2008
2012

ANZ'S SUPER REGIONAL STRATEGY

FIVE-YEAR PROGRESS REPORT

ANZ

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ANZ'S SUPER REGIONAL STRATEGY IS CLEAR, CONSISTENT AND ALIGNED TO THE GROWTH OPPORTUNITIES IN AUSTRALIA, NEW ZEALAND AND ASIA PACIFIC

Five years ago, at the start of the 2008 financial year, ANZ embarked on a strategic transformation which recognised that there was a unique opportunity to create value for shareholders by becoming a super regional bank – a bank of global quality with regional focus.

The move recognised that a once-in-a-century shift was underway in the global economy as growth opportunities moved from the developed economies of the West to Asian economies and China in particular.

Despite the size of the opportunity and significance of Australia's trade and investment links with Asia, ANZ's shares were initially marked down reflecting market scepticism about the opportunity in Asia.

Five years later, as Australia has opened its eyes to Asia's importance, ANZ's super regional strategy has growing momentum and the Group's share price is now performing well against our domestic peers with investors ranking ANZ highly for its long term growth strategy.

The scale of transformation at ANZ over that time has been significant, based on five key themes and a systematic and coordinated program of action in every area of the bank.

1. Super Regional Building Blocks – changes put in place early to enable us to successfully execute our strategy.
2. Global Financial Crisis (GFC) Remediation and Opportunity – addressing legacy issues requiring significant remediation while also taking advantage of opportunities resulting from the GFC.
3. Establishing a Real Franchise in Asia – how we moved from having a presence in Asia to establishing a real business in the region.
4. Strengthening Australia, New Zealand and the Pacific – building strategic advantage in our core domestic businesses through a focus on strategic growth opportunities, business simplification and connectivity.
5. Adapting to the Lower Growth Environment – the changes underway to ensure we are successful in a lower growth world with materially higher bank capital requirements.

SUPER REGIONAL BUILDING BLOCKS

From early in the 2008 financial year, ANZ began a series of fundamental changes to enable us to successfully execute our strategy.

MANAGEMENT, PEOPLE AND CULTURE

Implicit in the Board's appointment of Mike Smith as Chief Executive Officer in late 2007, was a recognition that ANZ would not be successful in building a significant international business without a different sort of management team.

From 2007 onwards, ANZ recruited senior international bankers and Asian insiders capable of executing our strategy – a team which investors now recognise as world class. We also introduced a new management model focussed on geographies and customer segments rather than the individual product focus of the past.

At the same time, we have undertaken a multi-year program to shift ANZ's culture and to invest in the training and development of our people to help focus more strongly on performance.

STRENGTHENING CAPITAL, THE BALANCE SHEET AND LIQUIDITY

ANZ was not in as strong a position as we would have liked as the early signs of the GFC emerged in late 2007. Management began to systematically improve ANZ's capital position, our balance sheet including provision coverage and funding diversity, and our liquidity position.

Capital has increased by around $11 billion since 2007 with the Group's Common Equity Tier 1 capital ratio at 10.0% at the end of 2012 on a Basel III internationally harmonised basis.* The bank has been strengthened by significantly raising our collective provision charge and increasing the proportion of funding from deposits which has increased from 50% of ANZ's funding base at the end of 2007 to 61% at the end of 2012. Liquid assets have also increased to be more than five times what they were in 2007.

* ANZ's interpretation of the regulations documented in the Basel Committee publications; 'Basel III: A global regulatory framework for more resilient banks and banking systems' (June 2011) and 'International Convergence of Capital Measurement and Capital Standards' (June 2006).

NEW TECHNOLOGY ROADMAP

To enable our super regional strategy, ANZ needed a new roadmap for technology which defined an enterprise-wide perspective and a technology leadership team to implement it. While there is still much to do, having put a new technology management team in place in 2010, we have established an agreed approach to technology and we have delivered good progress. This includes:

- A significant program to upgrade our legacy technology infrastructure to deliver improved systems security, stability and standardisation, and to respond to growing demand, scale and complexity in the business.
- Consolidation of our new customer base in Asia on the back of acquisitions.
- Building enterprise capability including facilitating a real-time customer experience for payments and delivery of new cross-border systems in trade, cash management, capital markets and foreign exchange.
- Providing flexible, multi-device, scalable, responsive and integrated services.

