

WESTPAC BANKING CORP
Form 20-F
November 15, 2010

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

FORM 20-F

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

Or

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

For the fiscal year ended September 30, 2010

Or

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

Or

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

Commission File Number: 1-10167

WESTPAC BANKING CORPORATION

Australian Business Number 33 007 457 141

(Exact name of Registrant as specified in its charter)

New South Wales, Australia

(Jurisdiction of incorporation or organization)

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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, 4.20% Notes due February 27, 2015, 3.00% Notes due August 4, 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	2,989,207,519 fully paid
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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

Yes No

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

Yes No

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

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Large accelerated filer Accelerated Filer Non-accelerated filer

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

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

Other

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

Yes No

The Westpac Group

Annual Report 2010

Information contained in or accessible through the web sites 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 web sites are inactive textual references and are for information only.

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In this Annual Report a reference to Westpac, Group, The 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 preparation of 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.

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

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SECTION 1

Information on Westpac

Corporate governance

Directors' report

INFORMATION ON WESTPAC

Westpac is one of the four major banking organisations in Australia and, through our New Zealand operations, we are also 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 entities(1) throughout Australia, New Zealand and the near Pacific region, and maintain offices in some of the key financial centres around the world(2).

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 2010, our market capitalisation was \$69.5 billion(3) and we had total assets of \$618.3 billion.

Business strategy

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.

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

By putting the customer at the centre of everything we do, engaging our customers through brands they know and trust, and focusing on the key elements of customer advocacy, we believe we will realise our vision to be one of the world's great companies, helping our customers,

communities and people to prosper and grow.

Consistent with that approach, our strategic priorities are particularly centred on improving our distribution and customer offerings, specifically to:

a) Focus on key 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 very 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 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
- by achieving integration across all channels.

c) Realise our multi-brand advantage by

- having a clear, shared vision of success across the Group;

- offering an even greater choice to customers; and
- continuing to invest in and support the individual brands across The Westpac Group.

d) Make our people an important part of our advantage

- through appropriate recruitment and induction processes;
- with a continuing focus on training and coaching; and
- by having a flexible and diverse workforce.

e) Invest in technology and operations to

- transform service delivery, redesign processes end-to-end from a customer perspective; strengthen technology capabilities to increase the reliability and consistency of service;
- focus on driving productivity and eliminating duplication to provide headroom for additional investment; and
- launch a multi-year technology transformation program to renew our overall technology base.

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;

(1) Refer to Note 38 to the financial statements for a list of our controlled entities as at 30 September 2010.

(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 Australian Securities Exchange (ASX) as at 30 September 2010.

- 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 11.8 million customers(1):

- Westpac Retail & Business Banking, which we refer to as Westpac RBB, is responsible for sales, marketing and customer service for all consumer and small-to-medium enterprise customers in Australia under the Westpac and RAMS (2) brands;
- Westpac Institutional Bank, which we refer to as WIB, delivers a broad range of financial services to commercial, corporate, institutional and government customers either based in, or with interests in, Australia and New Zealand. Customers are supported through Westpac branches and subsidiaries located in Australia, New Zealand, New York, London and Asia;
- St.George Bank is responsible for sales, marketing and customer service for our consumer, business and corporate customers in Australia under the St.George brand. It also includes the management and operation of Bank of South Australia (BankSA);
- BT Financial Group Australia, which we refer to as BTFG, is Westpac's wealth management business. BTFG designs, creates and distributes financial products that are designed to help our customers achieve their financial goals by administering, managing and protecting their assets. BTFG includes operations under the Asgard, Advance, Licensee Select, Magnitude, BankSA and Securitator brands; and
- New Zealand Banking, which provides a full range of retail and commercial banking and wealth management products and services to consumer and business customers throughout New Zealand. New Zealand Banking operates under the Westpac New Zealand, Westpac Life New Zealand and BT New Zealand brands.

Other business divisions in the Group include:

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- Pacific Banking, which provides banking services for retail and business customers throughout near South Pacific Island Nations;
- 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 comprises 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.

Structure chart of our businesses

(1) All customers, primary and secondary, with an active relationship (excludes channel only and potential relationships) as at 30 September 2010.

- (2) RAMS Home Loans is our home loan franchise distribution business.

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.

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 the identification, management and communication of 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 that we can best respond to these challenges.

Key changes in our approach to inclusivity during 2010 have included:

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- working to better understand and address customer concerns;
- specific engagement with customers and non-government organisations on developing credit policy statements;
- the further rollout of Net Promoter Score (NPS) measures across the Group;
- 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), was undertaken and will continue in 2011.

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. This year we applied a more 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.

This year we saw fewer issues raised, but those raised were multifaceted and complex. Significant issues included: interest rates and fees, the impact of the global financial crisis, customer service, regulation, diversity and flexibility, climate change, and responsible lending and investment.

Responsiveness

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

We set ourselves a number of objectives for 2010 which were broadly achieved in most areas. Details of our performance are provided on the following pages.

Following feedback from the CCC, and discussions with the Westpac Board, we have reviewed our five-year sustainability strategy to enhance the social dimensions of our performance objectives. This refresh will more closely align our 2011 sustainability objectives to our sustainability and business activities.

The following table sets out our performance against 2010 sustainability objectives

Going mainstream

Building sustainability into our products and services to help customers become more sustainable.

Embed sustainability criteria into consumer product design and decision making process across our retail brands in Australia.	ü	Product life cycle development documentation aligns to sustainability strategy.
Launch an energy efficiency loan product for retail customers in Australia and New Zealand.	ü	First major bank to participate in the Australian Federal Government's Green Loan program, and a participant in the New Zealand Government's Warm Up New Zealand campaign to encourage the installation of heat pumps and insulation.
Roll out St.George Bank employee green loan to all Australian-based Westpac Group employees.	ü	\$4,000 interest free green loan per employee was made available to employees in February 2010.
Roll out an innovative savings product to assist customers in savings and budget planning.	ü	In October 2009, St.George Bank and BankSA launched SENSE, a savings product with tools to save and improve customers' money management. Winner of a 2010 Canstar Cannex Innovation Excellence Award.
To be ranked as the top 1 and 2 for NPS scores in Australia amongst the major banks and 4th in New Zealand.	Í	Whilst St.George Bank continues to lead NPS scores amongst the major banks, the remainder of this objective has not yet been reached.

People and places

Social sustainability including responsible banking and working on issues of concern to local communities

Commence measurement and reporting of customer feedback on Assist services and the Financial Solutions Group.	ü	NPS scores specific to the Assist services have been tracked during the year
Complete roll out of Westpac Local in Westpac RBB.	ü	The Westpac Local model has been implemented across Westpac RBB and New Zealand banking.
Provide \$1 million in financial and in-kind support for financial counselling services.	ü	Over \$1 million in support was provided.
Continue to grow the Organisational Mentoring Program.	ü	Number of Organisational Mentoring partners has increased from 5 in 2009 to over 40 in 2010.
Maintain a Group-wide employee engagement score of 81%.	Í	Employee engagement maintained at a high level, 80% (81% in 2009).

Tread lightly

Managing our own environmental footprint

Reduce Scope 1 and 2(1) emissions by 12.5% on 2008 levels(2).	Í	Total Scope 1 and 2 emissions reduced by 4% against the 2008 baseline.
	ü	

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Reduce paper consumption by 7% on 2008 levels(2).

Paper consumption decreased by more than 24% against the 2008 baseline.

Reduce water consumption by 6% in Australian corporate and contact centres on 2008 levels.

n/a

The published target was established for Westpac. Comparable data is not available due to the integration of Westpac and St.George.

Identify and measure additional areas of Scope 3(3) (indirect emissions).

ü

Additional areas of Scope 3 emissions have been identified and have been incorporated into the measurement and reporting framework.

(1) Scope 1 emissions are all direct greenhouse gas (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 on a pro forma basis.

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

Climate change

Helping customers and employees transition to a low-carbon economy

Implement New Zealand carbon strategy.	ü	The New Zealand carbon strategy has been implemented, including participation in New Zealand Emissions Trading Scheme (NZ ETS).
Launch carbon hedging and risk management products in Australia and New Zealand.	ü	First bank to trade in the New Zealand Emissions Trading Scheme. Well positioned to deliver products should market trading commence in Australia.
Incorporate carbon considerations into credit and risk processes and sector strategies.	ü	Carbon-related regulatory risk has been incorporated into sector strategy and credit submission templates. Carbon-related risk management strategies have been incorporated into specific high risk transactions.
Continue to engage with all significantly affected customers.	ü	Continued engagement with customers in Australia and New Zealand likely to be impacted by the measures to better understand the impacts and develop product responses.

Speaking out

Leading beyond the corporate walls and speaking out in support of sustainable business practice

Advocate for continued action on climate change.	ü	Westpac established as a Lead Partner with the Climate Institute, a local not-for-profit organisation which promotes policy, market and business solutions to climate change.
		Founding partner of the Advance Green Network linking Australians around the world involved in sustainability. Events have been held in New York and London.
Continue to encourage the adoption of sustainable business practices amongst small to medium enterprises (SME) and within the community sector.	ü	Involved in the National SME Project and the launch of the Good Business Register for SME in December 2009.
Encourage greater use of Environmental, Social and Governance (ESG) factors in investment decision-making.	ü	Sustainability performance integrated into the 2010 Annual Review and Annual Report. Hosted an analyst briefing on sustainability in the finance sector.
Scope opportunities to embed sustainability criteria into the category management plans for priority areas of spend.	ü	Sustainability criteria has been embedded into category plans developed by our Group procurement team. For selected suppliers, environmental reporting criteria has also been embedded.
Have at least 5% of employees registered as Our Tomorrow Champions across the Group.	ü	More than 5% (2,300 employees) have registered to be an Our Tomorrow Champion across the Group.

Solid foundations

Corporate governance, risk management, values and ethics

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Develop a consistent framework for credit risk analysis across all business units.	ü	An ESG Risk Framework has been approved by the Board Risk Management Committee.
Establish a governance process to implement the United Nations Principles for Responsible Investment (UN PRI) across the merged BTFG funds management businesses.	Í	Work to date on implementing a governance process for the implementation of the UN PRI has focused on the Advance business, including surveying of external fund managers and the development of a draft framework.
Implement Sustainable Supply Chain Management (SSCM) across all countries and brands.	ü	The Sustainable Supply Chain Management Policy applies across all countries and brands. Implemented in all Australian brands and with high spend suppliers in Pacific Banking. Detailed sustainability assessments are currently being carried out with high-risk and high-spend suppliers in New Zealand.
Explore opportunities to align sourcing practices with our local community engagement approach.	ü	In support of the Westpac Local model our Print Management Services Agreement now supports local printing of specialised marketing materials.

Competition

The financial services markets are strongly competitive across the regions in which we operate and are likely to become more so as the global economy recovers from the global financial crisis.

We service the financial and wealth needs of a broad set of customer segments, spanning from small businesses to large corporate and institutional clients on the business side and consumers to high net worth individuals on the retail side of our business. Our competitors vary across the range of products and services that we offer, from large global organisations with a broad offering to entities more focused upon a specific region or product.

In Australia, the competition for deposits has intensified as banks and other financial institutions seek to reduce their reliance on wholesale funding and better position themselves for anticipated liquidity regulatory requirements.

We expect competition within the lending market to further intensify, in particular in business lending, as business confidence improves and investment returns. Competition for mortgages is likely to intensify further if growth in the housing market slows.

In the 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 would 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.

Outlook(1)

The 2010 financial year has been an important period for The Westpac Group. Having emerged from the global financial crisis in strong shape, the Group has focused on improving the sustainability of the business. This has included, continuing to expand the distribution capability, building on the multi-brand strategy, implementing comprehensive cuts to customer fees, reducing the Group's reliance on third party distribution, absorbing falls in markets related income, enhancing the Group's technology infrastructure and further strengthening capital and liquidity. Each of these factors has some impact on earnings and the effects will continue into 2011.

In the period ahead, economic activity is expected to further improve as business investment picks up and global growth trends higher. Nevertheless we expect some of the legacies of the global financial crisis to be with us for some time including caution remaining in financial

markets.

These trends are expected to see wholesale funding costs continue to rise in the year ahead.

At the same time we expect further clarity in the prudential and regulatory change agenda, particularly in finalising adjustments to capital and liquidity requirements. These changes are likely to see Westpac further strengthen its balance sheet although this is expected to be accomplished in a measured way.

Credit growth is expected to improve in the year ahead with housing growth remaining around current levels and business lending gradually improving after two years of de-gearing.

In the period ahead, Westpac will continue to focus on: better meeting customer needs; capitalising on our multi-brand approach and further strengthening the infrastructure supporting our network. This includes increasing investment in our Strategic Investment Priorities. At the same time, the Group will have a more targeted and selective approach to growth while appropriately managing all aspects of the balance sheet.

Having further strengthened the franchise over 2010, The Westpac Group is in excellent shape to continue supporting customers and improving returns to shareholders.

Significant developments

Merger with St.George Bank Limited

On 1 December 2008, Westpac completed its merger with St.George by way of a scheme of arrangement. The merger, originally announced on 13 May 2008, was approved by holders of St.George ordinary shares on 13 November 2008 and subsequently approved by the Federal Court of Australia on 17 November 2008. Upon completion of the merger, St.George Bank Limited operated as a Westpac subsidiary. A regulatory condition of the merger was that Westpac and St.George would transition to a single authorised deposit-taking institution (ADI).

On 1 March 2010 Westpac and St.George commenced operating as a single ADI. In conjunction, the legal entity, St.George Bank Limited was deregistered and Westpac became its successor in law. That transition resulted in all St.George assets and liabilities (including all deposits, contracts and debt securities previously issued by St.George Bank Limited) becoming Westpac assets and liabilities. All directly owned subsidiaries of St.George Bank Limited are now directly owned by Westpac.

St.George and all its wholly owned Australian subsidiaries joined the Westpac tax consolidation group 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.

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

Tax consolidation relating to the merger with St. George has been finalised for the 2009 and 2010 financial years. With the tax consolidation impacts for the 2009 and 2010 financial years now completed and the approach agreed with the Australian Taxation Office (ATO), it has been determined that tax is not required to be paid on the increase in the value of the derivative contracts that matured in the 2009 and 2010 financial years. This value totalled \$2,284 million, and accordingly, our current tax liability and income tax expense have been reduced by \$685 million. This will lead to a corresponding refund of 2009 tax paid and an adjustment to Westpac's tax payable for 2010.

As additional derivative contracts mature, there may be further material favourable adjustments. However, it is not possible to assess these adjustments until the interaction of the new taxation of financial arrangements (TOFA) legislation and the tax consolidation rules is clarified. Additional adjustments to tax payable or deferred balances will not be made until discussions clarifying the application of these rules have been finalised with the ATO.

Strategic investment priorities

Westpac has commenced a significant investment in major strategic projects aimed at delivering business and technology capabilities to improve the customer experience. That investment is taking place through 15 cross-divisional programs we call our Strategic Investment Priorities (SIPs). The SIPs are a series of programs that implement the Group's technology strategy and plan including:

- addressing legacy technology issues;
- transforming the Group's technology infrastructure to support a multi-brand platform; and
- supporting Westpac's customer focused strategy.

The SIPs program consolidates a significant proportion of Westpac's project investment and is planned to take place over five years with a forecast project investment of \$2 billion.

Liquidity

On 17 December 2009, the Basel Committee on Banking Supervision (BCBS) released a consultative document titled *International framework for liquidity risk measurement, standards and monitoring*. The BCBS intends to release final standards by December 2010.

Following an extensive consultation process and Quantitative Impact Study, the BCBS continues to work on the quantification and determination of final standards. While some information has been released, the final package of reforms is not yet known. One unresolved issue of particular relevance to the Australian marketplace is the qualification criteria for liquid assets in jurisdictions where there are insufficient government bonds available to meet the Liquidity Coverage Ratio. The BCBS has announced that the implementation of the proposed Liquidity

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Coverage Ratio and Net Stable Funding Ratio are to be delayed until 2015 and 2018 respectively, pursuant to an observation period and further analysis by the BCBS.

The Australian Prudential Regulation Authority (APRA) has indicated that it will release revised Australian liquidity standards for consultation subsequent to finalisation of the BCBS standards. It is expected that APRA will release draft standards during 2011, and final standards during 2012.

Until there is greater clarity regarding the new prudential requirements, the full extent of the impacts for Westpac is uncertain. Notwithstanding the uncertain requirements, Westpac expects to be required to increase its holding of liquid assets.

Capital

On 17 December 2009, the BCBS released a consultative document titled *Strengthening the resilience of the banking sector* which set out potential changes to the definition and quantum of capital required to be held by banks globally, including the introduction of certain capital buffers. On 26 July 2010, the Group of Governors and Heads of Supervision, the oversight body of the BCBS, announced that they had reached broad agreement on the overall design of the capital reform package. This includes transitional arrangements for introduction of the proposed leverage ratio for final implementation by 2018.

On 12 September 2010, this Group of Governors also issued a further release announcing higher global minimum capital standards, which included:

- an increase in the minimum common equity requirement from 2% to 4.5%;
- an increase in the minimum Tier 1 capital requirement from 4% to 6%;
- quantification of the capital conservation buffer at 2.5%, to be met with common equity; and
- quantification of a range for the countercyclical buffer of between 0% - 2.5% of common equity or other fully loss absorbing capital.

The September 2010 release also outlined that agreement has been reached on transitional arrangements for implementing the new standards, with phase in arrangements starting from 1 January 2013 and some elements not becoming fully effective until 1 January 2019. The BCBS capital reforms are expected to be finalised by the end of 2010, following which APRA is expected to consult with industry in relation to prudential standards applicable for Australia. Until the full suite of capital reforms are finalised by the BCBS, and APRA's prudential standards are issued, the full extent of the impacts for Westpac is uncertain.

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In addition, the Financial Stability Board (FSB) working closely with the BCBS has finalised a policy framework, to be endorsed by the G20, that will apply to institutions deemed to be systemically important financial institutions (SIFIs). The framework calls on jurisdictions to put in place additional requirements for both national and global SIFIs. Details of the framework and the definition of a SIFI are currently unknown, and therefore the implications for Westpac cannot be determined at this stage.

Derivatives Reform

Globally regulators are transforming the Over the Counter (OTC) derivatives market by 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. Westpac is closely monitoring offshore developments and is actively engaging with both local and international regulators, trade associations, banks, and clearing houses. It is expected that the usage of clearing globally will expand rapidly during 2011 and Westpac will commence moving towards a cleared solution following an appropriate risk assessment, as and when clearing solutions meeting the needs of the Australian marketplace become available. These changes have the potential to affect WIB's Markets business.

United States

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

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

In response to the recent financial crisis, new legislation designed to reform the system for supervision and regulation of financial firms in the United States 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 United States, including foreign banks like Westpac. Included among its provisions are reforms designed to reduce systemic risk presented by very large financial firms, promote enhanced supervision, regulation, and prudential standards for financial firms, 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 government with the tools needed to manage a financial crisis. Many aspects of the legislation require rulemaking by US federal supervisory agencies for full implementation. Until there is greater clarity, it is not possible to assess the impact of the legislation and the regulations on our operations.

Foreign Account Taxation Compliance Act (FATCA)

The FATCA provisions were signed into law in the US on 18 March 2010. The legislation requires foreign financial institutions (such as Westpac) to provide the US Internal Revenue Service (IRS) with information on accounts held by US persons. There are a number of significant Australian legal obstacles to compliance and the final form of the rules is unknown. However, if implemented near to its current form it would require substantial investment in a compliance and reporting framework to meet the standards.

Further regulatory developments

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

- Credit law reform - The *National Credit Code* has commenced, increasing the regulation of activities relating to the provision of consumer credit. The Government has begun working on a second phase of its credit law reforms, which is expected to extend the regulation of credit to cover small businesses;
- Consumer law reform - The Government continues reforms to Australia's consumer laws. Regulators such as the Australian Competition and Consumer Commission (ACCC) and Australian Securities and Investments Commission (ASIC) are assisting industry with the detail of the new regulatory framework, including developing guidance on the application of new laws relating to unfair terms in consumer contracts;
- Margin lending reform - Margin lending has been made a financial product subject to the *Corporations Act* and this has created new conduct and disclosure requirements for issuers and advisers of margin lending facilities which will take effect from 1 January 2011;
- Superannuation changes - On 5 July 2010, the Government released the final report of the Cooper Review on the governance, efficiency, structure and operation of Australia's superannuation system. The report makes several recommendations, including the proposed introduction of a simple, low-cost MySuper superannuation product and an initiative called SuperStream to improve the efficiency of processing superannuation transactions through the use of technology; and
- 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, replacing a wide range of complex State and Territory based legislation and registers.

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.

Proposed transfer of additional banking operations to Westpac New Zealand

It is a policy of the Reserve Bank of New Zealand (RBNZ) that all systemically important banks must incorporate as local entities in New Zealand, rather than operate through branch structures.

Until 1 November 2006, Westpac conducted its banking operations within New Zealand in 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, Westpac New Zealand Limited (WNZL), to conduct its retail and business banking activities in New Zealand, and a branch, Westpac's NZ Branch (NZ Branch) to conduct its institutional and financial markets activities. The conditions of registration of each of WNZL and NZ Branch are consistent with these operating model arrangements.

In 2009, the RBNZ asked Westpac to review the structure of its operating model in New Zealand to ensure that it is able to sustain durable compliance with the RBNZ's prudential policies. Accordingly, it was agreed that an independent review would take place, with the terms of reference for the review established through consultation between the RBNZ, WNZL and Westpac. The RBNZ, WNZL and Westpac have reached high level agreement on changes to the operating model.

Under that agreement, the NZ Branch will transfer the following additional business activities and associated employees to WNZL:

- institutional customer deposits;

- institutional customer transactional banking;

- institutional customer lending;

- debt capital markets (including customer loan syndication and securitisation arrangements, but excluding the debt securities team activities, such as arrangement of commercial paper and bond programmes); and

- corporate advisory.

Details of the changes are being worked through in consultation with the RBNZ as part of the implementation program.

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Under the proposed changes to the operating model, the NZ Branch will retain 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 will retain its global intra-group financing functions.

Implementation of the transfer is currently expected to be completed by the end of the 2011 calendar year.

Australian Government Guarantee Scheme

On 31 March 2010, the Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding (the Guarantee Scheme) closed to new liabilities. The Guarantee Scheme, originally announced in October 2008, provided a guarantee facility for deposits of amounts over \$1 million and wholesale funding of an eligible ADI, in return for a fee payable by the eligible ADI.

Deposit balances above \$1 million covered by the Guarantee Scheme as at 31 March 2010 will be covered until maturity (for term deposits), or until October 2015 (for at call deposits). For at call deposits, the amount covered will be capped at the closing guaranteed amount on 31 March 2010. Deposits and interest payments after this date will only be covered (up to the capped amount) if the guaranteed balance has fallen below the capped amount. For term deposits, interest due after 31 March 2010 will be guaranteed to maturity. Statutory trust accounts will be treated in the same way as other large deposits. Guaranteed wholesale liabilities as at 31 March 2010 will also be guaranteed to maturity (which may be up to five years).

Guarantee Scheme fees based on eligible ADIs' long term credit rating, required to be paid monthly, continue to apply throughout the period for which the guarantee applies to the relevant deposits. The monthly payment is calculated on the basis of the funds to be guaranteed, multiplied by the Guarantee Scheme fee. The Guarantee Scheme fee applicable to Westpac is 70 basis points or (0.70%) per annum. The fee waiver for guaranteed amounts held in statutory trust accounts continues to apply.

The closure of the Guarantee Scheme does not affect the Financial Claims Scheme (FCS), administered by APRA, which will continue to provide depositors a free guarantee of deposits in eligible ADIs up to and including \$1 million. 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. The \$1 million FCS cap is scheduled to be reviewed by the Australian Government in or around October 2011.

New Zealand Government Guarantee Scheme

WNZL opted into the New Zealand Retail Deposit Guarantee Scheme which the New Zealand Government originally announced on 12 October 2008. The scheme was for a two year period. WNZL entered into a Crown Deed of Guarantee on 11 November 2008, which was amended by a Supplemental Deed dated 24 November 2008. The Crown withdrew the original deed in respect of indebtedness incurred on or after 1 January 2010 and entered into a revised deed of guarantee with WNZL dated 16 December 2009. The scheme expired on 12 October 2010.

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The New Zealand deposit guarantee extended to debt securities issued by WNZL in any currency (which included deposits and other amounts lent to WNZL), other than debt securities issued to excluded creditors such as financial institutions and related parties of a participating entity. It did not extend to subordinated debt obligations. The debt securities covered by the New Zealand deposit guarantees were limited to an amount of NZ\$1 million per creditor per approved institution. Under the original New Zealand deposit guarantee, WNZL was required to pay a fee of 10 basis points (or 0.1%) on the amounts owing to creditors covered by that guarantee to the extent that amount exceeded NZ\$5 billion as at 12 October 2008. A similar additional fee was payable in respect of the balance as at 12 October 2009.

On 25 August 2009, the Crown announced an extension of the deposit guarantee scheme. The extension scheme is effectively a new scheme that commenced on 12 October 2010 and ends on 31 December 2011. Institutions had to re-apply to have a guarantee under the extension scheme. When releasing its Financial Stability Report in May 2010, the RBNZ said that there was no need for banks to enter the extended scheme and WNZL and Westpac Banking Corporation's NZ Branch did not apply for the extension scheme.

On 1 November 2008, the New Zealand Government announced details of a wholesale funding guarantee facility to investment-grade financial institutions that have substantial New Zealand borrowing and lending operations (the Facility). The Crown entered into a Crown Wholesale Funding Guarantee Facility Deed with WNZL on 23 February 2009 and has provided a Crown Wholesale Funding Guarantee in respect of WNZL dated the same date. The Facility operated on an opt-in basis, by institution and by instrument. Wholesale funding liabilities of WNZL (which could include amounts guaranteed by WNZL) only have the benefit of the Facility where a Guarantee Eligibility Certificate has been issued in respect of those liabilities. Copies of the Guarantee Eligibility Certificates issued in respect of WNZL obligations are available on the New Zealand Treasury internet site. A guarantee fee was charged for each Guarantee Eligibility Certificate issued under the Facility, differentiated by the credit rating of the issuer of the relevant securities, the term of the security being guaranteed and, in the case of issues with terms of more than one year, between New Zealand dollar and non-New Zealand dollar issues. The maximum term of securities guaranteed was five years. The NZ Branch did not participate in the scheme.

The Facility closed on 30 April 2010. From that time no new Guarantee Eligibility Certificates will be issued but existing guaranteed liabilities have not been affected.

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 Secretary to the Treasurer, Dr Ken Henry AC.

On 2 May 2010, the Federal Government released the Henry Review 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 recommended 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. Detail of these proposed reforms, and the Government's response to the other recommendations, are expected to be released progressively. The Federal Government has made no announcement concerning the Henry Review since the Australian Federal election held in September 2010, and it is not certain that all aspects of the Government's response will remain unchanged in the new Parliament. Until further detail is released, and any changes to the law finalised, any impact on Westpac cannot be determined.

The taxation of financial arrangements rules contained in the Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009 became law on 26 March 2009. The TOFA rules will effectively result in a closer alignment of the recognition and measurement of many financial instruments between the Australian accounting standards and taxation laws.

Changes to accounting standards

In further 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. The Group expects that there will be a number of new standards issued in calendar years 2010 and 2011 that may require changes to our current accounting approaches.

Litigation

New Zealand Commissioner of Inland Revenue

On 23 December 2009, Westpac reached a settlement with the New Zealand Commissioner of Inland Revenue (CIR) of the previously reported proceedings relating to nine structured finance transactions undertaken between 1998 and 2002. Under the settlement, Westpac agreed to pay the CIR 80% of the full amount of primary tax and interest and with no imposition of penalties. All proceedings have been discontinued and the other terms of the settlement are subject to confidentiality. Westpac provided in full for the primary tax and interest claimed by the CIR as part of its 2009 result, and consequently there has been a write back through income tax expense in the year ended 30 September 2010.

Supervision and regulation

Australia

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

APRA is responsible for the prudential supervision of banks, credit unions, building societies, life and general insurance companies, friendly societies and most superannuation (pension) funds. APRA's roles include the establishment and enforcement of 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 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 regulatory regime of APRA. Reporting is supplemented by consultations, on-site inspections and targeted reviews. Our external auditors also have an obligation to report on compliance with certain statutory and regulatory banking requirements and on any matters that in their opinion may have the potential to materially prejudice the interests of depositors 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 for regulation and enforcement of company, financial markets and financial services laws that protect consumers, investors and creditors. With respect to financial services, it promotes honesty and fairness through the provision of consumer protection, using regulatory powers to enforce laws relating to deposit-taking activities, general insurance, life insurance, superannuation, retirement savings accounts, securities (such as shares, debentures and managed investments) and futures contracts and financial advice. ASIC became the principal regulator of consumer credit providers in 2010 following the introduction of new national consumer credit regulation. Effective 1 October 2010, ASIC has taken over from the ASX responsibility for supervision of trading on Australia's domestic licensed markets and of trading participants. This supplements its pre-existing responsibility for enforcement of the laws against misconduct on Australia's financial markets.

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 that 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 enforcement of 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 objectives are to ensure that corporations do not act in a way that may have the effect of eliminating or reducing competition, and to oversee product safety and liability issues, pricing practices and third party access to facilities of national significance. The ACCC's 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 in a financial sector company of more than 15%.

Proposals for foreign acquisitions of Australian banks are subject to approval by the Australian Government under the Australian Foreign Acquisitions and Takeovers Act 1975.

AUSTRAC oversees the compliance of Australian reporting entities including Westpac, with 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

RBNZ is responsible for the supervision of the New Zealand registered banks. The New Zealand prudential supervision regime requires that registered banks disclose, on a quarterly basis, information on financial performance and risk positions, and that directors regularly attest to certain key 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 and periodically by the US Federal Reserve. The examination covers risk management, operations, credit and asset quality and compliance with the record-keeping and reporting requirements that apply to national banks, including the maintenance of its accounts and records separate from those of the foreign bank and any additional requirements prescribed by the US Comptroller of the Currency.

A 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

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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 US 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. Many of the new anti-money laundering compliance requirements of the US Patriot Act are consistent with the anti-money laundering compliance obligations previously imposed on US financial institutions, including the US branches of foreign banks, under the Bank Secrecy Act and under regulations of the applicable US bank regulatory agency such as the US Comptroller of the Currency. These 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. The US Patriot Act and other recent events have resulted in heightened scrutiny of Bank Secrecy Act and anti-money laundering compliance programs by US federal bank regulatory and law enforcement authorities.

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 from reports in the media and other public statements that class action proceedings relating to exception fees have been commenced against one Australian bank, and may be commenced against other Australian banks. 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 3 November 2010.

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 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 take into account the *Corporations Act 2001* (Corporations Act) and the Corporate Governance Principles and Recommendations (ASXCGC's 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's 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's Recommendations can be found on the 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.

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The ASX, through the ASXCGC's Recommendations, and NZX have adopted a similar comply or explain general approach to corporate governance. However, the ASXCGC's 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 as a foreign private issuer.

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 2010 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 at the AGM. 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 2010.

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.

Our constitution states that at each AGM one-third of our Directors (excluding the CEO and any Director appointed during the year to fill a casual vacancy) and any other Director who has held office for three or more years since their last election, must retire. In 2010, none of our Directors met this three-year threshold. Westpac considered that it was appropriate for the full Board, rather than the Nominations Committee, to determine the Board candidates for retirement under the rotation policy, and to review and recommend their re-election by shareholders at the 2010 AGM.

