

# Corporate governance

## Introduction

### **Date of statement**

This statement reflects our corporate governance framework, policies and procedures as at 30 October 2008.

### **Access to information on the website**

This statement and, where indicated, the documents referred to in the statement are available for viewing on our website (unless otherwise stated) at [www.westpac.com.au/corpgov](http://www.westpac.com.au/corpgov).

### **Framework and approach to corporate governance**

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

This approach includes a commitment to the highest standards of governance, which our Board sees as fundamental to the sustainability of our business and performance. In pursuing this commitment, the Board monitors local and global developments in corporate governance and their implications for us.

In Australia, we take into account the revised 'Corporate Governance Principles and Recommendations' (ASXCGC's Recommendations) published in August 2007 by the ASX Corporate Governance Council (ASXCGC), and the Corporations Act 2001 (Corporations Act).

In the international arena, we respond to a range of relevant corporate governance principles in developing our corporate governance framework.

### **Compliance with the ASXCGC's Recommendations**

We believe that our governance practices complied with the ASXCGC's Recommendations over the past financial year, as set out in this corporate governance statement. A checklist summarising our compliance is included after this statement and is also available on our website.

### **Compliance with the New York Stock Exchange listing rules**

Westpac has American Depositary Shares quoted on the New York Stock Exchange (NYSE). Under the NYSE listing rules, foreign private issuers are permitted to follow home country practice in lieu of the NYSE listing rules. However, we are still required to comply with certain audit committee and additional notification requirements.

We are in compliance with all NYSE listing rules in all material respects.

Under the NYSE listing rules, foreign private issuers are required to disclose any significant ways in which their corporate governance practices differ from those followed by domestic United States companies. We have compared our corporate governance practices to the corporate governance requirements of the NYSE listing rules and note the following potential significant differences:

#### (i) Equity compensation plans

The NYSE listing rules require that shareholders be given the opportunity to vote on equity compensation plans and material revisions thereto, with limited exemptions.

We comply with the requirement for shareholder approval in relation to all equity-based incentive plans introduced since 2006, including our:

- Westpac Reward Plan (WRP);
- Restricted Share Plan (RSP); and

- CEO's equity-based remuneration.

However (other than awards to the CEO) individual grants under the plans have not been approved by shareholders. The details of all grants of shares under our equity-based incentive plans have been disclosed in Note 26 to our consolidated financial statements for the year ended 30 September 2008. The employee equity plans introduced in 2002 were not required to be approved by shareholders under Australian law or stock exchange listing requirements. These plans include:

- the Westpac Performance Plan (which is currently only used for incentive awards to a small number of employees based outside Australia and the USA);
- the Employee Share Plan (ESP); and
- the Deferral Share Plan.

These three plans have been disclosed in each Annual Report from 2003, including in the Remuneration Report each year since 2005. Each year since 2005, the Remuneration Report has been subject to a non-binding shareholder vote and has been approved by shareholders for adoption.

#### (ii) Board candidates for re-election

The NYSE listing rules provide that the Nominations Committee's responsibilities should include selecting, or recommending that the Board select, the Director nominees for the next annual meeting for shareholders.

Our Constitution states that at each Annual General Meeting (AGM) one-third of our Directors (excluding the CEO) and any Director who has held office for three or more years since their last election, must retire. In 2008, none of our Directors met this three-year threshold, so a determination needed to be made regarding which two Directors would retire and seek re-election at the 2008 AGM. Westpac considered that it was appropriate for the full Board, rather than the Nominations Committee, to determine the Board candidates for retirement under the rotation policy, and to review and recommend their re-election by shareholders at the 2008 AGM.

### **Compliance with the New Zealand Stock Exchange corporate governance rules and principles**

Westpac also has ordinary shares quoted on the New Zealand Stock Exchange (NZX). As an overseas listed issuer, we are deemed to satisfy and comply with the NZX listing rules, provided that we remain listed on the ASX. The ASX, through the ASXCGC's Recommendations, and the NZX have adopted a similar 'comply or explain' general approach to corporate governance. However, the ASXCGC's Recommendations may materially differ from the NZX's corporate governance rules and the principles of the NZX Corporate Governance Best Practice Code.

Further details about the ASXCGC's Recommendations can be found on the ASX website [www.asx.com.au](http://www.asx.com.au).

This statement addresses each of the eight ASXCGC's Recommendations. Each Recommendation is set out and followed with an explanation of our corporate governance practices, demonstrating our compliance with the requirements of the Recommendations.

## **Principle 1 – Lay solid foundations for management and oversight**

*Companies should establish and disclose the respective roles and responsibilities of Board and management.*

1.1 *Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.*

1.2 *Companies should disclose the process for evaluating the performance of senior executives.*

### **The role and responsibilities of the Board**

The Board Charter outlines the roles and responsibilities of the Board and, in conjunction with the Constitution, allows the Board to determine those matters to be delegated to its Committees and management.

The Board is accountable to shareholders for our performance, and its responsibilities include, in summary:

- providing strategic direction;
- evaluating Board performance and determining Board size and composition;
- appointing and determining the duration, remuneration and other terms of appointment of the CEO and approving the appointments of other senior executives;
- evaluating the performance of the CEO and monitoring the performance of other senior executives;
- Board and Executive succession planning;
- annual approval of the budget and monitoring performance against that budget;
- determining the dividend policy;
- making determinations concerning our capital structure;
- appointing our external auditors and maintaining an on-going dialogue with them;
- financial reporting;
- approving our risk management strategy and frameworks and monitoring their effectiveness;
- considering the social, ethical and environmental impact of our activities and monitoring compliance with our sustainability policies and practices;
- maintaining a constructive and ongoing relationship with the exchanges and regulators and ensuring that the market and our shareholders are continuously informed of material developments; and
- internal governance, including delegated authorities, policies for appointments to our controlled entity Boards and monitoring resources available to senior executives.

The Board has delegated a number of these responsibilities to its Committees, as set out in the 'Westpac Governance Framework' chart in the Principle 2 section of this statement.

*Our Constitution and Board Charter can be found at 'www.westpac.com.au/corpgov'.*

### **Board delegation to management and Committees**

The Board has delegated to the CEO, and through the CEO to other senior executives, responsibility for the everyday management of our business. The scope of and limitations to that delegated authority is clearly documented.

The Board has five Committees, namely the:

- Audit Committee;
- Risk Management Committee;
- Nominations Committee;
- Remuneration Committee; and
- Sustainability Committee.

In 2009, it is proposed that an Information Technology Committee also be established.

The responsibility delegated to the Committees is set out in the 'Westpac Governance Framework' chart in the Principle 2 section.

