CEO'S LETTER
BRIAN HARTZER

Our balance sheet remained strong across all key measures

Dear fellow shareholders,

The 2018 financial year has been exceptionally difficult for the banking industry, and for Westpac. It has also been a disappointing year for our shareholders, both in terms of the reduction in our share price and the uncertainty that has been introduced as a result of various regulatory actions and the Royal Commission.

I therefore wanted to start my letter this year by acknowledging the effect these factors have had on you, and by thanking you for your continued support for Westpac. My management team and I are incredibly conscious of the trust that you place in us through your investment in our shares, and we do not take that trust for granted. I also want to reassure you that we are fully committed to resolving the current issues we face, creating better outcomes for customers, and to delivering on our strategy to grow the sustainable value of your company.

Our Chairman, Lindsay Maxsted, has set out in his letter an excellent summary of the causes of and lessons from the current issues faced by Westpac and the financial services industry as a whole. Rather than repeat these here, my letter focuses on:

- The drivers of our financial performance this year
- What we are doing to address – and learn from – the issues that have been raised
- A progress update on our "Service Revolution" strategy; and
- An overview of our priorities for next year.

Financial Performance

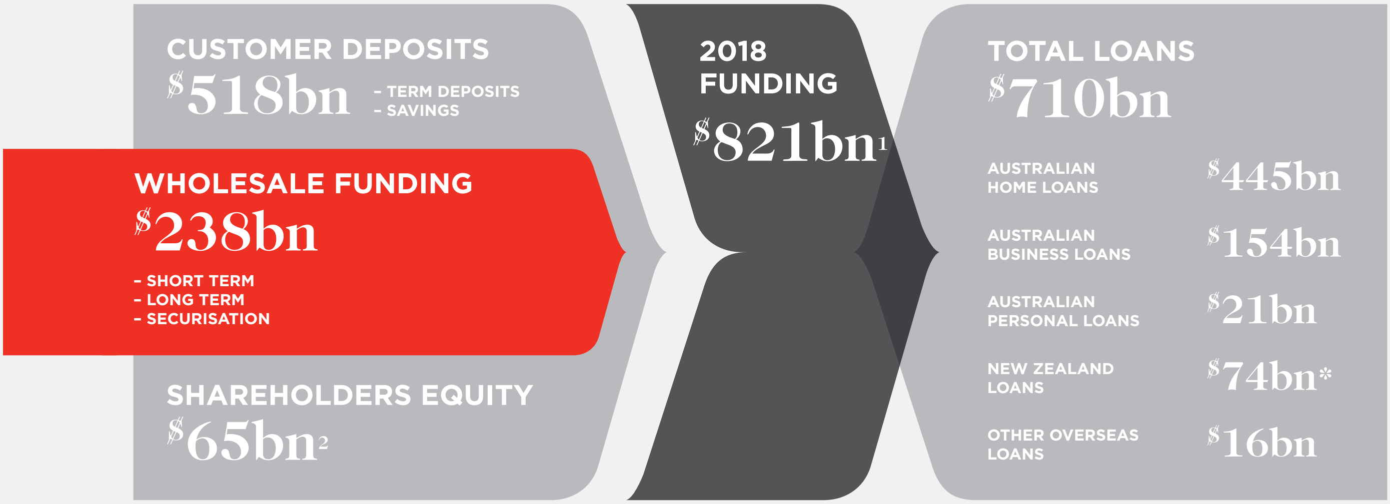
Our cash earnings were relatively flat this financial year, with a solid first half increase offset by a second half decline. Our first half earnings reflected a strong margin performance, disciplined loan and deposit growth, improved contribution from markets and good cost control. In the second half, however, we experienced a significant margin decline – primarily in mortgages – as a function of an increase in both funding costs and competitive pressure. Global financial markets were relatively quiet this year, which meant that financial markets revenue was lower, particularly in the second half. We also recognised provisions of $380 million ($281 million after tax) to cover estimated customer payments and refunds and related costs associated with a number of past customer issues, as well as litigation. As these challenges emerged we took further action on pricing and productivity during the year, but they were not enough to offset the negative impacts on our P&L in the second half.

On a more positive note, our balance sheet remained strong across all key measures and indeed strengthened in several areas – notably our common equity tier 1 ratio which finished the year at 10.6% – above APRA's 'unquestionably strong' benchmark of 10.5%. You'll recall from my previous messages that a strong balance sheet is always our first priority, and we are especially pleased with our results in terms of credit quality, deposit funding, and liquidity management.

The financial sections in the Annual Report and our 2018 Full Year Financial Results contain a detailed discussion of the various remediation provisions that affected our result this year – particularly on the non-interest income line, which includes a number of negative income adjustments. At a high level these provisions fall into two categories.