Websites

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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. During the year, the Board formed a new Committee to provide a specific focus on Occupational Health and Safety (OHS) across the Group. The role of that Committee, and Board-level oversight arrangements for OHS, will be reviewed in 2011.

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.

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 The 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;
- maintaining a direct and ongoing dialogue with Westpac's auditors and, where appropriate, principal regulators;
- internal governance including delegated authorities, policies for appointments to our controlled entity Boards and monitoring resources available to senior executives;
- approving the Westpac Group's Remuneration Policy;
- determining the size of bonus/incentive pools; and
- monitoring OHS issues in The Westpac Group and considering appropriate OHS reports and information.

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 Board establishes other Committees from time to time to consider matters of special importance or to exercise specific delegated authority from the Board.

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 2010 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 which he or she has directly or as a partner, shareholder or officer of a company or other entity that has an interest, or a business or other relationship, with Westpac or 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 2010

	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	Chair ü			ü
John Curtis	Deputy Chairman, Non-executive, Independent	ü	ü	ü	ü		
Gail Kelly	CEO, Executive					ü	ü
Elizabeth Bryan	Non-executive, Independent	ü	ü	ü			Chair ü
Gordon Cairns	Non-executive, Independent	ü	ü	ü	Chair ü		
Peter Hawkins	Non-executive, Independent	ü	ü				ü
Carolyn Hewson	Non-executive, Independent	ü	Chair ü	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. From time to time the Board may form other Committees or request Directors to undertake specific extra duties such as the new Committee focusing on OHS established during the year.

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

The Chairman

The Board elects one of the independent Non-executive Directors as Chairman. Our Chairman is Ted Evans. 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, Board Nominations Committee 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:

- effective leadership of the management team;
- the development of 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 2010 financial year are reported in Section 8 of the 2010 Directors' report.

Nomination and appointment

The Board Nominations Committee is responsible for:

- developing and reviewing policies on Board composition, strategic function and size;

- evaluating annually the performance and effectiveness of the Board, its Committees and individual Directors;
- 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.

The Board Nominations Committee assesses nominations of new Directors against a range of criteria including the candidate's background, experience, professional skills, personal qualities, whether their skills and experience will complement the existing Board and their availability to commit themselves to the Board's activities. External consultants are used to access a wide base of potential Directors.

New Directors receive an induction pack which includes a letter of appointment that sets out the expectations of the role, conditions of appointment including expected term of appointment, and remuneration. This letter conforms to the ASXCGC's Recommendations. New Directors are also offered an induction program, details of which are set out on the next page.

The attendance of Board Nominations Committee members at the Committee's meetings is set out in Section 8 of the 2010 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 the

relevant 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 twelve 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 Westpac. Such discretion will be exercised on an annual basis and the Director concerned will be required to stand for re-election annually.

Education

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

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

Access to information and advice

All Directors have unrestricted access to company records and information, and receive regular detailed financial and operational reports from executive management. Each Director also enters into an access and indemnity agreement which, amongst 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 2010 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 2010 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 individual results with each Director and Committee Chair. 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 2010 financial year are conducted following the end of the 2010 financial year.

There is a further discussion on performance in the Remuneration Report in the 2010 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.

Advisory Boards

The Westpac Group operates a multi-branding strategy with each brand having its own unique identity and market position. Westpac maintains an Advisory Board for BankSA that assists in preserving the unique identity of the BankSA brand within the overall multi-brand strategy of The Westpac Group through oversight of management reports in relation to the brand health and positioning of the brand.

Ethical and responsible decision-making

Code of Conduct and Principles for Doing Business

Our Code of Conduct sets out seven 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 seven values are that:

- we act with honesty and integrity;
- we respect the law and act accordingly;
- we respect confidentiality and do not misuse information;
- we value and maintain our professionalism;
- we work as a team;
- we manage conflicts of interest responsibly; and
- we strive to be a good corporate citizen and achieve community respect.

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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;
- employees;
- customers;
- 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 report our performance against them annually.

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 Principles.

In addition to our Code of Conduct and 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:

- avoid 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 Board Nominations Committee and the Board are responsible for assessing the main Board Directors and Non-executive Directors on subsidiary Boards. The Chairman has delegated authority from the Board to make fit and proper assessments for senior 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 whistleblowing

Under our Whistleblower Protection Policy, our employees are encouraged to raise any concerns of activities or behaviour that may be unlawful or unethical with either 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 and any internal policy or regulatory requirement.

Employees can also raise possible wrongdoings on an anonymous basis through either of our internal or external whistleblower reporting mechanisms; logging their report onto an internal reporting system (Concern Online); or by telephone or email to an external and independent professional services firm with employees who are trained in confidential reporting and whistleblower protection (Employee Concern Hotline).

Employees may also choose to involve the Whistleblower Protection Officer, who is responsible for protecting the employee against disadvantage.

We investigate concerns raised in a manner that is fair, objective and affords natural justice 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 AS8004-2003 (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

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Westpac Directors and all Westpac employees are restricted from dealing in our shares and certain 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 only trading in permitted windows following annual and half year profit announcements.

The mechanisms we use to manage and monitor our obligations include:

- the insider trading provisions of our policy, which prohibits 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 (Trading Windows);
- requiring Directors and Prescribed Employees to notify their intention to trade during those Trading Windows 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;
- trades by Directors of Westpac securities are notified to ASX within five business days as required under the ASX Listing Rules; and
- employees are forbidden to enter into hedging arrangements in relation to their unvested employee shares or securities, whether directly or indirectly.

Diversity

The Westpac Group has recently refreshed its diversity strategy and framework for our ongoing program of diversity initiatives. This program will focus on achieving our vision to be one of the world's great companies for diversity and flexibility which means:

- having a workforce profile that delivers competitive advantage by more closely reflecting the customers and the community that we serve;
- having a truly inclusive workplace where every individual can shine regardless of gender, cultural identity, age, work style or approach;
- leveraging the value of diversity for all our stakeholders to deliver the best customer experience, improved financial performance and a stronger corporate reputation; and
- continuing to take a leadership position on diversity practices and setting the agenda in the external community.

The critical areas of focus are women in leadership, accessibility, Indigenous employment, age and cultural diversity all supported by market leading flexibility policies and practices. To deliver on these focus areas we:

- will continue to increase the proportion of women in senior leadership roles through strengthening the talent pipeline at critical points;
- have set a measurable objective to increase the proportion of women in senior management roles (over 4,000 leaders from our executive team through to our bank managers) from 33% to 40% by 2014;
- will continue to provide key leadership programs and mentoring and networking opportunities for women to prepare and support them in their career progression;
- will continue to assess pay equity on an annual basis;
- will continue to encourage and support the application of flexibility policy into practice across the business;
- will continue to deliver against our commitment to the Australian Employment Covenant to assist Indigenous Australians to access employment across our brands;
- will continue to deliver against our Accessibility Action Plan for employees and customers with a disability including providing employment opportunities for people with disabilities;
- will lodge a new Accessibility Action Plan with the Australian Human Rights Commission in calendar 2010; and
- will continue to listen to the needs of our employees through our annual employee survey and specific diversity focused surveys.

The diversity strategy and program of initiatives is reviewed and assessed quarterly by the Group Diversity Council chaired by the CEO and reported to the Board.

Corporate responsibility and 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. These issues are reflected in our business strategies and specific sustainability priorities.

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 evolving community expectations.

The Board Sustainability Committee:

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

- oversees initiatives to enhance our sustainability;
- agrees standards for our corporate responsibility and 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;
- monitors and oversees our environmental, social, governance and other material business risks (along with the Board Risk Management Committee) including the strategic and operational response to climate change; and
- reviews and approves the independent assurance of our annual 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 securityholder 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 an 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

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- 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, CRO, Group Assurance, management and the external auditor about our major financial risk exposures and the steps management has taken to monitor and control such exposures;
- the 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 (our internal audit function) 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's 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, Chair of the Board Audit Committee, is an audit committee financial expert and independent in accordance with US securities law.

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The designation of Mr Maxsted as an audit committee financial expert does not impose duties, obligations or liability on Mr Maxsted 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 titled Size and membership of Board Committees as at 30 September 2010 in this statement. 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 2010 Directors' report.

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 Rob Ward. Mr Hammond and Mr Ward assumed responsibility for these roles in 2008 and 2009, 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 2010. 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 2010 Directors' report.

Group Assurance (internal audit)

Group Assurance includes an independent and objective internal audit review function charged with evaluating, testing and reporting on the adequacy and effectiveness of management's control of operational risk. Group Assurance 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 Board approved our 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 be disclosed 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.

To supplement the information already available to investors, we publish on our website investor discussion packs, containing presentations on and explanations about our financial results. We also publish on our website our Annual Review and Sustainability Reports, Annual Reports, profit announcements, CEO and executive briefings (including webcasts), notices of meetings, media releases and briefing transcripts.

Shareholder communication and participation

We seek to keep our shareholders fully informed utilising a variety of communication mediums. These are regularly reviewed to improve our communications, including using 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 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, the proceedings of which are 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 receipt of the Notice of Meeting, shareholders are also invited to put forward questions that 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 The Westpac Group's risk-reward strategy, setting risk appetite, approving frameworks, policies and processes for managing risk, and determining whether to accept risks beyond management's approval discretion.

The 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 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 and advising on the development of risk appetite statements, risk management frameworks, policies and risk concentration controls and monitoring businesses' risk profiles 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 oversees the establishment and maintenance of Group-wide risk estimates, risk capital models and the adequacy and quality of reporting of risk management activities and related controls to senior executives, the Board and relevant Board Committees.
- Divisional risk areas are responsible for developing division-specific risk appetite statements, policies, controls, procedures, monitoring and reporting capability, which align to the Board 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 the Risk General Managers in each Division having direct reporting lines 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](#) in this statement.

Risk management approach

We regard managing the risks that affect our business as a fundamental activity, as they influence our performance, reputation and future success. Effective risk management involves taking an integrated and balanced approach to risk and reward, and 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;

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- 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 the risk that arises from inadequate or failed internal processes, people and systems or from external events. This includes compliance risk, the risk of legal or regulatory sanction, and the financial or reputation loss arising from our failure to abide by the standards required of us as a financial services group.

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 that Westpac damages its reputation or financial performance due to failure to recognise or address material existing or emerging sustainability-related environmental, social or governance issues;
- equity risk - the potential for financial loss arising from movements in 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);
- model risk - the risk of financial, reputation or operational losses arising because of inadequacies of a model;
- outsourcing risk - the risk of The Westpac Group being unable to carry on critical business activities as a result of the failure of an external supplier or service provider, or that such failure in turn triggers material concerns in another key risk area;
- 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 The Westpac Group; and
- reputation risk - the risk to earnings or capital arising from negative public opinion resulting from the loss of reputation or public trust and standing.

In December 2007 Westpac received advanced accreditation from APRA and the Reserve Bank of New Zealand under the Basel II capital framework. This allows us to use the Advanced Internal Ratings Based (AIRB) approach for credit risk and the Advanced Measurement Approach (AMA) for operational risk to determine our regulatory capital position. We received accreditation for interest rate risk in the banking book capital calculation in July 2008, in accordance with APRA's implementation timetable. In May 2010, APRA extended these approvals to include the St.George portfolio, effective from 30 June 2010.

Board Risk Management Committee

The Board Risk Management Committee:

- provides recommendations to the Board on The Westpac Group's risk-reward strategy;
- sets risk appetite;
- reviews and approves the frameworks for managing risk, including credit, operational, market, liquidity, capital 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's role includes:

- credit risk – approving key policies and limits supporting the credit risk management framework; and monitoring the risk profile, performance and management of our credit portfolio;
- liquidity risk – approving the internal liquidity assessment process, key policies and limits supporting the liquidity risk management framework including our funding strategy and liquidity requirements; and monitoring the liquidity risk profile;
- market risk – approving key policies and limits supporting the market risk management framework including the Value at Risk and Net Interest Income at Risk limits, and monitoring the market risk profile; and

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

The Board Risk Management Committee also:

- approves the internal capital adequacy assessment process and in doing so reviews the outcomes of enterprise-wide stress testing;
- monitors capital levels for consistency with The Westpac Group's risk appetite and sets the target capital ranges for regulatory capital having regard to internal economic capital measures;
- provides relevant periodic assurances to and refers any relevant matters to the Board Audit Committee;
- refers to the Board Remuneration Committee any matters that come to its attention that are relevant with respect to risk and risk management which the Board Risk Management Committee considers are relevant for consideration in respect of remuneration structure or remuneration outcomes; 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.

Managing compliance risk

Westpac's Operational Risk Management Framework incorporates our Managing Compliance Risk Policy and reflects the following core principles and practices:

- compliance is about our responsibilities as employees, our culture, and the systems and processes we use every day;
- complying with both the letter and spirit of regulatory standards is an essential part of our core values and is critical to our success as a leading Australian financial services organisation;
- ensuring that the letter and spirit of regulatory standards are embedded into how we do business, how we conduct ourselves, how our systems and processes are designed and how they operate;
- compliance with regulatory standards is the responsibility of everyone in every part of Westpac. Visibility and accountability of senior management encourages a strong compliance culture;
- the role of the compliance function is to guide the organisation in embedding compliance into how we do business; and
- actively engaging with regulatory bodies and industry forums to maintain high standards across the industry.

Key components of the framework established to support these principles include:

- governance environment – Board and management oversight and accountability, culture and independent review;
- identification – identifying obligations, risks, developing and maintaining compliance plans and implementing change;
- controls and documentation – policies, processes, procedures, communication, training and documentation; and

- monitoring and reporting monitoring, incident and breach escalation, reporting, issue management and managing regulatory relationships.

As with other forms of risk, business line management is primarily responsible for managing compliance risk. Within each major business area there is a dedicated operational risk and compliance function designed to guide compliance within that business. Group management oversight is provided by the Group Operational Risk and Compliance Committee, which establishes the compliance framework and policies, and oversees compliance effectiveness across the Group. Group Operational Risk and Compliance is responsible for the administration of that framework. Within Group Operational Risk and Compliance a regulatory affairs function exists which manages relationships with regulators as well as the framework for our response to new regulatory developments.

Our Compliance function provides the following support:

- infrastructure to facilitate compliance planning and reporting;
- specialist advice to divisions in implementing regulatory initiatives and policies, and establishing compliance programs;
- analytical tools and advice for independent oversight of areas of strategic compliance risk; and
- reports on potential weaknesses across the enterprise.

We measure the effectiveness of our compliance program by the mechanisms set out in the Operational Risk Management Framework, including audit, file reviews, random checks, customer surveys and operational risk assessments.

Regular reports are provided to 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 2010, that state in all material respects:

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

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- 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 executives who report directly to the CEO, other persons whose activities in the Board's opinion affect the financial soundness of Westpac, any person specified by APRA, and any other person the Board determines;
- reviews and makes recommendations to the Board in relation to the remuneration structures for each category of persons covered by the Group Remuneration Policy;
- reviews and makes recommendations to the Board on corporate goals and objectives relevant to the remuneration of the CEO, and the performance of the CEO in light of these objectives;
- reviews and makes recommendations to the Board on the short-term incentive plans for Group Executives;
- oversees succession planning for Group Executives and other senior 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 annually the size of variable reward pools 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 2010 Directors' report.

Further details of our remuneration framework are included in the Remuneration Report in Section 9 of the 2010 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 Sustainability Committee

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

Board Technology Committee

- oversees information technology strategy and implementation.

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

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- 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 Operational Risk & Compliance Committee (OPCO)

- leads the optimisation of operational risk-reward across the Group;
- oversees the operational risk management framework and key supporting policies;
- oversees our operational risk profile; and
- identifies emerging operational risks and appropriate actions to address these.

Westpac Group Asset & Liability Committee (ALCO)

- leads the optimisation of funding and liquidity risk-reward across the Group;
- oversees the liquidity risk management framework and key policies;
- oversees the funding and liquidity risk profile; and
- identifies emerging funding & liquidity risks and appropriate actions to address these.

Westpac Group Market Risk Committee (MARCO)

- leads the optimisation of market risk-reward across the Group;
- oversees the market risk management framework and key policies;
- oversees our market risk profile; and
- identifies emerging market risks and appropriate actions to address these.

Westpac Group 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 compliance, regulatory obligations and emerging risk issues.

Divisional risk management

- develops division-specific policies, 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.

Checklist of Westpac's compliance with ASXCGC's Recommendations

	ASXCGC's Recommendations published in August 2007	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 20	Comply
1.2	Disclose the process for evaluating the performance of senior executives.	Page 23	Comply
1.3	Provide the information indicated in <i>Guide to reporting on Principle 1</i> .	Pages 20, 23	Comply
Principle 2:	Structure the Board to add value		
2.1	A majority of the Board should be independent Directors.	Pages 20, 21	Comply
2.2	The chair should be an independent Director.	Page 22	Comply
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Page 22	Comply
2.4	The Board should establish a nomination committee.	Page 22	Comply
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual Directors.	Page 23	Comply
2.6	Provide the information indicated in <i>Guide to reporting on Principle 2</i> .	Pages 20-23	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 24	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 trading in company securities by Directors, senior executives and employees, and disclose the policy or a summary of that policy.	Page 25	Comply
3.3	Provide the information indicated in <i>Guide to reporting on Principle 3</i> .	Pages 24-25	Comply
Principle 4:	Safeguard integrity in financial reporting		

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4.1	The Board should establish an audit committee.	Page 27	Comply
4.2	Structure the audit committee so that it:	Pages 21, 27	Comply
	<ul style="list-style-type: none"> • 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 27	Comply
4.4	Provide the information indicated in <i>Guide to reporting on Principle 4</i> .	Pages 21, 27	Comply
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 28	Comply
5.2	Provide the information indicated in <i>Guide to reporting on Principle 5</i> .	Page 28	Comply

	ASXCGC's Recommendations published in August 2007	Reference	Compliance
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 their policy or a summary of that policy.	Page 28	Comply
6.2	Provide the information indicated in <i>Guide to reporting on Principle 6</i> .	Page 28	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 28-31, 33	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 28-31, 33	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 31	Comply
7.4	Provide the information indicated in <i>Guide to reporting on Principle 7</i> .	Pages 28-31, 33	Comply
Principle 8:	Remunerate fairly and responsibly		
8.1	Establish a remuneration Committee.	Page 32	Comply
8.2	Clearly distinguish the structure of Non-executive Directors' remuneration from that of executive Directors and senior executives.	Page 32	Comply
8.3	Provide the information indicated in <i>Guide to reporting on Principle 8</i> .	Pages 21, 25, 32	Comply

DIRECTORS REPORT

Our Directors present their report together with the financial statements of the Group for the financial year ended 30 September 2010.

1. Directors

The names of the persons who have been Directors, or appointed as Directors, during the period since 1 October 2009 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.

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 2010 and the period for which each Directorship has been held, are set out below.

Name: Ted Evans AC,

BEcon (Hons.)

Age: 69

Term of office: Director since November 2001. Chairman since April 2007.

Date of next scheduled re-election: December 2012.

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: Chairman of the Nominations Committee. Member of each of the Audit, 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: 54

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: Director of St.George Bank Limited (December 2008 - March 2010).
Director of Westpac New Zealand Limited (February 2008 - February 2010).

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: 60

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, Landis+Gyr Holdings AG and the University of Technology Sydney Faculty of Business Executive Council.

Other interests: Nil.

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Other Westpac related entities directorships: Chairman of St.George Bank Limited (December 2008 – February 2010).

Skills, experience and expertise: For the past 23 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: Member of each of the Audit, Nominations, Risk Management and Remuneration 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: 64

Term of office: Director since November 2006.

Date of next scheduled re-election: December 2010.

Independent: Yes.

Current directorships of listed entities and dates of office: Director of Caltex Australia Limited (since July 2002, Chairman since October 2007).

Other principal directorships: Australian Institute of Company Directors and Chairman of UniSuper Limited.

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 30 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 Technology 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: Ridley Corporation Limited (September 2001 – October 2007).

Name: Gordon Cairns,

MA (Hons.)

Age: 60

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: Centre for Independent Studies and World Education Australia Limited. Chairman of Rebel Sport Limited and Director of Rebel Group Companies and Chairman of Origin Foundation.

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: Chairman of the Remuneration 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

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

Age: 56

Term of office: Director since December 2008.

Date of next scheduled re-election: December 2010.

Independent: Yes.

Current directorships of listed entities and dates of office: Mirvac Limited Group (since January 2006). Visa Inc. (since October 2007, listed in the US).

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: Director of St.George Bank Limited (December 2008 – February 2010).

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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: Member of each of the Audit, Risk Management and Technology 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: 55

Term of office: Director since February 2003.

Date of next scheduled re-election: December 2010.

Independent: Yes.

Current directorships of listed entities and dates of office: Stockland Corporation Limited (since March 2009). BHP Billiton Limited (since March 2010). 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).

Skills, experience and expertise: Carolyn has over 26 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 Risk Management Committee. Member of each of the Audit, Nominations and Remuneration Committees.

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

Name: Lindsay Maxsted,
DipBus (Gordon), FCA

Age: 56

Term of office: Director since March 2008.

Date of next scheduled re-election: December 2011.

Independent: Yes.

Current directorships of listed entities and dates of office: Director of Transurban Group (since March 2008, Chairman since August 2010).

Other principal directorships: Managing Director of Align Capital Pty Ltd and Director of Baker IDI Heart & Diabetes Institute Holdings Limited.

Other interests: Nil.

Other Westpac related entities directorships and period of office: Director of St.George Bank Limited (December 2008 – February 2010).

Skills, experience and expertise: Lindsay was the CEO of KPMG from January 2001 to December 2007 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 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.

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: 67

Term of office: Director since December 2008.

Date of next scheduled re-election: December 2011.

Independent: Yes.

Current directorships of listed entities and dates of office: Chairman of PMP Limited (since September 2002).

Other principal directorships: Holcim Finance (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 31 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 November 2008). AGL Energy Limited (July 2006 - October 2009).

Name: Peter Wilson, CA

Term of office: Director since October 2003.

Age: 69

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).

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 2010 were John Arthur and Rebecca Farrell.

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.

Rebecca Farrell (BA, LLB (Hons.)) joined Westpac in 2009. Rebecca started her career as a transactional lawyer at Mallesons Stephen Jaques and subsequently worked in New York for a number of years. Upon returning from the US, Rebecca joined Freehills, where she provided advisory services to ASX listed companies concerning governance, board performance, capital management, executive remuneration, and ASX Listing Rules and Corporations Act compliance. Most recently, Rebecca spent six months at the Future Fund where she advised the Board of Governors on the establishment of their proxy voting system.

2. Executive Team

As at 30 September 2010 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
Greg Bartlett	Chief Executive, St.George Bank	2008	2008
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	Chief Executive Officer, 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 54
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 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 55

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.

Greg Bartlett Age 58

Chief Executive, St. George Bank

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Greg was appointed Chief Executive, St.George Bank in December 2008 at the time of the merger of St.George with Westpac. He has over 36 years experience in the banking and finance industry. Greg leads a team of over 5,000 people offering comprehensive Retail and Corporate & Business Banking services to over 2.6 million customers nationally under the St.George and BankSA brands. Previously with the Commercial Banking Company of Sydney Ltd, he has been with St.George for nearly 30 years and was a member of St.George Executive Management Committee for over 18 years. Most recently he was Group Executive, St.George Institutional and Business Bank for nine years. Greg's previous roles at St.George include Group Treasurer and Chief General Manager, Group Treasury and Capital Markets.

After this distinguished career spanning nearly 30 years with St.George, Greg will be retiring as Chief Executive, St.George Bank effective 1 December 2010. Rob Chapman, currently CEO of BankSA, will be appointed Chief Executive, St.George Bank to take effect when Greg retires on 1 December 2010.

Peter Clare BCom, MBA. Age 47
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 53
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 47
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 was Chief Executive Officer, BT Financial Group from January 2005 until this appointment. Rob joined Westpac with the acquisition of the BT Financial Group in 2002 and has over 26 years' experience in banking, finance and wealth management. He started with BT in 1991 and has 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. Rob is also a Director of The Australian Indigenous Education Foundation.

Brad Cooper DipBM, MBA, FAIM. Age 48
Chief Executive Officer, BT Financial Group

Brad was appointed Chief Executive Officer of 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 46
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 55
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.

Bob McKinnon BCom, ACA, MAICD. Age 57
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 38 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 54
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 Foundation.

Greg Targett BEc, DipEd, F Fin, CFTP. Age 53
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 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 22 year career with NAB, 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 46
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 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 role.

3. Report on the business

a) Principal activities

The principal activities of the Group during the financial year ended 30 September 2010 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 2010.

b) Review of and results of operations

A review of the operations of the Group and its divisions and their results for the financial year ended 30 September 2010 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.

The net profit attributable to equity holders of Westpac for the financial year ended 30 September 2010 was \$6,346 million.

c) Dividends

Since 30 September 2010, Westpac has announced a final dividend of 74 cents per ordinary share, totalling approximately \$2,212 million for the year ended 30 September 2010 (2009 final dividend of 60 cents per Westpac ordinary share, totalling \$1,765 million). The final dividend will be fully franked and will be paid on 20 December 2010.

An interim dividend for the current financial year of 65 cents per ordinary share, totalling \$1,935 million, was paid as a fully franked dividend on 2 July 2010 (2009 interim dividend of 56 cents per ordinary share, totalling \$1,630 million).

d) Significant changes in state of affairs and events during and after the end of 2010 financial year

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Significant changes in the state of affairs of the Group during 2010 were:

- the commencement of Westpac and St.George operating as a single ADI, and the finalisation of a component of tax consolidation related to Westpac's merger with St.George;
- the commencement of our Strategic Investment Priorities, which have a forecast project investment of \$2 billion over five years;
- ongoing regulatory response to the recent global financial crisis, which has included proposed changes to liquidity, capital, derivatives and other regulatory requirements;
- the Australian Government withdrawing the Australian Government Guarantee Scheme for wholesale funding and large deposits from 31 March 2010, and the New Zealand Government withdrawing its wholesale funding guarantee facility from 30 April 2010;
- the Australian Government's release and initial response to the Henry Review; and
- the settlement of proceedings with the New Zealand Commissioner of Inland Revenue relating to nine structured finance transactions undertaken between 1998 and 2002.

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

e) Likely developments and expected results

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 likely developments in our operations and the expected results of operations have not been included in this Directors report because the Directors believe it would be likely to result in unreasonable prejudice to us.

4. Directors interests*a) Directors interests in securities*

The following particulars for each Director are set out in the Remuneration Report and Note 41 of our consolidated financial statements for the year ended 30 September 2010 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 3 November 2010

	Number of Westpac Ordinary Shares	Number of Westpac Share Options	Number of Westpac Share Rights	Westpac SPS	Westpac SPS II
Westpac Banking Corporation securities					
Ted Evans	19,673				
Gail Kelly	1,319,509(1)	720,556(2)	368,023(3)		
John Curtis	80,787				
Elizabeth Bryan	20,510				
Gordon Cairns	17,038				
Peter Hawkins	15,218				

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Carolyn Hewson	16,348
Lindsay Maxsted	10,310
Graham Reaney	75,361
Peter Wilson	14,343

	Number of BTIM Ordinary Shares
BT Investment Management Limited securities	
Carolyn Hewson	15,385

-
- (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 3 November 2010

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 3 November 2010

	Relevant Interests in Infrastructure Notes	Relevant Interests in Cash Management Trusts (Units)(1)	Other Relevant Interests in Registered Schemes (Units)	Date of Last Notification to the ASX
Elizabeth Bryan	2,000			24 June 2010
John Curtis	1,100			24 June 2010

-
- (1) 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 the constitution as described above 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 related bodies corporate and responsible managers of Westpac and its related bodies corporate are also currently covered by a deed poll in similar terms that was executed in November 2004.

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.

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As part of the merger with St.George Bank Limited, Westpac indemnified each member of the St.George Group and certain of their representatives, including their directors and officers, in respect of breaches of certain obligations and warranties provided by Westpac in the Merger Implementation Agreement between Westpac and St.George Bank Limited and also in respect of the inclusion or disclosure of certain types of information in disclosure or regulatory documents prepared by Westpac. Those indemnities continue to apply to those former St.George Bank Limited directors, some of whom have subsequently been appointed as directors of Westpac. The indemnity also applies to KPMG, as St.George Bank Limited's auditor at the time of the merger.

St.George Bank Limited agreed with Westpac to provide indemnities in corresponding terms under the Merger Implementation Agreement, which also continue to apply and have now been assumed by Westpac following the transition to a single ADI.

No amount has been paid under any of these indemnities during the financial year ended 30 September 2010 or since that date.

Our constitution permits us, to the extent permitted by law, to pay or agree to pay premiums in respect of any contract of insurance, which insures 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.

For the year ended 30 September 2010 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 12,330,887 share options outstanding and 2,930,926 share rights outstanding in relation to Westpac ordinary shares. The expiry date of the share options range between 8 January 2011 and 1 March 2019 and the weighted average exercise price is \$21.83. The latest dates for exercise of the share rights range between 20 January 2013 and 1 April 2020.

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

e) Proceedings on behalf of Westpac

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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;
- an internally developed 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 expect that the cost of implementing this strategy will not have a material impact on the operating expenses of the Group.

The Group is required to comply with the NSW Energy Administration Amendment (Water & Savings) Act 2005 (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 and is due to be submitted by 30 September in each subsequent year. 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 plans were approved by the NSW Government during 2006 and require Annual Progress Reports (submitted to the NSW Government on 29 December 2008 and 31 October 2008 respectively). The Annual Progress Reports for each Action Plan are due in 2010 and subsequent years by 31 December. 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 has reported on greenhouse gas emissions, energy consumption and production under the National Greenhouse Act for the period June 2008 through July 2009 (Year 1 Reporting period) and will continue to report annually. The Group complies with the National Greenhouse Act and submitted its first report to the Commonwealth Government in October 2009.

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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 report is to be submitted by 31 December 2010. We comply with our obligations under the EEO.

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 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 2010. 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 programmes 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 2010

Australia

	Amount \$(1)
Australian Labor Party	83,632
Liberal Party of Australia	69,990
National Party of Australia	5,549
Total	159,171

(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 2010 was NZ\$25,100. 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 2010:

Number of meetings held during the year	Notes	Board Meetings		Audit Committee		Risk Management Committee		Nominations Committee		Remuneration Committee		Sustainability Committee		Technology Committee	
		A	B	A	B	A	B	A	B	A	B	A	B	A	B
Director															
Ted Evans	1	10	10	4	4	4	4	2	2					3	3
John Curtis	2	10	10	4	4	4	4	2	2	9	9				
Gail Kelly	3	10	10									3	3	3	3
Elizabeth Bryan	4	10	10	4	4	4	4	2	2					3	3
Gordon Cairns	5	10	10	4	4	4	4	2	2	9	9				
Peter Hawkins	6	10	10	4	4	4	4							3	3
Carolyn Hewson	7	10	10	4	4	4	4	2	2	9	9				
Lindsay Maxsted	8	10	10	4	4	4	4	2	2						
Graham Reaney	9	10	10	4	4	4	4					3	3		
Peter Wilson	10	10	10	4	4	4	4	2	2			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 2009.

- (1) Chairman of the Nominations Committee. He is a member of the Audit Committee, Risk Management Committee and the Technology Committee.
- (2) Member of the Audit Committee, Risk Management Committee and Remuneration Committee. Since 3 November 2009 he has been a member of the Nominations Committee.
- (3) Member of the Sustainability Committee and Technology Committee.
- (4) Chairman of the Technology Committee. She is a member of the Audit Committee, Risk Management Committee and Nominations Committee.
- (5) Chairman of the Remuneration Committee. He is a member of the Audit Committee, Risk Management Committee and Nominations Committee.
- (6) Member of the Audit Committee, Risk Management Committee and Technology Committee.
- (7) Chairman of the Risk Management Committee. She is a member of the Audit Committee, Nominations Committee and Remuneration Committee.
- (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.

