Question and Answer

Andrew Bowden
Head of Investor Relations

I might start with Jon there, Helen [ph]. Thanks very much.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. Obviously, a lot of detail on the productivity initiatives and targets and changes going forward, but when you step back and you look at the cost targets you're actually trying to achieve, we've heard there's going to be under-line or -- sorry, below-the-line restructuring provision put forward at the end of this half and probably next year as well. So some of that, we're not even going to see through the P&L. And then when we get to the next few years, 2% to 3% cost growth is really in line with underlying inflation. It's -- doesn't really sound like it's a very ambitious target. Should you be going harder on costs? And do you think you should be doing better than 2% to 3% cost over the next few years?

Brian Charles Hartzer
MD, Group CEO & Director

Well, my overarching comment, and then, Peter, you might like to [indiscernible], is that we're trying to balance up this need to be committed to transforming the company and spending money to do that while at the same time delivering results that show that we're managing the company well. We could not invest. We could go a lot harder on expenses, but I don't think that'll be the right thing for long-term value. Peter, do you want to...

Peter Francis King
Chief Financial Officer

Just the -- on the productivity, we're focused on a 20% uplift in what we've delivered. We see opportunities there. And it's real cost saves in terms of those $270 million. So it is an uplift in that program.

Jonathan Mott
UBS Investment Bank, Research Division

And can you comment on what you're going to put below the line? Because we've seen over the last 10, 15, 20 years lots of banks put below-the-line restructuring provisions and write a whole bunch of stuff off and then have really good costs for a few years. And then a few years after the project finishes, the cost has blown out again. So what are we actually going to see below the line as part of the write-off for this half?

Peter Francis King
Chief Financial Officer

Well, I think, so first thing is we'll be consistent on how we've done in the past, so you'll see positives and negatives below the line. In relation to the software processes, what we're actually doing is going through and looking project by project on what the impact of the new strategy is, as well as our expectation for useful life on assets. And we'll have that work completed by the time we get to our, results. So as soon as we do it, we'll be very clear. And then on the restructuring charges, they're just larger than normal. So this is larger than our normal run rate. And it did -- and normally, what we do under our cash earnings policy is larger items we wouldn't count in cash earnings. So -- but again, we'll give you more detail when we've actually fleshed out those details.

Brian Charles Hartzer
MD, Group CEO & Director

I think it's worth just saying, as a bit of credibility, Peter, you might want to comment on our amortization policy in that we're not a bank that's trying to play a lot of games with our P&L, and we're not about to start.

Peter Francis King
Chief Financial Officer

Yes. And to that extent, the amortization policy or the effect of that policy is we amortize out our capitalized software, the fastest amongst the industry. So I think we've been quite disciplined over time in terms of what we do.

Andrew Bowden
Head of Investor Relations

Craig?

Craig Anthony Williams
Citigroup Inc, Research Division

Craig Williams from Citi. I promise I'll get to a question eventually, but you've talked about driving CTI lower. Today, that ratio sits above the level of 2008, 2009. As you've identified in your slides when St.George was acquired, but you also talked about CapEx being, say, 10% or so higher than your historic rate moving forward, which suggests you ought to drive revenue harder. When I look at your MFI share, you sort of appear to be losing customers across all age demographics in retail banking. And the clearest area of banking where you've probably grown share in the past 5 years or so is investor mortgages, which is perhaps challenging to grow sharing given the constructs of what APRA has put in place there. So the question is, in chasing revenue, is Westpac challenged by its history? It just seems -- seen it acquire multiple regional banking franchises, Challenge, Bank of Melbourne, St.George, Advance, BankSA, to the point where the group's ability to establish the most valuable main bank relationships and therefore revenue is actually more difficult. And if so, how do you deal with this unique construct of customers that the group now has amalgamated?

