Transcript of Media Briefing
Friday, 28 September 2007

Mike Smith
Incoming Chief Executive Officer, ANZ

Mike Smith: Good afternoon everyone. As you've heard, I'm not officially in the chair yet. That starts on Monday. The last couple of weeks I've actually been in Melbourne taking over the reins from John. We have covered a lot of ground in two weeks, not only in Melbourne but in Sydney, in Auckland, in China. I've visited probably about five or six different branches in the main areas, and I will continue that focus over the next few weeks. I will try to meet as many staff as possible. I've met a number of the shareholders, a number of analysts and of course quite a lot of our major customers as well. So it's been an interesting couple of weeks, apart from getting an awful cold. I've actually found the whole experience very rewarding, and have been made to feel very welcome by ANZ, and I'm really looking forward it. It's great to be back in Melbourne apart from the weather. It's been a fantastic return here after an absence of nearly 20 years. Two of my kids were actually born in Melbourne, so it is a place that I have very fond memories of. I managed to buy a house and that's fine and a car for my wife so she's happy. I managed to buy a horse for my daughter so she's happy, and so everything else falls into place. I'm happy now.

Anyway, I'm looking forward to getting started properly from Monday. I think the ANZ is a fantastic bank. I think it's a great business. John has done a superb job…putting together a business that ANZ can be proud of – well Australia and New Zealand can be proud of. And it's my role to really take it to the next stage, to its next part of history. So that's all I really want to start off with, and really I think what is more important is to answer your questions, in so far as I'm able, being just ten days into this.

Question: Just in terms of what you see as I suppose the major focus for you, Is a bigger footprint within Asia something you are going to attack?

Mike Smith: It's clear to see that Australia and New Zealand, these are very mature markets. They're OECD markets, and they are relatively small in size compared to some other OECD countries. Therefore the upside or the potential is somewhat limited. Banks are a leveraged play on the economy in which they operate, so therefore to actually get substantial growth, you've got to operate in economies with more upside. I feel that Asia is the obvious choice. I mean, it's on the doorstep.

All of Australia's major business flows are to Asia and Asia into here. It seems to be the obvious choice.

Question: Mr McFarlane said that he would like to see the four pillars policy relaxed and that he said that he would like to have merged with a major bank if he was staying on. Is that something you'll look at?

Mike Smith: It is early days. In terms of the concept, in the early 90's if you think back to what four pillars was trying to achieve, it was to create some stability within the Australian banking system. And it did just that. It created an environment by which the banks were able to work themselves out of a difficult stage, and I think now that time is over. I would welcome further competition. I think it is a good thing. I think at the end of the day the consumer is always the one who wins in this. So yes, I think that will be a possibility.

Question: Is wealth management an area that you have identified as a particular area of focus for you?

Mike Smith: I think wealth management is an important part of banking. I think that various banks have done it well…the bank-assurance model itself has worked possibly better in some parts of Europe. I've seen it work quite well in Latin America. I haven't seen it work as well in the number of english-speaking markets, and so I think you have to be quite selective in what you do.

So wealth management as I say is well and good, but I think you've got to be quite selective in the segments that you look at. But I am open to look at that, and I think that it is obvious ANZ in comparison to its peer group is somewhat underweight in that business. But I

don't think it would be across the board. As I say, I think we'd be more selective.

Question: What do you think of the efficiency of the industry in Australia, how much more productivity gains could be achieved? What do you regard as best practice?

Mike Smith: I think the Australian banks are pretty efficient. I think that the man in the street has a great deal of choice. He has fantastic product. He has great channels…and he has the choice to switch and to go other places. And I think that if you look at say in the mortgage market or in the credit card market, I mean there's an extraordinary amount of choice for the consumer, which is a good thing. Is it at leading levels or use of technology like Hong Kong or whatever? No, it isn't, and I think that there are opportunities there to improve.

Banking to me is about technology. Banking is one of the industries that most uses technology. I guess the investment in banks in Australia hasn't been as focused on technology as maybe it could have been. So yes, I see an opportunity.

