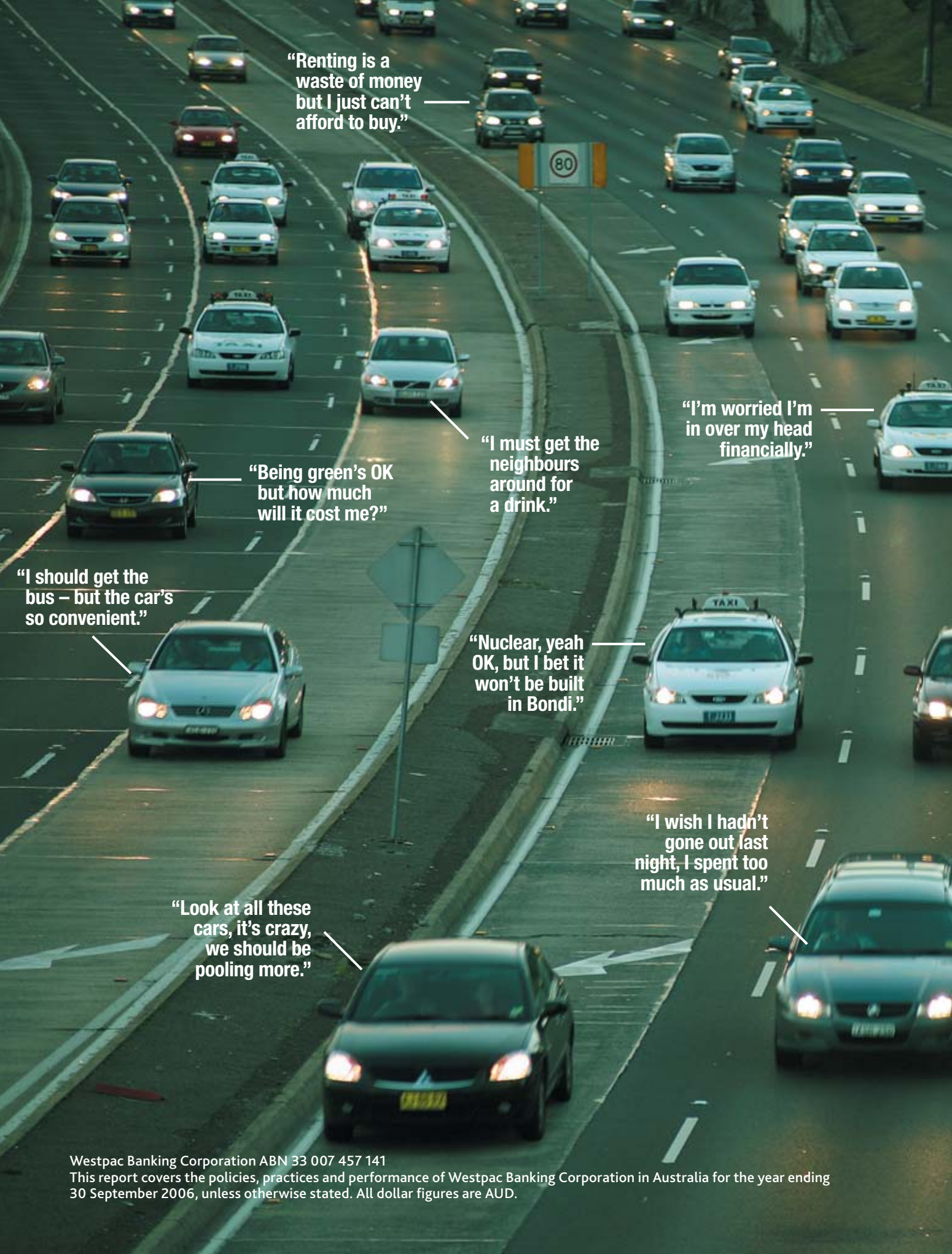




tomorrow...

 **Westpac**

2006 Stakeholder Impact Report



"Renting is a waste of money but I just can't afford to buy."

80

"Being green's OK but how much will it cost me?"

"I must get the neighbours around for a drink."

"I'm worried I'm in over my head financially."

"I should get the bus – but the car's so convenient."

"Nuclear, yeah OK, but I bet it won't be built in Bondi."

"I wish I hadn't gone out last night, I spent too much as usual."

"Look at all these cars, it's crazy, we should be pooling more."



# ...is today

We believe that every generation should live better than the last.

Business has the know-how, the skills and the resources to tackle the social, ethical and environmental issues with the potential to impact our long-term prosperity. And we are. This report sets out how we are working to build value for our customers, employees, shareholders and the community.

Being a responsible bank is about keeping things simple and focusing on practical steps to secure our future. And not wavering in our commitment to be a responsible, ethical and trustworthy company.

But it is also about speaking up for what you believe in, whether it's working together to respond to climate change, providing the right products and services to meet the needs of our community, or doing the right thing by our people.

Because all of us have a responsibility to start building value for tomorrow, today.

“Late again.  
That’s another  
night I don’t get  
to see the kids.”



# 100

Westpac are proud sponsors  
of Surf Life Saving Australia's  
centenary celebrations  
*2007 – Year of the Surf Lifesaver.*





### Stakeholder Impact Report 2006

This year Westpac has continued its environmental responsibility by offsetting the emissions produced through our full annual reporting.

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FROM THE  
CHAIRMAN  
AND CEO

# The quiet revolution.

Revolutions come in many guises and 2006 may yet go down as the start of a quiet but growing transformation in corporate sustainability.



**D**IRECTORS' DUTIES, CORPORATE reporting, and the duties of institutional investors have all been examined like never before. Thanks to two Federal Government inquiries, we have a much clearer view on the current state of corporate sustainability play in Australia.

Added to this, the proposed changes to the ASX Corporate Governance Principles, set out in late November, will redefine sustainability in terms of material business risk – in terms all CEOs and CFOs understand. And the UN Principles for Responsible Investment may well ultimately drive a rethinking of the valuation rule book for asset managers and owners.

This is all as it should be. Intuitively, 'doing the right thing' has always been inherently value-adding. What we are seeing now is this simply playing itself out in the broader market. There will never be a universal business case, but whether we look at individual performance dimensions – like employee commitment and retention; bundles of attributes like corporate governance; or more complete sustainability risk measures, like the Dow Jones Sustainability Index – the story is the same. Good management of environmental, social, and governance performance, together with reputation, stakeholder relationships and other intangibles, is fundamentally linked to long-term shareholder value.

Capital markets are increasingly focusing on this. In the investment supply chain, from companies to analysts to asset managers and asset owners, there is growing understanding of the shortcomings of traditional approaches to managing, measuring and reporting long-term performance. Financial accounting struggles to fully capture and describe the value within our business – the balance sheet and P&L are limited as long-term value indicators.

It follows that we need to move beyond narrow financials to report on all critical performance dimensions in terms the market can readily understand. We need to bring 'financial' and 'non-financial' performance together, and to link the leading performance indicators across human, customer, social and environmental capital and the supply chain in a concept of extended corporate value.

The second feature of 2006 has been the broad acceptance, at last, of the No 1 sustainability issue – that of climate change.

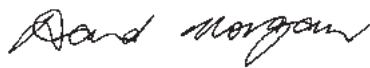
Climate change is a juggernaut that cuts a swathe across public policy, law, business risk – and indeed our quality of life. It will accelerate our thinking like nothing before. It challenges a coherent response. Like others we struggle with the implications for our customers, our risk, our valuation, and ultimately our sustainability. Like others, we continue to lower our direct environmental impact, while examining as a matter of urgency the commercial risks and opportunities. We are also continuing to play our part in advocating for needed abatement and adaptation action.

A final area of focus for us this year and into the future has been embedding sustainability features into our products and services. Understanding sustainability in risk management terms is easy to grasp, and has indeed played out in practice. Innovation and the business upside more generally, has always been the rather hazy flip-side of the business case – fine in theory but hard to pin down. Pleasingly we've made tangible progress this year.

But we need a step change in our responses to climate change just as with the other pressing societal issues. And if we can be sure of one thing, the combination of the weight of money through engaged capital markets plus climate change will drive innovation like never before – new technology, new markets, and new players. In short, new resources and new of ways of working to tackle our sustainability head on. Long live the revolution!



Leon A. Davis AO  
Chairman



David Morgan  
Chief Executive Officer

## CONTRIBUTORS

For our 2006 report, we invited several thought leaders to provide their perspective on key issues affecting our business.

### **Bernard Salt**

Bernard is a leading commentator and advisor on consumer, cultural and demographic trends. Bernard is a regular columnist for several publications and frequently contributes to radio, newspaper and magazine articles in Australia and New Zealand.

### **Peter Kell**

Peter is the Chief Executive Officer of CHOICE, the Australian Consumers' Association. Peter has served on a wide range of consumer and industry bodies and was previously Executive Director of Consumer Protection, and NSW Regional Commissioner for the Australian Securities and Investments Commission (ASIC.)

### **Dr Mark Brimble**

Mark is the Director of Griffith Business School Centre for Financial Independence and Education which specialises in financial and social inclusion and exclusion; household money management and financial decision-making; and financial services regulation, provisions and trends.

### **Mark Sareff**

Mark is National Strategic Planning Director of Westpac's advertising agency, The Campaign Palace, which has helped create many famous, long-running campaigns and counts 'Every Generation Should Live Better Than The Last' up there with the best of them.

### **Anton Hermann**

Anton is National Director Pro Bono & Community Investment, Minter Ellison Lawyers. Minter Ellison is one of the largest full service law firms in the Asia Pacific; a supplier to Westpac, and has a formal commitment to corporate responsibility principles.

The six degrees of sustainability sit at the heart of our 2006 report. They help us communicate what we believe in, where we are going, and how we are building value for our business and the wider community.

01

PHILOSOPHY

**WHAT DO WE BELIEVE?**

Back to basics; what we stand for and what you can expect from us. The values in the value if you like.

02

VALUE

**WHY DO WE DO IT?**

Looking beyond the business case for sustainability, how what we do contributes to financial, people and environmental value.

03

ISSUES

**WHAT ARE THEIR CONCERNS?**

The heart of the matter. The issues that matter to our stakeholders and on which they expect us to respond.

04

ADVOCACY

**HOW ARE WE SHOWING THE WAY?**

Our broader responsibility to use our influence to build a more sustainable society 'beyond the walls.'

05

PROGRESS

**HOW DID WE DO?**

The scorecards. How we did against last year's objectives, together with new objectives for the current year.

06

PERFORMANCE

**WHAT ARE WE DOING?**

What we did in detail, together with the number crunching – up to five years of comparable data.

# Who we are.

We were founded in 1817 as the Bank of New South Wales, and were the first company and the first bank to be established in Australia. BT Financial Group (BT) has been helping Australians create and manage wealth since 1969 and has been part of the Westpac Group since 2002.

**W**E ARE ONE of the major banking organisations throughout Australia, New Zealand and the Pacific region, with offices in New York, London and Asia. We provide a broad range of banking and financial services in these markets.

**Our business strategy**

Our ambition is to see each generation of Australians live better than the last. Our vision is to be a great Australasian company. Our mission is to become number one for customer service. We intend to deliver on our vision by developing a deep understanding of our customers' needs; putting more 'feet on the street'; providing solutions to meet these needs; and building long-term relationships.

Central to this is our belief in the 'Service-Value Chain' linking employees, customers, the community and outcomes for shareholders – our full performance is only as strong as the weakest link in this chain.

Overall, our strategy signifies an orientation towards more growth, with three main areas of focus: increasing our front line capability, investing in growth initiatives and improving productivity.



'Our Principles for Doing Business' sets out how we conduct ourselves. It covers governance and ethics, human capital, environmental and social capital, responsible banking, and supply chain management. They apply across the entire Westpac Group and are available on our website at [www.westpac.com.au/corporateresponsibility](http://www.westpac.com.au/corporateresponsibility).

### Corporate responsibility and our business

Corporate responsibility and sustainability underpins and facilitates the core business strategy with a view on driving value over the long term; an overall management approach we describe as 'managing deep, managing broad and managing long'.

We see good management of environmental, social, and governance performance, together with reputation, stakeholder relationships and other intangibles as central drivers of long-term shareholder value, whether from a risk or innovation perspective.

### Our approach to reporting

In 2006 we comprehensively reviewed our reporting, focusing on: 1) internal systems and governance; 2) report structure and content, and 3) assurance and verification.

The review was informed by comprehensive stakeholder engagement, managed via the Australian Centre for Corporate Social Responsibility. We consulted financial analysts, rating agencies, employees, community partners and non-government organisations (NGOs). The final report is available on our website.

We have built many of the recommendations into this report, for example, emphasising the value-linkages; commissioning an online reporting database (credit360); and setting up an internal Editorial Review Committee.

As in previous years, the Stakeholder Impact Report, the Concise Annual Report and the Annual Financial Report together fully report Westpac's performance to stakeholders. We also publish a separate New Zealand Stakeholder Impact Report.

In 2006, we also published lead key performance indicators to coincide with the half year and full year profit announcement. The half year Stakeholder Impact Performance Update and the full year Extended Performance Announcement Report are both available online.

### Stakeholder dialogue

We seek to stay on top of emerging trends and sensitive issues through effective and regular dialogue with stakeholders. We maintain continuing multilateral and bilateral dialogue around specific issues to determine social, environmental and financial priorities.

Our formal stakeholder engagement framework includes internal working groups for social and environmental performance, indigenous development, disability and accessibility, employees and suppliers.

The flagship mechanism is the Community Consultative Council. This is chaired by our CEO and includes CEO or senior level representation from key stakeholder groups. We ask them what the sustainability priorities and emerging agenda is for our industry and the community; we listen – and respond.

The issues emerging this year included workforce demographics, postcode poverty, climate change, supply chain management, outsourcing activities, financial education, and indigenous disadvantage. Details on the range of issues and our response are included in both our half and full year Extended Performance Announcement, at [www.westpac.com.au/corporateresponsibility](http://www.westpac.com.au/corporateresponsibility).

In 2006 we were re-elected Chair of the Global Steering Committee for the United Nations Environment Program Finance Initiative (UNEPFI). We are also an active participant in a number of other forums, including the Equator Principles Review Process; the Global Reporting Initiative; the Society for Knowledge Economics; the Global Compact; and the Caux Round Table.

### Assurance and verification

Our external assurance and verification uses the AA1000 Assurance Standard (AA1000AS.) While we recognise that different standards are emerging in the marketplace, we feel that this standard continues to add most value to stakeholders.

In 2006 we applied assurance to the Ask Once Commitments report and supporting systems and processes. We also piloted the AA1000 Stakeholder Engagement Standard both via the reporting review and in the formation of the Westpac New Zealand Community Consultative Council.

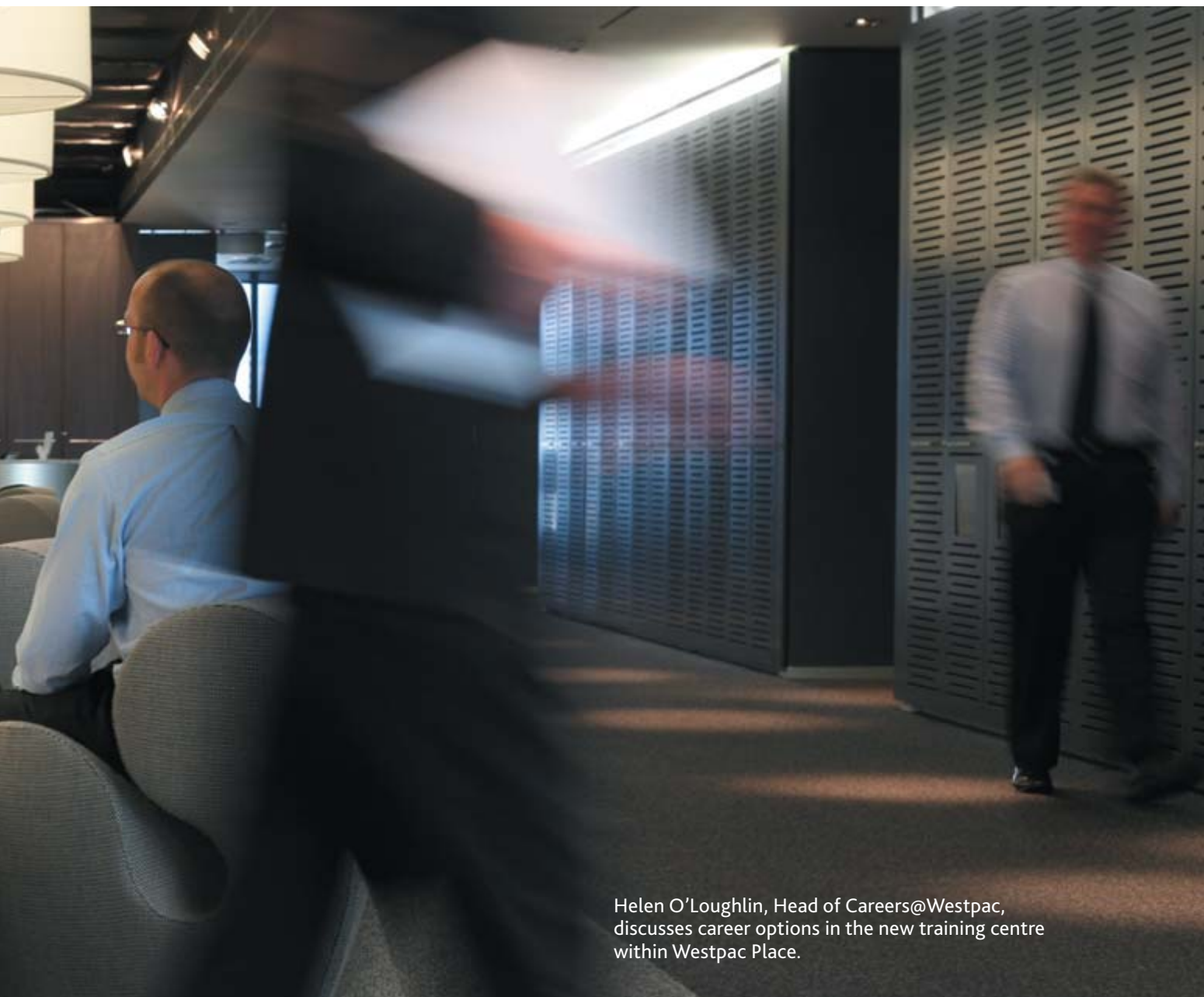
Last year we trialled the use of an Assurance Advisory Panel (AAP), involving volunteer members of our Community Consultative Council. We appreciated their willingness to participate in this trial approach. While we note that the AAP recommended we continue the process, we have decided not to reconvene the panel. We believe the function and ongoing value of the AAP was not clear for our reporting, for stakeholders or our assurance providers. We also believe that the current assurance approach, which incorporates direct stakeholder participation, continues to provide our stakeholders with the opportunity to comment directly on our reporting. ●

A woman with short blonde hair, wearing a dark blazer over a light blue shirt and dark trousers, is sitting in a modern office lounge. She is smiling and looking towards the camera. The lounge features several round white tables and grey armchairs. In the background, another woman is standing near a counter, and there are stacks of white plates. The ceiling has several large, circular, illuminated light fixtures. The overall atmosphere is professional and contemporary.

EMPLOYEE  
CASE STUDY

# Staying power.

We are already in a war for talent.



Helen O'Loughlin, Head of Careers@Westpac, discusses career options in the new training centre within Westpac Place.

**O**UR PEOPLE ARE an invaluable resource that we cannot afford to take for granted. These are not just pleasant sentiments – our employees are crucial to building the long-term shareholder value of our company and in delivering on our core business strategy.

We are already in a war for talent, so once we've found the right person for Westpac – we work hard to keep them!

That's why we established Careers@Westpac. It provides a central contact point to access information on new jobs and apply for that next career move within Westpac.

Our Career Transitions workshop provides practical tools and advice to find a new role within the bank. Career Transitions also helps build skills in resumé writing and job interview techniques.

We know that finding – and keeping – the right people is crucial for any successful business. That's why, last year, around 2,300 people found new jobs within Westpac and the number of people successfully re-deployed within Westpac increased by 62% from 2005.

Because, only by supporting and growing our people will we be able to support and grow our business into the future. ●

"We are simplifying things for employees and providing transparency to our people."

Greg Barnier  
General Manager  
Employee Shared Services



"We are living our values to deliver on our promises."

Tony Fiddes  
Head of Culture



"By supporting our people, we'll make it to number one in customer service."

Dharma Chandran  
General Manager  
BCB People & Performance



# What's the future for employees?

01

PHILOSOPHY

EMPLOYEES

## WHAT DO WE BELIEVE?

We believe in building an inclusive environment where doing the right thing is recognised and rewarded.

We recognise that our working environment is changing. There is a shrinking pool of talent, an ageing workforce, changing expectations of work with each generation and the active poaching of quality people. At the same time, we are asking more of our people to promote new behaviours and work styles and deliver on our business strategy.

Our People Strategy for 2006-2008 sets out a number of work programs supporting the three areas we continue to focus on:

- Strengthening culture, leadership and values;
- Attracting, developing, motivating and retaining quality people; and
- Simplifying our tools and processes.

Our employment policies and practices are set out on our website and within 'Our Principles for Doing Business'. ●

BUILDING A PLACE  
WHERE PEOPLE  
WANT TO WORK



↑ EMPLOYEE COMMITMENT



↑ FINANCIAL  
VALUE



↑ EMPLOYEE RETENTION



↑ PEOPLE  
VALUE



↓ RECRUITMENT COSTS



**“It is no surprise that how we treat our people feeds through to our customers’ experiences, which in turn drives our profitability.”**

## WHY DO WE DO IT?

Without our people we have no business.

It’s an obvious point, but as a services business, we are especially reliant on our employees. Technology and systems matter of course, but for a bank, our success is fundamentally about the talents and energy of the people who choose to work here. It is no surprise that how we treat them feeds through to our customers’ experiences, which in turn drives our profitability.

This link between our people, customers, and shareholder returns is in fact the core strategic proposition – the service-value chain – on which we base our business and what we believe sets us apart from the competition. Westpac in a nutshell.

And, with an ageing population and growing war for talent, attracting and retaining the best people is even more fundamental to our long term prospects. ●

02

VALUE

EMPLOYEES

**03**

ISSUES

EMPLOYEES

## WHAT ARE THEIR CONCERNS?

*“Stop over-complicating what we do and start improving the quality of output.”*

*“There appears to be a reluctance to allow work from home as a realistic option for more than a few people.”*

*“Westpac appears to be trying to provide better/more flexible conditions, but this is not filtering down to all departments...”*

*“Even though we were shown...that our pay was comparative to other companies in the industry, I still feel that we are underpaid as a whole...”*

*“Westpac’s objectives and ideals are terrific and can be achieved. What does need attention is the detail and process when changes are made.”*

# Q&A

BERNARD SALT



## Bernard Salt talks with Ilana Atlas, Westpac's Group Executive, People and Performance.

### How is Westpac engaging and retaining Generation Y? What are you doing to reduce their high churn rate?

Although it is below industry benchmarks, turnover is still higher than we'd like it to be. The aim of the graduate recruitment program is to enable young people to find out more about the Bank and themselves, to develop new skills and find a role which represents the best fit of aspirations and capabilities.