Brian Charles Hartzer
MD, Group CEO & Director

Well, I guess what I'd say, Craig, is that I think we're actually doing quite well in customer acquisition. I agree with you. The MFI numbers are not what I'd like. And that's a huge focus. And I alluded to the growth in some of the high-growth transaction segments when I was talking about the growth areas. I continue to think that the regional brand strategy is a tremendous asset for us and gives us an ability to go after more customers. The thing that's -- we're starting to see flow through, and you won't have seen it yet in the results, is the use of data to deepen relationships and manage the onboarding process. So we've actually been doing quite a good job of bringing new customers on board. In fact, across all of our Australian businesses, we now have more than 10 million customers in the group. So that's actually, from our standpoint, we're doing quite well. What we haven't yet nailed is the ability to convert those new customers to a full relationship. And that's a particular area of focus; one of the things that our new Chief Customer Officer, Tom Boyles, has at the top of his priority list. So I certainly don't see any obstruction of us doing it, but I agree we need to do it better.

Andrew Bowden
Head of Investor Relations

Next, Jarrod?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. Peter, can I get some confirmation that the expense growth target of 2% to 3% per annum is excluding any changes that come about from the capitalized software review? Because there is a beautiful part of financial mathematics here that you can write-off capitalized software which doesn't impact your capital position, but going forward, it lowers your amortization expense. And so by writing off a fair amount of capitalized software, all of a sudden, you actually -- your expense growth rate in the future is a lot lower. So therefore, any changes that are going to come out of this review, are they included or excluded from the 2% to 3% per annum target?

Peter Francis King
Chief Financial Officer

Yes, well, we're increasing our investment spend from the $1.1 billion to the $1.3 billion. And what I've factored in is some uplift in the overall expense of amortization and expensing upfront, so it's not just the amortization changes. It's also what we're doing in P&L. So I can't give you a crisper answer than to say that the increase in investment will cease over time an increase in the impact on the P&L. So there's 2 moving parts there, Jarrod. It's the amortization review and the fact that we're going to change some of the way that we expense the cash to be more upfront that are going to happen. And I'll give you the details once I've got them.

Jarrod Martin
Crédit Suisse AG, Research Division

So the -- in some form, the review is already factored into your target of 2% to 3%.

Peter Francis King
Chief Financial Officer

Yes.

Jarrod Martin
Crédit Suisse AG, Research Division

So you could, for example, impair $400 million, $500 million of capitalized software, which lowers your expense growth rate of around 1% to 1.5% per annum, and it's without anything being done.

Peter Francis King
Chief Financial Officer

There's other moving factors in. There's the software review, and then there's the review of what we're going to expense upfront. They're working against each other.

Andrew Bowden
Head of Investor Relations

Yes, Victor?

Victor German
Commonwealth Bank of Australia, Research Division

Just a question on ROE and capital. I thought...

Unknown Executive

Victor, where are you? Oh, here you go.

Victor German
Commonwealth Bank of Australia, Research Division

Just out here. In terms of obviously quite an ambitious target, particularly given that capital environment is kind of moving and we're still not sure where exactly that's going to end up. Just interesting, your observations, Brian, in terms of how you're planning to approach. Obviously, there are some businesses in your portfolio which are not generating a 15% return. Are you planning to, as one of your peers says, starve them of capital going forward? Or just some observations on that would be of interest. And also, sort of similar point, on Peter's Slide 29, when you say, Peter, stepping up capital management disciplines across divisions, what exactly does that mean?

Brian Charles Hartzer
MD, Group CEO & Director

Well, actually, those -- the answer to both those questions are related. So the first thing I would say is actually all of our businesses as a whole are delivering return on equity above 15%, so we don't actually have that issue. What we do have within businesses, there are, of course, segments or customer relationships that might be below that. And so what we're having to do is, in some of the businesses that are closer to that line, be more nuanced in how we manage that capital efficiently. And that may, at the margin, mean that we limit the amount of capital we want to put into a particular sub-hurdle-rate deal, for example, unless we're really confident that we're going to get offsetting fee revenue or the like. But it's really up to each business to think about how they manage their capital to deliver that overall return.

