

WESTPAC BANKING CORP
Form 20-F
November 13, 2013

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 20-F

**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, 2013

Or

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

Or

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

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)

275 Kent Street, Sydney, NSW 2000, Australia
(Address of principal executive offices)

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Westpac Banking Corporation, New York branch,

575 Fifth Avenue, 39th Floor, New York, New York 10017-2422,
Attention: Branch Manager, telephone number: (212) 551-1905

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
Ordinary shares	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 one ordinary share	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **1.85% Notes due December 9, 2013, Floating Rate Notes due 2013, 4.20% Notes due February 27, 2015, 3.00% Notes due August 4, 2015, 1.125% Notes due September 2015, Floating Rate Notes due September 2015, 3.0% Notes due December 9, 2015, 0.95% Notes due January 12, 2016, 2.0% Notes due August 2017, 1.60% Notes due January 12, 2018, 4.625% Subordinated Notes due 2018, 2.25% Notes due July 30, 2018, Floating Rate Notes due July 30, 2018, 4.875% Notes due November 19, 2019 and notes issued from time to time under our Retail Medium-Term Notes program (Registration Statement No. 333-172579)**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary shares **3,109,048,309 fully paid**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

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 past 90 days.

Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No (not currently applicable to registrant)

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer Accelerated Filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If this is an annual report, indicate by check mark whether the registrant is a shell company.

Yes No

WESTPAC GROUP

2013 ANNUAL REPORT

US FORM 20-F

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In this Annual Report a reference to Westpac, Group, Westpac Group, we, us and our is to Westpac Banking Corporation ABN 33 007 457 141 and its subsidiaries unless it clearly means just Westpac Banking Corporation.		
For certain information about the basis of preparing the financial information in this Annual Report see Reading this report in Section 2. In addition, this Annual Report contains statements that constitute forward-looking statements within the meaning of section 21E of the US Securities Exchange Act of 1934. For an explanation of forward-looking statements and the risks, uncertainties and assumptions to which they are subject, see Reading this report in Section 2.		

Information contained in or accessible through the websites mentioned in this Annual Report does not form part of this report unless we specifically state that it is incorporated by reference and forms part of this report. All references in this report to websites are inactive textual references and are for information only.

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INFORMATION ON WESTPAC

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INFORMATION ON WESTPAC

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Westpac is one of the four major banking organisations in Australia and one of the largest banking organisations in New Zealand. We provide a broad range of banking and financial services in these markets, including retail, business and institutional banking and wealth management services.

We have branches, affiliates and controlled entities¹ throughout Australia, New Zealand and the Pacific region, and maintain branches and offices in some of the key financial centres around the world².

We were founded in 1817 and were the first bank 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 following our merger with the Commercial Bank of Australia. On 23 August 2002, we were registered as a public company limited by shares under the Australian *Corporations Act 2001* (Cth) (Corporations Act).

As at 30 September 2013, our market capitalisation was \$101.8 billion³ and we had total assets of \$697 billion.

Business strategy

Westpac's **vision** is To be one of the world's great companies, helping our customers, communities and people to prosper and grow.

Our strategy seeks to deliver on this vision by providing superior returns for our shareholders, building deep and enduring customer relationships, being a leader in the community and being a place where the best people want to work.

In delivering on our strategy we are focused on our core markets including Australia and New Zealand, where we provide a comprehensive range of financial products and services that assist us in meeting all the financial services needs of our customers. With our strong position in these markets, and over 12 million customers, our focus is on organic growth, growing customer numbers in our chosen segments and building stronger and deeper customer relationships.

A key element of this approach is our portfolio of financial services brands, which enables us to appeal to a broader range of customers, and provides us with the strategic flexibility to offer solutions that better meet individual customer needs.

Asia is an important market for us and we are progressively building our presence and capability across the region to better support Australian and New Zealand customers operating, trading and transacting in the region, along with Asian customers seeking financial solutions and services in Australia and New Zealand.

While we continue to build the business, the financial services environment remains challenging and has required us to maintain focus on strengthening our financial position while at the same time improving efficiency. This strengthening has involved lifting the level and quality of our capital, improving our funding and liquidity position and maintaining a high level of asset quality and provisioning.

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While we are currently one of the most efficient banks globally, as measured by a cost to income ratio, we continue to focus on ways to simplify our business to make it easier for customers to do business with us and to make work more enjoyable for our people. We believe that these improvement efforts also contribute to reducing unit costs that create capacity for further investment for growth.

Sustainability is part of our strategy and supports our approach by anticipating and shaping the most pressing emerging social issues where we have the skills and experience to make a meaningful difference and drive business value. Our approach seeks to make sustainability part of the way we do business, embedded in our strategy, values, culture and processes.

Supporting our customer focused strategy is a strong set of company-wide **values**, which are embedded in our culture. These are:

§ delighting customers;

§ one team;

§ integrity;

§ courage; and

§ achievement.

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- 1 Refer to Note 38 to the financial statements for a list of our controlled entities as at 30 September 2013.
- 2 Contact details for our head office, major businesses and offshore locations can be found on the inside back cover.
- 3 Based on the closing share price of our ordinary shares on the ASX as at 30 September 2013.

INFORMATION ON WESTPAC

Strategic priorities

To meet the challenges of the current environment and deliver on our strategy, we have a set of strategic priorities that are reviewed and refreshed each year. We will continue to manage these priorities in a balanced way with an appropriate mix of strength, growth, return and productivity. Our current strategic priorities are:

a) A strong company

§ maintain strong levels of capital, to meet the needs of all our stakeholders and regulators;

§ continue to build on our funding and liquidity position, including ensuring a diversity of funding pools and optimising the composition of customer deposits in planning for new liquidity requirements; and

§ maintain a high quality portfolio of assets, coupled with strong provisioning.

b) Grow in a targeted way

§ target investment in our wealth businesses, including continuing the development of a new funds platform;

§ deepen the capabilities of our Asian presence; and

§ expand and develop our business banking capability to better meet customer needs.

c) Continue building deeper customer relationships

§ put customers at the centre of everything we do, with a focus on meeting their total financial needs, throughout their lives;

§ further build the connectivity between wealth, insurance and banking, and ensure we leverage capabilities across all business units;

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- § continue to strengthen our corporate and institutional lead bank position through customer focus and enhanced product capabilities; and
- § use digital innovation to better meet customer demands.

d) Materially simplify our products and processes

- § continue to enhance our digital offers to support more customers online and via mobile channels and assist the Group to move to smaller, more flexible and agile branch formats;
- § simplify our products and processes and continue to drive continuous improvement; and
- § focus on both revenue and cost productivity.

e) One team approach

- § continue to focus on a customer centred, high performance workforce and culture;
- § strengthen the skills of our people to better support customers and meet their complete financial services needs;
- § empower our people to drive innovation, deliver new and improved ways of working and be responsive to change;
- § continue to enhance the diversity of our workforce; and
- § maintain a strong reputation and sustainability leadership.

Organisational structure

Our operations comprise the following key customer-facing business divisions operating under multiple brands serving around 12 million customers¹.

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§ **Australian Financial Services** (AFS) is responsible for the Westpac Group's Australian retail banking, business banking and wealth operations. AFS also includes the product and risk responsibilities for Australian Banking. It incorporates the operations of Westpac Retail & Business Banking (Westpac RBB), St. George Banking Group (St. George) and BT Financial Group (Australia) (BTFG), as follows:

Westpac RBB is responsible for sales and service for our consumer, small-to-medium enterprise (SME) customers, commercial and agribusiness customers (typically with turnover of up to \$100 million) in Australia under the Westpac brand. Activities are conducted through Westpac RBB's network of branches and business banking centres and specialised consumer and business relationship managers, with the support of cash flow, financial markets and wealth specialists, customer service centres, automatic teller machines (ATMs) and internet and mobile channels;

St. George is responsible for sales and service for consumer, business and corporate customers in Australia under the St. George, BankSA, Bank of Melbourne and RAMS brands. RAMS is a financial services group specialising in mortgages and online deposits. Consumer activities are conducted through a network of branches, third-party distributors, call centres, ATMs, EFTPOS terminals and internet banking services. Business and corporate customers (businesses with facilities typically up to \$150 million) are provided with a wide range of banking and financial products and services including specialist advice for cash flow finance, trade finance, automotive and equipment finance, property finance, transaction banking and treasury services. Sales and service activities for business and corporate customers are conducted by relationship managers via business banking centres, internet and customer service centre channels; and

BTFG is Westpac's Australian wealth division. BTFG's funds management operations include the manufacturing and distribution of investment, superannuation and retirement products, investment platforms such as Wrap and Master Trusts, private banking, financial planning as well as margin lending and broking. BTFG's insurance solutions cover the manufacturing and distribution of life, general and lenders mortgage insurance. BTFG's brands include Advance Asset Management, Ascalon, Asgard, BT, BT Investment Management (62.1% owned by the Westpac Group and consolidated in BTFG's Funds Management business), BT Select, Licensee Select, Securitor and the Advice, Private Banking and Insurance operations of Bank of Melbourne, BankSA, St. George and Westpac.

1 All customers, primary and secondary, with an active relationship (excludes channel only and potential relationships) as at 30 September 2013.

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§ **Westpac Institutional Bank (WIB)** delivers a broad range of financial services to commercial, corporate, institutional and government customers with connections to Australia and New Zealand. WIB operates through dedicated industry relationship and specialist product teams, with expert knowledge in transactional banking, financial and debt capital markets, specialised capital, and alternative investment solutions. Customers are supported through branches and subsidiaries located in Australia, New Zealand, Asia, United States and United Kingdom.

§ **Westpac New Zealand** is responsible for the sales and service of banking, wealth and insurance products for consumers, business and institutional customers in New Zealand. Westpac conducts its New Zealand banking business through two banks in New Zealand:

Westpac New Zealand Limited, which is incorporated in New Zealand; and

Westpac Banking Corporation (NZ Division), a branch of Westpac, which is incorporated in Australia. The division operates via an extensive network of branches and ATMs across both the North and South Islands.

Business and institutional customers are also served through relationship and specialist product teams. Banking products are provided under the Westpac and WIB brands while insurance and wealth products are provided under Westpac Life and BT brands respectively.

Other divisions in the Group include:

§ Westpac Pacific, which provides banking services for retail and business customers in seven Pacific Island Nations. Branches, ATMs, telephone banking and internet banking channels are used to deliver business activities in Fiji, Papua New Guinea (PNG), Vanuatu, Cook Islands, Tonga, Solomon Islands and Samoa. Westpac Pacific's financial products include personal savings, business transactional accounts, personal and business lending products, business services and a range of international products;

§ Group Services, encompassing technology, banking operations, compliance, legal and property services;

§ Treasury, which is primarily focused on the management of the Group's interest rate risk and funding requirements; and

§ Core Support, which comprises those functions performed centrally, including finance, risk and human resources.

These businesses are described in more detail in Section 2, including a summary of net profit and total assets by business division, and management's discussion and analysis of business division performance.

INFORMATION ON WESTPAC

Westpac's approach to sustainability

Across the Westpac Group, we believe in establishing a sustainable future for our operations and our stakeholders. This view is embedded in our strategy, values, culture and processes.

In practice, this means we focus on anticipating and responding to the most pressing emerging issues that we believe will have a material impact on our customers, employees, suppliers, shareholders and the communities in which we operate, where we have the skills and experience to make a meaningful difference.

Guiding our approach

The Board has responsibility for considering the social, ethical and environmental impact of the Westpac Group's activities, setting standards and monitoring compliance with Westpac's sustainability policies and practices.

Our sustainability strategy is based upon the use of the widely accepted global standard for Corporate Responsibility and Sustainable Development, the AA1000 AccountAbility Principles Standard (2008).

Our sustainability principles

In line with AA1000, we have adopted the standard's three key principles:

1. Involving all stakeholders in developing our strategy **Inclusivity**;
2. Evaluating all issues identified to determine the impact they may have on our stakeholders and our operations **Sustainability materiality**;
and
3. Ensuring our decisions, actions and performance, as well as our communication with stakeholders, are responsive to the issues identified **Responsiveness**.

Inclusivity

Our approach to inclusivity during 2013 has included:

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- § continuing work to understand and address customer concerns;
- § collaborating with key external stakeholders to inform our approach;
- § consulting with employees so as to better understand the drivers of strong employee engagement;
- § bringing together our General Managers with internal and external stakeholders to inform sustainability priorities and targets;
- § ongoing monitoring of our reputation across a wide range of mediums; and
- § working closely with numerous community organisations through employee volunteering, workplace giving and community support.

Sustainability materiality

As part of our annual materiality review we identify, prioritise and define issues according to their impact on our stakeholders and our business. These issues are reviewed externally and internally and are assessed by KPMG as part of their assurance. Material issues identified in 2013 include:

- § the need to respond to the rapid changes in the demographics of our society;
- § the effect of digitisation on the way customers and businesses interact and do business;
- § new regulatory requirements which are shaping the financial services industry; and
- § the rise of Asia as the global economy's growth engine.

Responsiveness

The issues identified during our materiality review directly inform the development of our responses, objectives and performance measures.

Refreshed five-year strategy

In addition to the sustainable business practices embedded in our day to day activities (such as sustainable lending practices, community investment and evolving the way we interact with and service our customers), in February 2013, we launched a refreshed sustainability strategy to guide our efforts for 2013 2017.

As part of the strategy, we have set 10 measurable objectives in three priority areas, which are to:

§ help improve the way people work and live, as our society changes;

§ help find solutions to environmental challenges; and

§ help customers to have a better relationship with money, for a better life.

Details of our key achievements against the sustainability strategy are provided on the following pages.

Sustainability scorecard

The following table sets out key achievements against the 10 sustainability objectives outlined in our 2013-2017 Sustainability Strategy.

Priority area	Objective	What we have done this year
<p>Help improve the way people work and live as our society changes</p>	<p>1. Ensure our workforce is representative of the community.</p>	<p>§ Increased the participation of women in leadership to 42%, supported by ongoing recruitment initiatives, development, talent management and leadership role modelling.</p> <p>§ Increased focus on mainstreaming workplace flexibility to meet the needs of our employees and enable greater employee agility and productivity and the survey showed the proportion of people working flexibly increased from 43% in 2010 to 62% in 2012.</p> <p>§ Facilitated and sponsored internal and external Women of Influence award programs. Nominations for the external program increased by 40% from the previous year.</p> <p>§ Continued to grow the representation of mature age employees in our workforce and put in place training, tools and support to encourage greater participation.</p> <p>§ Released a new Accessibility Action Plan in May 2013 with initiatives to increase inclusion and participation of people with disabilities.</p>
	<p>2. Extend length and quality of working lives.</p>	<p>§ Embarked on a new Wellbeing program to help employees enhance their quality of life.</p> <p>§ More than 8,400 employees completed an online wellbeing assessment and generated a personal report to identify ways to improve their wellbeing.</p>

§ Developed planning tools supported by seminars to help employees achieve their goals.

3. Anticipate the future needs of ageing and culturally diverse customers.

§ Launched a contact centre for Prime of Life customers aged 50+ years.

§ Continued to provide consumer education on evolving financial needs and concerns as they age and retire.

Help find solutions to environmental challenges

4. Provide products and services to help customers adapt to environmental challenges.

§ Launched Solar Shed in New Zealand in partnership with Meridian Energy, offering farmers easy and affordable access to solar energy through a package including a high quality grid connected solar system and a 100% Westpac equipment finance loan.

§ Provided an education seminar series to Australian small business customers on managing in a low carbon economy through Westpac's Davidson Institute.

5. Increase lending and investment in CleanTech and environmental services.

§ Committed up to \$6 billion for lending and investment in CleanTech and environmental services by 2017. This will double the Group's investment in the sector and includes renewable energy, greening the property sector, water efficiency and waste management activities.

§ Progress to date has been primarily in renewable energy, including two major wind farms and a solar farm. This work has been further supported by the establishment of a CleanTech working group with representation from across the Westpac Group.

6. Reduce our environmental footprint.

§ Introduced technology to reduce print paper wastage.

§ Progressed head office consolidation projects in Melbourne and Sydney.

§ Continued to upgrade lighting in retail sites as part of the Energy Efficiency Retail program.

§ Achieved Silver CEEDA certification for data centres.

§ Introduced waste audits in our head office sites.

§ Further emissions reduction expected as location based programs take effect.

§ Achieved carbon neutrality for the first time.

Help customers to have a better relationship with money, for a better life

7. Ensure all our customers have access to the right advice to achieve a secure retirement.

§ Launched Single Topic Personal Advice for life insurance – an advice package that provides customers with recommendations on life insurance and superannuation tailored to their situation.

§ Launched role relevant wealth accreditation to selected Retail & Business Banking Bank Managers, encompassing 65-80 hours of formal learning over a 12 month period.

INFORMATION ON WESTPAC

Priority area	Objective	What we have done this year
	<p>8. Help our customers meet their financial goals in retirement.</p>	<p>§ In November 2012, BT Financial Group launched Wrap Capital Protection, a product allowing Australians to generate growth for retirement through their investment portfolio while preserving a minimum outcome at the end of an agreed term. This followed research into the needs of retirees and has particular relevance for investors in the period immediately pre- or post-retirement.</p> <p>§ In October 2012, BT Investment Management launched the BT Equity Income Series focusing on certainty of income in uncertain times and aiming to deliver competitively high income, paid regularly and with low capital volatility.</p> <p>§ Developed a Self Managed Super Fund (SMSF) bundled offer that combines relevant banking and wealth products.</p>
	<p>9. Increase access to financial services in the Pacific.</p>	<p>§ Increased total In-store merchant numbers in the Pacific to 179, up from 30, following the 2012 launch of In-store Banking, a facility allowing selected merchants to provide banking services to customers using EFTPOS terminals.</p> <p>§ Financial Education extended to all seven Pacific Island Nations, covering Money Basics, Financial First Steps and Business Basics to communities. More than 20,000 people participated.</p>
	<p>10. Help people gain access to social and affordable housing and services.</p>	<p>§ In November 2012, Westpac Institutional Bank hosted its second Annual Social and Affordable Housing Forum, bringing together more than 100 delegates from government, regulators, not-for-profit organisations, urban planners, builders, financiers and advisors to develop innovative responses to the challenges faced by the social housing sector.</p> <p>§ Following the forum, in February 2013 the Group committed to make available up to \$2 billion in lending to the social and affordable housing sector by 2017.</p> <p>§ Established credit underwriting standards for the Social and Affordable Housing sector.</p>

FIVE YEAR NON-FINANCIAL SUMMARY

Non-financial information as at 30 September unless indicated otherwise1	2013	2012	2011	2010	2009
Customer					
Total customers (millions)2	12.2	11.8	11.5	11.3	10.6
Total online customers active registrations (millions)3	4.2	4.0	3.7	3.4	4.3
Number of points of bank representation	1,544	1,538	1,532	1,517	1,491
Number of ATMs	3,814	3,639	3,544	3,625	3,540
Percentage of Talking ATMs (%)4	93	91	88		
NPS5 Westpac Australia affluent6	(9)	(18)	(17)	(24)	(16)
NPS Westpac Australia commercial7	(1)	(4)	3	(7)	(5)
NPS Westpac Australia SME7	(5)	(17)	(10)	(21)	(24)
NPS St.George8 consumer6	3.5	-	(2)	(4)	(9)
NPS St.George8 business7	(6)	1	(5)	3	(21)
Social Sector Banking Footings (\$m)9	12,819	11,490	8,210	7,101	6,072
Responsible Investment Funds Under Management (\$m)10	1,376	981	644	891	717
Employees					
Total core full time equivalent staff (number at financial year end)	33,045	33,418	33,898	35,055	34,189
Employee Engagement (%)11	87	84	81	80	81
Employee Voluntary Attrition (%)12	9.8	9.9	11.8	11.8	
New Starter Retention (%)13	86.7	84.8	83.8		
High Performer Retention (%)14	95.7	95.9	95.4	94.3	
Lost Time Injury Frequency Rate (LTIFR)15	1.5	1.9	2.5	2.6	2.6
Women as a percentage of the total workforce (%)	60	61	61	61	62
Women in Leadership (%)16	42	40	38	35	
Environment					
Total Scope 1 and 2 emissions Aust and NZ (tonnes CO2-e)17	180,862	183,937	184,124	189,425	187,239
Total Scope 3 emissions Aust and NZ (tonnes CO2-e)18	85,013	91,855	57,163	70,457	61,846
Office paper Aust and NZ (tonnes)19	1,523	1,579			
Proportion of infrastructure and utilities financing in renewables and hydro Aust and NZ (%)20	55	52	45	52	51
Finance assessed under the Equator Principles Group (\$m)21	268	1,140	383	364	1,292
Social					
Community investment Group (\$m)22	131	133	155	116	84
Community investment as a percentage of pre-tax profits Group (%)	1.33	1.50	1.82	1.44	1.38
Community investment as a percentage of pre-tax operating profit (Cash Earnings basis) Group (%)	1.28	1.41	1.72	1.37	1.24
Financial education Group (participants)23	32,577	36,182	42,109		
Financial education Group (hours completed)24	70,036	73,301	85,194		
Supply chain					
Total supply chain spend Aust (\$bn)25	4.88	4.22	4.61	4.39	4.17
Percentage of top 80 suppliers screened for sustainability Aust (%)26	98	94	92	86	99
All self assessed supplies as percentage of total supply chain spend	73	76	75	69	68

1 Dark grey shading indicates information was not collected in the relevant year.

2 All customers, primary and secondary, with an active relationship (excludes channel only and potential relationships).

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- 3 Refers to the number of customers registered for online banking that have signed in within the last 90 days as at 30 September.
- 4 ATMs with an additional functionality to allow users to plug in an earpiece for oral instruction to provide additional assistance for visually impaired users.
- 5 Net Promoter Score is a metric which measures the net percentage of customers that would recommend their main financial institution to a friend or colleague. Net Promoter ScoreSM is a trademark of Bain & Co Inc., Satmetrix Systems, Inc., and Mr Frederick Reichheld.
- 6 Source: Roy Morgan Research, 6MMA (six month moving average).
- 7 Sources: DBM Consultants Business Financial Service Monitor, September 2011-2013, 6MMA; TNS Business Financial Monitor, September 2008-2009, 6MMA.
- 8 NPS consumer and business scores are for the St. George Banking Group. NPS Business Score for 2010 restated from TNS Business Finance Monitor to DBM Business Financial Services Monitor in order to align with metrics reported by Westpac RBB.

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- 9 Data refers to the total of assets (loans), liabilities (deposits) and funds under management (FUM) of the Westpac RBB business unit dedicated to social sector customers. Social sector customers are categorised according to specific criteria, including organisation structure, account types held, key words and special condition groups.
- 10 Refers to FUM which are managed using sustainable and/or ethical investment processes.
- 11 Employee engagement score is determined through a voluntary employee survey conducted internally using Towers Watson's licensed survey methodology and is a score of employee engagement levels at the time the survey is administered. 2011 data excludes Westpac Pacific.
- 12 Employee Voluntary Attrition refers to the total voluntary separation of permanent employees over the 12 month average total permanent headcount for the period (includes full time, part time and maximum term employees). Excludes Westpac Pacific.
- 13 Voluntary New Starter retention over the 12 month rolling New Starter headcount for the period (includes full time and part time permanent employees). Excludes Westpac Pacific.
- 14 Voluntary High Performer Retention over the 12 month rolling High Performer headcount for the period (includes full time, part time permanent and maximum term employees). Excludes Westpac Pacific.
- 15 Lost Time Injury Frequency Rate (LTIFR) measures the number of Lost Time Injuries, defined as injuries or illnesses (based on workers compensation claims accepted) resulting in an employee being unable to work for a full scheduled day (or shift) other than the day (or shift) on which the injury occurred where work was a significant contributing factor, per one million hours worked in the rolling 12 months reported. Excludes Westpac Pacific.
- 16 Women in Leadership refers to the proportion of women (permanent and maximum term employees) in people leadership roles or senior roles of influence as a proportion of all leaders across the Group. Includes CEO, Executive Team, General Managers, Senior Managers as direct reports to General Managers and the next two levels of management. Excludes Westpac Pacific.
- 17 Scope 1 greenhouse emissions are the release of greenhouse gases into the atmosphere as a direct result of Westpac's Australian and New Zealand banking operations. Scope 2 emissions are indirect greenhouse gas emissions from consumption of purchased electricity from Westpac's Australian and New Zealand banking operations. Australian data is prepared in accordance with the *National Greenhouse and Energy*

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Reporting Act 2007. New Zealand data is prepared in accordance with the New Zealand Ministry for the Environment's guidance for greenhouse gas (GHG) reporting. These definitions also align with the GHG protocol and ISO 14064-1 standard and are reported for the period 1 July to 30 June. A new methodology has been applied in the calculation of this metric in line with new sustainability measures and accordingly 2012 comparatives for Full Year September 2012 have been restated.

18 Scope 3 emissions are greenhouse gases emitted as a consequence of Westpac's Australian and New Zealand banking operations but by another facility. Australian data is prepared in accordance with the National Carbon Offset Standard. New Zealand data is prepared in accordance with the New Zealand Ministry for the Environment's guidance for GHG reporting. These definitions also align with the GHG protocol and ISO 14064-1 standard and are reported for the period 1 July to 30 June. A new methodology has been applied in the calculation of this metric in line with new sustainability measures and accordingly 2012 comparatives for Full Year September 2012 have been restated.

19 Total copy paper purchased (in tonnes) by the Westpac Group as reported by its suppliers. A new methodology has been applied in the calculation of this metric in line with new sustainability measures and accordingly 2012 comparatives for Full Year September 2012 have been restated.

20 Refers to aggregate committed exposures, as per APRA reporting standards.

21 The Equator Principles are a voluntary set of standards for determining, assessing and managing social and environmental risk in project financing.

22 This amount includes monetary contributions, time contributions, management costs and in-kind contributions comprising of gifts and foregone fee revenue. Foregone fee revenue includes amounts that also align to FS7 under the GRI indicator for the Financial Services Sector. Figures for 2009 have been revised to align with the GRI indicator for Community Investment.

23 Refers to the number of attendees (staff, customers and general public) at a financial education course offered by the Westpac Group. Excludes internet based courses and keynote presentations offered by the Davidson Institute.

24 Refers to the number of hours of financial education received by staff, customers and general public, offered by the Westpac Group. Excludes internet based courses and keynote presentations offered by the Davidson Institute.

25 Refers to the total dollars spent in Australian dollars with external suppliers during the reporting period.

26 Refers to the percentage of top 80 suppliers by spend that have provided a self assessment against the Sustainable Supply Chain Management (SSCM) Code of Conduct and/or SSCM Questionnaire since the introduction of SSCM in 2003.

Competition

The Westpac Group operates in a highly competitive environment across the regions in which we do business.

We serve the banking, wealth and risk management needs of customer segments from consumers to small businesses through to large corporate and institutional clients. The Westpac Group competes with other financial services industry players for customers covering their needs of transacting, saving, investing, protecting and borrowing with a wide set of products and services. Our competitors range from large global organisations with broad offerings to entities more focused on specific regions or products. Our competitors include financial services and advisory companies such as banks, investment banks, credit unions, building societies, mortgage originators, credit card issuers, brokerage firms, fund and asset management companies, insurance companies and internet-based financial services providers. There are also new competitors emerging from other sectors including retail, technology and telecommunications.

Our competitive position across customer segments, products and geographies is determined by a variety of factors. These factors include:

- § the type of customer served;
- § customer service quality and convenience;
- § the effectiveness of, and access to, distribution channels;
- § brand reputation and preference;
- § the quality, range, innovation and pricing of products and services offered;
- § technology solutions; and
- § the talent and experience of our employees.

In Australia, we have seen intense competition for deposits continue to be driven in part by clearer global regulatory requirements for liquidity management and balance sheet composition. Banks and other financial institutions also seek to achieve a higher proportion of deposit funding as credit rating agencies and debt investors look for strong balance sheet positions in their assessment of quality institutions.

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We expect competition for lending to also remain high, with slower credit growth compared to the significant credit expansion Australia experienced over the majority of the last two decades. Businesses and consumers are cautious about the global outlook and continue to reduce debt. In mortgages, this lower growth and the desire of market participants to maintain or expand their market share using price has seen strong competition over the last year. This is expected to continue, particularly if lending growth remains modest. Serving business customers' transaction and trade financing needs has been at the centre of competitive activity as customer expectations increase.

In our wealth business, we expect competition to increase as financial institutions and industry funds move to capture a greater share of this fast growing market, particularly in superannuation (or pensions) and financial advice as the market responds to regulatory changes.

The New Zealand market is experiencing strong competition as banks vie for new customers. Competition for deposits remains intense and the home lending market is particularly competitive on price and switching incentives.

Outlook1

Australian economic conditions softened over the second half of 2012 and into 2013 with GDP growth moderating to 2.6%, unemployment trending higher to 5.7% and inflation well contained at 2.4% over the year. The slowing activity can be traced back to: a challenging international environment, with world growth below trend; a relatively high Australian dollar, eroding the competitiveness of trade exposed sectors; the continuing caution of consumers and businesses; a tightening of fiscal policy; and the beginnings of an easing in mining investment. Responding to this lower momentum, the Reserve Bank of Australia reduced the cash rate on four occasions over the past year. This easing in monetary policy has seen the cash rate at 30 September 2013, at 2.5%, 100bps lower than at 30 September 2012.

Towards the latter months of the year ended September 2013 there have been some signs of improvement: the housing sector is responding to historically low interest rates; consumers and business are showing signs of increasing confidence, with an improvement in sentiment following the 2013 federal election creating a more stable political environment; and the Australian dollar has eased modestly, but still remains relatively high.

Internationally, while world growth remains below trend, there are also some positive positions. Conditions in Europe stabilised in the June quarter and the Chinese economy showed a lift in momentum in the September quarter. Nevertheless the underlying fiscal position in the US and Europe remains fragile and sustainably restoring growth is likely to take some time. The recent shut-down of the US Government is perhaps a good indicator of the challenges still ahead. Similarly, the financial health of key economies in Europe remains weak and the path to improved growth is likely to be accompanied by further shocks.

Asian activity continues to be very sound as these economies continue to become more reliant on home-grown demand rather than on global activity. This relatively consistent growth has helped to support activity in Australia and New Zealand.

The year ahead is expected to see Australian economic growth continuing around 2.5% per annum. The pick-up in consumer and business sentiment should offset the winding back of resource related investment. However, the continuing low growth in the world's developed economies is likely to restrain domestic growth to a below average trend level.

For the financial services sector, demand for credit is expected to improve a little following the pick-up in housing activity and because business credit is coming off a very low base and some rise in investment across the broader economy is anticipated. While credit is expected to expand 4.5% over the year, growth in funds management and insurance is expected to be somewhat stronger as the rise in compulsory super contributions and the ageing of the population will continue to see more savings directed to superannuation and preparing for retirement.

1 All data and opinions under Outlook are generated by our internal economists and management.

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The increasing digitisation of the economy is also expected to have a significant impact on financial services over the year as more and more activity is conducted online or via mobile devices.

For Westpac, the Group will continue to focus on its strategic priorities in the year with a particular emphasis on:

- § remaining strong in our capital, funding and liquidity positions and continuing to improve asset quality;
- § further improving productivity through our simplification program that aims to materially reduce complexity from our products and processes;
- § continuing to develop our customer service channels. This includes finalising the roll-out of our new online and mobile platform and retooling our branch network to become advice hubs rather than transaction centres;
- § reorienting the company to growth with further investment in wealth platforms, continuing our expansion in Asia and those sectors of the economy likely to experience higher growth; and
- § further building our one team culture focusing on delivering the best outcome for customers. This includes enhancing our strong banking and wealth alignment, leveraging the skills of the institutional bank and ensuring technology continues to deliver for customers.

Given the further strengthening of our balance sheet over the year, the solid operating performance across all divisions, and the good progress on our strategic priorities, Westpac believes it is well positioned to continue delivering sound, high quality returns to shareholders.

Significant developments

Acquisition of select businesses of Lloyds Banking Group Australia

On 11 October 2013 Westpac announced it had entered into an agreement to acquire Lloyds Banking Group's Australian asset finance business, Capital Finance Australia Limited (CFAL), and its corporate loan portfolio, BOS International (Australia) Ltd (BOSI), for \$1.45 billion.

As at 31 July 2013, CFAL's motor vehicle finance and equipment finance business had total receivables of \$6.8 billion across 213,000 consumer and commercial customers. BOSI's corporate lending portfolio totals \$2.7 billion of commitments. The deal is not subject to regulatory approvals and is expected to be completed on 31 December 2013. However, Westpac has notified the Australian Competition and Consumer Commission of the transaction and is co-operating with the Commission's informal merger review process. Based on information as at 31 July 2013, the funding requirement for Westpac is estimated to be \$8 billion.

Issue of Additional Tier 1 capital securities

On 8 March 2013, Westpac issued approximately \$1.4 billion of Additional Tier 1 capital securities known as Westpac Capital Notes, which qualify as Additional Tier 1 capital of Westpac under APRA's Basel III capital adequacy framework.

Redemption and retirement of Additional Tier 1 capital securities

On 19 August 2013, \$332 million of Westpac Stapled Preferred Securities (Westpac SPS) were bought back on-market and subsequently cancelled. All remaining Westpac SPS were transferred to a nominated party on 26 September 2013 and subsequently converted into Westpac ordinary shares or redeemed.

On 30 September 2013 all outstanding (USD 750 million) Trust Preferred Securities of Westpac Capital Trust III (2003 TPS) were redeemed.

Litigation

§ **Exception fees** Westpac has been served with two separate class action proceedings by customers seeking to recover exception fees paid by those customers. The first set of proceedings was commenced in December 2011 by customers of the Westpac brand; the second was commenced in February 2012 by customers of the St. George Bank and BankSA brands. Similar class actions have been commenced against several other Australian banks. Westpac has agreed with the plaintiffs to put the proceedings against Westpac on hold until at least March 2014, pending further developments in the litigation against one of those other banks.

§ **Bell litigation** Westpac was one of 20 defendant banks named in proceedings concerning the Bell Group of companies. The proceedings were brought by the liquidators of several Bell Group companies who challenged the defendant banks' entitlement to receive the proceeds of realisation of Bell Group assets in the early 1990s.

Westpac, along with the other defendant banks, had been found liable to repay its share of the monies received from the Bell Group plus interest. In March 2013, the defendant banks were granted special leave to appeal to the High Court of Australia. The appeal was due to be heard in 2013 but has been adjourned to 2014.

On 17 September 2013 the parties announced that the matter was settled. Prior to the settlement, Westpac was entitled to file a claim as an unsecured creditor in the liquidation of the Bell companies and stood to recover part of the funds available for distribution to creditors. As part of the settlement, Westpac has agreed to release its claim for the distribution. The terms of the settlement remain confidential. The settlement is subject to various approvals being obtained in local and overseas jurisdictions, which may take up to six months. Westpac considers that appropriate provisioning has been made for this matter.

Tax developments

On 14 May 2013, the former Australian Government handed down the Federal Budget, which contained a number of proposed tax amendments. Key changes include:

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§ amendments to the Offshore Banking Unit (OBU) provisions, affecting related party dealings, transactions with other banks OBUs and refining the list of eligible OBU activities. These changes were originally to apply from 1 October 2013. On 29 September 2013, the Assistant Treasurer announced a deferral of the start date to a date yet to be announced;

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§ repealing the special rules that allow deductibility for interest incurred in deriving certain tax exempt foreign income (from 1 July 2014); and

§ the minimum amount of equity capital that a bank must hold to satisfy the Thin Capitalisation rules would increase from 4% of risk weighted assets of the Australian business to 6%.

It is not expected that any of these changes will have a material impact on the Westpac Group.

On 7 August 2013, the Coalition (who assumed Government in September 2013) announced that if elected, it would cut the company tax rate by 1.5% to 28.5% from 1 July 2015. However, the Coalition also announced that it intends to introduce a paid parental leave (PPL) scheme which will be funded by a 1.5% levy on large companies, which will include Westpac. This will effectively offset the benefit of the cut to the company tax rate for large companies and will also create a two-tier company tax system from 1 July 2015.

It is likely that the PPL levy will not be deductible and will not generate franking credits for the amount paid. Franking credits will only be generated on the company tax paid at the rate of 28.5%.

Globally, there has been an increased focus by revenue authorities and governments on base erosion and profit shifting between jurisdictions. The revenue authorities are reviewing cross border and inter group transactions to ensure that the correct amount of profit is recognised in the relevant jurisdiction for tax purposes.

The Westpac Group has numerous transactions for which tax transfer pricing is relevant, including:

§ those that are executed between head office and branches (or between branches); and

§ those executed with an external client (booked) in one jurisdiction and where support is provided by head office (or a branch) in another jurisdiction.

Westpac will continue to monitor developments, but no material impact to the Westpac Group is expected.

Changes to accounting standards

In a continuing response to the global financial crisis, governments, regulators and accounting standard setters are working to revise certain accounting standards. The objective is to achieve convergence towards a single set of high-quality, global and independent accounting standards. The specific areas that have been targeted include accounting for financial instruments, provisioning for loan impairment charges, off-balance sheet exposures, the impairment and valuation of financial assets, consolidation and lease accounting. New accounting standards dealing with consolidation and the measurement of fair value apply to the Group from 1 October 2013. These new standards are not expected to have a material impact on the Group's financial position or performance. The Group expects that there will be a number of new standards issued in coming years that will require changes to our current accounting approaches.

Other significant developments

Basel Committee on Banking Supervision

Regulatory reforms and significant developments arising in relation to changes initiated by the Basel Committee on Banking Supervision (BCBS) include:

Liquidity

On 16 December 2010, the BCBS released the final text of the Basel III liquidity framework. The framework introduces two new liquidity measures: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

The BCBS timetable for implementing the liquidity standard schedules the LCR to be introduced with a four year phase in period from 1 January 2015 and the NSFR from 1 January 2018. Both liquidity measures are subject to an observation and review period prior to implementation and as such are potentially subject to modification.

Following a consultation process in mid-2013, the Australian Prudential Regulation Authority (APRA) released a draft liquidity standard (APS 210). APRA adopted the majority of the revisions to the LCR which had been announced by the BCBS in January 2013, with the key exception being that APRA has not adopted the proposed phase-in of the LCR from January 2015. As such, under the proposed APS 210 Westpac will need to meet the requirement of a minimum LCR of 100% from 1 January 2015. The remaining qualitative requirements come into force from 1 January 2014. Westpac's liquidity risk management framework will be amended to address the new standard by 1 January 2014.

The LCR requires banks to hold sufficient high-quality liquid assets, as defined, to withstand 30 days under a specific acute stress scenario. Since there are insufficient government bonds available in the Australian marketplace to allow institutions to meet the LCR, the Reserve Bank of Australia (RBA) has announced, jointly with APRA, that it will make available to Australian institutions a Committed Liquidity Facility (CLF) that, subject to satisfaction of qualifying conditions, can be accessed to help meet the LCR requirement.

Capital

On 16 December 2010, the BCBS released the final text of the Basel III capital framework. The framework was revised in June 2011 and incorporates higher global minimum capital requirements and the introduction of two new capital buffers. The framework includes:

§ an increase in the minimum common equity requirement from 2.0% to 4.5%;

§ an increase in the minimum Tier 1 capital requirement from 4.0% to 6.0%;

§ a capital conservation buffer at 2.5%, to be met with common equity; and

§ a countercyclical buffer of between 0% to 2.5% to be met with common equity or other fully loss absorbing capital (subject to further BCBS guidance). The buffer is intended to be applied during times of excess credit growth.

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The framework includes a compliance timetable, with phase-in arrangements starting from 1 January 2013 and some elements not becoming fully effective until 1 January 2019.

In January 2011 the BCBS also issued a requirement for the contractual terms of capital instruments to include provisions for loss absorption at the point of non-viability.

On 28 September 2012, APRA released the four final capital adequacy standards that will govern the implementation of the Basel III capital framework in Australia. On 13 November 2012 APRA released updated prudential standards which incorporated the Basel III requirements for counterparty credit risk. APRA has required Australian Authorised Deposit-taking Institutions (ADIs) such as Westpac to meet the new minimum capital requirements from 1 January 2013 and has proposed that the capital conservation buffer apply in full from its introduction date of 1 January 2016.

Westpac's current capital levels are well above the 7% common equity requirement that will apply from 1 January 2016 (including the proposed capital conservation buffer).

Other Basel Accord reforms

The Basel III capital framework also introduced a leverage ratio requirement. The BCBS proposes that introducing a simple, non-risk based leverage ratio requirement would act as a credible supplementary measure to the risk-based capital requirements. On 26 June 2013, the BCBS released a consultation paper on the leverage ratio. The paper includes detail on the proposed approach to calculation of the ratio as well as a set of public disclosure requirements for the ratio. The proposed timetable for the leverage ratio provides for testing and recalibration to occur until 2017, with public disclosure to commence from January 2015 and migration of the final standard to a Pillar 1 requirement from January 2018.

In March 2013 the BCBS issued a consultation paper on measuring and controlling large exposures. The existing large exposures framework was established in 1991 and the proposed updated framework is intended to achieve greater consistency among and between jurisdictions in the way banks and supervisors measure, aggregate and control exposures to single counterparties. The final framework is proposed to be in place by January 2019.

The BCBS is also currently conducting analysis on risk-weighted assets, which forms the denominator of the capital ratios. The BCBS has indicated that this work is intended to examine the consistency in the determination of risk-weighted assets across jurisdictions and will determine the direction of future work in this area, which will ultimately allow the BCBS to consider potential policy options.

Each of these measures are in different stages of development and, following release of the respective regulations by the BCBS, APRA will consult on and develop the regulations to apply in Australia. Until APRA develops the final rules for implementing these measures in Australia, the impact on Westpac cannot be determined.

Systemically Important Financial Institutions (SIFIs)

In November 2011, the BCBS published *Global systemically important banks: Assessment methodology and the additional loss absorbency requirement*. This document announced the final methodology for determining Global Systemically Important Banks (G-SIBs), and the Financial Stability Board (FSB) named 29 G-SIBs that would be subject to higher capital requirements and greater oversight. The list of G-SIBs is subject to annual review and in November 2012 the FSB issued an updated list of 28 G-SIBs as well as specifying the higher capital requirements proposed for each. These increased capital requirements will be phased in from January 2016. Westpac has not been named as a G-SIB.

The G20 also directed the FSB to consider how to extend the framework to a broader set of SIFIs, including Domestic Systemically Important Banks (D-SIBs), and to make recommendations to the G20. On 12 October 2012, the BCBS issued the paper *A framework for dealing with domestic systemically important banks*. The paper sets out a principles based framework for regulating D-SIBs. However, until APRA develops the rules for implementing the framework in Australia, any impact on Westpac cannot be determined.

Recovery and resolution planning

In November 2011, the FSB finalised a comprehensive package of policy measures to improve the capacity of authorities to resolve failing SIFIs, without systemic disruption and without exposing taxpayers to risk of loss. As part of the package, a Recovery and Resolution Plan is required for any firm deemed by its home authority to have systemic importance to the domestic economy. In addition, SIFIs will be subject to resolvability assessments to ensure they may be resolved without severe systemic disruption and taxpayer loss while at the same time protecting systemically important functions. APRA has undertaken a pilot Recovery Planning project applying to Australia's largest banks, including Westpac, with final plans delivered to APRA in mid-2012. APRA has advised Westpac of its expectation that the Recovery Plan be maintained and Westpac is reviewing and updating its Recovery Plan where required.

In the US, Westpac also will be required to satisfy the resolution plan requirements of the Dodd-Frank Act, as implemented by regulations issued jointly by the US Federal Reserve Board and Federal Deposit Insurance Corporation. We expect to submit a resolution plan in relation to our US operations to US bank regulatory authorities by the applicable deadline, which is currently set for the end of 2013.

Australia

The Federal Government has embarked on a program of regulatory reform which will affect Westpac. This includes:

OTC derivatives reform

The over-the-counter (OTC) derivatives market is undergoing significant regulatory reform globally. The reforms aim to improve transparency, mitigate systemic risk and protect against market abuse in the OTC derivatives market by encouraging clearing through central counterparties, reporting to trade repositories, exchange trading where appropriate, and imposing higher capital requirements on non-centrally cleared contracts.

On 31 December 2012, Westpac provisionally registered with the US Commodity Futures Trading Commission as a Swap Dealer. Also, in September 2013, Westpac became a member of the Hong Kong Monetary Authority's trade repository.

Locally, on 9 July 2013, the Australian Securities and Investments Commission (ASIC) released the *Derivative Transaction Rules (Reporting) 2013* which introduces mandatory trade reporting of OTC Derivatives. Westpac commenced reporting in accordance with the ASIC requirement on 1 October 2013. This reform required Westpac to build infrastructure to enable it to report on all OTC Derivatives transactions to ASIC via a licensed or prescribed trade repository.

On 17 July 2013, the Reserve Bank of Australia (RBA), APRA and ASIC issued a report on the Australian OTC Derivatives Market in which they recommended that the Australian Government consider mandatory clearing for US dollar, Euro, British Pound and Yen denominated interest rate derivatives, primarily to maintain consistency with other international derivative regimes. The Australian Government is yet to proceed with the regulators' recommendations.

Westpac continues to monitor developments and comply with requirements imposed under OTC derivatives reforms prescribed by international regulators. These include regulatory changes being implemented by the US Commodity Futures Trading Commission and Securities and Exchange Commission under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act); by the European Securities and Markets Authority under the European Market Infrastructure Regulations (EMIR) and Markets in Financial Instruments Directive (MiFID II); and by various financial regulators in Asia.

On 2 September 2013, the Basel Committee on Banking Supervision (BCBS) and the International Organization of Securities Commission (IOSCO) published a report which presents the final policy framework for establishing margin requirements for uncleared OTC derivatives. The report sets out a timetable for introducing such requirements between 1 December 2015 and December 2019. At this stage, the requirements have not yet been adopted in the US, Europe or Australia.

Superannuation changes

From 1 July 2013, superannuation funds can offer MySuper products if licensed by APRA. From 1 January 2014, employers can generally only make super guarantee contributions to a default super fund which offers a MySuper product. MySuper is part of the Government's response to the Super System (Cooper) Review and is a low cost, simple superannuation product. A MySuper product will be the default investment option where investment choice is not elected by the member. Other legislative changes include enhanced trustee and director obligations as well as SuperStream, a measure to improve the efficiency of processing superannuation transactions through the use of technology. An established project team continues to assess and implement changes to our existing superannuation products to ensure compliance with the new requirements which includes launching a number of MySuper products by December 2013.

Financial advice changes

On 27 June 2012 the Future of Financial Advice (FOFA) reforms became law. Several sets of regulations were made over the period 12 July 2012 to 28 June 2013. The FOFA reforms are aimed at improving consumer trust and confidence in, and the quality of, financial advice. The FOFA reforms include a ban on certain conflicted payments and soft dollar benefits, a ban on volume-based shelf space fees, a ban on the charging of asset-based fees on borrowed funds, a statutory best interests duty so that financial advisers must act in the best interests of their clients, and an adviser charging regime where the investor will be required to opt-in every two years to receive ongoing advice and where advisers will be required to give annual disclosure of ongoing fees and services to investors. The majority of the proposed reforms commenced for the Westpac Group on 1 July 2013, although certain provisions relating to employee remuneration and payments under particular existing arrangements will not apply until 1 July 2014. Other aspects of the reforms, including an anti-avoidance provision and increased ASIC powers, commenced on 1 July 2012. Prior to being elected, the current Government indicated that it would look to provide greater certainty on the application of the new best interests duty and amend other certain aspects of the FOFA reforms, including the requirement to opt-in to ongoing adviser services every two years. We understand that the Government will announce its position before 31 December 2013 on any changes it proposes to make.

Privacy law reform

The *Privacy Amendment (Enhancing Privacy Protection) Act 2012* (Cth) received royal assent on 12 December 2012 and will commence on 12 March 2014. It amends the *Privacy Act 1988* (Cth) to replace the National Privacy Principles with new Australian Privacy Principles and introduce a new, more comprehensive credit reporting system. In addition, significant new powers are provided to the Privacy Commissioner to enforce the revised law. These privacy reforms will require review and amendment of a wide range of Westpac Group documents, systems and procedures in relation to the management of personal information.

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Westpac continues to review these developments, engage with Government, regulators and industry bodies as appropriate, and amend its systems, processes and operations to align with regulatory changes as they occur.

Changes to APRA's crisis management powers

On 12 September 2012, the Treasury released for public consultation a paper entitled Strengthening APRA's Crisis Management Powers, which sought comment on a series of reform proposals directed at strengthening APRA's crisis management powers. Submissions closed on 14 December 2012. Proposals under consideration include providing APRA with the ability, in times of financial distress, to direct regulated entities (including Westpac) in relation to disclosure requirements and broadening APRA's powers to issue other directions to regulated entities. If implemented, these proposals could affect the regulatory framework applying to Westpac and its controlled entities. However, until final proposals are published and implemented, the full extent of the impact on us is uncertain.

United States

There are a number of significant regulatory reforms currently occurring in the United States (US). These include:

Dodd-Frank Act

Legislation designed to reform the system for supervision and regulation of financial firms in the US was signed into law on 21 July 2010. The Dodd-Frank Act contains a wide range of provisions that will affect financial institutions operating in the US, including foreign banks like Westpac. Included among its provisions are reforms designed to:

- § reduce systemic risk presented by very large financial institutions;
- § promote enhanced supervision, regulation, and prudential standards for financial institutions;
- § establish comprehensive supervision of financial markets;
- § impose new limits on permissible financial institution activities and investments;
- § expand regulation of the derivatives markets, protect consumers and investors from financial abuse; and
- § provide the US Government with the tools needed to manage a financial crisis.

Many of the provisions of the Dodd-Frank Act require extensive rulemaking by US regulatory agencies before the provisions become effective. The issuance of final rules under the Dodd-Frank Act remains far from complete, with the process continuing. Aside from the observations regarding OTC derivatives reform above, until there is greater clarity regarding the final forms of the rules and their extra-territorial application, it is not possible to assess the full impact of the law and the regulations on our operations. However, in the event that some of the rules are implemented in or close to the current draft, significant investment in compliance and reporting programs and changes to business activities are likely to be required.

Foreign Account Tax Compliance Act (FATCA)

Legislation incorporating provisions referred to as FATCA was passed in the US on 18 March 2010. Regulations published by the US Treasury on 28 January 2013 provide detail as to how FATCA should be implemented. The legislation and regulations require Foreign Financial Institutions (FFIs), such as Westpac, to enter into an FFI agreement (if they are not subject to the provisions of a Model 1 Intergovernmental Agreement (IGA), which is discussed below) under which they agree to identify and provide the US Internal Revenue Service (IRS) with information on accounts held by US persons and certain US owned foreign entities, or otherwise face 30% withholding tax on certain payments made to the FFI. In addition, FFIs that have entered into an FFI agreement will be required to withhold on certain payments made to FFIs that have not entered into an FFI agreement (and are not subject to an IGA) and account holders who do not respond to requests to confirm their US person status and/or do not agree to the FFI reporting certain account related information to the IRS.

The IRS has also published a Model IGA in connection with the implementation of FATCA. The UK Government entered into an IGA with the US on 12 September 2012 and enacted UK domestic legislation to give effect to the provisions of that IGA on 1 September 2013. The Australian and New Zealand Governments are each currently in the process of negotiating the terms and conditions of an IGA with the US. The UK, Australian and New Zealand IGAs (once the latter two are concluded), and any IGAs that may be concluded between the US and other countries in which Westpac conducts business, will likely enable Westpac to report the required information relating to its business operations within these jurisdictions to the local tax authorities, which, in turn, will provide such information to the IRS. Further, operating within an IGA jurisdiction will relieve Westpac of the requirement to comply with an FFI agreement in relation to its business operations in that jurisdiction and to withhold from payments to, or close the accounts of, certain account holders, but Westpac will still be required to identify and report certain US accounts in that jurisdiction.

An internal project has been established and is well progressed in implementing changes to comply with the requirements of FATCA across all jurisdictions in which Westpac operates. Westpac currently expects (subject to any restrictions under local law) that it will enter into an FFI agreement with respect to its branches and affiliated FFIs not located in countries that have entered into an IGA. It is anticipated that compliance with FATCA will give rise to significant costs and operational burdens, but that IGAs will reduce those costs and burdens, where applicable.

New Zealand

Regulatory reforms and significant developments in New Zealand include:

Open Bank Resolution (OBR)

The Reserve Bank of New Zealand (RBNZ) OBR policy contemplates a bank being open for business on the next business day following a bank failure event and the bank being put into statutory management. From 30 June 2013 all locally incorporated registered banks with retail deposits over NZ\$1 billion are required to be pre-positioned for OBR on an ongoing basis. The policy therefore applies to Westpac New Zealand Limited (WNZL) and WNZL has been compliant with the new requirements since they came into effect. In the event of failure, a bank must be able to achieve certain outcomes, including being able to freeze liabilities and process pending payments, determine customers' account balances on a per account basis, set aside a proportion of account balances that have been frozen, and resume customers' access to their transaction and other accounts on the next business day following the bank's closure. Notwithstanding the pre-positioning requirement, there is no obligation on the part of the New Zealand Government to use OBR in the event of a bank failure. New conditions of registration to formally impose the OBR requirements took effect on the implementation date.

Basel III

The RBNZ has adopted the core Basel III capital measures relating to new capital ratios and most of the recommendations relating to the definition of capital. From 1 January 2013, the requirements for Total Tier 1 capital increased to 6.0% and must include common equity of 4.5%. The conservation buffer will be implemented in full from 1 January 2014 at which time Total Tier 1 capital will increase to 8.5% and will need to include 7% common equity. The countercyclical capital buffer will also be able to be deployed from 1 January 2014. The RBNZ is not specifying any upper limit on the countercyclical buffer. The RBNZ has not adopted the leverage ratio.

Financial Markets Conduct Act (FMCA)

The FMCA represents an overhaul of the existing securities law regime in New Zealand and will impact various aspects of the wider Westpac New Zealand business. It introduces changes to product disclosure and governance together with new licensing and registration requirements. The existing prospectus/investment statement dual disclosure model will no longer apply. A single product disclosure statement will be implemented and this will be supported by an online register of other material documentation. The FMCA was enacted in September 2013, however, most of the provisions will come into force at a later date. Much of the detail will be prescribed in regulations which are expected in the first half of 2014. The FMCA must be completely in force by 1 April 2017.

Credit law reform/responsible lending

The *Credit Contracts and Financial Services Law Reform Bill* was introduced into the House in April 2013 and was referred to the Select Committee in September. The bill reforms the entire suite of legislation that governs consumer credit contracts. The *Credit Contracts and Consumer Finance Act 2003* (CCCFA) is being amended to provide for a regulatory responsible lending code. In addition, existing consumer protections are being strengthened by changing current CCCFA provisions on disclosure, fees, hardship and oppressive contracts.

Reserve Bank of New Zealand (Covered Bonds) Amendment Bill

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The *Reserve Bank of New Zealand (Covered Bonds) Amendment Bill* provides a legislative framework for the issuance of covered bonds by New Zealand registered banks. The Bill was introduced into the House in May 2012 and had its second reading in February 2013. New Zealand registered banks are currently permitted by the RBNZ to issue covered bonds. It is a condition of registration that a covered bond issuance cannot exceed 10% of total assets. The legislation will provide certainty for investors that the cover pool assets will be disgorged from statutory management and liquidation regimes. The Bill will require the registration of covered bond programs and provides for a transition period for the registration of existing programs.

RBNZ macro-prudential policy

In March 2013 the RBNZ released its final policy position on its macro-prudential policy framework. The policy aims to promote greater financial system stability by building additional resilience in the financial system during periods of rapid credit growth and rising leverage or abundant liquidity, and dampening excessive growth in credit and asset prices. The policy will apply only to registered banks initially and includes the following four instruments: sectoral capital requirements, restrictions on high loan to value ratio (LVR) lending; adjustments to the core funding ratio; and the countercyclical capital buffer. The latter already forms part of the Basel III reforms. A memorandum of understanding between the Minister of Finance and the RBNZ was signed in May 2013. The RBNZ released its framework for restrictions on high LVR residential mortgage lending in August 2013 and also announced that it would be imposing restrictions on this lending effective from 1 October 2013. New conditions of registration restrict residential lending with an LVR of more than 80%, to 10% of the total of the qualifying new mortgage lending amounts arising in the loan-to-valuation measurement period.

Anti-Money Laundering legislation

The *Anti-Money Laundering and Countering Financing of Terrorism Act 2009* came into full force on 30 June 2013. From this date, WNZL has been compliant with the new regulatory requirements, which impose higher requirements on banks to perform customer due diligence and report on transactions, in addition to new requirements to monitor transactions. The legislation also provides for a supervisory regime.

INFORMATION ON WESTPAC

Supervision and regulation

Australia

Within Australia we are subject to supervision and regulation by six principal agencies: APRA; the Reserve Bank of Australia (RBA); the Australian Securities and Investments Commission (ASIC); the Australian Securities Exchange (ASX); the Australian Competition and Consumer Commission (ACCC); and the Australian Transaction Reports and Analysis Centre (AUSTRAC).

APRA is responsible for the prudential supervision of banks, credit unions, building societies, life and general insurance companies, friendly societies and most superannuation (pension) funds. APRA's roles include establishing and enforcing prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made to customers by the institutions it supervises are met.

As an ADI, we report prudential information to APRA including information in relation to capital adequacy, large exposures, credit quality and liquidity. Our controlled entities in Australia that are authorised insurers and trustees of superannuation funds are also subject to the APRA regulatory regime. 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 and other stakeholders.

Australia's risk-based capital adequacy guidelines are based on the approach agreed upon by the Basel Committee on Banking Supervision. National discretion is then applied to that approach which results in Australia's capital requirements being more stringent. Refer to Capital resources - Basel Capital Accord in Section 2.

The RBA is responsible for monetary policy, maintaining financial system stability and promoting the safety and efficiency of the payments system. 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 Australian Government.

ASIC is the national regulator of Australian companies. Its primary responsibility is to regulate and enforce company, consumer credit, financial markets and financial services laws that protect consumers, investors and creditors. With respect to financial services, it promotes honesty and fairness by providing consumer protection, using 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 and financial advice. ASIC has responsibility for supervising trading on Australia's domestic licensed markets and of trading participants.

The ASX operates Australia's primary national market for trading of securities issued by listed companies. Some of our securities (including our ordinary shares) are listed on the ASX and we therefore have obligations to comply with the ASX Listing Rules, which have statutory backing under the Corporations Act. The ASX has responsibility for the oversight of listed entities under the ASX Listing Rules and for monitoring and enforcing compliance with the ASX Operating Rules by its market, clearing and settlement participants.

The ACCC is an independent statutory authority responsible for the regulation and prohibition of anti-competitive and unfair market practices and mergers and acquisitions in Australia. Its broad objective is to administer the *Competition and Consumer Act 2010* and related legislation to bring greater competitiveness, fair trading, consumer protection and product safety to the Australian economy. The ACCC's role in consumer protection complements that of Australian state and territory consumer affairs agencies that administer the unfair trading legislation of their jurisdictions.

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The Australian Government's present policy, known as the four pillars policy, is that there should be no fewer than four major banks to maintain appropriate levels of competition in the banking sector. Under the *Financial Sector (Shareholding) Act 1998*, the Australian Government's Treasurer must approve an entity acquiring a stake of more than 15% in a financial sector company.

Proposals for foreign acquisitions of a stake in Australian banks are subject to the Australian Government's foreign investment policy and, where required, approval by the Australian Government under the Australian *Foreign Acquisitions and Takeovers Act 1975*. For further details refer to Limitations affecting security holders in Section 4.

AUSTRAC oversees the compliance of Australian reporting entities including Westpac, within the requirements under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* and the *Financial Transaction Reports Act 1988*.

These requirements include:

- § implementing programs for identifying and monitoring customers, and for managing the risks of money laundering and terrorism financing;
- § reporting suspicious matters, threshold transactions and international funds transfer instructions; and
- § submitting an annual compliance report.

AUSTRAC provides financial information to state, territory and Australian federal law enforcement, security, social justice and revenue agencies, and certain international counterparts.

New Zealand

The RBNZ is responsible for supervising New Zealand registered banks. The New Zealand prudential supervision regime requires that registered banks publish quarterly disclosure statements, which contain information on financial performance and risk positions as well as attestations by the directors about the bank's compliance with its conditions of registration and certain other matters.

United States

Our New York branch is a US federally licensed branch and therefore is subject to supervision, examination and extensive regulation by the US Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve System (the US Federal Reserve) under the US *International Banking Act of 1978* (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 US 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:

§ the amount of capital (but not surplus) that would be required of a national bank organised at the same location; or

§ 5% of its total liabilities (including acceptances, but excluding accrued expenses, and amounts due and other liabilities to other branches, agencies, and subsidiaries of the foreign bank).

In addition, a US federal branch is examined by the US Comptroller of the Currency at least once each calendar year. 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 US 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 we are not, a financial holding company as defined in the *Gramm-Leach-Bliley Act of 1999*.

Anti-money laundering regulation and related requirements

Australia

Westpac has a Group-wide program to manage its obligations under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*. We continue to actively engage with the regulator, AUSTRAC, on our activities.

United States

The USA PATRIOT Act of 2001 requires US financial institutions, including the US branches of foreign banks, to take certain steps to prevent, detect and report individuals and entities involved in international money laundering and the financing of terrorism. The required actions include verifying the identity of financial institutions and other customers and counterparties, 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. The anti-money laundering compliance requirements of the USA PATRIOT Act include requirements to adopt and implement an effective anti-money laundering program, report suspicious transactions or activities, and implement due diligence procedures for correspondent and other customer accounts. Westpac's New York branch and its other US operations maintain an anti-money laundering compliance program designed to address US legal requirements.

US economic and trade sanctions, as administered by the Office of Foreign Assets Control (OFAC), prohibit or significantly restrict US financial institutions, including the US branches and operations of foreign banks, and other US persons from doing business with certain persons, entities and jurisdictions. Westpac's New York branch and its other US operations maintain compliance programs designed to comply with OFAC sanctions programs, and Westpac has a Group-wide program to ensure adequate compliance.

Significant contracts

Westpac's significant long-term contracts are summarised in Note 34 to the financial statements.

Legal proceedings

Our entities are defendants from time-to-time in legal proceedings arising from the conduct of our business and material legal proceedings, if any, are described in Note 36 to the financial statements and under 'Significant Developments' above. As appropriate, a provision has been raised in respect of these proceedings and disclosed in the financial statements.

Principal office

Our principal office is located at 275 Kent Street, Sydney, New South Wales, 2000, Australia. Our telephone number for calls within Australia is 132 032 and our international telephone number is (+61) 2 9293 9270.

CORPORATE GOVERNANCE

INTRODUCTION

This corporate governance statement describes our corporate governance framework, policies and practices as at 4 November 2013.

Framework and approach

Our approach to corporate governance is based on a set of values and behaviours that underpin day-to-day activities, provide transparency and fair dealing, and seek to protect stakeholder interests.

This approach includes a commitment to excellence in governance standards, which Westpac sees as fundamental to the sustainability of our business and our performance. It includes monitoring local and global developments in corporate governance and assessing their implications.

We have equity securities listed on securities exchanges in Australia, New Zealand and the United States.

Australia

We comply with the ASX Corporate Governance Principles and Recommendations (ASXCGC Recommendations) published by the ASX Limited's Corporate Governance Council (ASXCGC). We must also comply with the Corporations Act and as an ADI must comply with governance requirements prescribed by APRA under Prudential Standard CPS 510 (Governance).

This statement addresses each of the eight ASXCGC Recommendations with an explanation of our corporate governance practices, demonstrating our compliance with each Recommendation. A checklist summarising our compliance is included at the end of this statement.

Further details about the ASXCGC Recommendations can be found on the ASX Limited (ASX) website www.asx.com.au.

New Zealand

Westpac also has ordinary shares quoted on the NZSX, which is the main board equity security market operated by NZX Limited (NZX). As an overseas listed issuer in New Zealand, we are deemed to satisfy and comply with the NZSX Listing Rules, provided that we remain listed on the ASX and comply with the ASX Listing Rules.

The ASX, through the ASXCGC Recommendations, and NZX, through the NZX Corporate Governance Best Practice Code, have adopted similar 'comply or explain' approaches to corporate governance. However, the ASXCGC Recommendations may materially differ from the corporate governance rules and the principles of NZX's Corporate Governance Best Practice Code.

United States

Westpac has American Depositary Shares (ADS) representing its ordinary shares quoted on the New York Stock Exchange (NYSE). Under the NYSE Listing Rules, foreign private issuers are permitted to follow home country practice in respect of corporate governance in lieu of the NYSE Listing Rules. However, we are still required to comply with certain audit committee and additional notification requirements.

We comply in all material respects with all NYSE Listing Rules applicable to us.

Under the NYSE Listing Rules, foreign private issuers are required to disclose any significant ways in which their corporate governance practices differ from those followed by domestic US companies. We have compared our corporate governance practices to the corporate governance requirements of the NYSE Listing Rules and note the significant differences below.

The NYSE Listing Rules require that, subject to limited exceptions, shareholders be given the opportunity to vote on equity compensation plans and material revisions to those plans.

In Australia there are no laws or securities exchange listing rules that require shareholder approval of equity based incentive plans or individual grants under those plans (other than for Directors, including the Chief Executive Officer (CEO)).

Westpac's employee equity plans have been disclosed in the Remuneration report in Section 9 of the Directors' report, which is subject to a non-binding shareholder vote at the Annual General Meeting (AGM) and grants to our CEO are approved by shareholders. The details of all grants under our equity-based incentive plans have been disclosed in Note 25 of our financial statements for the year ended 30 September 2013.

The NYSE Listing Rules provide that the Nominations Committee's responsibilities should include selecting, or recommending that the Board select, the Director nominees for the next annual meeting for shareholders, and overseeing the evaluation of the Board. The Board, rather than the Nominations Committee, reviews and recommends the Director nominees for election at the AGM and undertakes an annual review of its performance.

Websites

This statement and a range of documents referred to in it are available on our corporate governance website at www.westpac.com.au/corpgov. This website contains copies and summaries of charters, principles and policies referred to in this statement.

GOVERNANCE FRAMEWORK

The diagram above shows the current Committees of the Board. From time to time the Board may form other Committees or request Directors to undertake specific extra duties.

In addition, from time to time the Board participates (either directly or through representatives) in due diligence committees in relation to strategic decisions, capital and funding activities.

The Executive Team, Disclosure Committee and Executive Risk Committees are not Board Committees (that is, they have no delegation of authority from the Board) but sit beneath the CEO and the Board Committees to implement Board-approved strategies, policies and management of risk across the Group.

The key functions of the Board and each of the Board Committees are outlined in this corporate governance statement. All Board Committee Charters are available on our corporate governance website at www.westpac.com.au/corpgov.

CORPORATE GOVERNANCE

BOARD, COMMITTEES AND OVERSIGHT OF MANAGEMENT

Board of Directors

Roles and responsibilities

The Board Charter outlines the roles and responsibilities of the Board. Key responsibilities in summary are:

- § approving the strategic direction of Westpac Group;
- § evaluating Board performance and determining Board size and composition;
- § considering and approving the Westpac Board Renewal Policy;
- § appointing and determining the duration, remuneration and other terms of appointment of the CEO, Chief Financial Officer (CFO) and other Group Executives;
- § determining the remuneration of persons whose activities in the Board's opinion affects the financial soundness of Westpac, any person specified by APRA, and any other person the Board determines;
- § evaluating the performance of the CEO, and monitoring the performance of other senior executives;
- § succession planning for the Board, CEO and Group Executives;
- § approving the appointment of Group Executives, General Manager Group Assurance and Group General Counsel and monitoring the performance of senior management;
- § approving the annual targets and financial statements and monitoring performance against forecast and prior periods;
- § determining our dividend policy;
- § determining our capital structure;
- § approving our risk management strategy and frameworks, and monitoring their effectiveness;
- § considering the social, ethical and environmental impact of our activities and monitoring compliance with our sustainability policies and practices;
- § monitoring Workplace Health and Safety (WH&S) issues in Westpac Group and considering appropriate WH&S reports and information;
- § maintaining an ongoing dialogue with Westpac's auditors and, where appropriate, principal regulators; and
- § internal governance including delegated authorities, policies for appointments to our controlled entity Boards and monitoring resources available to senior executives.

Delegated authority

The Constitution and the Board Charter enable the Board to delegate to Committees and management.

The roles and responsibilities delegated to the Board Committees are captured in the Charters of each of the five established Committees, namely:

- § Audit;
- § Risk Management;

§ Nominations;

§ Remuneration; and

§ Technology.

The Board Charter, Board Committee Charters and the Constitution are available on our corporate governance website

www.westpac.com.au/corpgov.

The Delegated Authority Policy Framework outlines principles to govern decision-making within the Westpac Group, including appropriate escalation and reporting to the Board. The Board has also delegated to the CEO, and through the CEO to other executives, responsibility for the day-to-day management of our business. The scope of, and limitations to, management delegated authority is clearly documented and covers areas such as operating and capital expenditure, funding and securitisation, and lending. These delegations balance effective oversight with appropriate empowerment and accountability of management.

Independence

Together, the Board members have a broad range of relevant financial and other skills and knowledge, combined with the extensive experience necessary to guide our business. Details are set out in Section 1 of the Directors' report.

All of our Non-executive Directors satisfy our criteria for independence, which align with the guidance provided in the ASXCGC Recommendations and the criteria applied by the NYSE and the US Securities and Exchange Commission (SEC).

The Board assesses the independence of our Directors on appointment and annually. Each Director provides an annual attestation of his or her interests and independence.

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

Each Director is expected to disclose any business or other relationship that he or she has directly, or as a partner, shareholder or officer of a company or other entity that has an interest in Westpac or a related entity. The Board considers information about any such interests or relationships, including any related financial or other details, when it assesses the Director's independence.

Size and membership of Board Committees as at 30 September 2013

	Status	Board Audit Committee	Board Risk Management Committee	Board Nominations Committee	Board Remuneration Committee	Board Technology Committee
Lindsay Maxsted	Chairman, Non-executive, Independent	ü	ü	Chair ü		
John Curtis	Deputy Chairman, Non-executive, Independent		ü	ü	Chair ü	
Gail Kelly	CEO, Executive					ü
Elizabeth Bryan	Non-executive, Independent		Chair ü	ü	ü	ü
Gordon Cairns	Non-executive, Independent		ü		ü	
Ewen Crouch	Non-executive, Independent		ü		ü	
Robert Elstone	Non-executive, Independent	Chair ü	ü	ü		ü
Peter Hawkins	Non-executive, Independent	ü	ü	ü		Chair ü
Peter Marriott	Non-executive, Independent	ü	ü			
Ann Pickard	Non-executive, Independent		ü		ü	

The charts below demonstrate that our Board comprises a majority of independent Directors and show the tenure of our current Non-executive Directors.

Length of tenure of Non-executive Directors

Balance of Non-executive and Executive Directors

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CORPORATE GOVERNANCE

Chairman

The Board elects one of the independent Non-executive Directors as Chairman. Our current Chairman is Lindsay Maxsted, who became Chairman on 14 December 2011. The Chairman's role includes:

- § providing effective leadership to the Board in relation to all Board matters;

- § guiding the agenda and conducting all Board meetings;

- § in conjunction with the Company Secretaries, arranging regular Board meetings throughout the year, confirming that minutes of meetings accurately record decisions taken and, where appropriate, the views of individual Directors;

- § overseeing the process for appraising Directors and the Board as a whole;

- § overseeing Board succession;

- § acting as a conduit between management and Board, and being the primary point of communication between the Board and CEO;

- § representing the views of the Board to the public; and

- § taking a leading role in creating and maintaining an effective corporate governance system.

Deputy Chairman

Our Deputy Chairman is John Curtis. The Deputy Chairman's role includes:

- § chairing Board and shareholder meetings when the Chairman is unable to do so; and

- § undertaking additional matters on the Chairman's behalf, as requested by the Chairman.

CEO

Our CEO is Gail Kelly. The CEO's role includes:

- § leadership of the management team;
- § developing strategic objectives for the business; and
- § the day-to-day management of the Westpac Group's operations.

Board meetings

The Board had eight scheduled meetings for the financial year ended 30 September 2013, with additional meetings held as required. In July each year the Board discusses our strategic plan and approves our overall strategic direction. The Board also conducts a half year review of our strategy. The Board conducts workshops on specific subjects relevant to our business throughout the year. Board meetings are characterised by robust exchanges of views, with Directors bringing their experience and independent judgment to bear on the issues and decisions at hand.

Non-executive Directors regularly meet without management present, so that they can discuss issues appropriate to such a forum. In all other respects, senior executives are invited, where considered appropriate, to participate in Board meetings. They also are available to be contacted by Directors between meetings.

Meetings attended by Directors for the financial year ended 30 September 2013 are reported in Section 8 of the Directors' report.

Nomination and appointment

The Board Nominations Committee is responsible for:

- § developing and reviewing policies on Board composition, strategic function and size;
- § reviewing and making recommendations to the Board annually on diversity generally within the Westpac Group, measurable objectives for achieving diversity and progress in achieving those objectives;

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- § planning succession of the Non-executive Directors;
- § developing and implementing induction programs for new Directors and ongoing education for existing Directors;
- § developing eligibility criteria for the appointment of Directors;
- § recommending appointment of Directors to the Board; and
- § considering and recommending candidates for appointment to the Boards of relevant subsidiaries.

Westpac seeks to maintain a Board of Directors with a broad range of financial and other skills, experience and knowledge necessary to guide the business of the Westpac Group.

The Board Nominations Committee considers and makes recommendations to the Board on candidates for appointment as Directors. Such recommendations pay particular attention to the mix of skills, experience, expertise, diversity and other qualities of existing Directors, and how the candidate's attributes will balance and complement those qualities. External consultants are used to access a wide base of potential Directors.

New Directors receive an induction pack which includes a letter of appointment setting out the expectations of the role, conditions of appointment including the expected term of appointment, and remuneration. This letter conforms to the ASXCGC Recommendations.

The attendance of Board Nominations Committee members at the Committee's meetings is set out in Section 8 of the Directors' report.

Term of office

The Board may appoint a new Director, either to fill a casual vacancy or as an addition to the existing Directors, provided the total number of Directors does not exceed 15 Non-executive Directors and three Executive Directors. Except for the Managing Director, a Director appointed by the Board holds office only until the close of the next AGM but is eligible for election by shareholders at that meeting.

Our Constitution states that at each AGM, one-third of eligible Directors, and any other Director who has held office for three or more years since their last election, must retire. In determining the number of Directors to retire by rotation, no account is to be taken of Directors holding casual vacancy positions or of the CEO. The Directors to retire by rotation are those who have been the longest in office. A retiring Director holds office until the conclusion of the meeting at which he or she retires but is eligible for re-election by shareholders at that meeting.

The Board makes recommendations concerning the election or re-election of any Director by shareholders. In considering whether to support a candidate, the Board takes into account the results of the Board performance evaluation conducted during the year.

The Board has a Tenure Policy, which limits the maximum tenure of office that any Non-executive Director other than the Chairman may serve to nine years, from the date of first election by shareholders. The maximum tenure for the Chairman is 12 years (inclusive of any term as a Director prior to being elected as Chairman), from the date of first election by shareholders. The Board, on its initiative and on an exceptional basis, may exercise discretion to extend the maximum terms specified above where it considers that such an extension would benefit the Group. Such discretion will be exercised on an annual basis and the Director concerned will be required to stand for re-election annually.

Education

On appointment, all Directors are offered an induction program appropriate to their experience to familiarise them with our business, strategy and any current issues before the Board. The induction program includes meetings with the Chairman, the CEO, the Board Committee Chairs and each Group Executive.

The Board encourages Directors to continue their education by participating in workshops held throughout the year, attending relevant site visits and undertaking relevant external education.