### **Management performance evaluation**

The Board, in conjunction with its Remuneration Committee, is responsible for approving the performance objectives and measures for the CEO and other senior executives and providing input into the evaluation of performance against them. The management performance evaluations for the 2007 financial year were conducted in November 2007.

Management performance evaluations for the 2008 financial year will be conducted at the end of the 2008 calendar year.

To ensure they are able to meet their performance objectives, all new senior executives are provided with extensive briefing about our strategies and operations and the respective roles and responsibilities of the Board and senior management.

### **Principle 2 – Structure the Board to add value**

*Companies should have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.*

2.1 *A majority of the Board should be independent Directors.*

2.2 *The chair should be an independent Director.*

2.3 *The roles of chair and chief executive should not be exercised by the same individual.*

2.4 *The Board should establish a nomination committee.*

2.5 *Companies should disclose the process for evaluating the performance of the Board, its committees and individual Directors.*

Together, the Board members have a broad range of relevant financial and other skills, extensive experience and knowledge necessary to guide our business. Our Board comprises a majority of Non-executive Directors who satisfy our criteria for independence. The current Board composition and the composition of each of the Board's Committees is set out in the table below. The skills, experience and expertise of each Director, as well as the period of office held by each Director, are set out in the Directors' Report in the 2008 Annual Report.

*The 2008 Annual Report can be found at 'www.westpac.com.au/investorcentre'.*

### **Director independence**

The Board regularly assesses the independence of our Directors.

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

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Each Director is expected to disclose any business or other relationship which he or she has directly or as a partner, shareholder or officer of a company or other entity that has an interest, or a business or other relationship, with Westpac or a related entity.

The Board considers information about any such interests or relationships, including any related financial or other details, when it assesses the Directors' independence.

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

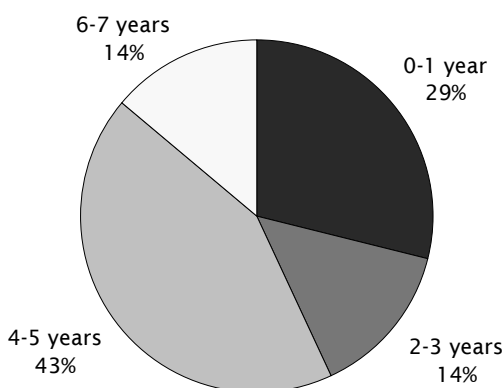
*The Westpac Definition of Independence can be found at 'www.westpac.com.au/corpgov'.*

### **The Board and Committees size and composition**

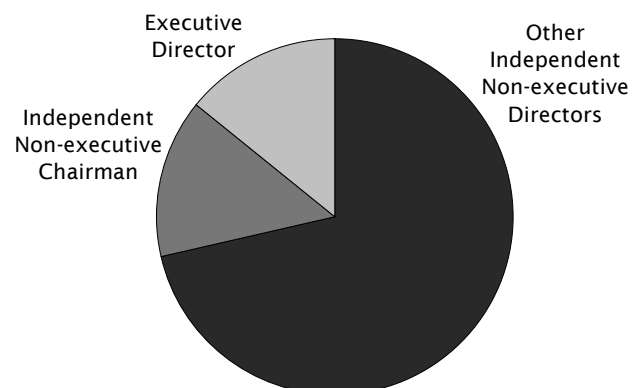
	<b>Elizabeth Bryan</b>	<b>Gordon Cairns</b>	<b>Ted Evans</b>	<b>Carolyn Hewson</b>	<b>Gail Kelly</b>	<b>Lindsay Maxsted</b>	<b>Peter Wilson</b>
Board membership/ position title	Non-executive, Independent	Non-executive, Independent	Chairman, Non-executive, Independent	Non-executive, Independent	CEO, executive	Non-executive, Independent	Non-executive, Independent
Audit Committee	✓	✓	✓	✓		Chair ✓	✓
Risk Management Committee	✓	✓	✓	Chair ✓		✓	✓
Nominations Committee		✓	Chair ✓	✓		✓	✓
Remuneration Committee		Chair ✓	✓	✓			
Sustainability Committee	✓				✓		Chair ✓

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

#### *Length of tenure of Directors*



#### *Balance of Non-executive and executive Directors*



### **The selection and role of the Chairman**

The Board elects one of the independent Non-executive Directors to be the Chairman. Our current Chairman is Ted Evans. His role is separate to that of our CEO, Gail Kelly. The Chairman's role includes:

- providing effective leadership to the Board in relation to all Board matters;
- representing the views of the Board to the public;
- convening regular Board meetings throughout the year, and ensuring that minutes of meetings

accurately record decisions taken and, where appropriate, the views of individual Directors;

- guiding the agenda and conduct of all Board meetings;
- reviewing the performance of Non-executive Directors;
- overseeing Non-executive Director and CEO succession; and
- promoting constructive and respectful relations between the Board and management.

### **Meetings of the Board**

The Board has 11 scheduled meetings each year and meets in the intervening periods when warranted. In July each year

the Board discusses our strategic plan and sets our overall strategic direction. The Board also conducts a half year review of our strategy. The Board conducts workshops on specific subjects throughout the year. Directors are always encouraged to participate in meetings, with a robust exchange of views and to bring their experience and independent judgment to bear on the issues and decisions at hand.

Senior executives are invited to attend all Board meetings and are also available to be contacted by Directors between meetings. The Board, however, usually meets without executive management (other than the CEO) at the commencement and conclusion of each meeting. The Board meets without the CEO or any senior executives at least once a year, or as required.

Meetings attended by Directors for the past financial year are reported in the Directors' Report in the 2008 Annual Report.

### **The Nominations Committee**

The Nominations Committee is responsible for:

- developing and reviewing policies on Board composition, strategic function and size;
- the performance review process of the Board, its Committees and individual Directors;
- succession planning for the Board;
- developing and implementing induction programs for new Directors and ongoing education for existing Directors;
- developing eligibility criteria for nominating Directors;
- recommending appointment of Directors to the Board;
- considering candidates for appointment to the Boards of relevant subsidiaries; and
- reviewing our corporate governance policies to meet international corporate governance standards.

The composition of the Nominations Committee is set out in the table entitled 'The Board and Committees size and composition' earlier in this section of the statement.

*The Nominations Committee Charter can be found at 'www.westpac.com.au/corpgov'.*

### **Nomination and appointment of new Directors**

The Nominations Committee makes recommendations for the nomination of new Directors to the Board as a whole.

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

New Directors receive a letter of appointment, which sets out the expectations of the role, conditions of appointment including expected term of appointment, and remuneration. This letter conforms to the ASXCGC's Recommendations.

