

Juicy result...



...versus public resentment.

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Seeing

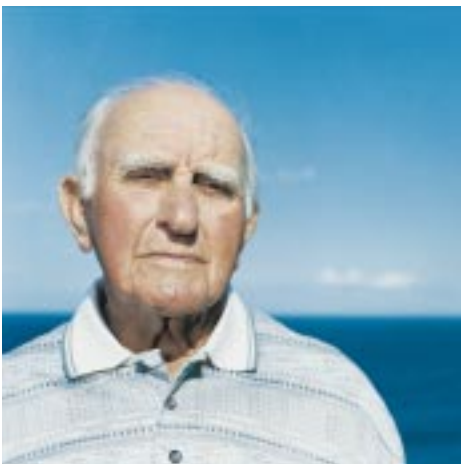
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red!

Westpac has had another bumper year, but not everyone is happy. Anti-bank sentiment is running red hot. Many people feel our progress has been made at their expense or, at best, without benefit to them. We stand accused of abandoning our social responsibility by pursuing the bottom line, at any cost. This view is clearly not good for business. It is an issue so fundamental to the sustainability of our long-term success that it cannot and will not be ignored. The way forward depends on our ability to share the benefits of the banking revolution with all our customers and the wider community. In this report we outline the decisive actions we are taking to address these issues and win back the public's faith.



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a bank?

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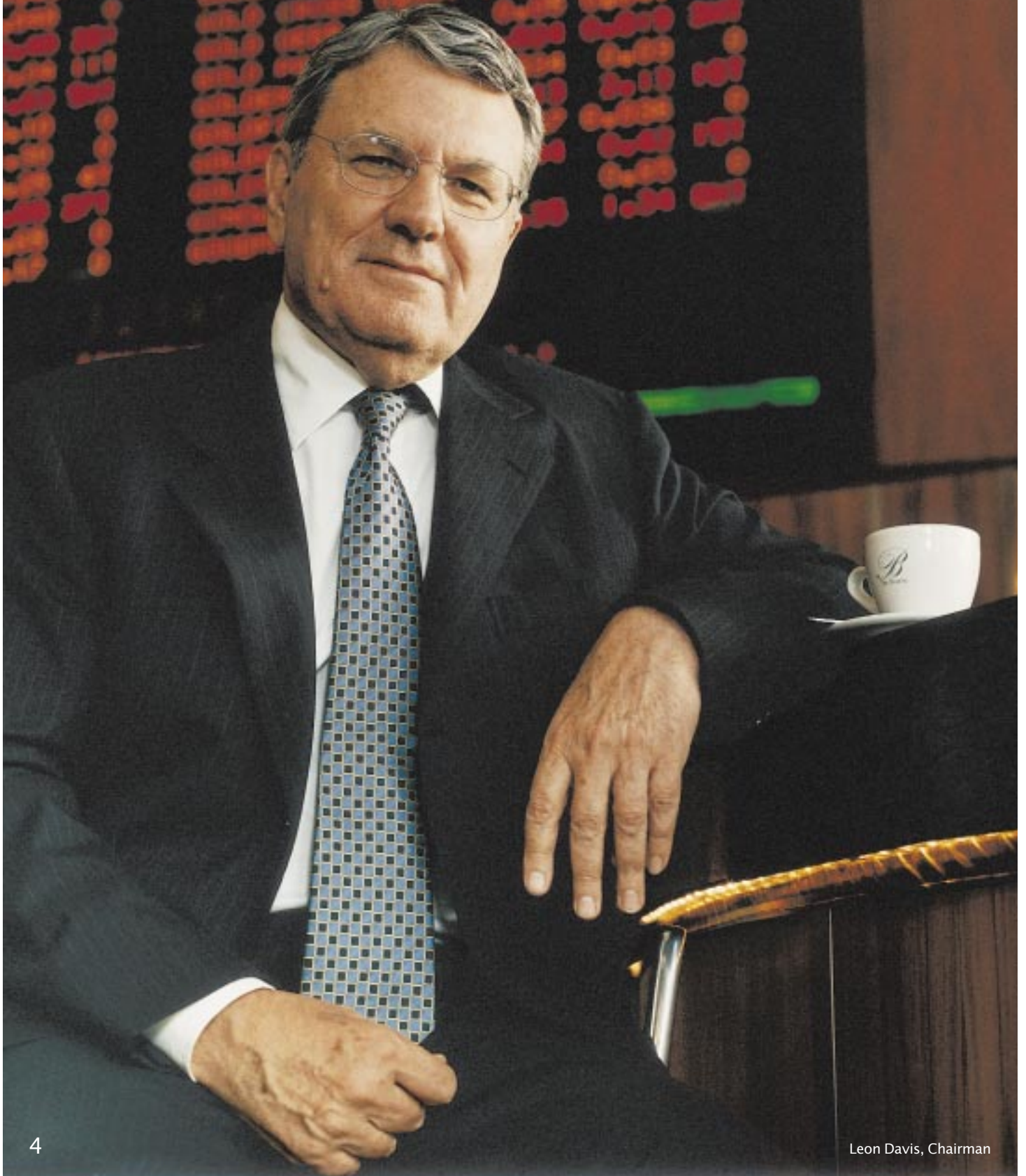


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The hot seat

Chairman's Report



My first year in the chair has been both interesting and extremely rewarding. We have worked hard to implement our plan outlined in last year's report and it is already paying dividends for us. We have realised our best result ever and we are rightly proud of this achievement.

But we are under no illusions about what comes next. We continue to grapple with the fundamental issues facing the banking industry, our reputation and our future sustainability. We recognise the need to support our economic goals and achievements with social and environmental ones.

This is not just a matter of being better liked by our customers or appeasing negative public sentiment. We genuinely believe a fresh approach makes good business sense. We are confident that by cutting through the prejudice and resentment surrounding banks and by demonstrating an affinity with all our stakeholders, especially customers, we will be able to achieve even better results in the future.

Chairman's Report

Our profit result detailed in this report is a reality check for Westpac. It is the reality of our business because the worth of our company and the respect in which it is held cannot be separated from our financial performance.

The profit of \$1,903 million was the ninth consecutive annual improvement in profit performance. It was up 11% over last year's profit and was the result of sustained performance momentum built up in recent years.

Not surprisingly, this is adding up to strong results for our shareholders. Earnings per share is up 16% on the same period last year, with a return on equity of 21.1%.

This solid, well-balanced financial result has allowed the board to announce a final dividend of 32 cents per share. Together with the interim dividend of 30 cents per share, the full year dividend of 62 cents fully franked represents a 15% increase over the previous year.

This is a dividend payout ratio of 60.3%, broadly in line with the level of recent years. Your board believes this payout level is prudent and in the long term interests of shareholders.

The revenue story this year speaks for itself. We have improved revenues by substantially deepening our core franchise and increasing our market share in key products. This has led to a 21% increase in the number of customers generating significant economic value.

More importantly, we are making progress on our strategy of winning the respect of our customers. The number of customers who have a multi-product relationship with us continues to grow as a result. We believe we have achieved this through the use of better management tools while offering customers cost effective, simple services that meet their needs and products that are attractive and competitive. We recognise that to stay competitive we must have a culture of continuous improvement in this area.

We have also dealt decisively with our past cost inefficiencies and reduced our cost to income ratio from 62.9% in 1996 to just 51.5% today. All other things being equal, it is heading lower. We expect our cost containment will continue to

benefit from access to enhanced scale by partnering with several leading global players to outsource some of our service and processing activities that are not central to our customer strategy.

Perhaps the aspect of our result that is receiving the most attention is the health of our asset quality. Despite the recent tumult in world financial markets following the September terrorist attacks in the United States and the broader downturn in global economic conditions, our asset quality is holding up well.

Our provisioning cover remains world class at 177% of our impaired assets. While sharply up from the very low levels of recent years, our bad and doubtful debt charge at 32 basis points of our loans and acceptances is still at or below typical averages for banks of our type at this stage of the economic cycle. This increase also included a one-off post tax write-off of approximately \$40 million related to collection systems issues at our finance company, Australian Guarantee Corporation Limited. Appropriate action has been taken to ensure there is no recurrence.

The year was also notable for the much-publicised credit problems of a small number of large corporations. Consistent with our dynamic provisioning approach, we are confident that we are adequately covered for any residual exposures.

We also remain prudently capitalised in line with our targeted capital levels. After buying back 57 million shares at an average price of \$13.30 during the year, our Tier 1 capital ratio of 6.3% remains well in excess of the 4% minimum required by regulators. At year-end, our market capitalisation was \$24 billion, an increase from \$23 billion a year ago.

Despite the strength of the overall profit result, we are well aware that the market will quickly look beyond it and focus on the long term sustainability of our earnings momentum.

