2012 ANZ Annual General Meeting

Chairman's Address

Good morning ladies and gentlemen. My name is John Morschel.

It is a pleasure to welcome you to ANZ's Annual General Meeting here in Perth. As the meeting is also being webcast, I would like to extend a welcome to our on-line audience.

I would like to introduce Barry McGuire, a senior leader of the Noongar People to give a Welcome to Country.

<*welcome to country ceremony*>

Thank you Barry for your Welcome to Country.

As a bank we are strongly committed to Western Australia, in fact we first opened for business here in Perth in 1841 …. 171 years ago …. and so we have been deeply involved in the State's growth and it success through out much of its history.

Today, our super regional strategy and our growing network and capability in Asia, is perfectly suited to supporting Western Australia's export-led economy.

ANZ has 1,300 employees working in more than 100 branches and offices throughout Western Australia and I believe all shareholders can be proud of the contribution ANZ makes in this state.

As well as creating jobs, paying taxes, providing banking services to 200,000 West Australians, and lending over $8 billion to help small and large businesses expand …. we are working hard to make a broader contribution to the community.

Our financial education program for Indigenous Australians called MoneyBusiness, is being delivered by local community organisations across Western Australia, from Kununurra to Fremantle.

And around 500 West Australians have participated in our matched savings and financial education program Saver Plus, delivered by The Smith Family and Anglicare in Perth and in Albany.

All your directors are here today and details of their background and experience are in the Shareholder Review.

I would however like to introduce Paula Dwyer. Paula joined the Board in April and she is standing for election today.

In addition to our Chief Executive Officer, Mike Smith and our new Chief Financial Officer Shayne Elliott, we have a number of our senior management group with us today seated in the front row and in the seats behind me.

I hope you'll take the opportunity to talk to directors and executives after the meeting. To help our conversation, a cup of tea and something to eat will be available to shareholders from midday.

This morning, I want to put ANZ's 2012 performance in the context of what we have achieved over the past five years. Then, Mike will talk to you about how he sees the future.

After Mike speaks, you will have the opportunity to ask questions, or make comments, on any matter related to our business.

Let me start by talking about what I see as the three major forces at work in the global economy, twelve years into the 21st century.

The first is the reordering of the global economy; the second is connectivity; and the third is the need to drive productivity improvements.

To emphasise the enormous shift which is taking place in the global economy, China is expected to overtake the United States to become the world's largest economy, as early as 2016.

And increasingly other major economies in Asia such as India, Indonesia and Vietnam are moving up the global league tables.

This is creating significant opportunities in banking to support regional trade and investment flows, and in banking Asia's growing number of affluent people and successful businesses.

At the same time we are seeing a more connected world.

Asia sees Australia and New Zealand not only as secure and reliable suppliers of minerals and energy, of food and of services …. but as increasingly important places to invest in and to visit.

So connectivity though ANZ's international network, our on the ground presence, and our long-term relationships are critical to supporting the significant growth occurring in trade and investment flows across the region.

Connectivity also extends to how information technology is reshaping the world we live in. This includes the way we operate across the world to support our customers from our operations and technology centres from Bangalore to Auckland, and from our offices and branches from Shanghai to Perth.

And it includes the way customers want to access our services through traditional branches and call centres to PCs, tablets and smart phones – from anywhere, at anytime.

Finally, with more subdued growth in advanced economies; with even more intense competition to capture available growth; and with Australia <u>being</u> a relatively high cost economy, we must continue to lift our focus on productivity to remain in the game … let alone to expand.

ANZ recognised these major forces at work and at the annual meeting of shareholders here in Perth exactly five years ago, we announced an ambition to create a leading super regional bank in the Asia Pacific region.

Despite what everyone recognises now, the conventional thinking at the time was that Australian companies struggled outside Australia …. and that Asia was just an emerging market. As a result, our shares were marked down.

Today, as Australia opens its eyes to Asia's importance, our share price is now performing well against our domestic peers and investors now see ... not the risks of a strategy which engages with Asia - but the risks of having a strategy that <u>does not</u> engage with Asia.

You will have received a brochure when you registered this morning that provides a report on the first five years of our super regional strategy. I hope you will take some time to read it.

Today, I want to report to you on the considerable progress we have made with our strategy by talking about our achievements in five key areas.

- The building blocks we put in place to enable us to successfully execute our super regional strategy.

- The legacy issues and the opportunities we faced as a result of the global financial crisis.

- How we moved from having a presence in Asia …. to establishing a real business in Asia.

- The steps we continue to take to strengthen our major businesses in Australia and New Zealand through a focus on growth opportunities and business simplification.

- And, how we are adapting to lower growth following the global financial crisis. We believe this economic environment is now part of the banking landscape for the foreseeable future.

Looking at the building blocks to enable the strategy, the first was really a step change in management capability.