And then we're working to improve everyone's internal mobility so they can stay with Westpac. Many young people who start their careers with us will want to broaden their experience. We just hope we give them a good experience – and that they find their way back, via our alumni network, bringing that wider world view with them.

### Do you see a trend in Boomers extending their working life beyond 55 and 60 by scaling back their hours/days of work?

Very much so. Our people tell us they want to transition into retirement, rather than go overnight from full time to no paid work. We are making this happen, for example by encouraging discussion between employees and their managers to find a solution that suits the needs of the employee and the business; tackling any financial barriers around superannuation; and building a leadership mindset that views as a strength a team that spans a number of generations.



## HOW ARE WE SHOWING THE WAY?

### If Generation Y is demanding special treatment, how are you managing older and possibly resentful Xers and Boomers?

We've provided flexible work options for many years. It's about giving people choices and understanding the diversity of needs: lifestyle, caring responsibilities or health and well-being. We need to stay on top of a market that is getting more creative – and make any changes available to all our people.

### What does the skills shortage look like? Is there light at the end of the tunnel?

We are seeing the impact of tightening labour markets, although the short and medium term risks are not as high as in sectors like health and education. For us the problem is concentrated in

some high demand groups. We have to be more creative both seeking this talent in the market and developing it 'in house'.

We picked up on these trends some years ago and have been actively planning since; our age balance work, started in 2002, is a good example.

The market will tighten further because the demographic drivers are unstoppable. On the upside this certainly contributes to the business case for diversity. Our customers are increasingly diverse and we want our workforce to mirror this. These labour dynamics are the 'burning platform' for change – encouraging us to look in talent pools we've traditionally not thought about.

### What is the uptake in job-sharing and telecommuting – and what are the practicalities of making this work?

We introduced home-based work in the 1990s and have seen steady growth. Along with part time work, career breaks and parental leave, the drivers are both work-life balance and increasingly the need to care for ageing parents.

Change is always difficult and sometimes managers are unconvinced about flexible working. We challenge this because ultimately we reckon flexibility is in the best interest of customers, our people and the Bank as a whole.

# HOW DID WE DO?

**05**  
PROGRESS  
EMPLOYEES

2006 OBJECTIVE	PROGRESS TO DATE	2007 OBJECTIVE
Maintain top quartile employee commitment.	Westpac's employee commitment is 68%, two percentage points below top quartile performance. 	Achieve Employee Commitment of 70%.
Launch new induction program in February 2006.	Launched new induction program called the Board Game which covers our mission, vision and values, and corporate responsibility program. 	Resolve any outstanding issues with Connect@Westpac.
Complete research into employee retention by December 2005.	Completed comprehensive interviews with all employees who left the organisation over a three-month period. 	Deliver Accessibility Action Plan.
Roll-out our new leadership model – Living the Values – in 2005-06.	Launched new leadership model – Living the Values – which assesses employee performance in two ways: what is achieved, and how it is achieved, relative to Westpac's values. 	Embed Living the Values across Westpac Group by December 2006.
Reduce Lost Time Injury Frequency Rate (LTIFR) by 10%.	As at September 2006, LTIFR had fallen 10% from 5.8 for September 2005 to 5.2. 	Reduce the Lost Time Injury Frequency Rate by 5% to 4.97 as at 30 September 2007.
Launch Corporate Responsibility E-learning program roll out in early 2006.	The Corporate Responsibility E-learning program is now being rolled out to all Australian employees. 	Respond to three key areas of focus identified in 2006 Staff Perspectives Survey.



## WHAT ARE WE DOING?

# Employee wrap-up

### Workforce profile and diversity

We employ 22,083 people in Australia of whom 71% are full-time, 28% are part time and 1% are temporary employees. Around 64% are women and 36% are men.

Through our Group-wide Staff Perspectives Survey (SPS), around 55% of respondents identify themselves as coming from an ethnic or cultural background other than Australian, while 31% speak a language other than English at home. In addition, 3% self-identified as having a disability and 44% of our people have carer responsibilities of some kind, up from 42% in 2005. We have found that people with a disability consistently score lower in the SPS. We have examined this issue and will respond in our next Accessibility Action Plan.

Women in management is now at 42%. We were again successful in obtaining the 2006 EOWA Employer of Choice for Women (EOCFW) citation, the tenth year in a row we have been recognised.

In conjunction with the Aboriginal Employment Strategy (AES), we piloted an Indigenous recruitment program in our retail bank,

resulting in 10 placements in Sydney and Perth. We have identified 11 trainees through our School Based Trainee Program in Sydney.

Through our Age Balance Strategy, we continue to focus on improving the retention of existing employees by better understanding retirement intentions and providing flexible work opportunities. Westpac is recognised by the Federal Government as an Employee Champion for Mature Age Workers.

### Employee satisfaction

More than 22,000 employees, or 80% Group-wide, completed the 2006 SPS. Employee Commitment was 68%, which is just outside the top quartile of large Australian companies, but compares favourably to global financial services companies. We have set a target to improve this to 70% next year.

Key areas of focus to emerge for 2007 include development aspirations, improving change management and communication, and matching pay with performance. We also saw some claims of bullying and harassment, which we are examining to ensure it does not emerge as an issue.

### Work and life balance

Westpac offers 12 weeks paid parental leave and provides access to child care through Westpac-owned child care centres located in areas of high demand. In 2006, 1,025 employees accessed paid parental leave and two additional Westpac child care centres opened.

We were ranked first in the Financial Sector for the third year in the 2006 Annual Benchmarking Survey "Work / Life Initiatives – The Way Ahead 2006".

This year, we have developed a Flexible Work Options guide, an intranet based tool to assist managers and employees consider options for flexible work. We are developing a job share technical solution as part of Careers@Westpac. This will help employees wishing to work reduced hours find potential work partners or job share opportunities.

We also reviewed the Better Life and Work program (BLW) and decided not to extend the contract after May 2006, as utilisation of this service has been quite low. We are currently looking for an alternative means of providing advice on work and life balance issues.



### Recruitment and retention

Careers@Westpac allows our people to source new roles internally and supports redeployment activities and external recruitment. This year, total employee turnover (both resignations and involuntary separations such as retrenchments) has increased from 16 to 17%. While this increase is being driven by a higher resignation rate of employees, we compare favourably to benchmarks with a resignation rate around 14% compared to finance industry benchmarks around 16%.

In 2006, we appointed our first Employee Ombudsman, to confidentially address issues not resolved through the internal grievance process.

We also launched a new employee induction program where new Westpac employees are taken through a series of challenges covering our mission, vision and values. Teams are confronted with a multi-dimensional dilemma as 'the

## WHAT ARE WE DOING?

Westpac Board', factoring in stakeholder concerns and ethical challenges.

Through Westpac's Graduate Recruitment Program we have started the Westpac Graduate Sustainability Group, where participants have the opportunity to develop potential responses to key issues affecting the Bank. This year, graduates tackled climate change, engaging capital markets, and delivering sustainable products and services. In 2006, we received 5081 applications, and employed 120 graduates across 13 different graduate programs for 2007.

### Connect@Westpac

In May 2006, we launched Connect@Westpac, a new online tool to manage personal, team and pay information across the Westpac Group. Connect@Westpac was designed to replace existing online and paper based applications around leave management, payroll data, the existing Westpac and BT people directories, and to link with the e-Academy.

In rolling out the system we experienced a number of technical difficulties. These have included payment discrepancies, timesheet errors, leave management

issues and some additional minor systems errors. We have steadily worked through and resolved these problems, and ongoing progress is communicated through a fortnightly Connect@Westpac update.

### Career and development

In 2006, we have made a number of changes and additions to our Performance Management system. The most critical of these has been the refinement of leadership behaviours and how they link with the Performance Management and Remuneration processes.

The Leadership model 'Living the Values' was introduced on 1 October 2005 and will be phased in across the entire Westpac Group by the end of 2006. It is based on our values of Teamwork, Achievement and Integrity, not just what you achieve but how you achieve it.

We use a Balanced Scorecard approach to setting performance objectives, incorporating four key areas – Customers, Employees, Shareholders and Corporate Responsibility.

In 2006 we launched a new e-learning module to raise awareness of corporate responsibility internally.

We also continued our Enterprise Leadership Program for our top leaders.

### Westpac Enterprise Development Agreement (EDA)

The Westpac EDA is made up of twelve separate agreements that cover our people across Westpac.

In October 2005, Westpac ceased negotiations for a new EDA. This decision was based on two factors. We believed that we were unlikely to reach agreement with the Finance Sector Union (FSU) on our offer for settlement made in April 2005. Secondly, with the introduction of the Federal Government's WorkChoices legislation, we felt that it would be more appropriate to finalise workplace arrangements under the new system.

WorkChoices took effect in March 2006. For Westpac at this time, it is 'business as usual', with WorkChoices having only a minor impact for a small number of employees. Our existing EDAs will continue to apply and will not be changed without the agreement of employees.

### Occupational Health and Safety (OHS)

Our 2006 target was to reduce the Lost Time Injury Frequency Rate (LTIFR) by 10% to 5.2%. We achieved this.

This year, all our Health and Safety teams (OHS, Occupational Rehabilitation and Workers' Compensation) were brought under one structure. This has allowed for a more systematic approach to analysing OHS data and a tighter focus on priority issues. We have also established a Safety Council in Westpac Place.

We implemented our e-Academy health and safety learning and assessment. In addition, our people can now lodge reports on incidents, injuries and hazards using our online report.

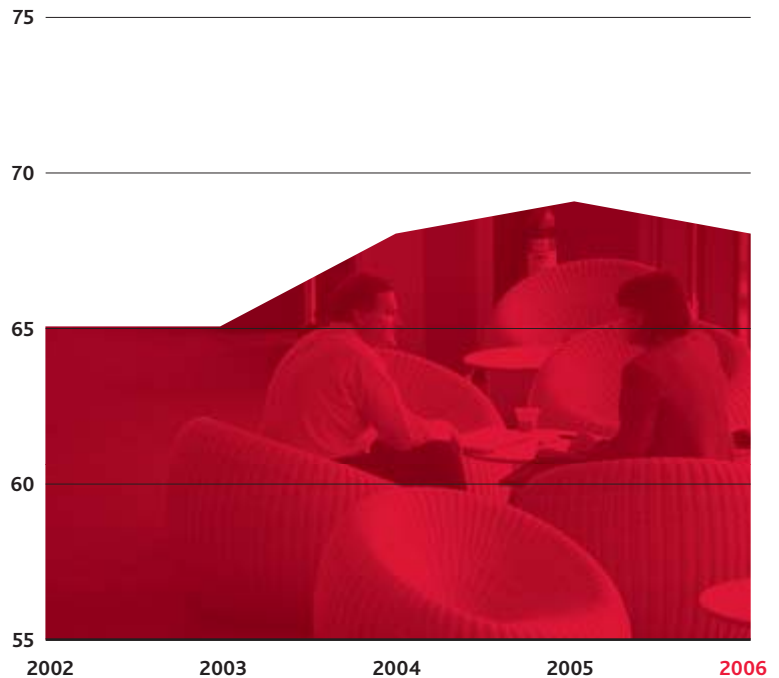
As part of our focus on Critical Event Management, an enterprise wide pandemic preparation plan has been developed and implemented in conjunction with Business Continuity Services and our external partner, International SOS.

@ More detail on our employment policies and practices is available on our website at [www.westpac.com.au/corporateresponsibility](http://www.westpac.com.au/corporateresponsibility) ●

# NOW FOR THE NUMBER CRUNCHING...

## Employee commitment (% favourable)

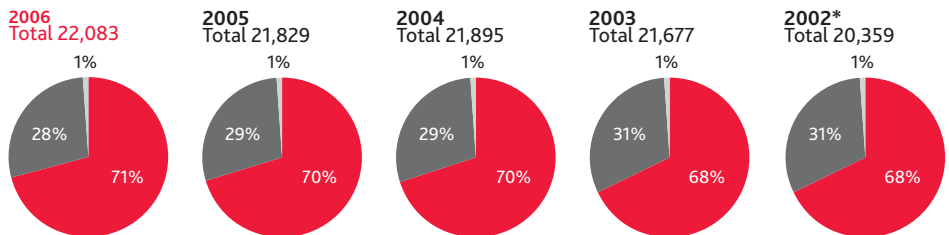
Key areas of focus to emerge for 2007 include focusing on development aspirations, improving change management and communication, and matching pay with performance.



## Westpac workforce

- Full time
- Part time
- Temporary

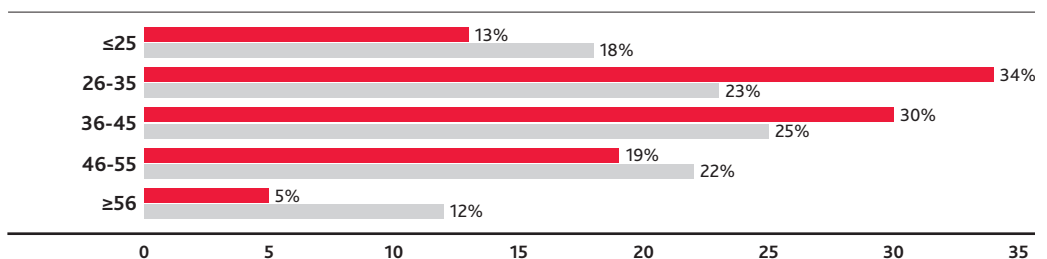
\* Incorrectly published in 2002 Stakeholder Impact Report as 30,359.



## Age profile of workforce as compared to Australian labour force (%)

- Westpac
- Australian labour force\*

\* Source: ABS 6105



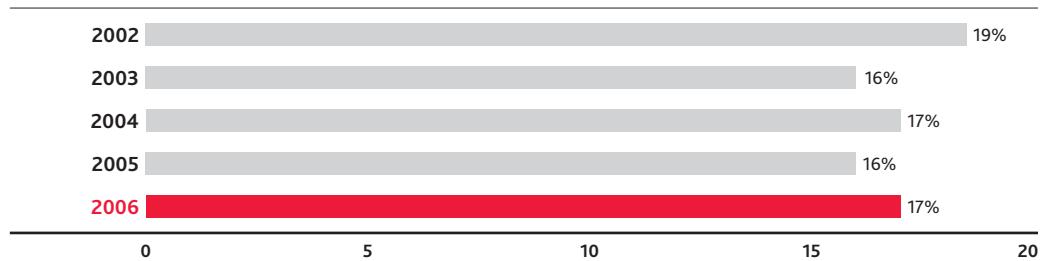
### Gender and age profiles (%)

	2006		2005		2004		2003		2002	
	Female %	Male %	Female %	Male %	Female %	Male %	Female %	Male %	Female %	Male %
≤25	13	13	13	13	14	15	11	11	15	14
26-35	33	35	35	36	35	36	37	37	35	35
36-45	29	30	29	30	28	30	29	31	28	30
46-55	19	17	19	17	19	16	19	17	19	17
≥56	5	5	4	4	4	4	4	4	3	4

### Male/Female salary ratio

Management level	Fixed pay (male:female)	Total cash (male:female)
Non-management	51:49	52:48
Junior management	52:48	53:47
Middle management	50:50	51:49
Senior management	52:48	55:45
Top management	53:47	52:48

### Employee turnover\*



\* Employee turnover includes both resignations and involuntarily separations such as retrenchments.

### Employee satisfaction\* (% favourable)

	2006	2005	2004	2003	2002
Community/Social	86	87	87 <sup>^</sup>	86	93
Work/life balance	68	64	61	60	65
Communication culture	72	72	67 <sup>^</sup>	60	55
Training & development	60	68	69	64	68
Job security	71	72	72	66	64
Remuneration	36	36	37	37	40
Employee commitment	68	69	68	65	65

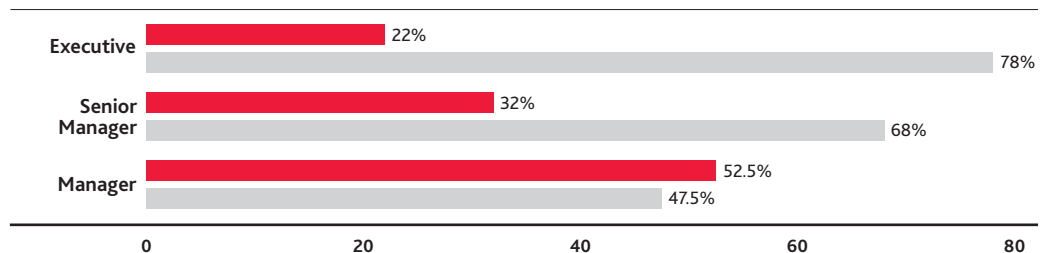
\* Westpac Group-wide figures

<sup>^</sup> Survey questions modified slightly since 2003.

Employee Morale has been replaced with monthly pulse figures. We will report on this next year.

### Women in management (%)

■ Female  
■ Male



Group-wide workforce as at September quarter 2006

## Employees doing overtime

Non-packaged employees recording overtime during the year

\* Increase due to improved data capture and Saturday trading.

	Overtime as % of standard hours				
	2006	2005	2004	2003	2002
% working overtime	42*	32	33	28	36.8
Average overtime worked as % of standard hours	26	20	23*	8.6	8.5

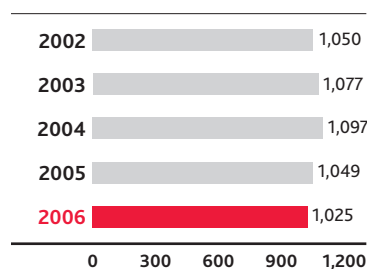
## Accumulated annual leave

\* Incorrectly stated as 22,281 in 2004.

^ Figures include BT Financial Group for the first time.

	2006		2005		2004 <sup>^</sup>		2003		2002	
	No.	%	No.	%	No.	%	No.	%	No.	%
≤4 weeks	14,098	64	15,668	70	14,843	67	13,167	63	12,885	64
>4 & <8 weeks	6,303	29	5,533	25	6,702	30	5,863	28	5,476	27
≥8 weeks	1,539	7	1,132	5	736	3	1,764	8	1,721	9
<b>Total</b>	<b>21,940</b>	<b>100</b>	<b>22,333</b>	<b>100</b>	<b>21,545*</b>	<b>100</b>	<b>20,794</b>	<b>100</b>	<b>20,082</b>	<b>100</b>

## Number of employees accessing paid parental leave



## Employees accessing external tertiary training

	No. of employees	\$ value
2002	697	\$1.7m
2003	654	\$1.7m
2004	538	\$1.4m
2005	765	\$1.1m
<b>2006</b>	<b>646</b>	<b>\$1.0m</b>

## Utilisation of Westpac child care centres

\* Opened on 30 September 2006.

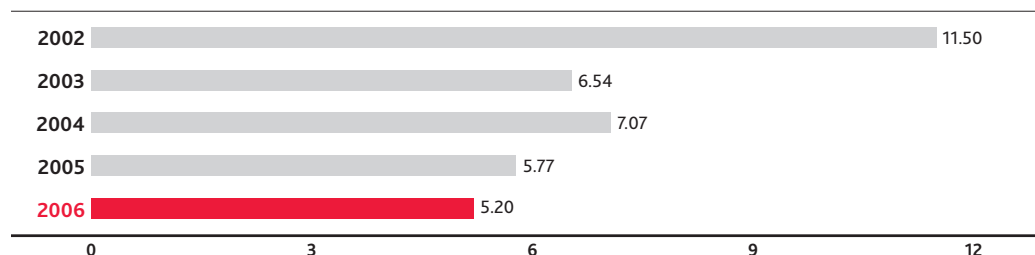
\*\* Opened July 2006.

^^ Opened in mid-2006.

	No. of families	No. of children
Kids on Bond (Sydney CBD)	72	87
Kids @ Kent (Sydney CBD)*	0	0
Little Gantry (Concord West)	76	88
South Melbourne	30	35
Science Park (Bedford Park, SA)	67	78
Kings Meadow (Tasmania)	37	48
Sussex Street (Sydney CBD) <sup>^^</sup>	62	73
Brisbane Central (Brisbane CBD)**	3	3
<b>Total</b>	<b>347</b>	<b>412</b>

## Lost time injury frequency rate

Injuries per one million hours worked  
All OHS figures calculated using different total headcount  
Rate calculated using Australian Standard 1885.1





CUSTOMERS  
CASE STUDY

# Money Money Money.

We see responsible banking as being fundamentally about 'doing the right thing'. Right by our customers, right by our people and right by the community.



“It means having a long hard look at our practices and ensuring that we aren’t contributing to over-commitment.”

**B**UT WHAT DOES ‘doing the right thing’ look like against a backdrop of personal debt levels that continue to grow; in an environment where people are changing the way they borrow and are spending more than ever before?

It means having a long hard look at our practices and ensuring that we aren’t contributing to over-commitment. It is also been about increasing the money management capabilities of our customers through things like our *Financial First Steps* program and focusing on the specific needs of disadvantaged groups.

Over at BT Financial Group, Westpac’s wealth management business, the focus is also on providing ‘responsible financial advice’. Our planners recommend solutions to customers only after undertaking a full discussion of their financial needs and investment goals.

Most people will have around 28 years in retirement to fund, so the quality of financial advice they receive during their working years can have a significant impact on their future standard of living. That’s why we believe it’s vital our customers have access to impartial and high quality financial advice.

Again, not rocket science but certainly the right thing to do for our customers and inevitably, the right thing to do for our business. ●



**"The challenge is to be more considerate, more responsive, more respectful, more dependable... in short, more responsible."**

Susan Nixon  
General Manager,  
Ask Once & Marketing

# What's the future for customers?

**"When it comes to financial security, people want to trust who they do business with."**

## WHY DO WE DO IT?

Without customers we have no business.

Sometimes customers can be overlooked in the sustainability debate, which often focuses on the broader community, the environment or other stakeholders. But for a bank, having customers who want to buy your goods and services is very much a case of 'Sustainability 101'.

Drilling down, we know that when it comes to financial security, people want to trust who they do business with. So we think it's entirely legitimate to use our ethical and responsibility credentials to attract and retain customers – and grow our business.

So it follows that customers are centre stage in Westpac's core business strategy, the service-value chain. In fact we are rather proud that, whilst we may have sustainability priorities at any one time, the business strategy and the sustainability strategy are one and the same.



# WHAT DO WE BELIEVE?

We believe in being a responsible and ethical bank and in meeting the needs of the communities in which we operate.

**W**E RECOGNISE THAT we have an obligation to market our products responsibly, while ensuring that all members of society have access to the banking products and services they need to live sustainably.

In an increasingly competitive environment, we are determined to provide the best customer service and deliver on the promise that customers should only have to Ask Once.