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(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 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,

Last year in our Remuneration Report, we explained the principles behind our remuneration strategy.

This year we thought it would be helpful to go further and explain how we, as a Board, decide on the quantum and structure of remuneration for our senior management group, our key management personnel and for the members of the Board.

Use of external consultants

The Remuneration Committee, following a competitive tender process, selected a specialist remuneration consultant, Ernst & Young and briefed and paid for them, independently of management. We judged them on the basis of their detailed knowledge of our competitors, their access to international data through their network and their deep understanding of the issues raised by the various external agencies.

Primary and secondary comparator groups

After detailed discussion, we selected the primary group of companies we would benchmark our remuneration against as the other three large Australian banks. We also selected a secondary group being the ASX top 10, excluding those banks. The primary purpose of the secondary group was to source comparisons where comparable positions didn't exist in the primary group or the positions were not directly related to Financial Services positions.

Remuneration aggregates for key management personnel

We primarily used total target remuneration to assess whether our remuneration levels were competitive. We wanted to exclude the variability of target setting in different firms, and the impact of individual performance on actual remuneration.

Relativities

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We decided that for all senior management roles external relativities would be the primary lens, taking into account any internal disparities that this might cause. This balanced approach has served us well in the past.

Structure of total target remuneration

Our remuneration is divided into three components: fixed remuneration, short term incentive (STI), and long term incentive (LTI), the latter two referred to as at risk or variable remuneration.

Our policy is for fixed remuneration to be around the median of our primary benchmark group and for total target remuneration to deliver towards the top of our primary group for superior performance, recognising the difficulties arising from inexact role matches.

Our STI is assessed annually against a scoreboard of financial and non financial measures; for further information on these measures, refer to Section 3.2 of the Remuneration report . They are balanced to reward short term financial performance, with other metrics that drive long term value creation.

Of the STI, 60% is received as cash for the CEO, and the balance is deferred in shares. For her direct reports, the percentage received in cash is currently 60% to 75%.

LTI is awarded based on longer term and strategic contribution. It is subject to Total Shareholder Return (TSR) performance relative to a basket of financial services companies. Awards vest over a period of up to five years with initial TSR performance tested on the third anniversary of the commencement of the performance period. Subsequent testing is possible on the fourth and fifth anniversaries.

In benchmarking our structure this year we asked four questions:

- are we paying for performance in the balance between fixed and at risk remuneration?
- are we managing for the long term in the balance between short and long term remuneration?
- should we include a second, externally verifiable metric in our LTI arrangements to balance TSR?
- should we continue to provide the opportunity for multiple performance test dates over the life of our LTI awards?

Our summary conclusions were as follows:

- for the CEO and Group Executives, on average, we have the highest percentage of at-risk remuneration against our primary benchmarking group;
- on the balance between short and long term remuneration we will increase the proportion of STI deferred and the length of the deferral period for our Group Executives;
- we believe having a second performance metric to vest our LTI awards is appropriate; and
- we are not aligned to our peers in having multiple performance test opportunities for our LTI awards and should consider changing.

Changes to the balance between short and long term remuneration will be implemented next year. The introduction of a second performance metric to vest our LTI awards and changes to the multiple testing of LTI awards are envisioned for 2012, enabling us sufficient time for measured consideration of the detail of our proposals.

Discretion

In awarding our STI, the Board has 100% discretion with the scoreboard outcome for the CEO and 50% for the key management personnel and other members of senior management. We believe this discretion is vital to balance any overly mechanistic approach in determining performance outcomes, to better reward the truly outstanding performers and to enable previous decisions (either good or bad) to be taken into account. We exercise this discretion both up and down.

The criteria which we use as the basis for exercising this discretion is set out on Section 3.2.

For next year we have decided that we should align the percentage of discretion that can be applied for Group Executives and other members of senior management to that of the CEO.

Risk adjusted remuneration

We examined our remuneration structure to ensure that it discourages excessive risk taking. We were satisfied by the following building blocks:

- our overall funding pool for variable remuneration is managed to a percentage band of economic profit. Last year this pool fell in line with profitability;
- economic profit, a measure which reflects both profitability and the risk in our business, is our primary financial metric;
- we exercise discretion over the STI outcome, with risk as a primary lens, both retrospectively and prospectively;
- remuneration decisions for employees performing risk and financial control functions are given additional specific focus under our governance arrangements; and
- the Chief Risk Officer, who is the company's top risk officer, attends Remuneration Committee meetings.

Remuneration for Non-executive Directors

We review Non-executive Director fees periodically, benchmarking our relative positioning against the same peer grouping we use to assess key management personnel remuneration. Our two critical lenses were average actual fees, to account for different board sizes, and actual fees per position. Non-executive Director fees were last increased in 2007.

Following benchmarking work this year, we decided that no major changes were warranted but that it would be appropriate not to increase Committee fees and to increase base fees only by 5% for 2011. This is less than inflation over the period and will not necessitate an increase in the shareholder-approved fee pool from which Non-executive Director payments are made.

In conclusion, we hope you, as shareholders, find this a useful explanation of our processes, thinking and actions. As ever, we welcome your feedback, as we strive to make the report simpler and easier to understand.

Gordon Cairns

Chairman - Board Remuneration Committee

1. Remuneration snapshot

This section provides an overview of the Group's remuneration arrangements during 2010 and those planned for 2011.

1.1 Significant factors impacting remuneration this year

The external environment has continued to change significantly during 2010. Economic conditions in Australia improved markedly, yet there is continued uncertainty in the financial sector globally. Our ongoing ability to manage through the new operating environment, leveraging all our brands, while continuing to deliver results for our customers and shareholders is something that we are very proud of.

Executive remuneration has continued to be a focus for governments, regulators and other stakeholders. We have assessed our executive remuneration frameworks and are satisfied that we have a solid foundation for managing remuneration-related risk for the long term.

Remuneration levels

In May 2009, we responded to the lower earnings associated with the global financial crisis by leaving the fixed remuneration levels and variable reward targets for the CEO and Senior Executives(1) unchanged until the 2011 financial year.

More stable market conditions and improving results have meant that remuneration reviews will re-commence from 1 October 2010.

Eligible employees received a 2% pay increase in July 2010 following approval of the new Westpac Enterprise Agreement by Fair Work Australia. This did not include the CEO or Senior Executives.

Performance during the year and the associated remuneration are discussed in more detail in the next section.

Variable reward

The remuneration framework provides for payment of variable rewards to employees so their remuneration is broadly aligned with returns to shareholders.

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Each year a variable reward pool is established from which short term incentives, which include cash and deferred share bonuses, and long term incentive awards are paid for all employees, including Senior Executives.

The Remuneration Committee assesses financial performance primarily using economic profit(2), a financial measure that reflects both the profitability and the risk in our business. To supplement this measure, consideration is also given to other measures including cash earnings(3), cash earnings per share and dividends payable to shareholders.

In 2010 the Board concluded that an increase in the Group's overall variable reward funding should be broadly commensurate with our improved financial result and dividend growth.

Regulatory changes

In Australia and internationally the uncertainty since 2009 regarding the regulation of executive remuneration has begun to settle. This year we have managed new regulatory requirements across the many jurisdictions in which Westpac operates.

The charters of the Board and its Remuneration Committee and the Group Remuneration Policy reflect the new APRA Prudential Standard on the governance of remuneration.

During 2010 the Productivity Commission released its report on Executive Remuneration in Australia and the Government followed with its response. The Board generally supports the recommendations and will continue to monitor developments.

Changes to remuneration framework from 2011

For the 2011 financial year, the Board has adopted changes to the executive remuneration framework recommended by the Remuneration Committee to strengthen the alignment of executive remuneration with the interests of our shareholders, regulatory principles and market practices.

For 2011, the framework will retain the current structure of fixed remuneration, short term incentive (STI) and long term incentive (LTI), but with modifications to the STI impacting:

- the proportion that is granted as deferred equity (the cash portion will decrease for most participants); and
- the deferral period for deferred equity granted under the STI (broader and longer for most participants).

Details of these changes are set out in Section 3.2.

Further changes to the LTI proposed for the 2012 financial year, subject to detailed consideration by the Remuneration Committee and the Board, include:

- removal of the re-testing of performance hurdles beyond the initial test date; and
- introduction of a second performance hurdle.

We will further address these matters in next year's report.

The next section gives an overview of remuneration as it applies to three groups: the CEO and Senior Executives, other employees and Non-executive Directors.

-
- (1) Senior Executives are named in Section 1.5 in this Remuneration Report.
 - (2) Economic profit represents the excess of adjusted cash earnings over a minimum required rate of return on equity invested. For this purpose, adjusted cash earnings is defined as cash earnings plus the estimated value of franking credits paid to shareholders.
 - (3) Cash earnings is defined in Note 32 of the Financial Statements.

1.2 CEO and Senior Executives

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 and delivering superior long term results for our customers and our shareholders. This strategy incorporates sound principles of risk management and governance.

Executive remuneration framework

The executive remuneration framework for the CEO and Senior Executives has three components.

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Fixed remuneration - takes into account the size and complexity of the role, individual responsibilities, experience, skills and market-related pay levels. The fixed package is comprised of cash salary, salary sacrifice(1) items and superannuation.

Short term incentive (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.

Long term incentive (LTI) - performance share rights which vest over a three to five-year period if a performance hurdle is achieved. The award takes into account market benchmarks, individual performance over time, succession potential and key skills.

1.3 Remuneration for other employees

The remuneration strategy for other employees is consistent with the executive remuneration framework described. 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 Non-executive Directors

The Board focuses on strategic direction, long term corporate performance and the creation of shareholder value. The remuneration strategy for Non-executive Directors is set so as to attract and retain experienced and qualified Board members and remunerate them appropriately for their time and expertise.

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Non-executive Directors receive a base fee, a fee for chairing or participating in Board Committees and superannuation. Those who serve on subsidiary Boards receive further fees which are paid by the relevant subsidiary company.

During the year the Board reviewed the fee framework for Non-executive Directors. Market data was obtained from an independent remuneration consultant and based on this advice the Board agreed to a 5% increase in base fees for 2011. There will be no increase to Committee fees. Fees for Non-executive Directors were last increased in 2007.

Fee pool

At the 2008 Annual General Meeting the current fee pool of \$4.5 million per annum was approved by shareholders. For the 2010 year, \$3.5 million (78%) of this fee pool was used.

-
- (1) Salary sacrifice means using fixed remuneration on a pre-tax basis to receive certain benefits such as car parking and child care, or to make additional superannuation contributions.

1.5 CEO and Senior Executives disclosed in this report*CEO and Senior Executives*

The table below lists the key management personnel disclosed in the 2010 Remuneration Report.

Name	Position
Gail Kelly	Managing Director & CEO
Group Executives	
John Arthur	Group Executive, Counsel & Secretariat
Greg Bartlett	Chief Executive, St.George Bank
Peter Clare	Group Executive, Product & Operations
Philip Coffey	Chief Financial Officer
Rob Coombe	Chief Executive Officer, BT Financial Group (until 31 January 2010) Group Executive, Westpac Retail & Business Bank (from 1 February 2010)
Brad Cooper	Group Chief Transformation Officer (until 31 January 2010) Chief Executive Officer, BT Financial Group (from 1 February 2010)
George Frazis	Chief Executive, Westpac New Zealand Limited
Peter Hanlon	Group Executive, Westpac Retail & Business Bank (until 31 January 2010) Group Executive, People & Transformation (from 1 February 2010)
Bob McKinnon	Group Executive, Technology
Greg Targett	Chief Risk Officer
Rob Whitfield	Group Executive, Westpac Institutional Bank
Other Senior Executives	
Curt Zuber	Group Treasurer
Former Group Executive	
Ilana Atlas	Group Executive, People (until 31 January 2010)

Non-executive Directors

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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 generally 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:

- determining the goals and objectives relevant to the remuneration of the CEO and evaluating the performance of the CEO in light of these objectives;
- reviewing succession plans for the CEO and Group Executives;
- considering and approving the Group Remuneration Policy and remuneration structures for each category of persons(1) covered by the Group Remuneration Policy;
- 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;
- approving the appointment of Group Executives and the General Manager Group Assurance and monitoring the performance of senior management; and
- determining the size of variable reward 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.

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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 Policy's effectiveness and compliance with Prudential Standards;
- reviews and makes recommendations to the Board on remuneration structures, including incentive plans, for each category of persons covered by the Group Remuneration Policy;
- reviews and makes recommendations to the Board on 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;
- reviews and makes recommendations to the Board on the remuneration policies and fee levels for Non-executive Directors of subsidiary boards;
- reviews and makes recommendations to the Board on objectives against which the CEO's performance is assessed and which are used as the basis for determining the CEO's variable reward or remuneration;
- reviews and makes recommendations to the Board on the size of variable reward pool, as outlined previously;
- oversees succession planning for Group Executives and other senior executives;
- oversees general remuneration practices and reward expenditure across the Group;
- oversees the Group's equity based plans, and makes recommendations to the Board relating to new plans and changes to existing plans;
- monitors performance against set hurdles under our LTI plans;

- monitors and assesses the extent to which the Group's remuneration policies achieve their aims within an appropriate risk management framework; 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 2010, the Remuneration Committee appointed Ernst & Young 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. Further, the Board maintains a separate funding pool, independently overseen by the Chairman, to pay for this advice.

Members of the Remuneration Committee during 2010

All members of the Remuneration Committee are independent Non-executive Directors. During 2010 the members were:

- Gordon Cairns (Chairman);
- John Curtis; and
- Carolyn Hewson.

(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.

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 2010. Amendments reflected regulatory changes during the year, particularly the APRA Prudential Standard on the governance of remuneration. Further information about the Remuneration Committee is provided in the Corporate Governance Statement in this Annual Report.

The following diagram illustrates the roles and responsibilities of the Board with regard to remuneration issues and its Remuneration Committee.

Other internal governance structures

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A number of new governance structures were established in 2010 to assist the Board and its Remuneration Committee to fulfil their responsibilities to shareholders regarding remuneration matters.

The role 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 Committee also reviews 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 which 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 this influences 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. During 2010, Senior Executives received 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 between employees, shareholders and ongoing capital requirements. The primary financial indicator used is economic profit but cash earnings, earnings per share and dividends are also taken into account.

STI outcomes are based on financial and non-financial measures which reflect risk management and the Group's corporate values and expected behaviours. Economic profit, which measures profitability adjusted for risk in the business accounted for 40% of the CEO's and Group Executives' scoreboards for 2010. 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.

Shareholding requirements

To align their rewards with shareholder returns, the CEO and those Senior Executives who are Group Executives are expected to build and maintain a substantial Group shareholding within five years of commencing 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 are strictly forbidden from entering either directly or indirectly into hedging arrangements for those deferred shares in their STI and LTI equity awards which are yet to be vested. 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 Risk Management Committee. Further, the Chief Risk Officer attends all Remuneration Committee meetings. 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 the following remuneration arrangements approved by the Board, based on recommendations from the Remuneration Committee:

- 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 Executives 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, recognising achievement, valuing each other and acting with integrity. Our annual Staff Perspective Survey asks employees what they value and consider the organisation's top 10 values(1). In 2010, these included values consistent with a culture of risk management, compliance, accountability and doing the right thing.

(1) Results of the Staff Perspectives Survey reported by Barrett Values Centre, September 2010.

3. The structure of remuneration and assessment of performance

This section describes in more detail the three different components of remuneration and how performance is assessed for the CEO and Senior Executives.

3.1 Fixed remuneration

Fixed remuneration refers to the fixed package - comprising cash salary and salary sacrifice items - and superannuation.

The Group provides superannuation contributions of up to 9% of fixed package. During 2010, three Senior Executives remained members of legacy defined benefit superannuation funds (which are closed to new members).

3.2 Short term incentive (STI)

Performance objectives and performance achieved

The Remuneration Committee sets individual performance objectives for the CEO and each of the Senior 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. These include the financial and non-financial objectives below:

Category	Weighting for 2010
Shareholders/financials	40%
Customers	30%
Shareholders/risk	10%
Shareholders/strategy	10%
People	10%

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

Shareholders/financials

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Our primary financial measure is economic profit because the Board believes it is the best measure of risk adjusted returns and of the value created for shareholders. In 2010, economic profit increased by 58%, or by \$1,263 million.

Customers

We assess the strength of our relationships with our customers using a number of measures.

Net Promoter Score For our retail, business banking and wealth customers we measure customer advocacy. This is how willing our customers are to recommend us to others. In 2010 St.George retail(1) and business(2) customers ranked us as their first choice of the major banks to recommend to others.

Relationship Strength Index(3) This measure combines a range of service quality factors including customer advocacy and in 2010 for our large corporate customers we were ranked equal first among our peer group.

Customers with four or more products(4) We want to earn all our customers' business and we measure our progress against this objective by assessing how many customers have four or more products with us. In 2010 we increased the number of both Westpac and St.George retail and business banking customers with four or more products with us by more than 85%.

Technology Much of our customers' experience depends on the stability of our technology platforms. We measure our success by looking at the number of critical incidents - those that directly impact our customers' ability to do business with us. We have reduced the number of these events by over 50% in 2010.

Shareholders/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 2010 include:

- maintenance of our credit rating;
- a strengthened Tier 1 capital position;
- an increase in our stable funding ratio, with the key focus on customer deposits and long term wholesale funds; and

- active management and reduction in the level of impairment charges.

Shareholders/strategy

For 2010 our scoreboard measure for strategy focused on the primary initiatives we have in place to achieve our transformation objectives. These included:

Technology We have made significant progress towards our long term IT strategy, including commencing the implementation of our Strategic Technology Investment.

Funding We enhanced our funding profile over the year including lengthening the duration of our funding and increasing our holdings of liquid assets.

Active customer centric culture Our culture program aims to strengthen the Group's focus on customers. Our employees voted 'delighting customers' and 'customer satisfaction' as our top two corporate values in 2010(5). We are pleased with the strong and healthy alignment between our employees and our strategy.

Multi-branding We have deepened our capability and understanding of what it takes to leverage our very strong brands. We continue to realise significant benefits from the merger with St.George and we are concentrating on maintaining and further building the distinctiveness of our brands.

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- (1) Roy Morgan Research, October 2010.
 - (2) Taylor Nelson Sofres Research, Business Monitor, October 2010.
 - (3) Peter Lee Associates Large Corporate & Institutional Relationship Banking Survey, Australia, 2010.
 - (4) An internal measure of the number of products customers hold with the Group.
 - (5) Results of the Staff Perspectives Survey reported by Barrett Values Centre, September 2010.

People

The People category focuses on increasing employee engagement and employee advocacy for the Group's products and services.

Whilst 2010 has been a challenging year our people have shown great resilience. The aftermath of the global financial crisis, our need to contain spending and its impact on remuneration levels, and the substantial change programs that have been implemented have all impacted our employees.

We had a 90% response rate to our employee engagement survey(1) this year. Despite the challenges we maintained our employee engagement scores compared to 2009 and are ranked in the top quartile of companies globally. Our employee advocacy scores improved markedly this year, with many more of our employees willing to recommend us to their family and friends.

Application of discretion

The Board and Remuneration Committee recognises that the scoreboard approach, whilst embracing a number of complementary performance objectives, will never entirely reflect performance as a whole. The Remuneration Committee may therefore make discretionary adjustments to the scoreboard outcome of up to 100% for the CEO, and up to 50% for 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 Executive during the financial year;
- personal measures established by the CEO for each 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 which 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 Senior Executive to the Board for approval.

The maximum STI outcome is 200% of target.

For 2011, the Board has approved an increase in the level of discretion that can be applied to outcomes, from 50% to 100%. 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.

STI targets

CEO

The CEO's STI target was \$3.5 million for 2010, unchanged from 2009.

Senior Executives

STI targets for Senior Executives are set by the Remuneration Committee at the beginning of each year based on market competitiveness and the nature of the role. Targets in 2010 were unchanged from 2009. STI awards for Senior Executives are managed within the Group-wide variable reward pool.

STI structure - a mix of cash and deferred shares

For 2010, the deferred portion of the STI was set as follows:

STI deferral details 2010

Executive	Deferred Portion	Timing
CEO	40%	50% for 1 year, 50% for 2 years
Senior Executives	25%	2 years
Chief Risk Officer	40%	50% for 2 years, 50% for 3 years
Group Treasurer	34%	2 years

Deferred STI awards granted to the CEO are made in Westpac ordinary shares under the CEO Restricted Share Plan. For Senior Executives based in Australia, the deferred portion is received as Westpac ordinary shares under the Group's general Restricted Share Plan. Shares granted under the CEO Restricted Share Plan and Restricted Share Plan rank equally with Westpac ordinary shares for dividends and voting rights from the date they are granted. These shares are restricted for up to two years, except for the Chief Risk Officer as shown in the table above.

For 2011 changes have been made to both the size and length of this deferral as part of the review of the executive remuneration framework. The new details are shown in the following table.

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- (1) Results of the Staff Perspectives Survey conducted by Towers Watson, September 2010.

STI deferral details 2011

Executive	Deferred Portion	Timing
CEO	40%	3 equal tranches for 1, 2 and 3 years
Senior Executives	40%	3 equal tranches for 1, 2 and 3 years
Group Executive, Technology	25%	1 year (as per fixed term contract)

For Senior Executives outside Australia, the deferred component of the STI may instead be received as rights to ordinary shares (which entitle the holder to Westpac ordinary shares at the time of vesting) under the Westpac Performance Plan.

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 the retention of key talent, as generally it is forfeited if the holder resigns during the restriction period. Shares are also forfeited if the holder is dismissed for cause.

3.3 Long term incentive (LTI)

Performance objectives and performance achieved

The CEO and Senior Executives are also eligible for an LTI award. LTI awards may vest over a three to five-year period, subject to a performance hurdle based on the Group's Total Shareholder Return (TSR) relative to its peers. TSR is a measure of gross return based on share price movement, dividends paid and returns of capital to shareholders.

The CEO and Senior Executives receive value from their LTI awards only if the Group's TSR is at or higher than the 50th percentile of a group of our peers as defined in Section 6.7.

The table below details the vesting scale for LTI awards:

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%

TSR is measured over a period of three to five years from the beginning of the performance period. Each time TSR is measured, the share price is averaged over three months to smooth the impact of short term fluctuations.

During the year, several LTI awards granted in previous years under the Westpac Performance Plan were tested against the relevant performance hurdles. Nineteen awards of securities under the Westpac Performance Plan reached a performance test date. Performance for all these awards was above the 50th percentile, with the Group's relative TSR ranking results ranging from the 74th percentile to the 100th percentile. Where securities reached their first or second test dates and performance was above the 50th percentile, most employees chose not to extend the performance period. No awards under the CEO Performance Plan and Westpac Reward Plan reached a scheduled test date during the reporting period.

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 Rights Plan. Senior Executives receive annual LTI awards of performance share rights under the Westpac Reward Plan.

In previous years, the CEO and Senior Executives were eligible for awards of performance options under the Westpac Reward Plan. From July 2009, performance options were replaced with performance share rights in response to changes to the taxation treatment of options.

From time to time Senior Executives may receive one-off LTI awards under the Restricted Share Plan or the Westpac Performance Plan.

The following table sets out the key features of LTI awards to the CEO under the CEO Performance Rights Plan (2010 grant) and to Senior Executives under the Westpac Reward Plan.

CEO Performance Rights Plan (2010 grant)**Westpac Reward Plan**

Instrument	Performance share rights
Determining the number of securities	<p>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).</p> <p>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.</p>
Performance hurdle is relative TSR	<p>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).</p> <p>Lists of companies in the current ranking groups for the CEO Performance Rights Plan and the Westpac Reward Plan are provided in Section 6.7.</p>
Vesting framework focuses on longer-term performance	<p>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). Below median performance, securities do not vest. Unvested securities are re-tested at subsequent performance test dates (where these exist) and further vesting occurs only if TSR ranking is above the 50th percentile and has improved from previous test dates.</p> <p>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.</p>
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 prior to 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.
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.

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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.

LTI award opportunities

CEO

The CEO received an LTI award of \$2.5 million for 2010. The award was received in the form of performance share rights under arrangements approved by shareholders at the 2009 Annual General Meeting.

The CEO will receive a further equity-based LTI award of \$2.7 million in December 2010 for 2011, subject to shareholder approval at the 2010 Annual General Meeting.

Senior Executives

Senior 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 Senior Executive. These did not increase in 2010.

The actual LTI award granted to each Senior Executive is determined at the Board's discretion. The level of the award takes into account market benchmarks, individual performance over time, succession potential and key skills.

Bob McKinnon

Due to the nature of his four year 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.

3.4 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.

3.5 Target remuneration mix of remuneration elements

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 proportions for target reward in 2010 for the CEO and the average for Group Executives.

LTI award of performance options

- 3 to 5 year performance period
- value only received if Westpac outperforms the median of its peers

Deferred STI of restricted shares

- restricted for up to 3 years subject to service conditions

STI paid as cash

- in December 2010

Fixed remuneration

- including cash, salary sacrifice items and employer superannuation

4. Remuneration outcomes for the CEO and Senior Executives

The table below provides the value the CEO and Senior Executives received from the various components of their remuneration during 2010. Details in this table supplement the statutory requirements in Section 6. The valuation of equity based awards is calculated as in note 3 below. It is not prepared in accordance with A-IFRS.

	Period	Fixed remuneration and superannuation \$ 000	Short term payments Other payments and benefits \$ 000(1)	STI received as cash \$ 000(2)	Total short term payments \$ 000	Value of equity-based awards that vested during the year \$ 000(3)
CEO						
Gail Kelly	Full year	2,701		2,835	5,536	3,083
Senior Executives 2010						
John Arthur	Full year	771		975	1,746	
Greg Bartlett	Full year	954	10	1,594	2,558	465
Peter Clare	Full year	960		1,238	2,198	
Philip Coffey	Full year	1,100	1	1,800	2,901	355
Rob Coombe	Full year	960	1	1,500	2,461	514
Brad Cooper	Full year	985	154	1,500	2,639	1,332
George Frazis	Full year	982	293	1,294	2,569	1,517
Peter Hanlon	Full year	1,084	100	1,238	2,422	206
Bob McKinnon	Full year	800		1,125	1,925	
Greg Targett	Full year	1,081	1	702	1,784	239
Rob Whitfield	Full year	1,800	251	1,560	3,611	980
Curt Zuber	Full year	571	1	3,569	4,141	746
Former executive						
Illana Atlas	Part year	257	152	400	809	335

- (1) Includes annual health checks, relocation, living away from home expenses, allowances and termination payments.
- (2) The CEO and Senior Executives receive part of their annual STI as cash and part was required to be deferred for up to two years (Greg Targett, as Chief Risk Officer, for up to three years). The figure in this column represents the value of the 2010 STI received as cash.
- (3) The value in this column is calculated as the number of securities that vested, multiplied by the Group's share price at the time they vested, less any exercise price payable.

5. Remuneration of Non-executive Directors

Remuneration policy and fee pool

The Board's focus is on strategic direction, long term corporate performance and the creation of shareholder value. As a consequence, 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. The Board undertakes ongoing self-assessment and an external review of its performance and that of the Chairman, each Director and Board Committees. This is detailed in the Corporate Governance Statement in this Annual Report.

Fee framework

The Board periodically reviews the fee framework for Non-executive Directors. At each review the Board considers the performance of the Group and the advice of independent remuneration consultants to help ensure alignment with the market. The current fee framework was set in 2007 as part of a full fee framework review; and reviewed again in 2010.

Under the current framework, all Non-executive Directors receive a single base fee. Non-executive Directors, other than the Chairman, receive additional fees for membership or chairmanship of standing Board Committees (except the Nominations Committee), temporary committees (where appropriate) and subsidiary boards and advisory boards.

The following table details the Board and standing Committee fees payable for 2010:

	Annual rate
Base fee	
Chairman	\$ 700,000
Deputy Chairman	\$ 250,000
Non-executive Directors	\$ 200,000
Committee Chairman Fees	
Audit Committee	\$ 50,000
Risk Management Committee	\$ 50,000
Remuneration Committee	\$ 45,000
Sustainability Committee	\$ 40,000
Technology Committee	\$ 40,000
Committee Membership Fees	
Audit Committee	\$ 25,000
Risk Management Committee	\$ 25,000
Remuneration Committee	\$ 20,000
Sustainability Committee	\$ 20,000
Technology Committee	\$ 20,000

For the 2011 financial year, the Board has determined that the level of base fees will increase by 5%. This change is effective from 1 October 2010. There is no change to any Committee fees.

A temporary OHS Committee was established effective 1 May 2010 to assist with oversight of OHS responsibilities for the Group. The function of, and continued need for, an OHS Committee will be reviewed in 2011.

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 6.6.

Throughout the reporting period, additional fees for eight Non-executive Directors were payable for membership of boards of subsidiaries, the OHS Committee 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.

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 made to one of our staff superannuation funds or to an eligible superannuation fund of the Director's choice.

Equity participation

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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.

This table shows the fees received by each Non-executive Director and supplements the statutory disclosure in Section 6.6.

Name	Period served	Main Board and committee fees received(1) \$ 000	Subsidiary Board fees received \$ 000	Superannuation \$ 000	Total \$ 000
Ted Evans (Chairman)	Full year	700		15	715
John Curtis (Deputy Chairman)	Full year	336	30	17	383
Elizabeth Bryan	Full year	298	48	15	361
Gordon Cairns	Full year	303		15	318
Peter Hawkins	Full year	270	23	17	310
Carolyn Hewson	Full year	295	110	25	430
Lindsay Maxsted	Full year	275	23	17	315
Graham Reaney	Full year	279	6	15	300
Peter Wilson	Full year	290	95	15	400

(1) Includes fees for the temporary OHS Committee and the BankSA Advisory Board.

6. Remuneration details - key management personnel and other executives

6.1 CEO and Senior Executive remuneration details for the 2010 year

This section sets out details of remuneration for the CEO and Senior Executives for the 2010 financial year, calculated in accordance with statutory accounting requirements.