With Mike Smith's appointment late in 2007, we recognised a lesson of ANZ's past - that we couldn't create a major business in Asia without experienced international bankers and Asian insiders to execute our strategy.

Since then, we have strengthened management throughout the business with very experienced bankers from a diverse set of backgrounds – a team which I believe is world class.

At the same time, we undertook a multi-year program to shift ANZ's culture and to invest in the training and development of our people to focus more strongly on performance supported by a clear set of Group-wide values.

We also needed to get ahead of the game by systematically improving our capital position, our balance sheet and liquidity.

As you can see from this slide, we increased capital through a number of activities including an institutional placement, a retail shareholder share purchase plan, hybrid raisings and through the dividend re-investment plan.

We further strengthened the bank by significantly increasing our collective provision balance and increasing the proportion of funding from deposits.

We also increased liquid assets to be nearly five times as much as we had available in 2007. Liquidity is a measure of a business's capacity to readily meet its cash and collateral obligations at a reasonable cost.

As we saw in the financial crisis in Europe and the United States, it's a particularly important measure for banks as part of their overall strength.

Another important building block was establishing a strong sense of identity and purpose across the Group.

This included setting out a clear five-year roadmap to source 20% of our earnings from Asia Pacific Europe and America, and a new set of goals for our businesses in Australia and New Zealand. In 2011, we extended the roadmap with a new aspiration to source 25 to 30% of earnings from Asia Pacific Europe and America by 2017.

To enable our super regional strategy, ANZ also needed a new approach to technology. While there is still much to do, we have made good progress establishing an enterprise approach to technology and improving the reliability and connectivity of our systems.

The bottom line is that these actions put ANZ on a much stronger footing … but with the onset of the financial crisis, we also had to face up to a number of difficult legacy issues.

This involved addressing customer and reputational issues arising from non-core businesses. Subsequently, we exited a number of these businesses including custodian services, securities lending, private equity and institutional stockbroking.

At the same time, recognising the weaker economic environment and the needs of our regional strategy, we strengthened risk management with professionals appointed to key leadership roles and we strengthened risk policies and processes throughout the bank.

As business conditions tightened, we have also simplified the way we run the bank including a multi-year process of strategic cost reduction.

This has involved reducing the layers of middle management and investing in our operations and technology centres in Australia, India and New Zealand and establishing new centres in The Philippines and China.

Our financial strength also allowed us to look at the global financial crisis as a time of opportunity.

- We bought the Asian assets of the Royal Bank of Scotland in Taiwan, Singapore, Indonesia, Hong Kong, The Philippines and Vietnam giving us 54 additional branches, from a base of about 2 million clients.

- We purchased the remaining 51% of our wealth management joint venture with ING in Australia and New Zealand.

- And, of course the global financial crisis created enormous opportunities for organic growth using our AA-band credit rating and balance sheet strength to step in and win quality customers from the weakened US and European banks.

The end result is that we came out of the financial crisis as a stronger bank than we went into it. Today we are one of the best capitalised banks in the world and one of only a handful of banks globally that are rated in the AA-band or better …. and the only Australian bank with a super regional strategy.

The third aspect of delivering our strategy is building our franchises in Asia …. primarily through organic growth.

In a highly regulated sector, people sometimes forget the time and hard work that goes into obtaining banking licenses, expanding premises and hiring new staff. Let me give you a few examples of what we have achieved.

- We increased our presence in China through local incorporation and opening new outlets and branches. Total staff numbers are now 700. We also have two major partnership investments in China with Shanghai Rural Commercial Bank and the Bank of Tianjin.

- In Indonesia, we are one of the largest international banks with 1100 people and 28 branches. This compares to just two branches in 2007 – and we also have a partnership investment in a major commercial bank – Panin Bank – where we hold a 39% stake.

- Our major commercial hubs in Hong Kong and Singapore have also grown substantially. In Hong Kong, we now have over 1,000 people working compared to around 30 in 2007. And in Singapore, we employ 2,000 people, up from around 150 in 2007.

- And in 2011, we re-commenced operations in India with the opening of a branch in Mumbai.

  We also have our long standing operations and technology hub in India with over 5,600 people working in Bangalore.

The result is that we have built a real business in Asia Pacific with real relationships and a real on the ground presence serving 2.6 million customers - almost three times the number we had in 2007.

And importantly for shareholders, net profit from our Asia Pacific Europe and America business has increased more than three-fold since the end of 2007 to around $1 billion in 2012.

This growth is significant …. however, I want to emphasise that a cornerstone of our super regional strategy has been continuing to strengthen our position in Australia and in New Zealand.

In Australia, our focus has been on growth in traditional banking in retail deposits and mortgages, wealth products and commercial banking.

We have further strengthened our position through acquisitions and by increasing the connectivity between our large domestic businesses and our network in Asia including Australia's major trading partners in China, Korea, Japan and Indonesia.

In New Zealand, we have been undertaking a major transformation to simplify our business, to reduce cost and to improve the banking experience for our customers.

