Westpac
Australia's First Bank

Chairman's Address

2002 Annual General Meeting
Melbourne, Australia
12 December 2002

Mr Leon Davis
Chairman
Westpac Banking Corporation

Introduction

I am pleased to report that it’s been another very successful year for the Bank. We have again delivered our best ever result. And we have increased our capacity for sustainable growth through several transforming initiatives that have filled capability gaps and positioned Westpac as a major player in the wealth management industry.

I will return to this broader picture, but first to the financial results.

The Group’s net profit after tax of $2.19 billion, was up 15% on last year’s result, and represents our tenth consecutive annual profit improvement. It came from solid revenue growth, balanced with continuing cost control. Earnings per share were also up 15% to 118.3 cents per share.

In addition, our reported return on equity increased to 22% from 21% last year.

The reporting of our financial results is unusually complicated this year because of the sale of AGC and several other one-off significant items. To help shareholders, let me look at our result three ways:

- As per the Australian accounting principles, which include all significant items including the profit from the AGC sale, profit was up 15%. This is what we reported.

- If, to get perhaps a better comparison year to year, we exclude the AGC earnings from both years and all the significant items including the profit from the AGC sale, profit was up 12%.

- If we leave in the AGC earnings for both years, but exclude all the significant items, including the profit from the AGC sale, profit was up 8%.

Bear in mind that the last figure is the most conservative approach as it includes the AGC profit for the whole of 2001 but only for eight months of 2002, after which it was sold.

This strong result for investors has allowed your Board to declare a final dividend of 36 cents per share, fully franked, which, together with the first half dividend of 34 cents, takes the total dividend to 70 cents. This represents an increase of 13% on 2001 and maintains our policy of increasing the dividend in line with our sustainable growth in cash earnings and our franking capacity. The dividend payout ratio of 59% was broadly in line with the 60% payout ratio in 2001.

Despite the high profile corporate collapses and continued turmoil in world financial markets, our asset quality improved over the year. The performance of our core portfolios remained strong, with the proportion of stressed loans (made up of impaired and watchlist loans) declining by 0.5% to just 1.2% of our total lending commitments.

We also remain confident that our level of provisioning prudently covers us for any residual problem exposures. In this regard, our net impaired assets as a proportion of our equity and general provisions has improved significantly, falling to 3.5% at year-end from 5.4% last year.

Overall, the result has maintained our recent record of delivering consistent, strong earnings growth and returns for shareholders.

Let me turn to developments during the year.

Since the 1850s, Westpac has been a joint stock company governed by an Act of the New South Wales Parliament, a heritage of our founding in 1817 as Australia's first bank and Australia’s first company. Following approval by shareholders at the 1999 Annual General Meeting, the New South Wales and Federal Governments passed the final steps for incorporation earlier this year. We are now governed by the Corporations Act following registration on the 23rd of August.

As I said, this has been another good year in enhancing our medium term growth prospects. It builds on the momentum established in the mid to late 90s when we undertook a series of successful regional bank acquisitions that increased our customer numbers and addressed market share deficiencies.

This year we have again enhanced our growth profile by boosting our wealth management capabilities through the acquisitions I mentioned earlier. We took the first step in May 2002 when we finalized the acquisition of Rothschild Australia Asset Management for $323 million, and integrated it with Westpac Financial Services Group. This substantially strengthened our investment management capability.

We then acquired key parts of the Australian and New Zealand business of the BT Financial Group for $900 million, with the purchase completed in early November. The BT acquisition complements the Rothschild purchase by adding the leading BT wrap platform, BT's corporate superannuation business and platform, the BT New Zealand business, and BT's distribution and margin lending businesses.

These acquisitions make Westpac the fourth largest retail fund manager in Australia and the fourth largest fund manager in New Zealand.

