## Annual Financial Report 2001



In this report references to 'Westpac', 'we', 'us' and 'our' are to Westpac Banking Corporation. References to 'Westpac', 'we', 'us' and 'our' under the captions 'Information on Westpac', 'Financial review', 'Corporate governance', 'Remuneration philosophy and practice', 'Shareholding information', 'Management' and 'Additional information' include Westpac and its subsidiaries unless they clearly mean just Westpac Banking Corporation.

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

## Disclosure regarding forward-looking statements

This report contains forward-looking statements, within the meaning of the United States Private Securities Litigation Reform Act of 1995, with respect to us, including our business operations and strategy and financial performance and condition. These statements appear under the headings 'operating and financial review and prospects', as well as elsewhere in this report and in documents incorporated by reference in this report. Forward-looking statements can generally be identified by the use of forward-looking words such as 'may', 'will', 'expect', 'intend', 'plan', 'estimate', 'anticipate', 'believe' or 'continue', or other similar words. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are, however, subject to risks, uncertainties and assumptions that could cause actual results to differ materially from our expectations described in such forward-looking statements.

The factors that could cause this to occur include, among other things, the following:

- Unanticipated changes in customer preferences;
- Demographic changes;
- Changes in competitive conditions in any of the major markets in which we operate;
- Changes in the regulatory environment in any of the major markets in which we operate;
- Changes in political, social and economic conditions in any of the major markets in which we operate;
- Legislative proposals for reform of the financial services industry in any of the major markets in which we operate; and
- Various other factors beyond our control.

We are under no duty to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, after the date of this report.

## Currency of presentation, exchange rates and certain definitions

We publish our consolidated financial statements in Australian dollars. In this annual report, unless otherwise stated or the context otherwise requires, references to 'US$' or 'US dollars' are to United States dollars, references to 'dollar amounts', '$' or 'A$' are to Australian dollars and references to 'NZ$' are to New Zealand dollars. Merely for the convenience of the reader, this annual report contains translations of certain Australian dollar amounts into US dollars at specified rates. These translations should not be construed as representations that the Australian dollar amounts actually represent such US dollar amounts or have been or could be converted into US dollars at the rate indicated. Unless otherwise stated, the translations of Australian dollars into US dollars have been made at the rate of US$0.4946 = A$1.00, 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') on 30 September 2001. See 'Exchange Rates' for information regarding the rates of exchange between the Australian dollar and the US dollar from financial year ended 30 September 1997 to 26 October 2001.

Our financial year ends on 30 September. As used throughout this annual report, the financial year ended 30 September 2001 is referred to as 2001, and other financial years are referred to in a corresponding manner.

'Financial Statements' means our audited consolidated statements of financial position as at 30 September 2001 and 30 September 2000 and consolidated statements of financial performance, cash flows and changes in equity for each of the three years ended 30 September 2001, 2000 and 1999 together with accompanying notes which are included in this annual report.

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

## Exchange rates

For each of the years indicated, the high, low, average and year-end noon buying rates for Australian dollars were:

| Year ended 30 September | 2002 [1] | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|---|
| | | | (US$ per $1.00) | | | |
| High | 0.5139 | 0.5712 | 0.6687 | 0.6712 | 0.7386 | 0.8180 |
| Low | 0.4923 | 0.4828 | 0.5372 | 0.5887 | 0.5550 | 0.7163 |
| Average [2] | n/a | 0.5182 | 0.6032 | 0.6376 | 0.6444 | 0.7700 |
| Close (on 30 September) [3] | | 0.4946 | 0.5415 | 0.6528 | 0.5930 | 0.7250 |

For each of the months indicated, the high and low noon buying rates for Australian dollars were:

| Month ended | September 2001 | August 2001 | July 2001 | June 2001 | May 2001 | April 2001 |
|---|---|---|---|---|---|---|
| | | | (US$ per $1.00) | | | |
| High | 0.5230 | 0.5362 | 0.5162 | 0.5276 | 0.5290 | 0.5178 |
| Low | 0.4841 | 0.5130 | 0.5048 | 0.5062 | 0.5068 | 0.4828 |

1 Through 26 October 2001. On 26 October 2001, the noon buying rate was $A1.00 = US$0.5017.
2 The average of the exchange rates on the last day of each month during the period.
3 The noon buying rate at such date may differ from the rate used in the preparation of our consolidated financial statements at such date. See note 1(a) iii. to the financial statements.

# Information on Westpac

We are one of the four major banking organisations in Australia and also one of the largest banks in New Zealand [1] and provide a broad range of banking and financial services in these markets, including retail, commercial and institutional banking, wealth management activities and finance company activities.

We were founded in 1817 and were the first bank to be 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. Our principal office is located at 60 Martin Place, Sydney, New South Wales, 2000, Australia and its telephone number is (61) (2) 9226 3311.

We have branches, affiliates and controlled entities throughout New Zealand and the Pacific region and maintain offices in key financial centres around the world [2]. As at 30 September 2001, our market capitalisation was $24 billion [3]. Our operations comprise three key areas of business, through which we serve approximately 8.2 million customers. These three areas of business are:

- Australian Retail Financial Services providing banking, wealth management and other financial services to individuals and small to medium-size businesses in all states and territories of Australia;
- Westpac Institutional Bank providing banking and financial services to corporate, institutional and government customers, and also supplying products to small and medium-size businesses primarily in Australia and New Zealand; and
- New Zealand Retail providing a full range of retail, commercial and wealth management services to customers throughout New Zealand.

The following tables present, for each of our three key areas of business, based on unaudited management accounts, the net profit for and total assets at the financial years ended 30 September 2001, 2000 and 1999. See also note 29 to the financial statements, which shows additional segment information.

**Net profit attributable to our equity holders** [4,5]

| Years ended 30 September | **2001 $m** | 2000 $m | 1999 $m |
|---|---|---|---|
| Australian Retail Financial Services | **1,142** | 1,038 | 873 |
| Westpac Institutional Bank | **385** | 316 | 252 |
| New Zealand Retail | **283** | 251 | 264 |
| Other [6] | **93** | 110 | 67 |
| Net profit attributable to our equity holders | **1,903** | 1,715 | 1,456 |

**Assets** [5]

| As at 30 September | **2001 $bn** | 2000 $bn | 1999 $bn |
|---|---|---|---|
| Australian Retail Financial Services | **107** | 99 | 79 |
| Westpac Institutional Bank | **52** | 49 | 37 |
| New Zealand Retail | **19** | 16 | 16 |
| Other [6] | **12** | 4 | 8 |
| Total assets | **190** | 168 | 140 |

1 Based on KPMG's latest Financial Institution Performance Survey in Australia and New Zealand.
2 See note 38 to the financial statements for a list of our controlled entities as at 30 September 2001.
3 The market capitalisation calculation is based on our Australian ordinary shares and our New Zealand Class shares.
4 Internal charges and transfer pricing adjustments have been reflected in the net profit reported for each of our business groups.
5 Due to changes in our management reporting structure, or due to accounting reclassifications, comparatives have been restated and therefore may differ from results previously reported.
6 Other includes the results of our Group Treasury, Pacific Banking and Head Office functions.

## Australian Retail Financial Services

Australian Retail Financial Services represents the regional bank operations branded 'Westpac' in New South Wales, Queensland, South Australia, Tasmania, the Australian Capital Territory and the Northern Territory, 'Bank of Melbourne' in Victoria, and 'Challenge Bank' in Western Australia. Australian Retail Financial Services consists of three main operating segments: Business and Consumer Banking; Banking and Financial Solutions; and eBusiness and Information Technology.

***Business and Consumer Banking***

Our Business and Consumer Banking unit is responsible for servicing our consumer and small to medium-sized business customers within Australia. Activities are conducted via a nationwide network of 806 branches (including in-store branches). Our customers also transact business with us via automatic teller machines, our national telephone banking and internet banking services. Front-line staff provide sales and service related functions to customers for a broad range of financial products such as savings and cheque accounts, demand and term deposits, credit card services, personal and housing loans, and other transaction facilities. We also provide access to 718 financial planners who provide advice and service in respect of various superannuation, investment and life insurance products. We service our business customers via a network of specialised business banking managers, and provide private banking and financial planning services for high net worth customers.

***Banking and Financial Solutions***

Our Banking and Financial Solutions unit is responsible for product development for, and supply to our retail customers in Australia. Product offerings comprise a full range of lending, deposit-taking and transaction accounts. Our lending activities consist primarily of long-term residential mortgage loans (at both variable and fixed rates), overdraft accounts, credit card finance, term loans and other forms of consumer and small business loans (both secured and unsecured). Commercial lending is targeted at medium-sized businesses with finance requirements of up to $20 million.

We are a major provider of housing finance in Australia. At 30 September 2001, our owner-occupied residential mortgage loan portfolio in Australia was $35 billion (net of securitised loans) of which approximately 88% were variable interest rate loans with maturities up to 30 years. Non-owner-occupied residential mortgage loans outstanding at 30 September 2001 amounted to $19 billion of which approximately 69% related to variable interest rate loans with maturities up to 25 years. We are also a substantial provider of credit card finance in Australia. Our total credit card outstandings at 30 September 2001 was $5.6 billion, which is a 20% increase on last year's total of almost $4.7 billion. At 30 September 2001 we had 1.7 million credit card account holders, which is an increase of approximately 7 % from the total as at 30 September 2000.

During the year the core operations of our finance company, Australian Guarantee Corporation Limited, were restructured to align its products with our consumer and business segments in keeping with our customer-centric strategy. Dealer Finance and CreditLine are now part of our consumer products portfolio while Business Finance and Retail Funding are part of our business products portfolio.

Our wealth management business unit provides investment management, superannuation (pension) and life insurance products that are marketed to our retail, commercial and institutional customers. Specific products include unit trusts (mutual funds), personal and business superannuation, life insurance, discount broking, portfolio management services and custodian services. The personal investment and life insurance products are marketed to our retail customer base through our branch network.

As at 30 September 2001, our financial services business had $22.5 billion in funds under discretionary management and held $117 billion of assets as custodian. Our core offering includes socially responsible investments through the Westpac International Sustainability Share Fund and Australian Sustainable Share Fund. These funds complement our existing eco-share fund, which is available to millions of superannuation investors.

***eBusiness and Information Technology***

Our eBusiness group manages the online banking facilities for our business, consumer and corporate customers. All new product features and functionality are developed and implemented by this group.

At 30 September 2001, we had over 1.3 million online banking and broking customers. These customers conducted 15 million online transactions, including 15% of our credit card originations and 10% of our personal loan originations over the past year.

Our Information Technology unit delivers our information technology (IT) and telecommunications infrastructure in addition to implementing major IT projects across our organisation. In December 2000, our IT operations and telecommunications activities were outsourced to IBM Global Services Australia (IBM GSA) and Telstra Corporation Limited (Telstra). Operational performance and costs under the IT outsourcing have met expectations. System development and IT architecture activities have not been outsourced.

## Westpac Institutional Bank

Our institutional bank strives to meet the financial needs of corporations, institutions and government customers which are based in, or have interests in, Australia and New Zealand. This is achieved through dedicated industry teams supported by specialised expertise in financial markets, corporate finance, advisory, equity and transactional banking. The products and services we offer include:

**Advice**
- Mergers and acquisitions
- Corporate project, property and risk advice
- Valuation

**Capital**
- Debt/Equity underwriting
- Financial structuring
- Loan syndications
- Capital markets
- Lending

**Financial Markets**
- Foreign exchange
- Derivatives
- Commodities
- Debt securities
- Trade finance

**Transactional Services**
- International payments
- International cash management

In the global financial markets, we focus on Australian and New Zealand dollar-denominated financial products and also provide a range of currency and interest rate risk management products.

We are progressively eEnabling our business. Our customers can now obtain our economic research, deal in foreign exchange and bonds, and transact trade finance and international payments over the internet.

Our institutional bank operates through branches and subsidiaries located in Australia, New Zealand, New York, London, Tokyo, Singapore, and Hong Kong, and we are represented in Thailand, Indonesia and China.

## New Zealand Retail

We began operating in New Zealand in 1861 as the Bank of New South Wales. In 1996, we acquired Trust Bank New Zealand Limited and now operate in New Zealand through a branch network under the name WestpacTrust. We are one of New Zealand's largest banks, providing a full range of retail banking products, wealth management services and commercial banking services to customers. We also have the largest bank branch network of any New Zealand bank with 211 branches (including in-store branches) operating throughout the country.

## Property

We occupy a substantial number of properties in Australia and New Zealand. Of the premises we occupy, we own approximately 12% in Australia and 9% in New Zealand. As at 30 September 2001, the carrying value of our premises and sites was $274 million.

## Principal capital expenditure/divestiture

For these purposes we have defined a 'principal' capital expenditure/divestiture as a transaction over $200 million.

The principal capital divestiture during the past three financial years was the sale of properties under our sale and leaseback program. To date 100 properties have been sold in Australia with total proceeds of $369 million, and 54 properties in New Zealand with total proceeds of $42 million. There were no other principal capital divestitures. All other capital divestiture occurred in the normal course of business and is disclosed in the financial statements.

There have been no principal capital expenditures during the past three financial years.

## Significant Changes

As noted below, under our discussion of Outsourcing, effective 1 October 2001, we entered into a ten year agreement with EDS (Business Process Administration) Pty Limited (EDS), whereby they will provide mortgage and other processing services in connection with our home loan mortgage portfolio.

## Outsourcing

We have pursued a strategy to more efficiently benefit from evolving technology and business process practices. This strategy has been achieved in part by delivering the IT and operational support necessary to service our customers through owned and outsourced capabilities.

On 12 October 2000, we announced that we had selected IBM GSA as the preferred supplier to manage our core banking technology operations, with Telstra providing telecommunications services. The ten year contract with IBM GSA provides for the outsourcing of mainframe and mid-range computing and desktop services, while IT systems development, strategy and architecture will remain in-house. The five year contract with Telstra covers IT networks and telecommunications services. The total value of both the IT and telecommunications components is approximately $4 billion.

Effective 1 October 2001, we entered into a ten year agreement with EDS whereby they will provide mortgage and other processing services in connection with our mortgage loan portfolio. We will continue to perform the sales, credit and collection functions related to our home loan mortgage business. The value of the agreement is approximately $1 billion.

## Legal proceedings

We have contingent liabilities in respect of actual and potential claims and proceedings that have not been determined. An assessment of likely losses is made on a case-by-case basis for purposes of the financial statements and specific provisions were made where appropriate, as described in note 34 to the financial statements.

We do not believe that we are engaged in any legal proceedings which would be likely, upon disposition, to have a significant adverse effect on our business, financial condition or results of operations.

## Competition

Although the traditional banking market in Australia is highly concentrated among the major banks, we face intense competition on all fronts from both traditional and non-traditional financial service players such as discount brokers and mortgage originators. As the boundaries between traditional banking and wealth management merge, the market is expanding to include major fund managers, insurers and stockbrokers.

Our key competitive strengths are our large customer base and our extensive distribution reach, made up of a national branch network, supported by other channels including telephone banking, automatic teller machines and internet banking. We distribute the full range of banking and financial services through this network.

In New Zealand we face competition principally from the locally incorporated subsidiaries of the other three major Australian banks and from National Bank of New Zealand Limited (a locally incorporated subsidiary of Lloyds TSB Group). In addition, there is competition from a number of smaller market participants that focus primarily on the retail and housing sectors.

## Employees

The number of employees in each area of business at 30 September 2001 was as follows [1]:

| | |
|---|---|
| Australian Retail Financial Services | 19,708 |
| Westpac Institutional Bank | 1,264 |
| New Zealand Retail | 5,288 |
| Pacific Banking | 1,290 |
| Head Office functions and other | 984 |
| **Total employees** | **28,534** |

1 The number of employees includes core full-time equivalent, overtime, temporary and contractors.

We had 28,534 full-time-equivalent employees as at 30 September 2001. This represents a decrease of 1,986 from 30 September 2000. The 2000 total of 30,520 was 3,054 lower than 1999. The majority of this year's reduction was due to the following:

- The outsourcing of some of our operations and IT activities and the subsequent transfer of employees to the outsource providers;
- The impact of restructuring activities; and
- Natural attrition.

Our current Enterprise Agreements expired on 31 December 2000 (except for the agreement in relation to our mortgage centre operation, which expired on 31 March 2001). These agreements continue to apply to employees until replacement agreements are settled. Following an interactive process of employee communication and feedback concerning changes to the Enterprise Agreements, negotiations with the Finance Sector Union commenced in January 2001. Since June 2001, we have experienced some limited industrial action associated with the negotiation of these Enterprise Agreements. Although new Enterprise Agreements have not yet been concluded, we announced in mid-September 2001, that we would grant a 4% wage increase to all eligible staff from the first pay week in October 2001 and a further 4% to all eligible staff in the first pay week in October 2002. We continue to maintain a business-like and professional relationship with the Finance Sector Union.

We offer an employee share plan for permanent employees in Australia and New Zealand, which is designed to give tangible recognition for improvements in our performance and gain greater staff commitment. The value of the share plan benefit is determined by the year on year movement of our average share price, subject to a minimum share price growth of 4%. We also provide superannuation (pension) plans for our employees in Australia, New Zealand and certain other countries in which we operate. Plan members are entitled to benefits on retirement, resignation, permanent disability or death. See note 33 to the financial statements for further information.

## Supervision and regulation

***Australia***

The Australian financial services regulatory framework involves four principal agencies: the Australian Prudential Regulation Authority; the Reserve Bank of Australia; the Australian Securities and Investments Commission; and the Australian Competition and Consumer Commission.

The Australian Prudential Regulation Authority is responsible for the prudential supervision of authorised deposit-taking institutions, life and general insurance companies and superannuation funds. One of its roles is to protect the interests of depositors and insurance policyholders.

As a regulated authorised deposit-taking institution, we report to the Australian Prudential Regulation Authority such prudential information as the regulator requires in relation to capital adequacy, large exposures, credit quality and liquidity. Our controlled entities involved in general insurance, superannuation and life insurance also report to the Australian Prudential Regulation Authority. Reporting is supplemented by consultations, on-site inspections and targeted reviews. Our external auditors also have an obligation to report on compliance with certain statutory and regulatory banking requirements, and on any matters that in their opinion may have the potential to materially prejudice the interests of depositors.

Australia's risk-based capital adequacy guidelines are generally consistent with the approach agreed by the Basel Committee on Banking Supervision. For details of our capital adequacy ratios see note 26 to the financial statements.

The Reserve Bank of Australia is responsible for monetary policy, maintaining financial system stability and promoting the safety and efficiency of the payments system. The Reserve Bank of Australia possesses regulatory powers to fulfil this responsibility. The Reserve Bank of Australia is an active participant in the financial markets, manages Australia's foreign reserves, issues Australian currency notes and serves as banker to the Commonwealth Government.

The Australian Securities and Investments Commission is the sole national regulator of Australia's 1.2 million (approximately) companies and, in its role as the consumer protection regulator for financial services, also regulates and enforces laws that promote honesty and fairness in financial products and services and which provide a system of consumer protection for deposit-taking activities, general insurance, life insurance, superannuation, retirement savings accounts, securities (such as shares, debentures and managed investments) and futures contracts.

The Australian Competition and Consumer Commission is the regulator under legislation that regulates and/or prohibits corporations from engaging in anti-competitive and unfair market practices, mergers and acquisitions that may have the effect of eliminating or reducing competition, product safety and liability, pricing practices and third party access to facilities of national significance. The Commission's consumer protection work complements that of State and Territory consumer affairs agencies, which administer the unfair trading legislation of their jurisdictions.

All four regulatory agencies work together to ensure an efficient and safe financial services sector.

***New Zealand***

The Reserve Bank of New Zealand is responsible for the supervision of the New Zealand banking industry. The framework of supervision includes monitoring financial performance, large exposures, individual country exposures, capital adequacy and, as in Australia, also involves external auditor reporting. The extent of the Reserve Bank of New Zealand's prudential regulation of banks has been reduced following the introduction of a disclosure regime in 1995 applicable to all banks operating in New Zealand. The Reserve Bank of New Zealand's capital adequacy guidelines are generally in line with the Basel Committee guidelines.

***United States***

Our New York branch is a federally licensed branch and as such subject to supervision, examination and extensive regulation by the Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System under the International Banking Act of 1978, and related regulations.

A federal branch must maintain, with a Federal Reserve member bank, a capital equivalency deposit as prescribed by the Comptroller of the Currency in an amount which is the greater of: (1) the amount of capital that would be required of a national bank organised at the same location; or (2) 5% of the total liabilities (excluding, among other things, liabilities to affiliates) of the federal branch. In addition, a federal branch is examined by the Comptroller of the Currency at least once each calendar year and periodically by the Federal Reserve. The examination covers risk management, operations, credit and asset quality and compliance with the record-keeping and reporting requirements that apply to national banks, including the maintenance of its accounts and records separate from those of the foreign bank and any additional requirements prescribed by the Comptroller.

A federal branch of a foreign bank is, by virtue of the International Banking Act of 1978, subject to the receivership powers exercisable by the Comptroller of the Currency.

On 12 November 1999, the Gramm-Leach-Bliley Act was signed into US law. The act provides for significant financial modernisation of financial institutions operating in the United States and amends the Bank Holding Company Act to allow qualifying institutions that elect to become Financial Holding Companies (FHC) to engage in a broad range of financial activities including securities underwriting, insurance sales and underwriting and merchant banking. Foreign banking organisations may elect to be treated as a FHC and engage in these activities either directly, or through a US branch, if they meet certain capital adequacy and management criteria set out by the Federal Reserve Board and obtain Board approval. We have not made such an election to date.

# Financial review

# Key information

## Selected consolidated financial and operating data

We have derived the following selected financial information as of and for the financial years ended 30 September 2001, 2000, 1999, 1998 and 1997 from our audited consolidated financial statements and related notes.

You should read this information together with the 'Operating and financial review and prospects' and the audited consolidated financial statements and the accompanying notes.

The financial statements for 2001 and 2000 were reported on by independent auditors, Messrs R. Chowdry and M.J. Codling, and for 1999, 1998 and 1997 by Messrs R.S. Lynn and R. Chowdry. The financial statements included in this report have been prepared in accordance with the accounting policies described in note 1 to the financial statements, being in accordance with Australian generally accepted accounting principles ('GAAP'). Australian GAAP varies in certain respects from US GAAP. See note 45 to the financial statements. See also 'Currency of presentation, exchange rates and certain definitions'.

## Consolidated Statement of Financial Performance

| | Year ended 30 September | | | | | |
|---|---|---|---|---|---|---|
| | **2001** | **2001** | 2000 | 1999 | 1998 | 1997 |
| | **USD** [1] | **AUD** | AUD | AUD | AUD | AUD |
| | (in millions unless otherwise stated) | | | | | |
| **Amounts in accordance with Australian GAAP** | | | | | | |
| Interest income [2,3] | **5,074** | **10,258** | 9,390 | 7,876 | 8,647 | 8,541 |
| Fully tax equivalent gross up [4] | **74** | **149** | 169 | 127 | 128 | 127 |
| Interest income (including gross up) | **5,148** | **10,407** | 9,559 | 8,003 | 8,775 | 8,668 |
| Interest expense [2] | **(3,070)** | **(6,207)** | (5,721) | (4,400) | (5,155) | (5,188) |
| Net interest income (including gross up) | **2,078** | **4,200** | 3,838 | 3,603 | 3,620 | 3,480 |
| Non-interest income [3] | **1,255** | **2,537** | 2,414 | 2,155 | 2,003 | 1,739 |
| Net operating income (including gross up) | **3,333** | **6,737** | 6,252 | 5,758 | 5,623 | 5,219 |
| Total operating expenses | **(1,766)** | **(3,570)** | (3,503) | (3,434) | (3,392) | (3,228) |
| Operating profit before bad and doubtful debts (including gross up) | **1,567** | **3,167** | 2,749 | 2,324 | 2,231 | 1,991 |
| Bad and doubtful debts | **(214)** | **(433)** | (202) | (171) | (168) | (78) |
| Profit from ordinary activities before income tax and abnormal items (including gross up) | **1,353** | **2,734** | 2,547 | 2,153 | 2,063 | 1,913 |
| Fully tax equivalent gross up [4] | **(74)** | **(149)** | (169) | (127) | (128) | (127) |
| Profit from ordinary activities before income tax and abnormal items (excluding gross up) | **1,279** | **2,585** | 2,378 | 2,026 | 1,935 | 1,786 |
| Income tax expense | **(336)** | **(677)** | (660) | (567) | (589) | (493) |
| Abnormal items (net of tax) [5] | **–** | **–** | – | – | (70) | – |
| Net profit attributable to outside equity interests | **(2)** | **(5)** | (3) | (3) | (4) | (2) |
| Net profit attributable to our equity holders | **941** | **1,903** | 1,715 | 1,456 | 1,272 | 1,291 |
| Average number of fully paid ordinary shares outstanding [6] | **1,801** | **1,801** | 1,883 | 1,881 | 1,879 | 1,789 |
| Basic earnings per ordinary share (cents) after abnormals [6] | **50.8** | **102.8** | 88.8 | 77.0 | 66.4 | 70.0 |
| Dividends per ordinary share (cents) | **30.7** | **62.0** | 54.0 | 47.0 | 43.0 | 39.0 |
| Dividend payout ratio (after abnormals) [7] | **60.3%** | **60.3%** | 60.8% | 61.0% | 64.8% | 55.7% |
| **Amounts in accordance with US GAAP** | | | | | | |
| Net income | **876** | **1,769** | 1,527 | 1,409 | 1,301 | 1,363 |
| Basic earnings per ordinary share (cents) | **48.6** | **98.2** | 81.1 | 74.9 | 68.0 | 74.0 |
| Dividend payout ratio [7] | **63.1%** | **63.1%** | 66.6% | 62.8% | 63.2% | 52.7% |

See page 13 for footnote explanations

## Consolidated Statement of Financial Position Data

| | 2001 USD [1] | 2001 AUD | 2000 AUD | 1999 AUD | 1998 AUD | 1997 AUD |
|---|---|---|---|---|---|---|
| | | | Year ended 30 September (in millions unless otherwise stated) | | | |
| **Amounts in accordance with Australian GAAP** | | | | | | |
| **Year end balances** | | | | | | |
| Total assets | **93,897** | **189,845** | 167,618 | 140,220 | 137,319 | 118,963 |
| Loans net of provisions for bad and doubtful debts | **60,465** | **122,250** | 107,533 | 97,716 | 91,738 | 77,874 |
| Interest earning assets | **71,208** | **143,971** | 122,787 | 113,992 | 106,433 | 93,371 |
| Acceptances | **7,765** | **15,700** | 15,665 | 10,249 | 10,325 | 11,242 |
| Deposits and public borrowings | **47,559** | **96,157** | 89,994 | 85,546 | 83,164 | 72,636 |
| Due to other financial institutions | **2,945** | **5,954** | 3,972 | 3,562 | 4,343 | 4,570 |
| Total liabilities excluding loan capital | **86,704** | **175,302** | 153,464 | 128,531 | 126,185 | 108,862 |
| Loan capital | **2,393** | **4,838** | 4,892 | 2,692 | 2,523 | 1,895 |
| Ordinary equity [8,9] | **4,563** | **9,226** | 8,792 | 8,529 | 8,606 | 8,200 |
| Trust originated preferred securities (TOPrS[SM]) | **230** | **465** | 465 | 465 | – | – |
| Outside equity interests | **7** | **14** | 5 | 3 | 5 | 6 |
| **Average balances** | | | | | | |
| Total assets | **88,174** | **178,274** | 158,566 | 140,350 | 139,647 | 124,778 |
| Loans net of provisions for bad and doubtful debts | **57,714** | **116,687** | 106,771 | 94,693 | 89,725 | 79,675 |
| Acceptances | **8,250** | **16,680** | 12,411 | 10,959 | 11,432 | 11,366 |
| Total equity [8] | **4,580** | **9,260** | 9,535 | 8,712 | 8,859 | 7,980 |
| Average ordinary equity [8,9] | **4,350** | **8,795** | 9,070 | 8,609 | 8,484 | 7,380 |
| **Amounts in accordance with US GAAP** | | | | | | |
| Average total assets | **87,972** | **177,824** | 158,133 | 147,604 | 145,322 | 129,868 |
| Average ordinary equity [8,9] | **4,487** | **9,071** | 8,742 | 8,848 | 8,686 | 8,034 |

See page 13 for footnote explanations.

## Summary of Consolidated Ratios

| | 2001 USD[1] | 2001 AUD | 2000 AUD | 1999 AUD | 1998 AUD | 1997 AUD |
|---|---|---|---|---|---|---|
| | Year ended 30 September | | | | | |
| | (in millions unless otherwise stated) | | | | | |
| **Ratios in accordance with Australian GAAP** | | | | | | |
| **Profitability ratios (%)** | | | | | | |
| Net interest margin | **3.11** | **3.11** | 3.10 | 3.25 | 3.44 | 3.59 |
| Return on average assets after abnormals | **1.07** | **1.07** | 1.03 | 1.04 | 0.91 | 1.03 |
| Return on average ordinary equity after abnormals | **21.1** | **21.1** | 18.4 | 16.8 | 14.7 | 17.0 |
| Return on average total equity after abnormals | **20.6** | **20.6** | 18.0 | 16.7 | 14.4 | 16.2 |
| Economic profit ($m)[10] | **593** | **1,198** | 1,058 | 669 | 694 | 716 |
| **Capital ratio (%)** | | | | | | |
| Average total equity to average total assets | **5.2** | **5.2** | 6.0 | 6.2 | 6.4 | 6.4 |
| **Earnings ratios** | | | | | | |
| Basic earnings per ordinary share (cents) after abnormals[6] | **50.8** | **102.8** | 88.8 | 77.0 | 66.4 | 70.0 |
| Fully diluted earnings per ordinary share (cents) after abnormals[11] | **50.4** | **101.9** | 87.7 | 76.1 | 64.5 | 67.8 |
| Dividends per ordinary share (cents) | **30.7** | **62.0** | 54.0 | 47.0 | 43.0 | 39.0 |
| Dividend payout ratio % (after abnormals)[7] | **60.3** | **60.3** | 60.8 | 61.0 | 64.8 | 55.7 |
| **Ratios in accordance with US GAAP** | | | | | | |
| **Profitability ratios (%)** | | | | | | |
| Net interest margin | **3.11** | **3.11** | 3.10 | 3.25 | 3.44 | 3.59 |
| Net profit attributable to equity holders to average total assets | **0.99** | **0.99** | 0.97 | 0.96 | 0.90 | 1.05 |
| Net profit attributable to equity holders to average ordinary equity | **19.5** | **19.5** | 17.5 | 15.9 | 15.0 | 17.0 |
| **Capital ratio (%)** | | | | | | |
| Average total equity to average total assets | **5.1** | **5.1** | 5.5 | 6.0 | 6.0 | 6.2 |
| Leverage ratio[12] | **4.4** | **4.4** | 4.8 | 4.9 | 4.8 | 5.9 |
| **Earnings ratios** | | | | | | |
| Basic earnings per ordinary share (cents) | **48.6** | **98.2** | 81.1 | 74.9 | 68.0 | 74.0 |
| Fully diluted earnings per ordinary share (cents)[11] | **48.3** | **97.6** | 80.1 | 74.5 | 66.7 | 72.4 |
| Dividends per ordinary share (US cents) | **30.7** | **30.7** | 29.2 | 30.7 | 25.5 | 28.3 |
| Dividend payout ratio %[7] | **63.1** | **63.1** | 66.6 | 62.8 | 63.2 | 52.7 |

See page 13 for footnote explanations

## Credit Quality Analysis

| | Year ended 30 September | | | | | |
|---|---|---|---|---|---|---|
| | **2001 USD** [1] | **2001 AUD** | 2000 AUD | 1999 AUD | 1998 AUD | 1997 AUD |
| | (in millions unless otherwise stated) | | | | | |
| Provisions for bad and doubtful debts | **792** | **1,601** | 1,478 | 1,500 | 1,600 | 1,588 |
| Total provisions to average loans and acceptances [13] | **1.19%** | **1.19%** | 1.22% | 1.40% | 1.56% | 1.71% |
| Total provisions to total loans [13] | **1.29%** | **1.29%** | 1.36% | 1.51% | 1.71% | 2.00% |
| Total provisions to total loans and acceptances [13] | **1.15%** | **1.15%** | 1.19% | 1.37% | 1.54% | 1.75% |
| Total impaired assets | **446** | **902** | 593 | 644 | 852 | 869 |
| Total impaired assets to average loans and acceptances [13] | **0.67%** | **0.67%** | 0.49% | 0.60% | 0.83% | 0.94% |
| Bad debt write-offs (net of recoveries) | **168** | **340** | 240 | 227 | 222 | 321 |
| Bad debt write-offs (net of recoveries) to average loans [13] | **0.29%** | **0.29%** | 0.22% | 0.24% | 0.24% | 0.39% |
| Bad debt write-offs (net of recoveries) to average loans and acceptances [13] | **0.25%** | **0.25%** | 0.20% | 0.21% | 0.22% | 0.35% |

1 Australian dollar amounts have been translated into United States dollars solely for the convenience of the reader at the rate of A$1.00 = US$0.4946, the noon buying rate on 30 September 2001. Amounts or ratios are in accordance with these principles.

