CHAIRMAN'S ADDRESS
2019 ANNUAL GENERAL MEETING
17 December 2019
Brisbane

Ladies and gentleman, my name is David Gonski and I welcome you to the 2019 Annual General Meeting.

Your directors, including our Chief Executive Officer Shayne Elliott, are all here and they join me in welcoming you.

Before I start the meeting, I acknowledge both the Jagera people and the Turrbul people who are the traditional custodians of the land on which this meeting is taking place.

We respect their spiritual relationship with their country and we pay respects to their elders past, present and emerging.

I extend that respect to other Aboriginal and Torres Strait Islander people joining us today.

On behalf of everybody at ANZ, I'd also like to express our concern for all those affected by the fires here in Queensland, as well those in other parts of the country.

This has been an awful event for so many and those impacted remain in our thoughts today.

As we have done for customers hit by drought, we have been offering financial assistance at this very difficult time.

If more is needed, we will do what we can to support our customers, staff and the community.

It is very pleasing to be in Brisbane, a wonderful city where we have many interested shareholders.

Brisbane is a key part of our history. We started here as the Union Bank in 1851 and opened our first branch in Queen Street…not far from where we are meeting today.

Following the closure of the Moreton Bay Penal Settlement, the Colony of Queensland was formed in December 1859 - with only 7 and a half pence in its Treasury.

All of which was stolen four days later!

The theft of the entire...albeit miniscule...Government coffers prompted a call for proper banking services and we were appointed the official banker for the new State.

Today, Queensland is in very good shape and we have a large and active business here.

Queensland lies at the heart of many industries, from tourism to agriculture to resources, which have created the modern Australian economy.

Brisbane is now a real alternative to Melbourne and Sydney as an Australian business centre and ANZ is proud to play its part in building this great city and State.

Business Performance

Turning to our business performance.

As shareholders would be acutely aware, this has been a difficult year for the broader industry and for ANZ.

Intense competition, lower interest rates and slower credit growth have had a significant impact on our business.

We have also needed to respond to more regulatory attention and heightened community expectations following the Royal Commission as well as increased remediation costs.

As a result, Statutory Profit for the year was down 7%, to $6 billion.

For the businesses that will remain part of ANZ in the future, cash profit was $6.5 billion - flat when compared with the previous year.

Importantly, cash earnings per share grew 2% to 228 cents...largely due to the capital management actions taken in recent years.

Our capital ratios remain strong and allowed us to maintain our Full Year dividend at 160 cents...with the final dividend of 80 cents being franked at 70%.

Your board recognises how important the dividend, its franking and its predictability is to many shareholders.

The decision to reduce franking to a new base for now was difficult but appropriate given the changing mix of our business.

As you would know, our ability to pay you franking credits relates only to the tax we pay Australia.

We receive no franking benefit for Australian shareholders where we pay tax in other jurisdictions and the international nature of our business sees us making profits in Australia, New Zealand and elsewhere.

While conditions have been tough, the actions taken in recent years to improve our business has ANZ well placed to meet the industry's challenges as well as the long term opportunities.

We have strengthened our balance sheet, improved our culture and continued the simplification of our business while also becoming more efficient.

A key milestone of our simplification agenda this year was the sale of our Life Insurance business in Australia to Zurich Financial Services for $2.9 billion, as well as the sale of our New Zealand Life Insurance Business to Cigna for around $660 million.

We also made steady progress on the sale of our Pensions & Investments business to IOOF, and having now received the necessary regulatory approvals, we expect to complete this transaction soon.

This simplification agenda allows management to focus on our areas of strength, and to win in the market.

Remediation

A key outcome of the Royal Commission has been the need for the industry to urgently fix the issues of the past.

ANZ has not been immune from this challenge and we announced an additional charge of $682 million for remediation work.

Your Board recognises the impact this has on shareholders. This is a real cost and, as a result, it has impacted the remuneration outcome for management.

However, we also know it's vital we return customers' money as quickly as possible – and we have a team of more than 1,000 people dedicated to this challenge.

If there is a positive from this work, it is that much of the time and resources committed to the task are actually making us a stronger and safer bank for customers and shareholders - lessons are learned, systems are improved and operational risks are reduced for the business going forward.

This means that these failures are less likely to occur again.

Every failure damages our customers and our reputation, and costs us money.

As we address these problems at their root, this will make us easier to deal with, more efficient – a better institution to bank with.

Capital Management

A key focus of the Board has been on the efficient use of capital, given the increased regulatory capital required of banks around the world and the attention shareholders rightly place on return on equity.

This is highlighted by the increased capital requirements introduced into New Zealand earlier this month.

Under the final changes announced by the RBNZ, without any management intervention, we would be required to hold an additional $3 billion in New Zealand over the next seven and a half years.

While the increased capital requirements remain significant, the finalisation of the changes announced earlier this month provide the certainty required to prepare our business for the future.

