



1996 REPORT



1996 RESULT

Operating profit after tax attributable to shareholders up 19.5% to \$1,132 million

Earnings per ordinary share up 18.3% to 58.9 cents

Dividends per ordinary share up 17.9% to 33 cents (fully franked)

Return on average ordinary equity increased to 14.6% from 13.0% in 1995



INTRODUCTIONS

This Report documents a productive year for Westpac. 1996 continued the steady and consistent profit improvement of recent years and featured several major investments for future growth. As Australia's first bank, Westpac has a strong and rich history to call on. Four years ago, the Bank began a reassessment of all areas of business against this experience and the major changes that were occurring in the industry. As a result, renewed focus was placed on the five key areas of Customers, Products, Distribution, Infrastructure, and Shareholder

Value. The objective was to reshape Westpac with the aim of being recognised as the most responsive and competitive bank in its home markets of Australia and New Zealand. With this goal in mind, the Bank implemented a major program of change, which has continued to be measured and modified against ongoing industry developments. This Report looks at Westpac's actions in each of these key areas as it progresses from a critical period of change. More importantly, it looks to the future and provides some insight into Westpac's continuing drive for improvement.

Westpac has a long history, closely linked with that of Australia. When the Bank was established in 1817, to promote the commercial growth of the colony and to bring some order into the monetary chaos that existed at that time, the foundations of Australia's banking system were laid. Westpac's growth and expansion matched that of the country. In its first decades of existence, the Bank's customers were primarily engaged in the commerce and trade required to facilitate the expansion of the colony. The 1850s gold rush brought a decade of rapid growth in branches, business and capital. With the increasing development and urbanisation of Australia, the Bank provided finance for primary and secondary industries as well as for building and construction. Today, Westpac is one of the four major commercial banks in both Australia and New Zealand and its business is focused on these markets and on local and overseas customers who have dealings in these markets. The Westpac group undertakes a wide range of banking and financial activities, including commercial and investment banking, personal and small business banking, retail and wholesale funds management, financial services, and finance company operations.

6

Highlights

The major events that shaped the 1996 year. A calendar full of achievements – Westpac presents 1996 at a glance.

8

Chairman's Report

John Uhrig discusses the best profit result in Westpac's history, the importance of focus on shareholder value and what prompted Westpac to initiate its on-market share buy-backs.

12

Managing Director's Review

Bob Joss discusses the future of banking. He illustrates what Westpac is doing to maintain a leading position in the financial services industry.

14

Focus Areas

The building blocks that will shape Westpac's success. The 5 key focus areas of Customers, Products, Distribution, Infrastructure and Shareholder Value are outlined and their importance discussed.

26

Business Actions

An insight into Westpac's business units, their achievements, and the initiatives they are undertaking to ensure ongoing success.

29

Financial Review

An analysis of the year's performance in financial terms. It provides insights into business unit performance, use of derivative contracts and risk management.

57

Corporate Governance

A statement covering the role of the Board, its membership, committees, meetings and other corporate governance issues.

60

Board of Directors & Directors' Report

A listing of Directors together with the Directors' Report on the affairs of Westpac.

65

Financial Statements

A detailed guide to Westpac's financial statements and accompanying notes for 1996 covering the profit and loss statements, balance sheets, changes to shareholders' equity, and statements of cash flows.

122

Shareholder & Corporate Information

A financial calendar for 1997, plus information on shareholdings, share registry contacts and other important shareholder information. Also useful information about Westpac, including key executives and points of contact.

December

Westpac completes the acquisition of Challenge Bank in Western Australia with assets of approximately \$5 billion and becomes Western Australia's second largest bank. "In merging the two operations we aim to capture the best of what both organisations have to offer. By combining Westpac's national strength with Challenge's regional focus, the customers, staff and shareholders of both organisations will benefit." Bob Joss

February

Westpac reclaims the valued double-A rating. Moody's based its upgrade to a Aa3 rating on the soundness of Westpac's asset quality and the improvement of its controls and systems. In September, Standard & Poors, in awarding a AA- rating, recognised that the revamping of Westpac's management, business development and systems, positioned it to compete more effectively.

April

Australia's first integrated Mortgage Processing Centre (MPC) opens in Adelaide significantly advancing the home loan servicing market. The centre processes Westpac's mortgage business, achieving significant efficiencies and streamlined customer service. It is positioned for third party servicing as well. The MPC, which is the size of 3 football fields, currently employs around 800 staff. It also has the largest workplace childcare creche in Australasia.

June

After the purchase of Trust Bank New Zealand for NZ\$1.3 billion, Westpac becomes the largest bank in New Zealand with total assets of approximately NZ\$26 billion. The merged bank provides the opportunity for customers, staff and shareholders to share the benefits of the combined strengths of two successful banking organisations with a long tradition of service dating back to the 1860s.

July

Westpac wins the Personal Investment Magazine/Fujitsu 'Bank of the Year' Award for the second year running. Other awards during the year have included:

- Euromoney magazine's global financing poll for the best service provider in Australian dollars
- For the fifth year in a row, the BRW-KPMG poll for most professional bank in interest rate risk management
- The BRW-C&L 1996 foreign exchange poll in which Westpac topped all categories.



January

'Kiosk' banking launches in Australia. In another industry first, Westpac opened hi-tech banking centres in suburban and regional shopping complexes. Staffed by trained personal banking consultants, the centres offer customers the convenience of being able to obtain almost any banking service whenever they shop, including loans and insurance.

