

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)

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

OR

- 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

- 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

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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 No

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

Item 17 Item 18

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;

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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.

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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

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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;

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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.

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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).

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

(1)

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

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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 Performance Survey in Australia and New Zealand.

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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 (IBMUSA), 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).

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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

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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

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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						

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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 Resetable 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

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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

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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)

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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.

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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.

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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*.

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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.

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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.

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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.

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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.

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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.

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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)

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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).

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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:

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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)

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	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.

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- (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.

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Statement of financial performance review

	Reported Result		
	2003 \$m	2002 \$m	2001 \$m
Net Interest Income			
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
	2003 \$m	2002 \$m	2001 \$m
Increase/(decrease) in net interest income			
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;

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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.

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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 FIRTS 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.

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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		
	2018	2017	2016
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%).

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.

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

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	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)

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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%).

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Statement of financial position review

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

As at 30 September	Reported Result		
	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
	221,339	191,037	30,302
Total assets			
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
	207,343	180,569	26,774
Total liabilities	207,343	180,569	26,774
Total equity	13,996	10,468	3,528
	221,339	191,037	30,302
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.

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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 Resetable 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

As at 30 September	Reported Result		
	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.

As at 30 September	Reported Result		
	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		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
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).

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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

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our business banking sector, including the reacquisition of the equipment financing portfolio, following the disposal of our finance company AGC.

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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
	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.

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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
	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)
	(2,423)	(2,426)	(2,427)	(2,423)	(2,388)	(2,427)
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)
	1,702	2,220	1,489	1,702	1,596	1,489
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)
	1,178	1,742	953	1,178	1,107	953
Net profit attributable to equity holders	1,178	1,742	953	1,178	1,107	953

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	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

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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

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	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)

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	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.

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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

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	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.

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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

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	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.

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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

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	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

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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

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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:

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	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.

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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

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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

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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.

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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.

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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.

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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.

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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.

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Daily value at risk

Six months ended	30 September 2003			31 March 2003			30 September 2002		
	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.

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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.

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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.

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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

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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.

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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

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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;

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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;

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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.

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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.

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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)
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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.

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.

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:

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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

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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.

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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% ($50 + (10 \times 2)$) 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

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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;

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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)

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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

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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 <i>Guide to reporting on Principle 2</i> .	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

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	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 <i>Guide to reporting on Principle 3</i> .	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

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	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 <i>Guide to reporting on Principle 4</i> .	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 <i>Guide to reporting on Principle 5</i> .	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
7.2.2	6c)	Comply

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ASX Principle	Reference(1)	Compliance
7.3	4c), 4e)	Comply
Principle 8:		
8.1	3i), 4c) and "Remuneration and philosophy" section	Comply
Principle 9:		
9.1	7 and "Remuneration and philosophy" section	Comply
9.2	4g)	Comply
9.3	7 and "Remuneration and philosophy" section	Comply
9.4	1, 7 and "Remuneration and philosophy" section	Do not comply
9.5	4c), 4g), 7	Comply
Principle 10:		
10.1	8b), 8e)	Comply

(1)

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

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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

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	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.

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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

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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.

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- (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	

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(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.

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	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

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	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.

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	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

	Note	Consolidated			Parent Entity	
		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)

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		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

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		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 (TOPrSSM)	25	465	465		
Fixed Interest Resetable 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

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The accompanying notes, numbered 1 to 44, form part of these financial statements for the purpose of Australian reporting requirements.

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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 changes in equity

for the years ended 30 September

	Note	Consolidated			Parent Entity	
		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 Resetable 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						
Balance at beginning of year	25				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.

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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)

	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.

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		
Interest and other items of similar nature		119	58	138		
Dividends received		379	323	362		
Payments to policyholders and suppliers		(3,025)	(1,961)	(2,249)		
Income tax paid		(60)	(3)	(64)		
Net cash provided by operating activities	43	6,092	3,766	3,651	6,738	2,904

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	Consolidated			Parent Entity	
Cash flows from investing activities					
Proceeds from sale of investment securities	189	492	508	119	492
Proceeds from matured investment securities	1,260	335	139	713	333
Purchase of investment securities	(2,114)	(1,873)	(866)	(398)	(1,063)
Proceeds from securitised loans	247	2,472	202	247	2,472
Net (increase)/decrease in:					
Due from other financial institutions	(698)	(212)	(1,598)	(858)	1,140
Loans	(25,942)	(25,501)	(13,304)	(25,480)	(25,613)
Life insurance assets	(186)	(316)	134		
Regulatory deposits with central banks overseas	(58)	(19)	193	(55)	(17)
Due from controlled entities				(5,390)	(401)
Investments in controlled entities				(1,435)	(2,206)
Other assets	(1,497)	(967)	186	(1,238)	(620)
Purchase of fixed assets	(323)	(284)	(299)	(282)	(258)
Proceeds from disposal of fixed assets	85	262	171	71	192
Proceeds from disposal of other investments	8	246		8	40
Proceeds from repatriation of capital from controlled entities				2,567	
Controlled entities acquired, net of cash acquired	43	(823)	(328)	5	
Controlled entities and businesses disposed, net of cash held	43	360	2,136	296	1,716
Net cash used in investing activities	(29,492)	(23,557)	(14,485)	(31,115)	(23,793)
Cash flows from financing activities					
Issue of loan capital	1,679		350	1,679	
Redemption of loan capital	(978)		(813)	(978)	
Proceeds from issue of ordinary shares	87	91	110	87	91
Proceeds from issue of New Zealand Class shares			203		
Proceeds from issue of FIRsTS (net of issue costs \$12 million)	655			655	
Proceeds from issue of TPS (net of issue costs \$13 million)	1,132			1,132	
Buy-back of shares		(408)	(753)		(397)
Net increase/(decrease) in:					
Due to other financial institutions	(695)	(949)	1,799	(1,333)	(970)
Deposits and public borrowings	19,384	20,095	3,553	19,560	20,364
Debt issues	3,658	2,495	7,007	1,220	(316)
Due to controlled entities				3,513	3,806
Other liabilities	(368)	46	447	(143)	(28)
Payment of distributions and dividends	(1,038)	(977)	(836)	(1,029)	(959)
Payment of dividends to outside equity interests	(2)	(2)	(1)		
Net cash provided by financing activities	23,514	20,391	11,066	24,363	21,591
Net increase in cash and cash equivalents	114	600	232	(14)	702
Effect of exchange rate changes on cash and cash equivalents	3	(10)	11	1	4
Cash and cash equivalents at beginning of year	1,669	1,079	836	1,656	950
Cash and cash equivalents at year end	43	1,786	1,669	1,643	1,656

Details of the reconciliation of net cash provided by operating activities to net profit attributable to equity holders of Westpac Banking Corporation are provided in note 43. 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.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of significant accounting policies

- (a) Bases of accounting

i. General

This general purpose financial report has been prepared in accordance with the requirements for an authorised deposit-taking institution under the Banking Act 1959 (as amended), Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

In the year ended 30 September 2001, the financial report was also prepared in accordance with the provisions of the Deed of Settlement and the Bank of New South Wales Act of 1850 (as amended). 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 and the Bank of New South Wales Act 1850 (as amended) ceased to apply. On that date, Westpac's ordinary shares ceased to have a par value and the balances in the share premium reserve and capital redemption reserve (previously required to be held under the Deed of Settlement, but no longer required under Westpac's new constitution or permitted under the Corporations Act 2001) were transferred to the share capital account. In addition, the balance of the reserve fund was transferred to retained profits.

The financial report is drawn up in accordance with the historical cost convention, except where otherwise indicated. The carrying value of 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.

The accounting policies adopted are consistent with those of the previous year, unless otherwise indicated. Comparative information is restated where appropriate to enhance comparability.

The financial statements also include disclosures required by the United States Securities and Exchange Commission in respect of foreign registrants.

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although a system of internal control is in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates.

ii. Consolidation

The consolidated financial statements incorporate the assets and liabilities of all the entities controlled by the parent entity, Westpac Banking Corporation (Westpac), as at 30 September 2003 and the results of all controlled entities for the year then ended. Westpac and its controlled entities are referred to collectively as the "Group". The effects of all transactions between entities in the Group are eliminated.

Where controlled entities have been acquired or sold during the year, their results have been included to the date of disposal or from the date of acquisition. Controlled entities are listed in note 38.

iii. Acquisition of assets

Assets acquired including property, plant and equipment and intangibles, other than goodwill (refer note 1 (e)ix), are initially recorded at their cost of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Provisions for employee termination benefits and restructuring costs are recognised, or part thereof, on the basis described in the accounting policy for employee entitlements (refer note 1 (f)v) and restructuring (refer note 1 (f)viii).

iv. Currency

All amounts are expressed in Australian dollars except where otherwise indicated. Assets and liabilities of overseas branches and controlled entities have been translated to Australian dollars at the mid-point closing rates of exchange at balance date. Income and expenses of overseas branches and controlled entities have been translated at average daily rates of exchange prevailing during the year. In the financial statements of Westpac, exchange differences arising on translation of Westpac's net investment in overseas branches, after allowing for foreign currency hedges, are reflected in the foreign currency translation reserve.

In the consolidated financial statements, the foreign currency translation reserve also reflects exchange differences on translation of Westpac's net investment in overseas controlled entities after allowing for foreign currency hedges.

Exchange differences relating to foreign currency monetary items (other than those used to hedge the net investment in overseas branches and controlled entities) are included in the statement of financial performance as part of the operating results. Foreign currency liabilities are generally matched by assets in the same currency or by being swapped to the currency they are funding. The total amounts of unmatched foreign currency assets and liabilities and consequent foreign currency exposures are not significant.

(b)

Revenue recognition

i. Interest income

Interest income, including premiums and discounts on trading and investment securities, is brought to account on a yield to maturity basis. Interest relating to impaired loans is recognised as income only when received. When a loan is categorised as non-accrual, unpaid interest accrued since the last reporting date is reversed against interest income. Unpaid interest relating to prior reporting periods is either written off as a bad debt or specific provisions are made as necessary.

ii. Dividends on redeemable preference share finance

Dividend income on redeemable preference share finance is included as part of interest income and is recorded in the statement of financial performance on an accruals basis.

iii. Leasing

Finance leases are accounted for under the finance method whereby income is taken to account progressively over the life of the lease in proportion to the outstanding investment balance.

iv. Fees and commissions received

Fee income is brought to account on an accruals basis. Front end and establishment fees, if material, are segregated between cost recovery and risk margin, with the risk margin being taken to income over the period of the loan or other risk. The balance of front end fees and establishment fees represent the recovery of costs and are taken to income when receivable.

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v. Trading income

Gains and losses realised from the sale of trading securities and unrealised fair value adjustments are reflected in the statement of financial performance.

Both realised and unrealised gains and losses on trading derivative contracts are taken to the statement of financial performance.

vi. Other dividend income

Other dividend income is recorded as non-interest income as declared.

vii. Proceeds from the sale of fixed assets

Proceeds from the sale of fixed assets and the associated carrying value as at the date of sale are classified as non-interest income.

- (c) Expense recognition

i. Interest expense

Interest expense, including premiums or discounts and associated issue expenses incurred on the issue of securities, is brought to account on a yield to maturity basis.

ii. Bad and doubtful debts

Annual charge for bad and doubtful debts against profit reflects the movement in the general provision after allowing for transfers to or from specific provisions, write-offs and recoveries of debts previously written-off.

iii. Leasing

Operating lease payments are charged to the statement of financial performance in the periods in which they are incurred. Incentives received on entering into operating leases are recognised as liabilities and are charged to the statement of financial performance on a straight-line basis over the term of the lease.

iv. Fees and commissions paid

External commissions and other costs paid to acquire mortgage loans through brokers are capitalised. These capitalised expenses are amortised over the average life of the loans to which they relate, which is approximately four years.

v. Wealth management acquisition costs

Acquisition costs include the fixed and variable costs of acquiring new business principally in relation to the Group's life insurance and retail funds management business. Such costs are deferred and amortised where the business generated continues to be profitable. Deferred acquisition costs associated with life insurance business are recorded as a reduction in policy liabilities as required by AASB 1038 *Life Insurance Business* and are amortised in the statement of financial performance over the expected duration of the relevant policy sold. Deferred acquisition costs associated with the funds management business are recorded as an asset and are amortised in the statement of financial performance, on a straight-line basis over a period not exceeding the duration of the relevant product sold.

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- (d) Income tax

Tax effect accounting procedures under the liability method have been adopted whereby income tax expense for the year is matched with the accounting results after allowing for permanent differences. The tax effect of cumulative timing differences, which occur where items are included for income tax purposes in a period different from that in the financial statements, is shown in the provision for deferred income tax or future income tax benefit, as applicable. The timing differences have been measured using the tax rates expected to apply when the differences reverse.

The future income tax benefits arising from tax losses have been recognised only where the realisation of such benefits in future years is considered virtually certain (refer note 17).

- (e) Assets

i. Cash and balances with central banks

Cash and balances with central banks include cash at branches. They are brought to account at the face value or the gross value of the outstanding balance, where appropriate.

ii. Due from other financial institutions

Receivables from other financial institutions include loans, nostro balances, certificates of deposit and settlement account balances due from other financial institutions. They are brought to account at the gross value of the outstanding balance.

iii. Trading and investment securities

Trading securities are short and long term public, bank or other debt securities and equities, which are held for resale in day-to-day trading operations. Trading securities are recorded at their net fair value, generally based on quoted market prices or dealer quotes.

Investment securities are public and other debt securities, which are either intended to be held-to-maturity or are available-for-sale, but not actively traded. They are initially recorded at cost, and subsequently at cost adjusted for any premium or discount amortisation. Losses related to the permanent diminution in value of investment securities are recognised in the statement of financial performance and the recorded values of those securities adjusted accordingly in the statement of financial position. Gains and losses on the sale of investment securities are calculated using the specific identification method.

Any transfers of securities from the trading securities portfolio to the investment securities portfolio are effected at the market value of the securities at the date of transfer. Where there is no ready market in certain unlisted semi-government securities, market values are assessed by reference to interest yields.

Repurchase and reverse repurchase agreements: securities sold under agreements to repurchase (repurchase agreements) are retained within the trading or investment portfolio and the obligation to repurchase is included in the statement of financial position under "other liabilities"; securities purchased under agreements to resell (reverse repurchase agreements) are included in the statement of financial position under "other assets".

Trade date accounting: trading and investment securities are accounted for on a trade date basis. Amounts receivable for securities sold but not yet delivered are included in the statement of financial position under "other assets" as shown in note 18. Amounts payable for securities purchased but not yet delivered are included in the statement of financial position under "other liabilities" as shown in note 23.

Securities sold short: short trading positions are included in the statement of financial position under "other liabilities" as shown in note 23.

iv. Loans, advances and other receivables

Loans, advances and other receivables include overdrafts, home loans, credit card and other personal lending, term loans, leasing, bill financing, redeemable preference share finance and leveraged leases. They are carried at their recoverable amount represented by the gross value of the outstanding balance adjusted for the provision for bad and doubtful debts and unearned income.

Security is obtained if, based on an evaluation of the customer's credit worthiness, it is considered necessary for the customer's overall borrowing facility. Security would normally consist of assets such as cash deposits, receivables, inventory, plant and equipment, real estate and investments.

Provision for bad and doubtful debts

All known bad debts are written off against the provision in the year in which they are classified as irrecoverable. Bad debts, in respect of which no specific provision has been established, are written off against the general provision. Credit card and certain other consumer loan balances are normally written off when a payment is 180 days in arrears.

A specific provision is raised as soon as a loan has been identified as doubtful and when the estimated repayment realisable from the borrower is likely to fall short of the amount of principal and interest outstanding. Such loans are treated as impaired assets and are included in note 14.

A general provision is maintained to cover expected losses inherent in the existing overall credit portfolio (including off-balance sheet exposures), which are not yet identifiable. In determining the level of general provision, reference is made to historical experience, business conditions, the composition of the portfolio, industry best practices and publicly available default data.

Impaired assets

The Group has disclosed in note 14 components of its loan portfolio that have been classified as impaired assets. In determining the impairment classification, the Group has adopted the Australian Prudential Regulation Authority (APRA) guidelines for classifying impaired assets, which consist of the following broad categories:

Non-accrual assets are assets where income may no longer be accrued ahead of its receipt because reasonable doubt exists as to the collectability of principal or interest. This includes exposures where contractual payments are 90 or more consecutive days in arrears, where security is insufficient to ensure payment and assets acquired through security enforcement.

Restructured assets are assets where the original contractual terms have been formally modified to provide for concessions of interest or principal for reasons related to the financial difficulties of the customer.

The Group also discloses interest received and estimated interest foregone during the year on the above non-accrual and restructured assets.

Where repayment of a loan is dependent upon the sale of property held as security, the estimated realisable value of the loan is based on the current market value of the property, being the amount that would be realisable from a willing buyer to a willing seller, allowing a period of up to 12 months from commencement of selling to settlement.

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v. Acceptances of customers

The exposure arising from the acceptance of bills of exchange that are sold into the market is brought to account as a liability. A contra asset, "acceptances of customers", is recognised to reflect the Group's claim against each drawer of the bills.

Bills that have been accepted by the Group and are held in its own portfolio are included in the statement of financial position under "loans" as shown in note 12.

vi. Regulatory deposits

In several countries in which the Group operates, the law requires that regulatory deposits be lodged with the local central bank at a rate of interest generally below that prevailing in the market. The amount of the deposit and the interest rate receivable are determined in accordance with the requirements of the local central bank.

vii. Investments in controlled entities and other investments

Investments in controlled entities are initially recorded by Westpac in the statement of financial position at cost. Investments in controlled entities are written down to recoverable amounts where appropriate.

Other investments which principally comprise unlisted shares in other companies, as shown in note 18 and detailed in note 39, are generally held as long term investments and are recorded at cost unless otherwise stated. Proceeds from the sale and the associated carrying value as at the date of the sale are classified as non-interest income.

viii. Life insurance assets

Assets held by the life insurance company, including investments in controlled entities, are initially recorded at cost and then adjusted to net market value at each balance date. Net market value adjustments are included in the statement of financial performance. Most assets are held in the life insurance statutory funds and can only be used within the restrictions imposed under the *Life Insurance Act 1995*. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund or as distribution when solvency and capital adequacy requirements are met.

ix. Goodwill

Goodwill is 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. Goodwill is amortised on a straight-line basis over 20 years, which is consistent with the minimum period of expected benefits. The carrying value of goodwill is reviewed every six months for impairment. If the carrying value of goodwill exceeds the value of the expected future benefits, the difference is expensed in the statement of financial performance.

x. Fixed assets

Premises and sites are carried at cost less accumulated depreciation. Write-downs to recoverable value are recognised as an expense in the statement of financial performance. Independent valuations of premises and sites are obtained every three years with the most recent valuation undertaken in July 2001.

Depreciation of buildings is calculated on a straight-line basis at rates appropriate to their estimated useful life, up to 67 years. The calculation is based on their original cost. The cost of improvements to leasehold premises is capitalised and amortised over the term of the initial lease, but not exceeding ten years.

Furniture and equipment are shown at cost less accumulated depreciation, which is calculated on a straight-line basis at rates appropriate to their estimated useful life, ranging from three to 15 years.

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Internal and external costs directly incurred in the purchase or development of computer software, including subsequent upgrades and enhancements, are capitalised. Capitalised software is amortised over its expected life, which is usually three years but no greater than five years. Costs incurred on computer software maintenance are expensed as incurred.

(f) Liabilities

i. Due to other financial institutions

Due to other financial institutions includes deposits, vostro balances and settlement account balances due to other financial institutions. They are brought to account in the statement of financial position at the gross value of the outstanding balance.

ii. Deposits and public borrowings

Deposits and public borrowings include non-interest bearing deposits repayable at call, certificates of deposit, interest bearing deposits, debentures and other funds raised publicly by a former controlled entity borrowing corporation. They are brought to account in the statement of financial position at the gross value of the outstanding balance.

iii. Debt issues and loan capital

These are bonds, notes, commercial paper and debentures that have been issued by the Group and are recorded at cost, at cost adjusted for premium, or discount amortisation. Premiums or discounts, and associated issue expenses have been deferred and are being amortised to income over the life of the respective bonds or notes. Loan capital includes subordinated bonds, notes and debentures that qualify as tier 2 capital as defined by APRA for capital adequacy purposes.

iv. Life insurance policy liabilities and Margin on Services

Life insurance policy liabilities are calculated in accordance with the principles of "Margin on Services" (MOS) methodology as set out in Actuarial Standard 1.03 "Valuation of Policy Liabilities" issued by the Life Insurance Actuarial Standards Board and in accordance with AASB 1038.

v. Employee entitlements

Wages and salaries and sick leave

Liabilities for wages and salaries, including non-monetary benefits, and accumulating sick leave are recognised in other liabilities in respect of employee's services and are measured at the amounts expected to be paid when the liabilities are settled.

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No provision is made for non-vesting sick leave as the pattern of sick leave taken indicates that no additional liability will arise for non-vesting sick leave.

Annual leave and long service leave

Obligations for annual leave and long service leave expected to be settled within 12 months of year end are recognised and measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for long service leave, annual leave and other deferred employee benefits expected to be settled more than 12 months from year end are recognised and measured at the present value of expected future payments expected to be made in respect of services provided by employees up to year end. Consideration is given to expected future wage and salary levels, experience of employee departure and periods of service. Expected future payments are discounted to their net present value using rates on Commonwealth Government securities with terms that match as closely as possible the estimated timing of future cash flows.

Employee benefit on-costs

A liability is carried for on-costs, including payroll tax, in respect of provisions for certain employee benefits which attract such costs.

Termination benefits

Liabilities for termination benefits, not in connection with the acquisition of an entity or operation, are recognised when a detailed plan for the terminations has been developed and a valid expectation has been raised in those employees affected that the terminations will be carried out. The liabilities for termination benefits are recognised in other creditors unless the amount or timing of the payment is uncertain, in which case they are recognised as provisions.

Liabilities for termination benefits relating to an acquired entity or operation that arise as a consequence of acquisitions are recognised as at the date of acquisition if, at or before the acquisition date, the main features of the terminations were planned and a valid expectation had been raised in those employees affected that the termination would be carried out and this is supported by a detailed plan developed within three months of the acquisition or prior to the completion of the financial report, if earlier. These liabilities are disclosed in aggregate with other restructuring costs as a consequence of the acquisition.

Liabilities for termination benefits expected to be settled within 12 months are measured at the amounts expected to be paid when they are settled. Amounts expected to be settled more than 12 months from the reporting date are measured as the estimated cash outflows, discounting using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future payments, where the effect of discounting is material.

vi. Provision for dividends

In order to comply with AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets*, Westpac changed its accounting policy for providing for dividends with effect from 1 October 2002. Provision for dividends are now only made for any dividends declared, determined or publicly recommended by the Directors on or before the end of the financial year but not distributed as at balance date. Refer to note 1 (h)vii for details of the change in accounting policy.

vii. Provision for leasehold premises

The provision for leasehold premises covers net outgoings on certain unoccupied leased premises or sub-let premises where projected rental income falls short of rental expense. The liability is determined on the basis of the present value of net future cash flows.

viii. Provision for restructuring

A provision for restructuring on acquisition is recognised where there is a demonstrable commitment and a detailed plan such that there is little or no discretion to avoid payments to other parties and the amount can be reliably estimated. The provisions relating to costs associated

with an acquired entity are taken into account in measuring the fair value of the net assets acquired.

Other provisions for restructuring are only recognised when a detailed plan has been approved and the restructuring has either commenced or been announced. Costs relating to ongoing activities are not provided for.

Reversals of part or all of a provision for restructuring relating to an acquisition because the costs are no longer expected to be incurred as planned, are adjusted against goodwill.

(g)
Equity

i. Ordinary shares

Ordinary shares are recognised at the amount paid up per ordinary share. Following Westpac's change in incorporation in August 2002, Westpac's ordinary shares ceased to have a par value and the balances in the share premium reserve and capital redemption reserve were transferred to the share capital account.

ii. New Zealand Class shares

New Zealand Class shares have been recognised as the total of the first instalment received and the present value of the second instalment on issue date, net of issue costs. A detailed description of New Zealand Class shares is provided in note 25.

iii. Other equity instruments

Trust Originated Preferred Securities (TOPrS), Fixed Interest Resettable Trust Securities (FIRsTS), Trust Preferred Securities (TPS), convertible debentures and perpetual capital notes are recognised in the statement of financial position at the amount of consideration received, net of issue costs. The TOPrS, FIRsTS, TPS and the convertible debentures are translated into Australian currency using the rate of exchange on issue date. Distributions on the TOPrS, FIRsTS, TPS, convertible debentures and perpetual capital notes are recognised when entitlements are determined in accordance with the terms of each issue. A description of TOPrS, FIRsTS, TPS, convertible debentures and perpetual capital notes is provided in note 25.

iv. Reserves

Reserve fund: the former Deed of Settlement required that each year not less than 5% of Westpac's net profit for the year, be transferred to the reserve fund, until the fund was at a level equal to half of the paid-up capital. The reserve fund was not to be used for payments of dividends, but could be used to provide for occasional losses. Following the change in Westpac's incorporation, the balance of the reserve fund was transferred to retained profits.

Share premium reserve: in prior years, all premiums on the issue of new shares were credited, and premiums on shares bought back were debited, to the share premium reserve. The share premium reserve was available for the payment of dividends only where such dividends were satisfied by the issue of shares, fully paid, to shareholders. Following the change in Westpac's incorporation, the balance of the share premium reserve was transferred to the ordinary share capital account.

Premises revaluation reserve: comprises unrealised revaluation increases and decreases for premises and sites. Following the change in accounting policy for premises and sites in the year ended 2001 no further valuation adjustments will be taken to this reserve. The balance of the reserve has been transferred to retained profits as premises and sites are disposed of and gains are realised. The net unrealised gains reflected in this reserve would not normally be regarded as being available for payment of dividends until such gains are realised.

Capital redemption reserve: in accordance with the requirements of the former Deed of Settlement, \$131 million was transferred in 1995 from retained profits to the capital redemption reserve upon redemption of 131.2 million preference shares. This reserve was not available for the payment of dividends. Following the change in Westpac's incorporation, the balance of the capital redemption reserve was transferred to the ordinary share capital account.

Foreign currency translation reserve: as mentioned in note 1 (a)iv, exchange differences arising on translation of the net investment in overseas branches and controlled entities are reflected in the foreign currency translation reserve. Any offsetting gains or losses on hedging these balances, together with any tax effect are also reflected in this reserve, which may be either a debit or credit balance. Any credit balance in this reserve would not normally be regarded as being available for payment of dividends until such gains are realised.

(h)

Other accounting principles and policies

i. Superannuation costs

Contributions, as specified in the rules of the respective defined benefit and defined contribution schemes, are made as required by Westpac or the respective controlled entity.

Actuarially assessed surpluses in the Group's principal defined benefit employee superannuation schemes are recognised in the statement of financial position, representing a prepayment of contributions to the scheme (refer note 18). When the actuarial surplus in a principal employee superannuation scheme is initially recognised by the Group, it is recognised in the statement of financial performance.

For the Group's defined benefit superannuation schemes, the cost recognised in the statement of financial performance comprises the current service cost, an interest cost and an expected return on plan assets. In addition, actuarial gains or losses which result from annual actuarial valuations, which exceed 10% of the greater of the present value of the defined benefit plan's obligations or the market value of the defined benefit plan assets, are spread on a straight-line basis over the expected remaining service period of members of the respective schemes.

Superannuation costs for the Group's defined contribution schemes are recognised in the statement of financial performance and comprise contributions made by the Group.

ii. Employee option and share ownership schemes

Certain employees are entitled to participate in option and share ownership schemes. Details of the schemes are described in note 26.

Fair values have been ascribed to share options, performance options and performance share rights in accordance with Australian Securities and Investment Commission (ASIC) guidelines issued in June 2003 and are included in the amounts disclosed for remuneration of directors and executive officers in notes 41 and 42, where applicable. 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 fair value is apportioned over the period from grant date to vesting date in determining the amounts to be disclosed in remuneration.

No remuneration expense has been recognised in the statement of financial performance in respect of share options, performance options and performance share rights granted to employees. An estimate of this expense is disclosed in note 5.

The excess in Westpac's share price over the exercise price of stock appreciation rights that have vested is recognised as a liability. Any change in the liability is charged to the statement of financial performance.

iii. Derivative financial instruments

Trading

The positive or negative net fair values of trading derivative financial instruments are included in the statement of financial position under "other financial markets assets" and "other financial markets liabilities" respectively, as shown in notes 18 and 23.

Traded derivative financial instruments including forwards, futures, options, forward purchases and sales of securities, entered into for trading purposes are valued at prevailing market rates. Interest rate and currency swap agreements are valued at their net present value after allowance for future costs and risk exposures.

Hedging

Foreign exchange and interest rate forwards, futures, swaps and options entered into for hedging purposes are accounted for in a manner consistent with the accounting treatment of the underlying hedged item. To qualify as a hedge, the swap, forward, futures or option position must be designated as a hedge and be effective in reducing the market risk of an existing asset, liability, firm commitment, or anticipated transaction where there is a high probability of the transaction occurring and the extent, term and nature of the exposure is capable of being estimated. Effectiveness of the hedge is evaluated on an initial and ongoing basis by comparing the correlation of the change in market or fair value of the hedge with the change in value of the hedged item.

If a hedge contract is terminated early, any resulting gain or loss is deferred and amortised over the periods corresponding to the hedged item. Where the hedged item ceases to exist, the corresponding derivative hedge contract is settled, redesignated or closed out and any resulting unrecognised gains and losses are recorded in the statement of financial performance.

iv. Loan securitisation

The Group, through its loan securitisation program, packages and sells loans (principally housing mortgage loans) as securities to investors. In such transactions the Group receives fees for various services provided to the program on an arm's length basis, including servicing fees, management fees and trustee fees. These fees are recognised over the period in which the relevant costs are borne. The Group also provides arm's length interest rate swaps and liquidity facilities to the program in accordance with APRA Prudential Guidelines. In addition, the Group may receive residual income, comprising mortgage loan interest (net of swap payments) not due to the investors less trust expenses.

The timing and amount of the swap cash flows and the residual income cannot be reliably measured because of the significant uncertainties inherent in estimating future repayment rates on the underlying mortgage loans and the mortgage loan interest margins. Consequently, the swaps and the residual income receivable are not recognised as assets and no gain is recognised when loans are sold. The swap income/expense and residual income are therefore recognised when receivable/payable. The residual income is included in other non-risk fee income as profit on the sale of loans.

v. Funds management and trust activities

Certain controlled entities within the Group conduct investment management and other fiduciary activities as responsible entity, trustee, custodian or manager on behalf of individuals, trusts, retirement benefit plans and other institutions. These activities involve the management of assets in investment schemes and superannuation funds, and the holding or placing of assets on behalf of third parties. These assets are not included in the consolidated financial statements.

Where controlled entities, as responsible entities or trustees, incur liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. As these assets are sufficient to cover liabilities, and it is not probable that the controlled entities will be required to settle them, the liabilities are not included in the consolidated financial statements.

The Group also manages life insurance statutory fund assets that are included in the consolidated financial statements, refer note 1 (e)viii. As at 30 September 2003, the total value of assets under discretionary management by the Group was approximately \$45.2 billion (2002 \$33.0 billion), including \$36.1 billion (2002 \$26.2 billion) that have not been included in the consolidated financial statements.

vi. Earnings per share

Basic earnings per share is determined by dividing net profit after tax attributable to equity holders of Westpac Banking Corporation, excluding costs of servicing other equity instruments, by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares. The number of ordinary shares assumed to be issued for no consideration represents the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price.

*vii. Changes in accounting policy 2003**Providing for dividends*

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 as at balance date.

The above policy was adopted with effect from 1 October 2002 to comply with the new Australian accounting standard AASB 1044 *Provisions, Contingent Liabilities and Contingent Assets*. In previous reporting periods, in addition to providing for any 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 (parent entity \$631 million) 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 (parent entity \$631 million) with corresponding increases in net assets, retained profits, total equity and the total dividends provided for or paid during the current financial year.

The restatement of consolidated and parent entity retained profits, provisions and total dividends provided for or paid during the year set out below show the information that would have been disclosed had the new accounting policy always been applied.

