

WESTPAC BANKING CORP
Form 20-F
November 07, 2018

**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, 2018

Or

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

Or

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

Commission File Number: 1-10167

WESTPAC BANKING CORPORATION

Australian Business Number 33 007 457 141
(Exact name of Registrant as specified in its charter)

New South Wales, Australia
(Jurisdiction of incorporation or organization)

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

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Westpac Banking Corporation, New York branch,

575 Fifth Avenue, 39th Floor, New York, New York 10017-2422,
Attention: Branch Manager, telephone number: (212) 551-1800

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

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

Title of each class	Name of each exchange on which registered
Ordinary shares	Listed on the New York Stock Exchange, not for trading, but only in connection with the registration of related American Depositary Shares, pursuant to the requirements of the New York Stock Exchange.
American Depositary Shares, each representing the right to receive one ordinary share	New York Stock Exchange

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

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **1.950% Notes due November 23, 2018, Floating Rate Notes due November 23, 2018, 2.25% Notes due January 17, 2019, Floating Rate Notes due January 17, 2019, 1.650% Notes due May 13, 2019, Floating Rate Notes due May 13, 2019, 1.600% Notes due August 19, 2019, Floating Rate Notes due August 19, 2019, 4.875% Notes due November 19, 2019, 2.150% Notes due March 6, 2020, Floating Rate Notes due March 6, 2020, 3.050% Notes due May 15, 2020, Floating Rate Notes due May 15, 2020, 2.30% Notes due May 26, 2020, 2.600% Notes due November 23, 2020, 2.650% Notes due January 25, 2021, Floating Rate Notes due January 25, 2021, 2.100% Notes due May 13, 2021, Floating Rate Notes due May 13, 2021, 2.000% Notes due August 19, 2021, Floating Rate Notes due August 19, 2021, 2.800% Notes due January 11, 2022, Floating Rate Notes due January 11, 2022, 2.500% Notes due June 28, 2022, Floating Rate Notes due June 28, 2022, 2.750% Notes due January 11, 2023, Floating Rate Notes due January 11, 2023, 3.650% Notes due May 15, 2023, Floating Rate Notes due May 15, 2023, 2.850% Notes due May 13, 2026, 2.700% Notes due August 19, 2026, 3.350% Notes due March 8, 2027, 3.400% Notes due January 25, 2028, 4.322% Subordinated Notes due November 23, 2031, 5.000% Fixed Rate Resetting Perpetual Subordinated Contingent Convertible Securities and notes issued under our Retail Medium-Term Notes program (Registration Statement No. 333-172579)**

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

Ordinary shares	3,434,796,711 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.

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Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No (not currently applicable to registrant)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

Table of contents

Annual Report	
Form 20-F cross-reference index	2
Guide 3 cross-reference index	4
Section 1	5
Information on Westpac	6
Business strategy	6
Outlook	9
Significant developments	11
Corporate governance	23
Directors report	46
Remuneration Report	62
Section 2	93
Five year summary	94
Reading this report	95
Review of Group operations	97
Income statement review	99
Balance sheet review	107
Capital resources	111
Commitments	113
Divisional performance	114
Consumer Bank	117
Business Bank	118
BT Financial Group (Australia)	119
Westpac Institutional Bank	122
Westpac New Zealand	123
Group Businesses	125
Risk and risk management	129
Risk factors	129
Risk management	142
Credit risk	142
Liquidity risk	143
Market risk	144
Operational risk and compliance risk	145
Other risks	146
Westpac's approach to sustainability	150
Sustainability performance	150
Five year non-financial summary	155
Other Westpac business information	160
Section 3	163
Financial statements	164
Notes to the financial statements	170
Statutory statements	287
Section 4	291
Shareholding information	292
Additional information	307
Information for shareholders	311
Glossary of abbreviations and defined terms	315

In this Annual Report a reference to Westpac, Group, Westpac Group, we, us and our is to Westpac Banking Corporation ABN 33 007 457 141 and its subsidiaries unless it clearly means just Westpac Banking Corporation.

For certain information about the basis of preparing the financial information in this Annual Report see Reading this report in Section 2. In addition, this Annual Report contains statements that constitute forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934. For an explanation of forward-looking statements and the risks, uncertainties and assumptions to which they are subject, see Reading this report in Section 2.

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

Form 20-F cross-reference index

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

20-F item number and description	Page
Part I	
Item 1.	Not applicable
Item 2.	Not applicable
Item 3.	Not applicable
	Key information
	Selected financial data
	93, 99, 107-108, 310
	Capitalisation and indebtedness
	Not applicable
	Reasons for the offer and use of proceeds
	Not applicable
	Risk factors
	129-141
Item 4.	Not applicable
	Information on Westpac
	History and development of Westpac
	6, 9-22
	Business overview
	6-22
	Organisational structure
	8, 270-272
	Property, plants and equipment
	160
Item 4A.	Not applicable
Item 5.	Not applicable
	Unresolved staff comments
	Operating and financial review and prospects
	Operating results
	97-112, 114-128
	Liquidity and capital resources
	111-113, 143-144,
	146-149
	Research and development, patents and licences etc.
	Not applicable
	Trend information
	103-111, 114-128
	Off-balance sheet arrangements
	149
	Tabular disclosure of contractual obligations
	113
	Safe harbor
	95
Item 6.	Not applicable
	Directors, senior management and employees
	Directors and senior management
	46-55, 57-59
	Compensation
	62-89, 281-284
	Board practices
	25-50
	Employees
	160
	Share ownership
	57-59, 281-284, 292
Item 7.	Not applicable
	Major shareholders and related party transactions
	Major shareholders
	292-300
	Related party transactions
	161, 282-284
	Interests of experts and counsel
	Not applicable
Item 8.	Not applicable
	Financial information
	Consolidated statements and other financial information
	163-290
	Significant changes
	11-20, 284
Item 9.	Not applicable
	The offer and listing
	Offer and listing details
	301
	Plan of distribution
	Not applicable
	Markets
	23, 311-313
	Selling shareholders
	Not applicable
	Dilution
	Not applicable
	Expenses of the issue
	Not applicable

2018 Westpac Group Annual Report

Form 20-F cross-reference index
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(for the purpose of filing with the United States Securities and Exchange Commission)

		Page
Item 10.	Additional information	
	Share capital	Not applicable
	Memorandum and articles of association	307-309
	Material contracts	160
	Exchange controls	303-304
	Taxation	304-306
	Dividends and paying agents	Not applicable
	Statements by experts	Not applicable
	Documents on display	309
	Subsidiary information	Not applicable
Item 11.	Quantitative and qualitative disclosures about market risk	144-145, 241-243
Item 12.	Description of securities other than equity securities	
	Debt securities	Not applicable
	Warrants and rights	Not applicable
	Other securities	Not applicable
	American depository shares	302
 Part II		
Item 13.	Defaults, dividend arrearages and delinquencies	Not applicable
Item 14.	Material modifications to the rights of security holders and use of proceeds	Not applicable
Item 15.	Controls and procedures	149, 288, 289
Item 16A.	Audit committee financial expert	37
Item 16B.	Code of ethics	32-35
Item 16C.	Principal accountant fees and services	37, 281
Item 16D.	Exemptions from the Listing Standards for audit committees	Not applicable
Item 16E.	Purchases of equity securities by the issuer and affiliated purchasers	113, 266-268
Item 16F.	Changes in Registrant's certifying accountant	Not applicable
Item 16G.	Corporate governance	23
Item 16H.	Mine safety disclosure	Not applicable
 Part III		
Item 17. & 18.	Financial statements	163-290
Item 19.	Exhibits	
	Consolidated income statements for the years ended 30 September 2018, 2017 and 2016	164
	Consolidated balance sheets as at 30 September 2018 and 2017	166
	Consolidated statements of comprehensive income for the years ended 30 September 2018, 2017 and 2016	165
	Consolidated statements of cash flows for the years ended 30 September 2018, 2017 and 2016	169
	Notes to the financial statements	170-286
	Management's report on the internal control over financial reporting	288
	Report of independent registered public accounting firm	289

Guide 3 cross-reference index

	Page
Part I Distribution of assets, liabilities and stockholders equity; interest rates and interest differential	
Average balance sheets	107, 189-191
Analysis of net interest earnings	100-101, 189-191
Volume and rate movement	100, 189-191
Part II Investment portfolio	
Book value of investments	193
Maturity profile	194, 238-241
Book value and market value > 10% of shareholders	193
Part III Loan portfolio	
Types of loans	195-198
Maturities and sensitivities of loans to changes in interest rates	199
Risk elements	
Non-accrual, past due and restructured loans	110-111, 229-233
Potential problem loans	110-111
Foreign outstandings	143
Loan concentrations	143
Other interest bearing assets	192-194, 227-228
Part IV Summary of loan loss experience	
Analysis of the allowance for loan losses	200-203
Allocation of the allowance for loan losses	200-203
Part V Deposits	206-207
Part VI Return on equity and assets	94, 108
Part VII Short-term borrowings	208-209

Information on Westpac

Corporate governance

Directors report
(including Remuneration Report)

2018 Westpac Group Annual Report

Information on Westpac

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Westpac is one of the four major banking organisations in Australia and one of the largest banking organisations in New Zealand. We provide a broad range of banking and financial services in these markets, including consumer¹, business and institutional banking and wealth management services.

We have branches, affiliates and controlled entities² throughout Australia, New Zealand, Asia and in the Pacific region, and maintain branches and offices in some of the key financial centres around the world.

We were founded in 1817 and were the first bank established in Australia. In 1850, we were incorporated as the Bank of New South Wales by an Act of the New South Wales Parliament. In 1982, we changed our name to Westpac Banking Corporation following our merger with the Commercial Bank of Australia. On 23 August 2002, we were registered as a public company limited by shares under the Australian *Corporations Act 2001* (Cth) (Corporations Act).

At 30 September 2018, our market capitalisation was \$96 billion³ and we had total assets of \$880 billion.

External environment

Full Year 2018 has been a challenging year for the financial services sector in Australia, including for Westpac. The sector has been the subject of intense scrutiny from Government, regulators, the media and the community in general. Among various developments, legal actions have been filed by the Australian Securities and Investments Commission, the Banking Executive Accountability Regime, to be overseen by the Australian Prudential Regulatory Authority, was introduced, a review of competition in the sector was conducted by the Productivity Commission, and the Australian Competition and Consumer Commission established its Financial Services Unit.

In addition, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) was established on 14 December 2017 and has generated a serious impact on public sentiment and the financial services industry. The terms of reference for the Royal Commission require it to consider (amongst other things) the conduct of banks, insurers, financial service providers, superannuation funds (not including self-managed superannuation funds) and intermediaries between borrowers and lenders, and the effectiveness of Australian regulators in addressing misconduct in financial institutions.

The Royal Commission has been a valuable and rigorous process.

Since its establishment, the Royal Commission has completed the majority of its hearings, and on 28 September 2018 released its interim report. The interim report raised a number of important points of policy and principle for consideration by Westpac, the industry, its regulators and policy makers. It signalled that financial services

1 A consumer is defined as a person who uses our products and services. It does not include business entities.

2 Refer to Note 35 to the financial statements for a list of our material controlled entities as at 30 September 2018.

3 Based on the closing share price of our ordinary shares on the ASX as at 30 September 2018.

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organisations, including Westpac, need to do more to meet the needs of customers and the community, including by preventing, detecting and addressing misconduct, and consistently meeting legal and regulatory obligations. Westpac provided a formal response to the interim report on 26 October 2018.

Business strategy

The Royal Commission and the broader environment in which we operate have reinforced the need to deliver better customer outcomes and experiences, and underlined the importance of continuing to deliver on our vision and strategy, including the Service Revolution.

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

In delivering on our strategy, we are focused on our core markets, including Australia and New Zealand, where we provide a comprehensive range of financial products and services that we believe assist us in meeting the financial services needs of customers. With over 14 million customers⁴, our focus is on organic growth, growing customer numbers in our chosen segments and building stronger and deeper customer relationships.

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

As we continue to build the business, the financial services environment remains challenging and has required us to maintain focus on our financial position. This has involved:

- § maintaining the high level and quality of our capital;
- § continuing to improve our funding and liquidity position; and
- § seeking to maintain a high level of asset quality and appropriate provisioning.

We continue to focus on ways to simplify our business to make it easier for customers to do business with us and to make work better for our people. We believe these improvement efforts deliver better customer outcomes while also creating capacity for investment.

Throughout 2018 we continued our focus on seeking to deliver positive outcomes for our customers and shareholders through our Service Revolution transformation.

The Service Revolution is seeking to:

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§ provide a truly personal service for customers while better anticipating their needs;

§ put customers in control of their finances;

§ respond to the increased pace of innovation, disruption and changing customer behaviours through digitisation and increasing our capacity for innovation; and

4 All customers with an active relationship (excludes channel only and potential relationships) as at 30 September 2018.

Information on Westpac

§ innovate and simplify to reinvent the customer experience.

As part of our delivery of the Service Revolution, we have developed an integrated, multi-year plan that will be executed across the Group. In 2018, we continued to deliver outcomes and milestones on a number of our transformation programs focused on the digitisation of the company through the design and development of a single bank technology infrastructure. We expect this will transform customer experiences and drive operational efficiency. At the same time, we believe our Consumer Bank and Business Bank transformation programs continued to deliver market-leading customer services, while lowering the cost to serve.

Over the year, substantial work has also continued on conduct and culture, with work focused on continuing to strengthen our conduct management across the Group. In the context of the Royal Commission, much of the effort this year has been focused on improving customer outcomes and on our product reviews, as well as working to ensure we meet customer and community expectations. We are continuing to make adjustments and improvements to our business. In addition, work continues on ensuring that we are responding to the changing regulatory and industry landscape.

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

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

§ integrity;

§ service;

§ one team;

§ courage; and

§ achievement.

Strategic priorities

In delivering our strategy, we have five strategic priorities that help guide our activities:

a) Service leadership

- § provide a seamless customer experience across all channels;
- § deepen relationships through context-based customer experiences using our portfolio of brands;
- § acquire new customers by making it simpler, easier and better for customers to choose us; and
- § resolve legacy customer issues and ensure that our service creates good customer outcomes.

b) Digital transformation

- § create a 21st century, digitised bank with multi-brand capabilities;
- § simplify products and processes by digitising end-to-end; and
- § drive efficiency opportunities from digitisation and consolidation of systems.

c) Performance discipline

- § to be the region's best performing bank;
- § manage the business in a balanced way across strength, growth, return and productivity;
- § focus on reducing structural costs;
- § maintain strong levels of capital to meet the needs of all our stakeholders and requirements of regulators;
- § continue to enhance our funding and liquidity position, including ensuring a diversity of funding pools and meeting new liquidity requirements; and

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

d) Growth highways

§ focus on stronger growth in:

specific business segments, in particular, small to medium enterprises; and

supporting our customers' insurance and investment needs.

e) Workforce revolution

§ focus on a customer-centric culture;

§ strengthen the skills of our people to better serve customers and meet their complete financial needs;

§ empower our people to drive innovation, deliver new and improved ways of working and be responsive to change; and

§ continue to enhance the diversity of our workforce.

Information on Westpac

Organisational structure

Our operations comprise the following key customer-facing business divisions operating under multiple brands.

Consumer Bank (CB) is responsible for sales and service to consumer customers in Australia under the Westpac, St.George, BankSA, Bank of Melbourne and RAMS brands. Activities are conducted through a dedicated team of specialist consumer relationship managers along with an extensive network of branches, call centres and ATMs. Customers are also supported by a range of internet and mobile banking solutions. CB also works in an integrated way with Business Bank, BTFG and WIB in the sales and service of select financial services and products, including in wealth and foreign exchange. The revenue from these products is mostly retained by the product originators.

Business Bank (BB) is responsible for sales and service to micro, small to medium enterprises (SME) and commercial business customers in Australia for facilities up to approximately \$150 million. The division operates under the Westpac, St.George, BankSA and Bank of Melbourne brands. Customers are provided with a wide range of banking and financial products and services to support their borrowing, payments and transaction needs. In addition, specialist services are provided for cash flow finance, trade finance, automotive and equipment finance and property finance. The division is also responsible for consumer customers with auto finance loans. BB works in an integrated way with BTFG and WIB in the sales, referral and service of select financial services and products including corporate superannuation, foreign exchange and interest rate hedging. The revenue from these products is mostly retained by the product originator.

BT Financial Group (Australia) (BTFG) is the Australian wealth management and insurance arm of the Westpac Group, providing a broad range of associated services. BTFG's funds management operations include the manufacturing and distribution of investment, superannuation, retirement products, wealth administration platforms, private wealth, margin lending and equities broking. BTFG's insurance business covers the manufacturing and distribution of life, general and lenders mortgage insurance. The division also uses a third party to manufacture certain general insurance products. In managing risk across all insurance classes, the division reinsures certain risks using external providers. In addition to the BT brand, BTFG operates a range of financial services brands along with the banking brands of Westpac, St.George, Bank of Melbourne and BankSA for Private Wealth and Insurance.

Westpac Institutional Bank (WIB) delivers a broad range of financial products and services to commercial, corporate, institutional and government customers with connections to Australia and New Zealand. WIB operates through dedicated industry relationship and specialist product teams, with expert knowledge in financing, transactional banking, financial and debt capital markets. Customers are supported throughout Australia as well as via branches and subsidiaries located in New Zealand, the US, UK and Asia. WIB is also responsible for Westpac Pacific, currently providing a range of banking services in Fiji and PNG. WIB works in an integrated way with all the Group's divisions in

the provision of more complex financial needs, including across foreign exchange and fixed interest solutions.

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

§ Westpac New Zealand Limited (WNZL), which is incorporated in New Zealand; and

§ Westpac Banking Corporation (New Zealand Branch), which is incorporated in Australia.

Westpac New Zealand operates via an extensive network of branches and ATMs across both the North and South Islands. Business and institutional customers are also served through relationship and specialist product teams. Banking products are provided under the Westpac brand,

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while insurance and wealth products are provided under Westpac Life and BT brands, respectively. Westpac New Zealand also maintains its own infrastructure, including technology, operations and treasury.

Group Businesses include:

§ Treasury, which is responsible for the management of the Group's balance sheet including wholesale funding, capital and management of liquidity. Treasury also manages the interest rate risk and foreign exchange risks inherent in the balance sheet, including managing the mismatch between Group assets and liabilities. Treasury's earnings are primarily sourced from managing the Group's balance sheet and interest rate risk (excluding Westpac New Zealand) within set risk limits;

§ Group Technology, which comprises functions for the Australian businesses, is responsible for technology strategy and architecture, infrastructure and operations, applications development and business integration; and

§ Core Support, which comprises functions performed centrally, including Australian banking operations, property services, strategy, finance, risk, compliance, legal, human resources and customer and corporate relations.

Group Technology costs are fully allocated to other divisions in the Group. Core Support costs are partially allocated to other divisions in the Group, with costs attributed to enterprise activity retained in Group Businesses.

Group Businesses also includes earnings on capital not allocated to divisions, certain intra-group transactions that facilitate the presentation of the performance of the Group's operating segments, earnings from non-core asset sales and certain other head office items such as centrally raised provisions.

Information on Westpac

Competition

The Group operates in a highly competitive environment.

We serve the banking, wealth and risk management needs of customer segments from consumers and small businesses through to large corporate and institutional clients. The Group competes with other financial services providers in every segment and every product or service. Our competitors include financial services and advisory companies such as banks (both domestic and global), investment banks, credit unions, building societies, mortgage originators, credit card issuers, brokerage firms, fund and asset management companies, insurance companies, online financial services providers, and technology companies large and small.

Like other financial services providers, our competitive position across customer segments, products and geographies is determined by a variety of factors. These include:

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

We also operate in an environment where digital innovation is changing the competitive landscape. We compete on our ability to offer new products and services that align to evolving customer preferences. The competitive nature of the industry means that if we are not successful in developing or introducing new products and services, or in responding or adapting to changes in customer preferences and habits, we will lose customers to our competitors.

Competition within Australia's financial system is evidenced by both the significant number of providers and the range of products and services available to customers. In Australia, competition for both deposits and lending continues to be fierce, both from established banks as well as new entrants, including technology firms. Slowing growth in some sectors such as housing has heightened competitive intensity as financial institutions work to win new customers and retain existing ones.

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In our wealth business, we expect the broader competitive landscape to continue to undergo significant change with ongoing consolidation in life insurance, continued regulatory and structural change in financial advice, and increased overseas interest and participation in superannuation.

In New Zealand, the Group is experiencing strong competition as banks vie for new customers and seek to retain existing ones. Competition for deposits and lending remains intense.

Outlook1

The Australian economy has continued to grow solidly in 2018. GDP increased by 3.4% for the year to June 2018, comfortably above our estimate of potential growth of 2.75%.

Recent GDP growth has been supported by strong population growth, home construction levels remaining higher for longer, solid business investment and healthy export levels. Government spending has been particularly robust, highlighted by health and infrastructure. Improved global growth and solid commodity prices have also supported growth.

Other measures of economic health remain solid with unemployment recently falling to 5% (down from around 5.5% a year earlier), and inflation remaining well under control at 1.9%.

Despite this solid activity, wage growth has remained subdued with nominal earnings up by only 1.8% over the year. With inflation well below target and ongoing questions about consumer spending, the Reserve Bank has kept the cash rate steady since August 2016. In particular household budgets have been impacted by low income growth; falling house prices; high debt levels and high energy prices.

In New Zealand, the economy has also been sound with solid growth in agriculture, retail and recreational services. New Zealand GDP growth has held at around 2.7%, with unemployment around 4.5% and inflation near 1.5%.

Within Australia, the 2019 outlook is for real GDP growth to ease back potentially to 2.7% before lifting to around 3% in 2020. This softening in growth is based on the expectation that commodity prices will ease, the housing construction cycle continues its slowdown and consumer spending moderates. These conditions are also likely to weigh on business investment that is likely to remain below trend.

The housing market is likely to remain soft in the year ahead as demand in Sydney and Melbourne markets adjust to affordability and investors respond to falling prices and uncertainty around tax policy. Supply may also ease as more conservative lending policies continue to flow through the system.

A sharp rebalancing of interest rate differentials has seen the Australian dollar fall by around 12% against the US dollar. This will particularly support Australia's services exports and boost the profitability of the resources sector. Public demand is also likely to remain solid as the pipeline of infrastructure projects continues to roll out and the Commonwealth government benefits from a rapidly improving fiscal position. Employment growth is likely to slow from its recent strength to around the level of population growth. As a result, the unemployment rate is anticipated to hold steady at around 5%.

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That growth slowdown coupled with ongoing soft wage conditions will see little progress in moving inflation towards the Reserve Bank's target of 2.5%. Global economic growth is also expected to slow somewhat. Accordingly the Reserve Bank is expected to keep the cash rate on hold at 1.5% in 2019.

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

Information on Westpac

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Financial System credit grew by around 4.5% in the year to September 2018 with system housing credit rising 5.4%, and system business credit expanding by 3.8%. Other consumer credit declined by 1.4% over the year - this continues a path of declining consumer credit for a number of years.

Given the economic backdrop, and the potential for a further tightening of credit standards, growth in financial system credit in the year to September 2019 is expected to slow to around 3.5%. Within this aggregate, housing growth is forecast to ease to closer to 4.0%, business credit growth is expected to slow to near 3.5% while personal credit growth is likely to contract by 1%.

Westpac Group remains focused on executing our vision of being one of the world's great service companies with our five strategic priorities assisting this transformation. These include:

- § maintaining our performance discipline by continuing to be prudent in the management of capital, funding and liquidity; managing returns effectively seeking to achieve a ROE between 13% and 14% and remaining disciplined on asset growth;
- § continuing to build our customer base while also increasing the depth of customer relationships;
- § utilising technology as part of our digital transformation to materially improve efficiency and reduce the Group's cost to income ratio to below 40%;
- § wealth and small to medium business enterprises will continue to be our areas of targeted growth and will include focusing on growing funds on the Group's wealth management system, called Panorama, and using new technologies to make business banking even easier to access for customers; and
- § seeking to further build a stronger and more diverse workforce where the best people want to work.

Over the last two years we have commenced a number of initiatives to improve Westpac's reputation. As part of these initiatives Westpac has already provided for customer payments and refunds where we may not have done the right thing for customers, or have not been able to sufficiently demonstrate that we have done the right thing for customers. Our review of products, related systems and processes will continue into 2019 and it may be that further provisions are required in the future.

Following announcements from our regulator, APRA, we have greater clarity on what sort of capital levels we need to be considered unquestionably strong. APRA have indicated a common equity Tier 1 capital ratio of 10.5% under the current APRA framework would be considered consistent with having an unquestionably strong balance sheet. At the same time APRA is currently conducting a number of reviews into the calculation of Australia's capital ratios including changes to risk weighted assets and how Australia's ratios should be presented against international peers. Further clarity on these changes is expected in Full Year 2019. APRA has indicated that they believe banks will be able to meet any changes organically. Banks are expected to be required to meet these new standards by 1 January 2020.

Given the strength of our business, and our balance sheet, in both absolute terms and relative to peers, we believe we are well placed to respond to any additional regulatory requirements.

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Looking ahead, with our strong positioning, disciplined growth, solid portfolio of businesses, and good progress on our strategic priorities, Westpac believes it is well positioned to continue delivering sustainable outcomes for shareholders and customers.

Information on Westpac

Significant developments

Corporate significant developments

Royal Commission into the banking, superannuation and financial services industries

On 14 December 2017, the Australian Government established a Royal Commission into potential misconduct in Australia's banks and other financial services entities. The terms of reference for the Royal Commission require it to consider (amongst other things) the conduct of banks, insurers, financial service providers, superannuation funds (not including self-managed superannuation funds) and intermediaries between borrowers and lenders, and the effectiveness of Australian regulators in addressing misconduct in financial institutions. The Royal Commission is not required to inquire into matters such as the financial stability of Australia's banks. A final report is to be provided by the Commission to the Australian Government by 1 February 2019, and an interim report was released and tabled in parliament on 28 September 2018.

The Royal Commission is inquiring into potential misconduct and conduct, practices, behaviour or business activities by financial services entities that may fall below community standards and expectations. The Commission has sought and received public submissions as to misconduct issues in financial services and conducted a range of public hearings which have considered case studies of alleged misconduct issues.

Westpac has provided the Commission with documents and witness statements and made submissions in all rounds of the Royal Commission to date. The Interim Report of the Commission released on 28 September 2018 outlined a range of views the Commissioner has formed to date based on the information and hearings so far and has requested submissions on key areas of policy that might affect or address misconduct in the financial services industry. Many of those matters could have significant impacts on particular entities (including Westpac) and the financial services industry generally, as well as affecting the financial performance of financial institutions, including banks. Recommendations may include matters which could cause structural change to the financial services industry and/or business models used in the industry, changes to the compensation and incentive structures within the financial services industry, and changes involving the way financial services are regulated. Westpac made submissions in relation to the questions posed in the Interim Report on 26 October 2018.

The Commission will ultimately make findings and recommendations having considered the submissions Counsel Assisting, relevant financial institutions, other relevant bodies including regulators and the general public have made during the course of the proceedings of the Commission. The Commission's findings and recommendations may include recommendations as to civil or criminal prosecutions that should be conducted against financial institutions and individuals, recommendations as to legislative reform and in respect of matters which regulatory or other policy bodies should consider.

In the event that the Federal Government supports recommended regulatory changes, the Royal Commission may result in changes to legislation and regulation. The

Royal Commission is also considering the regulation and enforcement practices of our regulators. Any findings or recommendations made by the Royal Commission are likely to have and could continue to prompt regulators to commence investigations into various financial services entities including Westpac. Those steps could subsequently result in administrative or enforcement action being taken. The Commission may also prompt our regulators to alter their existing policies and practices (including increasing their expectations for entities that they regulate, including Westpac) and increase the number of potential contraventions they choose to publicly litigate rather than otherwise resolve, which could harm our reputation and increase our liabilities related to legal proceedings. There is also a risk that matters considered during the Royal Commission have resulted in or could encourage civil claims against financial institutions including class actions.

Parliamentary inquiries and other reviews

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On 16 September 2016, the Chairman of the House of Representatives Standing Committee on Economics announced that the Committee had commenced its Review of the Four Major Banks (Parliamentary Review). The terms of reference for the Parliamentary Review are wide-ranging, with one area of focus being how individual banks and the industry as a whole are responding to issues identified through other inquiries, including through the Australian Banking Association (ABA) action plan. Westpac attended public hearings of the Parliamentary Review on 6 October 2016, 8 March 2017, 11 October 2017 and 11 October 2018.

The third report of the Parliamentary Review was published on 7 December 2017. In its third report, the Committee made recommendations to ensure merchants have the choice of how to process tap and go payments on dual network cards, that the Australian Competition and Consumer Commission (ACCC) as part of its inquiry into residential mortgage products should assess the repricing of interest-only mortgages that occurred in June 2017, that legislation is introduced to mandate banks participation in Comprehensive Credit Reporting (discussed below) and that the Attorney-General should review the threshold transaction reporting obligations in light of the issues identified in a case brought by the Australian Transaction Reports and Analysis Centre against the Commonwealth Bank of Australia.

On 29 November 2016, the Senate referred an inquiry into the regulatory framework for the protection of consumers, including small businesses, in the banking, insurance and financial services sector to the Senate Economics References Committee. The terms of reference for the inquiry focus on a range of matters relating to the protection of consumers against wrongdoing in the sector. They also require the inquiry to examine the availability and adequacy of redress and support for consumers who have been victims of wrongdoing. The inquiry reporting date has been revised to 15 November 2018 to allow for the interim report of the Royal Commission to be handed down.

In addition to the reviews and inquiries mentioned above, the ACCC is undertaking a specific inquiry into the pricing of residential mortgages by those banks affected by the Bank Levy (including Westpac), which include monitoring the extent to which the Bank Levy is passed on to customers. An interim report was published in March 2018 and a final report is due in November 2018.

Information on Westpac

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The inquiry into the pricing of residential mortgages is the first task of the Financial Services Unit (FSU), established by the ACCC in 2017 to undertake regular inquiries into specific financial services competition issues. The FSU has commenced market studies work from July 2018. The precise scope of that work has not yet been determined, and could include a review of the impact of regulatory measures which affect the ability of smaller banks to compete against the major banks, barriers to entry in financial services markets and consumer switching.

On 2 October 2018, the ACCC announced it was holding an inquiry into the supply of foreign currency conversion services in Australia. The inquiry is the second task of the FSU, and will examine the pricing of foreign currency conversion services and evaluate whether there are impediments to effective price competition in the sector. A report is due to be provided by the ACCC to the Treasurer by 31 May 2019.

As these reviews and inquiries progress, they may lead to further regulation and reform.

APRA self-assessment

On 1 May 2018, in the context of the publication of the final report in relation to the prudential inquiry into the Commonwealth Bank of Australia, APRA indicated that all regulated financial institutions would benefit from conducting a self-assessment into their frameworks and practices in relation to governance, culture and accountability. For large financial institutions such as Westpac, APRA noted it will also be seeking written assessments in relation to these matters that have been reviewed and endorsed by their Board. Westpac's self-assessment is currently underway and the report is due to APRA on 30 November 2018.

Productivity Commission Inquiry into Competition in the Australian Financial System

In May 2017, the Australian Government announced a Productivity Commission inquiry into competition in the financial system. This review was a recommendation of the Financial System Inquiry (FSI). The terms of reference were broad and required the Productivity Commission to review competition in Australia's financial system with a view to improving consumer outcomes, the productivity and international competitiveness of the financial system and the economy more broadly, and supporting ongoing financial system innovation, while balancing these with financial stability objectives.

The Productivity Commission released its final report on 3 August 2018 in which it found that financial system regulation since the Global Financial Crisis had favoured stability over competition. A number of the Productivity Commission's recommendations were aimed at addressing this perceived regulatory imbalance, including that:

§ the Australian Government should implement an open banking system (discussed below);

§ the ACCC should receive a mandate to champion competition in the financial system;

§ trail commissions, volume-based commissions, campaign-based commissions and volume-based payments should be banned in mortgage broking and

clawback of commissions from brokers restricted to a maximum 2 year period;

§ all brokers, aggregators, lenders and their employees who provide home loans to customers should have a clear legally-backed best interest obligation to their clients;

§ all banks should appoint a Principal Integrity Officer (PIO) obliged by law to report directly to their board on the alignment of any payments made by the institution with the new customer best interest duty. The PIO would also have an obligation to report independently to ASIC in instances in which a board is not responsive to their advice;

§ the ACCC should undertake five-yearly market studies on the effect of vertical and horizontal integration on competition in the financial system. The first of these studies should commence in 2019 and include establishing a robust evidence base of integration activity in the financial system;

§ ASIC should require all lenders to provide those borrowers that are levied with lenders mortgage insurance (LMI) with the option of such insurance being levied once at the commencement of their home loan (whether paid as a lump sum or as deferred payments) or it being levied annually over the first 6 years of their loan, including requiring them to also provide borrowers with transparency in relation to the comparison of these options;

§ where LMI is levied at the commencement of the home loan, all lenders should be required to set a schedule of refunds on the cost of LMI when borrowers choose to refinance or pay out their loan within 6 years of the loan being originated. The refund schedule should be made available to the borrower before any fee or charge is levied; and

§ the Payments System Board should introduce a ban on card payment interchange fees by mid-2019.

ASIC action on compliance breaches with fees disclosure and renewal notices

On 12 October 2018, ASIC announced a review of compliance with requirements for Fee Disclosure Statements (FDS) and Renewal Notices. ASIC advised that it has received a number of breach reports from licensees which indicate they may have failed to comply with the FDS and Renewal Notice requirements that were implemented as part of the FoFA reforms. These reports are currently being investigated by ASIC, and ASIC may take enforcement action where breaches are substantiated. In addition to investigating these particular instances, ASIC announced that it will test compliance with FDS and Renewal Notice requirements across the financial advice sector.

ASIC will report its findings in 2019.

Information on Westpac

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Residential mortgage lending - reviews by and engagement with regulators

In recent years, regulators have focused on aspects of residential mortgage lending standards across the industry.

APRA has been looking at, and speaking publicly about, the broader issue of bank serviceability standards pertaining to residential mortgage lending.

During the year, Westpac further strengthened its controls on mortgage serviceability requirements. This work has been guided by the findings identified through the 2016/17 targeted review of data used in residential mortgage serviceability assessments, which was undertaken by Westpac (and other large ADIs) at APRA's request. The focus of the review was on the adequacy of controls used to ensure borrower information in serviceability assessments was complete and accurate. Westpac engaged an independent third party to undertake the targeted review which was completed in May 2017. Based on the results of their evaluation of the design and operating effectiveness of the controls in place, they issued a qualified opinion on the basis of 8 of the 10 control objectives stipulated by APRA. While they found that Westpac had implemented a wide range of controls related to verifying certain categories of borrower information (particularly in relation to income), they noted that Westpac should give further consideration to strengthening controls in certain areas, such as declared expenses and other debts.

Westpac is continuing to engage with APRA in relation to its progress in strengthening these controls together with its risk management framework for residential mortgage lending, including in relation to oversight, operating systems and controls, and assurance.

Additionally, in line with APRA's letter to ADIs dated 26 April 2018 (Embedding Sound Residential Mortgage Lending Practices), Westpac has been engaging with APRA in relation to its residential mortgage lending policies and practices.

In the mortgage area, ASIC continues to focus on interest only mortgage origination and high risk customer groups (such as customers with reverse mortgages). ASIC has also reviewed public statements by some banks (including Westpac) about interest rate changes, following the introduction of APRA's macro-prudential limits for ADIs in respect of interest only lending flows. Westpac is working with ASIC on their reviews in these areas.

Anti-Money laundering and counter-terrorism financing reforms and initiatives

On 13 December 2017, the Anti-Money Laundering and *Counter-Terrorism Financing Amendment Act 2017* (Cth) (Amendment Act) became effective and introduced a number of reforms to the Anti-Money Laundering and *Counter Terrorism Financing Act 2006* (Cth) (AML/CTF Act), including:

§ expanding the Australian Transaction Reports and Analysis Centre's (AUSTRAC) power to issue infringement notices and remedial directions;

§ refining the tipping-off provisions so that reporting entities can share information with certain related bodies corporate; and

§ regulating digital currency exchange providers.

Many of the changes introduced by the Amendment Act arise from a recent review of Australia's AML/CTF framework (Statutory Review), the findings of which were set out in the Report on the Statutory Review of the AML/CTF Act and Associated Rules and Regulations, which was tabled in Parliament on 29 April 2016. The Statutory Review took into account the relevant findings of the Financial Action Task Force's mutual evaluation of Australia's AML/CTF regime. The Government has published a Project Plan for implementing the reforms recommended by the Statutory Review, and it is likely further reforms will be legislated in the near future.

In addition to the potential for ongoing legislative change, over the past few years AUSTRAC has increasingly emphasised its role in collecting, analysing and disseminating financial intelligence data to its law enforcement partners. One way AUSTRAC has sought to do this is through greater collaboration with the financial services industry. In 2016, AUSTRAC created the Fintel Alliance, an initiative which involves AUSTRAC, various financial services entities (including Westpac) and public sector bodies collaborating with the aim of developing and sharing actionable intelligence and insights that address key AML/CTF risks.

In this environment of ongoing legislative reform, regulatory change and increased industry focus, Westpac continues to engage with AUSTRAC and has been undertaking a review of its AML/CTF control environment that is designed to consider and assess our AML/CTF policies, the completeness of data feeding into our AML/CTF systems and our anti-money laundering and counter-terrorism financing processes and controls. Westpac has been regularly updating AUSTRAC on the progress of this review and has commenced implementing a number of improvements to its AML/CTF policies, systems and controls together with related remediation work in respect of certain reporting practices. These efforts have related to matters such as customer on-boarding and ongoing customer due diligence.

The Group has recently self-reported to AUSTRAC a failure to report a large number of International Funds Transfer Instructions (IFTIs) (as required under Australia's AML/CTF Act) in relation to one WIB product. These IFTIs relate to batch instructions received from 2009 until recently from a small number of correspondent banks for payments made predominantly to beneficiaries in Australia in Australian dollars. Through the product, Westpac facilitates payments on behalf of clients of certain of its correspondent banks. The majority of the payments are low value and made by Government pension funds and corporates. The Group is investigating and working with AUSTRAC to remediate the failure to report IFTIs. Further details regarding the consequences of the failure to comply with financial crime obligations are set out in the Risk Factors section of this report.

Information on Westpac

Banking Executive Accountability Regime

On 1 July 2018 the Banking Executive Accountability Regime (BEAR), which applies to large ADIs such as Westpac, came into effect. The Government's stated intention of BEAR is to introduce a strengthened responsibility and accountability framework for the most senior and influential directors and executives in ADI groups (referred to as 'accountable persons' under BEAR).

BEAR involves a range of new measures, including:

§ imposing a set of requirements to be met by ADIs and accountable persons, including accountability obligations;

§ requirements for ADIs to register accountable persons with APRA prior to their commencement in an accountable person role, to maintain and provide APRA with a map of the roles and responsibilities of accountable persons across the ADI group, to give APRA accountability statements for each accountable person detailing that individual's roles and responsibilities and to report any breaches by the ADI or an accountable person of their respective accountability obligations to APRA; and

§ new and stronger APRA enforcement powers, including disqualification powers in relation to accountable persons who breach the obligations of BEAR and a new civil penalty regime that will enable APRA to seek civil penalties in the Federal Court of up to \$210 million (for large ADIs, such as Westpac) where an ADI breaches its obligations under BEAR and the breach relates to prudential matters.

Westpac implemented BEAR, including filing all required documents with APRA, by the required date of 1 July 2018.

Australian Securities and Investments Commission (ASIC) Enforcement Review Taskforce

On 19 October 2016, the Australian Government announced that the ASIC Enforcement Review Taskforce (Taskforce) would conduct a review into the suitability of ASIC's existing regulatory tools (including the penalties available) and whether they need to be strengthened.

The Taskforce completed its report in December 2017 and made 50 recommendations to the Australian Government. On 20 April 2018, the Australian Government announced that it has agreed, or agreed in principle, to all 50 recommendations and will prioritise the implementation of 30 of those recommendations. The remaining 20 recommendations will be considered with the final report of the Royal Commission.

The Taskforce made recommendations on, among other things:

§ reforms to the mandatory breach reporting framework including when a reporting obligation is triggered, expanding the class of reports that must be made to include misconduct by individual advisers and employees and strengthening the penalties for failing to report, including through the introduction of an infringement notice regime;

§ strengthening ASIC's licensing powers, which would enable ASIC to take action to refuse to grant, or to suspend or cancel, a licence where the applicant or licensee is not considered to be a fit and proper person;

§ expanding ASIC's powers to ban individuals working in financial services businesses where they are found to be unfit, improper or incompetent;

§ increasing fines and strengthening penalties for corporate and financial sector misconduct;

§ providing ASIC with the power to issue directions to financial services licensees and credit licensees in relation to the conduct of their business; and

§ enhancing ASIC's search warrant powers to provide them with greater flexibility to use seized materials and granting ASIC access to telecommunications intercept material.

Progress has been made in implementing these recommendations, including:

§ ASIC releasing a report on 25 September 2018 on the breach reporting processes of 12 financial services groups, including Westpac;

§ the Australian Government publicly endorsing the proposal by the ASIC Enforcement Review Taskforce to expand ASIC's powers in respect of corporate and financial services misconduct, including the criminal and civil penalties which apply, and introducing the *Treasury Laws Amendment (Strengthening Corporate and Financial Sector Penalties) Bill 2018* (Cth) (discussed below); and

§ the Australian Government announcing an increase in ASIC's funding in order to introduce a close and continuous monitoring program, in which ASIC embeds staff within the institutions which it supervises.

Enhanced penalties for corporate and financial sector misconduct

On 24 October 2018, the Australian Government introduced into Parliament the *Treasury Laws Amendment (Strengthening Corporate & Financial Sector Penalties) Bill 2018* (Cth), which proposes to strengthen penalties for corporate and financial sector misconduct consistent with the ASIC Enforcement Review Taskforce recommendations. If passed in its current form, the Bill will:

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§ update the penalties for certain criminal offences in legislation administered by ASIC, including increasing the maximum imprisonment penalties for certain criminal offences, introducing a formula to calculate financial penalties for criminal offences, and removing imprisonment as a penalty but increasing the financial penalties for all strict and absolute liability offences;

§ introduce ordinary criminal offences that sit alongside strict and absolute liability offences;

§ introduce the ability for courts to make relinquishment orders for civil penalty provision contraventions;

§ modernise and expand the civil penalty regime by making a wider range of offences subject to civil penalties;

§ harmonise and expand the infringement notice regime;

Information on Westpac

§ introduce a new test that applies to all dishonesty offences under the *Corporations Act 2001* (Cth); and

§ ensure the courts prioritise compensating victims over ordering the payment of financial penalties.

Product design and distribution obligations and product intervention power

On 21 December 2017, the Australian Treasury released draft legislation that would amend the *Corporations Act 2001* (Cth) and the *National Consumer Credit Protection Act 2009* (Cth) in order to grant ASIC a product intervention power and introduce a new principles-based product design and distribution obligation on issuers and distributors. A further exposure draft was released for consultation in July 2018.

Westpac lodged a submission with the Australian Treasury on 12 February 2018 and on 16 August 2018 in response to the draft legislation and its revision respectively.

On 20 September 2018, the *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Bill 2018* (Cth) was introduced into Parliament. The Bill is currently before the House of Representatives. Exposure draft regulations in relation to the Bill were released for consultation on 23 October 2018.

Australian Banking Association Banking Reform Program and industry initiatives

On 21 April 2016, the ABA announced an action plan to protect consumer interests, increase transparency and accountability and build trust and confidence in banks.

The reform program includes a number of industry-led initiatives including:

§ a review of product sales commissions and product based payments;

§ the establishment of an independent customer advocate in each bank;

§ supporting the broadening of external dispute resolution schemes;

§ evaluating the establishment of an industry-wide, mandatory, last resort compensation scheme;

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§ strengthening protections available to whistleblowers;

§ the implementation of a new information sharing protocol to help stop individuals with a history of poor conduct moving around the industry;

§ strengthening the commitment to customers in the Banking Code of Practice; and

§ supporting ASIC as a strong regulator.

On 17 April 2018, the independent governance expert overseeing the ABA action plan, Mr Ian McPhee, released his eighth and final report titled, Australian banking industry: Package of initiatives, which noted that banks have made good progress in delivering the initiatives, with most initiatives now implemented. Reporting by the banks to Ian McPhee about their implementation of key industry initiatives has now concluded. The ABA has committed to member banks providing further bi-annual external reporting on their implementation progress.

On 31 July 2018, ASIC approved the Banking Code of Practice with an implementation date of 1 July 2019. The new code replaces the previous version, the Code of Banking Practice 2013.

Westpac has fully implemented the recommendations from the Retail Banking Remuneration review chaired by Mr Stephen Sedgwick on 1 October 2018 for our employees, two years ahead of schedule.

Changes to wealth business

On 20 June 2018, BT Financial Advice announced that its customers operating through the Westpac, St. George, Bank of Melbourne and BankSA networks will benefit from the removal of grandfathered payments attributable to their BT products. The change to remove the majority of grandfathered payments occurred on 1 October 2018 with the removal of certain more complex grandfathered payments to follow shortly. The introduction of the Future of Financial Advice (FoFA) reforms in 2013 included a prospective ban on conflicted remuneration. Generally, arrangements in place prior to the commencement of FoFA were grandfathered, permitting the continuation of grandfathered payments, such as commissions, under those arrangements.

On 23 July 2018, BT Financial Group announced three new initiatives:

§ significant pricing changes to its flagship platform, BT Panorama, so that the pricing structure is significantly lower, simpler and no longer based on scale;

§ the launch of a compact BT Panorama offer for simpler investment; and

§ an online adviser services hub, BT Open Services.

Open banking regime

On 9 February 2018, the final report of the Review into Open Banking in Australia was released. The report makes 50 recommendations in total, including recommendations on:

- § the regulatory framework to support open banking;
- § what data should be shared and with whom;
- § what safeguards are needed to inspire confidence in data sharing;
- § how data should be transferred; and
- § how open banking should be rolled out.

On 9 May 2018 the Government announced that it agreed with the recommendations of the report, and that it would phase in open banking in stages with all major banks (including Westpac) required to make data available on credit and debit cards, together with deposit and transaction accounts by 1 July 2019 and on mortgages by 1 February 2020. Data on all products recommended by the report will be required to be made available by 1 July 2020. All remaining banks will be required to implement open banking with a 12-month delay on the timelines set for the major banks. The ACCC will be empowered to adjust timeframes if necessary.

On 15 August 2018, the Australian Treasury released draft legislation that would amend the *Competition and Consumer Act 2010* (Cth), the *Privacy Act 1988* (Cth) and the

Information on Westpac

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Australian Information Commissioner Act 2010 (Cth) to introduce a consumer data right which will apply to particular sectors designated by the Treasurer, in response to which Westpac lodged a submission. A further draft of the legislation (including a draft designation) was released by the Australian Treasury on 24 September 2018. The banking sector is the first sector to which the right will apply. A Consumer Data Right Rules Framework was also released by the ACCC in September 2018 and Westpac lodged a submission on the Framework on 12 October 2018.

Harper Competition Reforms

In November 2017, the *Competition and Consumer Amendment (Competition Policy Review) Act 2017* (Cth) and the inter-related *Competition and Consumer Amendment (Misuse of Market Power) Act 2017* (Cth) came into effect, making significant changes to the *Competition and Consumer Act 2010* (Cth) following recommendations by the Competition Policy Review which was chaired by Professor Ian Harper.

These reforms included:

§ broadening the scope of the existing prohibition on misuse of market power. Corporations with substantial market power are prohibited from engaging in any conduct with the purpose or likely effect of substantially lessening competition in a market in which the corporation (or its related bodies corporate) supplies or acquires goods or services;

§ a new prohibition on engaging in a concerted practice that has the purpose, effect or likely effect of substantially lessening competition;

§ in light of the new concerted practices prohibition, the repeal of the bank-specific prohibition on price signalling;

§ providing the ACCC with a class exemption power which enables it to determine that various provisions in the *Competition and Consumer Act 2010* (Cth) do not apply to certain types of conduct;

§ removing the per se prohibition on third line forcing or third party bundling of goods and services unless the conduct is notified to the ACCC. Instead this practice will be subject to a test of whether the bundling is likely to have the purpose, effect or likely effect of substantially lessening competition; and

§ streamlining the existing procedure to review proposed mergers.

Comprehensive Credit Reporting (CCR)

On 28 March 2018, the *National Consumer Credit Protection Amendment (Mandatory Comprehensive Credit Reporting) Bill 2018* (Cth) was introduced into Parliament. Whilst the bill remains in the Senate, if passed in its current form, the bill will mandate the provision of CCR data to credit reporting bodies. Westpac is committed to the use of CCR to support our principles of responsible lending, and as such we voluntarily supplied 55% of our consumer credit accounts on 17 September 2018.

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Westpac will supply the residual 45% of consumer credit accounts by 17 September 2019. To support our implementation, Westpac is now a signatory of the Principles

of Reciprocity and Data Exchange, which provides governance and most importantly key consumer data protection protocols within the CCR data sharing environment.

Financial benchmarks reform

The *Treasury Laws Amendment (2017 Measures No.5) Act 2018* (Cth) commenced on 12 April 2018 which strengthens the regulation of financial benchmarks. The measures include:

§ ASIC being empowered to develop enforceable rules for administrators and entities that make submissions to significant benchmarks (such as Westpac), including the power to compel submissions to benchmarks in the case that other calculation mechanisms fail;

§ administrators of significant benchmarks being required to hold a new benchmark administrator licence issued by ASIC (unless granted an exemption); and

§ the manipulation of any financial benchmark or financial product used to determine a financial benchmark (such as negotiable certificates of deposit) being made a specific criminal offence and subject to civil penalties.

Issue of Westpac Capital Notes 5

On 13 March 2018, Westpac issued \$1.69 billion of securities known as Westpac Capital Notes 5, which qualify as Additional Tier 1 capital under APRA's capital adequacy framework.

Transfer and conversion of Westpac convertible preference shares (CPS)

On 13 March 2018, \$623 million of CPS were transferred to the Westpac CPS nominated party for \$100 each pursuant to the Westpac Capital Notes 5 reinvestment offer. Those CPS were subsequently bought back and cancelled by Westpac.

On 3 April 2018, the remaining \$566 million of CPS were transferred to the Westpac CPS nominated party for \$100 each. Following the transfer, those remaining CPS were converted into 19,189,765 ordinary shares.

ASIC's responsible lending litigation against Westpac

On 1 March 2017, ASIC commenced Federal Court proceedings against Westpac in relation to home loans entered into between December 2011 and March 2015, which were automatically approved by Westpac's systems as part of broader processes. On 4 September 2018 Westpac and ASIC agreed to settle the proceedings on the basis of a proposed \$35 million penalty and declarations that Westpac contravened the *National Consumer Credit Protection Act 2009* (Cth) (NCCPA). The proposed settlement is subject to Court approval, and involves Westpac accepting that during the relevant period (December 2011 – March 2015), the way that Westpac used the Household Expenditure Measure (HEM) benchmark to assess home loans and the way that Westpac assessed certain interest only loans breached the NCCPA. This meant that during the relevant period, approximately 10,500 home loans should have been referred to manual assessment by a credit officer. A hearing on the proposed settlement was held on 24 October 2018 and judgment has been reserved.

Information on Westpac

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Outbound scaled advice division proceedings

On 22 December 2016, ASIC commenced Federal Court proceedings against BT Funds Management Limited (BTFM) and Westpac Securities Administration Limited in relation to a number of superannuation account consolidation campaigns conducted between 2013 and 2016. ASIC has alleged that in the course of some of these campaigns, customers were provided with personal advice in contravention of a number of *Corporations Act 2001* (Cth) provisions. ASIC has selected 15 specific customers as the focus of their claim. The proceedings were heard in February 2018. Judgment is pending.

ASIC's proceedings against Westpac for poor financial advice by a financial planner

On 14 June 2018, ASIC commenced proceedings in the Federal Court against Westpac in relation to alleged poor financial advice provided by a former financial planner, Mr Sudhir Sinha. Mr Sinha was dismissed by Westpac in November 2014 and subsequently banned by ASIC. Westpac has proactively initiated remediation to identify and compensate affected customers and has completed remediation activities. ASIC's proceedings relate to advice provided by Mr Sinha in respect of four specific customer files. Westpac has filed a response to ASIC's allegations.

Class action against Westpac Banking Corporation and Westpac Life Insurance Services Limited

On 12 October 2017, a class action was filed in the Federal Court of Australia on behalf of customers who, since October 2011, obtained insurance issued by Westpac Life Insurance Services Limited (WLIS) on the recommendation of financial advisers employed within the Westpac Group. The plaintiffs have alleged that aspects of the financial advice provided by those advisers breached fiduciary and statutory duties owed to the advisers clients, including the duty to act in the best interests of the client, and that WLIS was knowingly involved in those alleged breaches. Westpac and WLIS are defending the proceedings. These proceedings are currently stayed by order of the Court, pending the outcome of an appeal concerning a procedural issue unrelated to the substantive claims made in the class action.

BBSW proceedings

Following ASIC's investigations into the interbank short-term money market and its impact on the setting of the bank bill swap reference rate (BBSW), on 5 April 2016, ASIC commenced civil proceedings against Westpac in the Federal Court of Australia, alleging certain misconduct, including market manipulation and unconscionable conduct. The conduct that was the subject of the proceedings was alleged to have occurred between 6 April 2010 and 6 June 2012. ASIC sought declarations from the court that Westpac breached various provisions of the *Corporations Act 2001* (Cth) and the *Australian Securities and Investments Commission Act 2001* (Cth), pecuniary penalties of unspecified amounts and orders requiring Westpac to implement a comprehensive compliance program for persons involved in Westpac's trading in the relevant market. The proceedings were heard in late 2017. On 24 May 2018, Justice Beach found that Westpac had not engaged in market manipulation or misleading or deceptive conduct under the *Corporations Act 2001* (Cth). His Honour also found that there was no trading practice of manipulating the

BBSW rate. However, the Court found that Westpac engaged in unconscionable conduct on 4 occasions and that Westpac breached its supervisory duty. Costs and penalties will be determined in the coming months.

In August 2016, a class action was filed in the United States District Court for the Southern District of New York against Westpac and a large number of other Australian and international banks alleging misconduct in relation to BBSW. These proceedings are at an early stage and the level of damages sought has not been specified. Westpac is defending these proceedings.

Bank Levy for Authorised Deposit-taking Institutions (ADIs)

On 23 June 2017, legislation was enacted that introduced a new levy on ADIs with liabilities of at least \$100 billion (Bank Levy). The Bank Levy became effective from 1 July 2017 and the rate is set at 0.06% per annum of certain ADI liabilities. There is no end date provided for the Bank Levy. In the first 12 months following the introduction of the Bank Levy, Westpac paid \$376 million to the Australian Government.

Taxation of cross-border financing arrangements

The Australian and New Zealand Governments have each decided to implement the Organisation for Economic Co-operation and Development's (OECD) proposals relating to the taxation treatment of cross-border financing arrangements. These proposals affect the taxation arrangements for certain hybrid regulatory capital instruments issued by Westpac. The Australian provisions were enacted on 24 August 2018 and provide for limited grandfathering of certain previously issued Additional Tier 1 capital securities. The New Zealand provisions were enacted on 27 June 2018 and similarly provide for limited grandfathering of certain previously issued Tier 2 capital securities.

APRA's proposed changes to capital standards

The final report of the FSI in 2014 recommended that APRA set capital standards such that the capital ratios of Australian ADIs are unquestionably strong.

On 19 July 2017, APRA released an Information Paper titled *Strengthening Banking System Resilience - Establishing Unquestionably Strong Capital Ratios*. In its release, APRA concluded that the four major Australian banks, including Westpac, need to have a CET1 ratio of at least 10.5%, as measured under the existing capital framework, to be considered unquestionably strong. Banks are expected to meet this new benchmark by 1 January 2020. APRA has announced that it expects to consult on draft prudential standards giving effect to the new framework in 2018, leading to the determination of final prudential standards in 2019. The new framework is anticipated to take effect in early 2021.

During 2018, APRA commenced consultation and issued the following discussion papers:

§ *Revision to the Capital Framework for Authorised Deposit-Taking Institutions*. The paper included proposed revisions to the capital framework which incorporates the finalisation of the Basel Committee on Banking Supervision (BCBS) Basel III reforms in December 2017, as well as other changes to better align the framework to risks, including in relation to

Information on Westpac

home lending. In relation to proposed traded market risk reforms published by the BCBS (also referred to as Fundamental Review of the Trading Book), APRA have advised that it will defer its decision on the scope and timing of any domestic implementation of the market risk framework until after it has been finalised by the BCBS.

§ Leverage Ratio Requirements for Authorised Deposit-Taking Institutions . This discussion paper proposes to impose a minimum leverage ratio requirement of 4% for ADIs that use the internal ratings-based approach to determine capital adequacy from 1 July 2019. Australian banks are currently required to report leverage ratios under the existing requirements as part of Pillar 3 disclosures.

§ Improving the transparency, comparability and flexibility of the ADI capital framework . The discussion paper outlines options APRA is considering for the presentation of capital ratios, minimum capital requirements and capital instrument triggers. This could result in changes to capital ratios and minimum capital requirements and the Capital Trigger Event level of 5.125% could stay the same or increase. The dollar amount of CET1 surplus above the Capital Trigger Event level of 5.125% will depend on the final option implemented by APRA. As the proposals are at an early consultation stage it is too soon to determine final impacts.

APRA has announced that its revisions to the capital framework are not intended to necessitate further capital increases for the industry above the 10.5% benchmark. However, given the proposals include higher risk weights for certain mortgage products, such as interest only loans and loans for investment purposes, the impact on individual banks may vary. Given that the proposals are at the early consultation stage and final details remain unclear, it is too soon to determine the impact on Westpac.

Resolution planning including additional loss absorbing capacity and APRA s crisis management powers

In response to the FSI recommendations, the Australian Government also agreed to further reforms regarding crisis management and to establish a framework for minimum loss-absorbing and recapitalisation capacity.

On 5 March 2018, legislation came into effect which strengthens APRA s crisis management powers. The intention of these reforms is to strengthen APRA s powers to facilitate the orderly resolution of an institution so as to protect the interests of depositors and to protect the stability of the financial system. The reforms also enhance APRA s ability to take actions in relation to resolution planning, including measures to ensure regulated entities and their groups are better prepared for resolution.

APRA expects to commence consultation on a framework for minimum loss-absorbing and recapitalisation capacity later in 2018. The intention of this would be to facilitate the orderly resolution of banks and minimise taxpayer support.

Macro-prudential regulation

From December 2014, APRA began using macro-prudential measures targeting mortgage lending. This included limiting investment property lending growth to below 10%, imposing

additional levels of conservatism in serviceability assessments, and restricting mortgage lending with interest only terms to 30% of new mortgage lending. APRA also indicated that it expects ADIs to place strict internal limits on the volume of interest only loans with loan-to-valuation ratios (LVR) above 80%.

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Westpac has implemented steps to achieve these limits, including introducing differential pricing for investor property loans and interest only loans, a restriction on the volume of interest only loans with an LVR of greater than 80% (includes limit increases, interest only term extension and switches), no repayment switch fee for customers switching to principal and interest from interest only loans and no longer accepting external refinances (from other financial institutions) for owner occupied interest only loans. Interest only residential mortgages constituted 22.6% of new mortgage lending for the quarter ended 30 September 2018 (currently 34.7% of Westpac's overall Australian residential mortgage portfolio as at 30 September 2018).

