# Question and Answer

**Peter Francis King**
*Chief Financial Officer*

Let's start [ Allison ] down the middle of you. Jarrod?

**Jarrod Martin**
*Crédit Suisse AG, Research Division*

Jarrod Martin from Credit Suisse. Thanks for the extra information on expenses, costs and the programs that you've been undertaking. I know you called out a 1% reduction in headline expenses. The other way that we can look at this is to actually back out the remediation and hostings costs as a base point and then look at where you get to the net in place. Your 1% reduction equates to run better with a 1.8% increase on that base. Look, better than your previous sort of 2% to 3% sort of targeted costs increase, what do you think about going further? And as some of those programs benefits sort of drop, when you said that over the next 2 years, that's when the bulk of the costs of benefit will come through, that that 1.8% can actually go lower and get to maybe a flat cost outcome?

**Brian Charles Hartzer**
*MD, CEO & Director*

Well, Jarrod, we certainly are working toward a significant step-down in cost over the medium term. A number of things have come up in the last couple of years with remediation, extra regulatory costs that we didn't anticipate. And we feel like it's really important that we deal to those and not be artificially trying to cut corners. It'll take some time for the systems changes to flow through, but we do expect progress way to get benefits out of those. And what -- that's why I reaffirmed the 40% cost-to-income target is to try to send -- obviously, there's an income side of that as well. But we are absolutely working toward a reduction in cost over the medium term.

**Peter Francis King**
*Chief Financial Officer*

I might -- Jarrod, I'm just say, what we want to do is say that the cost is off the number that we report, so it's the headline number that we're using. And we just made it easy by signs down -- talking down 1%, but excluding any movement in the remediation costs. So that's quite important. The other thing just to reiterate is amortization will add about 1% to cost growth next year. So there's the Hastings down, the amortization up and then everything else that goes on in the cost base as well.

**Peter Francis King**
*Chief Financial Officer*

Jarrod, just pass to Andrew there?

**Andrew Lyons**
*Goldman Sachs Group Inc., Research Division*

Andrew Lyons from Goldman. Just 2 questions if I could. Firstly just on the margin, you've given a bit of guided of what -- you've told us sort of where the exit [ need means ] which is up a bit on the half average. Could you may be just unpack the component just around housing in the competition within your asset spreads? I think that was 2 bps from competition and 1 bps from mix. Can you just say -- give us a bit of a feel for how that looks going forward? And then also just around your contingent liability disclosures, you've spoken to self-reporting some transactions to AUSTRAC. Can you just give us any more data around that please?

**Brian Charles Hartzer**
*MD, CEO & Director*

Sure. Maybe if you do margin, I'll talk about the contingent liabilities.

**Peter Francis King**
*Chief Financial Officer*

Yes. So I think if we look at -- if we're just talking about the mortgage market for say, what we're saying is the majors growing about 4%, regionals and international banks growing around 8% and non-idea is growing around 14%. So in terms of book, right. So it's a very competitive market at the moment. That leads us to view that for the foreseeable future competition is going to continue in the market. So it's hard to argue that that type of change won't be around next year. We're just in a very competitive market at the moment. In relation to the mix point, that really is the basic product. So the basic product was a higher proportion of the flow, that was predominantly the piece that that drove that mix piece.

**Brian Charles Hartzer**
*MD, CEO & Director*

And on the contingent liability. So the AML issue that we talked about is not a suspicious matter reporting issue, like one of our colleague banks dealt with. It relates to something called an FTE which is an inward transaction in Australian dollars to an Australian payee that we process on behalf of correspondent banks. And we're required to disclose those payments to AUSTRAC. We found in going through our checks that there were a couple of banks for whom those files for some reason weren't passed. The composition of those files is pretty low value payments. They relate to things like pensions from foreign governments that are being paid to Australian residents. So we're still working through that with AUSTRAC, but that's what it is.