Name	Period	Fixed remuneration(1) \$	Short term benefits		Other short term benefits \$	Post employment	Share-based payment		Total(6) \$	
			STI (cash)(2) \$	Non-monetary benefits(3) \$		Superannuation benefits \$	Restricted shares(4) \$	Options(5) \$		Share rights(5) \$
Gail Kelly										
2010	Full year(7)	2,685,837	2,835,000			14,913	1,732,042	839,924	1,479,280	9,586,996
2009	Full year(7)	2,686,255	2,625,000	985		14,021	3,737,721	777,035	783,895	10,624,912
John Arthur										
2010	Full year	707,513	975,000			63,578	92,935		97,757	1,936,783
2009	Part year	590,840	555,000	275		53,103				1,199,218
Greg Bartlett										
2010	Full year(3),(8)	747,622	1,593,750	9,904		206,000	283,754		210,640	3,051,670
2009	Part year(3),(8)	624,444	712,500	15,843		90,138	534,103		67,302	2,044,330
Peter Clare										
2010	Full year	880,734	1,237,500			79,266	237,316	63,258	131,357	2,629,431
2009	Full year	901,871	862,500	1,012		48,244	84,871	63,258		1,961,756
Philip Coffey										
2010	Full year	1,009,174	1,800,000	1,012		90,826	660,898	247,162	183,292	3,992,364
2009	Full year	998,714	1,687,500	836		72,290	518,336	391,111	45,407	3,714,194
Rob Coombe										
2010	Full year	880,734	1,500,000	1,012		79,265	403,230	253,101	171,076	3,288,418
2009	Full year	889,332	975,000	1,012		47,440	469,313	373,561	40,444	2,796,102
Brad Cooper										
2010	Full year	903,670	1,500,000	153,860		81,330	879,125	197,113	261,788	3,976,886
2009	Full year(9)	892,070	1,012,500	635,210	800,000	80,286	511,948	197,113	173,776	4,302,903
George Frazis										
2010	Full year	967,330	1,293,750	292,613		14,586		399,634	1,418,395	4,386,308
2009	Part year	588,635	630,000	121,679		8,384		234,306	1,043,149	2,626,153
Peter Hanlon										
2010	Full year(8)	880,734	1,237,500	99,856		203,508	362,815	153,735	131,357	3,069,505
2009	Full year(8)	858,818	975,000	1,012		215,938	282,586	211,905	16,772	2,562,031
Bob McKinnon										

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2010	Full year	733,945	1,125,000			66,055	150,706		447,931	2,523,637
2009	Full year	738,641	900,000	1,012		61,358			388,595	2,089,606
Greg Targett										
2010	Full year	991,917	701,700	1,012		89,174	161,950		174,912	2,120,665
2009	Part year	614,474	288,000	1,012		51,703	239,581		23,553	1,218,323
Rob Whitfield										
2010	Full year(10)	1,651,376	1,560,000	251,389		148,624	710,694	183,477	183,292	4,688,852
2009	Full year(9)	1,500,228	732,000	248,784	2,000,000	135,021	862,650	294,649	37,218	5,810,550
Curt Zuber										
2010	Full year(8)	482,742	3,569,203	1,012		88,443	1,020,156	168,807	85,841	5,416,204
2009	Full year(8)	476,907	3,395,000	1,012		99,919	1,024,751	228,098	19,850	5,245,537

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Name	Period	Short term benefits			Post	Share-based payment			Total(6)
		Fixed remuneration(1)	STI (cash)(2)	Non-monetary benefits(3)	Other short term benefits	employment Superannuation benefits	Restricted shares(4)	Options(5)	
		\$	\$	\$	\$	\$	\$	\$	\$
Former executive									
Ilana Atlas									
2010	Part year(9)	235,474	400,000		151,648	21,193	195,075	231,602	1,234,992
2009	Full year	694,285	860,000	1,012		62,486	309,061	258,834	30,269 2,215,947

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

(2) 2010 STI figures reflect annual cash performance awards accrued but not yet paid in respect of the year ended 30 September 2010.

(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, relocation, living away from home expenses and allowances. The figure for Greg Bartlett includes a benefit relating to an interest free loan.

(4) The value of restricted shares is amortised over the applicable vesting period, and the amount shown is the amortisation relating to the 2010 reporting year (and 2009 year as comparison).

(5) 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 2010. Assumptions used in valuing securities granted in 2010 are summarised in the notes to the table in Section 6.2. Details of prior years grants have been disclosed in previous Annual Reports. For Ilana Atlas the remaining adjusted unamortised portion is shown. 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 2010. Assumptions used in the valuation of cash-settled performance share rights include risk free interest rates of 4.67% to 4.72%, a dividend yield on Westpac ordinary shares of 5% and volatility in the Westpac share price of 30%.

(6) The percentage of the CEO and each Senior Executive's 2010 remuneration delivered in the form of share rights and options was: Gail Kelly 24%, John Arthur 5%, Greg Bartlett 7%, Peter Clare 7%, Philip Coffey 11%, Rob Coombe 13%, Brad Cooper 12%, George Frazis 41%, Peter Hanlon 9%, Bob McKinnon 18%, Greg Targett 8%, Rob Whitfield 8%, Curt Zuber 5%, and (former executive) Ilana Atlas 19%.

(7) \$2,846,043 of the amortised value of Gail Kelly's 2009 restricted shares related to her sign-on arrangements. In 2010 \$192,956 relates to the value of her sign-on arrangements.

(8) Greg Bartlett, Peter Hanlon and Curt Zuber are all members of legacy defined benefit superannuation funds. Superannuation benefits have been calculated consistent with AASB 119. Under the terms of Greg Bartlett's defined benefit superannuation arrangements, 17.25% of his fixed remuneration is required to be contributed to his Plan account, which includes employer contributions.

(9) The amount under Other short term benefits for Ilana Atlas relates to payments made on termination of employment, including accrued annual leave. The amounts under Other short term benefits in 2009 for Rob Whitfield related to the merger with St.George, and for Brad Cooper related to his sign-on arrangements.

(10) The increase in Rob Whitfield's fixed remuneration relates to a change of role and responsibility effective from 1 December 2008.

6.2 Summary of LTI grants made during the year

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The table below provides a summary of the LTI awards granted at no consideration to the CEO and Senior Executives during 2010. 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 date(1)	First possible vesting date	Exercise price	Expiry	Fair value(2) per instrument
CEO Performance Plan performance share rights	Gail Kelly	21 December 2009	21 December 2009	21 December 2012		21 December 2019	\$ 14.51
Westpac Reward Plan performance share rights	All Senior Executives except: - Bob McKinnon;	28 January 2010	1 October 2009	1 October 2012		1 October 2019	\$ 15.31
Westpac Performance Plan unhurdled share rights	George Frazis	28 January 2010	1 October 2009	1 October 2011		1 October 2019	\$ 22.10

(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 on 16 December 2009. Subject to the approval of shareholders at the Annual General meeting on 15 December 2010 of the CEO's equity incentive arrangements for the 2011 financial year, the start of the vesting period for the CEO's LTI grants for the 2011 financial year will be aligned with performance years so the commencement date for those awards will be 1 October 2010. This will result in the same performance period for the CEO's LTI awards as applies for other Senior Executives.

(2) The fair value of share rights included in the tables above has been independently calculated at grant date using Binomial/Monte Carlo simulation pricing models. The assumptions included in the valuation of the 21 December 2009 awards to Gail Kelly include a risk free interest rate of 4.99%, a dividend yield on Westpac ordinary shares of 5% and a volatility in the Westpac ordinary share price of 30%. The assumptions included in the valuation of awards under the Westpac Reward Plan include a risk free interest rate of 4.99%, a dividend yield on Westpac ordinary shares of 5% and volatility in the Westpac share price of 30%. The assumptions included in the valuation of awards under the Westpac Performance Plan include a risk free interest rate of 4.43%, a dividend yield on Westpac ordinary shares of 5% and volatility in the Westpac share price of 30%. Other assumptions include volatilities of, and correlation factors between, share price movements of the ranking group members and Westpac, which are used to assess the impact of performance hurdles. Performance share rights have been valued assuming an expected life after the vesting date of up to 1 year.

6.3 Movement in equity-settled instruments during the year (number)

This table shows details of movements in the number of equity instruments granted, vested and exercised for the CEO and Senior Executives under the relevant plans.

Name	Type of equity instrument	Number granted(1)	Number vested(2)	Number exercised(2)
Gail Kelly	CEO Performance share rights	166,002		
	Shares under the CEO Restricted Share Plan	74,626	129,405	n/a
John Arthur	Performance share rights	19,173		
	Shares under Restricted Share Plan	7,889		n/a
Greg Bartlett(3)	Performance share rights	25,464		
	Shares under Restricted Share Plan	10,127	18,470	n/a
Peter Clare	Performance share rights	25,763		
	Shares under Restricted Share Plan	12,260		n/a
Philip Coffey	Performance options		149,567	353,213
	Performance share rights	35,949		
	Shares under Restricted Share Plan	23,987	15,140	n/a
Rob Coombe	Performance options		133,220	319,803
	Performance share rights	33,553		
	Shares under Restricted Share Plan	13,859	21,926	n/a
Brad Cooper	Performance share rights	31,455		
	Unhurdled share rights		22,045	
	Shares under Restricted Share Plan	34,742	30,325	n/a
George Frazis(4)	Performance share rights	29,958		
	Unhurdled share rights	9,995	58,177	58,177
Peter Hanlon	Performance options		55,249	299,265
	Performance share rights	25,763		11,214
	Shares under Restricted Share Plan	13,859	8,791	n/a
Bob McKinnon	Shares under Restricted Share Plan	12,793		n/a
Greg Targett(3)	Performance share rights	28,759		
	Shares under Restricted Share Plan	6,204	9,556	n/a
Rob Whitfield	Performance options		122,596	
	Performance share rights	35,949		
	Shares under Restricted Share Plan	19,786	41,254	n/a
Curt Zuber	Performance options		65,384	119,338
	Performance share rights	16,836		

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Shares under Restricted Share Plan		25,146	31,856	n/a
Former executive				
Ilana Atlas(5)	Performance options		235,068	30,000
	Performance share rights			107,480
	Shares under Restricted Share Plan		29,991	n/a

-
- (1) No performance options were granted in 2010.
- (2) For performance options granted in December 2006 that vested during 2010, 50% of the award was assessed against a TSR ranking group of the top 10 largest Australian banking and financial sector companies by market capitalisation at the time of grant (excluding Westpac). The other 50% was assessed against a ranking group of the 50 largest companies on the ASX by market capitalisation at the time of grant (excluding Westpac, specified resource companies and the financial sector ranking group).
- (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 option and share right exercised during the year, the relevant executive received one fully paid Westpac ordinary share. The exercise price for share rights is nil. Five tranches of options were exercised during the year with exercise prices of \$13.59, \$16.34, \$18.98, \$20.53 and \$20.53 respectively.
- (4) George Frazis received a deferred STI award of unhurdled share rights, which vests after two years of service. Details of the award are included in Section 6.2.
- (5) Performance options granted to Ilana Atlas from December 2006 that vested during 2010 were assessed against a TSR ranking group of the top 10 largest Australian banking and financial sector companies by market capitalisation at the time of grant (excluding Westpac).

6.4 Movement in equity instruments during the year (value)

This table shows details of movements in the value of equity instruments granted, vested and exercised for the CEO and Senior Executives under the relevant plans.

Name	Type of equity instrument	Value granted(1) \$	Value exercised(2) \$	Value forfeited or lapsed(3) \$
Current executives				
Gail Kelly	CEO Performance share rights	2,408,689		
	Shares under the CEO Restricted Share Plan	1,020,715	n/a	
John Arthur	Performance share rights	293,539		
	Shares under Restricted Share Plan	92,935	n/a	
Greg Bartlett	Performance share rights	389,854		
	Shares under Restricted Share Plan	119,300	n/a	
Peter Clare	Performance share rights	394,432		
	Shares under Restricted Share Plan	144,427	n/a	
Philip Coffey	Performance options		2,457,943	
	Performance share rights	550,379		
	Shares under Restricted Share Plan	282,576	n/a	
Rob Coombe	Performance options		1,541,092	
	Performance share rights	513,696		
	Shares under Restricted Share Plan	163,264	n/a	
Brad Cooper	Performance share rights	481,576		
	Shares under Restricted Share Plan	496,418	n/a	
George Frazis	Performance share rights	458,657		
	Unhurdled share rights	220,890	1,458,736	
Peter Hanlon	Performance options		2,172,664	
	Performance share rights	394,432	292,058	
	Shares under Restricted Share Plan	163,264	n/a	
Bob McKinnon	Shares under Restricted Share Plan	150,706	n/a	
Greg Targett	Performance share rights	440,300		
	Shares under Restricted Share Plan	73,085	n/a	
Rob Whitfield	Performance share rights	550,379		
	Shares under Restricted Share Plan	233,086	n/a	
Curt Zuber	Performance options		442,961	
	Performance share rights	257,759		
	Shares under Restricted Share Plan	296,229	n/a	
Former executive				
Ilana Atlas	Performance options		302,525	
	Performance share rights		2,670,410	
	Shares under Restricted Share Plan		n/a	

(1) For options and share rights, the value granted represents the number of securities granted multiplied by the fair value per instrument as set out in the table in Section 6.2. For restricted shares, the value granted represents the number of ordinary shares granted multiplied by the five day 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 2010, do not reconcile with the amount shown in the table in Section 6.1, 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.

(2) The value of each option or share right exercised or lapsed is calculated based on the 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 weighted average price of Westpac ordinary shares, the value has been calculated as \$Nil.

(3) No options, share rights or restricted shares lapsed or were forfeited in 2010.

6.5 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 contract	<ul style="list-style-type: none"> CEO and Senior Executives Bob McKinnon 	<ul style="list-style-type: none"> On-going until notice given by either party 4 year fixed term contract
Notice to be provided by the executive or the Group to terminate the employment agreement	<ul style="list-style-type: none"> CEO, John Arthur, Philip Coffey, Rob Coombe, Brad Cooper, George Frazis, Peter Hanlon, Greg Targett and Rob Whitfield Greg Bartlett and Peter Clare Bob McKinnon and Curt Zuber 	<ul style="list-style-type: none"> 12 months 6 months if Senior Executive gives notice, 12 months if the Group gives notice 6 months
Termination payments to be made on termination without cause	<ul style="list-style-type: none"> CEO and all Senior Executives 	<ul style="list-style-type: none"> Deferred STI and LTI awards vest according to the applicable equity plan rules
Termination for cause	<ul style="list-style-type: none"> CEO, John Arthur, Greg Bartlett, Greg Targett, Rob Whitfield All other Senior Executives 	<ul style="list-style-type: none"> Immediately for misconduct 3 months notice for poor performance Immediately for misconduct, standard contractual notice period for poor performance
Post-employment restraints	<ul style="list-style-type: none"> CEO, John Arthur, Greg Bartlett, Peter Clare, Philip Coffey, Brad Cooper, George Frazis, Peter Hanlon, Greg Targett and Rob Whitfield Rob Coombe, Bob McKinnon and Curt Zuber 	<ul style="list-style-type: none"> 12 month non-solicitation restraint 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.

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In these circumstances all unvested performance share rights will vest. On termination immediate termination for misconduct, all unvested performance share rights will lapse;

- 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. With the exception of taxation services, the relocation is now complete;
- 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
- John Arthur and Greg Bartlett STI pro-rated for the performance year worked is payable for termination without cause.

6.6 Details of Non-executive Director remuneration

Details of the nature and amount of each element of the remuneration of our Non-executive Directors for the year ended 30 September 2010 are as follows:

Name	The Board the Non-executive served on	Notes	Short term employment benefits		Post employment		Total \$	Total retiring allowance accrued \$
			Fees \$	Superannuation guarantee \$	Retiring allowance accrued during the year(1) \$	Total \$		
2010								
Ted Evans (Chairman)								
	Westpac Banking Corporation	2	700,000		14,660	21,749	736,409	466,624
John Curtis (Deputy Chairman)								
	Westpac Banking Corporation	3,4	336,000		14,660		350,660	
	St.George Bank Limited	5	30,374		2,736		33,110	
	Total		366,374		17,396		383,770	
Elizabeth Bryan								
	Westpac Banking Corporation	3,4	298,000		14,660		312,660	
	Westpac New Zealand Limited		47,966				47,966	
	Total		345,966		14,660		360,626	
Gordon Cairns								
	Westpac Banking Corporation	3,4	303,000		14,660		317,660	
Peter Hawkins								
	Westpac Banking Corporation	3	270,000		14,660		284,660	
	St.George Bank Limited	5	23,350		2,101		25,451	
	Total		293,350		16,761		310,111	
Carolyn Hewson								
	Westpac Banking Corporation	2,3	295,000		14,660	15,287	324,947	324,567
	BT Investment Management Limited		109,867		9,888		119,755	
	Total	3,4	404,867		24,548	15,287	444,702	324,567
Lindsay Maxsted								
	Westpac Banking Corporation	3	275,000		14,660		289,660	
	St.George Bank Limited	5	23,342		2,101		25,443	
	Total		298,342		16,761		315,103	
Graham Reaney								
	Westpac Banking Corporation	3,6	278,647		14,660		293,307	
	St.George Bank Limited	5,6	5,630		524		6,154	
	Total		284,277		15,184		299,461	
Peter Wilson								
	Westpac Banking Corporation	3	290,000		14,660		304,660	
	Westpac New Zealand Limited		95,170				95,170	
	Total		385,170		14,660		399,830	
Total 2010			3,381,346		149,290	37,036	3,567,672	791,191

- (1) Retiring allowances are not included in calculations for the Non-executive Director fee pool. Retiring allowances were frozen for individual Non-executive Directors between December 2005 and February 2006. Accruals shown for 2010 include indexation in line with average weekly earnings following the freezing of the retiring allowances.
- (2) Entitled to retiring allowance.
- (3) Includes fees paid to Chairmen and members of Board Committees.
- (4) Includes fees paid for serving on the temporary OHS Committee, from 1 May 2010.
- (5) Fees paid by St.George Bank Limited ceased when Westpac and St.George became a single Authorised Deposit-taking Institution on 1 March 2010.
- (6) Fees paid for services on the BankSA advisory board.

Name	The Board the Non-executive served on(1)	Notes	Short term employment benefits	Post employment		Total	Total retiring allowance accrued
			Fees \$	Superannuation guarantee \$	Retiring allowance accrued during the year(2) \$		
2009							
Ted Evans (Chairman)							
	Westpac Banking Corporation	3	700,000	13,899	23,878	737,777	444,876
John Curtis (Deputy Chairman)							
	Westpac Banking Corporation		262,376	11,477		273,853	
	St.George Bank Limited		63,490	5,714		69,204	
	Total	4	325,866	17,191		343,057	
Elizabeth Bryan							
	Westpac Banking Corporation		286,259	13,899		300,158	
	Westpac New Zealand Limited		48,708			48,708	
	Total	4	334,967	13,899		348,866	
Gordon Cairns							
	Westpac Banking Corporation	4	295,000	13,899		308,899	
Peter Hawkins							
	Westpac Banking Corporation		221,111	11,476		232,587	
	St.George Bank Limited		48,744	4,387		53,131	
	Total	3,4	269,855	15,863		285,718	
Carolyn Hewson							
	Westpac Banking Corporation		295,000	13,899	17,463	326,362	309,279
	BT Investment Management		110,000	9,900		119,900	
	Total	3,4	405,000	23,799	17,463	446,262	309,279
Lindsay Maxsted							
	Westpac Banking Corporation	4	275,000	13,899		288,899	
	St.George Bank Limited	4	48,744	4,387		53,131	
	Total	3,4	323,744	18,286		342,030	
Graham Reaney							
	Westpac Banking Corporation	4	221,111	11,477		232,588	
	St.George Bank Limited	5	11,274	1,015		12,289	
	Total		232,385	12,492		244,877	
Peter Wilson							
	Westpac Banking Corporation		290,000	13,899		303,899	
	Westpac New Zealand Limited		97,415			97,415	
	Total	4	387,415	13,899		401,314	
Total 2009			3,274,232	143,227	41,341	3,458,800	754,155

-
- (1) Fees paid by St.George Bank Limited and BankSA relate only to the period following the merger with Westpac.
 - (2) Retiring allowances are not included in calculations for the Non-executive Director fee pool. Retiring allowances were frozen for individual Non-executive Directors between December 2005 and February 2006. Accruals shown for 2009 include indexation in line with average weekly earnings following the freezing of the retiring allowances.
 - (3) Entitled to retiring allowance.
 - (4) Includes fees paid to Chairpersons and members of Board Committees.
 - (5) Fees paid for services on the BankSA advisory board.

6.7 Further information about our equity plans

Our broad-based and specialised employee equity plans.

Deferral Share Plan

The Deferral Share Plan was suspended during 2009 following changes to the taxation treatment of employee equity awards announced by the Federal Government. No new awards were made after 30 June 2009.

Before the plan was suspended, employees could elect to receive any prospective cash STI as Westpac ordinary shares under the Deferral Share Plan. Australian-based Non-executive Directors were also able to elect to receive a percentage of their fees in Westpac ordinary shares under the Deferral Share Plan.

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. For 2010 the size of the award depended on both share price and our Net Promoter Score, which measures customer advocacy. 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.

Chief Executive Officer Performance Plan

The Chief Executive Officer 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 2010 the most recently determined ranking group consisted of:

- AMP Limited;

- ASX Limited;

- Australia and New Zealand Banking Group Limited;

- AXA Asia Pacific Holdings Limited;

- Commonwealth Bank of Australia;

- Insurance Australia Group Limited;

- Lend Lease Group;

- Macquarie Group Limited;

- National Australia Bank Limited; and

- Suncorp-Metway 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 2010 the most recently determined peer group under the Westpac Reward Plan consisted of:

- AMP Limited;
- AXA Asia Pacific Holdings Limited;
- Australia and New Zealand Banking Group Limited;
- ASX Limited;
- Commonwealth Bank of Australia;
- Insurance Australia Group Limited;
- Lend Lease Group;
- Macquarie Group Limited;
- National Australia Bank Limited; and
- Suncorp-Metway Limited.

Westpac Performance Plan

Financial ranking group - The top 10 selected Australian banking and financial sector companies, by market capitalisation, at the time of grant. As at 30 September 2010, the most recently determined ranking group consisted of:

- AMP Limited;

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- AXA Asia Pacific Holdings Limited;
- Australia and New Zealand Banking Group Limited;
- Bank of Queensland Limited;
- Bendigo and Adelaide Bank Limited;
- Commonwealth Bank of Australia;
- Insurance Australia Group Limited;
- Macquarie Group Limited;
- National Australia Bank Limited; and
- Suncorp-Metway Limited.

General ranking group - The largest 50 Australian listed companies at time of grant, excluding property trusts, specified resources companies and those in the financial peer group. As at 30 September 2010, the most recently determined ranking group consisted of:

- AGL Energy Limited;
- Amcor Limited;
- Ansell Limited;

- Aristocrat Leisure Limited;
- APN News & Media Limited;
- ASX Limited;
- Billabong International Limited;
- Boral Limited;
- Brambles Limited;
- Challenger Financial Services Group Limited;
- Coca-Cola Amatil Limited;
- Cochlear Limited;

- Computershare Limited;
- Connecteast Group;
- CSL Limited;
- CSR Limited;
- David Jones Limited;
- Downer EDI Limited;
- Elders Limited;
- Fairfax Media Limited;
- Foster s Group Limited;
- Goldman Fielder Limited;
- Harvey Norman Holdings Limited;
- Incitec Pivot Limited;

- Intoll Group;
- James Hardie Industries SE;
- Leighton Holdings Limited;
- Lend Lease Group;
- Map Group;
- Metcash Limited;
- Orica Limited;
- Pacific Brands Limited;
- Paperlinx Limited;
- Perpetual Limited;
- Qantas Airways Limited;
- QBE Insurance Group Limited;
- Resmed Inc;
- Sigma Pharmaceuticals Ltd;

- Sonic Healthcare Limited;
- SP Ausnet;
- Tatts Group Limited;
- Tabcorp Holdings Limited;
- Telecom Corporation of New Zealand Limited;
- Telstra Corporation Limited;
- Toll Holdings Limited;
- Transurban Group;
- Wesfarmers Limited;
- West Australian Newspapers Holdings Limited;
- Woolworths Limited; and
- UGL 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	PricewaterhouseCoopers
	ABN 52 780 433 757
As lead auditor for the audit of Westpac Banking Corporation for the year ended 30 September 2010, I declare that to the best of my knowledge and belief, there have been:	
a. no contraventions of the auditor independence requirements of the <i>Corporations Act 2001</i> in relation to the audit; and	Darling Park Tower 2 201 Sussex Street
b. no contraventions of any applicable code of professional conduct in relation to the audit.	GPO BOX 2650
This declaration is in respect of Westpac Banking Corporation and the entities it controlled during the year.	SYDNEY NSW 1171
	DX 77 Sydney Australia Telephone +61 2 8266 0000 Facsimile +61 2 8266 9999 www.pwc.com/au

Ian Hammond
Partner
PricewaterhouseCoopers

Sydney
3 November 2010

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 2009 and 2010 financial years are set out in Note 33 to our financial statements.

Our external auditor, 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 \$8.6 million in total (2009 \$6.3 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 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 2010 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 Accountants*.

Signed in accordance with a resolution of the Board.

Ted Evans AC
Chairman
3 November 2010

Gail Kelly
Managing Director & Chief Executive Officer
3 November 2010

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SECTION 2

Five year summary

Reading this report

Review of Group operations

Divisional performance

Risk and risk management

Other Westpac business information

Additional financial information

FIVE YEAR SUMMARY(1)

(in \$millions unless otherwise indicated)	2010	2009	2008	2007	2006
Income statement year ended 30 September(2)					
Net interest income	11,842	11,646	7,222	6,313	5,642
Non-interest income	5,068	4,859	4,383	4,006	3,693
Net operating income before operating expenses and impairment charges on loans	16,910	16,505	11,605	10,319	9,335
Operating expenses	(7,416)	(7,171)	(5,455)	(4,689)	(4,413)
Impairment charges on loans	(1,456)	(3,238)	(931)	(482)	(375)
Profit before income tax expense	8,038	6,096	5,219	5,148	4,547
Income tax expense	(1,626)	(2,579)	(1,287)	(1,630)	(1,422)
Net profit attributable to non-controlling interests	(66)	(71)	(73)	(67)	(54)
Net profit attributable to equity holders	6,346	3,446	3,859	3,451	3,071
Balance sheet at 30 September(2)					
Loans	477,655	463,459	313,545	275,377	236,380
Other assets	140,622	126,128	126,131	102,243	65,081
Total assets	618,277	589,587	439,676	377,620	301,461
Deposits	337,385	329,456	233,730	202,054	169,637
Debt issues and acceptances	150,971	133,024	100,369	87,126	66,080
Loan capital	9,632	11,138	8,718	7,704	5,957
Other liabilities	80,171	79,398	77,388	62,828	43,661
Total liabilities	578,159	553,016	420,205	359,712	285,335
Shareholders equity and non-controlling interest	40,118	36,571	19,471	17,908	16,126
Key financial ratios					
Shareholder value					
Dividends per ordinary share (cents)	139	116	142	131	116
Dividend payout ratio (%)	64.9	92.6	68.9	70.1	69.4
Return on average ordinary equity (%)	17.4	10.8	23.1	23.5	23.0
Basic earnings per share (cents)	214.2	125.3	206.0	186.9	167.2
Net tangible assets per ordinary share \$(3)	8.96	7.89	7.71	7.00	6.14
Share price (\$):					
High	28.43	26.74	31.32	28.69	25.35
Low	20.56	14.40	18.36	22.53	21.31
Close	23.24	26.25	21.48	28.50	22.71
Business performance					
Operating expenses to operating income ratio (%)	43.9	43.4	47.0	45.4	47.3
Net interest margin	2.21	2.38	2.07	2.19	2.29
Capital adequacy					
Total equity to total assets (%)	6.5	6.2	4.4	4.7	5.3
Total equity to total average assets (%)	6.6	6.3	4.8	5.4	5.7
Tier 1 ratio (%) (4)	9.1	8.1	7.8	6.5	6.9
Total capital ratio (%) (4)	11.0	10.8	10.8	9.5	9.6
Credit quality					
Net impaired assets to equity and collectively assessed provisions (%)	6.2	5.7	3.0	1.4	1.5
Total provisions (5) for impairment on loans and credit commitments to total loans (basis points)	104.9	101.2	68.9	56.3	57.2
Other information					
Core full time equivalent staff (number at financial year end) (6)	35,055	34,189	26,717	25,903	25,363

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- (1) This five year summary is prepared in accordance with A-IFRS. 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 2010, 2009 and 2008 and balance sheet extracts for 2010, 2009 and 2008 are derived from the consolidated financial statements included in this Annual Report and prior years are derived from financial statements previously published.
- (3) Shareholders' equity and non-controlling interests, after deducting non-controlling interests, preference equity and 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) In previous years 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. This ratio has been revised and is now 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, the ratio at 30 September 2007 was revised from 61.6 bps to 56.3 bps and the ratio at 30 September 2006 was revised from 63.0 bps to 57.2 bps.
- (6) Core full-time equivalent staff includes overtime and pro-rata part time staff. It excludes staff on unpaid absences (e.g. unpaid maternity leave), 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, 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 arising in response to the global financial crisis;
- continuing impacts and consequences of the global financial crisis, including uncertain conditions in funding, equity and asset markets;
- adverse asset, credit or capital market conditions;
- changes to our credit ratings;
- inflation, interest rate, exchange rate, market and monetary fluctuations;
- market liquidity and investor confidence;
- changes in consumer spending, saving and borrowing habits in Australia, New Zealand and in other countries in which Westpac conducts its operations;

- the effects of competition in the geographic and business areas in which Westpac conducts its operations;
- the ability to maintain or to increase market share and control expenses;
- the timely development of and acceptance of new products and services and the perceived overall value of these products and services by users;
- technological changes and risks associated with changes to our technology systems;
- operational risks or environmental factors;
- adverse impacts on our reputation;
- demographic changes and changes in political, social or economic conditions in any of the major markets in which Westpac operates;
- stability of Australian and international financial systems and disruptions to financial markets and any losses Westpac may experience as a result; 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" in this Annual Report. 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.

We are under no obligation, and do 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

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For a discussion of significant developments impacting the Group, refer to Significant developments under Information on Westpac in Section 1 of this Annual Report.

Currency of presentation, exchange rates and certain definitions

In this Annual Report, financial statements means our audited consolidated balance sheet as at 30 September 2010, 30 September 2009 and 30 September 2008 and consolidated income statement, cash flows and recognised income and expense for each of the years ended 30 September 2010, 2009 and 2008 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 2010 is referred to as 2010 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 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\$0.9640 (2009 US\$0.8824), 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 2010. Unless otherwise stated, the translation of Australian dollars into NZ dollars has been made at the rate of A\$1.00 = NZ\$1.3145

(2009 NZ\$1.2196), being the closing spot exchange rate on 30 September 2010 used in the financial statements. 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 2006 to 30 September 2010.

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

Additional financial information

In a separate section of this Annual Report under the heading Additional financial information, we have included selected consolidated financial and operating data on loans and provisions for impairment charges on loans by industry classifications for the financial years ended 30 September 2007 and 2006 on the basis of presentation used in the Annual Report for the year ended 30 September 2007. We have presented this information separately because it is not directly comparable to the presentation of Notes 11 and 12 to the financial statements for the year ended 30 September 2010 included in Section 3 of this Annual Report. With effect from the financial year ended 30 September 2008, we modified the presentation of loans and provisions for impairment charges by industry to align external reporting with the basis of presentation for internal reporting. We revised the presentation for the year ended 30 September 2007, but it was impractical to revise the disclosure for the financial year ended 30 September 2006.

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 net profit of St.George Bank was included in the 2009 financial year with effect from 18 November 2008 to 30 September 2009. Our financial results for the 2010 financial year are therefore not directly comparable to our results for the 2009 financial year due to the additional six weeks of earnings of St.George Bank being included in 2010. The impact of this is highlighted in relevant sections of the Review of Group Operations. When comparing the results for 2009 with the results for 2008 we refer to the financial performance of Westpac excluding the impact of St.George, by which we mean the financial performance of The Westpac Group for 2009 less the contribution from St.George Bank Limited and its subsidiaries from 18 November 2008 to 30 September 2009 (including the impact of the acquisition accounting entries related to the merger). References to excludes the impact of St.George have an equivalent meaning.

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 2010, 2009, 2008, 2007 and 2006 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 Board Audit Committee (BAC). The following is a summary of the areas we consider involve our most critical accounting estimates (for more detail refer to Note 1 to the financial statements).

Fair value of financial instruments

Financial instruments classified as held-for-trading, 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 2010, 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 \$67,493 million (2009 \$59,836 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 \$91,426 million (2009 \$103,747 million). The fair value of outstanding derivatives was \$7,937 million (2009 \$3,291 million) net liability. The fair value of life insurance assets of \$12,310 million (2009 \$12,384 million) was substantially based on quoted market prices. The fair value of financial assets determined by valuation models that did not use observable market prices was \$757 million and \$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 IAP 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 collectively assessed provisions 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 2010, gross loans to customers were \$482,366 million and the provision for impairment on loans was \$4,711 million.

