

Westpac Banking Corporation
2019 Annual General Meeting

Sydney, Australia
Thursday, 12 December 2019

Acting Chief Executive Officer's
Address

Peter King

Thank you, Lindsay. Good morning everyone and thank you for the opportunity to address you today.

Despite the circumstances leading to my appointment as Acting CEO, it is an honour to lead Westpac.

It's a role that comes with great responsibility, at a time the bank is facing significant challenges. And I am determined to see it through.

Having worked at Westpac for 25 years, I'm personally devastated by the allegations in AUSTRAC's Statement of Claim.

That a mistake by Westpac may have exposed anyone, particularly children, to the risk of harm is distressing for all of us. By falling short of expectations, we have let down customers, shareholders, the community and our people.

For this, I add my personal apology to anyone who may have been affected.

We have a significant task ahead of us, but I chose to accept this job because I love this company.

We must put this right, and we will.

I am clear on the two major priorities ahead.

The first is to implement every aspect of our response, to own our mistakes, to fix them and to do everything we can to make sure they don't happen again.

The second is ensuring we stay focused on performance. That means doing better for customers, which supports your investment in us.

Let me step through both priorities.

Our response

On AUSTRAC's allegations, the Chairman outlined the details. I'll focus on how we're responding.

I've established a dedicated team to manage our response with the work broken into three streams:

- Immediate fixes;
- Lifting our standards; and
- Helping those affected.

We've moved quickly on a number of immediate fixes.

Importantly, these include closing products and reporting outstanding historical files related to AUSTRAC's IFTI claims.

To lift our standards, work is also underway. We are recruiting an additional 200 people in compliance and financial crime areas, adding to the 750 experts already working in this area.

We've changed our processes and will continue to review them. We have also implemented additional transaction monitoring.

As the Chairman mentioned, we've established a Board Financial Crime Committee to not only oversee the Promontory review of our systems and accountability, but to also provide additional scrutiny and challenge over our enhanced financial crime program.

And we're seeking to step up industry data sharing, which is critical to fighting financial crime.

Beyond fixing our mistakes, we committed to do something about the larger problem.

The third aspect of our response is to work with experts in child welfare so we can assist in their efforts to reduce the awful human impact of child exploitation. We will do our part – not just for a year or two, but for as long as it takes.

These are some of the key elements of our response. Our full plan is available on our website – and I am committed to implement every aspect.

Performance

At the same time, the company will stay focused on the work we do, every day, to serve our 14 million customers.

Having spoken to many employees, they are upset by the events of the past few weeks. But I know, like me, they will keep delivering for our customers.

This is vital as we face into the headwinds of a challenging operating environment.

Turning to financial performance, last year was disappointing.

The 2019 result reflected both a deterioration in the conditions for banks along with our determination to deal with outstanding issues.

In particular, our review of products to identify where we didn't get it right for customers has led to an increase in provisions for remediation payments.

At the same time, we also made the decision to restructure our wealth operations. This included exiting personal financial advice and folding the remaining elements of BTFG into our Business and Consumer divisions.

Both of these developments have improved the company's sustainability but came at a significant cost to both revenue and expenses.

Together, the cost of customer remediation and exiting advice reduced cash earnings by around \$1.1 billion, and was the major reason our cash earnings reduced 15%.

Excluding these items, which we've termed notable items, our cash earnings were down 4%.

These lower cash earnings reflected weak demand for credit and the impact of record low interest rates.

A decline in margins in our wealth business, and an increase in insurance claims, also contributed to lower earnings.

We managed expenses well, delivering more than \$400 million in productivity savings while absorbing a further lift in regulatory and compliance spending.

Impairment charges have remained low as the quality of our lending portfolio continues to be sound.

The lower cash earnings along with higher capital over the year led to the decline in earnings per share and a fall in return on equity to 10.7%.

This performance, and the likelihood of interest rates staying low for some time, was behind our decision to reset the dividend.

Strategy

Although our financial performance was lower, we've made good progress on our strategy, particularly in improving our technology infrastructure and migrating more activity to digital channels.

We continued to modernise our technology infrastructure and networks, improving speed and reducing costs. In fact, in fiscal year 2019, we had no major system outages.

Another major development over the year was the launch of our customer service hub, which is improving how we process and service mortgages and ultimately will be the heart of our banking systems.

We also continued the Panorama roll-out which is the fastest growing investment platform in the market; and completed the New Payments Platform, which powers real-time payments capability.

Doing our best by customers remains key to our strategy and performance.

We need to make banking easier, more efficient, and exceed the level of service customers expect.

I intend to step up our focus on service.

But AUSTRAC's claims show that we must change the way we work.

I am focused on our need to improve end-to-end processes and accountability and I will make the hard decisions.

Outlook

On the outlook, we are expecting operating conditions to continue to be soft, with growth remaining low, interest rates expected to fall further, and ongoing regulatory intensity.

While this environment will continue to drag on performance in the 2020 year, we should see some balance sheet growth without a significant deterioration in credit quality. However, there will be extra costs as we work through the remaining regulatory issues.

I don't underestimate the size of the task ahead.

I'm grateful going into this knowing I have the 35,000 people of Westpac behind me.

Having worked at Westpac for a quarter of a century, I know our people come to work every day, with the highest integrity, committed to doing their very best for our 14 million customers, and with a deep sense of pride in our over 200 year history.

They're as keen as I am to do everything possible to earn back your trust, and the trust of the community more broadly.

Many of you are long-term investors and want Westpac to do well.

I want that too, and the bank's entire executive team are focused on the challenges ahead.

Thank you for listening.