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	Consolidated			Parent Entity	
	2003 \$m	2002 \$m	2001 \$m	2003 \$m	2002 \$m
		(Restated)	(Restated)		(Restated)
Restatement of retained profits					
Reported retained profits at the end of the previous financial year	5,930	4,174	3,435	5,429	4,028
Change in accounting policy for providing for dividends	651	577	512	631	560
Restated retained profits at the beginning of year	6,581	4,751	3,947	6,060	4,588
Net profit attributable to equity holders of Westpac Banking Corporation	2,183	2,192	1,903	2,619	1,792
Total available for distribution	8,764	6,943	5,850	8,679	6,380
Transfer from reserve fund		876			876
Aggregate of amounts transferred (to)/from other reserves	(1)	2	(7)	3	39
Restated dividends provided for or paid	(1,345)	(1,192)	(1,041)	(1,305)	(1,157)
Distributions on other equity instruments	(75)	(48)	(51)	(106)	(78)
Restated retained profits at year end	7,343	6,581	4,751	7,271	6,060
Restatement of dividends provided for or paid					
Reported dividends provided or paid during the year	1,345	1,266	1,106	1,305	1,228
Adjustment for change in accounting policy		(74)	(65)		(71)

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	Consolidated			Parent Entity	
Restated dividends provided for or paid during the year	1,345	1,192	1,041	1,305	1,157
Restatement of liabilities provisions					
Reported carrying amount	462	1,093	1,038	389	1,049
Adjustment for change in accounting policy		(651)	(577)		(651)
Restated carrying amount provisions	462	442	461	389	398

Employee option and share ownership schemes

For the year ended 30 September 2003, the Group has applied the guidelines issued by ASIC in June 2003 (*Valuing options for directors and executives*) in disclosing the remuneration of its 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 the Group's 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. Comparatives, where applicable, have been restated to present the comparative amounts on a consistent basis with the current period.

viii. Changes in accounting policy 2002

Wealth management acquisition costs

In prior years, the Group expensed acquisition costs associated with its life insurance and funds management activities as incurred. These costs were generally incurred by a controlled entity of the life company, and hence were reported on a market value basis in accordance with AASB 1038. The accounting treatment for acquisition costs did not impact the reported results of the Group's wealth management business in a market value accounting environment.

During September 2002, the Group's wealth management business was restructured. The restructure included transferring ownership of the controlled entity of the life company to a non-life company and accordingly, into an accrual accounting environment (as at 30 September 2002, the Group's life company did

not have an investment in any controlled entities). As a consequence, the Group changed its accounting policy in respect of acquisition expenses, such that acquisition expenses for profitable business were deferred and amortised over a period not exceeding the expected duration of the relevant product or policy sold. 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 from 1 October 2001 the Group recognised 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 for the year ended 30 September 2001.

Superannuation

Effective from 1 October 2001, the Group changed its accounting policy in respect of superannuation to adopt the principles of IAS 19 *Employee Benefits*. The Group's previous superannuation accounting policy was based on the principles of UK accounting standard SSAP 24 *Accounting for Pension Costs*. The Group's 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, the Group adopted the principles of IAS 19.

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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 were not restated, as it was not practical to do so.

Capitalised expenses

Start-up costs in relation to the outsourcing of technology operations and mortgage processing activities have previously been capitalised and amortised over a period not exceeding the life of the outsourcing contracts. Effective 1 October 2001, the accounting policy for outsourcing start-up costs was changed so that such costs are now expensed as incurred. The new policy was adopted to provide greater transparency of the Group's cost base and greater reliability in measuring the Group's 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 to 30 September 2002 a further \$92 million was expensed relating to current year start-up costs. Had this new accounting policy always been applied, additional start-up costs of \$44 million would have been recognised for the year ended 30 September 2001.

Earnings per share

Revised Australian accounting standard AASB 1027 *Earnings Per Share* has been applied from the year ended 30 September 2002. The standard introduced 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 earnings per share. Comparatives, where applicable were restated to present the comparative amounts on a consistent basis.

ix. Recent accounting developments

In July 2002, the Financial Reporting Council (FRC) of Australia formally announced the adoption of International Financial Reporting Standards (IFRS) for all Australian reporting entities for financial years beginning on or after 1 January 2005. The Group's 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 of adoption of IFRSs on the Group's future results.

The application of revised Australian accounting standard AASB 1020 *Income Taxes*, has been deferred in line with the announcement by the FRC to adopt IFRS in 2005. The revised standard will now apply to the Group from 1 October 2005. The Group does not currently expect to elect to adopt this standard early.

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Its application is not expected to significantly affect the Group's deferred tax balances or income tax expense when adopted.

x. Rounding of amounts

In accordance with ASIC Class Order 98/0100, all amounts have been rounded to the nearest million dollars unless otherwise stated.

Note 2. Revenue

	Consolidated			Parent Entity	
	2003 \$m	2002 \$m	2001 \$m	2003 \$m	2002 \$m
Revenue from operating activities					
Interest income	10,024	9,220	10,258	9,992	8,954

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	Consolidated			Parent Entity	
Fees and commissions received	2,515	2,266	2,099	2,692	2,393
Proceeds from sale of investment securities	189	492	508	119	492
Wealth management revenue	1,293	108	566		
Other income	387	92	370	1,529	215
Total revenue from operating activities	14,408	12,178	13,801	14,332	12,054
Revenue from outside the operating activities					
Proceeds from sale of fixed assets	85	262	171	71	192
Proceeds from sale of controlled entities and businesses	360	2,594	76	296	1,716
Proceeds from sale of other investments	8	246	2	8	40
Total revenue from outside the operating activities	453	3,102	249	375	1,948
Total revenue	14,861	15,280	14,050	14,707	14,002

Note 3. Interest

	Consolidated			Parent Entity	
	2003 \$m	2002 \$m	2001 \$m	2003 \$m	2002 \$m
Interest income					
Loans	8,818	8,138	9,081	8,781	7,413
Deposits with other financial institutions	291	210	230	178	184
Trading securities	418	474	506	418	472
Investment securities	187	140	195	107	129
Regulatory deposits with central banks overseas	6	8	29	6	8
Dividends on redeemable preference share finance	295	244	209		
Controlled entities				493	743
Other	9	6	8	9	5
Total interest income	10,024	9,220	10,258	9,992	8,954
Interest expense					
Current and term deposits	4,509	3,600	3,755	4,479	3,579
Deposits from other financial institutions	130	179	288	129	178
Debt issues	829	924	1,412	658	715
Public borrowings by controlled entity borrowing corporations		152	345		
Loan capital	157	201	351	157	201
Controlled entities				609	756
Other	55	18	56	52	16
Total interest expense	5,680	5,074	6,207	6,084	5,445

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Note 4. Non-interest income

Consolidated Parent Entity

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	Consolidated			Parent Entity	
	2003 \$m	2002 \$m	2001 \$m	2003 \$m	2002 \$m
Fees and commissions received					
Lending fees (loan and risk)	764	737	682	761	734
Transaction fees and commissions received	1,479	1,284	1,208	1,465	1,255
Service and management fees	16	7	5	83	91
Other non-risk fee income(1)	256	238	204	383	313
Total 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					
Fixed assets	85	262	171	71	192
Investment securities	189	492	508	119	492
Controlled entities and businesses	360	2,594	76	296	1,716
Other investments	8	246	2	8	40
Total proceeds from sale of assets	642	3,594	757	494	2,440
Carrying value of assets sold					
Fixed assets	(76)	(232)	(167)	(61)	(138)
Investment securities	(189)	(491)	(507)	(119)	(491)
Controlled entities and businesses	(358)	(1,843)	(43)	(296)	(978)
Other investments	(2)	(194)	(2)	(2)	(37)
Total carrying value of assets sold	(625)	(2,760)	(719)	(478)	(1,644)
Wealth management operating income					
Wealth management revenue	1,293	108	566		
Life insurance claims and change in policy liabilities	(547)	238	(51)		
Total wealth management operating income	746	346	515		
Other income					
Trading income:					
Foreign exchange income	261	234	317	239	219
Trading securities	7	1	23	7	1
Other financial instruments	(1)	(12)	(66)	4	15
Rental income	10	10	11	5	3
General insurance commissions and premiums earned (net of claims)	85	71	48	17	11
Dividends received from controlled entities				1,014	153
Dividends received from other entities	36	27	51	36	26
Cost of hedging overseas operations	(52)	(30)	(17)	(58)	(25)
Write-down in investment securities		(199)			(199)
Other	41	(10)	3	265	11
Total other income	387	92	370	1,529	215
Total non-interest income	2,986	2,978	2,537	3,563	2,857
Wealth management operating income comprised					
Premium income and management fees(2)	433	317	260		
Funds management income	354	223	184		
Claims expenses (net of recoveries)	(131)	(84)	(85)		
Investment revenue	506	(171)	(11)		
Life insurance policy liabilities expense	(411)	328	40		

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	Consolidated			Parent Entity	
	(5)	(6)	(6)		
Amortisation of business in force					
Operating income	746	607	382		
Change in excess of net embedded value over net assets of life insurance controlled entities before tax(3)		(261)	133		
Total wealth management operating income	746	346	515		

- (1) This included \$25 million received as residual income and classified as profit on sale of housing loans pursuant to the securitisation program (2002 \$20 million, 2001 \$26 million).
- (2) This included a charge of \$7 million (2002 \$47 million, 2001 \$41 million) in respect of income tax on policyholders' earnings.
- (3) The charge of \$261 million in 2002 is related to the restructure of Westpac's wealth management business, and is partially offset by the reinstatement of deferred acquisition costs of \$119 million following the change in accounting policy relating to wealth management acquisition costs (refer to note 1 (h)viii). The deferred acquisition costs have been included in "Life insurance policy liabilities" in accordance with AASB 1038 where they relate to Westpac's life business, and "deferred expenditure" (refer note 18) where they relate to Westpac's funds management business. The net charge to the Group as the result of the change in wealth management accounting in 2002 was \$142 million before tax.

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Note 5. Operating expenses excluding bad and doubtful debts

	Consolidated			Parent Entity	
	2003 \$m	2002 \$m	2001 \$m	2003 \$m	2002 \$m
Salaries and other staff expenses					
Salaries and wages	1,345	1,226	1,287	1,157	1,064
Employee entitlements	118	114	117	101	99
Superannuation expense(1)	108	250	23	104	250
Payroll tax	83	70	74	69	58
Fringe benefits tax	27	30	36	24	28
Restructuring costs(2)	39	45	72	38	42
Other	116	94	135	150	144
Total salaries and other staff expenses	1,836	1,829	1,744	1,643	1,685
Equipment and occupancy expenses					
Operating lease rentals	239	245	282	240	258
Depreciation and amortisation:					
Premises and sites	3	4	11	1	2
Leasehold improvements	32	29	31	22	21
Furniture and equipment	53	54	49	44	46
Computer software and technology	162	186	204	148	168
Equipment repairs and maintenance	55	44	55	48	40
Electricity, water and rates	8	7	5	4	4

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	Consolidated			Parent Entity	
Land tax	8	1	2	8	1
Restructuring costs(2)		6			6
Other	36	13	9	32	9
Total equipment and occupancy expenses	596	589	648	547	555
Other expenses					
Amortisation of goodwill (refer note 1 (e)ix)	163	100	98	98	95
Amortisation of deferred expenditure (refer note 18)	14	27	22	9	22
Non-lending losses	63	77	58	73	75
Consultancy fees, computer software maintenance and other professional services	338	213	298	265	169
Stationery	78	86	91	65	72
Postage and freight	102	107	74	90	93
Telecommunication costs	19	33	58	14	27
Insurance	17	12	11	16	12
Advertising	88	69	89	74	67
Transaction taxes	4	4	10	2	4
Training	21	19	15	20	18
Travel	53	48	51	47	43
Outsourcing costs including start-up costs(3)	499	626	276	483	600
Restructuring costs(2)	1	86		1	86
Other	34	70	27	382	206
Total other expenses	1,494	1,577	1,178	1,639	1,589
Total operating expenses excluding bad and doubtful debts	3,926	3,995	3,570	3,829	3,829

- (1) This included a \$221 million superannuation prepayment adjustment in 2002 relating to the adoption of the principles of IAS 19 (refer note 1 (h)viii).
- (2) Restructuring costs in 2002 included integration costs of \$86 million relating to the Group's wealth management business.
- (3) This included \$136 million in 2002 relating to the start-up costs of the Group's information technology and telecommunications agreement.

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Fair value of share options, performance options and performance share rights not recognised as an expense:

	Consolidated			Parent Entity	
	2003 \$m	2002 \$m	2001 \$m	2003 \$m	2002 \$m
Fair value of share options, performance options and performance share rights	33	31	30	33	31

The amounts in the table represent the fair value of the equity instruments shown using their estimated fair value at grant date recognised over their normal vesting period (or date of exercise if earlier). The value incorporates a discount for estimated lapsing, which is subsequently amended for actual lapse experience. The fair value of the equity instruments has been estimated at grant date using a pricing model applying the theoretical framework underlying the Black-Scholes formula, appropriately adapted to reflect the vesting and performance hurdle features of the

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grants. The assumptions used in the model for 2003 include a risk free interest rate of 5.5% (2002 5.4%, 2001 5.1%), a dividend yield on Westpac shares of 4% (2002 4%, 2001 4%), a volatility in Westpac's share price of 19% (2002 18%, 2001 20%) and an expected average life of options of 7 years (2002 7 years, 2001 7 years) and for performance share rights a life of up to 4 years (2002 and 2001 not applicable).

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Note 6. Income tax

	Consolidated			Parent Entity	
	2003 \$m	2002 \$m	2001 \$m	2003 \$m	2002 \$m
Reconciliation of income tax expense shown in the statement of financial performance with prima facie tax payable on pre-tax profit from ordinary activities					
Profit from ordinary activities before income tax expense	2,919	2,668	2,585	3,161	2,179
Prima facie income tax based on the company tax rate of 30% (2002 30%, 2001 34%) in Australia	876	800	879	948	654
Add/(less) tax effect of permanent differences					
Change in tax rate(1)			1		
Rebateable and exempt dividends	(88)	(127)	(97)	(319)	(108)
Tax losses not/(now) tax effected	10	69	(28)	7	69
Timing differences not/(now) tax effected	(6)		1	(5)	
Life insurance:					
Tax adjustment on policyholders' earnings(2)	5	(33)	(27)		
Adjustment for life business tax rates	(19)	(25)	(19)		
Change in excess of net market value over net assets of life insurance controlled entities		18	(16)		
Gain on sale of controlled entities and businesses		(226)			(236)
Other non-assessable items	(146)	(47)	(30)	(161)	(52)
Other non-deductible items	84	44	29	40	40
Adjustment for overseas tax rates	2	19	(17)	4	11
Prior financial year adjustments	(21)	(24)	2	2	(30)
Other items	31	3	(1)	26	39
Total income tax expense attributable to profit from ordinary activities	728	471	677	542	387
Income tax analysis					
Income tax expense attributable to profit from ordinary activities comprised					
Current income tax:					
Australia	831	771	674	668	593
Overseas	139	143	83	94	126
	970	914	757	762	719
Deferred income tax:					
Australia	(149)	(391)	(104)	(153)	(278)
Overseas	(72)	(28)	22	(69)	(24)
	(221)	(419)	(82)	(222)	(302)
(Over)/under provision in prior years:					
Australia	(35)	(20)	12	(12)	(24)
Overseas	14	(4)	(10)	14	(6)
	(21)	(24)	2	2	(30)

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	Consolidated			Parent Entity	
Total Australia	647	360	582	503	291
Total overseas	81	111	95	39	96
Total income tax expense attributable to profit from ordinary activities	728	471	677	542	387

(1) The company tax rate in Australia reduced from 34% to 30%, effective for the Group for the year beginning 1 October 2001. The net impact was based on when timing differences were expected to reverse.

(2) In accordance with the requirements of AASB 1038, the Group's income tax expense for the year ended 30 September 2003 included a charge of \$7 million (2002 credit of \$47 million, 2001 charge of \$41 million) in respect of income tax on policyholders' earnings, \$2 million (2002 credit of \$14 million, 2001 credit of \$14 million) of which is the prima facie income tax above and the balance of \$5 million (2002 credit of \$33 million, 2001 credit of \$27 million) shown here.

Westpac and its wholly owned Australian subsidiaries have not formally decided to implement the tax consolidation legislation as at 30 September 2003. The entities intend to enter into a tax sharing agreement, but details of this agreement are yet to be finalised. When Westpac implements the tax consolidation legislation, as the head entity in the tax consolidation group, it will recognise current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in the Group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable and payable under the tax sharing agreement will be recognised separately by Westpac as tax-related amounts receivable or payable. The impact of the tax consolidation legislation on the Group's financial performance and position is not expected to be material.

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Note 7. Dividends and distributions provided for or paid

	Consolidated			Parent Entity	
	2003 \$m	2002 \$m	2001 \$m	2003 \$m	2002 \$m
Ordinary dividends(1)					
Interim ordinary dividend paid:					
Ordinary shares 38 cents per share (2002 34 cents per share, 2001 30 cents per share) all fully franked	673	597	520	673	597
New Zealand Class shares 38 cents per share (2002 34 cents per share, 2001 30 cents per share) all fully imputed	20	18	16		
Final ordinary dividend provided for or paid:					
2002 ordinary shares 36 cents per share (2001 32 cents per share) all fully franked(2)	632	631	560	632	631
2002 New Zealand Class shares 36 cents per share (2001 32 cents per share) all fully imputed(2)	20	20	17		
(Over) provision of dividend in prior years			(7)		
Total ordinary dividends provided for or paid	1,345	1,266	1,106	1,305	1,228
Distributions on other equity instruments					
Distributions provided for or paid:					
TOPrS	41	48	51		
FIRsTS	34				
Convertible debentures				75	48

	Consolidated			Parent Entity	
Perpetual capital notes				31	30
Total distributions on other equity instruments	75	48	51	106	78
Dividends not recognised at year end(1)					
Since year end the Directors have recommended the payment of the following ordinary final dividend:					
Ordinary shares 40 cents per share fully franked	715			715	
New Zealand Class shares 40 cents per share fully imputed	21				
	736			715	
Franking account balance					
Franking account balance at year end	617	104	2		
Franking credits arising from payment of current income tax payable	303	466	353		
Franking credits utilised for payment of proposed final dividend	(308)	(270)	(240)		
Adjusted franking account balance at year end	612	300	115		

- (1) Following the change in accounting policy for providing for dividends, as set out in note 1 (h)vii, a liability has not been recognised for the recommended final dividend as at 30 September 2003, payable on 19 December 2003 out of retained profits.
- (2) Due to the change in accounting policy for dividend provisions, dividends previously provided for in the year ended 30 September 2002 are now also shown as paid in the year ended 30 September 2003 subject to adjustment for under provision of \$1 million in 2002.

Note 8. Earnings per ordinary share

	Consolidated					
	2003		2002		2001	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Reconciliation of earnings used in the calculation of earnings per ordinary share (\$million)						
Net profit	2,191	2,191	2,197	2,197	1,908	1,908
Net profit attributable to outside equity interests	(8)	(8)	(5)	(5)	(5)	(5)
TOPrS distribution	(41)	(41)	(48)	(48)	(51)	(51)
FIRsTS distribution	(34)	(34)				
Earnings	2,108	2,108	2,144	2,144	1,852	1,852
Weighted average number of ordinary shares (millions)						
Weighted average number of ordinary shares	1,824	1,824	1,812	1,812	1,801	1,801
Potential dilutive adjustment:						

	Consolidated					
		4		7		8
Exercise of options						
Total weighted average number of ordinary shares	1,824	1,828	1,812	1,819	1,801	1,809
Earnings per ordinary share (cents)	115.6	115.3	118.3	117.9	102.8	102.4

During the year ended 30 September 2003, 8,540,979 (2002 9,742,767) options and performance share rights were converted to ordinary shares. The diluted earnings per share calculation included that portion of these options and performance share rights assumed to be issued for nil consideration, weighted with reference to the date of conversion. The estimated weighted average number included was 1,516,098 (2002 1,774,778). The exercise prices of all options are included in note 26. In determining diluted earnings per share, options with an exercise price greater than the market price of Westpac shares as at 30 September 2003 have not been included, as these were not considered dilutive.

Subsequent to 30 September 2003, nil options and performance share rights were granted (2002 155,000 options) to employees under the Westpac Performance Plan.

Information concerning the classification of securities

New Zealand Class shares (NZ Class shares)

NZ Class shares are considered to be akin to Westpac ordinary shares and have been classified as ordinary shares and included in the determination of basic earnings per share. Refer to note 25 for further details.

Options and performance share rights

Options granted to employees under the Westpac Performance Plan, Chief Executive Share Option Agreement, General Management Share Option Plan and Senior Officers' Share Purchase Scheme are considered to be potentially ordinary shares and have been included in the determination of diluted earnings per share. The options and performance share rights have not been included in the determination of basic earnings per share. Refer to note 26 for further details.

TOPrS

TOPrS are included in equity, but are not considered ordinary or potential ordinary shares for the purposes of determining reported basic and diluted earnings per share. TOPrS may convert into a fixed number of non-cumulative preference shares on the occurrence of certain events or after 50 years from the date of issue, with the same distribution entitlements as the TOPrS. These non-cumulative preference shares would be classed as a separate category of ordinary shares for the purposes of determining earnings per share and would not have a dilutive impact on the reported earnings per share of the existing ordinary shares.

FIRsTS

FIRsTS are included in equity, but are not considered ordinary shares. As FIRsTS can be exchanged into ordinary shares if a tax or regulatory event occurs or automatically converted in the event of default any dilutive impact must be considered. For the year ended 30 September 2003 FIRsTS were not dilutive.

TPS

TPS are included in equity, but are not considered ordinary or potential ordinary shares for the purposes of determining reported basic and diluted earnings per share. TPS may convert into a fixed number of non-cumulative preference shares on the occurrence of certain events or after 50 years from the date of issue, with the same distribution entitlements as the TPS. These non-cumulative preference shares would be classed as a separate category of ordinary shares for the purposes of determining earnings per share and would not have a dilutive impact on the reported earnings per share of the existing ordinary shares. No distributions were made during the year ended 30 September 2003.

Note 9. Due from other financial institutions

	Consolidated		Parent Entity	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Australia				
Interest earning	2,728	3,285	1,328	1,883
Non-interest earning	82	16	73	15
Total Australia	2,810	3,301	1,401	1,898
Overseas				
Interest earning	3,131	1,813	3,044	1,524
Non-interest earning	94	128	86	121
Total overseas	3,225	1,941	3,130	1,645
Total due from other financial institutions	6,035	5,242	4,531	3,543

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Note 10. Trading securities

	Consolidated		Parent Entity	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Listed securities				
Australian public securities:				
Commonwealth securities	770	1,710	770	1,710
Semi-government securities	3,674	3,567	3,674	3,567
Australian equity securities	719	680	698	680
Australian debt securities	52	26	51	26
Overseas public securities	1,203	1,002	1,203	1,002
Overseas debt securities	116	205	116	205
Total listed securities	6,534	7,190	6,512	7,190
Unlisted securities				
Australian public securities:				
Treasury notes		592		592
Semi-government securities		1		1
Australian debt securities	2,107	2,042	2,107	2,042
Overseas public securities	15		15	
Overseas debt securities	137	818	137	818
Total unlisted securities	2,259	3,453	2,259	3,453
Total trading securities	8,793	10,643	8,771	10,643

As at 30 September 2003, the Group's trading securities included \$2 million in unrealised losses (2002 \$42 million unrealised gains).

Note 11. Investment securities

	Consolidated					
	2003		2002		2001	
	Book Value \$m	Market Value \$m	Book Value \$m	Market Value \$m	Book Value \$m	Market Value \$m
Listed securities						
Overseas public securities	17	17	6	6	6	6
Overseas debt securities	511	483	1,076	984	1,504	1,435
Total listed securities	528	500	1,082	990	1,510	1,441
Unlisted securities						
Australian debt securities:						
Mortgage backed securities	798	798	832	832	567	568
Other debt securities	156	158	132	137	257	260
Overseas public securities	112	112	116	116	131	131
Overseas debt securities	2,062	2,177	1,151	1,141	495	414
Total unlisted securities	3,128	3,245	2,231	2,226	1,450	1,373
Total investment securities	3,656	3,745	3,313	3,216	2,960	2,814

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	Parent Entity					
	2003		2002		2001	
	Book Value \$m	Market Value \$m	Book Value \$m	Market Value \$m	Book Value \$m	Market Value \$m
Listed securities						
Overseas public securities	17	17	6	6	6	6
Overseas debt securities	511	483	1,076	984	1,504	1,435
Total listed securities	528	500	1,082	990	1,510	1,441
Unlisted securities						
Australian debt securities:						
Mortgage backed securities	798	798	832	832	567	568
Other debt securities	156	158	130	135	257	260
Overseas public securities	26	26	45	45	39	39
Overseas debt securities	259	260	334	324	494	414
Total unlisted securities	1,239	1,242	1,341	1,336	1,357	1,281
Total investment securities	1,767	1,742	2,423	2,326	2,867	2,722

Other than securities issued by the Australian Commonwealth or State Governments, the Group held no trading and investment securities of a single issuer, the book value of which, in aggregate, exceeded 10% of total equity as at 30 September 2003.

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Maturities of the Group's investment securities were as follows:

	Less than 1 Year \$m	Between 1 and 5 Years \$m	Between 5 and 10 Years \$m	Over 10 Years \$m	Total \$m
2003 Book value					
Australian debt securities:					
Mortgage backed securities	225	573			798
Other debt securities	5	101	50		156
Overseas public securities	126	3			129
Overseas debt securities	94	2,269	198	12	2,573
Total book value by maturity	450	2,946	248	12	3,656
Total market value by maturity	451	3,040	245	9	3,745
2002 Book value					
Australian debt securities:					
Mortgage backed securities	51	666	115		832
Other debt securities		112	20		132
Overseas public securities	113	6	3		122
Overseas debt securities	124	1,596	478	29	2,227
Total book value by maturity	288	2,380	616	29	3,313
Total market value by maturity	286	2,336	564	30	3,216

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The following table provides an analysis of the difference between book value (lower of amortised cost and recoverable amount) and market value of the Group's investment securities as at 30 September.

	2003				2002			
	Book Value \$m	Unrealised Gains \$m	Unrealised Losses \$m	Market Value \$m	Book Value \$m	Unrealised Gains \$m	Unrealised Losses \$m	Market Value \$m
Listed securities								
Overseas public securities	17			17	6			6
Overseas debt securities	511		(28)	483	1,076		(92)	984
Total listed securities	528		(28)	500	1,082		(92)	990
Unlisted securities								
Australian debt securities:								
Mortgage backed securities	798			798	832			832
Other debt securities	156	2		158	132	5		137
Overseas public securities	112			112	116			116
Overseas debt securities	2,062	118	(3)	2,177	1,151		(10)	1,141
Total unlisted securities	3,128	120	(3)	3,245	2,231	5	(10)	2,226

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	2003				2002			
	3,656	120	(31)	3,745	3,313	5	(102)	3,216
Total listed and unlisted securities								
						2003	2002	2001
						\$m	\$m	\$m

Details of sales of investment securities during the year were as follows:

Proceeds from sales	189	492	508
Gross gains realised on sales		1	5

The following table shows the weighted average carrying yield for each range of investment securities as at 30 September 2003. There were no tax-exempt securities.

	Within 1 Year %	Between 1 and 5 Years %	Between 5 and 10 Years %	Over 10 Years %	Total %
Australian debt securities:					
Mortgage backed securities	5.4	5.2			5.2
Other debt securities	5.6	5.6	5.9		5.7
Overseas public securities	9.2	3.2			4.0
Overseas debt securities	3.6	4.9	3.6	3.2	4.8
Total investment securities	5.9	4.7	3.6	3.2	4.8

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Note 12. Loans

	Consolidated		Parent Entity	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m

Loans are classified based on the location of the lending office.

Australia

Overdrafts	3,108	3,007	3,108	3,007
Credit card outstandings	4,545	4,131	4,545	4,131
Overnight and at call money market loans	132	306	132	306
Own acceptances discounted	10,792	13,025	10,551	12,803
Term loans:				
Housing	69,668	60,445	69,668	60,445
Non-housing	35,876	22,866	36,049	22,880
Finance leases	3,274	1,812	3,137	1,690
Margin lending	1,590	560	517	560
Other	1,957	1,650	1,959	1,486
Total Australia	130,942	107,802	129,666	107,308

New Zealand

Overdrafts	947	875	947	875
Credit card outstandings	751	712	676	634
Overnight and at call money market loans	957	854	957	854
Term loans:				
Housing	13,869	12,219	13,451	11,680
Non-housing	7,526	7,330	7,515	7,320

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	Consolidated		Parent Entity	
Redeemable preference share finance	3,365	3,777		
Other	1,233	749	1,163	614
Total New Zealand	28,648	26,516	24,709	21,977
Other overseas	2,437	2,986	2,033	2,586
Total overseas	31,085	29,502	26,742	24,563
Total loans (net of unearned income)	162,027	137,304	156,408	131,871
Provisions for bad and doubtful debts (refer note 13)	(1,554)	(1,434)	(1,490)	(1,367)
Total net loans	160,473	135,870	154,918	130,504

Securitisation of loans

As at 30 September 2003 the Group had securitised assets amounting to \$13,057 million (2002 \$12,810 million) via the Westpac Securitisation Trust program (WST program) and various private placements including the Home Loan Trust program (HLT program) (together, the programs). Outstanding securitised assets totalled \$2,997 million as at 30 September 2003 (2002 \$4,318 million).

The securities issued by the WST program and units issued by the HLT program do not represent deposits or other liabilities of Westpac or the Group. Neither Westpac nor the Group in any way stands behind the capital value or performance of the securities or the assets of the programs except to the limited extent provided in the transaction documents for the programs through the provision of arm's length services and facilities (refer note 1 (h)iv). The Group does not guarantee the payment of interest or the repayment of principal due on the securities or units. The Group is not obliged to support any losses that may be suffered by the investors and does not intend to provide such support. The Group has 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. Repurchases of securitised loans may also occur through the program's clean up features where any repurchase is conducted at market terms and conditions to a maximum of 10% of the securitised program's initial value.

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Loss and delinquency amounts for housing loans(1)

	Consolidated					
	2003			2002		
	Total Principal Amount \$m	Delinquent Principal \$m	Total Credit Losses (Net of Recoveries) \$m	Total Principal Amount \$m	Delinquent Principal \$m	Total Credit Losses (Net of Recoveries) \$m
Housing loans held in portfolio(2)	83,913	288	5	73,076	228	20
Housing loans securitised	2,997	7		4,318		
Total housing loans managed	86,910	295	5	77,394	228	20

(1)

Delinquent housing loans are where contractual payments are greater than 60 days in arrears.

- (2) As at 30 September 2003 there were no housing loans that had been identified as being held for sale or securitisation.

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	Consolidated				
	2003 \$m	2002 \$m	2001 \$m	2000 \$m	1999 \$m
Loans by type of customer					
Australia					
Government and other public authorities	119	205	575	544	284
Agriculture, forestry and fishing(1)	1,614	1,523	1,335	1,587	1,642
Commercial and financial(2)	22,795	14,502	20,802	20,235	20,744
Real estate construction	1,054	936	817	789	1,158
Real estate mortgage(1)	69,668	60,445	53,877	47,844	40,544
Instalment loans and other personal lending(1)	21,626	15,354	12,906	10,996	9,001
	116,876	92,965	90,312	81,995	73,373
Lease financing	3,274	1,812	2,334	1,906	2,644
Own acceptances discounted	10,792	13,025	3,270	2,188	1,957
Total Australia	130,942	107,802	95,916	86,089	77,974
Overseas					
Government and other public authorities	548	397	316	420	270
Agriculture, forestry and fishing(1)	2,073	1,970	1,858	1,352	1,419
Commercial and financial	11,675	12,261	11,657	8,888	6,972
Real estate construction	284	386	229	152	132
Real estate mortgage(1)	14,245	12,631	11,198	9,725	10,170
Instalment loans and other personal lending(1)	2,185	1,756	2,526	2,265	2,222
	31,010	29,401	27,784	22,802	21,185
Lease financing	75	101	151	120	56
Own acceptances discounted					1
Total overseas	31,085	29,502	27,935	22,922	21,242
Total loans (net of unearned income)	162,027	137,304	123,851	109,011	99,216
Provisions for bad and doubtful debts	(1,554)	(1,434)	(1,601)	(1,478)	(1,500)
Total net loans	160,473	135,870	122,250	107,533	97,716

- (1) Real estate mortgage loans and instalment loans and other personal lending as at 30 September 2003 included a total of \$1.6 billion of personal lending to the agricultural sector (2002 \$1.3 billion, 2001 \$1.6 billion, 2000 \$1.3 billion and 1999 \$1.3 billion). In addition, \$1.3 billion of finance had been provided to the agricultural sector (2002 \$1.2 billion, 2001 \$1.2 billion, 2000 \$1.1 billion and 1999 \$1.0 billion) in the form of acceptances which are excluded from the above table.

- (2) Some lending in the commercial and financial sectors in Australia is for the purpose of the financing of construction of real estate and land development projects which cannot be separately identified from other lending to these borrowers, given their conglomerate structure and activities. In these circumstances, the loans have been included in the commercial and financial category.

