Question and Answer

Andrew Bowden
Head of Investor Relations

Thank you. Let me start with Jon here.

Jonathan Mott
UBS Investment Bank, Research Division

Jon Mott from UBS. Just a question on the dividend policy. In the past, there's been a progressive $0.02 per share for some period of time. Now, obviously, it's moved back to $0.01. There's been some comments about a payout ratio. I think Phil Coffey made those comments last week. Should we now be thinking about the dividend is more of a payout ratio strategy around that 75% mark? Or would you like to maintain a sort of consistent growth in the dividend?

Brian Charles Hartzer
MD, Group CEO & Director

Jon, we know that the dividend is really important to our shareholders, particularly about half of our retail shareholders are -- half of our shareholders are retail, and so dividend is really important. We look at this every 6 months, and we balance up trying to have a sustainable payout ratio with understanding where our earnings are, with understanding where we are in the cycle through the year with what we know about regulatory capital and with the franking balance as well. And so taking all that into account, we thought that $0.01, as a board, was the right answer at this time. In 6 months time, we'll look at that again. Certainly, the payout ratio is one of the things that we think about.

Jonathan Mott
UBS Investment Bank, Research Division

So no real change in strategy yet, it was just the decision for this half.

Brian Charles Hartzer
MD, Group CEO & Director

That was the decision for this half.

Andrew Bowden
Head of Investor Relations

Mike?

Michael Wiblin
Macquarie Research

Michael Wiblin from Macquarie. Just a question on investor lending. In terms of the growth number, it does appear to be a bit different from the APRA statistics. Can you talk a little bit about what else is in there? And also Pete, you mentioned the non-resident book. I mean how big is that and how fast is it growing? And if you've mentioned it clearly, it must be material in terms of you getting underneath that 10%? And thirdly, was there any speed ticket involved in the sort of the shift in the -- I had to ask that question -- because of the a shift in the capital ratio? Because I thought the range was coming at more 8.5% to 9% across the sector outside of NAV, but it seemed to have shifted up a bit.

Brian Charles Hartzer
MD, Group CEO & Director

So Mike, why don't I start with just the overall view on investment property lending. We're very comfortable with where we sit, as Peter said. It's been a strength for us as a group. It's something where we perform well in. Having said that, we recognize that APRA has been concerned about the rate of growth; and so as Peter said, we're treating the 10% growth limit as a hard target. We've already made some changes in our underwriting criteria and few other adjustments that we feel comfortable will get us down to that level. But there's a flow effect to that as well because you obviously write new business, and that takes a while to book. But we feel comfortable with where we're going on that. And Peter, you might want to address the other question?

Peter Francis King
Chief Financial Officer

Just on IPO growth. The APRA measure is slightly different to what you see, so it captures self-managed super fund and nonresident lending. In relation to a comment on nonresidential lending are reflecting both the government changes and also some tightening of our risk appetite. So nothing -- I'm not flagging anything particular in that book. On the speeding ticket, we're waiting. So we haven't got clarity on what that might look like, but given we're taking action we think we were down below that 10%.

Michael Wiblin
Macquarie Research

But the capital chart, the capital range as it is today doesn't include the speeding ticket?

Peter Francis King
Chief Financial Officer

The capital range hasn't changed from what we said last time.

Andrew Bowden
Head of Investor Relations

Andrew?

Andrew Lyons
Goldman Sachs Group Inc., Research Division

Andrew Lyons from Goldman Sachs. Just a question, Brian, on your ROE which was at 15.8% for the half. If you adjusted the FVA and the DRP capital raise, that's a bit of a headwind so that gets you into low 15s on the ROE. And against this, bad debts are at or close to cyclical lows, and you can see banks are likely to need more capital boost where they are at the moment. Just in light of reiterating the 15% line in the sand on ROE, can you maybe just talk about some of the levers that you think you have on revenue and expenses that can offset these pressures that do exist?

Brian Charles Hartzer
MD, Group CEO & Director

I think ROE is really important. It's a clear driver of value and it's something that we're extremely focused on. I think if you look at the 15.8%, as Peter pointed out, and you add back those adjustments that we've made, we're well above 16%. So there's a fair cushion there. I think what I would say is that what we will have to be in this environment is more nuanced in the way that we allocate capital and manage our ROE. We look at it a portfolio basis and look at it within each of our businesses. What we're doing with the changes we're making is getting ahead of where we think capital is going and giving our businesses, as part of their strategy planning, a sense of what they're going to have to achieve and giving them time to think about the changes they can make to drive ROE. And from that standpoint, our businesses have got quite a lot of leverage available to them, and we feel comfortable that 15% is a target we can stick with.