April

Westpac initiates a proactive on-market share buy-back, a move designed to increase value to shareholders by buying back 5% of ordinary shares on the Australian Stock Exchange. The buy-back was completed on 8 July, 1996. A second on-market buy-back of approximately 5% of the ordinary shares was announced on 4 November 1996.

May

The Enterprise Development Agreement (EDA) recognises the hard work of Westpac staff in achieving record profitability through a 12% salary increase spread over 27 months. The EDA also reflects the extensive workplace changes staff have participated in and will support efficiency and productivity gains in future years.

July

Westpac Life re-emerges when Westpac exercises its option to buy AMPAC Life from the AMP. The \$340 million purchase allows Westpac to respond to customer needs faster and with a fully integrated range of financial services products.

September

Westpac's deal to securitise \$340 million of its basic option home loan portfolio, the first of its kind for any major trading bank in Australia, was a leading response to evolving changes in the home mortgage business.

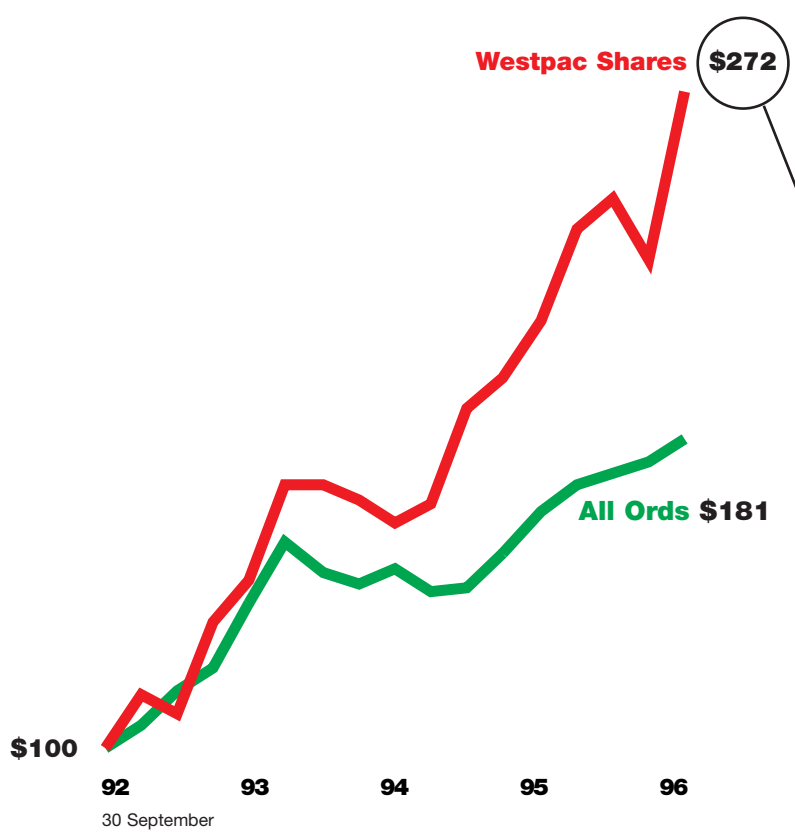
The 1996 Report documents the largest profit result in Westpac's 179-year history. The Board believes Westpac has the management and staff to respond to future challenges. Westpac will keep striving to achieve consistent improvement in shareholder value.

"Significant value was generated for shareholders in 1996. Westpac has built a solid but adaptable foundation for the future and will strive to continue the steady and consistent improvement of recent years." John Uhrig



VALUE

Value of \$100 invested on 30 September 1992
(assuming all dividends are reinvested)



How Westpac shares have performed One hundred dollars invested in Westpac on 30 September 1992 would have grown in value to \$272 (assuming dividends were reinvested) as at 30 September 1996, which represents a compound annual return of 28.5%. The same investment in the All Ordinaries Accumulation Index would have grown to \$181 representing a compound annual return of 15.9%.

The 1996 after tax profit of \$1,132 million was the best in the history of Westpac, showing a 19.5% improvement on the

1995 result. It represents an improvement in the return on average ordinary shareholders' equity to 14.6%, well up on last year's 13.0% return. These results are attributable to four things: the dedication of

staff, the ongoing support of more than five million customers, lower bad and doubtful debts, and the new energy and investment which has been put into key areas of the business. Everyone involved deserves recognition for these results.

Significant value was generated for shareholders in 1996. Earnings per share increased 18.3% to 58.9 cents. This was helped by the decision in March to buy-back 95 million ordinary shares as part of a new, active capital management program. In November 1996, the Bank announced a second buy-back of a further 85 million ordinary shares. The buy-backs are a demonstration of a commitment to maximise value for shareholders by reducing excess capital when higher value investments are not available.

The dividend per share for 1996 will be 33 cents, up from 28 cents last year, and as it is now fully franked its value to shareholders has been enhanced.