	Consolidated				
	2003 %	2002 %	2001 %	2000 %	1999 %
Percentage of loans in each customer category to total loans					
Australia					
Government and other public authorities	0.1	0.1	0.5	0.5	0.3
Agriculture, forestry and fishing	1.0	1.1	1.1	1.5	1.7
Commercial and financial	14.1	10.6	16.8	18.6	20.8
Real estate - construction	0.7	0.7	0.7	0.7	1.2
Real estate - mortgage	42.9	44.0	43.5	43.9	40.8
Instalment loans and other personal lending	13.3	11.2	10.4	10.1	9.1
Lease financing	2.0	1.3	1.9	1.7	2.7
Own acceptances discounted	6.7	9.5	2.6	2.0	2.0
Total Australia	80.8	78.5	77.5	79.0	78.6
New Zealand					
Government and other public authorities	0.3	0.3	0.2	0.3	0.2
Agriculture, forestry and fishing	1.2	1.4	1.5	1.2	1.4
Commercial and financial	6.2	7.4	6.6	5.6	5.2
Real estate - construction	0.2	0.1	0.2	0.1	0.1
Real estate - mortgage	8.6	8.9	8.8	8.7	10.0
Instalment loans and other personal lending	1.2	1.2	1.9	2.0	2.2
Total New Zealand	17.7	19.3	19.2	17.9	19.1
Other overseas					
Government and other public authorities					0.1
Commercial and financial	1.1	1.6	2.9	2.7	1.8
Real estate - construction		0.1			
Real estate - mortgage	0.3	0.3	0.2	0.2	0.3
Instalment loans and other personal lending	0.1	0.1	0.1	0.1	0.1
Lease financing		0.1	0.1	0.1	
Total other overseas	1.5	2.2	3.3	3.1	2.3
Total overseas	19.2	21.5	22.5	21.0	21.4
Total	100.0	100.0	100.0	100.0	100.0

	Less than 1 Year \$m	Between 1 and 5 Years \$m	Over 5 Years \$m	Total \$m
Maturity distribution of loans by type of customer 2003(1)				
By offices in Australia				
Government and other public authorities	7	33	79	119
Agriculture, forestry and fishing	511	323	780	1,614
Commercial and financial	12,384	6,306	4,105	22,795
Real estate - construction	628	110	316	1,054

	Less than 1 Year \$m	Between 1 and 5 Years \$m	Over 5 Years \$m	Total \$m
Real estate mortgage	1,265	9,278	59,125	69,668
Instalment loans and other personal lending	6,213	3,922	11,491	21,626
Lease financing	135	3,061	78	3,274
Own acceptances discounted	10,792			10,792
Total Australia	31,935	23,033	75,974	130,942
Total overseas	8,738	10,093	12,254	31,085
Total loans (net of unearned income)	40,673	33,126	88,228	162,027

Maturity distribution of loans by type of customer 2002(1)**By offices in Australia**

Government and other public authorities	38	89	78	205
Agriculture, forestry and fishing	293	303	927	1,523
Commercial and financial	5,374	3,890	6,241	15,505
Real estate construction	237	376	323	936
Real estate mortgage	855	7,156	52,434	60,445
Instalment loans and other personal lending	4,615	2,422	8,317	15,354
Lease financing	202	511	96	809
Own acceptances discounted	13,025			13,025

Total Australia	24,639	14,747	68,416	107,802
Total overseas	11,828	11,548	6,126	29,502

Total loans (net of unearned income)	36,467	26,295	74,542	137,304
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(1)

The maturity analysis is based on contractual terms.

	Consolidated					
	2003			2002		
	Loans at Variable Interest Rates \$m	Loans at Fixed Interest Rates \$m	Total \$m	Loans at Variable Interest Rates \$m	Loans at Fixed Interest Rates \$m	Total \$m
Interest rate segmentation of Group loans maturing after one-year						
By offices in Australia	88,580	10,427	99,007	68,898	14,265	83,163
By offices overseas	8,117	14,230	22,347	7,389	10,285	17,674
Total loans maturing after one-year	96,697	24,657	121,354	76,287	24,550	100,837

Note 13. Provisions for bad and doubtful debts

	Consolidated				
	2003 \$m	2002 \$m	2001 \$m	2000 \$m	1999 \$m
General provision					
Balance at beginning of year	1,162	1,294	1,212	1,170	1,238
Charge to net profit	485	461	433	202	171
Transfer (to)/from specific provisions	(53)	(172)	(113)	28	(52)
Recoveries of debts previously written off	74	84	102	90	75
Write-offs	(275)	(379)	(356)	(271)	(236)
Provisions of controlled entities/businesses (disposed)/acquired		(133)	3		(14)
Exchange rate and other adjustments		7	13	(7)	(12)
Balance at year end(1)	1,393	1,162	1,294	1,212	1,170
Specific provisions					
Balance at beginning of year	272	307	266	330	362
Transfer from/(to) general provision:					
New specific provisions	136	303	223	75	165
Specific provisions no longer required	(83)	(131)	(110)	(103)	(113)
	53	172	113	(28)	52
Write-offs	(135)	(162)	(86)	(59)	(66)
Provisions of controlled entities/businesses (disposed)/acquired		(32)	2	(2)	(10)
Exchange rate and other adjustments	(29)	(13)	12	25	(8)
Balance at year end	161	272	307	266	330
Total provisions for bad and doubtful debts	1,554	1,434	1,601	1,478	1,500

Refer to page 146 for footnote explanation.

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	Parent Entity	
	2003 \$m	2002 \$m
General provision		
Balance at beginning of year	1,100	1,072
Charge to net profit	481	358
Transfer (to) specific provisions	(53)	(164)
Recoveries of debts previously written off	74	67
Write-offs	(269)	(240)
Exchange rate and other adjustments	(1)	7
Balance at year end(1)	1,332	1,100
Specific provisions		

	Parent Entity	
	2003	2002
Balance at beginning of year	267	261
Transfer from/(to) general provision:		
New specific provisions	136	293
Specific provisions no longer required	(83)	(129)
	53	164
Write-offs	(133)	(153)
Exchange rate and other adjustments	(29)	(5)
Balance at year end	158	267
Total provisions for bad and doubtful debts	1,490	1,367

(1)

This included a provision for off-balance sheet credit related commitments for the: Group \$219 million (2002 \$207 million, 2001 \$161 million, 2000 \$186 million, 1999 \$144 million), Westpac \$211 million (2002 \$198 million).

The 2003 charge to net profit of \$485 million represented a 5% increase over the 2002 charge of \$461 million which, in turn, was up 6% from 2001.

The coverage ratio of total provisions (specific and general) to total impaired assets as at 30 September 2003 increased to 254% from 211% as at September 2002 and 177% as at 30 September 2001.

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	Consolidated				
	2003	2002	2001	2000	1999
	\$m	\$m	\$m	\$m	\$m
Specific provisions by type of customer(1)					
Australia					
Agriculture, forestry and fishing	3	1	3	4	7
Commercial and financial	67	96	143	97	102
Real estate - construction		3	1	2	3
Real estate - mortgage	2	1	3	2	4
Instalment loans and other personal lending	5	5	21	19	34
Total Australia	77	106	171	124	150
New Zealand					
Agriculture, forestry and fishing	1		1	2	5
Commercial and financial	2	7	7		18
Real estate - mortgage	1		9	7	
Instalment loans and other personal lending	3	6	15	13	9
Total New Zealand	7	13	32	22	32
Other overseas					
Government and other public authorities				24	20
Agriculture, forestry and fishing	1	1	2	4	3
Commercial and financial	74	149	98	90	124

	Consolidated				
Real estate construction			1		1
Real estate mortgage		1	1		
Instalment loans and other personal lending	2	2	2	2	
Total other overseas	77	153	104	120	148
Total overseas	84	166	136	142	180
Total specific provisions	161	272	307	266	330

(1)

For a breakdown of the percentage of loans in each customer category please refer to note 12.

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The following tables show the movements in the balance of provisions for bad and doubtful debts, details of loans written off and recoveries of loans written off by customer and geographic category for the past five years:

	Consolidated				
	2003 \$m	2002 \$m	2001 \$m	2000 \$m	1999 \$m
Balance of provisions for bad and doubtful debts					
(specific and general) at beginning of year	1,434	1,601	1,478	1,500	1,600
Net write-offs and recoveries	(336)	(457)	(340)	(240)	(227)
Charge to operating profit	485	461	433	202	171
Provisions of controlled entities/businesses (disposed)/acquired		(165)	5	(2)	(24)
Exchange rate and other adjustments	(29)	(6)	25	18	(20)
Balance of provisions for bad and doubtful debts at year end	1,554	1,434	1,601	1,478	1,500
Write-offs and recoveries					
Write-offs					
Australia					
Agriculture, forestry and fishing	(2)	(2)		(1)	
Commercial and financial	(89)	(148)	(70)	(41)	(38)
Real estate construction	(1)	(1)	(1)	(2)	(2)
Real estate mortgage	(7)	(11)	(3)	(2)	
Instalment loans and other personal lending	(208)	(294)	(303)	(194)	(203)
Total Australia	(307)	(456)	(377)	(240)	(243)
New Zealand					
Agriculture, forestry and fishing					(4)
Commercial and financial	(4)	(2)	(1)		(8)
Real estate mortgage		(9)			(3)
Instalment loans and other personal lending	(42)	(49)	(53)	(43)	(29)
Total New Zealand	(46)	(60)	(54)	(43)	(44)

	Consolidated				
Total other overseas	(57)	(25)	(11)	(47)	(15)
Total write-offs	(410)	(541)	(442)	(330)	(302)
Recoveries					
Australia					
Commercial and financial	2	7	12	3	5
Real estate mortgage	2			2	
Instalment loans and other personal lending	48	63	62	68	55
Australia	52	70	74	73	60
New Zealand	22	11	19	10	11
Other overseas		3	9	7	4
Total recoveries	74	84	102	90	75
Net write-offs and recoveries	(336)	(457)	(340)	(240)	(227)

- (1) Lease finance write-offs and recoveries, which are not significant, were included in the "commercial and financial" category.

Note 14. Impaired assets

	Consolidated				
	2003	2002	2001	2000	1999
	\$m	\$m	\$m	\$m	\$m
Australia					
Non-accrual assets:					
Gross	320	300	540	291	347
Specific provisions	(76)	(105)	(163)	(115)	(149)
Net	244	195	377	176	198
Restructured loans:					
Gross	3	3	29	34	13
Specific provisions	(1)	(1)	(8)	(9)	(1)
Net	2	2	21	25	12
Net Australian impaired assets	246	197	398	201	210
New Zealand					

	Consolidated				

Non-accrual assets:					
Gross	63	79	119	95	100
Specific provisions	(7)	(13)	(32)	(22)	(32)
	-----	-----	-----	-----	-----
Net	56	66	87	73	68
	-----	-----	-----	-----	-----
Restructured loans:					
Gross			1	16	1
Specific provisions					
	-----	-----	-----	-----	-----
Net			1	16	1
	-----	-----	-----	-----	-----
Net New Zealand impaired assets	56	66	88	89	69
	-----	-----	-----	-----	-----
Other overseas					
Non-accrual assets:					
Gross	214	269	207	146	172
Specific provisions	(76)	(148)	(104)	(118)	(144)
	-----	-----	-----	-----	-----
Net	138	121	103	28	28
	-----	-----	-----	-----	-----
Restructured loans:					
Gross	12	28	6	11	11
Specific provisions	(1)	(5)		(2)	(4)
	-----	-----	-----	-----	-----
Net	11	23	6	9	7
	-----	-----	-----	-----	-----
Net other overseas impaired assets	149	144	109	37	35
	-----	-----	-----	-----	-----
Total net impaired assets(1)	451	407	595	327	314
	-----	-----	-----	-----	-----
Accruing items past due 90 days (with adequate security):					
Australia	139	116	147	154	156
New Zealand	171	213	255	40	30
Other overseas	29	6	9	11	4
	-----	-----	-----	-----	-----
Total	339	335	411	205	190
	-----	-----	-----	-----	-----

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	Consolidated				

	2003	2002	2001	2000	1999
	\$m	\$m	\$m	\$m	\$m

Interest received for the year on the above non-accrual and restructured assets was:					
Australia	5	5	6	7	16
New Zealand	2	4	5	6	5

	Consolidated				
	8	7	9	9	1
Other overseas					
Total	15	16	20	22	22
Interest forgone for the year on the above non-accrual and restructured assets was estimated at:					
Australia	30	38	23	19	38
New Zealand	2	3	10	8	1
Other overseas	7	6	4	3	1
Total	39	47	37	30	40

(1) This included impaired items in respect of derivative financial instruments and unrecognised contingent commitments of \$17 million as at 30 September 2003 (2002 \$32 million, 2001 \$122 million, 2000 \$17 million and 1999 \$16 million).

Note 15. Goodwill

	Consolidated		Parent Entity	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
At cost(1)	3,309	2,340	1,939	1,928
Accumulated amortisation	(751)	(586)	(642)	(540)
Total goodwill	2,558	1,754	1,297	1,388

(1) The increase during the 2003 financial year included \$927 million goodwill relating to the purchase of BT Financial Group Pty Limited (BTFG) on 31 October 2002, \$37 million goodwill relating to the purchase of Hasting Funds Management Limited on the 16 October 2002 and the effect of foreign exchange translation.

Note 16. Fixed assets

	Consolidated		Parent Entity	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Premises and sites				
At cost(1)	153	168	68	85
Accumulated depreciation	(22)	(20)	(7)	(8)
Net premises and sites	131	148	61	77

	Consolidated		Parent Entity	
Leasehold improvements				
At cost	288	263	168	171
Accumulated amortisation	(163)	(135)	(101)	(87)
Net leasehold improvements	125	128	67	84
Furniture, equipment and computer software				
At cost	1,679	1,430	1,504	1,304
Accumulated depreciation and amortisation	(1,093)	(891)	(964)	(804)
Net furniture, equipment and computer software(2)	586	539	540	500
Total fixed assets	842	815	668	661

(1) In July 2001, an independent valuation of premises and sites was undertaken. These valuations were performed on an open market basis, being the amounts that could be exchanged between a knowledgeable willing buyer and knowledgeable willing seller in an arm's length transaction at valuation date. Based on these valuations, and allowing for subsequent acquisitions and disposals, the value of premises and sites held as at 30 September 2003 was \$140 million (2002 \$161 million).

(2) This included computer software of \$300 million as at 30 September 2003 (2002 \$232 million) net of accumulated amortisation.

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	Consolidated		Parent Entity	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Reconciliations				
Reconciliations of the carrying amount for each class of fixed assets are set out below:				
Premises and sites				
Balance as at beginning of year	148	274	77	151
Additions	21	5	20	4
Disposals	(45)	(132)	(35)	(75)
Additions through acquisition of entity	10			
Depreciation expense	(3)	(4)	(1)	(2)
Foreign currency exchange differences		5		(1)
Balance as at year end	131	148	61	77
Leasehold improvements				
Balance as at beginning of year	128	139	84	102
Additions	23	29	7	15
Disposals	(2)	(19)	(2)	(13)
Disposals through sale of entity		(1)		
Additions through acquisition of entity	7			
Amortisation expense	(32)	(29)	(22)	(21)
Foreign currency exchange differences	1	9		1

	Consolidated		Parent Entity	
Balance as at year end	125	128	67	84
Furniture, equipment and computer software				
Balance as at beginning of year	539	621	500	523
Additions	279	250	255	239
Disposals	(29)	(81)	(24)	(50)
Disposals through sale of entity		(28)		
Additions through acquisition of entity	12	4		
Depreciation and amortisation expense	(215)	(240)	(192)	(214)
Foreign currency exchange differences		13	1	2
Balance as at year end	586	539	540	500
Total fixed assets	842	815	668	661

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Note 17. Deferred tax assets

	Consolidated		Parent Entity	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Future income tax benefits	1,019	587	864	540
Future income tax benefits comprised:				
Provision for bad and doubtful debts	462	402	460	399
Provision for employee entitlements	103	94	97	91
Treasury/financial markets products	54	(133)	53	(126)
Wealth management products	43	16		
Depreciation	47	20	38	14
Tax losses	119	101	101	91
Other timing differences	191	87	115	71
Total Future income tax benefits	1,019	587	864	540
Potential future income tax benefits not brought to account as realisation is not considered virtually certain:				
Related to losses	37	114	41	118
Other	75	28	75	28
Total future income tax benefits not brought to account	112	142	116	146

The potential future income tax benefits related to losses will only be obtained if:

- (i) the Group or relevant entity derives future assessable income of a nature and amount sufficient to enable the benefits from the deductions for the losses to be realised;
- (ii)

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the Group or relevant entity continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii)

no changes in tax legislation adversely affect the Group or relevant entity in realising the benefits from the deductions for the losses.

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Note 18. Other assets

	Consolidated		Parent Entity	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Accrued interest receivable	724	658	605	561
Securities purchased under agreements to resell	282	285	282	285
Securities sold not delivered	5,183	3,432	5,183	3,431
Other financial markets assets(1)	13,315	12,413	12,861	12,413
Deferred expenditure (after accumulated amortisation of \$66 million, 2002 \$57 million)	233	162	232	158
Prepayment of superannuation fund contributions	380	467	380	467
Other investments	225	77	44	53
Deferred acquisition costs (after accumulated amortisation of \$6 million, 2002 \$4 million)	96	86		
Other	1,004	755	668	438
Total other assets	21,442	18,335	20,255	17,806

(1) Other financial market assets primarily represent the positive fair value of trading derivative financial instruments.

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Note 19. Due to other financial institutions

	Consolidated		Parent Entity	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Australia				
Interest bearing	1,493	1,753	1,492	1,753
Non-interest bearing	288	555	288	532
Total Australia	1,781	2,308	1,780	2,285
Overseas				
Interest bearing	1,725	2,115	989	2,115
Non-interest bearing	325	308	325	308
Total overseas	2,050	2,423	1,314	2,423

	Consolidated		Parent Entity	
Total due to other financial institutions	3,831	4,731	3,094	4,708

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Note 20. Deposits and public borrowings

	Consolidated		Parent Entity	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Deposits				
Australia				
Non-interest bearing, repayable at call	3,497	3,611	3,497	3,611
Certificates of deposit	23,648	15,525	23,648	15,525
Other interest bearing:				
At call	51,911	45,124	51,911	45,090
Term	19,471	17,701	19,471	17,701
Total Australia	98,527	81,961	98,527	81,927
New Zealand				
Non-interest bearing, repayable at call	819	874	819	874
Certificates of deposit	2,436	2,908	2,436	2,908
Other interest bearing:				
At call	8,130	7,039	8,130	7,039
Term	8,288	8,279	8,288	8,279
Total New Zealand	19,673	19,100	19,673	19,100
Other overseas				
Non-interest bearing, repayable at call	225	234	172	156
Certificates of deposit	3,487	2,515	3,487	2,515
Other interest bearing:				
At call	594	487	421	331
Term	6,565	6,465	6,442	6,342
Total other overseas	10,871	9,701	10,522	9,344
Total overseas	30,544	28,801	30,195	28,444
Total deposits	129,071	110,762	128,722	110,371
Public borrowings by controlled entity borrowing corporations				
Overseas				
Secured borrowings(1)		1		
Total public borrowings by controlled entity borrowing corporations		1		
Total deposits and public borrowings	129,071	110,763	128,722	110,371

(1)

Secured borrowings relate to Augusta (1962) Limited (formerly Australian Guarantee Corporation (N.Z.) Limited) and are secured by a fixed charge over the deposit funds of that company.

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The following table shows average balances and average rates in each of the past three years for major categories of deposits:

	Consolidated					
	2003		2002		2001	
	Average Balance \$m	Average Rate %	Average Balance \$m	Average Rate %	Average Balance \$m	Average Rate %
Australia						
Non-interest bearing, repayable at call	3,740		3,502		3,462	
Certificates of deposit	21,009	4.8	14,600	4.5	4,352	6.2
Other interest bearing at call	44,100	3.1	38,744	2.9	33,308	3.4
Other interest bearing term	23,582	4.3	19,430	4.1	18,647	5.4
Total Australia	92,431		76,276		59,769	
Overseas						
Non-interest bearing, repayable at call	1,094		1,016		945	
Certificates of deposit	6,629	3.4	6,159	4.0	6,011	6.0
Other interest bearing at call	6,450	2.3	5,341	2.2	4,846	3.1
Other interest bearing term	16,911	4.5	15,371	4.4	14,128	6.0
Total overseas	31,084		27,887		25,930	

Certificates of deposits issued by Westpac in Australia represent negotiable certificates of deposits and transferable certificates of deposits. Negotiable certificates of deposits are negotiable securities with minimum denominations of \$50,000 and are normally issued with terms to maturity of 30 days to one year. Transferable certificates of deposits are longer term fixed rate instruments with minimum denominations of \$100,000 and are normally issued with terms to maturity of three to five years. As at 30 September 2003 negotiable certificates of deposits on issue totalled \$22.2 billion (2002 \$13.8 billion, 2001 \$3.2 billion) and transferable certificates of deposits on issue totalled \$1.4 billion (2002 \$1.6 billion, 2001 \$0.9 billion).

Certificates of deposits issued by Westpac in New Zealand are registered certificates of deposits. There are no minimum denominations and they are normally issued with terms to maturity of up to one year. As at 30 September 2003, the total amount of certificates of deposit greater than US\$100,000 was A\$2.4 billion (2002 A\$2.9 billion).

Other overseas certificates of deposits issued by Westpac principally consist of US dollar certificates of deposits issued by the New York branch. The US dollar certificates of deposits are usually fixed rate instruments with minimum denominations of US\$100,000 and are generally issued for terms of one to 13 months. As at 30 September 2003, the total amount of certificates of deposit greater than US\$100,000 was A\$3.5 billion (2002 A\$2.5 billion).

Other interest bearing deposits principally comprise interest bearing cheque and savings and call and time deposits obtained through and administered by Westpac's branch network.

Maturity profile of Australian certificates of deposit greater than US\$100,000

Consolidated

	Less than 3 Months \$m	Between 3 and 6 Months \$m	Between 6 Months and 1 Year \$m	Over 1 Year \$m	Total \$m
2003					
Certificates of deposit greater than US\$100,000	16,468	5,279	1,030	871	23,648
2002					
Certificates of deposit greater than US\$100,000	13,965	1,264	235	31	15,495

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Note 21. Tax liabilities

	Consolidated		Parent Entity	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Current income tax liability	310	537	303	577
Deferred income tax liability	246	80	208	94
Total tax liabilities	556	617	511	671
Deferred income tax liability comprised:				
Leveraged lease transactions	9	13	9	13
Finance lease transactions	7	24	2	18
Treasury/financial markets products	119	(7)	119	7
Wealth management products		(41)		
Depreciation	4	(11)		(13)
Other timing differences	107	102	78	69
Total deferred income tax liability	246	80	208	94

Note 22. Provisions

	Consolidated		Parent Entity	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Proposed dividends(1)		651		631
Long service leave	161	148	152	144
Annual leave and other staff benefits	167	150	153	145
Non-lending losses	38	35	27	29
Leasehold premises	10	14	10	14
Restructuring	86	95	47	86
Total provisions	462	1,093	389	1,049

(1)

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Following the change in accounting policy for providing for dividends, as set out in note 1(h)vii, a liability has not been recognised for the final dividend payable for the year ended 30 September 2003.

Consolidated

	Proposed Dividends \$m	Long Service Leave \$m	Annual Leave and Other Staff Benefits \$m	Non-Lending Losses \$m	Leasehold Premises \$m	Provision for Restructuring \$m	Total \$m
Balance at beginning of year	651	148	150	35	14	95	1,093
Adjustment for change in accounting policy (refer note 1(h)vii)	(651)						(651)
Additional provisions recognised	1,345	28	106	10	1	18	1,508
Provisions acquired		5	7			87	99
Payments	(1,345)	(13)	(96)	(3)	(5)	(110)	(1,572)
Reductions for remeasurement or settlement without cost		(7)		(4)		(4)	(15)
Balance at year end		161	167	38	10	86	462

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Parent Entity

	Proposed Dividends \$m	Long Service Leave \$m	Annual Leave and Other Staff Benefits \$m	Non-Lending Losses \$m	Leasehold Premises \$m	Provision for Restructuring \$m	Total \$m
Balance at beginning of year	631	144	145	29	14	86	1,049
Adjustment for change in accounting policy (refer note 1(h)vii)	(631)						(631)
Additional provisions recognised	1,305	27	95	5	1	18	1,451
Payments	(1,305)	(12)	(87)	(3)	(5)	(53)	(1,465)
Reductions for remeasurement or settlement without cost		(7)		(4)		(4)	(15)
Balance at year end		152	153	27	10	47	389

Note 23. Other liabilities

	Consolidated		Parent Entity	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Unearned general insurance premiums	149	144		
Outstanding general insurance claims	99	88		
Accrued interest payable	642	686	592	649
Credit card loyalty program(1)	160	84		
Securities sold under agreements to repurchase	363	97	363	97
Securities sold short	943	1,067	943	1,067
Securities purchased not delivered	4,826	2,998	4,826	2,997
Other financial markets liabilities(2)	15,296	11,871	15,095	11,656

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	Consolidated		Parent Entity	
Trade creditors and other accrued expenses	955	809	724	614
Other	1,792	1,483	1,536	1,488
Total other liabilities	25,225	19,327	24,079	18,568

(1) The credit card loyalty program relates to the Altitude rewards program launched by Westpac on 25 November 2001. Westpac has established a trust to hold the liability in respect of the program.

(2) Other financial markets liabilities primarily represent the negative fair value of trading derivative financial instruments.

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Note 24. Debt issues and loan capital

	Consolidated		Parent Entity	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Debt issues				
Short term debt	11,459	7,360	3,668	1,472
Long term debt	18,511	20,215	15,198	17,119
Total debt issues	29,970	27,575	18,866	18,591
Short term debt				
USD commercial paper	7,673	5,635		
EUR euro commercial paper	638	80	537	
AUD euro commercial paper	140	600	140	600
USD euro commercial paper	1,365	446	1,365	382
GBP euro commercial paper	1,377	65	1,360	29
NZD euro commercial paper	116	14	116	14
HKD euro commercial paper	141	455	141	443
CAD euro commercial paper		4		4
CHF euro commercial paper	9	61	9	
Total short term debt	11,459	7,360	3,668	1,472

Long term debt

The following table sets out the maturity analysis of long term bonds and notes.

Issue Currency	Issue Range	Interest Rate	Consolidated		Parent Entity	
			2003 \$m	2002 \$m	2003 \$m	2002 \$m
	(millions)					

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			Consolidated	Parent Entity
			_____	_____
Due from 1 October 2002 to 30 September 2003				
Euro medium term notes				
AUD	4 - 118	Fixed rate ranging from 5.07% - 7.31%	376	376
AUD	300	Floating rate note	300	300
USD	3 - 500	Fixed rate ranging from 0% - 6.38%	1,335	1,335
USD	10 - 300	Floating rate note	2,170	1,526
USD	4 - 8	Structured	32	32
JPY	25,000 - 50,000	Fixed rate 0.88%	1,136	1,136
GBP	250	Floating rate note	719	719
HKD	50 - 200	Fixed rate ranging from 2.85% - 7.40%	302	302
HKD	100 - 1,500	Floating rate note	377	377
CHF	200	Fixed rate 2.51%	247	247
CHF	140	Floating rate note	173	
EUR	100	Floating rate note	362	362
SGD	100	Fixed rate 3.80%	104	104
			_____	_____
			7,633	6,816
Domestic medium term notes				
NZD	60	Fixed rate 6.50%	52	52
			_____	_____
			7,685	6,868
			_____	_____

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			Consolidated		Parent Entity	
			_____	_____	_____	_____
Issue Currency	Issue Range	Interest Rate	2003 \$m	2002 \$m	2003 \$m	2002 \$m
(millions)			_____	_____	_____	_____
Due from 1 October 2003 to 30 September 2004						
Euro medium term notes						
AUD	7 - 600	Fixed rate ranging from 5.50% - 8.25%	735	732	735	732
USD	10 - 500	Fixed rate ranging from 0% - 6.76%	1,273	1,360	1,273	1,360
USD	16	Structured	23	29	23	29
USD	10 - 300	Floating rate note	1,080	1,352	382	478
GBP	77	Structured	189	222	189	222
GBP	10	Floating rate note	49	58	49	58
NZD	100 - 250	Fixed rate ranging from 6.00% - 6.25%	305	302		
HKD	40 - 315	Fixed rate ranging from 1.46% - 5.70%	444	474	444	474
HKD	92 - 400	Floating rate note	169	210	169	210
EUR	500	Floating rate note	855	904	855	904
SGD	150	Fixed rate 4.75%	128	155	128	155
			_____	_____	_____	_____
			5,250	5,798	4,247	4,622
			_____	_____	_____	_____

Due from 1 October 2004 to 30 September 2005

Euro medium term notes						
USD	5 - 15	Fixed rate 3.45% - 4.47%	54	68	54	68
USD	30	Structured		55		55
USD	5 - 300	Floating rate note	1,572	1,167	397	156
HKD	50 - 400	Fixed rate from 1.5% - 7.35%	579	276	579	276
HKD	100	Structured		24		24

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			Consolidated		Parent Entity	
HKD	100 - 400	Floating rate note	247	307	247	307
EUR	19 - 20	Fixed rate 2.45% - 4.51%	67	36	67	36
CAD	15	Structured	16		16	
			2,535	1,933	1,360	922

Non-domestic bonds issued

NZD	100	Fixed rate 5.5%	84	85	84	85
			2,619	2,018	1,444	1,007

Due from 1 October 2005 to 30 September 2006

Euro medium term notes

AUD	1,575	Fixed Rate 4.35%	1,575		1,575	
USD	10 - 500	Fixed rate from 2.54% - 5.75%	807	919	807	919
USD	15 - 20	Structured		55		55
USD	5 - 50	Floating rate note	110	92	36	
GBP	200	Floating rate note	490			
GBP	300	Floating rate note	737	863	737	863
HKD	40 - 450	Fixed rate from 0% - 6.90%	373	225	373	225
HKD	56 - 400	Structured	121	35	121	35
HKD	100 - 150	Floating rate note	64	24	64	24
EUR	100 - 500	Floating rate note	1,026	904	855	904
CAD	30	Structured	33		33	
SGD	15 - 100	Fixed Rate from 1.67% - 1.75%	98		98	
			5,434	3,117	4,699	3,025

Non-domestic bonds issued

NZD	200	Floating rate note	175			
NZD	100	Fixed Rate 6.00% - 6.25%	174		87	
			5,783	3,117	4,786	3,025

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			Consolidated		Parent Entity	
Issue Currency	Issue Range	Interest Rate	2003 \$m	2002 \$m	2003 \$m	2002 \$m
			(millions)			

Due from 1 October 2006 to 30 September 2007

Euro medium term notes

USD	5 - 50	Structured		101		101
USD	10	Fixed rate 0%	15		15	
USD	5 - 15	Floating rate note	37	9	37	9
HKD	100 - 170	Fixed rate 0% - 5.33%	166	35	166	35
HKD	100	Structured	19	47	19	47
GBP	150	Fixed rate 4.88%	369	432	369	432
SGD	100	Fixed rate 3.31%	85	104	85	104
JPY	19,400	Fixed rate 0.23%	257		257	
			948	728	948	728

			Consolidated		Parent Entity	
			_____	_____	_____	_____
			_____	_____	_____	_____
Due from 1 October 2007 to 30 September 2008						
Euro medium term notes						
AUD	225	Floating rate note	225		225	
AUD	525	Fixed rate 5.75%	525		525	
USD	5 - 30	Structured		55		55
USD	10 - 30	Structured	59		59	
USD	5 - 500	Floating rate note	766		766	
USD	30	Fixed rate 3.80%	44		44	
HKD	50 - 125	Fixed rate from 0% - 4.43%	77		77	
HKD	300 - 450	Floating rate note	142		142	
GBP	250	Floating rate note	614		614	
EUR	500	Fixed rate 2.88%	855		855	
SGD	3	Fixed rate 0%	3		3	
			3,310	55	3,310	55
Non-domestic bonds issued						
NZD	158	Floating rate	138			
			3,448	55	3,310	55
Due from 1 October 2008						
Euro medium term notes						
USD	5 - 30	Structured	103	470	103	470
USD	5 - 30	Fixed rate 4.62% - 7.00%	73		73	
HKD	150 - 258	Structured		96		96
HKD	80 - 200	Fixed rate from 0% - 8.04%	139	78	139	78
JPY	1,500 - 5,000	Fixed rate from 1.6% - 1.97%	86	76	86	76
JPY	700 - 2,000	Structured	62	94	62	94
			463	814	463	814
Total long term debt			18,511	20,215	15,198	17,119

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				Consolidated		
				_____	_____	_____
				2003	2002	2001
				\$m	\$m	\$m
				_____	_____	_____
Short term borrowings						
US commercial paper						
Maximum amount outstanding at any month end				7,776	7,642	6,836
Approximate average amount outstanding				6,588	5,447	4,941
Approximate weighted average interest rate on:						
Average amount outstanding				1.4%	2.1%	5.6%
Outstanding at year end				1.1%	1.8%	3.6%
Euro commercial paper						
Maximum amount outstanding at any month end				4,272	1,903	3,622
Approximate average amount outstanding				2,858	1,260	2,715

	Consolidated		
Approximate weighted average interest rate on:			
Average amount outstanding	2.7%	3.4%	6.4%
Outstanding at year end	2.5%	3.4%	4.6%

	Consolidated		Parent Entity	
	2003	2002	2003	2002
	\$m	\$m	\$m	\$m
Loan capital				
Subordinated bonds, notes and debentures				
USD 350 million 7.875% subordinated debentures due 2002 (matured)		644		644
AUD 350 million subordinated medium term notes due 2008(1)		350		350
AUD 300 million subordinated medium term notes due 2009(2)	300	300	300	300
USD 100 million subordinated bonds due 2009(3)	147	184	147	184
NZD 50 million subordinated bonds due 2009(4)	44	43	44	43
USD 100 million subordinated bonds due 2009(3)	147	184	147	184
USD 100 million subordinated bonds due 2010(3)	147	184	147	184
USD 400 million subordinated bonds due 2010(3)	588	735	588	735
AUD 350 million subordinated bonds due 2010(5)	350	350	350	350
SGD 100 million subordinated bonds due 2010(6)	85	103	85	103
USD 200 million subordinated bonds due 2010(3)	294	368	294	368
AUD 350 million subordinated bonds due 2011(7)	350	350	350	350
USD 350 million subordinated bonds due 2013(3)	514		514	
USD 350 million subordinated bonds due 2018(8)	514		514	
GBP 200 million subordinated bonds due 2018(9)	491		491	
Total subordinated bonds, notes and debentures	3,971	3,795	3,971	3,795

- (1) These notes were called on 28 May 2003.
- (2) \$215.5 million of these bonds pay a coupon of 6.25% until the fifth anniversary (2 March 2004). From the fifth anniversary until maturity the bonds pay a floating rate coupon. The remaining \$84.5 million of bonds pay a floating rate coupon. The bonds are callable after the fifth anniversary.
- (3) The bonds pay a floating rate coupon. The bonds are callable after the fifth anniversary.
- (4) The bonds pay a coupon of 7.59% until the fifth anniversary (15 July 2004). Swap arrangements (to NZD at a floating interest rate) have been entered into until the fifth anniversary. From the fifth anniversary until maturity a floating rate coupon is payable. The bonds are callable after the fifth anniversary.
- (5) \$112 million of these bonds pay a coupon of 7.0% until the fifth anniversary (2 August 2005). From the fifth anniversary until maturity the bonds pay a floating rate coupon. The remaining \$238 million of bonds pay a floating rate coupon. The bonds are callable after the fifth anniversary.
- (6) The bonds pay a coupon of 5.25%. A swap arrangement (to USD at a floating interest rate) has been entered into in respect of these bonds.
- (7)

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\$210 million pay a fixed coupon of 6.25% until the fifth anniversary (30 August 2006). From the fifth anniversary until maturity the bonds pay a floating rate coupon. The remaining \$140 million of bonds pays a floating rate coupon. The bonds are callable after the fifth anniversary.

