HD **Preliminary 2014 Westpac Banking Corp Earnings Presentation - Final**

WC 11,007 words

PD 2 November 2014

SN CQ FD Disclosure

SC FNDW

LA English

LP

Presentation

ANDREW BOWDEN, HEAD OF IR, WESTPAC BANKING CORPORATION: Well good morning everyone and welcome to the 2014 Westpac's full year results. My name is Andrew Bowden and I'm Head of Westpac's Investor Relations. Thank you all for coming today, appreciate you making the effort. Also those on the webcast and on the conference call, thank you very much.

TD

I'd also like to pay my respects to the traditional owners of the land on which we meet, the Gadigal people of the Eora nation and pay my respects to elders both past or present.

The presentation today will be the usual format, with presentations from Gail Kelly our CEO, and of course Peter King our CFO, and without further ado let me hand off to Gail.

GAIL KELLY, CEO, WESTPAC BANKING CORPORATION: Thanks Andrew and good morning everyone. Thanks very much for joining us for our 2014 full year results presentation. I'm really pleased to present these results as we see 2014 as having been a year of delivery. But let me start off by just calling out what we think are five key points in an overall sense for these results.

Starting off with saying that this is a strong result, a strong and quality result with all of our divisions executing well. The second point is that during the course of the 2014 year we've actually affected a step-up in our strategy, the service revolution, and I'm pleased to say that that's been well embedded and we're performing well against it.

That perhaps leads to the third point, that we're very happy that this year we've had more growth in customer numbers, in fact probably the biggest growth that we've had in four years in customer numbers. And indeed very pleased that Westpac is now the lead of the major banks in terms of customer satisfaction, both with regard to consumer satisfaction and with regards to business satisfaction.

The fourth point is that this is a year where we've shown improved growth, in fact lending growth is up 8%, but also we've increased our return. And the last point is that consistent with the Westpac focus on sustainability, this is a result where we've delivered for all stakeholders.

Having a look at the numbers themselves, our reported profit is up 12%, our cash earnings and our cash earnings per share is up 8%. Core earnings for the year is up 5%, but I'm sure you will already have noticed that core earnings for the half, the second half, was actually flat.

That was largely as a result of the revenue flowing from our market risk activities being materially lower in the second half relative to the first. Indeed the second half was 50% of the revenues that we earned in the first half. Our AFS business however has core earnings growth of 5% in that second half, so very good momentum.

Impairment charges at a low 12 basis points, but no release of the overlay. Return on equity is a pleasing outcome for us at 16.4%, well up on last year, 48 basis points up on last year. We're also very pleased with our common equity Tier 1 ratio of 9%. That's only 13 basis points down on last year and if you think about what we have done over the course of the past 12 months, it's been quite significant.

Firstly acquiring the Lloyds business, secondly paying official dividends, thirdly not issuing shares into the DRP and then we've had good lending growth, AUD44 billion net lending growth over the period. That's 8% up on lending growth.

So we think a really good outcome in our core equity ratio of now 9%. On dividends, the directors declared a further AUD0.02 dividend for the half, taking the full year to AUD1.82.

I mentioned that 2014 has been a year where we've actually stepped up on our strategic agenda. So building on the strong two previous phases we've had, we've called this phase the service revolution. It kicked off at the beginning of this year and it will lead us into and beyond our bicentennial year of 2017.

Effectively what this agenda is about is stepping up the rate and the pace of change, stepping up the execution of our customer-centred strategy. We're very aware of the amazing transformation that's actually occurring across the financial service industry, it's a very exciting time to actually be in banking. We not only have to deal with all the regulatory change and conduct and compliance requirements that come our way, a lower [for longer] economic environment, but also indeed a whole new world of banking.

Powerful new technologies and the convergence of powerful new technologies changing the way customers live their lives and what they're expecting out of services and particularly out of banking services. Expecting things to be a lot quicker, a more seamless and easier and more personal for them.

So in the service revolution what we're effectively doing is reinventing the customer experience. Harnessing technologies, harnessing our people, harnessing our brand and the reach of our distribution.

So from the customer point of view, to reinvent that customer experience. So this phase involves the transformation of our distribution, which is already underway, a radical simplification of our business and its processes, already underway, looking to digitalise as many processes from an end to end point of view as possible.

Revolutionising the way we work, a lot more flexibility at work, a lot more team-based work, working horizontally, using the capabilities of agile and lean and customer-centred design. The new innovation hub that we launched a couple of months ago called Hive and really fundamentally changing the way work gets done, quicker time frame, shorter timeframes around projects, smaller projects. We talk about 90 day drop. So delivering in short, discrete time periods with more accountability.

I'm pleased to say that this is well underway and what this slide gives you is a little bit of a framework of how we set up our work agenda and the activities of our work agenda and the outcomes that we're actually driving.

The three very simple principles that underpin this work, Know Me, Empower Me and Bank Wow. So the Know Me principle is very simply using data and insight to personalise customer experiences. I mean this has always been the dream for banks. We talked for a long period of time about actually getting to use all that rich customer information we have to deliver the (inaudible) one.

But it's only now really possible with the power of new technologies, with the power of social media and digital and mobile, big data, cloud computing. Only now is it really possible to actually drive this personalised service in the way that's possible. I mean a good example for us this year is in our AFS business, 67 million proactive service messages to individual customers to help them with their needs.

The Empower Me piece is about facilitating that customers can be in control the way they want to be in control, doing their banking, managing their finances, when and wherever they are at their convenience. So a range of initiatives that underpin that, the biggest one for us this year would be our Westpac Live with its rich functionality and its inherent flexibility enabling customers to actually be in control. Coupled with some of the significant transformation of distribution for business customers and retail that's occurring in Jason and George's business.

The Bank Wow is about innovation. It's about speed. It's about simplicity and harnessing our people, such as we can give reasons why more customers would join us and more customers will actually stay with us. So very exciting set of initiatives that that are about surprising customers with just how easy it is, take the clunkiness, the frustration out of banking.

