Westpac Banking Corporation

2018 Annual General Meeting

Perth, Australia

Wednesday, 12 December 2018

Chief Executive Officer's Address

Brian Hartzer

Thank you Chairman, and good morning fellow shareholders.

It's great to be in Perth for our AGM—it's both an important city for Australia, and for Westpac.

Today, our total lending in Western Australia exceeds $50 billion, and we manage customer deposits of around $35 billion.

We have almost 90 branches across the state, from Broome and Kununurra in the north to Albany and Esperance in the south, and more than 80,000 direct Westpac shareholders live here in Western Australia –around 14 per cent of our shareholder base.

As the Chairman acknowledged in his address, the 2018 financial year has been exceptionally difficult for the banking industry, and for Westpac.

I am also acutely aware that it has been a disappointing year for all of us as shareholders, due to the reduction in Westpac's share price and the uncertainty introduced as a result of various regulatory actions and the Royal Commission.

So I want to start this morning by apologising for the impact these factors have had on you as loyal Westpac shareholders—and to thank you for your continued support.

My management team and I are very conscious of the trust you place in us – and we don't take it for granted.

And I want to assure you that we are working very hard to resolve the various issues that we face, to deliver a better service experience for customers, and to make the changes needed to lift our financial performance into the future.

The Chairman has already provided an excellent perspective on the causes and lessons from the current issues faced by Westpac and our industry as a whole.

I would like to focus my discussion today on three things:

- First, what was behind our financial performance this year, and what are we doing to lift performance?
- Second, what specifically are we doing to resolve the issues and remove the uncertainty caused by the Royal Commission, and
- What is the outlook, and what is our strategy to grow value from here?

2018 Performance

Let me start with our financial performance.

Our profit this year was essentially flat: $3m higher than 2017.

While the result was little changed, given the impact of the bank levy, higher funding costs and a lift in compliance spending, this is arguably not a bad result.

Several of our businesses performed well: Business Bank grew profits 8%, and New Zealand was up 5%[1]. And for comparison purposes, if we exclude the cost of remediation provisions, BT was down 1%.

Institutional Banking's result was down 6%, which largely represents a slowdown in financial markets activity. This business is always subject to a level of external volatility, so I'm not too concerned about this. In fact, the WIB leadership team showed good discipline this year, with margins expanding by 6 basis points and good cost management.

The biggest challenges were in our Consumer Bank, which is traditionally our powerhouse business. The particular challenge came in our net interest margin: funding costs spiked significantly in February, and we wore that increase until August. In total, that decision cost us around $200 million in revenue during the year.

The other factor in Consumer was a slowdown in housing lending. In 2017 housing credit grew 6.6%. In the last 12 months, it grew 5.2%. The consequence of that was increased competition from our major bank peers, as well as from offshore banks and non-bank lenders.

Finally, our results were impacted by significant regulatory and remediation costs, with substantial provisions for customer refunds and additional operational cost as we worked through the Royal Commission, various regulatory enquiries, and remediation.

In response to these challenges we took further steps to reduce costs, but they were not sufficient to offset the one-off impact of these other activities.

With revenue growth continuing to be a challenge, we have re-doubled our efforts to reduce costs by simplifying our products, automating processes, and modernising our technology platform. Over recent years, we have delivered productivity savings of around $250 - $300 million per year. In 2019 we aim to lift that to more than $400 million – almost one third higher than in 2018. Many of the required initiatives are already underway, but it remains a stretching target that will require discipline across the company.

Let me turn now to the steps we are taking to address the issues raised by the Royal Commission.

Addressing the issues raised by the Royal Commission

The current environment has created significant uncertainty for shareholders, and our goal in 2019 is to put the outstanding issues behind us.

While it is still too soon to know what the Royal Commission will recommend, we are already taking action on a number of themes.

The first, and most disappointing area for me is where we have let our customers down.

Since joining Westpac in 2012 I have personally driven our effort to improve the way we handle complaints and, in particular, to identify and eliminate their root causes.

From one perspective this worked well—the volume of complaints has fallen by more than half over the last five years.

But what is now clear is that within the remaining complaints were a number of particularly vulnerable customers, or cases where the consequences of us not getting it right was severe. These people essentially got 'stuck in the system', with no clear path to a sensible resolution.

While not all of these cases represent failures by Westpac–for example, some of these customers were mistreated by a third-party advisor, were the victim of fraud, or simply made a poor business judgment–there were however unfortunate cases where staff members failed to live up to our code of conduct or were not sufficiently empathetic or proactive to help the customer resolve their matter.

And for the record, on behalf of Westpac, I apologise without reserve to any customer who has been let down by our mistakes.

We want to get it right for *every* customer, and so we have made substantial changes.

In June, we created a new division, led by Group Executive Carolyn McCann, which centralises complaints handling across the Group, and complements the work of our independent Customer Advocate, Adrian Ahern.

Carolyn's division is working hard to identify and resolve long-standing customer matters, and to improve the visibility of complaints at the highest levels in the company. Our senior executives, including me, have increased the time we spend reviewing complaints and personally meeting affected customers. This has helped us better understand the issues, and the impact of our actions, while also making it clearer where we need to improve.

