GGT

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TRANSMISSION

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6 March 2003

Dr. Ken Michael AM
Western Australian Independent Gas Pipelines Access Regulator
Office of Gas Access Regulation
Level 6, Governor Stirling Tower
197 St. George's Terrace
PERTH WA 6000

Dear Dr. Michael

BankWest Statement: Lending to the Resources Sector

I write to draw your attention to, and comment on, a recent article appearing in "The West Australian" newspaper on Wednesday 26 February 2003 (copy attached) in which the Chief Executive Officer of BankWest is reported to have "emphasised" that his bank will "scale back lending to the resources sector" and "tighten [his bank's] risk management strategies".

The article further states:

> Analysts have attacked BankWest's risk profile in recent months because of its exposure to a string of corporate failures in the past two years, most notably a combined $100 million exposure to the collapse of miners Pasminco, Beaconsfield Gold and Selwyn Mines.

This misfortune befalling BankWest serves to further illustrate the risky nature of the mining industry in Western Australia.

These failures follow the insolvency of Centaur Mines and the (widely reported) massive default on its debt by Anaconda Nickel Ltd. Of particular relevance is the failure of Pasminco, which was the proponent of the laterite nickel project at Bulong. Such failure of another laterite nickel project does not augur well for the future development of Western Australia's nickel reserves, the bulk of which rest in laterite ores.

Approximately 99 percent of the natural gas transported by the Goldfields Gas Pipeline ("GGP") is utilised by the mining industry. Failures such as those at hand are a tangible manifestation of one component of the risk faced by the GGP.

Another component of the risk faced by the GGP is that new mining projects in the GGP's 'catchment area' now face further difficulties in securing bank finance.

Alternative sources of debt finance, such as 'junk bonds', carry considerably higher interest rates, and are becoming more difficult to issue. Consequently, future projects will face increasing costs of capital, deriving from the increased costs of debt and the increased requirement for equity funds.

In turn, this will increase the required rates of project return and hence reduce the number of viable projects. Further, any projects which might materialise are more likely to mitigate their financial risk by choosing diesel (with its low capital costs) over natural gas (with its high lateral and other costs) as the preferred energy source.

I request that you give due consideration to these issues when formulating your revised Draft Decision for the Goldfields Gas Pipeline Access Arrangement.

Please do not hesitate to contact me if you wish to discuss these, or any other, issues further.

Yours sincerely

David A King
General Manager

The West Australian

BUSINESS

thewest.com.au
Edited by PAUL ARMSTRONG

SHARES		
S&P/ASX 200	2799.0	▼ 56.9
Gold Price	358.50	▲ 6.25
All Ordinaries	2780.5	▼ 56.8

MONEY		
$A/US	60.64	▲ 0.48
$A/Yen	71.18	▼ 0.09
$A/Stg	38.22	▲ 0.23

RATES		
90-day bills	4.76	even
180-day bills	4.69	▲ 0.01
10-year bonds	5.11	▼ 0.07

Debt blow-out hits BankWest

■ By John Phaceas

BANKWEST chief executive Terry Budge said yesterday he was confident he retained the full support of his board, despite the bank revealing that a bad debts blow-out had caused it to miss its own profit forecasts for 2002.

The bank yesterday revealed net profits had fallen 7 per cent to $155.9 million in 2002, from $167.4 million in the preceding year, as provisions for bad debts doubled to $37.7 million and wiped out a 2.4 per cent lift in revenue to $655 million.

Describing the result as "solid in a challenging environment", Mr Budge said he was under no pressure to step down before his contract expires in May next year, regardless of market speculation about his future.

"At the moment I've got the full support of the board ... and while I've got that I'll be staying on and doing the job," Mr Budge said.

"I'm happy to continue, I want to continue, and think I'm adding value to this organisation. If I'm not, well then it will be time to go."

Conceding the result was below bank expectations — and the market consensus of about $160 million — Mr Budge said it provided a platform for growth and higher earnings in 2003.

"The results were solid ... (though) certainly below our expectations, but we did achieve impressive mortgage and deposit growth, and saw signs of revenue growth emerging in the business bank which had been flat," he said.

"So we do have a strong platform for the future and earnings growth is expected in 2003, however, we remain cautious given the potential impact of world events and a softer housing market."

Mr Budge also emphasised that the bank would scale back lending to the resources sector — the main driver of the blow-out in provisions for bad loans last year — and tighten its risk management strategies.

Analysts have attacked BankWest's risk profile in recent months because of its exposure to a string of corporate failures in the past two years, most notably a combined $100 million exposure to the collapse of miners Pasminco, Beaconsfield Gold and Selwyn Mines.

It was also burnt by its $25 million exposure to failed NSW wine group Barrington Estates, forcing it to "buy" Barrington's Haselgrove winery in South Australia for $9 million in a bid to safeguard its ultimate return.

Mr Budge said growth would come from capitalising on the bank's strong position in WA and expanding its Eastern States presence through niche markets. WA continues to account for 54.2 per cent of the bank's loan book, with WA home loans contributing the bulk of BankWest's $11.5 billion in housing loans, itself a 22.8 per cent increase over 2001.

WA is also the main target of BankWest's small business lending initiative and low-interest Mastercard Lite credit card.

Growth in the Eastern States would largely be sought through building on industry-specific initiatives, such as its PharmacyConnect package providing loans to pharmacists and tailored loan packages aimed at health care and aged care providers.

> **'I'm happy to continue, I want to continue, and think I'm adding value to this organisation.'**
> — Terry Budge

But Mr Budge declared the bank's loan book was sound, with net impaired assets standing at just 0.8 per cent of its total lending to customers of $21.7 billion, up from 0.7 per cent in 2001.

Mr Budge stressed that Selwyn and Beaconsfield accounted for about 44 per cent of the non-accrual loans, and said the bank was confident it would recover all debts related to Pasminco.

BankWest last week declared a $10 million specific provision for its exposure to Selwyn, but Mr Budge declined to elaborate on the "small" provisions taken in respect of Barrington and Beaconsfield.

BankWest declared a fully franked final dividend of 9.75¢ a share, taking the full year payout to 19.5¢.

BAD CHAPTERS IN THE LOAN BOOK

Company	Total exposure	Charge
Pasminco	$28m	expects full recovery
[illegible]	[illegible]	[illegible]
Barrington	$25m	undisclosed
Selwyn Mines	[illegible]	[illegible]

Terry Budge: BankWest chief said the 7 per cent profit drop was "solid in a challenging environment". PICTURE: DON PALMER