If the Board appoints a new Director during the year, that person will stand for election by shareholders at the next AGM. Shareholders are provided with relevant information on the candidates for election.

The Board also makes recommendations concerning the re-election of any Director by shareholders. In considering whether to support the re-election of a Director, the Board

takes into account the results of the Board performance evaluation conducted during the year.

*The Director appointment policy, Board tenure policy, principles for appointment of Directors to subsidiary companies and the Non-executive standard letter of appointment can be found at 'www.westpac.com.au/corpgov'.*

### **Term in office and retirement and re-election of Directors**

Our Constitution states that at each AGM one-third of our Directors (excluding the CEO) and any Director who has held office for three or more years since their last election must retire.

Eligible Directors who retire may offer themselves for re-election by shareholders at the next AGM and are invited to give a short presentation to the AGM in support of re-election.

The Board has a Tenure Policy which limits the number of terms of office that any Non-executive Director may serve to the longer of three consecutive terms or nine years. The maximum tenure of the Chairman is to be no more than the longer of four terms or twelve years (inclusive of any term as a Director prior to being elected as Chairman), from the date of first election by shareholders.

### **Director education**

On appointment, all Directors are offered an induction program appropriate to their experience to familiarise them with matters relating to our business, strategy and any current issues before the Board. The induction program includes meetings with the Chairman, the CEO, the Chairman of each of the Board Committees, each Group Executive, the Group Secretary & General Counsel and the Chief Strategy Officer.

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

Our Group Secretary & General Counsel provides Directors with ongoing guidance on matters such as corporate governance, our Constitution and the law.

### **Board access to information and advice**

All Directors have unrestricted access to company records and information and receive regular detailed financial and operational reports from executive management. Each Director also enters into an access and indemnity agreement ensuring seven year access to documents after their retirement as a Director.

The Chairman and other Non-executive Directors regularly consult with the CEO, the Chief Financial Officer (CFO), senior executives, the Group Secretary & General Counsel, the General Manager Group Assurance, the Chief Risk Officer (CRO), the Chief Strategy Officer and the General Manager Sustainability, Brand and Communications and may consult with, and request additional information from, any of our employees.

The Board collectively, and each Director individually, has 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 and, in the Chairman's absence, Board approval may be sought.

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## **Company Secretaries**

The Board is responsible for the appointment of our Company Secretaries, of which there are two. The Group Secretary & General Counsel, Richard Willcock, attends all Board and Committee meetings and is responsible for providing Directors with ongoing guidance and advice on legal and corporate governance issues. The Head of Group Secretariat, Alex Crompton (formerly Anna O'Connell from 1 October 2007 to 4 February 2008) is responsible for the operation of the secretarial function, including providing advice to Directors and officers on corporate governance and regulatory matters, developing and implementing our governance framework and, in conjunction with management, giving practical effect to the Board's decisions.

All Directors have access to advice from the Group Secretary & General Counsel and Head of Group Secretariat.

Profiles of our Company Secretaries are set out in the Directors' Report in the 2008 Annual Report.

## **Review of Board performance**

The Board undertakes ongoing self-assessment as well as an annual performance review of its activities, the Committees and individual Directors.

The performance review process conducted in 2008 was facilitated by an external consultant and included written surveys of and interviews with Directors, senior executives and the Group Secretary & General Counsel. The performance reviews were wide-ranging and included, among other considerations, each Director's contributions to Board discussions. The survey results were independently collated and presented to the Board. The Chairman discussed the results with individual Directors and Committee Chairs.

The full Board (excluding the Chairman) reviewed the results of the performance review of the Board Chairman. The results were then privately discussed by the Chairman of the Risk Management Committee with the Board Chairman.

## **Board Committees and membership**

We have five standing Board Committees. The Committee charters describe their roles and powers, as approved by the Board.

The Committees and their membership at 30 October 2008 are set out in the table entitled 'The Board and Committee size and composition' earlier in this section of the statement. The areas of oversight for each Committee are set out in the 'Westpac Governance Framework' chart at the end of this section. Directors' attendance at Committee meetings is set out in the Directors' Report in the 2008 Annual Report.

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

## **Composition and independence of the Committees**

Committee members are chosen for the skills and experience they can contribute to the respective Committees. All of the Committees comprise independent Non-executive Directors, with the exception of the Sustainability Committee, on which the CEO sits.

## **Operation of the Committees and reporting to the Board**

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

## **How Committees' performance is evaluated**

The performance of each Committee is reviewed as part of the Board's overall performance review.

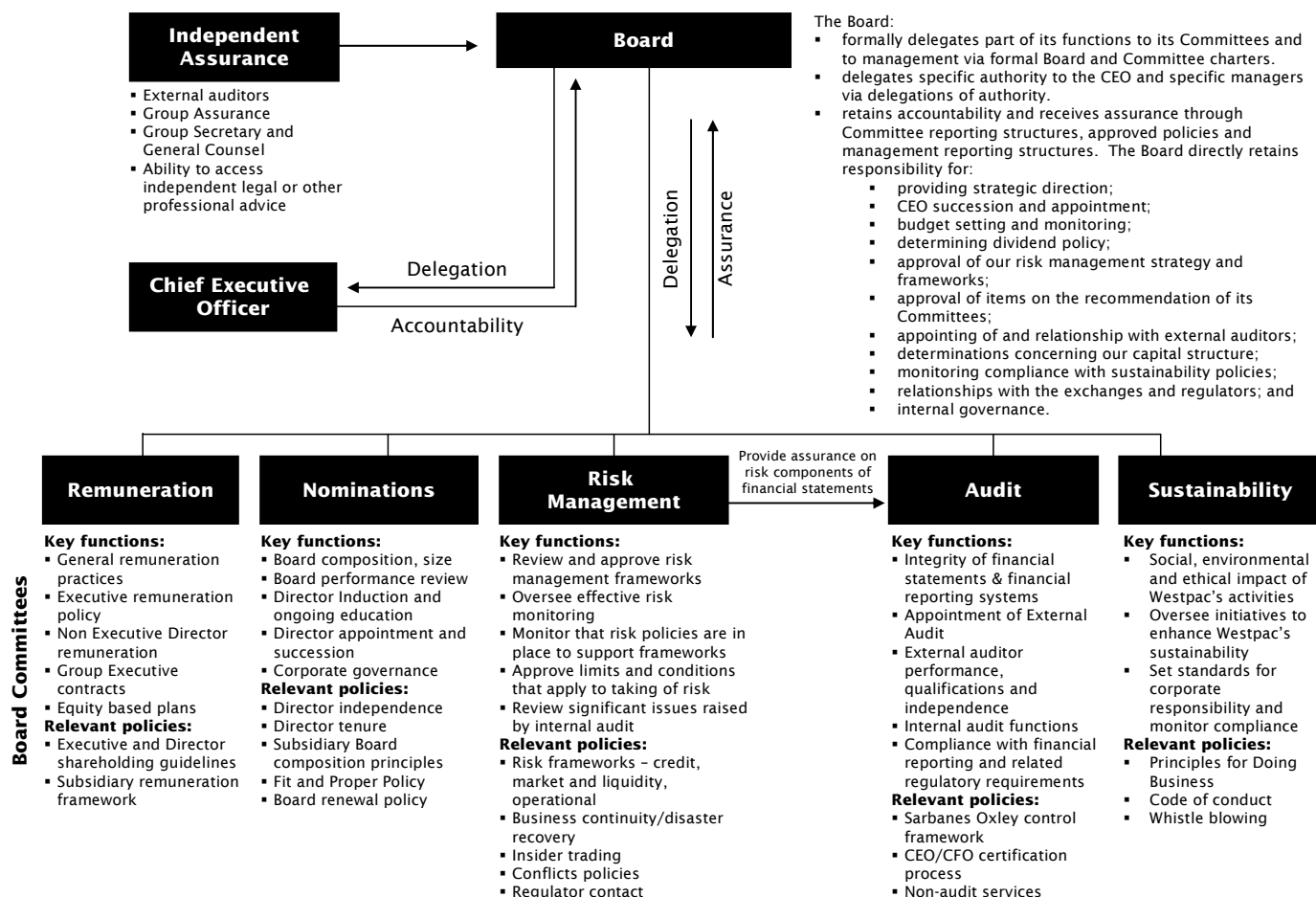
*The Board Committee Membership and all of the Committee Charters can be found at 'www.westpac.com.au/corpgov'.*

