Westpac Banking Corporation

2016 Annual General Meeting

Adelaide, Australia

Friday, 09 December 2016

Chief Executive Officer’s Address

Brian Hartzer

Introduction

Thank you Mr Chairman and good morning fellow shareholders.

It is a pleasure to be here in Adelaide.

As well as having many customers here in South Australia, the Westpac Group has more staff in Adelaide than any city outside of Sydney—in fact we are the largest private employer in the state.

And of course, Adelaide is home to BankSA, South Australia's largest local bank, with local leadership and local decision-making.

As the Chairman indicated, 2016 has been a big year for the industry and for Westpac:

- We've absorbed a significant increase in capital;
- Interest rates have fallen to some of the lowest on record;
- Global markets have been challenging;
- We've faced a number of regulatory and political headwinds; and
- Competition has been intense.

Within this environment I'm pleased we've delivered a consistent operating performance, while strengthening our balance sheet and our customer franchise.

In my remarks this morning I'd like to cover three things:

- Our financial performance this year;
- The progress we've made towards our goal of becoming one of the world's great service companies; and
- What we expect from the operating environment next year.

As part of this, I'll offer some reflections on the reputational issues facing banks and what we're doing about it.

Since this is a shareholder meeting, let me start with an overview of our financial performance last year.

Financial Performance

Given the challenges we faced in the external environment, our priority this year was to build strength and manage the business in a disciplined way, while continuing to invest in improving service.

At the start of the year we took the decision to raise capital and adjust mortgage rates. We've remained disciplined on both growth and risk, we've managed expenses tightly and we've set ourselves up well for the new liquidity rules.

This has meant that the overall cash earnings were flat over the year and were pretty evenly split between the halves.

For the Westpac Group, cash earnings were $7.8 billion for the year; $2 million higher than reported for Full Year 2015.

Cash earnings per share fell 5% to 235.5 cents, which reflects the significant increase in capital issued over the last 12 months. As the Chairman has discussed, the Return on Equity was also lower at 14%, down from 15.8% in 2015.

Within the Group result, our Consumer and Business Banking Divisions continued to perform well and drive earnings. On the other hand our institutional banking and wealth businesses have maintained leadership in their respective markets, but faced more challenging conditions.

That's reflected in their weaker results, which flowed through to the Group's performance as well.

The highlight for the year was the Consumer Bank with a 14% growth in cash earnings and 13% rise in core earnings.

This business has continued to outperform, delivering growth in market share, well managed margins, and consistent revenue growth. Our portfolio of brands continues to give us an edge—and each of our brands grew their franchise this year.

BankSA is a good example—delivering an 8% increase in net profit, largely through increasing its customer base.

In fact, customer numbers grew almost three times faster than South Australia's population growth. BankSA's support for this market was reflected in home lending and customer deposits both growing by a solid 5%, while small business lending increased 8%.

The Group's performance demonstrates the effectiveness of our strategy—which is based on the idea that if we focus on delivering great service for customers, then great results for shareholders will follow.

So let me turn now to the progress we've made against our strategy.

The Service Revolution – the heart of our strategy

Last year I outlined to shareholders how we had refined the group's vision statement to highlight the importance of service—setting the goal of becoming one of the world's great service companies.

By 'service', we mean a genuine dedication to helping customers achieve what's important to them.

As well as being good for customers, it's the right strategy for shareholders.

Because ultimately the value of the bank's shares depends on the sustainability of its earnings over time—and that depends primarily on the strength of its customer franchise.

So our service strategy is designed to grow customer numbers through a service culture that rewards our people for building relationships that last the test of time.

It's about growing the value of our brands and using them to attract customers who value service and whose sole motivation isn't price.

It's about using technology to give customers reasons to bring more of their business to us, while lowering costs and reducing risk.

This simple model translates into value for shareholders through better growth in customer revenue, improved efficiency, lower risk, and ultimately better returns through the economic cycle.

It also means that we're running the company in a more sustainable way.

At a time when banks and their practices are under tremendous scrutiny, the focus on service is actually a big idea.

It recognises that the core purpose of a bank is to support economic growth, by helping people grow their businesses, helping people manage their money, helping people own their home, and helping people have a secure retirement.

And the journey we're on as a company is to take that basic statement and bring it to life through the combination of great people and great technology.

As part of this, during the year we introduced Our Service Promise, a set of principles and practices that clearly defines our expectations of what it means to deliver great service—consistently. Across the bank our people have embraced this ethos and look to deliver above and beyond for our customers. We can already see this approach delivering, with complaints down over 30% this year. What has been even more encouraging is that in the past few months compliments in our branch network have outnumbered complaints by a factor of three to one.

We are also harnessing technology to improve service and create capacity for our people to spend more time with customers.

To give you a sense of the progress, over the past 12 months we've digitised seven out of the top ten manual activities, including things like:

- activating a new credit card;
- locking or unlocking a lost card; and
- disputing a transaction.

Customers can now do all these things online, 24 hours a day. We've passed over 1 billion logins in our digital channels and in the second half, 22% of our sales happened online. A few months ago the Westpac mobile banking app was voted the best in the world by Forrester Research.

For our business bankers, we rolled out a new system that allows them to complete annual credit reviews in minutes—it used to take days. This has been complemented with new frontline tools that further improve the relationship between our bankers and customers.

And in wealth management, our new Panorama system is now live, with funds on the platform growing strongly. We believe this platform will ultimately redefine how customers manage and protect their wealth.

