WESTPAC BANKING CORP
Form 20-F
November 14, 2011

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, 2011	
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)

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 five ordinary shares	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: **2.25% Notes due November 19, 2012, 2.10% Notes due August 2, 2013, 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, 3.0% Notes due December 9, 2015, 4.625% Subordinated Notes due 2018 and 4.875% Notes due November 19, 2019**

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	**3,030,226,016 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

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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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Section 1

Information on Westpac

Corporate governance

Directors report

Remuneration report

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* (Corporations Act).

As at 30 September 2011, our market capitalisation was $61.6 billion3 and we had total assets of $670.2 billion.

Business strategy

Our strategy is aimed at building deep and enduring customer relationships such that customers stay with us, conduct more business with us and recommend us to others. We seek to meet our customers total banking and wealth needs and earn all of their business. A key element of this approach is our multi-brand model our family of much loved financial services brands which enables us to appeal to a broader range of customers.

In implementing this strategy, we seek to grow customer numbers in chosen segments and increase the number of products per customer with a specific focus on wealth and insurance cross sell. At the same time, we seek to build long-term customer relationships and maintain high levels of customer retention.

We also have a continued focus on streamlining and simplifying our business, to improve the quality of experience for customers and reduce our costs to serve.

We believe that successful execution of this strategy will lead to higher revenue per customer, strong credit quality (because we know our customers very well) and a superior cost profile.

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

Our ***aspiration*** is to:

§ have a family of much loved financial services brands;

§ be recognised for enduring customer relationships;

- be a place where the best people want to work;
- be a leader in the community; and
- be a great investment.

1 Refer to Note 38 to the financial statements for a list of our controlled entities as at 30 September 2011.

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 2011.

Our ***mission*** is to earn all of our customers business.

Our ***focus*** is on:

- delighting our customers;
- having the right people in the right roles; and
- our reputation.

We have strong ***values***, which are well embedded in our culture. We believe that the following values will help us deliver our strategy:

- working as one team;
- delighting customers;
- acting with integrity;
- achievement; and
- valuing each other.

Strategic priorities

Consistent with our business strategy, our priorities are centred on continuously improving our customer relationship capabilities and offerings, specifically to:

a) Focus on chosen customer segments, aiming to deepen relationships with customers, especially in savings and wealth management by

§ putting the customer at the centre of everything we do;

§ establishing and driving high performing and locally empowered businesses close to the communities they serve;

§ developing and implementing compelling customer segment strategies, bringing banking and wealth management together for the customer; and

§ strengthening the skills and depth of our people.

b) Become faster, simpler, more efficient and easier to do business with

§ by having processes and solutions designed from the customer s perspective;

§ through a focus on convenience, simplicity and flexibility; and

§ reducing the cost to serve customers across the business through streamlining processes, continuing the integration of back office processing and reviewing our sourcing and procurement arrangements.

c) Realise our multi-brand advantage by

§ gaining new customers through offering greater choice and access to customers who have a preference for a local banking brand and customers who prefer a strong national brand;

§ meeting customer preferences and building deeper customer relationships; and

§ continuing to increase the productivity and efficiency of the multi-brand model by leveraging expertise and sharing costs across the Group.

d) Make our people an important part of our advantage

§ through tailored recruitment and induction processes;

§ with a continuing focus on training and coaching; and

§ by having a flexible and diverse workforce.

e) Deliver on our strategic investment priorities

§ the strategic investment priorities are a suite of major investments designed to enhance Westpac s systems and technology infrastructure; and

Information on Westpac

§ the investments are initially focused on improving capability close to the front line including a new teller and call centre platform in Westpac, a new online platform across the Westpac Group and the development of critical infrastructure that supports multiple brands.

f) Lead in reputational and sustainability matters

§ by ensuring that each decision we make is consistent with our customer-focused strategy, and by continuing to actively support the communities in which we operate;

§ through further embedding sustainability concepts in all elements of our businesses;

§ through ongoing joint endeavours with our not-for-profit partners; and

§ by continuing to develop strong risk management capabilities as a competitive advantage.

Organisational structure

Our operations comprise the following five key customer-facing business divisions operating under multiple brands, serving around 12.2 million customers[1]:

§ Westpac Retail & Business Banking, which we refer to as Westpac RBB, is responsible for sales and service for our consumer, small-to-medium enterprise customers and commercial customers (typically with turnover of up to $100 million) in Australia under the Westpac and RAMS[2] brands. Activities are conducted through Westpac RBB s nationwide network of branches and business banking centres, home finance managers 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 channels.

§ Westpac Institutional Bank, which we refer to as 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, margin lending, broking and alternative investment solutions. Customers are supported through branches and subsidiaries located in Australia, New Zealand, United States, United Kingdom and Asia.

1 All customers, primary and secondary, with an active relationship (excludes channel only and potential relationships) as at 30 September 2011.

2 RAMS is our home loan franchise distribution business. As of 1 October 2011, RAMS forms part of the St.George Banking Group division.

§ St.George Banking Group is responsible for sales and service for our consumer, business and corporate customers in Australia under the St.George, BankSA and Bank of Melbourne brands. 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.

§ BT Financial Group (Australia), which we refer to as BTFG, is Westpac s wealth management business. BTFG s funds management operations include the manufacturing and distribution of investment, superannuation and retirement products, investment platforms such as Wrap and master trusts and private banking and financial planning. BTFG s insurance solutions cover the manufacturing and distribution of life, general and lenders mortgage insurance and deposit bonds. BTFG s brands include Advance Asset Management, Ascalon, Asgard, BT, BT Investment Management (64.5% owned by Westpac and consolidated in BTFG s Funds Management business), Licensee Select, Magnitude, Securitor and the advice, private banking and insurance operations of Bank of Melbourne, BankSA, St.George and Westpac.

§ New Zealand Banking is responsible for sales and service of banking, wealth and insurance products for consumers and small-to-medium business customers in New Zealand. The sales and service division operates via an extensive network of branches and ATMs across both the North and South Islands. Institutional customers are supported by the New Zealand Institutional Bank, the results of which appear within WIB. Banking products are provided under the Westpac brand while insurance and wealth products are provided by Westpac Life New Zealand and BT New Zealand. We conduct our New Zealand banking business through two banks in New Zealand: consumer and business banking operations are provided by Westpac New Zealand Limited, which is incorporated in New Zealand, and institutional customers are supported by Westpac Banking Corporation (NZ Division), a branch of Westpac, which is incorporated in Australia and forms part of WIB[3].

3 On 1 November 2011, various business activities of Westpac Banking Corporation (NZ Division) were transferred to Westpac New Zealand Limited. See New Zealand Transfer of additional banking operations to Westpac New Zealand Limited on 1 November 2011 in Significant developments .

Other divisions in the Group include:

- Pacific Banking, which provides banking services for retail and business customers in seven Pacific countries;
- Product & Operations, which is responsible for consumer and business product development and operations;
- Group Treasury, which is primarily focused on the management of the Group s interest rate risk and funding requirements;
- Technology, which is responsible for developing and maintaining reliable and flexible technology capabilities and technology strategies; and
- Core Support, which comprise those functions performed centrally including finance, risk, legal 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

Managing sustainability

Our sustainability approach

We have a set of goals to make sustainability part of the way we do business including embedding sustainability into our strategy, values, culture and processes including supply chain, risk management, and product development.

During the year ended 30 September 2011, work was also undertaken to redefine our sustainability strategy with a focus on emerging social issues.

Application of the AA1000 Principles

Our approach to sustainability is aligned to the AA1000 AccountAbility Principles Standard (2008), a voluntary framework developed by the UK based AccountAbility organisation. The standard establishes a framework for identifying, managing and communicating sustainability issues. Underpinning the framework are three key principles:

§ inclusivity;

§ sustainability materiality; and

§ responsiveness.

Utilising these principles assists us to identify and respond to issues that matter to the long-term prosperity of our business, our customers, our people and our communities.

Inclusivity

Open dialogue with a wide range of stakeholder groups is important to better understand how we impact upon each other. Open dialogue also assists us to understand emerging trends and issues so we can best respond to these challenges.

Key components of our approach to inclusivity during 2011 have included:

§ continued work to better understand and address customer concerns;

§ specific engagement with external stakeholders to identify future areas of sustainability focus;

§ work to better understand drivers of employee advocacy;

§ the continued use of Net Promoter Score (NPS) measures across the Group;

§ the further roll out of more explicit monitoring of our reputation across a range of stakeholders; and

§ a review of our main stakeholder consultation body, the Community Consultative Council (CCC), which has led to the creation of a smaller, more focused stakeholder reference group.

We have increased our engagement with the local community as well as maintained specific issue-based engagements and our CCC.

Sustainability materiality

In addition to the stakeholder consultation approach described above, issues, risks and opportunities are also identified from a wide range of sources such as strategic planning sessions, media coverage and government priorities.

We prioritise issues according to their impact on our stakeholders, our business operations and financial outcomes. We use a prescriptive process to categorise and weigh individual issues. Issues are reviewed internally and endorsed by the Board Sustainability Committee before being reviewed by our external sustainability assurers, KPMG.

Significant issues identified in 2011 included: interest rates and fees, customer service, keeping our brands distinctive in our multi-brand strategy, future growth of our business, IT systems, diversity and flexibility, regulation, employee development, climate change, and responsible lending and investment.

As part of a review of our sustainability strategy during 2011, we undertook a structured exercise to examine emerging issues. The process sought to identify issues where we can have a meaningful impact and that are:

§ emerging and not yet reflected in our strategy and current business practice;

§ material in terms of impacting a large number of stakeholders;

§ relevant to our role as a financial institution; and

§ aligned with our organisational competencies and skills as a major financial institution.

From this process we identified three areas of strategic focus:

§ responding to the impact of demographic change in our workforce and customers;

§ providing economic solutions to environmental challenges; and

- creating sustainable financial futures for our customers.

Responsiveness

These issues feed directly into the development of our sustainability strategy and objectives setting.

We set ourselves a number of objectives for completion between 2011 and 2014, and we have achieved good progress in most areas. Details of our current performance are provided on the following pages.

The following table sets out our performance against 2011 sustainability objectives:

Customer		
To be ranked as the top 1 and 2 for Net Promoter Score (NPS) in Australia among the major banks and St.George Banking Group.	Í	St.George and Westpac continue to be ranked 1 and 2 respectively for NPS among the major banks for business customers. Within the priority business segments, St.George and Westpac continue to rank 1 and 2 in the small-to-medium enterprise and commercial segments. For consumer NPS, St.George and Westpac are currently ranked 1 and 4 respectively amongst the major banks.
Achieve NPS scores of +1 for retail and 12 for business in Westpac New Zealand.	Í	While the NZ retail NPS has steadily improved, the target has not yet been reached.
Top 3 regional player in carbon related markets by 2013.	due 2013	Lead bank in the NZ Emissions Trading Scheme (NTS). WIB recognised by Environmental Finance Magazine in its survey of customers, peers and competitors, being named Best Trading Company in Australasia and runner up Best Finance House renewable Energy Finance in Asia-Pacific in 2010.
Employee		
To increase the percentage of Women in Leadership roles to 40% by the end of 2014.	due 2014	The Group is on track to achieve its Women in Leadership target, with 37.5% of leadership roles currently held by women.
Implement initiatives to address the outcomes of our Diversity Audit.	ü	Diversity plans have been developed for each business unit, with a particular focus on flexibility, in response to the Diversity Audit conducted in Full Year 2010.
Community		
Reduce Scope 1 and 2[1] emissions by 30% on 2008 levels[2] by 2013.	due 2013	Scope 1 and 2 greenhouse gas (GHG) emissions have reduced by 7% from the 2008 baseline, despite growth in the property portfolio and increased use of technology as our business continues to grow.
Embed Organisational Mentoring into operational processes by 2013.	due 2013	Since inception over 230 employees have applied to act as mentors with over 50 not-for-profit organisations and social enterprises. In 2011 there were over 95 active participants as part of employee development programs.
Provide the Managing Your Money program to 45,000 New Zealanders by 2013.	ü	The target has been exceeded. 46,146 people have already been through the program since it commenced in 2009.
Launch a major initiative to help address social disadvantage.	ü	In December 2010 the Group launched a major initiative with Mission Australia to address family homelessness in Australia. The strategic partnership includes funding specific projects as well as developing a social innovation fund to more affordable housing nationally.

Business		
Incorporate consideration of Environmental, Social and Governance (ESG) issues into relevant risk management policies, practices and decision making processes by 2013.	due 2013	Further progress has been made with the expansion of our Principles for Responsible Lending to cover all retail and business customers in all brands.
Embed responsible lending and investment practices in key processes by 2013.	due 2013	Across the investment management business and particularly in Advance Asset Management, work has continued to integrate ESG factors into mainstream investment management in line with BTFG s commitments under the United Nations Principles of Responsible Investment. This has included setting out Advance s sustainable investment philosophy and beliefs , and including ESG related questions and assessment in the manager review and appointment process.

1 Scope 1 emissions are all direct GHG emissions generated by the organisation. Scope 2 emissions are GHG emissions from energy (typically electricity) purchased by the organisation.

2 The 2008 baseline has been adjusted to include St.George Banking Group on a pro forma basis.

Information on Westpac

5 year non-financial summary

Non-financial information as at 30 September unless indicated otherwise1	2011	2010	2009	2008	2007
Customer2					
Total customers (millions)3	12.2	11.8	11.4	6.9	6.7
Total online customers active registrations (millions)	5.4	4.8	4.3	3.3	2.9
Number of points of bank representation	1,532	1,517	1,491	1,089	1,073
Number of ATMs	3,544	3,625	3,540	2,285	2,207
Percentage of Talking ATMs (%)4	88	n/a	n/a	n/a	n/a
NPS5 Westpac Australia affluent6	(17)	(24)	(16)	n/a	n/a
NPS Westpac Australia commercial7	3	(7)	(5)	n/a	n/a
NPS Westpac Australia SME7	(10)	(21)	(24)	n/a	n/a
NPS Westpac New Zealand consumer8	(9)	(14)	(17)	(19)	n/a
NPS Westpac New Zealand business9	(29)	(28)	(38)	(28)	n/a
NPS St.George10 consumer6	(2)	(4)	(9)	(13)	n/a
NPS St.George10 business7	(5)	3	(21)	n/a	n/a
Social Sector Banking Footings ($m)11	8,210	7,101	6,072	n/a	n/a
Responsible Investment Funds Under Management ($m)12	644	891	717	513	552
Employees					
Total core full time equivalent staff (number at financial year end)	33,898	35,055	34,189	26,717	25,903
Employee engagement Group (%)13	81	80	81	78	n/a
Employee Voluntary Attrition Aust, NZ and WIB Offshore (%)14	11.5	11.8	n/a	n/a	n/a
New starter retention (%)15	83.8	n/a	n/a	n/a	n/a
High performer retention (%)16	95.3	94.3	n/a	n/a	n/a
Lost time injury frequency ratio (LTIFR) Group17	2.5	2.6	2.6	3.4	3.8
Women as a percentage of the total workforce Group (%)	61	61	62	63	64
Women in Leadership Group (%)18	37.5	35.4	n/a	n/a	n/a
Environment					
Total Scope 1 and 2 emissions Aust and NZ (tonnes CO2-e)19	184,124	189,425	187,239	197,002	108,893
Total Scope 3 emissions Aust and NZ (tonnes CO2-e)20	57,163	70,457	61,846	47,694	33,915
Total paper usage Aust and NZ (tonnes)21	6,262	6,655	7,146	8,791	6,542
Proportion of infrastructure and utilities financing in renewables and hydro Aust and NZ (%)22	45	52	51	56	n/a
Finance assessed under the Equator Principles Group ($m)23	383	364	1,292	1,315	2,176
Social					
Community investment Group ($m)24	135	136	84	64	58
Community investment as a percentage of pre-tax profits Group (%)25	1.59	1.69	1.38	1.22	1.13
Community investment as a percentage of operating profit before income tax (Cash Earnings basis) Group26	1.50	1.60	1.24	1.20	1.15
Financial education courses completed27	36,838	n/a	n/a	n/a	n/a
Supply chain					
Total supply chain spend Aust ($bn)28	4.61	4.39	4.17	2.70	3.00
Percentage of top 150 suppliers ($ invoiced) screened for sustainability Aust (%)29	92	86	99	99	94

1 n/a indicates information was not collected in the relevant year.

2 Unless otherwise stated, all data from 2009 includes St.George Banking Group.

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

4 ATMs have additional functionality to allow users to plug in an earpiece for verbal instruction to provide additional assistance for visually impaired users. New indicator 2011.

5 Refers to Net Promoter Score to determine the net percentage of customers who would recommend their Main Financial Institution to a friend or colleague. Net Promoter ScoreSM is a service mark of Bain & Company, Inc., Satmetrix Systems, Inc., and Mr Frederick Reichheld.

6 Source: Roy Morgan Research, 6MMA.

7 Sources: DBM Consultants Business Financial Service Monitor, September 2010-2011, 6MMA; TNS Business Financial Monitor September 2008-2009, 6MMA.

8 Source: AC Nielsen Consumer Finance Monitor Toplines, 6MMA.

9 Source: TNS New Zealand Business Finance Monitor, September 2011. Four quarter rolling average.

10 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 Retail and Business Banking.

11 Data refers to the total of assets (loans), liabilities (deposits) and funds under management (FUM) of the WRBB business unit dedicated to not for profit customers. 2010 revised to include footings as at 30 September 2010.

12 Refers to FUM which are managed using sustainable and/or ethical investment processes.

13 Employee engagement score is out of 100; prepared for 2007 to 2010 by Towers Watson. 2011 data collected by Westpac Group using Towers Watson methodology under license. 2011 data excludes Pacific Banking.

14 Employee Voluntary Attrition refers to the total voluntary separation of permanent employees / 12 month average total permanent headcount (full time, part time and maximum term employees). Excludes Pacific Banking.

15 Total New Starter retention/12 month rolling New Starter headcount. Full year 2011 includes full time and part time permanent employees only. Excludes Pacific Banking.

16 Total High Performer Retention/12 month rolling High Performer headcount. Includes full time, part time permanent and maximum term employees. Excludes Pacific Banking.

17 Lost Time Injury Frequency Ratio (LTIFR) measures injuries per million hours worked.

18 Women in Leadership refers to the proportion of women (permanent and maximum term) in people leadership roles or senior roles of influence as at 30 September as a proportion of all leaders across the Group. Includes CEO, Executive Team, General Managers, Senior Managers refers to direct reports to General Managers and the next two levels of management. Aligned to the Equal Opportunity for Women in the Workplace Agency (EOWA) standard in September 2010. September 2010 has been restated to reflect an accurate decimal place.

19 Refers to Scope 1 and 2 emissions in Australia and New Zealand from 1 July 2010 to 30 June 2011. Prepared in line with the Greenhouse Gas Protocol, the National Greenhouse and Energy Reporting Act (2007) for Australia, and the Certified Emissions Measurement and Reduction Scheme (CEMARS) for New Zealand.

20 Scope 3 emissions are GHG emissions from indirect sources (typically from purchased materials, products and services).

21 Total paper consumed (in tonnes) by Westpac Group as reported by its suppliers for the period 1 July 2010 to 30 June 2011. Includes copy paper and printed materials, including direct mail and marketing documents. Australian figure also includes stationery and kitchen and bathroom products.

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

23 Voluntary principles used to assess project finance activities, full list of Principles can be found at www.equator-principles.com

24 2007 and 2008 was previously disclosed for Australia only and has been revised to include the Group total. 2010 revised to include a one-off $20 million contribution to the Westpac Foundation, and new methodology for calculating foregone fee revenue.

25 2007 and 2008 was previously disclosed for Australia only and has been revised to include the Group total.

26 St.George data is included from 2009 onwards. The 2008 ratio is on reported (not pro forma) Cash Earnings.

27 Refers to number of people (staff and otherwise) who have completed a financial education program offered by the Westpac Group.

28 Refers to the total dollars spent in AUD with external suppliers during the reporting period.

29 Refers to the percentage of top 150 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.

Information on Westpac

Competition

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

We serve the banking and wealth needs of a broad set of customer segments from small businesses to large corporate and institutional clients on the business side and across all consumer segments. The Westpac Group competes for customers, and their business, with other players across a wide range 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 also include a range of other 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.

Our competitive position is determined by a variety of factors. These factors include:

§ the type of customers or customer segments served;

§ customer service 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 competition for deposits intensify as some traditional sources of funding, such as securitisation, have become more difficult. Banks and other financial institutions seek to reduce their reliance on wholesale funding to better position themselves for pending regulatory liquidity requirements.

We expect competition for lending to also remain intense. In mortgages, the desire of some players to aggressively maintain or grow their market share using price has seen particularly aggressive competition over the last 12 months and this is expected to continue, particularly if lending growth remains modest. In business lending, competition is likely to increase when business confidence improves and investment returns.

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 emerging regulatory changes.

The New Zealand economy, which suffered a more significant slowdown in economic activity than Australia during the global financial crisis, is showing some early signs of improvement. As a result, we expect to see renewed competition for customers business as confidence improves, notwithstanding that a number of smaller non-bank institutions have exited the New Zealand market.

Outlook1

The Australian economy ended the year to 30 September 2011 a little weaker than it started, with growth easing on the back of lower consumer and business confidence. The weaker activity has been a function of some domestic uncertainty combined with a heightening of sovereign debt issues in Europe, and a softer US economy. Despite this, Australia s economic fundamentals remain sound with solid employment, well controlled inflation and a very robust mining sector. In addition, the Australian authorities retain flexibility with both the monetary and fiscal policy capacity to respond to any material change in global growth expectations.

Globally, conditions in the developed world remain more challenging with sovereign debt concerns contributing to a slowing of global economic activity and a weakening in the growth outlook. At the same time the associated disruption in financial markets has increased uncertainty and impacted global confidence.

In Asia, the region most relevant to Australia, growth has eased but is expected to remain robust as these economies reorientate to internally driven growth rather than relying on demand from developing nations.

Given this environment, growth within Australia is expected to remain modest. However, with sound economic foundations, and good support from Australia s proximity to Asia, output is likely to be stronger and more stable than many other developed nations. For banks, the current consumer and business caution combined with the growth outlook is likely to see lending growth remain relatively subdued for the medium term with a stronger deposit outlook.

With a solid operating performance across all divisions, combined with a strong balance sheet, Westpac believes it is well positioned to respond to this challenging operating environment. Nevertheless, in 2012 the Group will seek to further improve its efficiency to maintain sound returns. This will include focus on:

§ further building on the productivity initiatives commenced in late 2010, including the implementation of new sourcing arrangements and further optimising our multi-brand model;

§ continued strengthening of the balance sheet with a particular focus on improving the asset/liability mix;

§ ensuring we gain maximum return from the significant investment already made across the business over recent years; and

§ responding pro-actively and in a disciplined way to the increased regulatory agenda.

The Group will also continue to invest in the year ahead with our approach remaining highly targeted to areas where the greatest opportunities exist. These include the build-out of Bank of Melbourne, organic expansion in Asia and continuing to improve the sale of wealth and insurance products via cross sell. Our SIPs investment program is also a key element of this agenda that we expect to continue to enhance and strengthen our technology infrastructure.

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

Given our strong starting position and the momentum we carried into the final part of the 2011 financial year, we believe that Westpac is well placed to continue delivering sound, high quality returns for shareholders.

Significant developments

Tax consolidation following the merger with St.George Bank Limited

On 1 December 2008, Westpac completed its merger with St.George by way of a scheme of arrangement. For tax consolidation purposes, the consolidation of St.George and Westpac occurred on 31 March 2009. As part of the tax consolidation process, Westpac was required to reset the tax value of certain St.George Bank assets to the appropriate market value of those assets on 31 March 2009. A number of St.George Bank derivative contracts were assessed as having a market value, at the time of tax consolidation, higher than their original value. Pending the determination of the tax consolidation outcome, Westpac s accounting for these contracts had factored in tax on this increase in value.

Following clarification of the interaction between the taxation of financial arrangements (TOFA) legislation and the tax consolidation rules, tax consolidation relating to the merger with St.George has been finalised. The approach agreed with the Australian Taxation Office (ATO) is that tax is not required to be paid on the increase in the value of the derivative contracts.

As announced on 26 October 2010, the combined reduction in tax paid/payable was $685 million for the 2009 and 2010 tax years. On 11 March 2011, Westpac announced that for the 2011 to 2014 tax years it had been determined that tax payable will be reduced by $1,110 million on a straight-line basis over four years. The combined reduction in tax paid/payable will provide a benefit to Westpac s Tier 1 capital ratio by over 64 basis points, of which 34 basis points is reflected in the Tier 1 capital ratio at 30 September 2011. The remaining 30 basis points will be reflected in the Tier 1 capital ratio evenly over the next three years. For accounting purposes a reduction in income tax expense of $685 million was recorded in 2010 and $1,110 million in 2011.

Credit ratings

On 6 January 2011, Standards & Poor s announced that it is changing its methodology for determining bank ratings, and published its initial proposals. On 20 April 2011, Standard & Poor s announced that it had received numerous comments on the proposals and indicated that it expects to publish its final criteria first, and then take ratings actions soon afterwards in the fourth-quarter of 2011. On 7 October 2011, Standard & Poor s announced that it remains on track to finalise and implement the criteria on that timetable.

On 18 May 2011, Moody s Investors Service (Moody s) advised us, along with the other major Australian banks, that our long-term, senior unsecured debt rating was downgraded to Aa2 from Aa1. Further, on 27 May 2011, Moody s advised WNZL, along with the other major New Zealand banks, that its long-term senior unsecured debt rating was downgraded to Aa3 from Aa2. The outlook for both of these ratings is stable.

Bank of Melbourne

The Group launched the Bank of Melbourne in Victoria on 25 July 2011 by converting 34 branches and 5 corporate banking centres of St.George in Victoria to the Bank of Melbourne, and opening 14 new Bank of Melbourne branches. Over the next five years, the Bank of Melbourne has plans to grow to over 100 branches and corporate banking centres and 300 ATMs. Investment involved in launching the Bank of Melbourne, including establishing the infrastructure to support the new bank, was approximately $108 million for the year ended 30 September 2011.

Liquidity

On 16 December 2010, the Basel Committee on Banking Supervision (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 LCR requires banks to hold sufficient high-quality liquid assets, as defined, to withstand 30 days under an acute stress scenario. As 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 the Australian Prudential Regulation Authority (APRA), that it will make available to Australian institutions a committed secured liquidity facility that can be utilised to meet the LCR requirement. The terms and conditions of this liquidity facility are yet to be determined.

The timetable for implementing the liquidity standard schedules the LCR to be introduced 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.

APRA has not yet released draft prudential standards regarding the implementation of the Basel III liquidity framework in Australia. Until the Australian standards are released, the full extent of the impact on the Westpac Group is uncertain. Notwithstanding the uncertain requirements, Westpac expects to increase its holding of high-quality and third party liquid assets.

Capital

On 16 December 2010 the BCBS released final text of the Basel III capital framework. The framework 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.

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.

Information on Westpac

APRA released a discussion paper for consultation in September 2011. Based on the discussion paper, Westpac believes it is well placed to meet the new capital requirements within the timeframes proposed. However, until APRA s final prudential standards are issued and APRA advises institutions of their prudential capital ratios, the full extent of the impact on the Westpac Group cannot be confirmed.

Systemically Important Financial Institutions (SIFIs)

In July 2011, the BCBS proposed a policy framework which calls on jurisdictions to put in place additional requirements for institutions deemed to be SIFIs. Initially higher loss absorbency and other requirements will be applied to global systemically important financial institutions (G-SIFIs). The BCBS will deliver its final recommendations in November 2011. As the details of the additional regulatory measures and the determination of which banking institutions will be classified as G-SIFIs are not yet finalised, the implications for Westpac cannot be determined at this stage.

Recovery and Resolution Planning

In July 2011, the Financial Stability Board (FSB) issued a consultative document setting out a comprehensive package of proposed 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 consultation package, the FSB proposed that 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. The FSB is to deliver final recommendations to the Group of Twenty in early November 2011. Until the global standards are finalised and any APRA implementation is proposed, the full extent of impact on the Westpac Group is uncertain.

OTC Derivatives Reform

The Over the Counter (OTC) derivatives market is undergoing significant reform globally with regulators mandating central clearing for standardised OTC derivatives; encouraging exchange trading where appropriate; imposing higher capital charges on non-cleared products; and requiring all transactions to be reported to trade repositories. Locally, the Council of Financial Regulators (APRA, ASIC, RBA and the Australian Treasury) released a discussion paper on the mandatory clearing of OTC derivatives in Australia in June 2011. The paper covers only the mandatory clearing element of the OTC reform agenda, with consultation to follow on trading platforms and trade repositories. The issues raised in the paper are complex, with the Council seeking to establish stakeholders views before any final decision is made.

Westpac is closely monitoring the offshore developments and is actively engaging with local and international regulators, trade associations, banks, and clearing houses. Work has also commenced to develop a clearing solution to comply with the offshore requirements which capture Westpac s operations. As both the international and local reforms are not yet finalised, the full extent of the impact on the Westpac Group s operations remains unclear.

Financial Claims Scheme

On 12 December 2010, the Australian Government announced its intention to confirm the permanent continuance of the Financial Claims Scheme (FCS). The FCS was established by the Australian Government in 2008, and provides depositors a free guarantee of deposits in eligible Authorised Deposit-taking Institutions (ADIs) up to and including $1 million. In September 2011 the Australian Government announced a reduced cap to be introduced from 1 February 2012 of $250,000 per person per institution. The new cap is permanent, subject to continued advice from Australia s financial regulators that the cap remains appropriate.

The FCS applies to an eligible ADI if APRA has applied for the winding up of the ADI and the responsible Australian Government minister has declared that the FCS applies to that ADI. The *Financial Claims Scheme (ADIs) Levy Act 2008* provides for the imposition of a levy to fund the excess of certain of APRA s financial claims scheme costs connected with that ADI. The levy would be imposed on liabilities of eligible ADIs to their depositors and cannot be more than 0.5% of the amount of those liabilities.

United States

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

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)

In response to the global financial crisis, new 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 limitations 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 is far from complete, with the process now extending into 2012. Aside from the general observations regarding OTC derivatives reform above, until there is greater clarity regarding the final forms of the rules and the extra-territorial application, it is not possible to assess the full impact of the legislation 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 may be required.

Foreign Account Tax Compliance (FATCA)

Legislation incorporating provisions referred to as FATCA was passed in the US on 18 March 2010. The legislation and subsequent guidance requires Foreign Financial Institutions (FFIs) (such as Westpac) to enter into an FFI agreement by 30 June 2013 and agree to identify and provide the US Internal Revenue Service (IRS) with information on accounts held by US persons and US-owned foreign entities, or otherwise face 30% withholding tax on payments made to the FFI from US sources. 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 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. Draft regulations are not expected before December 2011, with final regulations not expected until late 2012. However, if the FATCA provisions are implemented in or near to their current form, taking into account guidance issued to date by the US Treasury and IRS, substantial investment in a compliance and reporting framework would be required.

New Zealand

Regulatory reforms and significant developments in New Zealand include:

Transfer of additional banking operations to Westpac New Zealand Limited on 1 November 2011

Until 1 November 2006, Westpac conducted its banking operations within New Zealand through a branch structure. On that date, and after extensive consultation with the RBNZ, Westpac adopted a dual registration operating model including a locally incorporated subsidiary, WNZL, to conduct its consumer and business banking operations in New Zealand, and a branch, Westpac s NZ Branch (NZ Branch) to conduct its institutional and financial markets operations. The conditions of registration of each of WNZL and NZ Branch are consistent with these operating model arrangements.

Following an independent review of the structure of the operating model of Westpac s business in New Zealand, the RBNZ, WNZL and Westpac reached agreement on changes to the operating model. As a result, and pursuant to the Westpac New Zealand Act 2011, the following business activities and associated employees were transferred from the NZ Branch to WNZL on 1 November 2011:

§ institutional customer deposits;

§ institutional customer transactional banking;

§ institutional customer lending other than trade finance activities;

§ debt capital markets activities carried out in assisting corporates to obtain funding, such as customer loan syndication and securitisation arrangements, but excluding the debt securities team activities, such as arrangement of commercial paper and bond programmes;

§ corporate advisory; and

§ customer foreign currency accounts.

The NZ Branch has retained its financial markets operations for external customers, including sales and trading of capital markets products and foreign exchange for corporate and institutional customers, pricing and risk management for interest rate, foreign exchange and commodity products for retail, business and institutional customers of WNZL and trading of capital markets products and foreign exchange as principal. In addition, the NZ Branch has retained its global intra-group financing functions, correspondent bank relationships, debt securities team activities, such as arrangement of commercial paper and bond programmes, and international business (including trade finance activities but excluding customer foreign currency accounts).

Open Bank Resolution

On 11 March 2011, the New Zealand Government announced that it is considering options for maintaining confidence in the financial system when the New Zealand Retail Deposit Guarantee Scheme expires on 31 December 2011. As part of the announcement, the New Zealand Government indicated that one option for minimising disruption of the financial system and maintaining confidence could be the introduction of Open Bank Resolution (OBR). OBR contemplates a bank being open for business on the next business day following an insolvency event or event that triggered putting it under statutory management. The RBNZ s consultation paper recommends that all locally incorporated banks with retail funding over NZ$1 billion participate in a pre-positioning process and therefore the policy would apply to WNZL. In the event of failure, a bank must be able to achieve certain outcomes which include being able to freeze accounts 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 day following the bank s closure. Initial responses from the banks to the RBNZ s consultation paper were due at the end of September 2011 and detailed implementation plans from the banks are due by 16 January 2012. The current deadline for being fully pre-positioned is 31 December 2012.

NZ Financial Advisers Act

The *Financial Advisers Act NZ* (the Act) came into full force on 1 July 2011. The Act applies to a financial adviser service or broking service received by a client in New Zealand, regardless of where the person providing the service is resident, incorporated or carries on business. The Act requires all providers of financial adviser services to be individually registered and/or authorised by the Financial Markets Authority. The Act creates an exception for qualifying financial entities (QFEs) such that QFEs employees may give financial advice or make an investment transaction in relation to certain categories of products of which an entity in the QFE group is the issuer or promoter without being individually registered or authorised. On 31 March 2011 WNZL was granted QFE status under the Act with the Westpac NZ Branch, BT Funds Management (NZ) Limited and Westpac Life NZ Ltd as Associated Entities.

Information on Westpac

Further tax developments

The Australian Federal Government commissioned Australia s Future Tax System Review (the Henry Review), which is a comprehensive review of the Australian taxation system (except GST) chaired by the then Secretary to the Treasury, Dr Ken Henry AC. On 2 May 2010, the Federal Government released the Henry Review report and its initial response. A large proportion of the Henry Review s 138 recommendations were not dealt with in the Government s initial response. Of the recommendations addressed in its initial response, the Government proposed reducing the company tax rate to 29% for the 2013 2014 income year and to 28% from the 2014 2015 income year (28% for small business by 2012), and the gradual increase of the employers compulsory superannuation guarantee from 9% to 12% by 2020. Following the Tax Forum conducted by the Australian Federal Government in Canberra on 4 October 2011 and 5 October 2011 to discuss tax reform, the Deputy Prime Minister and Treasurer announced the appointment of a select working group that will look at how the Australian tax system could be improved. Measures that will be considered by this working group include possible changes to tax losses, the corporate tax rate and the taxation treatment of equity. Until further detail of any possible changes to the taxation rules are released, and any changes to the law finalised, any impact on Westpac cannot be determined.

On 11 March 2011 in *Mills v Commissioner of Taxation* [2011] FCA 205, the Federal Court of Australia handed down a decision which, in essence, held that a hybrid stapled security that was part of a funding transaction, was subject to the Australian tax anti-avoidance rules. As a result, the franking credits attached to the distribution to this taxpayer were not creditable and in this instance the issuer will now be required to pay the Australian Taxation Office the expected tax liability on any distributions paid since the original date of issue to security holders. The taxpayer has appealed to the Full Federal Court. Unless overturned on appeal, this decision may create uncertainty over the application of the Australian taxation laws to any potential future hybrid transactions. Westpac will monitor the results of the appeal to determine whether there are any broader impacts.

On 30 March 2011, the Assistant Treasurer announced a review of the tax consolidation provisions dealing with rights to future income and the residual tax cost setting rules. The Board of Taxation (BoT) considered whether these rules needed to be amended, and, if so, whether any amendments will take effect retrospectively. The residual tax cost setting rules are the provisions under which amounts were allocated to the St.George derivatives in the tax consolidation process (and from which deductions are claimed by Westpac under the general taxing provisions). The BoT completed its review and provided its report to the Assistant Treasurer on 31 May 2011. The Government has not yet released its response to the report.

Changes to accounting standards

In 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, loan-loss provisioning, off-balance sheet exposures and the impairment and valuation of financial assets and lease accounting. The Group expects that there will be a number of new standards issued in the next three years that will require changes to our current accounting approaches.

Further regulatory developments

The Australian Federal Government has embarked on a program of regulatory reform, which will affect Westpac.

This includes:

§ Credit law reform following the commencement of the National Credit Code on 1 July 2010, new licensing obligations commenced on 1 January 2011 to regulate the activities of credit providers, including obligations requiring licensees to observe responsible lending practices. A second phase of reform requires credit providers to make available credit guides and for credit assistance providers to provide quotes and proposal disclosure documents. From 1 January 2012, credit providers will also be required to produce Key Facts Sheets for standard home loans. A number of other reforms, including reforms relating to the regulation of credit cards, have also been announced, which are scheduled to commence on 1 July 2012.

§ Margin lending reform from 1 January 2011, margin lending facilities to retail clients have been regulated as financial products under the Corporations Act. This has resulted in additional conduct and disclosure requirements for issuers and advisors of margin lending facilities.

§ Superannuation changes on 16 December 2010 the Government provided its response to the Super System (Cooper) Review into Australia s superannuation system. The Government s proposals include the introduction of a simple, low-cost MySuper superannuation product from 1 July 2013 and an initiative called SuperStream to improve the efficiency of processing superannuation transactions through the use of technology. The Government has consulted with the industry on the design and implementation of the reforms and has announced that legislation will be introduced in several tranches over the coming months and in the first half of 2012 to implement the superannuation reforms.

§ Financial advice changes on 29 August 2011 the Government issued the first tranche of draft legislation and made further announcements in relation to its Future of Financial Advice (FOFA) reforms aimed at improving consumer trust and confidence in, and the quality of, financial advice. The second tranche of the draft legislation was released on 28 September 2011 and the first FOFA Bill was introduced into the House of Representatives on 13 October 2011. The FOFA reforms include a ban on certain conflicted payments and soft dollar benefits, a ban on certain volume-based payments, 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 are scheduled to commence from 1 July 2012.

§ Privacy law reform the Privacy Act was first introduced in Australia in 1988. The Privacy Act regulates how personal information is collected, used, disclosed and, maintained by organisations and grants rights to individuals to access and request the correction of their information. The Government has released proposed changes to the Privacy Act to strengthen individual s rights under the current National Privacy Principles and to amend, among other things, how credit reporting is conducted. It is proposed that these reforms and changes yet to be released will be rolled out in four tranches. No changes to the Privacy Act are expected to take effect prior to mid 2012.

§ The introduction of a new regulatory framework for personal property securities the Government has introduced a national personal property securities regime involving a single register and a uniform set of rules, replacing a wide range of complex State and Territory based legislation and registers. The new regime also makes fundamental changes to the treatment of security interests in personal property. It is anticipated that this regime will take effect in the first quarter of 2012.

§ Tax discount for interest income in July 2011, the Government commenced a consultation process on the implementation of a proposed 50% discount on interest income received by individual taxpayers from deposits in ADIs, as well as from bonds, debentures and annuity products. The discount will apply on up to $500 of interest in the first year (2012 13), and $1,000 in subsequent years (1 July 2013 onwards). The closing date for submissions was 5 August 2011. Until any possible changes to the current law as a result of that consultation process are released, any impact on Westpac cannot be determined.

§ Covered bonds on 13 October 2011, the Commonwealth Parliament passed an amendment to the *Australian Banking Act 1959* permitting ADIs to issue covered bonds. Among other things, this legislation caps at 8% the value of an ADI s assets in Australia that can be included in a cover pool supporting covered bonds.

In addition, the Federal Government has initiated a number of inquiries related to the financial services industry. These include:

§ the inquiry by the Parliamentary Joint Committee on Corporations and Financial Services into the access for small and medium business to finance, which delivered its report on 28 April 2011. The Government has not yet responded on the recommendations made by the Committee;

§ the Senate inquiry into competition within the banking sector which delivered its report on 6 May 2011. The Government has not yet responded on the recommendations made by the Senate;

§ requesting that the former Reserve Bank of Australia Governor, Bernie Fraser, undertake a feasibility study on account number portability and options for greater account transferability. He reported his findings to the Government on 4 July 2011. On 21 August 2011, the Government released Mr Fraser s report and accepted his recommendations in full. The Government stated that it would establish a working party to finalise details of reforms aimed at simplifying the process for customers to switch accounts between financial institutions, to be introduced on 1 July 2012; and

§ the National Disaster Insurance Review which will concentrate on insurance arrangements for individuals and businesses for damage and loss associated with flood and other natural disasters. The Review Panel provided its report to the Government on 30 September 2011. The Government has not yet responded to the report.

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.

Information on Westpac

Supervision and regulation

Australia

Within Australia we are subject to supervision and regulation by six principal agencies: the Australian Prudential Regulation Authority (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 generally consistent with the approach agreed upon by the Basel Committee on Banking Supervision. 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. Since 1 August 2010, ASIC has also been responsible 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 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*, 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 the section 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, as such, 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 that would be required of a national bank organised at the same location; or

§ 5% of the total liabilities (excluding, among other things, liabilities to affiliates and liabilities of any international banking facilities) of the US federal branch.

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

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 consult with the regulator, AUSTRAC, on our activities.

United States

The *USA Patriot Act* 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, 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.

Outsourcing 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. An assessment of likely losses is made on a case-by-case basis for the purposes of the financial statements.

Westpac is aware that class action proceedings relating to exception fees have been commenced against one Australian bank, and that proceedings may be commenced against other Australian banks, including Westpac. At this stage no such proceedings have been commenced against Westpac.

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 statement describes our corporate governance framework, policies and practices as at 2 November 2011.

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.

Australia

We comply with the *Corporations Act 2001* (Corporations Act) and the ASX Corporate Governance Principles and Recommendations (ASXCGC Recommendations) published by the ASX Corporate Governance Council (ASXCGC). As an ADI, we must also comply with governance requirements prescribed by APRA under Prudential Standard APS 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 have adopted a similar comply or explain general approach 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 United States 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 2011 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 2011.

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 Westpac 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 is regularly updated and contains copies and summaries of our charters, principles and policies.

These documents are also available to our shareholders in print from our Investor Relations department.

Governance framework

From time to time the Board may form other Committees or request Directors to undertake specific extra duties. In 2010, the Board introduced a temporary Committee to provide specific focus on Health, Safety and Wellbeing across the Group.

The Executive Team, Disclosure Committee and Executive Risk Committees sit beneath the CEO and the Board Committees to implement Board-approved strategies, policies and management of risk across the Group.

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;

§ appointing and determining the duration, remuneration and other terms of appointment of the CEO and Chief Financial Officer (CFO), and ratifying the appointments of other senior executives;

§ evaluating the performance of the CEO and CFO, and monitoring the performance of other senior executives;

§ succession planning for the Board, CEO and CFO;

§ approving the annual budget and financial statements and monitoring performance against the approved budget;

§ 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 Occupational Health and Safety (OHS) issues in Westpac Group and considering appropriate OHS 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 six established Committees, namely:

§ Audit;

§ Risk Management;

§ Nominations;

§ Remuneration;

§ Sustainability; and

§ Technology.

The Delegated Authority Policy Framework outlines principles to govern decision-making within the 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 2011 Directors report.

All of our Non-executive Directors satisfy our criteria for independence, which are consistent with those applied by the NYSE.

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. The assessment has regard to the criteria applied by the NYSE and US Securities and Exchange Commission (SEC).

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 with 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 2011

	Status	Board Audit Committee	Board Risk Management Committee	Board Nominations Committee	Board Remuneration Committee	Board Sustainability Committee	Board Technology Committee
Ted Evans	Chairman, Non-executive, Independent	ü	ü	ü			ü
John Curtis	Deputy Chairman, Non-executive, Independent	ü	ü	ü	**Chair** ü		
Gail Kelly	CEO, Executive					ü	ü
Elizabeth Bryan	Non-executive, Independent	ü	**Chair** ü	ü	ü		ü
Gordon Cairns	Non-executive, Independent	ü	ü		ü		
Peter Hawkins	Non-executive, Independent	ü	ü	ü			**Chair** ü
Carolyn Hewson	Non-executive, Independent	ü	ü	**Chair** ü	ü		
Lindsay Maxsted	Non-executive, Independent	**Chair** ü	ü	ü			
Graham Reaney	Non-executive, Independent	ü	ü			ü	
Peter Wilson	Non-executive, Independent	ü	ü	ü		**Chair** ü	

This table shows membership of standing Committees of the Board.

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

Length of tenure of Non-executive Directors

Balance of Non-executive and executive Directors

Corporate governance

The Chairman

The Board elects one of the independent Non-executive Directors as Chairman. Our current Chairman is Ted Evans, who will retire following the 2011 AGM on 14 December 2011. Ted Evans will be succeeded as Chairman by Lindsay Maxsted. 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 Secretary, 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.

The 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 Group s operations.

Board meetings

The Board has 10 scheduled meetings each year, 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 to participate in Board meetings. They also are available to be contacted by Directors between meetings.

Meetings attended by Directors for the 2011 financial year are reported in Section 8 of the 2011 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 2011 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 our 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. In addition to information on the candidates provided to shareholders in the Notice of Meeting, the candidates are invited to give a short presentation at the AGM.

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 company. 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, each Group Executive and the Chief Strategy Officer.

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 executive 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 the Group Executive, Counsel & Secretariat.

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 Group Executive, Counsel & Secretariat attends Board and Committee meetings and is responsible for providing Directors with advice on legal and corporate governance issues. The Company Secretary 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 2011 Directors report.

Committees

Composition and independence

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

Operation and reporting

Scheduled meetings of the Board Committees occur quarterly, with the exception of the Board Sustainability and Board Technology Committees which have scheduled meetings three times a year. All Committees are able to meet more frequently as necessary. Each Committee is entitled to the resources and information it requires and has direct access to our employees and advisers. The CEO attends all 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 Committee meetings as required. All Directors receive all Committee papers and can attend any Committee meeting, provided there is no conflict of interest.

Performance

Board, Committees and Directors

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

The performance review process conducted in 2011 included interviews by an independent assessor with Directors and all senior executives. The review was wide-ranging, with outputs collected and 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 discussed the results with individual Directors and Committee Chairs. The full Board (excluding the Chairman) reviewed the results of the performance review of the Chairman. These results were 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 2011 financial year are conducted following the end of the 2011 financial year.

There is a further discussion on performance in the Remuneration Report in the 2011 Directors   report.

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.

Corporate governance

Advisory Boards

The Westpac Group operates a multi-brand strategy with each brand having 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:

§ overseeing management s strategies and initiatives to continue to strengthen the unique brand position and identity;

§ overseeing the 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 sets out six values that we believe will maintain the trust and confidence placed in us by our customers, shareholders, suppliers and the community at large. We recognise that this trust can only be retained by acting ethically and responsibly in all our dealings and by seeking to continually improve in all that we do. The Code of Conduct applies to all of our employees and contractors and is supported by the Board. The six values are that:

§ 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.

Our Principles for Doing Business (the Principles) set out how we aim to conduct ourselves across our business in the areas of:

§ governance and ethical practices;

§ customers;

§ employees;

§ environment;

§ community; and

§ suppliers.

The Principles are also aligned with significant global initiatives that promote responsible business practices. Our Principles apply to all Directors and employees.

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 Electronic Funds Transfer Code of Conduct.

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 has a conflicts of interest framework, which includes a Group policy supported by more specific policies and guidelines aimed at recognising and managing potential conflicts.

The Board

All Directors are required to disclose any actual or potential conflict 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

Our employees are not permitted to participate in activities that involve a conflict with their duties and responsibilities or which are prejudicial to our business. We expect our employees to:

§ manage 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, accept or offer money, gifts, favours or entertainment which might influence, or might appear to influence, their business judgment.