It is from this longer term perspective that we believe this profit result can be viewed positively. It reflects an enhanced growth momentum built up over a number of periods. Added to this, our active credit risk and capital management practices, now firmly embedded

“The task of ensuring our long term sustainability goes beyond just the financial dimension. Our customers and the community more generally are telling us very clearly that we need to take greater account of our impact on society and treat it as a business basic, and I absolutely agree.”

across our business, position us well to deal with these times of economic uncertainty. It is this approach to risk management, and what lies behind it, that augurs well for Westpac and its prospects for the coming years.

We believe the foundation for our future is the potential organic growth existing within our 8.2 million customer base. As well as winning new customers, we intend to deliver this growth through meeting customer needs with integrated, total financial solutions. Geographically, we will remain focused on expanding all of our businesses in Australia, New Zealand and the near Pacific and not competing in markets where we do not have any comparative advantage. Likewise, we will not seek growth just for growth's sake. We aim to balance growth with acceptable returns to our shareholders.

But the task of ensuring our longer term sustainability goes beyond just the financial dimension. Our customers and the community more generally are telling us very clearly that we need to take greater account of our impact on society and treat it as a business basic.

We need to not only excel in how we manage our financial and physical capital; we also need to excel in how we benefit society more generally.

A good business should be both financially successful and a good corporate citizen. We know that to produce sound and sustainable results for our shareholders we must not only constantly deliver for our customers, we must also fully meet our responsibilities to our staff and to the community. We readily accept our wider corporate responsibilities and see fulfilling them as fundamental to our longer-term sustainability and growth.

We have established a new Board Committee on Social Responsibility in an effort to realise on this aim. The committee will consider and review the social and ethical impacts of all of our activities and establish and maintain standards for our practices.

It is also why we have adopted a different approach in this report by balancing the discussion of our financial

achievements with a discussion of how we are thinking differently and demonstrating genuine corrective action. We are seeking to cut through the prejudice and resentment surrounding banks.

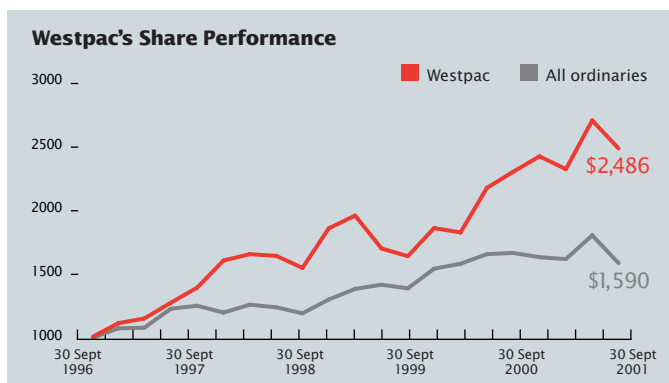
Our financial results and social responsibility progress reflect the efforts of all our staff. They are the keys to unlocking the opportunities that exist with both our customers and the communities in which we live and serve. Our staff have demonstrated a truly remarkable capacity for achievement in an environment of rapid change, increasing competition, and heightened community demands. On behalf of the board, I thank them all for their continuing hard work and dedication.

As advised at last year's Annual General Meeting (AGM), Pat Handley resigned as Chief Financial Officer and an executive director in January 2001. John Morschel also resigned as a non-executive director in July 2001. Pat and John joined Westpac at a crucial time in its history and made significant contributions during their tenure.

Your board will see several further changes after this year's AGM. Professor Warren Hogan and Ian Harper have reached the agreed retirement age for non-executive directors. 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 them for their contribution.

In November, the board appointed Mr 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. He retired from this position in April this year.

That is the story of our year. We believe that our focus on our customers, and the significant opportunities that exist within Australia, New Zealand and the near Pacific, will be the path to delivering sustainable growth for shareholders. This focus has led us not only to this year's result, but also to a future about which we are very confident. We believe our shareholders have every reason to share that confidence.

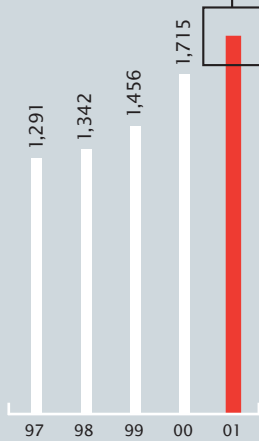


One thousand dollars invested in Westpac on 30 September 1996 would have grown in value to \$2,486 (assuming dividends were reinvested) as at 30 September 2001, which represents a compound annual return of 20.0%. The same investment in the All Ordinaries Accumulation Index (which adjusts for all dividends paid on stocks in the index) would have grown to \$1,590 representing a compound annual return of 9.7%.

The juicy

Chairman's Report

\$1,903m

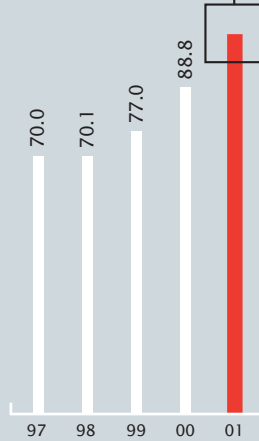


Profit

Operating profit after tax and before abnormals, attributable to shareholders.

Net profit increased by 11% to \$1,903 million. This result is the ninth consecutive annual profit improvement. The latest result demonstrates the continued delivery of revenue growth, improved operational efficiency and sound credit quality.

102.8c

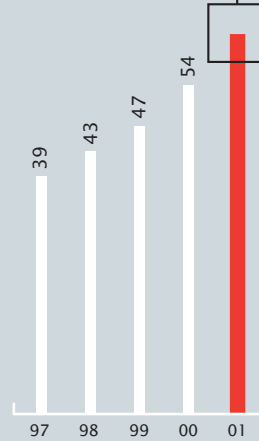


Earnings

Earnings per share, before abnormals.

Earnings increased to 102.8 cents per share, an improvement of 16% on the previous year. The improved earnings per share growth reflects the strong profit performance and the repurchase of 57 million ordinary shares in the year.

62c

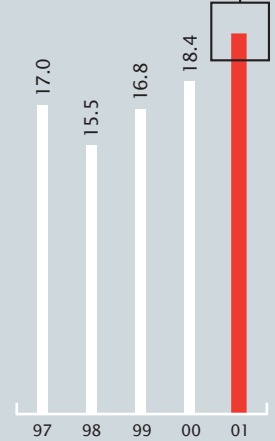


Dividends

Dividends per ordinary share.

The strong growth in earnings has allowed the Board to announce a total dividend of 62 cents for the year, fully franked. This represents an increase of 8 cents or 15% on the prior year. The dividend represents a payout ratio of 60.3%, consistent with the level of recent years.

21.1%

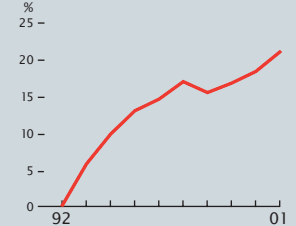
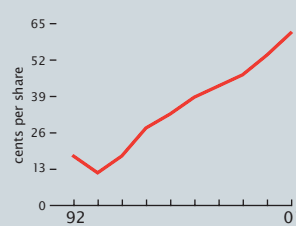
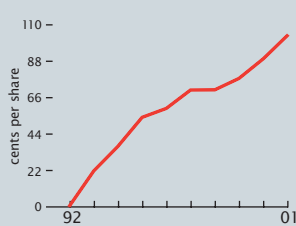
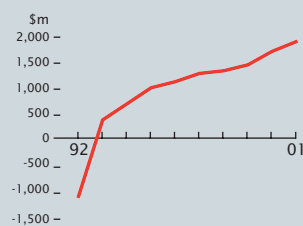


Return

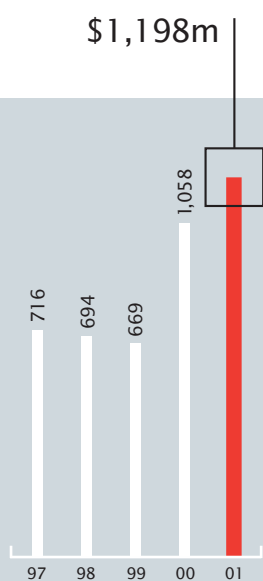
Return on average ordinary equity, before abnormals.

The return on equity increased to 21.1% from 18.4% last year, continuing the consistent improvement of recent years and in line with our aim to deliver an appropriate balance between growth and returns.