I'm pleased to say that customers are seeing the difference. Really pleased to say that right now Westpac RBB has the highest level of customer satisfaction in the consumer segment, overtaking the other major banks and 83.8%, it's the highest number that we've ever recorded for Westpac.

In the NPS side, coming from a lower base, we're on a very good trend. So watch that space there. St. George of course in the green, sits above the major bank.

And on the business side, in both business satisfaction and the business NPS, Westpac and St. George lead the other major banks. I mentioned right up front the increase in our customer numbers, the best increase we've had in three or four years, so up 6% in AFS.

This is the major driver of our service revolution and you can expect to see more focus on that. Also the reduction of customer complaints, again a major focus through the service revolution, down 27% this year and 15% last year.

Of course what you want to see with more customers and more satisfied customers is that it translates into deeper relationships, and more return out of our customers. So pleased to see a steady growth in our customer return over credit risk rated assets that we've been measuring for some period of time and a pick-up in our MyBank customer percentages.

Now that's a tough measure. It's a hard measure, because it really requires upon the customer having a **transaction** account with us, a regular credit to that **transaction** account and an active use of that **transaction** account coupled with meeting at least two other banking needs.

The wealth penetration one is one we've been measuring and focusing for a long period of time. Westpac as you can see remains the clear leader there. But the stand out for this year, I think's been seeing the pick-up in St. George, so moving well ahead of two of the other major banks.

The service revolution is also translating into our pick-up in growth and I'**m** pleased to say that this is the first half year that we've growth at or above system in all major categories that we can recall. We sort of went back into the record books and couldn't find the last half year that we've grown at or above system in all the major areas.

So in mortgages, at system growth for the second half, 0.9 times for the full year. In credit cards as you can see, almost a 1% pick-up in market share and that's on the back of focus, on the back of product simplification and some new products with (inaudible) St. George a debit card for business customers and a rewards program. It's also on the back of simplification of our processes and really getting to the root cause analysis of complaints and eliminating those root causes.

Business lending, we're above system growth there. So you can see a good pick up from AUD126.3 **billion** last year to AUD136.9 **billion** this year. It remains a cautious environment so we think we've done well in that cautious environment.

Of the Lloyds business with its leasing and equipment finance capabilities gives us extra wherewithal to further cross-sell to customers and introduce new business, and our institutional banks had a very strong year here. As you know, we have great credentials and great reputation with regard to infrastructure and there's lots of focus and activity in infrastructure across Australia at the moment and we have been a major player in every one of the infrastructure deals this year.

On deposits, remember some years ago it was deposits, deposits, deposits and lots of talk about that. Well I'**m** pleased to say seven halves in a year, seven halves in a row where we've been above system growth so this half, 1.3 times.

On wealth, funds under administration up 10% to AUD114 **billion**, and funds under management up 17% to AUD101 **billion**. Of course very good growth in insurance too, both in general and in life.

We've also spent a lot of time over the last few years, as you know, investing in key target areas and it's good to see this investment is paying off. If you think about Westpac RBB, we started that investment going back to 2009, with a very strong agenda in Westpac local. We've supplemented that of course with significant training and development into our skills of our people over a number of years, our bring back the bank manager.

Significant investment in the front end systems of our Westpac RBB business, most recently of course with the implementation of Westpac Live. Then there's the revolution that's occurring or transformation that's occurring in terms of the physical footprint.

So it's both been a revenue story and a productivity story within Westpac RBB and it's probably best captured in looking at the revenue per FTE uplift. So this is really a quality business performing well.

In Lloyds, AUD44 **million** in the second half cash earnings. That's ahead of plan, and we're on track to at least achieve the AUD100 **million** cash earning target that we announced at the time of the **transaction** itself for next year.

Bank of Melbourne, it's really terrific to see us run a strategy here of bringing back a brand so that we can actually grow the market share for the Westpac**Group** overall, and that's exactly what's been happening in our Victorian market. So another strong year for Bank of Melbourne, 2.4 times growth, Victorian growth, in mortgages and over 3 times system growth for Victoria in retail deposits. What this captures here is the growth in overall household footings and stands at the moment at 4.6% but obviously we've got great plans to increase that further.

WIB trade volumes, you can see a big pickup over this year but particularly in Asia, not surprisingly with our investment in trade and capabilities in Asia and supporting our customers as they do more trading and activities in Asia. That leads me then to discuss WIB strategy in Asia. Revenue up 43% in US dollars.

I'm really pleased with the way Rob and his team have set about in a very systematic and deliberate and quality way executing against this organic growth strategy in Asia. There's several milestones that this slide points to and you'll see more detail in our investor discussion pack, including the welcoming of over 100 new corporate and institutional connections.

Digital has been a very big area of focus and through the service revolution will continue to be a big area of focus. Probably the biggest single investment we've had over most recent times has of course been in Westpac Live, so really pleased with the spend and implementation there. We're now doing about -- 10.5% of our banking sales are done digitally, and with credit cards, roughly 50% of credit card sales are initiated digitally. So more and more a path and a pattern for the future.

Of course [with] achieving this growth against maintaining, as you'd expect of Westpac, the disciplines in strength and return and in productivity. I've touched already on our common equity Tier 1 ratio of 9%. I think what this chart shows is how well positioned we are within Australia, because we don't have that wealth leverage that still needs to be unwound to deal to.

On the stressed assets to TCE down at 1.2% which is the lowest level that we've had for seven years. Return, I've mentioned the 16.4% and the uplift over the course of this year, but on net interest margin, we are pleased with that too. 5 basis points down if you're looking at the customer margin, excluding treasury and markets, and for the second half actually that customer margin was flat. So I think we've really shown a track record and pattern of managing that margin with a lot of discipline.