Fit and Proper Person assessments

Our Fit and Proper Policy complies with the related APRA Prudential Standards and ASIC guidelines. In accordance with that policy, we assess the fitness and propriety of our Directors and also of employees who perform specified roles. The Chairman of the Board (and in the case of the Chairman, the Westpac Board) is responsible for assessing the main Board Directors, Non-executive Directors on subsidiary Boards and Group Executives. An executive Fit and Proper Committee assesses other employees. In all cases the individual is asked to provide a detailed declaration and background checks are undertaken. Assessments are performed upon appointment to the relevant position and are re-assessed annually.

Concern reporting and whistleblower protection

Under our Whistleblower Protection Policy, our employees are encouraged to raise any concerns of activities or behaviour that may be unlawful or unethical with management, the human resources team, the compliance team or the Financial Crime Management business unit. Concerns may include suspected breaches of the Code of Conduct, the Principles for Doing Business and any internal policy or regulatory requirement.

Employees can raise possible wrongdoings on an anonymous basis. Employees may choose to involve the Whistleblower Protection Officer, who is responsible for protecting the employee against disadvantage.

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 who have behaved incorrectly. Where illegal conduct has occurred, this may involve reporting the matter to relevant authorities.

The concern reporting system meets all relevant Australian and New Zealand legislative requirements, including the Australian Standard AS8004 (Whistleblower Protection Programs for Entities), in addition to our obligations under the United States *Sarbanes-Oxley Act of 2002*. The system is monitored and reviewed annually and 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, Westpac Directors and all Westpac employees are restricted from dealing in our shares 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 employees 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.

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;

§ the new issues provisions of our policy, which place limitations upon Directors and employees participating in a new product issue where their position puts them in a real or perceived 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 Employees 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.

Corporate governance

Diversity

Westpac Group has recently adopted a Group Diversity Policy that sets out the diversity initiatives for the Westpac Group. In this context, diversity covers gender, age, ethnicity, 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 we:

§ have Board determined, measurable objectives for achieving gender diversity. The Board will assess annually both the objectives and progress in achieving them;

§ will assess pay equity on an annual basis;

§ will encourage and support the application of flexibility policy into practice across the business;

§ will meet our commitment to the Australian Employment Covenant to assist Indigenous Australians to access employment across our brands; and

§ will implement our Accessibility Action Plan for employees and customers with a disability, including providing employment opportunities 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 4,000 leaders from our executive team through to our bank managers) from 33% to 40% by 2014.

At 30 September 2011, the proportion of women employed by Westpac Group was as follows:

§ Board of Directors: 30%;

§ leadership1 roles: 37.5%; and

§ total Westpac workforce: 61%.

Corporate 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 social, ethical and environmental performance as a part of the Annual Review and Sustainability Report and Annual Report, and provide additional detailed information on our website. Where appropriate, we include what we believe are the most material environmental, social and governance metrics within our financial results announcements.

Our management and our reporting of sustainability aim to address the issues that we believe are the most material for our business and stakeholders. We understand that this is an evolving agenda and seek to progressively embed the management of sustainability issues into business as usual practice.

We follow the Global Reporting Initiative reporting framework.

The sustainability content of the Annual Review and Sustainability Report and the additional reporting on our website is independently assured against the AA1000 Assurance Standard. This 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.

Board Sustainability Committee

The Board Sustainability Committee oversees and provides guidance regarding our commitment to operate our business ethically, responsibly and sustainably, consistent with the changing demands of society.

1 Women in Leadership refers to the proportion of women (permanent and maximum term) in people leadership roles or senior roles of influence as at 30 September 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.

The Board Sustainability Committee:

§ reviews the social, environmental and ethical impacts of our policies and practices;

§ oversees initiatives to enhance our sustainability;

§ sets standards for our sustainability policies and practices, and monitors compliance with these policies and practices;

§ reviews sustainability strategies, objectives and performance, including in-depth discussions with management on specific current and emerging issues; and

§ reviews and approves sustainability reporting.

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 rules 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

The Board Audit Committee oversees all matters concerning:

§ the integrity of the financial statements and financial reporting systems;

§ the external auditor s qualifications, performance, independence and fees;

§ oversight and performance of the internal audit function;

§ compliance with financial reporting and related regulatory requirements (in conjunction with the Board Risk Management Committee, this includes oversight of APRA and ASIC statutory reporting requirements); and

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

The Board Audit Committee reviews 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.

The Board Audit Committee conducts regular discussions with:

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

§ the 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 Group Executive, Counsel & Secretariat regarding any legal matters that may have a material impact on the financial statements and/or our compliance with financial reporting and related regulatory policies.

The Board Audit Committee meets with the external auditor without management being present at each meeting. Periodically the Board Audit Committee meets with the General Manager, Group Assurance without management.

Financial knowledge

The Board Audit Committee comprises nine independent, Non-executive Directors.

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 rules of the NYSE.

The Board has determined that Lindsay Maxsted, Chairman 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 2011 . The full qualifications of the Audit Committee members and their attendance at Board Audit Committee meetings are set out in Sections 1 and 8 of the 2011 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 Ian Hammond and the review audit partner is Victor Clarke. Ian Hammond and Victor Clarke assumed responsibility for these roles in 2008 and 2011, respectively.

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

As our external auditor, PwC is required to confirm their 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 2011. 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 2011 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.

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 has a reporting line to the Chairman of the Board Audit Committee.

Market disclosure

We maintain a level of disclosure that provides 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, senior executives, and the General Manager, Corporate Affairs and Sustainability.

The Group Executive, Counsel & Secretariat 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, containing 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), economic updates, notices of meetings and 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 webcasting and podcasting facilities.

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 electronically 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.

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 management 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 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.

§ 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.

Corporate governance

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 assists us in achieving our objectives of mitigating potential loss or damage and optimising financial growth opportunities. Mitigation and optimisation strategies are of equal importance and need to be effectively aligned and integrated.

We distinguish four main types of risk:

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

§ liquidity risk the risk that we will be unable to fund our assets and meet obligations as they come due, without incurring unacceptable losses;

§ 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; and

§ operational risk and compliance risk operational risk is the risk that arises from inadequate or failed internal processes and systems, human error or misconduct, or from external events. It includes, among other things, technology risk, model risk and outsourcing risk. Compliance Risk is the risk of legal or regulatory sanction, and financial or reputation loss, arising from our failure to abide by the compliance obligations required of us.

In addition to, and linked to, these four 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 of damage to the Group s 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 the value of our direct and indirect equity investments;

§ insurance risk the risk of not being able to meet insurance claims (related to insurance subsidiaries);

§ 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 institution in 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:

§ 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 and reputation risk;

§ reviews and approves the limits and conditions that apply to the taking of risk, including the authority delegated by the Board to the CEO, CFO and CRO;

§ 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:

§ capital approving the internal capital adequacy assessment process and in doing so reviewing the outcomes of enterprise wide stress testing, monitoring capital levels for consistency with Westpac Group s risk appetite, and setting the target capital ranges for regulatory capital having regard to internal economic capital measures;

§ 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;

§ 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;

§ 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 the Value at Risk and Net Interest Income at Risk limits, and monitoring the market risk profile; and

§ 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.

The Board Risk Management Committee also:

- 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.

Compliance Management Framework

Westpac s Compliance Management Framework reflects the following core principles and practices:

- complying with both the letter and spirit of regulatory standards is an essential part of our core values and is critical to our success;
- regulatory standards are embedded into how we do business, how we conduct ourselves, how our systems and processes are designed and how they operate; and
- compliance is the responsibility of everyone in every part of Westpac. Visibility and accountability of senior management encourages a strong compliance culture.

The mechanisms we use to implement these principles 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 risk. This is supported by a dedicated Compliance function covering the Group and each area of business activity. 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.

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 year ended 30 September 2011, that state 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.

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 members are all independent Directors. 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.

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 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 any and all equity based 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 as part of Westpac s annual plan 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 ensure that our reward practices and levels are consistent with market practice.

The attendance of Board Remuneration Committee members at the Committee s meetings is set out in Section 8 of the 2011 Directors report.

Further details of our remuneration framework are included in the Remuneration Report in Section 9 of the 2011 Directors report.

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 Technology Committee

- oversees information technology strategy and implementation.

Board Sustainability Committee

- oversees environmental, social, governance and ethical performance and issues.

Board Remuneration Committee

- reviews any matters raised by the BRMC with respect to risk-adjusted remuneration.

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.

Risk Management Governance Structure (continued)

Executive risk committees (continued)

Westpac Group Asset & Liability Committee (ALCO)

§ leads the optimisation of funding and liquidity risk-reward across the Group;

§ 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.

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)

§ leads the optimisation of risk-adjusted remuneration across the Group;

§ oversees the Group Remuneration Policy and provides assurance to the CEO and Board Remuneration Committee that remuneration arrangements across the Group encourage behaviour that supports Westpac s long-term financial soundness and the risk management framework;

§ oversees the remuneration arrangements (other than for Group Executives) for Responsible Persons (as defined in the Group s 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

§ oversees 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.

Corporate governance

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 23	Comply
1.2	Disclose the process for evaluating the performance of senior executives.	Page 26	Comply
1.3	Provide the information indicated in *Guide to reporting on Principle 1*.	Pages 23, 26	Comply
Principle 2:	**Structure the Board to add value**		
2.1	A majority of the Board should be independent Directors.	Pages 23, 24	Comply
2.2	The chair should be an independent Director.	Page 25	Comply
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Page 25	Comply
2.4	The Board should establish a nomination committee.	Page 25	Comply
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual Directors.	Page 26	Comply
2.6	Provide the information indicated in *Guide to reporting on Principle 2*.	Pages 23 26	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 27	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 29	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 29	Comply
3.4	Disclose the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	Page 29	Comply
3.5	Provide the information indicated in *Guide to reporting on Principle 3*.	Pages 27, 29	Comply
Principle 4:	**Safeguard integrity in financial reporting**		
4.1	The Board should establish an audit committee.	Page 30	Comply
4.2	Structure the audit committee so that it:	Pages 24, 30	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 30	Comply
4.4	Provide the information indicated in *Guide to reporting on Principle 4*.	Pages 24, 30	Comply

	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 31	Comply
5.2	Provide the information indicated in *Guide to reporting on Principle 5*.	Page 31	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.	Pages 31 32	Comply
6.2	Provide the information indicated in *Guide to reporting on Principle 6*.	Pages 31 32	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 32 36	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 32 36	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 32 36	Comply
Principle 8:	**Remunerate fairly and responsibly**		
8.1	Establish a remuneration committee.	Pages 34 35	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 24	Comply
8.3	Clearly distinguish the structure of Non-executive Directors remuneration from that of executive Directors and senior executives.	Pages 34 35	Comply
8.4	Provide the information indicated in *Guide to reporting on Principle 8*.	Pages 24, 34 35	Comply

Directors report

Our Directors present their report together with the financial statements of the Group for the financial year ended 30 September 2011.

1. Directors

The names of the persons who have been Directors, or appointed as Directors, during the period since 1 October 2010 and up to the date of this report are: Edward (Ted) Alfred Evans, Gail Patricia Kelly, John Simon Curtis, Elizabeth Blomfield Bryan, Gordon McKellar Cairns, Peter John Oswin Hawkins, Carolyn Judith Hewson, Lindsay Philip Maxsted, Graham John Reaney and Peter David Wilson. Our current Chairman, Ted Evans, will retire following the 2011 AGM on 14 December 2011. Ted Evans will be succeeded as Chairman by Lindsay Maxsted. Graham Reaney will also retire from the Board at the conclusion of the 2011 AGM.

As announced on 22 September 2011, Ann Pickard has been appointed to the Westpac Board effective on 1 December 2011. Ms Pickard will be an independent Non-executive Director and has over 25 years of international experience as a senior manager in large organisations.

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 2011 and the period for which each Directorship has been held, are set out below.

		Name: Ted Evans AC, BEcon (Hons.) **Age:** 70 **Term of office:** Director since November 2001. Chairman since April 2007. **Date of next scheduled re-election:** Not applicable. Ted Evans will retire following the 2011 AGM. **Independent:** Yes. **Current directorships of listed entities and dates of office:** Navitas Limited (since November 2004). **Other principal directorships:** Nil.		**Other interests:** Member of the Asia Pacific Regional Advisory Group of the International Monetary Fund. **Other Westpac related entities directorships and dates of office:** Nil. **Skills, experience and expertise:** Ted has extensive experience in the financial sector, having joined the Australian Treasury in 1969. From 1984 to 1989 he held the position of Deputy Secretary and was Secretary to the Treasury from 1993 to 2001. From 1976 to 1979 he was a member of the Australian Permanent Delegation to the OECD in Paris and, from		1989 to 1993, Executive Director on the Board of the International Monetary Fund, representing Australia and a number of other countries, mainly in the Asia Pacific region. He was a Director of the Reserve Bank of Australia from 1993 to 2001 and the Commonwealth Bank of Australia from 1993 to 1996. **Westpac Board Committee membership:** Member of each of the Audit, Nominations, Risk Management and Technology 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:** 55 **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 Melbourne Business School Limited and the Financial Markets Foundation for Children.		**Other interests:** Member of the Financial Services Advisory Council and Director of the Australian Bankers Association. **Other Westpac related entities directorships and dates of office:** Nil **Skills, experience and expertise:** Immediately prior to her appointment at Westpac, Gail served as Chief Executive Officer & Managing Director of St.George Bank Limited from January 2002 to August 2007. Between October 1997 and December 2001, Gail was employed at the Commonwealth Bank of Australia, firstly as General Manager, Strategic Marketing, and later as Head of Customer Service Division and a		member of the bank s Executive Committee. Gail began her career at Nedcor Bank, one of the largest banks in South Africa, where she held various General Manager positions, including HR, cards and personal banking. **Westpac Board Committee membership:** Member of each of the Sustainability and Technology Committees. **Directorships of other listed entities over the past three years and dates of office:** St.George Bank Limited (December 2008 - September 2009). St.George Bank Limited remained a listed entity when it became a subsidiary of Westpac in December 2008. It was delisted in September 2009.

Name: John Curtis AM,
BA, LLB (Hons.)

Age: 61

Term of office: Director and Deputy Chairman since December 2008.

Date of next scheduled re-election: December 2011.

Independent: Yes.

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

Other principal directorships: Chairman of each of Allianz Australia Limited and the University of Technology Sydney Faculty of Business Executive Council.

Other interests: Nil.

Other Westpac related entities directorships: Nil.

Skills, experience and expertise: For the past 24 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 as set out above 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 Remuneration Committee. Member of each of the Audit, Nominations and Risk Management Committees.

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

St.George Bank Limited (October 1997 September 2009). St.George Bank Limited remained a listed entity when it became a subsidiary of Westpac in December 2008. It was delisted in September 2009.

Name: Elizabeth Bryan, BA (Econ.), MA (Econ.)

Age: 65

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: Caltex Australia Limited (since July 2002, Chairman since October 2007).

Other principal directorships: Nil

Other interests: Nil.

Other Westpac related entities directorships and dates of office: Director of Westpac New Zealand Limited (March 2007 October 2010).

Skills, experience and expertise: Elizabeth has over 31 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 Risk Management Committee. Member of each of the Audit, Nominations, Remuneration and Technology Committees.

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

Name: Gordon Cairns, MA (Hons.)

Age: 61

Term of office: Director since July 2004.

Date of next scheduled re-election: December 2012.

Independent: Yes.

Current directorships of listed entities and dates of office: Origin Energy Limited (since June 2007).

Other principal directorships: World Education Australia Limited. Chairman of each of Origin Foundation and Rebel Sport Limited and Director of Rebel Group Companies.

Other interests: Senior Advisor to each of McKinsey & Company and 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 Audit, Remuneration and Risk Management Committees.

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

Name: Peter Hawkins,

BCA (Hons.) SF Fin, FAIM ACA (NZ), FAICD

Age: 57

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 Limited Group (since January 2006).

Other principal directorships:

Liberty Financial Pty Limited, Treasury Corporation of Victoria, Murray Goulburn Co-operative Co. Limited, Clayton Utz and The Camberwell Grammar School.

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 38 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, and was also a Director of BHP (NZ) Steel Limited from 1990 to 1991, ING Australia Limited from 2002 to 2005 and Esanda Finance Corporation from 2002 to 2005.

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

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

St.George Bank Limited. (April 2007 September 2009). St.George Bank Limited remained a listed entity when it became a subsidiary of Westpac in December 2008. It was delisted in September 2009.

Name: Carolyn Hewson AO, BEc (Hons.), MA (Econ.)

Age: 56

Term of office: Director since February 2003.

Date of next scheduled re-election: December 2013.

Independent: Yes.

Current directorships of listed entities and dates of office:

Stockland Corporation Limited (since March 2009). BHP Billiton Limited (since March 2010), BHP Billiton plc (since March 2010) and BT Investment Management Limited (since September 2007).

Other principal directorships: The Australian Charities Fund.

Other interests: Nil

Other Westpac related entities directorships and dates of office:

Director of BT Investment Management Limited (since September 2007). Chairman of Westpac Matching Gifts Limited (since August 2011), Trustee of the Westpac Buckland Fund (since January 2011, Chairman since March 2011).

Skills, experience and expertise:

Carolyn has over 30 years experience in the finance sector and was an Executive Director of Schroders Australia Limited between 1989 and 1995.

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

Directorships of other listed entities over the past three years and dates of office: AGL Energy Limited (February 2006 February 2009).

Name: Lindsay Maxsted, DipBus (Gordon), FCA

Age: 57

Term of office: Director since March 2008.

Date of next scheduled re-election: December 2011.

Other interests: Nil.

Other Westpac related entities directorships and period of office:

Nil.

Skills, experience and expertise:

Lindsay was the CEO of KPMG from January 2001 to December 2007 and was Chairman from 1997 to 2001.

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

Independent: Yes.

Current directorships of listed entities and dates of office: Director of Transurban Group (since March 2008, 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 & Diabetes Institute Holdings Limited.

and was a partner of KPMG from July 1984 to February 2008. Lindsay s 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. At the request of the Victorian State Government, Lindsay was appointed to the Board of the Public Transport Corporation in December 1995

Directorships of other listed entities over the past three years and dates of office: St.George Bank Limited (December 2008 September 2009). St.George Bank Limited remained a listed entity when it became a subsidiary of Westpac in December 2008. It was delisted in September 2009.

Name: Graham Reaney, BComm, CPA

Age: 68

Term of office: Director since December 2008.

Date of next scheduled re-election: Not applicable. Graham Reaney will retire following the 2011 AGM.

Independent: Yes.

Current directorships of listed entities and dates of office:

Chairman of PMP Limited (since September 2002).

Other principal directorships:

Chairman of Maxwell Food Products Pty Ltd and Holcim (Australia) Pty Limited.

Other interests: Nil.

Other Westpac related entities directorships and dates of office:

Member of the BankSA Advisory Board (since December 2008).

Skills, experience and expertise:

Graham s business experience spans 32 years, during which time he has held a number of senior corporate appointments, including as Managing Director of National Foods Limited. Other former positions include Managing Director of Industrial Equity Limited. Graham has gained extensive experience both in Australia and overseas in a broad range of industries, including mining and mining services, energy, food, rural, fast moving consumer goods and financial services.

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

Directorships of other listed entities over the past three years and dates of office: St.George Bank Limited (November 1996 December 2008). AGL Energy Limited (July 2006 October 2009).

Name: Peter Wilson, CA

Age: 70

Term of office: Director since October 2003.

Date of next scheduled re-election: December 2012.

Independent: Yes.

Current directorships of listed entities and dates of office: The Colonial Motor Company Limited (since July 1998, listed in NZ). Chairman of Kermadec Property Fund Limited (since October 2006, listed in NZ). Deputy Chairman of Meridian Energy Limited (since May 2011, listed in NZ).

Other principal directorships: P F Olsen Limited and Farmlands Trading Society Limited.

Other interests: Member of the New Zealand Markets Disciplinary Tribunal and Chairman of the Special Division of that Tribunal.

Other Westpac related entities directorships and dates of office: Director of Westpac New Zealand Limited (since September 2006, Chairman since January 2008).

Skills, experience and expertise:

Peter is a chartered accountant and formerly a partner with Ernst & Young, with extensive experience in banking, business establishment, problem resolution, asset sale and management of change functions. Peter was a Director and (from 1991) Chairman of Trust Bank New Zealand Limited which Westpac acquired in 1996.

Westpac Board Committee membership: Chairman of the Sustainability Committee. Member of each of the Audit, Risk Management and Nominations 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 2011 were John Arthur and Les Vance.

John Arthur (LLB (Hons.)) was appointed to his role of Group Executive, Counsel & Secretariat and a Company Secretary of Westpac on 1 December 2008. Prior to the 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.

Les Vance (BCom, LLB (Hons.)) joined Westpac in December 2008 as Corporate Counsel, Counsel & Secretariat. Before joining Westpac, Les was Group Executive, External Funds at Investa Property Group where he was responsible for Investa s External Funds Management business and the unlisted property funds managed by that business. Prior to that Les held other senior executive positions in both line management and corporate/governance roles at Top 100 companies and was previously a partner at Freehills with a broad corporate and commercial practice.

2. Executive Team

As at 30 September 2011 our Executive Team was:

Name	Position	Year Joined Group	Year Appointed to Position
Gail Kelly	Managing Director & Chief Executive Officer	2008	2008
John Arthur	Group Executive, Counsel & Secretariat	2008	2008
Rob Chapman	Chief Executive, St.George Banking Group	2008	2010
Peter Clare	Group Executive, Product & Operations	2008	2008
Philip Coffey	Chief Financial Officer	1996	2005
Rob Coombe	Group Executive, Westpac Retail & Business Banking	2002	2010
Brad Cooper	Chief Executive Officer, BT Financial Group	2007	2010
George Frazis	CEO, Westpac New Zealand Limited	2009	2009
Peter Hanlon	Group Executive, People & Transformation	1995	2010
Bob McKinnon	Group Executive, Technology	2008	2008
Jon Nicholson	Chief Strategy Officer	2006	2006
Greg Targett	Chief Risk Officer	2008	2009
Rob Whitfield	Group Executive, Westpac Institutional Bank	1986	2009

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

Gail Kelly HigherDipEd, BA, MBA with Distinction, HonDBus. Age 55
Managing Director & Chief Executive Officer

Gail was appointed Managing Director & Chief Executive Officer of Westpac on 1 February 2008.

Immediately prior to this, she served as Chief Executive Officer & Managing Director of St.George Bank Limited from January 2002 to August 2007. During this period, St.George Bank Limited doubled its assets and net profit after tax. Between October 1997 and December 2001, Gail was employed at the Commonwealth Bank of Australia as General Manager, Strategic Marketing, and later as Head of Customer Service Division and a member of the bank s Executive Committee.

Gail began her career at Nedcor Bank, one of the largest banks in South Africa, where she held various General Manager positions, including HR, cards and personal banking.

Gail is currently a Director of the Australian Bankers Association, the Melbourne Business School Limited and member of the Financial Services Advisory Council.

John Arthur LLB (Hons.). Age 56
Group Executive, Counsel & Secretariat

John was appointed Group Executive, Counsel & Secretariat on 1 December 2008. Most recently, prior to the 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 a legal partner, corporate executive and Non-executive Director.

Rob Chapman AssocDipBus FAICD FFSIA. Age 47
Chief Executive, St.George Banking Group

Rob was appointed Chief Executive, St.George Banking Group on 1 December 2010 and was exercising the functions of Chief Executive from 1 October 2010. Immediately prior to this he served as Managing Director BankSA and was a member of the St.George Bank Limited Executive Committee for eight years, from July 2002. Prior to joining BankSA he was the Regional General Manager of Commonwealth Bank of Australia s operations in South Australia, Northern Territory and Western Australia, and Regional Manager, Victoria. Prior to that he held a number of senior roles with Colonial State Bank and Prudential Corporation Australia.

Rob is Chairman of the Adelaide Football Club and a member of the South Australian Economic Development Board.

Peter Clare BCom, MBA. Age 48
Group Executive, Product & Operations

Peter was appointed Group Executive, Product & Operations on 17 July 2008, with responsibility for all consumer and business product development, management and operations. 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 of St.George Bank Limited following five years as Group Executive, Strategy with St.George Bank Limited. Prior to that Peter worked for the Commonwealth Bank of Australia between 1997 and 2002 in a range of senior roles, covering strategy, merger programs, operations and performance improvement. He has also worked in management consultancy and accountancy roles.

Philip Coffey BEc (Hons.). Age 54
Chief Financial Officer

Philip was appointed Chief Financial Officer in December 2005, with responsibility for Westpac s 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 Ltd. 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.

Rob Coombe LLB (Hons.). Age 48
Group Executive, Westpac Retail & Business Banking

Rob was appointed Group Executive, Westpac Retail & Business Banking on 1 February 2010, with responsibility for all Westpac s retail, small-to-medium enterprises and commercial customers in Australia.

Rob joined Westpac with the acquisition of the BT Financial Group in 2002 and has over 29 years experience in banking, insurance, finance and wealth management. He started with BT in 1991 and held a number of positions, including Senior Legal Counsel, Head of BT s International Funds Management and CEO of BT s Funds Management business in Malaysia. Prior to joining BT, Rob accumulated ten years of experience in commercial banking, property investment and funds management. Rob is also a Director of The Australian Indigenous Education Foundation, Ascalon Capital Management, Surfing Australia and a member of the Advisory Board to the UTS Faculty of Law.

Brad Cooper DipBM, MBA, FAIM. Age 49
Chief Executive Officer, BT Financial Group

Brad was appointed Chief Executive Officer, BT Financial Group on 1 February 2010 and is focused on helping Australians determine and achieve their financial aspirations. The BT Financial Group proudly offers products and services from some of Australia s most trusted and respected wealth management brands across financial advice, private banking, investment, superannuation, insurance and retirement. 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 Chief Executive Officer 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 Chief Executive Officer 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 47
CEO, Westpac New Zealand Limited

George joined Westpac New Zealand Limited in March 2009 as Chief Executive Officer, 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.

Peter Hanlon BA (Comms), C Tech (Aero Eng), AMP (Harvard). Age 56
Group Executive, People & Transformation

Peter was appointed Group Executive, People & Transformation on 1 February 2010, with responsibility for human resources strategy and management, including reward and recognition, learning and development, careers and talent, employee relations and employment policy. He is also responsible for the key customer, people and productivity elements of our Transformation program, and for Corporate Affairs & Sustainability.

Prior to this appointment Peter held the role of Group Executive, Westpac Retail & Business Banking from July 2008. Prior to that, he was Westpac s Group Executive, Business Financial Services, responsible for business banking sales, relationship management, customer service, and product and risk management in Australia. Peter has held several other senior roles in Westpac including General Manager roles in Marketing, Branch Banking and Consumer Credit. Peter joined Westpac in 1995 from BankSA where he was Chief Manager of Branch Sales and Service and Head of Strategic Marketing. Prior to his banking career, Peter served in The Royal Australian Air Force.

As announced on 20 September 2011, Peter was appointed to the position of Group Executive, Transformation & Productivity effective 1 October 2011.

Bob McKinnon BCom, ACA, MAICD. Age 58
Group Executive, Technology

Bob was appointed Group Executive, Technology on 17 July 2008. Prior to joining Westpac, Bob was Joint Managing Director of Multiplex Limited and Multiplex Funds Management Limited. Bob has over 39 years of extensive financial and senior management experience, having held senior positions with Lend Lease Corporation, MLC Group, State Street Australia and Commonwealth Bank of Australia. He is also currently a Non-executive Director of Alesco Corporation Limited.

Jon Nicholson BA. Age 55
Chief Strategy Officer

Jon was appointed Chief Strategy Officer in February 2006, with responsibility for Westpac s strategy, planning and M&A activities. He has deep experience in financial services strategy, including considerable international experience. Prior to joining Westpac, Jon was a senior partner with the Boston Consulting Group (BCG), where for many years he built and led BCG s financial services practice across Asia. Earlier in his career, Jon was Senior Private Secretary to the Prime Minister of Australia. He is also a Trustee of the Westpac Buckland Fund.

Greg Targett BEc, DipEd, F Fin, CFTP. Age 54
Chief Risk Officer

Greg Targett 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 47
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 and Westpac s equities, structured finance, global treasury, Asian and Pacific Island businesses. Rob joined Westpac as a graduate in 1986, where he gained broad experience in the financial markets. 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 Chief Executive Officer 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.

3. Report on the business

a) Principal activities

The principal activities of the Group during the financial year ended 30 September 2011 were the provision of financial services including lending, deposit taking, payments services, investment portfolio management and advice, unit trust and superannuation fund management, insurance services, leasing, general finance, foreign exchange and money market services.

There have been no significant changes in the nature of the principal activities of the Group during 2011.

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 2011 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 2011 was $6,991 million.

c) Dividends

Since 30 September 2011, Westpac has announced a final dividend of 80 cents per ordinary share, totalling approximately $2,424 million for the year ended 30 September 2011 (2010 final dividend of 74 cents per Westpac ordinary share, totalling $2,212 million). The final dividend will be fully franked and will be paid on 19 December 2011.

An interim dividend for the current financial year of 76 cents per ordinary share, totalling $2,288 million, was paid as a fully franked dividend on 4 July 2011 (2010 interim dividend of 65 cents per ordinary share, totalling $1,935 million).

d) Significant changes in state of affairs and events during and after the end of 2011 financial year

Significant changes in the state of affairs of the Group during 2011 were:

§ the finalisation of a component of tax consolidation related to Westpac s merger with St.George Bank Limited;

§ the downgrading by Moody s of Westpac s long-term, senior unsecured debt rating (along with the other major Australian banks) to Aa2 from Aa1;

§ the launch of the Bank of Melbourne in July 2011;

§ a change to the operating model in New Zealand from 1 November 2011, which has resulted in various business activities and associated employees being transferred from Westpac s NZ branch to WNZL; and

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

For a discussion of these matters, please refer to Significant developments in Section 1 under Information on Westpac , which forms part of this report.

In addition, during the year a number of external events have contributed to an increasingly negative outlook for the global economy. These events include the heightening of sovereign debt issues in Europe, a weakening of the US economy and tension in the Middle East and North Africa. From the second half of the year, these events have contributed to increased levels of market volatility, reduced levels of consumer and business confidence and a softening in overall economic activity in the affected regions. To date, these events have had little direct impact on Westpac, given Westpac Group s focus on Australia and New Zealand. However, it is possible that Westpac Group may be indirectly impacted in future financial years if significant market volatility, weaker asset markets and softer global economic growth continues. For a discussion of these matters and how Westpac may be impacted, please refer to Risk factors in Section 2.

e) Business strategies, developments and expected results

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

Directors report

4. Directors interests

a) Directors interests in securities

The following particulars for each Director are set out in Section 9 Remuneration Report and Note 41 of our consolidated financial statements for the year ended 30 September 2011 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 2 November 2011

	Number of Westpac Ordinary Shares	Number of Westpac Share Options	Number of Westpac Share Rights	Westpac SPS	Westpac SPS II
Westpac Banking Corporation					
Ted Evans	24,408	-	-	-	-
Gail Kelly	1,459,214[1]	720,556[2]	486,545[3]	-	-

John Curtis	80,787	-	-	-	-
Elizabeth Bryan	21,954	-	-	-	-
Gordon Cairns	17,038	-	-	-	-
Peter Hawkins	15,218	-	-	1,465	-
Carolyn Hewson	16,348	-	-	-	-
Lindsay Maxsted	15,360	-	-	-	-
Graham Reaney	75,361	-	-	-	-
Peter Wilson	16,087	-	-	-	-
	Number of BTIM Ordinary Shares				
BT Investment Management Limited					
Carolyn Hewson	29,937	-	-	-	-

1 Westpac ordinary shares granted under the CEO Restricted Share Plan in relation to the CEO s sign-on arrangements.

2 Options issued under the Chief Executive Officer Performance Plan.

3 Share rights issued under the Chief Executive Officer Performance Plan.

b) Other relevant interests as at 2 November 2011

Certain subsidiaries of Westpac offer a range of registered schemes and infrastructure notes. The Directors from time to time invest in these schemes and notes and are required to provide a statement to the ASX when any of their interests in these schemes or notes change (except interests in a number of cash management trusts)1. The level of interest held by Directors is set out below.

The level of interests held directly and indirectly by Directors as at 2 November 2011

	Relevant Interests in Infrastructure Notes1	**Relevant Interests in Cash Management Trusts (Units)2**	**Other Relevant Interests in Registered Schemes (Units)**	**Date of Last Notification to the ASX**
Elizabeth Bryan	-	-	-	26 August 2011
John Curtis	-	-	-	26 August 2011

1 As advised to the ASX on 26 August 2011, Elizabeth Bryan and John Curtis had relevant interests in Infrastructure Notes which were redeemed on 24 June 2011.

2 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 Institutional Managed Cash Fund (ARSN 088 832 491) or BT Institutional Enhanced Cash Fund (ARSN 088 863 469).

c) Indemnities and insurance

Under our 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, 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 AGM, 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 our constitution.

Westpac also executed a deed poll in September 2009 providing indemnification equivalent to that provided under our 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.

Our 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 2011 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.

d) Options and share rights outstanding

As at the date of this report there are 10,774,762 share options outstanding and 3,568,756 share rights outstanding in relation to Westpac ordinary shares. The expiry date of the share options range between 9 January 2012 and 1 March 2019 and the weighted average exercise price is $22.55. The latest dates for exercise of the share rights range between 20 January 2013 and 1 August 2021.

Holders of share options and share rights outstanding 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.

e) Proceedings on behalf of Westpac

No person has applied to the Court under section 237 of the *Corporations Act 2001* 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 2001*.

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

In 2008, we launched a five-year climate change strategy. The strategy outlines specific objectives for our direct environmental impacts, and continued engagement and advocacy along our value chain with customers and suppliers. We continue to work within the framework set down in the strategy.

Directors report

The Group is required to comply with the *Energy Administration Amendment (Water & Savings) Act 2005* (*NSW)* (EAA). We comply with our obligations pursuant to the EAA as a designated energy user and a designated water user through an:

Energy Savings Action Plan for Westpac s North Ryde site which was approved by the NSW Government on 14 February 2008. The Annual Progress Report for the North Ryde site was submitted for this year on 30 September 2011. We comply with our obligations under the EAA and the Action Plan; and

Energy Savings Action Plan and a Water Savings Action Plan for the St.George House Building at Kogarah. Both action plans were approved by the NSW Government during 2006 and require Annual Progress Reports (submitted to the NSW Government by 31 December each year). We comply with our obligations under the EAA and these Action Plans.

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), which requires a report to be submitted to the Commonwealth Government identifying and evaluating cost effective energy savings opportunities. The Group registered under the EEO on 24 March 2010 and our Assessment and Reporting Schedule was submitted on 22 December 2010. The first public and government report will be submitted to the Commonwealth Government by 31 December 2011. The public report will be available on the Westpac website.

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 reports 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 2011. The expenditure reflected in the table below relates to payment for participation in legitimate political activities where there was assessed to be of direct business benefit 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 2011

Australia

	Amount **$[1]**
Australian Labor Party	30,559
Liberal Party of Australia	20,390
National Party of Australia	11,450
Total	62,399

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 2011 was NZ$5,565. In line with Westpac policy, no cash donations were made to political parties in New Zealand during the year.

8. Directors meetings

Each Director attended the following meetings of the Board and Committees of the Board during the financial year ended 30 September 2011:

	Notes	Board Meetings		Audit Committee		Risk Management Committee		Nominations Committee		Remuneration Committee		Sustainability Committee		Technology Committee	
Number of meetings held during the year		10		4		4		5		5		3		3	
Director		**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Ted Evans	1	10	10	4	4	4	4	5	5	-	-	-	-	3	3
John Curtis	2	10	10	4	4	4	4	5	5	5	5	-	-	-	-
Gail Kelly	3	10	9	-	-	-	-	-	-	-	-	3	2	3	2
Elizabeth Bryan	4	10	10	4	4	4	4	5	5	3	3	-	-	3	3
Gordon Cairns	5	10	10	4	3	4	3	1	1	5	5	-	-	-	-
Peter Hawkins	6	10	10	4	4	4	4	4	4	-	-	-	-	3	3
Carolyn Hewson	7	10	10	4	4	4	4	5	5	5	5	-	-	-	-
Lindsay Maxsted	8	10	10	4	4	4	4	5	5	-	-	-	-	-	-
Graham Reaney	9	10	10	4	4	4	4	-	-	-	-	3	3	-	-
Peter Wilson	10	10	10	4	4	4	4	5	5	-	-	3	3	-	-

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 2010.

1 Chairman of the Nominations Committee until 9 August 2011. He is a member of the Audit Committee, Risk Management Committee, Technology Committee and from 9 August 2011 a member of the Nominations Committee.

2 Chairman of the Remuneration Committee from 15 December 2010. He is a member of the Audit Committee, Risk Management Committee, Nominations Committee and up until his appointment on 15 December 2010 as Chairman, he was a member of the Remuneration Committee.

3 Member of the Sustainability Committee and Technology Committee.

4 Chairman of the Risk Management Committee from 15 December 2010. She was Chairman of the Technology Committee until 15 December 2010. She is a member of the Audit Committee, Nominations Committee and Remuneration Committee and, from 15 December 2010, a member of the Technology Committee and up until her appointment as Chairman, she was a member of the Risk Management Committee.

5 Chairman of the Remuneration Committee until 15 December 2010. Member of the Audit Committee, Risk Management Committee and, from 15 December 2010, a member of the Remuneration Committee. He was a member of the Nominations Committee until 15 December 2010.

6 Chairman of the Technology Committee from 15 December 2010. He is a member of the Audit Committee, Risk Management Committee and, from 15 December 2010, a member of the Nominations Committee and up until his appointment as Chairman, he was a member of the Technology Committee.

7 Chairman of the Nominations Committee from 9 August 2011. Chairman of the Risk Management Committee until 15 December 2010. Member of the Audit Committee, Remuneration Committee and, from 15 December 2010, a member of the Risk Management Committee. She was a member of the Nominations Committee to 9 August 2011.

8 Chairman of the Audit Committee. He is a member of the Risk Management Committee and Nominations Committee.

9 Member of the Audit Committee, Risk Management Committee and Sustainability Committee.

10 Chairman of the Sustainability Committee. He is a member of the Audit Committee, Risk Management Committee and Nominations Committee.

All Directors receive the papers for all meetings of the Board and all Board Committee meetings and are invited to attend all Committee meetings (even where they are not members of the relevant Committee). The above table only sets out attendance by members of the relevant Committees. It does not reflect attendance at Committee meetings by other Directors who were not members of the relevant Committee.

9. Remuneration report

Introduction from the Chairman of the Board Remuneration Committee

Dear Shareholder,

We are pleased to present Westpac s 2011 Remuneration Report (Report).

We have made a number of changes to this year s Report to improve the clarity of presentation of our remuneration policies, practices and outcomes. For example, we have introduced a table in Section 3.3 of this Report showing the actual remuneration awarded and paid to the Managing Director & Chief Executive Officer (CEO) and senior executives during the 2011 financial year. This supplements the statutory remuneration disclosures we are required to make.

Key changes to Remuneration Policy in 2011

In last year s report, based on an earlier review of market practice, we announced our intention to:

increase the percentage of short-term incentive (STI) that senior executives receive in Westpac shares from 25% to 40%;

extend the total vesting period for those shares from two years to three years (vesting will occur equally at one, two and three years);

remove re-testing from our long-term incentive (LTI) scheme for grants made in or after December 2011; and

introduce a second performance hurdle for our LTI scheme, in addition to the existing total shareholder return (TSR) hurdle.

The changes to the deferral arrangements for the executive STI scheme will be implemented for STI awards granted in 2011.

For STI awards made in 2011, the Board will have the discretion to reduce or cancel unvested deferred STI where material risk or financial-related information has come to light since the initial award was made. This will further enhance the alignment of executive remuneration with shareholder interests.

In August 2011, the Board approved a recommendation made by the Remuneration Committee to remove re-testing for future LTI grants and to introduce Cash Earnings Per Share (Cash EPS) Growth as the second LTI performance hurdle. These changes will be implemented for LTI grants made in December 2011.

The selection of Cash EPS Growth as our second performance hurdle was approved by the Board after considering an independent review completed for the Remuneration Committee by Guerdon Associates, feedback from investors and their advisers and based on the Board s own assessment of a number of LTI performance measures.

For LTI grants made in December 2011, 50% of the allocation value will be subject to the Cash EPS Growth hurdle and 50% will continue to be subject to the current TSR hurdle.

Additional details on these changes to our LTI scheme are included in Section 1.2 of the Report.

Risk and governance

During the year, remuneration risk and governance evolved significantly with the introduction of new legislation and regulations, both domestically and globally. The Remuneration Committee has continued to monitor, and make changes where necessary to our remuneration frameworks, policies and practices to ensure they meet current legislative and regulatory requirements.

The Remuneration Committee met with representatives from APRA in July to discuss our remuneration arrangements, with particular focus on how we integrate risk into our remuneration practices.

The Board appointed Guerdon Associates as its independent consultant to advise on matters relating to executive remuneration. Guerdon Associates advised the Board on the review of the LTI scheme and on benchmarking our CEO, senior executive and Non-executive Director remuneration as part of our annual remuneration review.

The Board is confident that the changes made during the year to Westpac s remuneration framework, policy and practices are consistent with prudent risk management, strong governance principles and at the same time incent our senior executives to deliver superior long-term results for our shareholders.

As always, we welcome your feedback as we strive to make the report simpler and easier to understand.

John Curtis

Chairman Board Remuneration Committee

1. Remuneration snapshot

This section provides an overview of the Group s remuneration arrangements during 2011.

1.1 Significant factors impacting remuneration this year

Following an improvement in 2010, economic conditions deteriorated again during the second half of 2011. Notwithstanding that our businesses have been impacted by overall weaker domestic conditions, growing volatility in the global financial sector and natural disasters, the Group s financial performance was sound. The consequential impact on our performance during the year was taken into account in the 2011 remuneration review process, including for senior executive remuneration.

Remuneration levels

In May 2009, we responded to the challenges presented by the global financial crisis by freezing fixed remuneration levels and variable reward targets for the CEO and senior executives1.

More stable market conditions and improving results enabled us to recommence remuneration reviews from 1 October 2010.

Our performance during the year, and associated remuneration implications, are discussed in more detail in the Section 3.

Regulatory changes

2011 continued to be a year of significant regulatory evolution for remuneration and governance practices, both in Australia and internationally.

The following actions were undertaken during the year in response to regulatory and legislative developments:

our Board Remuneration Committee Charter was reviewed and updated to reflect new responsibilities under changes to the *Corporations Act 2011* (the Act);

a process for engaging remuneration consultants on or after 1 July 2011 was developed and implemented to ensure compliance with new requirements of the Act. The key operational changes relate to the process for engagement of remuneration consultants providing recommendations on Key Management Personnel (KMP) remuneration. Those consultants are directly engaged by the Remuneration Committee through its Chairman with associated protocols for meeting strict independence of the consultant;

a review of remuneration structures for UK based employees was conducted to ensure compliance with the Financial Services Authority (FSA) Code requirements. Although some adjustments were required, the review found us largely compliant with the Code;

the Board Remuneration Committee met with APRA in July 2011 to review Westpac s remuneration and governance frameworks against its prudential standard APS 510 and emerging global practices; and

continued active contribution to the development of emerging regulatory and legislative requirements through the lodgement of submissions, participation in consultation processes and industry forums.

The Board is confident that Westpac s remuneration strategy and framework positions us well to respond to further legislative and regulatory changes expected in 2012.

1.2 CEO and senior executive remuneration

Remuneration principles and strategy

Our remuneration strategy is designed around six principles:

talented employees;

pay for performance;

competitive and fair;

aligned with shareholders interests;

risk adjusted remuneration; and

simple, flexible and transparent.

Our strategy, based on these principles, is to attract and retain talented employees by rewarding them for achieving high performance, developing sustainable customer relationships and delivering superior long-term results for our shareholders. The strategy also incorporates sound principles of risk management and governance.

Executive remuneration framework

The executive remuneration framework for the CEO and senior executives has three components.

Fixed remuneration takes into account the size and complexity of the role, individual responsibilities, experience, skills and market-related pay levels. Fixed remuneration refers to fixed package which comprises cash salary and salary sacrifice items plus employer superannuation.

STI comprises cash and deferred shares. The level of payment is determined based on an STI target set using similar principles to those used for fixed remuneration and on individual, divisional and Group performance for the year. These are measured against risk-adjusted financial targets and non-financial targets that support the Group s short and long-term strategy.

LTI performance share rights, which vest over a three-year period if performance hurdles are achieved. The award takes into account market benchmarks, individual performance over time, succession potential and key skills.

1 Senior executives are named in Section 1.4 in this Remuneration Report.

Directors report

Executive remuneration changes in 2011

Whilst our remuneration strategy and principles remain unaltered, we continued to evolve our executive remuneration framework during 2011. At a high level, the resultant changes include a greater proportion of total remuneration for senior executives being granted in equity and longer deferral periods to allow more time for risks to emerge. In summary, the changes to our executive remuneration framework and policies for 2011 are:

Changes to STI

The percentage of STI that senior executives receive in Westpac shares increased from 25% to 40%.

The deferral period for the STI now extends to three years (previously 50% vesting after one year and 50% vesting after two years for the CEO and 100% vesting after two years for the majority of senior executives).

For STIs awarded to senior executives from December 2011 onwards, the Board s discretion has been expanded to reduce or cancel unvested securities where material risk or financial-related information has come to light since the grant of the deferred equity and the Board subsequently considers that the initial grant of deferred equity was not justified.

Changes to LTI

The Board approved the following changes to Westpac s future LTI arrangements, which take effect for LTI grants made in and after December 2011:

the introduction of Cash EPS Growth as a second performance hurdle. 50% of LTI allocations will be subject to the Cash EPS Growth hurdle and 50% will continue to be subject to the current TSR hurdle; and

the removal of re-testing.

Following an independent review completed for the Board by Guerdon Associates, feedback from investors and their advisers and the Board s own assessment of a number of LTI performance measures, Cash EPS was selected as the second performance measure for the following reasons:

Transparency Cash EPS is featured in annual disclosures with a consistent definition;

Management line of sight and influence;

Market practice EPS is a common second performance hurdle in ASX top 50 companies;

Cash EPS is a basis for equity analyst and fund manager valuations; and

Strong alignment with Westpac shareholder interests.

Features of the Cash EPS Growth Hurdle

Cash EPS Growth will be measured using three year compound annual growth rates.

The Board will set three year Threshold and Maximum targets each year informed by a range of factors considered relevant by the Board including the Group s strategic planning process and analyst forecasts for the major Australian banks.

50% of the Cash EPS Growth tranche will vest on achievement of the Threshold target and 100% will vest on achievement of the Maximum target. Consistent with our TSR hurdle, there will be straight line vesting between the Threshold and Maximum levels of performance.

As Westpac does not issue market guidance, given the market sensitivity of the Cash EPS Growth targets, the Threshold and Maximum targets have been determined by the Board as appropriately stretching and will be disclosed on vesting of awards at the end of the three year performance period.

Target remuneration mix

A target remuneration mix is determined for each management level, with the proportion of performance-based rewards increasing with the level of responsibility and the critical nature of the role.

The following diagram illustrates the 2011 target remuneration mix for the CEO and the average 2011 target remuneration mix for Group Executives.

LTI Performance share rights (December 2010 grant)

three to five year performance period

value only received if Westpac performs at or above peer group median

Deferred STI Restricted shares

40% of STI outcome for the majority of senior executives restricted for up to three years subject to service conditions

STI paid as cash

60% of STI outcome for the majority of senior executives

in December 2011

Fixed remuneration

including cash, salary sacrifice items and employer superannuation

For the CEO and senior executives, the target remuneration mix has been designed to achieve an appropriate balance between short and long-term results. While the aggregate STI forms the largest component of target remuneration, deferring 40% of the STI as equity over three years results in the benefits typically achieved by using LTI (by aligning remuneration with shareholder interests and retaining talented executives).

1.3 Remuneration for other employees

The remuneration strategy for other employees is 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. In some cases a portion is deferred;

key employees may also receive an LTI award in the form of deferred shares; 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 in customer advocacy.

1.4 KMP remuneration disclosed in this report

CEO and senior executives

The remuneration of the KMPs listed in the table below is disclosed in the Report.

