Westpac Banking Corporation

2015 Annual General Meeting

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Chief Executive Officer's Address

Brian Hartzer

Introduction

Thank you Chairman and good morning fellow shareholders.

In my first address as CEO I'd like to acknowledge what an honour it is to lead a company with such a rich history, strong values, and well-positioned businesses. I'd like to thank the Board, for their vote of confidence in me, and my immediate predecessor Gail Kelly for leaving me and my management team a company that is in great shape.

I believe banks exist to support economic development, and Westpac's position as Australia's first bank, and oldest company, means we have a proud history of contributing to the success of the Australian and New Zealand economies that spans almost two centuries.

Shareholders should be encouraged that we have a very strong balance sheet, excellent credit quality, and are the most efficient bank in the sector.

All of our divisions are performing well, and—unlike many of our global banking peers—we have not been distracted by businesses outside our core markets or with major problems.

Behind this success has been a string of great leaders and an extraordinary team that, like me, have a real passion for Westpac. And here I would like to personally thank the 40,000 people who work across the Group for their support and dedication this year.

Strong leadership is essential in any company, and Westpac has an experienced and talented executive team who have worked well together over many years. This year we strengthened the team further through the recruitment of Lyn Cobley to run the Institutional Bank, as well as the appointments of George Frazis, David Lindberg, Dave Curran, David McLean, and Gary Thursby to new or expanded roles.

Having the right team in place is particularly important at a time of great change in banking, and I'd like to spend a few minutes now talking about the external context for Westpac and how we are shifting our business strategy in response.

While much has changed in the banking sector since Westpac opened its doors almost 199 years ago, we are now in a period of rapid transformation, the likes of which we haven't seen since deregulation in the 1980s.

The Australian economy is in transition, shifting from resource and construction-driven growth to a more service-led economy. At the same time, we are starting to see big shifts in economic activity as baby boomers approach retirement and people of all ages rapidly adopt digital technology.

Meanwhile in the banking industry, we continue to feel the effects of the Global Financial Crisis as regulators lift requirements on capital, funding, and liquidity, as well as their scrutiny on conduct and culture.

The magnitude of all this change has meant that we needed to take a fresh look at our strategy and priorities for the next 3-5 years. In particular, we wanted to make sure we were keeping up with stakeholder expectations while making the most of this period of change to strengthen our competitive position.

Service-led strategy

The starting point for our strategy has been to understand changes in customer expectations. Customers increasingly want their banking to be simpler and more efficient. They want the flexibility of 24/7 access to their money, with the same convenience that they have come to expect from ordering a book online or tapping their card at the supermarket.

And of course—for the big decisions—they still want advice from a human being they can trust, and the peace of mind that comes from dealing with a highly rated bank brand.

Rather than fear these changes we are embracing them. We believe that if we focus on delivering great service, new technologies give us a fantastic opportunity to do more for our customers and become even more competitive.

As a result, we added the small, but important word "service" into our vision – ***to be one of the world's great service companies, helping our customers, communities and people to prosper and grow.***

This may seem like a minor change, but it really is an important difference. It affects everything we do, from changing what we offer, to adjusting the way we work, to defining how we reward our people.

As a *service* company, our job is to help customers achieve something that's important to them—not just to sell another banking product. It's a philosophy that is consistent with our role as a bank in supporting economic development, and running our business in a sustainable way.

To bring our strategy to life, we have created a program that we call the "Service Revolution", which is comprised of five priorities and a series of related projects.

1. Performance discipline

The first priority is to maintain our performance disciplines. Westpac is already recognised for its disciplined financial management and strong balance sheet. While our overall goal is to grow the long-term value of the franchise, we know that it is also important to deliver strong financial performance, year-in and year-out. To that end we seek to maintain our return on equity above 15%, which is a challenging target in the context of increasing capital requirements.