Access to information and advice

All Directors have unrestricted access to company records and information, and receive regular detailed financial and operational reports from senior management. Each Director also enters into an access and indemnity agreement which, among other things, provides for access to documents for up to seven years after his or her retirement as a Director.

The Chairman and other Non-executive Directors regularly consult with the CEO, CFO and other senior executives, and may consult with, and request additional information from, any of our employees.

All Directors have access to advice from senior internal legal advisors including the Group General Counsel.

In addition, the Board collectively, and all Directors individually, have the right to seek independent professional advice, at our expense, to help them carry out their responsibilities. While the Chairman's prior approval is needed, it may not be unreasonably withheld.

Company Secretaries

We have two Company Secretaries appointed by the Board. The Senior Company Secretary, who is also Legal Counsel to the Board, attends Board and Board Committee meetings and is responsible for providing Directors with advice on legal and corporate governance issues together with the Group General Counsel. The Group Company Secretary attends Board and Board Committee meetings and is responsible for the operation of the secretariat function, including implementing our governance framework and, in conjunction with management, giving practical effect

to the Board's decisions.

Profiles of our Company Secretaries are set out in Section 1 of the Directors' report.

Board Committees

Composition and independence

Board Committee members are chosen for the skills and experience they can contribute to the respective Board Committees. All of the Board Committees are comprised of independent Non-executive Directors. The CEO is also a member of the Board Technology Committee.

Operation and reporting

Scheduled meetings of the Board Committees occur quarterly, with the exception of the Board Technology Committee which has scheduled meetings three times a year. All Board Committees are able to meet more frequently as necessary. Each Board Committee is entitled to the resources and information it requires and has direct access to our employees and advisers. The CEO attends all Board Committee meetings, except where she has a material personal interest in a matter being considered. Senior executives and other selected employees are invited to attend Board Committee meetings as required. All Directors can receive all Board Committee papers and can attend any Board Committee meeting, provided there is no conflict of interest.

Performance

Board, Board Committees and Directors

The Board undertakes ongoing self-assessment as well as commissioning an annual performance review by an independent consultant.

The review process conducted in 2013 included an assessment of the performance of the Board, the Board Committees, and each Director with outputs collected, analysed and presented to the Board. The Board discussed the results and agreed follow up action on matters relating to Board composition, process and priorities.

The Chairman also discusses the results with individual Directors and Board Committee Chairs. The full Board (excluding the Chairman) reviews the results of the performance review of the Chairman and results are then privately discussed between the Chairman and Deputy Chairman.

Management

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The Board, in conjunction with its Board Remuneration Committee, is responsible for approving the performance objectives and measures for the CEO and other senior executives, and providing input into the evaluation of performance against these objectives. The Board Risk Management Committee also refers to the Board Remuneration Committee any matters that come to its attention that are relevant with respect to remuneration policy or practices.

Management performance evaluations for the financial year ended 30 September 2013 were conducted following the end of the financial year.

There is a further discussion on performance objectives and performance achieved in the Remuneration report contained in the Directors' report.

CORPORATE GOVERNANCE

All new senior executives are provided with extensive briefing on our strategies and operations, and the respective roles and responsibilities of the Board and senior management.

Advisory Boards

Each brand in our portfolio has its own unique identity and market position. Westpac maintains an Advisory Board for each of BankSA and Bank of Melbourne. Each assists in preserving the unique identity of these brands within the overall multi-brand strategy of the Westpac Group through oversight of management reports in relation to their brand health and positioning.

In particular, the Advisory Boards are responsible for:

§ providing advice to management on management's strategies and initiatives to continue to strengthen the unique brand position and identity;

§ providing advice to management of the relevant brand so as to promote and preserve its distinct position and identity and align brand values with those of the relevant communities served;

§ considering and assessing reports provided by management on the health of the relevant brand;

§ acting as ambassadors for the relevant bank, including through supporting community and major corporate promotional events to assist in building relationships with the bank's customers, local communities and the business and government sector, and advising senior management on community matters relevant to the provision of financial services in the community it serves; and

§ alerting management to local market opportunities and issues of which Advisory Board members are aware that would enhance the provision of services to customers and potential customers and the position of the bank in its local communities.

ETHICAL AND RESPONSIBLE DECISION-MAKING

Code of Conduct and Principles for Doing Business

Our Code of Conduct describes the standards of conduct expected of our people, both employees and contractors. It provides a set of guiding principles to help us make the right decision every time. The six principles making up the Code are:

§ we act with honesty and integrity;

§ we comply with laws and with our policies;

§ we respect confidentiality and do not misuse information;

§ we value and maintain our professionalism;

§ we work as a team; and

§ we manage conflicts of interest responsibly.

The focus of each of the principles is to uphold the reputation of the Group. The Code of Conduct has the full support of the Board and the Executive Team, and we take compliance with the Code very seriously.

Our Principles for Doing Business (the Principles) underpin the Group's commitment to sustainable business practice and community involvement. In summary:

§ we believe in maintaining the highest level of governance and ethical practice while protecting the interests of our stakeholders;

§ we believe in putting our customers at the centre of everything we do;

§ we believe our people are a crucial element of a successful service business;

§ we are committed to managing our direct and indirect impacts on the environment;

§ we believe being actively involved in the community is fundamental to the sustainability of our business; and

§ we believe that our suppliers should be viewed as partners in our sustainability journey.

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The Principles also align with significant global initiatives that promote responsible business practices and apply to all Directors, employees and contractors.

We also have a range of internal guidelines, communications and training processes and tools, including an online learning module entitled *Doing the Right Thing*, which apply to and support our Code of Conduct and the Principles.

Key policies

In addition to our Code of Conduct and the Principles, we have a number of key policies to manage our compliance and human resource requirements. We also voluntarily subscribe to a range of external industry codes, such as the Code of Banking Practice and the ePayments Code.

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Code of Ethics for Senior Finance Officers

The Code of Accounting Practice and Financial Reporting (the Code) complements our Code of Conduct. The Code is designed to assist the CEO, CFO and other principal financial officers in applying the highest ethical standards to the performance of their duties and responsibilities with respect to accounting practice and financial reporting. The Code requires that those officers:

- § act honestly and ethically, particularly with respect to conflicts of interest;

- § provide full, fair, accurate and timely disclosure in reporting and other communications;

- § comply with applicable laws, rules and regulations;

- § promptly report violations of the Code; and

- § be accountable for adherence to the Code.

Conflicts of interest

Westpac Group has a detailed conflicts of interest framework, which includes a Group policy supported by more specific divisional policies and guidelines aimed at identifying and managing actual, potential or apparent conflicts of interest.

The conflicts of interest framework includes a separate Gifts and Hospitality Policy. This policy provides employees with guidance to manage their obligations relating to the giving or receiving of gifts or hospitality.

The Board

All Directors are required to disclose any actual, potential or apparent conflicts of interest upon appointment and are required to keep these disclosures to the Board up to date.

Any Director with a material personal interest in a matter being considered by the Board must declare their interest and, unless the Board resolves otherwise, may not be present during the boardroom discussions or vote on the relevant matter.

Our employees and contractors

We expect our employees and contractors to:

- § have in place adequate arrangements for the management of actual, potential or apparent conflicts of interest;
- § obtain consent from senior management before accepting a directorship on the board of a non-Westpac Group company;
- § disclose any material interests they have with our customers or suppliers to their manager and not be involved with customer relationships where they have such an interest;
- § not participate in business activities outside their employment with us (whether as a principal, partner, director, agent, guarantor, investor or employee) without approval or when it could adversely affect their ability to carry out their duties and responsibilities; and
- § not solicit, provide facilitation payments, accept or offer money, gifts, favours or entertainment which might influence, or might appear to influence, their business judgment.

Fit and Proper Person assessments

We have a Board approved Fit and Proper Policy that meets the requirements of the related APRA Prudential Standards. In accordance with that policy, we assess the fitness and propriety of our Directors and also of employees who perform specified statutory roles required by APRA Prudential Standards or ASIC guidelines. The Chairman of the Westpac Board (and in the case of the Westpac Chairman, the Westpac Board) is responsible for assessing the Westpac Board Directors, Non-executive Directors on subsidiary Boards, Group Executives, external auditors and actuaries. An executive Fit and Proper Committee is responsible under delegated authority of the Westpac Board for undertaking assessments of all other employees who hold statutory roles. In all cases the individual is asked to provide a detailed declaration, and background checks are undertaken. Assessments occur upon appointment to the relevant position and are re-assessed annually.

Concern reporting and whistleblower protection

Under our Whistleblower Protection Policy, our employees and contractors are encouraged to raise any concerns about activities or behaviour that may be unlawful or unethical. The Policy outlines all reporting channels, including our concern reporting system *Concern Online* which enables reporting on an anonymous basis. Concerns may include suspected breaches of the Code of Conduct, the Principles and any internal policy or regulatory requirement.

Employees who raise concerns may choose to involve the Whistleblower Protection Officer, who is responsible for protecting the employee against victimisation.

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We investigate reported concerns in a manner that is fair and objective to all people involved. If the investigation shows that wrongdoing has occurred, we are committed to changing our processes and taking action in relation to employees or contractors who have behaved incorrectly. Where illegal conduct has occurred, this may involve reporting the matter to relevant authorities.

Statistics about concerns raised are reported quarterly to both the Board Risk Management Committee and the Westpac Group Operational Risk & Compliance Committee.

Securities trading

Under the Westpac Group Securities Trading Policy, Directors, employees and contractors are restricted from dealing in any securities and other financial products if they possess inside information. They are also prohibited from passing on inside information to others who may use that information to trade in securities. In addition, Directors and any employee or contractor who, because of their seniority or the nature of their position, may have access to material non-public information about Westpac (Prescribed Employees) are subject to further restrictions, including prohibitions on trading prior to and immediately following annual and half year profit announcements.

CORPORATE GOVERNANCE

We manage and monitor our obligations through:

§ the insider trading provisions of our policy, which prohibit any dealing in any securities where a Director or employee has access to inside information that may affect the price of those securities;

§ placing limitations upon Directors, employees and contractors participating in a new product issue where their position puts them in an actual, potential or apparent position of conflict of interest;

§ restrictions limiting the periods in which the Directors and Prescribed Employees can trade in our shares or other company securities (Blackout Periods);

§ requiring Directors and Prescribed Employees¹ to notify their intention to trade outside Blackout Periods and confirm that they have no inside information;

§ monitoring the trading of Westpac securities by Directors and Prescribed Employees;

§ maintaining a register of Prescribed Employees, which is regularly updated;

§ notifying ASX of trades by Directors of Westpac securities as required under the ASX Listing Rules; and

§ forbidding employees from entering into hedging arrangements in relation to their unvested employee shares or securities, whether directly or indirectly.

DIVERSITY

Westpac Group has a Group Diversity Policy that sets out the diversity initiatives for the Westpac Group. In this context, diversity covers gender, age, ethnicity, accessibility, flexibility, cultural background, sexual orientation and religious beliefs.

The objectives of the policy are to ensure that the Westpac Group:

§ has a workforce profile that delivers competitive advantage through the ability to garner a deep understanding of customer needs;

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§ has a truly inclusive workplace where every individual can shine regardless of gender, cultural identity, age, work style or approach;

§ leverages the value of diversity for all our stakeholders to deliver the best customer experience, improved financial performance and a stronger corporate reputation; and

§ continues to take a leadership position on diversity practices and setting the agenda in the external community.

To achieve these objectives the Westpac Group:

§ has set Board determined, measurable objectives for achieving gender diversity. The Board assesses annually both the objectives and progress in achieving them;

§ assesses pay equity on an annual basis;

§ encourages and supports the application of flexibility policies into practice across the business;

1 Prescribed Employees are employees who, because of their seniority or the nature of their position, are likely to come in contact with key financial, operational and strategic information about Westpac that will, or is likely to have, a material effect on the price or value of Westpac securities.

§ is committed to proactively assisting Indigenous Australians to access employment across our brands; and

§ implements our Accessibility Action Plan for employees and customers with a disability, including ensuring employment opportunities are accessible for people with disabilities.

The implementation of these objectives is overseen by the Westpac Group Diversity Council chaired by the CEO.

The Board, or an appropriate Committee of the Board, will receive regular updates from the Westpac Group Diversity Council on these diversity initiatives.

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We will also continue to listen to the needs of our employees through our employee surveys and specific diversity focused surveys.

In October 2010, the Board set a measurable objective to increase the proportion of women in leadership roles (over 5,000 leaders from our Executive Team through to our bank managers) from 33% to 40% by 2014.

At 30 September 2013, the proportion of women employed by Westpac Group was as follows:

§ Board of Directors: 30%;

§ leadership2 roles: 42%; and

§ total Westpac workforce: 60%

SUSTAINABILITY

We view sustainable and responsible business practices as important for our business and to add shareholder value. This means conducting our business in a responsible, trustworthy and ethical manner, while accepting accountability for our impacts on society and the environment. We are committed to transparency and fair dealing, treating employees and customers responsibly, and having solid links with the community.

Reporting

We report on our performance against these objectives in the Annual Review and Sustainability Report, the Annual Report, and the full year and half year ASX results. We also provide additional detailed information on our website. Our management and our reporting of sustainability aim to address the issues that we believe are the most material for our business and stakeholders, now and in the future. We understand that this is an evolving agenda and seek to progressively embed the management of sustainability issues into business as usual practice, while also anticipating and shaping emerging social issues where we have the skills and experience to make a meaningful difference and drive business value.

2 Women in leadership refers to the proportion of women (permanent and maximum term) in people leadership roles or senior roles of influence as a proportion of all leaders across the Group. It includes the CEO, Executive Team, General Managers, Senior Managers as direct reports to General Managers and the next two levels of management.

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Our Sustainability Report is independently assured against the AA1000 Assurance Standard and follows the Global Reporting Initiative G3 Framework. The assurance process not only tests the integrity of the data, but also tests the effectiveness of our underlying systems and processes, and the extent to which corporate responsibility and sustainability policies and processes are embedded across our organisation. In addition, we actively participate in various independent external assessments by authoritative sustainability and governance rating organisations benchmarking us against the highest standards of governance.

FINANCIAL REPORTING

Approach to financial reporting

Our approach to financial reporting reflects three core principles:

- § that our financial reports present a true and fair view;
- § that our accounting methods comply with applicable accounting standards and policies; and
- § that our external auditor is independent and serves security holders' interests.

The Board, through the Board Audit Committee, monitors Australian and international developments relevant to these principles, and reviews our practices accordingly.

The Board delegates oversight responsibility for risk management between the Board Audit Committee and the Board Risk Management Committee.

Board Audit Committee

As detailed in its charter, the Board Audit Committee has oversight of:

- § the integrity of the financial statements and financial reporting systems;
- § the external auditor's qualifications, performance, independence and fees;

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§ performance of the internal audit function;

§ financial reporting and regulatory compliance with reference to the Board Risk Management Committee. This includes an oversight of regulatory and statutory reporting requirements; and

§ procedures for the receipt, retention and treatment of financial complaints, including accounting, internal controls or auditing matters, and the confidential reporting by employees of concerns regarding accounting or auditing matters.

The Board Audit Committee reviews, discusses with management and the external auditor, and assesses:

§ any significant estimates and judgments in financial reports, and monitors the methods used to account for unusual transactions;

§ the processes used to monitor and comply with laws, regulations and other requirements relating to external reporting of financial and non-financial information;

§ the major financial risk exposures; and

§ the process surrounding the disclosures made by the CEO and CFO in connection with their personal certifications of the annual financial statements.

As part of its oversight responsibilities, the Board Audit Committee also conducts discussions with a wide range of internal and external stakeholders including:

§ the Board Risk Management Committee, CFO, Chief Risk Officer (CRO), General Manager, Group Assurance, management and the external auditor, about our major financial risk exposures and the steps management has taken to monitor and control such exposures;

§ the General Manager, Group Assurance and external auditor concerning their audit and any significant findings, and the adequacy of management's responses;

§ management and the external auditor concerning the half year and annual financial statements;

§ management and the external auditor regarding any correspondence, with regulators or government agencies, and reports that raise issues of a material nature; and

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§ the Legal Counsel to the Board and the Group General Legal Counsel regarding any legal matters that may have a material impact on, or require disclosure in, the financial statements.

Periodically, the Board Audit Committee consults with the external auditor without the presence of management about internal controls over financial information, reporting and disclosure and the fullness and accuracy of Westpac's financial statements. The Board Audit Committee also meets with the General Manager, Group Assurance without management being present.

Financial knowledge

The Board Audit Committee comprises four independent, Non-executive Directors and is chaired by Robert Elstone.

All Board Audit Committee members have appropriate financial experience, an understanding of the financial services industry and satisfy the independence requirements under the ASXCGC Recommendations, the United States *Securities Exchange Act of 1934* (as amended) and its related rules, and the NYSE Listing Rules.

The Board has determined that Lindsay Maxsted, member of the Board Audit Committee, is an audit committee financial expert and independent in accordance with US securities law.

The designation of Lindsay Maxsted as an audit committee financial expert does not impose duties, obligations or liability on him that are greater than those imposed on him as a Board Audit Committee member, and does not affect the duties, obligations or liability of any other Board Audit Committee member or Board member. Audit committee financial experts are not deemed as an expert for any other purpose.

The Board Audit Committee's membership is set out in the table entitled "Size and membership of Board Committees as at 30 September 2013" in the Directors' report. The full qualifications of the Audit Committee members and their attendance at Board Audit Committee meetings are set out in Section 1 and Section 8 of the Directors' report.

CORPORATE GOVERNANCE

External auditor

The role of the external auditor is to provide an independent opinion that our financial reports are true and fair, and comply with applicable regulations.

Our external auditor is PricewaterhouseCoopers (PwC), appointed by shareholders at the 2002 AGM. Our present PwC lead audit partner is Michael Codling and the review audit partner is Matthew Lunn. Michael Codling and Matthew Lunn assumed responsibility for these roles in December 2011 and December 2012 respectively.

The external auditor receives all Board Audit Committee and Board Risk Management Committee papers, attends all meetings of both committees and is available to Committee members at any time. The external auditor also attends the AGM to answer questions from shareholders regarding the conduct of its audit, the audit report and financial statements and its independence.

As our external auditor, PwC is required to confirm its independence and compliance with specified independence standards on a quarterly basis.

The roles of lead audit partner and review audit partner must be rotated every five years and cannot be resumed by the same person for a minimum of five years.

We strictly govern our relationship with the external auditor, including restrictions on employment, business relationships, financial interests and use of our financial products by the external auditor.

Engagement of the external auditor

To avoid possible independence or conflict issues, the external auditor is not permitted to carry out certain types of non-audit services for Westpac and may be limited as to the extent to which it can perform other non-audit services as specified in our Pre-approval of engagement of PwC for audit and non-audit services (the Guidelines). Use of the external audit firm for any non-audit services must be assessed and approved in accordance with the pre-approval process determined by the Board Audit Committee and set out in the Guidelines.

The breakdown of the aggregate fees billed by the external auditor in respect of each of the two most recent financial years for audit, audit-related, tax and other services is provided in Note 33 to our financial statements for the year ended 30 September 2013. A declaration regarding the Board's satisfaction that the provision of non-audit services by PwC is compatible with the general standards of auditor independence is provided in Section 10 of the Directors' report.

Group Assurance (internal audit)

Group Assurance is Westpac's internal audit function providing the Board and Executive Management with an independent and objective evaluation of the adequacy and effectiveness of management's control over risk. Group Assurance covers the governance, risk management and internal control frameworks of Westpac and its wholly owned subsidiaries. It has access to all of our entities, and conducts audits and reviews following a risk-based planning approach, the outline for which has been approved by the Board Audit Committee.

Group Assurance provides regular reports to the Board Audit Committee and, as deemed appropriate, the Board Risk Management Committee, and raises any significant issues with those Committees. The General Manager Group Assurance operates under a Group Assurance charter approved by the Board Audit Committee and has a direct reporting line to the Chairman of that Committee.

MARKET DISCLOSURE

We maintain a level of disclosure that seeks to provide all investors with equal, timely, balanced and meaningful information. Consistent with these standards the Westpac Group maintains a Board approved Market Disclosure Policy, which governs how we communicate with our shareholders and the investment community.

The policy reflects the requirements of the ASX, NZX and other offshore stock exchanges where we have disclosure obligations, as well as relevant securities and corporations legislation. Under our policy, information that a reasonable person would expect to have a material effect on the price or value of our securities must first be disclosed via the ASX unless an exception applies under regulatory requirements.

Our Disclosure Committee is responsible for determining what information should be disclosed publicly under the policy, and for assisting employees in understanding what information may require disclosure to the market on the basis that it is price sensitive. The Disclosure Committee is comprised of the CEO, the Executive Team, the Group General Counsel and the General Manager, Corporate Affairs and Sustainability.

The Chief Operating Officer is the Disclosure Officer. The Disclosure Officer is ultimately responsible for all communication with relevant stock exchanges and notifying regulators in any jurisdiction as a result of market disclosure.

Once relevant information is disclosed to the market and available to investors, it is also published on our website. This includes investor discussion packs, presentations on and explanations about our financial results. Our website information also includes Annual Review and Sustainability Reports, Annual Reports, profit announcements, CEO and executive briefings (including webcasts, recordings or transcripts of all major events), notices of meetings and key media releases.



SHAREHOLDER COMMUNICATION AND PARTICIPATION

We seek to keep our shareholders fully informed through a variety of communication mediums. These are regularly reviewed to improve our communications and utilise new technologies. These approaches include:

- § direct communications with shareholders via mail and email;
- § the publication of all relevant company information in the Investor Centre section of our website; and
- § access to all major market briefings and shareholder meetings via webcasts.

Shareholders are provided with advance notice of all major market briefings and shareholder meetings, through ASX announcements and/or the publication of an investor calendar of events on our website.

Shareholders are given the option to receive information in print or electronic format.

We regard the AGM as an important opportunity for engaging and communicating with shareholders. Shareholders are encouraged to attend and actively participate in our AGM, which is webcast and can also be viewed at a later time from our website. Shareholders who are unable to attend the AGM are able to lodge their proxies through a number of channels, including via the internet. At the time of receiving the Notice of Meeting, shareholders are also invited to put forward questions they would like addressed at the AGM.

CEO and CFO assurance

The Board receives regular reports from management about our financial condition and operational results, as well as that of our controlled entities. The CEO and the CFO annually provide formal statements to the Board, and have done so for the financial year ended 30 September 2013, that state that in all material respects:

- § Westpac's financial records for the financial year have been properly maintained in that they:

correctly record and explain its transactions, and financial position and performance;

enable true and fair financial statements to be prepared and audited; and

are retained for seven years after the transactions covered by the records are completed;

§ the financial statements and notes required by the accounting standards for the financial year comply with the accounting standards;

§ the financial statements and notes for the financial year give a true and fair view of Westpac's and its consolidated entities' financial position and of their performance;

§ any other matters that are prescribed by the Corporations Act and regulations as they relate to the financial statements and notes for the financial year are satisfied; and

§ the declarations provided in accordance with section 295A of the Corporations Act are founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting risks.

RISK MANAGEMENT

Roles and responsibilities

The Board is responsible for reviewing and approving our overall risk management strategy, including determining our appetite for risk. The Board has delegated to the Board Risk Management Committee responsibility for providing recommendations to the Board on Westpac Group's risk-reward strategy, setting risk appetite, approving frameworks, policies and processes for managing risk, and determining whether to accept risks beyond management's approval discretion.

The Board Risk Management Committee monitors the alignment of our risk profile with our risk appetite, which is defined in the Board Statement of Risk Appetite, and with our current and future capital requirements. The Board Risk Management Committee receives regular reports from management on the effectiveness of our management of Westpac's material business risks. More detail about the role of the Board Risk Management Committee is set out later in this section under [Board Risk Management Committee](#).

The CEO and Executive Team are responsible for implementing our risk management strategy and frameworks, and for developing policies, controls, processes and procedures for identifying and managing risk in all of Westpac's activities.

Our approach to risk management is that risk is everyone's business and that responsibility and accountability for risk begins with the business units that originate the risk.

The 1st Line of Defence Risk identification, risk management and self-assurance

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Divisional business units are responsible for identifying, evaluating and managing the risks that they originate within approved risk appetite and policies. They are required to establish and maintain appropriate risk management controls, resources and self-assurance processes.

The 2nd Line of Defence Establishment of risk management frameworks and policies and risk management oversight

Our 2nd Line of Defence is a separate risk advisory, control and monitoring function which establishes frameworks, policies, limits and processes for the management, monitoring and reporting of risk. It also evaluates and opines on the adequacy and effectiveness of 1st Line controls and application of frameworks and policies and, where necessary, requires improvement and monitors the 1st Line's progress toward remediation of identified deficiencies.

CORPORATE GOVERNANCE

Our 2nd Line of Defence has three layers:

§ Our executive risk committees lead the optimisation of risk-reward by overseeing the development of risk appetite statements, risk management frameworks, policies and risk concentration controls, and monitoring Westpac's risk profile for alignment with approved appetites and strategies;

§ Our Group Risk function is independent from the business divisions, reports to the Chief Risk Officer (CRO), and establishes and maintains the Group-wide risk management frameworks, policies and concentration limits that are approved by the Board Risk Management Committee. It also reports on Westpac's risk profile to executive risk committees and the Board Risk Management Committee; and

§ Divisional risk areas are responsible for developing division-specific risk appetite statements, policies, controls, procedures, monitoring and reporting capability, which align to the Board's Statement of Risk Appetite and the risk management frameworks approved by the Board Risk Management Committee. These risk areas are independent of the Divisions' 1st Line business areas, with each divisional CRO having a direct reporting line to the CRO, as well as to their Division's Group Executive.

The 3rd Line of Defence – Independent assurance

Our Group Assurance function independently evaluates the adequacy and effectiveness of the Group's overall risk management framework and controls.

Our overall risk management approach is summarised in the following diagram:

Our overall risk management governance structure is set out in more detail in the table *Risk Management Governance Structure* included in this statement.

Risk management approach

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We regard managing the risks that affect our business as a fundamental activity, as they influence our performance, reputation and future success. Effective risk management involves taking an integrated and balanced approach to risk and reward, and enables us to both increase financial growth opportunities and mitigate potential loss or damage. Mitigation and optimisation strategies are of equal importance and need to be effectively aligned and integrated.

We distinguish five main types of risk:

§ **credit risk** the risk of financial loss where a customer or counterparty fails to meet their financial obligations to Westpac;

§ **liquidity risk** the risk that the Group will be unable to fund assets and meet obligations as they become due;

§ **market risk** the risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices. This includes interest rate risk in the banking book the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities;

§ **operational risk** operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition is aligned to the regulatory (Basel II) definition, including legal and regulatory risk but excluding strategic and reputation risk; and

§ **compliance risk** the risk of legal or regulatory sanction, financial or reputation loss, arising from our failure to abide by the compliance obligations required of us as a financial services group.

In addition to, and linked to, these five main types of risk, we also manage the following risks:

§ **business risk** the risk associated with the vulnerability of a line of business to changes in the business environment;

§ **environmental, social and governance risks** the risk that the Group damages its reputation or financial performance due to failure to recognise or address material existing or emerging sustainability related environmental, social or governance issues;

§ **equity risk** the potential for financial loss arising from movements in equity values. Equity risk may be direct, indirect or contingent;

§ **insurance risk** the risk of mis-estimation of the expected cost of insured events, volatility in the number or severity of insured events, and mis-estimation of the cost of incurred claims;

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§ **related entity (contagion) risk** the risk that problems arising in other Westpac Group members compromise the financial and operational position of the authorised deposit-taking institutions in the Westpac Group; and

§ **reputation risk** the risk to earnings or capital arising from negative public opinion resulting from the loss of reputation or public trust and standing.

Westpac has received advanced accreditation from APRA and the RBNZ under the Basel II capital framework, and uses the Advanced Internal Ratings Based (AIRB) approach for credit risk and the Advanced Measurement Approach (AMA) for operational risk when calculating regulatory capital.



Board Risk Management Committee

The Board Risk Management Committee comprises all of Westpac's independent, Non-executive Directors and is chaired by Elizabeth Bryan.

As set out in its charter, the Board Risk Management Committee:

- § provides recommendations to the Board on Westpac Group's risk-reward strategy;
- § sets risk appetite;
- § reviews and approves the frameworks for managing risk, including capital, credit, liquidity, market, operational, compliance and reputation risk;
- § reviews and approves the limits and conditions that apply to credit risk approval authority delegated to the CEO, CFO and CRO and any other officers of the Westpac Group to whom the Board has delegated credit approval authority;
- § monitors the risk profile, performance, capital levels, exposures against limits and the management and control of our risks;
- § monitors changes anticipated in the economic and business environment and other factors considered relevant to our risk profile and risk appetite;
- § oversees the development and ongoing review of key policies that support our frameworks for managing risk; and
- § may approve accepting risks beyond management's approval discretion.

From the perspective of specific types of risk, the Board Risk Management Committee role includes:

- § **credit risk** approving key policies and limits supporting the Credit Risk Management Framework, and monitoring the risk profile, performance and management of our credit portfolio;

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§ **liquidity risk** approving the internal liquidity assessment process, key policies and limits supporting the Liquidity Risk Management Framework, including our funding strategy and liquidity requirements, and monitoring the liquidity risk profile;

§ **market risk** approving key policies and limits supporting the Market Risk Management Framework, including, but not limited to, the Value at Risk and Net Interest Income at Risk limits, and monitoring the market risk profile;

§ **operational risk** monitoring the operational risk profile, the performance of operational risk management and controls, and the development and ongoing review of operational risk policies; and

§ **compliance risk** reviewing compliance risk processes and our compliance with applicable laws, regulations and regulatory requirements, discussing with management and the external auditor any material correspondence with regulators or government agencies and any published reports that raise material issues, and reviewing complaints and whistleblower concerns.

The Board Risk Management Committee also:

§ approves the internal capital adequacy assessment process and in doing so reviews the outcomes of enterprise wide stress testing, sets the preferred capital ranges for regulatory capital having regard to Westpac internal economic capital measures, and reviews and monitors capital levels for consistency with the Westpac Group's risk appetite;

§ provides relevant periodic assurances to the Board Audit Committee regarding the operational integrity of the Risk Management Framework; and

§ refers to other Board Committees any matters that come to the attention of the Board Risk Management Committee that are relevant for those respective Board Committees.

The Board Risk Management Committee's membership is set out in the table titled "Size and membership of Board Committees as at 30 September 2013" in the Directors' report. The full qualifications of Board Risk Management Committee members and their attendance at Board Risk Management Committee meetings are set out in Section 1 and Section 8 of the Directors' report.

Compliance Management Framework

Westpac's Compliance Management Framework sets out our approach to managing compliance and mitigating compliance risk, in order to achieve our compliance objectives. To proactively manage our compliance risks, we must:

§ comply with both the letter and spirit of the law while being attentive to the needs of our clients;

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§ embed the requirements of our regulators into how we do business, how we conduct ourselves and how our systems and processes are designed and operate;

§ maintain a compliance culture where everyone in every part of the Westpac Group has responsibility for compliance.

The mechanisms we use to implement our approach include:

§ maintaining a strong governance environment;

§ identifying obligations, developing and maintaining Compliance Plans and implementing change;

§ developing, implementing and testing compliance controls; and

§ monitoring and reporting incidents, issues and risks.

As with other forms of risk, business line management is primarily responsible for managing compliance. This is supported by a dedicated Compliance function covering the Group and each area of the business. The Compliance function reports to the Chief Compliance Officer.

Regular reports are provided to the Operational Risk & Compliance Committee and the Board Risk Management Committee on the status of compliance across the Group.

CORPORATE GOVERNANCE

REMUNERATION

The Board Remuneration Committee assists the Board by ensuring that Westpac has coherent remuneration policies and practices that fairly and responsibly reward individuals having regard to performance, Westpac's risk management framework, the law and the highest standards of governance.

The Board Remuneration Committee has been in place for the whole of the financial year and is comprised of four independent Non-executive Directors and is chaired by John Curtis. All members of the Board Remuneration Committee are also members of the Board Risk Management Committee, which assists in the integration of effective risk management into the remuneration framework.

As set out in its charter, the Board Remuneration Committee:

§ reviews and makes recommendations to the Board in relation to the Westpac Group Remuneration Policy (Group Remuneration Policy) and assesses the Group Remuneration Policy's effectiveness and its compliance with prudential standards;

§ reviews and makes recommendations to the Board in relation to the individual remuneration levels of the CEO, Non-executive Directors, Group Executives, other Executives who report directly to the CEO, other persons whose activities in the Board's opinion affect the financial soundness of Westpac, any person specified by APRA, and any other person the Board determines;

§ reviews and makes recommendations to the Board in relation to the remuneration structures for each category of persons covered by the Group Remuneration Policy;

§ reviews and makes recommendations to the Board on corporate goals and objectives relevant to the remuneration of the CEO, and the performance of the CEO in light of these objectives;

§ reviews and makes recommendations to the Board on the short-term and long-term incentive plans for Group Executives;

§ reviews and makes recommendations to the Board in relation to approving equity based remuneration plans; and

§ oversees general remuneration practices across the Group.

The Board Remuneration Committee reviews and recommends to the Board the size of variable reward pools each year based on consideration of pre-determined business performance indicators and the financial soundness of Westpac. The Board Remuneration Committee also approves remuneration arrangements outside of the Group Remuneration Policy relating to individuals or groups of individuals which are significant because of their sensitivity, precedent or disclosure implications. In addition, the Board Remuneration Committee considers and evaluates the performance of senior executives when making remuneration determinations and otherwise as required.

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Independent remuneration consultants are engaged by the Board Remuneration Committee to provide information across a range of issues including remuneration benchmarking, market practices and emerging trends and regulatory reforms.

The Board Remuneration Committee's membership is set out in the table titled "Size and membership of Board Committees as at 30 September 2013" in the Directors' report. The full qualifications of Board Remuneration Committee members and their attendance at Board Remuneration Committee meetings are set out in Section 1 and Section 8 of the Directors' report.

Further details of our remuneration framework are included in the Remuneration report which is in Section 9 of the Directors' report. The Board Remuneration Committee reviews and recommends the report for approval.

Risk Management Governance Structure

Westpac's risk management governance structure is set out in the table below:

Board
§ reviews and approves our overall risk management strategy.
Board Risk Management Committee (BRMC)
§ provides recommendations to the Board on the Westpac Group's risk-reward strategy;
§ sets risk appetite;
§ approves frameworks and key policies for managing risk;
§ monitors our risk profile, performance, capital levels, exposures against limits and management and control of our risks;
§ monitors changes anticipated in the economic and business environment and other factors relevant to our risk profile;
§ oversees the development and ongoing review of key policies that support our frameworks for managing risk; and
§ determines whether to accept risks beyond the approval discretion provided to management.
Other Board Committees with a risk focus
Board Audit Committee
§ oversees the integrity of financial statements and financial reporting systems.
Board Remuneration Committee
§ reviews any matters raised by the BRMC with respect to risk-adjusted remuneration.
Board Technology Committee
§ oversees information technology strategy and implementation.
Executive Team
§ executes the Board-approved strategy;
§ assists with the development of the Board Statement of Risk Appetite;
§ delivers the Group's various strategic and performance goals within the approved risk appetite; and

§ monitors key risks within each business unit, capital adequacy and the Group's reputation.

Executive risk committees

Westpac Group Credit Risk Committee (CREDCO)

- § leads the optimisation of credit risk-reward across the Group;
- § oversees the Credit Risk Management Framework and key policies;
- § oversees our credit risk profile; and
- § identifies emerging credit risks and appropriate actions to address these.

Westpac Group Market Risk Committee (MARCO)

- § leads the optimisation of market risk-reward across the Group;
- § oversees the Market Risk Management Framework and key policies;
- § oversees our market risk profile; and
- § identifies emerging market risks and appropriate actions to address these.

Westpac Group Asset & Liability Committee (ALCO)

- § leads the optimisation of funding and liquidity risk-reward across the Group;
- § reviews the level and quality of capital to ensure that it is commensurate with the Group's risk profile, business strategy and risk appetite;
- § oversees the Liquidity Risk Management Framework and key policies;
- § oversees the funding and liquidity risk profile and balance sheet risk profile; and
- § identifies emerging funding and liquidity risks and appropriate actions to address these.

CORPORATE GOVERNANCE

Risk Management Governance Structure (continued)

Executive risk committees (continued)

Westpac Group Operational Risk & Compliance Committee (OPCO)

§ leads the optimisation of operational risk-reward across the Group;

§ oversees the operational risk management framework, the compliance management framework and key supporting policies;

§ oversees our operational risk and compliance profiles;

§ oversees the reputation risk and environmental, social and governance (ESG) risk management frameworks and key supporting policies;
and

§ identifies emerging operational and compliance risks and appropriate actions to address these.

Westpac Group Remuneration Oversight Committee (ROC)

§ provides assurance that the remuneration arrangements across the Group have been examined from a People, Risk and Finance perspective;

§ responsible for ensuring that risk is embedded in all key steps in our remuneration framework;

§ reviews and makes recommendations to the CEO for recommendation to the Board Remuneration Committee on the Group Remuneration Policy and provides assurance that remuneration arrangements across the Group encourage behaviour that supports Westpac's long-term financial soundness and the risk management framework;

§ reviews and monitors the remuneration arrangements (other than for Group Executives) for Responsible Persons (as defined in the Group's Statutory Officers Fit and Proper Policy), risk and financial control personnel, and all other employees for whom a significant portion of total remuneration is based on performance and whose activities, either individually or collectively, may affect the financial soundness of Westpac;
and

§ reviews and recommends to the CEO for recommendation to the Board Remuneration Committee the criteria and rationale for determining the total quantum of the Group variable reward pool.

Group and divisional risk management

Group Risk

§ develops the Group-level risk management frameworks for approval by the BRMC;

§ directs the review and development of key policies supporting the risk management frameworks;

§ establishes risk concentration limits and monitors risk concentrations; and

§ monitors emerging risk issues.

Compliance Function

§ develops the Group-level compliance framework for approval by the BRMC;

§ directs the review and development of compliance policies, compliance plans, controls and procedures;

§ monitors compliance and regulatory obligations and emerging regulatory developments; and

§ reports on compliance standards.

Divisional risk management

§ develops division-specific policies, risk appetite statements, controls, procedures, and monitoring and reporting capability that align to the frameworks approved by the BRMC.

Independent internal review

Group Assurance

§ reviews the adequacy and effectiveness of management controls for risk.

Divisional business units

Business Units

§ responsible for identifying, evaluating and managing the risks that they originate within approved risk appetite policies; and

§ establish and maintain appropriate risk management controls, resources and self-assurance processes.

Checklist of Westpac's compliance with ASXCGC Recommendations

ASXCGC Recommendations (with 2010 Amendments)		Reference	Compliance
Principle 1:	Lay solid foundations for management and oversight		
1.1	Establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Page 25	Comply
1.2	Disclose the process for evaluating the performance of senior executives.	Page 28	Comply
1.3	Provide the information indicated in <i>Guide to reporting on Principle 1</i> .	Pages 25, 28	Comply
Principle 2:	Structure the Board to add value		
2.1	A majority of the Board should be independent Directors.	Pages 25 26	Comply
2.2	The chair should be an independent Director.	Page 27	Comply
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Page 27	Comply
2.4	The Board should establish a nomination committee.	Page 27	Comply
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual Directors.	Page 28	Comply
2.6	Provide the information indicated in <i>Guide to reporting on Principle 2</i> .	Pages 25 28	Comply
Principle 3:	Promote ethical and responsible decision-making		
3.1	Establish a code of conduct and disclose the code or a summary of the code as to:	Page 29	Comply
	3.1.1 the practices necessary to maintain confidence in the company's integrity		
	3.1.2 the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders		
	3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.		
3.2	Establish a policy concerning diversity and disclose the policy or a summary of that policy.	Page 31	Comply
3.3	Disclose the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	Page 31	Comply
3.4	Disclose the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Page 31	Comply
3.5	Provide the information indicated in <i>Guide to reporting on Principle 3</i> .	Pages 29, 31	Comply
Principle 4:	Safeguard integrity in financial reporting		
4.1	The Board should establish an audit committee.	Page 32	Comply
4.2	Structure the audit committee so that it:	Pages 26, 32	Comply
	§ consists only of Non-executive Directors;		
	§ consists of a majority of independent Directors;		
	§ is chaired by an independent chair, who is not chair of the Board; and		
	§ has at least three members.		

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4.3	The audit committee should have a formal charter.	Page 32	Comply
4.4	Provide the information indicated in <i>Guide to reporting on Principle 4</i> .	Pages 26, 32 33	Comply

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CORPORATE GOVERNANCE

ASXCGC Recommendations (with 2010 Amendments)		Reference	Compliance
Principle 5:	Make timely and balanced disclosure		
5.1	Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Page 33	Comply
5.2	Provide the information indicated in <i>Guide to reporting on Principle 5</i> .	Page 33	Comply
Principle 6:	Respect the rights of shareholders		
6.1	Share a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy.	Page 34	Comply
6.2	Provide the information indicated in <i>Guide to reporting on Principle 6</i> .	Page 34	Comply
Principle 7:	Recognise and manage risk		
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Pages 34 39	Comply
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Pages 34 39	Comply
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Page 34	Comply
7.4	Provide the information indicated in <i>Guide to reporting on Principle 7</i> .	Pages 34 39	Comply
Principle 8:	Remunerate fairly and responsibly		
8.1	Establish a remuneration committee.	Page 37	Comply
8.2	The remuneration committee should be structured so that it:	Page 26	Comply
	§ consists of a majority of independent Directors;		
	§ is chaired by an independent chair; and		
	§ has at least three members.		
8.3	Clearly distinguish the structure of Non-executive Directors' remuneration from that of executive Directors and senior executives.	Page 37	Comply
8.4	Provide the information indicated in <i>Guide to reporting on Principle 8</i> .	Pages 31, 37	Comply

DIRECTORS REPORT

Our Directors present their report together with the financial statements of the Group for the financial year ended 30 September 2013.

1. DIRECTORS

The names of the persons who have been Directors, or appointed as Directors, during the period since 1 October 2012 and up to the date of this report are: Lindsay Philip Maxsted, Gail Patricia Kelly, John Simon Curtis, Elizabeth Blomfield Bryan, Gordon McKellar Cairns, Ewen Graham Wolseley Crouch (Director from 1 February 2013), Robert George Elstone, Peter John Oswin Hawkins, Peter Ralph Marriott (Director from 1 June 2013), Ann Darlene Pickard and Peter David Wilson (retired as Director on 13 December 2012).

Particulars of the skills, experience, expertise and responsibilities of the Directors at the date of this report, including all directorships of other listed companies held by a Director at any time in the past three years immediately before 30 September 2013 and the period for which each directorship has been held, are set out below.

	<p>Name: Lindsay Maxsted, DipBus (Gordon), FCA, FAICD</p> <p>Age: 59</p> <p>Term of office: Director since March 2008 and Chairman since December 2011.</p> <p>Date of next scheduled re-election: December 2014.</p> <p>Independent: Yes.</p> <p>Current directorships of listed entities and dates of office: Director of Transurban Group (since March 2008, and Chairman since August 2010). Director of BHP Billiton Limited (since March 2011) and BHP Billiton plc (since March 2011).</p>	<p>Other principal directorships: Managing Director of Align Capital Pty Ltd and Director of Baker IDI Heart and Diabetes Institute Holdings Limited.</p> <p>Other interests: Nil.</p> <p>Other Westpac related entities directorships and period of office: Nil.</p> <p>Skills, experience and expertise: Lindsay was formerly a partner at KPMG and was the CEO of that firm from 1 January 2001 to 31 December 2007. His principal area of practice prior to his becoming CEO was in the corporate recovery field managing a number of Australia's largest insolvency / workout / turnaround engagements including</p>	<p>Linter Textiles (companies associated with Abraham Goldberg), Bell Publishing Group, Bond Brewing, McEwans Hardware and Brashes. He is also a former Director and Chairman of the Victorian Public Transport Corporation. Lindsay is a member of the Advisory Board of Coolmore Australia and a Fellow of the Australian Institute of Company Directors.</p> <p>Westpac Board Committee membership: Chairman of the Board Nominations Committee. Member of each of the Board Audit and Board Risk Management Committees.</p> <p>Directorships of other listed entities over the past three years and dates of office: Nil.</p>

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	<p>Name: Gail Kelly, HigherDipEd, BA, MBA with Distinction, HonDBus</p> <p>Age: 57</p> <p>Term of office: Managing Director & Chief Executive Officer since February 2008.</p> <p>Date of next scheduled re-election: Not applicable.</p> <p>Independent: No.</p> <p>Current directorships of listed entities and dates of office: Nil.</p> <p>Other principal directorships: The Business Council of Australia and the Financial Markets Foundation for Children.</p>	<p>Other interests: Director of the Australian Bankers Association. Member of the Global Board of Advisers at the US Council on Foreign Relations and is a member of the Sydney Cricket and Sports Ground Trust.</p> <p>Other Westpac related entities directorships and dates of office: Nil.</p> <p>Skills, experience and expertise: Gail began her banking career in 1980 in South Africa, and by 2001 Gail had held various senior management roles in a broad range of areas including retail and commercial banking, strategy, marketing and human</p>	<p>resources. Gail has spent over eleven years as CEO of two Australian banks, St. George Bank from 2002 to 2007 and Westpac from 1 February 2008 to date. Gail is CARE Australia's Ambassador for Women's Empowerment.</p> <p>Westpac Board Committee membership: Member of the Board Technology Committee.</p> <p>Directorships of other listed entities over the past three years and dates of office: Nil.</p>
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DIRECTORS REPORT

	<p>Name: John Curtis AM, BA, LLB (Hons.)</p> <p>Age: 63</p> <p>Term of office: Director and Deputy Chairman since December 2008.</p> <p>Date of next scheduled re-election: December 2014.</p> <p>Independent: Yes.</p> <p>Current directorships of listed entities and dates of office: Nil.</p> <p>Other principal directorships: Chairman of Allianz Australia Limited.</p> <p>Other interests: Nil.</p> <p>Other Westpac related entities directorships: Nil.</p>	<p>Skills, experience and expertise:</p> <p>For the past 25 years John has been a professional company director and has been chairman and director of a wide variety of public companies, government entities and foreign corporations. In more recent times he has been largely involved in the financial services sector with his current appointments and former appointments with Merrill Lynch, Perpetual Limited and First Data Corporation in Australia. Prior to 1987, John was a Director of Wormald International Limited and was responsible for its operations in</p>	<p>Australia, Europe, Asia and the Americas. During part of that time he was Chairman of the National Building and Construction Council, the peak industry body.</p> <p>Westpac Board Committee membership: Chairman of the Board Remuneration Committee. Member of each of the Board Nominations and Board Risk Management Committees.</p> <p>Directorships of other listed entities over the past three years and dates of office:</p> <p>Nil.</p>
	<p>Name: Elizabeth Bryan AM, BA (Econ.), MA (Econ.)</p> <p>Age: 67</p> <p>Term of office: Director since November 2006.</p> <p>Date of next scheduled re-election: December 2013.</p> <p>Independent: Yes.</p> <p>Current directorships of listed entities and dates of office: Director of Caltex Australia Limited (since July 2002, and Chairman since October 2007).</p>	<p>Other principal directorships: Nil.</p> <p>Other interests: Member of the Takeovers Panel.</p> <p>Other Westpac related entities directorships and dates of office: Nil.</p> <p>Skills, experience and expertise: Elizabeth has over 32 years experience in the financial services industry, government policy and administration, and on the boards of companies and statutory organisations. Prior to becoming a professional director</p>	<p>she served for six years as Managing Director of Deutsche Asset Management and its predecessor organisation, NSW State Superannuation Investment and Management Corporation.</p> <p>Westpac Board Committee membership: Chairman of the Board Risk Management Committee. Member of each of the Board Nominations, Board Remuneration and Board Technology Committees.</p> <p>Directorships of other listed entities over the past three years and dates of office: Nil.</p>

	<p>Name: Gordon Cairns, MA (Hons.)</p> <p>Age: 63</p> <p>Term of office: Director since July 2004.</p> <p>Date of next scheduled re-election: Not applicable. Gordon Cairns will retire following the 2013 AGM.</p> <p>Independent: Yes.</p> <p>Current directorships of listed entities and dates of office: Director of Origin Energy Limited (since June 2007, and Chairman since October 2013).</p> <p>Other principal directorships: World Education Australia Limited. Chairman of Origin Foundation Pty Limited and Quick Service Restaurant Group Pty Limited.</p>	<p>Other interests: Senior Advisor to each of McKinsey & Company and Greenhill Australia (formerly Greenhill Caliburn).</p> <p>Other Westpac related entities directorships and dates of office: Nil.</p> <p>Skills, experience and expertise: Gordon has extensive Australian and international experience as a senior executive, most recently as CEO of Lion Nathan Limited. Gordon has also held a wide range of senior management positions in marketing and finance with PepsiCo, Cadbury Schweppes and Nestlé (Spillers).</p>	<p>Westpac Board Committee membership: Member of each of the Board Remuneration and Board Risk Management Committees.</p> <p>Directorships of other listed entities over the past three years and dates of office: Nil.</p>
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	<p>Name: Ewen Crouch AM, BEd (Hons.), LLB, FAICD</p> <p>Age: 57</p> <p>Term of office: Director since February 2013.</p> <p>Date of next scheduled re-election: December 2013.</p> <p>Independent: Yes.</p> <p>Current directorships of listed entities and dates of office: Director of Bluescope Steel Limited (since March 2013).</p> <p>Other principal directorships: Sydney Symphony Limited. Chairman of Mission Australia.</p> <p>Other interests: Member of the Takeovers Panel and the AICD's Law Committee and Curriculum Portfolio Committee. Member of the Corporations Committee of the Law Council of Australia.</p>	<p>Other Westpac related entities directorships and dates of office: Nil.</p> <p>Skills, experience and expertise: Ewen is one of Australia's most accomplished mergers and acquisitions (M&A) lawyers, having worked on some of Australia's most significant M&A transactions throughout his extensive legal career. Ewen was a partner of Allens, one of Australia's leading law firms, from 1 July 1988 until 31 January 2013. He served as a member of the firm's board for 11 years. He held the position of Deputy Managing Partner from 1993 to 1996, and Executive Partner, International Offices, responsible for the China and South-East Asia practices of the firm between 1999 to 2004. From 2004 to 2010 he was Co-Head,</p>	<p>Mergers & Acquisitions and Equity Capital Markets. From 1 January 2009 to 31 December 2012, he was Chairman of Partners. Ewen is a Fellow of the Australian Institute of Company Directors. He is admitted to practice law in New South Wales, Victoria, the Australian Capital Territory and Western Australia.</p> <p>Westpac Board Committee membership: Member of each of the Board Remuneration and Board Risk Management Committees.</p> <p>Directorships of other listed entities over the past three years and dates of office: Nil.</p>
	<p>Name: Robert Elstone, BA (Hons.), MA (Econ.), MCom</p> <p>Age: 60</p> <p>Term of office: Director since February 2012.</p> <p>Date of next scheduled re-election: December 2015.</p> <p>Independent: Yes.</p> <p>Current directorships of listed entities and dates of office: Nil.</p> <p>Other principal directorships: University of Western Australia Business School.</p> <p>Other interests: Adjunct Professor in the Schools of Business at the Universities of Sydney and Western Australia.</p> <p>Other Westpac related entities directorships and dates of office: Nil.</p>	<p>Skills, experience and expertise: Robert has over 30 years experience in senior management roles spanning investment banking, corporate finance, wholesale financial markets and risk management. From 2006 to 2011, Robert was Managing Director and CEO of the Australian Securities Exchange. Previously, he was Managing Director and CEO of the Sydney Futures Exchange from 2000 to 2006 and, from 1995 to 2000 he was Finance Director of Pioneer International. Robert was a Non-executive Director of the National Australia Bank from 2004 to 2006, an inaugural member of the Board of Guardians of the Future Fund in 2006, and, during the years 2007 to 2009, he was Chairman</p>	<p>of the Financial Sector Advisory Council to the Federal Treasurer. Robert is an Adjunct Professor at the Business Schools of the Universities of Sydney and Western Australia. Robert was appointed to the University of Western Australia Business School Board at the start of 2013.</p> <p>Westpac Board Committee membership: Chairman of the Board Audit Committee. Member of each of the Board Technology, Board Nominations and Board Risk Management Committees.</p> <p>Directorships of other listed entities over the past three years and dates of office: ASX Limited (July 2006 to October 2011).</p>

DIRECTORS REPORT

Name: Peter Hawkins,
BCA (Hons.), SF Fin, FAIM,
ACA (NZ), FAICD

Age: 59

Term of office: Director
since December 2008.

**Date of next scheduled
re-election:**
December 2013.

Independent: Yes.

**Current directorships of
listed entities and dates of
office:** Mirvac Group (since
January 2006).

**Other principal
directorships:** Liberty
Financial Pty Ltd, Treasury
Corporation of Victoria,
Murray Goulburn
Co-operative Co. Limited
and Clayton Utz.

Name: Peter Marriott,
BEc (Hons.), FCA

Age: 56

Term of office: Director
since June 2013.

**Date of next scheduled
re-election:**
December 2013.

Independent: Yes.

**Current directorships of
listed entities and dates of
office:**
ASX Limited (since
July 2009).

**Other principal
directorships:** ASX
Clearing Corporation Limited
and ASX Settlement
Corporation Limited.
Chairman of Austraclear
Limited.

Other interests: Nil.

**Other Westpac related
entities directorships and
dates of office:** Member of
the Bank of Melbourne
Advisory Board since
November 2010.

**Skills, experience and
expertise:** Peter's career
in the banking and financial
services industry spans over
41 years in Australia and
overseas at both the highest
levels of management and
directorship of major
organisations. Peter has
held various senior
management and
directorship positions with
Australia and New Zealand
Banking Group Limited from
1971 to 2005. He was also a

**Other Westpac related
entities directorships and
dates of office:** Nil.

**Skills, experience and
expertise:** Peter has over
30 years experience in
senior management roles in
the finance industry
encompassing international
banking, finance and
auditing. Peter joined
Australia and New Zealand
Banking Group Limited
(ANZ) in 1993 and held the
role of Chief Financial
Officer from 1997 to
May 2012. Prior to his
career at ANZ, Peter was a
banking and finance and
audit and consulting partner
at KPMG Peat Marwick.
Peter has been a
Non-executive Director of
ASX Limited (and

Director of BHP (NZ) Steel
Limited from 1990 to
1991, ING Australia Limited
from 2002 to 2005, Esanda
Finance Corporation from
2002 to 2005 and Visa Inc.
from 2008 to 2011.

**Westpac Board
Committee membership:**
Chairman of the Board
Technology Committee.
Member of each of the
Board Audit, Board
Nominations and Board
Risk Management
Committees.

**Directorships of other
listed entities over the
past three years and dates
of office:** Nil.

Chairman of its Board
Audit & Risk Committee)
since 1 July 2009. This
appointment has involved
Peter acting as a Director
on the ASX Group Clearing
and Settlement Boards and
as Chairman of Austraclear
Limited. Peter was formerly
a Director of ANZ National
Bank Limited in New
Zealand and various ANZ
subsidiaries.

**Westpac Board
Committee membership:**
Member of each of the
Board Risk Management
and Board Audit
Committees.

**Directorships of other
listed entities over the
past three years and dates
of office:** ANZ National
Bank Limited
(November 2004 to
May 2012), New Zealand
listed.

Other interests: Nil.

Name: Ann Pickard, BA, MA

Age: 58

Term of office: Director since December 2011.

Date of next scheduled re-election: December 2014.

Independent: Yes.

Current directorships of listed entities and dates of office: Nil.

Other principal directorships: Nil.

Other interests: Nil.

Other Westpac related entities directorships and dates of office: Nil.

Skills, experience and

expertise: Ann has 25 years of international experience as a senior manager in large organisations, with responsibility for major corporate transformations, maximising return on assets in challenging environments, complex negotiations, large scale development projects and strategic planning. In June 2013, Ann was appointed Royal Dutch Shell's Executive Vice President Arctic, Upstream Americas. Before her current role, Ann was the Executive Vice President of Shell's upstream business in Australia from March 2010, and later her role was expanded to Country Chair of Australia in August 2010.

Prior to this, Ann was Shell's Regional Executive Vice President for Sub Sahara Africa, overseeing the company's exploration and production, gas and LNG activities in the region. She has also held the position of Director Global Businesses and Strategy and been a member of the Shell Gas & Power Executive Committee with responsibility for Global LNG, Power and Gas & Power Strategy.

Westpac Board Committee membership: Member of each of the Board Risk Management and Board Remuneration Committees.

Directorships of other listed entities over the past three years and dates of office: Nil.

Company Secretary

Our Company Secretaries as at 30 September 2013 are John Arthur and Tim Hartin.

John Arthur (LLB (Hons.)) was appointed Group Executive, Counsel & Secretariat and Company Secretary on 1 December 2008. On 24 November 2011, John was appointed Chief Operating Officer and continues to hold the position of Senior Company Secretary. Most recently prior to that appointment, John was Managing Director & Chief Executive of Investa Property Group until 2007. Previously, John has been a partner at Freehills and Group General Counsel of Lend Lease Limited. He also served as Chairman of legal firm Gilbert + Tobin and has had a distinguished career as legal partner, corporate executive and non-executive director.

Tim Hartin (LLB (Hons.)) was appointed Group Company Secretary on 7 November 2011. Prior to his appointment, Tim worked for a number of years as a transactional lawyer at Henderson Boyd Jackson W.S. in Scotland and in London in Herbert Smith's corporate and corporate finance division. Tim joined Gilbert + Tobin as a Consultant in 2004, where he provided corporate advisory services to ASX listed companies. Tim joined Westpac in 2006 as Counsel, Corporate Core and most recently was the Head of Legal - Risk Management & Workouts, Counsel & Secretariat.

2. EXECUTIVE TEAM

As at 30 September 2013 our Executive Team was:

Name	Position	Year Joined Group	Year Appointed to Position
Gail Kelly	Managing Director & Chief Executive Officer	2008	2008
John Arthur	Chief Operating Officer	2008	2011
Peter Clare	Chief Executive Officer, Westpac New Zealand Limited	2008	2012
Philip Coffey	Chief Financial Officer	1996	2005
Brad Cooper	Chief Executive Officer, BT Financial Group	2007	2010
George Frazis	Chief Executive Officer, St. George Banking Group	2009	2012
Brian Hartzler	Chief Executive, Australian Financial Services	2012	2012
Christine Parker	Group Executive, Human Resources & Corporate Affairs	2007	2011
Greg Targett	Chief Risk Officer	2008	2009
Rob Whitfield	Group Executive, Westpac Institutional Bank	1986	2009
Jason Yetton	Group Executive, Westpac Retail & Business Banking	1992	2011

There are no family relationships between or among any of our Directors or Executive Team members.

DIRECTORS REPORT

Gail Kelly HigherDipEd, BA, MBA with Distinction, HonDBus. Age 57
Managing Director & Chief Executive Officer

Gail began her banking career in 1980 in South Africa, and by 2001 she had held various senior management roles in a broad range of areas including retail and commercial banking, strategy, marketing and human resources. Gail has spent over eleven years as Chief Executive Officer of two Australian banks, St.George Bank from 2002 to 2007 and Westpac from 1 February 2008 to date.

Gail holds a Bachelor of Arts degree and Higher Diploma of Education from Cape Town University, an MBA with Distinction from the University of Witwatersrand, and an Honorary Doctorate of Business from Charles Sturt University.

Gail is a Non-executive Director of the Business Council of Australia, the Australian Bankers Association and the Financial Markets Foundation for Children. She sits on the Global Board of Advisers at the US Council on Foreign Relations and is a member of the Sydney Cricket and Sports Ground Trust. Gail is also CARE Australia's Ambassador for Women's Empowerment.

John Arthur LLB (Hons.). Age 58
Chief Operating Officer

John was appointed Chief Operating Officer on 24 November 2011 with responsibility for Group Services, which encompasses technology, banking operations, property, compliance, legal and secretariat services. He joined Westpac as Group Executive, Counsel & Secretariat on 1 December 2008. Before that appointment, John was Managing Director & CEO of Investa Property Group.

Previously, John has been a partner at Freehills and Group General Counsel of Lend Lease Limited. He also served as Chairman of legal firm Gilbert + Tobin and has had a distinguished career as a legal partner, corporate executive and non-executive director.

Peter Clare BCom, MBA. Age 50
Chief Executive Officer, Westpac New Zealand Limited

Peter was appointed Chief Executive Officer, Westpac New Zealand Limited, in April 2012. Prior to this appointment, Peter held the role of Chief Operating Officer, Australian Financial Services from November 2011. Before that appointment, Peter held the role of Group Executive, Product & Operations from July 2008. Peter joined Westpac as Group Executive, Consumer Financial Services in March 2008, with responsibility for sales, service, third-party consumer product relationships and product development for Westpac's consumer customers across Australia.

Prior to joining Westpac, Peter was Group Executive, Group Technology & Operations at St.George Bank Limited following five years as Group Executive, Strategy with St.George Bank Limited. Between 1997 and 2002, Peter worked for the Commonwealth Bank of Australia in a range of senior roles, covering strategy, merger programs, operations and performance improvement. He has also worked in management consultancy and insolvency accountancy roles.

Philip Coffey BEc (Hons.). Age 56
Chief Financial Officer

Philip was appointed Chief Financial Officer in December 2005, with responsibility for Westpac's strategy, finance, tax, treasury and investor relations functions. He joined Westpac in 1996, and was appointed Group Executive, Westpac Institutional Bank in 2002. He has extensive experience in financial markets, funds management and finance, firstly with the Reserve Bank of Australia, then Citicorp and AIDC Limited. He has held roles in the UK and New Zealand. Philip has an honours degree in Economics and has completed the Executive Program at Stanford University Business School.

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Brad Cooper DipBM, MBA. Age 51
Chief Executive Officer, BT Financial Group

Brad was appointed Chief Executive Officer, BT Financial Group on 1 February 2010. Brad initially joined Westpac in April 2007 as Chief Executive, Westpac New Zealand Limited and after successfully leading a change program in that market, moved to the role of Group Chief Transformation Officer leading the Westpac Group's St. George merger implementation. Prior to joining Westpac, Brad was Chairman of GE Capital Bank and CEO of GE Consumer Finance UK & Ireland. He drove GE's UK Six Sigma program and was certified as a Quality Leader (Black Belt) in December 2002. He was promoted to CEO of GE Consumer Finance UK in January 2003 and appointed Chairman of GE Capital Bank in April 2004.

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George Frazis B Eng (Hons.), MBA (AGSM/Wharton). Age 49
Chief Executive Officer, St.George Banking Group

George was appointed Chief Executive Officer, St.George Banking Group in April 2012. Prior to this appointment, George joined the Westpac Group in March 2009 as Chief Executive, Westpac New Zealand Limited. George is highly experienced in the financial services industry. He was formerly Group Executive General Manager at National Australia Bank. Prior to that, George was a senior executive in Commonwealth Bank of Australia's Institutional Banking Division and has also been a partner with the Boston Consulting Group.

Brian Hartzler BA European History, CFA. Age 46
Chief Executive, Australian Financial Services

Brian joined Westpac as Chief Executive, Australian Financial Services on 25 June 2012. Australian Financial Services comprises Westpac Retail & Business Banking, St.George Banking Group and BT Financial Group.

Prior to joining Westpac, Brian spent three years in the UK as CEO for Retail, Wealth and Ulster Bank at the Royal Bank of Scotland Group. Prior to that, he spent ten years with ANZ in Australia in a variety of roles, including his final role as CEO, Australia and Global Segment Lead for Retail and Wealth. Before joining ANZ, Brian spent ten years as a financial services consultant in New York, San Francisco and Melbourne.

Brian graduated from Princeton University with a degree in European History and is a Chartered Financial Analyst.

Christine Parker BGDipBus (HRM). Age 53
Group Executive, Human Resources & Corporate Affairs

Christine was appointed Group Executive, Human Resources & Corporate Affairs on 1 October 2011, with responsibility for human resources strategy and management, including reward and recognition, safety, learning and development, careers and talent, employee relations and employment policy. She is also responsible for Corporate Affairs & Sustainability.

Prior to this appointment, she was Group General Manager, Human Resources, from March 2010, with responsibilities across the entire Westpac Group. Prior to that, Christine was General Manager, Human Resources, Westpac New Zealand Limited, when she joined Westpac in 2007.

Prior to joining Westpac, Christine was Group HR Director, Carter Holt Harvey, and from 1999 to 2004, she was Director of HR with Restaurant Brands New Zealand.

Greg Targett BEc, DipEd, SF Fin, CFTP. Age 56
Chief Risk Officer

Greg was appointed Chief Risk Officer on 2 July 2009. Greg joined Westpac as Deputy Chief Risk Officer on 1 December 2008. Prior to the merger between Westpac and St.George Bank Limited, Greg was Chief Risk Officer of St.George Bank Limited and was a member of the St.George Bank Limited Executive Management Committee from 2006. He joined St.George Bank Limited in May 2003 from National Australia Bank where he held the role of General Manager, Wholesale and Business Banking Credit. During his 23 year career with National Australia Bank, Greg had a variety of senior roles in Australia and overseas in venture capital, planning and strategy, credit risk, corporate banking and retail banking.

Rob Whitfield BCom, GradDipBanking, GradDipFin, AMP (Harvard). Age 49
Group Executive, Westpac Institutional Bank

Rob was appointed Group Executive, Westpac Institutional Bank in July 2009. He has responsibility for Westpac's global relationships with corporate, institutional and government clients, and core product offerings across financial and capital markets, transactional banking and working capital and payments. In addition, Rob has responsibility for Hastings Funds Management Limited and Westpac's structured finance, global treasury, Asia and Pacific Island businesses. Rob joined Westpac as a graduate in 1986, where he gained broad financial markets experience. He joined Treasury in 1993 and was appointed Group Treasurer in 2000. In 2004, he became Chief Risk Officer and joined the Executive Team in December 2005. From April 2007, Rob undertook advisory work as a Group Executive for Westpac's CEO with responsibility for the oversight of the merger with St. George Bank Limited. He was appointed Group Executive, Risk Management in November 2008 prior to assuming his current role.

Jason Yetton BCom, GDAppFin, TGMP (Harvard). Age 42
Group Executive, Westpac Retail & Business Banking

Jason was appointed Group Executive, Westpac Retail & Business Banking on 24 November 2011. Prior to this appointment, he was General Manager, Retail and Regional Banking, Westpac Retail & Business Banking from 2010. Before that, Jason was General Manager, Retail Banking from 2008. During 2008, he was a member of the Group's 2017 strategy team. Prior to that role, Jason held a number of roles in BT Financial Group, including Head of Product, General Manager, Customer Solutions and CEO Commerce BT Unit Trust (based in Malaysia from 1997 to 1999). He joined BT as a graduate trainee in 1992.

DIRECTORS REPORT

3. REPORT ON THE BUSINESS

a) Principal activities

The principal activities of the Group during the financial year ended 30 September 2013 were the provision of financial services including lending, deposit taking, payments services, investment portfolio management and advice, superannuation and funds management, insurance services, leasing finance, general finance and foreign exchange services.

There have been no significant changes in the nature of the principal activities of the Group during 2013.

b) Review of and results of operations and financial position

A review of the operations of the Group and its divisions and their results for the financial year ended 30 September 2013 is set out in Section 2 of the Annual Report under the sections *Review of Group operations* and *Divisional performance*, which form part of this report.

Further information about our financial position and financial results is included in the financial statements in Section 3 of the Annual Report, which form part of this report.

The net profit attributable to equity holders of Westpac for the financial year ended 30 September 2013 was \$6,816 million.

c) Dividends

Since 30 September 2013, Westpac has announced a final ordinary dividend of 88 cents per Westpac ordinary share and a special dividend of 10 cents per Westpac ordinary share, totalling approximately \$3,047 million (2012 final ordinary dividend of 84 cents per Westpac ordinary share, totalling \$2,588 million). The dividends will be fully franked and will be paid on 19 December 2013.

An interim ordinary dividend for the current financial year of 86 cents per Westpac ordinary share and a special dividend of 10 cents per Westpac ordinary share for the half year ended 31 March 2013, totalling \$2,980 million, were paid as a fully franked dividend on 2 July 2013 (2012 interim ordinary dividend of 82 cents per Westpac ordinary share, totalling \$2,506 million).

d) Significant changes in state of affairs and events during and since the end of 2013 financial year

Significant changes in the state of affairs of the Group during 2013 were:

§ capital transactions including the issuance of approximately \$1.4 billion of new Additional Tier 1 capital securities known as Westpac Capital Notes, the buy-back or redemption/conversion of Westpac Stapled Preferred Securities, and the redemption of the Trust Preferred Securities of Westpac Capital Trust III (2003 TPS);

§ ongoing regulatory changes and developments, which have included changes to liquidity, capital, derivatives, financial services, taxation and other regulatory requirements; and

§ on 11 October 2013 Westpac announced it had entered into an agreement to acquire Lloyds Banking Group's Australian asset finance business, Capital Finance Australia Limited (CFAL), and its corporate loan portfolio, BOS International (Australia) Ltd (BOSI), for \$1.45 billion.

For a discussion of these matters, please refer to *Significant developments* in Section 1 of the Annual Report under *Information on Westpac*.

The Directors are not aware of any other matter or circumstance that has occurred since the end of the financial year that has significantly affected or may significantly affect the operations of the Group, the results of these operations or the state of affairs of the Group in subsequent financial years.

e) Business strategies, developments and expected results

Our business strategies, prospects and likely major developments in the Group's operations in future financial years and the expected results of those operations are discussed in Section 1 of the Annual Report under *Information on Westpac*, including under *Outlook* and *Significant developments*.

Further information on our business strategies and prospects for future financial years and likely developments in our operations and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to us.

4. DIRECTORS INTERESTS

a) *Directors interests in securities*

The following particulars for each Director are set out in the Remuneration report in Section 9 of the Directors report and Note 41 of our consolidated financial statements for the year ended 30 September 2013 and in the tables below:

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

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

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

§ any contracts:

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

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

Directors interests in Westpac and related bodies corporate as at 4 November 2013

	Number of Relevant Interests in Westpac Ordinary Shares	Number of Westpac Share Options	Number of Westpac Share Rights	Westpac CPS
Westpac Banking Corporation				
<i>Current Directors</i>				
Lindsay Maxsted	16,654	-	-	-
Gail Kelly	1,876,5881	-	711,9562	-
John Curtis3	18,287	-	-	-

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Elizabeth Bryan	25,353	-	-	-
Gordon Cairns	17,038	-	-	-
Ewen Crouch	34,374	-	-	-
Robert Elstone	10,000	-	-	-
Peter Hawkins	15,218	-	-	1,370
Peter Marriott	20,000	-	-	-
Ann Pickard	9,8004	-	-	-
Former Directors				
Peter Wilson	16,5985	-	-	-

- 1 Gail Kelly s interest in Westpac ordinary shares includes 55,133 restricted shares held under the CEO Restricted Share Plan.
- 2 Share rights issued under the CEO Performance Plan.
- 3 John Curtis and his related bodies corporate also hold relevant interests in 470,487 units of the BT Balanced Equity Income Fund.
- 4 Ann Pickard s relevant interests arise through holding 9,800 Westpac American Depository Shares (ADS). One ADS represents one Westpac fully paid ordinary share.
- 5 Figure displayed is as at Peter Wilson s retirement date of 13 December 2012.

Note: Certain subsidiaries of Westpac offer a range of registered schemes. The Directors from time to time invest in these schemes and are required to provide a statement to the ASX when any of their interests in these schemes change. ASIC has exempted each Director from the obligation to notify the ASX of a relevant interest in a security that is an interest in BT Cash Management Trust (ARSN 087 531 539), BT Premium Cash Fund (ARSN 089 299 730), Westpac Cash Management Trust (ARSN 088 187 928), BT Wholesale Managed Cash Fund (ARSN 088 832 491) or BT Wholesale Enhanced Cash Fund (ARSN 088 863 469).

DIRECTORS REPORT

b) Indemnities and insurance

Under the Westpac Constitution, unless prohibited by statute, we must indemnify each of the Directors and Company Secretaries of Westpac and of each of our related bodies corporate (except related bodies corporate listed on a recognised stock exchange), each employee of Westpac or our subsidiaries (except subsidiaries listed on a recognised stock exchange), and each person acting as a responsible manager under an Australian Financial Services Licence of any of Westpac's wholly-owned subsidiaries against every liability incurred by each such person in their capacity as director, company secretary, employee or responsible manager, as the case may be; and all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil or criminal or of an administrative or investigatory nature, in which the person becomes involved because of that capacity.

Each of the Directors named in this Directors' report and each of the Company Secretaries of Westpac has the benefit of this indemnity.

Consistent with shareholder approval at the 2000 Annual General Meeting, Westpac has entered into a Deed of Access and Indemnity with each of the Directors, which includes indemnification in identical terms to that provided in the Westpac Constitution.

Westpac also executed a deed poll in September 2009 providing indemnification equivalent to that provided under the Westpac Constitution to individuals acting as:

§ statutory officers (other than as a director) of Westpac;

§ directors and other statutory officers of wholly-owned subsidiaries of Westpac; and

§ directors and statutory officers of other nominated companies as approved by Westpac in accordance with the terms of the deed poll and Westpac's Contractual Indemnity Policy.

Some employees of Westpac's related bodies corporate and responsible managers of Westpac and its related bodies corporate are also currently covered by a deed poll that was executed in November 2004, which is in similar terms to the September 2009 deed poll.

The Westpac Constitution also permits us, to the extent permitted by law, to pay or agree to pay premiums for contracts insuring any person who is or has been a Director or Company Secretary of Westpac or any of its related bodies corporate against liability incurred by that person in that capacity, including a liability for legal costs, unless:

§ we are forbidden by statute to pay or agree to pay the premium; or

§ the contract would, if we paid the premium, be made void by statute.

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Under the September 2009 deed poll, Westpac also agrees to provide directors and officers insurance to Directors of Westpac and Directors of Westpac's wholly-owned subsidiaries.

For the year ended 30 September 2013, the Group has insurance cover in respect of the amounts which we may have to pay under the indemnities set out above. That cover is subject to the terms and conditions of the relevant insurance, including but not limited to the limit of indemnity provided by the insurance. The insurance policies prohibit disclosure of the premium payable and the nature of the liabilities covered.

c) Options and share rights outstanding

As at the date of this report there are 3,381,902 share options outstanding and 4,173,911 share rights outstanding in relation to Westpac ordinary shares. The expiry date of the share options range between 21 January 2014 and 1 October 2018 and the weighted average exercise price is \$24.37. The latest dates for exercise of the share rights range between 21 January 2014 and 1 April 2023.

Holders of outstanding share options and share rights in relation to Westpac ordinary shares do not have any rights under the share options and share rights to participate in any share issue or interest of Westpac or any other body corporate.

d) Proceedings on behalf of Westpac

No person has applied to the Court under section 237 of the Corporations Act for leave to bring proceedings on behalf of Westpac, or to intervene in any proceedings to which Westpac is a party, for the purpose of taking responsibility on behalf of Westpac for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of Westpac with leave of the Court under section 237 of the Corporations Act.

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5. ENVIRONMENTAL DISCLOSURE

The Westpac Group's environmental framework starts with *Our Principles for Doing Business*, which outline our broad environmental principles. This framework includes:

§ our environmental policy statement *Westpac and the Environment: Our Environmental Policy*, which has been in place since 1992;

§ our sustainable supply chain management framework;

§ our environmental, social and governance (ESG) risk management framework; and

§ public reporting of our environmental performance. We also participate in a number of voluntary initiatives including the Carbon Disclosure Project, the Equator Principles, the United Nations Principles for Responsible Investment and the United Nations Global Compact CEO Water Mandate.