Name	**Position**
Gail Kelly	Managing Director & Chief Executive Officer
Group Executives	
John Arthur	Group Executive, Counsel & Secretariat
Rob Chapman1	Chief Executive, St.George Banking Group
Peter Clare	Group Executive, Product & Operations
Philip Coffey	Chief Financial Officer
Rob Coombe	Group Executive, Westpac Retail & Business Banking
Brad Cooper	Chief Executive Officer, BT Financial Group
George Frazis	CEO, Westpac New Zealand Limited
Peter Hanlon	Group Executive, People & Transformation

Bob McKinnon	Group Executive, Technology
Greg Targett	Chief Risk Officer
Rob Whitfield	Group Executive, Westpac Institutional Bank

Other Senior Executives

Curt Zuber	Group Treasurer

1 Rob Chapman began exercising the functions of Chief Executive, St.George Banking Group from 1 October 2010 before being formally appointed to that role on 1 December 2010. Greg Bartlett retired on 1 December 2010 after facilitating an orderly transition at St.George over the period from 1 October 2010 until his retirement.

Non-executive Directors

Name	Position
Ted Evans	Chairman
John Curtis	Deputy Chairman
Elizabeth Bryan	Director
Gordon Cairns	Director
Peter Hawkins	Director
Carolyn Hewson	Director
Lindsay Maxsted	Director
Graham Reaney	Director
Peter Wilson	Director

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, which includes:

approving individual remuneration levels for the CEO, Non-executive Directors, 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;

determining the corporate goals and objectives relevant to the remuneration of the CEO and evaluating the performance of the CEO in light of these objectives;

considering and approving the Group Remuneration Policy and remuneration structures for each category of persons1 covered by the Group Remuneration Policy;

approving the appointment of Group Executives and the General Manager Group Assurance and monitoring the performance of senior management; and

determining the size of bonus / incentive pools as part of the Group s annual plan based on consideration of pre-determined business performance indicators and the financial soundness of the Group.

The Remuneration Committee supports the Board. Its primary function is to assist the Board in fulfilling its responsibilities to shareholders with regard to remuneration. The Remuneration Committee monitors both the Group s remuneration policies and practices, external remuneration practices, market expectations and regulatory requirements in Australia and internationally. The Remuneration Committee:

reviews and makes recommendations to the Board in relation to the Group Remuneration Policy and assesses the Group Remuneration Policy s effectiveness and compliance with Prudential Standards;

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

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

1 This includes persons whose activities in the Remuneration Committee s opinion may affect the financial soundness of Westpac and any other person specified by APRA.

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;

reviews and makes recommendations to the Board in relation to approving any and all equity based plans;

oversees general remuneration practices and reward expenditure across the Group;

reviews and makes recommendations to the Board on the remuneration framework, policies and fee levels for Non-executive Directors of subsidiary boards;

reviews and makes recommendations to the Board on the size of the variable reward pool;

oversees the Group s equity based plans, and makes recommendations to the Board relating to new plans and changes to existing plans; and

approves remuneration arrangements outside of the Group Remuneration Policy relating to those individuals or groups of individuals who are significant because of the sensitivity of their roles, precedent or disclosure implications.

During 2011, the Board appointed Guerdon Associates as its independent consultant to provide specialist advice on executive remuneration and other Group remuneration matters. These services are provided directly to the Remuneration Committee and are independent of management. The Chairman oversees the remuneration arrangements for, and payment of, the independent consultant.

Members of the Remuneration Committee during 2011

All members of the Remuneration Committee are independent Non-executive Directors. During 2011 the members were:

John Curtis (Chairman from 15 December 2010);

Elizabeth Bryan (Member from 15 December 2010, commencing with her appointment as Chairman of the Board Risk Management Committee);

Gordon Cairns (Chairman until 15 December 2010); and

Carolyn Hewson.

Remuneration Committee Charter

The role and responsibilities of the Remuneration Committee are set out in the Board Remuneration Committee Charter, which is available on the Group s website at www.westpac.com.au/corporateresponsibility.

All Board Committee Charters are reviewed annually. The Board Remuneration Committee Charter was amended in August 2011. Further information about the Remuneration Committee is provided in the Corporate Governance Statement in this Annual Report.

Other internal governance structures

The following governance structures assist the Board and the Remuneration Committee to fulfil their responsibilities to shareholders regarding remuneration matters. The roles and responsibilities of these internal groups and committees, comprised of Westpac executives, are outlined below:

Remuneration Oversight Committee responsible for leading the optimisation of risk-adjusted remuneration across the Group, overseeing the Group Remuneration Policy, remuneration arrangements, and the criteria and rationale for recommending the total quantum of the Group variable reward pool as approved by the Board;

Divisional Remuneration Oversight Committees responsible for designing and proposing incentive plans and monitoring remuneration outcomes for the respective division; and

Functional Remuneration Oversight Committees responsible for reviewing incentive plans and remuneration outcomes for the respective functions so there is consistency and appropriateness across the Group. The Committees also review the remuneration structure for Risk and Financial Control employees so that their independence is not compromised.

2.2 Risk 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 remuneration framework specifically includes features to take account of risk. The framework is composed of a mix of fixed pay and variable reward, a portion of which is deferred. The CEO and senior executives receive deferred compensation in two forms: deferred shares as part of the STI, and an LTI award of performance share rights which deliver value only if the Group meets or exceeds predetermined performance hurdles. These help to align the interests of the CEO and senior executives with those of shareholders.

Each year the Board determines the size of the variable reward pool. This is based on an assessment of how profit should be shared among employees, shareholders and ongoing capital requirements. The primary financial indicator used is economic profit, which measures profitability adjusted for risk in the business. Cash earnings, 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. Economic profit accounted for 40% of the CEO s and Group Executives scoreboards for 2011. A performance measure related to the Board s Risk Appetite Statement accounted for a further 10% of the CEO s and Group Executives scoreboards. In addition, the CEO and each Group 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.

Shareholding requirements

To align their rewards with shareholder returns, the CEO and Group Executives are expected to build and maintain a substantial Group shareholding within five years of beginning a Group Executive role. For the CEO the value of that shareholding is expected to be no less than five times her annual fixed package. For Group Executives the expected minimum is $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 liable for forfeiture.

Approval of remuneration decisions

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 engages external advisors who are independent of management.

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 Group 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 Group Executives) are approved by the CEO, on the recommendation of the Group Executive to whom they report.

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

Corporate values and culture

We actively focus on our corporate values and seek to ensure a culture of risk management is embedded throughout our organisation. The Group s corporate values are: being part of one team, delighting customers, achievement, valuing each other and acting with integrity. Our bi-annual Culture Values Assessment[1] asks employees what they value personally and what they believe are the values of the organisation. In 2010, these included values consistent with a culture of risk management, compliance , accountability and doing the right thing . The Culture Values Assessment will be conducted again in 2012.

1 Results of the Culture Values Assessment reported by Barrett Values Centre, August 2010.

3. Executive Remuneration

3.1 Structure and policy

a) Fixed remuneration

Fixed remuneration refers to fixed package, which comprises cash salary and salary sacrifice items, plus employer superannuation.

The Group provides superannuation contributions of 9% of fixed package in line with statutory obligations. During 2011, two senior executives remained members of legacy defined benefit superannuation funds (which are closed to new members).

Fixed remuneration is reviewed annually and is effective from 1 January each year. For 2011, the Board approved fixed remuneration increases for the CEO and Group Executives, averaging 8%, after taking into consideration the following:

- fixed remuneration for the CEO had not been reviewed since she joined the Group in February 2008;
- fixed remuneration for Group Executives was not reviewed for the previous year as part of the Group s response to the global financial crisis;
- relative market benchmarks, particularly within the financial services industry; and
- to encourage retention and motivation of key executives given increasing competition for talent in a challenging environment.

b) STI

STIs are used to motivate and reward executives for achieving annual financial and non-financial performance objectives that support the Group s strategic goals. The CEO and senior executives each have a financial target for STI and the actual STI award is assessed on a balanced scoreboard approach (subject to Board discretion) at up to 200% of target. 60% of the STI award is paid in cash and 40% is awarded in deferred equity.

STI targets

The CEO s STI target for 2011 was $3.6 million.

STI targets for Group 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. STI awards for Group Executives are managed within the Group-wide variable reward pool.

STI structure

For 2011, 60% of the STI outcome for the CEO and Group Executives (excluding Bob McKinnon) will be paid as cash in December 2011 and 40% of the STI outcome will be deferred and received as Westpac ordinary shares over a three year period. If an executive remains employed with the Group, the deferred portion of the STI will vest in three equal tranches over one, two and three years.

For Bob McKinnon, 75% of his 2011 STI outcome will be paid as cash in December 2011 and 25% of his STI outcome will be deferred and received as Westpac ordinary shares that vest after one year as per his contract.

The table below details the type of equity and the instrument used to grant the 2011 deferred STI to executives.

Executive	Deferred STI Type of Equity	Deferred STI Equity Plan
CEO	Westpac ordinary shares	CEO Restricted Share Plan1
Senior Executives in Australia	Westpac ordinary shares	Restricted Share Plan1
Senior Executives outside Australia	Rights to ordinary shares, which entitle the holder to Westpac ordinary shares at the time of vesting	Westpac Performance Plan

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.

By deferring a portion of the STI, incentive payments are better aligned with the interests of shareholders. Changes in the business during the vesting period are reflected in the share price at the end of 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.

Details of the deferred STI granted, exercised and vested during the year ended 30 September 2011 are included in Section 3.2 of this Remuneration Report.

Performance objectives and performance achieved

The Remuneration Committee reviews and makes recommendations to the Board on individual performance objectives for the CEO and each of the Group Executives. These objectives are intended to provide a robust link between remuneration and the key drivers of long-term shareholder value. The STI performance objectives are set out in the form of a scoreboard with targets and measures cascaded from the CEO scoreboard to the relevant Group Executive scoreboard. Examples of the 2011 financial and non-financial performance objectives are outlined below:

Category	Example Performance Objectives1	Standard Weighting for 2011
Shareholder financial	§ Economic Profit	40%
Shareholder risk	§ Adherence to Westpac Group Risk Appetite Statement	10%
Customer/Strategy/ Sustainability	§ Customer Advocacy; § Productivity; § Technology; § Reputation; § Funding; and § Overall implementation of strategy.	40%
People	§ Employee retention; § Women in management; § Employee advocacy; and § Lost Time Injury Frequency Rate (LTIFR).	10%

1 Individual measures will differ for each Group Executive.

A description of the performance objectives and the results for 2011 are set out below:

Shareholder financial

Our primary financial measure is economic profit which the Board believes is the best measure of risk adjusted returns and of the value created for shareholders. In 2011, economic profit increased by 4%, net profit after tax (NPAT) increased by 10% and earnings per share increased by 6%.

This level of financial performance produced a scoreboard result for economic profit of 113% against a possible maximum result of 200%.

Shareholder risk

Our scoreboard measure for risk involves the Board s assessment of our performance against the Board Risk Appetite Statement. Highlights of our performance for 2011 include:

§ Tier 1 capital and Target Capital Ratios are well above regulatory minimums;

§ funding profile and liquidity strengthened; and

§ strong performance relative to peers on impairment charges to gross loans.

Customer/Strategy/Sustainability

We assess the strength of our relationships with our customers, our strategy objectives and our sustainability progress using a number of measures.

Net Promoter Score[1] for our retail, business banking and wealth customers we measure customer advocacy. This is how willing our customers are to recommend us to others, calculated by an independent firm. In 2011 St.George retail and business customers continue to rank us ahead of the major banks to recommend to others. Westpac Retail and Business Banking improved customer advocacy results in its target segments of affluent, small-to-medium enterprise and commercial, ending the year as number one of the major banks in small-to-medium enterprise and commercial.

Relationship Strength Index[2] this measure for our Institutional Bank combines a range of service quality factors including customer advocacy and in 2011 for our large corporate customers we maintained a clear number one position in Customer Satisfaction.

Productivity cost and revenue benefits have been achieved through a broad range of productivity initiatives including under our centrally co-ordinated Breakthrough program and our process re-engineering work.

Technology the stability, reliability and performance of our key information technology systems continued to improve during the year, and we began to deliver customer experience enhancing outcomes in our Strategic Investment Priority Programs which, in aggregate, are now half completed.

Reputation the Westpac Group has seven stakeholder reputation measures: customers, community, investors, media, sustainability, government and employees. In 2011, Westpac was ranked first in four of those measures customers, sustainability, government and employees.

1 NPSSM and Net Promoter ScoreSM is a service mark of Bain & Company, Inc., Satmetrix Systems, Inc., and Mr Frederick Reichheld.

2 Peter Lee Associates Large Corporate & Institutional Relationship Banking Survey, Australia, 2011.

Funding in 2011 we continued to improve our funding position and, in particular, saw customer deposit growth substantially fund new lending growth.

Strategy key highlights for 2011 were the launch of Bank of Melbourne and the high level of cross sell of wealth products through the Westpac and St.George retail and business banking brands.

People

In 2011, the People category focused on the following performance objectives:

Employee retention in 2011, we increased our focus on retaining employees with less than one year s service as a key productivity and engagement initiative. The Group retention target of 82% was exceeded, largely due to the comprehensive measures in our front-line businesses to improve the selection, onboarding and engagement of new employees.

Women in management the Westpac Group has a long and proud history as a leader in diversity and as an employer of choice for women. Over the last 12 months we have had a renewed focus on our diversity and flexibility programs with a specific focus on women in leadership. Our diversity strategy seeks to increase the percentage of women in senior leadership roles from 33% in 2010 to 40% by 2014 and then aspirationally to 50% by 2017. In 2011, we achieved our ambitious Group target of 37.5%.

Employee advocacy there has been a strong improvement in the Employee Net Promoter Score from +13 in 2010 to +29 in 2011, after two years of significant focus on improving employees willingness to recommend our brands to their family and friends.

Health, Safety and Wellbeing (HS&W) we have made significant progress in our overall HS&W performance over the past 12 months. Our HS&W Transformation Program began in October 2010 with the launch of the Safe+Sound campaign and a new HS&W Centre of Excellence. Our Lost Time Frequency Rate (LTIFR) reduced by 10% for the year ended 30 September 2011.

Application of discretion

The Board and Remuneration Committee recognise that the scoreboard approach, whilst embracing a number of complementary performance objectives, will never entirely assess overall performance. The Remuneration Committee may therefore make discretionary adjustments to the scoreboard outcome of up to 100% of target for the CEO and senior executives. The Remuneration Committee uses the following criteria to apply discretionary adjustments:

§ 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 Group Executives during the financial year;

- personal measures established by the CEO for each Group Executive;
- the degree of stretch implicit in the scoreboard measures and targets themselves and the context in which the targets were set;
- whether the operating environment during the financial year has been materially better or worse than forecast in the budget assumptions;
- comparison with the performance of the Group s principal competitors, particularly major shareholder and customer benchmarks;
- any major positive or negative risk management or reputational issue that impacts the Group;
- the quality of the financial result as shown by its composition and consistency;
- whether there have been major positive or negative aspects to the quality of leadership and key behaviours, and our values; and
- 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 Group Executive to the Board for approval.

The maximum STI outcome is 200% of target.

Furthermore, the Board has absolute discretion to adjust STI outcomes downwards (to zero if appropriate) if such adjustments are necessary to protect the financial soundness of the Group, or to respond to significant unexpected or unintended consequences.

c) LTI

The CEO and senior executives are also eligible for an LTI award.

LTI award opportunities

The CEO received an LTI award of $2.7 million for 2011. The award was received in the form of performance share rights under arrangements approved by shareholders at the 2010 Annual General Meeting. Shareholders also approved the approach for the 2012 and 2013 CEO LTI grants at the 2010 Annual General Meeting. The changes we have made to this year s LTI were foreshadowed last year, ahead of the 2010 Annual General Meeting.

Group Executives (except Bob McKinnon) receive annual LTI awards of performance share rights under the Westpac Reward Plan. At the beginning of each year, the Board, advised by the Remuneration Committee, sets the dollar value of the LTI award target for each Group Executive.

The actual LTI award granted to each Group Executive is determined at the Board s discretion taking into account matters including market benchmarks, individual performance over time, succession potential and key skills.

Due to the nature of his fixed-term contract, Bob McKinnon has different LTI arrangements. He received an award of cash-settled performance share rights, which vest over the period of his contract provided he meets the performance hurdles set by the Board. The performance hurdles are directly related to his individual long-term performance objectives.

LTI structure

The CEO receives an annual LTI award of performance share rights (rights to purchase ordinary shares at zero exercise price at a pre-determined point in the future, subject to certain performance criteria being met) under the CEO Performance Plan. Senior executives receive annual LTI awards of performance share rights under the Westpac Reward Plan.

From time to time senior executives may receive one-off LTI awards.

The following table sets out the key features of LTI awards made in December 2010 to the CEO under the CEO Performance Plan and to senior executives under the Westpac Reward Plan. This table does not reflect the changes made to LTI awards outlined in Section 1.2 of this Report, which will apply to grants made in December 2011.

	CEO Performance Plan	Westpac Reward Plan
Instrument	Performance share rights	
Determining the number of securities	The number of performance share rights each individual receives is determined by dividing the dollar value of the LTI award by the value of the performance share rights at the beginning of the TSR assessment period (performance period). The value of performance share rights is determined using a Binomial/Monte Carlo simulation pricing model which uses assumptions based on expected life, volatility, risk free interest rate and dividend yield. The Binomial/Monte Carlo simulation pricing model discounts the market price of Westpac shares at grant to take into consideration these assumptions. This is calculated by an independent valuer.	
Performance hurdle is relative TSR	The CEO and senior executives receive value from their LTI awards only if Westpac s TSR ranks at or higher than the 50th percentile of a defined group of comparator companies (the ranking group) over the performance period. This provides a link with the creation of value for shareholders over the long-term (up to five years). Lists of companies in the current ranking groups for the CEO Performance Plan and the Westpac Reward Plan are provided in Section 5 of this Remuneration Report.	
Vesting framework	The current vesting schedule is set out below:	

focuses on longer-term performance	**Westpac s Relative TSR Ranking**	**Percentage of LTI to Vest**
	Below the 50th percentile	0%
	At the 50th percentile	50%
	At the 60th percentile	70%
	At the 70th percentile	90%
	At or above the 75th percentile	100%

Initial TSR performance is tested at the third anniversary of the start of the performance period with subsequent testing possible at the fourth and fifth anniversaries. Full vesting occurs when Westpac s TSR is at or exceeds the 75th percentile relative to the comparator group, scaling down to 50% vesting for performance at the median (50th percentile). If performance is below median, securities do not vest. A similar approach will be taken for the Cash EPS Growth hurdle to be introduced next year.

Unvested securities are re-tested at subsequent performance test dates (where these exist) and further vesting occurs only if the TSR ranking is above the 50th percentile and has improved from previous test dates. The vesting framework has been designed to strengthen the link with shareholder returns over the longer term. Vesting results are locked in at each test date and any securities that are not vested are subject to further performance hurdles until the final test date. Re-testing is for the whole performance period. There is no ability to go back to a prior test date. Re-testing will not exist for future LTI grants.

External consultants calculate TSR

TSR results are calculated by an independent external consultant and are provided to the Board or its delegate to review and determine vesting outcomes.

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 within 12 months of a change of control.

	CEO Performance Plan	Westpac Reward Plan
Lapsing of securities	Any securities remaining unvested at the final test date lapse immediately. Where the CEO or senior executive leaves the Group due to resignation or dismissal for cause before vesting occurs, securities will lapse unless the Board determines otherwise. Unexercised performance share rights (whether vested or unvested) will lapse, unless the Board determines otherwise, where the holder acts fraudulently or dishonestly or is in material breach of his or her obligations under the CEO Performance Plan and the Westpac Reward Plan or to the Group.	

Performance objectives and performance achieved

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

Equity Instrument	Type of Equity	Commencement	Test Date	TSR Percentile	Vested (%)	Lapsed (%)	Remain in Plan (%)
CEO Performance Plan	Share rights and performance options	1 February 2008	1 February 2011	60th percentile	70	-	30
Westpac Reward Plan	Options	17 December 2007	17 December 2010	80th percentile	100	-	-
Westpac Performance Plan[1]	Share rights	1 December 2008	1 December 2010	60th percentile	70	30	-

1 Special merger related award.

The following table demonstrates the Group s TSR, dividend, share price and Cash Earnings per share performance each year from 2007 to 2011.

	Years Ended 30 September				
	2011	2010	2009	2008	2007
TSR three years	9.6%	3.7%	20.0%	29.5%	85.7%
TSR five years	18.5%	51.5%	76.7%	75.0%	123.0%
Dividends per Westpac share (cents)	156	139	116	142	131

Cash Earnings per Westpac share1,2	$2.09	$1.98	$1.64	$1.98	$1.89
Share price high	$25.60	$28.43	$26.74	$31.32	$28.69
Share price low	$17.84	$20.56	$14.40	$18.36	$22.53
Share price close	$20.34	$23.24	$26.25	$21.48	$28.50

1 The Cash Earnings balances are not prepared in accordance with A-IFRS and have not been subject to audit.

2 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.

Fair value of LTI grants made during the year

The table below provides a summary of the LTI awards granted to the CEO and senior executives during 2011. The LTI grants will vest only on satisfaction of performance and/or service conditions tested in future financial years.

Equity Instrument	**Granted to**	**Grant Date**	**Commencement Date1**	**First Possible Vesting Date**	**Expiry**	**Fair Value2 per Instrument**
CEO Performance Plan performance share rights	Gail Kelly	22 December 2010	1 October 2010	1 October 2013	1 October 2015	$13.58
Westpac Reward Plan performance share rights	All Senior Executives except: - Bob McKinnon	29 November 2010	1 October 2010	1 October 2013	1 October 2015	$12.68
Westpac Performance Plan unhurdled share rights3	George Frazis	29 November 2010	1 October 2010	1 October 2012	1 October 2020	$19.65

1 The commencement date is the start of the performance period in the case of performance share rights, or the start of the restriction period in the case of unhurdled share rights. Awards to the CEO were approved by shareholders at the Annual General Meeting held on 15 December 2010.

2 The fair value of share rights included in the table above has been independently calculated at grant date using Binomial/Monte Carlo simulation pricing models.

3 George Frazis was granted a deferred STI award of unhurdled share rights, which vests after two years of service.

Other long-term awards

The Restricted Share Plan and Westpac Performance Plan are also used from time to time for one-off awards to attract senior executives 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.

LTI 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.

3.2 Movement in equity-settled instruments during the year

This table shows the details of movements during 2011 in the number and value of equity instruments for the CEO and senior executives under the relevant plans.

Name	Type of Equity Instrument	Number Granted1	Number Vested2	Number Exercised3	Value Granted ($)4	Value Exercised ($)5	Value Forfeited or Lapsed ($)5, 6
Gail Kelly	CEO Performance options	-	255,102	-	-	-	-
	CEO Performance share rights	176,125	57,603	57,603	2,391,778	1,392,724	-
	Shares under the CEO Restricted Share Plan	82,102	83,426	n/a	1,882,194	n/a	-
John Arthur	Performance share rights	39,138	-	-	496,270	-	-
	Shares under Restricted Share Plan	14,118	-	n/a	300,513	n/a	-
Rob Chapman	Performance share rights	12,263	5,512	-	155,495	-	50,343
	Shares under Restricted Share Plan	10,860	7,520	n/a	231,164	n/a	-
Peter Clare	Performance share rights	30,006	-	-	380,476	-	-
	Shares under Restricted Share Plan	17,919	10,783	n/a	381,421	n/a	-
Philip Coffey	Performance options	-	114,786	-	-	-	-
	Performance share rights	39,138	-	-	496,270	-	-
	Shares under Restricted Share Plan	26,064	38,510	n/a	554,794	n/a	-
Rob Coombe	Performance options	-	118,796	-	-	-	-
	Performance share rights	36,529	-	-	463,188	-	-
	Shares under Restricted Share Plan	21,720	20,025	n/a	462,328	n/a	-
Brad Cooper	Performance options	-	104,761	-	-	-	-
	Performance share rights	48,923	-	-	620,344	-	-
	Unhurdled share rights	-	-	22,045	-	528,072	-
	Shares under Restricted Share Plan	21,720	44,996	n/a	462,328	n/a	-
George Frazis	Performance share rights	32,615	-	-	413,558	-	-
	Unhurdled share rights	20,703	82,023	82,023	406,814	1,922,247	-
Peter Hanlon	Performance options	-	68,922	-	-	-	-
	Performance share rights	30,006	-	-	380,476	-	-
	Shares under Restricted Share Plan	17,919	20,025	n/a	381,421	-	-
Bob McKinnon	Shares under Restricted Share Plan	16,290	-	n/a	346,746	n/a	-
Greg Targett	Performance share rights	39,138	4,822	-	496,270	-	44,055
	Shares under Restricted Share Plan	18,974	5,672	n/a	403,877	n/a	-
Rob Whitfield	Performance options	-	93,984	-	-	-	-
	Performance share rights	39,138	-	-	496,270	-	-
	Shares under Restricted Share Plan	22,589	42,105	n/a	480,826	n/a	-
Curt Zuber	Performance options	-	90,726	-	-	-	-
	Performance share rights	18,346	-	-	232,627	-	-
	Shares under Restricted Share Plan	80,345	72,659	n/a	1,710,210	n/a	-

1 No performance options were granted in 2011. George Frazis was granted a deferred STI award of unhurdled share rights, which vests after two years of service. Details of the award are included in Section 3.1.c.

2 The performance options granted to the CEO in February 2008 and the performance options granted to senior executives in December 2007 were assessed against a TSR ranking group that consisted of the top 10 largest Australian banking and financial sector companies by market capitalisation at the time of grant (excluding Westpac). 70% of the performance options granted to the CEO in February 2008 vested during 2011 and 100% of the performance options granted to senior executives in December 2007 vested during 2011.

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 exercised during the year, the relevant executive received one fully paid Westpac ordinary share. The exercise price for share rights is nil. No performance options were exercised during the year.

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 in Section 3.1.c of this report. 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 2011, do not reconcile with the amount shown in the table in Section 3.4, which shows amortised totals of equity awards over their vesting period. The minimum total value of the grants is nil and an estimate of the maximum possible total value 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, 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 For share rights granted in December 2008 that vested in 2011, 30% of the grant lapsed during 2011. No options or restricted shares lapsed or were forfeited in 2011.

Directors report

3.3 Remuneration outcomes for the CEO and senior executives

The following table has been prepared to provide shareholders with a view of how remuneration was communicated and paid to executives during 2011. Details in this table supplement the statutory requirements in Section 3.4. Unlike the statutory table, which represents remuneration outcomes prepared in accordance with accounting standards (A-IFRS), this table shows that executives will only receive value from deferred remuneration if performance and service conditions are met. The valuation of equity based awards received in financial year 2011 is calculated as in Note 4 below.

	Total Remuneration Awarded for FY111 (A)	Remuneration Awarded in FY11 and Deferred for Future Periods2 (B)	Remuneration Awarded and Received in FY113 (C) [(A)-(B)]	Remuneration Received in FY11 from Previous Years Awards4 (D)	Total Remuneration Received in FY11 (C)+(D)
Gail Kelly, Managing Director & Chief Executive Officer					
Fixed Pay	3,100,000	-	3,100,000	-	3,100,000
STI	3,960,000	1,584,000	2,376,000	1,884,345	4,260,345
LTI	2,700,000	2,700,000	-	1,320,820	1,320,820
Total	9,760,000	4,284,000	5,476,000	3,205,165	8,681,165
John Arthur, Group Executive, Counsel & Secretariat					
Fixed Pay	900,000	-	900,000	-	900,000
STI	1,320,000	528,000	792,000	-	792,000
LTI	400,000	400,000	-	-	-
Total	2,620,000	928,000	1,692,000	-	1,692,000
Rob Chapman, Chief Executive, St. George Banking Group, KMP since 1 October 2010					
Fixed Pay	900,000	-	900,000	-	900,000
STI	1,224,000	489,600	734,400	169,702	904,102
LTI	425,000	425,000	-	117,481	117,481
Total	2,549,000	914,600	1,634,400	287,183	1,921,583
Peter Clare , Group Executive, Product & Operations					
Fixed Pay	1,000,000	-	1,000,000	-	1,000,000
STI	1,650,000	660,000	990,000	254,684	1,244,684
LTI	500,000	500,000	-	-	-
Total	3,150,000	1,160,000	1,990,000	254,684	2,244,684
Philip Coffey, Chief Financial Officer					
Fixed Pay	1,250,000	-	1,250,000	-	1,250,000
STI	2,250,000	900,000	1,350,000	909,570	2,259,570
LTI	660,000	660,000	-	-	-
Total	4,160,000	1,560,000	2,600,000	909,570	3,509,570
Rob Coombe, Group Executive, Westpac Retail & Business Banking					
Fixed Pay	1,000,000	-	1,000,000	-	1,000,000
STI	2,000,000	800,000	1,200,000	472,972	1,672,972
LTI	600,000	600,000	-	-	-
Total	3,600,000	1,400,000	2,200,000	472,972	2,672,972
Brad Cooper, Chief Executive Officer, BT Financial Group					
Fixed Pay	1,000,000	-	1,000,000	-	1,000,000
STI	2,200,000	880,000	1,320,000	1,048,735	2,368,735
LTI	750,000	750,000	-	-	-
Total	3,950,000	1,630,000	2,320,000	1,048,735	3,368,735
George Frazis, CEO, Westpac New Zealand Limited					
Fixed Pay	1,000,000	-	1,000,000	-	1,000,000
STI	2,000,000	800,000	1,200,000	1,931,437	3,131,437

LTI	550,000	550,000	-	-	-
Total	3,550,000	1,350,000	2,200,000	1,931,437	4,131,437
Peter Hanlon, Group Executive, People & Transformation					
Fixed Pay	1,000,000	-	1,000,000	-	1,000,000
STI	1,770,000	708,000	1,062,000	472,972	1,534,972
LTI	500,000	500,000	-	-	-
Total	3,270,000	1,208,000	2,062,000	472,972	2,534,972

	Total Remuneration Awarded for FY11[1] (A)	Remuneration Awarded in FY11 and Deferred for Future Periods[2] (B)	Remuneration Awarded and Received in FY11[3] (C) [(A)-(B)]	Remuneration Received in FY11 from Previous Years Awards[4] (D)	Total Remuneration Received in FY11 (C)+(D)
Bob McKinnon, Group Executive, Technology[5]					
Fixed Pay	900,000	-	900,000	-	900,000
STI	1,475,000	368,750	1,106,250	-	1,106,250
LTI	400,000	400,000	-	-	-
Total	2,775,000	768,750	2,006,250	-	2,006,250
Greg Targett, Chief Risk Officer					
Fixed Pay	1,250,000	-	1,250,000	-	1,250,000
STI	1,380,000	552,000	828,000	128,574	956,574
LTI	600,000	600,000	-	102,774	102,774
Total	3,230,000	1,152,000	2,078,000	231,348	2,309,348
Rob Whitfield, Group Executive, Westpac Institutional Bank					
Fixed Pay	1,800,000	-	1,800,000	-	1,800,000
STI	1,840,000	736,000	1,104,000	925,821	2,029,821
LTI	600,000	600,000	-	-	-
Total	4,240,000	1,336,000	2,904,000	925,821	3,829,821

1 Reflects the remuneration outcomes communicated to the CEO and senior executives during the 2011 remuneration review. Fixed Pay (which includes cash salary and salary sacrifice items plus employer superannuation) is an annualised number that did not take effect until 1 January 2011. The STI and LTI values reflect actual outcomes for financial year 2011.

2 40% of the STI outcome will be deferred and received as Westpac ordinary shares over a three year period. If an executive remains employed with the Group, the deferred portion of the STI will vest in three equal tranches over one, two and three years. 100% of the LTI grant will be deferred.

3 60% of the 2011 STI outcome will be paid as cash in December 2011.

4 The value in this column is calculated as the number of securities that vested during the year ended 30 September 2011, multiplied by the five day volume weighted average price of Westpac ordinary shares at the time they vested, less any exercise price payable.

5 For Bob McKinnon, 75% of his 2011 STI outcome will be paid as cash in December 2011 and 25% of his STI outcome will be deferred and received as Westpac ordinary shares that vest after one year as per his contract. Bob McKinnon receives his LTI as cash-settled performance share rights which vest over the period of his contract provided performance hurdles set by the Board are met.

This table is not prepared in accordance with A-IFRS.

Directors report

3.4 Remuneration details KMP and other senior executives

This section sets out details of remuneration for the CEO and senior executives for the 2011 financial year, calculated in accordance with statutory accounting requirements.

		Short-term Benefits			Post Employment Benefits		Share-based Payment			
Name	Fixed Remu-neration1 $	STI (cash)2 $	Non-monetary Benefits3 $	Other Short-term Benefits $	Superann-uation Benefits4 $	Long Service Leave5 $	Restricted Shares6 $	Options7 $	Share Rights7 $	Total8 $
Current Executives										
Gail Kelly, Managing Director & Chief Executive Officer										
2011	2,901,656	2,376,000	-	-	27,281	68,816	1,786,612	533,809	2,170,642	9,864,816
2010	2,685,837	2,835,000	-	-	14,913	-	1,732,042	839,924	1,479,280	9,586,996
John Arthur, Group Executive, Counsel & Secretariat										
2011	819,544	792,000	1,078	-	50,058	17,326	246,847	-	263,029	2,189,882
2010	707,513	975,000	-	-	63,578	-	92,935	-	97,757	1,936,783
Rob Chapman, Chief Executive, St. George Banking Group, KMP since 1 October 2010										
2011	921,475	734,400	613,184	-	19,392	75,495	227,557	-	114,706	2,706,209
Peter Clare , Group Executive, Product & Operations										
2011	988,822	990,000	1,078	-	24,326	16,729	341,059	63,258	258,067	2,683,339
2010	880,734	1,237,500	-	-	79,266	-	237,316	63,258	131,357	2,629,431
Philip Coffey, Chief Financial Officer										
2011	1,164,312	1,350,000	-	-	49,450	52,148	571,940	110,540	348,565	3,646,955
2010	1,009,174	1,800,000	1,012	-	90,826	-	660,898	247,162	183,292	3,992,364
Rob Coombe, Group Executive, Westpac Retail & Business Banking										
2011	940,352	1,200,000	1,078	-	26,340	26,413	401,312	115,760	325,331	3,036,586
2010	880,734	1,500,000	1,012	-	79,265	-	403,230	253,101	171,076	3,288,418
Brad Cooper, Chief Executive Officer, BT Financial Group										
2011	995,851	1,320,000	7,150	-	19,339	39,298	571,860	98,080	366,971	3,418,549
2010	903,670	1,500,000	153,860	-	81,330	-	879,125	197,113	261,788	3,976,886
George Frazis, CEO, Westpac New Zealand Limited										
2011	969,696	1,200,000	52,882	-	18,324	-	-	399,634	899,680	3,540,216
2010	967,330	1,293,750	292,613	-	14,586	-	-	399,634	1,418,395	4,386,308
Peter Hanlon, Group Executive, People & Transformation										
2011	879,346	1,062,000	166,797	-	183,652	(116,214)	360,846	78,197	258,067	2,872,691
2010	880,734	1,237,500	99,856	-	203,508	-	362,815	153,735	131,357	3,069,505
Bob McKinnon, Group Executive, Technology										
2011	846,975	1,106,250	1,078	-	39,903	16,922	329,985	-	380,122	2,721,235
2010	733,945	1,125,000	-	-	66,055	-	150,706	-	447,931	2,523,637
Greg Targett, Chief Risk Officer										
2011	1,176,961	828,000	-	-	49,253	37,982	287,456	-	316,709	2,696,361
2010	991,917	701,700	1,012	-	89,174	-	161,950	-	174,912	2,120,665
Rob Whitfield, Group Executive, Westpac Institutional Bank										
2011	1,838,371	1,104,000	210,993	-	33,696	27,390	525,697	71,589	348,565	4,160,301
2010	1,651,376	1,560,000	251,389	-	148,624	-	710,694	183,477	183,292	4,688,852
Curt Zuber, Group Treasurer										
2011	486,318	2,534,400	1,078	-	83,848	12,990	1,164,814	70,752	163,313	4,517,513
2010	482,742	3,569,203	1,012	-	88,443	-	1,020,156	168,807	85,841	5,416,204

Former Executives										
Ilana Atlas, Group Executive, People, KMP until 31 January 20109										
2010	235,474	400,000	-	151,648	21,193	-	195,075	231,602	-	1,234,992
Greg Bartlett, Chief Executive, St George Bank, KMP until 30 September 201010										
2010	747,622	1,593,750	9,904	-	206,000	-	283,754	-	210,640	3,051,670

1 Fixed remuneration is the total cost of salary, salary sacrificed benefits (including motor vehicles, parking, etc. and any associated fringe benefits tax) and annual leave accruals.

2 2011 STI figures reflect annual cash performance awards accrued but not yet paid in respect of the year ended 30 September 2011.

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 CEO and senior executives are provided with insurance cover under the Westpac Staff Superannuation Plan (WSSP) at no cost. The value of the WSSP insurance premium is 0.4% of salary. Peter Hanlon and Curt Zuber are members of legacy defined benefit superannuation funds. Superannuation benefits have been calculated consistent with AASB 119.

5 Peter Hanlon accrued long service leave for the year of $20,059. Peter took long service leave during the year which made the overall accrual move by ($116,214).

6 The value of restricted shares is amortised over the applicable vesting period, and the amount shown is the amortisation relating to the 2011 reporting year (and 2010 year as comparison).

7 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 2011. Details of prior years grants have been disclosed in previous Annual Reports. The amount shown for Bob McKinnon s cash-settled performance share rights is based on the amortisation over the vesting period of the fair value at 30 September 2011. Assumptions used in the valuation of cash-settled performance share rights include risk free interest rate of 3.89% a dividend yield on Westpac ordinary shares of 7.5% and volatility in the Westpac share price of 30%.

8 The percentage of 2011 remuneration related to performance was: Gail Kelly 70%, John Arthur 59%, Rob Chapman 40%, Peter Clare 63%, Philip Coffey 72%, Rob Coombe 71%, Brad Cooper 71%, George Frazis 71%, Peter Hanlon 61%, Bob McKinnon 68%, Greg Targett 49%, Rob Whitfield 56% and Curt Zuber 88%. The percentage of 2011 remuneration delivered in the form of options was: Gail Kelly 5%, John Arthur 0%, Rob Chapman 0%, Peter Clare 2%, Philip Coffey 6%, Rob Coombe 8%, Brad Cooper 5%, George Frazis 9%, Peter Hanlon 5%, Bob McKinnon 0%, Greg Targett 0%, Rob Whitfield 4% and Curt Zuber 3%.

9 The amount under Other short-term benefits for Ilana Atlas relates to payments made on termination of employment, including accrued annual leave.

10 Greg Bartlett retired on 1 December 2010 after facilitating an orderly transition at St.George over the period from 1 October 2010 until his retirement. Consistent with his contract, he received payments upon retirement totalling $2,070,934 which was inclusive of notice, superannuation, prorated financial year 2011 STI and accrued annual and long service leave.

3.5 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 material terms of these employment agreements are summarised below.

Term	Who	Conditions

Duration of agreement	§ CEO and senior executives	§ On-going until notice given by either party
	§ Bob McKinnon	§ 4 year fixed term contract
Notice to be provided by the executive or the Group to terminate the employment agreement	§ CEO, John Arthur, Rob Chapman, Philip Coffey, Rob Coombe, Brad Cooper, George Frazis, Peter Hanlon, Greg Targett and Rob Whitfield	§ 12 months
	§ Peter Clare	§ 6 months if Executive gives notice, 12 months if the Group gives notice
	§ Bob McKinnon and Curt Zuber	§ 6 months
Termination payments to be made on termination without cause	§ CEO and all senior executives	§ Deferred STI and LTI awards vest according to the applicable equity plan rules
Termination for cause	§ CEO, John Arthur, Rob Chapman, Greg Targett and Rob Whitfield	§ Immediately for misconduct § 3 months notice for poor performance
	§ All other senior executives	§ Immediately for misconduct, standard contractual notice period for poor performance
Post-employment restraints	§ CEO, John Arthur, Peter Clare, Rob Chapman, Philip Coffey, Brad Cooper, George Frazis, Peter Hanlon, Greg Targett and Rob Whitfield	§ 12 month non-solicitation restraint
	§ Rob Coombe, Bob McKinnon and Curt Zuber	§ 6 month non-solicitation restraint

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

- 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 for under circumstances of death, sickness or disability and 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;
- John Arthur STI pro-rated for the performance year worked is payable for termination without cause;
- Rob Chapman Provisions relating to relocation from Adelaide to Sydney. The relocation was completed by June 2011;
- Rob Coombe Payment in lieu of notice is based on 1.5 times fixed remuneration package, in the event of termination of employment without cause up to six months after change of control of the Group;
- Brad Cooper Provisions relating to relocation from Auckland to Sydney, including accommodation and housing payments, relocation payments, motor vehicle, car parking, additional travel between Australia and New Zealand and taxation services;
- George Frazis Provisions relating to relocation from Sydney to Auckland including relocation payments, accommodation payments and travel between Australia and New Zealand;
- Peter Hanlon Provisions relating to accommodation in Sydney and travel between Adelaide and Sydney;
- Bob McKinnon Cash settled LTI based on role-specific four year objectives; and
- Rob Whitfield Provisions relating to accommodation in Sydney.

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 (9% of fees), 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.

In addition to an ongoing process of self-assessment, an external review is undertaken on the performance of the Board, the Chairman, each Director and Board Committees. Further details are provided in the Corporate Governance Statement in this Annual Report.

Changes to Non-executive Director remuneration in 2011

For the year ended 30 September 2011, the following changes were made to Non-executive Director remuneration:

Non-executive Director fee review effective 1 October 2010.

The Board reviewed the Non-executive Director fee framework in late 2009. On the basis of market data and advice provided by an independent remuneration consultant, the Board approved a 5% increase to base fees effective 1 October 2010. Committee fees were not increased. Non-executive Director fees were last increased in 2007.

Changes to Committee composition

The following changes were effective 15 December 2010:

§ John Curtis was appointed Chairman of the Remuneration Committee, replacing Gordon Cairns who continues as a member of this Committee;

§ Elizabeth Bryan was appointed Chairman of the Risk Management Committee, replacing Carolyn Hewson who continues as a member of this Committee. Elizabeth Bryan was also appointed as a member of the Remuneration Committee; and

§ Peter Hawkins was appointed Chairman of the Technology Committee, replacing Elizabeth Bryan who continues as a member of this Committee.

On 9 August 2011, Carolyn Hewson was appointed Chairman of the Nominations Committee, replacing Ted Evans who continues as a member of this Committee.

Section 8 of the 2011 Director s Report shows Board Committee membership during 2011.

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 2011, $3.7 million (81%) of this fee pool was used. The fee pool is inclusive of employer superannuation contributions but does not include retirement allowances.

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 payable for 2011:

Base Fee	**Annual Rate**
Chairman	$735,000
Deputy Chairman	$262,500
Non-executive Directors	$210,000
Committee Chairman Fees	
Audit Committee	$50,000
Risk Management Committee	$50,000
Remuneration Committee	$45,000
Sustainability Committee	$40,000
Technology Committee	$40,000
Health, Safety & Wellbeing Committee (HS&W)1	$40,000
Committee Membership Fees	
Audit Committee	$25,000
Risk Management Committee	$25,000
Remuneration Committee	$20,000
Sustainability Committee	$20,000
Technology Committee	$20,000
Health, Safety & Wellbeing Committee (HS&W)1	$20,000

1 The HS&W Committee (previously named the OHS Committee) is a temporary Committee that was established effective 1 May 2010 to assist the Board with the oversight of health, safety and wellbeing responsibilities for the Group. This Committee will be discontinued in financial year 2012 with its functions reverting to the Board.

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% of their fees. 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 2011.

Director	**Subsidiary/Advisory Board**	**Role**	**Annual Rate**
Elizabeth Bryan[1,2]	Westpac New Zealand Limited	Director	$45,942
Peter Hawkins[3]	Bank of Melbourne Advisory Board	Director	$35,000
Carolyn Hewson	BT Investment Management Board	Director	$110,000
Graeme Reaney	Bank of SA Advisory Board	Director	$15,000
Peter Wilson[1,4]	Westpac New Zealand Limited	Chair	$130,168

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 2011 year to date average exchange rate (1AUD = 0.7657).

2 Elizabeth Bryan resigned from the WNZL Subsidiary Board effective 21 October 2010.

3 Peter Hawkins was appointed to the Bank of Melbourne Advisory Board effective 1 November 2010.

4 For the period from 1 October 2010 to 31 December 2010 the Chairman fee for the WNZL Subsidiary Board was NZD120,000. Following a market review, the WNZL Subsidiary Board Chairman fee was increased to NZD170,000 effective 1 January 2011.

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 2011 Director s Report.

Retiring Allowance

In addition to their Directors fees, Ted Evans and Carolyn Hewson have retiring allowances that accrued until they were frozen in 2005 and are now indexed in line with average weekly earnings. The indexed amount is payable on retirement. These allowances are detailed in Section 4.2.

4.2 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 Fees 1 $	Subsidiary and Advisory Board Fees2 $	Superannuation $	Retiring Allowance Accrued During the Year 3 $	Total $	Total Retiring Allowance Accrued $
Ted Evans, Chairman						
2011	735,000	-	15,345	18,333	768,678	484,957
2010	700,000	-	14,660	21,749	736,409	466,624
John Curtis, Deputy Chairman						
2011	392,420	-	15,345	-	407,765	-
2010	336,000	30,374	17,396	-	383,770	-
Elizabeth Bryan						
2011	341,230	2,650	15,345	-	359,225	-
2010	298,000	47,966	14,660	-	360,626	-
Gordon Cairns						
2011	306,250	-	15,345	-	321,595	-
2010	303,000	-	14,660	-	317,660	-
Peter Hawkins						
2011	295,940	32,180	15,345	-	343,465	-
2010	270,000	23,350	16,761	-	310,111	-
Carolyn Hewson						
2011	286,170	109,580	25,890	12,501	434,141	337,068
2010	295,000	109,867	24,548	15,287	444,702	324,567
Lindsay Maxsted						
2011	285,000	-	15,345	-	300,345	-
2010	275,000	23,342	16,761	-	315,103	-
Graham Reaney						
2011	280,000	15,000	15,345	-	310,345	-
2010	278,647	5,630	15,184	-	299,461	-
Peter Wilson						
2011	300,000	120,600	15,345	-	435,945	-
2010	290,000	95,170	14,660	-	399,830	-
Total fees						
2011	3,222,010	280,010	148,650	30,834	3,681,504	822,025
2010	3,045,647	335,699	149,290	37,036	3,567,672	791,191

1 Includes fees paid to Chairman and members of Board Committees, including fees for the temporary HS&W Committee.

2 For the period from 1 October 2009 to 28 February 2010, John Curtis, Peter Hawkins, Lindsay Maxsted and Graham Reaney received fees for service on the St.George Bank Limited Subsidiary board. From 1 March 2010, fees paid by St.George Bank Limited ceased when Westpac and St.George became a single Authorised Deposit-taking Institution.

3 Retiring allowances were frozen for individual Non-executive Directors between December 2005 and February 2006. Accruals shown for 2011 include indexation in line with average weekly earnings following the freezing of the retiring allowances. Retiring allowances are not included in calculations for the Non-executive Director fee pool.

Directors report

5. Further information about our equity plans

Employee Share Plan

Under the Employee Share Plan, employees in Australia can receive up to $1,000 of Westpac ordinary shares at the end of each financial year to recognise their contribution to our performance provided the Group meets at least one of two hurdles: an increase in share price or customer advocacy. For 2011, the customer advocacy hurdle was met.

The CEO, Directors 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.

Other plans

We also 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.

Comparator companies used in our LTI performance hurdles

This section describes the comparator companies for each of the different Plans.

CEO Performance Plan

The CEO Performance Plan ranking group is comprised of the top 10 selected Australian banking and financial sector companies by market capitalisation listed on the ASX with which Westpac competes for customers. As at 30 September 2011 the most recently determined ranking group consisted of:

- AMP Limited;
- ASX Limited;
- 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.

Westpac Reward Plan

The Westpac Reward Plan ranking group is comprised of the top 10 selected Australian banking and financial sector companies by market capitalisation. As at 30 September 2011 the most recently determined peer group under the Westpac Reward Plan consisted of:

- AMP Limited;
- ASX Limited;
- 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.