2 The classification of certain derivative transactions has been changed so that their results are recognised on a net basis as an adjustment to interest income on loans. This has reduced interest income and interest expense by A$832 million for the year ended 30 September 2001. The impact on prior years ending 30 September 2000, 1999, 1998 and 1997 has been A$855 million, A$456 million, A$249 million and A$10 million respectively. Comparative amounts have been restated. The change has no impact on net profit.

3 During the year guarantee fees of A$68 million in respect of certain structured finance transactions have been treated as yield adjustments to interest income. Previously these fees were reported as part of fees and commissions paid. Comparative amounts have been restated for the years ended 30 September 2000 and 1999 by A$46 million and A$16 million respectively. The change has no impact on net profit.

4 We have entered into various tax effective financing transactions that derive income that is subject to either a reduced or zero rate of income tax. The impact of this is reflected in lower income tax expense and interest income. In order to provide improved comparability, this income is presented on a fully tax equivalent basis.

5 For reporting periods ending on or after 30 June 2001, it is no longer required (under Australian GAAP) to disclose abnormal items on the face of the statement of financial performance. Where a revenue or expense is of such a size, nature or incidence that its disclosure is relevant in explaining our financial performance, we are required to disclose separately its nature and amount.

6 Based on average number of fully paid ordinary shares outstanding, including 54 million New Zealand Class shares in 2001 and 2000, and after deducting preference dividends of A$nil million in 2001, 2000 and 1999 (1998 A$24 million, 1997 A$39 million), and distributions on other equity instruments of A$51million (A$43 million in 2000, A$8 million in 1999, A$nil million in 1998 and 1997).

7 Calculated by dividing the dividends per ordinary share by the basic earnings per ordinary share.

8 Excludes outside equity interests.

9 Excludes trust originated preferred securities (TOPrS).

10 Economic profit is defined as the excess of adjusted profit over the minimum required rate of return (12%) on equity invested. For this purpose, adjusted profit is defined as net profit after income tax, but before amortisation of goodwill, plus a portion (70%) of the face value of franking credits paid to shareholders.

11 Based on average number of shares and share equivalents and after deducting non-converting preference dividends and distributions on other equity instruments from net profit after tax.

12 Leverage ratios have been computed in accordance with guidelines promulgated by the Board of Governors of the Federal Reserve System.

13 Loans are stated before related provisions for bad and doubtful debts.

## Risk factors

Our business activities are subject to risk factors that can impact our future performance. Some of these risks can be mitigated by the use of safeguards and appropriate systems and actions but some are outside our control and cannot be mitigated. Risk management, as overseen by our Board of Directors, is discussed on page 24 of this annual report.

Some of the principal factors that may affect our performance are set out below.

***Dependence on the Australian economy***

Our earnings are dependent on the level of banking and finance and financial services required by our customers. In particular, levels of borrowing are heavily dependent on customer confidence, the state of the economy and market interest rates at the time.

As we currently conduct the majority of our business in Australia, our performance is influenced by the level and cyclical nature of business activity in Australia, which is in turn, impacted by both domestic and international economic and political events. There can be no assurance that a weakening in the Australian economy will not have a material effect on our future results. Our future performance can also be affected by the economic conditions of other regions where we conduct our operations.

***Competition***

We face strong competition in all of our key areas of business and a more detailed discussion on our main competitors is included on page 7 of this annual report.

***Credit risk***

Credit risk is our most significant risk and arises primarily from our lending activities.

We hold general and specific provisions to cover bad and doubtful debts. If these provisions prove inadequate either because of a major economic downturn or a significant breakdown in our credit disciplines, then this could have a material adverse effect on our business. A detailed discussion on credit risk management is included on page 24 of this annual report.

***Market risk***

We are exposed to market risk as a consequence of our trading activities in financial markets and through the asset and liability management of our overall balance sheet. In our financial markets trading businesses, we are exposed to losses arising from adverse movements in levels and volatility of interest rates, foreign exchange rates, and commodity and equity prices.

We have comprehensive systems and limits in place to manage these risks. A detailed discussion on these systems is included on page 27 of this annual report.

***Liquidity risk***

Liquidity risk is the potential inability to meet our payment obligations. For a more detailed discussion on liquidity risk, see page 23 of this annual report.

***Operational risk***

As a financial services organisation we are exposed to a variety of other risks including those arising from process error, fraud, systems failure, security and physical protection, customer services, staff skills and performance, and product development and maintenance.

We manage these risks through a system of identifying key operational risks, establishing controls and maintaining an independent group audit function to monitor the effectiveness of these controls. A detailed discussion on operational risk management is included on page 29 of this annual report.

## Operating and financial review and prospects

The following discussion contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. Where forward-looking statements are made, our actual results may differ significantly from the results discussed. For a description of factors that may affect our results, see 'Disclosure regarding forward-looking statements' and 'Risk management'.

## Overview of performance

**Summary Consolidated Statement of Financial Performance**

| For the year ended 30 September | **2001 $m** | 2000 $m | 1999 $m |
|---|---|---|---|
| Net interest income [1] | **4,051** | 3,669 | 3,476 |
| Fully tax equivalent gross up [2] | **149** | 169 | 127 |
| Net interest income (including gross up) | **4,200** | 3,838 | 3,603 |
| Non-interest income [1] | **2,537** | 2,414 | 2,155 |
| Net operating income (including gross up) | **6,737** | 6,252 | 5,758 |
| Total operating expenses | **(3,570)** | (3,503) | (3,434) |
| Operating profit before bad and doubtful debts (including gross up) | **3,167** | 2,749 | 2,324 |
| Bad and doubtful debts | **(433)** | (202) | (171) |
| Profit from ordinary activities before income tax (including gross up) | **2,734** | 2,547 | 2,153 |
| Fully tax equivalent gross up [2] | **(149)** | (169) | (127) |
| Income tax expense | **(677)** | (660) | (567) |
| Net profit attributable to outside equity interests | **(5)** | (3) | (3) |
| Net profit attributable to our equity holders | **1,903** | 1,715 | 1,456 |
| Earnings per share (cents) | | | |
| Basic | **102.8** | 88.8 | 77.0 |
| Fully diluted | **101.9** | 87.7 | 76.1 |

1 During the year guarantee fees of $68 million in respect of certain structured finance transactions have been treated as yield adjustments to interest income. Previously these fees were reported as part of fees and commissions paid. Comparative amounts have been restated for 2000 and 1999 by $46 million and $16 million respectively. The change has no impact on net profit.

2 We have entered into various tax effective financing transactions that derive income that is subject to either a reduced or zero rate of income tax. The impact of this is reflected in lower income tax expense and interest income. In order to provide improved comparability, this income is presented on a fully tax equivalent basis.

Net profit attributable to equity holders was $1,903 million for the year ended 30 September 2001. This represents an 11% growth on 2000 from $1,715 million, which in turn was 18% higher than 1999.

Net interest income increased by $362 million or 9% from 2000. This increase related to strong growth in average interest earning assets while margins remained flat. The increase in 2000 over 1999 of $235 million or 7% was due to strong growth in interest earning assets offset by a 15 basis point reduction in interest margin.

Non-interest income increased by $123 million or 5% in 2001 from 2000, which in turn increased by $259 million or 12% on 1999. The 2001 results included a net charge of $41 million due to tax recoveries on life insurance policyholders' earnings, compared to a positive contribution of $68 million in 2000. Adjusting for this item, non-interest income increased by 10% on 2000 and 9% on 1999. The main contributors to growth in 2001 were:

- A $111 million or 7% increase in net fees and commissions due primarily to increases in loan volumes and transaction activities;
- A $120 million or 53% increase in financial markets non-interest income; and
- Adjusting for tax recoveries, a $68 million or 12% increase in insurance and fund management income.

2000 was the first year of the new life insurance accounting standard AASB 1038 Life Insurance Business, which resulted in recognition of life insurance income and expense on a gross basis. In addition, during February 2000 we restructured part of our financial services group and as a consequence, the financial services distribution business results were brought to account on an embedded value basis. The effect of the consolidation of the life insurance business and of the restructure had been to add $227 million to non-interest income for 2000.

Operating expenses increased by $67 million or 2% from 2000. 2000 expenses increased 2% from 1999, although after adjusting for the application of the life insurance accounting standard, expenses were flat from 1999 to 2000. The increase in 2001 includes absorbing an additional $78 million in goods and services tax costs, $27 million additional restructuring costs, $8 million in adverse exchange rate movements and incremental costs across all operations due to growing transaction volumes. Expense containment continued to be a key priority as demonstrated by our continued improvement in our expense to income ratio (before amortisation of goodwill) from 57.9% in 1999 to 54.5% in 2000 and to 51.5% in 2001.

Bad and doubtful debts increased by $231 million or 114% from 2000, which in turn increased 18% or $31 million from 1999. The increase in 2001 was predominantly due to a small number of downgrades in our corporate book and write-offs in consumer and personal lending products.

**Income Tax Expense**

| | **2001 $m** | 2000 $m | 1999 $m |
|---|---|---|---|
| Income tax expense | **677** | 660 | 567 |
| Full tax equivalent gross up | **149** | 169 | 127 |
| | **826** | 829 | 694 |
| Tax as a percentage of profit from ordinary activities before tax (effective tax rate) | **30.2%** | 32.5% | 32.2% |

The company tax rate in 2001 was reduced to 34% from 36% in 2000 and 1999. Our effective tax rates in 2001, 2000 and 1999 were below the relevant company tax rate each year due to the impact of lower overseas tax rates and certain non-taxable items. The tax expense included a $41 million credit in 2001 and a $68 million charge in 2000 in relation to tax recoveries on life insurance policyholders' earnings, offset in non-interest income in accordance with the requirements of the life insurance business accounting standard.

## Statement of financial performance review

**Interest Spread and Margin**

| | **2001 $m** | 2000 $m | 1999 $m |
|---|---|---|---|
| **Group** [1] | | | |
| Net interest income (including gross up) [2] | **4,200** | 3,838 | 3,603 |
| Average interest earning assets | **135,154** | 123,462 | 110,734 |
| Average non-accrual loans | **641** | 586 | 749 |
| Average interest bearing liabilities | **122,498** | 109,654 | 99,902 |
| Average net non-interest bearing liabilities and equity | **12,656** | 13,808 | 10,832 |
| Interest spread on productive assets [3] | **2.65%** | 2.54% | 2.87% |
| Impact of impaired loans | **(0.02)%** | (0.02)% | (0.05)% |
| Interest spread [4] | **2.63%** | 2.52% | 2.82% |
| Benefit of net non-interest bearing liabilities and equity [5] | **0.48%** | 0.58% | 0.43% |
| Interest margin | **3.11%** | 3.10% | 3.25% |
| On a geographical basis, interest spread and margins were: | | | |
| **Australia** | | | |
| Interest spread on productive assets [3] | **2.74%** | 2.55% | 2.84% |
| Impact of impaired loans | **(0.02)%** | (0.02)% | (0.02)% |
| Interest spread [4] | **2.72%** | 2.53% | 2.82% |
| Benefit of net non-interest bearing liabilities and equity [5] | **0.36%** | 0.53% | 0.50% |
| Interest margin | **3.08%** | 3.06% | 3.32% |
| **New Zealand** [1] | | | |
| Interest spread on productive assets [3] | **2.71%** | 2.86% | 2.98% |
| Impact of impaired loans | **(0.03)%** | (0.01)% | (0.04)% |
| Interest spread [4] | **2.68%** | 2.85% | 2.94% |
| Benefit of net non-interest bearing liabilities and equity [5] | **0.60%** | 0.35% | 0.10% |
| Interest margin | **3.28%** | 3.20% | 3.04% |
| **Other Overseas** | | | |
| Interest spread on productive assets [3] | **0.50%** | 0.39% | 0.83% |
| Impact of impaired loans | **(0.01)%** | – | (0.06)% |
| Interest spread [4] | **0.49%** | 0.39% | 0.77% |
| Benefit of net non-interest bearing liabilities and equity [5] | **0.54%** | 0.63% | 0.61% |
| Interest margin | **1.03%** | 1.02% | 1.38% |

1 During the year guarantee fees of $68 million in respect of certain structured finance transactions have been treated as yield adjustments to interest income. Previously these fees were reported as part of fees and commissions paid. Comparative amounts have been restated for the years ended 30 September 2000 and 1999 by $46 million and $16 million respectively.

2 We have entered into various tax effective financing transactions that derive income that is subject to either a reduced or zero rate of income tax. The impact of this is reflected in lower income tax expense and interest income. In order to provide improved comparability, this income is presented on a fully tax equivalent basis.

3 Interest spread on productive assets is determined on the basis of the interest spread formula after excluding non-accrual loans, and the relating interest, from the equation.

4 Interest spread is the difference between the average yield on all interest earning assets and the average rate paid on all interest bearing liabilities net of impaired loans.

5 The benefit of net non-interest bearing liabilities and equity is determined by applying the average rate of interest paid on all interest bearing liabilities to the average level of net non-interest bearing funds as a percentage of average interest earning assets. The calculations for Australia and New Zealand take into account the interest expense/income of cross border, intragroup borrowing/lending.

**Group**

During the year our interest spread increased by 11 basis points compared to a 30 basis point reduction in 2000. A lower cost of wholesale funding and the effective execution of hedging strategy were the main contributing factors to the increased spread in 2001.

The Group's net interest margin was maintained despite a reduction in non-interest bearing liabilities.

**Australia**

Interest spread for Australia increased 19 basis points in 2001 despite competitive pricing pressures on the asset side of the balance sheet, compared to a 29 basis point reduction in 2000. The interest spread increase was offset by a decrease of 17 basis points in the benefit of net non-interest bearing liabilities and equity to leave the interest margin relatively flat.

**New Zealand**

Interest spread for New Zealand decreased by 17 basis points in 2001 reflecting the competitive pricing pressures in that market, compared to a 9 basis point reduction in 2000 from 1999. A 25 basis point increase in the benefit of net non-interest bearing liabilities and equity resulted in an increase in interest margin of 8 basis points in 2001.

## Non-interest income

The components of non-interest income are set out in note 4 to the financial statements.

Non-interest income increased by $123 million or 5% from 2000, which in turn increased by $259 million or 12% from 1999. The 2001 result included a net charge of $41 million due to tax recoveries on life insurance policyholders' earnings, compared to a contribution of $68 million in 2000. Adjusting for tax recoveries, non-interest income increased 10% on 2000 and 9% on 1999.

Total net fees and commissions increased by $111 million or 7% over 2000, which in turn increased by $138 million (10%) from 1999. The growth in both years was principally due to:

- A $98 million or 17% increase in 2001 in lending fees (14% increase in 2000) reflecting an increase in loan volumes and better collection rates; and
- A $179 million or 18% increase in transaction fees and commissions received (13% increase in 2000) due to increased transaction activity.

These increases were partially offset by a $147 million (43%) increase in fees and commissions paid in the current year due to greater card activity.

Financial markets non-interest income increased 53% or $120 million on 2000, reflecting a better result after a disappointing 2000. The 2000 result was down $110 million (33%) from 1999 due primarily to a poor trading environment in the first half of 2000.

Insurance and fund management income has decreased by $41 million or 7% from 2000, due to the turn around in tax recoveries from a positive $68 million in 2000 to a charge of $41 million this year. Adjusting for the tax recoveries, insurance and fund management income has increased by 12% from 2000. A $28 million profit on the relinquishment of the management rights to a property trust was included in income during the current year. 2000 was the first year of the new life insurance accounting standard which resulted in us recognising life insurance income and expense on a gross basis. In addition, during February 2000 we restructured part of our financial services group and as a consequence, the financial services distribution business results were brought to account on an embedded value basis. The effect of the consolidation of the life insurance business and the restructure was to add $227 million to non-interest income in 2000.

Other income included $27 million from the sale of our foreign banknote business. 2000 included a $27 million profit from the sale of five properties. 1999 included $49 million from the sale of our investment in Data Advantage and $17 million profit from the sale of our operations in the French Territories.

## Operating expenses

The components of operating expenses are set out in note 5 to the financial statements.

Operating expenses increased $67 million or 2% over 2000, which in turn increased 2% on 1999. The 2% increase in 2000 included $74 million of expenses due to the application of the life insurance accounting standard for the first year in 2000.

Expenses management has continued to be a key priority, as demonstrated by the decrease in our expense to income ratio (before amortisation of goodwill) from 57.9% in 1999 to 54.5% in 2000 to 51.5% this year.

Salaries and other staff expenses decreased by 4% from 2000 due to the impact of a number of restructuring projects and outsourcing agreements. This decrease occurred despite absorbing $27 million incremental restructuring costs and $18 million additional superannuation costs. 2000 salary expenses decreased by 1% on 1999, despite including incremental $31 million and $38 million restructuring costs and superannuation costs respectively. The number of full time equivalent employees reduced by 1,986 in 2001 to 28,534 and reduced 3,054 from 33,574 in September 1999.

Equipment and occupancy costs increased by $16 million or 3% in 2001 from 2000, which in turn increased by $30 million or 5% from 1999. The increase over both years was mainly due to the amortisation of previously capitalised software.

Total other expenses increased $122 million in 2001 and by $54 million in 2000. The main contributor to the increase from 2000 was in consultancy fees and other professional services and telecommunications costs due to $269 million of costs incurred in relation to our IT outsourcing agreement which became effective December 2000. Non-lending losses also increased by $22 million, primarily due to an increase in cheque and credit card fraud this year. The increase in consultancy fees from 1999 to 2000 was due to the use of consultants as part of our performance enhancement program and other re-engineering projects.

## Statement of financial position review

The detailed components of the statement of financial position are set out in the notes to the financial statements.

| | (Decrease)/Increase | |
|---|---|---|
| | **2001 $bn** | 2000 $bn |
| **Assets** | | |
| Due from other financial institutions | **1.8** | (0.7) |
| Trading and investment securities | **3.7** | (1.4) |
| Loans (net) | **14.7** | 9.8 |
| Acceptances of customers | **–** | 5.4 |
| Life insurance investment assets | **(0.2)** | 7.5 |
| All other assets (net) | **2.2** | 6.8 |
| Net increase | **22.2** | 27.4 |
| **Liabilities and equity** | | |
| Due to other financial institutions | **2.0** | 0.4 |
| Deposits and public borrowings | **6.2** | 4.4 |
| Acceptances | **–** | 5.4 |
| Debt issues | **8.8** | 4.3 |
| Life insurance policy liabilities | **0.1** | 7.0 |
| All other liabilities (net) | **4.7** | 5.6 |
| Equity | **0.4** | 0.3 |
| Net increase | **22.2** | 27.4 |

Assets increased by $22 billion to $190 billion in 2001 compared to an increase of $27 billion in 2000 from 1999. The growth of $27 billion included life insurance investment assets of $7.5 billion being reported for the first time in 2000. The growth in 2001 was largely driven by a 12% growth in lending assets. Significant asset movements in 2001 were:

- Loans increased by $15 billion to $122 billion in 2001 from 2000 compared to a $10 billion increase in 2000 from 1999. The 2001 increase was primarily due to higher housing loan levels in Australia of $6 billion and $2 billion in New Zealand;
- Trading securities increased by $4 billion to $11 billion in 2001 from 2000 compared to a decrease of $2 billion to $7 billion in 2000 from 1999;
- Life insurance investment assets were reported for the first time in 2000 and there was minimal net movement in 2001; and
- The increase in other assets of $2 billion in 2001, compared to an increase of $7 billion in 2000, related predominantly to securities sold not yet delivered and to other financial markets assets. The latter was due to an increase in the volume and the revaluation of derivative financial instruments, largely driven by the movement in the value of the Australian dollar against the United States dollar during the year. The position in 2000 reflects the greater variance in foreign exchange rates from 2000 to 1999.

The growth in our assets was funded by a $9 billion growth in debt issues and a $6 billion growth in deposits and public borrowings. In 2000 our growth was funded half by debt issues and half by deposits and public borrowings.

Our equity increased by $0.4 billion in 2001 from $9.3 billion in 2000, which was up $0.3 billion from 1999. The 2001 movement reflects an increase in accumulated earnings partially offset by share buy-and dividends during the year. Our share buy-back program was suspended earlier in the year as we had reached our target capital levels.

We maintained a strong capital position with Tier 1 and net capital ratios being 6.3% and 9.9% respectively (2000 6.6% and 9.9% and 1999 7.0% and 9.2%).

## Business group results

To enable a more detailed analysis of our results, the following business group results have been presented on a management reporting basis. Internal charges and transfer pricing adjustments have been included in the performance of each of our business units, reflecting the management of the business within our organisation, rather than the legal structure. Therefore, the results below cannot be compared directly to public disclosure of the performance of individual legal entities within our organisation.

The following business results highlight the performance of our key areas of business and do not add to our total result. The remainder of the business result includes, among other things, the results of Group Treasury, Pacific Banking and Head Office functions. Where the management reporting structure has changed or where accounting reclassifications have been made, comparatives have been restated and therefore may differ from results previously reported.

## Australian Retail Financial Services

| | **2001 $m** | 2000 $m | 1999 $m |
|---|---|---|---|
| Net interest income | **3,118** | 2,856 | 2,681 |
| Non-interest income | **1,493** | 1,543 | 1,205 |
| Operating income | **4,611** | 4,399 | 3,886 |
| Total operating expenses (excluding goodwill) | **(2,571)** | (2,530) | (2,368) |
| Amortisation of goodwill | **(63)** | (63) | (63) |
| Operating profit before bad and doubtful debts | **1,977** | 1,806 | 1,455 |
| Bad and doubtful debts | **(311)** | (184) | (130) |
| Profit on ordinary activities before tax | **1,666** | 1,622 | 1,325 |
| Income tax expense and outside equity interests | **(524)** | (584) | (452) |
| Net profit attributable to our equity holders | **1,142** | 1,038 | 873 |
| Economic profit | **937** | 802 | 543 |
| | **$bn** | $bn | $bn |
| Deposits and other public borrowings | **57.4** | 51.6 | 48.7 |
| Net loans and acceptances | **95.9** | 84.4 | 72.4 |
| Total assets | **107.2** | 99.0 | 79.4 |
| Funds under management | **22.5** | 23.0 | 22.7 |
| Expense/income (before goodwill) | **55.8%** | 57.5% | 60.9% |

Net interest income increased by 9% in 2001 and 7% in 2000 due to continued strong growth in lending volumes offset by slightly reduced margins.

Non-interest income has decreased by 3% or $50 million in 2001, before adjusting for negative tax recoveries on life insurance policyholders' earnings. Adjusting for tax recoveries, non-interest income increased by 4% or $59 million in 2001 compared to 22% or $270 million in 2000. Major contributors to the increase in 2001 were higher sales of lending products, higher sales and lower redemptions in funds under management and increased share of the business banking market. The 2000 result included $227 million due to the impact of the adoption of the life insurance accounting standard and the restructure of our financial services group.

Operating expense growth has been contained at 2% or $41 million in 2001 despite business volume increases and restructuring costs. 2000 expenses increased by $162 million from 1999 predominantly due to the restructure and accounting changes for the life company. Expenses in 2000 were also impacted by business growth in financial services and credit cards, Olympic costs, Y2K remediation work and introduction of the goods and services tax. The expense to income ratio (before goodwill) improved from 60.9% in 1999 to 57.5% in 2000 to 55.8% in 2001.

The charge for bad and doubtful debts rose by 69% or $127 million from 2000, which in turn had risen 42% or $54 million from 1999. The increase in 2001 was in line with increased lending volumes and the deterioration of the current credit environment together with a $53 million one-off charge in our finance company related to systems conversion and collection issues.

The tax expense includes a tax credit of $41 million due to tax recoveries on life insurance policyholders' earnings offset in non-interest income in 2001, compared to a $68 million charge in 2000.

Economic profit was $937 million, a 17% increase on 2000 which in turn increased 48% on 1999.

### Westpac Institutional Bank

| | 2001 $m | 2000 $m | 1999 $m |
|---|---|---|---|
| Net interest income | **522** | 459 | 334 |
| Non-interest income | **505** | 364 | 448 |
| Operating income | **1,027** | 823 | 782 |
| Total operating expenses | **(379)** | (373) | (385) |
| Operating profit before bad and doubtful debts | **648** | 450 | 397 |
| Bad and doubtful debts | **(114)** | 6 | (8) |
| Profit on ordinary activities before tax | **534** | 456 | 389 |
| Income tax expense and outside equity interests | **(149)** | (140) | (137) |
| Net profit attributable to our equity holders | **385** | 316 | 252 |
| Economic profit | **267** | 227 | 158 |
| | **$bn** | $bn | $bn |
| Deposits and other public borrowings | **11.9** | 9.3 | 10.0 |
| Net loans and acceptances | **23.1** | 22.5 | 19.0 |
| Total assets | **51.9** | 48.8 | 36.5 |
| Expense/income (before goodwill) | **36.9%** | 45.3% | 49.2% |

Operating income increased by 25% to $1,027 million in 2001 and by 5% from 1999 to 2000. The 2001 increase was a result of strong income growth in all core businesses. Corporate finance revenues increased by 16% as a result of higher transaction volumes and improved margins. Financial markets income increased by 31% on increased turnover and a higher contribution from our risk businesses, which benefited from higher volatility in foreign exchange and interest rate markets. International operations revenue also increased by 15%. The 2000 increase was the result of a 19% growth in corporate finance revenue due to an increase in deal volumes, offset slightly by a decrease in financial markets income as a result of a poor trading environment in the first half of 2000.

Operating expenses in 2001 grew by 2% or $6 million from 2000, which in turn decreased by 3% or $12 million from 1999. The expense to income ratio (before amortisation of goodwill) dropped from 49.2% in 1999 to 45.3% in 2000 to 36.9% in 2001, highlighting our continued focus on efficiency.

The bad and doubtful debts charge of $114 million was related to downgrades requiring additional provisioning. The net credit of $6 million in 2000 was due to a favourable credit risk environment.

Economic profit was $267 million, a 18% growth on 2000 which in turn grew by 44% from 1999.

## New Zealand Retail

| | 2001 $m | 2000 $m | 1999 $m |
|---|---|---|---|
| Net interest income | **647** | 600 | 678 |
| Non-interest income | **322** | 297 | 271 |
| Operating income | **969** | 897 | 949 |
| Total operating expenses (excluding goodwill) | **(476)** | (462) | (510) |
| Amortisation of goodwill | **(35)** | (35) | (37) |
| Operating profit before bad and doubtful debts | **458** | 400 | 402 |
| Bad and doubtful debts | **(31)** | (26) | 10 |
| Profit on ordinary activities before tax | **427** | 374 | 412 |
| Income tax expense and outside equity interests | **(144)** | (123) | (148) |
| Net profit attributable to our equity holders | **283** | 251 | 264 |
| Economic profit | **142** | 115 | 123 |
| | **$bn** | $bn | $bn |
| Deposits and other public borrowings | **12.4** | 10.4 | 11.1 |
| Net loans and acceptances | **17.5** | 14.9 | 15.0 |
| Total assets | **18.5** | 16.0 | 16.3 |
| Funds under management | **1.4** | 1.4 | 1.1 |
| Expense/income (before goodwill) | **49.1%** | 51.5% | 53.7% |

Operating income increased by 8% to $969 million in 2001 compared to 2000, which reduced by 5% from 1999. The 2000 reduction was predominantly due to a fall in the NZ dollar relative to the Australian dollar.

Net interest income increased by 8% as a result of increased loan volumes in 2001. Non-interest income increased by 8% due to increased business activity and growth in funds under management inflows.

Operating expense growth has been contained at 3% in 2001 from 2000. Inflationary pressures have been offset in part by the benefits of cost saving initiatives which include support centre rationalisation and the renegotiation of contracts with major suppliers, including the outsourcing of the IT function. The 2000 operating expenses fell 9% reflecting expense reduction initiatives.

The 2001 bad and doubtful debts charge has increased only marginally from the prior year with net loans and acceptances growing by 17%. 1999 benefited from a favourable credit environment and the write-back of provisions no longer required.

Economic profit was $142 million, a 23% increase on 2000.

## Liquidity and capital resources

***Liquidity risk***

Liquidity risk is the potential inability to meet our payment obligations. This risk is managed by focusing on four key areas.

*Balance sheet mismatch*

Liquidity risk is measured by cash flow modelling, where assets and liabilities are modelled based on behavioural rather than contractual bases. This process generates expected cash inflows and outflows across a number of time periods. A cumulative maturity mismatch limit is placed on each time period to control the extent to which maturing liabilities can exceed maturing assets [1]. These limits are determined by management based on our ability to source funds from wholesale debt markets [2].

*Liquid assets*

We hold a portfolio of liquid assets as a buffer against unforeseen funding requirements. The majority of these assets are held in government or semi-government securities. The level of prudential holdings is regularly reviewed and reflects the overall liquidity of our balance sheet and wholesale funding capacity.

*Interbank deposit agreement*

We have in place an interbank deposit agreement with three other Australian banks. This agreement provides for notice to be served upon the other participants by a bank which is experiencing liquidity problems. The other depositors will deposit an equal amount of up to $2 billion each for a period of 30 days. At the conclusion of the 30 days the deposit holder has the option to repay the deposit in cash or by way of assignment of certain home loan mortgages to the value of the deposit.