ESTABLISHING A STRONG SENSE OF IDENTITY AND PURPOSE

At the December 2007 Annual General Meeting, ANZ set out a clear five-year roadmap to source 20% of earnings from Asia Pacific, Europe and America (APEA), and a new set of aspirations for our businesses in Australia and New Zealand. In 2011, we extended that roadmap with an aspiration to source 25 to 30% of earnings from APEA by 2017.

We have also aligned our shareholder base with our strategy by seeking more international investors who are attracted to our super regional strategy. In 2007, 19% of shares were owned by international investors. This has increased to 27% at the end of 2012.

A robust and consistent set of values was also introduced across the business and a new brand and visual identity was created for the Group that was relevant in Asia and consistent throughout the region.

At the same time, we have continued our focus on corporate responsibility. Our contribution to the community has been guided by our corporate responsibility framework and has included a significant investment in building financial capability. ANZ was recognised as Global Sector Leader in the Dow Jones Sustainability Index in 2007, 2008, 2009, 2010 and 2012.

GLOBAL FINANCIAL CRISIS – REMEDIATION AND OPPORTUNITY

These building blocks placed ANZ on a much stronger footing, however the onset of the global financial crisis during 2008 posed a number of challenges requiring significant and, at times, painful remediation.

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

Recognising the weaker economic environment and the needs of our super regional strategy, we also strengthened risk management with experienced professionals appointed to key leadership roles and through enhanced risk policies and processes throughout the bank.

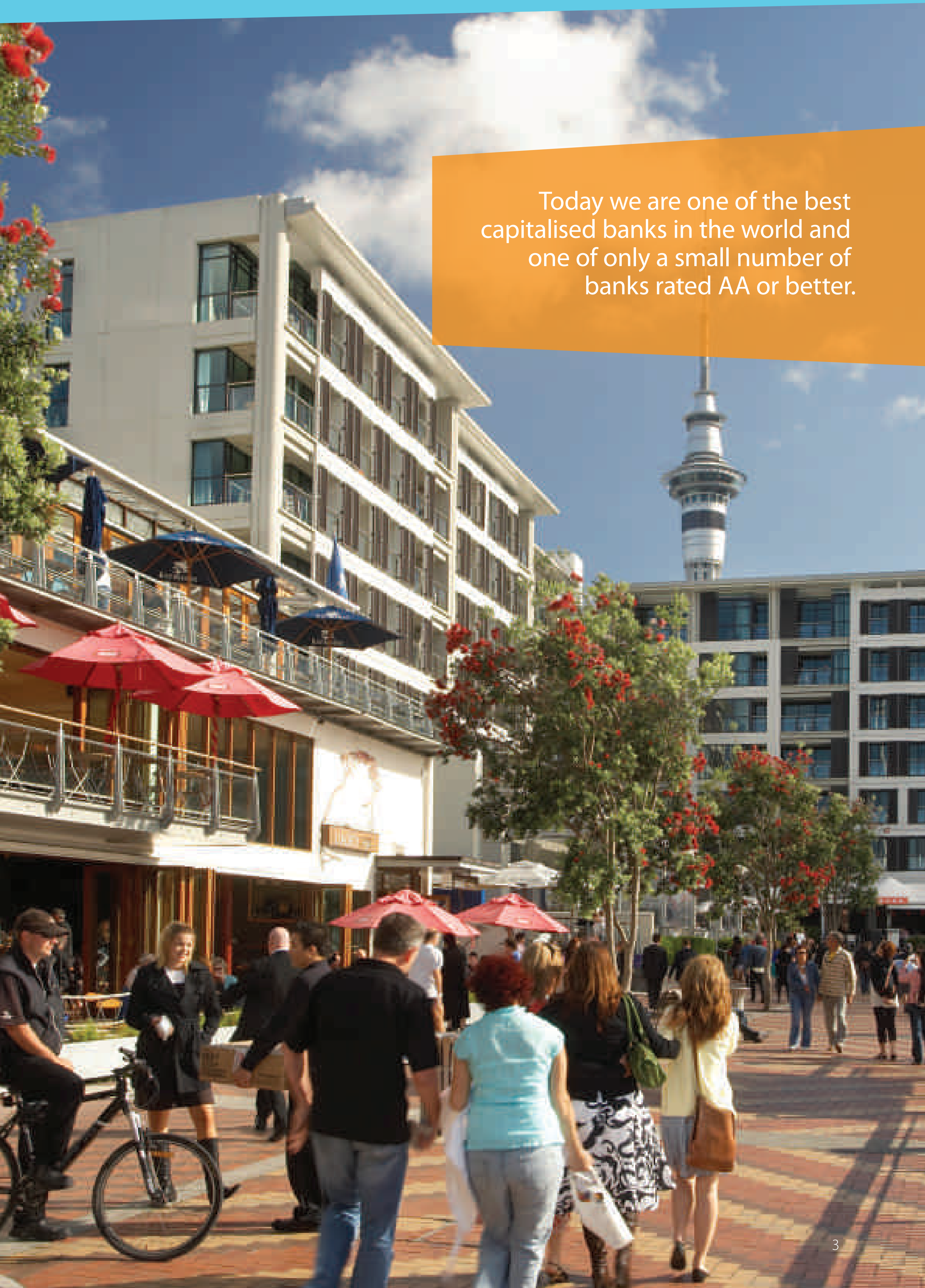
As business conditions tightened, we have also simplified the way we run the bank and including putting in place a multi-year process of driving strategic cost reduction. This has involved reducing the layers of middle management and investing in our offshore operations and technology centres in Bangalore and establishing new centres in Manila and Chengdu.