Goodwill and intangible assets

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 identifiable 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 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 2010, the carrying value of goodwill was \$8,569 million.

Superannuation obligations

The actuarial valuation of our defined benefit plan obligations are dependant 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 defined benefit obligations and the amount recognised directly in retained earnings.

The superannuation deficit across all our plans as at 30 September 2010 was \$425 million (2009 \$388 million deficit).

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. 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. Payments which are expected to be incurred later than one year are discounted at a rate which reflects both current interest rates and the risks specific to that provision.

St. George Bank Limited merger

The merger with St. George was accounted for using the purchase method of accounting. All the identifiable assets and liabilities of St. George 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 are set out in Note 43.

- intangible assets

Identifiable intangible assets that are not normally recognised 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 (AASB 3). 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'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's financial assets and financial liabilities.

- tax consolidation

Following the redemption of St.George'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.

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

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

Income statement review**Consolidated income statement(1)**

(in \$millions unless otherwise indicated)	Year Ended 30 September					
	2010 US\$(2)	2010 A\$	2009 A\$	2008 A\$	2007 A\$	2006 A\$
Amounts in accordance with A-IFRS						
Interest income	32,922	34,151	30,446	29,081	22,075	18,091
Interest expense	(21,506)	(22,309)	(18,800)	(21,859)	(15,762)	(12,449)
Net interest income	11,416	11,842	11,646	7,222	6,313	5,642
Non-interest income	4,886	5,068	4,859	4,383	4,006	3,693
Net operating income before operating expenses and impairment charges on loans	16,302	16,910	16,505	11,605	10,319	9,335
Operating expenses	(7,149)	(7,416)	(7,171)	(5,455)	(4,689)	(4,413)
Impairment charges on loans	(1,404)	(1,456)	(3,238)	(931)	(482)	(375)
Profit before income tax	7,749	8,038	6,096	5,219	5,148	4,547
Income tax expense	(1,567)	(1,626)	(2,579)	(1,287)	(1,630)	(1,422)
Net profit for the year	6,182	6,412	3,517	3,932	3,518	3,125
Net profit attributable to non-controlling interests	(64)	(66)	(71)	(73)	(67)	(54)
Net profit attributable to equity holders of Westpac	6,118	6,346	3,446	3,859	3,451	3,071
Weighted average number of ordinary shares (millions)	2,960	2,960	2,747	1,871	1,846	1,837
Basic earnings per ordinary share (cents)	206.5	214.2	125.3	206.0	186.9	167.2
Diluted earnings per share (cents)(3)	199.6	207.1	123.2	200.1	185.3	165.7
Dividends per ordinary share (cents)	134	139	116	142	131	116
Dividend payout ratio (%) (4)	64.9	64.9	92.6	68.9	70.1	69.4

(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\$0.9640, the noon buying rate on 30 September 2010. Amounts or ratios are in accordance with this conversion rate.

(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 2010 v 2009

Net profit attributable to equity holders 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.

The increase in net profit attributable to equity holders 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 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 Bank, BTFG, New Zealand 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.

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 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 impairments for the full year was not significant. Lower Institutional Bank and New Zealand 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 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 has been declared by the Board, taking the full year dividend for 2010 to 139 cents per share. The dividend is fully franked. This full year dividend represents 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

	2010 \$m	2009 \$m	2008 \$m
Interest income	34,151	30,446	29,081
Interest expense	(22,309)	(18,800)	(21,859)
Net interest income	11,842	11,646	7,222
Increase/(decrease) in net interest income			
Due to change in volume	1,444	2,643	812
Due to change in rate	(1,248)	1,781	97
Change in net interest income	196	4,424	909

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 continued to rise 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, impacting 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.

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

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(1). Initial solid growth in the First Home Buyer segment slowed through the year as Government First Home Buyer incentives were reduced. The Investor segment has returned to partially offset the slower growth in the Owner Occupier segment;
- 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 system(2) 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 deposits(3) 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 system(2).

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 provides 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.

(1) APRA system growth, 12 months to 30 September 2010.

(2) Reserve Bank of New Zealand (RBNZ), 12 months to 30 September 2010.

(3) For the purposes of this discussion on net interest income, loan and deposit growth has been determined by comparing balances at 30 September 2010 to balances at 30 September 2009.

Interest spread and margin 2010 v 2009

Group	2010 \$m	2009 \$m	2008 \$m
Net interest income	11,842	11,646	7,222
Tax equivalent gross up(1)		45	72
Net interest income (including gross up)	11,842	11,691	7,294
Average interest earning assets	534,991	490,669	351,657
Average interest bearing liabilities	501,968	465,842	334,865
Average net non-interest bearing liabilities and equity	33,023	24,827	16,792
Interest spread(2)	1.94%	2.18%	1.76%
Benefit of net non-interest bearing liabilities and equity(3)	0.27%	0.20%	0.31%
Net interest margin(4)	2.21%	2.38%	2.07%

(1) We entered into various tax effective financing transactions that derive income that is subject to a reduced rate of income tax. The impact of this is reflected in lower income tax expense and interest income. In order to improve comparability, this income is presented on a tax equivalent basis using the applicable tax rate of the geography in which the transaction is 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 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 2.21% 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 predominately 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

	2010 \$m	2009 \$m	2008 \$m
Total fees and commissions	2,433	2,637	2,060
Wealth management and insurance income	1,596	1,368	1,042
Trading income	797	901	732
Other income	242	(47)	549
Total non-interest income	5,068	4,859	4,383

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 \$2,433 million in 2010, a decrease of \$204 million or 8% 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.

REVIEW OF GROUP OPERATIONS

Wealth management and insurance income was \$1,596 million in 2010, an increase of \$228 million or 17% 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 Funds under Management (FUM) and Funds under Administration (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 the Institutional bank, including the sale of investments in Queensland airports, Westpac Office Trust and other property investments.

Operating expenses 2010 v 2009

	2010 \$m	2009 \$m	2008 \$m
Salaries and other staff expenses	3,990	3,806	2,915
Equipment and occupancy expenses	1,082	926	895
Other expenses	2,344	2,439	1,645
Total operating expenses	7,416	7,171	5,455
Total operating expenses to net operating income ratio	43.9%	43.4%	47.0%

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 full time equivalent (FTE) staff, particularly associated with additional customer facing employees and additional employees to support technology projects;

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- 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 the 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

	2010 \$m	2009 \$m	2008 \$m
Impairment charges on loans	1,456	3,238	931
Impairment charges on loans to average gross loans (basis points)	30	75	32

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 have declined materially. The other major contributors to the decline were New Zealand, as that economy emerged from recession, and a small release in the economic overlay in contrast to the increase in 2009, supported by the improving environment.

New IAPs declined by \$614 million as fewer large companies became impaired. Nevertheless, IAPs remain 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 has reduced the probability of severe stress emerging in the construction sector and this has 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 remains around the globe and emerging signs of global recovery are fragile, Westpac feels it is still 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 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 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 has seen a small rise in business stress and higher consumer delinquencies in Westpac RBB. This has contributed to a \$25 million rise in collective provision charges in 2010;

REVIEW OF GROUP OPERATIONS

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

	2010 \$m	2009 \$m	2008 \$m
Income tax expense	1,626	2,579	1,287
Tax as a percentage of profit from ordinary activities before tax (effective tax rate)	20.2%	42.3%	24.7%

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.

Overview of performance 2009 v 2008

Our financial performance for 2009 was significantly impacted by the global financial crisis, and the merger with St.George Bank Limited. The merger with St.George Bank Limited was completed on 1 December 2008, substantially increasing the size of the Group. For accounting purposes, St.George was consolidated in our financial statements from 18 November 2008, which makes it difficult to compare the results for 2009 with our results for prior periods. Accordingly, the following discussion and review of Group operations, and the discussion of business division performance, focus primarily on the key factors affecting performance in 2009 compared to 2008, excluding the impact of St.George.

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Net profit attributable to equity holders of Westpac was \$3,446 million in 2009, a decrease of \$413 million or 11% compared to 2008. Net profit attributable to equity holders of Westpac excluding the impact of St.George was \$2,475 million in 2009, a decrease of \$1,384 million or 36% compared to 2008.

The decrease was primarily due to significant increases in impairment charges on loans and income tax expense. Impairment charges on loans excluding the impact of St.George increased by \$1,622 million reflecting significant deterioration in asset quality due to the impact of the global financial crisis and subsequent economic slowdown. Income tax expense included an additional \$703 million tax charge related to the New Zealand High Court ruling on amended tax assessments issued by the CIR, in relation to Structured Finance transactions entered into between 1998 and 2002. Expense growth excluding the impact of St.George was 4%. These factors were partially offset by strong net operating income growth of \$1,315 million.

Divisional results excluding the impact of St.George were mixed. Westpac RBB net profit increased by \$156 million, while net profit for each of WIB, New Zealand Banking, BTFG and Other divisions decreased \$446 million, \$201 million, \$55 million and \$838 million respectively. The additional tax charge referred to above was incurred within Other divisions.

Net interest income was \$11,646 million in 2009, an increase of \$4,424 million or 61% compared to 2008. Net interest income excluding the impact of St.George was \$8,822 million in 2009, an increase of \$1,600 million or 22% compared to 2008. The 22% growth reflects volume growth in consumer and business loans and deposits in Australia and New Zealand, with a 7% increase in loans and a 13% increase in deposits, and a 26 basis point expansion in net interest margin.

Non-interest income was \$4,859 million in 2009, an increase of \$476 million or 11% compared to 2008. Non-interest income excluding the impact of St.George was \$4,098 million in 2009, a decrease of \$285 million or 7% compared to 2008. The 7% decrease reflected a \$600 million decrease in other income, partially offset by increases in trading income, wealth management and insurance income, and fees and commissions of \$188 million, \$82 million and \$45 million respectively. Other income was also lower as 2008 included large one-off gains of \$436 million in relation to the IPO and partial sale of BT Investment Management Limited (BTIM) and the sale of Visa Inc. shares. 2009 included \$155 million in asset write downs relating to foundation investments in property and other transactions in the Specialised Capital Group (SCG).

Operating expenses were \$7,171 million in 2009, an increase of \$1,716 million or 31% compared to 2008. Operating expenses excluding the impact of St.George were \$5,664 million in 2009, an increase of \$209 million or 4% compared to 2008. This was largely driven by a 3% increase in salaries and other staff expenses and increased equipment and occupancy expenses. Expense savings as a result of the merger with St.George totalled \$143 million for 2009.

Impairment charges on loans were \$3,238 million in 2009, an increase of \$2,307 million or 248% compared to 2008. Impairment charges on loans excluding the impact of St.George were \$2,553 million in 2009, an increase of \$1,622 million or 174% compared to 2008. This increase was primarily due to the impact of the global financial crisis and the associated decline in economic activity in Australia and New Zealand. This was particularly impacted the business sectors in Australia and New Zealand. These dynamics increased IAPs by \$1,243 million and collectively assessed provisions by \$391 million, partially offset by \$12 million in writebacks and recoveries.

St.George and its consolidated subsidiaries (including the impact of the acquisition accounting entries related to the merger) contributed a net profit of \$971 million for the period from 18 November 2008 to 30 September 2009. Revenue from increased balance sheet growth was partially offset by the costs associated with reinvestment in the business coupled with impairment charges on loans arising from the deteriorating economic conditions.

Income statement review 2009 v 2008

Net Interest income 2009 v 2008

Net interest income was \$11,646 million in 2009, an increase of \$4,424 million or 61% compared to 2008. Net interest income excluding the impact of St.George was \$8,822 million in 2009, an increase of \$1,600 million or 22% compared to 2008. The commentary below relates to this 22% movement, which excludes the impact of St.George.

The key drivers of the 22% growth were an 8% increase in average interest earning assets and a 26 basis point increase in interest margins as compared to the prior year.

Growth in net loans over the year was 7%. In Australia, net loan growth was \$22 billion or 8% over the prior year. In New Zealand, net loan growth was flat in NZ\$ terms and decreased by 3% in A\$ terms.

Loan growth arose due to the following specific components:

- Australian housing lending increased \$27.5 billion or 19% as historically low interest rates and the Australian Government's first homebuyer grant provided stimulus to the mortgage market. The increase was also assisted by the inclusion of a full year of operation of the RAMS franchise distribution business which was purchased in January 2008;
- Australian business and corporate lending decreased \$5.6 billion or 5%. The decrease was driven by decreased demand from large customers who utilised equity raisings to reduce gearing. Lending to small and medium size business showed only a small decrease in line with the slower economy; and

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- New Zealand housing lending increased NZ\$1.2 billion or 4%. Weaker demand reflected lower property prices and slower economic activity.

Total deposits including treasury deposits increased \$30 billion or 13% since 30 September 2008. Excluding treasury deposits, deposits increased \$35.1 billion or 21%. In Australia, strong growth in consumer and business customer deposits of \$35.2 billion or 26%, was partially offset by a decline in treasury deposits, mostly certificates of deposit. The key driver of deposit growth was a change in customer preferences. Customers moved investments into bank deposits and out of the other forms of cash investments and asset classes (such as equities and mortgage trusts).

In New Zealand, at call and term deposits increased 2% (NZ\$ terms), with growth particularly occurring in term deposits.

Net interest margin including St.George was 2.38% for 2009, an increase of 31 basis points compared to 2008. Net interest margin excluding the impact of St.George was 2.33% for 2009, an increase of 26 basis points compared to the equivalent margin for 2008. Key drivers of the margin increase, excluding the impact of St.George, were:

- an increase of 4 basis points from consumer and business customers in Australia and New Zealand. This represented the repricing of loans for higher risk premiums and higher funding costs. The increase also partially reflected the timing effect of higher funding costs in 2008 being passed through to customers in 2009;
- an increase of 13 basis points reflected strong Group Treasury revenues; and
- an increase of 9 basis points from Institutional lending, Markets and Other divisions due to:
 - improved Institutional spreads as loans were progressively re-priced over the period and changes in Markets income recorded as interest income; and
 - returns on capital falling as interest rates reduced, which was more than offset by mix benefits, as relatively higher spread consumer and business assets grew faster than Institutional assets.

Non-interest income 2009 v 2008

Non-interest income was \$4,859 million in 2009, an increase of \$476 million or 11% compared to 2008. Non-interest income excluding the impact of St.George was \$4,098 million in 2009, a decrease of \$285 million or 7% compared to 2008. The commentary below relates to this 7% movement, which excludes the impact of St.George.

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The key driver of the 7% decrease was a \$600 million reduction in Other income, partially offset by increases in trading income, wealth management and insurance income and fees and commissions.

Other income decreased as 2008 included \$436 million of one-off gains that were not repeated in 2009. 2009 included asset write downs of \$155 million in relation to foundation investments in property and other transactions in SCG.

REVIEW OF GROUP OPERATIONS

The 2008 result included:

- a net gain of \$141 million received from the partial sale of BTIM; and
- a gain of \$172 million from the redemption of 56% of Westpac's equity interest in Visa Inc. as part of an Initial Public Offering (IPO) in 2008. In addition, an unrealised gain of \$123 million was recognised to reflect Westpac's initial measurement of the residual value of its Visa Inc. holding.

Trading income was \$920 million in 2009, an increase of \$188 million or 26% compared to 2008. This was primarily driven by increases in foreign exchange income, with the Foreign Exchange and Debt Markets business taking advantage of increased customer activity and market volatility during the year.

Wealth management and insurance income was \$1,124 million in 2009, an increase of \$82 million or 8% compared to 2008. This was driven by the gross up of income (and tax expense) on earnings applicable to holders of our life policies (policyholder tax recoveries), partially offset by adverse equity market movements that reduced FUM/FUA, especially in the first six months, which in turn contributed to lower wealth management revenue for 2009.

Fees and commissions were \$2,105 million in 2009, an increase of \$45 million or 2% compared to 2008, with growth resulting from increased credit line fees on corporate and business facilities and higher arrangement fees within WIB. This was partially offset by reduced transaction fees, with foreign ATM fees lower as a result of ATM reforms in Australia this year, combined with lower interchange fees, higher scheme costs and the impact of providing customers fee-free access to both Westpac and St.George Bank ATM networks. Fees were also lower in New Zealand as a result of customers switching to fee-free accounts and reduced merchant activity.

Operating expenses 2009 v 2008

Operating expenses were \$7,171 million in 2009, an increase of \$1,716 million or 31% compared to 2008. Operating expenses excluding the impact of St.George were \$5,664 million in 2009, an increase of \$209 million or 4% compared to 2008.

The expense to income ratio decreased 360 basis points to 43.4%. The expense to income ratio excluding the impact of St.George was 43.8%, a decrease of 320 basis points.

The following commentary relates to the 4% increase, excluding the impact of St.George.

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Salaries and other staff expenses were \$3,004 million in 2009, an increase of \$89 million or 3% compared to 2008, due to:

- general fixed salary increases and other market related compensation increases;
- the Group's increased superannuation costs, increased BTIM share based payments and the impact of the reversal of long service leave provisions in 2008, which was not repeated in 2009; and
- additional customer facing employees in Westpac RBB.

The above increases were partially offset by merger synergies, predominantly in support and head office functions and lower employee performance bonus accruals given reductions in year on year profitability.

Equipment and occupancy expenses were \$714 million in 2009, a decrease of \$181 million or 20% compared to 2008, primarily due to lower software amortisation and write downs. A \$157 million write-down in software assets occurred during 2008 following a comprehensive review across the business, which was not repeated in 2009.

Other expenses were \$1,946 million in 2009, an increase of \$301 million or 18% compared to 2008, due to:

- a provision raised with respect to long standing legal proceedings where a judgment was received during 2009 (\$121 million);
- additional expenditure on technology platforms to improve reliability, capacity and customer service; and
- increased costs associated with a spike in credit card reward redemptions (\$25 million).

Impairment charges on loans 2009 v 2008

Impairment charges on loans were \$3,238 million in 2009, an increase of \$2,307 million or 248% compared to 2008. Impairment charges on loans represented 75 basis points of average gross loans in 2009, an increase of 43 basis points compared to 2008. Impairment charges on loans excluding the impact of St.George were \$2,553 million in 2009, an increase of \$1,622 million or 174% compared to 2008. This represented 78 basis points of average gross loans in 2009, an increase of 46 basis points compared to 2008. The following commentary relates to this 174% movement, excluding the impact of St.George.

Impairment charges on loans increased significantly over the 2009 financial year driven by the impacts of the global financial crisis and the associated decline in economic activity. The most significant effect of the global financial crisis on impairment charges on loans was a small number of large corporate exposures (\$408 million) and a small number of concentrated Margin Lending portfolios (\$183 million), mainly in the first half of the year.

More generally, the increase in impairment charges on loans was due to the broad slowing in economic activity that has led to increased customer financial stress, and lower security values. Most of this impact has been felt in the commercial business segment (customers with facilities generally in the range of \$10 million to \$100 million) although later in the year small businesses began to be impacted. The commercial property sector (mostly development properties) was particularly impacted by these trends with other sectors showing stress including pubs and clubs, manufacturing, wholesale trade and retail. These trends saw an increase in both individually assessed and collectively assessed provisions.

In New Zealand, the economy has been in a more prolonged recession and this saw the sources of stress more broadly spread across businesses and consumers. In business, commercial property was the sector most impacted, particularly property developments with no established income streams. In the consumer segment, higher delinquencies can primarily be traced back to customers relying on business income or where gearing was higher. At the same time, the predominance of fixed rate lending meant that consumers only gradually benefited from lower interest rates. In addition, given the deteriorating operating environment, the Group felt it prudent to further increase its economic overlay in the first half of 2009.

Key movements in impairment charges on loans were:

- new IAPs increased by \$1,243 million, principally due to:
 - WIB (\$828 million increase) predominantly from three large corporate exposures (\$490 million), increases in stress in the Premium Business Group (\$186 million) and higher Margin Lending provisions (\$115 million);
 - New Zealand (\$283 million increase) predominantly business related (\$258 million) including IAPs for two large exposures (\$174 million); and
 - Westpac RBB (\$127 million increase) as slowing business and retail growth has affected smaller businesses.
- new collectively assessed provisions increased by \$391 million, principally due to:
 - write-offs increasing by \$97 million compared to 2008. Most of the write-offs were in the Australian cards and personal loan portfolios. Some of the increase reflected lower prices available for the sale of consumer debt to third parties;
 - Australian divisions incurring an increase in new collectively assessed provisions of \$221 million, as a result of increased stress in the commercial business sector, which was reflected in WIB and the small and medium sized business customers within Westpac RBB. Despite this, Australian consumer losses remained relatively low; and

- New Zealand where collectively assessed provisions increased by \$24 million compared to 2008, as the depressed economy impacted both businesses and consumers.

- writebacks and recoveries contributed \$12 million (credit) to impairment charges on loans.

St.George Bank Limited and its consolidated subsidiaries (including the impact of the acquisition accounting entries related to the merger) incurred impairment charges on loans of \$685 million for the period from 18 November 2008 to 30 September 2009. The majority of the impairment charges on loans were due to the broad slowing in economic activity that led to increased customer financial stress and lower security values. Most of this impact was felt in the commercial business segment although later in 2009 some small businesses were also impacted. The commercial property sector (mostly development properties) was particularly impacted by these trends with other sectors including pubs and accommodation also showing some stress. Australian consumer losses remained relatively low during 2009.

Income tax expense 2009 v 2008

Income tax expense was \$2,579 million in 2009, an increase of \$1,292 million or 100% compared to 2008. Income tax expense excluding the impact of St.George was \$2,157 million in 2009, an increase of \$870 million or 68% compared to 2008. The \$870 million movement was primarily driven by a \$703 million tax charge related to the New Zealand High Court ruling on amended tax assessments issued by the CIR, in relation to Structured Finance transactions entered into between 1998 and 2002.

The effective tax rate was 42.3% in 2009, an increase of 17.6% compared to 2008. Excluding the impact of St.George, the effective tax rate was 45.9% in 2009, an increase of 21.2% compared to 2008. Excluding the \$703 million one-off tax expenses mentioned above, the effective tax rate excluding the impact of St.George was 30.9% in 2009, an increase of 6.2% compared to 2008. This variance was driven primarily by two items that lowered the effective tax rate in 2008. The 2008 tax expense included, firstly, a \$198 million recovery for policy holder tax recoveries (due to weaker market performance of investments in property trusts, Australian Equities and Overseas Equities), and secondly, a non-taxable net gain of \$141 million from the partial sale of BTIM.

Balance sheet review**Selected consolidated balance sheet data(1)**

The detailed components of the balance sheet are set out in the notes to the financial statements.

	2010 US\$m(2)	2010 A\$m	Year Ended 30 September		2007 A\$m	2006 A\$m
			2009 A\$m	2008 A\$m		
Amounts in accordance with A-IFRS Year end balances						
Cash and balances with central banks	4,303	4,464	3,272	4,809	2,243	3,132
Receivables due from other financial institutions	12,135	12,588	9,974	10,434	13,290	9,801
Derivative financial instruments	34,802	36,102	33,187	34,810	24,308	10,311
Trading securities, other financial assets and available-for-sale	53,597	55,599	47,807	54,605	39,594	20,221
Loans	460,459	477,655	463,459	313,545	275,377	236,380
Life insurance assets	11,867	12,310	12,384	12,547	15,456	14,281
All other assets	18,855	19,559	19,504	8,926	7,352	7,335
Total assets	596,018	618,277	589,587	439,676	377,620	301,461
Payables due to other financial institutions	8,578	8,898	9,235	15,861	9,133	12,051
Deposits	325,239	337,385	329,456	233,730	202,054	169,637
Derivative financial instruments	42,454	44,039	36,478	24,970	25,192	9,342
Trading liabilities and other financial liabilities designated at fair value	4,675	4,850	10,848	16,689	8,223	2,893
Debt issues and acceptances	145,536	150,971	133,024	100,369	87,126	66,080
Life insurance liabilities	11,144	11,560	11,737	11,953	14,392	13,476
All other liabilities	10,434	10,824	11,100	7,915	5,888	5,899
Total liabilities excluding loan capital	548,060	568,527	541,878	411,487	352,008	279,378
Total loan capital(3)	9,285	9,632	11,138	8,718	7,704	5,957
Total liabilities	557,345	578,159	553,016	420,205	359,712	285,335
Net assets	38,673	40,118	36,571	19,471	17,908	16,126
Total equity attributable to equity holders of Westpac	36,813	38,189	34,637	17,547	15,996	14,214
Non-controlling interests	1,860	1,929	1,934	1,924	1,912	1,912
Total shareholders equity and non-controlling interest	38,673	40,118	36,571	19,471	17,908	16,126
Average balances						
Total assets	585,801	607,677	577,831	401,468	332,512	283,663
Loans and other receivables	453,079	469,999	426,845	294,672	257,896	220,407
Shareholders equity	35,122	36,434	32,008	16,699	14,708	13,369

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Non-controlling interests	1,845	1,914	1,915	1,918	1,911	1,473
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(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\$0.9640, the noon buying rate on 30 September 2010.

(3) This includes Westpac Stapled Preferred Securities (SPS), Westpac Stapled Preferred Securities II (SPS II) and 2004 Trust Preferred Securities (TPS 2004) in 2010 and 2009, Westpac SPS and TPS 2004 in 2008, TPS 2004 and Fixed Interest Resettable Securities (FIRsTS) in 2007 and 2006.

Summary of consolidated ratios

(in \$millions unless otherwise indicated)	Year Ended 30 September					
	2010 US\$(1)	2010 A\$	2009 A\$	2008 A\$	2007 A\$	2006 A\$
Ratios in accordance with A-IFRS						
Profitability ratios (%)						
Net interest margin(2)	2.21	2.21	2.38	2.07	2.19	2.29
Return on average assets(3)	1.04	1.04	0.60	0.96	1.04	1.08
Return on average ordinary equity(4)	17.4	17.4	10.8	23.1	23.5	23.0
Return on average total equity(5)	16.5	16.5	10.2	20.7	20.8	20.7
Capital ratio (%)						
Average total equity to average total assets	6.3	6.3	5.9	4.6	5.0	5.2
Tier 1 ratio %(6)	9.1	9.1	8.1	7.8	6.5	6.9
Total capital ratio(6)	11.0	11.0	10.8	10.8	9.5	9.6
Earnings ratios						
Basic earnings per ordinary share (cents)(7)	206.5	214.2	125.3	206.0	186.9	167.2
Diluted earnings per ordinary share (cents)(8)	199.6	207.1	123.2	200.1	185.3	165.7
Dividends per ordinary share (cents)	134	139	116	142	131	116
Dividend payout ratio %(9)	64.9	64.9	92.6	68.9	70.1	69.4
Credit quality ratios						
Impairment charges on loans written off (net of recoveries)	1,253	1,300	1,874	439	349	270
Impairment charges on loans written off (net of recoveries) to average loans (%)	0.27	0.27	0.43	0.15	0.14	0.12

(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\$0.9640, the noon buying rate on 30 September 2010.

(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 our equity holders by average total assets.

(4) Calculated by dividing net profit attributable to our equity holders by average ordinary equity.

(5) Calculated by dividing net profit attributable to our equity holders 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 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 2010 were \$618.3 billion, an increase of \$28.7 billion or 5% compared to 30 September 2009. This growth was the result of 3% loan growth and holding higher levels of liquid assets. Total liabilities as at 30 September 2010 were \$578.2 billion, an increase of \$25.1 billion or 5% compared to 30 September 2009. Growth in total liabilities was driven by increased long term wholesale debt issues and customer deposits, partially offset by a decline in securities sold under agreements to repurchase. The key balance sheet movements can be attributed to:

- growth of 3% in loans, predominantly in Australian housing loans;
- an increase in liquid assets of \$8 billion, predominantly reflected in increased available-for-sale securities;
- increased term debt issues as we lengthened our wholesale funding profile; and
- growth of 2% in deposits, primarily due to increases in customer term deposits.

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.

REVIEW OF GROUP OPERATIONS

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)

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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 equity holders of WBC (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).

Assets 2009 v 2008

The merger with St. George Bank Limited resulted in the assets and liabilities of St. George being consolidated from 18 November 2008. Excluding the impact of St. George, total assets as at 30 September 2009 were \$496.0 billion, which was an increase of \$56.3 billion or 13% from \$439.7 billion at 30 September 2008.

The key drivers of the 13% growth were:

- loans increasing by \$22.0 billion or 7.0%, driven by a \$27.6 billion increase in housing loans in Australia partially offset by a reduction of \$4.8 billion in non-housing loans, while New Zealand and overseas loans remained relatively flat;
- trading securities, other financial assets designated at fair value through profit or loss and available-for-sale securities decreasing by \$5.9 billion as the Group held lower levels of outright trading securities; and
- derivative financial instruments (assets) decreasing by \$3.6 billion or 10.2% in 2009. The decrease in derivative financial instruments was primarily due to changes in exchange rates impacting the value of derivative contracts and reductions in interest rates.

Liabilities and equity 2009 v 2008

Excluding the impact of St.George, total liabilities as at 30 September 2009 were \$460.4 billion which was an increase of \$40.2 billion or 10% compared to 30 September 2008. The key movements in liabilities are outlined below.

- Deposits in 2009 increased by \$30.0 billion or 12.8% compared with 2008. The increase was due to growth in customer and business deposits, particularly in term deposits and online savings accounts;
- Derivative financial instruments (liabilities) increased by \$8.6 billion or 34.2%. Compared to 2008, the growth in derivative financial instruments reflected the impact of movements in the A\$ (primarily against the US\$) impacting the value of cross-currency swaps that hedge offshore borrowings. This impact offset a reduction in gross customer derivatives outstandings;
- Other trading liabilities reduced by \$5.9 billion as lower levels of repurchase transactions were undertaken; and
- Debt issues increased by \$12.5 billion or 12.4%. This reflected a focus on raising long term wholesale funding to fund asset growth.

Equity was \$34.6 billion at 30 September 2009, an increase of \$17.1 billion or 97.4% compared to 30 September 2008. The movement in equity was primarily attributable to:

- the issue of Westpac ordinary shares on 1 December 2008 of \$12.1 billion to facilitate the merger with St.George;
- an ordinary share placement and share purchase plan of \$2.5 billion and \$0.4 billion respectively;
- ordinary shares issued under the DRP and underwriting of the DRP in respect of the 2008 full year dividend of \$1.9 billion; and
- retained profits (net of dividends), which increased by \$0.5 billion.

Loan quality

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As at 30 September	2010 \$m	2009 \$m	2008 \$m
Total gross loans(1)	482,366	467,843	315,490
Average gross loans			
Australia	428,861	381,858	243,797
New Zealand	45,171	45,832	44,383
Other overseas	5,428	6,529	5,227
Total average gross loans	479,460	434,219	293,407

(1) Gross loans are stated before related provisions for impairment.

Total gross loans represented 78% of the total assets of the Group as at 30 September 2010, compared to 79% in 2009.

Our lending is focused on our core geographic markets in Australia and New Zealand. Australia and New Zealand average loans were \$474.0 billion in 2010, increasing by \$46.3 billion or 11% from \$427.7 billion in 2009. This increase was predominantly due to growth in mortgage lending.

Other overseas average loans were \$5.4 billion in 2010, a decrease of \$1.1 billion or 17% from \$6.5 billion in 2009.

