

ANZ 2007 Annual General Meeting

Chief Executive Officer's Address 18 December 2007

Thank you Charles.

It really is an honour to be the Chief Executive of ANZ. It is a great bank and a great company.

I am also very pleased to be in Perth. For a banker who has been living next to high growth economies in my old base in Hong Kong, being in Australia's fastest growing state economy certainly makes me feel at home.

Speaking as somebody who watched Australia from the outside, I have to say that I have followed ANZ's progress with great interest over the last ten years. It will come as no surprise that, along with many others, I have been very impressed with what John McFarlane achieved in changing the culture and business of ANZ.

I also want to say that one of the key reasons I decided to make the move to ANZ was the opportunity to work with Charles Goode.

Charles did a great job of talking me into coming here, but more importantly, I wanted to work with a Chairman of his calibre. Since I made the decision, he and the Board have been incredibly supportive, of both me, and my family.

As someone who has only been in the job at ANZ for three months, I thought it would be most useful if today, I could give you my early impressions of ANZ, and set out my aspirations for the group.

Before I do let me give you my view on the changes in the global economy.

The turbulence caused by the deterioration in the US sub prime mortgage market continues to test international financial markets.

Most large financial institutions have been affected and the general tightening of credit is having an impact on global growth.

In my view the effect of the sub-prime crisis will be primarily focused in the US and Europe although no where will be immune. Despite the significance of the US to the world economy, I think 2008 will see positive growth largely because of the existing momentum in Asia.

This year China and India will be the two largest contributors to global growth.

Let me move from the global economic environment to what I see as the major trends that are changing the world for banks and other financial institutions.

There are five key trends:

- globalization and mobility of capital,
- consolidation,
- convergence,
- technology, and
- sustainability.

How banks respond to these challenges will determine how successful they will be in the future.

Despite the sub prime turmoil, global capital continues to reward higher returns.

Accounting and consulting firm Deloitte found that the five banks with the fastest revenue growth globally saw their share price out perform the industry average by 400 per cent over a four year period.

That means that we are going to see an acceleration of globalization in financial services. Banks in mature markets will have to look to be more innovative as they look for sources of new growth.

Many have already seen the opportunities associated with GDP growth in emerging markets. The major North American and European banks already see Asia as an important driver of growth with significant opportunities in corporate and investment banking, asset management and private banking.

On average, the top 10 European Banks generate 11 percent revenues from Asia. HSBC and Standard Chartered generate the highest percentage of their revenue from Asia. UBS and Deutsche Bank are the next highest. In total these four banks generate \$41 billion of profit from Asia. This only underlines how well international banks do in Asia.

By contrast, the four major Australian banks, on average, generate little more than 1% of their revenues from Asia. This is despite our proximity and long standing relationships with clients in the region.

I'm pleased to say that, ANZ has built a strong foundation in Asia both through our acquisitions and our network of ANZ offices.

On the other hand, while we are seeing European and North American banks investing in Asia, we are also seeing Asian and Middle East investors taking significant stakes in the leading western banks.

We will see this increasing globalization of the world's leading banks continue.

At the same time we are seeing even more consolidation and convergence in financial services. With the enlarged European Union, Deloitte expects 700 European banks, to disappear, through mergers over the next three years.

Convergence will see a continuation of every aspect of financial services coming together in the one organization. The implication for any bank is clear. To attract the capital needed to be able to compete, banks need to demonstrate both scale and growth.

Unless we become more outward looking, the next wave of competition from Asian and other international banks with best in class customer solutions will be, in a word, formidable.

This means that technology will become even more critical to organisations like ours.

Last year the world's top 25 financial institutions spent over \$50 billion on technology. That's \$50 billion in one year.

My view is that this will grow exponentially because process and service improvement is much harder to replicate than new products. As competition intensifies, banks will need mass efficiency with premium service capability.

For instance in Hong Kong, when a customer enters a bank branch, her proximity card registers as she walks in. By the time the customer has reached the counter, the teller has her name, her complete relationship history with the bank and the teller is able to greet the customer by name and is well equipped to discuss her needs.

I think most of you would agree that despite some real progress, Australian banks still have work to do before they can match this level of service.

So at ANZ, we will need to make strategic investments in technology and operations to deliver the best in class customer service and solutions and to improve our productivity.

Just as the world's leading companies are investing heavily in technology, so are they investing in people. Every organization, no matter what the sector or country it competes in, needs to attract and retain a disproportionate share of the talent pool.

I'm fortunate to have joined a bank with a very talented management team and a great culture. It's one of the things that attracted me to ANZ.

We have 35,000 individuals working at ANZ who have developed a strong sense of self confidence. The next stage in the development of our culture is to give the organisation as a whole the same sense of self confidence.

We also need to develop and recruit people who want to win and who want to be the best, particularly in everything we do for our customers and our shareholders.

This also means that we cannot ignore any section of the population. The need for diversity is not just about women in the work force or about having the right cultural and language skills to grow in Asia. It's about getting the best people no matter what gender, race, sexual preference or even the football team they follow.

I'm pleased to say at ANZ, we are becoming increasingly diverse. Among our top ten surnames are five Asian names - although I'm pleased to say that Smith still tops the list.

At the same time, it is clear that doing business is becoming increasingly complex. There are social, ethical and environmental considerations, as well as the more familiar direct economic and financial concerns. Our customers, staff, the community and increasingly our investors, want us to understand and live up to their expectations.

So where do I see ANZ in this rapidly changing world.

My early impressions of ANZ are neatly summed up in this slide.

ANZ is a bank with a great leadership team, talented managers and committed staff. The people who report to me are first class and the depth of talent through the organization is very strong.

