Westpac Banking Corporation

2004 Annual General Meeting

Auckland, New Zealand

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Chairman's Address

Leon A Davis,
Chairman
Westpac Banking Corporation

Introduction

In what has been another year of substantial progress, I am pleased to report on the excellent performance delivered by Westpac over the year. It was a performance that stands up well against both financial and non-financial measures.

New Zealand

In particular, I'm particularly pleased to be holding this AGM in Auckland, given the importance of New Zealand to Westpac. Apart from its financial contribution, New Zealand has been an integral part of the company's history and culture helping to make Westpac the strong company it is today.

Our company's position in New Zealand draws from two histories - the first from Westpac's New Zealand operations, the second from the rich community traditions of the Trust Bank operations.

Westpac NZ, originally known as the Bank of New South Wales, first entered New Zealand through the acquisition of five branches from the Oriental Bank in 1861. Our first branch officially opened in Auckland in April that year.

Our entry into New Zealand could not have been better timed. Gold was discovered in Otago later that year, sparking the greatest gold rush in New Zealand's history.

In fact, the bank's fortunes improved so rapidly that within a year the Dunedin branch accumulated cash and deposits exceeding £300,000 and became the bank's third largest branch, ranking only behind Sydney and Melbourne.

But the bank's entry into New Zealand was not all plain sailing. Like today, competition in New Zealand was fierce. The Union Bank – now ANZ – was already in operation and just 6 months after the Bank of New South Wales opened its doors the Bank of New Zealand also began operating.

Three years after the Bank of New South Wales began operating, two savings banks began trading, one in Invercargill and the other in Dunedin. These two banks later became part of Trust Bank, which was acquired by Westpac in 1996.

One hundred and forty three years on, our asset base in New Zealand now totals over $40 billion New Zealand dollars. We have also built a very solid ownership base, with over 37,000 New Zealand shareholders holding either our ordinary shares or our NZ Class shares.

This year we returned over $58 million directly to New Zealanders by way of dividends alone.

Performance

As I touched on earlier, 2004 was an excellent year for Westpac. We delivered a record profit of just over $2.5 billion, a 16% increase on 2003.

Adjusting for non-cash items, we delivered an 11% increase in cash earnings per share and a return on equity of a healthy 21%.

In terms of top line growth, the result was equally impressive, with revenues increasing 9% on the back of risk weighted asset growth of 11%.

On efficiency, the company's cost disciplines, combined with this revenue momentum, saw us reduce the cost to income ratio by over 2 full percentage points to 49%, and into the league of some of the world's more efficient operators.

Reflecting the high quality of our lending portfolio and favourable economic conditions, our bad debt expense was some 15% lower than last year.

Pleasingly, the result was also a strong team effort, with the group's four main business units all generating double digit increases in cash earnings.

Beyond the financial dimension, Westpac's results were also outstanding, highlighting that we have simultaneously improved returns while enhancing the group's sustainability.

Your board pays particular attention to these non-financial measures as they provide a valuable health check of the organisation while indicating our ability to sustain sound performance into the medium term.

We are particularly focused on employee commitment, customer satisfaction and corporate responsibility. And, in judging progress, we have not only improved or maintained our performance, we are reaching global best practice in key areas.

Let me share with you some of the highlights:

- employee commitment, which highlights the quality of our employees' commitment to Westpac and to customers, increased 5 per cent over the year, placing Westpac up there with high performing, global companies;
- customer satisfaction, which is such a necessary ingredient for a service-based company like Westpac, increased across the board by an average of 5 per cent; and
- corporate responsibility, where we have perhaps recorded our best performance in being recognised for the third year running as the leading bank in the world in the internationally renowned Dow Jones Sustainability Index.

The combination of our strong financial performance and confidence in the future has enabled the Board to declare a 10%, or 8-cent, increase in dividends over the year, to

86 cents, fully franked. This increase in our dividend was broadly in line with our growth in cash earnings, ensuring that we maintain a payout ratio that is sustainable while returning a high proportion of our earnings as dividends.

Governance Issues

Throughout 2004, your Board continued to expend considerable effort strengthening Westpac's governance and responsibility practices.

For those of you who have listened to previous speeches and read the annual report you will appreciate the importance I place on governance and corporate responsibility.

This obsession is founded on the clear links between a company's governance and corporate responsibility record and sustainable long-term earnings growth.