2. Service leadership

Our next priority is service leadership. In order to build one of the world's great service companies, we're working to make things simpler, easier, and better for customers and for our employees. As part of this we've introduced new online and mobile banking platforms, launched a range of new online tools, and continued to roll-out new branch formats and technology that makes transactions quicker and easier for customers. Just as importantly, we are investing in increased training for our bankers, who—thanks to technology—now have more time to help customers.

3. Digital transformation

Digital technology is helping us deliver financial services in completely new ways, while at the same time allowing us to increase efficiency. And we are already seeing the benefits. This year, for example, we launched our Live Online Lending Application platform—or "LOLA"—that radically improves the process for small business loans. Using the data that we already know about a customer, the LOLA system:

- Helps small businesses understand their financial position and borrowing capacity;
- Simplifies the application process; and
- Reduces the time until customers receive their funds from weeks to a few days

We have already lent over $400 million using the system, and it's getting a great response both from our customers and our people.

LOLA is a great example of the win-win we can achieve through digital transformation: customers benefit from an improved experience; our employees have more time to spend with customers; and shareholders benefit from lower risk and significantly improved productivity.

4. Targeted growth

Our next priority is about targeted growth. Beyond our existing businesses, it is vital we continue to invest in those sectors and segments that will have higher growth over the medium term—what we call our "growth highway". For the next few years, we see wealth management, small and medium enterprises, and links with Asia as our main high-growth areas.

5. Workforce revolution

The final priority is what we call the Workforce Revolution. If we are going to revolutionise the way we deliver service, we need to attract and retain great people and create a culture where they can thrive. In the "Workforce Revolution", we're focused on updating our recruitment approach, training, reward systems, and people policies; as well as building new working environments and an open, inclusive culture that supports greater agility, innovation, and wellbeing.

As part of this, we finalised our new Enterprise Agreement this year, which simplifies a number of older agreements into one and creates substantial benefits for employees, customers, and the bank overall.

With that background on our strategy and priorities, let me now turn to our financial performance this year.

2015: A solid financial performance[1]

Our 2015 result can be best summarised as one of disciplined growth, well-managed margins, continued investment, and a strengthening of all elements of the franchise.

Cash earnings, which is our preferred measure of performance, was up 3% to $7.82 billion, with cash earnings per share up 2% to 249.5 cents. Our return on equity was a solid 15.8% and remains above our 15% target.

Operating income was supported by a 7% increase in lending, a 4% increase in customer deposits and flat net interest margins.

Most of the increase in lending was due to Australian mortgages, with good growth across both investor and owner-occupied segments. We also saw good growth in business lending, in large part due to our new “Connect” video conferencing model, which directly links customers in branches to specialist bankers.

Expenses increased 5% over the year, with most of the rise due to increases in investment spending.

Given the need to increase our investment in technology, there is no room for complacency on efficiency. We have therefore started a program to reduce our expense to income ratio to below 40% over the next few years. It’s an ambitious target, but one we think will be essential in order to remain competitive.

Credit quality was a highlight for the year, continuing its improving trend. This is true across the network, with business and consumer balance sheets both in good shape.

As always there are a number of areas we are watching closely, including businesses directly affected by lower commodity prices, companies that rely on the mining sector, and some segments in agriculture.

Housing has also continued to be a hot topic, with price rises in some markets leading to suggestions that we are in the midst of a bubble. We don’t share that view, and while house and apartment prices have risen sharply in some suburbs, we believe the economics of Australian housing are sound.

In a number of markets demand for housing from investors and owner-occupiers has consistently exceeded supply. Nor has there been an easing in credit standards across the industry: In fact, we tightened our lending criteria in a number of areas this year. Of course, we may see some stress in selected geographies, but given the underlying strength of the market we don’t anticipate a widespread deterioration.

1 Financial results based on cash earnings unless otherwise stated. Refer page 4 of Westpac’s Full Year 2015 Financial Result for definition. All comparisons are FY15 versus FY14 unless otherwise stated.

Impact of changing regulation

I'd like to turn now to the impact of changing regulation. One of the main challenges of the post-GFC environment has been responding to increased regulatory requirements and oversight across all elements of our business. As referenced in the Australian Government's recent Financial Systems Inquiry, we support the goal of a strong banking system and the need to be "unquestionably strong". In fact we believe that Australia's performance through the GFC is an excellent case study of why this is important.