On 26 April 2018, APRA announced its intention to remove the existing 10% limit on investment property lending growth and replace it with more permanent measures to strengthen lending standards. In order to no longer be subject to this limit from 1 July 2018, ADIs will be required to demonstrate to APRA that they have been operating below the 10% limit for at least the past 6 months. In addition, an ADI's Board will be required to provide an assurance to APRA in relation to its lending policies and practices. Westpac is currently subject to the 10% limit.

Net Stable Funding Ratio

In December 2016, APRA released an updated prudential standard on liquidity (APS 210) which took effect from 1 January 2018. The revised APS 210 includes the Net Stable Funding Ratio (NSFR) requirement; a measure designed to encourage longer-term funding of assets and better match the duration of assets and liabilities.

Westpac's NSFR as at 30 September 2018 was 114%, above the NSFR requirement of 100%.

Committed Liquidity Facility - annual application

The Reserve Bank of Australia makes available to ADIs a Committed Liquidity Facility (CLF) that, subject to qualifying conditions, can be accessed to meet LCR requirements under APS210: Liquidity. Westpac's CLF allocation has been decreased from \$57.0 billion in 2018 to \$54.0 billion for 2019.

Transition to AASB 9

AASB 9: Financial Instruments (AASB 9) will replace AASB 139 Financial Instruments: Recognition and Measurement from 1 October 2018. AASB 9 includes a forward looking expected credit loss impairment model, revised classification and measurement model and modifies the approach to hedge accounting.

The adoption of AASB 9 is expected to reduce retained earnings at 1 October 2018 by approximately \$709 million (net of tax) primarily due to the increase in impairment provisions under the new standard. The Group continues to assess and refine certain aspects of our impairment provisioning process. There is no significant impact to our regulatory capital.

Information on Westpac

Further details of the changes under the new standard are included in Note 1 to the financial statements.

Transition to AASB 15

AASB 15: *Revenue from Contracts with Customers* (AASB 15) will replace AASB 118 Revenue and related Interpretations from 1 October 2018. AASB 15 provides a systematic approach to revenue recognition by introducing a five-step model governing revenue measurement and recognition. The application of AASB 15 will not have a material impact on the Group's net profit or retained earnings.

Further details of the changes under the new standard are included in Note 1 to the financial statements.

APRA Prudential Standard APS 222: Associations with Related Entities

On 2 July 2018, APRA released a Discussion Paper and consultation draft in relation to prudential standard APS 222: Associations with Related Entities. The Discussion Paper proposes changes to the requirements for ADIs in managing their risks from associations with related parties. The proposals include changes to the definition and measurement of exposures to related entities, prudential limits and broadening the definition of related entities to include substantial shareholders, individual board directors and other related individuals. The proposals are at consultation stage and final details remain unclear. It is expected that once finalised, the framework will be implemented from 1 January 2020.

APRA Prudential Standard CPS 234: Information Security Management

On 7 March 2018, APRA released a consultation draft of a new cross-industry prudential standard CPS 234: Information Security Management. APRA announced that the proposed standard is aimed at improving the ability of APRA-regulated entities to detect cyber adversaries and respond swiftly and effectively in the event of a breach.

The proposed prudential standard would require APRA-regulated entities to (amongst other things):

- § define the information security related roles and responsibilities of the board, senior management and governing bodies;
- § maintain an information security capability that is commensurate with the size and extent of threats the entity faces;
- § implement information security controls to protect information assets;
- § undertake regular testing and assurance on the effectiveness of those information security controls;

§ have mechanisms to detect and respond to information security incidents in a timely manner; and

§ notify APRA of material information security incidents.

APRA announced that it intends to finalise the proposed prudential standard towards the end of 2018, with a view to implementing from 1 July 2019. Westpac continues to enhance its systems and processes to further mitigate cybersecurity risks.

Brexit

On 29 March 2017, the Prime Minister of the United Kingdom (UK) notified the European Council in accordance with Article 50 of the Treaty on European Union of the UK's intention to withdraw from the European Union (EU), triggering a two year period for the negotiation of the UK's withdrawal from the EU.

As Westpac's business and operations are based predominantly in Australia and New Zealand, the direct impact of the UK's departure from the EU is unlikely to be material to Westpac. However, it remains difficult to predict the impact that Brexit may have on financial markets, the global economy and the global financial services industry. Westpac has contingency planning in place and is continuing to monitor the implications of Brexit.

London Interbank Offered Rate

In July 2017, the Financial Conduct Authority, which regulates the London Interbank Offered Rate (LIBOR), announced that it would not require panel banks to continue to submit rates for the calculation of the LIBOR benchmark after 2021. Accordingly, the continuation of LIBOR in its current form will not be guaranteed after 2021, and it is likely that LIBOR will be discontinued or modified by 2021. It is currently uncertain what developments or future changes will occur in the administration of LIBOR or any other benchmarks. Any such developments or changes could impact the return on, value of and market for, securities and other instruments whose returns are linked to any such benchmarks, including those securities or other instruments issued by the Group.

European Union General Data Protection Regulation

The European Union (EU) General Data Protection Regulation (GDPR) contains new data protection requirements that came into effect from 25 May 2018. The GDPR is intended to strengthen and unify data protection for individuals across the EU and supersedes the existing EU Data Protection Directive. Australian businesses of any size may need to comply if they have an establishment in the EU, if they offer goods or services in the EU, or if they monitor the behaviour of individuals in the EU. Westpac implemented a number of changes and updates to policies and systems prior to the commencement of the GDPR, and those changes to policies and systems are continuing.

OTC derivatives reform

International regulatory reforms relating to over-the-counter (OTC) derivatives continue to be implemented across the globe, with a current focus on initial margin and risk mitigation practices for non-centrally cleared derivatives.

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Australian standards for risk mitigation practices relating to trading relationship documentation, trade confirmations, portfolio reconciliation and compression and valuation and dispute resolution processes came into force in March 2018 and have now been implemented.

Global initial margin requirements commenced on 1 September 2016. These requirements are being introduced in phases until 1 September 2020 and work is underway within Westpac to comply with these regulations.

New Zealand

Regulatory reforms and significant developments in New Zealand include:

Information on Westpac

RBNZ - Revised Outsourcing Policy

On 19 September 2017, the RBNZ advised Westpac New Zealand Limited (WNZL) of changes to its conditions of registration that will give effect to the RBNZ's revised Outsourcing Policy (BS11) (Revised Outsourcing Policy). Both the changes to the conditions of registration and the Revised Outsourcing Policy came into effect on 1 October 2017. The Revised Outsourcing Policy sets out requirements that banks need to meet when outsourcing particular functions and services, especially if the service provider is a related party of the bank. WNZL will have two years before it must fully comply with the requirement to maintain a compendium of outsourcing arrangements and five years to fully comply with other aspects of the Revised Outsourcing Policy.

RBNZ Capital Review

The RBNZ is undertaking a Bank Capital Adequacy Framework review on the makeup of bank capital. The RBNZ has now made in principle decisions on the risk weighted assets framework, including the introduction of dual reporting, a standardised methodology for operational risk, and capital floors to internal rating models. These changes will be reflected in the revised framework which is scheduled to be released in Q4 2019. The RBNZ will progress the in principle decisions over 2018 and 2019, informed by a quantitative impact study and feedback on the minimum capital settings during Q4 2018.

Reform of the regulation of financial advice

In July 2016, the New Zealand Government announced plans for changes to the regime regulating financial advice. The new regime is set out in the Financial Services Legislation Amendment Bill (FSLAB), which had its second reading in Parliament in September 2018. Under FSLAB, financial advice will be provided by licensed firms who will employ financial advisers and nominated representatives. A Code of Conduct will apply to all advice and advisers and representatives will be subject to the same duties and ethical standards. Firms will be responsible for ensuring that their advisers and representatives comply with these duties. The reforms will also remove legislative barriers to the provision of robo-advice.

A two stage transition is proposed. At this stage, the Code of Conduct is expected to be approved in Q2 2019. There will be a 9-month period from the Code's approval to initial implementation of the new regime, after which a 2-year safe harbour for competency requirements will apply.

RBNZ - Review under section 95 of the Reserve Bank of New Zealand Act 1989

On 10 February 2017, the RBNZ issued WNZL with a notice under section 95 of the *Reserve Bank of New Zealand Act 1989*, requiring WNZL to obtain an independent review of its compliance with advanced internal rating-based aspects of the RBNZ's Capital Adequacy Framework (Internal Models Based Approach) (BS2B). WNZL has disclosed non-compliance with BS2B (compliance with which is a condition of registration for WNZL) in its quarterly disclosure statements. On 15 November 2017, the RBNZ advised WNZL of changes to its conditions of registration resulting from the review. The changes to WNZL's conditions of registration came into effect on 31 December 2017 and increase the minimum Total Capital ratio, Tier 1 Capital ratio

and Common Equity Tier 1 Capital ratio of WNZL and its controlled entities by 2%. WNZL has also undertaken to the RBNZ to maintain the Total Capital ratio of WNZL and its controlled entities above 15.1%. WNZL and its controlled entities retain an appropriate amount of capital to comply with the increased minimum ratios. The RBNZ requires WNZL to sufficiently address non-compliance issues by 30 June 2019. A remediation plan has been provided to the RBNZ. WNZL is providing regular updates on the scope of its remediation activity to the RBNZ to ensure compliance by 30 June 2019.

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Review of the Reserve Bank of New Zealand Act

In November 2017, the New Zealand Government announced it will undertake a review of the *Reserve Bank of New Zealand Act 1989* (Act) (RBNZ Review). The RBNZ Review aims to ensure the RBNZ's monetary and financial policy framework still provides the most efficient and effective model for New Zealand. The RBNZ Review will consist of two phases. Phase 1 focuses on whether the RBNZ's decision-making process for monetary policy is robust, and draft legislation for the proposed Phase 1 related changes to the Act has been published. The terms of reference for Phase 2 were released in June 2018 and will consider broader issues, including the macro-prudential framework, the current prudential supervision model and trans-Tasman coordination. The first consultation on Phase 2 was issued on 1 November 2018.

Residential Mortgage Bond Collateral Standard Review

When the RBNZ lends to banks and other counterparties it does so against eligible collateral (mortgage bonds). In New Zealand, mortgage bonds are not generally traded. On 17 December 2017, the RBNZ published an issues paper proposing an enhanced mortgage bond standard aimed at supporting confidence and liquidity in the financial system, and a more standardised and transparent framework for mortgage bonds, which would improve their quality and make them more marketable and a new format for mortgage bonds. The RBNZ is engaging with industry to develop this new mortgage bond standard.

RBNZ/FMA Financial Services Conduct & Culture Review

In May 2018, the RBNZ and FMA commenced a review in respect of New Zealand's 10 major banks & 15 life insurers, including WNZL and Westpac Life-NZ-Limited, to explain why conduct issues highlighted by the Australian Royal Commission are not present in New Zealand. WNZL and Westpac Life have provided the regulators with information in relation to this review. An industry thematic review report for the banks is expected to be released in November 2018 and for the life insurers in December 2018.

Information on Westpac

Supervision and regulation

Australia

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

APRA is the prudential regulator of the Australian financial services industry. It oversees banks, credit unions, building societies, general insurance, re-insurance, life insurance and private health insurance companies, friendly societies and most of the superannuation (pension) industry. APRA's role includes establishing and enforcing prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by the institutions it supervises are met within a stable, efficient and competitive financial system. APRA has recently received new and strengthened powers under the Banking Executive Accountability Regime. For further information, refer to [Significant developments](#) above.

As an ADI, we report prudential information to APRA, including information in relation to capital adequacy, large exposures, credit quality and liquidity. Our controlled entities in Australia that are authorised insurers and trustees of superannuation funds are also subject to the APRA regulatory regime. Reporting is supplemented by consultations, on-site inspections and targeted reviews. Our external auditor also has an obligation to report on compliance with certain statutory and regulatory banking requirements and on any matters that in their opinion may have the potential to materially prejudice the interests of depositors and other stakeholders.

Australia's risk-based capital adequacy guidelines are based on the approach agreed upon by the BCBS. National discretion is then applied to that approach, which has resulted in Australia's capital requirements being more stringent. Refer to [Capital resources](#) [Basel Capital Accord](#) in Section 2.

The RBA is responsible for monetary policy, maintaining financial system stability and promoting the safety and efficiency of the payments system. The RBA is an active participant in the financial markets, manages Australia's foreign reserves, issues Australian currency notes and serves as banker to the Australian Government.

ASIC is the national regulator of Australian companies and consumer protection within the financial sector. Its primary responsibility is to regulate and enforce company, consumer credit, financial markets and financial products and services laws that protect consumers, investors and creditors. With respect to financial services, it promotes fairness and transparency by providing consumer protection, using regulatory powers to enforce laws relating to deposit-taking activities, general insurance, life insurance, superannuation, retirement savings accounts, securities (such as shares, debentures and managed investments) and futures contracts and financial advice. ASIC has responsibility for supervising trading on Australia's domestic licensed markets and of trading participants. There are currently proposals to strengthen ASIC's existing powers and to provide ASIC with

a product intervention power. For further information, refer to [Significant developments](#) above.

The ASX operates Australia's primary national market for trading of securities issued by listed companies. Some of our securities (including our ordinary shares) are listed on the ASX and we therefore have obligations to comply with the ASX Listing Rules, which have statutory backing under the *Corporations Act 2001* (Cth). The ASX has responsibility for the oversight of listed entities under the ASX Listing Rules and for monitoring and enforcing compliance with the ASX Operating Rules by its market, clearing and settlement participants. ASX is now also the benchmark administrator of BBSW.

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The ACCC is the regulator responsible for the regulation and prohibition of anti-competitive and unfair market practices and mergers and acquisitions in Australia. Its broad objective is to administer the *Competition and Consumer Act 2010* (Cth) and related legislation to bring greater competitiveness, fair trading, consumer protection and product safety to the Australian economy. The ACCC's role in consumer protection complements that of ASIC (for financial services) and 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 (Shareholdings) Act 1998* (Cth), the Australian Government's Treasurer must approve an entity acquiring a stake of more than 15% in a particular financial sector company.

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

AUSTRAC oversees the compliance of Australian reporting entities (including Westpac) with the requirements under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) and the *Financial Transaction Reports Act 1988* (Cth). 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 Australian federal law enforcement, national security, human services and revenue agencies, and certain international counterparts.

Information on Westpac

New Zealand

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

The Financial Markets Authority (FMA) and the New Zealand Commerce Commission (NZCC) are the two primary conduct and enforcement regulators. The FMA and NZCC are responsible for ensuring that markets are fair and transparent and are supported by confident and informed investors and consumers. Regulation of markets and their participants is undertaken through a combination of market supervision, corporate governance and licensing approvals.

In New Zealand, other relevant regulator mandates include those relating to taxation, privacy and foreign affairs and trade.

Banks in New Zealand are also subject to a number of self-regulatory regimes. Examples include NZ Payments, the New Zealand Bankers Association and the Financial Services Council (FSC). Examples of industry agreed codes include the New Zealand Bankers Association's Code of Banking Practice and FSC's Code of Conduct.

United States

Our New York branch is a US federally licensed branch and therefore is subject to supervision, examination and 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.

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

In addition, a US federal branch is subject to periodic onsite examination by the US Comptroller of the Currency. Such examination may address risk management, operations, asset quality, compliance with the record-keeping and reporting, and any additional requirements prescribed by the US Comptroller of the Currency from time to time.

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.

As of 22 June 2016, we elected to be treated as a financial holding company in the US pursuant to the Bank Holding Company Act of 1956 and Federal Reserve Board Regulation Y. Our election will remain effective so long as we meet certain capital and management standards prescribed by the US Federal Reserve.

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Westpac and some of its affiliates are engaged in various activities that are subject to regulation by other US federal

regulatory agencies, including the US Securities and Exchange Commission, the US Commodity Futures Trading Commission and the National Futures Association.

Anti-money laundering regulation and related requirements

Australia

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

Our Anti-Money Laundering and Counter-Terrorism Financing Policy (AML/CTF Policy) sets out how the Westpac Group complies with its legislative obligations.

The AML/CTF Policy applies to all business divisions and employees (permanent, temporary and third party providers) working in Australia, New Zealand and overseas.

United States

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

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

Legal proceedings

Our entities are defendants from time to time in legal proceedings arising from the conduct of our business. Material legal proceedings, if any, are described in Note 31 to the financial statements and under *Significant developments* above. Where appropriate as required by the accounting standards, a provision has been raised in respect of these proceedings and disclosed in the financial statements.

Principal office

Our principal office is located at 275 Kent Street, Sydney, New South Wales, 2000, Australia. Our telephone number for calls within Australia is (+61) 2 9155 7713 and our international telephone number is (+61) 2 9155 7700.

Corporate governance

Introduction

This Corporate Governance Statement, which has been approved by the Board, describes our corporate governance framework, policies and practices as at 5 November 2018.

Framework and approach

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

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

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

Australia

The principal listing of Westpac ordinary shares is on the ASX, trading under the code WBC. Westpac also has hybrid securities, capital notes, senior notes and subordinated notes listed on the ASX.

We comply with the ASX Corporate Governance Principles and Recommendations (third edition) (ASXCGC Recommendations) published by the ASX Limited's Corporate Governance Council (ASXCGC). We must also comply with the Corporations Act, the Banking Act, including Part IIAA The Banking Executive Accountability Regime amongst other laws, and, as an Authorised Deposit-taking Institution, with governance requirements prescribed by APRA under Prudential Standard CPS 510 Governance.

This Corporate Governance Statement addresses each of the ASXCGC Recommendations with an explanation of our corporate governance practices, demonstrating our compliance with each Recommendation.

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

New Zealand

Westpac's ordinary shares are also quoted on the NZX, which is the main board equity security market operated by NZX Limited. Westpac also has subordinated notes quoted on the NZX Debt Market. As an overseas listed issuer in New Zealand, we are deemed to satisfy and comply with the NZX 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 Recommendations and the NZX, through the NZX Corporate Governance Code, have adopted similar comply or explain approaches to corporate governance. The ASXCGC Recommendations may, however, materially differ from the corporate governance rules and the principles of NZX's Corporate Governance Code.

United States

Westpac has American Depositary Shares (ADS) representing its ordinary shares quoted on the New York Stock Exchange (NYSE), trading under the symbol WBK. Under the NYSE Listing Rules, foreign private issuers (like Westpac) are permitted to follow home country practice in

respect of corporate governance in lieu of the NYSE Listing Rules. However, we are still required to comply with certain audit committee and additional notification requirements.

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

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

The NYSE Listing Rules require that, subject to limited exceptions, shareholders be given the opportunity to vote on equity compensation plans and material revisions to those plans. In Australia, there are no laws or ASX 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 10 of the Directors' report, which is subject to a non-binding shareholder vote at the Annual General Meeting (AGM) and grants to our CEO are approved by shareholders. The details of grants under our equity-based incentive plans have been disclosed in Note 37 of our financial statements for the year ended 30 September 2018.

The NYSE Listing Rules set out specific requirements for determining whether a director will be regarded as independent. While these requirements are broadly consistent with Westpac's criteria for independence (described below under Board, Committees and oversight of management), under Australian independence requirements, the Board is able to apply discretion in its determination of a director's independence that differs from the NYSE Listing Rules.

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

Corporate governance

Governance framework

The diagram above shows Westpac's current governance framework, including the current Committees of the Board. From time to time, the Board may form other Committees or request Directors to undertake specific extra duties.

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

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

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

Corporate governance

Board, Committees and oversight of management

The roles, responsibilities and accountabilities of the Board and Committees were amended during the year by updating the Board and Committee charters.

Board of Directors

Roles and responsibilities

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

§ overseeing the sound and prudent management of the Westpac Group;

§ approving, and overseeing management's implementation of, the strategic direction of Westpac Group, its business plan and significant corporate strategic initiatives;

§ evaluating Board performance and determining Board size and composition;

§ approving the Westpac Board Renewal Policy and the Westpac Group Remuneration Policy;

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

§ approving individual remuneration levels for Group Executives, other executives who report directly to the CEO, any other accountable persons under the Banking Executive Accountability Regime, and any other person the Board determines;

§ evaluating the performance of the CEO;

§ succession planning for the CEO and Group Executives;

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- § approving the appointment of Group Executives and the General Manager Group Audit and monitoring the performance of Group Executives;
- § approving the annual targets and financial statements and monitoring performance against forecast and prior periods;
- § determining our dividend policy;
- § considering and approving our overall risk management framework, approving our Group Risk Management Strategy and Group Risk Appetite Statement and monitoring the effectiveness of risk management by the Group;
- § forming a view of our risk culture and identifying any desirable changes;
- § considering the social, ethical and environmental impact of our activities and monitoring compliance with our sustainability policies and practices;
- § overseeing and monitoring Workplace Health and Safety (WHS) issues in the Group and considering appropriate WHS reports and information;
- § maintaining an ongoing dialogue with Westpac's external auditor and, where appropriate, principal regulators;
- § overseeing internal governance, including delegated authorities and approving policies for appointments to our controlled entity boards;
and
- § overseeing and monitoring customer complaints.

Delegated authority

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

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

- § Audit;

§ Risk & Compliance;

§ Nominations;

§ Remuneration; and

§ Technology.

The Board Charter, Board Committee Charters and the Constitution are available on our website at www.westpac.com.au/corpgov.

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

Corporate governance

Independence

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

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

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

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

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

Corporate governance

Size and membership of Board Committees as at 30 September 2018

Committee Composition ¹		Board Audit Committee	Board Risk & Compliance Committee Minimum three members	Board Nominations Committee	Board Remuneration Committee	Board Technology Committee
		Minimum three members	All members are Non-executive Directors	Composed of all Board Committee Chairs, Board Chairman and such other members as determined by the Board	Minimum three members	Minimum three members
		All members are Independent Non-executive Directors	Majority of members are Independent Non-executive Directors	All members are Independent Non-executive Directors	All members are Independent Non-executive Directors	Maximum one Executive Director
		Chair is Independent Non-executive Director, who is not the Board Chairman	Chair is Independent Director, who is not the Board Chairman	Chair determined by the Board Chair	Chair determined by the Board	All other members are Independent Non-executive Directors
Lindsay Maxsted	Chairman, Non-executive, Independent	ü	ü	ü		
Brian Hartzler	CEO, Executive					ü
Nerida Caesar	Non-executive, Independent		ü			ü
Ewen Crouch	Non-executive, Independent		Chair	ü	ü	
Alison Deans	Non-executive, Independent		ü	ü	ü	Chair
Craig Dunn	Non-executive, Independent		ü	ü	Chair	ü
Peter Hawkins	Non-executive, Independent	ü	ü			ü
Peter Marriott	Non-executive, Independent	Chair	ü	ü		ü
Peter Nash	Non-executive, Independent	ü	ü			

- 1 Composition requirements for each Committee are set out in the relevant Committee Charter.

Corporate governance

Chairman

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

- § providing effective leadership to the Board in relation to all Board matters;
- § guiding the agenda and conducting all Board meetings to facilitate discussions, challenge and decision-making;
- § in conjunction with the Company Secretaries, arranging regular Board meetings throughout the year, confirming that minutes of meetings accurately record decisions taken and, where appropriate, the views of individual Directors;
- § overseeing the process for appraising Directors and the Board as a whole;
- § overseeing Board succession;
- § acting as a conduit between management and the 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.

CEO

Our CEO is Brian Hartzler. The CEO's role includes:

- § leadership of the management team;

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§ developing strategic objectives for the business and achievement of planned results; and

§ the day-to-day management of the Westpac Group's operations, subject to the specified delegations of authority approved by the Board.

Board meetings

The Board had ten scheduled meetings for the financial year ended 30 September 2018, with additional meetings held as required. In addition to the Board considering strategic matters at each Board meeting, the Board also discusses our strategic plan and approves our overall strategic direction on an annual basis. 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 judgement to bear on the issues and decisions at hand.

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

Meetings attended by Directors for the financial year ended 30 September 2018 are reported in Section 9 of the Directors' report.

Nomination and appointment

As set out in its Charter, key responsibilities of the Board Nominations Committee are:

§ assessing the skills required to discharge competently the Board's duties having regard to Westpac's performance, financial position and strategic direction;

§ developing, reviewing, assessing and recommending to the Board policies on Director tenure, Board composition and size;

§ reviewing and making recommendations to the Board annually on diversity generally within the Group, measurable objectives for achieving diversity and progress in achieving those objectives;

§ developing and implementing succession planning for the Non-executive Directors;

§ reviewing the process for the orientation and education of new Directors and any continuing education for existing Directors;

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§ reviewing eligibility criteria for the appointment of Directors;

§ considering and recommending candidates for appointment as Directors to the Board and determining the terms and conditions (excluding remuneration) on which Non-executive Directors are appointed and hold office;

§ considering and recommending candidates for appointment to the Boards of significant subsidiaries (including Westpac New Zealand Limited and our insurance and superannuation businesses); and

§ reviewing and where necessary, developing the Group's corporate governance policies to provide reasonable assurance that they meet international corporate governance standards.

Board skills, experience and attributes

Westpac seeks to maintain a Board of Directors with a broad range of financial and other skills, experience and knowledge necessary to guide the business of the Group. In addition, Westpac seeks to maintain a diverse Board, which at a minimum, collectively has the skills and experience detailed in Figure 1 overleaf. Figure 1 also illustrates Board tenure and diversity.

Corporate governance

Figure 1 Board skills, experience and attributes as at 30 September 2018

Corporate governance

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

Board appointments are also made with regard to the Group's Service Revolution vision and five strategic priorities of:

§ service leadership;

§ digital transformation;

§ performance discipline;

§ growth highways; and

§ workforce revolution.¹

Prior to a Director's appointment or consideration for election or re-election by shareholders, Westpac conducts due diligence and provides shareholders with all material information relevant to a decision on whether or not to elect or re-elect a Director.

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

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 fifteen Non-executive Directors and three Executive Directors. Except for the Managing Director, a Director appointed by the Board holds office only until the close of the next AGM but is eligible for election by shareholders at that meeting.

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

The Westpac Board Renewal Policy 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

1 For further information about the Service Revolution and our strategic priorities please refer to Information on Westpac in Section 1.

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

Director induction and continuing education

All new Directors participate in an induction program to familiarise themselves with our business and strategy, culture and values 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 undertake continuing education and training to develop and maintain the skills and knowledge needed to perform their role as Directors effectively, including by participating in workshops held throughout the year, attending relevant site visits and undertaking relevant external education.

Access to information and advice

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

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

All Directors have access to advice from senior internal legal advisors including the Group Executive, Legal & Secretariat².

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.

2 Rebecca Lim's role and title was changed from Group Executive, Compliance, Legal & Secretariat to Group Executive, Legal & Secretariat effective from 1 October 2018.

	Corporate governance

Company Secretaries

Westpac has two Company Secretaries:

§ The Senior Company Secretary is our Group Executive, Legal & Secretariat. The Senior Company Secretary attends Board and Board Committee meetings and is responsible for providing Directors with advice on legal and corporate governance issues.

§ The Group Company Secretary also attends Board and Board Committee meetings and is responsible for the operation of the secretariat function, including implementing our governance framework and, in conjunction with management, giving practical effect to the Board's decisions. The Group Company Secretary is accountable to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

Profiles of our Company Secretaries for the financial year ended 30 September 2018 are set out in Section 1 of the Directors' report.

Board Committees

Composition and independence

Board Committee members are chosen for the skills and experience they can contribute to the respective Board Committees and their qualifications are set out in Section 1 of the Directors' report. The membership of each Board Committee is set out in the table entitled 'Size and membership of Board Committees as at 30 September 2018' in this Corporate Governance Statement. All of the Board Committees are comprised of independent Non-executive Directors, save for the Board Technology Committee, of which the CEO is also a member.

Operation and reporting

Scheduled meetings of the Board Committees occur at least quarterly. Each member's attendance at Board Committee meetings held during the financial year ended 30 September 2018 is reported in Section 9 of the Directors' report. All Board Committees are able to meet more frequently as necessary. Each Board Committee is entitled to the resources and information it requires and has direct access to our employees and advisers. The CEO attends all Board Committee meetings, except where he has a material personal interest in a matter being considered. Senior executives and other selected employees are invited to attend Board Committee meetings as required. All Directors can receive all Board Committee papers and can attend any Board Committee meeting, provided there is no conflict of interest.

Performance

Board, Board Committees and Directors

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

The review process conducted in 2018 included an assessment of the performance of the Board, the Board Committees and each Director, with outputs collected, analysed and presented to the Board. The Board discussed the results and agreed follow up action on matters relating to Board composition, process, priorities and continuing education.

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

Management

The Board, in conjunction with its Board Remuneration Committee, is responsible for:

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

§ approving individual remuneration for Group Executives, other executives who report directly to the CEO, any other accountable persons under the Banking Executive Accountability Regime, and any other person the Board determines.

The Board Risk & Compliance Committee and the Board Audit Committee also refer to the Board Remuneration Committee any matters that come to their attention that are relevant, including with respect to risk adjusted remuneration.

Management performance evaluations for the financial year ended 30 September 2018 were conducted following the end of the financial year.

There is a further discussion on performance objectives and performance achieved in the Remuneration Report in Section 10 of the Directors report.

All new senior executives receive a letter of appointment setting out the conditions and expectations of the role, together with an extensive briefing on our strategies and operations and the respective roles and responsibilities of the Board and senior management.

Advisory Boards

Westpac has established Advisory Boards for its operations in Asia and for each of BankSA and Bank of Melbourne, to advise management on the strategies and initiatives of those businesses within the overall Group strategy.

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Responsibilities of the Advisory Boards include:

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

§ providing advice to management of the relevant business so as to promote and preserve its distinct

Corporate governance

position and identity and align business values with those of the relevant communities served;

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

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

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

Ethical and responsible decision-making

At Westpac, our vision is to become one of the world's great service companies, helping our customers, communities and people to prosper and grow. One of the ways we seek to achieve this vision is through our core values.

Westpac is also focused on the impact of its organisational culture on the Group's operations, including its management of risk. We take an integrated approach to sustainably embedding a strong risk culture, including through leadership and communication, risk appetite and governance, risk awareness and transparency, accountability and reinforcement, and behaviours and relationships.

Our Values

Our Values support our customer-focused strategy and are embedded in our culture. These are:

§ integrity we earn trust by demonstrating the highest standards of honesty and ethical behaviour;

§ service we are here to help and delight our customers;

§ one team we collaborate to deliver the best outcomes for our customers and the company overall;

§ courage we challenge the status quo and find a way to make things better; and

§ achievement we strive for excellence and deliver results.

Our values guide our behaviour and reflect our commitment to our customers, communities and each other.

Our Compass

We have developed Our Compass, which captures Our Vision, Values, Behaviours and the non-negotiables of our Code of Conduct, to consistently guide us in everything we do.

Our Compass is a simple framework to help our people display the right behaviours and make the right decisions and incorporates:

§ Our Vision why we are here

§ Our Values how we behave

§ Our Service Promise how we serve

§ Our Code of Conduct how we deliver

Code of Conduct and Principles for Doing Business

Our Code of Conduct (Code) describes the standards of conduct expected of our people, both employees and contractors. The seven principles making up the Code are:

§ we act with honesty, integrity, and due skill, care and diligence;

§ we comply with laws and with our policies;

§ we do the right thing by our customers;

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§ we respect confidentiality and do not misuse information;

§ we value and maintain our professionalism;

§ we work as a team; and

§ we manage conflicts of interest responsibly.

The Code provides a set of guiding principles to help us make the right decisions, ensuring we uphold the reputation of the Group. As employees of the banking and finance industry, we are also committed to creating greater accountability, transparency and trust with our customers and the broader community. With that in mind, the principles within our Code also reflect the community's expectations of us, such as those outlined in the Banking and Finance Oath. The Code has the full support of the Board and the Executive Team and we take compliance with the Code very seriously.

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

§ we believe our success depends on the trust and confidence placed in us by our customers, people, shareholders, suppliers, advisers and the community;

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

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

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

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

Corporate governance

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

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

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

We also have the following frameworks in place which apply to support both our Code and Principles, internally and externally across our value chain:

§ a range of internal guidelines, policies, frameworks, communications and training processes and tools, including an online learning module entitled *Doing the Right Thing* ; and

§ a range of externally-facing codes, frameworks, operating principles, policies, and position statements, addressing issues such as human rights, climate change and the environment.

Key policies

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

Code of Ethics for Senior Finance Officers

The Code of Accounting Practice and Financial Reporting complements our own Code. The Code of Accounting Practice and Financial Reporting is designed to assist our 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 by requiring those officers to:

§ 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.

The Code of Accounting Practice and Financial Reporting is available on our website at www.westpac.com.au/corgov.

Conflicts of interest

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

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

The Board

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

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

Our employees and contractors

We expect our employees and contractors to:

§ have in place adequate arrangements for the management of actual, potential or apparent conflicts of interest;

§ obtain consent from senior management before accepting a directorship on the board of a non-Westpac Group company;

§ disclose any material interests they have with our customers or suppliers to their manager and not be involved with customer relationships where they have such an interest;

§ not participate in business activities outside their employment with us (whether as a principal, partner, director, agent, guarantor, investor or employee) without approval or when it could adversely affect their ability to carry out their duties and responsibilities; and

§ not solicit, provide facilitation payments, accept or offer money, gifts, favours or entertainment that might influence, or might appear to influence, their business judgement.

Fit and Proper Person assessments

We have a Board-approved Westpac Group Fit and Proper Policy that meets the requirements of the related APRA Prudential Standards and covers the requirements of Part IIAA of the Banking Act 1959 The Banking Executive Accountability Regime, which applies to ADIs and their subsidiaries. In accordance with that Policy, we assess the fitness and propriety of our Directors and also of individuals who perform specified statutory roles required by APRA Prudential Standards or ASIC licensing requirements. The Chairman of the Board (and in the case of the Chairman, the Board) is responsible for assessing the Directors and Non-executive Directors of the Westpac and subsidiary Boards, Group Executives, external auditors and actuaries. A Fit and Proper Committee is responsible under delegated authority of the Westpac Board for undertaking fit and proper assessments of all other employees who hold statutory roles. In all cases, the individual is asked to provide a detailed declaration and background checks are completed.

Concern reporting and whistleblower protection

Under the Westpac Group Speaking Up Policy, we encourage our employees, contractors, secondees, former employees, brokers, service providers (such as auditors, accountants and consultants) and our suppliers to raise any concerns about activities or behaviour that may be unlawful or unethical. Our attitude is *when in doubt report* and our senior management are committed to protecting the dignity, well-being, career and good name of anyone reporting wrongdoing, as well as providing them with the necessary

Corporate governance

support. Westpac does not tolerate retaliation or adverse action related to a whistleblowing disclosure.

The Speaking Up Policy outlines all reporting channels, including our concern reporting system Concern Online and our Whistleblower Hotline. Both channels enable reporting on an anonymous basis. Concerns may include suspected breaches of our Code, Westpac policies or regulatory requirements.

When a whistleblower raises a concern they may choose to involve the Whistleblower Protection Officer, who is responsible for protecting the whistleblower against personal disadvantage as a result of making a report.

We investigate reported concerns in a manner that is confidential, fair and objective. If the investigation shows that wrongdoing has occurred, we are committed to changing our processes and taking action in relation to those parties who have behaved incorrectly. Outcomes may also involve reporting the matter to relevant authorities and regulators.

Relevant Board Committees charged with overseeing Westpac's whistleblower program and the Westpac Group Executive Risk Committee are provided with quarterly reporting on whistleblowing. These reports include a number of metrics, including statistics about concerns raised.

A summary of Westpac's Speaking Up Policy is available on our website at <https://www.westpac.com.au/about-westpac/westpac-group/corporate-governance/principles-policies/>.

Securities trading

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

We manage and monitor these obligations through:

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

§ restrictions limiting the periods in which the Directors and Prescribed Employees can trade in Westpac securities and other Westpac financial products (Blackout Periods);

§ a prohibition on short-selling Westpac securities by Directors and Prescribed Employees;

§ requiring Directors and Prescribed Employees to either obtain approval or notify their intention to trade outside Blackout Periods and confirm that they have no inside information;

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

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

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

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

The Westpac Group Securities Trading Policy is available in the Corporate Governance section of our website.

Customer Advocate

Westpac's Customer Advocate provides an independent avenue of review for complaints outcomes in relation to personal and small business customers, which is separate to our standard internal review processes. The Customer Advocate has the power to review and make independent, binding decisions about these complaints outcomes where customers are not satisfied with the outcome of the internal dispute resolution process.

Further details on our Customer Advocate is available on our website.

Anti-Bribery and Corruption

Westpac requires compliance with anti-bribery and corruption (AB&C) laws in all markets and jurisdictions in which it operates. These laws include, but are not limited to, the Australian Criminal Code Act 1995, the UK Bribery Act 2010 and the US Foreign Corrupt Practices Act 1977. Where a conflict arises between applicable country AB&C legislative requirements, Westpac's position is that it will always adopt the more onerous requirement.

Westpac's Anti-Bribery and Corruption Compliance Program includes a global Anti-Bribery & Corruption Policy, with Board endorsement and oversight and clear emphasis that Westpac does not tolerate the giving or receiving of bribes, including the making of facilitation payments. Westpac expects that books and records must be fair and accurate and reasonably detailed. We expect all employees to comply with these principles in the performance of their services for or on behalf of Westpac. We also require third parties who provide services for or on behalf of Westpac to comply with all applicable AB&C laws.

Slavery and Human Trafficking

Westpac publishes its Slavery and Human Trafficking Statement in accordance with the Transparency in Supply Chains provision (section 54) of the UK's Modern Slavery Act 2015 on an annual basis. The statement outlines the Group's commitment to sustainable business practices and advancing human rights, and the steps we have taken to prevent modern slavery in our business and supply chains globally during the financial year.

The statement is available on our website.

Diversity

Westpac has an Inclusion & Diversity Policy that sets out the inclusion and diversity initiatives for the Group. This is

Corporate governance

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coupled with a comprehensive Inclusion & Diversity strategy to enable execution of key priorities and actions. In this context, diversity covers both the visible and invisible differences that make our employees unique, whether that be gender, gender identity, age, ethnicity, accessibility requirements, cultural background, sexual orientation or religious beliefs, or the differences we have based on our experiences, insights and perspectives.

The objectives of the policy and the 2018-20 Inclusion & Diversity strategy are to ensure that the Group:

- § has a workforce profile that delivers competitive advantage through the ability to garner a deep understanding of customer needs;
- § has a truly inclusive workplace where every individual can shine regardless of gender, cultural identity, age, work style or approach;
- § leverages the value of diversity for all our stakeholders to deliver the best customer experience, improved financial performance and a stronger corporate reputation; and
- § continues to take a leadership position on inclusion and diversity practices and setting the agenda in the external community.

To achieve these objectives, the Group:

- § has set Board-determined, measurable objectives for achieving gender diversity. The Board assesses annually both the objectives and progress in achieving them;
- § assesses pay equity on an annual basis;
- § encourages and supports the application of flexibility policies across the business;
- § is committed to proactively assisting Aboriginal and Torres Strait Islander Australians wishing to access employment across our brands;
- § implements our Accessibility Action Plan for employees and customers with accessibility requirements, including ensuring employment opportunities are accessible for people with a disability; and
- § actively promotes an environment of inclusion for lesbian, gay, bisexual, transgender and intersex (LGBTI) employees.

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The implementation of these objectives is overseen by the Westpac Group Inclusion & Diversity Council, which is chaired by the CEO and meets bi-annually.

The Board, or an appropriate Board Committee, receives regular updates from the Inclusion & Diversity Council on inclusion and diversity initiatives.

During the financial year ended 30 September 2017, the Inclusion & Diversity Governance Framework was implemented and resulted in the establishment of:

§ Inclusion & Diversity Business Unit Councils, chaired by the relevant Group Executive of that business unit; and

§ the Inclusion & Diversity Working Group, consisting of appointed general manager representatives across each business unit and chaired by the Head of Inclusion & Diversity.

We continue to listen to the needs of our employees through the engagement of our employee action groups and our annual employee survey (which includes questions that constitute an Inclusion Index).

Our Inclusive Leadership program ensures we are investing in the right capabilities for an inclusive culture. The majority of senior leaders and Group Executives have already completed the program in 2018.

In October 2010, the Board set an objective to increase the proportion of women in leadership roles (over 5,000 leaders from our Executive Team through to our bank managers) from 33% to 40% by 2014, which was achieved in September 2012, two years ahead of schedule. Westpac has now attained 50% women in leadership roles. The focus will now shift to maintaining this equality.

At 30 September 2018, the proportion of women employed by the Group was as follows:

§ Board of Directors¹: 22%;

§ leadership² roles: 50%; and

§ total Westpac workforce: 57%.

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In addition to the Group's commitment to achieving its targets, in 2015 our CEO signed up as a Pay Equity Ambassador through the Workplace Gender Equality Agency.

Westpac offers a range of flexible working options for our people based on their needs, work preferences and the needs of the business. These include:

§ flexible work hours;

§ mobile working;

§ working part-time; and

§ job sharing.

In addition, Westpac offers a variety of leave options that support flexibility, including parental leave, wellbeing and lifestyle leave and domestic violence support leave.

¹ Following the appointment of Anita Fung on 1 October 2018, the proportion of women on the Board of Directors is 30%.

² Women in Leadership refers to the proportion of women (permanent and maximum term) in leadership roles across the Group. It includes the CEO, Group Executives, General Managers, senior leaders with significant influence on business outcomes (direct reports to General Managers

and their direct reports), large (3+) team people leaders three levels below General Manager, and Bank and Assistant Bank Managers.

Corporate governance

Sustainability

We view sustainable and responsible business practices as important for our business and shareholder value. Sustainability is about managing risks and opportunities in a way that best balances the long term needs of all our stakeholders – our customers, employees, suppliers, investors and community partners – as well as the wider community and the environment at large.

Our management of sustainability aims to address the matters that we believe are the most material for our business and stakeholders, now and in the future. We also understand that this is an evolving agenda and seek to progressively embed the management of sustainability matters into business as usual practice, while also anticipating and shaping emerging social issues where we have the skills and experience to make a meaningful difference and drive business value.

Reporting

We report on the most material sustainability matters to Westpac, details of how we manage the associated risks and opportunities and our performance against our sustainability strategy in the Annual Review and Sustainability Report, this Annual Report, the Sustainability Performance Report and the full year and half year ASX results.

Our sustainability reporting is subject to independent limited assurance, performed in accordance with the Australian Standard on Assurance Engagements 3000 (revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (ASAE 3000). The assurance provider also assesses whether our sustainability reporting is prepared in accordance with AA1000 and the GRI Standards.

Financial reporting

Approach to financial reporting

Our approach to financial reporting reflects three core principles:

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

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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 & Compliance Committee. Similarly, the Board delegates oversight responsibility for the preparation of remuneration reports and disclosures to the Board Remuneration Committee.

Board Audit Committee

As set out in its charter, key responsibilities of the Board Audit Committee are:

§ overseeing the integrity of the financial statements and financial reporting systems of Westpac and its related bodies corporate;

§ overseeing the external audit engagement, including the external auditor's qualifications, performance, independence and fees;

§ overseeing the performance of the internal audit function;

§ overseeing the integrity of the Group's corporate reporting, including the Group's financial reporting and compliance with prudential regulatory reporting and professional accounting requirements; and

§ reviewing and approving policies and procedures for the receipt, retention and treatment of information submitted confidentially by employees and third parties about accounting, internal control, compliance, audit or other matters about which an employee has concerns, and monitoring employee awareness of these policies and procedures.

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

§ any significant financial reporting issues and judgments made in connection with the preparation of the financial reports;

§ the processes used to monitor and comply with laws and regulations over financial information, reporting and disclosure; and

§ the process surrounding the disclosures made by the CEO and CFO in connection with their personal certifications of the Group's half year and full year financial statements.

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In addition, the Board Audit Committee maintains an ongoing dialogue with management, the external auditor and Group Audit, including regarding those matters that are likely to be designated as Key Audit Matters in the external auditor's report. Key Audit Matters are those matters which, in the opinion of the external auditor, are of the most significance in their audit of the financial report.

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

§ the external auditor, about our major financial reporting risk exposures and the steps management has taken to monitor and control such exposures;

§ Group Audit and the external auditor concerning their audits and any significant findings, and the adequacy of management's responses;

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

§ management and the external auditor regarding any correspondence with regulators or government agencies, and any published reports which raise

Corporate governance

material issues or could impact on matters regarding the Westpac Group's financial statements or accounting policies; and

§ the Group Executive, Legal & Secretariat regarding any legal matters that may have a material impact on, or require disclosure in, the financial statements.

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

The Board Audit Committee also refers to the Board or any other Board Committees any matters that come to the attention of the Board Audit Committee that are relevant for the Board or the respective Board Committees.

Financial knowledge

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

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

The Board has determined that Mr Marriott is an audit committee financial expert and independent in accordance with US securities law.

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

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. Before the Board approves the financial statements for a financial period, the CEO and the CFO provide formal statements to the Board, and have done so for the financial year ended 30 September 2018, that state that in all material respects:

§ Westpac's financial records 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 comply with the appropriate accounting standards;

§ the financial statements and notes 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 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.

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 Annual General Meeting (AGM). Prior to 2002, individuals who were partners of PwC or its antecedent firms were our external auditors from 1968. Our PwC lead audit partner is Lona Mathis and the quality review partner is Wayne Andrews. Ms Mathis and Mr Andrews assumed responsibility for these roles in June 2017 and January 2015, respectively.

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

As our external auditor, PwC is required to confirm its independence and compliance with specified independence standards on a semi-annual basis (at half and full year), however in practice it confirms its independence on a quarterly basis.

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 (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 39 to our financial statements for the year ended 30 September 2018. 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 11 of the Directors' report.

Corporate governance

Group Audit (internal audit)

Group Audit is Westpac's internal audit function and includes the Credit Portfolio & Model Review team, both of which provide the Board and Executive Management with an independent and objective evaluation of the adequacy and effectiveness of management's control over risk. Group Audit is governed by a Charter approved by the Board Audit Committee that sets out the purpose, role, scope and high level standards for the function. Group Audit covers the governance, risk management and internal control frameworks of Westpac and our wholly owned subsidiaries. It has access to all of our wholly owned entities and conducts audits and reviews following a risk-based planning approach. The General Manager Group Audit has a direct reporting line to the Chairman of the Board Audit Committee and an administrative line to the Chief Financial Officer. Group Audit also has direct access to the Chief Executive Officer.

Group Audit's responsibilities include regularly reporting to the Board Audit Committee and the Board Risk & Compliance Committee and Board Technology Committee and raising any significant issues with those committees.

Market disclosure

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

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

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

The Group Executive, Legal & Secretariat is the Disclosure Officer. The Disclosure Officer is ultimately responsible for all communication with relevant stock exchanges and notifying regulators in any jurisdiction as a result of market disclosure.

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

Shareholder communication and participation

We seek to keep shareholders fully informed about our strategy, business operations, performance and governance. As part of our investor relations program, we continually review our communications approach, seeking to maintain best practice and effective two-way communication with shareholders. This includes:

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§ Designing and maintaining the Investor Centre on the Group's website to make all relevant company information available and to structure that information in a way that makes it easy to find and access;

§ Responding to shareholder queries directly via phone, email and mail;

§ Preparing company presentations that seek to respond to the questions frequently asked by shareholders along with major industry and company topics of interest; and

§ Ensuring appropriate access to all major market briefings and shareholder meetings, including via webcasts and maintaining that information on our website.

Shareholders can access our financial calendar which lists all major market briefings and shareholder meetings. Announcements on these events may also be made through ASX announcements.

Shareholders are given the option to receive information in print or electronic format from both Westpac and its share registry.

We regard our Annual General Meeting (AGM) as an important opportunity for engaging and communicating with shareholders, and rotate the location of our AGM throughout capital cities to give as many shareholders as possible the opportunity to attend. While shareholders are encouraged to attend and actively participate, the AGM is webcast and can also be viewed at a later time from our website. Shareholders who are unable to attend the AGM are able to lodge a direct vote or their proxies through a number of channels, including via the internet. At the time of receiving the Notice of Meeting, shareholders are also invited to put forward questions they would like addressed at the AGM.

Risk management

Roles and responsibilities

The Board is responsible for approving the Westpac Group Risk Management Strategy and Westpac Group Risk Appetite Statement and for monitoring the effectiveness of risk management by the Westpac Group. The Board has delegated to the Board Risk & Compliance Committee responsibility to: review and recommend the Westpac Group Risk Management Strategy and Westpac Group Risk Appetite Statement to the Board for approval; establish a view of the Group's current and future risk position relative to its risk appetite and capital strength; review and approve frameworks, policies and processes for managing risk; and review and, where appropriate, approve risks beyond the approval discretion provided to management.

Westpac's Risk Management Strategy and Risk Appetite Statement were reviewed by the Board Risk & Compliance Committee and were approved by the Board during the financial year ended 30 September 2018.

Corporate governance

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The Board Risk & Compliance Committee reviews and monitors the risk profile and controls of the Group for consistency with the Group Risk Appetite Statement and reviews and monitors capital levels for consistency with the Group's risk appetite. The Board Risk & Compliance Committee receives regular reports from management on the effectiveness of our management of Westpac's material risks. More detail about the role of the Board Risk & Compliance Committee is set out later in this section under Board Risk & Compliance Committee.

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

We have adopted a Three Lines of Defence approach to risk management, which reflects our culture of risk is everyone's business in which all employees are responsible for identifying and managing risk and operating within the Group's desired risk profile. Effective risk management enables us to:

§ accurately measure our risk profile and balance risk and reward within our risk appetite, optimising financial growth opportunities and mitigating potential loss or damage;

§ protect Westpac Group's depositors, policyholders and investors by maintaining a balance sheet with sound credit quality and buffers over regulatory minimums;

§ deliver suitable, fair and clear outcomes for our customers that support market integrity;

§ embed adequate controls to guard against excessive risk or undue risk concentration; and

§ meet our regulatory and compliance obligations.

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

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

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

Risk and compliance advisory, control, assurance and monitoring functions established frameworks, policies, limits and processes for the management, monitoring and reporting of risk. The 2nd Line evaluates and provides assurance over the adequacy and effectiveness of 1st Line controls and application of frameworks and policies and monitors the 1st Line's progress toward remediation of identified deficiencies. The 2nd Line can also approve certain risks outside of the authorities granted to the 1st Line.

The 3rd Line of Defence Independent assurance

Group Audit is an independent assurance function that evaluates and opines on the adequacy and effectiveness of both 1st and 2nd Line risk management approaches and tracks remediation progress, with the aim of providing the

Board, and senior executives, with comfort that the Group's governance, risk management and internal controls are operating effectively.

Corporate governance

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

Our overall risk management governance structure is set out in more detail in the table [Risk Management Governance Structure](#) included in this Corporate Governance Statement.

Westpac distinguishes between different types of risk:

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

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

§ **market risk** the risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, interest rates, commodity prices or 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;

§ **conduct risk** the risk that our provision of services and products results in unsuitable or unfair outcomes for our stakeholders or undermines market integrity;

§ **operational risk** the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, such as financial crime. This definition is aligned to the regulatory (Basel II) definition of Operational Risk which includes legal and regulatory risk but excludes strategic risk;

§ **compliance risk** the risk of legal or regulatory sanction, financial or reputational loss, arising from our failure to abide by the compliance obligations required of us;

§ **business risk** the risks arising from the strategic objectives and business plans;

§ **sustainability risk** the risk of reputational or financial loss due to failure to recognise or address material existing or emerging sustainability related environmental, social or governance issues;

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

§ **insurance risk** the risk in our insurance entities of claims costs being greater than expected, due to a failure in product design, underwriting, reinsurance

arrangements or an increase in severity and frequency of insured events;

§ **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 of the loss of reputation, stakeholder confidence, or public trust and standing.

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

Material exposure to economic, environmental and social sustainability risks

Westpac's material exposures to economic, environmental and social sustainability risks are managed in accordance with our risk management strategy and frameworks.

Board Risk & Compliance Committee

The Board Risk & Compliance Committee comprises all of Westpac's independent, Non-executive Directors and is chaired by Ewen Crouch.

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

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- § reviews and recommends the Risk Management Strategy and Westpac Group Risk Appetite Statement to the Board for approval;
- § reviews and monitors the risk profile and controls of the Group consistent with the Westpac Group Risk Appetite Statement;
- § reviews and approves the frameworks, policies and processes for managing risk;
- § reviews and approves the limits and conditions that apply to credit risk approval authority delegated to the CEO, CFO and CRO and any other officers of the Westpac Group to whom the Board has delegated credit approval authority;
- § monitors changes anticipated for the economic and business environment including consideration of emerging risks and other factors considered relevant to our risk profile and risk appetite;
- § assists the Board to make its annual declaration to APRA on risk management under APRA prudential standard CPS 220 Risk Management;
- § reviews and where appropriate approves risks beyond the approval discretion provided to management; and
- § assists the Board to oversee compliance management within the Group.

From the perspective of specific types of risk, the Board Risk & Compliance 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;

Corporate governance

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§ **liquidity risk** approving key policies and limits supporting the Liquidity Risk Management Framework, including our annual funding strategy, recovery and resolutions plans and monitoring the liquidity position and requirements;

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

§ **conduct risk** reviewing and approving the Westpac Group Conduct Framework and reviewing and monitoring the performance of conduct risk management and controls;

§ **operational risk** approving key policies supporting both the Operational Risk Management Framework and the Financial Crime Risk Management Framework, and monitoring the performance of operational and financial crime risk management and controls;

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

§ **reputation risk** reviewing and approving the Reputation Risk Management Framework and reviewing and monitoring the performance of reputation risk management and controls.

The Board Risk & Compliance Committee also:

§ oversees and approves the Internal Capital Adequacy Assessment Process and in doing so reviews the outcomes of Westpac Group stress testing, sets the target capital ranges for regulatory capital and reviews and monitors capital levels for consistency with the Westpac Group's risk appetite;

§ provides relevant periodic assurances and reports (as appropriate) to the Board Audit Committee;

§ reviews and approves other risk management frameworks¹ and/or the monitoring of performance under those frameworks (as appropriate);

§ forms a view of Westpac's risk culture and oversees the identification of, and steps taken to address, any desirable changes to risk culture and periodically reports to the Board;

§ refers to the Board or any other Board Committees any matters that come to the attention of the Board Risk & Compliance Committee that are relevant for the Board or the respective Board Committees; and

§ in its capacity as the Westpac Group's US Risk Committee, oversees the key risks, risk management framework and policies of the Group's US operations.

Compliance Management Framework

The Compliance Management Framework sets out our approach to managing compliance with our obligations and mitigating compliance risk. It is an integral part of the broader risk management strategy and is regularly assessed and enhanced as appropriate to ensure it responds to the internal and external environment and supports our strategic compliance direction.

To proactively manage our compliance risks, our compliance objective is to:

§ comply with our legal obligations, regulatory requirements, voluntary codes of practice to which we subscribe, and Group policies, including the Westpac Code of Conduct;

§ establish frameworks, policies and processes designed to manage, monitor and report compliance and to minimise the potential for breaches, fines or penalties, or loss of regulatory accreditations; and

§ ensure that appropriate remedial action is taken to address instances of non-compliance.

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 and that reflect Westpac's risk management framework, the law and the highest standards of governance.

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

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

§ reviews and makes recommendations to the Board in relation to the Westpac Group Remuneration Policy

1 Additional frameworks include the Sustainability Risk Management Framework, Equity Risk Management Framework, Related Entity Risk Management Framework, Financial Crime Risk Management Framework and Insurance Risk Management Framework.

Corporate governance

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(Group Remuneration Policy) and assesses the Group Remuneration Policy's effectiveness and its compliance with laws, regulations and 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, any other Accountable Persons under the Banking Executive Accountability Regime, other persons whose activities in the Board Remuneration Committee'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 and long-term variable reward plans for Group Executives and any other Accountable Person under the Banking Executive Accountability Regime;

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

§ oversees general remuneration practices across the Group.

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

The Board Remuneration Committee also reviews and makes recommendations to the Board for the reduction or lapsing of incentive-based equity grants to employees where:

§ subsequent information or circumstances indicate that the grant was not justified; or

§ the Board Remuneration Committee determines that an adjustment should be made as a result of risk or compliance failures, poor customer outcomes, where an Accountable Person under the Banking Executive Accountability Regime has failed to comply with their accountability obligations or any other matter it considers relevant.

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

The Board Remuneration Committee refers to the Board or any other Board Committees any matters that come to the attention of the Board Remuneration Committee that are relevant for the Board or the respective Board Committees

Further details of our remuneration framework are included in the Remuneration Report in Section 10 of the Directors' report. The Board Remuneration Committee reviews and recommends the report for approval.

Corporate governance

Risk Management Governance Structure

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

Board

§ approves our overall Westpac Group Risk Management Strategy and the Westpac Group Risk Appetite Statement; and

§ makes an annual declaration to APRA on risk management.

Board Risk & Compliance Committee (BRCC)

§ reviews and recommends the Risk Management Strategy and Westpac Group Risk Appetite Statement to the Board for approval;

§ reviews and monitors the risk profile and controls of the Group consistent with the Westpac Group Risk Appetite Statement;

§ reviews and approves frameworks, policies and processes for managing risk;

§ reviews and approves the limits and conditions that apply to credit risk approval authority delegated to the CEO, CFO, CRO and any other officers of the Westpac Group to whom the Board has delegated credit approval authority;

§ monitors changes anticipated for the economic and business environment including consideration of emerging risks and other factors considered relevant to our risk profile and risk appetite;

§ assists the Board to make its annual declaration to APRA on risk management under APRA prudential standard CPS220 Risk Management;

§ reviews and where appropriate approves risks beyond the approval discretion provided to management; and

§ assists the Board to oversee compliance management within the Group.

Other Board Committees with a risk focus**Board Audit Committee**

§ oversees the integrity of financial statements and financial reporting systems, and matters relating to taxation risks.

Board Remuneration Committee

§ oversees remuneration policies and practices of the Westpac Group in the context that these policies and practices reflect Westpac's risk management framework, including making recommendations to the Board for the reduction or lapsing of incentive-based equity grants to employees as a result of risk or compliance failures.

Board Technology Committee

§ oversees the implementation of the Westpac Group's technology strategy, including risks associated with major technology programs.

Executive Team

§ executes the Board-approved strategy;

§ delivers the Westpac Group's various strategic and performance goals within the approved risk appetite; and

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

Executive risk committees**Westpac Group Executive Risk Committee**

§ leads the management and oversight of material risks across the Westpac Group within the context of the risk appetite approved by the Board;

§ oversees the embedding of the Risk Management Strategy in the Group's approach to risk governance;

§ oversees risk-related management frameworks and key supporting policies;

§ oversees the Group's material risks;

§ oversees reputation risk and sustainability risk management frameworks, compliance and conduct management frameworks and key supporting policies; and

§ identifies emerging credit, operational, compliance and market risks and allocates responsibility for assessing impacts and implementing appropriate actions to address these.

Corporate governance

Risk Management Governance Structure (continued)

Executive risk committees (continued)

Westpac Group Asset & Liability Committee

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

Westpac Group Credit Risk Committee

- § leads the optimisation of credit risk-reward across the Group;
- § reviews and oversees the Credit Risk Management Framework and key supporting policies;
- § oversees Westpac's credit risk profile; and
- § identifies emerging credit risks, allocates responsibility for assessing impacts, and responds as appropriate.

Westpac Group Market Risk Committee

- § leads the optimisation of market risk, equity risk and insurance risk across the Group;
- § reviews and oversees the Market Risk, Equity Risk and Insurance Risk Management Frameworks and key market risk management policies;
- § reviews policies and limits for managing traded and non-traded market risk; and
- § reviews and oversees the market risk, equity risk and insurance risk profile.