*Contingent funding plan*

A formal framework is in place to deal with any major liquidity issues should they arise. This outlines areas of responsibility as well as providing a checklist of actions required.

***Funding and securitisation***

Our wholesale funding strategy is designed to meet the needs of our core business activities. This is managed within a constraint of reducing the cost of our wholesale funding base within the parameters of prudent liquidity management.

We have a diversified funding base. This is designed to provide the ability, under adverse market changes, to access one or more wholesale funding markets without negatively affecting our cost of funding. Diversification is viewed from a number of angles including maturity term, type (senior or asset backed), geography, currency and funding instrument.

Our wholesale debt issuance capability is enhanced through regular investor presentations domestically and globally, internet pages, a dedicated page on Bloomberg screen service and global debt funding brochures. During the year we continued to diversify our wholesale funding base in the international capital markets. Public issues transacted during this period included fixed rate US dollar notes, Euro and Sterling floating rate notes and a $600m Australian dollar denominated, fixed rate note to Japanese retail investors.

Asset backed securitisation is part of our funding diversification strategy and involves the sale of loans, principally home loan mortgages, to investors through our securitisation program. Our program is now an established and flexible securitisation program, with the capacity to access global capital markets in a highly efficient manner. To 30 September 2001, a total of $10.3 billion of assets have been securitised through a combination of private placements and public issues to Australian, New Zealand, European and United States investors. After allowing for the amortisation of the initial loans securitised, outstanding securitised loans were $3.6 billion as at 30 September 2001.

***Capital management***

We have had an active capital management strategy in place since 1996. Our capital management is part of an integrated framework, designed to increase shareholder value, which includes capital allocation, performance measurement and incentive compensation. This framework is embedded in all our business activities and investment decisions.

We determine our capital structure based on the outputs from our internal economic capital models, target debt ratings and regulatory requirements.

Based on these criteria we have targeted the following capital structure:

- A Tier 1 ratio of 6.0% to 6.5% of risk adjusted assets of which hybrid equity could comprise up to 0.9%; and
- A ratio of tangible ordinary equity to risk adjusted assets of 5.6% to 5.8% comprised of ordinary equity and New Zealand Class shares or equivalent.

At 30 September 2001, the 6.3% Tier 1 capital ratio was inside our target range [3]. This outcome was achieved in part through the repurchase and cancellation of 57 million ordinary shares, which returned $754 million in surplus capital to equity holders.

We remain committed to managing our capital base to create value for equity holders. This includes continual refinement of our capital management strategy and capital targets with particular focus on aligning our capital levels with the underlying risk profile of our business and retiring any capital not needed to support our businesses near term activities.

***Dividends***

Supported by the underlying growth in profit, our Board of Directors has proposed an increase in the final dividend on ordinary shares in 2001 to 32 cents per share, which will take the full year dividend on ordinary shares to 62 cents per share (all fully franked) up from 54 cents per share (all fully franked) in 2000.

1 See note 27 to the financial statements for a maturity analysis of our monetary assets and liabilities.
2 An analysis of our borrowings and outstandings from existing debt programs and issuing shelves can be found at note 24 to the financial statements.
3 For the details of our capital adequacy ratios, see note 26 to the financial statements.

## Risk management

Accepting and managing risk is central to our business and is an important source of competitive advantage.

Our Board of Directors approves the extent of our risk appetite in the pursuit of agreed business strategies and objectives. The Board of Directors also approves high-level risk limits and regularly reviews major policies designed to control risk within the organisation.

Management are accountable to our Board of Directors for establishing and maintaining an environment that manages risk in an effective and efficient manner. This includes a robust system of limits, controls and reporting processes. Management tracks key performance indicators, investigates and learns from process or control breakdowns, and reports on the effectiveness of risk management systems through the senior executive to our Board of Directors. Our internal audit group provides independent assessment of this process.

The following discussion on risk management concentrates on our main areas of risk: credit risk; market risk and operational risk. A discussion on liquidity risk is included in the 'Liquidity and capital resources' section on page 23.

## Credit risk

Credit risk is the risk of financial loss that results from customers failing to meet their obligations. Credit risk arises primarily from lending activities and represents our major risk type.

Our Board of Directors approves major prudential policies and limits that govern large customer exposures, country risk, industry concentration and dealings with related entities. The Board of Directors delegates approval authorities to the Managing Director and the Chief Credit Officer, who in turn appoint independent credit officers in each business area. These credit specialists work with line managers to ensure that approved policies are applied appropriately and achieve optimal returns on our risk exposure. Independent assessment of the quality of our credit portfolio is provided by our Portfolio Risk Review unit.

Credit risk arises from customers ranging from individuals to large institutions. Accordingly two different approaches are used to manage this risk. We use statistical analysis to score customer creditworthiness and payment behaviours for consumer business. We factor and price credit facilities for large commercial and corporate borrowers based on discrete analysis of each customer's risk. Quantitative methods also support these judgements. Under both approaches, all major credit decisions require joint approval by authorised credit and line business officers.

We monitor our portfolio to guard against risk concentrations. Our exposure to consumers comprises 57% of our on-balance sheet loans and 37% of total credit commitments. Almost 60% of our exposure to consumers is represented by home loans. This category also includes investment property loans to individuals, credit cards, finance company leases, personal loans, overdrafts and lines of credit. Our consumer credit risks are highly diversified. We have a substantial consumer market share in every state and territory in Australia, New Zealand and the Pacific region. Moreover, these customers service their debts with incomes derived from a wide range of occupations, in city as well as country areas.

Exposures to businesses, governments and other financial institutions are classified into 49 industry clusters. These clusters are based on the correlation between industries, grouping those that are affected by the same economic factors. Thus, industries which might suffer simultaneously from increased risk are monitored together. Through this process, the industry diversification of our portfolios is measured and monitored. Exposures are actively managed from a portfolio perspective, with risk mitigation techniques used to regularly re-balance the portfolio. The table below shows the assessed credit quality of our current exposures relating to these customers. The risk grades shown are based on Standard & Poor's credit rating system. Based on these ratings, our exposure to investment grade customers is 69% at 30 September 2001 (71% at 30 September 2000).

| Assessed credit quality of exposures to businesses, governments and other financial institutions at 30 September | **2001** **%** | 2000 % |
|---|---|---|
| AAA, AA | **29** | 28 |
| A | **19** | 22 |
| BBB | **21** | 21 |
| BB, B+ | **29** | 27 |
| Lower than B+ | **2** | 2 |
| Total | **100** | 100 |

***Dynamic provisioning for credit loss***

We employ a statistical process called dynamic provisioning to assess the provisions required to cover expected credit losses arising in our credit portfolios.

The statistical measures are based on our experience as well as publicly available default data. The process provides for dynamic adjustments to a loss provision pool for changes in the size, mix and quality of the loan book. Consumer exposures such as home loans and personal loans are analysed by product, and dynamic provisioning is based on historical loss data. Non-consumer exposures are classified into categories whose loss experience is based on historical default rates, and the severity of actual loss incurred. These two components are separately monitored in our risk grading system. These statistical measures are supplemented by considerations of current market conditions.

***Foreign exchange and derivative credit risk management***

Foreign exchange and derivative activities expose us to pre-settlement and settlement risk. We use a real time global limits system to record exposure against limits for these risk types. Pre-settlement risk is the risk that the counterparty to a contract defaults prior to settlement when the value of the contract is positive. We consider both the current replacement cost and the potential future credit risk in our assessment of pre-settlement risk. We use 'close out' netting to reduce gross credit exposures for counterparties where legally enforceable netting agreements are in place. In a close out netting situation the positive and negative mark-to-market value of all eligible foreign exchange and swap contracts with the same counterparty, in the event of default and regardless of maturity, are netted.

*Counterparty credit quality*

The table below shows the credit quality of our current credit exposure associated with foreign exchange and derivative activities. The risk grades shown below are based on Standard & Poor's credit rating system. Based on these ratings, our exposure to investment grade counterparties is 94% at 30 September 2001 (95% at 30 September 2000).

| Total assessed credit risk as at 30 September | **2001 %** | 2000 % |
|---|---|---|
| AAA, AA | **54** | 54 |
| A | **31** | 33 |
| BBB | **11** | 8 |
| BB and below | **4** | 5 |
| Total | **100** | 100 |

*Counterparty credit risk by industry sector and country of ultimate risk*

The table below shows our current credit risk exposure by industry sector and by country of ultimate risk.

| Current credit risk exposure (net) as at 30 September 2001 | Government $bn | Banks $bn | Non-bank financial institutions $bn | Others $bn | Total $bn |
|---|---|---|---|---|---|
| Australia | 0.3 | 0.6 | 1.3 | 1.6 | 3.8 |
| New Zealand | – | 0.1 | 0.2 | 0.2 | 0.5 |
| Europe | – | 1.8 | 0.3 | 0.1 | 2.2 |
| United States of America | – | 0.9 | 0.5 | 0.2 | 1.6 |
| Japan | – | 0.1 | 0.1 | – | 0.2 |
| Other | – | 0.2 | – | – | 0.2 |
| Total | 0.3 | 3.7 | 2.4 | 2.1 | 8.5 |

Netting has been applied to counterparties with appropriate netting agreements in legally enforceable jurisdictions

*Credit risk maturity profile and settlement risk*

The table below shows the maturity profile of our foreign exchange and derivative credit risk exposure in gross replacement cost terms. The gross replacement cost overstates our current credit risk exposure as it ignores the netting benefit of $5.6 billion.

| Gross replacement cost as at 30 September 2001 | Less than 3 months $bn | Over 3 months to 6 months $bn | Over 6 months to 1 year $bn | Over 1 year to 2 years $bn | Over 2 years to 5 years $bn | Over 5 years $bn | Total $bn |
|---|---|---|---|---|---|---|---|
| **Interest rate** | | | | | | | |
| Swaps | 0.1 | 0.1 | 0.2 | 0.7 | 1.6 | 1.4 | 4.1 |
| **Foreign exchange** | | | | | | | |
| Forwards | 3.1 | 1.2 | 1.1 | 0.3 | 0.5 | 0.3 | 6.5 |
| Swaps | 0.1 | 0.1 | 0.1 | 0.4 | 1.4 | 0.3 | 2.4 |
| Purchased options | 0.4 | 0.1 | 0.2 | 0.1 | 0.2 | 0.1 | 1.1 |
| **Total derivatives** | 3.7 | 1.5 | 1.6 | 1.5 | 3.7 | 2.1 | 14.1 |

Settlement risk occurs when we pay out funds before we receive payment from the counterparty to the transaction. We manage our settlement risk exposures through specific customer limits. We are looking to use Continuous Linked Settlement, when it becomes available, to reduce our foreign exchange settlement risk. Continuous Linked Settlement will enable members to settle foreign exchange transactions between themselves through the simultaneous payment of the currency legs of transactions. Continuous Linked Settlement is planned to go live in the last quarter of 2001.

***Cross-border outstandings***

Cross-border outstandings are loans, placements with banks, acceptances, interest earning investments and monetary assets denominated in currencies other than the borrower's local currency. They are grouped on the basis of the country of domicile of the borrower or the ultimate guarantor of the risk. The table below excludes irrevocable letters of credit, amounts of which are immaterial.

Our cross-border outstandings to countries that individually represented in excess of 0.75% of Group total assets at September 30 in each of the past three years, were as follows:

| | Governments and official institutions | Banks and other financial institutions | Other (primarily commercial and industrial) | Total | Percentage of total assets |
|---|---|---|---|---|---|
| | | (in $ millions, except percentages) | | | |
| **2001** | | | | | |
| United States | **1** | **1,744** | **2,386** | **4,131** | **2.2%** |
| United Kingdom | **–** | **2,151** | **755** | **2,906** | **1.5%** |
| Netherlands | **–** | **1,721** | **231** | **1,952** | **1.0%** |
| Germany | **–** | **1,266** | **300** | **1,566** | **0.8%** |
| **2000** | | | | | |
| United States | – | 573 | 1,805 | 2,378 | 1.4% |
| United Kingdom | – | 1,786 | 1,013 | 2,799 | 1.7% |
| **1999** | | | | | |
| United States | – | 188 | 1,461 | 1,649 | 1.2% |
| United Kingdom | – | 813 | 532 | 1,345 | 1.0% |

Impaired assets among the cross-border outstandings were $109 million at 30 September 2001 ($109 million at 30 September 2000 and $124 million at 30 September 1999).

## Market risk

Market risk arises from adverse movements in the level and volatility of market factors such as foreign exchange rates, interest rates, commodity prices and equity prices and from changes in balance sheet structure in terms of liquidity and funding.

We segregate the management of market risk arising from trading activities and the market risks arising from our other banking activities.

***Trading activities***

Trading activities include our financial markets activities and are controlled by a framework of earnings at risk limits approved by our Board of Directors. Our Board of Directors approves risk policies, methodologies and limits whilst our Trading Risk Committee ensures that our trading activities and new products are commensurate with our risk appetite. Market risk limits are allocated to business management based on business strategies and experience, in addition to market liquidity and concentration risks. A separate Trading Risk Management unit is responsible for the daily measurement and monitoring of market risk exposures. Market risk is managed using earnings at risk and structural limits in conjunction with scenario and stress tests.

We use earnings at risk as the primary mechanism for measuring and controlling market risk. Earnings at risk is an estimate of the potential loss in earnings, to a 99% confidence level, assuming positions were held unchanged for one day. We use the historical simulation method to calculate earnings at risk taking into account all material market variables. The following table provides a summary of earnings at risk by risk type for the half years ended 30 September 2001, 31 March 2001 and 30 September 2000.

*Daily earnings at risk*

| Six months ended | 30 September 2001 | | | 31 March 2001 | | | 30 September 2000 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **High $m** | **Low $m** | **Average $m** | High $m | Low $m | Average $m | High $m | Low $m | Average $m |
| Interest rate risk | **6.5** | **1.0** | **2.3** | 5.8 | 1.4 | 2.8 | 6.5 | 1.7 | 3.3 |
| Foreign exchange risk | **7.2** | **0.1** | **0.7** | 4.0 | 0.1 | 1.3 | 2.2 | 0.2 | 0.9 |
| Volatility risk | **1.2** | **0.3** | **0.6** | 1.2 | 0.4 | 0.7 | 1.0 | 0.3 | 0.6 |
| Other market risks [1] | **2.9** | **1.3** | **1.8** | 2.5 | 0.8 | 1.6 | 3.4 | 1.5 | 2.0 |
| Diversification effect | **n/a** | **n/a** | **(1.8)** | n/a | n/a | (1.6) | n/a | n/a | (1.5) |
| Aggregate market risk | **8.7** | **2.0** | **3.6** | 8.1 | 2.6 | 4.8 | 9.2 | 3.4 | 5.3 |

1 Commodity, equity, prepayment and credit spread risk.

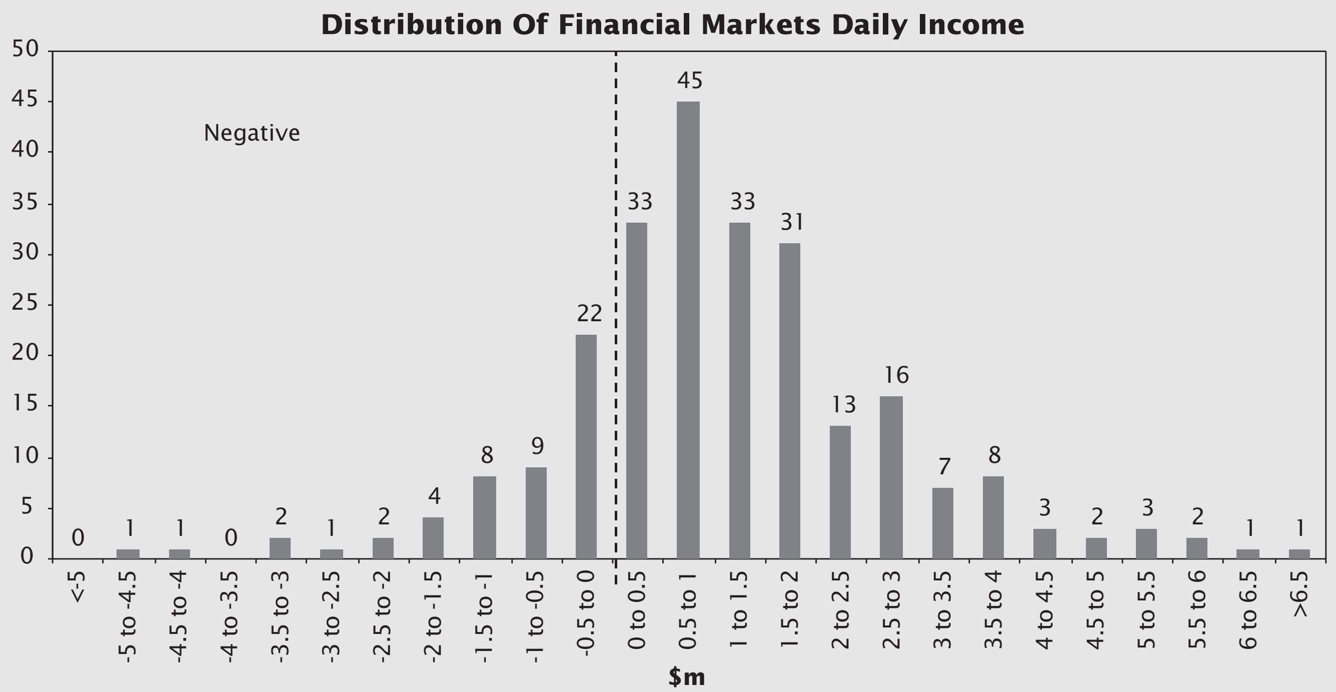
Actual outcomes are monitored and model assumptions are validated daily.

The following chart shows the aggregated daily earnings at risk for the twelve months to 30 September 2001.


Daily earnings at risk position reports are also produced by risk type, product and geographic region. These are supplemented by structural reporting, i.e. volume and basis point value limits and advice of loss limits.

The trading risk management unit performs daily stress and regular scenario tests on the trading portfolios to quantify the impact of extreme or unexpected movements in market factors.

The distribution of daily trading income for the year ended 30 September 2001 is shown in the following chart.



***Management of structural interest rate risk***

Our asset and liability management unit manages the sensitivity of our net interest income to changes in wholesale market interest rates under the direction of our Group Asset and Liability Committee. The unit's management objective is to help ensure the reasonable stability of net interest income.

Net interest income sensitivity is managed within limits approved by our Board of Directors. These limits are expressed in terms of the net interest income at risk over a three year time horizon using a 99% confidence interval for movements in wholesale market interest rates. The position managed covers all of our on and off-balance sheet accrual accounted assets and liabilities. It excludes the interest rate risk on assets and liabilities managed within our earnings at risk framework (trading activities).

We use a simulation model to calculate our net interest income at risk. The net interest income simulation framework combines underlying statement of financial position data with:

- Assumptions about run off and new business;
- Expected repricing behaviour; and
- Changes in wholesale market interest rates.

Simulations of various interest rate scenarios are used to provide a range of net interest income outcomes. Comparison between outcomes indicates sensitivity to interest rate moves. Both on and off-balance sheet initiatives are then used to achieve stability in net interest income.

At 30 September 2001, our exposure to interest rate changes over the next financial year, for both 1% up and down parallel rate shocks and the up and down limit case shocks, is less than 1% of the projected pre-tax net interest income.

## Operational risk

Operational risk is the risk of financial, reputational or other damage arising from the way we pursue our business objectives.

Each business area is responsible for the development of a control framework, the monitoring and administration of operational risk and active promotion of a strong risk management culture. On a quarterly basis, management of each of our business areas formally report on the effectiveness of their management of operational risk. This process is supported by active input from key corporate centre functions such as legal, finance, human resources, risk management, compliance and internal audit. The results of this process are reported to our Chief Executive Officer, Board of Directors and annually by way of certification to the Australian Prudential Regulation Authority.

Some of the key management and control techniques include segregation of duties, clear delegation of authority, sound project management, change control disciplines and business continuity planning. Where appropriate, this is supported by risk transfer mechanisms such as insurance. Our control environment is enhanced by a focus on staff competency and supervision.

Our internal audit function independently appraises the adequacy and effectiveness of the internal control environment and reports results separately to our Chief Executive Officer and our Board Audit and Compliance Committee.

***Compliance risk***

Our regulatory responsibilities are extensive and we monitor these responsibilities to ensure that the risks are appropriately managed. Compliance risk management minimises reputational damage and regulatory intervention stemming from non-compliance with statutory, regulatory or codified requirements prescribed by parliament or regulators.

Compliance is primarily a line management responsibility with each business area required to demonstrate that they have in place an effective process. Business managers ensure agents, contractors and other relevant third parties, such as service providers of out-sourced activities, meet their commitment to compliance through service agreements.

We apply a progressive improvement approach to compliance management through pro-active initiatives such as the establishment of a Group Compliance Committee to address group wide issues.

# Board of Directors

As at 2 November 2001

**Leon Davis** ASAIT, DSc(h.c.), FRACI, FAustIMM. Age 62.

Appointed Chairman December 2000. Director since November 1999. Leon Davis has had many years of experience in mining, both in Australia and overseas. He has lived and worked in senior positions in Australia, Papua New Guinea, Singapore and the United Kingdom. He was formerly Chief Executive of Rio Tinto and is now Deputy Chairman. He is a director of Huysmans Pty. Limited, Codan Pty. Limited and Trouin Pty. Limited and a Board Member of The Walter and Eliza Hall Institute of Medical Research. Trustee of The Westpac Foundation and the Rio Tinto Aboriginal Foundation.

**Barry Capp** BE(Civil), BCom, BA. Age 68.

Director since May 1993. Barry Capp was employed for many years in financial and commercial roles and has had experience in company reconstructions. Chairman of National Foods Limited and Australian Infrastructure Fund Limited. Director of Tassal Limited, Touchcorp Limited, Hellaby Holdings Limited and Melbourne University Private Limited.

**The Hon. Sir Llewellyn Edwards** AC, MB, BS, FRACMA, LLD(h.c.), FAIM. Age 66.

Director since November 1988. Sir Llewellyn Edwards has had extensive experience in Queensland State politics (including five years as Treasurer), business and in community service (Chairman World Expo 88 Authority and Chancellor of University of Queensland). Chairman of Webmatchit Interactive Marketing Limited, AMACA Pty. Limited, AMABA Pty. Limited, and the Medical Research and Compensation Foundation. Also Chairman of UQ Holdings Pty. Limited and Pacific Film & Television Commission. Director of TCNZ Australia Pty. Limited and Uniseed Pty. Limited. He also acts as a consultant to business and government.

**Warren Pat Hogan** MA, PhD, DSc(h.c.), DEcon(h.c.). Age 72.

Director since August 1986. Warren Hogan was a Professor of Economics at the University of Sydney from 1968 to 1998 and is now an Emeritus Professor. He is an Adjunct Professor in the Faculty of Business of the University of Technology, Sydney. Adviser to business, government and international organisations including the World Bank, Harvard University Development Advisory Service and the Australian Associated Stock Exchanges. Director of Australian Mutual Provident Society 1993 to 1995.

**Helen Lynch** AM. Age 58.

Director since November 1997. Helen Lynch had thirty five years experience in Westpac including membership of Westpac's executive team before retiring in 1994. She is a director of Coles Myer Limited, Southcorp Holdings Limited, CRI Australia Holdings Limited and the Institute of Molecular Bioscience. Deputy Chairman of OPSM Protector Limited and Chairman of the Sydney Symphony Orchestra Holdings Pty. Limited.

**Eve Mahlab**
AO, LLB, LLD(h.c.). Age 64.

Director since October 1993. Eve Mahlab has practiced as a solicitor, managed a family, owned and operated several successful small businesses and served on government and community boards. She has been extensively involved in community activities particularly those relating to business education, women and social change. Deputy Chairman of Film Australia Limited, Board Member of The Walter and Eliza Hall Institute of Medical Research. Trustee of The Westpac Foundation.

**John Fairfax**
AM. Age 59.

Director since December 1996. John Fairfax has considerable understanding of the financial services needs of the commercial and rural sectors and of the impact of production and information technology on industry strategy. He has extensive experience in the media industry and takes an active interest in community organisations including the Royal Agricultural Society of NSW. Chairman of Cambooya Investments Limited and Rural Press Limited. Director of Crane Group Limited.

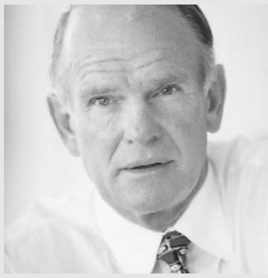
**Ian Harper**
AM, BA, LLB. Age 69.

Director since July 1987. Ian Harper, previously a partner of Allen Allen & Hemsley and now a consultant to that firm (now known as Allens Arthur Robinson), has practiced extensively in corporations law. He has held a variety of financial service company board positions over many years. Director of Mayne Nickless Limited. Chairman of the Westpac Staff Superannuation Plan Pty. Limited Board and The Westpac Foundation.

**David Morgan**
BEc, MSc, PhD. Age 54.

Appointed Managing Director and Chief Executive Officer March 1999, executive director since November 1997. David Morgan has extensive experience in the financial sector, having worked in the International Monetary Fund in Washington in the 1970s and the Federal Treasury in the 1980s where he headed all major areas before being appointed Senior Deputy Secretary. Since joining Westpac in 1990, he has had responsibility for all major operating divisions including Westpac Financial Services, Retail Banking, Commercial Banking, Corporate and Institutional Banking and International Banking.

**Peter Ritchie**
BCom, FCPA. Age 59.



Director since January 1993. Peter Ritchie has broad consumer marketing and commercial experience. Chairman and founding director of McDonald's Australia Limited and Chairman of Solution 6 Holdings Limited. Director of Seven Network Limited, 1800 Reverse Pty. Limited and Bakers Delight Holdings Pty. Limited.

# Corporate governance

## Our Deed of Settlement

We were the first bank established in Australia. Originally known as the Bank of New South Wales, we were founded in 1817 and were incorporated in 1850 by an Act of the New South Wales Parliament. Our Deed of Settlement (the "Deed'), which governs our relationship with our shareholders, is based on the Deed adopted in 1850. The Deed remains in force today, though it has been amended from time to time, with shareholder approval. It sets out the rules dealing with how we manage and control our business, shares are owned and transferred, meetings are held, voting occurs, and directors, officers, auditors and other representatives are appointed.

Following shareholder approval at the Annual General Meetings in December 1999 and December 2000 and the enactment of the Westpac Banking Corporation (Transfer of Incorporation) Act 2000 which became effective on 6 September 2000, we are progressing with plans to change our status to a Corporations Act company. Shareholders adopted a new constitution in December 2000 which will take the place of the Deed, once we are registered as a company. We expect that the process of our transfer of incorporation will be completed in early 2002.

## Our Board

***Role of our Board***

Our Board of Directors is accountable to shareholders for our performance and also for our corporate governance practices.

Our Board's principal objective is to maintain and increase shareholder value while ensuring that our overall activities are properly managed.

Our corporate governance practices provide the structure which enables our Board's principal objective to be achieved, whilst ensuring that our business and affairs are conducted ethically and in accordance with the law. Our Board is committed to the highest standards of corporate governance, which it sees as fundamental to performance, integrity and professionalism in all its activities.

Our Board's overall responsibilities include:

- Providing strategic direction and approving corporate strategies;
- Monitoring management and financial performance;
- Monitoring financial reporting;
- Monitoring and ensuring the maintenance of adequate risk management controls and reporting mechanisms; and
- Ensuring our business is conducted ethically and transparently.

Our Board delegates responsibility for day-to-day management of the business to our Chief Executive Officer. In addition our Chief Executive Officer oversees the implementation of strategies approved by our Board. Our Board also uses a number of committees to support it in matters that require more intensive review. For example, overseeing the integrity of our internal control and risk management systems is the responsibility of our Board Credit and Market Risk Committee and our Board Audit and Compliance Committee. Further details of our Board committees are provided below.

As part of its commitment to good corporate governance, our Board regularly reviews the practices and standards governing its composition, independence and effectiveness, the accountability and compensation of directors (and senior executives) and its responsibility for our stewardship. The main practices and policies currently in place are as follows.

***Composition and independence of our Board***

The size and composition of our Board is determined by the full board, subject to the limits imposed by the Deed. The Deed requires a minimum of seven directors and a maximum of fifteen. In addition, up to three further members of our Board may be executive directors.

Our Chairman is a non-executive director, appointed by our full Board. Structures and procedures in place to ensure that our Board can operate independently of executive management include the predominance of non-executive directors who bring independent and special professional expertise to our Board and by the appointment of a non-executive director as Chairman.

As at 2 November 2001, our Board has 10 members, with 9 non-executive directors including our Chairman, and one executive director.

***Board access to independent information and other resources***

All our directors have unrestricted access to company records and information and receive detailed financial and operational reports from senior management during the year to enable them to carry out their duties. Our directors also liaise with senior management as required, and may consult with other employees and seek additional information on request.

Our Board collectively, and each director individually, has the right to seek independent professional advice at our expense to assist them to carry out their responsibilities. While prior approval of our Chairman is required, it may not be unreasonably withheld and, in its absence, approval by our Board may be sought.

The Deed sets out rules dealing with the indemnification of and insurance cover for our directors and former directors. Any such arrangements are undertaken in accordance with limitations imposed by law. To reflect current practices and to clarify the legal position of non-executive directors, shareholders at the December 1999 Annual General Meeting approved a deed of access and indemnity being entered into between Westpac and each director.

All new directors receive induction training at the time of their appointment to our Board appropriate to their experience, to familiarise them with matters relating to our business, our corporate strategy and current issues before our Board.

Our Group Secretary and General Counsel also provides directors with ongoing guidance on issues such as corporate governance, the Deed and the law.

In addition to its formal meetings, our Board undertakes regular workshops on matters of topical interest. In 2001 there have been workshops on, amongst other things, credit risk and client relationship management.

***Board nominations***
Following recommendations to our Board by our Board Nominations Committee, nominations for appointment to our Board are considered by our Board as a whole.

Our Board selects the most suitable candidates taking into account the diversity of experience among our existing Board and a range of flexible criteria, including the candidate's background, experience, professional skills, personal qualities and availability to commit themselves to Board activities.

An important quality sought in candidates, regardless of diversity of experience, is demonstrated experience in corporate decision-making, usually at a senior executive level.

If candidates are appointed by our Board, they must stand for election, in accordance with the Deed, at the next Annual General Meeting of our shareholders.

***Board performance review***
The performance of our Chief Executive Officer (along with other senior executives) is reviewed periodically by our Board Remuneration Committee and our full Board. The performance of our non-executive directors is reviewed by our Chairman on an ongoing basis and, in addition, is reviewed regularly by a peer group of directors in the year in which a director becomes eligible for re-election. Our Chairman's performance is reviewed by our full board each year prior to our Chairman's appointment or re-appointment.

## Board committees

To assist our Board in fulfilling its duties, there are currently five standing Board committees, whose powers and procedures are governed by the Deed and the relevant committee's terms of reference, as delegated by our Board.

The five Board committees (up from four in the previous year) are: Board Audit and Compliance Committee; Board Credit and Market Risk Committee; Board Nominations Committee; Board Remuneration Committee; and the recently added Board Social Responsibility Committee. Other Board committees may be established from time to time to consider matters of special importance.

