

Westpac Banking Corporation
2017 Annual General Meeting

Sydney, Australia

Friday, 08 December 2017

Chief Executive Officer's Address

Brian Hartzler

Introduction

Thank you Chairman and good morning fellow shareholders.

It has been an historic year for the Westpac Group and an immense honour to lead this company through our 200th year and into our third century of business.

This company holds a special place in the lives of many Australians and we wanted to use this milestone to recognise the contributions of our employees, customers, community partners, and of course shareholders - all of whom have helped make this company great. Over the year, we said thankyou in many different ways. We have captured some of the highlights of these initiatives in this short video, so let's take a look.

As I reflect back on the year, our 200th anniversary has reinforced the things that have helped make this company great – the importance of a strong balance sheet, an open and inclusive culture, a real focus on helping customers and a genuine care for communities. Above all there is a tremendous pride that so many people have in Westpac, and the role your company has played in Australia's development.

This year has also highlighted the importance of our service strategy and that this strategy is the right strategy for the times.

Bringing our vision to life

As we head into our third century, we aspire to set the standard for how a bank should be run in the 21st century.

Our strategy is designed to bring to life our vision ***“To be one of the world's great service companies, helping our customers, communities, and people to prosper and grow”***. I'm pleased to report that we've continued to deliver on this strategy and build momentum across the business.

At its heart, our strategy recognises that we're a service business, not a product business. This means that our core purpose is to help customers achieve what's important to them. For shareholders, this means that we create value by building long-term relationships with customers—supporting them through both the highs and the lows.

We recognise that our industry, like the economy as a whole, is undergoing a period of substantial change. That's why our focus as a management team is on transforming the company—through our 'Service Revolution' program—to make sure we can continue to compete and grow value over the medium-to-long term.

This transformation has a number of elements including:

- Further building our service culture;
- Using technology and data to improve efficiency and make customers' lives easier; and
- Consolidating and modernising our technology platforms to fuel innovation and reduce costs.

While technology is central to this transformation, so too are our people. We believe that by developing a highly-engaged, inclusive culture and sustainable work practices we will attract and retain the best talent in our market.

With this in mind, let me turn now to our 2017 performance.

2017 performance—an overview

At the start of the financial year the executive team and I agreed three over-arching goals for our 200th year:

- First, to deliver a strong financial result;
- Second, to deliver substantial improvements in service quality for our customers; and
- Third, to make material progress on our culture and reputation.

Looking back over the year, I'm pleased with the progress on each of these goals—although we've clearly got more to do.

Financial performance

Our financial performance exceeded the internal earnings target we set at the start of the year. Cash earnings rose 3%, with a 2% increase in operating income, a 2% rise in expenses, and a substantial reduction in impairment charges for bad debts. At the same time, we strengthened our balance sheet, lifting our common equity tier 1 capital ratio above APRA's 'unquestionably strong' benchmark.

Given some of the regulatory headwinds we faced, including the Bank Levy, we consider this to be a good result. It is also important to note that our reported cash earnings did not include the \$279 million pre-tax profit we made on the sale of shares in BT Investment Management.

All our banking divisions performed well, with cash earnings growth of between 4% and 18%. However, earnings from BT, our wealth management and insurance business, were lower, primarily driven by a number of infrequent items, as well as significant regulatory and compliance costs. Underlying growth in funds under administration, insurance premiums, and lending within BT continued to be strong.

While some competitors are exiting their wealth management and insurance businesses, we continue to believe that having a strong business in this area will give us a competitive advantage as Australia's population ages in the years ahead.

Asset quality remained strong during the year, with the ratio of stressed assets to total committed exposures declining 15 basis points to 1.05%. Mortgage delinquencies have also been sound with little change over the year. As expected, we are seeing some difficulties in Western Australia and regional Queensland. Fortunately, recent indicators suggest that the worst may now have passed, especially in WA. There is no evidence of more widespread mortgage stress although we are never complacent when it comes to our lending standards.