In recent years, our focus has been on establishing a solid, but adaptable, foundation for the future. Westpac has a commitment not only to provide the best services in its 'home markets', but also to deliver specialised financial services to support Australasian businesses in exporting products to Asia and the rest of the world. The recently announced strategic relationship in Asia with Standard Chartered Bank is evidence of this ongoing commitment. The Bank's specialised focus also supports overseas corporations investing in

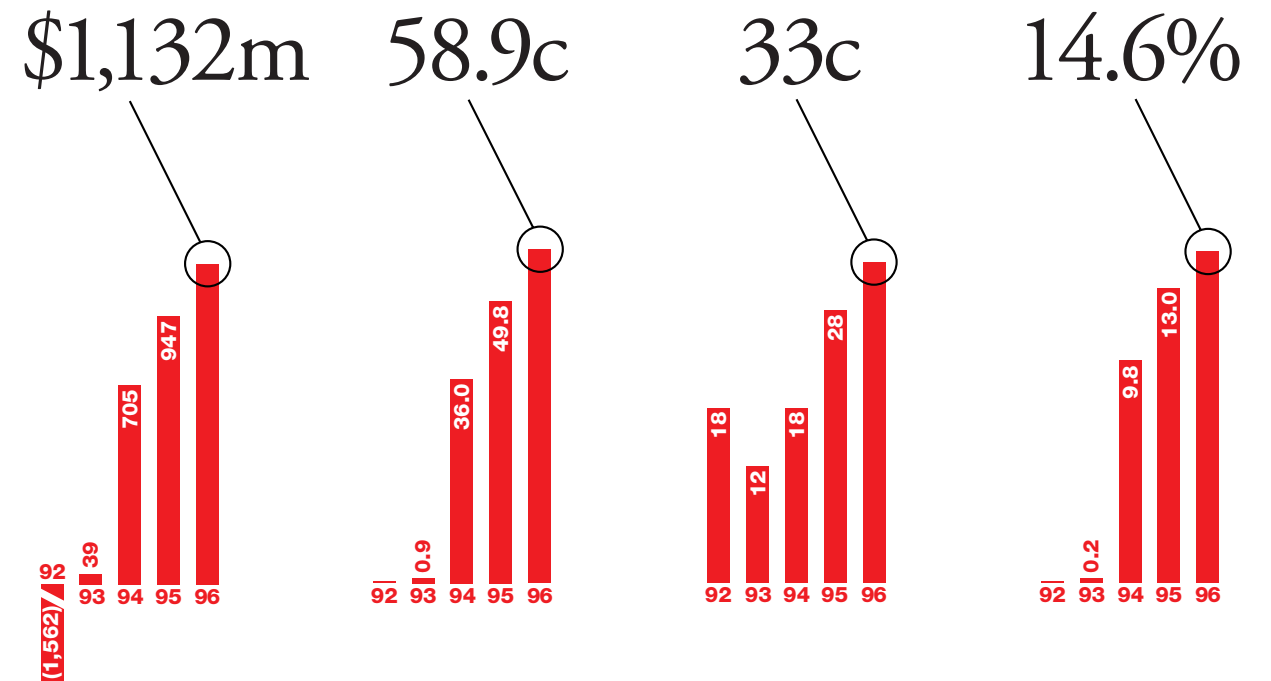
Australasia. As a major participant in the financial services industry, many of our business groups consistently win industry awards for excellence. It is noteworthy that these achievements are happening in the context of a bank with sound and prudent risk management practices and policies.

During 1996, Westpac has focused on making the right investments for future success. As this is dealt with in greater detail elsewhere in the Report, it is enough to mention that this year Westpac acquired Challenge Bank Limited (Challenge Bank) in Western Australia and Trust Bank New Zealand Limited (Trust Bank) in New Zealand. Westpac also purchased AMPAC Life from the Australian Mutual Provident Society (AMP) in October 1996. AMPAC Life will be integrated into Westpac Financial Services as Westpac Life Insurance Services Limited (Westpac Life). Investments are rigorously analysed to ensure that sound decisions are made when opportunities arise. This process reflects a discipline which dictates that investments should promote ongoing improvements in returns to shareholders.

Looking forward, competition is expected to remain intense and this may lead to further pressure on interest margins. In such an environment, consistent and steady performance growth will depend increasingly on improvements in efficiency. This, combined with our active capital and balance sheet management, will be the key to sustaining positive trends in shareholder returns.

On a different note, as a result of the decision by Lend Lease Corporation to shift from a strategic to a portfolio investment in Westpac, Stuart Hornery resigned from the Board on 8 August 1996. The Board would like to thank Mr Hornery for his very valuable contribution. More recently, the Board announced the appointment of John B. Fairfax as a Director. Mr Fairfax's broad experience in the commercial and rural sectors will be of considerable benefit to Westpac.

The graphs opposite plot the progress in Westpac's drive for superior financial performance and show a steady and consistent improvement in financial fundamentals.



Profit

Operating profit after tax attributable to shareholders (\$millions)

Operating profit after tax was \$1,132 million in 1996, representing a 19.5% improvement on 1995. The result continued the encouraging growth in profits in recent years.

Earnings

Earnings per share, after abnormals (cents)

Including shares that were issued as part of the consideration for Challenge Bank and Trust Bank, earnings per share has grown by 18.3% over 1995, assisted by the on-market buy-back of 95 million shares.

Dividends

Dividends per ordinary share (cents)

The return to full franking and the record profit have allowed the Board to deliver a 17.9% increase in dividends to 33c per share, matching the growth in earnings per share. This represents a payout ratio of 55.3% for this year.