## **Milestones in 2008**

- David Morgan's retirement as CEO and Director;
- Gail Kelly's appointment as CEO and to the Board;
- Lindsay Maxsted's appointment to the Board;
- participated in a detailed Board performance review;
- reviewed the skills required on the Board to assist with Board succession planning;
- considered various candidates for appointment to the Boards of relevant subsidiaries.

## Westpac Governance Framework

The diagram below sets out the Westpac Governance framework and the areas of responsibility for each Committee:



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

### Principle 3 – Promote ethical and responsible decision-making

Companies should actively promote ethical and responsible decision-making.

- 3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to:
- the practices necessary to maintain confidence in the company's integrity;
  - the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;
  - the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.
- 3.2 Companies should establish a policy concerning trading in company securities by Directors, senior executives and employees, and disclose the policy or a summary of that policy.

### Principles for Doing Business and Code of Conduct

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

- governance and ethics;
- employee practices;
- customer practices;
- care for the environment;
- community involvement; and
- supply chain management.

The Principles are also aligned with significant global initiatives that promote responsible business practices. Our Principles apply to all Directors and employees and we report our performance against them annually.

Our Code of Conduct sets out seven values that we believe will maintain the trust and confidence placed in us by our customers, shareholders, suppliers and the community at large. We recognise that this trust can only be retained by acting ethically and responsibly in all our dealings and by seeking to continually improve in all that we do. The Code

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of Conduct applies to all of our employees and contractors and is supported by the Board. The seven values are that:

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

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

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

*Our Principles for Doing Business and Code of Conduct can be found at 'www.westpac.com.au/corpgov'.*

## **Milestone in 2008**

- Our Code of Conduct and the broader Principles for Doing Business were reviewed.

## **Code of ethics for senior finance officers**

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

- act honestly and ethically, particularly with respect to conflicts of interest;
- provide full, fair, accurate and timely disclosure in reporting and other communications;
- comply with applicable laws and rules;
- promptly report violations of the Code; and
- be accountable for their actions.

*Our code of Accounting Practice and Financial Reporting is available at 'www.westpac.com.au/corpgov'.*

## **Conflicts of interest**

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

### *The Board*

The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between their duty to the company and their own interests. All Directors are required to disclose any actual or potential conflict of interest upon appointment and are required to keep these disclosures to the Board up-to-date.

Any Director with a material personal interest in a matter being considered by the Board must declare their interest and, unless the Board resolves otherwise, they may not participate in boardroom discussions or vote on matters on which they face a conflict.

### *Our employees*

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

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

*Our Conflicts of Interest guidance can be found at 'www.westpac.com.au/corpgov'.*

## **Fit and proper person assessments**

We assess the fitness and propriety of our Directors and also of those employees who perform specified roles. The Nominations Committee and the Board are responsible for assessing the main Board Directors, Non-executive Directors on subsidiary Boards and senior executives. An executive Fit and Proper Committee assesses other affected employees. In all cases the individual is asked to provide a detailed declaration and background checks are undertaken. Assessments are performed upon appointment to the relevant position and are re-assessed annually.

## **Concern reporting and whistleblowing**

Our employees are encouraged to raise any concerns, including those arising out of activities or behaviour that may not be in accordance with the Principles and the Code of Conduct, any of our other policies or any other regulatory requirements, with either management, the human resources team (People & Performance), the compliance team or the Financial Crime Control business unit.

Employees can also raise concerns about breaches of our regulatory obligations or internal policies or procedures on an anonymous basis through either of our internal or external whistleblower reporting systems. Our Whistleblower Protection Policy protects employees who raise concerns about suspected breaches of our policies through these channels.

Under the policy we provide mechanisms for employees to either log their report onto an internal reporting system (Concern Online), or telephone or email an external and independent professional services firm, with employees who are trained in confidential reporting and whistleblower protection (Employee Concern Hotline). Employees may also choose to involve the Whistleblower Protection Officer,

who is responsible for protecting the employee against disadvantage.

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

The concern reporting system meets all relevant Australian and New Zealand legislative requirements and the Australian Standard AS8004 (Whistleblower Protection Programs for Entities). The system is monitored and reviewed annually and statistics about concerns raised are reported quarterly to both the Risk Management Committee and the Westpac Group Operational Risk & Compliance Committee.

*A summary of our Whistleblower Protection Policy is available at 'www.westpac.com.au/corpgov'.*

#### **Insider trading policy and trading in Westpac shares**

Westpac Directors and all Westpac employees are restricted from dealing in our shares and certain other financial products if they are in possession of inside information, and from passing on that information to others. In addition, Directors and any employees who, because of their seniority or the nature of their position, may have access to material non-public information about Westpac (Prescribed Employees), are subject to further restrictions.

