

## **ANZ 2018 Annual General Meeting**

### **Chairman's Address**

#### **David Gonski AC**

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This has been a confronting year for all of us at ANZ, including your Board.

As I am sure everybody here today is acutely aware, the Royal Commission has highlighted conduct by ANZ and the broader financial industry which is of a standard below what the community expects, and in some cases what the law requires.

I want to assure you, we at ANZ, are not waiting for the Commission's final report before taking action.

We acknowledged directly to the Commission the situations where we believe our conduct has not lived up to the standard expected of us.

We have taken steps to acknowledge accountability, including the reduction of executive remuneration, and we have sped up efforts to compensate customers.

For the future, we have accelerated efforts to simplify the operations of our Bank.

These structural changes were commenced some years ago and we believe.... leave us well placed to meet the challenges of the future.

The Commission's interim report only strengthened our resolve to make ANZ simpler and better able to serve our customers.

It is not adequate to simply blame our failures on the complexities of being a large organisation, or on our systems and processes.

In the past we were at times too focussed on the short-term profit of the group, rather than the long-term sustainability of our relationships and our obligations to all our stakeholders.

The Board has spent considerable time reflecting on this, being clear that where we have failed we must apologise, learn from it, remediate it quickly and make sure it doesn't happen again.

We have also resolved that while in the past we were too focussed on measuring our performance against our peers, it is now incumbent upon us to consider how our decisions impact the broader community and society more generally.

### **IMPROVING CUSTOMER OUTCOMES**

Your Bank firmly believes our long-term viability depends on our ability to better balance the needs of all our stakeholders: community, customers, employees...and of course our shareholders.

Part of getting that balance right is improving the way we identify and fix issues when we fail.

The Board views customer remediation within our Australian business as one of the main priorities for management during the next financial year.

Our Customer Fairness Advisor, Colin Neave, who served as the Commonwealth Ombudsman before joining ANZ in 2016, has developed a set of remediation principles for the Group.

These five principles, which you can see on the screen behind me, guide the way we fix systemic errors, refund customers faster and, most importantly learn from our mistakes.

We have also established a Responsible Banking team with experts dedicated to resolving issues, as well as other teams who make sure our products remain suitable and that we lend responsibly.

While we have made progress, if we are to re-earn the trust of our customers and the broader community, we need products and services that are simple, fair and responsible.

Just this month we implemented changes to our credit cards in Australia, which seek to help minimise the damage caused by gambling.

While this will impact revenue for that business, we know it is the right thing to do - even though gambling is not an issue for the majority of our customers.

This change was on top of our efforts to identify and help customers, particularly vulnerable customers with persistent credit card debt.

We also recognise how a bank rewards its people has been a matter of significant community debate.

In Australia we removed sales targets for branch staff.

I hope these changes give customers and shareholders confidence that we are focussed on doing the right thing by them at all times.

Getting the balance right for all stakeholders also influenced our decision to exclude all home owners in drought declared regions of Australia from a recent interest rate increase.

We also extended direct support for farmers impacted by the drought with a 1% reduction in interest rates on loans in drought-declared areas, and by setting aside \$130 million to help them re-plant and re-stock next season.

As a large organisation with an extensive supply chain, we also recognise our procurement activities have social, environmental and economic impacts.

Apart from minimising those impacts through our Supplier Code of Practice, this year we also became a signatory of the Business Council of Australia's Supplier Payment Code.

This commits us to paying Australian small businesses within 30 days, helping small businesses grow by better managing their cash flow.

## **PURPOSE**

An important development this year for our Bank has been embedding right across the

organisation a clear sense of our purpose: to shape a world where people and communities thrive.

We mean that. We are focussing our efforts where we can make the most significant difference: financial well-being, environmental sustainability and housing.

While we know we have more to do, we have made good progress.

For example, home lending is clearly a central part of being a bank.

We recognise we can play a broader role in improving the affordability and availability of housing in Australia and New Zealand.

In fact, we now have a \$1 billion target to help deliver around 3,200 more affordable, secure and sustainable homes to buy and rent.

In New Zealand, we pledged \$100 million of interest-free loans to help our customers insulate their homes... because we know a lack of insulation causes significant health effects in many parts of that country.

