

WESTPAC  
GROUP

# Regulation, Too Big to Fail and the future of global financial services

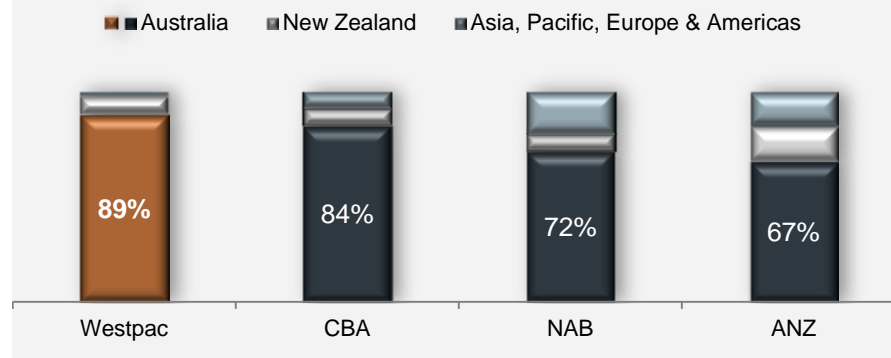
Ed Bosworth, Head of Risk Reward,  
Group Finance

# WESTPAC: HIGH QUALITY AUSTRALIAN CREDIT

## Westpac at a glance

<b>Size</b>	<ul style="list-style-type: none"> <li>Australia's second largest bank and the world's 15<sup>th</sup> largest bank by market capitalisation<sup>1</sup></li> </ul>
<b>Markets</b>	<ul style="list-style-type: none"> <li>Strategy focused on markets of Australia, New Zealand and the near Pacific</li> </ul>
<b>Franchise</b>	<ul style="list-style-type: none"> <li>Broad, multi-brand franchise providing retail, business and institutional banking, and wealth management services to approximately 12.2 million customers</li> <li>Over 1,500 points of representation and 3,500 ATMs</li> </ul>
<b>Multi-brand</b>	<ul style="list-style-type: none"> <li>Strong market share positions in core segments</li> <li>Multi-brand provides ability to be more flexible, responsive and innovative in targeting different segments</li> </ul>
<b>Asset quality</b>	<ul style="list-style-type: none"> <li>Strong asset quality, low impaired assets and provisioning at the upper end of peers<sup>2</sup></li> <li>Retail and wealth focus – retail banking and wealth source of 89% of FY11 net loans and acceptances</li> </ul>
<b>Credit ratings</b>	<ul style="list-style-type: none"> <li>AA-/Aa2/AA- (S&amp;P, Moody's and Fitch). All with stable outlook and supported by strong capital, liquidity and asset quality</li> </ul>

## Total exposure by geography<sup>2</sup> at 30 September 2011 (%)



Westpac Group	Market share	Brands
Aust. Mortgages <sup>3</sup>	26%	
Aust. Credit cards <sup>3</sup>	23%	
Aust. Household deposits <sup>3</sup>	23%	
NZ Consumer lending <sup>4</sup>	20%	
Wealth platforms Aust <sup>5</sup>	20%	
Aust. Life insurance – inflows <sup>6</sup>	7%	

<sup>1</sup> As at 30 September 2011. Source: IRESS, CapitalIQ and www.xe.com. Based on US\$. <sup>2</sup> RBNZ statistics (September 2011). <sup>3</sup> Platform (including Wrap) market shares, Plan for Life, September 2011 – all master funds. <sup>4</sup> Life Insurance market share of inflows, Plan for Life June 2011, equivalent basis. <sup>5</sup> Source: Total Exposure at Default Pillar 3 Company reports, CBA at 30 June 2011 (Total credit risk EAD excludes Equities and Securitisation), ANZ at 30 September 2011, NAB at 30 September 2011 (excludes non-lending assets, Equities and Securitisation). Total exposure at default represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default. <sup>6</sup> APRA Banking Statistics (November 2011)