Our Board committees meet on a quarterly basis and at such other times as considered appropriate.

Four of the five committees are currently composed of non-executive directors only and membership is reviewed and rotated on an ongoing basis. The Board Social Responsibility Committee also has our Chief Executive Officer as a member. Executive directors and senior executives may be invited to attend committee meetings.

***Board Audit and Compliance Committee***
Our Board Audit and Compliance Committee oversees all matters concerning internal control, the appropriateness of our accounting policies and principles, and financial reporting including reviewing our interim and annual financial statements. It considers whether the accounting methods chosen by management are consistent and comply with accounting standards and concepts and it monitors the methods used to account for unusual transactions. The committee also reviews and assesses any significant estimates and judgements in financial reports and the processes used by management to monitor and ensure compliance with laws, regulations and other requirements relating to our external reporting of financial and non-financial information.

The Board Audit and Compliance Committee also reviews and assesses internal processes for determining, monitoring and assessing key risk areas. It ensures that we have an effective risk management system in place, clear policies and procedures for reporting, actioning and documenting breaches of laws, including fraud and theft and meets periodically with management and external and internal auditors to discuss our control environment, including the processes in place for improvement.

The committee monitors the relationship with the external auditors and reviews and assesses the independence of those external auditors. It makes recommendations to our board on the appointment and removal of external auditors, their terms of engagement, and the scope and quality of the audit. The committee also reviews and assesses non-audit service provision by the external auditor, with particular consideration given to the potential for the provision of these services to impair, or appear to impair, the external auditors' judgement or independence.

Additionally, the committee sets the scope of our internal audit function, reviewing the internal auditor's mission, charter, adequacy of resources and the output of it's work. The committee also reviews the adequacy and effectiveness of management's control of risk in relation to operational activities, financial reporting and compliance.

It is our policy to employ PricewaterhouseCoopers, the firm of which our auditors Rahoul Chowdry and Michael Codling are partners, on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with us are important. These assignments relate principally to regulatory reporting, tax advice and other assurance services, or where PricewaterhouseCoopers is awarded assignments on a competitive basis.

Present membership of the committee: Helen Lynch (Chairman), Ian Harper, Peter Ritchie, Barry Capp and Leon Davis.

***Board Credit and Market Risk Committee***
Our Board Credit and Market Risk Committee oversees matters relating to management of the credit and market risks inherent in our operations. It reviews and approves our risk management framework, in particular prudential policies, credit and market risk limits and controls. It delegates authority to our Chief Executive Officer and our Chief Credit Officer to approve risk exposures within predetermined limits. It monitors the credit and market risk performance of management, and the adequacy of provisions for credit loss, both specific and general, through management reporting and independent reports from our Portfolio Risk Review unit. Detailed discussion of the management of credit and market risk is contained in our annual report.

Present membership of the committee: Warren Hogan (Chairman), Leon Davis, John Fairfax and Eve Mahlab.

***Board Nominations Committee***

Our Board Nominations Committee develops and reviews policies on director tenure, non-executive director remuneration and retirement schemes, Board composition, strategic function and size, eligibility criteria for election of directors, and Board and Board Committee effectiveness. In addition, the committee reviews director appointment criteria from time to time and considers and makes recommendations to our Board on candidates for appointment as directors.

Present membership of the committee: Helen Lynch (Chairman), Barry Capp, Warren Hogan, Leon Davis and Sir Llewellyn Edwards.

***Board Remuneration Committee***

Our Board Remuneration Committee reviews remuneration policies and practices, approves the reward levels for our general management group, approves merit recognition arrangements and staff option grants and makes recommendations to our Board on the remuneration of our directors, including our Chief Executive Officer. The Committee's work is supported by independent remuneration consultants to ensure that our remuneration practices are consistent with market practice.

A more detailed discussion of our remuneration philosophy can be found at page 36.

Present membership of the committee: Barry Capp (Chairman), Sir Llewellyn Edwards, Peter Ritchie and Leon Davis.

***Board Social Responsibility Committee***

Our Board Social Responsibility Committee was established in 2001. Its purpose is to review the social and ethical impacts of our policy and practice and oversee initiatives to enhance our reputation as a socially responsible corporate citizen.

Present membership of the committee: Sir Llewellyn Edwards (Chairman), Leon Davis, John Fairfax, Peter Ritchie and David Morgan.

## Code of Conduct

We have a Code of Conduct to guide our executives, management and employees in carrying out their duties and responsibilities to the highest ethical standards. The Code was updated and reissued in June 2001 and is subject to regular review so that it continues to reflect the standards of behaviour and corporate culture expected of the best corporations. It is based on the following key principles:

- Acting with honesty and integrity;
- Abiding by laws and regulations;
- Respecting confidentiality and handling information in a proper manner;
- Maintaining the highest standards of professional behaviour;
- Avoiding conflicts of interest; and
- Striving to be a good corporate citizen and to achieve community respect.

There are also a number of specific policies in place that underpin the Code of Conduct and elaborate on various legal and ethical issues.

The Code is designed not only to foster ethical business conduct, but also to govern such things as workplace and human resources practice, insider trading, risk management, and legal compliance.

## Insider trading

Our directors and other officers are subject to restrictions under the Corporations Act relating to dealings in securities. As required by law and by our own insider trading policy, buying or selling our securities is not permitted at any time by any person who possesses price-sensitive information not available to the market.

In addition to these restrictions, our Board's policy is that our directors may only buy or sell our shares or options in the six weeks immediately following our half year and full year financial results announcements with the approval of our Chairman, and our Chairman may only do so with the approval of the Chairman of our Board Audit and Compliance Committee. Any approvals are to be notified to our Board.

## Directors' interests in securities

The following particulars for each of our directors is set out below:

- Their relevant interests in our shares or any related body corporate;
- Their relevant interests in debentures of, or interests in any registered managed investment scheme made available by Westpac or any related body corporate;
- Their rights or options over shares in, debentures of, or interests in any registered managed investment scheme made available by Westpac or any related body corporate; and
- Any contracts:

  (a) To which the director is a party or under which they are entitled to a benefit; and

  (b) That confer a right to call for or deliver shares in, debentures of, or interests in any registered managed investment scheme made available by Westpac or any of our related bodies corporate.

***Directors' holdings of our shares and options as at 2 November 2001***

| Name | Number of ordinary fully paid shares and options | Non-Beneficial | Name | Number of ordinary fully paid shares and options | Non-Beneficial |
|---|---|---|---|---|---|
| Leon Davis | 5,000 | 167,593 [1] | Ian Harper | 39,516 | 167,593 [1] |
| David Morgan | 559,732 | – | Warren Hogan | 12,066 | – |
| | 675,000 [2] | – | | | |
| | 3,000,000 [3] | – | Helen Lynch | 10,752 | – |
| Barry Capp | 14,338 | – | Eve Mahlab | 14,654 | 167,593 [1] |
| Sir Llewellyn Edwards | 10,381 | – | Peter Ritchie | 15,560 | 7,201 |
| John Fairfax | 103,448 | 291,943 | | | |

1 Certain directors have relevant interests (non-beneficial) in shares, and shares subject to warrants, held beneficially by a staff/community related fund of which those directors are trustees.

2 Options issued under the Senior Officers' Share Purchase Scheme.

3 Options issued under the 1999 Chief Executive Share Option Agreement.

***Other disclosable interests as at 2 November 2001***

David Morgan – Interests in managed investment schemes made available by related bodies corporate: 25,681 units.

# Remuneration philosophy and practice

## Non-executive directors

Our non-executive directors are remunerated by fees determined by our Board of Directors within the aggregate directors' fee pool limit of $1.5 million approved by shareholders in December 1999. The pool limit is not at present fully utilised. In setting directors' fees, account is taken of the responsibilities inherent in the stewardship of Westpac and the demands made of directors in the discharge of their responsibilities. Advice is taken from independent consultancy sources to ensure remuneration accords with market practice. Income received, or due and receivable by non-executive directors of Westpac for the year ended 30 September 2001 was:

| | Fees $ | Superannuation Guarantee Charge $ | Retirement/ resignation payment $ | Total cost $ |
|---|---|---|---|---|
| Leon Davis (appointed Chairman 15 December 2000) | 300,769 | – | – | 300,769 |
| John Uhrig (retired 15 December 2000) | 79,769 | – | 1,099,862 [3] | 1,179,631 |
| Barry Capp | 98,000 [1] | 8,721 | – | 106,721 |
| Sir Llewellyn Edwards | 87,750 [1] | 7,564 | – | 95,314 |
| John Fairfax | 85,000 | 7,564 | – | 92,564 |
| Ian Harper | 98,000 [1] | 8,721 | – | 106,721 |
| Warren Hogan | 98,000 [1] | – | – | 98,000 |
| Helen Lynch | 100,750 [1] | 8,721 | – | 109,471 |
| | 8,000 [2] | – | – | 8,000 |
| Eve Mahlab | 85,000 | 7,564 | – | 92,564 |
| John Morschel (resigned 6 July 2001) | 77,646 [1] | – | 294,660 [3] | 372,306 |
| Peter Ritchie | 85,000 | 6,800 | – | 91,800 |
| Christopher Stewart (retired 15 December 2000) | 19,942 | – | 130,430 [3] | 150,372 |

1 Includes fees payable to Chairpersons of board committees.
2 Consultancy fee for service on a bank committee.
3 Retirement/resignation payments calculated in accordance with the formula contained in the Directors' Service Agreement approved by shareholders at the January 1998 Annual General Meeting.

## Executive directors and senior executives

We have designed our executive remuneration program to support a pay for performance policy that differentiates remuneration amounts based on an evaluation of performance results in three basic areas: group; business unit and individual. Remuneration has four components: base pay; short-term incentive; long-term incentive and other compensation (including superannuation). The program is administered by the Board Remuneration Committee, which is composed of non-executive directors.

In combination, these four remuneration components comprise total reward. For the better performers, total reward is matched to the upper quartile of the market, reflecting a target mix of fixed pay, variable pay and a blend of short-term and long-term elements.

The committee takes into account the recommendations of our Chief Executive Officer with respect to the remuneration of our key executives. In making recommendations, he receives assessments and advice from independent remuneration consultants regarding our compensation practices and those of others.

The committee's specific objectives are to:

- Provide base pay and benefits to attract and retain key executives who are critical to our long-term success, by providing a secure level of income that recognises the market value of the position as well as internal equities among roles, the individual's performance, capabilities and experience. Base pay for management typically approximates the median salary for positions of similar responsibility in the peer group. Generally, increases in base pay only occur in response to market changes or when warranted by an executive's change in responsibilities. In 2001 a number of executives had a change in responsibilities.
- Provide annual short-term incentives that:

  (a) Are tightly linked to measurable key drivers of shareholder value creation, including financial and non-financial components; and

  (b) Emphasise performance above shareholder expectations, including superior growth in economic profit relative to peer companies.
- Align the financial interests of executive officers with those of our shareholders by providing significant equity-based long-term incentives. Share options and other equity-based incentives are awarded to link a significant portion of senior management remuneration to the attainment of sustained growth in shareholder value. Award levels are determined according to the individual's responsibilities, performance and potential to enhance shareholder value. Share options awarded to senior executives have been issued under the General Management Share Option Plan under which the exercise of options is subject to performance hurdles. Share options were awarded to David Morgan under a Chief Executive Share Option Agreement approved by shareholders, under which the exercise of options is subject to performance hurdles. The Committee uses the Black-Scholes option-pricing model, adjusted to reflect the performance hurdles, to establish the appropriate value of the long-term incentive; and
- Emphasise performance-based and equity-based remuneration as executive officer level increases.

Details of the nature and amount of each element of the emolument of each of our executive directors for the year ended 30 September 2001 are:
Name and position

| | Compensation | | | | |
|---|---|---|---|---|---|
| | Base pay[1] $ | Short-term incentive[1] $ | Other compensation[2] $ | Total compensation $ | Option grants |
| **David Morgan** | 1,225,000 | 1,100,000 | 183,084 | 2,508,084 | – |
| Managing Director and Chief Executive Officer | | | | | |
| **Patrick Handley** | 285,417 | – | 4,986,878[3] | 5,272,295 | – |
| Former Executive Director (Resigned 31 January 2001) | | | | | |

1 Base pay has been received in the year to 30 September 2001. Short-term incentive figures reflect annual performance awards accrued but not yet paid in respect of the year ended 30 September 2001.
2 Other compensation is determined on the basis of the cost to us and includes all fringe benefits tax and superannuation surchargeable contributions for those executives who are members of our Staff Superannuation Plan, as determined by the Plan's actuary, housing (plus fringe benefits tax), car parking (plus fringe benefits tax) and other benefits, such as commencement incentives and separation payments.
3 This amount includes $4,906,274 representing long-term benefits comprised of payments made to offset income tax differences between Australia and the United States accumulated over a seven year period, and a long-term incentive payment covering performance over a three year period. The balance comprises other compensation described in note 2 above.

Details of the nature and amount of each element of the emolument of each of our six most senior executives, in addition to the executive directors, for the year ended 30 September 2001 are:

| | Compensation | | | | Option Grants[3] | | |
|---|---|---|---|---|---|---|---|
| Name and position | Base pay[1] $ | Short-term incentive[1] $ | Other compensation[2] $ | Total compensation $ | No. of shares | Exercise price $ | Date first exercisable |
| **David Clarke**<br>Group Executive<br>Banking and Financial Solutions | 650,000 | 525,000 | 9,614 | 1,184,614 | 950,000 | 12.75 | 5 November 2004 |
| **Michael Hawker**<br>Group Executive<br>Business and Consumer Banking | 572,916 | 525,000 | 51,440 | 1,149,356 | – | – | – |
| **David Willis**<br>Group Executive<br>Westpac Institutional Bank | 525,000 | 570,000 | 18,086 | 1,113,086 | 600,000 | 14.70 | 9 January 2005 |
| **Philip Chronican**<br>Chief Financial Officer | 420,834 | 405,000 | 53,216 | 879,050 | 200,000<br>500,000 | 13.85<br>14.70 | 19 March 2004<br>9 January 2005 |
| **Ann Sherry**<br>Group Executive<br>People and Performance | 382,500 | 250,000 | 98,292 | 730,792 | 300,000 | 14.70 | 9 January 2005 |
| **Chris Skilton**<br>Former Group Executive<br>WestpacTrust,<br>Pacific Banking and PEP (effective 16 March 2001) | 205,208 | – | 1,228,165 | 1,433,373 | – | – | – |

For footnote explanations see page 38.

1 and 2 Refer to notes for the executive directors' remuneration table.

3 Option grants are a right to buy ordinary shares at an exercise price equal to the market value at the date of the offer determined in accordance with the plan rules. The options are recognised in the table above based on the year in respect of which they are granted. The options will be granted with a ten year term pursuant to the General Management Share Option Plan, under which the number of options exercisable depends on our performance against prescribed performance hurdles.
Under our US GAAP disclosures, the fair value of options for the purposes of inclusion in the potential compensation expense has been determined using the Black-Scholes option pricing model. The factors that are considered in the Black-Scholes option pricing model include the term of the option, the risk free interest rate, volatility of the share price, the dividend yield and a discount factor to reflect the probability of reaching the performance hurdle. The notional value of the options first exercisable in March 2004 has been assessed at $1.97. The grant of options first exercisable in November 2004 and January 2005 have not been issued as at 2 November 2001. The notional value for these grants has been assessed at $1.81 and $2.02 respectively.

Note: This table discloses remuneration for the six most highly paid senior executives involved in the management of our affairs other than executive directors. Other individuals who are rewarded under incentive-based systems according to results, consistent with market practice within the industry, may within any given year receive remuneration at a level in excess of that received by some executives shown.

The following are details of shares owned and options held by the five most senior executives in office at 30 September 2001. The options held do not include option grants in respect of the 2001 remuneration review included in the above table for options that have not yet been issued as at 2 November 2001. The highest number of shares held by an individual below is less than 0.02 per cent of our total ordinary shares that were outstanding at 30 September 2001.

| | Number of ordinary fully paid shares | Number of options | Exercise price $ | Latest date for exercise of options |
|---|---|---|---|---|
| David Clarke | – | 1,000,000 | 12.39 | 4 September 2010 |
| | | 100,000 | 13.32 | 8 January 2011 |
| David Willis | 150,041 | 175,000 | 9.56 | 21 December 2003 |
| | | 175,000 | 10.60 | 6 April 2009 |
| | | 100,000 | 9.57 | 29 December 2009 |
| | | 500,000 | 13.32 | 8 January 2011 |
| Michael Hawker | 325,963 | 200,000 | 9.56 | 21 December 2003 |
| | | 300,000 | 9.57 | 29 December 2009 |
| | | 500,000 | 13.32 | 8 January 2011 |
| Philip Chronican | 235,000 | 125,000 | 10.04 | 28 August 2003 |
| | | 140,000 | 9.57 | 29 December 2009 |
| | | 150,000 | 13.32 | 8 January 2011 |
| | | 200,000 | 13.85 | 19 March 2011 |
| Ann Sherry | 43,977 | 47,000 | 8.60 | 22 December 2002 |
| | | 50,000 | 9.56 | 21 December 2003 |
| | | 50,000 | 10.85 | 1 March 2009 |
| | | 100,000 | 10.60 | 6 April 2009 |
| | | 35,000 | 9.57 | 29 December 2009 |
| | | 250,000 | 13.32 | 8 January 2011 |

# Ten Year Summary

| $m (unless otherwise indicated) | | **2001** | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|---|
| **Statement of financial performance – year ended 30 September [1]** | | | | | | |
| Net interest income [2] | | **4,051** | 3,669 | 3,476 | 3,492 | 3,353 |
| Fully tax equivalent gross up [3] | | **149** | 169 | 127 | 128 | 127 |
| Net interest income (including gross up) | | **4,200** | 3,838 | 3,603 | 3,620 | 3,480 |
| Non-interest income [2] | | **2,537** | 2,414 | 2,155 | 2,003 | 1,739 |
| Net operating income (including gross up) | | **6,737** | 6,252 | 5,758 | 5,623 | 5,219 |
| Total operating expenses | | **(3,570)** | (3,503) | (3,434) | (3,392) | (3,228) |
| Operating profit before bad and doubtful debts (including gross up) | | **3,167** | 2,749 | 2,324 | 2,231 | 1,991 |
| Bad and doubtful debts | | **(433)** | (202) | (171) | (168) | (78) |
| Profit from ordinary activities before income tax and abnormal items (including gross up) | | **2,734** | 2,547 | 2,153 | 2,063 | 1,913 |
| Fully tax equivalent gross up [3] | | **(149)** | (169) | (127) | (128) | (127) |
| Income tax expense | | **(677)** | (660) | (567) | (589) | (493) |
| Net profit attributable to outside equity interests | | **(5)** | (3) | (3) | (4) | (2) |
| Profit from ordinary activities before abnormal items (including gross up) | | **1,903** | 1,715 | 1,456 | 1,342 | 1,291 |
| Abnormal items (net of tax) [4] | | **–** | – | – | (70) | – |
| Net profit attributable to equity interests of Westpac Banking Corporation | | **1,903** | 1,715 | 1,456 | 1,272 | 1,291 |
| **Statement of financial position at 30 September [1]** | | | | | | |
| Total assets | | **189,845** | 167,618 | 140,220 | 137,319 | 118,963 |
| Loans | | **122,250** | 107,533 | 97,716 | 91,738 | 77,874 |
| Acceptances | | **15,700** | 15,665 | 10,249 | 10,325 | 11,242 |
| Deposits and public borrowings | | **96,157** | 89,994 | 85,546 | 83,164 | 72,636 |
| Loan capital | | **4,838** | 4,892 | 2,692 | 2,523 | 1,895 |
| Total equity | | **9,705** | 9,262 | 8,997 | 8,611 | 8,206 |
| Total risk adjusted assets | | **127,242** | 114,816 | 102,592 | 97,430 | 87,133 |
| **Share information** | | | | | | |
| Earnings per share (cents): | Before abnormals | **102.8** | 88.8 | 77.0 | 70.1 | 70.0 |
| | After abnormals | **102.8** | 88.8 | 77.0 | 66.4 | 70.0 |
| Dividends per ordinary share (cents) | | **62.0** | 54.0 | 47.0 | 43.0 | 39.0 |
| Net tangible assets per ordinary share ($) [5] | | **4.28** | 3.96 | 3.71 | 3.59 | 3.69 |
| Share price ($): | High | **14.55** | 12.97 | 12.06 | 11.45 | 9.10 |
| | Low | **11.87** | 9.16 | 8.36 | 7.10 | 6.43 |
| | Close | **13.29** | 12.75 | 9.45 | 9.28 | 8.70 |
| **Ratios** | | | | | | |
| Total equity to total assets (%) | | **5.1** | 5.5 | 6.4 | 6.3 | 6.9 |
| Net capital ratio (%) | | **9.9** | 9.9 | 9.2 | 9.3 | 10.5 |
| Dividend payout ratio (%) | | **60.3** | 60.8 | 61.0 | 64.8 | 55.7 |
| Return on average ordinary equity before abnormals (%) | | **21.1** | 18.4 | 16.8 | 15.5 | 17.0 |
| Productivity ratio [6] | | **4.03** | 3.53 | 3.17 | 3.30 | 2.97 |
| Expense to income ratio (excluding amortisation of goodwill) (%) | | **51.5** | 54.5 | 57.9 | 58.4 | 60.7 |
| Net interest margin | | **3.11** | 3.10 | 3.25 | 3.44 | 3.59 |
| Economic profit/(loss) ($m) | | **1,198** | 1,058 | 669 | 694 | 716 |
| **Other information** | | | | | | |
| Points of bank representation (number at year end) | | **1,347** | 1,375 | 1,625 | 1,832 | 1,547 |
| Core full time equivalent staff (number at year end) [7] | | **27,088** | 29,510 | 31,731 | 33,222 | 31,608 |

For footnote explanations see page 40.

# Ten Year Summary

| $m (unless otherwise indicated) | | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|---|
| **Statement of financial performance – year ended 30 September** [1] | | | | | | |
| Net interest income [2] | | 3,254 | 2,982 | 2,761 | 2,628 | 2,592 |
| Fully tax equivalent gross up [3] | | 68 | 45 | 62 | 86 | 88 |
| Net interest income (including gross up) | | 3,322 | 3,027 | 2,823 | 2,714 | 2,680 |
| Non-interest income [2] | | 1,472 | 1,391 | 1,555 | 1,841 | 1,756 |
| Net operating income (including gross up) | | 4,794 | 4,418 | 4,378 | 4,555 | 4,436 |
| Total operating expenses | | (3,049) | (2,654) | (2,637) | (2,629) | (3,169) |
| Operating profit before bad and doubtful debts (including gross up) | | 1,745 | 1,764 | 1,741 | 1,926 | 1,267 |
| Bad and doubtful debts | | (121) | (330) | (695) | (1,292) | (2,802) |
| Profit/(loss) from ordinary activities before income tax and abnormal items (including gross up) | | 1,624 | 1,434 | 1,046 | 634 | (1,535) |
| Fully tax equivalent gross up [3] | | (68) | (45) | (62) | (86) | (88) |
| Income tax expense | | (421) | (371) | (276) | (146) | 548 |
| Net profit/(loss) attributable to outside equity interests | | (3) | (3) | (3) | (5) | (2) |
| Profit/(loss) from ordinary activities before abnormal items (including gross up) | | 1,132 | 1,015 | 705 | 397 | (1,077) |
| Abnormal items (net of tax) [4] | | – | (68) | – | (358) | (485) |
| Net profit/(loss) attributable to equity interests of Westpac Banking Corporation | | 1,132 | 947 | 705 | 39 | (1,562) |
| **Statement of financial position at 30 September** [1] | | | | | | |
| Total assets | | 121,513 | 105,835 | 93,861 | 104,712 | 110,948 |
| Loans | | 81,201 | 64,365 | 61,242 | 64,601 | 66,348 |
| Acceptances | | 11,197 | 11,656 | 12,219 | 12,851 | 11,166 |
| Deposits and public borrowings | | 74,886 | 58,198 | 54,925 | 57,669 | 60,261 |
| Loan capital | | 2,199 | 2,881 | 2,929 | 3,333 | 3,261 |
| Total equity | | 7,891 | 7,583 | 7,299 | 7,129 | 6,676 |
| Total risk adjusted assets | | 86,503 | 74,930 | 72,567 | 82,777 | 94,904 |
| **Share information** | | | | | | |
| Earnings per share (cents): | Before abnormals | 58.9 | 53.5 | 36.0 | 21.1 | – |
| | After abnormals | 58.9 | 49.8 | 36.0 | 0.9 | – |
| Dividends per ordinary share (cents) | | 33.0 | 28.0 | 18.0 | 12.0 | 18.0 |
| Net tangible assets per ordinary share ($) [5] | | 3.39 | 3.81 | 3.67 | 3.51 | 3.56 |
| Share price ($): | High | 6.59 | 5.51 | 5.55 | 4.20 | 5.05 |
| | Low | 5.20 | 3.90 | 3.83 | 2.39 | 2.73 |
| | Close | 6.54 | 5.36 | 4.20 | 3.94 | 2.85 |
| **Ratios** | | | | | | |
| Total equity to total assets (%) | | 6.5 | 7.2 | 7.8 | 6.8 | 6.0 |
| Net capital ratio (%) | | 10.8 | 13.9 | 13.8 | 12.3 | 9.7 |
| Dividend payout ratio (%) | | 56.0 | 56.2 | 50.0 | large | – |
| Return on average ordinary equity before abnormals (%) | | 14.6 | 13.0 | 9.8 | 5.7 | – |
| Productivity ratio [6] | | 2.77 | n/a | n/a | n/a | n/a |
| Expense to income ratio (excluding amortisation of goodwill) (%) | | 62.9 | 59.9 | 60.1 | 57.4 | 71.2 |
| Net interest margin | | 3.7 | 3.8 | 3.5 | 3.0 | 2.9 |
| Economic profit/(loss) ($m) | | 554 | 270 | (24) | (581) | (2,148) |
| **Other information** | | | | | | |
| Points of bank representation (number at year end) | | 1,788 | 1,547 | 1,616 | 1,827 | 1,946 |
| Core full time equivalent staff (number at year end) [7] | | 33,832 | 31,416 | 31,396 | 33,724 | 39,253 |

1 The above statement of financial performance extracts for 2001, 2000 and 1999 and statement of financial position extracts for 2001 and 2000 are derived from the consolidated financial statements included in this report, and for prior years are derived from financial statements previously published.
2 During the year guarantee fees of $68 million in respect of certain structured finance transactions have been treated as yield adjustments to interest income. Previously these fees were reported as part of fees and commissions paid. Comparative amounts have been restated for the years ended 30 September 2000 and 1999 by $46 million and $16 million respectively. The change had no effect on net profit.
3 We have entered into various tax effective financing transactions that derive income that is subject to either a reduced or zero rate of income tax. The impact of this is reflected in lower income tax expense and interest income. In order to provide improved comparability, this income is presented on a fully tax equivalent basis.
4 For reporting periods ending on or after 30 June 2001, it is no longer required (under Australian GAAP) to disclose abnormal items on the face of the statement of financial performance. Where a revenue or expense is of such a size, nature or incidence that its disclosure is relevant in explaining our financial performance, we are required to disclose separately its nature and amount.
5 After deducting preference share capital and goodwill.
6 Operating profit (including gross up)/personnel costs excluding restructuring expenses.
7 Core full time equivalent staff includes pro-rata part time staff and excludes unpaid absences (e.g. maternity leave) and excludes temporary staff and contractors

# Financial report

# Annual Financial report 2001

## Financial Statements



## Notes to the financial statements



## Statutory Statements

**Statements of financial performance** for the years ended 30 September

Westpac Banking Corporation and its controlled entities

| | Note | Consolidated 2001 $m | 2000 $m | 1999 $m | Parent Entity 2001 $m | 2000 $m |
|---|---|---|---|---|---|---|
| Interest income | 3 | **10,258** | 9,390 | 7,876 | **9,387** | 8,666 |
| Fully tax equivalent gross up [1] | | **149** | 169 | 127 | **20** | 63 |
| Interest expense | 3 | **(6,207)** | (5,721) | (4,400) | **(6,177)** | (5,847) |
| **Net interest income (including gross up)** | | **4,200** | 3,838 | 3,603 | **3,230** | 2,882 |
| Non-interest income: | | | | | | |
| Fees and commissions received | | **2,090** | 1,832 | 1,642 | **2,126** | 1,855 |
| Fees and commissions paid | | **(485)** | (338) | (286) | **(473)** | (283) |
| Proceeds from sale of assets | | **679** | 1,966 | 266 | **667** | 1,073 |
| Carrying value of assets sold | | **(670)** | (1,930) | (197) | **(660)** | (1,078) |
| Life insurance and funds management revenue | | **575** | 1,482 | 283 | **–** | – |
| Life insurance claims and change in policy liabilities | | **(51)** | (915) | – | **–** | – |
| Other non-interest income | | **399** | 317 | 447 | **992** | 604 |
| Total non-interest income | 4 | **2,537** | 2,414 | 2,155 | **2,652** | 2,171 |
| **Net operating income (including gross up)** | | **6,737** | 6,252 | 5,758 | **5,882** | 5,053 |
| Operating expenses: | | | | | | |
| Salaries and other staff expenses | | **(1,744)** | (1,815) | (1,830) | **(1,528)** | (1,563) |
| Equipment and occupancy expenses | | **(648)** | (632) | (602) | **(577)** | (513) |
| Other expenses | | **(1,178)** | (1,056) | (1,002) | **(1,216)** | (1,085) |
| Total operating expenses | 5 | **(3,570)** | (3,503) | (3,434) | **(3,321)** | (3,161) |
| **Operating profit before bad and doubtful debts (including gross up)** | | **3,167** | 2,749 | 2,324 | **2,561** | 1,892 |
| Bad and doubtful debts | 14 | **(433)** | (202) | (171) | **(221)** | (93) |
| Fully tax equivalent gross up [1] | | **(149)** | (169) | (127) | **(20)** | (63) |
| **Profit from ordinary activities before income tax expense** | | **2,585** | 2,378 | 2,026 | **2,320** | 1,736 |
| Income tax expense | 7 | **(677)** | (660) | (567) | **(519)** | (425) |
| **Net profit** | | **1,908** | 1,718 | 1,459 | **1,801** | 1,311 |
| Net profit attributable to outside equity interests | | **(5)** | (3) | (3) | **–** | – |
| **Net profit attributable to equity holders of Westpac Banking Corporation** | | **1,903** | 1,715 | 1,456 | **1,801** | 1,311 |
| Foreign currency translation reserve adjustment | | **74** | 115 | (13) | **88** | 109 |
| Premises revaluation adjustment | | **–** | (25) | (28) | **–** | (17) |
| Investment revaluation adjustment | | **–** | – | – | **–** | 381 |
| **Total revenues, expenses and valuation adjustments attributable to equity holders of Westpac Banking Corporation recognised directly in equity** | | **74** | 90 | (41) | **88** | 473 |
| **Total changes in equity other than those resulting from transactions with owners as owners** | | **1,977** | 1,805 | 1,415 | **1,889** | 1,784 |
| **Earnings (in cents) per ordinary share after deducting distributions on other equity instruments** | 9 | | | | | |
| Basic | | **102.8** | 88.8 | 77.0 | | |
| Fully diluted | | **101.9** | 87.7 | 76.1 | | |

The accompanying notes, numbered 1 to 44, form part of these financial statements for purposes of Australian reporting requirements.