And we are committed to delivering responsible banking that every Australian can afford. ●

**01**  
PHILOSOPHY  
CUSTOMERS

**02**  
VALUE  
CUSTOMERS

BUILDING A TRUSTWORTHY ETHICAL AND RESPONSIBLE BUSINESS WHERE CUSTOMERS WANT TO DO BUSINESS



↑ CUSTOMER ATTRACTION



↑ FINANCIAL VALUE



↑ CUSTOMER RETENTION



↑ PEOPLE VALUE



↑ SHARE OF WALLET





# Who's responsible?

Consumers, banks and debt have an uneasy relationship.

**Peter Kell**, Chief Executive of the Australian Consumers' Association talks us through the current realities – and what it means to be a responsible bank.

**03**

ISSUES

CUSTOMERS

# FOCUS

PETER KELL



**T**HE HOUSEHOLD SECTOR has increasingly and more directly become the “shock absorber of last resort” in the financial system.

A consumer advocate talking here? No, it's the International Monetary Fund (IMF) on how economic, demographic and policy changes have transferred financial risk onto consumers<sup>1</sup>. This is clearly the case in Australia – rising consumer debt levels mean that we're more exposed to small increases in interest rate rises than ever before. And we're more exposed to market risks via compulsory superannuation.

For the IMF there are some clear implications. “Households need to understand the financial responsibility they have to shoulder and have ready access to information – including unbiased and quality financial advice – about investment and saving options [and] products to manage their risks”.

Responsible financial institutions have a major role to play in helping consumers manage risk appropriately. Just as importantly, the activities of financial firms should not expose consumers to unnecessary or inappropriate risks. This is the essence of responsible banking.

Of course not all risks are bad. The ability of consumers to gain higher returns through sensible exposure to market risks – primarily through their superannuation investments – can significantly improve their financial outcomes. This will often require access to quality financial advice and access to well-priced appropriate products. Note the IMF's emphasis on *unbiased*

financial advice. Are financial advisory models that embed conflicts of interest consistent with this approach?

Too often we've seen conflicts of interest deliver poor outcomes for consumers, placing them at risk of paying too much or of putting their money in inappropriate investments. Structural conflicts of interest that arise through commission payments immediately raise the issue – responsible to whom?

On the lending side, encouraging consumers to take on more debt inevitably exposes them to greater financial risk. Rising house prices have exacerbated this trend. A fully informed consumer with clear capacity to pay can decide to manage the risk and enjoy the benefits. But as the former Governor of the RBA noted recently, “The new lending models used by banks seem to regard the bulk of income above subsistence to be available for debt-servicing”<sup>2</sup>.

The IMF's discussion of this issue is interesting. “We were frequently told by market participants that very often the best advice for a retail client is to reduce debt levels; however, they added too often such advice is not given or strongly encouraged because “no one gets paid to tell a client to pay down debt”.

This issue of consumer indebtedness is particularly acute for those on lower incomes or with lower levels of financial literacy. It is good to see recent initiatives around responsible lending. But much more can be done.

Unfair fees and charges also create disproportionate risks for vulnerable

consumers. Penalty fees fall clearly into this category. The market does not solve this problem, as consumers don't factor penalty fee levels into their initial purchasing decisions. The choice therefore is corporate restraint or a regulatory response.

In essence responsible banking is even more important in an era of increasing financial risks and the ultimate measure of success is how corporate social responsibility (CSR) impacts on these ‘core’ banking practices. Does CSR underpin the way you deal with all your customers on a day to day basis? If your competitors are using aggressive marketing, aggressive sales tactics, or adopting more relaxed lending standards do you ignore them and risk losing short-term market share? Or do you give up the notion of responsible banking and join the race to the bottom, while reserving CSR for the sidelines? Which is the more sustainable approach?

A recent commentator in the Australian Financial Review<sup>3</sup> argued that, “the CSR formula usually produces some tokenistic philanthropy outside the firm's core activity, while its underlying worldview remains entirely unchanged.” Genuinely responsible banking is the best response. If you can help consumers manage risk better rather than contribute to inappropriate household financial risks, consumer trust will increase. Otherwise, there is the real possibility of a backlash.

1 IMF, *Global Financial Stability Report*, April 2005

2 IJ McFarlane, *Monetary Policy and Financial Stability*, CEDA Speech, November 2004

3 Tony Cutcliffe, *AFR*, 1/11/06, p71



## HOW ARE WE SHOWING THE WAY?

04

ADVOCACY

CUSTOMERS

# Campaign for change.

It's a well known paradox. Ask them and consumers tell you they want to do the right thing – but that doesn't always translate into the goods and services they buy. And similarly, it's a fine line between building a brand for sustainability – and being accused of greenwash. Here **Mark Sareff** from Westpac's advertising agency The Campaign Palace talks about walking that line.



**C**ONSUMER FAITH IN the institutions people used to look to for leadership has declined dramatically. They feel they can no longer look with confidence to governments, the church, the civil service, the media, the police or the legal system. This global phenomenon is replicated in Australia. It is time for companies to step into the breach and show the leadership people crave and increasingly expect of them.

Increasingly, Australians are scrutinizing the companies they do business with – interrogating them for their beliefs, values, ethics and behaviour as never before – and expecting them to show leadership. They are increasingly concerned about the companies they buy from – concerned not only about the products and services they sell but also about the behaviour of those companies toward their local community, the environment, their employees, etc. It is no longer good enough to make and sell a quality product/service. It is not sufficient to attach yourself to a cause. Today's cynical, marketing-savvy consumers can see through mere brand espousal (claims about what we do or think) and they are looking at the sum total of an organisation's actions.

When we were invited to provide a recommendation to Westpac and started interviewing internal stakeholders, it soon became evident that Westpac's behaviour is quite exceptional. It was immediately apparent that this was an organisation brand behaving extraordinarily well. Whilst Westpac had been anxious to avoid chest-beating we believed

this modesty needed to be balanced with customers' desire to know more (from man-in-the-street to the big end of town). It was our view that Westpac had 'hidden its light under a bushel'.

Clearly, the wide range of behaviours – from its maternity leave provisions through the rescue helicopter sponsorship to the less obvious (actually quite stunning) Equator Principles to its exemplary assessment on the Dow-Jones Sustainability Index – represented a story which needed to be told.

We took these stories to consumer research. Informed by Westpac's Brand Purpose: "Building better lives for all Australians", we had developed the consumer-facing creative idea: "Every generation should live better than the last". This is more than a typical advertising end-line. It is an idea for the brand which both summarises the Bank's ethos and also provides guidance for future direction.

This idea as brought to life in the very first advertisement in the new campaign – the announcement of Westpac's commitment to the Equator Principles – has met with an astounding response. It is early days yet, but Westpac has been inundated with requests for more information. Respected marketing commentators have praised Westpac both for the communication and more importantly for the behaviour it announced. Branches have fielded requests for more information – confirmation that for many people, the concept of a brand behaving well is more than nice to do, it's essential. ●

# HOW DID WE DO?

**05**  
PROGRESS  
CUSTOMERS

2006 OBJECTIVE	PROGRESS TO DATE	2007 OBJECTIVE
Top quartile customer satisfaction.	<ul style="list-style-type: none"> <li>· Consumer customer satisfaction down from 72% in September 2005 to 70% in September 2006.</li> <li>· Business customer satisfaction down from 67% in September 2005 to 66% in September 2006.</li> </ul>	Top quartile customer satisfaction.
Implement 75 Talking ATMs by the end of 2005 and 150 by the end of 2006.	By end of September 2006 we had 128 Talking ATMs and are on track to have 150 Talking ATMs by end of 2006.	Implement 150 Talking ATMs by December 2006, 300 by 2007 and 500 by 2008.
Review and report on the Ask Once Commitments, including assurance against the AA1000 Assurance Standard.	We have reviewed our performance against the AA1000 Assurance Standard and will report shortly.	Respond to issues identified in assurance review.
Adopt the enhanced Customer Committee structure and initiate meetings.	The Customer Committee enhanced to better represent consumer concerns and issues. The first meeting, chaired by Mike Pratt, Group Executive Business and Consumer Banking, held in October 2006.	Develop a strategic approach to responsible banking.
Grow SRI funds under management by 20% in 2006.	Growth exceeded our 20% target, driven by both existing clients and new clients coming on board.	Conduct review of Environmental, Social and Governance (ESG) risks within risk policies.

# WHAT ARE WE DOING?

## Customer wrap-up



### Customer experience

It's now four years since we launched our ambition to be number one for customer service and our Ask Once promise – where customers should only ever have to ask once for the services or advice they need.

In that time we have made considerable progress in a number of areas, but we have yet to fully achieve what we aspired to. We acknowledge that our people have questioned where Ask Once is heading. As at 30 September 2006, Consumer customer satisfaction was down from 72% to 70% and Business customer satisfaction was down from 67% to 66%.

We have appointed a General Manager for reviewing and delivering on Ask Once. We are developing segment-specific action plans to lift customer satisfaction. We are creating Customer Experience Champions within each business leadership team and a BCB Customer Experience Steering Committee to develop a broader agenda of customer experience improvement initiatives.

In 2005, we revised our Customer Charter and launched the Ask Once Commitments – five key commitments to our

customers, underpinned with detailed goals and performance measures. These are measured monthly and reported quarterly to the Board.

Our Customer Committee has been reviewed and will now form part of the governance structure for our Ask Once Commitments. Membership includes senior level representation from within the Bank and independent community and consumer organisations. The Committee is chaired by Mike Pratt, Group Executive, Business and Consumer Banking.

One year on and we are about to publish our first Ask Once Commitments Report, examining our goals, how we have performed against them and providing tangible examples of the commitments in action. The 2006 Ask Once Commitments report will be available at [www.westpac.com.au/corporateresponsibility](http://www.westpac.com.au/corporateresponsibility).

### Customer complaints

Within the year, 82% of complaints were resolved within five working days on average, while 78% were resolved at first point of contact as at September 2006. We know that fee and pricing initiatives implemented in early 2006 impacted customer

satisfaction. Other systemic issues include account and package maintenance issues, calculation of interest payments on saver accounts and unsolicited credit card limit offers. We have also recently begun monitoring concerns on the impact of global outsourcing initiatives.

In July 2006, a new Westpac Complaints Resolution Policy was approved, bringing our Ask Once principles and all complaint monitoring processes together for the first time. Our Customer Advocate personally resolves complaints on a case-by-case basis and reviews processes to ensure they are customer driven.

### Equity and accessibility

We have increased our number of branches from 813 to 819. Each month, at least 25% of our branches are open for extended hours on Thursday nights and Saturdays.

We currently have 259 branches accessible for people with a disability, and a further 41 branches proposed for upgrade in 2007. Last year our figures on accessibility in branches were incorrect, as we inadvertently published our target figure as the state of play. In 2005, we had 121 branches compliant and

88 approved for upgrade in 2006. Our three-year target was to have 264 sites compliant by 2007.

We continue to expand the number of Talking ATMs for the visually impaired. We now have 128 operating and are on track to have 150 by December 2006. Within our 2006 Accessibility Action Plan, we will continue to examine the design of branches and the placement of ATMs in non-branch locations to ensure greater accessibility for people with a disability.

### Financial inclusion

Part of being a responsible and ethical bank, is ensuring that all customers have access to appropriate levels of finance, and the right products and services for their needs.

In December 2005, we launched Westpac One Basic to replace our existing basic banking account, for people in receipt of a government pension or allowance. This account has no monthly fees and unlimited fee-free transactions. We have added an optional savings account, which pays bonus interest of 4% p.a., as well as a savings goal feature that shows savings progress on the statement.

## WHAT ARE WE DOING?

More information on products and services for youth and students, pensioners and government benefit recipients, as well as discounted in-branch transactions fees for customers with a disability, is available on our website.

### Fees and charges

In early 2006, we re-priced the fees across a number of products. This attracted some negative media coverage. While we try to balance the needs of our various stakeholders, we recognise that prices and fee changes are a sensitive topic.

With any change in our fees or pricing, we ensure that customers are kept well-informed. We are also encouraging customers who are concerned about fees to request a free banking review. Detailed information on pricing structures is included within our Banking Services Guide (BSG) and our Financial Services Guide (FSG). The BSG specifically includes tips on how to minimise fees.

### Financial hardship

Our Natural Disaster Relief package provides financial assistance and concessions for customers affected by a natural disaster.

In 2005-06, relief was offered to customers affected by severe storms in Broken Hill and the Australind area, bushfires on the Central Coast, Junee and Illabo, flooding in Katherine and flooding in the Lake Grace area following Cyclone Clare, and a major fire in Maclean.

### Responsible lending

There is no doubt that consumer debt levels within Australia are growing, and that we are witnessing a wider social change in the way people borrow and save. And, while we have not seen any substantial shifts in the number of overdue accounts or bankruptcies, we acknowledge our obligation to market our products responsibly and stay in touch with the expectations of customers and the community.

We ensure that all terms and conditions associated with our products are clearly set out in a number of product and service guides. We also provide our Financial Services Guide in traditional Chinese, Japanese, Korean and Vietnamese.

We also apply strict and sensible criteria to our lending to ensure that we only lend affordable amounts for our customers. We include an affordability statement on all credit increase offers and actively encourage our customers to talk to us if they are having difficulty managing their credit card debt.

We recognise that recent changes in interest rates may create difficulties for some of our mortgage customers. At the year end, our home mortgage lending totalled \$111 billion. So, from late 2006 we will be proactively contacting our customers who may be impacted by rate changes to communicate the different options available to

them to manage mortgage repayments.

We believe that proactively promoting all or some of the facilities available will not only help customers directly, but also provide a broader positive message to the market place.

### Responsible business banking

Small businesses are the economic lifeblood of our community. As at 30 September 2006, 15% of our total business lending directly supported small business in Australia.

We continued to provide our popular Beyond Survival workshop series for small business, with 1200 participants attending over the year. Tailored workshops were provided on coping with the drought and Cyclone Larry. We piloted new workshops for the child care and pharmacy sectors, developed tailored versions for various franchise groups and government departments such as FarmBis, DSRD & the Area Consultative Committees.

The workshop was also delivered in 12 weekly instalments on the 'Inside Franchising Show' on Channel 9 from January to March 2006. We have also developed six Business Advice Guides with practical 'need to know' information and we will develop a further 12 guides over the next two years.

### Drought assistance

Australia is currently

experiencing the worst drought on record. Our drought assistance package has been in place for a number of years now. It provides 'carry on finance' to viable farming operations to keep businesses ticking over, loan restructuring without the standard establishment fees, deferred credit card payments, suspended home loan repayments for up to three months and no early withdrawal penalties for customers wishing to withdraw term deposits.

### Responsible investment and advice

We recognise that we have a responsibility to educate on investments and superannuation. In late 2006, Westpac Financial Planning (WFP) launched a team of over 50 investment representatives to assist customers with investing. Based in major Westpac branches, they will help explain investment concepts, wealth creation and budgeting. A new booklet explaining key concepts such as risk/return, diversification and managed funds in plain English will also be published.

Our wealth management activities are run through BT Financial Group (BT). BT's core business is providing investment, margin lending, superannuation and retirement income products. As at September 2006, BT managed and administered more than \$83.1 billion. BT was one of the founding members of the Investor Group on Climate Change (IGCC) and



is a signatory to the Carbon Disclosure Project. Recently, BT has decided to become a signatory to the UN's Principles for Responsible Investment.

### Proxy voting policy and disclosure

BT's Proxy Voting Policy is available at [www.btonline.com.au](http://www.btonline.com.au). We publish an aggregated summary of all Australian proxy voting records for the financial year. It includes a description of the Proxy Voting decision process and issues voted on within the year.

### Socially Responsible Investment (SRI)

BT offers two types of Socially Responsible Investment (SRI) products. 'Sustainability' uses a 'Best of Sector' approach,

supporting the most sustainable companies within each industry sector as determined independently by Monash Sustainability Enterprises (MSE). 'Ethical' uses a screening approach with both positive and negative screens, to allow investors to either actively avoid or support certain industries or areas of investment.

All SRI Funds have been certified by the Ethical Investment Association (EIA). Total investments through SRI products as at 30 September 2006 were \$348 million. This year, BT released a thought-leadership paper on water risk and the role of the investment sector in promoting effective water management.

### Governance Advisory Service (GAS)

BT Governance Advisory Service (GAS) is an investment risk management overlay service developed to address portfolio exposure to social and environmental governance risks on behalf of institutional investors. This occurs via specialist research and, where mandated, in constructive dialogue with companies.

As at June 2006, GAS advised on over \$8.5 billion of Australian equities investments. This year, GAS released a position paper on director share trading, following research showing that 123 of the top 200 companies were not complying with ASX listing rules and many directors were trading between the end of a reporting period and the announcement of the associated results. GAS reports annually on its activities at [www.btinsto.com.au](http://www.btinsto.com.au)

### Risk management and the Equator Principles

Our Group-wide approach to risk management is set out in the Corporate Governance report in our Concise Annual Report. We assess environmental risk through our Environmental Risk policy within our standard Credit Manual.

We are currently reviewing our risk policies and processes to boost the assessment of Environmental, Social and Governance (ESG) risks, particularly within our

Corporate and Institutional activities. This will focus on identifying material issues and risks against current practice, examining cross-functional issue-based policies and expanding our sector-specific risk policies to address key ESG risks.

We remain the only Australian signatory to the Equator Principles, a framework for assessing social and environmental risk in project finance. Throughout the year, we contributed to the working group revising the Equator Principles, and officially adopted the revised guidelines in July 2006.

This year, we closed 14 project finance transactions. The assets financed were all located in Australia, six were greenfield developments, one an expansion of an existing asset and seven the refinancing of an existing asset. The asset classes involved were tollroads, electricity generation, oil and gas production and pipelines, mining and social infrastructure. Our role in these transactions was as Joint Lead Arranger and Underwriter, Sole Underwriter, Sole Lender and Club Participant.

The Equator Principles were applied to all transactions notwithstanding that one was below the revised Equator Principles threshold of US\$10m. A number of transactions were declined during the past year, several for reasons including environmental concerns.



# NOW FOR THE NUMBER CRUNCHING...

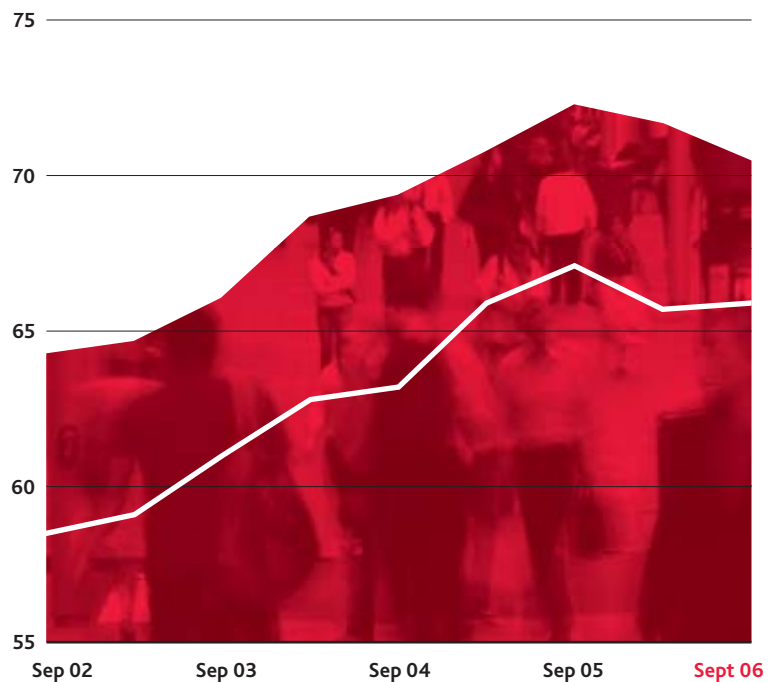
## Customer satisfaction

(%)

■ Consumer  
□ Business\*\*

\* Roy Morgan Customer Satisfaction 12 month moving average

\*\* TNS Customer Satisfaction 12 month moving average



## Customers

Customers (millions)

	2006*	2005*	2004	2003	2002
Australia	5.4	5.4	6.6	6.3	6.0
New Zealand	1.4	1.4	1.4	1.4	1.3
Pacific and other	0.2	0.2	0.2	0.3	0.2
<b>Total</b>	<b>7.0</b>	<b>7.0</b>	<b>8.2</b>	<b>8.0</b>	<b>7.5</b>

\* Figures re-stated, to reflect a reconciliation of various customer information systems and include some estimates for BTFG

## Branch representation

	2006	2005	2004	2003	2002
Australia	819*	813	812	812	806
New Zealand	196	195	196	200	200
Pacific	47	48	57	57	51
<b>Total</b>	<b>1,062</b>	<b>1,056</b>	<b>1,065</b>	<b>1,069</b>	<b>1,057</b>

\* As at October 2006

### Online banking customers

	2006	2005	2004	2003	2002
Australia (m)*	2.3	1.9	1.5	1.8	1.5
New Zealand (m)*	0.6	0.5	0.4	0.3	0.2
Pacific	9,000	5,500	2,500	93	-
<b>Total</b>	<b>2.9</b>	<b>2.4</b>	<b>1.9</b>	<b>2.1</b>	<b>1.7</b>

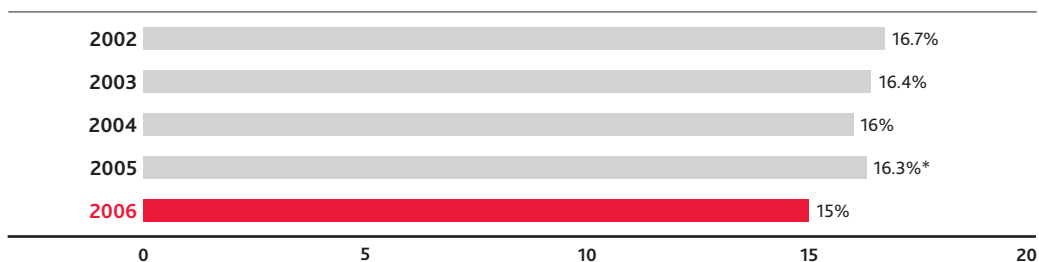
\* Total registered customers, including private label

### ATM distribution

	2006	2005	2004	2003	2002
Australia	1,637	1,653	1,642	1,587	1,552
New Zealand	463	471	470	480	484
Pacific and Other	51	42	41	38	13
<b>Total</b>	<b>2,151</b>	<b>2,166</b>	<b>2,153</b>	<b>2,105</b>	<b>2,049</b>

### Low income access

% of customers receiving pension or welfare payment  
Changes to Centrelink transaction codes render data from 2005 onwards incomparable with prior years



\* Estimate based on previous years

### Affordability of transactional services

\* Excess transaction fees significantly lower because we increased the free withdrawal allowance in Dec 2005 and introduced unlimited fee-free transactions with Westpac One Basic