Question: What sort of savings do you think are available across the industry?

Mike Smith: Well, if you look at the cost income ratios of the various banks here, I mean it's pretty good by global standards. But it's a question of whether or not mid-60's is a good ratio or it should be mid-50's or it should be mid-40's or in Hong Kong, where you can get into the high 20's. So there are significant savings to be made.

Question: Can you see a way for banks collectively to get there?

Mike Smith: Yes I can. I think if you look at the way that customers interact with banks, I would see the greatest saving is in the area of processing, that is customers actually doing their own banking really without touching the infrastructure. And banks are actually utilising that transaction, more for marketing purposes and behavioural studies, to get more efficient product supply.

Question: Are there particular technologies in Hong Kong that you have in mind, that are applicable to ANZ?

Mike Smith: I just used Hong Kong as an example. You see technology in places like Korea, Hong Kong, I think you see it in the States, you see it in France. I mean, we've just used an ATM in France and it's incredible in terms of the languages people can use, the products you can get. You can deal in shares. You can do all sorts of things. That's maybe what we want, but I think it would be useful to trial this and see what our people want.

Question: Just back on the Asian question, where do you see the upside, what forms of banking in Asia are you interested in, and then on the other side, what particular risks do you think the banks have to deal with, with banking in Asia?

Mike Smith: I think all types of banking are of a volatile nature. I mean, if you look at the network side of the business, obviously there is high requirement for product and service. If you look at what I'd call commercial business banking. There is huge potential with the growth of these markets. And of course, in personal banking. In China for example, I mean that is the growth area, or India. As these countries develop, the consumer banking market tends to be the one that develops fastest.

So I think in all of those markets there is huge potential. The issue is you've always got to have a particular map, and that is the difficult thing to achieve. Growing by organic growth is extremely hard. It takes a long time and is very difficult, but frankly you have to do that and then look for opportunistic acquisitions to bolt on.

The second part of your question, what are the risks? I think the key risk in operating in Asia is to ensure that you have the best of management that is used to those markets. Markets like China are not easy. It's not for the faint hearted. You've got to really know what you're doing. You have to have the management capability that is able to deal with that. And I think that we now have the ability within ANZ to attract that.

Question: Do you feel that there's been a sacrificing of domestic opportunity for international opportunity at ANZ and how do you explain that to investors? It's a 20 year, 30 year, 40 year play?

Mike Smith: I think the domestic operations have done extremely well. I mean, I think they're as well placed as they can be. The trouble with the domestic operations is that it only gives you limited upside. It's very difficult to build market share in a mature environment.

Question: You've got potential though in wealth management don't you?

Mike Smith: Yes, I think that's right, and that should be pursued as well. I mean, I'm not saying by focusing on international that we're not focusing on domestic. Of course we've got to continue to build the domestic business. I mean, it's still the critical platform on which we operate.

Question: John's success in his time here is largely attributable to a focus on improving the retail bank and de-risking the bank, and there's this message about most convenient bank. Which you can see is applicable in a domestic market. Do you then have to sort of tweak that central mission idea if you are going to achieve success in Asia, because it's not retail banking, not necessarily most convenient banking?

Mike Smith: That will continue. That's going to be the platform on which we sell it. This is not going to be a fundamental change, whether that's going to be making sure that the focus of the operation is slightly wider than it was before. I think that what has happened in the retail bank within those areas is superb, and we want to continue to make improvements. We want to continue to build on that. The retail base is particularly important, but I think where we have lost our way a little bit is in the institutional side and we've recognised that. We are fixing it and we have new management who are very confident that they will change it round. And if they don't, we'll find someone who can.

Question: What are your priorities for the first few months?

Mike Smith: I don't want to pre-empt anything. I've got some ideas, but I want to really get around the place, kick the tyres. It's really to understand

what we've got here. The last thing you want to do is to kill stuff which is very, very important or underfeed parts of the business which are performing extremely well. I have to listen to the management, the staff, to the customers, to the shareholders. What are they after, what do you want? You've got to be realistic here. You've got to be pragmatic.