In August this year, we also announced the purchase of an initial 51% shareholding in Hastings Funds Management and the option to acquire the remaining 49% in 2005, subject to certain performance hurdles being met. Hastings gives us significant new capabilities in the infrastructure, private equity and asset management markets to complement the existing strengths of our Institutional Bank.

Also, in May this year, AGC was sold to GE Capital. Although a profitable business, AGC had lower growth prospects, and operated in areas of our business that were increasingly competitive, higher risk, and not central to our concentration on direct customer distribution. With this sale a long and valued association dating back to 1957 came to an end. A profit on sale of $754 million was realised.

Your Board is confident that these strategic initiatives improve prospects for sustaining our growth in profits and dividends.

This year we also continued to concentrate on capital efficiency. In March, we announced a buy-back of up to 50 million shares, representing approximately 2.7% of Westpac's issued capital. The buy-back commenced in May, and was terminated in August in anticipation of the move to being registered as a Corporations Act company. At the time, the buy-back was slightly more than 50% completed.

The fourth item of business on the agenda, that we will discuss shortly, relates to proposed amendments to our new Constitution. The first of these is to insert a new article that deals with certain matters required by the Corporations Act in relation to preference shares. Capital raised via this medium is a convenient and cost effective method that has been employed by the Bank on a number of occasions in the past under authority conferred by our former constitution, the Deed of Settlement.

In line with our comments at the time of our full year profit announcement, we announced on 13 November the launch of Westpac FIRsTS, to raise a minimum of $600 million. Provision has been made to accept additional applications for a further $100 million from existing shareholders.

Application has been made to have Westpac FIRsTS quoted on the Australian Stock Exchange, allowing holders to buy and sell Westpac FIRsTS at the prevailing market price after completion of the offer. The retail offer was opened on 25 November and will close tomorrow.

The issue of Westpac FIRsTS will return our Tier 1 capital ratio to the upper end of our targeted range of 6% to 6.5% and will further improve the diversity and efficiency of our capital resources. This issue helps ensure we have the right capital mix moving forward. We also anticipate that our Tier 1 ratio will continue to grow through strong capital accumulation from retained earnings and the dividend reinvestment plan.

Under the Westpac FIRsTS structure, preference shares may issue in certain circumstances. If the proposed amendments to the Constitution are approved, your Board will authorise the terms on which any preference shares related to the Westpac FIRsTS will be issued. If the proposed amendments to our Constitution are not approved, alternative securities, which have similar attributes to preference shares will be issued under the FIRsTS structure.

I would now like to focus briefly on an area that your Board feels very strongly about. There is a clear, indisputable link between Westpac’s financial sustainability, good governance and corporate responsibility, and our relationship with our key stakeholders.

Dr Morgan will focus on our efforts to improve our customer experience, a key driver of shareholder value. I would like to take the opportunity to address an equally important issue; namely, the growing outrage in the community over what is seen as a lack of corporate transparency and accountability.

Breakdowns in corporate oversight procedures, alarmingly evident in recent high-profile company collapses, have severely shaken public confidence in business. It is imperative, for this company, for the banking industry, for Australian business in general, that decisive action is taken.

Some new regulation will be unavoidable. We have already seen new requirements emerge in Australia and overseas. These are welcome, but it would be a mistake to believe the solution lies simply, or even mainly, in a stringent new regulatory regime.

There is limit to the extent that morality can be regulated. And poorly directed regulation is a recipe for complexity, cost and avoidance. We need sensible, targeted regulation; but we also need a more concerted and conscientious effort by corporations to improve the standards of their governance. In fact, good corporate governance must be embedded in their culture.

We also know the consequences if the business community does not embrace the new realities. Companies like Westpac need more than just a legal licence to operate - they need a community licence as well. It's clear that customers and shareholders alike will walk away from companies that fail to meet acceptable governance and ethical standards, or refuse to accept their social responsibilities.

The business case is compelling. A company's level of governance and responsibility has emerged as a significant indicator of its overall health as a business.