Pension status	Average fees paid as % of pension									
	Basic account					Deeming statement account				
	2006*	2005	2004	2003	2002	2006	2005	2004	2003	2002
Single	0.002	0.03	0.10	0.08	0.09	0.08	0.08	0.08	0.07	0.08
Couple	0.0009	0.02	0.06	0.05	0.05	0.05	0.05	0.05	0.04	0.05

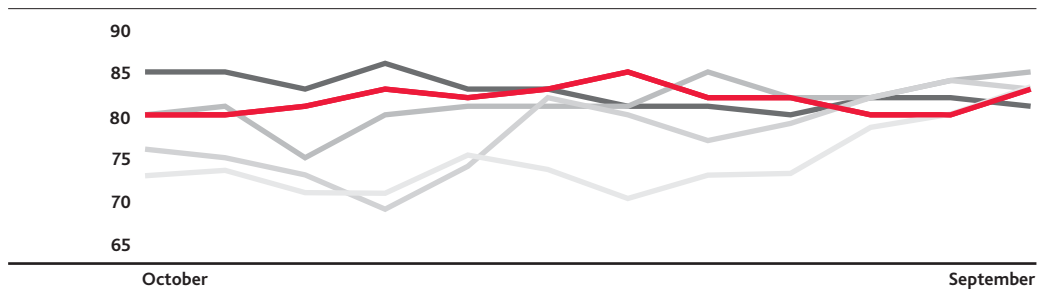
### Credit over commitment

Product	Proportion of accounts overdue ≥90 days (%)				
	2006	2005	2004	2003	2002
Mortgages	0.20	0.18	0.15	0.17	0.23
Cards	0.30	0.30	0.45	0.40	0.42

### Complaints resolution rates

% of complaints resolved within 5 days

■ 2006  
■ 2005  
■ 2004  
■ 2003  
■ 2002



### Complaints types

Complaint type	2006				
	2006	2005	2004	2003	2002
Product, Commercial & business	9	9	9	6	6
Information & advice	12	12	14	23	16
Fees, charges & interest rates	40	35	27	17	17
Process & procedure	28	30	33	29	34
Staff service quality	12	14	17	27	27

### Banking Financial Services Ombudsman (BFSO) dispute resolution (%)

	2006	2005	2004	2003	2002
Resolved with customer	96	93	91	84	85
BFSO investigation but resolved with customer	3	6	8	14	13
Required BFSO recommendation	1	1	1	2	2

### Business lending profile (% of business lending)

	2006	2005	2004	2003	2002
Transport	3.6	3.8	4	4	2
Travel & tourism	4.7	4.9	5.4	6	8
Forestry & agriculture	9.4	9.9	10.5	11	11
Finance	9.9	9.6	9.4	9	8
Housing, education, welfare & leisure	5	5.1	5	5	6
Construction	4.4	4.7	4.8	4	3
Retail	15.2	16.2	16	16	14
Wholesale	5.7	5.8	5.7	6	5
Chemical, minerals & machinery	<1	<1	<1	<1	<1
Professional services	8.8	8.7	9.2	9	1
Real estate	26	25	23	23	28
Other	6.9	6.4	6.4	7	14

### Country profile of institutional banking activities

Country income classification**	% of total									
	Customers					Exposures				
	2006	2005	2004	2003	2002	2006	2005	2004	2003	2002
Low	0.23	0.40	0.35	0.37	0.76	0.12	0.10	0.20	0.20	0.50
Low-middle	0.35	0.80	0.18	0.37	0.76	0.00*	0.70	0.10	0.20	0.50
Middle-upper	0.70	0.60	0.18	0.19	1.02	0.19	0.10	0.10	0.10	0.40
High	98.71	98.20	99.30	99.07	97.46	99.69	99.10	99.70	99.50	98.60

\* Exposure for 2006 too small to report

\*\* World Bank classification

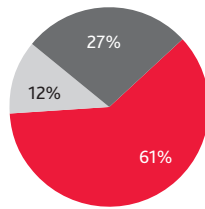
### Insurance complaints

	General insurance				Life & risk insurance				
	2006	2005	2004	2003	2006	2005	2004	2003	
Claims	28,997	29,942	29,957	32,578	Policies	329,023	340,227	336,981	281,866
Complaints	230	238	168	186	Complaints	1,659	1,470	1,708*	1,570
% of complaints	0.8	0.8	0.6	0.6	% of complaints	0.5	0.4	0.5	0.6

\* Figure re-stated

## Socially Responsible Investment(SRI)

- Positive/negative screening
- Best-in-class approach
- Environmental screening only



## Business lending with a high social benefit

	2006	2005	2004	2003	2002
SME lending as % of total business lending	15	16	14	12	11
Lending to businesses with outstandings <\$5m	67	71	72	75	75

## Institutional lending with a high social benefit

	\$bn				
	2006	2005	2004*	2003	2002
Total (High Social Benefit)	5.8	5.0	3.5	2.7	2.4
Total	22.6	18.8	16.9	15.2	16.3
As %	25.9	26.4	21.0	18.0	15.0

\* Figures re-stated from 2004

## Asset management with high social benefit

	\$bn				
	2006	2005	2004*	2003	2002
Assets under management*	39,001	37,194	35,420	36,953	35,392
Superannuation funds (ex-SRI funds)*	11,704	10,682	9,289	13,804	15,617
SRI	348	246	217	197	232
% of total with HSB	31	29	27	37	44

\* Figures re-stated from 2004



ENVIRONMENT  
CASE STUDY

# Go eco.

Simple ideas to help  
us all be a part of  
the solution for  
climate change.



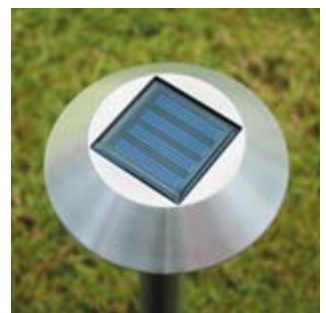
**I**T'S EASY TO feel helpless when you hear daily stories about melting ice-caps, wild weather and drought. But whether it's using less energy at home, conserving water in the garden, walking to work or planting trees on the weekend, we can all do something about climate change.

**“Since 1996, we have reduced our own greenhouse gas emissions by over 45%.”**

At Westpac we have been tackling our environmental impact for over a decade. Since 1996, we have reduced our own greenhouse gas emissions by over 45%. This year, we have taken another important step and introduced two new products to help our customers help the environment.

The Westpac Landcare Term Deposit Account was developed with Landcare Australia to support sustainable agriculture. Our EcoNomical Living Program gives home loan customers discounts on a range of environmental products, including solar hot water heaters, insulation, solar electricity, rain water tanks, green electricity and composting and recycling products.

Just as in our own lives, simple ideas help us all be part of the solution for climate change. ●



# What's the future for the environment?

We believe that all companies need to be able to analyse, manage and communicate their response to environmental challenges.

**W**E BELIEVE THAT managing both our direct and indirect environmental impacts will affect the longer-term sustainability of our business.

We have also argued for a number of years that climate change is fundamentally an economic issue that needs to be properly understood and responded to.

We have been examining and addressing the impact of environmental issues on our own business for over a decade.

Now we aim to competitively differentiate Westpac from the other major players in our market by adopting a strong position on environmental issues.

01

PHILOSOPHY

ENVIRONMENT

## WHAT DO WE BELIEVE?



**“The potential economic impacts of climate change are significant and widespread, affecting a wide range of industries.”**

Australian Business Roundtable on Climate Change



“With climate change an accepted reality, business has a tiger by the tail.”

**02**  
**VALUE**  
**ENVIRONMENT**

**WHY DO WE DO IT?**

**The stakeholder with no voice?**

Not any more – courtesy of climate change the environment is certainly hogging the sustainability limelight. But the environment has always been an unusual constituency with diffuse ownership and responsibilities, and often conveniently overlooked by business as a so-called ‘externality’ – shorthand for ‘somebody else’s problem’.

This convenient attitude never really fitted with what we are about. From our point of view, managing our environmental footprint is very much about doing the right thing. But it also goes straight to the bottom line, by boosting efficiency and cutting waste and risk.

So far so good, but all that changed this year. With climate change now an accepted reality, business has a tiger by the tail. There are critical risks but also real business opportunities – from lending in a water and carbon-constrained environment to valuing next generation assets. Distinguishing the opportunities from the risks is our immediate priority.



03

ISSUES

ENVIRONMENT

WHAT ARE  
THEIR CONCERNS?

Climate change.  
Deforestation.  
Drought.  
Water scarcity.  
Pollution.  
Recycling.

**04**  
**ADVOCACY**  
**ENVIRONMENT**

**The Sydney Morning Herald**

**Business warms to change**

New research on global warming has caused a split at the top end of town, writes **Deborah Snow**.

**W**ESTPAC chief executive David Morgan had an interesting story to tell at an invitation-only breakfast for a handful of journalists in Sydney last week. The anecdote concerned a recent private conversation with the head of a reinsurance company. Morgan said the conversation marks a significant watershed for business. It is also an open rebuke to the Business Council of Australia, the body which represents the chief executives of Australia's top 100 companies. The council was so wracked with division the last time it debated the issue nearly four years ago that it wound up

**Herald Sun**

**Corporate greenery**



**BRUCE BRAMMALL**

If green credentials ever came in university degrees, it would surprise few if David Morgan had one with first class honours.

The Westpac chief executive doesn't just talk the talk. The London School of Economics doctor has embedded the environment — among a host of other corporate social responsibilities — deep into the psyche of his \$44 billion charge.

Morgan has, literally, been out there pushing the barrow for a long time. To the point where Westpac has been voted the world's most "sustainable" bank by global media giant Dow Jones for the past four years.

He learned a different side of the coin in the 1970s when he spent time in Sierra Leone and Liberia with the International Monetary Fund.

Why he was so committed, he even

"Westpac is part of the fabric of this nation. It is Australia's first bank. It is Australia's first company. And we are only as healthy as the community and the economy in which we operate."

That's why Westpac is there. It concerns the future of the stakeholders of customer, employee, shareholder and community.

At first glance, the Australian Business Roundtable on Climate Change seems an unusual alliance. Its members are the chief executives of an insurer (Michael Hawker at Insurance Australia Group), a reinsurer (Keith Scott at Swiss Re), a power retailer and explorer (Grant King at Origin Energy), a global oil giant (Gerry Heuston at BP Australia), a packaging company (Harry Debney at Vay Industries) and a bank (Morgan at Westpac).

BP, a global oil giant, is there because it has an international ambition to be involved at the forefront of alternative fuels, but whose main business is oil production and refining is a lead GHG producer.

LAG and reinsurer Swiss Re are there because they will be covering the environmental risks of the future — the loss of life and property from catastrophic events — and it works for both them and their customers to minimise the risks of those events. It would keep premiums more affordable and, hopefully, for all

in time more a venture

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**THE AGE**

**Big Business takes on global warming**

**T**HE need to protect the economy, the mainstay of our way of life, has been the mantra of global-warming sceptics. Their argument has been a simple one: why should a model that delivers prosperity and stability to developed nations be altered to accommodate a scientific theory? The danger — and power — of this argument is that it speaks to our personal apathy and reluctance to change our habits of consumption; habits that evidence of climate change brings into question. The Howard Government's greenhouse policies reflect this unwillingness to face an uncomfortable fact. While the Government acknowledges that climate change is a scientific reality, it has not signed the Kyoto Treaty and has also proved reluctant to craft policies designed to wean us off our dependence on fossil fuels and reduce our greenhouse gas emissions.

Morgan. But economic modelling by the Allen Consulting Group shows emissions could be reduced by 60 per cent by 2050 at only minimal cost if the task is tackled early enough.

Big business is arguing that clear economic as well as environmental benefits can be gained if the nation grasps the nettle on climate change. Reduced to its most basic level, the business roundtable's argument comes to this: if the environment suffers, business suffers, because our economic prosperity cannot be separated from the health of the natural world. This is a commonsense argument, a motherhood argument; it is extraordinary that, until now, it has fallen on deaf ears. Encouragingly, Environment Minister Ian Campbell last week welcomed the group's report, although he declined to be drawn on specific proposals. The Government has a historic opportunity to change its policy direction: we hope it does so.

The roundtable's chief

**The Sydney Morning Herald**

**Impact from temperature rises**

The roundtable on climate change commissioned the CSIRO to estimate the effect on Australia of rising global temperatures. This table shows the impact on three major sectors of the economy at levels of temperature increase from less than 1 degree to more than 4 degrees.

Temp rise	Tourism	Water and primary industries	Infrastructure and insurance
>1C	<ul style="list-style-type: none"> <li>Most Australian vertebrates lose 90-100% of their core habitat</li> </ul>	<ul style="list-style-type: none"> <li>Extreme rainfall in Victoria increases by 25%</li> </ul>	<ul style="list-style-type: none"> <li>Peak electricity demand in Adelaide, Brisbane and Melbourne increases by 9-21%</li> <li>180-days a year above 35C in SA and NT</li> <li>100-year storm tides along Victoria's east coast 30% more frequent</li> </ul>
>2C	<ul style="list-style-type: none"> <li>Distribution of Great Barrier Reef species shrinks by 95%</li> <li>40% of land species lost</li> </ul>	<ul style="list-style-type: none"> <li>50% loss of eucalyptus core habitat</li> <li>Timber yields in southern Australia fall by 35-50%, but fall by same amount in the East</li> </ul>	<ul style="list-style-type: none"> <li>Dengue fever transmission zone reaches Brisbane and possibly Sydney</li> <li>Temperature-related deaths of people in 65 rise to 184,000</li> </ul>

In April 2006, Westpac was one of 6 companies, along with the Australian Conservation Foundation, to launch the Australian Business Roundtable on Climate Change. This research examined the economic implications of early action to prevent dangerous climate change.

# HOW DID WE DO?

**05**  
PROGRESS  
ENVIRONMENT

2006 OBJECTIVE	PROGRESS TO DATE	2007 OBJECTIVE
Reduce our total greenhouse gas emissions by an additional 5%.	<ul style="list-style-type: none"> <li>Total greenhouse gas emissions were 109,000 tonnes of CO<sub>2</sub>-e.</li> <li>This represents a 12% reduction from 2005.</li> </ul> 	Reduce our total greenhouse gas emissions by an additional 5%.
Respond to recommendations from the review of our Environmental Management System.	<ul style="list-style-type: none"> <li>Energetics conducted the review in conjunction with the Environmental Advisory Group.</li> <li>A draft 2007 Environmental Management Action Plan is now being finalised.</li> </ul> <p><b>In progress</b></p>	Implement the 2007 Environmental Management Action Plan.
Continue to reduce paper consumption and increase paper recycling through the Great Paper Challenge.	<ul style="list-style-type: none"> <li>While copy paper consumption was down by 5%, total paper consumption has increased by 300 tonnes.</li> <li>Paper recycling is down, returning to 2004 levels, following completion of archiving and recycling project.</li> </ul> 	Re-invigorate the Great Paper Challenge.
Develop an energy efficiency strategy to target poor performing buildings.	<ul style="list-style-type: none"> <li>Following relocations to Westpac Place and the incremental closure of old properties, Westpac is re-focusing efforts on energy saving initiatives in remaining buildings.</li> </ul> <p><b>In progress</b></p>	Implement an energy efficiency strategy in poor performing buildings.
Improve and strengthen our water consumption reporting.	<ul style="list-style-type: none"> <li>Westpac is working with our suppliers Mowlem-Sodexo and United Group to improve water data.</li> </ul> <p><b>In progress</b></p>	Initiate roundtable discussion to resolve water data issues.

## WHAT ARE WE DOING?

# Environment wrap-up



### Performance

Our Environmental Management System (EMS) was implemented in 2002 and is based on ISO 14001. In 2005, we commissioned a sustainability consultancy – Energetics – to conduct a review of our Environmental Management System and test its effectiveness in capturing emerging business risks and opportunities. In response we are currently finalising a new Environmental Management Action Plan. This will include both performance targets and strategic objectives on business risks and opportunities.

### Our operational impacts

Our direct environment impact comes from our 22,000 employees; the hundreds of buildings they work in; and the thousands of tonnes of paper we use each year.

### Greenhouse Gas Emissions

Given the urgency of the climate change problem, greenhouse gas emissions remain a key indicator of our overall direct environmental impact. This year, we cut emissions by over 12 per cent, bringing our total greenhouse gas emissions down to 109,000 tonnes of CO<sub>2</sub>.

This decline was driven mainly by an eleven per cent reduction in our total electricity consumption, a result of the consolidation of our eleven Sydney CBD buildings down to two main buildings – including our new headquarters, Westpac Place.

This year, however, we saw a six per cent increase in our paper usage, taking overall consumption to 5,500 tonnes. This was partially driven by the more effective capture of BT Financial Group's paper consumption. The amount of paper we recycled, which was well up last year due to a number of archiving and recycling projects, also returned to 2004 levels.

### Water

We continue to identify water saving initiatives across our operations.

In June 2006, we received \$125,000 in funding from the NSW Government's 'Water Savings Fund' for water tanks at our Ingleside Conference Centre and Concord Call Centre. Once installed, water consumption should be reduced by up to 43% at these sites.

Our new headquarters – Westpac Place – utilises a stormwater harvesting system that collects rain

water run-off and re-uses it in the air-conditioning system cooling towers to replenish cooling water lost through evaporation.

Unfortunately, our property management suppliers, United Group and Mowlem Sodexo, were again unable to provide reliable water consumption data this year. So we have again withdrawn water data from this report. To resolve this issue, we are planning a roundtable discussion with United Group, Sydney Water and members of our sourcing and property teams in 2007.

### Our business impacts

As with most service companies, our major indirect environment impacts occur through our everyday lending and investment activities. So this year we focused on improving our indirect performance.

### Green Products

This year, we launched two new retail banking products aimed explicitly at increasing consumer awareness on environmental issues.

The 'EcoNomical Living Program' challenges our home loan customers to reduce their environmental footprint and save money on utility bills. It features discounts and rebates on a

range of environmentally friendly initiatives such as home insulation, green electricity, solar hot water systems and rain water tanks.

The 'Westpac Landcare Term Deposit' allows customers to directly support Australian farmers and sustainable agriculture. We also make an annual donation to Landcare, based on the average balance of deposits, to further support Landcare's commitment to environmental sustainability. As at 30 September, the product held \$1.4 million in balances, and \$2.9 million in lending was consequently directed to Landcare farmers or farmers practising sustainable agriculture.

Through our 'e-statements' initiative we also provide our online customers with the option to receive electronic banking statements. To date, more than 196,000 customers have opted out of paper statements, saving \$770,000 in operating costs, 41 tonnes of paper, and 103 tonnes of greenhouse emissions.

In July 2006, we extended the successful e-statements initiative to eligible credit card accounts. 32,000 customers have since opted out of paper credit card statements.

Over the year, we also supported two 'green' residential developments. We were chosen as the financier of the \$40 million Gold Coast Eco-village development, explicitly based on our support and shared vision of its sustainability credentials. We also financed Australia's first educational residential eco-village, The Ridge on Binna Burra located in South East Queensland.

#### **Environmental Markets**

During 2006, Westpac began trading in the EU Emission Trading Scheme (EU ETS), which, according to ABN-Amro, will be valued at €45 billion by 2012. Our presence in this market allows us to become an even more active driver of the

evolving domestic market-based system. Throughout the year, we have continued to support work undertaken by the Inter-jurisdictional Emissions Trading Working Group, which is proposing a state-based national emissions trading mechanism.

#### **Climate Change and Risk**

Climate change is a serious business risk for the financial services sector. Apart from our direct exposure to impacted sectors such as agriculture and tourism, climate change brings with it increased legal and regulatory pressures, operational risks and unpredictable impacts on global markets.

In 2007, we will undertake a comprehensive assessment to better understand these risks and the impact of climate change across our business.

During the reporting period, we were again recognised for our 'best in class' management and disclosure practices through the Carbon Disclosure Project's (CDP) global Climate Leaders Index.

The CDP, a coalition of investors with more than \$31.5 trillion in assets, gathers information on risks and opportunities associated with climate change from more than 2,000 companies globally.

#### **Biodiversity**

We strongly support initiatives to maintain and restore Australia's unique biodiversity, through our day-to-day risk and lending practices; and through our employee involvement program, Operation Backyard.

Operation Backyard, established in partnership with Landcare Australia, provides funding for the protection of biodiversity through habitat restoration projects. Since it began in 1998, we have provided around \$1.4 million to help around 250 environmental projects in local communities across Australia. ●

Sign up for our EcoNomical Living Program and save.



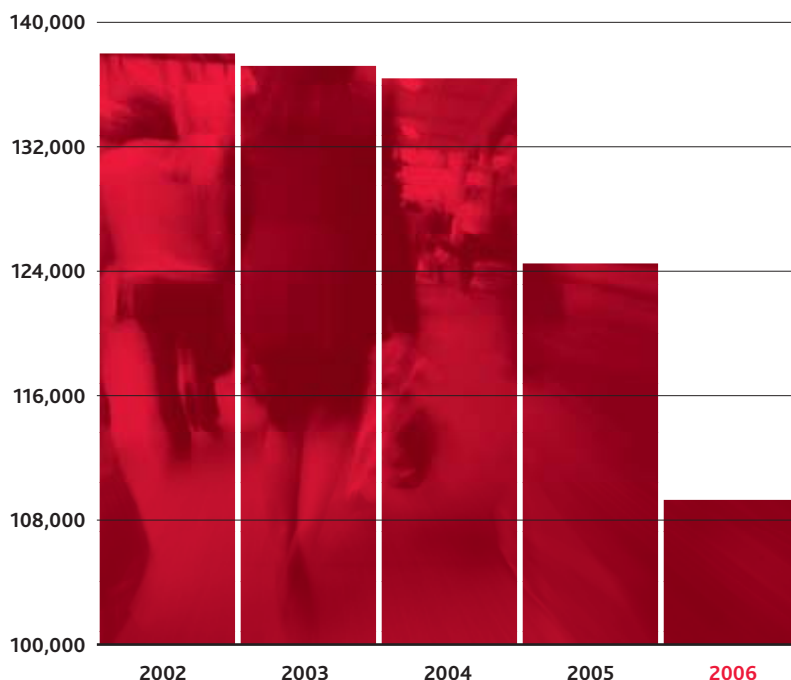
# NOW FOR THE NUMBER CRUNCHING...

## Total greenhouse gas emissions

Since 1996, we have cut our emissions by over 45%.

From 2005, total emissions incorporates offset from Green Power

CO<sub>2</sub> emissions from air travel are not included in our total greenhouse gas emissions



### Emissions source

Emissions source	equivalent tonnes of CO <sub>2</sub> -e				
	2006	2005	2004	2003	2002
Energy	98,100 <sup>^</sup>	115,100*	126,000	127,200	119,200
Car fleet	3,900	3,600	4,140	3,600	6,400
Paper	7,200	5,800	5,920	6,400	12,400
<b>Total</b>	<b>109,300</b>	<b>124,500</b>	<b>136,000</b>	<b>137,200</b>	<b>138,000</b>

\* Incorporates offset of 5,300 tonnes of CO<sub>2</sub> from Green Power

<sup>^</sup> Incorporates offset of 5775 tonnes of CO<sub>2</sub> from Green Power

### Eco performance ratios

Emissions ratios	equivalent tonnes of CO <sub>2</sub> -e				
	2006	2005	2004	2003	2002
CO <sub>2</sub> /person	5.2	5.9	6.2	6.6	7.4
CO <sub>2</sub> /M <sup>2</sup>	0.2*	0.2	0.2	0.2	0.2
CO <sub>2</sub> paper/employee	0.3	0.3	0.3	0.3	0.7
CO <sub>2</sub> car fleet/veh	6.1	5.1	4.9	4.1	6.3

\* A new process for determining total space data was introduced in 2006. Space data includes ATMs, retail and corporate.