10. Auditor

a) Auditor s independence declaration

A copy of the auditor s independence declaration as required under section 307C of the *Corporations Act 2001(Cth)* is below.

Auditor s Independence Declaration

As lead auditor for the audit of Westpac Banking Corporation for the year ended 30 September 2011, 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 year.

Ian Hammond Partner PricewaterhouseCoopers	Sydney, Australia 2 November 2011

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b) Non-audit services

We may decide to engage PricewaterhouseCoopers 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 PricewaterhouseCoopers for non-audit services provided during the 2010 and 2011 financial years are set out in Note 33 to our consolidated financial statements.

PricewaterhouseCoopers also provides audit and non-audit services to non-consolidated entities including non-consolidated securitisation vehicles sponsored by the Group, 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 $8.5 million in total (2010 $8.6 million). PricewaterhouseCoopers 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 by those entities.

Westpac has a policy on engaging PricewaterhouseCoopers, 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 Audit Committee, is satisfied that the provision of the non-audit services during 2011 by PricewaterhouseCoopers is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by PricewaterhouseCoopers, as set out above, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

§ all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and

§ 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.

Ted Evans AC
Chairman
2 November 2011

Gail Kelly
Managing Director & Chief Executive Officer
2 November 2011

Section 2

Five year summary[1]

(in $millions unless otherwise indicated)	**2011**	2010	2009	2008	2007
Income statements for the years ended 30 September[2]					
Net interest income	11,996	11,842	11,646	7,222	6,313
Non-interest income	4,917	5,068	4,859	4,383	4,006
Net operating income before operating expenses and impairment charges	16,913	16,910	16,505	11,605	10,319
Operating expenses	(7,406)	(7,416)	(7,171)	(5,455)	(4,689)
Impairment charges on loans	(993)	(1,456)	(3,238)	(931)	(482)
Profit before income tax expense	8,514	8,038	6,096	5,219	5,148
Income tax expense	(1,455)	(1,626)	(2,579)	(1,287)	(1,630)
Profit attributable to non-controlling interests	(68)	(66)	(71)	(73)	(67)
Net profit attributable to owners of Westpac Banking Corporation	6,991	6,346	3,446	3,859	3,451
Balance sheet as at 30 September[2]					
Loans	496,609	477,655	463,459	313,545	275,377
Other assets	173,619	140,622	126,128	126,131	102,243
Total assets	670,228	618,277	589,587	439,676	377,620
Deposits	370,278	337,385	329,456	233,730	202,054
Debt issues and acceptances	165,931	150,971	133,024	100,369	87,126
Loan capital	8,173	9,632	11,138	8,718	7,704
Other liabilities	82,038	80,171	79,398	77,388	62,828
Total liabilities	626,420	578,159	553,016	420,205	359,712
Total shareholders equity and non-controlling interests	43,808	40,118	36,571	19,471	17,908
Key financial ratios					
Shareholder value					
Dividends per ordinary share (cents)	156	139	116	142	131
Dividend payout ratio (%)	67.0	64.9	92.6	68.9	70.1
Return on average ordinary equity (%)	17.8	17.4	10.8	23.1	23.5
Basic earnings per share (cents)	233.0	214.2	125.3	206.0	186.9
Net tangible assets per ordinary share ($)[3]	9.96	8.96	7.89	7.71	7.00
Share price ($):					
High	25.60	28.43	26.74	31.32	28.69
Low	17.84	20.56	14.40	18.36	22.53
Close	20.34	23.24	26.25	21.48	28.50
Business performance					
Operating expenses to operating income ratio (%)	43.8	43.9	43.4	47.0	45.4
Net interest margin	2.19	2.21	2.38	2.07	2.19
Capital adequacy					
Total equity to total assets (%)	6.5	6.5	6.2	4.4	4.7
Total equity to total average assets (%)	7.0	6.6	6.3	4.8	5.4
Tier 1 ratio (%)[4]	9.7	9.1	8.1	7.8	6.5
Total capital ratio (%)[4]	11.0	11.0	10.8	10.8	9.5
Credit quality					
Net impaired assets to equity and collectively assessed provisions (%)	6.3	6.2	5.7	3.0	1.4
Total provisions[5] for impairment on loans and credit commitments to total loans (basis points)	88.2	104.9	101.2	68.9	56.3
Other information					
Core full-time equivalent staff (number at financial year end)[6]	33,898	35,055	34,189	26,717	25,903

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 2011, 2010 and 2009 and balance sheet extracts for 2011 and 2010 are derived from the consolidated financial statements included in this Annual Report. The above income statement extracts for 2008 and 2007 and balance sheet extracts for 2009, 2008 and 2007 are derived from financial statements previously published.

3 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.

4 For details on the calculation of this ratio, please refer to Note 30 to the financial statements.

5 Prior to 2010 this ratio has included, if applicable, the APRA required capital deduction (above A-IFRS provisioning levels) which formed part of the APRA termed General Reserve for Credit Losses. Beginning in 2010 this ratio is based only on A-IFRS provisioning levels. The ratio at 30 September 2009 was not impacted; the ratio at 30 September 2008 was revised from 69.0 bps to 68.9 bps; and the ratio at 30 September 2007 was revised from 61.6 bps to 56.3 bps.

6 Core full-time equivalent employees (FTE) 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:

§ 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;

§ 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;

§ market volatility, including uncertain conditions in funding, equity and asset markets;

§ adverse asset, credit or capital market conditions;

§ changes to our credit ratings;

§ levels of inflation, interest rates, exchange rates and market and monetary fluctuations;

§ market liquidity and investor confidence;

§ 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;

§ the effects of competition in the geographic and business areas in which Westpac conducts its operations;

§ reliability and security of Westpac s technology and risks associated with changes to technology systems;

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

§ the effectiveness of our risk management policies, including our internal processes, systems and employees;

§ the occurrence of environmental change or external events in countries in which Westpac or its customers or counterparties conduct their operations;

§ internal and external events which may adversely impact our reputation;

§ changes in political, social or economic conditions in any of the major markets in which Westpac or its customers or counterparties operate; and

§ 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, and does not intend, 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 2011 and 30 September 2010 and income statements, statements of comprehensive income, changes in equity and cash flows for each of the years ended 30 September 2011, 2010 and 2009 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 2011 is referred to as 2011 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 specified rates. These translations should not be construed as representations that the Australian dollar amounts actually represent such US dollar amounts or have been or could be converted into US dollars at the rate indicated. Unless otherwise stated, the translations of Australian dollars into US dollars have been made at the rate of A$1.00 = US$0.9744, 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 30 September 2011. The Australian dollar equivalent of New Zealand dollars at 30 September 2011 was A$1.00 = NZ$1.2746, 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 2007 to 30 September 2011.

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

St.George Bank Limited merger

For accounting purposes the merger with St.George Bank Limited took effect from close of business on 17 November 2008 and the results of St.George Bank Limited and its controlled entities (St.George Group) was included in the 2009 financial year with effect from 18 November 2008 to 30 September 2009. Our financial results for the 2010 and 2011 financial years are therefore not directly comparable to our results for the 2009 financial year. The impact of this is highlighted in relevant sections of the Review of Group operations.

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 2011, 2010, 2009, 2008 and 2007 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, which include the Australian equivalents to International Financial Reporting 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 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, 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 2011, the fair value of trading securities, financial assets designated at fair value through profit and loss, available-for-sale securities and life insurance assets was $76,912 million (2010 $67,900 million). The fair value of trading liabilities and financial liabilities designated at fair value through profit and loss, deposits at fair value and debt issues at fair value was $112,140 million (2010 $91,426 million). The fair value of outstanding derivatives was $9,740 million net asset (2010 $7,937 million net liability). The fair value of life insurance assets of

$7,916 million (2010 $12,310 million) was substantially based on quoted market prices. The fair value of financial assets determined by valuation models that use unobservable market prices was $1,473 million (2010 $1,164 million) and $74 million (2010 $153 million) for financial liabilities. 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 2011, gross loans to customers were $500,654 million (2010 $482,366 million) and the provision for impairment on loans was $4,045 million (2010 $4,711 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 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 2011, the carrying value of goodwill was $8,582 million (2010 $8,569 million). Refer to Note 13 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, compensation 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 2011 were in aggregate $676 million (2010 $425 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 transactions.

St.George Bank Limited merger

The merger with St.George Bank Limited was accounted for using the purchase method of accounting. All the identifiable assets and liabilities of St.George Group were initially recognised by the Group at their fair value on the date of the merger. This involved additional critical accounting assumptions, judgments and estimates that may have a material impact on the Group s financial statements. The assets and liabilities recognised by the

Group following the merger with St.George Bank Limited are set out in Note 42.

§ intangible assets

Identifiable intangible assets are required to be identified and measured at their fair value as a result of the purchase price accounting requirements of AASB 3 *Business Combinations.* This involves the use of judgments, estimates and assumptions about how customers may act and how products will perform in the future, based largely on past experience and future contractual arrangements.

The following material identifiable intangible assets were recognised as a result of the merger:

core deposit intangibles;

brand names;

financial planner distribution relationships; and

credit card customer relationships.

§ financial assets and liabilities

The fair value of all of St.George Group s financial assets and financial liabilities were determined at the merger date. Many of these assets and liabilities are not normally traded in active markets. The global credit and capital market conditions that included extreme volatility, disruption and decreased liquidity increased the level of management judgment required in determining the fair value of St.George Group s financial assets and financial liabilities.

§ tax consolidation

Following the redemption of St.George Bank Limited s hybrid instruments on 31 March 2009, St.George Bank Limited and all its wholly owned Australian subsidiaries joined the Westpac tax consolidated group. Westpac was required to reset the tax value of certain St.George Group assets to the appropriate market value of those assets.

In order to determine the impact of St.George Group joining the Westpac tax consolidation group, the fair value of St.George Group and the fair value of its identifiable assets and liabilities needed to be determined as at 31 March 2009. This required management to make similar critical assumptions, judgments and estimates in determining the fair value of identifiable assets and liabilities on the date of the acquisition.

Refer to Note 5 for the impact of St.George Bank Limited joining the Westpac tax consolidated group.

Review of Group operations

Income statement review

Consolidated income statement1

			Year Ended 30 September			
	2011	**2011**	2010	2009	2008	2007
(in $millions unless otherwise indicated)	**US$2**	**A$**	A$	A$	A$	A$
Interest income	37,123	38,098	34,151	30,446	29,081	22,075
Interest expense	(25,434)	(26,102)	(22,309)	(18,800)	(21,859)	(15,762)
Net interest income	11,689	11,996	11,842	11,646	7,222	6,313
Non-interest income	4,791	4,917	5,068	4,859	4,383	4,006
Net operating income before operating expenses and impairment charges	16,480	16,913	16,910	16,505	11,605	10,319
Operating expenses	(7,216)	(7,406)	(7,416)	(7,171)	(5,455)	(4,689)
Impairment charges on loans	(968)	(993)	(1,456)	(3,238)	(931)	(482)
Profit before income tax	8,296	8,514	8,038	6,096	5,219	5,148
Income tax expense	(1,418)	(1,455)	(1,626)	(2,579)	(1,287)	(1,630)
Net profit for the year	6,878	7,059	6,412	3,517	3,932	3,518
Profit attributable to non-controlling interests	(66)	(68)	(66)	(71)	(73)	(67)
Net profit attributable to owners of Westpac Banking Corporation	6,812	6,991	6,346	3,446	3,859	3,451
Weighted average number of ordinary shares (millions)	2,997	2,997	2,960	2,747	1,871	1,846
Basic earnings per ordinary share (cents)	227.0	233.0	214.2	125.3	206.0	186.9
Diluted earnings per share (cents)3	217.9	223.6	207.1	123.2	200.1	185.3
Dividends per ordinary share (cents)	152	156	139	116	142	131
Dividend payout ratio (%)4	67.0	67.0	64.9	92.6	68.9	70.1

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$0.9744, the noon buying rate in New York City on 30 September 2011.

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.

Overview of performance 2011 v 2010

Net profit attributable to owners of Westpac Banking Corporation was $6,991 million in 2011, an increase of $645 million or 10% compared to $6,346 million in 2010. The result was characterised by stable net operating income before operating expenses and impairment charges, which increased by $3 million; a small operating expense reduction, which reduced by $10 million; a large reduction of $463 million or 32% in impairment charges on loans; and a lower effective tax rate. The large reduction in impairment charges on loans reflected the improved performance of the Australian and New Zealand economies.

Net profit attributable to owners of Westpac Banking Corporation grew in the majority of our divisions.

Net interest income was $11,996 million in 2011, an increase of $154 million or 1% compared to 2010. A two basis point decline in net interest margin was more than offset by 2% growth in average interest earning assets, particularly in Australian housing loans. Net interest margin reduced as treasury earnings fell and due to the unwind of fair value adjustments related to the merger with St.George Bank Limited.

Non-interest income was $4,917 million in 2011, a decrease of $151 million or 3% compared to 2010. Fees and commissions increased as business and corporate line fees were repriced; wealth management and insurance income was up with good customer inflows into funds under administration (FUA); and increased wealth cross sell, although the contribution was partially held back by higher insurance claims and weaker asset markets. Trading income was significantly lower as highly volatile markets, particularly in the second half of 2011, resulted in lower trading income.

Operating expenses were $7,406 million in 2011, a decrease of $10 million compared to 2010. Annual cost increases, including salaries and other staff expense increases, were more than offset by lower expenditure on the St.George integration project and benefits from productivity programs.

Impairment charges on loans were $993 million in 2011, a decrease of $463 million or 32% compared to $1,456 million in 2010. Lower impairments in Westpac RBB, WIB, St.George Banking Group and New Zealand Banking were the primary drivers of the reduction.

The effective tax rate was 17.1% in 2011 and 20.2% in 2010. The effective tax rate was reduced in both years by tax adjustments following finalisation of the tax consolidation impacts related to the merger with St.George Bank Limited. In 2011 a reduction to tax expense of $1,110 million was recorded, compared to a reduction of $685 million in 2010. Excluding the impact of these adjustments, the effective tax rates for 2011 and 2010 would have been 30.1% and 28.8%, respectively.

2011 earnings per share were 233.0 cents per share compared to 214.2 cents per share in 2010. There were no major capital transactions during 2011. The increase in the number of shares on issue in 2011 was primarily due to shares issued under the Dividend Reinvestment Plan (DRP).

Given the improved earnings and capital position in 2011, a final dividend of 80 cents per share has been declared by the Board, taking the full year dividend for 2011 to 156 cents per share. The dividend is fully franked. This full year dividend represents an increase of 12% over the dividends declared in 2010 and a pay-out ratio of 67%.

Income statement review 2011 v 2010

Net interest income 2011 v 2010

	2011	2010	2009
	$m	$m	$m
Interest income	38,098	34,151	30,446
Interest expense	(26,102)	(22,309)	(18,800)
Net interest income	11,996	11,842	11,646
Increase/(decrease) in net interest income			
Due to change in volume	207	1,344	2,760
Due to change in rate	(53)	(1,148)	1,664
Change in net interest income	154	196	4,424

Net interest income was $11,996 million in 2011, an increase of $154 million or 1% compared to 2010.

Net interest margins declined 2 basis points to 2.19% in 2011 from 2.21% in 2010. Lower Treasury income and the unwind of fair value adjustments on financial instruments relating to the merger with St.George Bank Limited were the main drivers of the decline, partially offset by improved margins in our customer divisions of 4 basis points.

Loan growth1 in 2011 was 4% compared to 2010, with the key feature being the 6% growth in Australian housing loans. The growth in Australian housing loans was partially offset by reductions in Australian business loans. New Zealand lending growth was modest.

Loan growth had the following specific components:

§ Australian housing loans experienced solid growth with balances increasing 6% or $16.8 billion compared to 2010. Westpac RBB mortgages grew 8%, which was ahead of banking system2. St.George Banking Group mortgages growth of 2% was impacted by reduced flow from mortgage brokers;

§ Australian business and corporate loans declined 1% or $1.8 billion compared to 2010 due to contractions in commercial property lending and the WIB lending portfolios, partially offset by positive growth in the SME segment;

§ New Zealand lending increased 3% or NZ$1.4 billion compared to 2010, reflecting the low growth environment in New Zealand. The majority of growth occurred in housing lending, with growth in business lending improving in the second half of 2011; and

§ growth in other overseas loans was in the WIB portfolio, reflecting WIB s expanded presence in Asia.

1 For the purposes of this discussion on net interest income, loan and deposit growth has been determined by comparing balances at 30 September 2011 to balances at 30 September 2010.

2 APRA system growth, 12 months to 30 September 2011.

Review of Group operations

Total deposits1 increased 10% or $32.9 billion in 2011 compared to 2010. The growth in deposits resulted in customer deposit growth exceeding loan growth and the deposit to loan ratio improving 380 basis points.

Deposit growth had the following specific components:

§ Australian customer deposits increased 10% or $23.9 billion. This was driven by growth in Australian term deposits, which grew 25% or $22.2 billion, reflecting increased savings rates and the strength of the franchise in uncertain times, as well as an increased focus on customer deposit raising initiatives;

§ Australian non-interest bearing accounts increased 12% or $1.5 billion, reflecting growth in mortgage offset accounts; and

§ New Zealand customer deposits increased 5% or NZ$1.9 billion with growth across both at call and term deposits products.

Interest spread and margin 2011 v 2010

	2011 $m	2010 $m	2009 $m
Group			
Net interest income	11,996	11,842	11,646
Tax equivalent gross up1	-	-	45
Net interest income (including gross up)	11,996	11,842	11,691
Average interest earning assets	548,221	534,991	490,669
Average interest bearing liabilities	513,535	501,968	465,842
Average net non-interest bearing liabilities and equity	34,686	33,023	24,827
Interest spread2	1.87%	1.94%	2.18%
Benefit from free funds3	0.32%	0.27%	0.20%
Net interest margin4	2.19%	2.21%	2.38%

1 We entered into various tax effective financing transactions that derived income that was subject to a reduced rate of income tax. The impact of this was reflected in lower income tax expense and interest income. In order to improve comparability, this income was presented on a tax equivalent basis using the applicable tax rate of the geography in which the transaction was booked. The tax equivalent gross up was discontinued in 2010, reflecting the immaterial nature of the balance as the Group continued to run-down the related assets.

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

3 The benefit of net non-interest bearing assets, liabilities and equity is determined by applying the average rate of interest paid on all interest bearing liabilities to the average level of net non-interest bearing funds as a percentage of average interest earning assets.

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

Net interest margin was 2.19% in 2011, a decline of 2 basis points compared to 2010. Key drivers of the margin decrease were:

§ an 11 basis point decline from higher retail and wholesale funding costs, due to a:

7 basis point decline from customer deposits, largely due to competition for online savings accounts in the prior year, with the full period impact carrying into 2011. A decline in the benefit from hedging low interest transaction accounts also had a 3 basis point negative impact on margins. Mix impacts were also negative as customer preferences resulted in deposit growth skewed towards products with lower spreads; and

4 basis point decline from higher wholesale funding costs, as relatively low cost funding was replaced by higher cost funding since the global financial crisis. Wholesale funding costs include the cost of funding growth in liquid assets, which had an impact of approximately 1 basis point.

§ a 3 basis point decline due to the impact of amortisation of fair value adjustments relating to the merger with St.George Bank Limited;

§ a 3 basis point decline reflecting a reduction in Treasury income following stronger revenues in 2010; partially offset by

§ a 15 basis point increase on assets, primarily from repricing, which occurred predominantly in mortgages.

1 For the purposes of this discussion on net interest income, loan and deposit growth has been determined by comparing balances at 30 September 2011 to balances at 30 September 2010.

Non-interest income 2011 v 2010

	2011	2010	2009
	$m	$m	$m
Fees and commissions1	2,568	2,469	2,643
Wealth management and insurance income1	1,618	1,560	1,362
Trading income	558	797	901
Other income	173	242	(47)
Total non-interest income	4,917	5,068	4,859

1 To improve presentation in 2011, we have reclassified certain fees from wealth management and insurance income to fees and commissions. We have revised comparative periods accordingly (2010 $36 million, 2009 $6 million).

Non-interest income was $4,917 million in 2011, a decrease of $151 million or 3% compared to 2010. The decrease was primarily due to the impact of market volatility on trading income, particularly in the second half of 2011. Lower trading income was partially offset by growth in fees and commissions and wealth management and insurance income.

Fees and commissions income was $2,568 million in 2011, an increase of $99 million or 4% compared to 2010. This increase was primarily due to:

§ higher facility fees of $73 million, primarily due to:

higher business and commercial fees of $106 million from repricing of line fees, partially offset by an accounting reclassification in the St.George Banking Group which resulted in fees of $30 million being transferred to net interest income; and

increased banking related fees of $16 million in WIB, more than offset by lower deposit account keeping fees of $17 million as customers migrated to accounts with lower fees, and reduced mortgage fees of $7 million from lower new lending volumes.

§ higher transaction fees and commissions of $27 million, primarily due to:

an increase in advice commissions of $53 million, which included a $32 million benefit from the update of amortisation profiles of capitalised fees and costs; partially offset by

a decrease in merchant fees of $6 million as average interchange rates reduced in line with changes in the mix of spending; and a decrease in deposit transaction fees of $18 million as customers migrated to accounts with lower fees.

Wealth management and insurance income was $1,618 million in 2011, an increase of $58 million or 4% compared to 2010. This increase was primarily due to:

§ higher funds management income of $83 million due to the higher average FUM/FUA from positive net inflows, a benefit from the revaluation of investments in Ascalon funds of $23 million, and the sale of single manager rights which resulted in a gain of $12 million;

an increase in average Group Funds under Management (FUM) of $0.8 billion or 2% compared to 2010 from inflows in wholesale portfolios, partly offset by outflows in retail and WIB portfolios; and

an increase in average Group Funds under Administration (FUA) of $4.9 billion or 6% compared to 2010 due to inflows in the wrap platforms and corporate super portfolios in addition to a marginally positive impact from asset markets.

§ an increase in insurance income of $25 million compared to 2010 due to premium growth in general and life insurance, reduced claims in lenders mortgage insurance and improved returns on the investment portfolio, which more than offset higher claims related to various natural disasters, including the Victorian and Queensland floods; partially offset by

§ returns from invested capital decreased by $41 million compared to 2010. This primarily reflected a change in how capital was invested with more investments in fixed income products, which is reflected in net interest income and not in wealth management income.

Trading income decreased by $239 million or 30% compared to 2010. Volatility in the market, especially in the second half of the year, impacted interest rate trading activities, which resulted in a decrease in WIB markets trading income.

Other income was $173 million in 2011, a decrease of $69 million or 29% compared to 2010. This decrease was primarily driven by movements in economic hedges relating to hybrid instruments.

Review of Group operations

Operating expenses 2011 v 2010

	2011	2010	2009
	$m	$m	$m
Salaries and other staff expenses	4,055	3,990	3,806
Equipment and occupancy expenses	1,115	1,082	926
Other expenses	2,236	2,344	2,439
Total operating expenses	7,406	7,416	7,171
Total operating expenses to net operating income ratio	43.8%	43.9%	43.4%

Operating expenses were $7,406 million in 2011, a decrease of $10 million compared to 2010. The expense to income ratio was 43.8% in 2011, a decrease of 10 basis points compared to 2010.

Salaries and other staff expenses were $4,055 million in 2011, an increase of $65 million or 2% compared to 2010. This increase was driven by:

§ increased salary and employee entitlement costs due to an average salary increase of 4% from January 2011; and

§ increased restructure costs due to productivity restructuring in 2011; partially offset by

§ reduced FTE as a result of productivity initiatives; and

§ lower transaction and integration expenses related to the St.George merger.

Equipment and occupancy expenses were $1,115 million, an increase of $33 million or 3% compared to 2010. The increase was driven by:

§ additional rental and property related costs, increases in corporate property space to accommodate projects and additional expenses associated with refurbishment and expansion of branch and ATM networks, including the conversion of 34 St.George branches in Victoria to the Bank of Melbourne brand. The Westpac Group also expanded its footprint with a net additional 15 branches (including Bank of Melbourne) and installed an additional 119 proprietary ATMs; partially offset by

§ a decrease in software costs due to non-recurrence of impairments recognised in 2010.

Other expenses were $2,236 million in 2011, a decrease of $108 million or 5% compared to 2010. The decrease was driven by:

§ a decrease in costs relating to technology purchased services and professional services due to reduced spend on St.George integration activities and implementation progression of the SIPs program from design phase in 2010, to build and deliver in 2011; and

§ the one-off donation of $20 million to the Westpac Foundation in 2010, which was not repeated in 2011; partially offset by

§ an increase in advertising costs, credit card loyalty costs and outsourced costs.

Impairment charges on loans 2011 v 2010

	2011	2010	2009
	$m	$m	$m
Impairment charges on loans	993	1,456	3,238
Impairment charges on loans to average gross loans (basis points)	20	30	75

Impairment charges on loans were $993 million in 2011, a decrease of $463 million or 32% compared to 2010 as asset quality continued to improve and the work-out of stressed and impaired facilities progressed. The improvement in asset quality is reflected in a 72 basis point decline, to 248 basis points, in the ratio of stressed assets to total committed exposures, supported by a decline in the rate of emerging new stress, and some large upgrades and repayments as facilities were worked out.

New individually assessed provisions have remained relatively high as the work-out of the stressed portfolio saw companies downgraded from watchlist and substandard categories of stress into impaired. A top-up of existing impaired provisions has also been required, particularly in the second half of 2011 as the Group updated the assessment of security values.

Movements in collectively assessed provisions in 2011 reflected the improvement in watchlist and substandard facilities, an increase in mortgage delinquencies through the year, and a reduction in economic overlay provisions in the first half of 2011.

The economic overlay in 2011 was $107 million lower compared to 2010. In the first half of 2011, $174 million in provisions associated with commercial property and economic conditions were no longer required as identified provisions were booked through both individually assessed provisions and collectively assessed provisions. Partially offsetting this reduction was a $68 million increase in provisions associated with floods and cyclones in Australia and the second Christchurch earthquake. In the second half of 2011, with greater certainty around the impact of the floods and earthquakes, $55 million was released from these provisions as well as the commercial property overlay from reductions in stress. This release was offset by increases in provisions of $54 million for other sectors of the Australian economy that are likely to be impacted by the high Australian dollar and weaker consumer and business sentiment.

Key movements in impairment charges on loans were:

§ new collectively assessed provisions decreased by $387 million compared to 2010, mainly driven by:

lower collective provisions recorded in each of the divisions, with the largest reductions recorded in WIB from repayments and companies returning to full health. In Westpac RBB, St.George Banking Group and New Zealand Banking portfolios, improvement was seen across both the business and consumer segments; and

the release of economic overlay provisions in 2011.

§ new individually assessed provisions less write-backs and recoveries decreased by $76 million compared to 2010, primarily due to:

higher write-backs, particularly in WIB; partially offset by

higher new individually assessed provisions in the Australian banking portfolios of Westpac RBB and St.George Banking Group from a number of small top-ups for existing impaired assets and from the migration of some exposures to impaired that were previously in the watchlist category.

Income tax expense 2011 v 2010

	2011 $m	2010 $m	2009 $m
Income tax expense	1,455	1,626	2,579
Tax as a percentage of profit before income tax expense (effective tax rate)	17.1%	20.2%	42.3%

Income tax expense was $1,455 million in 2011, a decrease of $171 million or 11% compared to 2010. The effective tax rate decreased to 17.1% in 2011, from 20.2% in 2010. The decrease was driven by the following tax impacts:

§ finalisation of the tax consolidation related to the merger with St.George Group gave rise to an income tax expense adjustment of $1,110 million during the year ended 30 September 2011 (2010 $685 million). The tax consolidation process required Westpac to reset the tax value of certain St.George Bank Limited assets to the appropriate market value of those assets as at the effective date of the tax consolidation (31 March 2009); and

§ changes in tax provisioning for New Zealand structured finance transactions entered into between 1998 and 2002 significantly impacted the tax rate in both the 2009 and 2010 years. In 2009, a provision of $703 million was raised following a decision by the New Zealand High Court in proceedings relating to those transactions, while $106 million was then released from the provision in 2010 following a settlement with the Commissioner of Inland Revenue (CIR).

Excluding the impact of the St.George related benefits and the New Zealand structured finance transactions, the effective tax rate in 2011, 2010 and 2009 would have been 30%, 30% and 31% respectively.

Overview of performance 2010 v 2009

Net profit attributable to owners of Westpac Banking Corporation for 2010 was $6,346 million, an increase of $2,900 million or 84% compared to $3,446 million in 2009. The result was characterised by modest growth of $405 million or 2% in net operating income before operating expenses and impairment charges on loans (hereafter referred to as net operating income), operating expense growth of $245 million or 3%, a significant reduction of $1,782 million or 55% in impairment charges on loans and a lower effective tax rate. The significant reduction in impairment charges on loans reflected the improved performance of the Australian and New Zealand economies in 2010.

The increase in net profit attributable to owners of Westpac Banking Corporation from 2009 to 2010 was also assisted by the merger with St.George Bank Limited. On 1 December 2008, Westpac Banking Corporation completed its merger with St.George Bank Limited. For accounting purposes, St.George was consolidated on 17 November 2008 and St.George s net profit was included in the 2009 results from 18 November 2008 to 30 September 2009. This meant that the Westpac Group 2010 results included a full 52 weeks of St.George Bank Limited s operations whereas the Group s 2009 results included approximately 46 weeks. The following discussion and Review of Group operations and the discussion of Divisional performance for 2010 v 2009 will identify the impact that the additional six weeks had on our year-on-year performance.

Net profit grew in the majority of our divisions. WIB, St.George Banking Group, BTFG, New Zealand Banking and Other divisions net profit increased by $1,175 million, $95 million, $109 million, $64 million and $1,609 million respectively, while Westpac RBB net profit decreased by $152 million.

Review of Group operations

Net interest income was $11,842 million in 2010, an increase of $196 million or 2% compared to 2009. Excluding the impact of the additional six weeks of St.George s operations, net interest income was flat. A decline in net interest margin was only partially offset by growth in average interest earnings assets, particularly in Australian housing loans. The decline in net interest margins was the result of increases in asset repricing being insufficient to offset significant increases in funding costs and lower treasury earnings. Higher funding costs were the result of continued increases in wholesale funding costs and competition, driving up the price of deposits.

Non-interest income was $5,068 million in 2010, an increase of $209 million or 4% compared to 2009. The inclusion of the additional six weeks of St.George s operations in 2010 drove the majority of the growth. Excluding this impact, non-interest income was relatively flat with growth in wealth management income, primarily due to strong net flows and strong asset markets, and other income, offset by lower trading income and lower fees and commission income. Fees and commissions were impacted by the Group s decision to lower certain customer fees from 1 October 2009. Following this decision, fees and commissions reduced by $298 million in 2010.

Operating expenses were $7,416 million in 2010, an increase of $245 million or 3% compared to 2009. Most of this increase was attributable to the inclusion of the St.George expense base for the full year. Excluding the impact of an additional six weeks of St.George s operations in 2010, the increase in operating expenses was mainly driven by continued investment in customer facing employees, investment in our branch network and increased spend on technology projects, offset by cost savings related to merger synergies and lower spend on the St.George integration project.

Impairment charges on loans were $1,456 million in 2010, a decrease of $1,782 million or 55% compared to $3,238 million in 2009. The impact of including St.George Banking Group impairments for the full year was not significant. Lower WIB and New Zealand Banking impairments were the primary driver of the reduction.

The effective tax rate decreased from 42% in 2009 to 20% in 2010. This was driven by two factors:

§ the Group finalised a component of tax consolidation related to the merger with St.George. This led to a reduction of $685 million to the Group s tax expense for 2010; and

§ tax provisioning for New Zealand structured finance transactions entered into between 1998 and 2002, significantly impacted the tax rate in each year. In 2009 a provision of $703 million was raised. Following a settlement with the Commissioner of Inland Revenue (CIR), $106 million was released from the provision in 2010.

2010 earnings per share was 214.2 cents per share compared to 125.3 cents per share in 2009. There were no major capital transactions during 2010. The increase in the number of shares on issue in 2010 was primarily due to shares issued under the Dividend Reinvestment Plan (DRP).

Given the improved earnings during 2010, a final dividend of 74 cents per share was declared by the Board, taking the full year dividend for 2010 to 139 cents per share. The dividend was fully franked. This full year dividend represented an increase of 20% over the dividends declared in 2009 and a pay-out ratio of 64.9%.

Income statement review 2010 v 2009

Net interest income 2010 v 2009

Net interest income was $11,842 million in 2010, an increase of $196 million or 2% compared to 2009. Excluding the impact of the additional six weeks of St.George s operations in 2010, net interest income was flat.

Net interest margins decreased in 2010 by 17 basis points compared to 2009. Loan repricing was insufficient to offset the significant increases in funding costs. Average wholesale funding costs rose as more expensive wholesale funding was used to replace maturing less expensive wholesale funding and to fund increases in assets. The cost of customer deposits also rose as competition increased in these markets. Revenue generated from Group Treasury and WIB Markets also decreased, which impacted net interest margins.

Loan growth[1] in 2010 was 3% compared to 2009, with the key feature being the 12% growth in Australian housing loans. The Group grew ahead of system in both Australia and New Zealand. Strong growth in Australian housing lending was offset by reductions in business lending.

Loan growth had the following specific components:

§ Australian housing lending increased 12% or $30.2 billion compared to 2009. Australian housing credit growth was 1.2 times banking system[2]. Initial solid growth in the First Home Buyer segment slowed through the year as Government First Home Buyer incentives were reduced. The Investor segment returned to partially offset the slower growth in the Owner Occupier segment;

1 For the purposes of this discussion on net interest income, loan and deposit growth was determined by comparing balances at 30 September 2010 to balances at 30 September 2009.

2 APRA system growth, 12 months to 30 September 2010.

§ Australian business lending declined 8% or $11.1 billion compared to 2009. Slightly over half of the decline was the result of contraction in the commercial property lending portfolio, as runoff exceeded new lending. The remainder of the decline was the result of low demand and the Institutional portfolio being impacted by large customers deleveraging;

§ housing lending in New Zealand grew ahead of system1 at 6% or NZ$1.8 billion; and

§ New Zealand business lending (including Institutional lending) contracted 2% or NZ$0.5 billion, largely following declines in demand.

Total deposits2 at 30 September 2010 increased 2% or $7.9 billion compared to 2009 with a 5% or $12.9 billion increase in customer deposits. Growth in non-interest bearing accounts was also strong, predominantly as a result of mortgage offset account growth. The contribution from Treasury deposits reduced, following the decision to replace short-term wholesale funding with longer term wholesale funding. This resulted in Treasury deposits contracting by $4.9 billion or 8%.

The Group grew customer deposits market share in Australia and New Zealand. In Australia growth in household deposits was 1.1 times banking system3.

Deposit growth had the following specific components:

§ Australian customer deposits increased 5% or $12.4 billion. This growth was driven by increases in term deposits of 12% or $9.5 billion, which saw particularly strong growth in the first half of 2010, and in the second half of 2010 by increases in at call accounts reflecting changing customer preferences;

§ Australian non-interest bearing deposits increased 19% or $1.9 billion, primarily in mortgage off-set accounts;

§ New Zealand term deposits increased 16% or NZ$2.8 billion; and

§ the certificate of deposit portfolio, which provided the Group with short-term wholesale funding, was reduced as the Group continued to lengthen the duration of wholesale funding. Within this portfolio there was also a reduction in Australian certificates of deposit as they were replaced with longer term certificates of deposit issued in the United States.

Interest spread and margin 2010 v 2009

Net interest margin was 2.21% for 2010, a decline of 17 basis points compared to 2009. Excluding the impact of the additional six weeks of St.George s operations, net interest margin declined 15 basis points compared to 2009. Key drivers of the margin decrease were a:

§ 26 basis point decline from higher retail and wholesale funding costs due to a:

15 basis point decline from customer deposits, as the cost of raising retail funds increased. At the same time most growth over the period was in products with higher rates including term deposits, on-line and savings accounts; and

11 basis point decline from higher wholesale funding costs, arising as relatively low cost funding was replaced by higher cost funding post the global financial crisis.

§ 21 basis point increase on assets, substantially all from repricing, which occurred predominantly in mortgages;

§ 3 basis point decline from a decrease in earnings on physical capital and the amortisation of fair value adjustments on financial instruments relating to the merger with St.George; and

§ 7 basis point decline reflecting a reduction in Treasury and Markets income following strong revenues in 2009.

Non-interest income 2010 v 2009

Non-interest income was $5,068 million in 2010, an increase of $209 million or 4% compared to 2009. The inclusion of the additional six weeks of St.George s operations was responsible for the majority of the growth.

Fees and commissions income was $2,469 million in 2010, a decrease of $174 million or 7% compared to 2009. The additional six weeks of St.George s operations increased fees and commission by approximately 3%. Excluding this impact, fees and commissions declined, with customer fees decreasing $298 million following the reduction in customer fees, lower account keeping and transaction fee income, reduced automatic teller machine (ATM) fee income and lower credit card loyalty fee income. This reduction was partially offset by an increase in banking and credit related fees of $115 million, primarily due to the repricing of undrawn line fees from corporate and business facilities.

1 RBNZ system growth, 12 months to 30 September 2010.

2 For the purposes of this discussion on net interest income, loan and deposit growth was determined by comparing balances at 30 September 2010 to balances at 30 September 2009.

3 APRA system growth, 12 months to 30 September 2010.

Review of Group operations

Wealth management and insurance income was $1,560 million in 2010, an increase of $198 million or 15% compared to 2009. The additional six weeks of St.George s operations increased wealth management and insurance income by approximately 2%. The increased wealth management income was also driven by improvements in investment markets, growth in FUM and FUA and associated revenue. Insurance earnings improved due to premium growth, including the benefit of cross selling across the Group.

Trading income was $797 million in 2010, a decrease of $104 million or 12% compared to 2009. The additional six weeks of St.George s operations increased trading income by approximately 13%. Excluding this, trading income declined, primarily driven by lower Foreign Exchange revenue, offset by stronger Debt Markets earnings. The exceptional 2009 trading results were not repeated in 2010 due to increased competition and lower market volatility, reducing market spreads and volumes.

Other income was $242 million in 2010, an increase of $289 million compared to 2009. This increase was primarily driven by impairment and mark-to-market losses in 2009 that did not reoccur in 2010. 2009 included asset write downs and losses on financial assets held at fair value in relation to foundation investments in property and other transactions in the wholesale business. Other income in 2010 included $46 million of gains on sale of investments in WIB, including the sale of investments in Queensland airports, Westpac Office Trust and other property investments.

Operating expenses 2010 v 2009

Operating expenses were $7,416 million in 2010, an increase of $245 million or 3% compared to 2009. The expense to income ratio was 43.9% in 2010, an increase of 50 basis points compared to 2009.

Salaries and other staff expenses were $3,990 million in 2010, an increase of $184 million or 5% compared to 2009. Excluding the additional six weeks of St.George s operations, salaries and other staff expenses increased by 1%. This increase was driven by:

§ increased salary costs from increased FTE, particularly associated with additional customer facing employees and additional employees to support technology projects;

§ increased bonuses and incentives in line with improved financial performance; and

§ increased superannuation costs and additional equity based compensation charges.

Equipment and occupancy expenses were $1,082 million, an increase of $156 million or 17% compared to 2009. Excluding the additional six weeks of St.George s operations, equipment and occupancy expenses increased by 13%. The increased expense was driven by:

§ increased operating lease rentals and outgoings from market repricing and additional costs associated with increasing the number of branches and ATMs during the year; and

§ increased depreciation, in line with an increase in branch refurbishments and the expanded branch network; and

§ increased software amortisation and impairment, as old software was impaired when new systems moved into production.

Other expenses were $2,344 million in 2010, a decrease of $95 million or 4% compared to 2009. Excluding the additional six weeks of St.George s operations, other expenses decreased by 6%. This decrease was driven mainly by:

§ a reduction in non-lending losses primarily from a one-off provision raised in 2009 with respect to a long standing legal proceeding, where judgment was received in that year;

§ lower costs incurred from the redemption of credit card loyalty points; and

§ cost savings associated with merger synergies and other discretionary expense reductions.

The decrease was partially offset by a one off contribution to the Westpac Foundation of $20 million, an increase in purchased services, particularly in technology, information services and other professional services, due to the implementation of technology projects.

Impairment charges on loans 2010 v 2009

Impairment charges on loans were $1,456 million in 2010, a decrease of $1,782 million or 55% compared to 2009. Impairment charges on loans represented 30 basis points of average gross loans for 2010, a decrease of 45 basis points compared to 30 September 2009. Excluding the impact of the additional six weeks of St.George s operations, impairment charges on loans decreased by approximately 57% compared to 2009. This represented 29 basis points of average gross loans in 2010, a decrease of 46 basis points compared to 2009. The following commentary relates to this 57% movement, excluding the impact of St.George.

Impairment charges more than halved during 2010, as the operating environment continued to improve and the stress directly associated with the global financial crisis abated. Around two thirds of the reduction was due to lower provisions associated with larger institutionals and corporates. These customers felt the impact of the financial crisis early, but with conditions stabilising, new provisions declined materially. The other major contributors to the decline were New Zealand Banking, as that economy emerged from recession, and a small release in the economic overlay in contrast to the increase in 2009, supported by the improved environment.

New IAPs declined by $614 million as fewer large companies became impaired. Nevertheless, IAPs remained high principally from companies already identified as stressed being downgraded.

Within new CAPs, write-offs were largely unchanged, mostly relating to higher consumer stress from the lagged impact of slowing economic growth in 2009 and rising interest rates. Other changes in CAPs were materially lower, driven by five factors:

§ a lower incidence of new stress in the business segments;

§ the transfer of some collective provisions to IAPs as companies were downgraded;

§ company upgrades and reductions in exposures that allowed some collective provisions to be released;

§ a positive contribution to collective provisions from factor changes; and

§ a small reduction in the economic overlay.

The economic overlay was $49 million lower compared to 30 September 2009. The improved operating environment reduced the probability of severe stress emerging in the construction sector and this warranted some release in associated economic overlay provisions. Partially offsetting this decline was an $8 million addition to the overlay to support possible unidentified losses following the earthquake in Canterbury in New Zealand. Given uncertainty remained around the globe and emerging signs of global recovery were fragile, Westpac felt it was prudent to maintain an economic overlay of $453 million at 30 September 2010.

Key movements in impairment charges on loans were:

§ new IAPs decreased by $614 million, principally due to:

new IAPs in WIB of $573 million were $540 million lower compared to 2009, principally from significant reductions in new large corporate problem facilities and no repeat of the margin lending losses recorded in 2009;

new IAPs in Westpac RBB of $247 million were $33 million higher compared to 2009, principally from the lagged effect of the softer economic environment on small and medium businesses;

new IAPs in St.George Banking Group of $420 million were $15 million higher compared to 2009, as the commercial property sector and the need for new individual provisions stabilised; and

new IAPs in New Zealand Banking were $113 million lower compared to 2009, as the need for new IAPs declined as the economic environment improved. In 2009 IAPs were also adversely impacted by two large corporate exposures.

The Group benefited from higher write-backs and recoveries, principally from a positive reassessment of security values, primarily for large corporates, from the improving operating environment.

§ new CAPs decreased by $919 million compared to 2009, principally due to:

a positive collective provision contribution from WIB in 2010 of $240 million which was $696 million lower than 2009. The positive contribution was due to a reduction in lending as corporates continued to deleverage, a few companies moving from watchlist back to performing grades following equity raisings, and some companies being downgraded to impaired;

higher interest rates and the lagged effect of slowing growth in 2009 saw a small rise in business stress and higher consumer delinquencies in Westpac RBB. This contributed to a $25 million rise in collective provision charges in 2010;

new collectively assessed provisions in St.George Banking Group were $1 million lower in 2010. While small business and consumer stress moderately increased, corporate stress declined, particularly in the commercial property portfolio and this led to the modest reduction in CAP charges;

new CAPs in New Zealand Banking were $54 million lower as some companies moved into impaired and new companies entering stressed categories declined; and

a reduction in the economic overlay.

Income tax expense 2010 v 2009

Income tax expense was $1,626 million in 2010, a decrease of $953 million or 37% compared to 2009. The effective tax rate decreased to 20% in 2010, from 42% in 2009. Finalisation of a component of tax consolidation related to the merger with St.George gave rise to an income tax expense adjustment of $685 million for 2010. The tax consolidation process required Westpac to reset the tax value of certain St.George assets to the appropriate market value of those assets as at the time of tax consolidation (31 March 2009). Also, changes in tax provisioning for New Zealand structured finance transactions entered into between 1998 and 2002, significantly impacted the tax rate in each year. In 2009, a provision of $703 million was raised following a decision by the New Zealand High Court in proceedings relating to those transactions, while $106 million was released from the provision in 2010 following a settlement with the CIR. Excluding these impacts, the effective tax rate in 2010 and 2009 would have been 30% and 31% 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			
	2011	**2011**	2010	2009	2008	2007
	US$m2	**A$m**	A$m	A$m	A$m	A$m
Cash and balances with central banks	15,842	16,258	4,464	3,272	4,809	2,243
Receivables due from other financial institutions	8,332	8,551	12,588	9,974	10,434	13,290
Derivative financial instruments	47,887	49,145	36,102	33,187	34,810	24,308
Trading securities, other financial assets designated at fair value and available-for-sale securities	67,239	69,006	55,599	47,807	54,605	39,594
Loans	483,896	496,609	477,655	463,459	313,545	275,377
Life insurance assets	7,713	7,916	12,310	12,384	12,547	15,456
All other assets	22,161	22,743	19,559	19,504	8,926	7,352
Total assets	653,070	670,228	618,277	589,587	439,676	377,620
Payables due to other financial institutions	14,140	14,512	8,898	9,235	15,861	9,133
Deposits	360,799	370,278	337,385	329,456	233,730	202,054
Derivative financial instruments	38,396	39,405	44,039	36,478	24,970	25,192
Trading liabilities and other financial liabilities designated at fair value	9,552	9,803	4,850	10,848	16,689	8,223
Debt issues and acceptances	161,683	165,931	150,971	133,024	100,369	87,126
Life insurance liabilities	6,823	7,002	11,560	11,737	11,953	14,392
All other liabilities	11,026	11,316	10,824	11,100	7,915	5,888
Total liabilities excluding loan capital	602,419	618,247	568,527	541,878	411,487	352,008
Total loan capital3	7,964	8,173	9,632	11,138	8,718	7,704
Total liabilities	610,383	626,420	578,159	553,016	420,205	359,712
Net assets	42,687	43,808	40,118	36,571	19,471	17,908
Total equity attributable to owners of Westpac Banking Corporation	40,756	41,826	38,189	34,637	17,547	15,996
Non-controlling interests	1,931	1,982	1,929	1,934	1,924	1,912
Total shareholders equity and non-controlling interests	42,687	43,808	40,118	36,571	19,471	17,908
Average balances						
Total assets	612,340	628,428	607,677	577,831	401,468	332,512
Loans and other receivables4	463,895	476,083	469,999	426,845	294,672	257,896
Shareholders equity	38,370	39,378	36,434	32,008	16,699	14,708
Non-controlling interests	1,872	1,921	1,914	1,915	1,918	1,911

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$0.9744, the noon buying rate in New York City on 30 September 2011.

3 This includes Westpac Stapled Preferred Securities (SPS), Westpac Stapled Preferred Securities II (SPS II) and 2004 Trust Preferred Securities (2004 TPS) in 2011, 2010 and 2009, SPS and 2004 TPS in 2008 and 2004 TPS and Fixed Interest Resettable Securities (FIRsTS) in 2007.

4 Other receivables include other assets, cash and balances with central banks.

Summary of consolidated ratios

			Year Ended 30 September			
	2011	**2011**	2010	2009	2008	2007
(in $millions unless otherwise indicated)	**US$1**	**A$**	A$	A$	A$	A$
Profitability ratios (%)						
Net interest margin2	2.19	2.19	2.21	2.38	2.07	2.19
Return on average assets3	1.11	1.11	1.04	0.60	0.96	1.04
Return on average ordinary equity4	17.8	17.8	17.4	10.8	23.1	23.5
Return on average total equity5	16.9	16.9	16.5	10.2	20.7	20.8
Capital ratio (%)						
Average total equity to average total assets	6.6	6.6	6.3	5.9	4.6	5.0
Tier 1 ratio (%)6	9.7	9.7	9.1	8.1	7.8	6.5
Total capital ratio6	11.0	11.0	11.0	10.8	10.8	9.5
Earnings ratios						
Basic earnings per ordinary share (cents)7	227.0	233.0	214.2	125.3	206.0	186.9
Diluted earnings per ordinary share (cents)8	217.9	223.6	207.1	123.2	200.1	185.3
Dividends per ordinary share (cents)	152	156	139	116	142	131
Dividend payout ratio (%)9	67.0	67.0	64.9	92.6	68.9	70.1
Credit quality ratios						
Impairment charges on loans written off (net of recoveries)	1,819	1,867	1,300	1,874	439	349
Impairment charges on loans written off (net of recoveries) to average loans (%)	0.38	0.38	0.27	0.43	0.15	0.14

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$0.9744, the noon buying rate in New York City on 30 September 2011.