Westpac Group Operational Risk and Financial Crime Committee

- § leads the optimisation of operational risk across the Group;
- § reviews and oversees the Operational Risk and Financial Crime Risk Management Frameworks and key supporting policies;
- § oversees Westpac's operational risk and financial crime risk profile; and
- § identifies emerging operational and financial crime risks, and appropriate actions to address these.

Westpac Group Remuneration Oversight Committee

- § provides assurance that the remuneration arrangements across the Group are considered from a human resources, risk, finance, legal and compliance perspective in line with any external requirements;
- § reviews and makes recommendations to the CEO for recommendation to the Board Remuneration Committee on the Group Remuneration Policy and provides assurance that remuneration arrangements across the Group encourage behaviour that supports Westpac's long-term financial soundness and the Risk Management Framework;
- § reviews and monitors the remuneration arrangements (other than for Group Executives) for Responsible Persons (as defined in the Group's Statutory Officers Fit and Proper Policy), risk and financial control employees, and all other employees for whom a significant portion of total remuneration is based on performance and whose activities, either individually or collectively, may affect the financial soundness of Westpac; and
- § reviews and recommends to the CEO for recommendation to the Board Remuneration Committee the criteria and rationale for determining the total quantum of the Group variable reward pool.

Corporate governance

Risk Management Governance Structure (continued)**Risk and compliance functions****Risk Function**

§ assists the Board, Board Committees and senior management to establish, maintain and review the Risk Management Strategy, supporting risk management frameworks and policies and risk appetite;

§ documents and monitors risk appetite across all risk types and classes (including financial crime), risk limits and authorities;

§ notifies the Board or Board Committees of any significant breach, or material deviation from the Risk Management Strategy, supporting risk management frameworks and policies or risk appetite;

§ monitors and provides advice on risk policies, procedures, incidents and issues including emerging risk issues;

§ monitors and provides assurance including testing risk controls as the 2nd Line of Defence;

§ monitors and maintains the required resources and capabilities (including Risk systems and Risk data) to support the Risk Management Strategy; and

§ oversees the management of credit risk and making credit decisions in accordance with delegations from the Board.

Compliance Function

§ assists the Board, Board Committees and senior management to establish, maintain and review the compliance management framework;

§ designs, implements and monitors key compliance processes and controls in support of the compliance management framework;

§ provides independent advice on the design, implementation, operating effectiveness and monitoring of controls to ensure compliance with internal, regulatory and legislative requirements;

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

§ reports on the performance of the compliance management framework; and

§ maintains resources with the skills and tools required to fulfil their compliance responsibilities and support the strategy.

Independent internal review**Group Audit**

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

Divisional business units**Business Units**

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

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

Directors report

Our Directors present their report together with the financial statements of the Group for the financial year ended 30 September 2018.

1. Directors

The names of the persons who have been Directors, or appointed as Directors, during the period since 1 October 2017 and up to the date of this report are: Lindsay Philip Maxsted, Brian Charles Hartzler, Nerida Frances Caesar, Ewen Graham Wolseley Crouch, Catriona Alison Deans (Alison Deans), Craig William Dunn, Robert George Elstone (retired as a Director on 8 December 2017), Yuen Mei Anita Fung (Anita Fung) (Director from 1 October 2018), Peter John Oswin Hawkins, Peter Ralph Marriott and Peter Stanley Nash (Director from 7 March 2018).

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 2018 and the period for which each directorship has been held, are set out below.

	<p>Name: Lindsay Maxsted, DipBus (Gordon), FCA, FAICD</p> <p>Age: 64</p> <p>Term of office: Director since March 2008 and Chairman since December 2011.</p> <p>Date of next scheduled re-election: December 2020.</p> <p>Independent: Yes.</p> <p>Current directorships of listed entities and dates of office: Transurban Group (since March 2008, and Chairman since August 2010), BHP Billiton Limited (since March 2011) and BHP Billiton plc (since March 2011).</p>	<p>Other principal directorships: Managing Director of Align Capital Pty Ltd and Director of Baker Heart and Diabetes Institute.</p> <p>Other interests: Nil.</p> <p>Other Westpac related entities directorships and dates of office: Nil.</p> <p>Skills, experience and expertise: Lindsay was formerly a partner at KPMG and was the CEO of that firm from 2001 to 2007. His principal area of practice prior to his becoming CEO was in the corporate recovery field managing a number of Australia's largest insolvency/workout/turnaround engagements including</p>	<p>Linter Textiles (companies associated with Abraham Goldberg), Bell Publishing Group, Bond Brewing, McEwans Hardware and Brashes. He is also a former Director and Chairman of the Victorian Public Transport Corporation.</p> <p>Westpac Board Committee membership: Chairman of the Board Nominations Committee. Member of each of the Board Audit and Board Risk & Compliance Committees.</p> <p>Directorships of other listed entities over the past three years and dates of office: Nil.</p>
	<p>Name: Brian Hartzler, BA, CFA</p> <p>Age: 51</p> <p>Term of office: Managing Director & Chief Executive Officer since February 2015.</p>	<p>Other interests: Nil.</p> <p>Other Westpac related entities directorships and dates of office: Nil.</p> <p>Skills, experience and expertise: Brian was appointed Managing Director & Chief Executive Officer in February 2015. Brian joined Westpac</p>	<p>Prior to that, he spent ten years with Australia and New Zealand Banking Group Limited (ANZ) in Australia in a variety of roles, including his final role as CEO, Australia and Global Segment Lead for Retail and Wealth. Before joining ANZ, Brian spent ten years as a financial services consultant in New York, San Francisco and Melbourne.</p>

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	<p>Date of next scheduled re-election: Not applicable.</p> <p>Independent: No.</p> <p>Current directorships of listed entities and dates of office: Nil.</p> <p>Other principal directorships: The Australian National University Business and Industry Advisory Board (Chairman since March 2017), the Financial Markets Foundation for Children and Australian Banking Association Incorporated.</p>	<p>as Chief Executive, Australian Financial Services in June 2012 encompassing Westpac Retail & Business Banking, St. George Banking Group and BT Financial Group. Prior to joining Westpac, Brian spent three years in the UK as CEO for Retail, Wealth and Ulster Bank at the Royal Bank of Scotland Group.</p>	<p>Westpac Board Committee membership: Member of the Board Technology Committee.</p> <p>Directorships of other listed entities over the past three years and dates of office: Nil.</p>
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Directors report

	<p>Name: Nerida Caesar, BCom, MBA, GAICD</p> <p>Age: 54</p> <p>Term of office: Director since September 2017.</p> <p>Date of next scheduled re-election: December 2020.</p> <p>Independent: Yes.</p> <p>Current directorships of listed entities and dates of office: Nil.</p> <p>Other principal directorships: Nil.</p> <p>Other interests: Member of the Advisory Board of IXUP Limited and the Federal Government's FinTech Advisory Group. Advisor to Equifax Australia and New Zealand.</p> <p>Other Westpac related entities directorships and dates of office: Nil.</p>	<p>Skills, experience and expertise:</p> <p>Nerida has 32 years of broad-ranging commercial and business management experience. Most recently, Nerida was Group Managing Director and Chief Executive Officer, Australia and New Zealand, of Equifax (formerly Veda Group Limited) from February 2011. She is also a former director of Genome.One Pty Ltd and Stone and Chalk Limited.</p> <p>Prior to joining Veda, Nerida was formerly Group Managing Director, Telstra Enterprise and Government. She also worked as Group Managing Director, Telstra Wholesale, and prior to that held the position of Executive Director National Sales.</p>	<p>Prior to joining Telstra, Nerida held several senior management and sales positions with IBM within Australia and internationally over a 20 year period, including as Vice President of IBM's Intel Server Division for the Asia Pacific region.</p> <p>Westpac Board Committee membership: Member of each of the Board Risk & Compliance and Board Technology Committees.</p> <p>Directorships of other listed entities over the past three years and dates of office: Veda Group Limited (December 2013 – February 2016). Veda Group Limited was a listed entity from December 2013 to February 2016 when it was delisted upon its acquisition by Equifax Inc.</p>
	<p>Name: Ewen Crouch AM, BEc (Hons.), LLB, FAICD</p> <p>Age: 62</p> <p>Term of office: Director since February 2013.</p> <p>Date of next scheduled re-election: December 2019.</p> <p>Independent: Yes.</p> <p>Current directorships of listed entities and dates of office: BlueScope Steel Limited (since March 2013).</p> <p>Other principal directorships: Sydney Symphony Orchestra Holdings Pty Limited and Jawun.</p>	<p>Committee of the Law Council of Australia and ASIC's Director Advisory Panel.</p> <p>Other Westpac related entities directorships and dates of office: Nil.</p> <p>Skills, experience and expertise:</p> <p>Ewen was a Partner at Allens from 1988 to 2013, where he was one of Australia's most accomplished mergers and acquisitions lawyers. He served as a member of the firm's board for 11 years, including four years as Chairman of Partners. His other roles at Allens included Co-Head Mergers and Acquisitions and Equity Capital Markets, Executive Partner, Asian offices and Deputy Managing Partner. He is now a Consultant to Allens. Ewen served as a director of</p>	<p>Mission Australia from 1995 and as Chairman from 2009, before retiring in November 2016. From 2010 to 2015, Ewen was a member of the Takeovers Panel. In 2013, Ewen was awarded an Order of Australia in recognition of his significant service to the law as a contributor to legal professional organisations and to the community.</p> <p>Westpac Board Committee membership: Chairman of the Board Risk & Compliance Committee. Member of each of the Board Nominations and Board Remuneration Committees.</p> <p>Directorships of other listed entities over the past three years and dates of office: Nil.</p>

Other interests: Member of the Commonwealth Remuneration Tribunal, Law Committee of the Australian Institute of Company Directors, Corporations		
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Directors report

<p>Name: Alison Deans, BA, MBA, GAICD</p> <p>Age: 50</p> <p>Term of office: Director since April 2014.</p> <p>Date of next scheduled re-election: December 2020.</p> <p>Independent: Yes.</p> <p>Current directorships of listed entities and dates of office: Cochlear Limited (since January 2015).</p> <p>Other principal directorships: SCEGGS Darlington Limited.</p> <p>Other interests: Senior Advisor, McKinsey & Company and</p>	<p>Investment Committee member of the CSIRO Innovation Fund (Main Sequence Ventures).</p> <p>Other Westpac related entities directorships and dates of office: Nil.</p> <p>Skills, experience and expertise: Alison has more than 20 years experience in senior executive roles focused on building digital businesses and digital transformation across e-commerce, media and financial services. During this time, Alison served as the CEO of eCorp Limited, CEO of Hoyts Cinemas, CEO of netus Pty Ltd and CEO of eBay, Australia and New Zealand.</p>	<p>Alison was an Independent Director of Social Ventures Australia from September 2007 to April 2013 and a director of kikki.K Holdings Pty Ltd from October 2014 to June 2018.</p> <p>Westpac Board Committee membership: Chairman of the Board Technology Committee. Member of each of the Board Nominations, Board Remuneration and Board Risk & Compliance Committees.</p> <p>Directorships of other listed entities over the past three years and dates of office: Insurance Australia Group Limited (February 2013 October 2017).</p>
<p>Name: Craig Dunn, BCom, FCA</p> <p>Age: 55</p> <p>Term of office: Director since June 2015.</p> <p>Date of next scheduled re-election: December 2018.</p> <p>Independent: Yes.</p> <p>Current directorships of listed entities and dates of office: Telstra Corporation Limited (since April 2016).</p> <p>Other principal directorships: Chairman of The Australian Ballet and Chairman of Stone and Chalk Limited (retires 27 November 2018).</p> <p>Other interests: Chairman of the International Standards Technical Committee on Blockchain and Distributed Ledger Technologies (ISO/TC 307) and Co-Chair of the Australian Government's Fintech Advisory Group.</p>	<p>Member of the ASIC External Advisory Panel, and the New South Wales Government's Quantum Computing Fund Advisory Panel. Board member of Jobs for New South Wales and Consultant to King & Wood Mallesons.</p> <p>Other Westpac related entities directorships and dates of office: Nil.</p> <p>Skills, experience and expertise: Craig has more than 20 years experience in financial services, including as CEO of AMP Limited from 2008 to 2013. Craig was previously a director of Financial Literacy Australia Limited, a Board member of each of the Australian Japanese Business Cooperation Committee and the New South Wales Government's Financial Services Knowledge Hub, and</p>	<p>former Chairman of the Investment and Financial Services Association (now the Financial Services Council). He was also a member of the Financial Services Advisory Committee, the Australian Financial Centre Forum, the Consumer and Financial Literacy Taskforce and a Panel member of the Australian Government's Financial System Inquiry.</p> <p>Westpac Board Committee membership: Chairman of the Board Remuneration Committee. Member of each of the Board Nominations and Board Risk & Compliance Committees.</p> <p>Directorships of other listed entities over the past three years and dates of office: Nil.</p>



Directors report

	<p>Name: Anita Fung, BSocSc, MAppFin</p> <p>Age: 57</p> <p>Term of office: Director since October 2018.</p> <p>Date of next scheduled re-election: December 2018.</p> <p>Independent: Yes.</p> <p>Current directorships of listed entities and dates of office: Hong Kong Exchanges and Clearing Limited (since April 2015, Hong Kong listed), China Construction Bank Corporation (since October 2016, Hong Kong Listed) and Hang Lung Properties Limited (since May 2015, Hong Kong listed).</p>	<p>Other principal directorships: Board member of the Airport Authority Hong Kong.</p> <p>Other interests: Member of the Hong Kong Museum Advisory Committee.</p> <p>Other Westpac related entities directorships and dates of office: Member of Westpac's Asia Advisory Board since October 2018.</p> <p>Skills, experience and expertise: Anita's career in the banking industry spans over 30 years, including 19 years at HSBC.</p>	<p>During her time at HSBC, Anita held a number of senior management roles including Group General Manager, HSBC Group and most recently as Chief Executive Officer, Hong Kong from 2011 to 2015.</p> <p>Prior to joining HSBC, Anita held various positions at Standard Chartered Bank in its Treasury and Capital markets business.</p> <p>Westpac Board Committee membership: Member of the Board Risk & Compliance Committee.</p> <p>Directorships of other listed entities over the past three years and dates of office: Nil.</p>
	<p>Name: Peter Hawkins, BCA (Hons.), SF Fin, ACA (NZ), FAICD</p> <p>Age: 64</p> <p>Term of office: Director since December 2008.</p> <p>Date of next scheduled re-election: Not applicable. Peter Hawkins will retire following the 2018 AGM.</p> <p>Independent: Yes.</p> <p>Current directorships of listed entities and dates of office: Mirvac Group (since January 2006).</p> <p>Other principal directorships: Liberty Financial Pty Ltd and Crestone Holdings Limited.</p> <p>Other interests: Nil.</p>	<p>Other Westpac related entities directorships and dates of office: Member of the Bank of Melbourne Advisory Board since November 2010.</p> <p>Skills, experience and expertise: Peter's career in the banking and financial services industry spans over 40 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.</p>	<p>He was also previously a Director of BHP (NZ) Steel Limited, ING Australia Limited, Esanda Finance Corporation, Visa Inc and Clayton Utz.</p> <p>Westpac Board Committee membership: Member of each of the Board Audit, Board Risk & Compliance and Board Technology Committees.</p> <p>Directorships of other listed entities over the past three years and dates of office: MG Responsible Entity Limited, which is the responsible entity for ASX listed MG Unit Trust (April 2015 to October 2016).</p>

	<p>Name: Peter Marriott, BEc (Hons.), FCA</p> <p>Age: 61</p> <p>Term of office: Director since June 2013.</p> <p>Date of next scheduled re-election: December 2019.</p> <p>Independent: Yes.</p> <p>Current directorships of listed entities and dates of office: ASX Limited (since July 2009).</p> <p>Other principal directorships: ASX Clearing Corporation Limited, ASX Settlement Corporation Limited and Austraclear Limited.</p>	<p>Other interests: Member of the Review Panel & Policy Council of the Banking & Finance Oath.</p> <p>Other Westpac related entities directorships and dates of office: Nil.</p> <p>Skills, experience and expertise: Peter has over 30 years experience in senior management roles in the finance industry encompassing international banking, finance and auditing. Peter joined Australia and New Zealand Banking Group Limited (ANZ) in 1993 and held the role of Chief Financial Officer from July 1997 to May 2012.</p>	<p>Prior to his career at ANZ, Peter was a banking and finance, audit and consulting partner at KPMG Peat Marwick. Peter was formerly a Director of ANZ National Bank Limited in New Zealand and various ANZ subsidiaries.</p> <p>Westpac Board Committee membership: Chairman of the Board Audit Committee. Member of each of the Board Nominations, Board Risk & Compliance and Board Technology Committees.</p> <p>Directorships of other listed entities over the past three years and dates of office: Nil.</p>
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Directors report

Name: Peter Nash
BCom, FCA, F Fin

Age: 56

Term of office: Director since March 2018.

Date of next scheduled re-election: December 2018.

Independent: Yes.

Current directorships of listed entities and dates of office: Johns Lyng Group Limited (Chairman since October 2017). Johns Lyng Group Limited became a listed entity in October 2017.

Other principal directorships: Reconciliation Australia Limited and Golf Victoria Limited.

Other interests: Board member of the Koorie Heritage Trust and Migration Council Australia. Member of the University of Melbourne Centre for Contemporary Chinese Studies Advisory Board.

Other Westpac related entities directorships and dates of office: Nil

Skills, experience and expertise: Peter was formerly a Senior Partner with KPMG until September 2017, having been admitted to the partnership of KPMG Australia in 1993. He most recently served as the National Chairman of KPMG Australia from 2011 until August 2017, where he was responsible for the overall governance and strategic positioning of KPMG in Australia. In this role, Peter also served as a member of KPMG's Global and Regional Boards.

Peter has experience providing advice on a range of topics including business strategy, risk management, internal controls, business processes and regulatory change. He has also provided both financial and commercial advice to many Government businesses at both a Federal and State level. Peter is a former member of the Business Council of Australia and its Economic and Regulatory Committee.

Westpac Board Committee membership: Member of each of the Board Audit and Board Risk & Compliance 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 2018 were Rebecca Lim and Tim Hartin.

Rebecca Lim (B Econ, LLB (Hons.)) was appointed Group Executive, Compliance, Legal & Secretariat¹ and Company Secretary in October 2016. Rebecca joined Westpac in 2002 and has held a variety of senior leadership roles including General Manager, Human Resources for St. George Bank and General Manager, St. George Private Clients. She was appointed Group General Counsel in November 2011 and Chief Compliance Officer from 2013 to 2017. Rebecca held an in-house role in investment banking at Goldman Sachs in London before returning to Australia and joining Westpac. Rebecca was previously with US firm Skadden Arps where she worked in the Corporate Finance area in both New York and London. Prior to that she worked at Blake Dawson Waldron (now Ashurst) as a solicitor.

Tim Hartin (LLB (Hons.)) was appointed Group Company Secretary in November 2011. Before that appointment, Tim was Head of Legal - Risk Management & Workouts, Counsel & Secretariat and prior to that, he was Counsel, Corporate Core. Before joining Westpac in 2006, Tim was a Consultant with Gilbert + Tobin, where he provided corporate advisory services to ASX listed companies. Tim was previously a lawyer at Henderson Boyd Jackson W.S. in Scotland and in London in Herbert Smith's corporate and corporate finance division.

2. Executive Team

As at 30 September 2018 our Executive Team was:

Name	Position	Year Joined Group	Year Appointed to Position
Brian Hartzler	Managing Director & Chief Executive Officer	2012	2015
Lyn Cobley	Chief Executive, Westpac Institutional Bank	2015	2015
Brad Cooper	Chief Executive Officer, BT Financial Group	2007	2010
Dave Curran	Chief Information Officer	2014	2014
George Frazis	Chief Executive, Consumer Bank	2009	2015
Peter King ²	Acting Chief Risk Officer ^{3,4}	1994	2014
David Lees ⁵	Acting Chief Financial Officer	1997	2018
Rebecca Lim	Group Executive, Compliance, Legal & Secretariat	2002	2016
David Lindberg	Chief Executive, Business Bank	2012	2015
Carolyn McCann	Group Executive, Customer & Corporate Relations	2013	2018
David McLean	Chief Executive Officer, Westpac New Zealand Limited	1999	2015
Christine Parker	Group Executive, Human Resources	2007	2011
Gary Thursby	Group Executive, Strategy & Enterprise Services	2008	2016

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

- 1 From 1 October 2018, Rebecca Lim's role and title is Group Executive, Legal & Secretariat.
- 2 Peter King was the Chief Financial Officer until 25 June 2018 when he was appointed Acting Chief Risk Officer. From 1 October 2018, Peter returned to the role of Chief Financial Officer.
- 3 Alexandra Holcomb was Chief Risk Officer until her retirement from the role effective from 25 June 2018.
- 4 David Stephen commenced as Chief Risk Officer effective from 1 October 2018, with responsibility for risk and compliance.
- 5 David Lees was appointed Acting Chief Financial Officer effective from 25 June 2018. From 1 October 2018, David ceased to be a member of the Executive Team and returned to the role of Deputy Chief Financial Officer.

Directors report

	<p>Brian Hartzler BA, CFA. Age 51 Managing Director & Chief Executive Officer</p> <p>Brian was appointed Managing Director & Chief Executive Officer in February 2015. Brian joined Westpac as Chief Executive, Australian Financial Services in June 2012 encompassing Westpac Retail & Business Banking, St.George Banking Group and BT Financial Group.</p> <p>Brian is a Director of the Australian Banking Association and was formerly the Chairman until December 2015. Prior to joining Westpac, Brian spent three years in the UK as CEO for Retail, Wealth and Ulster Bank at the Royal Bank of Scotland Group. Prior to that, he spent ten years with Australia and New Zealand Banking Group Limited (ANZ) in Australia in a variety of roles, including his final role as CEO, Australia and Global Segment Lead for Retail and Wealth. Before joining ANZ, Brian spent ten years as a financial services consultant in New York, San Francisco and Melbourne.</p> <p>Brian graduated from Princeton University with a degree in European History and is a Chartered Financial Analyst.</p>
	<p>Lyn Cobley BEc, SF FIN, GAICD. Age 55 Chief Executive, Westpac Institutional Bank</p> <p>Lyn was appointed Chief Executive, Westpac Institutional Bank in September 2015. She has responsibility for Westpac's global relationships with corporate, institutional and government clients as well as all products across financial and capital markets, transactional banking, structured finance and working capital payments. In addition, Lyn is responsible for Westpac's International and Pacific Island businesses.</p> <p>Lyn has over 25 years' experience in financial services. Prior to joining Westpac, Lyn held a variety of senior positions at the Commonwealth Bank of Australia including serving as Group Treasurer from 2007 to 2013 and most recently as Executive General Manager, Retail Products & Third Party Banking. She also held senior roles at Barclays Capital in Australia and Citibank in Australia and Asia Pacific, and was CEO of Trading Room (a joint venture between Macquarie Bank and Fairfax).</p> <p>Lyn is a Board member of the Australian Financial Markets Association (AFMA), the Banking & Finance Oath and the Westpac Foundation. She is Chairman of Westpac's Asia Advisory Board and is also a member of Chief Executive Women.</p> <p>Lyn has a Bachelor of Economics from Macquarie University, is a Senior Fellow of the Financial Services Institute of Australia and is a graduate of the Australian Institute of Company Directors.</p>
	<p>Brad Cooper DipBM, MBA. Age 56 Chief Executive Officer, BT Financial Group</p> <p>Brad was appointed Chief Executive Officer, BT Financial Group in February 2010. Brad initially joined Westpac in April 2007 as Chief Executive, Westpac New Zealand Limited and after successfully leading a change program in that market, moved to the role of Group Chief Transformation Officer, leading the Westpac Group's St.George merger implementation.</p> <p>Prior to joining Westpac, Brad was Chairman of GE Capital Bank and CEO of GE Consumer Finance UK & Ireland. He drove GE's UK Six Sigma program and was certified as a Quality Leader (Black Belt) in December 2002. He was promoted to CEO of GE Consumer Finance UK in January 2003 and appointed Chairman of GE Capital Bank in April 2004.</p>

Dave Curran BCom. Age 53
Chief Information Officer

Dave was appointed Chief Information Officer in September 2014. Dave has almost 30 years of experience with proven expertise in IT and financial services and the implementation of large, complex projects.

Since 2015, Dave has been on the Board of the Westpac Bicentennial Foundation, a \$100 million scholarship fund with exclusive focus on Australian education and leadership.

Before joining Westpac, Dave spent ten years in senior roles at the Commonwealth Bank of Australia (CBA). Before joining CBA, he spent sixteen years at Accenture, where he was a partner, primarily consulting on financial services.

Directors report

	<p>George Frazis B Eng (Hons.), MBA (AGSM/Wharton). Age 54 Chief Executive, Consumer Bank</p> <p>George was appointed Chief Executive, Consumer Bank in June 2015, responsible for managing the end to end relationship with consumer customers. This includes all consumer distribution, digital, marketing, transformation and banking products and services under the Westpac, St.George, BankSA, Bank of Melbourne and RAMS brands.</p> <p>Prior to this appointment, he was CEO, St.George Banking Group. George joined the Westpac Group in March 2009 as Chief Executive, Westpac New Zealand Limited. George is highly experienced in the financial services industry. He was formerly Group Executive General Manager at National Australia Bank. Prior to that, George was a senior executive in Commonwealth Bank of Australia's Institutional Banking Division and has also been a partner with the Boston Consulting Group and an officer in the Royal Australian Air Force.</p> <p>George is a Governor of the St.George Foundation and is Chair of the Prime Minister's Industry Advisory Committee on Veterans' Employment.</p>
	<p>Peter King BEd, FCA. Age 48 Acting Chief Risk Officer</p> <p>Peter acted as the Chief Risk Officer from June 2018 to September 2018. Westpac's Chief Risk Officer is responsible for key risk management activities across the enterprise. Prior to this appointment, Peter was Chief Financial Officer from April 2014 to June 2018. He has returned to this role in October 2018.</p> <p>Since joining Westpac in 1994, Peter has held senior finance positions across the Group, including in Group Finance, Business and Consumer Banking, Business and Technology Services, Treasury and Financial Markets.</p> <p>Peter commenced his career at Deloitte Touche Tohmatsu. He has a Bachelor of Economics from Sydney University and completed the Advanced Management Programme at INSEAD. He is a Fellow of the Institute of Chartered Accountants.</p>
	<p>David Lees BCom, LLB. Age 48 Acting Chief Financial Officer</p> <p>David acted as the Chief Financial Officer from June 2018 to September 2018. Westpac's Chief Financial Officer is responsible for Westpac's Finance, Group Audit, Tax, Treasury and Investor Relations functions. Prior to this appointment, David was Deputy Chief Financial Officer from January 2016 to June 2018. He has returned to this role in October 2018.</p> <p>Since joining Westpac in 1997, David has held other senior roles across the Westpac Group, including General Manager, BT Solutions, where he was responsible for BT Financial Group's insurance and asset management businesses.</p> <p>David holds a Bachelor of Commerce and Bachelor of Laws from Durban University.</p>
	<p>Rebecca Lim B Econ, LLB (Hons). Age 46 Group Executive, Compliance, Legal & Secretariat</p> <p>Rebecca was appointed as Westpac's Group Executive responsible for compliance, legal and secretariat functions globally from October 2016. She was appointed Group General Counsel in November 2011 and was Chief Compliance Officer from 2013 to 2017.</p>

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Rebecca joined Westpac in 2002 and has held a variety of other senior leadership roles including General Manager, Human Resources for St.George Bank and General Manager, St.George Private Clients.

Rebecca began her career at Blake Dawson Waldron (now Ashurst) before joining the US firm Skadden Arps where she worked in both New York and London. Rebecca then moved into an in-house role in investment banking at Goldman Sachs in London before returning to Australia and joining Westpac.

Rebecca is Deputy Chair of the GC100 Executive Committee and a member of Chief Executive Women.

Directors report

	<p>David Lindberg HBA (Hons. Economics). Age 43 Chief Executive, Business Bank</p> <p>David was appointed Chief Executive, Business Bank in June 2015. He manages the Group's end to end relationships with business customers for the Westpac, St.George, BankSA and Bank of Melbourne brands. The Business Bank provides a wide range of banking and financial products and services to Australia's small, commercial, corporate and agri businesses.</p> <p>Prior to this appointment, David was Chief Product Officer, responsible for the Group's retail and business products across all brands, as well as overseeing the Group's digital activities. Before joining Westpac in 2012, David was Executive General Manager, Cards, Payments & Retail Strategy at the Commonwealth Bank of Australia. David was also formerly Managing Director, Strategy, Marketing & Customer Segmentation at Australia and New Zealand Banking Group Limited and Managing Vice President and Head of Australia for First Manhattan.</p>
	<p>Carolyn McCann BBus (Com), BA, GradDipAppFin, GAICD. Age 46 Group Executive, Customer & Corporate Relations</p> <p>Carolyn was appointed as Westpac's Group Executive responsible for customer and corporate relations in June 2018. Carolyn is responsible for the management of the Group's customer resolution and reporting, in addition to the corporate affairs, communications, government relations and sustainability functions, recognising the importance of setting high service standards and quickly resolving customer issues in managing the Group's relationship with its customers.</p> <p>Carolyn joined the Westpac Group in 2013, as General Manager, Corporate Affairs & Sustainability, during which time she played an instrumental role in leading the Group's bicentenary program, including the launch of the \$100 million Westpac Bicentennial Foundation.</p> <p>Prior to joining Westpac, Carolyn spent 13 years at Insurance Australia Group in various positions, including Group General Manager, Corporate Affairs & Investor Relations. Carolyn began her career in consulting and has extensive experience in financial services.</p>
	<p>David McLean LLB (Hons.). Age 60 Chief Executive Officer, Westpac New Zealand Limited</p> <p>David was appointed Chief Executive Officer, Westpac New Zealand Limited in February 2015. Since joining Westpac in February 1999, David has held a number of senior roles, including Head of Debt Capital Markets New Zealand, General Manager, Private, Wealth and Insurance New Zealand and Head of Westpac Institutional Bank New Zealand, and most recently, Managing Director of the Westpac New York branch.</p> <p>Before joining Westpac, David was Director, Capital Markets at Deutsche Morgan Grenfell from 1994. He also established the New Zealand branch of Deutsche Bank and was New Zealand Resident Branch Manager. In 1988, David joined Southpac/National Bank as a Capital Markets Executive. Prior to this, David worked as a lawyer in private practice and also served as in-house counsel for NatWest NZ from 1985.</p>
	<p>Christine Parker BGDipBus (HRM). Age 58 Group Executive, Human Resources</p> <p>Christine was appointed to Westpac Group's Executive Team in October 2011. As Group Executive, Human Resources, Christine leads the HR function and is responsible for key HR activities across the Group, including attracting and retaining staff, training and development, reward and recognition and health, safety and wellbeing. Christine also oversees the Group's Customer Advocate function and supports the CEO and Board on culture and conduct. Prior to June 2018, Christine also had responsibility for Corporate Affairs and Sustainability.</p>

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Since joining Westpac in 2007, Christine has held a variety of senior leadership roles including Group General Manager, Human Resources and General Manager, Human Resources for Westpac New Zealand Limited. Before joining Westpac, Christine held senior HR roles in a number of high profile organisations and across a range of industries, including Carter Holt Harvey and Restaurant Brands New Zealand.

Christine was previously a Director of Women's Community Shelters and is a current member of the Chief Executive Women, Governor of the St. George Foundation and member of the Veterans' Employment Industry Advisory Committee.

Gary Thursby BEc, DipAcc, FCA. Age 56

Group Executive, Strategy & Enterprise Services

Gary was appointed Group Executive Strategy & Enterprise Services in October 2016. In addition to leading the Group's strategy function, his role is designed to support delivery of the Group's Service Revolution and provide services to support the Group's operating businesses.

Gary's responsibilities also include banking operations, procurement, property, data and analytics, group strategy and enterprise investments. In addition, Gary oversees the Group's corporate and business development portfolios.

Before joining Westpac in 2008, Gary held a number of senior finance roles at Commonwealth Bank of Australia (CBA) including Deputy CFO and CFO Retail Bank. Gary has over 20 years' experience in financial services, covering finance, M&A and large scale program delivery. He commenced his career at Deloitte Touche Tohmatsu.

Gary has a Bachelor of Economics and a Post Graduate Diploma in Accounting from Flinders University of South Australia and is a Fellow of the Institute of Chartered Accountants.

Directors report

3. Report on the business

a) Principal activities

The principal activities of the Group during the financial year ended 30 September 2018 were the provision of financial services including lending, deposit taking, payments services, investment portfolio management and advice, superannuation and funds management, insurance services, leasing finance, general finance, interest rate risk management and foreign exchange services.

There have been no significant changes in the nature of the principal activities of the Group during 2018.

b) Operating and financial review

The net profit attributable to owners of Westpac Banking Corporation for the year ended 30 September 2018 was \$8,095 million, an increase of \$105 million or 1% compared to 2017. Key features of this result were:

§ a 2% increase in net operating income before operating expenses and impairment charges with:

net interest income of \$16,505 million, an increase of \$989 million or 6% compared to 2017, with total loan growth of 4% and a 7 basis point increase in net interest margin to 2.13%; and

non-interest income of \$5,628 million, a decrease of \$658 million or 10% compared to 2017, primarily due to a decrease in trading income of \$257 million, the non-repeat of a large gain of \$279 million on disposal of an associate in 2017 (BTIM), an impairment loss of \$104 million on the Pental (formerly BTIM) investment in 2018, and additional provisions for estimated customer refunds and payments recorded as negative income. These items were partly offset by income related to the exit of the Hastings business (\$135 million);

§ operating expenses were \$9,692 million, an increase of \$258 million or 3% compared to 2017. The rise in operating expenses included annual salary increases and higher technology expenses related to the Group's investment program, an increase in regulatory and compliance costs and costs associated with the exit of the Hastings business. These increases were partly offset by productivity benefits and lower amortisation of intangibles; and

§ impairment charges were \$710 million, a decrease of \$143 million or 17% compared to 2017. Asset quality remained sound, with stressed exposures as a percentage of total committed exposures at 1.08%, up 3 basis points over the year. The decrease in impairment charges was primarily due to reduced individual provisions on larger facilities.

A review of the operations of the Group and its divisions and their results for the financial year ended 30 September 2018 is set out in Section 2 of the Annual Report under the sections 'Review of Group operations', 'Divisional performance' and 'Risk and risk management', which form part of this report.

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

c) Dividends

Since 30 September 2018, Westpac has announced a final ordinary dividend of 94 cents per Westpac ordinary share, totalling approximately \$3,229 million for the year ended 30 September 2018 (2017 final ordinary dividend of 94 cents per Westpac ordinary share, totalling \$3,191 million). The dividend will be fully franked and will be paid on 20 December 2018.

An interim ordinary dividend for the current financial year of 94 cents per Westpac ordinary share for the half year ended 31 March 2018, totalling \$3,218 million, was paid as a fully franked dividend on 4 July 2018 (2017 interim ordinary dividend of 94 cents per Westpac ordinary share, totalling \$3,156 million). The payment comprised direct cash disbursements of \$2,897 million with \$321 million being reinvested by participants through the DRP.

Further, in respect of the year ended 30 September 2017, a fully franked final dividend of 94 cents per ordinary share totalling \$3,191 million was paid on 22 December 2017. The payment comprised direct cash disbursements of \$2,881 million with \$310 million being reinvested by participants through the DRP.

New shares were issued to satisfy the DRP for each of the 2017 final ordinary dividend and the 2018 interim ordinary dividend.

d) Significant changes in state of affairs and events during and since the end of the 2018 financial year

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

§ increased public scrutiny of financial institutions (including Westpac) and regulators from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, with Westpac participating in the Royal Commission to date, and in the course of that participation, providing the Royal Commission with documents, witness statements and submissions;

§ the issuance of A\$1.69 billion AT1 securities, known as Westpac Capital Notes 5, which qualify as Additional Tier 1 capital under APRA's capital adequacy framework;

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§ the buy back and cancellation of \$623 million of Westpac convertible preference shares and the conversion of \$566 million of Westpac convertible preference shares into ordinary Westpac shares; and

Directors report

§ ongoing regulatory changes and developments, which have included changes relating to competition, capital, financial services (including the provision of additional powers to regulators), taxation, accounting standards, executive accountability and other regulatory requirements.

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

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

e) Business strategies, developments and expected results

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

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

4. Directors interests

a) Directors interests in securities

The following particulars for each Director are set out in the Remuneration Report in Section 10 of the Directors report for the year ended 30 September 2018 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;

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§ 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 report

Directors' interests in Westpac and related bodies corporate as at 5 November 2018

	Number of Relevant Interests in Westpac Ordinary Shares	Number of Westpac Share Rights
Westpac Banking Corporation		
Current Directors		
Lindsay Maxsted	22,017	-
Brian Hartzler	109,611 ¹	613,341 ²
Nerida Caesar	9,985	-
Ewen Crouch	78,450 ³	-
Alison Deans	14,392	-
Craig Dunn	8,869	-
Anita Fung	-	-
Peter Hawkins	15,880 ⁴	-
Peter Marriott	20,870	-
Peter Nash	8,020	-
Former Directors		
Robert Elstone	12,096 ⁵	-

1 Brian Hartzler's interest in Westpac ordinary shares includes 23,692 restricted shares held under the CEO Restricted Share Plan.

2 Share rights issued under the CEO Long Term Incentive Plan and Long Term Incentive Plan.

3 Ewen Crouch and his related bodies corporate also hold relevant interests in 250 Westpac Capital Notes 2.

4 Peter Hawkins and his related bodies corporate also hold relevant interests in 850 Westpac Capital Notes 3, 882 Westpac Capital Notes 4 and 1,370 Westpac Capital Notes 5.

5 Figure displayed is as at Robert Elstone's retirement date of 8 December 2017.

Note: Certain subsidiaries of Westpac offer a range of registered schemes. The Directors from time to time invest in these schemes and are required to provide a statement to the ASX when any of their interests in these schemes change. ASIC has exempted each Director from the obligation to notify the ASX of a relevant interest in a security that is an interest in BT Cash Management Trust (ARSN 087 531 539), BT Premium Cash Fund (ARSN 089 299 730), Westpac Cash Management Trust (ARSN 088 187 928), BT Wholesale Managed Cash Fund (ARSN 088 832 491), BT Wholesale Enhanced Cash Fund (ARSN 088 863 469), Advance Cash Multi-Blend Fund (ARSN 094 113 050) or BT Cash (ARSN 164 257 854).

b) Indemnities and insurance

Under the Westpac Constitution, unless prohibited by statute, we 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 (other than a liability for legal costs) incurred by each such person in their capacity as director, company secretary, employee or responsible manager, as the case may be; and all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil or criminal or of an administrative or investigatory nature, in which the person becomes involved because of that capacity.

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

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

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

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

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

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

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

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

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

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

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

For the year ended 30 September 2018, the Group has insurance cover which, in certain circumstances, will provide reimbursement for amounts which we have to pay under the indemnities set out above. That cover is subject to the terms and conditions of the relevant insurance, including but not limited to the limit of indemnity provided by the insurance. The insurance policies prohibit disclosure of the premium payable and the nature of the liabilities covered.

c) Share rights outstanding

As at the date of this report there are 4,632,271 share rights outstanding in relation to Westpac ordinary shares. The latest dates for exercise of the share rights range between 1 October 2019 and 1 October 2033.

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

d) Proceedings on behalf of Westpac

No application has been made and no proceedings have been brought or intervened in, on behalf of Westpac under section 237 of the Corporations Act.

Directors report

5. Environmental disclosure

As part of our 2018 Sustainability Strategy, we have set targets for our environmental performance. The Westpac Group's environmental framework starts with 'Our Principles for Doing Business', which outline our broad environmental principles. This framework includes:

§ our Westpac Group Environment Policy, which has been in place since 1992;

§ our Sustainability Risk Management Framework;

§ our Responsible Sourcing Code of Conduct; and

§ public reporting of our environmental performance.

We also participate in a number of voluntary initiatives including the Dow Jones Sustainability Index (#17 in global banking group), CDP1, the Equator Principles, the Principles for Responsible Investment, the United Nations Global Compact and the Banking Environment Initiative's Soft Commodities Compact.

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

The Group was previously subject to the reporting requirements of the *Energy Efficiency Opportunities Act 2006* (Cth) (EEO Act). The Commonwealth Government repealed the EEO Act, effective from 29 June 2014. Accordingly, all obligations and activities under the EEO Program, including reporting requirements, have ceased.

Our operations are not subject to any other 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.

6. Human rights supply chain disclosure

Westpac's overall approach to human rights is set out in our Westpac Group Human Rights Position Statement, and this references our Responsible Sourcing Code of Conduct as the primary framework for managing human rights in our supply chain.

The Group is subject to the United Kingdom's Transparency in Supply Chains provisions under the *Modern Slavery Act 2015*, which came into effect in March 2015. Westpac releases an annual statement each year for the period ended 30 September to disclose the steps taken during the year to help prevent modern slavery from occurring within the Group's operations and supply chain.

7. Rounding of amounts

Westpac is an entity to which ASIC Corporations Instrument 2016/191 dated 24 March 2016, relating to the rounding of amounts in directors' reports and financial reports, applies. Pursuant to this Instrument, amounts in this Directors' report and the accompanying financial report have been rounded to the nearest million dollars, unless indicated to the contrary.

8. Political expenditure

In line with Westpac policy, no cash donations were made to political parties during the financial year ended 30 September 2018.

In Australia, political expenditure for the financial year ended 30 September 2018 was \$189,195. This relates to payment for participation in legitimate political activities where they were assessed to be of direct business relevance to Westpac. Such activities include business observer programs attached to annual party conferences, policy dialogue forums and other political functions, such as speeches and events with industry participants.

In New Zealand, political expenditure for the financial year ended 30 September 2018 was NZD\$19,150.

1 Formerly known as the Carbon Disclosure Project.

60

2018 Westpac Group Annual Report

Directors report

9. Directors meetings

Each Director attended the following meetings of the Board and Committees of the Board during the financial year ended 30 September 2018:

	Notes	Board		Audit Committee		Risk & Compliance Committee		Nominations Committee		Remuneration Committee		Technology Committee	
		A	B	A	B	A	B	A	B	A	B	A	B
Number of meetings held during the year													
Director		A	B	A	B	A	B	A	B	A	B	A	B
Lindsay Maxsted	1	10	10	4	4	4	4	4	4	-	-	-	-
Brian Hartzler	2	10	10	-	-	-	-	-	-	-	-	4	4
Nerida Caesar	3	10	10	-	-	4	4	-	-	-	-	4	4
Ewen Crouch	4	10	911	-	-	4	4	4	4	5	5	-	-
Alison Deans	5	10	10	-	-	4	4	3	3	4	4	4	4
Craig Dunn	6	10	10	-	-	4	4	4	4	5	5	-	-
Robert Elstone	7	2	2	1	1	1	1	-	-	1	1	-	-
Peter Hawkins	8	10	10	4	4	4	4	1	1	-	-	4	3
Peter Marriott	9	10	10	4	4	4	4	4	4	-	-	4	4
Peter Nash	10	7	7	3	3	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 2017.

- 1 Chairman of the Board Nominations Committee. Member of the Board Audit Committee and the Board Risk & Compliance Committee.
- 2 Member of the Board Technology Committee.
- 3 Member of the Board Risk & Compliance Committee and Board Technology Committee.
- 4 Chairman of the Board Risk & Compliance Committee. Member of the Board Nominations Committee and the Board Remuneration Committee.
- 5 Chairman of the Board Technology Committee from 8 December 2017. Member of the Board Technology Committee until 8 December 2017. Member of the Board Risk & Compliance Committee, and from 8 December 2017, a member of each of Board Nominations Committee and Board Remuneration Committee.

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- 6 Chairman of the Board Remuneration Committee. Member of the Board Risk & Compliance Committee and the Board Nominations Committee.
- 7 Robert Elstone retired from the Board and its Committees on 8 December 2017.
- 8 Chairman of the Board Technology Committee and a member of the Board Nominations Committee until 8 December 2017. Member of the Board Audit Committee, the Board Risk & Compliance Committee, and from 8 December 2017, a member of the Board Technology Committee.
- 9 Chairman of the Board Audit Committee. Member of the Board Risk & Compliance Committee, the Board Technology Committee and the Board Nominations Committee.
- 10 Peter Nash was appointed as a Director and member of the Board Audit Committee and Board Risk & Compliance Committee on 7 March 2018.
- 11 In addition to 8 scheduled Board meetings, there were 2 additional special purpose Board meetings convened during the year. Mr Crouch was unable to attend one of these special purpose Board meetings and the meeting material was reviewed and discussed with the Chairman, and his views were subsequently conveyed by the Chairman to the other Directors at the meeting.

Directors report

10. Remuneration Report

Introduction from the Chairman of the Board Remuneration Committee

Dear shareholders

On behalf of the Board I am pleased to present Westpac's 2018 remuneration report.

I outline below the context behind the key remuneration decisions made by the Board and the Board Remuneration Committee this year. In addition, I summarise the key enhancements we have made to strengthen our remuneration policy and practices to support appropriate outcomes for our shareholders, customers, employees and the communities we serve.

Overview of performance outcomes

2018 has been a challenging year for Westpac from a financial performance perspective. In addition, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) has highlighted that financial services organisations, including Westpac, need to do more to meet the needs of customers and the community.

Key financial outcomes for 2018 can be summarised as follows:

§ Cash earnings were flat due to slower loan and deposit growth, the full period impact of the bank levy and an increase in provisions for customer refunds and payments;

§ The Group's balance sheet was further strengthened. In particular, our capital ratios exceeded the Australian Prudential Regulation Authority's (APRA's) unquestionably strong benchmark, liquidity ratios are higher and the funding mix has continued to improve;

§ Return on equity (ROE) declined to 13% due to higher capital levels combined with flat cash earnings. This is at the lower end of the range the Group is seeking to achieve; and

§ Earnings per share (EPS) of 232.6 cents was down 1% on the prior year.

Strategically, we have made good progress in modernising our platforms and digitising the company resulting in productivity gains and improvements to the customer experience. Customer satisfaction, as measured by net promoter scores, showed relative improvement though the year. In addition, a range of initiatives were deployed to strengthen our culture and enhance the agility and capability of our workforce.

In terms of the Royal Commission, the misconduct issues that have been examined are confronting for Westpac and the industry, and have raised a number of important considerations for the industry, regulators and policy makers. The Chairman and CEO both discuss the Royal Commission in their respective letters in this Annual Report.

The Board recognises that Westpac needs to continue to improve the way it prevents, detects and addresses misconduct. The Royal Commission has highlighted examples of areas where our actions have given rise to poor outcomes for some of our customers. This has contributed to a loss of trust and reputational damage to Westpac and the industry. The Board also recognises that the value of your shares has declined over the year as a result of a range of factors.

Variable reward adjustments and outcomes

Variable reward outcomes reflect appropriate executive accountability for both performance and the matters discussed above.

2015 Long Term Variable Reward (LTVR): The performance hurdles for both the CEO and Group Executive 2015 LTVR plans were not met and, as a result, the awards were forfeited in full for the third consecutive year.

2018 Short Term Variable Reward (STVR): 2018 STVR outcomes for the CEO and Group Executives in Australia were on average 25% lower than 2017 with the largest individual year on year reduction being 50%. These outcomes include the application of discretion as follows:

§ The assessment of performance against the 2018 scorecard for the CEO and Group Executives in Australia included discretionary downward adjustments for customer and service related areas of the scorecard of up to 25%.

§ Targeted downwards adjustments were applied to three Group Executives to reflect a range of matters relevant to the business for which they are responsible, including risk and remediation issues and, where relevant, business performance not otherwise reflected in the scorecard. These adjustments ranged from 10% to 30% of the target opportunity for these individuals.

§ In addition, to reflect appropriate executive accountability for Group-wide risk and reputation matters, the Board applied a scorecard modifier to reduce further the STVR outcomes as follows:

15% of the outcome for the CEO (which equates to 13.5% of the target opportunity); and

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10% of the target opportunity for each Group Executive excluding David McLean (CEO, Westpac New Zealand Limited) and David Lees (Acting Chief Financial Officer for three months only).

These reductions result in a 2018 STVR outcome for the CEO of 77.5% of the target opportunity, which is 52% of the maximum opportunity. The 2018 STVR outcomes for Group Executives ranged from 50% to 110% of the target opportunity and 34% to 73% of the maximum opportunity.

Total Target Reward adjustments

The Board reviewed Total Target Reward (TTR) for the CEO and Group Executives for 2018. No changes were made to TTR for the CEO. Increases in TTR for Group Executives of between 4% and 12.3% were made in circumstances where TTR was below market benchmarks and to recognise individual capability and demonstrated capacity to deliver business outcomes since initial appointment to their roles.

Key enhancements and future developments

We are committed to ensuring that our remuneration arrangements meet regulatory requirements and align with emerging stakeholder expectations and better practice. This includes:

§ under the Australian Banking Association's 6 Point Plan, implementing Stephen Sedgwick AO's recommendations for our employees two years earlier than required. This includes targeted changes to our STVR arrangements for customer-facing employees in the Consumer Bank and Business Bank to support our service-based approach and reinforce a sound conduct and risk culture;

§ implementing changes to our remuneration and governance arrangements consistent with the findings from APRA's review of remuneration practices at large financial institutions. For example, we have strengthened the process and documentation around the Board's existing discretion to adjust overall outcomes for matters such as behaviour, risk and reputation, with the introduction of a scorecard modifier;

§ updating our remuneration policy to align with the letter and spirit of the new Banking Executive Accountability Regime legislation; and

§ implementing a Group-wide consequence management framework building on existing policies and practices to provide greater consistency in the management of employee conduct. In 2018, we managed 1,091 employee conduct matters in Australia, of which 209 resulted in the employee exiting the business, 532 resulted in a formal disciplinary outcome, and a range of other consequences were applied, including ineligibility for STVR, reductions to STVR and role changes.

During 2018, the Board Remuneration Committee reviewed the remuneration framework for the CEO and Group Executives with the aim of ensuring it continues to remain fit for purpose and is simple, transparent and appropriately aligned with our strategic intent and the expectations of our key stakeholders.

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Given the ongoing review of remuneration practices across the industry and feedback from key stakeholders, we decided not to make any changes to the design features of the 2019 STVR and LTVR plans for the CEO and Group Executives. We will continue to review the executive remuneration framework in 2019 and, as always, engage with regulators, shareholders and shareholder representative groups and value the insight these discussions provide.

Group Executive changes

Changes to Westpac's leadership team during the year included:

§ Carolyn McCann was appointed to the new Group Executive, Customer & Corporate Relations role on 18 June 2018;

§ Alexandra Holcomb ceased in her role as the Chief Risk Officer on 25 June 2018 and will retire on 31 December 2018. David Stephen commenced with Westpac on 1 October 2018;

§ Peter King was the Chief Financial Officer for most of the year and acted as the Chief Risk Officer from 25 June 2018 to 1 October 2018. During this time, David Lees acted as the Chief Financial Officer;

§ Christine Parker's role and title changed from Group Executive, Human Resources, Corporate Affairs & Sustainability to Group Executive, Human Resources on 18 June 2018;

§ Rebecca Lim's role and title changed from Group Executive, Compliance, Legal & Secretariat to Group Executive, Legal & Secretariat on 1 October 2018; and

§ Dave Curran will retire from the Chief Information Officer role on 29 January 2019. Craig Bright will commence with Westpac on 4 December 2018.

Non-executive Directors

The Board is pleased to have welcomed Peter Nash on 7 March 2018 and Anita Fung on 1 October 2018 as Non-executive Directors. No changes were made to Non-executive Director fees for 2018.

Changes to the remuneration report

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Finally, we have made further improvements to the transparency, simplicity and readability of our remuneration report. On behalf of the Board, I invite you to read our remuneration report and welcome your feedback.

Craig Dunn, Chairman
Board Remuneration Committee

Directors report

Directors report

Directors report

Directors report

3. Key Management Personnel

The remuneration of Key Management Personnel (KMP) for the Group is disclosed in the Report. In 2018, KMP comprised the CEO, Group Executives and Non-executive Directors as set out in the table below.

Name	Position	Term as KMP
Managing Director & Chief Executive Officer		
Brian Hartzler	Managing Director & Chief Executive Officer	Full Year
Current Group Executives		
Lyn Cobley	Chief Executive, Westpac Institutional Bank	Full Year
Brad Cooper	Chief Executive Officer, BT Financial Group	Full Year
Dave Curran	Chief Information Officer	Full Year
George Frazis	Chief Executive, Consumer Bank	Full Year
Peter King ¹	Acting Chief Risk Officer	Full Year
David Lees ²	Acting Chief Financial Officer	Commenced in KMP role on 25 June 2018
Rebecca Lim ³	Group Executive, Compliance, Legal & Secretariat	Full Year
David Lindberg	Chief Executive, Business Bank	Full Year
Carolyn McCann ⁴	Group Executive, Customer & Corporate Relations	Commenced in KMP role on 18 June 2018
David McLean	Chief Executive Officer, Westpac New Zealand Limited	Full Year
Christine Parker ⁵	Group Executive, Human Resources	Full Year
Gary Thursby	Group Executive, Strategy & Enterprise Services	Full Year
Former Group Executive		
Alexandra Holcomb ⁶	Chief Risk Officer	Ceased in KMP role on 25 June 2018
Current Non-executive Directors		
Lindsay Maxsted	Chairman	Full Year
Nerida Caesar	Director	Full Year
Ewen Crouch	Director	Full Year
Alison Deans	Director	Full Year
Craig Dunn	Director	Full Year
Peter Hawkins	Director	Full Year
Peter Marriott	Director	Full Year
Peter Nash	Director	Commenced on 7 March 2018
Former Non-executive Director		
Robert Elstone	Director	Retired on 8 December 2017

¹ Peter King was the Chief Financial Officer until 25 June 2018 when he was appointed as the Acting Chief Risk Officer. Peter King returned to the Chief Financial Officer role effective 1 October 2018.

² David Lees was the Deputy Chief Financial Officer until 25 June 2018 when he was appointed as the Acting Chief Financial Officer. David Lees returned to the Deputy Chief Financial Officer role effective 1 October 2018.

³ Rebecca Lim's role and title changed to the Group Executive, Legal & Secretariat effective 1 October 2018.

⁴ Carolyn McCann was the General Manager, Corporate Affairs & Sustainability until 18 June 2018 when she was appointed as the Group Executive, Customer & Corporate Relations.

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5 Christine Parker's role and title changed from the Group Executive, Human Resources, Corporate Affairs & Sustainability to the Group Executive, Human Resources on 18 June 2018.

6 Alexandra Holcomb ceased in her KMP role as the Chief Risk Officer on 25 June 2018 and will retire on 31 December 2018. David Stephen commenced as the Chief Risk Officer effective 1 October 2018.

Directors report

4. Total remuneration outcomes

4.1. Chief Executive Officer and Group Executive remuneration realised remuneration

The table below shows the actual remuneration paid and the equity vested¹ to the CEO and Group Executives in 2018 and 2017 (unaudited). This includes:

§ fixed remuneration earned during the year;

§ cash STVR awarded in respect of 2018 and 2017;

§ deferred STVR awarded in prior years that vested in 2018 and 2017; and

§ LTVR awarded in prior years that vested in 2018 and 2017.

The value of deferred STVR and LTVR is based on the number of restricted shares or share rights multiplied by the five day volume weighted average share price up to and including the date of vesting. The value of equity differs from the disclosure in Section 7 which provides the annualised accounting value for unvested equity awards prepared in accordance with the Australian Accounting Standards (AAS).

Name	Fixed remuneration \$	Cash STVR awarded \$	Vesting of prior year deferred STVR awards \$	Vesting of prior year LTVR awards \$	Total realised remuneration \$	Prior year LTVR forfeited \$
Managing Director & Chief Executive Officer						
Brian Hartzler						
2018	2,686,000	1,040,825	1,217,694	-	4,944,519	4,263,037
2017	2,686,000	1,490,730	1,280,114	-	5,456,844	3,046,592
Current Group Executives						
Lyn Cobley, Chief Executive, Westpac Institutional Bank						
2018	1,122,000	465,500	494,049	-	2,081,549	-
2017	1,122,000	640,000	244,864	-	2,006,864	-
Brad Cooper, Chief Executive Officer, BT Financial Group						
2018	1,102,517	400,000	665,608	-	2,168,125	2,064,040
2017	1,102,517	792,500	779,625	-	2,674,642	2,206,129

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Dave Curran, Chief Information Officer						
2018	1,054,000	485,000	444,719	-	1,983,719	1,761,322
2017	952,000	552,500	510,291	-	2,014,791	-
George Frazis, Chief Executive, Consumer Bank						
2018	1,150,000	480,000	735,319	-	2,365,319	1,614,690
2017	1,150,000	872,500	876,225	-	2,898,725	1,155,565
Peter King, Acting Chief Risk Officer ²						
2018	1,288,000	517,000	505,612	-	2,310,612	1,824,211
2017	1,088,000	615,000	536,202	-	2,239,202	1,132,480
David Lees, Acting Chief Financial Officer ³						
2018	324,877	90,500	-	-	415,377	-
2017	----- Not a KMP in 2017 -----					
Rebecca Lim, Group Executive, Compliance, Legal & Secretariat						
2018	950,000	356,500	287,412	-	1,593,912	383,299
2017	750,000	412,500	248,227	-	1,410,727	388,674
David Lindberg, Chief Executive, Business Bank						
2018	1,088,000	440,500	440,199	-	1,968,699	817,702
2017	952,000	532,500	419,808	-	1,904,308	709,083
Carolyn McCann, Group Executive, Customer & Corporate Relations ⁴						
2018	212,877	74,500	202,173	-	489,550	393,143
2017	----- Not a KMP in 2017 -----					
David McLean, Chief Executive Officer, Westpac New Zealand Limited						
2018	900,613	498,439	370,211	-	1,769,263	988,873
2017	864,889	412,570	430,410	-	1,707,869	-

Directors report

Name	Fixed remuneration \$	Cash STVR awarded \$	Vesting of prior year deferred STVR awards \$	Vesting of prior year LTVR awards \$	Total realised remuneration \$	Prior year LTVR forfeited \$
Current Group Executives (cont.)						
Christine Parker, Group Executive, Human Resources						
2018	884,000	427,500	421,759	-	1,733,259	1,474,298
2017	850,000	517,500	481,816	-	1,849,316	1,365,665
Gary Thursby, Group Executive, Strategy & Enterprise Services						
2018	840,000	395,500	368,685	-	1,604,185	471,754
2017	840,000	485,000	371,764	-	1,696,764	409,680
Former Group Executive						
Alexandra Holcomb, Chief Risk Officer ⁵						
2018	736,449	411,000	446,660	-	1,594,109	1,761,322
2017	1,003,000	532,500	498,536	-	2,034,036	772,487

1 Equity that vested on 1 October 2018 is included in the 2018 figures. Equity that vested on 1 October 2017 is included in the 2017 figures.

2 Peter King was the Chief Financial Officer until 25 June 2018 when he was appointed as the Acting Chief Risk Officer.

3 David Lees commenced his KMP role as the Acting Chief Financial Officer on 25 June 2018.

4 Carolyn McCann commenced her KMP role as the Group Executive, Customer & Corporate Relations on 18 June 2018.

5 Alexandra Holcomb ceased in her KMP role as the Chief Risk Officer on 25 June 2018 and will retire on 31 December 2018.

Directors report

4.2. Chief Executive Officer and Group Executive remuneration equity awarded

The table below shows the value of equity awarded under the STVR and LTVR plans in respect of 2018 and 2017.

The final value of equity received by the CEO and Group Executives will depend on the share price at the time of vesting and the number of restricted shares or share rights that vest, subject to performance hurdles (where applicable), continued service and malus provisions.

The value of equity differs from the disclosure in Section 7 which is prepared in accordance with the AAS.