Approximately 24% of the loans at 30 September 2010 mature within one year and 20% 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	2010 \$m	2009 \$m	2008 \$m	2007 \$m	2006 \$m
Impaired loans					
Non-performing loans(1):					
Gross	4,240	3,526	1,059	423	411
Impairment provisions	(1,677)	(1,308)	(438)	(159)	(167)
Net	2,563	2,218	621	264	244
Restructured loans:					
Gross	132	71	6	4	22
Impairment provisions	(32)	(26)			(10)
Net	100	45	6	4	12
Overdrafts, personal loans and revolving credit greater than 90 days past due:					
Gross	213	173	112	113	88
Impairment provisions	(155)	(148)	(97)	(107)	(80)
Net	58	25	15	6	8
Net impaired loans	2,721	2,288	642	274	264
Provisions for impairment on loans and credit commitments					
Individually assessed provisions	1,622	1,228	413	148	164
Collectively assessed provisions	3,439	3,506	1,761	1,410	1,194
Total provisions for impairment on loans and credit commitments	5,061	4,734	2,174	1,558	1,358
Loan quality					
Total impairment provisions for impaired loans to total impaired loans(2)	40.7%	39.3%	45.4%	49.2%	49.3%
Total impaired loans to total loans	0.95%	0.81%	0.37%	0.20%	0.22%
Total provisions for impairment on loans and credit commitments to total loans(3)	1.05%	1.01%	0.69%	0.56%	0.57%
Total provisions for impairment on loans and credit commitments to total impaired loans	110.4%	125.6%	184.8%	288.5%	260.7%
Collectively assessed provisions to non-housing performing loans	2.0%	1.8%	1.1%	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 includes 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 \$244 million as at 30 September 2010 (2009 \$254 million, 2008 \$121 million, 2007 \$118 million, 2006 \$93 million). This sum is compared to the total gross impaired loans to determine this ratio.

(3) In previous years 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. This ratio has been revised and is now based only on A-IFRS provisioning levels. The ratios at 30 September 2009 and 30 September 2008 were not impacted, the ratio at 30 September 2007 was revised from 0.61% to 0.56% and the ratio at 30 September 2006 was revised from 0.63% to 0.57%.

The quality of our loan portfolio as at 30 September 2010 remains relatively stable, with 74% of our exposure to either investment grade or secured consumer mortgages (2009 72%, 2008 75%) and 99% of our exposure in our core markets of Australia, New Zealand and Pacific Banking (2009 99%, 2008 98%).

Potential problem loans(1) as at 30 September 2010 amounted to \$3,852 million, an increase of 23%, up from \$3,130 million at 30 September 2009.

At 30 September 2010, total impaired loans as a percentage of total gross loans were 0.95%, an increase from 0.81% at 30 September 2009.

At 30 September 2010, we had 11 impaired counterparties with exposure greater than \$50 million, collectively accounting for 20% of total impaired loans. This compares to 14 impaired counterparties with exposure greater than \$50 million in 2009 accounting for 28% of total impaired loans. There were a further 96 impaired exposures at 30 September 2010 that were less than \$50 million and greater than \$10 million (2009 56 impaired exposures).

(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.

We believe that Westpac remains appropriately provisioned with total impairment provisions for impaired loans to total impaired loans coverage at 40.7% at 30 September 2010. Total provisions for impairment in loans and credit commitments represented 110.4% of total impaired loans as at 30 September 2010, down from 125.6% at 30 September 2009. The decrease was primarily driven by higher impaired assets. Total provisions for impairments on loans and credit commitments to total loans were 1.05% at 30 September 2010, up from 1.01% at 30 September 2009 (2008 0.69%).

Consumer mortgage loans 90 days past due at 30 September 2010 were 0.47% of outstandings, an increase of 10 basis points compared to 30 September 2009 (2008 0.39%).

Other consumer loan delinquencies (including credit card and personal loan products) were 1.25% of outstandings as at 30 September 2010, an increase of 21 basis points from 1.04% of outstandings as at 30 September 2009 (2008 1.00%).

Capital resources

Capital management strategy

Westpac's approach seeks to balance the fact that capital is an expensive form of funding with the need to be adequately capitalised as an ADI. Westpac considers the need to balance efficiency, flexibility and adequacy when determining sufficiency of capital and when developing capital management plans.

Westpac evaluates these considerations through an Internal Capital Adequacy Assessment Process (ICAAP), the key features of which include:

- the development of a capital management strategy including target capital ratios, capital buffers and contingency plans which guide the development of specific capital plans;
- consideration of both economic and regulatory capital driven 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 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 a number of 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.

APRA approved the use of the AIRB approach for credit risk and the AMA approach for operational risk for portfolios originated by the former St. George Bank Limited, from 30 June 2010 onwards. There is now also a requirement to hold regulatory capital for IRRBB. Market risk and equity risk regulatory capital from the former St. George Bank Limited are now measured on the same basis as the rest of the Group.

APRA has applied transitional floors in the calculation of regulatory capital minimums, limiting initial regulatory capital relief to a maximum of 10% of the capital requirements under the Basel I approach. It is unclear how long these transitional arrangements will be maintained.

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

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 (2009)	82,805	26.12		n/a
November (2009)	3,047	24.25		n/a
December (2009)				n/a
January (2010)				n/a
February (2010)	113,058	23.61		n/a
March (2010)	240,099	27.37		n/a
April (2010)				n/a
May (2010)				n/a
June (2010)	193,191	23.19		n/a
July (2010)	30,961	21.58		n/a
August (2010)	6,515	22.13		n/a
September (2010)				n/a
Total	669,676	25.04		

Purchases of ordinary shares during the year were made on market and relate to the following:

- to deliver to employees upon the exercise of options and performance share rights: 181,667 ordinary shares; and
- 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: 488,009 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 2010:

	Less Than 1 Year \$m	Between 1 and 3 Years \$m	Between 3 and 5 Years \$m	Over 5 Years \$m	Total \$m
On balance sheet long term debt(1)	22,656	44,019	35,255	14,009	115,939
Operating leases(2)	413	680	483	695	2,271
Other commitments(2)	480	318	126	126	1,050
Total contractual cash obligations	23,549	45,017	35,864	14,830	119,260

(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 commitments(1)

The following table shows our significant commercial commitments as at 30 September 2010:

	Less Than 1 Year \$m	Between 1 and 3 Years \$m	Between 3 and 5 Years \$m	Over 5 Years \$m	Total \$m
Standby letters of credit and financial guarantees	1,142	1,126	102	2,072	4,442
Trade letters of credit	1,014				1,014
Non-financial guarantees	253	3,212	397	3,368	7,230
Undrawn loan commitments	21,269	43,660	5,204	70,088	140,221
Other commitments	243		12	96	351
Total commercial commitments	23,921	47,998	5,715	75,624	153,258

(1) The numbers in this table are notional amounts (refer to Note 36 to the financial statements).

DIVISIONAL PERFORMANCE

Divisional performance 2010 v 2009

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 Bank;
- BT Financial Group (Australia), which we refer to as BTFG; and
- New Zealand Banking.

Our Other division includes Product & Operations, Technology, Group Treasury, Pacific Banking and Core Support.

During 2010, the accounting standard AASB 8 *Operating Segments* was applied for the first time. This standard requires segment results to be presented on a basis that is consistent with information provided internally to Westpac's key decision makers. In assessing the financial performance of our divisions internally, we use a measure of performance we refer to as Cash Earnings. To calculate Cash Earnings we adjust the statutory results for the items outlined below. We believe Cash Earnings allows us to more effectively assess performance for the current period against prior periods and to compare performance across business divisions and across peer companies. A reconciliation of Cash Earnings to net profit attributable to equity owners for each business division is set forth in Note 32. A more detailed explanation of Cash Earnings adjustments is set out below. Three categories of adjustments are made to statutory results to determine Cash Earnings:

- material items that key decision makers of Westpac believe do not reflect ongoing operations;
- items that are not considered when dividends are recommended, such as the amortisation of intangibles and economic hedging impacts;
- and

- accounting reclassifications between individual line items that do not impact statutory results, such as policy holder tax recoveries.

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.

Cash Earnings adjustments include the following:

1. The Life Insurance standard AASB 1038 requires the grossing up of tax expense and income for the tax on earnings applicable to holders of our life policies (policy holders tax recoveries). Our Cash Earnings adjustment reverses the impact of this gross up to provide comparability across reporting periods.
2. Trust Preferred Securities (TPS) revaluations Adjustment for economic hedges, including associated tax effects impacting the foreign currency translation reserve, relating to hybrid instruments classified as non-controlling interests. The hybrid instrument is not fair valued, however, the hedge is fair valued and therefore there is a mismatch in the timing of income recognition in the statutory results. The mismatch is added back in deriving Cash Earnings as it does not affect the Group's profits over time.
3. Treasury Shares Under A-IFRS, Westpac shares held by the Group in 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 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.
4. Ineffective hedges The gain/(loss) on ineffective hedges is reversed in deriving Cash Earnings for the period because the gain/(loss) arising from the fair value movement in these hedges reverses over time and does not affect the Group's profits over time.
5. As part of the merger with St.George, transaction and integration expenses incurred over three years are being treated as a Cash Earnings adjustments as they do not impact the earnings expected from St.George following the integration period.

6. Fair value gain/(loss) on other economic hedges (which do not qualify for hedge accounting under A-IFRS) comprise:

- the unrealised fair value gain/(loss) on foreign exchange hedges of future New Zealand earnings impacting non-interest income is reversed in deriving Cash Earnings in the current period as it may potentially create a material timing difference on reported earnings. The Cash Earnings adjustment ensures that this does not affect the Group's Cash Earnings during the life of the hedge;

- the unrealised fair value gain/(loss) on foreign exchange hedges of fees payable for the use of the government guarantee on foreign denominated wholesale funding is reversed in deriving Cash Earnings in the current period as it may potentially create a material timing difference on reported earnings. The Cash Earnings adjustment ensures that this does not affect the Group's Cash Earnings during the life of the hedge; and

- the unrealised fair value gains/(losses) on hedges of accrual accounted term funding transactions are reversed in deriving Cash Earnings in the current period as it may potentially create a material timing difference on reported earnings but does not affect the Group's Cash Earnings during the life of the hedge.

7. The merger with St.George resulted in the recognition of core deposit intangibles and customer relationship intangible assets that are amortised over their useful lives, ranging between five and nine years. The amortisation of intangible assets (excluding software) is a Cash Earnings adjustment because it is a non-cash flow item and does not affect cash distributions available to shareholders.

8. In 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 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. In 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 in the year ended 30 September 2010 has also been treated as a Cash Earnings adjustment.

9. 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.

10. 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 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 time of tax consolidation (31 March 2009). This has been treated as a Cash Earnings adjustment due to its size and it does not reflect ongoing operations.

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11. In the year ended 30 September 2008, the gains associated with the initial public offering (IPO) of BT Investment Management Limited (BTIM) (\$136 million, \$86 million after tax), the IPO of Visa Inc. (\$295 million, \$205 million after tax) and merger transaction expenses and related integration expenses were treated as cash earnings adjustments as they were non-recurring and did not reflect the ongoing operations of the Group.

12. Other non-statutory adjustments comprise:

- in the year ended 30 September 2009, a provision of \$121 million (\$85 million after tax) with respect to long-standing legal proceedings, where a judgment was received in the full year ended 30 September 2009. This was treated as a Cash Earnings adjustment due to its size and historical nature; and
- in the year ended 30 September 2008, one-off expenses related to efficiency initiatives and capitalised expense reviews were treated as Cash Earnings adjustments, as these were deemed to be material items that did not reflect on-going operations.

All Cash Earnings adjustments other than item 7 above impact Other divisions. Item 7 impacts St.George Bank and BT Financial Group (Australia), the divisions that hold the underlying intangible assets.

DIVISIONAL PERFORMANCE

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 2010, 2009 and 2008. 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 equity holders.

Cash Earnings by business division

Years ended 30 September	2010 \$m	2009 \$m	2008 \$m
Westpac Retail & Business Banking	1,756	1,908	1,752
Westpac Institutional Bank	1,514	339	796
St.George Bank	1,041	930	
BT Financial Group (Australia)	595	484	399
New Zealand Banking	258	194	395
Other divisions(1)	715	657	384
Total Cash Earnings	5,879	4,512	3,726

(1) Other divisions include the results of Product & Operations, Technology, Group Treasury, Pacific Banking and Core Support.

Total assets by business division

As at 30 September	2010 \$bn	2009 \$bn	2008 \$bn
Westpac Retail & Business Banking	244	220	194
Westpac Institutional Bank	99	115	119
St.George Bank	134	128	
BT Financial Group (Australia)	28	26	23
New Zealand Banking	39	40	40
Other divisions(1)	74	61	64
Total assets	618	590	440

(1) Other divisions includes Product & Operations, Technology, Group Treasury, Pacific Banking and Core Support.

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.

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 up to \$50 million) in Australia under the Westpac and RAMS brands. Activities are conducted through our nationwide network of branches and business banking centres, home finance managers (HFMs) 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.

Performance of Westpac RBB

	2010 \$m	2009 \$m	2008 \$m
Net interest income	5,132	4,943	4,287
Non-interest income	1,014	1,274	1,356
Net operating income before operating expenses and impairment charges on loans	6,146	6,217	5,643
Operating expenses	(3,045)	(2,943)	(2,787)
Profit before impairment charges on loans and income tax expense	3,101	3,274	2,856
Impairment charges on loans	(589)	(551)	(352)
Profit before income tax	2,512	2,723	2,504
Income tax expense	(756)	(815)	(752)
Cash Earnings	1,756	1,908	1,752
Cash Earnings adjustments			
Net profit attributable to equity holders of Westpac	1,756	1,908	1,752
	\$bn	\$bn	\$bn
Deposits	114.5	103.8	86.9
Loans	239.1	215.6	189.0
Total assets	243.7	219.6	193.9
Total operating expenses to net operating income ratio	49.5%	47.3%	49.4%

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 the Institutional Bank over the year reflecting segmentation of business customers. While the pipeline of business lending substantially improved during the year, this has not yet translated 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 has:

- 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.

DIVISIONAL PERFORMANCE

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.

The credit quality of the consumer portfolio remains sound, although there has been 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 can 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.

For a discussion of the results of Westpac RBB for 2009 v 2008, refer to *Divisional performance 2009 v 2008* in this Annual Report.

Westpac Institutional Bank

Westpac Institutional Bank (WIB) delivers a broad range of financial services to commercial, corporate, institutional and government customers either based in, or with interests in, Australia and New Zealand.

WIB operates through dedicated sales industry teams, supported by specialist knowledge in financial and debt capital markets, transactional banking, specialised capital, margin lending, broking and alternative investment solutions.

Customers are supported through branches and subsidiaries located in Australia, New Zealand, New York, London and Asia.

The merger between Westpac and St.George Bank Limited was deemed to have 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 2010 Cash Earnings are not directly comparable to 2009 due to the additional six weeks of the St.George institutional businesses included in 2010.

Performance of WIB

	2010 \$m	2009 \$m	2008 \$m
Net interest income	1,776	1,761	1,248
Non-interest income	1,519	1,249	1,110
Net operating income before operating expenses and impairment charges on loans	3,295	3,010	2,358
Operating expenses	(1,038)	(1,011)	(902)
Profit before impairment charges on loans and income tax expense	2,257	1,999	1,456
Impairment charges on loans	(123)	(1,516)	(341)
Profit before income tax	2,134	483	1,115
Income tax expense	(620)	(144)	(319)
Cash Earnings	1,514	339	796
Cash Earnings adjustments			
Net profit attributable to equity holders of Westpac	1,514	339	796
	\$bn	\$bn	\$bn
Deposits	47.8	51.0	36.9
Loans	61.5	75.3	75.9
Total assets	99.2	114.6	119.0
Total operating expenses to net operating income ratio	31.5%	33.6%	38.3%

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 has undergone change during 2010 as markets emerged from the global financial crisis. This included corporate clients remaining cautious and continuing to deleverage, and financial markets exhibiting 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 recording 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.

DIVISIONAL PERFORMANCE

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.

For a discussion of the results of WIB for 2009 v 2008, refer to Divisional performance 2009 v 2008 in this Annual Report.

St.George Bank

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

Consumer activities are conducted through a network of branches, third party distributors, call centres, ATMs, Electronic Funds Transfer Point of Sale (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 merger between Westpac and St.George Bank Limited was deemed to have occurred for accounting purposes on 17 November 2008. Cash Earnings of St.George Bank are included in the 2009 consolidated results for the period from 18 November 2008 to 30 September 2009. The 2010 Cash Earnings are not directly comparable to 2009 due to the additional six weeks of St.George Bank's operations included in 2010.

Performance of St.George Bank

	2010 \$m	2009 \$m
Net interest income	2,668	2,313
Non-interest income	572	589
Net operating income before operating expenses and impairment charges on loans	3,240	2,902
Operating expenses	(1,242)	(1,027)
Profit before impairment charges on loans and income tax expense	1,998	1,875
Impairment charges on loans	(511)	(547)
Profit before income tax	1,487	1,328
Income tax expense	(446)	(398)
Cash Earnings	1,041	930
Cash Earnings adjustments	(129)	(113)
Net profit attributable to equity holders of Westpac	912	817
	\$bn	\$bn
Deposits	65.6	61.1
Loans	126.8	121.2
Total assets	134.0	127.6
Total operating expenses to net operating income ratio	38.3%	35.4%

2010 v 2009

St.George Bank Cash Earnings were \$1,041 million in 2010, an increase of \$111 million or 12% compared to 2009.

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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 system(1). 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.

(1) APRA system growth, 12 months to 30 September 2010.

DIVISIONAL PERFORMANCE

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 Bank 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.

For a discussion of the results of St.George Bank for 2009 v 2008, refer to [Divisional performance 2009 v 2008](#) in this Annual Report.

BT Financial Group (Australia)

BT Financial Group (Australia) (BTFG) is the wealth management arm of the Group which, following the merger with St.George Bank Limited, also includes the wealth division of St.George.

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.

Insurance solutions cover the manufacturing and distribution of life, general and lenders mortgage insurance and deposit bonds.

BTFG's brands include Advance Asset Management, Asgard, BT, BT Investment Management (60% owned by the Group and consolidated in BTFG's Funds Management business), Licensee Select, Magnitude, Ascalon, Securitor, and the advice, private banking and insurance operations of BankSA, St.George and Westpac RBB.

The merger between Westpac and St.George Bank Limited was deemed to have 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 2010 Cash Earnings are not directly comparable to 2009 due to the additional six weeks of the St.George wealth businesses included in 2010.

Performance of BTFG

	2010 \$m	2009 \$m	2008 \$m
Net interest income	257	263	111
Non-interest income	1,475	1,284	1,096
Net operating income before operating expenses and impairment charges on loans	1,732	1,547	1,207
Operating expenses	(866)	(829)	(645)
Profit before impairment charges on loans and income tax expense	866	718	562
Impairment charges on loans	(12)	(17)	(4)

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Profit before income tax	854	701	558
Income tax expense	(251)	(213)	(155)
Non-controlling interests	(8)	(4)	(4)
Cash Earnings	595	484	399
Cash Earnings adjustments	(17)	(15)	
Net profit attributable to equity holders of Westpac	578	469	399
	\$bn	\$bn	\$bn
Deposits	16.0	13.2	10.6
Loans	11.2	9.5	7.8
Total assets	27.5	26.1	22.7
Funds under management	42.5	41.9	32.3
Funds under administration	79.9	76.7	41.6
Total operating expenses to net operating income ratio	50.0%	53.6%	53.4%

DIVISIONAL PERFORMANCE

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.

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 the year.

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, now 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 continues 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 the year. 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.

For a discussion of the results of BTFG for 2009 v 2008, refer to [Divisional performance 2009 v 2008](#) in this Annual Report.

New Zealand Banking

The Group conducts its New Zealand banking business through two banks in New Zealand: Westpac New Zealand Limited (WNZL), which is incorporated in New Zealand and provides consumer and business banking operations; and Westpac Banking Corporation (NZ Division), a branch of Westpac Banking Corporation, which is incorporated in Australia and forms part of WIB.

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 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 in WIB.

Performance of New Zealand Banking

	2010 A\$m	2009 A\$m	2008 A\$m
Net interest income	957	1,007	970
Non-interest income	277	332	355
Net operating income before operating expenses and impairment charges on loans	1,234	1,339	1,325
Operating expenses	(592)	(604)	(599)
Profit before impairment charges on loans and income tax expense	642	735	726
Impairment charges on loans	(276)	(466)	(143)
Profit before income tax	366	269	583
Income tax expense	(106)	(73)	(185)
Non-controlling interests	(2)	(2)	(3)
Cash Earnings	258	194	395
Cash Earnings adjustments			
Net profit attributable to equity holders of Westpac	258	194	395
	A\$bn	A\$bn	A\$bn
Deposits	23.2	23.6	22.8
Loans	37.9	39.1	39.0
Total assets	39.0	40.1	39.9
Funds under management	1.7	1.7	1.7
Total operating expenses to net operating income ratio	48.0%	45.1%	45.3%

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.

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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.

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.

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- (1) Loans and deposits growth has been 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.

DIVISIONAL PERFORMANCE

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\$3.5million 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 are 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%, but have been relatively stable since then.

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.

For a discussion of the results of New Zealand Banking for 2009 v 2008, refer to [Divisional performance 2009 v 2008](#) in this Annual Report.

Other divisions

Other divisions comprise:

Product & Operations

Product & Operations is responsible for Australian consumer and business banking product development, management and operations.

Pacific Banking

Pacific Banking provides banking services for retail and business customers throughout the South Pacific Island Nations. 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.

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. It also includes Structured Finance, which continues to be wound down. Structured Finance transactions were typically high yielding asset transactions or liability transactions, which raised low cost funds on the Group's behalf.

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

	2010 \$m	2009 \$m	2008 \$m
Net interest income	1,065	1,214	607
Non-interest income	198	104	162
Net operating income before operating expenses and impairment charges on loans	1,263	1,318	769
Operating expenses	(189)	(120)	(128)
Profit before impairment charges on loans and income tax expense	1,074	1,198	641
Impairment charges on loans	55	(141)	(91)
Profit before income tax	1,129	1,057	550
Income tax expense	(358)	(335)	(100)
Non-controlling interests	(56)	(65)	(66)
Cash Earnings	715	657	384
Cash Earnings adjustments	613	(938)	133
Net profit attributable to equity holders of Westpac	1,328	(281)	517

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 represent distributions on our hybrid equity instruments TPS 2003 and TPS 2006, as well as other minority interests in subsidiary entities.

For a discussion of the results of this division for 2009 v 2008, refer to [Divisional performance 2009 v 2008](#) in this Annual Report.

Divisional performance 2009 v 2008

Westpac Retail & Business Banking

2009 v 2008

Westpac RBB's Cash Earnings was \$1,908 million in 2009, an increase of \$156 million or 9% compared to 2008.

Net interest income was \$4,943 million in 2009, an increase of \$656 million or 15% compared to 2008. The increase in net interest income was due to the combined impact of growth in lending of 14% and deposits of 19% and a 9 basis point improvement in margins. The primary driver of the improvement in margin was the repricing of loans for higher risk premiums, partially offset by increased funding costs.

Non-interest income was \$1,274 million in 2009, a decrease of \$82 million or 6% compared to 2008, due to lower fees on credit cards and the impact of changes to exception fees and ATM fees following financial system reforms introduced over the year. These declines were partially offset by higher income from our cards reward program (Altitude) resulting in a one-off increase in points redeemed into the Qantas frequent flyer program (with a related offset in expenses).

Operating expenses were \$2,943 million in 2009, an increase of \$156 million or 6% compared to 2008. This was largely driven by:

- an increase in average FTE employees by 355;
- general pay rises processed over the year of 4%;
- a \$20 million increase in expenses associated with the opening of eight new branches and four new business banking centres along with the refurbishment of 113 branches, including lease costs and fitout expenses; and
- higher costs associated with an increase in credit card loyalty points redeemed over the year (see comment in non-interest income above).

Impairment charges on loans were \$551 million in 2009, an increase of \$199 million or 57% compared to 2008. Most of the rise was associated with increased impairments in small and medium sized business customers. Australian consumer losses have remained relatively low.

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New IAPs increased by \$127 million in 2009, with most of the increase due to higher impaired assets in the business portfolio. The increase in impaired assets was evenly spread across industries and sectors. Writebacks and recoveries were \$5 million higher than 2008.

Business impaired assets to total committed exposure increased from 0.31% at 30 September 2008 to 0.79% as at 30 September 2009.

Collectively assessed provisions increased by \$77 million over the year, with most of the change due to business products with higher direct write-offs and some downgrades in the portfolio.

Consumer 90 day delinquencies increased in the first half of the 2009 but eased in the second half of 2009. As a result, compared to 2008, 90 day delinquencies in the mortgage portfolio decreased 7 basis points to 0.31% at 30 September 2009 while 90 day delinquencies in other consumer products increased 8 basis points to 0.99%. The moderation in mortgage delinquencies through the year reflects the health of the consumer segment along with increased collection efforts and customers paying down debt where they had capacity to do so. Actual losses on the mortgage portfolio were \$22 million.

Income tax expense was \$815 million in 2009, an increase of \$63 million or 8% compared to 2008. This equates to an effective tax rate of 29.9% in 2009 compared to 30.0% in 2008.

Westpac Institutional Bank

2009 v 2008

WIB's Cash Earnings was \$339 million in 2009, a decrease of \$457 million or 57% compared to 2008. Net profit excluding the impact of St.George amounted to \$350 million in 2009, a decrease of \$446 million or 56% compared to 2008, primarily due to a substantial increase in impairment charges on loans.

Net interest income was \$1,761 million in 2009, an increase of \$513 million or 41% compared to 2008. Net interest income excluding the impact of St.George was \$1,547 million in 2009, an increase of \$299 million or 24% compared to 2008. This increase, excluding the impact of St.George, was largely driven by the Debt Markets business as a result of higher margins as the portfolio was progressively repriced for the higher cost of funds, together with strong deposit growth and increased interest rate product volumes in the markets business. This was partly offset by a lower contribution from our Equities business, mainly due to a decline in margin loan balances. Net Financing loans declined 13% compared to 2008.

Non-interest income was \$1,249 million in 2009, an increase of \$139 million or 13% compared to 2008. Non-interest income excluding the impact of St.George was \$1,299 million in 2009, an increase of \$189 million or 17% compared to 2008. This increase was primarily driven by increased fee income from our Financing and Originations businesses combined with an improved markets performance which benefited from higher sales, mark-to-market gains on the credit trading portfolio and effective risk management in a volatile interest rate market.

DIVISIONAL PERFORMANCE

SCG revenue decreased \$184 million following the write down in the value of assets and investments held of \$155 million. The residual value of assets written down was \$438 million and included assets held for ultimate placement into funds, direct equity investments and strategic holdings in funds.

Operating expenses were \$1,011 million in 2009, an increase of \$109 million or 12% compared to 2008. Operating expenses excluding the impact of St.George were \$960 million in 2009, an increase of \$58 million or 6% compared to 2008. This was mainly due to higher personnel costs, restructuring costs and higher offshore expenses given the average A\$ exchange rate was lower than the prior year.

Impairment charges on loans were \$1,516 million in 2009, an increase of \$1,175 million or 345% compared to 2008. Impairment charges on loans excluding the impact of St.George were \$1,386 million in 2009, an increase of \$1,045 million or 306% compared to 2008. Impairment charges on loans were impacted by three large corporate exposures that were a direct result of the global financial crisis. Together, these facilities contributed just over \$400 million to impairment charges on loans for the year. Impairment charges on loans were also impacted by a deterioration in commercial facilities (typically those with a facility in the \$10 million to \$100 million range).

Within the Equities business, impairment charges on loans increased mainly due to three Margin Lending portfolio exposures and additional collectively assessed provisions. While the majority of the Margin Lending portfolio involves diversified portfolios of liquid stocks, the three troubled facilities were in concentrated portfolios supported by single stocks or managed funds that were illiquid or where redemptions were frozen. As a result, when markets declined sharply an orderly exit of these portfolios was not achieved.

Income tax expense was \$144 million in 2009, a decrease of \$175 million or 55% compared to 2008. Income tax expense excluding the impact of St.George was \$150 million, a decrease of \$169 million or 53% compared to 2008. This equates to an effective tax rate of 29.8% in 2009, compared to 28.6% in 2008.

St.George Bank

2009

St.George Bank contributed Cash Earnings of \$930 million for 2009. Revenue from increased balance sheet growth was partially offset by the costs associated with reinvestment in the business coupled with impairment charges on loans resulting from the deteriorating economic conditions.

Net interest income of \$2,313 million for 2009 reflected the combined impact of both lending and deposit growth and improvements in net interest margin. Deposit growth was primarily driven by term deposits, particularly from consumers. This effectively offset the impact of higher funding costs and decreased retail deposit spreads due to strong competition for term deposits.

Non-interest income of \$589 million for 2009 primarily consisted of deposit and lending fees.

Operating expenses of \$1,027 million for 2009 represented the costs of maintaining the St.George and BankSA distribution channels and brands, together with their associated technology, operations and administrative costs.

Impairment charges on loans of \$547 million for 2009 primarily related to IAPs in the business portfolio. Commercial facilities including commercial property account for most of the charge. Much of the stress in this portfolio was in property development projects, typically outside major central business districts in Australia. These properties have limited income to service debt, and easing property prices has reduced the collateral on these loans.

Other stresses in the commercial sector were evenly spread across industries. Australian consumer losses remained relatively low.

BT Financial Group (Australia)

2009 v 2008

BT Financial Group (Australia) Cash Earnings was \$484 million in 2009, an increase of \$85 million or 21% compared to 2008. Net profit excluding the impact of St.George was \$344 million in 2009, a decrease of \$55 million or 14% compared to 2008. The 14% decrease was driven by weaker global investment markets and lower average FUM and FUA throughout the year.

FUM was \$41.9 billion as at 30 September 2009, an increase of \$9.6 billion or 30% compared to 30 September 2008. This result reflected the impact of St.George adding \$10.2 billion of FUM, partially offset by the impact of lower investment markets during 2009.

FUA was \$76.7 billion as at 30 September 2009, an increase of \$35.1 billion or 84% compared to 30 September 2008. This result reflected the impact of St.George adding \$31.4 billion of FUA, in addition to \$4.4 billion positive net flows and positive other movements, including the re-invested distributions of \$0.3 billion, partially offset by a \$1.0 billion decrease due to lower investment markets during 2009.

Net operating income was \$1,547 million in 2009, an increase of \$340 million or 28% compared to 2008. Excluding the impact of St.George this was \$1,195 million in 2009, a decrease of \$12 million or 1% compared to 2008. This 1% decrease was driven by the impact of lower FUM and FUA related revenues, partially offset by volume growth within the Private Bank business and better FUM and FUA margins, offset by lower average balances.

Operating expenses were \$829 million in 2009, an increase of \$184 million or 29% compared to 2008. Operating expenses excluding the impact of St.George were \$680 million in 2009, an increase of \$35 million or 5% compared to 2008. The 5% increase was driven by a one-off payment to AIA Australia to terminate a contract to distribute certain insurance products, and increased expenses relating to BTIM share based payments, offset by lower volume-based expenses.

Impairment charges on loans were \$17 million in 2009, an increase of \$13 million or 325% compared to 2008. Impairment charges on loans excluding the impact of St.George was \$14 million in 2009, an increase of \$10 million or 250%, reflecting deteriorated economic conditions.

Income tax expense was \$213 million in 2009, an increase of \$58 million or 37% compared to 2008. Income tax expense excluding the impact of St.George was \$153 million in 2009, a decrease of \$2 million or 1%. This equates to an effective tax rate of 30.5% for 2009, compared to 27.8% in 2008.

New Zealand Banking

2009 v 2008

New Zealand Banking Cash Earnings was \$194 million in 2009, a decrease of \$201 million or 51% compared to 2008. Exchange rate movements had a \$4 million negative impact on earnings.