A summary of significant adjustments to net profit attributable to equity holders of Westpac Banking Corporation and total equity that would be required if generally accepted accounting principles applicable in the United States (US GAAP) had been applied is disclosed in note 45.

1 The Group has entered into various tax effective financing transactions that derive income that is subject to either a reduced or zero rate of income tax. The impact of this is reflected in lower income tax expense and interest income. In order to provide improved comparability, this income is presented on a fully tax equivalent basis.

## **Statements of financial position** as at 30 September

Westpac Banking Corporation and its controlled entities

| | Note | Consolidated 2001 $m | Consolidated 2000 $m | Parent Entity 2001 $m | Parent Entity 2000 $m |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with central banks | | **1,079** | 836 | **950** | 734 |
| Due from other financial institutions | 10 | **5,094** | 3,325 | **4,738** | 2,815 |
| Trading securities | 11 | **10,629** | 7,174 | **10,629** | 7,163 |
| Investment securities | 12 | **2,960** | 2,731 | **2,867** | 2,640 |
| Loans | 13 | **122,250** | 107,533 | **107,214** | 93,847 |
| Acceptances of customers | | **15,700** | 15,665 | **15,921** | 15,829 |
| Life insurance investment assets | | **7,352** | 7,547 | **–** | – |
| Regulatory deposits with central banks overseas | | **482** | 620 | **457** | 603 |
| Due from controlled entities | | **–** | – | **10,789** | 9,528 |
| Investments in controlled entities | 38 | **–** | – | **5,769** | 6,859 |
| Goodwill | | **1,501** | 1,535 | **1,463** | 1,507 |
| Fixed assets | 16 | **1,034** | 1,175 | **776** | 864 |
| Deferred tax assets | 17 | **441** | 467 | **368** | 439 |
| Other assets | 18 | **21,323** | 19,010 | **20,579** | 18,416 |
| **Total assets** | | **189,845** | 167,618 | **182,520** | 161,244 |
| **Liabilities** | | | | | |
| Due to other financial institutions | 19 | **5,954** | 3,972 | **5,951** | 3,965 |
| Deposits and public borrowings | 20 | **96,157** | 89,994 | **90,180** | 83,562 |
| Debt issues | 24 | **27,989** | 19,203 | **18,921** | 11,567 |
| Acceptances | | **15,700** | 15,665 | **15,921** | 15,829 |
| Tax liabilities | 21 | **706** | 651 | **586** | 452 |
| Life insurance policy liabilities | | **7,123** | 6,991 | **–** | – |
| Due to controlled entities | | **–** | – | **15,523** | 15,462 |
| Provisions | 22 | **1,038** | 989 | **984** | 929 |
| Other liabilities | 23 | **20,635** | 15,999 | **19,983** | 15,503 |
| **Total liabilities excluding loan capital** | | **175,302** | 153,464 | **168,049** | 147,269 |
| **Loan capital** | | | | | |
| Subordinated bonds, notes and debentures | 24 | **4,045** | 4,175 | **4,045** | 4,175 |
| Subordinated perpetual notes | 24 | **793** | 717 | **793** | 717 |
| **Total loan capital** | | **4,838** | 4,892 | **4,838** | 4,892 |
| **Total liabilities** | | **180,140** | 158,356 | **172,887** | 152,161 |
| **Net assets** | | **9,705** | 9,262 | **9,633** | 9,083 |
| **Equity** | | | | | |
| Share capital | 25 | **2,233** | 2,258 | **1,751** | 1,776 |
| Other equity instruments: | | | | | |
| Trust originated preferred securities (TOPrS$^{sm}$) | 25 | **465** | 465 | **–** | – |
| Convertible debenture | 25 | **–** | – | **465** | 465 |
| Perpetual capital notes | 25 | **–** | – | **511** | 308 |
| Reserves | | **2,819** | 3,099 | **2,878** | 4,438 |
| Retained profits | | **4,174** | 3,435 | **4,028** | 2,096 |
| **Equity attributable to equity holders of Westpac Banking Corporation** | | **9,691** | 9,257 | **9,633** | 9,083 |
| Outside equity interests in controlled entities | | **14** | 5 | **–** | – |
| **Total equity** | | **9,705** | 9,262 | **9,633** | 9,083 |
| Contingent liabilities and credit commitments | 34 | | | | |

The accompanying notes, numbered 1 to 44, form part of these financial statements for purposes of Australian reporting requirements.

A summary of significant adjustments to net profit attributable to equity holders of Westpac Banking Corporation and total equity that would be required if US GAAP had been applied is disclosed in note 45.

**Statements of cash flows** for years ended 30 September

Westpac Banking Corporation and its controlled entities

| | | Consolidated | | | Parent Entity | |
|---|---|---|---|---|---|---|
| | Note | **2001 $m** | 2000 $m | 1999 $m | **2001 $m** | 2000 $m |
| **Cash flows from operating activities** | | | | | | |
| Interest received | | **10,080** | 10,135 | 8,345 | **9,346** | 9,450 |
| Interest paid | | **(6,461)** | (6,232) | (5,018) | **(6,384)** | (6,425) |
| Dividends received | | **51** | 43 | 35 | **1,730** | 318 |
| Other non-interest income received | | **3,367** | 655 | 2,954 | **3,257** | 597 |
| Operating expenses paid | | **(3,330)** | (3,174) | (3,091) | **(2,984)** | (2,903) |
| Net (increase)/decrease in trading securities | | **(143)** | 764 | (2,204) | **(196)** | 723 |
| Income tax paid | | **(527)** | (497) | (520) | **(331)** | (146) |
| Life business: | | | | | | |
| receipts from policyholders and customers | | **2,427** | 3,366 | – | **–** | – |
| interest and other items of similar nature | | **138** | 135 | – | **–** | – |
| dividends received | | **362** | 430 | – | **–** | – |
| payments to policyholders and suppliers | | **(2,249)** | (3,428) | – | **–** | – |
| income tax paid | | **(64)** | (27) | – | **–** | – |
| **Net cash provided by operating activities** | 43 | **3,651** | 2,170 | 501 | **4,438** | 1,614 |
| **Cash flows from investing activities** | | | | | | |
| Proceeds from sale of investment securities | | **508** | 1,441 | 147 | **508** | 876 |
| Proceeds from matured investment securities | | **139** | 94 | 148 | **122** | – |
| Purchase of investment securities | | **(866)** | (1,907) | (444) | **(851)** | (1,933) |
| Proceeds from securitised loans | | **202** | 255 | 2,568 | **202** | 245 |
| Net (increase)/decrease in: | | | | | | |
| loans | | **(13,304)** | (11,322) | (11,124) | **(11,800)** | (8,741) |
| due from other financial institutions | | **(1,598)** | 778 | (898) | **(1,780)** | 966 |
| regulatory deposits with central banks overseas | | **193** | (135) | 752 | **193** | (132) |
| life business investment assets | | **134** | (118) | – | **–** | – |
| investments in controlled entities | | **–** | – | – | **45** | (130) |
| due from controlled entities | | **–** | – | – | **(1,106)** | (3,299) |
| other assets | | **186** | 410 | (554) | **(75)** | 107 |
| Purchase of fixed assets | | **(299)** | (418) | (362) | **(286)** | (350) |
| Proceeds from disposal of fixed assets | | **171** | 525 | 119 | **159** | 197 |
| Controlled entities acquired, net of cash acquired | 43 | **5** | – | – | **–** | – |
| Controlled entities disposed, net of cash held | 43 | **44** | 139 | 58 | **–** | – |
| **Net cash used in investing activities** | | **(14,485)** | (10,258) | (9,590) | **(14,669)** | (12,194) |
| **Cash flows from financing activities** | | | | | | |
| Issue of loan capital | | **350** | 1,924 | 460 | **350** | 1,924 |
| Redemption of loan capital | | **(813)** | (112) | (147) | **(813)** | (112) |
| Proceeds from issue of shares | | **110** | 91 | 95 | **110** | 91 |
| Proceeds from issue of New Zealand Class shares, (net of issue costs of 2001 Nil, 2000 $16m) | | **203** | 279 | – | **–** | – |
| Buyback of shares | | **(753)** | (1,273) | (933) | **(753)** | (1,273) |
| Proceeds from issue of TOPrS (net of issue costs of $20m) | | **–** | – | 465 | **–** | – |
| Proceeds from issue of perpetual capital notes | | **–** | – | – | **203** | 308 |
| Net increase/(decrease) in: | | | | | | |
| due to other financial institutions | | **1,799** | 379 | (266) | **1,853** | 375 |
| deposits and public borrowings | | **3,553** | 3,909 | 5,113 | **4,001** | 3,373 |
| due to controlled entities | | **–** | – | – | **61** | 3,649 |
| other liabilities | | **447** | 179 | 419 | **478** | 178 |
| bonds, notes and commercial paper | | **7,007** | 3,962 | 4,450 | **5,784** | 3,237 |
| Payment of distributions and dividends | | **(836)** | (761) | (627) | **(836)** | (769) |
| Payment of dividends to outside equity interests | | **(1)** | (3) | (4) | **–** | – |
| **Net cash provided by financing activities** | | **11,066** | 8,574 | 9,025 | **10,438** | 10,981 |
| Net increase/(decrease) in cash and cash equivalents | | **232** | 486 | (64) | **207** | 401 |
| Effect of exchange rate changes on cash and cash equivalents | | **11** | 5 | 6 | **9** | 5 |
| Cash and cash equivalents at the beginning of year | | **836** | 345 | 403 | **734** | 328 |
| **Cash and cash equivalents at year end** | 43 | **1,079** | 836 | 345 | **950** | 734 |

Details of reconciliation of net cash provided by operating activities to net profit attributable to equity holders of Westpac Banking Corporation are provided in note 43.
The accompanying notes, numbered 1 to 44, form part of these financial statements for purposes of Australian reporting requirements.
A summary of significant adjustments to net profit attributable to equity holders of Westpac Banking Corporation and total equity that would be required if US GAAP had been applied is disclosed in note 45.

## **Statements of changes in equity** for the years ended 30 September

Westpac Banking Corporation and its controlled entities

| | | Consolidated | | | Parent Entity | |
|---|---|---|---|---|---|---|
| | Note | **2001 $m** | 2000 $m | 1999 $m | **2001 $m** | 2000 $m |
| **Share capital** | | | | | | |
| Balance at beginning of year | | **2,258** | 1,853 | 1,899 | **1,776** | 1,853 |
| Shares issued: | | | | | | |
| New Zealand Class shares | 25 | **–** | 482 | – | **–** | – |
| under the dividend reinvestment plan | 25 | **18** | 19 | 22 | **18** | 19 |
| under employee share purchase and option schemes | 25 | **13** | 13 | 20 | **13** | 13 |
| Shares bought back | 25 | **(56)** | (109) | (88) | **(56)** | (109) |
| **Balance at year end** | | **2,233** | 2,258 | 1,853 | **1,751** | 1,776 |
| **Other equity instruments** | | | | | | |
| **Trust originated preferred securities (TOPrS)** | | | | | | |
| Balance at beginning of year | 25 | **465** | 465 | – | **–** | – |
| Securities issued during the year | | **–** | – | 485 | **–** | – |
| Issue costs | | **–** | – | (20) | **–** | – |
| **Balance at year end** | | **465** | 465 | 465 | **–** | – |
| **Convertible debenture** | 25 | **–** | – | – | **465** | 465 |
| **Perpetual capital notes** | | | | | | |
| Balance at beginning of year | | **–** | – | – | **308** | – |
| Notes issued during the year | 25 | **–** | – | – | **203** | 308 |
| **Balance at year end** | | **–** | – | – | **511** | 308 |
| **Reserves** [1] | | | | | | |
| **Reserve fund** | | | | | | |
| Balance at beginning of year | | **842** | 776 | 727 | **842** | 776 |
| Transfer from retained profits | | **34** | 66 | 49 | **34** | 66 |
| **Balance at year end** | | **876** | 842 | 776 | **876** | 842 |
| **Share premium reserve** | | | | | | |
| Balance at beginning of year | | **2,012** | 2,903 | 3,475 | **2,012** | 2,903 |
| Premium on shares issued | | **336** | 273 | 273 | **336** | 273 |
| Premium on shares bought back | | **(697)** | (1,164) | (845) | **(697)** | (1,164) |
| **Balance at year end** | | **1,651** | 2,012 | 2,903 | **1,651** | 2,012 |
| **Premises revaluation reserve** | | | | | | |
| Balance at beginning of year | | **36** | 113 | 144 | **85** | 138 |
| Revaluation of premises | | **–** | (26) | (20) | **–** | (17) |
| Transfer to retained profits of realised revaluation gains on sale of premises | | **(28)** | (52) | (3) | **(27)** | (36) |
| Other adjustments | | **–** | 1 | (8) | **–** | – |
| **Balance at year end** | | **8** | 36 | 113 | **58** | 85 |

## **Statements of changes in equity** for the years ended 30 September

Westpac Banking Corporation and its controlled entities

| | | Consolidated | | | Parent Entity | |
|---|---|---|---|---|---|---|
| | Note | **2001 $m** | 2000 $m | 1999 $m | **2001 $m** | 2000 $m |
| **Investment revaluation reserve** | | | | | | |
| Balance at beginning of year | | **–** | – | – | **1,292** | 911 |
| Transfer to retained profits | | **–** | – | – | **(1,292)** | – |
| Revaluation of investments in controlled entities | | **–** | – | – | **–** | 381 |
| **Balance at year end** | | **–** | – | – | **–** | 1,292 |
| **Capital redemption reserve** | | **135** | 135 | 135 | **131** | 131 |
| **Foreign currency translation reserve** | | | | | | |
| Balance at beginning of year | | **74** | (39) | (15) | **76** | (25) |
| Transfer to retained profits | | **1** | (2) | (11) | **(2)** | (8) |
| Exchange differences on translation (net of hedging) | | **74** | 115 | (13) | **88** | 109 |
| **Balance at year end** | | **149** | 74 | (39) | **162** | 76 |
| **Total reserves** | | **2,819** | 3,099 | 3,888 | **2,878** | 4,438 |
| **Retained profits** | | | | | | |
| Balance at beginning of year | | **3,435** | 2,788 | 2,241 | **2,096** | 1,842 |
| Aggregate of amounts transferred (to)/from reserves | | **(7)** | (12) | (35) | **1,287** | (22) |
| Operating profit after tax attributable to equity holders of Westpac Banking Corporation | | **1,903** | 1,715 | 1,456 | **1,801** | 1,311 |
| Dividends provided for or paid | 8 | **(1,106)** | (1,013) | (866) | **(1,073)** | (971) |
| Distributions on other equity instruments | 8 | **(51)** | (43) | (8) | **(83)** | (64) |
| **Balance at year end** | | **4,174** | 3,435 | 2,788 | **4,028** | 2,096 |
| **Total equity attributable to equity holders of Westpac Banking Corporation at year end** | | **9,691** | 9,257 | 8,994 | **9,633** | 9,083 |

1 A general description of the nature and function of each reserve account is provided in note 1(g).

The accompanying notes, numbered 1 to 44, form part of these financial statements for purposes of Australian reporting requirements.

A summary of significant adjustments to net profit attributable to equity holders of Westpac Banking Corporation and total equity that would be required if US GAAP had been applied is disclosed in note 45.

## Note 1. Summary of the significant accounting principles and policies

### (A) Bases of Accounting

**i. General**

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views, the provisions of the Deed of Settlement and the Bank of New South Wales Act of 1850 (as amended). These requirements have been applied in a manner authorised for an authorised deposit-taking institution under the Banking Act 1959 (as amended) and, so far as considered appropriate to Westpac Banking Corporation, in accordance with the requirements of the Corporations Act 2001(Cwlth).

The financial report is drawn up in accordance with the historical cost convention, except where otherwise indicated. The carrying value of non-current assets does not exceed their recoverable amount. Except where otherwise indicated, recoverable amount is determined as the undiscounted amount expected to be recovered from the net cash flows arising from the assets' continued use and subsequent disposal.

The accounting policies adopted are consistent with those of the previous year, unless otherwise indicated. Comparative information is restated where appropriate to enhance comparability. In particular, as a result of applying the revised Accounting Standard AASB 1018 Statement of Financial Performance, revised AASB 1034 Financial Report Presentation and Disclosures and AASB 1040 Statement of Financial Position for the first time, a number of comparative amounts were represented or reclassified to ensure comparability with the current year.

The financial statements also include disclosures required by the United States Securities and Exchange Commission in respect of foreign registrants.

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although a system of internal control is in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. It is not anticipated that such differences would be material.

*Early adoption of accounting standards:*

AASB 1005 Segment Reporting has been applied for the year ended 30 September 2001 in accordance with an election made to adopt the standard early under subsection 334(5) of the Corporations Act 2001(Cwlth).

**ii. Consolidation**

The consolidated financial statements comprise the financial statements of the parent entity Westpac Banking Corporation ('Westpac') and all entities it controlled during the year ended 30 September 2001. Westpac and controlled entities are referred to collectively as the 'Group'. The effects of all transactions between entities in the Group are eliminated. Controlled entities are listed in note 38.

**iii. Currency**

All amounts are expressed in Australian currency except where otherwise indicated. Assets and liabilities of overseas branches and controlled entities have been translated to Australian dollars at the mid-point closing rates of exchange at balance date. Income and expenses of overseas branches and controlled entities have been translated at average daily rates of exchange prevailing during the year. In the financial statements of Westpac, exchange differences arising on translation of Westpac's net investment in overseas branches, after allowing for foreign currency hedges, are reflected in the foreign currency translation reserve.

In the consolidated financial statements, the foreign currency translation reserve also reflects exchange differences on translation of Westpac's net investment in overseas controlled entities after allowing for foreign currency hedges.

Exchange differences relating to foreign currency monetary items (other than those used to hedge the net investment in overseas branches and controlled entities) are included in the statement of financial performance as part of the operating results. Foreign currency liabilities are generally matched by assets in the same currency or by being swapped to the currency they are funding. The total amounts of unmatched foreign currency assets and liabilities and consequent foreign currency exposures are not significant.

### (B) Income Recognition

**i. Interest income**

Interest income, including premiums and discounts on trading and investment securities, is brought to account on a yield to maturity basis. Interest relating to impaired loans is recognised as income only when received. When a loan is categorised as non-accrual, unpaid interest accrued since the last reporting date is reversed against income. Unpaid interest relating to prior reporting periods is either written off as a bad debt or a specific provision is made as necessary.

**ii. Dividends on redeemable preference share finance**

Redeemable preference share dividend income is disclosed as part of interest income and is recorded in the statement of financial performance on an accruals basis.

**iii. Leasing**

Finance leases are accounted for under the finance method whereby income is taken to account progressively over the life of the lease in proportion to the outstanding investment balance.

**iv. Fee income**

Fee income is brought to account on an accruals basis. Front end and establishment fees, if material, are segregated between cost recovery and risk margin, with the risk margin being taken to income over the period of the loan or other risk. The balance of front end fees and establishment fees represent the recovery of costs and are taken to income upon receipt.

**v. Trading income**

Gains and losses realised from the sale of trading securities and unrealised fair value adjustments are reflected in the statement of financial performance.

Both realised and unrealised gains and losses on trading derivative contracts are taken to the statement of financial performance.

**vi. Other dividend income**

Other dividend income is recorded as non-interest income as declared.

**vii. Revenue on sale of fixed assets**

Proceeds on the sale of fixed assets and the associated carrying value as at the date of sale are classified as non-interest income.

## Note 1. Summary of the significant accounting principles and policies

### (C) Expense Recognition

**i. Interest expense**

Interest expense, including premiums or discounts and associated issue expenses incurred on issue of securities, is brought to account on a yield to maturity basis.

**ii. Bad and doubtful debts**

The annual charge against profits for bad and doubtful debts reflects the movement in the general provision after allowing for transfers to or from specific provisions, write-offs and recoveries of debts previously written-off.

**iii. Leasing**

Operating lease payments are charged to the statement of financial performance in the periods in which they are incurred. Incentives received on entering into operating leases are recognised as liabilities and are charged to the statement of financial performance on a straight line basis over the term of the lease. Lease commitments are disclosed in the financial statements prior to the deduction of incentives (refer note 32).

### (D) Income Tax

Tax effect accounting procedures under the liability method have been adopted whereby income tax expense for the year is matched with the accounting results after allowing for permanent differences. The tax effect of cumulative timing differences, which occur where items are included for income tax purposes in a period different from that in the financial statements, is shown in the provision for deferred income tax or future income tax benefit, as applicable. The timing differences have been measured using the tax rates expected to apply when the differences reverse.

The future income tax benefits arising from tax losses have been recognised only where the realisation of such benefits in future years are considered virtually certain (see note 17).

### (E) Assets

**i. Cash and balances with central banks**

Cash and balances with central banks include cash at branches. They are brought to account at the face value or the gross value of the outstanding balance where appropriate.

**ii. Due from other financial institutions**

Receivables from other financial institutions includes loans, nostro balances, certificates of deposit and settlement account balances due from other financial institutions. They are brought to account at the gross value of the outstanding balance.

**iii. Trading and investment securities**

Trading securities are short and long term public, bank or other debt securities and equities, which are held for resale in day to day trading operations. Trading securities are recorded at net fair value, generally based on quoted market prices or dealer quotes.

Investment securities are public and other debt securities, which are intended to be held to maturity. They are recorded at cost, or at cost adjusted for premium or discount amortisation. Losses related to permanent diminution in value of investment securities are recognised in the statement of financial performance and the recorded values of those securities adjusted accordingly. Gains and losses on the sale of investment securities are calculated using the specific identification method.

Any transfers of securities from the trading securities portfolio to the investment securities portfolio are effected at the market value of the securities at the date of transfer. Where there is no ready market in certain unlisted semi-government securities, market values are assessed by reference to interest yields.

*Repurchase and reverse repurchase agreements:* securities sold under agreements to repurchase (repurchase agreements) are retained within the trading or investment portfolio and the obligation to repurchase is included in the statement of financial position under 'other liabilities'; securities purchased under agreements to resell (reverse repurchase agreements) are included in the statement of financial position under 'other assets'.

*Trade date accounting:* trading and investment securities are accounted for on a trade date basis. Amounts receivable for securities sold but not yet delivered are included in the statement of financial position under 'other assets' as shown in note 18. Amounts payable for securities purchased but not yet delivered are included in the statement of financial position under 'other liabilities' as shown in note 23.

*Securities sold short:* short trading positions are included in the statement of financial position under 'other liabilities' as shown in note 23.

**iv. Loans, advances and other receivables**

Loans, advances and other receivables include overdrafts, home loans, credit card and other personal lending, term loans, leasing, bill financing, redeemable preference share finance and leveraged leases. They are carried at recoverable amount represented by the gross value of the outstanding balance adjusted for provisions for bad and doubtful debts and unearned income.

Security is obtained if, based on an evaluation of the customer's credit worthiness, it is considered necessary for the customer's overall borrowing facility. Security would normally consist of assets such as cash deposits, receivables, inventory, plant and equipment, real estate and investments.

*Provisions for bad and doubtful debts*

All known bad debts are written off against the provisions in the year in which they are classified as irrecoverable. Bad debts, in respect of which no specific provisions have been established, are written off against the general provision. Credit card and certain other consumer loan balances are written off when a payment is 180 days in arrears.

Specific provisions are raised as soon as a loan has been identified as doubtful and when the estimated repayment realisable from the borrower is likely to fall short of the amount of principal and interest outstanding. Such loans are treated as impaired assets and are included in note 15.

A general provision is maintained to cover expected losses inherent in existing overall loan portfolio which are not yet identifiable. In determining the level of general provision, reference is made to historical experience, business conditions, the composition of the portfolio and industry best practices.

*Impaired assets*

The Group has disclosed, in note 15, components of its loan portfolio that have been classified as impaired assets. In determining the impairment classification, the Group has adopted the Australian Prudential Regulation Authority's (APRA) guidelines for classifying impaired assets, which consist of the following broad categories:

Non-accrual assets are assets where income may no longer be accrued ahead of its receipt because reasonable doubt exists as to the collectability of principal and interest. This includes exposures where contractual payments are 90 or more consecutive days in arrears where security is insufficient to ensure payment and assets acquired through security enforcement.

## Note 1. Summary of the significant accounting principles and policies

Restructured assets are assets where the original contractual terms have been formally modified to provide for concessions of interest or principal for reasons related to the financial difficulties of the customer.

The Group also discloses interest received and estimated interest foregone during the year on the above non-accrual and restructured assets.

Where repayment of a loan is dependent upon the sale of property held as security, the estimated realisable value of the loan is based on the current market value of the security property, being the amount that would be realisable from a willing buyer to a willing seller, allowing a period of up to 12 months from commencement of selling to settlement.

**v. Acceptances of customers**

The exposure arising from the acceptance of bills of exchange that are sold into the market is brought to account as a liability. A contra asset, 'acceptances of customers', is recognised to reflect the Group's claim against each drawer of the bills.

Bills that have been accepted by the Group and are held in its own portfolio are included in the statement of financial position under 'loans' as shown in note 13.

**vi. Regulatory deposits**

In several countries in which the Group operates, the law requires that regulatory deposits be lodged with the local central bank at a rate of interest generally below that prevailing in the market. The amount of the deposit and the interest rate receivable are determined in accordance with the requirements of the local central bank.

**vii. Investments in controlled entities and other investments**

Investments in controlled entities are recorded by Westpac at its deemed cost if owned at 30 September 2000 or cost for subsequent additions. Refer note 1(h) vi. for details on change in accounting policy. Prior to the current year investments in controlled entities were carried at Westpac's share of net assets plus unamortised goodwill.

Other investments principally comprise unlisted shares in other companies, as shown in note 18 and detailed in note 39, are generally held as long-term investments and are recorded at cost unless otherwise stated. Proceeds from sale and the associated carrying value as at the date of sale are classified as non-interest income.

**viii. Life insurance investment assets**

Investments integral to the life insurance activities are initially recorded at cost and then adjusted to net market value at each balance date. Net market value adjustments are included in the statement of financial performance. These investments are held in the life insurance statutory funds and can only be used within the restrictions imposed under the *Life Insurance Act 1995*. The main restrictions are that the assets in a fund can only be used to meet the liabilities and expenses of that fund, to acquire investments to further the business of the fund or as distribution when solvency and capital adequacy requirements are met.

**ix. Fixed assets**

Premises and sites are carried at deemed cost if owned at 30 September 2000 or cost for subsequent additions. Refer note 1(h) vi. for details of the change in accounting policy. Write downs to recoverable value are recognised as an expense in the statement of financial performance. Valuations are undertaken every three years, supported in the case of all Australian and New Zealand properties, by independent valuers' advice. The most recent valuation of premises and sites was undertaken in July 2001.

Depreciation of buildings is calculated on a straight line basis at rates appropriate to their estimated useful life. The calculation is based on cost.

The cost of improvements to leasehold premises is capitalised and amortised over the term of the initial lease, but not exceeding 10 years.

Furniture and equipment are shown at cost less depreciation which is calculated on a straight line basis at rates appropriate to their estimated useful life, which ranges from 3 to 15 years.

Internal and external costs directly incurred in the purchase or development of computer software, including subsequent upgrades and enhancements, are capitalised. Capitalised software is amortised over its expected life, which is usually 3 years but no greater than 10 years. Costs incurred on computer software maintenance are expensed as incurred.

**x. Goodwill**

Goodwill is amortised on a straight-line basis over the period in which the benefits are expected to arise, generally 20 years. The carrying value of goodwill is reviewed every six months. If the carrying value of goodwill exceeds the value of the expected future benefits, the difference is charged to the statement of financial performance.

Prior to 1 October 2000, goodwill in respect of Challenge Limited (Challenge Bank Limited when acquired) had only been recognised in the consolidated statement of financial position. Following a review of the carrying value of investments in controlled entities, it was determined that part of Westpac's investment in Challenge Limited should be reclassified as goodwill within the Parent Entity. The comparative in the statement of financial position has been revised by $246 million. The reclassification only impacts the Parent Entity and has no impact on the consolidated statement of financial performance or statement of financial position.

The carrying value of goodwill is reported net of accumulated amortisation of $477 million in 2001 (2000 $405 million) for the Group and $342 million in 2001 (2000 $251 million) for Westpac.

### (F) Liabilities

**i. Due to other financial institutions**

Due to other financial institutions includes deposits, vostro balances and settlement account balances due to other financial institutions. They are brought to account at the gross value of the outstanding balance.

**ii. Deposits and public borrowings**

Deposits and public borrowings include non-interest bearing deposits repayable at call, certificates of deposit, interest bearing deposits, debentures and other funds raised publicly by controlled entity borrowing corporations. They are brought to account at the gross value of the outstanding balance.

**iii. Debt issues and loan capital**

These are bonds, notes, commercial paper and loan capital that have been issued by the Group and are recorded at cost or at cost adjusted for premium or discount amortisation.

## Note 1. Summary of the significant accounting principles and policies

**iv. Life insurance policy liabilities**
The policy liabilities are calculated in accordance with the principles of 'Margin on Services' (MOS) methodology as set out in Actuarial Standard 1.02 'Valuation Standard' issued by the Life Insurance Actuarial Standards Board.

**v. Employee entitlements**
Liabilities for wages and salaries and annual leave are recorded as the amount unpaid at year end, at the current rate of pay and reflecting the employees' services up to that date.

No provision is made for non-vesting sick leave as the pattern of sick leave taken indicates that no additional liability will arise for non-vesting sick leave.

Liabilities for long service leave and other deferred employee benefits are recognised as the present value of expected future payments to be made in respect of services provided by employees up to year end. Consideration is given to expected future wage and salary levels, experience of employee departure and periods of service. Expected future payments are discounted to their net present value using rates on Commonwealth Government securities with terms that match as closely as possible the estimated future cash flows.

A liability is also carried for on-costs, including payroll tax, in respect of provisions for certain employee benefits which attract such costs.

**vi. Provision for leasehold premises**
The provision for leasehold premises covers net outgoings on certain unoccupied leased premises or sub-let premises where projected rental income falls short of rental expense. The liability is determined on the basis of the present value of net future cash flows.

### (G) Equity

**i. Ordinary shares**
Ordinary share capital is recognised at the par value of the amount paid up. Any excess between the par value and the issue price is recorded in the share premium reserve, in accordance with Westpac's Deed of Settlement.

**ii. New Zealand Class shares**
New Zealand Class shares have been recognised as the total of the first instalment received and the present value of the second instalment on issue date, net of issue costs. A detailed description of New Zealand Class shares is provided in note 25.

**iii. Other equity instruments**
Trust originated preferred securities (TOPrS), convertible debenture and perpetual capital notes are recognised at the amount of consideration received, net of issue costs. The TOPrS and the convertible debenture are translated into Australian currency using the rate of exchange on issue date. Distributions on the TOPrS, convertible debenture and perpetual capital notes are recognised when entitlements accrue in accordance with the terms of each issue. A description of TOPrS, convertible debentures and perpetual capital notes are provided in note 25.