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

- We acquired Asian assets from the Royal Bank of Scotland in Taiwan, Singapore, Indonesia, Hong Kong, The Philippines and Vietnam, giving us 54 additional branches, $4 billion in loans and $9 billion in deposits from a base of approximately two million clients.
- We purchased the remaining 51% of our wealth management joint venture with ING in Australia and New Zealand for $1.8 billion.
- We acquired the deposit and lending books of Landmark from AWB, boosting our presence in agribusiness in Australia.

The financial crisis and subsequent retreat from Asia by weakened European and US banks also created significant opportunities for organic growth by using our strong credit rating and balance sheet strength to step in and win quality business with quality customers.

The end result is that ANZ came out of the financial crisis as a stronger bank than we went into it. Today, ANZ is one of the best capitalised banks in the world and one of only a small number of banks rated AA or better.



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ESTABLISHING A REAL FRANCHISE IN ASIA

In addition to the opportunities for growth presented by the crisis, meaningful expansion could not occur without also undertaking a strategic build-out of our footprint in Asia.

While ANZ had an established presence in Asia in 2007, our country representation was often small and based on limited banking licences. This has required significant investment to build banking capability, introduce new technology, and to obtain regulatory approval for licences to provide a wider range of services to customers. Some highlights have included:

- Increasing our presence in China through local incorporation in 2011 and opening new outlets and branches in Beijing, Shanghai, Guangzhou and Chongqing, a Rural Bank in Liangping and an operations centre in Chengdu. Total staff numbers have now reached 700 compared to 100 in 2007. We also have two partnership investments with Shanghai Rural Commercial Bank and the Bank of Tianjin.
- Growing to become one of the largest international banks in Indonesia with 1,900 people working in 28 branches. This compares to just two branches and 150 people in 2007. We have also strengthened our partnership with Panin Bank with our stake increasing to 39%, up from 30% in 2007.
- Expanding in The Philippines by obtaining a universal banking licence. We also have a successful credit card joint venture with Metro Bank and a major operations hub in Manila which now employs around 1,400 people.
- Locally incorporating in Vietnam, paving the way to expand the branch network and services with 750 employees now and 9 outlets.
- Re-commencing operations in India with the opening of a branch in Mumbai while also continuing to invest in ANZ's operations and technology centre in Bangalore where we have 5,600 staff and contractors compared to around 1,800 in 2007.

We have also seen growth in other countries in Asia, for example in Japan and in Korea. In Taiwan we now have 1,400 employees working in 18 branches. In our two regional commercial hubs, in Hong Kong we employ around 1,100 people, up from 30 in 2007, and in Singapore we employ 2,000 people, up from 150 in 2007. We also have an important partnership with Malaysia's AmBank in which we hold a 24% stake, up from 19% in 2007.