Net interest income was \$1,007 million in 2009, an increase of \$37 million or 4% compared to 2008. The increase in net interest income was the result of a 3% increase in lending in NZ\$ terms and a 6% increase in deposits in NZ\$ terms. Lending spreads improved by 36 basis points due to the repricing of business facilities to reflect higher risk premiums and mix benefits from a shift to floating rate mortgages from fixed rate. This was offset by a 55 basis point reduction in deposit spreads due to the migration to lower spread products (mostly term deposits) and intense competition for deposits. Exchange rate movements had a \$27 million negative impact on net interest income.

Non-interest income was \$332 million in 2009, a decrease of \$23 million or 6% compared to 2008. This was primarily due to lower transaction fees given reduced customer and merchant activity. Non-interest income from mortgage funds was also lower, primarily reflecting unusually high levels in 2008. Exchange rate movements had a \$9 million negative impact on non-interest income.

Operating expenses were \$604 million in 2009, an increase of \$5 million or 1% compared to 2008. Employee expenses rose 2% with general wage rises partially offset by a fall in temporary employees. Other contributors to expense growth over the year were higher lease costs from the transition into a new head office and continued expenditure on online and self-service customer solutions. Exchange rate movements had a \$17 million positive impact on operating expenses.

Impairment charges on loans were \$466 million in 2009, an increase of \$323 million or 226% compared to 2008. The large rise in impairments reflect two large impaired assets and a general deterioration in asset quality in both the business and consumer portfolios. The two large names accounted for \$162 million in impairment charges on loans.

Other impairment charges on loans in the business portfolio increased by \$127 million compared to 2008. Most of the increase relates to the stressed commercial property market, particularly apartment development properties where falling asset prices placed pressure on pre-sale contracts and softer asset prices impacted developers' cash flows.

Business impaired assets to total committed exposure increased from 0.15% at 30 September 2008 to 0.42% as at 30 September 2009.

In the consumer portfolio impairment charges on loans increased by \$38 million compared to 2008. The major movements were:

- \$10 million increase in other consumer lending impairment charges; and
- \$27 million increase in mortgage impairment charges, driven mainly by customers that rely on business earnings to service their mortgage.

Delinquencies greater than 90 days rose by 28 basis points for mortgages and 3 basis points for other consumer lending compared to 30 September 2008. Most of the rise in delinquencies emerged during the first half of the year. This was consistent with the unemployment profile in New Zealand where the unemployment rate increased to 6%, but did not materially deteriorate in the later part of the year.

Income tax expense was \$73 million in 2009, a decrease of \$112 million or 61% compared to 2008. This equates to an effective tax rate of 27.1% in 2009 compared with 31.7% in 2008, due to a change in corporate tax rate from 33% to 30% in October 2008.

Other divisions

2009 v 2008

Other divisions Cash Earnings was \$657 million in 2009, an increase of \$273 million or 71% compared to 2008. Cash Earnings excluding the impact of St. George was \$722 million in 2009, an increase of \$338 million or 88% compared to 2008.

DIVISIONAL PERFORMANCE

Net interest income was \$1,214 million in 2009, an increase of \$607 million or 100% compared to 2008. Net interest income excluding the impact of St.George was \$1,175 million in 2009, an increase of \$568 million or 94% compared to 2008. This was mainly driven by an uplift in Group Treasury's net interest income as a result of exceptional gains in three areas. Firstly, gains emerged from the revaluation of liquid securities driven by credit spreads narrowing as credit market confidence improved. Secondly, gains from the management of basis risks including the bills/libor spread, with this spread also reverting to long run levels in 2009 following a significant widening in 2008 in response to global financial crisis uncertainties. Finally, early repayment fees from customers exiting fixed rate loans were also significantly higher this year. Offsetting this was lower earnings from Structured Finance.

Non-interest income was \$104 million in 2009, a decrease of \$58 million or 36% compared to 2008. Non-interest income excluding the impact of St.George was \$128 million in 2009, a decrease of \$34 million or 21% compared to 2008. This was due to large one-off items in 2008, including property sales, upfront benefits on new insurance contracts and expense provision releases.

Operating expenses were \$120 million in 2009, a decrease of \$8 million or 6% compared to 2008. Operating expenses excluding the impact of St.George were \$107 million in 2009, a decrease of \$21 million or 16% compared to 2008. The movement in operating expenses was impacted by increased salaries and technology expenses, partially offset by improved productivity in Technology and merger synergies in Core Support.

Impairment charges on loans were \$141 million in 2009, an increase of \$50 million or 55% compared to 2008. Impairment charges on loans excluding the impact of St.George were \$136 million in 2009, an increase of \$45 million or 49% compared to 2008. This was due to increased impairment charges on loans within Pacific Banking due to portfolio growth and credit downgrades, and the impact of additional collective provisions, which reflected the assessed impact of continuing market dislocation.

Income tax expense was \$335 million in 2009, an increase of \$235 million or 235% compared to 2008. Income tax expense excluding the impact of St.George was \$332 million in 2009, an increase of \$232 million or 232% compared to 2008. This equated to an effective tax rate of 31.7% in 2009 compared to 18.2% in 2008, due to one-off tax benefits arising in 2008.

Non-controlling interests were \$65 million in 2009, a decrease of \$1 million or 2% compared to 2008. The non-controlling interests represent distributions our hybrid equity instruments, TPS 2003 and TPS 2006, as well as other non-controlling interests.

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 or financial condition 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 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 changes in regulations and regulatory policy

Compliance risk arises from the regulatory standards that apply to us as a financial institution. All of our businesses are highly regulated in the jurisdictions in which we do business. We are responsible for ensuring that we comply with all applicable legal and regulatory requirements (including accounting standards) and industry codes of practice, as well as meeting our ethical standards. The nature and impact of future changes in such policies are not predictable and are beyond our control.

Following the recent global financial crisis, significant regulatory change for financial institutions is occurring in most markets in which we operate. These changes will include changes in funding, liquidity, capital adequacy and other prudential requirements. Details of these changes and the timing of their introduction are currently uncertain and we currently manage our business in the context of regulatory uncertainty.

Other areas of potential regulatory change may include accounting and reporting requirements, tax legislation, regulation relating to remuneration and consumer protection legislation. In addition, other changes may occur in other areas driven by policy, prudential or political factors.

Some areas of potential regulatory change involve multiple jurisdictions seeking to adopt a coordinated approach to these issues. 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 also 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 and systemic stability.

Changes in law, regulations or regulatory policy could adversely affect one or more of our businesses, including limiting our ability to do business or restricting flexibility, and could require us to incur substantial costs to comply or impact our capital, funding and liquidity requirements. The failure to comply with applicable regulations could result in fines and penalties or limitations on our ability to do business. These costs, expenses and limitations could have a material adverse effect on our business, financial performance or financial condition.

For further information refer to Significant developments in Section 1 and the sections Adoption of new and revised accounting policies , Critical accounting assumptions and estimates and Future accounting developments 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

Global credit and capital markets have experienced extreme volatility, disruption and decreased liquidity in recent years. While some stability has returned to the markets, the environment remains volatile. We rely on credit and capital markets to fund our business and as a source of liquidity. As of 30 September 2010, approximately 41% of our total net funding originated from domestic and international wholesale markets, particularly markets 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.

As a result of the recent adverse global capital market conditions and competition for funding our funding costs from both wholesale markets and bank deposits have increased. If market conditions deteriorate due to economic, financial, political or other reasons, our funding costs may be further adversely affected.

The Australian Government withdrew its guarantee scheme for wholesale funding from 31 March 2010 and the New Zealand Government withdrew its wholesale funding guarantee facility from 30 April 2010. Although Westpac had not utilised either guarantee for new long term funding since early 2010, our continued access to the unguaranteed market is dependent on investor appetite.

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 funding at acceptable prices.

RISK AND RISK MANAGEMENT

If Westpac is unable to source appropriate funding, we may 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

The credit ratings assigned to us by rating agencies are based on an evaluation of a number of factors, including our financial strength. 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.

If we fail to maintain our current credit ratings, this would adversely affect our cost of funds and related margins, liquidity, competitive position and our access to capital markets.

A systemic shock in relation to the Australian, New Zealand or other financial systems could have adverse consequences for Westpac that would be difficult to predict and respond to

In the current global economic environment, there is a risk that another major systemic shock could occur that causes a further adverse impact on the Australian, New Zealand or other financial systems. Such an event could have a material adverse effect on financial institutions such as Westpac, including the undermining of confidence in the financial system, reducing liquidity and impairing access to funding and impairing our customers and counterparties. 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, such as the value of securities held or managed. A decline in asset prices could negatively impact the earnings of the 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 also affects 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 and political events. The global financial crisis adversely impacted global economic activity which, in turn, impacted the Australian and New Zealand economies. This led to a slowdown in credit growth and an increase in impaired assets. While activity has improved, there is the risk of further declines in economic activity in international economies which could lead to a similar effect in Australia and New Zealand. Should this occur, our results of operations, liquidity, capital resources and financial condition could be adversely affected.

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. Credit risk also arises from certain derivatives contracts we enter into. 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 exposures also include our dealings with, and holdings of, debt securities issued by other banks, financial institutions, companies, governments and government bodies whose financial conditions 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 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 on our risk management procedures, including the management of credit risk, refer to the section **Risk management** in this section and Note 27 to the financial statements.

The non-renewal of financial stimulus measures implemented by the Australian, New Zealand, United States and other governments to stabilise financial markets could have an impact on economic activity which may adversely affect our business

In response to the global financial crisis, stabilising actions were taken by governments which included financial stimulus measures in Australia, New Zealand, the United States and other jurisdictions. Many of these measures are of a non-

recurring nature. There can be no assurance as to what effect the non-renewal of these measures will have on economic activity, consumer and investor confidence, or the levels of volatility in financial markets. Any adverse changes in these areas could adversely affect our business, financial condition and results of operations.

We face intense competition in all aspects of our business

We compete, both domestically and internationally, with asset managers, retail and commercial banks, investment banking firms, brokerage firms, and other financial service firms. In addition, the trend toward consolidation in the global financial services industry is creating competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power.

If we are unable to compete effectively in our various businesses and markets, our business, results of operations and financial condition would be adversely affected.

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 section **Risk management** in this section.

We could suffer losses due to operational risks or environmental factors

As a financial services organisation we are exposed to a variety of other risks including those resulting from process error, fraud, information technology instability and failure, system failure, security and physical protection, customer services, staff competence, external events (including fire, flood, earthquake or pandemic) that cause material damage, 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.

In addition we and our customers operate businesses and hold assets in a diverse range of geographical locations. Any significant environmental change in any of these locations has the potential to disrupt business activities or affect the value of assets held in the affected locations.

For a discussion of our risk management procedures, including the management of operational risk, refer to the section **Risk management** in this section.

Technology

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 SIPs program. Failure to implement these projects 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.

Reputational damage could harm our business and prospects

Various issues may give rise to reputational risk and cause harm to our business and our prospects. These issues include appropriately dealing with potential conflicts of interest, pricing policies, legal and regulatory requirements, ethical issues, money laundering laws, trade sanctions legislation, privacy laws, information security policies, sales and trading practices, personnel and supplier policies and conduct by companies in which we hold strategic investments. Failure to address these issues appropriately 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.

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.

Other risks

Other risks that can adversely impact our performance and our financial position include insurance risk, model risk, business risk, outsourcing risk and related entity (contagion) risk. Refer to **Corporate governance** in Section 1 and Note 27 to the financial statements for more information on these risks.

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 key 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 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 frameworks approved by the BRMC and developing policies, controls, processes and procedures for identifying and managing risk that arises from our activities.

We have adopted a Three Lines of Defence approach to managing risk. As outlined in the Corporate governance section our approach to managing risk is that risk is everyone's business and the 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.

Refer to Note 27 to the financial statements for details of our credit risk management policies.

Provisions for impairment charges on loans

For information on the basis for determining the provision for impairment charges on loans refer to Critical accounting assumptions and estimates in Note 1 to the financial statements.

Credit risk concentrations

We monitor our credit portfolio to manage risk concentrations. At 30 September 2010, our exposure to consumers comprised 69% (2009 64%, 2008 59%) of our on-balance sheet loans and 57% (2009 54%, 2008 46%) of total credit commitments. At 30 September 2010, 89% (2009 89%, 2008 86%) of our exposure to consumers was supported by residential real estate mortgages. The consumer category also 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.

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:

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(in \$millions unless otherwise indicated)	Governments and Official Institutions	Banks and Other Financial Institutions	Other (Primarily Commercial and Industrial)	Total	% of Total Assets
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%
2008					
United States		3,702	1,501	5,203	1.2%
Australia	1	3,795	3,871	7,667	1.7%
United Kingdom	2	7,144	395	7,541	1.7%
Netherlands		3,758	171	3,929	0.9%

Impaired assets among the cross-border outstandings were \$136 million as at 30 September 2010 (2009 \$6 million, 2008 \$6 million).

Liquidity risk

Liquidity risk is the potential inability to meet our payment obligations, as they become due, without incurring unacceptable losses, which could potentially arise as a result of mismatched cash flows generated by our business. This 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 2010:

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/WSNZL(1)	Euro Commercial Paper and Certificate of Deposit Program
USD 50 billion	WBC	Program for the Issuance of Debt Instruments
USD 7.5 billion	WSNZL(1)	Program for the Issuance of Debt Instruments
Japan		
JPY 750 billion	WBC	Samurai shelf
JPY 750 billion	WBC	Uridashi shelf
United States		
USD 35 billion	WBC	Section 4(2) US Commercial Paper Program
USD 10 billion	WSNZL(1)	Section 4(2) US Commercial Paper Program
USD 35 billion	WBC	US MTN Program
USD 10 billion	WSNZL(1)	US MTN Program
USD 15 billion	WBC (NY Branch)	Medium Term Deposit Notes
No limit	WBC	US Securities and Exchange Commission registered shelf(2)
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 are guaranteed by Westpac New Zealand Limited, its parent company.

(2) Replaced previous USD 6 billion registered shelf.

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A more detailed analysis of our borrowings and outstandings from existing debt programs and issuing shelves can be found in the notes to the financial statements including Note 17, Note 18, Note 22 and Note 23.

Market risk

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

Our Trading activities are conducted in our Financial Markets and Group Treasury businesses. Financial Markets trading book activity represents dealings that encompass book running and distribution activity. Group Treasury trading activity represents dealings that include the management of interest rate, foreign exchange and credit spread risk associated with wholesale funding, liquid asset portfolios and foreign exchange repatriations.

Refer to Note 27 to the financial statements for a more detailed discussion of our market risk management policies.

The table below provides a summary of Trading VaR, by risk type, for the six months ended 30 September 2010, 31 March 2010 and 30 September 2009:

Six months ended	30 September 2010			31 March 2010			30 September 2009		
	High \$m	Low \$m	Average \$m	High \$m	Low \$m	Average \$m	High \$m	Low \$m	Average \$m
Interest rate risk	25.6	11.2	18.0	50.8	13.3	28.5	59.9	24.2	37.7
Foreign exchange risk	5.0	1.0	2.5	8.0	0.6	3.1	10.8	1.2	5.4
Equity risk	0.9	0.3	0.5	1.6	0.4	0.9	2.0	1.0	1.4
Commodity risk(1)	3.3	1.3	1.9	1.9	0.5	1.1	6.4	1.0	3.6
Other market risks(2)	27.5	15.8	19.3	18.3	11.7	14.3	26.0	17.7	21.4
Diversification effect	n/a	n/a	(17.0)	n/a	n/a	(17.6)	n/a	n/a	(29.7)
Net market risk	35.9	17.1	25.2	51.1	18.3	30.3	54.5	23.7	39.8

(1) Includes electricity risk.

(2) Includes prepayment risk and credit spread risk (exposure to movements is generic credit rating bands).

Prior to 1 October 2009 St.George trading positions were included on an additive basis. From 1 October 2009, these positions were integrated into Westpac's risk system and VaR numbers have been calculated on a diversified basis. The impact of this inclusion on the overall VaR is small, with St.George risk typically being less than 5% of the total.

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

Operational risk arises from inadequate or failed internal processes, people and systems or from external events. The way operational risk is managed has the potential to positively or negatively impact our customers, our financial performance and our reputation.

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.

Compliance risk

Compliance risk is the risk of legal or regulatory sanction, financial or reputation loss arising from our failure to abide by the regulatory standards required of us as a financial services group.

Refer to the Corporate Governance Report in Section 1 for information on our management of Compliance risk.

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 that Westpac damages its reputation or financial performance due to failure to recognise or address material existing or emerging sustainability-related environmental, social or governance issues.

Equity risk

The potential for financial loss arising from movements in 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).

Model risk

The risk of losses arising because of errors in, or inadequacies of a model, or in the control of a model.

Outsourcing risk

The risk of The Westpac Group being unable to carry on critical business activities as a result of the failure of an external supplier or service provider, or that such failure in turn triggers material concerns in another key risk area.

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 The Westpac Group.

Reputation risk

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

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 Westpac 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 2010, own assets securitised through a combination of privately or publicly placed issues to Australian, New Zealand, European and United States investors was \$12.0 billion (2009 \$14.3 billion).

Under A-IFRS the majority 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 2010, we administered one significant conduit (2009 one), that was created prior to 1 February 2003, with commercial paper outstanding of \$2.4 billion (2009 \$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 \$244 million as at 30 September 2010 (2009 \$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 2010.

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 2010.

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

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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 2010 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 September(1):

	2010	2009	2008
Westpac RBB	11,663	11,751	11,365
WIB	3,139	3,065	2,878
St.George Bank	5,518	5,227	
BTFG	4,316	3,949	2,872
New Zealand Banking	4,698	4,510	4,674
Other	9,628	8,530	6,513
Total employees	38,962	37,032	28,302

(1) The number of employees includes core and implied FTE staff (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.

2010 v 2009

Total FTE increased by 1,930 compared to 30 September 2009. This increase is 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 Bank, mainly driven by the SGB 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, 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.

2009 v 2008

Total FTE increased by 8,730 compared to 30 September 2008. This was primarily as a result of the merger with St.George and associated merger integration projects.

Specifically, the movement comprised:

- an additional 386 FTE in Westpac RBB, associated with the investment in distribution, including the increase in specialist relationship bankers and customer serving employees;
- an additional 187 FTE in WIB. FTE increased by 219 as a result of the merger with St.George and 49 additional FTE related to integration projects, with the residual decrease of 81 FTE the result of merger efficiencies;
- an additional 5,227 FTE in St.George Bank following the merger with St.George;
- an additional 1,077 FTE in BTFG. FTE increased by 982 as a result of the merger with St.George and 193 additional FTE related to integration projects, with the residual decrease of 98 FTE driven by efficiency and merger initiatives;
- a reduction of 164 FTE in New Zealand as a result of lower business activity; and

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- an additional 2,017 FTE in Core Support. FTE increased by 1,787 as a result of the merger with St.George and 552 additional FTE related to integration projects. The residual decrease of 328 FTE was as a result of FTE reductions through merger synergies, partially offset by an increase in Westpac Assist and collections FTE to accommodate higher activity in these areas.

This year Westpac negotiated a new Group Enterprise Agreement with the Finance Sector Union covering approximately 26,500 of our employees. The Agreement provides significant improvements in flexibility and productivity that will enable us to better serve our customers. It also delivers key benefits for our people, including performance based pay increases and an increase in paid parental leave to 13 weeks, the highest amongst the major Australian banks. The new Agreement was supported by over 90% of covered employees who cast a vote in the ballot to endorse the Agreement. The Agreement came into effect on 24 September 2010 and its nominal term continues through to the end of 2012, although it will continue in force after that date unless it is replaced or terminated.

Negotiations with the Finance Sector Union regarding a new Enterprise Agreement to cover our St.George division employees have also been successfully concluded. A ballot of employees covered by the Agreement will be completed in November 2010.

In New Zealand, there are Individual Employment Agreements (IEAs) with employees who are not union members and also a Collective Employment Agreement (CEA) with the Finance and Insurance Sector Union (Finsec). The current CEA was ratified with a vote of more than 77% in favour and came into effect on 1 August 2010 with expiry on 31 November 2011. The current CEA covers approximately 50% of our employees within the Retail and Customer & Technology Services business units.

There was no industrial action in our businesses in Australia and New Zealand in the financial year ended 30 September 2010. We continue to have a constructive

and professional relationship with the Finance Sector Union in Australia and Finsec in New Zealand.

Property

We occupy premises primarily in Australia, New Zealand and the Pacific Islands including 1,517 branches, (2009 1,491) as at 30 September 2010. As at 30 September 2010, we owned approximately 4% of the premises we occupied in Australia, none in New Zealand and 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 2010, the carrying value of our directly owned premises and sites was approximately \$210 million.

Westpac Place in Sydney CBD is the Group's head office and has a 6,066 seat capacity. In 2006 we signed a 12 year lease, which commenced in November 2006 and contains three six-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.

Westpac New Zealand Head Office

Construction of WNZL's new Head Office premises is nearing completion. On 4 October 2006 we executed Agreements to build and lease with members of the Britomart Group of Companies in respect of approximately 24,000m² of office space across two buildings to be developed at the Eastern end of Britomart Precinct near Customs Street in Auckland, New Zealand. The project involves the fitout of the building and relocation of approximately 1,500 staff to the new site, which has been named Westpac on Takutai Square.

Construction commenced in July 2008 and is scheduled for completion in early 2011, with migration of staff commencing April 2011. Building fitout works for the second stage have been completely integrated into the base build as part of Westpac's focus on cost effectiveness and environmental sustainability. Construction is on budget and forecast to meet or exceed timelines at overall completion.

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 2010 and 2009 is provided in Note 33 to the financial statements.

Audit related services

Westpac Group Secretariat continually 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 Board Audit Committee any exceptions that need to be approved pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X. Westpac Group Secretariat ensures the pre-approval guidelines are communicated to Westpac's divisions through publication on the Westpac intranet.

During the year ended 30 September 2010, there were no fees paid by Westpac to PwC that required approval by the Board Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

ADDITIONAL FINANCIAL INFORMATION

Selected consolidated financial and operating data

Under applicable US disclosure requirements, we are required to include in this Annual Report certain financial and operating data covering a period of five years. In our 2008 Annual Report we modified the presentation of loans and provisions for impairment charges on loans by industry to align external reporting with the basis of presentation for internal reporting. We revised the presentation for the year ended 30 September 2007, but it was impractical to revise the disclosures for the financial year ended 30 September 2006.

The operating data set forth below is derived from our audited financial statements (and accompanying notes) as of and for the financial years ended 30 September 2007 and 2006. In our 2008 Annual Report, loan products that have both a mortgage and deposit facility were presented on a gross basis in the balance sheet. This represented a change in presentation from that adopted in previous years and resulted in an increase in Australian real estate mortgage loans by \$2.8 billion at 30 September 2007 and \$1.9 billion at 30 September 2006. To review all five years of historical data on a consistent basis, refer to the 2007 Annual Report on our website at www.westpac.com.au or on the website maintained by the SEC at www.sec.gov.

Loans

	2007 \$m	Consolidated	2006 \$m
Loans by type of customer			
Australia			
Government and other public authorities	415		278
Agriculture, forestry and fishing	3,775		2,954
Commercial and financial	80,009		65,244
Real estate - construction	2,458		2,734
Real estate - mortgage	113,396		98,352
Instalment loans and other personal lending	24,633		23,777
	224,686		193,339
Lease financing	4,345		4,216
Total loans - Australia	229,031		197,555
Overseas			
Government and other public authorities	535		387
Agriculture, forestry and fishing	4,037		3,449
Commercial and financial	14,522		11,567
Real estate - construction	427		445
Real estate - mortgage	25,522		22,013
Instalment loans and other personal lending	2,645		2,145
	47,688		40,006
Lease financing	27		19
Total overseas	47,715		40,025
Total loans	276,746		237,580
Provisions on loans	(1,369)		(1,200)
Total net loans	275,377		236,380

Provisions for impairment charges on loans

	2007		Consolidated		2006	
	\$m	%	\$m	%	\$m	%
Individually assessed provision by type of customer						
Australia						
Agriculture, forestry and fishing	3	0.2	5		0.4	
Commercial and financial	82	5.3	109		8.0	
Real estate construction	1	0.1	1		0.1	
Real estate mortgage	3	0.2	6		0.4	
Instalment loans and personal lending	1	0.1	2		0.1	
Total Australia	90	5.9	123		9.0	
New Zealand						
Agriculture, forestry and fishing	1	0.1				
Commercial and financial	12	0.8	9		0.7	
Real estate mortgage	3	0.2	2		0.1	
Instalment loans and other personal lending	6	0.4	3		0.2	
Total New Zealand	22	1.5	14		1.0	
Other overseas						
Agriculture, forestry and fishing						
Commercial and financial	36	2.3	21		1.5	
Instalment loans and personal lending			6		0.4	
Total other overseas	36	2.3	27		1.9	
Total overseas	58	3.8	41		2.9	
Total individually assessed provisions	148	9.7	164		11.9	
Total collectively assessed provisions	1,410	90.3	1,194		88.1	
Total provisions for impairment charges on loans and credit commitments	1,558	100.0	1,358		100.0	

ADDITIONAL FINANCIAL INFORMATION

Provisions for impairment charges on loans (continued)

	2007 \$m	Consolidated	2006 \$m
Balance of provisions for impairment charges on loans (Individually and collectively assessed) as at beginning of the year	1,358		1,184
Write-offs	(371)		(295)
Recoveries	22		25
Charge to income statement	482		375
Discount unwind	115		94
Exchange rate and other adjustments	(48)		(25)
Balance of provisions for impairment charges on loans as at end of the year	1,558		1,358
Write-offs and recoveries			
Write-offs			
Australia			
Agriculture, forestry and fishing	(5)		(7)
Commercial and financial(1)	(84)		(82)
Real estate construction	(2)		(1)
Real estate mortgage	(12)		(6)
Instalment loans and other personal lending	(252)		(192)
Total Australia	(355)		(288)
New Zealand			
Commercial and financial(1)	(3)		(4)
Real estate construction			
Instalment loans and other personal lending	(3)		(2)
Total New Zealand	(6)		(6)
Total other overseas	(10)		(1)
Total write-offs	(371)		(295)
Recoveries			
Australia			
Commercial and financial(1)	6		10
Instalment loans and other personal lending	16		11
Australia	22		21
New Zealand			
Other overseas			
Total recoveries	22		25
Net write-offs and recoveries	(349)		(270)

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

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Financial report for the year ended 30 September 2010

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FINANCIAL STATEMENTS

Income statements for the years ended 30 September

Westpac Banking Corporation

		2010	Consolidated 2009	2008	Parent Entity	
	Note	\$m	\$m	\$m	2010	2009
					\$m	\$m
Interest income	2	34,151	30,446	29,081	29,799	22,009
Interest expense	2	(22,309)	(18,800)	(21,859)	(20,786)	(14,460)
Net interest income		11,842	11,646	7,222	9,013	7,549
Non-interest income	3	5,068	4,859	4,383	4,603	2,734
Net operating income before operating expenses and impairment charges on loans		16,910	16,505	11,605	13,616	10,283
Operating expenses	4	(7,416)	(7,171)	(5,455)	(5,540)	(4,524)
Impairment charges on loans	12	(1,456)	(3,238)	(931)	(958)	(2,018)
Profit before income tax		8,038	6,096	5,219	7,118	3,741
Income tax expense	5	(1,626)	(2,579)	(1,287)	(958)	(1,704)
Net profit for the year		6,412	3,517	3,932	6,160	2,037
Profit attributable to non-controlling interests		(66)	(71)	(73)		
Net profit attributable to owners of Westpac Banking Corporation		6,346	3,446	3,859	6,160	2,037
Earnings per share						
Basic (cents)	7	214.2	125.3	206.0		
Diluted (cents)	7	207.1	123.2	200.1		

The above income statements should be read in conjunction with the accompanying notes.

