Westpac Banking Corporation
2012 Annual General Meeting

Sydney, Australia
13 December 2012

Chairman's Address
Lindsay Maxsted

Introduction

This is my fifth year at Westpac and my first year as Chairman and I am honoured to lead the Board of such an esteemed institution. As Australia's first bank and Australia's first company, Westpac has a rich history of supporting this nation.

As Chairman I follow in the footsteps of many business leaders who have shaped Westpac into the company it is today. I would particularly like to thank my immediate predecessor, Ted Evans, whose wisdom helped Westpac navigate the Global Financial Crisis and ensure that the company emerged from this volatile period in much stronger shape.

In my address this morning I wanted to share with you what you can expect from your current Board as we guide Westpac through its next phase of prosperity and sustainable growth.

As a Board, my colleagues and I are here to represent the interests of all shareholders. We are very clear on our role in ensuring long-term value is created, through approving the strategic direction, through setting the company's appetite for risk, and through effective oversight of management. We are all shareholders in Westpac and our interests are aligned with yours.

Westpac has been operating for almost 200 years and, for the relatively short time that we are the guardians, we aim to see the company begin its third century in even stronger shape.

Performance

Some comments on our performance. I recognise that for many of you 2012 was another challenging year with markets remaining volatile and some industry sectors recording share price declines. At the same time, lower interest rates have also impacted investor returns, particularly for retirees. For banking, the environment has also remained challenging with relatively low credit growth, businesses and consumers continuing to exhibit caution, significant global uncertainty and a much increased regulatory burden.

Despite these headwinds, Westpac has performed well in 2012 with a further increase in earnings and dividends – a result built on many years of hard work and dedication by the management team.

Performance can of course be measured on many dimensions, including the quantum of growth, the quality of earnings and in the sustainability of our results. I am pleased to say that in 2012 Westpac delivered on each of these fronts.

From the perspective of the Board, we were most pleased that the rise in earnings was achieved in conjunction with a material strengthening of the balance sheet. In particular, we have further boosted the capital base, enhanced the Group's funding mix, and seen an improvement in asset quality. This builds on efforts to strengthen the company over recent years and I thought it would be helpful to put some of these changes in perspective.

Over the last five years we have seen the following:

- For every dollar of risk weighted assets, we now hold over one third more core capital than we did 5 years ago;
- On funding – in 2007 just over 50% of our lending was supported by customer deposits, today that proportion is 68% - that is an uplift of a third; and
- For liquidity – in 2007 we held $33 billion in liquid assets, today we have $110 billion – a more than three-fold increase.

These changes are significant and shareholders should take comfort that Westpac's risk profile has materially improved over this period.

In recent weeks, we have seen some commentary about the financial strength of the Australian banks, including suggestions that the sector needs to hold more capital. I am on the record as saying that while these comments may have been relevant 5 years ago, they are not applicable today. On any comparable measure the Australian banks are strong and very well capitalised – indeed Westpac's capital ratios place the Group in the upper ranks of banks globally. It is hard to argue that as a sector we are undercapitalised.

It is important to reiterate that our banking sector has served the Australian and New Zealand economies very well, a function of both the low risk nature of our institutions and appropriate supervision and regulation including from APRA, the RBA and the RBNZ. Excessive regulation or capital would risk placing our institutions at a disadvantage against international peers and potentially limit the financial resources available to support our economies. This would not be in the interests of the economy, our customers or shareholders.

On financial performance, cash earnings, our preferred measure of performance, was up 5% while cash earnings per share were up 3%.

Many of you will note that our statutory financial performance was 15% lower over the year. The difference in our statutory result was because we received a significant tax benefit last year that was not repeated and we incurred some additional one-off tax costs in 2012.

Of course an area the Board places much emphasis on is dividends, and this year we increased dividends by a solid 6% to $1.66 for the year. These payments translate to a very strong dividend yield of almost 7%, and when franking credits are taken into account that yield rises to almost 10%. The final dividend of 84 cents will be paid next week on the 20th of December.

The benefits of a stronger financial position and improved earnings have also been reflected in the total returns for shareholders. At our AGM last year the share price was $20.84 while the price closed at $25.90 yesterday – that's an increase of 24.3% over the year. Adding in dividends that is a total return of 29.5% – a level that has led the sector.