As part of our efforts to improve the financial wellbeing of our customers, we want to help enable the social and economic participation of one million people by 2020.

We aim to achieve this through, for example, our savings and money management programs. I'm very pleased to report we are well on track to meet this target, currently reaching nearly 900,000 people.

## **BUSINESS PERFORMANCE**

Turning now to our financial performance for the year.

Despite difficult trading conditions, particularly in our Australian retail bank, the fundamentals of our business remain sound.

We recorded a statutory profit of \$6.4 billion, which was broadly in line with our performance last year.

If you exclude the discontinued Wealth businesses, our continuing cash profit was down 4.7% to \$6.5 billion.

We also paid nearly \$2.8 billion in tax for the year, making ANZ one of the top-five tax payers in the country.

The progress of our transformation means we have been able to reduce the number of shares on issue by 67 million through share buy-backs - equivalent to \$1.9 billion...while also maintaining our unquestionably strong capital position.

At the same time, we maintained a fully franked dividend of \$1.60 per share in 2018, distributing \$4.6 billion to our shareholders.

Your Board is acutely aware that the majority of our shareholders want fully-franked dividends and this is at the forefront of our minds when making decisions about our dividend policy.

We have a track record of closely watching the right amount of capital we need to run our bank both safely and efficiently.

And when we have excess capital, I believe we have shown we will take the appropriate action in the interests of all our shareholders.

## **MANAGEMENT & REMUNERATION**

There has been, rightly, an intense focus on the remuneration of executives in large businesses this past year.

While not confined solely to the Financial Services industry, we know there is a heightened community concern about how we reward our executives.

The Chair of our Human Resources Committee, Ilana Atlas, will talk more on our approach to compensation shortly, however it is appropriate I make some initial comments on the voting on our remuneration report.

At this stage, approximately 66% of the votes have been in favour of the report. The Board would like to thank those shareholders for their support in what has been a difficult year, however, this means that at this stage 34% have voted against and as a first strike occurs if 25% vote against we face a First Strike at this meeting.

The Board acknowledges the very real concerns of those who have voted against the report and I assure you we will continue to work hard in 2019 to ensure further alignment between compensation and shareholder interests.

We have been making changes to remuneration for some years, including significantly reducing the compensation paid across the Group.

You will also note in the annual report that accountability for our failures in recent years was reflected in what we paid our most senior people, including our Chief Executive Officer.

The Board has also acknowledged it shares some accountability. All existing non-executive directors will receive a 20% reduction in their fees next year and, in my case, a 20% reduction in my Chairman fee.

While the Board does not receive variable remuneration, we believe this was the right thing to do given the impact the bank's failings had on shareholders this year.

## **BOARD RENEWAL**

Board renewal has continued this year and in line with our constitution, both Lee Hsien Yang and Paula Dwyer have finished their current terms.

Hsien Yang will step down at the conclusion of this meeting, while Paula is standing for re-election.

On behalf of all shareholders, I thank Hsien Yang for his exemplary service to ANZ and to our Board over nearly ten years.

He has made an important contribution, particularly in his role chairing our Digital Business and Technology Committee... where his significant international experience has been a valuable asset for ANZ.

Hsien Yang brought a global perspective to the Board and I personally valued his friendship and advice over many years. Thank you, Hsien Yang.

In February, Sir John Key joined the board and is also putting himself forward for election today.

While Sir John will introduce himself to you later in the meeting, he will be well-known to many having served with distinction for eight years as New Zealand's 38<sup>th</sup> Prime Minister.

Sir John, who also chairs our New Zealand business, has had a long international banking career and it's a privilege to have somebody with his experience join our Board.

## **CONCLUSION**

Ladies and gentlemen Australia is facing challenging conditions that will continue to impact our Australian Retail Bank.

The industry will also, of course, need to examine and respond to the recommendations from the Royal Commission.

However, the Board believes we are well placed to navigate these challenges given the significant progress we have made in transforming our business.

The board and I are very grateful for all the hard work our people have done in a difficult year.

I now invite our Chief Executive Shayne Elliott to give you an overview of the actions we are taking to meet the challenges the industry is facing.