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Presentation

ANDREW BOWDEN, HEAD OF INVESTOR RELATIONS, WESTPAC **GROUP**: Well good morning everyone and welcome to Westpac's First Half 2014 Result presentation. My name is Andrew Bowden and I'**m** head of Westpac's investor relations. Today we'll follow the usual format of a presentation followed by Q&A and presenting today of course is Gail Kelly, our CEO and our new CFO, Peter King. Without further ado, let me invite Gail to the stage.

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GAIL KELLY, MANAGING DIRECTOR AND CEO, WESTPAC **GROUP**: Thank you Andrew and good morning everyone. Thanks very much for joining us for our interim results for 2014, First Half 2014. Let me start by saying that we are really pleased with this result. We see it as a high quality result, a result that's delivering for customers and for shareholders. We have a best in class balance sheet, all of our business divisions are delivering good operating momentum, and we're executing well on our strategy. Just to have a look at the numbers themselves starting with cash earnings per share, and as you can see over the prior corresponding period, up 7% and over the prior period, up 6%. Our cash earnings number of AUD6.772 **billion** is also up 6% over the prior corresponding period, and it's good to see that alignment there which shows the impact of not needing to issue shares into the DRP. That performance has been boosted of course by a strong core earnings growth of 5%. Return on **equity** is a pleasing 16.5%, we have a very low impairment charge to average loans of 12 basis points, and the expense to income ratio and our common **equity** tier 1 ratio are indeed sector leading. From a dividend point of view, the directors have declared a AUD0.90 dividend for the half, which is a AUD0.02 uplift on the prior half, really following our consistent pattern over recent periods. Turning to the divisional contributions and here for the most part I'**m** going to refer to the results relative to the prior period, so just having a look at the last six months in particular. Starting with Australian Financial Services, which as you know, includes our Westpac RBB business, St George and BT and a very good performance over the past months. Cash earnings up 6% over prior period and core earnings up 4% over the prior period. When I think about our AFS division what I'**m** really pleased about is this high level of alignment, coordination and sharing that actually happens across that business unit as it's being managed and run as a portfolio. I'**m** also really pleased with the progress that we're making between the WIB AFS partnership being co-led by Rob and by Brian and in this half we delivered AUD292 **million** of revenue. Turning to Westpac RBB and when I think about this business unit over the past several halves, you really think in terms of consistency and quality and discipline, and again another performance of that order of this half. So cash earnings up 3% over the prior period, margins up 2 basis points and expenses very well controlled. This is a business that's got good operating momentum going into the second half, with an uplift, as you would have seen, in home lending. On St George, a very good performance for the half. On cash earnings over prior period up 10%. Lloyds has contributed to that, but if you exclude Lloyds, it's still up 8% over the prior half. All of the various brands within the St George **Group** have actually contributed positively to its result. It's delivering at system growth for both mortgages as well as retail deposits, its margins are up 2 basis points and a very strong performance from the credit line with a reduction of impairments of 37% as we continue to see the runoff of stressed assets and repayments in this business. Overall the franchise is in really good shape with customer numbers well up, and you'll see that on a later slide. With regard BT, it's always best there to actually look at the results relative to the prior corresponding period, due to seasonality in the wealth business. I must say the BT results this half are truly outstanding. Cash earnings is up 21% on the prior corresponding period with revenue up 17%. Funds under management are up 25%, funds under administration are up 12% and really strong performance in Life as well, in all forms of insurance actually, both General and Life, with a good uplift in gross premiums and a very stable loss rate over the period. In terms of Westpac Institutional Bank, looking at the prior period, cash earnings are down 5%, but you can see from the slide here that we've had infrequent and volatile items that have benefited the prior halves as noted on that slide. Now key amongst those is the one that's been well flagged to you all which is the Hastings business, where we **sold** down the listed infrastructure funds, delivered benefit obviously over those prior periods. The other one is CBA which delivered a strong uplift in the second half of 2013, but is pretty well flat for this year -- for this first half. So if you exclude those elements, overall cash earnings is up for the half 7% on the prior period. This is, as you know, a very high quality customer-led franchise. We've been the lead institutional bank for some period, and indeed the lead transactional bank for 10 years in a row. Customer revenues are up 2% and that's notwithstanding quite a material decline in the margin again flagged in the past half, and I know Peter King will give you more insight into the drivers of that margin decline in WIB. Of course I cannot leave off talking about the Institutional Bank without mentioning the strength of its credit quality and you'll see in the numbers again just an outstanding performance there. On Westpac New Zealand, the numbers here are reflected in Australian dollars, up 17% on the prior period, in New Zealand dollars it would be up 8% over the prior period. Peter Clare and his team have focused really hard on deposits over the last while, so over the prior period a growth of 4% in deposits with the deposit to loan ratio now coming in at 77%, but also above system growth in mortgages and in business lending in New Zealand. You'd see that margins are down also in New Zealand, down 4 basis points, largely due to the competitive environment and also the switching that customers are doing from variable rate mortgages to fixed rate mortgages. Lastly there too, an improvement in credit quality with the runoff of stressed assets. You'd be well familiar with our strategic priorities and it is certainly one of the themes of this result that we're executing well against them. The five key elements ensuring that we remain strong, we're targeting our growth in particular sectors and geographies. At the very heart of our strategy is depth of customer relationship that really underpins the whole. In order to drive depth of customer relationship we have a very big focus on simplifying our business, making it easier for our customers, making it easier for our employees, and lastly of course pulling together as one team. The [construct] on the right-hand side of the slide also will be familiar to you, where we focus on achieving the balance between the four elements of strength and return and productivity and growth, understand the trade-offs between them and drive a sustainable result. You will recall me saying at the November results presentation that on the basis of the overall strength of the business we'd be tilting more to growth as we go into 2014, and I think we're managing that well. But let's first off start with having a look at the strength, return and productivity dimensions here, and on strength our capital, our common equity tier 1 ratio is a highlight for us, coming in at 8.82% for the half. As you can see, that's above the equivalent half last year, the March half last year, we were 8.74% and I mentioned that because between then and now we've paid two special dividends, as well as of course acquired the Lloyds franchise, so really pleased with that outcome. Stressed assets to TCE continues to decline, a really strong situation here and well lower than the 3.20% which was its peak in 2010. Return is a very good story for us, a return on equity up at 16.5% and really tight careful management of our margin, just 1 basis point for the period, 1 basis point reduced for the period. On productivity two measures here to look at, one is revenue for FTE which is up 3% and the other is expense to income. So our 41.2% is almost 300 basis points lower than the average of our peers. So turning then to growth and starting off with a discussion about lending growth, and of course in that starting off with a discussion about mortgages which has been where the activity's been over the course of the past half. Again, you'll remember in November of last year I indicated that our goal was to work towards achieving system growth during the course of 2014 on mortgage growth, but to do that in a sustainable way, to do that with the trade mark Westpac discipline and consistency. I'm really happy with how Brian and his team in AFS have actually gone about this and you can see the uplift from 0.7 times of system in the fourth quarter of last year to 0.8 times in the first quarter and now 0.9 times in the second quarter. Brian and his team are aiming at achieving system growth for the second half of 2014. We've done that while maintaining really excellent credit quality, and indeed managing the margin tightly and well and the margins in AFS were up 2 basis points over the half. Personal lending's been a good story for us over this past half and two quarters of picking up market share in both personal lending and in credit cards. The reason for this is a couple of things, firstly straightforward focus, really bringing in good leadership into the area, bringing good disciplines into the area. We've also focus on simplifying the product sets that we have in this area and focus on streamlining and simplifying the processes that underpin our personal lending and credit card lending, with a reduction in complaints in both categories