Name		Deferred STVR	LTVR award	
		award ¹	Fair value ²	Face value ³
		\$	\$	\$
Managing Director & Chief Executive Officer				
Brian Hartzler	2018	1,040,825	2,528,000	6,218,959
	2017	1,490,730	2,528,000	6,811,269
Current Group Executives				
Lyn Cobley	2018	465,500	1,056,000	2,597,783
Chief Executive, Westpac Institutional Bank	2017	640,000	1,056,000	2,845,209
Brad Cooper	2018	400,000	1,050,000	2,582,994
Chief Executive Officer, BT Financial Group	2017	792,500	1,050,000	2,829,046
Dave Curran	2018	485,000	992,000	2,440,337
Chief Information Officer	2017	552,500	896,000	2,414,087
George Frazis	2018	480,000	1,000,000	2,460,034
Chief Executive, Consumer Bank	2017	872,500	1,000,000	2,694,332
Peter King ⁴	2018	517,000	1,024,000	2,519,060
Acting Chief Risk Officer	2017	615,000	1,024,000	2,758,984
David Lees ⁵	2018	90,500	-	-
Acting Chief Financial Officer	2017		----- Not a KMP in 2017 -----	
Rebecca Lim	2018	356,500	700,000	1,722,017
Group Executive, Compliance, Legal & Secretariat	2017	412,500	700,000	1,885,988
David Lindberg	2018	440,500	1,024,000	2,519,060
Chief Executive, Business Bank	2017	532,500	912,000	2,457,167
Carolyn McCann ⁶	2018	74,500	159,658	364,743
Group Executive, Customer & Corporate Relations	2017		----- Not a KMP in 2017 -----	
David McLean	2018	498,439	872,508	2,146,339
Chief Executive Officer, Westpac New Zealand Limited	2017	412,570	810,138	2,160,244
Christine Parker	2018	427,500	816,000	2,007,332
Group Executive, Human Resources	2017	517,500	750,000	2,020,701

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Gary Thursby	2018	395,500	700,000	1,722,017
Group Executive, Strategy & Enterprise Services	2017	485,000	700,000	1,885,988
Former Group Executive				
Alexandra Holcomb ⁷	2018	411,000	944,000	2,322,222
Chief Risk Officer	2017	532,500	944,000	2,543,391

1 The value of deferred STVR (granted as restricted shares or unhurdled share rights) is 50% of the total STVR award for the year. The number of restricted shares granted is determined by reference to the five day volume weighted average share price (VWAP) up to and including the grant date. This is adjusted for non-payment of dividends over the vesting period for unhurdled share rights. The five day VWAP for the 2017 award was \$31.46.

2 For the purposes of determining the number of performance share rights to grant, the Board Remuneration Committee caps the fair value at a maximum discount of 60% of the share price at the start of the performance period. The fair value of the 2018 and 2017 awards were capped at \$12.79 and \$11.95 respectively.

3 The face value is calculated by multiplying the number of performance share rights granted during the year by the five day VWAP up to and including the grant date. For the 2018 awards, the five day VWAP was \$31.46, and for the 2017 awards, the five day VWAP was \$32.20.

4 Peter King was the Chief Financial Officer until 25 June 2018 when he was appointed as the Acting Chief Risk Officer.

5 David Lees commenced his KMP role as the Acting Chief Financial Officer on 25 June 2018.

6 Carolyn McCann commenced her KMP role as the Group Executive, Customer & Corporate Relations on 18 June 2018.

7 Alexandra Holcomb ceased in her KMP role as the Chief Risk Officer on 25 June 2018 and will retire on 31 December 2018.

4.3. Summary of 2018 Short Term Variable Reward outcomes

Assessment approach

STVR awards are determined with reference to an assessment of performance against a balanced scorecard.

The Board and the Board Remuneration Committee recognise that the scorecard approach may not always appropriately reflect overall performance of the Group.

For 2018, the scorecard was split into two sections to support decision making and enhance disclosure in relation to the Board's application of discretion when determining STVR outcomes.

§ **Focus areas:** This includes consideration of financial and non-financial measures aligned to Westpac's key strategic priorities to support an initial scorecard result.

In assessing outcomes for each focus area, a number of factors are taken into account. For example:

§ matters not known or not relevant at the beginning of the performance period which are relevant to the under or over performance of the employee over the performance period;

§ the degree of difficulty associated with achieving the targets that had been set in the scorecard (and the context of those targets);

§ whether the budgetary assumptions that were present when performance targets were set remain correct (and whether the financial environment is better or worse compared with those assumptions); and

§ comparisons with the performance of Westpac's main competitors having regard to major shareholder and customer benchmarks as well as the composition and/or consistency of financial result performance.

§ **Modifier:** This includes further consideration of significant matters not covered in the focus areas, including behaviour, people management matters, risk and reputation matters, and any other matters determined by the Board, as a tool to support the adjustment of the overall scorecard

result upwards or downwards (including to nil).

Group balanced scorecard Chief Executive Officer performance objectives

The table below sets out the Group balanced scorecard for 2018 which forms the CEO scorecard and the resulting outcomes against stretching targets.

Westpac's strategic priorities are cascaded from the CEO's scorecard to Group Executive scorecards in combination with other divisional or functional measures.



	Commentary	Outcome
<p>Economic performance (40%)</p> <p><i>Delivering long term returns for our shareholders through high quality and consistent financial results</i></p>	<p>§ Delivered economic profit of \$3,444 million and a ROE of 13.00% at the bottom of the 13-14% range that we seek to achieve. Cash earnings were flat at \$8,065 million.</p> <p>§ Core earnings decreased 1% including the impact of infrequent items. Excluding the impact of these items, core earnings grew 1%. Customer deposit growth of 6% funded lending growth of 4%. Margins increased 2bps over the year.</p> <p>§ Expenses increased 5% impacted by infrequent items. Excluding these items, operating expenses increased 3% including higher regulatory and compliance costs, costs associated with the Royal Commission and investment related spend. Productivity benefits increased 16% to \$304 million more than offsetting growth in operating costs.</p>	
<p>Balance sheet management (10%)</p> <p><i>Holding sufficient capital and liquidity to remain strong, meet regulatory requirements and support growth</i></p>	<p>§ Further strengthened funding and liquidity with an increase in the Group's Net Stable Funding Ratio to 114% and Liquidity Coverage Ratio to 133%, exceeding the target and regulatory requirements.</p> <p>§ Maintained unquestionably strong capital levels with Common Equity Tier 1 Capital at 10.6%, including absorbing regulatory measurement changes of 30 basis points for mortgage risk weights and operational risk RWA.</p> <p>§ Achieved housing balance sheet growth of 4%.</p>	
<p>Risk management (10%)</p> <p><i>Ensuring we are and remain strong</i></p>	<p>§ Remained within the Group Risk Appetite overall; financial risks continue to be managed well while the management of non-financial risks requires further improvement.</p> <p>§ Maintained sound credit quality across the portfolio, with ratio of stressed assets to total committed exposures at 1.1%. Balance sheet settings, liquidity and market risks are within appetite.</p> <p>§ Ongoing significant focus on resolving and remediating compliance, regulatory and customer issues, including enhancing risk management of sales practices, product design and maintenance and financial crime systems and processes.</p>	

Directors report

Focus areas (continued)

	Commentary	Outcome
<p>Customer outcomes (15%)</p> <p><i>Helping our customers, communities and people to prosper and grow by delivering great customer outcomes, and by securing the Group's future</i></p>	<p>§ Delivered significant improvements in service quality for our customers resulting in solid customer growth and an improvement in net promoter scores (NPS). Business Bank finished the year as Number 1 on both Customer Satisfaction and NPS and Consumer Bank ranked Number 2 on NPS.</p> <p>§ Continued to roll out new, market-leading digital innovations for our customers including, but not limited to, Mobile Cheque Deposit, conversational banking through Siri, Amazon, Alexa and Google Home, and digital mortgage origination.</p> <p>§ Took a leading role in achieving ASIC approval of the new Banking Code of Practice, offering enhanced commitments and protections to our customers.</p> <p>§ Continued to implement the Get it Right. Put it Right initiative to identify and fix legacy issues.</p> <p>§ Closed out more than a third (250) of outstanding Financial Ombudsman Service Australia matters.</p> <p>§ While improvements have been made across the organisation to deliver better customer outcomes, the Royal Commission has also highlighted certain areas where we need to do more to meet the needs of customers and the community. The Board believes it is appropriate to ensure executive accountability and has reduced the overall result for this focus area by 25%.</p>	
<p>Customer service transformation (15%)</p> <p><i>Creating superior customer experiences for each customer, every time</i></p>	<p>§ Transformation of complaint handling through the establishment of our new Customer and Corporate Relations division. This has resulted in a significant improvement in resolving longstanding customer issues and more proactive identification of vulnerable customers. Consumer and Business Bank long dated complaints were reduced by 90%.</p> <p>§ Undertook substantive work on alleviating the source of customer complaints through better designed products that meet the needs of customers. Completed a lifecycle review of certain products and made changes, including: removing grandfathered payments to salaried BT Financial Advisers benefitting more than 140,000 BT Financial Advice customers; and simplifying and lowering transaction fees for 1.3 million personal transaction account customers.</p> <p>§ Continuing culture change across the Group with targeted messaging in People Leader Forums and Culture Immersion helping people to consider complaints as part of our Service Revolution.</p> <p>§ Delivered key milestones in line with the Australian Banking Association \$6 point plan which commenced in 2016.</p>	

§ Delivered customer benefits from the Service Revolution Transformation programs.

§ In line with the approach taken for the customer outcomes focus area, the Board also decided to reduce the overall result for the customer service transformation focus area by 25%.

People and culture (10%)

Delivering key people initiatives that drive further the Group's change agenda

§ Delivered significant milestones as part of our Workforce Revolution Program.

§ Maintained 50% Women in Leadership and our female General Manager population has increased over the last two years from 39% in 2016 to 47% in 2018.

§ Continued to strengthen our culture through initiatives including: conducting the Navigate program which was held for all employees and led by the CEO, to review and recommit to our Group Compass which articulates our values, service standards, code of conduct, and expectations of standards of behaviour and ethical treatment of our customers; launching Recruit for Culture Fit tools designed to help ensure new recruits fit our service culture; holding various leadership development programs; refreshing our values and code of conduct; and rolling out a Group Consequence Management Framework.

§ Accelerated implementation of the Sedgwick review recommendations for employees which means that variable reward for Consumer and Business Bank customer facing employees is further weighted towards service and doing the right thing, rather than product sales.

Modifier

In addition to qualitative downward adjustments made in assessing performance against the scorecard outcomes for the customer outcomes and customer service transformation focus areas, the Board applied a further reduction of 15% to the CEO's scorecard outcome (which equates to 13.5% of the target opportunity) based on an overall assessment of risk and reputation matters.

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Directors report

Short Term Variable Reward outcomes for 2018

The table below sets out the CEO and Group Executive STVR outcomes for 2018 as determined by the Board using the balanced scorecard outcomes, including the modifier.

Name	Target STVR opportunity	STVR award (as % of target)	STVR award (as % of maximum)	Cash STVR award (50%)	Deferred STVR award (50%)
Managing Director & Chief Executive Officer					
Brian Hartzler	2,686,000	77.5%	52%	1,040,825	1,040,825
Current Group Executives					
Lyn Cobley Chief Executive, Westpac Institutional Bank	1,122,000	83%	55%	465,500	465,500
Brad Cooper Chief Executive Officer, BT Financial Group	1,600,000	50%	33%	400,000	400,000
Dave Curran Chief Information Officer	1,054,000	92%	61%	485,000	485,000
George Frazis Chief Executive, Consumer Bank	1,600,000	60%	40%	480,000	480,000
Peter King ¹ Acting Chief Risk Officer	1,088,000	95%	63%	517,000	517,000
David Lees ² Acting Chief Financial Officer	181,250	100%	67%	90,500	90,500
Rebecca Lim Group Executive, Compliance, Legal & Secretariat	750,000	95%	63%	356,500	356,500
David Lindberg Chief Executive, Business Bank	1,088,000	81%	54%	440,500	440,500
Carolyn McCann ³ Group Executive, Customer & Corporate Relations	161,875	92%	61%	74,500	74,500
David McLean Chief Executive Officer, Westpac New Zealand Limited	905,919	110%	73%	498,439	498,439
Christine Parker Group Executive, Human Resources	900,000	95%	63%	427,500	427,500
Gary Thursby Group Executive, Strategy & Enterprise Services	860,000	92%	61%	395,500	395,500
Former Group Executive					
	1,003,000	82%	55%	411,000	411,000

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Alexandra Holcomb⁴
Chief Risk Officer

- 1 Peter King was the Chief Financial Officer until 25 June 2018 when he was appointed as the Acting Chief Risk Officer.
- 2 David Lees commenced his KMP role as the Acting Chief Financial Officer on 25 June 2018 and was not considered KMP prior to his appointment. His target STVR opportunity has been apportioned to reflect his time in a Group Executive role.
- 3 Carolyn McCann commenced her KMP role as the Group Executive, Customer & Corporate Relations on 18 June 2018. Her target STVR opportunity has been apportioned to reflect her time in a Group Executive role.
- 4 Alexandra Holcomb ceased in her KMP role as the Chief Risk Officer on 25 June 2018 and will retire on 31 December 2018. Her target STVR opportunity was assessed on a full year basis.

Directors report

4.4. Summary of Long Term Variable Reward vesting outcomes

The table below shows the vesting outcomes for LTVR awards to the CEO and Group Executives that reached the end of their performance periods in 2018 and 2017.

Award	Performance hurdle	Commencement date ¹	Test date	Performance range		Outcome	% vested	% lapsed
				Threshold	Maximum			
2015 LTVR	TSR 50% of award	1 October 2014	1 October 2018	Equal to composite TSR index	Exceeds composite TSR index by 21.55 (i.e. 5% CAGR ²)	Westpac: 8.35 Index: 26.54	0%	100%
	EPS 50% of award	1 October 2014	1 October 2017 ³	4.0% CAGR	6.0% CAGR	(0.8%) CAGR	0%	100%
2014 LTVR	TSR 50% of award	1 October 2014	1 October 2017	50th percentile	75th percentile	20th percentile	0%	100%
	EPS 50% of award	1 October 2014	1 October 2017	5.0% CAGR	7.0% CAGR	(0.8%) CAGR	0%	100%

¹ Commencement date is the start of the performance period. The 2014 and 2015 LTVR were granted to Group Executives on 3 December 2014. The 2015 LTVR was granted to the CEO on 11 December 2015.

² Compound annual growth rate.

³ The EPS hurdled performance share rights reached the end of their performance period on 30 September 2017 and were subject to an additional one year holding lock through to 30 September 2018.

Other equity vested during 2018

Lyn Cobley had 18,115 restricted shares granted under the Restricted Share Plan which vested in July 2018. The restricted shares were allocated in respect of equity forfeited from her previous employer on joining Westpac.

Directors report

4.5. Aligning pay with performance and shareholder return five year perspective

The table below summarises key performance indicators for the Group and variable reward outcomes over the last five years.

		Year ended 30 September			
	2018	2017	2016	2015	2014
CEO STVR award (% of target)	77.5%	111%	97%	108%	127%
LTVR award (% vested)	0%	0%	0%	36%	72%
Cash earnings (\$m)	8,065	8,062	7,822	7,820	7,628
Economic profit (\$m)	3,444	3,774	3,774	4,418	4,491
ROE	13.00%	13.77%	14.00%	15.80%	16.40%
TSR three years	8.27%	11.79%	15.24%	62.30%	102.03%
TSR five years	25.67%	81.32%	100.72%	92.78%	103.74%
Dividends per Westpac share (cents)	188	188	188	187	182
Cash earnings per Westpac share ¹	\$2.36	\$2.40	\$2.35	\$2.48	\$2.45
Share price high	\$33.68	\$35.39	\$33.74	\$40.07	\$35.99
Share price low	\$27.24	\$28.92	\$27.57	\$29.10	\$30.00
Share price close	\$27.93	\$31.92	\$29.51	\$29.70	\$32.14

¹ Cash earnings are not prepared in accordance with AAS and have not been subject to audit.

Graph 1: Cash earnings and CEO STVR award (2014 to 2018)

Graph 2: Cash earnings per share performance and average share count (2014 to 2018)

Graph 3: Total shareholder return (from 1 October 2013)

Graph 4: Return on equity and LTVR vesting (2014 to 2018)

Directors report

5. Further detail on the 2018 Chief Executive Officer and Group Executive total reward framework

5.1. Fixed remuneration

Fixed remuneration is set based on market benchmarks within the financial services industry. The Board also takes into account the size, responsibilities and complexity of the role, as well as the skills and experience of the executive.

5.2. Short Term Variable Reward

The table below sets out the key design features of the 2018 STVR plan.

2018 Short Term Variable Reward Plan

Plan structure 50% of STVR is awarded in cash and 50% is deferred into equity in the form of restricted shares (or unhurdled share rights for the Group Executive based outside Australia).

The deferred STVR vests in equal portions one and two years after the grant date, subject to continued service and malus provisions. Dividends are paid on restricted shares from the grant date.

The 2018 plan structure remains unchanged from 2017.

Target opportunity The target opportunity for the CEO and Group Executives is expressed as a percentage of fixed remuneration. The target opportunity is set by the Board following recommendation from the Board Remuneration Committee.

The Board and Board Remuneration Committee take into account a range of factors including market competitiveness and the nature of the role.

Target opportunities range between 75% and 145% of fixed remuneration for the CEO and Group Executives.

Maximum opportunity The maximum opportunity is 150% of the target opportunity.

Performance measures Performance is assessed against a balanced scorecard which contains financial and non-financial measures aligned to Westpac's strategic priorities at a Group, divisional and individual level as relevant.

Further information on focus areas for the 2018 scorecard is provided at Section 4.3.

Deferred STVR awards recognise past performance and are not subject to any further conditions, other than continued service and malus provisions.

Assessment of performance outcomes

The Board determines STVR awards for the CEO and Group Executives with reference to performance against individual scorecards, including an assessment of performance against measures under the focus areas and other significant matters not covered in the focus areas via the modifier.

The Board has the ability to adjust awards upwards or downwards (including to nil) based on an overall assessment of behaviour, risk and reputation, and people management matters, and any other matters determined by the Board.

In addition, the Board has the ability to apply malus to unvested deferred awards if having regard to circumstances or information which has come to light after the grant of the equity, all or part of the initial award was not justified.

5.3. Long Term Variable Reward

The table below sets out the key design features of the 2018 LTVR Plan awarded in December 2017.

2018 Long Term Variable Reward Plan

Plan structure

LTVR is awarded in performance share rights which vest after four years subject to the achievement of performance hurdles, continued service and malus provisions.

One performance share right entitles the holder to one ordinary share at the time of vesting with no exercise cost. Dividends are not accumulated on performance share rights.

Award opportunity

The value of LTVR awarded to the CEO and Group Executives is expressed as a percentage of fixed remuneration. The value of LTVR is set by the Board following recommendation from the Board Remuneration Committee.

LTVR opportunities range between 75% and 95% of fixed remuneration for the CEO and Group Executives.

Directors report

2018 Long Term Variable Reward Plan (continued)

Allocation methodology

The number of performance share rights each executive receives is determined by dividing the dollar value of the LTVR award by the fair value of the performance share rights at the beginning of the performance period.

The fair value of the performance share rights is determined by an independent valuer using a Monte Carlo simulation pricing model, taking into consideration the life of the awards, the performance hurdles and likelihood of vesting, non-payment of dividends prior to vesting and appropriate discount rates.

The Board Remuneration Committee caps the valuation at a maximum discount of 60% of the share price. The value of a TSR hurdled performance share right may be different to the value of a ROE hurdled share performance right.

Performance hurdles

Total shareholder return 50% of the award

The performance hurdle measures Westpac's TSR performance over a four year period against a composite index.

TSR is a measure of the total return delivered to shareholders over the performance period assuming dividends are reinvested.

The composite index is comprised of a group of ten peers with more weight placed on the three other major Australian banks.

At the end of the performance period, TSR performance of each index company is multiplied by its index weighting, and the total of the ten scores determines the composite TSR index.

50% will vest if Westpac's TSR performance equals the composite TSR index. For 100% to vest, Westpac's TSR outcome must exceed the index by 21.55 (i.e. 5% compound annual growth over the four year performance period) as illustrated below.

Total shareholder return vesting

Return on equity 50% of the award

The performance hurdle measures the average cash return on average ordinary equity over a three year performance period.

The performance hurdle aims to reward the achievement of returns above Westpac's cost of capital while generating shareholder value and improving how efficiently the Group uses capital resources within its risk appetite.

Performance share rights subject to ROE performance will be tested against the performance hurdle on 30 September 2020 and will be subject to an additional one year holding lock through to 30 September 2021.

The graph below shows the performance levels required for the ROE performance share rights to vest.

Return on equity vesting

The companies in the 2018 peer group and their relative weightings are:

Company	TSR index weighting
ANZ Banking Group	16.67%
Commonwealth Bank	16.67%
National Australia Bank	16.67%
AMP	7.14%
Bank of Queensland	7.14%
Bendigo and Adelaide Bank	7.14%
Challenger	7.14%
Macquarie Group	7.14%
Perpetual	7.14%
Suncorp Group	7.14%

Directors report

2018 Long Term Variable Reward Plan (continued)

Assessment of performance outcomes	Total shareholder return	Return on equity
	<p>The TSR result is calculated independently to ensure objectivity and external validation before being provided to the Board to determine the vesting outcome.</p> <p>The Board may exercise discretion in determining the final vesting outcome.</p> <p>Performance share rights subject to TSR performance will be tested against the performance hurdle on 30 September 2021.</p>	<p>The ROE outcome is determined by the Board based on ROE disclosed in the Group's results over the performance period.</p> <p>The Board may exercise discretion in determining the final vesting outcome.</p>
No re-testing	There has been no re-testing of awards since 2011. No current award is subject to re-testing. Awards that have not vested after the measurement period lapse immediately.	
Early vesting	For awards made after 1 October 2009, unvested awards may vest before a test date if the executive is no longer employed by the Group due to death or disability. In these cases, vesting is generally not subject to the performance hurdles being met.	
Treatment of awards on cessation of employment	<p>The Board has the discretion to determine the treatment of unvested performance share rights where the CEO or a Group Executive resigns, retires or otherwise leaves the Group before vesting occurs.</p> <p>The Board may choose to accelerate the vesting of performance share rights or leave the awards on foot for the remainder of the performance period.</p> <p>In exercising its discretion, the Board will take into account relevant circumstances including those relating to the departure.</p> <p>The Board also has the ability to adjust the number of performance share rights downwards (including to nil) in the event of misconduct, resulting in significant financial and/or reputational impact to the Group and in other circumstances considered appropriate.</p> <p>Where an executive acts fraudulently or dishonestly, or is in material breach of their obligations under the relevant equity plan, unexercised performance share rights (whether vested or unvested) will lapse unless the Board determines otherwise.</p>	

The table below details LTVR awards currently on foot.

Vesting date

Performance hurdles

Further detail

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2016 LTVR award	30 September 2019	§ TSR performance against a weighted composite index of comparator companies (50%)	Refer to the 2016 Annual Report
		§ Cash EPS CAGR performance (50%)	
2017 LTVR award	30 September 2020	§ TSR performance against a weighted composite index of comparator companies (50%)	Refer to the 2017 Annual Report
		§ Average ROE performance (50%)	

Long Term Variable Reward structure 2019

The LTVR structure for the 2019 award will retain the same design features as the 2018 award.

The TSR hurdle, as detailed above, will remain unchanged in 2019.

The performance range for the ROE component of the 2019 LTVR has been set at an average ROE of between 13% and 14%. The range is 25 basis points lower than the 2018 LTVR ROE target to reflect the current external environment including continuing competitive intensity, the ongoing cost of meeting regulatory requirements, further increases in capital requirements and the likelihood of higher impairment charges for the industry across the cycle.

The Board retains the discretion to ensure that vesting outcomes deliver alignment between performance and shareholder outcomes.

Directors report

5.4. Minimum shareholding requirements

The CEO and Group Executives are required to build and maintain a substantial Westpac shareholding within five years of their appointment. The requirement supports alignment with shareholders' interests.

The table below sets out the minimum shareholding requirement for the CEO and Group Executives.

Minimum shareholding requirement

CEO	Five times annual fixed remuneration excluding superannuation, equivalent to \$12.26 million
Group Executives	Equivalent to \$1.2 million

The table below details whether the requirement is exceeded or if the executive has been in the role for the less than five years.

Name	Commencement date in CEO or Group Executive role	Assessment against minimum shareholding requirement
Brian Hartzler	2 February 2015	Less than five years in role
Managing Director & Chief Executive Officer Lyn Cobley	7 September 2015	Exceeds
Chief Executive, Westpac Institutional Bank Brad Cooper	1 October 2010	Exceeds
Chief Executive Officer, BT Financial Group Dave Curran	8 September 2014	Exceeds
Chief Information Officer George Frazis	5 March 2009	Exceeds
Chief Executive, Consumer Bank Peter King	1 April 2014	Exceeds
Acting Chief Risk Officer Rebecca Lim	1 October 2016	Exceeds
Group Executive, Compliance, Legal & Secretariat David Lindberg	10 June 2015	Exceeds
Chief Executive, Business Bank		

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Carolyn McCann	18 June 2018	Exceeds
Group Executive, Customer & Corporate Relations David McLean	2 February 2015	Exceeds
Chief Executive Officer, Westpac New Zealand Limited Christine Parker	1 October 2011	Exceeds
Group Executive, Human Resources Gary Thursby	1 October 2016	Exceeds
Group Executive, Strategy and Enterprise Services		

5.5. Hedging policy

Participants in Westpac's equity plans are forbidden from entering, either directly or indirectly, into hedging arrangements for unvested awards in the STVR and LTVR plans. No financial products may be used to mitigate the risk associated with these awards. Any attempt to hedge awards will result in forfeiture and the Board may consider other disciplinary action. These restrictions satisfy the requirements of the Corporations Act which prohibits hedging of unvested awards.

Directors report

5.6. Employment agreements

The remuneration and other terms of employment for the CEO and Group Executives are formalised in their employment agreements. Each agreement provides for the payment of fixed and variable reward, employer superannuation contributions and other benefits such as death and disablement insurance cover.

The table below details the key terms including termination provisions of the employment agreements for the CEO and Group Executives in 2018.

Term	Who	Conditions
Duration of agreement	CEO and Group Executives	§ Ongoing until notice given by either party
Notice (by the executive or the Group) to terminate employment	CEO and Group Executives	§ 12 months ¹
Termination payments on termination without cause ²	CEO and Group Executives	§ Deferred STVR and LTVR awards vest according to the applicable equity plan rules
Termination for cause	CEO and Group Executives (excluding Brad Cooper)	§ Immediately for misconduct
		§ 3 months notice for poor performance
	Brad Cooper	§ Immediately for misconduct
		§ Contractual notice period for poor performance
Post-employment restraints	CEO and Group Executives	§ 12 month non-solicitation restraint

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

² The maximum liability for termination benefits for the CEO and Group Executives at 30 September 2018 was \$14.1 million (2017: \$13.4 million).

Directors report

6. Non-executive Director remuneration**6.1. Structure and policy**

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

Non-executive Directors fees are not related to Westpac's results. All fees are paid in cash and no discretionary payments are made for performance. Non-executive Directors are required to build and maintain a minimum shareholding to align their interests with those of shareholders.

The table below sets out the components of Non-executive Director remuneration.

Non-executive Director remuneration	
Base fee	Relates to service on the Westpac Banking Corporation Board. The base fee for the Chairman covers all responsibilities, including for Board Committees.
Committee fees	Additional fees are paid to Non-executive Directors (other than the Board Chairman) for chairing or participating in Board Committees.
Employer superannuation contributions	Reflects statutory superannuation contributions which are capped at the superannuation maximum contributions base as prescribed under the Superannuation Guarantee legislation.
Subsidiary Board and Advisory Board fees	Relates to service on Subsidiary Boards and Advisory Boards and are paid by the relevant subsidiary.

6.2. Non-executive Director remuneration in 2018

Non-executive Director remuneration did not change in 2018. The Board last reviewed Non-executive Director fees in 2016 and approved an increase to the member fees for the Board Technology Committee based on market data and changes in the workload of members.

Fee pool

The Non-executive Director fee pool of \$4.5 million per annum has not changed for ten years since it was approved by shareholders at the 2008 Annual General Meeting. For 2018, \$3.09 million (69%) of the fee pool was used. The fee pool includes employer superannuation contributions.

Fee framework

The table below sets out the Board and standing Committee fees for 2018.

	Annual fee
	\$
Base fee	
Chairman	810,000
Other Non-executive Directors	225,000
Committee Chairman fees	
Board Audit Committee	70,400
Board Risk & Compliance Committee	70,400
Board Remuneration Committee	63,800
Board Technology Committee	35,200
Committee membership fees	
Board Audit Committee	32,000
Board Risk & Compliance Committee	32,000
Board Remuneration Committee	29,000
Board Technology Committee	20,000

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

Subsidiary Board and Advisory Board fees

During the reporting period, additional fees of \$35,000 were paid to Peter Hawkins as a member of the Bank of Melbourne Advisory Board.

Directors report

6.3. Changes to Board and Committee composition

The table below outlines the changes that were made to the Board and Committee composition in 2018.

Name	Change in position	Effective date
Robert Elstone	§ Retired from the Board	8 December 2017 following the completion of the 2017 Annual General Meeting
Alison Deans	§ Appointed Chairman of the Board Technology Committee	8 December 2017
	§ Appointed member of the Board Remuneration Committee	
Peter Hawkins	§ Appointed member of the Board Nominations Committee § Stepped down as Chairman of the Board Technology Committee (remaining a member of that Committee)	8 December 2017
Peter Nash	§ Ceased to be a member of the Board Nominations Committee § Appointed Non-executive Director	7 March 2018
	§ Appointed member of the Board Audit Committee	
	§ Appointed member of the Board Risk & Compliance Committee	

6.4. Non-executive Director minimum shareholding requirement

Non-executive Directors are required to build and maintain a holding in Westpac ordinary shares to align their interests with those of shareholders. Each Non-executive Director is required to hold an interest in shares in Westpac with a market value not less than the Board base fee, within five years of appointment to the Board.

All Non-executive Directors comply with the minimum shareholding requirement.

Name	Commencement date on Board	Assessment against minimum shareholding requirement
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Lindsay Maxsted	1 March 2008	Exceeds
Chairman Nerida Caesar	1 September 2017	Exceeds
Director Ewen Crouch	1 February 2013	Exceeds
Director Alison Deans	1 April 2014	Exceeds
Director Craig Dunn	1 June 2015	Exceeds
Director Peter Hawkins	1 December 2008	Exceeds
Director Peter Marriott	1 June 2013	Exceeds
Director Peter Nash	7 March 2018	Exceeds
Director		

In addition to their direct holdings in Westpac ordinary shares, Non-executive Directors may also have control of Westpac shares through related bodies corporate. Shares held under this extended definition are set out in Section 7.4.

Directors report

7. Statutory remuneration details**7.1. Details of Non-executive Director remuneration**

The table below details Non-executive Director remuneration.

Name	Short-term benefits		Post-employment benefits		Total \$
	Westpac Banking Corporation Board fees ¹ \$	Subsidiary and Advisory Board fees \$	Superannuation \$		
<i>Current Non-executive Directors</i>					
Lindsay Maxsted, Chairman					
2018	810,000	-	20,181		830,181
2017	810,000	-	19,734		829,734
Nerida Caesar					
2018	277,000	-	20,181		297,181
2017	18,921	-	1,619		20,540
Ewen Crouch					
2018	324,400	-	20,181		344,581
2017	323,719	-	19,734		343,453
Alison Deans					
2018	312,965	-	20,181		333,146
2017	277,000	-	19,734		296,734
Craig Dunn					
2018	320,800	-	20,181		340,981
2017	314,221	-	19,734		333,955
Peter Hawkins					
2018	311,832	35,000	20,103		366,935
2017	324,200	35,000	19,658		378,858
Peter Marriott					
2018	347,400	-	20,181		367,581
2017	347,400	-	19,734		367,134
Peter Nash ²					
2018	164,690	-	11,744		176,434
<i>Former Non-executive Director</i>					
Robert Elstone ³					
2018	60,115	-	3,895		64,010
2017	318,000	-	19,734		337,734

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Total fees

2018	2,929,202	35,000	156,828	3,121,030
2017 ⁴	2,795,675	35,000	143,390	2,974,065

- 1 Includes fees paid to the Chairman and members of Board Committees.
- 2 Peter Nash commenced as a Non-executive Director on 7 March 2018.
- 3 Robert Elstone retired as a Non-executive Director on 8 December 2017.
- 4 The total fees for 2017 reflect the prior year remuneration for the 2017 reported Non-executive Directors.

Directors report

7.2. Remuneration details CEO and Group Executives

The table below sets out details of remuneration for the CEO and Group Executives calculated in accordance with AAS.

Name	Short-term benefits			Other short-term benefits ⁴	Post-employment benefits ⁵	Other long-term benefits ⁶	Share-based payments		Total ⁹	
	Fixed remuneration ¹	Cash STVR award ²	Non-monetary benefits ³				Restricted shares ⁶	Share rights ^{7,8}		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Managing Director & Chief Executive Officer										
Brian Hartzler										
2018	2,730,714	1,040,825	20,618	-	42,235	40,697	1,449,964	1,247,127	6,572,180	
2017	2,665,249	1,490,730	19,494	-	41,226	40,697	1,287,590	1,136,724	6,681,710	
Current Group Executives										
Lyn Cobley, Chief Executive, Westpac Institutional Bank										
2018	1,085,585	465,500	4,039	-	29,993	17,000	749,930	394,975	2,747,022	
2017	1,089,650	640,000	4,014	-	37,818	16,995	767,014	591,601	3,147,092	
Brad Cooper, Chief Executive Officer, BT Financial Group										
2018	1,136,073	400,000	4,014	-	29,366	16,700	778,096	538,531	2,902,780	
2017	1,064,384	792,500	2,924	-	39,503	(41,160)	754,634	347,391	2,960,176	
Dave Curran, Chief Information Officer										
2018	1,021,322	485,000	2,924	-	28,806	20,703	531,367	480,835	2,570,957	
2017	941,632	552,500	4,014	-	28,451	14,424	487,089	404,406	2,432,516	
George Frazis, Chief Executive, Consumer Bank										
2018	1,109,913	480,000	2,924	-	38,132	17,425	858,110	489,032	2,995,536	
2017	1,127,559	872,500	4,014	-	40,509	17,419	842,782	401,563	3,306,346	
Peter King, Acting Chief Risk Officer ¹⁰										
2018	1,232,059	517,000	2,924	-	34,957	90,204	597,487	512,401	2,987,032	
2017	1,047,360	615,000	4,014	-	34,421	16,485	537,796	405,875	2,660,951	
David Lees, Acting Chief Financial Officer ¹¹										
2018	315,773	90,500	393	-	35,518	21,045	99,521	15,247	577,997	
Rebecca Lim, Group Executive, Compliance, Legal & Secretariat										
2018	903,728	356,500	2,924	-	29,912	55,507	512,169	348,768	2,209,508	
2017	756,722	412,500	3,512	-	28,201	45,641	425,776	206,069	1,878,421	
David Lindberg, Chief Executive, Business Bank										
2018	1,049,010	440,500	4,014	-	28,365	25,006	518,657	435,208	2,500,760	
2017	928,528	532,500	11,901	-	27,244	18,507	453,174	398,655	2,370,509	

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Carolyn McCann, Group Executive, Customer & Corporate Relations ¹²									
2018	241,365	74,500	1,915	-	5,579	12,665	144,344	25,395	505,763
David McLean, Chief Executive Officer, Westpac New Zealand Limited									
2018	849,488	498,439	55,885	-	81,444	-	-	785,206	2,270,462
2017	736,628	412,570	39,739	-	76,082	-	39	837,360	2,102,418
Christine Parker, Group Executive, Human Resources									
2018	865,802	427,500	2,924	-	26,848	(8,854)	500,697	399,535	2,214,452
2017	824,006	517,500	4,604	-	26,643	(3,479)	464,335	260,141	2,093,750
Gary Thursby, Group Executive, Strategy & Enterprise Services									
2018	794,889	395,500	2,924	-	28,616	12,693	453,951	344,305	2,032,878
2017	820,262	485,000	2,924	-	29,819	12,642	372,119	225,354	1,948,120
Former Group Executive									
Alexandra Holcomb, Chief Risk Officer ¹³									
2018	717,564	411,000	2,147	-	22,032	(23,296)	657,557	2,218,208	4,005,212
2017	950,564	532,500	2,924	-	39,645	4,669	520,145	386,131	2,436,578

1 Fixed remuneration is the total cost of salary, salary sacrificed benefits (including motor vehicles, parking and associated fringe benefits tax (FBT)) and an accrual for annual leave entitlements.

2 2018 STVR awards reflect annual cash performance awards accrued but not yet paid in respect of the year ended 30 September 2018. STVR awards are paid in December.

3 Non-monetary benefits are determined on the basis of the cost to the Group (including associated FBT, where applicable) and include annual health checks, provision of taxation advice, relocation costs, living away from home expenses and allowances.

Directors report

4 Includes payments on cessation of employment or other contracted amounts.

5 The CEO and Group Executives are provided with life insurance cover under the Westpac Group Plan at no cost. Superannuation benefits have been calculated consistent with AASB 119 Employee Benefits.

6 The value of restricted shares is amortised over the applicable vesting period and the amount shown is the amortisation relating to 2018 (and 2017 for comparison).

7 Equity-settled remuneration is based on the amortisation over the vesting period (normally three or four 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 2018. Details of prior year grants are disclosed in previous Annual Reports. The value for David McLean includes 51% attributed to deferred STVR awards. Refer to footnote 13 for the treatment of Alexandra Holcomb's equity.

8 The expensed value of the 2016 LTVR EPS hurdled performance share rights has been reduced to nil. The expensed value of the 2017 and 2018 LTVR ROE hurdled performance share rights have been reduced by 50%. This reflects the Board's current assessment of the probability of vesting.

9 The percentage of the total remuneration which is performance-related (i.e. cash STVR award plus share-based payments) was: Brian Hartzler 57%, Lyn Cobley 59%, Brad Cooper 59%, Dave Curran 58%, George Frazis 61%, Alexandra Holcomb 82%, Peter King 54%, David Lees 36%, Rebecca Lim 55%, David Lindberg 56%, Carolyn McCann 48%, David McLean 57%, Christine Parker 60% and Gary Thursby 59%. The percentage of total remuneration delivered in the form of options (including share rights) was: Brian Hartzler 19%, Lyn Cobley 14%, Brad Cooper 19%, Dave Curran 19%, George Frazis 16%, Alexandra Holcomb 55%, Peter King 17%, David Lees 3%, Rebecca Lim 16%, David Lindberg 17%, Carolyn McCann 5%, David McLean 35%, Christine Parker 18% and Gary Thursby 17%.

10 Peter King was the Chief Financial Officer until 25 June 2018 when he was appointed as the Acting Chief Risk Officer.

11 David Lees commenced his KMP role as the Acting Chief Financial Officer on 25 June 2018.

12 Carolyn McCann commenced her KMP role as the Group Executive, Customer & Corporate Relations on 18 June 2018.

13 Alexandra Holcomb ceased in her KMP role as the Chief Risk Officer on 25 June 2018 and will retire on 31 December 2018. The share based payment values for Alexandra Holcomb reflect the accruals for all unvested equity up to the end of each performance period. For example, the 2018 LTVR will include the accrual for four years until the vesting date in lieu of a single year accrual value for 2017. While the full value is being accrued for all unvested equity, the awards may or may not vest subject to the relevant performance hurdles.

Directors report

7.3. Movement in equity-settled instruments during the year

The table shows the movements in the number and value of equity instruments for the CEO and Group Executives under the relevant plan during 2018.

Name	Type of equity-based instrument	Number granted ¹	Number vested ²	Number exercised ³	Value	Value	Value
					granted ⁴	exercised ⁵	forfeited or lapsed ⁵
					\$	\$	\$
Managing Director & Chief Executive Officer							
Brian Hartzler	CEO Performance share rights	197,654	-	-	3,527,136	-	-
	Performance share rights	-	-	-	-	-	3,115,692
	Shares under the CEO Restricted Share Plan	47,384	39,967	-	1,490,884	-	-
Current Group Executives							
Lyn Cobley	Performance share rights	82,564	-	-	1,476,657	-	-
	Shares under Restricted Share Plan	20,343	25,760	-	640,069	-	-
Brad Cooper	Performance share rights	82,094	-	-	1,468,251	-	2,256,166
	Shares under Restricted Share Plan	25,190	24,341	-	792,575	-	-
Dave Curran	Performance share rights	77,560	-	-	1,387,161	-	-
	Shares under Restricted Share Plan	17,561	15,932	-	552,537	-	-
George Frazis	Performance share rights	78,186	-	-	1,398,357	-	1,181,775
	Shares under Restricted Share Plan	27,733	27,357	-	872,587	-	-
Peter King	Performance share rights	80,062	-	-	1,431,909	-	1,158,166
	Shares under Restricted Share Plan	19,548	16,741	-	615,056	-	-
David Lees	Performance share rights	-	-	-	-	-	-
	Shares under Restricted Share Plan	-	-	-	-	-	-
Rebecca Lim	Performance share rights	54,730	-	-	978,846	-	397,489
	Shares under Restricted Share Plan	13,111	14,728	-	412,523	-	-
David Lindberg	Performance share rights	80,062	-	-	1,431,909	-	725,166
	Shares under Restricted Share Plan	16,926	13,107	-	532,557	-	-
Carolyn McCann	Performance share rights	12,482	-	-	206,364	-	-
	Shares under Restricted Share Plan	-	-	-	-	-	-
David McLean	Performance share rights	68,216	-	-	1,220,043	-	-
	Unhurdled share rights	14,382	16,710	-	418,832	-	-
	Shares under Restricted Share Plan	-	-	-	-	-	-
Christine Parker	Performance share rights	63,798	-	-	1,141,027	-	1,396,640
	Shares under Restricted Share Plan	16,449	15,043	-	517,549	-	-
Gary Thursby	Performance share rights	54,730	-	-	978,846	-	418,972
	Shares under Restricted Share Plan	15,416	11,607	-	485,047	-	-
Former Group Executive							
Alexandra Holcomb	Performance share rights	73,806	-	-	1,320,020	-	790,008
	Performance options	-	-	-	-	-	-
	Shares under Restricted Share Plan	16,926	15,565	-	532,557	-	-

- 1 No performance options were granted in 2018. Deferred STVR awards in the form of restricted shares or unhurdled share rights (for David McLean based in New Zealand) are awarded in December. David McLean's unhurdled share rights were granted on 18 December 2017 at a fair value of \$29.57 (unhurdled share rights vesting on 1 October 2018) and \$28.00 (unhurdled rights vesting on 1 October 2019).
- 2 No unhurdled share rights granted in 2014 vested in October 2017 when assessed against the TSR and EPS performance hurdles.
- 3 Vested options and share rights that were awarded prior to October 2009 can be exercised up to a maximum of ten years from their commencement date. Vested share rights awarded between October 2009 and July 2015 are automatically exercised at vesting. Vested share rights granted after July 2015 may be exercised at will up to a maximum of 15 years from their commencement date. For each vested share right and each performance option exercised during the year, the relevant executive received one fully paid Westpac ordinary share.

The exercise price for share rights is nil.

Directors report

- 4 For performance 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 the sub-section titled Fair value of Long Term Variable Reward awards made during the year below. For restricted shares, the value granted represents the number of ordinary shares granted multiplied by the five day VWAP 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 the CEO and Group Executives in 2018, do not reconcile with the amount shown in the table in Section 7.2 which shows the amount amortised in the current year of equity awards over their vesting period. The minimum total value of the grants for future financial years is nil and an estimate of the maximum possible total value in future financial years is the fair value, as shown above.
- 5 The value of each option or share right exercised or lapsed is calculated based on the five day VWAP of Westpac ordinary shares on the date of exercise (or lapse), less the relevant exercise price (if any). Where the exercise price is greater than the five day VWAP of Westpac ordinary shares, the value has been calculated as nil.

Fair value of Long Term Variable Reward awards made during the year

The table below provides a summary of the fair value of LTVR awards granted to the CEO and Group Executives during 2018 calculated in accordance with AASB 2 Share-based Payment and is used for accounting purposes only. LTVR awards will only vest if performance hurdles are achieved and service conditions are met in future years.

Plan name	Granted to	Performance hurdle	Grant date	Commencement date ¹	Test date	Expiry	Fair value ² per instrument
CEO Long Term Variable Reward Plan	Brian Hartzler	TSR	8 December 2017	1 October 2017	1 October 2021	1 October 2032	\$10.55
Westpac Long Term Variable Reward Plan	Group Executives	TSR	1 December 2017	1 October 2017	1 October 2021	1 October 2032	\$10.58
		ROE	1 December 2017	1 October 2017	1 October 2020	1 October 2032	\$25.19

- 1 The commencement date is the start of the performance period.
- 2 The fair values of performance share rights granted during the year have been independently calculated at their respective grant dates based on the requirements of AASB 2 Share-based Payment. The fair value of performance share rights with ROE hurdles has been assessed with reference to the share price at grant date and a discount rate reflecting the expected dividend yield over their vesting periods which for the performance share rights valued at \$25.19 is four years to the 1 October 2020 vesting date. For the purpose of allocating performance share rights with ROE hurdles, the valuation also takes into account the average ROE outcome using a Monte Carlo pricing simulation model. The fair value of performance share rights with hurdles based on TSR performance relative to that of a group of comparator companies also takes into account the average TSR outcome determined using a Monte Carlo simulation pricing model.

7.4. Details of Westpac equity holdings of Non-executive Directors

The table below sets out details of relevant interests in Westpac ordinary shares held by Non-executive Directors (including their related parties) during the year ended 30 September 2018¹.

Name	Number held at start of the year	Changes during the year	Number held at end of the year
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Current Non-executive Directors

Lindsay Maxsted	20,767	1,328	22,095
Nerida Caesar	-	9,985	9,985
Ewen Crouch ²	40,264	42,0003	82,264
Alison Deans	9,392	5,000	14,392
Craig Dunn	8,869	-	8,869
Peter Hawkins ⁴	15,880	-	15,880
Peter Marriott ⁵	20,870	20,202	41,072
Peter Nash ⁶	n/a	2,876	8,020

Former Non-executive Director

Robert Elstone ⁷	12,096	-	n/a
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- 1 Other than as disclosed below, no share interests include non-beneficially held shares.
- 2 In addition to holdings of ordinary shares, Ewen Crouch and his related parties held interests in 250 Westpac Capital Notes 2 at year end.
- 3 Ewen Crouch holds the securities following the grant of probate in a deceased estate for which he is one of the executors.
- 4 In addition to holdings of ordinary shares, Peter Hawkins and his related parties held interests in 850 Westpac Capital Notes 3, 882 Westpac Capital Notes 4 and 1,370 Westpac Capital Notes 5 at year end.
- 5 In addition to holdings of ordinary shares, Peter Marriott and his related parties held interests in 740 Westpac Capital Notes 2 at year end.
- 6 Peter Nash commenced as a Non-executive Director on 7 March 2018. The information relates to the period he was a Non-executive Director.
- 7 Robert Elstone retired on 8 December 2017. The information relates to the period he was a Non-executive Director.

Directors report

7.5. Details of Westpac equity holdings of Executive Key Management Personnel

The table below details Westpac equity held (and movement in that equity) by the CEO and Group Executives (including their related parties) for the year ended 30 September 2018¹.

Name	Type of equity-based instrument	Number held at start of the year	Number granted during the year as remuneration	Received on exercise and/or exercised during the year	Number lapsed during the year	Other changes during the year	Number held at end of the year	Number vested and exercisable at end of the year
Managing Director & Chief Executive Officer								
Brian Hartzler	Ordinary shares	77,427	47,384	-	-	(15,200)	109,611	-
	CEO performance share rights	535,163	197,654	-	-	-	732,817	-
	Performance share rights	129,547	-	-	(95,284)	-	34,263	-
Current Group Executives								
Lyn Cobley	Ordinary shares	71,650	20,343	-	-	-	91,993	-
	Performance share rights	179,282	82,564	-	-	-	261,846	-
Brad Cooper	Ordinary shares	106,792	25,190	-	-	-	131,982	-
	Performance share rights	316,120	82,094	-	(68,998)	-	329,216	-
Dave Curran	Ordinary shares	31,864	17,561	-	-	-	49,425	-
	Performance share rights	210,876	77,560	-	-	-	288,436	-
George Frazis	Ordinary shares	71,569	27,733	-	-	(18,000)	81,302	-
	Performance share rights	258,835	78,186	-	(36,141)	-	300,880	-
Peter King	Ordinary shares	78,243	19,548	-	-	-	97,791	-
	Performance share rights	269,616	80,062	-	(35,419)	-	314,259	-
David Lees ²	Ordinary shares	n/a	-	-	-	-	29,402	-
	Performance share rights	n/a	-	-	-	-	31,402	-
	Performance options	n/a	-	-	-	-	25,562	25,562
Rebecca Lim	Ordinary shares	26,270	13,111	-	-	(8,505)	30,876	-
	Performance share rights	101,518	54,730	-	(12,156)	-	144,092	-
David Lindberg	Ordinary shares	48,026	16,926	-	-	-	64,952	-
	Performance share rights	196,484	80,062	-	(22,177)	-	254,369	-
Carolyn McCann ³	Ordinary shares	n/a	-	-	-	-	49,435	-
	Performance share rights	n/a	12,482	-	-	-	42,816	-
David McLean	Ordinary shares	9,613	-	-	-	-	9,613	-
	Performance share rights	169,702	68,216	-	-	-	237,918	2,148
	Unhurdled share rights	42,836	14,382	-	-	-	57,218	36,480
Christine Parker	Ordinary shares	22,028	16,449	-	-	(11,046)	27,431	-
	Performance share rights	219,225	63,798	-	(42,712)	-	240,311	-
Gary Thursby	Ordinary shares	77,029	15,416	-	-	-	92,445	-
	Performance share rights	112,636	54,730	-	(12,813)	-	154,553	-
Former Group Executive								
Alexandra Holcomb ⁴	Ordinary shares	23,210	16,926	-	-	(15,565)	n/a	-
	Performance share rights	242,930	73,806	-	(24,160)	-	n/a	-

1 The highest number of shares held by an executive in the table is 0.0038% of total Westpac ordinary shares outstanding as at 30 September 2018.

2 The information relates to the period that David Lees was a KMP. David Lees commenced his KMP role as the Acting Chief Financial Officer on 25 June 2018.

3 The information relates to the period that Carolyn McCann was a KMP. Carolyn McCann commenced her KMP role as the Group Executive, Customer & Corporate Relations on 18 June 2018.

4 The information relates to the period that Alexandra Holcomb was a KMP. She ceased in her KMP role as the Chief Risk Officer on 25 June 2018 and will retire on 31 December 2018.

Directors report

7.6. Loans to Non-executive Directors and Executive Key Management Personnel disclosures

Financial instrument transactions that occurred during the financial year between Directors, the CEO or Group Executives and the Group are in the ordinary course of business on terms and conditions (including interest and collateral) as they apply to other employees and certain customers. These transactions consisted principally of normal personal banking and financial investment services.

The table below details loans to Non-executive Directors, the CEO and Group Executives (including their related parties) of the Group.

	Balance at start of the year \$	Interest paid and payable for the year \$	Interest not charged during the year \$	Balance at end of the year \$	Number in Group at end of the year
Non-executive Directors	3,199,593	165,155	-	3,544,610	3
CEO and Group Executives	12,090,727	485,814	-	13,953,916	10
	15,290,320	650,969	-	17,498,526	13

The table below details KMP (including their related parties) with loans above \$100,000 during 2018.

	Balance at start of the year \$	Interest paid and payable for the year \$	Interest not charged during the year \$	Balance at end of the year \$	Highest indebtedness during the year \$
Non-executive Directors					
Lindsay Maxsted	2,061,911	109,565	-	1,572,889	2,320,000
Ewen Crouch	1,137,682	39,107	-	979,947	1,302,742
Peter Nash ¹	n/a	16,483	-	991,774	1,155,383
CEO and Group Executives					
Brian Hartzer	83,617	4,979	-	9,847	187,050
Lyn Cobley	-	21,784	-	2,000,000	2,007,287
Brad Cooper	2,037,998	126,984	-	2,791,360	2,989,743
Alexandra Holcomb ²	4,114,727	102,551	-	n/a	4,177,933
Peter King	-	-	-	-	4,000,000
David Lees ³	n/a	38,930	-	4,434,534	4,547,358
Rebecca Lim	711,642	18,889	-	732,845	736,770
Carolyn McCann ⁴	n/a	2,588	-	145,000	153,736
David McLean	534,828	27,467	-	620,841	652,073
Christine Parker	2,647,386	67,778	-	1,308,486	2,814,600
Gary Thursby	1,960,529	73,864	-	1,911,003	2,061,594

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- 1 Peter Nash commenced as a Non-executive Director on 7 March 2018.
- 2 Alexandra Holcomb ceased in her KMP role as the Chief Risk Officer on 25 June 2018 and will retire on 31 December 2018.
- 3 David Lees commenced his KMP role as the Acting Chief Financial Officer on 25 June 2018.
- 4 Carolyn McCann commenced her KMP role as the Group Executive, Customer & Corporate Relations on 18 June 2018.

Directors report

11. Auditor

a) Auditor's independence declaration

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

<p><i>Auditor's Independence Declaration</i></p> <p>As lead auditor for the audit of Westpac Banking Corporation for the year ended 30 September 2018, I declare that to the best of my knowledge and belief, there have been:</p> <p>(a) no contraventions of the auditor independence requirements of the <i>Corporations Act 2001</i> in relation to the audit; and</p> <p>(b) no contraventions of any applicable code of professional conduct in relation to the audit.</p> <p>This declaration is in respect of Westpac Banking Corporation and the entities it controlled during the period.</p>	

Directors' report

b) Non-audit services

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

Details of the non-audit service amounts paid or payable to PwC for non-audit services provided during the 2017 and 2018 financial years are set out in Note 39 to the financial statements.

PwC also provides audit and non-audit services to non-consolidated entities, non-consolidated trusts of which a Westpac Group entity is trustee, manager or responsible entity and non-consolidated superannuation funds or pension funds. The fees in respect of these services were approximately \$7.5 million in total (2017: \$6 million). PwC may also provide audit and non-audit services to other entities in which Westpac holds a minority interest and which are not consolidated. Westpac is not aware of the amount of any fees paid to PwC by those entities.

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

The Board has considered the position and, in accordance with the advice received from the Board Audit Committee, is satisfied that the provision of the non-audit services during 2018 by PwC is compatible with the general standard of independence for auditors imposed by the Corporations Act. The Directors are satisfied, in accordance with advice received from the Board Audit Committee, that the provision of non-audit services by PwC, as set out above, did not compromise the auditor independence requirements of the Corporations Act for the following reasons:

§ all non-audit services provided by PwC for the year have been reviewed by the Board Audit Committee, which is of the view that they do not impact the impartiality and objectivity of PwC; and

§ based on Board quarterly independence declarations made by PwC to the Board Audit Committee, none of the services undermine the general principles relating to auditor independence including reviewing or auditing PwC's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

Signed in accordance with a resolution of the Board.

Lindsay Maxsted
Chairman
5 November 2018

Brian Hartzler
Managing Director & Chief Executive Officer
5 November 2018

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Five year summary

Reading this report

Review of Group operations

Divisional performance

Risk and risk management

Westpac's approach to sustainability

Other Westpac business information

Five year summary¹

(in \$m unless otherwise indicated)	2018	2017	2016	2015	2014
Income statements for the years ended 30 September²					
Net interest income	16,505	15,516	15,148	14,267	13,542
Non-interest income	5,628	6,286	5,837	7,375	6,395
Net operating income before operating expenses and impairment charges	22,133	21,802	20,985	21,642	19,937
Operating expenses	(9,692)	(9,434)	(9,217)	(9,473)	(8,547)
Impairment charges	(710)	(853)	(1,124)	(753)	(650)
Profit before income tax	11,731	11,515	10,644	11,416	10,740
Income tax expense	(3,632)	(3,518)	(3,184)	(3,348)	(3,115)
Profit attributable to non-controlling interests	(4)	(7)	(15)	(56)	(64)
Net profit attributable to owners of Westpac Banking Corporation	8,095	7,990	7,445	8,012	7,561
Balance sheet as at 30 September²					
Loans	709,690	684,919	661,926	623,316	580,343
Other assets	169,902	166,956	177,276	188,840	190,499
Total assets	879,592	851,875	839,202	812,156	770,842
Deposits and other borrowings	559,285	533,591	513,071	475,328	460,822
Debt issues	172,596	168,356	169,902	171,054	152,251
Loan capital	17,265	17,666	15,805	13,840	10,858
Other liabilities	65,873	70,920	82,243	98,019	97,574
Total liabilities	815,019	790,533	781,021	758,241	721,505
Total shareholders equity and non-controlling interests	64,573	61,342	58,181	53,915	49,337
Key financial ratios					
Shareholder value					
Dividends per ordinary share (cents)	188	188	188	187	182
Dividend payout ratio (%) ³	79.52	79.28	84.19	73.39	74.68
Return on average ordinary equity (%)	13.05	13.65	13.32	16.23	16.27
Basic earnings per share (cents)	237.5	238.0	224.6	255.0	242.5
Net tangible assets per ordinary share (\$) ⁴	15.39	14.66	13.90	13.02	11.51
Share price (\$):					
High	33.68	35.39	33.74	40.07	35.99
Low	27.24	28.92	27.57	29.10	30.00
Close	27.93	31.92	29.51	29.70	32.14
Business performance					
Operating expenses to operating income ratio (%)	43.79	43.27	43.92	43.77	42.87
Net interest margin (%)	2.13	2.06	2.10	2.09	2.09
Capital adequacy					
Total equity to total assets (%)	7.3	7.2	6.9	6.6	6.4
Total equity to total average assets (%)	7.3	7.1	6.9	6.8	6.7
APRA Basel III:					
Common equity Tier 1 (%)	10.63	10.56	9.48	9.50	8.97
Tier 1 ratio (%)	12.78	12.66	11.17	11.38	10.56
Total capital ratio (%)	14.74	14.82	13.11	13.26	12.28
Credit quality					
Net impaired assets to equity and collectively assessed provisions (%)	1.14	1.29	1.79	1.80	2.49
Total provisions for impairment on loans and credit commitments to total loans (basis points)	43	45	54	53	60
Other information					
Full time equivalent employees (number at financial year end) ⁵	35,029	35,096	35,580	35,484	36,596

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

2 The above income statement extracts for 2018, 2017 and 2016 and balance sheet extracts for 2018 and 2017 are derived from the consolidated financial statements included in this Annual Report. The above income statement extracts for 2015 and 2014 and balance sheet extracts for 2016, 2015 and 2014 are derived from financial statements previously published.

3 Adjusted for Treasury shares.

4 Total equity attributable to owners of Westpac Banking Corporation, after deducting intangible assets divided by the number of ordinary shares outstanding, less Treasury shares held.

5 Full-time equivalent employees include full-time, pro-rata part-time, overtime, temporary and contract staff.

Reading this report

Disclosure regarding forward-looking statements

This Annual Report contains statements that constitute forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934.