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

- our Insider Trading Policy, which prohibits any dealing in any securities where an employee has access to inside information which may affect the price of those securities;
- our New Issues Policy, which places limitations upon employees participating in a new product issue where their position puts them in a real or perceived position of conflict with the interests of customers;
- restrictions limiting the periods in which the Directors and Prescribed Employees can trade in our shares or other company securities (Trading Windows);
- requiring Directors and Prescribed Employees to notify their intention to trade during those Trading Windows and confirm that they have no inside information;
- monitoring the trading of Westpac shares by Directors and Prescribed Employees on a daily basis; and
- maintaining a register of Prescribed Employees which is regularly updated.

*General information on our Insider Trading Policy and New Issues Policy can be found at 'www.westpac.com.au/corpgov'.*

#### **Corporate responsibility and sustainability**

We view sustainable and responsible business practices as important for our business and to add shareholder value. This means conducting our business in a responsible, trustworthy and ethical manner, while accepting our accountability for our impacts on society and the environment.

We are committed to transparency and fair dealing, treating employees and customers responsibly and having solid links with the community.

#### **Reporting on our corporate responsibility and sustainability performance**

We report on our social, ethical and environmental performance through our Stakeholder Impact Report and our website. Where appropriate, we include what we believe are the most material environmental, social and governance metrics into our financial results announcements.

Our Stakeholder Impact Report and our management of sustainability aim to address the issues that we believe matter most to our customers, employees, shareholders and the community and follow the widely accepted reporting framework, the Global Reporting Initiative (GRI).

The Stakeholder Impact Report is also independently assured against the AA1000 Assurance Standard. This goes beyond testing the integrity of the data, to the effectiveness of our underlying systems and processes and the extent to which corporate responsibility and sustainability policies and processes are embedded across our organisation.

In addition, we actively participate in various independent external assessments by authoritative sustainability and governance rating organisations benchmarking against the highest standards of governance.

#### **Sustainability Committee**

The Sustainability Committee oversees and provides guidance regarding our commitment to operate our business ethically, responsibly and sustainably, consistent with evolving community expectations.

The Sustainability Committee, as delegated by the Board:

- reviews our social, environmental and ethical impacts, both direct and indirect;
- oversees initiatives to enhance our sustainability;
- agrees standards for our corporate responsibility and sustainability policies and practices and monitors compliance with these policies and practices;
- monitors and oversees our environmental, social, governance and other material business risks (along with the Risk Management Committee) including our strategic and operational response to climate change; and
- reviews and approves the independent assurance of our annual Stakeholder Impact Report.

*Our Stakeholder Impact Report and performance in external sustainability assessments are available at 'www.westpac.com.au/corporateresponsibility'.*

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## **Milestones in 2008**

Our recent external sustainability, governance ratings and key activities include:

- revised sustainability strategy with more ambitious targets and a focus on environmental markets and local social issues;
- formation of Westpac's Sustainability Council comprising officers across the Group with explicit sustainability responsibilities;
- one of the leading performances in the 2008/09 Dow Jones Sustainability Index; and
- continued top-rating (10.0) in the fifteenth consecutive corporate governance assessment by Governance Metrics International.

## **Principle 4 – Safeguard integrity in financial reporting**

*Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.*

4.1 *The Board should establish an audit committee.*

4.2 *The audit committee should be structured so that it:*

- *consists only of Non-executive Directors;*
- *consists of a majority of independent Directors;*
- *is chaired by an independent chair, who is not chair of the Board; and,*
- *has at least three members.*

4.3 *The audit committee should have a formal charter.*

### **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 are comprehensive and relevant and comply with applicable accounting rules and policies; and
- that our external auditor is independent and serves security holder interests.

The Board monitors Australian and international developments relevant to these principles and reviews our practices accordingly.

### **Audit Committee**

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

The Audit Committee oversees all matters concerning:

- the integrity of the financial statements and financial reporting systems;
- the external auditor's qualifications, performance, independence and fees;
- oversight and performance of the internal audit function;
- compliance with financial reporting and related regulatory requirements (in conjunction with the Risk Management Committee, this includes an oversight of the APRA statutory reporting requirements); and
- procedures for the receipt, retention and treatment of financial complaints, including accounting, internal

accounting controls or auditing matters and the confidential reporting by employees of concerns regarding accounting or auditing matters.

*The Audit Committee charter is available at 'www.westpac.com.au/corpgov'.*

### **Integrity of the financial statements**

The Audit Committee oversees the preparation of our financial statements. The Audit Committee requires management to confirm that the accounting methods applied by management are consistent and comply with applicable accounting standards and concepts.

The Audit Committee reviews and assesses:

- any significant estimates and judgments in financial reports and monitors the methods used to account for unusual transactions;
- the processes used to monitor and comply with laws, regulations and other requirements relating to external reporting of financial and non financial information; and
- the major financial risk exposures and the process surrounding the disclosures made by the CEO and CFO in connection with their personal certifications of the half year and annual financial statements.

The Audit Committee conducts regular discussions with:

- the Risk Management Committee, the CRO, management and the external auditor about our major financial risk exposures and the steps management has taken to monitor and control such exposures;
- the external auditor concerning their audit and any significant findings and the adequacy of management's responses;
- management and the external auditor concerning the half-yearly and annual financial statements, including disclosures in the 'operating and financial review and prospects' section of the Annual Report;
- management and the external auditor regarding any correspondence with regulators or government agencies and reports which raise issues of a material nature; and
- the Group Secretary & General Counsel regarding any legal matters that may have a material impact on the financial statements and/or our compliance with financial reporting and related regulatory policies.

The Audit Committee meets with the external auditor without management being present at each meeting. Periodically the Audit Committee meets with the General Manager of Group Assurance (our internal audit function) without management.

### **Financial knowledge of Audit Committee members**

The Audit Committee comprises six independent, Non-executive Director members.

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

The Board has determined that Lindsay Maxsted, Chair of the Audit Committee, is an 'audit committee financial expert' and is independent as defined in the NYSE Listing Standards.

Mr Maxsted is not an auditor or an accountant with respect to Westpac, does not perform 'field work' and is not an employee. Under United States laws, an audit committee member who is designated as an 'audit committee financial expert' will not be deemed to be an 'expert' for any purpose other than as a result of being identified as an audit committee financial expert.

While Mr Maxsted meets the requirements of an 'audit committee financial expert' pursuant to United States securities laws, he does not have any additional responsibilities beyond those of the other Audit Committee members.

The Audit Committee's composition is set out in the table entitled 'The Board and Committees size and composition' in the Principle 2 section of this statement. The full qualifications of the Audit Committee members and their attendance at Audit Committee meetings are set out in the Directors' Report in the 2008 Annual Report.