2 Calculated by dividing net interest income (including tax equivalent gross up) 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 the calculations of 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.

Balance sheet review

Total assets as at 30 September 2011 were $670.2 billion, an increase of $52 billion or 8% compared to 30 September 2010. This growth was the result of 4% loan growth and holding higher levels of liquid assets. Total liabilities as at 30 September 2011 were $626.4 billion, an increase of $48.3 billion or 8% compared to 30 September 2010. Growth in total liabilities was driven by increased term deposits and debt issues. The key balance sheet movements were driven by the following:

§ growth in loans of 4%, with the majority of the increase in Australian housing loans;

§ an increase in liquid assets of 26%, mostly in cash and balances with central banks and trading securities and available-for-sale securities;

§ growth in debt issues due to an increase in the wholesale funding portfolio;

§ an increase in derivative financial instruments primarily due to foreign currency movements; and

§ growth in deposits of 10%, mainly driven by increases in Australian term deposits.

Assets 2011 v 2010

The key movements in assets are outlined below.

Cash balances with central banks (up $12 billion)

This was primarily due to an increase in liquid assets from increased collateral balances following the sharp end of period decline in the value of the Australian dollar.

Receivables due from other financial institutions (down $4 billion)

The decrease was due to a decline in collateral placed, partially offset by an increase in interbank lending due to seasonal trends.

Derivative financial instruments (assets) (up $13 billion)

The increase in derivative financial instruments was primarily due to cross currency swaps hedging our offshore borrowings, which were impacted by principal resets following exchange rate movements.

Trading securities, other financial assets designated at fair value and available-for-sale securities (up $13 billion)

The increase occurred primarily in holdings of Government, Semi-Government and bank securities and was largely an increase in liquid asset holdings.

Loans (up $19 billion)

The growth in loans was primarily due to growth in Australian loans of $15.1 billion and New Zealand loans of $2.4 billion. In Australia, an increase of $16.8 billion or 6% in Australian housing loans was partially offset by a decrease in Australian business lending of $1.8 billion or 1% and a decrease in Australian margin lending of $669 million or 19%.

Life insurance assets (down $4 billion)

Through a successor funds transfer, BTFG transferred certain superannuation funds out of life companies into separately managed super funds, which are not consolidated. A corresponding change occurred in life insurance liabilities.

Other assets (up $3 billion)

The increase in other assets was primarily due to securities trading activities in WIB.

Liabilities and equity 2011 v 2010

The key movements in liabilities and equity are outlined below.

Payables due to other financial institutions (up $6 billion)

The increase in payables due to other financial institutions was primarily due to an increase in collateral received.

Deposits (up $33 billion)

Deposits increased primarily as a result of an increase in Australian term deposits of $22.2 billion or 25% as savings rates in Australia increased and the Group s increased focus on customer deposit raising initiatives. Growth in mortgage offset accounts resulted in an increase in Australian non-interest bearing accounts of $1.5 billion or 12%. Increased overseas deposits of $8 billion reflected growth in corporate customer balances and investors preference for certificates of deposit.

Derivative financial instruments (liabilities) (down $5 billion)

The decrease in derivative financial instruments was due to cross currency swaps liabilities, partially offset by an increase in interest rate swap liabilities due to changes in interest rates.

Trading liabilities and other financial liabilities designated at fair value (up $5 billion)

The increase in trading liabilities was largely due to securities trading activities in WIB.

Debt issues and acceptances (up $15 billion)

Debt issues increased due to growth in the wholesale funding portfolio.

Life insurance liabilities (down $5 billion)

Through a successor funds transfer, BTFG transferred certain superannuation funds out of life companies into separately managed super funds, which are not consolidated. A corresponding change occurred in life insurance assets.

Loan capital (down $1 billion)

The decrease in loan capital was due to the redemption of term subordinated bonds, notes and debentures.

Equity attributable to owners of Westpac Banking Corporation (up $4 billion)

The increase in equity was due to an increase in net retained profits after dividend payment and the issuance of shares to satisfy the DRP.

Assets 2010 v 2009

The key movements in assets are outlined below.

Receivables due from other financial institutions (up $3 billion)

The increase was primarily due to an increase in collateral pledged, related to derivative contracts, where valuation was affected by movements in the Australian dollar against the US dollar.

Derivative financial instruments (assets) (up $3 billion)

The increase in derivative financial instruments was primarily due to changes in the contract valuation related to foreign exchange rate movements.

Trading securities, other financial assets and available-for-sale securities (up $8 billion)

The primary driver of the increase was liquid assets. This included a significant rise in holdings of State Government securities in the Group s liquidity portfolio.

Loans (up $14 billion)

The growth in loans was principally due to an increase of $30.2 billion or 12% in Australian housing loans. This increase was partially offset by a decrease in Australian business lending of $11 billion or 8%. The remainder of the decrease arose in other overseas locations.

Liabilities and equity 2010 v 2009

The key movements in liabilities and equity are outlined below.

Deposits (up $8 billion)

Deposits increased primarily as a result of an increase in term deposits across the Group. Total term deposits increased 11% or $11 billion, as customers were attracted to the high relative interest rates on these products early in 2010 and consumer at call accounts increased by $2 billion. This increase was partially offset by a decrease in short-term wholesale funding certificates of deposit of 8% or $5 billion.

Derivative financial instruments (liabilities) (up $8 billion)

The increase in derivative financial instruments was primarily due to changes in contract valuations related to foreign exchange rate movements.

Trading liabilities and other financial liabilities designated at fair value (down $6 billion)

The decrease was primarily due to securities sold under agreements to repurchase declining during the year as this funding source was replaced by other funding sources. This occurred primarily in the first half of 2010.

Debt issues and acceptances (up $18 billion)

Debt issues increased significantly as the Group continued to focus on lengthening the term wholesale funding portfolio. Senior unsecured long-term debt increased $23 billion, which was partially offset by run-off in securitisation of $3 billion over the year.

Loan capital (down $2 billion)

The decrease was primarily attributable to the redemption of subordinated notes.

Equity attributable to owners of Westpac Banking Corporation (up $4 billion)

The increase in equity was due to increased retained profits ($3 billion) and the issuance of shares to satisfy the DRP ($1 billion).

Loan quality 2011 v 2010

	As at 30 September		
	2011	2010	2009
	$m	$m	$m
Total gross loans[1]	500,654	482,366	467,843
Average gross loans			
Australia	439,165	428,861	381,858
New Zealand	44,279	45,171	45,832
Other overseas	5,228	5,428	6,529
Total average gross loans	488,672	479,460	434,219

1 Gross loans are stated before related provisions for impairment.

Total gross loans represented 75% of the total assets of the Group as at 30 September 2011, compared to 78% in 2010.

Our lending is focused on our core geographic markets in Australia and New Zealand. Australia and New Zealand average loans were $483.4 billion in 2011, an increase of $9.4 billion or 2% from $474.0 billion in 2010. This increase was primarily due to growth in Australian housing lending.

Other overseas average loans were $5.2 billion in 2011, a decrease of $0.2 billion or 4% from $5.4 billion in 2010.

Approximately 21% of the loans at 30 September 2011 mature within one year and 23% mature between one year and five years. Retail lending comprises the bulk of the loan portfolio maturing after five years.

Review of Group operations

	As at 30 September				
	2011 $m	2010 $m	2009 $m	2008 $m	2007 $m
Impaired loans					
Non-performing loans1:					
Gross	4,287	4,240	3,526	1,059	423
Impairment provisions	(1,487)	(1,677)	(1,308)	(438)	(159)
Net	2,800	2,563	2,218	621	264
Restructured loans:					
Gross	129	132	71	6	4
Impairment provisions	(29)	(32)	(26)	-	-
Net	100	100	45	6	4
Overdrafts, personal loans and revolving credit greater than 90 days past due:					
Gross	200	213	173	112	113
Impairment provisions	(147)	(155)	(148)	(97)	(107)
Net	53	58	25	15	6
Net impaired loans	2,953	2,721	2,288	642	274
Provisions for impairment on loans and credit commitments					
Individually assessed provisions	1,461	1,622	1,228	413	148
Collectively assessed provisions	2,953	3,439	3,506	1,761	1,410
Total provisions for impairment on loans and credit commitments	4,414	5,061	4,734	2,174	1,558
Loan quality					
Total impairment provisions for impaired loans to total impaired loans2	36.0%	40.7%	39.3%	45.4%	49.2%
Total impaired loans to total loans	0.92%	0.95%	0.81%	0.37%	0.20%
Total provisions for impairment on loans and credit commitments to total loans3	0.88%	1.05%	1.01%	0.69%	0.56%
Total provisions for impairment on loans and credit commitments to total impaired loans	95.6%	110.4%	125.6%	184.8%	288.5%
Collectively assessed provisions to non-housing performing loans	1.7%	2.0%	1.8%	1.1%	1.1%

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 $202 million as at 30 September 2011 (2010 $244 million, 2009 $254 million, 2008 $121 million, 2007 $118 million). This sum is compared to the total gross impaired loans to determine this ratio.

3 Prior to 2010 this ratio has included, if applicable, the APRA required capital deduction (above A-IFRS provisioning levels), which formed part of the APRA termed General Reserve for Credit Losses. Beginning in 2010 this ratio is based only on A-IFRS provisioning levels. The ratios at 30 September 2009 and 30 September 2008 were not impacted and the ratio at 30 September 2007 was revised from 0.61% to 0.56%.

The quality of our loan portfolio as at 30 September 2011 remains relatively stable, with 76% of our exposure to either investment grade or secured consumer mortgages (2010 74%, 2009 72%) and 98% of our exposure in our core markets of Australia, New Zealand and the Pacific region (2010 99%, 2009 99%).

Potential problem loans[1] as at 30 September 2011 amounted to $2,489 million, a decrease of 35% from $3,852 million at 30 September 2010.

At 30 September 2011, total impaired loans as a percentage of total gross loans were 0.92%, a decrease of 0.03% from 0.95% at 30 September 2010.

At 30 September 2011, we had 12 impaired counterparties with exposure greater than $50 million, collectively accounting for 21% of total impaired loans. This compares to 11 impaired counterparties with exposure greater than $50 million in 2010 accounting for 20% of total impaired loans. There were 37 impaired exposures at 30 September 2011 that were less than $50 million and greater than $20 million (2010 49 impaired exposures).

We believe that Westpac remains appropriately provisioned with total impairment provisions for impaired loans to total impaired loans coverage at 36.0% at 30 September 2011 compared to 40.7% at 30 September 2010. Total provisions for impairment in loans and credit commitments represented 95.6% of total impaired loans as at 30 September 2011, down

1 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.

from 110.4% at 30 September 2010. Total provisions for impairments on loans and credit commitments to total loans was 0.88% at 30 September 2011, down from 1.05% at 30 September 2010 (2009 1.01%).

Consumer mortgage loans 90 days past due at 30 September 2011 were 0.55% of outstandings, an increase of 8 basis points from 0.47% of outstandings at 30 September 2010 (2009 0.37%).

Other consumer loan delinquencies (including credit card and personal loan products) were 1.16% of outstandings as at 30 September 2011, a decrease of 9 basis points from 1.25% of outstandings as at 30 September 2010 (2009 1.04%).

Capital resources

Capital management strategy

Westpac s approach to capital management 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 target capital ratios, capital buffers and contingency plans which guide the development of specific capital plans;

§ consideration of both economic and regulatory capital requirements;

§ a process which challenges the capital measures, coverage and requirements, which incorporates a comparison of economic and regulatory requirements and the use of the Quantitative Scenario Analysis (stress testing) framework that considers, amongst other things, the impact of adverse economic scenarios that threaten the achievement of planned outcomes; and

§ consideration of the perspectives of external stakeholders such as regulators, rating agencies and equity and debt investors.

Westpac s capital ratios are in compliance with APRA minimum capital adequacy requirements.

Basel capital accord

The regulatory limits applied to our capital ratios are consistent with the *International Convergence of Capital Measurement and Capital Standards: A Revised Framework*, also known as Basel II, 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 II accord, APRA has exercised discretions to make the framework more relevant in the Australian market, and in particular has required that Australian banks using the most sophisticated models for credit and operational risk will also be required to hold regulatory capital for the interest rate risk taken in the banking book. The models used to quantify this risk are similar to the models used for traded market risk. In addition APRA has applied discretion in the calculation of the components of regulatory capital.

Westpac is accredited by APRA to use the AIRB approach for credit risk, the AMA for operational risk and the internal model approach for Interest Rate Risk in the Banking Book (IRRBB). Accreditation to use AIRB and AMA was effective from 1 January 2008, and IRRBB from 1 July 2008. We believe that using the advanced approaches for risk monitoring and measurement is in the interests of all our stakeholders. 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.

Refer to Significant developments in Section 1 for a discussion on future regulatory developments that may impact upon capital requirements.

Review of Group operations

Purchases of equity securities

The following table details share repurchase activity for the year ended 30 September 2011:

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 (2010)	-	-	-	n/a
November (2010)	-	-	-	n/a
December (2010)	11,032	22.47	-	n/a
January (2011)	-	-	-	n/a
February (2011)	-	-	-	n/a
March (2011)	-	-	-	n/a
April (2011)	-	-	-	n/a
May (2011)	-	-	-	n/a
June (2011)	-	-	-	n/a
July (2011)	-	-	-	n/a
August (2011)	45,000	20.09	-	n/a
September (2011)	-	-	-	n/a
Total	56,032	20.56	-	-

Purchases of ordinary shares during the year were made on market and relate to the following:

§ 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: 56,032 ordinary shares.

Refer to Note 24 to the financial statements for a discussion of treasury share purchases.

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 2011:

	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	28,766	50,645	29,086	13,179	121,676
Operating leases2	467	754	550	712	2,483
Other commitments2	697	991	581	47	2,316
Total contractual cash obligations	29,930	52,390	30,217	13,938	126,475

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 2011:

	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	2,138	2,374	242	318	5,072
Trade letters of credit	3,558	-	-	-	3,558
Non-financial guarantees	4,986	1,479	230	2,233	8,928
Commitments to extend credit	59,014	24,925	9,400	42,821	136,160
Other commitments	318	-	-	208	526
Total commercial commitments	70,014	28,778	9,872	45,580	154,244

1 The numbers in this table are notional amounts (refer to Note 36 to the financial statements).

Divisional performance

Divisional performance 2011 v 2010

Our operations comprise five primary customer-facing business divisions:

- Westpac Retail & Business Banking, which we refer to as Westpac RBB;
- Westpac Institutional Bank, which we refer to as WIB;
- St.George Banking Group;
- BT Financial Group (Australia), which we refer to as BTFG; and
- New Zealand Banking.

Other divisions in the Group include Product & Operations, Technology, Group Treasury, Pacific Banking 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 . A reconciliation of Cash Earnings to net profit attributable to owners of Westpac Banking Corporation for each business division is set forth in Note 32 to the financial statements. To calculate Cash Earnings, Westpac adjusts the statutory results 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 Westpac 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 deriving 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 other economic hedges (which do not qualify for hedge accounting under A-IFRS) comprises:

the unrealised fair value gain/(loss) on FX hedges of future New Zealand earnings impacting non-interest income is reversed in deriving Cash Earnings as they may create a material timing difference on statutory results but do not affect the Group s Cash Earnings during the life of the hedge;

the unrealised fair value gain/(loss) on FX hedges of fees payable for the use of the Government guarantee on foreign denominated wholesale funding is reversed in deriving Cash Earnings as they may create a material timing difference on statutory results but do not affect the Group s Cash Earnings during the life of the hedge; and

the unrealised fair value gain/(loss) on hedges of accrual accounted term funding transactions are reversed in deriving Cash Earnings as they may create a material timing difference on statutory results but do 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

5. Gain/(loss) on buyback of Government guaranteed debt During the year ended 30 September 2011, the Group bought back some Government guaranteed debt which reduced Government guarantee fees (70 basis points) paid. In undertaking the buybacks, in addition to the 70 basis point fee saving, a cost was incurred reflecting the difference between current interest rates and the rate at which the debt was initially issued. In the statutory results the cost incurred is recognised at the time of the buybacks. In Cash Earnings the cost incurred is being amortised over the original term of the debt that was bought back. The Cash Earnings adjustment gives effect to the timing difference between statutory results and Cash Earnings;

6. Significant items NZ structured finance transactions During the year ended 30 September 2009, the Group increased tax provisioning by $703 million for New Zealand structured finance transactions entered into between 1998 and 2002. The increase in the provision followed the High Court in New Zealand finding in favour of the New Zealand Commissioner of Inland Revenue (CIR) in proceedings where Westpac challenged amended tax assessments in relation to these transactions. Due to the significant size and historical nature of the issue, the provision was treated as a Cash Earnings adjustment. During the year ended 30 September 2010, the Group reached a settlement with the CIR by agreeing to pay 80% of the full amount of primary tax and interest. The associated reversal of tax provisions of $106 million during the year ended 30 September 2010 has also been treated as a Cash Earnings adjustment;

7. 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 reflects the recent trend of global taxation authorities challenging the historical tax treatment of cross border and complex transactions. This increase in tax provisions has been treated as a Cash Earnings adjustment as it relates to the global management of existing tax positions and does 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;

8. St.George merger related Cash Earnings adjustments:

as part of the merger with St.George, transaction and integration expenses incurred over three years are being treated as a Cash Earnings adjustment as they do not impact the earnings expected from St.George following the integration period;

amortisation of intangible assets 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;

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 has been treated as a Cash Earnings adjustment; and tax consolidation adjustment finalisation of tax consolidation related to the merger with St.George gave rise to an income tax expense adjustment of $1,110 million during the year ended 30 September 2011 and $685 million during the year ended 30 September 2010. The tax consolidation process required Westpac to reset the tax value of certain St.George assets to the appropriate market value of those assets as at the effective date of the tax consolidation (31 March 2009). These adjustments have been treated as a Cash Earnings adjustment due to their size and as they do not reflect ongoing operations.

9. Other non-statutory adjustments In the year ended 30 September 2009, a provision of $121 million ($85 million after tax) was made with respect to long-standing legal proceedings, where a judgment was received in the year ended 30 September 2009. This was treated as a Cash Earnings adjustment due to its size and historical nature.

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 2011, 2010 and 2009. 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		
	2011	2010	2009
	$m	$m	$m
Westpac Retail & Business Banking	1,949	1,756	1,908
Westpac Institutional Bank	1,487	1,514	339
St.George Banking Group	1,167	1,041	930
BT Financial Group (Australia)	649	595	484
New Zealand Banking	347	258	194
Other divisions	702	715	657
Total Cash Earnings	6,301	5,879	4,512

Total assets by business division

	As at 30 September		
	2011	2010	2009
	$bn	$bn	$bn
Westpac Retail & Business Banking	261	244	220
Westpac Institutional Bank	110	99	115
St.George Banking Group	135	134	128
BT Financial Group (Australia)	23	28	26
New Zealand Banking	41	39	40
Other divisions	100	74	61
Total assets	670	618	590

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 framework attributes value between divisions. Its primary attributes are:

§ Treasury funding product balances are transfer-priced at inter-bank rates according to the tenor of the underlying transactions;

§ overhead costs are allocated to revenue generating businesses; and

§ capital charges are allocated to business groups based upon designated risk factors.

Divisional performance

Westpac Retail & Business Banking

Westpac Retail & Business Banking (Westpac RBB) is responsible for sales and service for our consumer, small-to-medium enterprise customers and commercial customers (typically with turnover of up to $100 million) in Australia under the Westpac and RAMS brands. RAMS is a home loan franchise distribution business. Activities are conducted through Westpac RBB s nationwide network of branches and business banking centres, home finance managers and specialised consumer and business relationship managers, with the support of cash flow, financial markets and wealth specialists, customer service centres, ATMs and internet channels. The majority of revenue from wealth products sold to Westpac customers is included in BTFG s financial results.

Performance of Westpac RBB

	2011	2010	2009
	$m	$m	$m
Net interest income	5,326	5,132	4,943
Non-interest income	1,091	1,014	1,274
Net operating income before operating expenses and impairment charges	6,417	6,146	6,217
Operating expenses	(3,102)	(3,045)	(2,943)
Impairment charges on loans	(549)	(589)	(551)
Profit before income tax	2,766	2,512	2,723
Income tax expense	(817)	(756)	(815)
Cash Earnings for the year	1,949	1,756	1,908
Net Cash Earnings adjustments	-	-	-
Net profit attributable to owners of Westpac Banking Corporation	1,949	1,756	1,908
	$bn	$bn	$bn
Deposits	125.1	114.5	103.8
Loans	256.0	239.1	215.6
Total assets	261.1	243.7	219.6
Total operating expenses to net operating income ratio	48.3%	49.5%	47.3%

2011 v 2010

Westpac RBB Cash Earnings were $1,949 million in 2011, an increase of $193 million or 11% compared to 2010.

The result was driven by net interest income growth of 4%, non-interest income growth of 8%, and productivity initiatives holding expense growth to 2%. Impairment charges on loans were also lower, down 7%.

Net interest income increased by $194 million or 4% compared to 2010. The increase was driven by an increase in interest earning assets, partially offset by a reduction in margins. Features of this result included:

§ margins reduced by 7 basis points to 2.07% in 2011 compared to 2.14% in 2010, primarily due to:

the carry forward of margins decline in 2010;

higher retail funding costs as the cost of deposits increased, particularly in online accounts and mix impacts with most new growth occurring in higher interest rate term deposits; and

higher wholesale funding costs; partially offset by

the repricing of lending, mostly mortgages, which occurred in November 2010.

§ loans increased by $16.9 billion or 7% compared to 2010, primarily due to:

an increase in mortgages of $15.1 billion or 8% compared to 2010 which accounted for the majority of lending growth and which was above banking system[1] growth of 6.7%. 66% of mortgages were written through the proprietary network, including RAMS, which grew its mortgage portfolio by 18%; and

an increase in business lending of $2.2 billion or 5% compared to 2010. Most of the business growth was in term lending to SME and commercial customers, supported by the investment in business bankers in local markets in prior periods; partially offset by

a decrease in other consumer lending of $0.4 billion or 4% due to the run-off of low rate card balances.

1 APRA system growth, 12 months to 30 September 2011.

- deposits increased by $10.6 billion or 9% compared to 2010, primarily due to:

  an increase in term deposits of $9.1 billion or 21% compared to 2010. Term deposits now represent 41% of total deposits; and

  an increase in other deposits (online/saving/transaction) of $1.5 billion or 2%.

Non-interest income increased by $77 million or 8% compared to 2010, primarily due to:

- strong growth in business line fees following the repricing of those fees; and
- higher wealth advice fees over the year, reflecting an increased focus on referrals and cross sell.

Operating expenses increased by $57 million or 2% compared to 2010, primarily due to:

- higher project costs and general salary increases of 4.3%, partially offset by efficiency initiatives commenced in early 2011; and
- higher advertising spending due to the launch of the First Bank branding campaigns in Australia, along with the spring home loan initiatives in the second half of 2011.

Impairment charges on loans decreased by $40 million or 7% compared to 2010 due to:

- an improvement in performance of the business portfolio; and
- consumer performance which was broadly stable in 2011, with a reduction in other consumer delinquencies offset by higher mortgage 90 day delinquencies.

The effective tax rate of 29.5% was lower for 2011 compared to 30.1% in 2010 after clarity was received on the deductibility of certain expenses incurred in prior periods.

For a discussion of the results of Westpac RBB for 2010 v 2009, refer to Divisional performance 2010 v 2009 .

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, margin lending, broking and alternative investment solutions.

Customers are supported through branches and subsidiaries located in Australia, New Zealand, US, UK and Asia.

Performance of WIB

	2011	2010	2009[1]
	$m	$m	$m
Net interest income	1,802	1,776	1,761
Non-interest income	1,255	1,519	1,249
Net operating income before operating expenses and impairment charges	3,057	3,295	3,010
Operating expenses	(1,032)	(1,038)	(1,011)
Impairment benefits/(charges) on loans	96	(123)	(1,516)
Profit before income tax	2,121	2,134	483
Income tax expense	(634)	(620)	(144)
Cash Earnings for the year	1,487	1,514	339
Net Cash Earnings adjustments	-	-	-
Net profit attributable to owners of Westpac Banking Corporation	1,487	1,514	339
	$bn	$bn	$bn
Deposits	52.2	47.8	51.0
Loans	59.6	61.5	75.3
Total assets	109.9	99.2	114.6
Total operating expenses to net operating income ratio	33.8%	31.5%	33.6%

1 The merger between Westpac and St.George Bank Limited occurred for accounting purposes on 17 November 2008. Cash Earnings of St.George institutional businesses are included in the WIB results for the period from 18 November 2008 to 30 September 2009. The 2011 and 2010 Cash Earnings are not directly comparable to 2009 due to the additional six weeks of the St.George institutional businesses included in 2011 and 2010.

2011 v 2010

WIB Cash Earnings were $1,487 million in 2011, a decrease of $27 million or 2% compared to 2010.

The result was driven by lower non-interest income (down 17% compared to 2010), partially offset by higher net interest income (up 1% compared to 2010), impairment benefits of $96 million and a 1% decline in operating expenses compared to 2010.

In 2011 WIB delivered a sound result in Global Transactional Services and in FX and Commodity, Carbon and Energy trading (CCE), where customers sought to manage their exposure to market volatility. The European sovereign debt crisis and the US debt concerns have created significant uncertainty and contributed to softer overall markets performance, lower equities broking volumes. Hastings performance fees were also lower. Lending and debt market activity remained subdued.

Net interest income increased by $26 million or 1% compared to 2010, primarily due to:

§ an increase in margins of 29 basis points due to increased risk pricing across the book, the early amortisation of establishment fees and interest recoveries for impaired facilities; partially offset by

§ a decrease in lending of $1.9 billion or 3% compared to 2010, with the de-gearing of institutions particularly prevalent in the first quarter of 2011. Margin lending balances were also significantly lower for 2011; and

§ an increase in deposits of $4.4 billion or 9% compared to 2010, with transaction accounts increasing by around $1 billion and term deposits rising by around $2.9 billion.

Non-interest income decreased by $264 million or 17% compared to 2010 driven by:

§ lower markets income from debt markets and equities; and

§ asset sales in 2010 totalling $46 million that were not repeated in 2011; partially offset by

§ an improved contribution from FX and CCE, especially in the second half of 2011.

Operating expenses decreased by $6 million or 1% compared to 2010 and were well contained, with efficiency initiatives which were introduced early in the year offsetting higher project costs and annual salary increases.

Impairment benefits on loans contributed $96 million to profit before income tax in 2011 compared to an impairment charge of $123 million in 2010. This was due to upgrades, write-backs and improvements in asset quality.

For a discussion of the results of WIB for 2010 v 2009, refer to Divisional performance 2010 v 2009 .

Divisional performance

St.George Banking Group

St.George Banking Group is responsible for sales and service for consumer, business and corporate customers in Australia under the St.George, BankSA and Bank of Melbourne brands.

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. The majority of revenue from wealth products sold to St.George customers is included in BTFG s financial results.

Performance of St.George

	2011	2010	2009[1]
	$m	$m	$m
Net interest income	2,826	2,668	2,313
Non-interest income	543	572	589
Net operating income before operating expenses and impairment charges	3,369	3,240	2,902
Operating expenses	(1,313)	(1,242)	(1,027)
Impairment charges on loans	(389)	(511)	(547)
Profit before income tax	1,667	1,487	1,328
Income tax expense	(500)	(446)	(398)
Cash Earnings for the year	1,167	1,041	930
Net Cash Earnings adjustments	(129)	(129)	(113)
Net profit attributable to owners of Westpac Banking Corporation	1,038	912	817
	$bn	$bn	$bn
Deposits	70.8	65.6	61.1
Loans	128.1	126.8	121.2
Total assets	135.5	134.0	127.6
Total operating expenses to net operating income ratio	39.0%	38.3%	35.4%

1 The merger between Westpac and St.George Bank Limited occurred for accounting purposes on 17 November 2008. Cash Earnings of St.George Banking Group are included in the 2009 consolidated results for the period from 18 November 2008 to 30 September 2009. The 2011 and 2010 Cash Earnings are not directly comparable to 2009 due to the additional six weeks of St.George Banking Group s operations included in 2011 and 2010.

2011 v 2010

St.George Banking Group Cash Earnings were $1,167 million in 2011, an increase of $126 million or 12% compared to 2010.

The result was driven by net operating income before operating expenses and impairment charges growth of 4% and a 24% decline in impairment charges on loans.

Over the year, movements in net interest income and non-interest income were impacted by a reclassification of fees and commissions from non-interest income to net interest income. Excluding this reclassification, net interest income increased by 5% while non-interest income was virtually unchanged.

Net interest income increased by $158 million or 6% compared to 2010, primarily due to:

§ an increase in margins of 15 basis points compared to 2010, driven by:

improved mortgage spreads due to repricing and from the roll-off of low spread one-year specials written in 2010; partially offset by

lower deposit spreads due to intense competition over the year and from mix impacts as all growth was in lower spread term deposits; and

higher wholesale funding costs. However the impact was limited as loan growth was modest and customer deposits fully funded lending over the year.

§ loans increased by $1.3 billion or 1% compared to 2010 primarily due to:

an increase in mortgages of $1.7 billion or 2% compared to 2010. This increase accounted for the majority of growth which was lower than banking system1 due to the decision in the prior year to reduce the reliance on third parties. Most of the growth in mortgages was due to loans written through the network of St.George brands;

an increase in other consumer lending of $0.4 billion or 7% compared to 2010, mainly in auto loans and the new Amplify credit card; partially offset by

a decrease in business lending of $0.8 billion or 3% compared to 2010. Declining commercial loan balances were partially offset by higher SME and business auto lending.

§ deposits increased by $5.2 billion or 8% compared to 2010, primarily due to:

term deposits growth of $7 billion or 26% compared to 2010 as a result of targeted advertising campaigns through the year; partially offset by

lower other deposits including the run-down in some highly priced commercial deposits and the decision not to match some of the more aggressive online pricing.

Non-interest income decreased by $29 million or 5% compared to 2010. Excluding the reclassification of fees and commissions, non-interest income was virtually unchanged compared to 2010. The movement in non-interest income was due to:

§ lower consumer fees; partially offset by

§ higher business fees and markets customer related income.

Operating expenses increased $71 million or 6% compared to 2010, primarily due to:

§ costs of $45 million associated with preparations for the launch of Bank of Melbourne;

- cost associated with the opening of 14 new Bank of Melbourne branches; and

- advertising expenses increased to support additional brand marketing.

Excluding the preparation costs for the launch of Bank of Melbourne, operating expenses increased by 2%.

Impairment charges on loans decreased by $122 million or 24% compared to 2010 due to:

- the improvement in asset quality, including the run-down in commercial property; and

- newly impaired assets declining with most of the new impairments due to the top-up of existing facilities; partially offset by

- an increase of business impaired assets. The rate of new downgrades to impaired slowed during 2011, however the slow pace of economic recovery has led to longer work-out periods for impaired exposures; and

- higher consumer impairment charges earlier in the year, which declined in the second half of the year to be lower overall compared to 2010.

For a discussion of the results of St.George Banking Group for 2010 v 2009, refer to Divisional performance 2010 v 2009.

1 APRA system growth, 12 months to 30 September 2011.

Divisional performance

BT Financial Group (Australia)

BT Financial Group (Australia) (BTFG) is Westpac s wealth management business.

BTFG s funds management operations include the manufacturing and distribution of investment, superannuation and retirement products, investment platforms such as wrap and master trusts and private banking and financial planning.

BTFG s insurance solutions cover the manufacturing and distribution of life, general and lenders mortgage insurance and deposit bonds.

BTFG s brands include Advance Asset Management, Ascalon, Asgard, BT, BT Investment Management (64.5% owned by the Westpac Group and consolidated in BTFG s Funds Management business), Licensee Select, Magnitude, Securitor and the advice, private banking and insurance operations of Bank of Melbourne, BankSA, St.George and Westpac.

Performance of BTFG

	2011	2010	2009[1]
	$m	$m	$m
Net interest income	281	257	263
Non-interest income	1,572	1,475	1,284
Net operating income before operating expenses and impairment charges	1,853	1,732	1,547
Operating expenses	(907)	(866)	(829)
Impairment charges on loans	(9)	(12)	(17)
Profit before income tax	937	854	701
Income tax expense	(281)	(251)	(213)
Profit attributable to non-controlling interests	(7)	(8)	(4)
Cash Earnings for the year	649	595	484
Net Cash Earnings adjustments	(17)	(17)	(15)
Net profit attributable to owners of Westpac Banking Corporation	632	578	469
	$bn	$bn	$bn
Deposits	18.3	16.0	13.2
Loans	11.5	11.2	9.5
Total assets	22.8	27.5	26.1
Funds under management	40.1	42.5	41.9
Funds under administration	77.4	79.9	76.7
Total operating expenses to net operating income ratio	48.9%	50.0%	53.6%

1 The merger between Westpac and St.George Bank Limited occurred for accounting purposes on 17 November 2008. Accordingly the Cash Earnings of St.George wealth businesses are included in the BTFG results for the period from 18 November 2008 to 30 September 2009. The 2011 and 2010 Cash Earnings are not directly comparable to 2009 due to the additional six weeks of the St.George wealth businesses included in 2011

and 2010.

2011 v 2010

BTFG Cash Earnings were $649 million in 2011, an increase of $54 million or 9% compared to 2010.

This result was driven by a 7% increase in net operating income before operating expenses and impairment charges and a 25% reduction in impairment charges on loans, partially offset by a 5% increase in operating expenses.

Net interest income increased by $24 million or 9% compared to 2010 due to:

§ an increase in earnings on invested capital recognised in net interest income;

§ higher lending and deposit volumes in the private bank; and

§ improved lending spreads on mortgages; partially offset by

§ lower term deposit spreads.

Non-interest income increased by $97 million or 7% compared to 2010 due to:

§ an increase in average FUM of 3%, primarily due to:

wholesale net inflows and stronger markets early in the year;

growth in BT Super for Life with average FUM increased by $604 million or 86%; partially offset by

retail and institutional outflows;

weaker markets in the second half of 2011; and

FUM margins 4 basis points lower, due to reductions across both retail and wholesale products.

§ an increase in average FUA of 5%, primarily due to:

positive net inflows of $4.7 billion on both the BT Wrap platform and into corporate super were supported by stronger asset markets in the first half of 2011, partially offset by weaker markets toward the end of 2011; and

flat FUA margins as margin declines across products were offset by customers moving funds into higher margin cash products.

§ one-off items that added $54 million to revenues in 2011, including sale of single manager investment rights, a review of the amortisation profile for deferred fees and deferred costs associated with the origination of superannuation, investments and portfolio management products to align with their assessed life;

§ an increase in life insurance revenue of $54 million or 18% compared to 2010 with in-force premiums increasing 12% and net earned premiums increasing 17%. New business sales were stronger across all channels, particularly retail, following the extension of distribution to the independent financial adviser (IFA) market and from the launch of new protection plans. Loss rates were also lower over the year, which assisted returns; and

§ an increase in lenders mortgage insurance (LMI) non-interest income of $26 million or 31% compared to 2010, although adjusting for transfers from net interest income, the underlying revenue increased $11 million. Gross written premiums decreased significantly over the year following the decision not to underwrite mortgages with loan to value ratios (LVRs) greater than 90%. The improved result was mostly due to flat earned premiums and lower loss rates (falling from 23% to 16%) compared to 2010; partially offset by

§ a decrease in general insurance revenue of $32 million or 36% compared to 2010, with the higher claims associated with the Queensland and Victorian floods and the Queensland cyclone more than offsetting a 17% increase in net earned premiums from improved sales.

Operating expenses increased by $41 million or 5% compared to 2010, primarily due to:

§ costs associated with the acquisition of J O Hambro by BTIM of $13 million;

§ an increase in operating expenses of $8 million in the life insurance business consistent with the expansion of the distribution network into St.George and into the IFA network; and

§ costs associated with establishing wealth distribution capabilities through the Bank of Melbourne; partially offset by

§ lower FTE and reduced expenses due to productivity initiatives initiated early in 2011.

For a discussion of the results of BTFG for 2010 v 2009, refer to Divisional performance 2010 v 2009 .

Divisional performance

New Zealand Banking

New Zealand Banking is responsible for sales and service of banking, wealth and insurance products for consumers and small-to-medium business customers in New Zealand. The sales and service division operates via an extensive network of branches and ATMs across both the North and South Islands. Institutional customers are supported by the New Zealand Institutional Bank, the results of which appear within WIB. Banking products are provided under the Westpac brand while insurance and wealth products are provided by Westpac Life New Zealand and BT New Zealand.

We conduct our New Zealand banking business through two banks in New Zealand: consumer and business banking operations are provided by Westpac New Zealand Limited (WNZL), which is incorporated in New Zealand, and institutional customers are supported by Westpac Banking Corporation (NZ Division), a branch of Westpac, which is incorporated in Australia and forms part of WIB.

Performance of New Zealand Banking

	2011	2010	2009
	A$m	A$m	A$m
Net interest income	996	957	1,007
Non-interest income	279	277	332
Net operating income before operating expenses and impairment charges	1,275	1,234	1,339
Operating expenses	(600)	(592)	(604)
Impairment benefits/(charges) on loans	(181)	(276)	(466)
Profit before income tax	494	366	269
Income tax expense	(144)	(106)	(73)
Profit attributable to non-controlling interests	(3)	(2)	(2)
Cash Earnings for the year	347	258	194
Net Cash Earnings adjustments	-	-	-
Net profit attributable to owners of Westpac Banking Corporation	347	258	194
	A$bn	A$bn	A$bn
Deposits	26.1	23.2	23.6
Loans	40.2	37.9	39.1
Total assets	41.3	39.0	40.1
Funds under management	2.1	1.7	1.7
Total operating expenses to net operating income ratio	47.1%	48.0%	45.1%

2011 v 2010

New Zealand Banking Cash Earnings were $347 million in 2011, an increase of $89 million or 34% compared to 2010.

This result was driven by a 3% increase in net operating income before operating expenses and impairment charges and a 34% reduction in impairment charges on loans, partially offset by a 1% increase in operating expenses.

Net interest income increased by $39 million or 4% compared to 2010, primarily due to:

§ an increase in margins of 22 basis points to 2.33% compared to 2.11% in 2010, primarily due to stronger mortgage and business lending spreads, partially offset by tighter deposit spreads;

§ loans increased by $2.3 billion or 6% compared to 2010, primarily due to an increase in mortgages, with growth in business lending improving in the second half of 2011; and

§ deposits increased by $2.9 billion or 13% compared to 2010, with growth across both at call and term deposit accounts.

Non-interest income increased by $2 million or 1% compared to 2010, primarily due to:

§ an increase in product transaction fees; partially offset by

§ higher life insurance claims.

Operating expenses increased by $8 million or 1% compared to 2010, primarily due to:

§ higher operating lease and occupancy expenses following the move in April 2011 to a new head office in Auckland. Additional costs included lease costs being incurred on two locations for a short period, moving costs and some remediation costs for the old head office;

§ wage increases, restructuring costs to support productivity initiatives, and increased technology costs; partially offset by

§ cost reduction due to lower average FTE; and

§ productivity improvements carried out in 2011, which positively impacted the cost base.

Impairment charges on loans decreased by $95 million or 34% compared to 2010. This was driven by a decline in stressed assets, a fall in new impaired assets and lower consumer delinquencies due to enhancements to the credit decision process and the ongoing economic recovery in New Zealand.

For a discussion of the results of New Zealand Banking for 2010 v 2009, refer to Divisional performance 2010 v 2009 .

Other divisions

Other divisions comprise:

Pacific Banking

Pacific Banking provides banking services for retail and business customers in seven Pacific countries. Branches, ATMs, telephone banking and internet banking channels are used to deliver our core business activities in Fiji, Papua New Guinea, Vanuatu, Cook Islands, Tonga, Solomon Islands and Samoa. Pacific Banking s financial products include personal savings, business transactional accounts, personal and business lending products, business services and a range of international products.

Product & Operations

Product & Operations is responsible for consumer and business product development and operations.

Group Treasury

Group Treasury is primarily focused on the management of the Group s interest rate risk and funding requirements by managing the mismatch between the Group s assets and liabilities. Group 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.

Technology

Technology is responsible for developing and maintaining reliable and flexible technology capabilities and technology strategies. It provides functional infrastructure support and software systems enhancement services to front line businesses.

Core Support

Core Support comprises those functions performed centrally including finance, risk, legal and human resources, with expenses incurred charged back to divisions.

Core Support earnings include earnings on capital not allocated to other divisions, accounting entries for certain intra-group transactions that facilitate the presentation of the performance of our operating segments (such as hedge results associated with hedging our New Zealand earnings), earnings from property sales and certain other head office items such as centrally raised provisions.

Divisional performance

Performance of Other divisions

	2011 $m	2010 $m	2009 $m
Net interest income	938	1,065	1,214
Non-interest income	214	198	104
Net operating income before operating expenses and impairment charges	1,152	1,263	1,318
Operating expenses	(152)	(189)	(120)
Impairment benefits/(charges) on loans	39	55	(141)
Profit before income tax	1,039	1,129	1,057
Income tax expense	(279)	(358)	(335)
Profit attributable to non-controlling interests	(58)	(56)	(65)
Cash Earnings for the year	702	715	657
Net Cash Earnings adjustments	836	613	(938)
Net profit attributable to owners of Westpac Banking Corporation	1,538	1,328	(281)

2011 v 2010

Other divisions Cash Earnings were $702 million in 2011, a decrease of $13 million or 2% compared to 2010.

Lower net operating income before operating expenses and impairment charges was partially offset by lower operating expenses and a reduced tax rate.

Net interest income reduced by $127 million or 12% primarily due to:

§ lower Group Treasury income, given the high market volatility in asset and swap prices, which resulted in reduced income from management of the Group s balance sheet, including liquid assets; partially offset by

§ higher earnings on capital.

Non-interest income increased by $16 million or 8%, primarily due to an increase in FX spread income in Pacific Banking.

Operating expenses decreased by $37 million or 20% compared to 2010, primarily due to:

§ lower employee provisions, including centrally held bonus provisions;

- lower project activity; and
- a one-off contribution in 2010 of $20 million to the Westpac Foundation, which was not repeated in 2011.

Impairment benefits on loans decreased by $16 million or 29% compared to 2010, primarily due to:

- higher impairment charges in Pacific Banking, which increased $24 million to $25 million in 2011; partially offset by
- small releases of centrally-held economic overlay impairment provisions, which occurred in 2011 and 2010.

The effective tax rate reduced from 31.7% in 2010 to 26.9% in 2011 due to the release of an excess tax provision. This followed resolution of several outstanding taxation matters.

For a discussion of the results of this division for 2010 v 2009, refer to Divisional performance 2010 v 2009 .

Divisional performance 2010 v 2009

Westpac Retail & Business Banking

2010 v 2009

Westpac RBB Cash Earnings were $1,756 million in 2010, a decrease of $152 million or 8% compared to 2009.

In 2010, the division s Cash Earnings were impacted by two factors. The first was a reduction in customer fees which led to a reduction in non-interest income by $182 million and Cash Earnings by $127 million following the decision to reduce fee rates from 1 October 2009. Secondly, in 2009 changes to credit card loyalty points impacted both revenue and expense, with Cash Earnings increasing by $22 million in that year. Excluding these factors, between 2009 and 2010 net operating income increased 4% while operating expenses increased 7%.

In 2010, net interest income was $5,132 million, an increase of $189 million or 4% compared to 2009. This was driven by solid balance sheet growth, partially offset by higher retail and wholesale funding costs. The majority of growth in lending in 2010 was in mortgages, up 14% and around 1.4 times system growth. Mortgage growth eased through the year with the Group s focus on existing customers and higher returning businesses leading to:

§ an increase in mortgages written through proprietary channels to 64% in 2010 from 56% in 2009; and

§ strong customer retention, with the division retaining its significant market share gain of over 2% since the beginning of 2009.

Credit card and other personal lending decreased 1% in 2010 compared to 2009, as consumer customers chose to reduce their gearing over the year. Business lending increased 2% in 2010 compared to 2009, as small and medium businesses remained cautious. Around half the growth in business lending was due to business transferred from WIB over the year reflecting segmentation of business customers. While the pipeline of business lending substantially improved during the year, this did not translate to increased drawdowns.

Deposits increased 10% in 2010 compared to 2009, driven by a 23% increase in term deposits (mostly in the first half of 2010), assisted by December 2009 promotions.

The Westpac Local business model, providing local Bank Managers with the authority and resources to meet the needs of their local markets, combined with further increases in the skill base of relationship roles:

§ contributed to customers with four or more products increasing from 28.5% in 2009 to 30.3% in 2010; and

§ supported the strong cross-sell of insurance and superannuation. A highlight of the year was our branch network helping BT Super for Life FUM exceed $1 billion.

Net interest margins declined 19 basis points over the year, principally driven by higher retail and wholesale funding costs and a shift in the portfolio to lower spread products, including mortgages, as well as term and online deposits. Partially offsetting this decline was some repricing of the portfolio. Most of the decline in margins over the year was in the second quarter of the year with the trend easing slightly since then.

Non-interest income was $1,014 million in 2010, a decrease of $260 million or 20% compared to 2009. Items contributing to the decrease included:

§ reduced customer fees ($182 million) following the decision to reduce fee rates from 1 October 2009;

§ lower redemption of credit card loyalty points ($125 million); and

§ a reduction in foreign ATM fees ($21 million) following the move to direct charging in 2009.

Partially offsetting these declines was an improvement in business line fees and higher card interchange fees compared to 2009.

Operating expenses were $3,045 million in 2010, an increase of $102 million or 3% compared to 2009. This modest rate of growth was helped by efficiency improvements in support areas and lower credit card loyalty point redemption costs of $94 million. The rise in expenses reflected:

§ additional front line investment, enhancing the skill base of relationship roles, opening nine additional branches and one additional business banking centre, and installing an additional 59 ATMs; and

§ higher expenses associated with technology projects.

Impairment charges were $589 million in 2010, an increase of $38 million or 7% compared to 2009, as the lagged impact of slower growth combined with higher interest rates led to an increase in consumer impairment charges. Business impairment charges were $19 million lower than 2009, reflecting a slowdown in the emergence of new stressed exposures.

Divisional performance

The credit quality of the consumer portfolio remained sound, although there was some rise in delinquencies through the year:

§ 90 day delinquencies in the mortgage portfolio increased 15 basis points to 0.46% at 30 September 2010. Most of the rise could be traced back to lending in Western Australia and Queensland, with both markets experiencing significant increases in delinquencies compared to 2009; and

§ 90 day delinquencies in credit cards increased 28 basis points to 1.12% at 30 September 2010. Much of the increase was recorded in the first half of the year, with delinquencies easing since then.

Income tax expense was $756 million in 2010, a decrease of $59 million or 7% compared to 2009. This equated to an effective tax rate of 30.1% in 2010 compared to 29.9% in 2009.

Westpac Institutional Bank

2010 v 2009

WIB Cash Earnings were $1,514 million in 2010, an increase of $1,175 million or 347% compared to 2009. The improved performance was primarily due to an increase of $285 million in net operating income and a decrease of $1,393 million in impairment charges.

Net interest income was $1,776 million in 2010, an increase of $15 million or 1% compared to 2009. Excluding the impact of the additional six weeks of St.George s operations, net interest income was flat.

The operating environment changed during 2010 as markets emerged from the global financial crisis. Corporate clients remained cautious and continued to reduce leverage, and financial markets exhibited lower volatility.

The focus on deleveraging saw lending steadily decline, falling 18% over 2010, with much of the reduction recorded in the commercial property, financial institution, industrials and materials sectors. Partially offsetting the impact of lower volumes were higher net interest margins from the repricing of facilities to better reflect increased pricing for risk, improved line fees and higher establishment fees associated with the early repayment of debt. Improved returns from the Transaction and Client Services deposit business also supported net interest income.