Ten year trends



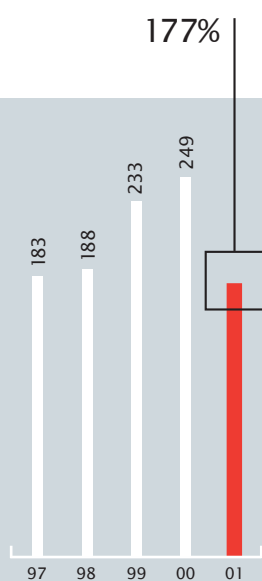
bits



Economic Profit

The excess of net profit after tax, plus 70% of the face value of franked dividends, over the minimum required rate of return on equity invested of 12%.

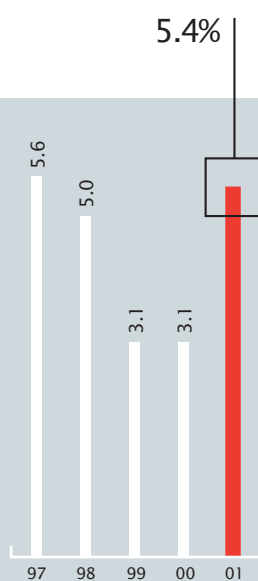
Economic profit improved by 13% over the year, from \$1,058 million to \$1,198 million. This reflects the improved profitability complemented by our capital management initiatives.



Provisions

Total provisions to total impaired assets.

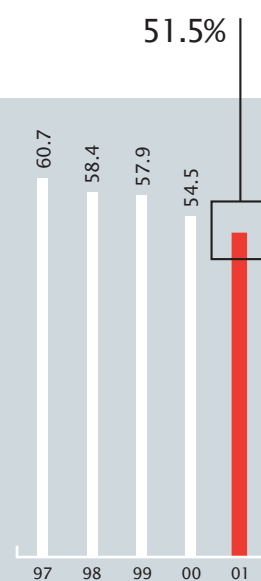
Total provisions for impaired assets at 177%, down from the peak level of 249% of last year, continues to provide a high level of coverage which is at the upper end compared to our Australian and global peer banks.



Asset Quality

Net impaired assets to equity and general provisions.

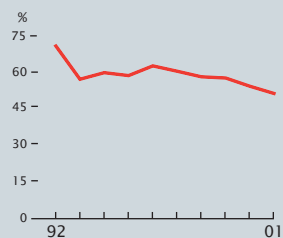
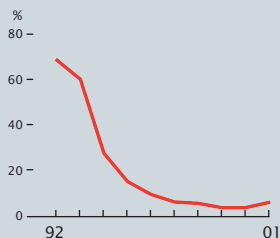
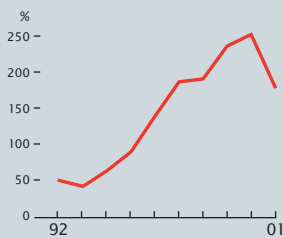
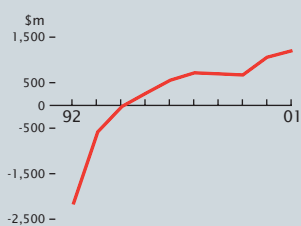
The ratio increased from 3.1% to 5.4%, moving up from the recent historical lows but consistent with our expectations at this point of the credit cycle.

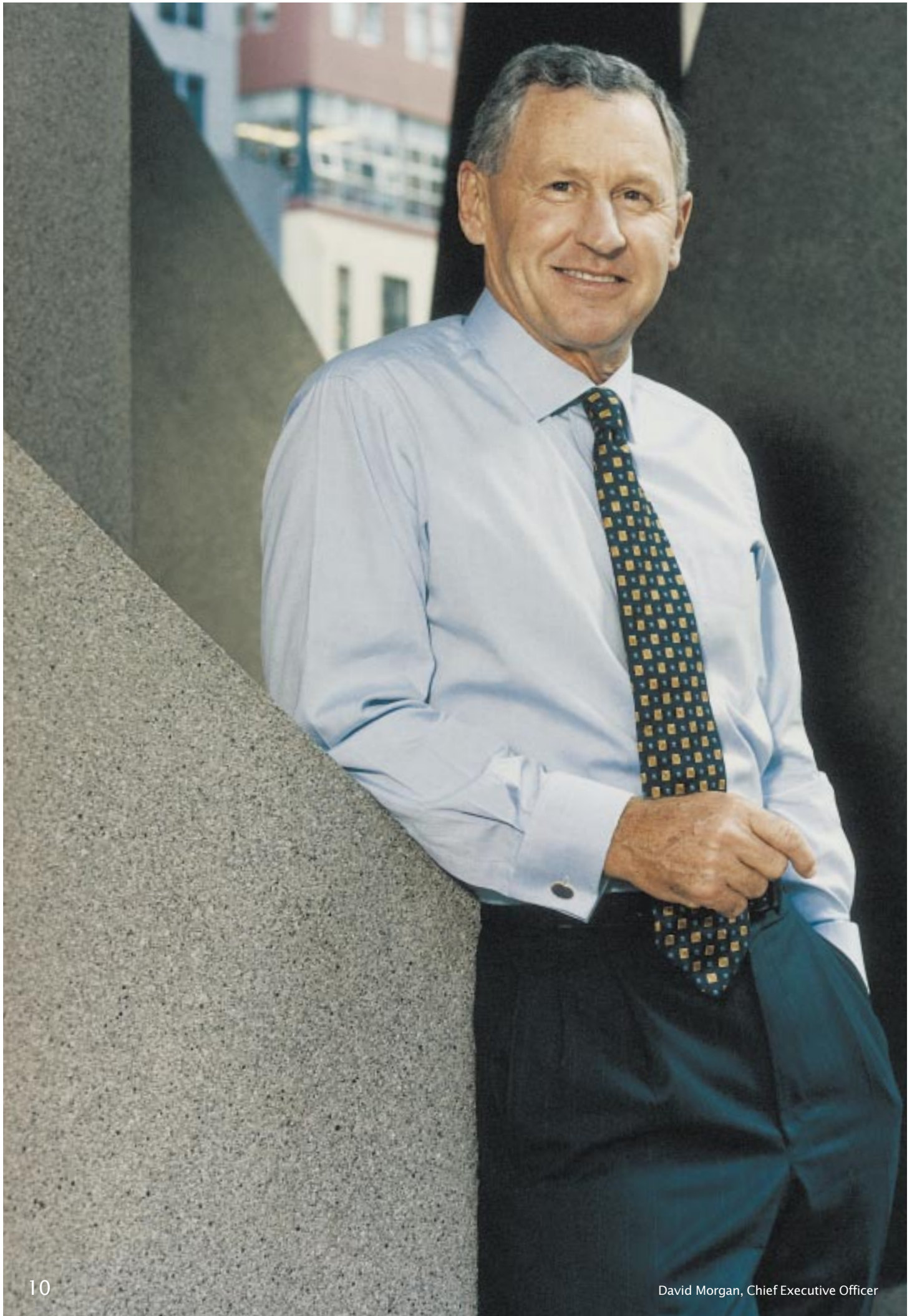


Efficiency

Expense to income ratio, before amortisation of goodwill.

The ratio continued to improve, falling to 51.5% from 54.5% last year. Expenses increased by only 2% on 2000 levels despite increased business volumes and the absorption of increased restructuring costs and incremental goods and services tax costs.





Getting real

Chief Executive Officer's Review

People don't like banks. This is an unarguable fact that we can ill afford to ignore. That's why we have set ourselves a clear challenge: to front up and tackle the issues that our customers are most concerned about. We owe them a clear explanation and, most importantly, practical cost effective solutions. To restore trust we must demonstrate a genuine empathy for their needs. We must ensure that the revolution of our times works for all our customers and to the benefit of the whole community. Our commitment to meeting this challenge demands fresh thinking and decisive action.

We are proud of our recent achievements. Our ninth successive annual profit improvement speaks for itself. We could be forgiven a moment of self congratulation.

But we had better keep our celebrations quiet, because if the public hear us they are bound to say it is yet more evidence that we are out of touch, or so arrogant we don't care.

To say banks are unpopular is putting a gloss on it. Certainly some of our customers – too many – think it's been a one way street: that we deliver minimum service at maximum cost; that to satisfy our shareholders and our larger customers we pursue the bottom line at any cost, including theirs. And, like many in the community, they say we are not living up to our responsibilities to the broader community.

Obviously, there have been unpopular decisions, like branch closures. Community hostility has crystallised around them. But the causes of the general disquiet are, I think, more vague and less tangible. At least partly, they go to a call for some recognition and respect.

Whatever else changes in the banking industry, this won't. The first requirement will always be mutual trust and respect.

The banking revolution will continue and Westpac will continue to play a critical part in it. But the more change

keeps coming, the more important it is to improve the dialogue within our bank, with our customers and the community, and within our industry. Trust depends on this. To have trust we need understanding. And we cannot understand each other without dialogue.

