

ANZ 2018 Annual General Meeting

Chief Executive Officer Address

Shayne Elliott

I'd also like to extend my welcome to you all today and acknowledge the traditional owners of the land on which this meeting is taking place.

This has been a watershed year for our bank and the broader industry.

I have reflected at length on what went wrong and will be reading the Royal Commission's recommendations in February with keen interest.

It is clear that we as a bank have too often failed our customers. We have acknowledged this and publicly apologised.

That was appropriate but actions speak louder than words and we are getting on with the job of making the required changes.

Already, we have:

- Appointed a customer fairness advisor to bring a perspective from outside the industry and we remain the first bank to do so;
- Established a responsible banking team of almost 200 people charged with fixing issues quickly;
- Allowed for repayments and compensation of more than \$300 million to customers this year for past mistakes; and
- Expanded the mandate of our Board's Ethics, Environment, Social and Governance Committee, to help oversee our non-financial responsibilities and commitments.

We will learn from this year.

We will improve the way we listen to all stakeholders and we will continue the work to make our products simpler, fairer and more responsible.

FINANCIAL PERFORMANCE

While David has given you a broad overview of our financial result, I want to start by giving my perspective on our how we are tracking.

As mentioned, cash profit from continuing operations in financial year 2018 was down 4.7%, however, looking through the large notable items and looking at our ongoing business, it was up 2.9%.

We achieved a solid performance this year despite the difficult environment.

We did this by continuing to focus on a few things. And doing them well.

Tough times require tough actions. With a slowing housing market and increased cost pressures. We have maintained our intense focus on how we allocate capital to achieve the best customer outcomes and how we reduce the day to day cost of running the bank.

Expenses for the group increased 3.1%, largely driven by \$400 million in notable items, including significant customer remediation costs. That's a real cost to shareholders but we have done the right thing by taking that charge now.

Putting those charges aside, the day-to-day costs of running the bank were down 1.5%, the fifth consecutive half of absolute cost reduction.

Credit provisions were the lowest in a generation.

This undoubtedly reflects the strong economy in our key markets, however I would emphasise a significant contributing factor was the decisive action we have taken over the last three years to de-risk the bank.

For example, we exited the high-risk retail and small business markets in Asia, we rebalanced our Australian home loan book towards owner occupiers and we introduced stronger disciplines in our Institutional business.

Many of these decisions meant less revenue for the Group, but when balanced with our assessment of risk. We believe it was the right thing to do for shareholders.

All these factors are a core part of our strategy - simplifying the bank and doing a few things really well.

For ANZ that means being the best bank in Australia and New Zealand for those who want to buy and own a home or start, run and grow a small business.

We also want to be the best bank in the world for those companies who move goods and money around Asia Pacific.

SIMPLIFICATION

We started our simplification journey three years ago and since then simplification has become the most common word in the industry.

And there is a reason for that.

Simplification will help us provide better services to customers, keep our operating costs low, help avoid problems in the future...and help us fix things quickly if they go wrong.

The reality is the more businesses you are managing, the more products you are offering, the more systems and processes you rely on, the bigger the chance something can go wrong.

Unfortunately, the industry has provided ample proof of that this year.

When we started down the path of radical simplification three years ago we were not doing it in anticipation of a Royal Commission.

We did however know the world was changing.

We could see that changes in customer and community expectations, regulation, technology and competition would all have a major impact. What we didn't predict, was how fast that change would be.

And on top of that we have softer house prices and a slowdown in housing activity.

We were a step ahead recognising the need for change and now we are a step ahead on making the changes to succeed in this new world.

In the last three years, we have changed our business more than in any time since the merger in 1951 that created the ANZ that you own today.

In these three years, we have announced the sale and exit of more than 20 businesses.

We've reduced risk-weighted assets in our Institutional business by \$44 billion. We cut the number of retail products in Australia by more than a third. We improved cumbersome processes and decommissioned old systems.

This year alone, we have sold our joint-venture bank in Cambodia and our retail and commercial business in Papua New Guinea.

We also completed the sale of our Asian retail and commercial businesses, our life insurance business in New Zealand; and our aligned dealer groups here in Australia.

For customers, we simplified our retail fee structure, removing a myriad of fees in our core retail businesses, including the charge for using other banks' ATMs.

We did this because it was the right thing to do...even though it means less revenue.

The transformation we started three years ago has placed us ahead of the curve.

It's certainly not something I would want to be starting now.

In the process, we have freed up more than 20 per cent of our capital base, the equivalent of almost \$12 billion.

We have invested roughly half of that back into our core businesses and strengthened our balance sheet, announced a \$3bn buyback and we are due to receive more proceeds in early 2019.

As a result, our balance sheet is strong and more focussed.