Andrew Bowden
Head of Investor Relations

Brian?

Brian D. Johnson
CLSA Limited, Research Division

Brian Johnson, CLSA. 2 questions if I may to you, Peter. Peter, the first one is in the RBA financial stability review report, they actually said that they expected the buffer on the SVR to be greater than 2 -- substantially above 2%. Today, you've actually said that you've increased it effectively to 2.1% or something like that. I'm just interested to how comfortable can you be that that's actually enough, in your discussions that you've had with APRA. And then the second one is, it's great that we've had these valid references to the move into Barangaroo and that it favorably hits the earnings. Could we please get some degree of clarification about the timing and the quantum? So what I'd be interested in is the potential gain you get on selling the building, the costs of moving in and how much of it flows into the P&L and when it flows in?

Peter Francis King
Chief Financial Officer

On Barangaroo, the major piece is $59 million profit on sale. There will be some cost to move but we'll accommodate those in the cost like we normally do. On the buffer, moving it by 2.1%, we think that is more than adequate for what we're seeing in terms of the environment.

Brian Charles Hartzer
MD, Group CEO & Director

And there's also the 7%.

Peter Francis King
Chief Financial Officer

Yes, I mean it's a 7.1...

Brian Charles Hartzer
MD, Group CEO & Director

There's a number of things in them, so that's just 1 slice of the things that are there.

Peter Francis King
Chief Financial Officer

We're effectively assessing more. We just add 7.1%, and it's both on debt -- new debt but also existing debt. So it's a pretty big gap to the current SVR rates when you take it in...

Brian Charles Hartzer
MD, Group CEO & Director

Can I just clarify that one of the things that we've done traditionally, differently is we take into the consideration that whole consumers borrowings, not just the individual loans. So we think that's a more conservative approach.

Brian D. Johnson
CLSA Limited, Research Division

And that $59 million, is it pretax or post-tax number?

Peter Francis King
Chief Financial Officer

Pretax.

Brian D. Johnson
CLSA Limited, Research Division

Pretax.

Andrew Bowden
Head of Investor Relations

Jarrod?

Jarrod Martin
Crédit Suisse AG, Research Division

Jarrod Martin from Crédit Suisse. Just in reference to your capital slide, Peter. You looked at some of the uncertain impacts and where capital is moving. The risk-weighted asset capital for the mortgages seems to be now very much on the table. The FSI recommended average risk weights of between 25% and 30%. A 20% risk weight floor for Westpac would get them to the bottom end of that range. And if you apply that to your mortgage portfolio as it is now, that would require an extra $5 billion of capital. Yet you've only done a $2 billion capital initiative this time round. One, why didn't you do something larger? Two, can we expect a rolling period of the DRP underwrites?

Brian Charles Hartzer
MD, Group CEO & Director

I'd like just quickly touch on it and you can go into it a bit more. Jarrod, the starting point here is we look at this every 6 months. And we say, what we do know today based on the size of what regulators are saying? What the timing is? There's a lot of things moving around. We felt on balance given what we knew today going to the top of the range was the right place to land. If situation changes, if we get more clarity either on timing or quantum, then obviously we'll consider that in the next 6 months when we come back to look at these holdings.

Peter Francis King
Chief Financial Officer

Just on mortgage risk weighted assets, I would just say it is a very complicated area. We don't yet know -- and there's lots of modeling out there, so there's different views on it. We don't know how LMI is going to trade. We don't know expose it is going to be traded. It's traded differently between advanced and standardized banks. We have interest rate risk in the banking book. The standardized banks don't. So there's a lot of detail in the model, and I think APRA has also made observations that the gap might not be big -- as big as what people think. We're just going to have to wait now to see what APRA are thinking. They've made some comments in the last couple of weeks, so it feels like we'll know something later this year.

Andrew Bowden
Head of Investor Relations

Victor?

Victor German
Commonwealth Bank of Australia, Research Division

Victor German from CBA Equities. Two questions if I may. One, to follow up on investor mortgages, looking at -- if that part of the segment is growing to 11.5% and given that it's about 46% of the overall book, it sounds like non-investor segment is growing at 1% or 2%. Brian, are you comfortable with that level of growth? What do you think the issues are and how do you think you can address them? And the second question. Looking at Slide 16, where you outlined the strategic priorities and digital transformation, Service Revolution, things like that, it sounds like there is money that you need to spend to get to that. If you're able to perhaps outline to us what your plans on expenditure over the next 3 to 5 years and how you're planning to balance off those near-term, short-term performance as targets versus these long-term objectives?