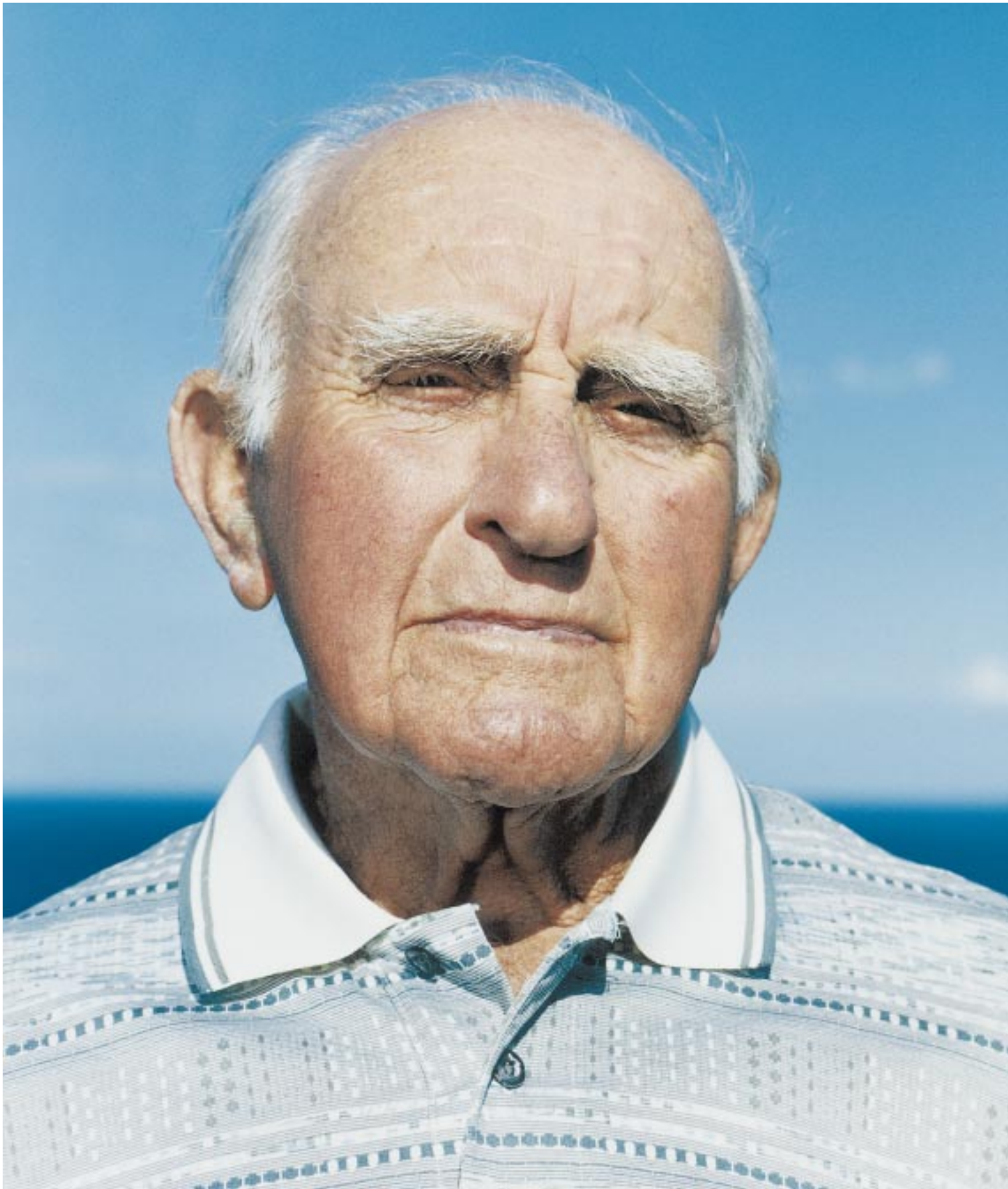
We need an environment in which our sometimes competing goals can be mutually understood. The bank needs confidence in its values and behaviour, our customers and the community needs it too. The bank needs to believe in its own enterprise and achievements, our customers and the community also need to believe.

This is the virtuous circle we are striving to establish.

It's why we've devoted a large part of this report to lifting the lid on five of the big issues that concern our customers and the community. The big bank issues.

What's clear is that these are not just perceptions to be dealt with by a few exercises in public education. They are realities: they go to the heart of what we do every day.

I invite you to take a few minutes to look at what we are doing to find the remedies for the public's concerns and to make the revolution work for all our customers and the community alike.



Improving access to banking

“My local branch has closed down, so where do I go now? I don’t have a computer and even if I did I wouldn’t know how to bank on it.”



Where did the bank go?

The Issue. Fewer bank branches, longer queues and the disappearance of the 'personal touch'. The traditional and trusted forms of banking seem to be disappearing and new, electronic-based banking methods are forcing customers to change the way they bank forever.

These are the feelings our customers – and the public in general – are most frequently voicing. And those shouting loudest are our customers in rural and suburban communities. It's these people, dependent on face-to-face services, who feel that banks have abandoned them.

What we're doing about it. Without a doubt, a considerable proportion of the population is concerned about access to banking services – easy access, convenient, and the right kind of access.

The last ten – or even five – years have seen unprecedented change in our industry, nationally and globally, as a result of economic, social and technological developments. At Westpac we have worked to maximise the benefits for as many of our customers as possible. But, inevitably, we misjudged some consequences, got the emphasis wrong in places, or failed to read customer needs and customer opinion.

We soon found that a lot of our customers did not believe this “progress” brought universal benefits. Particularly in rural areas, many people thought – and many still think – that it was not progress but outright regression.

Rural Australia is changing. Larger, more efficient farming practices require fewer employees. Fewer employees means less demand for rural services and, in no time, rural services are forced to close, threatening the viability of the remaining services.

Back in 1998 we accepted our role in breaking this vicious circle by being the first bank to publicly commit to keeping face-to-face transactional banking in every country town where we had a presence. Wherever it wasn't economically viable to have a rural branch, we set up an “in-store” – Westpac banking services run within an existing business, such as a chemist, general store or newsagency. Far from being a piecemeal measure, our 182 in-stores have provided host businesses with additional income and helped to boost their long-term viability and customer base.

But changes haven't been confined to the bush. Our metropolitan branches have changed, and continue

to do so, as a result of changing traffic flows, population and shopping patterns. Small suburban branches have been most affected. Recently we drew another line in the sand. We've said we expect to keep around the same number of metropolitan branches and only relocate them to follow customer traffic flow. In fact, our branch numbers nationwide in Australia are just over 800 – a figure we feel is about right.

We also have some 211 branches to service our New Zealand customers. And we have a further 57 branches, most of which serve our Pacific Island customers.

Meanwhile, banking has been changed forever by the rapid development of technology and the internet. And the enthusiasm with which many of our customers have embraced electronic banking has been astounding. Recently we registered our one millionth internet banking customer, and each month sees another 50,000 more customers discovering the convenience and low-cost benefits of Internet banking.

Telephone banking is an equally popular channel, with more than \$500 million transferred through this route every month in Australia. And customers are getting more confident in the way they use it, with increasingly complex transactions being carried out via this service. Our EFTPOS terminals now move more than \$900 million a month, and our 1,517 ATMs – a third of which are in rural Australia – are used nearly ten million times a month to move over \$1.3 billion.

Not surprisingly then, around 90% of banking transactions are today done outside our branches.

Clearly, many Westpac customers relish the opportunity to use these forms of banking. But we know a large proportion will always want the personal service that can only be found in our branches.

Did you know?

We've now opened 182 in-store branches in rural areas.



We expect to maintain our branch numbers nationwide at just over 800.

A commitment to keep the branches as the cornerstone of our business has seen over 400 branches refurbished in the past two years.

It's therefore important to state that our branches remain the cornerstone of our business for customer education, information and advice. And the changes we've made to our branches in recent years – making them financial service centres – have been a direct result of our customers' requests for more accessible advice-based services. In line with this, we've refurbished over 400 of our branches in the last two years.

Change has inevitably led to trade-offs. Providing services customers want at a price they feel is fair means some queues are unavoidable. When customers in these queues see empty teller booths in some of our older sites, they understandably get angry. Yet here too we've tried to manage change to work in our customers' favour. We've installed telephone and internet banking kiosks in many of our branches, and our front-of-house service has reduced queue times – not least by demonstrating to customers the benefits of using alternatives to traditional over-the-counter methods.

At the same time we've been developing new services for our business customers, including a more convenient cash deposit service and a separate website providing 24 hours a day, 7 days a week business banking access and support.