We are confident we can meet the higher requirements without having to raise new capital from shareholders given the work already completed to comply with higher capital requirements, our early attention to the need for a strong starting capital position and the recently announced extension to the transition period.

Board Governance

During the year, our regulator APRA asked a range of banks, superannuation companies and insurers to take a closer look at their own behaviour and operations.

We took this task extremely seriously and as a result we were able to identify and reflect on many critical issues that will ultimately make ANZ more efficient and more sustainable.

For our part as directors, we identified three core areas requiring additional Board attention:

These were ‘short-termism’, complexity, and accountability.

As a result we conducted a detailed review and formally inscribed the importance of looking at the long-term into the Board’s charter.

We also spent significant time as a Board providing greater clarity on the role of our various Committees.

This includes:

- The role of the Board and Board Human Resources Committee in the oversight of ANZ's culture.

- The role of the Board in understanding and overseeing the impact of ANZ's actions and operations on our customers, specifically matters such as remediation and complaints handling.

- The role of the Board and its Digital Business and Technology Committee in the oversight of information security matters.

- The Role of the Board Ethics, Environment, Social and Governance Committee in oversight of who and how we bank.

- And finally, the role of the Board in both the oversight and application of our evolving accountability and consequence framework.

This year we have also continued to strengthen the composition of the Board, welcoming Paul O'Sullivan as a Director.

While Paul will introduce himself to you later in the meeting, he brings extensive business and technology experience and I'm confident he will make a valuable contribution for all shareholders.

Resolutions

Before I turn to the outlook for our business, I wanted to give you the Board's perspective on some of the resolutions being put to the meeting today.

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

As you may recall, ANZ recorded a 'first strike' last year when around one third of shares were voted against our remuneration report.

The Board took this very seriously and sought feedback from both our institutional and retail shareholders.

As a direct result of this feedback, we have responded to shareholder concerns in a number of ways.

This includes providing much more information on how we assess the performance of the management team as well as improvements to accountability and consequence management.

You will notice a significant differentiation in the remuneration awarded this year to our executives, reflecting the different levels of accountability.

You will also note our CEO, despite a solid personal performance this year, has had his remuneration impacted by the broader performance of the Group.

I also note here that APRA released a draft of its approach to remuneration for banks under its CPS511 consultation paper.

We made a comprehensive submission to APRA having spent considerable time reflecting on how it impacts our remuneration structure. This was very important given the final outcome of APRA's review will have implications for our approach going forward.

The second resolution I wanted to specifically address relates to the climate change policies of our industry associations.

As you would expect, we contribute to policy debate on social, economic and environmental issues affecting our customers and shareholders and we often do this though our membership of industry associations.

However, it is not the role of any association to represent any single member's view and from time to time we may take positions on certain matters not supported by the relevant industry association.

For example, your bank was the first major bank to support a 'last resort' compensation scheme for victims of misconduct in the retail financial planning sector. Such a scheme is now public policy.

That being said, we understand that a range of stakeholders are interested in the alignment of our policy position on climate change with those of our industry associations.

In light of this we will conduct a review in 2020 of those matters and will publish the outcome in next year's annual report.

I also committed to the Australian Shareholders Association, whom I welcome to the meeting once again, that I would address the issue of auditor independence, which we believe is fundamental to the credibility of running a public company.

Given KPMG has been our auditor since 1969, the Board has put strong processes in place to ensure auditor independence.

In fact, our policies go beyond what is required by both the corporations' law in Australia and the Securities and Exchange Commission in the United States.

Any non-audit services must be signed off by the Board Audit Committee and we limit additional services to no more than 5% of audit billings in any one year.

This year it was $116 thousand or around 0.6% of our total KPMG fee. This was lowest of any of the major banks.

We also require that the lead partner involved in the external audit should not remain in a key audit role longer than five years and should not return to the audit team for a further five years.

The Directors are aware of their obligations in this regard and are satisfied the independence of our auditor has not been compromised.

Your Board regularly evaluates the effectiveness of the external audit and, like we have this year, conducts a formal review every year.

To assist shareholders, we have also resolved to include these matters in our annual report in the years to come.

Conclusion

Ladies and gentleman, while the Board is pleased with the progress we have made, we do expect challenging trading conditions for all banks to continue well into the foreseeable future.

Competition will remain intense. Regulation continues to rise and we of course need to continue to work even faster fixing the failures of the past.

Despite the tough conditions we are facing, your Board believes we remain well placed to navigate these challenges given the strong progress we have made in transforming our business.

We have the right strategy and a strong balance sheet. Perhaps most importantly, we believe we have the right people in place to maximise our opportunities in this complex environment.

On behalf of the Board and all shareholders, I'd like to thank all our staff members for their hard work and dedication to our customers.

I want them to know we appreciate their ongoing efforts.

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