Question: In the detailed briefing you've had these last two weeks, was there any aspect of that that particularly surprised you?

Mike Smith: No, I was pleasantly surprised on a number of occasions, I haven't been unpleasantly surprised, and maybe I haven't got the whole truth yet. We'll have to wait and see.

Question: What's your view with respect to Australia banking sector with regards to the international credit crisis and especially the run on the Northern Rock in England?

Mike Smith: Well, I get back to comments I made earlier about the underlying strength of the Australian banking system, and in particular the way that that has been structured. I mean, the banks here are actually pretty well capitalised, and are very well positioned to take advantage of some of this uncertainty we've got in the markets. There is no doubt that there is a higher reliance on the wholesale market in Australia than in some other countries, but that really is a systemic issue, all that.

The business model of something like Northern Rock doesn't really exist within the bank. When you get a financial crisis it normally affects a world or a region, the world or a region, you can always work out what some of those effects will be, because they're obvious. But there is always the unexpected and I think in this last one it was the triple A-rated mortgage bank market. It was a run on Northern Rock and I think it was the complete slide of the US dollar, which I would have thought the US dollar would weaken, but not at the rate it has.

So there is always effects that accompanies things, from the left field, that you don't think of, but I look at this more as an opportunity rather

than a problem. I mean, yes, it squeezed margins, and it has put upward pressure on rates. But, it has also, as I say, I think provided us an opportunity.

Question: On those opportunities, do you think there is a chance for ANZ to perhaps take the market share back from the non-bank lenders? Their costs would go up a lot higher than yours, from what I've understood, so could we see some competitive pricing from the ANZ on mortgages to take customers away from the non bank lenders?

Mike Smith: I think that there may be some consolidation in that sector, yes.

Question: Could you define the state of global banking markets today. I mean, how do we get to a period of liquidity again?

Mike Smith: That's going to take many years, I mean, I think what you've seen happen was that money became almost the cheapest commodity around. I mean it was extraordinary. The world was flush with money seeking assets and they just weren't sufficient quality assets around. So what happened was that assets were being manufactured, synthetic assets were being manufactured off the back of others.

It's like the last time I was in Australia, those heady days of the late '80s. There were some entrepreneurs in Australia, with financing schemes which the various holding companies were quite removed from the underlying cash flow businesses, and of course, when one fell over there was a ripple effect, which is exactly what has happened in sub-prime. Say a mortgage backed security which is a good mortgage, a good asset, has been backed into paper which has then been onsold, that in itself is probably not the problem. But then a derivative has been made of that product and you have a derivative of a derivative, by using cash flow or future cash flow, expected cash flow. And of course this stuff has been sold to somebody and what you've been doing is leveraging on each asset. So suddenly what was a dollar is now $6 in the system. Now I can't find anybody who admits to owning this stuff. But somebody does.

Question: How long that might take to clear?

Mike Smith: I think it's going to take a few years. Because a lot of these products have quite long tails. They've got long tails, and nobody is too sure who is on the other side of this. A lot of the banks say, well, it doesn't matter, it matters because we've hedged it with the CDS market or whatever, but that's the problem, because CDS market has got the same issue. So I actually think that this will take some time to unravel.

The fortunate thing is that Australia is not really affected by this sort of thing, because there wasn't much exposure to sub-prime, certainly not much direct exposure. The issue for the Australians is the counterparty risk, because of the people who may be involved in this stuff.

But the other region that has not been affected is Asia. And so, this is fundamentally European and North America's problem more than anything else. Of course, there is a contagion effect of that.

Question: Are you interesting in buying RAMS?

Mike Smith: We always look but I think it wouldn't be high on the agenda, but you know, you can never say never.

Question: Because obviously that would give you an opportunity to buy market share, given what you've said about the state of the domestic market and how tight and competitive it is.

Mike Smith: Yes.

Question: Secondly, is it your decision whether or not to settle with Steve Targett or is that a Board matter?

Answer: It was nothing to do with me.

Question: What is your tip for the footy finals? Are you a Melbourne man now? Or are you going to – you'd better start with that minor sport called AFL, because NRL up here in Sydney of course.