Brian Charles Hartzer
MD, Group CEO & Director

Thanks, Victor. I might ask Jason to comment a bit on mortgages in a minute. But the first thing I would say is that it's true that investor segment has been growing faster and that's been a good thing. We've been well positioned in that. And from a risk point of view, from return point of view, that's been very attractive. What we are seeing in the market generally is slower owner-occupied growth and we've been taking a number of steps to be better positioned in that and support that growth. And Jason, do you want to make a comment on that?

Jason Yetton
Former Group Executive of Westpac Retail & Business Banking

Yes. Look, I think Brian and Peter covered it pretty well. We've outlined a good plan to manage growth in a very balanced way. And I think you can see that in the overall book growth, whilst managing margins in a pretty effective way. The growth in the market has been primarily in the investor property loan segment, as you know. And APRA's direction made pretty clear how we need to manage that in a balance way going forward. I think one of the probably 2 observations that will come of that, perhaps some of the hit in mortgage discounting and the IPO market should start to reside, I would think, over time. Saving I think it might increase in some of the owner-occupied and first-time buyer segments. That said, growth in those areas have been pretty low. So it is a way in which will shift the focus. We've been doing well in parts of the market that have been going well, investor, New South Wales and Victoria. On the other hand, when you've got a family branch, you start to look at opportunities with different segments in different geographies. In saying that, we're going to still manage it in a very balanced way. So that's what you can look forward to over the next 6 months.

Brian Charles Hartzer
MD, Group CEO & Director

Thanks, Jason. And Victor, on the second part of your question around IT investment. So there is a significant transformation to be done. What we're seeing is that we're already very well positioned at the front end now with our new digital assets with Westpac Live and our mobile capabilities. And As customers adopt them, some of the savings is beginning to flow. We're seeing good benefits through the online platforms already in that through the take-up of smart ATMs for deposits and the like. We spent somewhere around $1 billion mark on investments across the company each year, or a bit above that. We feel comfortable that we can continue to make the investments we need to make to transform the company within that broad range. That said, we are also conscious of delivering a reasonable steady rate of return through that period, and so it's a bit of a balancing act about what we can afford at any given period to make sure that we're delivering a decent return, but we are a fundamentally transforming the company.

Victor German
Commonwealth Bank of Australia, Research Division

So you don't feel the need of increasing that investment spend that you currently have?

Brian Charles Hartzer
MD, Group CEO & Director

At this point in time, we feel like the range of our investment spend is pretty reasonable.

Andrew Bowden
Head of Investor Relations

Let's take a call on the phone, from Craig Williams.

Craig Anthony Williams
Citigroup Inc, Research Division

A couple of questions, please. To Brian, you're very familiar with the business you've taken over. Taking a medium-term lens to your tenure, do you now have the management bench in place and organizational structure in position as you believe you require? And a second question being, the revenue environment is progressively tougher today sort of conceding share with, and growing slower in investor lending. And your cost-to-income ratio has fallen at half. So have you identified the need for how to raise on your cost given expense growth is well above API? And if so, what will be the focus to this given the focus on service and technology that you've spoken about today?

Brian Charles Hartzer
MD, Group CEO & Director

In relation to your first question, I feel one of the great assets this place is the quality of our management team. And this is the team that's created the strategy and the performance that you see here and I feel really good about that group. In terms of your second question, clearly, we're going to have to continue to drive productivity improvements. We have strong disciplines on a day-to-day basis of managing variable costs, and I think you see that in the chart that Pete put up where you look at our cost growth adjusted for FX, you can see we've shown very good discipline around offsetting our business as usual cost growth. At the same time, I think as digital transformation, more structural changes to our business flow through, we should see that reflected in, in a much better productivity outcome over time.

Andrew Bowden
Head of Investor Relations

Richard?

