Westpac
Australia's First Bank

Westpac Banking Corporation

2003 Annual General Meeting

1.30pm Thursday, 11 December 2003

Chairman's Address

Leon Davis, Chairman
Westpac Banking Corporation

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Chairman's Address

Undoubtedly, this has been another year of achievement and progress for Westpac.

We are making real headway - real progress in changing Westpac for the long-term benefit of all our stakeholders, but in particular, our shareholders.

In the past year, we've been able to deliver yet another strong and balanced profit result. A result that reflects solid revenue growth, successful integration of our wealth management acquisitions, continued cost containment, and a quality balance sheet.

Net profit after tax was $2.18 billion. This was up 9% on last year's result, after excluding the impact of the 2002 significant non-recurring items, the largest of which was the profit from the sale of Australian Guarantee Corporation Limited (AGC).

Cash earnings, again excluding the significant items, were up 10% and cash earnings per share were up 9%, which was at the top of our target range of 7 to 9%.

We focus on cash earnings because they represent the cash flows available to shareholders and from which dividends can be distributed. That is, the reported profit adjusted for the impact of non-cash and other items that cannot be distributed to shareholders.

This strong result has allowed your Board to declare a final dividend of 40 cents per ordinary share, fully franked, to be paid next week, on 19 December. Together with our first half dividend of 38 cents, this takes the total dividend for 2003 to 78 cents, an increase of 11% on last year. We have, over recent periods, increased the proportion of earnings paid to shareholders and this has taken the payout ratio to 63% this year.

Importantly, our growth and profit improvement didn't come at the expense of our returns, with the return on equity on a cash basis remaining at 21%.

The really pleasing aspect of the result was the strong earnings growth achieved across all of the Group's businesses. Overall, revenues were up 10% and this was despite the sale of the relatively high revenue, but higher risk, AGC business in 2002.

Profit from our Australian Business and Consumer Banking operations was up a strong 16%, excluding the 2002 significant items, and our lending market share was up by over one percentage point.

In New Zealand, we achieved strong lending and deposit growth and, with flat bad debt expenses, our profit on operations was up 12% in New Zealand dollar terms.

After a disappointing result last year, the Institutional Bank bounced back to lift their profit contribution by 39%. This reflected a more normal trading performance and sharply lower bad debt experience.

I'm also particularly pleased to report that the integration of Westpac Financial Services, Rothschild Australia Asset Management and BT Funds Management into the new BT Financial Group has proceeded ahead of plan. Synergies are also 78% ahead of what we anticipated at the time of acquisition and have added a further $ 300 million plus to the net present value of the acquisition.

Profit for the year in the new BT Group was $127 million reflecting good growth in life and risk insurance premiums, and a return to above industry benchmark investment performance. Cash earnings for BT were up a strong 48% to $190 million for the year.

On the efficiency front, the expense to income ratio for the Group fell to 51% from 52%, continuing the downward trend. We expect that actions already taken will deliver further efficiencies, even allowing for our significant ongoing investment in growth enhancing initiatives.

Added to this, our asset quality continued to improve. Our net impaired assets as a proportion of our equity and general provisions improved significantly, falling from 3.5% to just 2.9%. Provisioning levels were also enhanced with our general provisions cover rising to 1% of risk weighted assets, up from 0.9% previously.

Your Board remains confident that our asset quality and provisioning have us well positioned against the credit outlook to sustain our track record of earnings improvement.

During the year we also undertook steps to enhance our capital mix. In December 2002, we launched a Tier 1 hybrid capital transaction known as Westpac FIRsTS raising $667 million, with over 5,500 Australian and New Zealand investors subscribing to the issue. Westpac FIRsTS are now trading on the Australian Stock Exchange.

In August 2003, we also completed a US$750 million Tier 1 hybrid capital raising, that was sold primarily to US institutional investors.

As a result, we remain prudently capitalised but now have a broader capital mix. Our Tier 1 capital ratio at year-end of 7.2% was up from 6.5% as at 30 September 2002 and remains well in excess of the regulatory minimum.

Beyond our financial results we have made real progress through the year on the three issues that the Board watches closely – best practice governance, corporate responsibility, and our Ask Once customer service promise.

It is with some pride that I'm able to report that our focus on good governance and responsible business practices, which is underpinning our longer-term sustainability, has gained domestic and international recognition.