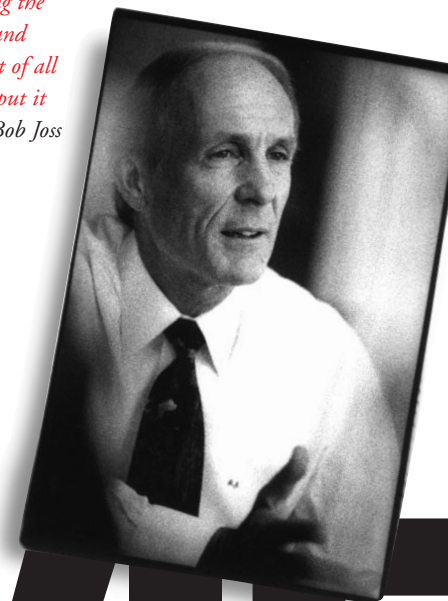
Return

Return on average ordinary equity

Return on average ordinary equity increased to 14.6% from 13.0% in 1995, continuing the steady and consistent increase to a more appropriate level compared to returns available from lower risk investments, such as government securities.

This review discusses the changes facing the financial services industry and how Westpac is endeavouring to use the changing environment to its advantage. Experience suggests that change should be seen as an opportunity rather than a threat. Westpac is determined to lead rather than simply react, and to be in a position to respond to opportunities by focusing on its strengths.

"When looking to the future you have to understand the past. Westpac is a bank with a wealth of experience, both good and bad. It's all about common sense and knowing your strengths. Then it's about having the dedication and commitment of all our staff to put it in place." Bob Joss



FUTURE VIEW

"Westpac's long history has taught the Bank to adapt to changing circumstances. With the rapid developments in financial services, the future for Westpac is one of opportunity."



Westpac's objective is to be the best bank in our home markets of Australia, New Zealand and the Pacific Islands, whether it be in supporting our customers at home or in overseas ventures. With this in mind we are continuing to analyse the major developments in our industry; specifically, the changing needs of customers and the rapid advance of technology. The two are interrelated and influence each other.

People's lifestyles are changing and business operates in an ever increasing global market. Customers are looking for more convenient banking options and solutions that fit their needs at more competitive prices.

The speed and accessibility of new technology have also opened the door to new 'specialist' operators. They are entering our markets with innovative stand-alone products often at a lower cost.

In the face of this new competition, Westpac is determined to retain and nurture the loyalty of our customers.

We regularly hold a magnifying glass up to all areas of our


business and assess them rigorously against today's new set of circumstances. This is a valuable exercise resulting in a clear view of the challenges and opportunities before us.

Five key areas of strategic focus have been identified to ensure success within our business, namely Customers, Products, Distribution, Infrastructure and Shareholder Value. Westpac has initiated changes aimed at capitalising on some of the new opportunities we see within these areas. We expand more on these later in this Report, but an immediate example is our drive to provide greater convenience for our customers. Customers want to do their banking outside normal banking hours and in places that are convenient for them. Therefore, we introduced in Australia the concept of banking centres in suburban and regional shopping complexes. These banking centres offer a mix of both personal service plus user friendly video and computer technologies. As more of the community find shopping is an evening and weekend experience, this convenience allows

them to save time in fulfilling their banking needs and it provides our staff with the opportunity to inform and sell in a more relaxed environment. It perfectly supports our aim to provide 'local touch'.

The fact Westpac was able to acquire Challenge Bank and Trust Bank in a very competitive market for banking businesses is attributable to the responsiveness of the Bank.

As a result, Westpac has achieved some significant market share improvements, becoming No. 1 in New Zealand and No. 2 in Western Australia, allowing us to build on the strong local identity of these banks.

In times of change, the value of a strong brand assumes greater importance. In our  we have one of Australasia's most recognised brands. Much of its strength lies in the fact that Westpac has been in existence for 179 years in Australia and 135 years in New Zealand and should know its home markets and their requirements very well. We do not intend to be distracted from building on this competitive advantage.



FOCUS

Our staff hold the key. While experiencing unprecedented ongoing change in their jobs, they continue to display great professionalism and dedication in responding and adapting to customers' needs. Westpac recognises the importance of ongoing investment in skills training and development to ensure our staff are equipped to meet the changing demands of the market. Westpac is committed to equal opportunity employment, with the aim of creating a diverse workforce reflective of our customer base, and actively promotes and supports wider staff involvement in the community.

Westpac is determined not to lose sight of the primary reason behind our customer and staff initiatives and investments: that of increasing value for shareholders. The most effective way to achieve this is by building on the foundations laid down within our key focus areas.

The following sections discuss developments in each of these areas.

1 Customers

Westpac is focusing on the communities which it has traditionally served.

The aim now is to get even closer to these 'home markets'.

2 Products

The financial services market is becoming more competitive. Customers have more choice and Westpac must ensure its products remain desirable and relevant to customer needs.



4 Infrastructure

While less visible to customers, efficient behind-the-scenes operations are crucial if Westpac is to provide competitive products and services.



AREAS

3 Distribution

The role of the traditional bank branch is changing. Westpac's challenge today is to get products and services to people in faster, more innovative ways, no matter where, when, or how they wish to bank.



5 Shareholder Value

Creation of shareholder value is the objective that links each of the areas of focus. It is the yardstick by which Westpac measures performance.



Customers This focus area could have been called ‘local touch’ or ‘home markets’ because it is all about getting closer to customers and understanding what they expect from us.

To get closer to customers and to meet their needs requires an appreciation of the everyday issues they face. The focus on Australia and New Zealand allows Westpac to do just that.

As Australasia’s oldest bank, Westpac has a head start through long-term knowledge of the communities and their ways – but we are also aware that expectations are changing. People still expect good old-fashioned service but now also require ‘state of the art’ technology and all the convenience, speed and efficiency that it entails. Westpac has addressed both these expectations and developed an approach of ‘local touch backed by national strength’. Within its Australian banking operations, the Bank has implemented a range of



initiatives to achieve the strong regional focus of locally managed operations while having the strength of a major nation-wide bank.