Productivity has been a focus over at least the past five years and our aim there is to largely offset the growth of ordinary expenses with productivity benefit and we've largely done that again this year. We are the most efficient of the banks in the sector. In fact we're one of the most efficient banks in the world, and we certainly intend to retain that status of being the most efficient bank in the sector.

Our cost -- our expense to income ratio has been at about that 41% to 42% range over the last few years, but again, this will have a step up focus through the service revolution as we lead up to 2017. So I want and expect to see that ratio further decline.

Looking at our individual business units, well AFS has had a very strong year on the back of what was a strong year last year too. So cash earnings growth up 12%, core earnings growth up 10%. Each one of its divisions -- Westpac RBB, St. George and BT -- have all had double digit cash earnings growth this year. If you look at our banking businesses, excellent management of the margin. Good balance sheet momentum, growth in customer numbers and very strong credit quality.

If you look at BT, I'd have to say that I think BT is the standout wealth business amongst the banking sector here and it's one we're really proud of. It is a strategic and a comparative advantage for us, in our view, relative to our peers. So it's up 16% in cash earnings, but all of its component parts are performing well, whether it's private clients, advice, superannuation, platforms or insurance.

Brad has put a lot of -- where are you Brad? There you are. Brad has put a lot of focus this year on issues to do with culture, issues to do with compliance, issues to do with regulation, and issues to do with customer manager and our people and skilling and training.

We've digitalised all our files, and paying attention to the cultural elements of advice and the trust elements of (inaudible), you just simply can't take for granted and never be complacent and you can expect us to continue to focus on that.

Westpac Institutional Bank requires some explanation, as you can see from this chart. You'll recall last year we had some very significant one-off benefits, infrequent items not to be repeated. They were the benefits flowing from Hastings business and of course the one-off benefit flowing from CVA. So if you adjust for that, our institutional bank is up 4% in cash earnings over the year.

I think the real strength of the institutional business -- and remember, it's been a low volatility, low interest rate environment, particularly over the last half -- the real strength is in the customer business, the quality of the customer franchise in our institutional bank. Customer revenues are up strongly. They're up 6% over the year, and of course if you think about our credit quality, it is a real standout hallmark of the institutional bank, and that remains the case this year.

Westpac New Zealand has had a solid year. Cash earnings are up 13% and again, above market system growth in all the major portfolios, and done that in a quality way.

So that then takes me to my last slide before I hand over to Peter. That goes to delivering for all of our stakeholders. Earlier this year, if we go back to the beginning of January this year at the World Economic Forum, Westpac was named in their top 100 company list. Westpac was named as the most sustainable company in the world. And then more recently, the Dow Jones who look at the banking index, named Westpac as the most sustainable bank in the world.

Now this sort of recognition doesn't come from one year's work. This was built up over a number of years' work. In fact I'm reminded of my Chairman's comment, Lindsay Maxsted's comment, when I rang him to let him know of the World Economic Forum recognition that we'd received and he said, this is the result of a lot of people doing a lot of right things over a long period of time. I think that's exactly right.

It's also the result of paying attention to all of the different elements of our stakeholder group and delivering consistently for all of the different elements of our stakeholder groups, being shareholders, customers, our employees and the community, and 2014 has been an excellent year of delivery for all of those different stakeholder groups.

I must say, there's a bit of a self-reinforcing element to this because as you can imagine, our employees are very proud of these recognitions that we received and our employees are very proud of the vision or the organisation and the way in which Westpac actually goes about its business. And what that means, it becomes self-reinforcing, it builds again that pride, that engagement, that momentum, that discretionary effort that employees bring to work every day.

So that -- what I'd like to do is firstly thank my team who are a wonderful team and the broader general management team, and then the 36,000 employees, for a strong contribution this year and for these outcomes. So thank you and may I hand over to Peter.

PETER KING, CFO, WESTPAC BANKING CORPORATION: Well thanks Gail and good morning everyone. As you've seen from Gail's comments, we're really pleased with this result. At an operational level, performance was very sound, particularly in our retail businesses. From my perspective, I'm also very pleased with our balance sheet strength and our performance disciplines. This morning I will provide some insights on some of the key drivers.

So I think the graph on the right summarises the story of this result. We had excellent operating performance across our divisions, but these gains were partially offset by the lower market risk related income. You can see in the top chart that the second half was most impacted, with market risk income down AUD222 million. I'll come back to this later.

The chart on the left highlights two features of this result that I'm really pleased with. Firstly, good capital management and the absence of share issuance has seen EPS growth and cash earnings growth similar for the first time in some years. Secondly, the 8% EPS growth is our highest for four years.

This year, reported profit growth was 12%. That's much higher than the 8% lift in cash earnings. We continue to be consistent in what we treat as cash earnings adjustments. In the table on the bottom left, I've highlighted the four items of note this year. As you can see, they total AUD3 million. The AUD51 million relates to the Lloyds integration costs.

On the Bell litigation, it's great to see the end of the case after 20 years. And the grants to the Westpac Bicentennial Foundation is AUD70 million after allowing for tax. Finally, back in 2011, we took some tax provisions for historical tax matters. These provisions are no longer required and so we've treated the reversal in a similar way.

As with any year, there are some infrequent and volatile items. I've again summarised them on the slide. Individually, these can move around, but in total they didn't have a major impact on cash earnings growth in the half or over the year. The only new item on the table relates to the resolution of some tax matters and this was a one off in the second half.

FX translation impacts mostly our New Zealand earnings, and because we hedged our 2014 earnings, FX translation had little impact on cash earnings growth over both the half and the year. In full year 2015, the benefits of our hedging program will be more evident, where we've hedged our New Zealand earnings at NZD1.12 compared to the NZD1.20 this year.

These are the six areas I'd like to provide a little bit more insight on. I particularly wanted to call out the progress we've made in the LCR and how we've arrived at our new preferred capital range. But first let's turn to the market risk income.

