WESTPAC BANKING CORP
Form 20-F
November 07, 2003

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(MARK ONE)

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended September 30, 2003

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]**

For the transition period from to
Commission file number 1-10167

Westpac Banking Corporation

Australian Business Number 33 007 457 141
(Exact name of Registrant as specified in its charter)
New South Wales, Australia
(Jurisdiction of incorporation or organization)
60 Martin Place, Sydney, NSW 2000, Australia
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Ordinary shares, par value A$1.00, listed on the New York Stock Exchange not for trading, but only in connection with the registration of related American Depositary Shares, pursuant to the requirements of the New York Stock Exchange.

American Depositary Shares, each representing the right to receive five Ordinary shares, listed on the New York Stock Exchange.

Securities required to be registered pursuant to Section 12(g) of the Act

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act

4.625% Subordinated Notes Due 2018

Indicate the number of outstanding shares of each of the registrant's classes of capital or common stock as of September 30, 2003.

A$1.00 Ordinary shares	1,787,113,875	fully paid
	Nil	paid to 1 Australian cent
A$11.95 New Zealand Class Shares	53,694,931	fully paid

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the last 90 days.

Yes ý No o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 ý

WESTPAC BANKING CORPORATION

ABN 33 007 457 141

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 SEPTEMBER 2003

We are providing our report to equity holders in two parts:

Concise Annual Report

Annual Financial Report

Both parts will be lodged with the Australian Stock Exchange Limited and the Australian Securities and Investments Commission and are available on our web site westpac.com.au.

This Annual Financial Report includes the disclosure requirements for both Australia and the United States Securities and Exchange Commission. It will be lodged with the Commission as an annual report on Form 20-F.

Information contained in or otherwise accessible through the web sites mentioned in this Annual Financial Report does not form part of the report. All references in these reports to web sites are inactive textual references and are for information only.

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In this report references to "Westpac", "we", "us" and "our" are to Westpac Banking Corporation. References to "Westpac", "we", "us" and "our" under the captions "Information on Westpac", "Financial review", "Corporate governance", "Remuneration philosophy and practice", "Shareholding information", "Management" and "Additional information" include Westpac and its subsidiaries unless they clearly mean just Westpac Banking Corporation.

Form 20-F cross-reference index (for the purpose of filing with the United States Securities and Exchange Commission).

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Disclosure regarding forward-looking statements

This Annual Financial Report contains statements that constitute "forward-looking statements" within the meaning of Section 21E of the US Securities Exchange Act of 1934. The US Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation so long as the information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information.

Forward-looking statements appear in a number of places in this report and include statements regarding our intent, belief or current expectations with respect to our results of operations and financial condition, including, without limitation, future loan loss provisions and financial support to certain borrowers. We use words such as "may", "expect", "intend", "plan", "estimate", "anticipate", "believe", "probability", "risk", or other similar words to identify forward-looking statements. These statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of the risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Annual Financial Report as anticipated, believed, estimated, expected or intended. We do not intend to update these forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by us or on our behalf. These factors include:

- inflation, interest rate, exchange rate, market and monetary fluctuations;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices and government policy;

changes in consumer spending, saving and borrowing habits in Australia, New Zealand and in other countries in which we conduct our operations;

the effects of competition in the geographic and business areas in which we conduct operations;

the ability to increase market share and control expenses;

the timely development of and acceptance of new products and services and the perceived overall value of these products and services by users;

technological changes;

demographic changes and changes in political, social and economic conditions in any of the major markets in which we operate; and

various other factors beyond our control.

The above list is not exhaustive. For certain other factors that may impact on forward-looking statements made by us in this report refer to the section on "Risk factors" in this Annual Financial Report. Our forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ from those in the forward-looking statements as a result of various factors. When relying on forward-looking statements to make decisions with respect to our company, investors and others should carefully consider the foregoing factors and other uncertainties and events.

We are under no obligation, and disclaim any obligation, to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise after the date of this report.

Currency of presentation, exchange rates and certain definitions

We publish our consolidated financial statements in Australian dollars. In this Annual Financial Report, unless otherwise stated or the context otherwise requires, references to "US$" or "US dollars" are to United States dollars, references to "dollar amounts", "$" or "A$" are to Australian dollars and references to "NZ$" are to New Zealand dollars. Merely for the convenience of the reader, this Annual Financial Report contains translations of certain Australian dollar amounts into US dollars at specified rates. These translations should not be construed as representations that the Australian dollar amounts actually represent such US dollar amounts or have been or could be converted into US dollars at the rate indicated. Unless otherwise stated, the translation of Australian dollars into US dollars have been made at the rate of A$1.00 = US$0.6797, the noon buying rate in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York (the "noon buying rate") on 30 September 2003. Refer to "Exchange rates" for information regarding the rates of exchange between the Australian dollar and the US dollar from the financial year ended 30 September 1999 to 24 October 2003.

Our financial year ends on 30 September. As used throughout this Annual Financial Report, the financial year ended 30 September 2003 is referred to as 2003, and other financial years are referred to in a corresponding manner.

"Financial Statements" means our audited consolidated statements of financial position as at 30 September 2003 and 30 September 2002 and consolidated statements of financial performance, cash flows and changes in equity for each of the three years ended 30 September 2003, 2002 and 2001 together with accompanying notes which are included in this Annual Financial Report.

Any discrepancies between totals and sums of components in tables contained in this Annual Financial Report are due to rounding.

Exchange rates

For each of the years indicated, the high, low, average and year end noon buying rates for Australian dollars were:

Year ended 30 September	**2004(1)**	**2003**	**2002**	**2001**	**2000**	**1999**
			(US$ per $1.00)			
High	0.7067	0.6823	0.5748	0.5712	0.6687	0.6712
Low	0.6814	0.5422	0.4923	0.4828	0.5372	0.5887
Average(2)	n/a	0.6167	0.5329	0.5182	0.6032	0.6376
Close (on 30 September)(3)	n/a	0.6797	0.5429	0.4946	0.5415	0.6528

For each of the months indicated, the high and low noon buying rates for Australian dollars were:

Month ended	**September 2003**	**August 2003**	**July 2003**	**June 2003**	**May 2003**	**April 2003**
			(US$ per $1.00)			
High	0.6810	0.6593	0.6823	0.6729	0.6585	0.6262
Low	0.6395	0.6390	0.6454	0.6564	0.6298	0.5970

(1) Through to 24 October 2003. On 24 October 2003, the noon buying rate was A$1.00 = US$0.7009

(2) The average of the exchange rates on the last day of each month during the period.

(3) The noon buying rate at such date may differ from the rate used in the preparation of our consolidated financial statements at such date. Refer note 1 (a)iv to the financial statements.

Information on Westpac

We are one of the four major banking organisations in Australia and also one of the largest banks in New Zealand. We provide a broad range of banking and financial services in these markets, including retail, commercial and institutional banking and wealth management activities.

We were founded in 1817 and were the first bank to be established in Australia. In 1850 we were incorporated as the Bank of New South Wales by an Act of the New South Wales Parliament. In 1982 we changed our name to Westpac Banking Corporation. On 23 August 2002, we were registered as a public company limited by shares under the Australian Corporations Act 2001. Our principal office is located at 60 Martin Place, Sydney, New South Wales, 2000, Australia and our telephone number is (61) (2) 9226-3311.

We have branches, affiliates and controlled entities throughout Australia, New Zealand and the Pacific region and maintain offices in key financial centres around the world(1). As at 30 September 2003, our market capitalisation was $30 billion(2). Our operations comprise four key areas of business, through which we serve approximately 7.7 million customers. These four areas of business are:

Business and Consumer Banking: providing retail banking and other financial services to individuals and small to medium-size businesses in all states and territories of Australia;

BT Financial Group: providing investment, retirement planning and life insurance services that are designed to enable customers to build, manage and protect personal wealth;

Westpac Institutional Bank: providing banking and financial services to corporate, institutional and government customers, and also supplying financial products to small and medium-size businesses primarily in Australia and New Zealand; and

New Zealand Banking: providing a full range of retail, commercial and other financial services to customers throughout New Zealand.

Business strategy

Our vision is to be a great Australian company by:

providing our customers with a superior experience;

providing our staff with a great place to work;

providing first quartile returns(3) to our shareholders; and

being a good corporate citizen.

(1) Refer note 38 to the financial statements for a list of our controlled entities as at 30 September 2003.

(2) Our market capitalisation calculation is based on our Australian ordinary shares and our New Zealand Class shares.

(3) Ranked against a peer group consisting of the top 50 companies by market capitalisation listed on the Australian Stock Exchange, excluding Westpac, property and investment trusts and specified resources companies.

This vision is reinforced by our mission to be the number one service organisation in the Australian financial services industry by September 2005 and our corporate values of teamwork, integrity and performance.

We seek to achieve our vision through the superior execution of our six strategic themes:

high performance culture capturing the discretionary effort of our people;

superior customer experience differentiating on customer service;

balancing risk and reward optimising our risk/reward decisions throughout the business cycle;

operational efficiency and infrastructure strategic cost management, outsourcing and product and process simplification;

wealth management integration of our recent wealth management acquisitions and simplifying our product range; and

corporate reputation sustaining our leading position.

We believe superior execution of our strategy at all points in the service-profit chain can differentiate us from our competitors. By improving employee commitment we can deliver a superior customer experience that drives sustainable shareholder value.

We believe that the key to superior execution is a high performance culture supported by:

- quality people;
- effective people and performance management processes; and
- corporate values.

The following tables present, for each of our four key areas of business, the net profit for and total assets at the financial years ended 30 September 2003, 2002 and 2001.

Refer note 29 to the financial statements for detailed financial disclosure of our geographic and business segments.

Net profit attributable to our equity holders(1)(2)(4)

Years ended 30 September	2003 $m	2002 $m	2001 $m
Business and Consumer Banking	**1,178**	1,742	953
BT Financial Group	**127**	(45)	191
Westpac Institutional Bank	**382**	126	363
New Zealand Banking	**281**	346	273
Other(3)	**215**	23	123
Net profit attributable to equity holders	**2,183**	2,192	1,903

Assets(2)

As at 30 September	2003 $bn	2002 $bn	2001 $bn
Business and Consumer Banking	**121**	102	98
BT Financial Group	**14**	9	8
Westpac Institutional Bank	**52**	49	52
New Zealand Banking	**22**	20	19
Other(3)	**12**	11	13
Total assets	**221**	191	190

(1) Internal charges and transfer pricing adjustments have been reflected in the net profit reported for each of our business groups.

(2) Due to changes in our management reporting structure, or due to accounting reclassifications, comparatives have been restated and therefore, may differ from results previously reported.

(3) Other includes the results of Business and Technology Solutions and Services, Group Treasury, Pacific Banking and Head Office functions. The results for "Other" business segments for 2003 were significantly higher than prior years. This was primarily due to improved performance in the portfolio risk management area of Group Treasury and the funding benefit derived from our two new hybrid equity issues that occurred during 2003.

(4)

Results for 2002, and to a lesser extent 2001, include a number of individually significant items which affect the comparability of results year on year. Refer to "Financial review" for a more detailed discussion of these items.

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Business and Consumer Banking

Our Business and Consumer Banking (BCB) unit represents the retail bank operations branded "Westpac" in New South Wales, Queensland, South Australia, Tasmania, the Australian Capital Territory and the Northern Territory, "Bank of Melbourne" in Victoria, and "Challenge Bank" in Western Australia.

BCB is responsible for servicing and product development for our consumer and small to medium-sized business customers within Australia. Activities are conducted via our nationwide network of branches (over 800 including in-store branches), call centres, Automatic Teller Machines (ATMs) and e-channel banking services. Our front line staff provide sales and service-related functions to customers for a broad range of financial products, including savings and cheque accounts, demand and term deposits, credit cards, and personal and housing loans. A significant portion of our housing finance sales are through independent mortgage brokers. In the year ended 30 September 2003 approximately 28% of mortgage loan drawdowns were arranged via this channel. We also employ approximately 600 financial planners and advisers who provide advice in respect of various superannuation, investment and life insurance products. Our business banking customers are additionally serviced by specialised relationship managers.

We are a significant lender in the housing finance market in Australia. In the year ended 30 September 2003, our owner-occupied residential mortgage loan portfolio in Australia increased 10.3% to $42.0 billion (net of securitised loans) with variable interest rate loans comprising 91% of the portfolio. Non-owner-occupied residential mortgage loans increased 34% during the year ended 30 September 2003. As at 30 September 2003 these loans amounted to $37.1 billion of which around 85% constituted variable interest rate loans. In addition, we are a major provider of credit card finance in Australia. Our total credit card outstandings as at 30 September 2003 were $4.5 billion (2002 $4.1 billion, 2001 $5.6 billion). Continued growth in our "Altitude" credit card product and the establishment of a strategic third party alliance drove the increase in credit card outstandings in 2003, while the decrease of $1.5 billion in 2002 was primarily attributable to the sale of our finance company (see below), including the related credit card product.

In May 2002, we sold our finance company Australian Guarantee Corporation Limited (AGC). As part of the sale agreement, we were granted certain marketing rights in relation to AGC business finance customers. These arrangements enable us to continue to offer a full range of our products to our existing business customers. As a result, within the business finance market in Australia, our equipment finance portfolio has grown 119% to $4.9 billion during 2003.

Our e-channel group manages online banking facilities for our business and personal customers. As at 30 September 2003, we had approximately 1.8 million online banking customers who conducted 62 million online transactions during the past financial year.

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BT Financial Group

BT Financial Group (BTFG), our wealth management business, designs, manufactures and services financial products that are designed to enable our customers to achieve their financial goals through the accumulation, management and protection of personal wealth. These financial products include managed investments (mutual funds), personal and business superannuation (pensions), life insurance, income protection, discount securities broking, margin lending, client portfolio administration (wrap) platforms and portfolio management and administration of corporate superannuation. Distribution of BTFG products is conducted through our Australian and New Zealand banking distribution businesses and an extensive range of independent financial advisers.

During the last 12 to 15 months we have achieved a major transformation of our wealth management business following the acquisition of Rothschild Australia Asset Management (RAAM) in June 2002 and the BT Funds Management (BTFM) in October 2002 (for further details refer to section "Recent developments"). These acquired businesses combined with our legacy wealth management business now constitute BTFG.

As a result of undertaking these strategic acquisitions our wealth management business has become a significant force in the financial services industry in Australia and New Zealand with over $43 billion in funds under management as at 30 September 2003 (2002 $33 billion). Based on the latest ASSIRT(1) market data to June 2003, our total Australian funds under management were $41 billion with a market share of 6.2% placing us in fifth position (September 2002 $32.4 billion, 5.1% market share and eighth position).

BTFG has also experienced significant growth from our "wrap" product which provides customers with a single consolidated view of investments, tax reporting and seamless switching between investment products and is accessible 24 hours a day. Since the creation of our new BTFG business unit on 31 October 2003, our "wrap" funds under administration grew 37% or $2.6 billion to $9.6 billion.

As at 30 September 2003, our wealth management business had $251 million in life insurance and risk in-force premiums (2002 $202 million) and $1,590 million in margin loans outstanding (2002 $560 million).

Westpac Institutional Bank

Our institutional bank services the financial needs of corporations, institutions and government customers that are based in, or have interests in, Australia and New Zealand. This is achieved through dedicated industry teams supported by specialised expertise in financial markets, debt capital markets, specialised capital group, advisory and transactional banking. The products and services we offer include:

Capital	Financial Markets	Transactional Services	Advice	Specialised Capital
Debt/equity underwriting Financial structuring Loan syndications Capital markets Lending	Foreign exchange Derivatives Commodities Debt securities Trade finance	International payments International cash management Domestic transactional services Custodial services	Mergers and acquisitions Project finance Property Resources	Alternate assets Structured products Institutional funds management

(1) ASSIRT is an Australian company that provides managed investment research and analysis.

In the global financial markets, we focus on Australian and New Zealand dollar-denominated financial products and also provide a range of currency and interest rate risk management products.

During 2003 we experienced substantial growth in our online delivery of financial market and transactional services products. In this financial year we more than doubled the number of foreign exchange and bond transactions conducted with our customers through our online channels.

We also significantly enhanced our capability to create structured investment products through the establishment of a specialised capital business unit and the purchase of a controlling interest in Hastings Funds Management Limited (Hastings) in October 2002.

Our institutional bank operates with a strong Australasian focus. We support our customers through branches and subsidiaries located in Australia, New Zealand, New York, London and Asia.

New Zealand Banking

We have a long commitment to New Zealand, dating from 1861 when we commenced operating as the Bank of New South Wales. Over the past year we have implemented a growth strategy aimed at improving our coverage and service in the Auckland region. In line with this strategy we have relocated head office functions and certain senior customer-facing staff from Wellington to Auckland. In addition we have begun opening new branches, extending opening hours and increasing the number of mobile mortgage managers in Auckland. As a result we have seen steadily improving customer satisfaction levels(1).

We are one of New Zealand's largest banks providing a full range of retail banking products, wealth management and commercial banking services to customers. As at 30 September 2003, we had 4,782 staff, 200 branches and 480 ATMs operating throughout the country. We have 1.3 million customers, 326,000 of whom are registered users of our online banking service(2).

We are the second largest lender of housing finance in New Zealand(3). As at 30 September 2003, our mortgage loan portfolio was NZ$16.7 billion (2002 NZ$15.1 billion) including securitised loans of NZ$0.8 billion (2002 NZ$1.0 billion). In addition, we are a major provider of wealth management services, with NZ$1.7 billion (2002 NZ$1.6 billion) in funds under management as at 30 September 2003.

Business and Technology Solutions and Services

Business and Technology Solutions and Services (BTSS) provides functional support to our business units and comprises the following areas: Group Operations, Chief Information Officer (CIO), Chief Technology Officer (CTO), Corporate Services, Group Property, Strategic Sourcing, and Blueprint Program.

Group Operations performs back office processing and settlement services for banking products.

Our technology group (CIO and CTO) defines our overall information technology (IT) architecture, supports and enhances software systems, and manages and implements major projects across our organisation.

Corporate Services provides infrastructure support for cash management, fraud, physical security, business services, and records management.

(1) Based on AC Nielson report Syndicated Financial Services Consumer Finance Monitor Banking Toplines, Quarter 2, 2003.

(2) Consumer Institute of New Zealand survey dated July 2003.

(3) Based on KPMG's latest Financial Institutions Peformance Survey in Australia and New Zealand.

Group Property was established in 2003 to develop our new Sydney office site (see "Recent developments" section below), and to manage the existing property portfolio.

Strategic Sourcing manages IT, telecommunications, mortgage and voucher processing outsourcing contracts that we have entered into with IBM, Global Services Australia (IBMGSA), Electronic Data Systems Corporation (EDS) and Unisys respectively. In addition, Strategic Sourcing manages Group Procurement Services.

Blueprint is a major transformation program with the objective of delivering new technology and streamlined processes to support lending to business and consumer customers and is transforming our sales, service, marketing and technology functions, enabling customer-facing staff to gain a more complete view of customers at all points of interaction.

Other

In our financial business segment results BTSS forms part of "Other", which also includes Group Treasury, Pacific Banking and Head Office functions. Due to its relatively small size, we do not report our Pacific Banking business as a separate business segment.

Property

We occupy premises primarily in Australia and New Zealand including 899 branches as at 30 September 2003. Of the premises we occupy, as at 30 September 2003, we directly owned approximately 7% in Australia and less than 1% in New Zealand. The remainder of the premises are held under commercial lease with terms generally averaging five years. As at 30 September 2003, the carrying value of our directly owned premises and sites was $131 million.

Under our sale and leaseback program during the past three financial years, 43 properties have been sold in Australia with total proceeds of $129 million and 35 properties in New Zealand with total proceeds of $43 million.

Refer to the section "KENS office site" below, for details of our proposed new Sydney office premises.

Recent developments

Sale of Australian Guarantee Corporation Limited (AGC)

On 31 May 2002, we sold our 100% interest in AGC in Australia to General Electric Capital (GE). In addition we sold certain loan assets of Australian Guarantee Corporation (NZ) Limited to GE. We have retained certain rights to market to AGC business customers in Australia, enabling us to continue to offer a full range of products to existing business customers. This transaction resulted in a profit on sale of $754 million after tax and a reduction in total group assets of approximately $9.9 billion being recorded in the second half of the 2002 financial year.

Wealth management business acquisitions

On 31 October 2002, we acquired most of the business of BT Financial Group, now referred to as BTFM, for an initial payment of $900 million. An additional payment of up to $150 million may be paid, contingent upon exceeding certain performance hurdles in the future. The acquisition includes the funds management operations of BTFM in New Zealand. This acquisition was funded from our existing financing sources. On 1 June 2002, we acquired the Rothschild Australia Asset Management (RAAM) funds management business for $323 million. These businesses have been integrated into our wealth management business unit which has been renamed "BT Financial Group" (BTFG).

KENS office site

On 7 March 2003, we announced that we will consolidate ten Sydney Central Business District (CBD) office sites into two locations at our existing office at 60 Martin Place and new premises being developed at the northern end of Darling Harbour near King Street. The new site is bounded by Kent, Erskine, Napoleon and Sussex Streets (KENS).

Construction of the new premises has commenced. It will consist of two office towers of 21 and 32 levels linked by a common foyer and will include two levels of retail space, a retail branch, childcare facilities, an urban park and tenant parking. This will be a "green" site with at least a four star sustainable energy rating. We have signed a 12 year lease on the building with three, six year options to extend. Construction will be completed in phases and is expected to be finalised by November 2006. Our employees will progressively occupy the premises throughout 2006 as the phases of construction are completed.

The Westpac Office Trust (the trust) was established in March 2003 to acquire the KENS site. To fund the acquisition, the trust raised $365 million from investors. The trust has been admitted to the official list of the Australian Stock Exchange and its securities were first quoted on 7 August 2003. Westpac Funds Management Limited, a wholly owned subsidiary of Westpac, is the responsible entity of the trust.

Outsourcing contracts(1)

On 30 September 2002, we entered into a ten year agreement with First Data Resources Australia Limited (First Data) to provide a managed service for our cards processing. First Data assumed responsibility for our Australasian cards processing in phases from October 2002. We retain control of our cards sales, credit, collections and customer service functions. The estimated costs to be paid by us over the life of the multi-year agreement are approximately $100 million.

Legal proceedings

We have contingent liabilities in respect of actual and potential claims and proceedings that have not been determined. An assessment of likely losses is made on a case-by-case basis for the purposes of the financial statements and specific provisions have been made where appropriate, as described in note 34 to the financial statements.

Our entities are defendants from time to time in legal proceedings arising from the conduct of our business.

We are one of 20 defendants named in proceedings concerning the Bell Group of companies. The proceedings are complex and are anticipated to continue for a further 18 months. It is not possible to estimate the potential impact however, we believe that we have good prospects of success.

On 8 April 2003, we announced that we had brought to the attention of the New Zealand Securities Commission an apparent technical non-compliance by BTFM with New Zealand securities regulations. This involved the late filing by BTFM of documents required to be lodged with the New Zealand Registrar of Companies. This non-compliance occurred prior to our acquisition of BTFM in October 2002. We do not expect that there will be any material financial cost to us arising from these circumstances.

We do not consider that the outcome of any other proceeding, either individually or in aggregate, is likely to have a material effect on our financial position.

(1) Details of other significant outsourcing arrangements entered into in prior years are disclosed in note 32 to the financial statements.

Competition

The market for financial services in Australia has traditionally been highly concentrated among the four major banks. However, the industry has changed significantly over the last decade driven by several emerging trends.

Customers are increasingly knowledgeable about financial services and, along with deregulation of the banking industry, are driving the demand for individually tailored and innovative products. In addition, customers are more actively managing their own financial affairs.

The erosion of local and global barriers to entry, such as the decline in the requirement for a branch network, means that competition is increasing. Product specialists within the industry are able to compete for and attract high-value customers.

Advances in technology are reducing service delivery costs and improving customer convenience. Outsourcing of certain elements of product value chains means that we no longer perform all of the activities required to provide a financial service or product.

There are several implications arising out of these changing trends. Financial services providers are under pressure to continually reduce costs, complexity and margins, and to choose which activities they will own and which they will outsource. Mortgage originators have appeared as a competitive threat to the branch networks of the major banks. Growth opportunities are shifting from lending to investments and advice. This is evidenced by the trend towards consolidation of traditional banking and wealth management businesses among the four major Australian banks.

We have reacted to these emerging competitive pressures in several ways. Our distribution network has diversified from the simple branch focused model of the past into a diversified mix of distribution channels incorporating:

- direct channels, such as telephone banking, internet banking, ATMs and debit card point-of-sale terminals (EFTPOS);
- face-to-face channels, such as metropolitan and rural banking branches, relationship managers (for business banking, private banking and high-value customers), financial planners and advisers and mortgage-lending representatives; and
- third party channels, including independent financial advisers, accountants and independent mortgage brokers.

We are, in some areas, moving towards being a distributor of financial services sourced from a range of external providers. Examples of this include credit cards (joint venture with American Express), general insurance (a range of providers including Promina, formerly Royal and Sun Alliance) and managed funds (a range of providers). During calendar 2002, we acquired substantial wealth management businesses placing us in a position of strength among Australian and New Zealand competitors.

The changing regulatory landscape has allowed new competitors from traditional industries such as retailing to emerge. The Reserve Bank of Australia and the Australian Competition and Consumer Commission enquiry into the credit and debit card interchange scheme, a scheme which historically only involved Australia's major financial institutions, is expected to open up involvement in the scheme to more competition from non-financial institutions such as major retailers.

In New Zealand we face competition principally from the locally incorporated subsidiaries of the other three major Australian banks and from the National Bank of New Zealand Limited (a locally incorporated subsidiary of Lloyds TSB Group plc). In addition, there is competition from a number of smaller market participants that focus primarily on the retail and housing sectors.

In October 2003, Australia and New Zealand Banking Group Limited announced that it had agreed to acquire the National Bank of New Zealand Limited from Lloyds TSB Group plc. This acquisition is expected to result in a significant shift in the competitive landscape of the financial services industry in New Zealand.

Economic outlook

After three years of uncertainty in the global economy, there are increasing signs that economic growth is returning in the major world economies. This is important for Australia and New Zealand, as economic

growth here will increasingly depend on export growth, as consumer demand, especially for housing, is likely to soften. For our business this means:

- the more positive global outlook supporting business investment and hence business lending growth; and
- the improved investment environment supporting a more positive outlook for equities which should lead to better investment flows into funds management products.

After a long period of declining and stable interest rates we now expect moderate interest rate rises in Australia in 2004. However we expect consumer sentiment to remain generally high as business activity gathers momentum and inflation remains low.

Employees

The number of employees in each area of business as at 30 September(1):	**2003**
Business and Consumer Banking	**12,181**
BT Financial Group	**2,021**
Westpac Institutional Bank	**1,257**
New Zealand Banking	**4,782**
Business and Technology Solutions and Services	**4,530**
Pacific Banking	**1,123**
Head Office functions and other	**886**
Total employees	**26,780**

(1) The number of employees includes core full-time equivalent, overtime, temporary and contractors.

As at 30 September 2003, we had 26,780 full-time equivalent (FTE) employees which includes 1,082 temporary employees. This represents an increase in FTE of 2,004 from the 30 September 2002 total of 24,776 which was a decrease of 3,758 compared with 2001. The majority of the 2003 increase was attributable to the acquisition of BTFM. A large proportion of our temporary employees were working on efficiency and restructuring related activities.

Enterprise Agreements for our Australian employees were certified by the Australian Industrial Relations Commission on 2 August 2002. These are due to expire on 30 June 2004. The agreements provide for a 4% pay increase to eligible employees in the first pay period of October 2002 and a further 4% pay increase to eligible employees in the first pay period of October 2003. In New Zealand, we maintain both individual and collective employment agreements with employees, negotiating annual collective employment agreements with the Finance and Information Union (Finsec). We continue to maintain a business-like and professional relationship with the Finance Sector Union (FSU) in

Australia and Finsec in New Zealand.

We offer employee share plans for permanent employees in Australia and New Zealand, which are designed to provide tangible recognition for improvements in our performance and gain greater staff commitment. For further details refer to note 26 to the financial statements. We also provide superannuation (pension) plans for our employees in Australia, New Zealand and certain other countries in which we operate. Plan members are entitled to benefits on retirement, resignation, permanent disability or death. Refer to note 33 to the financial statements for further information.

Supervision and regulation

Australia

Within Australia we are subject to supervision and regulation by four principal agencies: the Australian Prudential Regulation Authority (APRA); the Reserve Bank of Australia (RBA); the Australian Securities and Investments Commission (ASIC); and the Australian Competition and Consumer Commission (ACCC).

APRA is responsible for the prudential supervision of Authorised Deposit-taking Institutions (ADIs), life and general insurance companies and superannuation (pension) funds. One of its roles is to protect the interests of depositors and insurance policyholders.

As a regulated ADI we report to APRA prudential information in relation to capital adequacy, large exposures, credit quality and liquidity. Our controlled entities in Australia involved in general insurance, superannuation and life insurance are also subject to the regulatory regime of APRA. Reporting is supplemented by consultations, on-site inspections and targeted reviews. Our external auditors also have an obligation to report on compliance with certain statutory and regulatory banking requirements, and on any matters that in their opinion may have the potential to materially prejudice the interests of depositors.

Australia's risk-based capital adequacy guidelines are generally consistent with the approach agreed upon by the Basel Committee on Banking Supervision. On 1 October 2000, APRA released harmonised ADI prudential standards. In applying these standards some changes were required to the calculation of risk-weighted assets and capital deductions. On 1 July 2003, APRA released revised prudential standards for the supervision of ADI conglomerates and for the risk management of credit card activities. The standards apply an extra layer of capital adequacy requirements for the conglomerate group and internal control requirements for credit card activities. The impact of these changes was not significant. For further information refer to "Capital management".

The RBA is responsible for monetary policy, maintaining financial system stability and payments system regulation. The RBA is an active participant in the financial markets, manages Australia's foreign reserves, issues Australian currency notes and serves as banker to the Commonwealth Government. On 1 July 2002, the RBA transferred the responsibility for registration and categorisation of financial corporations to APRA.

ASIC is the sole national regulator of Australian companies. Its primary responsibility is for regulation and enforcement of company and financial services laws that protect consumers, investors and creditors. With respect to financial services, it promotes honesty and fairness through the provision of consumer protection, using as necessary its regulatory powers to enforce laws relating to deposit-taking activities, general insurance, life insurance, superannuation, retirement savings accounts, securities (such as shares, debentures and managed investments) and futures contracts.

The ACCC is an independent statutory authority responsible for the regulation and prohibition of anti-competitive and unfair market practices and mergers and acquisitions by Australian corporations. Its objectives are to ensure corporations do not act in a way that may have the effect of eliminating or reducing competition, and to oversee product safety and liability issues, pricing practices and third party access to facilities of national significance. The ACCC's consumer protection work complements that of State and Territory consumer affairs agencies, which administer the unfair trading legislation of their jurisdictions.

The Australian government's present policy is that mergers among the four major banks will not be permitted until the government is satisfied that competition from new and established participants in the financial industry, particularly in respect of small business lending, has increased sufficiently. Proposals for foreign acquisition of Australian banks are subject to approval by the government under the Foreign Acquisition and Takeovers Act 1975 of Australia.

New Zealand

The Reserve Bank of New Zealand (RBNZ) is responsible for the supervision of the New Zealand banking industry. This is primarily achieved through the extensive disclosure regime that was introduced in 1995 requiring all banks to publish financial statements on a quarterly basis, which also incorporates director attestation on the bank's risk management disciplines. The RBNZ's capital adequacy guidelines are in line with the Basel Committee guidelines.

The Banking Act 1959 (Australia) gives priority over our Australian assets to Australian depositors. Accordingly, other unsecured creditors including our non-Australian depositors will rank after our Australian depositors in relation to claims against our Australian assets.

However, the Westpac Banking Corporation Act 1982 (New Zealand) gives New Zealand depositors priority over our New Zealand assets. Accordingly, New Zealand depositors will rank ahead of our other unsecured creditors in respect of claims against our New Zealand assets. Based on the audited statement of financial position as at 30 September 2003, the carrying value of our New Zealand assets was greater than our New Zealand deposit liabilities.

United States

Our New York branch is a federally licensed branch and as such is subject to supervision, examination and extensive regulation by the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System (the US Federal Reserve) under the International Banking Act of 1978 (the IBA), and related regulations. Under the IBA, we may not open any branch, agency or representative office in the US or acquire more than 5% of the voting stock of any US bank without the prior approval of the US Federal Reserve.

A federal branch must maintain, with a US Federal Reserve member bank, a capital equivalency deposit as prescribed by the US Comptroller of the Currency in an amount which is the greater of: (1) the amount of capital that would be required of a national bank organised at the same location; or (2) 5% of the total liabilities (excluding, among other things, liabilities to affiliates and liabilities of any international banking facilities) of the federal branch. In addition, a federal branch is examined by the US Comptroller of the Currency at least once each calendar year and periodically by the US Federal Reserve. The examination covers risk management, operations, credit and asset quality and compliance with the record-keeping and reporting requirements that apply to national banks, including the maintenance of its accounts and records separate from those of the foreign bank and any additional requirements prescribed by the US Comptroller of the Currency.