#### **External auditor**

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

Our external auditor is PricewaterhouseCoopers (PwC), appointed by shareholders at the 2002 AGM. Our present PwC lead audit partner is Ian Hammond and the review audit partner is David Prothero. Ian and David assumed responsibility for these roles in 2008 and 2005, respectively.

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

As our external auditor, PwC are quarterly required to confirm their independence and compliance with specified independence standards.

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

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

#### **Restrictions on non-audit services by 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, as specified in our Guidelines for Non-Audit Services (the Guidelines).

For permitted non-audit services and all other non-audit services, use of the external audit firm must be assessed and pre-approved by the Audit Committee, in accordance with 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 34 to our consolidated financial statements for the year ended 30 September 2008. 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 the Non-Audit Services and Independence declaration in the Directors' Report in the 2008 Annual Report.

*The Guidelines for Non-Audit Services can be found at [www.westpac.com.au/corpgov](http://www.westpac.com.au/corpgov).*

#### **Internal audit**

Group Assurance includes an independent and objective internal audit review function charged with evaluating, testing and reporting on the adequacy and effectiveness of management's control of operational risk. Group Assurance has access to all of our entities and conducts audits and reviews following a risk-based planning approach.

Group Assurance provides regular reports to both the Audit Committee and the Risk Management Committee and raises significant issues with the Audit Committee. The General Manager Group Assurance has a reporting line to the Chairman of the Audit Committee.

#### **Principle 5 – Make timely and balanced disclosure**

*Companies should promote timely and balanced disclosures of all material matters concerning the company.*

*5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.*

#### **Market disclosure**

We are committed to maintaining a level of disclosure that meets the highest standards and provides all investors with timely and equal access to information. To achieve these standards we have a Board-approved Market Disclosure Policy, which governs how we communicate with our shareholders and with the investment community.

The Policy reflects the ASX continuous disclosure requirements and the requirements of other exchanges where we have disclosure obligations. Under our Policy, information that a reasonable person would expect to have a material effect on the price of our securities must be immediately disclosed, subject to certain exceptions.

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 chaired by Phil Coffey, our CFO, and involves the CEO, senior executives, the Group Secretary & General Counsel and the General Manager Sustainability, Brand and Communications.

The Group Secretary & General Counsel, as the Disclosure Officer, has responsibility for ensuring compliance with the continuous disclosure requirements of the listing rules of the ASX, NZX, NYSE and other exchanges, relevant securities and corporations legislation, and overseeing and coordinating information disclosure to regulators, analysts, brokers, shareholders, the media and the public.

Westpac's market announcements are released to each stock exchange where the company has securities listed in accordance with the rules of that exchange – ASX, NZX, NYSE, and the London, Singapore and Swiss stock exchanges.

To supplement the information already available to investors we publish investor discussion packs, containing presentations on and explanations about our financial results, on our website. We also publish on our website the

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Annual Review, Annual Reports, profit announcements, CEO and executive briefings (including webcasts), Stakeholder Impact Reports, economic updates, notices of meetings, media releases and briefing transcripts.

The Market Disclosure policy can be found at [www.westpac.com.au/corpgov](http://www.westpac.com.au/corpgov).

## Principle 6 – Respect the rights of shareholders

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

### Shareholder communications and participation

We are committed to giving all shareholders comprehensive, timely and equal access to balanced information about our activities so that they can make informed investment decisions and be actively involved and interested in our business.

We employ a wide range of communication approaches, which are regularly reviewed to ensure best use is made of new technologies to improve our communications. These approaches include direct communications with shareholders, the publication of all relevant company information in the Investor Centre section of our website, and access to all market briefings and shareholder meetings via webcasting facilities. Shareholders are given the option to receive information in print or electronic format. One of our most important communications is our Shareholder Newsletter, which is sent to all of our shareholders with the half-year and annual dividend notices. The Newsletter provides information on our performance and developments, details on accessing further information and contact numbers for both the Investor Relations Unit and the Share Registry.

We regard the AGM as an important opportunity for engaging and communicating with shareholders. Shareholders are encouraged to attend and actively participate in our AGM, the proceedings of which are webcast and can also be viewed on demand at a later time from our website.

Shareholders are invited to put forward questions that they would like addressed at the AGM at the time of receipt of the Notice of Meeting.

Investors' discussion pack, annual result presentation and other shareholder information can be accessed at [www.westpac.com.au/investorcentre](http://www.westpac.com.au/investorcentre).

### Milestone in 2008

- expanded the capture of email addresses from shareholders, enabling electronic communication with approximately 25% of our shareholders.

## Principle 7 – Recognise and manage risk

Companies should establish a sound system of risk oversight and management and internal control.

7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

7.2 The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

7.3 The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

### Risk management roles and responsibilities

The Board is responsible for reviewing and approving our overall risk management strategy, including determining our appetite for risk. The Board has delegated to the Risk Management Committee the responsibility for setting risk appetite, approving frameworks, policies and processes for managing risk and accepting risks beyond management's approval discretion.

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

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

Our Group Risk function is independent from the business units and reports to the CRO.

Our business model recognises that the responsibility for managing risks in our business lies with the various business units. This responsibility includes developing business unit-specific policies, controls, procedures and monitoring and reporting capability that align to the frameworks approved by the Risk Management Committee.

Our Group Assurance function (internal audit) independently evaluates the adequacy and effectiveness of managements' controls for risk.

Our overall risk management governance structure is set out in the table of the same name in this section of the statement.

### Approach to risk management

We regard managing the risk that affects our business as a fundamental activity, as it influences our performance, reputation and future success. Effective risk management involves achieving an integrated and balanced approach to risk and reward, and assists us in achieving our objectives of optimising financial growth opportunities and mitigating potential loss or damage. Both optimisation and mitigation strategies are of equal importance.

We distinguish four main types of risk:

- credit risk – the risk of financial loss where a customer or counterparty fails to meet their financial obligations;
- market risk – the risk to earnings from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices. This includes interest rate risk in the banking book – the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities;
- operational risk – the risk that arises from inadequate or failed internal processes, people and systems or from external events. This includes compliance risk - the risk of legal or regulatory sanction, financial or reputation loss arising from our failure to apply the regulatory standards expected of us as a financial services group; and
- liquidity risk – the risk of not meeting our payment obligations, which could arise as a result of mismatched cash flows generated by our business.