(8) Swap arrangements (to USD at a floating interest rate) have been entered into in respect of these debentures.

(9) The bonds pay a coupon of 5.875% until 29 April 2013. From 29 April 2013 until maturity the bonds pay a floating rate coupon. The bonds are callable after 29 April 2013.

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Premiums and discounts, and fees and commissions paid on each issue have been deferred and are being amortised to interest expense over the life of the respective bonds or notes. Net unamortised expenses as at 30 September 2003 amounted to \$31 million (2002 \$27 million).

Subordinated bonds, notes and debentures with an original maturity of at least five years constitute tier 2 capital as defined by APRA for capital adequacy purposes. The value assigned is based on the remaining years to maturity.

	Consolidated		Parent Entity	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m

Subordinated perpetual notes

US\$390.2 million (2002 US\$390.2 million) subordinated perpetual floating rate notes	573	717	573	717
---	-----	-----	-----	-----

These notes have no final maturity, but may, subject to the approval of APRA and subject to certain other conditions, be redeemed at par at the option of Westpac. The rights of the noteholders and couponholders are subordinated to the claims of all creditors (including depositors) of Westpac other than those creditors whose claims against Westpac are expressed to rank equally with or after the claims of the noteholders and couponholders.

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Westpac debt programs and issuing shelves

Access in a timely and flexible manner to a diverse range of debt markets and investors is provided by the following programs and issuing shelves 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 2.0 billion	AUD 19 million(2)	Asian debt program
USD 2.5 billion	USD 358 million	Euro transferable certificates of deposits(3)
USD 1.0 billion	USD 24 million	Euro certificate of deposit program
USD 3.0 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)

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Program/Issuing Shelf	Outstanding	Program/Issuing Shelf Type
United States		
USD 5.0 billion	USD 2,773 million	Commercial paper program
USD 5.0 billion	USD 2,402 million	Commercial paper program(7)
USD 5.0 billion	USD 1,764 million	Medium term deposit program
USD 1.0 billion(8)	USD 673 million(9)	SEC registered shelf
New Zealand		
NZD 750 million	NZD 200 million	Domestic medium term note program(1)
NZD 500 million	NZD 50 million	Domestic subordinated medium term note program(1)
NZD 500 million	Nil	Subordinated debt program(1)
NZD 750 million	Nil	Domestic medium term note program(1)

- (1) New debt program issuance dated 18 July 2002 for the issue of transferable certificates of deposits (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 ETCD program dated 7 February 2002.
- (4) The limit for this program was 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 USD230 million of the issuing 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.

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	Consolidated		Parent Entity	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Contributed equity				
Ordinary shares(1)				
1,787,113,875 (2002 1,753,312,821) each fully paid	3,972	3,503	3,972	3,503
New Zealand Class shares				
53,694,931 (2002 53,694,931) of NZ\$11.95 each fully paid	471	471		
Other equity instruments				
Convertible debentures:				
Issued on 16 July 1999 NZ\$611,724,203 (net of issue costs A\$20 million)			465	465
Issued on 19 December 2002 NZ\$714,914,381 (net of issue costs of A\$12 million)			655	
Issued on 13 August 2003 NZ\$1,279,981,813 (net of issue costs of A\$13 million)			1,132	
Total convertible debentures				
51,068 (2002 51,068) perpetual capital notes of \$10,000 each fully paid			2,252	465
12,900,000 (2002 12,900,000) TOPrS of US\$25 each (net of issue costs A\$20 million)	465	465	511	511
6,671,140 (2002 nil) FIRsTS of A\$100 each (net of issue costs of A\$12 million)	655			
750,000 (2002 nil) TPS of US\$1,000 each (net of issue costs of A\$13 million)	1,132			
Total other equity instruments				
	2,723	936	5,015	1,441
Total equity				
	6,695	4,439	8,987	4,944

(1)

As described in note 1 (a)i, Westpac transferred the balances in the share premium reserve and capital redemption reserve to share capital, following the change of Westpac's incorporation.

Ordinary shares issued

Ordinary share capital entitles the holder to participate in dividends as declared and in the event of the winding up of Westpac, to participate in the proceeds in proportion to the number of and amounts paid on the shares held. Ordinary share capital entitles the holder to one vote, either in person or by proxy, at a general or special meeting of Westpac.

During the year ended 30 September 2003, the following ordinary shares were issued:

To equity holders in terms of the Dividend Reinvestment Plan, 12,525,670 ordinary shares at a price of \$16.27 and 12,734,405 ordinary shares at a price of \$13.95.

To eligible executives and senior management under the Westpac Performance Plan upon exercise of performance share rights, 16,010 ordinary shares issued, for nil consideration.

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To the Chief Executive Officer under the Chief Executive Share Option Agreement Plan upon exercise of options, 625,000 ordinary shares at an average price of \$10.83.

To executives under the General Management Share Option Plan upon exercise of options, 2,041,121 ordinary shares at an average exercise price of \$10.85.

To senior officers under the Senior Officers' Share Purchase Scheme upon exercise of options, 5,858,848 ordinary shares at an average exercise price of \$9.80.

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NZ Class shares

On 12 October 1999, a controlled entity, WestpacTrust Investments Limited (since renamed to Westpac (NZ) Investments Limited) issued 54,393,306 NZ Class shares in New Zealand. A first instalment of NZ\$7.20 (A\$5.66) per NZ Class share was received on application and the total received was NZ\$392 million (A\$308 million). A second instalment of NZ\$4.75 (A\$3.74) per NZ Class share was received on 20 December 2000 and the total received was NZ\$258 million (A\$203 million). The proceeds of the issue were invested in perpetual capital notes issued by Westpac. The NZ Class shares have been recorded at the total of the first instalment received and the present value, at the date of issue, of the second instalment, net of issue costs. The directors of Westpac (NZ) Investments Limited have the discretion to declare dividends on the NZ Class shares. However, the constitution of Westpac (NZ) Investments Limited requires that where a dividend is declared by the company, the dividend must equal the cash dividend paid on one Westpac ordinary share, adjusted by the conversion ratio (the Exchange Fraction) and converted into New Zealand dollars pursuant to the Exchange Deed. The holders of the NZ Class shares have limited voting rights in Westpac (NZ) Investments Limited. They do not have direct voting rights in Westpac, however, a special purpose company has been established to hold Enhanced Voting Shares in Westpac, and will vote those Enhanced Voting Shares in accordance with the indications of the NZ Class shareholders.

The NZ Class shares can be exchanged for ordinary shares in Westpac, upon the occurrence of certain limited events which may result in a compulsory exchange, an exchange at the option of Westpac or an exchange at the option of the NZ Class shareholder. The Exchange Fraction is initially one Westpac share for each NZ Class share. However, the Exchange Fraction will be adjusted for subsequent bonus issues, share splits or consolidations and rights issues where such an activity by either Westpac or Westpac (NZ) Investments Limited has not been mirrored by the other. The exchange events include a takeover of Westpac, change in laws which adversely affect the rights of the NZ Class shareholders, failure to pay a dividend on NZ Class shares equivalent to Westpac ordinary share dividends as adjusted by the Exchange Fraction, or commencement of liquidation, statutory management or administration of either Westpac or Westpac (NZ) Investments Limited.

The laws of New Zealand and Australia apply to various parts of the NZ Class share structure.

Perpetual capital notes

On 15 October 1999, 30,844 perpetual capital notes of \$10,000 each were issued at par value to Westpac Tasman No. 1 Pty Limited, a wholly owned controlled entity of Westpac. A further 20,224 notes of \$10,000 each were issued at par value to Westpac Tasman No. 1 Pty Limited on 20 December 2000. These notes yield a non-cumulative half-yearly distribution (15 April, 15 October) in arrears at the bank bill swap rate (BBSW) plus 1.25% and will rank subordinate and junior in right of payment of principal and distributions to Westpac's obligations to its depositors and creditors.

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Convertible debenture and TOPrS

A wholly owned entity Westpac Capital Trust I (Capital Trust) has issued 12,900,000 TOPrS in the United States of America at US\$25 each on 16 July 1999, with a non-cumulative quarterly distribution (31 March, 30 June, 30 September and 31 December) in arrears at the annual rate of 8%. The sole assets of the Capital Trust comprise 12,900,040 funding TOPrS issued by a wholly-owned entity, the Tavarua Funding Trust 1 (Funding Trust) totalling US\$322,501,000. The funding TOPrS have an issue price of US\$25 each with a non-cumulative quarterly distribution in arrears at the annual rate of 8%. The Funding Trust has issued common securities with a total price of US\$1,000 to Westpac Funding Holdings Pty Limited. The sole assets of the Funding Trust comprise convertible debentures issued by Westpac in an aggregate amount

of NZ\$611,724,203, US government securities purchased with the proceeds of the common securities, and a currency swap with Westpac.

The convertible debentures are an unsecured, junior subordinated obligations of Westpac and will rank subordinate and junior in right of payment of principal and distributions to Westpac's obligations to its depositors and creditors. The convertible debentures will only pay a distribution to the extent it is declared by the Board of Directors of Westpac, or an authorised committee of the Board. Any distribution is subject to Westpac having sufficient distributable profits. If certain conditions exist a distribution is not permitted to be declared unless approved by APRA. The convertible debentures will automatically convert into American Depository Receipts (ADRs) representing Westpac preference shares (8% non-cumulative preference shares in Westpac with a liquidation amount of US\$25) on 16 July 2049, or earlier in the event that a distribution is not made or certain other events occur. The dividend payment dates on Westpac preference shares will be the same days of the year as the distribution payment dates on the TOPrS. The TOPrS will then be redeemed for ADRs.

Under the currency swap, the Funding Trust paid an amount equal to the proceeds of the issue of the funding TOPrS in US dollars to Westpac, which paid the Funding Trust the New Zealand dollar equivalent using a fixed exchange rate of NZ\$1.00 = US\$0.5272. The Funding Trust is also required to pay to Westpac any amount in New Zealand dollars it receives under the convertible debenture, in return for an amount denominated in US dollars at the fixed exchange rate.

The currency swap terminates upon payment in full of the cash redemption price of the outstanding convertible debentures and the exchange of such redemption price for US dollars, or the conversion of the convertible debentures into ADRs.

A netting agreement has been entered into between Westpac and the Funding Trust. Pursuant to the netting agreement, the distributions on the convertible debentures will be treated as payment by the Funding Trust under the currency swap. In return, Westpac will pay US dollars to the Funding Trust under the currency swap equal to the NZ dollars it receives from the Funding Trust under the currency swap (calculated by reference to the fixed exchange rate).

As a consequence of the terms of the currency swap, and the netting agreement, the convertible debentures and their distributions are treated as US dollar denominated instruments.

Westpac has guaranteed, on a subordinated basis, the payment in full of distributions or redemption amounts, the delivery of ADRs and other payments on the TOPrS and the funding TOPrS to the extent that the Capital Trust and the Funding Trust have funds available.

With the prior written consent of APRA, if required, Westpac may elect to redeem the convertible debentures for cash before 16 July 2004 in whole upon the occurrence of certain specific events, and in whole or in part on one or more occasions any time on or after 16 July 2004. The proceeds received by Funding Trust from the redemption of the convertible debentures must be used to redeem the funding TOPrS and ultimately the TOPrS. The redemption price of the TOPrS will equal US\$25 per TOPrS plus the accrued and unpaid distribution for the then current quarterly period to the date of redemption or, if the date of redemption is a distribution payment date, the accrued and unpaid distribution for the most recent quarterly period from the assets of Capital Trust available for distribution.

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The holders of the convertible debentures, funding TOPrS and TOPrS do not have an option to require redemption of these instruments.

The laws of the United States of America, Australia and New Zealand apply to various parts of this transaction.

Convertible debentures and FIRsTS

A Westpac controlled entity, Westpac First Trust issued 6,671,140 Westpac FIRsTS in Australia at \$100 each on 19 December 2002. The Westpac FIRsTS are units in Westpac First Trust with non-cumulative distributions. The material assets of Westpac First Trust are 6,671,140 preferred units issued by another Westpac controlled entity, Westpac Second Trust. The preferred units have an issue price of \$100. Westpac Second Trust has issued an ordinary unit with an issue price of \$100 to Westpac Alpha Limited. The material assets of Westpac Second Trust are convertible debentures issued by Westpac in an aggregate amount of NZ\$731,156,944 and a currency swap with Westpac.

Westpac FIRsTS are expected to pay quarterly distributions until 31 December 2007 (the first rollover date) based on an annual interest rate of 6.575%. The distributions are ultimately sourced from interest paid by Westpac on the convertible debentures. On 31 December 2007 and each rollover date after that, Westpac can vary some of the terms of the convertible debentures including the interest rate. On these rollover dates Westpac is also entitled to set the next rollover date which must be an interest payment date at least 12 months later. Any variations will have a corresponding effect on the expected distribution rate and other features (such as distribution frequency) of the preferred units and the Westpac FIRsTS.

The holders of Westpac FIRsTS can request Westpac to exchange their Westpac FIRsTS on each rollover date or upon occurrence of certain control events (such as a takeover bid involving the acquisition of a majority interest in Westpac). The holders will receive for each Westpac FIRsTS, at Westpac's discretion, \$100 cash (subject to APRA approval) or Westpac ordinary shares calculated in accordance with the applicable exchange ratio.

Westpac can require holders to exchange their Westpac FIRsTS for \$100 cash (subject to APRA approval) or a variable number of Westpac ordinary shares calculated in accordance with the applicable exchange ratio on each rollover date (or on distribution payment dates after the first rollover date if the distribution rate applying to the Westpac FIRsTS at that date is a floating rate) or in certain other limited circumstances.

Where Westpac has acquired Westpac FIRsTS, an amount of convertible debentures must be redeemed for cash (subject to APRA approval) if Westpac has required redemption of those Westpac FIRsTS by Westpac First Trust. The convertible debentures may also be redeemed for cash (subject to APRA approval) in other limited circumstances. Redemption of the convertible debentures for cash will cause a redemption of the Westpac FIRsTS.

Payment of distributions on Westpac FIRsTS ultimately depends on whether interest is paid on the convertible debentures and distribution of that interest through Westpac Second Trust and Westpac First Trust to the holders of Westpac FIRsTS. The convertible debentures are unsecured obligations of Westpac and rank subordinate and junior in right of payment of principal and interest to Westpac's obligations to depositors and creditors, other than subordinated creditors holding subordinated indebtedness that is stated to rank equally with, or junior to the convertible debentures. To become payable, interest on the convertible debentures must be declared by a specially constituted committee appointed by the Board of Directors of Westpac. This committee must not declare interest payable if special deferral conditions arise such as where APRA objects to interest being paid or if Westpac has insufficient distributable profits available.

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The convertible debentures may convert into Westpac preference shares or Westpac ordinary shares in certain circumstances. They will automatically convert into a fixed number of Westpac preference shares on 19 December 2052 or where Westpac fails to pay scheduled distributions on the convertible debentures and that failure continues unremedied for a period of 21 days. The convertible debentures will automatically convert into a variable number of Westpac ordinary shares calculated in accordance with the applicable exchange ratio on the occurrence of certain APRA regulatory actions affecting Westpac, Westpac's retained earnings falling below zero or an event of default. Westpac may also elect to convert the convertible debentures into Westpac ordinary shares in certain limited circumstances, such as where its ability to acquire or redeem Westpac FIRsTS is threatened. On conversion of the convertible debentures to Westpac ordinary shares in any of these circumstances, Westpac FIRsTS will be automatically redeemed in exchange for the ordinary shares.

Under the currency swap Westpac Second Trust initially paid to Westpac an amount equal to the proceeds of the issue of preferred units and Westpac paid to Westpac Second Trust the New Zealand dollar equivalent of that amount using a fixed exchange rate of A\$1.00 = NZ\$1.096. Westpac Second Trust is also required to pay to Westpac any amount in New Zealand dollars it receives under the convertible debentures, in return for an amount from Westpac denominated in Australian dollars equal to a margin over the applicable Australian dollar swap rate. The margin is the same as that on the convertible debentures.

A payment direction has been entered into between Westpac and Westpac Second Trust. Pursuant to it, interest otherwise payable to Westpac Second Trust on the convertible debentures will be treated as payment by Westpac Second Trust to Westpac under the currency swap. In return, Westpac will pay Australian dollars to Westpac Second Trust under the currency swap equal to the New Zealand dollars it receives from Westpac Second Trust under the currency swap (calculated by reference to the fixed exchange rate). As a consequence of the terms of the currency swap, and the payment direction, the convertible debentures are treated as an Australian dollar denominated instrument.

The laws of Australia and New Zealand apply to various parts of this transaction.

Convertible Debentures and TPS

A wholly owned entity Westpac Capital Trust III (Capital Trust III) issued 750,000 TPS in the United States of America at US\$1,000 each on 13 August 2003, with non-cumulative semi-annual distributions (31 March and 30 September) in arrears at the annual rate of 5.819% up to but excluding 30 September 2013. From, and including, 30 September 2013 the TPS will pay non-cumulative quarterly distributions (31 December, 31 March, 30 June and 30 September) in arrears at a floating rate of LIBOR plus 2.05% per year.

The sole assets of the Capital Trust III comprise 750,001 Funding TPS issued by a wholly owned entity, the Tavarua Funding Trust III (Funding Trust III) totaling US\$750,001,000. The Funding TPS have an issue price of US\$1,000 each with a non-cumulative semi-annual distributions in arrears at the annual rate of 5.819% up to, but excluding 30 September 2013 and subsequently, including 30 September 2013, quarterly distributions in arrears at the annual rate of LIBOR plus 2.05%.

Funding Trust III has issued common securities with a total price of US\$1,000 to Westpac Funding Holdings Pty Limited. The assets of Funding Trust III comprise convertible debentures issued by Westpac in aggregate amount of NZ\$1,293,103,448, US government securities purchased with the proceeds of the common securities and a currency swap with Westpac.

The convertible debentures are unsecured, junior subordinated obligations of Westpac and will rank subordinate and junior in right of payment of principal and distributions to Westpac's obligations to its depositors and creditors. The convertible debentures are limited in aggregate principle amount to the New Zealand dollar equivalent, based on a fixed exchange rate of US\$0.58, of the sum of the stated liquidation amounts of the TPS and the proceeds of the common securities issued by Capital Trust III. The convertible debentures will only pay distributions to the extent they are declared by the Board of Directors of Westpac, or an authorised committee of the Board. Any distribution is subject to Westpac having sufficient distributable profits. If certain conditions exist a distribution is not permitted to be declared unless approved by APRA. The convertible debentures have no stated maturity, but will automatically convert into American Depositary Receipts (ADRs) each representing 40 Westpac preference shares (non-cumulative preference shares in Westpac with a liquidation amount of US\$25) on 30 September 2053, or earlier in the event that a distribution is not made or certain other events occur. Upon issue the amount paid up on each Westpac preference share will be deemed to be US\$25. The TPS will then be redeemed for ADRs. The dividend payment dates and distribution rates on Westpac preference shares will be the same as those otherwise applicable to the TPS.

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Under the currency swap, Funding Trust III initially paid an amount equal to the proceeds of the issue of the Funding TPS in US dollars to Westpac, in exchange for the New Zealand dollar equivalent using a fixed exchange rate of NZ\$1.00 = US\$0.58. Funding Trust III is also required to pay to Westpac any amount in New Zealand dollars it receives under the convertible debentures, in return for an amount denominated in US dollars at the fixed exchange rate.

The currency swap terminates upon the payment in full of the cash redemption price of the outstanding convertible debentures and the exchange of such redemption price for US dollars or the conversion of the convertible debentures into ADRs.

A netting agreement has been entered into between Westpac and Funding Trust III. Pursuant to the netting agreement, the distributions on the convertible debentures will be treated as a payment by Funding Trust III under the currency swap. In return, Westpac will pay US dollars to Funding Trust III under the currency swap equal to the NZ dollars it would have received from Funding Trust III under the currency swap (calculated by reference to the fixed exchange rate).

As a consequence of the terms of the currency swap, and the netting agreement, the convertible debentures and their distributions are treated as a US dollar denominated instrument.

Westpac has guaranteed, on a subordinated basis, the payment in full of distributions or redemption amounts, the delivery of ADRs and other payments on the TPS and the Funding TPS to the extent that the Capital Trust III and the Funding Trust III have funds available.

With the prior written consent of APRA, if required, Westpac may elect to redeem the convertible debentures for cash before 30 September 2013 in whole upon the occurrence of certain specific events, and in whole or in part on any distribution date on or after 30 September 2013. The proceeds received by Funding Trust III from the redemption of the convertible debentures must be used to redeem the Funding TPS and ultimately the TPS. The redemption price of the TPS will equal US\$25 per TPS plus the accrued and unpaid distribution for the then current quarterly period to the date of redemption or, if the date of redemption is a distribution payment date, the accrued and unpaid distribution for the most recent semi-annual or quarterly period from the assets of Capital Trust III available for distribution.

The holders of the convertible debentures, Funding TPS and TPS do not have an option to require redemption of these instruments.

The laws of the United States of America, Australia and New Zealand apply to various parts of this transaction.

Note 26. Equity based remuneration

Executive and Senior Officer share plans

Options, performance share rights and stock appreciation rights are granted to selected executives and senior managers under the following schemes.

i Westpac Performance Plan

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The first grant of performance options and performance share rights under the Westpac Performance Plan took place on 20 January 2003. The Westpac Performance Plan replaces the General Management Share Option Plan (GMSOP) and the Senior Officers' Share Purchase Scheme (SOSPS), which are both now closed to new offers. The Westpac Performance Plan provides for both performance options and performance share rights to be offered to executives and senior management.

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All allocations under this plan include a performance hurdle, which will result in all participants forfeiting all performance options and performance share rights for below median returns relative to a peer group of 50 companies. Details of the plan are set out below.

Performance hurdle applying to the plan

Participants will only receive unconditional ownership (vesting) of performance options or performance share rights if the performance hurdle which compares Westpac's total shareholder return (TSR) with the TSR of Westpac's industry peers is 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 peer group is the top 50 largest companies listed on the Australian Stock Exchange (ASX) by market capitalisation at the commencement of the performance period (excluding Westpac, property and investment trusts and specified resources companies).

Under the hurdle, all performance options and performance share rights are forfeited if Westpac's TSR fails to be at or above the middle (median) performance of the peer group over the specific performance periods under the plan. If Westpac's TSR equals the median performance of the peer group, 50% of the performance options and performance share rights granted can be vested. If Westpac's TSR is at or above the 75th percentile of the peer group, 100% of the performance options and performance share rights granted can be vested. Between the 50th percentile and the 75th percentile an additional 2% of performance options and performance share rights can be vested for each 1% improvement in TSR ranking above the 50th percentile.

Performance options

Under the Westpac Performance Plan, up to 100 eligible executives can be granted performance options to acquire fully paid ordinary shares issued by Westpac, with vesting subject to meeting the above performance hurdle. The performance options will have a ten year life from date of grant. The price to be paid by the executive, (the exercise price), is equal to the average market price of Westpac ordinary shares traded on the ASX 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 earlier testing. Any performance options that do not vest are forfeited.

Upon exercising vested performance options, the executive has the right to take up his or her entitlement in whole or in part as fully paid ordinary shares. The exercise price is payable at that time. If a performance option is not exercised prior to the end of its term, it lapses.

The following table sets out details of the performance options granted to executives under the Westpac Performance Plan:

Grant Date	Latest Date for Exercise	Exercise Price	As at 1 October 2002	Granted During the Year	Exercised During the Year	Lapsed During the Year	As at 30 September 2003
20 January 2003	20 January 2013	\$ 13.59		4,485,496		83,979	4,401,517
1 May 2003	1 May 2013	\$ 15.04		28,333			28,333
				4,513,829		83,979	4,429,850
Weighted average exercise price				\$ 13.60	\$ 0.00	\$ 13.59	\$ 13.60

Performance share rights

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Under the Westpac Performance Plan, performance share rights will be granted to approximately 500 eligible executives and senior management, with vesting subject to meeting the above performance hurdle. 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 have either a two-year or a three-year initial testing period. The performance share rights will be subject to the same periodic testing as for performance options above, except that those with a two-year initial testing period will be tested on the second, third and fourth anniversaries. Any performance share rights that do not vest will be forfeited.

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The following table sets out details of the performance share rights granted to executives and senior managers under the Westpac Performance Plan:

Grant Date	Latest Date for Exercise	As at 1 October 2002	Granted During the Year	Exercised During the Year	Lapsed During the Year	As at 30 September 2003
Two-year initial testing period						
20 January 2003	20 January 2013		2,483,934	15,202	93,328	2,375,404
1 May 2003	1 May 2013		22,106			22,106
1 August 2003	1 August 2013		5,855			5,855
Three-year initial testing period						
20 January 2003	20 January 2013		1,433,929	808	75,274	1,357,847
1 May 2003	1 May 2013		14,605			14,605
1 August 2003	1 August 2013		6,059			6,059
			3,966,488	16,010	168,602	3,781,876

ii Chief Executive Share Option Agreements

Following approval at a special general meeting of Westpac's shareholders on 2 September 1999, the Chief Executive Officer, David Morgan was granted three tranches of non-transferable options (CEO 1999 options), each tranche enabling him to subscribe for 1,000,000 ordinary shares at a price of \$10.83 per share.

The first tranche became exercisable on 1 March 2002 and may be exercised at any time up to 1 March 2009. The second tranche became exercisable on 1 March 2003 and may be exercised at any time up to 1 March 2009. The third tranche, when vested, is exercisable between 1 March 2004 and 1 March 2009. All tranches are subject to a performance requirement that will determine the proportion which may be exercised after the end of the performance period. The performance hurdles compare the TSR received by Westpac shareholders against those received by shareholders of a peer group of companies over the performance period. The peer group is the 50 largest companies listed on the ASX by market capitalisation at the commencement of the performance period (excluding Westpac, property and investment trusts and specified resources companies). If Westpac's TSR is below the TSR of the bottom 25% of the peer group over the performance period, none of the options granted will be exercisable. Where Westpac's TSR is equal to or exceeds the TSR of 75% of the peer group over the performance period, all options granted will be exercisable. For each percentage improvement in the relative TSR of Westpac above 25% and up to 50% of the peer group, an additional 1% of options become exercisable. For each percentage improvement in the relative TSR of Westpac above 50% and up to 75% of the peer group, an additional 2% of options become exercisable. The initial period for testing against the performance hurdle is after three, four and five years for the first, second and third tranches, respectively. David Morgan can elect to vest based on the result at the initial testing date or elect to test again in each of the subsequent two anniversaries, however David Morgan does not have the choice to revert to the results based on earlier testing.

Pursuant to a resolution passed at the annual general meeting of shareholders on 13 December 2001, the grant of a further two tranches of non-transferable options (CEO 2001 options) to David Morgan was approved. Each tranche enables him to subscribe for 1,100,000 ordinary shares. The exercise price of each tranche is the weighted average market price of Westpac ordinary shares traded on the ASX during the five trading days up to the time the offer is made. The first tranche was granted on 1 March 2002 at an exercise price of \$16.71 per option. The second tranche was granted on 4 March 2003 at an exercise price of \$13.87 per option. The first tranche is subject to the same performance hurdles as the CEO 1999 options. The second tranche is subject to a stricter performance hurdle determined by our Directors such that where Westpac's TSR is below the median of the peer group over the performance period, none of the options granted will be exercisable. Where Westpac's TSR is equal to or exceeds 75% of the peer group over the performance period, all options granted can be exercised. The initial period for testing against the performance hurdles is after three years.

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Westpac will not lend any part of the aggregate exercise price to David Morgan to facilitate the exercise of any of these options.

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The following table sets out details of the options granted to David Morgan under the Chief Executive Share Options Agreements:

Grant Date	Latest Date for Exercise	Exercise Price	As at 1 October 2002	Granted During the Year	Exercised During the Year	Lapsed During the Year	As at 30 September 2003
1 March 1999	1 March 2009	\$ 10.83	920,000		625,000		295,000
1 March 1999	1 March 2009	\$ 10.83	1,000,000			71,420	928,580
1 March 1999	1 March 2009	\$ 10.83	1,000,000				1,000,000
1 March 2002	29 February 2012	\$ 16.71	1,100,000				1,100,000
4 March 2003	28 February 2013	\$ 13.87		1,100,000			1,100,000
			4,020,000	1,100,000	625,000	71,420	4,423,580
Weighted average exercise price			\$ 12.44	\$ 13.87	\$ 10.83	\$ 10.83	\$ 13.05

iii Stock appreciation rights

As at 30 September 2003, there were 500,000 stock appreciation rights outstanding, which were granted on 2 September 1997 at a nominal price of \$7.89 per right (the issue price). No stock appreciation rights have been issued since 1997 and none were exercised during the year ended 30 September 2003. The stock appreciation rights have a term of up to ten years and become payable, at the option of the holder at any time on or after three years from the date of the grant.

Under the rights, the holder receives a cash payment equal to the amount by which the closing price of Westpac's ordinary shares exceeds the issue price as at close of business on the ASX on the date the rights are exercised.

Stock appreciation rights provide no dividend or voting rights to holders.

Former Executive and Senior Officer share plans

The General Management Share Option Plan (GMSOP) and Senior Officers' Share Purchase Scheme (SOSPS) were replaced by the Westpac Performance Plan. The GMSOP and SOSPS provided for the allocation of share options to selected executives and senior officers.

i General Management Share Option Plan (GMSOP)

Under the GMSOP, approved by shareholders in December 1998, Westpac granted options to acquire fully paid ordinary shares issued by Westpac.

Participants in the GMSOP were limited to selected executives at General Manager level or above. Non-executive Directors were not eligible to participate in the plan and no Executive Directors could participate in the plan without specific shareholder approval.

No consideration was payable for the grant of an option under the GMSOP. The exercise price is equal to the average closing price of Westpac's ordinary shares on the ASX during the five trading days before the date of the offer of options to the selected executive.

The options have a ten-year life, and are subject to a performance requirement that will determine the proportion which may be exercised following the end of the performance period. The performance hurdles compare the TSR received by Westpac shareholders against those received by shareholders of a peer group over the performance period. Options granted under the GMSOP are subject to the same peer group TSR and performance hurdles as the CEO 1999 options.

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The initial period for testing against the performance hurdle is after three years. Participants can elect to vest based on the result of this testing or opt to test again on the fourth anniversary. Participants 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. Participants do not have the choice to revert to the results based on earlier testing. Any performance options that do not vest are forfeited.