We have also made changes aimed at preventing impacts on vulnerable customers in the first place. For example, this year we've made changes to ensure that all St.George branches are 'dementia-friendly', we've improved the way we handle fraud for affected customers, and have a implemented a new approach that provides 'breathing space' to customers experiencing financial hardship.

We've also changed remuneration structures for customer facing staff to emphasise service and doing the right thing, rather than sales.

Another area of focus has been strengthening the way we provide financial advice. As we have seen across the industry, where we get it wrong, the remediation is costly.

What has become clear is that we have not always embedded strong enough controls and record-keeping around ensuring that customers received the advice they had signed up for. While our policies have been tightened and record keeping improved, we are now in the process of refunding customers where the advice was not provided or where there is insufficient evidence that advice was in fact given.

While there is still much to do—I hope these changes demonstrate to you our commitment to earning and maintaining trust with every one of our customers.

Our Service Revolution strategy remains key to creating value in the company

That leads me to the final point I wanted to discuss today, which is our plan to grow value from here.

The outlook for the Australian economy as a whole remains positive, with unemployment and inflation both relatively low. Governments have committed to significant infrastructure projects, and the lower Australian dollar is helping exports, especially in services.

For banks however, the short-term outlook is more challenging. Although credit quality is likely to remain a positive, low interest rates, slowing credit growth, and a fall in consumer and business confidence-especially about house prices—puts pressure on bank earnings growth.

Over the longer term however, we believe that a strong customer franchise, built around great service and trusted brands, is the key to building sustainable value for shareholders.

Which is why I believe that the quality of our franchise and our strategy to build one of the world's great service companies sets us up well to increasingly differentiate Westpac in the years to come.

Our plans are founded on the idea that banking is a *service* business, not a *product* business, and that once-in-a-generation changes in technology give us the opportunity to strengthen relationships, improve the range and quality of services that we provide, and at the same time substantially reduce our costs. In turn, this will translate into a more profitable and sustainable business.

And despite the past year's attention on risk and remediation we have continued to make progress and build momentum on this agenda.

For example, this year we grew the number of customers by around 250,000, which saw the total number of Australian banking customers surpass 11 million for the first time. And our key measure of customer satisfaction – the net promoter score, or NPS[2] – improved relative to the major banks among business customers, and among retail customers our relative group ranking increased to number two.

This reflects improvements in both the quality of our training and the extent of customer contact by our bankers, as well as improved stability in our systems–a critical factor, given the increased reliance by customers on mobile and digital banking.

Last week we switched on the core of our new technology infrastructure, the Customer Service Hub, and over the year we introduced a range of new digital solutions for customers that make their banking easier.

This included giving customers the ability to access historical statements and bank a cheque through our mobile app; launching a new mortgage approval process that is completely digital from application to settlement; and enabling voice recognition so customers can make a payment just by asking Siri.

And our service focus extends beyond our consumer business: for example, in our Institutional banking business we have extended the expertise we've built up in the renewable energy sector to become the largest financer to greenfield projects in Australia.

At the same time, we are continuing to invest in changes that help our people serve customers better, while preparing them for the changing nature of work. We also launched new and expanded initiatives that support the hiring and career development within Westpac for women, indigenous youth, people with disabilities, and our military veterans.

Together, these initiatives are creating an environment where the best people can prosper and grow – a critical aspect to attracting and retaining a talented and motivated workforce in an increasingly competitive market.

We also continued our longstanding support for the community more broadly. We launched a \$100 million assistance package for drought-affected communities, and celebrated our 20th year of matching gifts on behalf of staff, which benefited over 650 charities to the tune of more than \$6 million. Our various foundations continued their support for numerous community organisations and social enterprises; and we welcomed our 330th Westpac scholar.

Finally, I am proud to say that our support for the Westpac Rescue Helicopter service is now in its 45th year, and while I can't share the details today I did want to alert you to an exciting announcement we will make next week that extends our commitment to keeping Australians safe as we head into the summer holiday season.

Conclusion

Let me conclude by reassuring you that while 2018 was a challenging year, and 2019 no doubt will continue to bring its own challenges, I believe Westpac is very much on the right path.

Our balance sheet has never been stronger, we have an excellent customer franchise, a clear strategy to build a simpler, more efficient, and low-risk business, and what I believe to be the strongest management team in the sector.

As a result I believe we are well on the way to delivering good value and returns for shareholders, and doing it in a way that you can remain proud of your investment in Westpac.

Once again, thank you for your continued support, thank you for coming today, and thank you for listening.

Ends…

Footnotes:

1. $NZ
2. Net Promoter Score measures the net likelihood of recommendation to others of the customer's main financial institution. Net Promoter ScoreSM is a trademark of Bain & Co Inc., Satmetrix Systems, Inc., and Mr Frederick Reichheld. Using a scale of 0 to 10 (0 means 'extremely unlikely' and 10 means 'extremely likely'), the 0-6 raters (detractors) are deducted from the 9-10 raters (promoters)