The first relates to financial advice delivered by BT. As part of an ASIC industry-wide review we are participating in, we have identified a number of cases where customers of our employed BT financial planners paid annual fees under

Funding and Liquidity



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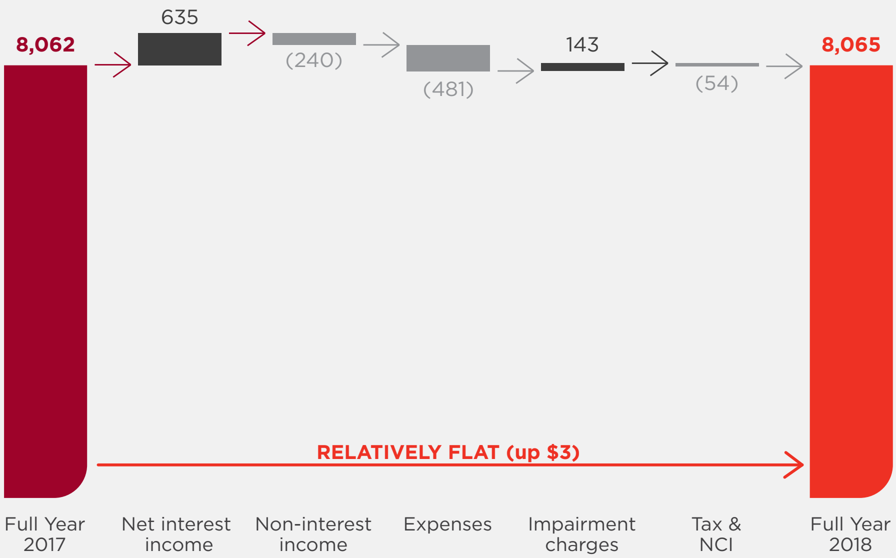
- Overall funding mix improved with 5% more equity and 6% more customer deposits and wholesale funding little changed over the year.
- This supported the 4% growth in loans.
- Customer deposits fully funded lending over the year with the customer deposits to net loans ratio rising to 73% (up from 71% in 2017).

Financial performance movement in cash earnings ($million)



- Cash earnings flat over the year (up $3 million).
- Net interest income up 4% from 3% growth in average interest earning assets (mostly lending) and 2bps rise in margins.
- Non-interest income down 4% from a lower markets contribution, lower banking fee income and higher provisions for customer payments.
- Expenses up 5%. Business as usual expenses offset by productivity with the rise in expenses due mostly to higher regulatory compliance costs, the exit of Hastings and increased investment related spending.
- Impairment charges were lower with credit quality remaining sound.

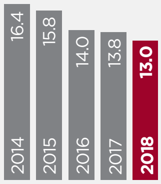
1. Funding mostly for loans and liquidity.
2. Excludes some reserves.

CEO'S LETTER

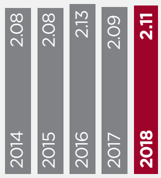
Performance Metrics

CASH EARNINGS BASIS

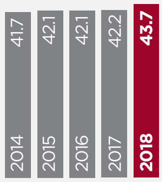
RETURNS
CASH RETURN ON EQUITY (%)



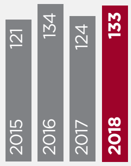
MARGINS
NET INTEREST MARGIN (%)



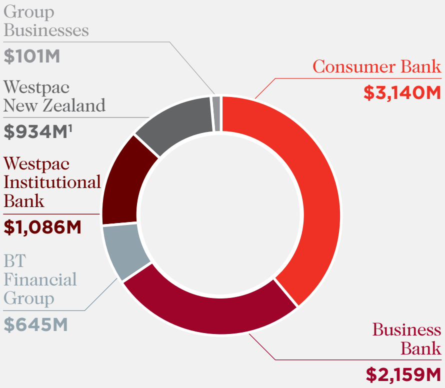
EFFICIENCY
EXPENSE TO INCOME RATIO (%)



LIQUIDITY COVERAGE RATIO (%)



DIVISIONAL CONTRIBUTION TO WESTPAC GROUP CASH EARNINGS



a 'fee for service' arrangement, but those customers either didn't receive the advice they had paid for, or our records were insufficient to demonstrate that the advice was in fact delivered. In those cases we refunded the fees in question, with interest.

Last year we outlined provisions associated with refunding customers who we identified as having received poor advice from their BT financial planner. These provisions reflect the cost of putting the customer back into the position that they would have been if they had not received poor advice. This year we increased these provisions, reflecting an increase in the number of affected customers we have identified and, in some cases, sizes relative to last year.

The second provision category relates to operational errors in the management and servicing of our various products, identified through our 'get it right, put it right' initiative. Over the last three years we have conducted hundreds of detailed product reviews across our Consumer, Business and wealth areas. These reviews check that our products are performing as expected, that our disclosures are appropriate, and that operational processes and calculations are accurate. In some cases these reviews have identified legacy product issues; for example where operational errors led to some customers not being switched to principal and interest status once their contractual interest-only period expired, or where customers did not receive packaged discounts to which they were entitled. Here too, we are refunding customers affected by these issues as we identify them.

Revenue was also impacted by the full year impact of the Bank Levy – the cost of which has been entirely borne by shareholders. The Levy cost us $378 million this year, $283 million higher than 2017 and on an after tax basis reduced cash earnings growth by 2.5%.