Throughout our international network, including the Pacific, our expansion has been underpinned by a concerted investment in upgrading premises to the standard of an international bank and to accommodate larger numbers of staff. This includes new signature offices in Singapore, Hong Kong, Shanghai and Port Moresby as well as investments in upgrading branches across the region.

Throughout this period we have emphasised the growth of our ANZ-owned and ANZ-branded business. This includes the divestment of some non-strategic partnerships. For example selling our mobile banking business in Cambodia in 2011 and exiting our 10% stake in Vietnam's Sacombank in 2012. With the unfavourable capital treatment of these partnerships under Basel III, partnership investments are something that will be kept under active review.

The end result is that ANZ has built a significant business in Asia and the Pacific with 2.6 million customers, up from 925,000 in 2007. Our customers in Asia are supported by 9,100 employees, and 94 branches and points of representation compared to just 30 branches in 2007.

This has seen ANZ emerge as a leading international bank in the region; in 2012 ANZ was ranked as a top five Corporate Bank in Asia by Greenwich Associates; five years ago ANZ ranked outside the top 20.

With this growth, earnings from our APEA businesses have increased more than three-fold since 2007 to $976 million in 2012.

STRENGTHENING AUSTRALIA, NEW ZEALAND AND THE PACIFIC

A cornerstone of the super regional strategy is continuing to strengthen our position in Australia, New Zealand and the Pacific.

AUSTRALIA

Our focus in Australia has been on growth in traditional banking in retail deposits and mortgages, wealth solutions, and commercial banking. We have achieved this with a focus on careful risk management including minimising growth in riskier mortgages and dynamically managing mortgage loan-to-value ratios during the crisis.

We have strengthened our position through two acquisitions – moving to full ownership of the ING wealth joint-venture and the purchase of Landmark's rural lending and deposit book.

Significant programs have also been delivered to remediate processes, particularly mortgage processing, and to drive business simplification and efficiency. This has included re-engineering and offshoring of technology and operations functions.

In addition to growing market share in key segments, our super regional strategy is seeing us build greater connectivity between our domestic businesses and our network in Asia.

In Retail, we have built a competitive advantage for ANZ to be the bank of choice for customers coming to Australia from Asia Pacific. This includes branches providing specialised services to international customers, for example to Asian students coming to Australia or providing mortgages for Chinese citizens wanting to acquire property in Australia. We have also leveraged our regional network in Commercial where more than two-thirds of our customers have connections to Asia. This includes a focus on growth in trade finance and markets solutions such as foreign exchange.

In Institutional, we have focussed on our strengths in natural resources, agriculture, infrastructure and financial institutions – segments that are directly linked to Asia's growth. We have also seen substantial growth in the areas we've invested in to support that strategy – in foreign exchange, trade and cash management.

ANZ also took the lead to better manage decisions about interest rates and margin outcomes in Australia by announcing in late 2011 that we would review our interest rates, independent of movements to the cash rate by the Reserve Bank of Australia.

Over the past five years, ANZ has upgraded its premises in Australia, rationalising offices in Melbourne and opening a new 6-Star Green Star global head office. New office premises have also opened in Adelaide and Brisbane, and in Sydney we will move to new premises in 2013.

To capitalise on the momentum in the Australian business, a five-year $1.5 billion investment program was announced in 2012 to upgrade ANZ's distribution network, simplify products and processes, provide customers with additional mobile and flexible banking options, and introduce initiatives to support local communities.

NEW ZEALAND

In New Zealand, ANZ has a leading market position across Retail, Wealth, Commercial and Institutional with more than two million customers – around 50% of New Zealanders.

In a lower growth environment with more limited opportunities, we have been undertaking a major transformation in New Zealand to simplify our business, reduce costs and improve the banking experience for our customers.

This has involved driving efficiencies through streamlining head office functions and processes. More recently this has included completing the transition to one management structure across both our ANZ and The National Bank brands, one customer approvals process, moving to one set of products and a major technology program to move to Systematics, The National Bank's technology system.