of over 25%. So this is a good lift and I expect there'll be more to come. On Australian business, well it remains a subdued environment, but having said that, we're pleased to see an uplift over the course of this half, obviously assisted by Lloyds as well with its AUD5.1 billion of lending that we acquired at the end of last year. This is very good -- well not very good, maybe I overstated, there's good uplift in new lending coming through in business, but it is continuing to be largely offset, not completely offset but largely offset, by the repayments of stressed assets and the natural repayment that occurs in that portfolio. But there are some positive signs of a better uplift of new lending coming through within our Australian business portfolio. In terms of growth in other targeted areas, well deposits is not a new area, we've spoken about that over many halves in the past and it continues of course to be a focus for us. As we move and shift towards the implementation of the new LCR rules which come into place from 1 January next year we paid a lot of attention on the quality of our retail deposits. So household deposits has been a big area of focus for us and I'm pleased to say over a 12 month period we've grown our household deposits over 10% -- that's the sticky category within the classification of the LCR rules. I've mentioned the performance in our funds under management, funds under administration and also insurance. Bank of Melbourne continues to achieve above its goals actually so really pleased with the growth in household footings share in Victoria, so up to 4.5% of the overall footings growth there. If you look at mortgages we're about twice times Victorian system over the last six months and retail deposits at two and a half times system over the last six months with very good lift and pick up in new customer relationships and growth in customer numbers overall. In WIB our trade volumes are up -- they're up 29% as you can see is off a relatively low base but good solid uplift there. Just for a moment pause and talk about Asia, as you know that's also one of our targeted growth areas ensuring that we can support our customers institutional, corporate, commercial, agri customers as they are increasingly trading and investing in Asia. So we've steadily been setting about building new capabilities, more people, enhancing our platforms in these arenas. I'm really pleased with the progress that Rob and team have made over the course over the past six months indeed over the course of the past two years. It was about this time a year ago where we were one of only two banks in Australia to be awarded the market makers licence for the Aussie/Renminbi trade. I'm pleased to say a year down the track we're the lead player in that particular trade, more than any of the Chinese banks or anyone else. We've recently been awarded also only one of two banks -- Australian banks -- the market makers licence for the Kiwi dollar and the Renminbi and obviously that's a business that we'll support very actively too. We've been awarded to the derivative licences in both Beijing and Shanghai, one of the first Australian banks to be given a licence to open our branch in the free trade zone next to Shanghai. So really pleased with the performance that's occurring there. If you look at our uplift in revenues out of Asia again off a small base but over this half over the prior period it's up 40% in US dollars. I mentioned that driving deep customer relationships is at the very core of what we're about, it is the heart of our strategy and there are a number of ways that we measure that. Obviously one of the critical ones playing directly to a competitive advantage for us is driving additional wealth product through our own banking customers -- this dimension of wealth penetration of our own customers. I think our model in AFS really supports this, the way Brad and his team work so closely with Jason and George and their teams. You can see here that Westpac Retail and Business Bank is the lead player in this particular area and indeed pushing away. St George is the fastest pick-up -- fastest improvement in this area and in deed above two of our major bank peers. Turning to capital -- well as you can see we really are pleased with the strength of our capital position coming in at 8.82%. We're moving towards and we're really well placed of course for the implementation of the D-SIB which comes into place and 1 January, 2016. In the second half of this financial year we'll finalise a new preferred target range in preparation for that new D-SIB regime that kicks in on 1 January, 2016. The dividend decision has been a really easy one for us this half. So a AUD0.02 uplift in the dividend following our usual pattern but because of the strength of our position and not needing to raise more capital, able to immunise or neutralise the impact of the DRP for this half. You may recall that in November last year I spoke about a very significant profound change that's occurring in the kinds of services and expectations that customers have of their banks and their own changed behaviour and changed pattern. I mean in March, Brian and the AFS team backed that up and spoke also of the very material changes that are going on in the industry at the moment and they've spoken particular about the changes arising out of mobility and arising through digital. Really from a Westpac point of view, we want to make sure that we are proactive and that we're responsive and ahead of the game here. It's actually quite extraordinary to see the race of adoption that's occurring with regards to the pickup of mobile and the use of mobile for transactions and sale purposes. It's really worth reflecting that five years ago there were no smartphones around, there were indeed no tablets around so quite an amazing rate of adoption, quite a significant industry change that we're going through. All of our and so many of our customers now have our smartphones, our tablets as such an integral and fundamental part of the way in which we go about our lives, the way in which we engage with service providers. So we are determined to make sure that we lead in this area of digital, in this area of innovations, area of simplification and new capabilities to meet the needs of our customers as they change. Of course I won't go through this slide in all of its elements but what it's here to do is to point to a number of key initiatives that we are underway with right now to dramatically improve the customer experience. So just to name a couple, obviously as you know our online Westpac live is being rolled out as we speak at the moment. We'll be rolled out to our two and half million customers by the end of September this financial year. Similarly our new wealth platforms that we've called BT Panorama, the first phase implementation our cash hub was released over the course of the past six months. If you look at our branch reconfigurations we now have 34 Bank Now sites in place, Jason spoke to that at his presentation in March. We have 61 of the St George version called Fresh Start and at Business Connect the SME solution for St George we now have over 100 -- I think it's around 112 sites up and running and operationalised and we're implementing a similar model within our Westpac business. If you look at the targeted messages to customers in this last quarter alone, 16 million individuals targeted messages to customers offering service or advice to support them in their needs. There's a brand new merchant solution that we're rolling out or piloting, due to rollout very shortly with enhanced features for our merchants. Much more simple in its design and look and feel and significantly improved processes -- on boarding processes and day-to-day processes. Of course we continue to innovate in the area of contact us payments both within St George and indeed within Westpac. So overall a very significant revolution is underway here -- truly a service revolution for our customers across the Group. Let me finish then in terms of summarising by saying we see this as a high quality result for the WestpacGroup and again another consistent performance. We do have a very strong balance sheet, we're improving our growth in the areas that we're targeting so pleased with the progress we've made there and good operating momentum in all our divisions as we go into the second half and delivering value for our customers and our shareholders. Now before I hand over to our new CFO Peter King, I'd just like to say two additional whereas -- (1) is a big thank you to all of my team, the Board of General Management team and indeed the 36,000 employees in the WestpacGroup including our new Lloyds employees that we brought on board during the course of the period. These are remarkable people who bring so much of their discretionary effort to work every day. We have very high levels of engagement as I know you'd be aware. There's a strong buzz in the organisation as we head towards our 2017 200 year anniversary. I'd also especially like to acknowledge and to thank Phil Coffey, so well-known to all of you here. Phil Coffey has been our CFO for eight years and you can imagine for me what a privilege it's been to stand alongside Phil and represent the company in so many different ways at these forums and in others. I'm really thrilled -- believe me I'm really thrilled that I continue to stand alongside Phil and work with Phil in his new role of being the Deputy CEO so big thank you Phil. I'd also like to acknowledge and welcome Peter King to his new role of CFO for the Group. Now I should tell you that in all of my time that I've been in Westpac the power behind the numbers -- the driving force behind the numbers has actually been Peter King. I'm probably setting him up here, but let me say there's not much that he's not all over, there's not much that -- sorry for that Pete. Of course he's been Deputy CFO before becoming CFO and so it's really been a seamless transition to his new role and Pete's bringing in immense amount of advice and support to the executive team as a whole. So with that, may I hand to you Pete.