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The following table sets out details of the options granted to selected executives at General Manager level or above under the GMSOP:

Grant Date	Latest Date for Exercise	Exercise Price	As at 1 October 2002	Granted During the Year	Exercised During the Year	Lapsed During the Year	As at 30 September 2003				
1 March 1999	1 March 2009	\$ 10.85	45,000				45,000				
6 April 1999	6 April 2009	\$ 10.60	98,000				98,000				
3 August 1999	3 August 2009	\$ 9.99	250,000		150,000		100,000				
29 December 1999	29 December 2009	\$ 9.57	1,813,000		1,172,000		641,000				
6 March 2000	6 March 2010	\$ 10.70	140,000		131,600	8,400					
3 April 2000	3 April 2010	\$ 10.51	40,000			2,326	37,674				
3 April 2000	3 April 2010	\$ 10.75	100,000			5,814	94,186				
4 September 2000	4 September 2010	\$ 12.39	1,150,000				1,150,000				
8 January 2001	8 January 2011	\$ 13.32	3,445,400		450,959	259,318	2,735,123				
22 January 2001	22 January 2011	\$ 13.72	100,000				100,000				
19 March 2001	19 March 2011	\$ 13.85	200,000				200,000				
23 April 2001	23 April 2011	\$ 13.67	100,000				100,000				
7 August 2001	7 August 2011	\$ 14.37	200,000				200,000				
5 November 2001	5 November 2011	\$ 12.75	1,030,000				1,030,000				
9 January 2002	9 January 2012	\$ 14.70	4,980,000		136,562	800,379	4,043,059				
7 March 2002	7 March 2012	\$ 15.73	300,000				300,000				
27 May 2002	27 May 2012	\$ 16.21	100,000				100,000				
3 June 2002	3 June 2012	\$ 16.15	16,241			16,241					
22 July 2002	22 July 2012	\$ 16.40	150,000			150,000					
6 August 2002	6 August 2012	\$ 16.03	140,000				140,000				
12 August 2002	12 August 2012	\$ 16.15	75,000				75,000				
14 October 2002	14 October 2012	\$ 15.65		75,000			75,000				
21 October 2002	21 October 2012	\$ 15.19		50,000			50,000				
18 November 2002	18 November 2012	\$ 13.30		75,000			75,000				
2 December 2002	2 December 2012	\$ 14.33		75,000			75,000				
			14,472,641	275,000	2,041,121	1,242,478	11,464,042				
Weighted average exercise price		\$	13.25	\$	14.57	\$	10.85	\$	14.58	\$	13.56
				Weighted Average Exercise Price		Weighted Average Market Price					
				\$		\$					
200,000 options issued during the 2003 financial year whose exercise price exceeded the market price on grant date						15.04		13.68			
75,000 options issued during the 2003 financial year whose exercise price was less than the market price on grant date						13.30		14.29			

Upon exercising an option, the officer has the right to take up his or her entitlement in whole or in part (but in multiples of 1,000) as fully paid ordinary shares. The exercise price is payable at that time. If an option is not exercised prior to the end of its term, it lapses.

As at 30 September 2003, 38 executives (2002 42) held options under the GMSOP.

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ii Senior Officers' Share Purchase Scheme (SOSPS)

Under the SOSPS, approved by shareholders in January 1988, Westpac granted options to senior officers to purchase ordinary shares. Until December 1998, options offered had a term of five years and are exercisable during the last two years of the term.

Pursuant to amendments to the SOSPS rules, approved by shareholders in December 1998, options granted by Westpac following those amendments had a term of ten years and are exercisable during the last seven years of the term.

The consideration payable for the grant of an option prior to December 1998 was \$0.01 per share. From December 1998, no consideration was payable. The exercise price is equal to the closing market price of Westpac's ordinary shares on the ASX on the day before the option is offered to the senior officer. If an option is not exercised prior to the end of its term, it lapses and the \$0.01 per share, if previously paid, is forfeited by the officer.

Eligibility for participation in the SOSPS, as now constituted, was restricted to full-time Group employees who do not qualify for the GMSOP and who were designated by the Directors from time to time to have achieved the status equal to or above senior officer.

The following table sets out details of options granted to senior officers under the SOSPS.

Grant Date	Latest Date for Exercise	Exercise Price	As at 1 October 2002	Granted During the Year	Exercised During the Year	Lapsed During the Year	As at 30 September 2003
22 December 1997	22 December 2002	\$ 8.60	868,000		651,000	217,000	
2 March 1998	2 March 2003	\$ 9.92	70,000		50,000	20,000	
24 August 1998	24 August 2003	\$ 10.50	35,000		35,000		
21 December 1998	21 December 2003	\$ 9.56	2,146,000		1,232,000	70,000	844,000
10 May 1999	10 May 2009	\$ 11.56	65,000				65,000
30 August 1999	30 August 2009	\$ 10.10	10,000				10,000
5 October 1999	5 October 2009	\$ 9.55	40,000				40,000
29 December 1999	29 December 2009	\$ 9.53	6,567,580		3,377,544	83,036	3,107,000
24 January 2000	24 January 2010	\$ 10.10	20,000		20,000		
6 March 2000	6 March 2010	\$ 10.42	25,000				25,000
29 May 2000	29 May 2010	\$ 10.43	45,000				45,000
4 September 2000	4 September 2010	\$ 12.20	150,000			50,000	100,000
8 January 2001	8 January 2011	\$ 13.26	6,929,511		310,376	394,456	6,224,679
15 January 2001	15 January 2011	\$ 13.54	50,000				50,000
5 February 2001	5 February 2011	\$ 12.87	10,000				10,000
19 March 2001	19 March 2011	\$ 13.61	50,000				50,000
2 April 2001	2 April 2011	\$ 13.76	20,000				20,000
9 April 2001	9 April 2011	\$ 13.85	40,000				40,000
23 April 2001	23 April 2011	\$ 13.50	98,000				98,000
14 May 2001	14 May 2011	\$ 12.35	70,000				70,000
25 June 2001	25 June 2011	\$ 12.80	50,000				50,000
7 August 2001	7 August 2011	\$ 14.23	65,000		5,589	4,411	55,000
5 November 2001	5 November 2011	\$ 12.05	10,000				10,000
9 January 2002	9 January 2012	\$ 14.65	8,604,945		177,339	609,913	7,817,693
18 February 2002	18 February 2012	\$ 15.63	50,000				50,000
29 April 2002	29 April 2012	\$ 15.40	273,000			16,000	257,000
22 July 2002	22 July 2012	\$ 16.24	516,680			228,107	288,573
29 July 2002	29 July 2012	\$ 16.21	100,000			50,000	50,000
28 October 2002	28 October 2012	\$ 15.32		30,000			30,000
18 November 2002	18 November 2012	\$ 13.07		140,000			140,000
			26,978,716	170,000	5,858,848	1,742,923	19,546,945

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Grant Date	Latest Date for Exercise	Exercise Price	As at 1 October 2002	Granted During the Year	Exercised During the Year	Lapsed During the Year	As at 30 September 2003
Weighted average exercise price			\$ 12.41	\$ 13.47	\$ 9.80	\$ 13.27	\$ 13.12

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	Weighted Average Exercise Price \$	Weighted Average Market Price \$
30,000 options issued during the 2003 financial year whose exercise price exceeded the market price on grant date	15.32	13.84
140,000 options issued during the 2003 financial year whose exercise price was less than the market price on grant date	13.07	14.44

For options granted prior to December 1998, upon exercising an option the senior officer must take up their entitlement in whole, in which event the whole of the exercise price (less the \$0.01 per share paid upon grant of the option) becomes payable. For options granted after December 1998, upon exercising an option, the senior officer has the right to take up their entitlement in whole or in part (but in multiples of 1,000) as fully paid shares, in which event the whole of the exercise price becomes payable. Only fully paid ordinary shares carry dividend or voting rights.

As at 30 September 2003 563 officers (2002 718) held options under the SOSPS.

General information on Executive and Senior Officer share plans

The market price of Westpac's ordinary shares as at 30 September 2003 was \$16.20 (2002 \$13.85). Details of the shares issued under each of the Executive and Senior Officer share plans during the year ended 30 September 2003 are set out below:

Share Plan	Dates on which Options or Share Rights were Exercised	Exercise Price	Total Number of Shares Issued/Allocated	Fair Value (Market Value at Date of Issue/Allocation) (\$'000)	Consideration Received (\$'000)	
2003	Performance share rights	April 2003	874	14		
		July 2003	15,136	243		
	Chief Executive Share Option Agreements	April 2003	10.83	625,000	10,188	6,768
	GMSOP	October 2002	9.99	73,400	1,019	811
		January 2003	9.57	392,611	5,611	4,466
		April 2003	9.57	972,000	15,591	9,344
		July 2003	9.57	603,110	10,111	7,516
	SOSPS	October 2002	8.59	1,117,348	15,448	10,312
		January 2003	9.53	1,201,260	17,006	11,470
		April 2003	9.53	2,899,897	46,549	29,333
2002	GMSOP	October 2001	52,800	862	505	
		January 2002	186,947	3,029	2,089	
		April 2002	330,460	5,457	3,419	
		July 2002	464,314	7,186	5,100	
	SOSPS	October 2001	7.04	2,517,638	38,682	21,778
		January 2002	7.09	2,446,140	38,610	22,538
		April 2002	7.04	2,966,159	48,684	27,760
		July 2002	8.59	778,309	12,188	7,725

Shares allotted as a consequence of the exercise of performance options or performance share rights under the plan will, from the day of allotment, rank equally with all other issued Westpac ordinary shares and qualify for the payment of dividends and shareholder voting rights.

The share plans are operated in compliance with ASIC policy statement 49 which provides relief from the disclosure and licensing provisions of the Corporations Act 2001. Included in the ASIC policy statement is a five percent limit on the number of shares that can be issued

under an employee share scheme without the issuance of a prospectus. Under the policy statement, the number of shares the subject of options to be offered to employees at any particular time cannot, at the time the offer is made and when aggregated with the number of shares the subject of previously issued unexercised options issued to employees under those plans and with the number of shares issued during the previous five years under all employee share schemes, exceed five percent of the total number of shares on issue at the time that offer is made.

The names of all persons who hold options and/or performance share rights currently on issue are entered in Westpac's register of option holders which may be inspected at ASX Perpetual Registrars Limited, Level 8, 580 George Street, Sydney, New South Wales.

Employee Share Plans

i The Deferral Share Plan (DSP)

The DSP was introduced from September 2002, replacing the Westpac Employee Share Plan stage one (WESP1). The first allocation of shares under the DSP took place in December 2002. Under the DSP, employees have the opportunity to pre-elect to receive any prospective short term incentive bonus as Westpac shares in the DSP. Participants will pay the current market price, including acquisition costs, at the time Westpac shares are purchased on their behalf. The shares must generally remain in the plan for 12 months but can remain for up to ten years. Participants are entitled to receive any dividend or other distribution attaching to shares held under the DSP. Participants are also entitled to exercise voting rights attaching to the shares.

Commencing in 2004, non-executive Directors may elect each year to take a portion of their fees in the form of share purchases under the DSP.

The following table relates to shares purchased under the DSP during the year ended 30 September 2003:

	<u>Number of Participants</u>	<u>Average Number of Shares Purchased per Participant</u>	<u>Average Purchase Price per Share</u>	<u>Total Purchase Consideration</u>
2003	424	931	\$ 14.28	\$ 5,636,945

The shares were purchased on various dates throughout the financial year.

ii The Employee Share Plan (ESP)

The ESP was introduced from September 2002, replacing the Westpac Employee Share Plan stage two (WESP2). The first allocation of shares under the ESP took place in December 2002. Under the ESP, shares may be allocated to employees at no cost to recognise their contribution to Westpac's financial 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 size of actual allocation depends on the performance of Westpac's share price over the financial year and includes a performance hurdle before any allocation is made. The shares are normally locked within the ESP for three years unless the employee leaves Westpac. Participants are entitled to receive any dividend or other distribution attaching to shares held under the ESP. Participants are also entitled to exercise voting rights attaching to the shares.

Westpac's Australian employees (including part-time employees) who have been in six months continuous employment as at 30 September each year will be eligible to participate in the ESP. Executives and senior management who participate in the Westpac Performance Plan are not eligible to participate in the ESP during the same performance year.

The following table relates to shares purchased under the ESP during the year ended 30 September 2003:

	<u>Number of Participants</u>	<u>Average Number of Shares Purchased per Participant</u>	<u>Average Purchase Price per Share</u>	<u>Total Purchase Consideration</u>
2003	16,872	43	\$ 13.99	\$ 10,149,689

The shares were allocated on 17 December 2002.

iii The New Zealand Staff Share Scheme

When the scheme was established in March 2000 all permanent members of staff were allocated NZ Class shares. The shares were purchased on market on behalf of employees. New Zealand staff are eligible to receive further allocations of New Zealand Class shares depending on the market performance of the New Zealand Class shares.

Participants are entitled to receive any dividend or other distribution attaching to shares held under the scheme. Participants are also entitled to exercise voting rights attaching to the shares.

The following table relates to shares purchased under the New Zealand staff share scheme during the years ended 30 September:

	Number of Participants	Average Number of Shares Purchased per Participant	Average Purchase Price per Share	Total Purchase Consideration
2003	5,365	26	NZ\$ 14.75	NZ\$ 2,057,478
2002	5,837	15	NZ\$ 18.00	NZ\$ 1,575,900

The shares were allocated on 15 November 2002.

Former Employee Share Plans

The following share plans were replaced in September 2002 by the DSP and ESP, respectively.

i The Westpac Employee Share Plan stage one (WESP1)

This share purchase arrangement was open to all part-time and full-time Westpac Group employees based in Australia and non-executive Directors. Part-time and full-time employees were entitled to elect up to 100% of prospective performance related bonus to be taken in the form of share purchases under WESP1. Non-executive Directors may elect each year to take a portion of their fees in the form of share purchases under WESP1.

Shares are purchased, by an independent plan company, on the ASX and are held in WESP1, in the employees' names. Under WESP1 rules, shares must be retained in the WESP1 for at least 12 months (unless the employee leaves Westpac) and can be retained in WESP1 for up to ten years. Participants are entitled to receive any dividend or other distribution attaching to shares held under WESP1. Participants are also entitled to exercise voting rights attaching to the shares.

WESP1 rules also permitted share purchases to be funded from the remuneration package of part-time and full time employees (up to 20% of total remuneration) Westpac has not made any offers of this type.

Shares in the WESP1 will continue to be allocated to non-executive Directors to satisfy fee allocations until March 2004, however the WESP1 was closed to new offers in May 2003.

The following table relates to shares purchased under WESP1 during the year ended 30 September:

	Total Amounts Sacrificed	Number of Shares Purchased	Average Purchase Price
2003	\$ 322,134	20,591	\$ 15.64
2002	\$ 6,110,981	399,405	\$ 15.30

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ii The Westpac Employee Share Plan stage two (WESP2)

This profit sharing arrangement allocated a profit share, up to a maximum of \$1,000 per participant, to eligible employees each financial year, provided that Westpac achieved a performance target. After Westpac's annual profit announcement shares were purchased, by an independent plan company, on the ASX and held in WESP2 in the employees' names. Under WESP2 rules, shares must be retained in the WESP2 for at least three years unless the employee leaves Westpac. Those employees of Westpac or a Westpac controlled entity who have been employed for at least 12 months are eligible to participate in WESP2. Participants are entitled to receive any dividend or other distribution attaching to shares held under the WESP2. Participants are also entitled to exercise voting rights attaching to the shares.

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The WESP2 was closed to new offers in May 2003 and no shares have been purchased under WESP2 during the financial year.

The following table relates to shares purchased under WESP2 during the year ended 30 September:

	Number of Participants	Average Number of Shares Purchased per Participant	Average Purchase Price per Share	Total Purchase Consideration
2002	15,070	34	\$ 15.78	\$ 8,086,915
		179		

Note 27. Maturity analysis

The following maturity analysis of monetary assets and liabilities is based on contractual terms. The majority of the longer term maturity assets are variable rate products. When managing interest rate and liquidity risks, the Group adjusts this contractual profile for expected customer behaviour.

Consolidated Maturity Analysis 2003

	At Call \$m	Overdrafts \$m	1 Day to 3 Months \$m	Over 3 Months to 1 Year \$m	Over 1 Year to 5 Years \$m	Over 5 Years \$m	No Specific Maturity \$m	Total \$m
Australia								
Assets								
Cash and balances with central banks	1,671							1,671
Due from other financial institutions	62		2,808					2,870
Trading securities			1,066	631	2,068	3,859		7,624
Investment securities			136	94	747	59		1,036
Loans (net of provisions)		3,108	25,088	3,321	22,837	75,352		129,706
Acceptances of customers			3,688	100				3,788
Life insurance assets			1,185	768	305	234	7,955	10,447
All other assets			2,751	5,845	9,355	4,269	546	22,766
Total assets	1,733	3,108	36,722	10,759	35,312	83,773	8,501	179,908
Liabilities								
Due to other financial institutions	889		1,819					2,708
Deposits and public borrowings	55,408		30,081	11,488	1,506	44		98,527
Debt issues			2,089	5,964	10,179	463		18,695
Acceptances			3,688	100				3,788
Life insurance policy liabilities				157	243	168	9,321	9,889
All other liabilities			10,721	3,839	6,847	117	1,676	23,200
Net intragroup payable	9,471							9,471
Total liabilities excluding loan capital	65,768		48,398	21,548	18,775	792	10,997	166,278
Loan capital	529					3,971		4,500
Total liabilities	66,297		48,398	21,548	18,775	4,763	10,997	170,778
Net assets Australia	(64,564)	3,108	(11,676)	(10,789)	16,537	79,010	(2,496)	9,130
Overseas								
Assets								
Cash and balances with central banks	115							115
Due from other financial institutions	67		2,671	242	164		21	3,165
Trading securities			450	348	232	139		1,169
Investment securities			93	127	2,395	5		2,620

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Consolidated Maturity Analysis 2003

Loans (net of provisions)	985	5,531	1,550	10,152	12,036	513	30,767
Life insurance assets		69		6			75
Regulatory deposits with central banks overseas		407				18	425
All other assets		631	458	831	767	408	3,095
Net intragroup receivable	9,471						9,471
Total assets	9,653	985	9,852	2,725	13,780	12,947	960
Liabilities							
Due to other financial institutions	133	958	32				1,123
Deposits and public borrowings	6,642	15,443	4,630	3,109	629	91	30,544
Debt issues		811	2,595	7,691	178		11,275
Life insurance policy liabilities						7	7
All other liabilities		856	419	1,482	66	220	3,043
Total liabilities excluding loan capital	6,775	18,068	7,676	12,282	873	318	45,992
Loan capital					44		44
Total liabilities	6,775	18,068	7,676	12,282	917	318	46,036
Net assets overseas	2,878	985	(8,216)	(4,951)	1,498	12,030	642
Total net assets	(61,686)	4,093	(19,892)	(15,740)	18,035	91,040	(1,854)

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Consolidated Maturity Analysis 2002

	At Call \$m	Overdrafts \$m	1 Day to 3 Months \$m	Over 3 Months to 1 Year \$m	Over 1 Year to 5 Years \$m	Over 5 Years \$m	No Specific Maturity \$m	Total \$m
Australia								
Assets								
Cash and balances with central banks	1,554							1,554
Due from other financial institutions	90		3,211					3,301
Trading securities			1,607	5,183	1,363	422		8,575
Investment securities				51	778	135		964
Loans (net of provisions)		3,007	17,651	3,708	14,583	67,657		106,606
Acceptances of customers			4,714	74				4,788
Life insurance assets			1,129	330	304	182	5,567	7,512
All other assets			4,257	3,350	6,656	3,545	810	18,618
Total assets	1,644	3,007	32,569	12,696	23,684	71,941	6,377	151,918
Liabilities								
Due to other financial institutions	1,314		994					2,308
Deposits and public borrowings	48,736		23,002	8,504	1,691	29		81,962
Debt issues			2,328	5,960	9,298	868		18,454
Acceptances			4,714	74				4,788
Life insurance policy liabilities				127	201	126	6,698	7,152
All other liabilities			6,589	4,043	6,382	1,448	161	18,623
Net intragroup payable	7,473							7,473
Total liabilities excluding loan capital	57,523		37,627	18,708	17,572	2,471	6,859	140,760

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Consolidated Maturity Analysis 2002

Loan capital		645			3,825		4,470	
Total liabilities	57,523	38,272	18,708	17,572	6,296	6,859	145,230	
Net assets Australia	(55,879)	3,007	(5,703)	(6,012)	6,112	65,645	(482)	6,688
Overseas								
Assets								
Cash and balances with central banks	115						115	
Due from other financial institutions	112	1,762	67				1,941	
Trading securities		1,267	396	250	155		2,068	
Investment securities		146	91	1,602	510		2,349	
Loans (net of provisions)		1,012	5,987	4,734	11,454	6,077	29,264	
Life insurance assets		50	1	2	1		54	
Regulatory deposits with central banks overseas		443				12	455	
All other assets		799	670	566	817	21	2,873	
Net intragroup receivable	7,473						7,473	
Total assets	7,700	1,012	10,454	5,959	13,874	7,560	33	46,592
Liabilities								
Due to other financial institutions	338	2,084	1				2,423	
Deposits and public borrowings	8,634	10,287	6,708	2,432	740		28,801	
Debt issues		4,962	1,795	2,364			9,121	
Life insurance policy liabilities						11	11	
All other liabilities		715	364	1,246	83	6	2,414	
Total liabilities excluding loan capital	8,972	18,048	8,868	6,042	823	17	42,770	
Loan capital					42		42	
Total liabilities	8,972	18,048	8,868	6,084	823	17	42,812	
Net assets overseas	(1,272)	1,012	(7,594)	(2,909)	7,790	6,737	16	3,780
Total net assets	(57,151)	4,019	(13,297)	(8,921)	13,902	72,382	(466)	10,468

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Note 28. Average balances and related interest

The following table lists the average balances and related interest for the major categories of the Group's interest earning assets and interest bearing liabilities. Averages used are predominantly daily averages:

Consolidated								
2003			2002			2001		
Average Balance \$m	Interest(1) \$m	Average Rate %	Average Balance \$m	Interest(1) \$m	Average Rate %	Average Balance \$m	Interest(1) \$m	Average Rate %
Assets								
Interest earning assets								

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Consolidated

Due from other financial institutions:									
Australia	3,136	155	4.9	2,496	93	3.7	1,618	68	4.2
New Zealand	1,565	59	3.8	1,718	57	3.3	1,572	67	4.3
Other overseas	2,546	77	3.0	1,782	60	3.4	1,574	95	6.0
Investment and trading securities:									
Australia	7,639	379	5.0	9,153	435	4.8	8,080	449	5.6
New Zealand	1,044	67	6.4	902	58	6.4	822	73	8.9
Other overseas	3,344	159	4.8	2,553	121	4.7	2,741	179	6.5
Regulatory deposits with central banks:									
Other overseas	382	6	1.6	418	8	1.9	487	29	6.0
Loans and other receivables:									
Australia	119,777	7,164	6.0	106,778	6,680	6.3	92,304	7,284	7.9
New Zealand	28,682	2,039	7.1	23,657	1,707	7.2	21,327	1,854	8.7
Other overseas	2,775	101	3.6	2,939	124	4.2	3,988	289	7.2
Impaired loans:									
Australia	255	5	2.0	339	5	1.5	339	6	1.8
New Zealand	66	2	3.0	95	4	4.2	124	5	4.0
Other overseas	246	8	3.0	294	7	2.4	178	9	5.1
Intragroup receivable:									
Other overseas	14,816	335	2.3	15,839	449	2.8	16,383	945	5.8
Interest earning assets and interest income including intragroup									
	186,273	10,556	5.7	168,963	9,808	5.8	151,537	11,352	7.5
Intragroup elimination									
	(14,816)	(335)		(15,839)	(449)		(16,383)	(945)	
Total interest earning assets and interest income									
	171,457	10,221	6.0	153,124	9,359	6.1	135,154	10,407	7.7
Non-interest earning assets									
Cash, due from other financial institutions and regulatory deposits									
	2,268			2,220			809		
Life insurance assets									
	10,278			7,656			7,457		
All other assets									
	23,503			17,723			19,633		
Provisions for bad and doubtful debts:									
Australia	(1,263)			(1,370)			(1,325)		
New Zealand	(127)			(79)			(92)		
Other overseas	(141)			(154)			(120)		
Total non-interest earning assets									
	34,518			25,996			26,362		
Acceptances of customers:									
Australia	4,402			7,701			16,654		
Other overseas				6			26		
Total acceptances of customers									
	4,402			7,707			16,680		
Total assets									
	210,377			186,827			178,196		

(1)

The Group has entered into various tax effective financing transactions that derive income that is subject to a reduced rate of income tax. The interest income above is presented on a tax equivalent basis and for the 2003 year was \$197 million (2002 \$139 million, 2001 \$149 million).

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	Consolidated								
	2003			2002			2001		
	Average Balance \$m	Interest \$m	Average Rate %	Average Balance \$m	Interest \$m	Average Rate %	Average Balance \$m	Interest \$m	Average Rate %
Liabilities									
Interest bearing liabilities									
Deposits:									
Australia	88,691	3,374	3.8	72,774	2,568	3.5	56,307	2,403	4.3
New Zealand	19,469	880	4.5	16,908	744	4.4	15,276	806	5.3
Other overseas	10,521	255	2.4	9,963	288	2.9	9,709	546	5.6
Public borrowings by controlled entity borrowing corporations:									
Australia				2,955	152	5.1	5,986	344	5.7
New Zealand				3		10.0	7	1	10.0
Due to other financial institutions:									
Australia	1,873	46	2.5	1,788	56	3.1	1,530	70	4.6
New Zealand	272	20	7.4	162	8	4.9	213	10	4.7
Other overseas	1,937	64	3.3	3,100	115	3.7	3,805	208	5.5
Loan capital:									
Australia	4,443	154	3.5	4,541	198	4.4	4,944	348	7.0
New Zealand	45	3	6.7	42	3	7.1	40	3	7.5
Other interest bearing liabilities:									
Australia	18,562	683	3.7	17,547	722	4.1	15,052	925	6.1
New Zealand	390	30	7.7	141	8	5.7	269	13	4.8
Other overseas	10,112	171	1.7	8,726	212	2.4	9,360	530	5.7
Intragroup payable:									
Australia	6,822	163	2.4	8,156	247	3.0	9,357	562	6.0
New Zealand	7,994	172	2.2	7,683	202	2.6	7,026	383	5.5
Interest bearing liabilities and interest expense including intragroup									
	171,131	6,015	3.5	154,489	5,523	3.6	138,881	7,152	5.1
Intragroup elimination									
	(14,816)	(335)		(15,839)	(449)		(16,383)	(945)	
Total interest bearing liabilities and interest expense									
	156,315	5,680	3.6	138,650	5,074	3.7	122,498	6,207	5.1
Non-interest bearing liabilities									
Deposits and due to other financial institutions:									
Australia	3,989			3,782			3,810		
New Zealand	1,039			947			900		
Other overseas	251			250			245		
Life insurance policy liabilities	9,723			7,431			7,150		
All other liabilities	22,540			17,689			17,643		
Total non-interest bearing liabilities									
	37,542			30,099			29,748		

Consolidated

Acceptances:			
Australia	4,402	7,701	16,654
Other overseas		6	26
Total acceptances	4,402	7,707	16,680
Total liabilities	198,259	176,456	168,926
Shareholders' equity	10,972	9,890	8,795
TOPrS	465	465	465
FIRsTS	511		
TPS	149		
Outside equity interests	21	16	10
Total equity	12,118	10,371	9,270
Total liabilities and equity	210,377	186,827	178,196

The following table allocates changes in net interest income¹ between changes in volume and changes in rate for the last two financial years. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest-earning assets and average interest bearing liabilities. The variance caused by change in both volume and rate has been allocated in proportion to the relationship of the absolute dollar amount of each change to the total.

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Consolidated

	2003			2002		
	Volume \$m	Change due to Rate \$m	Total \$m	Volume \$m	Change due to Rate \$m	Total \$m
Assets						
Interest-earning assets						
Due from other financial institutions:						
Australia	24	38	62	37	(12)	25
New Zealand	(5)	7	2	6	(16)	(10)
Other overseas	26	(9)	17	13	(48)	(35)
Investment and trading securities:						
Australia	(72)	16	(56)	60	(74)	(14)
New Zealand	9		9	7	(22)	(15)
Other overseas	37	1	38	(12)	(46)	(58)
Regulatory deposits with central banks:						
Other overseas	(1)	(1)	(2)	(4)	(17)	(21)
Loans and other receivables:						
Australia	813	(329)	484	1,142	(1,746)	(604)
New Zealand	363	(31)	332	203	(350)	(147)
Other overseas	(7)	(16)	(23)	(76)	(89)	(165)
Impaired loans:						
Australia	(1)	1			(1)	(1)
New Zealand	(1)	(1)	(2)	(1)		(1)
Other overseas	(1)	2	1	6	(8)	(2)

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Intragroup receivable:						
Other overseas	(29)	(85)	(114)	11	(507)	(496)
Total change in interest income including intragroup	1,155	(407)	748	1,392	(2,936)	(1,544)
Intragroup elimination	29	85	114	(11)	507	496
Total change in interest income	1,184	(322)	862	1,381	(2,429)	(1,048)
Interest-bearing liabilities						
Deposits:						
Australia	562	244	806	703	(538)	165
New Zealand	113	23	136	86	(148)	(62)
Other overseas	16	(49)	(33)	14	(272)	(258)
Public borrowings by controlled entity borrowing corporations:						
Australia	(152)		(152)	(174)	(18)	(192)
New Zealand				(1)		(1)
Due to other financial institutions:						
Australia	3	(13)	(10)	12	(26)	(14)
New Zealand	5	7	12	(2)		(2)
Other overseas	(43)	(8)	(51)	(39)	(54)	(93)
Loan capital						
Australia	(4)	(40)	(44)	(28)	(122)	(150)
New Zealand						
Other interest bearing liabilities:						
Australia	42	(81)	(39)	153	(356)	(203)
New Zealand	14	8	22	(6)	1	(5)
Other overseas	34	(75)	(41)	(36)	(282)	(318)
Intragroup payable:						
Australia	(40)	(44)	(84)	(140)	(175)	(315)
New Zealand	8	(38)	(30)	151	(332)	(181)
Total change in interest expense including intragroup	558	(66)	492	693	(2,322)	(1,629)
Intragroup elimination	32	82	114	11	507	496
Total change in interest expense	590	16	606	682	(1,815)	(1,133)
Change in net interest income:						
Australia	353	(340)	13	573	(773)	(200)
New Zealand	226	(25)	201	138	(246)	(108)
Other overseas	18	24	42	(12)	405	393
Total change in net interest income	597	(341)	256	699	(614)	85

(1) The Group has entered into various tax effective financing transactions that derive income that is subject to a reduced rate of income tax. The interest income above is presented on a tax equivalent basis and for the 2003 year was \$197 million (2002 \$139 million, 2001 \$149 million).

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The basis of segment reporting reflects the management of the business within the Group, rather than the legal structure of the Group. The business segment results have been presented on a management reporting basis and consequently, internal charges and transfer pricing adjustments have been reflected in the performance of each business segment. Intersegment pricing is determined on an arm's length basis.

Primary reporting business segments

The business segments are defined by the customers they service and the services they provide. The Business and Consumer Banking segment is responsible for servicing and product development for consumer and smaller to medium-sized business customers within Australia. The BT Financial Group designs, manufactures and services financial products that enable customers to achieve their financial goals through the accumulation management and protection of personal wealth. The Institutional Banking segment represents primarily corporations and institutional customers either based in, or with interests in, Australia and New Zealand, and also provides certain services to middle-market business banking customers in Australia and New Zealand. The New Zealand Banking segment provides banking and wealth management services to consumer and retail business customers. Other includes the results of Business and Technology Solutions and Services, Group Treasury, Pacific Banking and Head Office functions. The majority of the direct operating expenses of Other are recharged back to the business segments as indicated in the internal charges line within operating expenses.

	Consolidated 2003					
	Business and Consumer Banking \$m	BT Financial Group \$m	Institutional Banking \$m	New Zealand Banking \$m	Other \$m	Total \$m
Revenue from external customers	8,858	1,471	1,947	1,898	687	14,861
Internal revenue	278	57	1,312	(454)	(1,193)	
Total segment revenue	9,136	1,528	3,259	1,444	(506)	14,861
Interest income	7,099	101	1,319	1,447	58	10,024
Interest expense	(3,378)	(1)	(570)	(677)	(1,054)	(5,680)
Internal charges(1)	(563)	(17)	(372)	(73)	1,025	
Net interest income	3,158	83	377	697	29	4,344
Net non-interest income	1,179	719	512	317	259	2,986
Internal charges(1)	110	(190)	33		47	
Total operating income	4,447	612	922	1,014	335	7,330
Depreciation and goodwill amortisation	(80)	(78)	(3)	(69)	(183)	(413)
Other non-cash expenses	(72)	(10)	(14)	(4)	(119)	(219)
Other operating expenses	(1,650)	(322)	(329)	(451)	(542)	(3,294)
Internal charges(1)	(621)	(28)	(127)	(18)	794	
Total operating expenses excluding bad and doubtful debts	(2,423)	(438)	(473)	(542)	(50)	(3,926)
Bad and doubtful debts	(322)		(107)	(45)	(11)	(485)
Profit from ordinary activities before income tax expense	1,702	174	342	427	274	2,919
Income tax expense	(524)	(47)	42	(144)	(55)	(728)
Outside equity interest			(2)	(2)	(4)	(8)
Net profit	1,178	127	382	281	215	2,183
Total assets	121,051	13,983	52,238	22,409	11,658	221,339
Total liabilities	85,171	10,345	36,376	22,724	52,727	207,343

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Consolidated
2003

Acquisition of fixed assets and goodwill	177	947	113	33	17	1,287
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- (1)
Internal charges are eliminated on consolidation.