In late 2012, we announced that after almost ten years of operating ANZ and The National Bank in New Zealand, the two brands would progressively be brought together as ANZ. This major change is being supported by a $100 million investment over two years to ensure ANZ has a well-positioned and attractive branch network for customers in existing and new communities. ANZ's head office in Auckland is also undergoing a major refurbishment.

We have also renewed our focus on targeted growth opportunities. In Retail for example, we are connecting New Zealanders travelling and migrating to Australia, the Pacific and Asia, and targeting growth in mortgages in the strategically important Auckland region. In Commercial and Institutional, we have extended our market leadership by leveraging our international network to support New Zealand's large export sector, particularly in agriculture.

THE PACIFIC

ANZ is the leading bank in the Pacific providing banking services to approximately half a million customers in 12 countries across Retail, Wealth, Commercial and Institutional. Our focus has been on continuing to support customers through our 52 branches and on the development of opportunities associated with growing trade and investment linkages with Australia, New Zealand and Asia. This has required us to continue to invest in the Pacific recognising the critical role we play in the region's ongoing commercial and social development while also continuing to improve operational efficiency.


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ADAPTING TO THE LOWER GROWTH ENVIRONMENT

While we have been continuing to build on our strengths in our major domestic markets of Australia and New Zealand, and exploiting growth opportunities in Asia, we have recognised that the global economy will be weaker for some time.

The magnitude of the shift that the banking industry is facing is significant around the world. There will not be a return to the use of debt that we saw in the lead up to the global financial crisis. It means that banking will no longer be a 'leverage play' on the economy and will more closely follow growth in the real economy. We are actively adapting ANZ to this environment.

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 deleveraging or borrowing less. At the same time, funding costs are higher and we are having to work much harder to maintain margins.

Since 2007, increased regulation and growth in our business has required us to hold almost twice as much capital. Despite these challenges, 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 bank globally.

Nevertheless, to maintain our performance in these challenging times, it is clear we need a greater emphasis on productivity and on capital efficiency in order to deliver shareholders better earnings per share growth. This means:

- More actively managing capital across our portfolio of businesses so we continue to build out our super regional strategy in the most capital efficient way. And with the regulatory need to hold more capital, this mind-set is increasingly important when we think about what businesses and activities we'll prioritise, what we will maintain and what we will exit.
- Re-engineering the way we operate to shift ANZ's historic higher cost, higher growth paradigm and drive a long-term sustainable cost advantage particularly by using the unique flexibility provided by our operations and technology hubs.

At the same time we will continue our focus on unlocking the potential of our super regional strategy. This will involve:

- Continuing to develop a distinctive geographic footprint and business mix.
- Maintaining a rigorous, value-based analysis of businesses, proposed investments and operational plans with each of our businesses seeking to return above the cost of capital and targeting better returns.
- Ensuring we have the best funding mix and strongest balance sheet of our local peer banks with a strong risk management focus and well-diversified funding profile.

Finally, we recognise that the economic contribution we make to society has to be more than financial profits.

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.

We are continuing to invest in significant programs of activity as part of our social responsibility framework to ensure ANZ has responsible practices and that we contribute to education and employment opportunities.

This includes a range of community programs that increase financial capability and literacy, that help bridge urban and rural divides and increase urban sustainability.

DELIVERING ON OUR PROMISES

ANZ's super regional strategy is clear, consistent and aligned to the economic opportunity in the Asia Pacific region. In the past five years we have dramatically transformed ANZ creating:

- A business portfolio diversified by geography, by business and by industry focus.
- Options and choices to deliver differentiated revenue growth – choices that are not available with a domestic-only strategy.
- Operations and technology hubs that continue to support our productivity agenda and generating on going efficiencies given the more constrained conditions.

This has seen us deliver on our promises to the market with 21% of revenue now from APEA including Australia and New Zealand revenue derived from APEA. This comprises 16% of Group revenue that is derived from APEA compared to 8% in 2007, and a further 5% of revenue reported in Australia and New Zealand that is generated from international clients.

Since 2007, this transformation has seen ANZ move from being a largely domestic bank to an integrated and growing, regionally focusses international bank that is increasingly delivering differentiated value and performance to shareholders, customers, staff and the community.

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