PETER KING, CFO, WESTPAC GROUP: Good morning everyone. I thought I'd start today just by acknowledging what a privilege it is to be appointed the Westpac CFO. Gail thank you for those kind words, and Phil can I thank you for the support in the last eight years in particular. In preparing for today I looked back at what Phil said six months ago and he highlighted seven areas, and without exception they've all been very important in this result. This morning I'll target my comments towards areas that I think are most of interest to you. So looking at the result as a whole it was a high quality performance. As Gail said all the key metrics are moving in the right way, cash earnings up 6%, core earnings up 5% and ROE stronger. I think also importantly as the chart highlights it hasn't been -- it's been a very consistent performance over a number of periods and a feature of the result was also that all business units performed well either delivering to or exceeding expectations. The Lloyds acquisition was also a highlight contributing AUD20 million of cash earnings in its first three months and that's right on target. Return on capital is one area I spend some time on, and this table you've seen before it shows the movements in return on assets and return on equity. The lift in ROE to 16.5% was a real positive in this result. It reflected a small improvement in the return on asset and good use of capital. (Inaudible) flow capital through the acquisition of Lloyds and via last year's special dividends and our decision to cease issuing shares for the DRP is also benefiting here. As a result, leverage increased and contributed two thirds of the lift in ROE. On this slide I've summarised features of the result. These are the areas that I thought would benefit from further discussion and they also reflect questions we're often asked by the market. There are six topics that you can see here, two of which are new and specifically they're the FX translation issue and also our transition to LCR. A topical point in any result is Treasury and Markets. This half we saw improved performance in both as you can see in the top chart customer related income improved. We saw solid growth over recent halves reflecting our strong position in both foreign exchange and debt markets. As Gail said, the WIB/AFS partnership was also a contributor here. Risk income, highlighted in the bottom chart, can be a bit more variable. Treasury had a better performance up on last half but down on a very strong second half -- first half of 2013. The better outcome reflected good management of interest rate positions and better returns from the liquidity portfolio. Markets also performed well with a higher contribution from both FX and debt markets, however a lower CVA adjustment more than offset this better performance. While risk income carries some variability, it is more than compensated for by the very high ROEs. Turning to infrequent items, these items did not have a big impact on cash earnings growth. They did however impact individual line items, particularly expenses. Firstly, FX translation, this mostly related to the 7% appreciation in the New Zealand dollar. This added AUD15 million to cash earnings. The impact was modest as the translation benefits were mostly offset by hedging losses. Looking forward, our second half New Zealand earnings are hedged at a similar rate to the first half, so you will not see much impact from translation in the second half. On the right hand side, you can see infrequent and volatile items. Asset sales have been relatively consistent over the last few halves, with the half including some sale of Visa shares. Performance fees relate to asset management. I've included these as the revenue and expenses were large, particularly this half, but the impact on cash earnings is modest. Divisional results were also impacted by these items. This half saw most of the fees in BT, while in prior halves, they were in WIB and they were the Hastings exit fees that Gail referred to. Finally, as I mentioned before, I've included the volatile CVA item. The change in CVA had a large impact compared to the second half. So in summary, these items were not contributors to cash earnings growth this half. Turning to funding. As we indicated last year, the heavy lifting is behind us. Overall funding has been managed well. We've acquired Lloyds and absorbed a pickup in lending and our stable funding ratio is unchanged from a year earlier. This half we focused more on optimising the funding mix and preparing for the introduction of the LCR in nine months times. You can see this played out in the composition of our stable funding ratio. The contribution from long term wholesale rose as we took advantage of supportive global markets and lifted term funding by AUD8 billion. The customer deposit contribution was lower. We continue to grow household deposits system as you can see, although business deposits were down as we focused on the LCR value. One impact of repositioning for the LCR was the competition for institutional working capital balances was high, and this had an impact on the WIB margin.