A federal branch of a foreign bank is, by virtue of the IBA, subject to the receivership powers exercisable by the US Comptroller of the Currency.

At this time we have not elected to become and therefore are not a financial holding company as defined in the Gramm-Leach-Bliley Act of 1999.

USA PATRIOT Act

On 26 October 2001 the United States adopted the USA PATRIOT Act in response to the events of 11 September 2001. The Act requires US banks and foreign banks with US operations to take certain steps to prevent, detect and prosecute individuals and entities involved in international money laundering and the financing of terrorism. The required actions include verifying the identity of financial institutions terminating correspondent accounts for foreign "shell banks" and obtaining information about the owners of foreign bank clients and the identity of the foreign bank's agent for service of process in the US.

Financial review

Key information

Selected consolidated financial and operating data

We have derived the following selected financial information as of and for the financial years ended 30 September 2003, 2002, 2001, 2000 and 1999 from our audited consolidated financial statements and related notes. The financial statements were reported on by independent auditors PricewaterhouseCoopers for 2003, Messrs R. Chowdry and M.J. Codling for 2002 and 2001, and Messrs R.S. Lynn and R. Chowdry for 2000 and 1999.

PricewaterhouseCoopers was appointed our auditor at our annual general meeting on 12 December 2002 in accordance with the requirements of the Corporations Act 2001. In previous years the appointment of our auditors was determined in accordance with our Deed of Settlement. Since 23 August 2002, the date on which Westpac Banking Corporation was registered as a public company limited by shares under the Corporations Act 2001, the Deed of Settlement ceased to apply.

This information should be read together with the "Operating and financial review and prospects" and the audited consolidated financial statements and the accompanying notes.

Consolidated statement of financial performance

	Year ended 30 September					
	2003 US$(1)	**2003 A$**	**2002 A$**	**2001 A$**	**2000 A$**	**1999 A$**
	(in $millions unless otherwise stated)					
Amounts in accordance with Australian GAAP						
Interest income	**6,813**	**10,024**	9,220	10,258	9,390	7,876
Interest expense	**(3,861)**	**(5,680)**	(5,074)	(6,207)	(5,721)	(4,400)
Net interest income	**2,952**	**4,344**	4,146	4,051	3,669	3,476
Non-interest income	**2,030**	**2,986**	2,978	2,537	2,414	2,155
Net operating income	**4,982**	**7,330**	7,124	6,588	6,083	5,631
Total operating expenses excluding bad and doubtful debts	**(2,669)**	**(3,926)**	(3,995)	(3,570)	(3,503)	(3,434)
Operating profit before bad and doubtful debts and income tax expense	**2,313**	**3,404**	3,129	3,018	2,580	2,197
Bad and doubtful debts	**(330)**	**(485)**	(461)	(433)	(202)	(171)
Profit from ordinary activities before income tax expense	**1,983**	**2,919**	2,668	2,585	2,378	2,026
Income tax expense	**(495)**	**(728)**	(471)	(677)	(660)	(567)
Net profit attributable to outside equity interests	**(5)**	**(8)**	(5)	(5)	(3)	(3)
Net profit attributable to equity holders	**1,483**	**2,183**	2,192	1,903	1,715	1,456
Average number of fully paid ordinary shares outstanding(2)	**1,824**	**1,824**	1,812	1,801	1,883	1,881
Basic earnings per ordinary share (cents)(2)	**78.6**	**115.6**	118.3	102.8	88.8	77.0
Dividends per ordinary share (cents)	**53.0**	**78.0**	70.0	62.0	54.0	47.0
Dividend payout ratio(3)	**67.5%**	**67.5%**	59.2%	60.3%	60.8%	61.0%
Amounts in accordance with US GAAP(4)						
Net income	**1,349**	**1,984**	2,579	1,769	1,527	1,409
Basic earnings per ordinary share (cents)	**73.9**	**108.8**	142.3	98.2	81.1	74.9
Dividend payout ratio(3)	**71.7%**	**71.7%**	49.2%	63.1%	66.6%	62.8%

Refer to page 18 for footnote explanations

Differences between Australian and US Generally Accepted Accounting Principles (GAAP) results

Our consolidated financial statements are prepared in accordance with accounting principles and policies as summarised in note 1 to the financial statements. These accounting principles and policies differ in some respects from US GAAP. A reconciliation of net income, total assets, total liabilities and equity under US GAAP is included in note 45 to the financial statements.

Consolidated net income under US GAAP for the year ended 30 September 2003 was A$1,984 million (2002 A$2,579 million, 2001 A$1,769 million). The significant adjustments between Australian and US GAAP results primarily relate to goodwill amortisation, premises and sites, derivative instruments, restructuring costs, distributions on other debt and equity instruments, superannuation and available-for-sale securities.

Consolidated statement of financial position data

	Year ended 30 September					
	2003 US$(1)	**2003 A$**	**2002 A$**	**2001 A$**	**2000 A$**	**1999 A$**
	(in $millions, unless otherwise stated)					
Amounts in accordance with Australian GAAP						
Year end balances						
Total assets	**150,444**	**221,339**	191,037	189,845	167,618	140,220
Loans net of provisions for bad and doubtful debts	**109,073**	**160,473**	135,870	122,250	107,533	97,716
Acceptances of customers	**2,575**	**3,788**	4,788	15,700	15,665	10,249
Deposits and public borrowings	**87,730**	**129,071**	110,763	96,157	89,994	85,546
Due to other financial institutions	**2,604**	**3,831**	4,731	5,954	3,972	3,562
Total liabilities excluding loan capital	**137,842**	**202,799**	176,057	175,302	153,464	128,531
Loan capital	**3,089**	**4,544**	4,512	4,838	4,892	2,692
Ordinary equity(5)(6)	**7,961**	**11,713**	9,986	9,226	8,792	8,529
Trust Originated Preferred Securities (TOPrS(SM))	**316**	**465**	465	465	465	465
Fixed Interest Resettable Trust Securities (FIRsTS)	**445**	**655**				
Trust Preferred Securities (TPS)	**769**	**1,132**				
Outside equity interests	**21**	**31**	17	14	5	3
Average balances						
Total assets	**142,993**	**210,377**	186,827	178,196	158,566	140,350
Loans net of provisions for bad and doubtful debts	**101,884**	**149,896**	132,472	116,687	106,771	94,693
Acceptances of customers	**2,992**	**4,402**	7,707	16,680	12,411	10,959
Total equity(5)	**8,222**	**12,097**	10,355	9,260	9,535	8,712
Average ordinary equity(5)(6)	**7,458**	**10,972**	9,890	8,795	9,070	8,609
Amounts in accordance with US GAAP(4)						
Total assets	**150,736**	**221,768**	191,338	189,769	167,237	139,997
Total equity	**8,003**	**11,774**	10,590	9,408	8,574	8,751
Average total assets	**143,285**	**210,806**	187,128	178,198	158,724	147,945
Average total equity	**7,600**	**11,182**	9,999	9,071	8,742	8,796

Refer to page 18 for footnote explanations

Summary of consolidated ratios

	Year ended 30 September					
	2003 US$m(1)	**2003 A$m**	**2002 A$m**	**2001 A$m**	**2000 A$m**	**1999 A$m**
Ratios in accordance with Australian GAAP						
Profitability ratios (%)						
Net interest margin(7)	**2.65**	**2.65**	2.80	3.11	3.10	3.25
Return on average assets(8)	**1.04**	**1.04**	1.17	1.07	1.08	1.04

	Year ended 30 September					
Return on average ordinary equity(9)	**19.2**	**19.2**	21.7	21.1	18.4	16.8
Return on average total equity(10)	**18.0**	**18.0**	21.2	20.6	18.0	16.7
Capital ratio (%)						
Average total equity to average total assets	**5.8**	**5.8**	5.5	5.2	6.0	6.2
Earnings ratios						
Basic earnings per ordinary share (cents)(2)	**78.6**	**115.6**	118.3	102.8	88.8	77.0
Fully diluted earnings per ordinary share (cents)(11)	**78.4**	**115.3**	117.9	102.4	88.4	76.1
Dividends per ordinary share (cents)	**53**	**78**	70	62	54	47
Dividend payout ratio %(3)	**67.5**	**67.5**	59.2	60.3	60.8	61.0
Ratios in accordance with US GAAP(4)						
Profitability ratios (%)						
Net interest margin	**2.65**	**2.65**	2.80	3.11	3.10	3.25
Net profit attributable to equity holders to average total assets	**0.94**	**0.94**	1.38	0.99	0.96	0.95
Net profit attributable to equity holders to average total equity	**17.7**	**17.7**	25.8	19.5	17.5	16.0
Capital ratio (%)						
Average total equity to average total assets	**5.3**	**5.3**	5.3	5.1	5.5	5.9
Leverage ratio(12)	**4.6**	**4.6**	4.5	4.5	4.6	4.7
Earnings ratios						
Basic earnings per ordinary share (cents)	**73.9**	**108.8**	142.3	98.2	81.1	74.9
Fully diluted earnings per ordinary share (cents)(11)	**73.7**	**108.4**	141.5	97.6	80.1	74.5
Dividends per ordinary share (US cents)	**53**	**53**	38	31	29	31
Dividend payout ratio %(3)	**71.7**	**71.7**	49.2	63.1	66.6	62.8

(1) Australian dollar amounts have been translated into US dollars solely for the convenience of the reader at the rate of A$1.00 = US$0.6797, the noon buying rate on 30 September 2003. Amounts or ratios are in accordance with these principles.

(2) Based on the average number of fully paid ordinary shares outstanding, including 54 million New Zealand Class shares in 2003, 2002 and 2001, and after deducting distributions on other equity instruments of A$75 million in 2003 (A$48 million in 2002, A$51 million in 2001, A$43 million in 2000, A$8 million in 1999).

(3) Calculated by dividing the dividends per ordinary share by the basic earnings per ordinary share.

(4) Refer to note 45 to the financial statements for a reconciliation with US GAAP.

(5) Excludes outside equity interests (minority interest).

(6) Excludes other equity instruments: TOPrS(SM), FIRsTS, and TPS.

(7) Calculated by dividing net interest income (including gross up) by average interest bearing assets.

(8) Calculated by dividing net profit attributable to our equity holders by average total assets.

(9) Calculated by dividing net profit attributable to our equity holders less distributions on other equity instruments by average ordinary equity.

(10) Calculated by dividing net profit attributable to our equity holders by average total equity.

(11)

Based on average number of shares and share equivalents and after deducting non-converting preference dividends and distributions on other equity instruments from net profit after tax.

(12)

Leverage ratios have been calculated in accordance with guidelines promulgated by the Board of Governors of the Federal Reserve System. The ratio is calculated by dividing Tier 1 capital in accordance with US GAAP by total average assets for leverage capital purposes in accordance with US GAAP.

Risk factors

Our business activities are subject to risk factors that can impact our future performance. Some of these risks can be mitigated by the use of safeguards and appropriate systems and actions, but some are outside our control and cannot be mitigated. For a discussion of how we manage risk refer to the section "Risk management".

Some of the principal factors that may affect our performance are set out below.

Dependence on the Australian and New Zealand economies

Our earnings are dependent on the level of financial services required by our customers. In particular, levels of borrowing are heavily dependent on customer confidence, the state of the economy and prevailing market interest rates at the time.

As we currently conduct the majority of our business in Australia and New Zealand our performance is influenced by the level and cyclical nature of business activity in those countries, which is, in turn, impacted by both domestic and international economic and political events. There can be no assurance that a weakening in the Australian or New Zealand economies will not have a material effect on our financial condition and results of operations. Our future performance can also be affected by the economic conditions of other regions where we conduct our operations.

Competition

We face intense competition in all aspects of our business. We compete, both domestically and internationally, with asset managers, retail and commercial banks, non-bank mortgage brokers, private banking firms, investment banking firms, brokerage firms, and other investment services firms. In addition, the trend toward consolidation in the global financial services industry is creating competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power. In recent years, competition has also increased as large insurance and banking industry participants have sought to establish themselves in markets that are perceived to offer higher growth potential, and as local institutions have become more sophisticated and competitive and have sought alliances, mergers or strategic relationships. We expect these trends to continue. For more detail refer to the section "Competition".

Credit risk

Credit risk is our most significant risk and arises primarily from our lending activities. We hold general and specific provisions to cover bad and doubtful debts. If these provisions prove inadequate either because of an economic downturn or a significant breakdown in our credit disciplines, then this could have a material adverse effect on our business.

Market risk

We are exposed to market risk as a consequence of our trading activities in financial markets and through the asset and liability management of our overall financial position. In our financial markets trading businesses, we are exposed to losses arising from adverse movements in levels and volatility of interest rates, foreign exchange rates, and commodity and equity prices.

Equity underwriting risk

As a financial intermediary we underwrite listed and unlisted equities. Equity underwriting activities include the development of solutions for corporate and institutional customers who have a demand for equity capital and investor customers who have an appetite for equity based investment products. We guarantee the pricing and placement of these facilities. We are at risk if we fail to syndicate or sell down our risk to other market participants.

Liquidity risk

Liquidity risk is the potential inability to meet our payment obligations. For a more detailed description of liquidity risk refer to the section "Liquidity and funding".

Operational risk

As a financial services organisation we are exposed to a variety of other risks including those arising from process error, fraud, systems failure, security and physical protection, customer services, staff skills and performance, and product development and maintenance.

Regulatory risk

Our business is subject to substantial regulation and regulatory oversight. Any significant regulatory developments, including changes to accounting standards (refer to sections "Accounting standards" and "Critical accounting policies"), could have an adverse effect on how we conduct our business and on our results of operations. Our business and earnings are also affected by the fiscal or other policies that are adopted by various regulatory authorities of the Australian and New Zealand government, foreign governments and international agencies. The nature and impact of future changes in such policies are not predictable and are beyond our control.

Integration risk

We are in the process of integrating our recently acquired wealth management business. The integration process involves major changes to the management structures of the acquired business, assimilation of new employees into our business culture, large-scale migration of computer processing onto our existing IT platform, and many other projects to align the acquired business. There is, therefore, an increased risk of operational failure during the integration process.

Operating and financial review and prospects

The following discussion contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. Where forward-looking statements are made, our actual results may differ significantly from the results discussed. For a description of factors that may affect our results, refer to sections "Disclosure regarding forward-looking statements", "Risk factors" and "Risk management".

Accounting standards

The financial statements included in this report have been prepared in accordance with the accounting policies described in note 1 to the financial statements, being in accordance with Australian GAAP. Australian GAAP varies in certain respects from US GAAP. For a reconciliation of significant adjustments from our Australian GAAP financial statements to comply with US GAAP, refer note 45 to the financial statements.

Changes in accounting policy

Provisions, contingent liabilities and contingent assets

New Australian accounting standard AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets*, which became effective for us from 1 October 2002, requires that a provision is only made for dividends declared, determined or publicly recommended by the directors on or before the end of the financial year but not distributed at balance date.

In previous reporting periods, in addition to providing for dividends declared, determined or publicly recommended by the directors on or before the end of the financial year but not distributed at balance date, a provision was made for dividends to be paid out of retained profits at the end of the financial year where the dividend was proposed, recommended or declared between the end of the financial year and the completion of the financial report.

An adjustment of $651 million was made against the consolidated retained profits at the beginning of the financial year to reverse the amount provided as at 30 September 2002 for the proposed final dividend for the year ended on that date. This adjustment reduced consolidated provisions and total liabilities at the beginning of the financial year by $651 million with corresponding increases in consolidated net assets, retained profits, total equity and the total dividends provided for or paid during the current financial year.

For a detailed breakdown and reconciliation of the information that would have been disclosed for the years ended 30 September 2002 and 2001 had this policy always been applied, refer to note 1 (h)vii to the financial statements.

Employee option and share ownership schemes

For the year ended 30 September 2003, we applied the guidelines issued by ASIC in June 2003 with respect to *Valuing options for directors and executives* in disclosing the remuneration of our Directors and executive officers. The guidelines prescribe that amounts disclosed for remuneration of directors and executive officers include the fair value of share options, performance options, performance share rights and stock appreciation rights (together "equity based remuneration") granted. Share options, performance options and performance share rights are valued at grant date and the value apportioned over the period from grant date to vesting date. The value included for stock appreciation rights is the increase in value of the vested rights in each year. The fair value of share options, performance options and performance share rights has been estimated at grant date using a pricing model based on the Black-Scholes formula. The ASIC guidelines were adopted to provide greater transparency of the remuneration of our Directors and executive officers.

The amounts included in remuneration for each year in relation to the fair value of equity based remuneration is set out in notes 41 and 42 to the financial statements. Comparatives, where applicable, have been restated to present the comparative amounts on a consistent basis with the current period.

Earnings per share

Effective 1 October 2001, revised accounting standard AASB 1027 *Earnings Per Share* has been applied. The standard introduces changes to the method of calculating diluted earnings per share. In previous years, diluted earnings per share included notional earnings related to dilutive options had they been exercised. This is not a requirement of the revised standard as the determination of the weighted average number of shares has been revised to include only potential ordinary shares assumed to have been issued for no consideration.

These changes have not had a material impact on our earnings per share. Comparatives, where applicable, have been restated to present the comparative amounts on a consistent basis with the current period.

Wealth management acquisition costs

During September 2002, our wealth management business was restructured. The restructure included transferring ownership of Westpac Custodian Nominees Limited out of the ownership of Westpac Life Insurance Services Limited and into an accrual accounting environment under the ownership of Westpac Financial Services Group Limited. As a consequence, we changed our accounting policy in respect of acquisition expenses, such that acquisition expenses for profitable business are now deferred and amortised over a period not exceeding the expected duration of the relevant product or policy sold. Previously these costs were expensed, as the accounting treatment of these costs did not affect the results of the entity incurring the costs as it was reported on a market value basis in accordance with AABS 1038 *Life Insurance Business*.

In an accrual accounting environment, the deferral and amortisation of wealth management acquisition costs provides more relevant information about the financial performance of the underlying business. Accordingly, effective 1 October 2001, we recorded an asset of $119 million in the statement of financial position, representing life insurance and funds management acquisition costs which were previously expensed.

Had this policy always been applied, deferred acquisition costs of $71 million would have been recognised as an asset in the year ended 30 September 2001.

Superannuation

Effective 1 October 2001, we changed our accounting policy in respect of superannuation to adopt the principles of the International Accounting Standard IAS 19 *Employee Benefits*. Our previous superannuation accounting policy was based on the principles of UK accounting standard SSAP 24 *Accounting for Pension Costs*. The policy was changed after a new standard was released in the UK to replace SSAP 24. Consistent with the requirements of AASB 1001 *Accounting Policies* and in anticipation of the international harmonisation of Australia's accounting standards by 2005, we have adopted the principles of IAS 19.

The impact of the change in superannuation accounting policy was to write-down the related asset and recognise a charge of $221 million before tax ($160 million after tax) in the 2002 statement of financial performance. Comparatives have not been restated as it is not practical to do so.

Capitalised expenses

Effective 1 October 2001, the accounting policy for outsourcing start-up costs in relation to the outsourcing of technology operations and mortgage processing activities was changed so that such costs are now expensed as incurred. Previously these costs have been capitalised and amortised over a period not exceeding the life of the outsourcing contracts. The new policy was adopted to provide greater transparency to our cost base and greater reliability in measuring our financial position.

On 1 October 2001, the net carrying amount of capitalised start-up costs of $44 million was expensed in the statement of financial performance. During the year a further $92 million was expensed relating to start-up costs incurred during the year. Had this new accounting policy always been applied, additional start-up costs of $44 million would have been recognised in the year ended 30 September 2001.

Recent accounting developments Australia

In July 2002, the Financial Reporting Council (FRC) of Australia formally announced the adoption of International Financial Reporting Standards (IFRS) from 1 January 2005. Our first reporting period under IFRS will be the financial year commencing 1 October 2005. Currently a number of IFRSs have not been released in final form and revisions are still being made by the International Accounting Standards Board (IASB). As such it is currently not possible to estimate the effect adoption of IFRSs will have on our results.

The Australian Accounting Standards Board (AASB) deferred the application of accounting standard AASB 1020 *Income Taxes* in line with an announcement by the FRC to adopt IFRS in 2005. AASB 1020 will now apply to us from 1 October 2005. We do not currently expect to adopt this standard early. The application of the standard is not expected to significantly affect our deferred tax balances or income tax expense when adopted.

Recent accounting developments United States

In November 2002 the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 45 *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, which requires a company to record as a liability the fair value of certain guarantees initiated by the company. The offsetting entry is dependent on the nature of the guarantee, with an asset generally being recorded, such as the consideration received for providing a standby letter of credit or prepaid rent for a residual value guarantee in an operating lease. The liability recorded will typically be reduced by a credit to the results of operations as the guarantee lapses, which generally will occur on a systematic basis over the term of the guarantee or at settlement of the guarantee. The initial measurement and recognition provisions of FIN 45 are effective for applicable guarantees written or modified after 31 December 2002. The disclosure requirements are applicable to us for the year ended 30 September 2003. We have provided the disclosures required by FIN 45 in note 34 to the financial statements for all applicable guarantees in effect at 30 September 2003.

The adoption of the recognition provisions of FIN 45 may result in the recording of liabilities associated with certain guarantees that we provide. The impact of the initial measurement and recognition provisions of FIN 45 is dependent on the number and size of applicable future guarantees that we provide however, we do not anticipate that the impact will have a material effect on our consolidated financial position or results of operations.

In January 2003, the FASB issued FIN 46 *Consolidation of Variable Interest Entities*, which is applicable to all variable interest entities (VIEs) in existence at 30 September 2003 if they were created after 31 January 2003 and is applicable to all VIEs created prior to 1 February 2003 for the reporting period beginning 1 October 2003. FIN 46 clarifies the application of Accounting Research Bulletin No. 51 *Consolidated Financial Statements*, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. These types of entities are referred to as VIEs. We are undertaking a review of our potential VIEs and have not yet completed our assessment of the impact of adopting this interpretation. In note 45 to the financial statements we provide details of a VIE which we have a significant relationship with.

In December 2002 the FASB issued Statement of Financial Accounting Standards (SFAS) 148 *Accounting for Stock-Based Compensation Transition and Disclosure*, which amended SFAS 123 *Accounting for Stock-Based Compensation*. SFAS 148 is effective for years ending after 15 December 2002 and provides three methods for transition to the fair value method of accounting for stock options for those companies that elect the fair value method under SFAS 123. We are not impacted by SFAS 148 given that we had previously adopted the fair value method of accounting under SFAS 123. This accounting treatment is discussed further in note 45 to the financial statements.

SFAS 149 *Amendments to SFAS 133 on Derivative Instruments and Hedging Activities* was issued in April 2003 and is applicable for contracts entered into or modified after 30 June 2003. The requirements of SFAS 133, as amended by SFAS 149, require all derivative instruments to be recognised as either assets or liabilities on the balance sheet, measured at fair values. The statement permits special hedge accounting for fair value, cash flow and foreign currency hedges providing specific criteria are met. Certain aspects of the required hedge criteria do not allow portfolio hedging. The estimated cost of changing our risk management systems and practices to meet the specific hedge criteria was judged prohibitive. For US GAAP purposes, most of the derivatives that are hedges under Australian GAAP do not qualify for hedge accounting under the provisions of SFAS 133 and are accounted for at fair value in accordance with SFAS 133.

In May 2003, the FASB issued SFAS 150 *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS 150 clarifies the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. SFAS 150 requires that those instruments be classified as liabilities in the statement of financial position. SFAS 150 is applicable for all financial instruments entered into or modified after 31 May 2003 and is otherwise applicable for our half year ended 31 March 2004. The application of SFAS 150 is represented in the accounting treatment of our equity instruments in the US GAAP reconciliation in note 45 to the financial statements and has not materially impacted our results or the presentation of our equity instruments under US GAAP.

Critical accounting policies

Our reported results are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the statement of financial performance and position. The principal accounting policies are disclosed in note 1 to the financial statements and note 45 with respect to policies that differ to US GAAP.

Certain of these policies are considered to be critical to the representation of our financial performance and position, since they require difficult, subjective, or complex judgements. These judgements necessarily involve assumptions or estimates, which relate to matters that are inherently uncertain. An explanation of these policies and the related judgements and estimates involved are set out below. Management has discussed the development and selection of the critical accounting policies with the Board Audit and Compliance Committee.

Provisions for bad and doubtful debts

Provisions for bad and doubtful debts are established by management to cover credit losses inherent in the lending portfolio. For details of how we manage credit risk refer to the discussion in the section titled "credit risk".

We perform periodic and systematic reviews of our transaction managed loan portfolio to identify and estimate any inherent risks and assess overall collectability. A debt is considered doubtful when a borrower's financial position or capacity to repay the debt, or the inadequate value of underlying security, means that there is a greater than 50% probability of loss of principal or interest outstanding.

Specific provisioning

Specific provisions are raised to cover all identified doubtful debts where the aggregated exposure is at least $100,000 and the expected loss is greater than $20,000. The calculation of specific provisions is based on the difference between the customer's aggregate exposure and estimated net recovery value in accordance with the APRA prudential standards.

In determining the net recovery value the following key assessments are made:

- the estimated realisable value of security;

the cash flows of the business where these flows are freely available; and

the market prices for relevant debt (particularly in relation to corporate exposures).

Credit card and personal loan balances are normally written-off when a payment is 180 days in arrears. Credit card and personal loan balances will not be written off at 180 days when other arrangements have been made. In these cases specific provisions are raised where necessary. In determining the amount of specific provisioning consideration is given to an analysis of arrears, expected future cash flows and past loss experience.

Bad debts, in respect of which no specific provisions have been established, are written off against the general provision.

General provisioning

A general provision is maintained to cover expected losses inherent in our existing overall loan portfolios and other credit exposures that are not yet identifiable. In determining the level of the general provision we employ a statistical methodology called dynamic provisioning. This methodology assists management in making estimates and judgements based on historical experience, business conditions, the composition of the portfolio, industry best practices and publicly available default data.

In performing this statistical analysis, the methodology uses certain parameters, with the two key parameters being probability of default and loss given default giving rise to an expected loss factor. These statistical measures are supplemented by a consideration of current market conditions.

Transaction managed exposures are individually risk graded and a loss given default is assigned to each facility. Default rates corresponding to risk grade are analysed using historical default rate data. These two components are separately monitored in our risk grading system. Probability of default is estimated using information from external rating agencies as well as our own internal historical loss data (over the last five years) to set a probability of default for each risk grade. Loss given default is estimated from our own loss experience on defaults since 1993. The general provision is calculated by applying an expected loss factor to the total committed exposure (TCE) for each transaction managed facility. TCE is the maximum amount of credit exposure, excluding transaction risk and settlement risk exposures, which we are committed to incur, via one or more facilities, to a customer.

Portfolio managed exposures, such as home, equity access, investment property and personal loans as well as credit cards and some small business loans are collectively assessed, since these loans are deemed not to be individually significant. The general provision is calculated by applying an expected loss factor to the outstanding drawn balances in each loan portfolio. The expected loss factor is determined from our own internal historical loss data, which for some portfolios dates back at least ten years.

Management recognises that a certain level of imprecision exists in any model. Accordingly a reserve is added to the dynamic provision to account for model risk, in line with industry best practice.

As at 30 September 2003, total provisions for bad and doubtful debts were $1,554 million (2002 $1,434 million) representing 0.94% (2002 1.01%) of loans and acceptances. Of the total provision for 2003, $1,393 million (2002 $1,163 million) represents general provision and $161 million (2002 $272 million) represents specific provisions.

Management regularly reviews and adjusts the estimates and parameters where considered appropriate. Changes in these estimates could have a direct impact on the provisions recorded in our financial statements.

Fair value of financial instruments

Securities and derivatives used in our trading activities are carried at net fair value, with changes in fair value recognised in the statement of financial performance. In determining fair value, publicly quoted market prices are sourced independently wherever possible. Independent sources include stock, futures and commodity exchanges, the Australian Financial Markets Association (AFMA), brokers and other banks. This covers the majority of derivative positions both in terms of trade numbers and value. In particular, all rates used for valuing interest rate and cross-currency swaps are sourced independently of dealers, as are rates used for valuing government, semi-government and most corporate bonds. Where reliable and timely independent sources of rates are not available rates are sourced from dealers and then subject to a monthly review by the Revaluation Committee (which comprises members of the Trading Risk Management unit who are independent from the originator of the transaction). In some cases this review is supplemented by random intra-month checks. The types of rates not sourced independently on a daily basis consists of some corporate bond yields, spreads for credit derivatives, floating rate notes and mortgage and asset-backed securities; long-dated currency option implied volatilities and energy derivative rates (swaps and options). In conducting the monthly review, the Revaluation Committee considers indicative rates sourced from other sources (such as the brokers, banks and AFMA), movements in the rates month on month and also the materiality of the impact of changes in rates on the profit/loss of the trading position.

As at 30 September 2003, the market value of trading securities held was $8,793 million. The notional amount of trading derivatives outstanding as at 30 September 2003 was $693,534 million.

We believe the judgements and estimates used are reasonable in the current market, however a change in these judgements and estimates would lead to different results and future market conditions may vary from those expected.

Investment securities

Our investment securities are carried at cost or at cost adjusted for premium or discount amortisation. Losses related to permanent diminution in value of our investment securities are recognised in the statement of financial performance. Under US GAAP our investment securities are generally classified as available-for-sale securities as defined by SFAS 115 *Accounting for Certain Investments in Debt and Equity Securities*, refer to note 45 to the financial statements.

In determining the recoverable amount of investment securities the period of time over which we intend to hold the securities is taken into consideration. The recoverable amount of our investment securities and their market values, where possible, are based on quoted market prices, manager quotes or on dealer quotes. For certain investment securities, where there is no active market, other valuation techniques are adopted that take into account changes in the credit standing of the issuer and market interest rates. These valuations involve us making judgements and estimations about future cash flows and potential defaults by issuers or underlying obligors.

As at 30 September 2003, we held investment securities with a carrying value of $3,656 million and a fair value of $3,745 million.

We believe the judgements and estimates used are reasonable in the current market, however a change in these judgements and estimates would lead to different results and future market conditions may vary from those expected.

Goodwill

Goodwill represents the excess of purchase consideration, including incidental expenses associated with the acquisition, over the fair value of the identifiable net assets at the time of acquisition. As at 30 September 2003, the balance of goodwill recorded as an asset on our consolidated statement of financial position as a result of acquisitions was $2,558 million, the most significant amount of which relates to the acquisition of BTFM.

Under Australian GAAP, goodwill is amortised on a straight line basis over 20 years, representing the minimum period of expected benefits. If the carrying value of goodwill exceeds the value of the expected future benefits, the difference is expensed to the statement of financial performance. Under US GAAP, effective from 1 October 2002, goodwill is no longer amortised, but tested for impairment. Refer to note 45 to the financial statements for further detail. We test our goodwill for impairment on a semi-annual basis or more often if circumstances indicate that there may be impairment.

For the purposes of testing goodwill for impairment under both Australian and US GAAP, we adopt the methodology set out in SFAS 142 *Goodwill and Other Intangible Assets*. We view our operations on a disaggregated basis, whereby each business unit or reporting unit, is assessed individually. The impairment test is undertaken at the reporting unit level and comprises two steps.

The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. In testing the impairment of goodwill relating to our bank acquisitions, we determine the implied market value, being the fair value of the reporting unit having regard to the price/earnings ratios of a range of peer banks. In testing the impairment of goodwill for our recent wealth management acquisitions, an estimate of fair value is determined by reference to assumptions of future cash flows and future earnings potential. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired however, if the carrying amount of the reporting unit exceeds its fair value, an additional procedure is undertaken. That additional procedure compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill.

Estimates of future earnings potential involves considerable judgement, including our view on future changes in market conditions and anticipated results of the implementation of business strategies. Adverse changes in these assumptions could result in a goodwill impairment charge in the future.

Carrying value of non-current assets (excluding goodwill)

The carrying value of our non-current assets does not exceed their recoverable amount. Except where otherwise indicated, recoverable amount is determined as the undiscounted amount expected to be recovered from the net cash flows arising from the assets' continued use and subsequent disposal. Every six months, we review non-current assets for possible impairment indications. If impairment indicators are identified we make an assessment about whether the carrying value of such assets remains fully recoverable. When making this assessment we compare the carrying value to the market value, if available, or the value in use. Determination of the value in use requires us to make assumptions and estimates, which include expectations of future cash flows generated from continued use of the asset.

We believe that our assumptions and estimates used are reasonable and supportable in the existing market environment, but different assumptions and estimates could be used which would lead to different results.

Provisions (other than provisions for bad and doubtful debts)

We hold provisions in respect of a range of future obligations such as employee entitlements, restructuring costs, non-lending losses and excess lease space. Provisions carried for long service leave are supported by an independent actuarial report. However some of the provisions involve significant management judgement about the likely outcome of various events and estimated future cash flows.

These judgements are based on management's assessment of conditions as at the date of the financial statements. The provisions raised could potentially be understated if factors affecting these judgements change.