It's taken us time, but we've realised that our customers haven't so much resented the changes we've made, as the way they were implemented. They feel they weren't adequately consulted and, as a result, have felt they've lost power over how their financial services are run.

It's a mistake we're determined not to make again. Customers still tell us that they don't know how to go about modern banking. So we are updating the feedback brochure available in our branches to illustrate the avenues open to them.

We're also working on developing better communication between us and our customers, through avenues like our *Let's Talk* community-based education and financial

literacy workshops, which are equipping customers with the information and support they've told us they need to make the most of their banking choices.

Of course, we have some distance to cover before we can begin to say that we're keeping all our customers happy. But now that we've pretty much settled on branch numbers, we'll focus our energies on completing our current branch conversions to ensure that as many of our customers as possible have the services tailored to their needs.

Yet it's in the realm of technology that we're facing the greatest challenges – as well as the greatest benefits. There's no doubt that organisations of the future will interact with their customers through a host of channels. And although electronic banking has transformed the lives of a large proportion of our customers for the better, the flip side is that there are still many who are feeling increasingly isolated and powerless by technological developments.

Electronic banking may be a lower cost and more flexible option, and one that can be provided more cheaply the more it's used, but many Australians view electronic banking with suspicion.

Developing our financial literacy programs, particularly in conjunction with community organisations, will be one way to help our customers embrace new banking methods and feel more empowered in their financial decisions. If provided alongside education in using the technologies themselves, this could be a real force for the better.

Technology develops far faster than human nature adapts. So it's our challenge – and that of other institutions – to make this revolution of our times work for all our customers and stakeholders right across society.

We want to truly bring the bank back to our customers by helping them to more fully embrace the new banking methods.

This year we registered our one millionth internet banking customer, and each month sees a further 50,000 sign up.



We have increased access to banking services by lifting the number of our ATMs to 1,517, a third of which are in rural areas.





Is anyone listening?

Acting on customer complaints

“There’s a world of difference between listening and hearing, and between saying you’ll do something and actually doing it. I just want someone to fix the problem. Is that too much to ask?”



The Issue. The community's perception of banks is being tested by change. Many people feel that they are being forced into the new ways of banking. They believe they have had no choice. Nothing is familiar now. At every turn

there is something new to deal with. The old comfort zones are gone or changed beyond recognition. Little wonder that customers feel alienated, even rejected, and complain that either we are not listening or not responding as we should.

What we're doing about it. Based on community attitudes to banks we have to recognise that even if we have been listening, we haven't been hearing too well.

Our customers – and the public at large – feel the changes we have delivered have been largely forced on them. And in the wash-up they feel that much of what they previously valued in their banks has somehow been lost.

Not surprisingly they are demanding that their banks be more accountable to them. When they take their problems to us they expect them to be resolved. If their problems are not resolved to their satisfaction, their problems become complaints, which they then want heard and acted upon promptly. They want to get back some of the respect they feel they have lost.

As a start we've set out to fix our customer feedback and complaints processes. Gone are the days of being embarrassed by complaints. We now look at the 4,000 or so we receive every month in a new light and even value them for their insight into our performance.

The bitterest pill has been the fact that 40% of those who complain say they have had to approach us four or more times with their problem before having their complaint acknowledged and satisfactorily resolved. That's plainly not good enough.

We're aiming for the goal of one call, one contact, one solution – in essence, complete consistency in the management of customer problems across the organisation. That's why in Australia we've made our on-line customer feedback tracking system accessible from all customer contact points so that we can readily channel complaints to the relevant people within the organisation.

The process doesn't end there. A customer relations team in each unit now ensures that all complaints are properly handled, and a week after the complaint is dealt with the customer is contacted to find out how they rate our handling of their problem. At that point we give customers the option to request further action.

Our improved complaints handling is proving to be an opportunity to grow our business. Around 60% of customers who complain actually grow their business with us following satisfactory resolution of their concerns.

We set ourselves a goal of initially acknowledging every complaint within one day and our aim is to resolve all complaints within a five-day period. We currently resolve nearly 80% of them within that time.

The good news is that our market research not only shows a big improvement in our performance, but we now consistently receive fewer complaints than any of our competitors. The public might say we're the best of a bad bunch. And the truth is it's still not a result to be proud of.

But complaint resolution is only part of the story. Rectifying what caused the complaint is fundamental. So we formed a team of specialists whose job it is to analyse trends in customer complaints, where they are occurring, and decide what must be done to fix the underlying problem.

And we haven't stopped there. We were the first bank in Australia to appoint a Customer Advocate who truly possesses the muscle to resolve customer relations issues across the organisation as a whole. Our Customer Advocate is the last point of reference for complaints before they reach the Banking Ombudsman.

Did you know?

We are currently resolving nearly 80% of all complaints within a five-day period. Our goal is 100%.



We resolve 85% of our Banking Ombudsman cases before formal investigation.



To ensure that the customer viewpoint is not lost sight of, we have also set up an impartial Complaints Review Committee, chaired by Dr Simon Longstaff from the St James Ethics Centre and with another externally appointed member, Ms Anna Booth. Far from being a token gesture, the committee possesses the teeth to ensure we have robust processes to deal with our customer complaints and to fix any recurring problems that may show up.

According to the Customer Service Institute of Australia, we rank at the top of all participating national and international finance companies on our rating against ten service factors, including our attitude towards complaints.

Our dispute experience with the Australian Banking Ombudsman is currently better than the average of the 'big four' Australian banks. We resolve around 85% of the cases our customers take to the Ombudsman without the need for the Ombudsman to do a formal investigation. The Intervention Line we set up, directly linked to the Ombudsman's office, has greatly helped. Less than five per cent of the 900 or so concerned customers who so far have been channelled back to us through this link have opted to pursue their issue with the Ombudsman.

But we are not relying on complaints to tell us what our customers think and want. We're going to the source and seeking direct feedback from a large cross-section of consumers and businesses – customers and non-customers alike. In fact we get feedback from around 90,000 of them each year, most of it via independent, third-party external research agencies, but we also do some of it ourselves. Focus groups, monthly 'diaries' from selected customers and non-customers, and direct feedback from customers opening or closing accounts are just some of the methods we use.

No one knows more about our customers' concerns than our staff do. So we listen to them. Every year we conduct numerous group sessions with our staff to get their "warts and all" reports on the quality of customer experiences and their ideas about how we might improve them.

This customer dialogue is essential. If we did not fully appreciate it before, then we certainly do now. We have learned that there is no bypassing it – it will always be fundamental to delivering quality customer experiences.

Also important is a dialogue with the broader community. We regularly talk to the community and representative groups to get a wider view of general concerns and social needs. It's all part of the effort to make our bank more respected, more in touch and more successful.

The good news is that this listening is helping us come up with better solutions for our customers and the community. It has driven a number of important changes, including a decision to simplify our products and processes to deliver a better customer experience. As added benefits, this will lower our operating costs while improving the morale of our staff. And customer feedback has led us to automate things like our business loans origination process, to make it quicker and easier to respond to customers' requests.

Over the coming year in Australia, we'll be rolling out a training program to our staff aimed at helping them to resolve customer issues at first contact. We've already completed this in New Zealand. And we'll improve our centralised complaints line as a direct source of specialist advice for speedy resolution of complaints. Also, the internet is coming into its own, providing customers and our other stakeholders with the means for continuous dialogue with their bank. We intend to continue to listen and to be ready to act on what we hear. We've made a lot of progress but there is still lots of room for more.

Around 60% of our customers who complain grow their business with us following resolution of their concerns.



Our complaints tracking system now allows us to address complaints sooner.

We have set up an impartial Complaints Review Committee to police our performance in dealing with customer complaints.



Delivering value for money

“Banks are taking us for a ride with their fees – it’s an easy way for them to make money out of us and they push it for all it’s worth.”



Where's the value for money?

The Issue. Announcements of record bank profits make investors happy, but in the wider community many people feel that the profits come at their expense. They think they are paying more and more for fees, for the same old services, and even for ones that used to be free. What is

worse, they say, they don't have control over the costs or any genuine choice about the services. The charges just arrive with the statements and they are obliged to pay. They want what any customer wants – value for money and the right to choose.

What we're doing about it. We look at our profit and balance sheet and all the other contemporary measures of productivity and performance and see a very healthy bank: high performing, highly competitive, sound in every limb and joint, well proportioned.

We see ourselves as prudentially sound, competitive, innovative, resilient and socially responsible. We believe we have met the endless demands of these changing times more than adequately, and our balance sheet proves it.

We might see ourselves this way, but it is not how we are seen. Of all the challenges we have faced perhaps the biggest one is the resentment of customers for whom the so-called banking revolution has created an intense feeling of powerlessness. Powerlessness towards the ever increasing fees, the erosion of the human touch they always valued and, to top it off, the chain of record bank profits.