Forward-looking statements are statements about matters that are not historical facts. Forward-looking statements appear in a number of places in this Annual Report and include statements regarding Westpac's intent, belief or current expectations with respect to its business and operations, market conditions, results of operations and financial condition, including, without limitation, future loan loss provisions and financial support to certain borrowers. Words such as will, may, expect, intend, seek, would, should, could, continue, plan, estimate, anticipate, believe, aim or other similar words are used to identify forward-looking statements. These forward-looking statements reflect Westpac's current views with respect to future events and are subject to change, certain risks, uncertainties and assumptions which are, in many instances, beyond Westpac's control, and have been made based upon management's expectations and beliefs concerning future developments and their potential effect upon Westpac. There can be no assurance that future developments will be in accordance with Westpac's expectations or that the effect of future developments on Westpac will be those anticipated. Actual results could differ materially from those expected, 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;

§ regulatory investigations and other actions, inquiries, litigation, fines, penalties, restrictions or other regulator imposed conditions, including as a result of our actual or alleged failure to comply with laws (such as financial crime laws), regulations or regulatory policy;

§ internal and external events which may adversely impact Westpac's reputation;

§ information security breaches, including cyberattacks;

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

§ the stability of Australian and international financial systems and disruptions to financial markets and any losses or business impacts Westpac or its customers or counterparties may experience as a result;

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

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- § adverse asset, credit or capital market conditions;
- § an increase in defaults in credit exposures because of a deterioration in economic conditions;
- § the conduct, behaviour or practices of Westpac or its staff;
- § changes to Westpac's credit ratings or the methodology used by credit rating agencies;
- § levels of inflation, interest rates, exchange rates and market and monetary fluctuations;
- § market liquidity and investor confidence;
- § changes in economic conditions, consumer spending, saving and borrowing habits in Australia, New Zealand and other countries in which Westpac or its customers or counterparties conduct their operations and Westpac's ability to maintain or to increase market share, margins and fees, and control expenses;
- § the effects of competition, including from established providers of financial services and from non-financial services entities, in the geographic and business areas in which Westpac conducts its operations;
- § the timely development and acceptance of new products and services and the perceived overall value of these products and services by customers;
- § the effectiveness of Westpac's risk management policies, including internal processes, systems and employees;
- § the incidence or severity of Westpac-insured events;
- § the occurrence of environmental change (including as a result of climate change) or external events in countries in which Westpac or its customers or counterparties conduct their operations;
- § changes to the value of Westpac's intangible assets;

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

§ the success of strategic decisions involving diversification or innovation, in addition to business expansion activity, business acquisitions and the integration of new businesses; 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 Westpac, refer to Risk factors under the section Risk and risk management . When relying on forward-looking statements to make decisions with respect to Westpac, investors and others should carefully consider the foregoing factors and other uncertainties and events.

Westpac is under no obligation to update any forward-looking statements contained in this Annual Report, whether as a result of new information, future events or otherwise, after the date of this Annual Report.

Reading this report

Significant developments

For a discussion of significant developments impacting the Group, refer to [Significant developments](#) under [Information on Westpac](#) in Section 1.

Currency of presentation, exchange rates and certain definitions

In this Annual Report, [financial statements](#) means our audited consolidated balance sheets as at 30 September 2018 and 30 September 2017 and income statements, statements of comprehensive income, changes in equity and cash flows for each of the years ended 30 September 2018, 2017 and 2016 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 2018 is referred to as 2018 and other financial years are referred to in a corresponding manner.

We publish our consolidated financial statements in Australian dollars. In this Annual Report, unless otherwise stated or the context otherwise requires, references to [dollars](#), [dollar amounts](#), [\\$](#), [AUD](#) or [A\\$](#) are to Australian dollars, references to [US\\$](#), [USD](#) or [US dollars](#) are to United States dollars and references to [NZ\\$](#), [NZD](#) or [NZ dollars](#) are to New Zealand dollars. Solely for the convenience of the reader, certain Australian dollar amounts have been translated into US dollars at a specified rate. These translations should not be construed as representations that the Australian dollar amounts actually represent such US dollar amounts or have been or could be converted into US dollars at the rate indicated. Unless otherwise stated, the translations of Australian dollars into US dollars have been made at the rate of A\$1.00 = US\$0.7238, 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 Friday, 28 September 2018. The Australian dollar equivalent of New Zealand dollars at 28 September 2018 was A\$1.00 = NZ\$1.0920, being the closing spot exchange rate on that date. Refer to [Exchange rates](#) in Section 4 for information regarding the rates of exchange between the Australian dollar and the US dollar for the financial years ended 30 September 2014 to 30 September 2018.

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

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 2018, 2017, 2016, 2015 and 2014 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 (AAS). Compliance with AAS ensures that the financial statements 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 the Notes 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. Note 1(b) includes details of the areas of our critical accounting assumptions and estimates and a reference to the relevant note in the financial statements providing further information. Each of the assumptions and estimates have been discussed at our Board Audit Committee (BAC). The following is a summary of the areas involving our most critical accounting estimates.

Fair value of financial instruments

Financial instruments classified as held-for-trading (including derivatives) or designated at fair value through income statement 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

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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, judgements and estimation may be required.

As at 30 September 2018, the fair value of trading securities and financial assets designated at fair value through profit or loss, available-for-sale securities, loans designated at fair value, life insurance assets and regulatory deposits with central banks overseas was \$96,951 million (2017: \$101,923 million). The fair value of deposits and other borrowings at fair value, other financial liabilities at fair value through income statement, debt issues at fair value and life insurance liabilities was \$56,427 million (2017: \$64,317 million). The fair value of outstanding derivatives was a net liability of \$306 million (2017: \$1,342 million net liability). The fair value of financial assets and financial liabilities determined by valuation models that use unobservable market prices was \$964 million (2017: \$1,399 million) and \$6 million (2017: \$9 million), respectively. The fair value of 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 judgements and estimates used are reasonable in the current market. However, a change in these judgements and estimates would lead to different results as future market conditions can vary from those expected.

Provisions for impairment charges on loans

Provisions for credit impairment represent management's best estimate of the impairment charges 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).

IAPs are raised where loans exceeding specified thresholds are assessed as impaired. In determining IAPs, considerations that have a bearing on the amount and timing of 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 judgements 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.

CAPs are raised for impaired loans below specified thresholds and for all loans which are not individually identified as impaired. The CAPs are established on a portfolio basis taking into account the level of arrears, collateral and security, past loss experience, current economic conditions, expected default and timing of recovery 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.

Review of Group operations

As at 30 September 2018, gross loans to customers were \$712,504 million (2017: \$687,785 million) and the provision for impairment charges on loans was \$2,814 million (2017: \$2,866 million).

Goodwill

Goodwill represents the excess of purchase consideration, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the identified net assets of acquired businesses. The determination of the fair value of the assets and liabilities of acquired businesses requires the exercise of management judgement. Different fair values would result in changes to the goodwill and to the post-acquisition performance of the acquisitions.

Goodwill is tested for impairment annually by determining if the carrying value of the cash-generating unit (CGU) that it has been allocated to is recoverable. The recoverable amount is the higher of the CGU's fair value less costs to sell and its value-in-use. Determination of appropriate cash flows and discount rates for the calculation of the value in use is subjective. As at 30 September 2018, the carrying value of goodwill was \$8,890 million (2017: \$9,012 million).

Superannuation obligations

The actuarial valuation of our defined benefit plan obligations are dependent upon a series of assumptions, the key ones being price inflation, salary growth, mortality, morbidity, discount rate and investment returns. Different assumptions could significantly alter the amount of the difference between plan assets and defined benefit obligations and the amount recognised directly in retained profits.

The net superannuation surplus across all our plans as at 30 September 2018 was \$64 million (2017: net superannuation surplus of \$5 million). As at 30 September 2018, two superannuation plans were in surplus of \$89 million (2017: one plan in surplus of \$48 million) and two superannuation plans were in deficit of \$25 million (2017: three plans in deficit of \$43 million).

Provisions (other than loan impairment charges)

Provisions are held in respect of a range of obligations such as employee entitlements, litigation and non-lending losses, impairment charges on credit commitments, surplus lease space, restructuring costs and compliance, regulation and remediation provisions. Some of the provisions involve significant judgement about the likely outcome of various events and estimated future cash flows. Refer Note 28.

Income taxes

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The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. All our businesses predominantly operate in jurisdictions with similar tax rates to the Australian corporate tax rate. Significant judgement 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. For these circumstances, we hold appropriate provisions. 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.

Life insurance contract liabilities

The actuarial valuation of life insurance contract liabilities and associated deferred policy acquisition costs are dependent upon a number of assumptions. The key factors impacting the valuation of these liabilities and related assets are the cost of providing benefits and administering the contracts, mortality and morbidity experience, discontinuance experience and the rate at which projected future cash flows are discounted.

Review of Group operations

Income statement review

Consolidated income statement¹

For the years ending 30 September (in \$m unless otherwise indicated)	2018	2018	2017	2016	2015	2014
	US\$2	A\$	A\$	A\$	A\$	A\$
Interest income	23,575	32,571	31,232	31,822	32,295	32,248
Interest expense	(11,629)	(16,066)	(15,716)	(16,674)	(18,028)	(18,706)
Net interest income	11,946	16,505	15,516	15,148	14,267	13,542
Non-interest income	4,074	5,628	6,286	5,837	7,375	6,395
Net operating income before operating expenses and impairment charges	16,020	22,133	21,802	20,985	21,642	19,937
Operating expenses	(7,015)	(9,692)	(9,434)	(9,217)	(9,473)	(8,547)
Impairment charges	(514)	(710)	(853)	(1,124)	(753)	(650)
Profit before income tax	8,491	11,731	11,515	10,644	11,416	10,740
Income tax expense	(2,629)	(3,632)	(3,518)	(3,184)	(3,348)	(3,115)
Net profit for the year	5,862	8,099	7,997	7,460	8,068	7,625
Net profit attributable to non-controlling interests	(3)	(4)	(7)	(15)	(56)	(64)
Net profit attributable to owners of Westpac Banking Corporation	5,859	8,095	7,990	7,445	8,012	7,561
Weighted average number of ordinary shares (millions)	3,406	3,406	3,355	3,313	3,140	3,114
Basic earnings per ordinary share (cents)	171.9	237.5	238.0	224.6	255.0	242.5
Diluted earnings per share (cents) ³	166.5	230.1	229.3	217.8	248.2	237.6
Dividends per ordinary share (cents)	136	188	188	188	187	182
Dividend payout ratio (%) ⁴	79.52	79.52	79.28	84.19	73.39	74.68

Overview of performance 2018 v 2017

Net profit attributable to owners of Westpac Banking Corporation for 2018 was \$8,095 million, an increase of \$105 million or 1% compared to 2017. Features of this result included a \$331 million or 2% increase in net operating income before operating expenses and impairment charges, a \$258 million or 3% increase in operating expenses and a \$143 million or 17% decrease in impairment charges.

Net interest income increased \$989 million or 6% compared to 2017, with total loan growth of 4%, mostly from Australian housing which grew 4%. Net interest margin increased 7 basis points to 2.13% reflecting increased spreads on certain Australian mortgages, a rise in Treasury income and contribution from fair value gains on economic hedges and higher deposit spreads. These increases were partly offset by the full period impact of the Bank Levy which was effective from July 2017. Wholesale funding costs were little changed, as short term funding costs increased while long term funding costs decreased.

Non-interest income decreased \$658 million or 10% compared to 2017 primarily due to a decrease in trading income of \$257 million, the non-repeat of a large gain of \$279 million on disposal of an associate (BTIM5) in 2017, an impairment loss of \$104 million on the Pandal investment in 2018, and additional provisions for estimated customer refunds and payments recorded as negative income. These items were partly offset by income related to the exit of the Hastings business (\$135 million).

Operating expenses increased \$258 million or 3% compared to 2017. The rise included annual salary increases, higher technology expenses related to the Group's investment program, an increase in regulatory and compliance costs and costs associated with the exit of the Hastings business. These increases were partly offset by productivity benefits and lower amortisation of intangibles.

Impairment charges were \$143 million or 17% lower compared to 2017. Asset quality remained sound, with stressed exposures as a percentage of total committed exposures (TCE) at 1.08%, up 3 basis points over the year. The decrease in impairment charges was primarily due to reduced individual provisions for larger facilities.

The effective tax rate of 31.0% was higher than the 2017 effective tax rate of 30.6% mostly related to an increase in non-deductible expenses.

2018 basic earnings per share were 237.5 cents per share compared to 238.0 cents per share in 2017.

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\$0.7238, the noon buying rate in New York City on 28 September 2018.

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 Adjusted for Treasury shares.

5 Pental Group Limited (Pental) was previously called BT Investment Management (BTIM).

Review of Group operations

The Board has determined a final dividend of 94 cents per ordinary share. The full year ordinary dividends of 188 cents is unchanged over ordinary dividends declared in 2017 and represents a pay-out ratio of 79.52%. The full year ordinary dividend is fully franked.

Income statement review 2018 v 2017

Net interest income 2018 v 2017

\$m	2018	2017	2016
Interest income	32,571	31,232	31,822
Interest expense	(16,066)	(15,716)	(16,674)
Net interest income	16,505	15,516	15,148
Increase/(decrease) in net interest income			
Due to change in volume	648	855	1,313
Due to change in rate	341	(487)	(432)
Change in net interest income	989	368	881

Net interest income increased \$989 million or 6% compared to 2017. Key features include:

§ A 3% growth in average interest-earning assets, primarily from Australian housing which grew 4%;

§ Group net interest margin increased 7 basis points. The full period impact of pricing changes for certain Australian mortgages in 2017, including investor lending and interest only loans, higher New Zealand mortgage spreads and higher term deposits spreads, were partly offset by the full period impact of the Bank Levy. Wholesale funding costs were little changed, as short term costs increased and long term costs reduced. In addition, Treasury and Markets income was higher in 2018 primarily due to increased revenue from interest risk management and a rise in contributions from fair value gains on economic hedges.

Total net loans increased \$24.8 billion or 4% compared to 2017. Excluding foreign currency translation impacts, total net loans increased \$24.0 billion or 3%.

Key features of total loan growth were:

§ Australian housing loans increased \$17.6 billion or 4% (slightly below system growth¹). Owner occupied loans increased 6% over the year, while the Group's investor property lending grew by 2%. Principal and interest loan flows represented 77% of all new flows and now comprise 61% of the portfolio (2017: 50%);

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§ Australian business loans increased \$3.8 billion or 3% from broad based growth in Business Bank including SME, agriculture, manufacturing and property;

§ New Zealand lending increased NZ\$3.2 billion or 4%. Housing loans grew at 4% mostly in fixed rate products, while business lending increased 4% supported by growth across agriculture, property and corporate lending; and

§ Other overseas lending increased \$1.7 billion or 12%, across trade finance and institutional lending in Asia.

Total deposits and other borrowings excluding certificates of deposits increased \$31.1 billion or 6% compared to 2017, with the increase more than fully funding loan growth in the year. Excluding foreign currency translation impacts, deposits and other borrowings excluding certificates of deposits increased \$29.5 billion or 6%.

Key features of total deposits and other borrowings excluding certificates of deposits growth were:

§ Australian deposits and other borrowings excluding certificates of deposits increased \$25.8 billion or 6%, particularly across term deposits (up 10%). Household deposits growth was in line with system² and non-financial corporation deposits grew above system². Customers continued to direct funds to mortgage offset accounts, supporting 4% growth in Australian non-interest bearing deposits;

§ New Zealand deposits and other borrowings excluding certificates of deposits increased NZ\$3.5 billion or 6%, with the increase fully funding loan growth during the year. Term deposits grew 9%, particularly across household and institutional segments. Non-interest bearing deposits increased 12% from growth in business and consumer transaction deposits, including growth in mortgage offset accounts; and

§ Other overseas deposits and other borrowings excluding certificates of deposits increased \$2.3 billion or 19% due to growth in deposits across Asia.

Certificates of deposits decreased \$5.4 billion or 11%, reflecting reduced short-term wholesale funding issuance in this form.

1 Source: Reserve Bank of Australia (RBA).

2 Source: Australian Prudential Regulation Authority (APRA).

Review of Group operations

Interest spread and margin 2018 v 2017

\$m	2018	2017	2016
Group			
Net interest income	16,505	15,516	15,148
Average interest earning assets	774,944	752,294	721,843
Average interest bearing liabilities	715,509	694,924	667,276
Average net non-interest bearing assets, liabilities and equity	59,435	57,370	54,567
Interest spread ¹	1.95%	1.89%	1.91%
Benefit of net non-interest bearing assets, liabilities and equity ²	0.18%	0.17%	0.19%
Net interest margin³	2.13%	2.06%	2.10%

Net interest margin was 2.13% in 2018, up 7 basis points compared to 2017. Key drivers of the margin increase were:

§ 2 basis points increase from loan spreads. This reflected the full period impact of pricing changes for certain Australian mortgages in late 2017, including interest only and investor lending, along with higher spreads on New Zealand mortgages. These gains were partly offset by the impact of customers switching from interest only to principal and interest loans, retention pricing, customer preference for lower spread basic products and competition across loan markets;

§ 2 basis points increase related to customer deposit spreads, mainly from term deposits, partly offset by the impact of lower rates on the hedging of transaction deposits;

§ 2 basis points decrease from a rise in short term wholesale funding costs, particularly in the second half of 2018;

§ 2 basis points increase from term wholesale funding as pricing for new term issuance was lower than the portfolio average;

§ 4 basis points decrease from the full period impact of the Bank Levy, which was introduced on 1 July 2017;

§ 1 basis point increase in capital and other largely from the positive effect of higher capital balances, partly offset by the impact of lower interest rates; and

§ 6 basis points increase from Treasury and Markets, due to increased Treasury revenue from interest rate risk management and a rise in contributions from fair value gains on economic hedges.

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Non-interest income 2018 v 2017

\$m	2018	2017	2016
Fees and commissions	2,550	2,755	2,755
Wealth management and insurance income	2,061	1,800	1,899
Trading income	945	1,202	1,124
Other income	72	529	59
Non-interest income	5,628	6,286	5,837

Non-interest income decreased \$658 million or 10% over the year. 2018 was impacted by a number of infrequent items, including income related to the exit of the Hastings business (\$135 million) partly offset by an increase in provisions for estimated customer refunds and payments (up \$52 million from \$111 million in 2017 to \$163 million in 2018).

Excluding the impact of these infrequent items and the partial sale of BTIM shares of \$279 million in 2017, non-interest income was \$462 million or 8% lower, primarily due to reduced markets income and lower banking fee income from the full period impact of regulatory changes to Australian credit card interchange fees and removal of ATM withdrawal fees.

Fees and commissions decreased \$205 million or 7% compared to 2017, largely due to:

§ additional provisions for estimated customer refunds and payments (\$101 million), related to Advice and retail banking products;

§ lower revenue from the removal of ATM withdrawal fees and changes to transaction fees (\$64 million);

§ lower credit card income (\$49 million) from the full period impact of regulatory changes to Australian interchange rates from 1 July 2017 and lower rewards redemptions; and

§ lower corporate and institutional lending fees (\$23 million) from a reduction in unused customer limits; partly offset by

§ higher business lending fees (\$40 million) primarily driven by portfolio growth.

1 Interest spread is the difference between the average yield on all interest earning assets and the average yield on all interest bearing liabilities.

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

3 Net interest margin is calculated by dividing net interest income by average interest earning assets.

Review of Group operations

Wealth management and insurance income increased \$261 million or 15% compared to 2017, reflecting:

§ a rise in Hastings revenue which included fees of \$144 million related to the exit of the business, the associated costs can be seen in other expenses;

§ a fall in provisions for estimated customer refunds and payments for wealth products (\$49 million);

§ higher revenue from investments in boutique funds (\$43 million); and

§ higher insurance income (\$41 million) reflecting:

increase in general insurance income (\$24 million) from lower claims, with the prior year impacted by Cyclone Debbie, and a 2% increase in net earned premiums;

increase in life insurance income (\$34 million) from movements in policyholder tax recoveries and a 17% increase to earned premiums, primarily due to BTFG commencing the management of Group Insurance for BTFG Corporate Super in 2018. This was partly offset by a rise in claims; and

lower LMI contribution (\$17 million) due to a reduction in loans written at higher LVR bands; partly offset by

§ lower platforms income (\$14 million), impacted by margin compression and pricing changes to BT Panorama in July 2018. This was partly offset by the benefit of higher asset markets.

Trading income decreased \$257 million or 21% compared to 2017. The majority of the reduction was due to a lower fixed income trading result.

Other income decreased \$457 million or 86% compared to 2017 reflecting the partial sale of BTIM shares (\$279 million) in 2017 that did not repeat, impairment loss on the remaining Pental shares (\$104 million), the impact of hedging future earnings (down \$44 million) and lower rental income (\$36 million).

Operating expenses 2018 v 2017

\$m	2018	2017	2016
Staff expenses	4,887	4,701	4,601
Occupancy expenses	1,033	1,073	1,032
Technology expenses	2,110	2,008	1,929
Other expenses	1,662	1,652	1,655
Total operating expenses	9,692	9,434	9,217
Total operating expenses to net operating income ratio	43.79%	43.27%	43.92%

Operating expenses increased \$258 million or 3% compared to 2017. The key factors of the result were:

§ higher costs from infrequent items of \$233 million related to exit of the Hastings business (\$121 million), costs associated with implementing customer refunds and payments (\$62 million) and provisions for litigation (\$50 million);

§ growth in regulation and compliance expenses of \$184 million, including expenses related to the Royal Commission of \$62 million;

§ higher investment related expenses of \$125 million largely across our banking and wealth platforms; and

§ growth in other operating costs of \$178 million; partly offset by

§ lower intangible asset amortisation of \$158 million; and

§ productivity benefits of \$304 million.

Staff expenses increased \$186 million or 4% compared to 2017 from the full period impact of annual salary increases, higher restructuring costs (up \$39 million) and additional FTE for regulatory and compliance activities and the Group's investment program. This was partly offset by lower bonuses and productivity benefits largely related to simplifying the organisation and digitising processes across the branch network and operations.

Occupancy expenses decreased \$40 million or 4% from lower depreciation on operating leases (down \$30 million) and benefits from retail property consolidation (branch numbers down by 47 across the Group), partly offset by higher energy costs.

Technology expenses increased \$102 million or 5% compared to 2017, primarily due to the Group's investment program. Higher technology services costs (up \$82 million) and software maintenance and licensing costs (up \$29 million) were driven by continued investment spend, increased volumes and new software licences following upgraded capability. This was partly offset by lower IT equipment depreciation (down \$17 million) as prior investment in data centres was fully depreciated.

Review of Group operations

Other expenses increased \$10 million or 1% during the year and contained a number of infrequent items, including the write-off of Hastings goodwill (\$105 million) following the exit of that business, provisions for litigation (\$50 million) and costs associated with implementing customer refunds and payments (\$25 million). Excluding these items, expenses reduced by \$170 million primarily due to lower amortisation of intangible assets (down \$158 million) as a number of intangible assets were fully amortised during the year; postage and stationery costs decreased (\$35 million) as customers migrated to electronic statements; and lower credit card loyalty program costs down (\$26 million) from changes to reward programs; and benefits from disciplined cost management. These were partly offset by costs associated with the Royal Commission.

Impairment charges 2018 v 2017

\$m	2018	2017	2016
Impairment charges	710	853	1,124
Impairment charges to average gross loans (basis points)	10	13	17

Asset quality remained sound through 2018 with stressed assets to total committed exposures increasing by 3 basis points to 1.08%. The increase in stress mostly reflects higher mortgage delinquencies and a small rise in stressed exposures in Business Bank. Impaired assets were lower, with gross impaired assets to gross loans 2 basis points lower at 0.20% compared to 30 September 2017.

Provisioning levels at 30 September 2018 of \$3,053 million were \$66 million lower compared to 30 September 2017. IAPs were \$58 million lower in line with the decline in impaired facilities while CAPs were \$8 million lower. Within CAPs the overlay was down \$22 million to \$301 million at 30 September 2018.

Impairment charges for 2018 of \$710 million are equivalent to 10 basis points of average loans and were down \$143 million when compared to 2017.

Key movements included:

§ total new IAPs less write-backs and recoveries were \$112 million lower than 2017. This was due to lower new IAPs (down \$239 million) partially offset by lower write-backs. The reduction in new IAPs was due to a small number of large impairments in WIB in 2017 while in 2018 no new large impaired loans (greater than \$50 million) emerged during the year. New IAPs in Business Bank were also lower. This was partially offset by higher new IAPs in New Zealand; and

§ total new CAPs were \$31 million lower due to a \$110 million reduction in write-offs partially offset by a \$79 million fall in the benefit from other changes in CAPs. Write-offs were lower, principally in Consumer Bank from the credit card portfolio and in Business Bank related to the auto finance and commercial portfolios. The overlay was \$22 million lower in 2018 compared to a \$66 million reduction in 2017.

Income tax expense 2018 v 2017

\$m	2018	2017	2016
Income tax expense	3,632	3,518	3,184
Tax as a percentage of profit before income tax expense (effective tax rate)	30.96%	30.55%	29.91%

The effective tax rate of 31.0% in 2018 was higher than the 2017 effective tax rate of 30.6%. The effective tax rate was higher than the Australian corporate tax rate of 30% due to the non-deductibility of certain expenses, including penalties and the write-off of Hastings goodwill associated with the exit of that business.

Overview of performance 2017 v 2016

Net profit attributable to owners of Westpac Banking Corporation for 2017 was \$7,990 million, an increase of \$545 million or 7% compared to 2016. Features of this result included a \$817 million or 4% increase in net operating income before operating expenses and impairment charges, a \$217 million or 2% increase in operating expenses and a \$271 million or 24% decrease in impairment charges.

Net interest income increased \$368 million or 2% compared to 2016, with total loan growth of 3%, primarily from Australian housing which grew 6%. Reported net interest margin decreased 4 basis points to 2.06% from higher funding costs, the impact of lower interest rates, and lower treasury earnings, partly offset by loan repricing.

Non-interest income increased \$449 million or 8% compared to 2016 primarily due to a \$279 million gain associated with sale of shares in BTIM, a rise in trading income of \$78 million and the impact of volatility in economic hedges of \$140 million. These increases were partly offset by provisions for customer refunds, and lower wealth management and insurance income.

Operating expenses increased \$217 million or 2% compared to 2016. The rise in operating expenses includes annual salary and rental increases, higher technology expenses related to the Group's investment program, a rise in regulatory and compliance costs and expenses associated with the sale of shares in BTIM. These increases were partially offset by productivity benefits.

Review of Group operations

Impairment charges were \$271 million lower or 24% compared to 2016. Asset quality remained sound, with stressed exposures as a percentage of total committed exposures (TCE) at 1.05%, down 15 basis points over the year. The decrease in impairment charges was primarily due to significantly lower large individual provisions. Additional provisioning for these larger facilities was required in 2016, following the downgrade to impaired.

The effective tax rate of 30.6% in 2017 was higher than the 2016 effective tax rate of 29.9% as 2016 benefited from the finalisation of some prior period taxation matters.

2017 basic earnings per share were 238.0 cents per share compared to 224.6 cents per share in 2016.

The Board has determined a final dividend of 94 cents per ordinary share. The full year ordinary dividends of 188 cents is unchanged over ordinary dividends declared in 2016 and a pay-out ratio of 79.3%. The full year ordinary dividend is fully franked.

The Board considered the impact of the Bank Levy on shareholders (which equated to 2 cents per share in 2017), and decided to leave the dividend unchanged.

Income statement review 2017 v 2016

Net interest income 2017 v 2016

Net interest income increased \$368 million or 2% compared to 2016. Key features include:

§ 4% increase in average interest-earning assets, primarily from growth in Australian housing. Third party liquid assets increased \$11 billion or 13% in response to a \$10 billion lower Committed Liquidity Facility (CLF), which reduced from \$59 billion to \$49 billion on 1 January 2017;

§ Group net interest margin decreased 4 basis points. Higher funding costs primarily from term deposit competition, the impact of lower interest rates and lower Treasury earnings were, partly offset by loan repricing and economic hedge volatility.

Total loans increased \$23.0 billion or 3% compared to 2016. Excluding foreign currency translation impacts, total loans increased \$26.0 billion or 4%.

Key features of total loan growth were:

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§ Australian housing loans increased \$23.0 billion or 6%. During the year, the Group further tightened origination standards, reduced new lending discounts and adjusted interest rates on different loan categories. Based on the APRA definition of investor lending, the Group's investor property lending grew 6%, below the 10% cap. Fixed rate loans increased from 17% of the portfolio in 2016 to 21% in 2017;

§ Australian business loans increased \$0.3 billion, with growth in Business Bank (BB) across SME, professional services and health, largely offset by lower institutional lending including a decline in the utilisation of mortgage warehouse facilities; and

§ New Zealand lending increased NZ\$2.1 billion or 3%. Housing loans grew at 4% and business lending increased 1% primarily from growth in SME and agriculture. Following the Loan to Value Ratio (LVR) restrictions imposed by the RBNZ on investor property loans (with an LVR of greater than 60%), the proportion of new flows for investor property lending decreased by 9 percentage points to 22%.

Total customer deposits increased \$20.1 billion or 4% compared to 2016. Excluding foreign currency translation impacts, customer deposits increased \$22.3 billion or 5%.

Key features of total customer deposits growth were:

§ Australian customer deposits increased \$23.8 billion or 6%, with above system1 growth in household deposits and growth in institutional deposits. Customers continued to direct funds to mortgage offset accounts, supporting 8% growth in Australian non-interest bearing deposits. The Group continues to focus on growing higher quality deposits in preparation for the introduction of the Net Stable Funding Ratio (NSFR) on 1 January 2018;

§ New Zealand customer deposits increased NZ\$0.9 billion or 2%, with a 14% increase in non-interest bearing deposits from growth in business and consumer transaction accounts; and

§ Other overseas deposits decreased \$2.6 billion or 18% due to a decline in Asian deposits.

Certificate of deposits increased \$0.5 billion or 1%, with lower balances offshore more than offset by growth in Australia.

1 Source: APRA.

104

2018 Westpac Group Annual Report

Review of Group operations

Interest spread and margin 2017 v 2016

Net interest margin was 2.06% in 2017, down 4 basis points compared to 2016. Key drivers of the margin decrease were:

§ 9 basis points increase from loan spreads primarily from the full year impact of Australian mortgage and business lending repricing in 2016 and changes to Australian mortgage rates for interest-only and investor loans during 2017. This was partly offset by broad based competition and higher short term funding costs;

§ 5 basis points decrease from customer deposit spreads, driven by increased competition for term deposits in late 2016 and early 2017 and the impact of lower interest rates on the hedging of transaction deposits;

§ 2 basis points decrease from higher term wholesale funding costs as the Group lengthened average tenors in preparation for the implementation of NSFR on 1 January 2018 and an increase in Additional Tier 1 and Tier 2 capital balances and the higher cost of these instruments;

§ 1 basis point decrease from the introduction of the Bank Levy;

§ Capital and other decreased 2 basis points primarily from the impact of lower interest rates;

§ 2 basis points decrease from liquidity, due to increased holdings of third party liquid assets; and

§ 1 basis point decrease from Treasury and Markets, with lower market volatility impacting returns from interest rate risk management.

Non-interest income 2017 v 2016

Non-interest income was \$6,286 million in 2017, an increase of \$449 million or 8% compared to 2016. The increase was impacted by a number of infrequent items (\$136 million), including the profit on the further sale of BTIM shares (\$279 million), provisions for customer refunds and payments related to Advice and wealth products¹ (\$111 million) and a revaluation loss on the Group's investments in boutique funds (\$32 million). Excluding these items, non-interest income increased \$313 million or 5% due to the impact of hedging New Zealand future earnings, higher Westpac Institutional Bank (WIB) markets income, increase in operating lease rental income and higher business lending fees, partly offset by lower wealth management and insurance income and a reduction in Australian credit card interchange fees.

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Fees and commissions of \$2,755 million in 2017 were flat compared to 2016, due to:

- § lower Advice income including provisions for customer refunds and payments (\$55 million);

- § lower Australian credit card income (\$39 million) primarily from lower revenue associated with rewards programs and regulatory impacts on interchange rates from 1 July 2017; partly offset by

- § increased business lending fees (\$50 million) supported by higher line fees from business growth;

- § higher New Zealand credit card income (\$41 million) primarily from a change to accounting treatment for credit card rewards scheme to align with Group practice; and

- § higher transaction fees (\$15 million) from an increase in account numbers, pricing changes, and transaction volumes across the Group.

Wealth management and insurance income was \$1,800 million in 2017, a decrease of \$99 million or 5% compared to 2016 with:

- § provisions for customer refunds and payments related to wealth products (\$56 million);

- § insurance income decreased \$29 million, primarily from:
 - general insurance income reduced \$32 million from higher claims, including the impact of Cyclone Debbie, partly offset by a 2% increase in net earned premiums; and

 - life insurance income was little changed (down \$3 million) with higher claims partly offset by a 6% increase in net earned premiums; partly offset by

 - higher Lenders mortgage insurance (LMI) income (\$6 million) related to arrangements for mortgages with an LVR >90%;

- § lower contribution from investments in boutique funds (\$26 million); and

§ a decrease in funds under management (FUM) and funds under administration (FUA) income (\$13 million), with the benefit from higher asset markets and positive net flows more than offset by margin compression from the transfer of legacy products to lower fee MySuper products; partly offset by

§ increase in WIB wealth management income (\$6 million).

1 Some of the items provided for include: payments to superannuation customers with pre-existing conditions who did not have the benefit of our improved disclosure practices and had their claims denied; payments to customers who did not receive all the benefits to which they were entitled under their packaged accounts ; and refunds where ongoing advice fees were paid but we were unable to demonstrate that advice service was provided in the relevant period.

Review of Group operations

Trading income was \$1,202 million in 2017, an increase of \$78 million or 7% compared to 2016. This was primarily driven by higher WIB markets income from an increase in risk management income across fixed income, foreign exchange and commodities and higher derivative valuation adjustments.

Other income was \$529 million in 2017, an increase of \$470 million compared to 2016. This result was driven by the profit on a further sale of BTIM shares (\$279 million), the impact of hedging New Zealand future earnings (\$140 million) and higher rental income on operating leases (\$34 million) from portfolio growth.

Operating expenses 2017 v 2016

Operating expenses increased \$217 million or 2% compared to 2016. The key factors of the result were:

- § growth in regulation and compliance expenses of \$84 million;
- § higher investment related expenses of \$82 million;
- § separation costs related to the sale of shares in BTIM of \$35 million; and
- § productivity benefits of \$262 million largely offset growth in other operating costs.

Staff expenses were \$4,701 million, an increase of \$100 million or 2% compared to 2016. Annual salary increases, higher investment costs and separation costs related to the further sale of shares in BTIM were partly offset by productivity benefits, lower restructuring costs and reduced share based payments.

Occupancy expenses increased \$41 million or 4% compared to 2016 due to higher expenses relating to annual rental expenses and exit costs associated with retail property consolidation and branch network optimisation.

Technology expense increased \$79 million or 4% compared to 2016 largely from the completion of key elements of the Group's investment programs. This included higher amortisation of software assets (\$57 million) and higher software maintenance and licensing costs (\$36 million) from programs including the Customer Service Hub, Panorama, new payment platform and systems for regulatory and compliance purposes.

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Other expenses decreased \$3 million compared to 2016. The increase in regulatory and compliance costs have been mostly offset by lower outsourced operational costs. In addition, non-lending losses were \$8 million lower from reduced credit card and digital fraud, which has benefitted from recent enhancements to early detection capability and additional security.

Impairment charges 2017 v 2016

Asset quality improved through 2017 with stressed assets to total committed exposures reducing 15 basis points to 1.05%. The reduction in stress mostly reflects the work-out or return to health of a number of watchlist and substandard facilities. Impaired assets were also lower, with gross impaired assets to gross loans reducing 10 basis points to 0.22%. The reduction in impaired assets principally related to the work-out or write-off of a small number of institutional facilities. Where stress in the portfolio has emerged it can mostly be traced back to the slowdown in mining investment, sectors undergoing structural change, along with a rises in delinquencies and properties in possession in these regions, particularly in Western Australia and Queensland.

The improved asset quality and the write-off of a small number of larger impaired facilities led to a reduction in provisions which were down \$483 million. IAPs were \$389 million lower while collectively assessed provisions were \$94 million lower. Within collectively assessed provisions the economic overlay was reduced by \$66 million, ending at \$323 million as at 30 September 2017.

This trend of improved asset quality and work-out of existing stressed facilities has contributed to the reduction in impairment charges in 2017.

Impairment charges of \$853 million were down \$271 million or 24% compared to 2016.

Key movements included:

§ total new IAPs less write-backs and recoveries were \$226 million lower than 2016. New IAPs decreased \$117 million primarily due to a small number of large impairments in WIB in 2016 whereas there were only two larger facilities that migrated to impaired over 2017. This was partially offset by higher new IAPs in the Business Bank and in mortgages. 2017 also benefited from a larger number of write-backs and recoveries which were \$109 million higher than 2016 as impaired facilities were worked out; and

§ CAPs were \$45 million lower due to a \$66 million reduction in the economic overlay provision and a \$45 million benefit from improvement in asset quality, partially offset by a \$66 million lift in write-offs principally in personal lending associated with changes to reporting of customers granted hardship assistance.

Income tax expense 2017 v 2016

The effective tax rate of 30.6% in 2017 was higher than the 2016 effective tax rate of 29.9% as 2016 benefited from the finalisation of some prior period taxation matters. The effective tax rate above the Australian corporate tax rate of 30% reflects several Additional Tier 1 instruments whose distributions are not deductible for Australian taxation purposes.

Review of Group operations

Balance sheet review

Selected consolidated balance sheet data¹

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

As at 30 September	2018 US\$m ²	2018 A\$m	2017 A\$m	2016 A\$m	2015 A\$m	2014 A\$m
Cash and balances with central banks	19,131	26,431	18,397	17,015	14,770	25,760
Receivables due from other financial institutions	4,191	5,790	7,128	9,951	9,583	7,424
Trading securities and financial assets designated at fair value and available-for-sale securities	60,259	83,253	86,034	81,833	82,287	81,933
Derivative financial instruments	17,444	24,101	24,033	32,227	48,173	41,404
Loans	513,674	709,690	684,919	661,926	623,316	580,343
Life insurance assets	6,840	9,450	10,643	14,192	13,125	11,007
All other assets	15,110	20,877	20,721	22,058	20,902	22,971
Total assets	636,649	879,592	851,875	839,202	812,156	770,842
Payables due to other financial institutions	13,128	18,137	21,907	18,209	18,731	18,636
Deposits and other borrowings	404,810	559,285	533,591	513,071	475,328	460,822
Other financial liabilities at fair value through income statement	3,110	4,297	4,056	4,752	9,226	19,236
Derivative financial instruments	17,666	24,407	25,375	36,076	48,304	39,539
Debt issues	124,925	172,596	168,356	169,902	171,054	152,251
Life insurance liabilities	5,499	7,597	9,019	12,361	11,559	9,637
All other liabilities	8,277	11,435	10,563	10,845	10,199	10,526
Total liabilities excluding loan capital	577,415	797,754	772,867	765,216	744,401	710,647
Loan capital	12,496	17,265	17,666	15,805	13,840	10,858
Total liabilities	589,911	815,019	790,533	781,021	758,241	721,505
Net assets	46,738	64,573	61,342	58,181	53,915	49,337
Total equity attributable to owners of Westpac Banking Corporation	46,700	64,521	61,288	58,120	53,098	48,456
Non-controlling interests	38	52	54	61	817	881
Total shareholders' equity and non-controlling interests	46,738	64,573	61,342	58,181	53,915	49,337
Average balances						
Total assets	640,291	884,624	864,525	843,555	798,703	737,124
Loans and other receivables ³	494,757	683,555	658,058	629,159	594,200	559,789
Total equity attributable to owners of Westpac Banking Corporation	44,888	62,017	58,556	55,896	49,361	46,477
Non-controlling interests	22	31	20	575	854	862

- 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\$0.7238, the noon buying rate in New York City on 28 September 2018.
- 3 Includes interest earning balances. Loans and other receivables are stated net of provisions for impairment charges on loans. Other receivables include cash and balances with central banks and other interest earning assets.

Review of Group operations

Summary of consolidated ratios

As at 30 September (in \$m unless otherwise indicated)	2018 US\$1	2018 A\$	2017 A\$	2016 A\$	2015 A\$	2014 A\$
Profitability ratios (%)						
Net interest margin ²	2.13	2.13	2.06	2.10	2.09	2.09
Return on average assets ³	0.92	0.92	0.92	0.88	1.00	1.03
Return on average ordinary equity ⁴	13.05	13.05	13.65	13.32	16.23	16.27
Return on average total equity ⁵	13.05	13.05	13.64	13.18	15.96	15.97
Capital ratios (%)						
Average total equity to average total assets	7.01	7.01	6.78	6.69	6.29	6.42
Common equity Tier 1	10.63	10.63	10.56	9.48	9.50	8.97
Tier 1 ratio	12.78	12.78	12.66	11.17	11.38	10.56
Total capital ratio	14.74	14.74	14.82	13.11	13.26	12.28
Earning ratios						
Basic earnings per ordinary share (cents) ⁶	171.9	237.5	238.0	224.6	255.0	242.5
Diluted earnings per ordinary share (cents) ⁷	166.5	230.1	229.3	217.8	248.2	237.6
Dividends per ordinary share (cents)	136	188	188	188	187	182
Dividend payout ratio (%)	79.52	79.52	79.28	84.19	73.39	74.68
Credit quality ratios						
Impairment charges on loans written off (net of recoveries)	686	948	1,488	1,052	1,107	1,302
Impairment charges on loans written off (net of recoveries) to average loans (bps)	14	14	22	16	18	23

Balance sheet review

Assets 2018 v 2017

Total assets as at 30 September 2018 were \$879.6 billion, an increase of \$27.7 billion or 3% compared to 30 September 2017. Significant movements during the year included:

§ cash and balances with central banks increased \$8.0 billion or 44% reflecting higher liquid assets held in this form;

§ receivables due from other financial institutions decreased \$1.3 billion or 19% mainly due to a reduction in collateral posted with derivative counterparties and lower interbank lending;

§ trading securities and financial assets designated at fair value and available-for-sale securities decreased \$2.8 billion or 3% reflecting lower holdings of liquid assets in this form;

§ loans grew \$24.8 billion or 4%. Refer to loan quality 2018 v 2017 below for further information; and

§ life insurance assets decreased \$1.2 billion or 11%, due to the transfer by an investor to another Group managed fund that is not consolidated.

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\$0.7238, the noon buying rate in New York City on 28 September 2018.

2 Calculated by dividing net interest income by average interest earning assets.

3 Calculated by dividing net profit attributable to owners of Westpac Banking Corporation by average total assets.

4 Calculated by dividing net profit attributable to owners of Westpac Banking Corporation by average ordinary equity.

5 Calculated by dividing net profit attributable to owners of Westpac Banking Corporation by average ordinary equity and non-controlling interests.

6 Based on the weighted average number of fully paid ordinary shares.

7 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.

Review of Group operations

Liabilities and equity 2018 v 2017

Total liabilities as at 30 September 2018 were \$815.0 billion, an increase of \$24.5 billion or 3% compared to 30 September 2017. Significant movements during the year included:

§ payables due to other financial institutions decreased \$3.8 billion or 17% due to lower securities sold under agreements to repurchase, interbank borrowings and collateral posted by derivative counterparties, partly offset by higher offshore central bank deposits;

§ deposits and other borrowings increased \$25.7 billion or 5%;

§ debt issues increased \$4.2 billion or 3% (\$6.8 billion or 4% decrease excluding foreign currency translation impacts); and

§ life insurance liabilities decreased \$1.4 billion or 16%, due to the transfer by an investor to another Group managed fund that is not consolidated.

Equity attributable to owners of Westpac Banking Corporation increased \$3.2 billion reflecting retained profits less dividends paid during the period, shares issued under the 2018 interim DRP and 2017 final DRP and the conversion of some convertible preference shares to ordinary share capital.

Loan quality 2018 v 2017

\$m	As at 30 September		
	2018	2017	2016
Total gross loans¹	712,504	687,785	665,256
Average gross loans			
Australia	611,398	588,920	562,633
New Zealand	73,000	72,269	67,686
Other overseas	16,228	12,837	15,112
Total average gross loans	700,626	674,026	645,431

Total gross loans represented 81% of the total assets of the Group as at 30 September 2018, unchanged from 2017.

Australia average gross loans were \$611.4 billion in 2018, an increase of \$22.5 billion or 4% from \$588.9 billion in 2017. This increase was primarily due to growth in housing loans.

New Zealand average gross loans were \$73.0 billion in 2018, an increase of \$0.7 billion or 1% from \$72.3 billion in 2017. This increase was primarily due to growth in housing loans.

Other overseas average loans were \$16.2 billion in 2018, an increase of \$3.4 billion or 26% from \$12.8 billion in 2017. This was primarily due to an increase in Asia.

Approximately 13% of the loans at 30 September 2018 mature within one year and 18% mature between one year and five years. Retail lending comprises the majority of the loan portfolio maturing after five years.

1 Gross loans are stated before related provisions for impairment.

Review of Group operations

\$m	As at 30 September				
	2018	2017	2016	2015	2014
Impaired loans					
Non-performing loans ¹ :					
Gross	1,019	1,142	1,851	1,593	2,030
Impairment provisions	(458)	(507)	(885)	(689)	(862)
Net	561	635	966	904	1,168
Restructured loans:					
Gross	26	27	31	39	93
Impairment provisions	(6)	(12)	(16)	(16)	(44)
Net	20	15	15	23	49
Overdrafts, personal loans and revolving credit facilities greater than 90 days past due:					
Gross	371	373	277	263	217
Impairment provisions	(189)	(195)	(166)	(172)	(141)
Net	182	178	111	91	76
Net impaired loans	763	828	1,092	1,018	1,293
Provisions for impairment on loans and credit commitments					
Individually assessed provisions	422	480	869	669	867
Collectively assessed provisions	2,631	2,639	2,733	2,663	2,614
Total provisions for impairment on loans and credit commitments	3,053	3,119	3,602	3,332	3,481
Loan quality					
Total impairment provisions for impaired loans to total impaired loans ²	46.12%	46.30%	49.42%	46.28%	44.76%
Total impaired loans to total loans	0.20%	0.22%	0.32%	0.30%	0.40%
Total provisions for impairment on loans and credit commitments to total loans	0.43%	0.45%	0.54%	0.53%	0.60%
Total provisions for impairment on loans and credit commitments to total impaired loans	215.6%	202.3%	166.8%	175.8%	148.8%

The credit quality remained sound over 2018, with total stressed exposures to TCE increasing by 3 basis points to 1.08%. Total impaired loans as a percentage of total gross loans were 0.20% at 30 September 2018, a decrease of 0.02% from 0.22% at 30 September 2017.

At 30 September 2018, we had one impaired counterparty with exposure greater than \$50 million, accounting for 4% of total impaired loans. This compares to one impaired counterparty with exposure greater than \$50 million in 2017 accounting for 5% of total impaired loans. There were two impaired counterparties at 30 September 2018 that were less than \$50 million and greater than \$20 million (2017: four impaired counterparties).

At 30 September 2018, 79% of our exposure was to either investment grade or secured consumer mortgage segment (2017: 78%, 2016: 78%, 2015: 77%, 2014: 77%) and 95% of our exposure as at 30 September 2018 was in Australia, New Zealand and the Pacific region (2017: 96%, 2016: 96%, 2015: 95%, 2014: 95%).

We believe that Westpac remains appropriately provisioned. Total impairment provisions for impaired loans to total impaired loans coverage at 46.1% at 30 September 2018 compared to 46.3% at 30 September 2017. Total provisions for impairment on loans and credit commitments to total impaired loans represented 215.6% of total impaired loans as at 30 September 2018, up from 202.3% at 30 September 2017. Total provisions for impairments on loans and credit commitments to total loans were 0.43% at 30 September 2018, down from 0.45% at 30 September 2017 (2016: 0.54%).

Group mortgage loans 90 days past due at 30 September 2018 were 0.67% of outstandings, up from 0.62% of outstandings at 30 September 2017 (2016: 0.61%).

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Group other consumer loan delinquencies (including credit card and personal loan products) were 1.64% of outstandings as at 30 September 2018, up from 1.57% of outstandings as at 30 September 2017 (2016: 1.11%).

Potential problem loans as at 30 September 2018 amounted to \$1,691 million, an increase of 36% from \$1,247 million at 30 September 2017. The increase in potential problem loans was mainly due to the downgrade of a small number of companies in the Australian and New Zealand business portfolios.

1 Non-performing loans are loans with an impaired internal risk grade, excluding restructured assets.

2 Impairment provisions relating to impaired loans include IAP plus the proportion of the CAP that relate to impaired loans. The proportion of the CAP that relates to impaired loans was \$231 million as at 30 September 2018 (2017: \$234 million, 2016: \$198 million, 2015: \$208 million, 2014: \$180 million). This sum is compared to the total gross impaired loans to determine this ratio.

Review of Group operations

Potential problem loans are facilities that are performing and no loss is expected, but the customer demonstrates significant weakness in debt servicing or security cover that could jeopardise repayment of debt on current terms if not rectified. Potential problem loans are identified using established credit frameworks and policies, which include the ongoing monitoring of facilities through the use of watchlists.

Capital resources

APRA measures an ADI's regulatory capital using three measures:

§ Common Equity Tier 1 Capital (CET1) comprises the highest quality components of capital that consists of paid-up share capital, retained profits and certain reserves, less certain intangible assets, capitalised expenses and software, and investments and retained profits in insurance and funds management subsidiaries that are not consolidated for capital adequacy purposes;

§ Tier 1 Capital being the sum of CET1 and Additional Tier 1 Capital. Additional Tier 1 Capital comprises high quality components of capital that consists of certain securities not included in CET1, but which include loss absorbing characteristics; and

§ Total Capital being the sum of Tier 1 Capital and Tier 2 Capital. Tier 2 Capital includes subordinated instruments and other components of capital that, to varying degrees, do not meet the criteria for Tier 1 Capital, but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.

Under APRA's Prudential Standards, Australian ADIs, including Westpac, are required to maintain a minimum CET1 ratio of at least 4.5%, Tier 1 ratio of at least 6.0% and Total Regulatory Capital of at least 8.0%. APRA may also require ADIs, including Westpac, to meet Prudential Capital Requirements (PCRs) above the minimum capital ratios. APRA does not allow the PCRs for individual ADIs to be disclosed.

APRA also requires ADIs to hold additional CET1 buffers comprising of:

§ a capital conservation buffer (CCB) of 3.5%, for ADIs designated by APRA as domestic systemically important banks (D-SIBs) (unless otherwise determined by APRA), which includes a 1.0% surcharge for D-SIBs. APRA has determined that Westpac is a D-SIB; and

§ a countercyclical buffer. The countercyclical buffer is set on a jurisdictional basis and APRA is responsible for setting the requirement in Australia. The countercyclical buffer requirement is currently set to zero for Australia and New Zealand.

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Collectively, the above buffers are referred to as the Capital Buffer. Should the CET1 capital ratio fall within the capital buffer range, restrictions on the distributions of earnings will apply. This includes restrictions on the amount of earnings that can be distributed through dividends, Additional Tier 1 Capital distributions and discretionary staff bonuses.

Capital management strategy

Westpac's approach to capital management seeks to balance the fact that capital is an expensive form of funding with the need to be adequately capitalised. 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 consideration of regulatory minimums, capital buffers and contingency plans;

§ consideration of both economic and regulatory capital requirements;

§ a stress testing framework that challenges the capital measures, coverage and requirements including the impact of adverse economic scenarios; and

§ consideration of the perspectives of external stakeholders including rating agencies and equity and debt investors.

In light of APRA's announcement on unquestionably strong capital benchmarks on 19 July 2017, Westpac will seek to operate with a CET1 capital ratio of at least 10.5% in March and September as measured under the existing capital framework. This also takes into consideration:

§ current regulatory capital minimums and the CCB, which together are the total CET1 requirement;

§ stress testing to calibrate an appropriate buffer against a downturn; and

§ quarterly volatility of capital ratios due to the half yearly cycle of ordinary dividend payments.

Westpac will revise its target capital level once APRA finalises its review of the capital adequacy framework.

Review of Group operations

Basel Capital Accord

APRA's Prudential Standards are generally consistent with the International Regulatory Framework for Banks, also known as Basel III, issued by the Basel Committee on Banking Supervision (BCBS), except where APRA has exercised certain discretions. On balance, the application of these discretions acts to reduce capital ratios reported under APRA's Prudential Standards relative to the BCBS approach and to those reported in some other jurisdictions.

Westpac is accredited by APRA to apply advanced models permitted by the Basel III global capital adequacy regime to the measurement of its regulatory capital requirements. Westpac uses the Advanced Internal Ratings Based approach for credit risk, the Advanced Measurement Approach (AMA) for operational risk and the internal model approach for Interest Rate Risk in the Banking Book (IRRBB).

Westpac's Level 2 regulatory capital ratios as at 30 September are summarised in the table below. As the table summarises Westpac's Level 2 regulatory capital structure, the capital amounts shown are not the same as the Westpac Group's consolidated financial statements. Westpac's Pillar 3 Report provides further details regarding Westpac's capital structure.

\$m	2018	2017
Common equity	63,576	60,520
Deductions from common equity	(18,337)	(17,850)
Total common equity after deductions	45,239	42,670
Additional Tier 1 capital	9,144	8,505
Net Tier 1 regulatory capital	54,383	51,175
Tier 2 capital	8,565	8,952
Deductions from Tier 2 capital	(233)	(217)
Total Tier 2 capital after deductions	8,332	8,735
Total regulatory capital	62,715	59,910
Credit risk	362,749	349,258
Market risk	6,723	8,094
Operational risk	39,113	31,229
Interest rate risk in the banking book	12,989	11,101
Other assets	3,810	4,553
Total risk weighted assets	425,384	404,235
Common Equity Tier 1 capital ratio	10.63%	10.56%
Additional Tier 1 capital ratio	2.15%	2.10%
Tier 1 capital ratio	12.78%	12.66%
Tier 2 capital ratio	1.96%	2.16%
Total regulatory capital ratio	14.74%	14.82%

Refer to 'Significant developments' in Section 1 for a discussion on future regulatory developments that may impact upon capital requirements.

Review of Group operations

Purchase of equity securities

The following table details share repurchase activity for the year ended 30 September 2018:

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 (2017)	75,153	32.53	-	n/a
November (2017)	873,900	31.87	-	n/a
December (2017)	2,230,289	31.42	-	n/a
January (2018)	2,402	31.33	-	n/a
February (2018)	36,671	30.85	-	n/a
March (2018)	-	-	-	n/a
April (2018)	117,959	28.95	-	n/a
May (2018)	21,655	29.21	-	n/a
June (2018)	33,466	28.27	-	n/a
July (2018)	23,951	28.89	-	n/a
August (2018)	18,404	29.28	-	n/a
September (2018)	68,672	27.88	-	n/a
Total	3,502,522	31.32	-	-

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

§ to deliver to eligible employees under the Employee Share Plan (ESP): 854,267 ordinary shares;

§ to deliver to employees upon the exercise of options and performance share rights: 263,306 ordinary shares;

§ Treasury shares held by statutory life funds and managed investment schemes and ordinary shares held by Westpac in respect of equity derivatives sold to customers: 93,052 ordinary shares; and

§ to allocate to eligible employees under the Restricted Share Plan (RSP): 2,291,897 ordinary shares.

Refer to Note 32 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 obligations as at 30 September 2018:

\$m	Up to 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	Total
On balance sheet long-term debt ¹	27,664	33,827	52,205	32,634	146,330
Operating leases ²	570	904	660	1,819	3,953
Total contractual cash obligations	28,234	34,731	52,865	34,453	150,283

The above table excludes deposits and other liabilities taken in the normal course of banking business and short-term and undated liabilities.

Commercial commitments³

The following table shows our significant commercial commitments as at 30 September 2018:

\$m	Up to 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	Total
Letters of credit and guarantees	8,983	2,717	890	2,995	15,585
Commitments to extend credit	50,292	49,320	14,637	60,409	174,658
Other	-	74	25	55	154
Total commercial commitments	59,275	52,111	15,552	63,459	190,397

- 1 Refer to Note 19 to the financial statements for details of on balance sheet long-term debt.
- 2 Refer to Note 30 to the financial statements for details of operating leases.
- 3 The numbers in this table are notional amounts (refer to Note 31 to the financial statements).

Divisional performance

Divisional performance 2018 v 2017

Westpac reports under the following five primary customer-facing business divisions:

§ Consumer Bank, which we refer to as CB: responsible for all Australian consumer relationships and operates under the Westpac, St.George, BankSA, Bank of Melbourne and RAMS brands;

§ Business Bank, which we refer to as BB: responsible for all Australian SME and commercial business relationships with facilities up to approximately \$150 million, and operates under the Westpac, St.George, BankSA and Bank of Melbourne brands;

§ BT Financial Group (Australia), which we refer to as BTFG: responsible for the Group's Australian wealth management, insurance and private wealth businesses;

§ Westpac Institutional Bank, which we refer to as WIB: responsible for the relationship with commercial, corporate, institutional and government customers, with customers supported throughout Australia, as well as via branches and subsidiaries located in New Zealand, US, UK, Asia, Fiji and Papua New Guinea; and

§ Westpac New Zealand: responsible for all customer segments in New Zealand.

Group Businesses include Treasury, Group Technology and Core Support.

The Group revised its allocations of capital, funds transfer pricing and expenses in 2018. In addition, balance sheet disclosure and associated revenue and expenses related to customer transfer have also been aligned. Divisional results have been restated for 2017 and 2016 to ensure comparability with 2018 results (refer to Note 2 to the financial statements for the disclosure of the Group's reportable operating segments and revisions to segment allocation).

The accounting standard AASB 8 *Operating Segments* requires segment results to be presented on a basis that is consistent with information provided internally to Westpac's key decision makers. In assessing financial performance, including divisional results, Westpac Group uses a measure of performance referred to as 'cash earnings'. Cash earnings is viewed as a measure of the level of profit that is generated by ongoing operations and is therefore considered in assessing distributions, including dividends. Cash earnings is neither a measure of cash flow nor net profit determined on a cash accounting basis, as it includes both cash and non-cash adjustments to net profit attributable to owners of Westpac Banking Corporation. Management believes this allows the Group to more effectively assess performance for the current period against prior periods and to compare performance across business divisions and across peer companies.

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A reconciliation of cash earnings to net profit attributable to owners of Westpac Banking Corporation for each business division is set out in Note 2 to the financial statements.

To determine cash earnings, three categories of adjustments are made to statutory results:

§ material items that key decision makers at the Westpac Group believe do not reflect ongoing operations;

§ items that are not considered when dividends are recommended, such as the amortisation of intangibles, impact of Treasury shares and economic hedging; and

§ accounting reclassifications between individual line items that do not impact statutory results.

The discussion of our divisional performance in this section is presented on a cash earnings basis unless otherwise stated. Cash earnings is not directly comparable to statutory results presented in other parts of this Annual Report.