The *National Greenhouse and Energy Reporting Act 2007* (Cth) (National Greenhouse Act) came into effect in July 2008. The Group reports on greenhouse gas emissions, energy consumption and production under the National Greenhouse Act for the period 1 July through 30 June each year.

The Group is subject to the reporting requirements of the *Energy Efficiency Opportunities Act 2006* (Cth) (EEO Act), which requires a report to be submitted to the Commonwealth Government and the public identifying and evaluating cost effective energy savings opportunities. The Group registered under the EEO Act on 24 March 2010. Our Assessment and Reporting Schedule was submitted on 22 December 2010. The third public report will be submitted to the Commonwealth Government by 31 December 2013. The public report is available on the Westpac website once it is submitted. Through the course of engaging with the EEO Act program during 2013, Westpac implemented or is in the process of implementing 25 energy efficiency opportunities which are expected to result in energy and maintenance cost savings exceeding \$700,000 per year. We comply with our obligations under the EEO Act.

The NSW Energy Savings Scheme (ESS) commenced on 1 July 2009 and it is administered by the Independent Pricing and Regulatory Tribunal of NSW. The scheme is designed to increase opportunities to improve energy efficiency in NSW by financially rewarding companies and households who undertake eligible energy efficiency projects. Under the scheme, voluntary participants, generally businesses, are awarded energy savings certificates (ESCs) following investment in energy saving activities. Mandatory scheme participants, generally electricity retailers, buy ESCs to meet legislative targets. The NSW Energy Savings Scheme is currently set to run until 2020. Since the commencement of the ESS, Westpac has earned in excess of \$800,000 through the sale of ESCs.

In addition in 2013 the Group became a signatory of the National Carbon Offset Standard (NCOS) which, in line with our sustainability strategy, commits the Group to being carbon neutral under the NCOS until 30 June 2017.

Our operations are not subject to any other particular and significant environmental regulation under any law of the Commonwealth of Australia or of any State or Territory of Australia. We may, however, become subject to environmental regulation as a result of our lending activities in the ordinary course of business and we have policies in place to ensure that this potential risk is addressed as part of our normal processes.

We have not incurred any liability (including for rectification costs) under any environmental legislation.

Further details on our environmental performance, including progress against our climate change strategy and details of our emissions profile are available on our website at www.westpac.com.au/about-westpac/sustainability-and-community.

6. ROUNDING OF AMOUNTS

Westpac is an entity to which ASIC Class Order 98/100 dated 10 July 1998, relating to the rounding of amounts in Directors' report and financial reports, applies. Pursuant to this Class Order, amounts in this Directors' report and the accompanying financial report have been rounded to the nearest million dollars, unless indicated to the contrary.

7. POLITICAL EXPENDITURE

In line with Westpac policy, no cash donations were made to political parties during the financial year ended 30 September 2013. The expenditure reflected in the table below relates to payment for participation in legitimate political activities where they were assessed to be of direct business relevance to Westpac. Such activities include business observer programs attached to annual party conferences, policy dialogue forums and other political functions such as speeches and events with industry participants.

Political expenditure, year ended 30 September 2013

Australia

	Amount
	\$1
Australian Labor Party	114,080.00
Liberal Party of Australia	110,166.50
National Party of Australia	10,650.00
Total	234,896.50

1 Represents aggregate amount at both Federal and State/Territory levels.

New Zealand

The total expenditure on political activities in New Zealand for the year ended 30 September 2013 was NZ\$11,580. In line with Westpac policy, no cash donations were made to political parties in New Zealand during the year.

DIRECTORS REPORT

8. DIRECTORS MEETINGS

Each Director attended the following meetings of the Board and Committees of the Board during the financial year ended 30 September 2013:

Number of meetings held during the year	Notes	Board		Audit Committee		Risk Management Committee		Nominations Committee		Remuneration Committee		Technology Committee	
		A	B	A	B	A	B	A	B	A	B	A	B
Director													
Lindsay Maxsted	1	9	9	4	4	4	4	4	4	-	-	-	-
Gail Kelly	2	9	9	-	-	-	-	-	-	-	-	2	2
John Curtis	3	9	9	-	-	4	3	4	3	5	5	-	-
Elizabeth Bryan	4	9	9	-	-	4	4	4	4	5	5	2	2
Gordon Cairns	5	9	8	-	-	4	4	-	-	5	5	-	-
Ewen Crouch	6	6	6	-	-	3	3	-	-	3	3	-	-
Robert Elstone	7	9	9	4	4	4	4	3	3	-	-	2	2
Peter Hawkins	8	9	9	4	4	4	4	4	4	-	-	2	2
Peter Marriott	9	3	3	1	1	1	1	-	-	-	-	-	-
Ann Pickard	10	9	9	-	-	4	4	-	-	5	5	-	-
Peter Wilson	11	3	3	1	1	1	1	1	1	-	-	-	-

This table shows membership of standing Committees of the Board. From time to time the Board may form other committees or request Directors to undertake specific extra duties.

A - Meetings eligible to attend as a member

B - Meetings attended as a member

Unless otherwise stated, each Director has been a member, or the Chairman, of the relevant Committee for the whole of the period from 1 October 2012.

1 Chairman of the Board Nominations Committee. Member of the Board Audit Committee and the Board Risk Management Committee.

2 Member of the Board Technology Committee.

3 Chairman of the Board Remuneration Committee. Member of the Board Risk Management Committee and the Board Nominations Committee.

4 Chairman of the Board Risk Management Committee. Member of the Board Nominations Committee, the Board Remuneration Committee and the Board Technology Committee.

5 Member of the Board Risk Management Committee and the Board Remuneration Committee.

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6 Ewen Crouch was appointed as a Director on 1 February 2013. Member of the Board Risk Management Committee and the Board Remuneration Committee from 1 February 2013.

7 Chairman of the Board Audit Committee from 13 December 2012. Member of the Board Audit Committee until 12 December 2012. Member of the Board Nominations Committee from 1 February 2013. Member of the Board Risk Management Committee and the Board Technology Committee.

8 Chairman of the Board Technology Committee. Member of the Board Audit Committee, the Board Risk Management Committee and the Board Nominations Committee.

9 Peter Marriott was appointed as a Director on 1 June 2013. Member of the Board Audit Committee and Board Risk Management Committee from 22 July 2013.

10 Member of the Board Risk Management Committee and the Board Remuneration Committee.

11 Peter Wilson retired from the Board and its Committees on 13 December 2012.

9. REMUNERATION REPORT

Introduction from the Chairman of the Board Remuneration Committee

Dear Shareholder,

We are pleased to present Westpac's 2013 Remuneration Report (Report).

The past year has been one focused on consolidation and embedding the substantive changes made to our remuneration policies and framework over the past 2-3 years. Since 2010, we have adjusted almost every aspect of our remuneration framework including:

§ the alignment of our target pay mix for the CEO and Senior Executives, increasing the weighting to long term incentives;

§ the structure of our Long Term Incentive Plan performance hurdles and the removal of re-testing;

§ our Executive Reward Policy, including our approach for benchmarking remuneration for the CEO and Senior Executives; and

§ reducing the maximum incentive opportunity under our annual Short Term Incentive plan from 200% to 150% of target, and increasing the amount deferred from 25% to 40%.

While we have chosen to allow the substantive changes made in 2011 and 2012 to flow through the 2013 business cycle, we are mindful of the changing external environment and will be conducting a further review of some key elements of our remuneration framework in 2014.

We have not increased fixed remuneration or incentive targets for the CEO or Senior Executives since 2011, except where there was a change in role or significant market anomaly. We will be continuing with this approach for 2014.

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The Group has delivered strong financial performance this year and very pleasing results and value for our shareholders. While we did not increase the fixed remuneration or incentive targets for the CEO or Senior Executives in 2013, our at risk incentive plans have allowed us to recognise and reward high performers across our business who were instrumental in delivering these results.

We have again this year simplified and focused the Report with the aim of helping our shareholders navigate important though complex information and, as ever, welcome your feedback.

John Curtis

Chairman Board Remuneration Committee

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DIRECTORS REPORT

1. Remuneration snapshot

This section provides an overview of the Group's remuneration arrangements during the 2013 financial year.

1.1. Remuneration strategy, principles and framework

Executive remuneration framework

The CEO and Senior Executives (Group Executives) are remunerated based on a Total Reward framework:

The target pay mix was adopted in 2012 and will be achieved over time for existing Senior Executives as their remuneration increases (noting that there were no increases to fixed remuneration or incentive targets for the CEO or Senior Executives in 2013).

The Total Reward framework has three components and, in aggregate, is benchmarked against relevant financial services competitors.

Fixed remuneration takes into account the size and complexity of the role, individual responsibilities, experience, skills and disclosed market-related pay levels within the financial services industry.

Short-term incentive (STI) is determined based on an STI target set using similar principles to those used for fixed remuneration, and on individual, divisional and Group performance objectives for the year. Performance is measured against risk-adjusted financial targets and non-financial targets that support the Group's short and long-term strategy.

Long-term incentive (LTI) is designed to retain executives and to align their performance with the long-term interests of shareholders. The amount of the award takes into account market benchmarks, individual performance over time, succession potential and key skills.

1.2. Remuneration for all other employees

The remuneration strategy for all other employees remains aligned with our approach for Senior Executives. In particular:

§ fixed remuneration is aligned to the market and is reviewed annually;

§ we provide superannuation for employees in Australia, New Zealand and some other countries in which we operate;

§ employees have the opportunity to participate in an STI scheme designed to support the objectives of their division and the Group, including risk management. All employees who receive an STI award above a certain threshold have a portion of the award deferred; and

§ eligible employees may receive an annual award of Westpac ordinary shares up to the value of \$1,000 under the Employee Share Plan provided the Group meets at least one of two hurdles: an increase in share price or the achievement of a basket of strategic measures. The CEO, Senior Executives and any employees who received an STI award deferred into equity or an LTI award during the year are not eligible to receive an Employee Share Plan award for that year.

1.3. Key management personnel remuneration disclosed in this Report

The remuneration of key management personnel (KMP) for the Westpac Group is disclosed in this Report. In 2013, KMP included Non-executive Directors, the CEO and Senior Executives who report to the CEO and/or lead significant parts of the business.

CEO and Senior Executives

Name	Position	Term as KMP
Gail Kelly	Managing Director & Chief Executive Officer	Full Year
Senior Executives		
John Arthur	Chief Operating Officer	Full Year
Peter Clare	Chief Executive Officer, Westpac New Zealand Limited	Full Year
Philip Coffey	Chief Financial Officer	Full Year
Brad Cooper	Chief Executive Officer, BT Financial Group	Full Year
George Frazis	Chief Executive Officer, St.George Banking Group	Full Year
Brian Hartzler	Chief Executive, Australian Financial Services	Full Year
Christine Parker	Group Executive, Human Resources & Corporate Affairs	Full Year
Greg Targett	Chief Risk Officer	Full Year
Rob Whitfield	Group Executive, Westpac Institutional Bank	Full Year
Jason Yetton	Group Executive, Westpac Retail & Business Banking	Full Year

Non-executive Directors

Name	Position	Term as KMP
Lindsay Maxsted	Chairman	Full Year
John Curtis	Deputy Chairman	Full Year
Elizabeth Bryan	Director	Full Year
Gordon Cairns	Director	Full Year
Ewen Crouch ¹	Director	Part Year
Robert Elstone	Director	Full Year
Peter Hawkins	Director	Full Year
Peter Marriott ²	Director	Part Year
Ann Pickard	Director	Full Year
Peter Wilson ³	Director	Part Year

1 Appointed 1 February 2013.

2 Appointed 1 June 2013.

3 Retired on 13 December 2012.

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DIRECTORS REPORT

2. Governance and risk management

This section details the Group's approach to governance and risk management as they relate to remuneration.

2.1. Governance

The Group's remuneration policies and practices strive to fairly and responsibly reward employees, having regard to performance, Westpac's risk management framework, the law and high standards of governance.

The role of the Board is to provide strategic guidance for the Group and effective oversight of management. In this way the Board is accountable to shareholders for performance. As part of this role, the Board has overall responsibility for remuneration.

The Remuneration Committee supports the Board. Its primary function is to assist the Board fulfil its responsibilities to shareholders with regard to remuneration. The Remuneration Committee monitors the Group's remuneration policies and practices, external remuneration practices, market expectations and regulatory requirements in Australia and internationally. The Committee's purpose, responsibilities and duties are outlined in the Charter which is available on the Group's website.

All Board Committee Charters are reviewed every two years. The Board Remuneration Committee Charter was last reviewed and amended in May 2012.

Members of the Remuneration Committee during 2013

All members of the Remuneration Committee are independent Non-executive Directors. During 2013 the members were:

§ John Curtis (Chairman);

§ Elizabeth Bryan;

§ Gordon Cairns;

§ Ewen Crouch (Member from 1 February 2013); and

§ Ann Pickard.

Independent remuneration consultant

During 2013, the Board retained Guerdon Associates as its independent consultant to provide specialist information on executive remuneration and other Group remuneration matters. These services are provided directly to the Remuneration Committee and are independent of management. The Chairman of the Remuneration Committee oversees the engagement of, remuneration arrangements for, and payment of, the independent consultant.

Work undertaken by Guerdon Associates during 2013 included the provision of information relating to the benchmarking of CEO and Senior Executive remuneration; market practice regarding LTI valuation methodologies; and analysis regarding the Group's Earnings per Share (EPS) based LTI performance hurdle. No remuneration recommendations as prescribed under the Corporations Act were made by Guerdon Associates in 2013.

Other internal governance structures

The Westpac internal governance structure includes three levels of Remuneration Oversight Committees (ROCs) which focus on the appropriateness and consistency of remuneration arrangements and outcomes within individual functions, divisions and across the Group. The ROCs support the Board Remuneration Committee by ensuring that the Group-wide remuneration frameworks and outcomes are consistent with the Board's approved policy.

2.2. Risk management

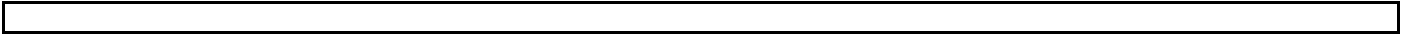
We aim to integrate effective risk management into the remuneration framework throughout the organisation. The Chairman of the Board Risk Management Committee is a member of the Remuneration Committee, and members of the Remuneration Committee are also members of the Board Risk Management Committee. In carrying out its duties, the Remuneration Committee can access personnel from risk and financial control, and engage external advisors who are independent of management.

The Group's remuneration strategy, executive remuneration framework, policies and practices all reflect the sound risk management that is fundamental to the way we operate. The performance of each division within the Group is reviewed and measured with reference to how risk is managed and the results influence remuneration outcomes.

The executive total reward framework specifically includes features to take account of risk.

Each year the Board determines the size of the variable reward pool which funds variable reward outcomes across the Group. This is based on our performance for the year and an assessment of how profit should be shared among shareholders, employees and retained for ongoing capital requirements. The primary financial indicator used is economic profit, which measures profitability adjusted for risk in the business. Cash earnings, return on equity, cash earnings per share and dividends are also taken into account.

STI outcomes are based on both financial and non-financial measures, with the latter reflecting risk management outcomes and the Group's progress on the implementation of our strategy. Group economic profit and Group return on equity accounted for 40% of the CEO's scoreboard for 2013, the Senior Executive scoreboards having 40% allocated across Group economic profit and divisional economic profit and/or Group return on equity. A performance measure related to the Board's Risk Appetite Statement accounted for a further 10% of the CEO's and Senior Executives scoreboards. In addition, the CEO and each Senior Executive is assessed on specific risk measures that may influence any discretionary adjustment to the scoreboard. Ultimately, the Board has 100% discretion with the STI outcome. We believe this discretion is vital to balance a mechanistic approach in determining performance and reward outcomes and to enable previous decisions (either good or bad) to be taken into account. This discretion may be exercised both up and down.



Approval of remuneration decisions

We follow a strict process of two-up approval for all remuneration decisions. This means that remuneration is approved by the next most senior person above the employee's manager. This concept is also reflected in our requirement for the Board, based on recommendations from the Remuneration Committee, to approve:

§ performance outcomes and remuneration for the CEO and Senior Executives; and

§ performance outcomes and remuneration for other executives who report directly to the CEO, other persons whose activities in the Board's opinion affect the financial soundness of the Group and any other person specified by APRA.

Performance and remuneration outcomes for all General Managers (who report to Senior Executives) are approved by the CEO, on the recommendation of the Senior Executive to whom they report.

Any significant remuneration arrangements that fall outside the Group Remuneration Policy are referred to the Remuneration Committee for review and approval.

Shareholding requirements and hedging policy

To further align their interests with shareholders, the CEO and Senior Executives are expected to build and maintain a substantial Westpac shareholding within five years of being appointed to their role. For the CEO the value of that shareholding is expected to be no less than five times her annual fixed package. For Senior Executives, the expected minimum is a value of \$1.2 million.

Participants in the Group's equity plans are forbidden from entering either directly or indirectly into hedging arrangements for unvested shares in their STI and LTI equity awards. No financial products of any kind may be used to mitigate the risk associated with these equity instruments. Any attempt to hedge these securities makes them subject to forfeiture. These restrictions have been in place for some time and satisfy the requirements of the Corporations Act which prohibit hedging of unvested shares.

3. Executive remuneration

3.1. Remuneration structure and policy

a) Fixed remuneration

Fixed remuneration comprises cash salary, salary sacrifice items and employer superannuation.

The Group provides superannuation contributions in line with statutory obligations. Fixed remuneration is reviewed annually and is effective from 1 January each year taking into consideration:

§ role and accountabilities;

§ relevant market benchmarks within the financial services industry; and

§ the attraction, retention and motivation of key executives given ongoing competition for talent in a challenging environment.

There have been no increases to the fixed remuneration or incentive targets for the CEO or Senior Executives following the last remuneration review. The CEO's fixed remuneration and incentive targets have been unchanged since January 2011.

b) STI

STI provides the opportunity for participants to earn cash and deferred equity incentives where specific outcomes have been achieved in the financial year. The CEO and Senior Executives each have a balanced scoreboard, combining both annual financial and non-financial objectives which support the Group's strategic short and long-term goals.

STI targets

The CEO's target STI opportunity for 2013 was \$3.6 million.

STI targets for Senior Executives are set by the Remuneration Committee and approved by the Board at the beginning of each performance year based on a number of factors including market competitiveness and the nature of the role. The STI targets for the 2013 performance year did not increase for the CEO and Senior Executives. The STI awards for Senior Executives are managed within the Group-wide variable reward pool.

STI outcomes are subject to both a quantitative and qualitative assessment, including a risk management overlay, which is embedded in our scoreboard measurement process. The maximum STI opportunity is 150% of target. The Board has the capacity to adjust STI outcomes (and reduce STI outcomes to zero if appropriate) during the assessment process.

DIRECTORS REPORT

STI structure

The table below details the type of equity and the instrument used to grant the 2013 deferred STI allocated to executives.

1 Shares granted under the CEO Restricted Share Plan and the Restricted Share Plan rank equally with Westpac ordinary shares for dividends and voting rights from the date they are granted. The Board has the discretion to satisfy vested share right grants and the allocation of subsequent shares to participants, or the allocation of restricted shares under the deferred STI, by either the issue of new shares or on-market purchase of shares.

2 Rights to ordinary shares entitle the holder to Westpac ordinary shares at the time of vesting.

By deferring a portion of the STI in the form of restricted equity, incentive payments are better aligned with the interests of shareholders as the ultimate value of the deferred portion is tied to movements in share price over the restriction period. Deferred STI also supports our objective of retaining key talent, as it is generally forfeited if the holder resigns during the restriction period. Deferred shares are forfeited if the Executive is dismissed for cause. The deferred STI awards recognise past performance and are not subject to further performance conditions and deferred shares attract dividend distributions over the vesting period. The shares are subject to forfeiture at Board discretion in the event of a material risk issue or financial mis-statement. Details of deferred STI allocations granted in prior years, which have been exercised during the year ended 30 September 2013, are included in Section 3.3 of this Report.

c) LTI

The CEO and Senior Executives are also eligible for an LTI award.

LTI award opportunities

The CEO was granted an LTI award of \$2.7 million for 2013 under the CEO Performance Plan, unchanged from 2012.

The award was received in the form of share rights under arrangements approved by shareholders at the 2010 Annual General Meeting.

Senior Executives receive annual LTI awards in the form of share rights under the Westpac Reward Plan. A share right is not a Westpac share and does not attract the payment of dividends.

At the beginning of each year, the Board, advised by the Remuneration Committee, sets the dollar value of the LTI award target for each Senior Executive. LTI targets for Senior Executives were unchanged from 2012.



LTI structure

The following diagram and table sets out the key features of LTI awards made in December 2012 to the CEO under the CEO Performance Plan and to Senior Executives under the Westpac Reward Plan.

DIRECTORS REPORT

CEO Performance Plan and Westpac Reward Plan

Instrument	Share rights – the Board has the discretion to satisfy vested grants and the allocation of subsequent shares to participants by either the issue of new shares or on-market purchase of shares.	
Determining the number of securities	The number of share rights each individual receives is determined by dividing the dollar value of the LTI award by the value of the share rights at the beginning of the performance assessment period (performance period).	
Performance hurdles	The value of share rights is determined using a Monte Carlo simulation pricing model, which uses assumptions based on expected life, volatility, risk free interest rate and dividend yield associated with the securities and the risk of forfeiture attributed to each performance hurdle. The Monte Carlo simulation pricing model discounts the market price of Westpac shares at grant to take into consideration these assumptions. The value of a share right may differ depending on the performance hurdle applied. The value of share rights to be allocated is calculated by an independent valuer.	
	The CEO and Senior Executives only receive value from their LTI awards where the performance hurdles are achieved. The two hurdles for the December 2012 grants are Westpac’s relative TSR and Cash EPS CAGR.	
	Relative TSR provides an external comparative measure of overall returns over a specified timeframe incorporating share price movements and assuming that dividends over the period have been reinvested. The TSR data is averaged over the three months preceding the measurement date.	
	The Cash EPS CAGR over a three year period was introduced as an internal earnings measure for grants made from October 2011 in response to feedback from investors and a subsequent independent review of our LTI performance hurdles. Cash EPS CAGR provides a measure of Westpac’s underlying financial growth. Together, the use of these two hurdles is intended to provide a balanced view of the Group’s overall performance and provide strong alignment with shareholder interests.	
	Both hurdles operate independently.	
	TSR (50% of the allocation)	Cash EPS CAGR (50% of the allocation)
	Westpac’s TSR percentile ranking must equal or exceed the 50th percentile of a defined group of comparator companies (the ranking group) over the performance period. The ranking group is comprised of the top 10 selected Australian banking and financial sector companies listed on the ASX with which Westpac competes for customers.	The Cash EPS CAGR measure focuses on growth in cash earnings over a three year performance period. A description of the process used to determine cash earnings is provided at Note 32 to the financial statements.
	This measure provides a link with the creation of value for shareholders over the long-term (up to three years). The companies in the 2013 ranking group for the CEO Performance Plan and the Westpac Reward Plan are:	Westpac has a policy of not providing guidance to the market. Accordingly, the Board will advise specific EPS targets and the Group’s performance against target following the test date.
	¾ AMP Limited;	The EPS targets were developed with the assistance of an independent external adviser who was provided access to Westpac’s long-term business plan and analyst forecasts in regard to the long-term performance of Westpac and its peers.
	¾ ASX Limited;	

- ¾ Australia and New Zealand Banking Group Limited;
- ¾ Bendigo and Adelaide Bank Limited;
- ¾ Commonwealth Bank of Australia;
- ¾ Insurance Australia Group Limited;
- ¾ Lend Lease Group;
- ¾ Macquarie Group Limited;
- ¾ National Australia Bank Limited; and
- ¾ Suncorp Group Limited.

CEO Performance Plan and Westpac Reward Plan

Targets are set for stretch performance	<p>The Board considers the vesting profile as being appropriate as 100% vesting will only occur where Westpac is ranked 3rd or better out of the total of 11 companies (including Westpac).</p>	<p>It is the Board's view that the EPS targets for both the 2011 and 2012 grants are stretching and the thresholds will be difficult to achieve in the current economic environment.</p>
	<p>The TSR performance will be measured once at the completion of the 3 year performance period. Westpac shares will be allocated in satisfaction of vested share rights at no cost to participants.</p>	<p>The expensed value of the December 2011 and 2012 grants in Table 5.2 have been discounted to zero and 50% respectively, reflecting the Board's current assessment of the probability of the EPS hurdles being met and share rights vesting over time. That is, based on current forecasts the Board do not expect the December 2011 grant to meet the threshold target.</p>
Who measures the performance hurdle outcomes?	<p>To ensure objectivity and external validation, TSR results are calculated by an independent external consultant and are provided to the Board or its delegate to review and determine vesting outcomes.</p>	<p>The Cash EPS CAGR will be determined by the Board based on the Cash EPS disclosed in our results for the 2014 financial year in respect of the December 2011 awards, and 2015 in respect of the December 2012 awards.</p>
Early vesting is possible in limited cases	<p>For awards made since 1 October 2009, unvested securities may vest before a test date if the employee is no longer employed by the Group due to death or disability. In general, any such vesting is not subject to performance hurdles being met.</p>	
Retesting	<p>For the CEO, all unvested securities will vest if the CEO leaves the Group due to sickness or in certain circumstances, such as within 12 months of a change of control. There is no re-testing on awards made since 2011. Any securities remaining unvested after the nominated measurement period lapse immediately.</p>	
Lapsing of securities	<p>Where the CEO or a Senior Executive leaves the Group due to resignation or dismissal for cause before vesting occurs, securities will lapse unless the Board determines otherwise.</p> <p>Where a holder acts fraudulently or dishonestly, or is in material breach of his or her obligations under the CEO Performance Plan, the Westpac Reward Plan and/or to the Group, unexercised performance share rights (whether vested or unvested) will lapse, unless the Board determines otherwise.</p>	

Other plans and awards

We provide separate reward plans for small, specialised parts of the business. Payments under these plans are directly linked to growth of that part of the business and are capped at an appropriate proportion of the value and/or profitability of the relevant part of the business. These plans are designed to provide market competitive remuneration for the relevant employees. Westpac also has grandfathered plans, under which no further awards are made and performance or vesting periods have passed. These vested securities continue to run their course.

Other long-term awards

The Restricted Share Plan and Westpac Performance Plan are used:

¾ to grant deferred STI awards to certain employees; and

¾ for one-off awards to attract Senior Executives, executives or specialist employees to the Group or for retention in specific circumstances. Where awards are made on joining, these typically compensate for real value forfeited on leaving the previous employer which might otherwise deter that executive from joining the Group.

Awards to key employees below senior management level may also be made under the Restricted Share Plan and Westpac Performance Plan. Under these arrangements, employees receive awards of Westpac ordinary shares or share rights, which are restricted for a period as determined by the Board. This allows the flexibility to tailor the restriction period to the circumstances of the award.

DIRECTORS REPORT

3.2. Linking reward and performance

CEO performance objectives and key highlights

The Remuneration Committee reviews and makes recommendations to the Board on individual performance objectives for the CEO. These objectives are intended to provide a robust link between remuneration outcomes and the key drivers of long-term shareholder value. The STI objectives are set in the form of a scoreboard with targets and measures aligned to our strategic priorities cascaded from the CEO scoreboard to the relevant Senior Executive scoreboard. The key financial and non-financial objectives for the CEO in the 2013 financial year, with commentary on key highlights are provided below.

Category	Weighting	Measure1	Performance highlights
Return	20%	Economic Profit	$\frac{3}{4}$ Delivered Economic Profit of \$4,113 million, representing a 16% increase over 2012 and exceeding target.
	20%	Return on Equity	$\frac{3}{4}$ 16%, up 51bps on 2012 and exceeding target.
Growth	20%	Customer Growth	$\frac{3}{4}$ Westpac's Institutional Bank retained its #1 rank as lead domestic bank for relationship banking and lead domestic bank for transactional banking, the latter for the 10th year running.
			$\frac{3}{4}$ Strong customer growth across our brands: customers with 4 or more products up 8% in St.George and Westpac Retail & Business Bank; above system growth in mortgages and deposits for St.George; and achievement of strategic targets for Bank of Melbourne, including growth of customer numbers.
		Wealth Strategy	$\frac{3}{4}$ Strong growth in customers who consider us their main bank, with a record number of additional Westpac Group customers taking up a Wealth product or advice.
		Asia Strategy	$\frac{3}{4}$ Asia revenues increased by 33% over 2012, with significant targeted investments in footprint, capability, platforms and systems delivered during the year.
Strength	10%	Adherence to Group Risk Appetite Statement (RAS)	$\frac{3}{4}$ Delivered sector leading capital, improved liquidity and funding profiles and an industry leading impairment charge while operating within our Group RAS.
	10%	Sustainable funding Deposit to Loan Ratio	$\frac{3}{4}$ Outstanding credit quality performance. $\frac{3}{4}$ Exceeded target, achieving the 2014 target 12 months ahead of plan while delivering above target returns to shareholders.
	10%	Employee Engagement	$\frac{3}{4}$ Employee Engagement of 87%, above the Global High Performing norm of 85%, indicating that our employees have confidence in our vision.
		Employee Advocacy	$\frac{3}{4}$ Employee Advocacy 4 points above the Global High Performing norm, exceeding target.

Productivity	10%	Lost Time Injury Frequency Rate (LTIFR)	¾	We have made significant progress in embedding a strong safety culture across the Group, our LTIFR results improving 23%, well ahead of target.
		Retention of employees in 1st year of service	¾	Implementation of key strategies focussed on retaining employees that join the Westpac Group have resulted in our new starter retention rate increasing to 86.7%, exceeding target.
		Expense to Income Ratio	¾	We continued to lead the industry with an Expense to Income Ratio of 40.9%, on target.
		Revenue per Full-Time Equivalent Employee (FTE)	¾	Delivered increased revenue per FTE, in line with target.
		Radical Simplification Program	¾	The Program has made significant progress in simplifying our key business processes and technology systems to make it easier for our customers to do business with us; and providing our employees with the necessary tools, processes and frameworks to simplify their work.
			¾	Culture of continuous improvement well embedded in the Group.

1 Individual measures will differ for each Senior Executive.

Our primary financial measure is economic profit which the Board believes, in combination with return on equity, is the best measure of risk adjusted returns and of the value created for shareholders. The remaining measures focus on ensuring that we remain strong; deliver targeted growth; drive simplification, innovation and productivity while helping our customers, communities and people to prosper and grow.

Aligning pay with performance and shareholder return

The following graphs show the CEO's STI payment as a percentage of target STI and its relationship to our primary financial metric, Group economic profit, and the Group's TSR over the past three years. The final STI outcome for 2013 reflects the Board's view of performance across all balanced scoreboard measures relative to planned outcomes, and the value the Group has delivered for our shareholders.

STI Award for CEO vs. Economic Profit

**Total Shareholder Return
2010-2013**

Application of discretion

The Board and the Remuneration Committee recognise that the scoreboard approach, while embracing a number of complementary performance objectives, will never entirely assess overall performance. The Remuneration Committee may therefore make discretionary adjustments, positive and negative, to the scoreboard outcomes for the CEO and Senior Executives. The Remuneration Committee uses the following criteria to apply discretionary adjustments:

^{3/4} matters not known or not relevant at the beginning of the financial year, which are relevant to the under or over performance of the CEO and Senior Executives during the financial year;

- ¾ the degree of stretch implicit in the scoreboard measures and targets themselves and the context in which the targets were set;
- ¾ whether the operating environment during the financial year has been materially better or worse than forecast;
- ¾ comparison with the performance of the Group's principal competitors, particularly major shareholder and customer benchmarks;
- ¾ any major positive or negative risk management or reputational issue that impacts the Group;
- ¾ the quality of the financial result as shown by its composition and consistency;
- ¾ whether there have been major positive or negative aspects regarding the quality of leadership and/or behaviours consistent with our values;
and
- ¾ any other relevant over or under performance or other matter not captured.

At the end of the year the Remuneration Committee reviews performance against objectives and applies any adjustments it considers appropriate. The Remuneration Committee then recommends STI outcomes for the CEO and each Senior Executive to the Board for approval, thereby ensuring the Board retains oversight of final awards.

DIRECTORS REPORT**LTI performance outcomes**

The following table provides the Group's TSR, dividend, share price and cash earnings per share performance each year from 2009 to 2013.

	Years Ended 30 September				
	2013	2012	2011	2010	2009
TSR three years	66.09%	25.61%	9.6%	3.7%	20.0%
TSR five years	90.91%	20.03%	18.5%	51.5%	76.7%
Dividends per Westpac share (cents) ¹	174	166	156	139	116
Cash Earnings per Westpac share ^{2,3}	\$2.29	\$2.16	\$2.09	\$1.98	\$1.64
Share price high	\$34.79	\$24.99	\$25.60	\$28.43	\$26.74
Share price low	\$24.23	\$19.00	\$17.84	\$20.56	\$14.40
Share price close	\$32.73	\$24.85	\$20.34	\$23.24	\$26.25

1 Does not include 20 cent special dividends determined in 2013.

2 Cash earnings are not prepared in accordance with A-IFRS and have not been subject to audit.

3 2009 cash earnings per share are on a pro forma basis. That is, prepared as if the merger with St. George was completed on 1 October 2008.

The vesting outcomes for awards made to the CEO and Senior Executives under the CEO Performance Plan and Westpac Reward Plan that reached a scheduled test date during the reporting period are set out below.

Equity Instrument	Type of Equity	Commencement Date ¹	Test Date	TSR Percentile in Ranking Group	Vested %	Lapsed %	Remain in Plan %
CEO Performance Plan	Performance options and share rights	1 December 2008	1 December 2012	80th percentile	100	-	-
		21 December 2009	20 December 2012	60th percentile	70	-	30
Westpac Reward Plan	Performance options and share rights	1 October 2008	1 October 2012	80th percentile	100	-	-
		1 October 2009	1 October 2012	70th percentile	90	-	10

1 Commencement date refers to the commencement of the performance period.

2 2nd Test Date 90% of these awards vested in 2012; the remaining 10% vested in 2013. There has been no re-testing for awards granted since 2011.

3.3. Remuneration outcomes for the CEO and Senior Executives Linking Reward and Performance

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The following table has been prepared to provide shareholders with an outline of the remuneration which has been received for the 2013 performance year either as cash or in the case of prior equity awards, the value which has vested in 2013 (see note 4 below). Details in this table supplement the statutory requirements in Section 5.2. Unlike the statutory table, which represents remuneration outcomes prepared in accordance with accounting standards (A-IFRS), this table shows the actual remuneration value received by Executives and is not prepared in accordance with A-IFRS.

	Fixed Remuneration ¹ \$	2013 STI Cash Payment ² \$	2013 Total Cash Payments ³ \$	Prior Year Equity Awards ⁴ Vested during 2013 \$	Prior Year Equity Awards ⁴ Forfeited during 2013 \$
Managing Director & Chief Executive Officer					
Gail Kelly	2,989,989	2,656,800	5,646,789	5,345,598	-
Senior Executives					
John Arthur	1,198,844	951,600	2,150,444	986,173	-
Peter Clare	1,012,120	900,000	1,912,120	1,289,840	-
Philip Coffey	1,278,053	1,263,600	2,541,653	1,816,235	-
Brad Cooper	1,034,451	1,320,000	2,354,451	1,599,807	-
George Frazis	950,162	1,171,200	2,121,362	1,499,041	-
Brian Hartzler ⁵	2,164,019	1,088,100	3,252,119	3,268,225	-
Christine Parker	802,855	691,200	1,494,055	438,130	-
Greg Targett	1,321,322	841,800	2,163,122	1,328,297	-
Rob Whitfield	1,768,837	1,171,200	2,940,037	1,659,052	-
Jason Yetton	810,358	649,800	1,460,158	621,036	-

- 1 Fixed remuneration includes cash salary, annual leave accrual and salary sacrificed items plus employer superannuation.
- 2 The cash STI payment represents 60% of the 2013 STI outcome and will be paid in December 2013. The remaining 40% is deferred in the form of equity and will vest in equal tranches in October 2014 and 2015.
- 3 This is the addition of the first and second columns.
- 4 Prior year equity awards include both deferred STI and LTI allocations subject to performance hurdles which have vested in 2013 (refer Brian Hartzler below). The equity value has been calculated as the number of securities that vested during the year ended 30 September 2013, multiplied by the five day volume weighted average price of Westpac ordinary shares at the time they vested, less any exercise price payable.
- 5 Brian Hartzler Chief Executive, Australian Financial Services was recruited to the Group in late 2011 and commenced employment in June 2012. The value shown as vested equity above relates to a specific allocation made in 2012, which reflects equity foregone with his previous employer.

4. Non-executive Director Remuneration

4.1. Structure and policy

Remuneration policy

Westpac's Non-executive Director remuneration strategy is designed to attract and retain experienced, qualified Board members and remunerate them appropriately for their time and expertise.

As the Board's focus is on strategic direction, long-term corporate performance and the creation of shareholder value, fees for Non-executive Directors are not directly related to the Group's short-term results and Non-executive Directors do not receive performance-based remuneration.

Non-executive Director remuneration consists of the following components:

Remuneration component	Paid as	Detail
Base fee	Cash	This fee is for service on the Westpac Banking Corporation Board. The base fee for the Chairman covers all responsibilities, including all Board Committees.
Committee fees	Cash	Additional fees are paid to Non-executive Directors for chairing or participating in Board Committees.
Superannuation	Superannuation	Reflects statutory superannuation contributions which are capped at the superannuation maximum contributions base as prescribed under the Superannuation Guarantee legislation.
Subsidiary Board and Advisory Board fees	Cash	Fees are for service on Subsidiary Boards and Advisory Boards. These fees are paid by the relevant subsidiary company.

Non-executive Director remuneration in 2013

For the year ended 30 September 2013, there were no changes made to Non-executive Director remuneration.

Changes to Board and Committee composition

The following changes were made to Board and Committee composition:

^{3/4} Robert Elstone was appointed Chairman of the Audit Committee, replacing Peter Wilson, effective 13 December 2012; and

³/₄ Ewen Crouch and Peter Marriott were appointed as Non-executive Directors to the Westpac Board effective 1 February 2013 and 1 June 2013 respectively.

Fee pool

At the 2008 Annual General Meeting, the current fee pool of \$4.5 million per annum was approved by shareholders. For the year ended 30 September 2013, \$3.01 million (67%) of this fee pool was used. The fee pool is inclusive of employer superannuation contributions.

Fee framework

This section details the current Non-executive Director fee framework.

Base and committee fees

The following table sets out the Board and standing Committee fees:

	Annual Rate
	\$
Base Fee	
Chairman	760,000
Deputy Chairman	270,000
Non-executive Directors	210,000
Committee Chairman Fees	
Audit Committee	60,000
Risk Management Committee	60,000
Remuneration Committee	48,000
Technology Committee	30,000
Committee Membership Fees	
Audit Committee	30,000
Risk Management Committee	30,000
Remuneration Committee	24,000
Technology Committee	15,000

Committee fees are not payable to the Chairman and members of the Nominations Committee.

DIRECTORS REPORT*Superannuation*

The Group pays superannuation contributions to Non-executive Directors of up to 9.25% of their fees (9% prior to 1 July 2013). These contributions are capped at the maximum compulsory superannuation contributions base prescribed under Superannuation Guarantee legislation. Employer contributions are paid into an eligible superannuation fund nominated by the Director.

Subsidiary Board and Advisory Board fees

Throughout the reporting period, additional fees were payable to certain Directors for membership on Subsidiary Boards or Advisory Boards. These fees vary according to the position held, the size, level and nature of activity in the division and the time commitment required.

The table below sets out the annual fees payable to the relevant Directors for service on Subsidiary and Advisory Boards in 2013:

Director	Subsidiary/Advisory Board	Role	Annual Rate
Peter Hawkins	Bank of Melbourne Advisory Board	Director	\$35,000
Peter Wilson ¹	Westpac New Zealand Limited	Chair	\$139,883

¹ The fees for service on the WNZL Subsidiary Board are paid in New Zealand dollars and have been converted to Australian dollars using the 2013 year to date average exchange rate (1AUD = 1.2153NZD).

Equity participation

Non-executive Directors have voluntarily resolved to build and maintain their individual holdings of Westpac ordinary shares to align their interests with the long-term interests of shareholders. Details of Non-executive Directors' Westpac (and related bodies corporate) shareholdings are set out in Section 4 (a) of the Directors' report.

5. Required remuneration disclosures

5.1. Details of Non-executive Director remuneration

Details of Non-executive Director remuneration are set out in the table below:

Name	Short-term Benefits		Post Employment Benefits		Total \$
	Westpac Banking Corporation Board Fees ¹ \$	Subsidiary and Advisory Board Fees \$	Superannuation \$	Retiring Allowance Accrued During the Year ⁴ \$	
Lindsay Maxsted, Chairman					
2013	760,000	-	16,870	-	776,870
2012	661,503	-	15,961	-	677,464
John Curtis, Deputy Chairman					
2013	348,000	-	16,816	-	364,816
2012	365,770	-	15,961	-	381,731
Elizabeth Bryan					
2013	309,000	-	16,870	-	325,870
2012	323,377	-	15,961	-	339,338
Gordon Cairns					
2013	264,000	-	16,870	-	280,870
2012	278,377	-	15,961	-	294,338
Ewen Crouch, appointed 1 February 2013					
2013	174,646	-	11,372	-	186,018
Robert Elstone					
2013	310,096	-	16,870	-	326,966
2012	182,254	-	9,194	-	191,448
Peter Hawkins					
2013	300,000	35,000	16,816	-	351,816
2012	300,000	35,000	15,961	-	350,961
Peter Marriott, appointed 1 June 2013					
2013	80,504	-	5,784	-	86,288
Ann Pickard					
2013	264,000	-	16,870	-	280,870
2012	205,836	-	13,332	-	219,168
Former Non-executive Directors					
Peter Wilson², retired on 13 December 2012					
2013	62,308	28,941	3,421	-	94,670
2012	306,489	131,875	15,961	-	454,325
Total fees					
2013	2,872,554	63,941	138,559	-	3,075,054
2012	3,038,587	279,693	146,451	14,427	3,479,158

¹ Includes fees paid to the Chairman and members of Board Committees.

² Peter Wilson remains the Chairman of Westpac New Zealand Ltd. The fees in this table have been pro-rated consistent with his tenure as a member of the Westpac Board. The annual fee is disclosed in Section 4.

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- 3 The total fees for 2012 reflect the prior year remuneration for the 2012 reported Non-executive Directors.
- 4 There were no Non-executive Directors with a retiring allowance in 2013.

DIRECTORS REPORT

5.2. Remuneration details KMP and other Senior Executives

This section sets out details of remuneration for the CEO and Senior Executives for the 2013 financial year, calculated in accordance with statutory accounting requirements.

Name	Fixed Remuneration ¹ \$	Short-term Benefits		Other Short-term Benefits ⁴ \$	Post Employment Benefits		Share-based Payments			Total ⁹ \$
		STI (cash) ² \$	Non-monetary Benefits ³ \$		Superannuation Benefits ⁵ \$	Long Service Leave ⁶ \$	Restricted Shares ⁷ \$	Options ⁸ \$	Share Rights ⁸ \$	
Managing Director & Chief Executive Officer										
Gail Kelly										
2013	2,964,957	2,656,800	11,026	-	25,032	51,108	1,621,079	-	1,848,328	9,178,330
2012	3,001,714	2,268,000	2,565	-	27,102	51,217	1,704,358	63,862	2,473,166	9,591,984
Senior Executives										
John Arthur, Chief Operating Officer										
2013	1,175,117	951,600	14,293	-	23,727	18,260	484,297	-	441,316	3,108,610
2012	1,131,518	702,000	13,053	-	43,503	31,205	471,581	-	384,414	2,777,274
Peter Clare, Chief Executive Officer, Westpac New Zealand Limited										
2013	1,008,654	900,000	18,293	-	3,466	-	183,193	-	682,595	2,796,201
2012	973,964	810,000	158,423	-	14,056	15,975	592,446	173	409,671	2,974,708
Philip Coffey, Chief Financial Officer										
2013	1,253,051	1,263,600	3,028	-	25,002	(254,682)	769,480	-	434,553	3,494,032
2012	1,312,031	1,080,000	2,033	-	43,270	44,198	825,490	222	548,696	3,855,940
Brad Cooper, Chief Executive Officer, BT Financial Group										
2013	1,009,555	1,320,000	3,028	-	24,896	15,217	763,815	-	449,082	3,585,593
2012	956,185	1,080,000	3,013	-	50,791	15,244	766,713	195	594,341	3,466,482
George Frazis, Chief Executive Officer, St.George Banking Group										
2013	925,231	1,171,200	22,505	-	24,931	15,221	660,204	-	316,218	3,135,510
2012	1,005,158	912,000	2,888	-	28,254	7,627	486,064	167,365	660,959	3,270,315
Brian Hartzler, Chief Executive, Australian Financial Services ¹⁰										
2013	2,145,092	1,088,100	3,028	-	18,927	33,487	72,161	-	114,447	3,475,242
<i>FY13 Remuneration impact relating to recruitment</i>										
2013	-	-	644,488	-	-	-	3,373,875	-	-	4,018,363
2012	622,080	150,000	185,712	370,000	10,614	8,985	2,461,533	-	-	3,808,924
Christine Parker, Group Executive, Human Resources & Corporate Affairs										
2013	782,964	691,200	223,677	-	19,891	12,177	374,529	-	137,885	2,242,323
2012	825,411	600,000	46,109	-	19,253	17,357	307,823	26	84,774	1,900,753
Greg Targett, Chief Risk Officer										
2013	1,296,512	841,800	3,028	-	24,810	20,549	485,315	-	388,659	3,060,673
2012	1,323,898	690,000	3,013	-	43,601	33,242	537,857	-	493,833	3,125,444
Rob Whitfield, Group Executive, Westpac Institutional Bank										
2013	1,744,159	1,171,200	299,326	-	24,678	27,373	827,911	-	359,415	4,454,062
2012	1,711,723	1,296,000	160,603	-	24,326	27,423	688,660	130	530,560	4,439,425
Jason Yetton, Group Executive, Westpac Retail & Business Banking										
2013	790,984	649,800	3,028	-	19,374	12,170	434,004	-	243,598	2,152,958
2012	834,966	660,000	1,736	-	24,126	30,681	339,824	-	124,471	2,015,804

- 1 Fixed remuneration is the total cost of salary, salary sacrificed benefits (including motor vehicles, parking, etc., and any associated fringe benefits tax) and an accrual for annual leave entitlements.
- 2 2013 STI figures reflect annual cash performance awards accrued but not yet paid in respect of the year ended 30 September 2013.
- 3 Non-monetary benefits are determined on the basis of the cost to the Group (including associated fringe benefits tax, where applicable) and include annual health checks, provision of taxation advice, relocation costs, living away from home expenses and allowances.
- 4 The payment to Brian Hartzler in 2012 reflects annual incentive foregone from his previous employer.
- 5 The CEO and Senior Executives are provided with insurance cover under the Westpac Group Plan at no cost. Superannuation benefits have been calculated consistent with AASB 119.
- 6 Phil Coffey took long service leave during the year which resulted in a negative adjustment of \$254,682.
- 7 The value of restricted shares is amortised over the applicable vesting period, and the amount shown is the amortisation relating to the 2013 reporting year (and 2012 year as comparison).

- The equity granted to Brian Hartzler on his recruitment in 2012 relates to equity foregone with his previous employer and will be forfeited if Mr Hartzler resigns or is terminated for cause before the vesting dates.
- 8 Equity-settled remuneration is based on the amortisation over the vesting period (normally two or three years) of the fair value at grant date of hurdled and unhurdled options and share rights that were granted during the four years ended 30 September 2013. Details of prior years grants have been disclosed in previous Annual Reports.
- 9 The percentage of the total remuneration which is performance related (i.e., STI cash plus share based payments) was: Gail Kelly 67%, John Arthur 60%, Peter Clare 63%, Philip Coffey 71%, Brad Cooper 71%, George Frazis 68%, Brian Hartzler 62%, Christine Parker 54%, Greg Targett 56%, Rob Whitfield 53% and Jason Yetton 62%. The percentage of total remuneration delivered in the form of options (including share rights) was: Gail Kelly 20%, John Arthur 14%, Peter Clare 24%, Philip Coffey 12%, Brad Cooper 13%, George Frazis 10%, Brian Hartzler 2%, Christine Parker 6%, Greg Targett 13%, Rob Whitfield 8% and Jason Yetton 11%.
- 10 Brian Hartzler's remuneration for 2013 has been separated into two elements, the first line being his remuneration as the Chief Executive, AFS for 2013, the second line being those elements which have been incurred as the result of the buy-out of equity forfeited on his resignation from his previous employer and includes \$362,125 in relocation-related benefits and \$282,363 FBT expense on his relocation from London. Brian Hartzler's 2012 remuneration shows the combined remuneration values. Brian received a total relocation benefit of \$185,712, inclusive of FBT in 2012.

5.3. STI allocations for the CEO and Senior Executives

This section sets out details of STI awards for the CEO and Senior Executives for the 2013 financial year.

	STI Target \$	Maximum STI1 %	STI Portion Paid in Cash2 %	\$	STI Portion Deferred3 %	\$
Managing Director & Chief Executive Officer						
Gail Kelly	3,600,000	150	60	2,656,800	40	1,771,200
Senior Executives						
John Arthur	1,300,000	150	60	951,600	40	634,400
Peter Clare	1,500,000	150	60	900,000	40	600,000
Philip Coffey	1,800,000	150	60	1,263,600	40	842,400
Brad Cooper	2,000,000	150	60	1,320,000	40	880,000
George Frazis	1,600,000	150	60	1,171,200	40	780,800
Brian Hartzler	1,550,000	150	60	1,088,100	40	725,400
Christine Parker	900,000	150	60	691,200	40	460,800
Greg Targett	1,150,000	150	60	841,800	40	561,200
Rob Whitfield	1,600,000	150	60	1,171,200	40	780,800
Jason Yetton	950,000	150	60	649,800	40	433,200

1 The maximum STI Potential is 150% of the individual STI Target.

2 60% of the STI outcome for the year is paid as cash in December 2013.

3 40% of the actual STI outcome is deferred in the form of restricted shares or share rights, half vesting on 1 October 2014 and the remainder vesting on 1 October 2015.

DIRECTORS REPORT**5.4. Movement in equity-settled instruments during the year**

This table shows the details of movements during 2013 in the number and value of equity instruments for the CEO and Senior Executives under the relevant plans.

Name	Type of Equity Instrument	Number Granted ¹	Number Vested ²	Number Exercised ³	Value Granted ⁴ \$	Value Exercised ⁵ \$	Value Forfeited or Lapsed ^{5,6} \$
Managing Director & Chief Executive Officer							
Gail Kelly	CEO Performance options	-	35,612	400,043	-	2,839,469	-
	CEO Performance share rights	213,101	128,174	128,174	3,471,153	4,124,474	-
	Shares under the CEO Restricted Share Plan	58,400	66,984	n/a	1,517,172	n/a	-
Senior Executives							
John Arthur	Performance share rights	71,033	17,256	17,256	1,121,512	426,002	-
	Shares under Restricted Share Plan	18,076	22,763	n/a	469,596	n/a	-
Peter Clare	Performance options	-	8,180	-	-	-	-
	Performance share rights	39,462	23,187	23,187	623,049	572,422	-
	Unhurdled share rights	22,942	-	-	526,667	-	-
	Shares under Restricted Share Plan	-	28,725	n/a	-	n/a	-
Philip Coffey	Performance options	-	10,480	219,591	-	1,140,164	-
	Performance share rights	67,087	32,354	32,354	1,059,213	798,729	-
	Shares under Restricted Share Plan	27,809	40,799	n/a	722,449	n/a	-
Brad Cooper	Performance options	-	9,202	-	-	-	-
	Performance share rights	59,194	28,310	28,310	934,594	698,894	-
	Shares under Restricted Share Plan	27,809	36,128	n/a	722,449	n/a	-
George Frazis	Performance options	-	-	-	-	-	-
	Performance share rights	43,409	26,962	26,962	685,369	665,616	-
	Unhurdled share rights	-	20,703	20,703	-	525,986	-
	Shares under Restricted Share Plan	23,483	13,098	n/a	610,064	n/a	-
Brian Hartzler	Performance share rights	30,780	-	-	485,971	-	-
	Shares under Restricted Share Plan	3,862	104,850	n/a	100,331	n/a	-
Christine Parker	Performance options	-	1,220	12,204	-	107,135	-
	Performance share rights	27,623	3,047	3,047	436,131	75,222	-
	Unhurdled share rights	-	-	2,838	-	73,728	-
	Shares under Restricted Share Plan	15,449	14,553	n/a	401,349	n/a	-
Greg Targett	Performance share rights	55,247	25,883	25,883	872,274	638,978	-

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	Shares under Restricted Share Plan	17,767	28,011	n/a	461,568	n/a	-
Rob Whitfield	Performance options	-	6,135	403,365	-	3,166,253	-
	Performance share rights	47,355	32,354	98,939	747,667	2,935,740	-
	Shares under Restricted Share Plan	33,371	34,639	n/a	866,944	n/a	-
Jason Yetton	Performance options	-	3,272	-	-	-	-
	Performance share rights	51,301	8,627	58,107	809,975	1,763,524	-
	Shares under Restricted Share Plan	16,994	16,313	n/a	441,487	n/a	-

1 No performance options were granted in 2013.

2 100% of unhurdled share rights granted in 2010 vested in October 2012. The remaining 10% of performance options granted to the CEO in 2008 vested in December 2012, and the remaining 10% of performance options granted to Senior Executives in 2008 vested in October 2012. Both were assessed against the TSR performance hurdle.

3 Vested options and share rights that were granted prior to October 2009 can be exercised up to a maximum of 10 years from their commencement date. For each share right and each performance option exercised during the year, the relevant Executive received one fully paid Westpac ordinary share. The exercise price for share rights is nil.

4 For share rights, the value granted represents the number of securities granted multiplied by the fair value per instrument as set out in the table titled Fair value of LTI grants made during the year below. For restricted shares, the value granted represents the number of ordinary shares granted multiplied by the five day volume weighted average price of a Westpac ordinary share on the date the shares were granted. These values, which represent the full value of the equity-based awards made to disclosed Executives in 2013, do not reconcile with the amount shown in the table in Section 5.2, which shows amortised totals of equity awards over their vesting period. The minimum total value of the grants for future financial years is nil and an estimate of the maximum possible total value in future financial years is the fair value, as shown above.

5 The value of each option or share right exercised or lapsed is calculated based on the five day volume weighted average price of Westpac ordinary shares on the ASX on the date of exercise (or lapse), less the relevant exercise price (if any). Where the exercise price is greater than the five day volume weighted average price of Westpac ordinary shares, the value has been calculated as nil.

6 Apart from equity instruments referred to in this section, no other equity instruments granted in prior years vested and none were forfeited during the financial year.

Fair value of LTI grants made during the year

The table below provides a summary of the fair value of LTI awards granted to the CEO and Senior Executives during 2013 calculated in accordance with Australian accounting standard AASB 2 Share-based Payments and is used for accounting purposes only. The LTI grants will vest on satisfaction of performance and/or service conditions tested in future financial years.

Equity Instrument	Performance Hurdle	Granted to	Grant Date	Commencement Date ¹	Test Date	Expiry	Fair Value ² per Instrument
CEO Performance Plan	Relative TSR	Gail Kelly	13 December 2012	1 October 2012	1 October 2015	1 October 2022	\$11.86
Share Rights	Cash EPS CAGR		13 December 2012	1 October 2012	1 October 2015	1 October 2022	\$21.85
Westpac Reward Plan	Relative TSR	All Senior	28 November 2012	1 October 2012	1 October 2015	1 October 2022	\$11.75
Share Rights	Cash EPS CAGR	Executives	28 November 2012	1 October 2012	1 October 2015	1 October 2022	\$20.86

- 1 The commencement date is the start of the performance period. Awards to the CEO were approved by shareholders at the Annual General Meeting held on 15 December 2010.
- 2 The fair values of share rights granted during the year included in the table above have been independently calculated at their respective grant dates based on the requirements of Australian accounting standard AASB 2 Share-based Payments. The fair value of rights with Cash EPS CAGR hurdles has been assessed with reference to the share price at grant date and a discount rate reflecting the expected dividend yield over their vesting periods. For the purpose of allocating rights with Cash EPS CAGR hurdles, the valuation also takes into account the average Cash EPS CAGR outcome using a Monte Carlo simulation model. The fair value of rights with hurdles based on TSR performance relative to a group of comparator companies also takes into account the average TSR outcome determined using a Monte Carlo simulation pricing model.

5.5. Employment agreements

The remuneration and other terms of employment for the CEO and Senior Executives are formalised in their employment agreements. Each of these employment agreements provide for the payment of fixed and performance-based remuneration, superannuation and other benefits such as death and disablement insurance cover.

The term and termination provisions of the employment agreements for the current KMP are summarised below.

Term	Who	Conditions
Duration of agreement	$\frac{3}{4}$ CEO and all Senior Executives	$\frac{3}{4}$ Ongoing until notice given by either party
Notice to be provided by the executive or the Group to terminate the employment agreement	$\frac{3}{4}$ CEO and Senior Executives	$\frac{3}{4}$ 12 months ¹
	$\frac{3}{4}$ Jason Yetton	$\frac{3}{4}$ 6 months ¹
Termination payments to be made on termination without cause	$\frac{3}{4}$ CEO and all Senior Executives	$\frac{3}{4}$ Deferred STI and LTI awards vest according to the applicable equity plan rules

Termination for cause	^{3/4} CEO, John Arthur, Brian Hartzler, Christine Parker, Greg Targett, Rob Whitfield and Jason Yetton	^{3/4} Immediately for misconduct ^{3/4} 3 months notice for poor performance
	^{3/4} All other Senior Executives	^{3/4} Immediately for misconduct ^{3/4} Standard contractual notice period for poor performance
Post-employment restraints	^{3/4} CEO and all Senior Executives	^{3/4} 12 month non-solicitation restraint

1 Payment in lieu of notice may in certain circumstances be approved by the Board for some or all of the notice period.

Certain individuals have provisions in their contracts for different terms due to grandfathered contractual benefits or individual circumstances:

^{3/4} **Gail Kelly** The restricted period on all invested restricted shares (deferred STI) will continue to the full term when Gail Kelly ceases employment with Westpac, except for death, sickness or disability or in certain circumstances within 12 months of change of control of Westpac. In these circumstances all unvested restricted shares will vest. On immediate termination for misconduct, all restricted shares will be forfeited. When Gail Kelly ceases employment with Westpac, all unvested performance share rights (LTI) will lapse at the Board's discretion, except under circumstances of death, sickness or disability or in certain circumstances within 12 months of change of control of Westpac. In these circumstances all unvested performance share rights will vest. On immediate termination for misconduct, all unvested performance share rights will lapse;

^{3/4} **Peter Clare** Provisions relating to his relocation from Sydney to Auckland;

^{3/4} **Brian Hartzler** Provisions relating to his relocation from London to Sydney;

^{3/4} **Christine Parker** Provisions relating her relocation from Auckland to Sydney; and

^{3/4} **Rob Whitfield** Provisions relating to accommodation in Sydney.

DIRECTORS REPORT

10. AUDITOR

a) *Auditor s independence declaration*

A copy of the auditor s independence declaration as required under section 307C of the Corporations Act is below:

AUDITOR S INDEPENDENCE DECLARATION	
<p>As lead auditor for the audit of Westpac Banking Corporation for the year ended 30 September 2013, I declare that to the best of my knowledge and belief, there have been:</p>	
<p>a. no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and</p>	
<p>b. no contraventions of any applicable code of professional conduct in relation to the audit.</p>	
<p>This declaration is in respect of Westpac Banking Corporation and the entities it controlled during the period.</p>	
Michael Codling Partner PricewaterhouseCoopers	Sydney, Australia 4 November 2013

PricewaterhouseCoopers, ABN 52 780 433 757		
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171		
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au		

b) Non-audit services

We may decide to engage PwC on assignments additional to their statutory audit duties where their expertise or experience with Westpac or a controlled entity is important.

Details of the non-audit service amounts paid or payable to PwC for non-audit services provided during the 2012 and 2013 financial years are set out in Note 33 to the financial statements.

PwC also provides audit and non-audit services to non-consolidated entities, non-consolidated trusts of which a Westpac Group entity is trustee, manager or responsible entity and non-consolidated superannuation funds or pension funds. The fees in respect of these services were approximately \$7.7 million in total (2012 \$8.6 million). PwC may also provide audit and non-audit services to other entities in which Westpac holds a minority interest and which are not consolidated. Westpac is not aware of the amount of any fees paid to PwC by those entities.

Westpac has a policy on engaging PwC, details of which are set out in the *Corporate governance* section, including the subsection entitled *Engagement of the external auditor*, which forms part of this Directors' report.

The Board has considered the position and, in accordance with the advice received from the Board Audit Committee, is satisfied that the provision of the non-audit services during 2013 by PwC is compatible with the general standard of independence for auditors imposed by the Corporations Act. The Directors are satisfied that the provision of non-audit services by PwC, as set out above, did not compromise the auditor independence requirements of the Corporations Act for the following reasons:

$\frac{3}{4}$ all non-audit services have been reviewed by the Board Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and

$\frac{3}{4}$ none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Signed in accordance with a resolution of the Board.

Lindsay Maxsted

Chairman

4 November 2013

Gail Kelly

Managing Director & Chief Executive Officer

4 November 2013

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FIVE YEAR SUMMARY

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REVIEW OF GROUP OPERATIONS

DIVISIONAL PERFORMANCE

RISK AND RISK MANAGEMENT

OTHER WESTPAC BUSINESS INFORMATION

FIVE YEAR SUMMARY¹

(in \$millions unless otherwise indicated)	2013	2012	2011	2010	2009
Income statements for the years ended 30 September²					
Net interest income	12,865	12,502	11,996	11,842	11,646
Non-interest income	5,774	5,481	4,917	5,068	4,859
Net operating income before operating expenses and impairment charges	18,639	17,983	16,913	16,910	16,505
Operating expenses	(7,927)	(7,909)	(7,406)	(7,416)	(7,171)
Impairment charges	(847)	(1,212)	(993)	(1,456)	(3,238)
Profit before income tax	9,865	8,862	8,514	8,038	6,096
Income tax expense	(2,975)	(2,826)	(1,455)	(1,626)	(2,579)
Profit attributable to non-controlling interests	(74)	(66)	(68)	(66)	(71)
Net profit attributable to owners of Westpac Banking Corporation	6,816	5,970	6,991	6,346	3,446
Balance sheet as at 30 September²					
Loans	536,164	514,445	496,609	477,655	463,459
Other assets	160,439	160,520	173,619	140,622	126,128
Total assets	696,603	674,965	670,228	618,277	589,587
Deposits and other borrowings	424,482	394,991	370,278	337,385	329,456
Debt issues	144,133	147,847	165,931	150,971	133,024
Loan capital	9,330	9,537	8,173	9,632	11,138
Other liabilities	71,177	76,371	82,038	80,171	79,398
Total liabilities	649,122	628,746	626,420	578,159	553,016
Total shareholders equity and non-controlling interests	47,481	46,219	43,808	40,118	36,571
Key financial ratios					
Shareholder value					
Dividends per ordinary share (cents)	174	166	156	139	116
Special dividends per ordinary share (cents)	20	-	-	-	-
Dividend payout ratio (%) ³	78.9	84.8	67.0	64.9	92.6
Return on average ordinary equity (%)	15.4	14.0	17.8	17.4	10.8
Basic earnings per share (cents)	220.4	195.8	233.0	214.2	125.3
Net tangible assets per ordinary share (\$) ⁴	11.07	10.47	9.96	8.96	7.89
Share price (\$):					
High	34.79	24.99	25.60	28.43	26.74
Low	24.23	19.00	17.84	20.56	14.40
Close	32.73	24.85	20.34	23.24	26.25
Business performance					
Operating expenses to operating income ratio (%)	42.5	44.0	43.8	43.9	43.4
Net interest margin	2.14	2.16	2.19	2.21	2.38
Capital adequacy					
Total equity to total assets (%)	6.8	6.8	6.5	6.5	6.2
Total equity to total average assets (%)	6.9	7.0	7.0	6.6	6.3
APRA Basel III:					
Common equity Tier 1 (%) ⁵	9.1	8.2	n/a	n/a	n/a
Tier 1 ratio (%) ⁶	10.7	10.3	9.7	9.1	8.1
Total capital ratio (%) ⁶	12.3	11.7	11.0	11.0	10.8
Credit quality					
Net impaired assets to equity and collectively assessed provisions (%)	4.1	5.6	6.3	6.2	5.7
Total provisions for impairment on loans and credit commitments to total loans (basis points)	73	82	88	105	101
Other information					
Full-time equivalent staff (number at financial year end) ⁷	33,045	33,418	33,898	35,055	34,189

1 Where accounting classifications have changed or where changes in accounting policy are adopted retrospectively, comparatives have been revised and may differ from results previously reported.

2 The above income statement extracts for 2013, 2012 and 2011 and balance sheet extracts for 2013 and 2012 are derived from the consolidated financial statements included in this Annual Report. The above income statement extracts for 2010 and 2009 and balance sheet extracts for 2011, 2010 and 2009 are derived from financial statements previously published.

3 Excludes special dividends.

4 Total equity attributable to owners of Westpac Banking Corporation, after deducting goodwill and other intangible assets divided by the number of ordinary shares outstanding, less treasury shares held.

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Basel III was not effective in Australia until 1 January 2013. The 2012 ratio has been presented on a pro forma Basel III basis. No comparatives are presented for other years. For further information, refer to Note 30 to the financial statements.

6 Basel III was not effective in Australia until 1 January 2013. Comparatives are presented on a Basel II basis. For further information, refer to Note 30 to the financial statements.

7 Full-time equivalent employees includes full-time and pro-rata part-time staff. It excludes staff on unpaid absences (e.g. unpaid maternity leave), overtime, temporary and contract staff.

READING THIS REPORT

Disclosure regarding forward-looking statements

This Annual Report contains statements that constitute forward-looking statements within the meaning of Section 21E of the US *Securities Exchange Act of 1934*.

Forward-looking statements are statements about matters that are not historical facts. Forward-looking statements appear in a number of places in this Annual Report and include statements regarding our intent, belief or current expectations with respect to our business and operations, market conditions, results of operations and financial condition, including, without limitation, future loan loss provisions and financial support to certain borrowers. We use words such as will, may, expect, intend, seek, would, should, could, continue, plan, estimate, anticipate, believe, probability, risk or other similar words to identify forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are subject to change, certain risks, uncertainties and assumptions which are, in many instances, beyond our control, and have been made based upon management's expectations and beliefs concerning future developments and their potential effect upon us. There can be no assurance that future developments will be in accordance with our expectations or that the effect of future developments on us will be those anticipated. Actual results could differ materially from those which we expect, depending on the outcome of various factors, including, but not limited to:

¾ the effect of, and changes in, laws, regulations, taxation or accounting standards or practices and government policy, particularly changes to liquidity, leverage and capital requirements;

¾ the stability of Australian and international financial systems and disruptions to financial markets and any losses or business impacts Westpac or its customers or counterparties may experience as a result;

¾ market volatility, including uncertain conditions in funding, equity and asset markets;

¾ adverse asset, credit or capital market conditions;

¾ changes to our credit ratings;

¾ levels of inflation, interest rates, exchange rates and market and monetary fluctuations;

¾ market liquidity and investor confidence;

¾ changes in economic conditions, consumer spending, saving and borrowing habits in Australia, New Zealand and in other countries in which Westpac or its customers or counterparties conduct their operations and our ability to maintain or to increase market share and control expenses;

¾ the effects of competition in the geographic and business areas in which Westpac conducts its operations;

- ¾ reliability and security of Westpac's technology and risks associated with changes to technology systems;
- ¾ the timely development and acceptance of new products and services and the perceived overall value of these products and services by customers;
- ¾ the effectiveness of our risk management policies, including our internal processes, systems and employees;
- ¾ the occurrence of environmental change or external events in countries in which Westpac or its customers or counterparties conduct their operations;
- ¾ internal and external events which may adversely impact our reputation;
- ¾ changes in political, social or economic conditions in any of the major markets in which Westpac or its customers or counterparties operate;
- ¾ the success of strategic decisions involving business expansion and integration of new businesses; and
- ¾ various other factors beyond Westpac's control.

The above list is not exhaustive. For certain other factors that may impact on forward-looking statements made by us, refer to "Risk factors" under the section "Risk and risk management". When relying on forward-looking statements to make decisions with respect to us, investors and others should carefully consider the foregoing factors and other uncertainties and events.

Westpac is under no obligation to update any forward-looking statements contained in this Annual Report, whether as a result of new information, future events or otherwise, after the date of this Annual Report.

Significant developments

For a discussion of significant developments impacting the Group, refer to "Significant developments" under "Information on Westpac" in Section 1.

Currency of presentation, exchange rates and certain definitions

In this Annual Report, "financial statements" means our audited consolidated balance sheets as at 30 September 2013 and 30 September 2012 and income statements, statements of comprehensive income, changes in equity and cash flows for each of the years ended 30 September 2013, 2012 and 2011 together with accompanying notes which are included in this Annual Report.

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Our financial year ends on 30 September. As used throughout this Annual Report, the financial year ended 30 September 2013 is referred to as 2013 and other financial years are referred to in a corresponding manner.

We publish our consolidated financial statements in Australian dollars. In this Annual Report, unless otherwise stated or the context otherwise requires, references to dollars , dollar amounts , \$, AUD or A\$ are to Australian dollars, references to US\$, USD or US dollars are to United States dollars and references to NZ\$, NZD or NZ dollars are to New Zealand dollars. Solely for the convenience of the reader, certain Australian dollar amounts have been translated into US dollars at a specified rate. 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 translations of Australian dollars into US dollars have been made at the rate of A\$1.00 =US\$0.9342, 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) as of Monday, 30 September 2013. The

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Australian dollar equivalent of New Zealand dollars at 30 September 2013 was A\$1.00 = NZ\$1.1260, being the closing spot exchange rate on that date. Refer to Exchange rates in Section 4 for information regarding the rates of exchange between the Australian dollar and the US dollar for the financial years ended 30 September 2009 to 30 September 2013.

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

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Selected consolidated financial and operating data

We have derived the following selected financial information as of, and for the financial years ended, 30 September 2013, 2012, 2011, 2010 and 2009 from our audited consolidated financial statements and related notes.

This information should be read together with our audited consolidated financial statements and the accompanying notes included elsewhere in this Annual Report.

Accounting standards

The financial statements and other financial information included elsewhere in this Annual Report, unless otherwise indicated, have been prepared and presented in accordance with Australian Accounting Standards (A-IFRS). They also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared in accordance with the accounting policies described in Note 1 to the financial statements.

Recent accounting developments

For a discussion of recent accounting developments refer to Note 1 to the financial statements.

Critical accounting estimates

Our reported results are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the income statement and the balance sheet. Our principal accounting policies are disclosed in Note 1 to the financial statements. Note 1 also includes a description of our critical accounting assumptions and estimates. We have discussed the development and selection of the critical accounting estimates with our Board Audit Committee (BAC). The following is a summary of the areas we consider involve our most critical accounting estimates. For more detail refer to Note 1 to the financial statements.

Fair value of financial instruments

Financial instruments classified as held-for-trading or designated at fair value through profit or loss and financial assets classified as available-for-sale are recognised in the financial statements at fair value. All derivatives are measured and recognised at fair value. As far as possible, financial instruments are valued with reference to quoted, observable market prices or by using models which employ observable valuation parameters. Where valuation models rely on parameters for which inputs are not observable, judgments and estimation may be required.

As at 30 September 2013, the fair value of trading securities, financial assets designated at fair value through profit or loss, loans designated at fair value, available-for-sale securities and life insurance assets was \$98,601 million (2012: \$91,816 million). The value of financial liabilities at fair value through income statement, deposits and other borrowings at fair value, debt issues at fair value and life insurance liabilities was \$73,883 million (2012: \$95,527 million). The fair value of outstanding derivatives was a net liability of \$4,634 million (2012: \$3,446 million net liability). The fair value of financial assets and financial liabilities determined by valuation models that use unobservable market prices was \$1,332 million (2012: \$1,276 million) and \$37 million (2012: \$100 million), respectively. The fair value of other

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financial assets and financial liabilities, including derivatives, is largely determined based on valuation models using observable market prices and rates. Where observable market inputs are not available, day one profits or losses are not recognised.

We believe that the judgments and estimates used are reasonable in the current market. However, a change in these judgments and estimates would lead to different results as future market conditions can vary from those expected.

Provisions for impairment charges on loans

Provisions for loan impairment charges represent management's best estimate of the losses incurred in the loan portfolios as at the balance date. There are two components of our loan impairment provisions: individually assessed provisions (IAPs) and collectively assessed provisions (CAPs).

In determining IAPs, considerations that have a bearing on the expected future cash flows are taken into account. For example, the business prospects of the customer, the realisable value of collateral, our position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. These judgments and estimates can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are made.

The CAPs are established on a portfolio basis taking into account the level of arrears, collateral and security, past loss experience and expected defaults based on portfolio trends. The most significant factors in establishing these provisions are estimated loss rates and related emergence periods. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates, unemployment levels, payment behaviour and bankruptcy rates.

As at 30 September 2013, gross loans to customers were \$539,806 million (2012: \$518,279 million) and the provision for impairment on loans was \$3,642 million (2012: \$3,834 million).

Goodwill

Goodwill represents the excess of purchase consideration, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identified net assets of acquired businesses. The determination of the fair value of the assets and liabilities of acquired businesses requires the exercise of management judgment. Different fair values would result in changes to the goodwill and to the post-acquisition performance of the acquisitions.

Goodwill is tested for impairment annually by determining if the carrying value of the cash-generating unit (CGU) that it has been allocated to is recoverable. The recoverable amount is the higher of the CGU's fair value less costs to sell and its value in use. Determination of appropriate cash flows and discount rates for the calculation of the value in use is subjective. As at 30 September 2013, the carrying value of goodwill was \$8,868 million (2012: \$8,797 million). Refer to Note 15 to the financial statements for further information.

Superannuation obligations

The actuarial valuation of our defined benefit plan obligations are dependent upon a series of assumptions, the key ones being discount rate, salary increase rate, mortality, morbidity and investment returns assumptions. Different assumptions could significantly alter the amount of the difference between plan assets and defined benefit obligations and the amount recognised directly in retained earnings.

The superannuation deficits across all our plans as at 30 September 2013 were in aggregate \$306 million (2012: \$632 million).

Provisions (other than loan impairment charges)

Provisions are held in respect of a range of obligations such as employee entitlements, restructuring costs, litigation provisions and non-lending losses, impairment charges on credit commitments and surplus lease space. Some of the provisions involve significant judgment about the likely outcome of various events and estimated future cash flows.

Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. All our businesses predominantly operate in jurisdictions with similar tax rates to the Australian corporate tax rate. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period where such determination is made.

Provisions for taxation held in respect of uncertain tax positions represent the tax benefits at risk. The assessment of the amount of tax benefits at risk involves the exercise of management judgments about the ultimate outcomes of the contested transactions.

Life insurance contract liabilities

The actuarial valuation of life insurance contract liabilities and associated deferred policy acquisition costs are dependent upon a number of assumptions. The key factors impacting the valuation of these liabilities and related assets are the cost of providing benefits and administering the contracts, mortality and morbidity experience, discontinuance experience and the rate at which projected future cash flows are discounted.