Peter Francis King
Chief Financial Officer

And then as an example, on business units, mortgage risk weights have changed. Rather than waiting for 1st of July, we'll effectively give the mortgage business that capital straightaway and so that they're thinking about what they can do on it. So there's levers on -- so there's all kinds of levers that they have on limits, on unused facilities, how we use LMI, mix, granularity. It really, really helps people to get their mind around what they need to do and get granular on the response.

Victor German
Commonwealth Bank of Australia, Research Division

So these issues are more aligned to just the way you approach capital, as opposed to you seeing a path to actually optimize your capital position and therefore improve your capital position on the back of these initiatives.

Brian Charles Hartzer
MD, Group CEO & Director

So what I'd probably say, Victor, is that we've always been focused on return on equity, and we use economic profitability internally as a key measure. We've had the luxury, if I can put it that way, that all of our businesses have tended to be well north of the hurdle so the constraint hasn't bitten quite as much. I suppose the what -- the way I think about it now is we're getting closer to the constraint, and therefore it's appropriate that we get more nuanced in how we do that.

Peter Francis King
Chief Financial Officer

Yes.

Andrew Bowden
Head of Investor Relations

We'll take a question from the phone, from Matthew Wilson [ph].

Unknown Attendee

You highlight increased products per customer as a key measure of success in service leadership. Wells Fargo, the gold standard of bank service, is currently running at 6-plus products per customer, and they attribute much of this success to branch density having more, not less, branches as they continue to open branches. Could you reconcile their approach to Westpac planning to have less branches in the future given Wells' clear success? And could we have your starting point today in terms of products per customer?

Brian Charles Hartzer
MD, Group CEO & Director

Yes, so a couple of things on Wells. First of all, it's a bit overly really simplistic to describe Wells' success on products per customer as being about the number of branches they have. It's their approach is a lot more nuanced than that. And I suppose that the way that I would think about reconciling it, though, is it comes back to something I said earlier, which is that people don't go to branches because they like branches. People go to branches because they have people in them. And having a strong coverage of the market in terms of human beings that can talk to customers and build relationships is critical to both growing your customer base and building depth. So what Wells has been saying in terms of branch numbers is really about coverage. And by the way, if you read Wells' statement of purpose, it's quite similar to ours in terms of the focus on service. So the way that I think about this is we're going local market by local market and saying what sales capacity do we need in that market across each of our brands to maximize or optimize the value that we're able to generate in terms of customer relationships and depth of relationship. And then we look at the traffic patterns and location and decide where do we want to be, how many locations do we need for each brand. And so what that's meaning is, in some places, in some local markets, we're reducing the number of branches we have and moving them to locations that are better located to where the traffic patterns have moved. In other locations, we're opening branches because we see that we're underpenetrated. So we've actually got ups and downs on all that. So I suppose I'd say, philosophically, it's not actually that different. I'm completely aligned with Wells' view that people are really important. I suppose, over time, we certainly do see that digital can become a strong acquisition channel, but it's why we don't want to be so kind of sledgehammered about this notion of just numbers of branches. It's really market by market. In terms of products per customer, it's very difficult to compare across banks. In the way we measure it, we're north of 3 products per customer. I happen to know that Wells' definition of products isn't exactly equivalent to our definition of products, but there's no questions they've shown that we can do a lot better. And they're one of the people we look to emulate.

Unknown Attendee

Just one other question, if I can, on IT. I'm surprised, with all the digital rhetoric today, blockchain not been mentioned once despite it being potentially one of the most significant opportunities or threats in financial services. Could you articulate your perspective on blockchain as to how it will impact products, operations and service ultimately?

Brian Charles Hartzer
MD, Group CEO & Director

I'll give a short answer. That could be a very long conversation, Matthew [ph]. What I'd say is that the development of the blockchain is certainly a very interesting and potentially disruptive impact on financial services. Nobody really knows yet where it's going to go to. There are a number of limitations and challenges with it. We're staying close to the idea. We've invested through Reinventure in a company called Coinbase, which is one of the leaders in bitcoin technology around the world. We're also doing some experimentation through our global transaction business with a company called Ripple that's using blockchain to explore international payments. So we're looking at it. We're experimenting with it. I think it's a bit too soon to panic about it. It's potentially quite powerful from an efficiency point of view, but it's one of the sorts of things we're keeping an eye on.

