



Chairman's Address

2001 Annual General Meeting

Sydney, Australia

13 December 2001

**Mr Leon Davis
Chairman
Westpac Banking Corporation**

Introduction

On behalf of the Board of your Westpac Bank, welcome.

I am pleased to report that the Bank has had another very successful year. We have delivered our best result ever through the rigorous implementation of a very focused strategy and a long-term commitment to our customers. This focus on deepening our relationships has generated leading growth and returns in our financial sector.

In addition, our determined efforts to respond to community concerns regarding our industry is starting to deliver benefits to all our stakeholders and to the Bank.

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

Financial Results

The Bank's profit of \$1,903 million represented the ninth consecutive annual improvement in profit performance. This was an 11% increase on last year's profit. Earnings per share were up 16% on the same period last year, with a return on equity of 21.1%, up from 18.4% last year.

As a consequence of this result, the Board has declared a final dividend of 32 cents per share. Together with the interim dividend of 30 cents per share, the full year, fully franked dividend of 62 cents represents a 15% increase over the previous year. This resulted in a dividend payout ratio of 60.3%, broadly in line with the level of recent years.

There are several very encouraging aspects to this strong performance. The most noteworthy is the sustained performance improvement momentum built up over recent years.

In the past two and a half years, our earnings per share growth has averaged around 16% per annum, up from around 5% in the preceding two and a half years.

And, investors in Westpac have continued to be rewarded with a compound total shareholder return for the five years to 30 November 2001 of approximately 20% per annum.

On this basis, an investment of \$1,000 in Westpac on 1 December 1996 would have grown to \$2,528 at the end of last month. The same investment in the All Ordinaries Accumulation Index would have grown only to \$1,662.

In line with our strategy, we have delivered this growth by steadily increasing the number of customers who have a multi-product relationship with us. This has been achieved through better management tools and through the provision of increasingly attractive products and services. By deepening our relationship with customers and growing our customer base we have increased our market share in key products and we have grown the number of customers generating significant economic value by 21% in the past year.

Successful cost containment has also made an important contribution to this year's result. Westpac's cost-to-income ratio has declined from above 60% five years ago to just 51.5% over the last year. This was a three-percentage point improvement on the previous year, with the improving trend continuing through the year. We expect to continue to successfully constrain our expense growth through ongoing productivity enhancements, including from the outsourcing of some service and processing activities that are not central to our customer focused strategy.

All Westpac business groups contributed to our position of strength. The profit of our Australian retail financial services group grew 10% to \$1,142 million. Australian home loan outstandings grew 14% to \$54 billion and our market share of owner occupied new lending increased to 23%. Business banking in Australia achieved a 9% growth in loan outstandings and our market share in this area rose to 18%.

Added to this our funds management business continued its growth with a 33% increase in net retail funds inflow in the year. Our Institutional Bank also performed strongly, increasing their profit on operations by 22%, while the profit on our New Zealand retail operations was up 13%.

In the past year our Internet banking service grew customer numbers by 155% to pass the one million customer mark. Our credit card product continues to attract customers, with the result that our market share in cardholder outstandings increased by 2.5% to 21%. And our new cash management product, 'Investor Option', rapidly achieved 34,000 accounts and balances totalling in excess of \$4 billion in its first 10 months.

Importantly, our asset quality remains high and our provisioning cover is world class at 177% of our impaired assets. We are confident that we are well positioned to deal with the recent concerns about world financial markets arising from the terrorist attacks on the United States and fears of a global economic downturn.

We are also adequately provisioned against possible losses from any residual exposure to the small number of large corporations that have recently suffered much publicised failures, and against other problem assets.

As at 30 September 2001, our tier 1 capital ratio was 6.3% and our tangible ordinary equity to risk-adjusted assets was at 6.1%, which are at, or above, the upper end of our targeted ranges.

We will continue to monitor our capital levels to ensure the efficient use of shareholder funds. Given that we also accumulated excess franking credits this year, we will be reviewing the level of the dividend payout along with buy-back options and other alternatives to return excess capital and to fully utilize the franking credits for shareholders.

At year-end our market capitalisation was \$24 billion, up from \$23 billion the previous year. As of this week, our market capitalisation has increased to around \$27 billion following the stronger share price performance post the profit result.

Westpac is clearly in a strong position to cope with any future challenges and to take advantage of opportunities that arise.

New Developments

Last month we announced that, following an unsolicited approach from GE Capital, we had commenced discussions for the possible sale of parts of AGC's business in Australia and New Zealand. We expect the outcome of the discussions to be known in the near future.

We also recently announced the launch of our new credit card rewards program – *Altitude*. This replaces the Global Rewards Visa card, which was impacted by the Ansett collapse. The new *Altitude* program, we believe, is the best rewards program on the market. It provides access to 90% of the world's leading airlines, covering Qantas and their One World partner airlines, as well

as Air New Zealand and their Star Alliance partner airlines. Points can also be redeemed for shopping, entertainment, community assistance or for Westpac products and services.

At the 1999 Annual General Meeting we announced a modification to the Dividend Reinvestment Plan (DRP), in that any residual amount left over after subscribing for shares would be returned to participants in the DRP by way of a bank cheque or direct credit. Prior to that modification, the 35% of eligible shareholders that had elected to participate in the DRP had gained a benefit from a rounding up to the next whole share when calculating the number of shares that could be purchased from each shareholder's dividend.

Whilst this modification did indeed make the DRP process more equitable, the decision to issue many small cheques for the residual amount, rather than operate a carry forward system, is no longer the most efficient way to do it. And some of you have told us so!