**iv. Reserves**
*Reserve fund:* Westpac's Deed of Settlement requires that each year not less than 5% of the net profit of Westpac for the year is transferred to the reserve fund, until the fund is at a level equal to half of the paid-up capital. The reserve fund may not be used for payments of dividends, but may be used to provide for occasional losses.

*Share premium reserve:* to which all premiums on the issue of new shares are credited, and premiums on shares bought back are debited, may be used for the payment of dividends only if such dividends are satisfied by the issue of shares to the shareholders.

*Premises revaluation reserve:* comprises unrealised revaluation increases and decreases for premises and sites. Following the change in accounting policy for premises and sites (see note 1 (h) vi.) no further valuation adjustments will be taken to this reserve. The balance of the reserve will be transferred to retained profits as premises and sites are disposed of and gains are realised. The net unrealised gains reflected in this reserve would not normally be regarded as being available for payment of dividends until such gains are realised.

*Investment revaluation reserve:* comprised unrealised revaluation increases and decreases for investments in controlled entities. Following the change in accounting policy for investment in controlled entities (see note 1 (h) vi.), the balance of this reserve has been transferred to retained profits.

*Capital redemption reserve:* in accordance with the requirements of Westpac's Deed of Settlement, $131 million was transferred in 1995 from retained profits to the capital redemption reserve upon redemption of 131.2 million preference shares. This reserve may not be used for the payment of dividends.

*Foreign currency translation reserve:* as mentioned in note 1(a) iii., exchange differences arising on translation of the net investment in overseas branches and controlled entities are reflected in the foreign currency translation reserve. Any offsetting gains or losses on hedging of these balances, together with any tax effect are also reflected in this reserve, which may be either a debit or credit balance. Any credit balance in this reserve would not normally be regarded as being available for payment of dividends until such gains are realised.

### (H) Other accounting principles and policies

**i. Superannuation costs**
Contributions, as specified in the rules of the respective defined benefit and defined contribution schemes, are made by Westpac or the respective controlled entity.

Actuarially assessed surpluses in the Group's principal defined benefit employee superannuation schemes are recognised in the statement of financial position, representing a prepayment of contributions to the schemes (see note 18).

For these schemes, superannuation costs are recognised over employees' service lives so that the annual charge to the statement of financial performance is an approximately level percentage of current and expected future pensionable pay, less the anticipated benefit accruing from the existing prepayment of contributions. In the event of a curtailment or partial curtailment of a defined benefit scheme, a gain or loss is recognised in the statement of financial performance.

When the actuarial surplus in a principal employee superannuation fund is initially recognised by the Group, the surplus is recognised in the statement of financial performance.

## Note 1. Summary of the significant accounting principles and policies

Variations in the value of the surpluses, which result from periodic actuarial valuations, are recognised in the statement of financial performance over the average remaining service lives of employees.

**ii. Employee share and option ownership schemes**
Certain employees are entitled to participate in share and option ownership schemes. Details of the schemes are described in note 25. No remuneration expense is recognised in respect of employee shares and options issued.

**iii. Derivative financial instruments**
*Trading*
The positive or negative net fair value of trading derivative financial instruments are included in the statement of financial position under 'other financial markets assets' and 'other financial markets liabilities' respectively, as shown in notes 18 and 23.

Foreign exchange and interest rate forwards, futures, options and forward purchases and sales of securities entered into for trading purposes are valued at prevailing market rates. Interest rate and currency swap agreements are valued at their net present value after allowance for future costs and risk exposure.

*Hedging*
Foreign exchange and interest rate forwards, futures, swaps and options entered into for hedging purposes are accounted for in a manner consistent with the accounting treatment of the underlying hedged item. To qualify as a hedge, the swap, forward, futures or option position must be designated as a hedge and be effective in reducing the market risk of an existing asset, liability, firm commitment, or anticipated transaction where there is a high probability of the transaction occurring and the extent, term and nature of the exposure is capable of being estimated. Effectiveness of the hedge is evaluated on an initial and on-going basis by comparing the correlation of the change in market or fair value of the hedge with the changes in value of the hedged item.

If an interest rate hedge contract is terminated early, any resulting gain or loss is deferred and amortised over the periods corresponding to the hedged item. Where the hedged item ceases to exist, the corresponding derivative hedge contract is settled or closed out and any resulting unrecognised gains and losses are taken to the statement of financial performance.

**iv. Loan securitisation**
The Group, through its loan securitisation program, packages and sells loans (principally housing mortgage loans) as securities to investors. In such transactions the Group receives fees for various services provided to the program on an arms-length basis, including servicing fees, management fees and trustee fees. These fees are recognised over the period in which the relevant costs are borne. The Group also provides arms-length interest rate swaps and liquidity facilities to the program in accordance with APRA Prudential Guidelines. In addition, the Group is entitled to receive residual income, comprising mortgage loan interest (net of swap payments) not due to the investors less trust expenses.

The timing and amount of the swap cash flows and the residual income cannot be reliably measured because of the significant uncertainties inherent in estimating future repayment rates on the underlying mortgage loans and the mortgage loan interest margins. Consequently, the swaps and the residual income receivable are not recognised as assets and no gain is recognised when loans are sold. The swap income/expense and residual income are therefore being recognised when receivable/payable. The residual income is included in other non-risk fee income as profit on sale of loans.

**v. Funds management and trust activities**
The Group conducts investment management and other fiduciary activities through Westpac Financial Services Group Limited and certain of its controlled entities and through certain other controlled entities overseas. These activities result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets are not the property of the Group and are not included in the consolidated financial statements.

Where controlled entities, as single responsible entities or trustees, incur liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. As these assets are sufficient to cover liabilities, and it is not probable that the controlled entities will be required to settle them, the liabilities are not included in the consolidated financial statements.

The Group also manages life insurance statutory fund assets that are included in the consolidated financial statements, see note 1(e) viii. At 30 September 2001, the total value of assets under discretionary management by the Group was approximately $23.9 billion (2000 $24.4 billion), including $16.5 billion (2000 $16.9 billion) that have not been included in the consolidated financial statements.

**vi. Change in accounting policy**
Accounting Standard AASB 1041 Revaluation of Non-Current Assets became operative for the Group from 1 October 2000. The standard requires that subsequent to initial recognition as assets, most non-current assets must be measured on either the cost basis or the fair value basis. On first applying the standard, an entity may elect to revert to the cost basis for a class of non-current assets that was previously carried at a revalued amount. An entity may elect to deem the existing carrying value of assets to be their cost or to make retrospective adjustments to reflect the assets at their original cost less accumulated depreciation and any accumulated recoverable amount write downs.

The Group has elected to adopt a deemed cost basis in respect of premises and sites. Previously premises and sites were carried at cost or Directors' valuation. Since 1995 revaluation increases have not been brought to account, while write downs were recognised whenever the recoverable value of an individual property was determined to be less than its carrying value. Such property was revalued down to its recoverable value with the write down being taken to the premises revaluation reserve. Under the Group's new accounting policy, any write down to recoverable amount will be recognised as an expense in the statement of financial performance. This change in accounting policy has not had a material impact on net profit for the year ended 30 September 2001.

Westpac has elected to adopt a deemed cost basis in respect of investments in controlled entities. Previously investments in controlled entities were carried at Westpac's share of net assets at book value, plus unamortised goodwill relating to the investments. Differences between cost of investments and carrying amount were included in the investment revaluation reserve. Under Westpac's new accounting policy any write down to recoverable amount will be recognised as an expense in the statement of financial performance. This change in accounting policy has not had a material impact on net profit for the year ended 30 September 2001.

The application of Accounting Standard 1041 Revaluation of Non-Current Assets has not affected any other classes of non-current assets.

**vii. Rounding of amounts**
In accordance with Australian Securities and Investments Commission (ASIC) Class Order 98/0100, all amounts have been rounded to the nearest million dollars unless otherwise stated.

| | Consolidated | | | Parent Entity | |
|---|---|---|---|---|---|
| | **2001 $m** | 2000 $m | 1999 $m | **2001 $m** | 2000 $m |
| **Note 2. Revenue** | | | | | |
| **Revenue from operating activities** | | | | | |
| Interest income (excluding gross-up) | **10,258** | 9,390 | 7,876 | **9,387** | 8,666 |
| Fees and commissions received | **2,090** | 1,832 | 1,642 | **2,126** | 1,855 |
| Proceeds from sale of investment securities | **508** | 1,441 | 147 | **508** | 876 |
| Life insurance and funds management revenue | **575** | 1,482 | – | **–** | – |
| Other income | **399** | 317 | 447 | **992** | 604 |
| | **13,830** | 14,462 | 10,112 | **13,013** | 12,001 |
| **Revenue from outside the operating activities** | | | | | |
| Proceeds from sale of fixed assets | **171** | 525 | 119 | **159** | 197 |
| **Total revenue** | **14,001** | 14,987 | 10,231 | **13,172** | 12,198 |

| | Consolidated | | | Parent Entity | |
|---|---|---|---|---|---|
| | **2001 $m** | 2000 $m | 1999 $m | **2001 $m** | 2000 $m |
| **Note 3. Interest** | | | | | |
| **Interest income** | | | | | |
| Loans [1,2] | **9,081** | 8,297 | 6,909 | **7,913** | 7146 |
| Deposits with other financial institutions | **230** | 261 | 192 | **221** | 250 |
| Investment securities | **195** | 155 | 134 | **183** | 144 |
| Trading securities | **506** | 455 | 456 | **503** | 452 |
| Regulatory deposits | **29** | 32 | 15 | **29** | 32 |
| Dividends on redeemable preference share finance [2] | **209** | 167 | 80 | **14** | 35 |
| Controlled entities | **–** | – | – | **516** | 589 |
| Other | **8** | 23 | 90 | **8** | 18 |
| **Total interest income** | **10,258** | 9,390 | 7,876 | **9,387** | 8,666 |
| **Interest expense** | | | | | |
| Current and term deposits [1] | **3,755** | 3,711 | 2,929 | **3,732** | 3679 |
| Deposits from other financial institutions | **288** | 221 | 194 | **288** | 221 |
| Debt issues | **1,412** | 1,052 | 710 | **880** | 630 |
| Public borrowings by controlled entity borrowing corporations | **345** | 338 | 317 | **–** | – |
| Loan capital | **351** | 270 | 175 | **351** | 270 |
| Controlled entities | **–** | – | – | **879** | 999 |
| Other | **56** | 129 | 75 | **47** | 48 |
| **Total interest expense** | **6,207** | 5,721 | 4,400 | **6,177** | 5,847 |

1 The classification of certain derivative transactions has been changed so that their results are recognised on a net basis as an adjustment to interest income on loans. This has reduced interest income and interest expense by $832 million for the year ended 30 September 2001. Comparative amounts have been restated for the prior years ending 30 September 2000 and 30 September 1999 by $855 million and $456 million respectively. The change has no impact on net profit.

2 During the year guarantee fees paid of $68 million in respect of certain structured finance transactions have been treated as yield adjustments to interest income. Previously these fees were reported as part of fees and commissions paid. Comparative amounts have been restated for the years ended 30 September 2000 and 30 September 1999 by $46 million and $16 million respectively. Also in previous years income on New Zealand redeemable preference share finance transactions has been reported as interest income on loans. In the current year this income of $194 million has been reported as dividends on redeemable preference share finance. Comparatives amounts have been restated for the years ended 30 September 2000 and 30 September 1999 by $132 million and $42 million respectively. These changes have no impact on net profit.

| | Consolidated | | | Parent Entity | |
|---|---|---|---|---|---|
| | **2001 $m** | 2000 $m | 1999 $m | **2001 $m** | 2000 $m |

## Note 4. Non-interest income

| | | | | | |
|---|---|---|---|---|---|
| **Fees and commissions received** | | | | | |
| Lending fees (loan and risk) | **682** | 584 | 512 | **680** | 584 |
| Transaction fees and commissions received | **1,191** | 1,012 | 895 | **1,164** | 1,010 |
| Service and management fees | **5** | 5 | 7 | **34** | 13 |
| Other non-risk fee income [1] | **212** | 231 | 228 | **248** | 248 |
| **Total fees and commissions received** | **2,090** | 1,832 | 1,642 | **2,126** | 1,855 |
| **Fees and commissions paid** | **(485)** | (338) | (286) | **(473)** | (283) |
| **Proceeds from sale of assets** | | | | | |
| Proceeds from sale of fixed assets | **171** | 525 | 119 | **159** | 197 |
| Proceeds from sale of investment securities | **508** | 1,441 | 147 | **508** | 876 |
| **Total proceeds from sale of assets** | **679** | 1,966 | 266 | **667** | 1,073 |
| **Carrying value of assets sold** | | | | | |
| Carrying value of fixed assets sold | **(167)** | (493) | (120) | **(156)** | (202) |
| Carrying value of investments sold | **(503)** | (1,437) | (77) | **(504)** | (876) |
| **Total carrying value of assets sold** | **(670)** | (1,930) | (197) | **(660)** | (1,078) |
| **Life insurance and funds management revenue** | | | | | |
| Life insurance and funds management revenue [2,3] | **575** | 1,482 | – | **–** | – |
| Life insurance margin on services profit (before income tax) [3] | **–** | – | 124 | **–** | – |
| Funds management income | **–** | – | 159 | **–** | – |
| **Total life insurance and funds management revenue** | **575** | 1,482 | 283 | **–** | – |
| **Life insurance claims and change in policy liabilities** | **(51)** | (915) | – | **–** | – |
| **Other income** | | | | | |
| Trading income: | | | | | |
| Foreign exchange income | **317** | 194 | 246 | **299** | 179 |
| Trading securities | **23** | (21) | 32 | **23** | (21) |
| Other financial instruments | **(66)** | (29) | 6 | **(53)** | (28) |
| Rental income | **11** | 8 | 10 | **2** | 1 |
| General insurance commissions and premiums earned (net of claims) | **48** | 46 | 30 | **17** | 12 |
| Dividends from controlled entities (note 6) | **–** | – | – | **540** | 280 |
| Dividends from other entities | **51** | 43 | 35 | **51** | 38 |
| Cost of hedging overseas operations | **(17)** | (4) | 14 | **(37)** | 12 |
| Other | **32** | 80 | 74 | **150** | 131 |
| **Total other income** | **399** | 317 | 447 | **992** | 604 |
| **Total non-interest income** | **2,537** | 2,414 | 2,155 | **2,652** | 2,171 |

1 Includes $26 million received as profit on sale of housing loans pursuant to the securitisation program, all of which relates to loans securitised in prior years (2000 $27 million, 1999 $28 million of which $25 million related to loans securitised in prior years).

2 The requirements of accounting standard AASB 1038 Life Insurance Business became effective for the Group from 1 October 1999. Life insurance assets, liabilities, revenues and expenses have been consolidated for the years ended 30 September 2001 and 30 September 2000. Comparatives have not been restated.

3 The Margin on Services (MOS) profits have been determined in accordance with the 'margin on services' methodology for the valuation of policy liabilities.

| | Consolidated | | | Parent Entity | |
|---|---|---|---|---|---|
| | **2001 $m** | 2000 $m | 1999 $m | **2001 $m** | 2000 $m |
| **Note 4. Non-interest income (continued)** | | | | | |
| **Life insurance and funds management operating income comprises:** | | | | | |
| Premium income and management fees [1] | **260** | 297 | – | **–** | – |
| Funds management income | **193** | 162 | – | **–** | – |
| Claims expenses (net of recoveries) | **(85)** | (97) | – | **–** | – |
| Investment revenue | **(11)** | 895 | – | **–** | – |
| Life insurance policy liabilities expense | **40** | (799) | – | **–** | – |
| Amortisation of business in force | **(6)** | (19) | – | **–** | – |
| **Operating income** | **391** | 439 | – | **–** | – |
| Change in excess of net embedded value over net assets | | | – | **–** | – |
| of life insurance controlled entity before tax [2] | **133** | 128 | – | **–** | – |
| **Total life insurance and funds management operating income** | **524** | 567 | – | **–** | – |

1 Includes a charge of $41 million (2000 credit of $68 million) in respect of income tax on policyholders' earnings.

2 Westpac Financial Services Group was restructured on 1 February 2000 and the financial services origination business transferred to a life insurance controlled entity. As a consequence of the new Life Insurance Business accounting standard, the results of the financial services origination business is now being brought to account on an embedded value basis.

| | Consolidated | | | Parent Entity | |
|---|---|---|---|---|---|
| | **2001 $m** | 2000 $m | 1999 $m | **2001 $m** | 2000 $m |
| **Note 5. Operating expenses** | | | | | |
| **Salaries and other staff expenses** | | | | | |
| Salaries and wages | **1,287** | 1,385 | 1,434 | **1,078** | 1,155 |
| Provision for employee entitlements | **117** | 124 | 132 | **98** | 110 |
| Superannuation contributions | **3** | 2 | 18 | **2** | 1 |
| Superannuation prepayment adjustment | **20** | 3 | (51) | **20** | 4 |
| Payroll tax | **74** | 80 | 87 | **64** | 69 |
| Fringe benefits tax | **36** | 43 | 38 | **32** | 37 |
| Restructuring costs | **72** | 45 | 14 | **60** | 40 |
| Other | **135** | 133 | 158 | **174** | 147 |
| **Total salaries and other staff expenses** | **1,744** | 1,815 | 1,830 | **1,528** | 1,563 |
| **Equipment and occupancy expenses** | | | | | |
| Operating lease rentals | **282** | 250 | 244 | **282** | 201 |
| Depreciation and amortisation: | | | | | |
| Premises | **11** | 8 | 12 | **4** | 3 |
| Leasehold improvements | **31** | 30 | 17 | **23** | 24 |
| Furniture and equipment | **49** | 43 | 45 | **40** | 34 |
| Technology and computer software | **204** | 188 | 163 | **164** | 156 |
| Equipment repairs and maintenance | **55** | 64 | 58 | **53** | 63 |
| Electricity, water and rates | **5** | 17 | 27 | **4** | 16 |
| Land tax | **2** | 3 | 6 | **2** | 3 |
| Other | **9** | 29 | 30 | **5** | 13 |
| **Total equipment and occupancy expenses** | **648** | 632 | 602 | **577** | 513 |

| | Consolidated | | | Parent Entity | |
|---|---|---|---|---|---|
| | **2001 $m** | 2000 $m | 1999 $m | **2001 $m** | 2000 $m |

## Note 5. Operating expenses (continued)

| | **2001 $m** | 2000 $m | 1999 $m | **2001 $m** | 2000 $m |
|---|---|---|---|---|---|
| **Other expenses** | | | | | |
| Amortisation of goodwill (note 1(e) x.) | **98** | 98 | 100 | **94** | 77 |
| Amortisation of deferred expenditure (note 18) | **22** | 14 | 18 | **18** | 12 |
| Non-lending losses | **58** | 36 | 30 | **56** | 32 |
| Consultancy fees, computer software maintenance and other professional services [1] | **456** | 355 | 309 | **418** | 292 |
| Stationery | **91** | 99 | 94 | **71** | 78 |
| Postage and telecommunication costs [1] | **250** | 204 | 201 | **194** | 179 |
| Insurance | **11** | 11 | 11 | **11** | 12 |
| Advertising | **89** | 104 | 100 | **80** | 95 |
| Transaction taxes | **10** | 11 | 10 | **5** | 4 |
| Training | **15** | 22 | 23 | **14** | 17 |
| Travel | **51** | 53 | 55 | **46** | 46 |
| Other | **27** | 49 | 51 | **209** | 241 |
| **Total other expenses** | **1,178** | 1,056 | 1,002 | **1,216** | 1,085 |
| **Total non-interest expenses** | **3,570** | 3,503 | 3,434 | **3,321** | 3,161 |

1 During the year ended 30 September 2001, expenses relating to the information technology and telecommunications outsourcing agreement were included in these expense categories. This treatment became effective from December 2000.

## Note 6. Individually significant items

| | **2001 $m** | 2000 $m | 1999 $m | **2001 $m** | 2000 $m |
|---|---|---|---|---|---|
| Dividends from controlled entities (note 4) | **–** | – | – | **540** | 280 |

During the year ended 30 September 2001, Westpac received $1,679 million (2000 $280 million) of dividends from controlled entities. The significant increase was primarily due to Westpac's capital management initiatives during the year. These dividends included $1,139 million of controlled entities' prior year retained earnings, which have been treated, as a reduction in the carrying value of Westpac's investment in controlled entities. The remaining $540 million of dividends were paid out of controlled entities' current year earnings and have been recognised by Westpac as dividend income.

The reduction in carrying value of investment in controlled entities reflects Westpac's previous policy of revaluing investments in controlled entities to Westpac's share of net assets plus unamortised goodwill relating to investments. Refer note 1 (h) vi. for details on the change in accounting policy for investments in controlled entities.

| | Consolidated | | | Parent Entity | |
|---|---|---|---|---|---|
| | **2001 $m** | 2000 $m | 1999 $m | **2001 $m** | 2000 $m |
| **Note 7. Income tax** | | | | | |
| **Reconciliation of income tax expense shown in the statement of financial performance with prima facie tax payable on pre-tax profit from ordinary activities** | | | | | |
| Profit from ordinary activities before income tax expense | **2,585** | 2,378 | 2,026 | **2,320** | 1,736 |
| Prima facie income tax based on the company tax rate of 34% (2000 and 1999 36%) in Australia | **879** | 856 | 729 | **789** | 625 |
| **Add/(deduct) tax effect of permanent differences:** | | | | | |
| Change in tax rate [1] | **1** | 26 | – | **(8)** | 29 |
| Rebateable and exempt dividends | **(97)** | (88) | (84) | **(208)** | (129) |
| Tax losses (now) tax effected | **(28)** | (11) | (10) | **(29)** | (10) |
| Timing differences not/(now) tax effected | **1** | (34) | (2) | **1** | (34) |
| Life insurance: | | | | | |
| Tax adjustment on policyholders' earnings [2] | **(27)** | 44 | – | **–** | – |
| Adjustment for life business tax rates | **(19)** | (42) | (22) | **–** | – |
| Change in excess of net market value over net assets of life insurance controlled entity | **(16)** | (16) | – | **–** | – |
| Other non-assessable items | **(30)** | (82) | (68) | **(22)** | (55) |
| Other non-deductible items | **29** | 65 | 70 | **27** | 36 |
| Adjustment for overseas tax rates | **(17)** | (23) | (12) | **(9)** | (10) |
| Prior period adjustments | **2** | (36) | (43) | **9** | (16) |
| Other items | **(1)** | 1 | 9 | **(31)** | (11) |
| **Total income tax expense attributable to profit from ordinary activities** | **677** | 660 | 567 | **519** | 425 |
| **Income tax analysis** | | | | | |
| Income tax expense attributable to profit from ordinary activities comprises: | | | | | |
| Current income tax | | | | | |
| Australia | **674** | 529 | 384 | **459** | 271 |
| Overseas | **83** | 86 | 141 | **61** | 75 |
| | **757** | 615 | 525 | **520** | 346 |
| Deferred income tax | | | | | |
| Australia | **(104)** | 66 | 96 | **(32)** | 80 |
| Overseas | **22** | 15 | (11) | **22** | 15 |
| | **(82)** | 81 | 85 | **(10)** | 95 |
| (Over)/under provision in prior years | | | | | |
| Australia | **12** | (37) | (43) | **19** | (17) |
| Overseas | **(10)** | 1 | – | **(10)** | 1 |
| | **2** | (36) | (43) | **9** | (16) |
| Total Australia | **582** | 558 | 437 | **446** | 334 |
| Total Overseas | **95** | 102 | 130 | **73** | 91 |
| **Total income tax expense attributable to profit from ordinary activities** | **677** | 660 | 567 | **519** | 425 |

1 The company tax rate in Australia reduced from 36% to 34%, effective for the Group for the year beginning 1 October 2000 and has reduced from 34% to 30%, effective for the Group for the year beginning 1 October 2001. The net impact is based on when it is expected that timing differences will reverse.

2 In accordance with the requirements of AASB 1038 Life Insurance Business, the Group's tax expense includes a credit of $41 million (2000 charge of $68 million) in respect of income tax on policyholders' earnings, $14 million (2000 $24 million) of which is in the prima facie income tax above and the balance of $27 million (2000 $44 million) shown here.

## Note 8. Dividends and distributions provided for or paid

| | Consolidated | | | Parent Entity | |
|---|---|---|---|---|---|
| | **2001 $m** | 2000 $m | 1999 $m | **2001 $m** | 2000 $m |
| **Ordinary dividends** | | | | | |
| Interim ordinary dividend paid: | | | | | |
| Ordinary shares 30 cents per share; 2000 26 cents per share; 1999 23 cents per share (all fully franked at 30%, 34% and 36% respectively) | **520** | 475 | 426 | **520** | 475 |
| New Zealand Class shares 30 cents per share; 2000 26 cents per share (both fully imputed) [1] | **16** | 13 | – | **–** | – |
| Final ordinary dividend provided for: | | | | | |
| Ordinary shares 32 cents per share (fully franked at 30%); 2000 28 cents per share (fully franked at 34%); 1999 24 cents per share (unfranked) | **560** | 497 | 445 | **560** | 497 |
| New Zealand Class shares 32 cents per share; 2000 28 cents per share (both fully imputed) [1] | **17** | 15 | – | **–** | – |
| (Over)/under provision of dividend in prior year [2] | **(7)** | 13 | (5) | **(7)** | (1) |
| **Total ordinary dividends provided for or paid** | **1,106** | 1,013 | 866 | **1,073** | 971 |

1 The New Zealand Class shares were issued by a controlled entity on 12 October 1999 (see note 25).

2 The 2000 under provision for the Group includes an amount of $14 million which relates to the final ordinary dividend paid on New Zealand Class shares.

| | Consolidated | | | Parent Entity | |
|---|---|---|---|---|---|
| | **2001 $m** | 2000 $m | 1999 $m | **2001 $m** | 2000 $m |
| **Distributions on other equity instruments** | | | | | |
| Distributions paid or provided for: | | | | | |
| TOPrS | **51** | 43 | 8 | **–** | – |
| Convertible debenture | **–** | – | – | **51** | 43 |
| Perpetual capital notes | **–** | – | – | **32** | 21 |
| **Total distributions on other equity instruments** | **51** | 43 | 8 | **83** | 64 |
| **Franking account balance** | | | | | |
| Franking account balance at the end of the financial year at 30% (2000 34%, 1999 36%) | **5** | (110) | (173) | | |
| Franking credits arising from payment of current income tax payable | **823** | 350 | 102 | | |
| Franking credits utilised for payment of proposed final dividend | **(560)** | (497) | – | | |
| **Adjusted franking account balance at the end of the financial year at 30% (2000 34%, 1999 36%)** | **268** | (257) | (71) | | |

Where dividends are franked in future years these will be met principally out of franking credits arising in each of those subsequent years.

## Note 9. Earnings per ordinary share

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 2001 | | 2000 | | 1999 | |
| | **Basic** | **Diluted** | Basic | Diluted | Basic | Diluted |
| **Reconciliation of earnings used in the calculation of earnings per ordinary share ($million)** | | | | | | |
| Net profit | **1,908** | **1,908** | 1,718 | 1,718 | 1,459 | 1,459 |
| add: Potential earnings from the proceeds of exercised options | **–** | **14** | – | 12 | – | 6 |
| less: Outside equity interests | **(5)** | **(5)** | (3) | (3) | (3) | (3) |
| TOPrS distribution | **(51)** | **(51)** | (43) | (43) | (8) | (8) |
| Earnings | **1,852** | **1,866** | 1,672 | 1,684 | 1,448 | 1,454 |
| **Weighted average number of ordinary shares (millions)** | | | | | | |
| Weighted average number of ordinary shares | **1,801** | **1,801** | 1,883 | 1,883 | 1,881 | 1,881 |
| Potential dilutive adjustment: | | | | | | |
| Exercise of options | **–** | **30** | – | 38 | – | 29 |
| **Total weighted average number of ordinary shares** | **1,801** | **1,831** | 1,883 | 1,921 | 1,881 | 1,910 |
| **Earnings per ordinary share (cents)** | **102.8** | **101.9** | 88.8 | 87.7 | 77.0 | 76.1 |

AASB 1038 Life Insurance Business became operative for the Group from 1 October 1999. The effect for the financial year ended 30 September 2001 has been to increase both basic and diluted earnings per share by 2.7 cents (2000 3.1 cents and 3.1 cents respectively) as compared with the earnings per share that would have been determined using the previous accounting policy.