Andrew Bowden
Head of Investor Relations

Richard?

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles, Morgan Stanley. I'd just like to get a better understanding of how you came up with some of the performance targets. You've talked about a 40% cost-to-income ratio by 2018. You've talked about 2% to 3% cost growth. That implies revenue growth of something like 4%, 4.5% per annum. At the same time, you've talked about 1 million extra customers, so that's growing your customer base by 10%. You talked about more products per customers. So I suspect that means you grow above system and you win share. You get revenue growth that is above the system growth rates. That seems pretty modest to come up with 4%, 4.5% revenue growth, so my question is, are you undercooking the cost-to-income target? Or is it -- are you telling us there's huge revenue headwinds for the sector?

Brian Charles Hartzer
MD, Group CEO & Director

Peter, do you want to get that?

Peter Francis King
Chief Financial Officer

Yes. Well, Richard, as you've highlighted, there's always lots of moving factors. And I think what we've said today is we want our cost-to-income below 40% by 2018. And we've been clear on the -- how we're managing the costs in terms of the 2% to 3%, and therefore the speed really depends on the revenue. We think we've got lots of opportunities to grow revenue both in all sectors of the business in banking, in wealth; and as I started, with margin management as a key part of that. So that's probably as much as I'd like to be specific in terms of that question.

Brian Charles Hartzer
MD, Group CEO & Director

And what I would add to it is that, when we talk at a group level, it's challenging because you actually have to think about the individual businesses. And each business has its own opportunities and its own challenges. You've got margin challenges in some businesses. You've got margin challenges in the institutional side, but there's also opportunity for more cross-selling with the business bank. On the consumer side, we've got a few pockets in regional areas, in customer segments that we think we can grow in by putting more resources into concentrating on and doing a better job of converting those customers across. On the business side, we see this as a share-of-wallet opportunity, more than anything. So it depends. It's really -- in the end, we add up these components, and that's where we get to, but you certainly can -- my goal is that every one of our businesses needs to have a return on tangible equity that's leading the sector. And all businesses over time should be outperforming their peers, but at a group level, there are ups and downs that we have to cope with.

Andrew Bowden
Head of Investor Relations

Brian?

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. Congratulations. This is the first of these briefings where I haven't heard "branch of the future" mentioned, which is a major shortcoming in the presentation. In fact, you haven't said that. I have 3 questions, if I may. On Slide 29...

Andrew Bowden
Head of Investor Relations

Maybe just a couple, Brian.

Brian D. Johnson
CLSA Limited, Research Division

Yes, okay. They're quick, yes or no. On Slide 29, you say the write-back gains are diminishing. Does that imply that we'll see a loan loss charge in each of the divisions?

Peter Francis King
Chief Financial Officer

Well, impairments, I think there's nothing to add from what I said at the half. So credit quality continues to improve. The mining and mining-related sectors are the ones that are -- we're seeing a little bit of a challenge. And then the write-backs will come to an end. We'll give you the details in terms of divisions at the full year results, but they're the 3 things that we highlighted at the half. And I think they're the ones that have...

Brian D. Johnson
CLSA Limited, Research Division

And the mining one sit in Lyn's in business. Is that correct?

Peter Francis King
Chief Financial Officer

No. It's not only the Institutional Bank, but there are some business banking customers that have been supporting other mining towns or mining-related activities, not a lot but there are.

Brian D. Johnson
CLSA Limited, Research Division

The second one is, when we have a look at Westpac, the economic profit that you've referred to today, there's a big hunk of capital that historically has not actually been allocated to the operating divisions. Would we expect to see that fully allocated now out to the divisions when you're talking about this 15% ROE?

Peter Francis King
Chief Financial Officer

Yes, what we hold in the group on capital is Treasury, and we also hold the revenue for Treasury in that group business unit. We hold capital for the mixed business. And we're allocating out the tangible equity, so we also hold goodwill in the group. And that, we think, gives a reflection of cash generation into the future, but we also do internally look at ROE as well as our return on tangible equity when we're thinking about those businesses.