Superannuation

We have adopted the principles of IAS 19 *Employee Benefits* in accounting for our superannuation (pension) commitments. In respect of defined benefit schemes the application of IAS 19 requires an actuarial determination of the present value of the schemes' liabilities and the determination of the current market value of the schemes' assets. IAS 19 is relatively similar to the equivalent US accounting standard SFAS 87.

Actuarial assumptions used to determine these amounts and the resulting pension expense include both demographic assumptions, such as mortality rates, employee turnover and early retirement, and financial assumptions such as discount rate, future salary and benefit levels and expected rate of return on pension assets.

All assumptions are reviewed annually and determined in conjunction with the independent actuaries to the schemes. Demographic assumptions are based on those derived for the triennial scheme statutory funding valuation and use historical experience and other available information to predict future patterns of behaviour. These assumptions are updated for each funding valuation or more regularly for any significant changes.

Financial assumptions are based on market expectations, at the balance sheet date, for the period over which the pension obligations are to be settled. The discount rate is based on the rate of return on high quality fixed income investments. We consider that AA or Aa rated corporate bonds are appropriate. The long-term expected rate of return on scheme assets reflects the current and expected asset allocation and our current expectations of returns for each asset class. Future salary levels reflect our current expectation of future salary increases, and include allowance for inflationary and promotional salary increases.

In 2003, our principal defined benefit scheme in Australia, the Westpac Staff Superannuation Plan, had total assets of $1,907 million available to meet future benefit payments of $1,638 million.

Changes to demographic assumptions and unexpected future market, interest rate or inflation movements, or changes to taxation could significantly impact the value of scheme assets and liabilities and hence significantly impact the value of the pension prepayment and pension expense.

Related party disclosures

Details of our related party disclosures are set out in note 40 to the financial statements and details of directors' interests in securities are set out in the "Corporate governance" section. The related party disclosures relate principally to transactions with our Directors and Director-related parties as we do not have individually significant shareholders and our transactions with other related parties are not significant.

As an ADI and applying the ASIC Class Order 98/110 (the Class Order) we are exempt, subject to certain conditions, from the requirement to disclose the details of certain loans or financial instrument transactions made to related parties (other than directors) in the ordinary course of our banking business and either on an arm's length basis or with the approval of our shareholders. The Class Order exemption does not apply to a loan or financial instrument transaction which a director should be reasonably aware that if not disclosed, would have the potential to affect adversely the decision made by users of the financial statements about the allocation of scarce resources. As required by ASIC each year we lodge a statutory declaration, signed by two Directors, confirming that we have appropriate systems of internal controls and procedures in place to provide assurance that any financial instrument transaction of a bank which is not entered into regularly is drawn to the attention of our Directors so that it may be disclosed.

In accordance with the Class Order details of loans to our Directors and non-bank loans to directors of our controlled entities are disclosed in note 40 to the financial statements.

Loans made to directors of Westpac and its controlled entities and to parties related to them are made in the ordinary course of business on normal terms and conditions (including interest rates and collateral). In respect of loans to executive directors, loans are made on the same terms and conditions (including interest rates and collateral) as apply to other employees and certain customers in accordance with established policy. These loans do not involve more than the normal risk of collectability or present any other unfavourable features.

Overview of performance

	Reported Result			Adjusted Result(2)		
	2003 $m	**2002 $m**	**2001 $m**	**2003 $m**	**2002 $m**	**2001 $m**
Net interest income	**4,344**	4,146	4,051	**4,344**	4,146	4,051
Non-interest income	**2,986**	2,978	2,537	**2,986**	2,518	2,474
Net operating income	**7,330**	7,124	6,588	**7,330**	6,664	6,525
Total operating expenses excluding bad and doubtful debts and income tax expense	**(3,926)**	(3,995)	(3,570)	**(3,926)**	(3,552)	(3,570)
Operating profit before bad and doubtful debts and income tax expense	**3,404**	3,129	3,018	**3,404**	3,112	2,955
Bad and doubtful debts	**(485)**	(461)	(433)	**(485)**	(461)	(433)
Operating profit before income tax expense	**2,919**	2,668	2,585	**2,919**	2,651	2,522
Income tax expense	**(728)**	(471)	(677)	**(728)**	(635)	(663)
Net profit attributable to outside equity interests	**(8)**	(5)	(5)	**(8)**	(5)	(5)
Net profit attributable to equity holders	**2,183**	2,192	1,903	**2,183**	2,011	1,854
Economic profit(1)	**1,379**	1,380	1,181			
Earnings per share (cents)						
Basic	**115.6**	118.3	102.8			
Fully diluted	**115.3**	117.9	102.4			

(1)

Economic profit is defined as cash earnings less a capital charge calculated at 12% of ordinary equity plus the estimated value of franking credits paid to shareholders. For details of the calculation of economic profit refer to page 39.

(2) Excludes a number of individually significant items. For a reconciliation and explanation of these items, refer to page 31.

We have presented our results as follows:

- reported result refers to the financial information derived from our audited, consolidated financial statements; and
- adjusted result refers to the reported result excluding a number of significant items, which are explained and reconciled on page 31.

We believe our financial performance analysis and discussion is meaningful to stakeholders on an adjusted basis as it assists in understanding the effects of significant items on the reported results. These items include adjustments that occur infrequently and are not indicative of changes in the earning capacity of the underlying operations.

In addition we use certain non-GAAP measures to evaluate our performance. We disclose these measures to investors to promote understanding of our past and future performance indicators. These measures should not be construed as superior to GAAP measures. Our key non-GAAP measure disclosed is economic profit. A reconciliation of this non-GAAP measure to the relevant GAAP measure is shown in a later section of this performance overview.

Overview of performance

During the 2002 calendar year, as described in the "Recent developments" section, we completed the acquisitions of BTFM (October 2002), RAAM (June 2002) and Hastings (October 2002). In addition, in May 2002 we sold AGC. The results of these businesses are reflected in the above table, and, where material, are mentioned in the following analysis.

Net interest income was $4,344 million for 2003, an increase of $198 million or 5% compared with $4,146 million for 2002, and this in turn was an increase of $95 million or 2% over 2001. This includes $27 million in 2003 (2002 nil) relating to BTFM and $316 million in 2002 (2001 $490 million) relating to the divested AGC business. Excluding these items, net interest income increased $487 million or 13% during 2003 (2002 $269 million or 8%). This improvement has been driven by strong growth in average interest earning assets, 12% in 2003 (2002 13%), predominantly as a result of strong growth in household lending. This has been partially offset by a contraction in interest margins due to an increasingly competitive market and a number of structural changes to our business in 2003.

Reported non-interest income was $2,986 million for 2003, an increase of $8 million or less than 1% compared with 2002, and this in turn was an increase of $441 million or 17% over 2001. 2002 includes $460 million (2001 $63 million) of significant items as reconciled and explained immediately following this section. Excluding these items, non-interest income increased by $468 million or 19% in 2003, compared with $44 million or 2% growth in 2002. Non-interest income also includes $232 million (2002 $28 million) from BTFM and RAAM and $49 million relating to AGC in 2002 (2001 $59 million).

We continued to experience strong growth in our core retail products with net fees and commissions increasing $130 million or 8% (2002 increase of $92 million or 6%). The growth was driven by increases in loan volumes and transaction activities. Additionally in 2003 we have benefited from a realignment of our fee structure in our Business and Consumer Banking unit. Financial markets trading income also grew strongly up $44 million or 20% in 2003. This was due to a significantly improved financial markets performance in our Institutional Bank compared to 2002, including the development of new fee based revenues through innovative debt securities and an increase in corporate debt activity.

Reported total operating expenses were $3,926 million for 2003, a decrease of $69 million or 2% compared with 2002, and in turn was an increase of $425 million or 12% over 2001. The 2002 expenses include $443 million of significant items as reconciled and explained immediately following this section. Excluding these items, operating expenses increased by $374 million or 11% in 2003 (decrease of $18 million or 1% in 2002). Operating expenses in 2003 also include $283 million (2002 $25 million) relating to the operations of BTFM and RAAM and 2002 includes $94 million (2001 $143 million) relating to AGC. The increase in 2003 is due to a number of factors including:

expenses of $148 million associated with the change in the composition of our business following the divestment of AGC and the acquisition of RAAM, BTFM and Hastings;

organic expense growth of $163 million in our ongoing business (excluding all acquisitions and divestment). This increase includes:

an additional $77 million following the adoption of IAS 19 in relation to our defined benefit superannuation funds in 2002; and

a $42 million increase due to the appreciation of the New Zealand dollar against the Australian dollar during 2003.

Organic expense growth excluding the above items was $44 million.

The slight decrease in 2002 after adjusting for significant items was due to efficiency savings offset by volume and inflationary increases.

Bad and doubtful debts were $485 million for 2003, an increase of $24 million or 5% and an increase of $28 million or 6% over 2001. In 2002, bad and doubtful debts included $101 million (2001 $158 million) relating to the sold AGC business. Excluding the impact of AGC in 2002, the 2003 bad and doubtful debts charge increased $125 million or 35% in 2003, and increased $85 million or 31% in 2002. The higher charge in 2003 was the result of increased dynamic provisioning due to overall loan growth and the rebuild of the equipment finance portfolio partially offset by lower specific provisions and lower direct write-offs following the disposal of AGC in May 2002. The 2002 increase was predominantly due to a small number of downgrades in our corporate book and write-offs in consumer and personal lending products.

Reported economic profit for 2003 was $1,379 million which was steady compared with 2002, and an increase of $198 million or 17% over 2001.

Reported basic earnings per share (EPS) for 2003 were 115.6 cents, a decrease of 2% compared with 2002, which was an increase of 15% over 2001. Reported fully diluted EPS for 2003 were 115.3 cents, a decrease of 2% compared with 2002, which was an increase of 15% over 2001.

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Reconciliation of reported and adjusted results

	Reported 2002 $m	Significant items $m	Adjusted 2002 $m
Interest income	9,220		9,220
Interest expense	(5,074)		(5,074)
Net interest income	4,146		4,146
Net fees and commissions	1,706		1,706
Trading income	223		223
Wealth management operating income(1)	607	(119)	488
Change in excess of net embedded value over net assets of life insurance controlled entity before tax(1)	(261)	261	
Total wealth management operating income	346	142	488
Other income(2)	703	(602)	101
Non-interest income	2,978	(460)	2,518
Net operating income	7,124	(460)	6,664
Salaries and other staff expenses(3)	(1,829)	221	(1,608)
Equipment and occupancy expenses	(589)		(589)
Other expenses(4)	(1,577)	222	(1,355)

	Reported 2002 $m	Significant items $m	Adjusted 2002 $m
Total operating expenses excluding bad and doubtful debts	(3,995)	443	(3,552)
Operating profit before bad and doubtful debts and income tax expense	3,129	(17)	3,112
Bad and doubtful debts	(461)		(461)
Profit from ordinary activities before income tax	2,668	(17)	2,651
Income tax expense(1),(2),(3),(4)	(471)	(164)	(635)
Net profit attributable to outside equity interests	(5)		(5)
Net profit attributable to equity holders	2,192	(181)	2,011

	Reported 2001 $m	Significant items $m	Adjusted 2001 $m
Interest income	10,258		10,258
Interest expense	(6,207)		(6,207)
Net interest income	4,051		4,051
Net fees and commissions	1,614		1,614
Trading income	274		274
Wealth management operating income(1)	382	70	452
Change in excess of net embedded value over net assets of life insurance controlled entity before tax(1)	133	(133)	
Total wealth management operating income	515	(63)	452
Other income	134		134
Non-interest income	2,537	(63)	2,474
Net operating income	6,588	(63)	6,525
Salaries and other staff expenses	(1,744)		(1,744)
Equipment and occupancy expenses	(648)		(648)
Other expenses	(1,178)		(1,178)
Total operating expenses excluding bad and doubtful debts	(3,570)		(3,570)
Operating profit before bad and doubtful debts and income tax expense	3,018	(63)	2,955
Bad and doubtful debts	(433)		(433)
Profit from ordinary activities before income tax	2,585	(63)	2,522
Income tax expense(1)	(677)	14	(663)
Net profit attributable to outside equity interests	(5)		(5)
Net profit attributable to equity holders	1,903	(49)	1,854

Significant items:

(1) During 2002 we standardised the accounting treatment for our existing and newly acquired wealth management businesses on an accrual accounting basis. An adjustment was made as follows: charge of $261 million to reverse the embedded value uplift (EV); credit of $119 million relating to deferred acquisition costs (DAC); and a tax credit of $33 million as a result of this policy change. The comparative result in 2001 was adjusted by a credit of $133 million to reverse EV; a charge of $70 million for DAC; and a tax charge of $14 million.

(2) (i) A pre-tax profit of $751 million (tax credit of $3 million) was realised on the sale of AGC to GE Capital on 31 May 2002. (ii) We implemented a change in investment strategy on a portfolio of high yield investments. These securities had previously been intended to be held to maturity. The portfolio has now been made available-for-sale and a charge of $149 million (nil tax impact) was recognised in 2002.

(3) During 2002 we adopted the International Accounting Standard for Superannuation (IAS 19), which resulted in an additional pre-tax charge of $221 million (tax credit $61 million) in that year.

(4) (i) We recorded a pre-tax charge of $86 million (tax credit of $26 million) relating to the cost associated with the integration of our existing wealth management businesses into operations acquired during 2002 and (ii) A pre-tax charge of $136 million (tax credit $41 million) relating to the expensing of current and prior year capitalised start-up costs associated with outsourcing agreements.

Statement of financial performance review

Net Interest Income	Reported Result 2003 $m	2002 $m	2001 $m
Interest income	**10,024**	9,220	10,258
Interest expense	**(5,680)**	(5,074)	(6,207)
Net interest income	**4,344**	4,146	4,051

Increase/(decrease) in net interest income	2003 $m	2002 $m	2001 $m
Due to change in volume	**568**	681	221
Due to change in rate	**(370)**	(586)	161
Change in net interest income	**198**	95	382

Reported net interest income in 2003 increased by 5% or $198 million (2002 2% or $95 million). This includes $27 million in 2003 (2002 nil) relating to the acquisition of BTFM and $316 million in 2002 (2001 $490 million) relating to the operations of the divested AGC business. Excluding these items, net interest income increased $487 million or 13% (2002 $269 million or 8%). This improvement has been driven from strong growth of 12% in average interest earning assets (2002 13%), partially offset by a contraction in interest margins during 2003 and 2002.

The growth in average interest earning assets has been due to loan growth across all lending portfolios, however, growth has been particularly strong in the household credit market. In 2003, the residential property market has been a significant driver of the domestic economy with strong demand for residential property continuing from the high levels in experienced in 2002.

During 2003 our interest spread decreased 12 basis points to 2.33%, compared with a decrease of 18 basis points in 2002. The net interest margin decreased 15 basis points in 2003 compared with 31 basis points in 2002. For details of our spreads and margins calculation refer to the table below.

In 2003 and 2002, margins have been impacted by an increasingly competitive market and a number of structural changes in our business including the divestment of the higher margin AGC consumer finance business in May 2002, as well as:

- a slight contraction in product margins in our Australian and New Zealand banking franchise in 2003;

the change in financing the bill acceptance portfolio in 2002;

improved margins from a lower cost of funds in our offshore business excluding New Zealand in 2003 due to lower cost of funds; and

a reduced benefit from free funds due to lower interest rates in 2002, lower growth in free funds relative to overall balance sheet growth, and a significant increase in non-interest earning assets following the acquisition of BTFM in the 2002 calendar year.

Australia

Australia's net interest spread fell 19 basis points and net interest margin fell 24 basis points relative to 2002. Consistent with the drivers at a group level, Australia's net interest margin fell due to the divestment of the higher margin AGC business and ongoing margin compression in our key products. The benefit from free funds fell as non-interest bearing assets grew faster than non-interest bearing liabilities. This was compounded by the acquisition of BTFM in October 2002.

New Zealand

New Zealand's net interest spread fell six basis points and net interest margin increased 13 basis points. Interest spreads fell due to margin compression in our key products, however, this was more than offset by a 19 basis point increase in the benefit from free funds reflecting both the benefit obtained from the FIRsTS and TPS raisings through New Zealand in 2003 and an increase in volume of free funds in AUD terms due to the strong appreciation of the NZD

Offshore interest margins other than in New Zealand benefited from the lower cost of funds in offshore markets during the year.

Interest spread and margin

	Reported Result		
	2003 $m	**2002 $m**	**2001 $m**
Group			
Net interest income	**4,344**	4,146	4,051
Tax equivalent gross up(1)	**197**	139	149
Net interest income (including gross up)	**4,541**	4,285	4,200
Average interest earning assets	**171,457**	153,124	135,154
Average non-accrual loans	**567**	728	641
Average interest bearing liabilities	**156,315**	138,650	122,498
Average net non-interest bearing liabilities and equity	**15,142**	14,474	12,656
Interest spread on productive assets(2)	**2.34%**	2.47%	2.65%
Impact of impaired loans	**(0.01)%**	(0.02)%	(0.02)%
Interest spread(3)	**2.33%**	2.45%	2.63%
Benefit of net non-interest bearing liabilities and equity(4)	**0.32%**	0.35%	0.48%
Net interest margin(5)	**2.65%**	2.80%	3.11%

	Reported Result		
On a geographical basis, interest spread and margins were:			
Australia			
Interest spread on productive assets(2)	**2.23%**	2.43%	2.66%
Impact of impaired loans	**(0.01)%**	(0.02)%	(0.02)%
Interest spread(3)	**2.22%**	2.41%	2.64%
Benefit of net non-interest bearing liabilities and equity(4)	**0.29%**	0.34%	0.44%
Net interest margin(5)	**2.51%**	2.75%	3.08%
New Zealand			
Interest spread on productive assets(2)	**3.00%**	3.06%	3.08%
Impact of impaired loans	**(0.01)%**	(0.01)%	(0.03)%
Interest spread(3)	**2.99%**	3.05%	3.05%
Benefit of net non-interest bearing liabilities and equity(4)	**0.40%**	0.21%	0.23%
Net interest margin(5)	**3.39%**	3.26%	3.28%
Other overseas			
Interest spread on productive assets(2)	**0.67%**	0.42%	0.50%
Impact of impaired loans	**0.00%**	(0.01)%	(0.01)%
Interest spread(3)	**0.67%**	0.41%	0.49%
Benefit of net non-interest bearing liabilities and equity(4)	**0.14%**	0.24%	0.54%
Net interest margin(5)	**0.81%**	0.65%	1.03%

(1) We have entered into various tax effective financing transactions that derive income that is subject to a reduced rate of income tax. The impact of this is reflected in lower income tax expense and interest income. In order to provide improved comparability, this income is presented on a tax equivalent basis.

(2) Interest spread on productive assets is determined after excluding non-accrual loans, and the related interest, from the equation.

(3) Interest spread is the difference between the average yield (including tax equivalent gross up) on all interest earning assets and the average rate paid on all interest bearing liabilities net of impaired loans.

(4) The benefit of net non-interest bearing liabilities and equity is determined by applying the average rate of interest paid on all interest bearing liabilities to the average level of net non-interest bearing funds as a percentage of average interest earning assets. The calculations for Australia and New Zealand take into account the interest expense/income of cross-border, intragroup borrowing/lending.

(5) Net interest margin is calculated by dividing net interest income (including tax equivalent gross up) by average interest earning assets.

Non-interest income

	Reported Result			Adjusted Result(1)		
	2003 $m	**2002 $m**	**2001 $m**	**2003 $m**	**2002 $m**	**2001 $m**
Net fees and commissions	**1,836**	1,706	1,614	**1,836**	1,706	1,614
Trading income	**267**	223	274	**267**	223	274
Wealth management operating income	**746**	346	515	**746**	488	452
Other income	**137**	703	134	**137**	101	134
Total non-interest income	**2,986**	2,978	2,537	**2,986**	2,518	2,474

(1) Excludes a number of individually significant items. For a reconciliation and explanation of these items, refer to page 31.

Reported non-interest income for 2003 was $2,986 million, an increase of $8 million compared with 2002, which was an increase of $441 million compared to 2001. The 2002 result included the impact of several significant items totalling $460 million. These were $142 million (2001 $63 million) relating to a change in accounting treatment for our wealth management business, a profit of $751 million on the sale of AGC and an unrealised loss of $149 million on investment securities. Adjusting for these items, non-interest income increased $468 million or 19% in 2003 ($44 million or 2% in 2002). The non-interest income results above also include:

- tax recoveries on life insurance policyholders' earnings credit of $7 million in 2003 (2002 charge of $47 million, 2001 charge of $41 million);
- BTFM and RAAM income of $232 million in 2003 (2002 $28 million); and
- AGC income of $49 million in 2002 (2001 $59 million).

Excluding these items, non-interest income increased by $259 million or 10% compared with 2002 and $32 million or 1% compared with 2001.

Reported net fees and commissions increased by $130 million or 8% in 2003 (2002 $92 million or 6%). This includes $53 million from the operations of the divested AGC business in 2002 (2001 $64m). Excluding the impact of AGC net fees and commission increased $183 million or 11% in 2003 (2002 $163 million or 11%). The increase in fees and commissions in 2003 was due to strong volumes in key product areas, particularly residential mortgages and deposits, and fee re-pricing initiatives including:

- an increase in lending fees in 2003 and 2002, benefiting from strong lending growth and increased volumes;
- transaction fees and commissions increases in 2003 due to benefits realised from realignment of the fee structure in our retail bank. The 2002 increase was due to heightened transaction activity driven by new product launches (including our new "Altitude" credit card rewards program) and successful marketing campaigns; and
- a partial offset due to an increase in fees and commissions paid in 2003 and 2002, as a result of increased broker introduced loans in 2003 and increased credit card activity in 2002.

Reported trading income increased by $44 million or 20% in 2003, compared with a decrease of $51 million in 2002. The 2003 increase was due to a significantly improved performance by our Institutional Bank compared to 2002, with the development of new fee based revenues through innovative debt securities and an increase in corporate debt activity. The decrease in 2002 was due to a disappointing trading result reflecting volatility in global financial markets.

Reported other income for 2003 was $137 million, a decrease of $566 million compared to 2002, which was an increase of $569 million over 2001. The 2002 result includes significant items as mentioned above, of $602 million relating to the profit on sale of AGC ($751 million) and the unrealised loss on investment securities ($149 million). Excluding these items, other income increased by $36 million in 2003 (2002 decrease of $33 million). Included in the 2002 result was the write-down of our investment in stockbroking business Hartleys Limited, and in 2001, $27 million income from the sale of our foreign bank note business. Excluding these items other income is steady compared to 2002, and increased slightly on 2001.

Wealth management operating income

	Reported Result			Adjusted Result(1)		
	2003 $m	**2002 $m**	**2001 $m**	**2003 $m**	**2002 $m**	**2001 $m**
Operating income	**746**	607	382	**746**	488	452
Change in excess of net embedded value over net assets of life insurance controlled entity before tax		(261)	133			
Wealth management operating income	**746**	346	515	**746**	488	452

(1) Excludes a number of individually significant items. For a reconciliation and explanation of these items, refer to page 31.

Reported wealth management operating income for 2003 was $746 million, an increase of $400 million over 2002, which was a decrease of $169 million compared with 2001. In 2002, our wealth management business was restructured and moved to an accrual accounting basis. The impact of this change was to no longer recognise the embedded value uplift (EV) in our wealth business in accordance with AASB 1038 *Life Insurance*.

Additionally we changed our accounting policy in respect of acquisition expenses, such that acquisition expenses for profitable business are deferred and amortised over the duration of the product or policy sold. The impact of these changes included: $261 million in 2002 (2001 $133 million) for EV recognised in prior years and $119 million in 2002 (2001 $70 million) in respect of deferred acquisition costs now recognised. Adjusting for these items, wealth management income increased $258 million or 53% in 2003, compared with an increase of $36 million in 2002. The increase in 2003 includes the contribution of our recently acquired wealth management businesses, BTFM and RAAM.

The 2003 result reflects:

- continued strong growth in life and risk insurance in-force premiums which increased 24% compared with 2002;
- relative improvements in the investment returns generated by positive growth in equity markets; and
- partially offset by anticipated redemptions from BTFM and RAAM managed funds during the months following acquisitions, due to cautionary ratings applied by research houses and asset consultants. A turnaround in investment performance has assisted in reducing outflows over the second half of the year.

In 2002, the relatively steady result was due to a subdued global economy, further compounded by weak domestic and global equity markets.

Operating expenses excluding bad and doubtful debts

	Reported Result			Adjusted Result(2)		
	2003 $m	**2002 $m**	**2001 $m**	**2003 $m**	**2002 $m**	**2001 $m**
Salaries and other staff expenses	**1,836**	1,829	1,744	**1,836**	1,608	1,744
Equipment and occupancy expenses	**596**	589	648	**596**	589	648
Other expenses	**1,494**	1,577	1,178	**1,494**	1,355	1,178
Total operating expenses excluding bad and doubtful debts	**3,926**	3,995	3,570	**3,926**	3,552	3,570
Productivity ratio(1)	**3.99**	3.90	3.78	**3.99**	4.14	3.74
Total operating expense to operating income ratio	**53.6%**	56.1%	54.2%	**53.6%**	53.3%	54.7%

(1) Net operating income/salaries and other staff expenses

(2) Excludes a number of individually significant items. For a reconciliation and explanation of these items, refer to page 31.

Reported total operating expenses for 2003 were $3,926 million, a decrease of $69 million compared with 2002, which increased by $425 million over 2001. This included the impact of significant items totalling $443 million in 2002 (superannuation charge $221 million, outsourcing costs $136 million, integration expenses $86 million). Excluding these items, total operating expenses increased by $374 million or 11% in 2003, compared with a decrease of $18 million or 1% in 2002. The increase in 2003 has been influenced by a change in our business mix following the sale of AGC and the acquisition of RAAM, BTFM and Hastings. The operating expense base of the acquired wealth businesses is higher than the expense base of AGC.

The 2003 result includes $283 million (2002 $25 million) relating to the operations of RAAM and BTFM and 2002 includes $94 million (2001 $143 million) relating to the sold AGC business. Excluding these items, 2003 expenses grew $210 million or 6% over 2002, and 2002 in turn increased $6 million or less than 1% over 2001. This increase in expenses in 2003 has been driven by the following factors:

- an increase of $148 million or 4% associated with the change in the composition of our business following the divestment of AGC and the acquisition of RAAM, BTFM and Hastings; and

- an increase of $163 million or 5% in our adjusted operating expenses. This increase includes an additional $77 million (2%) following the adoption of IAS 19 in relation to our defined benefit superannuation funds in 2002 and a $42 million (1%) increase due to the appreciation of the New Zealand dollar against the Australian dollar during 2003. Together these additional expenses added 1% to our ongoing expense growth.

Organic expense growth was 12% after adjusting for the impact of the IAS19 related superannuation expense increase and the appreciation of the New Zealand dollar. In 2003, we also incurred additional expenses associated with extracting further synergies from the integration of our wealth management acquisitions, and investments in the "Align", "Reach" and "Pinnacle" programs aimed at delivering further productivity improvements in the medium term. The slight increase in 2002 was due to volume and inflationary increases offset by efficiency savings.

Reported salaries and other staff expense for 2003 were $1,836 million, an increase of $7 million compared with 2002, which was an increase of $85 million over 2001. The 2002 result includes the impact of the superannuation charge of $221 million associated with the adoption of IAS 19. Adjusting for this, salaries and other staff expenses have increased by $228 million or 14% in 2003, primarily as a result of the acquisitions of BTFM and RAAM. Excluding the impact of these acquisitions and the divested AGC business, salaries and other staff expenses increased by 10% in 2003 (2002 reduced by 7%).

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The 2003 increase was due to $77 million higher superannuation amortisation expense following the adoption of IAS 19 and increased variable remuneration in our Institutional Bank in line with an improved performance in 2003. The decrease in 2002 was largely as a result of continuing outsourcing and restructuring initiatives focused on streamlining our non-customer facing areas. The number of full-time equivalent employees (FTE) increased to 26,780 in 2003 (2002 24,776, 2001 28,534) as a result of acquisitions including 1,132 staff due to the acquisition of BTFM. In 2002, the divestment of AGC reduced FTE by 1,200 and the acquisition of RAAM contributed an additional 178 FTE.

Equipment and occupancy expenses increased $7 million or 1% in 2003 (2002 decrease of 10%). The reduction in 2002 was due to initiatives to optimise the use of our distribution network and other premises.

Reported other expenses for 2003 were $1,494 million, a decrease of $83 million or 5% compared with 2002, which increased by $399 million or 34% over 2001. The 2002 result includes $222 million relating to the outsourcing and integration costs mentioned previously. Excluding these items, other expenses increased $139 million in 2003 compared to a $177 million increase in 2002. Excluding the impact of the sale of AGC and our acquisitions of BTFM, RAAM and Hastings, other expenses increased by 3% in 2003 (2002 17%). The increase in 2002 was mainly due to a change in the composition of our expense base following our outsourcing program.

Expense containment continued to be a key priority, as demonstrated by our reported operating expenses to operating income ratio of 53.6% in 2003 (2002 56.1%, 2001 54.2%) and our adjusted operating expenses to operating income ratio of 53.6% in 2003 (2002 53.3%, 2001 54.7%).

Bad and doubtful debts

	Reported Result		
	2003 $m	**2002 $m**	**2001 $m**
Bad and doubtful debts	**485**	461	433
Total bad and doubtful debt charge to average loans and acceptances (basis points)	**31**	33	32

The reported charge for bad and doubtful debts increased $24 million or 5% in 2003 to $485 million. The 2002 charge was an increase of $28 million or 6% compared with 2001. The 2003 charge represents 31 basis points of average gross loans and acceptances, two basis points lower than in 2002 and one basis point lower than in 2001.

The higher charge in 2003 was the result of increased dynamic provisioning due to overall loan growth and the rebuild of the equipment finance portfolio following the sale of AGC. The overall higher dynamic provisioning charge in 2003 was partially offset by lower specific provisions and lower direct write-offs compared to 2002. One of the major factors in this trend has been the divestment of the higher risk AGC consumer finance business in May 2002. The 2002 increase was predominantly due to a small number of downgrades in our corporate book and write-offs in consumer and personal lending products.

The 2002 reported result includes $101 million (2001 $158 million) relating to the divested AGC business. Excluding this, 2003 bad and doubtful debts increased $125 million or 35% over 2002, which in turn increased $85 million or 31% over 2001.

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Income tax expense

	Reported Result			Adjusted Result(1)		
	2003 $m	**2002 $m**	**2001 $m**	**2003 $m**	**2002 $m**	**2001 $m**
Income tax expense	**728**	471	677	**728**	635	663

	Reported Result			Adjusted Result(1)		
Tax as a percentage of profit from ordinary activities before tax (effective tax rate)	**24.9%**	17.7%	26.2%	**24.9%**	24.0%	26.3%

(1)
Excludes a number of individually significant items. For a reconciliation and explanation of these items, refer to page 31.

Reported income tax expense for 2003 was $728 million, an increase of $257 million over 2002, which was a decrease of $206 million compared with 2001. Our effective tax rate in 2003 was 24.9% compared with 17.7% in 2002 and 26.2% in 2001. Our effective tax rates in 2003, 2002 and 2001 were below the official Australian company tax rate of 30% (2002 30%, 2001 34%) due to the impact of lower overseas tax rates and certain non-taxable items including, in 2002, the profit on sale of AGC. The tax expense included a $7 million charge in 2003, $47 million credit in 2002, and a $41 million credit in 2001 in relation to tax recoveries on life insurance policyholders' earnings.

Economic profit

Economic profit is defined as cash earnings less a capital charge calculated at 12% of ordinary equity plus the estimated value of franking credits paid to shareholders.

Economic profit is used as a key measure of our financial performance because it focuses on shareholder value by requiring a return in excess of a risk weighted cost of capital.

	Reported Result		
	2003 $m	**2002 $m**	**2001 $m**
Net profit attributable to equity holders	**2,183**	2,192	1,903
Goodwill amortised	**163**	100	98
Distributions on other equity instruments	**(75)**	(48)	(51)
Cash earnings	**2,271**	2,244	1,950
Franking benefit(1)	**430**	382	336
Adjusted cash earnings	**2,701**	2,626	2,286
Equity charge	**(1,322)**	(1,246)	(1,105)
Economic profit	**1,379**	1,380	1,181
Equity charge			
Average Tier 1 equity	**8,893**	8,509	7,711
Add: average goodwill	**3,249**	2,340	1,961
Less: other equity instruments(2)	**(1,125)**	(465)	(465)
Average adjusted equity	**11,017**	10,384	9,207
12% of average adjusted equity	**(1,322)**	(1,246)	(1,105)

(1)
Franking benefit arises when net profit on which company tax has been paid is used to pay dividends, and the tax paid on the amount of the dividend is transferred as a tax credit refundable to certain shareholders. The company tax rate for 2003 is 30% (2002 30%, 2001 34%). For further details of franking of dividends, refer to the section on "Taxation".

(2)

Other equity instruments comprise the average balances of FIRsTS, TOPrS(SM) and TPS.