Acquiring and merging with Challenge Bank and Trust Bank enables Westpac to significantly increase market share in Western Australia and New Zealand. By integrating with these banks, Westpac is taking on the community orientation of strong, locally managed operations. At the same time, value is added to these businesses by being able to draw on the full-scale resources and economies of scale that Westpac’s size allows. In the consumer and business banking home markets, Regional Chief Executives manage sales and service functions closer to the customer, while drawing on head office and central processing centres for functions which require greater scale to achieve lower costs. Westpac has applied the same local touch principles in the institutional banking operations in building stronger


relationships with customers, both in Australasia and in key overseas markets. Westpac’s advantage comes from its deep knowledge of the economies, industries, businesses and financial markets of Australia and New Zealand.

This home market knowledge also allows the Bank to provide customers in Asia, USA, UK and Europe with the specialised advice they require in doing business with Australasia.

Westpac believes this approach to consumer, business and institutional markets will produce a sustainable advantage. It allows the Bank to understand customers’ financial needs and behaviour better, and gives the best possible chance to provide the service and products they want.

None of this could succeed without the dedication of staff. They interact with and support customers day in and day out, and are the key to local touch.





Products Westpac is recognised as a leader in product innovation. This is a competitive advantage we intend to build on in the future. Flexible, convenient and cost-effective products are one of the reasons customers choose Westpac.

Westpac currently has about five million customers and wants to give them the best value for money.

To achieve this, the Bank will continue to invest to bring down the cost of its products. Westpac also seeks to do more business with each of its customers by continuing to invest in systems and skills that improve its ability to meet their needs.

In response to the changing needs and growing sophistication of personal customers, this year the Bank launched a range of exciting and innovative product and service initiatives. In January three new transaction accounts were launched. The transaction account has always been a key part of a customer's relationship with his or her bank, and Westpac developed an innovative choice of products to cater better to customers' changing transaction needs. More than 1.7 million customers, both existing and new, are now using the new accounts.

In the home loan market, Westpac has responded to the rapidly evolving changes with new products such as the successful low cost First Option home loan.

On the card products front, the Bank added to its range of credit cards and participated in world-first trials for Visa and MasterCard stored value cards (smart cards). Westpac became an equity participant in Mondex International in June, and in New Zealand initiated only the third trial worldwide for the Mondex stored value card.

As a leader in electronic banking in business markets, Westpac has concentrated on designing products to save businesses time and money. DeskBank (a suite of PC banking products) has been enhanced and made more widely available for business customers. The Business Information Line, a telephone banking service which also provides legal

and other advice, was introduced. Customers of Australian Guarantee Corporation (AGC) and Westpac Financial Services (WFS) also benefited from the focus on designing solutions to fit changing needs. AGC customers saw new leasing products and AGC credit cards, while new products introduced within the past two years in WFS accounted for around 70% of sales in 1996.

Westpac received a number of awards for products and services in 1996. Among them were at least two for 'best bank overall' (see the 'highlights' on pages 6 and 7 for more details). However, industry awards are not the motivation for product excellence. More important is the need to continually increase customer satisfaction and, through this, long-term shareholder value.

Distribution Lifestyle and business changes mean customers often don't have time or are unable to come to the bank. This dictates that Westpac goes to them. Accordingly, finding better ways for customers to access products and services has become a key focus within Westpac.

Westpac continually explores faster and more convenient ways to get products to customers. This is a necessary part of being more in touch with the marketplace.

Adopting best-practice work processes throughout the sales network and service centres is an important part of providing improved customer access. Targeted skills training and incentive-based remuneration are just two of the initiatives to support these changes.

So too is the use of technology and products to allow personal and business customers to bank where, when and how they wish.

The range of credit card and telephone banking services has been extended to provide even better

ways for customers to bank anywhere and anytime at their convenience.

Westpac is also making it increasingly easier for customers to bank when out and about by introducing banking centres into major shopping complexes. The first in Australia opened in January this year and there are now 16 such centres operating in major regional shopping complexes across Australia. These centres open extended hours and on weekends to provide convenient access to most

traditional banking services including loans and mortgages, and less traditional banking services like insurance. The banking centre staff also provide information and assistance to customers on

how to use other services such as the new generation ATMs.

This year the Bank also expanded and upgraded its automatic teller machine network to give customers easier access 24 hours a day, seven days a week, through almost 1,000 ATMs in Australia and 450 in New Zealand. Initiatives in PC-based banking services for business and institutional customers, Internet information services, and the world's first mobile (or portable) EFTPOS machines are more ways Westpac is taking the bank to customers and reducing costs at the same time. For example, customers will be able to use debit as well as credit cards to pay taxi fares, and the fares may be banked through a mobile EFTPOS

machine, saving time for the customer, driver, taxi company and bank.

While in the next few years, customer needs and technology are bound to open up many more opportunities to supply additional services, Westpac's branch network and mobile managers will continue to be vitally important. By keeping a constant focus on improved technology and changing lifestyles, Westpac can be positioned to respond to the needs of customers.

3



Infrastructure This is perhaps the least visible area within any organisation, but it is also often one of the most crucial. It's the behind-the-scenes planning, management, systems and technology that impact an organisation's capability to deliver services efficiently.

Westpac's emphasis on infrastructure over the past few years has been to invest in value-adding initiatives to increase efficiency and control, and as a result, competitiveness.