The business is now well positioned as we approach the introduction of the LCR. Moving to margins, we had a good outcome over the half, with margins down 1 basis point. Margins, excluding Treasury and Markets were down five, although this was mostly offset by better Treasury performance. Looking at the main drivers. Asset spreads were down 7 basis points, with 5 basis points due to mortgages in Australia and New Zealand. Mortgage spend contraction reflected increased competition and the switch to lower spread fixed rate loans. Improvement in the cost of funds offset most of this asset spread decline with better deposit spreads and the benefit of Lloyds. Wholesale funding costs also reduced. Outcomes were slightly different, as you can see in the bottom left chart here. So AFS reported a slightly higher margin, with better deposit spreads and the benefit from Lloyds. These more than offset competitive pressure on lending. In contrast, WIB experienced a decline, primarily due to an easing in credit spreads for highly rated institutions. The mix impact of growing lower margin loans, particularly trade, and as I mentioned earlier, competition for working capital deposits impacted margins. In New Zealand, they experienced margin headwinds from a continued competitive environment, the rise in fixed rate mortgages and the rundown in stressed assets. Putting these forces together, the margin outlook is relatively neutral, with competitive pressure on lending offset by lower funding costs. Excluding Treasury and Markets, the exit margin was similar to that recorded in the half. Moving now to expenses. They continue to be well managed. While the headline growth appeared a bit high, when you remove the FX and Lloyds impacts, the rise was 1.6%. This was a good outcome given the salary increases from the 1 January and the uplift in activity. Our operating costs were well managed as productivity neutralised business' usual cost increases. The majority of the 1.6% increase was due to the investment program. Regulatory change continues to take up a large chunk of the investment program, however nearly half of the investment was directed to growth and productivity, which will drive future value. As you can see, productivity has generated AUD1.2 **billion** over the last five years. This half productivity came from a large number of diverse initiatives with effects spread across the **Group**. New Zealand is a good case in point and has been a productivity role model in the **Group**. New Zealand's well advanced in the roll out of new digital technologies. The benefits of this program are now emerging, including 25% of deposits now through smart ATMs, and 13% of home loans now originated online. New Zealand costs were down 2% over the 12 months, reflecting this success. Looking forward, there are still numerous opportunities on productivity. The Lloyds integration is on track and will deliver around AUD70 **million** in run rate benefits. The move to digital will also be a key driver of productivity. But in summary, expense management and productivity remain a key focus of the **Group**. Asset quality was again a highlight. On almost any measure, we've seen an improvement. There's three call outs I'd like to make. Firstly, on stressed exposures, they were down 23 basis points. Institutional business and corporate were all lower. The number of companies in active workout fell 10% in the last six months. Secondly, we continued to see a decline in new and increased impaired assets. This was common across all divisions with a particularly large fall in New Zealand. Thirdly, on the consumer front, mortgage 90 day delinquencies were down on the half, contrary to the normal seasonal trend. These factors have all supported our very low impairment charge. In looking at the impairment charge, I've cut the numbers a bit differently to highlight what has been behind the performance. Starting at the left, you can see the new IAPs are down AUD206 **million**. Write-backs and recoveries have been fairly consistent as we've continued to work through stressed and impaired assets. The third category, write-offs direct, relate mostly to the unsecured portfolio, and again have been relatively stable. Other movements in collectively assessed provisions principally reflect the improvement in asset quality. The CAP charge was not influenced by the economic overlay, which increased AUD9 **million** this half, while the aggregate economic overlay was little changed, the composition was slightly different. We reduced or utilised overlays related to the Christchurch earthquake, New Zealand economy and a **commercial property**. We increased overlays to sectors and regions of the economy undergoing structural change. These mainly related to manufacturing and specific areas vulnerable to closure of major projects or factories. Two tables at the bottom pick up a couple of small items I wanted to share with you. Firstly, while our provision cover remains strong, the Lloyds **acquisition** understates the provision coverage ratio. This is because the accounting standards saw the book brought onto the balance sheet at fair value, with no separate accounting provision recognised. As an example, the CAP to credit risk rated asset ratio will be about 100 basis points if adjusted. Secondly, on the right hand side, I've highlighted the interest carrying adjustment impact on our impairment charge. Our implementation of AIFRS in 2006 led to some of the impairment charge being recognised in net interest income. This sees our charge 4 basis points lower than it would be otherwise and is relevant when comparing to peers. The key takeout of these two slides is that we have a strong story, whether you look at the impairment charge, coverage or asset quality. Moving to the capital picture, we maintained our strong position. At 8.82%, our common **equity** tier 1 ratio was down a little from September, but that was mostly due to the Lloyds and the special dividend. This slide also demonstrates that we generated 12 basis of organic capital in the half and on the fully harmonised basis, we have a ratio of 11.3%. I think, on any measure, we're well capitalised in both absolute terms and in comparison to global peers. What is a very topical area for this audience, is the new capital arrangements from 2016. Updates since our last result are two-fold. Firstly, APRA has announced their 1% D-SIB buffer. Secondly, APRA has recently clarified the wealth holding **company** leverage issue and there is no impact on Westpac. While we have not decided our new preferred range, I wanted to share our thinking with you. In setting our preferred range, we consider buffers for normal times and our risk appetite under very severe stress scenarios. In normal times, we aim to stay comfortably above the capital conservation buffer. In very severe stress, we do not want to operate below the midpoint of the capital conservation buffer. Under this approach, our preferred range landed at 8% to 8.5%. We will use a similar approach in revising our range and will share with you the details once that has been finalised. Importantly, as you can see on this slide, at 8.82%, we are very well positioned for this change. So finally, turning to factors likely to influence the second half. Having lifted growth, we begin the second half with good momentum. The improvement is particularly evident in the mortgages portfolio. Some pickup in system credit growth is expected, although the rise is likely to be modest, given consumers and businesses remain cautious. We will continue to be disciplined, and as I indicated earlier, the current trends in margin before Treasury and Market are consistent with the first half performance. We will continue to focus on core earnings, with cost growth appropriate for the operating environment. We aim to offset business as usual expenses with productivity, while the impact of investments will probably be a little bit higher in the second half, as amortisation rises following the completion of some of our large projects. On asset quality, the forward indicators are positive and the book continues to improve, although higher growth will probably require some provisioning. Finally, all of our operating divisions are performing well which further supports our confidence in the outlook. Thank you and let me pass back to Andrew.