Non-interest income was $1,519 million in 2010, an increase of $270 million or 22% compared to 2009. The additional six weeks of St.George s operations contributed 3% growth. Excluding the impact of St.George, non-interest income reflected the following:

§ a $130 million increase in fees associated with unused lines of credit, repriced to better reflect the capital cost of these commitments;

§ the Hastings business recorded much improved income in 2010, assisted by $35 million of gains from asset sales; and

§ higher revenue in the Equities business, up $55 million compared to 2009, as the repositioning of this business and more favourable equity markets led to strong results from the Structured Products business.

Partially offsetting the rise in non-interest income was a decline in markets-related income in both Foreign Exchange and Debt Markets. Foreign Exchange earnings decreased $256 million over 2010 after a strong performance in 2009. The decline reflected lower volatility and market spread retraction, which reduced revenue opportunities. Debt Markets non-interest income was also lower from reduced market volatility, although the business benefited from improved credit spreads in the first half of 2010.

Operating expenses were $1,038 million in 2010, an increase of $27 million or 3% compared to 2009. The inclusion of St.George s operations for an additional six weeks in 2010 increased operating expenses by 2%. The remaining increase was mainly due to increases in performance-related pay, consistent with the improved Cash Earnings. Partially offsetting this rise was the translation benefit of $12 million on offshore expenses due to the higher Australian dollar.

Impairment charges on loans were $123 million in 2010, a decrease of $1.4 billion or 92% compared to 2009. The impact of including St.George impairment charges for the full year was not significant. Impairment charges on loans were materially lower in 2010 due to:

§ a decline in the number of new single name impaired assets;

§ the improved operating environment seeing a reduction in new stressed assets, reducing CAPs;

§ the fall in lending, reducing associated CAPs;

§ the margin lending portfolio having net write-backs during the year; and

§ updates to provisioning factor changes, reducing CAPs by $124 million.

Income tax expense was $620 million in 2010, an increase of $476 million or 331% compared to 2009, primarily due to increased profit before income tax. This equated to an effective tax rate of 29.1% for 2010 compared to 29.8% in 2009.

St.George Banking Group

2010 v 2009

St.George Banking Group Cash Earnings were $1,041 million in 2010, an increase of $111 million or 12% compared to 2009.

Net interest income increased $355 million or 15% in 2010 compared to 2009. Excluding the impact of the additional six weeks of St.George s operations, net-interest income increased 2%. This was driven by balance sheet growth, partially offset by lower margins from higher retail and wholesale funding costs. The discussion that follows excludes the impact of the additional six weeks of St.George net-interest income.

The majority of growth in lending compared to 2009 was in mortgages, which increased 8% at around 0.8 times banking system1. The division sought to rebalance growth over the year focusing on proprietary channels and reducing up-front discount rate offers. As a result, proprietary channels increased to 62% of inflows, an increase from 50% in 2009.

Credit card and other personal lending grew 10% compared to 2009, assisted by the launch of a new rewards-based card in April 2010 called Amplify. Development of the Amplify card leveraged off the broader experience of the Group and allowed St.George to introduce a new offer into its product suite. Business lending decreased 5% compared to 2009, as businesses continued to reduce gearing, particularly in the commercial property portfolio. The division continued to adjust its portfolio mix, increasing the proportion of non-property lending to 59% from 55% at 30 September 2009, with particularly good growth in the auto, trade and hospitality sectors.

Deposits increased 7% in 2010 compared to 2009, with good growth in transactions, savings and term deposits.

Excluding the impact of the additional six weeks of St.George, net interest margins declined 13 basis points compared to 2009, to 1.91% for 2010, due to higher wholesale and retail funding costs and a change in the mix of the portfolio towards lower spread products, including mortgages and term deposits. The majority of the margin decline occurred in the first half of 2010.

Non-interest income decreased $17 million or 3% in 2010 compared to 2009. The additional six weeks of St.George non-interest income contributed 15% to the year on year movement. Excluding the impact of the additional six weeks of St.George s operations the underlying decrease arose due to:

§ the decision to reduce certain customer fees;

§ the full period impact of the move to direct charging for ATM fees; and

§ lower sales from financial markets products.

St.George Banking Group also benefited from the improved cross-sell of key Group products, including Super for Life (with almost 20,000 sales) and home and contents insurance.

Operating expenses increased $215 million or 21% in 2010 compared to 2009. Excluding the impact of the additional six weeks of St.George expenses, operating expenses increased 4%. This growth in expenses was driven by technology projects and further investment in the front line, with an additional nine branches and 14 ATMs opened during the year.

Impairment charges on loans decreased $36 million or 7% or in 2010 compared to 2009. Excluding the impact of the additional six weeks of St.George impairments, the decline was 14%. This arose as business impairment charges eased and property markets stabilised, offsetting some increase in consumer-related impairment charges.

New IAPs increased $15 million in 2010 compared to 2009 due to continuing stress in the commercial property sector.

New CAPs decreased $1 million in 2010 compared to 2009. The fall was primarily due to a decline in new corporate stress.

The credit quality of the consumer portfolio continues to remain sound:

§ 90 day delinquencies in the mortgage portfolio increased 1 basis point to 0.36% at 30 September 2010; and

§ 90 day delinquencies in other consumer loans increased 6 basis points to 1.03% at 30 September 2010.

Income tax expense was $446 million in 2010, an increase of $48 million or 12% compared to 2009. The impact of including St.George tax for the full year in 2010 was not significant. This equated to an effective tax rate of 30.0% in 2010 compared to 30.0% in 2009.

BT Financial Group (Australia)

2010 v 2009

BTFG Cash Earnings were $595 million in 2010, an increase of $111 million or 23% compared to 2009. Excluding the impact of the additional six weeks of St.George s operations, Cash Earnings increased 21%. The increase was primarily due to a strong contribution from Funds Management, driven by improved asset markets and strong net inflows.

1 APRA system growth, 12 months to 30 September 2010.

Divisional performance

Net interest income decreased $6 million or 2% in 2010 compared to 2009. Excluding the impact of the additional six weeks of St.George s operations, net-interest income decreased 5%. The primary driver of this decrease was the reclassification of income, from net-interest income to non-interest income, to align the accounting treatment of Asgard with the approach applied to similar BT Wrap income. This decrease was offset by good deposit growth in the Private Bank during 2010.

Non-interest income increased $191 million or 15% in 2010 compared to 2009. Excluding the impact of the additional six weeks of St.George s operations, non-interest income increased 12%. The increase was primarily driven by higher fees generated from FUM and FUA balances. Other factors driving this 12% increase are discussed below.

FUM was $42.5 billion at 30 September 2010, an increase of $0.6 billion or 1% compared to 30 September 2009, principally driven by net inflows during the year as market sentiment improved. FUM margins were down slightly over the year. Super for Life, then being distributed through St.George, Bank SA and Westpac, continued to generate very strong growth with over 200,000 customers registered and FUM doubling to over $1 billion at 30 September 2010.

FUA was $79.9 billion at 30 September 2010, an increase of $3.2 billion or 4% compared to 30 September 2009, primarily due to positive net inflows (principally on the BT Wrap platform). FUA margins were down over the year, as investors moved to lower margin equity products.

The Insurance business generated non-interest income after commission expenses of $377 million in 2010. The impact of the additional six weeks of St.George s operations was not significant. The Life Insurance business experienced growth due to strong premium growth, with much of this arising from life policies on the Wrap platform. This was partially offset by a decline in General Insurance; while premium income was higher and cross sell continues to improve, higher claims offset growth. Lenders Mortgage Insurance was down as a result of slightly higher claims and the decision to refer mortgage insurance to a third party for all mortgages with a loan to value ratio (LVR) > 90%.

The Capital and other segment of BTFG also contributed to the improvement from 2009, with most of this due to higher interest rates boosting the return on invested capital. BTFG continued to invest its capital conservatively.

Operating expenses were $866 million in 2010, an increase of $37 million or 4% compared to 2009. Excluding the impact of the additional six weeks of St.George s operations, operating expenses increased 1%. This increase was primarily driven by the increased number of employees in Private Bank and Advice, along with higher volume related expenses and increased advertising spend during 2010. This increase was offset by improved GST recoveries, lower non-lending losses and merger synergies.

Impairment charges on loans were $12 million in 2010, a decrease of $5 million or 29% compared to 2009. The decrease, excluding the impact of the additional six weeks of St.George, was due to lower IAPs during the year.

Income tax expense was $251 million in 2010, an increase of $38 million or 18% compared to 2009. The impact of including St.George for the full year in 2010 was not significant. This equated to an effective tax rate of 29.4% for 2010 compared to 30.4% in 2009.

New Zealand Banking

2010 v 2009

New Zealand Banking Cash Earnings were A$258 million in 2010, an increase of A$64 million or 33% compared to 2009. We believe this was a good result given the slow economic recovery in New Zealand. Contributing to the improved performance was a substantial improvement in growth of loans and deposits relative to system, and a significant reduction in impairment charges from the peak in 2009. These positives were offset by the reduction in certain customer fees from October 2009, higher funding costs and additional expenses associated with the aftermath of the Canterbury earthquake. Exchange rate movements had an A$4 million negative impact on earnings.

Net interest income was A$957 million in 2010, a decrease of A$50 million or 5% compared to 2009. Net interest income declined by 3% in NZ$ terms. The decrease was due to lower margins from higher funding costs, partially offset by growth in loans.

Loans and deposits[1] grew by 4% and 6% respectively (in NZ$ terms) compared to 30 September 2009 due to the following:

§ mortgage growth of 6% was achieved over the year, at 2.4 times system[2]. Third party originations accounted for 30% of new mortgage lending in 2010, down from 32% in 2009;

§ other consumer lending was down 6% primarily due to slowing consumer spending and the impact of higher interest rates;

§ business lending recorded a modest increase, up 2% over the year, particularly in Agribusiness, Corporate Banking and the Northern Regions while system business growth declined; and

§ deposit growth of NZ$1.7 billion funded 81% of loan growth driven by strong growth in term deposits.

1 Loans and deposits growth was determined on a spot basis, comparing balances at 30 September 2010 to balances at 30 September 2009.

2 Reserve Bank of New Zealand (RBNZ), 12 months to 30 September 2010.

Net interest margins declined 13 basis points in NZ$ terms compared to 2009, primarily due to higher retail and wholesale funding costs. Margins improved in the second half of 2010 as the mix of new business favoured higher margin products, and products were repriced more appropriately for risk and funding costs.

Non-interest income was A$277 million in 2010, a decrease of A$55 million or 17% compared to 2009. This was impacted by the change in customer fee structures introduced in October 2009, which reduced fee income by NZ$57 million over the year. Lower fee income was partially offset by improved wealth fees and higher insurance premium income.

Operating expenses were A$592 million in 2010, a decrease of A$12 million or 2% compared to 2009. In NZ$ terms, operating expenses increased by NZ$5 million or 1% compared to 2009. The bulk of the increase in expenses was due to NZ$3.5 million of expenses associated with the September 2010 Canterbury earthquake.

Investment in the front line included the opening of eight branches and a further investment in capability, including additional training in credit and customer sales systems and processes. Of the eight branches opened (six in the Auckland market), seven were community branches, which were outlets with a smaller footprint and increased self serve options.

Impairment charges on loans were A$276 million in 2010, a decrease of A$190 million or 41% compared to 2009. In NZ$ terms, impairment charges decreased by NZ$225 million or 39% compared to 2009. The reduction from the 2009 peak was due to a smaller number of large problem exposures not recurring during 2010. The improving New Zealand economy supported a stabilisation in housing delinquencies (in 2010, 90 day delinquencies were flat at 0.75%) and business lending stressed assets (in 2010 15.57% compared to 16.24% in 2009) as well as an improvement in other consumer lending delinquencies. Credit card delinquencies decreased to 0.97% in 2010, from 1.18% in 2009. Impaired assets as a percentage of Total Committed Exposures (TCE) rose early in the year to 1.27%, and remained relatively stable for the remainder of 2010.

The division had total provisions to gross loans at 30 September 2010 of 1.49%, up from 1.15% at 30 September 2009.

Income tax expense was A$106 million in 2010, an increase of A$33 million or 45% compared to 2009. This equated to an effective tax rate of 29.0% for 2010 compared to 27.1% in 2009.

Other divisions

2010 v 2009

Cash Earnings in 2010 were $715 million, an increase of $58 million or 9% compared to 2009. Excluding the impact of the additional six weeks of St.George s operations, Cash Earnings increased by 6%. This increase was primarily the result of lower impairment charges offset by lower net operating income.

Net interest income in 2010 was $1,065 million, a decrease of $149 million or 12% compared to 2009. The decrease was primarily driven by lower contributions from Group Treasury, compared to the exceptional gains recognised by this business in 2009, and translation impacts of the higher Australian dollar on earnings from the Pacific operations. This was partly offset by higher returns on capital.

Non-interest income was $198 million in 2010, an increase of $94 million or 90% compared to 2009. Excluding the impact of the additional six weeks of St.George s operations, non-interest income increased by 50%. This increase was mainly a result of higher earnings from capital deals, reflecting favourable basis spreads, particularly in the first half of 2010.

Operating expenses were $189 million in 2010, an increase of $69 million or 58% compared to 2009. The increase in expenses was primarily related to additional technology project spend, higher employee incentive and shared-based payment charges and a one-off $20 million contribution to the Westpac Foundation in 2010.

Impairment charges on loans were a $55 million write-back in 2010, a decrease of $196 million compared to 2009. The impact of including St.George s operations for the full year was insignificant. Impairment charges on loans were lower with $57 million released from the economic overlay provision (related to the construction sector) in 2010, compared to an increase of $112 million to this provision in 2009.

Income tax expense was $358 million in 2010, an increase of $23 million or 7% compared to 2009. The impact of including St.George tax for the full year was not significant. This equated to an effective tax rate of 31.7% for 2010 compared to 31.7% in 2009.

Minority interests were $56 million in 2010, a decrease of $9 million, or 14% compared to 2009. Minority interests represented distributions on our hybrid equity instruments 2003 TPS and 2006 TPS, as well as other minority interests in subsidiary entities.

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 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 and regulations and regulatory policy

As a financial institution, we are subject to detailed laws and regulations in each of the jurisdictions in which we operate, including Australia, New Zealand and the United States. We are also supervised by a number of different regulatory authorities which have broad administrative power over our businesses. In Australia, the relevant regulatory authorities include APRA, the RBA, ASIC, ASX, ACCC and AUSTRAC. The RBNZ has 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, the Board of Governors of the Federal Reserve System and the SEC.

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, as well as meeting our ethical standards.

Compliance risk arises from these legal and regulatory requirements. If we fail to comply with applicable laws and regulations, 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 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 have a material adverse effect on our business, reputation, prospects, financial performance or financial condition.

As with other financial services providers, we continue to face increased supervision and regulation in most of the jurisdictions in which we operate, particularly in the areas of funding, liquidity, capital adequacy and prudential regulation. One example of this is the announcement in December 2010 by the BCBS of a revised global regulatory capital framework, known as Basel III. Basel III will, among other things, increase the required quality and quantity of capital held by banks and introduce 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 framework comes 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.

Throughout the year ended 30 September 2011 there have also been a series of other regulatory releases from authorities in the various jurisdictions in which we operate proposing significant regulatory change for financial institutions. This includes global OTC derivatives reform and recovery and resolution planning requirements proposed by the FSB. 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 and anti-money laundering laws. In addition, further changes may occur driven by policy, prudential or political factors.

Regulation is becoming increasingly more extensive and complex. Some areas of potential regulatory change involve multiple jurisdictions seeking to adopt a coordinated approach. Such an approach may not appropriately respond to the 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 do business 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 increase our expenditure on 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 and procedures 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 restrictions on the businesses we conduct 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 have a material adverse effect on our business, financial performance, financial condition or prospects.

For further information refer to Significant developments in Section 1 and the sections Changes in accounting policy , Critical accounting assumptions and estimates and Future developments in accounting policies 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. Recently there has been particular focus on the potential for sovereign debt defaults and/or banking failures in Europe. Widespread unease about the strength of the European banking system has resulted in large declines in stock prices and marked widening in credit spreads. Focus has also extended to the US following the Standard & Poor s downgrade of the sovereign credit rating of the United States. The recent volatility in global financial markets has added to the uncertainty about the global economic outlook and a number of countries are experiencing slowing economic activity. Our direct exposure to the affected European countries is small, with the main risk we face being damage to market confidence, spending and access to, and costs of, funding and a slowing in the activity of our trading partners or through other impacts on entities with whom we do business. The vulnerable nature of several sovereign nations and the associated impact on market conditions has resulted in a tightening of credit markets and wholesale funding conditions.

As of 30 September 2011, approximately 41% of our total net funding originated from domestic and international wholesale markets, of this around 62% was sourced outside Australia and New Zealand.

A shift in investment preferences of businesses and consumers away from bank deposits toward other asset or investment classes would increase our need for funding from wholesale markets.

If market conditions continue to 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.

If Westpac is unable to source appropriate funding, we may also be forced to reduce our lending or begin to sell liquid securities. Such actions may adversely impact our business, results of operations, liquidity, capital resources and financial condition.

For a more detailed description of liquidity risk, refer to the section Liquidity Risk in this section and Note 27 to the financial statements.

Failure to maintain credit ratings could adversely affect our cost of funds, liquidity, competitive position and access to capital markets

Credit ratings are 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 and structural considerations regarding the Australian financial system. 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.

Standard & Poor s announced that it is changing its methodology for determining bank ratings and published its initial proposals on 6 January 2011. On 20 April 2011 Standard & Poor s announced that it had received numerous comments on the proposals and indicated that it expects to publish its final criteria first, and then take ratings actions soon afterwards in the fourth quarter 2011. On 7 October 2011, Standard & Poor s announced that it remains on track to finalise and implement the criteria on that timetable.

On 18 May 2011, Moody s advised us, along with the other major Australian banks, that our long-term, senior unsecured debt rating was downgraded to Aa2 from Aa1. Further, on 27 May 2011, Moody s advised WNZL, along with the other major New Zealand banks, that its long-term, senior unsecured debt rating was downgraded to Aa3 from Aa2. The outlook for both of these ratings is stable.

Risk and risk management

If we fail to maintain our current credit ratings, this could adversely affect our cost of funds and related margins, 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, the financial services industry and capital markets have been, and may continue to be, adversely affected by continuing market volatility and the negative outlook for global economic conditions. Recently there has been an increased focus on the potential for sovereign debt defaults and/or significant bank failures in the 17 countries comprising the Eurozone. There can be no assurance that the market disruptions in the Eurozone, including the increased cost of funding for certain Eurozone governments, will not spread, nor can there be any assurance that future assistance packages will be available or sufficiently robust to address any further market contagion in the Eurozone or elsewhere.

Any such market and economic disruptions could have a material adverse effect on 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 businesses, financial performance, financial condition and prospects could be adversely affected.

The nature and consequences of any such event are difficult to predict and there can be no guarantee 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, property and other asset markets, could adversely affect our operations and profitability.

Declining asset prices impact our wealth management business and other asset holdings. 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 division.

Declining asset prices could also impact customers and counterparties and the value of security 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 business and home 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 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 negatively impact the Australian economy and our customers. This 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 would negatively impact our business, financial performance, financial condition and prospects.

An increase in defaults in credit exposures could adversely affect our results of operations, liquidity, capital resources and financial condition

Credit risk is a significant risk and arises primarily from our lending activities. The risk arises from the likelihood that some customers and counterparties will be unable to honour their obligations to us, including the repayment of loans and interest.

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 impacted to varying degrees by economic conditions in global financial markets.

We hold collective and individually assessed provisions for our 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 would adversely affect our operating results, liquidity, capital resources and financial condition.

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 firms, brokerage firms, and other financial service firms. 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 materially adversely affect our results of operations by diverting business to our competitors or creating pressure to lower margins.

Increased competition for deposits could also increase our cost of funding and need 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 low cost and 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 global capital markets to fund our business, and our funding costs would increase.

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 results of operations, financial performance and financial condition.

For more detail on how we address competitive pressures refer to the section 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 results of operations, liquidity, capital resources and 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 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 these 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 or that our security measures may prove inadequate or ineffective. Any failure of these systems could result in business interruption, loss of customers, reputational damage and claims for compensation, which could adversely affect our results of operations and financial performance.

Further, our ability to develop and deliver products and services to our 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. This includes our current Strategic Investment Priorities (SIPs) program. Failure to implement these projects or manage associated change effectively could result in cost overruns, a failure to achieve anticipated productivity, operational instability, reputational damage or operating technology that could place us at a competitive disadvantage and may adversely affect our results of operations.

We could suffer losses due to operational risks

Operational risk is the risk of loss resulting from technology failure, inadequate or failed internal processes, people and systems or from external events. As a financial services organisation we are exposed to a variety of operational risks.

Our operations rely on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. Although we implement significant measures to protect the security and confidentiality of our information, there is a risk that our computer systems, software and networks 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 financial condition and results of operations.

We are also highly dependent on the conduct of our employees. We could, for example, be adversely affected if human error results in a process error or if an employee engages in fraudulent conduct. While we have policies to minimise the risk of human error and employee misconduct, these policies may not always be effective.

Risk and risk management

Fraudulent conduct can also emerge from external parties seeking to access the banks systems and customer s 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 results of operations, financial performance or financial condition and our reputation.

Operational risks also arise when we rely on external suppliers to provide services to us and our customers.

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 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 and foreign exchange risk) and operational risk.

However, there are inherent limitations with any risk management framework as there may exist, or develop in the future, risks that we have not anticipated or identified or controls may not operate effectively.

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 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 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 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, failing to comply with money laundering laws, trade sanctions legislation or privacy laws, litigation, information security policies, 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 our customers and counterparties.

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 harm our reputation among our customers, investors and the marketplace. This could lead to loss of business which could adversely affect our results of operations, financial performance or 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 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 market volatility.

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) 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 2007, the predecessor scheme.

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 in, or governed by the laws of, New South Wales directly or vicariously from anything done or omitted in the performance of its professional services for us, including, without limitation, its audits of our financial statements, to the lesser of (in the case of audit services) ten times the reasonable charge for the service provided and 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.

Along with maintaining a clear customer-centric focus, effective risk management is one of the keys to achieving this goal. It is a key component of our one team environment and 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, on-going administration and problem management. For example, we have established product-based standards for lending to individuals, with key controls including minimum loan repayment to income ratio and maximum loan to security value ratio. 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 lender s 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 charge over business assets and/or real estate. 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 on-going 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.

Refer to Note 27 to the financial statements for details of our credit risk management policies.

Risk and risk management

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 2011, our exposure to consumers comprised 71% (2010 69%, 2009 64%) of our on-balance sheet loans and 56% (2010 57%, 2009 54%) of total credit commitments. At 30 September 2011, 91% (2010 89%, 2009 89%) 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.

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**
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%
2010					
Australia	7	5,353	3,172	8,532	1.4%
2009					
United States	-	2,030	2,637	4,667	0.8%
Australia	1	1,613	4,866	6,480	1.1%
United Kingdom	-	4,092	590	4,682	0.8%

Impaired assets among cross-border outstandings were $224 million as at 30 September 2011 (2010 $136 million, 2009 $6 million).

Liquidity risk

Liquidity risk is the risk that we will be unable to fund our assets and meet our obligations as they come due, without incurring unacceptable losses. This could potentially arise as a result of mismatched cash flows generated by the Group s banking business. 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 2011:

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	Program for the Issuance of Debt Instruments
USD 7.5 billion	WSNZL1	Program for the Issuance of Debt Instruments
EUR 5 billion	WSNZL2	Global Covered Bond Program
Japan		
JPY 750 billion	WBC	Samurai shelf
JPY 750 billion	WBC	Uridashi shelf
United States		
USD 45 billion	WBC	Section 4(2) US Commercial Paper Program
USD 10 billion	WSNZL1	Section 4(2) US Commercial Paper Program
USD 35 billion	WBC	US MTN Program
USD 10 billion	WSNZL1	US MTN Program
USD 15 billion	WBC (NY Branch)	Medium Term Deposit Notes
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 by Westpac Securities NZ Limited, London branch are guaranteed by Westpac New Zealand Limited, its parent company, and Westpac NZ Covered Bond Limited.

Risk and risk management

Market risk

Market risk is the risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices. 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.

Our trading activities are conducted in our Financial Markets and Group Treasury businesses. Financial Market s trading book activity represents dealings that encompass book running and distribution activity. Group Treasury s trading activity represents dealings that include the management of interest rate, FX and credit spread risk associated with wholesale funding, liquid asset portfolios and FX repatriations.

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 six months ended 30 September 2011, 31 March 2011 and 30 September 2010:

	30 September 2011			31 March 2011			30 September 2010		
	High	**Low**	**Average**	High	Low	Average	High	Low	Average
Six months ended	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m	$m
Interest rate risk	40.9	16.5	28.4	32.9	12.8	20.9	25.6	11.2	18.0
Foreign exchange risk	8.4	0.9	3.4	8.0	0.8	3.3	5.0	1.0	2.5
Equity risk	1.7	0.3	0.6	0.9	0.2	0.4	0.9	0.3	0.5
Commodity risk1	6.6	1.1	3.5	3.4	1.2	2.0	3.3	1.3	1.9
Other market risks2	24.9	16.6	20.6	23.2	19.1	21.7	27.5	15.8	19.3
Diversification effect	n/a	n/a	(21.9)	n/a	n/a	(19.8)	n/a	n/a	(17.0)
Net market risk	50.0	25.8	34.6	44.6	19.9	28.5	35.9	17.1	25.2

1 Includes electricity risk.

2 Includes prepayment risk and credit spread risk (exposure to movements is generic credit rating bands).

The graph below compares the actual profit and loss from trading activities on a daily basis to VaR over the reporting period:

Each point on the graph represents one day s profit or loss from trading activities. The result is placed on the graph relative to the associated VaR utilisation. The downward sloping line represents the point where a loss is equal to VaR utilisation. Therefore any point below the line represents a back-test exception (i.e. where the loss is greater than VaR).

Operational risk and compliance risk

Operational risk arises from inadequate or failed internal processes and systems, human error or misconduct, or from external events. It also includes, among other things, technology risk, model risk and outsourcing risk.

The way operational risk is managed has the potential to positively or negatively impact our customers, our financial performance and our reputation.

Operational risk includes compliance risk. Compliance risk is the risk of legal or regulatory sanction and financial or reputation loss arising from our failure to abide by the compliance obligations required of us. Refer to the Corporate Governance report in Section 1 for information on our management of operational and compliance risk.

The Group s Operational Risk Management Framework assists all divisions to achieve their objectives through the effective identification, measurement, management and monitoring of their operational risks. The Framework defines the principles, policies and processes, systems, and roles and responsibilities that we use to meet our obligations under the law, based on the letter and spirit of the regulatory standards that apply to the Group. The Framework is underpinned by a culture of individual accountability and responsibility, based on a Three Lines of Defence model. This is discussed in further detail in Note 27 to the financial statements.

Other risks

Business risk

The risk associated with the vulnerability of a line of business to changes in the business environment.

Environmental, social and governance risks

The risk of damage to Westpac s reputation or financial performance due to failure to recognise or address material existing or emerging sustainability-related environmental, social or governance issues.

The Group has in place a Risk Management Framework plus a suite of key supporting public position statements (e.g. principles for doing business, responsible lending, our approach to dealing with various ESG sensitive business sectors) and internal policies setting out requirements for the recognition and management of these risks from the multiple perspectives of the Group s general business operations (e.g. supply chain management) and also in our key credit and lending activities (e.g. ESG-related credit risk) and investment management activities (e.g. Westpac is a signatory to the United Nations Principles for Responsible Investment, a voluntary principles-based framework guiding the integration of ESG-related issues into investment analysis).

Equity risk

The potential for financial loss arising from movements in the value of our direct and indirect equity investments.

The Group s direct equity risks result from our involvement in underwriting capital raisings undertaken by our customers, trading in equity derivatives, holdings of direct equity investments, asset warehousing, any other strategic investments that the Group may choose to make from time to time and the potential for exposure via obligations to our various employee defined benefits superannuation funds. Our indirect equity risk is primarily related to the potential for equity market volatility to impact on fee income that is based on the size of funds under management and administration.

The Group has in place various policies, limits and controls to manage these risks and the conflicts of interest that can potentially arise.

Insurance risk

The risk of not being able to meet insurance claims (related to insurance subsidiaries).

Subsidiaries within the Group s BT Financial Group undertake life insurance, general insurance and lender s mortgage insurance. They are governed by independent boards and are subject to separate regulatory oversight and controls. These subsidiaries have comprehensive reinsurance arrangements in place to transfer risk and protect against catastrophic events. They are capitalised to a level that exceeds the minimum required by the relevant regulator.

Related entity (contagion) risk

The risk that problems arising in other Westpac Group members compromise the financial and operational position of the ADI in the Westpac Group.

The Group has in place a Risk Management Framework and a suite of supporting policies and procedures governing the control of dealings with, and activities that may be undertaken by, Group members. Controls include the measurement, approval and monitoring of, and limitations on, the extent of intra-group credit exposures and other forms of parent entity support, plus requirements related to control of Group badging, product distribution, promotional material, service-level agreements and managing potential conflicts of interest.

Reputation risk

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

Risk and risk management

Reputation risk can arise from gaps between current and/or emerging stakeholder perceptions and expectations relative to our current or planned activities, performance or behaviours. It can affect the Group s brands and businesses positively or negatively. Stakeholder perceptions can include (but are not limited to) views on financial performance, quality of products or services, quality of management, leadership and governance, history and heritage and our approach to sustainability, social responsibility and ethical behaviour.

We have a Risk Management Framework and key supporting policies in place covering the way we manage reputation risk as one of our key risks across the Group, including the setting of risk appetite and roles and responsibilities for risk identification, measurement and management, monitoring and reporting.

Special purpose entities

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

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

Under A-IFRS, an SPV is consolidated and reported as part of the Group if it is controlled by the parent entity in line with AASB 127 *Consolidated and Separate Financial Statements* or deemed to be controlled in applying UIG Interpretation 112 *Consolidation Special Purpose Entities*. The definition of control is based on the substance rather than the legal form. Refer to Note 1 to the financial statements for a description of how we apply the requirements to evaluate whether to consolidate SPVs.

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

Asset securitisation

Through our loan securitisation programs we package equitable interests in loans (principally housing mortgage loans) as securities which are sold to investors. We provide arm s length interest rate swaps and liquidity facilities to the programs in accordance with relevant prudential guidelines. We have no obligation to repurchase any securitisation securities, other than in certain circumstances (excluding loan impairment) where there is a breach of representation or warranty within 120 days of the initial sale (except in respect of our program in New Zealand which imposes no such time limitation). We may remove loans from the program where they cease to conform with the terms and conditions of the securitisation programs or through a program s clean-up features.

As at 30 September 2011, own assets securitised through a combination of privately or publicly placed issues to Australian, New Zealand, European and United States investors was $11.4 billion (2010 $12.0 billion).

Under A-IFRS substantially all of the SPVs involved in our loan securitisation programs are consolidated by the Group.

Refer to Note 31 to the financial statements for further details.

Customer funding conduits

We arrange financing for certain customer transactions through a commercial paper conduit that provides customers with access to the commercial paper market. As at 30 September 2011, we administered one significant conduit (2010 one), that was created prior to 1 February 2003, with commercial paper outstanding of $2.8 billion (2010 $2.4 billion). We provide a letter of credit facility as credit support to the commercial paper issued by the conduit. This facility is a variable interest in the conduit that we administer and represents a maximum exposure to loss of $284 million as at 30 September 2011 (2010 $244 million). The conduit is consolidated by the Group.

Refer to Note 31 to the financial statements for further details.

Structured finance transactions

We are involved with SPVs to provide financing to customers or to provide financing to the Group. Any financing arrangements to customers are entered into under normal lending criteria and are subject to our normal credit approval processes. The assets arising from these financing activities are generally included in receivables due from other financial institutions or available-for-sale securities. The liabilities arising from these financing activities are generally included in payables due to other financial institutions, debt issues or financial liabilities designated at fair value. Exposures in the form of guarantees or undrawn credit lines are included within contingent liabilities and credit-related commitments.

Off-balance sheet arrangements

Wealth management activity

Refer to Note 37 to the financial statements for details of our wealth management activities.

Other off-balance sheet arrangements

Refer to Note 35 to the financial statements for details of our superannuation plans.

Financial reporting

Internal control over financial reporting

The US Congress passed the *Public Company Accounting Reform and Investor Protection Act* in July 2002, which is commonly known as the Sarbanes Oxley Act 2002 (SOX). SOX is a wide ranging piece of US legislation concerned largely with financial reporting and corporate governance. We are obligated to comply with SOX by virtue of being a foreign registrant with the SEC and we have established procedures designed to ensure compliance with all applicable requirements of SOX.

Disclosure controls and procedures

Our management, with the participation of our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the US Securities Exchange Act of 1934) as of 30 September 2011.

Based upon this evaluation, our CEO and CFO have concluded that the design and operation of our disclosure controls and procedures were effective as of 30 September 2011.

Management s Report on internal control over financial reporting

Rule 13a 15(a) under the US Securities Exchange Act of 1934 requires us to maintain an effective system of internal control over financial reporting. Please refer to the sections headed Management s report on internal control over financial reporting and Report of independent registered public accounting firm in Section 3 for those reports.

Changes in our internal control over financial reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the US Securities Exchange Act of 1934) for the year ended 30 September 2011 that has been identified that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Other Westpac business information

Employees

The number of employees in each area of business as at 30 September1:

	2011	2010	2009
Westpac RBB	10,441	11,663	11,751
WIB	3,194	3,139	3,065
St.George Banking Group	4,998	5,518	5,227
BTFG	4,239	4,316	3,949
New Zealand Banking	4,575	4,698	4,510
Other	10,359	9,628	8,530
Total employees	37,806	38,962	37,032

1 The number of employees includes core and implied FTE (including FTE working on merger integration projects). Core FTE includes full-time and pro-rata part-time staff. Implied FTE includes overtime, temporary and contract staff.

2011 v 2010

Total FTE decreased by 1,156 compared to 30 September 2010. This decrease is primarily driven by continuous productivity and restructuring initiatives across various business units.

Specifically, the movement comprised:

§ a decrease of 1,222 FTE in Westpac RBB as a result of continuous productivity initiatives across Retail and Commercial Banking and Customer Service and business restructures within the Group;

§ a decrease of 520 FTE in St.George Banking Group as a result of productivity initiatives and business restructures within the Group. Included within the 520 FTE reduction is a 161 FTE increase for new customer facing employees associated with the Bank of Melbourne;

§ a decrease of 123 FTE in New Zealand Banking as a result of productivity initiatives and business restructures within the Group; and

§ an increase of 709 FTE in other businesses driven by project demand predominantly related to the SIPs program, business restructures within the Group and the direct employment of IT support staff previously supplied by an external vendor.

2010 v 2009

Total FTE increased by 1,930 in 2010 compared to 30 September 2009. This increase was primarily driven by Westpac s investment in technology and other projects.

Specifically, the movement comprised:

§ a reduction of 88 FTE in Westpac RBB, mainly driven by productivity initiatives implemented during the year to reduce FTE within Retail, Regional and Commercial Banking, combined with a reduction in Customer Service Centres;

§ an additional 74 FTE in WIB, driven by an increase in the number of technology and other projects. There was also a slight decrease in core FTE due to restructuring initiatives in various business areas within WIB;

§ an additional 291 FTE in St.George Banking Group, mainly driven by the St.George Banking Group Re-engineering project and an increase in call centre staff to improve customer response times and minimise waiting times;

§ an additional 367 FTE in BTFG, the majority of this increase resulted from technology and other projects. Other major drivers included enhanced risk management resources; the recruitment of additional financial planners and assistants to support revenue growth and productivity increases; and the establishment of new roles to enhance the multi-brand strategy;

§ an additional 188 FTE in New Zealand Banking, primarily driven by recruitment initiatives to place new bankers in vacant roles across Agri, LBMs and SMEs and Mid-Market businesses. Other increases occurred in Retail due to the roll out of the Local Branch Operating Model and the setup of eight new branches. There were also increases in Risk; and

§ an additional 1,098 FTE in Technology and Product & Operations, driven by increases in project staff to support technology projects (1,036 FTE) and increased support staff for other strategy projects.

Property

We occupy premises primarily in Australia, New Zealand and the Pacific Islands including 1,532 branches, (2010 1,517) as at 30 September 2011. As at 30 September 2011, we owned approximately 2.9% (2010 4%) of the premises we occupied in Australia, none (2010 none) in New Zealand and 59% (2010 50%) in the Pacific Islands. The remainder of premises are held under commercial lease with the terms generally averaging five years. As at 30 September 2011, the carrying value of our directly owned premises and sites was approximately $198 million (2010 $210 million).

Westpac Place in Sydney CBD is the Group s head office and has a 6,078 seat capacity. In 2006 we signed a 12 year lease, which commenced in November 2006 and contains three six-year options to extend.

60 Martin Place in Sydney CBD is the next largest corporate site. The Martin Place office has a 2,338 seat capacity. A lease commitment at this site extends to 2015 with two two-year options to extend.

We have retained a corporate presence in Kogarah, in the Sydney Metro area, which is a key corporate office of St.George. The Kogarah head office has a 2,297 seat capacity. A lease commitment at this site extends to 2021 with five five-year options to extend.

On 27 July 2010, Westpac entered into a lease and services agreement for a purpose built data centre in Western Sydney. This agreement relates to the design, construction and operation of the data centre and is for a period of 15 years with two further five year option periods. The site was handed over on 28 September 2011.

Westpac New Zealand Head Office

Construction of WNZL s new premises Westpac on Takutai Square was completed in 2011. The head office, located at the Eastern end of Britomart Precinct near Customs

Street in Auckland, New Zealand, contains 23,000m2 of office space across two buildings and has a capacity of approximately 1,800 seats. A lease commitment at this site extends to 2021, with two six-year options to extend.

Significant long-term contracts

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

Related party disclosures

Details of our related party disclosures are set out in Note 40 to the financial statements and details of Directors interests in securities are set out in Note 41 to the financial statements. The related party disclosures relate principally to transactions with our Directors and Director-related parties as we do not have individually significant shareholders and our transactions with other related parties are not significant.

Other than as disclosed in Note 40 and Note 41 to the financial statements, if applicable, loans made to parties related to Directors and other key management personnel of Westpac are made in the ordinary course of business on normal terms and conditions (including interest rates and collateral). Loans are made on the same terms and conditions (including interest rates and collateral) as apply to other employees and certain customers in accordance with established policy. These loans do not involve more than the normal risk of collectability or present any other unfavourable features.

Auditor s remuneration

Auditor s remuneration, including goods and services tax, to the external auditor for the years ended 30 September 2011 and 2010 is provided in Note 33 to the financial statements.

Audit related services

Westpac Group Secretariat monitors the application of the pre-approval process in respect of audit, audit-related and non-audit services provided by PricewaterhouseCoopers (PwC) and promptly brings to the attention of the BAC any exceptions that need to be approved pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X. The pre-approval guidelines are communicated to Westpac s divisions through publication on the Westpac intranet.

During the year ended 30 September 2011, there were no fees paid by Westpac to PwC that required approval by the BAC pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

Section 3

Financial report for the year ended 30 September 2011

Contents

Statutory statements

Financial statements

Income statements for the years ended 30 September

Westpac Banking Corporation

		Consolidated			Parent Entity	
		2011	2010	2009	**2011**	2010
	Note	**$m**	$m	$m	**$m**	$m
Interest income	2	38,098	34,151	30,446	37,107	29,799
Interest expense	2	(26,102)	(22,309)	(18,800)	(26,755)	(20,786)
Net interest income		11,996	11,842	11,646	10,352	9,013
Non-interest income	3	4,917	5,068	4,859	3,579	4,603
Net operating income before operating expenses and impairment charges		16,913	16,910	16,505	13,931	13,616
Operating expenses	4	(7,406)	(7,416)	(7,171)	(6,096)	(5,540)
Impairment charges on loans	12	(993)	(1,456)	(3,238)	(775)	(958)
Profit before income tax		8,514	8,038	6,096	7,060	7,118
Income tax expense	5	(1,455)	(1,626)	(2,579)	(847)	(958)
Net profit for the year		7,059	6,412	3,517	6,213	6,160
Profit attributable to non-controlling interests		(68)	(66)	(71)	-	-
Net profit attributable to owners of Westpac Banking Corporation		6,991	6,346	3,446	6,213	6,160
Earnings per share						
Basic (cents)	7	233.0	214.2	125.3		
Diluted (cents)	7	223.6	207.1	123.2		

The above income statements should be read in conjunction with the accompanying notes.

Financial statements

Statements of comprehensive income for the years ended 30 September

Westpac Banking Corporation

	Consolidated			Parent Entity	
	2011	2010	2009	**2011**	2010
	$m	$m	$m	**$m**	$m
Net profit for the year	7,059	6,412	3,517	6,213	6,160
Other comprehensive income:					
Gains/(losses) on available-for-sale securities:					
Recognised in equity	(73)	92	33	(106)	33
Transferred to income statements	(66)	(1)	18	(48)	8
Gains/(losses) on cash flow hedging instruments:					
Recognised in equity	796	(104)	(435)	761	(155)
Transferred to income statements	-	(2)	(11)	-	(5)
Defined benefit obligation actuarial gains/(losses) recognised in equity (net of tax)	(189)	(99)	41	(181)	(85)
Exchange differences on translation of foreign operations	25	(122)	(121)	7	87
Income tax on items taken directly to or transferred directly from equity:					
Available-for-sale securities reserve	39	(28)	(15)	43	(11)
Cash flow hedging reserve	(243)	36	136	(229)	48
Foreign currency translation reserve	(32)	6	7	(34)	(21)
Other comprehensive income for the year (net of tax)	257	(222)	(347)	213	(101)
Total comprehensive income for the year	7,316	6,190	3,170	6,426	6,059
Attributable to:					
Owners of Westpac Banking Corporation	7,248	6,124	3,099	6,426	6,059
Non-controlling interests	68	66	71	-	-
Total net income recognised for the year	7,316	6,190	3,170	6,426	6,059

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheets as at 30 September

Westpac Banking Corporation

		Consolidated		Parent Entity	
		2011	2010	**2011**	2010
	Note	**$m**	$m	**$m**	$m
Assets					
Cash and balances with central banks	42	16,258	4,464	14,750	3,693
Receivables due from other financial institutions	8	8,551	12,588	5,237	10,047
Derivative financial instruments	29	49,145	36,102	48,879	35,908
Trading securities	9	47,971	40,011	45,290	37,821
Other financial assets designated at fair value	9	2,960	3,464	2,093	1,324
Available-for-sale securities	10	18,075	12,124	15,426	10,932
Loans housing and personal	11	351,969	333,971	319,842	303,749
Loans business	11	144,640	143,684	127,537	127,418
Life insurance assets		7,916	12,310	-	-
Regulatory deposits with central banks overseas		1,739	1,322	1,649	1,288
Due from subsidiaries		-	-	56,938	58,295
Deferred tax assets	15	2,651	2,290	2,456	1,938
Investments in subsidiaries		-	-	4,927	5,005
Goodwill and other intangible assets	13	11,779	11,504	9,600	9,381
Property, plant and equipment	14	1,158	1,010	982	852
Other assets	16	5,416	3,433	4,426	2,645
Total assets		670,228	618,277	660,032	610,296
Liabilities					
Payables due to other financial institutions	17	14,512	8,898	14,397	8,887
Deposits	18	370,278	337,385	341,457	311,562
Derivative financial instruments	29	39,405	44,039	38,530	42,977
Trading liabilities and other financial liabilities designated at fair value	19	9,803	4,850	9,803	4,850
Debt issues	22	165,659	150,336	137,766	124,647
Acceptances		272	635	272	635
Current tax liabilities		581	302	541	282
Deferred tax liabilities	15	11	24	1	1
Life insurance liabilities		7,002	11,560	-	-
Due to subsidiaries		-	-	61,782	62,463
Provisions	20	1,671	1,726	1,480	1,526
Other liabilities	21	9,053	8,772	7,243	6,988
Total liabilities excluding loan capital		618,247	568,527	613,272	564,818
Loan capital					
Subordinated bonds, notes and debentures	23	5,226	6,679	5,226	6,679
Subordinated perpetual notes	23	400	404	400	404
Convertible debentures and Trust preferred securities	23	616	624	616	624
Stapled preferred securities	23	1,931	1,925	1,931	1,925
Total loan capital		8,173	9,632	8,173	9,632
Total liabilities		626,420	578,159	621,445	574,450
Net assets		43,808	40,118	38,587	35,846
Shareholders equity					
Share capital:					
Ordinary share capital	24	25,456	24,686	25,456	24,686
Treasury shares and RSP treasury shares	24	(187)	(190)	(118)	(118)
Reserves		498	(57)	490	(7)
Retained profits		16,059	13,750	10,867	9,393
Convertible debentures	24	-	-	1,892	1,892
Total equity attributable to owners of Westpac Banking Corporation		41,826	38,189	38,587	35,846
Non-controlling interests	24	1,982	1,929	-	-
Total shareholders equity and non-controlling interests		43,808	40,118	38,587	35,846
Contingent liabilities, contingent assets and credit commitments	36				

The above balance sheets should be read in conjunction with the accompanying notes.

