantly, we have continued to strengthen our funding profile with an increasing weighting to customer deposits, which now represent 61% of total funding. Over the past four years, customer deposit growth has exceeded loan growth by about $50 billion.

  Access to liquidity from our Asia Pacific Division remains an important part of this diversification strategy. It supports the continued growth of our balance sheet in Asia; and for Australia and New Zealand it also further reduces our reliance on wholesale funding.

- And we are delivering on our strategic goals. For example, this year we re-established our presence in India with the opening of our Mumbai branch in June; and we continued our expansion in China including opening a branch in the western mega-city of Chongqing.

Turning to our domestic franchises:

- In **Australia**, Phil Chronican and his team increased profit by 4% based on good cost management and solid results in Retail and Commercial. In Wealth, profits fell reflecting difficult market conditions and increased insurance costs following the extreme weather conditions early in the year.

During the year ANZ Australia continued to focus on its position as the easiest bank to deal with for customers. We launched a new advertising campaign; and we built deeper relationships with customers – particularly in our target segments.

For example, we are taking advantage of our position in Asia, to become the bank of choice for customers from the Asia Pacific region.

This includes putting in place a specialist migrant banking channel; launching a new "Moving to Australia" online portal; increasing the number of specialist migrant branches; having over 400 in-branch specialists with foreign language capabilities; and offering multi-lingual options on our ATMs.

The Australia Division is also using innovative approaches to deliver best in class customer service. For example, our "GoMoney" iPhone app is a market leader and now accounts for almost a third of our online transactions.

We have also worked hard to build our position in Commercial, including the agribusiness and small business segments.

We introduced ANZ OneSwitch to make it easier for business customers to switch their banking to us; and we are leveraging our Asia Pacific network to provide new services and opportunities to our customers.

- In **Asia**, Alex Thursby and his team maintained momentum with US dollar profits up 22%. Having completed the integration of the Asian businesses we acquired from the Royal Bank of Scotland, we are now managing expenses more tightly while still investing for growth.

  The benefit of this investment is showing up in the franchise we are building, with the number of 'active' customers in the Institutional and Commercial business up by 25%; and lending up by 44%. Customer deposits were up by 40% in US dollar terms.

- In **New Zealand**, David Hisco and his team increased the profit by 55% in New Zealand dollars driven by a large fall in provisions and tight control of costs.

  The New Zealand economy is slowly recovering but the environment is likely to remain soft for some time. Nevertheless, we are continuing to focus on simplification and efficiency within our New Zealand business, and we are seeing good results from that financially …. as are our customers.

- Finally, turning to our global **Institutional** business, Shayne Elliott and his team lifted profits by 7%. After four years of hard work, Institutional is now delivering more diversified earnings by product, by customer and by geography, and it continues to grow the number of clients.

  This is based on a clear strategy to build the world's best bank for clients driven by trade and capital flows in the Asia Pacific region, particularly in resources, agribusiness and infrastructure.

- However, in line with other domestic and global banks, a issue for Institutional in 2011 was the lower trading earnings from Global Markets as a result of the extremely volatile market conditions in the final quarter of the year.

As you can see from our report card, we are positioning ANZ for the long term structural changes happening in the world while also delivering for our shareholders and for all our stakeholders.

By embedding the super regional concept through our businesses, in every country in which we operate, we are developing a unique customer focus.

This means we can capture a greater share of regional trade and investment flows which are growing rapidly. For example, intra-Asia trade is now worth $1.6 trillion a year, compared to Australia and New Zealand's annual trade with Asia which is $235 billion a year.

And we can take advantage of the growing movement of people within the region – whether that is for migration, for education, for job opportunities or for tourism and travel.

What is important however, is that in 2011, I believe we made a step change across the bank with our super regional strategy.

We continued on our growth path in Asia. But have we now embedded the strategy into our whole business through much greater connectivity between Asia and the other key domestic franchises in Australia and New Zealand.

Together with our financial strength, this gives us more choices and more opportunities – choices and opportunities that are open to very few banks in the world as capital-constrained international banks retreat from our region.

Finally, let me add some brief comments to those John made earlier on the global economic situation and our outlook.

During 2011, the global economic recovery has become much more uncertain.