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ANDREW BOWDEN: Gail, can you come on up and I think I'll take the first question from Jarrod. (Inaudible) getting too excited.

UNIDENTIFIED SPEAKER: Congratulations, Gail and Peter. Peter, I think you should be buying Phil a beer after this result, he's given you a very good one to deliver and an easy one. Two questions. Firstly on the lack of a special dividend this time around, I note that your tier 1 ratio is actually higher than 12 months ago when you did give a special dividend, D-SIBs doesn't come in until 2016 and you still have in excess of AUD300 **million** of franking credits. So just around your thinking there and what needs to be seen going forward so potentially that special dividend can come back in. That's the first one. The second one, just on your point about increasing investment expenditure. I note that your capitalised software has gone up 23% over the last 12 months, amortisation hasn't gone up as much. We expect the amortisation to increase going forward and to what extent and how much more capitalisation in that (inaudible) should we expect going forward?

GAIL KELLY: Thanks, [Jarrod]. Let me start perhaps with the first one, Pete and you can handle the second. On the first one, Jarrod, you're right, we are very happy with the strength of our capital position, it is a strong position but what we've done this time around I think is just a very sensible approach towards the dividend decision. So the normal pattern of ordinary dividends AUD0.02 up and reflecting the strength of the position and not needing to raise more capital immunising the impact of that dividend through the DRP. We also flag though we are into a new world where the D-SIB is going to come into play from 1 January 2016. I think Pete outlined the factors and the framework that we use to think about that and we haven't yet -- we've got time but it's a way, away. We haven't yet set what the new preferred range will be. We'll do that in the second half of this year. So six months from now there will be another dividend but for us now I think it's just a sensible approach.

PETER KING: On the software cap, over time we will see the amortisation increase and particularly with the Westpac Live system now going live. In terms of the increase I think over the full year of 2014 we'll see amortisation add about 1% -- maybe a little bit over 1% to cost growth but it will pick up in the second half and that will -- I think that will see the size of the increase in the balance reduce a little bit or the speed of increase in the balance reduce a little bit.

GAIL KELLY: It's often a function of when projects actually come on stream and that's when you start to amortise them so the new online system is just coming on to stream now.

ANDREW BOWDEN: Brian?

BRIAN JOHNSON, ANALYST, CSLA: Brian Johnson, CLSA, congratulations Peter. Peter, two questions. You kind of said that the non-recourse debt -- can you spell out exactly what you wanted to say? You said that you've received word from APRA. What words?

PETER KING: APRA have written to us and confirmed the treatment of the well polling companies, and what they've told us is that they should be consolidated in the level two banking groups. That will result in ratios changing but not for us. They've also said that there will be some transition arrangements but they're not clear.

BRIAN JOHNSON: So the non-recourse debt will not be netted against the **equity** investment in the last half?

PETER KING: That is the result of consolidating the holding companies into the banking **Group**, but for Westpac there's no change. That's the important thing that I was saying today.

BRIAN JOHNSON: Thank you. My question for Commbank, because I know they're listening in. Gail, if you have a look at the economic capital note we've gone through -- and I apologise, I haven't had time to read it but I'm assuming there's a big hunk of capital sitting in the middle as opposed to the operating divisions. When you recalibrate the new target presumably some of that capital will end up floating back to the divisions and the returns in those divisions will go down...

GAIL KELLY: (Inaudible).

BRIAN JOHNSON: Even though at the Group level it wouldn't. Can you just explain to us what that means for pricing in the divisions?

GAIL KELLY: We allocate the capital to the division.

BRIAN JOHNSON: But there's a big hunk of unallocated capital sitting in the middle of it.