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

- equity risk – the potential for financial loss arising from movements in the value of our direct and indirect equity investments;
- insurance risk – the risk of not being able to meet insurance claims (related to insurance subsidiaries);
- model risk – the risk of financial, reputation or operational losses arising because of a model;
- reputation risk – the risk to earnings or capital arising from negative public opinion resulting from the loss of reputation or public trust and standing. This risk encompasses social, ethical and environmental risks arising out of areas such as people management, climate change governance and supply chain management;
- business risk – the risk associated with the vulnerability of a line of business to changes in the business environment; and
- contagion risk – the risk that problems arising in other Westpac Group members compromise the financial and operational position of the authorised deposit-taking institutions in the Westpac Group.

In December 2007 we received advanced accreditation from APRA and the RBNZ under the Basel II capital framework. We were among the first banks in the world to receive advanced accreditation, which allows us to use the most advanced internal-ratings based approach for credit risk and the advanced measurement approach for operational risk to determine our regulatory capital position.

*A summary of our risk management framework policies can be found at 'www.westpac.com.au/corpgov'.*

### **Risk Management Committee**

The Risk Management Committee:

- reviews and approves the frameworks for managing our credit, market, liquidity and operational risk;
- determines, approves and reviews the limits and conditions that apply to the taking of risk, including the authority delegated by the Board to the CEO, CFO and CRO;
- monitors the risk profile, performance, capital levels, exposures against limits and the management and control of our risks;
- monitors changes anticipated in the economic and business environment and other factors considered relevant to our risk profile;
- oversees the development and ongoing review of appropriate policies that support our frameworks for managing risk; and
- reviews significant issues that may be raised by internal audit as well as the length of time and action taken to resolve such issues.

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

- credit risk – monitoring the risk profile, performance and management of our credit portfolio and development and review of credit risk policies;
- market and liquidity risk – monitoring the market risk profile, approving the Group Value at Risk and Net Interest Income at Risk limits and reviewing our funding plan and liquidity requirements; and
- operational risk – monitoring the operational risk profile, the performance of operational risk management and controls and the development and ongoing review of operational risk policies; overseeing our compliance with applicable laws, regulations and regulatory requirements; discussing with management and the external auditor any material correspondence with regulators or government agencies and any published reports that raise material issues; and reviewing complaints and whistleblower concerns.

The Risk Management Committee provides relevant periodic assurances to and refers any relevant matters to the Audit Committee.

### **Milestones in 2008**

- one of the first banks globally to receive advanced accreditation from APRA and the RBNZ under the Basel II capital framework in December 2007;
- reviewed our risk management frameworks; and
- established an executive management committee focused on market dislocation.

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Our risk management governance structure is set out in the table below:

<b>Board</b>		
Reviews and approves our overall risk management strategy, including our appetite for risk.		
<b>Board Risk Management Committee</b>		
The Board has delegated responsibility to the Board Risk Management Committee to set risk appetite, approve frameworks, policies and processes for managing risk and accept risks beyond the approval discretion provided to management.		
In addition, the Board Risk Management Committee:		
<ul style="list-style-type: none"> <li>monitors the risk profile, performance, capital levels, exposures against limits and management and control of our risks;</li> <li>monitors changes anticipated in the economic and business environment and other factors relevant to our risk profile;</li> <li>oversees the development and ongoing review of appropriate policies that support our frameworks for managing risk; and</li> <li>reviews significant issues that may be raised by internal audit as well as the length of time and action taken to resolve such issues.</li> </ul>		
<b>Board committees with a risk focus</b>		
<b>Board Audit Committee</b>	<b>Board Sustainability Committee</b>	
<ul style="list-style-type: none"> <li>oversees the integrity of financial statements and financial reporting systems.</li> </ul>	<ul style="list-style-type: none"> <li>oversees environmental, social, governance and ethical performance and issues.</li> </ul>	
<b>Executive risk committees</b>		
<b>Executive management committee focused on market dislocation</b>		
<ul style="list-style-type: none"> <li>proactively tracks and responds to emerging trends; and</li> <li>maintains intensity of effort on risk management in the current environment.</li> </ul>		
<b>Westpac Group Risk-Reward Committee (GRRC)</b>		
<ul style="list-style-type: none"> <li>sets and leads the risk optimisation agenda for Westpac;</li> <li>recommends to the Board Risk Management Committee the appropriate risk-reward positioning and integrates decisions on overall capital levels and earnings profile;</li> <li>initiates and oversees strategies to align Westpac's risk-reward profile with boundaries for risk appetite and earnings volatility within parameters set by the Board;</li> <li>oversees the risk governance framework, including the performance, role and membership of the executive risk committees; and</li> <li>approves any changes to Westpac's measures of risk-adjusted performance and monitors their use.</li> </ul>		
<b>Westpac Group Credit Risk Committee (CREDCO)</b>	<b>Westpac Group Market Risk Committee (MARCO)</b>	<b>Westpac Group Operational Risk &amp; Compliance Committee (OPCO)</b>
<ul style="list-style-type: none"> <li>seeks to optimise credit risk-reward;</li> <li>oversees portfolio performance;</li> <li>oversees the establishment and review of limits and authority levels within Board-approved parameters; and</li> <li>monitors adherence to Board-approved limits.</li> </ul>	<ul style="list-style-type: none"> <li>seeks to optimise market and liquidity risk-reward;</li> <li>oversees portfolio performance;</li> <li>determines limits within Board-approved parameters; and</li> <li>monitors adherence to Board-approved limits.</li> </ul>	<ul style="list-style-type: none"> <li>seeks to optimise operational risk-reward;</li> <li>oversees the governance of operational risk and compliance, including the framework and policies;</li> <li>oversees the operational and reputation risk profile; and</li> <li>oversees the operational risk profile.</li> </ul>
<b>Group level risk management</b>		
<b>Group Risk</b>		
<ul style="list-style-type: none"> <li>develops the group-level risk management frameworks for approval by the Board Risk Management Committee;</li> <li>directs the review and development of key policies related to the risk management frameworks;</li> <li>establishes risk concentration limits and monitors risk concentrations; and</li> <li>monitors compliance and regulatory obligations and emerging risk issues.</li> </ul>		
<b>Independent internal review</b>		
<b>Group Assurance</b>		
<ul style="list-style-type: none"> <li>reviews the adequacy and effectiveness of management controls for risk.</li> </ul>		

### **CEO and CFO assurance**

The Board receives regular reports about our financial condition and operational results, as well as that of our controlled entities, from management. The CEO and the CFO annually provide formal statements to the Board, and have done so for the year ended 30 September 2008, that in all material respects:

- the financial records of the company for the financial year and half-year have been properly maintained in that they:
  - correctly record and explain its transactions and financial position and performance;
  - enable true and fair financial statements to be prepared and audited; and
  - are retained for seven years after the transactions covered by the records are completed.
- the financial statements and notes required by the accounting standards for the financial year comply with the accounting standards;
- the financial statements and notes for the financial year give a true and fair view of Westpac's and its consolidated entities' financial position and of their performance;
- any other matters that are prescribed by the Corporations Act regulations as they relate to the financial statements and notes for the financial year are satisfied; and
- the declarations provided in accordance with section 295A of the Corporations Act are founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting risks.

