Westpac Banking Corporation

2017 Annual General Meeting

Sydney, Australia

Friday, 08 December 2017

Chairman's Address

Lindsay Maxsted

Introduction

It has been a great privilege to be your Chairman in the year in which we have celebrated our 200th anniversary. I am extremely proud, as I am sure you are, to be part of the first company in Australia to reach this significant milestone. It was on the 8th of April 1817, near Circular Quay, only a couple of kilometres from where we are now that the Bank of New South Wales first opened its doors.

Lachlan Macquarie, the founder of the Bank was a man of great foresight who knew that the financial security of a Bank was needed to enable society to flourish. The first shareholder meeting was held on 18 December 1816, just a few months before the Bank opened, with 39 of the young colony's leaders personally committing themselves to support the Bank.

From its earliest days the Bank of New South Wales, and now Westpac, has been an integral part of this country's fabric – and you don't have to look far to see the connections:

- the suburb of Redfern was named after one of our founding directors William Redfern;
- Potts Point was named after our first employee – Joseph Hyde Potts, who served the company for 22 years; and
- just across the harbour, Milsons Point was named after one of our early customers, James Milson, who would start a family connection with the Bank that would stretch over six generations.

These close-knit ties with our society have continued over two centuries. We have been there to support this country through two world wars, recessions and depressions and the more recent global financial crisis as well as some of the country's great moments. We have shared in the highs and lows and in many cases we have led the way.

We are a company of many firsts in Australia: first bank, first bank computer system and first to offer internet banking. We supported the first disaster relief fund in Australia, were the first to sign the Equator Principles, the first to appoint a female teller and a female bank manager, and now, as of this year, we have proudly reached 50% women in leadership roles.

Being there to support the communities in which we operate has, and always will be, at the heart of our business. In our 200th year we have reaffirmed our commitment to this country and to building the foundations that will support the next generation.

This includes:

- awarding our 200th scholarship as part of the Westpac Bicentennial Fund;
- supporting 200 outstanding small businesses through our Businesses of Tomorrow program;
- doubling our grants to support 200 community organisations through the Westpac Foundation;
- helping to boost Australia's numeracy by giving Australians free access to Mathspace Essentials; and
- supporting the preservation of Australia's history through the restoration of the Long Gallery at Australia's oldest Museum, the Australian Museum.

Over and above these specific initiatives, we continue to examine how Westpac can, and should, respond to some of Australia's larger societal challenges. With the sector's reputation being questioned, it is timely to reflect on Westpac's role in the community and be even bolder in our aspirations.

Our people have always been the essence of our success and I would like to take this opportunity to acknowledge all employees – past and present – for their role in creating the company we have today.

It is our history, our close ties with this nation and the commitment of our people that make Westpac a truly special company. As owners, you share in this success and should be very proud of the contribution your company has made.

Performance

2017 has been a truly historic year. Not just because of our 200th anniversary, but because of the strength and stability that has been achieved in what has been a challenging time for our industry. We have largely completed a 10-year process of strengthening our balance sheet; we have managed significant regulatory change and rising regulatory costs, delivered improved financial performance and, for the fourth year in a row, we have been rated the world's most sustainable bank.

In Full Year 2017, the Westpac Group delivered a 7% lift in statutory net profit, supported by good growth across our banking businesses and a gain on the further sell-down of our investment in BT Investment Management. Cash earnings, which is our preferred measure of performance, was up 3% over the year to $8,062 million. This translates to a 2% lift in cash earnings per share and a return on equity of 13.8%.

While the financial numbers are important, in banking, it is equally important to consider how that result was achieved. This year, the management team delivered a disciplined performance, being conservative on growth, managing margins well, keeping expenses under control and materially strengthening the balance sheet.

The Group's common equity tier 1 ratio, the benchmark for assessing capital strength, increased by more than a full percentage point to 10.6%. That is an additional $3.8 billion underpinning the stability of your company.

Other indicators of company health were also very strong with employee engagement up 10 percentage points and customer satisfaction metrics rising through the year. At a time when consumer trust is paramount this has never been more important.

Given these outcomes, the Board has determined a fully franked final dividend of 94 cents per share which will be paid on 22 December 2017.

Shareholders will be aware that the dividend has been unchanged for the last four halves and, given the increase in earnings, I wanted to provide further explanation so shareholders are clear about our position.

As a Board, we seek to maintain a dividend payout ratio that is sustainable in the long term and enables the Group to continue supporting customers while maintaining a strong capital position through a variety of cycles. With the material increase in capital over recent years we have assessed that a payout ratio in the range of 70-75% over the medium term is consistent with these objectives and is sustainable.

This year, the dividend payout ratio was 79%, and while this was above our sustainable range, our strong capital position enabled us to maintain the dividend at 94 cents.

Bank Levy

It is important to note that the Board considered a range of factors, including the impact of the new Bank Levy, in our dividend considerations but decided to leave the dividend unchanged.

The Levy applied for only one quarter this year (from 1 July to 30 September) but it still had a real impact on your company and on shareholder returns. This year the bank did not pass the Bank Levy onto customers, suppliers, or our employees and so it directly reduced our profit and retained earnings. The Levy payment of $95 million effectively reduced post-tax cash earnings by $66 million or equivalent to around 2 cents per share.