Statements of comprehensive income for the years ended 30 September

Westpac Banking Corporation

	2010 \$m	Consolidated 2009 \$m	2008 \$m	Parent Entity 2010 \$m	2009 \$m
Net profit for the year	6,412	3,517	3,932	6,160	2,037
Other comprehensive income:					
Gains/(losses) on available-for-sale securities:					
Recognised in equity	92	33	33	33	(5)
Transferred to income statement	(1)	18	3	8	13
Gains/(losses) on cash flow hedging instruments:					
Recognised in equity	(104)	(435)	(220)	(155)	(348)
Transferred to income statement	(2)	(11)	(5)	(5)	(4)
Defined benefit obligation actuarial gains/(losses) recognised in equity (net of tax)	(99)	41	(378)	(85)	34
Exchange differences on translation of foreign operations	(122)	(121)	86	87	(152)
Income tax on items taken directly to or transferred directly from equity:					
Available-for-sale securities reserve	(28)	(15)	(21)	(11)	(4)
Cash flow hedging reserve	36	136	67	48	105
Foreign currency translation reserve	6	7	17	(21)	30
Other comprehensive income for the year (net of tax)	(222)	(347)	(418)	(101)	(331)
Total comprehensive income for the year	6,190	3,170	3,514	6,059	1,706
Attributable to:					
Owners of Westpac Banking Corporation	6,124	3,099	3,441	6,059	1,706
Non-controlling interests	66	71	73		
Total net income recognised for the year	6,190	3,170	3,514	6,059	1,706

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheets as at 30 September

Westpac Banking Corporation

	Note	2010 \$m	Consolidated 2009 \$m	2008 \$m	2010 \$m	Parent Entity 2009 \$m	2008 \$m
Assets							
Cash and balances with central banks	42	4,464	3,272	4,809	3,693	2,578	4,502
Receivables due from other financial institutions	8	12,588	9,974	10,434	10,047	6,868	5,408
Derivative financial instruments	29	36,102	33,187	34,810	35,908	30,852	34,654
Trading securities	9	40,011	43,114	50,445	37,821	35,404	47,249
Other financial assets designated at fair value	9	3,464	3,063	2,547	1,324	1,411	1,480
Available-for-sale securities	10	12,124	1,630	1,613	10,932	462	540
Loans housing and personal	11	333,971	300,249	187,245	303,749	181,091	159,080
Loans business	11	143,684	163,210	126,300	127,418	112,600	113,717
Life insurance assets		12,310	12,384	12,547			
Regulatory deposits with central banks overseas		1,322	766	927	1,288	737	885
Due from subsidiaries					58,295	83,228	22,789
Current tax assets				77			161
Deferred tax assets	15	2,290	1,985	756	1,938	1,700	432
Investments in subsidiaries					5,005	18,751	4,258
Goodwill and other intangible assets	13	11,504	11,541	2,989	9,381	1,213	1,117
Property, plant and equipment	14	1,010	888	505	852	464	396
Other assets	16	3,433	4,324	3,672	2,645	2,413	2,916
Total assets		618,277	589,587	439,676	610,296	479,772	399,584
Liabilities							
Payable due to other financial institutions	17	8,898	9,235	15,861	8,887	8,368	14,880
Deposits at fair value	18	53,249	58,491	60,011	51,802	55,632	56,523
Deposits at amortised cost	18	284,136	270,965	173,719	259,760	180,581	149,069
Derivative financial instruments	29	44,039	36,478	24,970	42,977	33,354	24,980
Trading liabilities and other financial liabilities designated at fair value	19	4,850	10,848	16,689	4,850	9,082	16,628
Debt issues	22	150,336	131,353	96,398	124,647	96,770	77,747
Acceptances		635	1,671	3,971	635	1,392	3,971
Current tax liabilities		302	1,932		282	1,878	
Deferred tax liabilities	15	24	35		1	26	
Life insurance liabilities		11,560	11,737	11,953			
Due to subsidiaries					62,463	45,224	24,255
Provisions	20	1,726	1,628	1,106	1,526	1,120	956
Other liabilities	21	8,772	7,505	6,809	6,988	5,091	5,066
Total liabilities excluding loan capital		568,527	541,878	411,487	564,818	438,518	374,075
Loan capital							
Subordinated bonds, notes and debentures	23	6,679	8,127	6,545	6,679	5,821	6,545
Subordinated perpetual notes	23	404	443	486	404	443	486
Convertible debentures and Trust preferred securities	23	624	647	666	624	647	666
Stapled preferred securities	23	1,925	1,921	1,021	1,925	1,921	1,021
Total loan capital		9,632	11,138	8,718	9,632	8,832	8,718
Total liabilities		578,159	553,016	420,205	574,450	447,350	382,793

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Net assets		40,118	36,571	19,471	35,846	32,422	16,791
Shareholders equity							
Share capital:							
Ordinary share capital	24	24,686	23,684	6,744	24,686	23,684	6,744
Treasury shares and RSP treasury shares	24	(190)	(188)	(151)	(118)	(117)	(99)
Reserves		(57)	(56)	256	(7)	(110)	194
Retained profits		13,750	11,197	10,698	9,393	7,073	8,060
Convertible debentures	24				1,892	1,892	1,892
Total equity attributable to owners of Westpac Banking Corporation		38,189	34,637	17,547	35,846	32,422	16,791
Non-controlling interests	24	1,929	1,934	1,924			
Total shareholders equity and non-controlling interests		40,118	36,571	19,471	35,846	32,422	16,791
Contingent liabilities, contingent assets and credit commitments	36						

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of changes in equity as at 30 September

Westpac Banking Corporation

	2010 \$m	Consolidated 2009 \$m	2008 \$m	Parent Entity 2010 \$m	2009 \$m
Share capital					
Balance as at beginning of the year	23,496	6,593	6,011	23,567	6,645
Shares issued:					
Under dividend reinvestment plan	961	1,015	704	961	1,015
DRP underwriting agreement		887			887
Under option and share rights schemes	44	10	30	44	10
St. George merger		12,123			12,123
Institutional placement		2,465			2,465
Share purchase plan		440			440
Final settlement of Hastings Funds Management Limited acquisition		9			9
Shares purchased for delivery upon exercise of options and share rights (net of tax)	(3)	(9)	(115)	(3)	(9)
(Acquisition)/disposal of treasury shares	(2)	(26)	20	(1)	(7)
Acquisition of RSP treasury shares		(11)	(57)		(11)
Balance as at end of the year	24,496	23,496	6,593	24,568	23,567
Available-for-sale securities reserve					
Balance as at beginning of the year	66	28	(2)	29	25
Additions through merger				(2)	
Current period movement due to changes in other comprehensive income:					
Net gains/(losses) from changes in fair value	92	33	33	33	(5)
Exchange differences	2	2	15	2	
Income tax effect	(31)	(10)	(21)	(12)	
Transferred to income statements	(1)	18	3	8	13
Income tax effect	3	(5)		1	(4)
Balance as at end of the year	131	66	28	59	29
Share-based payment reserve					
Balance as at beginning of the year	420	346	257	388	327
Current period movement due to transactions with employees	120	74	89	111	61
Balance as at end of the year	540	420	346	499	388
Cash flow hedging reserve					
Balance as at beginning of the year	(371)	(61)	97	(234)	13
Additions through merger				(33)	
Current period movement due to changes in other comprehensive income:					
Net gains/(losses) from changes in fair value	(104)	(435)	(220)	(155)	(348)
Income tax effect	35	134	65	47	104
Transferred to income statements	(2)	(11)	(5)	(5)	(4)
Income tax effect	1	2	2	1	1
Balance as at end of the year	(441)	(371)	(61)	(379)	(234)
Foreign currency translation reserve					
Balance as at beginning of the year	(171)	(57)	(160)	(293)	(171)

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Current period movement due to changes in other comprehensive income:

Foreign currency translation adjustment	(122)	(121)	86	87	(152)
Tax on foreign currency translation adjustment	6	7	17	(21)	30
Balance as at end of the year	(287)	(171)	(57)	(227)	(293)

Common control reserve

Balance as at beginning of the year					
Additions through merger				41	
Balance as at end of the year				41	
Total reserves	(57)	(56)	256	(7)	(110)

Movements in retained profits were as follows

Balance as at beginning of the year	11,197	10,698	9,793	7,073	8,060
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Current period movement due to changes in other comprehensive income:

Actuarial gains/(losses) on defined benefit obligations (net of tax)	(99)	41	(378)	(85)	34
Profit attributable to owners of Westpac Banking Corporation	6,346	3,446	3,859	6,160	2,037

Transaction with owners:

Ordinary dividends paid	(3,694)	(2,988)	(2,576)	(3,700)	(2,994)
Distributions on convertible debentures				(55)	(64)

Balance as at end of the year	13,750	11,197	10,698	9,393	7,073
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Total comprehensive income attributable to non-controlling interests

	66	71	73		
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Total comprehensive income attributable to owners of Westpac Banking Corporation

	6,124	3,099	3,441	6,059	1,706
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Total comprehensive income for the period	6,190	3,170	3,514	6,059	1,706
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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

	2010 \$m	Consolidated 2009 \$m	2008 \$m	Parent Entity 2010 \$m	2009 \$m
Cash flows from operating activities					
Interest received	33,225	30,762	28,765	29,042	22,259
Interest paid	(20,854)	(19,149)	(21,389)	(19,643)	(14,827)
Dividends received excluding life business	25	21	15	217	46
Other non-interest income received	3,785	3,575	3,139	1,586	1,929
Operating expenses paid	(6,036)	(5,250)	(4,244)	(4,084)	(3,641)
Net decrease/(increase) in trading and fair value assets	1,819	12,428	(13,819)	2,932	11,924
Net (decrease)/increase in trading and fair value liabilities	(5,936)	(13,104)	8,470	(4,205)	(8,266)
Net decrease/(increase) in derivative financial instruments	(2,418)	15,000	(6,214)	(2,499)	10,162
Income tax paid excluding life business	(3,537)	(1,346)	(1,574)	(3,471)	(840)
Life business:					
Receipts from policyholders and customers	2,463	2,679	2,646		
Interest and other items of similar nature	24	29	36		
Dividends received	449	489	848		
Payments to policyholders and suppliers	(2,475)	(2,732)	(3,148)		
Income tax paid	(66)	(65)	(80)		
Net cash provided by/(used in) operating activities	468	23,337	(6,549)	(125)	18,746
Cash flows from investing activities					
Proceeds from sale of available-for-sale securities	3,080	5,417	4,514	719	679
Purchase of available-for-sale securities	(12,962)	(3,271)	(4,875)	(10,439)	(647)
Net (increase)/decrease in:					
Due from other financial institutions	(3,330)	2,576	3,198	(2,218)	(2,812)
Loans	(19,683)	(35,345)	(39,198)	(15,396)	(23,852)
Life insurance assets	(367)	(33)	467		
Regulatory deposits with central banks overseas	(685)	30	(81)	(679)	22
Other assets	530	(3,747)	3,308	711	(2,425)
Due from controlled entities				(1,311)	(48,308)
Investments in controlled entities				383	(14,493)
Purchase of computer software	(508)	(295)	(313)	(438)	(224)
Purchase of property, plant and equipment	(366)	(285)	(195)	(308)	(186)
Proceeds from disposal of property, plant and equipment	33	19	64	19	9
Controlled entities and businesses disposed, net of cash held and transaction costs			70		
Partial disposal of controlled entities			229		
Controlled entities and businesses acquired, net of cash held			(137)		
Merger with St.George, net of transaction costs		374		214	
Net cash used in investing activities	(34,258)	(34,560)	(32,949)	(28,743)	(92,237)
Cash flows from financing activities					
Issue of loan capital (net of issue costs)		897	476		897
Redemption of loan capital	(1,225)	(1,869)		(1,225)	(850)
Proceeds from share placement and share purchase plan		2,890			2,890
Proceeds from exercise of employee options	48	10	29	48	10

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Purchase of shares on exercise of employee options and rights	(5)	(10)	(132)	(5)	(10)
Net increase/(decrease) in:					
Due to other financial institutions	(406)	(12,562)	5,762	(511)	(7,147)
Deposits	12,379	20,427	30,344	7,808	32,438
Debt issues and acceptances	27,666	3,327	6,817	30,109	23,457
Other liabilities	(531)	(1,468)	710	(1,443)	77
Due to controlled entities				(1,906)	20,969
Purchase of treasury shares	(13)	(41)	(57)	(8)	(18)
Sale of treasury shares	7	7	20	7	
Payment of dividends	(2,733)	(1,973)	(1,872)	(2,794)	(2,043)
Proceeds from DRP underwriting agreement		887			887
Payment of dividends - former St.George shareholders		(708)			
Payment of dividends to non-controlling interests	(76)	(71)	(73)		
Net cash provided by financing activities	35,111	9,743	42,024	30,080	71,557
Net increase/(decrease) in cash and cash equivalents	1,321	(1,480)	2,526	1,212	(1,934)
Effect of exchange rate changes on cash and cash equivalents	(129)	(57)	40	(97)	10
Cash and cash equivalents as at the beginning of the year	3,272	4,809	2,243	2,578	4,502
Cash and cash equivalents as at the end of the year	4,464	3,272	4,809	3,693	2,578

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.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

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 2010 was authorised for issue by the Board of Directors on 3 November 2010.

(ii) Comparative revisions

Comparative information has been revised where appropriate to enhance comparability. The changes outlined below have had no impact on total assets, total liabilities and net profit. Comparative revisions made in the financial report include:

- the new accounting standard AASB 8 was adopted with effect from 1 October 2009. Comparative information has been revised as required by the new standard (Note 32); and

- the reclassification of other bank issued certificates of deposits between Receivables due from other financial institutions (Note 8) and Trading securities (Note 9). The revisions made to the comparative period balance sheets are presented in the table below. Associated changes have been made to the income statements, within interest income; cash flow statements and notes to the cash flow statements (Note 42); Average balances and related interest (Note 26); Financial risk disclosures (Note 27) and Fair values of financial assets and liabilities (Note 28).

	30 September 2009					
	Previously Reported \$m	Consolidated Increase/ (Decreased) \$m	Revised \$m	Previously Reported \$m	Parent Entity Increase/ (Decreased) \$m	Revised \$m
Receivables due from other financial institutions	18,309	(8,335)	9,974	12,366	(5,498)	6,868
Trading securities	34,779	8,335	43,114	29,906	5,498	35,404

	30 September 2008					
	Previously Reported \$m	Consolidated Increase/ (Decreased) \$m	Revised \$m	Previously Reported \$m	Parent Entity Increase/ (Decreased) \$m	Revised \$m
Receivables due from other financial institutions	21,345	(10,911)	10,434	16,319	(10,911)	5,408
Trading securities	39,534	10,911	50,445	36,338	10,911	47,249

Note 1. Summary of significant accounting policies (continued)

(iii) Changes in accounting policies

As a result of the new and revised accounting standards, which became operative for the annual reporting period commencing 1 October 2009, the following standards, interpretations and amendments have been adopted in the 2010 financial year:

The revised AASB 3 *Business Combinations* (AASB 3), amended AASB 127 *Consolidated and Separate Financial Statements* (AASB 127) and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127* March 2008 were adopted with effect from 1 October 2009 and therefore were not applicable in accounting for the merger with St.George. The revisions to the standards apply prospectively to business combinations. The main changes under the standards are that:

- acquisition related costs are recognised as an expense in the income statement in the period they are incurred;
- earn-outs and contingent considerations will be measured at fair value at the acquisition date. Subsequent remeasurement (where relevant) that relates to a post-acquisition event or that occurs outside the measurement period is recognised in the income statement;
- step acquisitions, impacting equity interests held prior to control being obtained, are remeasured to fair value, with gains and losses being recognised in the income statement. Similarly where control is lost, any difference between the fair value of the residual holding and its carrying value is recognised in the income statement; and
- while control is retained, transactions with non-controlling interests would be treated as equity transactions.

The revised AASB 101 *Presentation of Financial Statements* (AASB 101), AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101* September 2007 and AASB 2007-10 *Further Amendments to Australian Accounting Standards arising from AASB 101* were adopted with effect from 1 October 2009. The amendments affect the presentation of owner changes in equity and of comprehensive income. They do not change the recognition, measurement or disclosure of specific transactions and events required by other standards. Comparative information in these new disclosures has been presented so that it is also in conformity with the revised standard.

AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards* arising from AASB 8 were adopted with effect from 1 October 2009. The standards replaced AASB 114 and aligns external operating segment reporting with internal reporting to key management personnel.

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AASB 2009-2 *Amendments to Australian Accounting Standards Improving Disclosures about Financial Instruments* was issued in April 2009, and adopted with effect from 1 October 2009. The amendments enhanced disclosures for financial instruments regarding fair value measurement and liquidity risk.

The following standards are applicable to the Group and have been assessed as not having a material impact on the Group:

AASB 2008-1 *Amendments to Australian Accounting Standards Share based Payments: Vesting Conditions and Cancellations* was adopted with effect from 1 October 2009. It clarifies that vesting conditions for share-based payments include only service conditions and performance conditions. It also amends the definition of performance conditions to require the completion of a service period in addition to specified performance targets and to specify that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment.

AASB 2008-7 *Amendments to Australian Accounting Standards Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate July 2008* was adopted with effect from 1 October 2009 and removes the definition of the cost method from AASB 127. All dividends received from investments in a subsidiary, jointly controlled entity or associate will be recognised as income in the separate financial statements of the investor even if they are paid out of pre-acquisition profits. It also amends AASB 136 *Impairment of Assets* to include the recognition of a dividend from a subsidiary entity as a potential indication of impairment.

AASB 2008-8 *Amendments to Australian Accounting Standards Eligible Hedged Items August 2008* was adopted with effect from 1 October 2009 and provides clarification on the application of hedge accounting in certain circumstances.

(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.

Note 1. Summary of significant accounting policies (continued)

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. 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. 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) Dividends on redeemable preference share finance

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

(iii) 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.

Note 1. Summary of significant accounting policies (continued)

(iv) 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.

(v) 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.

(vi) 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.

(vii) Gain or loss on sale of property, plant and equipment

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds less costs of disposal, and the carrying amount of the asset, and is recognised as non-interest income.

c. Expense recognition

(i) Interest expense

Interest expense, including premiums or discounts and associated expenses incurred on the issue of financial liabilities, is recognised in the income statement using the effective interest 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 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.

Note 1. Summary of significant accounting policies (continued)

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 no 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 no 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.

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 income taxes levied by the same taxation authority on the same taxable entity or group of entities in the 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).

Note 1. Summary of significant accounting policies (continued)

e. Acquisitions of assets

(i) External acquisitions

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed as incurred. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. For each business combination, the non-controlling interest is measured either at fair value or at the proportionate share of the acquiree's identifiable net assets. The excess of the cost of acquisition, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill.

Where settlement of any part of cash consideration is deferred, amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group's incremental borrowing rate.

(ii) Common control transactions

The predecessor method of accounting is used to account for business combinations between entities in the Group.

Assets acquired and liabilities assumed in a common control transaction are measured initially at the acquisition date at the carrying value from the Group's perspective. The excess of the cost of acquisition over the initial carrying values of the Entity's share of the net assets acquired is recorded as part of a common control reserve.

Where relevant, in the financial report the phrase "additions through merger" includes both balances acquired through external acquisitions and through common control transactions.

f. Assets

(i) *Financial assets*

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. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all the risks and rewards of ownership.

Note 1. Summary of significant accounting policies (continued)

Available-for-sale financial assets and financial assets recognised at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method. 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 are 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 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 from other financial institutions include conduit assets, collateral placed and interbank lending. They are accounted for as loans and receivables and subsequently measured at amortised cost using the effective interest rate method.

c. Derivative financial instruments

Derivative financial instruments including forwards, futures, swaps and options are recognised in the balance sheet at fair value. Fair value is obtained from quoted market prices, independent dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying. Also included in the determination of the fair value of derivatives is a credit valuation adjustment. 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, redeemable preference share 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.

Note 1. Summary of significant accounting policies (continued)

h. Regulatory deposits with central banks overseas

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

i. Life insurance assets

Assets held by the life insurance companies, including investments in funds managed by the Group, are designated at fair value through profit or loss as required by AASB 1038. 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.

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.

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.

Note 1. Summary of significant accounting policies (continued)

If there is objective evidence that an impairment on loans and receivables or held-to-maturity investments has been incurred, the amount of the charge is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets reflect, and are directionally consistent with, changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience. When a loan 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 equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is 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.

(ii) *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

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the consideration received (less costs to sell) and the carrying value and are included in the income statement.

Note 1. Summary of significant accounting policies (continued)

b. Intangible assets

Goodwill

Goodwill represents amounts arising on the acquisition of businesses. Prior to the revised AASB 3, goodwill represented the excess of purchase consideration, including directly attributable expenses associated with the acquisition, over the fair value of the Group's share of the identifiable net assets of the acquired business. Goodwill arising on the acquisition of a business subsequent to the adoption of the revised AASB 3 represents the excess of the purchase consideration, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of net identifiable assets acquired.

All goodwill is considered to have an indefinite life.

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired, and is carried at cost or deemed cost less accumulated impairment. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units based on management's analysis of where the synergies resulting from an acquisition are expected to arise.

Goodwill was tested for impairment at 30 September 2010 and no impairment has been recognised in the income statement.

- 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

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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 any indication of impairment at each reporting date and whenever there is an indicator that these may be impaired.

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. 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 five years.

(iii) Investments in controlled entities

Investments in controlled entities are initially recorded by Westpac at cost. Investments in controlled entities are subsequently held at the lower of cost and recoverable amount.

Note 1. Summary of significant accounting policies (continued)**(iv) 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 cash-generating unit 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 cash-generating unit) 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 cash-generating unit) in prior years. Impairment charges and reversals of impairment charges are recognised in the income statement.

As detailed above, goodwill and indefinite life intangibles are tested for impairment annually, and whenever there is an indication that they may be impaired.

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 cash-generating unit to which the asset belongs.

g. Liabilities**(i) Financial liabilities**

Financial liabilities are initially recognised at fair value less transaction costs except where they are designated 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.

a. Payables due to other financial institutions

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Payables due to other financial institutions includes deposits, 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 credit valuation adjustment. 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.

Note 1. Summary of significant accounting policies (continued)

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 TPS 2004 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.

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.

Note 1. Summary of significant accounting policies (continued)

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.

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.

h. Equity

(i) Ordinary shares

Ordinary shares are recognised at the amount paid up per ordinary share net of directly attributable issue costs.

Note 1. Summary of significant accounting policies (continued)

(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) 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 the following hybrid instruments; Trust Preferred Securities 2003 (TPS 2003) and Trust Preferred Securities 2006 (TPS 2006) that are hybrid instruments and are classified as non-controlling interests.

(iv) 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.

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

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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.

Note 1. Summary of significant accounting policies (continued)

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.

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 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) Funds management 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 liabilities are not included in the consolidated financial statements.

The Group also manages life insurance statutory fund assets that are included in the consolidated financial statements (refer to Note 1(f)(iii)).

Note 1. Summary of significant accounting policies (continued)

(vi) *Offsetting*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(vii) *Securities borrowed or lent and repurchase or reverse repurchase agreements*

As part of its trading activities, Westpac lends and borrows securities on a collateralised basis. The securities subject to the borrowing or lending are not derecognised from the balance sheet, as the risks and rewards of ownership remain with the initial holder. Where cash is provided as collateral, the cash paid to third parties on securities borrowed is recorded as a receivable, while cash received from third parties on securities lent is recorded as a borrowing. Repurchase transactions, where Westpac sells securities under an agreement to repurchase, and reverse repurchase transactions, where Westpac purchases securities under an agreement to resell, are conducted on a collateralised basis. 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.

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 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 no consideration in relation to dilutive potential ordinary shares. The number of ordinary shares assumed to be issued for no consideration represents the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price 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)(iii).

Note 1. Summary of significant accounting policies (continued)

In its capacity as a lessee, the Group mainly uses property and equipment under operating leases. Payments due to the lessor under operating leases are charged to equipment and occupancy expense on a straight-line basis over the term of the lease (refer to Note 1(c)(iii)).

(xi) Segment reporting

Operating segments are presented on a basis that is consistent with information provided internally to Westpac's key decision makers. In assessing the financial performance of its divisions internally, Westpac uses a measure of performance it refers to as Cash Earnings. To calculate Cash Earnings, Westpac adjusts the statutory result for material items that key decision makers believe do not reflect ongoing operations, items that are not considered when dividends are recommended and accounting reclassifications between individual line items that do not impact statutory results, such as policy holder 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

(i) Critical accounting 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 Board Audit Committee.

The nature of assumptions and estimates used and the value of the resulting asset and liability balances are included in the policies below.

(ii) *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 solely by reference to observable current market transactions or valuation techniques based solely 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 \$103,595 million (2009 \$93,023 million). \$757 million of this is measured at fair value based on significant non-observable market inputs (2009 \$798 million). The Group has financial liabilities measured at fair value of \$135,465 million (2009 \$140,225 million). \$153 million of these is measured at fair value based on significant non-observable market inputs (2009 \$210 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.

Note 1. Summary of significant accounting policies (continued)**(iii) Provisions for impairment charges**

The Group's loan impairment provisions are established to recognise incurred impairment in its portfolio of loans. A loan is impaired when there is objective evidence that events occurring since the loan was recognised have affected expected cash flows from the loan. The impairment charge is the difference between the carrying value of the loan and the present value of estimated future cash flows calculated at the loan's original effective interest rate for fixed rate loans and the loan's current effective interest rate for variable rate loans. Provisions for loan impairment represent management's estimate of the impairment charges incurred in the loan portfolios as at the balance date. Changes to the provisions for loan impairment and changes to the provisions for undrawn contractually committed facilities and guarantees provided are reported in the income statement as part of impairment charges on loans.

At 30 September 2010, gross loans to customers totalled \$482,366 million (2009 \$467,843 million) and the provision for loan impairment was \$4,711 million (2009 \$4,384 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.

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The impairment charge reflected in the income statement is \$1,456 million and the provision balance at 30 September 2010 of \$4,711 million represents 0.98% of loans.

Provisions for credit commitments are calculated using the same methodology as described above. The provision for credit commitments was \$350 million (2009 \$350 million) and was disclosed as part of Note 20.

(iv) Goodwill

As stated in Note 1(f)(ii)(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 2010 was \$8,569 million (2009 \$8,597 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 (2009 \$2 million).

Note 1. Summary of significant accounting policies (continued)**(v) 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.

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.

(vi) 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.

(vii) 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.

(viii) St.George Bank Limited merger

The merger with St.George was accounted for using the purchase method of accounting. All the identifiable assets and liabilities of St.George were required to be 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 are set out in Note 43.

Intangible assets

Identifiable intangible assets that are not normally recognised are required to be identified and measured at their fair value as a result of the purchase price accounting requirements of AASB 3. 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's financial assets and financial liabilities were determined at the merger date. Many of these assets and liabilities were not normally traded in active markets. The global credit and capital market conditions that had included extreme volatility, disruption and decreased liquidity had increased the level of management judgment required in determining the fair value of St.George's financial assets and financial liabilities.

Tax consolidation

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Following the redemption of St.George'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.

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

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

Note 1. Summary of significant accounting policies (continued)

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 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 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 host 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 a tranche in a waterfall structure it must determine the classification of that tranche by looking through to the assets ultimately underlying that portfolio and assess the credit quality of that tranche compared with the underlying portfolio. If an entity is unable to look through, then the tranche must be measured at fair value.

The standard will impact the classification and measurement of the Group's financial assets.

AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9 December 2009* was issued in December 2009 and will be applicable when AASB 9 is adopted by the Group. This Accounting Standard gives effect to consequential changes arising from the issuance of AASB 9 on a number of Australian Accounting Standards and Interpretation 12 *Service Concession Arrangements*. The adoption of AASB 9 will impact the classification and measurement of the Group financial instruments.

AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* was issued in December 2009 and will be applicable to the 30 September 2011 financial year. The interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability.

NOTES TO THE FINANCIAL STATEMENTS

Note 2. Net interest income

	2010 \$m	Consolidated 2009 \$m	2008 \$m	Parent Entity 2010 \$m	2009 \$m
Interest income					
Loans	31,377	27,772	24,998	24,422	17,602
Receivables due from other financial institutions(1)	234	194	672	79	67
Available-for-sale securities	368	118	114	290	9
Regulatory deposits with central banks overseas	4	17	31	4	17
Subsidiaries				3,013	2,321
Trading securities(1)	2,035	2,228	2,864	1,873	1,901
Net ineffectiveness on qualifying hedges	1	(9)	1	(3)	(3)
Other financial assets designated at fair value	64	43	92	59	38
Other	68	83	309	62	57
Total interest income(2)	34,151	30,446	29,081	29,799	22,009
Interest expense					
Current and term deposits	(10,718)	(9,293)	(9,075)	(8,848)	(6,118)
Payables due to other financial institutions	(151)	(365)	(449)	(150)	(272)
Debt issues	(4,063)	(3,712)	(4,480)	(3,264)	(2,368)
Loan capital	(545)	(582)	(484)	(436)	(368)
Subsidiaries				(2,222)	(1,464)
Trading liabilities	(3,177)	(725)	(1,911)	(2,851)	(227)
Deposits at fair value	(1,832)	(2,089)	(4,286)	(1,768)	(2,106)
Other	(1,823)	(2,034)	(1,174)	(1,247)	(1,537)
Total interest expense(3)	(22,309)	(18,800)	(21,859)	(20,786)	(14,460)
Net interest income	11,842	11,646	7,222	9,013	7,549
Impairment charges on loans	(1,456)	(3,238)	(931)	(958)	(2,018)
Net interest income after impairment charges on loans	10,386	8,408	6,291	8,055	5,531

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- (1) In the current year we have revised our presentation and reclassified other bank issued certificates of deposit from receivables due from other financial institutions to trading securities. To improve presentation we have revised comparative periods. Refer to Note 1(a)(ii) for more details.
- (2) Total interest income for financial assets that are not at fair value through profit or loss is \$32,051 million (2009 \$28,184 million, 2008 \$26,124 million) for the Group and \$27,870 million (2009 \$20,073 million) for the Parent Entity.
- (3) Total interest expense for financial liabilities that are not at fair value through profit or loss is \$17,300 million (2009 \$15,986 million, 2008 \$15,662 million) for the Group and \$16,167 million (2009 \$12,127 million) for the Parent Entity.

Note 3. Non-interest income

	2010 \$m	Consolidated 2009 \$m	2008 \$m	Parent Entity 2010 \$m	2009 \$m
Fees and commissions					
Banking and credit related fees	919	804	553	751	562
Transaction fees and commissions received(1)	1,272	1,600	1,318	1,025	1,054
Service and management fees	12	5	5	2	2
Other non-risk fee income(1)	230	228	184	367	324
Total fees and commissions	2,433	2,637	2,060	2,145	1,942
Wealth management and insurance income(2)					
Life insurance and funds management net operating income	1,430	1,216	932	6	
General insurance and lenders mortgage insurance premiums less claims incurred	166	152	110	5	
Total wealth management and insurance income	1,596	1,368	1,042	11	
Trading income					
Foreign exchange income	462	707	514	427	618
Other trading securities	335	194	218	249	154
Total trading income	797	901	732	676	772
Other income					
Dividends received from subsidiaries				1,586	27
Dividends received from other entities	25	21	15	21	19
Rental income	6	5	1	3	
Gain/(loss) on disposal of assets:					
Net gain/(loss) from available-for-sale securities	1	(2)	(3)	13	1
Other net gain/(loss) on disposal of assets	45	(6)	460	11	
Net gain/(loss) on ineffective hedges	10	3	3	10	3
Hedging overseas operations	29	20	(57)	61	87
Net gain/(loss) on derivatives held for risk management purposes(3)	27	54	86	29	52
Net gain/(loss) on financial instruments designated at fair value	41		(1)	17	19
Other	58	(142)	45	20	(188)
Total other income	242	(47)	549	1,771	20
Total non-interest income	5,068	4,859	4,383	4,603	2,734
Wealth management and insurance income comprised(2)					
Funds management income	896	716	630	3	
Life insurance premium income	501	470	390		
Life insurance commissions, investment income/(expense) and other income/(expense)	479	432	(1,864)	3	
Life insurance claims and changes in life insurance liabilities	(446)	(402)	1,776		
General insurance and lenders mortgage insurance premiums earned	341	319	218		
General insurance and lenders mortgage insurance commissions, investment and other income	15	(22)	2	5	
General insurance and lenders mortgage insurance claims incurred, underwriting and commission expenses	(190)	(145)	(110)		
Total wealth management and insurance income	1,596	1,368	1,042	11	

(1)

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In the current year we have revised our presentation of fees and commissions, and to improve presentation we have revised comparatives for 2009. No adjustments were required for 2008.

- (2) In the current year we have revised our presentation of wealth management and insurance income to more accurately reflect the general and life insurance businesses, and to improve presentation we have revised comparatives for 2009. No adjustments were required for 2008.
- (3) 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

	2010 \$m	Consolidated 2009 \$m	2008 \$m	Parent Entity 2010 \$m	2009 \$m
Salaries and other staff expenses					
Salaries and wages(1)	3,052	2,856	2,207	2,171	1,716
Employee entitlements	258	245	162	197	171
Employee related taxes	177	190	172	135	122
Superannuation costs:					
Defined contribution plans	212	171	133	161	125
Defined benefit plans (Note 35)	39	37	6	39	34
Equity based compensation	125	104	92	102	71
Restructuring costs	56	116	124	46	53
Other(1)	71	87	19	33	27
Total salaries and other staff expenses	3,990	3,806	2,915	2,884	2,319
Equipment and occupancy expenses					
Operating lease rentals(2)	482	435	298	322	236
Depreciation, amortisation and impairment:					
Premises	17	18	1	17	1
Leasehold improvements	62	52	43	50	42
Furniture and equipment	61	62	37	50	36
Technology	66	63	90	43	33
Software	300	206	351	227	118
Equipment repairs and maintenance	75	74	39	54	44
Electricity, water and rates	11	11	7	8	6
Land tax	5	5	2	5	2
Other(2)	3		27		
Total equipment and occupancy expenses	1,082	926	895	776	518
Other expenses					
Amortisation of deferred expenditure	6	12	4	18	24
Amortisation of intangible assets	208	182		121	
Impairment charges goodwill		2	18		
Non-lending losses	38	182	53	24	172
Purchased services:					
Technology and information services	280	249	158	187	138
Legal	33	41	27	20	21
Other professional services	465	409	298	407	316
Credit card loyalty programs	117	210	185	117	210
Stationery	83	80	51	51	33
Postage and freight	139	123	103	103	78
Outsourcing costs	526	514	486	431	416
Insurance	21	19	11	14	10
Advertising	162	155	99	88	62
Training	29	22	17	18	9
Travel	73	63	59	53	41
Other expenses	164	176	76	228	157
Total other expenses	2,344	2,439	1,645	1,880	1,687
Operating expenses	7,416	7,171	5,455	5,540	4,524

(1)

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In the current year we have revised our presentation of salaries and wages and other staff expenses, and to improve presentation we have revised comparatives for 2009. No adjustments were required for 2008.

- (2) In the current year we have revised our presentation of equipment and occupancy expenses, and to improve presentation we have revised comparatives for 2009. No adjustments were required for 2008.

Note 5. Income tax

	2010 \$m	Consolidated 2009 \$m	2008 \$m	Parent Entity 2010 \$m	2009 \$m
The income tax expense for the year is reconciled to the profit before income tax as follows					