**Energy usage\***

	unit	2006	2005	2004	2003	2002
Energy - electricity	MWh	99,300	111,800	117,700	117,400	112,300
Green power	MWh	5,000	5,000	-	-	-
MWh/person	MWh	5.0	5.3	5.4	5.6	6.0
Energy - gas	GJ	19,200	25,100	22,800	31,200	34,800

\* Gas and electricity based on some extrapolated data for the last quarter.

**Paper usage**

	unit	2006	2005	2004	2003	2002
Paper consumption	tonnes	5,500	5,200 *	4,700	5,230	5,500
Paper consumption	t/person	0.26	0.25 *	0.21	0.25	0.29
Paper recycled	tonnes	2,600	3,000	2,570	2,900	1,100
Copying paper	sheets/person	9,600	10,100	9,500	9,300	12,000

\* 2005 numbers restated to include additional consumption data, which was not received until February 2006.

**Recycling**

Emissions ratios	unit	2006	2005	2004	2003	2002
Plastics Recycling Project	Tonnes	57	61	50	29	36.4
Fluorescent light tubes	Kg	1,890	530	n/a	n/a	n/a
PCs*	No.	4,000	2,500			

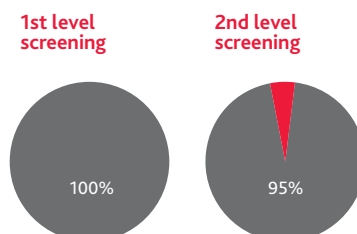
\* PCs are recycled through WorkVentures (www.workventures.com.au).

**Business travel by car**

Car fleet		2006	2005	2004	2003	2002
Fuel consumption-LPG	kL	1,143	1,579	2,031	1,349	1,000
Fuel consumption	kL/vehicle	3.0	3.0	3.2	2.4	3.1
Fuel consumption-petrol	kL	671	436	356	434	1,600
Fuel consumption	kL/vehicle	2.6	2.4	1.7	1.3	2.3
Total km travelled	million km	11	12	16	13	16

**Business travel by air**

Air travel		2006	2005	2004	2003	2002
Domestic	million km	42	40	38	48	48
International	million km	17	16	17	34	23
Total	million km	59	56	55	82	71

**Environmental screening of institutional lending**



**Business lending with additional environmental screening\***

\* This was previously reported incorrectly as Lending with a High Environmental Benefit. These figures denote lending which is subject to additional Environmental Risk Assessment.

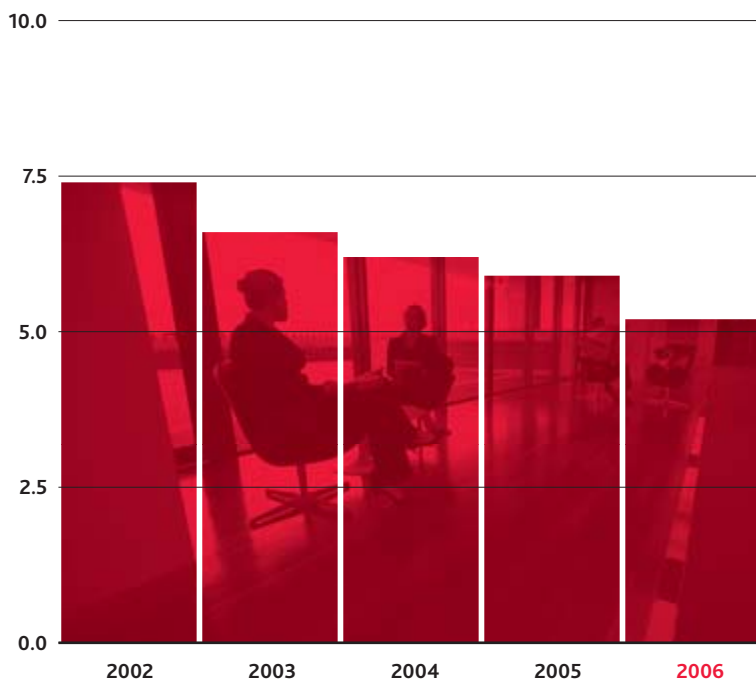
	Business banking				
	2006	2005	2004	2003	2002
<b>Total lending \$b</b>	45	39	37	32	27
<b>Screened \$b</b>	0.28	0.25	0.23	0.15	0.13
<b>% of total</b>	0.6	0.7	0.6	0.5	0.5

**Institutional lending with a high environmental benefit (HEB)**

	Institutional banking				
	2006	2005	2004	2003	2002
<b>Total lending \$b</b>	22.6	18.8	16.9	15.2	16.3
<b>HEB \$b</b>	5.2	4.0	2.3	2.2	1.41
<b>% of total</b>	23.0	21.5	13.6	14.6	8.6

**Energy usage (CO<sub>2</sub> per person)**

Greenhouse emissions per FTE reduced from 7.4 tonnes of CO<sub>2</sub>-e in 2002 to 5.2 tonnes of CO<sub>2</sub>-e in 2006.





SOCIAL  
CASE STUDY

# If you knew Larry...

When Cyclone Larry hit the Far North Coast of Queensland in March 2006 it brought with it 300km/hr wind gusts and a trail of destruction and despair not seen before.



Scenes of desolation for returning residents



Westpac's Peter Hanlon talks to affected customers

**T**HE DAMAGE WAS widespread. Gale force winds uprooted trees, lifted roofs off houses and wiped out millions of dollars worth of crops like sugar cane, banana and pawpaw.

Working with the Queensland Government and emergency services, Westpac immediately set out to help locals struggling to get back on their feet with an immediate \$500,000 contribution to the Premier's Disaster Relief Appeal and a further \$500,000 of funding earmarked for infrastructure and redevelopment.

However, it was what happened on the ground that was vital in helping customers survive financially, and emotionally.

Local employees set up overdrafts, suspended loan repayments, and, more importantly, got out and spoke with customers to understand their situation and how Westpac could play a role in the longer term rebuilding of the community.

Nine months on from Larry, we are continuing to work with our networks, including Landcare Australia, to rebuild the community. ●



Getting local towns back on their feet

**“Gale force winds uprooted trees, lifted roofs off houses and wiped out millions of dollars worth of crops.”**

01

PHILOSOPHY

SOCIAL

## WHAT DO WE BELIEVE?

# A business is only as st

02

VALUE

SOCIAL

## WHY DO WE DO IT?

Banks play a major role in the economic, cultural and physical landscape and are relevant to every Australian.

In a period of sustained economic growth the bigger picture is often forgotten – prosperous high streets need prosperous back streets, and we have a role to play in this. At the same time, staying close to the communities in which we operate means we benefit from their energy, innovation – and continued goodwill.

So whether we are talking about reputation, social licence to operate, regulatory risk or employee commitment, the value is from staying onside with the broader community. This involves being as open as possible, and paying attention to society's multiple and diverse experiences, perceptions and expectations of us.

It's hard to achieve in practice but it's the principle underpinning this report.

So we have embedded community involvement into our business model and it has become part of our organisational culture.

Our community involvement strategy is made up of three core components. These are employee involvement, community partnerships and capacity building. Our Indigenous assistance program aims to address the educational, financial and employment disadvantages of Indigenous Australians and their specific banking and financial needs.

Detailed information on our community outreach activities is available at [www.westpac.com.au/community](http://www.westpac.com.au/community).

**Westpac has been part of Australian daily life since 1817 – and we think we still have a positive contribution to make.**

# Strong as its community.



03  
ISSUES  
—  
SOCIAL

## WHAT ARE THEIR CONCERNS?

# Self-starter

Locally-owned Indigenous enterprises such as Nanum Tawap are contributing to the economic and social development of whole communities. We follow Josh Pounder, General Manager, through an average day.

## 5:50am

My day usually begins at 05.50am with the collection of mail in Weipa and a drive into the office at Napranum, about 11 kilometres away. The PC button is hit and I wander into the kitchen for the start-up caffeine fix. This is always a good time to work on tasks without interruption, as once the day gets underway an abundance of issues, generally unexpected, consume large portions of the day.

## 6:55am

Site workers start arriving and the sound of the clock card system being used tells me it's time to go and greet the crew. We discuss the previous day's achievements and map out activities for the day. We are all involved in the practical aspects of the business and are constantly interacting throughout the day. At the moment we are designing and planning equipment for mechanisation of the sawmill as part of the equipment upgrade program.



**N**ANUM TAWAP IS a company operating in the Weipa area situated on the far North West corner of the Cape York Peninsula. Nanum Tawap is Indigenous owned and controlled by a Board of Directors representative of the tribal groups within the local community. The Company is principally involved in sawmilling and production of cement blocks for the building industry.

Nanum Tawap is relatively small at present with a total staff of 12 persons, 10 being Indigenous employees. The aim is to offer training and provide initiatives to facilitate sustainable employment opportunities in all areas of the business. ●

**A Westpac business plan highlighted the need to upgrade the Block Plant to increase productivity and performance.**

## 1:00pm

Lunch is usually a quick cup of coffee followed by an informal chat with the workers then back to work again. Then I visit the production areas to ensure all is well and that no problems have occurred throughout the afternoon.

## 4:00pm

Workers knock off at 3:30pm and I try to be finished at around 4:00pm depending on any contingencies requiring attention. From time to time we get together for a drink after work and on occasions enjoy an unscheduled barbie.



# Is financial literacy enough?

In recent years financial literacy has become an increasingly important issue and government, private and non-profit entities have sought to assist the community develop their personal finance skills through a variety of programs and other initiatives.

**"Financial literacy:"  
Knowledge doesn't  
necessarily lead to action**

**"Financial capability:"  
Informed consumers making  
effective financial decisions**

**T**HE FINANCIAL SERVICES environment and choices that consumers face are increasingly complex, however it is not necessarily the case that consumers are well equipped to interact with financial services and with money itself. In addition, financial services deregulation has led to increased marketing, access to credit, accelerating technological change, and a greater variety of investment and other financial products.

Never before has the process of personal financial decision-making been more complex, and in this environment consumers are also expected to take responsibility for their personal finances, accumulation of assets, debt management and long term planning to fund their retirement. This fundamental change in the way people are expected to interact with financial services has heightened the need for a knowledge and skill base that will enable consumers to make effective personal financial decisions.

The Commonwealth Government has provided assistance to consumers in terms of the need for clearly communicated product and fees disclosure by financial service providers through legislation and through the work of the Financial Literacy Foundation. However it is not necessarily the case that consumers have the ability, or appreciate the need to fully understand and utilise this information in the financial decisions that they make.

At this point it is important to reflect on what we actually understand by the term financial literacy, as there are a number of definitions and debate about the attributes of financial literacy. Financial literacy is more than knowledge about financial products, money and budgeting, however it is often understood in this way. This narrow understanding of the term has led to well-meaning programs and resources being created in the hope that more knowledge will change people's financial behaviour. It is, of course, more complex, and while that knowledge is needed to make effective and informed financial decisions, it is not necessarily so that having the knowledge will lead to action.

Financial capability, as an alternative term, can be viewed as a process leading to the outcome of more informed consumers making effective financial decisions. This requires



04  
ADVOCACY

## SOCIAL

## HOW ARE WE SHOWING THE WAY?

a range of capabilities, including being able to read, analyse, manage and communicate about financial issues and money without discomfort; and a lifelong approach to learning in order to maintain skills and knowledge in a changing environment. However this too is only part of the picture, as knowledge, skills and capabilities need to be applied to the everyday and more significant financial decisions that are increasingly necessary in the sophisticated financial services environment in which we operate. Financial capability includes the notion of responsibility and informed behaviour. In addition, it is focused on lifelong learning that is appropriate for all people, not only those who are seen as the most disadvantaged in terms of education, income and social economic status. It focuses on action, and in order to equip consumers to make and execute effective financial decisions we need to unravel the components of financial behaviour and the factors that influence this.

Our work at the Centre for Financial Independence and Education, at Griffith University, focuses on developing programs and resources that are based on an understanding of the factors that contribute to effective financial behaviour. We believe that knowledge and skills are only part of the picture, and that other factors contribute more significantly to financial capability and effectiveness.

A clear indication of this is the response of the participants at the programs we have conducted with groups such as Relationships Australia, Youth and Family Services and a local Women's Health Centre. They tell us that knowledge and skills is not enough, and that it is planning and goal setting, understanding your relationship to money and the influence of your background, confidence in being able to change your circumstances and an ability to communicate about money that enables them to make changes.

These changes have occurred for people in all age and income groups, and from those with limited to extensive education and knowledge bases; they have not been limited to those who are traditionally seen as most in need.

So, is financial literacy enough? We suggest that while the acquisition of knowledge is an important part of the process, the motivational, behavioural and attitudinal aspects are

equally, if not more important in terms of building the capacity of the community to make better financial decisions. Addressing these factors will enhance the possibility that the knowledge and skills developed through the various financial literacy resources and media campaigns are put into practice. ●



**Westpac is contributing to Griffith Business School's thinking on how to incorporate sustainability into research, teaching and its operations.**

**Dr Mark Brimble** Director, Centre for Financial Independence and Education, Griffith Business School, Griffith University

**Ms Victoria Vyvyan** Centre for Financial Independence and Education, Griffith Business School, Griffith University

# HOW DID WE DO?

**05**  
PROGRESS

SOCIAL

2006 OBJECTIVE	PROGRESS TO DATE	2007 OBJECTIVE
Maintain total community contributions above 1% of pre-tax profits.	<ul style="list-style-type: none"> <li>Total community contributions in Australia were 1.4% of pre-tax profits - \$47 million.</li> <li>419 charities received \$1.7 million through the Westpac Matching Gifts Program.</li> </ul> 	Maintain total community contributions above 1% of pre-tax profits.
Enhance our product and service offering for the not-for-profit community sector.	<ul style="list-style-type: none"> <li>Launched the revamped 'Community Solutions Package', financial solutions designed to help the not-for-profit sector, in April 2006.</li> </ul> 	Move to national partnership with Surf Life Saving Australia.
Continue to provide value to our community partners utilising our networks, resources and expertise.	<ul style="list-style-type: none"> <li>Celebrated 30 years of supporting the Westpac Life Saver Rescue Helicopter Service, operated by Surf Life Saving Queensland.</li> <li>Launched new partnership with Surf Life Saving Tasmania.</li> <li>Launched Westpac Landcare Term Deposit, helping customers support sustainable agriculture.</li> </ul> 	Review Cape York Indigenous Partnership.
Launch electronic version of Financial First Steps™.	<ul style="list-style-type: none"> <li>Financial First Steps™ now available on CD Rom.</li> </ul> 	Financial First Steps training for different life stages.
Host the second Trans-Tasman Indigenous Forum in Australia.	<ul style="list-style-type: none"> <li>Scheduled for 2007. Delayed due to participation in the IBA Indigenous Economic Opportunities Conference.</li> </ul> <p><b>In progress</b></p>	Host the second Trans-Tasman Indigenous Forum in Australia.

# WHAT ARE WE DOING?

# Social wrap-up



Our community contributions for 2006 totalled \$47 million, up from \$44 million last year. This constituted 1.4% of pre-tax profits.

## Employee Involvement

We provide community leave and flexible working conditions to support our people to undertake volunteer work with the not-for-profit organisations of their choice. In 2006, 1,664 community leave days were logged through our leave system. This is down from last year, but we believe that changes to our payroll system during the year may have affected the capture of these figures.

Under the Westpac Matching Gifts program, we match the donations of our employees, dollar for dollar, to any tax-deductible Australian charity. This year, more than 400 charities received \$1.7 million. Since 1999, \$11 million has been distributed to more than 900 charities.

Our CEO's Corporate Responsibility and Sustainability awards continued this year, acknowledging the extraordinary efforts of our people. These will be awarded in late 2006.

## Community partnerships

Many of our community partnerships span decades. We work with The Salvation Army, The Smith Family, Mission Australia, Landcare Australia, Juvenile Diabetes Research Foundation, Australian Mathematics Trust, Indigenous Enterprise Partnerships and Surf Life Saving QLD, SA and Tasmania, Life Saving Victoria and Westpac Life Saver Rescue Helicopters in NSW and Tasmania.

With our community partners we ran a number of campaigns throughout the year. These included appeals for rescue services, diabetes research, The Salvation Army Red Shield Appeal, and our annual Christmas appeal, and campaigns on sustainable agriculture, financial education and the digital divide.

In 2006, Westpac celebrated 30 years of partnership with the Westpac Life Saver Rescue Helicopter Service, operated by Surf Life Saving Queensland. We have also launched a new partnership with Surf Life Saving Tasmania.

In 2007 we will continue to expand our activities to adopt a national partnership approach with Surf Life Saving Australia, and will

assist them to celebrate their centenary year – the Year of the Surf Lifesaver.

## Capacity building

We provide community groups with access to specialised business and finance tools and training, to help grow their capacity to deliver community services and support.

In 2006, we continued to provide specialised business and advisory training for not-for-profit organisations. We also provided Beyond Survival Workshops free for Cyclone Larry affected businesses in Queensland.

In April 2006, we also launched an improved version of our Community Solutions Package, providing financial solutions tailored for the not-for-profit sector.

## Contributing to disaster relief

In the wake of Cyclone Larry in far north Queensland in early 2006, we committed a total package of \$1 million. This included an upfront donation of \$500,000 for emergency relief and a further investment of \$500,000 for redevelopment initiatives over the next 12 months.

We have also partnered with Opportunity International Australia to support a

microfinance initiative in tsunami-affected India. Our contribution of \$400,000 will enable IMED, Opportunity International's strategic partner in India, to establish a new branch to serve affected communities in the state of Tamil Nadu. This is the second stage of our response to the Asian tsunami.

## Financial capability

As discussed in the Customers section, strengthening the financial capabilities of all Australians is about providing the right products and services to allow all members of the community access to finance. It is also about promoting the right skills and tools to manage money and increase financial literacy.

Our Financial First Steps™ course provides basic money management training. In 2006, 175 Financial First Steps™ workshops were held and 150 Westpac people were trained as trainers. Around 850 people have now been trained to deliver the course.

We have also developed and launched an electronic version of the course, and have assisted the Aurukun community in developing a Indigenous version of Financial First Steps™.

### Human rights

Our key commitments to human rights are set out within 'Our Principles for Doing Business' and through our progress reporting against the Principles of the Global Compact. We see our main responsibilities in critical areas such as employee rights, the right to access finance for vulnerable and disadvantaged members of the community, Indigenous rights, effective corporate governance and the risk of human rights violations within our supply chain. Our responses to these issues are discussed throughout this report.

### Indigenous assistance

Our Indigenous assistance program focuses on three

key areas – strategic partnerships, employment opportunities, and advocacy activities. Our main partnerships are through the Indigenous Enterprise Partnerships (IEP) in Cape York and the Indigenous Capital Assistance Scheme (ICAS).

In partnership with IEP we aim to develop financial literacy and economic self-sufficiency in the Cape York region through the Family Income Management (FIM) Scheme, Business Hubs and the Computer Culture Project.

This year, 45 secondees spent one month in the Cape. There were three two-week fellowships, one month-long fellowship and six full year fellowships. To date, over 240 secondees have volunteered in Cape York supporting Indigenous economic development. This equates to more than 40 years of full time work.

It's now almost three years since we launched ICAS with the Department of Employment and Workplace Relations (DEWR). ICAS provides access to commercial finance up to \$500,000 and free business advisory services up to \$22,500. Our national network of accredited business bankers has received over 40 inquiries for finance this year, down on last year. Our challenge is to market it more widely in 2007.

Our major challenge in the year ahead is working with DEWR on ways to market the program to ensure eligible Indigenous business owners are aware of the benefits of the scheme as they develop and grow their business.

As discussed in the Employees section, in 2006 we piloted a new Indigenous recruitment program with the Aboriginal Employment Strategy (AES). In 2007, we

will be developing a long-term Indigenous recruitment strategy. This will include additional recruitment targets, trainee sponsorships and a cadetship program.

As part of our broader advocacy and capacity building activities, we contributed to an industry working group on 'book-up', a practice whereby store owners holds someone's PIN and account card to access money for payment. This is particularly common in remote Indigenous communities. In late 2005, we implemented specific measures to prohibit this practice, which were further strengthened this year. We have also promoted a wider industry response to tackle this issue.

**@ More detail on our social policies and practices is available on our website at [www.westpac.com.au/corporateresponsibility](http://www.westpac.com.au/corporateresponsibility) ●**



# NOW FOR THE NUMBER CRUNCHING...

## Community contributions as % of pre-tax profits

	% of pre-tax profits				
	2006	2005	2004*	2003	2002
Total excluding commercial sponsorships	1.2	1.2	1.1	1.3	1.2
Total community involvement	1.4	1.4	1.3	1.6	1.4

## Community contributions in A\$

Area of involvement	\$m				
	2006	2005	2004*	2003	2002
Charitable gifts	2.6	2.1	2.1	1.2	1.6
Community investment	35.5	31.7	30.4	25.9	19.8
Eco projects	0.4	0.3	0.3	0.3	0.3
In-kind	0.9	1.4	1.2	1.6	1.7
Management costs	1.2	1.2	1.3	1.5	1.3
Commercial sponsorships	6.0	7.2	6.3	6.1	5.5
<b>Total</b>	<b>46.6</b>	<b>43.9</b>	<b>41.6</b>	<b>36.6</b>	<b>30.2</b>

\* Figures re-stated owing to under-reporting within financial inclusion.

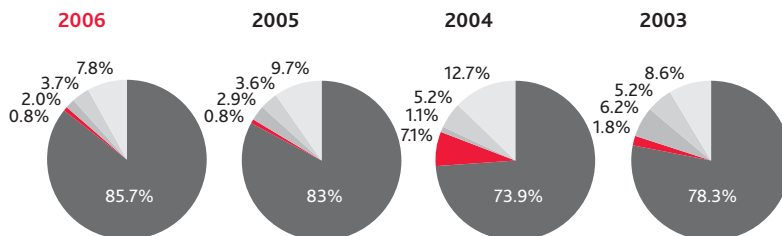
## Community contributions by %

Area of involvement	%				
	2006	2005	2004*	2003	2002
Charitable gifts	6	5	6	3	5
Community investment	76	72	66	71	66
Eco projects	1	1	1	1	1
In-kind	2	3	4	4	6
Management costs	3	3	4	4	4
Commercial sponsorships	13	16	19	17	18

\* Figures re-stated owing to under-reporting within financial inclusion.