With revenue growth under pressure, expense control remains an important priority for the Group. This year, our productivity initiatives generated $304 million in savings, helping to offset volume-related cost growth and the large increase in regulatory-related costs. These savings were broad based, and reflect our consistent approach to driving efficiency – every year, each division is tasked with identifying productivity improvements that offset inflation and volume growth, which allows us to invest in longer-term structural productivity initiatives.

As examples, this year we drove significant savings through reducing management layers, we streamlined the use of external suppliers and digitised more activity. With more customers using digital we've been able to close 47 branches and remove over 400 ATMs.

We've also had particular success removing paper through greater adoption of e-statements, development of more agile work spaces, and increasing the portion of documents that are handled digitally. In aggregate we've eliminated over 500 tonnes of paper this year.

Despite these savings, increases in the cost of regulatory and compliance-related projects, along with a rise in our investment spend, contributed to an overall growth in expenses of 5%, and an increase in our expense to income ratio to 43.7%.

To put this in perspective, total regulatory and compliance costs exceeded $1.1 billion this year – that's more than 20% up over the last two years. While some of these cost increases are permanent, we expect that over the next several years much of this cost will reduce as we further simplify

1. NZ$1,017.

We know there is much to do looking after every customer – but we're on the right track

our products and business processes, deliver large regulatory projects like the New Payments Platform and the Government's 'Open Banking' initiative, automate manual controls, and complete current remediation efforts.

Addressing reputational and risk issues

In his letter, the Chairman identified some lessons for Westpac emerging from the Royal Commission: complaints handling, non-financial risks, remuneration and financial advice. I'd like to share my perspective on each and what we are doing to address the underlying issues.

Complaints handling

For me, complaints handling was the most disappointing issue to emerge this year. Since I joined Westpac in 2012 I have personally driven a focus on complaints – in particular the identification and elimination of the root causes of complaints. This has been successful with complaint volumes more than halving over the last five years.

However what we – and I – missed in this focus was the relatively small number of vulnerable customers, and customers for whom the consequences of their situation were severe. For some of these people, their situation or condition meant that they essentially got 'stuck in the system' – with no clear path to a sensible resolution.

I should point out that not all of these cases actually represent failures by Westpac. In some cases the customer was mistreated by a third party advisor, had been the victim of fraud, or simply made a poor business judgment. Nevertheless, there are also examples where members of staff have not lived up to our code of conduct or, at a minimum, have not been sufficiently empathetic to a customer's situation or have not been proactive enough to help the customer resolve a matter. The case studies at the Royal Commission have made this all too clear.

To address this issue we have made substantial changes to the way we manage complaints and deal with vulnerable customers. In June of this year I appointed Carolyn McCann as Group Executive, Customer and Corporate Relations, reporting to me. This new Division centralises all complaints handling and related policies across the Group, and complements the work of our independent Customer Advocate. A particular focus of the Group has been the identification and resolution of long-outstanding customer matters, with our team working to make things right for customers. As part of this effort our senior executives, including me, have stepped up the amount of time we spend reviewing specific customer complaints and meeting personally with some of the affected customers to ensure we fully understand the issues and the impact of our actions and what we need to do to improve.

In the short term, the media attention surrounding the Royal Commission, as well as the launch of the new Australian Financial Complaints Authority (AFCA), will likely see complaint volumes remain elevated for some time. However we are confident that we now have the right level of focus across the company on resolving customer issues and the root causes of complaints.

More broadly on reputation, we know that what we *do* is more important than what we *say*. That is why we continue to make changes that improve the customer experience for all customers. For example, all St.George branches are now recognised as 'dementia-friendly', a program developed in partnership with Dementia Australia. Dementia Australia has helped us develop a staff training program for creating a safe environment for those with dementia, and further assists us by auditing our branches to confirm that our training is working in practice.

Other changes include improvements to customer fraud handling and providing customers experiencing hardship with 'breathing space' and options to pause repayments if needed.

We've changed our remuneration structures for our customer facing staff to ensure the emphasis is on service and doing the right thing, not sales, and have simplified our products and fees.

We know there is still much to do to demonstrate our commitment to looking after every customer – but we're on the right track.

Management of non-financial risks

While managing financial risks in our balance sheet – credit, market, funding, and liquidity – is always an essential priority in banking, in recent years, non-financial risks – operational risk, cyber, legal/regulatory risk, financial crime, and conduct risk – are being given increased attention.

In some cases – such as cyber risk – risks have emerged from developments in technology and changes in customer behaviour. In others – such as regulatory and conduct risk – they reflect the fact that the bar has lifted on the industry's practices and that banks, including Westpac, needed to do more to look after their customers.

Cyber and fraud risk are an example of where our focus has paid off. We have invested heavily in our capabilities to protect and detect cyber-attacks against both Westpac and our customers. As a result, our total fraud losses have fallen by around 20% since 2016. However the constantly shifting nature of cyber-attacks means that we can never be complacent in this area. Westpac customer,

I do want to emphasise that we have not compromised our credit standards and our lending portfolio continues to perform well.