Reported economic profit for 2003 was $1,379 million which was steady compared with 2002, and an increase of $198 million or 17% over 2001. Adjusting for the significant items mentioned in the above discussion, economic profit increased $181 million or 15% to $1,379 million in 2003, after increasing $67 million or 6% in 2002. The increase in economic profit in 2003 compared to 2002, excluding significant items, has been driven by strong adjusted cash earnings growth (10%) and relatively low growth in average ordinary equity (6%). The increase in 2002 is due to strong adjusted cash earnings growth (15%) and lower growth in average ordinary equity (13%).

Statement of financial position review

The detailed components of the statement of financial position are set out in the notes to the financial statements.

	Reported Result		
As at 30 September	**2003 $m**	**2002 $m**	**Change $m**
Assets			
Cash and balances with central banks	**1,786**	1,669	117
Due from other financial institutions	**6,035**	5,242	793
Trading and investment securities	**12,449**	13,956	(1,507)
Net loans and acceptances	**164,261**	140,658	23,603
Life insurance assets	**10,522**	7,566	2,956
All other assets	**26,286**	21,946	4,340
Total assets	**221,339**	191,037	30,302
Liabilities and equity			
Due to other financial institutions	**3,831**	4,731	(900)
Deposits and public borrowings	**129,071**	110,763	18,308
Debt issues	**29,970**	27,575	2,395
Acceptances	**3,788**	4,788	(1,000)
Life insurance policy liabilities	**9,896**	7,163	2,733
All other liabilities	**26,243**	21,037	5,206
Loan capital	**4,544**	4,512	32
Total liabilities	**207,343**	180,569	26,774
Total equity	**13,996**	10,468	3,528
Total liabilities and equity	**221,339**	191,037	30,302

Assets

As at 30 September 2003, our assets totalled $221.3 billion. This was an increase of $30.3 billion over the $191.0 billion as at 30 September 2002. Discussion on significant changes in assets follows.

Trading and investment securities decreased by $1.5 billion to $12.4 billion in 2003. This was primarily due to a reduction in our holdings of Australian government securities.

During 2003 loans and acceptances increased by $23.6 billion to $164.3 billion. The major reasons for this increase were as follows:

continued growth in housing finance. Housing loans increased by 21% or $13.8 billion (adjusting for securitisation) in Australia and 13% or $1.7 billion (adjusting for securitisation) in New Zealand;

increase in margin lending of $1.0 billion due to the acquisition of BTFM, and the subsequent cessation of securitisation arrangements which had funded BTFM's margin lending portfolio and instead funded margin lending loans on-balance sheet;

business lending to small and medium sized enterprises rose by $3.2 billion for year ended 30 September 2003 ; and

continued rebuilding of the business leasing product after the sale of our finance company, AGC in Australia (and the loan book of AGC in New Zealand). This product increased by $2.7 billion over the prior year.

Life insurance assets increased by $3.0 billion during 2003 to $10.5 billion. This increase was mainly attributable to the acquisition of BTFM.

As at 30 September 2003 all other assets totalled $26.3 billion, an increase of $4.3 billion. This rise resulted mainly from the combined impact of growth in goodwill, in securities purchased under agreements to resell and in other financial market assets.

Liabilities and equity

Our total liabilities at 30 September 2003 were $207.3 billion, an increase of $26.8 billion from $180.6 billion as at 30 September 2002. Discussion of the changes in significant liabilities follows.

The increase of $18.3 billion in our deposits and public borrowings during 2003 combined with increased debt issues of $2.4 billion were the major sources of funding for our asset expansion.

Rises in securities purchased not yet delivered and in other financial markets liabilities were major factors in the movement of $5.2 billion in all other liabilities. Other financial markets liabilities primarily represent the negative fair value of trading derivative financial instruments.

Our equity increased by $3.5 billion during 2003 to $14.0 billion. In addition to accumulated profits for 2003 of $2.2 billion, this was largely the result of the issue of hybrid equity instruments during the year. In December 2002 we issued $0.7 billion of Fixed Interest Resettable Trust Securities (FIRsTS), and in August 2003, $1.1 billion of Trust Preferred Securities (TPS). These increases to equity were partly offset by the distribution of dividends (net of dividend reinvestment).

Asset quality

	Reported Result		
As at 30 September	**2003 $m**	**2002 $m**	**2001 $m**
Loans and acceptances			
Loans	162,027	137,304	123,851
Acceptances	3,788	4,788	15,700
Total loans and acceptances(1)	165,815	142,092	139,551
Average loans and acceptances			
Australia	124,271	114,791	109,261
New Zealand	28,540	23,752	21,451
Other overseas	3,018	3,239	4,192
Total average loans and acceptances(1)	155,829	141,782	134,904

	Reported Result		

(1) Loans are stated before related provisions for bad and doubtful debts.

Total loans represent 73.2% of the total assets of the group in 2003 compared to 71.9% in 2002 and 65.2% in 2001.

Loans and acceptances increased $23.7 billion or 16.7% to $165.8 billion in 2003, from $142.1 billion in 2002 and $139.6 billion in 2001. The increase to 2003 reflects a strong growth in low risk residential mortgages amidst the continued low interest rate environment and the rebuilding of the equipment financing portfolio following the disposal of our finance company, AGC in 2002.

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Approximately 24.7% of the loans at 30 September 2003 mature within one year and 20.6% mature between one year and five years. Real estate mortgage lending comprises the bulk of the loan portfolio maturing after five years.

Our lending is focussed on our core geographic markets in Australia and New Zealand. Australian and New Zealand average loans and acceptances increased $14.3 billion or 10.3% to $152.8 billion in 2003, from $138.5 billion in 2002 and $130.7 billion in 2001 predominantly due to the growth in residential mortgages. Australian and New Zealand average loans and acceptances accounted for 98.1% of the total average gross loans and acceptances in 2003, compared with 97.7% in 2002 and 96.9% in 2001.

Other overseas average loans and acceptances decreased $0.2 billion or 6.8% to $3.0 billion in 2003, from $3.2 billion in 2002 and $4.2 billion in 2001.

	Reported Result		
As at 30 September	**2003 $m**	**2002 $m**	**2001 $m**
Impaired assets			
Non-accrual assets			
Gross	597	648	866
Specific provisions	(159)	(266)	(299)
Net	438	382	567
Restructured loans			
Gross	15	31	36
Specific provisions	(2)	(6)	(8)
Net	13	25	28
Net impaired assets	451	407	595
Provisions for bad and doubtful debts			
Specific provisions	161	272	307
General provision	1,393	1,162	1,294
Total provisions for bad and doubtful debts	1,554	1,434	1,601
Asset quality			

	Reported Result		
Specific provisions to total impaired assets	26.3%	40.1%	34.0%
Total impaired assets to total loans and acceptances(1)	0.37%	0.48%	0.65%
Total provisions to total loans and acceptances(1)	0.94%	1.01%	1.15%
Total provisions to total impaired assets	253.9%	211.2%	177.5%
General provision to non-housing performing loans	1.7%	1.7%	1.8%

(1) Loans are stated before related provisions for bad and doubtful debts.

We maintain a high quality loan portfolio with 74% of our exposure to either investment grade or secured consumer mortgages (76% in 2002 and 74% in 2001) and 89% of our exposure is in our core markets of Australia, New Zealand and the near Pacific (84% in 2002 and 82% in 2001).

Total impaired assets as a percentage of total gross loans and acceptances remain at very low levels, 0.37% at 2003, down from 0.48% at 2002, down from 0.6% at 2001. The reduction in 2003 total provisions to gross loans and acceptances reflects strong growth in our lower risk residential mortgage book and higher quality lending to business customers.

Approximately $386 million or 63% of total impaired assets relate to Australian and New Zealand exposures, slightly up from $382 million in 2002 and down from $689 million in 2001. Other overseas impaired exposures are $226 million in 2003, down from $297 million in 2002 and up slightly from $213 million in 2001.

At 30 September 2003, we had one impaired counterparty with exposure greater than $50 million accounting for 26% of total impaired assets. This compares with two impaired counterparties with exposure larger than $50 million in 2002 and three in 2001, accounting for 29% and 34% of total impaired assets respectively. There were a further thirteen impaired exposures that were less than $50 million and greater than $5 million (2002 13; 2001 18). Impaired asset levels continue to decline, due to favourable economic conditions and the write-off of a number of exposures.

Specific provision coverage of impaired assets has decreased to 26% ($161 million) compared to 40% ($272 million) in 2002 and 34% ($307 million) in 2001. The lower specific provisioning coverage in 2003 reflects the write-off of a number of highly provisioned exposures. We are satisfied that our current specific provisioning coverage is appropriate. Total provisions at 30 September represent 254% of impaired assets (2002 211%, 2001 178%).

Consumer mortgage loans accruing and 90 days past due in 2003 remained stable compared to 2002 at 0.15% of outstandings which in turn was down eight basis points on 2001. Other consumer loan delinquencies (including credit card and personal loan products) fell 5 basis points in 2003 to 1.02% of outstandings.

Credit risk concentrations

We monitor our credit portfolio to avoid risk concentrations. Our exposure to consumers comprises 63% of our on-balance sheet loans and 51% of total credit commitments. Almost 84% of our exposure to consumers was supported by residential real estate mortgages. This category also includes investment property loans to individuals, credit cards, personal loans, overdrafts and lines of credit. Our consumer credit risks are highly diversified, with substantial consumer market share in every state and territory in Australia, New Zealand and the Pacific region. Moreover, these customers service their debts with incomes derived from a wide range of occupations, in city as well as country areas.

Exposures to businesses, governments and other financial institutions are classified into 61 industry clusters. These clusters are based on the correlation between industries, grouping those that are affected by the same economic factors. Thus, industries that might suffer simultaneously from increased risk are monitored together. Through this process, the industry diversification of our portfolios is measured and monitored. Exposures are actively managed from a portfolio perspective, with risk mitigation techniques used to regularly re-balance the portfolio. The table below shows the assessed credit quality of our current exposures relating to these customers. The risk grades shown are based on Standard and Poor's credit rating system. Based on these ratings, our exposure to business, government and other financial institution investment grade customers is 64% as at 30 September 2003 (2002 70%). The reduction in exposure to investment grade customers is driven by strong growth in our business banking sector, including the reacquisition of the equipment financing portfolio, following the disposal of our finance company AGC.

Assessed credit quality of exposures to businesses, governments and other financial institutions at 30 September

	2003 %	2002 %
AAA, AA	**26**	33
A	**14**	16
BBB	**24**	21
BB, B+	**34**	28
Lower than B+	**2**	2
Total	**100**	100

Business group results

To enable a more detailed analysis of our results, the following business group results have been presented on a management reporting basis. Internal charges and transfer pricing adjustments have been included in the performance of each of our business units, reflecting the management of the business within our organisation, rather than the legal structure. Therefore, the results below cannot be compared directly to public disclosure of the performance of individual legal entities within our organisation.

The following business results highlight the performance of our key areas of business and do not add to our total result. The remainder of the business result includes, among other things, the results of Business and Technology Solutions and Services, Group Treasury, Pacific Banking and Head Office functions. Where the management reporting structure has changed or where accounting reclassifications have been made, comparatives have been restated and therefore may differ from results previously reported.

Business and Consumer Banking

	Reported Result			Adjusted Result(1)		
	2003 $m	2002 $m	2001 $m	2003 $m	2002 $m	2001 $m
Net interest income	**3,158**	3,116	3,086	**3,158**	3,116	3,086
Non-interest income	**1,289**	1,898	1,139	**1,289**	1,236	1,139
Operating income	**4,447**	5,014	4,225	**4,447**	4,352	4,225
Operating expenses (excluding goodwill and bad and doubtful debts)	**(2,365)**	(2,368)	(2,368)	**(2,365)**	(2,330)	(2,368)
Amortisation of goodwill	**(58)**	(58)	(59)	**(58)**	(58)	(59)
Total operating expenses excluding bad and doubtful debts	**(2,423)**	(2,426)	(2,427)	**(2,423)**	(2,388)	(2,427)
Operating profit before bad and doubtful debts and income tax expense	**2,024**	2,588	1,798	**2,024**	1,964	1,798
Bad and doubtful debts	**(322)**	(368)	(309)	**(322)**	(368)	(309)
Profit on ordinary activities before tax	**1,702**	2,220	1,489	**1,702**	1,596	1,489
Income tax expense	**(524)**	(478)	(536)	**(524)**	(489)	(536)
Net profit attributable to equity holders	**1,178**	1,742	953	**1,178**	1,107	953

	Reported Result			Adjusted Result(1)		
	$bn	**$bn**	**$bn**	**$bn**	**$bn**	**$bn**
Deposits and other public borrowings	**69.5**	61.5	58.6	**69.5**	61.5	58.6
Net loans and acceptances	**118.5**	98.9	96.2	**118.5**	98.9	96.2
Total assets	**121.1**	101.6	98.5	**121.1**	101.6	187.4
Total operating expense to operating income ratio	**54.5%**	48.4%	57.4%	**54.5%**	54.9%	57.4%

(1)
For a reconciliation of the differences between reported and adjusted results, refer to page 46.

Reported net interest income was $3,158 million in 2003, an increase of $42 million or 1% compared with 2002, which was an increase of $30 million or 1% over 2001. This included net interest income for AGC, which was sold in May 2002, of $282 million for 2002 and $451 million in 2001. Excluding the AGC result, net interest income for 2003 increased by $324 million or 11% compared with 2002, which increased by $199 million or 8% over 2001. The increase in net interest income in 2003 and 2002 was the result of significant growth in our key loan and deposit portfolios offsetting lending margin compression and the increased costs of third party loan originations.

New mortgage lending has driven the strong growth in the balance sheet, with mortgage drawdowns (net of refinancing) for 2003 increasing by $3.3 billion or 16% compared with 2002, which increased by $4.8 billion or 30% over 2001.

Reported non-interest income for 2003 was $1,289 million, a decrease of $609 million or 32% compared with 2002, which was an increase of $759 million or 67% over 2001. This includes, for 2002, the profit on sale of AGC in Australia of $662 million as well as non-interest income for AGC of $44 million (2001 $54 million). Excluding these items, non-interest income increased by $97 million or 8% in 2003, after increasing by $107 million or 10% in 2002. The increase in non-interest income in 2003 and 2002 is driven by the strong growth in loans and deposits. Further, in 2003, the decrease in commissions received from the sale of wealth products (owing to weakness in domestic and international equity markets) was offset by repricing initiatives related to unsecured lending and consumer and business deposits, which were implemented between February and May 2003 and which aligned our pricing structure more closely with that of our competitors.

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Reported operating expenses (excluding goodwill) for 2003 were $2,365 million, a decrease of $3 million or less than 1% compared with 2002, which was steady compared with 2001. This includes, for 2002, the expensing of outsourcing costs of $38 million and operating expenses relating to AGC of $80 million (2001 $119 million). Excluding these items, operating expenses (excluding goodwill) have increased $115 million or 5% in 2003 compared with expenses remaining steady in 2002. The increase in operating expenses in 2003 reflects investment in a number of strategic projects covering the areas improving our distribution capability, online servicing and streamlining straight-through processing and credit checks.

Reported bad and doubtful debts expense for 2003 was $322 million, a decrease of $46 million or 13% compared with 2002, which was an increase of $59 million or 19% over 2001. This included bad and doubtful debts charge for AGC of $96 million for 2002 and $152 million in 2001. Excluding AGC, the charge for bad and doubtful debts rose by $50 million or 18% in 2003, which in turn had risen $115 million or 73% in 2002. A low-interest rate environment has led to strong asset growth in all products, driving a steady increase in dynamic provision charges throughout the last two years. Bad debt charges in 2002 were further increased by growth in credit card and personal loan write-offs. These write-offs stabilised in 2003 as a result of changes made to credit checking processes and various collection activities.

Reported income tax expense for 2003 was $524 million, an increase of $46 million or 10% over 2002, which was a decrease of $58 million or 11% compared with 2001. The 2002 result includes a tax credit of $11 million associated with the previously mentioned outsourcing costs and income tax expense relating to the operations of AGC of $57 million (2001 $91 million). Excluding these items, income tax expense for 2003 increased $92 million or 21% over 2002, which was a decrease of $13 million or 3% over 2001.

Reported net profit attributable to equity holders for 2003 was $1,178 million, a decrease of $564 million compared to 2002, which was an increase of $789 million over 2001. Excluding the items relating to the sale and operations of AGC, and outsourcing expenses, net profit attributable to equity holders for 2003 was an increase of $164 million or 16% over 2002, which increased by $204 million over 2001.

Reconciliation of reported and adjusted result Business and Consumer Banking

	Reported 2002 $m	Significant items $m	Adjusted 2002 $m
Net interest income	3,116		3,116
Non-interest income(1)	1,898	(662)	1,236
Operating income	5,014	(662)	4,352
Total operating expenses (excluding goodwill and bad and doubtful debts)(2)	(2,368)	38	(2,330)
Amortisation of goodwill	(58)		(58)
Total operating expenses excluding bad and doubtful debts	(2,426)	38	(2,388)
Operating profit before bad and doubtful debts and income tax expense	2,588	(624)	1,964
Bad and doubtful debts	(368)		(368)
Profit on ordinary activities before tax	2,220	(624)	1,596
Income tax expense(2)	(478)	(11)	(489)
Net profit attributable to equity holders	1,742	(635)	1,107

(1) Profit of $662 million (tax effect of $3 million) was realised on the sale of AGC to GE Capital on 31 May 2002.

(2) A pre-tax charge of $38 million (tax credit $11 million) relating to the expensing of current and prior year capitalised start-up costs associated with outsourcing agreements. Refer to the section on "Changes in accounting policy" for further information.

BT Financial Group

	Reported Result			Adjusted Result(1)		
	2003 $m	2002 $m	2001 $m	2003 $m	2002 $m	2001 $m
Net interest income	**83**	29	25	**83**	29	25
Non-interest income	**529**	164	377	**529**	306	314
Operating income	**612**	193	402	**612**	335	339
Operating expenses (excluding goodwill and bad and doubtful debts)	**(375)**	(267)	(168)	**(375)**	(181)	(168)
Amortisation of goodwill	**(63)**	(4)	(4)	**(63)**	(4)	(4)
Total operating expenses excluding bad and doubtful debts	**(438)**	(271)	(172)	**(438)**	(185)	(172)
Operating profit before bad and doubtful debts and income tax expense	**174**	(78)	230	**174**	150	167
Bad and doubtful debts			(2)			(2)
Profit on ordinary activities before tax	**174**	(78)	228	**174**	150	165

	Reported Result			Adjusted Result(1)		
Income tax expense	**(47)**	33	(37)	**(47)**	(26)	(23)
Net profit attributable to equity holders	**127**	(45)	191	**127**	124	142
	$bn	$bn	$bn	$bn	$bn	$bn
Total assets	**14.0**	9.1	8.5	**14.0**	9.1	8.5
Funds under management	**43.3**	33.0	22.4	**43.3**	33.0	22.4
Total operating expense to operating income ratio	**71.6%**	140.4%	42.8%	**71.6%**	55.2%	50.8%

(1) For a reconciliation of the differences between reported and adjusted results, refer to page 49.

BTFG reported net profit attributable to equity holders was $127 million in 2003, an increase of $172 million compared with 2002 which was a decrease of $236 million compared with 2001.

This included the effects of a change in our accounting treatment for wealth management during 2002 resulting in a charge to net profit after tax for 2002 of $109 million and a credit for 2001 of $49 million(1) and, in 2002, integration costs associated with the acquisition of new wealth management businesses of $60 million after tax. In addition, we acquired the businesses of BTFM and RAAM in October 2002 and June 2002, respectively (refer section on "Wealth management business acquisitions" for further information). Other notable items that are reflected in our result include the profit on sale of property management rights in 2002 ($5 million) and 2001 ($28 million) and the write down in a significant non-controlling shareholding in 2003 ($3 million) 2002 and ($16 million).

Reported net interest income amounted to $83 million in 2003, an increase of $54 million compared with 2002 which was an increase of $4 million compared with 2001. The increase was principally due to 24% increase in average annuity funds under management from a combined impact of sales growth and a lowering of redemption rates.

Reported non-interest income for 2003 was $529 million, an increase of $365 million over 2002, which decreased by $213 million compared with 2001. This includes the change in our accounting treatment for wealth management during 2002 reducing non-interest income by $142 million (2001 credit of $63 million), income from the acquired businesses of BTFM and RAAM of $232 million (2002 $28 million) and other notable items as mentioned previously.

(1) This amount represents the net credit had this change in accounting policy been applied in 2001.

The other major drivers of the performance in non-interest income were:

- continued growth in life and risk insurance in-force premiums which were up $48 million or 24% due to the increased appetite and awareness of customers towards life insurance and income protection in these more uncertain times; and
- relative improvements in the investment returns generated by positive equity markets.

This was partially offset by the anticipated increase in redemptions from BTFM and RAAM managed funds during the six months following the acquisitions due to cautionary ratings applied by research house and asset consultants. The introduction of changes to the investment process and a turnaround in investment performance has assisted in reducing outflows over the second half of the year.

Reported operating expenses (excluding goodwill) were $375 million in 2003, an increase of $98 million or 35% compared with 2002 which was an increase of $109 million or 65% compared with 2001. The increases include costs associated with the integration of the acquired businesses during 2002 of $86 million, as well as operating expenses of $224 million during 2003 (2002 $25 million). Other drivers include the increase in redemption volumes during the first half of 2003 and sales growth during the second half of the year. This was more than offset by the expense savings and efficiency gains associated with combining the business operations of BTFM, RAAM and our legacy wealth management business (expense synergies), and continued success of cost containment within the life risk business.

Goodwill amortisation increased $59 million due to the acquisition of BTFM and RAAM. Goodwill has only been attributable to RAAM since a corporate restructure on 30 September 2002.

Reported income tax expense for 2003 was $47 million, an increase of $80 million over 2002, which was a decrease of $70 million compared with 2001. The 2002 result includes tax credits of $59 million associated with the previously mentioned accounting policy change ($33 million) and integration costs ($26 million). BTFG's effective tax rates (excluding permanent differences) are generally lower than average due to the transitional tax concessions associated with operating parts of the business through a life company. These tax concessions are due to expire in July 2005.

Reconciliation of reported and adjusted result BT Financial Group

	Reported 2002 $m	Significant items $m	Adjusted 2002 $m
Net interest income	29		29
Non-interest income(1)	164	142	306
Operating income	193	142	335
Total operating expenses (excluding goodwill and bad and doubtful debts)(2)	(267)	86	(181)
Amortisation of goodwill	(4)		(4)
Total operating expenses excluding bad and doubtful debts	(271)	86	(185)
Operating profit before bad and doubtful debts and income tax expense	(78)	228	150
Bad and doubtful debts			
Profit on ordinary activities before tax	(78)	228	150
Income tax expense(1,2)	33	(59)	(26)
Net profit attributable to equity holders	(45)	169	124

	Reported 2001 $m	Significant items $m	Adjusted 2001 $m
Net interest income	25		25
Non-interest income(1)	377	(63)	314
Operating income	402	(63)	339
Total operating expenses (excluding goodwill and bad and doubtful debts)	(168)		(168)
Amortisation of goodwill	(4)		(4)

	Reported 2001 $m	Significant items $m	Adjusted 2001 $m
Total operating expenses excluding bad and doubtful debts	(172)		(172)
Operating profit before bad and doubtful debts and income tax expense	230	(63)	167
Bad and doubtful debts	(2)		(2)
Profit on ordinary activities before tax	228	(63)	165
Income tax expense(1)	(37)	14	(23)
Net profit attributable to equity holders	191	(49)	142

(1) During 2002 we standardised the accounting treatment for our existing and newly acquired wealth management businesses on an accrual accounting basis. Refer to "Changes in accounting policy" for further details. An adjustment was made as follows: charge of $261 million to reverse the embedded value uplift (EV); credit of $119 million relating to deferred acquisition costs (DAC) (net impact on non-interest income was a charge of $142 million); and a tax credit of $33 million as a result of this policy change. The comparative result in 2001 was adjusted by a credit of $133 million to reverse EV; a charge of $70 million for DAC (net impact was a credit of $63 million); and a tax charge of $14 million.

(2) We recorded a pre-tax charge of $86 million (tax credit of $26 million) relating to the cost associated with the integration of our existing wealth management businesses into operations acquired during 2002.

Westpac Institutional Bank

	Reported Result			Adjusted Result(1)		
	2003 $m	2002 $m	2001 $m	2003 $m	2002 $m	2001 $m
Net interest income	**377**	342	373	**377**	342	373
Non-interest income	**545**	287	518	**545**	479	518
Operating income	**922**	629	891	**922**	821	891
Operating expenses (excluding goodwill and bad and doubtful debts)	**(471)**	(408)	(421)	**(471)**	(408)	(421)
Amortisation of goodwill	**(2)**			**(2)**		
Total operating expenses excluding bad and doubtful debts	**(473)**	(408)	(421)	**(473)**	(408)	(421)
Operating profit before bad and doubtful debts and income tax expense	**449**	221	470	**449**	413	470
Bad and doubtful debts	**(107)**	(96)	(114)	**(107)**	(139)	(114)
Profit on ordinary activities before tax	**342**	125	356	**342**	274	356
Income tax expense	**42**	1	7	**42**	1	7
Outside equity interests	**(2)**			**(2)**		
Net profit attributable to equity holders	**382**	126	363	**382**	275	363

	Reported Result			Adjusted Result(1)		
	$bn	$bn	$bn	$bn	$bn	$bn
Deposits and other public borrowings	**10.9**	12.0	10.7	**10.9**	12.0	10.7
Net loans and acceptances	**22.2**	21.5	22.9	**22.2**	21.5	22.9
Total assets	**52.2**	49.1	51.6	**52.2**	49.1	51.6
Total operating expense to operating income ratio	**51.3%**	64.9%	47.3%	**51.3%**	49.7%	47.2%

(1)
For a reconciliation of the differences between reported and adjusted results, refer to page 51.

Reported net interest income for 2003 was $377 million, an increase of $35 million or 10% compared to 2002, which decreased by $31 million or 8% over 2001. The increase in 2003 was driven by an 8% increase in financing assets, increased volumes of higher margins deals and the higher net interest margin component of improved financial markets income. The decrease in 2002 was driven by lower customer demand for on balance sheet lending.

Reported non-interest income for 2003 was $545 million, an increase of $258 million or 90% compared to 2002, which decreased by $231 million or 44% over 2001. Our 2002 reported result includes the fair value adjustment related to a change in accounting policy on our investment in high yield securities, which amounted to an unrealised loss of $192 million recorded in non-interest income. Adjusting for this item, adjusted non-interest income increased by 14% or $66 million in 2003, after decreasing by 8% or $39 million in 2002. The growth during 2003 was primarily driven by stronger financial markets trading income and the inclusion of $14 million of revenues from Hastings in which a 51% controlling interest was acquired on 16 October 2002. The 2001 non-interest income result also included $43 million from the profit on sale on, and operations of, our foreign bank note business. In 2002 financial markets positioning designed to capitalise on domestic economic trends was overshadowed by global events which led to reduced success in trading.

Reported operating expenses (excluding goodwill) have increased 15% or $63 million in 2003 as a result of investments in business systems, the inclusion of Hastings and an increase in variable costs commensurate with improved performance. The comparative decrease of 3% or $13 million in 2002 was mainly attributable to tight expense management and lower variable costs related to performance.

The reported operating expense (before goodwill) to operating income ratio was 51.3% in 2003, compared to 64.9% in 2002 and 47.3% in 2001.

The reported charge for bad and doubtful debts increased by $11 million or 11% in 2003, which decreased by $18 million or 16% in 2002. This included, in 2002, the associated credit relating to the previously mentioned fair value adjustment on our investment in high yield securities. Adjusting for this, the charge for bad and doubtful debts fell by 23% or $32 million in 2003, which in turn had increased by 22% or $25 million in 2002. The increase in 2002 was attributable to increased specific provisions for a small number of large exposures. The decrease in 2003 was attributable to lower provisioning expenses and recoveries on impaired assets previously provided for.

Reported income tax expense for 2003 was a credit of $42 million, compared with credits of $1 million in 2002 and $7 million in 2001. This result is due to tax losses in our offshore branches and certain structured finance transactions that derive income that is subject to a reduced effective tax rate.

Reported net profit attributable to equity holders for 2003 was $382 million, an increase of $256 million compared with 2002, which was a decrease of $237 million over 2001. Adjusting for the unrealised loss on investment securities in 2002, net profit attributable to equity holders increased $107 million during 2003 compared with a decrease of $88 million in 2002.

Reconciliation of reported and adjusted result Westpac Institutional Bank

	Reported 2002 $m	Significant items $m	Adjusted 2002 $m
Net interest income	342		342
Non-interest income(1)	287	192	479
Operating income	629	192	821
Total operating expenses (excluding goodwill and bad and doubtful debts)(2)	(408)		(408)
Amortisation of goodwill			
Total operating expenses excluding bad and doubtful debts	(408)		(408)
Operating profit before bad and doubtful debts and income tax expense	221	192	413
Bad and doubtful debts(1)	(96)	(43)	(139)
Profit on ordinary activities before tax	125	149	274
Income tax expense	1		1
Outside equity interests			
Net profit attributable to equity holders	126	149	275

(1) We implemented a change in investment strategy on a portfolio of high yield investments. These securities had previously been intended to be held to maturity. The portfolio has now been made available-for-sale and a charge of $149 million (nil tax impact) was recognised in 2002. This was reflected by a charge to non-interest income of $192 million, partially offset by a credit to bad and doubtful debts of $43 million. Refer to "Changes in accounting policy" for further details.

New Zealand Banking

	Reported Result			Adjusted Result(1)		
	2003 $m	2002 $m	2001 $m	2003 $m	2002 $m	2001 $m
Net interest income	**697**	651	647	**697**	651	647
Non-interest income	**317**	380	302	**317**	291	302
Operating income	**1,014**	1,031	949	**1,014**	942	949
Operating expenses (excluding goodwill and bad and doubtful debts)	**(505)**	(456)	(465)	**(505)**	(456)	(465)
Amortisation of goodwill	**(37)**	(37)	(35)	**(37)**	(37)	(35)
Total operating expenses excluding bad and doubtful debts	**(542)**	(493)	(500)	**(542)**	(493)	(500)
Operating profit before bad and doubtful debts and income tax expense	**472**	538	449	**472**	449	449
Bad and doubtful debts	**(45)**	(51)	(31)	**(45)**	(51)	(31)
Profit on ordinary activities before tax	**427**	487	418	**427**	398	418
Income tax expense	**(144)**	(140)	(145)	**(144)**	(143)	(145)
Outside equity interests	**(2)**	(1)		**(2)**	(1)	
Net profit attributable to equity holders	**281**	346	273	**281**	254	273

	Reported Result			Adjusted Result(1)		
	$bn	**$bn**	**$bn**	**$bn**	**$bn**	**$bn**
Deposits and other public borrowings	**15.1**	14.2	12.4	**15.1**	14.2	12.4
Net loans and acceptances	**21.4**	18.9	17.5	**21.4**	18.9	17.5
Total assets	**22.4**	19.9	18.5	**22.4**	19.9	18.5
Total operating expense to operating income ratio	**53.5%**	47.8%	52.7%	**53.5%**	52.3%	52.7%

(1) For a reconciliation of the differences between reported and adjusted results, refer to page 53.

Reported net interest income for 2003 was $697 million, an increase of $46 million or 7% compared with 2002, which increased $4 million or 1% over 2001. This includes net interest income of our sold AGC business of $34 million in 2002 and $39 million in 2001. Excluding AGC, net interest income for 2003 increased $80 million or 13% compared with 2002, which increased $9 million or 1% over 2001. The increase in 2003 was due to lending growth in housing, and complemented by growth in agriculture markets, business lending, and net revenue on deposits. Housing loan outstandings were NZ$16 billion in July 2003 (2002 NZ$15 billion). This strong lending growth in housing, on the back of a strong market, confirms New Zealand Banking as the second largest lender of home finance in New Zealand(1). The increase in 2002 was primarily due to a combination of increased volumes, partly offset by margin compression.

Reported non-interest income for 2003 was $317 million, a decrease of $63 million or 17% compared with 2002, which increased $78 million or 26% compared with 2001. Our 2002 reported non-interest income includes the profit on sale of certain loan assets of AGC in New Zealand of $89 million and non-interest income relating to the operations of AGC of $4 million for both 2002 and 2001. Excluding these items, non-interest income for 2003 increased $30 million or 10% on 2002 due to greater focus on fee collection and increased transactional volumes. The decrease of $11 million or 4% in 2002 compared with 2001 was primarily due to exchange rate movements. Our New Zealand dollar income actually decreased by $2 million or 1% in 2002, which reflects transaction volume growth and associated rise in fee income, offset by increased competitive pressure.

(1) Based on KPMG's latest Financial Institutions Survey in Australia and New Zealand.

Total operating expenses for 2003 were $542 million, an increase of $49 million or 10% compared with 2002, which decreased $7 million or 1% over 2001. This included expenses associated with the operations of AGC of $14 million for 2002 and $24 million for 2001. Excluding AGC, total operating expenses increased by $63 million or 13% in 2003 compared to 2002. This was partly due to the commencement of cash contributions to staff superannuation schemes. In addition, the shifting of corporate functions and customer-facing staff to Auckland, rebranding costs and implementation of business review recommendations impacted expenses. The slight increase of $3 million (less than 1%) in 2002 was due to the offset of inflationary pressures against the benefits of cost saving initiatives associated with the outsourcing of part of our information technology operations in 2001.