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Changes in the carrying value of goodwill related to each business segment for the year ended 30 September 2003 are presented in the table below.

Consolidated
2003

	Business and Consumer Banking \$m	BT Financial Group \$m	Institutional Banking \$m	New Zealand Banking \$m	Other \$m	Total \$m
Balance at beginning of the year	737	503		507	7	1,754
Goodwill acquired during the year		927	37			964
Foreign exchange adjustment/other adjustments		(3)		6		3
Goodwill amortisation	(58)	(63)	(2)	(37)	(3)	(163)
Balance at year end	679	1,364	35	476	4	2,558

Consolidated
2002

	Business and Consumer Banking \$m	BT Financial Group \$m	Institutional Banking \$m	New Zealand Banking \$m	Other \$m	Total \$m
Revenue from external customers	10,337	84	1,757	2,521	581	15,280
Internal revenue	208	31	524	34	(797)	
Total segment revenue	10,545	115	2,281	2,555	(216)	15,280
Interest income	6,796	37	952	1,273	162	9,220
Interest expense	(3,124)		(518)	(629)	(803)	(5,074)
Internal charges(1)	(556)	(8)	(92)	7	649	
Net interest income	3,116	29	342	651	8	4,146
Net non-interest income	1,762	359	254	378	225	2,978
Internal charges(1)	136	(195)	33	2	24	
Total operating income	5,014	193	629	1,031	257	7,124
Depreciation and goodwill amortisation	(90)	(13)	(22)	(75)	(173)	(373)
Other non-cash expenses	(77)	(5)	(11)	(3)	(295)	(391)

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	Consolidated 2002					
Other operating expenses	(1,486)	(217)	(297)	(399)	(832)	(3,231)
Internal charges(1)	(773)	(36)	(78)	(16)	903	
Total operating expenses excluding bad and doubtful debts	(2,426)	(271)	(408)	(493)	(397)	(3,995)
Bad and doubtful debts	(368)		(96)	(51)	54	(461)
Profit from ordinary activities before income tax expense	2,220	(78)	125	487	(86)	2,668
Income tax expense	(478)	33	1	(140)	113	(471)
Outside equity interest				(1)	(4)	(5)
Net profit(2)	1,742	(45)	126	346	23	2,192
Total assets	101,613	9,099	49,125	19,944	11,256	191,037
Total liabilities	76,154	7,342	37,361	21,403	38,311	180,571
Acquisition of fixed assets and goodwill	200	333	6	74	1	614

(1) Internal charges are eliminated on consolidation.

(2) This included the net profit on the sale of shares in Australia Guarantee Corporation Limited of \$662 million in Business and Consumer Banking and \$92 million in New Zealand Banking for the sale of certain assets of Australia Guarantee Corporation (NZ) Limited.

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Changes in the carrying value of goodwill related to each business segment for the year ended 30 September 2002 are presented in the table below.

	Consolidated 2002					
	Business and Consumer Banking \$m	BT Financial Group \$m	Institutional Banking \$m	New Zealand Banking \$m	Other \$m	Total \$m
Balance at beginning of the year	795	177		521	8	1,501
Goodwill acquired during the year		330				330
Foreign exchange adjustment/other adjustments				23		23
Goodwill amortisation	(58)	(4)		(37)	(1)	(100)
Balance at year end	737	503		507	7	1,754

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 Consolidated
2001

	Business and Consumer Banking \$m	BT Financial Group \$m	Institutional Banking \$m	New Zealand Banking \$m	Other \$m	Total \$m
Revenue from external customers	9,462	556	2,369	1,941	(278)	14,050
Internal revenue	170	73	726	72	(1,041)	
Total segment revenue	9,632	629	3,095	2,013	(1,319)	14,050
Interest income	7,439	6	1,253	1,550	10	10,258
Interest expense	(3,760)		(672)	(964)	(811)	(6,207)
Internal charges(1)	(593)	19	(208)	61	721	
Net interest income	3,086	25	373	647	(80)	4,051
Net non-interest income	1,078	522	508	302	127	2,537
Internal charges(1)	61	(145)	10		74	
Total operating income	4,225	402	891	949	121	6,588
Depreciation and goodwill amortisation	(88)	(21)	(11)	(71)	(202)	(393)
Other non-cash expenses	(82)	(5)	(12)	(3)	(47)	(149)
Total operating expenses excluding bad and doubtful debts	(1,382)	(101)	(303)	(415)	(827)	(3,028)
Internal charges(1)	(875)	(45)	(95)	(11)	1,026	
Total operating expenses	(2,427)	(172)	(421)	(500)	(50)	(3,570)
Bad and doubtful debts	(309)	(2)	(114)	(31)	23	(433)
Profit from ordinary activities before income tax expense	1,489	228	356	418	94	2,585
Income tax expense	(536)	(37)	7	(145)	34	(677)
Outside equity interests					(5)	(5)
Net profit	953	191	363	273	123	1,903
Total assets	98,474	8,491	52,221	18,509	12,150	189,845
Total liabilities	80,150	1,037	39,492	19,301	40,161	180,141
Acquisition of fixed assets and goodwill	107		6	48	148	309

(1) Internal charges are eliminated on consolidation.

Changes in the carrying value of goodwill related to each business segment for the year ended 30 September 2001 are presented in the table below.

Consolidated
2001

	Business and Consumer Banking \$m	BT Financial Group \$m	Institutional Banking \$m	New Zealand Banking \$m	Other \$m	Total \$m
	\$m	\$m	\$m	\$m	\$m	\$m
Balance at beginning of the year	854	181		501	9	1,545
Goodwill acquired during the period						
Foreign exchange adjustment/other adjustments				55		55
Goodwill amortisation	(59)	(4)		(35)	(1)	(99)
Balance at year end	795	177		521	8	1,501

Secondary reporting geographic segments

Geographic segmentation of revenue, net profit, assets and acquisition of fixed assets and goodwill is based on the location of the office in which these items are booked. Intersegment pricing is determined on an arm's length basis.

	2003		2002		2001	
	\$m	%	\$m	%	\$m	%
Operating revenue						
Australia	12,024	80.9	12,130	79.4	10,481	74.6
New Zealand	2,493	16.8	3,051	20.0	2,382	17.0
Other(1)	344	2.3	99	0.6	1,187	8.4
Total	14,861	100.0	15,280	100.0	14,050	100.0
Profit from ordinary activities before income tax expense						
Australia	2,267	77.7	2,113	79.2	1,796	69.5
New Zealand	430	14.7	662	24.8	482	18.6
Other(1)	222	7.6	(107)	(4.0)	307	11.9
Total	2,919	100.0	2,668	100.0	2,585	100.0
Net profit attributable to equity holders of Westpac Banking Corporation						
Australia	1,604	73.5	1,866	85.1	1,301	68.4
New Zealand	386	17.7	466	21.3	336	17.7
Other(1)	193	8.8	(140)	(6.4)	266	13.9
Total	2,183	100.0	2,192	100.0	1,903	100.0
Assets						
Australia	179,908	81.3	151,918	79.5	151,421	79.8
New Zealand	32,945	14.9	30,972	16.2	28,977	15.3
Other(1)	8,486	3.8	8,147	4.3	9,447	4.9
Total	221,339	100.0	191,037	100.0	189,845	100.0

	2003		2002		2001	
Acquisition of fixed assets and goodwill						
Australia	1,168	90.8	539	87.8	249	80.6
New Zealand	107	8.3	74	12.0	48	15.5
Other(1)	12	0.9	1	0.2	12	3.9
Total	1,287	100.0	614	100.0	309	100.0

(1) Other includes Pacific Islands, Asia, Americas and Europe.

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Note 30. Credit risk concentrations

Credit risk is the risk of financial loss from the failure of a customer to fully honour the terms of their contract with the Group. It arises not only from lending activities, but from any transaction which requires assured payment of funds on a given date. The process of controlling credit risk is integrated in the form of portfolio management. The portfolio is reviewed regularly to ensure that credit risk remains well diversified across industry concentrations.

The following tables set out the credit risk concentrations of the Group:

Consolidated Credit Risk Concentration 2003

	Trading Securities \$m	Investment Securities \$m	Loans \$m	Acceptances \$m	Credit Commitments(1) \$m	Derivatives(1) \$m	Life Insurance Assets \$m	Total \$m
Australia								
Government and other public authorities	5,395		119	29	428	262		6,233
Agriculture, forestry and fishing			1,614	1,283	38	20		2,955
Commercial and financial	2,229	1,035	33,587	1,428	13,393	14,777	10,447	76,896
Real estate construction			1,054	186	726	184		2,150
Real estate mortgage			69,668		639			70,307
Instalment loans and other personal lending			21,626	862	23			22,511
Lease financing			3,274					3,274
Total Australia	7,624	1,035	130,942	3,788	15,247	15,243	10,447	184,326
New Zealand								
Government and other public authorities	980		537		86	15		1,618
Agriculture, forestry and fishing			2,017		86	1		2,104
Commercial and financial	180		9,970		1,197	1,741	75	13,163
Real estate construction			259		41	21		321
Real estate mortgage			13,869		1,236			15,105
Instalment loans and other personal lending			1,996		5			2,001

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Consolidated
Credit Risk Concentration 2003

Total New Zealand	1,160		28,648		2,651		1,778	75	34,312
Other overseas									
Government and other public authorities		129	11		6		41		187
Agriculture, forestry and fishing			56		3				59
Commercial and financial	9	2,492	1,705		3,719		4,026		11,951
Real estate construction			25		26				51
Real estate mortgage			396		5				401
Instalment loans and other personal lending			169						169
Lease financing			75						75
Total other overseas	9	2,621	2,437		3,759		4,067		12,893
Total	8,793	3,656	162,027	3,788	21,657		21,088	10,522	231,531
Other risk concentrations									
Amounts due from other financial institutions									6,035
Regulatory deposits									425
Total gross credit risk									237,991

(1)

Credit risk for credit commitments and derivatives are based on definitions per notes 34 and 35.

Collateral security, in the form of real property or a floating charge, is generally taken for business credit except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance is generally secured against real estate while revolving consumer credit is generally unsecured.

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Consolidated
Credit Risk Concentration 2002

	Trading Securities \$m	Investment Securities \$m	Loans \$m	Acceptances \$m	Credit Commitments(1) \$m	Derivatives(1) \$m	Life Insurance Assets \$m	Total \$m
Australia								
Government and other public authorities	5,793		205	15	233	332		6,578
Agriculture, forestry and fishing			1,523	1,261	64	1		2,849
Commercial and financial	2,782	964	27,527	2,625	16,036	16,484	7,512	73,930
Real estate construction			936	232	187	159		1,514
Real estate mortgage			60,445		1,683			62,128
Instalment loans and other personal lending			15,354	655	35			16,044

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Credit Risk Concentration 2002

Lease financing			1,812					1,812
Total Australia	8,575	964	107,802	4,788	18,238	16,976	7,512	164,855
New Zealand								
Government and other public authorities	1,056		389		61	17	7	1,530
Agriculture, forestry and fishing			1,921		63	18		2,002
Commercial and financial	203		10,127		785	1,576	47	12,738
Real estate construction			205		37	16		258
Real estate mortgage			12,193		2,013			14,206
Instalment loans and other personal lending			1,681		13			1,694
Total New Zealand	1,259		26,516		2,972	1,627	54	32,428
Other overseas								
Government and other public authorities		116	8		5			129
Agriculture, forestry and fishing		10	49		9			68
Commercial and financial	809	2,223	2,134		2,850	283		8,299
Real estate construction			181		6			187
Real estate mortgage			438		9			447
Instalment loans and other personal lending			75		4			79
Lease financing			101		1			102
Total other overseas	809	2,349	2,986		2,884	283		9,311
Total	10,643	3,313	137,304	4,788	24,094	18,886	7,566	206,594
Other risk concentrations								
Amounts due from other financial institutions								5,242
Regulatory deposits								455
Total gross credit risk								212,291

(1)

Credit risk for credit commitments and derivatives are based on definitions per notes 34 and 35.

Collateral security, in the form of real property or a floating charge, is generally taken for business credit except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance is generally secured against real estate while revolving consumer credit is generally unsecured.

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	Consolidated			Parent Entity	
	2003 \$'000	2002 \$'000	2001 \$'000	2003 \$'000	2002 \$'000
Remuneration for audit or review of the financial statements					
Auditors of Westpac Banking Corporation(1)	2,973	2,855	2,617	2,973	2,855
Auditors of controlled entities:					
PricewaterhouseCoopers	1,147	924	991		
Other auditors	37	31	73		
	4,157	3,810	3,681	2,973	2,855
Goods and services tax	407	368	331	297	301
	4,564	4,178	4,012	3,270	3,156
Remuneration for other audit services:					
Messrs Chowdry and Codling		165	118		165
PricewaterhouseCoopers Australian firm	982	174	446	835	166
Related practices of PricewaterhouseCoopers	298	292	151	263	295
	1,280	631	715	1,098	626
Goods and services tax	121	43	33	103	48
	1,401	674	748	1,201	674
Total remuneration for audit services	5,965	4,852	4,760	4,471	3,830
Remuneration for audit-related services:					
PricewaterhouseCoopers Australian firm	1,974	879	819	1,155	635
Related practices of PricewaterhouseCoopers	464	785	361	163	610
	2,438	1,664	1,180	1,318	1,245
Goods and services tax	239	161	139	132	115
	2,677	1,825	1,319	1,450	1,360
Remuneration for taxation services:					
PricewaterhouseCoopers Australian firm	1,043	651	1,516	823	629
Related practices of PricewaterhouseCoopers	149	383	865	53	298
	1,192	1,034	2,381	876	927
Goods and services tax	113	93	245	84	82
	1,305	1,127	2,626	960	1,009
Remuneration for other services(2):					
PricewaterhouseCoopers Australian firm	213	5,604	7,934	156	5,087
Related practices of PricewaterhouseCoopers	193	455	617	66	312
	406	6,059	8,551	222	5,399
Goods and services tax	40	607	805	21	535
	446	6,666	9,356	243	5,934

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	Consolidated			Parent Entity	
Total remuneration for non-audit services	4,428	9,618	13,301	2,653	8,303
Total audit and non-audit services (excluding goods and services tax)	9,473	13,198	16,508	6,487	11,052
Goods and services tax	920	1,272	1,553	637	1,081
Total audit and non-audit services (including goods and services tax)	10,393	14,470	18,061	7,124	12,133

- (1) The auditor of Westpac is PricewaterhouseCoopers (2002 and 2001 Messrs Chowdry and Codling). PricewaterhouseCoopers were appointed as auditor of Westpac at the annual general meeting on 12 December 2002, in accordance with the requirements of the Corporations Act 2001. In previous years the appointment of Westpac's auditors was determined in accordance with the 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.
- (2) On 1 October 2002, PricewaterhouseCoopers completed the sale of its global management consulting and information services business, PwC Consulting. The level of non-audit fees, including goods and services tax earned by the auditors of Westpac, PricewaterhouseCoopers and the related practices of PricewaterhouseCoopers, excluding PwC Consulting was \$5,616,000 for 2002 and \$6,764,000 for 2001.

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It is Westpac's policy to employ the external auditors on assignments additional to their statutory audit duties, only if their independence is not impaired or seen to be impaired, and where their expertise and experience with Westpac is important. As described above, these assignments relate principally to regulatory reporting, taxation services and other assurance services, or where the external auditors are awarded assignments on a competitive basis.

Note 32. Expenditure commitments

	Consolidated		Parent Entity	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Commitments for capital expenditure not provided for in the financial statements				
Payable within one-year	55	945	1	940
Payable later than one-year but not later than five years	20	250	20	250
Total commitments for capital expenditure not provided for in the financial statements	75	1,195	21	1,190
Lease commitments (all leases are classified as operating leases)				
Premises and sites	1,546	740	1,528	740
Furniture and equipment	27	15	12	15
Total lease commitments	1,573	755	1,540	755
Due within one-year	248	207	225	207
Due after one-year but not later than five years	538	416	528	416
Due after five years	787	132	787	132
Total lease commitments	1,573	755	1,540	755

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As at 30 September 2003, the total future minimum lease payments expected to be received by both the Group and Westpac from non-cancellable sub-leases was \$14 million (2002 \$10 million).

Operating lease arrangements

Operating leases are entered into to meet the business needs of the Group. Leases are primarily over commercial and industrial premises and plant and equipment. Lease rentals are determined in accordance with market conditions when leases are entered into or on rental review dates. Leased premises that have become excess to the Group's business needs have been sub-let where possible and any expected rental shortfalls fully provided for. There are no restrictions imposed on the Group by lease arrangements other than in respect of the specific premises being leased.

The Group has lease commitments resulting from the sale and lease back of various premises. These leases are generally for a term of five years with an option to extend for another five years. In most instances, other than the lease arrangements, the Group has no ongoing interests in the premises. In a small number of earlier sale and lease back arrangements the Group retained the right of first refusal to purchase the property.

On 7 March 2003, Westpac executed an agreement for lease with Leighton Properties Pty Limited in relation to new premises being developed at the northern end of Darling Harbour near King Street for consolidation of our existing ten Sydney Central Business (CBD) Offices. The new site is bounded by Kent, Erskine, Napoleon and Sussex Streets (KENS).

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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. We have signed a 12 year lease on the building with three, six year options to extend. The lease will commence on completion of the building which is expected in November 2006, with our employees expected to progressively occupy the premises throughout 2006. The initial 12 year lease commitment is included in the lease commitment table above.

Significant long term contracts

On 30 September 2002, Westpac 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 the Group's Australasian cards processing in phases from October 2002. Westpac retains control of our cards sales, credit, collections and customer service functions. The estimated costs to be paid by Westpac over the life of the multi-year agreement are approximately \$100 million.

On 1 October 2001, Westpac entered into a ten-year agreement with EDS (Business Process Administration) Pty Limited whereby they will provide mortgage and other processing services in connection with the mortgage loan portfolio. The residual value of the agreement is approximately \$860 million.

On 26 March 2001, Westpac entered into a seven year agreement with Unisys Payment Services Limited (UPSL) to provide cheque processing as part of the three day cheques clearance cycle. The estimated costs over the remaining life of the contract is expected to be \$71 million.

On 3 December 2000, Westpac entered into a ten year contract with IBM Global Services Australia relating to the management of the core banking technology operations in Australia, New Zealand and the Pacific. The exact amount of the contract commitment is unable to be reliably measured as Westpac's obligations are dependent upon business volumes over the period of the contract.

Note 33. Superannuation commitments

There are numerous defined contribution and defined benefit superannuation schemes operating throughout the Group. Contributions, as specified in the rules of the respective defined benefit and defined contribution funds are made by Westpac as required. Actuarial valuations of the funds are undertaken annually. Contributions to the various defined benefit schemes are at rates, reviewed annually, sufficient to keep the schemes solvent based on actuarial assessments.

The Group's principal defined benefit scheme for employees in Australia, the Westpac Staff Superannuation Plan (WSSP) provides lump sum and pension benefits. WSSP also has a section, which provides accumulation benefits. The Group's contributions for the years ended 30 September 2003, 2002 and 2001 were nominal.

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An actuarial review of the WSSP, as at 1 October 2002, was carried out by independent actuaries. A full actuarial valuation of the scheme is undertaken every three years. The last full actuarial valuation was undertaken as at 30 June 2000. The actuaries are currently conducting the latest triennial valuation as at 30 June 2003. The results of this valuation are not expected to be finalised until December 2003.

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The financial status of WSSP and the principal defined benefit schemes overseas are as follows:

	WSSP \$m	Overseas Schemes \$m	Total \$m
(i) Present value of employees' accrued benefits(1)	1,638	416	2,054
(ii) Net market value of assets held by the scheme to meet future benefit payments	1,907	381	2,288
Excess/(shortfall) of assets held to meet future benefit payments over present value of employees' accrued benefits	269	(35)	234
(iii) Vested benefits(2)	1,624	408	2,032

(1) Accrued benefits represent the scheme's present obligation to pay benefits to members and beneficiaries based on the present value of the expected future payments which arise from membership of the scheme up to reporting date. The figure is determined by reference to expected future salary levels and by application of a market-based risk-adjusted discount rate and relevant actuarial assumptions.

(2) Vested benefits are benefits which are not conditional upon continued membership of the scheme (or any factor other than resignation from the scheme) and include benefits which members were entitled to receive had they terminated their scheme membership as at year end.

The above amounts have been extracted from the financial statements and actuarial valuations of the schemes as at:

for WSSP, item (i) 30 June 2000, items (ii) and (iii) 30 June 2003; and

for overseas schemes, various dates between 30 June 2002 and 5 April 2003.

The Group has no material obligations in respect of post-retirement employee benefits other than pensions.

Note 34. Contingent liabilities, contingent assets and credit commitments

Credit commitments

The Group is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers and in managing its own risk profile. These financial instruments include commitments to extend credit, bill endorsements, financial guarantees, standby letters of credit and underwriting facilities.

The Group's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract or notional amount of those instruments. However, some commitments to extend credit and provide underwriting facilities can be cancelled or revoked at any time at the Group's option.

The Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

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The Group takes collateral where it is considered necessary to support, both on and off-balance sheet, financial instruments with credit risk. The Group evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral taken, if deemed necessary, on the provision of a financial facility is based on management's credit evaluation of the counterparty. The collateral taken varies, but may include cash deposits, receivables, inventory, plant and equipment, real estate and investments.

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The Group is obliged to repurchase securitised loans where there is a breach of warranty within 120 days of sale, or where the securitised loans cease to conform with the terms and conditions of the Westpac Securitisation Trust program.

Off-balance sheet credit risk related financial instruments and maturity breakdown of the credit equivalent are shown below:

	Consolidated				Parent Entity			
	2003		2002		2003		2002	
	Contract or Notional Amount \$m	Credit Equivalent(1) \$m	Contract or Notional Amount \$m	Credit Equivalent(1) \$m	Contract or Notional Amount \$m	Credit Equivalent(1) \$m	Contract or Notional Amount \$m	Credit Equivalent(1) \$m
Credit risk related instruments								
Standby letters of credit and financial guarantees(2)	3,542	3,542	6,001	6,001	3,527	3,527	5,961	5,961
Trade letters of credit(3)	1,337	267	389	78	1,336	267	379	76
Non-financial guarantees(4)	4,716	2,358	4,396	2,198	4,716	2,358	4,384	2,192
Commitments to extend credit:								
Residual maturity less than one year(5)	30,984		34,227		30,908		34,182	
Residual maturity one year or more	26,521	10,024	11,290	5,645	26,519	10,024	11,290	5,645
Other commitments(6)	7,026	5,466	6,725	10,172	7,025	5,464	9,634	13,081
Total credit risk-related instruments	74,126	21,657	63,028	24,094	74,031	21,640	65,830	26,955

- (1) Credit equivalents are determined in accordance with the APRA risk weighted capital adequacy guidelines (refer note 44).
- (2) This included \$1.8 billion (2002 \$3.4 billion) credit indemnity provided on Australian Guarantee Corporation Limited business finance loans.
- (3) Trade letters of credit are for terms up to one year secured against an underlying shipment of goods or backed by a confirmatory letter from another bank.
- (4) Non-financial guarantees include other trade related letters of credit and obligations backing the performance of commercial contracts.
- (5) The credit conversion factor was 0% for credit commitments with a residual maturity of less than one-year or which can be unconditionally cancelled by the Group at any time without notice.

(6) Other commitments included forward purchases of assets, forward deposits, underwriting commitments and credit derivatives.

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	Consolidated				
	Less than 1 year \$m	Between 1 and 3 years \$m	Between 3 and 5 years \$m	Over 5 years \$m	Total \$m
2003					
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
Commitments to extend credit, residual maturity one year or more		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
2002					
Standby letters of credit and financial guarantees	1,781	2,419	1,359	442	6,001
Trade letters of credit	19	38	1	20	78
Non-financial guarantees	111	1,437	9	641	2,198
Commitments to extend credit, residual maturity one year or more		2,695	713	2,237	5,645
Other commitments	2,238	3,512	2,721	1,701	10,172
Total commercial commitments	4,148	10,101	4,804	5,041	24,094

The credit commitments shown in the previous tables also constitute contingent assets. These commitments would be classified as loans and other assets in the statement of financial position on the contingent event eventuating.

Additional liabilities and commitments

Legislative liabilities

The Group had the following assessed liabilities at 30 September 2003:

\$16 million (2002 \$17 million) based on an actuarial assessment as a self-insurer under the Workers' Compensation Act, 1987 and the Workplace Injury Management and Workers Compensation Act, 1998 (New South Wales);

\$5 million (2002 \$4 million) based on an actuarial assessment as a self-insurer under the Accident Compensation Act, 1985 (Victoria); and

\$2 million (2002 \$2 million) based on an actuarial assessment as a self-insurer under the Workers' Compensation and Rehabilitation Act, 2003 (Queensland).

Adequate provision has been made for these liabilities in the provision for annual leave and other staff benefits (refer note 22).

Litigation

Contingent liabilities exist in respect of actual and potential claims and proceedings. An assessment of the Group's likely loss has been made on a case-by-case basis and a provision has been made where appropriate within the provision for bad and doubtful debts (refer note 13) or the provision for non-lending losses (refer note 22).

Westpac is 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, Westpac believes that it has good prospects of success.

Liquidity support

In accordance with the Regulations of the Australian Payments Clearing Association (APCA), Westpac may be required to provide liquidity support for any other APCA member that fails to settle its clearing obligations. It is not possible to reliably measure any commitment.

In addition, Westpac is a participant to the Interbank Deposit Agreement along with three other Australian banks. In accordance with the Interbank Deposit Agreement, a deposit notice may be served upon the other participants by a bank which is experiencing liquidity problems. The other participants are then required to deposit equal amounts of up to \$2 billion each for a period of 30 days. At the end of 30 days the deposit holder has the option to repay the deposit in cash or by way of assignment of mortgages to the value of the deposit.

Other matters

On 8 April 2003, Westpac announced that it had brought to the attention of the New Zealand Securities Commission an apparent technical non-compliance by BT Funds Management (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 the Group acquiring BTFM in October 2002. It is not expected there will be any material financial cost to the Group arising from this matter.

Parent entity guarantees and undertakings

Excluded from the consolidated amounts disclosed above are the following guarantees and undertakings extended to entities in the Group by Westpac:

- (i) guarantees of commercial paper and other debt securities issued by certain controlled entities that are, in accordance with guidelines, provided by APRA, immediately on lent to Westpac;
- (ii) issue of letters of comfort in respect of certain controlled entities in the normal course of business. The letters recognise that Westpac has a responsibility to ensure that those controlled entities continue to meet their obligations;
- (iii) guarantee of the repayment of loans made by Westpac Bank-PNG-Limited to the extent that they exceed a prescribed limit; and
- (iv) guarantee of the repayment of loans made by Westpac Bank Samoa Limited to the extent that they exceed a prescribed limit.

Note 35. Derivative financial instruments

Derivative contracts include forwards, futures, swaps and options, all of which are bilateral contracts or payment exchange agreements, whose values derive from the value of an underlying asset, reference rate or index. Derivatives are flexible and cost-effective tools for assisting in the management of interest rate, exchange rate, commodity, credit and equity exposures.

A *forward* contract obliges one party to buy and the other to sell, a specific underlying product or instrument at a specific price, amount, and date in the future. A *forward rate agreement* is an agreement between two parties establishing a contract interest rate on a notional principal over a specified period commencing at a specific future date.

A *futures* contract is similar to a forward contract. A futures contract obliges its owner to buy a specific underlying commodity or financial instrument at a specified price on the contract maturity date (or to settle the value for cash). Futures are exchange-traded.

A *swap* transaction obliges the two parties to the contract to exchange a series of cash flows at specified intervals known as payment or settlement dates.

An *option* contract gives the option holder the right, but not the obligation, to buy or sell a specified amount of a given commodity or financial instrument at a specified price during a certain period or on a specific date. The writer of the option contract is obliged to perform if the holder exercises the right contained therein.

The following terms are used in the remainder of this note to describe the Group's exposure to derivatives.

The "notional amount" is a measure of the volume which may be used for examining changes in derivative activity over time. The notional amount is the face value of the contract. Unlike an on-balance sheet financial instrument, the notional amount of a derivative does not reflect the amount at risk which is generally only a small fraction of this value.

The "regulatory credit equivalent" is calculated for capital adequacy purposes using APRA's current exposure method. Credit equivalent amounts are calculated as replacement cost (positive mark-to-market) plus an add-on for potential credit exposure based on a credit conversion factor (percentage) of the notional amount. The credit conversion factors are as shown below:

	Less than 1 year %	Between 1 and 5 Years %	Over 5 Years %
Interest rate		0.5	1.5
Foreign exchange (including gold)	1.0	5.0	7.5
Equities	6.0	8.0	10.0
Precious metals (excluding gold)	7.0	7.0	8.0
Other commodities	10.0	12.0	15.0

The "positive mark-to-market" (replacement cost) is the cost of replacing all transactions in a gain position to the Group and is included in "other assets" on the statement of financial position.

The "negative mark-to-market" represents the cost to the Group's counterparties of replacing all transactions in a loss position to the Group and is included in "other liabilities" on the statement of financial position. The mark-to-market values do not include any offsetting physical positions that may exist, including structural balance sheet positions, and they do not include any benefits from master netting agreements.

The Group uses derivatives in two distinct capacities; as a dealer and as an end-user as part of its asset and liability management activities. As a dealer, the Group's primary objective is to derive income from the sale of derivatives to meet Westpac's customers needs. In addition to the sale of derivatives to customers, the Group also undertakes market making and discretionary trading activities. Market making involves providing quotes to other dealers who reciprocate by providing the Group with their own quotes. This process ensures liquidity in the key markets in which the Group operates. The Group also trades on its own account to exploit arbitrage opportunities and market anomalies, as well as to take outright views on market direction. These activities, represent a limited part of the Group's derivative activities.

Certain leveraged derivatives include an explicit leverage factor in the payment formula. The leverage factor has the effect of multiplying the notional amount such that the impact of changes in the underlying price or prices may be greater than that indicated by the notional amount alone. The Group has no significant exposure to those types of transactions.

The following table provides details of the Group's outstanding derivatives used for trading and hedging activities as at 30 September.

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Credit derivatives used for credit portfolio diversification purposes are included within other commitments in note 34.

	Notional Amount \$m	Regulatory Credit Equivalent \$m	Positive Mark- to-Market (replacement cost) \$m	Negative Mark- to-Market \$m	Average Positive Mark- to-market (replacement cost) \$m	Average Negative Mark- to-Market \$m
Trading derivatives 2003						
Interest rate						
Futures	23,783					
Forwards	5,623	3	3	3	3	2
Swaps	256,402	4,022	3,018	3,236	3,695	3,487
Purchased options	27,044	67	39		54	
Sold options	7,002			34		44
Foreign exchange						
Forwards	247,260	9,561	6,831	7,516	5,691	6,273
Swaps	57,153	3,512	1,310	2,373	1,771	2,147
Purchased options	93,378	2,648	1,552		930	
Sold options	84,477			1,722		982
Commodities	3,386	397	72	50	26	13
Equities and credit	10,809	543	82	29	48	27
Total trading derivatives	816,317	20,753	12,907	14,963	12,218	12,975
Hedging derivatives						
Interest rate						
Futures	30,116					
Forwards	4,955					
Swaps	5,566	335				
Purchased options	9					
Total hedging derivatives	40,646	335				
Total derivatives	856,963	21,088	12,907	14,963	12,218	12,975
Trading derivatives 2002						
Interest rate						
Futures	28,727		1	1		
Forwards	24,669	7	8	10	10	12
Swaps	231,350	5,351	4,268	4,030	3,758	3,301
Purchased options	12,971	144	103		96	
Sold options	7,434			78		84
Foreign exchange						
Forwards	258,999	6,056	3,372	3,579	4,533	3,790
Swaps	53,592	5,744	3,581	3,412	2,117	2,553
Purchased options	38,403	1,235	995		878	
Sold options	34,933			504		574
Commodities	1,000	174	40	23	33	24
Equities and credit	1,456	122	45		11	6
Total trading derivatives	693,534	18,833	12,413	11,637	11,436	10,344
Hedging derivatives outstanding						
Interest rate						
Futures	20,130					
Forwards	15,573	2				
Swaps	3,920	51				

	Notional Amount \$m	Regulatory Credit Equivalent \$m	Positive Mark-to-Market (replacement cost) \$m	Negative Mark-to-Market \$m	Average Positive Mark-to-market (replacement cost) \$m	Average Negative Mark-to-Market \$m
Total hedging derivatives	39,623	53				
Total derivatives	733,157	18,886	12,413	11,637	11,436	10,344

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In addition to the above hedging derivatives outstanding, certain derivative positions used in the Group's asset and liability management activities are transacted internally with the Group's independently managed dealing units. The dealing units, in turn, cover their positions in the market place.