Susan Cusumano, was a target of an email hack – read her story alongside my letter.

Another challenging area this year was in relation to 'responsible lending' rules. In essence, these rules require lenders to ensure that retail loans are 'not unsuitable' for the customer. Westpac uses a multi-layered approach to credit approval to meet these requirements. Our regulators have raised concerns about the methodologies we use to achieve this, including the steps we have taken to verify information provided by customers. In response, we have made changes to our policies and processes, including more detailed steps to verify information provided by customers and less reliance on benchmarks for assessing customer expenses.

While we continue to believe that our lending decisions were appropriate, and that loans were not unsuitable for our customers, in September this year we reached agreement with ASIC that between December 2011 and March 2015 our home lending assessment process didn't meet the standard required and sought court approval of that settlement. We are waiting to hear from the court in that regard. Nevertheless, I do want to emphasise that we have not compromised our credit standards and our lending portfolio continues to perform well.

At a senior level we now devote as much, if not more, time to non-financial risks as we do to financial risks. We track and manage the number of open issues within each division, and I meet regularly with my executive team to review progress on closing these issues out. Through our 'get it right, put it right' initiative, each business is tasked with identifying and changing policies or practices that no longer pass muster – our decision this year to eliminate 'grandfathered' payments to BT salaried planners in BT is an example.

Employee remuneration

The Royal Commission has brought significant attention to bank remuneration policies and practices, identifying them as a contributor to poor conduct. We are conscious of this risk, and over recent years have continued to modify the way we pay our people to encourage good behaviour while discouraging behaviour that is not in customers' interest. For example, in 2016 we were the first major bank to eliminate all sales incentives for our tellers, with incentives tied exclusively to customer satisfaction results.

We do however continue to believe that properly structured incentives aligned with good customer outcomes are an important component of a high performance culture that delivers for customers and shareholders alike. Remuneration and incentives must be aligned with our service-led strategy. That is why we have accelerated implementation of the Sedgwick Reforms[1], which are in place from 1 October 2018 for all customer-facing Consumer and Business Banking employees – two years prior to the recommended time frame.

At a more senior level, we have now implemented the BEAR regime[2], which sets out explicitly who is accountable for what, and made further changes to the weightings in our executive scorecards and deferral periods for incentive pay to ensure that our senior people are fully on the hook for delivering good customer and risk outcomes. We have also strengthened our approach to consequence management with a new Group-wide framework which sets out conduct expectations and the consequences of failing to meet those standards. The framework consolidates and builds on pre-existing consequence management policies, processes and practices. This includes reinforcing reward practices by providing guidance on

1. Stephen Sedgwick AO led independent Review of product sales commissions and product based payments in retail banking in Australia. Final Report was released in April 2017.
2. Banking Executive Accountability Regime.

CASE STUDY
HELPING CUSTOMERS

Foiled email hack saves customer $32,000

While building their dream holiday home in the NSW Southern Highlands, Susan and Rick Cusumano were targets of a sophisticated hack involving their builder's email account. Westpac's proactive intervention saved the Cusumano's from losing $32,000.

For 33 years Westpac has supported Susan and Rick Cusumano with all their financial needs, including for their business, V&V Landscapers, which they run with their business partner, Sam. Founded in 1975 by Rick's father and uncle, Victor and Vince, Westpac has backed the business from the outset.

Susan, Rick and Sam took over the reins in 1987 with not much more than a shovel, truck and list of residential customers. Since then V&V Landscapers has grown by leaps and bounds and today employs 15 landscapers and supports a range of high-profile commercial clients.

"Running a busy company, service is everything. It's what we measure ourselves on and it's what we expect from others", says Susan.

"It's important that Westpac knows and understands us. Our relationship manager, Stella, is across all aspects of our finances – from our business arrangements to our personal insurances and I can pick up the phone anytime to talk to her. That means a lot".

Building towards the dream

Susan and Rick have put in the hard yards and in the near future plan to step back from the day-to-day running of the business and transition towards retirement.

A small farm in the Southern Highlands is a big part of their retirement plan. Rick has taken care of the gardens and Susan is researching cattle breeds best suited to their land. However, while their new home was being built, the couple were victims of an email hack.

Jason Ford and Susan Cusumano

"I received an email from someone I thought was our builder, advising of an account change and an invoice for our next instalment of close to $32,000. I made a mental note and carried on with other tasks."

Over the next few days Susan received three reminder emails.

"So I did what I was being asked to do and went online to update the account details and transfer the funds."

That's when Westpac's digital fraud team saw a red flag.

We've got your back

Jason Ford is part of Westpac's digital fraud operations team. Together with his colleagues, Jason helps protect customers from fraud and hacks, like the type Susan and Rick experienced.

An anomaly with the account details for Susan's builder was picked up by Westpac's fraud detection system. The team was alerted and within minutes of making the payment, Susan was contacted and instructed to verify the request with her builder.

