Westpac Banking Corporation

2010 Annual General Meeting

Sydney, Australia

15 December 2010

Chairman's Address

Mr Ted Evans AC
Chairman
Westpac Banking Corporation

The past year has seen further improvement in the Australian economy. Unemployment has remained low and households and businesses have used the low interest rates of recent years to strengthen their financial position.

But the Australian economy is not uniformly robust; moreover there remains a degree of continuing uncertainty in global markets and so we have maintained our disciplined approach to managing the company.

This is reflected in higher levels of capital and liquidity and in our continued strong provisioning levels.

Against this backdrop, I am very pleased to report that The Westpac Group performed strongly through this period, delivering a sound financial result, which you see reflected in the higher dividend payout.

A robust financial result

I shall now refer briefly to the highlights of the year, before turning to the challenges ahead. Cash earnings per share for the year, our preferred measure of profit, were $1.98, up 21 per cent. This was a pleasing increase given the additional capital we needed to issue in 2009.

Revenue, on a cash basis, was up only 1 per cent, with good asset growth being offset by lower margins and lower fees from customers.

Expense growth was 3 per cent, reflecting continued investment in our frontline and a rise in project investment. The cost to income ratio was held to 41 per cent and continues to lead the sector.

A significant feature of this year's result – and the main determinant of the bottom line - was the very large reduction in impairment charges on loans, particularly in the Institutional Bank and in New Zealand.

Westpac was well positioned through the global financial crisis and this has allowed us to emerge more quickly than many others, and reinforces that we are a lower risk, higher quality business, with discipline and consistency that you, our investors, can rely on.

Shareholder returns

The final dividend for the year of 74 cents, the highest final dividend ever paid, brought the total dividends for the year to $1.39, up 20 per cent on the prior year and representing a cash earnings payout ratio of 71 per cent. The Board is pleased to report the return this year to a positive dividend trajectory.

Conservative position maintained

Given the remaining uncertainties around the globe, including upcoming regulatory change, our disciplined approach is reflected in all the important metrics:

- the Tier 1 capital ratio increased from 8.1 per cent to 9.1 per cent, which positions us well for the new regulatory requirements;
- our provisioning coverage for bad debts, as measured by collective provisions to credit risk weighted assets stands at a sector leading 1.46 per cent, up from 1.42 per cent a year ago; and

- we continued to enhance the Group's liquidity and funding position, including by raising more customer deposits.

We believe these were essential improvements in the balance sheet given the continuing global uncertainties.

St.George merger

It's now just over two years since we completed the merger with St.George and we could not be happier with the progress. The integration has proceeded very smoothly, with all the project milestones achieved on time and the integration synergies running ahead of schedule.

The benefits of the merger are now very clear. St.George customers are benefiting from an expanded product range, Westpac customers are benefiting from improved service, and the overall Group is benefiting from operating a true multi-brand model and becoming a more efficient organisation. While the merger has been highly successful to date, there is still more upside from further leveraging the benefits of operating different brands.

People and leadership

This has been another very busy and demanding year for both the Board and the management leadership team.

The fact that your company remains in a very sound position and has bounced back so soundly from the depths of the global financial crisis reflects the strong leadership and direction of our CEO, Gail Kelly, and her hard-working Executive Team. I believe the team is operating better than ever and I am proud to be associated with them.

I am equally pleased with the operation of the Board. The composition of the Board has not changed over the year and I acknowledge my colleagues' support and dedication during the year. That said, we recognise the need for renewal, for ensuring that our skills and diversity grow with the business, and we are now in the process of seeking to complement our current team.

We remain of the view that the preferred Board size is 7 to 9 Non-executive directors, but we retain the flexibility to allow a temporary increase to ensure that we can move quickly if an outstanding candidate becomes available.

In addition, we will take the opportunity from time to time to rearrange the chair person and composition of the various Board committees, to assist in broadening board member experience, and to share the load. We shall be making a series of such changes following today's AGM.

The regulatory and political environment

Before closing, let me make a few remarks about the regulatory and political environment, both of which hold huge challenges for us – and for you, as shareholders.

Australia came through the global financial crisis extraordinarily well – better than virtually any other advanced economy. It did so because of the strength of its banking system; and because the Government, regulators, the banks and the community worked together to ensure that the system stayed strong. That included ensuring that the heightened risks inherent in the changed environment are reflected in interest rates – for both borrowers and depositors. It is critical now that we do not undo that good work.

As Australia's oldest bank, we are proud of the part we have played, to ensure we have a safe and viable banking system and a sound economy.

Governments also need to play their part in ensuring that the banking system remains a sustainable element of Australia's economic infrastructure. Many of the ideas emerging in public debate in recent times would not serve that fundamental objective.

The Federal Treasurer has now put forward proposals for changes to the system, with an emphasis on enhancing competition.

We fully support that objective and will participate actively in the consultations the Treasurer has proposed.

We are also participating in the Senate Economics References Committee inquiry into Competition within the Australian banking sector, whose hearings and deliberations will continue into the New Year. Westpac, along with many others, has made a public submission to the Committee and our Chief Executive will personally appear.

While we believe that there already exists a very broad and deep level of competition across banking, wealth and insurance in Australia, including more than 100 lenders offering mortgages, and very intense competition for customer deposits, we encouraged the Government to consider four actions that we believe will encourage and facilitate even more competition.

These were: working to achieve better tax equalisation between bank deposits and other, currently more favoured, savings opportunities for Australians; creating a framework to allow covered bonds in the Australian market, which would provide higher liquidity and a lower cost of funds; strengthening the residential mortgage-backed security market; and providing frameworks to facilitate the securitisation of additional classes of assets.

The Treasurer's proposals go a considerable way to addressing these issues.

Finally, together with our regulators, who acted swiftly and pro-actively during the financial crisis, we are continuing to work our way through the various new capital and liquidity regulatory standards that have been proposed or are in the early stages of implementation. We recognise that we will be operating under new and tougher standards in both these areas in the future, and that there will be additional cost as a result.

We have already made substantial changes to our business and we are well placed to respond and adapt to regulatory changes.

Outlook

As I mentioned at the start, the past year has seen continued improvement in the Australian economy. In the period ahead, economic activity is expected to further improve as business investment picks up and global growth trends higher. Nevertheless, we expect some of the legacies of the global financial crisis to be with us for some considerable time and so we will maintain our disciplined approach to managing the balance sheet.

Your company has continued to perform very soundly, ending the year in much stronger shape. As a result, I believe The Westpac Group is well placed to continue delivering strong returns for shareholders.

Ted Evans AC
Chairman