The charge for bad and doubtful debts of $45 million in 2003, was a decrease of $6 million over 2002, which had increased by $20 million compared with 2001. This includes the bad debts charge relating to AGC of $5 million in 2002 and $6 million in 2001. Despite increased lending growth, increased recoveries have led to the adjusted charge for bad and doubtful debts excluding AGC decreasing $1 million or 2% in 2003. The $21 million or 84% increase in 2002 was due primarily to a shift to dynamic provisioning methodology consistent with our Australian operations. Another contributing factor was the continued growth in business banking total committed exposures.

Reported income tax expense for 2003 was $144 million, an increase of $4 million or 3% over 2002, which was a decrease of $5 million or 3% compared with 2001. The 2002 result includes a tax credit of $3 million associated with the previously mentioned sale of AGC. Excluding this item, adjusted income tax expense for 2003 increased $1 million over 2002, which was a decrease of $2 million over 2001. Also included is income tax expense relating to the operating result of AGC prior to the sale, which was $6 million for 2002 and $4 million for 2001.

Reported net profit attributable to equity holders for 2003 was $281 million, a decrease of $65 million compared with 2002, which was an increase of $73 million over 2001. Adjusting for the impact of the profit on sale and operations of AGC, net profit attributable to equity holders for 2003 was an increase of $40 million over 2002 which, in turn, was a decrease of $23 million over 2001.

Reconciliation of reported and adjusted result New Zealand

	Reported 2002 $m	Significant items $m	Adjusted 2002 $m
Net interest income	651		651
Non-interest income	380	(89)	291
Operating income(1)	1,031	(89)	942
Total operating expenses (excluding goodwill and bad and doubtful debts)	(456)		(456)
Amortisation of goodwill	(37)		(37)
Total operating expenses excluding bad and doubtful debts	(493)		(493)
Operating profit before bad and doubtful debts and income tax expense	538	(89)	449
Bad and doubtful debts	(51)		(51)
Profit on ordinary activities before tax	487	(89)	398
Income tax expense(1)	(140)	(3)	(143)
Outside equity interests	(1)		(1)
Net profit attributable to equity holders	346	(92)	254

(1) A pre-tax profit of $89 million (tax credit of $3 million) was realised on the sale of certain assets of AGC to GE Capital on 31 May 2002.

Liquidity and funding

Liquidity

Liquidity risk is the potential inability to meet our payment obligations. Liquidity management is the responsibility of our Group Treasury Unit. Group Treasury is responsible for monitoring our funding base and ensuring that it is prudently maintained and adequately diversified.

Group Treasury manages funding with oversight from the Asset and Liability Committee (ALCO), which sets and monitors a range of policies relating to liquidity and liability generation. APRA last confirmed that these policies meet their regulatory requirements in April 2003.

Quarterly compliance reports are submitted to our Board Market and Credit Risk Committee.

Key aspects of the liquidity management strategy are as follows:

Annual liquidity risk framework review

Each year Group Treasury reviews its liquidity management approach. This review encompasses areas such as:

modelling approach;

scenarios covered;

limit determination; and

levels of liquid asset holdings.

This review is formally presented to and endorsed by ALCO.

Our liquidity risk management framework models our ability to fund under both normal conditions and during a crisis situation. This approach is designed to ensure that our funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. These models are run globally and for specific geographical regions Australia, New Zealand and offshore.

Annual funding plan

Each year Group Treasury undertakes a funding review. This review outlines the current funding strategy as well as proposing a funding strategy for the coming year and covers areas such as:

trends in global debt markets;

funding alternatives;

peer analysis;

estimation of wholesale funding task;

estimated market capacity; and

funding risk analysis.

This review is formally presented to and approved by ALCO.

Contingency planning

Group Treasury maintains a Crisis Management Action Plan (CMAP) detailing the broad actions that should be taken in the event of a funding crisis. This document:

defines a committee of senior executives to manage a crisis;

allocates responsibility to individuals for key tasks;

- includes a media relations strategy;
- provides a contingent funding plan; and
- contains detailed contact lists outlining key regulatory, government, ratings agencies, equity and debt investor contact points.

Liquidity risk capital

Our Liquidity Risk Capital Model (LRCM) measures the risk of loss due to increased costs of ensuring that the demands for cash are met. The model constructs estimates of liquidity risk capital consistent with measurements of credit, market and operational risk capital.

Expense allocation

Group Treasury allocates expenses associated with funding and liquidity management to business units. This approach is intended to promote appropriate behaviours in the organisation and is designed to ensure that pricing signals are consistent with the portfolio management approach.

Sources of liquidity

The principal sources of our liquidity are as follows:

- customer deposits;
- wholesale debt issuance;
- proceeds from sale of marketable securities;
- principal repayments on loans;
- interest income; and
- fee income.

In management's opinion, liquidity is sufficient to meet our present requirements.

Customer deposits

As at 30 September 2003, deposits and public borrowings amounted to $129.1 billion (2002 $110.8 billion) and represented 62% (2002 61%) of our total liabilities. These borrowings continue to provide a substantial majority of our funding and represent a well-diversified and stable source of funds.

As at 30 September 2003, interbank borrowings accounted for $3.8 billion (2002 $4.7 billion) and represented 2% (2002 3%) of total liabilities. Interbank borrowings are taken from a wide range of counterparties. For further information refer to note 19 to the financial statements.

Wholesale debt issuance

The wholesale funding base is diversified with respect to term, investor base, currency and funding instrument. Facilitating this issuance is an extensive funding infrastructure, covering short and long term debt issuance programmes in a range of key jurisdictions (US market, Euro market, Australian and New Zealand domestic markets) and niche markets (Japanese retail). This infrastructure and diversification is intended to provide us with the ability to access multiple wholesale funding markets without negatively affecting our cost of funding. Our wholesale debt issuance capability is enhanced through regular investor presentations (domestically and internationally), internet pages, and a dedicated page on Bloomberg screen service.

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As at 30 September 2003 Westpac's credit ratings were:

	Short term	Long term
Standard & Poor's Corporation	A-1+	AA-
Moody's Investors Services	P-1	Aa3
Fitch Ratings	F-1+	AA-

A security rating is not a recommendation to buy, sell or hold our securities. Such ratings are subject to revision or withdrawal at any time by the assigning rating agency. Investors are cautioned to evaluate each rating independently of any other rating.

The following table details the current debt programs along with program size and current outstandings as at 30 September 2003:

Program/Issuing Shelf	Outstanding	Program/Issuing Shelf Type
Australia		
No limit	AUD 1,379 million	Debt issuance program
No limit	AUD 1,000 million	Subordinated debt issuance program
No limit	AUD 1,350 million	Debt issuance program(1)
Euro Market		
AUD 2 billion	AUD 19 million(2)	Asian debt program
USD 2.5 billion	USD 358 million	Euro transferable certificates of deposits(3)
USD 1 billion	USD 24 million	Euro certificate of deposit program
USD 3 billion(4)	USD 2,386 million	Euro commercial paper program(5)
USD 17.5 billion	USD 13,738 million	Euro medium term note program(5)
Japan		
JPY 100 billion	Nil	Samurai shelf
JPY 200 billion	JPY 160 billion	Uridashi shelf(6)
United States		
USD 5 billion	USD 2,773 million	Commercial paper program
USD 5 billion	USD 2,402 million	Commercial paper program(7)
USD 5 billion	USD 1,764 million	Medium term deposit program
USD 1 billion(8)	USD 673 million(9)	SEC registered shelf
New Zealand		
NZD 750 million	NZD 200 million	Domestic medium term note program(10)
NZD 500 million	NZD 50 million	Domestic subordinated medium term note program(10)
NZD 500 million	Nil	Subordinated debt program(11)
NZD 750 million	Nil	Domestic medium term note program(12)

(1)
New debt program issuance dated 18 July 2002 for the issue of transferable certificates of deposit (TCDs) and medium term notes (MTNs). Other outstanding issues remain constituted by the deeds poll of the debt issuance program and subordinated debt issuance program under which the TCDs/MTNs were issued.

(2)

Exchange rate A$1.00 = US$0.6805.

(3) Euro TCD program dated 7 February 2002.

(4) The limit for this program increased to USD5 billion in October 2003.

(5) WestpacTrust Securities NZ Limited is also an issuer under this program.

(6) Record of the secondary distributions under the shelf registration statement as amended in 2000 and 2002.

(7) WestpacTrust Securities NZ Limited is the sole issuer under this program.

(8) Approximately US$230 million of the shelf limit remains available.

(9) Issuance includes Tier 1 TOPrS and Tier 2 instruments.

(10) Issued by Westpac Banking Corporation New Zealand branch.

(11) Westpac Capital -NZ- Limited is the sole issuer under this program.

(12) WestpacTrust Securities NZ Limited is the sole issuer under this program.

An analysis of our borrowings and outstandings from existing debt programs and issuing shelves including the maturity profile, currency and interest rate structure can be found in note 24 to the financial statements.

Interbank Deposit Agreement (IDA)

We are a participant to an interbank deposit agreement with three other Australian banks. This agreement provides for notice to be served upon the other participants by a bank experiencing liquidity problems. The other depositors are obligated to deposit an equal amount of up to $2 billion each for a period of 30 days. At the conclusion of the 30 days the deposit holder has the option to repay the deposit in cash or by way of assignment of certain home loan mortgages to the value of the deposit. This agreement is intended to provide increased certainty of access to wholesale markets in times of crisis.

Marketable Securities

We hold a portfolio of liquid assets as a buffer against unforeseen funding requirements. These assets are held either in government or semi-government securities or investment grade paper. The large majority of these assets are held domestically in Australia and New Zealand. Determination of holding levels takes account of the liquidity requirements of our balance sheet as well as our wholesale funding capacity. The level of these holdings is reviewed annually.

Material unused sources of liquidity include the liquid asset portfolio, IDA and unused limit under the debt programs. The IDA and liquid asset portfolio are held in reserve to provide liquidity in the event of a liquidity crisis.

Contractual obligations and commitments

In connection with our operating activities we enter into certain contractual obligations and commitments. The following table shows our significant contractual cash obligations as at 30 September 2003:

	Less than 1 year $m	Between 1 and 3 years $m	Between 3 and 5 years $m	Over 5 years $m	Total $m
Long-term debt(1)	5,250	8,402	3,673	5,007	**22,332**
Operating leases(2)	248	303	235	787	**1,573**
Other commitments(2)	55	20	0		**75**
Total contractual cash obligations	5,553	8,725	3,908	5,794	**23,980**

(1)
Refer note 24 to the financial statements for details of long-term debt issues.

(2)
Refer note 32 to the financial statements for details of expenditure commitments.

The above table excludes deposits and other liabilities taken in the normal course of banking business and short-term and undated liabilities.

The following table shows our significant commercial commitments(1) as at 30 September 2003:

	Less than 1 year $m	Between 1 and 3 years $m	Between 3 and 5 years $m	Over 5 years $m	Total $m
Standby letters of credit and financial guarantees	543	876	78	2,045	**3,542**
Trade letters of credit	96	44	0	127	**267**
Non-financial guarantees	161	1,514	35	648	**2,358**
Undrawn loan commitments		4,786	1,266	3,972	**10,024**
Other commitments	3,524	1,219	592	131	**5,466**
Total commercial commitments	4,324	8,439	1,971	6,923	**21,657**

(1)
Based on credit equivalent amounts calculated in accordance with APRA risk-weighted capital adequacy guidelines (refer note 34 to the financial statements).

Off-balance sheet arrangements

Special purpose entities

We are associated with a number of special purpose entities (also known as special purposes vehicles or SPVs) in the ordinary course of business, primarily to provide funding and financial services products to our customers.

SPVs are typically set up for a single, limited purpose, have a limited life and generally are not operating entities nor do they have employees. The most common form of SPV structure involves the acquisition of financial assets by the SPV that are funded by the issuance of securities to external investors. Repayment of the securities is determined by the performance of the assets acquired by the SPV.

Under Australian GAAP, an SPV is consolidated in the financial statements if it is controlled by the parent entity in line with AASB 1024 *Consolidated Accounts* and UIG Abstract 28 *Consolidation Special Purpose Entities*. The definition of control is based on the substance rather than form and accordingly, determination of the existence of control necessarily involves management judgement.

In the ordinary course of business, we have established or sponsored the establishment of SPVs in various areas, detailed below. Capital is held, as appropriate, against all SPV-related transactions and exposures.

Asset securitisation

Through our loan securitisation programs we package and sell loans (principally housing mortgage loans) as securities to investors. We provide arms-length interest rate swaps and liquidity facilities to the program in accordance with APRA Prudential Guidelines. We have no obligation to repurchase any securitised loans, other than in certain circumstances (excluding loan impairment) where there is a breach of representation or warranty within 120 days of the initial sale. We may repurchase loans where they cease to conform with the terms and conditions of the securitisation programs or through the programs' clean-up features to a maximum of 10% of the programs' initial value.

To 30 September 2003, a total of $13 billion of assets have been securitised through a combination of private placements and public issues to Australian, New Zealand, European and United States investors. After allowing for the amortisation of the initial loans securitised, outstanding securitised loans were $3 billion as at 30 September 2003. We receive various fees from the SPV, including servicing fees, management fees and trustee fees, for the provision of administrative services. Total fees received for 2003 were $12.3 million (2002 $12.7 million). All fees are calculated on an arms-length basis.

For further information on our securitisation programs refer to note 1 and note 12 to the financial statements.

Off-balance sheet conduits

We arrange financing for certain customer transactions through a commercial paper conduit that provides customers with access to the commercial paper market. At 30 September 2003, we administered one significant off-balance sheet conduit, that was created prior to 1 February 2003, with commercial paper outstanding of $3.7 billion. We provide a letter of credit facility as credit support to the commercial paper issued by the conduit. This facility is a variable interest in the conduit that we administer and represent a maximum exposure to loss of $370 million as at 30 September 2003.

For further information refer to note 45 to the financial statements.

Wealth management activities

We conduct investment management and other fiduciary activities through our wealth management division and specialised funds. These activities result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets are not our property and are not included in our consolidated financial statements.

As at 30 September 2003, we had approximately $45.2 billion of funds under management (2002 $33.0 billion). As manager of the funds we derive fees based on a percentage of the funds under management. Total funds management income in 2003 amounted to $354 million (2002 $223 million).

For further information on our wealth management activities refer to note 1 to the financial statements.

Structured finance transactions

We enter into numerous SPVs to provide financing to customers. Any financing arrangements are entered into under normal lending criteria and are subject to our normal credit approval processes. The assets arising from these financing activities are generally included in loans, investment securities or investments in controlled entities. Exposures in the form of guarantees or undrawn credit lines are included within contingent liabilities and credit-related commitments.

Other off-balance sheet arrangements

Our principal defined benefit superannuation (pension) plan, the Westpac Staff Superannuation Plan (the plan), is in surplus and there are no significant deficits in any of our other plans. As at 30 September 2003, the plan had total assets (net market value) of $1,907 million available to meet future benefit payments of $1,638 million. Refer to note 33 to the financial statements for further information.

Capital resources

Capital management

We pursue an active capital management strategy focused on increasing shareholder value by integrating capital allocation, performance measurement and incentive compensation. This framework is embedded in our business activities and investment decisions.

Our capital management seeks to find the right balance between the interests of shareholders, regulators and rating agencies. For Westpac, a target capital structure consistent with a "double A" senior debt rating has been chosen as striking the right balance between these interests.

Specific target ratios are based on the outputs of our internal economic capital allocation models, adjusted to take account of rating agency and regulatory requirements. In the longer term we anticipate a greater alignment of the outputs of our internal economic capital models with regulatory requirements to take place under the Basel II framework due to be implemented in full by 2007 (see more detailed discussion below).

There were significant changes in our business mix during calendar 2002 with the divestment of AGC and the acquisition of two wealth management businesses (RAAM and BTFM) and Hastings. Following these changes, we took the opportunity to review our target capital ratios which resulted in the following:

Capital Measure	Previous Target Ratio	New Target Ratio
Ordinary equity as a percentage of Risk Weighted Assets (RWA)	5.6 - 5.8% tangible ordinary equity (TOE)	4.5 - 5.0% adjusted common equity (ACE)
Tier 1 ratio	6.0 - 6.5%	6.0 - 6.75%

The adoption of an ACE target is partly due to the increased focus on this measure of capital adequacy by external stakeholders but also due to the fact that it reflects a conservative assessment of a bank's capital strength by virtue of deducting the entire investment in non-banking subsidiaries from tangible common equity. The Tier 1 target range has been widened slightly while the target minimum total regulatory capital ratio remains unchanged at 9.0%

As at 30 September 2003, the Tier 1 ratio was 7.2% and ACE/RWA was 5.0%. The relatively high Tier 1 ratio is the result of an issue of hybrid equity in August 2003. The level of capital held is believed by management to be adequate.

For further details on capital adequacy refer to note 44 to the financial statements.

Basel capital accord

The regulatory limits applied to our capital ratios are consistent with the Bank of International Settlements capital accord, which was first released in 1988. Over the past three years, banks and regulators around the world have been working on an update of the capital accord, known as Basel II. The new accord is scheduled for implementation on 1 January 2007, although some details are still being worked on. Another round of discussion between banks and regulators took place during 2003 and the final version of the accord is expected during the 2004 calendar year.

When finalised, Basel II is expected to represent a significant update in the measurement of regulatory capital. Banks are expected to be able to choose from three techniques for measuring credit risk according to the relative sophistication of their risk management practices. Basel II is also expected to introduce a capital requirement for operational (business) risks with three measurement techniques to choose from. We are targeting compliance with the most sophisticated methods for both credit and operational risk.

Dividends

Our Board of Directors has proposed a final dividend on ordinary shares in 2003 of 40 cents per share, payable on 19 December 2003, which will take the full year dividend on ordinary shares to 78 cents per share (fully franked) an increase of eight cents per share from 70 cents per share (fully franked) in 2002.

Risk management

The scope of our businesses requires us to take and manage a variety of risks. We regard the management of risk to be a fundamental management activity, performed at all levels of the group. Supporting this approach is a framework of core risk principles, policies and sophisticated processes for measuring and monitoring risk.

Core risk principles

Our core risk principles are the key guidelines for all risk management in our company. They reflect the standards and ideals expressed in our vision, values and code of conduct and are embedded in all levels of risk management policy including rules, procedures and training. They are designed to shape our risk management behaviour.

Our principles for managing risk are:

- aligning our actions with our values, strategies and objectives;
- following ethical selling practices and deliver products and services that meet the needs of our customers;
- accepting that with responsibility comes accountability;
- establishing clear decision making criteria;
- ensuring that increased risk is rewarded with increased return; and
- identifying and managing risk in our areas of responsibility.

Risk management organisation

Effectively managing the risks inherent in our business is a key strategy as well as supporting our reputation, performance and future success. Our risk management framework is approved by our Board and implemented through the Chief Executive Officer (CEO) and the executive management team.

The Board Audit and Compliance Committee (BACC) and the Board Credit and Market Risk Committee (BCMRC) are the subcommittees that are responsible for monitoring risk management performance and controls. For further information regarding the role and responsibilities of these committees, refer to the "Corporate governance" section.

The CEO and executive management team are responsible for implementing the Board approved risk management framework and developing policies, controls, processes and procedures for identifying and managing risk arising from our activities.

Our risk function plays a key role in our risk management framework. It is independent from the business units and reports to the CFO and is accountable for the effectiveness of our risk processes. Our risk function is also responsible for the coordination of our response to key regulatory developments and issues affecting risk management.

Independent risk management units operate within each business unit, reporting to both the group executive for that unit and the General Manager, Group Risk. The business unit head of risk has oversight of the identification and quantification of the particular risks arising from that business and for implementation of appropriate policies, procedures and controls to manage those risks. They also ensure alignment with the group risk function.

An independent review of management performance is undertaken by our portfolio risk review unit and internal audit. Our portfolio risk review unit is responsible for reviewing credit quality and business risks, assessing credit management process quality, credit policy compliance and adequacy of provisions. Internal audit is responsible for performing an independent evaluation of the adequacy and effectiveness of management's control of operational risk.

Categories of risk

The key risks we are subject to are specific banking risks and risks arising from the general business environment.

Specific banking risks

Our risk management framework encompasses credit, market, equity underwriting, liquidity, operational and compliance risk.

Credit risk

Credit risk arises primarily from lending activities and is the risk of financial loss that results from customers failing to meet their obligations.

Our Board of Directors approves major prudential policies and limits that govern large customer exposures, country risk, industry concentration and dealings with related entities. The Board of Directors delegates approval authorities to the CEO and the General Manager, Group Risk, who in turn appoint independent credit officers in each business area. These credit specialists work with line managers to ensure that approved policies are applied appropriately so as to optimise the balance between risk and reward. Our portfolio risk review unit provides independent assessment of the quality of our credit portfolio.

Credit risk arises from customers ranging from individuals to large institutions. Accordingly, two different approaches are used to manage this risk. We use statistical analysis to score customer creditworthiness and payment behaviours for consumer business. We factor and price credit facilities for large commercial and corporate borrowers based on discrete analysis of each customer's risk. Quantitative methods also support these judgements. Under both approaches, all major credit decisions require joint approval by authorised credit and line business officers.

We monitor our portfolio to guard against risk concentrations. Our exposure to consumers comprises 63% of our on-balance sheet loans and 51% of total credit commitments. Almost 83% of our exposure to consumers is represented by residential real estate mortgages. This category also includes investment property loans to individuals, credit cards, personal loans, overdrafts and lines of credit. Our consumer credit risks are highly diversified. We have a substantial consumer market share in every state and territory in Australia, New Zealand and the Pacific region. Moreover, these customers service their debts with incomes derived from a wide range of occupations, in city as well as country areas.

Exposures to businesses, governments and other financial institutions are classified into 61 industry clusters. These clusters are based on the correlation between industries, grouping those that are affected by the same economic factors. Thus, industries that might suffer simultaneously from increased risk are monitored together. Through this process, the industry diversification of our portfolios is measured and monitored. Exposures are actively managed from a portfolio perspective. Customer risk grades are based on a combination of the Moody's and Standard and Poor's credit rating systems as well as our own internal data. Based on these risk grades, our exposure to business, government and other financial institution investment grade customers is 64% as at 30 September 2003 (2002 70%).

For a tabular disclosure of credit quality of exposures to businesses, governments and financial institutions, refer to the section on "Asset quality".

Dynamic provisioning for credit loss

We employ a statistical process called dynamic provisioning to assess the general provisions required to cover expected credit losses arising in our credit portfolios. The statistical measures are based on our experience as well as publicly available default data. The process provides for dynamic adjustments to a loss provision pool for changes in the size, mix and quality of the loan book.

For further information on our provisioning for bad and doubtful debts refer to "Critical accounting policies".

Foreign exchange and derivative credit risk management

Foreign exchange and derivative activities expose us to pre-settlement and settlement risk. We use a real time global limits system to record exposure against limits for these risk types. Pre-settlement risk (PSR) is the risk that the counterparty to a contract defaults prior to settlement when the value of the contract is positive. We consider both the current replacement cost and the potential future credit risk in our assessment of pre-settlement risk. We use "close out" netting to reduce gross credit exposures for counterparties where legally enforceable netting agreements are in place. In a close out netting situation the positive and negative mark-to-market value of all eligible foreign exchange and swap contracts with the same counterparty, are netted in the event of default and regardless of maturity.

Counterparty credit quality

The table below shows the credit quality of our current credit exposure associated with foreign exchange and derivative activities. The risk grades shown below are based on Standard and Poor's credit rating system. Based on these ratings, our exposure to investment grade counterparties is 97% as at 30 September 2003 (2002 97%).

Total assessed credit risk as at 30 September	**2003 %**	**2002 %**
AAA, AA	**48**	58
A	**31**	26
BBB	**18**	13
BB and below	**3**	3
Total	**100**	100

Counterparty credit risk by industry sector and country of ultimate risk

The table below shows our current credit risk exposure (not including potential future credit risk) by industry sector and by country of ultimate risk.

Current credit risk exposure (net) as at 30 September 2003(1)	**Government $bn**	**Banks $bn**	**Non-bank financial institutions $bn**	**Others $bn**	**Total $bn**
Australia	0.1	0.6	0.2	0.3	**1.2**
New Zealand				0.2	**0.2**
Europe		1.9	0.3	0.1	**2.3**
United States of America		0.6	0.4	0.2	**1.2**
Japan		0.1	0.1		**0.2**
Other		0.4		0.1	**0.5**
Total	0.1	3.6	1.0	0.9	**5.6**

(1) Netting has been applied to counterparties with appropriate netting agreements in legally enforceable jurisdictions.

Credit risk maturity profile and settlement risk

The table below shows the maturity profile of our foreign exchange and derivative credit risk exposure in gross replacement cost terms (not including potential future credit risk). The gross replacement cost overstates our current credit risk exposure as it ignores the netting benefit of $7.3 billion.

Gross replacement cost as at 30 September 2003	Less than 3 months $bn	Between 3 and 6 months $bn	Between 6 months and 1 year $bn	Between 1 and 2 years $bn	Between 2 and 5 years $bn	Over 5 years $bn	Total $bn
Interest rate							
Swaps	0.1	0.1	0.1	0.5	1.0	1.2	**3.0**
Foreign exchange							
Forwards	4.8	1.1	0.6	0.1	0.2		**6.8**
Swaps	0.1	0.1		0.2	0.5	0.4	**1.3**
Purchased options	0.7	0.4	0.3	0.1	0.1		**1.6**
Commodities				0.1			**0.1**
Equities and credit					0.1		**0.1**
Total derivatives	5.7	1.7	1.0	1.0	1.9	1.6	**12.9**

Settlement risk occurs when we pay out funds before we receive payment from the counterparty to the transaction. We manage our settlement risk exposures through specific customer limits. At the end of March 2003 we began to use Continuous Linked Settlement (CLS) to reduce our foreign exchange settlement risk to other CLS participants. CLS enables members to settle foreign exchange transactions between themselves through the simultaneous payment of the currency legs of transactions.

Cross-border outstandings

Cross-border outstandings are loans, placements with banks, acceptances, interest earning investments and monetary assets denominated in currencies other than the borrower's local currency. They are grouped on the basis of the country of domicile of the borrower or the ultimate guarantor of the risk. The table below excludes irrevocable letters of credit, amounts of which are immaterial.

Our cross-border outstandings to countries that individually represented in excess of 0.75% of Group total assets as at 30 September in each of the past three years, were as follows:

	Governments and official institutions	Banks and other financial institutions	Other (primarily commercial and industrial)	Total	Percentage of total assets
	(in $millions, unless otherwise indicated)				
2003					
United States	**1**	**2,125**	**1,095**	**3,221**	**1.5%**
2002					
United States	4	2,059	1,377	3,440	1.8%
United Kingdom		2,348	827	3,175	1.7%
Netherlands		1,957	331	2,288	1.2%
2001					
United States	1	1,744	2,386	4,131	2.2%
United Kingdom		2,151	755	2,906	1.5%
Netherlands		1,721	231	1,952	1.0%
Germany		1,266	300	1,566	0.8%

Impaired assets among the cross-border outstandings were $212 million as at 30 September 2003 (2002 $81 million, 2001 $109 million).

Market risk

Market risk is the potential for losses arising from adverse movements in the level and volatility of market factors such as foreign exchange rates, interest rates, commodity prices and equity prices.

We segregate the management of market risk arising from financial markets trading books (the subject of the notes below) and the market risks arising from our other banking activities.

Trading activities

Trading activities include our financial markets activities and are controlled by a framework of value at risk (VaR) limits approved by our Board of Directors. Our Board of Directors approves risk policies, methodologies and limits. Market risk limits are allocated to business management based on business strategies and experience, in addition to market liquidity and concentration risks. A separate Trading Risk Management unit is responsible for the daily measurement and monitoring of market risk exposures. Market risk is managed using value at risk and structural limits in conjunction with scenario and stress tests.

We use value at risk as the primary mechanism for measuring and controlling market risk. Value at risk is an estimate of the worst case loss in value of trading positions, to a 99% confidence level, assuming positions were held unchanged for one day. We use the historical simulation method to calculate value at risk taking into account all material market variables. The following table provides a summary of value at risk by risk type for the half years ended 30 September 2003, 31 March 2003 and 30 September 2002.

Daily value at risk

	30 September 2003			31 March 2003			30 September 2002		
Six months ended	**High $m**	**Low $m**	**Average $m**	**High $m**	**Low $m**	**Average $m**	**High $m**	**Low $m**	**Average $m**
Interest rate risk	**6.9**	**0.9**	**2.9**	5.6	0.9	2.3	7.9	1.3	3.3
Foreign exchange risk	**9.1**	**0.3**	**2.1**	4.1	0.3	1.2	3.2	0.1	1.0
Volatility risk	**1.0**	**0.4**	**0.7**	1.1	0.3	0.6	1.4	0.3	0.5
Other market risks(1)	**2.2**	**0.6**	**1.5**	2.6	0.9	1.6	3.4	1.7	2.5
Diversification effect	**n/a**	**n/a**	**(2.5)**	n/a	n/a	(2.0)	n/a	n/a	(2.2)
Aggregate market risk	**13.6**	**2.7**	**4.8**	6.5	2.0	3.7	10.0	3.1	5.1

(1) Commodity, equity, prepayment and credit spread risk

Actual outcomes are monitored and the model is back-tested daily. The following chart shows the aggregated daily value at risk arising in the trading books for the twelve months to 30 September 2003.

Daily value at risk position reports are also produced by risk type, product and geographic region. These are supplemented by structural reporting (volume limits, basis point value limits, etc) and advice of loss limits.

The trading risk management unit performs daily stress and regular scenario tests on the trading portfolios to quantify the impact of extreme or unexpected movements in market factors.

The distribution of daily trading income for the year ended 30 September 2003 is shown in the following chart.

Energy and other commodity trading

Commodity and energy trading activity is part of our financial markets business. All trades are marked-to-market daily, using independently sourced or reviewed rates. These businesses are managed within market risk structural and VaR limits. Credit risk is controlled by PSR limits by counterparty.

Energy trading has a $2.5 million VaR limit against a combined total financial markets and treasury global limit of $15 million.

Energy trade revaluations are performed daily, using rates that are compared to both AFMA published prices and brokers quotes. These rates are reviewed on a monthly basis by our revaluation rates committee and on a random basis intra-month.

Trading activities are limited to the major Australian nodes in electricity swaps, options, swaptions, futures and Settlement Residue Auctions (SRAs). The SRAs are valued using an internally developed model that has been reviewed and approved by our independent trading risk management area.

The total fair value of our commodity and energy trading contracts outstanding as at 30 September 2003 was $14.6 million, an increase of $12.9 million during the year. More than 85% of the outstanding contracts have a maturity profile of between one and five years.

Non-trading risk

Management of structural interest rate risk

Our asset and liability management unit manages the sensitivity of net interest income to changes in wholesale market interest rates. This sensitivity arises from our lending and deposit taking activity in the normal course of business in Australia and New Zealand and through the investment of capital and other non-interest bearing liabilities. The unit's risk management objective is to help ensure the reasonable stability of net interest income over time. These activities are performed under the direction of our Group Asset and Liability Committee and the oversight of our trading risk management unit.

Net interest income sensitivity is managed in terms of the net interest income at risk modelled over a three year time horizon using a 99% confidence interval for movements in wholesale market interest rates. The position managed covers all on and off-balance sheet accrual accounted assets and liabilities in Australia and New Zealand. It excludes the interest rate risk within our trading operation which is managed under a value at risk framework.

A simulation model is used to calculate our potential net interest income at risk. The net interest income simulation framework combines underlying statement of financial position data with:

- assumptions about run off and new business;
- expected repricing behaviour; and
- changes in wholesale market interest rates.

Simulations of a range of interest rate scenarios are used to provide a series of potential future net interest income outcomes. The interest rate scenarios modelled include those projected using historical market interest rate volatility as well as 100 basis point shifts up and down from the current market yield curves in Australia and New Zealand. More stressed interest rate scenarios are also considered and modelled. A comparison between the net interest income outcomes from these modelled scenarios indicates our sensitivity to interest rate changes. Both on and off-balance sheet instruments are then used to achieve stability in net interest income.

The net interest income simulation and limit frameworks are reviewed and approved annually by the Board Credit and Market Risk Committee. This ensures that key model inputs and risk parameters remain relevant and that net interest income at risk to interest rate movements and limits governing these activities remain consistent with our desired risk and reward criterion.

As at 30 September 2003, our exposure to interest rate changes over the next financial year, for a 1% up and down parallel rate shock to the market yield curves in Australia and New Zealand is less than 2.5% of projected pre-tax net interest income for the following financial year.

Structural foreign exchange risk

Structural foreign exchange rate risk results from the generation of foreign currency denominated earnings and from the foreign currency capital that we have deployed in offshore branches and subsidiaries.