Importantly, your Board has moved quickly to ensure it remains at the forefront of good governance. We have adopted the Australian Stock Exchange Best Practice Guidelines and I commend to you our governance practices disclosures that can be read in our Annual Report or accessed at the Investor Centre on the Westpac internet site. For ease of reference, we have compared our governance practices with the ASX guidelines.

Reflecting evolving remuneration practices, and although we had shareholder approval for it, the Board has decided to cease providing retirement allowances for Non-Executive Directors appointed after July 2003. Past retirement allowance arrangements will continue for existing Directors under the original terms of their appointment.

Any concerns relating to the possible accrual of retirement benefits by Directors over a long period of time are addressed by our practice of compulsory retirement after three Board terms, typically nine years, or at the age of 70.

Your Board firmly believes that in a modern society all enterprises must adopt the principles of sustainability. To this end, we released our second Social Impact Report in July this year.

The report details our progress, targets and aspirations across the three pillars of sustainable business practice: that is financial, social and environmental responsibility. It documents our performance across some 90 key indicators and details how we are integrating corporate responsibility into our business model.

Reflecting our progress, we were rated the number one bank in the world for corporate sustainability in the Dow Jones Sustainability Index for 2003/2004. This is the second straight year that we have been judged the world leader in our sector.

This year, we were also rated No 1, and the only company to be awarded a AAA rating, in the initial RepuTex sustainability ratings of the top 100 Australian companies.

We believe that good corporate governance naturally flows from a corporate culture that is a sustainable culture. Corporate governance doesn't flow from laws but from a state of mind and from a culture within an organisation that insists on high ethical standards.

As David Morgan will elaborate, we have focused and harnessed the considerable power of our nearly 27,000 talented and diverse people around our determination to be at the forefront for customer service in our industry.

In fact, as I said in our Annual Report, delivering a customer experience so good that shareholders can expect to benefit from a satisfied and expanding customer base isn't a complicated idea.

It's just about the simplest but most effective thing a business can do! And yet turning the theory into a reality poses a major challenge.

Why? Because changing the way organisations work isn't a straightforward thing. We all know the cliché about how difficult it is to turn the super tanker around. Well, clichés become clichés because they accurately reflect reality.

Which makes the progress we have made in becoming a world leader in sustainability and in progressing on our 'Ask Once' service promise all the more remarkable.

Having a sustainable organisation isn't by itself going to deliver us a fully rounded bank. But sustainability coupled with a superior customer experience will deliver us a great bank – and position us such that it will be difficult for anyone to catch us.

We're more than ever determined to embed our improvements for the future. And under David Morgan's continued leadership, you can expect more of the same straightforward customer strategy that is proving so successful.

An event of significance for shareholders in the year has been the renewal of Dr Morgan's contract. The new contract will see David continue to lead Westpac until December 2007. It goes without saying that David has lead Westpac's superior performance over recent years and his leadership has been crucial to the Group's success.

Let me point to a couple of trends to illustrate. In the period to end of September this year, our market capitalisation has increased 38% or $8.2 billion under David's leadership. Also in the past five years total shareholder returns have averaged 16.2% each year compared to 9.0% compound annual growth for all shares in the Australian index.

In agreeing the proposed remuneration arrangements for Dr Morgan, the Board was very aware that many in the community feel that executive remuneration has got out of hand. Many feel that practices often bear no resemblance to reward for performance and some payouts have been unjustified.

In response to these growing community concerns, Westpac has been at the forefront in introducing strict performance hurdles into our executive

remuneration to ensure that executives are not rewarded for under performance.
Later in the meeting you will be asked to agree to the equity-linked components of Dr Morgan's remuneration arrangements under his new contract. Consistent with the Australian Shareholder Association and other guidelines, the terms of the Chief Executive Securities Agreement are firmly linked to Westpac's performance.

Let me briefly point out the highlights of Dr Morgan's arrangements.
- Westpac will need to perform at or above the average of the leading companies for Dr Morgan to receive any performance options or rights;
- If Westpac does not perform in the top half of companies, Dr Morgan will receive no benefit from these grants. They will be worth nothing.
- Dr Morgan will only gain maximum benefits if Westpac's total shareholder returns are consistently in the top quartile of the leading companies over the contract period.
- No retesting against the performance hurdles is allowed. Testing is at one point in time and that is it. This encourages sustainable improvement in shareholder value rather than just waiting for a flash in the pan.
- Dr Morgan's base salary and the number of options and rights will stay constant for the whole contract period. Beyond the base, any increase in remuneration can only come from good performance.
- Overall, three quarters of Dr Morgan's potential remuneration is at risk during his new contract.

