WESTPAC BANKING CORP
Form 20-F
November 13, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

o	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
Or	
x	**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	
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Or	
o	**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)

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 x No o

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 o No x

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 x No o

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 o No x (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 x Accelerated Filer o Non-accelerated filer o

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

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

Other o

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

Yes o No x

WESTPAC GROUP

2013 ANNUAL REPORT

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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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(for the purpose of filing with the United States Securities and Exchange Commission)

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INFORMATION ON WESTPAC

CORPORATE GOVERNANCE

DIRECTORS REPORT

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INFORMATION ON WESTPAC

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.

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.

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;

§ 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.

§ **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.

§ **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:

- 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
Help improve the way people work and live as our society changes	1. Ensure our workforce is representative of the community.	§ Increased the participation of women in leadership to 42%, supported by ongoing recruitment initiatives, development, talent management and leadership role modelling.
		§ 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.
		§ Facilitated and sponsored internal and external Women of Influence award programs. Nominations for the external program increased by 40% from the previous year.
		§ Continued to grow the representation of mature age employees in our workforce and put in place training, tools and support to encourage greater participation.
		§ Released a new Accessibility Action Plan in May 2013 with initiatives to increase inclusion and participation of people with disabilities.
	2. Extend length and quality of working lives.	§ Embarked on a new Wellbeing program to help employees enhance their quality of life.
		§ More than 8,400 employees completed an online wellbeing assessment and generated a personal report to identify ways to improve their wellbeing.

		§ 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
	8. Help our customers meet their financial goals in retirement.	§ 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. § 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. § Developed a Self Managed Super Fund (SMSF) bundled offer that combines relevant banking and wealth products.
	9. Increase access to financial services in the Pacific.	§ 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. § 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.
	10. Help people gain access to social and affordable housing and services.	§ 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. § 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. § Established credit underwriting standards for the Social and Affordable Housing sector.

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 sustainabililty 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).

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.

INFORMATION ON WESTPAC

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*

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 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.

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:

§ 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;

§ 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

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.

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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.

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

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;

- 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

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.

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.

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.

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;

§ 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.

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%;
- leadership[2] 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.

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;

- 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

§ 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

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

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;

§ 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;

§ 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;

§ 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.

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 *Guide to reporting on Principle 1*.	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 *Guide to reporting on Principle 2*.	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 *Guide to reporting on Principle 3*.	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.		

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

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 *Guide to reporting on Principle 5*.	Page 33	Comply
Principle 6:	**Respect the rights of shareholders**		
6.1	Design 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 *Guide to reporting on Principle 6*.	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 *Guide to reporting on Principle 7.*	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: § consists of a majority of independent Directors; § is chaired by an independent chair; and § has at least three members.	Page 26	Comply
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 *Guide to reporting on Principle 8*.	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.

		Name: Lindsay Maxsted, DipBus (Gordon), FCA, FAICD **Age:** 59 **Term of office:** Director since March 2008 and Chairman since December 2011. **Date of next scheduled re-election:** December 2014. **Independent:** Yes. **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).		**Other principal directorships:** Managing Director of Align Capital Pty Ltd and Director of Baker IDI Heart and Diabetes Institute Holdings Limited. **Other interests:** Nil. **Other Westpac related entities directorships and period of office:** Nil. **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		Linter Textiles (companies associated with Abraham Goldberg), Bell Publishing Group, Bond Brewing, McEwans Hardware and Brashs. 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. **Westpac Board Committee membership:** Chairman of the Board Nominations Committee. Member of each of the Board Audit and Board Risk Management Committees. **Directorships of other listed entities over the past three years and dates of office:** Nil.

		Name: Gail Kelly, HigherDipEd, BA, MBA with Distinction, HonDBus **Age:** 57 **Term of office:** Managing Director & Chief Executive Officer since February 2008. **Date of next scheduled re-election:** Not applicable. **Independent:** No. **Current directorships of listed entities and dates of office:** Nil. **Other principal directorships:** The Business Council of Australia and the Financial Markets Foundation for Children.		**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. **Other Westpac related entities directorships and dates of office:** Nil. **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		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. **Westpac Board Committee membership:** Member of the Board Technology Committee. **Directorships of other listed entities over the past three years and dates of office:** Nil.