## Note 10. Due from other financial institutions

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2001 $m** | 2000 $m | **2001 $m** | 2000 $m |
| **Australia** | | | | |
| Interest earning | **2,233** | 1,346 | **2,229** | 1,346 |
| Non-interest earning | **688** | 308 | **472** | – |
| **Total Australia** | **2,921** | 1,654 | **2,701** | 1,346 |
| **Overseas** | | | | |
| Interest earning | **1,862** | 1,657 | **1,729** | 1,461 |
| Non-interest earning | **311** | 14 | **308** | 8 |
| **Total Overseas** | **2,173** | 1,671 | **2,037** | 1,469 |
| **Total due from other financial institutions** | **5,094** | 3,325 | **4,738** | 2,815 |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2001 $m** | 2000 $m | **2001 $m** | 2000 $m |

## Note 11. Trading securities

| | | | | |
|---|---|---|---|---|
| **Listed** | | | | |
| Australian public securities | | | | |
| Commonwealth securities | **537** | 181 | **537** | 181 |
| Semi-government securities | **3,178** | 920 | **3,178** | 920 |
| Australian equity securities | **747** | 755 | **747** | 755 |
| Australian debt securities | **144** | 4 | **144** | 4 |
| Overseas public securities | **1,372** | 1,015 | **1,372** | 1,015 |
| Overseas debt securities | **94** | 118 | **94** | 107 |
| **Total listed securities** | **6,072** | 2,993 | **6,072** | 2,982 |
| **Unlisted** | | | | |
| Australian public securities | | | | |
| Treasury notes | **1,393** | 1,717 | **1,393** | 1,717 |
| Semi-government securities | **9** | 9 | **9** | 9 |
| Australian debt securities | **2,574** | 1,837 | **2,574** | 1,837 |
| Overseas debt securities | **581** | 618 | **581** | 618 |
| **Total unlisted securities** | **4,557** | 4,181 | **4,557** | 4,181 |
| **Total trading securities** | **10,629** | 7,174 | **10,629** | 7,163 |

As at 30 September 2001 Group trading securities include $110 million in unrealised gains (2000 $12 million unrealised losses).

| | Consolidated | | | | Parent Entity | | | |
|---|---|---|---|---|---|---|---|---|
| | **2001** | | 2000 | | **2001** | | 2000 | |
| | **Book Value $m** | **Market Value $m** | Book Value $m | Market Value $m | **Book Value $m** | **Market Value $m** | Book Value $m | Market Value $m |
| **Note 12. Investment securities** | | | | | | | | |
| **Listed** | | | | | | | | |
| Australian public securities | | | | | | | | |
| Commonwealth securities | **–** | **–** | 116 | 120 | **–** | **–** | 116 | 120 |
| Overseas public securities | **6** | **6** | 5 | 5 | **6** | **6** | 5 | 5 |
| Overseas debt securities | **1,504** | **1,435** | 1,051 | 1,026 | **1,504** | **1,435** | 1,051 | 1,026 |
| **Total listed securities** | **1,510** | **1,441** | 1,172 | 1,151 | **1,510** | **1,441** | 1,172 | 1,151 |
| **Unlisted** | | | | | | | | |
| Australian debt securities | **824** | **828** | 612 | 612 | **824** | **828** | 612 | 612 |
| Overseas public securities | **131** | **131** | 112 | 112 | **39** | **39** | 31 | 31 |
| Overseas debt securities | **495** | **414** | 835 | 795 | **494** | **414** | 825 | 785 |
| **Total unlisted securities** | **1,450** | **1,373** | 1,559 | 1,519 | **1,357** | **1,281** | 1,468 | 1,428 |
| **Total investment securities** | **2,960** | **2,814** | 2,731 | 2,670 | **2,867** | **2,722** | 2,640 | 2,579 |

Other than securities issued by Australian Commonwealth or state governments, the Group held no trading and investment securities of a single issuer, the book value of which, in aggregate, exceeded 10% of the shareholders' equity.

| | Within 1 year $m | Over 1 year to 5 years $m | Over 5 years to 10 years $m | Over 10 years $m | Total $m |
|---|---|---|---|---|---|
| Maturities of the Group's investment securities are as follows: | | | | | |
| **2001 Book value** | | | | | |
| Australian debt securities | **37** | **662** | **108** | **17** | **824** |
| Overseas public securities | **137** | **–** | **–** | **–** | **137** |
| Overseas debt securities | **120** | **872** | **953** | **54** | **1,999** |
| **Total book value by maturity** | **294** | **1,534** | **1,061** | **71** | **2,960** |
| **Total market value by maturity** | **294** | **1,517** | **935** | **68** | **2,814** |
| **2000 Book value** | | | | | |
| Australian public securities | | | | | |
| Commonwealth securities | – | 116 | – | – | 116 |
| Australian debt securities | – | 519 | 93 | – | 612 |
| Overseas public securities | 102 | 15 | – | – | 117 |
| Overseas debt securities | 41 | 936 | 691 | 218 | 1,886 |
| **Total book value by maturity** | 143 | 1,586 | 784 | 218 | 2,731 |
| **Total market value by maturity** | 143 | 1,576 | 746 | 205 | 2,670 |

## Note 12. Investment securities (continued)

The following table provides an analysis of the difference between book value (amortised cost) and market value of the Group's investment securities at 30 September:

| | **2001** | | | | 2000 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Book Value $m** | **Unrealised Gains $m** | **Unrealised Losses $m** | **Market Value $m** | Book Value $m | Unrealised Gains $m | Unrealised Losses $m | Market Value $m |
| **Listed** | | | | | | | | |
| Australian public securities | | | | | | | | |
| Commonwealth securities | **–** | **–** | **–** | **–** | 116 | 4 | – | 120 |
| Overseas public securities | **6** | **–** | **–** | **6** | 5 | – | – | 5 |
| Overseas debt securities | **1,504** | **2** | **(71)** | **1,435** | 1,051 | – | (25) | 1,026 |
| **Total listed securities** | **1,510** | **2** | **(71)** | **1,441** | 1,172 | 4 | (25) | 1,151 |
| **Unlisted** | | | | | | | | |
| Australian debt securities | **824** | **4** | **–** | **828** | 612 | – | – | 612 |
| Overseas public securities | **131** | **–** | **–** | **131** | 112 | – | – | 112 |
| Overseas debt securities | **495** | **–** | **(81)** | **414** | 835 | – | (40) | 795 |
| **Total unlisted securities** | **1,450** | **4** | **(81)** | **1,373** | 1,559 | – | (40) | 1,519 |
| **Total listed and unlisted securities** | **2,960** | **6** | **(152)** | **2,814** | 2,731 | 4 | (65) | 2,670 |

| | **2001 $m** | 2000 $m | 1999 $m |
|---|---|---|---|
| Details of sales of investment securities during the year were as follows: | | | |
| Proceeds from sales | **508** | 1,441 | 147 |
| Gross gains realised on sales | **5** | 4 | – |

The following table shows the weighted-average carrying yield for each range of investment securities as at 30 September 2001. There are no tax-exempt securities.

| | Within 1 year % | Over 1 year to 5 years % | Over 5 years to 10 years % | Over 10 years % | Total % |
|---|---|---|---|---|---|
| Australian Commonwealth securities | – | 9.9 | – | – | 9.9 |
| Australian debt securities | – | 6.1 | 6.1 | 7.1 | 6.1 |
| Other Australian securities | 7.4 | 5.8 | – | – | 6.4 |
| Overseas public securities | 11.4 | 3.7 | – | – | 9.9 |
| Overseas debt securities | 8.6 | 6.0 | 6.1 | 6.5 | 6.6 |
| **Total investment securities** | 9.0 | 6.3 | 6.1 | 6.6 | 6.8 |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2001 $m** | 2000 $m | **2001 $m** | 2000 $m |
| **Note 13. Loans** | | | | |
| Loans are classified based on the location of the lending office. | | | | |
| **Australia** | | | | |
| Overdrafts | **3,488** | 3,443 | **3,488** | 3,443 |
| Credit card outstandings | **5,631** | 4,674 | **3,871** | 2,957 |
| Overnight and at call money market loans | **305** | 265 | **305** | 265 |
| Own acceptances discounted | **3,270** | 2,188 | **3,056** | 2,027 |
| Term loans: | | | | |
| Housing | **53,877** | 47,471 | **53,876** | 47,471 |
| Non-housing [1] | **24,164** | 23,002 | **18,090** | 16,232 |
| Finance leases | **1,770** | 2,023 | **482** | 493 |
| Investments in leveraged lease and equity lease partnerships | **202** | 284 | **202** | 284 |
| Redeemable preference share finance | **–** | 426 | **–** | 426 |
| Other[1] | **3,209** | 2,313 | **1,983** | 2,168 |
| **Total Australia** | **95,916** | 86,089 | **85,353** | 75,766 |
| **New Zealand** | | | | |
| Overdrafts | **855** | 617 | **855** | 617 |
| Credit card outstandings | **778** | 526 | **549** | 389 |
| Overnight and at call money market loans | **657** | 439 | **657** | 439 |
| Term loans: | | | | |
| Housing | **10,968** | 9,404 | **10,347** | 9,004 |
| Non-housing [1] | **6,734** | 5,488 | **6,257** | 4,976 |
| Finance leases | **27** | 28 | **–** | – |
| Redeemable preference share finance | **2,792** | 1,546 | **–** | – |
| Other [1] | **933** | 1,035 | **769** | 865 |
| **Total New Zealand** | **23,744** | 19,083 | **19,434** | 16,290 |
| **Other Overseas** | **4,191** | 3,839 | **3,760** | 3,080 |
| **Total Overseas** | **27,935** | 22,922 | **23,194** | 19,370 |
| **Total loans (net of unearned income)** | **123,851** | 109,011 | **108,547** | 95,136 |
| Provisions for bad and doubtful debts (note 14) | **(1,601)** | (1,478) | **(1,333)** | (1,289) |
| **Total net loans** | **122,250** | 107,533 | **107,214** | 93,847 |

1 Following a review of loan classifications during the year, categories in which certain loans are reported have been revised. Comparatives have been restated in Australia resulting in a reduction in other loans of $4,833 million and an increase in term loans non-housing of $4,741 million. Minor changes have been made to other categories of loans including a reclassification between New Zealand and other overseas loans.

**Securitisation of loans**

To 30 September 2001 the Group had securitised assets amounting to $10,335 million (2000 $10,133 million) via the Westpac Securitisation Trust program (WST program) and various private placements including the Home Loan Trust program (HLT program). Outstanding securitised assets totalled $3,606 million as at 30 September 2001 (2000 $4,751 million).

The securities issued by the WST program and units issued by the HLT program do not represent deposits or other liabilities of Westpac or the Group. Neither Westpac nor the Group in any way stands behind the capital value and/or performance of the securities or the assets of the WST program and the HLT program except to the limited extent provided in the transaction documents for the WST program and the HLT program through the provision of arms length services and facilities (refer note 1(h) iv.). The Group does not guarantee the payment of interest or the repayment of principal due on the securities. The Group is not obliged to support any losses that may be suffered by the investors and does not intend to provide such support. The Group has no right to repurchase any of the securitised loans and no obligation to do so, other than in certain circumstances (excluding loan impairment) where there is a breach of warranty within 120 days of the sale or when the securitised loans cease to conform with the terms and conditions of the WST or the HLT programs.

## Note 13. Loans (continued)

**Loss and delinquency amounts for housing loans** [1]

| | Consolidated | | |
|---|---|---|---|
| | As at 30 September 2001 | | Year ended 30 September 2001 |
| | **Total Principal** | **Delinquent Principal** | **Credit Losses (net of recoveries)** |
| | **$m** | **$m** | **$m** |
| Housing loans held in portfolio [2] | **65,075** | **285** | **3** |
| Housing loans securitised | **3,606** | **–** | **–** |
| Total housing loans managed | **68,681** | **285** | **3** |

1 Delinquent housing loans are where contractual payments are greater than 60 days in arrears.
2 There are currently no housing loans that have been identified as being held for sale or securitisation.

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | **2001** | 2000 | 1999 | 1998 | 1997 |
| | **$m** | $m | $m | $m | $m |
| **Loans by type of customer** | | | | | |
| **Australia** | | | | | |
| Government and other public authorities | **575** | 544 | 284 | 328 | 472 |
| Agriculture, forestry and fishing [1] | **1,335** | 1,587 | 1,642 | 1,077 | 1,010 |
| Commercial and financial [2] | **20,802** | 20,235 | 20,744 | 16,811 | 16,037 |
| Real estate – construction | **817** | 789 | 1,158 | 1,634 | 1,357 |
| Real estate – mortgage [1] | **53,877** | 47,844 | 40,544 | 38,911 | 26,223 |
| Instalment loans and other personal lending [1] | **12,906** | 10,996 | 9,001 | 6,816 | 8,474 |
| Subtotal | **90,312** | 81,995 | 73,373 | 65,577 | 53,573 |
| Lease financing | **2,334** | 1,906 | 2,644 | 2,254 | 1,477 |
| Own acceptances discounted | **3,270** | 2,188 | 1,957 | 2,498 | 774 |
| **Total Australia** | **95,916** | 86,089 | 77,974 | 70,329 | 55,824 |
| **Overseas** | | | | | |
| Government and other public authorities | **316** | 420 | 270 | 281 | 371 |
| Agriculture, forestry and fishing [1] | **1,858** | 1,352 | 1,419 | 1,652 | 1,474 |
| Commercial and financial | **11,657** | 8,888 | 6,972 | 8,589 | 8,688 |
| Real estate – construction | **229** | 152 | 132 | 217 | 264 |
| Real estate – mortgage [1] | **11,198** | 9,725 | 10,170 | 11,551 | 12,266 |
| Instalment loans and other personal lending [1] | **2,526** | 2,265 | 2,222 | 506 | 489 |
| Subtotal | **27,784** | 22,802 | 21,185 | 22,796 | 23,552 |
| Lease financing | **151** | 120 | 56 | 184 | 86 |
| Own acceptances discounted | **–** | – | 1 | 29 | – |
| **Total Overseas** | **27,935** | 22,922 | 21,242 | 23,009 | 23,638 |
| **Total loans (net of unearned income)** | **123,851** | 109,011 | 99,216 | 93,338 | 79,462 |
| Provisions for bad and doubtful debts | **(1,601)** | (1,478) | (1,500) | (1,600) | (1,588) |
| **Total net loans** | **122,250** | 107,533 | 97,716 | 91,738 | 77,874 |

The increase in loans to Australian customers during 1998 was due principally to acquisitions in that year.

1 Real estate mortgage loans and instalment loans and other personal lending include a total of $1.6 billion of personal lending to the agricultural sector (2000 $1.3 billion, 1999 $1.6 billion, 1998 $1.8 billion and 1997 $1.2). In addition, $1.1 billion of finance had been provided to the agricultural sector (2000 $1.0 billion, 1999 $1.0 billion, 1998 $0.8 billion and 1997 $0.8 billion) in the form of acceptances which are excluded from the above table.
2 Some lending in the commercial and financial sectors in Australia is for the purpose of the financing of construction of real estate and land development projects which cannot be separately identified from other lending to these borrowers, given their conglomerate structure and activities. In these circumstances, the loans have been included in the commercial and financial category.

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | **2001** | 2000 | 1999 | 1998 | 1997 |
| | **%** | % | % | % | % |
| **Note 13. Loans (continued)** | | | | | |
| Percentage of loans in each customer category to total loans | | | | | |
| **Australia** | | | | | |
| Government and other public authorities | **0.5** | 0.5 | 0.3 | 0.4 | 0.6 |
| Agriculture, forestry and fishing | **1.1** | 1.5 | 1.7 | 1.2 | 1.3 |
| Commercial and financial | **16.8** | 18.6 | 20.8 | 18.0 | 20.2 |
| Real estate – construction | **0.7** | 0.7 | 1.2 | 1.8 | 1.7 |
| Real estate – mortgage | **43.5** | 43.9 | 40.8 | 41.7 | 33.0 |
| Instalment loans and other personal lending | **10.4** | 10.1 | 9.1 | 7.3 | 10.7 |
| Lease financing | **1.9** | 1.7 | 2.7 | 2.4 | 1.9 |
| Own acceptances discounted | **2.6** | 2.0 | 2.0 | 2.7 | 0.9 |
| **Overseas** | **22.5** | 21.0 | 21.4 | 24.5 | 29.7 |
| | **100.0** | 100.0 | 100.0 | 100.0 | 100.0 |

| | Within 1 year $m | 1 to 5 years $m | Over 5 years $m | Total $m |
|---|---|---|---|---|
| **Maturity distribution of loans by type of customer as at 30 September 2001** [1] | | | | |
| **By offices in Australia** | | | | |
| Government and other public authorities | **299** | **141** | **135** | **575** |
| Agriculture, forestry and fishing | **479** | **182** | **674** | **1,335** |
| Commercial and financial | **9,681** | **7,623** | **3,498** | **20,802** |
| Real estate – construction | **368** | **206** | **243** | **817** |
| Real estate – mortgage | **850** | **4,673** | **48,354** | **53,877** |
| Instalment loans and other personal lending | **6,068** | **2,198** | **4,640** | **12,906** |
| Lease financing | **355** | **1,919** | **60** | **2,334** |
| Own acceptances discounted | **3,270** | **–** | **–** | **3,270** |
| **Total Australia** | **21,370** | **16,942** | **57,604** | **95,916** |
| **Total Overseas** | **12,158** | **10,274** | **5,503** | **27,935** |
| **Total loans (net of unearned income)** | **33,528** | **27,216** | **63,107** | **123,851** |
| **Maturity distribution of loans by type of customer as at 30 September 2000** [1] | | | | |
| **By offices in Australia** | | | | |
| Government and other public authorities | 227 | 161 | 156 | 544 |
| Agriculture, forestry and fishing | 579 | 214 | 794 | 1,587 |
| Commercial and financial | 11,210 | 5,598 | 3,427 | 20,235 |
| Real estate – construction | 447 | 137 | 205 | 789 |
| Real estate – mortgage | 1,346 | 3,379 | 43,119 | 47,844 |
| Instalment loans and other personal lending | 5,609 | 2,310 | 3,077 | 10,996 |
| Lease financing | 767 | 1,102 | 37 | 1,906 |
| Own acceptances discounted | 2,188 | – | – | 2,188 |
| **Total Australia** | 22,373 | 12,901 | 50,815 | 86,089 |
| **Total Overseas** | 9,484 | 8,378 | 5,060 | 22,922 |
| **Total loans (net of unearned income)** | 31,857 | 21,279 | 55,875 | 109,011 |

1 The maturity analysis is based on contractual terms.

| | 2001 Loans at Variable Interest Rates $m | 2001 Loans at Fixed Interest Rates $m | 2001 Total $m | 2000 Loans at Variable Interest Rates $m | 2000 Loans at Fixed Interest Rates $m | 2000 Total $m |
|---|---|---|---|---|---|---|
| | **Consolidated** | | | | | |

## Note 13. Loans (continued)

| | **Loans at Variable Interest Rates 2001 $m** | **Loans at Fixed Interest Rates 2001 $m** | **Total 2001 $m** | Loans at Variable Interest Rates 2000 $m | Loans at Fixed Interest Rates 2000 $m | Total 2000 $m |
|---|---|---|---|---|---|---|
| **Interest rate segmentation of Group loans maturing after one year** | | | | | | |
| By offices in Australia | **58,390** | **16,156** | **74,546** | 44,690 | 19,026 | 63,716 |
| By offices Overseas | **7,014** | **8,763** | **15,777** | 6,239 | 7,199 | 13,438 |
| **Total loans maturing after one year** | **65,404** | **24,919** | **90,323** | 50,929 | 26,225 | 77,154 |

## Note 14. Provisions for bad and doubtful debts

| | **Consolidated 2001 $m** | Consolidated 2000 $m | Consolidated 1999 $m | **Parent Entity 2001 $m** | Parent Entity 2000 $m |
|---|---|---|---|---|---|
| **General provision** | | | | | |
| Balance at beginning of year | **1,212** | 1,170 | 1,238 | **1,049** | 1,028 |
| Charge to net profit | **433** | 202 | 171 | **221** | 93 |
| Transfer (to)/from specific provisions | **(113)** | 28 | (52) | **(85)** | 22 |
| Recoveries of debts previously written off | **102** | 90 | 75 | **60** | 64 |
| Write-offs | **(356)** | (271) | (236) | **(184)** | (149) |
| Provisions of controlled entities/businesses acquired/(disposed) | **3** | – | (14) | **–** | – |
| Exchange rate and other adjustments | **13** | (7) | (12) | **11** | (9) |
| **Balance at year end** [1] | **1,294** | 1,212 | 1,170 | **1,072** | 1,049 |
| **Specific provisions** | | | | | |
| Balance at beginning of year | **266** | 330 | 362 | **240** | 291 |
| Transfer from/(to) general provision comprising: | | | | | |
| New specific provisions | **223** | 75 | 165 | **191** | 67 |
| Specific provisions no longer required | **(110)** | (103) | (113) | **(106)** | (89) |
| | **113** | (28) | 52 | **85** | (22) |
| Write-offs | **(86)** | (59) | (66) | **(78)** | (54) |
| Provisions of controlled entities/businesses acquired/(disposed) | **2** | (2) | (10) | **–** | – |
| Exchange rate and other adjustments | **12** | 25 | (8) | **14** | 25 |
| **Balance at year end** | **307** | 266 | 330 | **261** | 240 |
| **Total provisions for bad and doubtful debts** | **1,601** | 1,478 | 1,500 | **1,333** | 1,289 |

1 Includes provision for off-balance sheet credit related commitments: Group $161 million (2000 $186 million, 1999 $144 million); Westpac $141 million (2000 $164 million).

The 2001 charge to net profit of $433 million represents a 114% increase from the 2000 charge of $202 million which, in turn, was up 18% from 1999. The coverage ratio of total provisions (specific and general) to total impaired assets at 30 September 2001 decreased to 177% from 249% at 30 September 2000 and 233% at 30 September 1999.

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | **2001** **$m** | 2000 $m | 1999 $m | 1998 $m | 1997 $m |
| **Note 14. Provisions for bad and doubtful debts (continued)** | | | | | |
| **Specific provision by type of customer** | | | | | |
| **Australia** | | | | | |
| Agriculture, forestry and fishing | **3** | 4 | 7 | 28 | 33 |
| Commercial and financial | **143** | 97 | 102 | 92 | 60 |
| Real estate – construction | **1** | 2 | 3 | 20 | 3 |
| Real estate – mortgage | **3** | 2 | 4 | 14 | 6 |
| Instalment loans and personal lending | **21** | 19 | 34 | 31 | 119 |
| **Total Australia** | **171** | 124 | 150 | 185 | 221 |
| **New Zealand** | | | | | |
| Agriculture, forestry and fishing | **1** | 2 | 5 | – | – |
| Commercial and financial | **7** | – | 18 | – | 4 |
| Real estate – construction | **–** | – | – | – | 7 |
| Real estate – mortgage | **9** | 7 | – | 37 | 51 |
| Instalment loans and other personal lending | **15** | 13 | 9 | 6 | 3 |
| **Total New Zealand** | **32** | 22 | 32 | 43 | 65 |
| **Other Overseas** | | | | | |
| Government and other public authorities | **–** | 24 | 20 | – | – |
| Agriculture, forestry and fishing | **2** | 4 | 3 | 2 | 7 |
| Commercial and financial | **98** | 90 | 124 | 123 | 32 |
| Real estate – construction | **1** | – | 1 | 2 | 8 |
| Real estate – mortgage | **1** | – | – | – | – |
| Instalment loans and other personal lending | **2** | 2 | – | 7 | 6 |
| **Total Other Overseas** | **104** | 120 | 148 | 134 | 53 |
| **Total Overseas** | **136** | 142 | 180 | 177 | 118 |
| **Total specific provisions** | **307** | 266 | 330 | 362 | 339 |

## Note 14. Provisions for bad and doubtful debts (continued)

The following tables show the movements in the balance of provisions for bad and doubtful debts, details of loans written off and recoveries of loans written off by type of customer and geographic category for the past five years:

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | **2001 $m** | 2000 $m | 1999 $m | 1998 $m | 1997 $m |
| **Balance of provisions for bad and doubtful debts (specific and general) at beginning of year** | **1,478** | 1,500 | 1,600 | 1,588 | 1,847 |
| Net write-offs and recoveries | **(340)** | (240) | (227) | (222) | (321) |
| Charge to operating profit | **433** | 202 | 171 | 168 | 78 |
| Provisions of controlled entities/businesses acquired/(disposed) | **5** | (2) | (24) | 77 | – |
| Exchange rate and other adjustments | **25** | 18 | (20) | (11) | (16) |
| **Balance of provisions for bad and doubtful debts at year end** | **1,601** | 1,478 | 1,500 | 1,600 | 1,588 |
| **Write-offs and recoveries** | | | | | |
| **Write-offs** | | | | | |
| **Australia** | | | | | |
| Agriculture, forestry and fishing | **–** | (1) | – | (7) | (10) |
| Commercial and financial [1] | **(70)** | (41) | (38) | (45) | (67) |
| Real estate – construction | **(1)** | (2) | (2) | (4) | (2) |
| Real estate – mortgage | **(3)** | (2) | – | (2) | (15) |
| Instalment loans and other personal lending | **(303)** | (194) | (203) | (193) | (246) |
| **Total Australia** | **(377)** | (240) | (243) | (251) | (340) |
| **New Zealand** | | | | | |
| Agriculture, forestry and fishing | **–** | – | (4) | – | – |
| Commercial and financial [1] | **(1)** | – | (8) | – | (5) |
| Real estate – construction | **–** | – | – | – | (3) |
| Real estate – mortgage | **–** | – | (3) | (38) | (45) |
| Instalment loans and other personal lending | **(53)** | (43) | (29) | (6) | (7) |
| **Total New Zealand** | **(54)** | (43) | (44) | (44) | (60) |
| **Total Other Overseas** | **(11)** | (47) | (15) | (16) | (14) |
| **Total write-offs** | **(442)** | (330) | (302) | (311) | (414) |
| **Recoveries** | | | | | |
| **Australia** | | | | | |
| Agriculture, forestry and fishing | **–** | – | – | 6 | 3 |
| Commercial and financial [1] | **12** | 3 | 5 | 19 | 10 |
| Real estate – construction | **–** | – | – | 1 | 1 |
| Real estate – mortgage | **–** | 2 | – | – | 1 |
| Instalment loans and other personal lending | **62** | 68 | 55 | 53 | 52 |
| **Australia** | **74** | 73 | 60 | 79 | 67 |
| **New Zealand** | **19** | 10 | 11 | 8 | 13 |
| **Other Overseas** | **9** | 7 | 4 | 2 | 13 |
| **Total recoveries** | **102** | 90 | 75 | 89 | 93 |
| **Net write-offs and recoveries** | **(340)** | (240) | (227) | (222) | (321) |

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

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | **2001 $m** | 2000 $m | 1999 $m | 1998 $m | 1997 $m |
| **Note 15. Impaired assets** | | | | | |
| **Australia** | | | | | |
| Non-accrual assets [1] | | | | | |
| Gross | **540** | 291 | 347 | 457 | 609 |
| Specific provisions | **(163)** | (115) | (149) | (176) | (205) |
| Net | **377** | 176 | 198 | 281 | 404 |
| Restructured loans | | | | | |
| Gross | **29** | 34 | 13 | 39 | 38 |
| Specific provisions | **(8)** | (9) | (1) | (9) | (16) |
| Net | **21** | 25 | 12 | 30 | 22 |
| **Net Australian impaired assets** | **398** | 201 | 210 | 311 | 426 |
| **New Zealand** | | | | | |
| Non-accrual assets [1] | | | | | |
| Gross | **119** | 95 | 100 | 121 | 104 |
| Specific provisions | **(32)** | (22) | (32) | (42) | (41) |
| Net | **87** | 73 | 68 | 79 | 63 |
| Restructured loans | | | | | |
| Gross | **1** | 16 | 1 | 8 | 41 |
| Specific provisions | **–** | – | – | (1) | (24) |
| Net | **1** | 16 | 1 | 7 | 17 |
| **Net New Zealand impaired assets** | **88** | 89 | 69 | 86 | 80 |
| **Other Overseas** | | | | | |
| Non-accrual assets [1] | | | | | |
| Gross | **207** | 146 | 172 | 206 | 70 |
| Specific provisions | **(104)** | (118) | (144) | (130) | (49) |
| Net | **103** | 28 | 28 | 76 | 21 |
| Restructured loans | | | | | |
| Gross | **6** | 11 | 11 | 21 | 7 |
| Specific provisions | **–** | (2) | (4) | (4) | (4) |
| Net | **6** | 9 | 7 | 17 | 3 |
| **Net Other Overseas impaired assets** | **109** | 37 | 35 | 93 | 24 |
| **Total net impaired assets** [2] | **595** | 327 | 314 | 490 | 530 |
| **Accruing items past due 90 days (with adequate security)** | | | | | |
| Australia | **147** | 154 | 156 | 181 | 312 |
| New Zealand | **255** | 40 | 30 | 66 | 55 |
| Other Overseas | **9** | 11 | 4 | 105 | 14 |
| **Total** | **411** | 205 | 190 | 352 | 381 |
| **Interest received for the year on the above non-accrual and restructured assets is:** | | | | | |
| Australia | **6** | 7 | 16 | 15 | 39 |
| New Zealand | **5** | 6 | 5 | 6 | 12 |
| Other Overseas | **9** | 9 | 1 | 1 | 2 |
| **Total** | **20** | 22 | 22 | 22 | 53 |
| **Interest forgone for the year on the above non-accrual and restructured assets is estimated at:** | | | | | |
| Australia | **23** | 19 | 38 | 54 | 92 |
| New Zealand | **10** | 8 | 1 | 8 | 7 |
| Other Overseas | **4** | 3 | 1 | 2 | 3 |
| **Total** | **37** | 30 | 40 | 64 | 102 |

1 Includes assets acquired through security enforcement (Other Real Estate Owned), recorded at net market value. This has not been a significant amount in any of the above years.
2 Includes impaired items in respect of derivative financial instruments and unrecognised contingent commitments of $122 million (2000 $17 million, 1999 $16 million, 1998 $36 million, 1997 $36 million).

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2001 $m** | 2000 $m | **2001 $m** | 2000 $m |

## Note 16. Fixed assets

| | | | | |
|---|---|---|---|---|
| Premises and sites (note 1 (e) ix.) | | | | |
| At Directors' valuation 2000 | **–** | 59 | **–** | 2 |
| At Directors' valuation 1999 | **–** | 28 | **–** | 11 |
| At Directors' valuation 1998 | **–** | 54 | **–** | 33 |
| At Directors' valuation 1997 | **–** | 21 | **–** | – |
| At Directors' valuation 1995 | **–** | 180 | **–** | 125 |
| At cost [1] | **302** | 61 | **163** | 59 |
| Accumulated depreciation | **(28)** | (23) | **(12)** | (10) |
| | **274** | 380 | **151** | 220 |
| Leasehold improvements | | | | |
| At cost | **263** | 235 | **190** | 185 |
| Accumulated amortisation | **(124)** | (105) | **(88)** | (78) |
| | **139** | 130 | **102** | 107 |
| Furniture, equipment and computer software | | | | |
| At cost | **1,535** | 1,542 | **1,283** | 1,305 |
| Accumulated depreciation | **(914)** | (877) | **(760)** | (768) |
| | **621** | 665 | **523** | 537 |
| **Total fixed assets** | **1,034** | 1,175 | **776** | 864 |

**Reconciliations**

Reconciliations of the carrying amount for each class of fixed assets are set out below:

| | | | | |
|---|---|---|---|---|
| **Premises and sites** | | | | |
| Carrying amount at the beginning of the year | **380** | 713 | **220** | 281 |
| Additions | **16** | 58 | **19** | 44 |
| Disposals | **(115)** | (366) | **(91)** | (94) |
| Recoverable amount write downs | **(3)** | – | **(1)** | – |
| Revaluation adjustments | **–** | (26) | **–** | (17) |
| Depreciation expense | **(11)** | (8) | **(4)** | (3) |
| Foreign currency exchange differences | **7** | 9 | **7** | 9 |
| Carrying amount at year end | **274** | 380 | **150** | 220 |
| **Leasehold improvements** | | | | |
| Carrying amount at the beginning of the year | **130** | 116 | **107** | 101 |
| Additions | **46** | 92 | **26** | 79 |
| Disposals | **(9)** | (50) | **(8)** | (50) |
| Depreciation expense | **(31)** | (30) | **(23)** | (24) |
| Foreign currency exchange differences | **3** | 2 | **1** | 1 |
| Carrying amount at year end | **139** | 130 | **103** | 107 |
| **Furniture, equipment and computer software** | | | | |
| Carrying amount at the beginning of the year | **665** | 698 | **537** | 554 |
| Additions | **237** | 268 | **241** | 227 |
| Disposals | **(43)** | (77) | **(57)** | (58) |
| Additions through acquisition of entity | **12** | – | **–** | – |
| Recoverable amount write downs | **1** | – | **–** | – |
| Depreciation expense | **(253)** | (231) | **(204)** | (190) |
| Foreign currency exchange differences | **2** | 7 | **6** | 4 |
| Carrying amount at year end | **621** | 665 | **523** | 537 |
| **Total fixed assets** | **1,034** | 1,175 | **776** | 864 |

1 As set out in note 1(h) vi. AASB 1041 Revaluation of Non-Current Assets became operative for the Group from 1 October 2000. The above cost amount at 30 September 2001 represents deemed cost of premises and sites as at 30 September 2000 and subsequent acquisitions and disposals.

In July 2001, an independent valuation of premises and sites was undertaken. Based on these valuations, and allowing for subsequent acquisitions and disposals, the value of premises held at 30 September 2001 is $297 million.