Of course, we could shrug our shoulders and say – what's it to us? Profits are good.

We could just keep our heads down and wait for public perceptions to catch up with the reality. But the reality will continue to change and the perceptions and the frustration will intensify. Doing nothing is not an option.

In truth, we can no more ignore their dissatisfaction with value for money than we could ignore a major dip in the share price. So how do we address their concerns, their resentment and frustration?

If we tell people that the fees we charge recoup only around half of our costs on transaction accounts, or that we face system problems in moving to real-time disclosures – will our customers say “silly me” and stop their agitation about fees? We don't think so.

If we tell them that our profits represent a return of just one per cent on our assets, which means we have to be right 99% of the time when we lend or invest money, can we expect them to say, “Oh, well that's alright then. It's a privilege to do business with you”. Of course not.

It's an undeniable fact today that we charge most customers for the services they use and that what we charge, by and large, reflects what it costs to provide the service. That wasn't always the case. Before the banking system was freed up and made competitive in the early 1980s, transactions were usually free and we recovered these costs by either charging our borrowers more or paying our depositors less for their deposits. This was neither fair nor very transparent, but it was the way things were done and everyone accepted it – even liked it.

Competition changed all that. Customers were promised and expected a fair go. Many don't think this has happened.

But charging our customers for the costs of providing the services they use, we believe, is the only fair and equitable way for us to price our services. Not everyone has liked the change and there is no doubt that we have to do a lot more to help customers understand our fees and costs and make our charges much more transparent. Until we do this, we cannot expect our customers to share our satisfaction in our performance. So long as they think they are not getting a fair go they will undervalue our services and our integrity.

That's why in December 2000 we implemented a comprehensive restructuring of our pricing on personal transaction accounts in Australia to better reflect the costs of providing banking services and to assist our customers to reduce their cost of banking. While our personal transaction accounts still offer a number of fee-free

Did you know?

Fees for Internet banking and direct debit transactions have been cut by 60%.



Last year we cut the cost of EFTPOS charges by 23% and telephone banking fees by 38%.

We are actively advising customers how to minimise fees by changing the way they bank.

transactions per month, we moved the fees paid for excess transactions further into line with our underlying cost of providing these services.

This meant that while the fees for some staff-assisted excess transactions rose, the fees for the majority of personal transactions fell. In fact, our charges for Internet banking and direct debit transactions were cut 60% to 25 cents a transaction. And EFTPOS charges fell 23% to 50 cents, while self-service telephone banking transaction charges fell 38% to 40 cents.

The new pricing puts customers in control of the fees they incur and in the majority of cases will reduce their costs of banking with Westpac.

The fact is, most people don't complain about paying for service when they feel they receive value for money. And while many of our customers are happy to pay for the benefits of being able to access their money 24 hours a day, 7 days a week, many others felt they didn't understand what they were paying for nor the real costs of providing these services. It's the lack of information about what's being charged and why, rather than the actual cost, that underlies a large percentage of complaints lodged with the Banking Ombudsman.

So, in an attempt to make our fees and charges more transparent to customers, we introduced a new class-leading transaction statement format which clearly details the banking services used and their cost – including the fees on any excess transactions. We wanted to give customers the information they needed to understand what they are paying, to make more informed decisions about how they bank, and a real opportunity to reduce their banking costs overall.

We haven't stopped at making sure there are no hidden surprises in our statements. We're also actively advising customers about how to save money by adjusting their banking activity to avoid fees – often this means choosing accounts that better meet their needs or helping them to use electronic banking services more effectively.

And we're finding other ways to help provide better value for money and to lower the cost of banking. Recently, we united with five of the world's leading financial institutions to offer our customers fee-free use of any of their 20,000 cash machines when they want to get access to their funds while travelling overseas. This alliance is a world first, as well as a ground-breaking initiative to give our customers global access to their funds without paying fees to another bank.

We've also taken the industry lead in pursuing a solution on fees for using other banks' ATMs in proposing that the industry move to direct rather than indirect charging of such fees. We've started bilateral discussions on the matter as we see it potentially delivering savings of up to 20% on existing charges. In the meantime we're posting warnings at our ATMs relating to these fees. But to make this all happen we need the other ATM providers to come along. To date we are still out there on our own.

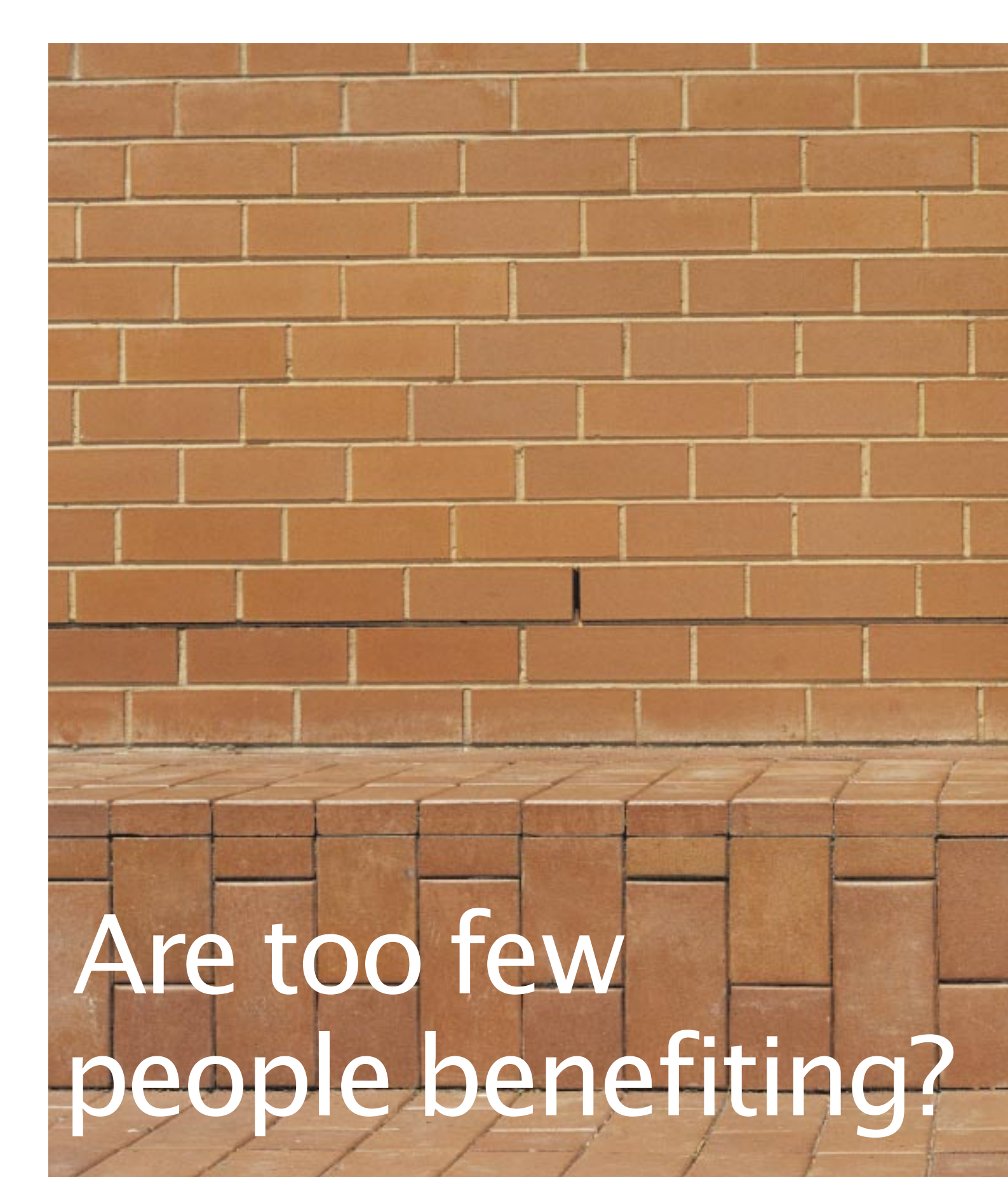
We're only part of the way down the road to providing better information for our customers on our fees and on how to minimise them. But we're determined to get to a point where, from the service and information we provide – at our branches, on statements, on the internet, in brochures and so on – our customers will know if they are getting value for money, and how to get it if they're not.



Our statements show customers the full details of fees and charges, including which transactions were free and what others cost.



We now offer customers fee-free use of over 20,000 ATMs while travelling overseas.



Are too few people benefiting?

Reaching everyone

“Banks only care about people with lots of money. The rest of us don’t seem to exist as far as they are concerned.”



