



Speaking Notes for Speech to Asialink lunch Tuesday, 26 February 2008

Pleased to be here and to support Asialink

- Thanks for that very kind introduction Mark (Mark Laurie, PwC).
- It was great to be invited by Asialink to join you today, and thanks to PriceWaterhouse Coopers for hosting this event.
- It's good to be here today among a group of business folk who share my enthusiasm for Asia.
- I moved to Melbourne in the second half of last year and since starting with ANZ, I've been impressed to hear about the great work that Asialink is doing to strengthen engagement between Australia and Asia.
- There is certainly a very strong alignment with ANZ's Asian growth strategy, and today is a timely opportunity for me to update you on our plans in Asia, particularly following the briefing Mike Smith provided to the market in December.
- There are two main things I want to cover today – why Asia makes sense for ANZ and our strategy for growth in Asia.
- But first I will start with a confession that might help you get to know me better.
- I'm a Rat.
- Proudly born in the Year of the Rat. It only comes around every 12 years so I'm probably giving away my age here. I can see you doing the mental maths - that's right, a child of 1972, I wish!
- Just a couple of weeks ago marked the start of the Year of the Rat under Chinese astrology.
- So it seems that the Rats are in alignment for me this year for good health, happiness and prosperity. I'm certainly planning to draw on as many Rat characteristics as I can – leadership and pioneering, passion and ambition, enterprising and industrious.

The Asian opportunity

- As a backdrop to our Asia growth strategy, I usually like to make the case for engaging with Asia? I suspect that I am preaching to the converted here today, but I do think it is worthwhile for me to talk about why I think Asia makes sense for ANZ.
- Having spent the better part of the past two decades in Asia, most of my best friends are Asian, from all sorts of walks of life.
- One of the things I love about Asia and my friends in Asia is their incredible ambition and drive to succeed, and build their businesses and yet coupled with that the absolute loyalty and commitment to family. We can learn a lot from that in the West, where we more generally accept that spending time in business equates to a sacrifice for your family.
- So I'm passionate and enthusiastic about Asia, about the opportunity that Asia presents and the role that ANZ can play in developing the banking markets in Asia and delivering banking services for our customers across the region.
- ANZ has an established history of doing business in Asia. We've had operations based in Asia spanning back over the past 40 years. That includes a network of offices across 12 countries, combined with strategic partnerships with seven local banks and one securities house, and three credit card joint ventures.
- This gives ANZ an established beach-head in Asia which provides a foundation for aggressive growth over the next five years.
- Ten years ago, Asia – including North, Southeast and South Asia – accounted for 25% of the global economy. Today, that figure has reached 30%. But Asia is home to 68% of the world's population. This tells us two things.

- Although we think Asia is an economic powerhouse now, its share of global GDP could nearly double in coming decades as its GDP per capita rises toward OECD standards, Europe will be the loser.
- As GDP per capita – household wealth – rises, Asian consumption will rise beyond levels that are even not yet being imagined, even today
- Resultant from these, the financial services revenue wallet will grow exponentially as a result of the GDP growth and the high multiplier effect that is commonly seen in developing financial markets.
- It is already the case that three of the five largest economies in the world are in Asia.
 - China is the second largest economy in the world, accounting for just over 10% of the global economy. With its high rate of growth, however, China contributed nearly 30% of total global growth last year.
 - There is such a focus on China, people often forget that Japan is the third largest economy in the world, while India is the fourth, having just edged out Germany last year.
- In fact, it reminds us about what Asia was to the world 250 years ago – two of the big economies of the world were India and China, so why would we be surprised by their resurgence?
- By the end of 2007, the three largest banks in the world by market cap were Chinese: ICBC, CCB and Bank of China.
- Here are a few statistics on people that may surprise: there are believed to be as many as 30 million people of Indian origin living outside of India, and about 40 million overseas Chinese. Six Indian institutions run giant Fortune companies. About 60% of Indian Institute of Management graduates go to London and Wall Street. It is understood that more than 25,000 Chinese students leave China to study abroad each year, mostly to US, Britain and Australia and as many as 20,000 Indian students flock abroad each year.
- Australia's economic fortunes are tied with China, not the US
 - Asia constitutes more than 50% of Australia's trade flows, with Japan and China as Australia's first and second largest trade partners
 - China is the single largest global consumer of Australia's minerals exports of coal and iron ore – and it is this demand for commodities that is causing investment in Australia to boom.
 - And the next wave could be well environmentally services based

Asia's Banking Sector

- In terms of the banking sector, Asia's retail banking wallet is expected to grow by more than 50% to a total of around US\$264 billion by 2012, with Greater China and India forecast to represent 83% of that total retail banking wallet.
- While the opportunity is large, it is not without challenges.
- As the US sub-prime crisis continue to send ripples through markets around the world, I'm sure we are all watching our region to see what the impacts will be and the analysts seem to be in agreement that we are yet to see the full effects flow through.
- But Asia is detaching from the US, although not fully, through factors such as domestic demand, growth of industrialisation, emergence of sciences, intra-Asian trade and so forth.
- Of course volatility can mean opportunity, but it is also to be hoped that any uncertainty and instability in Asia does not slow the pace and willingness of markets to open up their banking and financial service sectors to greater levels of foreign competition and investment which are vital to the development of the sector.
- Having been a banker in Asia over the past two decades, there is one thing I know with great certainty. A large part of the banking wallet in Asia is not profitable, particularly in China, and in order to be successful, you need to be really clear about where you will and won't play in the market.
- And I am very clear about that, so let me talk now about ANZ's Asia growth strategy.