My Management Board of 10 people has a combined experience of 240 years in banking.

ANZ staff rank as one of the most engaged in any major organisation in this country.

And I don't want to lose any of this.

We are a business with an extremely good reputation. We are proud of that reputation and we work hard to protect it. It has helped us become an employer of choice and our staff are proud to work here. And our franchise is one of the best of the Australian banks.

Across the places we do business, ANZ is a respected member of the local community. It is also well regarded in the international community as we can see by the Dow Jones sustainability award and a host of other awards that Charles mentioned in his address.

Successful companies however, also understand the market no longer rewards meeting expectations. It only rewards out performance.

The next stage of that journey will see us aim higher and bring more emphasis to accountability and performance.

To serve our customers the way they increasingly demand will see us need to upgrade our systems and technology.

These themes are all very clearly in my mind as we look to revitalise ANZ as a customer-centric, marketing focused, technology based and performance driven organisation.

Let me now turn to each of the major business divisions.

Our Personal Division is really in great shape and performing well. ANZ staff have a strong focus on customer service and have been growing market share.

We need to maintain this growth in acquiring customers and work to deepen the relationships we have with them.

We have also made significant investments in the business. For example, we have opened 80 branches since 2004. We now need to focus on using these investments to drive revenue growth.

As you heard from Charles, our Institutional Division has a strong franchise and excellent customer base but it has been underperforming. This is being addressed. There are some early signs of improvement. In recent months, lending growth has been ahead of system and deposits are growing.

We have also made number of changes to our business structure. These changes will assist us in returning to a customer relationship model and emphasizing growth segments such as private equity, corporate advisory and funds management.

New Zealand is performing well in a somewhat lower growth economy. Nearly one in two New Zealanders have a banking relationship with an ANZ National brand. We finance one third of all home loans in New Zealand.

Having successfully completed integration of The National Bank of New Zealand, we have already begun to grow market share in targeted segments and we are fully leveraging the scale of our business to drive our cost-to-income ratio below 40 percent.

We are the only Australian bank with a meaningful presence in Asia and over time we need to build on that foundation. We have our own operations and a growing number of investments and joint ventures. We now need to capitalize on what we have established and drive returns from our network and partnerships as we continue to look for the right opportunities to expand our presence.

Our aspiration is that over the next five years, we can develop Asia to a size where it is as big as our New Zealand business.

Some of the governance and standards in these markets are quite different to what we expect in our "home" markets. Over time, I believe that we can and will play, an important role in contributing to the further development of the institutions and financial services in the region.

Having set that aspiration let me reinforce for you that 95 per cent of our business is still in Australia and New Zealand. You heard an assessment of where ANZ is today from Charles. I want to assure you that my initial priority is very clearly to restore the financial performance of ANZ and so returns to shareholders.

We will be doing this in 2008 and into 2009 by increasing revenue faster than costs, bringing institutional back to an acceptable performance, building on the significant opportunities we have in our existing businesses in Australia and New Zealand and capturing an improved return from our investment in Asia.

The next stage, which will take two to five years, will see us move to be known as an organisation which is not just focused on performance but on **out** performance.

I think the real question is not how we compare to our domestic competitors, but; how do we create *differences for our customers which are at least equal to if not better than global banking leaders*. For example, how does our internet banking compare with Wells Fargo? How do our ATMs compare with Spain's Santander? We have to look for the best of breed globally.

Strategically, there will continue to be opportunities for in-fill acquisitions. You saw several examples of this during 2007 with our investments in E*TRADE, Malaysia's AMMB and China's Shanghai Rural Commercial Bank.

We will do more to further integrate and expand our operations in Bangalore to reduce cost, foster innovation and improve service.

Finally, looking ahead five years and beyond, we aim to create a bank that has global quality with a regional focus.

Our growth will be based on four core capabilities. They are:

- becoming a truly customer centric bank;
- being a sales and marketing focused organisation;
- having technology as the basis for our business; and,
- being performance driven in everything we do.

Let me give you one example.

At ANZ we have 24 businesses. My job is to ensure that we don't act like 24 businesses to our customers. Our culture and systems need the customers as their very centre of gravity, not the products we sell.

We have made good progress on this at ANZ. Our Personal Bank leads the major banks on customer satisfaction.

But to take this to the next level, and become truly customer-centric requires continual investment in technology and continual investment in people.

Successful companies will blend the digital-world with the physical world. We want to increase customer traffic whether it's on anz.com or through our branches.

At ANZ, there's no question that we are making progress. But I believe the real question we need to ask is this:

Is it good enough in the world I have described to have as your vision to be the best of the four Australasian banks?

Shouldn't the real aspiration for our shareholders, our staff and the communities we serve be, to be as good as or better than the best financial services companies in the world in the areas in which we choose to compete?

Perth, 18 December 2007

Our vision, is for ANZ to be a super regional bank. This is an ambitious goal.

It sees us setting ourselves an aspirational target of doubling our profit over the next five years.

It sees us deriving 20 percent of our earnings from Asia.

It sees us focusing on creating shareholder value in everything we do.

Now, this isn't all going to happen in one year. It is an aspiration we have set ourselves for 2012.

In 2008, we will be completing the building blocks.

My biggest focus in the short term is on the domestic business. We have to restore the momentum and take advantage of the opportunities in Australia and New Zealand to generate growth.

Let me say in working towards our vision for ANZ we are going to be very disciplined. The actions we take will make sense financially, they will make sense strategically, and I'm confident that they will reward our shareholders.

These are my priorities for ANZ and I look forward to reporting to you in the coming years on that exciting journey.

Thank you.