### **Managing Compliance Risk**

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

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

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

- environment – Board and management oversight and accountability, culture and independent review;
- identification – identifying obligations, developing and maintaining compliance plans and implementing change;
- controls – policies, processes, procedures, communication and training and documentation; and
- monitoring and reporting – monitoring, incident and breach escalation, reporting, issue management and managing regulatory relationships.

As with other forms of risk, business line management is primarily responsible for managing compliance risk and within each major business area there is a dedicated operational risk and compliance function.

Our Compliance function, led by the General Manager Group Operational Risk and Compliance, provides the following support:

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

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

The General Manager Group Operational Risk and Compliance regularly reports to the Group Operational Risk and Compliance Committee and to the Risk Management Committee on the status of compliance across the company.

### **Principle 8 – Remunerate fairly and responsibly**

*Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.*

*8.1 The Board should establish a remuneration committee.*

*8.2 Companies should clearly distinguish the structure of Non-executive Directors' remuneration from that of executive Directors and senior executives.*

The Board has a Remuneration Committee. The Committee assists the Board by reviewing and approving our remuneration policies and practices. The Committee's consideration of reward structures is based on fairness, business performance, legal obligations and high standards of corporate governance.

The Remuneration Committee, as delegated by the Board:

- reviews and approves executive remuneration policy;
- reviews and makes recommendations to the Board on corporate goals and objectives relevant to the CEO, and the performance of the CEO in light of these objectives;
- makes recommendations to the Board on the remuneration of the CEO;
- makes recommendations to the Board on the remuneration of Non-executive Directors (the company

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and subsidiary Boards), taking into account the shareholder approved fee pool;

- approves contracts and remuneration packages for positions reporting directly to the CEO;
- reviews and makes recommendations to the Board on equity-based plans;
- approves all performance recognition expenditure; and
- oversees general remuneration practices across the Group.

The Remuneration Committee also reviews and makes recommendations to the Board about the recruitment, retention, termination, and succession planning policies and procedures for the CEO and senior positions reporting directly to the CEO. In addition, the Remuneration Committee considers and evaluates the performance of senior executives when making remuneration determinations and otherwise as required. This process was undertaken during the reporting year.

Independent remuneration consultants are engaged by the Remuneration Committee to ensure that our reward practices and levels are consistent with market practice.

Details of our remuneration framework are included in the remuneration report, in the 2008 Annual Report.

*The Remuneration Committee Charter and Westpac's Hedging Policy can be found at [www.westpac.com.au/corpgov](http://www.westpac.com.au/corpgov).*

*The 2008 Annual Report can be found at [www.westpac.com.au/investorcentre](http://www.westpac.com.au/investorcentre).*

**ASX Corporate Governance Council's Principles and Recommendations (ASXCGC's Recommendations)**  
**Westpac's Compliance for 2008**

	<b>ASXCGC's Recommendations</b>	<b>Reference</b>	<b>Compliance</b>
<b>Principle 1:</b>	<b>Lay solid foundations for management and oversight</b>		
1.1	Establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Page 22	Comply
1.2	Disclose the process for evaluating the performance of senior executives.	Page 22	Comply
1.3	Provide the information indicated in <i>Guide to reporting on Principle 1</i> .	Page 22	Comply
<b>Principle 2:</b>	<b>Structure the Board to add value</b>		
2.1	A majority of the Board should be independent Directors.	Page 22-23	Comply
2.2	The chair should be an independent Director.	Page 23-24	Comply
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Page 23	Comply
2.4	The Board should establish a nomination committee.	Page 24	Comply
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual Directors.	Page 25	Comply
2.6	Provide the information indicated in <i>Guide to reporting on Principle 2</i> .	Pages 22-26	Comply
<b>Principle 3:</b>	<b>Promote ethical and responsible decision-making</b>		
3.1	Establish a code of conduct and disclose the code or a summary of the code as to: 3.1.1 the practices necessary to maintain confidence in the company's integrity 3.1.2 the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders 3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Page 26-28	Comply
3.2	Establish a policy concerning trading in company securities by Directors, senior executives and employees, and disclose the policy or a summary of that policy.	Page 28	Comply
3.3	Provide the information indicated in <i>Guide to reporting on Principle 3</i> .	Pages 26-29	Comply
<b>Principle 4:</b>	<b>Safeguard integrity in financial reporting</b>		
4.1	The Board should establish an audit committee.	Page 29	Comply
4.2	Structure the audit committee so that it: <ul style="list-style-type: none"> <li>▪ consists only of Non-executive Directors;</li> <li>▪ consists of a majority of independent Directors;</li> <li>▪ is chaired by an independent chair, who is not chair of the Board; and</li> <li>▪ has at least three members.</li> </ul>	Page 29-30	Comply
4.3	The audit committee should have a formal charter.	Page 29	Comply
4.4	Provide the information indicated in <i>Guide to reporting on Principle 4</i> .	Pages 29-30	Comply
<b>Principle 5:</b>	<b>Make timely and balanced disclosure</b>		
5.1	Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Page 30-31	Comply
5.2	Provide the information indicated in <i>Guide to reporting on Principle 5</i> .	Page 30-31	Comply

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	<b>ASXCGC's Recommendations</b>	<b>Reference</b>	<b>Compliance</b>
<b>Principle 6:</b>	<b>Respect the rights of shareholders</b>		
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Page 31	Comply
6.2	Provide the information indicated in <i>Guide to reporting on Principle 6</i> .	Page 31	Comply
<b>Principle 7:</b>	<b>Recognise and manage risk</b>		
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Page 31-32	Comply
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Page 31-33	Comply
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Page 34	Comply
7.4	Provide the information indicated in <i>Guide to reporting on Principle 7</i> .	Page 31-34	Comply
<b>Principle 8:</b>	<b>Remunerate fairly and responsibly</b>		
8.1	Establish a remuneration Committee	Page 34-35	Comply
8.2	Clearly distinguish the structure of Non-executive Directors' remuneration from that of executive Directors and senior executives.	Page 34-35	Comply
8.3	Provide the information indicated in <i>Guide to reporting on Principle 8</i> .	Page 34-35	Comply