Westpac Banking Corporation
Sustainability Market Briefing
Sydney
12 April 2006

Chief Executives Officer's Introductory Comments

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Thank you Andrew.

Today is a rather unique day – the first by a major company that we know of, to try to engage the market on why Corporate Responsibility and Sustainability really matter from an investment perspective.

The starting point

Let me make a confession at the outset – and it is the first time I have made such a confession, publicly or privately.

We did not set out for Westpac to be a national – and indeed international - leader in the various corporate responsibility, governance and sustainability ratings and awards.

Nor do we seek to do so today.

When I took over the CEO role, it was clear to me that we were still operating our business significantly out of kilter with community expectations and hence, to a major extent, out of kilter with the expectations of our staff and customers.

As a result, shareholder value was at risk, both immediately and over the longer term.

We saw no option but to embark on a new journey.

A journey built on strong principles - one that would have our reputation and social licence to operate at centre stage, and one that would take the related risks out of our business.

We started out by clearly laying down three central principles against which we would lead and manage our company. These were:

- Managing long;
- Managing broad; and
- Leading around a set of core values

As it turned out, these three principles came to be at the heart of what we know as corporate responsibility and sustainability

And by executing well on these principles we have delivered the leading sustainability ratings outcomes you have seen.

So when we talk about corporate responsibility and sustainability, we're talking about:

- Managing long - in terms of avoiding the pitfalls of short-termism. And in terms of resisting market demands to maximise near term value thereby putting future value and our resilience at risk;

- Managing broad - in terms of taking account of stakeholders other than shareholders, because they have such a fundamental impact on our business in terms of risk, resilience and revenue upside; and

- Leading according to a core set of values – which simultaneously meet the needs of the organisation and our people.

Focus on shareholder value

Let me make a few observations on this before commenting directly on intangible value, our subject today.

The first is that long term shareholder value is the only shareholder value that matters.

Anyone can turn in a good quarter, half or year. The real test is to turn in a good 5 to 10 year performance and beyond.

While the quality end of the market realise this - indeed, regard it as almost a truism - too much of the market, in my view, is too short term focused.

Our approach in dealing with this has been to not run the company solely for the market.

Obviously one has to strike a balance here. A balance between giving primacy to creating longer term shareholder value, while consistently delivering shorter-term profit results at least broadly in line with legitimate market expectations.

On any measure, we've successfully delivered on that balance over recent years. In the past seven years for example, we've delivered:

- Annual EPS growth averaging over 11% compound growth; and
- A return on equity averaging 20%.

We're the only major Aussie bank to achieve such an outcome and we have done so without reverting to one-off provisions or restructuring charges that in effect manufacture artificial financial outcomes.

This has taken discipline, but this medium to long term shareholder value focus has allowed us to:

1. Resist giving very explicit, cast iron short term earnings guidance - thereby avoiding committing to deliver delivering short term outcomes, regardless of longer term cost; and

2. Focus investment spend on long term shareholder value and avoid an over focus on rapid payback projects

The second point is that we view strong shareholder outcomes as a consequence - an outcome - of managing other stakeholders well.

A causal chain operates between employees, customers, the community and shareholders and we are only as strong as the weakest link in the chain.

In particular, in a functioning democracy, the legitimate needs of the community ultimately get met.

In general, those needs are best met by corporations taking an intelligent and enlightened view of their long term self interest.

We are certainly better off meeting those needs pro-actively by taking responsibility for the externalities of our activities, rather than waiting for the almost invariably less efficient and reputationally more damaging route of legislation and regulation.

And in case there is any mis-understanding here, let me be very clear. Our focus on doing the right thing for the broader community through responsible business practices is strategic.

- It's strategic in terms of managing our social contract;
- Strategic in terms of managing regulatory and reputational risk;
- Strategic in terms of capturing value-creating opportunities by understanding the emerging socio-political environment and trends better than others; and
- Strategic in meeting the broader needs of our customers and our people.