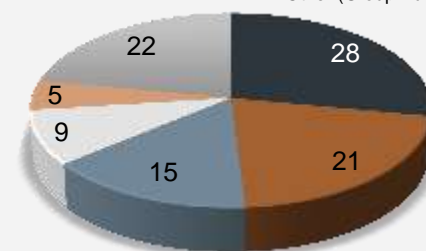
# STRONG FY11 FINANCIAL PERFORMANCE

## FY11 financial summary (AUD Reported basis)

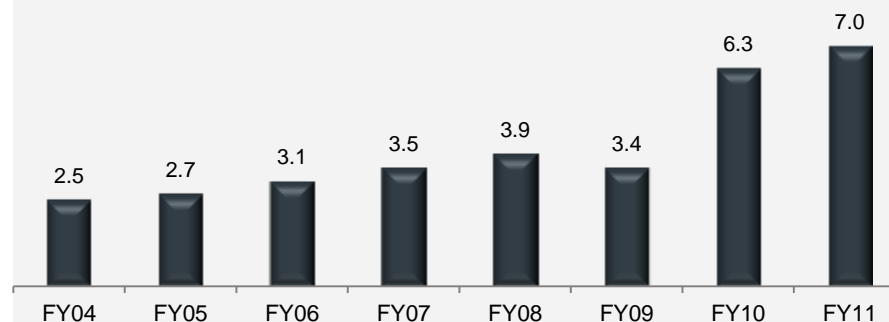
Earnings (AUD)	FY11	change FY10 – FY11
Net Profit (\$m)	6,991	10%
Earnings per share (cents)	233.0	9%
Return on average ordinary equity (%)	17.8	40bps
Dividends per share (cents)	156	12%
Dividend payout ratio (%)	67%	210bps
Expense to income ratio (%)	43.8	(10bps)
Net interest margin (%)	2.19	(2bps)
Balance sheet (AUD)	FY11	change FY10 – FY11
Loans (\$bn)	497	4%
Total assets (\$bn)	670	8%
Customer deposits (\$bn)	310	11%
Total liabilities (\$bn)	626	8%
Total committed exposure (\$bn)	744	9%
Total regulatory capital (Basel II) (%)	11.0	flat
Risk weighted assets (\$bn)	280	1%

## FY11 business unit contributions to net profit after tax (%)

■ Westpac Retail Banking  
■ St.George Banking Group  
■ New Zealand  
■ Westpac Institutional Bank  
■ BT Financial Group (wealth)  
■ Other (Group Business Units and Pacific Banking)



## Reported net profit after tax<sup>1</sup> (A\$b<sup>1</sup>n)



<sup>1</sup> FY04- FY08 excludes St.George Banking Group.

# AUSTRALIAN BANKS DIDN'T SUFFER THE SAME FATE DURING THE GFC

		Market Capitalisation (USD, \$b)						
		2008	2012		2008	2012		
European	Barclays	63.8	47.6	↓	WBC	45.4	68.2	↑
	HSBC	192.9	159.3	↓	CBA	66.8	83.5	↑
	Lloyds	51.7	38.4	↓	NAB	53.2	56.9	↑
	RBS	84.4	49.1	↓	ANZ	45.0	62.5	↑
	Soc Gen	68.1	25.1	↓				
	Deutsche-bank	68.6	43.8	↓				
Canadian	RBC	63.6	81.3	↑				
	TD	48.5	74.0	↑				
	BM	28.2	37.7	↑				
	BNS	47.0	61.5	↑				