The following table shows the notional amount of such internal derivative transactions outstanding at year end. The notional amounts do not represent direct credit exposures. Credit risk does arise in respect of offsetting external transactions. The regulatory credit equivalent is included in the above table of trading derivatives.

	Notional Principal Amount	
	2003 \$m	2002 \$m
Derivatives used for asset and liability management purposes		
Interest rate		
Forwards	3,998	8,295
Swaps	83,342	71,230
Purchased options	192	259
Foreign exchange		
Forwards	584	4,126
Swaps	20,559	11,698
Total derivatives used for asset and liability management purposes	108,675	95,608

Where hedge transactions are terminated prior to the maturity of the underlying exposures, gains or losses on termination or redesignation are deferred and recognised over the remaining term of the underlying exposure. As at 30 September 2003, the net amount of the deferred gains in relation to terminated, redesignated and matured hedge contracts was \$2.2 million (2002 \$0.5 million loss) which will be amortised to the statement of financial performance.

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Note 36. Interest rate risk

Sensitivity to interest rates arises from mismatches in the interest rate characteristics of the assets and their corresponding liability funding. One of the major causes of these mismatches is timing differences in the repricing of the asset and liabilities. These mismatches are actively managed as part of the overall interest rate risk management process which is conducted in accordance with Group policy guidelines.

The following table represents a break down of the contractual repricing, by time, of the Group's net asset position as at 30 September 2003. The Group uses this contractual repricing information as a base, which is then altered to take account of consumer behaviour, to manage its interest rate risk.

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Consolidated
2003

	Less than 1 Month \$m	Between 1 to 3 Months \$m	Between 3 Months and 1 Year \$m	Between 1 and 5 Years \$m	Over 5 Years \$m	Non- Interest Bearing \$m	Total \$m	Weighted Average Rate(1) %
Australia								
Assets								
Cash and balances with central banks						1,671	1,671	
Due from other financial institutions	1,388			1,400		82	2,870	5.8%
Trading securities	7,624						7,624	5.0%
Investment securities	104	32	94	747	59		1,036	5.0%
Loans(2)	102,169	8,424	7,863	11,786	581	(1,117)	129,706	6.3%
Acceptances of customers						3,788	3,788	
Life insurance assets(3)	1,612	115	646	2	95	7,977	10,447	5.0%
Fixed assets						604	604	
All other assets						22,162	22,162	
Total assets	112,897	8,571	8,603	13,935	735	35,167	179,908	
Liabilities								
Due to other financial institutions	796	588	301	735		288	2,708	2.8%
Deposits and public borrowings	69,684	10,667	12,810	1,586	32	3,748	98,527	3.8%
Debt issues	2,837	5,320	4,080	6,098	360		18,695	3.2%
Acceptances						3,788	3,788	
Life insurance policy liabilities(3)			157	243	168	9,321	9,889	5.0%
All other liabilities						23,200	23,200	
Net intragroup payable	9,471						9,471	2.4%
Total liabilities excluding loan capital	82,788	16,575	17,348	8,662	560	40,345	166,278	
Loan capital	147	2,152	901		1,300		4,500	3.4%
Total liabilities	82,935	18,727	18,249	8,662	1,860	40,345	170,778	
Net assets	29,962	(10,156)	(9,646)	5,273	(1,125)	(5,178)	9,130	
Total equity						9,129	9,129	
Off-balance sheet items	(1,246)	(13,987)	14,467	89	677			
Net mismatch Australia	28,716	(24,143)	4,821	5,362	(448)	(14,307)		

- (1) The weighted average rate was calculated excluding non-interest bearing assets and liabilities.
- (2) The non-interest bearing category for loans included the provisions for bad and doubtful debts.
- (3) The investment earnings on life insurance assets support the life insurance policy liabilities and does not contribute to market risk on the Group's banking operations.

	Less than 1 Month \$m	Between 1 to 3 Months \$m	Between 3 Months and 1 Year \$m	Between 1 and 5 Years \$m	Over 5 Years \$m	Non- Interest Bearing \$m	Total \$m	Weighted Average Rate(1) %
New Zealand								
Assets								
Cash and balances with central banks						90	90	
Due from other financial institutions	67	106	705				878	3.8%
Trading securities	97	161	621	282			1,161	6.4%
Loans(2)	12,970	3,246	4,320	8,092	21	(233)	28,416	7.5%
Life insurance assets(3)				6		69	75	6.4%
Fixed assets						198	198	
All other assets						2,127	2,127	
Total assets	13,134	3,513	5,646	8,380	21	2,251	32,945	
Liabilities								
Due to other financial institutions	133	43					176	7.4%
Deposits and public borrowings	9,507	4,274	2,835	2,231	7	819	19,673	4.0%
Debt issues		74	97				171	5.9%
Life insurance policy liabilities(3)						75	75	
All other liabilities						2,621	2,621	
Net intragroup payable	8,503						8,503	2.2%
Total liabilities excluding loan capital	18,143	4,391	2,932	2,231	7	3,515	31,219	
Loan capital				44			44	7.6%
Total liabilities	18,143	4,391	2,932	2,275	7	3,515	31,263	
Net assets	(5,009)	(878)	2,714	6,105	14	(1,264)	1,682	
Total equity						1,683	1,683	
Off-balance sheet items	7,140	(727)	(899)	(6,164)	650			
Net mismatch New Zealand	2,131	(1,605)	1,815	(59)	664	(2,947)		
Other overseas								
Total assets	20,169	535	688	3,651	575	836	26,454	2.7%
Total liabilities	8,803	6,764	4,147	2,029	521	1,006	23,270	1.8%
Net assets	11,366	(6,229)	(3,459)	1,622	54	(170)	3,184	
Total equity						3,184	3,184	
Off-balance sheet items	761	(4,879)	2,355	254	1,509			
Net mismatch other overseas	12,127	(11,108)	(1,104)	1,876	1,563	(3,354)		

(1)

The weighted average rate was calculated excluding non-interest bearing assets and liabilities.

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(2) The non-interest bearing category for loans included the provisions for bad and doubtful debts.

(3) The investment earnings on life insurance assets support the life insurance policy liabilities and does not contribute to market risk on the Group's banking operations.

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Consolidated 2002								
	Less than 1 Month \$m	Between 1 to 3 Months \$m	Between 3 Months and 1 Year \$m	Between 1 and 5 Years \$m	Over 5 Years \$m	Non- Interest Bearing \$m	Total \$m	Weighted Average Rate(1) %
Australia								
Assets								
Cash and balances with central banks						1,554	1,554	
Due from other financial institutions	1,873			1,412		16	3,301	5.4%
Trading securities	8,575						8,575	4.9%
Investment securities	51	778	135				964	5.7%
Loans(2)	81,370	8,087	7,480	10,481	385	(1,197)	106,606	6.2%
Acceptances of customers						4,788	4,788	
Life insurance assets(3)	1,553	152	238	2		5,567	7,512	5.0%
Fixed assets						632	632	
All other assets						17,986	17,986	
Total assets	93,422	9,017	7,853	11,895	385	29,346	151,918	
Liabilities								
Due to other financial institutions	971	129	653			555	2,308	2.8%
Deposits and public borrowings	59,697	11,023	7,116	482	32	3,612	81,962	3.5%
Debt issues	3,756	5,865	3,178	5,431	224		18,454	3.8%
Acceptances						4,788	4,788	
Life insurance policy liabilities(3)			127	201	126	6,698	7,152	5.0%
All other liabilities						18,623	18,623	
Net intragroup payable	7,473						7,473	2.6%
Total liabilities excluding loan capital	71,897	17,017	11,074	6,114	382	34,276	140,760	
Loan capital	828	2,284	829	425	104		4,470	4.2%
Total liabilities	72,725	19,301	11,903	6,539	486	34,276	145,230	
Net assets	20,697	(10,284)	(4,050)	5,356	(101)	(4,930)	6,688	
Total equity						6,688	6,688	
Off-balance sheet items	(3,780)	2,391	2,084	(922)	227			
Net mismatch Australia	16,917	(7,893)	(1,966)	4,434	126	(11,618)		

(1) The weighted average rate was calculated excluding non-interest bearing assets and liabilities.

(2)

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The non-interest bearing category for loans included the provisions for bad and doubtful debts.

(3)

The investment earnings on life insurance assets support the life insurance policy liabilities and does not contribute to market risk on the Group's banking operations.

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Consolidated 2002								
	Less than 1 Month \$m	Between 1 to 3 Months \$m	Between 3 Months and 1 Year \$m	Between 1 and 5 Years \$m	Over 5 Years \$m	Non- Interest Bearing \$m	Total \$m	Weighted Average Rate(1) %
New Zealand								
Assets								
Cash and balances with central banks						97	97	
Due from other financial institutions	261	338	69			57	725	5.8%
Trading securities	1,260						1,260	5.4%
Loans(2)	11,223	3,286	4,164	7,834	9	(74)	26,442	7.9%
Life insurance assets(3)			2	1	1	50	54	5.8%
Fixed assets						147	147	
All other assets	174					2,073	2,247	
Total assets	12,918	3,624	4,235	7,835	10	2,350	30,972	
Liabilities								
Due to other financial institutions	284	5	1			94	384	5.4%
Deposits and public borrowings	10,654	3,841	2,980	716	37	872	19,100	4.0%
Debt issues		52	85				137	5.9%
Life insurance policy liabilities(3)						11	11	
All other liabilities						1,832	1,832	
Net intragroup payable	7,187						7,187	2.6%
Total liabilities excluding loan capital	18,125	3,898	3,066	716	37	2,809	28,651	
Loan capital				42			42	7.6%
Total liabilities	18,125	3,898	3,066	758	37	2,809	28,693	
Net assets	(5,207)	(274)	1,169	7,077	(27)	(459)	2,279	
Total equity						2,279	2,279	
Off-balance sheet items	2,677	2,285	(934)	(4,735)	707			
Net mismatch New Zealand	(2,530)	2,011	235	2,342	680	(2,738)		
Other overseas								
Total assets	16,548	966	674	3,016	1,069	534	22,807	3.2%
Total liabilities	6,443	7,407	4,075	1,592	653	1,136	21,306	2.9%
Net assets	10,105	(6,441)	(3,401)	1,424	416	(602)	1,501	
Total equity						1,501	1,501	
Off-balance sheet items	(8)	(2,019)	1,466	174	387			

**Consolidated
2002**

Net mismatch other overseas	10,097	(8,460)	(1,935)	1,598	803	(2,103)
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- (1) The weighted average rate was calculated excluding non-interest bearing assets and liabilities.
- (2) The non-interest bearing category for loans included the provisions for bad and doubtful debts.
- (3) The investment earnings on life insurance assets support the life insurance policy liabilities and does not contribute to market risk on the Group's banking operations.

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Note 37. Fair value of financial instruments

The following information represents estimates of fair values at a point in time. Quoted market prices, when available, are used as the measure of fair values. However, for a significant portion of the Group's financial instruments, quoted market prices do not exist. For such financial instruments, fair values presented are estimates derived using net present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. In addition, the value of long term relationships with depositors (core deposit intangibles) and other customers (such as credit card intangibles) are not reflected. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amount the Group could have realised in a sales transaction as at 30 September 2003.

The fair value estimates were determined by application of the methods and assumptions described below.

Cash and short term liquid assets

For cash and cash at bank, loans to dealers in the Australian short term money market, amounts due from other financial institutions with maturities of less than three months, and other types of short term financial instruments recognised in the statement of financial position under "other assets" or "other liabilities", the carrying amount is a reasonable estimate of fair value.

Floating rate financial instruments

For floating rate financial instruments, the carrying amount is generally a reasonable estimate of fair value.

Trading and investment securities

For trading and investment securities, the estimated fair values, which are also the carrying amounts, are generally based on independently sourced market prices or, where these are unavailable, dealer quotes that are subject to monthly review by an independent Revaluation Committee.

Regulatory deposits with central banks overseas

The Group is required by law, in several countries in which it operates, to lodge regulatory deposits with the local central bank at a rate of interest below that generally prevailing in that market. As the Group's ability to carry on the business of banking is conditional upon the maintenance of these deposits, their fair value is assumed to be equal to their carrying value, notwithstanding the below market rate of interest being earned thereon.

Due from other financial institutions and loans

For amounts due from other financial institutions with maturities of three months or more and fully-performing fixed rate loans, fair values have been estimated by reference to current rates at which similar advances would be made to banks and other borrowers with a similar credit rating and the same remaining maturities.

For variable rate loans, excluding impaired loans, the carrying amount is generally a reasonable estimate of fair value.

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Fair value of credit card receivables is based on the carrying value of receivables outstanding which is generally a reasonable estimate and does not include the value associated with the relationships Westpac has with its credit card customers.

The fair values of impaired loans are estimated by discounting the estimated future cash flows using current market interest rates incorporating an appropriate risk factor or, where such loans are collateralised and have been written-down to the current market value of the collateral, the estimated fair value is based on the written-down carrying value.

In arriving at the fair values for loans on the above bases, the total fair value of the entire loan portfolio as at 30 September 2003 has been reduced by \$1,393 million (2002 \$1,162 million) being the carrying value of the general provision for bad and doubtful debts which covers unidentified losses inherent in the portfolio.

Acceptances of customers

Given the short term nature of acceptances of customers and the fact that they exactly net off against the contra liability acceptances, the carrying amount is a reasonable estimate of the fair value.

Life insurance assets

The net fair values of life insurance assets are based on quoted market prices. Where quoted market prices do not exist, fair value estimates are determined using net present value or other valuation techniques.

Other investments

For shares in companies, the estimated fair values are based on quoted market prices, the expected future cash flows or on the Group's share of net assets at book value.

Due to other financial institutions, deposits and public borrowings, debt issues and subordinated debt

The fair value of demand deposits is the amount payable on demand at the reporting date. For other liabilities with maturities of less than three months, the carrying amount is a reasonable estimate of fair value. For liabilities with maturities of three months or longer, fair values have been based on quoted market prices, where such prices exist. Otherwise, fair values have been estimated using the rates currently offered for similar liabilities of similar remaining maturities.

Life insurance policy liabilities

The net fair values of life insurance policy liabilities have been calculated in accordance with the Margin on Services methodology as detailed in note 1 (f)iv.

Commitments to extend credit, financial guarantees, letters of credit and bill endorsements

A fair value has not been ascribed to credit and other commitments (contractual value 2003 \$64.5 billion, 2002 \$52.2 billion), guarantees and letters of credit (combined contractual value 2003 \$9.6 billion, 2002 \$10.8 billion) as estimated fair values are not readily ascertainable. These financial instruments are generally not sold nor traded. They generate ongoing fees at the Group's current pricing levels which are in line with general market prices. The fair value may be represented by the present value of fees expected to be received, less associated costs. The overall level of fees involved is not material.

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Exchange rate, interest rate and equity contracts and commodity-swap agreements

The fair value of exchange rate, interest rate and equity contracts and commodity-swap agreements (used for hedging purposes) is the estimated amount the Group would receive or pay to terminate the contracts at the reporting date.

Credit derivatives

The fair value of credit derivatives are where possible, based on observable market prices or on dealer quotes. For certain credit derivatives, where there is no active market, fair value has been derived using expected future cash flows taking into account projections of future default rates.

Estimated fair value of the Group's financial instruments as at 30 September were as follows.

	2003		2002	
	Amount \$m	Fair Value \$m	Amount \$m	Fair Value \$m
Financial assets				
Cash and short term liquid assets	1,786	1,786	1,669	1,669
Due from other financial institutions	6,035	6,035	5,242	5,243
Trading securities	8,793	8,793	10,643	10,643
Investment securities	3,656	3,745	3,313	3,216
Loans (net of unearned income):				
Loans and other receivables	162,027		137,304	
Specific provisions for bad and doubtful debts	(161)		(272)	
General provision for bad and doubtful debts	(1,393)		(1,162)	
	160,473	160,451	135,870	135,957
Acceptances of customers	3,788	3,788	4,788	4,788
Life insurance assets	10,522	10,522	7,566	7,566
Regulatory deposits with central banks overseas	425	425	455	455
Other assets:				
Accrued interest receivable	724	724	658	658
Securities purchased under agreement to resell	282	282	285	285
Securities sold not delivered	5,183	5,183	3,432	3,432
Other financial markets assets	13,315	13,315	12,413	12,413
Other investments	225	242	77	85
Financial liabilities				
Due to other financial institutions	3,831	3,831	4,731	4,750
Deposits and public borrowings	129,071	129,324	110,763	110,956
Debt issues	29,970	30,173	27,575	28,092
Acceptances	3,788	3,788	4,788	4,788
Life insurance policy liabilities	9,896	9,896	7,163	7,163
Other liabilities:				
Accrued interest payable	642	642	686	686
Securities sold under agreement to repurchase	363	363	97	97
Securities short sold	943	943	1,067	1,067
Securities purchased not delivered	4,826	4,826	2,998	2,998
Other financial markets liabilities	15,296	15,296	11,871	11,871
Subordinated bonds, notes and debentures	3,971	4,121	3,795	4,034
Subordinated perpetual notes	573	576	717	722
Off-balance sheet derivative financial instruments				

	2003	2002
Exchange rate, interest rate and equity contracts used for hedging purposes and credit derivatives used for portfolio diversification in:		
Receivable position	2,522	2,294
Payable position	(2,564)	(2,149)
Net receivable position	(42)	145
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Note 38. Group entities

The consolidated financial statements as at 30 September 2003 include the following controlled entities.

Name	Country of Incorporation
Westpac Banking Corporation(1)	Australia
1925 Advances Limited	Australia
General Credits Holdings Limited	Australia
General Credits Limited	Australia
G.C.L. Investments Limited	Australia
Island Princess Holdings Pty Limited	Australia
The Airlie Trust	Australia
Reef International Pty Limited	Australia
52 Collins St. Pty Limited	Australia
Australian Loan Processing Security Company Pty Limited	Australia
Australian Loan Processing Security Trust	Australia
Bill Acceptance Corporation Limited	Australia
Mortgage Management Limited	Australia
Biralo Pty Limited(2)	Australia
BLE Capital Limited	Australia
BLE Capital Investments Pty Limited	Australia
BLE Development Pty Limited	Australia
BLE Holdings Pty Limited	Australia
BLE Capital (NZ) Limited	New Zealand
Brenmar Holdings Pty Limited	Australia
Carseldine Pty Limited	Australia
CBA Limited	Australia
Belliston Pty Limited	Australia
Westpac Properties-Vic-Limited	Australia
Westpac Properties-NSW-Pty Limited	Australia
Challenge Limited	Australia
Challenge Finance Limited	Australia
Challenge Funds Management Limited	Australia
Challenge Information Technology Pty Limited	Australia
Hastings Utilities Trust(3)	Australia
Huben Holdings Pty Limited	Australia
Hull 4381 and 4382 Leasing Pty Limited	Australia
Maracorp Financial Services Pty Limited	Australia
MFS Services Pty Limited	Australia
Partnership Pacific Limited	Australia
Glenunga Pty Limited	Australia
Maliny Pty Limited	Australia
Partnership Pacific Securities Limited	Australia
Wistow Pty Limited	Australia
Pitco Pty Limited(2)	Australia

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Name	Country of Incorporation
The Pitco Trust(2)	Australia
RESI Statewide Corporation Limited	Australia
RESI Statewide Mortgage Corporation Limited	Australia
S.A.L. Financial Services Pty Limited	Australia
RESI Statewide Nominees Limited	Australia
Sallmoor Pty Limited	Australia
SCRaP Note Trust(3)(6)	Australia
Sixty Martin Place (Holdings) Pty Limited	Australia
1925 (Commercial) Limited	Australia
1925 (Industrial) Limited	Australia
A.C.N. 001 231 027 Pty Limited	Australia
1925 (Insurance Premium Funding) Limited	Australia
1925 (Properties) Limited	Australia
1925 House Limited	Australia
Claremont Bond Pty Limited	Australia
Colmso Pty Limited	Australia
Colmtea Pty Limited	Australia
Como Properties Pty Limited	Australia
Comserv (No. 3011) Pty Limited	Australia
EHM Investco Pty Limited	Australia
Enfield Downs Pty Limited	Australia
Infrastructure Australia (No.1) Limited	Australia
Infrastructure Australia (No.2) Limited	Australia
Infrastructure Australia (No.3) Limited	Australia
Infrastructure Australia (No.4) Limited	Australia
Ivaness Pty Limited	Australia
Loy Yang B Agencies Pty Limited	Australia
Oakjet Pty Limited	Australia
Diversified Security Investments LLC(6)(8)	USA
Segregated Asset Management LLC	USA
Ormiston Pty Limited	Australia
Broadbeach International Holding Trust	Australia
Pranbrooke Pty Limited	Australia
Hesse Pty Limited	Australia
Howlong Pty Limited	Australia
Packaging Properties 1 Pty Limited	Australia
Packaging Properties 2 Pty Limited	Australia
Packaging Properties 3 Pty Limited	Australia
Piccadilly of Sydney Pty Limited(9)	Australia
Jaunty Pty Limited	Australia
Piccadilly Plaza Trust	Australia
Sarnia Pty Limited(9)	Australia
The Swan Trust(9)	Australia
The Exchange Plaza Trust	Australia
Teuton Pty Limited	Australia
Vicpac Chatswood Pty Limited(9)	Australia
The Vicpac Unit Trust	Australia
Westpac Administration Pty Limited	Australia
Westpac Asian Lending Pty Limited	Australia
Terrigal LLC(3)	USA

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Name	Country of Incorporation
Tasman LLC(3)	USA
White Chapel Partnership (UK)(3)	UK
Tasman Pacific Investments Pty Limited(3)	Australia
Westpac Debt Securities Pty Limited	Australia
Westpac Direct Equity Investments Pty Limited(4)	Australia
Westpac Equipment Finance Limited	Australia
Westpac Equipment Finance (No. 1) Pty Limited(10)	Australia
Westpac Equipment Finance (Vic) Pty Limited	Australia
Westpac Group Investments Australia Pty Limited	Australia
Coogee Finance Pty Limited(6)	Australia
Westpac Infrastructure Management Limited	Australia
Westpac Investment Vehicle Pty Limited	Australia
Westpac Resources and Infrastructure Pty Limited	Australia
Westpac Structured Investments Limited	Australia
Westpac Syndications Management Pty Limited	Australia
Westpac Unit Trust	Australia
WIML Services Pty Limited	Australia
The Mortgage Company Pty Limited	Australia
The Home Loan Partnership Pty Limited	Australia
The Home Loan Partnership Trust	Australia
WBC Group Investment Trust(3)	Australia
Westpac Alpha Pty Limited(3)	Australia
Westpac Bank PNG Limited(3)	Papua New Guinea
Westpac Bank of Tonga(3)	Tonga
Westpac Bank Samoa Limited(3)	Western Samoa
Westpac Capital Corporation	USA
Westpac Capital Holdings Inc	USA
Westpac Capital Trust I	USA
Westpac Capital Trust III(3)	USA
Westpac Equity Holdings Pty Limited	Australia
Altitude Administration Pty Limited	Australia
Westpac Altitude Rewards Trust	Australia
Altitude Rewards Pty Limited	Australia
Autodirect Pty Limited	Australia
Pacific Structured Funding Limited	Australia
PersonalDirect Limited	Australia
Qvalent Pty Limited	Australia
Westpac Financial Consultants Limited	Australia
Westpac Financial Services Group Limited	Australia
BT Financial Group Pty Limited(4)(5)	Australia
BT Australia Pty Limited(5)	Australia
BT Australia Corporate Services Pty Limited(5)	Australia
BT Finance Pty Limited(5)	Australia
BT Nominees Pty Limited(5)	Australia
Chifley Services Pty Limited(5)	Australia
BT Funds Management Limited(5)	Australia
BT Finance and Investments Pty Limited(5)	Australia
Oniston Pty Limited(5)	Australia
BT Life Limited(5)	Australia

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Name	Country of Incorporation
BT Portfolio Services Limited(5)	Australia
BT Securities Limited(5)	Australia
BT (Queensland) Pty Limited(5)	Australia
BT Investor Services Pty Limited (4)(5)	Australia
BT Financial Group (NZ) Limited(5)(13)	New Zealand
BT Funds Management (NZ) Limited(5)(13)	New Zealand
Sagitta Wealth Management Limited	Australia
Sagitta Investment Management Limited	Australia
Hargrave Investments Pty Limited	Australia
Westpac Custodian Nominees Limited	Australia
Westpac Financial Services Limited	Australia
Westpac Funds Management Limited	Australia
Westpac Investment Management Pty Limited	Australia
Westpac Life Insurance Services Limited	Australia
Westpac Securities Administration Limited	Australia
Westpac Information Technology Services Pty Limited	Australia
Westpac Insurance Services (Brokers) Limited	Australia
Westpac Equity Pty Limited	Australia
A.F.G. Insurances Limited (in voluntary administration)	Australia
Westpac General Insurance Limited	Australia
Westpac Lenders Mortgage Insurance Limited	Australia

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Westpac Private Equity Pty Limited	Australia
Westpac Securities Limited	Australia
Net Nominees Limited	Australia
Westpac Securitisation Management Pty Limited	Australia
Westpac Structured Management Pty Limited(4)	Australia
Westpac Training Services Pty Limited	Australia
Westpac Finance Pty Limited	Australia
Westpac First Trust(3)	Australia
Westpac Funding Holdings Pty Limited	Australia
Tavarua Funding Trust I	USA
Tavarua Funding Trust III(3)	USA
Westpac Institutional Holdings Pty Limited	Australia
Hasting Funds Management Limited(5)(6)	Australia
Hastings Development Fund Limited(5)	Australia
Westpac Investment Holdings Pty Limited	Australia
Westpac Leasing Nominees Pty Limited	Australia
Westpac Leasing Nominees-Vic.- Pty Limited	Australia
Westpac Leasing Pty Limited	Australia
Westpac Matching Gifts Limited	Australia
Westpac OMG Holdings Pty Limited	Australia
Westpac Overseas Holdings Pty Limited	Australia
A.G.C. (Pacific) Limited	Papua New Guinea
Diversified Investments LLC (in voluntary liquidation)	Cayman Islands
Westpac Americas Inc.	USA
Westpac Investment Capital Corporation	USA
Westpac USA Inc.	USA
Southern Cross Inc.	USA

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Westpac Banking Corporation (Jersey) Limited	Jersey
Westpac Finance (HK) Limited	Hong Kong
WFAL No1 Loan Trust	Hong Kong
Westpac Group Investment -NZ- Limited	New Zealand
Westpac Holdings -NZ- Limited(12)	New Zealand
Augusta (1962) Limited	New Zealand
Augusta Equities Limited	New Zealand
TBNZ Limited	New Zealand
TBNZ Capital Limited	New Zealand
TBNZ Developments Limited	New Zealand
TBNZ Investments Limited	New Zealand
TBNZ Equity Limited	New Zealand
TBNZ Investments (UK) Limited	UK
The Home Mortgage Company Limited	New Zealand
The Warehouse Financial Services Limited(6)	New Zealand
Westpac (NZ) Investments Limited(4)	New Zealand
Westpac Capital -NZ- Limited(4)(12)	New Zealand
Aotearoa Financial Services Limited	New Zealand
Sfaka Investments Limited	New Zealand
Westpac Fund Acceptances -NZ- Limited	New Zealand
Westpac Lease Discounting -NZ- Limited(12)	New Zealand
Bag Inns Limited	New Zealand
Bag Inns Two Limited	New Zealand
Westpac Operations Integrated Limited	New Zealand
Westpac Financial Synergy Limited	New Zealand
Westpac Overseas Investments Limited(4)	New Zealand
Westpac Finance Limited	New Zealand
Westpac Investment Management-NZ-Limited(4)	New Zealand
Westpac Life -NZ- Limited(4)	New Zealand
Westpac Nominees -NZ- Limited	New Zealand
Westpac Superannuation Nominees-NZ-Limited(4)	New Zealand
WestpacTrust Securities NZ Limited(7)	New Zealand
Pacific Structured Funding-NZ-Limited	New Zealand
Westpac Overseas Funding Pty Limited	Australia
Westpac Securities Inc	USA
Westpac Singapore Limited	Singapore
Westpac Properties Limited	Australia
Collins Wales Pty Limited	Australia
Westpac Property Investments Pty Limited(11)	Australia
Westpac Second Trust(3)	Australia
Westpac Structured Products Limited	Australia
Westpac Tasman No.1 Pty Limited	Australia
Westpac Tasman No.2 Pty Limited	Australia

Notes

- (1) Controlled entities shown in bold type are owned directly by Westpac.
- (2) 50.0% of the equity or issued units in Pitco Pty Limited, Biralto Pty Limited and The Pitco Trust are held directly by Westpac Property Investments Pty Limited. The other 50.0% interests are held directly by Westpac.
- (3)

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Incorporated or formed during the 2003 financial year.

(4)

During the 2003 financial year, the following controlled entities names changed:

BT Financial Group Pty Limited BT Investor Services Pty Limited Westpac Capital -NZ- Limited Westpac Direct Equity Investments Pty Limited Westpac Investment Management -NZ- Limited Westpac Life -NZ- Limited Westpac (NZ) Investments Limited Westpac Overseas Investments Limited Westpac Structured Management Pty Limited Westpac Superannuation Nominees -NZ- Limited	(Formerly Principal Financial Group (Australia) Holdings Pty Limited) (Formerly BT Wealth Management Pty Limited) (Formerly WestpacTrust Capital -NZ- Limited) (Formerly Selbourne Pty Limited) (Formerly WestpacTrust Investment Management -NZ- Limited) (Formerly Westpac Trust Life -NZ- Limited) (Formerly WestpacTrust Investments Limited) (Formerly WestpacTrust Overseas Investments Limited) (Formerly Catalyst Financial Group Pty Limited) (Formerly WestpacTrust Superannuation Nominees -NZ- Limited)
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5.

Purchased during the financial year.

6.

All entities listed in this note are wholly owned controlled entities except the following:

	Percentage Owned	
	2003	2002
Coogee Finance Pty Limited	99.9%	99.9%
Diversified Security Investments LLC	99.9%	99.9%
Hastings Fund Management Limited	51.0%	
SCRaP Note Trust	70.0%	
The Warehouse Financial Services Limited	51.0%	51.0%
Westpac Bank-PNG-Limited	89.9%	89.9%
Westpac Bank of Tonga	60.0%	60.0%
Westpac Bank Samoa Limited	93.5%	93.5%

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7.

Overseas companies predominantly carry on business in the country of incorporation, except for WestpacTrust Securities NZ Limited, which predominantly operates through its London Branch. For unincorporated entities, "Country of Incorporation" refers to the country where business is carried on. The financial years of all controlled entities are the same as that of Westpac except Diversified Security Investments LLC and Segregated Asset Management LLC, which have a 31 December financial year end.

8.

24.9% of the equity in Diversified Security Investments LLC is held directly by Enfield Downs Pty Limited. 75.0% of the equity is held directly by Oakjet Pty Limited.

9.

50.0% of the equity in Piccadilly of Sydney Pty Limited, Sarnia Pty Limited, The Swan Trust and Vicpac Chatswood Pty Limited is held directly by Sixty Martin Place (Holdings) Pty Limited. The other 50.0% interests are held directly by Westpac.

10.

5.0% of the equity in Westpac Equipment Finance (No.1) Pty Limited is held directly by Teuton Pty Limited.

11.

Less than 1% of equity in Westpac Property Investments Pty Limited is held directly by Westpac Properties Limited.

12.

During the financial year the following companies were amalgamated:

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Bag Inns Three Limited with Westpac Lease Discounting -NZ- Limited

C.B.A. Finance Nominees Limited with Westpac Capital -NZ- Limited

Systems and Technology Limited with Westpac Capital -NZ- Limited

Mortgage Services Limited with Westpac Holdings -NZ- Limited

13.

Ceased to be wholly owned controlled entities of Westpac Holdings -NZ- Limited and became wholly owned controlled entities of Westpac Financial Services Group Limited.