Customer performance

The best assessment of whether we are achieving our goal of becoming one of the world's great service companies comes from our customers, and we look at a number of different customer feedback measures to help evaluate performance in this area.

One of the best measures is the Net Promoter Score, which looks at the relationship between customers who are advocates for the bank versus customers who are detractors. I'm pleased to say the Net Promoter Score of our consumer banking business gradually improved over the year, moving from the bottom of our major bank peer group to being ranked first in September 2017. We also led the major banks in Business NPS.

Another measure we track is complaints and the relationship between complaints and compliments over the same period.

This year customer complaints across our Australian operations fell 18% compared to Full Year 2016, continuing a trend that we've seen for the last several years. Compliments received through our branches increased by 19% and now outnumber complaints by a factor of three and a half.

Improving our reputation

Given the attention on bank reputation I thought it was worth outlining the actions we are taking at both an industry and company level.

At an industry level, all the major banks have nearly finished implementing the Australian Bankers' Association six-point action plan announced last year. Westpac is fully committed to this effort and has achieved five of the six major milestones highlighted by independent governance expert, Ian McPhee, in his most recent report.

In addition, we have participated in more than 20 formal reviews by our various regulators and political bodies, covering topics such as financial planning, insurance, superannuation, mortgages, credit cards, and anti-money laundering.

We know the industry has a significant challenge ahead to rebuild its reputation, and we see this as a top priority.

At Westpac, we have a strong culture of supporting customers and acting responsibly and I want you to know that I see examples every day of our employees going above and beyond to serve our customers.

Getting it right and—when we don't—putting it right

Across the bank we are also reviewing our products and services and the way we have engaged with our customers. We call this program 'Get it Right/Put it Right'. The idea is to ensure all of our products and services are aligned to our customers' interests, while making them simpler, fairer, and more transparent. And, where we uncover an issue that we need to put right, we ensure no customer has been disadvantaged from these past practices. This work has already led to a number of important changes and actions. For example we recently announced that a number of customers would be refunded where some benefits of their home loan packages were inadvertently not provided.

On the issue of the Royal Commission, we believe reforms by Government, actions of our regulators and the proactive actions of the industry itself made such an inquiry unnecessary.

However, banks have been a political football for too long. That's why we have now accepted the need for a Royal Commission to create certainty and confidence in our banking system.

We are embracing the Royal Commission as a way to finally draw a line in the sand on calls for inquiries, and as an opportunity to tell our story, including the success of Australia's banking system in navigating the GFC and providing vital support for Australia's robust economy today.

While the inquiry may find issues across the industry, what I hope it will also show, is that in Westpac's case, we are acting to fix past issues as they arise and are continuing to invest in the quality of service that we deliver to customers. That is what will ensure we remain sustainable over the longer term.

Creating a sustainable future

On that note, one of the highlights of 2017 was retaining our position as the most sustainable bank globally in the Dow Jones Sustainability Index. This was the fourth year in a row and 10th time overall that Westpac has achieved that honour.

A commitment to sustainable business practices is a big part of the culture at Westpac. In fact many of our staff have told me that they were attracted to work at Westpac in large part because of these policies.

This year we released an updated *Climate Change Action Plan*, outlining the steps we will take to meet our commitment to helping limit global warming to less than two degrees.

The feedback we received on our new climate policy was overwhelmingly positive. However I know there are some shareholders who don't agree with our approach, and believe our actions have overstepped the mark. Some of you told us banks should stay out of the climate debate and focus on lending. We respectfully disagree, for two reasons. First, environmental risks are increasingly a risk in many transactions and it's important we assess all the risks associated with any lending proposal. Second, we believe it is in the best long-term interest of the economy, and therefore our shareholders, to support a balanced but deliberate transition towards an economy that limits global warming to less than two degrees.

Summary

As you can see, 2017 has been a huge year for the banking industry, and for the Group. Despite the challenges we faced, I'm proud of our team and what we have delivered for you and the future value of your investment in Westpac.

I'll finish by assuring you we enter our third century in great shape, with a clear strategy, growing momentum, and renewed confidence that we are well on the way to building one of the world's great service companies.