More recently, this has involved bringing together our ANZ and National Bank brands as ANZ …. and completing a major program to move to one technology platform.

Finally, we recognised early that global growth is not going back to the levels we saw prior to the financial crisis – particularly in our major domestic markets – and we are actively adapting our business to this environment.

Let me just explain the magnitude of the shift we are facing.

While every part of the Australian and New Zealand economy grew strongly prior to the financial crisis, we now have a multi-speed economy and many businesses and consumers have been reducing debt and borrowing less.

At the same time, funding costs are higher and we are working much harder to improve our mix of income and to maintain margins. And since 2007, increased regulation and growth in our business has required us to hold almost twice as much capital.

Despite these factors …. our financial strength, our focus on growth markets and our attention to productivity has seen us maintain a return on shareholder's equity of around 15 to 16% - among the best of any banks globally.

Nevertheless, to maintain this performance in these challenging times, it is clear we need a greater emphasis on productivity and on capital efficiency in order to continue performing strongly for our shareholders.

So, I believe ANZ's super regional strategy is clear, consistent and aligned to both the economic opportunity in the Asia Pacific region and to the major forces that are dramatically changing the way we all do business.

Of course what is important is that we continue to deliver for our shareholders …. and for our customers and the community …. now <u>and</u> in the future.

I am pleased to report therefore that we increased statutory profit in 2012 by 6 per cent to $5.7 billion.

Our final dividend of 79 cents per share fully franked was paid to shareholders today, bringing the total dividend for the year to $1.45 per share.

And consistent with the ambition we set five years ago, over 20% of our revenues now come from outside Australia and New Zealand.

Your Board was also pleased that, together with our share price performance, total shareholder return this year was a sector leading 35%.

On the screen behind me you can see some of the recognition and awards we have received this year. Some highlights include:

- Being awarded the most sustainable bank globally in the 2012 Dow Jones Sustainability Index for the fifth time in six years.
- Being recognised as Bank of the Year and Home Lender of the Year in Australia by *Money* magazine.
- Being ranked a top five corporate bank in Asia by Greenwich Associates.
- And entering into a new partnership with Chief Executive Women to facilitate more women into leadership positions in business, government and the not-for-profit sectors.

Now, let me just say a few words about the outlook in 2013.

There is no question we are continuing to see a frustratingly anemic recovery in the global economy.

World economic growth is forecast to be around 3% next year with advanced economies growing at less than 2% on average, while the emerging markets of Asia are expected to grow at around 6 to 7%.

In Europe many economies are contracting and it is difficult to see meaningful growth drivers.

In the US, although the recovery continues to be very slow, there are encouraging signs in the housing market which are a positive factor for growth …. and we remain optimistic about the US in the medium term.

In both Europe and the United States however, economic disappointment and political frustration are feeding off each other.

At present, this is most obvious with the continuing impasse over fiscal policy in the US and in the political uncertainty in Italy. This will continue in 2013 with the German election in September weighing on reform in Europe … and with high youth unemployment remaining a significant social challenge in much of southern Europe.

Increasingly, political developments and political risk around the globe will be a key feature shaping the 2013 outlook.

If there is a shifting dynamic though, it's that recent data is softer for advanced economies …. but brighter for some key emerging economies, especially China.

The new Chinese government that will take office in March is likely to formulate economic policy within the framework of slower but more sustainable growth than in the past. Nevertheless, government transitions in China are typically accompanied by measures that give a short-term boost to growth and we expect China will continue to grow at around 8% in 2013 easing to around 7 and a $^{1}/_{2}$% in 2014.

In Australia, the key challenge is weakening mining investment as softer commodity prices, high labour costs, policy uncertainty and the high Australian Dollar all work against new investment projects.

At the same time, there is little evidence of the weaker sectors of the economy such as retail, housing and manufacturing recovering sufficiently to pick up the slack. Together with weak business and consumer confidence, this leaves overall business conditions in the economy softer.

In this environment, our economists expect the Reserve Bank will act to cut the cash rate further.

And so overall, we expect economic growth in Australia to be a little more subdued in 2013, growing at around 2 and a $^{1}/_{2}$ to 3%…. with growth in New Zealand of 2 and $^{1}/_{2}$%.

This is unquestionably a challenging environment. But I am pleased to say that Asia – a cornerstone of ANZ's strategy - remains the best performing region in the world economy.

As I said earlier, we have anticipated these trends and we are driving both growth and productivity harder to ensure we are successful in this environment where the economy is soft and conditions are volatile.

Our results in 2012 however demonstrate both the progress we are making; that we are operating from a position of strength; and that we are well placed to continue delivering value and performance in 2013.

Finally, delivering a good result in a year of significant change isn't easy and on behalf of shareholders I'd like to thank all of ANZ's talented and professional people – all 48,000 of them - for their contribution.

I will now ask the Chief Executive Officer Mike Smith, to speak to you.