



**Westpac Banking Corporation
2007 Annual General Meeting
Sydney, Australia
13 December 2007**

Chief Executive Officer's Address

**Dr David Morgan
Chief Executive Officer
Westpac Banking Corporation**

Thank you Chairman, including for your very generous remarks about my tenure.

Good afternoon.

This is my ninth and final address to you as your Chief Executive Officer.

It seems appropriate that I should reflect on those past nine years.

I'm very proud to say those years tell a story of success. It is a team story, a story of sustained collective effort. And it's in this that the pride and the satisfaction lies.

I want to look back on the things that underpinned this success.

Running a large company like this one means running two systems – an economic system and a social system. At every point they connect and they depend upon each other. To succeed, companies must mesh these systems, with the fewer seams the better.

This was something I think the founding fathers of Westpac understood when they established the Bank of New South Wales here in Sydney back in 1817. And for the last nine years it has been our objective.

As the competitive battle became more intense, it was how we fortified ourselves. The experience has been good for us.

Over the course of the last decade we made our strategy and our management disciplines smarter and stronger - and as we did - our confidence in them grew.

The reward has been a decade of consistently strong and resilient financial outcomes. And the reward has been local and international recognition for the way we do business and the lead that we have given on sustainability.

In the past decade I have seen Westpac transformed. It was and remains a bank; but today it is also an integrated and diversified financial services corporation.

Drivers of our success

Our success has not come by chance.

We developed a firm strategy and followed it through all the stages of implementation.

We set out to reach a better understanding of the needs of our customers and employees and then to meet those needs.

We recognised that we could not succeed without highly committed and well-trained employees, and now I'm pleased to say we have them.

These are the drivers of our success and they will remain so into the future.

From the beginning we set out to clarify and re-focus our strategic direction. We did it according to three principles.

First, we believed that concentrating on customers and establishing long-term, multi-product relationships with them would deliver the most consistent and favourable returns.

Second, we believed that doing things better than others was essential and therefore we needed the right people, effective performance and people management processes, and the right values in our company culture.

And third, we believed that investment had to be focused on strong growth sectors, and where we were well positioned and had the talent to succeed.

We also understood that returns are not enough – companies need returns *and* growth. All businesses need a healthy return on equity and we are no different.

But in the risk-averse nineties we had focused too much on return on equity alone.

Growth focus

But while we set about re-orientating our investments towards growth opportunities, we remained focused on our core markets.

We didn't discount international opportunities, but we saw strong growth prospects in the Australian and New Zealand markets and decided they were the best options. They are the markets we know best.

We also took the opportunity to acquire Rothschild, BT Financial Services, and Hastings – all growth businesses.

And now, as the Chairman said, we are in the process of acquiring the RAMS franchise distribution business.

The wealth management acquisitions in particular have dramatically reconfigured our portfolio towards higher growth.

I count this among our most important achievements in the past decade. It goes without saying that it is central to our ongoing success.

Wealth management has the highest growth rate of all of our businesses. It offers high returns relative to banking, and it is relatively low risk. More importantly, it is an opportunity in our own back yard; predominantly with existing customers.

And, the results speak for themselves. Our wealth earnings have more than tripled in just five years, increasing from around 5% of Group earnings to 12%. And, there's more growth to come.

We expect wealth to account for a significantly higher proportion of our Group earnings within the next three years, as BT continues to expand its share in one of the largest and fastest growing private pension environments in the world.

During this time we have also divested lower growth, non-core businesses such as AGC, custody services and our foreign banknote business.

Reshaping our corporate DNA

Understandably, after the losses of the early nineties the company became risk averse. But the pendulum swung too far.

So we had to rebalance things and move the pendulum from risk minimisation to risk optimisation. And we've done this by removing excessive controls and freeing up our people to focus more on customers.

This involved reshaping and redefining what we stand for, where we're heading and how we're going to get there. We refined our vision, and put strong ethical values and customers at the heart of everything we do. We changed our corporate DNA.