**Victor German**
*Macquarie Research*

Victor German from Macquarie. Two questions if I may. The first one, Peter, just on capital. There's a few moving parts in capital and I've noticed you've taken some additional, well, increases in risk weighted assets. Just kind of where are we on that journey if there is any more to go? And ANZ talked about the kind of the way they are thinking about capital on the current requirements within sort of risk weighted asset parameters and saying that they are targeting around sort of 10.5, but noticing that they're probably would be slightly above 10.5. Just interested in your observations on that measure as well.

**Peter Francis King**
*Chief Financial Officer*

So we've said we want to be around slightly above 10.5, it's March and September. So that's what we're running to and place that we were there again this half in relation to sort of when do we draw a ball around final capital requirement. So I'm hopeful that's next year, but that obviously depends on APRA and the timing on finalizing. But they've announced the proposals recently on a few things. So I think next year is probably a good target to draw a line and send a box around it and give you clarity.

**Victor German**
*Macquarie Research*

And just secondly on remediation expenses. So you've noticed you increased your mediation expenses slightly relative to what you originally expected. Just interested in sort of where we are on that journey? I noticed both you and Brian talked about as some potential additional remediation going into 2019. Sort of what are the areas that you should be focusing on with respect to remediation?

**Peter Francis King**
*Chief Financial Officer*

Yes, so I think the deal -- the financial planning for salaried, we've -- we feel like we've dealt with. Consumer Bank, we've done the first round of a 3-year review. So I think we've broken the back of it, but like everything, we need to go back and look at it because standards continue to rise, but we were a fair way through that. The one that we highlight in our contingent liabilities is the dealer groups in BT and there's no industry approach to how you deal with that at the moment. That's probably the one that we need to bottom out next year.

**Jonathan Mott**
*UBS Investment Bank, Research Division*

Jon Mott from UBS. Just a quick one. Over the last 6 months, so you've announced a number of measures to tighten up the mortgage underwriting standard. So I just wanted to get a feel, I think last time if you called out the debt-to-income was around 20% flow about 6x debt-to-income. Just wanted to get a feel if you know that number for the September quarter, whether that's changed after the measures that you've put through? And I think there is APRA requirements for board set limits on the amount that you happy to have over 6x debt-to-income. And a second question if I could, I'm happy for George and Lyn to answer this one. But you do say that there's been an increase in the utilization of mortgage warehouse facilities. And following the first comments about the rapid growth in non-bank, non-major bank, non-regional bank mortgage growth, why do you continue to provide these warehouse facilities which effectively is very profitable in the institutional bank that drives competition, a lot of competition in the Consumer Bank and effectively stealing from Peter to pay Paul?

**Unknown Executive**

Maybe. Maybe not on that one. Competition is good. But let me come back to the policy piece. So I would break the mortgage sort of standards into 2 things: policies and then verification. And I think we have adjusted our policies in prior years, so that's the standing credit policies. What's happened this year is effectively an increase in verification. So we've had 13 expense categories, and we're spending more effort, and we have more people reviewing applications. So that's effectively what's happened this year. Interesting thing is, it hasn't seen a reduction in average balances. It's just so -- we're just seeing less people applying for lines, has been the interesting piece. On DTI, I would just caution that there is no agreed industry methodology for DTI at the moment. So things like a bridge finance at the moment were counting both debt -- sorry, a refinance would, we're counting both debt, and when someone's bridging between properties, we're counting both debts. So it's not a particularly useful step. But we haven't -- in relation to your question, we haven't seen it move too much since we've changed it. On the securitization piece, most of the growth in that has actually been non-mortgages as opposed to mortgages. And so that's the important feature. And then if we think about those particular organizations that user -- that will access the RMBS market in some point. We've got a good business, so we will help them.

**Unknown Executive**

As predominantly regional banks, it's not a lot of the other sort of competitors.