Outlined below are the cash earnings adjustments to the reported result:

§ amortisation of intangible assets: Identifiable intangible assets arising from business acquisitions are amortised over their useful lives, ranging between four and twenty years. This amortisation (excluding capitalised software) is a cash earnings adjustment because it is a non-cash flow item and does not affect cash distributions available to shareholders. The last of these intangible assets were fully amortised in December 2017;

§ acquisition, transaction and integration expenses: Costs associated with the acquisition of select Lloyds Australian businesses were treated as a cash earnings adjustment as they do not reflect the earnings expected from the acquired businesses following the integration period;

§ fair value (gain)/loss on economic hedges (which do not qualify for hedge accounting under AAS) 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 as they may create a material timing difference on reported results but do not affect the Group's cash earnings over the life of the hedge; and

- the unrealised fair value (gain)/loss on hedges of accrual accounted term funding transactions are reversed in deriving cash earnings as they may create a material timing difference on reported results but do not affect the Group's cash earnings over the life of the hedge;

Divisional performance

§ ineffective hedges: The unrealised (gain)/loss on ineffective hedges is reversed in deriving cash earnings because the gain or loss arising from the fair value movement in these hedges reverses over time and does not affect the Group's profits over time;

§ adjustment related to Pandal (previously BTIM): The Group recognised a gain, net of costs, associated with the partial sale of shares in Pandal Group Limited in 2017. In 2018, the Group recorded an impairment on its current holding of Pandal shares. Consistent with prior years these items have been treated as a cash earnings adjustment given their size and that it does not reflect ongoing operations. The Group has indicated that it may sell the remaining 10% shareholding in Pandal at some future date. Any future gain or loss on this shareholding will similarly be excluded from the calculation of cash earnings;

§ Treasury shares: Under AAS, Westpac shares held by the Group in the managed funds and life businesses are deemed to be Treasury shares and the results of holding these shares cannot be recognised in the reported results. In deriving cash earnings, these results are included to ensure there is no asymmetrical impact on the Group's profits because the Treasury shares support policyholder liabilities and equity derivative transactions which are re-valued in determining income; and

§ accounting reclassifications between individual line items that do not impact reported results comprise:

- in 2017 the Group changed the accounting treatment for Westpac New Zealand credit card rewards scheme to align with Group practice. This change has no impact on cash earnings or reported profit but it has led to the restatement of non-interest income and operating expenses, within cash earnings, in prior periods. Components of reported profit have not been changed;

- policyholder tax recoveries: Income and tax amounts that are grossed up to comply with the AAS covering Life Insurance Business (policyholder tax recoveries) are reversed in deriving income and taxation expense on a cash earnings basis; and

- operating leases: Under AAS rental income on operating leases is presented gross of the depreciation of the assets subject to the lease. These amounts are offset in deriving non-interest income and operating expenses on a cash earnings basis.

The guidance provided in Australian Securities and Investments Commission (ASIC) Regulatory Guide 230 has been followed when presenting this information.

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 2018, 2017 and 2016. Refer to Note 2 to the financial statements for the disclosure of our geographic and business segments and the reconciliation to net profit attributable to owners of Westpac Banking Corporation.

Cash earnings by business division

\$m	2018	2017	2016
Consumer Bank	3,140	3,155	3,011
Business Bank	2,159	2,003	1,885
BT Financial Group (Australia)	645	736	832
Westpac Institutional Bank	1,086	1,159	979
Westpac New Zealand	934	917	825
Group Businesses	101	92	290
Total cash earnings	8,065	8,062	7,822

Total assets by business division

\$bn	2018	2017	2016
Consumer Bank	392.5	377.5	359.2
Business Bank	156.5	153.1	148.9
BT Financial Group (Australia)	34.9	35.2	38.2
Westpac Institutional Bank	102.4	103.1	110.6
Westpac New Zealand	82.4	81.3	82.1
Group Businesses	110.9	101.7	100.2
Total assets	879.6	851.9	839.2

In presenting divisional results on a management reporting basis, internal charges and transfer pricing adjustments are included in the performance of each division reflecting the management structure rather than the legal entity (these results cannot be compared to results for individual legal entities). Where management reporting structures or accounting classifications have changed, financial results for comparative periods have been revised and may differ from results previously reported.

Our internal transfer pricing frameworks facilitate risk transfer, profitability measurement, capital allocation and business unit alignment, tailored to the jurisdictions in which we operate. Transfer pricing allows us to measure the relative contribution of our products and divisions to the Group's interest margin and other dimensions of performance. Key components of our transfer pricing frameworks are funds transfer pricing for interest rate and liquidity risk and allocation of basis and contingent liquidity costs, including capital allocation.

Divisional performance

Consumer Bank

Consumer Bank (CB) is responsible for sales and service to consumer customers in Australia under the Westpac, St.George, BankSA, Bank of Melbourne and RAMS brands. Activities are conducted through a dedicated team of specialist consumer relationship managers along with an extensive network of branches, call centres and ATMs. Customers are also supported by a range of internet and mobile banking solutions. CB works in an integrated way with Business Bank, BTFG and WIB in the sales and service of certain financial services and products including wealth and foreign exchange. The revenue from these products is mostly retained by the product originators.

Financial performance

\$m	2018	2017	2016
Net interest income	7,748	7,638	7,268
Non-interest income	746	813	863
Net operating income before operating expenses and impairment charges	8,494	8,451	8,131
Operating expenses	(3,542)	(3,378)	(3,312)
Impairment charges	(451)	(565)	(516)
Profit before income tax	4,501	4,508	4,303
Income tax expense	(1,361)	(1,353)	(1,292)
Cash earnings for the year	3,140	3,155	3,011
Net cash earnings adjustments	(15)	(116)	(116)
Net profit attributable to owners of Westpac Banking Corporation	3,125	3,039	2,895
	\$bn	\$bn	\$bn
Deposits and other borrowings	206.2	196.5	185.0
Net loans	385.4	370.4	352.5
Total assets	392.5	377.5	359.2
Total operating expenses to net operating income ratio	41.70%	39.97%	40.73%

2018 v 2017

Cash earnings were broadly unchanged even though there was a 7 basis point decline in net interest margin, the removal of certain ATM fees, changes in card interchange fees and increased regulatory and compliance costs. A \$114 million decline in impairment charges resulted in cash earnings of \$3,140 million, down \$15 million, over the year.

Net interest income up \$110 million, 1%	<p>\$ Lending increased 4% mostly in mortgages. Other lending decreased 4% mostly due to a 3% decline in credit cards, which was in line with the decline in the overall system¹;</p> <p>\$ A 10% increase in term deposits, and a 5% rise in transaction accounts (including offsets) supported the 5% rise in deposits; and</p> <p>\$ Net interest margin was down 7 basis points. The decline was due to higher short term wholesale funding costs, the full period impact of the Bank Levy, and higher provisions for estimated customer refunds and payments. The decline was partly offset by higher deposit spreads.</p>
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Operating expenses up \$164 million, 5%	<p>Most of the operating expense increase was due to:</p> <ul style="list-style-type: none"> - Provisions for costs associated with implementing customer refunds and payments and estimated litigation; - Compliance costs (up \$61 million) and investment related costs (up \$61 million); and - Investment to improve financial crime systems and processes, cyber security and complaints management. <p>Other cost increases including annual salary reviews and inflationary rises were more than offset by productivity benefits from:</p> <ul style="list-style-type: none"> - Digital capabilities increasing customer self-service including take-up of e-statements; - Full period benefit of 45 branches closed in 2017 and 40 branches closed in 2018; and - Benefits from organisation redesign.
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1 Source: APRA September 2018.

Divisional performance

Business Bank

Business Bank (BB) is responsible for sales and service to SME and commercial business customers in Australia for facilities up to approximately \$150 million. The division operates under the Westpac, St.George, BankSA and Bank of Melbourne brands. Customers are provided with a wide range of banking and financial products and services to support their borrowing, payments and transaction needs. In addition, specialist services are provided for cash flow finance, trade finance, automotive and equipment finance, and property finance. The division is also responsible for consumer customers with auto finance loans. BB works in an integrated way with BTFG and WIB in the sales, referral and service of certain financial services and products including corporate superannuation, foreign exchange and interest rate hedging. The revenue from these products is mostly retained by the product originator.

Financial performance

\$m	2018	2017	2016
Net interest income	4,065	3,885	3,766
Non-interest income	1,189	1,141	1,089
Net operating income before operating expenses and impairment charges	5,254	5,026	4,855
Operating expenses	(1,876)	(1,818)	(1,774)
Impairment charges	(291)	(343)	(386)
Profit before income tax	3,087	2,865	2,695
Income tax expense	(928)	(862)	(810)
Cash earnings for the year	2,159	2,003	1,885
Net cash earnings adjustments	(2)	(10)	(10)
Net profit attributable to owners of Westpac Banking Corporation	2,157	1,993	1,875
	\$bn	\$bn	\$bn
Deposits and other borrowings	110.8	107.0	99.8
Net loans	152.7	149.4	145.5
Total assets	156.5	153.1	148.9
Total operating expenses to net operating income ratio	35.71%	36.17%	36.54%

2018 v 2017

Cash earnings increased 8% (\$156 million), compared to 2017 from net operating income before operating expenses and impairment charges growth of 5% and a 15% decline in impairment charges. The result was supported by increased fee income and higher net interest margins.

Net interest income up \$180 million, 5%	<p>§ Lending growth of 2% was supported by diversified growth across industries including property, agriculture and manufacturing and in equipment finance. Mortgage growth slowed through the year as demand for investment lending slowed;</p> <p>§ and</p> <p>§ The 7% increase in term deposits, and 5% higher transaction balances supported the 4% increase in deposits;</p> <p>§ Net interest margin was up 5 basis points from repricing of certain mortgages types in the second half of 2017 and higher deposits spreads. These were partly offset by the full period impact of the Bank Levy (5 basis points).</p> <p>§</p>
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Operating expenses up \$58 million, 3%	\$ Most of the increase was due to higher investment related costs and regulatory and compliance costs; \$ Increases from other costs were largely offset by productivity benefits from: - Improved banker coverage and support structures; - Better alignment of customers to bankers across SME and industries; and - Process improvements from the extension of LOLA, improved online functionality and standardising risk reviews.
	\$
	\$

Divisional performance

BT Financial Group (Australia)

BT Financial Group (Australia) (BTFG) is the Australian wealth management and insurance arm of the Westpac Group providing a broad range of associated services. BTFG's funds management operations include the manufacturing and distribution of investment, superannuation and retirement products, wealth administration platforms, private wealth, margin lending and equities broking. BTFG's insurance business covers the manufacturing and distribution of life, general and lenders mortgage insurance. The division also uses a third party to manufacture certain general insurance products. In managing risk across all insurance classes the division reinsures certain risks using external providers. In addition to the BT brand, BTFG operates a range of financial service brands along with the banking brands of Westpac, St. George, Bank of Melbourne and BankSA for Private Wealth and Insurance.

Financial performance

\$m	2018	2017	2016
Net interest income	578	511	460
Non-interest income	1,648	1,744	1,908
Net operating income before operating expenses and impairment charges	2,226	2,255	2,368
Operating expenses	(1,291)	(1,199)	(1,184)
Impairment (charges)/benefits	(6)	(4)	-
Profit before income tax	929	1,052	1,184
Income tax expense	(284)	(316)	(352)
Profit attributable to non-controlling interests	-	-	-
Cash earnings for the year	645	736	832
Net cash earnings adjustments	(73)	160	(32)
Net profit attributable to owners of Westpac Banking Corporation	572	896	800
	\$bn	\$bn	\$bn
Deposits and other borrowings	33.0	30.7	26.6
Net loans	21.0	20.1	18.6
Total assets	34.9	35.2	38.2
Total funds	205.6	191.4	179.2
Total operating expenses to net operating income ratio	58.00%	53.17%	50.00%

Cash earnings

\$m	2018	2017	2016
Funds management business	327	413	498
Insurance	278	290	305
Capital and other	40	33	29
Total cash earnings	645	736	832

Divisional performance

2018 v 2017

Cash earnings were 12% lower (\$91 million) than 2017 impacted by additional provisions for estimated customer refunds and payments and associated costs. Excluding these items, performance was down 1% over the year. Disciplined balance sheet growth, and lower weather related insurance claims were offset by a lower Advice contribution, fund margin compression and higher life insurance claims.

Net interest income up \$67 million, 13%	\$ The 4% increase in lending was mostly in mortgages in Private Wealth. Deposits increased 7%, supported by an increase in term deposits, as customers looked for yield; and
	\$ Net interest margin was up 20 basis points due to disciplined margin management combined with repricing of certain mortgage types and term deposits. This was partly offset by the full period impact of the Bank Levy, an increase of \$15 million.
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Operating	\$ Increase mostly due to:

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expenses up \$92 million, 8%

- Provisions for the costs associated with customer refunds and payments (\$55 million);
- Investment costs (\$44 million) from the roll-out of additional functionality in Panorama, the implementation of BT Open Services and removing grandfathered commissions across systems;
- § Regulatory costs were lower due to the completion of the MySuper migration and FoFA (Future of Financial Advice); and
- § Productivity savings largely offset other costs increases, including annual salary reviews, property and technology related spending.

Divisional performance

Funds management business

\$m	2018	2017	2016
Net interest income	572	496	445
Non-interest income	1,080	1,183	1,334
Net operating income before operating expenses and impairment charges	1,652	1,679	1,779
Operating expenses	(1,171)	(1,084)	(1,069)
Impairment (charges)/benefits	(7)	(3)	-
Profit before income tax	474	592	710
Income tax expense	(147)	(179)	(212)
Profit attributable to non-controlling interests	-	-	-
Cash earnings for the year	327	413	498
Net cash earnings adjustments	(73)	160	(32)
Net profit attributable to owners of Westpac Banking Corporation	254	573	466
Total operating expenses to net operating income ratio	70.88%	64.56%	60.09%

Insurance business

The Insurance business result includes the Westpac and St.George Life Insurance, General Insurance and Lenders Mortgage Insurance (LMI) businesses.

\$m	2018	2017	2016
Net interest income	5	10	7
Non-interest income	512	499	525
Net operating income before operating expenses and impairment charges	517	509	532
Operating expenses	(115)	(99)	(95)
Profit before income tax	402	410	437
Income tax expense	(124)	(120)	(132)
Cash earnings for the year	278	290	305
Net cash earnings adjustments	-	-	-
Net profit attributable to owners of Westpac Banking Corporation	278	290	305
Total operating expenses to net operating income ratio	22.24%	19.45%	17.86%

Divisional performance

Westpac Institutional Bank

Westpac Institutional Bank (WIB) delivers a broad range of financial products and services to commercial, corporate, institutional and government customers with connections to Australia and New Zealand. WIB operates through dedicated industry relationship and specialist product teams, with expert knowledge in financing, transactional banking, and financial and debt capital markets. Customers are supported throughout Australia as well as via branches and subsidiaries located in New Zealand, the US, UK and Asia. WIB is also responsible for Westpac Pacific currently providing a range of banking services in Fiji and PNG. WIB works in an integrated way with all the Group's divisions in the provision of more complex financial needs including across foreign exchange and fixed interest solutions.

Financial performance

\$m	2018	2017	2016
Net interest income	1,416	1,328	1,421
Non-interest income	1,556	1,707	1,537
Net operating income before operating expenses and impairment charges	2,972	3,035	2,958
Operating expenses	(1,446)	(1,351)	(1,374)
Impairment (charges)/benefits	38	(56)	(177)
Profit before income tax	1,564	1,628	1,407
Income tax expense	(473)	(462)	(421)
Profit attributable to non-controlling interests	(5)	(7)	(7)
Cash earnings for the year	1,086	1,159	979
Net cash earnings adjustments	-	-	-
Net profit attributable to owners of Westpac Banking Corporation	1,086	1,159	979
	\$bn	\$bn	\$bn
Deposits and other borrowings	104.8	92.1	93.7
Net loans	77.2	74.1	74.0
Total assets	102.4	103.1	110.6
Total operating expenses to net operating income ratio	48.65%	44.51%	46.45%

2018 v 2017

Cash earnings were \$73 million or 6% lower than 2017 mostly due to lower markets revenue. The decline was partially offset by higher net interest margins and an impairment benefit. In 2018 the division exited the Hastings business which lifted both revenues and expenses (and contributed to a higher tax rate) but had little impact on cash earnings.

Net interest income up \$88 million, 7%	<p>\$ Lending was up 4%, from increased utilisation of mortgage warehouse facilities and a fall in the A\$ lifting Asia trade finance and loan balances;</p> <p>\$ Deposits increased 14% from higher Australian transaction balances and term deposits. Asia term deposits also increased due to foreign exchange translation impacts and to support lending in that region; and</p> <p>\$ Net interest margin was up 6 basis points, from higher transaction deposit margins and reduced wholesale funding costs. This was partially offset by the full period impact of the Bank Levy (5 basis points).</p> <p>\$</p>
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Operating expenses	\$	Hastings operating expenses up \$87 million, from goodwill write-off and restructuring costs associated with the exit of the business; and
up \$95 million, 7%		
	\$	Excluding Hastings, operating expenses were up \$8 million, or 1%, due to higher technology, regulatory and compliance expenses.

Divisional performance

Westpac New Zealand

Westpac New Zealand is responsible for sales and service of banking, wealth and insurance products for consumers, business and institutional customers in New Zealand. Westpac conducts its New Zealand banking business through two banks in New Zealand: Westpac New Zealand Limited, which is incorporated in New Zealand and Westpac Banking Corporation (New Zealand Branch), which is incorporated in Australia. Westpac New Zealand operates via an extensive network of branches and ATMs across both the North and South Islands. Business and institutional customers are also served through relationship and specialist product teams. Banking products are provided under the Westpac brand while insurance and wealth products are provided under Westpac Life and BT brands, respectively. New Zealand also maintains its own infrastructure, including technology, operations and treasury.

Financial performance

\$m	2018	2017	2016
Net interest income	1,720	1,629	1,606
Non-interest income	438	480	483
Net operating income before operating expenses and impairment charges	2,158	2,109	2,089
Operating expenses	(860)	(903)	(889)
Impairment (charges)/benefits	(2)	72	(54)
Profit before income tax	1,296	1,278	1,146
Income tax expense	(362)	(361)	(321)
Profit attributable to non-controlling interests	-	-	-
Cash earnings for the year	934	917	825
Net cash earnings adjustments	13	(14)	2
Net profit attributable to owners of Westpac Banking Corporation	947	903	827
	\$bn	\$bn	\$bn
Deposits and other borrowings ¹	56.7	53.7	54.9
Net loans	73.6	71.1	71.7
Total assets	82.4	81.3	82.1
Total funds	9.8	9.3	9.1
Total operating expenses to net operating income ratio	39.85%	42.82%	42.56%

1 Refers to total customer deposits in this table.

Divisional performance

2018 v 2017

Cash earnings increased 2% over the year supported by a 13 basis point increase in net interest margin, and a 5% decline in expenses, partly offset by lower non-interest income. 2018 recorded an impairment charge of \$2 million compared to an impairment benefit in 2017.

<p>Net interest income up \$91 million, 6%</p>	<p>Loans increased \$2.5 billion (4%), with the majority (\$1.6 billion) in mortgages. Business growth of \$1.0 billion was across a broad range of sectors. Overall consumer lending was below system¹ as the division balanced return with growth;</p> <p>Deposits increased \$3 billion, more than funding loan growth over the year, and resulting in the deposit to loan ratio increasing 144 basis points² to 77.0%. Most deposit growth was in term products as customers sought higher yields; and</p> <p>Net interest margin was 13 basis points higher from increased mortgage and business lending spreads, partly offset by lower deposit spreads.</p>
	<p></p>
<p>Operating expenses down \$43 million, 5%</p>	<p>Benefits from the transformation program include a reduction in branch numbers (down 6 over the year), lower FTE, and increased self-service from digitisation;</p> <p>Project costs associated with the transformation program were also lower; and</p> <p>Partly offsetting these benefits were increased risk management and regulatory costs and higher costs from annual salary reviews and inflation.</p>
	<p></p>

1 Source: RBNZ

2 Calculated in NZ\$.

124

2018 Westpac Group Annual Report

Divisional performance

Group Businesses

This segment comprises:

§ Treasury, which is responsible for the management of the Group's balance sheet including wholesale funding, capital and management of liquidity. Treasury also manages the interest rate risk and foreign exchange risks inherent in the balance sheet, including managing the mismatch between Group assets and liabilities. Treasury's earnings are primarily sourced from managing the Group's balance sheet and interest rate risk (excluding Westpac New Zealand) within set risk limits;

§ Group Technology¹, which comprises functions for the Australian businesses, is responsible for technology strategy and architecture, infrastructure and operations, applications development and business integration;

§ Core Support², which comprises functions performed centrally, including Australian banking operations, property services, strategy, finance, risk, compliance, legal, human resources and customer and corporate relations; and

Group Businesses also includes earnings on capital not allocated to divisions, certain intra-group transactions that facilitate presentation of performance of the Group's operating segments, earnings from non-core asset sales, earnings and costs associated with the Group's Fintech investments, and certain other head office items such as centrally raised provisions.

Financial performance

\$m	2018	2017	2016
Net interest income	812	713	827
Non-interest income	35	(33)	8
Net operating income before operating expenses and impairment charges	847	680	835
Operating expenses	(571)	(456)	(398)
Impairment benefits	2	43	9
Profit before income tax	278	267	446
Income tax (expense)/benefit	(178)	(175)	(148)
Profit attributable to non-controlling interests	1	-	(8)
Cash earnings for the year	101	92	290
Net cash earnings adjustments	107	(92)	(221)
Net profit attributable to owners of Westpac Banking Corporation	208	-	69

2018 v 2017

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Cash earnings increased \$9 million primarily from higher Treasury revenue and earnings on capital, partly offset by increased operating expenses and a lower impairment benefit.

Net operating income before operating expenses and impairment charges up \$167 million, 25%	<p>Net interest income increased \$99 million primarily from Treasury revenue related to Australian interest rate risk management and increased earnings from centrally held capital; and</p> <p>Non-interest income increased \$68 million primarily due to the impact of New Zealand earnings hedges and a \$10 million gain on asset sales.</p>
Operating expenses up \$115 million, 25%	<p>Higher regulatory and compliance costs, including costs associated with the Royal Commission, and estimated provisions for litigation;</p> <p>Higher restructuring costs; and</p> <p>Expenses associated with the Group's fintech investments.</p>
Impairment benefit down \$41 million	<p>Movements in impairments reflect a \$2 million benefit from a reduction to centrally held overlays during 2018, compared to a \$43 million benefit in 2017.</p>

1 Costs are fully allocated to other divisions in the Group.

2 Costs are partially allocated to other divisions in the Group, with costs attributed to enterprise activity retained in Group Businesses.

Divisional performance

Divisional performance 2017 v 2016

Consumer Bank

2017 v 2016

The 5% rise in cash earnings to \$3,155 million, was due to balance sheet growth and disciplined expense management.

Net interest income up \$370 million, 5%	<p>§ Mortgages growth was slightly below system . The decline in other lending was in credit cards and personal loans (in line with lower system1 balances);</p> <p>§ The above system growth in deposits included a 9% lift in transaction account balances; and</p> <p>§ Net interest margin was 3 basis points lower primarily from higher wholesale funding and deposits costs, partly offset by some repricing and continued discipline on discounting.</p>
Non-interest income down \$50 million, 6%	<p>§ Decline mostly due to lower cards income (net impact of interchange fee changes, loyalty point redemption costs, and a prior year benefit not repeated) and provisions for customer refunds and payments, partly offset by;</p> <p>§ Some fee repricing and higher foreign exchange income.</p>
Operating expenses up \$66 million, 2%	<p>§ Higher technology and investment related costs;</p> <p>§ A rise in regulatory and compliance spending;</p> <p>§ Increased product development and marketing costs; and</p> <p>§ Productivity benefits largely offset business as usual expense increases.</p>
Impairment charges up \$49 million, 9%	<p>§ Higher impairments were mostly due to an increase in mortgage IAPs for regions impacted by the slowing of the mining investment cycle and CAPs for hardship changes in the other consumer lending portfolio; and</p> <p>§ 90+ day other consumer loan delinquencies were higher mostly due to changes in the measurement and reporting of customers in hardship arrangements. Excluding hardship changes, 90+ day delinquencies improved.</p>

Business Bank

2017 v 2016

Cash earnings of \$2,003 million was \$118 million, or 6% higher than 2017 from net operating income before operating expenses and impairment charges growth of 4% and an 11% decline in impairment charges. The result was supported by increased fee income, balance sheet growth and productivity gains.

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<p>Net interest income up \$119 million, 3%</p>	<p> Lending growth of 3% was due to growth in SME and targeted industries while commercial property lending was lower from optimising risk return profile; The 7% increase in deposits was supported by an increase in transactional balances; and Net interest margin was little changed over the year. Asset spreads were higher following some repricing, although these were offset by lower deposit spreads and higher wholesale funding costs. </p>
<p>Non-interest income up \$52 million, 5%</p>	<p> Higher line fees from both portfolio growth and some repricing for facilities; and Fees were also supported by the growth in transaction balances and repricing. </p>
<p>Operating expenses up \$44 million, 2%</p>	<p> Business as usual cost increases were largely offset by efficiency gains from digitisation of processes and streamlining in the division's service model including specialist industry teams and more targeted handling of customer service requests; and Increased investment spending and technology costs led to most of the increase </p>
<p>Impairment charges down \$43 million, 11%</p>	<p> Lower impairments were principally due to improved collections processes for auto finance. This was partly offset by increased provisions across the property, construction, mining and manufacturing sectors, particularly in Queensland; and Credit quality remains sound, with total stressed assets to TCE lower. Auto delinquencies were higher due to the changes in hardship reporting. </p>

1 Source: RBA September 2017.

Divisional performance

BT Financial Group (Australia)

2017 v 2016

Cash earnings was 12% lower than full year 2016, impacted by a number of infrequent items totalling \$129 million before tax. The cash earnings impact of infrequent items (after tax) includes provisions for customer refunds and payments (\$58 million), revaluation loss on investments in boutique funds (\$24 million) and lower revenue following the further sale of shares in BTIM (\$10 million). The underlying business was flat over the year with volume growth partly offset by lower FUM and FUA margins, lower Advice activity levels, higher insurance claims and increased regulatory and compliance costs.

Net interest income up \$51 million, 11%	<ul style="list-style-type: none"> § Balance sheet growth in Private Wealth, deposits up 15% and loans up 8%; and § Net interest margin was up 14 basis points mostly due to repricing of certain mortgages and improved term deposit spreads.
Non-interest income down \$164 million, 9%	<ul style="list-style-type: none"> § Funds Management contribution was down \$151 million: <ul style="list-style-type: none"> - infrequent items indicated above (\$129 million); - advice income was lower mostly from reduced activity (\$33 million); and - FUM and FUA revenue was higher with growth in average FUM and FUA (10% and 7% respectively) offsetting lower margins from product mix changes, including the migration to MySuper products. FUM and FUA net flows were \$4 billion for the year. § Insurance income was down \$26 million (or 5%); <ul style="list-style-type: none"> - general insurance income was lower (\$33 million) mostly from higher claims concentrated in the first half of the year; - life insurance income was flat as the 10% growth in in-force premiums and improved lapses were offset by higher claims; and - LMI contribution was higher mostly due to the arrangements for loans with a LVR >90%. § Partly offsetting this was improved returns on capital mostly related to lower hedging costs.
Operating expenses up \$15 million, 1%	<ul style="list-style-type: none"> § Regulatory and compliance costs were \$28 million higher over the year; § Investment related spending was up from costs associated with the launch of Panorama; and § Productivity benefits mostly offset these increases.

Westpac Institutional Bank

2017 v 2016

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Cash earnings of \$1,159 million, was \$180 million or 18% higher compared to 2016, supported by higher customer and trading income, disciplined expense management and lower impairments.

Net interest income down \$93 million, 7%	Average loan balances were lower over the year, which contributed to lower net interest income; partly offset by 2 basis points improvement in net interest margin from the run-down in lower returning assets and pricing disciplines.
Non-interest income up \$170 million, 11%	Higher trading revenue across both fixed income and commodities; Customer revenue was higher reflecting some larger customer transactions; and Positive movement in derivative valuation adjustments.
Operating expenses down \$23 million, 2%	Disciplined operating expense management, productivity initiatives and lower investment in Asia contributed to the 2% reduction in operating expenses.
Impairment charges down \$121 million, 68%	Asset quality was sound, with the ratio of impaired assets to TCE down 26 basis points following the work-out and write-off of some larger facilities; and The lower charge was partly due to higher impairment charges in 2016 with increased provisions for the downgrade of a small number of large names.

Divisional performance

Westpac New Zealand

2017 v 2016

Cash earnings up 11% to \$917 million, with an impairment benefit of \$72 million, from higher write-back and recoveries. Net operating income before operating expenses and impairment charges was up 1%, with volume growth offset by margin decline. Operating expenses were up 2% driven by investment in the division's transformation program.

<p>Net interest income up \$23 million, 1%</p>	<p>Excluding foreign currency translation impacts, loan growth of 3% was mostly in mortgages, up 4% with business lending 1% higher;</p> <p>Excluding foreign currency translation impacts, deposits growth of 2% was mostly in term deposits (3%) with customers preferring higher rate term products over at call accounts;</p> <p>Net interest margin was 13 basis points lower mostly from increased deposit competition and increased wholesale funding costs, partly offset by;</p> <p>Repricing of certain mortgages and business loans.</p>
<p>Non-interest income down \$3 million, 1%</p>	<p>Increased investment income (from a 6% increase in FUM and FUA excluding foreign currency translation impacts) and higher cards income were offset by higher insurance claims and lower banking fees following the removal of some consumer fees.</p>
<p>Operating expenses up \$14 million, 2%</p>	<p>The increase was principally due to costs of and investment in the division's transformation program; and</p> <p>Outside of this increase operating expenses were 3% lower through a range of productivity initiatives including a net reduction of 20 branches, a 3% reduction in FTE, increased self-serve adoption and the digitisation of more processes.</p>
<p>Impairment benefit of \$72 million compared to a \$54 million impairment charge.</p>	<p>Asset quality remained sound with stressed assets to TCE reducing 48 basis points to 2.06%. The decline was due to reduction of stress in the dairy sector (improving milk prices). Consumer 90+ day delinquencies were a little higher but continue to be near historical lows; and</p> <p>The impairment benefit reflects the work-out and write-back of a few large facilities combined with the lower levels of stress.</p>

Group Businesses

2017 v 2016

Cash earnings decreased by \$198 million from lower Treasury revenue, increased expenses and a higher tax expense.

<p>Net operating income down \$155 million, 19%</p>	<p>Net interest income decreased \$114 million largely from lower Treasury revenue related to interest rate risk management; and</p>
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	<p>Non-interest income decreased \$41 million primarily due to the impact of exchange rate movements on the hedging of New Zealand earnings.</p>
<p>Operating expenses up \$58 million, 15%</p>	<p>Increase in operating expenses primarily from higher expenses associated with the Group's fintech investments and higher regulatory and compliance costs.</p>
<p>Impairment charges up \$34 million</p>	<p>Impairment charge increased \$34 million due to an increase to the centrally held economic overlay provisions, largely related to the mining sector. This reduction offsets provisions raised in divisions.</p>
<p>Tax and non-controlling interests up \$19 million, 12%</p>	<p>Tax and non-controlling interests increased \$19 million, as 2016 benefitted from the finalisation of prior period taxation matters, and hybrid distributions (not deductible for tax purposes) were also higher in 2017.</p>

Risk and risk management

Risk factors

Our business is subject to risks that can adversely impact our financial performance, financial condition and future performance. If any of the following risks occur, our business, prospects, reputation, financial performance or financial condition could be materially adversely affected, with the result that the trading price of our securities could decline and as a security holder you could lose all, or part, of your investment. You should carefully consider the risks described and the other information in this Annual Report before investing in our securities. The risks and uncertainties described below are not the only ones we 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 laws, regulations or regulatory policy

As a financial institution, we are subject to detailed laws and regulations in each of the jurisdictions in which we operate or obtain funding, including Australia, New Zealand, the United Kingdom, the United States and various jurisdictions in Asia and the Pacific. We are also supervised by a number of different regulatory and supervisory authorities which have broad administrative powers over our businesses. In Australia, the relevant regulatory authorities include the Australian Prudential Regulation Authority (APRA), Reserve Bank of Australia (RBA), Australian Securities and Investments Commission (ASIC), Australian Securities Exchange (ASX), Australian Competition and Consumer Commission (ACCC), the Australian Transaction Reports and Analysis Centre (AUSTRAC) and the Australian Taxation Office (ATO). The Reserve Bank of New Zealand (RBNZ) and the Financial Markets Authority (FMA) have supervisory oversight of our New Zealand operations. In the United States, we are subject to supervision and regulation by the US Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission (CFTC), the US Securities and Exchange Commission (SEC), the Office of Foreign Assets Control (OFAC) and the National Futures Association (NFA). In the United Kingdom, we are subject to supervision and regulation by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). In Asia, we are subject to supervision and regulation by local authorities, including the Monetary Authority of Singapore (MAS), the China Banking Regulatory Commission (CBRC) and the Hong Kong Monetary Authority (HKMA). In other jurisdictions in which we operate, we are also required to comply with relevant requirements of the local regulatory bodies.

The Group's business, prospects, reputation, financial performance and financial condition could all be affected by changes to law and regulation, changes to policies and changes in the supervisory activities and expectations of our regulators.

As with other financial services providers, we face increasing supervision and regulation in most of the jurisdictions in which we operate or obtain funding particularly in the areas of funding, liquidity, capital adequacy, prudential regulation, tax, anti-money laundering and counter-terrorism financing, conduct, consumer protection (including in the design and distribution of financial products), remuneration, competition (including through the introduction of changes to the Competition and Consumer Act 2010 (Cth) following recommendations by the Competition Policy Review chaired by Professor Ian Harper), privacy (including mandatory data breach notification obligations), data access and data protection (including through the introduction of the EU General Data Protection Regulation), information security, anti-bribery and corruption, and economic and trade sanctions.

Regulatory changes could impact us in a number of ways. For example, new regulation could require us to have increased levels of liquidity and higher levels of, and better quality, capital and funding. Regulatory change could also result in restrictions on how we operate our business by imposing restrictions on the types of businesses we can conduct, requiring us or our competitors to change our business models or requiring us to amend our corporate structure. For example, Westpac's business model may change with the phasing in of open banking. Further details about open banking are set out in 'Significant developments' in Section 1.

If regulatory change has any such effect, it could adversely affect one or more of our businesses, restrict our flexibility, require us to incur substantial costs and could impact the profitability of one or more of our business lines. Any such costs or restrictions could adversely affect our business, prospects, financial performance or financial condition.

Regulation may also affect how we provide products and services to our customers. New laws and regulations could restrict our ability to provide products and services to certain customers (including by imposing regulatory limits on certain types of lending and on lending to certain customer segments), require us to alter our product and service offerings, restrict our ability to set prices for certain products and services or require us to alter the pricing that applies to products and services provided to new and existing customers. These types of changes could affect our profitability by adversely affecting our ability to maintain or increase margins and fees. This could occur because a regulation seeks to place a cap on the price of a product or service we provide, or because, in response to new regulation, we increase the price we charge for a product or service. This price increase could lead to customers seeking out alternative products or services, whether within the Group or with a competitor (including customers switching residential mortgages from interest-only to principal and interest).

Risk and risk management

There are numerous sources of regulatory change that could affect our business. In some cases, changes to regulation are driven by international bodies. For example, in December 2010, the Basel Committee on Banking Supervision (BCBS) announced a revised global regulatory framework known as Basel III. Basel III, among other things, increased the required quality and quantity of capital held by banks and introduced new standards for the management of liquidity risk. The BCBS announced the finalisation of this framework in December 2017, while, in July 2017, APRA took steps to implement the next wave of capital requirements for banks by clarifying its expectations for banks to hold unquestionably strong levels of capital, and during 2018 released further discussion papers on the implementation of the revised capital framework, which APRA has stated is likely to come into effect on 1 January 2021. In other cases, authorities in the various jurisdictions in which we operate or obtain funding may propose regulatory change for financial institutions. Examples of proposed regulatory change that could impact us include changes to accounting and reporting standards, derivatives reform and changes to tax legislation (including dividend imputation). Further details on regulatory changes that may impact Westpac (including the Basel III framework) are set out in [Significant developments](#) in Section 1.

Further changes may occur driven by policy, prudential or political factors. Westpac is currently operating in an environment where there is increased political scrutiny of the Australian financial services sector. This environment has served to increase the pace and scope of regulatory change. For example, as part of the Federal Government's 2017 Budget, a series of reforms impacting the banking sector were announced, including the introduction of the Bank Executive Accountability Regime (BEAR) and the Bank Levy on ADIs with liabilities of at least A\$100 billion. Further details about the Bank Levy and BEAR are set out in [Significant developments](#) in Section 1.

Legislation introduced in one jurisdiction may lead to other governments seeking to introduce similar legislation in their jurisdiction. This was demonstrated by the South Australian Government's proposal to introduce a levy on the banks that are subject to the Federal Government's Bank Levy. While the South Australian Government has announced that it will not proceed with the proposed South Australian levy, it is possible that other governments may attempt to introduce their own version of the Bank Levy or similar legislation in the future.

As part of the heightened political scrutiny on the financial services sector, the Australian Government, other regulators and parliamentary bodies are increasingly initiating reviews and inquiries (such as the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, the House of Representatives Standing Committee on Economics' ongoing Review of Australia's Four Major Banks, the Senate Economics References Committee's inquiry into consumer protection in the banking, insurance and financial sector, the Productivity Commission's Inquiry into Competition in the Australian Financial System and the ACCC's Residential Mortgage Price Inquiry and Inquiry into foreign currency conversion services). These reviews and commissions of inquiry could lead to substantial regulatory change or investigations, which could have a material impact on our business, prospects, reputation, financial performance or financial condition.

It is also possible that governments or regulators in jurisdictions in which we operate or obtain funding might revise their application of existing regulatory policies that apply to, or impact, our business (including by instituting macro-prudential limits on lending). Regulators or governments may take this action for a variety of reasons, including for reasons relating to national interest and/or systemic stability.

Regulatory changes and the timing of their introduction continue to evolve and we manage our businesses in the context of regulatory uncertainty and complexity. The nature and impact of future changes are not predictable and are beyond our control. Regulatory compliance and the management of regulatory change are an important part of our planning processes. We expect that we will continue to invest significantly in compliance and the management and implementation of regulatory change and, at the same time, significant management attention and resources will be required to update existing, or implement new, processes to comply with new regulations. Furthermore, the challenge in managing regulatory change may be heightened by multiple jurisdictions seeking to adopt a coordinated approach to the introduction of new regulations. Where these jurisdictions elect not to adopt regulation in a uniform manner across each jurisdiction, this may result in conflicts between the specific requirements of the different jurisdictions in which we operate.

For further information refer to [Significant developments](#) in Section 1 and the sections [Critical accounting assumptions and estimates](#) and [Future developments in Note 1 to the financial statements](#).

Our businesses are highly regulated and we could be adversely affected by failing to comply with laws, regulations or regulatory policy

We are responsible for ensuring that we comply with all applicable legal and regulatory requirements (including accounting standards) and industry codes of practice in the jurisdictions in which we operate or obtain funding, as well as meeting our ethical standards.

The Group is subject to compliance risk, which is the risk of legal or regulatory sanction or financial or reputational loss, arising from our failure to abide by the compliance obligations required of us. This risk is exacerbated by the increasing complexity and volume of domestic and global regulation. Compliance risk can also arise where we interpret our regulatory obligations, compliance requirements and rights (including in relation to tax incentives and GST recoveries) differently to our regulators or a court. The potential for this to occur may be heightened in the period that follows the introduction of significant changes to regulation, particularly where that new regulation is untested and/or not subject to extensive regulatory guidance.

Risk and risk management

The Group employs a compliance management system which is designed to identify, assess and manage compliance risk. This system includes (amongst other things) frameworks, policies, procedures, controls and assurance oversight. While this system is currently in place, it may not always have been or continue to be effective. Breakdowns may occur in this compliance management system due, for example, to flaws in the design of controls or underlying processes. This could result in potential breaches of our compliance obligations, as well as poor customer outcomes.

The Group also depends on its employees, contractors, agents, authorised representatives and external service providers to do the right thing in order for it to meet its compliance obligations. If an employee, contractor or external service provider fails to act in an appropriate manner, such as by neglecting to follow a policy or by engaging in misconduct, these actions could result in poor customer outcomes and a failure by the Group to comply with its compliance obligations.

The Group's failure, or suspected failure, to comply with a compliance obligation could lead to a regulator commencing surveillance or an investigation into the Group, which may, depending on the circumstances, result in the regulator taking administrative or enforcement action against us (including seeking fines or other monetary penalties). In addition, the failure or alleged failure of our competitors to comply with their compliance obligations could lead to increased regulatory scrutiny across the financial services sector.

In many cases, our regulators have broad administrative and enforcement powers. For example, under the Banking Act 1959 (Cth), APRA can, in certain circumstances, investigate our affairs and/or issue a direction to us (such as a direction to comply with a prudential requirement, to conduct an audit, to remove a Director, executive officer or employee, or not to undertake transactions), disqualify an Accountable Person under the Banking and Executive Accountability Regime or require us to hold additional capital. Other regulators also have the power to investigate, including looking into past conduct.

The powers exercisable and penalties that can be imposed by our regulators may also be expanded in the future. For example, the Australian Government has released an exposure draft of the *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Power) Bill 2018* (Cth), which proposes to introduce design and distribution obligations in relation to financial products and provide ASIC with a product intervention power. The Australian Government has also publicly endorsed a proposal by the ASIC Enforcement Review Taskforce to expand ASIC's powers to ban individuals working in the financial services sector, with an exposure draft of legislation released in September 2018. In addition, the Australian Treasury released the *Treasury Laws Amendment (ASIC Enforcement) Bill 2018*, which proposes to strengthen penalties for corporate and financial sector misconduct. Further details are set out in *Significant developments* in Section 1.

Changes may also occur in the oversight approach of regulators which could result in a regulator exercising its enforcement powers rather than adopting a more consultative approach. There have also been recent announcements for regulators to embed staff within the institutions they supervise, with the Australian Government announcing an increase in ASIC's funding in order to implement this type of supervisory approach.

In recent years, there have been significant increases in the nature and scale of regulatory investigations, enforcement actions and the quantum of fines issued by global regulators. The nature of regulatory activity can be wide-ranging and may result in litigation, fines, penalties, infringement notices, reputational damage, revocation, suspension or variation of conditions of relevant regulatory licences (including potentially requiring us to change or adjust our business model) or other enforcement or administrative action or agreements (such as enforceable undertakings).

For example:

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§ In April 2016, ASIC commenced civil proceedings against Westpac in the Federal Court of Australia, alleging certain misconduct in relation to the setting of the bank bill swap reference rate in the period April 2010 to June 2012, including market manipulation and unconscionable conduct. Westpac defended these proceedings with the trial concluding in late 2017. On 24 May 2018, Justice Beach found that Westpac had not engaged in market manipulation or misleading or deceptive conduct under the Corporations Act 2001 (Cth). His Honour also found that there was no trading practice of manipulating the BBSW rate. However, the Court found that Westpac engaged in unconscionable conduct on 4 occasions and that Westpac breached its supervisory duty. Costs and penalties will be determined in the coming months;

§ On 1 March 2017, ASIC commenced civil proceedings against Westpac in the Federal Court of Australia in relation to certain home loan responsible lending practices (including interest-only lending). On 4 September 2018, Westpac and ASIC agreed to settle the proceedings on the basis of a proposed \$35 million penalty and declarations that Westpac contravened the National Consumer Credit Protection Act 2009 (Cth). The proposed settlement is subject to Court approval; and

§ On 15 March 2017, Westpac entered into an enforceable undertaking with ASIC following ASIC's industry-wide investigation into wholesale Spot Foreign Exchange (FX) trading activity between January 2008 and June 2013. As part of the enforceable undertaking, Westpac undertook, amongst other things, to continue to progress its program of strengthening its policies and processes in its Spot FX trading business, with input from an independent expert.

Furthermore, regulatory action may result in Westpac being exposed to the risk of litigation brought by third parties (including through class action proceedings). The outcome of such litigation (including class action proceedings) may be payment of compensation to third parties and/or further remediation activities. In addition, action taken in one jurisdiction may prompt similar action to be taken in another jurisdiction.

Risk and risk management

During the year ended 30 September 2018, Westpac has responded to requirements, compulsory notices and requests for information from its regulators and the Royal Commission as part of both industry-wide and Westpac-specific reviews, including in relation to matters involving the quality of advice, ongoing advice services, employers and superannuation, insurance and superannuation, life insurance and total and permanent disability arrangements, remuneration arrangements, responsible lending (including collections and hardship), credit cards, loan application fraud, mortgage-related conduct, commercial lending, consumer credit insurance and anti-money laundering and counter-terrorism financing.

Regulatory investigations, inquiries, litigation, fines, penalties, revocation, suspension or variation of conditions of relevant regulatory licences or other enforcement or administrative action or agreements (such as enforceable undertakings) could, either individually or in aggregate with other regulatory action, adversely affect our business, prospects, reputation, financial performance or financial condition.

The failure to comply with financial crime obligations could have an adverse effect on our business and reputation

The Group is subject to anti-money laundering and counter-terrorism financing laws, anti-bribery and corruption laws and economic and trade sanctions laws in the jurisdictions in which it operates. These laws can be complex and in some circumstances, impose a diverse range of obligations. For example, anti-money laundering and counter-terrorism financing laws require Westpac and other regulated institutions to (amongst other things) undertake customer identification and verification, conduct ongoing due diligence on certain classes of customer, maintain and comply with an AML/CTF program, undertake ongoing risk assessments and report certain matters and transactions to regulators (including in relation to International Funds Transfer Instructions, Threshold Transaction Reports and Suspicious Matter Reports). Furthermore, financial crime laws are also undergoing change in a number of jurisdictions.

In recent years there has been increased focus on compliance with financial crime obligations, with regulators around the globe commencing large-scale investigations and taking enforcement action where they have identified non-compliance (often seeking significant monetary penalties).

While the Group has systems, policies, processes and controls in place that are designed to manage its financial crime obligations (including its reporting obligations), these may not always have been or continue to be effective. If we fail to comply with these obligations, we could face regulatory action such as litigation, fines, penalties and the revocation, suspension or variation of licence conditions. Non-compliance could also lead to litigation commenced by third parties (including class action proceedings) and cause reputational damage. These actions could, either individually or in aggregate, adversely affect our business, prospects, reputation, financial performance or financial condition.

Reputational damage could harm our business and prospects

Our ability to attract and retain customers and our prospects could be adversely affected if our reputation is damaged.

Reputation risk is the risk of loss of reputation, stakeholder confidence or public trust and standing. It arises where there are differences between stakeholders' current and emerging perceptions, beliefs and expectations and our current and planned activities, processes, performance and behaviours.

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Westpac is currently undertaking a number of reviews to identify and resolve prior issues that have the potential to impact customers and reputation. As part of these reviews, we are strengthening our processes and controls in certain businesses and we have identified some prior instances where we are now taking action to put things right so that our customers are not at a disadvantage from certain past practices. For further information about these and other internal reviews, refer to Note 31 to the financial statements.

There are various potential sources of reputational damage. Westpac's reputation may be damaged where any of its policies, processes, practices or behaviours result in a negative outcome for a customer or a class of customers. Other potential sources of reputational damage include the failure to effectively manage risks in accordance with our risk management frameworks, potential conflicts of interest, failure to comply with legal and regulatory requirements, failure to meet our market disclosure obligations, regulatory investigations into past conduct, adverse findings from regulatory reviews (including Westpac-specific and industry-wide reviews), making inaccurate public statements, environmental, social and ethical issues, engagement and conduct of external suppliers, failure to comply with anti-money laundering and counter-terrorism financing laws, anti-bribery and corruption laws, economic and trade sanctions legislation or privacy laws, litigation, failure of information security systems, improper sales and trading practices, failure to comply with personnel and supplier policies, improper conduct of companies in which we hold strategic investments, technology failures and security breaches and inadequate record keeping which may prevent Westpac from demonstrating that a past decision was appropriate at the time it was made.

Westpac may incur reputational damage where its conduct, practices, behaviours or business activities fall below evolving community standards and expectations. As these expectations may exceed the standard required in order to comply with the law, Westpac may incur reputational damage even where it has met its legal obligations. A divergence between community expectations and Westpac's practices could arise in a number of ways, including in relation to our product and services disclosure practices, the features and benefits available under our products, lending practices, remuneration structures, pricing policies and the use and protection of data. Our reputation could also be adversely affected by the actions of the financial services industry in general or from the actions of our competitors, customers, suppliers, joint-venture partners, strategic partners and other counterparties.

Risk and risk management

Furthermore, the risk of reputational damage may be heightened by factors such as the increasing use of social media or the increasing prevalence of groups which seek to publicly challenge the Group's strategy or approach to aspects of its business.

Failure, or perceived failure, to appropriately address issues that could or do give rise to reputational risk could also impact the regulatory change agenda, give rise to additional legal risk, subject us to regulatory investigations, regulatory enforcement actions, fines and penalties or litigation brought by third parties (including class actions), require us to remediate and compensate customers and incur remediation costs or harm our reputation among customers, investors and the marketplace. This could lead to loss of business which could adversely affect our business, prospects, financial performance or financial condition.

The Royal Commission may lead to regulatory enforcement activity, litigation and changes in laws, regulations or regulatory policy, as well as potentially result in further and ongoing reputational damage to the Group, all of which is and may continue to have an adverse effect on our business and prospects

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry is currently investigating (amongst other things) whether any conduct, practices, behaviours or business activities engaged in by financial services entities amounted to potential misconduct, or fell below community standards and expectations. The Royal Commission is currently scheduled to provide its final report and recommendations to the Australian Government by 1 February 2019. There is a possibility that the deadline for the report will be extended in the future.

The Royal Commission's inquiries have made public, and are likely to continue to make public, instances where the Group or entities or persons associated with the Group engaged in potential misconduct or failed to meet community standards and expectations. The Royal Commission's Terms of Reference are broad and enable the Royal Commission to investigate potential misconduct in a wide range of areas. The public hearings of the Royal Commission have to date examined consumer lending practices, the provision of financial advice, business lending to small and medium enterprises, experiences with financial entities in regional and remote communities, superannuation and insurance. These investigations, including the public hearings, submissions, evidence and eventual findings of the Royal Commission, have had, and are likely to continue to have, an adverse impact on the Group's reputation and potentially the financial performance of the business. The Royal Commission may make findings that Westpac (including persons or entities acting on its behalf) has engaged in misconduct. These findings may lead to regulators commencing investigations and/or enforcement action against the Group. The Group may also be exposed to an increased risk of litigation involving third parties (including class action proceedings) in connection with matters raised publicly at the Royal Commission, particularly if the Royal Commission makes a finding of misconduct affecting the Group or the industry in a way that affects the Group.

The Interim Report of the Commission released on 28 September 2018 outlined a range of views the Commissioner has formed to date based on the information and hearings so far and has requested submissions on key areas of policy that might affect or address misconduct in the financial services industry. Many of those matters could have significant impacts on particular entities (including Westpac), the banking sector and the financial performance of banks. Recommendations may include matters which could cause structural change to the market and/or business models employed within the market. Westpac made submissions in relation to the questions posed in the Interim Report on 26 October.

Under the Royal Commission's Terms of Reference, it is required to investigate the adequacy of existing laws and policies of the Federal Government relating to the provision of banking, superannuation and financial services, and whether any further changes to the legal framework are necessary to minimise the likelihood of misconduct. Consequently, the Royal Commission is likely, in its final report, to recommend changes to Australia's legal framework, which the Federal Government may pass into legislation. The Royal Commission is also considering the regulation and enforcement practices of our regulators. Any findings or recommendations made by the Royal Commission, may result in our regulators altering their existing policies and practices (including increasing their expectations for entities that they regulate). Depending on the nature of any changes to Australia's legal framework and/or the policies and practices of our regulators which might be prompted by the Royal Commission, there may be an adverse effect on our business, prospects, financial performance or financial condition.

The Royal Commission may also lead to increased political or regulatory scrutiny of the financial industry in New Zealand.

We could suffer information security risks, including cyberattacks

The proliferation of new technologies, the increasing use of the internet and telecommunications to conduct financial transactions and the growing sophistication and activities of attackers (including organised crime and state-sponsored actors) have resulted in increased information security risks for major financial institutions such as Westpac and our external service providers.

While Westpac has systems in place to protect against, detect and respond to cyberattacks, these systems may not always be effective and there can be no assurance that we will not suffer losses from cyberattacks or other information security breaches in the future. If a cyberattack is successful, technology systems might fail to operate properly or become disabled and it could result in the unauthorised release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of the Group, its employees, customers or third parties or otherwise adversely impact network access, business operations or availability of services.

In addition, as cyber threats continue to evolve, we may be required to expend significant additional resources to modify or enhance our systems or to investigate and remediate any vulnerabilities or incidents.

Risk and risk management

Our operations rely on the secure processing, storage and transmission of information on our computer systems and networks, and the systems and networks of external suppliers. Although we implement measures to protect the security, integrity and confidentiality of our information, there is a risk that the computer systems, software and networks on which we rely may be subject to security breaches, unauthorised access, malicious software, external attacks or internal breaches that could have an adverse impact on our confidential information or that of our customers and counterparties.

Major banks in other jurisdictions have suffered security breaches from sophisticated cyberattacks. Our external service providers or other parties that facilitate our business activities (such as vendors, exchanges, clearing houses, central depositories and financial intermediaries) are also subject to the risk of cyberattacks. Any such security breach could result in the loss of customers and business opportunities, significant disruption to Westpac's operations, misappropriation of Westpac's confidential information and/or that of our customers and damage to Westpac's computers or systems and/or those of our customers. Such a security breach could also result in reputational damage, claims for compensation and regulatory investigations and penalties, which could adversely affect our business, prospects, financial performance or financial condition.

Our risk and exposure to such threats remains heightened because of the evolving nature of technology, Westpac's prominence within the financial services industry, the prominence of our customers (including government, mining and health) and our plans to continue to improve and expand our internet and mobile banking infrastructure.

We could suffer losses due to technology failures

The reliability, integrity and security of our information and technology is crucial in supporting our customers' banking requirements and meeting our compliance obligations and our regulators' expectations.

While the Group has a number of processes in place to provide for and monitor the availability and recovery of our systems, there is a risk that our information and technology systems might fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control. If we incur a technology failure we may fail to meet a compliance obligation (such as the obligation to retain records and data for requisite periods of time), or our customers may be adversely affected (such as where they are unable to access online banking services for an extended period of time or where an underlying technology issue results in a customer not receiving a product or service on the terms and conditions they agreed to). This could potentially result in reputational damage, remediation costs and a regulator commencing an investigation and/or taking administrative or enforcement action against us.

Further, in order to continue to deliver new products and services to customers, comply with our regulatory obligations and meet the ongoing expectations of our regulators, we need to regularly renew and enhance our technology. We are constantly managing technology projects including projects to consolidate technology platforms, simplify and enhance our technology and operations environment, improve productivity and provide for a better customer experience. Failure to implement these projects or manage associated change effectively could result in cost overruns, unrealised productivity, operational instability or reputational damage. In turn, this could place us at a competitive disadvantage and adversely affect our financial performance.

Adverse credit and capital market conditions or depositor preferences may significantly affect our ability to meet funding and liquidity needs and may increase our cost of funding

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We rely on deposits, and credit and capital markets, to fund our business and as a source of liquidity. Our liquidity and costs of obtaining funding are related to credit and capital market conditions.

Global credit and capital markets can experience periods of extreme volatility, disruption and decreased liquidity as was demonstrated during the Global Financial Crisis. While there have now been extended periods of stability in these markets, the environment remains unpredictable. The main risks we face are damage to market confidence, changes to the access and cost of funding and a slowing in global activity or other impacts on entities with whom we do business. Capital markets may also be affected by proposed changes to US repatriation tax rules.

As of 30 September 2018, approximately 29% of our total funding originated from domestic and international wholesale markets. Of this, around 66% was sourced outside Australia and New Zealand. Customer deposits provide around 63% of total funding. Customer deposits held by Westpac are comprised of both term deposits which can be withdrawn after a certain period of time and at call deposits which can be withdrawn at any time.

A shift in investment preferences could result in deposit withdrawals by customers which could increase our need for funding from other, potentially less stable, or more expensive, forms of funding.

If market conditions deteriorate due to economic, financial, political or other reasons, there may also be a loss of confidence in bank deposits and we could experience unexpected deposit withdrawals. In this situation our funding costs may be adversely affected and our liquidity and our funding and lending activities may be constrained.

If our current sources of funding prove to be insufficient, we may be forced to seek alternative financing. The availability of such alternative financing, and the terms on which it may be available, will depend on a variety of factors, including prevailing market conditions, the availability of credit, our credit ratings and credit market capacity. Even if available, these alternatives may be more expensive or on unfavourable terms, which could adversely affect our financial performance, liquidity, capital resources or financial condition. There is no assurance that we will be able to obtain adequate funding, do so at acceptable prices, or that we will be able to recover any additional costs.

Risk and risk management

If Westpac is unable to source appropriate funding, we may also be forced to reduce our lending or begin selling liquid securities. Such actions may adversely impact our business, prospects, liquidity, capital resources, financial performance or financial condition.

Westpac enters into collateralised derivative obligations, which may require Westpac to post additional collateral based on movements in market rates, which has the potential to adversely affect Westpac's liquidity or ability to use derivative obligations to hedge its interest rate, currency and other financial instrument risks.

For a more detailed description of liquidity risk, refer to Funding and liquidity risk in Note 22 to the financial statements .

Sovereign risk may destabilise financial markets adversely

Sovereign risk is the risk that governments will default on their debt obligations, will be unable to refinance their debts as they fall due or will nationalise parts of their economy including assets of financial institutions such as Westpac. Sovereign defaults could negatively impact the value of our holdings of high quality liquid assets. There may also be a cascading effect to other markets and countries, the consequences of which, while difficult to predict, may be similar to or worse than those experienced during the Global Financial Crisis. Such an event could destabilise global financial markets, adversely affecting our liquidity, financial performance or financial condition.

Failure to maintain credit ratings could adversely affect our cost of funds, liquidity, competitive position and access to capital markets

Credit ratings are independent opinions on our creditworthiness. Our credit ratings can affect the cost and availability of our funding from capital markets and other funding sources and they may be important to customers or counterparties when evaluating our products and services. Therefore, maintaining high credit ratings is important.

The credit ratings assigned to us by rating agencies are based on an evaluation of a number of factors, including our financial strength, the quality of our governance, structural considerations regarding the Australian financial system and the credit rating of the Australian Government. A credit rating downgrade could be driven by a downgrade of the Australian Government, the occurrence of one or more of the other risks identified in this section or by other events including changes to the methodologies used by the rating agencies to determine ratings.

A downgrade or series of downgrades to our credit ratings could have an adverse effect on our cost of funds and related margins, collateral requirements, liquidity, competitive position and our access to capital markets. The extent and nature of these impacts would depend on various factors, including the extent of any ratings change, whether our ratings differ among agencies (split ratings) and whether any ratings changes also impact our competitors or the sector.

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

There is a risk that a major systemic shock could occur that causes an adverse impact on the Australian, New Zealand or other financial systems.

As outlined above, during the past decade the financial services industry and capital markets have been, and may continue to be, adversely affected by market volatility, global economic conditions, geopolitical instability (such as threats of or actual conflict occurring around the world) and political developments. In particular, there have been significant global political developments in recent times, including Brexit and the introduction of tariffs and other protectionist measures by various countries, such as the US and China. A shock to one of the major global economies could again result in currency and interest rate fluctuations and operational disruptions that negatively impact the Group.

Any such market and economic disruptions could adversely affect financial institutions such as Westpac because consumer and business spending may decrease, unemployment may rise and demand for the products and services we provide may decline, thereby reducing our earnings. These conditions may also affect the ability of our borrowers to repay their loans or our counterparties to meet their obligations, causing us to incur higher credit losses and affect investors' willingness to invest in the Group. These events could also result in the undermining of confidence in the financial system, reducing liquidity, impairing our access to funding and impairing our customers and counterparties and their businesses. If this were to occur, our business, prospects, financial performance or financial condition could be adversely affected.

The nature and consequences of any such event are difficult to predict and there can be no certainty that we could respond effectively to any such event.

Declines in asset markets could adversely affect our operations or profitability

Declines in Australian, New Zealand or other asset markets, including equity, residential and commercial property and other asset markets, could adversely affect our operations and profitability.