What we are now introducing is a cash carry forward system, in line with the practice of a number of our peers that have DRPs. We will provide some more detail on this with our next shareholder newsletter, which will accompany the upcoming dividend payment advice. The change will take effect with the 2002 interim dividend payment.

Social Responsibility

I want to say a few words about the Bank's commitment to social responsibility. You may have seen some reporting that members of the Finance Sector Union, on behalf of itself and a number of its members, sought to table at this meeting specific resolutions regarding the issues of customer and community negativity resulting from branch closures, fees and charges, job levels, and service levels.

The resolutions proposed by the FSU deal with matters that, under our Deed of Settlement, are management issues to be dealt with by your Board and not matters that can validly be put to shareholders to vote on at a general meeting.

Having said that, community and customer negativity and its impacts are matters that your Board and management take very seriously indeed. Dr Morgan will say more on the issues raised by the FSU in his address shortly and I will be inviting a representative of the FSU to briefly address the meeting at an appropriate point so that their concerns are heard by all shareholders.

You can be assured that Westpac will continue to lead the way in balancing its economic goals and achievements with social and environmental responsibilities. For us, social responsibility is not an add-on; it is a central tenet in our relationship with customers, staff and other stakeholders. If we fail to build up the trust and respect of our stakeholders, including within the wider Australian community, we will fail to achieve our full business potential.

The Board therefore accepts that Westpac must meet its wider corporate responsibilities as part of our strategy to achieve long-term sustainability and growth. To this end we have established a new Board Committee on Social Responsibility. The Committee will consider and review the social and ethical impacts of all our activities and establish and maintain standards for those practices.

This balanced and broader focus is already beginning to differentiate Westpac in what is a very intense and competitive marketplace. As I have often said, we will know we are successful not when we talk about it but when others do. This year, Westpac was the top rated publicly listed company in The Sydney Morning Herald and The Melbourne Age's survey of corporate social

performance. Not bad for a bank. We were second only to Australia Post, which of course is government owned. This index is based upon the findings of 18 non-government and specialist groups across the six dimensions of: employee relations; environmental performance; social impact; management, ethics and governance; financial performance; and market position. This is, in our view, an outstanding achievement for Westpac.

As well, the internationally recognised rating agency Standard & Poor's recently published its inaugural Company Transparency & Disclosure Survey, covering 100 Asia Pacific companies. Westpac achieved the equal highest rating together with a very select group of only 6 companies out of that Top 100.

Additionally, the Dow Jones Sustainability Index has rated Westpac as one of the top 3 banks worldwide on its overall sustainability rankings. Westpac was described as having "an outstanding performance in the social dimension equaling the world's best bank. The performance is significantly ahead of the industry average at a global level".

I have spent some time on this because I wanted to show you that our social responsibility strategy is working. We know that you can't separate our economic or financial performance from our social responsibility performance. We also know that the public is saying that they expect more from corporations. We seek to instil these beliefs into our operational context so that when decisions are made all factors are taken into account – financial, technical and social. We want to develop a leadership that blends compassion with competitiveness, working against a background of a much richer sense of social responsibility.

But the important thing is this. Investing in social capital does not require a trade off in competitiveness. On the contrary, social cohesion is a vital ingredient in a successful society. Social and human capital and a strong economic performance are mutually reinforcing, not mutually exclusive.

Board Changes

Let me turn to Board changes. During 2001 we said farewell to Pat Handley and John Morschel. Both Pat and John joined Westpac at a crucial time in its history and made significant contributions during their tenure. We wish them both the very best in the future.

Professor Warren Hogan and Ian Harper have reached the agreed retirement age for non-executive directors. And Eve Mahlab has also decided not to seek re-election at this year's AGM. Eve, Warren and Ian have all contributed greatly to the fortunes of Westpac and your Board thanks each of them for their contribution. Once again we wish them all the very best in the future.

In November, the Board appointed Ted Evans as a director. Ted brings a wealth of experience in finance after a distinguished career in the public sector, culminating as Secretary of the Treasury, a position he held until April this year. You will have a chance to hear briefly from Ted later in the meeting.

The Future

Looking ahead, Westpac's key focus remains the development of deeper relationships with our customer base. Geographically we remain focused on expanding our businesses in Australia, New Zealand and the near Pacific. We will continue to seek out, and offer to our existing 8.2 million customers and the new ones that will join us, the best financial products and services.

The Australian economy generally has performed well over the past year, and whilst still well positioned, will see some slowing in growth as a result of the current uncertainty affecting the world economy.

While we expect credit conditions to remain difficult in the near term as a result, the low interest rate environment will help encourage business activity. Our view is that there may still be room for a further modest easing in interest rates should the global economic outlook show more marked signs of a prolonged downturn.

Having said that, our forecast remains for economic growth in Australia to be around 3% in real terms through to June 2002. This is built on the view that the current global downturn will likely be of a shallower and shorter duration than those experienced in the past.

Under our expected economic scenarios, we remain confident that our strategy can continue to generate revenue growth well above that of expenses. The year has started well, with the results for the first two months tracking to plan. The risk to this positive outlook is that the current worldwide uncertainty leads to a prolonged and deep downturn, which, as I have said, we see as a low risk.

Conclusion

This has been my first year as Chairman of Westpac. It's been both challenging and rewarding. I believe the past year can be summed up as one of rigorous implementation of a well-understood strategy.

In a time of rapid technological change and some global economic and social turmoil, we have learned to do things in new ways and manage the business with greater efficiency but with increasing flexibility in adapting to our customers' requirements. Within this environment our staff have demonstrated remarkable capacity for achievement. On behalf of the Board I thank them all for their hard work and dedication.

The Board is confident that by continuing to focus on our customers, and by strengthening our social commitment, we will continue to provide sound returns to shareholders.