As a result of the requirement to translate earnings and net assets of the foreign operations into our Australian dollar consolidated financial statements, movements in exchange rates could lead to changes in the Australian dollar equivalent of offshore earnings and capital which could introduce variability to our reported financial results. In order to minimise this exposure, we manage the foreign exchange rate risk associated with offshore earnings and capital as follows:

- foreign currency denominated earnings that are generated during the current financial year and form part of capital that is defined to be available for repatriation at our option at any time is hedged. This hedging removes the impact of changes in exchange rates on the cash flows that result from the repatriation of our profits or capital;
- capital that is defined to be permanently employed in an offshore jurisdiction (for example to meet regulatory or prudential requirements) and which has no fixed term and is not anticipated to be repatriated in the foreseeable future, remains unhedged; and
- capital or profits that are denominated in minor currencies are not hedged.

Equity underwriting risk

As a financial intermediary we underwrite listed and unlisted equities.

Equity underwriting activities include the development of solutions for corporate and institutional customers who have a demand for equity capital and investor customers who have an appetite for equity based investment products.

To manage the risks associated with equity underwriting, including sufficient investor demand, we have established policies that require business units to seek expressions of interest before transactions are undertaken.

Issues relating to conflict of interest are managed via separation of duties and the establishment of "Chinese Walls". All underwriting decisions are made under the authorities approved by our Board and administered by the General Manager, Group Risk.

Operational risk

Operational risk arises from inadequate or failed internal processes, people and systems or from external events. Operational risk has the potential to negatively impact our financial performance, our reputation in the community or cause other damage to our business as a result of the way we pursue business objectives.

Each business area is responsible for the identification, measurement, monitoring and mitigation of operational risk. The existence of a defined operational risk framework, supports the management of operational risk. On a quarterly basis, management of each of our business areas formally report on the effectiveness of their management of operational risk. This process is supported by active input from key corporate centre functions such as legal, finance, human resources, risk management, compliance and internal audit. The results of this process are reported quarterly to our CEO and Board of Directors and annually by way of certification to the Australian Prudential Regulation Authority.

Some of the key management and control techniques include segregation of duties, clear delegation of authority, sound project management, change control disciplines and business continuity planning. Where appropriate this is supported by risk transfer mechanisms such as insurance. Our control environment is enhanced by a focus on staff competency and supervision.

Our internal audit function independently appraises the adequacy and effectiveness of the internal control environment and reports their results separately to our CEO and our Board Audit and Compliance Committee.

Liquidity risk

Liquidity risk is the potential inability to meet our payment obligations. Management of liquidity is the responsibility of the Group Treasurer, who reports to the CFO. Group Treasury is responsible for monitoring our funding base and ensuring that this base is prudently maintained and adequately diversified. For further information refer to "Liquidity and funding"

Compliance risk

Our business is subject to substantial regulation and regulatory oversight. Any significant regulatory developments, including changes to accounting standards (refer sections on "Accounting standards" and "Critical accounting policies"), could have an adverse effect on how we conduct our business and on our results of operations. Our business and earnings are also affected by the fiscal or other policies that are adopted by various regulatory authorities of the Australian and New Zealand government, foreign governments and international agencies. The nature and impact of future changes in such policies are not predictable and are beyond our control.

Our regulatory responsibilities have increased significantly over the last year. In order to manage existing and new requirements in a more effective way we have accelerated the development of our ability to provide early detection monitoring of these responsibilities to the business. Compliance risk management enables us to identify emerging issues and where necessary put in place preventative measures.

While compliance is primarily a line management responsibility with each business area required to demonstrate an effective process, there are also several group wide initiatives designed to ensure consistency. For example, the Group Compliance Committee approves policy approaches to be adopted for the Group and receives progress implementation reports in respect of major new regulatory changes.

We continue to apply a progressive implementation approach, which is designed to better align our practices with the Australian Standard on Compliance Management.

Disclosure controls and procedures

Based on their evaluation as of the end of the period covered by this report, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures, as defined in Rule 13a-15(e) under the U.S. Securities Exchange Act of 1934 (the Exchange Act), were effective. During the period covered by this report, we have not made any change to our internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Corporate governance

1. Westpac's approach to corporate governance

a) Framework and approach to corporate governance and responsibility

The Board is committed to maintaining the highest standards of corporate governance.

At its base, the Board believes that corporate governance is about having a set of values and behaviours that underpin the company's everyday activities values and behaviours that ensure transparency, fair dealing and protection of the interests of stakeholders. Consistent with this belief, the Board's approach is to consider corporate governance within the broader framework of corporate responsibility and regulatory oversight.

The business case for good governance is compelling. A company's level of governance and responsibility has emerged as a significant indicator of its overall health as a business. With corporate integrity remaining under question globally, a genuine commitment to good governance is fundamental to the sustainability of our business and its performance.

In pursuing its commitment to best practice governance standards, the Board will continue to:

- review and improve its governance practices;
- monitor global developments in best practice corporate governance; and
- contribute to local and overseas debates on what represents best corporate governance practice.

Over the past year this has involved monitoring and reviewing a number of significant developments in contemporary thinking about corporate governance principles and processes, both in Australia and overseas.

In the international arena, these have included the United States (US) Sarbanes-Oxley Act of 2002 and consequential US Securities and Exchange Commission (SEC) rules; the New York Stock Exchange Corporate Governance Rule Proposals; the Higgs Report (UK) on the role and effectiveness of Non-executive directors; and the New Zealand Exchange Limited proposed listing rule changes and Corporate Governance Best Practice Code.

In Australia, we have examined the "Principles of Good Corporate Governance and Best Practice Recommendations" published in March 2003 by the Australian Stock Exchange Limited's Corporate Governance Council, the Commonwealth Government's CLERP 9 proposals and the Australian Standard AS8000 Good Governance Principles.

We have analysed these developments and adapted practices where appropriate to ensure Westpac remains at the forefront in protecting stakeholder interests.

The Board's approach has been to be guided by the principles and practices that are in our stakeholders' best interests while ensuring full compliance with legal requirements. Where international and Australian guidelines are not consistent, the best practice guidelines of the Australian Stock Exchange Limited (ASX), Westpac's home exchange, have been adopted as the minimum baseline for our governance practices.

b) Compliance with the ASX best practice recommendations

The ASX Listing Rules require listed companies to include in their annual report a statement disclosing the extent to which they have followed the 28 ASX best practice recommendations in the reporting period. Listed companies must identify the recommendations that have not been followed and provide reasons for the company's decision.

As detailed in this governance statement, Westpac considers its governance practices comply with 27 of the ASX best practice recommendations. A checklist summarising this is on pages 93 to 95 of this governance statement. There is one recommendation where Westpac's past practices does not materially comply.

ASX best practice recommendation 9.4 recommends companies seek shareholder approval of equity-based reward schemes for executives. Westpac's current equity based reward schemes were introduced in 2002, prior to the release of the ASX guidelines, and were extensively disclosed to shareholders in the 2002 Corporate Governance Statement and are again set out in this statement on pages 86 to 88. As shareholders have not raised any material issues it is not proposed to re-present the schemes to shareholders for approval.

In addition, as required by the ASX best practice recommendations, Westpac has or is in the process of posting copies of its corporate governance practices to its website.

In this statement, the relevant governance items are linked to each of the 28 ASX best practice recommendations and a table on pages 93 to 95 of this governance statement links this statement to the ASX recommendations.

Westpac's Corporate Governance Statement is available in the corporate governance section at *westpac.com.au/investorcentre*.

2. Date of this statement

This statement reflects our corporate governance policies and procedures as at 30 October 2003.

3. The Board of Directors

a) Membership and expertise of the Board

The Board has a broad range of relevant financial and other skills, experience and expertise to meet its objectives. The current Board composition, with details of individual Director's backgrounds, is set out below.

Name: Leon Davis, ASAIT, DSc(h.c.), FRACI, FAustIMM
Age: 64
Term of office: Director since November 1999. Chairman since December 2000.
Independent: yes
External directorships: Deputy Chairman of Rio Tinto; Director of each of Huysmans Pty Limited, Codan Limited and Trouin Pty Limited; Board Member of The Walter and Eliza Hall Institute of Medical Research; Trustee of each of the Westpac Foundation and the Rio Tinto Aboriginal Foundation.
Skills, experience and expertise: Leon has had many years of experience in resource management, both in Australia and overseas. He has lived and worked in senior positions in Australia, Papua New Guinea, Singapore and the United Kingdom. He was formerly Chief Executive of CRA Ltd and then Rio Tinto in the United Kingdom.
Westpac Board Committee membership: Chairman of the Board Nominations Committee; and member of each of the Board Audit and Compliance Committee, Board Credit and Market Risk Committee, Board Remuneration Committee and Board Social Responsibility Committee.

Name: David Morgan, BEc, MSc, PhD
Age: 56
Term of office: appointed Managing Director and Chief Executive Officer in March 1999. Executive Director since November 1997.
Independent: no
External directorships: nil
Skills, experience and expertise: David has extensive experience in the financial sector, having worked in the International Monetary Fund in Washington in the 1970s and the Federal Treasury in the 1980s where he headed all major areas before being appointed Senior Deputy Secretary. Since joining Westpac in 1990, he has had responsibility for all major operating divisions including Westpac Financial Services, Retail Banking, Commercial Banking, Corporate and Institutional Banking and International Banking.
Westpac Board Committee membership: member of the Board Social Responsibility Committee.

Name: Barry Capp, BE (Civil), BCom, BA
Age: 70
Term of office: Director since May 1993.
Independent: yes
External directorships: Chairman of National Foods Limited and Chairman of Trustees of William Buckland Foundation; Director of each of Australian Infrastructure Fund Limited, Hellaby Holdings Limited and Melbourne University Private Limited.
Skills, experience and expertise: Barry was employed for many years in financial and commercial roles and has had experience in company reconstructions.
Westpac Board Committee membership: Chairman of the Board Remuneration Committee; and member of each of the Board Credit and Market Risk Committee and Board Nominations Committee.

Name: David Crawford, BCom, LLB, FCA, FCPA
Age: 59
Term of office: Director since May 2002.
Independent: yes
External directorships: Chairman of each of Lend Lease Corporation Limited and the Australian Ballet; Director of each of BHP Billiton Limited, Foster's Group Limited and National Foods Limited; member of the Council of the University of Melbourne; and Treasurer of the Melbourne Cricket Club.
Skills, experience and expertise: David was National Chairman of KPMG from 1998 until 2001, a member of KPMG's International Board and, prior to that, Chairman of KPMG's Southern Regional Practice (1996-1998). He was Chief Executive Officer of the Rural Finance Corporation in Victoria managing the integration and merger of the activities of the Victorian Economic Development Corporation with the Rural Finance Corporation.
Westpac Board Committee membership: Chairman of the Board Audit and Compliance Committee; and Member of the Board Nominations Committee.

Name: The Hon. Sir Llewellyn Edwards, AC, MB, BS, FRACMA, LLD (h.c.), FAIM
Age: 68
Term of office: Director since November 1988.
Independent: yes
External directorships: Chairman of each of AMACA Pty Limited, AMABA Pty Limited, The Medical Research and Compensation Foundation, UQ Holdings Pty Limited and Pacific Film & Television Commission; Director of Uniseed Pty Limited; and Trustee of the Westpac Foundation.
Skills, experience and expertise: Sir Llewellyn Edwards has had extensive experience in Queensland State politics (including five years as Treasurer), business and in community service (Chairman World Expo 88 Authority and Chancellor of University of Queensland), as well as acting as a consultant to business and government.
Westpac Board Committee membership: Chairman of the Board Social Responsibility Committee; and member of each of the Board Nominations Committee and the Board Remuneration Committee.

Name: Ted Evans, AC, BEcon
Age: 62
Term of office: Director since November 2001.
Independent: yes
External directorships: nil
Skills, experience and expertise: Ted has extensive experience in the financial sector, having joined the Australian Treasury in 1969, heading the Fiscal and Monetary Branch in 1980 and the General Financial and Economic Policy Division in 1982. From 1984 to 1989 he held the position of Deputy Secretary and was Secretary to the Treasury from 1993 to 2001. From 1976 to 1979 he was a member of the Australian Permanent

Delegation to the OECD in Paris and, from 1989 to 1993, executive director on the Board of the International Monetary Fund, representing Australia and a number of other countries, mainly in the Asia Pacific region. He was a Director of the Reserve Bank of Australia from 1993 to 2001 and the Commonwealth Bank of Australia from 1993 to 1996.
Westpac Board Committee membership: Chairman of the Board Credit and Market Risk Committee; and member of the Board Nominations Committee.

Name: John Fairfax, AM
Age: 61
Term of office: Director from December 1996 to 1 September 2003 (resigned effective 1 September 2003).
Independent: yes
External directorships: Chairman of each of Rural Press Limited and the Westpac Foundation; Director of each of Crane Group Limited, Cambooya Pty Limited and Marinya Holdings Pty Limited.
Skills, experience and expertise: John has considerable understanding of the financial services needs of the commercial and rural sectors and of the impact of production and information technology on industry strategy. He has extensive experience in the media industry and takes an active interest in community organisations and is a Counsellor of the Royal Agricultural Society of NSW.
Westpac Board Committee membership: John was a member of the Board Credit and Market Risk Committee and the Board Social Responsibility Committee.

Name: Carolyn Hewson, BEc, (Hons.), MA (Econ.)
Age: 48
Term of office: Director since February 2003.
Independent: yes
External directorships: Director of each of the Australian Gaslight Company, CSR Limited and the Economic Development Board of South Australia; Board and advisory roles with the Royal Humane Society, YWCA of Sydney (President), the Australian Charities Fund and The Neurosurgical Research Foundation Royal Adelaide Hospital.
Skills, experience and expertise: Carolyn has had 15 years experience in the finance sector and was an Executive Director of Schroders Australia Limited between 1989 and 1995.
Westpac Board Committee membership: member of each of the Board Audit and Compliance Committee and the Board Credit and Market Risk Committee.

Name: Helen Lynch, AM
Age: 60
Term of office: Director since November 1997.
Independent: yes
External directorships: Chairman of each of Sydney Symphony Orchestra Holdings Pty Limited and the Westpac Staff Superannuation Plan Pty Limited; Director of each of Southcorp Limited, and Institute of Molecular Bioscience.
Skills, experience and expertise: Helen has had 36 years experience in Westpac including membership of Westpac's executive team before retiring in 1994.
Westpac Board Committee membership: member of the Board Audit and Compliance Committee.

Name: Peter Wilson, CA
Age: 62
Term of office: appointed Director effective from 31 October 2003.
Independent: yes
External directorships: Chairman of each of Port Napier Limited, Evergreen Forests Limited and Global Equities Market Securities Limited. Director of each of The Colonial Motor Company Limited, Westpac (NZ) Investments Limited, Urbus Properties Limited and Hill Country Corporation Limited.
Skills, experience and expertise: Peter is a Chartered Accountant and formerly a partner with Ernst & Young, with extensive experience in banking, business establishment, problem resolution, asset sale and management of change functions. Peter was a Director and (from 1991) Chairman of Trust Bank New Zealand Limited which was acquired by Westpac in 1996.
Westpac Board Committee membership: Nil

ASX Best Practice Recommendation 2.5.

b) Board role and responsibility

The Board is accountable to shareholders for Westpac's performance.

The Board has formalised its roles and responsibilities into a Charter. The Board Charter clearly defines the matters that are reserved for the Board and those that the Board has delegated to management.

In summary, the Board's responsibilities include:

- providing strategic direction and approving corporate strategic initiatives;
- selecting and evaluating future Directors, the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO);
- planning for Board and executive succession;

- setting CEO and Director remuneration within shareholder approved limits;
- approving Westpac's budget and monitoring management and financial performance;
- considering and approving Westpac's Annual Financial Report (including the Directors' Declaration and the Annual Report on Form 20-F (for the purposes of filing with the SEC) and the interim and final financial statements);
- approving Westpac's risk management strategy, monitoring its effectiveness and maintaining a direct and ongoing dialogue with Westpac's auditors and regulators; and
- considering and reviewing the social and ethical impact of Westpac's activities, setting standards for social and ethical practices and monitoring compliance with Westpac's social responsibility policies and practices.

The Board has delegated to management responsibility for:

- developing and implementing corporate strategies and making recommendations on significant corporate strategic initiatives;
- maintaining an effective risk management framework and keeping the Board and market fully informed about material risks;
- developing Westpac's annual budget, recommending it to the Board for approval and managing day-to-day operations within the budget;
- managing day-to-day operations in accordance with standards for social and ethical practices which have been set by the Board; and
- making recommendations for the appointment of senior management, determining terms of appointment, evaluating performance, and developing and maintaining succession plans for senior management roles.

Westpac's Board Charter will be available in the corporate governance section at *westpac.com.au/investorcentre.*

ASX Best Practice Recommendation 1.1, 2.5.

c) Board size and composition

The Board determines its size and composition, subject to the limits imposed by Westpac's Constitution. The Constitution requires a minimum of seven and a maximum of 15 Non-executive Directors. In addition, up to three members of the Board may be Executive Directors.

As at 30 October 2003, there are seven Non-executive Directors and one Executive Director on the Board.

Westpac's Constitution is available at *westpac.com.au*

d) The selection and role of the Chairman

The Chairman is selected by the Board from the Non-executive Directors.

The Chairman's role includes:

- ensuring that, when all Board members take office, they are fully briefed on the terms of their appointment, their duties and responsibilities;
- providing effective leadership on formulating the Board's strategy;
- representing the views of the Board to the public;

- ensuring that the Board meets at regular intervals throughout the year, and that minutes of meetings accurately record decisions taken and, where appropriate, the views of individual Directors;
- guiding the agenda and conduct of all Board meetings; and
- reviewing the performance of Board Directors.

The current Chairman, Leon Davis, is a Non-executive Independent Director appointed by the Board. He has been a Director of Westpac since November 1999 and Chairman since December 2000. The Chairman is a member of each of the Board Committees.

ASX Best Practice Recommendation 2.2, 2.3.

e) Directors' independence

The Board assesses each of the Directors against specific criteria to decide whether they are in a position to exercise independent judgement.

Directors are considered to be independent if they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement. Materiality is assessed on a case-by-case basis by reference to each Director's individual circumstances rather than general materiality thresholds.

In assessing independence, the Board considers whether the Director has a business or other relationship with Westpac, either directly or as a partner, shareholder or officer of a company or other entity that has an interest, or a business or other relationship, with Westpac or another Westpac group member.

It is the Board's view that each of its Non-executive Directors is independent.

Board criteria for assessing independence will be available in the corporate governance section at *westpac.com.au/investorcentre.*

ASX Best Practice Recommendation 2.1, 2.5.

f) Avoidance of conflicts of interest by a director

In accordance with the Corporations Act 2001 (Cth), any Director with a material personal interest in a matter being considered by the Board must not be present when the matter is being considered and may not vote on the matter.

g) Meetings of the Board and their conduct

The Board meets formally at least ten times a year. In addition, it meets whenever necessary to deal with specific matters needing attention between the scheduled meetings. This year the full Board has met 13 times.

The Chairman and the CEO establish meeting agendas to ensure adequate coverage of financial, strategic and major risk areas throughout the year. In addition to its formal meetings, the Board undertakes regular and relevant workshops. Over the past year these included workshops on executive and senior management succession planning, corporate governance, Westpac's risk/reward approach, BTFG business, customer experience and segmentation projects and other major strategic initiatives.

Directors are always encouraged to participate with a robust exchange of views and to bring their independent judgments to bear on the issues and decisions at hand.

Executive management regularly attend Board meetings and are also available to be contacted by Directors between meetings. The Board also meets without executive management (other than the CEO and any Executive Directors) at the commencement of each meeting. The Board meets without the CEO and any Executive Directors once a year or as required.

h) Succession planning

The Board plans succession of its own members in conjunction with the Board Nominations Committee, taking into account the skills, experience and expertise required and currently represented, and Westpac's future direction. The Board is also responsible for CEO and CFO succession planning.

i) Review of Board performance

The Board regularly reviews its overall performance, as well as the performance of Committees, individual Directors and executive management.

The performance of Non-executive Directors (including the Chairman) is subject to annual peer and executive management review. The process is facilitated externally and includes written surveys of Directors, the Group Secretary and General Counsel and a selection of Group Executives. The survey results are independently collated and the Chairman formally discusses the results with individual Directors and Committee chairs.

ASX Best Practice Recommendation 8.1.

j) Nomination and appointment of new Directors

Recommendations for nominations of new Directors are made by the Board Nominations Committee and considered by the Board as a whole.

External consultants are used to access a wide base of potential Directors. Those nominated are assessed by the Board against a range of criteria including background, experience, professional skills, personal qualities, whether their skills and experience will augment the existing

Board and their availability to commit themselves to the Board's activities.

If the Board appoints a new Director during the year, that person will stand for election by shareholders at the next Annual General Meeting. Shareholders are provided with relevant information on the candidates for election.

When appointed to the Board, all new Directors undergo an induction program appropriate to their experience to familiarise them with matters relating to our business, our strategy and current issues before the Board.

ASX Best Practice Recommendation 2.5.

k) Retirement and re-election of Directors

Westpac's Constitution states that one-third of our Directors must retire each year. This means that the maximum time that each Director can serve in any single term is three years. The Constitution also states that any Director who has been appointed during the year must retire at the next annual general meeting. Eligible Directors who retire each year may offer themselves for re-election by shareholders at the next annual general meeting. The Board Nominations Committee evaluates the contribution of retiring Directors prior to the Board endorsing their candidature.

l) Compulsory retirement of Directors

The Board has limited the number of terms of office which any Director may serve. Directors (other than the Chairman) may not hold office as a Director for more than three consecutive terms. The Chairman may not hold office as a Director for more than four consecutive terms. Special arrangements are in place for Directors who were on the Board at the time this policy was adopted.

In addition, our Constitution requires that all Directors must retire at the age of 70.

m) Board access to independent information and advice

All Directors have unrestricted access to company records and information and receive regular detailed financial and operational reports from executive management to enable them to carry out their duties.

Westpac's Group Secretary and General Counsel provides Directors with ongoing guidance on issues such as corporate governance, Westpac's Constitution and the law. The Chairman and other independent Non-executive Directors also regularly consult with the CFO, General Manager Group Assurance, the Chief Compliance Officer, the General Manager Group Risk, and the Group General Manager Stakeholder Communications and may consult with, and request additional information from, any Westpac employee.

The Board collectively, and each Director individually, has the right to seek independent professional advice at Westpac's expense to help them carry out their responsibilities. While the Chairman's prior approval is needed, it may not be unreasonably withheld and, in its absence, Board approval may be sought.

ASX Best Practice Recommendation 2.5.

4. Board Committees

a) Board committees and membership

There are currently five Board Committees whose powers and procedures are governed by Westpac's Constitution and the relevant Committee's terms of reference, as approved by the Board.

The five Board Committees and their membership are set out in the table below:

	Leon Davis(1)	David Morgan	Barry Capp(2)	David Crawford(3)	The Hon. Sir Llewellyn Edwards	Ted Evans(4)	John Fairfax(5)	Carolyn Hewson	Helen Lynch(6)

Board Audit and Compliance Committee	X			Chair X				X	X
Board Credit and Market Risk Committee	X		X			Chair X	X	X	
Board Nominations Committee	Chair X		X	X	X	X			
Board Remuneration Committee	X		Chair X		X				
Board Social Responsibility Committee	X	X			Chair X		X		

(1) Appointed Chair of the Board Nominations Committee on 25 July 2003.

(2) Retired from the Board Audit and Compliance Committee on 1 November 2002 and appointed to the Board Credit and Market Risk Committee.

(3) Appointed Chair of the Board Audit and Compliance Committee on 6 February 2003.

(4) Appointed member of the Board Nominations Committee on 3 October 2002.

(5) Resigned from the Board and its Committees effective 1 September 2003.

(6) Resigned as Chair of the Board Audit and Compliance Committee on 6 February 2003 and as the Chair of the Board Nominations Committee on 25 July 2003.

Other Committees may be established from time to time to consider matters of special importance.

b) Committee Charters

The roles and responsibilities of each Committee are set out in the Committee Charters.

Copies of the Committee Charters will be available in the corporate governance section at *westpac.com.au/investorcentre.*

c) Committee procedures

Operation of the Committees and reporting to the Board

The Board Committees meet quarterly and at any other times as necessary. Each Committee is entitled to the resources and information it requires, including direct access to employees and advisers. The CEO, senior executives and other employees are invited to attend Committee meetings. All Directors receive all Committee papers and can attend all Committee meetings.

Composition and independence of the Committees

Committee members are chosen for the skills, experience and other qualities they bring to the Committees. Four of our five committees are currently composed of only independent Non-executive Directors. The CEO is a member of the Board Social Responsibility Committee.

How the Committees report to the Board

As soon as possible following each Committee meeting, the Board is given a verbal report by each Committee Chair and all Committee minutes are tabled at Board meetings.

How Committees' performance is evaluated

The performance of Committees is discussed and reviewed initially within each Committee and then reviewed as part of the Board's performance review.

The performance of each member of the Committees is evaluated as part of the performance review of each Director.

ASX Best Practice Recommendation 4.5, 7.3, 8.1, 9.5.

d) Board Audit and Compliance Committee

Role of the Committee

At Westpac, responsibility for risk management is divided between this Committee and the Board Credit and Market Risk Committee.

The Board Audit and Compliance Committee oversees all matters concerning:

- integrity of the financial statements;
- making recommendations to the Board for the appointment of external auditors;
- external auditor's qualifications, performance and independence;
- performance of internal audit function;
- management of operational risk; and
- compliance with legal and regulatory requirements.

Integrity of the financial statements

The Committee considers whether the accounting methods applied by management are consistent and comply with accounting standards and concepts. The Committee reviews and assesses any significant estimates and judgments in financial reports and monitors the methods used to account for unusual transactions. In addition it assesses the processes used to monitor and ensure compliance with laws, regulations and other requirements relating to external Group reporting of financial and non-financial information.

External audit

The Committee is responsible for making recommendations to the Board concerning the appointment of our external auditors and the terms of their engagement. The Committee reviews the performance of the external auditors and annually reviews Group policy on maintaining independence of the external auditor. The independent external auditor reports directly to this Committee and the Board.

This Committee meets with the external auditor in the absence of management and Committee members are able to contact the external auditor directly at any time.

Internal audit function

The Committee approves the appointment of the General Manager Group Assurance (Head of Internal Audit) and also reviews the Internal Audit responsibilities, budget and staffing. The Committee also reviews significant reports prepared by Internal Audit and management responses and the Committee Chairman meets separately with the General Manager Group Assurance.

Operational Risk

The Committee reviews the appropriateness of the framework adopted by the Group for managing operational risk and reviews operational risk issues and action plans to address control improvement areas.

Compliance with legal and regulatory requirements

The Committee ensures conformity with applicable legal and regulatory requirements and the Group's Code of Conduct. The Committee also establishes procedures for the receipt, retention and treatment of complaints, including accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. The Committee also discusses with management and the external auditor correspondence with regulators or government agencies and published reports which raise material issues. The Committee discusses with the Group's Group Secretary and General Counsel, legal matters that may have a material impact on the financial statements or the Group's compliance with regulatory policies.

Composition of the Committee

The current Committee membership is: David Crawford (Chairman), Leon Davis, Carolyn Hewson and Helen Lynch, each of whom is a Non-executive, independent Director. The Committee includes members who have appropriate financial expertise and an understanding of the industry in which Westpac operates. All members of the Committee satisfy the independence requirements under the US Sarbanes-Oxley Act 2002, and the Chairman is an Audit Committee financial expert as specified under the US Sarbanes-Oxley Act.

ASX Best Practice Recommendation 4.2, 4.3, 4.4, 4.5.

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e) Board Credit and Market Risk Committee

Role of the Committee

The Board Credit and Market Risk Committee oversees matters relating to managing credit, market, equity investments and liquidity risks inherent in Westpac's operations. The Committee:

- reviews and approves our risk management framework, particularly prudential policies, risk exposure limits and controls;
- delegates authority to the CEO and the General Manager Group Risk to approve risk exposures;
- monitors management's credit, market risk, liquidity funding and equity investment performance; and
- monitors whether provisions for credit loss, both specific and general are adequate through management reporting and independent reports from Portfolio Risk Review.

The Board Audit and Compliance Committee is responsible for approving the framework and providing oversight of the management of Operational Risk.

Composition of the Committee

The current Committee membership is: Ted Evans (Chairman), Leon Davis, Barry Capp and Carolyn Hewson.

ASX Best Practice Recommendation 7.1, 7.3.

f) Board Nominations Committee

Role of the Committee

The Board Nominations Committee develops and reviews policies on:

- Director tenure;
- Board composition, strategic function and size;
- eligibility criteria for nominating Directors; and
- the effectiveness of the full Board and Board committees.

In addition, the Committee periodically reviews our criteria for appointing Directors and considers and recommends to the Board Directors who are retiring by rotation and candidates to be nominated as Directors. The Committee also reviews periodically the process for orientation and education of new Directors.

Composition of the Committee

The current committee membership is: Leon Davis (Chairman), Barry Capp, David Crawford, The Hon. Sir Llewellyn Edwards and Ted Evans.

ASX Best Practice Recommendation 2.4, 2.5.

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g) Board Remuneration Committee

Role of the Committee

The Board Remuneration Committee reviews pay and reward policies and practices. The Committee also:

- makes recommendations to the Board on the CEO's remuneration;
- approves the reward levels for our senior management group;
- approves merit recognition arrangements and long and short-term incentive arrangements; and
- makes recommendations to the Board on Directors' fees.

The Committee engages independent remuneration consultants to ensure that our pay and reward practices are consistent with the market practice.

Composition of the Committee

The current Committee membership is: Barry Capp (Chairman), Leon Davis and The Hon. Sir Llewellyn Edwards.

ASX Best Practice Recommendation 9.2, 9.5.

h) Board Social Responsibility Committee

Role of the Committee

Our Board Social Responsibility Committee was established in 2001. Its purpose is to review the social and ethical impacts of our policies and practices and to oversee initiatives to enhance Westpac's reputation as a socially responsible corporate citizen.

The Committee monitors compliance with Westpac's published social responsibility policies and practices, ensuring Westpac meets its obligations to its stakeholders.

Details of Westpac's corporate responsibility objectives are addressed in section 8.

Composition of the Committee

The current Committee membership is: The Hon. Sir Llewellyn Edwards (Chairman), Leon Davis, and David Morgan.

5. Audit governance and independence

a) Approach to audit governance

Best practice in financial and audit governance is changing rapidly. The Board is committed to three basic principles:

- Westpac must produce true and fair financial reports;
- its accounting methods are comprehensive and relevant and comply with applicable accounting rules and policies; and
- the external auditors are independent and serve shareholder interests by ensuring that shareholders know Westpac's true financial position.

Local and overseas developments are monitored and practices reviewed accordingly.

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b) Engagement and rotation of external auditor

Westpac's independent external auditor is PricewaterhouseCoopers (PwC). PwC were appointed by shareholders at the 2002 Annual General Meeting in accordance with the provisions of the Corporations Act.

The Board has adopted a policy that the lead signing and review audit partners' responsibilities can be performed by the same person for no longer than five years. The present lead PwC partner for Westpac's audit is David Armstrong who assumed this responsibility from Rahoul Chowdry this year. The Board also requires a minimum five-year "cooling off" period before an audit partner is allowed back onto the audit team.

c) Certification and discussions with external auditor on independence

The Board Audit and Compliance Committee requires the external auditor to confirm that they have maintained their independence. Westpac's external auditor gives quarterly assurance to the Board Audit and Compliance Committee and to the Board, that they have complied with the independence standards, promulgated by local and overseas regulators and professional bodies. Periodically, the Board Audit and Compliance Committee meets separately with the external auditor.

d) Relationship with external auditor

Westpac's current policies on employment and other relationships with our external auditor are:

the audit partners and any audit firm employee on the Westpac audit are prohibited from being an officer of Westpac;

an immediate family member of an audit partner or any audit firm employee on the Westpac audit is prohibited from being a Director or an officer in a significant position at Westpac;

a former audit firm partner or employee on the Westpac audit is prohibited from becoming a Director or officer in a significant position at Westpac for at least five years and after the five years, can have no continuing financial relationship with the audit firm;

members of the audit team and firm are prohibited from having a business relationship with Westpac or any officer of Westpac unless the relationship is clearly insignificant to both parties;

the audit firm, its partners, its employees on the Westpac audit and their immediate family members are prohibited from having loans or guarantees with Westpac;

the audit firm, its partners, its employees on the Westpac audit and their immediate family members are prohibited from having a direct or material indirect investment in Westpac;

officers of Westpac are prohibited from receiving any remuneration from the audit firm;

the audit firm is prohibited from having a financial interest in any entity with a controlling interest in Westpac; and

the audit firm engagement team in any given year cannot include a person who had been an officer of Westpac during that year.

e) Restrictions on non-audit services by the external auditor

The external auditor is not able to carry out the following types of non-audit services for Westpac:

preparation of accounting records and financial statements;

information technology systems design and implementation;

valuation services and other corporate finance activities;

internal audit services;

temporary senior staff assignments, management functions;

broker or dealer, investment adviser or investment banking;

legal services;

- litigation services;
- actuarial services; and
- recruitment services for senior management.