While we have been progressing our own internal reform program, the corporate collapses of recent years have prompted a wave of regulatory reform.

While much of this reform is necessary, and even well targeted, it is questionable whether, by itself, it will be fully effective in protecting shareholders from further scandals. And, unavoidably, it comes at a cost that will be ultimately born by customers, employees and shareholders of companies, both good and bad.

Prescriptive, black letter requirements can only take us so far. The problem, as we see it is that you cannot regulate or prescribe good behavior. And you can't make up enough rules to overcome a lack of integrity or character.

At Westpac we believe good corporate governance is a mindset that is principles and values driven. It's about having a set of values and behaviours that underpin what the company does everyday - values and behaviours that ensure transparency, fair dealing and the protection of shareholder and stakeholder interests.

As such, our approach to good governance has involved creating healthy board and executive dynamics and ensuring that we have an open, transparent and responsible culture, with a particular focus on risk and assurance processes.

We've sought to create the conditions for higher ethical standards to prevail, driving the fear to speak up out of the boardroom and out of the workplace.

And, we've sought to get short-term pressures into balance, to ensure that we don't take decisions that compromise the long-term viability of the company.

We've also accepted that performance reporting, limited to just financial performance, no longer fully meets the needs of our shareholders nor the needs of our other key stakeholders.

That's why we have been producing separate stakeholder impact reports that lay out our performance across the workplace, customer, supply chain, environment, and the broader community areas. The first of these stakeholder impact reports, focusing on our performance in New Zealand, was published this year.

In our annual report this year we have also taken our remuneration disclosures to a new level, in anticipation of the new corporate law reform disclosure requirements, which come into effect next year.

Apart from providing comprehensive details of the salary and packages of the group's most senior executives, we also report on how short-term performance incentives are set.

One of the key concerns of investors has been a lack of full disclosure around executive remuneration. In particular, the link between performance and short-term incentive payments has not been clear.

The Remuneration Report significantly increases the information around the setting and achievement of performance hurdles, providing unmatched transparency to allow shareholders to better assess the fairness and reasonableness of these rewards.

NZ Issues

Let me now turn to the regulatory matters we are currently dealing with in New Zealand. Given the importance of these issues, and our presence in Auckland today, I wanted the opportunity to address our position up-front.

1. Organisational Form in New Zealand

As many of you are aware, Westpac has operated as a branch in New Zealand throughout our 143-year history in this market.

In recent times, the Reserve Bank of New Zealand, which regulates and supervises our New Zealand banking operations, has taken a policy position that systemically important banks in New Zealand should be incorporated. The Reserve Bank believes that local incorporation is necessary to prevent significant damage to the financial system in the event of problems in a parent bank or the failure of a bank.

Our buttressed branch proposal was given full consideration by the Reserve Bank, but on balance they were not satisfied that it could meet all of their objectives or concerns relating to failure management.

As a result of the Reserve Bank's rejection of our proposal, the Board has agreed to incorporate the key parts of our New Zealand banking operations. This will involve establishing an incorporated New Zealand subsidiary with its own Board.

While we are disappointed with the decision, we will now move forward as quickly as possible to locally incorporate. We would expect this process to take sometime.

Recent Australian tax law changes relating to the tax treatment of goodwill will mean that there should not be any capital gains tax liability from the transfer of assets to the subsidiary. While we are not yet in a position to fully quantify the costs of our local incorporation, we anticipate that they will not materially affect earnings.

This issue was both a complex one and an important one and we appreciated the Reserve Bank taking the time to fully consider all matters before reaching a decision.

Outsourcing

During the year we have also discussed with the Reserve Bank of New Zealand a proposal to move our existing mainframe processing to Australia to improve the overall efficiency and performance of our New Zealand operations.

The Reserve Bank advised last month, however, that they could not agree to our proposal as presented. The Reserve Bank indicated at the time that it would be willing to reconsider the proposal once the decision relating to local incorporation in New Zealand was finalised.

Consequently, we intend to put a revised proposal to the Reserve Bank to move our mainframe processing to Australia in the near future.

Structured Finance Transactions

Over the last year there has been considerable media attention about the tax paying position of the banks in New Zealand and our use of certain structured finance transactions.