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INCOME STATEMENT REVIEW

Consolidated income statement¹

(in \$millions unless otherwise indicated)	Year Ended 30 September					
	2013 US\$2	2013 A\$	2012 A\$	2011 A\$	2010 A\$	2009 A\$
Interest income	30,837	33,009	36,873	38,098	34,151	30,446
Interest expense	(18,819)	(20,144)	(24,371)	(26,102)	(22,309)	(18,800)
Net interest income	12,018	12,865	12,502	11,996	11,842	11,646
Non-interest income	5,394	5,774	5,481	4,917	5,068	4,859
Net operating income before operating expenses and impairment charges	17,412	18,639	17,983	16,913	16,910	16,505
Operating expenses	(7,405)	(7,927)	(7,909)	(7,406)	(7,416)	(7,171)
Impairment charges	(791)	(847)	(1,212)	(993)	(1,456)	(3,238)
Profit before income tax	9,216	9,865	8,862	8,514	8,038	6,096
Income tax expense	(2,779)	(2,975)	(2,826)	(1,455)	(1,626)	(2,579)
Net profit for the year	6,437	6,890	6,036	7,059	6,412	3,517
Profit attributable to non-controlling interests	(69)	(74)	(66)	(68)	(66)	(71)
Net profit attributable to owners of Westpac Banking Corporation	6,368	6,816	5,970	6,991	6,346	3,446
Weighted average number of ordinary shares (millions)	3,087	3,087	3,043	2,997	2,960	2,747
Basic earnings per ordinary share (cents)	205.9	220.4	195.8	233.0	214.2	125.3
Diluted earnings per share (cents) ³	201.3	215.5	190.5	223.6	207.1	123.2
Dividends per ordinary share (cents)	163	174	166	156	139	116
Special dividends per ordinary share (cents)	19	20	-	-	-	-
Dividend payout ratio (%) ⁴	78.9	78.9	84.8	67.0	64.9	92.6

1 Where accounting classifications have changed or where changes in accounting policy are adopted retrospectively, comparatives have been revised and may differ from results previously reported.

2 Australian dollar amounts have been translated into US dollars solely for the convenience of the reader at the rate of A\$1.00 = US\$0.9342, the noon buying rate in New York City on 30 September 2013.

3 Based on basic earnings per share, with the weighted average number of fully paid ordinary shares outstanding adjusted for the conversion of dilutive potential ordinary shares, issued for no consideration, and after adjusting earnings for distributions on dilutive potential ordinary shares.

4 Calculated by dividing the dividends per ordinary share by the basic earnings per ordinary share. Excludes special dividends.

Overview of performance 2013 v 2012

Net profit attributable to owners of Westpac Banking Corporation was \$6,816 million in 2013, an increase of \$846 million or 14% compared to 2012. The higher net profit for the year reflected a 4% increase in net operating income before operating expenses and impairment charges, flat operating expenses, and a 30% decrease in impairment charges.

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Net interest income was \$12,865 million in 2013, an increase of \$363 million or 3% compared to 2012, reflecting growth in customer deposits of 10%, loan growth of 4% and lower margins.

Non-interest income was \$5,774 million in 2013, an increase of \$293 million or 5% compared to 2012, reflecting higher trading, wealth management and insurance income.

Operating expenses were \$7,927 million in 2013, an increase of \$18 million compared to 2012, as operating cost increases and higher investment costs were offset by expense reductions from delivery of productivity initiatives. In 2012, costs associated with the Group's supplier program along with a litigation provision lifted reported expenses that year. There were no similar expense items in 2013.

Impairment charges were \$847 million in 2013, a decrease of \$365 million or 30% compared to 2012, reflecting continued improvements in asset quality including further reductions in stressed assets and new impaired assets.

The effective tax rate was 30.2% in 2013 compared to 31.9% in 2012. The reduction in effective tax rate mostly reflected an additional tax expense in 2012, related to the retrospective application of new Taxation of Financial Arrangements (TOFA) legislation to the merger with St. George, which was not repeated in 2013.

2013 basic earnings per share were 220.4 cents per share compared to 195.8 cents per share in 2012. The increase in the number of shares on issue in 2013 was primarily due to shares issued under the Dividend Reinvestment Plan (DRP) in December 2012.

The Board has determined a final dividend of 88 cents per ordinary share and a special dividend of 10 cents per ordinary share. The full year ordinary dividends of 174 cents represent an increase of 5% over the dividends declared in 2012 and a pay-out ratio of 79%. The total special dividends for 2013 are 20 cents. The total full year ordinary and special dividends are fully franked.

Income statement review 2013 v 2012**Net interest income 2013 v 2012**

	2013	2012	2011
	\$m	\$m	\$m
Interest income	33,009	36,873	38,098
Interest expense	(20,144)	(24,371)	(26,102)
Net interest income	12,865	12,502	11,996
Increase/(decrease) in net interest income			
Due to change in volume	430	556	207
Due to change in rate	(67)	(50)	(53)
Change in net interest income	363	506	154

Net interest income was \$12,865 million in 2013, an increase of \$363 million or 3% compared to 2012.

Net interest margins declined 2 basis points to 2.14% in 2013 from 2.16% in 2012. The lower net interest margin reflected lower treasury revenue; the impact of lower interest rates; and a competitive environment for deposits (particularly at call deposits), which were mostly offset by improved margins from asset repricing in lending portfolios.

Loan growth¹ in 2013 was 4% higher compared to 2012, with the key feature being 4% growth in Australian housing loans. Foreign exchange translation of foreign denominated loans added 1% to growth. Loan growth had the following specific components:

§ Australian housing loans increased \$12.2 billion or 4%, with growth across all brands;

§ New Zealand lending increased \$7.3 billion or 15%, with foreign exchange (FX) translation impacts contributing \$5.6 billion to growth. Mortgage growth was the main driver of growth excluding FX translation impacts;

§ other overseas loans increased \$3.0 billion or 44% due primarily to growth in trade finance in Asia; and

§ Australian personal lending increased \$0.8 billion or 5% reflecting growth in personal loans; partially offset by

§ Australian business lending declined \$1.6 billion or 1% due to run off in stressed assets and the subdued business lending environment.

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Total deposits and other borrowings (deposits)¹ increased \$29.5 billion or 7% in 2013 compared to 2012. Deposits increased 1% due to foreign exchange translation impacts of foreign denominated deposits. Growth in customer deposits¹ exceeded growth in loans resulting in the deposit to loan ratio increasing 377 basis points.

Deposit growth had the following specific components:

§ Australian at call deposits increased \$28.1 billion or 19%, primarily due to growth in online and bonus saver at call accounts;

§ New Zealand customer deposits increased \$8.0 billion or 24%, with growth in both at call and term deposits. Foreign exchange translation impacts contributed \$4.4 billion to New Zealand deposit growth;

§ Australian non-interest bearing deposits increased \$3.8 billion or 23%, due to increased balances in mortgage offset accounts; and

§ other overseas customer deposits grew \$2.4 billion or 21%, primarily due to growth of deposits in Asia; partially offset by

§ Australian term deposits declined \$7.3 billion or 5%, with customer preference changing during the year to at call accounts; and

§ certificates of deposit decreased \$5.4 billion or 11% due to reduced wholesale funding needs and improved liquidity.

¹ For the purposes of this discussion on net interest income, loan and deposit growth has been determined by comparing balances at 30 September 2013 to balances at 30 September 2012.

² Customer deposits are a subset of total deposits. Certificates of deposit are excluded from total deposits to calculate customer deposits.

REVIEW OF GROUP OPERATIONS

Interest spread and margin 2013 v 2012

	2013 \$m	2012 \$m	2011 \$m
Group			
Net interest income	12,865	12,502	11,996
Average interest earning assets	599,869	577,745	548,221
Average interest bearing liabilities	560,470	540,527	513,535
Average net non-interest bearing assets, liabilities and equity	39,399	37,218	34,686
Interest spread ¹	1.91%	1.87%	1.87%
Benefit of net non-interest bearing assets, liabilities and equity ²	0.23%	0.29%	0.32%
Net interest margin ³	2.14%	2.16%	2.19%

¹ Interest spread is the difference between the average yield on all interest earning assets and the average yield on all interest bearing liabilities.

² The benefit of net non-interest bearing assets, liabilities and equity is determined by applying the average yield paid on all interest bearing liabilities to the average level of net non-interest bearing funds as a percentage of average interest earning assets.

³ Net interest margin is calculated by dividing net interest income by average interest earning assets.

Net interest margin was 2.14% in 2013, a decline of 2 basis points compared to 2012. Key drivers of the margin decrease were:

§ a 12 basis point decline from higher retail and wholesale funding costs. This included:

a 10 basis point decline due to the cost of customer deposits increasing, reflecting competition for online and savings products (6 basis points) and lower hedging benefit on low interest transaction accounts (4 basis points); and

a 2 basis point decline due to an increase in wholesale funding costs, reflecting the impact of increased average liquid asset holdings and the cost of buying back certain government guaranteed debt.

§ a 2 basis point decline due to lower returns on capital balances as interest rates reduced over the year;

§ a 1 basis point decline reflecting lower amortisation of fair value adjustments relating to the merger with St.George; and

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§ a 1 basis point decline from Treasury and Markets income, as Treasury income was lower and Markets income recorded in net interest income was lower; partially offset by

§ a 14 basis point increase from asset spreads due to repricing across lending portfolios to recover higher funding costs.

Non-interest income 2013 v 2012

	2013	2012	2011
	\$m	\$m	\$m
Fees and commissions	2,723	2,630	2,568
Wealth management and insurance income	1,944	1,791	1,618
Trading income	1,069	850	558
Other income	38	210	173
Total non-interest income	5,774	5,481	4,917

Non-interest income was \$5,774 million in 2013, an increase of \$293 million or 5% compared to 2012. The increase was primarily driven by higher trading, wealth management and insurance income, partially offset by a decline in other income.

Fees and commissions income was \$2,723 million in 2013, an increase of \$93 million or 4% compared to 2012. This increase was primarily due to:

§ an increase in business and commercial lending fee income of \$74 million; and

§ an increase in credit card interchange income from higher customer spending and the launch of a new premium credit card, Westpac Black.

Wealth management and insurance income was \$1,944 million in 2013, an increase of \$153 million or 9% compared to 2012. This increase was primarily due to:

§ higher FUM/FUA related income of \$106 million due to improved investment markets and positive net FUM/FUA inflows;

§ increase in general insurance income of \$48 million as a result of repricing of premiums, growth in sales through the branch networks and decreased catastrophe and working claims; and

§ increase in life insurance income of \$13 million with net earned premium growth of 21% driven by new business sales offset by an increase in claims; partially offset by

§ Lenders mortgage insurance income decrease of \$20 million due to lower credit demand and as a result of the Group's decision to reduce underwriting risk on the mortgage insurance on loans with an LVR greater than 90%.

Trading income increased by \$219 million or 26% compared to 2012. Increased market volatility saw more customers actively managing their risks, with Westpac well positioned to capture the increase in customer sales income. Credit valuation adjustment (CVA)1 in 2013 was a benefit of \$88 million, compared to a charge of \$39 million in 2012.

Other income was \$38 million in 2013, a decrease of \$172 million or 82% compared to 2012. This decrease was primarily driven by the impact of hedging future Westpac New Zealand earnings of \$86 million and hedging foreign operations of \$80 million as a result of the depreciation of the Australian dollar against the New Zealand and US dollar.

Operating expenses 2013 v 2012

	2013	2012	2011
	\$m	\$m	\$m
Salaries and other staff expenses	4,287	4,258	4,055
Equipment and occupancy expenses	1,370	1,278	1,115
Other expenses	2,270	2,373	2,236
Total operating expenses	7,927	7,909	7,406
Total operating expenses to net operating income ratio	42.5%	44.0%	43.8%

Operating expenses were \$7,927 million in 2013, an increase of \$18 million compared to 2012. Excluding foreign exchange translation impacts, operating expenses decreased \$27 million. The key factors of this result were:

§ delivery of benefits from productivity initiatives and reduced costs associated with the supplier program; and

§ a provision raised in 2012 relating to the Bell litigation not repeated in 2013; partially offset by

§ higher investment costs which added 3% to expense growth, including 1% from higher software amortisation and hardware depreciation.

Salaries and other staff expenses were \$4,287 million in 2013, an increase of \$29 million or 1% compared to 2012. This increase reflects:

§ an average annual salary increase of 2%; and

§ additional staff to support the Group's investment into regulatory change and compliance programs, additional Bank of Melbourne branches, further expansion in Asia and wealth investments; partially offset by

§ the delivery of productivity initiatives and lower restructuring costs associated with the supplier program.

Equipment and occupancy costs were \$1,370 million in 2013, an increase of \$92 million or 7% compared to 2012. This increase was driven by:

§ software amortisation, impairments and hardware depreciation related to the Group's investment program increased \$60 million; and

§ rental and other property related costs increased \$32 million through 15 additional Bank of Melbourne branches, the full period impact of the Western Sydney data centre and cost increases following annual rental reviews.

Other expenses were \$2,270 million in 2013, a reduction of \$103 million or 4% compared to 2012. This decrease was driven by:

§ a provision raised in 2012 relating to longstanding legal proceedings not repeated in 2013; and

§ delivery of cost management initiatives and other cost reductions; partially offset by

§ higher technology licensing and maintenance costs as a result of investment programs; and

§ increased marketing costs to support the refresh of the Group's brands.

1 Included in the determination of the fair value of derivatives is a credit valuation adjustment (CVA). Where the derivative has a positive fair value (asset), this credit adjustment is to reflect the credit worthiness of the counterparty. Where the derivative has a negative fair value (liability), this credit adjustment reflects the Group's own credit risk.

REVIEW OF GROUP OPERATIONS

Impairment charges 2013 v 2012

	2013	2012	2011
	\$m	\$m	\$m
Impairment charges	847	1,212	993
Impairment charges to average gross loans (basis points)	16	24	20

Impairment charges for 2013 were \$847 million, a decrease of \$365 million or 30% compared to 2012, representing 16 basis points of average gross loans.

Key movements to impairment charges were:

§ new individually assessed provisions less write-backs and recoveries were \$557 million in 2013, a decrease of \$313 million compared to 2012 due to a slowdown in the emergence of new impaired assets. The largest reductions were recorded in WIB and Westpac New Zealand, where charges were \$207 million and \$93 million lower respectively;

§ total new collectively assessed provisions were \$290 million in 2013, a decrease of \$52 million compared to 2012 as the benefits from reducing stress in business portfolios led to lower collective provision requirements. This was particularly a feature of the St.George result in 2013; and

§ consumer lending portfolios in Westpac RBB and Westpac New Zealand experienced an increase in new collectively assessed provisions as the large improvement in 2012 from strengthening consumer balance sheets was not repeated.

Income tax expense 2013 v 2012

	2013	2012	2011
	\$m	\$m	\$m
Income tax expense	2,975	2,826	1,455
Tax as a percentage of profit before income tax expense (effective tax rate)	30.2%	31.9%	17.1%

Income tax expense was \$2,975 million in 2013, an increase of \$149 million or 5% compared to 2012. The effective tax rate decreased to 30.2% in 2013, from 31.9% in 2012.

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The decrease in the effective tax rate was primarily due to retrospective amendments to the income tax law during the year ended 30 September 2012 which applied to consolidated groups and TOFA. Those amendments had an adverse impact to certain liabilities that were consolidated as part of the St.George merger. This led to an additional \$165 million tax expense for 2012, which was not repeated in 2013.

Excluding the impact of the above adjustment, the effective tax rate for 2012 would have been 30.0%.

Overview of performance 2012 v 2011

Net profit attributable to owners of Westpac Banking Corporation was \$5,970 million in 2012, a decrease of \$1,021 million or 15% compared to 2011. The lower net profit for the year reflected a \$1,070 million or 6% increase in net operating income before operating expenses and impairment charges which was more than offset by a 7% increase in operating expenses, 22% increase in impairment charges and 94% increase in income tax expense.

Net interest income was \$12,502 million in 2012, an increase of \$506 million or 4% compared to 2011, reflecting growth in loans and deposits. A 5% increase in average interest earning assets, particularly in Australian housing loans, was partially offset by a decrease in the net interest margin of 3 basis points due to funding costs increasing at a faster pace than asset repricing.

Non-interest income was \$5,481 million in 2012, an increase of \$564 million or 11% compared to 2011, reflecting growth in the retail banking division and wealth earnings including additional income from the acquisition of J O Hambro. Higher markets income benefited from favourable market conditions driving trading and customer sales income in foreign exchange and interest rate businesses.

Operating expenses were \$7,909 million in 2012, an increase of \$503 million or 7% compared to 2011. This primarily reflects increased salaries, other staff expenses and restructuring costs including higher operating costs from expansion in Asia and Bank of Melbourne, and restructuring costs associated with the Group's supplier program. Prior period investment also resulted in higher equipment and occupancy costs, which included higher software amortisation expense. An additional expense was incurred from an increase in provisions for longstanding legal proceedings.

Impairment charges were \$1,212 million in 2012, an increase of \$219 million or 22% compared to 2011. 2011 benefited from a \$107 million net reduction in economic overlay provision and the benefits of improved asset quality and write-backs. 2012 included a \$17 million increase in economic overlay and a reduced benefit from write-backs.

The effective tax rate was 31.9% in 2012 and 17.1% in 2011. In 2012, income tax expense included a tax charge of \$165 million relating to the retrospective impact of new TOFA legislation and its application to the merger with St.George, while in 2011 a benefit of \$1,110 million was received relating to the impact of tax consolidation of the St.George merger.

2012 earnings per share were 195.8 cents per share compared to 233.0 cents per share in 2011. The increase in the number of shares on issue in 2012 was primarily due to shares issued under the DRP.

A final dividend of 84 cents per share has been declared by the Board, taking the full year dividend for 2012 to 166 cents per share. The dividend is fully franked. This full year dividend represents an increase of 6% over the dividends declared in 2011 and a pay-out ratio of 85%.

Income statement review 2012 v 2011

Net interest income 2012 v 2011

Net interest income was \$12,502 million in 2012, an increase of \$506 million or 4% compared to 2011.

Net interest margins declined 3 basis points to 2.16% in 2012 from 2.19% in 2011. Increased funding costs and a more competitive environment for deposits (particularly term deposits) were the main drivers of the decline, though these were partially offset by improved margins from asset repricing in our housing and business lending portfolios.

Loan growth¹ in 2012 was 4% higher compared to 2011, with the key feature being the 4% growth in Australian housing loans and 2% growth in Australian business loans. New Zealand lending growth was 5%.

Loan growth had the following specific components:

§ Australian housing loans increased \$11.8 billion or 4%;

§ Australian business lending increased \$2.6 billion or 2%. Growth occurred in AFS and institutional lending;

§ Australian personal lending increased \$0.7 billion or 4%, driven by growth in the Auto Finance portfolio;

§ New Zealand lending increased \$2.1 billion or 5%, with housing loans increasing \$1.2 billion or 4% and business loans increasing \$0.9 billion or 5%; and

§ other overseas loans increased \$1.0 billion or 16% due primarily to growth in trade finance in Asia.

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Total deposits¹ increased 7% or \$24.7 billion in 2012 compared to 2011. Growth in customer deposits exceeded growth in loans resulting in the deposit to loan ratio increasing 510 basis points.

Deposit growth had the following specific components:

§ Australian term deposits increased \$26.7 billion or 24%, with the Group seeking to improve its funding base by prioritising term deposit growth. Growth was broadly based across all customer segments;

§ Australian at call deposits increased \$4.6 billion or 3%, particularly due to customer flows in the second half of 2012;

§ Australian non-interest bearing deposits increased \$2.7 billion or 20%, due to increased balances in mortgage offset accounts;

§ New Zealand deposits increased \$3.5 billion or 11%, with growth in both at call and term deposits; and

§ other overseas deposits declined \$8.6 billion or 26% and Australian certificates of deposit declined \$4.3 billion or 12% due to reductions in the Group's reliance on short-term wholesale funding.

Interest spread and margin 2012 v 2011

Net interest margin was 2.16% in 2012, a decline of 3 basis points compared to 2011. Key drivers of the margin decrease were:

§ an 18 basis point decline from higher retail and wholesale funding costs relative to market rates. This included:

a 14 basis point decline from customer deposits. 9 basis points reflected the lower spread from intense competition, particularly for term deposits. The 9 basis point decline included a reduction in the benefit from hedging low interest accounts of 2 basis points. Product mix impacts reduced margins by 5 basis points, with growth weighted towards lower spread products, particularly term deposits; and

a 4 basis point decline from wholesale funding costs and the cost of holding increased average liquid asset balances.

§ a 12 basis point increase from asset repricing, primarily due to repricing of the housing and business lending portfolios;

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- § capital and other impacts were flat with the benefit from higher capital values offsetting lower earnings due to falling interest rates;
- § a 1 basis point increase reflecting lower amortisation of fair value adjustments relating to the merger with St.George; and
- § a 2 basis point increase reflecting increased Treasury interest income offsetting lower contribution of Markets net interest income.

1 For the purposes of this discussion on net interest income, loan and deposit growth has been determined by comparing balances at 30 September 2012 to balances at 30 September 2011.

REVIEW OF GROUP OPERATIONS

Non-interest income 2012 v 2011

Non-interest income was \$5,481 million in 2012, an increase of \$564 million or 11% compared to 2011. The increase was primarily driven by higher trading, wealth management and insurance income.

Fees and commissions income were \$2,630 million in 2012, an increase of \$62 million or 2% compared to 2011. This increase was primarily due to:

- § an increase in facility fees as a result of higher business and commercial lending fees of \$74 million; offset by
- § a decline in merchant fees as average interchange rates reduced in line with changes in the mix of spending by householders.

Wealth management and insurance income was \$1,791 million in 2012, an increase of \$173 million or 11% compared to 2011. This increase was primarily due to:

- § higher performance fees predominantly in Hastings of \$130 million;
- § revenue contribution from the J O Hambro acquisition of \$73 million;
- § increase in General and Life insurance income of \$87 million as a result of repricing of premiums, growth in sales through the branch networks and decreased claims as 2011 had significantly higher catastrophe claims; offset by
- § lenders mortgage insurance income decrease of \$36 million due to lower credit demand and as a result of the Group's decision to reduce underwriting risk on the mortgage insurance on loans with an LVR greater than 90%;
- § lower FUM/FUA related income of \$14 million predominantly due to lower margins; and
- § reduced income in the Equities business of \$17 million due to reduction in broking volumes and trading revenue.

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Trading income increased by \$292 million or 52% compared to 2011. WIB markets benefited from volatile market conditions driving customer sales income in foreign exchange and interest rate businesses. Risk management income also increased during the year.

Other income was \$210 million in 2012, an increase of \$37 million or 21% compared to 2011. This increase was primarily driven by an increase in technology research and development tax credits.

Operating expenses 2012 v 2011

Operating expenses were \$7,909 million in 2012, an increase of \$503 million compared to 2011. The expense to income ratio was 44% in 2012, an increase of 20 basis points compared to 2011.

Salaries and other staff expenses were \$4,258 million in 2012, an increase of \$203 million or 5% compared to 2011. This increase was driven by:

§ average salary increases of 3% and higher restructuring costs. The prior period also benefited from release of excess employee provisions which was not repeated in 2012;

§ increased investment in Bank of Melbourne and WIB's Asia operations as well as higher spend on regulatory change and compliance programs and the impact of the J O Hambro acquisition (\$38 million); partially offset by

§ lower FTE as a result of delivery of productivity initiatives.

Equipment and occupancy expenses were \$1,278 million in 2012, an increase of \$163 million or 15% compared to 2011. This increase was driven by:

§ software amortisation and depreciation increased \$110 million compared to 2011 as a result of delivery of strategic programs into normal business operations and higher depreciation costs associated with the new data centre and Enterprise Perimeter Security SIP; and

§ operating lease rentals and other equipment and occupancy costs increased 9% or \$53 million compared to 2011. The increase was driven by cost increases following annual rental reviews and additional expenses associated with expansion of the distribution network. The Group expanded its footprint with an additional 12 branches and 42 ATMs.

Other expenses were \$2,373 million in 2012, an increase of \$137 million or 6% compared to 2011. This increase was driven by a provision recognised with respect to longstanding legal proceedings and higher investment spend.

Impairment charges 2012 v 2011

The impairment charge for 2012 was \$1,212 million, an increase of 22% compared to 2011. The increase was primarily due to higher collectively assessed provisions as the rate of improving asset quality slowed. The higher charge was also due to a \$107 million reduction in economic overlay provisions in 2011 while there was a small increase (up \$17 million) in the economic overlay in 2012.

Key movements in impairment charges were:

§ new collectively assessed provisions were \$366 million higher compared to 2011 as benefits from improving asset quality were smaller as the recovery slowed. The movement in economic overlay provision also contributed to the rise;

§ WIB recorded the largest change in collective provisions from a reduction in upgrades and refinancing from a smaller decrease in watchlist and substandard companies returning to full health. In St.George and Westpac New Zealand portfolios the improvement in stressed assets also slowed in 2012. In Westpac RBB the collective provisioning charge was lower; and

§ new individually assessed provisions less write-backs and recoveries were \$147 million lower compared to 2011 principally due to fewer new impaired assets, particularly in WIB, St.George and New Zealand and much lower write-backs in the WIB portfolio. This was partially offset by higher new individually assessed provisions in Westpac RBB.

Income tax expense 2012 v 2011

Income tax expense was \$2,826 million in 2012, an increase of \$1,371 million or 94% compared to 2011. The effective tax rate increased to 31.9% in 2012, from 17.1% in 2011.

The increase was driven by the following tax impacts:

§ retrospective amendments to the income tax law during the year ended 30 September 2012 which applied to consolidated groups and TOFA. These amendments have had an adverse impact to certain liabilities that were consolidated as part of the St.George merger. This led to an additional \$165 million tax expense for 2012; and

§ a benefit of \$1,110 million was received in 2011 relating to the impact of tax consolidation of the St.George merger.

Excluding the impact of these adjustments, the effective tax rates for 2012 and 2011 would have been 30.0% and 30.1% respectively.

REVIEW OF GROUP OPERATIONS

BALANCE SHEET REVIEW

Selected consolidated balance sheet data¹

The detailed components of the balance sheet are set out in the notes to the financial statements.

	As at 30 September					
	2013	2013	2012	2011	2010	2009
	US\$m ²	A\$m	A\$m	A\$m	A\$m	A\$m
Cash and balances with central banks	10,929	11,699	12,523	16,258	4,464	3,272
Receivables due from other financial institutions	10,472	11,210	10,228	8,551	12,588	9,974
Derivative financial instruments	26,490	28,356	35,489	49,145	36,102	33,187
Trading securities, other financial assets designated at fair value and available-for-sale securities	73,895	79,100	71,739	69,006	55,599	47,807
Loans	500,884	536,164	514,445	496,609	477,655	463,459
Life insurance assets	8,069	8,637	8,240	7,916	12,310	12,384
All other assets	20,026	21,437	22,301	22,743	19,559	19,504
Total assets	650,765	696,603	674,965	670,228	618,277	589,587
Payables due to other financial institutions	8,255	8,836	7,564	14,512	8,898	9,235
Deposits and other borrowings	396,551	424,482	394,991	370,278	337,385	329,456
Financial liabilities at fair value through income statement	9,624	10,302	9,964	9,803	4,850	10,848
Derivative financial instruments	30,819	32,990	38,935	39,405	44,039	36,478
Debt issues	134,649	144,133	147,847	165,931	150,971	133,024
Life insurance liabilities	6,937	7,426	7,208	7,002	11,560	11,737
All other liabilities	10,858	11,623	12,700	11,316	10,824	11,100
Total liabilities excluding loan capital	597,693	639,792	619,209	618,247	568,527	541,878
Total loan capital ³	8,716	9,330	9,537	8,173	9,632	11,138
Total liabilities	606,409	649,122	628,746	626,420	578,159	553,016
Net assets	44,356	47,481	46,219	43,808	40,118	36,571
Total equity attributable to owners of Westpac Banking Corporation	43,550	46,618	44,249	41,826	38,189	34,637
Non-controlling interests	806	863	1,970	1,982	1,929	1,934
Total shareholders equity and non-controlling interests	44,356	47,481	46,219	43,808	40,118	36,571
Average balances						
Total assets	639,045	684,056	662,137	628,428	607,677	577,831
Loans and other receivables ⁴	482,497	516,482	501,118	476,083	469,999	426,845
Shareholders equity	41,432	44,350	42,605	39,378	36,434	32,008
Non-controlling interests	1,842	1,972	1,964	1,921	1,914	1,915

¹ Where accounting classifications have changed or where changes in accounting policy are adopted retrospectively, comparatives have been revised and may differ from results previously reported.

² Australian dollar amounts have been translated into US dollars solely for the convenience of the reader at the rate of A\$1.00 = US\$0.9342, the noon buying rate in New York City on 30 September 2013.

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3 This includes Westpac Capital Notes (Westpac CN), Westpac Convertible Preference Shares (Westpac CPS), Westpac Stapled Preferred Securities II (SPS II) and 2004 Trust Preferred Securities (2004 TPS) in 2013; Westpac CPS, Westpac Stapled Preferred Securities (SPS), SPS II and 2004 TPS in 2012; and SPS, SPS II and 2004 TPS in 2011, 2010 and 2009.

4 Other receivables include other assets, cash and balances with central banks.

Summary of consolidated ratios

(in \$millions unless otherwise indicated)	Year Ended 30 September					
	2013 US\$1	2013 A\$	2012 A\$	2011 A\$	2010 A\$	2009 A\$
Profitability ratios (%)						
Net interest margin ²	2.14	2.14	2.16	2.19	2.21	2.38
Return on average assets ³	1.00	1.00	0.90	1.11	1.04	0.60
Return on average ordinary equity ⁴	15.4	15.4	14.0	17.8	17.4	10.8
Return on average total equity ⁵	14.7	14.7	13.4	16.9	16.5	10.2
Capital ratio (%)						
Average total equity to average total assets	6.8	6.8	6.7	6.6	6.3	5.9
Tier 1 ratio (%) ⁶	10.7	10.7	10.3	9.7	9.1	8.1
Total capital ratio ⁶	12.3	12.3	11.7	11.0	11.0	10.8
Earnings ratios						
Basic earnings per ordinary share (cents) ⁷	205.9	220.4	195.8	233.0	214.2	125.3
Diluted earnings per ordinary share (cents) ⁸	201.3	215.5	190.5	223.6	207.1	123.2
Dividends per ordinary share (cents)	163	174	166	156	139	116
Special dividends per ordinary share (cents)	19	20	-	-	-	-
Dividend payout ratio (%) ⁹	78.9	78.9	84.8	67.0	64.9	92.6
Credit quality ratios						
Impairment charges on loans written off (net of recoveries)	1,236	1,323	1,604	1,867	1,300	1,874
Impairment charges on loans written off (net of recoveries) to average loans (bps)	25	25	32	38	27	43

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\$0.9342, the noon buying rate in New York City on 30 September 2013.

2 Calculated by dividing net interest income by average interest earning assets.

3 Calculated by dividing net profit attributable to owners of Westpac Banking Corporation by average total assets.

4 Calculated by dividing net profit attributable to owners of Westpac Banking Corporation by average ordinary equity.

5 Calculated by dividing net profit attributable to owners of Westpac Banking Corporation by average ordinary equity and non-controlling interests.

6 For details on this ratio refer to Note 30 to the financial statements.

7 Based on the weighted average number of fully paid ordinary shares.

8 Based on basic earnings per share, with the weighted average number of fully paid ordinary shares outstanding adjusted for the conversion of dilutive potential ordinary shares, issued for no consideration, and after adjusting earnings for distributions on dilutive potential ordinary shares.

9 Calculated by dividing the dividends per ordinary share by the basic earnings per ordinary share. Excludes special dividends.

Balance sheet review

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Assets 2013 v 2012

Total assets as at 30 September 2013 were \$696.6 billion, an increase of \$21.6 billion or 3% compared to 30 September 2012. This growth was primarily due to:

§ loans increased \$21.7 billion primarily due to growth in Australian loans of \$11.4 billion, New Zealand loans of \$7.3 billion and other overseas loans of \$3.0 billion. Loan growth of \$6.5 billion was the result of foreign exchange translation impacts;

§ trading securities, other financial assets designated at fair value and available-for-sale securities increased \$7.4 billion due to higher liquid assets of \$5.4 billion; and

§ receivables due from other financial institutions increased \$1.0 billion due to higher collateral posted with counterparties as a result of collateralised derivative movements; partially offset by

§ derivative financial instruments decreased \$7.1 billion due to the impact of interest rate movements on interest rate derivative valuations and foreign exchange rate changes driving a reduction in cross currency swap valuations.

Liabilities and equity 2013 v 2012

Total liabilities as at 30 September 2013 were \$649.1 billion, an increase of \$20.4 billion compared to 30 September 2012. Growth in total liabilities was primarily due to:

§ deposits increasing \$29.5 billion. Growth was due to Australian deposits increasing \$20.9 billion and New Zealand deposits increasing \$8.2 billion. Deposit growth of \$5.5 billion was due to foreign exchange translation impacts; and

§ payables due to other financial institutions increased \$1.3 billion primarily due to an increase in deposits with offshore central banks; partially offset by

§ derivative financial instruments declined \$5.9 billion for the same reasons noted above for derivative financial instrument assets; and

§ debt issues decreased \$3.7 billion primarily due to a decline in long term unsecured wholesale funding, partially offset by the issuance of \$6.2 billion of covered bonds.

Growth in equity was primarily due to retained profits increasing \$1.8 billion, which was partially offset by a decline of \$1.1 billion in non-controlling interests due to the redemption of a hybrid instrument.

REVIEW OF GROUP OPERATIONS

Loan quality 2013 v 2012

	As at 30 September		
	2013 \$m	2012 \$m	2011 \$m
Total gross loans¹	539,806	518,279	500,654
Average gross loans			
Australia	467,835	455,753	439,165
New Zealand	50,112	45,911	44,279
Other overseas	8,807	6,930	5,228
Total average gross loans	526,754	508,594	488,672

1 Gross loans are stated before related provisions for impairment.

Total gross loans represented 77% of the total assets of the Group as at 30 September 2013, unchanged from 2012.

Australia and New Zealand average gross loans were \$517.9 billion in 2013, an increase of \$16.2 billion or 3% from \$501.7 billion in 2012. This increase was primarily due to growth in Australian housing lending, with foreign exchange translation impacts also contributing to loan growth.

Other overseas average loans were \$8.8 billion in 2013, an increase of \$1.9 billion or 27% from \$6.9 billion in 2012.

Approximately 15.6% of the loans at 30 September 2013 mature within one year and 23.0% mature between one year and five years. Retail lending comprises the majority of the loan portfolio maturing after five years.

	As at 30 September				
	2013 \$m	2012 \$m	2011 \$m	2010 \$m	2009 \$m
Impaired loans					
Non-performing loans ¹ :					
Gross	3,249	4,034	4,287	4,240	3,526
Impairment provisions	(1,363)	(1,463)	(1,487)	(1,677)	(1,308)
Net	1,886	2,571	2,800	2,563	2,218
Restructured loans:					
Gross	156	153	129	132	71
Impairment provisions	(56)	(44)	(29)	(32)	(26)
Net	100	109	100	100	45
Overdrafts, personal loans and revolving credit greater than 90 days past due:					
Gross	195	199	200	213	173
Impairment provisions	(135)	(134)	(147)	(155)	(148)
Net	60	65	53	58	25
Net impaired loans	2,046	2,745	2,953	2,721	2,288

Provisions for impairment on loans and credit commitments					
Individually assessed provisions	1,364	1,470	1,461	1,622	1,228
Collectively assessed provisions	2,585	2,771	2,953	3,439	3,506
Total provisions for impairment on loans and credit commitments	3,949	4,241	4,414	5,061	4,734
Loan quality					
Total impairment provisions for impaired loans to total impaired loans ²	43.2%	37.4%	36.0%	40.7%	39.3%
Total impaired loans to total loans	0.67%	0.85%	0.92%	0.95%	0.81%
Total provisions for impairment on loans and credit commitments to total loans	0.73%	0.82%	0.88%	1.05%	1.01%
Total provisions for impairment on loans and credit commitments to total impaired loans	109.7%	96.7%	95.6%	110.4%	125.6%
Collectively assessed provisions to non-housing performing loans	1.4%	1.6%	1.7%	2.0%	1.8%

1 Non-performing loans are loans with an impaired internal risk grade, excluding restructured assets.

2 Impairment provisions relating to impaired loans include individually assessed provisions plus the proportion of the collectively assessed provisions that relate to impaired loans. The proportion of the collectively assessed provisions that relate to impaired loans was \$190 million as at 30 September 2013 (2012: \$171 million, 2011: \$202 million, 2010: \$244 million, 2009: \$254 million). This sum is compared to the total gross impaired loans to determine this ratio.

The quality of our loan portfolio continued to improve during 2013, with 77% of our exposure as at 30 September 2013 to either investment grade or secured consumer mortgages (2012: 76%, 2011: 76%) and 97% of our exposure as at 30 September 2013 in our core markets of Australia, New Zealand and the Pacific region (2012: 97%, 2011: 98%).

At 30 September 2013, total impaired loans as a percentage of total gross loans were 0.67%, a decrease of 0.18% from 0.85% at 30 September 2012.

At 30 September 2013, we had 8 impaired counterparties with exposure greater than \$50 million, collectively accounting for 20% of total impaired loans. This compares to 12 impaired counterparties with exposure greater than \$50 million in 2012 accounting for 23% of total impaired loans. There were 16 impaired exposures at 30 September 2013 that were less than \$50 million and greater than \$20 million (2012: 25 impaired exposures).

We believe that Westpac remains appropriately provisioned with total impairment provisions for impaired loans to total impaired loans coverage at 43.2% at 30 September 2013 compared to 37.4% at 30 September 2012. Total provisions for impairment on loans and credit commitments to total impaired loans represented 109.7% of total impaired loans as at 30 September 2013, up from 96.7% at 30 September 2012. Total provisions for impairments on loans and credit commitments to total loans was 0.73% at 30 September 2013, down from 0.82% at 30 September 2012 (2011: 0.88%).

Consumer mortgage loans 90 days past due at 30 September 2013 were 0.51% of outstandings, unchanged from 0.51% of outstandings at 30 September 2012 (2011: 0.55%).

Other consumer loan delinquencies (including credit card and personal loan products) were 1.04% of outstandings as at 30 September 2013, a decrease of 7 basis points from 1.11% of outstandings as at 30 September 2012 (2011: 1.16%).

Potential problem loans as at 30 September 2013 amounted to \$1,619 million, a decrease of 23% from \$2,115 million at 30 September 2012. The reduction of potential problem loans is due mainly to the upgrade or repayment of some of these assets.

Potential problem loans are facilities that are performing and no loss is expected, but the customer demonstrates significant weakness in debt servicing or security cover that could jeopardise repayment of debt on current terms if not rectified. Potential problem loans are identified using established credit frameworks and policies, which include the ongoing monitoring of facilities through the use of watchlists.

CAPITAL RESOURCES

Capital management strategy

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Westpac's approach seeks to balance the fact that capital is an expensive form of funding with the need to be adequately capitalised as an ADI. Westpac considers the need to balance efficiency, flexibility and adequacy when determining sufficiency of capital and when developing capital management plans.

Westpac evaluates these considerations through an Internal Capital Adequacy Assessment Process (ICAAP), the key features of which include:

- § the development of a capital management strategy, including preferred capital range, capital buffers and contingency plans;
- § consideration of both economic and regulatory capital requirements;
- § a process that challenges the capital measures, coverage and requirements which incorporates, amongst other things, the impact of adverse economic scenarios; and
- § consideration of the perspectives of external stakeholders including rating agencies and equity and debt investors.

Westpac's capital ratios are significantly above APRA minimum capital adequacy requirements.

Basel Capital Accord

The regulatory limits applied to our capital ratios are consistent with *A global regulatory framework for more resilient banks and banking systems*, also known as Basel III, issued by the Bank of International Settlements. This framework reflects the advanced risk management practices that underpin the calculation of regulatory capital through a broad array of risk classes and advanced measurement processes.

As provided for in the Basel III accord, APRA has exercised discretions to make the framework applicable in the Australian market, and in particular has required that Australian banks use sophisticated models for credit risk, operational risk and interest rate risk taken in the banking book. In addition, APRA has applied discretion in the calculation of the components of regulatory capital. The new Basel III prudential standards became effective on 1 January 2013.

Westpac is accredited by APRA to apply advanced models permitted by the Basel III global capital adequacy regime to the measurement of its regulatory capital requirements. Westpac uses the Advanced Internal Ratings-Based approach for credit risk, the Advanced Measurement Approach (AMA) for operational risk and the internal model approach for Interest Rate Risk in the Banking Book (IRRBB). Effective risk management is regarded as a key activity performed at all levels of the Group. Achieving advanced accreditation from APRA has resulted in a broad array of changes to risk management practices that have been implemented across all risk classes. We recognise that embedding these principles and practices into day-to-day activities of the divisions to achieve the full benefits of these changes is an ongoing facet of risk management.

REVIEW OF GROUP OPERATIONS

Australia's risk-based capital adequacy guidelines are generally consistent but not completely aligned with the approach agreed upon by the Basel Committee on Banking Supervision (BCBS). APRA has exercised its discretion in applying the Basel framework to Australian ADIs, resulting in a more conservative approach than the minimum standards published by the BCBS. APRA also introduced the new standards from 1 January 2013 with no phasing in of higher capital requirements as allowed by the BCBS. The application of these discretions act to reduce reported capital ratios relative to those reported in other jurisdictions.

Under APRA's implementation of Basel III, Australian banks are required to maintain a minimum Common Equity Tier 1 ratio of at least 4.5%, Tier 1 ratio of 6.0% and Total Regulatory Capital of 8.0%. Subject to certain limitations, Common Equity Tier 1 capital consists of paid-up share capital, retained profits and certain reserves, less the deduction of certain intangible assets, capitalised expenses and software, and investments 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 additional Tier 1 or Tier 2 capital which includes, subject to limitations, mandatory convertible notes, perpetual floating rate notes and like instruments, and term subordinated debt less a deduction for holdings of Westpac's own subordinated debt.

Westpac's regulatory capital ratios as at 30 September¹ are summarised in the table below:

	2013 \$m	2012 \$m
Common equity	45,361	40,873
Deductions from common equity	(17,392)	(15,902)
Total common equity after deductions	27,969	24,971
Additional Tier 1 capital	4,769	5,571
Net Tier 1 regulatory capital	32,738	30,542
Tier 2 capital	4,918	5,792
Deductions from Tier 2 capital	-	(1,622)
Total Tier 2 capital after deductions	4,918	4,170
Total regulatory capital	37,656	34,712
Credit risk:		
On-balance sheet assets	185,023	182,831
Off-balance sheet assets	75,245	62,268
Equity risk	-	1,263
Market risk	9,059	12,087
Operational risk	27,299	26,757
Interest rate risk in the banking book	6,929	10,234
Other assets	3,817	2,461
Total risk weighted assets	307,372	297,901
Common Equity Tier 1 capital ratio	9.1%	8.4%
Additional Tier 1 capital ratio	1.6%	1.9%
Tier 1 capital ratio	10.7%	10.3%
Tier 2 capital ratio	1.6%	1.4%
Total regulatory capital ratio	12.3%	11.7%

¹ Basel III was not effective in Australia until 1 January 2013. The 2012 comparative is presented on a Basel II basis.

Refer to Significant developments in Section 1 for a discussion on future regulatory developments that may impact upon capital requirements.

Purchases of equity securities

The following table details share repurchase activity for the year ended 30 September 2013:

Month	Total Number of Ordinary Shares Purchased	Average Price Paid per Ordinary Share \$	Total Number of Ordinary Shares Purchased as Part of a Publicly Announced Program	Maximum Number (or Approximate \$ Value) of Ordinary Shares that May Yet Be Purchased Under the Plans or Programs
October (2012)	103,125	25.47	-	n/a
November (2012)	19,312	24.88	-	n/a
December (2012)	2,787,201	26.03	-	n/a
January (2013)	829,175	26.91	-	n/a
February (2013)	696,388	28.73	-	n/a
March (2013)	358,533	30.72	-	n/a
April (2013)	165,183	31.56	-	n/a
May (2013)	10,944,505	30.48	-	n/a
June (2013)	10,858,931	28.37	-	n/a
July (2013)	49,790	29.28	-	n/a
August (2013)	192,323	31.05	-	n/a
September (2013)	89,488	32.25	-	n/a
Total	27,093,954	29.02	-	-

Purchases of ordinary shares during the year were made on market and relate to the following:

§ to deliver to employees upon the exercise of options and share rights: 5,641,217 ordinary shares;

§ treasury shares held by statutory life funds and managed investment schemes and ordinary shares held by Westpac in respect of equity derivatives sold to customers: 67,128 ordinary shares; and

§ to allocate to eligible employees under the Restricted Share Plan (RSP): 2,612,217 ordinary shares.

Refer to Note 24 to the financial statements for a discussion of treasury share purchases.

REVIEW OF GROUP OPERATIONS

COMMITMENTS

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 2013:

	Up to 1 Year \$m	Over 1 to 3 Years \$m	Over 3 to 5 Years \$m	Over 5 Years \$m	Total \$m
On balance sheet long-term debt ¹	26,879	44,071	30,514	11,445	112,909
Operating leases ²	509	948	764	1,684	3,905
Other commitments ²	713	1,079	383	29	2,204
Total contractual cash obligations	28,101	46,098	31,661	13,158	119,018

1 Refer to Note 22 to the financial statements for details of on balance sheet long-term debt.

2 Refer to Note 34 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.

Commercial commitments¹

The following table shows our significant commercial commitments as at 30 September 2013:

	Up to 1 Year \$m	Over 1 to 3 Years \$m	Over 3 to 5 Years \$m	Over 5 Years \$m	Total \$m
Standby letters of credit and financial guarantees	1,390	2,184	176	584	4,334
Trade letters of credit	3,218	-	-	-	3,218
Non-financial guarantees	5,526	1,394	412	1,722	9,054

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Commitments to extend credit	60,281	29,613	14,702	43,772	148,368
Other commitments	-	-	-	44	44
Total commercial commitments	70,415	33,191	15,290	46,122	165,018

1 The numbers in this table are notional amounts (refer to Note 36 to the financial statements).

DIVISIONAL PERFORMANCE

DIVISIONAL PERFORMANCE 2013 v 2012

Our operations comprise three primary customer-facing business divisions:

§ Australian Financial Services (AFS), which incorporates the operations of:

Westpac Retail & Business Banking, which we refer to as Westpac RBB;

St.George Banking Group, which we refer to as St.George; and

BT Financial Group (Australia), which we refer to as BTFG

§ Westpac Institutional Bank, which we refer to as WIB; and

§ Westpac New Zealand.

Other divisions in the Group include Westpac Pacific, Group Services, Treasury and Core Support.

The accounting standard AASB 8 *Operating Segments* requires segment results to be presented on a basis that is consistent with information provided internally to Westpac's key decision makers. In assessing its financial performance, including divisional results, the Westpac Group uses a measure of performance referred to as Cash Earnings. Cash Earnings is not a measure of cash flow or net profit determined on a cash accounting basis, as it includes non-cash items reflected in net profit determined in accordance with A-IFRS. The specific adjustments outlined below include both cash and non-cash items. Cash Earnings, as calculated by Westpac, is viewed as a measure of the level of profit that is generated by ongoing operations and is expected to be available over the long term for distributions to shareholders.

A reconciliation of Cash Earnings to net profit attributable to owners of Westpac Banking Corporation for each business division is set out in Note 32 to the financial statements. To calculate Cash Earnings, Westpac adjusts net profit attributable to owners of Westpac Banking Corporation for the items outlined below. Management believes this allows the Group to more effectively assess performance for the current period against prior periods and to compare performance across business divisions and across peer companies.

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Three categories of adjustments are made to statutory results to determine Cash Earnings:

§ material items that key decision makers at the Westpac Group believe do not reflect ongoing operations;

§ items that are not considered when dividends are recommended, such as the amortisation of intangibles, impact of Treasury shares and economic hedging impacts; and

§ accounting reclassifications between individual line items that do not impact statutory results, such as policyholder tax recoveries¹.

The discussion of our divisional performance in this section is presented on a Cash Earnings basis unless otherwise stated. Cash Earnings is not directly comparable to statutory results presented in other parts of this Annual Report.

Outlined below are the current Cash Earnings adjustments to the statutory results:

1. Trust Preferred Securities (TPS) revaluations adjustment for movements in economic hedges, including associated tax effects impacting the foreign currency translation reserve, relating to hybrid instruments classified as non-controlling interests. The adjustment is required as these hybrid instruments are not fair valued, however the hedges are fair valued and therefore there is a mismatch in the timing of income recognition in the statutory results. The mismatch is added back to statutory results in deriving Cash Earnings as it does not affect the Group's profits over time.

2. Treasury shares under A-IFRS, Westpac shares held by the Group in the managed funds and life business are deemed to be Treasury shares and the results of holding these shares are not permitted to be recognised as income in the statutory results. In deriving Cash Earnings, these results are included to ensure there is no asymmetrical impact on the Group's profits because the Treasury shares support policyholder liabilities and equity derivative transactions which are re-valued in determining income.

3. Ineffective hedges the gain/(loss) on ineffective hedges is reversed in deriving Cash Earnings for the period because the gain or loss arising from the fair value movement in these hedges reverses over time and does not affect the Group's profits over time.

4. Fair value gain/(loss) on economic hedges (which do not qualify for hedge accounting under A-IFRS) and own credit comprises:

the unrealised fair value gain/(loss) on foreign exchange hedges of future New Zealand earnings impacting non-interest income is reversed in deriving Cash Earnings as it may create a material timing difference on statutory results but does not affect the Group's Cash Earnings during the life of the hedge;

the unrealised fair value gain/(loss) on foreign exchange hedges of fees payable for the use of the Government guarantee on foreign denominated wholesale funding is reversed in deriving Cash Earnings as it may create a material timing difference on statutory results but does not affect the Group's Cash Earnings during the life of the hedge;

1 Policyholder tax recoveries income and tax amounts that are grossed up to comply with the A-IFRS accounting standard covering life insurance business (policyholder tax recoveries) are reversed in deriving income and taxation expense on a Cash Earnings basis.

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certain long term debt issuances are recognised at fair value. In deriving fair value, adjustments are made to reflect changes in Westpac's own credit spread. The resulting unrealised gain/(loss) from credit spread movements is reversed in deriving Cash Earnings as this amount may create a material timing difference on statutory results but does not affect the Group's Cash Earnings over time; and

the unrealised fair value gain/(loss) on hedges of accrual accounted term funding transactions is reversed in deriving Cash Earnings as it may create a material timing difference on statutory results but does not affect the Group's Cash Earnings during the life of the hedge.

5. Gain/(loss) on buyback of Government guaranteed debt during the years ended 30 September 2013 and 30 September 2011, the Group bought back certain Government guaranteed debt issues which reduced Government guarantee fees (70 basis points) paid. In undertaking the buybacks, a cost was incurred reflecting the difference between current interest rates and the rate at which the debt was initially issued. In the statutory result, the cost incurred is recognised at the time of the buyback. In Cash Earnings, the cost incurred is being amortised over the original term of the debt that was bought back, consistent with a 70 basis point saving being effectively spread over the remaining life of the issue. The Cash Earnings adjustment gives effect to the timing difference between statutory results and Cash Earnings.

6. Fair value amortisation of financial instruments the accounting for the merger with St.George resulted in the recognition of fair value adjustments on the St.George retail bank loans, deposits, wholesale funding and associated hedges, with these fair value adjustments being amortised over the life of the underlying transactions. The amortisation of these adjustments is considered to be a timing difference relating to non-cash flow items that do not affect cash distributions available to shareholders, and therefore have been treated as a Cash Earnings adjustment.

7. Amortisation of intangible assets comprises:

the merger with St.George resulted in the recognition of core deposit intangibles and customer relationships intangible assets that are amortised over their useful lives, ranging between five and nine years. The amortisation of intangible assets (excluding capitalised software) is a Cash Earnings adjustment because it is a non-cash flow item and does not affect cash distributions available to shareholders; and

the acquisition of J O Hambro Capital Management (JOHCM) by BT Investment Management (BTIM) during the year ended 30 September 2012 resulted in the recognition of management contract intangible assets. These intangible items are amortised over their useful lives, ranging between five and 20 years. The amortisation of intangible assets (excluding capitalised software) is a Cash Earnings adjustment because it is a non-cash flow item and does not affect cash distributions available to shareholders.

8. Supplier program during the year ended 30 September 2012, the Group incurred and provisioned for expenses as part of its program to increase the use of global specialists in certain technology and back office operations. These expenses included costs associated with streamlining and better documenting systems and processes, technology costs to enable infrastructure and enhance interaction with suppliers, and costs associated with restructuring the workforce. Given these significant expenses were not considered in determining dividends they were treated as Cash Earnings adjustments.

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9. Litigation provision during the year ended 30 September 2012, the Group recognised a provision of \$111 million (\$78 million after tax) with respect to the Bell litigation. This has been treated as a Cash Earnings adjustment due to its size, the historical nature of the proceedings and because it did not reflect ongoing operations.

10. Tax on Financial Arrangements (TOFA) tax consolidation adjustment during the year ended 30 September 2012, taxation legislation was introduced that included retrospective amendments to the income tax law as it applies to TOFA and tax consolidated groups. The amendments had an adverse application to certain liabilities that were consolidated as part of the merger with St.George. This gave rise to an additional income tax expense of \$165 million for the year ended 30 September 2012. Consistent with other tax adjustments relating to the merger with St.George, this adjustment was treated as a Cash Earnings adjustment due to its size and because it did not reflect ongoing operations.

11. Merger transaction and integration expenses as part of the merger with St.George, transaction and integration expenses incurred over three years following the merger were treated as a Cash Earnings adjustment as they did not impact the earnings expected from St.George following the integration period. The integration project was completed in 2011.

12. St.George Tax Consolidation adjustment finalisation of tax consolidation related to the merger with St.George gave rise to a reduction in income tax expense of \$1,110 million during the year ended 30 September 2011. The tax consolidation process required Westpac to reset the tax value of certain St.George assets to the appropriate market value of those assets at the effective date of the tax consolidation (31 March 2009). These adjustments were treated as a Cash Earnings adjustment due to their size and because they did not reflect ongoing operations.

13. Tax provision during the year ended 30 September 2011, the Group increased tax provisions by \$70 million in respect of certain existing positions for transactions previously undertaken by the Group. The increase reflected the recent trend of global taxation authorities challenging the historical tax treatment of cross border and complex transactions. This increase in tax provisions was treated as a Cash Earnings adjustment as it related to the global management of historical tax positions and did not reflect ongoing operations. The Group's management of tax positions has moved to disclosing any such transactions to the taxation authorities at or around the time of execution.

Cash Earnings and assets by division

The following tables present, for each of the key divisions of our business, the Cash Earnings and total assets at the end of the financial years ended 30 September 2013, 2012 and 2011. Refer to Note 32 to the financial statements for the disclosure of our geographic and business segments and the reconciliation to net profit attributable to owners of Westpac Banking Corporation.

Cash Earnings by business division

	Years Ended 30 September		
	2013 \$m	2012 \$m	2011 \$m
Australian Financial Services			
Westpac Retail & Business Banking	2,300	2,114	1,850
St.George Banking Group	1,441	1,231	1,233
BT Financial Group (Australia)	737	653	729
Westpac Institutional Bank	1,635	1,473	1,427
Westpac New Zealand	634	548	442
Other divisions	350	579	620
Total Cash Earnings	7,097	6,598	6,301

Total assets by business division

	As at 30 September		
	2013 \$bn	2012 \$bn	2011 \$bn
Australian Financial Services			
Westpac Retail & Business Banking	262	255	247
St.George Banking Group	160	155	150
BT Financial Group (Australia)	28	27	26
Westpac Institutional Bank	97	98	101
Westpac New Zealand	62	49	46
Other divisions	88	91	100
Total assets	697	675	670

In presenting divisional results on a management reporting basis, internal charges and transfer pricing adjustments are included in the performance of each business reflecting our management structure rather than a legal one. (These results cannot be compared to results for individual legal entities.) Where management reporting structures or accounting classifications have changed, comparatives have been revised and may differ from results previously reported.

Our internal transfer pricing frameworks facilitate risk transfer, profitability measurement, capital allocation and business unit alignment, tailored to the jurisdictions in which we operate. Transfer pricing allows us to measure the relative contribution of our products and divisions to the Group's interest margin, and other dimensions of performance. Key components of our transfer pricing frameworks are funds transfer pricing for interest rate and liquidity risk, and allocation of basis and contingent liquidity costs, including capital allocation.

Overhead costs are allocated to revenue generating businesses.

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AUSTRALIAN FINANCIAL SERVICES

Australian Financial Services (AFS) is responsible for the Westpac Group's Australian retail banking, business banking and wealth operations. It incorporates the operations of Westpac Retail & Business Banking (Westpac RBB), St. George Banking Group (St. George) and BT Financial Group (Australia) (BTFG). AFS also includes the product and risk responsibilities for Australian Banking.

Performance of AFS

	2013	2012	2011
	\$m	\$m	\$m
Net interest income	9,272	8,694	8,534
Non-interest income	3,697	3,399	3,253
Net operating income before operating expenses and impairment charges	12,969	12,093	11,787
Operating expenses	(5,777)	(5,553)	(5,415)
Impairment charges	(780)	(863)	(936)
Profit before income tax	6,412	5,677	5,436
Income tax expense	(1,916)	(1,671)	(1,617)
Profit attributable to non-controlling interests	(18)	(8)	(7)
Cash Earnings for the year	4,478	3,998	3,812
Net Cash Earnings adjustments	(150)	(151)	(146)
Net profit attributable to owners of Westpac Banking Corporation	4,328	3,847	3,666
	\$bn	\$bn	\$bn
Deposits and other borrowings	259.0	239.3	214.3
Loans	423.7	412.0	398.5
Total assets	449.4	436.8	422.8
Total operating expenses to net operating income ratio	44.5%	45.9%	45.9%

WESTPAC RETAIL & BUSINESS BANKING

Westpac Retail & Business Banking (Westpac RBB) is responsible for sales and service for our consumer, small-to-medium enterprise (SME) customers and commercial and agribusiness customers (typically with turnover of up to \$100 million) in Australia under the Westpac brand.

Activities are conducted through Westpac RBB's network of branches and business banking centres and specialised consumer and business relationship managers, with the support of cash flow, financial markets and wealth specialists, customer service centres, ATMs and internet and mobile channels.

Performance of Westpac RBB

2013	2012	2011
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	\$m	\$m	\$m
Net interest income	5,650	5,304	5,166
Non-interest income	1,277	1,184	1,091
Net operating income before operating expenses and impairment charges	6,927	6,488	6,257
Operating expenses	(3,154)	(3,079)	(3,087)
Impairment charges	(486)	(429)	(547)
Profit before income tax	3,287	2,980	2,623
Income tax expense	(987)	(866)	(773)
Cash Earnings for the year	2,300	2,114	1,850
Net Cash Earnings adjustments	-	-	-
Net profit attributable to owners of Westpac Banking Corporation	2,300	2,114	1,850
	\$bn	\$bn	\$bn
Deposits and other borrowings	150.1	138.5	125.1
Loans	256.4	250.3	242.1
Total assets	261.9	255.3	247.0
Total operating expenses to net operating income ratio	45.5%	47.5%	49.3%

2013 v 2012

Westpac RBB Cash Earnings were \$2,300 million in 2013, an increase of \$186 million or 9% compared to 2012.

Net interest income increased by \$346 million or 7% compared to 2012. This was driven by an increase in interest-earning assets and higher margins. Features of this result included:

§ loans increased \$6.1 billion or 2% compared to 2012, primarily due to:

an increase in mortgages of \$5.4 billion or 3% compared to 2012 which accounted for the majority of lending growth;

other consumer lending increased 2% compared to 2012, with growth in personal lending offsetting a decline in cards; and

an increase in business lending of 1% compared to 2012, with most of the growth in long term lending. Short-term lending and working capital balances were lower. Repayments were also higher over the year, particularly in agribusiness.

§ deposits increased \$11.6 billion or 8% compared to 2012, primarily due to:

an increase in at call deposits of \$16.9 billion or 21% compared to 2012, driven primarily by growth in consumer deposits (Reward Saver and mortgage offset accounts) and an increase in business deposits of \$2.7 billion or 10% compared to 2012; partially offset by

a decrease in term deposits of 9% compared to 2012, as customers chose to hold their funds in at call accounts.

§ margins increased 10 basis points to 2.33% compared to 2012, primarily driven by:

an increase in lending spreads (up 26 basis points), mostly from the repricing of mortgages and business loans to better reflect higher funding costs; and

decreased deposit spreads (down 14 basis points) due to continued competitive pricing in at call savings accounts, where most of the deposit growth has occurred.

Non-interest income increased \$93 million or 8% compared to 2012, primarily due to:

§ an increase in business lending fees, which have continued to be repriced to more appropriately reflect the cost of providing business facilities; and

§ an increase in cards income due to volume driven interchange fee increases and an increase in the use of premium rewards cards, including Westpac Black.

Operating expenses increased \$75 million or 2% compared to 2012, primarily due to:

§ an increase in compliance and investment spending including software amortisation; and

§ improved productivity across frontline roles, reduced full-time equivalent employees (FTE) and disciplined expense management offset by salary and wage increases, CPI increases and higher marketing costs associated with the new brand launch.

Impairment charges increased \$57 million or 13% compared to 2012, primarily due to prior year benefitting from an improvement in asset quality, which led to a reduction in provisioning; this improvement was not matched in 2013.

For a discussion of the results of Westpac RBB for 2012 v 2011, refer to [Divisional performance 2012 v 2011](#) .

DIVISIONAL PERFORMANCE

ST.GEORGE BANKING GROUP

St.George Banking Group (St.George) is responsible for sales and service for consumer, business and corporate customers in Australia under the St.George, BankSA, Bank of Melbourne and RAMS brands. RAMS is a financial services group specialising in mortgages and online deposits.

Consumer activities are conducted through a network of branches, third party distributors, call centres, ATMs, EFTPOS terminals and internet banking services.

Business and corporate customers (businesses with facilities typically up to \$150 million) are provided with a wide range of banking and financial products and services including specialist advice for cash flow finance, trade finance, automotive and equipment finance, property finance, transaction banking and treasury services. Sales and service activities for business and corporate customers are conducted by relationship managers via business banking centres, internet and customer service centre channels.

Performance of St.George

	2013	2012	2011
	\$m	\$m	\$m
Net interest income	3,216	2,966	2,930
Non-interest income	552	565	549
Net operating income before operating expenses and impairment charges	3,768	3,531	3,479
Operating expenses	(1,415)	(1,341)	(1,323)
Impairment charges	(293)	(433)	(393)
Profit before income tax	2,060	1,757	1,763
Income tax expense	(619)	(526)	(530)
Cash Earnings for the year	1,441	1,231	1,233
Net Cash Earnings adjustments	(128)	(129)	(129)
Net profit attributable to owners of Westpac Banking Corporation	1,313	1,102	1,104
	\$bn	\$bn	\$bn
Deposits and other borrowings	88.6	80.9	70.8
Loans	152.7	147.6	142.0
Total assets	159.8	154.6	149.6
Total operating expenses to net operating income ratio	37.6%	38.0%	38.0%

2013 v 2012

St.George Cash Earnings were \$1,441 million in 2013, an increase of \$210 million or 17% compared to 2012.

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Net interest income increased by \$250 million or 8% compared to 2012. This was driven by an increase in interest-earning assets and a 10 basis point improvement in margins. Features of this result included:

§ loans increased \$5.1 billion or 3% compared to 2012, primarily due to:

an increase in mortgages of \$6.1 billion or 6% compared to 2012. Growth was across all brands particularly in Bank of Melbourne; partially offset by

a decrease in business lending of 5% compared to 2012 due to lower commercial property lending from the run off of existing facilities and from stressed assets refinanced out of the business.

§ deposits increased \$7.7 billion or 10% compared to 2012 with deposit growth more than fully funding loan growth over the year, primarily due to an increase in at call savings accounts with RAMS deposits contributing \$1.3 billion of growth, offsetting a decrease in term deposits of \$0.8 billion (down 2%); and

§ margins increased 10 basis points to 2.22% compared to 2012, primarily due to:

an increase in lending spreads of 26 basis points, with mortgage repricing and improved business lending spreads to recover increases in funding costs; partially offset by

a decrease in deposit spreads of 16 basis points, as competition continued to see spreads on new deposits lower than the portfolio average.

Non-interest income decreased \$13 million or 2% compared to 2012, primarily due to:

§ lower financial markets income; partially offset by

§ increased business lending fees.

Operating expenses increased \$74 million or 6% compared to 2012, primarily due to:

§ costs associated with the investment in Bank of Melbourne has added approximately \$36 million in expenses including new branches, increased employee numbers and an increase in depreciation and amortisation; and

§ the launch of new Business Connect model for serving SME customers contributed to the increase along with increased technology costs; partially offset by

§ productivity savings.

Impairment charges decreased \$140 million or 32% compared to 2012, due to:

§ a decrease in business impairment charges of \$135 million compared to 2012, primarily due to the continued improvement in asset quality and lower levels of business stressed assets; and

§ lower consumer impairment charges of \$5 million compared to 2012, driven by improvements in delinquencies.

For a discussion of the results of St.George Banking Group for 2012 v 2011, refer to Divisional performance 2012 v 2011 .

DIVISIONAL PERFORMANCE

BT FINANCIAL GROUP (AUSTRALIA)

BT Financial Group (Australia) (BTFG) is Westpac's Australian wealth division.

BTFG's funds management operations include the manufacturing and distribution of investment, superannuation and retirement products, investment platforms such as Wrap and Master Trusts, private banking, financial planning as well as margin lending and broking. BTFG's insurance solutions cover the manufacturing and distribution of life, general and lenders mortgage insurance.

BTFG's brands include Advance Asset Management, Ascalon, Asgard, BT, BT Investment Management Limited (BTIM) (62.1% owned by the Westpac Group and consolidated in BTFG's Funds Management business), Licensee Select, BT Select, Securitor, and the Advice, Private Banking and Insurance operations of Bank of Melbourne, BankSA, St. George and Westpac.

Performance of BTFG

	2013	2012	2011
	\$m	\$m	\$m
Net interest income	406	424	438
Non-interest income	1,868	1,650	1,613
Net operating income before operating expenses and impairment charges	2,274	2,074	2,051
Operating expenses	(1,208)	(1,133)	(1,005)
Impairment charges	(1)	(1)	4
Profit before income tax	1,065	940	1,050
Income tax expense	(310)	(279)	(314)
Profit attributable to non-controlling interests	(18)	(8)	(7)
Cash Earnings for the year	737	653	729
Net Cash Earnings adjustments	(22)	(22)	(17)
Net profit attributable to owners of Westpac Banking Corporation	715	631	712
	\$bn	\$bn	\$bn
Deposits and other borrowings	20.3	19.9	18.4
Loans	14.6	14.1	14.4
Total assets	27.7	26.9	26.2
Funds under management	76.2	56.5	41.4
Funds under administration	102.7	87.9	77.4
Total operating expenses to net operating income ratio	53.1%	54.6%	49.0%

2013 v 2012

BTFG Cash Earnings were \$737 million in 2013, an increase of \$84 million or 13% compared to 2012.

Net interest income decreased \$18 million or 4% compared to 2012, primarily due to improved volumes and stronger margins in Private Wealth offset by a decline in margin lending balances.

Non-interest income increased \$218 million or 13% compared to 2012, primarily due to:

§ an increase in life insurance revenue with net earned premiums rising 21%, reflecting the expansion of distribution to the Independent Financial Advisor and aligned financial planner networks, partially offset by margin compression, a slight deterioration in lapse rates and an increase in claims consistent with the larger portfolio;

§ an increase in general insurance revenue with gross written premiums rising 17% from annual pricing reviews, growth in new business through cross sell across the banking brands. Claim expenses have reduced compared to 2012;

§ a decrease in lenders mortgage insurance revenue due to modest mortgage growth and the continued impact of the decision to de-risk the portfolio in 2009 and an increase in claims reflecting the work out of delinquent mortgages; and

§ an increase in funds management income due to:

an increase in average FUM due to inflows, improved markets and FX impacts, partially offset by a reduction in FUM margins;

an increase in funds under administration (FUA) income driven by flows on platforms and improved markets;

an increase in performance fees received in BTIM and JOHCM;

an increase in advice income from new business revenue generated by an expanded planner network with greater focus on targeted segments and increasing customer facing time; and

an increase in Ascalon revenue from seed pool revaluation gains.

Operating expenses increased \$75 million, or 7% compared to 2012, primarily due to:

- § an increase in investment related costs of \$45 million;
- § an increase in performance fee related bonuses associated with BTIM and JOHCM of \$17 million; and
- § an increase in other operating costs due to higher FTE, costs associated with regulatory change and other volume related costs.

For a discussion of the results of BTFG for 2012 v 2011, refer to Divisional performance 2012 v 2011 .

DIVISIONAL PERFORMANCE

WESTPAC INSTITUTIONAL BANK

Westpac Institutional Bank (WIB) delivers a broad range of financial services to commercial, corporate, institutional and government customers with connections to Australia and New Zealand.

WIB operates through dedicated industry relationship and specialist product teams, with expert knowledge in transactional banking, financial and debt capital markets, specialised capital, and alternative investment solutions.

Customers are supported through branches and subsidiaries located in Australia, New Zealand, Asia, US and UK.

Performance of WIB

	2013	2012	2011
	\$m	\$m	\$m
Net interest income	1,635	1,706	1,700
Non-interest income	1,667	1,484	1,182
Net operating income before operating expenses and impairment charges	3,302	3,190	2,882
Operating expenses	(1,070)	(987)	(938)
Impairment charges	89	(127)	90
Profit before income tax	2,321	2,076	2,034
Income tax expense	(686)	(603)	(607)
Cash Earnings for the year	1,635	1,473	1,427
Net Cash Earnings adjustments	-	-	-
Net profit attributable to owners of Westpac Banking Corporation	1,635	1,473	1,427
	\$bn	\$bn	\$bn
Deposits and other borrowings	72.8	64.5	48.3
Loans	56.5	53.9	51.8
Total assets	97.2	97.8	101.5
Total operating expenses to net operating income ratio	32.4%	30.9%	32.5%

2013 v 2012

WIB Cash Earnings were \$1,635 million in 2013, an increase of \$162 million or 11% compared to 2012.

Net interest income decreased \$71 million or 4% compared to 2012, primarily due to a 23 basis point decline in margins. While margin pressure was experienced on both assets and liabilities, competition was most intense for transactional deposit balances. Features of this result included:

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§ loans increased \$2.6 billion or 5% compared to 2012, primarily in targeted areas of trade finance, with particularly good growth from Asia; and

§ deposits increased \$8.3 billion or 13% compared to 2012, as WIB continued to build its total relationship focus resulting in growth in term deposits and transactional deposits.

Non-interest income increased \$183 million or 12% compared to 2012, primarily due to:

§ an increase in markets income compared to 2012. Growth during the year was most prominent in interest rate products as customers sought to more actively manage their risk as interest rates declined, while movements in the currency increased customer demand for FX hedging products; and

§ a benefit in credit valuation adjustment of \$87 million compared to a charge of \$58 million in 2012; partially offset by

§ lower Hastings revenue primarily due to reduced performance fees.

Operating expenses increased \$83 million or 8% compared to 2012, primarily due to:

§ an increase in WIB's investment in Asia, including building product and technology capabilities, along with additional FTE and branch premises; and

§ performance-related payments associated with the gains from the Hastings business in the first half of 2013.

Asset quality improved in 2013, and as a result impairments contributed an \$89 million benefit to earnings, compared to a \$127 million charge in 2012. The high level of write-backs and collectively assessed provision benefits continued in 2013, with new individually assessed provisions lower than 2012.

For a discussion of the results of WIB for 2012 v 2011, refer to [Divisional performance 2012 v 2011](#) .

WESTPAC NEW ZEALAND

Westpac New Zealand is responsible for sales and service of banking, wealth and insurance products for consumers, business and institutional customers in New Zealand.

Westpac conducts its New Zealand banking business through two banks in New Zealand: Westpac New Zealand Limited, which is incorporated in New Zealand and Westpac Banking Corporation (NZ Division), a branch of Westpac, which is incorporated in Australia.

The division operates via an extensive network of branches and ATMs across both the North and South Islands. Business and institutional customers are also served through relationship and specialist product teams. Banking products are provided under the Westpac and WIB brands while insurance and wealth products are provided under Westpac Life and BT brands respectively.

Performance of Westpac New Zealand

	2013	2012	2011
	\$m	\$m	\$m
Net interest income	1,309	1,224	1,137
Non-interest income	364	336	304
Net operating income before operating expenses and impairment charges	1,673	1,560	1,441
Operating expenses	(697)	(653)	(627)
Impairment charges	(97)	(148)	(185)
Profit before income tax	879	759	629
Income tax expense	(242)	(208)	(184)
Profit attributable to non-controlling interests	(3)	(3)	(3)
Cash Earnings for the year	634	548	442
Net Cash Earnings adjustments	-	-	-
Net profit attributable to owners of Westpac Banking Corporation	634	548	442
	\$bn	\$bn	\$bn
Deposits and other borrowings	41.4	33.5	29.8
Loans	54.7	47.4	45.2
Total assets	61.5	48.6	46.3
Funds under management	3.9	2.9	2.1
Total operating expenses to net operating income ratio	41.7%	41.9%	43.5%

2013 v 2012

Westpac New Zealand Cash Earnings were \$634 million in 2013, an increase of \$86 million or 16% compared to 2012.

Net interest income increased \$85 million or 7% compared to 2012, of which foreign exchange translation impacts contributed \$75 million. Excluding foreign exchange impacts, net interest income increased \$10 million due to average interest-earning assets increasing, partially offset by margins declining 34 basis points. Margins and interest-earning assets were impacted by the inclusion of liquid assets in 2013. Adjusting for these assets, margins were 10 basis points lower.

Features of this result included:

§ loans increased \$7.3 billion or 15% compared to 2012, primarily due to:

foreign exchange impacts of \$5.6 billion; and

an increase in mortgages and business lending of \$1.7 billion compared to 2012. Growth was predominantly in the targeted segment of loans with an LVR less than 80%.

§ deposits increased \$7.9 billion or 24% compared to 2012, primarily due to:

foreign exchange impacts of \$4.2 billion; and

an increase in term deposits and other deposits, driven by growth in consumer online savings and business transaction accounts.

§ margins reduced 10 basis points to compared to 2012. The 10 basis point contraction in underlying margins was primarily due to:

lending spreads were lower as competition increased and customers switched to lower spread fixed rate mortgage products; and

deposit spreads decreased due to competition and lower returns on non-interest bearing deposits.

DIVISIONAL PERFORMANCE

Non-interest income increased \$28 million or 8% compared to 2012, primarily due to:

§ an increase in facility fees and wealth fees earned from FUM/FUA growth (up \$1.2 billion); partially offset by

§ the one-off insurance policy benefit received in 2012.

Operating expenses increased \$44 million or 7% compared to 2012, of which foreign exchange translation impacts contributed \$41 million. Excluding foreign exchange impacts, this increase was primarily due to salary and other inflationary increases, including rental expenses and continued investment in strategic priorities, largely offset by benefits delivered from ongoing productivity initiatives.

Impairment charges decreased \$51 million or 34% compared to 2012, primarily due to:

§ continued improvement in stressed assets; and

§ a decrease in business individually assessed provision charges of 81% compared to 2012; partially offset by

§ an increase in impairment charges on a small number of institutional customers.

For a discussion of the results of Westpac New Zealand for 2012 v 2011, refer to [Divisional performance 2012 v 2011](#) .