The following controlled entities were disposed of during the year:

A.C.N. 007 552 454 Limited	Deregistered
M.A.C. Nominees Pty Limited	Deregistered
Mazbond Pty Limited	Deregistered
Moorebank Defence Property Trust	Sold
(Moorebank Defence Property Trust was sold for consideration of \$203 million. The profit on sale was Nil.)	
Palaver Pty Limited	Deregistered
Reveille Pty Limited	Deregistered
Runkelli Pty Limited	Deregistered
The Wales Nominees (Vic.) Pty Limited	Deregistered
Toliman Investments Limited	Sold
(Toliman Investments Limited was sold for consideration of \$62 million. The profit on sale was Nil.)	
Westpac Insurance Services Superannuation Fund Limited	Liquidated
Westpac Nominees -SA- Pty Limited	Deregistered
Westpac Office Trust	Listed
(Westpac Office Trust was sold for consideration of \$93 million. The profit on sale was \$2 million.)	
Westpac Retirement Plan Pty Limited	Deregistered

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Note 39. Other Group investments

The Group had a significant non-controlling shareholding in the following entities as at 30 September 2003:

	Country where Business is Carried on	Beneficial Interest %	Carrying Amount \$m	Nature of Business
Bronte Finance Pty Limited	Australia	20.0%		Investment company
Cardlink Services Limited	Australia	16.7%	1	Card clearing system
Cash Services Australia Pty Limited	Australia	25.0%		Cash logistics
ElectraNet Pty Limited	Australia	19.5%	114	Electricity transmission
Electronic Transaction Services Limited	New Zealand	25.0%		Credit card processing
Global Renewables Limited	Australia	35.0%	29	Waste management services
Hartleys Limited	Australia	28.7%	7	Stockbroking
Krava Nominees Pty Limited (in liquidation)	Australia	50.0%		Corporate trustee
McGrath Limited	Australia	20.0%	4	Property
Mondex Australia Pty Limited	Australia	25.0%		Smart card operations
Mondex New Zealand Limited	New Zealand	20.0%		Smart card operations
The Bayview Harbour Unit Trust	Australia	50.0%		Property development
The Runaway Bay Unit Trust	Australia	50.0%		Property development
Visa New Zealand Limited	New Zealand	15.4%		Credit card provider
Westpac Staff Superannuation Plan Pty Limited	Australia	50.0%		Corporate trustee
Westpac Employee Assistance Foundation Pty Limited	Australia	50.0%		Employee assistance foundation
Yieldbroker Pty Limited	Australia	22.5%		On-line distribution portal

During the 2003 financial year the Group's interests in the following entities were disposed:

25% interest in Ausmarkets Limited was liquidated;

50% interest in Colobus Pty Limited was liquidated;

25% interest in Somersby Park Pty Limited was deregistered; and

50% interest in Lawrence Collateral Indemnity Pty Limited was liquidated.

In terms of the contribution to the results of the Group, the above investments are not material, either individually or in aggregate.

Note 40. Related party disclosures

Directors of Westpac during the financial year ended 30 September 2003 were:

Mr L.A. Davis (Chairman)	Mr J.B. Fairfax (resigned 1 September 2003)
Dr D.R. Morgan (Managing Director and Chief Executive Officer)	Ms C.J. Hewson (appointed 6 February 2003)
Mr W.B. Capp	Mr E.A. Evans
Mr D.A. Crawford	Ms H.A. Lynch
The Hon. Sir Llewellyn Edwards	

Westpac and its controlled entities are exempt, subject to certain conditions, by ASIC Class Order 98/110 dated 10 July 1998 from the requirement to disclose the detail of certain loans or financial instrument transactions made by a bank to related parties (other than directors) in the ordinary course of banking business and either on an arm's length basis or with the approval of the shareholders of the relevant entity and its ultimate parent entity. The Class Order 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 adversely affect the decisions made by users of the financial statements about allocation of scarce resources.

A condition of the Class Order is that Westpac must lodge a statutory declaration, signed by two directors, with ASIC confirming that Westpac has appropriate systems of internal controls and procedures in place to provide assurance that any financial instruments transaction of a bank which is not entered into regularly is drawn to the attention of the directors so that it may be disclosed.

All financial instrument transactions that have occurred during the financial year between the directors and Westpac were conducted on an arm's length basis in the ordinary course of business and on commercial terms and conditions. These transactions were trivial or domestic in nature and consisted principally of normal personal banking and financial investment services.

Loans to directors and director-related parties

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. In respect of loans to executive directors, loans are made on the same terms and conditions as apply to other employees and certain customers of the Group in accordance with established policy.

Loans to directors of the parent entity and non-bank loans to directors of controlled entities as at 30 September:

	Consolidated		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Aggregate amount of loans to directors	7,914	3,984	2,502	3,394
Loans advanced during the year	1,766	2,635	350	2,129
Loan repayments received during the year	1,503	85	527	75

The directors of Westpac and other controlled entities concerned in the relevant loans made and repayments received were:

	<u>2003</u>	<u>2002</u>
B.J. Acworth	(1)	
M.G. Barbour	(1),(2)	
S. Campbell	(3)	
W.B. Capp	(2)	(1)
A.C. Carriline	(1)	
H. Chan	(4)	(2)
Sir L. Edwards	(3)	(1)
E.A. Evans	(2)	(1)
J.G. Frechtling	(2)	
J.B. Fairfax	(4)	(2)
G.I. Johnson	(1)	
M.G. Kerslake	(1)	
P.C. Lilley	(3)	
H.A. Lynch	(1),(2)	(2)
B.J. O'Connor	(2)	
S. Ramage	(1)	
H.A. Rosario	(1),(2)	
R.A. Walter	(1)	
M. Way	(3)	
M.D. Whelan	(3)	
Y.C.K. Wong	(2)	(1)

- (1) Loan made to this person during the financial year.
- (2) Repayment made by this person during the financial year.
- (3) No amendments made to any loan facilities held by this person during the financial year.
- (4) Ceased to be a director during the financial year.

Directors' shares and share option transactions

Details of share options issued to the Chief Executive Officer are set out in note 26. No share options are granted to non-executive Directors.

	<u>2003</u>	<u>2002</u>
(i) Ordinary shares acquired during the year(1) The aggregate number of Westpac shares acquired by the Directors of Westpac and Director-related entities during the year	648,370	713,523
(ii) Ordinary shares disposed of during the year(2)	566,446	400,058
(iii) Ordinary shares held at year end(3) The aggregate number of Westpac shares held directly, indirectly or beneficially by Directors of Westpac and their Director-related entities at year end	1,143,664	1,478,479

- (1)

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This included 625,000 ordinary shares issued under the 1999 Chief Executive Share Option Agreement (2002 675,000 ordinary shares issued under the Westpac Senior Officers' Share Purchase Scheme to the Chief Executive Officer), 1,394 (2002 2,211) shares issued under the Dividend Reinvestment Plan and 14,168 (2002 18,312) shares purchased on market under the Directors' fees sacrifice arrangements.

(2) This included 26,638 (2002 25,058) shares disposed of by a staff/community related benefit fund of which some Directors were personal trustees.

(3) This included 117,034 (2002 143,681) shares owned by a staff/community related benefit fund of which some Directors were personal trustees.

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Directors' interests in contracts

As required by the Corporations Act 2001, some Directors have given notice that they hold office in specified companies and as such are to be regarded as having an interest in any contract or proposed contract which may be made between Westpac and those companies.

All other transactions with Directors, Director-related entities and other related parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally involve the provision of financial and investment services.

Controlled entities

Transactions between Westpac and its controlled entities during the 2003 financial year have included the provision of a wide range of banking and other financial facilities, some of which have been on commercial terms and conditions, others have been on terms and conditions which represented a concession to the controlled entities. Details of amounts paid to or received from related parties, in the form of dividends or interest, are set out in notes 3 and 4.

Other intragroup transactions, which may or may not be on commercial terms, include the provision of management and administration services, staff training, data processing facilities, transfer of tax losses and leasing of properties, plant and equipment.

Similar transactions between Group entities and other related parties have been almost invariably on commercial terms and conditions as agreed between the parties. Such transactions are not considered to be material, either individually or in aggregate.

Note 41. Directors' remuneration

Income paid, or due and payable, from Westpac and related entities to Directors of Westpac fell within the bands below:

	<u>2003</u>	<u>2002</u>
20,001 30,000		3
40,001 50,000		1
80,001 90,000	1	
100,001 110,000		1
110,001 120,000		1
120,001 130,000	1	
130,001 140,000		3
140,001 150,000	1	
150,001 160,000	2	
160,001 170,000		1
170,001 180,000	1	
180,001 190,000	1	
370,001 380,000		1
420,001 430,000	1	
5,870,001 5,880,000		1

		2003	2002
		<u> </u>	<u> </u>
7,360,001	7,370,000	1	
		<u> </u>	<u> </u>
Total		9	12
		<u> </u>	<u> </u>

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	Directors of the Group		Directors of the Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total income paid, or due and payable, from Westpac and related entities to Directors(1)	50,391	44,116	8,823	7,175

- (1) The total amounts above include \$8 million and \$3 million in relation to the fair value of equity based remuneration granted to Directors of the Group and Directors of the parent entity respectively (2002 \$6 million and \$2 million respectively).

Directors' remuneration has been determined on the basis of the cost of the remuneration to the Group. Where non-monetary benefits are provided to a Director, the amount of remuneration includes the total cost to the Group of providing the benefits, including fringe benefits tax, and the notional cost of superannuation for Executive Directors who are members of the Westpac Staff Superannuation Plan. In addition, amounts disclosed for remuneration include the assessed fair value of share options granted in accordance with ASIC guidelines issued in June 2003 and the increase in value for the year of stock appreciation rights held, where applicable. Details of equity based remuneration are set out in note 26. In accordance with Australian Accounting Standard AASB 1017 *Related Party Disclosures* no amounts have been included in remuneration in respect of retirement benefits paid or payable.

In accordance with AASB 1017, remuneration of Directors of the Group excludes the remuneration of executive officers (refer note 42), who are required to be Directors of wholly-owned Australian controlled entities in order to discharge their duties as executive officers of Westpac. The remuneration of Directors of the Group does include the remuneration of 126 (2002 128) employees who are Directors of controlled entities in order to discharge their duties as employees of Westpac, but are not classified as executive officers of Westpac.

Retirement benefits

On 3 July 2003, the Board resolved to remove retiring 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 retiring allowances are no longer payable to new Directors.

There are seven Non-executive Directors, who were appointed prior to 3 July 2003. These Directors will continue to be eligible to receive retiring allowances in line with the practice at the time of their appointment.

Previously the non-executive Directors of Westpac had Service Agreements which have been approved by the shareholders at a General Meeting. The Service Agreements provide for a retiring allowance depending on the period of service of the Director. Where the Director's period of service is less than three years the Director is not entitled to a retiring allowance. Where the period of service is 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 of the Director's service bears to five years. Where the period of service is 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. Where the period of service is 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 five 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.

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The amount accrued for retirement benefits for all Directors (2003 eight persons, 2002 ten persons) during the year ended 30 September 2003 was \$968,424 (2002 \$871,000).

The following Directors received retirement benefits in accordance with the Service Agreements approved by shareholders at the January 1989 Annual General Meeting:

	Consolidated		Parent Entity	
	2003 \$	2002 \$	2003 \$	2002 \$
J.B. Fairfax (resigned 1 September 2003)	353,344		353,344	
I.R.L. Harper (retired 13 December 2001)		398,805		398,805
W.P. Hogan (retired 13 December 2001)		411,809		411,809
E. Mahlab (retired 13 December 2001)		271,895		271,895
P. Ritchie (retired 30 September 2002)		292,841		292,841
	353,344	1,375,350	353,344	1,375,350

Note 42. Executive officers' remuneration

The following table shows the number of executive officers of Westpac and the Group in Australia whose income paid, or due and receivable, from Westpac and related entities fell within the stated bands. An executive officer is a person responsible for the strategic direction and operational management of Westpac and controlled entities.

In accordance with the requirements of accounting standard AASB 1034 *Information to be Disclosed in Financial Reports*, remuneration includes any money, consideration and benefits, including fringe benefits tax and a notional cost of superannuation for those executive officers who are members of the Westpac Staff Superannuation Plan. In the following table values have been ascribed to options, performance options and performance share rights granted to executive officers in accordance with ASIC guidelines issued in June 2003. Refer note 26 for details of equity based remuneration.

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	Consolidated		Parent Entity	
	2003	2002	2003	2002
100,001 110,000			1(2)	1(2)
150,001 160,000	1(2)		1(2)	
170,001 180,000			1(1)	1(1)
190,001 200,000			1	1
200,001 210,000	1(1)		1(1)	
300,001 310,000	1(2)		1(2)	1
340,001 350,000			1(2)	1(2)
350,001 360,000	1(1)		1(1)	
410,001 420,000	1(2)		1(2)	
460,001 470,000	2(2)		1(1)	2(2)
480,001 490,000			1	1
510,001 520,000			1	1
550,001 560,000	1		1	
560,001 570,000			3(2)	3(2)
580,001 590,000			1	1
590,001 600,000			1	1
600,001 610,000			1	1
610,001 620,000	1		1	
620,001 630,000			2	2
630,001 640,000	1		1	1
640,001 650,000	2		2	
660,001 670,000	2		2	
670,001 680,000	1		1	
680,001 690,000			1	1

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		<u>Consolidated</u>		<u>Parent Entity</u>	
690,001	700,000	1(1)	1(1)	1(1)	1(1)
710,001	720,000	1	2	1	2
720,001	730,000	3(2)		3(2)	
730,001	740,000	1	1	1	1
750,001	760,000		1		1
770,001	780,000	2		2	
780,001	790,000	1	1	1	1
790,001	800,000		2		2
800,001	810,000	1	1	1	1
810,001	820,000		1		1
820,001	830,000	1		1	
860,001	870,000		1		1
890,001	900,000	2		2	
900,001	910,000	1		1	
920,001	930,000		1		1
930,001	940,000		1(2)		1(2)
940,001	950,000		2		2
950,001	960,000	1	1(1)	1	1(1)
960,001	970,000		1		1
990,001	1,000,000		1		1
1,030,001	1,040,000	1		1	
1,040,001	1,050,000	1	1(1)	1	1(1)
1,080,001	1,090,000	1		1	
1,090,001	1,100,000	1		1	
1,100,001	1,110,000	3(2)		3(2)	
1,150,001	1,160,000	1	1	1	1
1,190,001	1,200,000	1	1	1	1
1,220,001	1,230,000		1		1
1,300,001	1,310,000	1		1	
1,320,001	1,330,000	1(1)		1(1)	
1,400,001	1,410,000	1(1)	1	1(1)	1
1,410,001	1,420,000	1(2)		1(2)	
1,440,001	1,450,000		1		1
1,470,001	1,480,000	1		1	
1,510,001	1,520,000	1(1)		1(1)	
1,550,001	1,560,000	1		1	
1,700,001	1,710,000		1		1
1,720,001	1,730,000		1		1
1,790,001	1,800,000	1		1	
1,880,001	1,890,000	1		1	
1,910,001	1,920,000	1		1	
2,160,001	2,170,000	1		1	
2,230,001	2,240,000	1		1	
2,660,001	2,670,000		1		1
3,250,001	3,260,000	1		1	
3,290,001	3,300,000		1		1
3,630,001	3,640,000	1		1	
5,190,001	5,200,000		1(1)		1(1)
5,870,001	5,880,000		1		1
7,360,001	7,370,000	1		1	
Total		54	48	54	48

(1) Includes payments to one or more executive officers in this remuneration band who retired/ resigned during the year.

(2) Includes payments to one or more executive officers in this remuneration band who commenced employment with Westpac during the year.

	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Total income paid, or due and payable, from Westpac and related entities to executive officers whose income exceeded \$100,000(1)	63,552	51,706	63,552	51,706

(1) The total amounts above include \$18 million (2002 \$13 million) in relation to the fair value of equity based remuneration granted.

Note 43. Statements of cash flows

Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with central banks as shown in the statement of financial position.

Formal commercial standby facilities have not been obtained as the Group has liquidity controls limiting the extent of cash flow mismatch and has access to central bank facilities in certain locations in the event that market difficulties arise.

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The statements of cash flows comply with International Accounting Standard 7 *Cash Flow Statements*.

	Consolidated			Parent Entity	
	2003 \$m	2002 \$m	2001 \$m	2003 \$m	2002 \$m
Reconciliation of net profit attributable to equity holders of Westpac Banking Corporation to net cash provided by operating activities					
Net profit attributable to equity holders of Westpac Banking Corporation	2,183	2,192	1,903	2,619	1,792
Adjustments:					
Outside equity interests	8	5	5		
Depreciation and goodwill amortisation	413	373	393	313	332
Increase/(decrease) in sundry provisions and other non-cash items	898	(480)	1,402	(802)	(773)
Bad and doubtful debts	411	377	331	407	291
Decrease in other financial market asset and liabilities	1,023	2,544	111	2,991	2,454
Decrease/(increase) in trading securities	1,759	(791)	(143)	1,795	(791)
(Increase)/decrease in accrued interest receivable	(66)	(38)	(45)	(44)	(29)
(Decrease)/Increase in accrued interest payable	(44)	(195)	(254)	(57)	(83)
(Decrease)/increase in provision for income tax	(227)	(19)	68	(274)	60
Increase/(decrease) in provision for deferred income tax	166	(323)	(13)	114	(177)
(Increase)/decrease in future income tax benefits	(432)	(140)	26	(324)	(172)
Decrease/(Increase) in excess of net market value over net assets of a controlled entity		261	(133)		
Net cash provided by operating activities	6,092	3,766	3,651	6,738	2,904

Details of assets and liabilities of controlled entities and businesses acquired

On 31 October 2002, Westpac acquired most of the businesses of BT Financial Group (BTFG) for \$925 million (initial payment of \$900 million and subsequent settlement adjustment payments of \$25 million). All payments were funded from existing financing sources. An additional payment of \$150 million may be paid, contingent upon exceeding certain performance hurdles in the future. The assets acquired and liabilities assumed have been measured at their fair values at 31 October 2002, including adjustments to bring accounting policies onto a consistent basis with those of Westpac.

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Provisions for restructuring covering the integration of the business into Westpac's existing wealth management business and rationalisation of existing processing and administration functions have been booked as a pre-acquisition cost in BTFG or a provision in Westpac, as applicable. The principal costs associated with the restructuring are staff redundancy payments, retention bonuses for key Westpac and BTFG staff, surplus lease space and system rationalisation costs. Final goodwill related to the acquisition will be determined once all settlement adjustments have been completed.

On 16 October 2002, Westpac acquired a 51% shareholding in Hastings Funds Management Limited (Hastings) for \$36 million. Further payments are contingent upon Hastings financial and operating performance over the next three years.

On 1 June 2002, Westpac acquired the business of Rothschild Australia Asset Management Limited (RAAM) for \$323 million. The payment was funded from existing financing sources. The assets acquired and liabilities assumed have been measured at their fair values at 1 June 2002, including adjustments to bring accounting policies onto a consistent basis with those of Westpac.

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	Consolidated			Parent Entity	
	2003 \$m	2002 \$m	2001 \$m	2003 \$m	2002 \$m
Non-cash operating, investing and financing activities Controlled entities and businesses acquired					
Details of assets and liabilities of controlled entities and businesses acquired are as follows:					
Due from other financial institutions			16		
Investment securities	70		16		
Regulatory deposits			10		
Loans			79		
Life insurance assets	2,432				
Fixed assets	29	4	12		
Other assets	139	34	19		
Deposits and public borrowings			(101)		
Due to other financial institutions			(2)		
Life insurance policy liabilities	(2,378)				
Other liabilities	(430)	(40)	(14)		
Fair value of entities and businesses acquired	(138)	(2)	35		
Carrying amount of existing investment			(44)		
Goodwill (refer note 15)	964	330	10		
Minority interest	(3)		(6)		
	823	328	(5)		
Cash consideration and acquisition costs	(965)	(328)	(21)		
Cash acquired	142		26		
Cash received on acquisition (net of cash paid)	(823)	(328)	5		
Controlled entities and businesses disposed					
Details of assets and liabilities of controlled entities and businesses disposed of are as follows:					
Cash at bank		458	32		
Due from other financial institutions			3		
Loans	62	9,485	16		
Fixed assets		28	1		
Investment in controlled entities					822
Other assets	298	131	7	296	156
Deposits and public borrowings		(8,105)	(60)		

	Consolidated			Parent Entity	
Due to other financial institutions				49	
Other liabilities		(154)		(4)	
Minority interest				(1)	
Net assets of entities and businesses disposed	360	1,843	43	296	978
Gain on disposal ⁽¹⁾		751	33		738
Cash consideration (net of sale costs)	360	2,594	76	296	1,716

(1) The net profit on the sale of shares in Australia Guarantee Corporation and certain assets of Australian Guarantee Corporation (N.Z.) Limited was \$751 million before tax and \$754 million after a tax credit of \$3 million.

Equity transactions

Shares issued under the dividend reinvestment plan amounted to \$382 million in the year ended 30 September 2003 (2002 \$275 million, 2001 \$257 million).

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Securitised loans

	Consolidated	
	2003 \$m	2002 \$m
Cash flows from securitised loans		
Summarised cash flows received from securitisation trusts		
Proceeds from new securitisations	247	2,472
Servicing fees received	12	13
Residual income from securitisation trusts	25	20
Other	(103)	(12)
Total cash flows received from securitisation trusts	181	2,493

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Note 44. Capital adequacy

APRA has responsibility for the prudential supervision of Authorised Deposit-taking Institutions (ADI), life and general insurance companies and superannuation funds in Australia.

Australia's risk-based capital adequacy guidelines are generally consistent with the approach agreed upon by the Basel Committee on Banking Supervision.

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Australian banks are required to maintain a minimum ratio of capital to risk weighted assets of 8%. At least half of this capital must be in the form of "Tier 1" capital. Subject to certain limitations, Tier 1 capital basically consists of equity, i.e. paid-up share capital, retained profits, certain reserves, other equity instruments, less the deduction of certain intangible assets and retained earnings in insurance and funds management subsidiaries that are not consolidated for capital adequacy purposes. The balance of eligible capital is defined as "supplementary" or "Tier 2" capital. Supplementary capital includes, subject to limitations, general provision for bad and doubtful debts, mandatory convertible notes, perpetual floating rate notes and like instruments, and term subordinated debt provided such term debt is not in excess of 50% of Tier 1 capital. Certain deductions are made for holdings of other banks' capital instruments and the balance of capital invested in insurance and funds management controlled entities not already deducted at the Tier 1 capital level. Deductions are made for any capital invested or guarantees or similar support provided to entities involved in securitisation activities.

	Consolidated	
	2003 \$m	2002 \$m
Eligible capital and relevant ratios as at 30 September		
Tier 1 capital		
Total equity	13,996	10,468
Hybrid capital in excess of tier 1 limit	(40)	
Dividends provided for capital adequacy purposes	(734)	
Goodwill (excluding funds management entities)	(1,278)	(1,424)
Net future income tax benefit	(298)	(159)
Estimated reinvestment under dividend reinvestment plan(1)	191	166
Retained earnings, reserves and goodwill in life and general insurance, funds management and securitisation entities	(1,363)	(683)
Equity in captive lenders mortgage insurance entities	(45)	(31)
Equity in entities not operating in the field of finance	(91)	
Total Tier 1 capital	10,338	8,337
Tier 2 capital		
Hybrid capital in excess of tier 1 limit	40	
Subordinated undated capital notes	573	717
General provision for bad and doubtful debts	1,393	1,162
Future income tax benefit related to general provision	(399)	(348)
Eligible subordinated bonds, notes and debentures	3,951	3,260
Total Tier 2 capital	5,558	4,791
Total Tier 1 and Tier 2 capital	15,896	13,128
Deductions:		
Capital in life and general insurance, funds management and securitisation entities	(836)	(797)
Net qualifying capital	15,060	12,331
Risk weighted assets	142,909	128,651
Tier 1 capital ratio	7.2%	6.5%
Tier 2 capital ratio	3.9%	3.7%
Deductions	(0.6)%	(0.6)%
Total capital ratio	10.5%	9.6%

(1) The amount is derived from reinvestment experience on the Group's dividend reinvestment plan.

In determining risk weighted assets, assets (including off-balance sheet exposures) are weighted according to notional credit risk. Classes of asset are assigned a risk weighting according to the amount of capital required to support that asset. Four categories of risk weights (0%, 20%, 50%, 100%) are applied to the different types of assets. For example, cash, bullion, claims on the Reserve Bank of Australia (RBA) and Commonwealth of Australia securities have a zero risk weighting, meaning that no capital is required to support the holding of these assets. Loans to corporations and individuals carry a 100% risk weighting, meaning that they must be supported by minimum capital equal to 8% of the amounts outstanding. Other asset categories have intermediate weightings, such as loans secured by residential housing mortgages which generally carry a 50% weighting and claims on other Australian and other OECD banks which carry a 20% weighting. For loans secured by residential housing mortgages approved after 5 September 1994, where the loan-to-valuation ratio is in excess of 80%, a 100% risk weight applies; except where the loan is 100% mortgage insured through an acceptable lender's mortgage insurer. Off-balance sheet exposures are taken into account by applying different categories of "credit conversion factors" to arrive at credit equivalent amounts, which are then weighted in the same manner as balance sheet assets according to counterparty, except that, in respect of derivatives a maximum weighting of 50% for corporations and individuals normally applies.

APRA also requires ADI's to assess capital adequacy in respect of market risk in their trading book. Required capital for market risk is calculated on standard models or on internal models approved by APRA.

	Balance			Risk Weighted Balance		
	2003 \$m	2002 \$m	Risk Weight	2003 \$m	2002 \$m	
Risk weighted assets						
on-balance sheet assets						
Cash, claims on the RBA, Australian Commonwealth Government securities under one-year and other zero-weighted assets(1)	31,268	30,610	0%			
Claims on OECD banks and local governments	11,863	10,090	20%	2,373	2,018	
Loans secured by residential mortgages and other 50% weighted assets	96,331	79,690	50%	48,165	39,845	
All other assets	70,940	62,101	100%	70,940	62,101	
Total on balance sheet assets credit risk(2)	210,402	182,491		121,478	103,964	
	Contract or Notional Amount		Credit Equivalent Amount		Risk Weighted Balance	
	2003 \$m	2002 \$m	2003 \$m	2002 \$m	2003 \$m	2002 \$m
Gross off-balance sheet exposures credit risk	987,377	792,792	42,745	42,980	22,388	25,782
Netting of off-balance sheet exposures	(457,370)	(328,232)	(8,556)	(6,534)	(2,245)	(1,761)
Total off-balance sheet exposures credit risk	530,007	464,560	34,189	36,446	20,143	24,021
Total risk weighted assets credit risk					141,621	127,985
Risk adjusted assets market risk					1,288	666
Total risk weighted assets					142,909	128,651

- (1) Other zero-weighted assets included gross unrealised gains on trading derivative financial instruments of \$12,907 million (2002 \$12,413 million) which was included in the credit equivalent amount of off-balance sheet exposures and trading securities of \$8,793 million (2002 \$10,643 million) which in turn were included in the market risk calculation.

- (2) Life insurance assets of \$10,522 million (2002 \$7,566 million) were not consolidated for capital adequacy purposes.

Note 45. Reconciliation with US Generally Accepted Accounting Principles (US GAAP)

The consolidated financial statements of the Group are prepared in accordance with Generally Accepted Accounting Principles (GAAP) applicable in Australia which differs in some material respects from Generally Accepted Accounting Principles in the United States (US GAAP).

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The following are reconciliations of net profit, shareholders' equity, total assets and total liabilities applying US GAAP instead of Australian GAAP.

	Consolidated		
	2003 \$m	2002 \$m	2001 \$m
Statement of income			
Net profit as reported under Australian GAAP	2,183	2,192	1,903
Items having an effect of increasing (decreasing) reported income (related tax impact of item shown separately)			
(i) Premises and sites	(106)	15	54
(ii) Amortisation of goodwill	163	1	(17)
(iii) Superannuation (pension) expense	64	274	42
Related income tax expense	(19)	(83)	(12)
(v) Wealth management	(17)	124	(93)
Related income tax credit/(expense)	5	(24)	21
(vi) Write-down of available-for-sale securities	(37)	149	(149)
(viii) Employee share option remuneration (under APB 25)	(15)	(8)	(7)
Employee share option remuneration (under SFAS 123)	(27)	(9)	
(ix) Distributions on other equity instruments	(41)	(48)	(51)
(x) Distributions on other debt instruments	(34)		
(x) Amortisation of issue costs on other debt instruments	(2)		
(xii) Start-up cost adjustment		24	6
Related income tax expense		(7)	(2)
(xiii) Other non-financial assets	7	(39)	
Related income tax credit/(expense)	3	(19)	
(xiv) Software capitalisation	(4)	(11)	(4)
Related income tax credit	2	3	1
(xv) Effect of initial application of SFAS 133			(86)
Related income tax credit			29
(xv) Derivative instruments (under SFAS 133)	(111)	(13)	196
Related income tax credit/(expense)	26	4	(62)
(xvi) Difference in carrying value of controlled entity sold		7	
(xvii) Restructuring costs	(79)	67	
Related income tax credit/(expense)	23	(20)	
Net income according to US GAAP	1,984	2,579	1,769
Adjustments to determine other comprehensive income under US GAAP			
Foreign currency translation	(156)	(76)	74
(vi) Unrealised net gain/(loss) on available-for-sale securities	156	(104)	(1)
(vi) Reclassification adjustment for (gains)/losses now included in net income	34		63
Total comprehensive income according to US GAAP	2,018	2,399	1,905

	Consolidated		
Earnings per share (cents) according to US GAAP			
Basic	108.8	142.3	98.2
Diluted	108.4	141.5	97.6
Weighted average number of shares (millions)	1,824	1,812	1,801
Non-interest expenses as reported			
	3,926	3,995	3,570
Adjustments: (refer following commentary for details)			
Item No.			
(i) Premises and sites	1		(2)
(ii) Amortisation of goodwill	(163)	(1)	17
(iii) Superannuation (pension) expense	(64)	(274)	(42)
(viii) Employee share option compensation	42	17	7
(xii) Start-up cost		(24)	(6)
(xiii) Other non-financial assets	(7)	(7)	
(xiv) Software capitalisation	4	11	4
(xvii) Restructuring costs	79	(67)	
Non-interest expenses according to US GAAP			
	3,818	3,650	3,548

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Tax effect of each component of other comprehensive income

	Consolidated								
	2003			2002			2001		
	Before Tax Amount \$m	Tax (Expense)/ Benefit \$m	After Tax Amount \$m	Before Tax Amount \$m	Tax (Expense)/ Benefit \$m	After Tax Amount \$m	Before Tax Amount \$m	Tax (Expense)/ Benefit \$m	After Tax Amount \$m
Available-for-sale securities adjustment:									
Unrealised holding gains/(losses) arising during the year	157	(1)	156	(107)	3	(104)	(1)		(1)
Reclassification adjustment for (gains)/losses included in net income	34		34				63		63
Net available-for-sale securities adjustment	191	(1)	190	(107)	3	(104)	62		62
Foreign currency translation adjustment	(156)		(156)	(76)		(76)	74		74
Total other comprehensive income	35	(1)	34	(183)	3	(180)	136		136

Consolidated

2003 \$m	2002 \$m	2001 \$m
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	Consolidated		
	2003	2002	2001
Accumulated other comprehensive income balances			
Foreign currency translation reserve			
Balance at beginning of year	82	149	74
Transfers from retained profits	1	9	1
Foreign currency adjustments net of hedging	(156)	(76)	74
Balance at year end	(73)	82	149
Available-for-sale securities			
Balance at beginning of year	(105)	(1)	(63)
Adjustments	190	(104)	62
Balance at year end	85	(105)	(1)
Total other comprehensive income balances	12	(23)	148

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	2003 \$m	2002 \$m	2001 \$m
Statement of financial position			
Total assets as reported under Australian GAAP	221,339	191,037	189,845
Adjustments: (refer following commentary for details)			
Item No.			
(i) Premises and sites	(178)	(72)	(87)
(ii) Goodwill	151	(12)	(13)
(iii) Superannuation (pension) asset	266	202	(81)
(v) Wealth management assets	(74)	(57)	(200)
(vi) Available-for-sale securities	46	(108)	(150)
(xii) Start-up costs			(24)
(xiii) Other non-financial assets	(69)	(39)	
(xiv) Capitalised software	(26)	(23)	(11)
(xv) Derivative instruments (under SFAS 133)	(14)	97	110
(xi) Provision for bad and doubtful debts	219	207	161
(iv) Deferred tax assets	108	106	219
Total assets according to US GAAP	221,768	191,338	189,769
Total liabilities as reported under Australian GAAP	207,343	180,569	180,140
Adjustments: (refer following commentary for details)			
Item No.			
(vii) Final dividend provided		(651)	(577)
(x) Other debt instruments	657		
(xvii) Restructuring provisions	13	(67)	
(iv) Deferred tax liabilities	134	208	158
(xi) Other liabilities	219	207	161
(ix) Other equity instruments	1,597	465	465
Outside equity interest as reported under Australian GAAP	31	17	14
Total liabilities according to US GAAP	209,994	180,748	180,361
Net assets according to US GAAP	11,774	10,590	9,408

	2003 \$m	2002 \$m	2001 \$m
	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>
Equity attributable to equity holders of Westpac Banking Corporation as reported under Australian GAAP	13,965	10,451	9,691
Adjustments: (refer following commentary for details)			
Item No.			
(i) Premises and sites	(178)	(72)	(87)
(ii) Goodwill	151	(12)	(13)
(iii) Superannuation (pension) asset	186	141	(57)
(v) Wealth management assets (net of tax)	(52)	(40)	(140)
(vi) Available-for-sale securities			