Brian D. Johnson
CLSA Limited, Research Division

So is that centrally allocated figure going down then?

Peter Francis King
Chief Financial Officer

It will -- the intangibles piece will amortize down over time, the goodwill one. It'll stay. And the Treasury piece depends on the risk that's been in running Treasury.

Brian D. Johnson
CLSA Limited, Research Division

Okay. And one final one: Dave, you've done one of these core replatforming before, but what you've shown us today, and it's not inconsistent with what you said at Westpac, is radically different than what's -- what your experience has been done before. Could you just talk to us about what drives basically this very different approach?

David Curran
Former Chief Information Officer

Yes. Thanks, Brian. And so it's like -- it's I hopefully came across a -- it's not a core replatforming in the sense of what historically that look like. It's very different. Westpac has a very different strategy in terms of other organizations. The technology available allows you to actually work from the middle up rather from the bottom up, and that's come across very much on what we're planning to do. That doesn't mean to say, over time, we will not address core or product systems piece by piece, but there'll be an individual case-by-case basis with the business case. To your point as well, though, I think the other key point is that -- on this one is execution, how you deliver. And Brian made it clear in his presentation we're setting the organization up to be successful on delivering the strategy. We're augmenting the team to do it, so I keep coming down on that as the main point. Technology allows us to do it differently and then nailing the h*** out of the execution.

Brian Charles Hartzer
MD, Group CEO & Director

If I can just answer it. The way that I would think about this, if you're not so that technical, is that, in the old days, systems were quite vertical. The front-end systems and the back-end systems were all heavily connected. Now things are a lot more modular. They use -- Dave referred to this notion of a services-oriented architecture. You have discrete systems that talk to other discrete systems. It's much more of a building block approach, and that gives us more flexibility in the way that we tackle this issue that, 10 years ago, we wouldn't have been able to do.

David Curran
Former Chief Information Officer

As the CIO, how good is it when your boss gets those concepts better than you do? It's fantastic.

Andrew Bowden
Head of Investor Relations

Scott? Thanks.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. Just referring to Slide 17, where you do talk through your architecture. St.George merger announced 6 or 7 years ago, then we had the SIPs program, but here on the slide, we've still got a whole bunch of boxes with Westpac, St.George and BT on them. And the next steps, we've still got longer-term consolidation opportunities. Why hasn't this been done sooner? And what else have you been doing for the last 6 years that have preceded doing this?

Brian Charles Hartzer
MD, Group CEO & Director

Well, I think I'd start with it really just go back to the way I talked about it in my presentation, which was that the priority out of the merger was retaining customers and sustaining the market position and not upsetting things. And so that's where that effort went. In the last couple of years, our priority has been about the front-end systems that customers deal with, so we felt Internet banking, mobile banking was we're we needed to focus. That's gone really well. Now we've got the opportunity to use the data to build this customer hub that Dave talked about. And so the role of those back-end systems is diminishing in terms of how, if you like, strategically important they are because the intelligence in the system is moving to the middle and moving to the front. And those core systems become more about where you store balances and move money around, less about the experience that customers have. So having taken a look at where we are -- and I should also add a lot of work went into stabilizing infrastructure and building resilience and so forth. So I think it's been a natural choice of priorities based on the challenges that we face and what the technology was able to do. And we sit here today being very clear on what the challenges are for us as an industry and as a bank and with a new set of technologies that allows us to tackle the problem in a different way.

David Curran
Former Chief Information Officer

And I would add, if I could, as well. When we do that slide, there's only so much you can put on one slide with the room you're in that we didn't put up there all the other stuff we have done. So there's a lot of work in it. I mean we're down to 2 data centers. And in Institutional Bank, we've consolidated that down to single solution. In our support functions, we're now in a single set of solution across that environment as well. Our credit card systems are down to one. There's been an enormous amount of work done in the background creating that foundation. We didn't put that on the slide because it's already done, tick. What else can we do moving forward?