PETER KING: Well, I think there's two things. In terms of the capital that we hold in the Group at the moment we basically hold -- so we allocate to tangible equity which means we hold the capital for the goodwill and intangibles in the Group, we hold a bit of capital for the treasury operation and we hold capital for the next dividend. So they're the three big buckets that we hold in the Group. The remaining piece is actually not that big this half. So we've got the majority of the capital actually allocated out to the divisions. The divisions always have line of sight both of what we allocate today but changes in the future. So as you've indicated, should we move the preferred range we may need to allocate some more capital with the divisions who will have line of sight of that and they will react to it. I'm not going to comment on how they react to it in terms of their strategy but they have clear line of sight and they will be thinking about what it looks like in 12 or 24 months' time.

BRIAN JOHNSON: So Pete, without having (inaudible) the table, can I just confirm there's been more capital in this result allocated to the operating divisions?

PETER KING: You will see the growth in the allocated capital for the divisions going up because -- as we've recalibrated the modelling.

BRIAN JOHNSON: Fantastic. Thank you.

ANDREW BOWDEN: John.

JOHN MOTT, ANALYST, UBS: John Mott from UBS. Just two quick questions on page 25, if I could. The first one -- wouldn't have been saying this a while ago but you now say specific provisions to -- or individual I should say -- to impaired assets, up at 46%. Now we know the balance has come down a lot and so is that -- 46% seems a large amount for the residual impaired assets, is that because these are the worst of the assets that are hardest to get off the book? Why such a large provision given asset prices are rallying again especially in commercial property. The second one, which you talked on just to the right of that, you can see -- you talked about the bad and doubtful debt charges wouldn't have been 12 basis points, it would have been 16 basis points if you include the interest carrying adjustment and you differ from your peers in your treatment. Can you elaborate on that and provide some more information and is that a permanent adjustment or why shouldn't that be wearing off over time?

GAIL KELLY: On your first one you're spot on. It's just effectively that the ones that remain are a little bit more retractable and so obviously we -- the provision that's directly associated with that particular exposure -- and remember it's the property ones that we've been able to reduce so markedly over the last while and the property ones generally are better secured. So you're simply right, it's just a little bit more retractable and so a higher provision for what's left in the portfolio.

JOHN MOTT: Thank you. Does that mean that the institutional charge which was a recovery of AUD90 million I think in the half will go back towards zero over the next half, two halves.

GAIL KELLY: Well, difficult to know because Rob and I have these conversations frequently. If you asked me that in November we probably would have said we wouldn't get a result like this, so it's difficult to know. Obviously there's still a -- it's a very good quality book. I mean, that's the main thing I would say. There's nothing in the institutional book that's of any concern for us. On the second one?

PETER KING: On the second matter it's a very technical accounting answer which I probably won't bore the audience with today but in simple terms part of the impairment charge ends up in net interest income and you can actually see it in the provisioning notes. So if you look at the movements in the provisioning note you'll see the item increasing the provisioning balance, on the other side of it in net interest income. So it's well disclosed in the provision note.

JOHN MOTT: And you differ from the banks?

PETER KING: We do. So we've probably implemented a more pure version of effective interest rate calculations and it may be something that I have a look at in future.

JOHN MOTT: Does that swing around as rates start going up?

PETER KING: It will change with rates but not markedly.

ANDREW BOWDEN: Scott.

SCOTT MANNING, ANALYST, JP MORGAN: Scott Manning from JP Morgan. You've been very focused in the last couple of years to maintain that discipline around the customer margin and indeed it's been trading at a reasonably tight range, 2.01% is the lowest that we've seen it pretty much since 2009. So down 5 basis points for the period, how confident are you that you can maintain that line (inaudible) on margins or are we entering a more competitive environment where you'll have to let that drift a bit lower to remain in the market?

GAIL KELLY: Scott, it's worthwhile looking at the individual divisions there because AFS has actually gone up slightly. So the impact on margins for this period has been, as we've previously flagged in the institutional bank, so the customer margin there and largely -- I mean, a number of factors but the main one is this working capital balance which has become more valuable under the LCR rules and so been more fiercely competed for. So that's where the margin declines occurred, and then obviously in New Zealand as well, a more competitive environment. So that's worthwhile just looking at that. Going forward, as I think Pete indicated, AFS is well placed, we expect to continue to perform in the same fashion as we have in the first half. There will be some further decline in WIB but if you want more detail on that perhaps Rob could give you some and New Zealand some of the shift has already occurred to that fixed rate, it's a rising interest rate environment so that margin pressure should ease somewhat.

SCOTT MANNING: Secondly, just on the treasury reasonably flat yield curve, not a lot going on domestically so where did those gains get generated and are they sustainable going forward?

PETER KING: I think they're -- while it was fairly flat there were some movements during the period and the Treasury was well positioned for those moves. So the majority of it was interest rate risk in the balance sheet and also a bit of a pickup in returns from a liquidity portfolio. So we were pretty happy with the treasury performance this half.

ANDREW BOWDEN: Brett?

BRETT LE MESURIER, ANALYST, BBY: Peter, another question on margins. On the loan margin you said that there was a 7 basis point decrease and you said that was largely in mortgages, presumably that means there was roughly a 7 point decrease in the mortgage book. So that would imply that the margin on new business is a lot less than the margin on existing business given that about 10% of the book comes on in six months, the new business is about AUD30 **billion** against current outstanding which is about AUD300 **billion**. Can you comment on the gap between the new business margin and the one you've currently got in force because it looks like it's of the order of 50 basis points given the comments that you've made, you've seen a large change in (inaudible)?

PETER KING: Yes, I haven't got the exact numbers, Brett but I think that's way too big. Yes.

GAIL KELLY: Yes, why don't you speak to it Grant?