As I mentioned earlier, softer markets risk income was a feature of this result and the slide highlights the drivers. Like other market participants, we were impacted by lower market volatility, particularly in the second half.

The top chart outlines risk related income from both our WIB businesses and treasury. As you can see, it was a tough half for us, particularly in treasury. Both businesses were impacted by the more benign interest rate and credit spread environments.

FX income was also impacted by the low currency volatility with the Aussie dollar trading in fairly narrow bands through much of the half. You can also see that the CVA adjustment was a drag over the half, but had a much larger impact over the year.

Whilst risk income has been a challenge, the customer income has been very good. The bottom chart shows this with the WIB AFS partnership a key contributor to the 8% lift this half.

Looking forward as always, performance here depends on market conditions. Given the large half-on-half swings we've experienced recently, I think it's best to look at the full year performance when thinking about the revenue potential here. We have a strong team and that's what gives me confidence in our ability to generate returns here.

Moving to margins, the margin picture has played out as we indicated at the half. Margins excluding treasury and markets at 2.01% remain flat half-on-half. Looking at the top chart, competition for lending has remained robust, asset spreads were down 5 basis points, reflecting competition in both mortgages and business lending.

Falling hedge rates led to a lower return on capital, reducing margins by a further 2 basis points. These headwinds were offset by lower cost of funds from both deposit repricing and improved wholesale funding markets.

Across divisions, AFS managed margins well; in New Zealand high liquid assets more than offset deposit repricing benefits, while as we indicated at the half, WIB's margin decline has slowed with pressure now more on the lending side. The reduction in the **Group**'s margin from 2.11% to 2.06% over the half was due to the lower treasury result I spoke to earlier. Given all the moving pieces, I'**m** pleased with how we've managed the margin.

On to expenses, at a headline level expense growth of 6.3% has been higher this year than in recent periods, although when you look through the detail, underlying expense trends have been similar. The top left graph details the main components of expense growth over the year and looking at the graph on the left, you can see that the **acquisition** of Lloyds and FX translation both added 1.3% to cost growth.

Software amortisation also added 1% with virtually all the uplift in the second half. Looking at the red bar in the chart, you can see that the 2.7% growth in ordinary expenses has been consistent with previous years.

Touching quickly on software capitalisation, in the top right chart you can see that our amortisation period is the fastest in the industry. The other point I'd make here is that our balance growth slowed significantly in the half with the balance up 2% to AUD2.1 **billion**.

The bottom chart outlines our approach to managing expenses and as Gail said, we seek to neutralise operating expense growth through productivity saves, with investment lifting the cost base and this is what happened in the half. We delivered AUD117 **million** of productivity saves in the half, bringing the total to AUD219 **million** this year and this is an outcome similar to previous years.

Investments added 2.9% to the cost base, while Lloyds also added another 0.7%. Much of the investment spend was directed to growth and productivity which will drive future value.

This year we've delivered some major projects and continued to enhance our distribution networks. This includes switching on the new Westpac Live online system, completing the first phase of our wealth platform, Panorama and continuing the uplift in branch capability with new formats and video conferencing facilities.

This investment has been managed within the AUD1 **billion** to AUD1.1 **billion** range we've been speaking about over the last few years. Regulatory spend was again a feature this year with the new tax requirements and wealth regulation accounting for much of the increase.

Growth and productivity investment includes the projects I mentioned before and is where we expect to direct further investment. Looking forward, we expect to manage our investment spend within the AUD1 **billion** to AUD1.1 **billion** envelope.

Improving asset quality was again a feature of this result. When we look across the portfolio, we see improvement across virtually all key metrics. The proportion of stressed assets at 1.24% is now below 2008 levels. Over the year we saw a drop off in the new impaired loans as you can see on this chart and this saw growth in impaired assets fall by 35%. The consumer portfolio is also performing well, delinquencies are down in both mortgages and unsecured consumer lending.

As we look across the sectors, there are no signs of particular concern, but we are watching mining related businesses and certain manufacturing segments closely. Over the year the total economic overlays were unchanged, although we did adjust their mix with property overlays now largely utilised, we've topped up overlays for sectors undergoing structural changes.

In reflecting the improved asset quality, the impairment charge picture continues to be very positive. This graph looks at the movement of the impairment charges and I think it's a useful way to think about the drivers. If you start on the top left, you can see that new IAPs continue to be very low, write-backs and recoveries held in the half and that probably turned out to be a little bit better than what we were expecting back in May.

The environment continues to support customers working through their issues and this has contributed to positive outcomes here. On the write-off directs, they tend to be seasonal, so when you compare them to the second half of 2013, performance here has also been good.

The last bucket which is the other cap movements doesn't pick up the interest carrying adjustment and so it's best to look at the movement in the cap provision itself. In the bottom table you can see that we continue to hold very healthy provisioning balances. The AUD2.6 billion cap balance was slightly down over the half, but it was up over the year.

The AUD38 million reduction in the half mostly relates to the improvement in the credit quality of the portfolio, however the cap provision coverage remains healthy at 93 basis points of credit risk weighted assets. Finally, the lower individually assessed provision balances are consistent with the declines in the impaired assets and our coverage here remains very strong at 45%.

With two months to go, I'm really pleased we're on track for the LCR implementation. Preparing for the LCR has been a big effort for the team this year and I'd like to thank the team for their efforts.

In preparing for January 1, we've updated our MIS systems to better capture deposit characteristics, we've educated our businesses about the relative value of the deposits under the LCR and we've obtained APRA approval for the CLF facility for 2015. On the slide, we show the pro forma calculation of LCR which is already above the 100% requirement. You'll see more detail on this in our March pillar 3 reporting next year.

I recognise that capital is one of the hotter topics in this reporting season, so I want to spend some time on it. We've been very pleased with the capital levels over the year and that's been reflected in how we've sought to deploy and manage capital. We started this year with a strong 9.1% common equity Tier 1 ratio and effectively deployed 47 basis points through the Lloyds acquisition and the special dividend.