Declining asset prices also impact our wealth management business. Earnings in our wealth management business are, in part, dependent on asset values because we typically receive fees based on the value of securities and/or assets held or managed. A decline in asset prices could negatively impact the earnings of this business.

Risk and risk management

Declining asset prices could also impact customers and counterparties and the value of security (including residential and commercial property) we hold against loans and derivatives. This may impact our ability to recover amounts owing to us if customers or counterparties were to default. It may also affect our level of provisioning which in turn impacts our profitability and financial condition.

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, business and consumer sentiment, levels of employment, interest rates, asset prices and trade flows in the countries in which we operate.

We conduct the majority of our business in Australia and New Zealand and, consequently, our performance is influenced by the level and cyclical nature of lending in these countries. These factors are in turn impacted by both domestic and international economic conditions, natural disasters and political events. A significant decrease in Australian and New Zealand housing valuations could adversely impact our home lending activities because borrowers with loans in excess of their property value show a higher propensity to default. In the event of defaults our security may be eroded, causing us to incur higher credit losses. The demand for our home lending products may also decline due to adverse changes in tax legislation (such as changes to tax rates, concessions or deductions), regulatory requirements or other buyer concerns about decreases in values.

Adverse changes to economic and business conditions in Australia and New Zealand and other countries such as China, India and Japan, could also adversely affect the Australian economy and our customers. In particular, due to the current economic relationship between Australia and China, particularly in the mining and resources sectors, a slowdown in China's economic growth, including as the result of the implementation of tariffs or other protectionist trade measures, could negatively impact the Australian economy. Changes in commodity prices, Chinese government policies and broader economic conditions could, in turn, result in reduced demand for our products and services and affect the ability of our borrowers to repay their loans. If this were to occur, it could negatively impact our business, prospects, financial performance or financial condition.

An increase in defaults in credit exposures could adversely affect our liquidity, capital resources, financial performance or financial condition

Credit risk is the risk of financial loss where a customer or counterparty fails to meet their financial obligations to Westpac. It is a significant risk and arises primarily from our lending activities.

We establish provisions for credit impairment based on current information. If economic conditions deteriorate, some customers and/or counterparties could experience higher levels of financial stress and we may experience a significant increase in defaults and write-offs, and be required to increase our provisioning. Such events would diminish available capital and could adversely affect our liquidity, capital resources, financial performance or financial condition.

Credit risk also arises from certain derivative, clearing and settlement contracts we enter into, and from our dealings with, and holdings of, debt securities issued by other banks, financial institutions, companies, clearing houses, governments and government bodies, the financial conditions of which may be affected to varying degrees by economic conditions in global financial markets.

For a discussion of our risk management procedures, including the management of credit risk, refer to the Risk management section and Note 22 to the financial statements.

We face intense competition in all aspects of our business

The financial services industry is highly competitive. We compete, both domestically and internationally, with retail and commercial banks, asset managers, investment banking firms, brokerage firms, other financial service firms and businesses in other industries with emerging financial services aspirations. This includes specialist competitors that may not be subject to the same capital and regulatory requirements and therefore may be able to operate more efficiently. Digital technologies are changing consumer behaviour and the competitive environment. The use of digital channels by customers to conduct their banking continues to rise and emerging competitors are increasingly utilising new technologies and seeking to disrupt existing business models, including in relation to digital payment services. The Group faces competition from established providers of financial services as well as from banking businesses developed by non-financial services companies.

The competitive environment may also change as a result of legislative reforms. For example, the introduction of the Open Banking regime, which will require banks to provide customers data to accredited third parties (at the direction of the customer), is likely to alter the competitive landscape.

If we are unable to compete effectively in our various businesses and markets, our market share may decline. Increased competition may also adversely affect us by diverting business to our competitors or creating pressure to lower margins and fees.

Increased competition for deposits could also increase our cost of funding and lead us to seek access to other types of funding or reduce lending. We rely on bank deposits to fund a significant portion of our balance sheet and deposits have been a relatively stable source of funding. We compete with banks and other financial services firms for such deposits. To the extent that we are not able to successfully compete for deposits, we would be forced to rely more heavily on other, potentially less stable or more expensive forms of funding, or reduce lending.

Risk and risk management

We are also dependent on our ability to offer products and services that match evolving customer preferences. If we are not successful in developing or introducing new products and services or responding or adapting to changes in customer preferences and habits, we may lose customers to our competitors. This could adversely affect our business, prospects, financial performance or financial condition.

For more detail on how we address competitive pressures refer to [Competition](#) in Section 1.

We could suffer losses due to market volatility

We are exposed to market risk as a consequence of our trading activities in financial markets, our defined benefit plan and through the asset and liability management of our financial position. This is the risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, commodity prices, equity prices, and interest rates including the potential for negative interest rates. This includes interest rate risk in the banking book, such as the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities.

Changes in market factors could be driven by a number of developments. As an example, in July 2017, the FCA, which regulates the London Interbank Offered Rate (LIBOR), announced that it would not require panel banks to continue to submit rates for the calculation of the LIBOR benchmark after 2021. Accordingly, the continuation of LIBOR in its current form will not be guaranteed after 2021, and it appears likely that LIBOR will be discontinued or modified by 2021. Any such developments or future changes in the administration of LIBOR or any other benchmarks could result in adverse consequences to the return on, value of and market for, securities and other instruments whose returns are linked to any such benchmark, including those securities or other instruments issued by the Group.

If we were to suffer substantial losses due to any market volatility (including changes in the return on, value of or market for, securities or other instruments) it may adversely affect our business, prospects, liquidity, capital resources, financial performance or financial condition. For a discussion of our risk management procedures, including the management of market risk, refer to the [Risk management](#) section.

We could suffer losses due to operational risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It also includes, among other things, reputational risk, technology risk, model risk and outsourcing risk, as well as the risk of business disruption due to external events such as natural disasters, environmental hazard, damage to critical utilities, and targeted activism and protest activity. While we have policies, processes and controls in place to manage these risks, these may not always be effective.

If a process or control is ineffective, it could result in an adverse outcome for Westpac's customers. For example, a process breakdown could result in a customer not receiving a product on the terms and conditions, or at the pricing, they agreed to. In addition, inadequate record keeping may prevent Westpac from demonstrating that a past decision was appropriate at the time it was made or that a particular action or activity was undertaken. If this was to occur, Westpac may incur significant costs in paying refunds and compensation to customers, as well as remediating any underlying process breakdown. These types of failure may also result in increased regulatory scrutiny, with a regulator potentially commencing an investigation and/or taking other enforcement, administrative or supervisory action.

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We could incur losses from fraudulent applications for loans or from incorrect or fraudulent payments and settlements, particularly real-time payments. Fraudulent conduct can also emerge from external parties seeking to access the bank's systems and customers' accounts. If systems, procedures and protocols for managing fraud fail, or are ineffective, they could lead to losses which could adversely affect our business, prospects, reputation, financial performance or financial condition.

Accurate and complete data is critical to ensuring that Westpac's systems (both customer facing and back-office), risk management frameworks, and financial reporting processes operate effectively. Poor data quality could arise in a number of ways, including through inadequacies in systems, processes and policies, which could lead to deficiencies or failings in customer service, risk management, financial reporting (including in the calculation of risk weighted assets) and result in poor decision making. In addition, Westpac is exposed to model risk, being the risk of loss arising from errors or inadequacies in data or a model, or in the control and use of a model.

Westpac is required to retain and access data and documentation for specific retention periods in order to satisfy its compliance obligations. In some cases, Westpac also retains data to enable it to demonstrate that a past decision was appropriate at the time it was made. Failings in systems, processes and policies could all adversely affect Westpac's ability to retain and access data.

In recent times, financial services entities have been increasingly sharing data with third parties, such as suppliers and regulators (both domestic and offshore), in order to conduct their business activities and meet regulatory obligations. A breakdown in a process or control related to the transfer, storage or protection of data transferred to a third party, or the failure of a third party to use and handle this data correctly, could result in the Group failing to meet a compliance obligation and/or have an adverse impact on our customers and the Group.

Risk and risk management

Westpac also relies on a number of suppliers, both in Australia and overseas, to provide services to it and its customers. Failure by these suppliers to deliver services as required could disrupt services and adversely impact Westpac's operations, profitability or reputation.

Operational risks can directly impact our reputation and result in financial losses (including through decreased demand for our products and services) which would adversely affect our financial performance or financial condition.

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

Operational risk, technology risk, conduct risk or compliance risk events could require Westpac to undertake customer remediation activity

As Westpac relies on a large number of policies, processes, procedures, systems and people to conduct its business, a breakdown or deficiency in one of these areas (which could arise from one or more operational risk, technology risk, conduct risk or compliance risk events) could result in an adverse outcome for customers which Westpac would need to remediate. For example, a breakdown in a process may result in a customer not receiving all of the benefits they were entitled to receive in connection with a packaged account product, or the poor conduct of a staff member in failing to properly follow internal policy could result in a customer not receiving the products or services that we had agreed to provide or receiving products or services that are not suitable for their needs.

These events could require the Group to incur significant remediation costs (which may include compensation payments to customers and costs associated with correcting the underlying issue) and could result in reputational damage.

There are also significant challenges and risks involved in executing a customer remediation activity. For example, depending on the nature of the issue, particularly legacy issues spanning beyond our record retention period, it may be difficult to quantify and scope the remediation activity. Determining how to properly and fairly compensate customers can also be a complicated exercise involving numerous stakeholders, such as regulators and industry bodies. In some instances, these stakeholders may have the power to require that a particular approach to remediation is taken, for example the Australian Financial Complaints Authority can monitor remedial action until a resolution has been achieved which is acceptable to them. These factors may impact the timeframe for completing the remediation activity with the potential for remediation costs actually incurred being higher than those initially estimated by the Group.

If the Group cannot effectively scope, quantify or implement a remediation activity in a timely way, there could be a negative impact on our business, prospects, reputation, financial performance or financial condition.

We could suffer losses due to litigation (including class action proceedings)

The Group (and individual entities within the Group) may, from time to time, be involved in legal proceedings, regulatory actions or arbitration arising from the conduct of their business and the performance of their legal and regulatory obligations.

Proceedings could be commenced against the Group by a range of potential plaintiffs, such as our customers, shareholders, suppliers and counterparties. These plaintiffs may commence proceedings individually or they may commence class action proceedings.

In recent years, there has been an increase in the number of class action proceedings brought against financial services companies (and other organisations more broadly), many of which have resulted in significant monetary settlements. The risk of class action proceedings being commenced is heightened by findings from regulatory investigations or inquiries (such as the Royal Commission into Misconduct in the Financial Services Industry), adverse media, an adverse judgment or the settlement of proceedings brought by a regulator. Furthermore, there is a risk that class action proceedings commenced against a competitor could lead to similar class action proceedings being commenced against the Group. In recent months, class actions have been commenced against financial services providers in relation to matters such as the sale of Consumer Credit Insurance and the investment decisions of Superannuation Fund trustees.

The growth in third party litigation funding in Australia has also contributed to a recent increase in the number of class actions being commenced in Australia.

From time to time, class action proceedings are commenced against the Group. For example:

§ In August 2016, a class action was filed in the United States District Court for the Southern District of New York against Westpac and a large number of other Australian and international banks alleging misconduct in relation to the bank bill swap reference rate. These proceedings are at an early stage and the level of damages sought has not been specified. Westpac is defending these proceedings.

§ On 12 October 2017 a class action against Westpac and Westpac Life Insurance Services Limited (WLIS) was filed in the Federal Court of Australia. The class action was filed on behalf of customers who, since October 2011, obtained insurance issued by WLIS on the recommendation of certain financial advisers employed within the Westpac Group. The plaintiffs have alleged that aspects of the financial advice provided by those advisers breached fiduciary and statutory duties owed to the advisers' clients, including the duty to act in the best interests of the client, and that WLIS was knowingly involved in those alleged breaches. Westpac and WLIS are defending the proceedings. These proceedings are currently stayed by order of the court, pending the outcome of an appeal concerning a procedural issue unrelated to the substantive claims made in the class action.

Risk and risk management

Litigation (including class action proceedings) may, either individually or in aggregate, adversely affect the Group's business, operations, prospects, reputation or financial condition. Such matters are subject to many uncertainties (for example, the outcome may not be able to be predicted accurately). Furthermore, the Group's ability to respond to and defend litigation may be adversely affected by inadequate record keeping.

Depending on the outcome of any litigation, the Group may be required to comply with broad court orders, including enforcement orders or otherwise pay money such as damages, fines, penalties or legal costs.

The Group's material contingent liabilities are described in Note 31 to the financial statements. There is a risk that these contingent liabilities may be larger than anticipated or that additional litigation or other contingent liabilities may arise.

We could suffer losses due to conduct risk

Conduct risk is the risk that our provision of services and products results in unsuitable or unfair outcomes for our stakeholders or undermines market integrity. Conduct risk could occur through the provision of products and services to our customers that do not meet their needs or do not support market integrity, as well as the poor conduct of our employees, contractors, agents, authorised representatives and external service providers. This could occur through a failure to meet professional obligations to specific clients (including fiduciary and suitability requirements), poor product design and implementation, failure to adequately consider customer needs or selling products and services outside of customer target markets. Conduct Risk may also arise where there has been a failure to adequately provide a product or services that we had agreed to provide a customer. As an example, Westpac has undertaken a review of financial advice provided by salaried planners and identified numerous instances where customers were paying ongoing advice fees but the advice services were not provided or we were unable to sufficiently verify that the advice services were provided. Westpac has also commenced a review of ongoing advice services provided by planners operating in aligned dealer groups which may result in the discovery of additional misconduct. More detail on this review of ongoing advice services provided by planners operating in aligned dealer groups is set out in Note 31 to the financial statements.

While we have frameworks, policies, processes and controls that are designed to manage poor conduct outcomes, these policies and processes may not always be effective. The failure of these policies and processes could result in financial losses and reputational damage and this could adversely affect our business, prospects, financial performance or financial condition.

We could suffer losses due to failures in governance or risk management strategies

We have implemented risk management strategies, frameworks and internal controls involving processes and procedures intended to identify, monitor and manage risks including liquidity risk, credit risk, equity risk, market risk (such as interest rate and foreign exchange risk), compliance risk, conduct risk, insurance risk, sustainability risk, related entity (contagion) risk and operational risk, all of which may impact the Group's reputation.

However, there are inherent limitations with any risk management framework as there may exist, or emerge in the future, risks that we have not anticipated or identified and controls may not be effective.

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The Group is also required to periodically review its risk management framework to determine whether it remains appropriate having regard to the nature, size and complexity of our business. If it is determined that a risk framework, process or system is no longer appropriate, the Group may be required to undertake considerable work to remedy this. The failure to do so could result in increased scrutiny from regulators, the failure to meet a compliance obligation and/or financial losses.

The effectiveness of risk management frameworks is also connected to the establishment and maintenance of a sound risk management culture. The development of appropriate remuneration structures can play an important role in supporting the establishment of, and contributing to the maintenance, of a sound risk culture. However, if there is a deficiency in the design or operation of our remuneration structures, this could have a negative effect on our risk culture. This could occur in circumstances where variable reward structures encourage excessive risk taking or other conduct inconsistent with a sound risk culture. This, in turn, may have an adverse impact on the effectiveness of our risk management frameworks.

Following APRA's request to major financial institutions to undertake a written self-assessment having regard to the findings in the Commonwealth Bank of Australia Prudential Inquiry Final Report, Westpac is currently undertaking a Culture, Governance and Accountability Self-Assessment. The Self-Assessment will consider key themes such as remuneration, accountability and culture (as it pertains to risk and compliance). APRA requires a Board endorsed written assessment to be submitted by 30 November. Further details about the Culture, Governance and Accountability assessment are found in Significant Developments in Section 1.

If any of our governance or risk management processes and procedures prove ineffective or inadequate or are otherwise not appropriately implemented, we could suffer unexpected losses and reputational damage which could adversely affect our business, prospects, financial performance or financial condition.

For a discussion of our risk management procedures, refer to the Risk management section.

Risk and risk management

The Group's failure to recruit and retain key executives, employees and Directors may have adverse effects on our business

Key executives, employees and Directors play an integral role in the operation of Westpac's business and its pursuit of its strategic objectives. The unexpected departure of an individual in a key role, or the Group's failure to recruit and retain appropriately skilled and qualified persons into these roles, could each have an adverse effect on our business, prospects, reputation, financial performance or financial condition.

Climate change may have adverse effects on our business

We, our customers and external suppliers, may be adversely affected by the physical risks of climate change, including increases in temperatures, sea levels, and the frequency and severity of adverse climatic events including fires, storms, floods and droughts. These effects, whether acute or chronic in nature, may directly impact us and our customers through reputational damage, environmental factors, insurance risk and business disruption and may have an adverse impact on financial performance (including through an increase in defaults in credit exposures).

Initiatives to mitigate or respond to adverse impacts of climate change may in turn impact market and asset prices, economic activity, and customer behaviour, particularly in geographic locations and industry sectors adversely affected by these changes. Failure to effectively manage these transition risks could adversely affect our business, prospects, reputation, financial performance or financial condition.

We could suffer losses due to environmental factors

We and our customers operate businesses and hold assets in a diverse range of geographic locations. Any significant environmental change or external event (including fire, storm, flood, earthquake, pandemic, civil unrest or terrorism) in any of these locations has the potential to disrupt business activities, impact on our operations, damage property and otherwise affect the value of assets held in the affected locations and our ability to recover amounts owing to us. In addition, such an event could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets, all of which could adversely affect our business, prospects, financial performance or financial condition.

We could suffer losses due to insurance risk

We have exposure to insurance risk in our life insurance, general insurance and lenders mortgage insurance businesses, which may adversely affect our business, operations or financial condition.

Insurance risk is the risk in our licensed regulated insurance entities of the costs of claims being greater than expected due to a failure in product design, underwriting, reinsurance arrangements or an increase in the severity and/or frequency of insured events.

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In the life insurance business, risk arises primarily through mortality (death) and morbidity (illness and injury) risks, the costs of claims relating to those risks being greater than was anticipated when pricing those risks and policy lapses.

In the general insurance business, insurance risk arises mainly through environmental factors (including storms, floods and bushfires) and other calamities, such as earthquakes, tsunamis and volcanic activity, as well as general variability in home and contents insurance claim amounts. The frequency and severity of external events such as natural disasters is difficult to predict and it is possible that the amounts we reserve for potential losses from existing events, such as those arising from natural disaster events, may not be adequate to cover actual claims that may arise.

In the lenders mortgage insurance business, insurance risk arises primarily from unexpected downturns in economic conditions leading to higher levels of mortgage defaults from unemployment or other economic factors.

If our reinsurance arrangements are ineffective, this could lead to greater risk, and more losses than anticipated. There is also a risk that we will not be able to renew an expiring reinsurance arrangement on similar terms, including in relation to the cost, duration and amount of reinsurance cover provided under that arrangement.

Changes in critical accounting estimates and judgements could expose the Group to losses

The Group is required to make estimates, assumptions and judgements when applying accounting policies and preparing its financial statements, particularly in connection with the calculation of provisions (including those related to credit losses) and the determination of the fair value of financial instruments. A change in a critical accounting estimate, assumption and/or judgement resulting from new information or from changes in circumstances or experience could result in the Group incurring losses greater than those anticipated or provided for. This may have an adverse effect on the Group's financial performance, financial condition and reputation. The Group's financial performance and financial condition may also be impacted by changes to accounting standards or to generally accepted accounting principles.

We could suffer losses due to impairment of capitalised software, goodwill and other intangible assets that may adversely affect our business, operations or financial condition

In certain circumstances Westpac may be exposed to a reduction in the value of intangible assets. As at 30 September 2018, Westpac carried goodwill principally related to its investments in Australia, other intangible assets principally relating to assets recognised on acquisition of subsidiaries and capitalised software balances.

Risk and risk management

Westpac is required to assess the recoverability of the goodwill and other intangible asset balances on at least an annual basis or wherever an indicator of impairment exists. For this purpose, Westpac uses a discounted cash flow calculation. Changes in the methodology or assumptions upon which the calculation is based, together with expected changes in future cash flows, could materially impact this assessment, resulting in the potential write-off of part or all of the intangible assets.

In the event that an asset is no longer in use, or its value has been reduced or that its estimated useful life has declined, an impairment will be recorded, adversely impacting the Group's financial condition. The estimates and assumptions used in assessing the useful life of an asset can be affected by a range of factors including changes in strategy and the rate of external changes in technology and regulatory requirements.

We could suffer losses if we fail to syndicate or sell down underwritten securities

As a financial intermediary, we underwrite listed and unlisted debt and equity securities. Underwriting activities include the development of solutions for corporate and institutional customers who need capital and investor customers who have an appetite for certain investment products. We may guarantee the pricing and placement of these facilities. We could suffer losses if we fail to syndicate or sell down our risk to other market participants. This risk is more pronounced in times of heightened market volatility.

Certain strategic decisions may have adverse effects on our business

Westpac, at times, evaluates and may implement strategic decisions and objectives including diversification, innovation, divestment or business expansion initiatives.

The expansion or integration of a new business, or entry into a new business, can be complex and costly and may require Westpac to comply with additional local or foreign regulatory requirements which may carry additional risks.

Westpac also acquires and invests in businesses owned and operated by external parties. These transactions involve a number of risks for the Group. For example, Westpac may incur financial losses if a business it invests in does not perform as anticipated or subsequently proves to be overvalued at the time that the transaction was entered into.

In addition, we may be unable to successfully divest businesses or assets. These activities may, for a variety of reasons, not deliver the anticipated positive business results and could have a negative impact on our business, prospects, reputation, engagement with regulators, financial performance or financial condition.

Limitation on Independent Registered Public Accounting Firm's Liability

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The liability of PricewaterhouseCoopers (an Australian partnership which we refer to as PwC Australia), with respect to claims arising out of its audit report included in this Annual Report, is subject to the limitations set forth in the Professional Standards Act 1994 of New South Wales, Australia, as amended (the Professional Standards Act) and Chartered Accountants Australia and New Zealand (NSW) scheme adopted by Chartered Accountants Australia and New Zealand on 8 October 2014 and approved by the New South Wales Professional Standards Council pursuant to the Professional Standards Act (the NSW Accountants Scheme). For matters occurring on or prior to 7 October 2014, the liability of PwC Australia may be subject to the limitations set forth in predecessor schemes. The current NSW Accountants Scheme expires on 7 October 2019 unless further extended or replaced.

The Professional Standards Act and the NSW Accountants Scheme may limit the liability of PwC Australia for damages with respect to certain civil claims arising in, or governed by the laws of, New South Wales directly or vicariously from anything done or omitted to be done in the performance of its professional services for us, including, without limitation, its audits of our financial statements. The extent of the limitation depends on the timing of the relevant matter and is:

§ in relation to matters occurring on or after 8 October 2013, a maximum liability for audit work of A\$75 million; or

§ in relation to matters occurring on or prior to 7 October 2013, the lesser of (in the case of audit services) ten times the reasonable charge for the service provided and a maximum liability for audit work of A\$75 million.

The limitations do not apply to claims for breach of trust, fraud or dishonesty.

In addition, there is equivalent professional standards legislation in place in other states and territories in Australia and amendments have been made to a number of Australian federal statutes to limit liability under those statutes to the same extent as liability is limited under state and territory laws by professional standards legislation. Accordingly, liability for acts or omissions by PwC Australia in Australian states or territories other than New South Wales may be limited in a manner similar to that in New South Wales. These limitations of liability may limit recovery upon the enforcement in Australian courts of any judgement under US or other foreign laws rendered against PwC Australia based on or related to its audit report on our financial statements. Substantially all of PwC Australia's assets are located in Australia. However, the Professional Standards Act and the NSW Accountants Scheme have not been subject to extensive judicial consideration and therefore how the limitation might be applied by the courts and the effect of the limitation remain untested in a number of respects, including its effect in respect of the enforcement of foreign judgements.

Risk and risk management

Risk management

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

Effective risk management including a sound risk culture is one of the keys to achieving our vision as it influences our customers' experiences, the public's perceptions, the strength of our balance sheet, our financial performance, our reputation and our shareholders' expectations. It is critical to our future success. We regard managing risk as a core function performed at all levels of the Group.

The Risk Management Strategy is approved by the Board and reviewed by the Board Risk and Compliance Committee (BRCC) on an annual basis or more frequently where required by a material business or strategy change or a material change to the Group's risk profile. It is owned by the Chief Executive Officer (CEO).

For further information regarding the roles and responsibilities of the BRCC and other Board committees in managing risk, refer to Westpac's Corporate Governance Statement in Section 1.

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

As outlined in the Corporate governance section, we adopt a Three Lines of Defence approach to risk management which reflects our culture of risk is everyone's business and that all employees are responsible for identifying and managing risk and operating within the Group's desired risk profile.

For a discussion of the risks to which Westpac is exposed, and its policies to manage these risks, refer to Westpac's Corporate Governance Statement and Note 22 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 to Westpac.

We have a framework and supporting policies for managing the credit risk associated with lending across our business divisions. The framework and policies encompass all stages of the credit cycle – origination, evaluation, approval, documentation, settlement, ongoing administration and problem management. For example, we have established product-based standards for lending to individuals, with key controls including minimum serviceability standards and maximum loan to security value ratios. We offer residential property loans to both owner-occupiers and investors at both fixed and variable rates, secured by a mortgage over the property or other acceptable collateral. Where we lend to higher loan to value ratios, we typically also require lenders mortgage insurance. Similarly, we have established criteria for business, commercial, corporate and institutional

lending, which can vary by industry segment. In this area we focus on the performance of key financial risk ratios, including interest coverage, debt serviceability and balance sheet structure. When providing finance to smaller business, commercial and corporate borrowers we typically obtain security, such as a mortgage over property and/or a general security agreement over business assets. For larger corporates and institutions, we typically also require compliance with selected financial ratios and undertakings and may hold security. In respect of commercial property lending, we maintain loan origination and ongoing risk management standards, including specialised management for higher value loans. We consider factors such as the nature, location, quality and expected demand for the asset, tenancy profile and experience and quality of management. We actively monitor the Australian and New Zealand property markets and the composition of our commercial property loan book across the Group.

The extension of credit is underpinned by the Group's Principles of Responsible Lending. This is reflected in our commitment to comply with all local legislation, codes of practice and relevant guidelines and obligations to market our products responsibly and stay in touch with the expectations of customers and the community.

Refer to Note 22 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 14 to the financial statements.

Credit risk concentrations

We monitor our credit portfolio to manage risk concentrations. At 30 September 2018, our exposure to consumers comprised 72% (2017: 72%, 2016: 72%) of our on-balance sheet loans and 59% (2017: 59%, 2016: 58%) of total credit commitments. At 30 September 2018, 92% (2017: 92%, 2016: 91%) of our exposure to consumers was supported by residential real estate mortgages. The consumer category includes owner-occupier and 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.

Risk and risk management

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. We also control the concentration risks that can arise from large exposures to individual borrowers.

Cross-border outstandings

Cross-border outstandings are loans, placements with banks, interest earning investments and monetary assets denominated in currencies other than the borrower's or guarantor's local currency, or the local currency of the Westpac branch or subsidiary holding the asset. They are grouped on the basis of the country of domicile of the borrower or the ultimate guarantor of the risk. The table below excludes irrevocable letters of credit, amounts of which are immaterial. The relevant foreign denominated currencies have been converted at the closing spot exchange rate used in the financial statements.

Our cross-border outstandings to borrowers in countries that individually represented in excess of 0.75% of Group total assets as at 30 September in each of the past three years were as follows:

(in \$millions unless otherwise indicated) ¹	Governments and Official Institutions	Banks and Other Financial Institutions	Other (Primarily Commercial and Industrial)	Total	% of Total Assets
2018					
United States	3,879	3,138	1,674	8,691	1.0%
2017					
United States	8,106	2,497	947	11,550	1.4%
2016					
United States	8,288	3,831	1,351	13,470	1.6%

Impaired assets among cross-border outstandings were \$1.4 million as at 30 September 2018 (2017: \$12 million, 2016: \$277 million).

Liquidity risk

Liquidity risk is the risk that the Group will be unable to fund assets and meet obligations as they become due. This risk could potentially arise as a result of:

§ an inability to meet both expected and unexpected current and future cash flows and collateral needs without affecting either daily operations or the financial condition of the bank; and/or

§ inadequate market depth or market disruption impacting the ability to offset or eliminate a market risk position at the market price.

The Westpac Group has a liquidity risk management framework which seeks to meet cash flow obligations under a wide range of market conditions, including name specific and market-wide scenarios as well as meeting the requirements of the Liquidity Coverage Ratio and Net Stable Funding Ratio.

Refer to Note 22 to the financial statements for a more detailed discussion of our liquidity risk management policies.

1 At face value.

Risk and risk management

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 2018:

Program Limit	Issuer(s)	Program/Issuing Shelf Type
Australia		
No limit	WBC	Debt Issuance Program
Euro Market		
USD 2.5 billion	WBC	Euro Transferable Certificate of Deposit Program
USD 20 billion	WBC/WSNZL1	Euro Commercial Paper and Certificate of Deposit Program
USD 70 billion	WBC	Euro Medium Term Note Program
USD 10 billion	WSNZL1	Euro Medium Term Note Program
USD 40 billion	WBC2	Global Covered Bond Program
EUR 5 billion	WSNZL3	Global Covered Bond Program
Japan		
JPY 750 billion	WBC	Samurai shelf
JPY 750 billion	WBC	Uridashi shelf
United States		
USD 45 billion	WBC	US Commercial Paper Program
USD 10 billion	WSNZL1	US Commercial Paper Program
USD 35 billion	WBC	US Medium Term Note Program
USD 15 billion	WBC (NY Branch)	US Medium Term Deposit Note Program
No limit	WBC (NY Branch)	Certificate of Deposit Program
No limit	WBC	US Securities and Exchange Commission registered shelves
New Zealand		
No limit	WNZL	Medium Term Note and Registered Certificate of Deposit Program

Market risk

Market risk is the risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, interest rates, commodity prices or 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. Market risk arises in both trading and banking book activities.

Our trading activities are conducted in our Financial Markets and Treasury businesses. Financial Markets trading book activity represents dealings that encompass book running and distribution activity. Treasury's trading activity represents dealings that include the management of interest rate, foreign exchange (FX) and credit spread risk associated with wholesale funding, liquid asset portfolios and hedging of foreign currency earnings and capital deployed offshore.

Refer to Note 22 to the financial statements for a more detailed discussion of our market risk management policies.

1 Notes issued under this program by Westpac Securities NZ Limited, London branch are guaranteed by Westpac New Zealand Limited, its parent company.

2 Notes issued under this program are guaranteed by BNY Trust Company of Australia Limited as trustee of the Westpac Covered Bond Trust.

3 Notes issued under this program by Westpac Securities NZ Limited, London branch are guaranteed by Westpac New Zealand Limited, its parent company, and Westpac NZ Covered Bond Limited.

Risk and risk management

The table below depicts the aggregate Value at Risk (VaR), by risk type, for traded risk for the respective year ended 30 September:

Consolidated and Parent Entity \$m	2018			2017			2016		
	High	Low	Average	High	Low	Average	High	Low	Average
Interest rate risk	15.6	5.1	8.6	16.0	4.6	8.5	14.0	4.6	8.8
Foreign exchange risk	6.9	0.7	3.0	9.4	0.6	3.1	12.2	1.4	5.1
Equity risk	1.0	0.0	0.1	0.4	0.0	0.1	2.9	0.1	0.3
Commodity risk ¹	24.3	1.7	6.5	14.1	3.3	6.6	4.5	1.4	2.7
Other market risks ²	5.8	1.4	3.8	5.1	3.5	4.2	6.0	2.6	3.6
Diversification effect	n/a	n/a	(8.6)	n/a	n/a	(8.6)	n/a	n/a	(8.0)
Net market risk	28.1	6.7	13.4	22.9	9.7	13.9	18.7	7.7	12.5

Operational risk and compliance risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition is aligned to the regulatory (Basel II) definition, including legal and regulatory risk but excluding strategic risk. It also includes, among other things, technology risk, model risk, outsourcing risk and reputational risk.

The way operational risk is managed has the potential to positively or negatively impact our customers, our employees, our financial performance and our reputation.

Compliance risk is the risk of legal or regulatory sanction, financial or reputational loss, arising from our failure to adhere to the compliance obligations required of the Group.

Compliance is focused on meeting our legal and regulatory obligations in each of the jurisdictions in which we operate by proactively managing compliance risk. Refer to Westpac's Corporate Governance Statement in Section 1 for information on our management of operational and compliance risk.

1 Includes electricity risk.

2 Includes prepayment risk and credit spread risk (exposure to movements in generic credit rating brands).

Risk and risk management

The Group's Operational Risk Management Framework and Compliance Management Framework (CMF) provide the basis for divisions to identify, assess, measure, manage, monitor and report on their risks. The Operational Risk Management Framework sets out the Group's approach to managing operational risk, and is supported by a number of key Group-wide operational risk policies. CMF sets out the approach of the Westpac Group to managing compliance obligations and mitigating compliance risk, in order to achieve our compliance objective. The CMF is an integral part of the Board-approved Risk Management Strategy and is supported by a number of key policies and frameworks. This is discussed in further detail in Note 22 to the financial statements.

Other risks

Business risk

The risks arising from the strategic objectives and business plans.

Conduct risk

The risk that our provision of services and products results in unsuitable or unfair outcomes for our stakeholders or undermines market integrity.

The Westpac Group Conduct Framework sets out our approach to Conduct and Conduct Risk Management. We establish an umbrella view of Conduct Risk by leveraging existing risk frameworks, in particular operational, compliance, reputation and sustainability risk to improve customer outcomes. Conduct also underpins Our Compass, which brings together our Vision, Values, Code of Conduct and Service Promise to provide our people with a consistent understanding of what it means to Do the Right Thing.

Sustainability risk

The risk of reputation or financial loss due to failure to recognise or address material existing or emerging sustainability related environmental, social or governance issues.

The Group has in place a Board-approved Sustainability Risk Management Framework (Framework) that is supported by a suite of key policies and position statements. These include Our Principles for Doing Business, Responsible Investment Position Statement, Environmental, Social and Governance (ESG) Credit Risk Policy, Climate Change Position Statement and Action Plan, Human Rights Position Statement and Action Plan, sensitive sector position statements and Responsible Sourcing Code of Conduct, many of which are publicly available. The Sustainability Risk Management Framework was reviewed and updated in 2018.

Westpac is also a signatory to a number of voluntary principles-based frameworks that guide the integration of ESG-related issues to banking, lending and investment analysis. These include the Equator Principles, covering project finance activities, the Principles for Responsible Investments, covering investment analysis and the Task Force on Climate-related Financial Disclosures (TCFD).

Climate change risk

Within this framework climate change-related risks are managed by the Group in the same way as any other transformational issue facing the economy. The Group examines the policy, regulatory, technology and market changes related to climate change (transition risks), and the financial impacts of changes in climate patterns and extreme weather events (physical risks).

Through its Climate Change Position Statement, Westpac has an enhanced approach to lending to emissions-intensive sectors, supporting customers that are in or reliant on these sectors and who assess the financial implications of climate change on their business, including how their strategies are likely to perform under various forward-looking scenarios, and demonstrate a rigorous approach to governance, strategy setting, risk management and reporting.

Westpac uses scenario analysis to identify and assess climate-related risks over short, medium and long-term horizons. The findings of our scenario analysis in 2016 were reflected in Westpac s latest Climate Change Position Statement and 2020 Action Plan which outlined enhanced lending standards for lending to the thermal coal mining and energy sectors. These lending parameters have been included in our Group Risk Appetite Statement and, where appropriate, are applied at the portfolio, customer and transaction level.

Westpac uses scenario analysis to guide its climate change strategy and to analyse the implications of climate-related factors to its business. In 2018 the Group undertook further scenario analysis to assess:

§ The resilience of Westpac s Australian Business and institutional lending¹ to transition risks (policy, legal, technology and market changes related to climate change) brought about by rapid decarbonisation of the Australian economy under 2 degree scenarios (building on work first undertaken in 2016); and

§ The impact of climate-related physical risks (the financial impacts of changes in climate patterns and extreme weather events) on the Australian mortgage portfolio² arising from global warming scenarios of both 2 and 4 degrees.

1 Excludes retail, sovereign and bank exposures.

2 Excludes RAMS.

Risk and risk management

The results of this analysis are summarised below and further detail can be found in [Climate-related financial disclosures](#) and in the [Westpac Sustainability Performance Report](#).

Summary findings scenario analysis

§ 2 degrees¹: Westpac's exposure to sectors that may face growth constraints under a range of 2 degree scenarios to 2030 is approximately 4% of our Business and Institutional lending - unchanged since 2016. Higher risk sectors may be subject to enhanced due diligence under the parameters laid out in the CCPS. Westpac expects to be well positioned to capitalise on opportunities arising out of growth in sectors benefiting from a transition to a low carbon economy over the short and medium term. The Group has lending targets to climate change solutions of \$10 billion by 2020 and \$25 billion by 2030.

§ 4 degrees²: Under a 4 degree scenario to 2050, we believe the Australian mortgage portfolio is broadly resilient to physical risks³. The Group mapped its Australian mortgage portfolio to postcodes which under a 4 degree scenario are at greatest risk of increased frequency and intensity of natural perils, and where annual average losses are most likely to increase. The findings highlighted the importance of both climate mitigation and adaptation efforts, including government planning measures, and the benefits of climate-resilient building characteristics to reduce property damage and impacts on customers and communities. Along with our broader commitment to a 2-degree economy, Westpac expects to continue to help individual customers respond to climate change, and continue to advocate for more research and investment into helping communities adapt and become resilient to climate-related impacts.

Equity risk

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

The Group's direct equity risk arises from principal investments or net trading or underwriting positions in listed or unlisted equities. It also includes seed funding, debt for equity swaps, equity derivatives and other situations where the value of Westpac's investment is directly affected by the change in value of the equity instrument to the full extent of that change.

Our indirect equity risk arises from movements in the equity markets that affect business performance e.g. income derived as a result of managing or the administration of equity investments on behalf of other parties where fee income is based on the value of funds under management.

Our contingent equity risk arises from normal lending activities secured by, or with recourse to, listed and/or unlisted equities or to another equity-like source of risk protection. This risk materialises when there is a default, and a subsequent shortfall from the realisation of equity-related assets that is not covered from other sources of recourse.

The Group has in place various policies, limits and controls which seek to manage these risks and the conflicts of interest that can potentially arise.

Insurance risk

The risk in our licensed regulated insurance entities claims cost being greater than expected, due to a failure in product design, underwriting, reinsurance arrangements or an increase in severity and frequency of insured events.

Subsidiaries within the Group undertake life insurance, general insurance and lenders mortgage insurance. They are governed by independent boards and are subject to separate regulatory oversight and controls. These subsidiaries have reinsurance arrangements in place to reduce risk, including from catastrophic events. They are capitalised to a level that exceeds the minimum required by the relevant regulator.

Related entity (contagion) risk

The risk that problems arising in other Westpac Group members compromise the financial and operational position of the authorised deposit-taking institution in the Westpac Group.

The Group has in place a Related Entity Risk Management Framework and a suite of supporting policies and procedures governing the control of dealings with, and activities that may be undertaken by, Group members. Controls include the measurement, approval and monitoring of, and limitations on, the extent of intra-group credit exposures and other forms of parent entity support, plus requirements related to control of Group badging, product distribution, promotional material, service-level agreements and managing potential conflicts of interest.

1 2 degree scenarios: See Westpac's Sustainability Performance Report, 2016 (p52). Data presented above is from the Global Cooperation Scenario.

2 4 degrees scenario: Based on data from IPCC's RCP8.5 scenario.

3 Selected perils: Inundation (sea level rise and storm surge), soil contraction due to increased heat and reduced rainfall, floods, wind and cyclones, and bushfires.

Risk and risk management

Reputation risk

Reputation risk is the risk of the loss of reputation, stakeholder confidence, or public trust and standing.

Reputation risk arises where there are differences between stakeholder's current and/or emerging perceptions, beliefs and expectations relative to our current and planned activities, performance and behaviours. It can affect the Group's brands and businesses positively or negatively. Stakeholder perceptions can include (but are not limited to) views on financial performance, quality of products or services, quality of management, leadership and governance, history and heritage and our approach to sustainability, social responsibility and ethical behaviour.

We have a Reputation Risk Framework and key supporting policies in place covering the way we manage reputation risk as one of our key risks across the Group, including the setting of risk appetite and roles and responsibilities for risk identification, measurement and management, monitoring and reporting. The Reputation Risk Framework is being reviewed and updated in 2018.

Structured entities

We are associated with a number of structured entities in the ordinary course of business, primarily to provide funding and financial services products to our customers.

Structured entities are typically set up for a single, pre-defined purpose, have a limited life, generally are not operating entities and do not have employees. The most common form of structured entity involves the acquisition of financial assets by the structured entity that is 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 structured entity.

Under AAS, a structured entity is consolidated and reported as part of the Group if it is controlled by the parent entity in line with AASB 10 Consolidated Financial Statements. The definition of control is based on the substance rather than the legal form. Refer to Note 36 to the financial statements for a description of how we apply the requirements to evaluate whether to consolidate structured entities and for information on both consolidated and unconsolidated structured entities.

In the ordinary course of business, we have established or sponsored the establishment of structured entities in relation to securitisation, as detailed below.

Covered bond guarantors

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Through our covered bond programs we assign our equitable interests in residential mortgage loans to a structured entity covered bond guarantor which guarantees the obligations of our covered bonds. We provide arm s length swaps to the covered bond guarantor in accordance with relevant prudential guidelines. We have no obligation to repurchase any assets from the covered bond guarantor, other than in certain circumstances where there is a breach of representation or warranty. We may repurchase loans from the covered bond guarantor at our discretion, subject to the conditions set out in the transaction documents.

As at 30 September 2018, the carrying value of assets pledged for the covered bond programs for the Group was \$43.1 billion (2017: \$42.1 billion).

Refer to Note 25 to the financial statements for further details.

Securitisation structured entities

Through our securitisation programs we assign our equitable interests in assets (in respect of RMBS, principally residential mortgage loans, and in respect of ABS, principally auto receivables) to structured entities, which issue securities to investors. We provide arm s length interest rate swaps and liquidity facilities to the structured entities in accordance with relevant prudential guidelines. We have no obligation to repurchase any securitisation securities, unless there is a breach of representation or warranty within 120 days of the initial sale (except in respect of our program in New Zealand, which imposes no such time limitation). We may remove assets from the program where they cease to conform with the terms and conditions of the securitisation programs or through a program s clean-up features.

As at 30 September 2018, our assets securitised through a combination of privately or publicly placed issuances to a combination of domestic and offshore investors were \$7.6 billion (2017: \$8.2 billion).

Under AAS, all of the structured entities involved in our loan securitisation programs are consolidated by the Group.

Refer to Note 25 to the financial statements for further details.

Risk and risk management

Customer funding conduits

Westpac also facilitates securitisation structures to arrange funding on behalf of customers in customer conduits through a subsidiary (Waratah Receivables Corporation Limited and its subsidiaries). The assets securitised are not assets of Westpac. The lending provided to the customer conduits is disclosed in Note 10 and the funding liability is disclosed in Note 19 of the financial statements. Westpac has now stopped providing undrawn liquidity facilities to the customer conduits in the financial year ended 30 September 2018. (2017: \$392 million).

Refer to Note 25 to the financial statements for further details.

Structured finance transactions

We have entered into transactions with structured entities 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 loans, 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.

Other off-balance sheet arrangements

Refer to Note 38 to the financial statements for details of our superannuation plans and Note 31 for details of our contingent liabilities, contingent assets and credit commitments.

Financial reporting

Internal control over financial reporting

The US Congress passed the Public Company Accounting Reform and Investor Protection Act in July 2002, which is commonly known as the Sarbanes-Oxley Act of 2002 (SOx). SOx is a wide ranging piece of US legislation concerned largely with financial reporting and corporate governance. We are obligated to comply with SOx by virtue of being a foreign registrant with the SEC and we have established procedures designed to comply with all applicable requirements of SOx.

Disclosure controls and procedures

Our management, with the participation of our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the US Securities Exchange Act of 1934) as of 30 September 2018.

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 2018.

Management's Report on internal control over financial reporting

Rule 13a-15(a) under the US Securities Exchange Act of 1934 requires us to maintain an effective system of internal control over financial reporting. Refer to the sections headed "Management's report on internal control over financial reporting" and "Report of independent registered public accounting firm" in Section 3 for those reports.

Changes in our internal control over financial reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the US Securities Exchange Act of 1934) for the year ended 30 September 2018 that has been identified and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Westpac's approach to sustainability

Sustainability performance

Westpac's approach to sustainability

As one of Australia's largest companies, Westpac Group can play a role in helping to create positive social, economic and environmental impact, for the benefit of all. At a time of great scrutiny of the financial services sector and the Royal Commission, it is particularly important that we work in an open and transparent way to build a strong banking system that delivers good outcomes for customers and the economy as a whole. Where mistakes are identified we put it right and seek to remediate the situation.

The Group's approach to sustainability is designed to anticipate, respond to and shape the most pressing emerging topics (issues and opportunities) that have the potential to materially impact customers, employees, suppliers, shareholders and communities. We believe that as one of Australia's largest companies we have a role to play in helping to create positive social, economic and environmental impact, and contribute to the United Nations Sustainable Development Goals. This view is embedded within our core business activities, and aligns with the priorities set out in the Group's strategy.

Guiding our approach

Accountability for the Group's Sustainability Strategy starts with the Board which has responsibility for considering the social, ethical and environmental impact of the Group's activities, setting standards and monitoring compliance with sustainability policies and practices. The Westpac Sustainability Council, comprising senior leaders from across the business and meets four times a year and oversees strategic progress and guides the Group's approach.

Progress against the Sustainability Strategy is reported to and discussed with the Executive Team and Board twice each year, with other items discussed on an as needs basis.

Westpac's Sustainability Strategy is based upon the use of the widely accepted global standard for corporate responsibility and sustainable development, the AA1000 AccountAbility Principles Standard (2008). Westpac's sustainability performance is regularly benchmarked by a number of third-party ratings and awards, including the Dow Jones Sustainability Indices (DJSI), where the group has been recognised as global leader as a member of DJSI World for 17 years in a row and this year ranked 17th in the global banking group.

Our sustainability principles

In line with AA1000, Westpac has adopted the Standard's three key principles:

§ Involving all stakeholders in identifying topics and developing strategy Inclusivity;

§ Evaluating all topics identified to determine the impact they may have on stakeholders and the Group's operations Sustainability materiality; and

§ Ensuring decisions, actions and performance, as well as communication with stakeholders, is responsive to the topics identified Responsiveness.

Frameworks and policies

Westpac responds to enduring and emerging material topics through frameworks and policies that are complementary to the business strategy and form part of the Group's overall approach to governance and risk management. Collectively, they help to guide decisions, manage risk and drive action. Key frameworks and policies include:

§ Principles for Doing Business which set out the behaviours the Group expects to be judged against in pursuit of the vision, and the framework to embed sustainable practices throughout the business in the areas of: governance and ethics, customer practices, employee practices, care for the environment, community involvement and supply chain management;

§ Sustainability Risk Management Framework which sets out how the Group manages sustainability risks in operations, lending and investment decisions and the supply chain, providing a guide on roles and responsibilities within the organisation, reflecting the Group's three lines of defence risk management approach; and

§ A suite of policies that embed the principles and management requirements in day-to-day operations, including our Code of Conduct, divisional ESG policies, and position statements on sensitive sectors and issues.

Westpac's approach to sustainability

Material sustainability topics

Informed by engagement with internal and external stakeholders, including the Group's Stakeholder Advisory Council, review of policies, industry trends, peer analysis and regulatory and non-regulatory requirements, Westpac's materiality process is aligned with the Global Reporting Initiative Standards (2016) and the AA1000 AccountAbility Principles Standard (2008). Prioritisation of material topics is subject to annual independent external assurance. Westpac's response to its most material topics is contained in the summary of full year performance, below.

Material sustainability topic		
Conduct and culture	Instances of poor conduct have eroded public trust in the financial services sector, driving an increased focus on corporate culture and improved outcomes for customers	Governance, risk and remuneration
Customer satisfaction and experience	Customers' needs are becoming more complex, and at the same time their expectations around how they want to engage with us are evolving	Financial and economic performance
Customer vulnerability and hardship	Our ability to support customers in times of financial hardship and anticipating times when they can become vulnerable allows us to help when it matters most	Climate change transition and opportunities
Information security and data privacy	Maintaining customer confidentiality and the security of our systems is paramount to maintaining trust and confidence	Value chain sustainability risks
Digital product and service transformation	Digitisation offers opportunities to improve efficiency and deliver new and better customer experiences when, how and where customers choose to engage with us	Inclusion and diversity
Changing regulatory landscape	Supervision and regulation in jurisdictions that the Group operate in continue to evolve, creating uncertainty in the operating environment	Talent attraction and retention

Westpac's approach to sustainability

Sustainability goals

Our 2018-2020 Sustainability Strategy, informed by our materiality assessments, sets measurable goals against the following priority areas:

- § Helping people make better financial decisions;
- § Helping people by being there when it matters most to them; and
- § Helping people create a prosperous nation.

Underpinning these three priority areas is a commitment to fostering a culture of care and doing the right thing, and continuing to lead on the sustainability fundamentals policies, action plans, frameworks and metrics reporting, in particular building on the climate change, human rights and reconciliation action plans.

Performance against sustainability goals

Priority areas	Goals	Full Year 2018 performance
Helping people make better financial decisions		§ Continued to offer a range of products and services, including Westpac SmartPlan, an online tool to help customers manage their credit card balance and pay down their debts more easily; and Westpac Life, a flexible savings account that supports customers' savings goals;
	Help more people better understand their financial position, improving their financial confidence	§ Delivered financial literacy programs to individuals, businesses, not-for-profit organisations and community groups through Davidson Institute in Australia and the Managing Your Money program in New Zealand; and
		§ Delivered communications promoting financial capability for different customer segments, including 512,000 children through Mathspace and Year 13 partnerships, 1.5 million young Australians via The Cusp, 229,000 women through Ruby Connection and 2.5 million Australians aged 65+ via Starts at 60.
	Help people recover from financial hardship	§ Helped customers experiencing financial hardship, issuing over 37,000 financial assistance packages; and § Established a specialist team, with experience in areas such as health and social work, to help customers in highly complex vulnerable circumstances.

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	<p>§ Announced a \$100 million Drought Assistance Package including a range of lending support options such as discounted loans, deferring repayments and adjusted interest rates for customers with Farm Management Deposit (FMD);</p>
Help people lift out of a difficult time and recover stronger	<p>§ Donated \$100,000 to the Salvation Army Rural Support Services Program and a further \$100,000 in Community Recovery Resilience grants;</p> <p>§ Provided 104 relief packages for customers impacted by natural disasters across Australia; and</p> <p>§ Donated \$50,000 to the PNG Salvation Army to assist with relief efforts following a magnitude 7.5 earthquake in Papua New Guinea.</p> <p>§ Convened the Vulnerable Customer Council which brings together representatives from customer advocate groups, financial counsellors and community organisations to understand their views and perspectives on our approach to issues impacting vulnerable customers;</p>
Helping our most vulnerable customers	<p>§ Established processes to assist customers in vulnerable situations earlier in the complaints process for escalation to a high priority resolution team;</p> <p>§ Announced Loss of a loved one tools and resources to help customers and their family managing a deceased estate;</p> <p>§ Introduced the option for credit cardholders to block transactions with gambling merchants to support customers vulnerable to a gambling problem manage their credit card spend;</p> <p>§ Commenced preparations to establish a dedicated customer care team to provide specialist support for remote and Indigenous communities; and</p> <p>§ Expanded dementia-friendly banking to BankSA and Bank of Melbourne.</p>

Westpac's approach to sustainability

Performance against sustainability goals (continued)

Priority areas	Goals	Full Year 2018 performance
		<ul style="list-style-type: none"> § Launched additional learning and development offerings as part of our focus on the future of work to assist employees to develop skills for life ;
	Build the workforce of the future	<ul style="list-style-type: none"> § Introduced a Young Leader Program to develop and support high-potential emerging leaders; and
	Invest and back the people and ideas shaping Australia	<ul style="list-style-type: none"> § Published our Science, Technology, Engineering and Mathematics (STEM) Commitment, a series of initiatives and programs centred on investing in and inspiring the next generation, talent incubation, championing change and fostering innovation. § Westpac Bicentennial Foundation paid \$3.7 million in educational scholarships to 100 scholars during Full Year 2018, bringing the total cohort of Westpac Scholars to 330; § Westpac Foundation Social Scale-up Grants supported social enterprises to create 513 jobs¹ for vulnerable Australians; § Westpac Foundation awarded \$2 million in Community Grants to support 200 not-for-profit organisations; § 275 businesses established through our Many Rivers partnership. Since its establishment, the partnership has created jobs for 1,949 people, with 718 identifying as Indigenous; § Westpac has directly invested in 8 early stage companies; § To date, committed \$150 million to Reinventure as part of its investment in three funds, supporting 23 early stage companies; § Announced 200 Business of Tomorrow program recipients, including a two week study tour to Silicon Valley, \$50,000 professional services package and a mentor matching program with notable Australian business leaders offered to the top 20 businesses; and § Supported eight early-stage companies through the FUELD accelerator program by supporting them with Data Republic's data-sharing platform, helping to develop ideas to solve customer and business problems across a range of industries. § Increased committed exposure to climate change solutions relative to Full Year 2017, taking total committed exposure to more than \$9 billion, progressing towards our 2020 target of \$10 billion;
Helping people creating a prosperous nation		
	Back the growth of climate change solutions	<ul style="list-style-type: none"> § Arranged and issued climate-related bonds of \$1.7 billion supporting the Group's \$3 billion funding for climate change solutions; and
	Back the growth of housing affordability solutions	<ul style="list-style-type: none"> § Undertook analysis to understand the implications of 2-degree and 4-degree climate scenarios on our business.

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§ Lent \$1.36 billion to the social and affordable housing sector, up from \$1.32 billion at 30 September 2017; and

§ Conducted an extensive review of the housing affordability challenge, exploring support for innovative housing solutions such as build-to-rent, shared equity and backed emerging charity HeadStart Homes to help Australians living in social housing take steps towards owning their own home.

§ Joined 28 banks in co-founding and drafting the Principles for Responsible Banking, a UNEP-FI initiative to promote alignment of the global banking sector, in making progress on the Sustainable Development Goals and Paris Climate Agreement;

Bring together partners and harness the Group capacity to tackle pressing social issues that matter most to the nation

§ Supported dialogue across institutional customers and Westpac experts to collaborate on initiatives towards eradicating modern slavery and other severe human rights issues; and

§ Hosted Westpac's first Sustainable & Inclusive Sourcing Forum to encourage cross-sector collaboration.

§ Maintained 50% Women in Leadership roles;

§ Indigenous Australian new hires as a percentage of total hiring was 4.3%;

A culture that is caring, inclusive and innovative

Promote an inclusive society, where our workforce reflects our customers

§ Developed a customised recruitment program Tailored Talent to remove some of the traditional barriers to work for people on the autism spectrum;

§ Named as Employer of Choice for Gender Equality by the Workplace Gender Equality Agency for the 8th consecutive year; and

§ Became one of six employers to attain the highest Platinum status in the Australian Workplace Equality Index for LGBTI inclusion.

Increase channels where customers can provide feedback

§ Established a new Customer and Corporate Relations Division, bringing together customer complaints teams from across the Group to complement the role of the Customer Advocate office.

1 All results as at 30 September 2018 except jobs created through the Westpac Foundation Social Scale-up grant is as at 30 June 2018.

Westpac's approach to sustainability

Performance against sustainability goals (continued)

Priority areas	Goals	Full Year 2018 performance
Employees		<p>§ Held Group-wide Navigate training to reinforce Our Compass a framework which brings together our vision, service promise, values and Code of Conduct;</p>
		<p>§ Implemented recommendations of the Sedgwick Review two years earlier than required by changing remuneration structures for customer-facing employees in Business and Consumer bank;</p>
		<p>§ Promoted wellbeing initiatives throughout the year including Men's Health Week, RUOK? Day, Mental Health Week, Women's Health Week and White Ribbon Day;</p>
		<p>§ Continued to increase awareness through campaigns and training to ensure all employees are familiar with our Whistleblower Protection Policy;</p>
		<p>§ Completed the Group roll-out of Motivate, our new approach to performance, development and reward; and</p>
		<p>§ Achieved total recordable injury frequency rate (TRIFR) of 3.9 and lost time injury frequency rate (LTIFR) of 0.4.</p>
		<p>§ Determined Westpac's salient¹ human rights issues;</p>
Human rights		<p>§ Released 2017 UK Slavery and Human Trafficking Statement;</p>
		<p>§ Supported the introduction of comparable Australian legislation to the UK Modern Slavery Act;</p>
		<p>§ Continued to invest in cybersecurity capability to protect the privacy, confidentiality, integrity and availability of customer information and sensitive commercial data;</p>
Continuing to lead on the Sustainability Fundamentals		<p>§ Delivered cybersecurity information sessions for business customers across Australian capital cities, as well as security advice via our digital communications channels; and</p>
		<p>§ Continued to enhance our data breach management procedures and strengthened our privacy management framework to protect customer data and minimise the impact on affected individuals and the wider community.</p>
Sustainability lending and investment		<p>§ Released BTFG's Sustainable Investment Approach, which addresses ESG issues in our internally managed funds as well as expanding the BT Financial Group ESG exclusions framework, along with removing investment in tobacco and controversial weapons to all funds managed by our internal teams;</p>
		<p>§ Strengthened management of climate change risk, establishing a cross-functional committee to oversee initiatives to address the credit, regulatory and legal risks of climate change, including scenario analysis; and</p>

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	§	Signed the UNEP-FI Tobacco-Free Finance Pledge.
	§	Maintained carbon neutral status;
	§	Achieved a 4.4% reduction in GHG emissions compared to Full Year 2017 and 18.1% compared to Full Year 2016;
	§	Achieved a 19.7% reduction in Group paper consumption compared to Full Year 2017 and on track to achieve a 40% reduction in Full Year 2020 since 2016;
Environment ²		
	§	Water consumption in all Australian workplaces on track for a 15% reduction by 2020, consuming 409,944 kL in Full Year 2018;
	§	Achieved 73% diversion of waste from landfill in Australian offices; and
	§	Aligned climate reporting with the recommendations of the Task Force on Climate-Financial Disclosures (TCFD).
Responsible Sourcing	§	\$17.7 million sourced from diverse suppliers, including \$3.8 million from Indigenous suppliers.
	§	Contributed over \$131 million to community investment excluding commercial sponsorships across the Group; and
Community & social impact		
	§	16% employees participated in our volunteering programs.

1 UN language for human rights at risk of most severe negative impact through a company's activities and business relationship.

2 All results as at 30 September 2018 except environmental footprint which is as at 30 June 2018.

Westpac's approach to sustainability

Five year non-financial summary¹

Key trends across a range of non-financial areas of performance are provided in the following five year non-financial summary.