As a precaution, the payment was halted and the funds reversed to Susan's account. Susan phoned back later with the news that her builder hadn't sent the emails.

"In this job, I see the darker side of human nature," says Jason.

"Helping to protect customers from fraud and hacks, in the way we did with Susan, is extremely satisfying. Unfortunately, cases don't always go the way this one did, especially when customers are coaxed into transferring funds themselves. My message is that you really can't be too careful."

"I was just so relieved that Westpac stepped in when they did," says Susan.

"It's another dimension to the service, it's a feeling that they're really looking out for us. It is nice to know that Westpac is more than our bank, they've got our back," says Susan.

JASON'S TOP 5 TIPS ON SECURING YOUR DATA:

1. Double check payment details and verify before making new payments.
2. If you receive a call from a third party asking for personal information, challenge them and ask them to verify themselves first.
3. Never click on links in suspect emails.
4. Change account passwords regularly.
5. Lock your mail box.

impacts to individual incentive payments to make sure they properly and fairly reflect failures in customer or risk outcomes.

We believe the changes we have made are now consistent with better practice on remuneration, although we will continue to watch and evolve our policies and practices over time.

Underlying risks in financial planning

As described earlier, failings in Financial Advice have been the most costly area of remediation this year across the industry, and for Westpac in particular.

In 2013 the Federal Parliament's Future of Financial Advice ('FOFA') legislation came into effect, which imposed a 'best interests' duty on financial advisers and mandated changes to the way advisers could be paid – essentially, shifting from a 'product commission' model to a 'fee-for-service' model. This represented a major change in the way the financial advice industry worked, and imposed significant new control and compliance requirements on advisers and firms that provide financial advice.

What has become clear is that in implementing these changes, we did not embed strong enough controls and record-keeping around ensuring that customers who had signed up to an ongoing advice relationship in fact received that advice, and that those fees were stopped when the advice relationship ceased. We are now going back through all of these files to ensure that our planners' records show that advice was provided, and, if not, that fees were stopped and where appropriate refunded. We provided $195 million in 2018 as an estimate of what this will ultimately cost in refunds and administration for our salaried financial planners. Further work is under way to determine the extent to which this is also an issue for our 'aligned' planners, who operate their own independent businesses, but under our licence.

Through detailed reviews and compliance checking, we have also found further instances where planners provided inappropriate advice for individual customers. A significant remediation program is underway as part of an industry-wide initiative overseen by ASIC. The goal of this program is to identify and remediate any customer who has received poor advice from one of our financial planners. We have invested significantly in this program, with over 75 employees currently reviewing files of advisers that have been identified through our work.

Looking ahead, we have introduced significant additional controls to minimise the possibility of customers receiving poor advice in the future. This includes additional training, increased oversight of planner activity, and more severe consequences – including participation in an industry-wide register for planners who contravene our policies.

There has been significant reputational damage for the financial advice industry as a whole, including BT. It has also meant a significant uplift in compliance costs, including more than doubling support and compliance resources for financial advisers over recent years. This creates real challenges for the ongoing provision of affordable advice for the majority of consumers. It remains our view that large companies like Westpac are in fact best placed to provide advice to the mass market, given that we have the experience and resources to meet the required compliance practices (and to put things right when they occasionally go wrong). However we have to be pragmatic about this and are continuing to look at ways that we can provide access to affordable and unbiased advice to customers who require it.

Investment in Compliance and Risk

We know we have more to do to improve the way we manage non-financial risks, and this work is well underway. To address the issues that we've seen this year we have taken a number of steps, including substantially increased staffing levels in our 'first line' compliance and risk teams – who undertake a number of important steps to help us do the right thing for our customers, including checking the quality of work done by our front line teams, monitoring transactions for fraud or other suspicious activity such as money laundering – as well as in teams working on remediation across our various business units.

In the short term this has come at a substantial cost to our financial results. We expensed over $1.1 billion on regulation and compliance this year – significantly more than what we wrote off in credit provisions.

Nevertheless, we believe this is money well spent: The focus of this investment includes upgrades to technology to close control gaps, improve stability, and provide better detective control and reporting on fraud and financial crime; extra staffing to verify customer documentation; and new tools to automate data collection and storage. Over time this should dramatically reduce the incidence of control failures and the cost of manual intervention and remediation.

Delivering our Service Revolution

With all of the attention on improving risk controls and remediation, it would be easy to lose sight of the substantial progress we have made on our strategic agenda to build one of the world's great service companies. While there has inevitably been some 'crowding out' of investment, overall we have maintained momentum on our response to a once-in-a-generation change in the banking industry.

Our strategy reflects dramatic changes we are seeing in customer behaviour – through the adoption of digital channels – along with new capabilities in technology and data analysis. We believe that by recognising that banking is a service business, not a product business, we can harness these developments to create a strong and growing customer franchise while substantially reducing the cost to serve – thereby translating into a more profitable and sustainable business.