For all other non-audit services, use of the external audit firm must be assessed in accordance with Westpac's policy requiring an independence assessment be done by the business manager requiring the service. The approval of the General Manager Group Assurance and the Chairman of the Board Audit and Compliance Committee must also be obtained.

f) Attendance at Annual General Meeting

Westpac's external auditor attends the annual general meeting and is available to answer shareholder questions.

ASX Best Practice Recommendation 6.2.

6. Controlling and managing risks

a) Approach to risk management

Taking and managing risk are central to business and to building shareholder value. Westpac's approach is to identify, assess and control the risks which affect its business. This enables the risks to be balanced against appropriate rewards for the taking and managing of the risks. The risk management approach links Westpac's vision and values, objectives and strategies, and procedures and training.

Westpac recognises three main types of risk:

- credit risk, being the risk of financial loss from the failure of customers to honour fully the terms of their contract;
- market risk, being the risk to earnings from changes in market factors such as interest and foreign exchange rates, or our liquidity and funding profiles; and
- operational risk, which arises from inadequate or failed internal processes, people and systems or from external events.

There are various other categories of risks for which we allocate capital. Included are:

- liquidity the risk of failure to adequately fund cash demand in the short-term;
- operating leverage the risk associated with the vulnerability of a line of business to changes in the strategic environment;
- insurance the risk of not being able to meet insurance claims (related to insurance subsidiary);
- interest rate the risk associated with being forced to liquidate or unwind the balance sheet hedge portfolio; and
- goodwill the risk that the future profitability of acquired businesses will not support the purchase price paid.

These risk categories are interlinked and therefore we attempt to take an integrated approach to managing them.

ASX Best Practice Recommendation 7.1.

b) Risk management roles and responsibilities

The Board is responsible for approving and reviewing Westpac's risk management strategy and policy.

Executive management is responsible for implementing the Board-approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of Westpac's activities.

Group Assurance provides independent assurance to the Board, senior management and external auditors on the adequacy and effectiveness of management controls for risk.

c) CEO and CFO assurance

The Board receives regular reports about the financial condition and operational results of Westpac and its controlled entities. The CEO and the CFO periodically provide formal statements to the Board that in all material respects:

- the company's financial statements present a true and fair view of Westpac's financial condition and operational results, and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

ASX Best Practice Recommendation 4.1, 7.2.

d) Internal review and risk evaluation

Group Assurance provides independent assurance to the Board, senior management and external auditors on the adequacy and effectiveness of management controls for risk.

A description of Westpac's approach to risk management is available in the corporate governance section at *westpac.com.au*.

7. Remuneration framework

a) Overview

Westpac has a robust framework in place to ensure that the level and composition of remuneration is sufficient and reasonable and explicitly linked to performance. Details of framework and policies and practices are set out on pages 96 to 105, including a description of the broad structure and objectives of the remuneration philosophy and the measures used to continually link reward to performance.

Non- executive Directors

Non-executive Directors fees and payments are reviewed annually by the Board. The Board also has accessed the advice of independent remuneration consultants to ensure Non-executive Directors' fees and payments are appropriate and in line with the market.

Executives

The objective of Westpac's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework is designed to follow best practice for the alignment of executive reward with shareholder value as measured by economic profit.

b) Equity-related reward plans overview

New equity-based reward plans were introduced in 2002 and the Board formed the view that appropriate safeguards had been put in place to protect the interests of shareholders. The new plans were designed around stricter performance hurdles than existed in the previous plans and rewards are only paid if shareholders have benefited.

The plans were also designed in compliance with the Investment and Financial Services Association (IFSA) Guidance Note on Executive Share and Option Schemes and, where applicable, the Guidance Note on Employee Share Schemes.

In particular, the Westpac Performance Plan has a strict performance hurdle and is specifically designed to avoid rewarding short-term gains at the expense of performance over the longer-term.

The total number of shares, share rights, or options that may be issued under Westpac's equity-based reward plans (including future awards to the Chief Executive Officer) on a rolling five year basis is capped at 5% of Westpac's issued share capital.

In anticipation of the increased disclosure requirements, the Board engaged an independent third party during 2003 to develop and subsequently operate a pricing model to value the long-term incentive benefits awarded to employees. These reforms in the reporting and disclosure of equity-based remuneration provide shareholders with more transparent information on the costs of long-term incentive benefits.

The 2002 corporate governance statement provided details of the plans and a thorough explanation of how previous equity-based reward plans had been replaced by new Plans with stricter performance hurdles. The inclusion of the explanation has been continued again this year.

The plans were introduced prior to the release of the ASX best practice recommendations and were not put to shareholders for approval at that time. Consequently, the introduction of the plans in 2002 departed from recommendation 9.4 of principle 9 of the 2003 ASX best practice recommendations introduced in 2003.

c) Westpac Performance Plan

The Westpac Performance Plan (WPP) has two methods of providing an allocation to executives performance options and performance share rights. The WPP has strict performance hurdles that result in executives, forfeiting rights to all performance options and performance share rights for below median returns relative to a ranking group of 50 companies. The WPP only delivers equity to participants if performance hurdles are met. Eligibility to participate in this plan is limited to key executives.

Performance hurdles applying to the WPP

Executives will receive unconditional ownership of any performance options or performance share rights only if strict performance hurdles (which compare Westpac's total shareholder return (TSR) with the TSR of the ranking group companies) are met. The TSR measures the return to investors on their investment, reflecting both share price growth and the reinvestment of dividends in additional shares.

The 50 largest listed companies on the ASX by market capitalisation at the commencement of the performance period is used as the ranking group (excluding Westpac itself, property trusts and specified resources companies).

All rights to performance options and performance share rights are lost if Westpac's TSR performance fails to be at or above the middle (median) performance of the ranking group over the specific performance periods.

If Westpac's TSR performance is at or above this median position for the performance period, the proportion of performance options and performance share rights originally granted that actually vests depends entirely on where Westpac's TSR ranks against the ranking group TSRs:

- if Westpac's TSR is at the median position of the ranking group, then executives can choose to take unconditional ownership of 50% of the grant. If they choose to take ownership, then the remaining 50% are forfeited;

- if Westpac's TSR ranking is above the median, an additional 2% can be vested for each 1% improvement in Westpac's ranking against the ranking group. If for example, Westpac's TSR slots in at the 60th percentile, 70% (50 + (10 × 2)) can be vested; or if Westpac's TSR ranking is at or above the 75th percentile of the ranking group, then 100% of the original grant can be vested.

The proportion that can be vested by executives is illustrated in the chart below.

Performance share rights

Eligible executives are given the opportunity to receive Westpac shares, subject to meeting the performance hurdles. There is no exercise price payable by eligible executives in respect of vested performance share rights.

Either a two-year or three-year initial performance-testing period applies to these allocations. Two-year TSRs are calculated and tested against the performance hurdle on the second anniversary of the date of issue. The executives can elect to vest based on the result of this testing or opt to test again on the third anniversary using the three-year TSRs.

Executives can again then elect to have their performance share rights vest based on the result of this testing on the third anniversary or opt to do a final test on the fourth anniversary using the four-year TSRs. Executives do not have the option to revert to the results based on the earlier testing. Any performance share rights that do not vest are forfeited.

Performance share rights with three-year initial testing periods operate in the same way except that the testing occurs on the third, fourth or fifth anniversaries. Once the performance share rights vest, the executive may receive the shares (ie exercise the performance share rights) at any time after vesting up to a maximum of 10 years from the date of grant. Performance share rights do not carry dividend or voting rights until after they are exercised.

Performance options

Eligible executives are given the opportunity to buy Westpac shares, subject to meeting the performance hurdles. The price to be paid by the executive, or the exercise price of the option, is equal to the average market price of Westpac ordinary shares over the five trading days up to the date the offer is made.

The initial period for testing against the performance hurdles is three years. The three-year TSRs are calculated and tested against the performance hurdles on the third anniversary of the date of issue. The executives can elect to have their performance options vest based on the result of this testing or opt to test again on the fourth anniversary using the four-year TSRs. Executives can again then elect to have their performance options vest based on the result of this testing on the fourth anniversary or opt to do a final test on the fifth anniversary using five-year TSRs.

Executives do not have the alternative to revert to the results based on the earlier testing. Any performance options that do not vest are forfeited. Once the performance options vest, the executive must fund the issue price of the performance options to receive the shares (ie exercise the performance options) at any time after vesting up to a maximum of 10 years from the date of grant. Performance options do not carry dividend or voting rights until after they are exercised.

d) Other equity schemes in Westpac

The Deferral Share Plan

Westpac's Deferral Share Plan (DSP) was introduced in September 2002, replacing the previous similar Westpac Employee Share Plan (WESP1). Under the DSP, eligible Australian-based employees have the opportunity to pre-elect to receive any prospective short-term incentive bonus as Westpac shares in the DSP. Participants pay the current market price and acquisition costs. The shares are acquired on-market and must generally remain in the DSP for 12 months, but can remain for up to ten years.

Employee Share Plan

The Employee Share Plan (ESP) replaces the previous similar Westpac Employee Share Plan 2 (WESP2). Under the ESP, Westpac shares may be allocated to eligible Australian-based employees at no cost to recognise their contribution to Westpac's performance over the previous financial year. The plan operates as a tax-exempt scheme with a maximum $1,000 value allocation per employee each year. However, the actual allocation depends on the performance of Westpac's share price and includes a performance hurdle before any allocation is made. Access to the shares is restricted for three years unless the employee leaves Westpac.

The ESP is designed to:

- further align the interests of staff and shareholders;
- motivate employees to drive growth over the long-term for sustainable shareholder value;
- attract, retain and motivate key, high performing individuals; and
- help our staff achieve a better standard of living.

All full-time and part-time employees who have been in six months continuous employment as at 30 September each year are eligible, although they must register for the plan each year allocation is not automatic. Executives who participate in the Westpac Performance Plan are not eligible to participate in the ESP.

A separate Employee Share Plan offers similar benefits to New Zealand employees, and again excludes executives who receive performance shares or options.

ASX Best Practice Recommendation 9.1, 9.3, 9.4, 9.5, 9.1.

8. Corporate responsibility and sustainability

a) Approach to corporate responsibility and sustainability

Westpac's aim is to manage its business in a way that produces positive outcomes for all stakeholders and maximises economic, social and environmental value simultaneously. In doing so, Westpac accepts that the responsibilities flowing from this go beyond both strict legal obligations and just the financial bottom line.

Transparency, the desire for fair dealing, responsible treatment of staff and of customers and positive links into the community, underpin our everyday activities and corporate responsibility practices.

The Social Accountability Charter is at the core of these practices. This Charter sets out what stakeholders can expect from Westpac across marketplace practices, employee practices, occupational health and safety, community involvement, environmental practices, and risk management.

Westpac's approach goes beyond ASX best practice recommendations 3.1 and 10.1, in part reflecting the many legal, regulatory and prudential requirements applying to our industry.

Westpac's Social Accountability Charter is available at *westpac.com.au.*

ASX Best Practice Recommendations 3.1.

b) Westpac's Code of Conduct and responsibility codes

Westpac's Code of Conduct applies to all Directors, executives, management and employees without exception. The Code governs workplace and human resource practices, risk management and legal compliance, and is aligned to Westpac's core values of teamwork, integrity and performance. The Code is reviewed periodically and has been specifically reviewed to reflect the ASX best practice recommendations.

Beyond the Social Accountability Charter, and Code of Conduct, Westpac complies with the Code of Banking Practice and has a series of further responsibility policies and codes including:

- Personal Customer Charter;
- Anti-Money Laundering Policy;
- Conflicts of Interest Policy;
- Insider Trading Policy;
- Occupational Health & Safety Policy;
- Market Disclosure Policy; and
- Privacy Policy.

Westpac's responsibility policies and codes are available in the corporate governance section at *westpac.com.au/investorcentre.*

ASX Best Practice Recommendation 3.1,3.3,10.1

c) Code of ethics for senior finance officers

In 2003 Westpac developed a "Code of Accounting Practice and Financial Reporting" in response to the requirement of the US Sarbanes-Oxley Act that companies subject to that Act establish a Code of Ethics for their CEO and principal financial officers. This Code addresses the specific responsibilities that are borne by such officers due to the nature of their function within the Westpac Group, in addition to their more general responsibilities under the Westpac Code of Conduct.

The "Code of Accounting Practice and Financial Reporting" is available at *westpac.com.au.*

ASX Best Practice Recommendation 3.1.

d) Compliance policy and practices

Westpac's compliance approach focuses on: ensuring strict adherence to all laws and regulations; maintaining the quality control of practices and processes; identifying any weaknesses; and moving to fix any gaps while enhancing the processes and practices.

A separate compliance governance framework operates across the Group involving the Board Audit and Compliance Committee, to the Chief Compliance Officer (who reports regularly to the Board Audit and Compliance Committee), and individual line businesses. The prime responsibility for compliance resides with line management, who are required to demonstrate that they have effective processes in place consistent with Westpac's compliance principles and practices.

Westpac's compliance principles and practices are available in the corporate governance section at *westpac.com.au/investorcentre.*

ASX Best Practice Recommendation 3.1.

e) Concern reporting and whistleblowing

Employees are actively encouraged to bring any problems to the attention of management or the Board, including activities or behaviour which may not be in accord with the Code of Conduct, Code of Accounting Practice and Financial Reporting, Insider Trading Policy, other Westpac policies, or other regulatory requirements or laws.

Concerns can be raised directly with senior management through the concern raising process, including the CEO and CFO's intranet site or via the CEO's telephone hotline. Concerns can also be raised anonymously by phone and online through the concern reporting system, and are directed to the Chief Compliance Officer. This concern reporting system protects individuals who, in good faith, report any apparent or actual violations of our codes. The concern reporting system is being reviewed against the Australian standard AS 8004 (Whistleblower protection programs) released in 2003.

The concern reporting and whistleblowing policy is available in the corporate governance section at *westpac.com.au/Investorcentre.*

ASX Best Practice Recommendation 3.1, 3.3, 10.1.

f) Insider trading policy and trading in Westpac shares

Both Directors and employees are subject to restrictions under the law relating to dealing in certain financial products, including securities in a company (including Westpac), if they are in possession of inside information.

Inside information is information that is not generally available and, if it were generally available, a reasonable person would expect it to have a material effect on the price or value of the securities of the company.

In addition and subject always to the above legal restrictions, Westpac has policies in place which restrict the dates when Directors or employees who have access to inside information can trade in Westpac's securities.

In May 2003, an additional policy was introduced prohibiting employees who may be granted options or rights in the future from hedging those options or rights until such time as those options or rights have met their performance hurdles and vested.

Copies of Westpac's insider trading policies are available in the corporate governance section at *westpac.com.au/investorcentre.*

ASX Best Practice Recommendation 3.2, 3.3

g) Social impact reporting

Central to Westpac's governance and responsibility approach is transparent reporting of performance to stakeholders. Westpac's Social Impact Report measures and reports on social, environmental and financial performance against more than 90 key performance indicators.

Specialist social and environmental auditors independently verify the Social Impact Report to safeguard the integrity of our external reporting. Independent verification and auditing also assists in driving continuous improvement.

Allied to external verification Westpac endorses the principle of independent external assessment by respected sustainability and governance ratings organisations. Westpac achieved the number one rating for banks globally in the Dow Jones Sustainability Index for 2003/2004, for the second year running, and has been rated the top company in the 2003 Reputex Social Responsibility Ratings, receiving the only AAA rating.

Westpac's Social Impact Report and performance in external sustainability assessments are available in the social accountability section at *westpac.com.au*.

ASX Best Practice Recommendation 3.1, 3.3.

h) Market disclosure policy and practices

Westpac is committed to giving all shareholders comprehensive and equal access to information about our activities, and to fulfil continuous disclosure obligations to the broader market.

The Board-approved market disclosure policy governs how Westpac communicates with shareholders and the market. This policy is designed to ensure compliance with ASX Listing Rules continuous disclosure requirements and the requirements of other exchanges where Westpac is listed. It ensures any information that a reasonable person would expect to have a material effect on the price of Westpac's securities is disclosed.

When Westpac makes an announcement to the market, that announcement is released to each stock exchange where Westpac ordinary shares are listed ASX, New York Stock Exchange, New Zealand Exchange Limited and Tokyo Stock Exchange Inc.

Westpac has a Disclosure Committee which is responsible for making decisions on what should be disclosed publicly under the market disclosure policy, and for developing and maintaining relevant guidelines, including guidelines on information that may be price sensitive. The Group Secretary and General Counsel has responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules, and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

Westpac also publishes on its website the annual reports, profit announcements, CEO and executive briefings, economic updates, notices of meeting, media releases and meeting transcripts. Web-casting and teleconferencing facilities are provided for market briefings to encourage participation from all stakeholders, regardless of their location.

The market disclosure policy is available at *westpac.com.au/investorcentre.*

ASX Best Practice Recommendation 5.1, 5.2, 6.1.

Directors' interests in securities

The following particulars for each Director of Westpac are set out below:

their relevant interests in shares of Westpac or any of our related bodies corporate;

their relevant interests in debentures of, or interests in any registered managed investment scheme made available by Westpac or any of our related bodies corporate;

their rights or options over shares in, debentures of, or interests in any registered managed investment scheme made available by Westpac or any of our related bodies corporate; and

any contracts:

(a)

to which the Director is a party or under which they are entitled to a benefit; and

(b) that confer a right to call for or deliver shares in, debentures of, or interests in any registered managed investment scheme made available by Westpac or any of our related bodies corporate.

Directors' holdings of our shares and options as at 30 October 2003

Name	Number of ordinary fully paid shares	Number of options	Non-beneficial
Leon Davis	20,905		117,034(1)
David Morgan	959,732	4,423,580(2)	
Barry Capp	14,338		
David Crawford	8,095		
Sir Llewellyn Edwards	3,572		117,034(1)
Ted Evans	4,000		
Carolyn Hewson	3,110		
Helen Lynch	17,340		

(1) Certain Directors have relevant interests (non-beneficial) in shares, and shares subject to warrants, held beneficially by a staff/community related fund of which those Directors are trustees.

(2) Options issued under the 1999 Chief Executive Share Option Agreement and 2001 Chief Executive Share Option Agreement.

Other disclosable interests as at 30 October 2003

The following directors hold interests in managed investment schemes made available by BT Financial Group:

Leon Davis	741,913 units
David Morgan	7,008,019 units

ASX Corporate Governance Council Best Practice Recommendations

	ASX Principle	Reference(1)	Compliance
Principle 1:	**Lay solid foundations for management and oversight**		
1.1	Formalise and disclose the functions reserved to the board and those delegated to management.	3b)	Comply
Principle 2:	**Structure the board to add value**		
2.1	A majority of the board should be independent directors.	3e)	Comply
2.2	The chairperson should be an independent director.	3d)	Comply
2.3	The roles of chairperson and chief executive officer should not be exercised by the same individual.	3d)	Comply
2.4	The board should establish a nomination committee.	4f)	Comply
2.5	Provide the information indicated in ***Guide to reporting on Principle 2***.	3a), 3b), 3e), 3j), 3m), 4f)	Comply
Principle 3:	**Promote ethical and responsible decision-making**		
3.1	Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial	8b), 8c), 8d), 8e)	Comply

	ASX Principle	Reference(1)	Compliance
	officer (or equivalent) and any other key executives as to:		
	the practices necessary to maintain confidence in the company's integrity	8b), 8c), 8d), 8e)	
	the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	8b), 8c), 8d), 8e)	
3.2	Disclose the policy concerning trading in company securities by directors, officers and employees.	8f)	Comply
3.3	Provide the information indicated in ***Guide to reporting on Principle 3***.	8b), 8e), 8f), 8g)	Comply
Principle 4:	**Safeguard integrity in financial reporting**		
4.1	Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.	6c)	Comply

	ASX Principle	Reference(1)	Compliance
4.2	The board should establish an audit committee.	4d)	Comply
4.3	Structure the audit committee so that it consists of:		
	only non-executive directors	4d)	Comply
	a majority of independent directors	4d)	Comply
	an independent chairperson, who is not chairperson of the board	4d)	Comply
	at least three members.	4d)	Comply
4.4	The audit committee should have a formal charter.	4d)	Comply
4.5	Provide the information indicated in ***Guide to reporting on Principle 4***.	4c), 4d)	Comply
Principle 5:	**Make timely and balanced disclosure**		
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior management level for that compliance.	8h)	Comply
5.2	Provide the information indicated in ***Guide to reporting on Principle 5***.	8h)	Comply
Principle 6:	**Respect the rights of shareholders**		
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	8h)	Comply
6.2	Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.	5f)	Comply
Principle 7:	**Recognise and manage risk**		
7.1	The board or appropriate board committee should establish policies on risk oversight and management.	4e), 6a)	Comply
7.2	The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:		
	7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of	6c)	Comply

	ASX Principle	Reference(1)	Compliance
	financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.		
7.2.2	the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.	6c)	Comply

	ASX Principle	Reference(1)	Compliance
7.3	Provide the information indicated in ***Guide to reporting on Principle 7***.	4c), 4e)	Comply
Principle 8:	**Encourage enhanced performance**		
8.1	Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.	3i), 4c) and "Remuneration and philosophy" section	Comply
Principle 9:	**Remunerate fairly and responsibly**		
9.1	Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.	7 and "Remuneration and philosophy" section	Comply
9.2	The board should establish a remuneration committee.	4g)	Comply
9.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	7 and "Remuneration and philosophy" section	Comply
9.4	Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.	1, 7 and "Remuneration and philosophy" section	Do not comply
9.5	Provide the information indicated in ***Guide to reporting on Principle 9.***	4c), 4g), 7	Comply
Principle 10:	**Recognise the legitimate interests of stakeholders**		
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.	8b), 8e)	Comply

(1) Reference refers to the relevant sections of this corporate governance statement.

Remuneration philosophy and practice

Non-executive directors: fees and equity participation

Fees and payments to Non-executive Directors reflect the demands which are made and responsibilities of Directors. Non-executive Directors fees and payments are reviewed annually by the Board. The Board also has agreed to the advice of independent remuneration consultants to ensure Non-executive Directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of Non-executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration.

Directors' fees

The current base remuneration was last reviewed with effect from 1 January 2003. Non-executive Directors' base fees are currently $125,000 per Director per year. The Chairman receives remuneration of $440,000 per year, inclusive of Committee fees. Non-executive Directors who chair a committee receive additional yearly fees of $20,000 per Committee and additional fees are also payable to Directors for their membership on subsidiary boards. To acknowledge the importance of each Committee to the operation of the Board, there is no differentiation between the fees for the Chairs of the various Committees. To encourage and recognise equal workload and contribution, no additional payments are made for membership of Committees or attendance at Committee meetings.

Non-executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. A pool of $1.5 million was last approved by shareholders in December 1999. Shareholder approval is to be sought to increase the fee pool to $2.5 million to enable Westpac to attract and retain Directors of the highest calibre and to take account of the expected need to increase base fees for new Directors (who will not be entitled to receive retirement benefits).

Equity participation

Non-executive Directors do not receive share options. Non-executive Directors may opt each year to receive a percentage of their prospective fees in Westpac shares, which are acquired on-market at market price. Shareholders approved this arrangement in December 2000. Non-executive Directors have voluntarily agreed to build up a shareholding in Westpac equal in value to at least 100% of annual base fees, generally over the course of their tenure.

Retirement allowance for Directors

On 3 July 2003, the Board resolved to remove retirement allowances for Non-executive Directors appointed after 3 July 2003, in line with recent guidance on Non-executive Directors' remuneration. Base fees for Directors appointed after 3 July 2003 will be increased to reflect the fact that retirement allowances are no longer payable to new Directors.

There are seven Non-executive Directors who have been appointed prior to July 2003. These Directors continue to be eligible to receive retirement allowances after serving for more than three years in accordance with a service agreement (which was approved by shareholders at the 1989 Annual General Meeting). Where the Director's period of service is:

- less than three years, the Director is not entitled to a retirement allowance;

- at least three years but less than five years, the Director is entitled to a proportion of the retirement allowance that the Director would have been entitled had the Director served for a period of five years, that proportion being the same proportion as the period the Director's service bears to five years;

five years, the Director is entitled to a sum equal to the total emoluments to which the Director was entitled during the period of three years ending on the date of his or her retirement or death before retirement; and

greater than five years, the Director is entitled to the sum which would have been payable had the Director served for the period of five years, ending on the date of his or her retirement or death before retirement, plus 5% per annum of that sum for the period of service in excess of five years. This amount cannot exceed 5 times the average annual emoluments to which the Director was entitled during the period of three years ending on his or her retirement or death before retirement.

To ensure shareholders are aware of the full cost of employing their Board, an amount equal to the cost of providing the allowance to each Non-executive Director is disclosed to shareholders. This can be found in the tables on page 77 of this report.

Superannuation guarantee charge

Westpac pays the superannuation guarantee charge in relation to its eligible Non-executive Directors appointed prior to July 2003. Superannuation guarantee payments will be included in the total fees for any Non-executive Directors appointed after July 2003.

Details of the nature and amount of each element of the emoluments of Westpac's Non-executive Directors for the year ended 30 September 2003 are set out below.

	Fees $	Superannuation guarantee charge $	Retirement benefit accrued during the year $	Total $	Total retirement benefits accrued $	Retirement benefits paid during the year $
Leon Davis	427,731		424,774	852,505	859,716	
Barry Capp	178,365(1)(3)	10,519(4)	128,286	317,170	512,927	
David Crawford	134,596(1)	10,519(4)	47,449(6)	192,564	50,969(6)	
Sir Llewellyn Edwards	141,750(1)	10,519(4)	108,629	260,898	532,946	
Ted Evans	140,750(1)	10,519(4)	73,055(6)	224,324	91,013(6)	
John Fairfax(5)	112,577	10,132(4)	71,473	194,182		353,344
Carolyn Hewson(7)	81,250	7,313(4)	10,514(6)	99,077	10,514(6)	
Helen Lynch	167,827(1)(2)	10,519(4)	104,244	282,590	433,546	

(1) Includes fees paid to Chairpersons of Board Committees.

(2) Includes fees for services provided as Chairman of Westpac Staff Superannuation Plan.

(3) Includes fees for serving on a subsidiary board.

(4) Westpac pays the superannuation guarantee charge in relation to its eligible Non-executive Directors appointed prior to July 2003.

(5) Resigned effective 1 September 2003.

(6) Not presently entitled to retirement benefit as less than three years of service has been completed.

(7) Appointed 6 February 2003.

Executive reward framework

The objective of Westpac's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework is designed to follow global best practice for the alignment of executive reward with shareholder value as measured by economic profit. Westpac's reward framework jointly aligns the interests of both shareholders and program participants as follows:

Alignment to shareholders' interests

- Has economic profit(1) as a core component of plan design.
- Focuses on sustained growth in share price and earnings by incorporating reward for non-financial achievements as well as financial performance.
- Attracts and retains high calibre executives.

Alignment to program participants' interests

- Rewards capability and experience.
- Reflects competitive reward for contribution to shareholder growth.
- Provides a clear structure for earning rewards.
- Provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives. As executives gain seniority in Westpac, the balance of this mix shifts to a higher proportion of "at risk" rewards.

Westpac uses economic profit as the primary measure of performance. To earn a market competitive short term incentive payment, both Westpac and program participants must meet economic profit related performance targets.

Westpac's long-term incentive schemes use straightforward and transparent performance hurdles that are expressly aligned to the creation of value for our shareholders. If the hurdles are not met, scheme participants forfeit the incentive.

Westpac's philosophy is that:

- pay and reward schemes should emphasise performance which goes beyond our shareholders' expectations, including superior shareholder return growth relative to Westpac's peer group of companies;
- the balance between fixed and variable components should reflect market conditions at each job and seniority level;
- the objectives set for all executives reflect the need to deliver sustainable outcomes for shareholders; and

the provision of all variable pay should be tightly linked to measurable personal and business group objectives within clearly defined time frames.

(1) Economic profit means the excess of adjusted profit over a minimum required rate of return (12%) on equity invested. For this purpose, adjusted profit is defined as net profit after income tax, but before amortisation of goodwill, plus a portion (70%) of the face value of franking credits paid to equity holders.

The structure of Westpac's CEO and executive reward framework

The executive pay and reward framework has four components:

- base pay;
- short-term performance incentives;
- long-term equity-linked performance incentives; and
- other compensation such as superannuation.

The combination of these comprises the executive's total remuneration.

Base pay

Executives are offered a competitive base pay that reflects the fixed component of pay and rewards. Independent remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay is generally not revised unless an executive has been promoted or there has been a marked change in market rates.

Short-term performance incentives

If individual performance objectives are met and these are always designed around specific business goals a short-term incentive may be provided.

Each year the Board Remuneration Committee approves a pool of short-term incentive for allocation during the annual remuneration review. The size of the short-term incentive pool reflects Westpac's economic profit performance. The pool is capped at a maximum percentage of economic profit. This approach ensures that variable reward is only available where value has been created for shareholders.

Long-term equity-linked performance incentives

Our long-term incentives for the CEO and senior executives are designed to align their financial interests with those of our shareholders by making use of carefully designed equity-based incentives. This provides an incentive to ensure Westpac has a healthy and growing share price and delivers sustained growth in value for shareholders.

The Westpac Performance Plan (WPP), which is described on pages 68 to 69 of the Corporate Governance statement, is designed around strict performance hurdles that result in rewards only being received if shareholders have benefited from Westpac's performance. Awards under the WPP are determined based on a dollar based notional remuneration value. Aggregate long-term incentive pools also based on a notional remuneration value are approved annually by the Board Remuneration Committee. Economic profit performance influences the amount of long-term incentive to be allocated. In 2003, retention awards relating to the acquisition of BTFM also influenced the amount of long-term incentive allocated.

Separate Chief Executive Share Option Agreements were approved by shareholders in 1999 and in 2001 for Westpac's CEO, David Morgan. Both agreements tie the vesting of share options to performance hurdles as approved by shareholders. Subject to shareholder approval, it is proposed to grant David Morgan long-term incentives in the form of performance options and performance share rights under the Chief Executive Securities Agreement to cover the period of his contract extension.

Other benefits superannuation

Executives and staff are provided with superannuation via one of Westpac's staff superannuation funds. Westpac previously provided a defined benefit scheme, which is now closed to new members.

The process for linking rewards to performance

CEO

As CEO, David Morgan is entitled to annual short-term incentive payments if performance criteria determined by the Board are met. These performance criteria include effective leadership and management, financial criteria, implementation of business and strategic plans, employee commitment, customer satisfaction, corporate governance and reputation criteria. The short-term incentive payments may be adjusted up or down in line with under or over achievement against the target performance levels, at the discretion of the Board.

Executive team

Group Executives' rewards are linked to the achievement of Westpac's performance as measured by economic profit. Performance agreements for the Executive Team incorporate objectives designed around Westpac, business unit and individual goals. As part of these performance agreements, short-term and long-term incentive targets are set and agreed each year based upon target performance. Incentives are only payable if financial and non-financial objectives are met. These objectives are approved by the Board Remuneration Committee after considering recommendations from the CEO. Reward targets are set using data provided by independent remuneration consultants, ensuring that the levels of expected pay and performance reflect market practice.

In the same way that equity participation via the long-term incentive plan is designed to deliver sustained growth in value for all shareholders, it is considered desirable that executives who participate in the Westpac Performance Plan should also be prepared to put their own money at risk and establish a shareholding of Westpac shares. The Board Remuneration Committee administers the following guidelines in this respect.

It is expected that:

- the CEO should hold at least 500,000 shares;
- Group Executives should hold at least 60,000 shares; and
- General Managers should hold at least 15,000 shares.

Transition arrangements give executives a reasonable time to build up to these shareholding guidelines.

General management team

The CEO and the Group Executive team approve the pay and reward packages for key senior managers at General Manager level within the pools approved by the Board Remuneration Committee.

Performance agreements for general managers incorporate objectives designed around business unit and individual goals. As part of performance agreement short-term and long-term incentive targets are set and agreed each year based upon target performance. Reward targets are set using data provided by independent remuneration consultants ensuring that the levels of expected pay and performance reflect market practice.

CEO contract renewal and remuneration arrangements

David Morgan's current contract is due to expire in February 2004. The Board has renewed David Morgan's contract for a further term ending on 31 December 2007. (The proposed grant of long term incentive in the form of performance share rights and performance options is subject to shareholder approval).

The terms of the new contract are in line with existing arrangements and are firmly linked to Westpac's performance. Enhanced elements include:

- the majority of the total potential remuneration being at risk and subject to strict performance criteria;
- performance hurdles which result in equity linked long term incentives being of zero value if Westpac performs in the bottom 50% of a Total Shareholder Return (TSR) Ranking Group of 50 companies. The TSR Ranking Group of companies comprises the first 50 bodies corporate drawn from a Peer Group that remain listed on the Australian Stock Exchange and which have published sufficient data to enable their respective TSR's to be determined. The Peer Group is set at the commencement of the performance period and comprises the 100 bodies corporate comprised in the Standard & Poors/Australian Stock Exchange 200 Index (excluding Westpac itself, all entities in the property trusts sector of that Index and such other entity or entities as the Board may from time to time determine), having the highest market capitalisation at the commencement of the performance period and ranked from descending order, from highest to lowest, according to their market capitalisation;
- Westpac will need to perform in the top 25% of the TSR Ranking Group of companies for David Morgan to realise 100% of his long-term incentives and there is no opportunity to re-test the performance at a later date should Westpac not perform against the performance hurdle;
- keeping the fixed pay component at the same level for the period of the contract with no annual increases; and
- ensuring a maximum payout of 12 months fixed pay and lapse of any ungranted long-term incentives should the Board terminate the contract for poor performance.