In line with my earlier comments on governance and reputation, Westpac seeks to be a responsible corporate citizen, including respecting and complying with the tax laws and requirements in all jurisdictions in which we operate.

However, we are aware of suggestions that we may have not paid our fair share of tax in New Zealand in relation to these structured finance transactions.

The history behind these transactions dates back to 1999 and the New Zealand Government's introduction of the conduit tax legislation. This provided concessionary relief from New Zealand tax for non-residents in respect off any investments into a foreign company that is are made through a New Zealand company.

In 1999, Westpac and its advisors developed a structured finance transaction that was aligned to the new legislation. The transaction sought to provide efficient funding to international counterparties using New Zealand as a base.

As with any new transaction, we sought multiple layers of advice to ensure the structure conformed to New Zealand tax law. Not content with this advice alone, we wanted assurance that the proposed transaction was appropriate and sought a binding ruling from the NZ Inland Revenue Department.

That specific ruling took some 18 months of deliberations but confirmed that the transaction was consistent with tax law and did not breach the NZ anti-avoidance provisions.

To our knowledge, we were the only bank to seek and receive such a binding ruling.

Subsequent transactions conducted by Westpac were modelled on the transaction with the binding ruling. More recent legal and professional advice has confirmed our view that the structure and transactions remain in accordance with the law.

As part of an industry wide review, it is well known that the NZ Internal Revenue Department has issued Westpac with amended assessments for various transactions from the 1999 and 2000 financial years.

We believe we have done everything commercially reasonable to ensure that the transactions were not contrary with the legalities or the spirit of NZ tax law. Consequently, we are disputing the amended assessments, in line with our obligations to you our shareholders.

To ensure the market was fully informed, we disclosed in August this year that the maximum potential tax and interest liability from these transactions was NZ$647 million for the years 1999 through to 2004.

However, given the strength of our position, we have not provided in our accounts for these amended assessments.

New Zealand Class Shares

The New Zealand Class shares are a valuable component of our total equity as they allow New Zealanders to benefit from the success of Westpac and to receive fully imputed dividend.

As indicated in our Annual Report, and notified to all NZ Class Shareholders with the AGM information mailing, we are investigating whether the structure of the NZ Class shares is still viable following recent tax changes in Australia.

The tax changes will require Westpac to debit our Australian franking account in respect of dividends paid on New Zealand Class Shares. However as no credits would be available for New Zealand Class Shareholders, the credits would be effectively wasted.

Our desire is to maintain the key features of this structure for our New Zealand Class shareholders and we have developed a proposed restructure of the NZ Class shares. This proposed restructure seeks to meet the requirements of the Australian and New Zealand regulatory and tax authorities and the needs of our NZ Class investors.

At this point, the outcome of our dialogue with the authorities remains uncertain. The Board is consequently also reviewing options to protect the broader interests of our shareholders should we be unable to successfully resolve the matter. These include possibly exchanging the NZ Class Shares into Westpac ordinary shares in accordance with the exchange event provisions.

We anticipate discussions over the possible restructure of our NZ Class shares should be resolved by the time we announce our first half results in early May 2005.

Board Issues

Throughout the year your Board has undergone a number of changes.

Mr Barry Capp retired after the last AGM following ten years of distinguished service on the Board. Barry made a highly valuable contribution and on behalf of the Board and shareholders, and I thank him for his dedicated service to shareholders.

Sir Llew Edwards will also be retiring from the Board at the conclusion of this AGM. Sir Llew has made an outstanding contribution during 16 years of distinguished service, and we wish him well in his retirement.

During the year we welcomed Mr Peter Wilson to the Board - our first New Zealand-based non-executive director. As a past Director and Chairman of Trust Bank, Peter brings a deep understanding of the New Zealand market to our Board. In addition, Peter brings extensive accounting and business change expertise to the Board.

We also welcome Mr Gordon Cairns, who joined the Board in July as a non-executive director. Gordon has had a distinguished career as CEO of Lion Nathan and will add further valuable business skills to the Board.

Outlook

In closing, Westpac has had a great year. We have delivered a strong, well-balanced financial result while further enhancing our long-term sustainability.

Importantly, over the past 5 years, we have delivered an 18% compound annual return to shareholders.

The bank is in excellent shape and we are well positioned to take advantage of future growth opportunities. Given this momentum in our business, your Board remains positive on the outlook for 2005.