The foundation of this strategy is delivering great service – which we define as a culture devoted to helping customers achieve what's important to them. Included in this Review are stories of what great service and strong relationships mean for customers: such as sheep farmer, Greg Woodlock, who has expanded his business and secured his farm's long-term viability with Westpac's help; Bank of Melbourne relationship manager, Kerry Garner, who supported a customer through a time of grief and helped her take control of her financial position (page 22); and Link Group, a company that has expanded into global markets since it began in 2005, all the while supported by Suzy Collier from our Institutional Bank.

Anna Thorpe and
Greg Woodlock

CASE STUDY
HELPING CUSTOMERS

Helping through the drought

Managing over 6,500 head of sheep near the drought-prone geographical centre of NSW, Greg Woodlock understands the ups and downs of running a farm. With Westpac's help, he has expanded his business and secured its long-term viability, while realising long-held dreams for his property.

Greg's property, "Kaloola", is the last frontier of sheep farming on NSW's Upper Western District of NSW. The conditions, at the best of times, are challenging. And this drought has pushed things to the limit.

Until earlier this year, Greg leased a part of the 16,500 acre property from a family who held it for generations. Having spent 25 years building up his flock and his business, he understands Kaloola and its potential.

"From the minute I walked onto Kaloola, I knew I was home. It was my dream to own it and when the opportunity finally came this year, I picked up the phone and called Anna," said Greg.

Anna Thorpe is Greg's banker. She is an Agribusiness specialist who works in Westpac Business Bank's 'Connect Now' team. 'Connect Now' operates like a business banking hub, bringing together a range of business banking skills and using technology to connect with customers remotely. Greg's closest Westpac branch is over 400kms away, so the model works perfectly for him.

"The sale was complicated, but Anna had been my banker for over two years and knew my business and financial position inside-out; she knew I could make it work. Without Westpac I could not have made Kaloola mine."

Owning the property was Greg's first hurdle. He needed to secure the property's future, and capitalise on the current wool industry boom; not easy in the middle of a drought.

Water: nature's liquid gold

Water security is a major consideration for any Australian farmer, especially in central NSW. After working through the purchase of Kaloola, Greg set to work securing water.

Kaloola's water reserves were low which limited the useability of the land. Greg needed more water – and more storage capacity – to realise the property's full potential. The next allocation of water from the Burrendong Dam was only weeks away, so he needed to act quickly.

His plan was to expand the size of his existing dam three-fold. This meant commissioning major works and installing a new pump system.

"A team of contractors got to work but I underestimated the scale of the effort – it took more time and money than I expected," said Greg.

"A few days before the water was set to be released I reached my budget, but the job was not complete and I risked missing water for the next 18 months. That's when I got back on the phone to Anna."

Help when it's needed

"I'd been in regular contact with Greg and knew he was working on the dam, but when he called on the Wednesday afternoon I could hear the urgency in his voice. Without the funds, the work couldn't progress, and he'd miss the allocation," said Anna.

"In the depths of drought, this would be devastating. I knew we had to do all we could to make the funds available so the dam would be ready when the water would be flowing on Sunday."

Anna worked quickly to secure the necessary funds.

"It was great to be able to call Greg back Friday afternoon to let him know he could finish the dam, knowing he had the funds to back him. He was happy, to say the least."

On Anna's news, Greg and his contractors worked through the weekend to finish the dam.

"We collected a good volume of water over 13 days. It's the most water Kaloola has ever held and in this drought, it underpins the growth of my flock and my business."

"This is a further example of Westpac's support. If it wasn't for Anna and her dedication, I would be in a very different place, facing a different reality."

Greg named the dam "Anna's aquarium", as a sign of his gratitude.

Kerry Garner

CASE STUDY
HELPING CUSTOMERS

Helping in a time of grief

When Bank of Melbourne customer, Eva*, lost her husband two years ago, she was suddenly left with the sole responsibility of the family finances. With the support of her Relationship Manager, Kerry Garner, Eva has taken control of her financial position and is rebuilding her life.

Eva met Mike when she was 17 and knew he was the one. The couple married, had three children and created a beautiful life and home in Geelong (an hour south west of Melbourne). Their lives were full and Eva looked after the home, while Mike took care of the financial arrangements.

When Mike fell ill in 2016 and passed away suddenly, Eva's life changed drastically.

"I was in complete shock and in the depths of my grief, I had to get to grips with my financial situation," says Eva.

"While Mike was ill, Kerry helped to secure the funds needed to cover medical costs. Soon after he passed away, I was distressed about my finances and was floundering. I walked into the branch and sat with Kerry, she gave me a hug – it was all I needed at that moment. Then we worked out a plan."

Taking control

Eva and Mike had a sizable home loan, which Eva couldn't sustain with the job she worked two days a week. So she made the difficult decision to downsize. Kerry helped with the arrangements. She also helped Eva to buy a new car and connected her with insurance specialists.

"I admire Eva, she is strong and resilient. The last two years have been incredibly hard, but she has worked her way through each new hurdle and taken control," says Kerry.