OTHER DIVISIONS

Other divisions comprise:

Westpac Pacific

Westpac Pacific provides banking services for retail and business customers in seven Pacific Island Nations. Branches, ATMs, telephone banking and internet banking channels are used to deliver business activities in Fiji, Papua New Guinea (PNG), Vanuatu, Cook Islands, Tonga, Solomon Islands and Samoa. Westpac Pacific's financial products include personal savings, business transactional accounts, personal and business lending products, business services and a range of international products.

Group Services¹

Group Services encompasses technology, banking operations, compliance, legal and property services.

Treasury

Treasury is primarily focused on the management of the Group's interest rate risk and funding requirements by managing the mismatch between Group assets and liabilities. Treasury's earnings are primarily impacted by the hedging decisions taken on behalf of the Group to manage net interest income outcomes and assist net interest income growth.

Core Support¹

Core Support comprises those functions performed centrally, including finance, risk and human resources.

Group Items

Group Items includes earnings on capital not allocated to divisions, accounting entries for certain intra-group transactions that facilitate the presentation of the performance of our operating segments, earnings from non core asset sales and certain other head office items such as centrally raised provisions.

Performance of Other divisions

	2013	2012	2011
	\$m	\$m	\$m
Net interest income	696	939	798
Non-interest income	193	294	215
Net operating income before operating expenses and impairment charges	889	1,233	1,013
Operating expenses	(166)	(186)	(126)
Impairment charges	(59)	(74)	38
Profit before income tax	664	973	925
Income tax expense	(259)	(336)	(247)
Profit attributable to non-controlling interests	(55)	(58)	(58)
Cash Earnings for the year	350	579	620
Net Cash Earnings adjustments	(131)	(477)	836
Net profit attributable to owners of Westpac Banking Corporation	219	102	1,456

2013 v 2012

Other divisions Cash Earnings were \$350 million in 2013, a decrease of \$229 million or 40% compared to 2012.

Net interest income decreased \$243 million or 26% compared to 2012, primarily due to lower Treasury income. In the more stable credit spread environment, Treasury experienced lower returns on the liquid assets portfolio compared to 2012. Higher interest costs related to recent subordinated debt and hybrid issues also reduced net interest income.

Non-interest income decreased \$101 million or 34% compared to 2012, primarily due to:

§ profit from the sale of Visa shares in 2012 (\$46 million) was not repeated;

§ reduced research and development tax credits received (\$57 million); and

§ hedging of offshore earnings and cost of hedging offshore capital.

Operating expenses decreased \$20 million or 11% compared to 2012, primarily due to lower spend on centrally managed programs.

Impairment charges decreased \$15 million primarily due to a single large provision in Vanuatu in 2012, which was not repeated in 2013.

The effective tax rate increased from 34.5% in 2012 to 39.0% in 2013, primarily from the impact of higher non-deductible distributions on Westpac CPS and Westpac CN.

For a discussion of the results of this division for 2012 v 2011, refer to Divisional performance 2012 v 2011 .

1 Costs are allocated to other businesses in the Group, largely AFS and WIB.

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DIVISIONAL PERFORMANCE

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Westpac Retail & Business Banking

2012 v 2011

Westpac RBB Cash Earnings were \$2,114 million in 2012, an increase of \$264 million or 14% compared to 2011.

Net interest income increased by \$138 million or 3% compared to 2011. This was driven by an increase in interest-earning assets partly offset by a decline in margins. Features of this result included:

§ loans increased by \$8.2 billion or 3% compared to 2011, primarily due to:

an increase in mortgages of \$6.5 billion or 3% compared to 2011 which accounted for the majority of lending growth;

an increase in business lending of \$1.7 billion or 4% compared to 2011 with most of the growth in term lending to commercial and SME customers; and

other consumer lending increased \$0.1 million or 1% compared to 2011.

§ deposits increased by \$13.4 billion or 11% compared to 2011, primarily due to:

an increase in term deposits of \$7.4 billion or 14% compared to 2011; and

an increase in other deposits of \$6.0 billion or 8% driven by growth in consumer and business deposits, partly offset by a decline in online deposits as the business chose not to match some of the more aggressive market pricing.

§ margins reduced by 3 basis points to 2.23% in 2012 compared to 2.26% in 2011, primarily due to:

higher funding costs as the costs of deposits increased, particularly term deposits, and product mix impacts with growth occurring in the higher interest rate term deposits; partially offset by

increased lending spreads (up 17 basis points), mostly from the repricing of mortgages and business loans to better reflect higher funding costs.

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Non-interest income increased by \$93 million or 9% compared to 2011, primarily due to:

§ an increase in business lending fees, which have continued to be repriced to more appropriately reflect the cost of providing business facilities; and

§ a rise in financial markets income related to customers managing interest rate risk.

Operating expenses decreased \$8 million compared to 2011, primarily due to:

§ productivity gains from the implementation of new banking platforms streamlining activity;

§ a divisional restructure which reduced duplication and improved coordination in back office and technology business units;

§ lower credit growth and improved productivity has reduced the need for resources supporting housing lending; and

§ disciplined management across all variable costs; offset by

§ normal salary increases processed in January and a rise in investment related spending, particularly amortisation of technology investments.

Impairment charges decreased \$118 million or 22% compared to 2011, primarily due to:

§ lower consumer impairment charges of \$89 million due to a reduction in both mortgage 90+ day delinquencies and other consumer delinquencies driven by cautionary consumer behaviour; and

§ lower business impairments of \$29 million due to lower stressed assets.

St. George Banking Group

2012 v 2011

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St. George Cash Earnings were \$1,231 million in 2012, a decrease of \$2 million compared to 2011.

Net interest income increased \$36 million or 1% compared to 2011. This was driven by an increase in interest-earning assets, partially offset by a decrease in margins. Features of this result included:

§ loans increased \$5.6 billion or 4% compared to 2011 primarily due to:

an increase in mortgages of \$5.1 billion or 5% compared to 2011 which accounted for the majority of loan growth;

a decrease in business lending of \$0.3 billion or 1% compared to 2011 from lower commercial property lending; and

other consumer lending increased \$0.8 billion or 13% compared to 2011 due to growth in fixed term personal loans and a modest rise in credit card balances.

§ deposits increased \$10.1 billion or 14% compared to 2011, primarily due to:

an increase in term deposits of \$6.5 billion or 19% compared to 2011, sourced evenly from consumer and business customers; and

other deposits increased \$3.6 billion or 10% compared to 2011 driven by growth in consumer online savings products.

§ a decrease in margins of 3 basis points compared to 2011, driven by:

higher funding costs as the costs of deposits increased, particularly term deposits, and product mix impacts with growth occurring in the higher interest rate term deposits; partially offset by

increased lending spreads (up 22 basis points), mostly from the repricing of mortgages and, to a lesser extent, business lending to better reflect increased funding costs.

Non-interest income increased \$16 million or 3% compared to 2011, driven by:

§ higher foreign exchange and interest rate risk management products income; and

§ increased income share from higher home and contents insurance cross sell.

Operating expenses increased \$18 million or 1% compared to 2011, primarily due to:

§ costs associated with the investment in Bank of Melbourne including increased employees, higher lease costs and higher depreciation and amortisation; partially offset by

§ lower professional services costs associated with the design and launch of Bank of Melbourne; and

§ productivity initiatives and control of variable expenses.

Impairment charges increased \$40 million or 10% compared to 2011 due to:

§ higher consumer impairment charges up \$5 million, due to an increase in both mortgage 90+ day delinquencies and other consumer delinquencies; and

§ higher business impairments of \$35 million mostly due to higher collective provisioning charges, offsetting falls in individual impairments.

BT Financial Group (Australia)

2012 v 2011

BTFG Cash Earnings were \$653 million in 2012, a decrease of \$76 million or 10% compared to 2011.

Net interest income decreased \$14 million or 3% compared to 2011, primarily due to:

§ a \$25 million reduction, mostly from lower margin lending balances (down \$16 million) and lower revenue from structured product sales (down \$6 million); partially offset by

§ increased loan and deposit balances with mortgage margin improvement, offset by deposit margin compression.

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Non-interest income increased \$37 million or 2% compared to 2011 due to:

§ an increase in life insurance revenue with net earned premiums increasing 15%, reflecting new business following the expansion of distribution to the Independent Financial Advisor market;

§ an increase in general insurance revenue due to increased sales, repricing and reduced claims; partially offset by

§ a reduction in funds management income due to:

a decrease in FUM income, primarily due to:

increase in average FUM of 20%, driven by the acquisition of J O Hambro; offset by

lower margins reflecting a change in product mix; and

weaker asset markets.

an increase in FUA income, driven by:

average FUA increase of 3% compared to 2011, predominantly by flows and the transfer of the Westpac Group staff superannuation fund; and

higher FUA margins from product repricing; offset by

weaker asset markets; and

§ a decrease in lenders mortgage insurance income due to lower credit demand and the decision to reduce underwriting risk on loans with LVR greater than 90%.

Operating expenses increased \$128 million or 13% compared to 2011, primarily due to:

§ the full impact of the J O Hambro acquisition of \$38 million;

§ expansion of the distribution network and development costs of the next generation funds platform of \$29 million;

§ increased salaries and other sales related costs; and

§ increased compliance and regulatory costs.

Impairment charges increased \$5 million due to a lower benefit from write-backs and recoveries of impaired loans.

Westpac Institutional Bank

2012 v 2011

WIB Cash Earnings were \$1,473 million in 2012, an increase of \$46 million or 3% compared to 2011.

Net interest income increased \$6 million compared to 2011. The result reflected an increase in interest-earning assets of \$3 billion or 5%, offset by an 11 basis point decline in margins. Features of this result included:

§ loans increased \$2 billion due to an increase in business lending and trade finance from both demand and increased resources devoted to this sector, particularly in Asia;

§ deposits increased \$16 billion or 34% compared to 2011 from both a more concerted focus on transaction business and a preference of corporates to remain highly liquid; and

§ margins decreased 11 basis points to 2.49% primarily due to lower Markets income recorded as net interest income and increased competition for lending.

Non-interest income increased \$302 million or 26% compared to 2011, primarily due to:

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§ growth in Markets income from both improved customer flows and a stronger risk management performance;

§ a \$130 million increase in revenue from Hastings including the impact from corporate activity in the division's listed funds; partially offset by

§ credit valuation adjustment was a charge of \$58 million in 2012 compared with a \$16 million benefit in 2011.

Operating expenses increased \$49 million or 5% compared to 2011, primarily due to higher FTE and increased technology costs associated with the division's expansion in Asia, which was partially offset by controlled variable expenses.

Asset quality improved over the year although the rate of reduction in stressed assets has slowed. There were top-ups to provisions on existing stressed and impaired assets and downgrades to companies experiencing pressure from the high Australian dollar and soft consumer spending. This led to a \$127 million impairment charge in 2012 compared to an impairment benefit of \$90 million in 2011.

DIVISIONAL PERFORMANCE

Westpac New Zealand

2012 v 2011

Westpac New Zealand Cash Earnings were \$548 million in 2012, an increase of \$106 million or 24% compared to 2011.

Net interest income increased \$87 million or 8% compared to 2011, primarily due to:

§ loans increased by \$2.2 billion or 5% compared to 2011, primarily due to an increase in mortgages of \$1.2 billion and business and institutional lending of \$0.9 billion;

§ deposits increased \$3.7 billion, primarily due to:

term deposits increased \$2.1 billion or 13% and other deposits increased \$1.6 billion or 12% driven by growth in consumer online savings and business transaction accounts.

§ an increase in margins of 8 basis points to 2.72% compared to 2.64% in 2011, primarily due to improved mortgage and business lending spreads.

Non-interest income increased \$32 million or 11% compared to 2011 driven by:

§ improved cross sell contributing to insurance premium growth, and increased wealth fee income; and

§ increased business and institutional fees.

Operating expenses increased \$26 million or 4% compared to 2011, primarily due to:

§ annual salary increases and higher occupancy costs associated with adding six branches to the network in 2011; and

§ higher technology costs from both investment and volume driven demand; offset by

§ productivity initiatives contributing to lower average FTE and lower costs associated with the completion of the transfer of the New Zealand institutional business from WIB to Westpac New Zealand.

Impairment charges decreased \$37 million or 20% compared to 2011 due to lower consumer delinquencies and a fall in individually assessed provisions, partially offset by a small number of pre-2007 exposures requiring an increase in the amount of impairment provisions.

A change in the corporate tax rate from 30% to 28% effective from 1 October 2011 contributed to a reduction in the division's tax rate in 2012.

Other divisions

2012 v 2011

Other divisions Cash Earnings were \$579 million in 2012, a decrease of \$41 million or 7% compared to 2011.

Net interest income increased by \$141 million or 18% compared to 2011 primarily from improved Treasury income.

Non-interest income increased by \$79 million or 37% primarily due to:

§ higher research and development tax credits;

§ higher foreign exchange volumes and improved market spreads in Westpac Pacific; and

§ higher fee income from net customer growth of approximately 68,000 to over 361,000 in Westpac Pacific.

Operating expenses increased by \$60 million or 48% primarily due to higher restructuring expenses and employee provisions.

The increase in impairments of \$112 million reflected an increase in economic overlay provisions whereas 2011 benefited from a release.

The increase in the effective tax rate from 26.7% in 2011 to 34.5% in 2012 reflects the tax benefit in 2011 from the release of excess tax provisions.

RISK AND RISK MANAGEMENT

RISK FACTORS

Our business is subject to risks that can adversely impact our business, results of operations, financial condition and future performance. If any of the following risks occur, our business, results of operations, financial condition or future performance could be materially adversely affected, with the result that the trading price of our securities could decline and as a security holder you could lose all, or part, of your investment. You should carefully consider the risks described and the other information in this Annual Report before investing in our securities. The risks and uncertainties described below are not the only ones we may face. Additional risks and uncertainties that we are unaware of, or that we currently deem to be immaterial, may also become important factors that affect us.

Risks relating to our business

Our businesses are highly regulated and we could be adversely affected by failing to comply with existing laws and regulations or by changes in laws, regulations or regulatory policy

As a financial institution, we are subject to detailed laws and regulations in each of the jurisdictions in which we operate or obtain funding, including Australia, New Zealand and the United States. We are also supervised by a number of different regulatory and supervisory authorities which have broad administrative power over our businesses. In Australia, the relevant regulatory authorities include the Australian Prudential Regulation Authority (APRA), Reserve Bank of Australia (RBA), Australian Securities and Investments Commission (ASIC), Australian Securities Exchange (ASX), Australian Competition and Consumer Commission (ACCC), the Australian Transaction Reports and Analysis Centre (AUSTRAC) and the Australian Taxation Office (ATO). The Reserve Bank of New Zealand (RBNZ) and the Financial Markets Authority (FMA) have supervisory oversight of our New Zealand operations. In the United States we are subject to supervision and regulation by the US Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission (CFTC) and the U.S. Securities and Exchange Commission (SEC). In other jurisdictions in which we operate, including the United Kingdom, Asia and the Pacific, we are also required to comply with relevant requirements of the local regulatory bodies.

We are responsible for ensuring that we comply with all applicable legal and regulatory requirements (including accounting standards) and industry codes of practice in the jurisdictions in which we operate or obtain funding, as well as meeting our ethical standards.

Compliance risk arises from these legal and regulatory requirements. If we fail to comply, we may be subject to fines, penalties or restrictions on our ability to do business. An example of the broad administrative power available to regulatory authorities is the power available to APRA under the *Banking Act 1959* in certain circumstances to investigate our affairs and/or issue a direction to us (such as a direction to comply with a prudential requirement, to conduct an audit, to remove a Director, executive officer or employee or not to undertake transactions). Any such costs and restrictions could adversely affect our business, reputation, prospects, financial performance or financial condition.

As with other financial services providers, we face increasing supervision and regulation in most of the jurisdictions in which we operate or obtain funding, particularly in the areas of funding, liquidity, capital adequacy and prudential regulation. In December 2010 the Basel Committee on Banking Supervision (BCBS) announced a revised global regulatory framework known as Basel III. Basel III, among other things, increases the required quality and quantity of capital held by banks and introduces new minimum standards for the management of liquidity risk. APRA has announced that it supports the Basel III framework and it will incorporate the framework into its prudential standards. The Basel III capital framework came into effect from 1 January 2013, subject to various transitional arrangements. Further details on the Basel III framework are set out in Section 1 under [Information on Westpac](#).

During the year ended 30 September 2013 there were also a series of other regulatory releases from authorities in the various jurisdictions in which we operate or obtain funding proposing significant regulatory change for financial institutions. This includes global OTC derivatives reform as well as the US Dodd-Frank legislation which is designed to reform the entire system for the supervision and regulation of financial firms that operate in or have a connection with the US, including foreign banks like Westpac. Other areas of potential change that could impact us include changes to accounting and reporting requirements, tax legislation, regulation relating to remuneration, consumer protection and competition legislation and bribery, anti-money laundering and counter-terrorism financing laws. In addition, further changes may occur driven by policy, prudential or political factors.

Regulation is becoming increasingly extensive and complex. Some areas of potential regulatory change involve multiple jurisdictions seeking to adopt a coordinated approach. This may result in conflicts with specific requirements of the jurisdictions in which we operate and, in addition, such changes may be inconsistently introduced across jurisdictions.

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Changes may also occur in the oversight approach of regulators. It is possible that governments in jurisdictions in which we operate or obtain funding might revise their application of existing regulatory policies that apply to, or impact, Westpac's business, including for reasons relating to national interest and/or systemic stability.

Regulatory changes and the timing of their introduction continue to evolve and we currently manage our businesses in the context of regulatory uncertainty. The nature and impact of future changes are not predictable and are beyond our control. Regulatory compliance and the management of regulatory change is an increasingly important part of our strategic planning. We expect that we will be required to continue to invest significantly in compliance and the management and implementation of regulatory change and, at the same time, significant management attention and resources will be required to update existing or implement new processes to comply with the new regulations.

Regulatory change may also impact our operations by requiring us to have increased levels of liquidity and higher levels of, and better quality, capital as well as place

RISK AND RISK MANAGEMENT

restrictions on the businesses we conduct, require us to amend our corporate structure or require us to alter our product and service offerings. If regulatory change has any such effect, it could adversely affect one or more of our businesses, restrict our flexibility, require us to incur substantial costs and impact the profitability of one or more of our business lines. Any such costs or restrictions could adversely affect our business, prospects, financial performance or financial condition.

For further information refer to Significant developments in Section 1 and the sections Critical accounting assumptions and estimates and Future developments in accounting standards in Note 1 to the financial statements.

Adverse credit and capital market conditions may significantly affect our ability to meet funding and liquidity needs and may increase our cost of funding

We rely on credit and capital markets to fund our business and as a source of liquidity. Our liquidity and costs of obtaining funding are related to credit and capital market conditions.

Global credit and capital markets have experienced extreme volatility, disruption and decreased liquidity in recent years. While there have been periods of stability in these markets, the environment has become more volatile and unpredictable. This has been exacerbated by the potential for sovereign debt defaults and/or banking failures in Europe which has contributed to volatility in stock prices and credit spreads. Adding to the uncertainty has been a slowing in the economic outlook for a number of countries, including China and the uncertain recovery of the US economy. Our direct exposure to the affected European countries is immaterial, with the main risks we face being damage to market confidence, changes to the access and cost of funding and a slowing in global activity or through other impacts on entities with whom we do business.

As of 30 September 2013, approximately 32% of our total funding originated from domestic and international wholesale markets, of this around 59% was sourced outside Australia and New Zealand.

A shift in investment preferences of businesses and consumers away from bank deposits towards other asset or investment classes would increase our need for funding from relatively less stable or more expensive forms of funding.

If market conditions deteriorate due to economic, financial, political or other reasons, our funding costs may be adversely affected and our liquidity and our funding and lending activities may be constrained.

If our current sources of funding prove to be insufficient, we may be forced to seek alternative financing. The availability of such alternative financing, and the terms on which it may be available, will depend on a variety of factors, including prevailing market conditions, the availability of credit, our credit ratings and credit market capacity. Even if available, the cost of these alternatives may be more expensive or on unfavourable terms, which could adversely affect our results of operations, liquidity, capital resources and financial condition. There is no assurance that we will be able to obtain adequate funding and do so at acceptable prices, nor that we will be able to recover any additional costs.

If Westpac is unable to source appropriate funding, we may also be forced to reduce our lending or begin to sell liquid securities or we may be unable to pay our debts. Such actions may adversely impact our business, prospects, liquidity, capital resources, financial performance or financial condition.

Westpac enters into collateralised derivative obligations, which may require Westpac to post additional collateral based on movements in market rates, which have the potential to adversely affect Westpac's liquidity.

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For a more detailed description of liquidity risk, refer to the section *Liquidity risk* in this section and Note 27 to the financial statements.

Sovereign risk may destabilise financial markets adversely

Sovereign risk, or the risk that foreign governments will default on their debt obligations, increase borrowings as and when required or be unable to refinance their debts as they fall due or nationalise participants in their economy, has emerged as a risk to the recovery prospects of many economies. This risk is particularly relevant to a number of European countries and during 2013 became more relevant to the United States. Should one sovereign default, there could be a cascading effect to other markets and countries, the consequences of which, while difficult to predict, may be similar to or worse than those experienced during the global financial crisis. Such an event could destabilise global financial markets adversely affecting our liquidity, financial performance or financial condition.

Failure to maintain credit ratings could adversely affect our cost of funds, liquidity, competitive position and access to capital markets

Credit ratings are independent opinions on our creditworthiness. Our credit ratings affect the cost and availability of our funding from capital markets and other funding sources and they may be important to customers or counterparties when evaluating our products and services. Therefore, maintaining high quality credit ratings is important.

The credit ratings assigned to us by rating agencies are based on an evaluation of a number of factors, including our financial strength, structural considerations regarding the Australian financial system and the credit rating of the Australian Government. A credit rating downgrade could be driven by the occurrence of one or more of the other risks identified in this section or by other events including changes to the methodologies used by the rating agencies to determine ratings.

Failure to maintain our current credit ratings could adversely affect our cost of funds and related margins, collateral requirements, liquidity, competitive position and our access to capital markets. The extent and nature of these impacts would depend on various factors, including the extent of any ratings change, whether our ratings differ among agencies (split ratings) and whether any ratings changes also impact our peers or the sector.

A systemic shock in relation to the Australian, New Zealand or other financial systems could have adverse consequences for Westpac or its customers or counterparties that would be difficult to predict and respond to

There is a risk that a major systemic shock could occur that causes an adverse impact on the Australian, New Zealand or other financial systems.

As outlined above, over recent years the financial services industry and capital markets have been, and may continue to be, adversely affected by market volatility and the negative outlook for global economic conditions. Concerns about Eurozone sovereign risk and, more recently, extended political debate in the United States in relation to the debt ceiling have highlighted the risk that a shock to one of the major global economies could result in currency fluctuations and operational disruptions that negatively impact the Group.

Any such market and economic disruptions could adversely affect financial institutions such as Westpac because consumer and business spending may decrease, unemployment may rise and demand for the products and services we provide may decline, thereby reducing our earnings. These conditions may also affect the ability of our borrowers to repay their loans or our counterparties to meet their obligations, causing us to incur higher credit losses. These events could also result in the undermining of confidence in the financial system, reducing liquidity and impairing our access to funding and impairing our customers and counterparties and their businesses. If this were to occur, our business, prospects, financial performance or financial condition could be adversely affected.

The nature and consequences of any such event are difficult to predict and there can be no certainty that we could respond effectively to any such event.

Declines in asset markets could adversely affect our operations or profitability

Declines in Australian, New Zealand or other asset markets, including equity, residential and commercial property and other asset markets, could adversely affect our operations and profitability.

Declining asset prices impact our wealth management business. Earnings in our wealth management business are, in part, dependent on asset values because we receive fees based on the value of securities and/or assets held or managed. A decline in asset prices could negatively impact the earnings of this business.

Declining asset prices could also impact customers and counterparties and the value of security (including residential and commercial property) we hold against loans and derivatives which may impact our ability to recover amounts owing to us if customers or counterparties were to default. It may also affect our level of provisioning which in turn impacts profitability.

Our business is substantially dependent on the Australian and New Zealand economies

Our revenues and earnings are dependent on economic activity and the level of financial services our customers require. In particular, lending is dependent on various factors including economic growth, business investment, levels of

employment, interest rates and trade flows in the countries in which we operate.

We currently conduct the majority of our business in Australia and New Zealand and, consequently, our performance is influenced by the level and cyclical nature of lending in these countries. These factors are in turn impacted by both domestic and international economic conditions, natural disasters and political events. A significant decrease in the Australian and New Zealand housing markets or property valuations could adversely impact our home lending activities because the ability of our borrowers to repay their loans or counterparties to honour their obligations may be affected, causing us to incur higher credit losses, or the demand for our home lending products may decline.

Adverse changes to the economic and business conditions in Australia and New Zealand and other countries such as China, India and Japan, could also adversely affect the Australian economy and customers. In particular, due to the current relationship between Australia and China, particularly in the mining and resources sectors, a slowdown in China's economic growth could negatively impact the Australian economy. Changes in economic conditions could in turn result in reduced demand for our products and services and affect the ability of our borrowers to repay their loans. If this were to occur, it could negatively impact our business, prospects, financial performance or financial condition.

An increase in defaults in credit exposures could adversely affect our liquidity, capital resources, financial performance or financial condition

Credit risk is a significant risk and arises primarily from our lending activities. The risk arises from the possibility that some customers and counterparties will be unable to honour their obligations to us, including the repayment of loans and interest.

We hold collective and individually assessed provisions for these credit exposures. If economic conditions deteriorate, some customers and/or counterparties could experience higher levels of financial stress and we may experience a significant increase in defaults and write-offs, and be required to increase our provisioning. Such events would diminish available capital and could adversely affect our liquidity, capital resources, financial performance or financial condition.

Credit risk also arises from certain derivative contracts we enter into and from our dealings with, and holdings of, debt securities issued by other banks, financial institutions, companies, governments and government bodies the financial conditions of which may be affected to varying degrees by economic conditions in global financial markets.

For a discussion of our risk management procedures, including the management of credit risk, refer to the "Risk management" section and Note 27 to the financial statements.

We face intense competition in all aspects of our business

The financial services industry is highly competitive. We compete, both domestically and internationally, with retail and commercial banks, asset managers, investment banking

RISK AND RISK MANAGEMENT

firms, brokerage firms, other financial service firms and businesses in other industries with emerging financial services aspirations. This includes specialist competitors that may not be subject to the same capital and regulatory requirements and therefore may be able to operate more efficiently.

If we are unable to compete effectively in our various businesses and markets, our market share may decline. Increased competition may also adversely affect us by diverting business to our competitors or creating pressure to lower margins.

Increased competition for deposits could also increase our cost of funding and lead us to access other types of funding. We rely on bank deposits to fund a significant portion of our balance sheet and deposits have been a relatively stable source of funding. We compete with banks and other financial services firms for such deposits. To the extent that we are not able to successfully compete for deposits, we would be forced to rely more heavily on more expensive or less stable forms of funding, or reduce lending.

We are also dependent on our ability to offer products and services that match evolving customer preferences. If we are not successful in developing or introducing new products and services or responding or adapting to changes in customer preferences and habits, we may lose customers to our competitors. This could adversely affect our business, prospects, financial performance or financial condition.

For more detail on how we address competitive pressures refer to [Competition](#) in Section 1.

We could suffer losses due to market volatility

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 financial position. In our financial markets trading business, we are exposed to losses arising from adverse movements in levels and volatility of interest rates, foreign exchange rates, commodity prices, credit prices and equity prices. If we were to suffer substantial losses due to any market volatility it may adversely affect our business, prospects, liquidity, capital resources, financial performance or financial condition. For a discussion of our risk management procedures, including the management of market risk, refer to the [Risk management](#) section.

We could suffer losses due to operational risks

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, including legal risk but excluding strategic or reputational risk. It also includes, among other things, technology risk, model risk and outsourcing risk. As a financial services organisation we are exposed to a variety of operational risks.

We are also highly dependent on the conduct of our employees, contractors and external service providers. We could, for example, be adversely affected in the event of human error, inadequate or failed processes or if an employee, contractor or external service provider engages in fraudulent conduct. We could also incur losses from an unintentional or negligent failure to meet a professional obligation to specific clients, including fiduciary and suitability requirements, or from the nature or design of a

product. These may include client, product and business practice risks such as product defects and unsuitability, market manipulation, insider trading, misleading or deceptive conduct in advertising and inadequate or defective financial advice. While we have policies and processes to minimise the risk of human error and employee, contractor or external service provider misconduct, these policies and processes may not always be effective.

Fraudulent conduct can also emerge from external parties seeking to access the bank's systems and customers' accounts. If systems, procedures and protocols for managing and minimising fraud fail, or are ineffective, they could lead to loss which could adversely affect our business, prospects, reputation, financial performance, or financial condition.

As a financial services organisation, Westpac is heavily reliant on the use of models in the conduct of its business. We are therefore exposed to model risk, being the risk of loss arising because of errors or inadequacies in a model, or in the control and use of the model.

Westpac relies on a number of suppliers, both in Australia and overseas, to provide services to it and its customers. Failure by these suppliers to deliver services as required could disrupt services and adversely impact Westpac's operations, profitability or reputation.

Operational risks could impact on our operations or adversely affect demand for our products and services. Operational risks can directly impact our reputation and result in financial losses which would adversely affect our financial performance or financial condition.

For a discussion of our risk management procedures, including the management of operational risk, refer to the Risk management section.

We could suffer losses due to security breaches or technology failures

The reliability and security of our information and technology infrastructure and our customer databases are crucial in maintaining our banking applications and processes. There is a risk that our information and technology systems might fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control.

The proliferation of new technologies, the increasing use of the internet and telecommunications to conduct financial transactions and the growing sophistication and activities of organised crime have resulted in increased information security risks for major financial institutions such as Westpac.

While Westpac has systems in place to detect and respond to cyberattacks, there can be no assurance that we will not suffer losses relating to cyberattacks or other information security breaches in the future.

Our operations rely on the secure processing, storage and transmission of confidential and other information on our computer systems and networks, and the systems and networks of external suppliers. Although we implement significant measures to protect the security and confidentiality of our information, there is a risk that the computer systems, software and networks on which we rely may be subject to security breaches, unauthorised access,

computer viruses, external attacks or internal breaches that could have an adverse security impact and compromise our confidential information or that of our customers and counterparts. Any such security breach could result in regulatory enforcement actions, reputational damage and reduced operational effectiveness. Such events could subsequently adversely affect our business, prospects, financial performance or financial condition.

Our risk and exposure to such matters remains heightened because of the evolving nature of technological threats, Westpac's prominence within the financial services industry and our plans to continue to improve and expand our internet and mobile banking infrastructure.

We continue to modify or enhance our cybersecurity systems and investigate or remediate any information security vulnerabilities, investing additional resources as required to counter new and emerging threats as they continue to evolve.

Security breaches or cyberattacks on Westpac's networks, systems or devices could result in the loss of customers and business opportunities, theft of intellectual property, significant disruption to Westpac's operations and business, misappropriation of Westpac's confidential information and/or that of our customers, damage to Westpac's computers or systems and/or those of our customers, reputational damage and claims for compensation and regulatory investigations and penalties, which could adversely affect our business, prospects, financial performance, or financial condition.

Further, our ability to develop and deliver products and services to customers is dependent upon technology that requires periodic renewal. We are constantly managing technology projects including projects to consolidate duplicate technology platforms, simplify and enhance our technology and operations environment, improve productivity and provide for a better customer experience. Failure to implement these projects or manage associated change effectively could result in cost overruns, a failure to achieve anticipated productivity, operational instability or reputational damage. In turn, this could place us at a competitive disadvantage and adversely affect our financial performance.

We could suffer losses due to failures in risk management strategies

We have implemented risk management strategies and internal controls involving processes and procedures intended to identify, monitor and mitigate the risks to which we are subject, including liquidity risk, credit risk, market risk (including interest rate, foreign exchange and equity risk), compliance risk, conduct risk and operational risk; all of which comprise important elements of the Group's reputational risk.

However, there are inherent limitations with any risk management framework as there may exist, or emerge in the future, risks that we have not anticipated or identified.

If any of our risk management processes and procedures prove ineffective or inadequate or are otherwise not appropriately implemented, we could suffer unexpected losses and reputational damage which could adversely

affect our business, prospects, financial performance or financial condition.

For a discussion of our risk management procedures, refer to the Risk management section.

We could suffer losses due to insurance risk

We have exposure to insurance risk in both life insurance and general insurance business, which may adversely affect our business, operations and financial condition.

Insurance risk is the risk of loss due to increases in policy benefits arising from variations in the incidence or severity of insured events.

In the life insurance business, insurance risk arises primarily through mortality (death) and morbidity (illness and injury) risks being greater than expected.

In the general insurance business, insurance risk arises mainly through environmental factors (including floods and bushfires) and other calamities, such as earthquakes, tsunamis and volcanic activity, as well as general variability in home, contents, motor, travel and other insurance claim amounts. Further details on environmental risk factors are discussed below.

We could suffer losses due to environmental factors

We and our customers operate businesses and hold assets in a diverse range of geographical locations. Any significant environmental change or external event (including fire, storm, flood, earthquake or pandemic) in any of these locations has the potential to disrupt business activities, impact on our operations, damage property and otherwise affect the value of assets held in the affected locations and our ability to recover amounts owing to us. In addition, such an event could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets.

This risk of losses due to environmental factors is also relevant to our insurance business. The frequency and severity of external events such as natural disasters is difficult to predict and it is possible that the amounts we reserve for such events may not be adequate to cover actual claims that may arise, which could adversely affect our business, prospects, financial performance or financial condition.

Reputational damage could harm our business and prospects

Our ability to attract and retain customers and our prospects could be adversely affected if our reputation is damaged.

There are various potential sources of reputational damage, including potential conflicts of interest, pricing policies, failing to comply with legal and regulatory requirements, ethical issues, engagement and conduct of external suppliers, failing to comply with money laundering laws, trade sanctions and counter-terrorism finance legislation or privacy laws, litigation, failure of information security systems, improper sales and trading practices, failing to comply with personnel and supplier policies, improper conduct of companies in which we hold strategic investments, technology failures, security breaches and risk management failures. Our reputation could also be adversely affected by the actions of the financial services industry in general or from the actions of customers and counterparties.

RISK AND RISK MANAGEMENT

Failure to appropriately address issues that could or do give rise to reputational risk could also impact the regulatory change agenda, give rise to additional legal risk, subject us to regulatory enforcement actions, fines and penalties, or remediation costs, or harm our reputation among customers, investors and the marketplace. This could lead to loss of business which could adversely affect our business, prospects, financial performance or financial condition.

We could suffer losses due to impairment to capitalised software, goodwill and other intangible assets that may adversely affect our business, operations and financial condition

In certain circumstances Westpac may be exposed to a reduction in the value of intangible assets. As at 30 September 2013, Westpac carried goodwill principally related to its investments in Australia, intangible assets principally relating to assets recognised on acquisition of subsidiaries and capitalised software balances.

Westpac is required to assess the recoverability of the goodwill balances on at least an annual basis. For this purpose Westpac uses either a discounted cash flow or a multiple of earnings calculation. Changes in the assumptions upon which the calculation is based, together with expected changes in future cash flows, could materially impact this assessment, resulting in the potential write-off of part or all of the goodwill balances.

Capitalised software and other intangible assets are assessed for indicators of impairment at least annually. In the event that an asset is no longer in use, or that the cash flows generated by the asset do not support the carrying value, in certain circumstances an impairment will be recorded, adversely impacting the Group's financial condition.

We could suffer losses if we fail to syndicate or sell down underwritten securities

As a financial intermediary we underwrite listed and unlisted debt and equity securities. Underwriting activities include the development of solutions for corporate and institutional customers who need capital and investor customers who have an appetite for certain investment products. We may guarantee the pricing and placement of these facilities. We could suffer losses if we fail to syndicate or sell down our risk to other market participants. This risk is more pronounced in times of heightened market volatility.

Certain strategic decisions may have adverse effects on our business

Westpac, at times, evaluates and may undertake strategic decisions which may include business expansion. The expansion, or integration of a new business, can be complex and costly and may require Westpac to comply with additional local or foreign regulatory requirements which may carry additional risks. These decisions may, for a variety of reasons, not deliver the anticipated positive business results and could have a negative impact on our business, prospects, engagement with regulators, financial performance or financial condition.

Limitation on Independent Registered Public Accounting Firm's Liability

The liability of PricewaterhouseCoopers (an Australian partnership which we refer to as PwC Australia), with

respect to claims arising out of its audit report included in this Annual Report, is subject to the limitations set forth in the *Professional Standards Act 1994* of New South Wales, Australia, as amended (the Professional Standards Act) and The Institute of Chartered Accountants in Australia (NSW) Scheme adopted by The Institute of Chartered Accountants in Australia (ICAA) on 8 October 2013 and approved by the New South Wales Professional Standards Council pursuant to the Professional Standards Act (the NSW Accountants Scheme) or, in relation to matters occurring on or prior to 7 October 2013, the predecessor schemes. The current NSW Accountants Scheme expires on 7 October 2014 unless further extended or replaced.

The Professional Standards Act and the NSW Accountants Scheme may limit the liability of PwC Australia for damages with respect to certain civil claims arising directly or vicariously from anything done or omitted by it in New South Wales in the performance of its professional services for us,

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including, without limitation, its audits of our financial statements, to a maximum liability for audit work of \$75 million or, in relation to matters occurring on or prior to 7 October 2007, \$20 million. The limit does not apply to claims for breach of trust, fraud or dishonesty.

In addition, there is equivalent professional standards legislation in place in other states and territories in Australia and amendments have been made to a number of Australian federal statutes to limit liability under those statutes to the same extent as liability is limited under state and territory laws by professional standards legislation.

These limitations of liability may limit recovery upon the enforcement in Australian courts of any judgment under US or other foreign laws rendered against PwC Australia based on or related to its audit report on our financial statements. Substantially all of PwC Australia's assets are located in Australia. However, the Professional Standards Act and the NSW Accountants Scheme have not been subject to judicial consideration and therefore how the limitation will be applied by the courts and the effect of the limitation on the enforcement of foreign judgments are untested.

RISK MANAGEMENT

Our vision is to be one of the world's great companies, helping our customers, communities and people to prosper and grow.

Effective risk management is one of the keys to achieving this goal. It influences our customer experiences and public perceptions, our financial performance, reputation and shareholder expectations, and thus our future success. We regard managing risk to be a fundamental activity, performed at all levels of the Group.

Our risk management strategy is approved by our Board and implemented through the CEO and the executive management team.

The BRMC has been delegated the responsibility for approving and maintaining an effective risk management framework. For further information regarding the role and responsibilities of the BRMC and other Board committees in managing risk, refer to [Corporate governance - Risk management](#) in Section 1.

The CEO and executive management team are responsible for implementing the risk management strategy and

frameworks and for developing policies, controls, processes and procedures for identifying and managing risk in all of Westpac's activities.

We follow a Three Lines of Defence philosophy for risk management. As outlined in the Corporate governance section our approach to managing risk is that risk is everyone's business and that responsibility and accountability for risk begins with the business units that originate the risk.

For a comprehensive discussion of the risks to which Westpac is exposed, and its policies to manage these risks, refer to Corporate governance Risk management in Section 1 and Note 27 to the financial statements.

CREDIT RISK

Credit risk is the risk of financial loss where a customer or counterparty fails to meet their financial obligations.

We have a well-established framework and supporting policies for managing the credit risk associated with lending across our business divisions. The framework and policies encompass all stages of the credit cycle origination, evaluation, approval, documentation, settlement, ongoing administration and problem management. For example, we have established product-based standards for lending to individuals, with key controls including minimum serviceability standards and maximum loan to security value ratios. We offer residential property loans to both owner-occupiers and investors at both fixed and variable rates, secured by a mortgage over the subject property or other acceptable collateral. Where we lend to higher loan to value ratios we typically also require lenders mortgage insurance. Similarly, we have established criteria for business, commercial, corporate and institutional lending, which can vary by industry segment. In this area we focus on the performance of key financial risk ratios, including interest coverage, debt serviceability and balance sheet structure. When providing finance to smaller business, commercial and corporate borrowers we typically obtain security, such as a mortgage over property and/or a general security agreement over business assets. For larger corporates and institutions we typically also require compliance with selected financial ratios and undertakings and may hold security. In respect of commercial property lending we maintain loan origination and ongoing risk management standards, including specialised management for higher value loans. We consider factors such as the nature, location, quality and expected demand for the asset, tenancy profile and experience and quality of management. We actively monitor the Australian and New Zealand property markets and the composition of our commercial property loan book across the Group.

The extension of credit is underpinned by the Group's Principles of Responsible Lending. This is reflected in our commitment to comply with all local legislation, codes of practice and relevant guidelines and obligations to market our products responsibly and stay in touch with the expectations of customers and the community.

Refer to Note 27 to the financial statements for details of our credit risk management policies.

Provisions for impairment charges on loans

For information on the basis for determining the provision for impairment charges on loans refer to Critical accounting assumptions and estimates in Note 1 to the financial statements.

Credit risk concentrations

We monitor our credit portfolio to manage risk concentrations. At 30 September 2013, our exposure to consumers comprised 71% (2012: 71%, 2011: 71%) of our on-balance sheet loans and 57% (2012: 57%, 2011: 56%) of total credit commitments. At 30 September 2013, 90% (2012: 91%, 2011: 91%) of our exposure to consumers was supported by residential real estate mortgages. The consumer category includes investment property loans to individuals, credit cards, personal loans, overdrafts and lines of credit. Our consumer credit risks are 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

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with incomes derived from a wide range of occupations, in city as well as country areas.

Exposures to businesses, government and other financial institutions are classified into a number of industry clusters based on groupings of related Australian and New Zealand Standard Industrial Classification (ANZSIC) codes and are monitored against industry risk limits. The level of industry risk is measured and monitored on a dynamic basis. Exposures are actively managed from a portfolio perspective, with risk mitigation techniques used to regularly re-balance the portfolio. We also control the concentration risks that can arise from large exposures to individual borrowers.

RISK AND RISK MANAGEMENT

Cross-border outstandings

Cross-border outstandings are loans, placements with banks, 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. The relevant foreign denominated currencies have been converted at the closing spot exchange rate used in the financial statements.

Our cross-border outstandings to borrowers in 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:

(in \$millions unless otherwise indicated)	Governments and Official Institutions	Banks and Other Financial Institutions	Other (Primarily Commercial and Industrial)	Total	% of Total Assets
2013					
United States	4,877	3,332	668	8,877	1.3%
Australia	6	2,981	3,808	6,795	1.0%
2012					
Australia	22	2,393	3,110	5,525	0.8%
2011					
United States	-	16,014	1,557	17,571	2.6%
Australia	12	7,504	4,022	11,538	1.7%
United Kingdom	10	6,711	446	7,167	1.1%

Impaired assets among cross-border outstandings were \$146 million as at 30 September 2013 (2012: \$125 million, 2011: \$224 million).

LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to fund assets and meet obligations as they become due. This risk could potentially arise as a result of:

§ an inability to meet efficiently both expected and unexpected current and future cashflows and collateral needs without affecting either daily operations or the financial condition of the bank; and/or

§ inadequate market depth or market disruption impacting the ability to easily offset or eliminate a position at the market price.

Liquidity risk is managed through our BRMC-approved liquidity framework.

Refer to Note 27 to the financial statements for a more detailed discussion of our liquidity risk management policies.

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 2013:

Program Limit	Issuer(s)	Program/Issuing Shelf Type
Australia No limit	WBC	Debt Issuance Program
Euro Market USD 2.5 billion	WBC	Euro Transferable Certificate of Deposit Program
USD 20 billion	WBC/WSNZL1	Euro Commercial Paper and Certificate of Deposit Program
USD 70 billion	WBC	Euro Medium Term Note Program
USD 7.5 billion	WSNZL1	Euro Medium Term Note Program
USD 20 billion	WBC2	Global Covered Bond Program
EUR 5 billion	WSNZL3	Global Covered Bond Program
Japan JPY 750 billion	WBC	Samurai shelf
JPY 750 billion	WBC	Uridashi shelf
United States USD 45 billion	WBC	US Commercial Paper Program
USD 10 billion	WSNZL1	US Commercial Paper Program
USD 35 billion	WBC	US MTN Program

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USD 15 billion	WBC (NY Branch)	Medium Term Deposit Notes
No limit	WBC (NY Branch)	Certificate of Deposit Program
No limit	WBC	US Securities and Exchange Commission registered shelf
No limit	WBC	US Securities and Exchange Commission registered shelf for retail MTNs

New Zealand

No limit	WNZL	Medium Term Note and Registered Certificate of Deposit Program
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1 Notes issued under this program by Westpac Securities NZ Limited, London branch are guaranteed by Westpac New Zealand Limited, its parent company.

2 Notes issued under this program are guaranteed by BNY Trust Company of Australia Limited as trustee of the Westpac Covered Bond Trust.

3 Notes issued under this program by Westpac Securities NZ Limited, London branch are guaranteed by Westpac New Zealand Limited, its parent company, and Westpac NZ Covered Bond Limited.

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RISK AND RISK MANAGEMENT

MARKET RISK

Market risk is the risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices. Market risk arises in both trading and banking book activities.

Our trading activities are conducted in our Financial Markets and Treasury businesses. Financial Markets trading book activity represents dealings that encompass book running and distribution activity. Treasury trading activity represents dealings that include the management of interest rate, foreign exchange (FX) and credit spread risk associated with wholesale funding, liquid asset portfolios and hedging of foreign currency earnings and capital deployed offshore.

Refer to Note 27 to the financial statements for a more detailed discussion of our market risk management policies.

The table below depicts the aggregate Value at Risk (VaR), by risk type, for the years ended 30 September 2013, 30 September 2012 and 30 September 2011:

	30 September 2013			Consolidated and Parent Entity ¹ 30 September 2012			30 September 2011		
	High \$m	Low \$m	Average \$m	High \$m	Low \$m	Average \$m	High \$m	Low \$m	Average \$m
Interest rate risk	30.8	9.1	16.7	29.0	10.5	18.4	40.9	12.8	24.7
Foreign exchange risk	5.7	0.5	2.1	8.0	0.8	3.3	8.4	0.8	3.3
Equity risk	0.8	0.1	0.3	1.8	0.2	0.5	1.7	0.2	0.5
Commodity risk ²	6.1	1.2	2.9	5.1	1.0	2.5	6.6	1.1	2.7
Other market risks ³	13.0	5.8	7.9	21.6	7.8	16.6	24.9	16.6	21.1
Diversification effect	n/a	n/a	(10.7)	n/a	n/a	(12.5)	n/a	n/a	(20.7)
Net market risk	35.4	12.5	19.2	41.2	16.8	28.8	50.0	19.9	31.6

1 In the current year we have revised our presentation to compare aggregate VaR from a six monthly to an annual basis.

2 Includes electricity risk.

3 Includes prepayment risk and credit spread risk (exposure to movements in generic credit rating bands).

The graph below compares the actual profit and loss from trading activities on a daily basis to VaR over the reporting period:

Each point on the graph represents one day's profit or loss from trading activities. The result is placed on the graph relative to the associated VaR utilisation. The downward sloping line represents the point where a loss is equal to VaR utilisation. Therefore any point below the line represents a back-test exception (i.e. where the loss is greater than VaR).

OPERATIONAL RISK AND COMPLIANCE RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events including legal risk but excluding strategic or reputation risk. It also includes, among other things, technology risk, model risk and outsourcing risk.

The way operational risk is managed has the potential to positively or negatively impact our customers, our employees, our financial performance and our reputation.

Compliance risk is the risk of legal or regulatory sanction, financial loss, customer impact or reputational loss, arising from our failure to abide by the compliance obligations required of us as a financial services group.

Compliance is focused on meeting our legal and regulatory obligations in each of the jurisdictions in which we operate by proactively managing compliance risk. Refer to [Corporate governance](#) in Section 1 for information on our management of operational and compliance risk.

The Group's Operational Risk Management Framework and Compliance Management Framework assist all divisions to achieve their objectives through the effective identification, measurement, management, monitoring and reporting of their risks. The Frameworks define the principles, policies and processes, systems, and roles and responsibilities that we use to meet our obligations under the law, based on the letter and spirit of the regulatory standards that apply to the Group. The Frameworks are underpinned by a culture of individual accountability and responsibility, based on a Three Lines of Defence model. This is discussed in further detail in Note 27 to the financial statements.

OTHER RISKS

Business risk

The risk associated with the vulnerability of a line of business to changes in the business environment.

Environmental, social and governance risks

The risk of damage to Westpac's reputation or financial performance due to failure to recognise or address material existing or emerging sustainability-related environmental, social or governance issues.

The Group has in place a Risk Management Framework that is supported by a suite of key supporting policies and position statements. These include the Principles for Doing Business, Principles for Responsible Lending, ESG Credit Risk Policy and Sustainable Supply Chain Policy, many of which are publicly available. The Framework was reviewed and updated in 2012.

Westpac is also a signatory to a number of voluntary principles-based frameworks that guide the integration of ESG-related issues into investment analysis. These include the Equator Principles covering project finance activities and the United Nations Principles for Responsible Investment covering investment analysis.

Equity risk

The potential for financial loss arising from adverse movements in the value of our direct and indirect equity investments.

The Group's direct equity risk arises from principal investments or net trading or underwriting positions in listed or unlisted equities. It also includes seed funding, debt for equity swaps, equity derivatives and other situations where the value of Westpac's investment is directly affected by the change in value of the equity instrument to the full extent of that change. Our indirect equity risk is primarily related to the potential for equity market volatility to impact on fee income that is based on the size of funds under management and administration.

The Group has in place various policies, limits and controls to manage these risks and the conflicts of interest that can potentially arise.

Insurance risk

The risk of misestimation of the expected cost of insured events, volatility in the number or severity of insured events, and misestimation of the cost of incurred claims.

Subsidiaries within the Group's BT Financial Group undertake life insurance, general insurance and lenders mortgage insurance. They are governed by independent boards and are subject to separate regulatory oversight and controls. These subsidiaries have comprehensive reinsurance arrangements in place to transfer risk and protect against catastrophic events. They are capitalised to a level that exceeds the minimum required by the relevant regulator.

Related entity (contagion) risk

The risk that problems arising in other Westpac Group members compromise the financial and operational position of the ADI in the Westpac Group.

The Group has in place a Risk Management Framework and a suite of supporting policies and procedures governing the control of dealings with, and activities that may be undertaken by, Group members. Controls include the measurement, approval and monitoring of, and limitations on, the extent of intra-group credit exposures and other forms of parent entity support, plus requirements related to control of Group badging, product distribution, promotional material, service-level agreements and managing potential conflicts of interest.

RISK AND RISK MANAGEMENT

Reputation risk

The risk to earnings or capital arising from negative public opinion resulting from the loss of reputation or public trust and standing.

Reputation risk can arise from gaps between current and/or emerging stakeholder perceptions and expectations relative to our current or planned activities, performance or behaviours. It can affect the Group's brands and businesses positively or negatively. Stakeholder perceptions can include (but are not limited to) views on financial performance, quality of products or services, quality of management, leadership and governance, history and heritage and our approach to sustainability, social responsibility and ethical behaviour.

We have a Risk Management Framework and key supporting policies in place covering the way we manage reputation risk as one of our key risks across the Group, including the setting of risk appetite and roles and responsibilities for risk identification, measurement and management, monitoring and reporting.

SPECIAL PURPOSE ENTITIES

We are associated with a number of special purpose entities (also known as special purpose 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, pre-defined 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 (securitisation). Repayment of the securities is determined by the performance of the assets acquired by the SPV.

Under A-IFRS, an SPV is consolidated and reported as part of the Group if it is controlled by the parent entity in line with AASB 127 *Consolidated and Separate Financial Statements* or deemed to be controlled in applying UIG Interpretation 112 *Consolidation - Special Purpose Entities*. The definition of control is based on the substance rather than the legal form. Refer to Note 1 to the financial statements for a description of how we apply the requirements to evaluate whether to consolidate SPVs.

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

COVERED BOND GUARANTORS

Through our covered bond programs we assign our equitable interests in residential mortgage loans to an SPV covered bond guarantor which guarantees the obligations of our covered bonds. We provide arm's length swaps to the covered bond guarantor in accordance with relevant prudential guidelines. We have no obligation to repurchase any assets from the covered bond guarantor, other than in certain circumstances where

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there is a breach of representation or warranty. We may repurchase loans from the covered bond guarantor at our discretion, subject to the conditions set out in the transaction documents.

As at 30 September 2013, the carrying value of assets pledged for the covered bond programs for the Group was \$34.2 billion (2012: \$18.3 billion).

Refer to Note 31 to the financial statements for further details.

SECURITISATION SPVs

Through our securitisation programs we assign our equitable interests in assets (in respect of RMBS, principally residential mortgage loans, and in respect of ABS, principally auto receivables) to SPVs which issue securities to investors. We provide arm's length interest rate swaps and liquidity facilities to the SPVs in accordance with relevant prudential guidelines. We have no obligation to repurchase any securitisation securities, other than in certain circumstances (excluding impaired assets) where there is a breach of representation or warranty within 120 days of the initial sale (except in respect of our program in New Zealand which imposes no such time limitation). We may remove assets from the program where they cease to conform with the terms and conditions of the securitisation programs or through a program's clean-up features.

As at 30 September 2013, own assets securitised through a combination of privately or publicly placed issues to Australian, New Zealand, European and United States investors was \$10.8 billion (2012: \$11.1 billion).

Under A-IFRS substantially all of the SPVs involved in our loan securitisation programs are consolidated by the Group.

Refer to Note 31 to the financial statements for further details.

CUSTOMER FUNDING CONDUITS

We arrange financing for certain customer transactions through a commercial paper conduit that provides customers with access to the commercial paper market. As at 30 September 2013, we administered one significant conduit (2012: one), that was created prior to 1 February 2003, with commercial paper outstanding of \$1.8 billion (2012: \$2.6 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 represents a maximum exposure to loss of \$186 million as at 30 September 2013 (2012: \$266 million). The conduit is consolidated by the Group.

Refer to Note 31 to the financial statements for further details.

STRUCTURED FINANCE TRANSACTIONS

We are involved with SPVs to provide financing to customers or to provide financing to the Group. Any financing arrangements to customers 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 receivables due from other financial institutions or available-for-sale securities. The liabilities arising from these financing activities are generally included in payables due to other financial institutions, debt issues or financial liabilities designated at fair value. Exposures in the form of guarantees or undrawn credit lines are included within contingent liabilities and credit-related commitments.

OFF-BALANCE SHEET ARRANGEMENTS

Wealth management activity

Refer to Note 37 to the financial statements for details of our wealth management activities.

Other off-balance sheet arrangements

Refer to Note 35 to the financial statements for details of our superannuation plans and Note 36 for details of our contingent liabilities, contingent assets and credit commitments.

FINANCIAL REPORTING

Internal control over financial reporting

The US Congress passed the Public Company Accounting Reform and Investor Protection Act in July 2002, which is commonly known as the *Sarbanes-Oxley Act of 2002* (SOX). SOX is a wide ranging piece of US legislation concerned largely with financial reporting and corporate governance. We are obligated to comply with SOX by virtue of being a foreign registrant with the SEC and we have established procedures designed to comply with all applicable requirements of SOX.

Disclosure controls and procedures

Our management, with the participation of our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the US *Securities Exchange Act of 1934*) as of 30 September 2013.

Based upon this evaluation, our CEO and CFO have concluded that the design and operation of our disclosure controls and procedures were effective as of 30 September 2013.

Management's Report on internal control over financial reporting

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Rule 13a-15(a) under the US *Securities Exchange Act of 1934* requires us to maintain an effective system of internal control over financial reporting. Refer to the sections headed Management's report on internal control over financial reporting and Report of independent registered public accounting firm in Section 3 for those reports.

Changes in our internal control over financial reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the US *Securities Exchange Act of 1934*) for the year ended 30 September 2013 that has been identified that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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OTHER WESTPAC BUSINESS INFORMATION

EMPLOYEES

The number of employees in each area of business as at 30 September¹:

	2013	2012	2011 ²
AFS			
Westpac RBB	9,847	10,171	10,940
St.George	5,149	5,106	5,190
BTFG	4,164	3,898	3,709
WIB	1,793	1,751	1,707
Westpac New Zealand	4,481	4,691	4,660
Other	10,163	10,058	11,600
Total employees	35,597	35,675	37,806

1 Total employees (including FTE working on merger integration projects) includes full-time, pro-rata part-time, overtime, temporary and contract staff.

2 2011 FTE restated for changes in business structure.

2013 v 2012

Total FTE decreased by 78 compared to 30 September 2012. This decrease was primarily driven by the delivery of productivity initiatives, offset by additional FTE to support investment across the Group.

Specifically, the movement comprised:

§ a decrease of 210 FTE in Westpac New Zealand from productivity program benefits;

§ a decrease of 15 FTE across AFS due to operating model changes and other productivity initiatives, offset by investment in Bank of Melbourne and an increase in staff supporting Wealth investments;

§ an increase of 105 FTE across other businesses relating to regulatory change and compliance programs, offset by supplier program benefits and other productivity initiatives; and

§ an increase of 42 FTE in WIB to support further expansion in Asia.

2012 v 2011

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Total FTE decreased by 2,131 compared to 30 September 2011. This decrease is primarily driven by the delivery of productivity initiatives primarily as a result of the creation of AFS and Group Services divisions.

Specifically, the movement comprised:

§ a net decrease of 664 FTE across AFS due to benefits realised from the establishment of the AFS division and delivery of productivity program benefits of 858 FTE, partly offset by investment in Bank of Melbourne (124 FTE) as well as additional FTE to support an expanded planner network (90 FTE);

§ a net decrease of 1,542 FTE across other businesses mainly from productivity program benefits. This includes a reorganisation of external supplier arrangements whereby 971 FTE were reclassified, partially offset by on-boarding 501 FTE for mortgage processing activities and an increase in FTE to support regulatory change and compliance programs;

§ an increase of 44 FTE in WIB directly attributable to increased presence in Asia and additional staff to support

investment in target segments including natural resources and agribusiness; and

§ an increase of 31 FTE in Westpac New Zealand mainly to support projects.

PROPERTY

We occupy premises primarily in Australia, New Zealand and the Pacific Islands including 1,544 branches, (2012: 1,538) as at 30 September 2013. As at 30 September 2013, we owned approximately 2.0% (2012: 2.2%) of the premises we occupied in Australia, none (2012: none) in New Zealand and 53% (2012: 55%) in the Pacific Islands. The remainder of premises are held under commercial lease with the terms generally averaging five years. As at 30 September 2013, the carrying value of our directly owned premises and sites was approximately \$182 million (2012: \$223 million).

Westpac Place in the Sydney CBD is the Group's head office and has a 6,212 seat capacity. In 2008 we signed a 10 year 9 month lease, which commenced in November 2008 and contains three six-year options to extend.

60 Martin Place in the Sydney CBD is the next largest corporate site. The Martin Place office has a 2,338 seat capacity. A lease commitment at this site extends to 2015 with two two-year options to extend.

We have retained a corporate presence in Kogarah, in the Sydney metro area, which is a key corporate office of St. George. The Kogarah head office has a 2,416 seat capacity. A lease commitment at this site extends to 2021 with five five-year options to extend.

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In July 2010, Westpac entered into a lease and services agreement for a purpose built data centre in Western Sydney. This agreement relates to the design, construction and operation of the data centre and is for a period of 15 years with two further five year option periods. The site was handed over on 28 September 2011.

In November 2011, an Agreement for Lease for part of 150 Collins Street, Melbourne, was executed between the following parties: Westpac Banking Corporation (Tenant), APN (Lessor), and APN and Grocon (Developers). The term of the lease is 12 years. Design work is complete and the building is progressing, with occupancy expected to commence mid-2014.

In June 2012, an Agreement for Lease between Westpac Banking Corporation and Lend Lease (Millers Point) Pty Ltd (Developer) was executed with Westpac as anchor tenant for the T2 Tower at the Barangaroo South development. The term of the lease is 15 years. Design work is significantly advanced, with occupancy on track for mid- to late 2015.

Westpac on Takutai Square is Westpac New Zealand's head office, located at the Eastern end of Britomart Precinct near Customs Street in Auckland, contains 23,012 square metres of office space across two buildings and has a capacity of approximately 1,960 seats. A lease commitment at this site extends to 2021, with two six-year options to extend.

SIGNIFICANT LONG TERM AGREEMENTS

Westpac's significant long term agreements are summarised in Note 34 to the financial statements.

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 Note 41 to the financial statements. 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.

Other than as disclosed in Note 40 and Note 41 to the financial statements, if applicable, loans made to parties related to Directors and other key management personnel of Westpac are made in the ordinary course of business on normal terms and conditions (including interest rates and collateral). 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.

AUDITOR'S REMUNERATION

Auditor's remuneration, including goods and services tax, to the external auditor for the years ended 30 September 2013 and 2012 is provided in Note 33 to the financial statements.

Audit related services

Westpac Group Secretariat monitors the application of the pre-approval process in respect of audit, audit-related and non-audit services provided by PricewaterhouseCoopers (PwC) and promptly brings to the attention of the BAC any exceptions that need to be approved pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X. The pre-approval guidelines are communicated to Westpac's divisions through publication on the Westpac intranet.

During the year ended 30 September 2013, there were no fees paid by Westpac to PwC that required approval by the BAC pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

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FINANCIAL STATEMENTS

Income statements for the years ended 30 September

Westpac Banking Corporation

		Consolidated			Parent Entity	
	Note	2013 \$m	2012 \$m	2011 \$m	2013 \$m	2012 \$m
Interest income	2	33,009	36,873	38,098	32,942	36,401
Interest expense	2	(20,144)	(24,371)	(26,102)	(22,079)	(25,851)
Net interest income		12,865	12,502	11,996	10,863	10,550
Non-interest income	3	5,774	5,481	4,917	5,375	4,041
Net operating income before operating expenses and impairment charges		18,639	17,983	16,913	16,238	14,591
Operating expenses	4	(7,927)	(7,909)	(7,406)	(6,450)	(6,491)
Impairment charges	12	(847)	(1,212)	(993)	(662)	(1,001)
Profit before income tax		9,865	8,862	8,514	9,126	7,099
Income tax expense	5	(2,975)	(2,826)	(1,455)	(2,256)	(2,147)
Net profit for the year		6,890	6,036	7,059	6,870	4,952
Profit attributable to non-controlling interests		(74)	(66)	(68)	-	-
Net profit attributable to owners of Westpac Banking Corporation		6,816	5,970	6,991	6,870	4,952
Earnings per share (cents)						
Basic	7	220.4	195.8	233.0		
Diluted	7	215.5	190.5	223.6		

The above income statements should be read in conjunction with the accompanying notes.

FINANCIAL STATEMENTS

Statements of comprehensive income for the years ended 30 September

Westpac Banking Corporation

	Consolidated			Parent Entity	
	2013	2012	2011	2013	2012
	\$m	\$m	\$m	\$m	\$m
Net profit for the year	6,890	6,036	7,059	6,870	4,952
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Gains/(losses) on available-for-sale securities:					
Recognised in equity	57	139	(73)	7	69
Transferred to income statements	(104)	(127)	(66)	(88)	(46)
Gains/(losses) on cash flow hedging instruments ¹ :					
Recognised in equity	(51)	519	796	(68)	473
Transferred to income statements	(234)	-	-	(260)	-
Exchange differences on translation of foreign operations	114	(64)	25	125	(210)
Income tax on items taken directly to or transferred directly from equity:					
Available-for-sale securities reserve	15	(1)	39	16	(10)
Cash flow hedging reserve	85	(160)	(243)	98	(142)
Foreign currency translation reserve	(11)	4	(32)	(11)	4
Items that will not be reclassified subsequently to profit or loss					
Defined benefit obligation actuarial gains/(losses) recognised in equity (net of tax)	216	23	(189)	194	37
Other comprehensive income for the year (net of tax)	87	333	257	13	175
Total comprehensive income for the year	6,977	6,369	7,316	6,883	5,127
Attributable to:					
Owners of Westpac Banking Corporation	6,903	6,303	7,248	6,883	5,127
Non-controlling interests	74	66	68	-	-
Total comprehensive income for the year	6,977	6,369	7,316	6,883	5,127

¹ In the current year we have enhanced the presentation to separately show amounts recognised in equity and transferred to income statements.

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

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Balance sheets as at 30 September

Westpac Banking Corporation

	Note	Consolidated		Parent Entity	
		2013 \$m	2012 \$m	2013 \$m	2012 \$m
Assets					
Cash and balances with central banks	42	11,699	12,523	9,509	10,993
Receivables due from other financial institutions	8	11,210	10,228	9,317	7,328
Trading securities	9	46,330	44,603	44,928	42,975
Other financial assets designated at fair value	9	2,759	2,664	2,090	1,903
Derivative financial instruments	29	28,356	35,489	28,405	35,184
Available-for-sale securities	10	30,011	24,472	26,394	21,039
Loans housing and personal	11	382,702	365,221	343,407	331,228
Loans business	11	153,462	149,224	128,250	126,261
Life insurance assets		8,637	8,240	-	-
Regulatory deposits with central banks overseas		1,571	1,893	1,463	1,773
Due from subsidiaries		-	-	119,038	92,740
Investments in subsidiaries		-	-	4,880	4,692
Property, plant and equipment	13	1,174	1,137	971	960
Deferred tax assets	14	1,791	2,176	1,646	2,032
Goodwill and other intangible assets	15	12,341	12,134	9,725	9,609
Other assets	16	4,560	4,961	3,697	3,888
Total assets		696,603	674,965	733,720	692,605
Liabilities					
Payables due to other financial institutions	17	8,836	7,564	8,738	7,490
Deposits and other borrowings	18	424,482	394,991	380,208	359,329
Financial liabilities at fair value through income statement	19	10,302	9,964	10,302	9,964
Derivative financial instruments	29	32,990	38,935	32,438	37,803
Debt issues	22	144,133	147,847	121,555	124,699
Current tax liabilities		908	1,022	853	937
Life insurance liabilities		7,426	7,208	-	-
Due to subsidiaries		-	-	120,553	93,379
Provisions	20	1,576	1,935	1,395	1,764
Deferred tax liabilities	14	22	33	-	-
Other liabilities	21	9,117	9,710	7,440	7,940
Total liabilities excluding loan capital		639,792	619,209	683,482	643,305
Loan capital	23	9,330	9,537	9,330	9,537
Total liabilities		649,122	628,746	692,812	652,842
Net assets		47,481	46,219	40,908	39,763
Shareholders equity					
Share capital:					
Ordinary share capital	24	27,021	26,355	27,021	26,355
Treasury shares and RSP treasury shares	24	(253)	(192)	(181)	(114)
Reserves		953	958	691	753
Retained profits		18,897	17,128	12,622	10,877
Convertible debentures	24	-	-	755	1,892
Total equity attributable to owners of Westpac Banking Corporation		46,618	44,249	40,908	39,763
Non-controlling interests	24	863	1,970	-	-
Total shareholders equity and non-controlling interests		47,481	46,219	40,908	39,763
Contingent liabilities, contingent assets and credit commitments	36				

The above balance sheets should be read in conjunction with the accompanying notes.

FINANCIAL STATEMENTS

Statements of changes in equity as at 30 September

Westpac Banking Corporation

	Consolidated			Parent Entity	
	2013 \$m	2012 \$m	2011 \$m	2013 \$m	2012 \$m
Share capital					
Balance as at beginning of the year	26,163	25,269	24,496	26,241	25,338
Shares issued:					
Dividend reinvestment plan	531	873	747	531	873
Option and share rights schemes	124	26	23	124	26
Redemption of Westpac SPS	173	-	-	173	-
Shares purchased for delivery upon exercise of options and share rights (net of tax)	(162)	-	-	(162)	-
Acquisition of RSP treasury shares	(68)	(8)	-	(68)	(8)
Disposal of other treasury shares	7	3	3	1	12
Balance as at end of the year	26,768	26,163	25,269	26,840	26,241
Available-for-sale securities reserve					
Balance as at beginning of the year	44	31	131	(39)	(52)
Current period movement due to changes in other comprehensive income:					
Net gains/(losses) from changes in fair value	57	139	(73)	7	69
Exchange differences	-	2	-	-	-
Income tax effect	(17)	(39)	23	(10)	(24)
Transferred to income statements	(104)	(127)	(66)	(88)	(46)
Income tax effect	32	38	16	26	14
Balance as at end of the year	12	44	31	(104)	(39)
Share-based payment reserve					
Balance as at beginning of the year	790	648	540	727	602
Current period movement due to transactions with employees	130	142	108	119	125
Balance as at end of the year	920	790	648	846	727
Cash flow hedging reserve					
Balance as at beginning of the year	471	112	(441)	484	153
Current period movement due to changes in other comprehensive income:					
Net gains/(losses) from changes in fair value	(51)	519	796	(68)	473
Income tax effect	14	(160)	(243)	20	(142)
Transferred to income statements	(234)	-	-	(260)	-
Income tax effect	71	-	-	78	-
Balance as at end of the year	271	471	112	254	484
Foreign currency translation reserve					
Balance as at beginning of the year	(354)	(294)	(287)	(460)	(254)
Current period movement due to changes in other comprehensive income:					
Foreign currency translation adjustment	114	(64)	25	125	(210)
Tax on foreign currency translation adjustment	(11)	4	(32)	(11)	4
Balance as at end of the year	(251)	(354)	(294)	(346)	(460)
Other reserves					
Balance as at beginning of the year	7	1	-	41	41
Transactions with owners	(6)	6	1	-	-
Balance as at end of the year	1	7	1	41	41
Total reserves	953	958	498	691	753
Movements in retained profits					
Balance as at beginning of the year	17,128	16,059	13,750	10,877	10,867
Current period movement due to changes in other comprehensive income:					
Actuarial gains/(losses) on defined benefit obligations (net of tax)	216	23	(189)	194	37
Profit attributable to owners of Westpac Banking Corporation	6,816	5,970	6,991	6,870	4,951

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Transaction with owners:					
Ordinary dividends paid	(5,249)	(4,924)	(4,493)	(5,258)	(4,931)
Special dividends paid	(310)	-	-	(310)	-
Distributions on convertible debentures	-	-	-	(47)	(47)
Realised gain on redemption of 2003 TPS	296	-	-	296	-
Balance as at end of the year	18,897	17,128	16,059	12,622	10,877
Total comprehensive income attributable to non-controlling interests	74	66	68	-	-
Total comprehensive income attributable to owners of Westpac Banking Corporation	6,903	6,303	7,248	6,883	5,127
Total comprehensive income for the year	6,977	6,369	7,316	6,883	5,127

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Cash flow statements1 for the years ended 30 September

Westpac Banking Corporation

	Note	Consolidated			Parent Entity	
		2013 \$m	2012 \$m	2011 \$m	2013 \$m	2012 \$m
Cash flows from operating activities						
Interest received		33,048	36,966	37,864	33,032	36,590
Interest paid		(20,520)	(24,317)	(25,866)	(22,457)	(25,816)
Dividends received excluding life business		10	12	17	1,820	575
Other non-interest income received		6,618	5,081	3,398	3,844	4,181
Operating expenses paid		(6,717)	(6,514)	(7,110)	(4,975)	(4,687)
Income tax paid excluding life business		(2,691)	(1,897)	(1,861)	(2,437)	(1,912)
Life business:						
Receipts from policyholders and customers		1,759	1,789	2,256	-	-
Interest and other items of similar nature		45	41	40	-	-
Dividends received		301	387	379	-	-
Payments to policyholders and suppliers		(1,912)	(1,898)	(1,831)	-	-
Income tax paid		(109)	(95)	(55)	-	-
Cash flows from operating activities before changes in operating assets and liabilities		9,832	9,555	7,231	8,827	8,931
Net (increase)/decrease in:						
Trading and fair value assets		(319)	4,271	(8,117)	(811)	3,112
Loans		(15,667)	(18,893)	(18,325)	(13,372)	(11,815)
Due from other financial institutions		(511)	(2,418)	3,674	(1,544)	(2,830)
Life insurance assets and liabilities		(154)	(115)	(160)	-	-
Regulatory deposits with central banks overseas		489	(263)	(384)	490	(233)
Derivative financial instruments		9,126	3,679	(17,919)	8,972	3,802
Net increase/(decrease) in:						
Financial liabilities at fair value through income statement		266	155	4,932	266	158
Deposits and other borrowings		22,155	26,381	31,498	17,646	20,206
Due to other financial institutions		363	(6,807)	5,439	345	(6,767)
Net cash provided by/(used in) operating activities	42	25,580	15,545	7,869	20,819	14,564
Cash flows from investing activities						
Proceeds from available-for-sale securities		5,043	3,651	2,845	3,328	996
Purchase of available-for-sale securities		(11,802)	(8,783)	(7,978)	(9,791)	(5,491)
Net (increase)/decrease in investments in controlled entities		-	-	-	(17)	(8)
Net movement in amounts due to/from controlled entities		-	-	-	1,541	(4,461)
Purchase of intangible assets		(738)	(603)	(742)	(644)	(511)
Purchase of property, plant and equipment		(304)	(252)	(402)	(251)	(213)
Proceeds from disposal of property, plant and equipment		7	7	15	4	7
Purchase of controlled entity, net of cash acquired		-	(270)	-	-	-
Net cash used in investing activities		(7,794)	(6,250)	(6,262)	(5,830)	(9,681)
Cash flows from financing activities						
Issue of loan capital (net of issue costs)		1,958	4,124	-	1,958	4,124
Redemption of loan capital		(2,244)	(2,631)	(1,404)	(2,244)	(2,631)
Proceeds from share placement and share purchase plan		-	-	68	-	-
Proceeds from exercise of employee options		124	25	23	124	25
Purchase of shares on exercise of employee options and rights		(174)	-	-	(174)	-
Net increase/(decrease) in debt issues		(14,005)	(9,955)	14,328	(11,747)	(5,577)
Purchase of RSP treasury shares		(68)	(8)	(3)	(68)	(8)
Net sale/(purchase) of other treasury shares		7	3	6	1	12
Payment of dividends		(5,028)	(4,050)	(3,746)	(5,084)	(4,104)
Payment of distributions to non-controlling interests		(50)	(72)	(82)	-	-
Redemption of 2003 Trust Preferred Securities		(805)	-	-	(805)	-
Net cash provided by financing activities		(20,285)	(12,564)	9,190	(18,039)	(8,159)
Net increase/(decrease) in cash and cash equivalents		(2,499)	(3,269)	10,797	(3,050)	(3,276)

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Effect of exchange rate changes on cash and cash equivalents	1,675	(466)	997	1,566	(481)
Cash and cash equivalents as at the beginning of the year	12,523	16,258	4,464	10,993	14,750
Cash and cash equivalents as at the end of the year	11,699	12,523	16,258	9,509	10,993

1 The presentation of the cash flow statements has been revised this year to better reflect the nature of our business. Certain cash flows have been reclassified between operating activities, investing activities and financing activities, and we have revised comparatives for 2012 and 2011 in order to ensure consistency. These changes have had no impact on the reported net increase/decrease in cash and cash equivalents.

The above cash flow statements should be read in conjunction with the accompanying notes.

Details of the reconciliation of net cash provided by operating activities to net profit attributable to owners of Westpac Banking Corporation are provided in Note 42.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis 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 (A-IFRS), other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group Interpretations and the *Corporations Act 2001*. Westpac Banking Corporation is a for-profit entity for the purposes of preparing this financial report.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

This financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

This financial report also includes additional disclosures required for foreign registrants by the United States Securities and Exchange Commission. References to standards and interpretations under A-IFRS in this financial report have similar references in the standards and interpretations of IFRS as issued by the IASB.

This financial report of Westpac Banking Corporation (the Parent Entity), together with its controlled entities (the Group or Westpac), for the year ended 30 September 2013 was authorised for issue by the Board of Directors on 4 November 2013. The Directors have the power to amend and reissue the financial report.