Richard E. Wiles
Morgan Stanley, Research Division

Richard Wiles, Morgan Stanley. Peter, I want to ask some questions on the investment property lending, but also interest-only lending. I think unless there's new disclosure impact today, you're the 1 major bank that doesn't disclose what proportion of mortgage portfolio is interest-only. Can you tell us how much it is? Can you also tell us what the growth rate in interest-only lending is at the moment because it appears to be a higher growth rate than that investment property lending across the major banks? In addition to that, do you think there's any risk that APRA changes the speed limit, reduces it from 10% growth on investor property lending to something lower? Given that we continue to get high clearance rate at auctions in Sydney given the outlook for interest rate is still lower, do you think they might actually lower that speed limit? And my final question relates to investor property lending and capital requirements. Do you think that APRA will follow the RBNZ approach and reclassify investment property lending for capital adequacy purposes?

Brian Charles Hartzer
MD, Group CEO & Director

I'll make one quick point about interest-only and then you can go on to say other things. I think it's really important to remember when we underwrite interest-only, we underwrite it as if it's P&I. So we don't rely on just the interest payment in assessing whether or not people can support the credit. They are treated as if it was full principal paying. And so that's a very conservative approach, it's different than the way things overseas sometimes deal with interest-only. So we're comfortable with that basic policy. A lot of it is driven by investor lending and people looking to have more lumpy repayments. And when you look at the LVRs and dynamic LVR across the portfolio, it's still very low. So we don't see that as a fundamental exposure.

Peter Francis King
Chief Financial Officer

Just to add, I don't have the exact numbers here but I'd also add that runoff in interest-only loans is actually matched pretty closely under occupied. So interest-only, non-interest-only, we actually see the same behavior. So I think there's a view that interest-only is higher risk, but actually the behavior on it is pretty good. In fact, in the half, we had higher runoff in the interest-only portfolios. On your questions on APRA, I can't really comment on what they well might do. If I look at our view on the risk settings that we have, our 7% assessment rate we think is right. If interest rates go lower, we don't drop that rate. That's the reason you have those floor rates. We have to wait and see on IPO because I'm sure that's part of the discussions on mortgage risk weights more broadly, and APRA have said they'll have something to say later in the year.

Richard E. Wiles
Morgan Stanley, Research Division

Can I just follow up on interest-only? APRA specifically mentioned that as an area of potential concern. Can you confirm whether the growth rate in interest-only is above or below the growth rate in investor property lending, even if you can't give us the specific numbers?

Peter Francis King
Chief Financial Officer

I don't think they're majorly different, but I will check it.

Andrew Bowden
Head of Investor Relations

Andrew.

Andrew Hill
BofA Merrill Lynch, Research Division

Andrew Hill from Merrill Lynch. Just a question, maybe a question for Rob. But just on institutional banking, the margin compression accelerated again this half. I'm just wondering if we could get some color around the drivers of that. And also, how you see that playing out through the course of this year, maybe with some reference to trade finances as well?

Brian Charles Hartzer
MD, Group CEO & Director

I'll hand it over to Rob in a second. Where is Rob? There you go. But first, can I just say I think that the institutional banks managed this really well, and this is a business that we have a really strong franchise in. And it's still returning well above our hurdle. So notwithstanding pressure on the lending side, this is still a good business and I think the guys have managed it well, which you see in the core earnings growth.

Robert George Elstone
Former Director

Look, as we said at the full year, we've had pressure on both sides on the margins. It's been both on the assets and on the liabilities. And for this half, pretty even on both. In terms of what we expect going forward? More pressure to sustain on the lending side, but perhaps a subdued pressure on the deposit side. So still pressure overall, mostly on the margins side and mostly from the same issues that we've been seeing, wall of money, higher competition for strongly competed for a high-quality assets. And that will resolve while there's so much liquidity around from that.

Andrew Hill
BofA Merrill Lynch, Research Division

And trade finance?

Robert George Elstone
Former Director

Trade finance, for us, I just remind you, it's a very small book at Westpac. It's a growing book. It's been growing at a much lower rate. In fact, we've seen in total terms in this half, it's a story you're familiar with. Commodity prices, significantly off, volumes are up but not enough to compensate. Same driver underlying though in terms of pricing with lots of liquidity around the globe, people are highly competing for it, because they're very risk-weighted effective capital -- capital-effective product. So everyone is highly competitive for a short duration. So that pressure continuing particularly in Asia.

Andrew Bowden
Head of Investor Relations

Thanks, Rob. Andrew?

Andrew Triggs

Deutsche Bank AG, Research Division

Andrew Triggs from Deutsche Bank. Just a question on the Treasury side of things. Just in terms of -- the slide you gave suggests some seasonality between the first half and second half. Just confirm whether that's the case in terms of the market side of things? And also, whether there's, given some structural factors that you called on or whether there's any sort of -- has been any change to resourcing applied to that division or whether that needs to be in the future?

