

Westpac Banking Corporation
2014 Annual General Meeting

Brisbane, Australia
Friday, 12 December 2014

Chairman's Address
Lindsay Maxsted

Introduction

2014 has been a landmark year for the Westpac Group, having been a period of both major achievement and significant change.

The Group delivered a strong performance across all elements of our business, reflecting the benefits of having a clear strategy, effective leadership and solid momentum. This contributed to improved returns for shareholders, and supported better outcomes for customers, employees, and the communities in which we operate.

It has also been a year of fundamental change. Digital technologies are transforming our business and regulatory change is having a significant impact on our operations as global and local authorities seek to further strengthen our financial system. This includes the Financial System Inquiry which will lead to further adjustments to industry settings and will, in turn, impact the economies in which we operate.

Change in CEO

Change also extends to your company's leadership, with Gail Kelly recently announcing her decision to retire and the Board appointing Brian Hartzer as our new CEO from February next year. As a Board, we are enormously proud of Gail's achievements. During her seven years as CEO, her leadership, passion and her dedication have materially enhanced the strength of this company and the value of your investment.

Gail took on the CEO role just as the global financial crisis was unfolding, helping to navigate the organisation through some of the most challenging times of the last century. Westpac is one of the few banks globally that has emerged from this period not only stronger, but also much transformed, having successfully completed the St. George merger, repositioned the Group's balance sheet and delivered improved returns.

During Gail's tenure our market capitalisation has more than doubled, rising from around \$50 billion to more than \$100 billion today. Over that period cash earnings increased on average by 14% per annum.

This performance has significantly benefitted shareholders. Put simply; a \$100 investment in Westpac shares at the outset of Gail's tenure would now be worth \$163 today if dividends were reinvested.

When you consider this period included the global financial crisis that is a significant return on investment.

The value of our franchise has also been enhanced, with market share materially higher across most product categories. In housing, for example, our share has lifted from 13% to 23%, and our share of business lending is up from 14% to 19%.

Westpac is also a much stronger and more efficient company, with our core capital ratios rising by almost 50%, while improved efficiency has seen the cost to income ratio fall from 45% to below 42%.

Perhaps Gail's greatest legacy is the extraordinary team and culture she has developed. Her deep focus on people, on customers and on doing the right thing has materially lifted Westpac's reputation both domestically and amongst banks globally.

On virtually every measure, Westpac has become a stronger and more sustainable company under Gail's leadership.

On behalf of the Board and shareholders, Gail, I sincerely thank you.

Of course one of the most important roles for a Board is to ensure smooth CEO succession. We are pleased to have appointed an internal candidate, Brian Hartzler, to the position, starting from 2 February next year.

In selecting our new CEO, the Board undertook a very thorough process, including a global assessment.

We were seeking a banking executive with proven leadership skills, strong values and a recognised ability to respond to the material changes occurring across our industry. With 25 years of international banking experience, Brian Hartzler was the stand-out candidate.

For the past two and a half years Brian has led our Australian Financial Services business. During this period, the division has delivered industry-leading results, marshalling the collective strengths of three businesses to deliver a performance where the whole is greater than the sum of its parts.

The Australian Financial Services division increased cash earnings on average by 10% per annum over the last three years, and in the latest year the result was up 12%. This is an excellent performance given current economic growth. Brian is an outstanding executive with the skills, capability and values to drive the next phase of Westpac's strategy.

Performance

Turning to the Group's performance. Cash earnings was up 8% over the year supported by a 5% increase in revenues and a further improvement in asset quality which led to a \$197 million reduction in impairment charges.

Reported net profit was also higher, up 12% over the year.

The result was supported by a more efficient use of the Group's capital resources, with our return on equity rising by 48 basis points to 16.4%.

Importantly, performance was achieved while maintaining the strengths that have become a hallmark of the Group. In particular:

- Capital has remained strong and at the upper end of peers with a common equity tier 1 ratio of 9%;
- Asset quality improved, with impaired assets falling by one third; and
- We have continued to fund our growth sustainably, with our stable funding ratio remaining well above our target.

The strength and quality of this performance has enabled the Group to continue its consistent dividend path with dividends rising 2 cents per share each half through the year.

A final dividend of 92 cents per share will be paid to eligible shareholders next week, bringing total ordinary dividends for the year to 182 cents, up 5% over the year.

Delivering for all stakeholders

In addition to the Group's strong financial results, the performance across other dimensions was equally outstanding, with customers, employees and the communities in which we operate all sharing in our success.

One initiative of which we are particularly proud was the launch of the Westpac Bicentennial Foundation earlier this year. With a \$100 million injection, the Foundation is creating Australia's largest private scholarship program. The Foundation aims to provide 100 education scholarships every year, forever. This is just one of the many ways in which we are helping to support Australia's next generation of leaders.