(ii) Comparative revisions

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(iii) Changes in accounting standards

From 1 July 2012, the Group applied amendments to AASB 101 *Presentation of Financial Statements* outlined in AASB 2011-9 *Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income*. The change only relates to disclosures and has had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and require the Group to separately present those items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to

profit or loss. These changes are included in the statements of comprehensive income.

(iv) Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by applying fair value accounting to available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

(v) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries (including special purpose entities) controlled by the Parent Entity and the results of all subsidiaries. The effects of all transactions between entities in the Group are eliminated. Control exists when the Parent Entity has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The definition of control is based on the substance rather than the legal form of an arrangement. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

Subsidiaries are fully consolidated from the date on which control commences and they are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries (refer to Note 1(e)).

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in the Group's ownership interest in a subsidiary after control is obtained which do not result in a loss of control are accounted for as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity.

When the Group ceases to control a subsidiary any retained interest in the entity is remeasured to its fair value, with any resulting gain or loss recognised in the income statement.

The interest of non-controlling shareholders is stated at their proportion of the net profit and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly, by Westpac.

(vi) Foreign currency translation

a. Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Australian dollars which is the Parent Entity's functional and presentation currency. All amounts are expressed in Australian dollars except where otherwise indicated.

b. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statements, except where deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

c. Group companies

Assets and liabilities of overseas branches and subsidiaries that have a functional currency other than the Australian dollar are translated at exchange rates prevailing on the balance date. Income and expenses are translated at average exchange rates prevailing during the period. Other equity balances are translated at historical exchange rates. Exchange differences are recognised through the Statement of comprehensive income in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of borrowings and other currency instruments designated as hedges of the net investment in overseas branches and subsidiaries are reflected in the foreign currency translation reserve. When all or part of a foreign operation is sold or borrowings that are part of the net investments are repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale or repayment of borrowing.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

b. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for each major revenue stream as follows:

(i) Interest income

Interest income for all interest earning financial assets including those at fair value is recognised in the income statement using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, cash flows are estimated based upon all contractual terms of the financial instrument (for example, prepayment options) but do not consider future credit losses. The calculation includes all fees and other amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest relating to impaired loans is recognised using the loan's original effective interest rate based on the net carrying value of the impaired loan after giving effect to impairment charges or for a variable rate loan, the current effective interest rate determined under the contract. This rate is also used to discount the future cash flows for the purpose of measuring impairment charges. For loans that have been impaired this method results in cash receipts being apportioned between interest and principal.

(ii) Leasing

Finance leases are accounted for under the net investment method whereby income recognition is based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease and is included as part of interest income.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Fee income

Fees and commissions are generally recognised on an accrual basis over the period during which the service is performed. All fees relating to the successful origination or settlement of a loan (together with the related direct costs) are deferred and recognised as an adjustment to the effective interest rate on the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time proportionate basis. Asset management fees related to investment funds are recognised over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

(iv) Net trading income

Realised gains or losses, and unrealised gains or losses arising from changes in the fair value of the trading assets and liabilities are recognised as trading income in the income statement in the period in which they arise except for recognition of day one profits or losses which are deferred where certain valuation inputs are unobservable. Dividend income on the trading portfolio is also recorded as part of non-interest income. Interest income or expense on the trading portfolio is recognised as part of net interest income.

(v) Other dividend income

Dividends on quoted shares are recognised on the ex-dividend date. Dividends on unquoted shares are recognised when the company's right to receive payment is established.

(vi) Gain or loss on sale of property, plant and equipment

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds less costs of disposal, and the carrying amount of the asset, and is recognised as non-interest income.

c. Expense recognition

(i) Interest expense

Interest expense, including premiums or discounts and associated expenses incurred on the issue of financial liabilities, is recognised in the income statement using the effective interest rate method (refer to Note 1(b)(i)).

(ii) Impairment on loans and receivables carried at amortised cost

The charge recognised in the income statement for impairment on loans and receivables carried at amortised cost reflects the net movement in the provisions for individually assessed and collectively assessed loans, write-offs and recoveries of impairments previously written-off.

(iii) Leasing

Operating lease payments are recognised in the income statement as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit received. Incentives received on entering into operating leases are recorded as liabilities and amortised as a reduction of rental expense on a straight-line basis over the lease term.

(iv) Commissions and other fees

External commissions and other costs paid to acquire loans are capitalised and amortised using the effective interest rate method (refer to Note 1(b)(i)). All other fees and commissions are recognised in the income statement over the period in which the related service is received.

(v) Wealth management acquisition costs

Acquisition costs are the variable costs of acquiring new business principally in relation to the Group's life insurance and retail funds management business.

Managed investment acquisition costs

Deferred acquisition costs associated with the retail funds management business are costs that are directly related to and incremental to the acquisition of new business. These costs are recorded as an asset and are amortised in the income statement on the same basis as the recognition of related revenue.

Life insurance acquisition costs

Deferred acquisition costs associated with the life insurance business are costs that are incremental to the acquisition of new business. These costs are recorded as an asset and are amortised in the income statement on the same basis as the recognition of related revenue.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(vi) Share-based payment

Certain employees are entitled to participate in option and share ownership schemes.

Options and share rights

The fair value of options and share rights provided to employees as share-based payments is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and is recognised over the period the services are received which is the expected vesting period during which the employees would become entitled to exercise the option or share right.

The fair value of options and share rights is estimated at grant date using a Binomial/Monte Carlo simulation pricing model incorporating the vesting and market-related hurdle features of the grants. The fair value of the options and share rights excludes the impact of any non-market vesting conditions such as participants' continued employment by the Group. The non-market vesting conditions are included in assumptions used when determining the number of options and share rights expected to become exercisable for which an expense is recognised. At each reporting date these assumptions are revised and the expense recognised each year takes into account the most recent estimates.

Employee Share Plan

The value of shares expected to be issued to employees for nil consideration under the Employee Share Plan (ESP) is recognised as an expense over the financial year and provided for as other employee benefits. The fair value of any ordinary shares issued to satisfy the obligation to employees is recognised within equity, or if purchased on market, the obligation to employees is satisfied by delivering shares that have been purchased on market.

Restricted Share Plan

The fair value of shares allocated to employees for nil consideration under the Restricted Share Plan (RSP) is recognised as an expense over the vesting period. The fair value of ordinary shares issued to satisfy the obligation to employees is measured at grant date and is recognised as a separate component of equity.

Westpac has formed a trust to hold any shares forfeited by employees until they are reallocated to employees in subsequent grants in the Group's RSP. Shares allocated to employees under the RSP, which have not yet vested, are treated as treasury shares and deducted from shareholders' equity.

d. Income tax

Income tax expense on the profit for the year comprises current tax and the movement in deferred tax balances.

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Current tax is the expected tax payable on the taxable income for the financial year using tax rates that have been enacted or substantively enacted for each jurisdiction at the balance date, and any adjustment to tax payable in respect of previous years.

Deferred tax is accounted for using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or other intangible assets with indefinite expected life, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit (other than in a business combination), or differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted for each jurisdiction at the balance date that are expected to apply when the liability is settled or the asset is realised.

Current and deferred tax attributable to amounts recognised in other comprehensive income are also recognised in other comprehensive income.

Except as noted above, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. For presentation purposes deferred tax assets and deferred tax liabilities have been offset where they relate to the same taxation authority on the same taxable entity or different entities in the same taxable group.

For members of Westpac's Australian tax consolidated group, tax expense/income, deferred tax liabilities and assets arising from temporary differences are recognised in the separate financial statements of the members of the tax-consolidated group using a group allocation basis that removes the tax impact of certain transactions between members of the tax-consolidated group. Deferred tax liabilities and assets are recognised by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Parent Entity (as head entity in the tax-consolidated group).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. **Acquisitions of assets**

(i) **External acquisitions**

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed as incurred. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. For each business combination, the non-controlling interest is measured either at fair value or at the proportionate share of the acquiree's identifiable net assets. The excess of the cost of acquisition, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill.

Where settlement of any part of cash consideration is deferred, amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group's incremental borrowing rate.

(ii) **Common control transactions**

The predecessor method of accounting is used to account for business combinations between entities in the Group.

Assets acquired and liabilities assumed in a common control transaction are measured initially at the acquisition date at the carrying value from the Group's perspective. The excess of the cost of acquisition over the initial carrying values of the Entity's share of the net assets acquired is recorded as part of a common control reserve.

Where relevant, in the financial report the phrase "additions through merger" includes both balances acquired through external acquisitions and through common control transactions.

f. **Assets**

(i) **Financial assets**

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The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale securities. Management determines the classification of its financial assets at initial recognition.

i Financial assets at fair value through profit or loss

This category has two sub-categories: firstly financial assets held for trading and secondly those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term, if it is part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking, if it is a derivative that is not a designated hedging instrument, or if so designated on acquisition by management, in accordance with conditions set out in Note 1(f)(i)(e).

i Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

i Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity.

i Available-for-sale securities

Available-for-sale securities are those debt or equity securities that are designated as available-for-sale or that are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Other investments, which comprise of unlisted equity securities that do not have a quoted price in an active market and where fair value cannot be estimated within a reasonable range of probable outcomes, are carried at cost.

Recognition of financial assets

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Available-for-sale financial assets and financial assets recognised at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method unless loans are designated at fair value through profit or loss in order to reduce an accounting mismatch. Realised and unrealised gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the right to receive payment is established. Foreign exchange gains or losses and interest, calculated using the effective interest rate method, on available-for-sale debt instruments are also recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value using valuation techniques. These include the use of recent arms length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

a. Cash and balances with central banks

Cash and balances with central banks includes cash at branches, Reserve Bank settlement account balances and nostro balances. They are brought to account at the face value or the gross value of the outstanding balance, where appropriate. These balances have a maturity of less than three months.

b. Receivables due from other financial institutions

Receivables due from other financial institutions include conduit assets, collateral placed and interbank lending. They are accounted for as loans and receivables and subsequently measured at amortised cost using the effective interest rate method.

c. Derivative financial instruments

Derivative financial instruments including forwards, futures, swaps and options are recognised in the balance sheet at fair value. Fair value is obtained from quoted market prices, independent dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying. Also included in the determination of the fair value of derivatives is a credit valuation adjustment (CVA). Where the derivative has a positive fair value (asset), this credit adjustment is to reflect the credit worthiness of the counterparty. Where the derivative has a negative fair value (liability), this credit adjustment reflects the Group's own credit risk. These credit adjustments are taken into account after considering any relevant collateral or master netting agreements.

d. Trading securities

Trading securities include debt and equity instruments which are actively traded and securities purchased under agreement to resell. They are accounted for as financial assets at fair value through profit or loss.

e. Other financial assets designated at fair value

Certain non-trading bonds, notes and commercial bills are designated as fair value through profit or loss. This designation is only made if the financial asset contains an embedded derivative or it is managed on a fair value basis in accordance with a documented strategy, or if designating it at fair value reduces an accounting mismatch.

f. Available-for-sale securities

Available-for-sale securities are public and other debt and equity securities that are not classified as fair value through profit or loss, loans and receivables or as held-to-maturity investments. The accounting policy for available-for-sale securities is set out in Note 1(f)(i).

g. Loans

Loans includes advances, overdrafts, home loans, credit card and other personal lending, term loans, leasing receivables, bill financing and acceptances. The accounting policy for loans and receivables is in Note 1(f)(i).

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 or investments.

Loan products that have both a mortgage and deposit facility are presented on a gross basis in the balance sheet, segregating the loan and deposit component into the respective balance sheet line items. Interest earned on this product is presented on a net basis in the income statement as this reflects how the customer is charged.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Regulatory deposits with central banks overseas

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 is determined in accordance with the requirements of the local central bank. They are measured at amortised cost using the effective interest rate method.

i. Life insurance assets

Assets held by the life insurance companies, including investments in funds managed by the Group, are designated at fair value through profit or loss as required by AASB 1038 *Life Insurance Contracts*. Changes in fair value are included in the income statement. 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. Therefore they are not as liquid as other financial assets.

j. Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

i the rights to receive cash flows from the asset have expired; or

i the entity has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and cannot sell or repledge the asset other than to the transferee; and

i either the Group has transferred substantially all the risks and rewards of the asset, or the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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Where the Group transfers its right to receive cashflows from an asset or has entered into a pass-through arrangement without transferring nor retaining substantially all the risks and rewards of ownership nor transferred control of these assets, the asset continues to be recognised on the balance sheet to the extent of the Group's continuing involvement in the asset.

(ii) **Impairment of financial assets**

Assets carried at amortised cost

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment charges are recognised if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- a. significant financial difficulty of the issuer or obligor;
- b. a breach of contract, such as a default or delinquency in interest or principal payments;
- c. the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Group would not otherwise consider;
- d. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- e. the disappearance of an active market for that financial asset because of financial difficulties; or
- f. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:

adverse changes in the payment status of borrowers in the Group; or

national or local economic conditions that correlate with defaults on the assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment is, or continues to be, recognised are not included in a collective assessment of impairment.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If there is objective evidence that an impairment on loans and receivables or held-to-maturity investments has been incurred, the amount of the charge is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets reflect, and are directionally consistent with, changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience. When a loan or a part of a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the charge for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment charge decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment charge is reversed by adjusting the provision account. The amount of the reversal is recognised in the income statement.

Available-for-sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt instruments classified as available-for-sale, impairment is determined by using the same methodology as Note 1(f)(ii). For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss—measured as the difference between the acquisition cost and the current fair value, less any impairment charge on that financial asset previously recognised in profit or loss—is removed from other comprehensive income and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment charge was recognised in the income statement, the impairment charge is reversed through the income statement. Subsequent reversal of impairment charges on equity instruments are not recognised in the income statement until the instrument is disposed of.

(iii) Non-financial assets

- a. Property, plant and equipment

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Property, plant and equipment is carried at cost less accumulated depreciation and impairment. Cost is the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred. Impairment is recognised as a part of operating expenses in the income statement.

Computer software is capitalised at cost and classified as property, plant and equipment where it is integral to the operation of associated hardware.

Depreciation is calculated using the straight-line method to allocate the cost of assets less any residual value over their estimated useful lives, as follows:

┆ Premises and sites	Up to 50 years
┆ Leasehold improvements	Up to 10 years
┆ Furniture and equipment	3 to 15 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds less costs of disposal, and the carrying amount of the asset, and is recognised as non-interest income.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b. Intangible assets

Goodwill

Goodwill represents amounts arising on the acquisition of businesses. Prior to the revised AASB 3 *Business Combinations*, goodwill represented the excess of purchase consideration, including directly attributable expenses associated with the acquisition, over the fair value of the Group's share of the identifiable net assets of the acquired business. Goodwill arising on the acquisition of a business subsequent to the adoption of the revised AASB 3 represents the excess of the purchase consideration, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of net identifiable assets acquired.

All goodwill is considered to have an indefinite life.

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired, and is carried at cost or deemed cost less accumulated impairment. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to Cash Generating Units (CGUs) based on management's analysis of where the synergies resulting from an acquisition are expected to arise.

i. Brands

Brand intangible assets are recognised on the acquisition of businesses and represent the value attributed to brand names associated with businesses acquired. The useful life of brands recognised is estimated to be indefinite as there is no foreseeable limit to the period over which the brand name is expected to generate net cash flows. Brands are not amortised but tested for impairment annually or more frequently when indicators of impairment are identified.

i. Core deposit intangibles

Core deposit intangibles were recognised as part of the merger with St. George and represent the value, or avoided cost, of having a deposit base from consumer and business transaction accounts, savings accounts, term deposits and other money market and cash management accounts that provide a valuable source of funding.

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Core deposit intangibles are amortised using the straight-line method over a period of nine years and are stated at cost less accumulated amortisation and impairment. Core deposit intangibles are assessed for impairment at each reporting date and whenever there is an indicator of impairment.

Other intangibles

Other intangibles are stated at cost less accumulated amortisation (where relevant) and impairment. Other intangibles consist of distribution relationships, customer relationships, computer software, value of in-force business and service contracts. These are assessed for impairment at each reporting date and whenever there is an indicator of impairment. For significant other intangibles, the accounting policies are as follows:

i Financial planner distribution relationships

Distribution relationship intangibles were recognised as part of the merger with St.George and represent the value attributable to financial planner relationships. These assets are amortised using the straight-line method to allocate the cost of the assets over their estimated useful lives of eight years.

i Credit card customer relationships

The credit card customer relationship intangibles were recognised as part of the merger with St.George and represent the value attributable to the future fee and interest revenue from credit card relationships. These assets are amortised using the straight-line method to allocate the cost of the assets over their estimated useful lives of five years.

i Computer software

Internal and external costs directly incurred in the purchase or development of computer software, including subsequent upgrades and enhancements are recognised as intangible assets when it is probable that they will generate future economic benefits attributable to the Group. These assets are amortised using the straight-line method to allocate the cost of the asset less any residual value over their estimated useful lives of between three and ten years.

(iv) **Investments in controlled entities**

Investments in controlled entities are initially recorded by Westpac at cost. Investments in controlled entities are subsequently held at the lower of cost and recoverable amount.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Impairment of non-financial assets

The carrying amount of the Group's non-financial assets, other than deferred tax assets and assets arising from employee benefits, are reviewed at each balance date to determine whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated. An impairment charge is recognised whenever the carrying amount of an asset or the CGU to which it is allocated exceeds its recoverable amount. With the exception of goodwill for which impairment charges are not reversed, where an impairment charge subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment charge been recognised for the asset (or CGU) in prior years. Impairment charges and reversals of impairment charges are recognised in the income statement.

The recoverable amount of an asset is the greater of its fair value less cost to sell and value-in-use. In assessing value-in-use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

g. Liabilities

(i) Financial liabilities

Financial liabilities held at amortised cost are initially recognised at fair value plus transaction cost. Financial liabilities held at fair value, which includes derivatives and liabilities designated at fair value, are initially recognised at fair value with all transaction costs expensed as incurred. Financial liabilities are recognised when an obligation arises and derecognised when it is discharged, cancelled or expires.

a. Payables due to other financial institutions

Payables due to other financial institutions includes interbank lending, vostro balances, collateral received and settlement account balances due to other financial institutions. They are measured at amortised cost.

b. Deposits and other borrowings at fair value

Deposits at fair value include certain certificates of deposit and certain interest bearing deposits. They are classified at fair value through profit or loss as they are managed as part of a trading portfolio.

c. Deposits and other borrowings at amortised cost

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Deposits at amortised cost include non-interest bearing deposits repayable at call, certain certificates of deposit and certain interest bearing deposits. They are measured at amortised cost.

d. Derivative financial instruments

Derivative financial instruments including forwards, futures, swaps and options are recognised in the balance sheet at fair value. Fair values are obtained from quoted market prices, independent dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying. Also included in the determination of the fair value of derivatives is a credit valuation adjustment (CVA). Where the derivative has a positive fair value (asset), this credit adjustment reflects the credit worthiness of the counterparty. Where the derivative has a negative fair value (liability), this credit adjustment reflects the Group's own credit risk. These credit adjustments are taken into account after considering any relevant collateral or master netting agreements.

e. Financial liabilities at fair value through income statement

Securities sold under repurchase agreements as part of a trading portfolio and securities sold short are classified as trading liabilities. They are accounted for as financial liabilities at fair value through profit or loss.

f. Debt issues

These are bonds, notes, commercial paper and debentures that have been issued by entities in the Westpac Group. Debt issues are measured either at fair value through profit or loss or at amortised cost using the effective interest rate method. Debt issues are measured at fair value through profit or loss to reduce an accounting mismatch, which arises from associated derivatives executed for risk management purposes.

g. Acceptances

These are bills of exchange initially accepted and discounted by Westpac that have been subsequently rediscounted into the market. They are measured at amortised cost. Bill financing provided to customers by accepting and discounting of bills of exchange is reported as part of loans.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Loan capital

Loan capital includes 2004 Trust Preferred Securities (2004 TPS), Westpac Convertible Preference Shares, Westpac Capital Notes and Westpac SPS (redeemed September 2013) and SPS II that qualify as Additional Tier 1 capital and subordinated bonds, subordinated notes, notes and debentures that qualify as Tier 2 capital as defined by APRA for capital adequacy purposes. Loan capital is measured at amortised cost using the effective interest method.

i. Financial guarantees

Financial guarantee contracts are recognised as financial liabilities at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of a financial guarantee contract is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligation.

j. Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(ii) Life insurance liabilities

Life insurance liabilities consist of life insurance contract liabilities, life investment contract liabilities and external liabilities of managed investment schemes controlled by statutory life funds.

Life insurance contract liabilities

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The value of life insurance contract liabilities is calculated using the margin on services methodology. The methodology takes into account the risks and uncertainties of the particular classes of the life insurance business written. Deferred policy acquisition costs are included in the measurement basis of life insurance contract liabilities and are therefore equally sensitive to the factors that are considered in the liabilities measurement. This methodology is in accordance with Actuarial Standard 1.04 *Valuation of Policy Liabilities* issued by the Life Insurance Actuarial Standard Board (LIASB) under the *Life Insurance Act 1995*.

Under this methodology, planned profit margins and an estimate of future liabilities are calculated separately for each related product group using applied assumptions at each reporting date. Profit margins are released over each reporting period in line with the service that has been provided. The balance of the planned profit is deferred by including them in the value of policy liabilities.

Life investment contract liabilities

Life investment contract liabilities are designated at fair value through profit or loss. Fair value is based on the higher of the valuation of linked assets, or the minimum current surrender value.

External liabilities of managed investment schemes controlled by statutory life funds

External liabilities of managed investment schemes controlled by statutory life funds are designated at fair value through profit or loss.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Provisions

a. Employee entitlements

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the balance date are recognised in provisions in respect of employees' services up to the balance date and are measured at the amounts expected to be paid when the liabilities are settled.

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.

Long service leave

Liabilities for long service leave expected to be settled within 12 months of the balance date are recognised in the provision for long service leave and are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for long service leave and other deferred employee benefits expected to be settled more than 12 months from the balance date are recognised in the provision for long service leave and are measured at the present value of future payments expected to be made in respect of services provided by employees up to the balance date. 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 market yields at the balance date on government bonds with terms that match as closely as possible the estimated timing of future cash flows.

Employee benefit on-costs

A liability is also 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 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. Liabilities for termination benefits are recognised within other liabilities unless the timing or amount is uncertain, in which case they are recognised as provisions.

Liabilities for termination benefits expected to be settled within 12 months are measured at amounts expected to be paid when they are settled. Amounts expected to be settled more than 12 months from the balance date are measured at the estimated cash outflows, discounted using market yields at the balance date on 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.

b. 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.

c. Provision for restructuring

A provision for restructuring 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.

d. Provision for dividends

A liability for dividends is recognised when dividends are declared, determined or publicly recommended by the Directors but not distributed as at the balance date.

e. Provision for litigation and non-lending losses

A provision for litigation is recognised where it is probable that there will be an outflow of economic resources. Non-lending losses are any losses that have not arisen as a consequence of an impaired credit decision. Those provisions include litigation and associated costs, frauds and the correction of operational issues.

f. Provision for impairment on credit commitments

A provision for undrawn contractually committed facilities and guarantees provided are calculated using the same methodology as provision for impairment charges on loans (refer to Note 1(j)(ii)).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Equity

(i) Ordinary shares

Ordinary shares are recognised at the amount paid up per ordinary share net of directly attributable issue costs.

(ii) Treasury shares

Where the Parent Entity or other members of the consolidated Group purchases shares in the Parent Entity, the consideration paid is deducted from ordinary share capital and the shares are treated as treasury shares until they are subsequently sold, reissued or cancelled. Where such shares are sold or reissued, any consideration received is included in shareholders' equity.

(iii) Other equity instruments

Convertible debentures issued by the parent entity in respect of the 2003 Trust Preferred Securities (2003 TPS, redeemed September 2013) and 2006 Trust Preferred Securities (2006 TPS) are recognised in the balance sheet at the amount of consideration received net of issue costs. They are translated into Australian currency using the rate of exchange on issue date and distributions on them are recognised when entitlements are determined in accordance with the terms of the convertible debentures.

(iv) Non-controlling interests

Non-controlling interests represents the share in the net assets of subsidiaries attributable to equity interests that are not owned directly or indirectly by the Parent Entity. The Group also has on issue 2003 TPS (redeemed September 2013) and 2006 TPS that are hybrid instruments and are classified as non-controlling interests.

(v) Reserves

Foreign currency translation reserve

As noted in Note 1(a)(vi), exchange differences arising on translation of the assets and liabilities of overseas branches and subsidiaries 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.

Available-for-sale securities reserve

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This comprises the changes in the fair value of available-for-sale financial securities and hedges where applicable, net of tax. These changes are transferred to the income statement in non-interest income when the asset is either derecognised or impaired.

Cash flow hedging reserve

This comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments.

Share-based payment reserve

This comprises the fair value of share-based payments recognised as an expense.

Other reserves

Other reserves for the Parent Entity consists of the common control reserve (refer Note 1(e)(ii)). Other reserves for the Group consists of transactions relating to a change in the parent entity's ownership of a subsidiary that does not result in a loss of control. The amount recorded in other reserves reflects the difference between the amount by which non-controlling interests are adjusted and the fair value of any consideration paid or received.

i. Other accounting principles and policies

(i) Hedging

The Group uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rates and foreign currency, including exposures arising from forecast transactions. The method of recognising the fair value gain or loss on derivatives depends on the nature of the hedging relationship. Hedging relationships are of three types:

i fair value hedge: a hedge of the change in fair value of recognised assets or liabilities or unrecognised firm commitments;

i cash flow hedge: a hedge of variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction; and

i hedge of a net investment in a foreign operation: a hedge of the amount of the Group's interest in the net assets of a foreign operation.

The Group uses hedge accounting for derivatives designated in this way when certain criteria are met. At the time a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives have been highly effective in offsetting changes in the fair value or cash flows of the hedged items.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A hedge is regarded as highly effective if, at inception and throughout its life, the Group can expect changes in the fair value or cash flows of the hedged item to be almost fully offset by the changes in the fair value or cash flows of the hedging instrument, and actual results of the hedge are within a range of 80% to 125% of these changes. Hedge ineffectiveness represents the amount by which the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged item or the amount by which changes in the cash flow of the hedging derivative differ from changes (or expected changes) in the present value of the cash flows of the hedged item.

a. Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributed to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, any previous adjustment to the carrying amount of a hedged item recognised at amortised cost is amortised to the income statement over the period to maturity.

b. Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised in profit or loss in the period in which the hedge item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

c. Hedge of a net investment in a foreign operation

Hedges of net investments in overseas branches and subsidiaries are accounted for in a manner similar to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the foreign currency translation reserve in other comprehensive income and the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in other comprehensive income are included in the income statement when the overseas branch or subsidiary is disposed.

(ii) ***Embedded derivatives***

In certain instances a derivative may be embedded in a host contract. If the host contract is not carried at fair value through profit or loss, the embedded derivative is separated from the host contract and accounted for as a standalone derivative instrument at fair value where the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

(iii) Recognition of deferred day one profit or loss

The best evidence of fair value at initial recognition is the transaction price, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets.

Westpac has entered into transactions where fair value is determined using valuation models for which not all significant inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as day one profit or loss, is not recognised immediately in profit or loss.

The timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit or loss. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits or losses.

(iv) Loan securitisation

The Group, through its loan securitisation program, packages and sells loans (principally housing mortgage loans) as securities to investors. The program includes the securitisation of the Group's own assets as well as assets from customer funding conduits. In such transactions, the Group provides an equitable interest in the loans to investors who provide funding to the Group. Securitised loans that do not qualify for derecognition and associated funding are included in loans and debt issues respectively.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) *Fiduciary activities*

Certain controlled entities within the Group conduct investment management and other fiduciary activities as responsible entity 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.

Where controlled entities, as responsible entities, 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 assets and 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.

(vi) *Offsetting*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(vii) *Securities borrowed or lent and repurchase or reverse repurchase agreements*

As part of its trading activities, Westpac lends and borrows securities on a collateralised basis. The securities subject to the borrowing or lending are not derecognised from the balance sheet, as the risks and rewards of ownership remain with the initial holder. Where cash is provided as collateral, the cash paid to third parties on securities borrowed is recorded as a receivable, while cash received from third parties on securities lent is recorded as a borrowing. Repurchase transactions, where Westpac sells securities under an agreement to repurchase, and reverse repurchase transactions, where Westpac purchases securities under an agreement to resell, are conducted on a collateralised basis. Trading securities sold, but subject to repurchase agreements are disclosed as part of financial liabilities at fair value through income statement. Fees and interest relating to stock borrowing or lending and repurchase or reverse repurchase agreements are recognised in interest income and interest expense in the income statement, using the effective interest rate method, over the expected life of the agreements. Westpac continually reviews the fair value of the underlying securities and, where appropriate, requests or provides additional collateral to support the transactions.

(viii) *Superannuation obligations*

Obligations for contributions to the defined contribution superannuation plan are recognised as an expense in the income statement as incurred.

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The asset or liability recognised in the balance sheet in respect of the defined benefit superannuation plan is the present value of the defined benefit obligation as at the reporting date less the fair value of the plan's assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of government bonds that have terms to maturity approximating to the terms of the related superannuation liability. The calculation is performed at least annually by an independent qualified actuary using the projected unit credit method.

The actuarial valuation of plan obligations is dependent upon a series of assumptions, the key ones being price inflation, salaries growth, mortality, morbidity and investment returns assumptions. Different assumptions could significantly alter the amount of difference between plan assets and obligations, and the superannuation cost charged to the income statement.

Actuarial gains and losses related to the defined benefit superannuation plan are recorded directly in retained earnings. The net surplus or deficit that arises within the plan is recognised and disclosed separately in other assets and other liabilities as appropriate.

(ix) Earnings per share

Basic earnings per share (EPS) is determined by dividing net profit after tax attributable to equity holders of Westpac, excluding costs of servicing other equity instruments, by the weighted average number of ordinary shares outstanding during the financial year, excluding the number of ordinary shares purchased by the Group and held as treasury shares.

Diluted EPS is calculated by adjusting the earnings and number of shares used in the determination of the basic EPS for the effects of dilutive options, share rights and other dilutive potential ordinary shares.

In relation to options, share rights and restricted shares, the weighted average number of shares is adjusted to take into account the weighted average number of shares assumed to have been issued for nil consideration in determining diluted EPS. The number of ordinary shares assumed to be issued for nil 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 over the reporting period.

In relation to instruments convertible into ordinary shares under certain conditions, the weighted average number of shares is adjusted to determine the number of ordinary shares that may arise on conversion, by dividing the face value of the instruments by the average market price over the reporting period, taking into account any applicable discount on conversion weighted by the number of instruments on issue.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Leases

Leases are classified as either finance leases or operating leases. Under a finance lease, substantially all the risks and rewards incidental to legal ownership are transferred to the lessee. In contrast, an operating lease exists where the leased assets are allocated to the lessor.

In its capacity as a lessor, the Group primarily offers finance leases. The Group recognises the assets held under finance lease in the balance sheet as loans at an amount equal to the net investment in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic return on the Group's net investment in the finance lease. Finance lease income is included within interest income in the income statement (refer to Note 1(b)(ii)).

In its capacity as a lessee, the Group mainly uses property and equipment under operating leases. Payments due to the lessor under operating leases are charged to equipment and occupancy expense on a straight-line basis over the term of the lease (refer to Note 1(c)(iii)).

(xi) Segment reporting

Operating segments are presented on a basis that is consistent with information provided internally to Westpac's key decision makers. In assessing the financial performance of its divisions internally, Westpac uses a measure of performance it refers to as 'Cash Earnings'. To calculate Cash Earnings, Westpac adjusts the statutory result for material items that key decision makers believe do not reflect ongoing operations, items that are not considered when dividends are recommended and accounting reclassifications between individual line items that do not impact statutory results, such as policyholder tax recoveries. Details of the specific adjustments made to the statutory result in arriving at Cash Earnings are included in Note 32.

(xii) Rounding of amounts

In accordance with ASIC Class Order 98/100, all amounts have been rounded to the nearest million dollars unless otherwise stated.

j. Critical accounting assumptions and estimates

The application of the Group's accounting policies necessarily requires the use of judgment, estimates and assumptions. Should different assumptions or estimates be applied, the resulting values would change, impacting the net assets and income of the Group.

The nature of assumptions and estimates used and the value of the resulting asset and liability balances are included in the policies below.

(i) Fair value of financial instruments

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Financial instruments classified as held-for-trading or designated at fair value through profit or loss and financial assets classified as available-for-sale are recognised in the financial statements at fair value. All derivatives are measured and recognised at fair value.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using financial market pricing models, the methodology used is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to the present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices; however, profits or losses are recognised upon initial recognition only when such profits can be measured by reference to observable current market transactions or valuation techniques based on observable market inputs.

The calculation of fair value for any financial instrument may also require adjustment of the quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used). The process of calculating fair value on illiquid instruments or from a valuation model may require estimation of certain pricing parameters, assumptions or model characteristics.

These estimates are calibrated against industry standards, economic models and observed transaction prices.

The fair value of financial instruments is provided in Note 28 as well as the mechanism by which fair value has been derived.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The majority of the Group's derivatives are valued using valuation techniques that utilise observable market inputs. The fair value of substantially all securities positions carried at fair value is determined directly from quoted prices or from market observable inputs applied in valuation models. The Group has financial assets measured at fair value of \$126,957 million (2012: \$127,305 million). \$1,332 million of this is measured at fair value based on significant unobservable market inputs (2012: \$1,276 million). The Group has financial liabilities measured at fair value of \$106,873 million (2012: \$134,253 million). \$37 million of this is measured at fair value based on significant unobservable market inputs (2012: \$100 million). Sensitivities to reasonably possible changes in non-market observable valuation assumptions would not have a material impact on the Group or the Parent Entity's reported results.

(ii) Provisions for impairment charges on loans and credit commitments

The Group's loan impairment provisions are established to recognise incurred impairment in its portfolio of loans. A loan is impaired when there is objective evidence that events occurring since the loan was recognised have affected expected cash flows from the loan. The impairment charge is the difference between the carrying value of the loan and the present value of estimated future cash flows calculated at the loan's original effective interest rate for fixed rate loans and the loan's current effective interest rate for variable rate loans. Provisions for loan impairment represent management's estimate of the impairment charges incurred in the loan portfolios as at the balance date. Changes to the provisions for loan impairment and changes to the provisions for undrawn contractually committed facilities and guarantees provided are reported in the income statement as part of impairment charges on loans.

At 30 September 2013, gross loans to customers totalled \$539,806 million (2012: \$518,279 million) and the provision for loan impairment was \$3,642 million (2012: \$3,834 million). There are two components to the Group's loan impairment provisions: individual and collective.

Individual component

All impaired loans that exceed specified thresholds are individually assessed for impairment. Individually assessed loans principally comprise the Group's portfolio of commercial loans to medium and large businesses. Impairment is recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held (discounted at the loan's original effective interest rate for fixed rate loans and the loan's current effective interest rate for variable rate loans). Relevant considerations that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. Subjective judgments are made in this process. Furthermore, judgments can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are taken.

Collective component

This is made up of two elements: loan impairment provisions for impaired loans that are below individual assessment thresholds (collective impaired loan provisions) and for loan impairments that have been incurred but have not been separately identified at the balance sheet date (incurred but not reported provisions). These are established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions are the estimated loss rates and the related emergence periods. The emergence period for each loan product type is determined through detailed studies of loss emergence patterns. Loan files where losses have emerged are reviewed to identify the average time period between observable loss indicator events and the loss becoming identifiable. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from

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reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy rates.

The impairment charge reflected in the income statement is \$847 million (2012: \$1,212 million) and the provision balance at 30 September 2013 of \$3,642 million (2012: \$3,834 million) represents 0.67% of loans (2012: 0.74%).

Provisions for credit commitments are calculated using the same methodology as described above. The provision for credit commitments was \$307 million (2012: \$407 million) and was disclosed as part of provisions. Refer to Note 20.

(iii) Goodwill

As stated in Note 1(f)(iii)(b), goodwill represents the excess of purchase consideration, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identified net assets of acquired businesses. Goodwill is tested for impairment at least annually. The carrying value of goodwill as at 30 September 2013 was \$8,868 million (2012: \$8,797 million).

The determination of the fair value of assets and liabilities of the acquired businesses requires the exercise of management judgment. Different fair values would result in changes to the goodwill balance and to the post-acquisition performance of the acquisition.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

To determine if goodwill is impaired the carrying value of the identified CGU to which the goodwill is allocated, including the allocated goodwill, is compared to its recoverable amount. Recoverable amount is the higher of the CGU's fair value less costs to sell and its value in use. Value in use is the present value of expected future cash flows from the CGU. Determination of appropriate cash flows and discount rates for the calculation of value in use is subjective. Fair value is the amount obtainable for the sale of the CGU in an arm's length transaction between knowledgeable, willing parties. The assumptions applied to determine if any impairment exists are outlined in Note 15.

Goodwill impairment testing resulted in an impairment of goodwill of nil (2012: nil).

(iv) Superannuation obligations

The Group operates a number of defined benefit plans as described in Note 35. For each of these plans, actuarial valuations of the plan's obligations and the fair value measurements of the plan's assets are performed at least annually in accordance with the requirements of AASB 119 *Employee Benefits*.

The actuarial valuation of plan obligations is dependent upon a series of assumptions, the key ones being price inflation, salaries growth, mortality, morbidity, investment returns and discount rate assumptions. Different assumptions could significantly alter the amount of the difference between plan assets and obligations, and the superannuation cost charged to the income statement.

Refer to Note 35 for details of the Group's defined benefit deficit balances.

(v) Provisions (other than loan impairment)

Provisions are held in respect of a range of obligations such as employee entitlements, restructuring costs, litigation provisions and non-lending losses and onerous contracts (for example leases with surplus space). Provisions carried for long service leave are supported by an independent actuarial report. Some of the provisions involve significant judgment about the likely outcome of various events and estimated future cash flows. The deferral of these benefits involves the exercise of management judgments about the ultimate outcomes of the transactions. Payments that are expected to be incurred after more than one year are discounted at a rate which reflects both current interest rates and the risks specific to that provision.

(vi) Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax outcome is unclear. Provisions for tax are held to reflect these tax uncertainties. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period where such determination is made.

Refer to Note 14 for details of the Group's deferred tax balances.

(vii) Life insurance contract liabilities

Life insurance contract liabilities are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. These computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of the life insurance business written. Deferred policy acquisition costs are connected with the measurement basis of life insurance contract liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are:

- i the cost of providing benefits and administering the contracts;
- i mortality and morbidity experience, including enhancements to policyholder benefits;
- i discontinuance experience, which affects the Group's ability to recover the cost of acquiring new business over the life of the contracts; and
- i the rate at which projected future cash flows are discounted.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. In some contracts, the Group shares experience on investment results with its customers, which can offset the impacts of these factors on the profitability of these products.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Future developments in accounting standards

The following new standards and interpretations which may have a material impact on the Group have been issued, but are not yet effective and have not been early adopted by the Group:

AASB 9 *Financial Instruments (Part 1: Classification and Measurement)* was issued by the Australian Accounting Standards Board in December 2009. If the standard is not early adopted it will be effective for the 30 September 2016 financial year end. The major changes under the standard are:

• AASB 9 *Financial Instruments* replaces the multiple classification and measurement models in AASB 139 *Financial Instruments: Recognition and Measurement* with a single model that has two classification categories: amortised cost and fair value;

• a financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent the payment of principal and interest;

• if a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;

• there will be no separation of an embedded derivative where the instrument is a financial asset;

• equity instruments must be measured at fair value however, an entity can elect on initial recognition to present the fair value changes on non-trading equity investments directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss; however dividends from such investments will continue to be recognised in profit or loss;

• if an entity holds an investment in asset-backed securities (ABS) it must determine the classification of that investment by looking through to the underlying assets and assess the credit quality of the investment compared with the underlying portfolio of assets. If an entity is unable to look through to the underlying assets, then the investment must be measured at fair value; and

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the portion of a change of fair value relating to the entity's own credit risk for financial liabilities measured at fair value utilising the fair value option is presented in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

The IASB currently has an active project that may result in limited amendments to the classification and measurement requirements of AASB 9 and add new requirements to address the impairment of financial assets and hedge accounting.

As a result of the issuance and reissuance of AASB 9, two further standards have been issued by the AASB which give effect to consequential changes to a number of Australian Accounting Standards and Interpretations. These standards are AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* which was issued in December 2009 and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* which was issued in December 2010. These standards will be applicable when AASB 9 is adopted by the Group.

AASB 9 will impact the classification and measurement of the Group's financial instruments when adopted.

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* was issued in July 2011 and will be effective for the 30 September 2014 financial year end. The amendments remove all the individual key management personnel (KMP) disclosures in AASB 124 *Related Party Disclosures* that were specific to Australian entities. However, these disclosures will be required to be included in the remuneration report.

AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements* and AASB 12 *Disclosure of Interests in Other Entities* were issued in August 2011 and will be effective for the 30 September 2014 financial year end.

AASB 10 changes the definition of control and requires that it be applied to all entities to determine whether control exists. The new definition focuses on the need for both power and exposure to variability of returns in order for control to be present.

AASB 10 replaces guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation - Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation.

The standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both.

Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The application of AASB 10 is expected to result in the Group consolidating some entities which are not currently being consolidated under AASB 127. The consolidation of these entities is not expected to have a material impact on the Group's financial position or performance.

AASB 11 introduces a principles-based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account for their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. Application of AASB 11 has no material impact on the Group.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 *Consolidated and Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures*. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

AASB 13 *Fair Value Measurement* was issued in September 2011 and will be effective for the 30 September 2014 financial year end. The new standard replaces existing guidance on fair value measurement in several standards with a single, unified definition of fair value and a framework for measuring and disclosing fair values. AASB 13 applies to all assets and liabilities measured at fair value, not just financial instruments. The new standard will require additional disclosures, however it is not expected to have a material impact on the Group.

A revised AASB 119 *Employee Benefits* was issued in September 2011 which will be effective for the 30 September 2014 financial year end, with retrospective application. It will result in changes to the recognition and measurement of the Group's defined benefit superannuation expense, as well as enhanced disclosures of the risks and characteristics of the Group's defined benefit superannuation plans. The significant changes include:

the annual defined benefit superannuation expense will include net interest expense or income, calculated by applying the relevant discount rate to the net defined benefit asset or liability. This will replace the current finance charge and expected return on plan assets. Applying this change to the year ended 30 September 2013 would have increased the total defined benefit plan expense by \$49 million, with an equal and opposite change to the amount that is recognised as re-measurement in other comprehensive income for the year; and

the discount rate used in calculating the defined benefit liability relating to active members can no longer include an investment tax adjustment. This will result in a one-off decrease of \$61 million in defined benefit liability as at 1 October 2012 which will be recognised through retained earnings.

AASB 2012-2 *Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities* was issued in June 2012 and will be effective for the 30 September 2014 financial year end. The amendment requires disclosure of information that will enable users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognised financial assets and liabilities on the Group's financial position. The amendment is expected to result in additional disclosures.

AASB 2012-3 *Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities* was issued in June 2012 and will be effective for the 30 September 2015 financial year end. The amendment provides application guidance to addressing inconsistencies applied to offsetting criteria provided in AASB 132 *Financial Instruments: Presentation*, including clarifying the meaning of current legal enforceable right of set-off is legally enforceable in all circumstances and that some gross settlement systems (such as through a clearing house) may be considered as the equivalent to net settlement. The amendment is not expected to have a material impact on the Group.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2. NET INTEREST INCOME

	Consolidated			Parent Entity	
	2013 \$m	2012 \$m	2011 \$m	2013 \$m	2012 \$m
Interest income					
Cash	102	99	71	67	77
Receivables due from other financial institutions	113	188	251	38	77
Net ineffectiveness on qualifying hedges	31	8	(13)	29	7
Trading securities	1,665	2,091	2,356	1,603	2,019
Other financial assets designated at fair value	67	108	99	64	99
Available-for-sale securities	1,226	1,116	789	1,085	908
Loans	29,781	33,238	34,530	26,125	29,643
Regulatory deposits with central banks overseas	23	24	12	23	24
Due from subsidiaries	-	-	-	3,907	3,546
Other interest income	1	1	3	1	1
Total interest income¹	33,009	36,873	38,098	32,942	36,401
Interest expense					
Payables due to other financial institutions	(190)	(244)	(191)	(189)	(242)
Certificates of deposit	(1,009)	(1,619)	(1,907)	(978)	(1,586)
At call and term deposits	(11,546)	(12,983)	(12,775)	(10,352)	(11,942)
Trading liabilities	(2,762)	(4,500)	(5,738)	(2,525)	(4,129)
Other financial liabilities designated at fair value	(27)	(20)	(38)	-	-
Debt issues	(4,008)	(4,388)	(4,578)	(3,407)	(3,684)
Due to subsidiaries	-	-	-	(4,064)	(3,697)
Loan capital	(529)	(454)	(469)	(494)	(428)
Other interest expense	(73)	(163)	(406)	(70)	(143)
Total interest expense²	(20,144)	(24,371)	(26,102)	(22,079)	(25,851)
Net interest income	12,865	12,502	11,996	10,863	10,550

1 Total interest income for financial assets that are not at fair value through profit or loss is \$31,246 million (2012: \$34,666 million, 2011: \$35,656 million) for the Group and \$31,246 million (2012: \$34,276 million, 2011: \$34,738 million) for the Parent Entity.

2 Total interest expense for financial liabilities that are not at fair value through profit or loss is \$16,116 million (2012: \$17,990 million, 2011: \$18,300 million) for the Group and \$18,357 million (2012: \$19,916 million, 2011: \$19,440 million) for the Parent Entity.

NOTE 3. NON-INTEREST INCOME

	Consolidated			Parent Entity	
	2013 \$m	2012 \$m	2011 \$m	2013 \$m	2012 \$m
Fees and commissions¹					
Facility fees	1,253	1,179	1,105	1,206	1,163
Transaction fees and commissions received	1,160	1,185	1,180	946	948
Other non-risk fee income	310	266	283	285	239
Transactions with subsidiaries	-	-	-	299	253
Total fees and commissions	2,723	2,630	2,568	2,736	2,603
Wealth management and insurance income					
Life insurance and funds management net operating income	1,738	1,613	1,463	-	-
General insurance and lenders mortgage insurance net operating income	206	178	155	-	-
Total wealth management and insurance income	1,944	1,791	1,618	-	-
Trading income					
Foreign exchange income	440	476	329	343	387
Other trading securities	629	374	229	663	350
Total trading income	1,069	850	558	1,006	737
Other income					
Dividends received from subsidiaries	-	-	-	1,813	568
Dividends received from other entities	10	12	17	7	7
Net gain on disposal of assets	67	46	51	62	45
Net gain/(loss) on ineffective hedges	(1)	3	(5)	(1)	3
Net gain/(loss) on hedging overseas operations	(6)	78	55	(253)	13
Net gain/(loss) on derivatives held for risk management purposes ²	(118)	(36)	(28)	(114)	(32)
Net gain/(loss) on financial instruments designated at fair value	32	27	28	65	31
Other	54	80	55	54	66
Total other income	38	210	173	1,633	701
Total non-interest income	5,774	5,481	4,917	5,375	4,041
Wealth management and insurance income comprised					
Funds management income	1,149	1,037	914	-	-
Life insurance premium income	761	637	559	-	-
Life insurance commissions, investment income and other income	1,125	836	99	-	-
Life insurance claims and changes in life insurance liabilities	(1,297)	(897)	(109)	-	-
General insurance and lenders mortgage insurance net premiums earned	402	370	356	-	-
General insurance and lenders mortgage insurance investment, commissions and other income	25	30	30	-	-
General insurance and lenders mortgage insurance claims incurred, underwriting and commission expenses	(221)	(222)	(231)	-	-
Total wealth management and insurance income	1,944	1,791	1,618	-	-

1 In the current year, we have revised our presentation within fees and commissions to reflect transactions between the Parent Entity and its subsidiaries. We have revised 2012 comparatives for the Parent Entity for consistency.

2 Income from derivatives held for risk management purposes reflects impact of economic hedge of foreign currency capital and earnings where hedge accounting is not achieved.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4. OPERATING EXPENSES

	Consolidated			Parent Entity	
	2013 \$m	2012 \$m	2011 \$m	2013 \$m	2012 \$m
Salaries and other staff expenses					
Salaries and wages	3,264	3,113	3,015	2,588	2,514
Employee entitlements	325	326	305	282	284
Employee related taxes	223	209	194	190	181
Superannuation expense:					
Defined contribution plans	254	237	234	198	190
Defined benefit plans (Note 35)	21	39	29	21	39
Equity based compensation	155	155	112	113	119
Restructuring costs	28	159	110	18	143
Other	17	20	56	3	9
Total salaries and other staff expenses	4,287	4,258	4,055	3,413	3,479
Equipment and occupancy expenses					
Operating lease rentals	565	535	505	487	464
Depreciation, amortisation and impairment:					
Premises	13	14	16	12	13
Leasehold improvements	108	106	89	94	92
Furniture and equipment	62	62	63	54	54
Technology	94	85	76	82	71
Software	403	352	265	336	291
Equipment repairs and maintenance	78	76	80	67	66
Electricity, water and rates	12	12	12	8	8
Land tax	8	8	6	8	7
Other	27	28	3	15	20
Total equipment and occupancy expenses	1,370	1,278	1,115	1,163	1,086
Other expenses					
Amortisation of deferred expenditure	3	6	4	17	18
Amortisation and impairment of intangible assets	221	225	208	208	208
Non-lending losses	43	172	43	30	161
Purchased services:					
Technology and information services	350	278	254	245	208
Legal	26	29	29	15	17
Other professional services	380	402	448	284	285
Credit card loyalty programs	135	133	127	135	133
Stationery	76	78	82	57	58
Postage and freight	146	151	145	117	123
Outsourcing costs	587	620	592	478	496
Insurance	20	16	14	13	11
Advertising	164	147	176	110	94
Training	21	20	28	15	13
Travel	64	66	70	47	48
Other expenses	34	30	16	103	53
Total other expenses	2,270	2,373	2,236	1,874	1,926
Operating expenses	7,927	7,909	7,406	6,450	6,491

NOTE 5. INCOME TAX

	Consolidated			Parent Entity	
	2013	2012	2011	2013	2012
	\$m	\$m	\$m	\$m	\$m
The income tax expense for the year is reconciled to the profit before income tax as follows					
Profit before income tax	9,865	8,862	8,514	9,126	7,099
Prima facie income tax based on the Australian company tax rate of 30%	2,960	2,659	2,554	2,738	2,130
The effect of amounts which are not deductible/(assessable) in calculating taxable income					
Change in tax rate ¹	(2)	1	7	-	2
Rebatable and exempt dividends	(2)	(1)	(2)	(544)	(168)
Life insurance:					
Tax adjustment on policyholders' earnings ²	24	8	(10)	-	-
Adjustment for life business tax rates	(8)	(6)	(6)	1	2
Hybrid capital distributions ³	26	10	-	26	10
Other non-assessable items	(18)	(29)	(40)	(16)	(17)
Other non-deductible items	37	53	66	31	45
Adjustment for overseas tax rates	-	3	1	16	21
Income tax (over)/under provided in prior years	(7)	(10)	(33)	(9)	(12)
St. George tax consolidation adjustment ⁴	-	-	(1,110)	-	-
TOFA tax consolidation adjustment ⁵	-	165	-	-	165
Other items	(35)	(27)	28	13	(31)
Total income tax expense in the income statement	2,975	2,826	1,455	2,256	2,147
Income tax analysis					
Income tax expense attributable to profit from ordinary activities comprised:					
Current income tax:					
Australia	2,237	2,175	1,809	1,751	1,767
Overseas	357	344	180	102	140
	2,594	2,519	1,989	1,853	1,907
Deferred income tax:					
Australia	387	319	(591)	405	259
Overseas	1	(2)	90	7	(7)
	388	317	(501)	412	252
Under/(over) provision in prior years:					
Australia	(1)	(8)	(20)	(2)	(7)
Overseas	(6)	(2)	(13)	(7)	(5)
	(7)	(10)	(33)	(9)	(12)
Total Australia	2,623	2,486	1,198	2,154	2,019
Total overseas	352	340	257	102	128
Total income tax expense attributable to profit from ordinary activities	2,975	2,826	1,455	2,256	2,147

1 During 2013 the company tax rate in the UK reduced from 24% to 23%. The impact of this change has been taken to account in the measurement of deferred tax at the end of the reporting period. The impact of the change in the UK and Fiji company tax rates from 26% to 24%, and 28% to 20% respectively was included in 2012. The impact of the change in New Zealand's company tax rate from 30% to 28% was included in 2011.

2 In accordance with the requirements of AASB 1038, tax expense for 2013 includes a \$35 million tax expense on policyholders' investment earnings (2012: \$12 million tax expense, 2011: \$14 million tax benefit) of which \$11 million (2012: \$4 million tax expense, 2011: \$4 million tax benefit) is included in the prima facie tax expense of \$2,960 million and the balance of \$24 million tax expense (2012: \$8 million tax expense, 2011: \$10 million tax benefit) is shown here.

3 Reflects distributions on Westpac Convertible Preference Shares and Westpac Capital Notes which are non-tax deductible.

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4 Following the redemption of St.George Bank Limited's hybrid instruments on 31 March 2009, St.George and all its wholly owned Australian subsidiaries joined the Westpac tax consolidated group. Westpac was required to reset the tax value of certain St.George assets to the appropriate market value of those assets. Given the complexity of this process, the assessed tax treatment for the 2011 financial year and following years was agreed with the ATO in March 2011 and gave rise to a reduction of income tax expense of \$1,110 million.

5 New legislation that included retrospective amendments to the income tax law as it applies to TOFA and tax consolidated groups was introduced during the 2012 financial year. The amendments had an adverse application to certain liabilities that were consolidated as part of the St.George merger. This gave rise to an additional income tax expense of \$165 million for the 2012 financial year.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. INCOME TAX (CONTINUED)

Tax consolidation

The Parent Entity and its wholly owned, Australian-controlled entities implemented the tax consolidation legislation as of 1 October 2002. All entities in the tax consolidated group have entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liabilities of the wholly owned entities in the case of a default by the head entity, Westpac.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate the Parent Entity for any current tax payable assumed and are compensated by the Parent Entity for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the Parent Entity under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are settled on a quarterly basis in line with the Parent Entity's obligations to pay tax instalments. Any unpaid amounts at balance date are recognised as current intercompany receivables or payables.

Taxation of financial arrangements (TOFA)

TOFA applies to all entities in the Australian tax consolidation group from 1 October 2010. Subject to certain elections being made, TOFA improves the alignment of the tax treatment of gains and losses from financial arrangements with the accounting treatment adopted in the financial statements. The transitional rules require deferred tax balances impacted by TOFA to be amortised to taxable income over a four year period.

NOTE 6. DIVIDENDS

	Consolidated			Parent Entity	
	2013 \$m	2012 \$m	2011 \$m	2013 \$m	2012 \$m
Recognised amounts					
Ordinary dividends					
2012 final dividend paid 84 cents per share (2011: 80 cents per share, 2010: 74 cents per share) all fully franked at 30%	2,584	2,423	2,209	2,588	2,425
2013 interim dividend paid 86 cents per share (2012: 82 cents per share, 2011: 76 cents per share) all fully franked at 30%	2,665	2,501	2,284	2,670	2,506
Total ordinary dividends	5,249	4,924	4,493	5,258	4,931
Special dividends					
Special dividend paid 10 cents per share determined 3 May 2013 (2012: nil, 2011: nil) fully franked at 30%	310	-	-	310	-
Total special dividends	310	-	-	310	-
Distributions on other equity instruments					
Convertible debentures	-	-	-	47	47

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Total distributions on other equity instruments	-	-	-	47	47
Dividends not recognised at year end					
Since year end the Directors have recommended the payment of the following dividends on ordinary shares:					
Ordinary shares 88 cents per share (2012: 84 cents per share, 2011: 80 cents per share) all fully franked at 30%	2,731	2,584	2,423	2,736	2,588
Special dividend 10 cents per share (2012: nil, 2011: nil) fully franked at 30%	310	-	-	311	-
Total dividends not recognised at year end	3,041	2,584	2,423	3,047	2,588

The amount disclosed as recognised for ordinary dividends is the final dividend paid in respect of the prior financial year and the interim dividend and special dividend paid in respect of the current financial year.

The Board has determined to satisfy the DRP for the 2013 final and special dividends by arranging for the purchase of existing shares on issue and delivery to participants. The DRP will not include a discount.

	Parent Entity		
	2013	2012	2011
	\$m	\$m	\$m
Franking account balance			
Franking account balance as at year end	1,247	1,453	2,118
Franking credits that will arise from payment of current income tax	644	685	273
Adjusted franking account balance after payment of current income tax	1,891	2,138	2,391
Franking credits to be utilised for payment of the above unrecognised dividends	(1,306)	(1,109)	(1,048)
Adjusted franking account balance	585	1,029	1,343

NOTE 7. EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to equity holders of Westpac by the weighted average number of ordinary shares on issue during the year, excluding the number of ordinary shares purchased by the Group and held as Treasury shares. Diluted EPS is calculated by adjusting the earnings and the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	2013		Consolidated 2012		2011	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Reconciliation of earnings used in the calculation of earnings per ordinary share (\$m)						
Net profit attributable to owners of Westpac Banking Corporation	6,816	6,816	5,970	5,970	6,991	6,991
RSP treasury shares distributions ¹	(12)	-	(11)	-	(8)	-
2004 TPS distributions	-	21	-	18	-	20
2007 convertible notes distributions	-	-	-	16	-	31
Westpac SPS distributions	-	27	-	34	-	37
Westpac SPS II distributions	-	30	-	36	-	39
Westpac CPS dividends	-	53	-	34	-	-
Westpac CN distributions	-	30	-	-	-	-
Net profit attributable to owners of Westpac Banking Corporation adjusted for the effect of dilution	6,804	6,977	5,959	6,108	6,983	7,118
Weighted average number of ordinary shares (millions)						
Weighted average number of ordinary shares	3,100	3,100	3,056	3,056	3,010	3,010
Effect of own shares held	(13)	(13)	(13)	(13)	(13)	(13)
Potential dilutive adjustment:						
Exercise of options and share rights and vesting of restricted shares	-	14	-	13	-	7
Conversion of 2004 TPS	-	17	-	21	-	27
Conversion of 2007 convertible notes	-	-	-	23	-	52
Conversion of Westpac SPS	-	31	-	43	-	53
Conversion of Westpac SPS II	-	28	-	38	-	47
Conversion of Westpac CPS	-	37	-	26	-	-
Conversion of Westpac CN	-	24	-	-	-	-
Total weighted average number of ordinary shares	3,087	3,238	3,043	3,207	2,997	3,183
Earnings per ordinary share (cents)	220.4	215.5	195.8	190.5	233.0	223.6

¹ While the equity granted to employees remains unvested, RSP treasury shares are deducted from ordinary shares on issue in arriving at the weighted average number of ordinary shares outstanding. Despite the shares being unvested, employees are entitled to dividends and to voting rights on the shares. Consequently, a portion of the profit for the period is allocated to RSP treasury shares to arrive at earnings attributed to ordinary shareholders.

Information concerning the classification of securities**Options and share rights**

Options and share rights granted to employees prior to 30 September 2013 are considered to be potential ordinary shares and have been considered in the determination of diluted EPS. The options and share rights have not been considered in the determination of basic EPS. Details relating to options and share rights are set out in Note 25.

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During the year, 6,759,140 (2012: 2,146,405, 2011: 2,114,547) options and share rights were converted to ordinary shares. The diluted EPS calculation includes that portion of these options and share rights assumed to be issued for nil consideration, weighted with reference to the date of conversion.

The exercise prices of all options are included in Note 25. In determining diluted EPS, options and share rights with an exercise price (including grant date fair value that will be expensed in future periods) greater than the average Westpac share price over the year have not been included, as these are not considered dilutive. Performance options and performance share rights are only included in determining diluted EPS to the extent that they are dilutive and performance hurdles are met at year end.

Subsequent to 30 September 2013:

• 112,706 ordinary shares were issued to employees due to the exercise of options (2012: 200,591, 2011: 170,290); and

• 779,062 ordinary shares were issued to employees due to the exercise of share rights (2012: 709,521, 2011: 31,128).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7. EARNINGS PER SHARE (CONTINUED)

Restricted Share Plan

Under the Restricted Share Plan (RSP), Westpac ordinary shares are allocated to eligible employees for nil consideration. Full entitlement to these shares does not vest until a service period has been completed. RSP shares have not been included in determining basic EPS. For further details, refer to Note 25.

2004 TPS

As 2004 TPS can be exchanged for ordinary shares in certain circumstances, any dilutive impact must be considered. For 2013, 2004 TPS were dilutive (2012: dilutive, 2011: dilutive) and have been included in the determination of diluted EPS.

2004 TPS have not been included in the determination of basic EPS.

2007 convertible notes

The 2007 convertible notes were redeemed for cash on 19 April 2012. As the 2007 convertible notes could have been exchanged for ordinary shares at the discretion of Westpac upon certain conditions being satisfied, the potential dilutive effect was considered. For 2012 and 2011, the 2007 convertible notes were dilutive and were included in the determination of diluted EPS. The number of ordinary shares that could arise from conversion has been weighted for the proportion of the 2012 year that the 2007 convertible notes were on issue.

2007 convertible notes were not included in the determination of basic EPS in 2012 and 2011.

Westpac Stapled Preferred Securities (Westpac SPS and Westpac SPS II)

Westpac SPS were and Westpac SPS II are securities, each consisting of a perpetual, unsecured, non-cumulative subordinated note issued by Westpac's New York branch, stapled to a preference share issued by Westpac. Westpac SPS were issued on 30 July 2008 and Westpac SPS II were issued on 31 March 2009. Westpac SPS were redeemed or converted to ordinary shares on 26 September 2013.

As Westpac SPS could and Westpac SPS II can be exchanged for ordinary shares in certain circumstances, any dilutive impact must be considered. For 2013, the Westpac SPS (for the proportion of the period the instrument was on issue) and Westpac SPS II were dilutive (2012: dilutive, 2011: dilutive) and have been included in the determination of diluted EPS.

Westpac SPS and Westpac SPS II have not been included in the determination of basic EPS.

Westpac Convertible Preference Shares (Westpac CPS)

Westpac CPS are fully paid, perpetual, non-cumulative, unsecured preference shares issued by Westpac on 23 March 2012. As Westpac CPS are convertible into ordinary shares on the scheduled conversion date or under certain circumstances, any dilutive impact must be considered. For 2013, Westpac CPS were dilutive (2012: dilutive) and have been included in the determination of diluted EPS.

Westpac CPS have not been included in the determination of basic EPS.

Westpac Capital Notes (Westpac CN)

Westpac CN are fully paid, non-cumulative, convertible, transferable, redeemable, subordinated, perpetual, unsecured notes issued by Westpac. As Westpac CN are convertible into ordinary shares on the scheduled conversion date or under certain circumstances, any dilutive impact must be considered. Westpac CN were issued on 8 March 2013. For 2013, Westpac CN were dilutive and have been included in the determination of diluted EPS. Westpac CN were weighted for the proportion of the period the instrument was on issue.

Westpac CN have not been included in the determination of basic EPS.

Westpac Subordinated Notes II (Westpac SN II)

Westpac SN II are fully paid, redeemable, subordinated and unsecured debt obligations of Westpac. Westpac SN II were issued on 23 August 2013. As Westpac SN II do not have a scheduled conversion date and are only convertible to ordinary shares if APRA determines that Westpac is, or would become non-viable. Westpac SN II were not dilutive in 2013.

The terms and conditions associated with 2004 TPS, Westpac SPS II, Westpac CPS, Westpac CN and Westpac SN II are discussed in more detail in Note 23.

NOTE 8. RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS

	Consolidated		Parent Entity	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Conduit assets ¹	1,710	2,544	-	-
Cash collateral	7,137	4,737	6,987	4,409
Interbank lending	2,363	2,947	2,330	2,919
Total receivables due from other financial institutions	11,210	10,228	9,317	7,328

1 Further information on conduit assets is disclosed in Note 31.

NOTE 9. TRADING SECURITIES AND OTHER FINANCIAL ASSETS DESIGNATED AT FAIR VALUE

	Consolidated			Parent Entity	
	2013 \$m	2012 \$m	2011 \$m	2013 \$m	2012 \$m
Securities	39,448	34,455	45,195	38,046	32,827
Securities purchased under agreement to resell	6,882	10,148	2,776	6,882	10,148
Other financial assets designated at fair value	2,759	2,664	2,960	2,090	1,903
Total trading securities and other financial assets designated at fair value	49,089	47,267	50,931	47,018	44,878

Trading securities includes the following:

	Consolidated			Parent Entity	
	2013 \$m	2012 \$m	2011 \$m	2013 \$m	2012 \$m
Australian public securities:					
Commonwealth securities	4,501	3,172	1,996	4,501	3,172
State Government securities	9,865	6,249	8,821	9,740	6,158
Australian equity securities	22	44	48	22	44
Australian debt securities	14,647	20,952	28,419	14,645	20,463
Overseas public securities	6,152	826	2,024	6,151	639
Overseas debt securities	4,236	3,164	3,842	2,962	2,303
Other securities	25	48	45	25	48
Total securities	39,448	34,455	45,195	38,046	32,827
Securities purchased under agreement to resell	6,882	10,148	2,776	6,882	10,148
Total trading securities	46,330	44,603	47,971	44,928	42,975

Other financial assets designated at fair value include:

	Consolidated			Parent Entity	
	2013 \$m	2012 \$m	2011 \$m	2013 \$m	2012 \$m
Australian debt securities	1,928	1,840	2,145	1,444	1,313
Overseas debt securities	543	545	677	543	475
Australian equity securities	288	279	138	103	115
Total other financial assets designated at fair value	2,759	2,664	2,960	2,090	1,903

The Group has total holdings of debt securities from the Australian Commonwealth Government, one Australian financial institution, two Australian State-Governments and the US Government, the aggregate book and market value, each of which exceeded 10% of the Group total shareholders equity at 30 September 2013.

The Group holds \$4,978 million of US Government treasury notes recognised in the categories trading securities, other financial assets designated at fair value or available-for-sale securities (Note 10) at 30 September 2013 (2012: \$573 million¹, 2011: \$344 million).

1 The 2012 comparative has been restated from the \$37 million previously reported.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 10. AVAILABLE-FOR-SALE SECURITIES

	Consolidated			Parent Entity	
	2013 \$m	2012 \$m	2011 \$m	2013 \$m	2012 \$m
Available-for-sale securities at fair value					
Australian public securities (State Government securities)	17,464	18,342	14,572	17,464	18,342
Australian debt securities	9,071	2,667	615	8,692	2,369
Overseas public securities	2,477	2,427	1,788	5	-
Overseas debt securities	797	801	855	221	219
Australian equity securities	10	106	66	8	106
Overseas equity securities	180	122	169	-	-
	29,999	24,465	18,065	26,390	21,036
Available-for-sale securities at cost¹					
Unlisted securities	12	7	10	4	3
Total available-for-sale securities	30,011	24,472	18,075	26,394	21,039

1 Investments in certain unlisted securities are measured at cost because the fair value cannot be reliably measured. These investments represent non-controlling interests in companies for which active markets do not exist and quoted prices are not available.

Available-for-sale securities change in fair value resulted in a gain of \$57 million for the Group (2012: \$139 million gain, 2011: \$73 million loss) and a gain of \$7 million for the Parent Entity (2012: \$69 million gain) being recognised in other comprehensive income.

The following table shows the maturities of the Group's available-for-sale securities and their weighted-average yield as at 30 September 2013. There are no tax-exempt securities.

	2013										Total \$m	Weighted Average %
	Within 1 Year		Over 1 Year to 5 Years		Over 5 Years to 10 Years		Over 10 Years		No Specific Maturity			
Carrying amount	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%
Australian public securities	297	2.0	5,693	4.9	10,640	4.9	834	6.1	-	-	17,464	4.9
Australian debt securities	241	3.6	7,026	4.2	1,698	4.0	106	4.3	-	-	9,071	4.1
Overseas public securities	600	2.4	752	3.9	1,125	4.5	-	-	-	-	2,477	3.8
Overseas debt securities	207	2.0	556	3.3	34	6.3	-	-	-	-	797	2.9
Australian equity securities	-	-	-	-	-	-	-	-	10	-	10	-
Overseas equity securities	-	-	-	-	-	-	-	-	180	-	180	-
Unlisted securities at cost	-	-	-	-	-	-	-	-	12	-	12	-

Total by maturity	1,345	14,027	13,497	940	202	30,011
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The maturity profile is determined based upon contractual terms for available-for-sale instruments.

NOTE 11. LOANS

The following table shows loans disaggregated by type of product. Loans are classified based on the location of the booking office:

	Consolidated		Parent Entity	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Australia				
Overdrafts	2,965	3,171	2,965	3,171
Credit card outstanding	9,560	9,675	9,560	9,675
Overnight and at call money market loans	112	136	112	136
Acceptance of finance	36,191	38,175	36,191	38,175
Term loans:1				
Housing2	298,967	283,703	298,931	283,645
Housing line of credit	29,565	32,639	29,565	32,639
Total housing	328,532	316,342	328,496	316,284
Non-housing	87,240	84,244	80,469	78,267
Finance leases1	4,976	5,997	3,011	3,657
Margin lending2	2,041	2,279	2,082	2,337
Other	2,527	2,995	2,527	2,995
Total Australia	474,144	463,014	465,413	454,697
New Zealand				
Overdrafts	1,125	1,147	-	-
Credit card outstanding	1,201	1,045	-	-
Overnight and at call money market loans	1,230	1,215	-	3
Term loans:				
Housing	33,389	28,685	-	-
Non-housing	18,242	15,784	21	20
Other	398	369	287	285
Total New Zealand	55,585	48,245	308	308
Total other overseas	10,077	7,020	8,892	5,672
Total loans	539,806	518,279	474,613	460,677
Provisions on loans (refer to Note 12)	(3,642)	(3,834)	(2,956)	(3,188)
Total net loans3	536,164	514,445	471,657	457,489
Net loans classification4				
Loans housing and personal	382,702	365,221	343,407	331,228
Loans business	153,462	149,224	128,250	126,261
Total net loans3	536,164	514,445	471,657	457,489

1 Securitised loans are included in term loans and finance leases. Further detail on securitised assets is disclosed in Note 31.

2 Comparative information for the Parent Entity has been revised to conform to presentation with current year.

3 Included in net loans is \$11 billion (2012: \$12 billion) of loans designated at fair value to reduce an accounting mismatch. The cumulative change in fair value of the loans attributable to credit risk is a decrease of \$98 million (2012: \$125 million) for the Group and Parent Entity. The change in fair value of loans attributable to credit risk recognised during the period is \$27 million (2012: \$8 million) for the Group and Parent Entity.

4 Loans housing and personal include products of a retail nature including mortgages, personal loans, credit cards and customer overdrafts. Loans business include corporate funding, working capital, trade and overdraft facilities.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11. LOANS (CONTINUED)

The following table shows loans presented based on their industry classification:

	2013	2012	Consolidated 2011	2010	2009
	\$m	\$m	\$m	\$m	\$m
Australia¹					
Accommodation, cafes and restaurants	7,108	7,106	7,121	7,195	7,174
Agriculture, forestry and fishing	7,304	7,549	7,790	7,797	7,795
Construction	6,049	6,313	6,084	5,968	6,511
Finance and insurance	13,259	13,101	15,925	13,643	19,388
Government, administration and defence	881	930	781	806	563
Manufacturing	9,415	10,663	11,339	10,958	12,287
Mining	2,339	1,836	1,488	1,337	1,883
Property, property services and business services	49,030	47,184	45,559	48,398	54,066
Services ²	9,715	9,467	8,936	9,408	10,163
Trade ³	14,619	15,868	16,094	16,240	15,683
Transport and storage	8,868	9,351	6,677	7,351	8,039
Utilities ⁴	3,002	3,239	2,581	2,421	2,640
Retail lending	340,139	328,109	316,777	301,150	267,490
Other	2,416	2,298	1,330	1,282	2,389
Total Australia	474,144	463,014	448,482	433,954	416,071
Overseas					
Accommodation, cafes and restaurants	585	594	580	570	691
Agriculture, forestry and fishing	6,506	5,345	4,975	4,699	4,903
Construction	1,367	1,220	1,180	1,180	1,242
Finance and insurance	2,960	2,406	1,998	1,886	2,699
Government, administration and defence	639	533	464	474	450
Manufacturing	3,319	3,682	2,925	2,143	2,607
Mining	2,921	640	368	363	291
Property, property services and business services	11,225	9,620	9,659	9,156	9,844
Services ²	2,651	2,174	2,149	2,026	2,392
Trade ³	5,014	4,411	4,047	3,289	2,976
Transport and storage	1,528	1,589	1,928	1,800	1,976
Utilities ⁴	1,476	1,212	1,010	1,104	1,340
Retail lending	25,363	21,766	20,723	19,574	19,103
Other	108	73	166	148	1,258
Total overseas	65,662	55,265	52,172	48,412	51,772
Total loans	539,806	518,279	500,654	482,366	467,843
Provisions on loans	(3,642)	(3,834)	(4,045)	(4,711)	(4,384)
Total net loans	536,164	514,445	496,609	477,655	463,459

1 To improve presentation, we have revised 2012 comparatives for loans business booked in Australia to better reflect their industry concentration.

2 Services includes education, health and community services, cultural and recreational services and personal and other services.

3 Trade includes wholesale trade and retail trade.

4 Utilities includes electricity, gas and water and communication services.

NOTE 11. LOANS (CONTINUED)

The following table shows the consolidated contractual maturity distribution of all loans by type of customer as at 30 September 2013:

	2013			Total \$m
	Up to 1 Year \$m	1 to 5 Years \$m	Over 5 Years \$m	
Loans by type of customer in Australia				
Accommodation, cafes and restaurants	2,720	3,623	765	7,108
Agriculture, forestry and fishing	3,060	3,298	946	7,304
Construction	1,481	3,258	1,310	6,049
Finance and insurance	4,448	5,792	3,019	13,259
Government, administration and defence	109	268	504	881
Manufacturing	3,808	4,674	933	9,415
Mining	399	1,384	556	2,339
Property, property services and business services	17,947	25,302	5,781	49,030
Services ¹	2,496	5,496	1,723	9,715
Trade ²	5,511	6,980	2,128	14,619
Transport and storage	2,000	5,977	891	8,868
Utilities ³	881	1,924	197	3,002
Retail lending	19,314	43,277	277,548	340,139
Other	1,428	618	370	2,416
Total Australia	65,602	111,871	296,671	474,144
Total overseas	18,453	12,061	35,148	65,662
Total loans	84,055	123,932	331,819	539,806

1 Services includes education, health and community services, cultural and recreational services and personal and other services.