"Eva is in a completely different place today: she owns her lovely home outright; has a manageable budget; and enough savings to enjoy a holiday each year."

Kerry is Eva's main point of contact with Bank of Melbourne, making it straight-forward for Eva to make the arrangements she needs. While she was helping Eva consolidate her finances, Kerry was also supporting other customers in similar situations.

"I don't know that I will ever stop grieving for Mike, but I'm trying to make the most of life. I'm volunteering, spending time with my family and thinking about retirement," says Eva.

"What I need most is security. Kerry understands that and I can trust her to help me achieve it."

* To protect privacy, customer names have been changed in this story.

Innovations in digital have contributed to a lift in digital sales and allowed us to streamline the network

We measure great service through growth in our customer base across our brands, along with various measures of customer satisfaction and engagement – most notably, the net promoter score (NPS). This year we grew customers numbers by around 250,000, or 2%, which saw total Australian banking customer numbers surpass 11 million for the first time. We also saw substantial improvements across our business on NPS[3], relative to our peers. In business, we finished the year #1 on NPS for Commercial, SME, and Micro-business segments. In Consumer, our relative Group ranking increased to #2 on NPS among the major banks.

We believe these outcomes reflect improvements in both the quality of our training and the extent of customer contact by our bankers, as well as improved stability in our systems – a critical success factor given the increased reliance by customers on mobile and digital banking.

We still have more work to do, however: absolute NPS scores actually fell across the sector in consumer this year, which we think reflects the string of negative news on the sector. Across the company we continue to set high standards for our people on service delivery for example, every staff member is encouraged to participate in a 'service huddle' at least weekly, where we share good and bad stories on service delivery and reinforce the behaviours needed to build superior service.

The second element of our service revolution program is the development of our digital channels and the renewal of our technology platforms. This year we switched on the core of our new technology infrastructure, the Customer Service Hub. It re-orients our systems around the customer and will make it much easier to provide the level of integrated service that customers expect. The system is still in pilot but we expect to complete the roll-out for mortgages across our brands in 2019.

We've also introduced a range of new digital solutions for customers that make their banking easier. This includes simple things like being able to deposit a cheque with a mobile phone or check a balance and make a payment just by asking Siri. For businesses, we are gradually turning off paper-based systems through the use of digital documents, and reengineering how we originate loans to simplify and speed up the process for customers.

These innovations have contributed to a lift in digital sales and allowed us to streamline our network.

The third, critical aspect of our transformation is around our people and culture. While our people are overwhelmingly focused on doing the right thing for customers, we have sought to weed out systems and processes that may have encouraged poor behaviours.

At the same time, we are supporting our people to prepare for the changing nature of work with increased training resources, more flexible work arrangements and a drive to further build the diversity and capability of our workforce. Sujatha Natarajan's story reflects the types of opportunities open to employees to help them develop and move into new roles.

During the year we completed the roll-out of a new performance management framework called "Motivate". The framework starts with an employee's behaviours, and focuses each staff member on individual quarterly goals and development objectives. We've also

3. Net Promoter Score measures the net likelihood of recommendation to others of the customer's main financial institution. Net Promoter ScoreSM is a trademark of Bain & Co Inc., Satmetrix Systems, Inc., and Mr Frederick Reichheld. Using a scale of 0 to 10 (0 means 'extremely unlikely' and 10 means 'extremely likely'), the 0-6 raters (detractors) are deducted from the 9-10 raters (promoters).

Sujatha Natarajan

CASE STUDY
SUPPORTING EMPLOYEES

Designing for the digital future

Sujatha Natarajan joined Westpac eight years ago as a Technology Graduate. Today she is a Senior Product Development Manager working on the largest transformation project in Westpac history – building our new Customer Service Hub.

"What's exciting is that we're completely transforming the home buying experience for customers and bankers," says Sujatha.

Sujatha works in a team of developers, designers, testers and architects. Having completed her degree in Business Information Technology, she started her career as a business analyst.

"One of the great things about working here is the variety of people and projects you are exposed to and the opportunity to grow both personally and professionally."

Sujatha has recently undertaken the *Making My Mark* development program for female leaders and is now part of the Westpac Youth Network's *Future Me* program. She has also completed a six-week Jawun professional development secondment working with the NPY Women's Council in Alice Springs.

What's next? "I love working in the digital space and there's so much opportunity to keep challenging ourselves on how we can use new technologies to create great experiences for customers."

John McMurtrie, Suzy Collier and John Hawkins

CASE STUDY
LONG-TERM CUSTOMER RELATIONSHIPS

Supporting growth

Since 2005, the Link Group (Link) has developed from a small Australian share registry provider to a global player in the administration of registries, superannuation and corporate markets. Westpac, and institutional banker Suzy Collier, have supported Link's growth from the start.

Link first began as an Australian-based share registry with 360 employees. Led by CEO, John McMurtrie, and CFO, John Hawkins, the business now employs over 7,500 people across Australia, New Zealand, Europe, and Asia, and generates over $1.2bn in annual revenue.