We also lifted our growth profile, particularly in the second half, with mortgages and infrastructure. At the same time, we've not issued any shares either into the DRP or for employee share grants and so that's seen no dilution. So in effect, we've increased the value of the Company, given more back to shareholders and held the share count flat.

At the half I mentioned that we were seeking clarity from APRA on the application of the D-SIB buffer and so we held back from updating our preferred capital range. In the second half we received that clarity. The key change is if we fall into the capital conservation buffer, under most scenarios we will require APRA approval for distributions. This may impact dividends and potentially hybrid distributions. As a result, we've revised the preferred range from 8.75% to 9.25%.

At the low end of the range, this will give us a 75 basis point buffer over the top of the capital conservation buffer. With this new preferred range, we believe we can achieve both growth and dividend aspirations while maintaining capital flexibility. As we ended the year at 9%, we believed it was prudent to issue shares into the DRP. I think it goes without saying that we are strongly capitalised.

So as I look into FY15, there are a few factors that we expect to influence next year. We will again seek to deliver across all our key metrics. On the balance sheet, we grew a system in our key markets over the second half and we aim to maintain that momentum through 2015. Like this year, we will continue to maintain our margin disciplines, we expect competition for lending to remain intense, but we should see offsets across both deposits and wholesale funding costs.

From January 1, the CLF will be another cost for the industry and that will equate to about 1 basis point impact to margins. Market risk income is always difficult to predict, but I'm confident that we'll take advantage of opportunities that arise.

On the expense front, we'll maintain our focus on core earnings growth, we will aim to offset operating cost increases through productivity with the growth and expenses predominantly driven by investment. You will be pleased to hear that I expect next year to be the last major step up in software amortisation. I expect amortisation to add just over 1% to expense growth in 2015.

On asset quality, the book remains in great shape but it will be hard to match the significant write backs we've enjoyed in the last few halves, and over time stronger lending will also require some provisioning.

I'd like to finish by observing that all our businesses are performing well, and that underpins our confidence in 2015. Thank you and I'll hand back to Gail for a few more.

GAIL KELLY: Thank you Peter, what I'd like to do is just to share two more slides really on the outlook. The first one actually covers off on the FSI which is such a topical area at the moment, so we're all waiting and looking forward of course to the recommendations being tabled by the commission.

Then of course they'll flow on a considerable period of discussion and debate in the industry and wait then also for the Government's response. But a really topical area for the moment.

So let me start with saying how we strongly advocate for a strong and overall stable banking system, a strong and efficient banking system. As you can see we've achieved that and worked very hard in that ourselves over the course of the past seven years and longer to make sure that our own bank is very strongly placed, not only from a capital point of view, but from a total balance sheet point of view. And the same could be said of all of the Australian banks, materially strengthen their balance sheets since the time of the Global Financial Crisis.

It's interesting if you look at the World Economic Forum's September paper where they talk about the competitiveness of different countries and different dimensions. They rate Australian banks number three in the world against 144 countries in terms of soundness of banks.

It's also interesting if you go back to this time a year ago, the conversation was then about the D-SIB if you remember and just how much would that be, what sort of additional surcharge would APRA require of us. And it was in December of last year that APRA came up with their 1% additional surcharge on the D-SIB, and with that announcement stated that the banks were really strongly capitalised. So we really believe in the importance of being strongly capitalised and we believe that we are.

We also strongly endorse a risk based approach to assessing and to managing capital. Coupled and complimented with strong supervisory regime. Now that's a distinctive and different way of actually managing regulation from many jurisdictions around the world.

It is a real advantage for the Australian system that we have an excellent regulator in APRA that provides intensive supervision. They of course accredit our model and then they do a test and verify, test and verify approach.

They're in our organisations all the time, they look at portfolios one relative to the other in our organisations, St. George relative to Westpac for example. They're able to compare across the sector, different portfolios that are similar in their characteristics across the sector.

We each -- individual banks to deep stress tests and then the regulator requires us to do industry stress tests, and periodically deep dive reviews of particular portfolios. Most recently of course being the mortgage portfolio.

So this is a hallmark strength of the Australian system that we have that's active and intense supervisory approach. Very different from some regulators -- regulatory regimes where the regulator sets the rules and kind of doesn't do the supervision that actually backs it up.

I think -- the other thing that we deeply support of course is the overall terms of reference of the Financial System Inquiry. Remember the overall terms of reference was to develop a financial services system that can best support Australia's economic growth. That gives to then the fourth point, about growth and stability being interconnected.

That's where we think there's a requirement for more discussion as we go into the next stage of the Financial System Inquiry, and before any recommendation actually land up being enacted.

[More] the conversation about the trade-offs and the interconnectivity between growth and stability. There's been a lot of conversation recently about stability, and of course you can ever increase capital and become ever more safe, but that does come at a cost. And the increasing or capital lands up ultimately having a diminishing return, in terms of safety.

But the costs are real, capital is not free and those costs will flow through to impact the economy more broadly. Noticing and noting the banks are strong intermediaries within the Australian economy. And we think it would be a good opportunity to have a stronger debate about that linkage and interconnection of growth and stability.

The last point that we'd make is that we strongly recommend a principle based approach, and hope that Financial System Inquiry will take a principle-based approach rather than a descriptive points in time approach, with regard to capital. So that we can make sure that these recommendations do stand the test of time, in the way that you'd want an inquiry of this sort to do.

In terms of looking ahead, a period of fundamental change and what an interesting time to actually be in banking. In fact I could probably rephrase that and say what an exciting time to be in banking, certainly the most exciting time in my career. If you think about dealing to these new rules of banking, I would have thought perhaps by now, in 2014 that we would have dealt with the new rules.