2 Trade includes wholesale trade and retail trade.

3 Utilities includes electricity, gas and water and communication services.

	2013			Consolidated		Total \$m
	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	
Interest rate segmentation of Group loans maturing after one year						
By offices in Australia	332,738	75,804	408,542	330,398	56,176	386,574
By offices overseas	18,079	29,130	47,209	17,568	22,126	39,694
Total loans maturing after one year	350,817	104,934	455,751	347,966	78,302	426,268

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11. LOANS (CONTINUED)

Loans include the following finance receivables:

	Consolidated		Parent Entity	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Gross investment in finance leases, receivable:				
Due within one year	737	747	409	425
Due after one year but not later than five years	4,742	5,692	2,739	3,377
Due after five years	647	797	358	432
Unearned future finance income on finance leases	(948)	(1,034)	(456)	(527)
Net investment in finance leases	5,178	6,202	3,050	3,707
Accumulated allowance for uncollectible minimum lease payments	(21)	(27)	(13)	(26)
Net investment in finance leases after accumulated allowance	5,157	6,175	3,037	3,681
The net investment in finance leases may be analysed as follows:				
Due within one year	705	716	395	410
Due after one year but not later than five years	4,026	4,901	2,393	2,966
Due after five years	447	585	262	331
Total net investment in finance leases	5,178	6,202	3,050	3,707

NOTE 12. PROVISIONS FOR IMPAIRMENT CHARGES

	Consolidated			Parent Entity	
	2013 \$m	2012 \$m	2011 \$m	2013 \$m	2012 \$m
Collectively assessed provisions					
Balance as at beginning of the year	2,771	2,953	3,439	2,336	2,536
Transfers ¹	-	-	-	-	(44)
Provisions raised/(released)	290	342	(24)	181	285
Write-offs	(708)	(756)	(739)	(581)	(646)
Interest adjustment	196	229	264	162	195
Exchange rate and other adjustments	36	3	13	9	10
Balance as at end of the year	2,585	2,771	2,953	2,107	2,336
Individually assessed provisions					
Balance as at beginning of the year	1,470	1,461	1,622	1,227	1,251
Transfers ¹	-	-	-	-	(31)
Provisions raised	1,112	1,442	1,619	946	1,219
Write-backs	(479)	(468)	(542)	(412)	(416)
Write-offs	(691)	(952)	(1,188)	(571)	(787)
Interest adjustment	(75)	(38)	(11)	(78)	(35)
Exchange rate and other adjustments	27	25	(39)	11	26
Balance as at end of the year	1,364	1,470	1,461	1,123	1,227
Total provisions for impairment charges on loans and credit commitments	3,949	4,241	4,414	3,230	3,563
Less provisions for credit commitments (refer to Note 20)	(307)	(407)	(369)	(274)	(375)
Total provisions for impairment charges on loans	3,642	3,834	4,045	2,956	3,188

¹ In 2012, provisions in respect of loans were transferred to Westpac New Zealand Limited as part of a business reorganisation.

	Consolidated			Parent Entity	
	2013 \$m	2012 \$m	2011 \$m	2013 \$m	2012 \$m
Reconciliation of impairment charges					
Individually assessed provisions raised	1,112	1,442	1,619	946	1,219
Write-backs	(479)	(468)	(542)	(412)	(416)
Recoveries	(76)	(104)	(60)	(53)	(87)
Collectively assessed provisions raised/(released)	290	342	(24)	181	285
Impairment charges	847	1,212	993	662	1,001

NOTE 12. PROVISIONS FOR IMPAIRMENT CHARGES (CONTINUED)

The following table presents provisions for impairment charges on loans by industry classification for the past five years:

	2013		2012		Consolidated 2011		2010		2009	
	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%
Individually assessed provisions by industry										
Australia										
Accommodation, cafes and restaurants	59	1.5	53	1.2	45	1.0	44	0.9	50	1.1
Agriculture, forestry and fishing	80	2.0	46	1.1	28	0.6	27	0.5	43	0.9
Construction	66	1.7	73	1.7	63	1.4	32	0.6	33	0.7
Finance and insurance	24	0.6	38	0.9	58	1.3	60	1.2	74	1.6
Manufacturing	108	2.7	116	2.7	90	2.0	143	2.8	93	2.0
Mining	4	0.1	2	0.1	2	-	31	0.6	46	1.0
Property, property services and business services	428	10.9	518	12.2	559	12.7	595	11.8	409	8.6
Services1	48	1.2	121	2.9	96	2.2	51	1.0	49	1.0
Trade2	116	2.9	87	2.1	97	2.2	47	0.9	62	1.3
Transport and storage	45	1.1	47	1.1	38	0.9	80	1.6	15	0.3
Utilities3	29	0.8	22	0.5	23	0.5	27	0.5	37	0.8
Retail lending	76	1.9	67	1.6	74	1.7	137	2.7	148	3.1
Other	6	0.2	7	0.2	7	0.2	26	0.5	23	0.5
Total Australia	1,089	27.6	1,197	28.3	1,180	26.7	1,300	25.6	1,082	22.9
New Zealand										
Accommodation, cafes and restaurants	1	-	5	0.1	2	-	2	-	2	-
Agriculture, forestry and fishing	17	0.4	20	0.5	20	0.5	46	0.9	17	0.4
Construction	6	0.2	2	0.1	4	0.1	2	-	4	0.1
Finance and insurance	9	0.2	9	0.2	3	0.1	1	-	1	-
Manufacturing	6	0.2	16	0.4	29	0.7	10	0.2	14	0.3
Mining	37	0.9	-	-	1	-	-	-	-	-
Property, property services and business services	71	1.8	116	2.7	112	2.5	143	2.9	43	0.9
Services1	40	1.0	35	0.8	6	0.1	5	0.1	4	0.1
Trade2	2	0.1	3	0.1	7	0.2	13	0.3	6	0.1
Transport and storage	-	-	-	-	-	-	-	-	2	-
Utilities3	1	-	-	-	-	-	12	0.2	-	-
Retail lending	17	0.4	14	0.3	27	0.6	36	0.8	31	0.7
Total New Zealand	207	5.2	220	5.2	211	4.8	270	5.4	124	2.6
Other overseas										
Accommodation, cafes and restaurants	4	0.1	2	0.1	2	-	1	-	4	0.1
Agriculture, forestry and fishing	3	0.1	2	0.1	-	-	1	-	3	0.1
Construction	2	0.1	7	0.2	-	-	-	-	8	0.2
Finance and insurance	33	0.7	23	0.5	17	0.6	-	-	-	-
Manufacturing	2	0.1	2	-	2	-	-	-	-	-
Property, property services and business services	13	0.2	9	0.2	19	0.4	6	0.1	-	-
Services1	3	0.1	2	-	1	-	16	0.3	1	-
Trade2	4	0.1	1	-	2	-	-	-	4	0.1
Transport and storage	2	0.1	1	-	17	0.4	19	0.4	2	-
Retail lending	2	0.1	4	0.1	10	0.2	9	0.2	-	-
Total other overseas	68	1.7	53	1.2	70	1.6	52	1.0	22	0.5
Total overseas	275	6.9	273	6.4	281	6.4	322	6.4	146	3.1
	1,364	34.5	1,470	34.7	1,461	33.1	1,622	32.0	1,228	26.0

Total individually assessed provisions										
Total collectively assessed provisions	2,585	65.5	2,771	65.3	2,953	66.9	3,439	68.0	3,506	74.0
Total provisions for impairment charges and credit commitments	3,949	100.0	4,241	100.0	4,414	100.0	5,061	100.0	4,734	100.0

1 Services includes education, health and community services, cultural and recreational services and personal and other services.

2 Trade includes wholesale trade and retail trade.

3 Utilities includes electricity, gas and water and communication services.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12. PROVISIONS FOR IMPAIRMENT CHARGES (CONTINUED)

The following table shows details of loan write-offs by industry classifications for the past five years:

	2013 \$m	2012 \$m	Consolidated 2011 \$m	2010 \$m	2009 \$m
Write-offs					
Australia					
Accommodation, cafes and restaurants	(31)	(24)	(34)	(47)	(5)
Agriculture, forestry and fishing	(30)	(11)	(23)	(9)	(6)
Construction	(46)	(106)	(27)	(68)	(37)
Finance and insurance	(14)	(11)	(5)	(30)	(327)
Manufacturing	(50)	(45)	(134)	(45)	(37)
Mining	(5)	(1)	(15)	(14)	(13)
Property, property services and business services	(340)	(453)	(507)	(272)	(156)
Services1	(58)	(41)	(28)	(32)	(107)
Trade2	(69)	(53)	(57)	(51)	(115)
Transport and storage	(18)	(37)	(60)	(25)	(13)
Utilities3	(2)	(33)	(7)	(4)	(101)
Retail lending	(545)	(597)	(661)	(566)	(611)
Other	(9)	(11)	(21)	(39)	(22)
Total Australia	(1,217)	(1,423)	(1,579)	(1,202)	(1,550)
New Zealand					
Accommodation, cafes and restaurants	(1)	(2)	(3)	(2)	(1)
Agriculture, forestry and fishing	(7)	(23)	(59)	(4)	-
Construction	(4)	(9)	(24)	(4)	(27)
Finance and insurance	(13)	(2)	(1)	(1)	(3)
Manufacturing	(3)	(17)	(12)	(15)	(70)
Mining	-	(1)	-	-	-
Property, property services and business services	(94)	(105)	(126)	(29)	(146)
Services1	(5)	(5)	(4)	(4)	(3)
Trade2	(4)	(3)	(15)	(3)	(10)
Transport and storage	(1)	(1)	-	(2)	-
Utilities3	-	-	(13)	-	-
Retail lending	(46)	(59)	(84)	(79)	(88)
Other	-	(1)	(1)	(3)	(2)
Total New Zealand	(178)	(228)	(342)	(146)	(350)
Other overseas					
Accommodation, cafes and restaurants	(1)	(3)	-	-	(3)
Agriculture, forestry and fishing	-	(1)	-	-	(2)
Construction	-	(3)	-	-	(5)
Finance and insurance	-	(12)	-	-	-
Manufacturing	(2)	(1)	(3)	-	-
Property, property services and business services	-	(7)	(1)	(3)	(3)
Services1	(1)	(2)	-	-	(6)
Trade2	-	(2)	-	-	(3)
Transport and storage	-	(19)	-	-	(1)
Retail lending	-	(7)	-	-	-
Other	-	-	(2)	-	-
Total other overseas	(4)	(57)	(6)	(3)	(23)
Total write-offs	(1,399)	(1,708)	(1,927)	(1,351)	(1,923)

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Write-offs in relation to:					
Collectively assessed provisions	(708)	(756)	(739)	(667)	(632)
Individually assessed provisions	(691)	(952)	(1,188)	(684)	(1,291)
Total write-offs	(1,399)	(1,708)	(1,927)	(1,351)	(1,923)

- 1 Services includes education, health and community services, cultural and recreational services and personal and other services.
- 2 Trade includes wholesale trade and retail trade.
- 3 Utilities includes electricity, gas and water and communication services.

NOTE 12. PROVISIONS FOR IMPAIRMENT CHARGES (CONTINUED)

The following table shows details of recoveries of loans by industry classifications for the past five years:

	2013 \$m	2012 \$m	2011 \$m	2010 \$m	2009 \$m
Recoveries					
Australia					
Accommodation, cafes and restaurants	1	-	-	1	-
Agriculture, forestry and fishing	1	-	-	-	-
Construction	1	1	-	2	-
Finance and insurance	3	2	-	-	-
Manufacturing	8	5	-	2	-
Property, property services and business services	11	23	9	3	-
Services ¹	-	1	-	1	-
Trade ²	1	1	-	1	-
Transport and storage	1	1	-	1	-
Utilities ³	-	-	-	-	2
Retail lending	41	61	46	31	37
Other	-	1	-	2	2
Total Australia	68	96	55	44	41
Total New Zealand	8	8	5	4	-
Total other overseas	-	-	-	3	8
Total recoveries	76	104	60	51	49
Total write-offs	(1,399)	(1,708)	(1,927)	(1,351)	(1,923)
Net write-offs and recoveries	(1,323)	(1,604)	(1,867)	(1,300)	(1,874)

1 Services includes education, health and community services, cultural and recreational services and personal and other services.

2 Trade includes wholesale trade and retail trade.

3 Utilities includes electricity, gas and water and communication services.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Parent Entity	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Premises and sites				
Cost	320	364	208	252
Accumulated depreciation	(138)	(141)	(51)	(53)
Net carrying amount	182	223	157	199
Leasehold improvements				
Cost	1,138	980	886	770
Accumulated amortisation	(586)	(463)	(456)	(357)
Net carrying amount	552	517	430	413
Furniture and equipment				
Cost	737	698	521	503
Accumulated depreciation	(563)	(516)	(379)	(348)
Net carrying amount	174	182	142	155
Technology				
Cost	569	574	301	307
Accumulated depreciation	(303)	(359)	(59)	(114)
Net carrying amount	266	215	242	193
Total property, plant and equipment	1,174	1,137	971	960

NOTE 13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Reconciliations of the carrying amount for each class of property, plant and equipment are set out below:

	Consolidated		Parent Entity	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Premises and sites				
Balance as at beginning of the year	223	198	199	173
Additions	4	2	2	2
Disposals	(1)	(1)	(1)	(1)
Depreciation	(13)	(14)	(12)	(13)
Exchange rate adjustments	-	-	1	-
Other ¹	(31)	38	(32)	38
Balance as at end of the year	182	223	157	199
Leasehold improvements				
Balance as at beginning of the year	517	563	413	471
Additions	103	101	78	76
Disposals	(2)	(4)	(1)	(4)
Amortisation	(108)	(106)	(94)	(92)
Exchange rate adjustments	9	1	1	-
Other ¹	33	(38)	33	(38)
Balance as at end of the year	552	517	430	413
Furniture and equipment				
Balance as at beginning of the year	182	169	155	140
Additions	53	76	41	70
Disposals	(1)	(1)	(1)	(1)
Depreciation	(62)	(62)	(54)	(54)
Exchange rate adjustments	2	-	1	-
Balance as at end of the year	174	182	142	155
Technology				
Balance as at beginning of the year	215	228	193	198
Additions	144	73	130	65
Disposals	(2)	(1)	(2)	(1)
Depreciation	(90)	(85)	(78)	(71)
Impairments	(4)	-	(4)	-
Exchange rate adjustments	1	(1)	1	(1)
Other	2	1	2	3
Balance as at end of the year	266	215	242	193

¹ During the current financial year, assets were reclassified from premises and sites to leasehold improvements. During the previous financial year, assets were reclassified from leasehold improvements to premises and sites.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Deferred tax assets

	Consolidated		Parent Entity	
	2013	2012	2013	2012
	\$m	\$m	\$m	\$m
The balance comprises temporary differences attributable to:				
Amounts recognised in income statements				
Provisions for impairment charges on loans	1,064	1,126	860	934
Provision for employee benefits	312	297	267	249
Treasury/financial market products	150	87	145	64
Property, plant and equipment	217	227	205	222
Provision for litigation and non-lending losses	8	91	7	89
Provision for credit commitments	79	111	79	111
Provision for restructuring	16	34	16	34
Provision for lease liabilities	31	29	26	26
Other provisions	50	44	44	41
Other liabilities	572	780	560	767
Life insurance policy liabilities	-	36	-	-
Tax losses recognised	-	1	-	-
Change in tax rate (refer to Note 5)	-	(1)	-	(1)
	2,499	2,862	2,209	2,536
Amounts recognised directly in other comprehensive income				
Available-for-sale securities	(4)	(18)	13	(2)
Retirement benefit deficit	107	190	107	190
Other equity items	-	4	-	4
	103	176	120	192
Set-off of deferred tax liabilities pursuant to set-off provisions ¹	(811)	(862)	(683)	(696)
Net deferred tax assets	1,791	2,176	1,646	2,032
Net deferred tax assets to be recovered within 12 months	525	673	484	639
Net deferred tax assets to be recovered after more than 12 months	1,266	1,503	1,162	1,393
Movement				
Opening balance as at beginning of the year	2,176	2,651	2,032	2,456
Credited to income statements	499	407	369	302
Recognised in other comprehensive income	(73)	(20)	(72)	(30)
Set-off of deferred tax liabilities pursuant to set-off provisions ¹	(811)	(862)	(683)	(696)
Closing balance as at end of the year	1,791	2,176	1,646	2,032

¹ Deferred tax assets and liabilities are set-off where they relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities within the same taxable group.

NOTE 14. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (CONTINUED)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	Consolidated		Parent Entity	
	2013	2012	2013	2012
	\$m	\$m	\$m	\$m
Tax losses on revenue account	81	78	76	74

The deferred tax assets related to losses will only be recognised if:

the Group or relevant entity derives future assessable income of a nature or amount sufficient to enable the benefits from the deductions for the losses to be utilised;

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

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

the deductible temporary differences and tax losses have not expired under current tax legislation.

Deferred tax assets have not been recognised in respect of these items because it is not considered probable that future taxable profit will be available against which they can be realised.

Deferred tax liabilities

	Consolidated		Parent Entity	
	2013	2012	2013	2012
	\$m	\$m	\$m	\$m

The balance comprises temporary differences attributable to:**Amounts recognised in income statements**

Treasury/financial market products	100	32	121	39
Finance lease transactions	117	166	20	33
Property, plant and equipment	166	111	168	109
Life insurance assets	19	5	-	-
Other assets	315	378	265	308
	717	692	574	489

Amounts recognised directly in other comprehensive income

Cash flow hedges	116	203	109	207
	116	203	109	207
Set-off of deferred tax assets pursuant to set-off provisions ¹	(811)	(862)	(683)	(696)
Net deferred tax liabilities	22	33	-	-
Net deferred tax liabilities to be recovered within 12 months	10	15	-	-
Net deferred tax liabilities to be recovered after more than 12 months	12	18	-	-

Movements

Opening balance as at beginning of the year	33	11	-	1
Charged to income statements	887	724	781	554
Recognised in other comprehensive income	(87)	160	(98)	141
Set-off of deferred tax assets pursuant to set-off provisions ¹	(811)	(862)	(683)	(696)
Closing balance as at end of the year	22	33	-	-

¹ Deferred tax assets and liabilities are set-off where they relate to the same taxation authority on either the same taxable entity or different entities within the same taxable group.

Deferred tax liabilities relating to aggregate temporary differences of \$35 million (2012: \$29 million) associated with investments in subsidiaries have not been recognised because the Parent Entity controls whether the liability will be incurred and it is satisfied that the liability will not be incurred in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15. GOODWILL AND OTHER INTANGIBLE ASSETS

	Consolidated		Parent Entity	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Goodwill				
Balance as at beginning of the year	8,797	8,582	6,653	6,653
Additions through business combination ¹	-	214	-	-
Exchange rate and other adjustments	71	1	-	-
Balance as at end of the year	8,868	8,797	6,653	6,653
Computer software				
Balance as at beginning of the year	1,551	1,303	1,351	1,135
Additions	738	603	643	511
Impairment	(15)	(23)	(15)	(23)
Amortisation	(388)	(329)	(321)	(268)
Exchange rate adjustments	14	(2)	1	-
Other	(3)	(1)	16	(4)
Balance as at end of the year	1,897	1,551	1,675	1,351
Cost	3,033	2,382	2,168	1,617
Accumulated amortisation	(1,136)	(831)	(493)	(266)
Carrying amount	1,897	1,551	1,675	1,351
Brand names				
Balance as at beginning of the year	670	670	636	636
Balance as at end of the year	670	670	636	636
Carrying amount	670	670	636	636
Core deposit intangibles				
Balance as at beginning of the year	851	1,016	851	1,016
Amortisation	(166)	(165)	(166)	(165)
Balance as at end of the year	685	851	685	851
Cost	1,494	1,494	1,279	1,279
Accumulated amortisation	(809)	(643)	(594)	(428)
Carrying amount	685	851	685	851
Other intangible assets				
Balance as at beginning of the year	265	208	118	160
Additions through business combination ¹	-	120	-	-
Impairment	(3)	(5)	-	-
Amortisation	(52)	(55)	(42)	(42)
Exchange rate and other adjustments	11	(3)	-	-
Balance as at end of the year	221	265	76	118
Cost	557	544	226	226
Accumulated amortisation	(336)	(279)	(150)	(108)
Carrying amount	221	265	76	118
Total goodwill and other intangible assets	12,341	12,134	9,725	9,609

1 Attributable to the acquisition of J O Hambro Capital Management Limited.

NOTE 15. GOODWILL AND OTHER INTANGIBLE ASSETS (CONTINUED)

Goodwill has been allocated to the following Cash Generating Units (CGUs):

	Consolidated		Parent Entity	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Westpac Retail & Business Banking	980	980	980	980
St.George Banking Group	4,464	4,464	4,351	4,351
Westpac Institutional Bank ¹	487	543	487	487
BT Financial Group (Australia)	2,103	2,103	835	835
Hambro	232	208	-	-
New Zealand Retail Banking	457	411	-	-
BT New Zealand	12	11	-	-
Hastings ¹	120	64	-	-
Bank of Tonga	13	13	-	-
Total goodwill	8,868	8,797	6,653	6,653

1 During the financial year, \$56 million of goodwill has been reallocated from the Westpac Institutional Bank CGU to the Hastings CGU.

Impairment tests for goodwill

To assess whether goodwill is impaired, the carrying amount of each CGU is compared to their recoverable amount determined on a value in use basis.

Key assumptions used in recoverable amount calculations

The recoverable amount of each significant CGU is determined based on the Group's projections of future pre-tax cash flows discounted by the Group's after tax return on equity rate of 11.0% (2012: 11.0%), adjusted to a pre-tax rate of 15.7% for Australia, 15.3% for New Zealand and 14.5% for the United Kingdom (2012: 15.7% for Australia, 15.3% for New Zealand, 14.5% for the United Kingdom). All future cash flows are based on approved two year forecasts (2012: two years). All cash flows beyond the two year period have an assumed growth rate of zero for all significant CGUs for the purpose of goodwill impairment testing. The strategic business plan assumes certain economic conditions and business performance, which are considered appropriate as they are consistent with observable historical information and current market expectations of the future. The forecasts applied by management are not reliant on any one particular assumption and no impairment would arise in significant CGUs even if zero growth is achieved over the two year forecast period.

Sensitivity to changes in assumptions

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Management consider alternative key assumptions including, for example, increasing the discount rate by 1% or reducing future cash flows by 10%. Under these scenarios the recoverable amount of each significant CGU would continue to exceed its carrying value. This is illustrated in the table below:

	Excess of Recoverable Amount over the Carrying Value					
	Base Case		Increase		Decrease	
	2013	2012	Discount Rate by 1%	2012	Cash Flows by 10%	2012
	\$m	\$m	\$m	\$m	\$m	\$m
Westpac Retail & Business Banking	8,494	6,141	6,918	4,760	6,289	4,208
St. George Banking Group	2,911	2,001	1,931	1,135	1,541	793
BT Financial Group (Australia)	2,977	2,159	2,411	1,607	2,189	1,390

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NOTE 16. OTHER ASSETS

	Consolidated		Parent Entity	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Accrued interest receivable	1,194	1,278	1,018	1,108
Securities sold not delivered	1,416	1,841	1,383	1,841
Deferred expenditure	24	17	1	2
Deferred acquisition costs	126	143	-	1
Trade debtors	533	534	205	176
Prepayments	135	96	116	79
Accrued fees and commissions	164	323	66	106
Other	968	729	908	575
Total other assets	4,560	4,961	3,697	3,888

NOTE 17. PAYABLES DUE TO OTHER FINANCIAL INSTITUTIONS

	Consolidated		Parent Entity	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Cash collateral	1,285	1,356	1,285	1,354
Offshore central bank deposits	2,936	1,595	2,936	1,595
Interbank borrowing	4,615	4,564	4,517	4,492
Securities sold under agreements to repurchase	-	49	-	49
Total payables due to other financial institutions	8,836	7,564	8,738	7,490

NOTE 18. DEPOSITS AND OTHER BORROWINGS

	Consolidated		Parent Entity	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Australia				
Certificates of deposit				
At fair value	29,163	32,786	29,163	33,234
At amortised cost	123	119	123	119
Total certificates of deposit	29,286	32,905	29,286	33,353
At call and term deposits				
Non-interest bearing, repayable at call	20,464	16,659	20,464	16,659
Other interest bearing:				
At call	175,102	147,038	175,106	147,042
Term	132,028	139,351	132,028	139,351
Total at call and term deposits	327,594	303,048	327,598	303,052
Total Australia	356,880	335,953	356,884	336,405
New Zealand				
Certificates of deposit				
At fair value	1,362	1,134	-	-
Total certificates of deposit	1,362	1,134	-	-
At call and term deposits				
Non-interest bearing, repayable at call	2,905	2,368	-	-
Other interest bearing:				
At call	16,419	12,702	-	-
Term	22,104	18,392	-	-
Total at call and term deposits	41,428	33,462	-	-
Total New Zealand	42,790	34,596	-	-
Other overseas				
Certificates of deposit				
At fair value	11,111	13,081	11,111	13,081
At amortised cost	91	149	91	149
Total certificates of deposit	11,202	13,230	11,202	13,230
At call and term deposits				
Non-interest bearing, repayable at call	766	732	294	232
Other interest bearing:				
At call	1,914	1,982	1,437	1,518
Term	10,930	8,498	10,391	7,944
Total at call and term deposits	13,610	11,212	12,122	9,694
Total other overseas	24,812	24,442	23,324	22,924
Total deposits and other borrowings	424,482	394,991	380,208	359,329
Deposits and other borrowings at fair value	42,015	47,086	40,653	46,400
Deposits and other borrowings at amortised cost	382,467	347,905	339,555	312,929
Total deposits and other borrowings	424,482	394,991	380,208	359,329

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18. DEPOSITS AND OTHER BORROWINGS (CONTINUED)

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

	2013		Consolidated 2012		2011	
	Average Balance \$m	Average Rate %	Average Balance \$m	Average Rate %	Average Balance \$m	Average Rate %
Australia						
Non-interest bearing	18,399		15,101		13,134	
Certificates of deposit	29,352	3.1%	34,401	4.4%	38,161	4.7%
Other interest bearing at call	162,748	3.1%	143,130	3.8%	141,719	4.3%
Other interest bearing term	133,534	3.9%	124,881	5.1%	99,994	5.5%
Total Australia	344,033		317,513		293,008	
Overseas						
Non-interest bearing	3,345		2,875		2,515	
Certificates of deposit	15,259	0.6%	18,478	0.6%	19,840	0.6%
Other interest bearing at call	16,483	2.9%	14,260	2.7%	12,600	2.9%
Other interest bearing term	29,300	2.9%	24,953	3.2%	22,066	3.9%
Total overseas	64,387		60,566		57,021	

Certificates of deposit and term deposits

All certificates of deposit issued by foreign offices were greater than US\$100,000.

The maturity profile of certificates of deposit and term deposits greater than US\$100,000 issued by Australian operations is set out below:

	Consolidated 2013				Total \$m
	Less Than 3 Months \$m	Between 3 and 6 Months \$m	Between 6 Months and 1 Year \$m	Over 1 Year \$m	
Certificates of deposit greater than US\$100,000	19,823	9,306	34	123	29,286
Term deposits greater than US\$100,000	59,138	24,790	15,574	6,889	106,391

NOTE 19. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH INCOME STATEMENT¹

Consolidated

Parent Entity

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	2013	2012	2013	2012
	\$m	\$m	\$m	\$m
Securities sold under agreements to repurchase ²	7,967	6,776	7,967	6,776
Securities sold short	2,335	3,187	2,335	3,187
Total trading liabilities	10,302	9,963	10,302	9,963
Other financial liabilities at fair value	-	1	-	1
Total financial liabilities at fair value through income statement	10,302	9,964	10,302	9,964

1 Deposits and other borrowings at fair value are disclosed in Note 18 and debt issues at fair value are disclosed in Note 22.

2 Securities sold under agreements to repurchase are not derecognised from the balance sheet, as set out in Note 1(i)(vii). The carrying value of securities pledged under repurchase agreements for the Group and the Parent Entity is \$8,101 million (2012: \$6,902 million).

The amount that would be contractually required to be paid at maturity to the holders of other financial liabilities at fair value for the Group and the Parent Entity is nil (2012: \$1 million).

NOTE 20. PROVISIONS

	Consolidated		Parent Entity	
	2013	2012	2013	2012
	\$m	\$m	\$m	\$m
Long service leave	340	334	311	308
Annual leave and other employee benefits	802	740	687	638
Litigation and non-lending losses	28	306	24	297
Provision for impairment on credit commitments (refer to Note 12)	307	407	274	375
Leasehold premises	46	34	46	34
Restructuring provisions	53	114	53	112
Total provisions	1,576	1,935	1,395	1,764

Litigation and non-lending losses

Litigation and non-lending loss provisions include litigation and associated costs, frauds and the correction of operational issues.

Provision for impairment on credit commitments

Provision is made for incurred losses as a result of the commitment to extend credit.

Leasehold premises

Provisions are made for unavoidable costs in relation to making good the property to the same or similar state as when the lease was entered into and for premises sub let at lower rates of rent than payable under the head lease.

Restructuring provisions

Provisions are recognised for restructuring activities where there is a demonstrable commitment and a detailed plan such that there is little or no discretion to avoid payments to other parties. The majority of restructuring provisions are expected to be used within 12 months after 30 September 2013.

	Long Service Leave	Annual Leave and Other Employee Benefits	Litigation and Non-Lending Losses	Provision for Impairment on Credit Commitments	Leasehold Premises	Restructuring Provisions	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Consolidated							
Balance as at beginning of the year	334	740	306	407	34	114	1,935
Additions	57	959	17	-	16	15	1,064
Utilised	(31)	(893)	(285)	-	(4)	(71)	(1,284)
Unutilised reversed	(21)	(4)	(10)	-	-	(5)	(40)
Exchange differences	1	-	-	-	-	-	1
Increase on unwinding of discount	-	-	-	10	-	-	10

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Other	-	-	-	(110)	-	-	(110)
Balance as at end of the year	340	802	28	307	46	53	1,576
Parent Entity							
Balance as at beginning of the year	308	638	297	375	34	112	1,764
Additions	49	856	11	-	16	12	944
Utilised	(28)	(803)	(276)	-	(4)	(66)	(1,177)
Unutilised reversed	(18)	(4)	(8)	-	-	(5)	(35)
Increase on unwinding of discount	-	-	-	9	-	-	9
Other	-	-	-	(110)	-	-	(110)
Balance as at end of the year	311	687	24	274	46	53	1,395

NOTES TO THE FINANCIAL STATEMENTS

NOTE 21. OTHER LIABILITIES

	Consolidated		Parent Entity	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Unearned general insurance premiums	347	370	-	-
Outstanding general insurance claims	234	248	-	-
Defined benefit deficit ¹	306	632	278	570
Accrued interest payable	2,970	3,346	2,657	3,035
Credit card loyalty program	328	317	-	-
Securities purchased not delivered	1,714	1,884	1,714	1,884
Trade creditors and other accrued expenses	1,019	917	776	702
Other	2,199	1,996	2,015	1,749
Total other liabilities	9,117	9,710	7,440	7,940

1 Refer to Note 35 for more details.

NOTE 22. DEBT ISSUES

Presented below are the Group and Parent Entity's debt issues at 30 September 2013 and 2012. The distinction between short-term and long-term debt is based on the maturity of the underlying security at origination.

	Consolidated		Parent Entity	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Debt issues				
Short-term debt:				
Own issuances	29,350	27,058	26,842	23,805
Customer conduits ¹	1,772	2,543	-	-
Acceptances ²	102	266	102	266
Total short-term debt	31,224	29,867	26,944	24,071
Long-term debt:				
Covered bonds	18,140	11,951	16,229	10,392
Senior	83,860	95,506	78,382	90,236
Securitisation	10,372	10,079	-	-
Convertible notes	30	25	-	-
Structured notes	507	419	-	-
Total long-term debt	112,909	117,980	94,611	100,628
Total debt issues	144,133	147,847	121,555	124,699
Debt issues at fair value ³	14,140	31,269	11,151	27,601
Debt issues at amortised cost	129,993	116,578	110,404	97,098
Total debt issues	144,133	147,847	121,555	124,699

1 Further information on customer conduits is disclosed in Note 31.

2 Acceptances were previously presented as a separate item on the face of the balance sheet.

3 The amount that would be contractually required to be paid at maturity to the holders of the financial liabilities designated at fair value through profit or loss for the Group is \$14,400 million (2012: \$31,312 million) and for the Parent Entity is \$11,422 million (2012: \$27,629 million).

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Included in the carrying value of debt issues at fair value is a decrease for change in own credit spreads of \$44 million (2012: nil) for the Group and Parent Entity.

NOTE 22. DEBT ISSUES (CONTINUED)

	Consolidated	
	2013	2012
	\$m	\$m
Short-term debt		
US commercial paper	28,867	25,320
Euro commercial paper (by currency):		
AUD	-	18
CAD	-	12
EUR	29	-
GBP	358	1,164
USD	54	506
Total euro commercial paper	441	1,700
Asset backed commercial paper (by currency):		
AUD	1,048	1,733
USD	724	810
Total asset backed commercial paper	1,772	2,543
NZD promissory notes	42	38
Acceptances¹	102	266
Total short-term debt	31,224	29,867
Long-term debt (by currency):		
AUD	36,099	39,003
CAD	723	708
CHF	2,048	1,969
EUR	15,876	14,019
GBP	3,609	2,676
HKD	751	808
JPY	11,619	14,719
NOK	560	531
NZD	3,353	2,256
SGD	166	309
USD	38,105	40,938
ZAR	-	44
Total long-term debt	112,909	117,980

1 Acceptances were previously presented as a separate item on the face of the balance sheet.

	Consolidated		
	2013	2012	2011
(in \$millions unless otherwise stated)			
Short-term borrowings			
US commercial paper			
Maximum amount outstanding at any month end	35,727	43,842	42,280
Approximate average amount outstanding	30,158	35,969	37,991
Approximate weighted average interest rate on:			
Average amount outstanding	0.4%	0.5%	0.4%
Outstanding as at end of the year	0.4%	0.7%	0.4%

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23. LOAN CAPITAL

	Consolidated		Parent Entity	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Loan capital				
Subordinated bonds	4,886	5,521	4,886	5,521
Subordinated perpetual notes	378	337	378	337
Convertible debentures and Trust preferred securities	616	568	616	568
Stapled preferred securities	906	1,936	906	1,936
Convertible preference shares	1,177	1,175	1,177	1,175
Capital notes	1,367	-	1,367	-
Total loan capital	9,330	9,537	9,330	9,537

Details of loan capital are as follows:

	Consolidated		Parent Entity	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Basel III transitional subordinated bonds¹				
USD 75 million subordinated bonds due 2015	88	81	88	81
USD 400 million subordinated bonds due 2015	450	389	450	389
AUD 160 million subordinated bonds due 2018 ²	-	158	-	158
AUD 500 million subordinated bonds due 2018 ³	-	500	-	500
USD 350 million subordinated bonds due 2018	421	394	421	394
GBP 200 million subordinated bonds due 2018 ³	-	318	-	318
AUD 625 million subordinated bonds due 2018 ⁴	-	627	-	627
AUD 125 million subordinated bonds due 2018 ⁴	-	125	-	125
AUD 500 million subordinated bonds due 2022	499	499	499	499
AUD 1,676 million subordinated bonds due 2022	1,664	1,661	1,664	1,661
USD 800 million subordinated bonds due 2023	848	769	848	769
Basel III fully compliant subordinated bonds⁵				
AUD 925 million subordinated bonds due 2025 ⁶	916	-	916	-
Total subordinated bonds	4,886	5,521	4,886	5,521

1 Qualify for transitional treatment as Tier 2 capital of Westpac under APRA's Basel III capital adequacy framework.

2 These bonds were redeemed on 9 April 2013.

3 These bonds were redeemed on 29 April 2013.

4 These bonds were redeemed on 9 May 2013.

5 Qualify as Tier 2 capital of Westpac under APRA's Basel III capital adequacy framework.

6 Westpac may be required to convert some or all subordinated bonds into a variable number of Westpac ordinary shares upon the occurrence of a non-viability trigger event. A non-viability trigger event will occur if APRA determines Westpac is, or would become, non-viable. For each subordinated bond, holders will receive a number of Westpac ordinary shares calculated using the formula described in the terms and conditions of the subordinated bonds, but subject to a maximum conversion number which is 16,155 Westpac ordinary shares. The maximum

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conversion number is set using a Westpac ordinary share price which is broadly equivalent to 20% of the Westpac ordinary share price at the time of issue of the subordinated bonds. The price at which Westpac ordinary shares will be issued is based on the Westpac ordinary share price determined over the five business day period prior the non-viability trigger event and includes a 1% discount. If Westpac is unable to convert the Basel III fully compliant subordinated bonds for any reason, holder's rights in relation to the bonds will be terminated.

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NOTE 23. LOAN CAPITAL (CONTINUED)

	Consolidated		Parent Entity	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Subordinated perpetual notes US\$352.1million (2012: US\$352.1 million) subordinated perpetual floating rate notes	378	337	378	337
Convertible debentures and Trust preferred securities Convertible debentures issued on 5 April 2004 US\$525,000,000 525,000 2004 TPS of US\$1,000 each	- 616	- 568	616 -	568 -
Total convertible debentures and Trust preferred securities	616	568	616	568
Stapled preferred securities 10,362,670 Westpac SPS of A\$100 each 9,083,278 Westpac SPS II of A\$100 each	- 906	1,033 903	- 906	1,033 903
Total stapled preferred securities	906	1,936	906	1,936
Convertible preference shares 11,893,605 Westpac CPS of A\$100 each	1,177	1,175	1,177	1,175
Convertible notes 13,835,690 Westpac CN of A\$100 each	1,367	-	1,367	-

Subordinated perpetual notes

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. Interest is cumulative and is payable on the notes semi-annually, subject to Westpac being solvent immediately after making the payment and having paid any dividend on any class of share capital of Westpac within the prior 12 month period. The notes qualify for transitional treatment as Tier 2 capital of Westpac under APRA's Basel III capital adequacy framework.

The rights of the noteholders and coupon holders 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 coupon holders.

Convertible debentures and 2004 TPS

A wholly owned entity Westpac Capital Trust IV (Capital Trust IV) issued 525,000 2004 TPS in the United States of America at US\$1,000 each on 5 April 2004, with non-cumulative semi-annual distributions (31 March and 30 September) in arrears at the annual rate of 5.256% up to but excluding 31 March 2016. From, and including 31 March 2016 the 2004 TPS will pay non-cumulative quarterly distributions (30 June, 30 September, 31 December and 31 March) in arrears at a floating rate equal to the London InterBank Offer Rate (LIBOR) plus 1.7675% per year. Capital Trust IV has also issued common securities with a total price of US\$1,000 to Westpac Capital Holdings Inc. 2004 TPS qualify for transitional treatment as Additional Tier 1 capital of Westpac under APRA's Basel III capital adequacy framework.

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The sole assets of the Capital Trust IV comprise 525,001 2004 Funding TPS issued by a wholly owned entity, Tavarua Funding Trust IV (Funding Trust IV) totalling US\$525,001,000. The 2004 Funding TPS have an issue price of US\$1,000 each with non-cumulative semi-annual distributions in arrears at the annual rate of 5.256% up to but excluding 31 March 2016. From and including 31 March 2016, the 2004 Funding TPS will pay non-cumulative quarterly distributions (30 June, 30 September, 31 December and 31 March) in arrears at a floating rate equal to LIBOR plus 1.7675% per year.

Funding Trust IV has issued common securities with a total price of US\$1,000 to Westpac. The assets of Funding Trust IV comprise convertible debentures issued by Westpac in aggregate amount of US\$525,001,000 and US Government securities purchased with the proceeds of the common securities.

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 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 the satisfaction that no deferral conditions exist. If certain deferral conditions exist a distribution is not permitted to be declared unless approved by APRA.

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 2004 TPS and the 2004 Funding TPS to the extent that the Capital Trust IV and the Funding Trust IV have funds available.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23. LOAN CAPITAL (CONTINUED)

Conversion

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 31 March 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 2004 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 2004 TPS.

The holders of the ADRs will, in certain circumstances, have the right to convert their Westpac preference shares represented by ADRs into a variable number of Westpac ordinary shares on 31 March 2054 by giving notice to Westpac. For each preference share converted, holders will receive a number of Westpac ordinary shares calculated using the formula described in the 2004 TPS terms. The price at which Westpac ordinary shares will be issued is based on the Westpac ordinary share price determined over the 20 trading day period prior to the optional conversion date and includes a 5% discount.

Redemption

With the prior written consent of APRA, if required, Westpac may elect to redeem the convertible debentures for cash before 31 March 2016 in whole upon the occurrence of certain specific events, and in whole or in part on 31 March 2016 or any distribution date thereafter. The proceeds received by Funding Trust IV from the redemption of the convertible debentures must be used to redeem the 2004 Funding TPS and ultimately the 2004 TPS. The redemption price of the 2004 TPS will equal US\$1,000 per 2004 TPS plus the accrued and unpaid distribution for the then current semi-annual or quarterly period to the date of redemption or, if the date of redemption is a distribution date, the accrued and unpaid distribution for the most recent semi-annual or quarterly period.

The holders of the convertible debentures, 2004 Funding TPS and 2004 TPS do not have an option to require redemption of these instruments.

Westpac SPS

Westpac issued 10,362,670 Westpac SPS at a face value of \$100 each on 30 July 2008. Westpac SPS were stapled securities, each consisting of a perpetual, unsecured, non-cumulative subordinated note issued by Westpac's New York branch stapled to a preference share issued by Westpac.

On 19 August 2013, \$332 million of Westpac SPS were bought back on-market and subsequently cancelled. All remaining Westpac SPS were transferred to a nominated party on 26 September 2013 and subsequently converted into Westpac ordinary shares or redeemed.

Westpac SPS II

Westpac issued 9,083,278 Westpac SPS II at a face value of \$100 each on 31 March 2009. Westpac SPS II are stapled securities, each consisting of a perpetual, unsecured, non-cumulative subordinated note issued by Westpac's New York branch stapled to a preference share issued by Westpac. Westpac SPS II qualify for transitional treatment as Additional Tier 1 capital of Westpac under APRA's Basel III capital adequacy framework.

Westpac SPS II are expected to pay non-cumulative, floating rate quarterly distributions (30 September, 31 December, 31 March and 30 June) which are expected to be fully franked. The distribution rate on Westpac SPS II is calculated as the Australian 90-day bank bill rate plus the margin of 3.80% per annum, together multiplied by one minus the Australian corporate tax rate (30% during the year ended 30 September 2013). Westpac SPS II distributions are subject to a distribution payment test and distributions will not be paid if the Westpac directors determine not to pay a distribution, the distribution payment exceeds the distributable profits of Westpac (unless APRA otherwise gives its prior written approval), or APRA objects to the payment of the distribution.

Westpac SPS II distributions will consist of interest payment on the notes while the notes remain stapled to the preference shares. Following an assignment event, the notes will unstaple from the preference shares and holders will only hold preference shares. Dividends will then become payable on the preference shares if the preference shares have not been converted or redeemed.

An assignment event includes, among others, a date selected by Westpac at its absolute discretion, the date preference shares are converted or redeemed, or where interest on the notes has not been paid in full.

Westpac SPS II rank for payment in a winding up of Westpac ahead of ordinary shares and equally with equal ranking capital securities but are subordinated to claims of Westpac deposit holders and other senior creditors. Holders of Westpac SPS II are entitled to vote at a general meeting of Westpac in limited circumstances only.

NOTE 23. LOAN CAPITAL (CONTINUED)

Scheduled conversion, transfer, redemption

On 30 September 2014, the initial mandatory conversion date of Westpac SPS II, it is expected that the Westpac SPS II will either be converted into a variable number of Westpac ordinary shares, provided certain conversion conditions are satisfied, or transferred to a nominated party at the election of Westpac for cash equal to their face value. If Westpac SPS II are not converted, transferred or redeemed on the initial mandatory conversion date, they will remain on issue and may either be converted, transferred or redeemed at the next distribution payment date, subject to satisfaction of the conversion conditions. For each Westpac SPS II that is converted, holders will receive a number of Westpac ordinary shares calculated using the formula described in the Westpac SPS II terms. The price at which Westpac ordinary shares will be issued is based on the Westpac ordinary share price determined over the 20 business day period prior to the mandatory conversion date and includes a 1% discount.

If the conversion conditions are not satisfied on a mandatory conversion date, Westpac SPS II may in certain circumstances be redeemed for their face value subject to APRA approval.

Early conversion, transfer, redemption

Following an acquisition event, if Westpac has not otherwise elected to convert or redeem, the Westpac SPS II will automatically convert as described above, providing the conversion conditions are satisfied.

In certain other limited circumstances, such as for tax or regulatory reasons, Westpac SPS II may be converted as described above, transferred or redeemed at Westpac's election prior to the initial mandatory conversion date.

Westpac CPS

Westpac issued 11,893,605 Westpac Convertible Preference Shares (Westpac CPS) at a face value of \$100 each on 23 March 2012. Westpac CPS are fully paid, perpetual, non-cumulative, convertible, unguaranteed and unsecured preference shares which rank in priority to ordinary shares. Westpac CPS qualify for transitional treatment as Additional Tier 1 capital of Westpac under APRA's Basel III capital adequacy framework.

Westpac CPS are expected to pay preferred, non-cumulative, floating rate semi-annual dividends (30 September and 31 March) which are expected to be fully franked. The dividend rate is calculated as the Australian 180-day bank bill rate per annum plus the margin of 3.25% per annum, together multiplied by one minus the Australian corporate tax rate (30% during the year ended 30 September 2013). Westpac CPS dividends are discretionary and only payable subject to a dividend payment test, being that dividends will not be paid if the Westpac directors determine not to pay a dividend, the dividend payment exceeds the distributable profits of Westpac (unless APRA otherwise gives its prior written approval), or APRA objects to the payment of the dividend.

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Westpac CPS rank for payment in a winding up of Westpac ahead of ordinary shares and equally with equal ranking capital securities but are subordinated to claims of Westpac deposit holders and other senior creditors. Holders of Westpac CPS are entitled to vote at a general meeting of Westpac in limited circumstances only.

Scheduled conversion

On the scheduled conversion date, it is expected that the Westpac CPS will either be converted into a variable number of Westpac ordinary shares provided certain conversion conditions are satisfied, or transferred to a nominated party at the election of Westpac for cash equal to their face value. The scheduled conversion date will be the earlier of 31 March 2020 and the first dividend payment date after 31 March 2020 on which the conversion conditions are satisfied. For each Westpac CPS converted, holders will receive a number of Westpac ordinary shares calculated using the formula described in the Westpac CPS terms. The price at which Westpac ordinary shares will be issued is based on the Westpac ordinary share price determined over the 20 business day period prior to the scheduled conversion date and includes a 1% discount. If Westpac CPS are not converted or transferred on the initial scheduled conversion date, they will remain on issue and may either be converted or transferred on the next dividend payment date, providing the conversion conditions are satisfied.

Early conversion

The Westpac CPS will be converted earlier upon a capital trigger event. A capital trigger event will occur when Westpac's Common Equity Tier 1 Capital ratio is equal to or less than 5.125% (on a level 2 basis¹). Westpac must convert all Westpac CPS into a variable number of ordinary shares following a capital trigger event. No conversion conditions apply in these circumstances. For each Westpac CPS, holders will receive a number of Westpac ordinary shares calculated using the formula described in the Westpac CPS terms, but subject to a maximum conversion number, which is 24,0038 Westpac ordinary shares. The maximum conversion number is set using a Westpac ordinary share price which is broadly equivalent to 20% of the Westpac ordinary share price at the time of issue. For each Westpac CPS, holders will receive a number of Westpac ordinary shares as described above, except that the price at which Westpac ordinary shares will be issued is based on the Westpac ordinary share price determined over a five business day period prior the capital trigger event.

¹ Level 1 comprises Westpac Banking Corporation and its subsidiary entities that have been approved by APRA as being part of a single Extended Licenced Entity for the purposes of measuring capital adequacy. Level 2 includes all subsidiary entities except those entities specifically excluded by APRA regulations for the purposes of measuring capital adequacy.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23. LOAN CAPITAL (CONTINUED)

Conversion may also occur early following an acquisition event, on broadly similar terms to scheduled conversion, described above.

In certain other limited circumstances (such as for tax, regulatory or change of control reasons) Westpac may elect to convert, transfer or redeem Westpac CPS. Conversions or redemptions at Westpac's election are subject to APRA's prior written approval and, in respect of conversions, to satisfaction of the conversion conditions.

Westpac CN

Westpac issued 13,835,690 Westpac Capital Notes (Westpac CN) at a face value of \$100 each on 8 March 2013. Westpac CN are fully paid, perpetual, non-cumulative, convertible, transferrable, redeemable, subordinated, perpetual and unsecured notes which rank in priority to ordinary shares and equally with equal ranking capital securities but behind all senior creditors and depositors. Westpac CN qualify as Additional Tier 1 capital of Westpac under APRA's Basel III capital adequacy framework.

Westpac CN are expected to pay non-cumulative, floating rate quarterly distributions (8 September, 8 December, 8 March and 8 June) which are expected to be fully franked. The distribution rate is calculated as the Australian 90-day bank bill rate plus the margin of 3.20% per annum, together multiplied by one minus the Australian corporate tax rate (30% during the period ended 30 September 2013). Distributions are discretionary, and are only payable subject to satisfaction of the distribution payment conditions, being Westpac's absolute discretion; the distribution payment not resulting in a breach of Westpac's capital requirements under APRA's prudential standards; the distribution payment not resulting in Westpac becoming, or likely to become, insolvent; and APRA not otherwise objecting to the payment of the distribution.

In the event of a winding-up, and assuming Westpac CN remain on issue and have not been converted or otherwise had their rights terminated following a capital trigger event or non-viability trigger event, Westpac CN rank in priority to ordinary shares and equally with equal ranking capital securities but behind all senior creditors (including depositors and all holders of Westpac's senior or less subordinated debt). If conversion occurs prior to a winding-up, Westpac CN holders will hold ordinary shares and rank equally with other holders of ordinary shares.

Westpac may redeem or transfer the Westpac CN on 8 March 2019, being the optional redemption or transfer date. In certain other limited circumstances (such as for tax and regulatory reasons) Westpac may elect to redeem Westpac CN. Redemptions at Westpac's election are subject to APRA's prior written approval.

The Westpac CN convert into Westpac ordinary shares in the following circumstances:

Scheduled conversion

On the scheduled conversion date, the Westpac CN will be converted into a variable number of Westpac ordinary shares, provided certain conversion conditions are satisfied. The scheduled conversion date will be the earlier of 8 March 2021 and the first distribution payment date after 8 March 2021 on which the conversion conditions are satisfied. For each Westpac CN, holders will receive a number of Westpac ordinary shares calculated using the formula described in the Westpac CN terms. The price at which Westpac ordinary shares will be issued is based on the share price determined over the 20 business day period prior to the scheduled conversion date and includes a 1% discount. If the conversion conditions are not satisfied conversion will not occur and conversion will occur on the next distribution payment date, provided the conversion conditions are satisfied.

Early conversion

The Westpac CN will be converted earlier upon a capital trigger event or non-viability trigger event. A capital trigger event will occur when Westpac's Common Equity Tier 1 Capital ratio is equal to or less than 5.125% (on a level 1 or level 2 basis¹). A non-viability trigger event will occur if APRA determines Westpac is, or would become, non-viable. No conversion conditions apply in these circumstances. For each Westpac CN, holders will receive a number of Westpac ordinary shares calculated using the formula described in the Westpac CN terms, but subject to a maximum conversion number, which is 16.7280 Westpac ordinary shares. The maximum conversion number is set using a Westpac ordinary share price which is broadly equivalent to 20% of the share price at the time of issue. The price at which Westpac ordinary shares will be issued is based on the share price determined over the five business day period prior to the capital trigger event or non-viability trigger event. Following the occurrence of a capital trigger event or non-viability trigger event, if Westpac is unable to convert the Westpac CNs for any reason, holder's rights in relation to Westpac CN will be terminated.

Conversion may also occur early following an acquisition event, on broadly similar terms to scheduled conversion, described above.

Holders of Westpac CN have no right to vote at a general meeting of Westpac before conversion. Holders have certain voting rights which can be exercised at a meeting of holders.

¹ Level 1 comprises Westpac Banking Corporation and its subsidiary entities that have been approved by APRA as being part of a single Extended Licenced Entity for the purposes of measuring capital adequacy. Level 2 includes all subsidiary entities except those entities specifically excluded by APRA regulations for the purposes of measuring capital adequacy.

NOTE 24. SHAREHOLDERS EQUITY AND NON-CONTROLLING INTERESTS

	Consolidated		Parent Entity	
	2013 \$m	2012 \$m	2013 \$m	2012 \$m
Contributed equity				
Ordinary shares 3,109,048,309 (2012: 3,080,192,894) each fully paid	27,021	26,355	27,021	26,355
RSP treasury shares 7,855,661 (2012: 8,697,511)	(176)	(108)	(176)	(108)
Other treasury shares 5,422,506 (2012: 5,699,912)	(77)	(84)	(5)	(6)
	(253)	(192)	(181)	(114)
Share capital	26,768	26,163	26,840	26,241
Other equity instruments				
Convertible debentures:				
Issued on 13 August 2003 NZ\$1,293,105,172 (with net issue costs of NZ\$9 million)	-	-	-	1,137
Issued on 21 June 2006 A\$762,737,500 (with net issue costs of A\$8 million)	-	-	755	755
Total other equity instruments	-	-	755	1,892
Non-controlling interests				
Trust preferred securities:				
750,000 2003 TPS of US\$1,000 each (with net issue costs of NZ\$9 million)	-	1,137	-	-
7,627,375 2006 TPS of A\$100 each (with net issue costs of A\$8 million)	755	755	-	-
Other	108	78	-	-
Total non-controlling interests	863	1,970	-	-

Ordinary shares

In accordance with the *Corporations Act* Westpac does not have authorised capital and all ordinary shares issued have no par value.

Ordinary shares entitle the holder to participate in dividends as declared and in the event of winding up of Westpac, to participate in the proceeds in proportion to the number of and amounts paid on the shares held.

Ordinary shares entitle the holder to one vote per share, either in person or by proxy, at a meeting of Westpac shareholders.

During the year ended 30 September 2013, 28,855,415 ordinary shares were issued:

§ to equity holders in relation to the Dividend Reinvestment Plan (DRP), 21,372,496 ordinary shares at a price of \$24.86;

§ to eligible staff under the ESP, 1,052,610 ordinary shares issued for nil consideration;

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§ to note holders in relation to conversion of the Westpac Stapled Preferred Securities, 5,319,225 ordinary shares at a price of \$32.49;

§ to eligible executives and senior management under the Westpac Performance Plan (WPP), upon the exercise of options, 324,906 ordinary shares at an average exercise price of \$18.21 and upon exercise of share rights, 159,244 shares for nil consideration; and

§ to eligible employees upon exercise of options under the Westpac Reward Plan (WRP), 30,255 ordinary shares at an average exercise price of \$23.40 and upon exercise of share rights, 596,679 ordinary shares for nil consideration.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 24. SHAREHOLDERS EQUITY AND NON-CONTROLLING INTERESTS (CONTINUED)

During the year ended 30 September 2013, 27,026,826 existing ordinary shares were purchased:

- § 18,773,392 ordinary shares at an average price of \$28.91 and delivered to equity holders under the DRP;
- § 2,612,217 ordinary shares at an average price of \$26.04 and allocated to employees under the RSP for nil consideration;
- § 1,768,808 ordinary shares at an average price of \$30.36 and delivered to employees upon the exercise of options under the WPP at an average exercise price of \$21.17;
- § 422,052 ordinary shares at an average price of \$30.28 and delivered to employees upon the exercise of share rights under the WPP for nil consideration;
- § 1,263,359 ordinary shares at an average price of \$31.73 and delivered to employees upon the exercise of options under the WRP at an average exercise price of \$26.35;
- § 9,374 ordinary shares at an average price of \$31.87 and delivered to employees upon the exercise of share rights under the WRP for nil consideration;
- § 400,043 ordinary shares at an average price of \$33.25 and delivered to CEO upon the exercise of options under the Chief Executive Performance Plan (CEOPP) at an average exercise price of \$25.08;
- § 128,174 ordinary shares at an average price of \$33.25 and delivered to CEO upon exercise of share rights under the CEOPP for nil consideration;
- § 1,649,407 ordinary shares at an average price of \$29.77 and delivered to former CEO upon the exercise of options under the CEOPP at an average exercise price of \$22.14; and
- § the purchase of existing ordinary shares in respect of employee share plans resulted in a tax benefit of \$11.6 million being recognised as contributed equity.

Restricted Share Plan treasury shares

Ordinary shares allocated to eligible employees under the RSP are classified as treasury shares until unconditional ownership of the shares vest at the end of the restriction period.

Other treasury shares

Treasury shares includes ordinary shares held by statutory life funds and managed investment schemes and ordinary shares held by Westpac in respect of equity derivatives sold to customers.

During the year 67,128 treasury shares were purchased at an average price of \$29.15 and 344,534 treasury shares were sold at an average price of \$27.96.

Convertible debentures and 2003 TPS

A wholly owned entity Westpac Capital Trust III (Capital Trust III) issued 750,000 2003 TPS in the United States of America at US\$1,000 each on 13 August 2003. Capital Trust III also issued common securities with a total price of US\$1,000 to Westpac Capital Holdings Inc.

The sole assets of the Capital Trust III were 750,001 Funding 2003 TPS issued by a wholly owned entity, Tavarua Funding Trust III (Funding Trust III) totalling US\$750,001,000. The Funding 2003 TPS had an issue price of US\$1,000 each.

Funding Trust III issued common securities with a total price of US\$1,000 to Westpac Funding Holdings Pty Limited. The assets of Funding Trust III were convertible debentures issued by Westpac in aggregate amount of NZ\$1,293,105,172, US Government securities purchased with the proceeds of the common securities and a currency swap with Westpac.

The convertible debentures were unsecured, junior subordinated obligations of Westpac and ranked subordinate and junior in right of payment of principal and distributions to Westpac's obligations to its depositors and creditors.

Following Westpac's election to redeem the convertible debentures on 30 September 2013, the convertible debentures, Funding 2003 TPS, 2003 TPS, and common securities were redeemed at par on this date.

Convertible notes and 2006 TPS

A Westpac controlled entity, Westpac TPS Trust, issued 7,627,375 2006 TPS in Australia at \$100 each on 21 June 2006. The 2006 TPS are preferred units in the Westpac TPS Trust, with non-cumulative floating rate distributions which are expected to be fully franked. Westpac TPS Trust also issued one ordinary unit with an issue price of \$100 to Westpac. Westpac, as holder of the ordinary unit, is entitled to any residual income or assets of the Westpac TPS Trust not distributed to holders of 2006 TPS. The principal assets of Westpac TPS Trust are 7,627,375 convertible notes (the notes) issued by Westpac in an aggregate amount of \$762,737,500. The notes qualify for transitional treatment as Additional Tier 1 capital of Westpac under APRA's Basel III capital adequacy framework.

NOTE 24. SHAREHOLDERS EQUITY AND NON-CONTROLLING INTERESTS (CONTINUED)

The 2006 TPS are scheduled to pay quarterly distributions (30 September, 31 December, 31 March and 30 June) in arrears, subject to certain conditions being satisfied. The distribution rate on 2006 TPS, until 30 June 2016 (the step-up date), is calculated as the Australian 90 day bank bill rate plus 1% per annum (the initial margin), together multiplied by one minus the Australian corporate tax rate (30% during the year ended 30 September 2013). After the step-up date, the initial margin will increase by a one time step-up of 1% per annum.

Distributions on the 2006 TPS will only be made if Westpac pays interest on the notes and certain other conditions (which broadly correspond to the interest payment conditions on the notes) are satisfied. Interest on the notes is subject to an interest payment test and interest will not be paid if Westpac directors have not resolved to make the interest payment, the payment of interest exceeds distributable profits (unless APRA gives its prior approval) and APRA does not otherwise object to the payment. The interest payments on the notes are expected to exceed the aggregate amount of the distributions to be made on 2006 TPS. The excess will be distributed to Westpac, as holder of the ordinary unit in the Westpac TPS Trust, on each distribution payment date.

The notes 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 notes.

Conversion, exchange and redemption

Westpac can redeem 2006 TPS for cash with APRA approval or convert into a variable number of Westpac ordinary shares calculated in accordance with the Westpac TPS terms, on the step-up date or any distribution payment date after the step-up date, for certain tax, regulatory or change of control reasons and in certain other circumstances. If Westpac elects to redeem 2006 TPS, holders will receive cash equal to their face value. If Westpac elects to convert 2006 TPS, for each 2006 TPS, holders will receive a number of ordinary shares calculated using the formula described in the 2006 TPS terms subject to a maximum conversion number which is 50 Westpac ordinary shares. The price at which Westpac ordinary shares will be issued is based on the Westpac ordinary share price determined over the 20 business day period prior to the elected conversion date and includes a 2.5% discount. If Westpac redeems or converts 2006 TPS, Westpac must also redeem or convert the notes in a corresponding manner.

The 2006 TPS will automatically exchange into Westpac preference shares upon the occurrence of an automatic exchange event, that is, if the 2006 TPS are still on issue on 30 September 2055 or in certain other limited circumstances, including the occurrence of an event of default or an APRA event (unless APRA determines otherwise). On exchange, all 2006 TPS on issue will exchange into preference shares directly issued by Westpac and the notes and the 2006 TPS will be redeemed simultaneously. On exchange, 2006 TPS holders will receive one preference share for each 2006 TPS.

NOTE 25. SHARE-BASED PAYMENTS

Executive and Senior Officer equity plans

Options, restricted shares and/or share rights are granted to the CEO, selected executives and key senior employees under the following schemes.

(i) **Westpac Reward Plan**

The Westpac Reward Plan (WRP) was introduced in 2006. It provides a mechanism for rewarding superior long-term performance from the most senior management in Australia and overseas.

Under the WRP senior managers may be invited to receive an award of performance options or performance share rights. An option or share right under the WRP is the right to acquire a share in the future provided all conditions are met, with an exercise price for options set at the commencement of the performance period. The exercise price for options is based on the prevailing market price of Westpac ordinary shares at the commencement of the performance period. The exercise price for share rights is nil. No performance options have been awarded since October 2009.

Awards made from October 2011 are subject to two performance measures each applying to 50% of the value of the award. The two hurdles are Westpac's relative Total Shareholder Return (TSR)¹ and Compound Annual Growth Rate in Cash EPS (Cash EPS CAGR).

Full vesting of TSR hurdled performance share rights occurs when Westpac's TSR is at (or exceeds) the 75th percentile relative to the comparator group, scaling down to 50% vesting on a straight-line basis for median performance. Below median performance, no vesting occurs. The comparator group for TSR comparisons focuses on the top 10 financial sector peers. Full vesting of Cash EPS CAGR hurdled share rights occurs when a maximum target Cash EPS CAGR is achieved, scaling down to 50% vesting at a threshold Cash EPS CAGR target. Below the threshold target Cash EPS CAGR, no vesting occurs. These awards are subject to a single test at the end of the three year performance period. Any securities remaining unvested after the performance period lapse immediately.

¹ TSR measures a company's share price movement and assumes that dividends over the period have been reinvested (i.e. the change in value of an investment in that company's shares) and excluding tax effects.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25. SHARE-BASED PAYMENTS (CONTINUED)

For awards made prior to October 2011 all awards were subject to a TSR hurdle and the initial TSR performance is tested at the third anniversary of the commencement of the performance period, with subsequent performance testing possible at the fourth and fifth anniversaries of the commencement of the performance period. At subsequent performance test dates (where they exist) further vesting may occur only if the TSR ranking has improved.

Upon exercising vested performance options and performance share rights, 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. A performance option or performance share right lapses if it is not exercised prior to the end of its term.

WRP outstanding performance options and performance share rights

The following table sets out details of outstanding performance options and performance share rights under the WRP:

Commencement Date	Latest Date for Exercise	Exercise Price	Outstanding at 1 October 2012	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding and	Exercisable
							Outstanding at 30 September 2013	at 30 September 2013
Performance options								
17 December 2007	20 December 2017	\$30.10	1,593,886	-	557,113	-	1,036,773	1,036,773
1 October 2008	1 October 2018	\$23.40	1,398,864	-	736,501	-	662,363	662,363
Total 2013			2,992,750	-	1,293,614	-	1,699,136	1,699,136
Weighted average exercise price			\$26.97	-	\$26.29	-	\$27.49	\$27.49
Performance share rights								
1 October 2009	1 October 2019	nil	675,050	-	606,053	524	68,473	1,499
1 October 2010	1 October 2020	nil	753,806	-	-	13,597	740,209	-
1 October 2011	1 October 2021	nil	1,273,052	-	-	38,080	1,234,972	-
1 October 2012	1 October 2022	nil	-	1,132,587	-	-	1,132,587	-
Total 2013			2,701,908	1,132,587	606,053	52,201	3,176,241	1,499
Total 2012								
Performance options			3,511,117	-	260,869	257,498	2,992,750	2,873,621
Weighted average exercise price			\$26.15	-	\$16.49	\$26.49	\$26.97	\$27.12
Performance share rights			1,501,701	1,389,308	-	189,101	2,701,908	-

The weighted average remaining contractual life of outstanding performance options at 30 September 2013 was 4.5 years (2012: 5.6 years). The weighted average remaining contractual life of outstanding performance share rights at 30 September 2013 was 8.1 years (2012: 8.2 years). The weighted average fair value at grant date of WRP performance share rights issued during the year was \$15.79 (2012: \$13.00).

(ii) **Westpac Performance Plan**

The Westpac Performance Plan (WPP) was introduced in 2002 and was used to provide awards of performance options and/or performance share rights to senior executives and other key employees. Currently the WPP is primarily used for employees based in New Zealand to provide long-term incentive awards or as a mechanism for the mandatory deferral of a portion of their short-term incentives.

An option or share right under the WPP is the right to acquire a share in the future provided all conditions are met, with an exercise price for options generally set at the time the invitation is made. The exercise price for options 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 invitation is made. The exercise price for share rights is nil.

Performance options and performance share rights

Performance options and performance share rights under the WPP have all vested. Upon exercising vested performance options or performance share rights, 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. A performance option or performance share right lapses if it is not exercised prior to the end of its term.

NOTE 25. SHARE-BASED PAYMENTS (CONTINUED)

WPP outstanding performance options

No performance options were granted under the WPP during the year. The following table sets out details of outstanding performance options granted under the WPP in previous years:

Commencement Date	Latest Date for Exercise	Exercise Price	Outstanding at 1 October 2012	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at 30 September 2013	Outstanding and Exercisable at 30 September 2013
20 January 2003	20 January 2013	\$13.59	21,907	-	14,633	7,274	-	-
1 May 2003	1 May 2013	\$15.04	16,433	-	16,433	-	-	-
21 January 2004	21 January 2014	\$16.34	349,940	-	246,936	-	103,004	103,004
20 January 2005	20 January 2015	\$18.98	1,016,562	-	563,450	-	453,112	453,112
20 December 2005	20 December 2015	\$20.53	1,060,021	-	533,375	-	526,646	526,646
20 December 2005	20 December 2015	\$22.53	56,592	-	-	-	56,592	56,592
15 December 2006	15 December 2016	\$23.98	1,332,226	-	718,887	-	613,339	613,339
Total 2013			3,853,681	-	2,093,714	7,274	1,752,693	1,752,693
Weighted average exercise price			\$20.90	-	\$20.71	\$13.59	\$21.15	\$21.15
Total 2012			4,611,438	-	584,352	173,405	3,853,681	3,853,681
Weighted average exercise price			\$20.48	-	\$16.74	\$23.87	\$20.90	\$20.90

The weighted average remaining contractual life of outstanding performance options at 30 September 2013 was 2.2 years (2012: 3.1 years).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25. SHARE-BASED PAYMENTS (CONTINUED)

WPP outstanding performance share rights

No performance share rights were granted under the WPP during the year. The following table sets out details of outstanding vested performance share rights granted under the WPP:

Commencement Dates	Latest Dates for Exercise	Outstanding at 1 October 2012	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at 30 September 2013	Outstanding and Exercisable at 30 September 2013
Two-year initial testing period							
20 January 2003 to 1 August 2003	20 January 2013 to 1 August 2013	16,001	-	16,001	-	-	-
3 November 2003 to 3 August 2004	3 November 2013 to 3 August 2014	57,160	-	40,938	-	16,222	16,222
5 November 2004 to 1 August 2005	5 November 2014 to 1 August 2015	97,261	-	53,148	-	44,113	44,113
1 November 2005 to 3 August 2006	1 November 2015 to 3 August 2016	109,942	-	47,257	-	62,685	62,685
1 November 2006 to 15 December 2006	1 November 2016 to 15 December 2016	40,136	-	36,646	-	3,490	3,490
1 December 2008 to 1 March 2009	1 December 2018 to 1 March 2019	17,359	-	17,359	-	-	-
Three-year initial testing period							
20 January 2003 to 1 August 2003	20 January 2013 to 1 August 2013	23,022	-	23,022	-	-	-
3 November 2003 to 3 August 2004	3 November 2013 to 3 August 2014	40,981	-	18,827	-	22,154	22,154
5 November 2004 to 1 August 2005	5 November 2014 to 1 August 2015	74,374	-	25,839	-	48,535	48,535
1 November 2005 to 3 August 2006	1 November 2015 to 3 August 2016	172,583	-	61,117	-	111,466	111,466
1 November 2006 to 15 December 2006	1 November 2016 to 15 December 2016	1,877	-	1,877	-	-	-
Total 2013		650,696	-	342,031	-	308,665	308,665
Total 2012		868,201	-	212,976	4,529	650,696	650,696

The weighted average remaining contractual life of outstanding performance share rights at 30 September 2013 was 1.7 years (2012: 2.7 years).

Unhurdled options and unhurdled share rights

The WPP is also used for key employees based outside Australia, who received unhurdled share rights restricted for one to three years. No unhurdled options were granted under the WPP during the year. After the restriction period applying to them has passed, vested unhurdled options and unhurdled share rights can be exercised to receive the underlying fully paid ordinary shares.

NOTE 25. SHARE-BASED PAYMENTS (CONTINUED)

WPP outstanding unhurdled options and unhurdled share rights

The following table sets out details of outstanding unhurdled options and unhurdled share rights granted under the WPP:

Commencement Date	Latest Date for Exercise	Exercise Price	Outstanding at 1 October 2012	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at 30 September 2013	Outstanding and Exercisable at 30 September 2013
Options								
15 December 2006	15 December 2016	\$23.93	42,779	-	-	-	42,779	42,779
Total 2013			42,779	-	-	-	42,779	42,779
Share rights								
One-year vesting period								
1 December 2008 to 1 June 2009	1 December 2018 to 1 June 2019	nil	5,681	-	-	-	5,681	5,681
1 November 2009 to 1 April 2010	1 November 2019 to 1 April 2020	nil	1,074	-	1,074	-	-	-
1 November 2010 to 1 April 2011	1 November 2020 to 1 April 2021	nil	9,743	-	1,170	-	8,573	8,573
1 October 2011 to 1 August 2012	1 October 2021 to 1 August 2022	nil	52,201	-	35,412	-	16,789	16,789
1 September 2012 to 1 December 2012	1 September 2022 to 1 December 2022	nil	-	39,336	2,181	-	37,155	-
Two-year vesting period								
1 November 2007 to 1 September 2008	1 November 2017 to 1 September 2018	nil	12,335	-	742	156	11,437	11,437
1 October 2008 to 1 April 2009	1 October 2018 to 1 April 2019	nil	5,313	-	1,495	490	3,328	3,328
1 October 2009 to 1 April 2010	1 October 2019 to 1 April 2020	nil	16,355	-	9,242	726	6,387	6,387
1 October 2010 to 1 August 2011	1 October 2020 to 1 August 2021	nil	110,764	-	89,393	1,901	19,470	19,470
1 October 2011 to 1 August 2012	1 October 2021 to 1 August 2022	nil	65,926	-	-	3,030	62,896	-
1 September 2012 to 1 October 2012	1 September 2022 to 1 October 2022	nil	-	74,781	-	1,444	73,337	-
Three-year vesting period								
15 December 2006 to 1 June 2007	15 December 2016 to 1 June 2017	nil	29,392	-	3,982	-	25,410	25,410
17 December 2007 to 1 September 2008	17 December 2017 to 1 September 2018	nil	25,826	-	10,600	163	15,063	15,063
1 October 2008 to 1 April 2009	1 October 2018 to 1 April 2019	nil	20,650	-	9,005	520	11,125	11,125
1 October 2009 to 1 April 2010	1 October 2019 to 1 April 2020	nil	113,420	-	81,808	5,395	26,217	26,217
1 October 2010 to 1 August 2011	1 October 2020 to 1 August 2021	nil	175,769	-	-	15,512	160,257	-
1 October 2011 to 1 June 2012	1 October 2021 to 1 June 2022	nil	162,161	-	-	13,282	148,879	-

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1 October 2012 to 1 April 2013	1 October 2022 to 1 April 2023	nil	-	129,084	-	4,977	124,107	-
Total 2013			806,610	243,201	246,104	47,596	756,111	149,480
Total 2012								
Options		\$23.93	56,147	-	-	13,368	42,779	42,779
Share rights		nil	767,379	280,288	237,250	3,807	806,610	126,369

The weighted average fair value at grant date of unhurdled share rights issued during the year was \$21.88 per right (2012: \$17.59 per right). The weighted average remaining contractual life of outstanding unhurdled options and unhurdled share rights at 30 September 2013 was 7.4 years (2012: 7.7 years).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25. SHARE-BASED PAYMENTS (CONTINUED)

(iii) Chief Executive Officer Performance Plan (Gail Kelly)

Gail Kelly currently holds performance share rights under the Chief Executive Officer Performance Plan (CEOPP). Performance share rights have a nil exercise price. No performance options have been awarded since December 2008. Grants to Mrs Kelly under the CEOPP were approved by shareholders at Westpac's AGM on 13 December 2007, 16 December 2009 and 15 December 2010.

Awards made from October 2011 are subject to two performance measures each applying to 50% of the value of the award. The two hurdles are Westpac's relative TSR and Cash EPS CAGR. The vesting conditions for these awards are the same as set out above for awards made under the WRP from October 2011.

For awards made prior to October 2011, all awards were subject to a TSR hurdle. The vesting conditions for these awards are also the same as awards made under the WRP prior to October 2011.

CEOPP outstanding performance options and performance share rights

The following table sets out details of outstanding awards of performance options and performance share rights granted under the CEOPP:

Commencement Date	Latest Date for Exercise	Exercise Price	Outstanding at 1 October 2012	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at 30 September 2013
Performance options							
1 February 2008	1 February 2018	\$25.89	364,431	-	364,431	-	-
1 December 2008	1 December 2018	\$16.80	35,612	-	35,612	-	-
Total 2013			400,043	-	400,043	-	-
Weighted average exercise price			\$25.08	-	25.08	-	-
Performance share rights							
1 December 2008	1 December 2018	nil	11,973	-	11,973	-	-
21 December 2009	21 December 2019	nil	166,002	-	116,201	-	49,801
1 October 2010	1 October 2020	nil	176,125	-	-	-	176,125
1 October 2011	1 October 2021	nil	272,929	-	-	-	272,929
1 October 2012	1 October 2022	nil	-	213,101	-	-	213,101
Total 2013			627,029	213,101	128,174	-	711,956
Total 2012							
Performance options			720,556	-	320,513	-	400,043
Weighted average exercise price			\$21.40	-	\$16.80	-	\$25.08
Performance share rights			nil	272,929	132,445	-	627,029

The weighted average fair value at grant date of performance share rights granted during the year was \$16.29 per right (2012: \$12.83 per right). As at 30 September 2013, no outstanding share rights issued to Mrs Kelly were exercisable. The remaining weighted average contractual life of outstanding performance share rights was 7.9 years (2012: 8.2 years).

(iv) Fair value assumptions

The fair values of share rights granted during the year included in the tables above have been independently calculated at their respective grant dates based on the requirements of Australian accounting standard AASB 2 *Share-based Payments*.

The fair values of rights without TSR based hurdles, including rights with Cash EPS CAGR hurdles, have been assessed with reference to the share price at grant date and a discount rate reflecting the expected dividend yield over their vesting periods.

The fair value of rights with hurdles based on TSR performance relative to a group of comparator companies also takes into account the average TSR outcome determined using a Monte Carlo simulation pricing model.