Financial statements

Statements of changes in equity as at 30 September

Westpac Banking Corporation

	Consolidated			Parent Entity	
	2011	2010	2009	**2011**	2010
	$m	$m	$m	**$m**	$m
Share capital					
Balance as at beginning of the year	24,496	23,496	6,593	24,568	23,567
Shares issued:					
Dividend reinvestment plan	747	961	1,015	747	961
DRP underwriting agreement	-	-	887	-	-
Option and share rights schemes	23	44	10	23	44
St.George merger	-	-	12,123	-	-
Institutional placement	-	-	2,465	-	-
Share purchase plan	-	-	440	-	-
Final settlement of Hastings Funds Management Limited acquisition	-	-	9	-	-
Shares purchased for delivery upon exercise of options and share rights (net of tax)	-	(3)	(9)	-	(3)
(Acquisition)/disposal of treasury shares	3	(2)	(26)	-	(1)
Acquisition of RSP treasury shares	-	-	(11)	-	-
Balance as at end of the year	25,269	24,496	23,496	25,338	24,568
Available-for-sale securities reserve					
Balance as at beginning of the year	131	66	28	59	29
Additions through merger	-	-	-	-	(2)
Current period movement due to changes in other comprehensive income:					
Net gains/(losses) from changes in fair value	(73)	92	33	(106)	33
Exchange differences	-	2	2	-	2
Income tax effect	23	(31)	(10)	31	(12)
Transferred to income statements	(66)	(1)	18	(48)	8
Income tax effect	16	3	(5)	12	1
Balance as at end of the year	31	131	66	(52)	59
Share-based payment reserve					
Balance as at beginning of the year	540	420	346	499	388
Current period movement due to transactions with employees	108	120	74	103	111
Balance as at end of the year	648	540	420	602	499
Cash flow hedging reserve					
Balance as at beginning of the year	(441)	(371)	(61)	(379)	(234)
Additions through merger	-	-	-	-	(33)
Current period movement due to changes in other comprehensive income:					
Net gains/(losses) from changes in fair value	796	(104)	(435)	761	(155)
Income tax effect	(243)	35	134	(229)	47
Transferred to income statements	-	(2)	(11)	-	(5)
Income tax effect	-	1	2	-	1
Balance as at end of the year	112	(441)	(371)	153	(379)
Foreign currency translation reserve					
Balance as at beginning of the year	(287)	(171)	(57)	(227)	(293)
Current period movement due to changes in other comprehensive income:					
Foreign currency translation adjustment	25	(122)	(121)	7	87
Tax on foreign currency translation adjustment	(32)	6	7	(34)	(21)
Balance as at end of the year	(294)	(287)	(171)	(254)	(227)
Other reserves					
Balance as at beginning of the year	-	-	-	41	-
Transactions with owners	1	-	-	-	41
Balance as at end of the year	1	-	-	41	41
Total reserves	498	(57)	(56)	490	(7)

Movements in retained profits					
Balance as at beginning of the year	13,750	11,197	10,698	9,393	7,073
Current period movement due to changes in other comprehensive income:					
Actuarial gains/(losses) on defined benefit obligations (net of tax)	(189)	(99)	41	(181)	(85)
Profit attributable to owners of Westpac Banking Corporation	6,991	6,346	3,446	6,213	6,160
Transaction with owners:					
Ordinary dividends paid	(4,493)	(3,694)	(2,988)	(4,500)	(3,700)
Distributions on convertible debentures	-	-	-	(58)	(55)
Balance as at end of the year	16,059	13,750	11,197	10,867	9,393
Total comprehensive income attributable to non-controlling interests	68	66	71	-	-
Total comprehensive income attributable to owners of Westpac Banking Corporation	7,248	6,124	3,099	6,426	6,059
Total comprehensive income for the year	7,316	6,190	3,170	6,426	6,059

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Cash flow statements for the years ended 30 September

Westpac Banking Corporation

	Consolidated			Parent Entity	
	2011	2010	2009	**2011**	2010
	$m	$m	$m	**$m**	$m
Cash flows from operating activities					
Interest received	37,864	33,225	30,762	36,859	29,042
Interest paid	(25,866)	(20,854)	(19,149)	(26,517)	(19,643)
Dividends received excluding life business	17	25	21	637	217
Other non-interest income received	2,649	3,785	3,575	1,726	1,586
Operating expenses paid	(5,461)	(6,036)	(5,250)	(4,393)	(4,084)
Net (increase)/decrease in trading and fair value assets	(8,117)	1,819	12,428	(8,996)	2,932
Net increase/(decrease) in trading and fair value liabilities	4,932	(5,936)	(13,104)	4,933	(4,205)
Net (increase)/decrease in derivative financial instruments	(16,960)	(2,418)	15,000	(16,732)	(2,499)
Income tax paid excluding life business	(1,861)	(3,537)	(1,346)	(1,755)	(3,471)
Life business:					
Receipts from policyholders and customers	2,256	2,463	2,679	-	-
Interest and other items of similar nature	40	24	29	-	-
Dividends received	379	449	489	-	-
Payments to policyholders and suppliers	(1,831)	(2,475)	(2,732)	-	-
Income tax paid	(55)	(66)	(65)	-	-
Net cash provided by/(used in) operating activities	(12,014)	468	23,337	(14,238)	(125)
Cash flows from investing activities					
Proceeds from sale of available-for-sale securities	2,845	3,080	5,417	742	719
Purchase of available-for-sale securities	(7,978)	(12,962)	(3,271)	(4,613)	(10,439)
Net (increase)/decrease in:					
Due from other financial institutions	3,674	(3,330)	2,576	4,454	(2,218)
Loans	(18,325)	(19,683)	(35,345)	(16,663)	(15,396)
Life insurance assets and liabilities	(254)	(367)	(33)	-	-
Regulatory deposits with central banks overseas	(384)	(685)	30	(339)	(679)
Other assets	(447)	530	(3,747)	-	711
Investments in controlled entities	-	-	-	-	383
Net movement in amounts due to/from controlled entities1	-	-	-	1,004	(3,217)
Purchase of intangible assets	(742)	(508)	(295)	(635)	(438)
Purchase of property, plant and equipment	(402)	(366)	(285)	(347)	(308)
Proceeds from disposal of property, plant and equipment	15	33	19	8	19
Merger with St.George, net of transaction costs	-	-	374	-	214
Net cash used in investing activities	(21,998)	(34,258)	(34,560)	(16,389)	(30,649)
Cash flows from financing activities					
Issue of loan capital (net of issue costs)	-	-	897	-	-
Redemption of loan capital	(1,404)	(1,225)	(1,869)	(1,404)	(1,225)
Proceeds from share placements2	68	-	2,890	-	-
Proceeds from exercise of employee options	23	48	10	23	48
Purchase of shares on exercise of employee options and rights	-	(5)	(10)	-	(5)
Net increase/(decrease) in:					
Due to other financial institutions	5,439	(406)	(12,562)	5,333	(511)
Deposits	31,498	12,379	20,427	29,497	7,808
Debt issues and acceptances	14,328	27,666	3,327	12,214	30,109
Other liabilities and provisions	(1,318)	(531)	(1,468)	(1,147)	(1,443)
Purchase of treasury shares	(3)	(13)	(41)	-	(8)
Sale of treasury shares	6	7	7	-	7
Payment of dividends	(3,746)	(2,733)	(1,973)	(3,812)	(2,794)
Proceeds from DRP underwriting agreement	-	-	887	-	-
Payment of dividends former St.George shareholders	-	-	(708)	-	-
Payment of dividends to non-controlling interests	(82)	(76)	(71)	-	-
Net cash provided by financing activities	44,809	35,111	9,743	40,704	31,986
Net increase/(decrease) in cash and cash equivalents	10,797	1,321	(1,480)	10,077	1,212
Effect of exchange rate changes on cash and cash equivalents	997	(129)	(57)	980	(97)
Cash and cash equivalents as at the beginning of the year	4,464	3,272	4,809	3,693	2,578
Cash and cash equivalents as at the end of the year	16,258	4,464	3,272	14,750	3,693

1 In the current year, amounts due to controlled entities and due from controlled entities have been aggregated and disclosed under investing activities to accurately reflect the nature of the transactions. To improve presentation, we have revised comparatives.

2 The cash flow in the current year relates to the net proceeds to the Group from a share rights issue by BTIM, a partly owned subsidiary.

The above cash flow statements should be read in conjunction with the accompanying notes.

Details of the reconciliation of net cash provided by operating activities to net profit attributable to owners of Westpac Banking Corporation are provided in Note 42.

Notes to the financial statements

Note 1. Summary of significant accounting policies

a. Basis of accounting

(i) General

This general purpose financial report has been prepared in accordance with the requirements for an authorised deposit-taking institution under the *Banking Act 1959* (as amended), Australian Accounting Standards, which include the Australian equivalents to International Financial Reporting Standards (A-IFRS), other authoritative pronouncements of the Australian Accounting Standards Board (AASB), Urgent Issues Group Interpretations and the *Corporations Act 2001*.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

This financial report also complies with International Financial Reporting Standards (IFRS) as issued by the IASB.

This financial report also includes additional disclosures required for foreign registrants by the United States Securities and Exchange Commission. References to standards and interpretations under A-IFRS in this financial report have similar references in the standards and interpretations of IFRS as issued by the IASB.

This financial report of Westpac Banking Corporation (the Parent Entity), together with its controlled entities (the Group or Westpac), for the year ended 30 September 2011 was authorised for issue by the Board of Directors on 2 November 2011.

(ii) Comparative revisions

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(iii) Changes in accounting policies

The Group has continued to apply the accounting policies used for the 2010 Annual Report. There have been no changes in accounting policies in the current year.

(iv) Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by applying fair value accounting to available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

(v) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries (including special purpose entities) controlled by the Parent Entity and the results of all subsidiaries. The effects of all transactions between entities in the Group are eliminated. Control exists when the Parent Entity has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The definition of control is based on the substance rather than the legal form of an arrangement. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

Subsidiaries are fully consolidated from the date on which control commences and they are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries (refer to Note 1(e)).

Changes in the Group s ownership interest in a subsidiary after control is obtained that do not result in a loss of control are accounted for as transactions with equity holders in their capacity as equity holders. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity.

If the Group loses control of a subsidiary it recognises any resulting gain or loss in the income statement.

The interest of non-controlling shareholders is stated at their proportion of the net profit and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly, by Westpac.

(vi) Foreign currency translation

a. Functional and presentation currency

Items included in the financial statements of each of the Group s entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Australian dollars. All amounts are expressed in Australian dollars except where otherwise indicated.

b. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except where deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Note 1. Summary of significant accounting policies (continued)

c. Group companies

Assets and liabilities of overseas branches and subsidiaries that have a functional currency other than the Australian dollar are translated at exchange rates prevailing on the balance date. Income and expenses are translated at average exchange rates prevailing during the period. Other equity balances are translated at historical exchange rates. Exchange differences that have arisen since 1 October 2004, the date of transition to A-IFRS, are recognised through the Statement of comprehensive income in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of borrowings and other currency instruments designated as hedges of the net investment in overseas branches and subsidiaries are reflected in the foreign currency translation reserve. When all or part of a foreign operation is sold or borrowings that are part of the net investments are repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale or repayment of borrowing.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

b. Revenue recognition

(i) Interest income

Interest income for all interest earning financial assets including those at fair value is recognised in the income statement using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, cash flows are estimated based upon all contractual terms of the financial instrument (for example, prepayment options) but do not consider future credit losses. The calculation includes all fees and other amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest relating to impaired loans is recognised using the loan s original effective interest rate based on the net carrying value of the impaired loan after giving effect to impairment charges or for a variable rate loan, the current effective interest rate determined under the contract. This rate is also used to discount the future cash flows for the purpose of measuring impairment charges. For loans that have been impaired this method results in cash receipts being apportioned between interest and principal.

(ii) Leasing

Finance leases are accounted for under the net investment method whereby income recognition is based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease and is included as part of interest income.

(iii) Fee income

Fees and commissions are generally recognised on an accrual basis over the period during which the service is performed. All fees relating to the successful origination or settlement of a loan (together with the related direct costs) are deferred and recognised as an adjustment to the effective interest rate on the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time proportionate basis. Asset management fees related to investment funds are recognised over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

(iv) Net trading income

Realised gains or losses, and unrealised gains or losses arising from changes in the fair value of the trading assets and liabilities are recognised as trading income in the income statement in the period in which they arise except for recognition of day one profits or losses which are deferred where certain valuation inputs are unobservable. Dividend income on the trading portfolio is also recorded as part of non-interest income. Interest income or expense on the trading portfolio is recognised as part of net interest income.

(v) Other dividend income

Dividends on quoted shares are recognised on the ex-dividend date. Dividends on unquoted shares are recognised when the company s right to receive payment is established.

(vi) Gain or loss on sale of property, plant and equipment

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds less costs of disposal, and the carrying amount of the asset, and is recognised as non-interest income.

Notes to the financial statements

Note 1. Summary of significant accounting policies (continued)

c. Expense recognition

(i) Interest expense

Interest expense, including premiums or discounts and associated expenses incurred on the issue of financial liabilities, is recognised in the income statement using the effective interest method (refer to Note 1(b)(i)).

(ii) Impairment on loans and receivables carried at amortised cost

The charge recognised in the income statement for impairment on loans and receivables carried at amortised cost reflects the net movement in the provisions for individually assessed and collectively assessed loans, write-offs and recoveries of impairments previously written-off.

(iii) Leasing

Operating lease payments are recognised in the income statement as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit received. Incentives received on entering into operating leases are recorded as liabilities and amortised as a reduction of rental expense on a straight-line basis over the lease term.

(iv) Commissions and other fees

External commissions and other costs paid to acquire loans are capitalised and amortised using the effective interest method (refer to Note 1(b)(i)). All other fees and commissions are recognised in the income statement over the period in which the related service is received.

(v) Wealth management acquisition costs

Acquisition costs are the variable costs of acquiring new business principally in relation to the Group s life insurance and retail funds management business.

Managed investment acquisition costs

Deferred acquisition costs associated with the retail funds management business are costs that are directly related to and incremental to the acquisition of new business. These costs are recorded as an asset and are amortised in the income statement on the same basis as the recognition of related revenue.

Life insurance acquisition costs

Deferred acquisition costs associated with the life insurance business are costs that are incremental to the acquisition of new business. These costs are recorded as an asset and are amortised in the income statement on the same basis as the recognition of related revenue.

(vi) Share-based payment

Certain employees are entitled to participate in option and share ownership schemes.

Options and share rights

The fair value of options and share rights provided to employees as share-based payments is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and is recognised over the period the services are received which is the expected vesting period during which the employees would become entitled to exercise the option or share right.

The fair value of options and share rights is estimated at grant date using a Binomial/Monte Carlo simulation pricing model incorporating the vesting and hurdle features of the grants. The fair value of the options and share rights excludes the impact of any non-market vesting conditions such as participants continued employment by the Group. The non-market vesting conditions are included in assumptions used when determining the number of options and share rights expected to become exercisable for which an expense is recognised. At each reporting date these assumptions are revised and the expense recognised each year takes into account the most recent estimates.

Employee share plan (ESP)

The value of shares expected to be issued to employees for nil consideration under the ESP is recognised as an expense over the financial year and accrued in other liabilities. The fair value of any ordinary shares issued to satisfy the obligation to employees is recognised within equity, or if purchased on market, the obligation to employees is satisfied by delivering shares that have been purchased on market.

Restricted share plan (RSP)

The fair value of shares allocated to employees for nil consideration under the RSP is recognised as an expense over the vesting period. The fair value of ordinary shares issued to satisfy the obligation to employees is measured at grant date and is recognised as a separate component of equity.

Westpac has formed a trust to hold any shares forfeited by employees until they are reallocated to employees in subsequent grants in the Group s restricted share plan. Shares allocated to employees under the RSP, which have not yet vested, are treated as treasury shares and deducted from shareholders equity.

Note 1. Summary of significant accounting policies (continued)

d. Income tax

Income tax expense on the profit for the year comprises current tax and the movement in deferred tax balances.

Current tax is the expected tax payable on the taxable income for the financial year using tax rates that have been enacted or substantively enacted for each jurisdiction at the balance date, and any adjustment to tax payable in respect of previous years.

Deferred tax is accounted for using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding amounts used for taxation purposes. Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or other intangible assets with indefinite expected life, the initial recognition of assets and liabilities that affect neither accounting nor taxable profit (other than in a business combination), or differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted for each jurisdiction at the balance date that are expected to apply when the liability is settled or the asset is realised.

Current and deferred tax attributable to amounts recognised in other comprehensive income are also recognised in other comprehensive income.

Except as noted above, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. For presentation purposes deferred tax assets and deferred tax liabilities have been offset where they relate to the same taxation authority on the same taxable entity or different entities in the same taxable group.

For members of Westpac s Australian tax consolidated group, tax expense/income, deferred tax liabilities and assets arising from temporary differences are recognised in the separate financial statements of the members of the tax-consolidated group using a group allocation basis that removes the tax impact of certain transactions between members of the tax-consolidated group. Deferred tax liabilities and assets are recognised by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Parent Entity (as head entity in the tax-consolidated group).

e. Acquisitions of assets

(i) External acquisitions

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed as incurred. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. For each business combination, the non-controlling interest is measured either at fair value or at the proportionate share of the acquiree s identifiable net assets. The excess of the cost of acquisition, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group s share of the identifiable net assets acquired, is recorded as goodwill.

Where settlement of any part of cash consideration is deferred, amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group s incremental borrowing rate.

(ii) Common control transactions

The predecessor method of accounting is used to account for business combinations between entities in the Group.

Assets acquired and liabilities assumed in a common control transaction are measured initially at the acquisition date at the carrying value from the Group s perspective. The excess of the cost of acquisition over the initial carrying values of the Entity s share of the net assets acquired is recorded as part of a common control reserve.

Where relevant, in the financial report the phrase additions through merger includes both balances acquired through external acquisitions and through common control transactions.

Notes to the financial statements

Note 1. Summary of significant accounting policies (continued)

f. Assets

(i) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale securities. Management determines the classification of its financial assets at initial recognition.

§ Financial assets at fair value through profit or loss
This category has two sub-categories: firstly financial assets held for trading and secondly those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term, if it is part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking, if it is a derivative that is not a designated hedging instrument, or if so designated on acquisition by management, in accordance with conditions set out in Note 1(f)(i)(e).

§ Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

§ Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group s management has the positive intention and ability to hold to maturity.

§ Available-for-sale securities
Available-for-sale securities are those debt or equity securities that are designated as available-for-sale or that are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Other investments, which comprise of unlisted equity securities that do not have a quoted price in an active market and where fair value cannot be estimated within a reasonable range of probable outcomes, are carried at cost.

Recognition of financial assets

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets at fair value through profit or loss are recognised initially at fair value. All other financial assets are recognised initially at fair value plus directly attributable transaction costs.

Available-for-sale financial assets and financial assets recognised at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method unless loans are designated at fair value through profit and loss in order to reduce an accounting mismatch. Realised and unrealised gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the right to receive payment is established. Foreign exchange gains or losses and interest, calculated using the effective interest rate method, on available-for-sale debt instruments are also recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value using valuation techniques. These include the use of recent arm s length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

a. Cash and balances with central banks

Cash and balances with central banks includes cash at branches, Reserve Bank settlement account balances and nostro balances. They are brought to account at the face value or the gross value of the outstanding balance, where appropriate. These balances have a maturity of less than three months.

b. Receivables due from other financial institutions

Receivables due from other financial institutions include conduit assets, collateral placed and interbank lending. They are accounted for as loans and receivables and subsequently measured at amortised cost using the effective interest rate method.

Note 1. Summary of significant accounting policies (continued)

c. Derivative financial instruments

Derivative financial instruments including forwards, futures, swaps and options are recognised in the balance sheet at fair value. Fair value is obtained from quoted market prices, independent dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying. Also included in the determination of the fair value of derivatives is a credit valuation adjustment (CVA). Where the derivative has a positive fair value (asset), this credit adjustment is to reflect the credit worthiness of the counterparty. Where the derivative has a negative fair value (liability), this credit adjustment reflects the Group s own credit risk. These credit adjustments are taken into account after considering any relevant collateral or master netting agreements.

d. Trading securities

Trading securities include debt and equity instruments which are actively traded and securities purchased under agreement to resell. They are accounted for as financial assets at fair value through profit or loss.

e. Other financial assets designated at fair value

Certain non-trading bonds, notes and commercial bills are designated as fair value through profit or loss. This designation is only made if the financial asset contains an embedded derivative, it is managed on a fair value basis in accordance with a documented strategy, or if designating it at fair value reduces an accounting mismatch.

f. Available-for-sale securities

Available-for-sale securities are public and other debt and equity securities that are not classified as fair value through profit or loss, loans and receivables or as held-to-maturity investments. The accounting policy for available-for-sale securities is set out in Note 1(f)(i).

g. Loans

Loans includes advances, overdrafts, home loans, credit card and other personal lending, term loans, leasing receivables, bill financing and acceptances. The accounting policy for loans and receivables is in Note 1(f)(i).

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

Loan products that have both a mortgage and deposit facility are presented on a gross basis in the balance sheet, segregating the loan and deposit component into the respective balance sheet line items. Interest earned on this product is presented on a net basis in the income statement as this reflects how the customer is charged.

h. Regulatory deposits with central banks overseas

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

i. Life insurance assets

Assets held by the life insurance companies, including investments in funds managed by the Group, are designated at fair value through profit or loss as required by AASB 1038 *Life Insurance Contracts*. Changes in fair value are included in the income statement. Most assets are held in the life insurance statutory funds and can only be used within the restrictions imposed under the *Life Insurance Act 1995*. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund or as distribution when solvency and capital adequacy requirements are met. Therefore they are not as liquid as other financial assets.

j. Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

§ the rights to receive cash flows from the asset have expired; or

§ the entity has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement and cannot sell or repledge the asset other than to the transferee; and

§ either the Group has transferred substantially all the risks and rewards of the asset, or the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to the financial statements

Note 1. Summary of significant accounting policies (continued)

A situation may arise where the Group transfers its right to receive cashflows from an asset or has entered into a pass-through arrangement. In some cases the Group would have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of these assets. Should this occur to the extent that the Group has continuing involvement in the asset, the asset continues to be recognised on the balance sheet.

(ii) Impairment of financial assets

Assets carried at amortised cost

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment charges are recognised if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower s financial difficulty, a concession that the Group would not otherwise consider;

(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including:

adverse changes in the payment status of borrowers in the Group; or national or local economic conditions that correlate with defaults on the assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment on loans and receivables or held-to-maturity investments has been incurred, the amount of the charge is measured as the difference between the asset s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset s original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group s grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Note 1. Summary of significant accounting policies (continued)

Estimates of changes in future cash flows for groups of assets reflect, and are directionally consistent with, changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience. When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the charge for loan impairment in the income statement. If, in a subsequent period, the amount of the impairment charge decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor s credit rating), the previously recognised impairment charge is reversed by adjusting the provision account. The amount of the reversal is recognised in the income statement.

Available-for-sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt instruments classified as available-for-sale, impairment is determined by using the same methodology as Note 1(f)(ii). For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment charge on that financial asset previously recognised in profit or loss is removed from other comprehensive income and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment charge was recognised in the income statement, the impairment charge is reversed through the income statement. Subsequent reversal of impairment charges on equity instruments are not recognised in the income statement.

(iii) Non-financial assets

a. Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and impairment. Cost is the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred. Impairment is recognised as a part of operating expenses in the income statement.

Computer software is capitalised at cost and classified as property, plant and equipment where it is integral to the operation of associated hardware.

Depreciation is calculated using the straight-line method to allocate the cost of assets less any residual value over their estimated useful lives, as follows:

§	Premises and sites	Up to 50 years
§	Leasehold improvements	Up to 10 years
§	Furniture and equipment	3 to 15 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds less costs of disposal, and the carrying amount of the asset, and is recognised as non-interest income.

b. Intangible assets

Goodwill

Goodwill represents amounts arising on the acquisition of businesses. Prior to the revised AASB 3 *Business Combinations*, goodwill represented the excess of purchase consideration, including directly attributable expenses associated with the acquisition, over the fair value of the Group s share of the identifiable net assets of the acquired business. Goodwill arising on the acquisition of a business subsequent to the adoption of the revised AASB 3 represents the excess of the purchase consideration, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group s share of net identifiable assets acquired.

All goodwill is considered to have an indefinite life.

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired, and is carried at cost or deemed cost less accumulated impairment. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to CGUs based on management s analysis of where the synergies resulting from an acquisition are expected to arise.

Notes to the financial statements

Note 1. Summary of significant accounting policies (continued)

§ Brands

Brand intangible assets are recognised on the acquisition of businesses and represent the value attributed to brand names associated with businesses acquired. The useful life of brands recognised is estimated to be indefinite as there is no foreseeable limit to the period over which the brand name is expected to generate net cash flows. Brands are not amortised but tested for impairment annually or more frequently when indicators of impairment are identified.

§ Core deposit intangibles

Core deposit intangibles were recognised due to the merger with St.George and represent the value, or avoided cost, of having a deposit base from consumer and business transaction accounts, savings accounts, term deposits and other money market and cash management accounts that provide a cheaper source of funding than alternative sources of funding such as in the wholesale and securitisation markets.

Core deposit intangibles are amortised using the straight-line method over a period of nine years and are stated at cost less accumulated amortisation and impairment. Core deposit intangibles are assessed for impairment at each reporting date and whenever there is an indicator of impairment.

Other intangibles

Other intangibles are stated at cost less accumulated amortisation (where relevant) and impairment. Other intangibles consist of distribution relationships, customer relationships, computer software, value of in-force business and service contracts. These are assessed for impairment at each reporting date and whenever there is an indicator of impairment. For significant other intangibles, the accounting policies are as follows:

§ Financial planner distribution relationships

Distribution relationship intangibles were recognised due to the merger with St.George and represent the value attributable to financial planner relationships. These assets are amortised using the straight-line method to allocate the cost of the assets over their estimated useful lives of eight years.

§ Credit card customer relationships

The credit card customer relationship intangibles were recognised due to the merger with St.George and represent the value attributable to the future fee and interest revenue from credit card relationships. These assets are amortised using the straight-line method to allocate the cost of the assets over their estimated useful lives of five years.

§ Computer software

Internal and external costs directly incurred in the purchase or development of computer software, including subsequent upgrades and enhancements are recognised as intangible assets when it is probable that they will generate future economic benefits attributable to the Group. These assets are amortised using the straight-line method to allocate the cost of the asset less any residual value over their estimated useful lives of between three and ten years. In previous years this was a range of between three and five years.

(iv) Investments in controlled entities

Investments in controlled entities are initially recorded by Westpac at cost. Investments in controlled entities are subsequently held at the lower of cost and recoverable amount.

(v) Impairment of non-financial assets

The carrying amount of the Group s non-financial assets, other than deferred tax assets and assets arising from employee benefits, are reviewed at each balance date to determine whether there is any indication of impairment. If such an indication exists, the asset s recoverable amount is estimated. An impairment charge is recognised whenever the carrying amount of an asset or the CGU to which it is allocated exceeds its recoverable amount. With the exception of goodwill for which impairment charges are not reversed, where an impairment charge subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment charge been recognised for the asset (or CGU) in prior years. Impairment charges and reversals of impairment charges are recognised in the income statement.

The recoverable amount of an asset is the greater of its fair value less cost to sell and value-in-use. In assessing value-in-use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

Note 1. Summary of significant accounting policies (continued)

g. Liabilities

(i) Financial liabilities

Financial liabilities are initially recognised at fair value plus transaction costs except where they are subsequently measured at fair value, in which case transaction costs are expensed as incurred. They are subsequently measured at amortised cost except for derivatives and liabilities at fair value, which are held at fair value through profit or loss. Financial liabilities are recognised when an obligation arises and derecognised when it is discharged, cancelled or expires.

a. Payables due to other financial institutions

Payables due to other financial institutions includes interbank lending, vostro balances, collateral received and settlement account balances due to other financial institutions. They are measured at amortised cost.

b. Deposits at fair value

Deposits at fair value include certificates of deposit and interest bearing deposits. They are classified at fair value through profit or loss as they are managed as part of a trading portfolio.

c. Deposits at amortised cost

Deposits at amortised cost include non-interest bearing deposits repayable at call, certificates of deposit and interest bearing deposits. They are measured at amortised cost.

d. Derivative financial instruments

Derivative financial instruments including forwards, futures, swaps and options are recognised in the balance sheet at fair value. Fair values are obtained from quoted market prices, independent dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying. Also included in the determination of the fair value of derivatives is a CVA. Where the derivative has a positive fair value (asset), this credit adjustment reflects the credit worthiness of the counterparty. Where the derivative has a negative fair value (liability), this credit adjustment reflects the Group s own credit risk. These credit adjustments are taken into account after considering any relevant collateral or master netting agreements.

e. Trading liabilities and other financial liabilities designated at fair value

Securities sold under repurchase agreements and securities sold short are classified as trading liabilities. They are accounted for as financial liabilities at fair value through profit or loss.

f. Debt issues

These are bonds, notes, commercial paper and debentures that have been issued by entities in the Westpac Group. Debt issues are measured either at fair value through profit or loss or at amortised cost using the effective interest method. Debt issues are measured at fair value through profit or loss to reduce an accounting mismatch, which arises from associated derivatives executed for risk management purposes.

g. Acceptances

These are bills of exchange initially accepted and discounted by Westpac that have been subsequently rediscounted into the market. They are measured at amortised cost. Bill financing provided to customers by the acceptance and discount of bills of exchange is reported as part of loans. Acceptances have been reported separately from debt issues, on the face of the balance sheet, as these are predominately rediscounted to retail investors.

h. Loan capital

Loan capital includes 2004 Trust Preferred Securities (2004 TPS) and Westpac SPS and SPS II that qualify as Tier 1 capital and subordinated bonds, notes and debentures that qualify as Tier 2 capital as defined by APRA for capital adequacy purposes. Loan capital is measured at amortised cost using the effective interest method.

i. Financial guarantees

Financial guarantee contracts are recognised as financial liabilities at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of a financial guarantee contract is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligation.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair value is accounted for as a contribution and is recognised as part of the cost of the investment.

Notes to the financial statements

Note 1. Summary of significant accounting policies (continued)

j. Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(ii) Life insurance liabilities

Life insurance liabilities consist of life insurance contract liabilities, life investment contract liabilities and external liabilities of managed investment schemes controlled by statutory life funds.

Life insurance contract liabilities

The value of life insurance contract liabilities is calculated using the margin on services methodology. The methodology takes into account the risks and uncertainties of the particular classes of the life insurance business written. Deferred policy acquisition costs are included in the measurement basis of life insurance contract liabilities and are therefore equally sensitive to the factors that are considered in the liabilities measurement. This methodology is in accordance with Actuarial Standard 1.04 *Valuation of Policy Liabilities* issued by the Life Insurance Actuarial Standard Board (LIASB) under the *Life Insurance Act 1995*.

Under this methodology, planned profit margins and an estimate of future liabilities are calculated separately for each related product group using applied assumptions at each reporting date. Profit margins are released over each reporting period in line with the service that has been provided. The balance of the planned profit is deferred by including them in the value of policy liabilities.

The key factors that affect the estimation of these liabilities and related assets are:

§ the cost of providing benefits and administrating the contracts;

§ mortality and morbidity experience, including enhancements to policyholder benefits;

§ discontinuance experience, which affects the Group s ability to recover the cost of acquiring new business over the life of the contracts; and

§ the rate at which projected future cash flows are discounted.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. In some contracts, the Group shares experience on investment results with its customers, which can offset the impacts of these factors on the profitability of these products.

Life investment contract liabilities

Life investment contract liabilities are designated at fair value through profit or loss. Fair value is based on the higher of the valuation of linked assets, or the minimum current surrender value.

External liabilities of managed investment schemes controlled by statutory life funds

External liabilities of managed investment schemes controlled by statutory life funds are designated at fair value through profit or loss.

(iii) Provisions

a. Employee entitlements

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the balance date are recognised in provisions in respect of employees services up to the balance date and are measured at the amounts expected to be paid when the liabilities are settled.

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

Long service leave

Liabilities for long service leave expected to be settled within 12 months of the balance date are recognised in the provision for long service leave and are measured at the amounts expected to be paid when the liabilities are settled.

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

Note 1. Summary of significant accounting policies (continued)

Employee benefit on-costs

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

Termination benefits

Liabilities for termination benefits are recognised when a detailed plan for the terminations has been developed and a valid expectation has been raised in those employees affected that the terminations will be carried out. Liabilities for termination benefits are recognised within other liabilities unless the timing or amount is uncertain, in which case they are recognised as provisions.

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

b. Provision for leasehold premises

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

c. Provision for restructuring

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

d. Provision for dividends

A liability for dividends is recognised when dividends are declared, determined or publicly recommended by the Directors but not distributed as at the balance date.

e. Provision for litigation and non-lending losses

A provision for litigation is recognised where it is probable that there will be an outflow of economic resources. Non-lending losses are any losses that have not arisen as a consequence of an impaired credit decision. Those provisions include litigation and associated costs, frauds and the correction of operational issues.

f. Provision for impairment on credit commitments

A provision for undrawn contractually committed facilities and guarantees provided are calculated using the same methodology as provision for impairment charges on loans (refer to Note 1(j)(ii)).

h. Equity

(i) Ordinary shares

Ordinary shares are recognised at the amount paid up per ordinary share net of directly attributable issue costs.

(ii) Treasury shares

Where the Parent Entity or other members of the consolidated Group purchases shares in the Parent Entity, the consideration paid is deducted from total shareholders equity and the shares are treated as treasury shares until they are subsequently sold, reissued or cancelled. Where such shares are sold or reissued, any consideration received is included in shareholders equity.

(iii) Other equity instruments

Convertible debentures issued by the parent entity in respect of the 2003 Trust Preferred Securities (2003 TPS) and 2006 Trust Preferred Securities (2006 TPS) are recognised in the balance sheet at the amount of consideration received net of issue costs. They are translated into Australian currency using the rate of exchange on issue date and distributions on them are recognised when entitlements are determined in accordance with the terms of the convertible debentures.

(iv) Non-controlling interests

Non-controlling interests represents the share in the net assets of subsidiaries attributable to equity interests that are not owned directly or indirectly by the Parent Entity. The Group also has on issue 2003 TPS and 2006 TPS that are hybrid instruments and are classified as non-controlling interests.

Notes to the financial statements

Note 1. Summary of significant accounting policies (continued)

(v) Reserves

Foreign currency translation reserve

As noted in Note 1(a)(vi), exchange differences arising on translation of the assets and liabilities of overseas branches and subsidiaries are reflected in the foreign currency translation reserve. Any offsetting gains or losses on hedging these balances, together with any tax effect are also reflected in this reserve, which may be either a debit or credit balance. Any credit balance in this reserve would not normally be regarded as being available for payment of dividends until such gains are realised.

Available-for-sale securities reserve

This comprises the changes in the fair value of available-for-sale financial securities, net of tax. These changes are transferred to the income statement in non-interest income when the asset is either derecognised or impaired.

Cash flow hedging reserve

This comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments.

Share-based payment reserve

This comprises the fair value of share-based payments recognised as an expense.

Other reserves

Other reserves for the Parent Entity consists of the common control reserve (refer Note 1(e)(ii)). Other reserves for the Group consists of transactions relating to a change in the parent entity s ownership of a subsidiary that does not result in a loss of control. The amount recorded in other reserves reflects the difference between the amount by which non-controlling interests are adjusted and the fair value of any consideration paid or received.

i. Other accounting principles and policies

(i) Hedging

The Group uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rates and foreign currency, including exposures arising from forecast transactions. The method of recognising the fair value gain or loss of derivatives depends on the nature of the hedging relationship. Hedging relationships are of three types:

§ fair value hedge: a hedge of the change in fair value of recognised assets or liabilities or unrecognised firm commitments;

§ cash flow hedge: a hedge of variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction; and

§ hedge of a net investment in a foreign operation: a hedge of the amount of the Group s interest in the net assets of a foreign operation.

The Group uses hedge accounting for derivatives designated in this way when certain criteria are met. At the time a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument and hedged item, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group formally assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging derivatives have been highly effective in offsetting changes in the fair value or cash flows of the hedged items.

A hedge is regarded as highly effective if, at inception and throughout its life, the Group can expect changes in the fair value or cash flows of the hedged item to be almost fully offset by the changes in the fair value or cash flows of the hedging instrument, and actual results of the hedge are within a range of 80% to 125% of these changes. Hedge ineffectiveness represents the amount by which the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged item or the amount by which changes in the cash flow of the hedging derivative differ from changes (or expected changes) in the present value of the cash flows of the hedged item.

a. Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributed to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, any previous adjustment to the carrying amount of a hedged item recognised at amortised cost, is amortised to the income statement over the period to maturity.

b. Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

Note 1. Summary of significant accounting policies (continued)

Amounts accumulated in other comprehensive income are transferred to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised in the period in which the hedge item affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

c. Hedge of a net investment in a foreign operation

Hedges of net investments in overseas branches and subsidiaries are accounted for in a manner similar to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the foreign currency translation reserve in other comprehensive income and the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in other comprehensive income are included in the income statement when the overseas branch or subsidiary is disposed.

(ii) Embedded derivatives

In certain instances a derivative may be embedded in a host contract. If the host contract is not carried at fair value through profit or loss, the embedded derivative is separated from the host contract and accounted for as a standalone derivative instrument at fair value where the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

(iii) Recognition of deferred day one profit or loss

The best evidence of fair value at initial recognition is the transaction price, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets.

Westpac has entered into transactions where fair value is determined using valuation models for which not all significant inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as day one profit or loss , is not recognised immediately in profit or loss.

The timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument s fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit or loss. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits or losses.

(iv) Loan securitisation

The Group, through its loan securitisation program, packages and sells loans (principally housing mortgage loans) as securities to investors. The program includes the securitisation of the Group s own assets as well as assets from customer funding conduits. In such transactions, the Group provides an equitable interest in the loans to investors who provide funding to the Group. Securitised loans that do not qualify for derecognition and associated funding are included in loans and debt issues respectively.

(v) Fiduciary activities

Certain controlled entities within the Group conduct investment management and other fiduciary activities as responsible entity or manager on behalf of individuals, trusts, retirement benefit plans and other institutions. These activities involve the management of assets in investment schemes and superannuation funds, and the holding or placing of assets on behalf of third parties.

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

The Group also manages life insurance statutory fund assets that are included in the consolidated financial statements.

(vi) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Note 1. Summary of significant accounting policies (continued)

(vii) Securities borrowed or lent and repurchase or reverse repurchase agreements

As part of its trading activities, Westpac lends and borrows securities on a collateralised basis. The securities subject to the borrowing or lending are not derecognised from the balance sheet, as the risks and rewards of ownership remain with the initial holder. Where cash is provided as collateral, the cash paid to third parties on securities borrowed is recorded as a receivable, while cash received from third parties on securities lent is recorded as a borrowing. Repurchase transactions, where Westpac sells securities under an agreement to repurchase, and reverse repurchase transactions, where Westpac purchases securities under an agreement to resell, are conducted on a collateralised basis. Certificates of deposit sold, but subject to repurchase agreements that are due from financial institutions are disclosed as part of trading liabilities and other financial assets designated at fair value. Fees and interest relating to stock borrowing or lending and repurchase or reverse repurchase agreements are recognised in interest income and interest expense in the income statement, using the effective interest rate method, over the expected life of the agreements. Westpac continually reviews the fair value of the underlying securities and, where appropriate, requests or provides additional collateral to support the transactions.

(viii) Superannuation obligations

Obligations for contributions to the defined contribution superannuation plan are recognised as an expense in the income statement as incurred.

The asset or liability recognised in the balance sheet in respect of the defined benefit superannuation plan is the present value of the defined benefit obligation as at the reporting date less the fair value of the plan s assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of government bonds that have terms to maturity approximating to the terms of the related superannuation liability. The calculation is performed at least annually by an independent qualified actuary using the projected unit credit method.

The actuarial valuation of plan obligations is dependent upon a series of assumptions, the key ones being price inflation, earnings growth, mortality, morbidity and investment returns assumptions. Different assumptions could significantly alter the amount of difference between plan assets and obligations, and the superannuation cost charged to the income statement.

Actuarial gains and losses related to the defined benefit superannuation plan are recorded directly in retained earnings. The net surplus or deficit that arises within the plan is recognised and disclosed separately in other assets and other liabilities respectively.

(ix) Earnings per share

Basic earnings per share (EPS) is determined by dividing net profit after tax attributable to equity holders of Westpac, excluding costs of servicing other equity instruments, by the weighted average number of ordinary shares outstanding during the financial year, excluding the number of ordinary shares purchased by the Group and held as treasury shares.

Diluted EPS is calculated by adjusting the earnings and number of shares used in the determination of the basic EPS for the effects of dilutive options, share rights and other dilutive potential ordinary shares.

In relation to options, share rights and restricted shares the weighted average number of shares is adjusted to take into account the weighted average number of shares assumed to have been issued for nil consideration in determining diluted EPS. The number of ordinary shares assumed to be issued for nil consideration represents the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price over the reporting period.

In relation to instruments convertible into ordinary shares under certain conditions, the weighted average number of shares is adjusted to determine the number of ordinary shares that may arise on conversion, by dividing the face value of the instruments by the average market price over the reporting period, taking into account any applicable discount on conversion weighted by the number of instruments on issue.

(x) Leases

Leases are classified as either finance leases or operating leases. Under a finance lease, substantially all the risks and rewards incidental to legal ownership are transferred to the lessee. In contrast, an operating lease exists where the leased assets are allocated to the lessor.

In its capacity as a lessor, the Group primarily offers finance leases. The Group recognises the assets held under finance lease in the balance sheet as loans at an amount equal to the net investment in the lease. The recognition of finance income is based on a pattern reflecting a constant periodic return on the Group s net investment in the finance lease. Finance lease income is included within interest income in the income statement refer to Note 1(b)(ii).

In its capacity as a lessee, the Group mainly uses property and equipment under operating leases. Payments due to the lessor under operating leases are charged to equipment and occupancy expense on a straight-line basis over the term of the lease (refer to Note 1(c)(iii)).

Note 1. Summary of significant accounting policies (continued)

(xi) Segment reporting

Operating segments are presented on a basis that is consistent with information provided internally to Westpac s key decision makers. In assessing the financial performance of its divisions internally, Westpac uses a measure of performance it refers to as Cash Earnings . To calculate Cash Earnings, Westpac adjusts the statutory result for material items that key decision makers believe do not reflect ongoing operations, items that are not considered when dividends are recommended and accounting reclassifications between individual line items that do not impact statutory results, such as policyholder tax recoveries.

(xii) Rounding of amounts

In accordance with ASIC Class Order 98/100, all amounts have been rounded to the nearest million dollars unless otherwise stated.

j. Critical accounting assumptions and estimates

The application of the Group s accounting policies necessarily requires the use of judgment, estimates and assumptions. Should different assumptions or estimates be applied, the resulting values would change, impacting the net assets and income of the Group.

Management has discussed the accounting policies which are sensitive to the use of judgment, estimates and assumptions with the BAC.

The nature of assumptions and estimates used and the value of the resulting asset and liability balances are included in the policies below.

(i) Fair value of financial instruments

Financial instruments classified as held-for-trading or designated at fair value through profit or loss and financial assets classified as available-for-sale are recognised in the financial statements at fair value. All derivatives are measured and recognised at fair value.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using financial market pricing models, the methodology used is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to the present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices; however, profits or losses are recognised upon initial recognition only when such profits can be measured by reference to observable current market transactions or valuation techniques based on observable market inputs.

The calculation of fair value for any financial instrument may also require adjustment of the quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used). The process of calculating fair value on illiquid instruments or from a valuation model may require estimation of certain pricing parameters, assumptions or model characteristics.

These estimates are calibrated against industry standards, economic models and observed transaction prices.

The fair value of financial instruments is provided in Note 28 as well as the mechanism by which fair value has been derived.

The majority of the Group s derivatives are valued using valuation techniques that utilise observable market inputs. The fair value of substantially all securities positions carried at fair value is determined directly from quoted prices or from market observable inputs applied in valuation models. The Group has financial assets measured at fair value of $126,057 million (2010 $104,002 million). $1,473 million of this is measured at fair value based on significant unobservable market inputs (2010 $1,164 million). The Group has financial liabilities measured at fair value of $151,545 million (2010 $135,465 million). $74 million of this is measured at fair value based on significant unobservable market inputs (2010 $153 million). Sensitivities to reasonably possible changes in non-market observable valuation assumptions would not have a material impact on the Group or the Parent Entity s reported results.

(ii) Provisions for impairment charges on loans and credit commitments

The Group s loan impairment provisions are established to recognise incurred impairment in its portfolio of loans. A loan is impaired when there is objective evidence that events occurring since the loan was recognised have affected expected cash flows from the loan. The impairment charge is the difference between the carrying value of the loan and the present value of estimated future cash flows calculated at the loan s original effective interest rate for fixed rate loans and the loan s current effective interest rate for variable rate loans. Provisions for loan impairment represent management s estimate of the impairment charges incurred in the loan portfolios as at the balance date. Changes to the provisions for loan impairment and changes to the provisions for undrawn contractually committed facilities and guarantees provided are reported in the income statement as part of impairment charges on loans.

Notes to the financial statements

Note 1. Summary of significant accounting policies (continued)

At 30 September 2011, gross loans to customers totalled $500,654 million (2010 $482,366 million) and the provision for loan impairment was $4,045 million (2010 $4,711 million). There are two components to the Group s loan impairment provisions, individual and collective.

Individual component

All impaired loans that exceed specified thresholds are individually assessed for impairment. Individually assessed loans principally comprise the Group s portfolio of commercial loans to medium and large businesses. Impairment is recognised as the difference between the carrying value of the loan and the discounted value of management s best estimate of future cash repayments and proceeds from any security held (discounted at the loan s original effective interest rate for fixed rate loans and the loan s current effective interest rate for variable rate loans). Relevant considerations that have a bearing on the expected future cash flows are taken into account, including the business prospects for the customer, the realisable value of collateral, the Group s position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. Subjective judgments are made in this process. Furthermore, judgments can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are taken.

Collective component

This is made up of two elements: loan impairment provisions for impaired loans that are below individual assessment thresholds (collective impaired loan provisions) and for loan impairments that have been incurred but have not been separately identified at the balance sheet date (incurred but not reported provisions). These are established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions are the estimated loss rates and the related emergence periods. The emergence period for each loan product type is determined through detailed studies of loss emergence patterns. Loan files where losses have emerged are reviewed to identify the average time period between observable loss indicator events and the loss becoming identifiable. These portfolios include credit card receivables and other personal advances including mortgages. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy rates.

The impairment charge reflected in the income statement is $993 million (2010 $1,456 million) and the provision balance at 30 September 2011 of $4,045 million (2010 $4,711 million) represents 0.81% of loans (2010 0.98%).

Provisions for credit commitments are calculated using the same methodology as described above. The provision for credit commitments was $369 million (2010 $350 million) and was disclosed as part of Note 20.

(iii) Goodwill

As stated in Note 1(f)(iii)(b), goodwill represents the excess of purchase consideration, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group s share of the identified net assets of acquired businesses. Goodwill is tested for impairment at least annually. The carrying value of goodwill as at 30 September 2011 was $8,582 million (2010 $8,569 million).

The determination of the fair value of assets and liabilities of the acquired businesses requires the exercise of management judgment. Different fair values would result in changes to the goodwill balance and to the post-acquisition performance of the acquisition.

To determine if goodwill is impaired the carrying value of the identified CGU to which the goodwill is allocated, including the allocated goodwill, is compared to its recoverable amount. Recoverable amount is the higher of the CGU s fair value less costs to sell and its value in use. Value in use is the present value of expected future cash flows from the CGU. Determination of appropriate cash flows and discount rates for the calculation of value in use is subjective. Fair value is the amount obtainable for the sale of the CGU in an arm s length transaction between knowledgeable, willing parties. The assumptions applied to determine if any impairment exists are outlined in Note 13.

Goodwill impairment testing resulted in an impairment of goodwill of nil (2010 nil).

(iv) Superannuation obligations

The Group operates a number of defined benefit plans as described in Note 35. For each of these plans, actuarial valuations of the plan s obligations and the fair value measurements of the plan s assets are performed at least annually in accordance with the requirements of AASB 119 *Employee Benefits*.

The actuarial valuation of plan obligations is dependent upon a series of assumptions, the key ones being price inflation, earnings growth, mortality, morbidity and investment returns assumptions. Different assumptions could significantly alter the amount of the difference between plan assets and obligations, and the superannuation cost charged to the income statement.

Refer to Note 35 for details of the Group s defined benefit deficit balances.

Note 1. Summary of significant accounting policies (continued)

(v) Provisions (other than loan impairment)

Provisions are held in respect of a range of obligations such as employee entitlements, restructuring costs, litigation provisions and non-lending losses and onerous contracts (for example leases with surplus space). Provisions carried for long service leave are supported by an independent actuarial report. Some of the provisions involve significant judgment about the likely outcome of various events and estimated future cash flows. The deferral of these benefits involves the exercise of management judgments about the ultimate outcomes of the transactions. Payments that are expected to be incurred after more than one year are discounted at a rate which reflects both current interest rates and the risks specific to that provision.

(vi) Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax outcome is unclear. Provisions for tax are held to reflect these tax uncertainties. The Group estimates its tax liabilities based on the Group s understanding of the tax law. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period where such determination is made.

Refer to Note 15 for details of the Group s deferred tax balances.

(vii) St.George Bank Limited merger

The merger with St.George Bank Limited was accounted for using the purchase method of accounting. All the identifiable assets and liabilities of St.George Group were initially recognised by the Group at their fair value on the date of the merger. This involved additional critical accounting assumptions, judgments and estimates that may have a material impact on the Group s financial statements. The assets and liabilities recognised by the Group following the merger with St.George Bank Limited are set out in Note 42.

Intangible assets

Identifiable intangible assets are required to be identified and measured at their fair value as a result of the purchase price accounting requirements of AASB 3 *Business Combinations*. This involves the use of judgments, estimates and assumptions about how customers may act and how products will perform in the future, based largely on past experience and future contractual arrangements.

The following material identifiable intangible assets have been recognised:

§ core deposit intangibles;

§ brand names;

§ financial planner distribution relationships; and

§ credit card customer relationships.

Financial assets and liabilities

The fair value of all of St.George Group s financial assets and financial liabilities were determined at the merger date. Many of these assets and liabilities are not normally traded in active markets. The global credit and capital market conditions that included extreme volatility, disruption and decreased liquidity increased the level of management judgment required in determining the fair value of St.George Group s financial assets and financial liabilities.

Tax consolidation

Following the redemption of St.George Bank Limited s hybrid instruments on 31 March 2009, St.George Bank Limited and all its wholly owned Australian subsidiaries joined the Westpac tax consolidated group. Westpac was required to reset the tax value of certain St.George Group assets to the appropriate market value of those assets.

In order to determine the impact of St.George Group joining the Westpac tax consolidation group, the fair value of St.George Group and the fair value of its identifiable assets and liabilities needed to be determined as at 31 March 2009. This required management to make similar critical assumptions, judgments and estimates in determining the fair value of identifiable assets and liabilities on the date of the acquisition.

