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Mr John Hawkins
Committee Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Reference: Senate Economics References Committee – Inquiry into aspects of bank mergers

Dear Mr Hawkins,

At the hearing on 10 August, Westpac took a range of questions on notice. Further questions were provided in your email of 13 August. Please see below for Westpac's replies to these questions:

Statement (*applies to question 1*)– Ms Kelly resigned as CEO of St George Bank and began as CEO of Westpac only a short time before the merger proposal was announced. In the Scheme booklet outlining the details of the merger proposal, it states that both Westpac and St George undertook a due diligence investigation into the other party.

Question 1: When Ms Kelly resigned from St George, was she bound by any conditions which may have limited her from divulging information about the operating model, organisational structure or financial management strategies of St George?

Answer: Mrs Kelly left St George Bank in August 2007 and joined Westpac Banking Corporation in February 2008, following the expiry of a six month notice period (so-called gardening leave) prescribed by her CEO Service Agreement with St George. That CEO Service Agreement also contained standard confidentiality obligations, which Mrs Kelly has honoured at all times.

Question 2: To what extent had the global financial crisis made it harder or more expensive for St George to raise funds in wholesale markets? How much impact was this having on their ability to compete?

Answer: The Global Financial Crisis had made it more expensive and more difficult for St George to raise funds in wholesale markets. Additionally, St George had traditionally relied heavily on securitisation markets for wholesale funding. These markets were essentially closed at the time of the merger. The overall impact of this situation would have been to either constrain lending operations and / or to put pressure on St George's credit rating.

Question 3: Westpac has long been bigger and had a higher credit rating than St George, and so could raise funds more cheaply. However this ability to source cheaper funds did not generally translate into cheaper home loans than St George (as evidenced by St George's ability to substantially increase their residential lending market share in the past 5 or 6 years, from less than 5% to more than 8%). Why then should customers expect they will gain any benefit from Westpac becoming even larger?

Answer: The merger of St George and Westpac has offered gains to all customers. For St George customers, the merger has offered a much safer and more highly rated financial services provider, which has remained "open for business" while others in the market have had to reduce their lending, some substantially. Day to day, St George customers can now use a much larger national ATM network without charge and have recently seen exception fees reduced substantially across the board.

Question 4: One of the transitional conditions placed on Westpac by the Treasurer was that they would work with consumer advocates and community stakeholders to minimise concerns with the merger and its impact on customers and the community, and address any concerns as sensitively and quickly as possible. What were some of the issues that consumers and communities raised with Westpac and how were they dealt with?

Answer: Most concerns related to a perception that the merger would mean a change to the St George business model, or a gradual reduction of investment in St George facilities and services. These concerns have been addressed through our post-merger actions – for example, substantial investment in St George branches, staff and marketing is underway, and St George has reinvigorated its community investment programme. As a consequence of such actions, these initial concerns have subsided, as evidenced by an extremely low level of customer complaints and feedback regarding the merger.

Question 5: Six of the conditions placed on Westpac by the Treasurer only apply for three years after the merger takes place (i.e. they will expire on 1 December 2011). Does Westpac envisage there to be substantial changes in the management structure of the organisation or substantial branch closures after this time? (For example, in December 2012 will there still be both a Westpac and a St George branch in the Belconnen Mall – and in Lane Cove will there still be a St George branch at 134 Longueville Rd and a Westpac branch at 138 Longueville Rd?)

Answer: Our intention is to maintain our multi-brand strategy, to continue to build and expand the St.George brand. We have no plans to change that strategy after the expiration of the Treasurer's conditions.

Question 6: Do you think the emergence of internet banking means that Australia now has too many bank branches? (Or were there too many even before this?)

Answer: No. Many customers still have a strong preference to be able to meet their banker face-to-face when they have a need to. This is particularly the case when they are facing important financial decisions in their lives, such as buying a house.

Question 7: Would a St George branch manager who offers a lower interest rate on an overdraft for a small business to attract their custom from the Westpac branch next door be regarded as doing a good job? (If yes, why is the manager being rewarded for lowering the group's profits? If no, does this prove the merger is bad for competition?)

Answer: We expect our managers to honour customer choice; whether St.George or Westpac. In both brands our ambition is to "earn all our customers business". In some situations our customers will move products from Westpac to St.George, and in other situations our customers may move products from the other 3 majors to either St.George or Westpac.

Question 8 (from Senator Hurley, taken on notice during hearing): "The chief executive officer of St George at this time of the takeover, who took over from Gail Kelly, Mr Paul Fegan, was paid, I think, $2 million as termination payment when he resigned. Were any other St George senior executives or board members paid any kind of special termination or bonus payments?"

Answer: One disclosed Senior Executive received a special bonus of $75,000 in relation to preparations for the merger. Apart from that individual and Paul Fegan, no other St.George Board members or Senior Executives disclosed in St.George's 2008 Remuneration Report were paid any special termination or bonus payments in relation to the merger.

Board members and disclosed Senior Executives were paid entitlements in accordance with their contracts, as disclosed in St.George's 2008 Remuneration Report. Please note that for four long-standing non-executive Directors this included the payment of accrued retirement benefits. These grandfathered retirement benefits were approved by St George shareholders at its 2003 Annual General Meeting. The benefits would have been paid to the four Directors on ceasing to be a Director of St.George Bank Limited, whether or not any merger had taken place. Each director's accrued retirement benefit has been disclosed each year in the St.George Annual Report. Note that this entitlement does not apply to any Directors who commenced after the 2003 AGM.

Additional Information we agreed to provide:

9. We undertook to provide further information (including a membership list) on Westpac's Community Consultative Council. Please refer to the following:

Regular and ongoing dialogue with our stakeholders helps us determine our priorities.

The main way we engage with our stakeholders is through the Community Consultative Council, which is pivotal in determining our material issues. Chaired by The Westpac Group's CEO, it comprises the CEO or similar executives from key stakeholder organisations and meets at least annually to solicit input on how the Group should respond to various issues.

Current membership of The Westpac Group's Community Consultative Council:

- Australian Council of Trade Unions
- Australian Conservation Foundation
- Australian Consumers' Association
- Australian Council of Social Service
- City of Melbourne
- The Climate Institute
- Commonwealth Department of Family and Community Services
- Commonwealth Department of the Environment and Water Resources
- Commonwealth Department of Education, Employment and Workplace Relations
- Environmental Protection Authority Victoria

- Finance Sector Union
- Human Rights and Equal Opportunity Commission
- Landcare Australia
- Mission Australia
- National Seniors Association
- NSW Department of Planning
- Our Community
- Reconciliation Australia
- Social Ventures Australia
- Society of Knowledge Economics
- St James Ethics Centre
- The Salvation Army
- The Smith Family
- University of Technology Sydney
- WWF Australia

A public link to this list is available at:
http://www.westpac.com.au/internet/publish.nsf/Content/WICROA+Community+Consultative+Council

10. Stakeholder Impact Report

We undertook to provide a copy of Westpac's Stakeholder Impact Report, which reports on key performance indicators and explores the link between sustainability and shareholder value. This report is available online at:

http://www.westpac.com.au/manage/pdf.nsf/EAA4F6DF41C310CECA25751A00783869/$File/2008_StakeholderReport.pdf?OpenElement

A hard copy has also been emailed to the Committee.

Please feel free to contact me at any stage should you have any comments or queries.

Yours sincerely,

Andrew Buttsworth
Head of Government & Industry Affairs
Corporate Affairs & Sustainability