Other key assumptions include:

i the assumptions included in the valuation of the awards of performance share rights to Gail Kelly include a risk free interest rate of 2.7%, a dividend yield on Westpac ordinary shares of 6.4% and a volatility in the Westpac share price of 23.6%;

i the assumptions included in the valuation of the awards of share rights under the WRP and WPP include a risk free interest rate of 2.7%, a dividend yield on Westpac ordinary shares of 6.6% and a volatility in the Westpac share price of 23.7%;

i volatility has been assessed by considering the historic volatility of the market price of Westpac shares; and

i other assumptions include volatilities of, and correlation factors between, share price movements of the comparator group members and Westpac which are used to assess the impact of the TSR performance hurdles and have been derived from the historic volatilities and correlations.

NOTE 25. SHARE-BASED PAYMENTS (CONTINUED)**(v) Chief Executive Officer Restricted Share Plan**

Gail Kelly received awards of Westpac ordinary shares under the Chief Executive Officer Restricted Share Plan (CEO RSP) in relation to her employment agreement. The awards were approved by Westpac shareholders at Westpac's AGM on 13 December 2007, 16 December 2009 and 15 December 2010.

Like the general RSP, Westpac ordinary shares are allocated under the CEO RSP at no cost to Mrs Kelly, with vesting subject to remaining employed with Westpac for a set period. Shares in the CEO RSP are held in Mrs Kelly's name and are restricted until satisfaction of the vesting conditions. Shares in the CEO RSP rank equally with Westpac ordinary shares for dividends and voting rights. For awards made prior to October 2009, shares may be held in the CEO RSP for up to 10 years from the date they are granted. For awards made from October 2009, shares are released from the CEO RSP on vesting.

The following table details outstanding awards of shares issued under the CEO RSP:

Allocation date	Outstanding at 1 October 2012	Granted During the Year	Released	Forfeited During the Year	Outstanding at 30 September 2013
22 December 2010	41,051	-	41,051	-	-
22 December 2011	77,799	-	25,933	-	51,866
21 December 2012	-	58,400	-	-	58,400
Total 2013	118,850	58,400	66,984	-	110,266
Total 2012	119,415	77,799	78,364	-	118,850

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25. SHARE-BASED PAYMENTS (CONTINUED)

(vi) *Restricted Share Plan*

The Restricted Share Plan (RSP) provides Westpac with an instrument for attracting and rewarding key employees. Under the RSP, Westpac shares may be allocated to eligible employees at no cost with vesting subject to remaining employed with Westpac for a period determined by the Board. Shares in the RSP are held in the name of the employee and are restricted until satisfaction of the vesting conditions. Shares in the RSP rank equally with Westpac ordinary shares for dividends and voting rights. For awards made prior to October 2009, shares may be held in the RSP for up to 10 years from the date they are granted. For awards made from October 2009, shares are released from the RSP on vesting.

Outstanding RSP awards

The following table details outstanding awards of shares issued under the RSP:

Allocation date	Outstanding at 1 October 2012	Granted During the Year	Released	Forfeited During the Year	Outstanding at 30 September 2013
October December 2006	317,448	-	45,353	-	272,095
January March 2007	3,588	-	2,990	-	598
April June 2007	15,161	-	-	-	15,161
July September 2007	4,375	-	1,922	-	2,453
October December 2007	509,055	-	70,986	-	438,069
January March 2008	10,223	-	1,960	-	8,263
April June 2008	34,367	-	16,951	-	17,416
July September 2008	8,412	-	-	-	8,412
October December 2008	1,053,055	-	176,299	-	876,756
January March 2009	77,774	-	1,819	-	75,955
April June 2009	8,734	-	-	-	8,734
January March 2010	1,407,193	-	1,407,193	-	-
April June 2010	26,923	-	26,923	-	-
July September 2010	21,043	-	18,731	2,312	-
October December 2010	3,071,819	-	1,254,982	69,175	1,747,662
January March 2011	3,652	-	1,960	-	1,692
April June 2011	35,891	-	28,151	5,553	2,187
July September 2011	39,910	-	18,298	-	21,612
October December 2011	3,468,057	-	370,983	94,257	3,002,817
January March 2012	66,773	-	59,157	-	7,616
April June 2012	41,639	-	10,858	-	30,781
July September 2012	358,432	-	127,012	4,805	226,615
October December 2012	-	2,557,841	24,094	43,388	2,490,359
January March 2013	-	66,712	-	638	66,074
April June 2013	-	76,497	-	-	76,497
July September 2013	-	40,967	-	-	40,967
Total 2013	10,583,524	2,742,017	3,666,622	220,128	9,438,791
Total 2012	8,757,518	4,122,216	2,120,599	175,611	10,583,524

(vii) *Chief Executive Securities Agreement 2003 (David Morgan)*

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At 30 September 2013 there were no performance options outstanding (2012: 1,649,407 with a weighted average exercise price of \$22.14 and a weighted average remaining contractual life of 3.3 years) under the Chief Executive Securities Agreement 2003.

(viii) Other Group share-based plans

Westpac also provides plans for small, specialised parts of the Group. The benefits under these plans are directly linked to growth and performance of the relevant part of the business. The plans individually and in aggregate are not material to the Group.

NOTE 25. SHARE-BASED PAYMENTS (CONTINUED)

General information on Executive and Senior Officer share plans

The market price of Westpac's ordinary shares as at the close of business on 30 September 2013 was \$32.73 (2012: \$24.85). Details of the shares issued on exercise of options and share rights under each of the Executive and Senior Officer share plans during the year ended 30 September 2013 are set out below:

Plan/Agreement	Dates on which Options or Share Rights Were Exercised		Exercise Price \$	Total Number of Shares Issued/ Allocated	Weighted Average Share Price at Date of Exercise \$	Consideration Received (\$ 000)		
2013	WRP and WPP Options	October	December 2012	13.59 - 23.98	384,428	25.40	7,225	
		January	March 2013	16.34 - 23.98	1,136,987	28.02	24,740	
		April	June 2013	16.34 - 30.10	1,655,486	32.76	40,826	
		July	September 2013	16.34 - 30.10	210,427	30.81	4,576	
	Share rights	October	December 2012	-	816,804	25.36	-	
		January	March 2013	-	72,518	27.54	-	
		April	June 2013	-	197,001	31.92	-	
		July	September 2013	-	107,865	30.96	-	
	Chief Executive Officer Performance Plan Options	April	June 2013	16.80 - 25.89	400,043	33.09	10,033	
		Share rights	April	June 2013	-	128,174	33.09	-
	Chief Executive Securities Agreement 2003 (David Morgan) Options	October 2012	June 2013	19.17 - 24.18	1,649,407	29.44	36,519	
	2012	WRP and WPP Options	October	December 2011	13.59 - 18.98	182,949	22.51	2,679
			April	June 2012	16.34 - 18.98	506,082	22.32	8,437
			July	September 2012	13.59 - 23.98	156,190	24.27	2,970
		Share rights	October	December 2011	-	149,237	21.22	-
			January	March 2012	-	42,181	21.06	-
April			June 2012	-	175,072	21.45	-	
July			September 2012	-	83,736	22.43	-	
Chief Executive Officer Performance Plan Options		April	June 2012	16.80	320,513	22.84	5,385	
Share rights		October	December 2011	-	107,758	20.37	-	
		April	June 2012	-	24,687	22.84	-	
SOSPS		October	December 2011	14.65	343,000	21.54	5,025	
		January	March 2012	14.65 - 16.24	55,000	20.41	830	

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Shares allotted to satisfy the exercise of options or share rights under the employee equity plans will rank equally with all other issued Westpac ordinary shares and qualify for the payment of dividends and shareholder voting rights from the day of allotment.

The employee equity plans are operated in compliance with *ASIC Regulatory Guide 49* which provides relief from the disclosure and licensing provisions of the Corporations Act. Included in the ASIC regulatory guide is a five percent limit on the number of shares that can be issued under an employee equity plan without issuing a prospectus.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25. SHARE-BASED PAYMENTS (CONTINUED)

Under the regulatory guide, the number of shares (including shares that are the subject of options and share rights) 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 and share rights issued to employees under those plans and with the number of shares issued during the previous five years under all employee share schemes, exceed 5% 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 share rights currently on issue are entered in Westpac's register of option holders which may be inspected at Link Market Services, Level 12, 680 George Street, Sydney, New South Wales.

Employee Share Plan

Under the Employee Share Plan (ESP), Westpac ordinary shares may be allocated at no cost to employees to recognise their contribution to Westpac's financial performance over the previous financial year. The maximum annual award value under the ESP is \$1,000 per employee per year. However, the number of shares employees receive (if any) depends on Westpac's share price performance over the 12 months to 30 September or a combination of customer-centric measures, and is subject to Board discretion.

The shares must normally remain 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 permanent employees (including part-time employees) who have been in six months continuous employment as at 30 September each year are eligible to participate in the ESP. Executives and senior management who participate in any Westpac long-term incentive plan or deferred short-term incentive plan are not eligible to participate in the ESP during the same year. The number of shares employees receive is calculated by dividing the award value by the prevailing market price of Westpac's ordinary shares when the shares are granted.

Share allocation in the 2012 ESP award was by way of newly issued shares. The following table provides details of shares issued under the ESP during the years ended 30 September:

	Allocation Date	Number of Participants	Average Number of Shares Allocated per Participant	Total Number of Shares Allocated	Market Price per Share	Total Fair Value
2013	4 December 2012	26,990	39	1,052,610	\$25.23	\$26,557,350
2012	2 December 2011	27,005	49	1,323,245	\$20.35	\$26,928,036

The liability accrued in respect of the ESP at 30 September 2013 is \$28 million (2012: \$28 million) and is provided for as other employee benefits.

NOTE 26. AVERAGE BALANCE SHEET AND INTEREST RATES

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:

	Year Ended 30 September 2013			Consolidated Year Ended 30 September 2012			Year Ended 30 September 2011		
	Average Balance \$m	Interest Income \$m	Average Rate %	Average Balance \$m	Interest Income \$m	Average Rate %	Average Balance \$m	Interest Income \$m	Average Rate %
Assets									
Interest earning assets									
Receivables due from other financial institutions:									
Australia	2,852	86	3.0%	3,215	135	4.2%	3,800	172	4.5%
New Zealand	338	5	1.5%	220	4	1.8%	328	26	7.9%
Other overseas	5,959	22	0.4%	4,935	49	1.0%	5,382	53	1.0%
Trading securities:									
Australia	36,916	1,498	4.1%	36,082	1,873	5.2%	37,265	2,133	5.7%
New Zealand	3,309	88	2.7%	4,538	123	2.7%	4,733	149	3.1%
Other overseas	6,041	79	1.3%	5,072	95	1.9%	4,159	74	1.8%
Other financial assets designated at fair value:									
Australia	1,590	62	3.9%	1,708	100	5.9%	1,397	95	6.8%
Other overseas	221	5	2.3%	311	8	2.6%	156	4	2.6%
Available-for-sale securities:									
Australia	21,475	1,107	5.2%	16,240	1,006	6.2%	12,238	743	6.1%
New Zealand	2,085	93	4.5%	1,784	80	4.5%	391	20	5.1%
Other overseas	1,089	26	2.4%	1,062	30	2.8%	986	26	2.6%
Regulatory deposits:									
Other overseas	1,512	23	1.5%	1,460	24	1.6%	1,303	12	0.9%
Loans and other receivables ¹ :									
Australia	449,405	26,712	5.9%	440,416	30,202	6.9%	425,905	31,467	7.4%
New Zealand	50,801	2,924	5.8%	46,416	2,870	6.2%	44,694	2,900	6.5%
Other overseas	16,276	279	1.7%	14,286	274	1.9%	5,484	224	4.1%
Total interest earning assets and interest income	599,869	33,009	5.5%	577,745	36,873	6.4%	548,221	38,098	6.9%
Non-interest earning assets									
Cash, receivables due from other financial institutions and regulatory deposits	723			2,745			1,350		
Derivative financial instruments	33,967			36,688			33,952		
Life insurance assets	8,474			8,027			10,507		
All other assets ²	41,023			36,932			34,398		
Total non-interest earning assets	84,187			84,392			80,207		
Total assets	684,056			662,137			628,428		

1 Loans and receivables are stated net of provisions for impairment charges on loans. Other receivables include other assets and cash with central banks that are interest earning.

2 Includes property, plant and equipment, goodwill and intangibles, other assets, deferred tax and non-interest bearing loans relating to mortgage offset accounts.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 26. AVERAGE BALANCE SHEET AND INTEREST RATES (CONTINUED)

	Year Ended 30 September 2013			Consolidated Year Ended 30 September 2012			Year Ended 30 September 2011		
	Average Balance \$m	Interest Expense \$m	Average Rate %	Average Balance \$m	Interest Expense \$m	Average Rate %	Average Balance \$m	Interest Expense \$m	Average Rate %
Liabilities									
Interest bearing liabilities									
Payables due to other financial institutions:									
Australia	4,218	131	3.1%	4,072	186	4.6%	2,927	135	4.6%
New Zealand	458	7	1.5%	336	6	1.8%	502	11	2.2%
Other overseas	4,648	52	1.1%	4,837	52	1.1%	4,656	45	1.0%
Deposits and other borrowings:									
Australia	325,634	11,141	3.4%	302,412	13,301	4.4%	279,874	13,352	4.8%
New Zealand	35,674	1,214	3.4%	30,324	1,066	3.5%	28,283	1,086	3.8%
Other overseas	25,368	200	0.8%	27,367	235	0.9%	26,223	244	0.9%
Loan capital:									
Australia	7,183	414	5.8%	5,129	327	6.4%	5,802	332	5.7%
Other overseas	2,436	115	4.7%	2,455	127	5.2%	2,457	137	5.6%
Other interest bearing liabilities ¹ :									
Australia	144,777	6,309	n/a	151,204	8,426	n/a	149,514	10,235	n/a
New Zealand	10,073	561	n/a	11,841	616	n/a	12,292	431	n/a
Other overseas	1	-	n/a	550	29	n/a	1,005	94	n/a
Total interest bearing liabilities and interest expense	560,470	20,144	3.6%	540,527	24,371	4.5%	513,535	26,102	5.1%
Non-interest bearing liabilities									
Deposits and payables due to other financial institutions:									
Australia	19,173			15,920			13,965		
New Zealand	2,578			2,237			2,089		
Other overseas	783			657			472		
Derivative financial instruments	35,542			37,788			36,052		
Life insurance policy liabilities	7,335			6,919			9,951		
All other liabilities ²	11,853			13,520			11,065		
Total non-interest bearing liabilities	77,264			77,041			73,594		
Total liabilities	637,734			617,568			587,129		
Shareholders' equity	44,350			42,605			39,378		
Non-controlling interests	1,972			1,964			1,921		
Total equity	46,322			44,569			41,299		
Total liabilities and equity	684,056			662,137			628,428		

1 Includes net impact of Treasury balance sheet management activities.

2 Includes other liabilities, provisions, current and deferred tax liabilities.

NOTE 26. AVERAGE BALANCE SHEET AND INTEREST RATES (CONTINUED)

The following table allocates changes in net interest income between changes in volume and changes in rate for the last two fiscal 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.

	2013			2012		
	Volume \$m	Rate \$m	Total \$m	Volume \$m	Rate \$m	Total \$m
Interest earning assets						
Receivables due from other financial institutions:						
Australia	(15)	(34)	(49)	(26)	(11)	(37)
New Zealand	2	(1)	1	(9)	(13)	(22)
Other overseas	10	(37)	(27)	(4)	-	(4)
Trading securities:						
Australia	43	(418)	(375)	(68)	(192)	(260)
New Zealand	(33)	(2)	(35)	(6)	(20)	(26)
Other overseas	18	(34)	(16)	16	5	21
Other financial assets designated at fair value:						
Australia	(7)	(31)	(38)	21	(16)	5
Other overseas	(2)	(1)	(3)	4	-	4
Available-for-sale securities:						
Australia	324	(223)	101	243	20	263
New Zealand	13	-	13	71	(11)	60
Other overseas	1	(5)	(4)	2	2	4
Regulatory deposits:						
Other overseas	1	(2)	(1)	1	11	12
Loans and other receivables:						
Australia	616	(4,106)	(3,490)	1,072	(2,337)	(1,265)
New Zealand	271	(217)	54	112	(142)	(30)
Other overseas	38	(33)	5	360	(310)	50
Total change in interest income	1,280	(5,144)	(3,864)	1,789	(3,014)	(1,225)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 26. AVERAGE BALANCE SHEET AND INTEREST RATES (CONTINUED)

	2013			Consolidated		
	Volume	Change Due to	Total	Volume	Change Due to	Total
	\$m	Rate	\$m	\$m	Rate	\$m
	\$m	\$m	\$m	\$m	\$m	\$m
Interest bearing liabilities						
Payables due to other financial institutions:						
Australia	7	(62)	(55)	53	(2)	51
New Zealand	2	(1)	1	(4)	(1)	(5)
Other overseas	(2)	2	-	2	5	7
Deposits and other borrowings:						
Australia	1,021	(3,181)	(2,160)	1,075	(1,126)	(51)
New Zealand	188	(40)	148	78	(98)	(20)
Other overseas	(17)	(18)	(35)	11	(20)	(9)
Loan capital:						
Australia	131	(44)	87	(39)	34	(5)
Other overseas	(1)	(11)	(12)	-	(10)	(10)
Other interest bearing liabilities:						
Australia	(358)	(1,759)	(2,117)	116	(1,925)	(1,809)
New Zealand	(92)	37	(55)	(16)	201	185
Other overseas	(29)	-	(29)	(43)	(22)	(65)
Total change in interest expense	850	(5,077)	(4,227)	1,233	(2,964)	(1,731)
Change in net interest income:						
Australia	160	234	394	37	483	520
New Zealand	155	(216)	(61)	110	(288)	(178)
Other overseas	115	(85)	30	409	(245)	164
Total change in net interest income	430	(67)	363	556	(50)	506

NOTE 27. FINANCIAL RISK

Westpac's risk appetite is set by the Board. The risk appetite cannot be defined by a single metric. It has many dimensions and is an amalgam of top-down requirements (including Westpac's target debt rating and complying with regulatory requirements) and bottom-up aggregates (such as risk concentration limits). Westpac uses an economic capital model as the basis of risk measurement, calibrated to its target debt rating.

Westpac's appetite for risk is influenced by a range of factors, including whether a risk is considered consistent with its strategy (core risk) and whether an appropriate return can be achieved from taking that risk. Westpac has a lower appetite for risks that are not part of its core strategy. Westpac seeks to achieve an appropriate return on risk and prices its products accordingly.

Westpac seeks to maximise total shareholder returns over the longer term by achieving an appropriate balance between growth and volatility of returns and by ultimately returning that value to shareholders.

Westpac distinguishes the following types of risk, and takes an integrated approach towards managing them. These risks are:

Type of risk	Description
Key risks	<p>^{3/4} credit risk the risk of financial loss where a customer or counterparty fails to meet their financial obligations to Westpac;</p>
	<p>^{3/4} liquidity risk the risk that the Group will be unable to fund assets and meet obligations as they become due;</p>
	<p>^{3/4} market risk the risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices. This includes interest rate risk in the banking book the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities;</p>
	<p>^{3/4} operational risk operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition is aligned to the regulatory (Basel III) definition, including legal and regulatory risk but excluding strategic and reputation risk; and</p>
	<p>^{3/4} compliance risk the risk of legal or regulatory sanction, financial or reputation loss, arising from our failure to abide by the compliance obligations required of us as a financial services group.</p>

Other related risks

- ¾ business risk the risk associated with the vulnerability of a line of business to changes in the business environment;
- ¾ environmental, social and governance risks the risk that the Group damages its reputation or financial performance due to failure to recognise or address material existing or emerging sustainability related environmental, social or governance issues;
- ¾ equity risk the potential for financial loss arising from movements in equity values. Equity risk may be direct, indirect or contingent;
- ¾ insurance risk the risk of mis-estimation of the expected cost of insured events, volatility in the number or severity of insured events, and mis-estimation of the cost of incurred claims;
- ¾ related entity (contagion) risk the risk that problems arising in other Westpac Group members compromise the financial and operational position of the authorised deposit-taking institutions in the Westpac Group; and
- ¾ reputation risk the risk to earnings or capital arising from negative public opinion resulting from the loss of reputation or public trust and standing.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27. FINANCIAL RISK (CONTINUED)

Note 27 provides a summary of Westpac's risk management framework, as well as a discussion of Westpac's financial risk management policies and practices and quantitative information on some of its principal financial risk exposures. The information contained in Note 27 comprises the following:

27.1 Approach to risk management

27.2 Credit risk management

27.2.1 Credit risk management policy

27.2.2 Provision and impairment policy

27.2.3 Internal credit risk ratings system

27.2.4 Credit risk mitigation, collateral and other credit enhancements

27.2.5 Credit risk concentrations

27.2.6 Credit quality of financial assets

27.2.7 Financial assets that are neither past due nor impaired

27.2.8 Financial assets that are past due, but not impaired

27.2.9 Items 90 days past due, or otherwise in default, but well secured and not impaired

27.2.10 Impaired loans

27.3 Funding and liquidity risk management

27.3.1 Sources of liquidity

27.3.2 Liquidity reporting

27.3.3 Market developments

27.3.4 Contractual maturity of financial liabilities

27.3.5 Expected maturity

27.4 Market risk

27.4.1 Traded market risk

27.4.2 Non-traded market risk

27.1 Approach to risk management

The Board is responsible for reviewing and approving our overall risk management strategy, including determining our appetite for risk. The Board has delegated to the BRMC responsibility for providing recommendations to the Board on the Westpac Group's risk-reward strategy, setting risk appetite, approving frameworks, policies and processes for managing risk, and determining whether to accept risks beyond management's approval discretion.

The BRMC monitors the alignment of our risk profile with our risk appetite, which is defined in the Board Statement of Risk Appetite, and with our current and future capital requirements. The BRMC receives regular reports from management on the effectiveness of our management of Westpac's material business risks. More detail about the role of the BRMC is set out in the Westpac risk management governance structure table below.

The CEO and Executive Team are responsible for implementing our risk management strategy and frameworks, and for developing policies, controls, processes and procedures for identifying and managing risk in all of Westpac's activities.

Our approach to risk management is that risk is everyone's business and that responsibility and accountability for risk begins with the business units that originate the risk.

Westpac follows a 3 Lines of Defence philosophy of risk management, for which the key elements are:

The 1st Line of Defence – risk identification, risk management and self-assurance

Divisional business units are responsible for identifying, evaluating and managing the risks that they originate within approved risk appetite and policies. They are required to establish and maintain appropriate risk management controls, resources and self-assurance processes.

The 2nd Line of Defence – establishment of risk management frameworks and policies and risk management oversight

Our 2nd Line of Defence is a separate risk advisory, control and monitoring function which establishes frameworks, policies, limits and processes for the management, monitoring and reporting of risk. It also evaluates and opines on the adequacy and effectiveness of 1st Line controls and application of frameworks and policies and, where necessary, requires improvement and monitors the 1st Line's progress toward remediation of identified deficiencies.

NOTE 27. FINANCIAL RISK (CONTINUED)

Our 2nd Line of Defence has three layers:

¾ our executive risk committees lead the optimisation of risk-reward by overseeing the development of risk appetite statements, risk management frameworks, policies and risk concentration controls, and monitoring Westpac's risk profile for alignment with approved appetites and strategies;

¾ our Group Risk function is independent from the business divisions, reports to the CRO, and establishes and maintains the Group-wide risk management frameworks, policies and concentration limits that are approved by the BRMC. It also reports on Westpac's risk profile to executive risk committees and the BRMC; and

¾ divisional risk areas are responsible for developing division-specific risk appetite statements, policies, controls, procedures, monitoring and reporting capability, which align to the Board's Statement of Risk Appetite and the risk management frameworks approved by the BRMC. These risk areas are independent of the Divisions' 1st Line business areas, with each divisional CRO having a direct reporting line to the CRO, as well as to their Division's Group Executive.

The 3rd Line of Defence – independent assurance

Our Group Assurance function independently evaluates the adequacy and effectiveness of the Group's overall risk management framework and controls.

This approach allows risks within our risk appetite to be balanced against appropriate rewards.

Westpac's risk management governance structure is set out in more detail in the following table:

Board

¾ reviews and approves our overall risk management strategy.

Board Risk Management Committee (BRMC)

¾ provides recommendations to the Board on the Westpac Group's risk-reward strategy;

¾ sets risk appetite;

¾ approves frameworks and key policies for managing risk;

¾ monitors our risk profile, performance, capital levels, exposures against limits and management and control of our risks;

- ¾ monitors changes anticipated in the economic and business environment and other factors relevant to our risk profile;
- ¾ oversees the development and ongoing review of key policies that support our frameworks for managing risk; and
- ¾ determines whether to accept risks beyond the approval discretion provided to management.

Other Board Committees with a risk focus

Board Audit Committee

- ¾ oversees the integrity of financial statements and financial reporting systems.

Board Remuneration Committee

- ¾ reviews any matters raised by the BRMC with respect to risk-adjusted remuneration.

Board Technology Committee

- ¾ oversees information technology strategy and implementation.

Executive Team

- ¾ executes the Board-approved strategy;
- ¾ assists with the development of the Board Statement of Risk Appetite;
- ¾ delivers the Group's various strategic and performance goals within the approved risk appetite; and
- ¾ monitors key risks within each business unit, capital adequacy and the Group's reputation.

Executive risk committees

Westpac Group Credit Risk Committee (CREDCO)

- ¾ leads the optimisation of credit risk-reward across the Group;
- ¾ oversees the credit risk management framework and key policies;
- ¾ oversees our credit risk profile; and
- ¾ identifies emerging credit risks and appropriate actions to address these.

Westpac Group Market Risk Committee (MARCO)

- ¾ leads the optimisation of market risk-reward across the Group;
- ¾ oversees the market risk management framework and key policies;
- ¾ oversees our market risk profile; and
- ¾ identifies emerging market risks and appropriate actions to address these.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27. FINANCIAL RISK (CONTINUED)

Executive risk committees (continued)

Westpac Group Asset & Liability Committee (ALCO)

- ¾ leads the optimisation of funding and liquidity risk-reward across the Group;
- ¾ reviews the level and quality of capital to ensure that it is commensurate with the Group's risk profile, business strategy and risk appetite;
- ¾ oversees the liquidity risk management framework and key policies;
- ¾ oversees the funding and liquidity risk profile and balance sheet risk profile; and
- ¾ identifies emerging funding and liquidity risks and appropriate actions to address these.

Westpac Group Operational Risk & Compliance Committee (OPCO)

- ¾ leads the optimisation of operational risk-reward across the Group;
- ¾ oversees the operational risk management framework, the compliance management framework and key supporting policies;
- ¾ oversees our operational risk and compliance profiles;
- ¾ oversees the reputation risk and environmental, social and governance (ESG) risk management frameworks and key supporting policies; and
- ¾ identifies emerging operational and compliance risks and appropriate actions to address these.

Westpac Group Remuneration Oversight Committee (ROC)

- ¾ provides assurance that the remuneration arrangements across the Group have been examined from a People, Risk and Finance perspective;
- ¾ responsible for ensuring that risk is embedded in all key steps in our remuneration framework;
- ¾ reviews and makes recommendations to the CEO for recommendation to the Board Remuneration Committee on the Group Remuneration Policy and provides assurance that remuneration arrangements across the Group encourage behaviour that supports Westpac's long-term financial soundness and the risk management framework;
- ¾ reviews and monitors the remuneration arrangements (other than for Group Executives) for Responsible Persons (as defined in the Group's Statutory Officers Fit and Proper Policy), risk and financial control personnel, and all other employees for whom a significant portion of total remuneration is based on performance and whose activities, either individually or collectively, may affect the financial soundness of Westpac; and
- ¾ reviews and recommends to the CEO for recommendation to the Board Remuneration Committee the criteria and rationale for determining the total quantum of the Group variable reward pool.

Group and divisional risk management

Group Risk

- ¾ develops the Group-level risk management frameworks for approval by the BRMC;
- ¾ directs the review and development of key policies supporting the risk management frameworks;
- ¾ establishes risk concentration limits and monitors risk concentrations; and

¾ monitors emerging risk issues.

Compliance Function

¾ develops the Group-level compliance framework for approval by the BRMC;

¾ directs the review and development of compliance policies, compliance plans, controls and procedures;

¾ monitors compliance and regulatory obligations and emerging regulatory developments; and

¾ reports on compliance standards.

Divisional risk management

¾ develops division-specific policies, risk appetite statements, controls, procedures, and monitoring and reporting capability that align to the frameworks approved by the BRMC.

Independent internal review

Group Assurance

¾ reviews the adequacy and effectiveness of management controls for risk.

Divisional business units

Business Units

¾ responsible for identifying, evaluating and managing the risks that they originate within approved risk appetite policies; and

¾ establish and maintain appropriate risk management controls, resources and self-assurance processes.

NOTE 27. FINANCIAL RISK (CONTINUED)

27.2 Credit risk management

Credit risk is the risk of financial loss where a customer or counterparty fails to meet their financial obligations.

27.2.1 Credit risk management policy

Westpac maintains a credit risk management framework and a number of key supporting policies, which are intended to clearly define roles and responsibilities, acceptable practices, limits and key controls:

¾ the Credit Risk Management framework describes the principles, methodologies, systems, roles and responsibilities, reports and key controls that exist for managing credit risk in Westpac;

¾ the Credit Risk Rating System policy describes the credit risk rating system philosophy, design, key features and uses of rating outcomes; and

¾ Westpac has established policies governing the management of three key types of concentration risk:

individual customers or groups of related customers;

specific industries (e.g. property); and

individual countries.

Westpac has an established policy governing the delegation of credit approval authorities and a set of formal limits for the extension of credit. These limits represent the delegation of credit approval authority to responsible individuals throughout the organisation.

Credit manuals exist in each business unit to govern the extension of credit. These manuals include general policies covering the origination, evaluation, approval, documentation, settlement and ongoing management of credit risks including management of problem loans. These manuals are regularly updated by the business units, with significant changes approved by Group Risk.

Sector policies exist to guide the extension of credit where industry-specific guidelines are considered necessary (e.g. acceptable financial ratios or types of collateral). These policies are maintained by the business unit risk management teams.

Westpac has an established related entity risk management framework and supporting policies, which include governance of credit exposures to related entities, so as to minimise contagion risk for the extended licensed entity and to ensure compliance with the prudential requirements prescribed by APRA.

27.2.2 Provision and impairment policy

Provisions for loan impairment represent management's best estimate of the losses incurred in the loan portfolios as at the balance date. There are two components of Westpac's loan impairment provisions: individually assessed provisions and collectively assessed provisions. In determining the individually assessed provisions, relevant considerations that have a bearing on the expected future cash flows are taken into account, for example, the business prospects of the customer, the realisable value of collateral, Westpac's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. These judgments and estimates can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are made.

The collectively assessed provisions are established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and expected defaults based on portfolio trends. The most significant factors in establishing these provisions are estimated loss rates and related emergence periods. The provisions also takes into account management's assessment of changes or events that have recently occurred in sectors of the economy or in the economy as a whole that are not yet reflected in underlying provisioning factors. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates, unemployment levels, payment behaviour and bankruptcy rates.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27. FINANCIAL RISK (CONTINUED)

27.2.3 Internal credit risk ratings system

The principal objective of the credit risk rating system is to produce a reliable assessment of the credit risk to which the Group is exposed.

Westpac's internal credit risk rating system for transaction-managed customers assigns a Customer Risk Grade (CRG) to each customer, corresponding to their expected probability of default (PD). Each facility is assigned a loss given default (LGD). The Westpac risk rating system has 20 risk grades for non-defaulted customers and 10 risk grades for defaulted customers. Non-defaulted CRGs are mapped to Moody's and Standard & Poor's (S&P) external senior ranking unsecured ratings. Customers that are not transaction-managed (referred to as the program-managed portfolio) are segmented into pools of similar risk. Segments are created by analysing characteristics that have historically proven predictive in determining if an account is likely to go into default. Customers are then grouped according to these predictive characteristics and each segment assigned a PD and LGD.

The table below shows the current alignment between Westpac's CRGs and the corresponding external rating. Note that only high-level CRG groupings are shown.

Financial Statement Disclosure	Westpac CRG	Moody's Rating	S&P Rating
Strong	A	Aaa Aa3	AAA AA
	B	A1 A3	A+ A
	C	Baa1 Baa3	BBB+ BBB
	D	Ba1 B1	BB+ B+
Good/satisfactory			

Financial Statement Disclosure	Westpac CRG	Definitions
Weak	E	Watchlist
	F	Special Mention
Weak/default/non-performing	G H	Substandard/Default

Control mechanisms for the credit risk rating system

Westpac's credit risk rating system is reviewed annually to confirm that the rating criteria and procedures are appropriate given the current portfolio and external conditions. The BRMC and CREDCO monitor the risk profile, performance and management of Westpac's credit portfolio and development and review of key credit risk policies. All models materially impacting the risk rating process are periodically reviewed in accordance with Westpac's model risk policies. Specific credit risk estimates (including PD, LGD and exposure at default (EAD) levels) are overseen, reviewed annually and approved by the Credit Risk Estimates Committee (a subcommittee of CREDCO).

NOTE 27. FINANCIAL RISK (CONTINUED)**27.2.4 Credit risk mitigation, collateral and other credit enhancements**

Westpac uses a variety of techniques to reduce the credit risk arising from its lending activities. Enforceable legal documentation establishes Westpac's direct, irrevocable and unconditional recourse to any collateral, security or other credit enhancements provided.

The table below describes the nature of collateral held for financial asset classes:

Cash and other balances held with central banks, including regulatory deposits	These exposures are generally considered to be low risk due to the nature of the counterparties. Collateral is generally not sought on these balances.
--	--

Receivables due from other financial institutions	These exposures are mainly to relatively low risk banks (Rated A+, AA or better). Collateral is generally not sought on these balances.
---	---

Derivative financial instruments	Master netting agreements are typically used to enable the effects of derivative assets and liabilities with the same counterparty to be offset when measuring these exposures. Additionally, collateralisation agreements are also typically entered into with major institutional counterparties to avoid the potential build up of excessive mark-to-market positions.
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Trading securities	These exposures are carried at fair value which reflects the credit risk. No collateral is sought directly from the issuer or counterparty; however this may be implicit in the terms of the instrument.
--------------------	--

Other financial assets designated at fair value	These exposures are carried at fair value which reflects the credit risk. The terms of debt securities may include collateralisation.
---	---

Available-for-sale securities	Collateral is not sought directly with respect to these exposures; however collateralisation may be implicit in the structure of the asset.
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Loans housing and personal¹ Housing loans are secured by a mortgage over property, and additional security may take the form of guarantees and deposits. Personal lending (including credit cards and overdrafts) is predominantly unsecured. Where security is taken, it is restricted to eligible motor vehicles.

Loans business¹ Loans business may be secured, partially secured or unsecured. Security is typically taken by way of a mortgage over property and/or a general security agreement over business assets, or other assets. Other forms of credit protection may also be sought or taken out if warranted.

Life insurance assets These assets are carried at fair value, which reflects the credit risk. Collateral is typically not held other than for investments in Australian mortgages where recourse to a charge over the underlying properties is held.

Due from subsidiaries These exposures are generally considered to be low risk due to the nature of the counterparties. Collateral is generally not sought on these balances.

¹ This includes collateral held in relation to associated credit commitments.

Risk reduction

Westpac recognises the following as eligible collateral for credit risk mitigation:

§ cash, primarily in Australian dollars (AUD), New Zealand dollars (NZD), US dollars (USD), Canadian dollars (CAD), British pounds (GBP) or European Union euro (EUR);

§ bonds issued by Australian Commonwealth, State and Territory governments or their Public Sector Enterprises, provided these attract a zero risk-weighting under Australian Prudential Standard (APS) 112;

§ securities issued by other specified AA / Aa3-rated sovereign governments; and

§ credit-linked notes (provided the proceeds are invested in cash or other eligible collateral described above).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27. FINANCIAL RISK (CONTINUED)

Risk transfer

For mitigation by way of risk transfer, Westpac only recognises unconditional irrevocable guarantees or standby letters of credit issued by, or eligible credit derivative protection bought from, the following entities, provided they are not related to the underlying obligor:

- § sovereign entities;

- § public sector entities in Australia and New Zealand;

- § ADIs and overseas banks; and

- § other entities with a minimum risk grade equivalent of A3 / A .

Management of risk mitigation

Westpac facilitates the management of these risks through controls covering:

- § collateral valuation and management;

- § credit portfolio management; and

- § netting.

Collateral valuation and management

Westpac revalues collateral related to financial markets positions on a daily basis to monitor the net risk position, and has formal processes in place so that calls for collateral top-up or exposure reduction are made promptly. An independent operational unit has responsibility for monitoring these positions. The collateralisation arrangements are documented via the Credit Support Annex of the International Swaps and Derivatives Association (ISDA) dealing agreements.

Credit Portfolio Management

Credit Portfolio Management (CPM) is a division that manages the overall risk in Westpac's corporate, sovereign and bank credit portfolios. CPM includes a dedicated portfolio trading desk with the specific mandate of actively monitoring the underlying exposure and any offsetting hedge positions. Specific reporting is maintained and monitored on the matching of hedges with underlying facilities, with any adjustments to hedges (including unwinds or extensions) managed dynamically. CPM purchases credit protection from entities meeting our acceptability criteria as described under the Risk reduction and Risk transfer sections above. CPM also sells protection to diversify risk.

Netting

Risk reduction by way of current account set-off is recognised for exposures to creditworthy customers domiciled in Australia and New Zealand only. Customers are required to enter into formal agreements giving Westpac the unfettered right to set-off gross credit and debit balances in their nominated accounts to determine Westpac's net exposure within each of these two jurisdictions. Cross-border set-offs are not permitted.

Close-out netting is undertaken for off balance sheet financial market transactions with counterparties with whom Westpac has entered into a single bilateral master netting agreement which allows such netting in specified jurisdictions, and is supported by a written and reasoned legal opinion on the enforceability of that agreement. Close-out netting effectively aggregates pre-settlement risk exposure at time of default, thus reducing overall exposure.

27.2.5 Credit risk concentrations

A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Westpac monitors its credit portfolio to manage risk concentrations. Exposures are actively managed from a portfolio perspective, with risk mitigation techniques used to rebalance the portfolio.

Individual customers or groups of related customers

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Westpac has large exposure limits governing the aggregate size of credit exposure normally acceptable to individual customers and groups of related customers. These limits are tiered by customer risk grade.

Specific industries

Exposures to businesses, governments and other financial institutions are classified into a number of industry clusters based on groupings of related Australian and New Zealand Standard Industrial Classification (ANZSIC) codes and are monitored against industry risk appetite limits. The level of industry risk is measured on a dynamic basis.

Individual countries

Westpac has limits governing risks related to individual countries, such as political situations, government policies, economic conditions or other country-specific events, that may adversely affect either a customer's ability to purchase or transfer currency to meet its obligations to Westpac, or Westpac's ability to realise its assets in a particular country. Such risks include, but are not limited to, exchange control events, nationalisation, war, disaster, economic meltdown or government failure.

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NOTE 27. FINANCIAL RISK (CONTINUED)

The table below sets out the maximum exposure to credit risk (excluding any collateral received) and the credit risk concentrations to which the Group and the Parent Entity are exposed. The total will not reconcile to the Group or Parent Entity's total assets on the balance sheet as cash, non-financial assets and other financial assets have been excluded from the table below. Investments in subsidiaries and amounts due from subsidiaries have also been excluded from the Parent Entity's disclosure.

	Consolidated 2013								
	Trading Securities \$m	Other Financial Assets Designated at Fair Value \$m	Available-For-Sale Securities \$m	Loans - Housing and Personal \$m	Loans - Business \$m	Derivatives ¹ \$m	Life Insurance Assets \$m	Total (On Balance Sheet) \$m	Credit Commitments \$m
Australia									
Accommodation, cafes and restaurants	-	-	-	157	6,951	19	107	7,234	1,218
Agriculture, forestry and fishing	-	-	-	115	7,189	29	-	7,333	1,615
Construction	-	-	-	442	5,607	26	-	6,075	3,980
Finance and insurance	12,944	2,099	8,725	1,944	11,315	21,568	6,488	65,083	16,151
Government, administration and defence	20,501	12	17,464	3	878	192	-	39,050	1,483
Manufacturing	51	-	-	198	9,217	423	204	10,093	8,005
Mining	4	30	-	39	2,300	232	565	3,170	3,006
Property, property services and business services	37	12	3	3,358	45,672	489	683	50,254	13,698
Services ²	305	22	9	777	8,938	121	111	10,283	5,291
Trade ³	53	-	-	524	14,095	255	58	14,985	7,078
Transport and storage	7	39	188	94	8,774	593	45	9,740	3,186
Utilities ⁴	174	130	123	34	2,968	891	165	4,485	2,979
Retail lending	-	106	-	340,139	-	33	-	340,278	70,435
Other	-	-	-	-	2,416	88	-	2,504	288
Total Australia	34,076	2,450	26,512	347,824	126,320	24,959	8,426	570,567	138,413
New Zealand									
Accommodation, cafes and restaurants	-	-	-	307	148	-	1	456	78
Agriculture, forestry and fishing	16	-	1	528	5,602	30	4	6,181	635
Construction	-	-	-	784	411	1	1	1,197	364
Finance and insurance	2,624	-	590	681	1,033	2,564	162	7,654	1,496
Government, administration and defence	1,169	-	1,863	6	602	119	28	3,787	917
Manufacturing	-	-	-	405	1,661	48	4	2,118	1,369
Mining	-	-	-	23	455	2	-	480	145
Property, property services and business services	7	-	-	5,225	5,638	122	-	10,992	1,936
Services ²	-	-	-	1,261	1,218	23	4	2,506	868
Trade ³	1	-	-	1,118	1,706	17	-	2,842	1,162
Transport and storage	37	-	-	203	885	35	-	1,160	501
Utilities ⁴	39	-	-	74	1,103	299	7	1,522	1,324
Retail lending	-	-	-	24,417	46	-	-	24,463	6,376
Other	-	-	-	1	44	-	-	45	257

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Total New Zealand	3,893	-	2,454	35,033	20,552	3,260	211	65,403	17,428
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1 Derivatives give rise to credit risk where there is a positive current fair value. Credit derivatives also expose the writer of the contract to the risk of default of the referenced entity. See Note 29 for further details regarding credit derivative exposures.

2 Services includes education, health and community services, cultural and recreational services and personal and other services.

3 Trade includes wholesale trade and retail trade.

4 Utilities includes electricity, gas and water and communication services.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 27. FINANCIAL RISK (CONTINUED)

Consolidated 2013

	Trading Securities \$m	Other Financial Assets Designated at Fair Value \$m	Available -For-Sale Securities \$m	Loans - Housing and Personal \$m	Loans - Business \$m	Derivatives ¹ \$m	Life Insurance Assets \$m	Total (On Balance Sheet) \$m	Credit Commit- ments \$m
Other overseas									
Accommodation, cafes and restaurants	-	-	-	6	124	-	-	130	34
Agriculture, forestry and fishing	-	-	-	1	375	-	-	376	164
Construction	-	-	-	6	166	-	-	172	112
Finance and insurance	3,548	309	428	1	1,245	128	-	5,659	1,297
Government, administration and defence	4,813	-	608	1	30	9	-	5,461	3
Manufacturing	-	-	-	4	1,249	-	-	1,253	3,512
Mining	-	-	-	-	2,443	-	-	2,443	1,817
Property, property services and business services	-	-	-	52	310	-	-	362	217
Services ²	-	-	-	4	168	-	-	172	20
Trade ³	-	-	-	10	2,180	-	-	2,190	1,544
Transport and storage	-	-	-	4	436	-	-	440	160
Utilities ⁴	-	-	9	-	299	-	-	308	170
Retail lending	-	-	-	848	52	-	-	900	127
Other	-	-	-	9	54	-	-	63	-
Total other overseas	8,361	309	1,045	946	9,131	137	-	19,929	9,177
Other risk concentrations									
Amounts due from financial institutions								11,210	
Regulatory deposits								1,571	
Total gross credit risk	46,330	2,759	30,011	383,803	156,003	28,356	8,637	668,680	165,018

1 Derivatives give rise to credit risk where there is a positive current fair value. Credit derivatives also expose the writer of the contract to the risk of default of the referenced entity. See Note 29 for further details regarding credit derivative exposures.

2 Services includes education, health and community services, cultural and recreational services and personal and other services.

3 Trade includes wholesale trade and retail trade.

4 Utilities includes electricity, gas and water and communication services.

NOTE 27. FINANCIAL RISK (CONTINUED)

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Consolidated 2012

	Trading Securities \$m	Other Financial Assets Designated at Fair Value \$m	Available- For-Sale Securities \$m	Loans - Housing and Personal \$m	Loans - Business1 \$m	Derivatives2 \$m	Life Insurance Assets \$m	Total (On Balance Sheet) \$m	Credit Commit- ments \$m
Australia1									
Accommodation, cafes and restaurants	-	-	-	166	6,940	30	24	7,160	995
Agriculture, forestry and fishing	-	-	-	118	7,431	33	-	7,582	1,783
Construction	-	-	-	421	5,892	35	29	6,377	3,817
Finance and insurance	17,941	1,959	2,369	1,583	11,518	26,842	6,098	68,310	16,311
Government, administration and defence	18,403	21	18,340	1	929	228	-	37,922	1,304
Manufacturing	116	-	-	210	10,453	369	215	11,363	7,861
Mining	13	45	-	33	1,803	92	582	2,568	3,025
Property, property services and business services	28	17	1	3,156	44,028	791	724	48,745	13,279
Services3	66	23	11	714	8,753	201	133	9,901	5,373
Trade4	32	-	-	514	15,354	273	66	16,239	7,111
Transport and storage	114	39	316	89	9,262	827	40	10,687	3,059
Utilities5	107	128	170	35	3,204	1,187	140	4,971	2,850
Retail lending	-	120	-	328,068	41	47	-	328,276	66,833
Other	8	-	1	-	2,298	90	-	2,397	244
Total Australia	36,828	2,352	21,208	335,108	127,906	31,045	8,051	562,498	133,845
New Zealand									
Accommodation, cafes and restaurants	2	-	-	278	160	1	2	443	69
Agriculture, forestry and fishing	-	-	-	503	4,774	58	-	5,335	494
Construction	-	-	-	754	394	1	1	1,150	332
Finance and insurance	2,702	-	470	561	1,119	3,319	151	8,322	1,417
Government, administration and defence	440	-	1,715	5	520	162	27	2,869	722
Manufacturing	-	-	-	386	1,509	74	3	1,972	1,054
Mining	-	-	-	21	369	5	-	395	143
Property, property services and business services	60	-	-	4,372	4,876	171	3	9,482	1,622
Services3	-	-	-	1,222	879	25	-	2,126	855
Trade4	-	-	-	1,015	1,630	35	-	2,680	1,211
Transport and storage	-	-	-	202	836	58	-	1,096	478
Utilities5	8	-	-	69	982	288	2	1,349	1,270
Retail lending	-	-	-	20,737	41	-	-	20,778	5,393
Other	-	-	-	-	31	192	-	223	248
Total New Zealand	3,212	-	2,185	30,125	18,120	4,389	189	58,220	15,308

1 To improve presentation we have revised 2012 comparatives for loans business booked in Australia to better reflect their industry concentration.

2 Derivatives give rise to credit risk where there is a positive current fair value. Credit derivatives also expose the writer of the contract to the risk of default of the referenced entity. See Note 29 for further details regarding credit derivative exposures.

3 Services includes education, health and community services, cultural and recreational services and personal and other services.

- 4 Trade includes wholesale trade and retail trade.
- 5 Utilities includes electricity, gas and water and communication services.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 27. FINANCIAL RISK (CONTINUED)

	Consolidated 2012								
	Trading Securities \$m	Other Financial Assets Designated at Fair Value \$m	Available- For-Sale Securities \$m	Loans - Housing and Personal \$m	Loans - Business \$m	Derivatives ¹ \$m	Life Insurance Assets \$m	Total (On Balance Sheet) \$m	Credit Commit- ments \$m
Other overseas									
Accommodation, cafes and restaurants	-	-	-	4	152	-	-	156	23
Agriculture, forestry and fishing	-	-	-	-	68	-	-	68	88
Construction	-	-	-	7	65	-	-	72	83
Finance and insurance	4,460	288	389	1	725	54	-	5,917	1,211
Government, administration and defence	103	-	685	-	8	-	-	796	42
Manufacturing	-	-	-	2	1,785	-	-	1,787	2,346
Mining	-	-	-	1	249	-	-	250	909
Property, property services and business services	-	-	-	55	317	-	-	372	173
Services ²	-	24	-	4	69	-	-	97	20
Trade ³	-	-	-	9	1,757	-	-	1,766	1,522
Transport and storage	-	-	-	3	548	1	-	552	90
Utilities ⁴	-	-	5	-	161	-	-	166	97
Retail lending	-	-	-	933	55	-	-	988	121
Other	-	-	-	11	31	-	-	42	-
Total other overseas	4,563	312	1,079	1,030	5,990	55	-	13,029	6,725
Other risk concentrations									
Amounts due from financial institutions								10,228	
Regulatory deposits								1,893	
Total gross credit risk	44,603	2,664	24,472	366,263	152,016	35,489	8,240	645,868	155,878

1 Derivatives give rise to credit risk where there is a positive current fair value. Credit derivatives also expose the writer of the contract to the risk of default of the referenced entity. See Note 29 for further details regarding credit derivative exposures.

2 Services includes education, health and community services, cultural and recreational services and personal and other services.

3 Trade includes wholesale trade and retail trade.

4 Utilities includes electricity, gas and water and communication services.

NOTE 27. FINANCIAL RISK (CONTINUED)

	Parent Entity 2013							Total (On Balance Sheet) \$m	Credit Commitments \$m
	Trading Securities \$m	Other Financial Assets Designated at Fair Value \$m	Available-For-Sale Securities \$m	Loans - Housing and Personal \$m	Loans - Business \$m	Derivatives ¹ \$m	Life Insurance Assets \$m		
Australia									
Accommodation, cafes and restaurants	-	-	-	155	6,857	19	-	7,031	1,218
Agriculture, forestry and fishing	-	-	-	114	7,007	29	-	7,150	1,615
Construction	-	-	-	437	4,877	26	-	5,340	3,978
Finance and insurance	12,944	1,507	8,713	1,924	11,088	21,623	-	57,799	16,151
Government, administration and defence	20,501	-	17,464	3	801	192	-	38,961	1,483
Manufacturing	51	-	-	196	8,920	423	-	9,590	8,005
Mining	4	-	-	38	2,175	232	-	2,449	3,005
Property, property services and business services	37	2	2	3,328	44,801	489	-	48,659	13,697
Services ²	305	22	9	770	8,215	121	-	9,442	5,290
Trade ³	53	-	-	519	13,601	255	-	14,428	7,056
Transport and storage	7	14	15	93	8,217	593	-	8,939	3,184
Utilities ⁴	174	130	-	34	2,944	891	-	4,173	2,980
Retail Lending	-	106	-	336,253	-	33	-	336,392	70,434
Other	-	-	-	-	2,046	86	-	2,132	288
Total Australia	34,076	1,781	26,203	343,864	121,549	25,012	-	552,485	138,384
New Zealand									
Accommodation, cafes and restaurants	-	-	-	-	-	-	-	-	-
Agriculture, forestry and fishing	16	-	-	-	8	30	-	54	14
Construction	-	-	-	-	3	1	-	4	11
Finance and insurance	1,468	-	-	-	22	2,561	-	4,051	60
Government, administration and defence	924	-	-	-	73	119	-	1,116	118
Manufacturing	-	-	-	-	2	48	-	50	103
Mining	-	-	-	-	-	2	-	2	-
Property, property services and business services	7	-	-	-	3	122	-	132	23
Services ²	-	-	-	-	186	23	-	209	11
Trade ³	1	-	-	-	-	17	-	18	202
Transport and storage	37	-	-	-	11	35	-	83	39
Utilities ⁴	39	-	-	-	-	299	-	338	253
Retail lending	-	-	-	-	-	-	-	-	1
Other	-	-	-	-	-	2	-	2	-
Total New Zealand	2,492	-	-	-	308	3,259	-	6,059	835

1 Derivatives give rise to credit risk where there is a positive current fair value. Credit derivatives also expose the writer of the contract to the risk of default of the referenced entity. See Note 29 for further details regarding credit derivative exposures.

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- 2 Services includes education, health and community services, cultural and recreational services and personal and other services.
- 3 Trade includes wholesale trade and retail trade.
- 4 Utilities includes electricity, gas and water and communication services.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 27. FINANCIAL RISK (CONTINUED)

	Parent Entity 2013								
	Trading Securities \$m	Other Financial Assets Designated at Fair Value \$m	Available-For-Sale Securities \$m	Loans - Housing and Personal \$m	Loans - Business \$m	Derivatives ¹ \$m	Life Insurance Assets \$m	Total (On Balance Sheet) \$m	Credit Commitments \$m
Other overseas									
Accommodation, cafes and restaurants	-	-	-	6	99	-	-	105	33
Agriculture, forestry and fishing	-	-	-	1	370	-	-	371	162
Construction	-	-	-	3	146	-	-	149	108
Finance and insurance	3,548	309	186	1	1,241	125	-	5,410	1,297
Government, administration and defence	4,812	-	5	-	30	9	-	4,856	3
Manufacturing	-	-	-	3	1,184	-	-	1,187	3,366
Mining	-	-	-	-	2,427	-	-	2,427	1,803
Property, property services and business services	-	-	-	20	166	-	-	186	205
Services ²	-	-	-	2	156	-	-	158	19
Trade ³	-	-	-	5	2,028	-	-	2,033	1,493
Transport and storage	-	-	-	3	283	-	-	286	144
Utilities ⁴	-	-	-	-	271	-	-	271	169
Retail lending	-	-	-	358	34	-	-	392	35
Other	-	-	-	8	47	-	-	55	-
Total other overseas	8,360	309	191	410	8,482	134	-	17,886	8,837
Other risk concentrations									
Amounts due from financial institutions								9,317	
Regulatory deposits								1,463	
Total gross credit risk	44,928	2,090	26,394	344,274	130,339	28,405	-	587,210	148,056

1 Derivatives give rise to credit risk where there is a positive current fair value. Credit derivatives also expose the writer of the contract to the risk of default of the referenced entity. See Note 29 for further details regarding credit derivative exposures.

2 Services includes education, health and community services, cultural and recreational services and personal and other services.

3 Trade includes wholesale trade and retail trade.

4 Utilities includes electricity, gas and water and communication services.

NOTE 27. FINANCIAL RISK (CONTINUED)

	Parent Entity 2012								
	Trading Securities \$m	Other Financial Assets Designated at Fair Value \$m	Available-For-Sale Securities \$m	Loans - Housing and Personal \$m	Loans - Business1 \$m	Derivatives2 \$m	Life Insurance Assets \$m	Total (On Balance Sheet) \$m	Credit Commitments \$m
Australia1									
Accommodation, cafes and restaurants	-	-	-	166	6,831	30	-	7,027	995
Agriculture, forestry and fishing	-	-	-	118	7,204	33	-	7,355	1,783
Construction	-	-	-	421	5,143	35	-	5,599	3,817
Finance and insurance	17,941	1,396	2,336	1,583	11,378	26,553	-	61,187	16,311
Government, administration and defence	18,402	-	18,341	1	830	228	-	37,802	1,304
Manufacturing	116	-	-	210	10,122	369	-	10,817	7,861
Mining	13	-	-	33	1,664	92	-	1,802	3,025
Property, property services and business services	28	5	-	3,156	42,989	791	-	46,969	13,278
Services3	66	23	11	714	7,900	201	-	8,915	5,371
Trade4	32	-	-	514	14,781	273	-	15,600	7,081
Transport and storage	114	16	67	89	8,738	827	-	9,851	3,058
Utilities5	107	126	154	35	3,170	1,187	-	4,779	2,850
Retail Lending	-	120	-	324,588	41	47	-	324,796	66,833
Other	8	-	1	-	2,278	90	-	2,377	244
Total Australia	36,827	1,686	20,910	331,628	123,069	30,756	-	544,876	133,811
New Zealand									
Accommodation, cafes and restaurants	2	-	-	-	-	1	-	3	-
Agriculture, forestry and fishing	-	-	-	-	-	58	-	58	35
Construction	-	-	-	-	-	1	-	1	40
Finance and insurance	1,263	-	-	-	3	3,312	-	4,578	65
Government, administration and defence	252	-	-	-	1	162	-	415	85
Manufacturing	-	-	-	-	30	74	-	104	135
Mining	-	-	-	-	1	5	-	6	-
Property, property services and business services	60	-	-	-	76	171	-	307	26
Services3	-	-	-	-	-	25	-	25	20
Trade4	-	-	-	-	6	35	-	41	201
Transport and storage	-	-	-	-	18	58	-	76	112
Utilities5	8	-	-	-	162	288	-	458	244
Retail lending	-	-	-	-	2	-	-	2	1
Other	-	-	-	-	9	192	-	201	1
Total New Zealand	1,585	-	-	-	308	4,382	-	6,275	965

1 To improve presentation we have revised 2012 comparatives for loans - business booked in Australia to better reflect their industry concentration.

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- 2 Derivatives give rise to credit risk where there is a positive current fair value. Credit derivatives also expose the writer of the contract to the risk of default of the referenced entity. See Note 29 for further details regarding credit derivative exposures.
- 3 Services includes education, health and community services, cultural and recreational services and personal and other services.
- 4 Trade includes wholesale trade and retail trade.
- 5 Utilities includes electricity, gas and water and communication services.

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 27. FINANCIAL RISK (CONTINUED)

	Parent Entity 2012								
	Trading Securities \$m	Other Financial Assets Designated at Fair Value \$m	Available- For-Sale Securities \$m	Loans - Housing and Personal \$m	Loans - Business \$m	Derivatives ¹ \$m	Life Insurance Assets \$m	Total (On Balance Sheet) \$m	Credit Commit- ments \$m
Other overseas									
Accommodation, cafes and restaurants	-	-	-	4	127	-	-	131	22
Agriculture, forestry and fishing	-	-	-	-	62	-	-	62	61
Construction	-	-	-	4	46	-	-	50	75
Finance and insurance	4,460	217	129	-	651	46	-	5,503	1,208
Government, administration and defence	103	-	-	-	7	-	-	110	42
Manufacturing	-	-	-	2	1,661	-	-	1,663	2,195
Mining	-	-	-	-	226	-	-	226	864
Property, property services and business services	-	-	-	16	169	-	-	185	163
Services ²	-	-	-	1	53	-	-	54	19
Trade ³	-	-	-	4	1,628	-	-	1,632	1,459
Transport and storage	-	-	-	2	410	-	-	412	68
Utilities ⁴	-	-	-	-	134	-	-	134	96
Retail lending	-	-	-	397	33	-	-	430	34
Other	-	-	-	7	28	-	-	35	-
Total other overseas	4,563	217	129	437	5,235	46	-	10,627	6,306
Other risk concentrations									
Amounts due from financial institutions								7,328	
Regulatory deposits								1,773	
Total gross credit risk	42,975	1,903	21,039	332,065	128,612	35,184	-	570,879	141,082

1 Derivatives give rise to credit risk where there is a positive current fair value. Credit derivatives also expose the writer of the contract to the risk of default of the referenced entity. See Note 29 for further details regarding credit derivative exposures.

2 Services includes education, health and community services, cultural and recreational services and personal and other services.

3 Trade includes wholesale trade and retail trade.

4 Utilities includes electricity, gas and water and communication services.

NOTE 27. FINANCIAL RISK (CONTINUED)**27.2.6 Credit quality of financial assets**

The tables below segregate the financial assets of the Group and Parent Entity between financial assets that are neither past due nor impaired, past due but not impaired and impaired. Non-financial assets of the Group and Parent Entity are excluded from the tables below and therefore the total will not reconcile to total assets on the balance sheets.

An asset is considered to be past due when any payment under the contractual terms has been missed. The amount included as past due is the entire contractual balance, rather than the overdue portion. The breakdown in the tables below does not always align with the underlying basis by which credit risk is managed within Westpac.

Financial assets of the Group at 30 September can be disaggregated as follows:

	Consolidated 2013				Impairment Provision \$m	Total Carrying Value \$m
	Neither Past Due Nor Impaired \$m	Past Due But Not Impaired \$m	Impaired \$m	Total \$m		
Cash and balances with central banks	11,699	-	-	11,699	-	11,699
Receivables due from other financial institutions	11,210	-	-	11,210	-	11,210
Trading securities	46,330	-	-	46,330	-	46,330
Other financial assets designated at fair value	2,757	-	2	2,759	-	2,759
Derivative financial instruments	28,356	-	-	28,356	-	28,356
Available-for-sale securities	30,010	-	1	30,011	-	30,011
Loans:						
Loans housing and personal	369,740	13,455	608	383,803	(1,101)	382,702
Loans business	149,272	3,739	2,992	156,003	(2,541)	153,462
Life insurance assets	8,632	5	-	8,637	-	8,637
Regulatory deposits with central banks overseas	1,571	-	-	1,571	-	1,571
Other financial assets	3,697	44	9	3,750	-	3,750
Total	663,274	17,243	3,612	684,129	(3,642)	680,487

	Consolidated 2012				Impairment Provision \$m	Total Carrying Value \$m
	Neither Past Due Nor Impaired \$m	Past Due But Not Impaired \$m	Impaired \$m	Total \$m		
Cash and balances with central banks	12,523	-	-	12,523	-	12,523
	10,228	-	-	10,228	-	10,228

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Receivables due from other financial institutions						
Trading securities	44,603	-	-	44,603	-	44,603
Other financial assets designated at fair value	2,664	-	-	2,664	-	2,664
Derivative financial instruments	35,489	-	-	35,489	-	35,489
Available-for-sale securities	24,471	-	1	24,472	-	24,472
Loans:						
Loans housing and personal	353,094	12,538	631	366,263	(1,042)	365,221
Loans business	144,266	3,995	3,755	152,016	(2,792)	149,224
Life insurance assets	8,237	3	-	8,240	-	8,240
Regulatory deposits with central banks overseas	1,893	-	-	1,893	-	1,893
Other financial assets	4,273	41	11	4,325	-	4,325
Total	641,741	16,577	4,398	662,716	(3,834)	658,882

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27. FINANCIAL RISK (CONTINUED)

Financial assets of the Parent Entity at 30 September can be disaggregated as follows:

	Parent Entity 2013					Provision \$m	Total Carrying Value \$m
	Neither Past Due Nor Impaired \$m	Past Due But Not Impaired \$m	Impairment Impaired \$m	Total \$m			
Cash and balances with central banks	9,509	-	-	9,509	-	9,509	
Receivables due from other financial institutions	9,317	-	-	9,317	-	9,317	
Trading securities	44,928	-	-	44,928	-	44,928	
Other financial assets designated at fair value	2,088	-	2	2,090	-	2,090	
Derivative financial instruments	28,405	-	-	28,405	-	28,405	
Available-for-sale securities	26,394	-	-	26,394	-	26,394	
Loans:							
Loans housing and personal	332,173	11,649	452	344,274	(867)	343,407	
Loans business	124,650	3,271	2,418	130,339	(2,089)	128,250	
Life insurance assets	-	-	-	-	-	-	
Regulatory deposits with central banks overseas	1,463	-	-	1,463	-	1,463	
Due from subsidiaries	119,038	-	-	119,038	-	119,038	
Other financial assets	3,179	38	7	3,224	-	3,224	
Total	701,144	14,958	2,879	718,981	(2,956)	716,025	

	Parent Entity 2012					Impairment Provision \$m	Total Carrying Value \$m
	Neither Past Due Nor Impaired \$m	Past Due But Not Impaired \$m	Impaired \$m	Total \$m			
Cash and balances with central banks	10,993	-	-	10,993	-	10,993	
Receivables due from other financial institutions	7,328	-	-	7,328	-	7,328	
Trading securities	42,975	-	-	42,975	-	42,975	
Other financial assets designated at fair value	1,903	-	-	1,903	-	1,903	
Derivative financial instruments	35,184	-	-	35,184	-	35,184	
Available-for-sale securities	21,039	-	-	21,039	-	21,039	
Loans:							
Loans housing and personal	320,632	10,960	473	332,065	(837)	331,228	
Loans business	122,193	3,410	3,009	128,612	(2,351)	126,261	
Life insurance assets	-	-	-	-	-	-	
Regulatory deposits with central banks overseas	1,773	-	-	1,773	-	1,773	
Due from subsidiaries	92,740	-	-	92,740	-	92,740	
Other financial assets	3,721	35	8	3,764	-	3,764	
Total	660,481	14,405	3,490	678,376	(3,188)	675,188	

NOTE 27. FINANCIAL RISK (CONTINUED)**27.2.7 Financial assets that are neither past due nor impaired**

The credit quality of financial assets of the Group that are neither past due nor impaired have been assessed by reference to the credit risk rating system adopted internally:

	2013				2012			
	Strong \$m	Good/ Satisfactory \$m	Weak \$m	Total \$m	Strong \$m	Good/ Satisfactory \$m	Weak \$m	Total \$m
Cash and balances with central banks	11,699	-	-	11,699	12,523	-	-	12,523
Receivables due from other financial institutions	11,210	-	-	11,210	10,228	-	-	10,228
Trading securities ¹	46,330	-	-	46,330	44,553	50	-	44,603
Other financial assets designated at fair value ¹	2,611	145	1	2,757	2,450	210	4	2,664
Derivative financial instruments	27,246	1,060	50	28,356	34,611	781	97	35,489
Available-for-sale securities ¹	29,403	606	1	30,010	23,777	694	-	24,471
Loans:								
Loans housing and personal ²	288,940	79,425	1,375	369,740	279,371	72,870	853	353,094
Loans business	63,197	80,703	5,372	149,272	53,790	81,736	8,740	144,266
Life insurance assets ³	8,560	72	-	8,632	8,143	94	-	8,237
Regulatory deposits with central banks overseas	1,378	116	77	1,571	1,706	125	62	1,893
Other financial assets ⁴	3,270	410	17	3,697	3,085	1,182	6	4,273
Total financial assets	493,844	162,537	6,893	663,274	474,237	157,742	9,762	641,741

¹ Trading securities, other financial assets designated at fair value and available-for-sale securities of nil (2012: \$193 million) that do not have assigned credit ratings have been included in the strong category.

² In the current year we have allocated loans housing and personal into strong, good/satisfactory and weak categories. Previously these were all presented as good/satisfactory. We have revised comparatives for consistency.

³ Life insurance assets include \$7,146 million (2012: \$6,687 million) of unit linked investment contract assets and \$1,399 million (2012: \$1,320 million) of unrated investments in managed schemes and mortgages. The Group has no direct exposure to unit linked investments as the liability to policy holders are directly linked to the performance of these assets. The investments in managed schemes and mortgages are predominantly managed by the BT Financial Group.

⁴ Other financial assets includes accrued interest of \$1,325 million (2012: \$1,226 million) which is allocated to the relevant credit quality classifications in proportion to and to correspond with the loan balances to which it relates. Securities sold not yet delivered of \$1,416 million (2012: \$1,841 million) is also included in this balance which is allocated proportionately based on the trading securities balance classifications.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27. FINANCIAL RISK (CONTINUED)

	2013				2012			
	Strong \$m	Good/ Satisfactory \$m	Weak \$m	Total \$m	Strong \$m	Good/ Satisfactory \$m	Weak \$m	Total \$m
Cash and balances with central banks	9,509	-	-	9,509	10,993	-	-	10,993
Receivables due from other financial institutions	9,317	-	-	9,317	7,328	-	-	7,328
Trading securities ¹	44,928	-	-	44,928	42,925	50	-	42,975
Other financial assets designated at fair value ¹	1,984	103	1	2,088	1,779	120	4	1,903
Derivative financial instruments	27,295	1,060	50	28,405	34,306	781	97	35,184
Available-for-sale securities ¹	26,377	16	1	26,394	21,036	3	-	21,039
Loans:								
Loans housing and personal ²	278,576	52,498	1,099	332,173	270,949	49,204	479	320,632
Loans business	55,752	64,569	4,329	124,650	47,156	67,759	7,278	122,193
Regulatory deposits with central banks overseas	1,379	7	77	1,463	1,705	6	62	1,773
Due from subsidiaries	119,038	-	-	119,038	92,740	-	-	92,740
Other financial assets ³	2,868	297	14	3,179	2,685	1,031	5	3,721
Total financial assets	577,023	118,550	5,571	701,144	533,602	118,954	7,925	660,481

1 Trading securities and other financial assets designated at fair value of nil (2012: \$193 million) that do not have assigned credit ratings have been included in the strong category.

2 In the current year we have allocated loans housing and personal into strong, good/satisfactory and weak categories. Previously these were all presented as good/satisfactory. We have revised comparatives for consistency.

3 Other financial assets includes accrued interest of \$1,159 million (2012: \$1,065 million) which is allocated to the relevant credit quality classifications in proportion to and to correspond with the loan balances to which it relates. Securities sold not yet delivered of \$1,383 million (2012: \$1,841 million) is also included in this balance which is allocated proportionately based on the trading securities balance classifications.

The following analysis shows our assessment of the coverage provided by collateral held in support of financial assets that are neither past due nor impaired. The estimated realisable value of collateral held is based on a combination of:

§ formal valuations currently held in respect of such collateral; and

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§ management's assessment of the estimated realisable value of all collateral held given its experience with similar types of assets in similar situations and the circumstances peculiar to the subject collateral.

This analysis also takes into consideration any other relevant knowledge available to management at the time. It is our practice to obtain updated valuations when either management considers that it cannot satisfactorily estimate a realisable value or when it is determined to be necessary to move to a forced sale of the collateral.

In the table below, a financial asset that is neither past due nor impaired is deemed to be fully secured where the ratio of the asset amount to our current estimated net present value of the realisable collateral is less than or equal to 100%. Such assets are deemed to be partially secured when this ratio exceeds 100% but not more than 150%, and unsecured when either no security is held (e.g. can include credit cards, personal loans, and exposure to highly rated corporate entities) or where the secured loan to estimated recoverable value exceeds 150%.

	2013			Consolidated			2012		
	Loans Housing and Personal %	Loans Business %	Total %	Loans Housing and Personal %	Loans Business %	Total %	Loans Housing and Personal %	Loans Business %	Total %
Fully secured	95.8	54.3	83.8	94.7	55.0	83.2	94.7	55.0	83.2
Partially secured	1.3	24.3	7.9	1.7	24.5	8.3	1.7	24.5	8.3
Unsecured	2.9	21.4	8.3	3.6	20.5	8.5	3.6	20.5	8.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27. FINANCIAL RISK (CONTINUED)

	2013			Parent Entity			2012		
	Loans Housing and Personal	Loans Business	Total	Loans Housing and Personal	Loans Business	Total	Loans Housing and Personal	Loans Business	Total
	%	%	%	%	%	%	%	%	%
Fully secured	97.3	54.0	85.5	95.8	54.5	84.4	95.8	54.5	84.4
Partially secured	0.4	25.2	7.2	0.8	25.7	7.6	0.8	25.7	7.6
Unsecured	2.3	20.8	7.3	3.4	19.8	8.0	3.4	19.8	8.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

27.2.8 Financial assets that are past due, but not impaired

An age analysis of financial assets that are past due, but not impaired is set out in the table below. For the purposes of this analysis an asset is considered to be past due when any payment under the contractual terms has been missed. The amount included is the entire contractual amount, rather than the overdue amount.

The Group expends considerable effort in monitoring overdue assets. Assets may be overdue for a number of reasons, including late payments or incomplete documentation. Late payment may be influenced by factors such as the holiday periods and the timing of weekends.

Financial assets that were past due, but not impaired can be disaggregated based on days overdue at 30 September as follows:

	2013				2012				Total
	1 5 days	6 89 days	90+ days	Total	1 5 days	6 89 days	90+ days	Total	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Loans									
Loans housing and personal	3,919	8,028	1,508	13,455	3,249	7,697	1,592	12,538	12,538
Loans business	760	2,289	690	3,739	1,671	1,199	1,125	3,995	3,995
Life insurance assets	-	5	-	5	-	3	-	3	3
Other financial assets	12	26	6	44	12	22	7	41	41
Total	4,691	10,348	2,204	17,243	4,932	8,921	2,724	16,577	16,577

	2013				2012				Total
	1 5 days	6 89 days	90+ days	Total	1 5 days	6 89 days	90+ days	Total	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Loans									
	3,403	6,811	1,435	11,649	2,776	6,734	1,450	10,960	10,960

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Loans housing and personal									
Loans business	605	2,071	595	3,271	1,563	841	1,006	3,410	
Life insurance assets	-	-	-	-	-	-	-	-	-
Other financial assets	10	23	5	38	11	18	6	35	
Total	4,018	8,905	2,035	14,958	4,350	7,593	2,462	14,405	

The following analysis shows our assessment of the coverage provided by collateral held in support of financial assets that are past due but not impaired. The estimated realisable value of collateral held is based on a combination of:

§ formal valuations currently held in respect of such collateral; and

§ management's assessment of the estimated realisable value of all collateral held given its experience with similar types of assets in similar situations and the circumstances peculiar to the subject collateral.

This analysis also takes into consideration any other relevant knowledge available to management at the time. It is our practice to obtain updated valuations when either management considers that it cannot satisfactorily estimate a realisable value or when it is determined to be necessary to move to a forced sale of the collateral.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27. FINANCIAL RISK (CONTINUED)

In the table below, a financial asset that is past due but not impaired is deemed to be fully secured where the ratio of the asset amount to our current estimated net present value of the realisable collateral is less than or equal to 100%. Such assets are deemed to be partially secured when this ratio exceeds 100% but not more than 150%, and unsecured when either no security is held (e.g. can include credit cards, personal loans, and exposure to highly rated corporate entities) or where the secured loan to estimated recoverable value exceeds 150%.

	Consolidated					
	2013			2012		
	Loans Housing and Personal %	Loans Business %	Total %	Loans Housing and Personal %	Loans Business %	Total %
Fully secured	90.7	51.2	82.1	92.6	52.0	82.8
Partially secured	2.3	25.7	7.4	2.2	24.4	7.5
Unsecured	7.0	23.1	10.5	5.2	23.6	9.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

	Parent Entity					
	2013			2012		
	Loans Housing and Personal %	Loans Business %	Total %	Loans Housing and Personal %	Loans Business %	Total %
Fully secured	94.9	48.2	84.7	94.7	51.1	84.3
Partially secured	0.9	27.7	6.8	0.5	24.9	6.3
Unsecured	4.2	24.1	8.5	4.8	24.0	9.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

27.2.9 Items 90 days past due, or otherwise in default, but well secured and not impaired

These include financial assets that are:

§ currently 90 days or more past due but well secured;

§ assets that were, but are no longer 90 days past due however are yet to satisfactorily demonstrate sustained improvement to allow reclassification; and

§ other assets in default, but well secured and not impaired, such as where an order for bankruptcy or similar legal action has been instituted in respect of credit obligations (e.g. appointment of an Administrator or Receiver).

	Australia			New Zealand			Consolidated Other Overseas			Total		
	2013 \$m	2012 \$m	2011 \$m	2013 \$m	2012 \$m	2011 \$m	2013 \$m	2012 \$m	2011 \$m	2013 \$m	2012 \$m	2011 \$m
Gross amount	2,329	2,528	2,840	136	121	138	22	37	46	2,487	2,686	3,024

NOTE 27. FINANCIAL RISK (CONTINUED)

27.2.10 Impaired loans

Financial assets assessed as impaired

The gross amount of impaired loans, along with the provision for impairment, by class of asset at 30 September, is summarised in the tables below:

	Consolidated				
	2013	2013		2012	
Loans Housing and Personal \$m	Loans Business \$m	Total \$m	Loans Housing and Personal \$m	Loans Business \$m	Total \$m