UNIDENTIFIED **COMPANY** REPRESENTATIVE: Thanks, Brett. So we have seen some decline in front book margins on mortgages but actually if you look year to year and you take into account all the different factors that affect margins which are the customer rate of discounting, the product mix, the channel mix and the like, actually year-on-year I think our front book margins are up. So we've seen a decline in the first half which reflects some competition but the overall net interest margin, which is really what we've been managing to, is up. So we feel pretty comfortable with where we're at. There is some competitive tension, we are responding to that but we also have offsets that we manage to (inaudible) very carefully so nothing like the 50 basis points.

BRETT LE MESURIER: Can I ask a second question probably for Rob on trade finance margins? The comment in WIB about the decline in margins associated with a large increase in trade finance, can you comment on what's happening with the trade finance margins and the absolute level that you're seeing on those at the moment?

ROB WHITFIELD, **GROUP** EXECUTIVE, WESTPAC **GROUP**: Yes, thanks very much. In terms of trade finance margins they do remain very competitively competed for by all the international banks, so there has been margin pressure. We've seen really strong volume growth, (inaudible) offset that margin pressure to give us a pretty flat result overall. In terms of where that's going, we expect that pressure to continue because these are high quality assets, short term duration, very effective under the new Basel rules and so it's a very important part of our customer proposition as we expand into Asia. What's important to remember for our trades finance book is it's a very small book though, so it has had a modest impact over the institutional margin overall.

BRETT LE MESURIER: Thanks Rob.

ANDREW BOWDEN: Andrew?

ANDREW HILL, ANALYST, MERRILL LYNCH: Andrew Hill, Merrill Lynch. Two questions, firstly on expenses. The productivity gains seem to have been slowing down in pace from FY11 and the AUD102 **million** this half was about AUD20 **million** below the same level of the previous period. I'**m** just wondering should we expect that number to start going up again given the investment process and how

much of an impact Lloyds is likely to have on that. The second question was just around risk weighted assets. I'**m** just wondering if you could talk about the opportunities to optimise risk weighted assets and, in particular, how we should think about credit risk weighted assets relative to exposure in default going forward.

PETER KING: Sure. On the risk weighted asset question I think we've done a good job over a long time of optimising, if you use that word, the RWA calculation, so we feel like the heavy lifting's done in terms of optimisation. So that won't be a large feature in terms of the result, moving forward. What was the first question?

GAIL KELLY: The first one was on expenses. Yes, look, I wouldn't read too much into whether one half got slightly more than the other half. Our pattern is to seek to offset the ordinary increase of expenses that comes through salaries and rents and those sorts of things with productivity dividend, and we've achieved that. So each line division knows they've got to run their expenses -- their ordinary expenses -- at flat, and then you add the investment on top of that. Then we managed, as you know, to core earnings growth. So that's the normal pattern. There remain plenty of opportunities for us around productivity. It's a huge area of focus for us. We're definitely driving our digital agenda to improve productivity, make it a lot easier for customers, a lot more self-serve that's actually happening. Customers doing thing themselves that previously went to branches or went into contact centres. Our bank now -- and FreshStart, for example, are very strong (inaudible) from a productivity point of view -- less rental, less in the way of **transaction** management processes. So a very, very strong focus for us across the **board**, but I wouldn't read too much into one half to another. Andrew Bowden Might take some questions on the phone, from Craig Williams please.

CRAIG WILLIAMS, ANALYST, CITIGROUP: Yes, good morning everyone. Perhaps similar lines to a couple of the other questions, but you've called out a desire to tilt to growth as an organisation. That's probably easier to manage to positive jaws when you don't pursue growth at system levels in as focused a fashion. Your expense growth's running at 6% and your capitalised expenses as opposed to software particularly balance, I think, was up 55% in your capital adequacy reconciliation. Can you talk about the expected interplay between revenue expense growth as you get back to system growth rates? Can you explain the capitalised expenses growth of 55% in the half, as is apparent in your cap ad statement?

PETER KING: Thanks Craig. In the cap ad statement that balance was particularly impacted by the Lloyds **acquisition**, so quite a lot of deferred expenses came across on those line balances. We also had some small movements between line items, and that explains the majority of the movement. There were also some increases in mortgage growth costs, but the first two factors were the big factors.

GAIL KELLY: I mean I would say, Craig, on your overall expense comment of up 6%, I think Pete did a very good job of breaking that down so that you can see if you separate out the impact of acquiring Lloyds and the foreign exchange translation, the actual expense growth was 1.6%, and that includes the investment over the half. So I think you need to understand the various components of that.

CRAIG WILLIAMS: Basically, the message is positive jaws to be expected for the most part.

GAIL KELLY: Well, we don't put out a target or a comment about positive jaws. We certainly are aiming at core earnings growth as we are tilting to growth and managing our margin really tightly. There's good revenue uplift that we're actually achieving. Then you've already heard me talk about the productivity initiatives that we have in place.

CRAIG WILLIAMS: Okay. Thank you.

ANDREW BOWDEN: Got a question from John (inaudible) please.

UNIDENTIFIED SPEAKER: I'd just like to ask two questions. Firstly, just on home loan brokers. You've increased the fees and the incentives in place to brokers to direct business to you. Are you looking to really lift that broker market share? If so, what's the target? The second question is just what's the split within your trade finance book between financial counterparties and corporate?

PETER KING: John, we might take that first question first on mortgages. I might ask you to ask that question again because I didn't quite pick it up.

GAIL KELLY: The brokers.

UNIDENTIFIED SPEAKER: It was to do with brokers and what's our target around brokers. I think I'd just take you back to the update we gave in March, where we talked about the fact that the tilting the growth in mortgages -- we've really been looking at all the aspects that drive the pipeline of growth in (inaudible). We've been looking at channels, we've been looking at consideration, we've been looking at process. As we did that, one of the things we found was that in broker we were out of the market on commission in some areas and we had some processing issues in other areas. So we've worked to address that, and as a result, broker being broker, it bounced back quite quickly. But our view would be that we really want all the channels to perform well. We would expect some of the other changes we've made in processing and in advertising and in sales capacity, that we would see a further increase in our first party origination as well. So we don't really have a target, per se, for broker, but what we do want to see is that all of our channels are performing well and delivering good returns.