## Breakdown of community investment

- Rescue services
- Indigenous services
- Capacity building
- Numeracy and money skills
- Financial inclusion





## SUPPLIER CASE STUDY

# In or Out?

Outsourcing is an accepted part of the business landscape but new sensitivities arise when it comes to global sourcing or offshoring.



**W**E KNOW THAT customers are concerned about privacy and data security when operations and IT are sent offshore. And we know that our customers want to talk to local staff about their financial needs.

On the other hand we have to be able to compete on a level playing field in terms of access to best practice and lower cost resources, wherever they may be.

So whilst offshoring is a real outsourcing option, we have a responsibility to tread carefully. That's why we have set down clear principles to guide any offshoring we may consider (set out on page 63).

Any initiatives would be evolutionary, not revolutionary. Keeping employees properly informed is paramount, as is retraining and redeploying our people wherever possible. And, there must be no slippage in our labour standards.

Overall offshoring must make sense for our customers and shareholders before we will consider it. ●

**“Keeping employees properly informed is paramount.”**

# What's the future for our suppliers?

## WHAT DO WE BELIEVE?

We believe that the actions of our suppliers are increasingly important factors in our own performance.

01

PHILOSOPHY

SUPPLIER

**“The supply chain is a surprisingly significant part of our social, ethical and environmental impact.”**

## WHY DO WE DO IT?

We don't have factories but we do have 10,000 suppliers.

Air travel, utilities, IT, recruitment services, from multinationals to SMEs and everything in between, it takes an awful lot of stuff to keep Westpac going.

This means that the supply chain is a surprisingly significant part of our social, ethical and environmental impact - alongside our corporate footprint and the impact of our lending and investment.

Our response is to choose our suppliers on the basis of their social, environmental and ethical credentials, alongside the traditional criteria of quality, cost and so on.

On the one hand we can have a major impact on our mutual social, ethical and environmental outcomes. At the same time we take both risks and costs out of the supply chain, which goes straight to the bottomline.



**W**E AWARD BUSINESS on merit and aim to secure products and services on the most appropriate terms. Our Request for Proposal (RFP) process considers organisational sustainability, price, quality, delivery and other pre-established criteria, variously weighed depending on the nature of the goods, service or solution being sourced.

We seek to ensure that our suppliers:

- are aware of their specific environmental, social and ethical issues;
- have management systems in place to address these issues, risks and opportunities; and
- have systems that are delivering effective performance management and improvement. ●

**Westpac's Principles for Offshoring**

1. We will not move call centres in Australia or New Zealand offshore.
  - Only staff based in Australia or New Zealand will talk to Australian or New Zealand customers.
2. We will always do the right thing for affected employees.
  - We will support every affected person to find a role at Westpac or assist with other career options.
  - We will protect salary levels for any people redeployed as a result of offshoring.
3. We will always protect our customers' privacy.
  - We will insist that offshoring suppliers fully adhere to the privacy laws that apply to Westpac and to Westpac's privacy policies.
4. We will keep Australia or New Zealand critical customer data and related computer systems and servers in Australia and New Zealand.
5. We will insist that security and access controls in offshore suppliers are as good as or better than Westpac's internal security and access controls.
  - We will monitor security standards in all offshore supplier locations.
6. We will insist that all of our offshoring suppliers respect and support international conventions on human rights and labour standards.
7. We will keep our employees informed of our decisions.

**02**  
**VALUE**  
**SUPPLIER**



03

ISSUES

SUPPLIER

## WHAT ARE THEIR CONCERNS?

“Anecdotal evidence from the review suggests that sustainable supply chain management has driven change in corporate responsibility and sustainability among Westpac suppliers.”

When we developed a sustainable supply chain management (SSCM) process in 2003, there were few benchmarks or models to go by as it was ground-breaking for the banking sector.

This year we commissioned an independent and external review of the policy and process - to tell us what was working and what needs improvement.

The report and recommendations are under review and will be made publicly available, but these are the top-line observations:

### 1 Changes to the policy and process are significant

Before making any changes we will engage with suppliers, NGOs, government and the other stakeholders who co-developed the initial process.

### 2 Streamline supplier assessment

The use of the full questionnaire with all suppliers and for all Request for Proposals may not be the best use of resources. We will look at

restricting the full process to higher value and higher risk industry sector suppliers.

### 3 Does one size fit all?

Suppliers are sometimes critical of our 'one size fits all' approach. We need to set out more clearly that we do understand the differences between suppliers - and that this is taken into account within the scoring process.

### 4 Aim for a clearer policy

We agree that our policy and supporting documentation can be shortened and clarified.

### 5 A Supplier Code of Conduct

We will consider a Supplier Code of Conduct as one way of introducing corporate responsibility performance into our supply relationships as a contractual requirement for suppliers not subject to the full SSCM process.

Clarifying expectations via the Code will also help address how SSCM scores in some industry sectors.

### 6 Keep corporate responsibility on the table

We will consider a Balanced Scorecard or other mechanism to ensure that corporate responsibility performance is built into supplier relationship management - and not just considered at the time of new or renewed contracts.

### 7 Continuing internal engagement

We need to communicate better internally - outside of the Strategic Sourcing specialists - to build understanding of our SSCM intent and processes.

### 8 Supplier assurance

We need to accelerate the assurance of suppliers' performance.

### 9 Small and Medium Enterprises (SMEs)

We should clarify how SMEs fit within our sourcing strategy to be clearer about the supply opportunities for SMEs.

# FOCUS

ANTON HERMANN



Corporate social responsibility has changed the nature of commercial relationships. It produces a ripple effect that begins within each organisation and flows beyond.

By the time Westpac implemented its sustainable supply chain management (SSCM) Minter Ellison had already taken the first steps on our corporate social responsibility (CSR) journey. We looked at our performance and, on the whole, we liked what we saw: a proud record of contributing to the community through pro bono legal services and donations to worthy causes; we are not a major polluter; and we look after our people. Not a bad start – or so we thought.

The 2003 Corporate Responsibility Index was a sign of the ripple heading our way. We were on the back foot when it came to our own supplier relationships – and then Westpac asked us very similar questions. And we quickly realised that the self-satisfaction that comes from not being a major polluter did not equate to good CSR performance. We needed processes: to measure our environmental impacts, to set targets, to report our performance.

This was all new for us. When it comes to CSR, professional services firms differ from publicly listed companies in key aspects. As a business-to-business operation we do not have a mass customer base shaping our CSR agenda. As a private partnership we do not have the public reporting requirements. And our community role with no expectation of reward or reputational benefit pre-dated the CSR movement.



**“In recent years the tendering process has gone beyond technical expertise and price to examine non-financial performance and cultural fit.”**

But there are similarities also. Our most important asset is our people – and our people tell us that they expect to be involved in the community; and that they want to work in an office that uses less and recycles more natural resources. So there are still market forces to guide our CSR journey.

The same applies to our clients. In recent years the tendering process has gone beyond technical expertise and price to examine non-financial performance and cultural fit. This has had a major positive influence on the CSR agenda of professional services firms – including Minter Ellison.

Westpac’s SSCM strategy has taken this client influence to a new level. When we first responded to Westpac’s SSCM survey in 2004 we were faced with gaps across environmental performance, public reporting and marketplace management. By 2005 we had measures in place: joining the Australian Government’s Greenhouse Challenge; new processes to collect and analyse data across the CSR agenda; and better reporting of CSR principles and performance on our website.

In short – it worked. In Westpac’s 2005 survey our performance exceeded the professional services average.

Back in 2003 we took our own steps to commence our CSR journey – and we remain the only law firm to participate in the Corporate Responsibility Index in Australia, NZ and the UK. Westpac’s SSCM strategy took us further and faster down this path.

Significantly the drivers for change are not just our corporate services team but, in fact, the firm’s partners and senior lawyers. They happen to give a damn about paper recycling, clean energy and water consumption – but now there’s also a business case. And surely that’s what CSR is all about.

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**Anton Hermann** National Director  
– Pro Bono & Community Investment,  
Minter Ellison Lawyers

# HOW DID WE DO?

**05**  
PROGRESS  
SUPPLIER

2006 OBJECTIVE	PROGRESS TO DATE	2007 OBJECTIVE
To ensure top 100 suppliers are screened at all times for their social, ethical and environmental performance.	Approximately 75% of rolling top 100 suppliers (87% of the top 100 procurement spend) have been assessed.  <b>In progress</b>	Develop and implement a Supplier Code of Conduct.
Continue to strengthen the engagement of suppliers with forums, resources and education.	Supplier Forum held in March 2006. ✓	Review and refresh the SSCM policy, assessment tools and supporting materials.
Increase continuous improvement agreements to 75% of those deemed required, and strengthen monitoring and reporting processes against those agreements.	Continuous improvement agreements continue to grow. Reporting and staff resources have been improved to ensure closer monitoring. ✓	Refine implementation of the SSCM assessment and continuous improvement processes to ensure high spend and higher risk suppliers are appropriately monitored.
Expand into the New Zealand supply chain, working with Westpac New Zealand to assess their key suppliers.	Sustainable supply chain management launched in NZ, with most key suppliers assessed. ✓	Improve SSCM assessment and support materials for SMEs.
Formalise training and assessment in sustainability in the supply chain through Westpac's induction training and Learning Management System.	Learning modules launched for the Sourcing Team with all designated staff progressing well towards full completion. Broad-based sustainability e-learning launched - includes supply chain. ✓	Convene a supplier representative group to inform SSCM policy and practice.

## WHAT ARE WE DOING?

# Supplier wrap-up

### Performance

Our supply chain involves approximately 10,000 suppliers in all industries, and our supply chain delivers goods and services with an annual value of around \$2.5 billion. It is also highly concentrated, with approximately 71% of annual spending absorbed by the 'top 100' suppliers. Our focus for SSCM is on suppliers that account most significantly for spend.

During the year, we conducted a review of our Transactions and Unsecured Lending Operations (TULO), in Concord NSW, to determine if some of its business functions can be done more efficiently by

external partners. This was solely focused on back-office processing and did not cover any call centre staff, or customer-facing staff in any capacity.

This review raised some concern among our people and the broader community around the question of 'offshoring' and the potential impact on the services we provide. In November 2006, we decided not to proceed with the offshoring option for these functions.

### Sustainable Supply Chain Management (SSCM)

We look for suppliers who demonstrate a commitment to take account of their responsibilities, and

work with our suppliers to promote mutually improved social, ethical and environmental performance.

Our Sustainable Supply Chain Management (SSCM) Policy and Guidance Notes sets out our approach and process for identifying and mitigating social, environmental and governance risks within our supply chain. It applies through all Request For Proposal (RFP) and Request For Tender (RFT) processes.

Our supply chain process is overseen by the SSCM Steering Committee, which meets on a quarterly basis. Issues for review in 2006 included embedding SSCM in

independent sourcing across the business and the need to conduct a review of the SSCM process, incorporating a qualitative risk assessment overlay. The SSCM Steering Committee will undertake this review in 2007.

Our full Sustainable Supply Chain Management Policy and Guidance Notes are available on our website at [www.westpac.com.au](http://www.westpac.com.au) under the 'Westpac info' tab.

### Accounting for supplier performance

We aim to ensure that 100% of our top 100 suppliers are assessed against SSCM at any given time. This is a challenging target because membership of our top



suppliers changes from year to year. Over 350 suppliers have been assessed under SSCM to date.

As at 30 September 2006, 75% of our top 100 suppliers have been assessed against SSCM, up from 69% last year. This accounts for 87% of procurement spend within the Top 100. In addition, new suppliers to Westpac continue to be assessed against SSCM, as well as existing suppliers extending their contract. This allows us to capture the smaller enterprises and suppliers who may not otherwise have been assessed.

### **The policy in practice**

Our approach is to work with our suppliers to identify risks and opportunities with the potential to add value to the relationship. We focus on establishing reasonable and effective Remedial Action Plans (RAPs), whereby we agree on the most meaningful area for potential improvement for their business.

This can include anything from Emergency Response Planning to eco-efficiency to establishing an effective community involvement program. Increasingly we find suppliers are keen to understand and address

their environmental impacts and we are always happy to share our experience tackling our own sustainability performance.

Within the reporting period, we finalised ten RAPs, had twelve agreed to and in progress and a further nine are pending. In addition, many suppliers choose to address identified gaps and apply for re-assessment under the SSCM process.

A continuing challenge for the SSCM assessment process lies in the interpretation of public reporting requirements, particularly for private companies. The review of tools and processes planned for next year will address this issue.

During the year, we have introduced a learning module on SSCM for designated people within Sourcing. We have also incorporated a suppliers component into a new e-learning module on corporate responsibility, which is currently being rolled out across the organisation.

### **Strengthening relationships**

We have found that the application of SSCM has

provided an excellent avenue for broadening the dialogue with our suppliers.

In March 2006, we held our second Supplier Forum at which 49 supplier representatives attended. The forum focused on communicating our objectives and some key results on our performance and provided an update on where we are going with SSCM. In 2007, we will be convening a supplier representative group to inform SSCM policy and practice at Westpac on an ongoing basis.

We recognise that within Australia many suppliers face similar sustainability assessment processes for a number of organisations in the financial services market. So we have begun preliminary discussions with other major banks in our market to explore the potential for streamlining sustainability assessment processes, or alternately recognising standardised processes between comparable institutions. There remains a fair way to go in agreeing on this process, but it is an issue that we acknowledge and have begun to look at.

We source feedback from our suppliers on ad hoc issues through our organisation-wide stakeholder engagement mechanisms. In 2006, a number of suppliers provided feedback on our stakeholder impact report and participated in engagement workshops. We also sought specific feedback on improving our paper procurement policy.

### **Next steps**

We recognise that it has now been three years since we first developed our SSCM policy and methodology. The sustainability agenda has moved forward considerably in that time.

So in 2007, we will be conducting a complete examination of SSCM to review, streamline and refresh the policy, assessment tools and supporting materials. This review will be especially focused on ensuring that high risk and high spend suppliers are appropriately assessed through the SSCM process and assessing the impact of SSCM on small business. ●

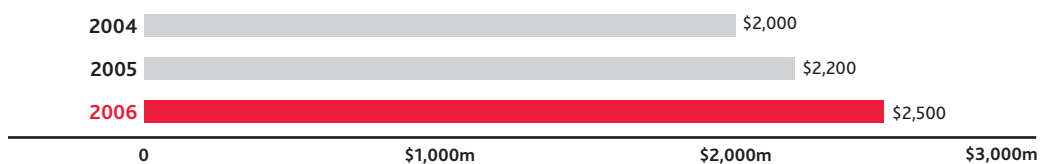
# NOW FOR THE NUMBER CRUNCHING...

## Market performance (%) all assessments under SSCM

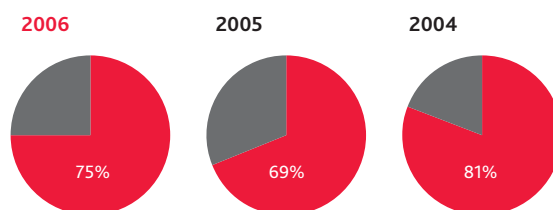
Mean score (relative weightings vary by category)  
Number of suppliers per category exceeds 50

	2005-06	2004-05
Professional services	49	50
Travel & logistics	60	41
It & T	52	55
Marketing, outsource and staff expenses	49	52
Property services	53	58
Westpac	95	95

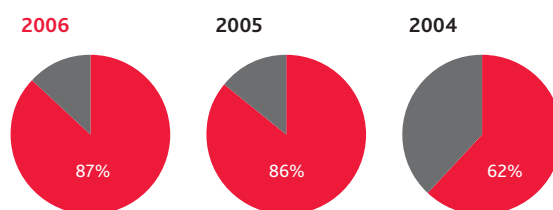
## Total supply chain spend (\$bn)



## Assessment of suppliers against SSCM (% of top 100 suppliers)



## Assessment of suppliers against SSCM (% of top 100 by spend)



## Remedial Action Plans (RAPs)

	2006	2005
Number completed	10	0
Number agreed to and in progress	12	9
Number pending	9	25



NEW ZEALAND & PACIFIC  
CASE STUDY



# Westpac becomes a Kiwi company

Our commitment  
opens a new  
chapter in our  
145-year history  
in New Zealand.





**O**N NOVEMBER 1, 2006 the retail and business banking arms of Westpac New Zealand became Westpac New Zealand Limited (WNZL), a locally incorporated company.

For most customers the change to being a New Zealand incorporated bank should be virtually invisible. Their accounts, contracts and agreements with Westpac remain unchanged. The same applies to our people as employment contracts, superannuation, or other conditions of employment won't change as a result of local incorporation.

We have a new Board: Dr David Morgan becomes Chairman of Westpac New Zealand, while Ann Sherry continues as CEO. On September 8, the New Zealand Board met for the first time, a significant milestone in the preparations to become a Kiwi entity.

Our move to local incorporation is a clear demonstration of our ongoing 145-year commitment to our Kiwi customers, the importance of the New Zealand market, and our determination to give employees a first-class working environment. ●

**“For most customers the change to being a New Zealand incorporated bank should be virtually invisible. Their accounts, contracts and agreements with Westpac remain unchanged.”**

# Keeping it local

We're committed to improving the quality of life for New Zealanders and the people of the Pacific Islands in which we operate.



### Our business

Westpac New Zealand has been operating in New Zealand since 1861 and is one of the country's largest banks. We provide banking and wealth management services to around 1.4 million customers through a network of 196 branches, and 463 ATMs, and have around 565,000 registered online banking users.

Westpac Pacific Banking has been operating in the region since 1901. We are represented in the Cook Islands, Fiji, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu. Our presence includes around 47 branches, 51 ATMs, an extensive EFTPOS network and around 9,000 registered online banking users.

Our aim is to manage the challenges of growing our business in the region whilst balancing our role in creating value for society and the environment.

We publish a detailed account of our performance in the New Zealand Stakeholder Impact Report. This is available at [www.westpac.co.nz](http://www.westpac.co.nz). All information relating to Westpac New Zealand has been subject to assurance and verification against the AA1000 Assurance Standard, while Pacific Banking data is subject to verification.



### Emerging issues and stakeholder concerns

Our formal stakeholder engagement framework includes linking in with our people in Australia on internal working groups for social and environmental performance, Indigenous development and suppliers.

In May, we held the inaugural meeting of the Westpac New Zealand Community Consultative Council (CCC). Its role will be to help shape our corporate responsibility and sustainability program.

The New Zealand CCC is chaired by our New Zealand CEO and includes CEO or senior level representation from key stakeholder groups. We ask members what the sustainability priorities and emerging agenda are for our industry and the community. The Council is an important health check for the way we run our business and will meet annually.

Critical issues to emerge in New Zealand this year included pay disputes, consumer debt, fees and charges, financial and social exclusion, disability, diversity and environmental leadership. We will seek to respond to these issues throughout the year.

Within the Pacific, we occupy a unique position in the social and economic fabric of each of the nations where we are represented. This year we have begun formally implementing a corporate responsibility and sustainability agenda within our Pacific Banking operations. This included a meeting of all Country Heads to identify critical social, environmental and economic issues. We found that across the entire region, health, education and environmental issues dominated.

Political instability has also been a recurrent theme in a number of Island nations throughout the year. Our responsibility is to ensure the safety of our people first and foremost, and to contribute to the ongoing economic functioning of each of the nations where we operate.

Within the year, Westpac representatives have held positions on a number of key capacity building bodies. This has included the Rotary Association, the Salvation Army, the Australia/PNG Business Council, the Asia-Pacific Business Coalition on HIV/AIDS, Transparency International and the Red Cross, among others. ●

## WHAT ARE WE DOING?

# New Zealand & Pacific

### New Zealand

#### Employees

We employ around 6000 people, 28% male and 72% female. This year employee commitment stayed at 72% and employee engagement improved by 1% to 77%. Pay levels once again emerged as an area of concern for our people.

In December 2005, Westpac New Zealand was the subject of a one day strike. The key issues were related to understaffing, pay and pay progression and target based pay. This was not just about staff dissatisfaction with pay but more importantly it was about our people not feeling valued.

We subsequently agreed on a number of initiatives to address their concerns. These include a 5.2% pay offer over 16 months, not linked to sales targets and the implementation of a new pay progression system.

Our Lost Time Injury Frequency Rate (LTIFR) for this year was 2.02, down from 2.11.

#### Customers

Overall, Customer Satisfaction has remained at 58%, lowest on the table of six New Zealand banks. In response, we have

established a number of initiatives.

We have appointed a new Director of Customer Experience and Service and are extending the role of the Independent Customer Advocate to handle complaints.

Following an industry inquiry by the Commerce Commission, our currency conversion fees for credit and debit card transactions between April 2002 and December 2004 were contested. We have agreed to pay NZ\$4.5 million in compensation to current and former customers and will pay a fine of NZ\$570,000.

Any unclaimed portion of the settlement funds will be paid to the Salvation Army budget advisory service and the NZ Federation of Family Budgeting Services. Currency conversion fees are now extensively disclosed to our customers on statements and in our standard terms and conditions.

#### Environment

Emissions of CO<sub>2</sub> have gone up 16% since 2005 – from 5,708 tonnes in 2005 to 6,215 tonnes.

Our paper usage has dropped this year. This is largely due to the 650,000

customers who choose to receive electronic statement via Online Banking, saving around 7,785 reams of A4 paper. We have also rolled out our Zero Waste program to 10 of our key corporate sites.

Through our group-wide application of Equator Principles all project finance transactions in New Zealand are screened for environmental, social and governance risks. Following the launch of the 'EcoNomical Living' green home loan program in Australia, we are currently investigating the applicability within New Zealand.

#### Social

We have spent over NZ\$6 million on community involvement initiatives, \$800,000 more than last year.

Within New Zealand, our key community partners include the Westpac Rescue Helicopters, Life Education Trust, Internet Safety Group and the Sir Peter Blake Trust. In 2006, we celebrated our 25th anniversary of sponsoring the Westpac Rescue Helicopter.

We matched \$81,110 in donations in the past year, 52% more than last year. This year, 587 of our

people chose to access their Employee Volunteer Day to work in their local community.

Through our Financial Literacy program, branches are being encouraged to open up training to their customer and local communities. This will be one of our major challenges for 2007.

#### Finance and governance

This year, we paid salaries and bonuses of NZ\$351 million, spent NZ\$300 million with suppliers and paid NZ\$319 million in taxes as part of our contribution to the New Zealand economy.

#### Pacific Banking

##### Employees

At year end, we had 1,102 full-time employees, 59% female and 41% male. 97% of our employees are local residents, while 28% of our managers are women.

In this year's SPS, we saw a slight decline in Employee Commitment, to 74%. Under the new People Leaders' Index, our result was strong at 82%. In 2007, we will focus on leadership, training, and development and pay issues.

In response to feedback from employees and the SPS, we have put together a Leading Achievement reference

guide for performance management, a new performance management internet site and 'Bridging the Performance Gap' guidelines on how to manage poor performance.