Our performance, and the balanced way it has been achieved has also been independently recognised by some of the most significant bodies globally.

For example, early this year at the World Economic Forum, Westpac was announced as the world's most sustainable company.

Your company was also assessed by the Dow Jones Sustainability Index as the leader in sustainability in the banking sector globally. These are achievements of which we can all be very proud.

The Financial System Inquiry

Last year I spoke at the AGM about the impending Financial System Inquiry, which has been taking place through most of the last year.

Early this week, the Inquiry's Final Report to the Government was released and it has received much commentary and interest. There is much to absorb in the report and it will now progress through a process of consultation on its forty-four recommendations.

The report has focused on the security and stability of Australia's financial system while also considering competitiveness, efficiency and fairness.

We were pleased with the principles based approach to its recommendations and the endorsement of risk based capital measures. However, we will continue to seek to ensure that any proposed changes balance the need for strength with the need to support Australia's economic growth.

On capital for example, while we accept that a strong financial system is fundamental for an open economy like Australia, we believe the sector is already strong on many dimensions. Accordingly we need to work through the details with APRA on how best to assess capital, what the appropriate international benchmarks should be, and the form that capital should take.

We also consider that the Inquiry gave insufficient focus to funding the Australian financial system on a sustainable through the cycle basis. It was positive that the FSI referred the current tax distortions on interest earnings on deposits to the Tax White Paper process, but we feel the funding issue could have received greater attention.

On the other hand, the Inquiry's recommendations on Superannuation and advice are a welcome addition. Establishing a clear objective for Superannuation for example would be an important step to improve the system's policy framework and assist in better product development for consumers.

Strengthening the quality of financial Advice is also strongly supported. Indeed our BT Financial Group is already leading the way in lifting the bar on qualifications and on a more comprehensive Advisor register.

In the period ahead we will continue to assess all the Inquiry's recommendations and observations and will continue to actively participate in the consultation process with the Government.

The Inquiry will of course lead to some change, however given our strong starting position, Westpac is well placed to respond.

Finally, many of the Inquiry's recommendations have appropriately focused on underpinning the strength of our industry. However, the debate has typically equated strength with capital, with less commentary on some of the broader elements of strength such as, the quality of systems and processes, and the culture of an organisation.

As a Board, it is these elements that we also focus on, as they provide the foundations on which the strength of your company is based.

As I alluded to earlier it is this culture that Gail and her executive team have led and developed that has set Westpac up so well and underpins its strength.

Board renewal

Your Board has a critical role to play in Westpac's success by ensuring we have directors with an appropriate mix of skills and experience.

Through the year we continued our process of board renewal, with two directors retiring and one joining the Board.

After almost six years with Westpac, John Curtis decided to retire this year. John played a key role in the immediate past history of the company, first as a director and Chairman of St.George Bank and then as Deputy Chairman of Westpac. In this latter position John was instrumental in helping ensure the merger with St.George progressed smoothly and was a great contributor to the Board generally.

Following her relocation to the U.S., Ann Pickard has also made the decision to leave the Board. Ann has been with us for three years and retires directly after this meeting. As a current international CEO, Ann has brought an important global perspective to the Board along with her direct experience of managing contemporary business issues. Her contribution will be missed.

We wish both John and Ann well in their future endeavours.

Joining the Board, I am pleased to welcome Alison Deans who, as I said earlier, is standing for election today and will address the meeting later. Alison's strong business background along with her deep skills in e-commerce, media and financial services will be an asset for the Board.

We will continue to assess new candidates and expect to appoint another one or two new directors to the Board in the year ahead.

Outlook

Apart from the very strong housing sector, particularly in Sydney, other recent evidence on the health of the Australian economy has been a little disappointing. This has been largely due to the fall in key export prices; ongoing high input costs and the contraction in mining investment.

As a result, we expect some downward adjustment in monetary policy in the new-year and a further easing in the Australian dollar. With these settings in mind, we expect growth in the Australian economy to gradually improve in the year ahead as strengthening household finances, low interest rates, and a competitive Australian dollar boost domestic spending. That should eventually flow through to business investment and jobs. Business confidence should also receive a lift from an improving world economy and buoyant asset markets. However, in saying that, the global scene remains difficult to predict as many major economies continue to rely heavily on monetary policy to the exclusion of sound fiscal policy and structural reforms.

From my remarks today it is clear that Westpac is a company in very good shape. The business has the strength to respond to any changes in the environment, and a strategy that is clearly delivering for all of the Group's stakeholders. Given this position and our solid momentum, the Group is well placed to continue delivering sound returns.

Ends.