**Brian Johnson**

Brian Johnson, CLSA. Just on the margin. The margin ex-treasury in the second half, 195. You said today the exit run rate is 203. That benefits from the mortgage repricing that we saw coming through. I would have thought that you would have done that assuming that the other banks would follow and that didn't. Can we just -- and probably the fact that one of the major banks didn't is why you are all calling out the fact that competition is increasing. Can I just get a feeling about how you feel competition works going forward when we've got one of the major banks with a benchmark rate 15 basis points below the peers? And then the second question is, when I have a look at the operating costs, you're saying that you'll get effectively savings out next year of $95 million, and we can see that the amortization charge will increase. But when we've got a $158 million of Hastings disappearing, that doesn't look all that flash. I'd be interested to hear that the traditional narrative from the banks is when revenue is good, we run the jewels. But when revenue slows down, we can somehow cut costs. That promise doesn't seem to imply that's actually happening. Can I just get clarification of the 1% saving? Is that good enough in this environment?

**Brian Charles Hartzer**
*MD, CEO & Director*

I might talk about the competition aspect and then perhaps you can go through the cost piece, Peter. We certainly see it being a very competitive market. You've referred to one major. But we see plenty of competition from the smaller banks, particularly the international banks and the non-banks as well. If you look at the growth rates in mortgages over the last year, the majors collectively I think grew 4%. I think the non-major banks grew 8% and the non-banks grew about 14%. So a lot of the competition that we're seeing is really outside of the majors. And it is something that we clearly have to manage around, but I wouldn't attribute it necessarily to one particular major bank.

**Peter Francis King**
*Chief Financial Officer*

Brian, on the cost, I'd just make 2 points. One is we've got a balance today and tomorrow and we need to keep investing in our technology infrastructure. So when way balance out what we're trying to achieve and I think Brian's presentations set out well, particularly the technology slide, the things that we need to achieve, we need to keep investing. We can't just not invest for the future. And so when we put it together, we think that level of investment with $400 million productivities is the right outcome for us. Obviously, the result is impacted by that investment or we just think it's the right thing to do in the long-term interest of the company.

**Brian Charles Hartzer**
*MD, CEO & Director*

And I can assure you that the $400 million feels very stretching to the business executives that have to deliver it.

**Brett Le Mesurier**
*Shaw and Partners Limited, Research Division*

Brett Le Mesurier from Shaw and Partners. A question on you LMI exposures. You've got that your claims ratio has fallen down to 11% from 20% 6 months ago and 27% before that as your 90-day past due loans increase. How does that happen?

**Unknown Executive**

Brett, I think the numbers are getting quite small in that business now because it's in run off. So I think it's moving the ratio a bit. I'd just say the experience in LMI is about the same as opposed to what it looks like in there. And I think there was some catch up provisioning last half.

**Peter Francis King**
*Chief Financial Officer*

Got a couple of calls on the phone. One from Brendan Sproules.

**Brendan Sproules**
*Citigroup Inc, Research Division*

I just had a question on the multi brand strategy. Sort of in this result, you can see that the growth particularly in the consumer facing businesses is collectively similar to the other majors, where you're seeing in the market that the non-majors are growing a lot quicker. So I just want to get a sense of how you think the multi-brand strategy will evolve, particularly given that you're integrating products and IT systems?

**Unknown Executive**

Well, Brendan, I think multi-brand remains a really important way for us to acquire new customers and gives us more flexibility in managing our margin in key product categories as well. And we've been really quite pleased with how the different brands are going in their respective markets. If you look underneath the results, we've probably seen a slowdown on the Westpac first party origination this year largely as a result of all the extra effort put into some of the verification work that has frankly distracted people a bit, made the processes a bit longer. We expect to address that this year. So you've got moving parts in it. But I think the important point for the multi-brands is that we don't think product differentiation is really the thing that drives growth. It's about the brand experience. The way we market the segments we go after and we think it's a really important part of our ability to continue to grow the customer base.

**Peter Francis King**

*Chief Financial Officer*

We'll take a call from T.S. Lim, please.

**T.S. Lim**

Just your thoughts on cross-selling. I believe this was very similar to Wells Fargo's approach. Do you think cross-selling is still relevant in this day and age?