The Issue. Community expectations of business are higher than they have ever been. And little wonder. The power to affect our lives has shifted, at least in part, from governments to big business. And people feel they have been the victims in this shift. Most of us in business recognise that we can no longer separate our economic

or financial interests from our social and environmental responsibilities. And there is no denying the community certainly expects more from its banks than they do from most other kinds of companies. What they might forgive in other organisations they won't tolerate from banks.

What we're doing about it. We accept our responsibility to contribute to the community. With almost eight million customers in Australia and New Zealand combined, some 32,000 employees, and several million direct and indirect shareholders, we are in every way a part of the community, and we know the community's eyes are on us and expecting us to play our part.

The banking revolution has clearly had mixed results – working wonders for some, yet leaving many others feeling more like victims than beneficiaries. In the suburbs and towns too many people feel excluded. We have been forced to think harder about the effects of our decisions on society; to find a way to blend competitiveness, the primary value of the marketplace and the goal of any business, with care and compassion. We have had to concern ourselves with social responsibility of the kind that used to be the preserve of government.

These are things all enlightened companies should do. They increase community trust and goodwill, priceless assets for any business; and for banks, part of their inherent foundations. This “social capital” we accumulate and invest is not only good for the community – it's just as good for business.

We're stepping outside our corporate walls in other ways. We're going beyond just handing money over in arms-length corporate sponsorships. We're now seeking alliances with community groups and governments at all levels, for example to help bring our services to low-income earners and other disadvantaged groups.

We started by publicly canvassing the social effects of our strategies. An open dialogue was essential – for better or

worse – because a company cannot gloss over community demands for corporate social responsibilities. It may not yet be the public perception but those discussions are yielding results.

For example, the public were of the general view that lower income and disadvantaged groups should have guaranteed minimum access to basic banking services. So for the past two years we've been providing social safety net, fee-free banking accounts to pensioners, the disabled, and other economically disadvantaged Australians. We also provide fee-free basic accounts to students and young people. It's what the community says we should do. And we've done it.

With others in our industry, we've set out a protocol for any changes to rural branch locations in rural areas to ensure that communities will have the time they need to adjust. We've gone beyond explanations to real corrective action, and people appreciate it.

With 90% of customer transactions now happening outside branches, basic social equality demands that all our customers have adequate access to the more efficient electronic banking services. Access for older people and those with disabilities are Westpac priorities and to this end we have developed a Disability Discrimination Action Plan in Australia and lodged it with the Human Rights and Equal Opportunity Commission.

As part of our responsibility to the communities in which we live and work, every year Westpac puts more than \$25 million into charitable organisations, community bodies, social support initiatives and commercial sponsorships.

Did you know?

We provide pensioners, the disabled, and other economically disadvantaged Australians with essential fee-free banking services.



Every year Westpac contributes more than \$25 million to charitable organisations, community bodies, social support initiatives and commercial sponsorships.

Our Disability Discrimination Action Plan has been lodged with the Human Rights and Equal Opportunities Commission.

Much of this is driven by our staff. Across Australia, around 60% of them volunteer in their local communities and a third of them do so regularly. We support their volunteering through paid leave and flexible working arrangements. You find many of them out there raising money for our charitable and community causes, including our helicopter rescue services, youth education, community welfare, overseas aid and indigenous programs. The list goes on. We also match any funds donated or raised by our staff, dollar for dollar, through our Matching Gifts program.

We have underway a number of initiatives to address the education and life skills needs of indigenous Australians. We have a Corporate Leaders for Indigenous Employment Agreement with the Department of Employment, Workplace Relations and Small Business. We've pledged to increase the number of Aboriginal and Torres Strait Islander people we employ and to retain them in permanent positions. And we are continuing to work with indigenous communities in initiatives aimed at improving their economic independence.

Another of our priorities is to unlock opportunities for young people through educational and life skills programs. Recently this has included the Smith Family's Learning for Life partnership, which provides financial and mentoring support for disadvantaged children, while ensuring access to an education that will enable them to reach their full potential. We also sponsor New Zealand's Life Education Trust, teaching children the importance of keeping healthy. We're involved in a project that is aimed at providing our youth with the entrepreneurial and business skills they'll need to succeed as future business leaders. We even run a financial skills program to help non-profit organisations become more financially independent.

We will continue to help satisfy our customers' broader concerns for the environment and society. One of our recent initiatives – implemented as a result of demands to invest in high quality, environmentally conscious companies – was the launch of the Australian Eco Share Fund. The Fund was an Australian first and part of our response to the growing alignment between the company and the community's desire for sustainability.

Westpac was one of only six banks in the world to sign the founding United Nations Environmental Program Statement on Financial Institutions and the Environment in 1992. We remain the only Australian bank to do so.

Investing in social capital requires no trade-off in our competitiveness. In fact, social cohesion is a vital ingredient in a successful society and in our long-term business sustainability. Arguably, until recently, our customers and the community understood this more clearly than we did.

John Maynard Keynes defined money as that which links the present to the future. As a bank we've sometimes forgotten that when we deal with people's money, we're actually dealing with their hopes and plans. They trust us with one of the most vital links to the future of their children, their businesses and communities. We must remind ourselves of this every day.

We will continue the process. For us, corporate social responsibility and sustainable business practices go hand in hand.

We have pledged to increase the number of Aboriginal and Torres Strait Islanders we employ and retain them in permanent positions.



Around 60% of our staff do volunteer work of some kind in their local communities.





Backing our people

“I try to do the right thing by my customers but sometimes it isn’t enough. I sense their frustration and anger. I feel powerless and it really gets to me at times.”



Would you work for a bank?

The Issue. Community scepticism, distrust and impatience with banks directly affects our staff. Hostile and disenchanted customers damage their morale and corrode the most fundamental relationship in our business. Everyone knows about bank bashing, but only bank staff have to live with it every day.

We all have to wear the criticism, both just and unjust, but only staff have to keep smiling even when the abuse is personal. To add to their burden, our staff have come through an upheaval in technology and work practices and they've borne the brunt of job shedding.

What we're doing about it. It's a simple truth that for our customers, the staff are the bank – they embody its character and its worth.

Our conundrum is that because our staff have to endure the most negative community opinion, they are the most likely to be worn down by it – yet it is our staff who hold the key to improving that opinion. They will be the ones, substantially, who rebuild the threads of shared understanding and trust with the community.

For all these reasons, we are determined to make our employment practices and culture second to none.

We want to be an employer of choice. It's a phrase we use a lot. It means we take our responsibility towards our employees very seriously.

Like most people, Westpac people want to feel a sense of pride and achievement in what they do. They want to deliver a good service well, and to feel confident enough in their skills and our technology to do it. They want to work for a good company, a respected company.

But daily criticism and hostility inevitably erode their faith in their industry, their bank, their job – even in themselves.

Added to this, our employees have to continually adapt to the strange new worlds of technology and the networked environment. We can't alter the fact that productivity is the engine of growth, nor can we reverse the rapid shift to greater technology take-up. But we can ensure that our staff are equipped to cope with all this through first-rate and relevant skill training.

We attach a very high value to training and development; and we organise our programs to let our staff plan their training in ways that suit their intended career paths and interests. The goal is always to improve not just their prospects at Westpac and their value to the bank, but their overall employability.

Despite all that our staff have had to bear, their morale and commitment is up and is now broadly in line with leading global financial services, and Australian and New Zealand companies.

What consistently emerges from our staff is a genuine concern that we do the right thing by our customers. They are proud of Westpac's heritage and see it as implying a responsibility, even a duty, to provide the best banking service possible. They're also big on teamwork and, despite the constant pressure and public hostility, remain positive about working for Westpac.

This dialogue with our employees has highlighted the need to clearly set out our vision and strategy so they can see and appreciate their role in the bigger scheme of things. The Learning Maps we recently rolled out to our Australian based staff were designed to do just this: abolish the "them and us" mentality and allow all our employees to see what our ambitions are and how we are pursuing them. We wanted staff to see what the board and management see and to share in the bank's big picture and decide for themselves whether they want to be a part of it.

In New Zealand, we've introduced a new program to help deepen our service culture and to improve our staff in improving the quality of our customer service.

Did you know?

Our staff morale and commitment is up, and is now broadly in line with leading global financial services companies.



Roughly 35% of our managers are women, with the rate of promotion of women now being the same or higher than for men at all levels.

Eight out of every ten female employees return to Westpac after parental leave.

In addition, we've used One Voice – One Goal workshops to lift the lid on our business for our staff. The response confirms that most employees want to be involved in shaping our future. In truth of course they are, and always have been – but it had been a long time since anyone adequately acknowledged or encouraged it.