That is, the company had 2 cents per share less available for shareholders or to further lift our retained capital.

I wrote to shareholders when the Bank Levy was first proposed and I want to thank the many shareholders who replied to me and those who also shared their views more broadly. It is particularly disappointing that this levy discriminates against Australian banks relative to global peers – that is clearly not in Australia's best interests.

While no decision on how to deal with the Levy has been made in the period ahead, shareholders should be aware that the full impact of the levy in the 2018 financial year is estimated to cost Westpac approximately $284 million – or around 8 cents per ordinary share.

We will continue to work on your behalf for the removal of this highly inefficient and distortive tax.

Management performance

In aggregate, the Board has been pleased with the performance of the management team. The financial result was ahead of the Board's expectations set in the early part of the year while the strengthening of the balance sheet was well above expectations.

Of equal importance, the business is in good strategic shape. All divisions are well placed and the business is making good progress on its strategic investments. In many respects we are at the forefront of digital innovation and whilst we are the first to acknowledge that the profound changes to our environment caused by digital technology and software development generally will only escalate, your Board is confident our investments in people and technology will serve us well.

Taking into account all these elements of financial and strategic performance, the Board increased the short-term incentives payable across the Group executive team by an average of 14%; this followed an average 11% reduction in short-term incentives in 2016. This year, for the second year in a row, no long-term incentives met the stretching hurdles set by the Board when these incentives were issued in 2014. As a result, no executive received shares from long-term incentive plans this year.

Banking on trust

There has been much negativity around the Australian banking sector over the past year. The deterioration in the sector's reputation has been a great disappointment to me and the Board.

It is clear that some of the criticism of the Australian Banks is warranted. There have been times over recent years when the financial services sector has failed to meet customer expectations. As a Bank, and as an industry, we also underestimated the intensity of community, regulatory and government reaction when these expectations have not been met.

The Board and management at Westpac understand we must proactively respond to these concerns and lift our standards to an even higher level – and we are. Brian will discuss how the industry and Westpac is responding to these issues to rebuild community trust but I wanted to assure shareholders that the Board takes these matters very seriously and is very much involved in overseeing appropriate responses.

In addition to all that is being done by the sector and its regulators, there have been several actions taken by the Federal Government over the last twelve months including, of course, its announcement on 30 November 2017 that there will be a Royal Commission into the alleged misconduct of Australia's banks and other financial services entities.

Given the significant changes that have already taken place or are underway, including as a result of regulatory scrutiny and Government inquiries, Westpac has consistently argued that further inquiries into the sector, including a Royal Commission, are unwarranted.

However we, and the other major Australian banks, formed the view last week that it was in the national interest for the political uncertainty and speculation around potential commissions of inquiry to end and for the Government to establish its own properly constituted Inquiry. In this context, it is our hope that, ultimately, the newly announced Royal Commission will play a role in restoring trust, respect and confidence in Australia's already strong financial system.

Board composition

There were two changes to the Board this year with the retirement of Elizabeth Bryan post our 2016 AGM and the appointment of Nerida Caesar in September. Nerida was most recently the CEO of Equifax in Australia, and in addition to her executive management experience adds further deep technology and innovation skills to your Board.

In early November, we announced that Robert Elstone will be retiring following this AGM. Robert has been an exceptional director in his six years on the Board; he has a sharp mind, a strong attention to detail and an ability to distil issues and focus on what is important. In a period of heightened global volatility, having a financial markets specialist such as Robert has been a great asset to your Board. I shall miss, and I know my fellow Directors and senior management will equally miss, his insightful contribution.

Succession planning for new directors is a regular item on the Board agenda and discussions with new potential candidates are ongoing. As a result, we expect to appoint one or two new non-executive directors to your Board in 2018. Potential appointees will add strength and diversity to your Board.

Outlook

We remain positive about the Australian and New Zealand economies. Both markets have strong fundamentals with solid GDP growth, low unemployment and controlled inflation.

These trends are expected to broadly continue in 2018, although growth is likely to slow through the year as the construction cycle peaks and weak income growth continues to weigh on consumers.

For the banking sector, it is a similar picture to prior years, although the further tightening of credit standards, and regulatory limits on certain elements of mortgage growth, will likely lead to slower growth in lending and deposits in 2018 relative to 2017.

Asset quality is expected to remain sound in the year ahead and, while there are no signs of material concern, we will remain vigilant, consistent with our low risk approach.

Summary

In summary, it has been a landmark year for Westpac. The success we have achieved, the strength of our balance sheet and the positive momentum across the Group means we are well positioned for the future.

As we begin our third century, our biggest challenge lies in rebuilding our reputation across the communities in which we operate. If we are to continue to prosper we must ensure the needs of customers and communities are the priority and we must actively demonstrate the value we bring to society and the value we bring to customers every day. We will continue to improve on service delivery; genuinely listening to customers and putting them at the centre of everything we do. That's why our service strategy is so important.

One of the key things our 200th anniversary has shown me is the passion and commitment of the people of Westpac to supporting our customers and creating a better future for all Australians and New Zealanders. It is this passion and commitment that has seen us through the highs and lows of the past 200 years, that continues to drive us forward and that helps us continue to deliver sustainable returns for you, our shareholders.