Mike Smith: Well, I'm glad we got to the serious question. Having come at the end of the season it's quite a difficult one for me to comment. I am being lobbied by my various colleagues as to which way to go. One thing I will tell you, that I stopped supporting England in the Rugby!

Question: Probably very wise actually Mike, same here.

Mike Smith: As a matter of fact, I was given a Wallabies jersey the other day and during my trip to New Zealand I wasn't given an All Blacks one. They didn't seem to think they needed the extra support.

Question: So who are you going for? Are you going to go for the adopted country side now?

Mike Smith: I'll probably go for Ireland (laughs)

Question: But no tip for tomorrow's game? And what about Sunday?

Mike Smith: Tomorrow's game, I'm going along and I'll enjoy it. Let's hope the best team wins.

Question: I just wanted to get your comments on wealth management. Obviously, ANZ has been underweight there. Will that be something you'll be looking to address? And if you could maybe talk a bit more about the Asian strategy. Is that likely to change given your experience there, your knowledge of the market over there? Are you likely to accelerate that expansion?

Mike Smith: The comments I made earlier are really based on the fact that I'm very fresh into this, and I don't really want to pre-empt any ideas, but on wealth management generally, yes, I know the fact is that ANZ is probably under-weight. However, having said that, I don't necessarily believe that ANZ should go full-on into the bank-assurance model. I do believe there are selective opportunities that we should make use of, and indeed, our distribution capability is extremely good. We do have a partner with ING as you know, and that at the moment is working well. But we are leaving a few opportunities on the table, I believe.

In terms of Asia, yes, we will be looking more at Asia, but this is not going to happen overnight. Deals in Asia are extremely difficult to execute. The legal system, the regulatory environment of these countries varies enormously and it's not easy, but I do believe that that is where there will be further opportunity and it is an area that we will be looking at closely.

Question: And just given that the banking sector in Australia is quite a mature market and very well run, where do you see the greatest opportunities for ANZ?

Mike Smith: We have to continue our push in retail. I think we have an edge in retail. I think they've done a fantastic job there, but you know, you can never stand still, you've got to be able to keep moving. I think there is still an opportunity for further product innovation.

The product range in Australia is still quite simple, quite straightforward, and I think as investors increase the level of sophistication they require, there is a huge opportunity there. And as I mentioned earlier, I think institutional is an area that we still have got a significant upside. We have a good franchise, we have a good customer base, and I think there is considerable opportunity to expand our business from there.

Question: And where will Mike Smith make his mark?

Mike Smith: In ANZ.

Question: But specifically, where will – will Mike Smith be about Asia?

Mike Smith: No, it might sound flippant, but I actually believe that I want to succeed where John left off. I think John has done a superb job in positioning ANZ where it is today, and I want to be responsible for the next part of its history. I want to turn ANZ into a very significant player, and I believe Australia needs a regional player in this market, otherwise it's just going to be fighting the European and American banks.

Question: What do you mean by significant player?

Mike Smith: Much bigger than we are now.

Question: Like how big?

Mike Smith: You understand my drift.

Question: Yes, but I mean, obviously you're at number four at the moment, you want to be above that?

Mike Smith: Yes, I do, I do want to be a regional power. I think that possibly, the days of global banks are over. I actually believe the concept of regional or super regional banks, make great sense in today's world.

Question: Just two questions. One is you mentioned about wealth. Do you see any opportunities to grow in that business by acquisitions, or are you still happy to go with organic growth in that market?

Mike Smith: As I said earlier, I think you have to grow organically in the first instance and then you have to look for opportunity and take it as it arises. I think to just have an acquisition strategy for a bank with such a franchise as ANZ is unrealistic. So you must always manage organically and as I say, look for opportunity as it arises.

Question: My second question is about opportunities in India. Is there scope for you to grow in India as well, or do you think the restriction of 5% ownership makes it quite difficult for you to grow in that market?