"We set a well-defined vision and strategy when we started in 2005, so we've always had a clear map by which to navigate the company," says John McMurtrie.

"Like banking, our business hinges on trust – our clients rely on us to manage and protect their customer and member data. We're a relationship business and know what good service looks like – that's why we've held on to Suzy for as long as we have."

Link and Westpac partner together to support Australia's superannuation transactions. Additionally, Westpac provides a range of syndicated term debt, working capital and corporate treasury solutions. A broader relationship has grown over the years and Westpac is delighted that Link manages its share register. Suzy is Link's main relationship manager and while she has held a range of roles across the Institutional Bank and is now Head of Corporate Banking NSW, she has remained Link's contact-point.

"Link has changed dramatically over the last 13 years and Westpac, through Suzy, has supported our growth," says John Hawkins.

"She has been a constant, and her understanding of our business is deep. She pre-empts our questions, is always available and connects us to the right parts of Westpac. In fact, our reciprocal relationship means we have a strong understanding of each other's businesses and can escalate and resolve any issue quickly."

One example of Suzy's support was during Link's expansion into Europe in 2017. Suzy organised a team to go to London to carry out due diligence. It helped Westpac understand the market conditions; how the new business would fit within the existing company; and its future plan. It also meant that financing could be more tailored.

"Link's story is really inspiring and I have been proud of the role Westpac has played in helping it to realise its vision," says Suzy.

"Of course, behind me is a great team at Westpac. Without it I would not have been able to attend to Link's needs and manage their exciting expansion into new markets. Ultimately the future of our businesses rely on technology, in this regard we can innovate together to provide the best service. Supporting future development is truly exciting."

2019 priorities:

1. Deal with outstanding issues
2. Maintain momentum in the customer franchise
3. Structural cost reduction

sought to help our people manage unclear or complex decisions with all employees involved in "Navigate" workshops. These sessions have sought to bring together our vision, values, code of conduct and service promise to help our people understand the behaviours expected of them. This is on top of the changes to remuneration structures to focus on sales, which I mentioned earlier.

Together, these initiatives are creating an environment where the best people can prosper and grow – a critical aspect to attracting and retaining a talented and motivated workforce in an increasingly competitive market for talent.

We are fortunate that we start from a position of strength. Westpac already has an engaged and high quality workforce. We can see that in our employee engagement scores, our leadership position in diversity and the way we support the communities in which we operate.

Priorities for 2019

We believe our service-led strategy remains the right one for the times. The combination of building a great service culture, simplifying our business, and using digital technology to deliver innovative services at a significantly lower cost will be an increasing differentiator for Westpac. We therefore intend to maintain our level of investment at around $1.4 billion per year for the next few years, which should see us largely complete the upgrades to our systems (although a level of ongoing investment will always be required).

However we are conscious of the current environment and the need to continue to deliver an acceptable level of profitability.

Considering all the above, we have set three main priorities for 2019:

1. **Deal with outstanding issues:** The current environment has created significant uncertainty for investors and our goal in 2019 is to put as many of the outstanding issues behind us as possible. We still have more analysis to do in areas such as financial advice, but we feel we are well progressed on the known issues. There are however a number of reviews and inquiries outstanding (e.g., matters arising from the Royal Commission) and their findings, along with how the Government and regulators will respond, remain uncertain. Nevertheless we will continue to work constructively to implement any change while seeking to ensure that the strength of our financial system and support for the broader economy are not compromised.
2. **Maintain momentum in the customer franchise:** The ultimate source of sustainable revenue (and value) for Westpac is the size and quality of our customer franchise. So it's important we continue building our service proposition, growing customer numbers, deepening relationships, and improving retention. Across our bank we now have 27 separate business unit leaders, each of whom is supported by cross functional teams of marketers, designers, technologists, and re-engineering experts (among others). Together they are improving processes and innovating in ways that give our customers more reasons to join our brands and consolidate their financial services needs with us – for reasons that aren't just about price.
3. **Structural cost reduction:** Given the lower outlook for revenue growth we need to work even harder on our cost base to maintain returns for shareholders. We are already one of the more efficient banks in the world, which means there aren't enough "quick wins" to meet our cost objectives. Rather we need to focus on structural cost reduction by automating tasks, reengineering activities and streamlining our products – but this also requires investment. Over recent years, our approach has delivered productivity savings of around $250-$300 million per annum. In 2019 we aim to lift that over $400 million – almost one third higher than in 2018. Many of the required initiatives are already underway, as we digitise processes and reduce bureaucracy, but it remains a stretching target that will require discipline across the company.

In conclusion, I would like to once again thank our investors for your continued support this year. While it is no doubt a difficult time to be investing in banks, shareholders should be confident that our balance sheet has never been stronger, we have an excellent customer franchise, and what I believe to be the strongest management team in the sector. As a result we continue to believe that Westpac will continue to deliver good value and returns for shareholders.

Yours sincerely,

BRIAN HARTZER
Chief Executive Officer
The Westpac Group