



**Westpac Banking Corporation
2006 Annual General Meeting
Brisbane
Thursday, 14 December 2006**

Chairman's Address

**Leon A Davis
Chairman
Westpac Banking Corporation**

Introduction

I'm pleased to report that 2006 was yet another year of record performance for Westpac in terms of profits, returns and shareholder value.

Last year I talked to you of the need for fresh thinking - fresh thinking to fully harness the passion within our people in responding to the needs of our customers and other stakeholders.

This year I want to talk a little about broadening this fresh thinking and taking on the real challenge of ensuring our long-term prosperity.

When you're the Chairman of a 189-year old company, Australia's first company, you get to think about this a lot. And, perhaps it's because of Westpac's remarkable place in Australia's history, that we feel we have the obligation to buck the short-term focus that so dominates the corporate agenda today.

I will come back to what we're doing to ensure the sustainability of this great organisation shortly. And David Morgan in his report to this meeting will set out how we are addressing tomorrow's issues today in providing leading products and services so that every generation can live better than the last.

Record profit and returns

But first to our results.

Notwithstanding the tougher competitive environment during the year, our reported profit after tax was another record, up 14% on last year to \$3.07 billion. And we lifted earnings per share (EPS) 12% to \$1.67 per share, another all-time record.

This was not only a sound result it continued our growing track record of delivering strong operational leverage, with revenues growing at 6% while holding expense growth to just 3% in the year.

Adjusting for the one-off and accounting impacts that distort inter-period comparisons underlying revenue growth was an even healthier 9%, while underlying expense growth was held to just 4%.

As a result, we again improved our efficiency in the year. We're now spending 46.6 cents to generate each dollar of income, down from 47.7 cents last year.

Most of our businesses achieved solid cash earnings growth in the year:

- Australian Business and Consumer Banking was up 11%;
- BT was up 10% on a reported basis but up 21% on an adjusted like-for-like basis;
- the Institutional Bank was up 4% on a reported basis, but up 20% excluding the structured finance business, which suffered a profit decline due to exiting of certain New Zealand transactions; and
- Pacific Banking was up 17%.

New Zealand banking was up 4% in Australian dollar terms, but flat in NZ dollars, in an extremely competitive market.

Shareholders benefiting

These results and our confidence in our future have allowed your Board to declare a final dividend of 60 cents per share, fully franked.

Together with our first half fully franked dividend of 56 cents, the total dividend for 2006 is \$1.16, an increase of 16% on 2005.

This lifted the dividend payout ratio to 69%, up from 67% last year.

Returns also remained strong with our return on equity coming in at 23%, up from 22% last year.

Overall, the gain in our net worth in the past year, in terms of market capitalisation, was \$2.3 billion, or 6%. With the recent rally in our share price, our market capitalisation stood at \$44 billion yesterday, up a further \$2 billion since 30 September this year.

Taking into account share price movements and dividends, we've been able to deliver total shareholder returns averaging 16% compound annual growth over the five years to 30 September 2006 – an outstanding performance on behalf of shareholders.

Sustainable prosperity

Let me return to my point on ensuring our continued prosperity as a company.

As a bank, Westpac's long term future is fundamentally linked to the health of the society in which we operate. Our future prosperity can't be divorced from that of the community and the environment. We also know that our customers can only prosper if the communities they live in are prospering.

This is why we're so focused on the immense challenges facing the broader community and the environment. These include climate change, trans-national organised crime and terrorism, growing social divides, and the erosion of social fabric.

How well the world deals with these challenges is vital to our future. And we in business hold many of the keys. We have the management ability and the financial wherewithal to meet and solve much of these challenges. We can't just expect our Government to do these things alone and unsupported.

After all, for all of us in business there is only one future. Today is the future.

Each year, our audited sustainability performance and the priorities we share with the community are set out in our Stakeholder Impact Report, copies of which are available outside.

As you may have noticed from our recent advertising, Westpac has been again rated as the world's most sustainable and responsible bank in the Dow Jones Sustainability Index for the fifth year in a row.

The widespread positive response to our commitment to sustainable development and to responsible business practices gives us great confidence that we are on the right track.