We've also given our staff what we call our BBQ guide. It's a no-nonsense guide to engaging with family, friends and others on the contentious matters surrounding banks: a handbook to help separate fact from fiction, perceptions from prejudices; a guide for staff to share the arguments and responses to questions – or complaints – about such issues as fees, profits, branch closures and electronic banking.

Our staff tell us that we must get to know our customers better. They say we must simplify our products and processes. We think they're right.

They also tell us that if we do these things well it will be easier for them to get it right for customers the first time. We think they're right about that as well. And we agree that customer satisfaction is inextricably linked to job satisfaction.

Consequently, we are giving our staff the tools and skills to get to know our customers better and build deeper long-term relationships with them. And we've started a program to do what they've said: simplify our products and processes.

If staff are to remain keen and motivated they must have good working conditions. We're widely recognised for our leadership in this area. We understand that the best working conditions must be adaptable enough to cope with social change. In recent times we have gone beyond paid

maternity leave and introduced paid paternity and adoption leave. We've also gone further with flexible working hours, job sharing, home-based work and on-site childcare facilities. As a result, close to eight out of ten women return to us after parental leave.

If we are to be seen as an employer of choice we must also give our staff the freedom to enjoy their work without fear of prejudice, harassment or discrimination. We do not tolerate any form of discrimination in the workplace and actively promote diversity within our workforce. Roughly 35% of our managers are women, with the rate of promotion for women now being the same or higher than for men at all levels.

We know that personal issues and concerns can affect the health, wellbeing and job performance of employees. So we've expanded our free, national information and referral service to help staff balance their work and personal lives.

We put staff in touch with *Better Life & Work* specialists who can help them find the home help, dependant care, relocation, health advice and any other assistance they need.

Building the morale of our staff has been a massive task in recent years. The fundamental point is that if we can't create the conditions for our employees to fully share our vision and values, we have little chance of inspiring the community to share them.

We are not yet where we want to be, but we think we are well on the way to providing our people with the sense of pride and enjoyment that working for Westpac entitles them to feel.

We continue to implement more flexible working hours, job sharing, and home-based work arrangements.



We have introduced paid paternity and adoption leave to help with the family/work balance.



Doing what we

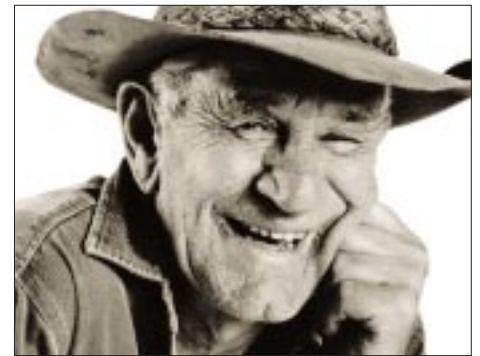
Progress report on our five point plan

Last year's Annual Report detailed our five point strategic plan for unlocking the potential in our business. This is our score card so far.

1 Understanding our strengths



2 Being more efficient



Understanding our strengths means leaving no stone unturned in reviewing our operations. It's about gaining a better understanding of just where we're creating value in our business and where the opportunities for improvement lie.

Being more efficient means we must have all parts of our business as productive as they can be. Our customers shouldn't have to, and won't, pay for any inefficiencies. And our competitors are all too ready to grab the advantage where they see a weakness.

Finding new opportunities is about believing the sky's the limit and being passionate about creating better solutions for our customers.

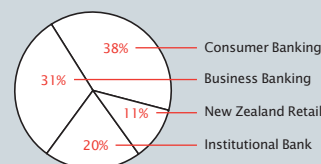
Getting closer to customers is about getting to really understand what makes them tick. We're privileged to have such a large customer franchise. But while we have a lot of information about our customers, we haven't always used it well. Now our customers are telling us we need to know them better.

Backing our people means rethinking how we work together to reach our goals. We can't expect our people's full support if they don't understand why we're doing what we're doing. And if we aren't all working towards the same objective, it's doubtful we'll get there.

What we did in 2001

- Enhanced the value of our scale intensive processing and operations through outsourcing representing around 20% of our cost base
- Further segmented our customer base to better meet customer needs
- Directed more investment towards higher value wealth management and business banking
- Further share buy-backs to assist us in achieving an optimal capital position
- Continued to embed and to manage our organisation by economic profit measures
- Ongoing performance reviews against external benchmarks

Where we delivered value across our business



Economic Profit by business

What we did in 2001

- Transferred our purchase of goods and services to an eProcurement platform
- Automated our human resources and bill paying systems
- Significantly increased capability across all our call centres through virtual interlinking, and integration of AGC call centres
- Enhanced our capacity to originate personal loans over the telephone
- Centralised finance and accounting operations between Australia and NZ
- Adopted a common platform for our consumer collections business

Controlling our costs



say we'll do

3 Finding new opportunities



4 Getting closer to customers



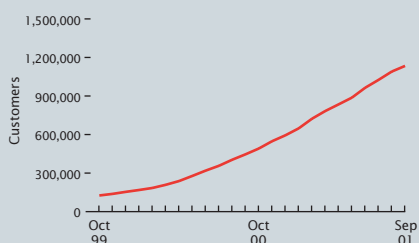
5 Backing our people



What we did in 2001

- Launched B2Buy, our online marketplace
- Provided mortgage brokers with online access for loan applications and tracking
- Added customer balances in unit trust investments to our online offering
- Entered into a joint venture with NZ's largest retailer, The Warehouse, to deliver financial services through their 74 stores
- Participated in two foreign exchange internet based portals, FXAll and FX Connect
- Extended online payment capabilities, including international transfers, payment templates and merchant gateway
- Extended online business services including credit checks, GST and BAS forms
- Rolled out 120 internet kiosks within our branches in Australia

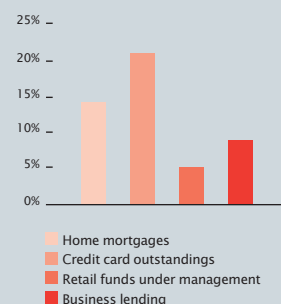
Take-up of internet banking (Australia and New Zealand)



What we did in 2001

- Appointed a customer advocate and established a Complaints Review Committee
- Introduced Customer Relationship Management solutions to Private Banking, Priority Consumer and Business Banking
- Electronic valuations for selected residential areas, eliminating a 48-hour delay in the mortgage application process
- Introduced 'fast track' housing loan approvals
- More than doubled our online customers to over one million with top online customer satisfaction of the major banks
- Doubled online stockbroking customers and trebled online originations of personal loans, mortgages, credit cards and transaction accounts

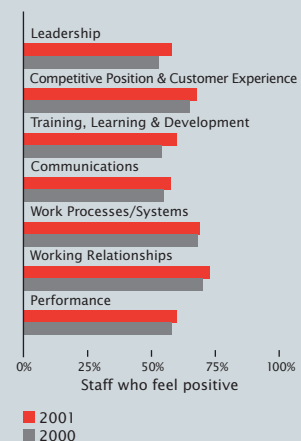
Growth in key products (Australia)



What we did in 2001

- Reinforced the setting of clear objectives
- Simplified our organisational structure to better meet the needs of all stakeholders
- Rolled-out the Learning Maps and comprehensively improved the staff perceptions of working at Westpac
- Greater two-way staff participation through our People Management Forums
- Introduced the *Better Life and Work* personal counselling and support services for staff
- Named as an Employer of Choice of women in Australia

What our staff are telling us



Getting involved

Westpac in the community

Issues we care about

Community wellbeing

Countless community organisations require outside help to do their work. It is only through long-term commitment and partnership that real community issues can truly be resolved.

Education and life skills

Over 730,000 children live in families below the poverty line in Australia. Education is key to breaking the poverty cycle.



Some of our involvements

Staff Volunteering

Through our staff volunteering program, over 10,000 of our staff are actively involved in their local community as volunteers. We provide support at all levels such as providing paid leave and flexible working arrangements, and encourage individual and team volunteering.

Westpac Matching Gifts

The Matching Gifts program in Australia supports the generosity of our staff by matching, dollar for dollar, their contributions to any tax deductible charity of their choice. Since December 1998, Matching Gifts has resulted in a total of \$2.5 million being distributed to some 300 charities across Australia.

Life Education Trust

For the past 13 years Harold the Giraffe, mascot of the Life Education Trust, has been travelling around New Zealand spreading positive health messages to Kiwi kids. With 34 mobile classrooms located throughout New Zealand, the Life Education program reaches almost 300,000 children each year.

The Smith Family's Learning for Life program

The Learning for Life program delivers financial and mentoring support for disadvantaged children in Australia. The Westpac Foundation has given \$1.5 million to this program, enabling its expansion into 13 new areas, to support an additional 3,300 students, and providing 50 new tertiary scholarships.