Peter Francis King
Chief Financial Officer

Yes, so in terms of seasonality comment, it's not a seasonal business, it just depends on the opportunities. In terms of the resourcing, it's actually a very small team now so we're probably around -- so there's not a lot to reduce that. A lot of value with a small team.

Andrew Bowden
Head of Investor Relations

Brett?

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

Brett Le Mesurier from BBY. Question on the financial planning business. You're the only major bank that hasn't had a problem. Can you comment on how confident you are that it's going to remain that way, and what you're doing to ensure that you won't have a problem going forward?

Brian Charles Hartzer
MD, Group CEO & Director

This is obviously a big issue from a community point of view, so I was half-hoping I'd get a question on this. I think the important thing to bear in mind is that the broad issue here is about Australians getting good quality advice. With the Australian population aging, it's really important that the community has good, economically viable sources of advice that they can trust that's free of conflicts of interest. And since I came here back from the U.K., having seen that what happened with banks getting out of financial planning altogether, this has been a real focus for me and for Brad in how we run the BT business in a sustainable way. And Brad and his team have been real leaders in this. We made a number of changes well in advance of both how we moved to fee for advice in 2011; we raised the standards for our advisors; we've put all of the digital -- all of our financial planning files online in a digital format so that we can independently review them; and we've been real leaders in transparency with the launch of Adviser View [ph] which is like TripAdvisor for financial planners. You can go on and you can actually rate your financial planner and see what other customers have said about them. So I think we've made a lot of progress in moving the industry to a more sustainable model. Now having said that, there are examples as we've seen from other banks; in a business of our size, we've had examples as well where customers haven't been treated the way they should. And that needs to be fixed. And policy has been that if we find an example where someone has been given the wrong advice, then we deal with that. We set them right. We look for other customers that might have had that issue and we resolve them as well. So that's just been our standard practice. Having said that, given all the attention that this has had in recent months, we're going back and having another look. And if we find anything, we'll fix it. Having said that, we haven't found anything systemic.

Andrew Bowden
Head of Investor Relations

I'll take a follow-up question from Scott.

Scott Robert Manning
JP Morgan Chase & Co, Research Division

Scott Manning from JPMorgan. Two questions: firstly, after today's capital initiatives on the ex-conglomerate's point of view, you're Core Tier 1 is a fair bit higher than peers, some up to 100 points. Do you feel that you have a relative advantage and you've got less heavy lifting to do and that gets reflected in your business practices going forward or do you see that everyone has got to lift higher so you wanted to get an early start? And the second one is on the multi-brand strategy. We haven't heard that word uttered in terms of the 5 pillars of the strategy going forward. So the thoughts around efficiency that can be achieved in the back end and changed customer behavior versus efficiency at the front end and distribution with the duplication of the branches across the brands.

Brian Charles Hartzer
MD, Group CEO & Director

So on capital, you'll have to ask the other banks how they feel about their preferred range. We've said with our range is and we feel it's prudent to be where we are at this point in this cycle. If your suggestion is that we've been conservative, then that's a reasonable assumption. In terms of multi-brand, our family of brands is a great strength of the group and it's led to strong growth in customer numbers. I think it's important to recognize that our strategy is not about having different brands going head-to-head in a core market, they are about different brands complementing each other in a market. And as a result of that, as you suggest, we're looking for efficiencies as we bring consistency to our systems, to our operations, to product development and so forth. We've made great progress on that over the last couple of years in AFS. That's part of what's contributed to the productivity benefits that Peter talked about, and we expect that to continue to be an opportunity for us. But as for multi-brand being part of the strategy, it is part of the strategy. It's a really important part of what gives us an advantage in these markets.

Andrew Bowden
Head of Investor Relations

Okay. Thank you very much. Brian will just make a couple of closing remarks.

Brian Charles Hartzer
MD, Group CEO & Director
Thanks, Andrew. Thank you very much. Well, thanks, everyone, for attending today and for your questions. I'll just finish by coming back to where I started. Westpac is in great shape. We're financially strong. Our businesses are well positioned. They've got clear strategies. They're executing against those strategies, and you see it in the financial results that we've delivered this half. On customer measures, on value measures, things that drive our long-term franchise value, these are all moving in the right direction. So we're set up well for the second half, and I'm really optimistic about our long-term future. So thanks very much for coming.