**Unknown Executive**

Well, the way that we think about this is we're trying to build deep relationships with customers over time. That's not about flogging products to people that they don't want. But our view is that as people become more comfortable and attracted to using digital channels to manage their money, the incentive to consolidate your business in one place to give you the added convenience of being able to see your position and move money around among your different positions, and in our case, that's both your banking and your wealth given the integration of Panorama into our online channel. We think that's going to be a great advantage over the medium term. And so I think I would beg to differ with the connection to Wells Fargo in the sense that we're not running a sales oriented organization. It's paying people to sell a certain number of widgets. We're awarding people for having deep conversations with customers and building convenient platform, so that customers start to see the benefit of bringing their business together.

**Andrew Triggs**
*JP Morgan Chase & Co, Research Division*

Andrew Triggs from JP Morgan. Just a question. It's called out to strengthen in both the WIB margin and also the resilience in the New Zealand margin. Could you perhaps give a few comments on what you're saying in those divisions? And also the WIB margin strength, so what element that was asset spreads versus liability management?

**Peter Francis King**
*Chief Financial Officer*

Yes, I mean the WIB team did a great job in all aspects. So if you look at lending spreads, I think they were a little bit high, deposit spreads a little high. And then the government franchise has done well and generate a lot of deposits. So they had less reliance on wholesale funding, in fact provided cash back to the group. So that was a broad based just good management of margin. In New Zealand, it's been around getting the growth return mix right, I think. So probably a little bit less growth, a good sort of -- a good margin outcome in New Zealand, so both of those did well.

**Brian Charles Hartzer**
*MD, CEO & Director*

Just a pile on that one a little bit. I think and we've all seen the film before where you can run up revenue pretty quickly by growing your balance sheet at very thin margins. But then, the cross-sell doesn't eventuate, the credit losses appear and the way you go again. And as Peter said, Lyn and her team have really crossed that line of say "no, we're going to run this business in a disciplined way. We're going to back our relationship customers who stick with us overtime. We'll give them good facilities. We'll give them good pricing", but there's got to be a relationship there. And that means from time to time, we've -- we walk away from transactions that others don't.

**Richard E. Wiles**
*Morgan Stanley, Research Division*

Rich Wiles, Morgan Stanley. Just like to ask you a question about the revenues in the wealth business. If you take out the customer refunds last year in Hastings issue, wealth revenues were pretty flat. So how confident are you that wealth can drive stronger revenue growth and you call banking businesses particularly given that you've got the heat coming from the grandfathering and from the right pricing in Panorama?

**Brian Charles Hartzer**
*MD, CEO & Director*

I might have a go. I mean, so Richard, if you unpack the wealth business is that we often talk about wealth as one thing. But I think it's actually quite important to unpack it. If you think about private wealth, that business is going really well. It's a core business. We've got a great position in it. It's growing really strongly. We're really happy with it. Think about the platforms, we've done a repricing but the volume is growing there. The appeal of the new BT open. Offering is really strong. The inbound interest has been fantastic. And we would expect that to start to convert into volume. There's a simple tradeoff that we've made about incremental volume versus the margin compression on the pricing of that. That'll take some time to flow through, but we feel good about that. On the insurance side, we've had good growth as well in written premiums. We've got a good insurance business and a lot of the -- our view over the long term is that a lot of the opportunities for insurance happen in a time when you're doing something in your banking. So if we can manage that relationship and increasingly do it through digital, we think that's a really important opportunity for us and a point of difference. So really where you come back to is for us is the challenge on financial advice. And obviously, we've had a lot of remediation claims around that. And as I said in my remarks, we're still working through how to make that work.

**Richard E. Wiles**
*Morgan Stanley, Research Division*

So does that mean you are confident that you can grow revenue faster in wealth and in core banking or not?

**Brian Charles Hartzer**
*MD, CEO & Director*

Well, we think overtime, we still have some adjustment to work through, but we think that the fundamentals in terms of the retiring population, the demand for customers for retirement solutions and insurance is attractive.

**Peter Francis King**
*Chief Financial Officer*

We'll take a call from Azib on the phone.

**Azib Khan**

Andrew, well, you've given some -- you've made it pretty clear where your targets are on structural cost reduction. But if I just focus on the investment spend component excluding regulation, obviously that was about $1.1 billion for the full year. How do you see that component changing over the next 3 years? Do you see any step change in that up or down?