Consumer and business confidence remains quite low in the advanced economies. Even in the better performing countries such as Australia, cautious consumers and businesses are reluctant to spend and invest, preferring instead to repay debt and strengthen their balance sheets.

Globally, this has slowed the shift which is needed …. from growth based on government stimulus to sustained growth based on private-sector investment and consumption.

At the same time, markets are worrying about the ability of many countries to stabilize their public debt - particularly those in the peripheral economies of Europe.

Worries about European sovereigns have in turn translated into worries about European banks which hold their sovereign bonds.

This has resulted in a partial freeze in financial flows, with bank funding markets moving into another extremely difficult period - similar to that we saw in 2008.

Each of these developments is concerning in its own right, however the combination of high debt and low economic growth is toxic; and it is giving rise to even more risks and continued volatility in global debt and equity markets.

Against this increasingly difficult background, last week we made a decision to reduce interest rates in Australia for mortgages and for small business lending by a quarter of one percent.

We believe that this was the right decision for our customers and for the Australian economy.

While I know many people are irritated, and even angry about bank profits and interest rates, one thing we all agree on is the need to have safe banks. I think all of us would want to avoid the destabilisation and the dislocation that so many people are facing in the United States and in Europe as a result of the global financial crisis.

But as the crisis in Europe continues to deepen, the choices for commercial banks such as ANZ are becoming more and more limited. For us, the cost of funding is rising again …. if indeed it is available at all.

Since the global financial crisis, bank funding costs and the Reserve Bank's Cash Rate have become increasingly disconnected.

Therefore, we decided that ANZ will announce future pricing changes for variable mortgage rates on the second Friday of each month, rather than continue with the artificial convention of announcing decisions after Reserve Bank Board meetings.

This approach gives us the flexibility to assess movements across all our sources of funding - not just the cash rate. In particular the price we pay for customer deposits, and for domestic and international wholesale funding.

I accept that having made this decision, we now have a significant task ahead to explain the complex world in which we operate in ways our customers and the public understand … and most importantly that they can accept.

Nevertheless, the highly charged political debate that we experienced last week has only served to widen the gap between popular expectations and the realities of the global crisis when – for the health of the economy and our financial system – that gap should really be closing.

For example, some have recently claimed that the return on equity among Australian banks is high in world terms and have raised the prospect of additional taxes.

While it is true that the performance of Australian banks is strong, the comparison is against a chronically weakened banking system in the United States and Europe.

So clearly we need to do more to communicate the situation we are facing and the dilemmas it presents us. The key lesson the first round of the global crisis taught us, is that a strong banking sector and well-managed government finances are the best protection the economy can have to avoid a major downturn.

And today, the downside risks to growth are increasing with the global situation clearly having taken a turn for the worse over the last few months.

We all need to recognise the likelihood that this uncertainty will be with us for several years. At ANZ we are managing and positioning our business on this basis.

So far, however, Asian countries – which acted to substantially reform their economies following the crisis of the late 1990s - have largely been immune to these developments in Europe and have continued to produce high growth.

In China, the economy grew 9 per cent over the year, and while many commentators talk about the risks to growth in China, I have been there regularly this year and I am confident about the ability of the Chinese government to manage inflationary pressures and to manage a shift from export-lead growth, to growth based on more internal demand.

In this difficult environment, where financial markets are volatile and global economic growth is slowing, ANZ has made a reasonable start to the 2012 financial year.

Our core businesses are performing well however higher funding costs and competition are continuing to place pressure on margins. In part, this will be addressed by driving productivity outcomes even harder, however the challenge of slowing credit growth and tightening margins remains. In our Global Markets business, although volatility has continued and the environment is highly uncertain, performance in the first two months is broadly in line with our expectations.

And let me say that ANZ is uniquely positioned with the right strategy, focused on the right places, at the right time with the financial strength to see 2012 as a year of opportunity.

Given this, I am confident that we can continue to deliver value to shareholders, to employees, to customers and to the community.

Before handing back to John, I would also like to extend my thanks to all our 49,000 employees working across 32 countries for the work they put in to achieve the results you see today. It is something our shareholders should be proud of.

Finally, may I also wish our shareholders all the compliments of the season.

Many thanks for listening to me today.