But they're still emerging, they're still being designed, they're certainly still being implemented across core capital regulations, liquidity, across conducts and compliance, risk culture. So significant developments in that front, the whole new rules of banking is a really interesting element.

Then we have what we call sometimes the new world of banking, driven as I outlined earlier through new technologies, changes in the way customers are approaching the delivery of services and what they except and require of organisations. New players entering our field, so the whole new world of banking, very exciting.

Add to that of course global economic conditions and local economic conditions, and they remain mixed globally. Certainly the US is on an improving trend, Europe remains in a world of pain, Japan we've seen recently sort of doubling down on the stimulus. So determined not to fall back into a deflationary environment and wanting to hit that inflation goal they have of 2%.

It will probably mean we're going to see more stimulus again back through the ECB into Europe. **China** engaged in a very material restructuring program of its economy, but as Governor Zhou the People's Bank Governor of **China** indicates most likely to be maintained and managed in that 7% to 7.5% range.

Within Australia, you know I'**m** quietly positive about our position here, it's always such a pleasure I have to say coming back from the IMF or IIF or any of those global forums, to come back into Australia. Confidence is slowly picking up here, and we've seen a pickup in growth this year. Mortgage growth this year has been around 7% -- 7% for us and we'd expect much the same over the course of the 2015 year.

Business credits been around 3%, conditions do remain subdued and it is patchy depending on the sector you're talking about. Infrastructure of course is strong. Our economist Bill Evans, I see him in the room here, predicts and forecasts that business credit will grow from 3% to 5%. From a business point of view I think that might be hard going to get it to 5%, and if it's going to get to 5% it's going to be more on the latter part of the 2015 year. But nevertheless growth in certain key sectors.

Overall I'**m** really excited about how the **group** is placed at the moment, particularly pleased with the work that we've done in 2015 around our service revolution agenda, and the way in which we've imbedded that across the whole **firm**, and the way in which delivering across the whole **firm**.

We are a strong organisation with a strong balance sheet, and really good momentum. I think we can tackle anything that actually gets thrown at us. All of our businesses are in good shape. So with that let me ask Peter to join me and we'd be happy to take some questions.

Questions and Answers

ANDREW BOWDEN: Okay you guys know the drill, so we'll just keep it to one question each, Hamilton do you mind passing this down to John?

JON MOTT, ANALYST, UBS: Jon Mott from UBS, question on business credit and probably a bit on the institutional side and also just on the comments you just were talking about then, with the broadening out. A lot of the pickup in business credits so far has been institutional and predominantly within **commercial property** and in infrastructure. You also had some comments earlier that you're starting to see some margin pressure come in there.

So can you just make a comment on the returns that you're now generating from that kind of lending? Are you getting adequate returns to risk? Because often as competition comes in some less good projects do get approved.

Also just on the broadening, are you starting to see any kind of broadening outside those two areas, both in the institutional space and probably pass that over to the retail business banking St. George as well?

GAIL KELLY: Well it has been very strong and institutional and you know it's fantastic for us actually to be -- have the capability that we have an infrastructure. I'm going to get Rob to comment on it, because he will talk a little bit about not only the lending that we do into the transaction, but the other sorts of support that we provide into the transaction.

So if you look at the ROE it's not just in the base of the lending, it's in the base of advice and other support that we provide. Rob while you're about it you might want to talk about commercial property too, and then we'll pick up on the retail side.

ROB WHITFIELD, GROUP EXECUTIVE, WESTPAC INSTITUTIONAL BANK, WESTPAC BANKING CORPORATION: Sure, terrific thanks Gail, thanks Jonathon. Look the first comment would be you're right, in terms of where our growth has come from. It has been predominantly infrastructure and commercial property.

In terms of the quality of that growth, it's the quality of growth you'd expect from Westpac institutional bank. The infrastructure deals that are being done this year, are very high quality and are the types of returns that certainly meet or exceed the Westpac line in the sand on ROE at 15%.

Gail did refer to though, we do expect to see continuing margin pressure like we've seen in 2014 into 2015 and more on the asset side rather than the 2014 experience which was more liability and asset side of the balance sheet. So that does mean eventually you'll get to the point in the cycle where we need to determine whether those infrastructure deals are still going to meet our hurdle. But we're not at that point Jonathon, in fact I think we're some way off.

In terms of the broader based pieces, the other areas we've called out as opportunities for growth, we are seeing some really positive signs. So the superannuation sector for us has been a really important growth opportunity.

Natural resources, whilst coming off a point in the cycle in terms of the investment spend, there are still some good quality projects that have been financed, and we've had some success there. Education and health are the other call out areas for us, before we go into the geographical areas of Asia.

GAIL KELLY: Thanks Rob and look on the retail side or the commercial side in AFS, what Rob said certainly health, education, big sectors SMEs, we've invested in that quite a bit as you know through both Westpac and St. George. So good pick up of new customers, Business Connect and our Connect Now, the relative implementations in Westpac and St. George.

Really delivering more cross sell per customer as well as new customers coming in the door. So SME, health, education and property, and look our property at the moment, as you know we worked down that level of exposure quite significantly over the last few years. It's at its lowest level it's been for about seven years, so really happy with where we've placed and happy to take on board good quality commercial property transactions.

ANDREW BOWDEN: Mike?

MIKE WIBLIN, ANALYST, MACQUARIE GROUP: Mike Wiblin from Macquarie. Just a question around macro prudential changes and the potential for those moves in Australia. Maybe a little bit on the experience in New Zealand as well and whether we can extrapolate that here. But also really that the possible impact on Westpac more broadly, given you are a big lender the investor space, and this is the first time I guess within the RBA, highlight the imbalances from that perspective?

GAIL KELLY: Well we'd have to wait and see, I'm certainly convinced that whatever the RBA or APRA do will be quite sensible and moderate. I don't think that either of them are big fans of macro prudential tools -- extreme macro prudential tools and this absolutely required.