DIRECTORS REPORT

		Name: John Curtis AM, BA, LLB (Hons.) **Age:** 63 **Term of office:** Director and Deputy Chairman since December 2008. **Date of next scheduled re-election:** December 2014. **Independent:** Yes. **Current directorships of listed entities and dates of office:** Nil. **Other principal directorships:** Chairman of Allianz Australia Limited. **Other interests:** Nil. **Other Westpac related entities directorships:** Nil.		**Skills, experience and expertise:** 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		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. **Westpac Board Committee membership:** Chairman of the Board Remuneration Committee. Member of each of the Board Nominations and Board Risk Management Committees. **Directorships of other listed entities over the past three years and dates of office:** Nil.
		Name: Elizabeth Bryan AM, BA (Econ.), MA (Econ.) **Age:** 67 **Term of office:** Director since November 2006. **Date of next scheduled re-election:** December 2013. **Independent:** Yes. **Current directorships of listed entities and dates of office:** Director of Caltex Australia Limited (since July 2002, and Chairman since October 2007).		**Other principal directorships:** Nil. **Other interests:** Member of the Takeovers Panel. **Other Westpac related entities directorships and dates of office:** Nil. **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		she served for six years as Managing Director of Deutsche Asset Management and its predecessor organisation, NSW State Superannuation Investment and Management Corporation. **Westpac Board Committee membership:** Chairman of the Board Risk Management Committee. Member of each of the Board Nominations, Board Remuneration and Board Technology Committees. **Directorships of other listed entities over the past three years and dates of office:** Nil.

		Name: Gordon Cairns, MA (Hons.) **Age:** 63 **Term of office:** Director since July 2004. **Date of next scheduled re-election:** Not applicable. Gordon Cairns will retire following the 2013 AGM. **Independent:** Yes. **Current directorships of listed entities and dates of office:** Director of Origin Energy Limited (since June 2007, and Chairman since October 2013). **Other principal directorships:** World Education Australia Limited. Chairman of Origin Foundation Pty Limited and Quick Service Restaurant Group Pty Limited.		**Other interests:** Senior Advisor to each of McKinsey & Company and Greenhill Australia (formerly Greenhill Caliburn). **Other Westpac related entities directorships and dates of office:** Nil. **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).		**Westpac Board Committee membership:** Member of each of the Board Remuneration and Board Risk Management Committees. **Directorships of other listed entities over the past three years and dates of office:** Nil.

Name: Ewen Crouch AM, BEc (Hons.), LLB, FAICD

Age: 57

Term of office: Director since February 2013.

Date of next scheduled re-election: December 2013.

Independent: Yes.

Current directorships of listed entities and dates of office:
Director of Bluescope Steel Limited (since March 2013).

Other principal directorships:
Sydney Symphony Limited. Chairman of Mission Australia.

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.

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

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, 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.

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

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

Name: Robert Elstone, BA (Hons.), MA (Econ.), MCom

Age: 60

Term of office: Director since February 2012.

Date of next scheduled re-election: December 2015.

Independent: Yes.

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

Other principal directorships:
University of Western Australia Business School.

Other interests: Adjunct Professor in the Schools of Business at the Universities of Sydney and Western Australia.

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

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 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.

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

Directorships of other listed entities over the past three years and dates of office: ASX Limited (July 2006 to October 2011).

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.

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 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.

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 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 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 Hartzer	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.

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.

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 Hartzer 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.

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				
Current Directors				
Lindsay Maxsted	16,654	-	-	-
Gail Kelly	1,876,588[1]	-	711,956[2]	-
John Curtis[3]	18,287	-	-	-

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.

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.

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:

	Notes	Board		Audit Committee		Risk Management Committee		Nominations Committee		Remuneration Committee		Technology Committee	
Number of meetings held during the year													
Director		**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
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.

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.

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

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 Hartzer	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.

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.

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). 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.
Performance hurdles	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)** 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. 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: ¾ AMP Limited; ¾ ASX Limited; **Cash EPS CAGR** **(50% of the allocation)** 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. 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. 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.

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

	CEO Performance Plan and Westpac Reward Plan	
Targets are set for stretch performance	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). 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.	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. 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.
Who measures the performance hurdle outcomes?	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.	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.
Early vesting is possible in limited cases	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. 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.	
Retesting	There is no re-testing on awards made since 2011. Any securities remaining unvested after the nominated measurement period lapse immediately.	
Lapsing of securities	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. 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.	