Brian Charles Hartzer
MD, Group CEO & Director

Sorry, one last thing I would say is the way I would think about those back-end systems is they are absolutely an opportunity for us in that we will, over time, consolidate them. We will save money. We will reduce the ongoing cost of change. We're looking forward to doing that, but it's not on the critical path for what we need to do to make things better for customers and staff. And therefore, it's not our most urgent priority.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

And then sorry, secondly, just on the uplift from the $1 billion to the $1.3 billion. Part of the previous record has been there's only -- you can only bite off -- you don't want to bite off more than you can chew. You've got a certain number of projects that you're going to execute. That's a lot of money to spend. You got to keep track of it. How are you confident that you can actually absorb that extra 20% uplift in the costs and actually stay on top of it?

Brian Charles Hartzer
MD, Group CEO & Director

I'll make one comment, and then you guys add to this. So part of it is something that Peter said, which is about the way we manage change. So I've made strategic change about 1/4 of the accountability for each of the executives in the team, and we've changed the operating rhythm of how we run the group executive to spend a lot more time on managing that program of work. We've got some other work we've been doing about the way we run projects to make sure that we can manage all of this. So we -- so part of the answer is we're changing the way we run change to give us more capacity to do that. And given our priorities, that's appropriate right now. You guys might want to think about how we run the projects themselves and how we think we can cope with it and what we spend the money on.

David Curran
Former Chief Information Officer

Yes, I'll add a couple of comments, if I could, that large parts of the portfolio is in banks and projects work within areas of the bank. And I talk in the team, within the verticals of the organization, when you start doing strategic change, you have to do things horizontally as well. We've had to create that capability this time. John Arthur and his team is creating a capability we're calling Westpac Next, which is the governance and framing for how we're going to deliver those. In the last year as we've set up this program which we're now delivering on, we've ensured we brought in capabilities in terms of people, in terms of resources but also tools and methods to how they deliver against that. That's been in place now for a period of time, so we're already seeing benefit from that. The other thing I didn't call out in my presentation was, when I said 3 to 4 years to deliver Customer Service Hub, that doesn't mean to say we will deliver it in 3 to 4 years. We've been working through a discipline of 90-day drops for quite some period of time, where we're putting out capabilities every 90 days, and this program will equally work within that discipline. And that discipline and that focus and that structure is what we're seeing as how we can step that up with confidence.

Andrew Bowden
Head of Investor Relations

Okay, with that, I think we'll go -- I didn't see a hand at the back, so a couple more questions. Then we'll...

Brett Le Mesurier
Asia Pacific Prudential Securities Pty Ltd., Research Division

Sorry, Andrew. Brett Le Mesurier from APP Securities. Brian, all the things you talked about have been about increasing the ROE. And it was 15.8% at the last results, so why did you decide to give yourself wiggle room for an ROE target of above 15% rather than one of 16%?

Brian Charles Hartzer
MD, Group CEO & Director

Well, we want to keep the target up above there, and -- but we're also realistic that capital levels are rising and there may be some leads and lags in how we can all manage that. But certainly, the goal would be to keep the target well above 15%. And it just may be a matter of time as to how we solve for that.

Andrew Hill
BofA Merrill Lynch, Research Division

Andrew Hill from Merrill Lynch. Could you just clarify whether you've made any assumptions about industry-wide mortgage repricing as part of that 15% target? Or have you excluded anything related to repricing in that target?

Brian Charles Hartzer
MD, Group CEO & Director

Well, the short answer is we don't know exactly how that's going to play out. It's a competitive market. While we have seen a caution in recent times is that as -- it's become clear what the RWAs were going to be that we have seen some movement in pricing in the market. We'll have to see how it goes, but certainly, more capital generally means we need to earn a return on that, that there are a variety of ways that we can do that. Peter, would you add anything to that?

Peter Francis King
Chief Financial Officer

[indiscernible]

Andrew Bowden
Head of Investor Relations

Okay, so with that, I'd to call the session to a close. Good afternoon, everyone. And thanks for coming.

Brian Charles Hartzer
MD, Group CEO & Director
Thank you.