### Customers

We operate 47 branches, including six agencies and 51 ATMs across the Pacific Islands. We provide Internet Banking and Telephone Banking in Fiji, PNG and Tonga, while Fiji and PNG offer both an automated (IVR) and operator based service.

Overall, customer satisfaction this year was highest in the Cook Islands and Tonga with other markets showing slight declines. Fiji out-performed all other markets in the commercial market segment. Within the Mass Market segment, Tonga and the Cook Islands improved their product satisfaction.

To encourage local women to step up and take on more challenging roles, Westpac initiated the Women in Business Awards in Fiji. Since it began in 2003, this has become a significant social and business event and is now being replicated in Tonga and Samoa.

In Vanuatu we identified a gap in our customer representation from within the local Francophone community. In 2004 we began employing French speaking employees. We now sponsor staff wanting to take French language lessons.

To enable communities in remote locations to access banking services, we are currently trialling a remote banking solution on Wakaya Island, Fiji, using our EFTPoS infrastructure. Our people in Tonga have been visiting local villages and conducting workshops on banking and finance.

We have introduced two education programs for Indigenous Pacific Islanders. The first is our "Financial First Steps" program, which has been adapted for local circumstances. We are also conducting "Beyond Survival" courses for small businesses in the islands.

We are a founding sponsor of the Microfinance Pasifika initiative. Their mission is to assist companies interested in developing microfinance products and services throughout the Pacific.

### Environment

We are committed to managing our impact on the environment and

to supporting initiatives with high environmental benefit in the region. In 2006, we began measuring and reporting on our environmental performance for the first time.

Our lending guidelines state that we will not provide a loan where the purpose breaches environmental law. In relation to resource projects financed in the Pacific, Westpac is a signatory to the Equator Principles.

The threat of climate change and global warming makes the Pacific particularly vulnerable to rising sea levels and flooded homelands. We are promoting greater awareness of climate change issues so our people can understand its implications for their customers and their local communities.

### Social

Pacific Banking has a long history of active participation in local Island communities. This year Labasa Branch, Fiji, won the CEO's Gold Team Community Award for assisting the Labasa School for the Handicapped. The PNG Limited Credit Team won the Bronze Team Community Award for supporting Ward 4B of Port Moresby General Hospital, caring for people living with HIV/AIDS.

In 2006, we entered into a strategic partnership with the University of the South Pacific to provide a unique program to young people in Fiji, Solomon Islands, Cook Islands, Samoa, Vanuatu and Tonga. The program incorporates an internship program, five-year scholarships across a range of disciplines and funding to develop a post-graduate program in finance and governance.

Westpac is also a member of the Asia Pacific Business Coalition for HIV/Aids, a coalition of Australian corporations joining together to coordinate a response to the emerging regional AIDS epidemic.

### Finance and governance

During 2006, Anti Money Laundering (AML) legislation has been introduced or upgraded in several countries, and we work closely with local regulators and our Australian colleagues.

Locally prescribed AML training programs have also been completed in several countries. Westpac is also planning to launch its own AML awareness training program across the Pacific in late 2006.

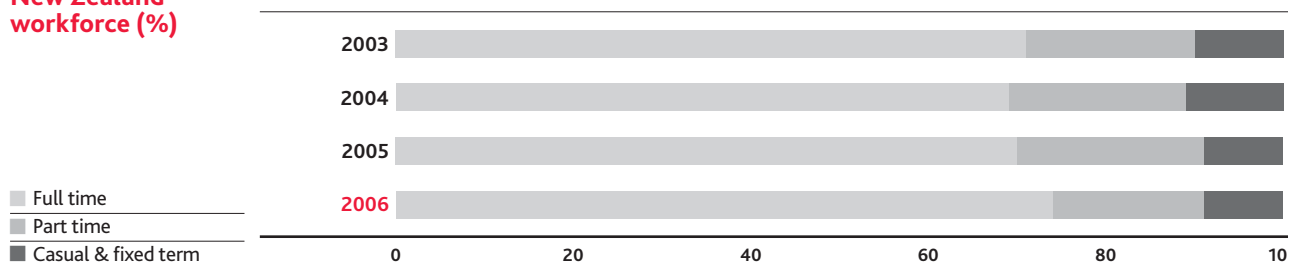
## Key Financials

	New Zealand (\$NZ)				Pacific Banking (\$AU)			
	2006	2005	2004	2003	2006	2005	2004	2003
Operating income \$m	1,371	1,687	1,688	1,571	176	148	139	132
Operating expenses \$m	(658)	(726)	(731)	(699)	(55)	(53)	(51)	(51)
Cash earnings \$m	464	463	617	462	76	65	56	58
Economic profit \$m	264	228	234	200	62	51	45	47
Total assets \$bn	52	45	42	40	1.6	1.3	1.2	1.0

## Points of access

	New Zealand				Pacific Banking			
	2006	2005	2004	2003	2006	2005	2004	2003
Branches	196	195	196	200	47	43	43	57
ATMs	463	471	470	480	51	41	38	38
Internet customers	565,000	480,000	400,000	325,000	9,000	5,500	2,500	93

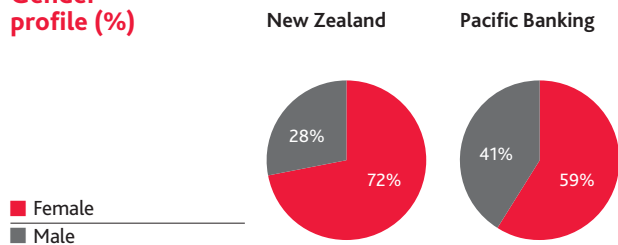
## New Zealand workforce (%)



## Pacific Banking workforce

Full time	84
Part time	16
Casual & fixed term	0
Total no.	1,102
Expatriate employees (No.)	31
Expatriate employees (%)	3%

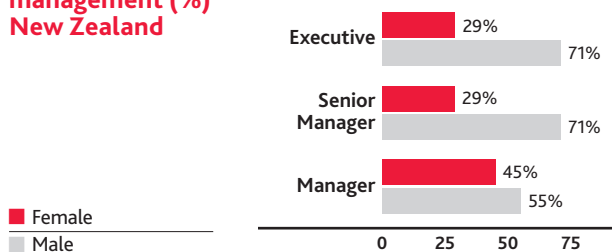
## Gender profile (%)



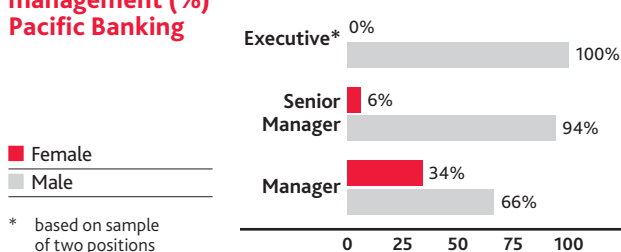
## Employee satisfaction (% favourable)

	New Zealand				Pacific Banking
	2006	2005	2004	2003	2006
Employee commitment	72	72	68	64	74
Community/Social	84	90	91	93	91
Work/Life Balance	75	71	68	70	63
Communication Culture	73	74	73	64	78
Training & Development	60	65	65	60	71
Job Security	78	78	77	71	70
Remuneration & Benefits	48	55	52	50	42

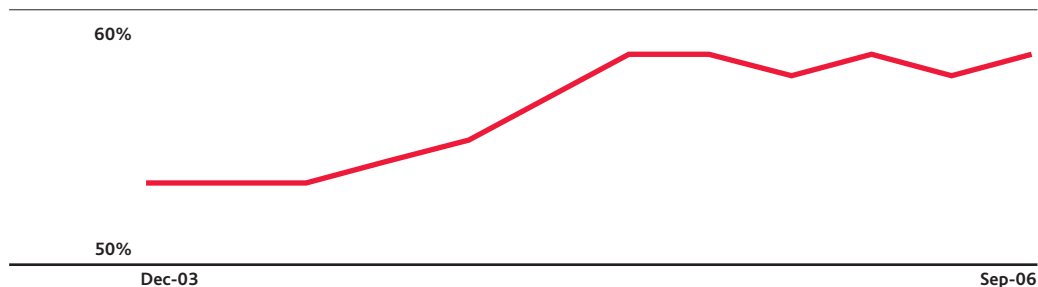
**Women in management (%)  
New Zealand**



**Women in management (%)  
Pacific Banking**



**Customer satisfaction (%)  
New Zealand**



**Customer satisfaction  
Pacific Banking**

Possible score out of 10

	Fiji	PNG	Samoa	Tonga	Vanuatu	Cook Islands
2004	8.8	7.6	7.7	7.4	7.8	8.2
2005	8.5	8.8	8.5	8.4	8.8	n/a
<b>2006</b>	<b>8.4</b>	<b>8.2</b>	<b>8.1</b>	<b>9.1</b>	<b>8</b>	<b>9.2</b>

**Environmental performance**

\* Does not include CO<sub>2</sub> arising from paper consumption

		New Zealand				Pacific Banking
		2006	2005	2004	2003	2006
Electricity	KWh	30,385,153	27,267,044	28,852,060	26,685,718	4,773
	t CO <sub>2</sub>	4,558	4,257	5,266	4,315	4.14
Gas	kWh	1,494,780	1,382,730	1,835,150	1,493,679	0
	t CO <sub>2</sub>	284	263	349	284	0
Petrol	Litres	597,996	517,375	443,132	396,592	125,122
	t CO <sub>2</sub>	1,373	1,188	1,018	911	307
Paper	Tonnes	1,153	2,240	1,932	1,121	91
<b>Total CO<sub>2</sub>*</b>	<b>t CO<sub>2</sub></b>	<b>6,215</b>	<b>5,708</b>	<b>6,633</b>	<b>5,510</b>	<b>312</b>

**New Zealand Community contributions as % of pre-tax profits**

New Zealand only

	2006	2005	2004	2003
Pre-tax operating profit (NZ\$m)	962	917	918	667
Excluding Commercial Sponsorships	0.56%	0.50%	0.46%	0.64%
<b>Total Community Contributions</b>	<b>0.66%</b>	<b>0.61%</b>	<b>0.58%</b>	<b>0.82%</b>



**FINANCE & GOVERNANCE  
CASE STUDY**

**“We are working to identify the links between sustainability performance and financial outcomes.”**

**Engaging  
capital  
markets**





**S**USTAINABILITY IS NOT just about doing the right thing. It is equally about driving long term shareholder value by reducing risk, enhancing the resilience of our business, and pursuing next generation assets. But mainstream equity analysts and asset managers are typically not yet on side.

Sustainability cannot easily be shoe-horned into a financial spreadsheet. Data is not always comparable and new skill sets are required. Demand, although growing, remains limited, and we are asking analysts to step out of their comfort zone.

Our response is to try to tackle each link in the investment supply chain – companies, brokers, asset managers and asset owners.

We measure, manage and report on what matters. This means going beyond sustainability to look at other critical aspects of our business, for example intangibles such as intellectual capital and reputation. We are working to identify the links between sustainability performance and financial outcomes. Together with like-minded people we are rethinking value itself.

For our asset management people it has meant signing up to the UN Principles for Responsible Investment.

Above all it is about presenting financial and leading performance indicators together – in a language that we all understand. ●



01

PHILOSOPHY

FINANCE &  
GOVERNANCE

## WHAT DO WE BELIEVE?

# Our approach to finance & governance

When it comes to corporate governance we believe there is no excuse for anything but excellence.

**O**UR APPROACH TO corporate governance is based on a set of values and behaviours that underpin everyday activities, ensure transparency and fair dealing, and protect stakeholder interests.

This approach includes a commitment to best practice governance standards, which Westpac's Board sees as fundamental to the sustainability of our business and performance. ●

## WHY DO WE DO IT?

There's no escaping that the numbers are the real bottom line because our profitability underpins everything we do.

And good governance is not just housekeeping. It is about promoting fairness, transparency and accountability by setting out the rights and responsibilities of the Board, management and shareholders. As such it is a fundamental part of the broader sustainability mindset.

Growing evidence links good governance and enhanced shareholder returns, so the value is clear. More than just showing a further commitment to doing the right thing, good governance is a strong indicator of overall management capability and quality – which flows straight to the bottom line.

02

VALUE

FINANCE &  
GOVERNANCE



03

ISSUES

FINANCE &  
GOVERNANCE

### Corporate Responsibility: Managing Risk and Creating Value

*Parliamentary Joint Committee on Corporations and Financial Services ('PJC') 2006.*



**E**XACTLY TO WHOM is business accountable: shareholders, stakeholders more broadly defined – or indeed the whole community? This is the most fundamental question at the heart of the recent debate around corporate responsibility. Questions logically follow around the duties of directors, legal interpretations and the current

provisions within the Corporations Act, and also around the implications for public reporting.

This year was marked with not one but two comprehensive Federal Government inquiries into corporate responsibility, which tackled these issues head on.

Although the PJC inquiry was announced in June 2005, the excellent discussion paper from the Corporations and Markets Advisory Committee (CAMAC) inquiry, released in late 2005, made the early running. The PJC Inquiry was soon into its stride, and we had extensive input via background briefings, detailed submissions and in-person evidence at public hearings.

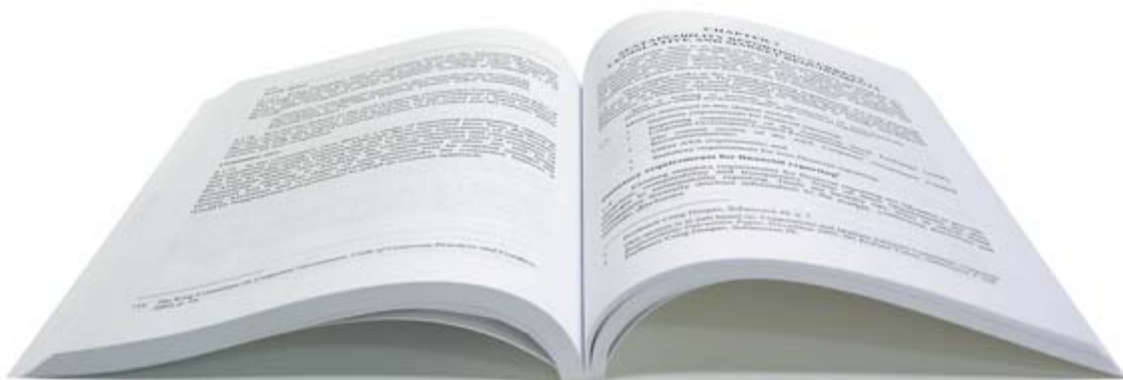
The PJC Report findings and discussion were certainly in tune with our own view on corporate responsibility – perhaps most fundamentally that it is emerging as a critical issue for Australian business – and is a core strategic proposition.

When it came to directors' duties, the Committee favoured our 'enlightened self-interest' position and agreed that the Corporations Act provides sufficient room to move to take this management approach. And the Committee also agreed that on balance, non-financial reporting should remain voluntary at this early stage in its evolution.

The Report set out 29 specific recommendations. Perhaps the most significant were around reframing sustainability in risk terms, and via the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations.

Beyond this, many of the recommendations are designed to encourage the uptake of sustainability principles and practice. This included a whole-of-government approach to coordinate Government's various corporate responsibility programs; and voluntary targets for government agency reporting and procurement. The Committee also recommended that institutional investors become signatories to the United Nations Principles for Responsible Investment.

As a snapshot of the sustainability play in Australia, this key report is hard to beat. Even better, this period of very valuable and intense reflection and scrutiny has now been effectively book-ended with the release of the Explanatory Paper and Exposure Draft from the Australian Stock Exchange Corporate Governance Council – and these are discussed on following pages. ●



**04**  
**ADVOCACY**  
**FINANCE & GOVERNANCE**

**Macquarie Research Equities**  
 Thursday 13 April 2006

## Westpac Bank

### Intangible issues become tangible profits

**Event**

- Westpac (WBC) briefed the market on its approach to managing intangible value, arguing these "soft" factors are critical to delivering sustainable earnings performance and managing regulatory and reputational risk.

**Impact**

- WBC reiterates focus on delivering sustainable performance. Long a hallmark of the bank's strategies, management again reiterated its commitment to taking a longer, broader view as well as an ongoing financial performance drivers and financial outcomes.
- Lower staff turnover delivers \$40-\$50m in savings. As tangible evidence of the benefits of its focus on intangible issues, WBC highlighted its 3.5% and other costs by an estimated \$40-\$50m. Further to this, if WBC could achieve ANZ's staff turnover levels of 11.6% another \$60-\$75m of savings would be available.
- Engaged staff create sustainable financial advantage. As we have long argued, delivering on the "soft" issues is a lead indicator of sustainable financial performance and a significant competitive advantage. For example, Hewitt estimates each additional engaged employee is worth \$5,000 per year in extra profits and high employee engagement translates strongly with higher revenues, profits and total shareholder returns.

**WBC's lower staff turnover has saved \$40-\$50m. Hitting ANZ's level could be worth another \$60-\$75m**

**WBC AU vs top 100 & rec history**

**Investment fundamentals**

	2005A	2005E	2006E	2006E
Price	23.30	23.30	23.30	23.30
EPS adj	1.17	1.25	1.33	1.41
PE adj	19.9	18.6	17.5	16.5
Div Yield	4.1	4.1	4.1	4.1
Franking	100	100	100	100

**WBC AU**

Relative to Volatility Index	AS 2006	AS
Stock price as of 12 Apr 06	24.38	24.38
12-month target	24.40	24.40
12-month TBR	24.47	24.47
Valuation	21.50	21.50
DOF (WACC 10.5%)	126.1	126.1
Adm	1.811	1.811
Adm m		

**WBC AU vs top 100 & rec history**

Asia Pacific Equity Research  
 12 April 2006

## Westpac Banking Corporation

### Financial Performance Sustainability Justifies Premium Valuation

**JPMorgan**

**Overweight**  
**AS\$24.38**  
 12 April 2006



In April 2006, we held our first Market Briefing on sustainability and its impact on company value.

• Yesterday WBC conducted an analyst briefing on "Westpac's Approach To Managing Sustainable Value". The presentations were detailed and more prone to "soft" non-financial measures. However WBC CEO David Morgan stated that WBC's approach to sustainability is a function of shareholder value, not specifically a broad social agenda. Furthermore Morgan stressed that sustainability agenda sees WBC managed for long term shareholder value regardless of short term perceptions of value. Presentation is available on WBC's website.

1. WBC's focus on sustainability is important - The status of being "trusted intermediaries" means reputation or branding is extremely important. Strong branding allows some banks to differentiate themselves from the prevailing poor public perception of banks. WBC is well positioned to avoid potential negative shifts on regulation to address these issues.

2. WBC's focus on sustainability extends to financial performance sustainability - We expect (i) WBC business growth rates will match system growth going forward, (ii) WBC have a lower than peer future cost growth profile, and (iii) WBC has a lower than peer credit risk profile. WBC should continue to deliver stronger than peer EPS growth.

• We believe higher EPS growth and higher than peer organic

**Australia**  
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# HOW DID WE DO?

**05**  
PROGRESS  
FINANCE & GOVERNANCE

## 2007 OBJECTIVES

Group-wide consultation and submission on the ASX Principles Explanatory Paper and Exposure Draft.

Further enhance extended performance management and leading indicator reporting.

Further modelling of linkages between leading and financial indicators.

Accelerated engagement with mainstream capital markets.

Review our disclosure of public policy positions and participation in public policy development and lobbying.

# Finance & Governance

Our strategy is continuing to deliver consistent year-on-year financial performance. Key financial features of our 2006 results, compared to 2005, were:

- Net profit attributable to equity holders of \$3,071 million, up 14%;
- Earnings per ordinary share of 167.2 cents, up 12%;
- Return on average ordinary equity of 23.0%;
- Strong capital position with Group Tier 1 ratio at 6.9; and
- Adjusted common equity to risk weighted assets (ACE) at 4.6%.

Directors declared a final dividend of 60 cents per ordinary share (fully franked),

taking our full year dividend to 116 cents (fully franked), an increase of 16% on 2005 dividends and with a higher dividend payout ratio of 69%.

This sound 2006 result, a record profit, followed from good lending, deposit and wealth management growth. The decision to embrace sustainable and responsible business practice is now translating from workplace gains into business gains, and positions us well to deliver future growth. We believe Westpac is a bank people want to work for and one that people want to deal with given our stance on sustainable development

and strong communities. The result leaves us well placed to meet our financial goals in 2007.

### Corporate Governance

The main framework we report against is the Principles of Good Corporate Governance and Best Practice Recommendations from the Australian Stock Exchange Ltd Corporate Governance Council.

Rather than repeat them here, our governance practices and highlights for the year are fully set out within the Corporate Governance and Remuneration Report

sections of the Concise Annual Report or the Corporate Governance section of the website.

We consider that our governance practices comply with the 28 Best Practice Recommendations, subject to a single historical qualification.

Related governance aspects (eg employee consultation and issue identification) are also covered: elsewhere within this report; on the Corporate Responsibility and Sustainability website; and within Westpac's Charter and Board and Board Committee Charters – all of which are also available on the website.

# WHAT ARE WE DOING?

**06**  
PERFORMANCE  
FINANCE &  
GOVERNANCE

We continue to be highly regarded for the quality of our governance practices and disclosure. Westpac is the only bank top-rated globally by GovernanceMetrics International and has been so rated in six consecutive assessments over 2004-06.

## Revised ASX Principles

The convergence between sustainability and corporate governance was taken to the next logical level with the release in November 2006 of an Explanatory Paper and Exposure Draft setting out proposed revisions to the Principles. Some of the most significant proposals reframe sustainability in risk terms: 'material business risk' includes not only financial risk but also: operational; environmental; sustainability; compliance; strategic; external; ethical conduct; reputation; technological; human capital and so on.

These proposals have implications: for how material risk is identified; our risk management policy; systems and control; audit; and external reporting.

The Principles will be finalised following public feedback – and we will fully review the proposals and make a submission accordingly.

## Paying our dues

How much tax an organisation pays – and why – is a legitimate question. Our goal is to ensure that taxation is managed both as an expense and a resource for the maximum benefit of our shareholders, whilst at the same time complying with taxation laws and Group Taxation policy; in short – to pay the correct amount of tax.

This year we joined PricewaterhouseCoopers Total Tax Contribution project. This UK initiative has developed a framework for more comprehensive disclosure of tax reporting.

Our tax people have worked with PWC to test and refine the framework for the Australian tax environment – with more than 50 local taxes.

The majority of the taxes we pay, excepting Stamp Duty, are set out alongside.