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	¾ Delivered Economic Profit of $4,113 million, representing a 16% increase over 2012 and exceeding target.
	20%	Return on Equity	¾ 16%, up 51bps on 2012 and exceeding target.
Growth	20%	Customer Growth	¾ 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. ¾ 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	¾ 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	¾ 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)	¾ Delivered sector leading capital, improved liquidity and funding profiles and an industry leading impairment charge while operating within our Group RAS. ¾ Outstanding credit quality performance.
	10%	Sustainable funding Deposit to Loan Ratio	¾ Exceeded target, achieving the 2014 target 12 months ahead of plan while delivering above target returns to shareholders.
	10%	Employee Engagement	¾ Employee Engagement of 87%, above the Global High Performing norm of 85%, indicating that our employees have confidence in our vision.
		Employee Advocacy	¾ Employee Advocacy 4 points above the Global High Performing norm, exceeding target.

		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.
Productivity	10%	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:

¾ 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.

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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 share2,3	$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 Date1**	**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 2	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 2	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

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 Hartzer[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 Hartzer 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 Hartzer 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:

¾ Robert Elstone was appointed Chairman of the Audit Committee, replacing Peter Wilson, effective 13 December 2012; and

¾ 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.

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 Wilson1	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:

	Short-term Benefits		Post Employment Benefits		
Name	Westpac Banking Corporation Board Fees1 $	Subsidiary and Advisory Board Fees $	Superannuation $	Retiring Allowance Accrued During the Year4 $	Total $
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
20123	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.

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.

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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.

	Short-term Benefits				Post Employment Benefits		Share-based Payments			
Name	Fixed Remu-neration1 $	STI (cash)2 $	Non-monetary Benefits3 $	Other Short-term Benefits4 $	Superann-uation Benefits5 $	Long Service Leave6 $	Restricted Shares7 $	Options8 $	Share Rights8 $	Total9 $
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 Hartzer, Chief Executive, Australian Financial Services10										
2013	2,145,092	1,088,100	3,028	-	18,927	33,487	72,161	-	114,447	3,475,242
FY13 Remuneration impact relating to recruitment										
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 Hartzer 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 Hartzer on his recruitment in 2012 relates to equity foregone with his previous employer and will be forfeited if Mr Hartzer 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 Hartzer 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 Hartzer 2%, Christine Parker 6%, Greg Targett 13%, Rob Whitfield 8% and Jason Yetton 11%.

10 Brian Hartzer 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 Hartzer 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 STI[1]	STI Portion Paid in Cash[2]		STI Portion Deferred[3]	
	$	%	%	$	%	$
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 Hartzer	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.

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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 Hartzer	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	-

	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 Date1	Test Date	Expiry	Fair Value2 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	¾ CEO and all Senior Executives	¾ Ongoing until notice given by either party
Notice to be provided by the executive or the Group to terminate the employment agreement	¾ CEO and Senior Executives	¾ 12 months1
	¾ Jason Yetton	¾ 6 months1
Termination payments to be made on termination without cause	¾ CEO and all Senior Executives	¾ Deferred STI and LTI awards vest according to the applicable equity plan rules

Termination for cause	¾ CEO, John Arthur, Brian Hartzer, Christine Parker, Greg Targett, Rob Whitfield and Jason Yetton	¾ Immediately for misconduct ¾ 3 months notice for poor performance
	¾ All other Senior Executives	¾ Immediately for misconduct ¾ Standard contractual notice period for poor performance
Post-employment restraints	¾ CEO and all Senior Executives	¾ 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:

¾ **Gail Kelly** The restricted period on all unvested 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;

¾ **Peter Clare** Provisions relating to his relocation from Sydney to Auckland;

¾ **Brian Hartzer** Provisions relating to his relocation from London to Sydney;

¾ **Christine Parker** Provisions relating her relocation from Auckland to Sydney; and

¾ **Rob Whitfield** Provisions relating to accommodation in Sydney.

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

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:

a. no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Westpac Banking Corporation and the entities it controlled during the period.

Michael Codling	Sydney, Australia
Partner	4 November 2013
PricewaterhouseCoopers	

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:

¾ 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

¾ none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accounts*.

Signed in accordance with a resolution of the Board.