Westpac's investment strategy seeks opportunities to create value for shareholders by being more efficient in the way products are distributed and customer transactions are processed, as well as creating avenues for new revenue streams. All infrastructure proposals go through a rigorous internal review to make sure business and investment decisions are in the best interests of shareholder value, while at the same time satisfying a customer need.

One of Westpac's most important recent investments is the Mortgage Processing Centre (MPC) which opened in April in Adelaide. The MPC has set new benchmarks for the automation of mortgage lending from origination to servicing and allows for centralised processing of mortgages from all over Australia. In the highly competitive home lending market, this gives Westpac significant advantages of efficiency and cost – brought about by better process design together with economies of scale. It also gives the

Bank the capacity to perform mortgage loan processing and servicing for other institutions, thus offering the possibility of a new revenue stream.

Another infrastructure change is the centralised customer service and loan centres that process all the 'back-office' paperwork previously undertaken in branches. Initiated in 1995 and completed recently, the 'Best Bank' program will permit improvements in Westpac's processing efficiency while freeing up front-line staff to spend more time with customers. Westpac's telephone banking centre is a further example of centralised customer service functions achieving efficiencies of scale. The centre handles close to 25 million calls a year.

Despite the increased popularity of telephone banking and other electronic services, branch banking continues to



be the mainstay of retail banking. Hence Westpac's decision to invest in new teller technology to allow branch customers to be served more efficiently.

Within the Institutional and International Banking Group, there has also been a drive for low-cost, value-adding infrastructure platforms. Examples of infrastructure improvement initiatives include the DeskBank electronic delivery systems, credit process redesign, and centralised processing of off-shore transactions.

Infrastructure investment will be an important ongoing focus for Westpac in the future as we increasingly look to improve convenience and access for customers while reducing the costs of delivering integrated financial solutions.

4

Shareholder Value **Generating shareholder value is the objective which governs every area of Westpac's operations. All the actions taken in the other focus areas are designed to enhance value for shareholders.**

At Westpac, every activity from investing in new technology to setting business unit performance goals, is aimed at achieving superior returns for shareholders and hence, creating shareholder value.

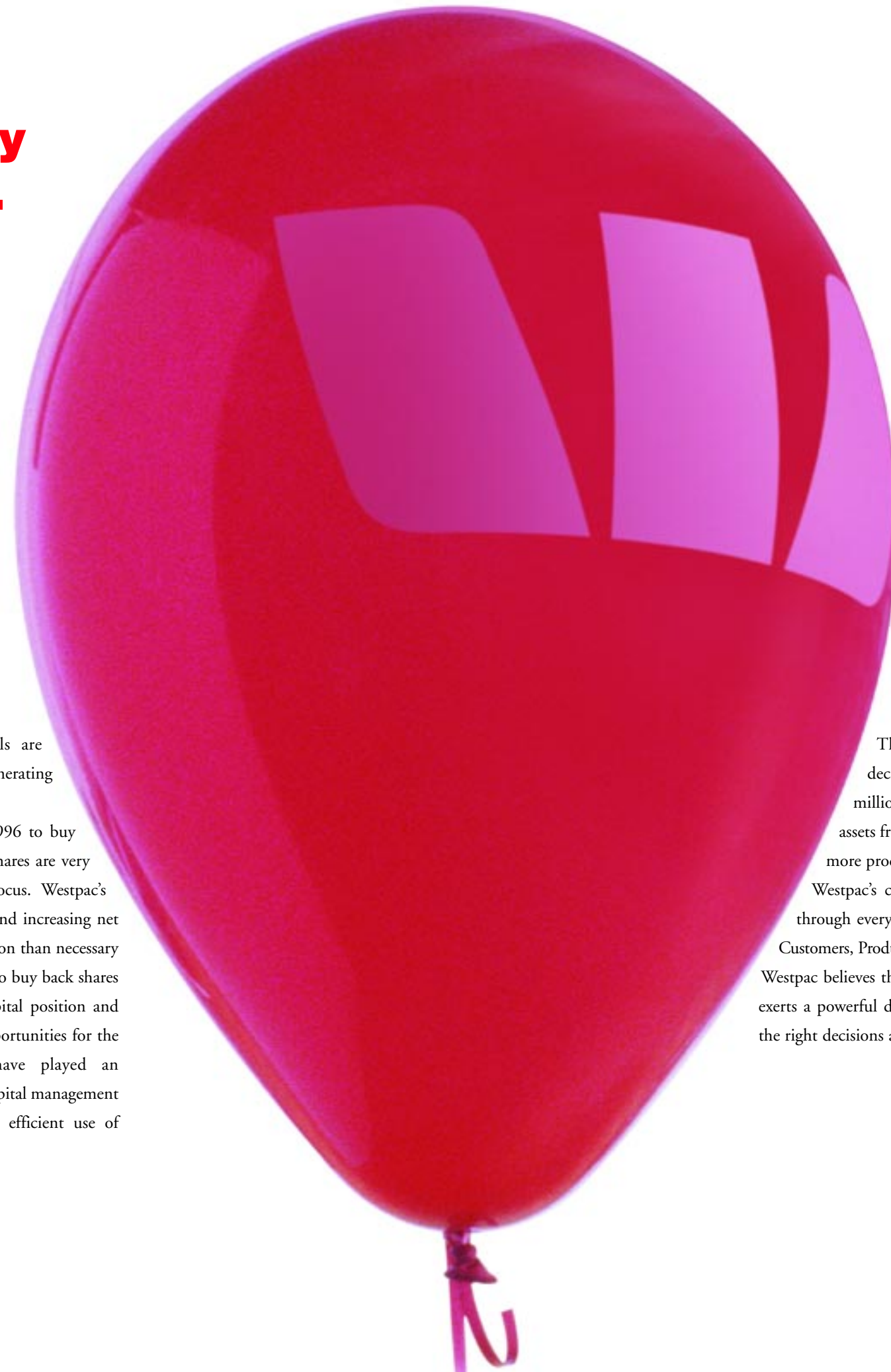
The Bank's approach to risk management is also integral to creating shareholder value. This is achieved by applying techniques to identify, measure and control all forms of credit, market and business risk, and then linking the required return from the business to the risks being taken.