I mean they're already using macro prudential tools right now, stress testing is a fabulous macro prudential tool, deep reviews of sectors for example the housing review that's just been done. Are talking about the issues in order to make sure that banks remain across and on top of their lending standards, their underwriting standards, the quality of the book, the concentration of the book and so on.

So those are the sorts of tools they're using at the moment, and I think they'd like to stop at that suite of tools, rather than start to intervene with additional policies, that actually can be quite distorting. As soon as you move from the risk weighted system to introducing other factors, you can distort. So we'll have to wait and see.

In New Zealand, it was quite a particular set of circumstances in New Zealand because of the heat in the Auckland market in particular. Certainly it's worked reasonably well, although again some distorting factors made it a whole lot harder for new home owners to actually get into the marketplace.

ANDREW BOWDEN: Jarrod.

JARROD MARTIN, ANALYST, CREDIT SUISSE: Jarrod Martin from Credit Suisse -- a question on financial markets income. A fairly significant fall off this half and if I was to compare the rates of drop off versus the other banks and the numbers -- difficult to compare -- but it looks as if Westpac's drop off in financial markets income is larger than the likes of ANZ and National Australia Bank.

ANZ certainly highlighted the softness in their third quarter but they got a bounce back in the fourth quarter. I just wanted to understand a bit more about the drivers and what happened there and were we coming off an unsustainably high first half and we should look more at the second half numbers as being a normalised level? So just some more colour around the drivers there?

PETER KING: Thanks Jarrod. If I think about the businesses, the major drop off was in the treasury business. When we looked at the four areas where treasury makes money, it's interest rates here and in the US, it's the liquids portfolio and it's the basis books. All of those delivered lower income in the half.

So it wasn't -- and when we looked at the risk taking positions for the opportunities, we were very comfortable with the fact that we weren't taking risk for opportunities that weren't there. So the other point I'd make is even at that lower return, the return on **equity** that treasury delivered is very good. So it's still a very good business from a return perspective.

In terms of potential, as I said, it's probably best to look at over the year rather than the six month periods. We've seen volatility last year half-on-half. We've seen it this year half-on-half and it will really depend on the conditions or the opportunities that we see in any particular year but we think the risk we're taking for the return equation is right for the half.

JARROD MARTIN: You didn't see any opportunities in the late part of the fourth quarter?

PETER KING: In terms of the months, we did have a better fourth quarter and we did have a better September but earlier on was a bit softer.

ANDREW BOWDEN: Just pass it to your left there, Jarrod. [Ryan], just pass it across.

UNIDENTIFIED PARTICIPANT: Congratulations Gail on yet another result where we see the dividend grow at exactly AUD0.02 per half year. Gail, today you're lifting the capital target and we also don't know what the FSI might require.

Could you give us a feeling on the capacity and in the result we also saw cash EPS running at the reported EPS. Could you give us a feeling on the ability to actually maintain that nice steady, reliable AUD0.02 growth if the capital requirement was actually to go up?

GAIL KELLY: Well Ryan that's hypothetical so we don't know what the capital might do but certainly and in terms of the range that we've got at the moment, we are very comfortable that we'd be able to maintain that. It's really going to depend on what happens and then how we deal with it. That's my discussion about the connection between stability and growth.

So what we deal with it -- if we have to hold more capital, the costs to the bank is a cost to the system, how do we deal with that? Like many businesses, you'd actually think about whether you pass that cost on or whether you price for that cost.

Either you do that or it results in a lower return. So one way or another we need to think about the cost and how we'll actually deal with it. But at the moment very comfortable (inaudible) that dividend trajectory on what we know.

UNIDENTIFIED PARTICIPANT: Thank you.

ANDREW BOWDEN: Might take a call. I can see I've got a call here from Victor German.

VICTOR GERMAN, ANALYST, NOMURA INTERNATIONAL: Thank you Andrew and good morning everyone. My question just if I could follow up on Jarrod's earlier question on market income and particularly treasury income.

So there's obviously a reasonable decline there. Peter, if you could perhaps break it down for us a little bit further in terms of the impact of lower interest rates and also impact -- I've noticed you've built up your liquidity portfolio, particularly you re-weighted it towards higher cost liquids. Just wondering if you could give us some sense for what impact those had on treasury performance?

PETER KING: Victor, I don't think it's worthwhile going down into the portfolios themselves. The thematics are the important things. Probably the only other thing I'd highlight is we had moved some of the liquids portfolios into available for **sale** accounting treatment and that has seen some revenue reflected in the reserves rather than in the P&L. Apart from that thematic, not really any value in going down deeper because we managed these portfolios based on what we see in the market.

VICTOR GERMAN: No, I appreciate that but you're sort of saying that we should look at the full year numbers as a guide for what this business can achieve going forward but environment is changing and presumably your hedges are rolling off and liquids are more expensive. So I'**m** just wondering to what extent FY14 is a good guide for FY15 or there should be actually some sort of step down due to those forces?

PETER KING: It will depend on the market movements in credit spreads, interest rates and basis costs more than it will the balances themselves is the way to think about it.

VICTOR GERMAN: Okay thank you.

ANDREW BOWDEN: I'll take a question from Craig Williams as well on the phone.

CRAIG WILLIAMS, ANALYST, CITIGROUP: Thank you very much, Andrew. Where am I? Look your operating leverage is very good with CTI in the low 40% now and you've now engineered an outcome of at or above system growth in credit across the business too but you've delivered negative draws for the past two years. So now that credit costs are perhaps providing less of an earnings tailwind for the business, do you now prioritise driving those positive draws in an effort to grow earnings and dividend?

GAIL KELLY: Craig, we remain focused first and foremost on core earnings as we have done over the past few years. Frankly it's that softness in market risk revenues that actually resulted in a negative draws.

We know without that if we'd be able to repeat the first half performance for market risk into the second half, we actually would have had positive draws. So we're not about to invest our cost programs or investment programs based on that type of one half situation in trading revenues. So core earnings is the first element.