People and changes

Your Board has remained very stable this last year. However, after nine years of valued contribution, Helen Lynch, who joined the Board in 1997, will compulsorily retire from the Board at the end of this meeting.

Helen's association with Westpac goes back a long way. She joined Westpac in 1959 and in 1978 she was appointed Australia's first female branch manager. Helen was named The

Bulletin/Qantas Business Woman of the Year in 1990 and in 1994 was made a Member of the Order of Australia for services to banking and finance. I'm sure you all join with me in wishing Helen the best in her retirement and in thanking her for her invaluable contribution to Westpac.

I would also like to take this opportunity to formally welcome Elizabeth Bryan. Elizabeth was appointed to the Board on 6 November 2006, and stands for election to the Board today. Elizabeth has over 30 years experience in the financial services industry, government policy and administration, and on the boards of company and statutory organisations and is a great addition to the Board.

New Zealand incorporation

As foreshadowed last year, after 145 years of operation as a branch in New Zealand, our retail and business banking operations in New Zealand became Westpac New Zealand Limited, a company incorporated in New Zealand, on 1 November 2006.

The incorporation ensures that we fully comply with the Reserve Bank of New Zealand's policy that all systemically important banks must incorporate as local New Zealand entities. Local incorporation does not change the services we provide in New Zealand and the change should be virtually invisible for our New Zealand customers.

Looking forward

Overall, the Australian economic environment should remain supportive for 2007 with growth expected to improve modestly and unemployment remaining at historical lows. While economic activity is improving, recent interest rate increases should see some slight easing in credit growth after a relatively buoyant 2006.

We also expect wealth management conditions to remain very positive, with the recent superannuation taxation changes driving growth.

In New Zealand, economic growth is expected to remain subdued, as high interest rates and a strong currency continue to dampen activity. Slowing activity is expected to be reflected in a slowing in credit growth through 2007.

Against this background, and with the credit cycle returning to more normal levels from an historical low base for delinquency levels, we remain cautious. However, we are not seeing

any broad based credit deterioration in our books at this point and we remain well provisioned.

Importantly, our capital position remains very strong and we have been able to return over \$3 billion to shareholders during the year. As at 30 September, our Tier 1 ratio stood at 6.9%, above our target range of 6.0% to 6.75%.

Confident prospects

Overall, current operational and financial performance at Westpac remains robust.

We are a well diversified provider, not overly dependent on any one product line or customer segment, and are well positioned. We can and will continue to aim to provide the widest possible services to our customers – like transaction banking, mortgages, credit cards, insurance and wealth management.

The strength of our franchise and our improved operational momentum gives us particular confidence that we can continue to drive medium-term revenue growth in all our core markets.

That confidence is also built on our peoples' dedication and advocacy for our customers. I again thank them sincerely for their tireless contributions.

As a result, your Board believes that Westpac is again well positioned to continue to deliver strong earnings and returns for shareholders in the coming year.

Chairman

Finally, after having the privilege of chairing the Board over the past six years I wish to advise shareholders of my decision to retire from the Board as of March next year.

The timing of my retirement has been influenced by the completion of David Morgan's current contract on 31st December next year. David has advised the Board that he will not be seeking a new contract and he will say a few words on this in a moment.

The Board began the CEO succession process some time ago, which includes a search both inside and outside the company.

It is important that the Chairman responsible for the final selection of the new CEO is able to commit for a number of years to work with the board and the person who succeeds David. Consequently, the good governance choice for me was to retire in the near future or to commit to remain Chairman for several more years.

My decision was a difficult one and involved weighing up the interests of Westpac and my wife and family, as well as my age. I trust that you understand and are supportive of my decision.

To ensure an orderly transition, your Board has elected Ted Evans to replace me as Chairman when I retire. In the interim, Ted will take up the position of Deputy Chairman and we will be working closely together over the coming few month leading up to my retirement.

Ted is an excellent choice given his extensive experience in the financial sector, including as Secretary to the Federal Treasury and his time on the Boards of the International Monetary Fund and the Reserve Bank of Australia. I will be leaving the Chairmanship in good hands.

David will continue to work closely with the Board to ensure a smooth CEO succession process and it is my pleasure to now hand over to David to address you.

End.