Source: Bloomberg

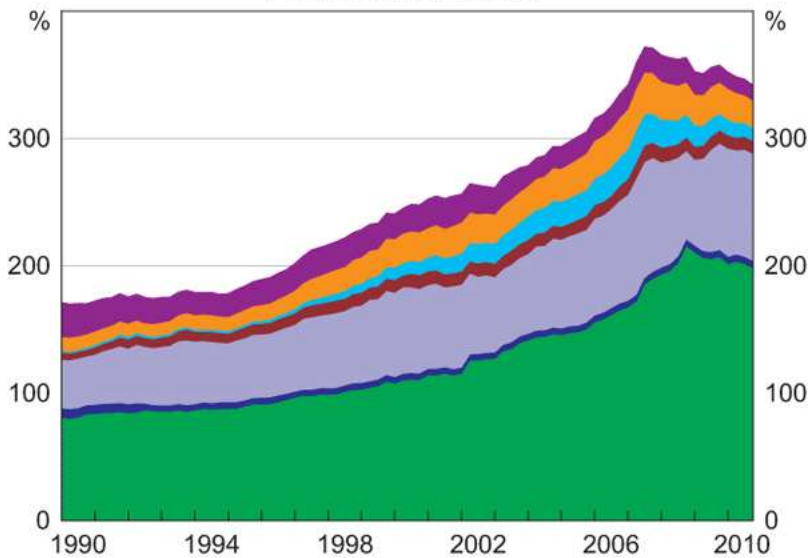
IT LOOKS LIKE THERE ARE TWO THINGS AUSTRALIANS ARE GOOD AT



# A SATELLITE VIEW OF THE AUSTRALIAN FINANCIAL SYSTEM

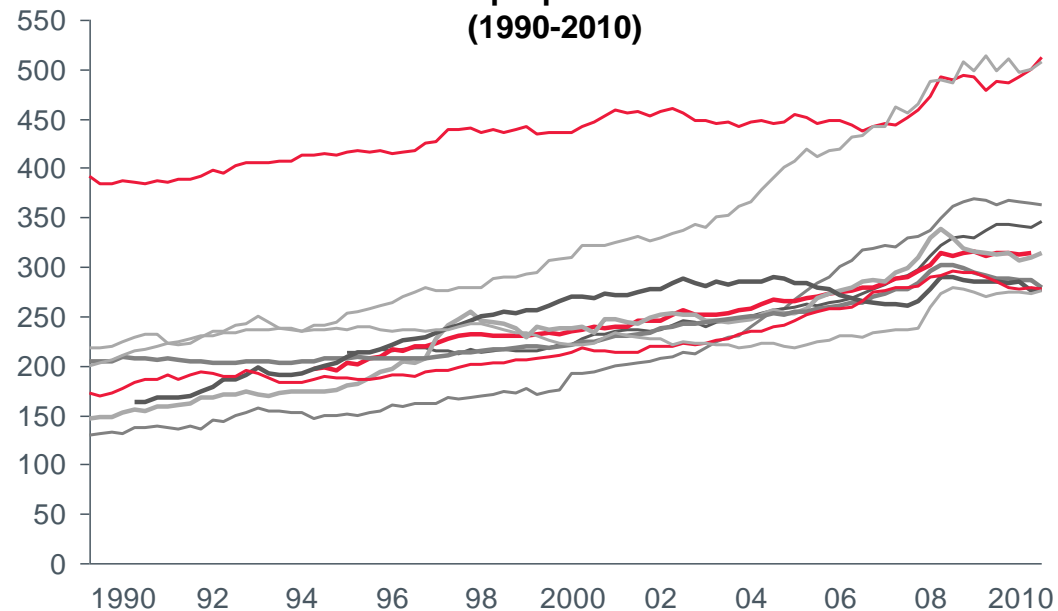
## Assets of Financial Institutions

Per cent of nominal GDP



- Registered financial corporations
- Managed funds
- Securitisation vehicles
- General insurers
- Superannuation and life insurance
- CUBS
- Banks (excluding RBA)