Mike Smith: As you know, ownership of domestic banks there is restricted to 5%, which is not an easy platform to work off. I do expect there to be further deregulation in the future. It is hard to say when, but meantime of course we do have a considerable presence in India through our service centres, and I would like to see far more IT development done in India, for example.

We have over 1,000 staff there already but I would like to have a presence on the ground though, and I believe it is a good market to be in.

Question: All the sensible questions have been asked, so I'm going to take it downmarket a bit. I've read that you're interested in Aston Martin cars, I'm just wondering if you can tell me a bit about your interest there, and what else you might have in common with James Bond?

Mike Smith: That's all I have in common with James Bond, unfortunately! Apart from the odd bullet hole. But the love of Aston Martins goes back many years. Unfortunately, I haven't been able to bring an Aston Martin into Australia because my visa doesn't allow it.

Question: Really, why not?

Mike Smith: I don't know. But no, you're only allowed to bring a car in if you're a returning resident or if you're actually becoming a permanent resident here. If you're a temporary resident, you're not actually allowed to bring in a car, however, what I am doing is looking for one here but they're very expensive.

Question: How many cars do you have and where are they now?

Mike Smith: They're all around the world.

Question: How many are there?

Mike Smith: Far too many (laughs).

Question: What do you particularly like about these cars?

Mike Smith: What do I like? I mean, it's a piece of artwork. Some people collect artwork, and an Aston Martin is a handmade car. I don't like the new ones, I like the old ones, and it's just a handmade car which has all the foibles of that. So when they work they're great.

Question: Terrific. Can you just tell me about some of your interests, apart from cars?

Mike Smith: No, I've got a wide range of interests. (pauses.) I've got cars, ANZ, ANZ and ANZ. But my other main interest is the wine. In fact I have a property in France, which I probably won't see very much of in the near future. But I'm looking forward to actually getting to know Australasian wine more.

Question: Mike, what attracted you to the job? What do you like about ANZ, what are the things that sort of made you think, yes, I wouldn't mind moving to Australia to take up this job?

Mike Smith: Two or three things actually, I think one was that I'd been in my previous role for going into my fifth year and I felt that I'd done what I set out to achieve. I didn't really want to leave the region. I felt that Asia, and I would class Australasia within Asia, as being the region of this century. I felt that this was the most exciting place to be. I think the opportunity for an Australian bank, I've always looked at them and wondered why they hadn't been doing more in Asia and I felt the opportunity was enormous. The other thing, of course, is that having

lived in Australia 20 years ago, I had a very happy time here. I enjoyed it very much, and when this opportunity came up it was, I guess, fortuitous. It was a time in my life when possibly I was going through a mid life crisis as well (laughs) and I needed a change. Because I felt if I hadn't moved now, I probably never would have done, and so it was a variety of reasons. I think it was a unique opportunity, and I'm absolutely delighted I've made the switch.

Question: I was just wondering how long you'd see yourself here?

Mike Smith: As long as they'll have me, I guess. I mean, certainly five years, because I think to put in place a new strategy takes about one to five years. And it really then depends on what progress we've made, where we're at, what we need next, because I'm a great believer in putting new blood through any job after a certain amount of time. So I think it depends very much on how that goes, but yes, it wouldn't be less than five years.

Question: Your former employer is one of the leaders embracing the whole carbon credit/environmental issues, and developing products around that. It's probably ABN AMRO and HSBC that are leaders in that area. Do you see a big opportunity for ANZ on a business level to get involved in that as a service provider?

Mike Smith: Yes I do. I think it actually provides a huge amount of opportunity, but also I think it is part of sound corporate governance and corporate responsibility. I actually believe that we all have a responsibility to the world in which we live, and we have that for our children and their children. If you can actually also position yourselves effectively and make good business from that, I think that's even better. I mean, we should look at this as an opportunity.

Question: In this area, there still quite a bit of work for the bank to do in its responsible lending policies?

Mike Smith: Yes, but it has made a fair amount of progress and we will continue to make progress. You have to be very careful when looking at these issues, that we don't forget that banks actually are very important

elements of how to affect change. You can actually get your customer to make changes to help sustainable development. There are banks in the world who don't give a damn about it. I think it's best to be engaged than to ignore the problem.