## Total Tax Contributions

Taxes paid	Values (\$m)
PAYG Corporate Tax - Expense <sup>1</sup>	1,224
GST - Expense <sup>2</sup>	135
FBT - Expense <sup>3</sup>	18
Staff Superannuation - Expense <sup>4</sup>	108
Payroll Tax <sup>5</sup>	96
<b>Taxes collected</b>	
Queensland Credit Duty <sup>6</sup>	1
ABN, Non-Res, TFN WHT <sup>7</sup>	82
GST Collected <sup>8</sup>	362
<b>Other taxes we pay but not identified</b>	
Fire services levies <sup>9</sup>	
Stamp duties - as an expense and collected <sup>10</sup>	
Local government rates and taxes - expense <sup>11</sup>	
<b>Employees working solely on Tax<sup>12</sup></b>	<b>FTE</b>
Australia	39
NZ	5

- This represents the corporate tax instalments paid between 1 October 2005 and 30 Sept 2006 for the Australian Tax Consolidated Group and does not take into account any prior year adjustments.
- This is the approximate GST cost to the GST Group for the year ended 30 Sept 2006 ie GST paid on acquisitions, net of GST input tax credits. In order not to distort the numbers, it does not include any one-off adjustments for prior years and it represents only the GST Group. There are other entities outside the GST Group that are not captured as part of this number, however those numbers are relatively minor.
- This figure is for the FBT year from 1 April 2005 to 31 March 2006.
- This is the approximate cost of superannuation for the Westpac Group for the year to 30 Sept 2006.
- This figure is for the Payroll Tax year 1 July 2005 to 30 June 2006 and includes all States and Territories.
- Queensland Credit Duty has now been abolished. This figure is for the year ending 30 Sept 2006.
- Westpac also acts as a fund manager, responsible entity and nominee for a large number of investments and entities, and in this position Westpac is required to calculate and collect withholdings taxes. These figures do not include amounts collected in that capacity.
- This is the total of the GST collected and paid to the ATO between 1 Oct 2005 and 30 Sept 2006.
- These are incurred by the Westpac group, but are not necessarily recorded as separate items and hence cannot easily be reported.
- Significant amounts are paid and collected, however these are not easily identified as they are often embedded in invoices and existing data does not break down the invoices to that level.
- These are incurred by the Westpac group in respect of all properties we own, however these are not easily identified in the general ledger.
- This represents our full-time employees as at 30 Sept 2006 who work solely on tax-related advice and compliance matters. The figure does not include staff who assist tax staff on an ad hoc or part time basis. It also does not include contractors, external advisers, ad hoc project work or those who are responsible for lodging returns.

### Reputation Risk

A streamlined process was developed over the year which integrates reputation risk assessment into our operational risk and compliance analysis and reporting. Work is continuing to educate business units to ensure that reputation impacts are consistently identified and treated.

### Anti-Money Laundering and Corruption

We continued to contribute to the development of new anti-money laundering and counter terrorism legislation. In particular, in our submission to the 2006 second exposure draft of the Anti-Money Laundering and Counter Terrorism Financing Bill we emphasised the value of a less prescriptive, risk-based approach.

Group Operational Risk and Compliance operates a group-wide process across all business units which includes assessing and then, as appropriate, reporting on the potential for incidents of corruption. Typically corruption is understood in terms of supplier, outsourcing and alliance arrangements; MIS and business processes; sabotage; fraud, and so on. Financial Crimes Control provides additional expert

fraud management and anti-corruption support.

All employees, management and non-management, receive anti-corruption training on a rolling basis. From September 2006 a new learning module will replace a series of mandatory courses. 'Doing the right thing' consolidates current training across Compliance, Operational Risk, Financial Crime, Privacy, Health and Safety, Discrimination and Harassment, FSR Tier 4 and Information Security.

At Westpac, corruption is understood in terms of staff malpractice. By this we mean any dishonest appropriation of money or goods for financial benefit; improper conduct involving deceit or dishonesty with the objective of obtaining a material advantage; or a breach of Westpac's Code of Conduct. During the year, 101 employees were dismissed for staff malpractice: 46 in Australia; 23 in New Zealand and 32 in the Pacific.

No supplier contracts were cancelled because of violations related to corruption.

### Society and Public Policy

Our impacts from entering or exiting local communities specifically occurs mainly

through the quite different aspects of our physical representation and project financing. Our commitments and performance in ensuring equity and access to financial services are reported elsewhere in this report. The Equator Principles, also covered elsewhere, requires the assessment of social impacts and risks in project financing.

Public policy positions are reported on an ad hoc basis, most usually as public submissions. Westpac also currently chairs the Australian Bankers' Association, which publicly reports its consolidated policy positions.

Political donations are reported in the Concise Annual Report and to the Australian Electoral Commission.

There were no legal actions for anti-competitive behaviour, anti-trust and monopoly practices in the year. The New Zealand Commerce Commission prosecuted the New Zealand Branch under the Fair Trading Act 1986 in relation to disclosure of international currency conversion fees charged on foreign currency credit card and debit card transactions. Details are fully set out on page 105

of the 2006 Year End Profit Announcement.

There were no further fines regarded as significant, nor non-monetary sanctions, or cases brought through dispute resolution mechanisms for non-compliance with laws and regulations. ●

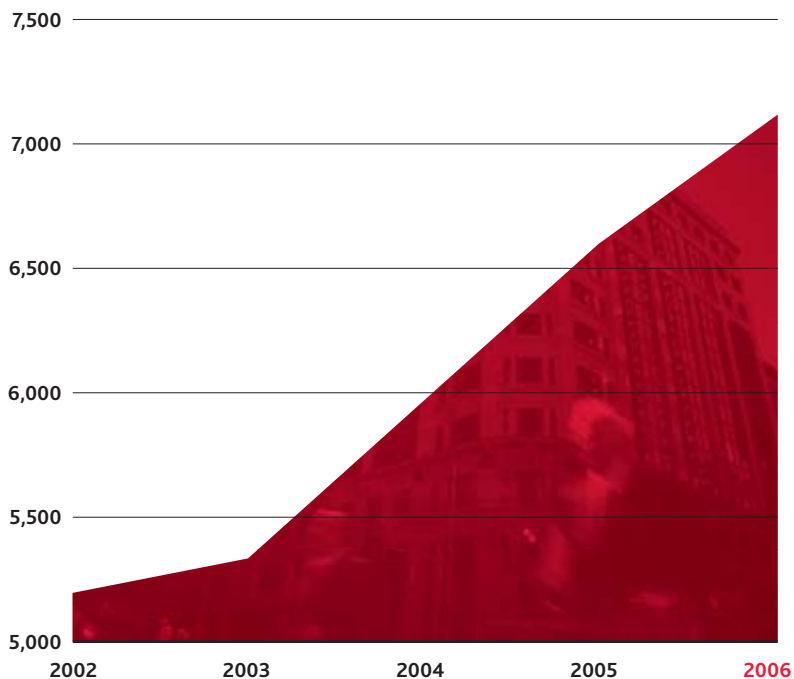


# NOW FOR THE NUMBER CRUNCHING...

## Gross added value

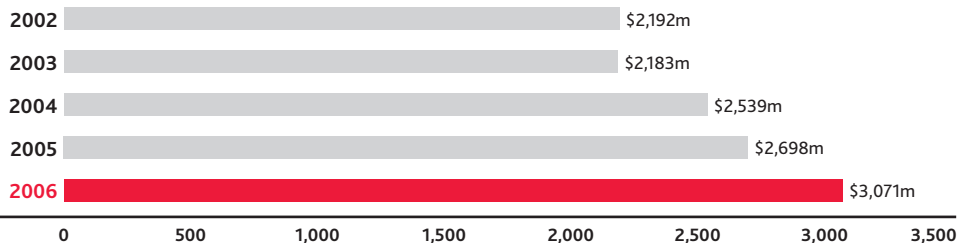
(\$m)

(See page 89 for the components of gross value add)



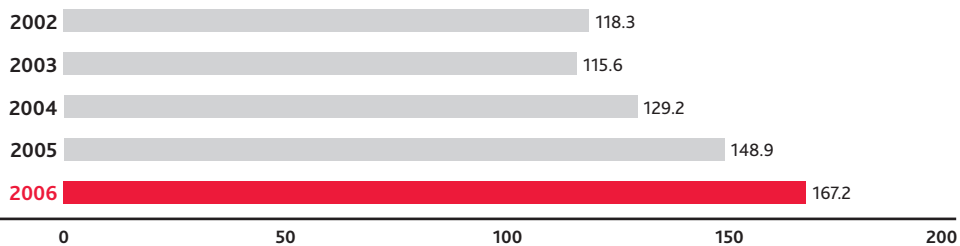
## Profit (\$m)

Operating profit after tax attributable to shareholders

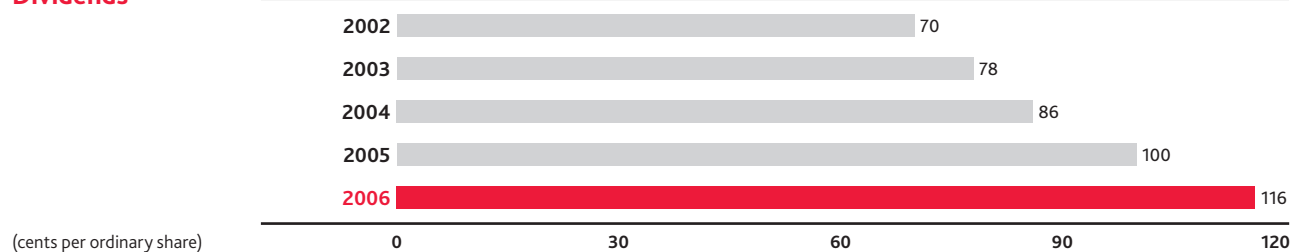


## Earnings

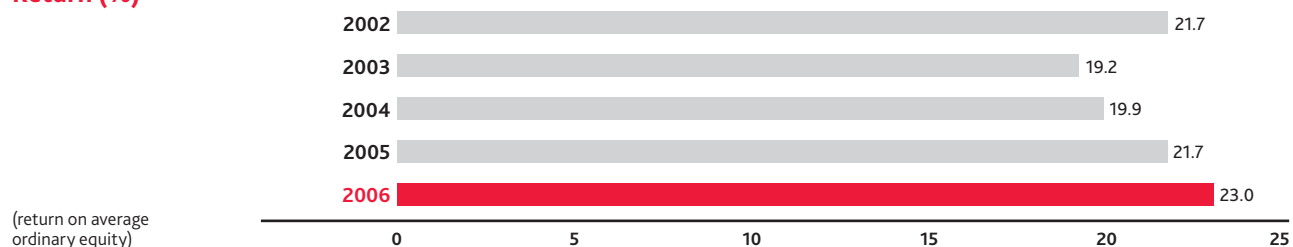
(cents per share)



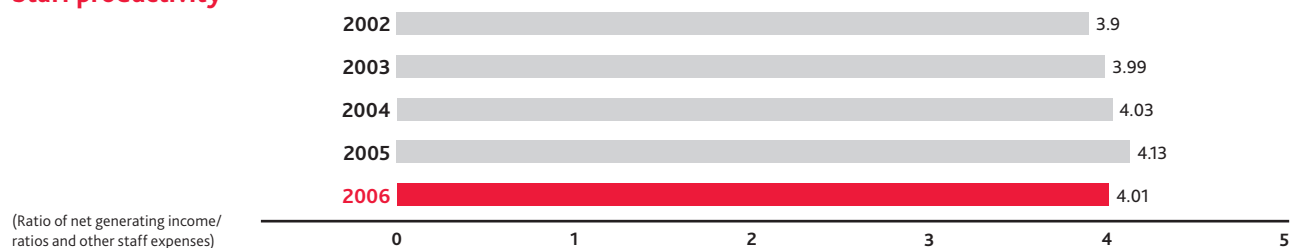
## Dividends



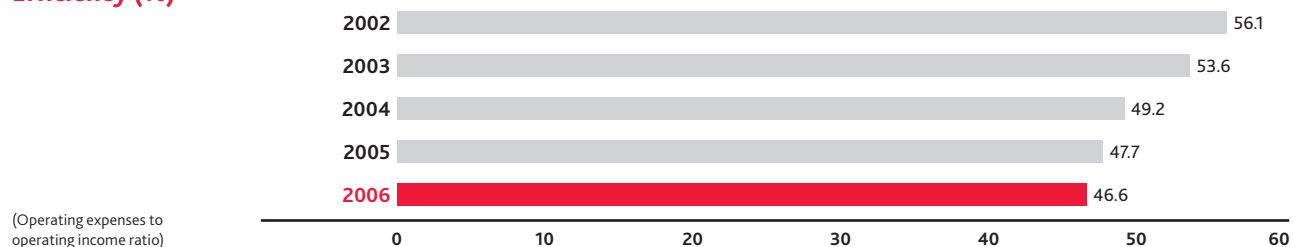
## Return (%)



## Staff productivity



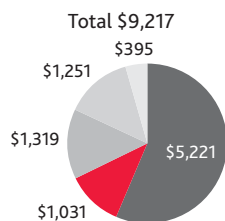
## Efficiency (%)



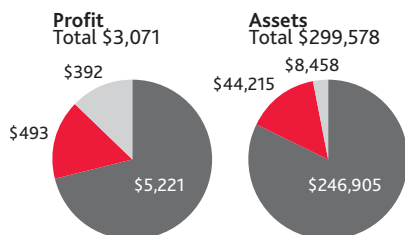
## Market price to net tangible assets

	2006	2005	2004	2003	2002
Share price (\$)	13.85	16.2	17.73	21.1	22.71
Net tangible assets (per share \$)	4.56	4.97	5.47	6.21	6.12
Ratio	3.04	3.26	3.24	3.4	3.71

### Operating income by key Business Unit (\$m)



### Profit and Assets by region (\$m)



### Value generation (\$m)

	Gross value add	2006	2005*	2004	2003	2002
Net interest income		5,642	5,259	4,755	4,326	4,285
Commissions & services net income		1,766	1,853	1,742	1,697	1,706
Trading operations net income		525	332	399	409	223
Life insurance & fund management net income		980	1,038	869	761	330
Other income		304	231	245	137	719
Net operating income		9,217	8,713	8,010	7,330	7,263
Suppliers & non-salary input costs		-2,113	-2,120	-2,061	-2,005	-2,076
Gross value add		7,104	6,593	5,949	5,325	5,187

\* Re-stated due to changes in accounting standards

### Value Distribution (\$m)

	2006	2005	2004	2003	2002
Dividends	2,822	1,963	2,109	1,428	1,319
Retained profit	303	965	470	763	878
Taxes	1,422	1,222	913	728	610
Salaries & bonuses	1,847	1,648	1,588	1,471	1,516
Social charge	47	44	42	37	30
Depreciation & write-offs	663	829	836	898	834
Total	7,104	6,671	5,958	5,325	5,187

# ASSURANCE STATEMENT



## WESTPAC AUSTRALIA'S SUSTAINABILITY REPORT 2006

### To Westpac Australia's stakeholders

Banarra Sustainability Assurance and Advice (Banarra) was commissioned by Westpac Australia to conduct an organisational and report assurance using the AA1000 Assurance Standard. In conformance with this Standard, our approach assures in terms of materiality, completeness and responsiveness. This is Banarra's sixth reporting cycle with Westpac, so we have built on our previous understanding of the organisation and its progress.

### Summary

We believe Westpac's Stakeholder Impact Report (The Report) provides a fair and balanced representation of the organisation's material sustainability issues in a way that allows stakeholders to make informed decisions about its sustainability performance. We are pleased to note that Westpac commissioned a comprehensive review of its reporting approach resulting in this report being a significant progression from previous reports; especially in terms of being more concise. However, this has caused some tension with providing sufficient detail to ensure completeness.

We believe the organisation has sufficiently robust and embedded processes to ensure it is able to identify, understand and respond to its material issues. There remains an opportunity however to develop a formal process with criteria for determining issue materiality.

### Assurance scope

Our report assurance scope included all sections of The Report, with the exception of the Pacific Banking narrative, financial data in the Finance and Governance section and testing The Report against the Global Reporting Initiative Guidelines. Our organisational assurance scope was determined by the high risk issues identified in the Materiality Register as described below.

### Banarra Assurance Methodology

We developed a register of material issues, identified through research based on the AccountAbility five-part materiality test. This included interviews with Westpac external stakeholders, seven Group Executives including the CEO Dr David Morgan and a wide range of other employees including customer facing staff. Reviews were conducted of internal documentation from policies to Board papers and we observed key decision making meetings such as the Pricing Committee. We also conducted internet-based research for issues and standards, reviews of peer sustainability reports and reviews of Westpac's own stakeholder engagement results.

Of the 355 relevant issues identified, our criteria found 40 to be material. Of these we ranked 17 as high risk. These issues focused our selection and testing of the organisation's systems and processes and The Report.

We tested 96% of all claims and data in The Report by developing audit trails, investigating assumptions, reviewing data generation procedures and conducting interviews. We noted a number of errors in the figures and claims presented. All were addressed and are corrected in The Report.

### Additions since last year

- Included environment in our assurance scope;
- Verified Westpac Pacific performance data;
- Observed decision making bodies, such as the Pricing Committee; and
- Interviewed seven of the ten Group Executives;

### Materiality – Has Westpac identified what's important?

Westpac has a range of embedded processes for engaging stakeholders and identifying material issues, such as the Community Consultative Council and Staff Perspectives Survey. The most material issues identified through these mechanisms are presented to the Board Corporate Responsibility and Sustainability Committee.

In our testing of the organisation's identification of material issues we found no omissions. While Westpac has various processes for identifying material issues, it does not have formal criteria for testing these issues as required by the AA1000 Assurance Standard Principles Guidance Note.

Most of the material issues we identified are acknowledged in The Report, others are acknowledged through the website and additional reports such as the Ask Once Commitments Report and the Concise Annual Report. Together these allow us to conclude that Westpac's reporting is free from material omissions, however the references and linkages between these different reporting mechanisms could be better articulated.

### Completeness – Has Westpac understood these issues?

In testing Westpac against the 17 high risk material issues, we were able to gather sufficient evidence to conclude that the organisation understands its most material issues. Westpac has a range of processes and systems supporting its understanding, most notably its stakeholder engagement mechanisms and related working groups such as the Social Advisory Group and the Ask Once Working Group.

We believe that the report is a fair and balanced account of the Westpac's responsibility performance allowing stakeholders to make informed decisions. Contributing to this is the newly formed cross-business unit Editorial Working Group, although an opportunity remains to use this body to greater value.

While nearly all of the material issues we identified are adequately explored in The Report, some issues would benefit from greater discussion. We believe the drive to be more concise this year has led to a tension with offering a complete account. For example Westpac's performance in delivering change management and projects such as Connect@Westpac could be more fully discussed. While Westpac's response to systems and processes holding back performance is more fully accounted for in the Concise Annual Report, this link is not clearly communicated in The Report.

### Responsiveness – Has Westpac responded to these issues?

Westpac has responded to all the material issues we identified including emerging issues such as the perceived increase in harassing and bullying behaviour.

Based on the high risk material issues we tested a number of systems and processes for managing responsibility performance. These included the processes for implementing the Equator Principles and for making pricing decisions.

As a result of testing Equator Principles implementation we concluded that the overall approach and process is robust. In addition, we identified a small number of improvement opportunities.

In testing the pricing decision making process we were pleased to note that the Pricing Committee has formalised a set of principles for responsible decision making. However, we found insufficient evidence that these principles were being comprehensively used in pricing decisions during the reporting period, particularly in relation to the package of increases implemented early in 2006.

The Report contains most of Westpac's responses to material issues, however there are some issues where a response is not accounted for. These include the planned responses to increasing employee disability diversity and how the gender pay inequity issue within Business & Technology Solutions & Services was addressed.

This year we were pleased to note that Westpac responded to a key Banarra recommendation to engage with stakeholders on the reporting process. As a result significant changes were made to The Report this year. We also made a key assurance recommendation in 2005 that Westpac Group Assurance be involved in assuring Westpac's corporate responsibility performance. Westpac has decided not to define a role for Group Assurance in this area.

### Opportunities

We have identified a number of opportunities for improvement, these include:

- Implement materiality criteria and processes for evaluating the relevance and importance of issues as required by the AA1000 Assurance Standard Principles Guidance Note;
- Communicate clearer links between the various reporting mechanisms to make it easier for stakeholders to access a complete picture of Westpac's performance;
- Review the boundary of future reporting to consider the relevance and importance of the increase in entities wholly owned by wealth management customers and wholly controlled by Westpac;
- Ensure Pricing Committee papers formally consider the Committee's Principles;
- Dedicate adequate resources to ensuring that water consumption data is reported in the next year's report;
- Increase the availability of additional performance data and information on the web as recommended by stakeholders in the reporting review; and
- Consider introducing new objectives and targets in relation to new issues, rather than restricting new targets to existing formal objectives.

### Independence

Banarra was paid by Westpac to conduct this assignment. This constitutes approximately 23% of our 2006 revenue. Other than this the assurance team declares itself independent in relation to Westpac and its stakeholders. There is a detailed statement on our competence, impartiality and methodology at [www.banarra.com](http://www.banarra.com)



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Sustainability Assurance Practitioner  
Banarra Sustainability Assurance and Advice

Sydney, Australia  
6 December 2006

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<sup>^</sup> Developed in conjunction with Australian stakeholders.

#### Key:

**	Disclosure on Management Approach
AR	2006 Concise Annual Report
AFR	2006 Annual Financial Report
OP	Our Principles for Doing Business
www	www.westpac.com.au/corporateresponsibility and www.BTonline.com.au
n/a	Either not applicable or currently not able to report against this indicator.
IFC	Inside Front Cover.
IBC	Inside Back Cover.

### Based on the following reporting frameworks

- The Global Reporting Initiative ('G3') guidelines
- Financial Services Sector Supplement: Social, November 2002
- Financial Services Sector Supplement: Environmental performance (Pilot Version 1.0)
- Australian-specific performance indicators developed through stakeholder consultation.
- VFU Indicators 2005
- Australian Government, 'Greenhouse Challenge Plus'
- Global Compact Principles
- ASX Corporate Governance Principles and other regulatory requirements.

Please also refer to the online KPI Index for reporting against the principles of the Global Compact.

### Self declared GRI Application Level A+.



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# SUSTAINABILITY RATINGS



Ranked number 1 in the global banking sector, for the fifth year in a row.



Ranked number 1 in Australia for corporate responsibility.



Included in the international ethical index FTSE4Good.



The only bank out of approximately 3,800 global companies to be awarded the maximum score by Governance Metrics International.



Included in the Australian SAM Sustainability Index (AuSSI).



We received the 2006 EOWA Award for the 10th year in a row.

## IN ACCORDANCE WITH GRI

This report has been prepared in accordance with the 2006 – 'G3' GRI Guidelines. It represents a balanced and reasonable presentation of our organisation's economic, environmental and social performance.

**David Morgan**  
CEO  
Westpac Banking Corporation

## WE SUPPORT



**UNEP Finance Initiative**  
Innovative financing for sustainability



World Business Council for Sustainable Development



**The Equator Principles**  
A framework for financial institutions to manage environmental and social issues in project financing



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Westpac Operation Backyard, in partnership with Landcare Australia, provides funding for the protection of biodiversity through habitat restoration projects. Since it began in 1998, we have provided \$1.4 million to help around 250 environmental projects in local communities across Australia.