However, clearly as you heard me say in my presentation, we're very focused on productivity. I think through the service revolution you're going to see a further step up in our productivity agenda and that's driven by the simplification initiatives, it's driven by the transformation of our distribution, it's driven by this new way of working -- faster, quicker way of working.

So I think you will see a step up in productivity. We've largely offset ordinary expenses with productivity benefits. I think you can expect to see a bigger productivity benefit into the 2015 year and as you heard me say the sort of 41%, 42% range, I want and expect to see that come down too as a consequence of these initiatives.

CRAIG WILLIAMS: Okay, thank you.

ANDREW BOWDEN: I'll take one from the phones -- one more -- Scott Manning please.

SCOTT MANNING, ANALYST, J.P. MORGAN: (J.P. Morgan, Analyst) Good morning. Just your thoughts on the outlook for the margin given we've got quite a substantial tailwind to the costs of funds coming through over the next couple of years if you look at your average costs across your long term wholesale portfolio and also where spot rates are and also given that the heavy lifting is done on the LCR. So deposit pricing is also helping out.

Low interest rate environments largely worked through the free float as well. So is it a little bit too much to ask for maybe the customer margin actually starting to trend up next year to provide that underlying growth that you're looking for in profitability?

GAIL KELLY: Why don't you have a go Pete?

PETER KING: You can always ask, Scott, but we don't provide line-by-line guidance obviously but if I talk about the dynamics, I think you've hit it right. On the lending side we are seeing robust competition so both in mortgages and housing.

As Rob said, the institutional book, that's probably where the pressure is going to be and a bit more QE announced recently. You'll probably see more money looking to go to work so the trend there is probably still heading down. In terms of wholesale and retail, deposit pricing is by far the biggest impact on cost of funds drivers.

We will have a headwind -- sorry we will have a tailwind from wholesale funding if market rates stay where they are but not quite as big as this year. So it's very important what happens in the retail deposit piece. Then on free funds, I thought we were at the bottom but the swap rates dropped again well below 3% so we'll have to wait and see.

You would have thought that three year rate would be edging up by now but it might delay it a little bit into the later part of 2015 or next year depending on where we sit. So you sort of put all those together and it will depend on each piece what we deliver next year. (Inaudible).

SCOTT MANNING: I suppose another way to ask the question is given you've restored rates of growth back to system this year given the flat margin, do you feel more confident of being able to sustain at system or above system rates of growth as well as managing the margin next year?

PETER KING: Yes.

GAIL KELLY: We expect to be able to do both. That's the key. I think we've show that this year -- we expect to be able to do both.

SCOTT MANNING: Thank you.

ANDREW BOWDEN: I'll take a final question from Richard Wiles please.

RICHARD WILES, ANALYST, MORGAN STANLEY: (Morgan Stanley, Analyst) Richard Wiles, Morgan Stanley. I wanted to ask about system growth in mortgages as well. You were very clear last year that you wanted to reinvigorate the home loan business. In the media release you've referred to an increase in customer numbers.

You've also talked about some of the things you're doing to improve product service. As you just said, you're targeting above system growth for 2014. Do you specifically want to achieve that in the Westpac franchise as well as the St. George franchise and do you think you can do that?

GAIL KELLY: Absolutely. In fact Westpac had a really strong trajectory. Jason you may want to say a word or two about it. It's on a very strong trajectory over the course of the past three halves if you think you were about 0.6 times of system some period ago and it's steadily growing to the September data point was 1.1 times system. So a really steady pickup in the Westpac brand as well. Jason, do you want to say something.

JASON YETTON, GROUP EXECUTIVE, WESTPAC RETAIL & BUSINESS BANKING, WESTPAC BANKING CORPORATION: Yeah thanks Richard for the question. Look I think we're very pleased. At the start of the year we explained how we wanted to go about growing our mortgage portfolio across AFS. If you think back to the second half of last year's results, we were at 0.7 times system across AFS, first half 0.9 times and across all brands in the second half we were 1 times system.

We spoke about the drivers of that including increased brand consideration in both St. George and Westpac, we spoke about an increasing sales force effectiveness, we talked about improving the operational efficiency and speeding up times yes and service elements.

I think across the whole Group we've done that very, very well. We've seen strong growth in the St. George brand over the course of the year. If we look at the Westpac brand, we've gone from 0.8 times system in the first half to 0.9 times system in the second half and in the month of September at 1.1 times.

If I look at the work we've done I feel pretty confident that actually we are in a sustainable position to grow. We've done that without compromising margins too much. We have done that without compromising credit quality.

I guess the key issue is what happens with competitors in the overall market but we see that as being pretty favourable to still see a positive environment for home lending and strong momentum in both brands. That said, there's still opportunities for us to improve on all the five dimensions and that's what the organisation has focused on.

ANDREW BOWDEN: Thanks Jason. Look with that, thank you very much and good morning.

[Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE **COMPANY**'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE **COMPANY** OR THE APPLICABLE **COMPANY** ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB **SITE** OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE **COMPANY**'S CONFERENCE CALL ITSELF AND THE APPLICABLE **COMPANY**'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.]

CO wstpac : Westpac Banking Corporation Limited

IN i814 : Banking | i81402 : Commercial Banking | ibnk : Banking/Credit | ifinal : Financial Services

NS c151 : Earnings | ntra : Transcripts | c15 : Performance | ccat : Corporate/Industrial News | ncat : Content Types | nfact : Factiva Filters | nfce : C&E Exclusion Filter | nfcpex : C&E Executive News Filter | nfcpin : C&E Industry News Filter | niwe : IWE Filter

RE usa : United States | victor : Victoria (Australia) | apacz : Asia Pacific | ausnz : Australia/Oceania | austr : Australia | namz : North America

PUB CQ-Roll Call, Inc.

AN Document FNDW000020141105eab200001