However, we must be clear about what "unquestionably strong" really means, along with the implications and cost of any increases in regulation.

To date, the debate on strength has largely centred on the level of capital, and the notion held by some that if more capital is good, higher capital is better. This calendar year we have materially strengthened our balance sheet by raising an additional $6 billion in equity. That's a significant increase, which places our capital ratios well into the top quartile of banks globally when compared on a like for like basis.

However, this focus on capital is a narrow interpretation of strength when you study the sources of bank failure over time.

The strength of a bank is really a function of a range of factors including:

- Its capital levels, funding mix and liquidity reserves;
- Credit quality and new lending standards;
- Risk processes and culture; and of course
- Profitability, or the ability of the bank to generate new capital over time.

While more capital does increase strength, it won't protect a bank with poor credit quality, weak risk standards, a fragile funding position, or low profitability.

For Westpac to play its role effectively in supporting economic growth, we need to look at a range of "strength" measures that allow us to support the economy through the economic cycle, not just at a point in time.

Unfortunately, building strength does come at a cost—whether it's the extra return we need to provide to shareholders to raise new capital, the cost of raising longer term funding, the cost of holding more liquid assets, or the cost of changing systems and processes to meet new reporting requirements.

Our goal has been to share these costs in a fair and balanced way across our various stakeholders. As a result, this year shareholders have experienced lower returns and slower dividend growth, while some customers have been affected by increased interest rates on borrowing and on some deposits. We also continue to improve efficiency to offset cost increases where we can.

Looking to the future, there remains some uncertainty about how much capital banks globally will need to hold, as regulators continue to review the system. We trust that in deciding to implement future change, regulators will assess all the elements of strength and consider their potential impact on consumers, the financial sector, and the economy as a whole.

Sustainable future

This discussion of strength is consistent with our overall approach to running our business in a sustainable way. I believe that for Westpac to be sustainable for the long term, we need to strike a balance between the interests of customers, shareholders, employees, and the communities we serve. For example, from a shareholder point of view we recognise that much of the value attributed to our company is dependent on our ability to sustain our reputation and our relationship with customers and the wider community.

That's why we take very seriously our approach to sustainability, including our response to important social, environmental and economic issues.

The core of our approach is to strive to make a positive impact on our communities where we have the skills and capacity to best make a difference. This includes our approach to assessing the environmental, social, and governance risk in our lending, helping to grow the stock of social and affordable housing, and providing more than $6 billion in funding to the CleanTech and environmental service sector.

We have continued to assess our efforts on climate change, and fully support the objectives of the UN conference on climate change that is currently underway in Paris.

Westpac is committed to operating, both directly and indirectly, in a manner consistent with supporting an economy that limits global warming to less than two degrees.

Westpac will continue to evolve its frameworks, policies and position statements, linked to concrete action to ensure our lending and investing activities support an economy that limits global warming to less than two degrees, based on research into the carbon intensity of our activities.

As part of our broader sustainability approach we will continue to engage widely on this issue with our shareholders, customers, communities, and of course our people.

I am pleased to report that our progress on sustainability has seen us once again recognised as the global banking leader in the Dow Jones Sustainability Index —the eighth time we've been named the sector leader since 2002.

Summary

I'd like to conclude now with a reflection. On the 8th of April 2017, Westpac will become the first Australian company to reach 200 years of age. As we look forward to celebrating that important milestone, I believe we are increasingly well positioned for our third century of business.

Given all the changes going on in the economy and in the banking industry, our focus on *service,* and helping customers achieve what's important to them, is the right strategy for the times. At the same time, we remain committed to getting the balance right among all of our stakeholders.

Finally, I'd like to assure you as a shareholder that I and my executive team are committed to building on the strong foundation we've inherited. We will continue to run and grow our business in a sustainable way that we trust will make you proud of your association with Westpac and pleased with your investment in our shares.