By focusing on shareholder value, Westpac aligns management actions with the interests of shareholders.

This approach drives the allocation of resources – from the acquisition of Challenge Bank and Trust Bank, to the purchase of new

technology. Major investment proposals are required to demonstrate the prospect of generating superior returns on the capital invested.

The decisions in April and November 1996 to buy back approximately 5% of the ordinary shares are very tangible examples of this shareholder focus. Westpac's achievements in improving asset quality and increasing net earnings produced a stronger capital position than necessary to support the Bank. The decisions to buy back shares took account of this strong capital position and the alternative investment opportunities for the capital. The buy-backs have played an important part in an active capital management program designed to ensure efficient use of shareholder funds.



5

The same philosophy drove Westpac's decision in September to securitise \$340 million of housing loans. Removing these assets from the balance sheet has freed capital for more productive use.

Westpac's commitment to shareholder value flows through everything it does in the other focus areas of Customers, Products, Distribution and Infrastructure. Westpac believes this single-mindedness pays off because it exerts a powerful discipline and engenders confidence that the right decisions are being made for shareholders.

BUSINESS

Australian Banking Group

Consumer Banking provides a full array of deposit, loan and card products to individuals through branches, banking centres, ATMs, EFTPOS, telephone banking, and other distribution channels throughout Australia.

In a year of ongoing change, the focus of activity in Consumer Banking has been on being more in touch with customers while improving cost-effectiveness. The appointment of Regional Chief Executives has been a critical element, allowing decision making to be more responsive to the changing needs of customers and regional markets.

Competition in the home mortgage market escalated dramatically in 1996. The opening of the Mortgage Processing Centre and the launching of our securitisation program have allowed us to remain price competitive, while enhancing product and service capabilities.

The trend away from traditional branches towards alternative forms of distribution continued. Improved access and convenience for customers have been delivered through the introduction of banking centres in major shopping centres, expanding and enhancing ATM and EFTPOS networks, and further expansion of telephone banking services. Over one million customers are now using Westpac's telephone banking.

'Bank of the Year' for the second year running, in the *Personal Investment/Fujitsu* awards, capped another year of product achievements. At the forefront was a new suite of transaction accounts, new housing loan products, smart card trials, strategic alliances to develop state of the art Internet banking and the world's first mobile EFTPOS.

The challenge for the future is to continue to build on Westpac's local touch with customers and markets by providing a mix of distribution systems that enable cost-efficient access where, when and how the customer chooses. This will include an important ongoing role for Westpac's branch network spread throughout the community.

Business Banking provides a full range of banking and financial services to sole proprietors, small and medium-sized companies, with annual turnover of up to \$100 million, throughout Australia.

Westpac's competitive advantage in Business Banking is its strong connection with the people who own and run businesses. This also creates significant opportunities to cross-sell services from within Westpac. Where profitable opportunities exist, Westpac has responded with new products, including 'mortgage free' lending for small business, and 'income maximiser', an innovative loan account package that allows management of funds in a tax-effective manner.

Westpac has continued its investment in new delivery channels because of their popularity with customers and their cost-effectiveness. Dedicated in-bound telephone services for business customers, for example, have increased access, saved time and put the customer in greater control. New-generation DeskBank (PC banking) products have extended the available services and broadened access to a wider range of businesses. These initiatives are maintaining Westpac's leadership in electronic banking across the business market.

Westpac Financial Services provides investment management, unit trusts, superannuation, and insurance services and products, which are distributed mainly through a specialist sales force of over 350 financial consultants and planners operating throughout the branch network and through direct sales.

Consistent with the drive to position Westpac as the first-choice provider of financial services products and advice, initiatives have centred on performance and productivity enhancements, product competitiveness, and opportunities to link the sale of banking and financial services products. Product design, convenience and accessibility have driven growth in retail sales to record levels, rising 75% during the

ACTIONS

year. General insurance premiums exceeded \$100 million for the first time, and significant new domestic custody business reinforced Westpac's No.1 market position, with total assets under custody now exceeding \$63 billion.

The purchase of AMPAC Life (renamed Westpac Life) has brought product production and the sales network together under one ownership. Including Westpac Life, and following strong business growth, Westpac is now the sixth largest fund manager in Australia, with approximately \$12.9 billion under management.

Work continued to strengthen the partnership with the consumer and business banking groups to enhance their cross-selling of investment and insurance services. Centralised product development and investment management expertise, combined with decentralised local distribution, will continue to allow Westpac Financial Services to operate cost effectively, while responding better to customers' needs.

Institutional & International Banking Group

Institutional Banking provides financing, cash management, payments and trade services, capital and financial markets products, and other specialist financial services to the large public and private sector corporations and institutions operating or investing in Australasia. With offices in the major financial centres in Asia and in London and New York, Westpac is a leading global provider of Australian and New Zealand dollar products.