Strategy

Let me move to strategy. A key role of the Board is approving the overall strategic direction of the company, and in 2012 the company further refined its approach. While the essence of our strategy of deepening customer relationships has remained, we have sharpened our areas of focus while ensuring our approach is appropriately aligned to the operating environment.

In distilling the strategy we have outlined five areas of focus and Gail Kelly, CEO, will speak to these. The Board fully endorses these strategic priorities and is very supportive of management's disciplined approach to achieving a balance across return, strength, productivity and growth.

Other areas of focus for the Board over the last year have included risk management, technology and the safety of our people.

On risk, the Board is responsible for our overall risk management strategy, including determining our risk appetite. Over the past 12 months, the Board has continued its focus on international and local developments – in regulatory change, in our operating environment, and in the way financial services companies conduct themselves. We are very focused on learning from others' experience, proactively and effectively managing risk, and building a stronger bank for the long-term.

Technology remains a large investment for banks and it remains a focus for the Board. We have made good progress with our major investment program, which is now some 70% complete. Online and mobile technology has been a priority in 2012 and you can see some of our good work with the range of apps that have been introduced to improve customers' options for banking on the move. We are a leader in this area and further developments are planned in the period ahead.

Safety has also been an area of focus over the last couple of years. We have a core belief that we should have zero harm in the workplace, be it physical or emotional harm, so every employee can return home safely. Over the last two years the Group has implemented an updated health, safety and wellbeing program, and I am very pleased with the significant efforts made on this front to reduce risk in the workplace.

The lost time injury frequency rate is a key industry benchmark and our rate has declined to 1.94 as at last month, which is a material, 23% improvement from 12 months earlier.

Board renewal

In terms of the Board itself, we have maintained a mix of skills and experience throughout the global financial crisis and that has enabled us to emerge a stronger, more sustainable company.

This year we saw the departure of Carolyn Hewson who had been an outstanding director for almost 10 years. While Carolyn's contribution and dedication to the Board was extensive, it is perhaps her stewardship of the Risk Management Committee through the Global Financial Crisis that was a stand-out. Having a Board member with a deep understanding of the complexities of financial markets was a real asset to the company and the Board.

Peter Wilson, has also announced his retirement effective at the end of this meeting. I have personally enjoyed working with Peter, his financial expertise and deep understanding of the New Zealand market has been highly valued. In this context, I am pleased that Peter will continue to contribute to the Group via his ongoing Chairmanship of Westpac New Zealand Limited.

We have been very active in seeking the right calibre of individual to join the Board and are privileged to have secured Ann Pickard late last year and Robert Elstone. Both Ann and Robert have already made a valuable contribution to the Board and we have appreciated their breadth of experience. Ann was of course elected as a director last year and Robert is up for election this year and will speak to you as part of that resolution.

This ongoing focus on Board renewal, and ensuring we maintain the right mix of Directors with a broad range of skills, experience and knowledge to guide the Westpac Group, will continue. We continue to consider candidates whose experience and character will further enhance your Board and you should expect announcements in this regard over the coming months.

Dividend donation plan

Before summing up I would like to share with you a new initiative we are introducing for shareholders in 2013. In line with Westpac's history of supporting the communities in which we operate, we are introducing a shareholder donation plan. The plan allows shareholders to direct a portion of their dividends to Westpac's Family of Giving initiative.

The plan is entirely optional and details will be sent to shareholders at the time of dividend communications. Representatives from our Charitable Funds are also available in the foyer to provide more details.

Outlook

Looking forward, the operating environment remains challenging although that has been the norm for much of the last five years and we are not expecting conditions to be any more difficult than recent years. Indeed, given the material strengthening of the balance sheet we are in excellent shape to positively respond to whatever emerges in the external environment.

With all of our businesses showing good momentum, Westpac is well placed to continue delivering sound returns for shareholders.

Conclusion

In conclusion, the success of Westpac over the last 12 months can be attributed to all of our people and I thank them for their effort and dedication. I would particularly like to acknowledge Gail and her executive team. The depth and quality of this team is a stand-out in the sector.

I would also like to thank you, our shareholders, for your continued support and reiterate that our guardianship of Westpac, on your behalf, is a role I and my fellow directors take very seriously and I look forward to sharing this company's successes with you over its next stage of development.