Question: At HSBC they're actually cutting off lending to customers because of their environmental standards. Will you do that at ANZ?

Mike Smith: Yes, and I made the decision at HSBC to come out of a number of relationships myself. But that was on the basis that there was not change that had been promised, and again, if you can't make it work then okay, what can you do. But I do believe banks do play a very important part in that.

Question: Investors in banks in Australia have done very well over the last 15 years. But there seems to be an emerging theme amongst the major bank investors that the story is one of regression to mean - you just keep picking the worst of the big four and you'd do a lot better in trying to pick one over the other, which to me seems to imply that they don't see any differentiation between the big four. They just see a series of opportunistic buys. Do you think that's a legitimate theory, and if so, how do you counter that?

Mike Smith: Well, I think you counter it by being different, and that's exactly what we're trying to do. And I think that the story of actually having the Asian element, moving to be a more regional presence, is the difference. That's really precisely the point I was making earlier.

Question: Will you apply to become a resident?

Mike Smith: Will I apply? We'll have to see. I'll see how that goes. I've bought a house here. As I say, it's now building up the livestock, we've got dogs and cats and horses!

Question: What measures matter? How will you know whether ANZ is going well or not?

Mike Smith: You'll tell me, I've no doubt. My customers will tell me and the staff will tell me. You have to be aware of what's going on. You have to see what's happening in the market. I think the important thing is to be

much more externally focused, and I found the culture a little bit internal in its outlook. I've really got to watch what is going on in the outside world and I don't mean Australasia here, I do mean the world.

Question: Are you a fan of particular dashboard metrics, to monitor how that process is going?

Mike Smith: No.

Question: Just talking to people?

Mike Smith: No, I mean, I look at the numbers, I look at what's going through. I look at the sales figures and I look at productivity. But am I bogged down in a process industry that creates huge amounts of information? No, I'm not. I actually like to keep it simple. I like people to be very aware of what they've got to achieve and I expect them to achieve it. If they do they'll get rewarded. And if they don't I'll find people who can.

Question: Thinking of finding people that can, you mentioned the need for a depth of management in Asia, how is ANZ going to meet this need?

Mike Smith: There are really two ways. We will build up our own resources, and our own people and meet our own development needs for the longer term with some graduate recruitment. ANZ has a huge number of Asian staff already, which have been educated in Australia, and a lot of whom wish to go back to their own country, which is a fantastic advantage.

I mean, in HSBC I used to try and recruit people from Australia to go into Asia. The other thing of course is through acquisition. Buying management is also very important, and there are certain companies who are clearly quite good at this. I also have quite a few contacts with the region of course.

Question: You mentioned talking to investors and the like, have you been doing that in the past couple of weeks, and what have they been telling you?

Mike Smith: I mean, you know, they've been very receptive. Everybody understands that there is only so much to do in a relatively small market which is quite mature. I actually do believe there is more

opportunity than people think in the domestic market but you do have to find something else, and shareholders generally are receptive to that. But you know, the proof is in the eating with these things. It's one thing to talk about it and another thing to execute it, and execution is the key.

Question: You talked about management team and people having sort of respective experience and the like. For instance, Brian Hartzer has been heading up the personal banking division now for the best part of four years, is it time to say broaden his experience? How do you see developing your management team?

Mike Smith: I do believe it is important to have a good management team around you with the opportunity to experience different disciplines, different types of business but at the same time we can't lose sight of the fact that we need the best talent in the best roles. We can't put square pegs into round holes. It is a little bit of a mixture.

Host: We might wrap it up as it's three o'clock, Mike, are there any closing comments?

Mike Smith: Only to say thank you very much for making the time this afternoon. I'm sorry I can't go into much more detail. If you give me a couple of months I'll be very pleased to see you at that time, and I'll be able at that stage outline to you in more detail what we intend to do and to move the machine forward. Thank you very much.

Host: The next opportunity to check on how the machine is moving forward is ANZ's annual results announcement which is on the 25th of October. Thank you.