We are doing less things than before, but let me stress, this is not a case of trying to 'shrink to greatness'.

The reality is a simpler bank is just easier to run, lower cost, better for customers and less risky for shareholders.

Our Institutional and New Zealand businesses are positive examples of what can happen when we get it right.

New Zealand has been on its simplification path for eight years now, while Institutional is

three years into its own transformation. Both businesses have strengthened their market position, driving improved and diversified returns for shareholders.

We are running all our businesses with greater discipline. Discipline in who we bank, what products we offer, what markets we operate in and how many people we employ.

But simplification is much more than just divesting businesses.

We are also using digital technology to improve the way we engage with our customers.

Fortunately, it is also how our customers want to engage with us.

In fact, we have almost five million digitally active retail customers in Australia and New Zealand...with digital payments, such as ApplePay, leading the way.

As you know, we launched ApplePay, Australia's most popular digital wallet, two and a half years ago. Our largest competitor is only planning to launch it next year.

During the year, we rolled out the New Payments Platform, otherwise known as NPP, to more than three million retail customers and around half a million small and medium businesses here in Australia.

This allows customers to make fast, almost real-time, data-rich payments.

Importantly, we have won 90% of the competitive mandates which allow other banks to access NPP via our platform.

Already we are seeing strong take up with ANZ responsible for nearly 60% of the total payment value across that platform.

And just last week, ANZ was appointed as a provider of core-banking services for the New South Wales Government, as well as being named their innovation partner.

This is the biggest Transaction Banking contract in Australia, and the incumbent has been the main banker to NSW for decades.

The partnership goes beyond a traditional banking relationship.

As an innovation partner, we will leverage our skills and experience across digital, data analytics and payments to help bring seamless solutions to the people of NSW.

Technology is also changing the structure of our branch network.

As you would imagine, the increase in digital options, and the convenience they offer, is impacting our branches with less people coming into our shops.

This has resulted in some branch closures this year, including three here in Western Australia.

We recognise the impact these actions have on local communities and they are not decisions we take lightly.

There has also been a lot of talk this year about data, particularly its ownership, use and

protection.

For almost 200 years we have been in the business of storing, protecting and moving people's money....and we treat data just as seriously.

This is why we are the only bank to have introduced biometric voice print security to protect high-value payments - technology so advanced it can detect the difference between identical twins or even a voice recording.

NEW WAYS OF WORKING

To survive and win in the new world, we need to be flexible, fast and adaptive. We also need to simplify the way we work.

To achieve this, we have completely changed the way our teams are working together, introducing what are called 'Agile' work practices.

While it sounds simple enough, it's a major transformation that means we respond to customer needs more quickly and more responsibly.

It means a less hierarchical ANZ. An ANZ with smaller, more collaborative and self-directed teams focussed completely on continuous improvement.

These are the same work practices used by the global tech firms. In fact, we have partnered with Australia's best-known tech company, Atlassian, to help drive our transformation.

Already, we have 12,000 people working in Agile teams...that's almost one in three ANZ people.

OUTLOOK

Now turning to the outlook.

As I said at our full year result, the market is facing strong headwinds.

This is particularly evident in Australian retail banking.

As you know, house prices are softening, and we are facing increased competition and higher compliance costs.

Borrowing capacity has reduced and investor lending across the country has stalled.

We don't see these trends changing any time soon.

Credit losses were the lowest in a generation and while there are no signs of it getting worse, it's hard to imagine it improving any further.

While revenue growth will be tough for the foreseeable future, we are focusing on growing share in the right markets, managing our costs tightly and strengthening our balance sheet.

You might have also heard that the Reserve Bank of New Zealand has just released a

consultation paper that could mean more capital needs to be held in New Zealand.

It is too early to know what this might mean, but our simplification work and capital strength means we are in a good position to deal with any changes.

CONCLUSION

This has been a challenging year.

The Royal Commission was a difficult but, as we now recognise, a necessary process for the industry to achieve the meaningful change needed to regain the trust of the community.

While the Final Report is still to be delivered, it's in moments of change that opportunities emerge.

I believe we will look back on 2018 as a pivotal year in ANZ's history - the year that ANZ sowed the seeds of change and long-term improvement.

We have already taken bold decisions to reshape our business and we are in a better position to adapt to the industry's challenges than if we had not had the courage to take these actions.

Driving this change would not be possible without passionate and engaged workforce.

Every day almost 40,000 people arrive at an ANZ office somewhere in the world to do the right thing for their customers, their colleagues and the community.

We don't always get everything right, but we hold ourselves to account and when we make mistakes we put things right and make sure they don't happen again.

The people who work for your bank are committed and resilient and I'm proud of what they have achieved over the last few years.

On behalf of all shareholders, I want to thank them for their hard work and dedication.