**Peter Francis King**
*Chief Financial Officer*

I think given where we are in the regulatory cycle, it's -- that's the area that can come down over time, but it's not going to come down in the next couple of years. It's probably the biggest swing factor. If it did come down, then we'd certainly look at opportunities in the coal franchise. So I think we'll be at that level or similar level for a little while yet.

**Azib Khan**

I was thinking about it excluding the regulations or the investment spend component excluding regulation. So independent of the regulatory environment, how do you see that moving?

**Peter Francis King**
*Chief Financial Officer*

It would be pretty similar.

**Brian Charles Hartzer**
*MD, CEO & Director*

Yes, there's -- we always consider each year the affordability of it relative to what our revenue outlook is and the discussion that we go through, and this is a dynamic that we manage through the year. There's a lot of things we'd like to do to drive incremental efficiency and revenue growth in our different businesses and we're constantly managing the capacity of investment with those things, so there's bunch of things we could do that we're not doing at the moment because of affordability. If the regulatory spend would have drop-off, in a short term, we probably replace that with some things we'd like to do from a -- to drive more efficiency in revenue.

**David Ellis**
*Morningstar Inc., Research Division*

David Ellis from Morningstar. Brian, I've got a question about the bank's dominant market position. Obviously, the last 9 to 12 months couldn't have been any worse for Westpac and major bank peers as far as publicity, brain damage, Royal Commission, political and media scrutiny and the breakdown in customer trust in the major banks. Yet Westpac increased the Australian net customer numbers by 250,000 in the 6 months to the end of September and Commonwealth Bank had shown something similar for the 6 months at the end of June. Could you comment on your bank's market position and its franchise? And why is the bank growing customer numbers relatively strongly when there is this apparent complete breakdown in consumer trust in the major banks?

**Brian Charles Hartzer**
*MD, CEO & Director*

Well, I think what that reflects is that there are 2 slightly separate issues. So of course, there has been a significant issue in the public consciousness about trust in banks and there's been a big impact on reputation and the measured trust as we see in the surveys. At a grassroots level though, we still have very strong brands. We have great people. There's good strong marketing. And in fact, it might surprise you but the actual service quality experience that people are getting has continued to improve. The level of innovations being delivered to the market has improved, and so we're continuing to run our business. A lot of the issues that have affected trust have been about some very emotive terrible stories of incidents that have happened to individual customers. And they're very regrettable and there's a lot that we need to learn from those experiences. But they aren't representative of the experience that the mass of customers are having. That might be an unpopular thing to say, but it's true. So we're working really hard to address the things that have gone wrong, to put things right for the customers affected, to change things so that those sort of things don't happen again. But we're equally continuing to work on running our core franchise across our brands in ways that deliver good and improved service for customers, and I think the growth in customer numbers reflects that.

**Anthony Hoo**
*Deutsche Bank AG, Research Division*

Anthony Hoo at Deutsche Bank. Just a question on mortgage delinquencies. You've had a few periods now of elevated switching from interest only to P&I. Just wondering if you could talk a bit more about the trends, among those switch in terms of -- from a delinquency point of view overtime. Presumably there's an issue spike, but what have you seen in the period since then? And then how much it will impact this has had on your portfolio delinquency rate?

**Brian Charles Hartzer**
*MD, CEO & Director*

They're probably a little bit higher than what we've seen in the broad portfolio. But at the overall portfolio, they are quite small. So we have got slightly high levels in those sort of switching but not big enough to move the overall ratios in any significant way.

**Anthony Hoo**
*Deutsche Bank AG, Research Division*

Yes. But overtime, has it kind of -- after the spike, does it settle back to normal levels or does it remain high and can you sort of...

**Brian Charles Hartzer**
*MD, CEO & Director*

I mean we're 18 months into it. So it's probably a bit early to draw a final conclusion. But at this point, we haven't seen a significant increase in the group's delinquency ratio because of the switching.

**Andrew Bowden**
*Head of Investor Relations*
All right. With that, I'm going to call things for close. Thanks very much and good morning.