	2018	2017	2016	2015	2014
Customer					
Total customers (millions) ²	14.2	13.9	13.4	13.2	12.9
Digitally active customers (millions) ³	5.6	5.3	4.9	4.9	4.7
Branches	1,204	1,251	1,310	1,429	1,534
Branches with 24/7 capability (%) ⁴	33	29	27	22	15
ATMs	3,222	3,665	3,757	3,850	3,890
Smart ATMs (%) ⁵	47	44	37	31	24
Change in consumer compliments (%) - Australia	(23)	19	38	-	-
Change in consumer complaints (%) - Australia ²	12	(18)	(31)	(28)	(20)
Change in consumer complaints (%) - NZ	(16)	(21)	(7)	(18)	(16)
Employees					
Total employees (full-time equivalent) ⁶	35,029	35,096	35,580	35,484	36,596
Employee voluntary attrition (%) ⁷	10.0	9.6	10.6	10.6	9.8
New starter retention (%) ⁸	84.1	84.7	85.5	85.3	88.0
Employee engagement index (%) ⁹	-	79	69	-	-
Lost Time Injury Frequency Rate (LTIFR) ¹⁰	0.4	0.6	0.8	0.8	1.1
Women as percentage of the total workforce (%)	57	58	58	59	59
Women in leadership (%) ¹¹	50	50	48	46	44
Environment					
Total Scope 1 and 2 emissions - Aust and NZ (tonnes CO ₂ -e) ¹²	125,973	131,723	154,339	173,437	175,855
Total Scope 3 emissions - Aust and NZ (tonnes CO ₂ -e) ¹³	64,804	68,415	63,016	67,899	73,871
Paper consumption - Aust and NZ (tonnes) ¹⁴	2,189	2,706	3,304	4,857	5,334
Sustainable lending and investment					
Climate change solutions attributable financing - Aust and NZ (\$m) ¹⁵	9,113	6,979	6,193	6,054	7,978
Proportion of electricity generation financing in renewables including hydro - Aust and NZ (%) ¹⁶	71	65	59	61	59
Electricity generation portfolio emissions intensity (tonnes CO ₂ -e/MWh) ¹⁷	0.28	0.36	0.38	0.38	0.41
Finance assessed under the Equator Principles - Group (\$m) ¹⁸	773	891	617	1,065	851
Social impact					
Community investment excluding commercial sponsorship (\$m) ¹⁹	131	164	148	149	217
Community investment as a percentage of pre-tax profits - Group (%) ¹⁹	1.11	1.42	1.39	1.30	2.02
Community investment as a percentage of pre-tax operating profit (cash earnings basis) ¹⁹	1.12	1.41	1.32	1.33	1.99
Financial education (participants) ²⁰	133,844	112,263	59,596	65,538	49,812
Supply chain					
Top suppliers assessed against Responsible Sourcing Program	100	31	-	-	-
Spend with Indigenous Australian suppliers - Australia (\$m) ²¹	3.8	2.5	1.6	1.2	-

Westpac's approach to sustainability

- 1 All data represents Group performance as at 30 September unless otherwise stated.
- 2 All customers with an active relationship (excludes channel only and potential relationships). FY17 restated from 13.8 to 13.9, FY15 from 13.1 to 13.2 and FY14 from 12.8 to 12.9. FY15 Change in consumer complaints for Australia restated from (31) to (28) and FY14 from (27) to (20).
- 3 Unique customers who have successfully authenticated (including Quickzone) into the digital banking platforms within 90 days. Figures prior to 2016 are not comparable.
- 4 Branches that allow customers to self-serve 24/7 via a range of devices that allow them to withdraw and deposit cash, coin exchange etc. (not all these services would be available at every 24/7 zone). Access determined by individual location (i.e. shopping centre opening hours may prevent 24/7 access).
- 5 ATMs with deposit taking functionality. Excludes old style envelope deposit machines.
- 6 Full-time equivalent employees include permanent (full-time and pro-rata part-time staff) employees, and temporary (overtime, temporary and contract staff) employees.
- 7 Employee voluntary attrition refers to the total voluntary separation of permanent employees over the 12 month average total permanent headcount for the period (includes full time, part time and maximum term employees). Westpac Pacific figures included since FY15.
- 8 New starter retention over the 12 month rolling new starter headcount for the period (includes full time and part time permanent employees). Westpac Pacific figures included since FY15.
- 9 New employee engagement survey conducted from 2016 and prior data not included due to change in survey methodology. From 2017 the survey is conducted every two years and the next survey will be in 2019.
- 10 Lost Time Injury Frequency Rate (LTIFR) measures the number of Lost Time Injuries, defined as injuries or illnesses (based on workers compensation claims accepted) resulting in an employee being unable to work for a full scheduled day (or shift) other than the day (or shift) on which the injury occurred where work was a significant contributing factor, per one million hours worked in the rolling 12 months reported. Westpac Pacific figures included since FY16.
- 11 Women in Leadership refers to the proportion of women (permanent and maximum term) in leadership roles across the Group. It includes the CEO, Group Executives, General Managers, senior leaders with significant influence on business outcomes (direct reports to General Managers and their direct reports) large (3+) team people leaders three levels below General Manager, and Bank and Assistant Bank Managers.
- 12 Scope 1 greenhouse emissions are the release of greenhouse gases into the atmosphere as a direct result of Westpac's Australian and New Zealand banking operations. Scope 2 emissions are indirect greenhouse gas emissions from consumption of purchased electricity from Westpac's Australian and New Zealand banking operations. Australian data is prepared in accordance with the National Greenhouse and Energy Reporting Act 2007. New Zealand data is prepared in accordance with the guidance for Voluntary Corporate Greenhouse Gas Reporting published by the New Zealand Ministry for the Environment. These definitions also align with the GHG protocol and ISO 14064- 1 standard and are reported for the period 1 July to 30 June.
- 13 Scope 3 emissions are greenhouse gases emitted as a consequence of Westpac's Australian and New Zealand banking operations but by another facility. Australian data is prepared in accordance with the National Carbon Offset Standard. New Zealand data is prepared in accordance with the New Zealand Ministry for the Environment for GHG reporting. These definitions also align with the GHG protocol and ISO 14064-1 standard and are reported for the period 1 July to 30 June.
- 14 Total copy paper purchased (in tonnes) by the Group as reported by its suppliers.

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15 Indicator name changed from CleanTech and environmental services attributable financing - Aust and NZ (\$m) to Climate change and solutions attributable financing - Aust and NZ (\$m) in 2018.

16 Measured as the percentage of indirect and direct financing (total committed exposure) to energy generation assets in the Australian and New Zealand electricity markets.

17 Data is based on the reported exposures to energy generation (AUD lending only). The average financed emissions intensity is calculated by weighting each loan (total committed exposures) by the emissions intensity of each company.

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

19 Indicator name changed from Community investment (\$m) to Community investment excluding commercial sponsorships (\$m) in 2018. 2017 figures were restated to be comparable with 2018. 2018 and 2017 figures include monetary contributions, time contributions, management costs and in-kind contributions comprising gifts and foregone fee revenue. 2016 and prior periods were not restated, and also include commercial sponsorships. The 2014 figures includes Westpac's \$100 million contribution to the Westpac Bicentennial Foundation.

20 Total number of employees, customers and general public engaging with financial education materials offered by the Westpac Group during the year. In Australia financial education covers personal, business and social sector content inclusive of modules on financial basics, owning your home, building wealth, retirement planning, starting and growing a business and financials for non-profit organisations, delivered through webinars and face to face. New Zealand and Pacific businesses deliver locally tailored programs.

21 Annual spend with businesses that are 51% or more owned and operated by an Aboriginal or Torres Strait Islander person and certified with a relevant member organisation.

Westpac's approach to sustainability

2.6.1 Climate-related financial disclosures

The Group has long recognised that climate change is one of the most significant issues that will impact the long-term prosperity of the economy and way of life. Westpac was the first Australian bank to recognise the importance of limiting global warming to less than two degrees and that to do this, global emissions need to reach net zero in the second half of this century. 2018 marks a decade since we released our first climate change position statement.

Westpac continues to integrate the consideration of climate-related risks and opportunities into business operations. This includes alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which the Group has publicly committed to support. The Westpac Group's performance against the recommendations of the TCFD is summarised below.

Governance

The highest level of direct responsibility for climate change at Westpac Group sits with the Board. The Group's third Climate Change Position Statement and 2020 Action Plan (CCPS) was approved by the Group Executive and the Board in 2017. It covers the management of Westpac's direct carbon footprint, criteria to manage the carbon impact of lending to emissions intensive sectors, measuring and reporting of performance, and the incorporation of climate change considerations into the Group's risk management framework.

Management of climate change at the Board level is cascaded to Group Executives. The Sustainability Council formed in 2008, and Chaired by Group Executive Customer & Corporate Relations, brings together senior leaders from across the Group with the explicit responsibility for managing our sustainability agenda including climate change. The Council meets at least quarterly and has climate change as a fixed agenda item. The Council reports to the Board through twice-yearly updates.

The Council has oversight of committees established to oversee particular aspects of the Group's CCPS. This includes the Climate Change Solutions Committee which meets at least quarterly and is focused on initiatives to achieve Westpac's targets for lending to and facilitating climate change solutions. The Climate Change Risk Committee oversees initiatives to address credit, regulatory and legal risks of climate change, including scenario analysis, and reports to the Council on a quarterly basis. The Environment Management Committee oversees strategies and initiatives to reduce the Group's direct environmental footprint, particularly targets around energy and emissions, and reports to the Council on a quarterly basis.

Strategy

The Group's 2018-2020 Sustainability Strategy and Climate Change Position Statement and 2020 Action Plan (CCPS) describe Westpac's climate change strategy. The strategy is underpinned by principles which recognise that:

§ A transition to a net zero economy is required;

§ Economic growth and emissions reductions are complementary goals;

§ Addressing climate change creates financial opportunities;

§ Climate-related risk is a financial risk; and

§ Transparency and disclosure matters.

The CCPS identifies 5 focus areas where the Group is expected to direct its attention over the short, medium and long term:

§ Provide finance to back climate change solutions;

§ Support businesses that manage their climate-related risks;

§ Help individual customers respond to climate change;

§ Improve and disclose our climate change performance; and

§ Advocate for policies that stimulate investment in climate change solutions.

Westpac uses scenario analysis to guide its climate change strategy and to analyse the implications of climate-related factors to its business.

Risk management and scenario analysis

Further details about Westpac's approach to climate related risks and its use of scenario analysis to help guide its climate change strategy and analyse the implications of climate-related factors to its business is set out in the Risk and risk management section. Updates on work to assess the implications of the Intergovernmental Panel on Climate Change report on Global Warming of 1.5 degrees will be released in 2019.

Westpac's approach to sustainability

Metrics and targets

Metrics	Full Year 2018 performance
Support for climate solutions	
\$ Lending exposure to climate solutions	\$ \$9.1 billion vs 2020 target - \$10bn
\$ Facilitation of climate solutions	\$ \$1.7 billion climate-related bonds vs 2020 target - \$3bn
Energy generation	
\$ Emission intensity of power generation portfolio	\$ 0.28 (tCO ₂ e/MWh) ¹ vs 2020 target 0.30 (tCO ₂ e/MWh)
\$ Energy mix of electricity generation exposure (WIB only)	\$ 71% renewable versus 29% non-renewables.
Coal mining	
\$ Coal extraction (TCE)	\$ \$1.4 billion in coal (metallurgical and thermal) representing 1% of the Group's total committed exposure (TCE)
\$ Thermal coal portfolio quality	\$ Existing projects > 5,700 kCal/kg Compliant
	\$ New projects > 6,300 kCal/Kg - Compliant
Direct footprint	
\$ Total Scope 1, 2 & 3 emissions (tCO ₂ e)	\$ 193,588 tCO ₂ e1 - an annual reduction of 4.4% towards 2020 target of 9%
\$ Carbon neutral operations	\$ Carbon neutrality maintained
Climate change portfolio resilience (metrics tbc)	
\$ Transition risk - 2 degree scenario to 2030	\$ Approximately 4% of total business lending exposed to sectors that may experience higher risk in a transition to a 2 degree economy
\$ Physical risk - 4 degree scenario to 2050	\$ Approximately 1.7% of Australian mortgage portfolio in postcodes which may be exposed to higher physical risks at 4 degrees of warming

Further Information

Further details on Westpac's climate change reporting can be found across the Group's annual reporting suite:

TCFD recommendation	Location
Governance	\$ Annual Report Climate-related financial disclosures
	\$ Sustainability Performance Report The fundamentals

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	§	Climate Change Position Statement & 2020 Action Plan
	§	Annual Report Climate-related financial disclosures
Strategy	§	Sustainability Performance Report Value chain risk
	§	Climate Change Position Statement & 2020 Action Plan
	§	Annual Report Risk and risk management
Risk Management including scenario analysis	§	Sustainability Performance Report Value chain risk
	§	Climate Change Position Statement & 2020 Action Plan
Metrics and Targets	§	Annual Report - Climate-related financial disclosures Sustainability Performance Report Value chain risk

1 Total Scope 1, 2, and 3 emissions are as at 30 June 2018.

158

2018 Westpac Group Annual Report

Westpac's approach to sustainability

2.6.2 Westpac's commitment to human rights

Westpac recognises that respecting and advancing human rights helps us to achieve our vision to help our customers, communities and employees to prosper and grow. Westpac is a signatory of the United Nations Global Compact and supporter of the UN's Protect, Respect, Remedy framework. The Group's implementation of the framework is guided by the UN Guiding Principles on Business and Human Rights (UNGPs).

The Group's Human Rights Position Statement and 2020 Action Plan (HRPS) covers Westpac's human rights-related commitments, principles, focus, approach, governance and related policies, statements, frameworks and action plans; considering its role as an employer, a customer services provider, a buyer, a financial services provider, a supporter of communities and a responsible business.

Implementation of Westpac's commitment to human rights

The highest level of responsibility for human rights at Westpac Group lies with the Board. The HRPS was approved by the Group Executive and the Board in 2017. Management of human rights is cascaded to Group Executives. The Sustainability Council provides strategic advice to Group Executives and brings together senior leaders from across the Group with explicit responsibility for managing Westpac's sustainability agenda including human rights. The Council meets at least quarterly and has human rights as a fixed agenda item. The Council reports to the Board through twice-yearly updates.

The Council has oversight of the Human Rights Working Group which meets quarterly to implement the consideration of human rights into day to day decision-making. This year the Working Group considered human rights in relation to:

- § Customer and employee privacy;
- § Sensitive sectors such as gambling and franchise based business models;
- § Integration of human rights risk assessments in lending, partnerships and supplier arrangements; and
- § Defining the Group's salient human rights issues¹.

Salient human rights issues

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The Group continued to refine its approach to report and assess its salient human rights issues in 2018. Stakeholder consultations with the assistance of third-party experts, as well as the Group's Stakeholder Advisory Council, determined the following salient issues for the Group:

Salient issue	Stakeholders at risk of being impacted	Potential impacts
Respecting people's privacy	Retail and business customers, employees, contractors, suppliers	Abuse, loss and breach of personal data and privacy
Customer vulnerability	Customers and wider customer value chain	Economic and social disadvantage of customers
Exclusion and discrimination in employment	Current and prospective employees and contractors	Inability to have full and equal participation in employment
Unfair wages and conditions for workers in the value chain	Suppliers, third-party service providers and corporate, institutional and government customers	Impact to an individual's health and safety, prosperity, security and standard of living

Management of salient human rights issues

A range of policies and strategies outlined in the Statement guide the Group's response to human rights issues. Westpac's approach to engagement with stakeholders is set out in the Group's Stakeholder Engagement Framework and is aligned to the AA1000 Stakeholder Engagement Standard. This year the Group engaged with stakeholders in a number of ways to validate and improve its approach, including through:

- § Discussions with the Group's Stakeholder Advisory Council to determine salient issues and to develop new and refine existing policies;
- § Providing perspectives to NGOs on grievance mechanisms in the banking sector; and
- § Participating in government consultations on the development of an Australian Modern Slavery Act.

Westpac has a range of mechanisms such as its Whistleblower hotline, Office of the Customer Advocate, feedback and complaints webpages and phone lines to protect the interests of our people and customers across the Group. Where appropriate some of these mechanisms are equipped to remediate human rights issues.

The Group reports further detail on its Human Rights performance in its 2018 Sustainability Performance Report. It also produces a slavery and human trafficking statement in line with its obligations under the United Kingdom's Modern Slavery Act.

1 UN language for Human Rights at risk of most severe negative impact through a company's activities and business relationships .

Other Westpac business information

Employees

The number of employees in each area of business as at 30 September:

	2018	2017	2016
Consumer Bank	10,158	10,162	9,207
Business Bank	3,092	3,136	3,186
BT Financial Group (Australia)	3,860	4,175	4,153
Westpac Institutional Bank	2,649	2,682	2,693
Westpac New Zealand	4,182	4,328	4,445
Group Businesses	11,088	10,613	11,896
Total Group businesses¹	35,029	35,096	35,580

2018 v 2017

FTE decreased 67 over the year. Delivery of productivity initiatives accelerated in the last quarter, more than offsetting the additional resources required for regulatory and compliance related activities and the Group's investment programs across the year.

2017 v 2016

Total employees decreased by 484 compared to 30 September 2016 from productivity initiatives that have streamlined and digitised processes across both technology and operations, partly offset by investment in growth and productivity initiatives and resources for compliance activities.

Property

We occupy premises primarily in Australia, New Zealand and the Pacific Islands including 1,204 branches (2017: 1,251) as at 30 September 2018. As at 30 September 2018, we owned approximately 1.5% (2017: 1.6%) of the premises we occupied in Australia, none (2017: none) in New Zealand and 40% (2017: 40%) in the Pacific Islands. The remainder of premises are held under commercial lease with terms generally averaging three to five years. As at 30 September 2018, the carrying value of our directly owned premises and sites was approximately \$89 million (2017: \$95 million).

Westpac Place in the Sydney CBD is the Group's head office. In December 2015, an Agreement for Lease was executed for 275 Kent Street, allowing for Westpac's continued occupation of levels 1-23 until 2030, and for an earlier exit of levels 24-32 in 2024. This site is currently undergoing a refurbishment program and will have the capacity for over 6,000 staff in an agile environment upon its completion.

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Westpac also occupies levels 1-28 of T2 in International Towers Sydney with a lease running until 2030. This site has a capacity for over 6,000 personnel in an agile environment.

We continue a corporate presence in Kogarah, in the Sydney metro area, which is a key corporate office of St.George. The Kogarah office has a 2,650 seat capacity and is home to The Hive, our innovation centre. A lease commitment at this site extends to 2034 with five five-year options to extend.

In Melbourne, Westpac has occupied the majority of 150 Collins Street since October 2015 with a lease term that extends to 2026. This was Westpac's first fully agile workspace environment with over 1,000 staff now occupying our new Melbourne Head Office.

Westpac on Takutai Square is Westpac New Zealand's head office, located at the eastern end of Britomart Precinct near Customs Street in Auckland, contains 24,510 square metres of office space across two buildings. A lease commitment at this site extends to 2021, with two six-year options to extend.

Significant long term agreements

Westpac has no individual contracts, other than contracts entered into in the ordinary course of business, that would constitute a material contract.

1 Total employees include full-time, pro-rata part time, overtime, temporary and contract staff.

Other Westpac business information

Related party disclosures

Details of our related party disclosures are set out in Note 40 to the financial statements and details of Directors' interests in securities are set out in the Remuneration Report included in the Directors' Report.

Other than as disclosed in Note 40 to the financial statements and the Remuneration Report, 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 they 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 2018 and 2017 is provided in Note 39 to the financial statements.

Audit related services

Westpac Group Secretariat monitors the application of the pre-approval process in respect of audit, audit-related and non-audit services provided by PricewaterhouseCoopers (PwC) and promptly brings to the attention of the BAC any exceptions that need to be approved pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X. The pre-approval guidelines are communicated to Westpac's divisions through publication on the Westpac intranet.

During the year ended 30 September 2018, there were no fees paid by Westpac to PwC that required approval by the BAC pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

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Financial statements

Income statements

Statements of comprehensive income

Balance sheets

Statements of changes in equity

Cash flow statements

Notes to the financial statements

Note 1 Financial statements preparation

Note 24 Offsetting financial assets and financial liabilities

Note 25 Securitisation, covered bonds and other transferred assets

Financial performance

Note 2 Segment reporting
 Note 3 Net interest income
 Note 4 Non-interest income
 Note 5 Operating expenses
 Note 6 Impairment charges
 Note 7 Income tax
 Note 8 Earnings per share
 Note 9 Average balance sheet and interest rates

Other assets, other liabilities, commitments and contingencies

Note 26 Intangible assets
 Note 27 Other assets
 Note 28 Provisions
 Note 29 Other liabilities
 Note 30 Operating lease commitments
 Note 31 Contingent liabilities, contingent assets and credit commitments

Financial assets and financial liabilities

Note 10 Receivables due from other financial institutions
 Note 11 Trading securities and financial assets designated at fair value
 Note 12 Available-for-sale securities
 Note 13 Loans
 Note 14 Provisions for impairment charges
 Note 15 Life insurance assets and life insurance liabilities
 Note 16 Payables due to other financial institutions
 Note 17 Deposits and other borrowings

Capital and dividends

Note 32 Shareholders equity
 Note 33 Capital adequacy
 Note 34 Dividends

Group structure

Note 35 Investments in subsidiaries and associates
 Note 36 Structured entities

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Note 18	Other financial liabilities at fair value through income statement	Employee benefits Note 37	Share-based payments
Note 19	Debt issues	Note 38	Superannuation commitments
Note 20	Loan capital		
Note 21	Derivative financial instruments	Other	
Note 22	Financial risk	Note 39	Auditor s remuneration
Note 23	Fair values of financial assets and financial liabilities	Note 40	Related party disclosures
		Note 41	Notes to the cash flow statements
		Note 42	Subsequent events

Statutory statements

Directors declaration

Management s report on internal control over financial reporting

Independent auditor s report to the members of Westpac Banking Corporation

Report of independent registered public accounting firm

Financial statements

Income statements for the years ended 30 September

Westpac Banking Corporation

\$m	Note	Consolidated			Parent Entity	
		2018	2017	2016	2018	2017
Interest income	3	32,571	31,232	31,822	32,830	30,865
Interest expense	3	(16,066)	(15,716)	(16,674)	(18,977)	(17,765)
Net interest income		16,505	15,516	15,148	13,853	13,100
Non-interest income	4	5,628	6,286	5,837	5,825	6,131
Net operating income before operating expenses and impairment charges		22,133	21,802	20,985	19,678	19,231
Operating expenses	5	(9,692)	(9,434)	(9,217)	(8,101)	(7,898)
Impairment charges	6	(710)	(853)	(1,124)	(682)	(870)
Profit before income tax		11,731	11,515	10,644	10,895	10,463
Income tax expense	7	(3,632)	(3,518)	(3,184)	(2,751)	(2,620)
Net profit for the year		8,099	7,997	7,460	8,144	7,843
Net profit attributable to non-controlling interests		(4)	(7)	(15)	-	-
Net profit attributable to owners of Westpac Banking Corporation		8,095	7,990	7,445	8,144	7,843
Earnings per share (cents)						
Basic	8	237.5	238.0	224.6		
Diluted	8	230.1	229.3	217.8		

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

Financial statements

Statements of comprehensive income for the years ended 30 September

Westpac Banking Corporation

\$m	Consolidated			Parent Entity	
	2018	2017	2016	2018	2017
Net profit for the year	8,099	7,997	7,460	8,144	7,843
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Gains/(losses) on available-for-sale securities:					
Recognised in equity	(102)	75	56	(32)	88
Transferred to income statements	66	(3)	(8)	(33)	(3)
Gains/(losses) on cash flow hedging instruments:					
Recognised in equity	(161)	(91)	(304)	(125)	(42)
Transferred to income statements	203	115	21	160	19
Movement in foreign currency translation reserve:					
Exchange differences on translation of foreign operations	181	(116)	(238)	174	(77)
Transferred to income statements	(3)	-	-	-	-
Income tax on items taken to or transferred from equity:					
Available-for-sale securities reserve	9	(18)	(13)	19	(25)
Cash flow hedge reserve	(13)	(6)	85	(10)	7
Share of associates other comprehensive income:					
Recognised in equity (net of tax)	-	3	(17)	-	-
Transferred to income statements	-	9	-	-	-
Items that will not be reclassified subsequently to profit or loss					
Own credit adjustment on financial liabilities designated at fair value (net of tax)	43	(164)	(54)	43	(164)
Remeasurement of defined benefit obligation recognised in equity (net of tax)	45	190	(47)	47	182
Other comprehensive income for the year (net of tax)	268	(6)	(519)	243	(15)
Total comprehensive income for the year	8,367	7,991	6,941	8,387	7,828
Attributable to:					
Owners of Westpac Banking Corporation	8,363	7,984	6,926	8,387	7,828
Non-controlling interests	4	7	15	-	-
Total comprehensive income for the year	8,367	7,991	6,941	8,387	7,828

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

	<i>2018 Westpac Group Annual Report</i>	165
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Financial statements

Balance Sheets as at 30 September

Westpac Banking Corporation

\$m	Note	Consolidated		Parent Entity	
		2018	2017	2018	2017
Assets					
Cash and balances with central banks		26,431	18,397	24,726	16,405
Receivables due from other financial institutions	10	5,790	7,128	5,711	6,357
Trading securities and financial assets designated at fair value	11	22,134	25,324	20,417	22,946
Derivative financial instruments	21	24,101	24,033	23,562	23,823
Available-for-sale securities	12	61,119	60,710	56,513	55,800
Loans	13	709,690	684,919	630,168	606,237
Life insurance assets	15	9,450	10,643	-	-
Regulatory deposits with central banks overseas		1,355	1,048	1,248	945
Due from subsidiaries		-	-	140,597	142,455
Investment in subsidiaries		-	-	4,508	3,975
Investment in associates	35	115	60	76	46
Property and equipment		1,329	1,487	1,120	1,250
Deferred tax assets	7	1,180	1,112	1,102	1,053
Intangible assets	26	11,763	11,652	9,494	9,259
Other assets	27	5,135	5,362	3,988	4,318
Total assets		879,592	851,875	923,230	894,869
Liabilities					
Payables due to other financial institutions	16	18,137	21,907	17,682	21,775
Deposits and other borrowings	17	559,285	533,591	500,468	477,693
Other financial liabilities at fair value through income statement	18	4,297	4,056	4,297	4,038
Derivative financial instruments	21	24,407	25,375	24,229	24,911
Debt issues	19	172,596	168,356	152,288	144,116
Current tax liabilities		296	308	184	234
Life insurance liabilities	15	7,597	9,019	-	-
Due to subsidiaries		-	-	142,400	143,834
Provisions ¹	28	1,928	1,639	1,766	1,472
Deferred tax liabilities	7	18	10	3	-
Other liabilities ¹	29	9,193	8,606	7,292	6,949
Total liabilities excluding loan capital		797,754	772,867	850,609	825,022
Loan capital	20	17,265	17,666	17,265	17,666
Total liabilities		815,019	790,533	867,874	842,688
Net assets		64,573	61,342	55,356	52,181
Shareholders equity					
Share capital:					
Ordinary share capital	32	36,054	34,889	36,054	34,889
Treasury shares and RSP treasury shares	32	(493)	(495)	(508)	(437)
Reserves	32	1,077	794	1,114	858
Retained profits		27,883	26,100	18,696	16,871
Total equity attributable to owners of Westpac Banking Corporation		64,521	61,288	55,356	52,181
Non-controlling interests	32	52	54	-	-
Total shareholders equity and non-controlling interests		64,573	61,342	55,356	52,181

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

1 Comparatives have been revised to reclassify compliance, regulation and remediation provisions.

166	<i>2018 Westpac Group Annual Report</i>	
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Financial statements

Statements of changes in equity for the years ended 30 September

Westpac Banking Corporation

Consolidated

	Share capital		Reserves		Retained profits		Total equity		Total
							attributable to owners		
							of Westpac Banking Corporation	controlling interests	controlling interests
\$m	(Note 32)	(Note 32)	profits	Corporation	(Note 32)	interests			
Balance at 1 October 2015	28,895	1,031	23,172	53,098	817	53,915			
Net profit for the year	-	-	7,445	7,445	15	7,460			
Net other comprehensive income for the year	-	(418)	(101)	(519)	-	(519)			
Total comprehensive income for the year	-	(418)	7,344	6,926	15	6,941			
Transactions in capacity as equity holders									
Dividends on ordinary shares ¹	-	-	(6,128)	(6,128)	-	(6,128)			
Dividend reinvestment plan	726	-	-	726	-	726			
Share entitlement offer	3,510	-	-	3,510	-	3,510			
Other equity movements									
Share-based payment arrangements	-	116	-	116	-	116			
Exercise of employee share options and rights	2	-	-	2	-	2			
Purchase of shares (net of issue costs)	(49)	-	-	(49)	-	(49)			
Net (acquisition)/disposal of treasury shares	(70)	-	-	(70)	-	(70)			
Other ²	-	(2)	(9)	(11)	(771)	(782)			
Total contributions and distributions	4,119	114	(6,137)	(1,904)	(771)	(2,675)			
Balance at 30 September 2016	33,014	727	24,379	58,120	61	58,181			
Net profit for the year	-	-	7,990	7,990	7	7,997			
Net other comprehensive income for the year	-	(32)	26	(6)	-	(6)			
Total comprehensive income for the year	-	(32)	8,016	7,984	7	7,991			
Transactions in capacity as equity holders									
Dividends on ordinary shares ¹	-	-	(6,291)	(6,291)	-	(6,291)			
Dividend reinvestment plan	1,452	-	-	1,452	-	1,452			
Other equity movements									
Share-based payment arrangements	-	98	-	98	-	98			
Exercise of employee share options and rights	11	-	-	11	-	11			
Purchase of shares (net of issue costs)	(43)	-	-	(43)	-	(43)			
Net (acquisition)/disposal of treasury shares	(40)	-	-	(40)	-	(40)			
Other	-	1	(4)	(3)	(14)	(17)			
Total contributions and distributions	1,380	99	(6,295)	(4,816)	(14)	(4,830)			
Balance at 30 September 2017	34,394	794	26,100	61,288	54	61,342			
Net profit for the year	-	-	8,095	8,095	4	8,099			
Net other comprehensive income for the year	-	180	88	268	-	268			
Total comprehensive income for the year	-	180	8,183	8,363	4	8,367			

Transactions in capacity as equity holders

Dividends on ordinary shares ¹	-	-	(6,400)	(6,400)	-	(6,400)
Dividend reinvestment plan	631	-	-	631	-	631
Conversion of Convertible Preference Shares	566	-	-	566	-	566
Other equity movements						
Share-based payment arrangements	-	103	-	103	-	103
Exercise of employee share options and rights	3	-	-	3	-	3
Purchase of shares (net of issue costs)	(35)	-	-	(35)	-	(35)
Net (acquisition)/disposal of treasury shares	2	-	-	2	-	2
Other	-	-	-	-	(6)	(6)
Total contributions and distributions	1,167	103	(6,400)	(5,130)	(6)	(5,136)
Balance at 30 September 2018	35,561	1,077	27,883	64,521	52	64,573

The above statements of changes in equity should be read in conjunction with the accompanying notes.

1 2018 comprises 2018 interim dividend 94 cents per share (\$3,213 million) and 2017 final dividend 94 cents per share (\$3,187 million) (2017: 2017 interim dividend 94 cents per share (\$3,150 million) and 2016 final dividend 94 cents per share (\$3,141 million), 2016: 2016 interim dividend 94 cents (\$3,130 million) and 2015 final dividend 94 cents per share (\$2,998 million)), all fully franked at 30%.

2 On 30 June 2016 the 2006 TPS were redeemed in full.

Financial statements

Statements of changes in equity for the years ended 30 September (continued)

Westpac Banking Corporation

Parent Entity	Total equity			
	attributable to owners of Westpac			
	Share capital	Reserves	Retained profits	Banking Corporation
\$m	(Note 32)	(Note 32)	profits	Corporation
Balance at 1 October 2016	33,100	790	15,311	49,201
Net profit for the year	-	-	7,843	7,843
Net other comprehensive income for the year	-	(33)	18	(15)
Total comprehensive income for the year	-	(33)	7,861	7,828
Transactions in capacity as equity holders				
Dividends on ordinary shares ¹	-	-	(6,301)	(6,301)
Dividend reinvestment plan	1,452	-	-	1,452
Other equity movements				
Share-based payment arrangements	-	101	-	101
Exercise of employee share options and rights	11	-	-	11
Purchase of shares (net of issue costs)	(43)	-	-	(43)
Net (acquisition)/disposal of treasury shares	(68)	-	-	(68)
Total contributions and distributions	1,352	101	(6,301)	(4,848)
Balance at 30 September 2017	34,452	858	16,871	52,181
Net profit for the year	-	-	8,144	8,144
Net other comprehensive income for the year	-	153	90	243
Total comprehensive income for the year	-	153	8,234	8,387
Transactions in capacity as equity holders				
Dividends on ordinary shares ¹	-	-	(6,409)	(6,409)
Dividend reinvestment plan	631	-	-	631
Conversion of Convertible Preference Shares	566	-	-	566
Other equity movements				
Share based payment arrangements	-	103	-	103
Exercise of employee share options and rights	3	-	-	3
Purchase of shares (net of issue costs)	(35)	-	-	(35)
Net (acquisition)/disposal of treasury shares	(71)	-	-	(71)
Total contributions and distributions	1,094	103	(6,409)	(5,212)
Balance at 30 September 2018	35,546	1,114	18,696	55,356

The above statements of changes in equity should be read in conjunction with the accompanying notes.

1 2018 comprises 2018 interim dividend 94 cents per share (\$3,218 million) and 2017 final dividend 94 cents per share (\$3,191 million) (2017: 2017 interim dividend 94 cents per share (\$3,156 million) and 2016 final dividend 94 cents per share (\$3,145 million)), all fully franked at 30%.

Financial statements

Cash flow statements for the years ended 30 September

Westpac Banking Corporation

\$m	Note	2018	Consolidated 2017	2016	Parent Entity 2018	2017
Cash flows from operating activities						
Interest received		32,639	31,133	31,817	32,947	30,784
Interest paid		(15,789)	(15,415)	(16,721)	(18,728)	(17,458)
Dividends received excluding life business		9	27	43	2,016	1,861
Other non-interest income received		5,097	5,064	5,050	3,926	4,457
Operating expenses paid		(7,991)	(7,966)	(8,106)	(6,637)	(6,748)
Income tax paid excluding life business		(3,585)	(3,388)	(3,373)	(3,349)	(3,192)
Life business:						
Receipts from policyholders and customers		2,008	2,239	1,893	-	-
Interest and other items of similar nature		17	24	30	-	-
Dividends received		642	433	348	-	-
Payments to policyholders and suppliers		(2,089)	(1,861)	(1,642)	-	-
Income tax paid		(143)	(164)	(96)	-	-
Cash flows from operating activities before changes in operating assets and liabilities		10,815	10,126	9,243	10,175	9,704
Net (increase)/decrease in:						
Trading securities and financial assets designated at fair value		3,827	(5,054)	6,755	3,150	(5,194)
Loans		(24,740)	(26,815)	(38,082)	(23,661)	(27,677)
Receivables due from other financial institutions		1,678	2,653	(896)	987	1,817
Life insurance assets and liabilities		(230)	219	(253)	-	-
Regulatory deposits with central banks overseas		(303)	308	(209)	(299)	294
Derivative financial instruments		8,584	(5,042)	(5,107)	8,263	(5,378)
Other assets		160	200	(476)	210	136
Net increase/(decrease) in:						
Other financial liabilities at fair value through income statement		243	(681)	(4,488)	261	(325)
Deposits and other borrowings		23,928	23,062	38,771	20,783	22,518
Payables due to other financial institutions		(4,072)	3,859	(73)	(4,396)	3,792
Other liabilities		(88)	(15)	312	(196)	78
Net cash provided by/(used in) operating activities	41	19,802	2,820	5,497	15,277	(235)
Cash flows from investing activities						
Proceeds from available-for-sale securities		23,878	25,717	18,779	21,525	23,707
Purchase of available-for-sale securities		(24,376)	(27,028)	(24,724)	(22,230)	(24,820)
Net movement in amounts due to/from controlled entities		-	-	-	923	2,999
Proceeds/(Payments) on disposal of controlled entities, net of cash disposed	41	9	-	(104)	-	-
Net (increase)/decrease in investments in controlled entities		-	-	-	(577)	640
Proceeds from sale of associates		-	630	-	-	-
Purchase of associates		(30)	(52)	-	(30)	(46)
Proceeds from disposal of property and equipment		91	65	32	62	55
Purchase of property and equipment		(310)	(264)	(521)	(251)	(203)
Purchase of intangible assets		(882)	(766)	(707)	(823)	(692)
Net cash provided by/(used in) investing activities		(1,620)	(1,698)	(7,245)	(1,401)	1,640
Cash flows from financing activities						
Issue of loan capital (net of issue costs)		2,342	4,437	3,596	2,342	4,437
Redemption of loan capital		(2,387)	(2,188)	(1,444)	(2,387)	(2,188)
Net increase/(decrease) in debt issues		(5,242)	3,249	5,213	(565)	2,746
Proceeds from Share Entitlement Offer		-	-	3,510	-	-

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Proceeds from exercise of employee options	3	11	2	3	11
Purchase of shares on exercise of employee options and rights	(8)	(17)	(24)	(8)	(17)
Shares purchased for delivery of employee share plan	(27)	(27)	(27)	(27)	(27)
Purchase of RSP treasury shares	(71)	(68)	(62)	(71)	(68)
Net sale/(purchase) of other treasury shares	73	7	(8)	-	-
Payment of dividends	(5,769)	(4,839)	(5,402)	(5,778)	(4,849)
Payment of distributions to non-controlling interests	(6)	(13)	(18)	-	-
Redemption of 2006 Trust Preferred Securities	-	-	(763)	-	-
Net cash provided by/(used in) financing activities	(11,092)	552	4,573	(6,491)	45
Net increase/(decrease) in cash and cash equivalents	7,090	1,674	2,825	7,385	1,450
Effect of exchange rate changes on cash and cash equivalents	944	(292)	(580)	936	(231)
Cash and cash equivalents as at the beginning of the year	18,397	17,015	14,770	16,405	15,186
Cash and cash equivalents as at the end of the year	26,431	18,397	17,015	24,726	16,405

The above cash flow statements should be read in conjunction with the accompanying notes. Details of the reconciliation of net cash provided by/(used in) operating activities to net profit are provided in Note 41.

Notes to the financial statements

Note 1. Financial statements preparation

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 2018 was authorised for issue by the Board of Directors on 5 November 2018. The Directors have the power to amend and reissue the financial report.

The principal accounting policies are set out below and in the relevant notes to the financial statements. The accounting policy for the recognition and derecognition of financial assets and financial liabilities precedes Note 10. These accounting policies provide details of the accounting treatments adopted for complex balances and where accounting standards provide policy choices. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of preparation

(i) Basis of accounting

This financial report is a general purpose financial report prepared in accordance with:

§ the requirements for an authorised deposit-taking institution under the *Banking Act 1959* (as amended);

§ Australian Accounting Standards (AAS) and Interpretations as issued by the Australian Accounting Standards Board (AASB); and

§ the *Corporations Act 2001*.

Westpac Banking Corporation is a for-profit entity for the purposes of preparing this financial report.

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Interpretations as issued by the IFRS Interpretations Committee (IFRIC). It also includes additional disclosures required for foreign registrants by the United States Securities and Exchange Commission (US SEC).

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All amounts have been rounded in accordance with ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191, to the nearest million dollars, unless otherwise stated.

(ii) 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 securities, and financial assets and liabilities (including derivative instruments) measured at fair value through income statement or in other comprehensive income.

(iii) Comparative revisions

Comparative information has been revised where appropriate to conform to changes in presentation in the current year and to enhance comparability.

(iv) Standards adopted during the year ended 30 September 2018

The Group adopted the requirements of AASB 2016-2-*Amendments to Australian Accounting Standards Disclosure Initiative: Amendments to AASB 107* which require additional disclosures regarding both cash and non-cash changes in liabilities arising from financing activities. These disclosures have been made in Note 19 and Note 20. As permitted by the standard, comparatives are not required on first application.

There were no other new standards applied in 2018.

(v) Business combinations

Business combinations are accounted for using the acquisition method of accounting. Acquisition cost is measured as the aggregate of the fair value at the date of acquisition of the assets given, equity instruments issued or liabilities incurred or assumed. Acquisition-related costs are expensed as incurred (except for those costs arising on the issue of equity instruments which are recognised directly in equity).

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value on the acquisition date. Goodwill is measured as the excess of the acquisition cost, the amount of any non-controlling interest and the fair value of any previous Westpac equity interest in the acquiree, over the fair value of the identifiable net assets acquired.

(vi) Foreign currency translation

Functional and presentational currency

The consolidated financial statements are presented in Australian dollars which is the Parent Entity's functional and presentation currency. The functional currency of offshore entities is usually the main currency of the economy it operates in.

Notes to the financial statements
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Note 1. Financial statements preparation (continued)*Transactions and balances*

Foreign currency transactions are translated into the functional currency of the relevant branch or subsidiary using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income for qualifying cash flow hedges and qualifying net investment hedges.

Foreign operations

Assets and liabilities of foreign 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 year. Equity balances are translated at historical exchange rates. The resulting exchange differences are recognised in the foreign currency translation reserve and in other comprehensive income.

On consolidation, exchange differences arising from the translation of borrowings and other foreign currency instruments designated as hedges of the net investment in foreign operations are reflected in the foreign currency translation reserve and in other comprehensive income. When all or part of a foreign operation is disposed or borrowings that are part of the net investments are repaid, a proportionate share of such exchange differences is recognised in the income statement as part of the gain or loss on disposal or repayment of borrowing.

b. Critical accounting assumptions and estimates

Applying the Group's accounting policies requires the use of judgement, assumptions and estimates which impact the financial information. The significant assumptions and estimates used are discussed in the relevant notes below:

§	Note 7	Income tax
§	Note 14	Provisions for impairment charges
§	Note 15	Life insurance assets and life insurance liabilities
§	Note 23	Fair values of financial assets and financial liabilities

§ Note 26 Intangible assets

§ Note 28 Provisions

§ Note 38 Superannuation commitments

c. Future developments in accounting standards

The following new standards and interpretations which may have a material impact on the Group have been issued but are not yet effective, and unless otherwise stated, have not been early adopted by the Group:

AASB 9 *Financial Instruments* (December 2014) (AASB 9) will replace AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139). It includes a forward looking expected credit loss impairment model, revised classification and measurement model and modifies the approach to hedge accounting. The standard is effective from 1 October 2018.

The adoption of AASB 9 is expected to reduce retained earnings at 1 October 2018 by approximately \$709 million (net of tax) primarily due to the increase in impairment provisions under the new standard. The Group continues to assess and refine certain aspects of our impairment provision process and the opening adjustment may change. There is no significant impact to our regulatory capital. These estimates are based on accounting policies, assumptions, judgements and estimation techniques that remain subject to change until the Group finalises its financial statements for the year ending 30 September 2019.

The major changes under the standard and details of the implementation project are outlined below.

Impairment

AASB 9 introduces a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward looking information, replacing the existing incurred loss model in AASB 139 which only recognises impairment if there is objective evidence that a loss has been incurred. This will result in the earlier recognition of impairment provisions. The revised impairment model applies to all financial assets at amortised cost, lease receivables, debt securities measured at fair value through other comprehensive income, loans commitments and financial guarantee contracts.

Key elements of the new impairment model are:

§ requires earlier recognition of expected credit losses using a three stage approach. For financial assets where there has been no significant increase in credit risk since origination a provision for 12 months expected credit losses is required (stage 1). For financial assets where there has been a significant increase in credit risk or where the asset is credit impaired a provision for full lifetime expected losses is required (stages 2 and 3 respectively);

Notes to the financial statements

Note 1. Financial statements preparation (continued)

§ expected credit losses are probability-weighted amounts determined by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions. This will involve a greater use of judgement than the existing impairment model; and

§ interest is calculated on the gross carrying amount of a financial asset, except where the asset is credit impaired (i.e. stage 3). This will result in an increase in interest income and impairment charges as currently interest is calculated on the net carrying value for all loans.

Implementation

Measurement

Models have been developed, tested and approved while certain aspects of the impairment provisioning process continue to be assessed and refined. These models use three main components (as well as the time value of money) being:

§ Probability of default (PD): the probability that a counterparty will default;

§ Loss given default (LGD): the loss that is expected to arise in the event of a default; and

§ Exposure at default (EAD): the estimated outstanding amount of credit exposure at the time of the default.

The models use a 12 month timeframe for expected losses in stage 1 and a lifetime timeframe for expected losses in stages 2 and 3. The models incorporate past experience, current conditions and multiple probability-weighted macroeconomic scenarios for reasonably supportable future economic conditions. Where appropriate, adjustments will be made to modelled outcomes to reflect reasonable and supportable information not already incorporated in the models.

Significant increase in credit risk and movement between stages

An asset will move from stage 1 to stage 2 if there has been a significant increase in credit risk since origination.

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The judgement to determine this will be primarily based on changes in internal customer risk grades since origination of the facility. The Group does not intend to rebut the presumption that instruments that are 30 days past due have experienced a significant increase in risk but this will be used as a backstop rather than the primary indicator.

The Group will not be applying the low credit risk exemption which assumes investment grade facilities do not have a significant increase in credit risk.

The movement between stages 2 and 3 will be based on whether financial assets are credit-impaired at the reporting date which is expected to be similar to the individual assessment of impairment for financial assets under the current AASB 139.

Assets may move in both directions through the stages of the impairment model. Assets previously in stage 2 may move back to stage 1 if it is no longer considered that there has been a significant deterioration of credit risk. Similarly, assets in stage 3 may move back to stage 2 if they are no longer assessed to be credit-impaired.

Forward looking information

The estimation of forward looking information is a key area requiring judgement. The Group intends to consider a minimum of three future macroeconomic scenarios. These will include a base case scenario along with upside and downside scenarios. The macroeconomic variables used in these scenarios, based on current economic forecasts, include (but are not limited to) unemployment rates, gross domestic product growth rates and residential and commercial property price indices. The macroeconomic variables and probability weightings of the three scenarios will be subject to the approval of the Group Chief Financial Officer and the Chief Risk Officer with oversight from the Board of Directors (and its Committees).

Governance

The Group has established a governance framework and has implemented controls to address disclosure of the impact of the new requirements of AASB 9 including key areas of judgement such as the determination of a significant increase in credit risk and the use of forward looking information in future economic scenarios along with the controls addressing credit data and systems and the expected credit loss models.

The AASB 9 provision calculation models have been independently reviewed in accordance with the Group's model risk policies and approved by the Credit Risk Estimates Committee (CREC). The key judgements in relation to the new provisioning methodology have been discussed and agreed with the Board Risk and Compliance Committee (BRCC) and the Board Audit Committee.

Models and credit risk processes have been tested in parallel run since May 2018 to provide a better understanding of the implications of the new impairment requirements. This included an evaluation of the effect on the Group's results as well as ongoing validation of the controls and effectiveness of the governance and operational processes. The control environment will continue to evolve as the Group embeds processes and controls during the financial year ending 30 September 2019.

Notes to the financial statements

Note 1. Financial statements preparation (continued)

Classification and measurement

AASB 9 replaces the classification and measurement model in AASB 139 with a new model that categorises financial assets based on a) the business model within which the assets are managed, and b) whether the contractual cash flows under the instrument solely represent the payment of principal and interest. Financial assets will be measured at:

§ amortised cost where the business model is to hold the financial assets in order to collect contractual cash flows and those cash flows represent solely payments of principal and interest;

§ fair value through other comprehensive income where the business model is to both collect contractual cash flows and sell financial assets and the cash flows represent solely payments of principal and interest. Non-traded equity instruments can also be measured at fair value through other comprehensive income; or

§ fair value through profit or loss if they are held for trading or if the cash flows on the asset do not solely represent payments of principal and interest. An entity can also elect to measure a financial asset at fair value through profit or loss if it eliminates or reduces an accounting mismatch.

The accounting for financial liabilities is largely unchanged.

Implementation

The Group's classification and measurement implementation project has identified approximately \$800 million of available-for-sale financial assets which will be reclassified to amortised cost under AASB 9 based on the hold to collect business model. In addition, the Group identified some available-for-sale and amortised cost financial assets that will be reclassified to fair value through profit and loss, however, the amounts being reclassified are not material.

Hedging

AASB 9 will change hedge accounting by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness. Adoption of the new hedge accounting model is optional until the IASB completes its accounting for dynamic risk management project. Until this time, current hedge accounting under AASB 139 can continue to be applied.

Implementation

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The Group will apply the option to continue hedge accounting under AASB 139, however will implement the amended AASB7 *Financial Instruments: Disclosure* (AASB7) hedge accounting disclosures as required.

Transition

The impairment and classification and measurement requirements of AASB 9 will be applied retrospectively by adjusting the opening balance sheet at the date of initial application, 1 October 2018, with no restatement of comparatives as permitted by the standard. However, detailed transitional disclosures will be provided in accordance with the amended requirements of AASB 7.

AASB 15 *Revenue from Contracts with Customers* (AASB 15) was issued on 28 May 2014 and will be effective from 1 October 2018. The standard replaces AASB 118 *Revenue* and related interpretations, and applies to all contracts with customers, except leases, financial instruments and insurance contracts. The standard provides a systematic approach to revenue recognition by introducing a five-step model governing revenue measurement and recognition. This includes:

- § identifying the contract with customer;
- § identifying each of the performance obligations included in the contract;
- § determining the amount of consideration in the contract;
- § allocating the consideration to each of the identified performance obligations; and
- § recognising revenue as each performance obligation is satisfied.

The Group will elect to apply AASB 15 retrospectively by adjusting the opening balance of retained earnings at the date of initial application, 1 October 2018, with no comparatives restatement.

The Group has assessed the revenue streams existing at transition. Based on this assessment, the primary impacts from the adoption of AASB 15 are expected to be a grossing up of some income and expenses which are currently reported on a net basis. In addition, certain facility fees will be reclassified from non-interest income to interest income. These presentation changes will not have a material impact on the Group's net profit, retained earnings or capital position.

Notes to the financial statements

Note 1. Financial statements preparation (continued)

AASB 16 *Leases* (AASB 16) was issued on 24 February 2016 and will be effective for the 30 September 2020 financial year. The standard will not result in significant changes for lessor accounting. The main changes under the standard are:

§ all operating leases of greater than 12 months duration will be required to be presented on balance sheet by the lessee as a right-of-use asset and lease liability. The asset and liability will initially be measured at the present value of non-cancellable lease payments and payments to be made in optional periods where it is reasonably certain that the option will be exercised. Details of the Group's lease obligations are included in Note 30; and

§ all leases on balance sheet will give rise to a combination of interest expense on the lease liability and depreciation of the right-of-use asset.

Alternative methods of calculating the right-of-use asset are allowed under AASB 16 which impact the size of the transition adjustment. The Group is still evaluating which transition method to apply.

Current project implementation efforts are focused on the review and evaluation of contracts within scope of the standard.

AASB 17 *Insurance Contracts* (AASB 17) was issued on 19 July 2017 and will be effective for the 30 September 2022 year end unless early adopted. This will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. The main changes under the standard are:

§ the scope of the standard may result in some contracts that are currently unbundled, i.e. accounted for separately as insurance and investment contracts being required to be bundled and accounted for as an insurance contract;

§ portfolios of contracts (with similar risks which are managed together) will be required to be disaggregated to a more granular level by both the age of a contract and the likelihood of the contract being onerous in order to determine the recognition of profit over the contract period (i.e. the contractual service margin). The contractual service margin uses a different basis to recognise profit to the current Margin on Services approach for life insurance and therefore the pattern of profit recognition is likely to differ;

§ risk adjustments, which reflect uncertainties in the amount and timing of future cash flows, are required for both general and life insurance contracts rather than just general insurance contracts under the current accounting standards;

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§ the contract boundary, which is the period over which profit is recognised, differs and is determined based on the ability to compel the policyholder to pay premiums or the substantive obligation to provide coverage/services. For some general insurance contracts (e.g. some lender mortgage insurance and reinsurance contracts) this may result in the contract boundary being longer. For life insurance, in particular term renewable contracts, the contract boundary is expected to be shorter. Both will be impacted by different patterns of profit recognition compared to the current standards;

§ a narrower definition of what acquisition costs may be deferred;

§ an election to recognise changes in assumptions regarding discount rate in other comprehensive income rather than in profit and loss;

§ an election to recognise changes in the fair value of assets supporting policy liabilities in other comprehensive income rather than through profit and loss;

§ reinsurance contracts and the associated liability are to be determined separately to the gross contract liability and may have different contract boundaries; and

§ additional disclosure requirements.

The standard is expected to result in a reduction in the level of deferred acquisition costs, however the quantum of this and the profit and loss impacts to the Group are not yet practicable to determine.

Notes to the financial statements

FINANCIAL PERFORMANCE

Note 2. Segment reporting

Accounting policy

Operating segments are presented on a basis consistent with information provided internally to Westpac's key decision makers and reflects the management of the business, rather than the legal structure of the Group.

Internally, Westpac uses cash earnings in assessing the financial performance of its divisions. Management believes this allows the Group to:

§ more effectively assess current year performance against prior years;

§ compare performance across business divisions; and

§ compare performance across peer companies.

Cash earnings is viewed as a measure of the level of profit that is generated by ongoing operations and is therefore considered in assessing distributions, including dividends. Cash earnings is neither a measure of cash flow nor net profit determined on a cash accounting basis, as it includes both cash and non-cash adjustments to statutory net profit.

To determine cash earnings, three categories of adjustments are made to statutory results:

§ material items that key decision makers at the Westpac Group believe do not reflect ongoing operations;

§ items that are not considered when dividends are recommended, such as the amortisation of intangibles, impact of Treasury shares and economic hedging; and

§ accounting reclassifications between individual line items that do not impact statutory results.

Internal charges and transfer pricing adjustments have been reflected in the performance of each operating segment. Inter-segment pricing is determined on an arm's length basis.

Reportable operating segments

The operating segments are defined by the customers they service and the services they provide:

§ Consumer Bank (CB):

- responsible for sales and service of banking and financial products and services;
- customer base is consumer in Australia; and
- operates under the Westpac, St.George, BankSA, Bank of Melbourne and RAMS brands.

§ Business Bank (BB):

- responsible for sales and service of banking and financial products and services;
- customer base is SME and commercial business customers in Australia for facilities up to approximately \$150 million; and
- operates under the Westpac, St.George, BankSA and Bank of Melbourne brands.

§ BT Financial Group (Australia) (BTFG):

- Westpac's Australian wealth management and insurance division;
- services include the manufacturing and distribution of investment, superannuation and retirement products, wealth administration platforms, private wealth, margin lending and equities broking;
- BTFG's insurance business covers the manufacturing and distribution of life, general and lenders mortgage insurance;
- in addition to the BT brand, BTFG operates a range of financial services brands along with the banking brands of Westpac, St. George, Bank of Melbourne and BankSA for Private Wealth and Insurance.

§ Westpac Institutional Bank (WIB):

- Westpac's institutional financial services division delivering a broad range of financial products and services;
- services include transactional banking, financial and debt capital markets, specialised capital, and alternative investment solutions;
- customer base includes commercial, corporate, institutional and government customers;
- customers are supported throughout Australia, as well as via branches and subsidiaries located in New Zealand, US, UK and Asia; and
- also responsible for Westpac Pacific, providing a range of banking services in Fiji and Papua New Guinea.

Notes to the financial statements

Note 2. Segment reporting (continued)

§ Westpac New Zealand:

- responsible for sales and service of banking, wealth and insurance products to customers in New Zealand;
- customer base includes consumers, business and institutional customers; and
- operates under the Westpac brand for banking products, the Westpac Life brand for life insurance products and the BT brand for wealth products.

§ Group Businesses include:

- Treasury, which is responsible for the management of the Group's balance sheet including wholesale funding, capital and management of liquidity. Treasury also manages the interest rate risk and foreign exchange risks inherent in the balance sheet, including managing the mismatch between Group assets and liabilities. Treasury's earnings are primarily sourced from managing the Group's balance sheet and interest rate risk, (excluding Westpac New Zealand) within set risk limits;
- Group Technology¹, which comprises functions for the Australian businesses, is responsible for technology strategy and architecture, infrastructure and operations, applications development and business integration;
- Core Support², which comprises functions performed centrally, including Australian banking operations, property services, strategy, finance, risk, compliance, legal, human resources, and customer and corporate relations; and
- Group Businesses also includes earnings on capital not allocated to divisions, for certain intra-group transactions that facilitate presentation of performance of the Group's operating segments, earnings from non-core asset sales, earnings and costs associated with the Group's fintech investments, and certain other head office items such as centrally held provisions.

Revisions to segment allocations

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In 2018, Westpac implemented a number of changes to the presentation of its divisional financial information. These changes have no impact on the Group's overall results or balance sheet but impact divisional results and balance sheets. Comparative divisional financial information has been restated for these changes.

The changes include updates to the methodologies to allocate certain costs, revenues and capital to the divisions. These changes can be summarised as:

1. Allocating additional capital from Group Businesses to operating divisions, following greater clarity from APRA on updates to its capital framework;
2. Updating the Group's cost of funds transfer pricing methodology, including the allocation of revenue from balance sheet management activities;
3. Realigning divisional earnings and balance sheet disclosures for recent customer transfers; and
4. Refining expense allocations to improve the allocation of support costs to divisions.

- 1 Costs are fully allocated to other divisions in the Group.
- 2 Costs are partially allocated to other divisions in the Group, with costs attributed to enterprise activity retained in Group Businesses.

Notes to the financial statements

Note 2. Segment reporting (continued)

The following tables present the segment results on a cash earnings basis for the Group:1

2018	BT						Net cash earnings	Income	
	Consumer Business	Financial Group	Westpac Institutional	Westpac New Zealand	Westpac Group	Businesses			
\$m	Bank	Bank (Australia)	Bank	Bank	Bank	Bank	Total adjustment	Statement	
Net interest income	7,748	4,065	578	1,416	1,720	812	16,339	166	16,505
Non-interest income	746	1,189	1,648	1,556	438	35	5,612	16	5,628
Net operating income before operating expenses and impairment charges	8,494	5,254	2,226	2,972	2,158	847	21,951	182	22,133
Operating expenses	(3,542)	(1,876)	(1,291)	(1,446)	(860)	(571)	(9,586)	(106)	(9,692)
Impairment (charges)/benefits	(451)	(291)	(6)	38	(2)	2	(710)	-	(710)
Profit before income tax	4,501	3,087	929	1,564	1,296	278	11,655	76	11,731
Income tax expense	(1,361)	(928)	(284)	(473)	(362)	(178)	(3,586)	(46)	(3,632)
Net profit attributable to non-controlling interests	-	-	-	(5)	-	1	(4)	-	(4)
Cash earnings for the year	3,140	2,159	645	1,086	934	101	8,065	30	8,095
Net cash earnings adjustments	(15)	(2)	(73)	-	13	107	30		
Net profit attributable to owners of Westpac Banking Corporation	3,125	2,157	572	1,086	947	208	8,095		
Additional information									
Depreciation, amortisation and impairments	(173)	(71)	(78)	(274)	(81)	(467)	(1,144)		
Balance Sheet									
Total assets	392,495	156,523	34,923	102,380	82,424	110,847	879,592		
Total liabilities	212,472	114,137	42,500	126,620	72,078	247,212	815,019		
Additions of property and equipment and intangible assets	363	94	96	88	99	452	1,192		
2017									
	BT								
	Consumer Business	Financial Group	Westpac Institutional	Westpac New Zealand	Westpac Group	Businesses	Net cash earnings	Income	
\$m	Bank	Bank (Australia)	Bank	Bank	Bank	Bank	Total adjustment	Statement	
Net interest income	7,638	3,885	511	1,328	1,629	713	15,704	(188)	15,516
Non-interest income	813	1,141	1,744	1,707	480	(33)	5,852	434	6,286
Net operating income before operating expenses and impairment charges	8,451	5,026	2,255	3,035	2,109	680	21,556	246	21,802
Operating expenses	(3,378)	(1,818)	(1,199)	(1,351)	(903)	(456)	(9,105)		