I wanted to share these examples because it's important for shareholders to know that management is focused on the long term value of our business, not just short term results. We could have cut back on investment this year, or taken more risk to increase profits, but that would not have been the right long-term decision.

I do want to acknowledge that we still have a long way to go to achieve our ambition of being one of the world's great service companies. Our products and policies are still too complex. Some of our processes still involve excessive paper and take too long. We continue to suffer from too many system outages. And some of our people still occasionally fall short of the high service standards that we set.

But we are committed to getting there, and to having an open culture where we actively seek feedback and, if we get something wrong, we fix it.

To that end, I'd like to thank our shareholders—many of whom are also customers—for your feedback this year. It has been a challenging year for banks, and I know that I speak for all of our employees when I say that we appreciate your support as we have adapted to a challenging economic, regulatory, and political environment.

With that let me turn to the outlook for 2017.

Closing the Trust Gap—the Outlook for 2017

It was 200 years ago last month that Governor Lachlan Macquarie asked a group of prominent colonists to advise him on what it would take to create a local currency, in order to support the growth of a private Australian economy.

Their answer—that to have a currency, the colony needed a bank—led in April of 1817 to the creation of the Bank of New South Wales, now known as Westpac.

Over the past two hundred years your bank has prospered by constantly adapting to a changing landscape.

As we enter our third century of business we are once again confronted with a changing world—and the need to adapt.

Overall the Australian economy remains strong and, as the Chairman indicated, we expect economic growth and credit growth to be broadly similar to this year. Barring large individual company issues, we expect credit quality to remain generally favourable, while recognising there will continue to be challenges in selected industries and regions.

However, this summary masks significant changes that are underway.

This year we have seen continued slow growth in Europe, the UK's vote for Brexit, geopolitical unrest in the Middle East and Asia, and a divisive US election.

Although our economists' view is that the RBA appears likely to keep the Cash Rate on hold for an extended period, the election of Donald Trump in the US has raised expectations of higher inflation in the US—which is flowing through to higher interest rates both in the US and domestically.

We believe that this is broadly positive for the economy in the short term, with stronger commodity prices and a weakening Australian dollar supporting exports.

However, in the longer term much depends on the outlook for global trade, and especially the health of China.

This is because the transition to a service-based economy relies on continued demand for service exports—especially health care, education, and tourism.

Australia's economic growth would also be improved by increased state and federal government investment in infrastructure--especially roads and transport. Our experience shows that where governments invest in infrastructure projects, business investment—and particularly small business investment—soon follows. In other words, infrastructure investments have a multiplier effect on economic growth.

A longer term pipeline of committed infrastructure investment would provide businesses with the confidence to invest, and lead to broader economic growth. And with interest rates near all-time lows, we believe there is a strong argument for governments to borrow to fund projects that expand economic capacity.

The banking industry also faces continued challenges and higher costs from new regulation. Led by the global Basel committee and with refinements from our local regulators, we are being asked to hold higher capital, more deposits, and greater liquidity relative to our lending assets. This strengthens our balance sheet but comes at a cost that ultimately is born by shareholders, depositors, and borrowers.

Expectations have also risen in terms of conduct and compliance rules. Indeed banks globally are suffering an ongoing trust problem.

That’s why this year there has been a very public recognition that, as an industry, there are ways that we've done business in the past that no longer meet community expectations.

Earlier this year I gave a speech where I said that a ‘trust gap’ had opened up between banks and our customers, our regulators, our legislators, and our communities.

We are committed to closing this trust gap, so that our customers can be confident that we are committed to their success, that our advice is honest and without conflict of interest, and that their money is safe.

That’s why in April the banking industry unveiled a package of reforms designed to strengthen the community’s trust in banks.

That package aims to address consumer concerns about remuneration, the protection of whistleblowers, the handling of customer complaints, and dealing with poor conduct.

As an industry we’ve started these initiatives, not to stop a Royal Commission, but because they are the right things to do.

Closing the trust gap is one reason why we announced in September that we were removing all product related incentives across our 2,000 tellers in the Westpac branch network.

Westpac’s principles are clear: when something doesn’t measure up, we change it. When we find a problem, we fix it, so that it doesn’t happen again. And we’ll be open about the issues we find.

So while the year ahead will no doubt continue to be challenging, shareholders can be confident that your company will continue to make the changes needed to close the trust gap.

Conclusion

Let me conclude by reiterating that our primary goal is to grow the long-term value of the franchise while delivering acceptable results along the way.

So it was nice to be recognised as the world's most sustainable bank for the third year in a row.

And the franchise is clearly stronger thanks to the progress we've made on customer numbers, deposits, and service quality—so the strategy is working.

We are well underway with our 'Service Revolution', making real steps towards delivering world-class service, digitising our business, and building a culture that puts a dedication to helping at the heart of a truly sustainable business.

When Westpac first started we had three staff, serving 23 customers with total deposits of £1,859. Today, our 40,000 people look after 13 million customers and an asset base of more than $800 billion.

And throughout these 200 years we have grown as the economy has grown.

Westpac has been a proud enabler of that economic growth – from an individual growing their personal wealth, to a family business that is now a global brand.

We have changed as customer needs have changed. And wherever possible, we have led that change.

As we enter our third century of business, you can rest assured that Westpac and its 40,000 people are all committed to continuing to lead that change, in ways that will make you proud as a customer and well-rewarded as an investor in our shares.

Thank you.