Westpac's program of building customer relationships through teams that cross product and organisational lines recognises the need to be totally customer-focused. This has produced improved returns and customer satisfaction ratings. The same customer focus has driven the introduction of industry service teams and resulted in increased customer and product share in targeted sectors.

Customers have also benefited through Westpac's leadership in product innovation and continued refinement of financial markets, corporate finance and transactional banking products. Initiatives have ranged from new derivative products, payments and cash management services, and an expansion of Asian currency services. Customers have also benefited from Westpac's skills in project and infrastructure financing; leasing products and other corporate financing activity; and enhanced electronic delivery via DeskBank. In property finance in Australia, the strategy is to bring to customers enhanced value through the marriage of strategic knowledge of real estate markets, technical skills and financial innovation.

Market leadership was recognised at both customer and peer group levels. *Euromoney* magazine's global financing poll chose Westpac as the best service provider in Australian dollars and ranked it as the top Australian bank in Australian dollar (AUD) interest rate swaps, and peers' first choice in long-dated AUD interest rate swaps. Other awards included, for the fifth year in a row, the *BRW-KPMG* poll for the most professional bank in interest rate risk management; top of all categories in the *BRW-C&L* 1996 foreign exchange poll; *Risk* magazine's number one for AUD interest rate swaps, cross-currency swaps and over-the-counter options; and in the *International Financing Review*, the top Australian Bank in both Australian and Asia Pacific syndicated loans.

Increasing global competition also necessitates infrastructure platforms that are 'best practice' from a cost-efficiency viewpoint. By centralising offshore processing and accounting in Sydney, implementing major productivity improvements in credit and relationship management processes, and upgrading financial markets dealing platforms and operating systems, Westpac has made significant progress in driving for best-practice efficiency levels and risk management.

Westpac's customers include most of Australasia's major corporations and institutions. The strategy is to maintain a genuine understanding of their businesses and needs, and to continue to provide innovative, high-quality financial products from cost-efficient delivery platforms.

BUSINESS ACTIONS

New Zealand Banking provides a comprehensive range of banking and financial services to the consumer and business sectors throughout New Zealand. Services are provided through a range of distribution channels including branches, ATMs, EFTPOS and telephone banking.

Westpac's desire to be the market leader in New Zealand was realised with the purchase of Trust Bank. The acquisition created New Zealand's largest bank. Trust Bank's strengths in the personal sector and its excellent understanding of local retail markets and community issues, complement Westpac's market knowledge, broader mix of products and greater access to world capital markets.

Cost-effectiveness and changing customer needs have been the principal reasons behind the continued investment in product design and distribution capabilities. New product launches and sales initiatives have included Bonus Saver and Ready Access call savings accounts; new transaction account and capped home loan products; and the launch of Westpac Portfolio, an innovative personal investment management package.

Investments in distribution capabilities have centred on developing alternative delivery systems in response to the trend away from a reliance on branches.

Westpac has further boosted its market leadership in New Zealand with the acquisition of mortgages totalling NZ\$527 million from the Housing Corporation of New Zealand and NZ\$265 million from the Mortgage Corporation of New Zealand, including the mortgage processing subsidiary, Mortgage Services Ltd. The Home Mortgage Company has been established to manage these newly acquired mortgage businesses.

The strategic priority going forward will be to maximise value-creating opportunities from merging with Trust Bank.

Pacific Regional Banking provides a full range of deposit, loan and banking products to individuals and business in Pacific Island nations.

Investment to significantly lower the cost structures of the Pacific Region operations, combined with the shift to a sales and service culture, has been central to value-enhancing initiatives through 1996. Building on experience gained in home markets, Westpac has been able to deliver substantial improvements in customer management and operational efficiency by implementing an integrated 'Best Bank' program appropriate for each national market.

Against the backdrop of challenging economic conditions throughout the region, Westpac has strengthened risk management controls and procedures in the areas of market, credit and operational risk. Asset quality has been substantially improved, with a 30% reduction in impaired assets as a proportion of total assets.

Westpac's product range and technology platforms continue to be enhanced. EFTPOS was introduced into both the Papua New Guinean and Fijian markets, and a new computer system was installed in Fiji.

Strong identification with local markets and communities, and designing solutions to fit their needs, remain the key to success in these diverse markets.

Australian Guarantee Corporation

Australian Guarantee Corporation (AGC) provides an extensive range of personal and commercial financial services, specialising in point-of-sale finance for consumer durables, and asset-backed and working capital commercial finance.

Building on AGC's market leadership in point-of-sale and commercial finance, initiatives in 1996 have centred on enhancing the product range, improving customer access and service, and achieving efficiency and process improvements.

Extensions to the product range have included Fleetpac, a fully maintained operating lease product for motor vehicle fleets; AGC Mastercard; and establishing, with Honda Australia, an exclusive finance facility for the purchase of new and used Honda cars through Honda Finance Australia. Other initiatives have involved extending telephone financing and service, and adding ATM and EFTPOS access to a range of AGC credit cards, thereby giving customers better access anytime, anywhere. Other major innovations have included automating services for third-party introducers; establishing a support centre for all equipment finance pricing, credit and processing; implementing an enhanced risk management system for loan collection and administration, and developing a data warehouse to improve sales management and credit reporting.

Meeting the everyday financial needs of individuals and businesses through specialised finance continues to be AGC's mission.