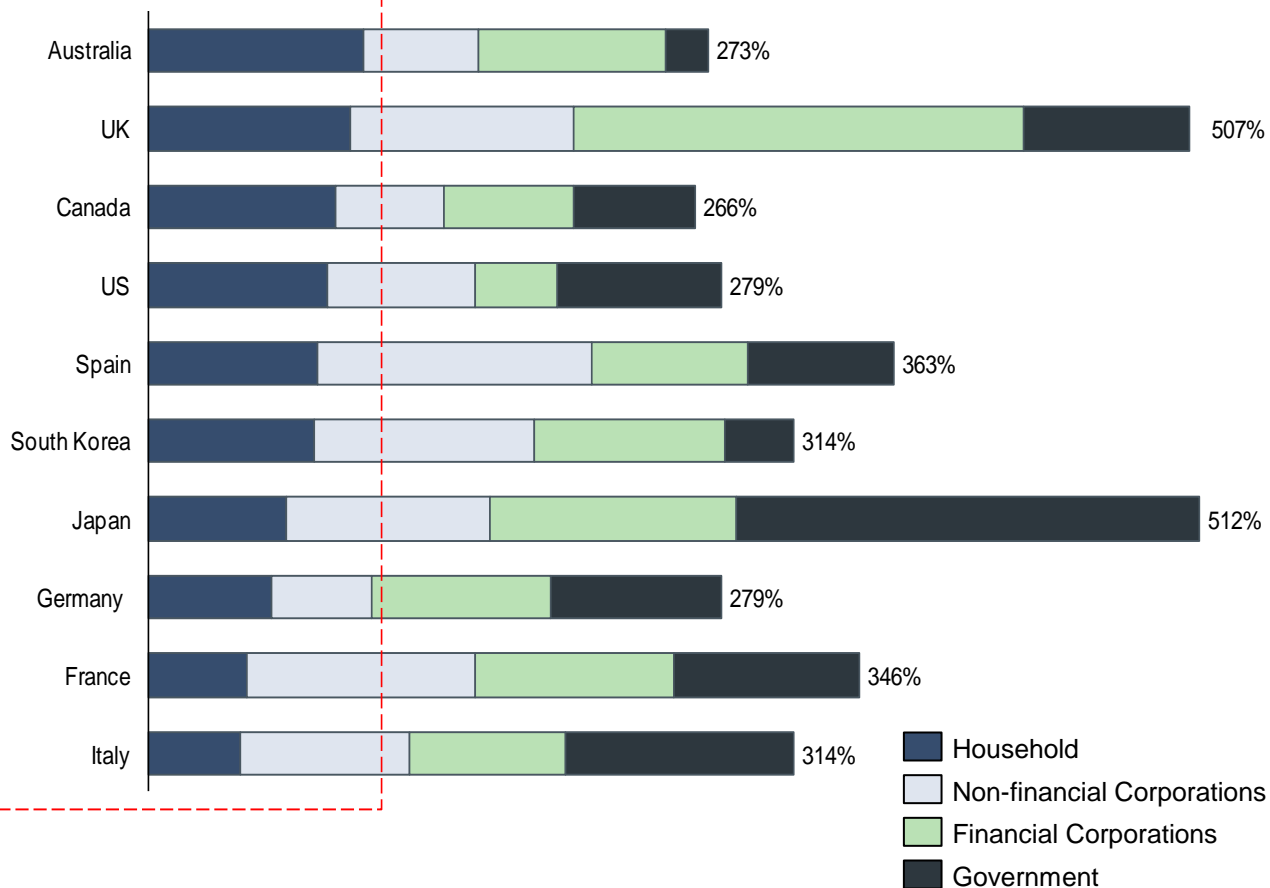
## Debt as a proportion of GDP (1990-2010)