As a minimum, corporate responsibility means having a set of decent values to underpin a company's everyday activities: its transparency; its desire for fair dealing; its human resources policies; its attitudes to customers; its links to the community. The same kind of values must underpin corporate governance.

Our decisive actions in recent years have helped us win back our reputation and to a degree restore the public's faith. In doing this we have improved the prospects for long-term sustainability. And it is not only us who are saying this – others are saying it too.

This year we were ranked as the benchmark in corporate responsibility: Number One bank in the world for corporate sustainability, measured by the Dow Jones Sustainability Index for 2002-2003; and Number One among the top 100 companies in Australia in the Good Reputation Index published in October this year.

And just yesterday it was announced that Westpac won the *Special Award for Impact on the Community by a Business* in the 2002 Prime Minister's Community Awards.

At Westpac, the buck stops with the Board and we have in place processes to oversee good governance and social responsibility, particularly through our new Committee on Social Responsibility. This Committee has now been operating for over a year and is already making a difference. More importantly it sends a signal to our staff, our customers and our investors that this Board ranks social responsibility equally with all other committees – like Audit and Compliance, Credit and Market Risk, Remuneration, and Nominations for which committees of the Board have been in existence for a long time.

This year we have again reviewed our corporate governance program. I invite you all to review our statement in the Annual Report.

During the year we also revised our employee equity-linked incentive schemes around three key principles:

- strengthening the link of performance to shareholder value;
- making delivery of equity dependant on tough performance hurdles; and
- delivering equity only to key employees that can make an impact on the growth in shareholder value.

Following these principles we have replaced the two previous option schemes with the Westpac Performance Plan. This new plan has tougher performance hurdles that will result in executives, in future, forfeiting all options and performance shares for below median performance relative to the peer group of companies. Details of the new plan are set out in the annual report.

In relation to the accounting for the cost of the incentives, we expect to include the cost of any grants under the Westpac Performance Plan as an expense in our financial statements once a relevant international accounting standard is adopted. Had we expensed the cost this year, the charge would have been

$48 million pre-tax, based on their estimated fair value. To put this into context, total salary and other staff expenses throughout the company last year were $1. 8 billion, and total expenses were close to $4 billion.

In July this year, we reached another landmark with the issue of our first social impact report on the company's performance, across social, environmental and economic concerns. The report recognises that Westpac has an extensive impact on society, and that our longer-term sustainability goes well beyond the financial dimension.

So Westpac leads the way: the challenge is now to stay there. The rewards if we can do so will be considerable, both for your company and for the community.

There were further changes in your Board this year, and I would like to take this opportunity to recognise the valuable contribution of Peter Ritchie who has left us, and to welcome David Crawford who brings unique talents and experiences to the table.

Peter Ritchie resigned as a non-executive Director in September this year. He had been a member of the Board since 1993. His background in consumer marketing and his commercial experience have been highly valued by Westpac during his time as a Director.

In May this year, David Crawford joined the Board as a non-executive Director. David brings extensive experience in accounting and in the restructuring of corporations. He was a partner and national chairman of KPMG until retiring last year.

In terms of the world, these are uncertain times. They are times for us to demonstrate corporate responsibility and to concentrate as never before on effectively managing all categories of risk. In this, as in all our management strategies, we need to be alert, diligent, imaginative - proactive.

Although Australia and New Zealand cannot be isolated from the influences of global events, we remain positive that these markets will continue to enjoy relatively sound growth.

Your Board is confident that the Company is well placed to take advantage of the growth opportunities across our expanded and repositioned business. We have a solid platform for future growth. Our core business remains strong and our growth and efficiency initiatives are on plan, and we expect to deliver further improvement in earnings in the year ahead.

In conclusion, may I say that our achievements in all areas have been made possible by the efforts of our staff. Wherever they may be and whatever they are doing in meeting the daily needs of our customers, it is resulting in benefits for all involved with Westpac. I sincerely thank them on behalf of the Board.