Westpac Banking Corporation

2013 Annual General Meeting

Melbourne, Australia

Friday 13 December 2013

Chairman's Address

Lindsay Maxsted

Introduction

In my address last year, I outlined what shareholders can expect from the Board as we guide the Westpac Group through its next phase of growth and continue to build the long term value of the company.

In particular, I highlighted our aim of ensuring Westpac maintains its strong position as it approaches its 200th anniversary.

I am therefore pleased to share with you the significant strengthening of the Group over the past year, while at the same time delivering strong earnings and growth.

Perhaps most importantly for this audience is that we have been able to share that strength with shareholders through higher dividends, two special dividends and a further significant uplift in the share price.

Strong performance

From a financial performance perspective, cash earnings – a key measure for assessing performance – increased 8% over the 2013 financial year, supported by a 4% rise in revenue. Reflecting the strength of our franchise, every operating division, and each of our brands contributed to the rise in revenue and to the rise in earnings.

Reported profit was also much higher, up 14% for the year.

This result was particularly pleasing given that it was achieved against a softening of the economic environment in Australia and generally modest demand for lending. These conditions can be traced back to ongoing consumer and business caution – a remnant of the Global Financial Crisis – and the high Australian dollar which has seen conditions more challenging for exporters and diverted more local purchasing offshore. Globally, while China's growth has improved significantly in recent months, prospects for some other emerging markets are less buoyant and this, combined with the somewhat uncertain outlook for many developed nations has contributed to the ongoing caution.

The improved financial performance reflects the disciplined approach taken by the management team in implementing our strategy, which our CEO Gail Kelly will discuss in a moment. It also demonstrates the Executive team's strong focus on effectively managing the trade-offs that emerge in striving to achieve a balance across return, strength, productivity and growth.

All elements of the balance sheet were enhanced over the year, with improvements evident across capital, funding and asset quality. These outcomes have been the result of our concerted efforts over the past five years to further insulate our business against external shocks. In particular:

- Westpac's capital levels are now at the upper end of peers both globally and locally, with our common equity tier 1 ratio sitting at 9.1%. This level is up almost a full percentage point over the year. On any measure we are a very well capitalised bank;

- The Group's funding position has similarly strengthened, with the customer deposit to loan ratio climbing from 68% to 71%, and liquid assets rising to $126 billion; and

- Asset quality has also materially improved, with stressed assets to total committed exposures falling by just over a quarter to 1.6%. The level of stress in the portfolio is now half that encountered at the peak in 2010.

The robustness of our position benefits all those with an interest in Westpac – including shareholders, customers and our employees.

Reflecting our strong overall performance and our confidence in the future, the Board increased dividends for the year by 5% up to $1.74 per share. We were also pleased to declare two special dividends totalling 20 cents per share.

When combined with the 32% increase in the share price during the year, this has contributed to total shareholder returns rising by 39.5% over the year to September 2013. As shareholders with interests aligned to yours, my Board colleagues and I were very satisfied with this outcome.

Sustainable future

A key benefit of Westpac's strong position is that we are very well placed to pursue opportunities and respond to challenges as they emerge.

In October this year, we announced an agreement to acquire selected assets of Lloyds Banking Group Australia. The business is a very good strategic fit for us, increasing our capability and scale in equipment finance and in auto finance. This transaction is expected to be finalised by the end of this month and will lift our Australian business banking assets by around 6%. The strength we have built into Westpac means we will be able to fund this $1.45 billion investment from internal resources.

We are also mindful of the significant trends affecting our operating environment – across our economy, our industry and in the way customers and our employees work, trade and interact.

Rapid advances in technology, for example, have significant implications for how we do business. Similarly, the ageing population is changing the financial needs of customers. The Australian economy is also evolving as we move to the next phase of the resources cycle, and customers seek opportunities to tap into the Asian growth engine.

We are well underway in positioning Westpac to respond to, and ultimately benefit from, these changes.

At the front line for example, we are reshaping our branch network from transaction centres to sales and support hubs with new layouts, enhanced technology and increased self-serve options. These developments are progressing alongside the roll-out of a new mobile and online banking platform that will be a step change in the way customers manage and control their finances.

At the same time, we are tilting the company to higher growth areas including in wealth where we are expanding our funds administration capability, to further extend our comparative advantage in this area. Our Asian investment is also continuing, improving our capability to capture the increased flows and connectivity between Asia and Australia/New Zealand.

In the year ahead, the Federal Government's forthcoming Financial System Inquiry creates an additional opportunity for the industry.

While the Australian banking sector performed well through the global financial crisis it is timely to take stock, and look at how the system can better support the future growth of our economy.

With this in mind, it is encouraging that the terms of reference have been set broadly, to enable a more complete view of the sector. In this way, the panel will be well placed to assess where, and how the allocation of finance across the economy can be enhanced.

We also need to be mindful of the extraordinary wave of regulation that has swept the globe following the GFC, and that is already adding cost and complexity to our system. Given the very important role banks play in the community, it is important to fully assess these changes and their appropriateness to our markets. It is similarly important that these developments, along with their implementation timetables, do not carry with them unintended consequences or place our system at a comparative disadvantage to international peers.

Achieving an appropriate balance between regulation and efficiency is particularly important as the economy emerges from a period of below trend growth.

We look forward to participating in, and supporting, the Inquiry in the period ahead.

Board renewal

As indicated at last year's meeting, we have continued to focus on ensuring we have the right mix of Directors with a broad range of skills, experience and knowledge.

In October this year, Gordon Cairns announced that he would step down from the Board. Gordon's retirement will be effective at the conclusion of today's meeting. I have greatly enjoyed working with Gordon and would like to thank him for his significant contribution to the Board over the past nine years and wish him well for the future.

We have been very active in seeking the right calibre of individual to join the Board and are privileged to have secured Ewen Crouch and Peter Marriott as Non-executive Directors earlier this year.

Ewen brings extensive local and international business skills to the Board, including as one of Australia's most experienced corporate lawyers. Peter has been one of this country's most respected CFOs and with 30 years of experience in senior management roles in the banking and finance industry will also be very valuable to the Board.

Both Ewen and Peter stand for election today and will speak to you when we deal with that part of the agenda.

In the Notice of Meeting shareholders will be aware that Mr David Barrow self-nominated for election as a Director. Mr Barrow withdrew his nomination yesterday and I will speak further on this later in the meeting.

Ensuring we maintain the right mix of Directors with a broad range of skills, experience and knowledge remains a priority. With that in mind we will continue to consider candidates whose experience and character will further enhance your Board.

Looking ahead

In summing up, it is important to recognise that Westpac's success over the past 12 months can be attributed to the efforts of all of our people and I thank them for their dedication. I would particularly like to acknowledge our CEO, Gail Kelly, and commend her and her exceptionally high quality executive team. This team has driven the improved results and stronger company you see today, ensuring we are well positioned for the future.

Across our businesses, we are seeing welcome signs of improved consumer and business sentiment following the Federal election and the easing of the Australian dollar. Stronger housing activity has already been well documented, as historically low interest rates have encouraged buyers.

More interest is beginning to emerge from businesses as they think about investing again. This interest has yet to translate to real activity and new lending, but is a welcome sign.

As a result we expect a modest pick-up in lending growth throughout this year.

These trends support our positive view about the medium term outlook for the Australian economy.

The strength of our business and the momentum generated across all our divisions, together with the substantial investments underway, positions Westpac well to continue to meet the needs of our 12 million customers and to deliver sound, high quality returns to shareholders.