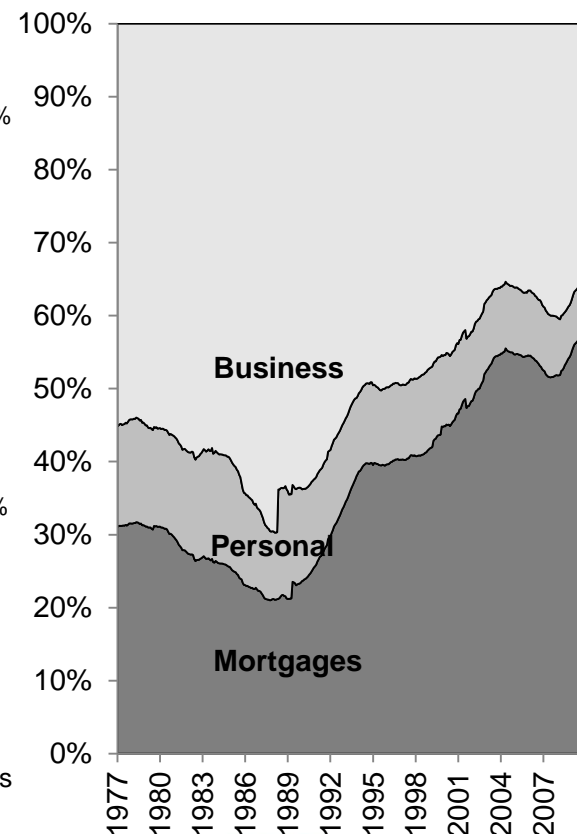
- Japan
- United Kingdom
- Spain
- France
- Italy
- South Korea
- United States
- Germany
- Australia
- Canada

# FINANCIAL SYSTEM DOMINATED BY CONSUMER CREDIT

## Debt as a Proportion of GDP (%, 2011)



## Proportions Of Credit By Type



Source: ABS, McKinsey, Group Strategy Analysis

# WHY AUSTRALIAN FINANCIAL INSTITUTIONS DIDN'T FAIL

## Everyone claims credit for the Australian banks not failing

Government	Regulators																		
<ul style="list-style-type: none"> <li>• Government Guarantee</li> <li>• The Australian Business Investment Partnership venture</li> <li>• Deposit Guarantee</li> <li>• Economic Stimulus</li> <li>• The Reserve Bank expanded the lines they would accept as collateral</li> </ul>	<ul style="list-style-type: none"> <li>• Provided effective supervision</li> </ul>																		
Australian Banks																			
<ul style="list-style-type: none"> <li>• Conservative lending practices</li> <li>• Benefit from Basel II investment</li> <li>• Strong capital ratios</li> </ul>	<table border="1"> <thead> <tr> <th></th> <th colspan="4">1<sup>st</sup> Half 2009</th> </tr> <tr> <th></th> <th>WBC</th> <th>CBA</th> <th>ANZ</th> <th>NAB</th> </tr> </thead> <tbody> <tr> <td>Equity Issuance (\$b)</td> <td>16.9</td> <td>5.9</td> <td>6.6</td> <td>7.8</td> </tr> </tbody> </table>					1 <sup>st</sup> Half 2009					WBC	CBA	ANZ	NAB	Equity Issuance (\$b)	16.9	5.9	6.6	7.8
	1 <sup>st</sup> Half 2009																		
	WBC	CBA	ANZ	NAB															
Equity Issuance (\$b)	16.9	5.9	6.6	7.8															



## WHAT MAKES AUSTRALIA DIFFERENT?

- A simpler financial eco-system
- A banking crisis triggered by deregulation in the early 1990s
- Aggressive, empowered supervisors
- Culture of disclosure
- Floating currency
- Strong bankruptcy laws