GAIL KELLY: I mean it's not a material uplift this half. It's gone to, I think, 45% of our new lending was done through brokers, whereas in the past half it was 43%. The system as a whole, I think, has increased in terms of the percentage that's being done through brokers. So it's not material, but it's what you would expect as you refocus in the way the that Grant's just discussed.

PETER KING: John, on your trade finance question, most of it's corporate.

UNIDENTIFIED SPEAKER: Okay. Thank you.

ANDREW BOWDEN: Can I take a phone from Victor German please.

VICTOR GERMAN, ANALYST, NOMURA SECURITIES: Thank you Andrew. Just, actually, a couple of clarifications for me. I'm not sure if I missed it in your report, I suspect I would. Would you be able to provide us an indication of what Lloyds contributed on the revenue side? I saw the expenses line, but just contribution for the revenue for the half?

PETER KING: It's around double, Victor.

VICTOR GERMAN: Double that of expenses?

PETER KING: Yes.

VICTOR GERMAN: Secondly, I just wanted to pick up on that margin comment, so 7 basis points on an underlying basis from assets. I noticed you provided divisional split in terms of margins, but obviously margins is impacted by deposits as well. Just focusing on the asset side, are you able to give us an indication of where most of this pressure's coming from?

PETER KING: In terms of the asset side we indicated that was around 5 basis points in the mortgage portfolio of that 7 basis points, and the remainder was just really due to the business books, both in institutional and in AFS and in Australia and New Zealand, so I think that gives you a thumbnail sketch of what's happening there.

GAIL KELLY: In the mortgage, some of it's because of the switch from variable to fixed interest rates being what they are at the moment and people expecting interest rate increases. You can see it in the disclosure, there's been quite a shift from a customer point of view to fixed, so that obviously comes at a lower margin. So that's some of the difference in mortgage margin.

VICTOR GERMAN: Right, and that's all predominantly in Australia? Or is it New Zealand as well?

PETER KING: No there's a little bit in New Zealand as well.

VICTOR GERMAN: The 5 basis points includes both Australia and New Zealand?

PETER KING: It does.

VICTOR GERMAN: Right. Are you able to give us an idea for what the split (inaudible) 5 basis points, between New Zealand and Australia?

PETER KING: One in New Zealand, four in Australia, broadly.

VICTOR GERMAN: Thank you.

ANDREW BOWDEN: Richard?

RICHARD WILES, ANALYST, MORGAN STANLEY: Richard Wiles, Morgan Stanley. You've been pretty good at predicting some of the challenges in the institutional bank. At the last result you included in your considerations for 2014. I notice, in this result, it's not in there as a consideration for the second half. I don't expect you to predict the loan loss charge, but could you make some comment on what sort of revenue growth and pre-provision profit growth expectations you might have?

GAIL KELLY: I think it's one for, Rob. I feel like maybe we should have put it on the slide, Richard.

ROB WHITFIELD: Thanks Richard. Look, I think you've got to look at some of the drivers of the current performance. So the customer growth is up 2%, and we've been very clear to say that our cash earnings growth would have been up 7% if you took out those infrequent items. If you back out the impairment comment you make that added AUD90 **million**, core earnings would have been up 5%. So if you back those infrequent items, take out the impairment charge and make your own assessment of what that will look like in the future, then you can get a trajectory of what we're looking like. We're really comfortable with our position and the growth opportunities. In term of where we are in the cycle, I think you've got to go in terms of the margin back to what your view is in terms of the excess liquidity. Clearly, the US are tapering which is starting to reduce it, but there's still lots of cash around the globe, which means great quality assets are still going to be highly competed for. So I guess the bottom line is there's still pressure on the margins, good underlying business growth momentum, and impairments probably provide less of a supporting tailwind.

ANDREW BOWDEN: I've got one more question I'll take from James at the front here. (inaudible) just bring it down to James here, thanks.

JAMES FREEMAN, ANALYST, DEUTSCHE BANK: James Freeman from Deutsche Bank. I just was after a bit of an update on Asia. It was something that you mentioned a few periods ago, the big investments -- an idea as how that investment's gone, where we're up to, any changes?

GAIL KELLY: Thanks. I touched on it briefly in my remarks but, I think, again, Rob, why don't we hear it from you directly? I'**m** perfectly, as the CEO, really pleased and, indeed, think that we're ahead of where we expected to be from a point of view of this organic growth strategy in Asia. Remember, it's a strategy that's predicated on supporting our customers, institutional or corporate, **commercial**, retail customers, as they're increasingly trading, investing in Asia, and the reverse, as individuals, trade and invest back in Australia. Rob, why don't you give some more detail?

ROB WHITFIELD: Yes, fantastic. Thank you. Look, some of things we've achieved in 2013 Gail made reference to in her presentation. The first, of course, is our success in the Aussie Renminbi. With 11 banks trading that now we've got about 25% market share there, so very successful. Lots of capability build in 2014 leading into 2015, so our trade finance capability platform in place. A lot of new hires of staff, but coming off a modest base, but about 100 new FTE in Asia. That includes risk and governance employees, but also people in the frontline, so more bankers on the street. We've got a new Chief Risk Officer up in Asia, so building that capability as well. We've established an Asian advisory **board**, and that's had a couple of meetings. You will have noticed the very recent appointment of the Chairman of SingTel, Simon Israel, which we're really pleased about Simon joining that **board** and able to give us some advice as we continue to grow and continue to invest in Asia, but it's a very focused strategy coming off a relatively modest base.

ANDREW BOWDEN: Well, with that, thank you everyone and good morning. Please, if you've got any further questions, you know where we are.

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