Lindsay Maxsted	Gail Kelly
Chairman	Managing Director & Chief Executive Officer
4 November 2013	4 November 2013

02

FIVE YEAR SUMMARY

READING THIS REPORT

REVIEW OF GROUP OPERATIONS

DIVISIONAL PERFORMANCE

RISK AND RISK MANAGEMENT

FIVE YEAR SUMMARY[1]

(in $millions unless otherwise indicated)	**2013**	2012	2011	2010	2009
Income statements for the years ended 30 September[2]					
Net interest income	12,865	12,502	11,996	11,842	11,646
Non-interest income	5,774	5,481	4,917	5,068	4,859
Net operating income before operating expenses and impairment charges	18,639	17,983	16,913	16,910	16,505
Operating expenses	(7,927)	(7,909)	(7,406)	(7,416)	(7,171)
Impairment charges	(847)	(1,212)	(993)	(1,456)	(3,238)
Profit before income tax	9,865	8,862	8,514	8,038	6,096
Income tax expense	(2,975)	(2,826)	(1,455)	(1,626)	(2,579)
Profit attributable to non-controlling interests	(74)	(66)	(68)	(66)	(71)
Net profit attributable to owners of Westpac Banking Corporation	6,816	5,970	6,991	6,346	3,446
Balance sheet as at 30 September[2]					
Loans	536,164	514,445	496,609	477,655	463,459
Other assets	160,439	160,520	173,619	140,622	126,128
Total assets	696,603	674,965	670,228	618,277	589,587
Deposits and other borrowings	424,482	394,991	370,278	337,385	329,456
Debt issues	144,133	147,847	165,931	150,971	133,024
Loan capital	9,330	9,537	8,173	9,632	11,138
Other liabilities	71,177	76,371	82,038	80,171	79,398
Total liabilities	649,122	628,746	626,420	578,159	553,016
Total shareholders equity and non-controlling interests	47,481	46,219	43,808	40,118	36,571
Key financial ratios					
Shareholder value					
Dividends per ordinary share (cents)	174	166	156	139	116
Special dividends per ordinary share (cents)	20	-	-	-	-
Dividend payout ratio (%)[3]	78.9	84.8	67.0	64.9	92.6
Return on average ordinary equity (%)	15.4	14.0	17.8	17.4	10.8
Basic earnings per share (cents)	220.4	195.8	233.0	214.2	125.3
Net tangible assets per ordinary share ($)[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.

5

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.

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

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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REVIEW OF GROUP OPERATIONS

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 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 administrating the contracts, mortality and morbidity experience, discontinuance experience and the rate at which projected future cash flows are discounted.

REVIEW OF GROUP OPERATIONS

INCOME STATEMENT REVIEW

Consolidated income statement1

			Year Ended 30 September			
	2013	**2013**	2012	2011	2010	2009
(in $millions unless otherwise indicated)	**US$2**	**A$**	A$	A$	A$	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.

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 $m	2012 $m	2011 $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.

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 spread1	1.91%	1.87%	1.87%
Benefit of net non-interest bearing assets, liabilities and equity2	0.23%	0.29%	0.32%
Net interest margin3	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

§ 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 $m	2012 $m	2011 $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 **$m**	2012 $m	2011 $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 **$m**	2012 $m	2011 $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 **$m**	2012 $m	2011 $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.

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.

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;

- 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.

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$m2	**A$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 capital3	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 receivables4	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.

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

			Year Ended 30 September			
	2013	**2013**	2012	2011	2010	2009
(in $millions unless otherwise indicated)	**US$1**	**A$**	A$	A$	A$	A$
Profitability ratios (%)						
Net interest margin2	2.14	2.14	2.16	2.19	2.21	2.38
Return on average assets3	1.00	1.00	0.90	1.11	1.04	0.60
Return on average ordinary equity4	15.4	15.4	14.0	17.8	17.4	10.8
Return on average total equity5	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 ratio6	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

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	2012	2011
	$m	$m	$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	2012	2011	2010	2009
	$m	$m	$m	$m	$m
Impaired loans					
Non-performing loans1:					
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 loans2	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

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 September[1] are summarised in the table below:

	2013	2012
	$m	$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 debt1	26,879	44,071	30,514	11,445	112,909
Operating leases2	509	948	764	1,684	3,905
Other commitments2	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

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.

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.

DIVISIONAL PERFORMANCE

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.

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.

DIVISIONAL PERFORMANCE

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 $m	2012 $m	2011 $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

	$m	**$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.

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:

§ 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.

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 $m	2012 $m	2011 $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.

DIVISIONAL PERFORMANCE

DIVISIONAL PERFORMANCE 2012 V 2011

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.

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

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.

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:

- 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.

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

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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.

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

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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.

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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, 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 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.

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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

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

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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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 Market s trading book activity represents dealings that encompass book running and distribution activity. Treasury s 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:

	Consolidated and Parent Entity1								
	30 September 2013			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 risk2	6.1	1.2	2.9	5.1	1.0	2.5	6.6	1.1	2.7
Other market risks3	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	