# WHAT DID WE LEARN FROM THE CRISIS?

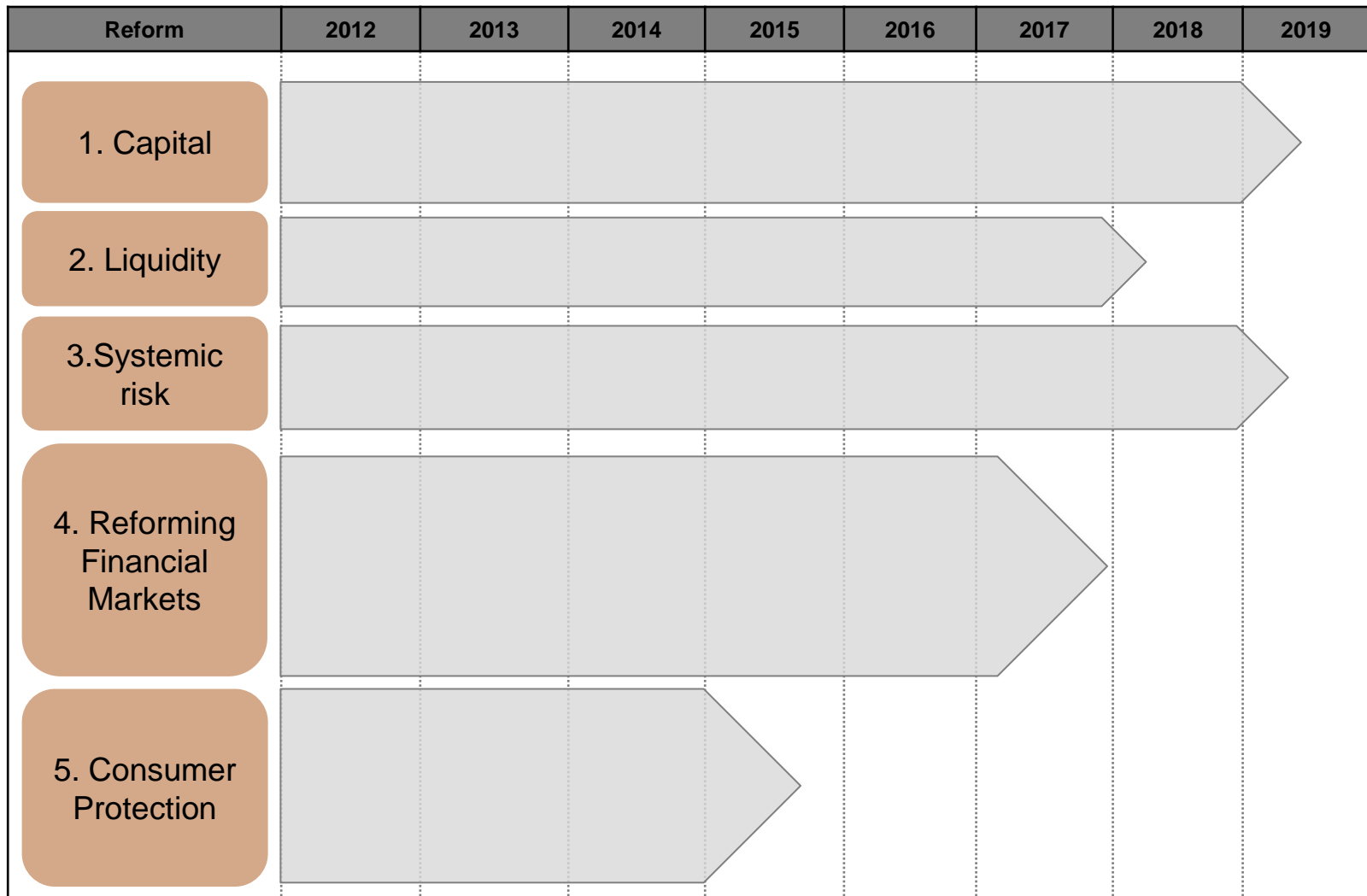
## What did we believe pre-GFC

- Financial innovation & Securitisation was good as it was spreading risk
- Entities should be allowed to fail

## What we now know

- The global financial system is interlinked
- There are entities that are too big to fail
- We have a better appreciation of funding and liquidity risks

# REGULATION IS CAPTURING THOSE LEARNINGS



## TWO PATHS TO FOLLOW

### **Legalistic approach**

Follow the letter of regulation

### **Holistic approach**

Follow the spirit of regulation

**ANY QUESTIONS?**