ANZ's Asia growth strategy

- As you all know, Mike Smith has outlined his ambition for ANZ to become a super regional bank over the next five-plus years.
- To deliver on that ambition, we are pursuing aggressive organic growth in Asia Pacific.
- How aggressive? The Asia Pacific business currently contributes about 7 per cent of Group net profit after tax. We have set ourselves a target of delivering 20 per cent of Group NPAT by 2012. That is as big as the current contribution of our NZ business. To put some further context around that, ANZ is New Zealand's leading bank.
- By basing our operations inside Asia and harnessing strong local knowledge and expertise, we believe we can assist our customers to achieve their aspirations and make the most of opportunities that exist across our entire time zone – Asia and the Pacific.
- My first order of business last year was to re-orient and restructure the business for growth. The Asia Pacific division was re-established in June last year, and I led the restructure of the division since October last year to provide a much stronger geographic franchise focus to our business in Asia.
- I would just pause on that point, because I think it's crucial to how we will succeed in Asia.
- It's not head office in Melbourne calling all the shots, but carefully developed strategies led by the team inside our Asian markets with the local knowledge and understanding of the market, and networks.
- We will continue to develop our Asian expertise both through locally-engaged staff and through our top talent spending significant part of their career in the region.
- In each of our markets we are developing local strategies led by the Country CEO, working in conjunction with our Retail and Institutional businesses to get the right product and services mix for the chosen customer segments.
- We have identified a number of priority markets, with aspirations to be a top tier domestic bank in Malaysia, Vietnam and Indonesia and a leading foreign bank in Greater China and potentially India. And in the Pacific, countries such as Papua New Guinea and the Solomon Islands have strong potential for growth, particularly through the growing minerals sector and the connectivity to Asia.
- This doesn't mean that we ignore some countries where we already have operations, but we must prioritise our investments in those markets where the combination of growth and competitive dynamics produces the maximum potential for growth.
- To unlock the full potential of all our markets, we also need to deepen our customer base, our franchise and our capabilities in our markets.
- Our strategy in the past has been for our Asian business to focus on clients with Australian and NZ links. This was a clear strategy to establish our platform in Asia by leveraging our strengths.
- As we seek to take our business to the next level, we must broaden our focus to include affluent retail customers and local corporate customers – banking local individuals and Asian companies doing business within Asian markets.
- The key component of our strategy is to be core to our customer.
- For an institutional client 85% of total banking wallet goes to the top 3 banks. Similarly margins are at their best when a customer has only one or two banks.
- Being core activates cross-sell.
- A key part of our growth strategy is leverage of partnerships. ANZ has invested more than \$1.7 billion buying stakes in banks in Asia and the Pacific in the past few years. In 2007, that included strategic investments in AMMB in Malaysia, Shanghai Rural Commercial Bank in China and Saigon Securities Incorporation (SSI) in Vietnam.
- Local banks provide the best access to the fast growth mass affluent and SME market, and we will service these customers mainly through our partner banks. Scope and scale is becoming increasingly important for success in these client segments
- For example, our priority markets such as China, Vietnam, Indonesia and Malaysia, where we have existing strong partnerships, ANZ's role is to enhance risk management, efficiency and product development.



- We will build an ANZ 'blue' brand in the affluent space, focusing on specific cities in our priority markets.
- And we are already well-advanced on that ambition in some markets. For example in Vietnam, we are the leading foreign bank and we are aggressively penetrating the affluent section of 450,000 people in Hanoi and Ho Chi Minh City. By 2012 we believe this segment will be over 1.2 million.
- Next month, we will celebrate 15 years of operating as a fully licensed foreign bank in Vietnam, and we're hoping that in the not-too-distant future, we will also be able to celebrate another milestone. We have applied to incorporate in Vietnam which would allow us to create a 100% owned subsidiary in Vietnam which can compete on equal terms with local banks and open a series of new branches to serve our customers.
- Vietnam is also a great example of the Asian expertise that I spoke about earlier. Our Country CEO in Vietnam, Thuy Dam was named "Business Person of the Year for the foreign-invested sector" by the Vietnam Chamber of Commerce and Industry in November in recognition of her active involvement and leadership in the business community.

Conclusion

- There is still much work to do and a long way to go to reach our target of 20% of Group NPAT, but we have a solid foundation and the strategy to succeed, including adequate management of risk.
- Our ambition is to be not an Australian bank in Asia and Pacific, but a regional bank – building a growth business in Asia serving customers from Australia, New Zealand, and the countries of Asia and the Pacific.
- It's a big agenda, and we're getting some early runs on the board. I would welcome an opportunity to come back to update you as our strategy unfolds.
- Thankyou

Questions?