As a final point, the Board has looked at the various ways in which Dr Morgan's contract could be terminated and defined the terms in advance. This is to give shareholders comfort on this point and it will eliminate any possibility of a pay-out for non-performance.

The remuneration arrangements for Dr Morgan may turn out to be generous, and I hope they do, because it will mean that we, as shareholders, have also been rewarded well. The important thing is David will not benefit from underperformance.

You will also be asked later in the meeting to consider an increase in the Non-Executive Directors' fee pool. The fee pool is an amount of money approved by shareholders from which Directors are paid. There are a few points I would like to make now, prior to your consideration of this matter:
- The last increase in the fee pool was four years ago. The Board is not planning to come back to shareholders for at least another three to four years.
- An increase in the pool does not necessarily mean an immediate increase in individual Director's fees. Although we will be reviewing fees we do not intend to increase individual Directors' fees this financial year.
- We have increased the productivity of the Board over recent years by reducing the number of Directors. The number may slightly increase for a time to manage succession planning, workloads, and to add outstanding candidates when available.

- As we indicated in the Notice of Meeting, for new Directors appointed after 3 July 2003 we have discontinued the payment of retirement allowances, notwithstanding having previously got shareholder approval for such payments. This means that new Directors will need to receive higher fees in lieu of the retirement allowances.

We have also been fortunate to add to the depth and quality of the board in the year. I would like to take this opportunity to welcome Ms Carolyn Hewson to her first Westpac AGM. Carolyn joined the Board in February as a Non-Executive Director. Carolyn brings extensive experience from her time in the financial sector and from her broad community board and advisory appointments. She has justly earned an excellent reputation in the business community.

In October this year, we also appointed Peter Wilson to the Board. Peter is our first New Zealand based director and brings to the Board extensive experience in finance and accounting. Peter was previously a director and Chairman of Trust Bank New Zealand, which Westpac acquired in 1996. I would also like to welcome Peter to his first Westpac AGM.

After seven years of distinguished service, John Fairfax resigned from the Board on 1 September 2003. John was an active member of the Credit and Market Risk and the Social Responsibility Committees and chaired the Westpac Foundation. I would like to take this opportunity to recognise John's valuable contribution on behalf of the Board and shareholders and we wish him well.

We are also losing the services of Barry Capp who is retiring from the Board following this meeting. Barry joined the Board in May 1993 and has played a major role on the Board in restoring Westpac to its leadership position. More recently Barry has chaired the Board Remuneration Committee and its work in introducing the best practice performance linked executive remuneration structures we now have in place. I am sure you will all join with me in thanking Barry and wishing him good health in his retirement from the Westpac Board.

As shareholders are aware, we held our AGM in Melbourne last year – the first AGM we have held outside of Sydney. I indicated at the time that the Board's intention was to hold every second AGM outside of Sydney and I am pleased to advise that the Board is considering holding next year's AGM in Auckland, New Zealand and we would appreciate any views you have on this.

We have a long and proud history of operating in New Zealand, first opening in 1861. Following the successful acquisition of Trust Bank, our operations were expanded substantially and New Zealand remains a very attractive core market for ongoing growth. As you know, New Zealand accounts for around 17% of Westpac's revenues.

In conclusion, let me make some brief comments on Westpac's prospects.

The Australian and New Zealand economies continue to perform well on most measures, and though we expect a slowing in housing credit growth, we remain confident that we can continue to benefit from the solid base set during the past year. It is our belief that the Australian and New Zealand economies will continue to perform well against a background of improving global prospects.

The success of our many initiatives across the Group in support of our customer experience objective is providing additional momentum. Doing common things uncommonly well is certainly delivering some surprising and positive results.

Under David's leadership, I continue to be impressed by the strength and diversity of the great people that make up the Westpac community. Their dedication and contribution is immeasurable, and we thank them sincerely for their tireless efforts throughout the year.

As a result, your Board remains confident that Westpac is well positioned to continue to deliver strong outcomes for all its stakeholders.