Refer to Note 5 for the current impact of St.George Bank Limited joining the Westpac tax consolidated group.

k. Future developments in accounting policies

The following new standards and interpretations which may have a material impact on the Group have been issued, but are not yet effective and have not been early adopted by the Group:

AASB 2010-6 *Amendments to Australian Accounting Standards Disclosures on Transfers of Financial Assets* was issued in November 2010 and will be effective for the 30 September 2012 financial year end. This Standard adds and amends disclosure requirements in AASB 7 *Financial Instruments: Disclosures* about transfers of financial assets, including in respect of the nature of the financial assets involved and the risks associated with them.

Notes to the financial statements

Note 1. Summary of significant accounting policies (continued)

AASB 9 *Financial Instruments (Part 1: Classification and Measurement)* was issued by the Australian Accounting Standards Board in December 2009. If the standard is not early adopted it will be effective for the 30 September 2014 financial year end. The major changes under the standard are:

§ AASB 9 *Financial Instruments* replaces the multiple classification and measurement models in AASB 139 *Financial Instruments: Recognition and Measurement* with a single model that has two classification categories: amortised cost and fair value;

§ a financial asset is measured at amortised cost if two criteria are met: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent the payment of principal and interest;

§ if a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;

§ there will be no separation of an embedded derivative where the instrument is a financial asset;

§ equity instruments must be measured at fair value however, an entity can elect on initial recognition to present the fair value changes on an equity investment directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit or loss; however dividends from such investments will continue to be recognised in profit or loss; and

§ if an entity holds an investment in asset-backed securities (ABS) it must determine the classification of that investment by looking through to the underlying assets and assess the credit quality of the investment compared with the underlying portfolio of assets. If an entity is unable to look through to the underlying assets, then the investment must be measured at fair value.

The reissued version of the standard in December 2010 included the requirements for classification and measurement of financial instruments including both financial assets and financial liabilities as well as recognition and derecognition requirements for financial instruments. The main additional change as a result of the reissued version relates to the measurement of financial liabilities. Specifically, the portion of a change of fair value relating to the entity s own credit risk for financial liabilities measured at fair value utilising the fair value option is presented in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

As a result of the issuance and reissuance of AASB 9 two further standards have been issued by the AASB which give effect to consequential changes to a number of Australian Accounting Standards and Interpretations. These standards are AASB 2009-11 *Amendments to Australian*

Accounting Standards arising from AASB 9 which was issued in December 2009 and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* which was issued in December 2010. These standards will be applicable when AASB 9 is adopted by the Group.

AASB 9 will impact the classification and measurement of the Group s financial instruments when adopted.

AASB 2010-8 *Amendments to Australian Accounting Standards Deferred Tax: Recovery of Underlying Assets* was issued in December 2010 and will be effective for the 30 September 2013 financial year end. The amended standard introduces a rebuttable presumption in AASB 112 *Income Taxes*, applicable specifically to investment properties, property plant and equipment and intangible assets which are measured using the fair value model or the revaluation model, that the asset will be recovered entirely through sale unless there is clear evidence that recovery will occur in another manner. The amendment is not expected to have a material impact on the Group.

AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project* and AASB 1054 *Australian Additional Disclosures* were issued in May 2011 and will be effective for the 30 September 2012 financial year end. In 2009, the Australian and New Zealand Federal Governments announced their intention to undertake various short to medium-term projects to support the aim of a single economic market. This included a single set of accounting standards that was accepted in both jurisdictions. AASB 2011-1 eliminates most of the existing differences between AASB, local New Zealand standards and IFRS. Where additional disclosures were considered necessary, these disclosures were moved to AASB 1054. The amendments simplify some current disclosures, remove others altogether and align the requirements of the two countries. The new and amended standards are expected to simplify some disclosures for the Group.

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* was issued in July 2011 and will be effective for the 30 September 2014 financial year end. The amendments remove all the individual key management personnel (KMP) disclosures in AASB 124 *Related Party Disclosures* that were specific to Australian entities. The amendments are expected to simplify the Group s related party disclosures.

Note 1. Summary of significant accounting policies (continued)

AASB 10 *Consolidated Financial Statements* and AASB 12 *Disclosure of Interests in Other Entities* were issued in August 2011 and will be effective for the 30 September 2014 financial year end. The new consolidation standard changes the definition of control and requires that it be applied to all entities to determine whether control exists. The new definition focuses on the need for both power and exposure to variability of returns in order for control to be present and the new disclosure standard increases the disclosure requirements for both consolidated and unconsolidated entities. The new standards are not expected to have a material impact on the Group.

AASB 13 *Fair Value Measurement* was issued in September 2011 and will be effective for the 30 September 2014 financial year end. The new standard replaces existing guidance on fair value measurement in several standards with a single, unified definition of fair value and a framework for measuring and disclosing fair values. AASB 13 applies to all assets and liabilities measured at fair value, not just financial instruments. The new standard is not expected to have a material impact on the Group.

AASB 2011-9 *Amendments to Australian Accounting Standards Presentation of Items of Other Comprehensive Income* was issued in September 2011 and will be effective for the 30 September 2013 financial year end. The new standard amends AASB 101 *Presentation of financial statements*. Under the amended standard, the format of other comprehensive income will need to be changed to separate items that might be recycled to net profit from items that will not be recycled. Items included in other comprehensive income that may be recycled into profit or loss in future periods include gains or losses on cash flow hedges and exchange differences on the translation of foreign operations. Those that will not be recycled include fair value changes on own credit risk for financial liabilities designated at fair value and defined benefits actuarial gains and losses.

A revised AASB 119 *Employee Benefits* was issued in September 2011 which will be effective for the 30 September 2014 financial year end. The amendments require entities to account immediately, in retained earnings, for all estimated changes in the cost of providing these benefits and all changes in the value of plan assets (often referred to as the removal of corridor method). The amendments also contain a new presentation approach that clearly distinguishes the different components of the cost of these benefits. Minimal impact is expected as a result of both these changes as the Group s current accounting and presentation treatment is in line with the new amendments. Two areas of impact will be the change in the measurement of pension expense and additional disclosures to provide clearer information about the risks arising from defined benefits plans.

Notes to the financial statements

Note 2. Net interest income

	Consolidated			Parent Entity	
	2011 $m	2010 $m	2009 $m	**2011 $m**	2010 $m
Interest income					
Cash1	71	60	60	70	57
Receivables due from other financial institutions	251	234	194	88	79
Net ineffectiveness on qualifying hedges	(13)	1	(9)	(14)	(3)
Trading securities	2,356	2,035	2,228	2,287	1,873
Other financial assets designated at fair value	99	64	43	96	59
Available-for-sale securities	789	368	118	702	290
Loans	34,530	31,377	27,772	31,168	24,422
Regulatory deposits with central banks overseas	12	4	17	12	4
Due from subsidiaries	-	-	-	2,696	3,013
Other interest income1	3	8	23	2	5
Total interest income2	38,098	34,151	30,446	37,107	29,799
Interest expense					
Payables due to other financial institutions	(191)	(151)	(365)	(191)	(150)
Certificates of deposit	(1,907)	(1,855)	(2,247)	(1,860)	(1,791)
At call and term deposits	(12,775)	(10,695)	(9,135)	(11,828)	(8,825)
Trading liabilities3	(5,738)	(3,414)	(1,522)	(5,357)	(3,088)
Other financial liabilities designated at fair value3	(38)	(19)	(9)	-	-
Debt issues and acceptances3	(4,578)	(4,539)	(3,851)	(3,949)	(3,462)
Due to subsidiaries	-	-	-	(2,993)	(2,222)
Loan capital	(469)	(545)	(582)	(441)	(436)
Other interest expense3	(406)	(1,091)	(1,089)	(136)	(812)
Total interest expense4	(26,102)	(22,309)	(18,800)	(26,755)	(20,786)
Net interest income	11,996	11,842	11,646	10,352	9,013
Impairment charges on loans	(993)	(1,456)	(3,238)	(775)	(958)
Net interest income after impairment charges on loans	11,003	10,386	8,408	9,577	8,055

1 In the current year we have revised our presentation to align interest income with the balance sheet and have reclassified interest income on cash from other interest income to cash. To improve presentation we have revised comparative periods for the Group (2010 $60 million, 2009 $60 million) and for the Parent Entity (2010 $57 million).

2 Total interest income for financial assets that are not at fair value through profit or loss is $35,656 million (2010 $32,051 million, 2009 $28,184 million) for the Group and $34,738 million (2010 $27,870 million) for the Parent Entity.

3 In the current year we have revised our presentation to align interest expense with the balance sheet and better reflect the nature of interest expense. Reclassifications within interest expense have been made from other interest expense to debt issues and acceptances, other financial liabilities designated at fair value and trading liabilities. To improve presentation we have revised comparative periods for the Group (2010 $732 million, 2009 $945 million) and for the Parent Entity (2010 $435 million).

4 Total interest expense for financial liabilities that are not at fair value through profit or loss is $18,300 million (2010 $17,300 million, 2009 $15,986 million) for the Group and $19,440 million (2010 $16,167 million) for the Parent Entity.

Note 3. Non-interest income

	Consolidated			Parent Entity	
	2011	2010	2009	**2011**	2010
	$m	$m	$m	**$m**	$m
Fees and commissions1					
Facility fees	1,105	1,032	1,024	1,116	888
Transaction fees and commissions received	1,180	1,153	1,582	1,124	1,009
Other non-risk fee income	283	284	37	246	259
Total fees and commissions	2,568	2,469	2,643	2,486	2,156
Wealth management and insurance income					
Life insurance and funds management net operating income1	1,463	1,394	1,210	-	-
General insurance and lenders mortgage insurance premiums less claims incurred	155	166	152	-	-
Total wealth management and insurance income	1,618	1,560	1,362	-	-
Trading income					
Foreign exchange income	329	462	707	276	427
Other trading securities	229	335	194	217	249
Total trading income	558	797	901	493	676
Other income					
Dividends received from subsidiaries	-	-	-	624	1,586
Dividends received from other entities	17	25	21	13	21
Rental income	2	6	5	1	3
Net gain/(loss) on disposal of assets	51	46	(8)	42	24
Net gain/(loss) on ineffective hedges	(5)	10	3	(5)	10
Hedging overseas operations	55	29	20	1	61
Net gain/(loss) on derivatives held for risk management purposes2	(28)	27	54	(25)	29
Net gain/(loss) on financial instruments designated at fair value	28	41	-	(21)	17
Other	53	58	(142)	(30)	20
Total other income	173	242	(47)	600	1,771
Total non-interest income	4,917	5,068	4,859	3,579	4,603
Wealth management and insurance income comprised					
Funds management income	914	896	716	-	-
Life insurance premium income	559	501	470	-	-
Life insurance commissions, investment income/(expense) and other income/(expense)1	99	455	427	-	-
Life insurance claims and changes in life insurance liabilities1	(109)	(458)	(403)	-	-
General insurance and lenders mortgage insurance premiums earned	356	341	319	-	-
General insurance and lenders mortgage insurance commissions, investment and other income	30	15	(22)	-	-
General insurance and lenders mortgage insurance claims incurred, underwriting and commission expenses	(231)	(190)	(145)	-	-
Total wealth management and insurance income	1,618	1,560	1,362	-	-

1 In the current year we have revised our presentation within total non-interest income. Reclassifications have been made within fees and commissions to align with the way we manage our business. To improve presentation we have reclassified certain fees from life insurance and funds management to fees and commissions. To improve presentation we have revised comparative periods for the Group (2010 $36 million, 2009 $6 million).

2 Income from derivatives held for risk management purposes primarily comprises net gains or losses on realised and unrealised hedges on New Zealand future retail earnings and net gains or losses on the hedge of our 2003 Trust Preferred Securities.

Notes to the financial statements

Note 4. Operating expenses

	Consolidated			Parent Entity	
	2011	2010	2009	**2011**	2010
	$m	$m	$m	**$m**	$m
Salaries and other staff expenses					
Salaries and wages	3,015	3,052	2,856	2,448	2,171
Employee entitlements	305	258	245	261	197
Employee related taxes	194	177	190	165	135
Superannuation expense:					
Defined contribution plans	234	212	171	187	161
Defined benefit plans (Note 35)	29	39	37	29	39
Equity based compensation	112	125	104	77	102
Restructuring costs	110	56	116	103	46
Other	56	71	87	42	33
Total salaries and other staff expenses	4,055	3,990	3,806	3,312	2,884
Equipment and occupancy expenses					
Operating lease rentals	505	482	435	408	322
Depreciation, amortisation and impairment:					
Premises	16	17	18	15	17
Leasehold improvements	89	62	52	81	50
Furniture and equipment	63	61	62	54	50
Technology	76	66	63	59	43
Software	265	300	206	208	227
Equipment repairs and maintenance	80	75	74	68	54
Electricity, water and rates	12	11	11	9	8
Land tax	6	5	5	6	5
Other	3	3	-	(8)	-
Total equipment and occupancy expenses	1,115	1,082	926	900	776
Other expenses					
Amortisation of deferred expenditure	4	6	12	18	18
Amortisation of intangible assets	208	208	182	208	121
Impairment charges goodwill	-	-	2	-	-
Non-lending losses	43	38	182	39	24
Purchased services:					
Technology and information services1	254	280	285	196	194
Legal	29	33	41	16	20
Other professional services1	448	483	377	311	365
Credit card loyalty programs	127	117	210	127	117
Stationery	82	83	80	60	51
Postage and freight	145	139	123	116	103
Outsourcing costs1	592	583	546	455	450
Insurance	14	21	19	12	14
Advertising	176	162	155	128	88
Training	28	29	22	20	18
Travel	70	73	63	51	53
Other expenses1	16	89	140	127	244
Total other expenses	2,236	2,344	2,439	1,884	1,880
Operating expenses	7,406	7,416	7,171	6,096	5,540

1 To better reflect the nature of expenses, we have made reclassifications within the expense line items in total other expenses. The reclassifications are principally between other expenses, technology and information services, outsourcing costs and other professional services. To improve presentation we have revised comparative periods.

Note 5. Income tax

	Consolidated			Parent Entity	
	2011	2010	2009	**2011**	2010
	$m	$m	$m	**$m**	$m
The income tax expense for the year is reconciled to the profit before income tax as follows					
Profit before income tax	8,514	8,038	6,096	7,060	7,118
Prima facie income tax based on the Australian company tax rate of 30%	2,554	2,411	1,829	2,118	2,135
The effect of amounts which are not deductible (assessable) in calculating taxable income					
Change in tax rate1	7	6	-	1	1
Rebatable and exempt dividends	(2)	(5)	(19)	(184)	(509)
Tax losses not previously recognised now brought to account	-	-	(5)	-	-
Life insurance:					
Tax adjustment on policyholders earnings2	(10)	(8)	5	-	-
Adjustment for life business tax rates	(6)	(9)	(1)	-	-
Other non-assessable items	(40)	(26)	(24)	(17)	(19)
Other non-deductible items	66	36	68	68	87
Adjustment for overseas tax rates	1	1	(16)	1	-
Income tax (over)/under provided in prior years	(33)	(4)	19	(21)	(3)
St.George tax consolidation adjustment3	(1,110)	(685)	-	(1,110)	(685)
Other items4	28	(91)	723	(9)	(49)
Total income tax expense in the income statement	1,455	1,626	2,579	847	958
Income tax analysis					
Income tax expense attributable to profit from ordinary activities comprised:					
Current income tax:					
Australia	1,809	1,705	2,741	1,464	1,133
Overseas	180	184	1,038	30	84
	1,989	1,889	3,779	1,494	1,217
Deferred income tax:					
Australia	(591)	(224)	(1,187)	(669)	(255)
Overseas	90	(35)	(32)	43	(1)
	(501)	(259)	(1,219)	(626)	(256)
Under/(over) provision in prior years:					
Australia	(20)	(3)	21	(9)	1
Overseas	(13)	(1)	(2)	(12)	(4)
	(33)	(4)	19	(21)	(3)
Total Australia	1,198	1,478	1,575	786	879
Total Overseas	257	148	1,004	61	79
Total income tax expense attributable to profit from ordinary activities	1,455	1,626	2,579	847	958

1 The company tax rate in New Zealand will reduce from 30% to 28% for the Group from 1 October 2011. The impact of the change in the income tax rate has been taken into account in the measurement of deferred tax at the end of the reporting period.

2 In accordance with the requirements of AASB 1038, tax expense for 2011 includes a $14 million tax credit on policyholders investment earnings (2010 $12 million tax credit, 2009 $7 million tax charge) of which $4 million is prima facie a tax benefit (2010 $4 million tax benefit, 2009 $2 million tax expense) and the balance of $10 million (2010 $8 million, 2009 $5 million) is shown here.

3 Following the redemption of St.George Bank Limited s hybrid instruments on 31 March 2009, St.George and all its wholly owned Australian subsidiaries joined the Westpac tax consolidated group. Westpac was required to reset the tax value of certain St.George assets to the appropriate market value of those assets. Given the complexity of this process, the assessed tax treatment for the 2009 and 2010 financial years was finalised

and the approach agreed with the ATO in October 2010. The approach for the 2011 financial year and following years has now been finalised with the ATO. A number of St.George derivative contracts were assessed as having a market value, at the time of tax consolidation, higher than their original value. Pending the determination of the tax consolidation outcome, Westpac s accounting for these contracts had factored in tax on this increase in value. With the tax consolidation impacts for the 2011 financial year and following years now completed, it has been determined that tax is not required to be paid on the increase in the value of derivative contracts that matured after the 2010 financial year. This value totalled $3,700 million, and accordingly income tax expense for the Westpac tax consolidated group was reduced by $1,110 million in 2011. The tax deduction will be realised evenly over the 2011 to 2014 financial years. Therefore, the current tax liability for the 2011 financial year reduced by $278 million and a deferred tax asset of $832 million was recorded. This is in addition to the assessed tax treatment for the 2009 and 2010 financial years, which resulted in a reduction in income tax expense and current tax liability of $685 million in the 2010 financial year.

4 This includes provisions in relation to certain Structured Finance transactions.

Notes to the financial statements

Note 5. Income tax (continued)

Tax consolidation

The Parent Entity and its wholly owned, Australian-controlled entities implemented the tax consolidation legislation as of 1 October 2002. All entities in the tax consolidated group have entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liabilities of the wholly owned entities in the case of a default by the head entity, Westpac.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate the Parent Entity for any current tax payable assumed and are compensated by the Parent Entity for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the Parent Entity under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities financial statements.

The amounts receivable/payable under the tax funding agreement are settled on a quarterly basis in line with the Parent Entity s obligations to pay tax instalments. Any unpaid amounts at balance date are recognised as current intercompany receivables or payables.

Taxation of financial arrangements

TOFA applies to all entities in the Australian tax consolidation group from 1 October 2010. Subject to certain elections being made, TOFA improves the alignment of the tax treatment of gains and losses from financial arrangements with the accounting treatment adopted in the financial statements. TOFA did not significantly impact the Group, due to the transitional rules which require existing estimated deferred tax balances impacted by TOFA to be amortised to taxable income over a four year period.

Note 6. Dividends

	Consolidated			Parent Entity	
	2011	2010	2009	**2011**	2010
	$m	$m	$m	**$m**	$m
Recognised amounts					
Ordinary dividends					
2010 final dividend paid 74 cents per share (2009 60 cents per share, 2008 72 cents per share) all fully franked at 30%	2,209	1,762	1,362	2,212	1,765
2011 interim dividend paid 76 cents per share (2010 65 cents per share, 2009 56 cents per share) all fully franked at 30%	2,284	1,932	1,626	2,288	1,935
Total ordinary dividends	4,493	3,694	2,988	4,500	3,700
Distributions on other equity instruments					
Convertible debentures	-	-	-	58	55
Total distributions on other equity instruments	-	-	-	58	55
Dividends not recognised at year end					
Since year end the Directors have recommended the payment of the following final ordinary dividend:					
Ordinary shares 80 cents per share (2010 74 cents per share, 2009 60 cents per share) all fully franked at 30%	2,419	2,209	1,762	2,424	2,212

The amount disclosed as recognised for ordinary dividends is the final dividend paid in respect of the prior financial year and the interim dividend paid in respect of the current financial year.

The Board has determined to satisfy the DRP for the 2011 final dividend by issuing Westpac ordinary shares.

	Parent Entity		
	2011	2010	2009
	$m	$m	$m
Franking account balance			
Franking account balance as at year end	2,118	2,595	1,265
Franking credits that will arise from payment of current income tax	273	(31)	1,412
Adjusted franking account balance after payment of current income tax	2,391	2,564	2,677
Franking credits to be utilised for payment of unrecognised final dividend	(1,048)	(956)	(763)
Adjusted franking account balance	1,343	1,608	1,914

Note 7. Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to equity holders of Westpac by the weighted average number of ordinary shares on issue during the year, excluding the number of ordinary shares purchased by the Group and held as Treasury shares. Diluted EPS is calculated by adjusting the earnings and the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	Consolidated					
	2011		2010		2009	
	Basic	**Diluted**	Basic	Diluted	Basic	Diluted
Reconciliation of earnings used in the calculation of earnings per ordinary share ($m)						
Net profit attributable to owners of Westpac Banking Corporation	6,991	6,991	6,346	6,346	3,446	3,446
RSP treasury shares distributions1	(8)	-	(6)	-	(5)	-
2004 TPS distributions	-	20	-	20	-	22
2007 convertible notes distributions	-	31	-	27	-	30
Westpac SPS distributions	-	37	-	33	-	34
Westpac SPS II distributions	-	39	-	36	-	16
Net profit attributable to owners of Westpac Banking Corporation adjusted for the effect of dilution	6,983	7,118	6,340	6,462	3,441	3,548
Weighted average number of ordinary shares (millions)						
Weighted average number of ordinary shares	3,010	3,010	2,972	2,972	2,758	2,758
Effect of own shares held	(13)	(13)	(12)	(12)	(11)	(11)
Potential dilutive adjustment:						
Exercise of options and share rights and vesting of restricted shares	-	7	-	9	-	7
Conversion of 2004 TPS	-	27	-	23	-	24
Conversion of 2007 convertible notes	-	52	-	44	-	41
Conversion of Westpac SPS	-	53	-	45	-	42
Conversion of Westpac SPS II	-	47	-	39	-	18
Total weighted average number of ordinary shares	2,997	3,183	2,960	3,120	2,747	2,879
Earnings per ordinary share (cents)	233.0	223.6	214.2	207.1	125.3	123.2

1 While the equity granted to employees remains unvested, RSP treasury shares are deducted from ordinary shares on issue in arriving at the weighted average number of ordinary shares outstanding. Despite the shares being unvested, employees are entitled to dividends and to voting rights on the shares. Consequently, a portion of the profit for the period is allocated to RSP treasury shares to arrive at earnings attributed to ordinary shareholders.

Information concerning the classification of securities

Options and share rights

Options and share rights granted to employees prior to 30 September 2011 are considered to be potentially ordinary shares and have been considered in the determination of diluted EPS. The options and share rights have not been considered in the determination of basic EPS. Details relating to options and share rights are set out in Note 25.

During the year, 2,114,547 (2010 3,823,525, 2009 2,324,314) options and share rights were converted to ordinary shares. The diluted EPS calculation includes that portion of these options and share rights assumed to be issued for nil consideration, weighted with reference to the date of conversion.

The exercise prices of all options are included in Note 25. In determining diluted EPS, options and share rights with an exercise price (including grant date fair value that will be expensed in future periods) greater than the average Westpac share price over the year have not been included, as these are not considered dilutive. Performance options and performance share rights are only included in determining diluted EPS to the extent that they are dilutive and market related performance hurdles are met at year end.

Subsequent to 30 September 2011:

§ 170,290 ordinary shares were issued to employees due to the exercise of options (2010 76,000; 2009 279,069); and

§ 31,128 ordinary shares were issued to employees due to the exercise of share rights (2010 126,106; 2009 57,400).

Note 7. Earnings per share (continued)

Restricted Share Plan

Under the Restricted Share Plan (RSP), Westpac ordinary shares are allocated to eligible employees for nil consideration. Full entitlement to these shares does not vest until a service period has been completed. RSP shares have not been included in determining basic EPS. For further details, refer to Note 25.

2004 TPS

As 2004 TPS can be exchanged for ordinary shares in certain circumstances, any dilutive impact must be considered. For 2011, 2004 TPS were dilutive (2010 dilutive, 2009 dilutive) and have been included in the determination of diluted EPS.

2004 TPS have not been included in the determination of basic EPS.

2007 convertible notes

The 2007 convertible notes are unsecured, unsubordinated, redeemable, convertible notes that were issued by Westpac in a private placement on 19 April 2007. As they can be exchanged into ordinary shares at the discretion of Westpac upon certain conditions being satisfied, any dilutive impact must be considered. For 2011, the 2007 convertible notes were dilutive (2010 dilutive, 2009 dilutive) and have been included in the determination of diluted EPS.

2007 convertible notes have not been included in the determination of basic EPS.

Westpac Stapled Preferred Securities (Westpac SPS and Westpac SPS II)

Westpac SPS and Westpac SPS II are securities, each consisting of a perpetual, unsecured, non-cumulative subordinated note issued by Westpac s New York branch, stapled to a preference share issued by Westpac. Westpac SPS were issued on 30 July 2008 and Westpac SPS II were issued on 31 March 2009. As Westpac SPS and Westpac SPS II can be exchanged for ordinary shares in certain circumstances, any dilutive impact must be considered. For 2011, the Westpac SPS and Westpac SPS II were dilutive (2010 dilutive, 2009 dilutive) and have been included in the determination of diluted EPS. During the year of issue, Westpac SPS II (2009) was weighted for the proportion of the year the instrument was on issue.

Westpac SPS and Westpac SPS II have not been included in the determination of basic EPS.

The terms and conditions associated with 2004 TPS, Westpac SPS and Westpac SPS II are discussed in more detail in Note 23.

Note 8. Receivables due from other financial institutions

	Consolidated		Parent Entity	
	2011	2010	**2011**	2010
	$m	$m	**$m**	$m
Conduit assets	2,779	2,382	-	-
Cash collateral	1,650	7,839	1,580	7,707
Inter-bank lending	4,122	2,367	3,657	2,340
Total receivables due from other financial institutions	8,551	12,588	5,237	10,047

Note 9. Trading securities and other financial assets designated at fair value

	Consolidated			Parent Entity	
	2011	2010	2009	**2011**	2010
	$m	$m	$m	**$m**	$m
Securities	45,195	37,749	40,304	42,514	35,559
Securities purchased under agreement to resell	2,776	2,262	2,810	2,776	2,262
Total trading securities	47,971	40,011	43,114	45,290	37,821
Other financial assets designated at fair value	2,960	3,464	3,063	2,093	1,324
Total trading securities and other financial assets designated at fair value	50,931	43,475	46,177	47,383	39,145

Trading securities includes the following:

	Consolidated			Parent Entity	
	2011	2010	2009	**2011**	2010
	$m	$m	$m	**$m**	$m
Australian public securities:					
Commonwealth securities	1,996	928	653	1,996	926
State Government securities	8,821	4,387	5,164	8,813	4,387
Australian equity securities	48	102	67	48	102
Australian debt securities	28,419	27,936	29,828	26,622	26,799
Overseas public securities	2,024	1,489	2,238	1,211	438
Overseas debt securities	3,842	2,893	2,343	3,779	2,893
Other securities	45	14	11	45	14
Total securities	45,195	37,749	40,304	42,514	35,559
Securities purchased under agreement to resell	2,776	2,262	2,810	2,776	2,262
Total trading securities	47,971	40,011	43,114	45,290	37,821

Other financial assets designated at fair value include:

	Consolidated			Parent Entity	
	2011	2010	2009	**2011**	2010
	$m	$m	$m	**$m**	$m
Australian debt securities	2,145	3,060	2,558	1,498	1,031
Overseas debt securities	677	404	505	585	293
Australian equity securities	138	-	-	10	-
Total other financial assets designated at fair value	2,960	3,464	3,063	2,093	1,324

The Group has total holdings of debt securities from three Australian financial institutions and two Australian State-Government Institutions, the aggregate book and market value, each of which each exceeded 10% of the Group total shareholders equity at 30 September 2011.

The Group holds $344 million of US Government bonds recognised in the categories trading securities, other financial assets designated at fair value or available-for-sale securities (Note 10) at 30 September 2011 (2010 $330 million, 2009 $266 million).

Notes to the financial statements

Note 10. Available-for-sale securities

	Consolidated			Parent Entity	
	2011	2010	2009	**2011**	2010
	$m	$m	$m	**$m**	$m
Available-for-sale securities at fair value					
Australian public securities (State Government securities)	14,572	9,996	-	14,553	9,996
Australian debt securities	615	523	725	244	237
Overseas public securities1	1,788	485	430	91	106
Overseas debt securities	855	684	129	380	311
Australian equity securities	66	147	84	66	71
Overseas equity securities	169	280	261	92	210
	18,065	12,115	1,629	15,426	10,931
Available-for-sale securities at cost1,2					
Unlisted securities	10	9	1	-	1
Total available-for-sale securities	18,075	12,124	1,630	15,426	10,932

1 In the current year we have revised our presentation and reclassified overseas government securities issued by Pacific Islands governments from available-for-sale at cost to available-for-sale at fair value. The cost of these instruments approximates their fair value as they are short-term in nature. To improve presentation we have revised comparatives for the Group (2010 $407 million, 2009 $354 million) and the Parent Entity (2010 $28 million).

2 Investments in certain unlisted securities are measured at cost because the fair value cannot be reliably measured. These investments represent non-controlling interests in companies for which active markets do not exist and quoted prices are not available.

Available-for-sale securities change in fair value resulted in a loss of $73 million (2010 $92 million gain) and a loss of $106 million for the Parent Entity (2010 $33 million gain) being recognised in other comprehensive income (refer to Statements of changes in equity).

The following table shows the maturities of the Group s available-for-sale securities and their weighted-average yield as at 30 September 2011. There are no tax-exempt securities.

	2011											
	Within 1 Year		Over 1 Year to 5 Years		Over 5 Years to 10 Years		Over 10 Years		No Specific Maturity		Total	Weighted Average
	$m	%	$m	%	$m	%	$m	%	$m	%	$m	%
Carrying amount												
Australian public securities	-	-	2,390	5.4	8,810	5.8	3,372	5.6	-	-	14,572	5.7
Australian debt securities	80	6.7	325	10.7	210	6.7	-	-	-	-	615	9.0
Overseas public securities	783	3.8	25	-	980	5.0	-	-	-	-	1,788	4.2
Overseas debt securities	378	0.5	181	3.3	296	5.3	-	-	-	-	855	2.6
Australian equity securities	-	-	-	-	-	-	-	-	66	-	66	-

Overseas equity securities	-	-	-	-	-	-	-	-	169	-	169	-
Unlisted securities at cost	-	-	-	-	-	-	-	-	10	-	10	-
Total by maturity	1,241		2,921		10,296		3,372		245		18,075	

The maturity profile is determined based upon contractual terms for available-for-sale instruments.

Note 11. Loans

The following table shows loans disaggregated by type of product. Loans are classified based on the location of the lending office:

	Consolidated		Parent Entity	
	2011	2010	**2011**	2010
	$m	$m	**$m**	$m
Australia				
Overdrafts	3,247	3,550	3,247	3,550
Credit card outstandings	9,532	9,596	9,532	9,596
Overnight and at call money market loans	13	223	13	223
Acceptance of finance	39,260	43,672	39,260	43,672
Term loans1:				
Housing	269,597	251,954	269,589	251,709
Housing line of credit	34,972	35,844	34,972	35,844
Total housing	304,569	287,798	304,561	287,553
Non-housing	79,479	78,278	74,049	72,124
Finance leases	6,296	5,029	3,855	4,027
Margin lending	2,852	3,521	2,852	3,521
Other	3,234	2,287	3,234	2,287
Total Australia	448,482	433,954	440,603	426,553
New Zealand				
Overdrafts	970	926	229	163
Credit card outstandings	996	951	-	-
Overnight and at call money market loans	1,235	1,175	625	541
Term loans:				
Housing	27,486	25,999	-	-
Non-housing	15,035	14,398	4,282	4,254
Other	387	336	262	214
Total New Zealand	46,109	43,785	5,398	5,172
Total other overseas	6,063	4,627	4,821	3,454
Total loans	500,654	482,366	450,822	435,179
Provisions on loans (refer to Note 12)	(4,045)	(4,711)	(3,443)	(4,012)
Total net loans2	496,609	477,655	447,379	431,167
Net loans classification3				
Loans housing and personal	351,969	333,971	319,842	303,749
Loans business	144,640	143,684	127,537	127,418
Total net loans2	496,609	477,655	447,379	431,167

1 Securitised loans are included in term loans above. Further detail on securitised assets is disclosed in Note 31.

2 Included in net loans is $11 billion (2010 $11 billion) of loans designated at fair value to reduce an accounting mismatch. The cumulative change in fair value of the loans attributable to credit risk is $133 million (2010 $135 million) for the Group and Parent Entity. The change in fair value of loans attributable to credit risk recognised during the period is $2 million (2010 $3 million) for the Group and Parent Entity.

3 Loans housing and personal include products of a retail nature including mortgages, personal loans, credit cards and customer overdrafts. Loans business include corporate funding, working capital, trade and overdraft facilities.

Notes to the financial statements

Note 11. Loans (continued)

The following table shows loans presented based on their industry classification.

	Consolidated				
	2011	2010	2009	2008	2007
	$m	$m	$m	$m	$m
Australia					
Accommodation, cafes and restaurants	7,121	7,195	7,174	3,862	3,285
Agriculture, forestry and fishing	7,790	7,797	7,795	5,625	4,835
Construction	6,084	5,968	6,511	4,201	3,541
Finance and insurance	15,925	13,643	19,388	18,570	12,333
Government, administration and defence	781	806	563	451	564
Manufacturing	11,339	10,958	12,287	10,223	8,954
Mining	1,488	1,337	1,883	1,864	1,124
Property, property services and business services	45,559	48,398	54,066	35,975	28,133
Services1	8,936	9,408	10,163	6,853	6,410
Trade2	16,094	16,240	15,683	10,768	8,740
Transport and storage	6,677	7,351	8,039	5,485	4,020
Utilities3	2,581	2,421	2,640	2,347	2,070
Retail lending	316,777	301,150	267,490	154,985	139,202
Other	1,330	1,282	2,389	1,663	5,820
Total Australia	448,482	433,954	416,071	262,872	229,031
Overseas					
Accommodation, cafes and restaurants	580	570	691	649	1,305
Agriculture, forestry and fishing	4,975	4,699	4,903	4,739	4,214
Construction	1,180	1,180	1,242	1,225	1,049
Finance and insurance	1,998	1,886	2,699	2,904	3,106
Government, administration and defence	464	474	450	339	220
Manufacturing	2,925	2,143	2,607	3,063	2,216
Mining	368	363	291	301	266
Property, property services and business services	9,659	9,156	9,844	10,113	10,388
Services1	2,149	2,026	2,392	2,751	2,789
Trade2	4,047	3,289	2,976	3,499	3,411
Transport and storage	1,928	1,800	1,976	1,683	1,070
Utilities3	1,010	1,104	1,340	1,199	977
Retail lending	20,723	19,574	19,103	18,703	16,101
Other	166	148	1,258	1,450	603
Total overseas	52,172	48,412	51,772	52,618	47,715
Total loans	500,654	482,366	467,843	315,490	276,746
Provisions on loans	(4,045)	(4,711)	(4,384)	(1,945)	(1,369)
Total net loans	496,609	477,655	463,459	313,545	275,377

1 Services includes education, health and community services, cultural and recreational services and personal and other services.

2 Trade includes wholesale trade and retail trade.

3 Utilities includes electricity, gas and water and communication services.

Note 11. Loans (continued)

The following table shows the consolidated contractual maturity distribution of all loans by type of customer as at 30 September 2011:

	2011			
	Up to 1 Year $m	1 to 5 Years $m	Over 5 Years $m	Total $m
Loans by type of customer in Australia				
Accommodation, cafes and restaurants	3,927	2,235	959	7,121
Agriculture, forestry and fishing	3,453	2,898	1,439	7,790
Construction	1,598	3,342	1,144	6,084
Finance and insurance	6,683	5,836	3,406	15,925
Government, administration and defence	84	305	392	781
Manufacturing	4,927	5,232	1,180	11,339
Mining	446	764	278	1,488
Property, property services and business services	22,389	16,745	6,425	45,559
Services1	2,536	4,497	1,903	8,936
Trade2	6,691	6,758	2,645	16,094
Transport and storage	1,369	4,427	881	6,677
Utilities3	491	1,804	286	2,581
Retail lending	34,048	52,694	230,035	316,777
Other	878	219	233	1,330
Total Australia	89,520	107,756	251,206	448,482
Total overseas	13,645	8,571	29,956	52,172
Total loans	103,165	116,327	281,162	500,654

1 Services includes education, health and community services, cultural and recreational services and personal and other services.

2 Trade includes wholesale trade and retail trade.

3 Utilities includes electricity, gas and water and communication services.

	Consolidated					
	2011			2010		
	Loans at Variable Interest Rates $m	Loans at Fixed Interest Rates $m	Total $m	Loans at Variable Interest Rates $m	Loans at Fixed Interest Rates $m	Total $m
Interest rate segmentation of Group loans maturing after one year						
By offices in Australia	307,899	51,063	358,962	267,353	61,729	329,082
By offices overseas	16,797	21,730	38,527	12,532	23,527	36,059
Total loans maturing after one year	324,696	72,793	397,489	279,885	85,256	365,141

Notes to the financial statements

Note 11. Loans (continued)

Loans include the following finance receivables:

	Consolidated		Parent Entity	
	2011	2010	**2011**	2010
	$m	$m	**$m**	$m
Gross investment in finance leases, receivable:				
Due within one year	669	617	408	470
Due after one year but not later than five years	6,294	4,700	4,182	3,773
Due after five years	658	749	402	472
Unearned future finance income on finance leases	(1,137)	(877)	(1,086)	(636)
Net investment in finance leases	6,484	5,189	3,906	4,079
Accumulated allowance for uncollectible minimum lease payments	(47)	(55)	(47)	(55)
Net investment in finance leases after accumulated allowance	6,437	5,134	3,859	4,024
The net investment in finance leases may be analysed as follows:				
Due within one year	654	595	395	456
Due after one year but not later than five years	5,307	4,060	3,210	3,280
Due after five years	523	534	301	343
Total net investment in finance leases	6,484	5,189	3,906	4,079

Note 12. Provisions for impairment charges on loans

	Consolidated			Parent Entity	
	2011	2010	2009	**2011**	2010
	$m	$m	$m	**$m**	$m
Collectively assessed provisions					
Balance as at beginning of the year	3,439	3,506	1,761	2,977	2,078
Additions through merger	-	-	893	-	1,041
Provisions raised/(released)	(24)	363	1,282	(37)	164
Write-offs	(739)	(667)	(632)	(644)	(512)
Discount unwind	264	276	230	230	206
Exchange rate and other adjustments	13	(39)	(28)	10	-
Balance as at end of the year	2,953	3,439	3,506	2,536	2,977
Individually assessed provisions					
Balance as at beginning of the year	1,622	1,228	413	1,360	773
Additions through merger	-	-	120	-	388
Provisions raised	1,619	1,497	2,111	1,362	1,138
Write-backs	(542)	(353)	(106)	(502)	(312)
Write-offs	(1,188)	(684)	(1,291)	(918)	(588)
Discount unwind	(11)	(43)	(11)	(17)	(36)
Exchange rate and other adjustments	(39)	(23)	(8)	(34)	(3)
Balance as at end of the year	1,461	1,622	1,228	1,251	1,360
Total provisions for impairment charges and credit commitments	4,414	5,061	4,734	3,787	4,337
Less provisions for credit commitments (refer to Note 20)	(369)	(350)	(350)	(344)	(325)
Total provisions for impairment charges on loans	4,045	4,711	4,384	3,443	4,012

	Consolidated			Parent Entity	
	2011	2010	2009	**2011**	2010
	$m	$m	$m	**$m**	$m

Reconciliation of impairment charges					
Individually assessed provisions raised	1,619	1,497	2,111	1,362	1,138
Write-backs	(542)	(353)	(106)	(502)	(312)
Recoveries	(60)	(51)	(49)	(48)	(32)
Collectively assessed provisions raised/(released)	(24)	363	1,282	(37)	164
Impairment charges	993	1,456	3,238	775	958

Note 12. Provisions for impairment charges on loans (continued)

The following table presents provisions for impairment charges on loans by industry classification for the past five years:

	Consolidated									
	2011		2010		2009		2008		2007	
	$m	**%**	$m	%	$m	%	$m	%	$m	%
Individually assessed provisions by type of customer										
Australia										
Accommodation, cafes and restaurants	45	1.0	44	0.9	50	1.1	1	-	6	0.4
Agriculture, forestry and fishing	28	0.6	27	0.5	43	0.9	3	0.1	3	0.2
Construction	63	1.4	32	0.6	33	0.7	3	0.1	1	0.1
Finance and insurance	58	1.3	60	1.2	74	1.6	50	2.3	-	-
Manufacturing	90	2.0	143	2.8	93	2.0	17	0.8	31	2.0
Mining	2	-	31	0.6	46	1.0	-	-	2	0.1
Property, property services and business services	559	12.7	595	11.8	409	8.6	51	2.4	12	0.7
Services1	96	2.2	51	1.0	49	1.0	137	6.3	3	0.2
Trade2	97	2.2	47	0.9	62	1.3	55	2.6	17	1.1
Transport and storage	38	0.9	80	1.6	15	0.3	3	0.1	1	0.1
Utilities3	23	0.5	27	0.5	37	0.8	-	-	-	-
Retail lending	74	1.7	137	2.7	148	3.1	9	0.4	4	0.3
Other	7	0.2	26	0.5	23	0.5	2	0.1	10	0.6
Total Australia	1,180	26.7	1,300	25.6	1,082	22.9	331	15.2	90	5.8
New Zealand										
Accommodation, cafes and restaurants	2	-	2	-	2	-	1	-	-	-
Agriculture, forestry and fishing	20	0.5	46	0.9	17	0.4	6	0.3	-	-
Construction	4	0.1	2	-	4	0.1	1	-	-	-
Finance and insurance	3	0.1	1	-	1	-	-	-	-	-
Manufacturing	29	0.7	10	0.2	14	0.3	1	-	2	0.1
Mining	1	-	-	-	-	-	-	-	-	-
Property, property services and business services	112	2.5	143	2.9	43	0.9	22	1.0	5	0.3
Services1	6	0.1	5	0.1	4	0.1	1	-	6	0.4
Trade2	7	0.2	13	0.3	6	0.1	4	0.2	9	0.6
Transport and storage	-	-	-	-	2	-	-	-	-	-
Utilities3	-	-	12	0.2	-	-	-	-	-	-
Retail lending	27	0.6	36	0.8	31	0.7	20	0.9	-	-
Total New Zealand	211	4.8	270	5.4	124	2.6	56	2.4	22	1.4
Other overseas										
Accommodation, cafes and restaurants	2	-	1	-	4	0.1	1	-	-	-
Agriculture, forestry and fishing	-	-	1	-	3	0.1	1	-	-	-
Construction	-	-	-	-	8	0.2	-	-	-	-
Finance and insurance	17	0.6	-	-	-	-	-	-	-	-
Manufacturing	2	-	-	-	-	-	5	0.2	5	0.3
Mining	-	-	-	-	-	-	1	-	-	-
Property, property services and business services	19	0.4	6	0.1	-	-	11	0.5	3	0.2
Services1	1	-	16	0.3	1	-	-	-	-	-
Trade2	2	-	-	-	4	0.1	2	0.1	-	-
Transport and storage	17	0.4	19	0.4	2	-	2	0.1	-	-
Utilities3	-	-	-	-	-	-	-	-	28	1.8
Retail lending	10	0.2	9	0.2	-	-	1	-	-	-
Other	-	-	-	-	-	-	2	0.1	-	-
Total other overseas	70	1.6	52	1.0	22	0.5	26	1.0	36	2.3
Total overseas	281	6.4	322	6.4	146	3.1	82	3.4	58	3.7
Total individually assessed provisions	1,461	33.1	1,622	32.0	1,228	26.0	413	18.6	148	9.5

Total collectively assessed provisions	2,953	66.9	3,439	68.0	3,506	74.0	1,761	81.4	1,410	90.5
Total provisions for impairment charges and credit commitments	4,414	100.0	5,061	100.0	4,734	100.0	2,174	100.0	1,558	100.0

1 Services includes education, health and community services, cultural and recreational services and personal and other services.

2 Trade includes wholesale trade and retail trade.

3 Utilities includes electricity, gas and water and communication services.

Notes to the financial statements

Note 12. Provisions for impairment charges on loans (continued)

The following table shows details of loan write-offs by industry classifications for the past five years:

	Consolidated				
	2011	2010	2009	2008	2007
	$m	$m	$m	$m	$m
Write-offs					
Australia					
Accommodation, cafes and restaurants	(34)	(47)	(5)	(3)	(2)
Agriculture, forestry and fishing	(23)	(9)	(6)	(7)	(5)
Construction	(27)	(68)	(37)	(5)	(2)
Finance and insurance	(5)	(30)	(327)	-	(2)
Manufacturing	(134)	(45)	(37)	(30)	(6)
Mining	(15)	(14)	(13)	-	-
Property, property services and business services	(507)	(272)	(156)	(26)	(12)
Services1	(28)	(32)	(107)	(6)	(3)
Trade2	(57)	(51)	(115)	(10)	(36)
Transport and storage	(60)	(25)	(13)	(7)	(5)
Utilities3	(7)	(4)	(101)	-	-
Retail lending	(661)	(566)	(611)	(291)	(266)
Other	(21)	(39)	(22)	(9)	(16)
Total Australia	(1,579)	(1,202)	(1,550)	(394)	(355)
New Zealand					
Accommodation, cafes and restaurants	(3)	(2)	(1)	-	-
Agriculture, forestry and fishing	(59)	(4)	-	-	-
Construction	(24)	(4)	(27)	-	-
Finance and insurance	(1)	(1)	(3)	-	-
Manufacturing	(12)	(15)	(70)	(1)	(2)
Property, property services and business services	(126)	(29)	(146)	(4)	(1)
Services1	(4)	(4)	(3)	(1)	(1)
Trade2	(15)	(3)	(10)	(16)	-
Transport and storage	-	(2)	-	-	-
Utilities3	(13)	-	-	-	-
Retail lending	(84)	(79)	(88)	(53)	(2)
Other	(1)	(3)	(2)	-	-
Total New Zealand	(342)	(146)	(350)	(75)	(6)
Other overseas					
Accommodation, cafes and restaurants	-	-	(3)	-	-
Agriculture, forestry and fishing	-	-	(2)	-	-
Construction	-	-	(5)	-	-
Manufacturing	(3)	-	-	-	(2)
Property, property services and business services	(1)	(3)	(3)	-	-
Services1	-	-	(6)	-	-
Trade2	-	-	(3)	-	-
Transport and storage	-	-	(1)	-	-
Utilities3	-	-	-	-	(8)
Retail lending	-	-	-	(1)	-
Other	(2)	-	-	(1)	-
Total other overseas	(6)	(3)	(23)	(2)	(10)
Total write-offs	(1,927)	(1,351)	(1,923)	(471)	(371)
Write-offs in relation to:					
Collectively assessed provisions	(739)	(667)	(632)	(378)	(302)
Individually assessed provisions	(1,188)	(684)	(1,291)	(93)	(69)
Total write-offs	(1,927)	(1,351)	(1,923)	(471)	(371)

1 Services includes education, health and community services, cultural and recreational services and personal and other services.

2 Trade includes wholesale trade and retail trade.

3 Utilities includes electricity, gas and water and communication services.

Note 12. Provisions for impairment charges on loans (continued)

The following table shows details of recoveries of loans by industry classifications for the past five years:

	Consolidated				
	2011	2010	2009	2008	2007
	$m	$m	$m	$m	$m
Recoveries					
Australia					
Accommodation, cafes and restaurants	-	1	-	-	-
Construction	-	2	-	-	1
Manufacturing	-	2	-	1	2
Property, property services and business services	9	3	-	-	-
Services1	-	1	-	-	-
Trade2	-	1	-	-	1
Transport and storage	-	1	-	-	-
Utilities3	-	-	2	-	-
Retail lending	46	31	37	22	16
Other	-	2	2	-	