The main point is that none of this is done for its own sake; it all plays a key role in building our human, social and reputational capital, and hence our franchise value, all key drivers of sustainable shareholder value.

My third point is that our comparative advantage is around execution; and in our industry this is delivered by our people and our culture.

And this is where values come in.

Companies are running simultaneously an economic machine and a social system. And the task of corporate leadership is to have the inter-relationship operating seamlessly and smoothly.

The key to this – the glue if you like – is values.

Call all of this Corporate Responsibility and Sustainability if you like.

The label is unimportant; it is the substance that is critical.

And the substance is necessarily "soft" and the value intangible.

But there is nothing soft or intangible about our commitment to these three management principles and to sustainability.

You only need to look at the structure of my performance-based remuneration and that of my team.

In my case, around 40% of my performance-based cash remuneration depends directly on achieving targets for key performance drivers linked to these principles.

The remaining 60% is driven by our financial results, which in turn depend heavily on successfully managing these key value drivers.

Today's briefing

So today we are going to attempt to focus this discussion where it needs to be – that is, in terms of the intangible shareholder value generated by the application of these broad principles.

This is particularly important given that some 70% of the value being assigned to Westpac by the market is intangible.

Our challenge has been how to.

Right upfront, I have to say that measuring and communicating intangible value in terms the market understands is not easy.

Our initial priority was to understand the true drivers of intangible value within our business.

We've done that and we believe we are now managing and measuring what matters – intangible value drivers that cover all aspects of our business and spanning:

- Employee commitment
- Occupational health and safety
- Workplace diversity
- Governance and leadership
- Customer complaints
- Product and service quality
- Brand strength
- Environmental impacts
- The quality of relationships with stakeholders

And so on.

In fact, measuring, managing and developing intangible value drivers – what has come to be called extended performance management – is now highly sophisticated in Westpac.

Our annual stakeholder impact report, for example, contains five years of detailed, future-focused extended performance accounting.

More fundamentally, our structural, relational and human capital can be expanded without limit.

And today we hope to give you an insight into the positive valuation impacts of managing the business in this way.

As an example, and even taking a very conservative approach, the benefits from reducing our employee turnover over the past five years are now in the order of $50m of avoided costs per annum.

Noel will provide some other examples.

Because outperformance in the area goes to the heart of competitive advantage, we will continue to work on better understanding the value linkages between the non-financial performance drivers and the financial outcomes.

Being shareholder value enhancing has been a basic precondition for any of our activity.

More broadly, the issues we're talking about today are becoming unavoidable ones for business and the market. Let me give you a few reasons:

1. The two current government inquiries are focusing on corporate responsibility and on non-financial reporting. They will report in the coming months.

2. The global reporting initiative is being overhauled this year to better meet the information needs of analysts and investors.

3. In Europe and the US, the enhanced analytics initiative group of asset managers is now funding sell-side equity research on non-financials through over 30 research providers.

4. Other mainstream investors like Goldman Sachs, JP Morgan Chase and Merrill Lynch are reported to have begun building sustainability screening into their valuations; and

5. Numerous research findings demonstrate positive associations between non-financial and financial performance. The evidence grows.

In fact, last year Mercer Investment Consulting surveyed 195 fund managers worldwide, responsible for managing $30 trillion US dollars: most expected social and environmental performance to be mainstream for investment management within 10 years.

So, in conclusion, I expect that companies, over time, will be progressively re-rated not only on the narrow financial agenda, but also on their management of the non-financial drivers of performance.

And I expect to see the development of more sophisticated performance and valuation models that will help unpick the causal links between these financial and non-financial metrics.

But before I hand over to Steve Vamos and Noel Purcell, I'll leave you with this final thought.

Even though it will never be easy to fully set out the causal links between non-financial and financial performance across our business, what we are discussing this morning will, over time, be simply understood as good management.

Particularly, we no longer just see this in terms of risk minimisation and efficiency. We see it equally in terms of the business upside and opportunity.