Our workplace became more diverse, and much more likely to reward merit. We became more family friendly, leading the way on paid parental leave and workplace childcare.

We encouraged people to speak up, and we made it safe to do so. Twice yearly I toured the country to meet all our leaders and to talk about our strategy and progress and hear directly from them what they thought and what was really going on in our company.

And again, the results speak for themselves.

We've seen employee commitment rise from a low of 56% to an all time high of 71% this year, placing us at the top of large Australian companies. Our employee engagement this year was also at an all time high of 80%.

And, another satisfying statistic: we have seen the percentage of women in management roles increase from 25% in 1998 to 42% today.

The tangible benefits of this include higher employee retention rates. In a very tight labour market, our resignation rate remains approximately 10 percent below the finance industry benchmarks. And our job offer to acceptance ratio in Australia is now higher than 95% – well above industry norms.

With the sector at full employment, our position as a preferred employer is one we value highly.

A remarkable transition

Perhaps the most remarkable transition has been the restoration of community trust in, and respect for, Westpac.

In the mid to late 1990s, the community was pretty much in open outrage over the actions of banks – rural branch closures, staff layoffs, and lack of transparency and understanding around rising fees as a substitute for shrinking bank margins.

So it was obvious to me that delivering the financial numbers was simply a ticket to play. For a business based on trust, our financial results would be unsustainable if we couldn't deliver to customers and employees – and to the community interest.

The importance of meshing the economic machine with the social system was now beyond question and this started our journey to sustainability.

Nine years ago we were at or near the bottom of customer satisfaction rankings and indeed all key performance metrics among the major banks and we set about changing that.

Now our Institutional Bank has regained the mantle of 'Lead Bank' in the Australian market. And our consumer and business banks have made steady gains, closing the gap on the lead player.

But we've still got more to do, including in New Zealand, to be where we want to be on customer satisfaction.

We also set about embedding responsible business practices across everything we do and for the past seven years we have been consistently recognised as a global leader across the sustainability agenda.

From 2002 to 2006 we were rated the most sustainable bank globally in the Dow Jones Sustainability Index, and this year we received the equal highest sustainability rating.

Strong, resilient financial performance

All this has underpinned a strong, resilient financial performance over the past nine years including our very good result for shareholders this year.

We have consistently delivered strong growth and returns, built on a conservative balance sheet with a very diverse and deep funding base – great assets in the current volatile market and credit conditions.

Taking into account both share price movements and dividends, total shareholder returns have averaged more than 18% compound per annum growth over the past ten years. And Westpac has comfortably outperformed the market as measured by the All Ordinaries Accumulation Index and the Bank's Index over this time.

I am pleased to say that during the nine years of my tenure Westpac's market capitalisation has increased from \$20 billion to \$53 billion, as at 30 September 2007, an increase of 164%.

A strong team

Finally, I'm proud of the quality of the Executive Team I've been able to assemble to continue to lead our journey with Gail Kelly when she takes over as CEO in February of next year.

Over the last 12 months or so we made some important changes:

- Brad Cooper joined us from GE Capital in the UK as the CEO of our New Zealand business;
- Peter Hanlon was promoted to run business banking;
- Jon Nicholson, previously CEO of Boston Consulting Asia Pacific, is now running strategy; and
- Diane Sias has returned to Westpac to head our technology and operations division after some time with McKinsey in the US.

Collectively these changes represent a significant lift in the senior executive bench strength.

Thank you

In conclusion I would like to thank the Chairman and the Board for their unwavering support and wise counsel during my tenure.

I also must thank our shareholders, customers and employees. For it is on their support that Westpac's success has been built.

In particular I acknowledge with deep gratitude and genuine admiration the commitment and support of our 28,000 Westpac employees.

It has been a wonderful journey and, above all, a profound privilege to lead not just Australia's first bank but Australia's first company.

It gives me great satisfaction to be handing it on as a company transformed and in very good shape.

I wish the Board, your new CEO elect Gail Kelly, the Executive Team and all the Westpac family the very best for the years ahead.

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