Remuneration of Chief Executive and top seven Senior Executives

Details of the nature and amount of each element of emolument of Westpac's executive director, David Morgan, and the top seven senior executives for the financial year are set out in the table below. The tables disclose remuneration for the seven most highly paid senior executives involved in the management of Westpac's affairs. Other individuals who are rewarded under incentive-based systems according to results, consistent with market practice within the industry, may within any given year, receive remuneration at a level in excess of that received by some executives shown.

Individual remuneration may not be directly comparable to prior years due to changes in roles or new executive appointments to Westpac during a remuneration year.

	Base pay(1) $	Short-term incentives(1)(2) $	Other(3) $	Total cash remuneration $	Total equity-based remuneration(4) $
David Morgan Managing Director and Chief Executive Officer	1,575,000	1,700,000	645,681	3,920,681	3,447,277

	Base pay(1) $	Short-term incentives(1)(2) $	Other(3) $	Total cash remuneration $	Total equity-based remuneration(4) $
Ilana Atlas Group Executive People & Performance (started new role 11 November 2002)	512,100	325,000	45,695	882,795	423,270
Philip Chronican Chief Financial Officer	525,000	550,000	117,824	1,192,824	1,040,382
David Clarke Chief Executive Officer BT Financial Group	750,000	650,000		1,400,000	2,237,192
Philip Coffey Group Executive Westpac Institutional Bank	550,000	705,000	49,310	1,304,310	579,438
Michael Coomer Group Executive Business and Technology Solutions and Services	625,000	550,000	56,034	1,231,034	561,671
Michael Pratt Group Executive Business and Consumer Banking	674,875	865,000		1,539,875	378,148
Ann Sherry Group Executive New Zealand and Pacific Banking (started new role 11 November 2002)	533,375	560,000	406,083	1,499,458	663,718

(1)

Base pay is the total cost to Westpac of salary and packaged benefits (including motor vehicles and parking) received in the year to 30 September 2003 and includes fringe benefits tax. Short-term incentive figures reflect annual performance awards accrued but not yet paid in respect of the year ended 30 September 2003.

(2)

The amount above is the entire short-term incentive (STI) relating to performance for this year. Where actual short-term incentive for senior executives exceeds their target short-term incentive, a portion of the STI is deferred. The deferred portion is the amount over the executive's target STI and the deferral period is up to three years from the first payment date. A portion of the deferred STI payment becomes due each year. Interest is applied to the balance outstanding each year and paid annually. Amounts paid in each year in respect of deferred STI are not included as part of the executives' remuneration. In certain circumstances, any unpaid deferred payment (including interest) may be forfeited.

(3)

Other remuneration is determined on the basis of the cost to Westpac and includes notional surchargeable superannuation contributions (as determined by the Plan's actuary) for those executives who are members of the Westpac Staff Superannuation Plan, housing and other benefits (such as commencement incentives, relocation costs, staff discount on Westpac products and separation payments) and all fringe benefits tax.

(4)

The amount included in equity-based remuneration relates to the current year amortisation of the fair value of all share options, performance options and performance share rights granted (in the current and previous years) that have either vested during the financial year or remain unvested at 30 September 2003 and the increase in value of vested cash settled equity-based remuneration arrangements. The calculation of fair value for the purpose of the above table follows Australian Securities and Investments Commission (ASIC) guidelines issued in June 2003 on the value of options that should be included in the disclosure of the emoluments of each director and each senior executive. Included in David Morgan's equity-based remuneration is an amount related to the increase in value in the year ended 30 September 2003 of stock appreciation rights granted in 1997 in lieu of share options. For further details of equity based remuneration granted in the year refer to the table below.

Equity-based remuneration

Equity-based instruments granted during the financial year ended 30 September 2003.

	Type of equity-based instrument granted during the year	No. granted	Grant date	First possible vesting date	Exercise price $	Fair value per instrument(1)(5) $
David Morgan	Share options(2)	1,100,000	04/03/03	01/03/06	13.87	2.29
Ilana Atlas	Performance options(3)	124,381	20/01/03	20/01/06	13.59	2.35
	Performance share rights(4)	35,081	20/01/03	20/01/05		8.86
Philip Chronican	Performance options(3)	282,209	20/01/03	20/01/06	13.59	2.35
	Performance share rights(4)	79,597	20/01/03	20/01/05		8.86
David Clarke	Performance options(3)	428,540	20/01/03	20/01/06	13.59	2.35
	Performance share rights(4)	120,870	20/01/03	20/01/05		8.86
Philip Coffey	Performance options(3)	219,496	20/01/03	20/01/06	13.59	2.35
	Performance share rights(4)	61,909	20/01/03	20/01/05		8.86
Michael Coomer	Performance options(3)	198,591	20/01/03	20/01/06	13.59	2.35
	Performance share rights(4)	56,013	20/01/03	20/01/05		8.86
Michael Pratt	Performance options(3)	198,591	20/01/03	20/01/06	13.59	2.35
	Performance share rights(4)	56,013	20/01/03	20/01/05		8.86
Ann Sherry	Performance options(3)	177,687	20/01/03	20/01/06	13.59	2.35
	Performance share rights(4)	50,116	20/01/03	20/01/05		8.86

(1)

The fair value of share options, performance options and performance share rights (collectively referred to as equity-based instruments) granted is determined at grant date in accordance with Australian Securities and Investments Commission (ASIC) guidelines issued in June 2003. The pricing model used applies the same theoretical framework as that underlying the Black-Scholes formula, appropriately adapted and extended to reflect the vesting and performance hurdle features of the grant. Further detail of the assumptions included in the model is set out below. The fair value of options and performance options granted in respect of the year is amortised over the period from grant date to vesting date (normally three years). The fair value of performance share rights granted in respect of the year is amortised over the period from grant date to vesting date (normally two years) The proportion of the fair value allocated to this financial year is included in the equity-based remuneration of each executive. Details of equity-based instruments granted in prior years have been disclosed in previous annual reports.

(2)

Pursuant to a resolution passed at the annual general meeting of our shareholders on 13 December 2001, the grant of two tranches of non-transferable options ("CEO 2001 options") to our Chief Executive Officer, David Morgan, was approved. Each tranche enables him to subscribe for 1,100,000 ordinary shares. The second tranche was granted on 4 March 2003. The exercise price of each tranche is the weighted average market price of our ordinary shares traded on the Australian Stock Exchange Limited during the one week period immediately preceding the grant date of the options. Each tranche is subject to performance hurdles which will determine the number of options, if any, that will vest at the end of the performance period. The initial period for testing against the performance hurdle is after three years. David Morgan can elect to vest based on the result of this testing or opt to test again on the fourth anniversary. David Morgan can elect to vest based on the result of this testing on the fourth anniversary or opt to do a final test on the fifth anniversary. David Morgan does not have the choice to revert to the results based on the earlier testing. In February 2003 the Board determined that the performance hurdle applying to the second tranche of CEO 2001 options would require Westpac's total shareholder return to be at or above the median performance of the peer group (which comprises the 50 largest listed companies by market capitalisation on the ASX at the commencement of the performance period excluding Westpac itself, property trusts and specified resources companies). If Westpac's total shareholder return is below the top 50% of the peer group over the performance period, none of the options granted will be exercisable. Each option vesting entitles the holder to one ordinary share in Westpac upon the payment of the exercise price.

(3)

Performance options granted under the Westpac Performance Plan comprise options to acquire fully paid ordinary shares issued by Westpac, with vesting subject to meeting of a performance hurdle of the same design as for the second tranche of the CEO 2001 options. The performance options have a ten year life from date of grant. The exercise price is the average weighted market price of our ordinary shares traded on the Australian Stock Exchange Limited over the five trading days up to the time the offer is made. The initial period for testing against the performance hurdle is after three years. Executives can elect to vest based on the result of this testing or opt to test again on the fourth anniversary. Executives can elect to vest based on the result of this testing on the fourth anniversary or opt to do a final test on the fifth anniversary. Executives do not have the choice to revert to the results based on the earlier testing. Any performance options that do not vest are forfeited. Upon exercising vested performance options, the executive has the right to their entitlement in whole or in part as fully paid ordinary shares. The exercise price is payable at that time. Any performance options that do not vest will be forfeited. Each performance option vesting entitles the holder to one ordinary share in Westpac upon the payment of the exercise price.

(4)

Performance share rights have been granted under the Westpac Performance Plan, with vesting subject to meeting of a performance hurdle of the same design as for the second tranche of the CEO 2001 options. The performance share rights have a ten year life from date of grant. After vesting the performance share rights entitle the holder to elect to receive fully paid Westpac ordinary shares at no cost to the participant. The performance share rights awarded to each of the senior executives have a two-year initial testing period. The performance share rights will be subject to the same periodic testing as for performance options above, except that they will be tested on the second, third and fourth anniversaries. Any performance share rights that do not vest will be forfeited. Each performance share right vesting entitles the holder to one ordinary share in Westpac.

(5)

The fair value of share options, performance options and performance share rights included in the tables above for the CEO and the seven most senior executives have been estimated at grant date using a pricing model that uses the same theoretical framework as that underlying the Black-Scholes formula, appropriately adapted and extended to reflect the vesting and performance hurdle features of the grant. The assumptions included in the model for 2003 include a risk free interest rate of 5.5%, a dividend yield on Westpac shares of 4% and a volatility in the Westpac share price of 19%. Other assumptions include volatilities of, and correlation factors between, share price movements of the ranking group members and Westpac, which are used to assess the impact of performance hurdles. The performance hurdles have reduced the value of the share options and performance options to 81% of unhurdled equivalents (68% for the performance share rights). Share options and performance options have been valued assuming a contracted life of 10 years and an additional 6% discount has been applied to reflect the expected life after the vesting date. The performance share rights awarded have been valued over an expected life of up to four years.

Equity-based instruments to be granted in respect of the 2003 performance review period.

	Type of equity based instrument to be granted	**No. to be granted(1)**	**Estimated grant date**	**Estimated first possible vesting date**	**Exercise price $**
Ilana Atlas	Performance options	137,867	20/01/04	20/01/07	16.34
	Performance share rights	38,071	20/01/04	20/01/06	
Philip Chronican	Performance options	266,544	20/01/04	20/01/07	16.34
	Performance share rights	73,604	20/01/04	20/01/06	
David Clarke	Performance options	321,691	20/01/04	20/01/07	16.34
	Performance share rights	88,832	20/01/04	20/01/06	
Philip Coffey	Performance options	211,397	20/01/04	20/01/07	16.34
	Performance share rights	58,375	20/01/04	20/01/06	
Michael Coomer	Performance options	183,823	20/01/04	20/01/07	16.34
	Performance share rights	50,761	20/01/04	20/01/06	
Michael Pratt	Performance options	294,117	20/01/04	20/01/07	16.34
	Performance share rights	81,218	20/01/04	20/01/06	
Ann Sherry	Performance options	179,227	20/01/04	20/01/07	16.34
	Performance share rights	49,492	20/01/04	20/01/06	

(1) The number of performance options and performance share rights to be granted under the Westpac Performance Plan has been estimated as part of the year end performance review based on the indicative value applied for remuneration purposes (the remuneration value). At the offer date (28 October 2003) the remuneration value for each performance option is $2.72 and for each performance share right is $9.85. The fair value of the performance options and performance share rights will be determined at grant date.

The following table sets out details of shares owned and share options, performance options and performance share rights (collectively other equity-based instruments) held by the top seven senior executives in office at 30 September 2003. The options held do not include option grants in respect of 2003 remuneration review included in the above table for options that have not yet been issued as at 30 October 2003. The highest number of shares held by an individual is 0.02 percent of our total ordinary shares that were outstanding at 30 September 2003.

	Number of ordinary fully paid shares	Number of other equity based instruments	Exercise price $	Latest date for exercise of options
Ilana Atlas	11,318	94,186	10.75	3 March 2010
		100,000	13.67	23 April 2010
		200,000	14.70	9 January 2012
		124,381	13.59	20 January 2013
		35,081	Nil	20 January 2013
Philip Chronican	375,000	150,000	13.32	8 January 2011
		200,000	13.85	19 March 2011
		500,000	14.70	9 January 2012
		282,209	13.59	20 January 2013
		79,597	Nil	20 January 2013
David Clarke	61,303	954,540	12.39	4 September 2010
		100,000	13.32	8 January 2011
		950,000	12.75	5 November 2011
		428,540	13.59	20 January 2013
		120,870	Nil	20 January 2013
Philip Coffey	310,587	100,000	13.32	8 January 2011
		150,000	14.70	9 January 2012
		100,000	16.03	6 August 2012
		219,496	13.59	20 January 2013
		61,909	Nil	20 January 2013
Michael Coomer	17,246	300,000	15.73	7 March 2012
		198,591	13.59	20 January 2013
		56,013	Nil	20 January 2013
Michael Pratt		100,000	16.21	27 May 2012
		198,591	13.59	20 January 2013
		56,013	Nil	20 January 2013
Ann Sherry	83,024	45,000	10.85	1 March 2009
		98,000	10.60	6 April 2009
		35,000	9.57	29 December 2009
		250,000	13.32	8 January 2011
		300,000	14.70	9 January 2012
		177,687	13.59	20 January 2013
		50,116	Nil	20 January 2013

Ten year summary

	2003	2002	2001	2000	1999
	$m (unless otherwise indicated)				
Statement of financial performance year ended 30 September(1)					
Net interest income	**4,344**	4,146	4,051	3,669	3,476
Non-interest income	**2,986**	2,978	2,537	2,414	2,155
Net operating income	**7,330**	7,124	6,588	6,083	5,631
Total operating expenses excluding bad and doubtful debts	**(3,926)**	(3,995)	(3,570)	(3,503)	(3,434)
Operating profit before bad and doubtful debts and income tax expense	**3,404**	3,129	3,018	2,580	2,197
Bad and doubtful debts	**(485)**	(461)	(433)	(202)	(171)
Profit from ordinary activities before income tax expense	**2,919**	2,668	2,585	2,378	2,026
Income tax expense	**(728)**	(471)	(677)	(660)	(567)
Net profit attributable to outside equity interests	**(8)**	(5)	(5)	(3)	(3)
Profit from ordinary activities before abnormal items	**2,183**	2,192	1,903	1,715	1,456
Abnormal items (net of tax)(7)					
Net profit attributable to equity holders	**2,183**	2,192	1,903	1,715	1,456
Statement of financial position at 30 September(1)					
Total assets	**221,339**	191,037	189,845	167,618	140,220
Loans	**160,473**	135,870	122,250	107,533	97,716
Acceptances	**3,788**	4,788	15,700	15,665	10,249
Deposits and public borrowings	**129,071**	110,763	96,157	89,994	85,546
Loan capital	**4,544**	4,512	4,838	4,892	2,692
Total equity	**13,996**	10,468	9,705	9,262	8,997
Total risk weighted assets	**142,909**	128,651	127,242	114,816	102,592
Share information					
Earnings per share (cents):					
Before abnormals	**115.6**	118.3	102.8	88.8	77.0
After abnormals	**115.6**	118.3	102.8	88.8	77.0
Dividends per ordinary share (cents)	**78.0**	70.0	62.0	54.0	47.0
Net tangible assets per ordinary share ($)(2)	**4.97**	4.56	4.28	3.96	3.71
Share price ($):					
High	**17.14**	17.01	14.55	12.97	12.06
Low	**12.83**	13.11	11.87	9.16	8.36
Close	**16.20**	13.85	13.29	12.75	9.45
Ratios					
Total equity to total assets (%)	**6.3**	5.5	5.1	5.5	6.4
Total equity to total average assets (%)	**6.7**	5.6	5.4	5.8	6.4
Total capital ratio (%)(3)	**10.5**	9.6	9.9	9.9	9.2
Dividend payout ratio (%)	**67.5**	59.2	60.3	60.8	61.0
Return on average ordinary equity before abnormals (%)	**19.2**	21.7	21.1	18.4	16.8
Productivity ratio(4)	**3.99**	3.90	3.78	3.35	3.08
Total operating expenses to operating income ratio (%)	**53.6**	56.1	54.2	57.6	61.0
Net interest margin	**2.65**	2.80	3.11	3.10	3.25
Other information					
Points of bank representation (number at financial year end)(5)	**1,129**	1,371	1,347	1,375	1,625
Core full time equivalent staff (number at financial year end)(6)	**25,013**	23,637	27,088	29,510	31,731

For footnote explanations refer to next page.

	1998	1997	1996	1995	1994

	1998	1997	1996	1995	1994
	$m (unless otherwise indicated)				
Statement of financial performance year ended 30 September(1)					
Net interest income	3,492	3,353	3,254	2,982	2,761
Non-interest income	2,003	1,739	1,472	1,391	1,555
Net operating income	5,495	5,092	4,726	4,373	4,316
Total operating expenses excluding bad and doubtful debts	(3,392)	(3,228)	(3,049)	(2,654)	(2,637)
Operating profit before bad and doubtful debts and income tax expense	2,103	1,864	1,677	1,719	1,679
Bad and doubtful debts	(168)	(78)	(121)	(330)	(695)
Profit from ordinary activities before income tax expense and abnormal items	1,935	1,786	1,556	1,389	984
Income tax expense	(589)	(493)	(421)	(371)	(276)
Net profit attributable to outside equity interests	(4)	(2)	(3)	(3)	(3)
Profit from ordinary activities before abnormal items	1,342	1,291	1,132	1,015	705
Abnormal items (net of tax)(7)	(70)			(68)	
Net profit attributable to our equity holders	1,272	1,291	1,132	947	705
Statement of financial position at 30 September(1)					
Total assets	137,319	118,963	121,513	105,835	93,861
Loans	91,738	77,874	81,201	64,365	61,242
Acceptances	10,325	11,242	11,197	11,656	12,219
Deposits and public borrowings	83,164	72,636	74,886	58,198	54,925
Loan capital	2,523	1,895	2,199	2,881	2,929
Total equity	8,611	8,206	7,891	7,583	7,299
Total risk weighted assets	97,430	87,133	86,503	74,930	72,567
Share information					
Earnings per share (cents):					
Before abnormals	70.1	70.0	58.9	53.5	36.0
After abnormals	66.4	70.0	58.9	49.8	36.0
Dividends per ordinary share (cents)	43.0	39.0	33.0	28.0	18.0
Net tangible assets per ordinary share ($)(2)	3.59	3.69	3.39	3.81	3.67
Share price ($):					
High	11.45	9.10	6.59	5.51	5.55
Low	7.10	6.43	5.20	3.90	3.83
Close	9.28	8.70	6.54	5.36	4.20
Ratios					
Total equity to total assets (%)	6.3	6.9	6.5	7.2	7.8
Total equity to total average assets (%)	6.2	6.6	6.8	7.8	7.3
Total capital ratio (%)(3)	9.3	10.5	10.8	13.9	13.8
Dividend payout ratio (%)	64.8	55.7	56.0	56.2	50.0
Return on average ordinary equity before abnormals (%)	15.5	17.0	14.6	13.0	9.8
Productivity ratio(4)	3.22	2.90	2.63	2.86	3.01
Total operating expenses to operating income ratio (%)	61.7	63.4	64.5	60.7	61.1
Net interest margin	3.44	3.59	3.7	3.8	3.5
Other information					
Points of bank representation (number at financial year end)(5)	1,832	1,547	1,788	1,547	1,616
Core full time equivalent staff (number at financial year end)(6)	33,222	31,608	33,832	31,416	31,396

(1) The above statements of financial performance extracts for 2003, 2002 and 2001 and statements of financial position extract for 2003 and 2002 are derived from the consolidated financial statements included in this report, and for prior years are derived from financial statements previously published, each of which have been presented in accordance with Australian GAAP.

(2) After deducting preference equity and goodwill.

(3) For details on the calculation of this ratio refer to note 44 to the financial statements.

(4) Net operating income/ salaries and other staff expenses.

(5) As of 2003, business banking, agribusiness, private bank and financial planning centres all operate from our branch network and as such are no longer counted as separate points of representation.

(6) Core full time equivalent staff includes pro-rata part time staff and excludes unpaid absences (e.g. maternity leave) and excludes temporary staff and contractors.

(7) For reporting periods ending on or after 30 June 2001, we are no longer permitted (under Australian GAAP) to disclose abnormal items on the face of the statement of financial performance. Where a revenue or expense is of such a size, nature or incidence that its disclosure is relevant in explaining our financial performance, we are required to disclose its nature and amount on the face of the statement of financial performance or in the notes to the financial statements.

Annual financial report for the year ended 30 September 2003

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Westpac Banking Corporation and its controlled entities

Statements of financial performance

for the years ended 30 September

		Consolidated			Parent Entity	
	Note	2003 $m	2002 $m	2001 $m	2003 $m	2002 $m
Interest income	3	**10,024**	9,220	10,258	**9,992**	8,954
Interest expense	3	**(5,680)**	(5,074)	(6,207)	**(6,084)**	(5,445)
Net interest income		**4,344**	4,146	4,051	**3,908**	3,509
Non-interest income:						
Fees and commissions received		**2,515**	2,266	2,099	**2,692**	2,393
Fees and commissions paid		**(679)**	(560)	(485)	**(674)**	(547)
Proceeds from sale of assets		**642**	3,594	757	**494**	2,440
Carrying value of assets sold		**(625)**	(2,760)	(719)	**(478)**	(1,644)
Wealth management revenue		**1,293**	108	566		
Life insurance claims and change in policy liabilities		**(547)**	238	(51)		
Other non-interest income		**387**	92	370	**1,529**	215
Total non-interest income	4	**2,986**	2,978	2,537	**3,563**	2,857
Net operating income		**7,330**	7,124	6,588	**7,471**	6,366
Operating expenses excluding bad and doubtful debts:						
Salaries and other staff expenses		**(1,836)**	(1,829)	(1,744)	**(1,643)**	(1,685)
Equipment and occupancy expenses		**(596)**	(589)	(648)	**(547)**	(555)
Other expenses		**(1,494)**	(1,577)	(1,178)	**(1,639)**	(1,589)

		Consolidated			Parent Entity	
Total operating expenses excluding bad and doubtful debts	5	**(3,926)**	(3,995)	(3,570)	**(3,829)**	(3,829)
Operating profit before bad and doubtful debts and income tax expense		**3,404**	3,129	3,018	**3,642**	2,537
Bad and doubtful debts	13	**(485)**	(461)	(433)	**(481)**	(358)
Profit from ordinary activities before income tax expense		**2,919**	2,668	2,585	**3,161**	2,179
Income tax expense	6	**(728)**	(471)	(677)	**(542)**	(387)
Net profit		**2,191**	2,197	1,908	**2,619**	1,792
Net profit attributable to outside equity interests		**(8)**	(5)	(5)		
Net profit attributable to equity holders of Westpac Banking Corporation		**2,183**	2,192	1,903	**2,619**	1,792
Foreign currency translation reserve adjustment		**(156)**	(76)	74	**(147)**	(77)
Total revenues, expenses and valuation adjustments attributable to equity holders of Westpac Banking Corporation recognised directly in equity		**(156)**	(76)	74	**(147)**	(77)
Total changes in equity other than those resulting from transactions with owners as owners		**2,027**	2,116	1,977	**2,472**	1,715
Earnings per ordinary share (in cents) after deducting distributions on other equity instruments	1 (h)vi, 8					
Basic		**115.6**	118.3	102.8		
Fully diluted		**115.3**	117.9	102.4		

The accompanying notes, numbered 1 to 44, form part of these financial statements for the purpose of Australian reporting requirements.

A summary of significant adjustments to net profit attributable to equity holders of Westpac Banking Corporation, total equity, total assets and total liabilities that would be required if generally accepted accounting principles applicable in the United States (US GAAP) had been applied is disclosed in note 45.

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Westpac Banking Corporation and its controlled entities

Statements of financial position

as at 30 September

		Consolidated		Parent Entity	
	Note	2003 $m	2002 $m	2003 $m	2002 $m
Assets					
Cash and balances with central banks		**1,786**	1,669	**1,643**	1,656
Due from other financial institutions	9	**6,035**	5,242	**4,531**	3,543
Trading securities	10	**8,793**	10,643	**8,771**	10,643
Investment securities (Group market value $3,745 million, 2002 $3,216 million)	11	**3,656**	3,313	**1,767**	2,423
Loans	12	**160,473**	135,870	**154,918**	130,504
Acceptances of customers		**3,788**	4,788	**4,031**	5,013
Life insurance assets		**10,522**	7,566		
Regulatory deposits with central banks overseas		**425**	455	**410**	432
Due from controlled entities				**15,980**	11,190
Investments in controlled entities	38			**5,908**	7,030

		Consolidated		Parent Entity	
Goodwill	15	**2,558**	1,754	**1,297**	1,388
Fixed assets	16	**842**	815	**668**	661
Deferred tax assets	17	**1,019**	587	**864**	540
Other assets	18	**21,442**	18,335	**20,255**	17,806
Total assets		**221,339**	191,037	**221,043**	192,829
Liabilities					
Due to other financial institutions	19	**3,831**	4,731	**3,094**	4,708
Deposits and public borrowings	20	**129,071**	110,763	**128,722**	110,371
Debt issues	24	**29,970**	27,575	**18,866**	18,591
Acceptances		**3,788**	4,788	**4,031**	5,013
Current tax liabilities	21	**310**	537	**303**	577
Deferred tax liabilities	21	**246**	80	**208**	94
Life insurance policy liabilities		**9,896**	7,163		
Due to controlled entities				**22,847**	19,334
Provisions	22	**462**	1,093	**389**	1,049
Other liabilities	23	**25,225**	19,327	**24,079**	18,568
Total liabilities excluding loan capital		**202,799**	176,057	**202,539**	178,305
Loan capital					
Subordinated bonds, notes and debentures	24	**3,971**	3,795	**3,971**	3,795
Subordinated perpetual notes	24	**573**	717	**573**	717
Total loan capital		**4,544**	4,512	**4,544**	4,512
Total liabilities		**207,343**	180,569	**207,083**	182,817
Net assets		**13,996**	10,468	**13,960**	10,012
Equity					
Parent entity interest:					
Ordinary shares	25	**3,972**	3,503	**3,972**	3,503
Reserves		**(73)**	82	**(46)**	104
Retained profits		**7,343**	5,930	**7,271**	5,429
Convertible debentures	25			**2,252**	465
Perpetual capital notes	25			**511**	511
Total parent entity interest		**11,242**	9,515	**13,960**	10,012
Other equity interests:					
New Zealand Class shares	25	**471**	471		
Trust Originated Preferred Securities (TOPrS^{SM})	25	**465**	465		
Fixed Interest Resettable Trust Securities (FIRsTS)	25	**655**			
Trust Preferred Securities (TPS)	25	**1,132**			
Total other equity interests		**2,723**	936		
Total equity attributable to equity holders of Westpac Banking Corporation		**13,965**	10,451	**13,960**	10,012
Outside equity interests in controlled entities		**31**	17		
Total equity		**13,996**	10,468	**13,960**	10,012

Contingent liabilities and credit commitments 34

The accompanying notes, numbered 1 to 44, form part of these financial statements for the purpose of Australian reporting requirements.

A summary of significant adjustments to net profit attributable to equity holders of Westpac Banking Corporation, total equity, total assets and total liabilities that would be required if US GAAP had been applied is disclosed in note 45.

Westpac Banking Corporation and its controlled entities

Statements of changes in equity

for the years ended 30 September

		Consolidated			Parent Entity	
	Note	2003 $m	2002 $m	2001 $m	2003 $m	2002 $m
Contributed equity						
Ordinary shares						
Balance at beginning of year		**3,503**	1,751	1,776	**3,503**	1,751
Shares issued:						
Under the dividend reinvestment plan	25	**382**	17	18	**382**	17
Under employee share purchase and option schemes	25	**87**	10	13	**87**	10
Shares bought back	25		(25)	(56)		(25)
Transfer from share premium reserve (refer note 1 (a)i)			1,619			1,619
Transfer from capital redemption reserve (refer note 1 (a)i)			131			131
Balance at year end		**3,972**	3,503	1,751	**3,972**	3,503
New Zealand Class shares						
Balance at beginning of year	25	**471**	482	482		
Shares bought back	25		(11)			
Balance at year end		**471**	471	482		
Other equity instruments						
Trust Originated Preferred Securities (TOPrS)	25	**465**	465	465		
Fixed Interest Resettable Trust Securities (FIRsTS)						
Securities issued during the year	25	**667**				
Issue costs	25	**(12)**				
Balance at year end		**655**				
Trust Preferred Securities (TPS)						
Securities issued during the year	25	**1,145**				
Issue costs	25	**(13)**				
Balance at year end		**1,132**				
Convertible debentures	25					
Balance at beginning of year					**465**	465
Debentures issued during the year					**1,812**	
Issue costs					**(25)**	
Balance at year end					**2,252**	465

	Consolidated			Parent Entity	
Perpetual capital notes				**511**	511
Reserves(1)					
Reserve fund					
Balance at beginning of year		876	842		876
Transfer from retained profits			34		
Transfer to retained profits (refer note 1 (a)i)		(876)			(876)
Balance at year end			876		
Share premium reserve					
Balance at beginning of year		1,651	2,012		1,651
Premium on shares issued		340	336		340
Premium on shares bought back		(372)	(697)		(372)
Transfer to share capital (refer note 1 (a)i)		(1,619)			(1,619)
Balance at year end			1,651		

(1) A description of the nature and function of each reserve account is provided in note 1 (g)iv.

Westpac Banking Corporation and its controlled entities

Statements of changes in equity

for the years ended 30 September

		Consolidated			Parent Entity	
	Note	**2003 $m**	**2002 $m**	**2001 $m**	**2003 $m**	**2002 $m**
Premises revaluation reserve						
Balance at beginning of year			8	36	**16**	58
Transfer to retained profits of realised revaluation gains on sale of premises			(11)	(28)	**(6)**	(42)
Other adjustments			3			
Balance at year end				8	**10**	16
Capital redemption reserve						
Balance at beginning of year			135	135		131
Transfer to share capital (refer note 1 (a)i)			(131)			(131)
Other adjustments			(4)			
Balance at year end				135		
Foreign currency translation reserve						
Balance at beginning of year		**82**	149	74	**88**	162
Transfer from retained profits		**1**	9	1	**3**	3
Foreign currency translation reserve adjustment		**(156)**	(76)	74	**(147)**	(77)

	Note	Consolidated			Parent Entity	
Balance at year end		**(73)**	82	149	**(56)**	88
Total reserves		**(73)**	82	2,819	**(46)**	104
Retained profits						
Reported balance at previous year end		**5,930**	4,174	3,435	**5,429**	4,028
Change in accounting policy for providing for dividends		**651**			**631**	
Balance at beginning of year		**6,581**	4,174	3,435	**6,060**	4,028
Transfer from reserve fund (refer note 1 (a)i)			876			876
Aggregate of amounts transferred (to)/from other reserves		**(1)**	2	(7)	**3**	39
Net profit attributable to equity holders of Westpac Banking Corporation		**2,183**	2,192	1,903	**2,619**	1,792
Ordinary dividends provided for or paid	7	**(1,345)**	(1,266)	(1,106)	**(1,305)**	(1,228)
Distributions on other equity instruments	7	**(75)**	(48)	(51)	**(106)**	(78)
Balance at year end		**7,343**	5,930	4,174	**7,271**	5,429
Total equity attributable to equity holders of Westpac Banking Corporation at year end		**13,965**	10,451	9,691	**13,960**	10,012

A description of the nature and function of each reserve account is provided in note 1 (g)iv. The accompanying notes, numbered 1 to 44, form part of these financial statements for the purpose of Australian reporting requirements.

A summary of significant adjustments to net profit attributable to equity holders of Westpac Banking Corporation, total equity, total assets and total liabilities that would be required if US GAAP had been applied is disclosed in note 45.

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Westpac Banking Corporation and its controlled entities

Statements of cash flows

for the years ended 30 September

	Note	Consolidated			Parent Entity	
		2003 $m	**2002 $m**	**2001 $m**	**2003 $m**	**2002 $m**
Cash flows from operating activities						
Interest received		**9,948**	9,130	10,080	**9,948**	8,925
Interest paid		**(5,724)**	(5,269)	(6,461)	**(6,141)**	(5,528)
Dividends received excluding life business		**36**	27	51	**1,050**	363
Other non-interest income received		**4,151**	3,711	3,367	**4,001**	3,702
Operating expenses paid		**(3,318)**	(3,291)	(3,330)	**(3,045)**	(3,313)
Net (increase)/decrease in trading securities		**1,759**	(791)	(143)	**1,795**	(791)
Income tax paid excluding life business		**(1,131)**	(699)	(527)	**(870)**	(454)
Life business:						
Receipts from policyholders and customers		**2,958**	2,531	2,427		