## Note 17. Deferred tax assets

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2001 $m** | 2000 $m | **2001 $m** | 2000 $m |
| Future income tax benefits | **441** | 467 | **368** | 439 |
| **Future income tax benefits comprise:** | | | | |
| Provision for bad and doubtful debts | **474** | 450 | **407** | 393 |
| Provision for employee entitlements | **91** | 108 | **82** | 98 |
| Treasury/financial markets products | **(189)** | (9) | **(189)** | (9) |
| Depreciation | **16** | 19 | **7** | 13 |
| Tax losses | **100** | 197 | **95** | 125 |
| Other timing differences | **(51)** | (298) | **(34)** | (181) |
| **Total deferred tax assets** | **441** | 467 | **368** | 439 |
| Potential future income tax benefits not brought to account as realisation is not considered virtually certain: | | | | |
| Related to losses | **44** | 20 | **36** | 13 |
| Other | **34** | 58 | **33** | 57 |
| **Total future income tax benefit not brought to account** | **78** | 78 | **69** | 70 |

The potential future income tax benefits related to losses will only be obtained if:

(i) the Group or relevant entity derives future assessable income of a nature and amount sufficient to enable the benefits from the deductions for the losses to be realised;

(ii) the Group or relevant entity continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) no changes in tax legislation adversely affect the Group or relevant entity in realising the benefits from the deductions for the losses.

## Note 18. Other assets

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2001 $m** | 2000 $m | **2001 $m** | 2000 $m |
| Accrued interest receivable | **620** | 575 | **532** | 491 |
| Securities purchased under agreements to resell | **283** | 289 | **275** | 270 |
| Securities sold not delivered | **4,179** | 2,636 | **4,179** | 2,636 |
| Other financial markets assets [1] | **14,120** | 13,549 | **14,120** | 13,678 |
| Deferred expenditure (after accumulated amortisation of $34m, 2000 $12m) | **258** | 147 | **186** | 80 |
| Prepayment of superannuation fund contributions | **791** | 806 | **720** | 735 |
| Other investments | **166** | 175 | **77** | 52 |
| Excess of net market value of a controlled entity over recognised net assets [2] | **262** | 128 | **–** | – |
| Other [3] | **644** | 705 | **490** | 474 |
| **Total other assets** | **21,323** | 19,010 | **20,579** | 18,416 |

1 Other financial market assets primarily represent the positive fair value of trading derivative financial instruments.

2 Attributable to Westpac Life Insurance Services Limited's investment in controlled entities.

3 Other assets includes an amount of $190 million at 30 September 2000 which relates to the second instalment due on the New Zealand Class shares issued during that year. This second instalment was received on 20 December 2000 (see note 25).

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2001 $m** | 2000 $m | **2001 $m** | 2000 $m |

## Note 19. Due to other financial institutions

| | | | | |
|---|---|---|---|---|
| **Australia** | | | | |
| Interest bearing | **1,533** | 122 | **1,533** | 122 |
| Non-interest bearing | **502** | 681 | **502** | 681 |
| **Total Australia** | **2,035** | 803 | **2,035** | 803 |
| **Overseas** | | | | |
| Interest bearing | **3,752** | 3,000 | **3,749** | 2,993 |
| Non-interest bearing | **167** | 169 | **167** | 169 |
| **Total Overseas** | **3,919** | 3,169 | **3,916** | 3,162 |
| **Total due to other financial institutions** | **5,954** | 3,972 | **5,951** | 3,965 |

## Note 20. Deposits and public borrowings

| | | | | |
|---|---|---|---|---|
| **Deposits** | | | | |
| **Australia** | | | | |
| Non-interest bearing, repayable at call | **3,666** | 3,423 | **3,666** | 3,423 |
| Certificates of deposit | **4,137** | 5,949 | **4,137** | 5,949 |
| Other interest bearing | | | | |
| At call [1] | **39,479** | 32,949 | **39,629** | 33,100 |
| Term [1,2] | **15,828** | 15,975 | **15,828** | 15,976 |
| **Total Australia** | **63,110** | 58,296 | **63,260** | 58,448 |
| **New Zealand** | | | | |
| Non-interest bearing, repayable at call | **847** | 675 | **847** | 675 |
| Certificates of deposit | **2,679** | 1,439 | **2,679** | 1,439 |
| Other interest bearing | | | | |
| At call [1] | **5,703** | 4,748 | **5,703** | 4,748 |
| Term [1] | **8,136** | 6,817 | **8,136** | 6,817 |
| **Total New Zealand** | **17,365** | 13,679 | **17,365** | 13,679 |
| **Other Overseas** | | | | |
| Non-interest bearing, repayable at call | **201** | 385 | **123** | 290 |
| Certificates of deposit | **3,983** | 3,607 | **3,983** | 3,607 |
| Other interest bearing | | | | |
| At call [1] | **489** | 392 | **300** | 242 |
| Term [1] | **5,295** | 7,446 | **5,149** | 7,296 |
| **Total Other Overseas** | **9,968** | 11,830 | **9,555** | 11,435 |
| **Total Overseas** | **27,333** | 25,509 | **26,920** | 25,114 |
| **Total deposits** | **90,443** | 83,805 | **90,180** | 83,562 |
| **Public borrowings by controlled entity borrowing corporations** | | | | |
| **Australia** | | | | |
| Secured [3] | **3,695** | 3,666 | **–** | – |
| Unsecured | **2,015** | 2,509 | **–** | – |
| **Total Australia** | **5,710** | 6,175 | **–** | – |
| **Overseas** | | | | |
| Secured [3] | **4** | 14 | **–** | – |
| **Total public borrowings by controlled entity borrowing corporations** | **5,714** | 6,189 | **–** | – |
| **Total deposits and public borrowings** | **96,157** | 89,994 | **90,180** | 83,562 |

1 Following a review of deposit classifications during the year, categories in which certain deposits are reported have been revised. Comparatives have been restated resulting in movements between other interest bearing at term deposits and other interest bearing at call deposits.

2 Includes floating rate depository receipts of US$500 million (A$1,016 million, 2000 A$919 million) and GBP250 million (A$748 million, 2000 A$673 million) maturing in 2001 and 2002, respectively.

3 Secured borrowings relate principally to the Australian Guarantee Corporation Limited (AGC) Group and Australian Guarantee Corporation (N.Z.) Limited (AGC(NZ)) and are secured by floating charges over the assets of AGC and certain of its controlled entities and AGC(NZ) respectively.

## Note 20. Deposits and public borrowings (continued)

Average balances and interest rates in each of the past three fiscal years for major categories of deposits were:

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | **2001** | | 2000 | | 1999 | |
| | **Average Balance $m** | **Average Rate %** | Average Balance $m | Average Rate % | Average Balance $m | Average Rate % |
| **Australia** | | | | | | |
| Non-interest bearing | **3,462** | **–** | 3,320 | – | 3,258 | – |
| Other interest bearing demand | **33,308** | **3.4** | 28,837 | 3.3 | 27,008 | 4.4 |
| Certificates of deposit | **4,352** | **6.2** | 6,578 | 5.8 | 4,688 | 4.9 |
| Other interest bearing term | **18,647** | **5.4** | 18,327 | 5.3 | 18,671 | 4.6 |
| **Total Australia** | **59,769** | | 57,062 | | 53,625 | |
| **Overseas** | | | | | | |
| Non-interest bearing | **945** | **–** | 990 | – | 1,186 | – |
| Other interest bearing demand | **4,846** | **3.1** | 4,584 | 2.7 | 5,740 | 2.1 |
| Certificates of deposit | **6,011** | **6.0** | 6,123 | 6.0 | 4,582 | 5.3 |
| Other interest bearing term | **14,128** | **6.0** | 15,006 | 6.0 | 13,799 | 5.4 |
| **Total Overseas** | **25,930** | | 26,703 | | 25,307 | |

Certificates of deposits issued by Westpac in Australia represent negotiable certificates of deposits and transferable certificates of deposits. Negotiable certificates of deposits are negotiable securities with minimum denominations of $50,000 and are normally issued with terms to maturity of 30 days to 1 year. Transferable certificates of deposits are longer-term fixed rate instruments with minimum denominations of $100,000 and are normally issued with terms to maturity of 3 to 5 years. At 30 September 2001 negotiable certificates of deposits on issue totalled $3.2 billion (2000 $5.2 billion) and transferable certificates of deposits on issue totalled $0.9 billion (2000 $0.7 billion).

Certificates of deposits issued by Westpac in New Zealand are registered certificate of deposits, there are no minimum denominations and are normally issued with terms to maturity of up to 1 year.

Other overseas certificates of deposits issued by Westpac principally consist of US dollar certificates of deposits issued by our New York branch. The US dollar certificates of deposits are usually fixed rate instruments with minimum denominations of US$100,000 and are generally issued for terms of 1 to 13 months.

Other interest bearing deposits comprise principally interest bearing cheque and savings accounts and call and time deposits obtained through and administered by Westpac's branch network.

Public borrowings by controlled entity borrowing corporations, which may be for individual amounts as small as $2,000, comprise principally secured debentures, unsecured notes and secured and unsecured deposits of the AGC Group. Debentures are collateralised by floating charges over the assets of AGC and some of its controlled entities in Australia and over the assets of AGC(NZ) and are distributed among 125,766 and 753 investors in Australia and New Zealand, respectively.

## Note 21. Tax liabilities

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2001 $m** | 2000 $m | **2001 $m** | 2000 $m |
| Current income tax liability | **303** | 235 | **315** | 155 |
| Deferred income tax liability | **403** | 416 | **271** | 297 |
| **Total tax liabilities** | **706** | 651 | **586** | 452 |
| **Deferred income tax liability comprises:** | | | | |
| Leveraged lease transactions | **94** | 215 | **94** | 213 |
| Finance lease transactions | **77** | 102 | **39** | 40 |
| Treasury/financial markets products | **44** | 119 | **42** | 37 |
| Depreciation | **13** | 27 | **6** | 26 |
| Other timing differences | **175** | (47) | **90** | (19) |
| **Total deferred income tax liability** | **403** | 416 | **271** | 297 |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2001** **$m** | 2000 $m | **2001** **$m** | 2000 $m |

## Note 22. Provisions

| | | | | |
|---|---|---|---|---|
| Proposed dividends | **577** | 512 | **560** | 497 |
| Distributions on other equity instruments | **13** | 13 | **–** | – |
| Long service leave | **146** | 159 | **134** | 146 |
| Annual leave and other staff benefits | **148** | 147 | **136** | 131 |
| Non-lending losses | **21** | 13 | **21** | 11 |
| Leasehold premises | **109** | 129 | **109** | 129 |
| Other | **24** | 16 | **24** | 15 |
| **Total provisions** | **1,038** | 989 | **984** | 929 |

## Note 23. Other liabilities

| | | | | |
|---|---|---|---|---|
| Unearned general insurance premiums | **120** | 84 | **–** | – |
| Outstanding general insurance claims | **87** | 60 | **–** | 1 |
| Accrued interest payable | **881** | 1,135 | **732** | 939 |
| Securities sold under agreements to repurchase | **464** | 210 | **464** | 210 |
| Securities sold short | **1,309** | 1,213 | **1,309** | 1,213 |
| Securities purchased not delivered | **4,288** | 1,144 | **4,288** | 1,144 |
| Other financial markets liabilities [1] | **11,034** | 10,352 | **10,909** | 10,353 |
| Other | **2,452** | 1,801 | **2,281** | 1,643 |
| Total other liabilities | **20,635** | 15,999 | **19,983** | 15,503 |

1 Other financial markets liabilities primarily represent the negative fair value of trading derivative financial instruments.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2001** **$m** | 2000 $m | **2001** **$m** | 2000 $m |

## Note 24. Debt issues and loan capital

| | | | | |
|---|---|---|---|---|
| **Debt issues** | | | | |
| Short term debt | **6,819** | 4,180 | **1,837** | 1,037 |
| Long term debt | **21,170** | 15,023 | **17,084** | 10,530 |
| **Total** | **27,989** | 19,203 | **18,921** | 11,567 |
| **Short term debt** | | | | |
| USD commercial paper | **4,761** | 2,718 | **–** | – |
| EUR euro commercial paper | **14** | 104 | **–** | – |
| AUD euro commercial paper | **391** | 236 | **391** | 236 |
| USD euro commercial paper | **1,378** | 601 | **1,184** | 408 |
| GBP euro commercial paper | **–** | 114 | **–** | – |
| NZD euro commercial paper | **10** | 14 | **10** | – |
| HKD euro commercial paper | **213** | 381 | **213** | 381 |
| JPY euro commercial paper | **39** | – | **39** | – |
| CAD euro commercial paper | **13** | – | **–** | – |
| Other debt | **–** | 12 | **–** | 12 |
| **Total short term debt** | **6,819** | 4,180 | **1,837** | 1,037 |

The maturity profile for debt issues is shown in note 27.

## Note 24. Debt issues and loan capital (continued)

**Long term debt**

The following table sets out the maturity analysis of long term bonds and notes:

| Issue Currency | Issue Range (millions) | Interest Rate | Consolidated 2001 $m | Consolidated 2000 $m | Parent Entity 2001 $m | Parent Entity 2000 $m |
|---|---|---|---|---|---|---|
| **Due from 1 October 2000 to 30 September 2001** | | | | | | |
| **Euro medium term notes** | | | | | | |
| AUD | 10 | Structured | – | 10 | – | 10 |
| USD | 10–105 | Fixed rate ranging from 2.47%–6.58% | – | 331 | – | 138 |
| USD | 10–100 | Structured | – | 158 | – | 59 |
| USD | 75–500 | Floating rate note | – | 1,284 | – | – |
| GBP | 68 | Fixed rate 5.00% | – | 184 | – | 184 |
| JPY | 1,000–3,000 | Fixed rate ranging from 0.98%–5.00% | – | 102 | – | 52 |
| JPY | 35,000 | Floating rate note | – | 596 | – | 596 |
| CHF | 75 | Floating rate note | – | 79 | – | – |
| HKD | 140 | Fixed rate 7.62% | – | 33 | – | 33 |
| EUR | 19 | Fixed rate 3.80% | – | 31 | – | – |
| CAD | 15 | Floating rate note | – | 18 | – | – |
| | | | – | 2,826 | – | 1,072 |
| **Domestic medium term notes** | | | | | | |
| NZD | 5–50 | Fixed rate ranging from 5.97%–8.00% | – | 41 | – | 41 |
| | | | – | 2,867 | – | 1,113 |
| **Due from 1 October 2001 to 30 September 2002** | | | | | | |
| **Euro medium term notes** | | | | | | |
| AUD | 111–179 | Fixed rate ranging from 5.30%–5.31% | **289** | 287 | **289** | 287 |
| USD | 10–30 | Fixed rate ranging from 6.39%–7.39% | **123** | 196 | **123** | 196 |
| USD | 8 | Structured | **33** | 18 | **33** | 18 |
| USD | 10–300 | Floating rate note | **1,430** | 1,246 | **102** | 55 |
| JPY | 1,000 | Fixed rate 0.28% | **17** | 17 | **17** | 17 |
| JPY | 2,000 | Floating rate note | **171** | 170 | **171** | 170 |
| GBP | 15 | Fixed rate 5.50% | **45** | 40 | **45** | 40 |
| GBP | 20 | Floating rate note | **60** | 54 | – | – |
| NZD | 50–200 | Fixed rate ranging from 5.78%–7.27% | **290** | 261 | – | 37 |
| HKD | 50–400 | Fixed rate ranging from 6.68%–7.89% | **213** | 193 | **213** | 193 |
| HKD | 30–1,000 | Floating rate note | **320** | 290 | **320** | 290 |
| SGD | 20 | Fixed rate 3.54% | **23** | 21 | **23** | 21 |
| | | | **3,014** | 2,793 | **1,336** | 1,324 |

## Note 24. Debt issues and loan capital (continued)

**Long term debt (continued)**

| Issue Currency | Issue Range (millions) | Interest Rate | Consolidated 2001 $m | Consolidated 2000 $m | Parent Entity 2001 $m | Parent Entity 2000 $m |
|---|---|---|---|---|---|---|
| **Due from 1 October 2002 to 30 September 2003** | | | | | | |
| **Euro medium term notes** | | | | | | |
| AUD | 4–118 | Fixed rate ranging from 6.14%–7.31% | **316** | 318 | **316** | 318 |
| AUD | 300 | Floating rate note | **300** | 300 | **300** | 300 |
| USD | 11–500 | Fixed rate ranging from 0%–6.38% | **1,322** | 1,048 | **1,322** | 1,048 |
| USD | 50–300 | Floating rate note | **2,340** | 1,469 | **1,625** | 920 |
| USD | 4–8 | Structured | **35** | – | **35** | – |
| JPY | 500–1,000 | Structured | **–** | 38 | **–** | 38 |
| JPY | 25,000–50,000 | Fixed rate 0.88% | **1,278** | 1,278 | **1,278** | 1,278 |
| GBP | 250 | Floating rate note | **748** | 673 | **748** | 673 |
| HKD | 50–200 | Fixed rate ranging from 4.54%–7.40% | **255** | 59 | **255** | 59 |
| HKD | 100–1500 | Floating rate note | **417** | 353 | **417** | 353 |
| CHF | 200 | Fixed rate 2.51% | **251** | 213 | **251** | 213 |
| CHF | 140 | Floating rate note | **177** | 148 | **–** | – |
| EUR | 100 | Floating rate note | **372** | – | **372** | – |
| SGD | 100 | Fixed rate 3.80% | **115** | 106 | **115** | 106 |
| | | | **7,926** | 6,003 | **7,034** | 5,306 |
| **Domestic medium term notes** | | | | | | |
| NZD | 60 | Fixed rate 6.50% | **50** | 45 | **50** | – |
| | | | **7,976** | 6,048 | **7,084** | 5,306 |
| **Due from 1 October 2003 to 30 September 2004** | | | | | | |
| **Euro medium term notes** | | | | | | |
| AUD | 10–600 | Fixed rate ranging from 5.50%–6.55% | **712** | – | **712** | – |
| USD | 10–500 | Fixed rate ranging from 0%–5.75% | **1,472** | 984 | **1,472** | 984 |
| USD | 16 | Structured | **32** | – | **32** | – |
| USD | 250–300 | Floating rate note | **1,121** | – | **508** | – |
| GBP | 77 | Structured | **230** | 207 | **230** | 207 |
| NZD | 100–250 | Fixed rate ranging from 6.00%–6.25% | **290** | 75 | **–** | – |
| HKD | 100–200 | Fixed rate ranging from 4.55%–5.70% | **178** | – | **178** | – |
| HKD | 400 | Floating rate note | **104** | – | **104** | – |
| EUR | 500 | Floating rate note | **929** | 810 | **929** | 810 |
| SGD | 150 | Fixed rate 4.75% | **173** | 158 | **173** | 158 |
| | | | **5,241** | 2,234 | **4,338** | 2,159 |
| **Due from 1 October 2004 to 30 September 2005** | | | | | | |
| **Euro medium term notes** | | | | | | |
| USD | 5 | Fixed rate 3.45% | **10** | 9 | **10** | 9 |
| USD | 5–10 | Structured | **–** | 64 | **–** | 64 |
| USD | 5–250 | Floating rate note | **663** | 559 | **152** | 106 |
| HKD | 100–180 | Fixed rate from 5.40%–7.35% | **73** | 24 | **73** | 24 |
| EUR | 20 | Fixed rate 4.51% | **37** | – | **37** | – |
| | | | **783** | 656 | **272** | 203 |

## Note 24. Debt issues and loan capital (continued)

**Long term debt (continued)**

| Issue Currency | Issue Range (millions) | Interest Rate | Consolidated 2001 $m | Consolidated 2000 $m | Parent Entity 2001 $m | Parent Entity 2000 $m |
|---|---|---|---|---|---|---|
| **Due from 1 October 2005 to September 2006** | | | | | | |
| **Euro medium term notes** | | | | | | |
| USD | 500 | Fixed rate 5.75% | **1,016** | – | **1,016** | – |
| USD | 15–30 | Structured | **132** | – | **132** | – |
| USD | 50 | Floating rate note | **102** | – | **–** | – |
| GBP | 300 | Floating rate note | **897** | – | **897** | – |
| HKD | 75–200 | Fixed rate from 0.00% to 6.90% | **249** | – | **249** | – |
| EUR | 500 | Floating rate note | **929** | – | **929** | – |
| | | | **3,325** | – | **3,223** | – |
| **Due from 1 October 2006** | | | | | | |
| **Euro medium term notes** | | | | | | |
| USD | 5–30 | Structured | **508** | 184 | **508** | 184 |
| USD | 3–20 | Fixed rate from 0% to 7.60% | **67** | 9 | **67** | 9 |
| HKD | 100–150 | Fixed rate from 6.65% to 8.04% | **65** | 24 | **65** | 24 |
| JPY | 5,000 | Fixed rate 1.97% | **85** | 111 | **85** | 111 |
| JPY | 700–2000 | Structured | **106** | 97 | **106** | 97 |
| | | | **831** | 425 | **831** | 425 |
| **Total long term debt** | | | **21,170** | 15,023 | **17,084** | 10,530 |

| | Consolidated 2001 $m | Consolidated 2000 $m | Consolidated 1999 $m |
|---|---|---|---|
| **Short term borrowings** | | | |
| **US commercial paper** | | | |
| Maximum amount outstanding at any month end | **6,836** | 4,782 | 5,368 |
| Approximate average amount outstanding | **4,941** | 3,181 | 3,803 |
| Approximate weighted-average interest rate on: | | | |
| average amount outstanding | **5.6%** | 6.5% | 5.4% |
| outstanding at year end | **3.6%** | 6.8% | 5.6% |
| **Euro commercial paper** | | | |
| Maximum amount outstanding at any month end | **3,622** | 2,488 | 3,248 |
| Approximate average amount outstanding | **2,715** | 1,557 | 1,950 |
| Approximate weighted-average interest rate on: | | | |
| average amount outstanding | **6.4%** | 7.3% | 5.3% |
| outstanding at year end | **4.6%** | 6.6% | 5.6% |
| **Other commercial paper** | | | |
| Maximum amount outstanding at any month end | **–** | 12 | – |
| Approximate average amount outstanding | **–** | 2 | – |
| Approximate weighted-average interest rate on: | | | |
| average amount outstanding | **–** | 6.2% | – |
| outstanding at year end | **–** | 6.6% | – |

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2001 $m** | 2000 $m | **2001 $m** | 2000 $m |

## Note 24. Debt issues and loan capital (continued)

### Loan Capital

| | Consolidated 2001 $m | Consolidated 2000 $m | Parent Entity 2001 $m | Parent Entity 2000 $m |
|---|---|---|---|---|
| **Subordinated bonds, notes and debentures** | | | | |
| USD 400 million 9.125% subordinated debentures due 2001 [1] | **–** | 735 | **–** | 735 |
| USD 350 million 7.875% subordinated debentures due 2002 [1] | **711** | 643 | **711** | 643 |
| AUD 350 million subordinated medium term notes due 2008 [2] | **350** | 350 | **350** | 350 |
| AUD 300 million subordinated medium term notes due 2009 [3] | **300** | 300 | **300** | 300 |
| USD 100 million subordinated bonds due 2009 [4] | **203** | 184 | **203** | 184 |
| NZD 50 million subordinated bonds due 2009 [5] | **41** | 38 | **41** | 38 |
| USD 100 million subordinated bonds due 2009 [4] | **203** | 184 | **203** | 184 |
| USD 100 million subordinated bonds due 2010 [4] | **203** | 184 | **203** | 184 |
| USD 400 million subordinated bonds due 2010 [4] | **813** | 735 | **813** | 735 |
| AUD 350 million subordinated bonds due 2010 [6] | **350** | 350 | **350** | 350 |
| SGD 100 million subordinated bonds due 2010 [7] | **115** | 105 | **115** | 105 |
| USD 200 million subordinated bonds due 2010 [4] | **406** | 367 | **406** | 367 |
| AUD 140 million subordinated bonds due 2011 [8] | **140** | – | **140** | – |
| AUD 210 million subordinated bonds due 2011 [9] | **210** | – | **210** | – |
| **Total subordinated bonds, notes and debentures** | **4,045** | 4,175 | **4,045** | 4,175 |

1 Swap arrangements (to US currency at a floating interest rate) have been entered into in respect of these debentures.

2 $112 million of these bonds pay a coupon of 6.0% until the fifth anniversary (28 May 2003). From the fifth anniversary until maturity the bonds pay a floating rate coupon. The remaining $238 million of bonds pay a floating rate coupon.

3 $215.5 million of these bonds pay a coupon of 6.25% until the fifth anniversary (2 March 2004) . From the fifth anniversary until maturity the bonds pay a floating rate coupon. The remaining $84.5 million of bonds pay a floating rate coupon.

4 The bonds pay a floating rate coupon.

5 The bonds pay a coupon of 7.59% until the fifth anniversary (15 July 2004). Swap arrangements (to NZ currency at a floating interest rate) have been entered into until the fifth anniversary. From the fifth anniversary until maturity a floating rate coupon is payable.

6 $112 million of these bonds pay a coupon of 7.0% until the fifth anniversary (2 August 2005). From the fifth anniversary until maturity the bonds pay a floating rate coupon. The remaining $238 million of bonds pay a floating rate coupon.

7 The bonds pay a coupon of 5.25%. A swap arrangement (to US currency at a floating interest rate) has been entered into in respect of these bonds.

8 The bonds pay a floating rate coupon and are callable after the fifth anniversary (30 August 2006).

9 The bonds pay a coupon of 6.25% p.a. and are callable after the fifth anniversary (30 August 2006).

Premiums and discounts, and fees and commissions paid on each issue have been deferred and are being amortised to income over the life of the respective bonds or notes. Net unamortised expenses at 30 September 2001 amounted to $30 million (30 September 2000 $25 million).

Subordinated bonds, notes and debentures with an original maturity of at least five years constitute Tier 2 capital as defined by APRA for capital adequacy purposes. The value assigned is based on the remaining years to maturity.

| | Consolidated 2001 $m | Consolidated 2000 $m | Parent Entity 2001 $m | Parent Entity 2000 $m |
|---|---|---|---|---|
| Subordinated perpetual notes | | | | |
| USD 390.2 million (2000 USD 390.2 million) subordinated perpetual floating rate notes | **793** | 717 | **793** | 717 |

These notes have no final maturity but may, subject to the approval of APRA and subject to certain other conditions, be redeemed at par at the option of Westpac. The rights of the noteholders will, in the event of the winding up of Westpac, be subordinated in right of payment to the claims of depositors and all other creditors of Westpac including other subordinated bond, debenture and noteholders. The notes constitute Tier 2 capital as defined by APRA for capital adequacy purposes.

## Note 24. Debt issues and loan capital (continued)

**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:

| Program/Issuing Shelf [1] | Outstanding | Program/Issuing Shelf Type |
|---|---|---|
| **Australia** | | |
| No limit | AUD $800 million | Debt issuance program |
| No limit | AUD $1,350 million | Subordinated debt issuance program |
| **Euro Market** | | |
| AUD 2 billion | AUD $619 million | Asian debt program |
| USD 3 billion | USD $696 million | Euro commercial paper program [2] |
| USD 12.5 billion | USD $11,868 million | Euro medium term note program [2] |
| **Japan** | | |
| JPY 100 billion | Nil | Samurai shelf |
| JPY 200 billion | JPY 92 billion [8] | Uridashi shelf |
| **United States** | | |
| USD 5 billion | USD $1,370 million | Commercial paper program |
| USD 2 billion | USD $968 million | Commercial paper program [3] |
| USD 5 billion | USD $1,010 million | Medium term deposit program |
| USD 1 billion | USD $396 million [4] | SEC registered shelf |
| **New Zealand** | | |
| NZD 750 million | NZD $60 million | Domestic medium term note program [5] |
| NZD 500 million | NZD $50 million | Domestic subordinated medium term note program [5] |
| NZD 500 million | Nil | Subordinated debt program [6] |
| NZD 750 million | Nil | Domestic medium term note program [7] |

1 Outstandings are based on exchange rates at transaction date per program.

2 WestpacTrust Securities NZ Limited and Pacific Structured Funding Limited are also issuers under this program.

3 Sole issuer is WestpacTrust Securities NZ Limited.

4 Issuance includes JPY 75,000,000,000 Global Yen transaction of which JPY 7,885,000,000 of primary issuance was registered under the SEC shelf. This equates to USD $73 million using USD/JPY exchange rate of 107.851. The remaining USD $323 million represents the TOPrS.

5 Issued by Westpac's New Zealand branch.

6 Issued by WestpacTrust Capital NZ Limited.

7 Issued by WestpacTrust Securities NZ Limited.

8 Issued under the Euro Medium Term Note Program utilising the Uridashi shelf. This amount is also included in Euro Medium Term Note Program outstandings.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2001** | 2000 | **2001** | 2000 |
| | **$m** | $m | **$m** | $m |
| **Note 25. Equity** | | | | |
| **Authorised share capital** | | | | |
| 3,100 million ordinary shares of $1 each | **3,100** | 3,100 | **3,100** | 3,100 |
| **Issued and paid up share capital** | | | | |
| **Ordinary shares** | | | | |
| 1,751,197,067 (2000 1,776,162,463) of $1 each fully paid | **1,751** | 1,776 | **1,751** | 1,776 |
| 13,000 (2000 46,000) of $1 each paid to $0.01 | **–** | – | **–** | – |
| Total ordinary share capital | **1,751** | 1,776 | **1,751** | 1,776 |
| **New Zealand Class shares** | | | | |
| 54,393,306 (2000 54,393,306) of NZ$11.95 each fully paid (net of total issue costs of A$16 million) | **482** | 482 | **–** | – |
| **Total issued and paid up share capital** | **2,233** | 2,258 | **1,751** | 1,776 |

**During the year the following ordinary shares were issued:**

To shareholders in terms of the Dividend Reinvestment Plan:

8,164,907 ordinary shares of $1 each fully paid at a premium of $12.92 and 10,286,723 ordinary shares of $1 each fully paid at a premium of $12.94.

To general managers under the General Management Share Option Plan upon exercise of options:

526,130 ordinary shares of $1 each fully paid at an average premium of $9.10.

To senior officers under the Senior Officers' Share Purchase Scheme upon exercise of options:

12,688,507 ordinary shares of $1 each fully paid at an average premium of $7.27.

In addition, 33,000 ordinary shares issued in terms of the Senior Officers' Share Purchase Scheme previously paid to $0.01 were fully paid up at an average premium of $3.97.

During the year 56,664,663 ordinary shares (3.19%) of $1 each were bought back 'on market' at an average premium of $12.30 and were cancelled, for a total cost of $754 million. $57 million has been debited to issued and paid up capital and $697 million has been debited to the share premium reserve.

**New Zealand Class shares (NZ Class shares)**

On 12 October 1999, a controlled entity, WestpacTrust Investments Limited (WestpacTrust Investments) issued 54,393,306 NZ Class shares. A first instalment of NZ$7.20 (A$5.66) per NZ Class share was received on application and the total received was NZ$392 million (A$308 million). A second instalment of NZ$4.75 (A$3.74) per NZ Class share was received on 20 December 2000 and the total received was NZ$258 million (A$203 million). The NZ Class shares have been recorded at the total of the first instalment received and the present value, at date of issue, of the second instalment, net of issue costs. The directors of WestpacTrust Investments have the discretion to declare dividends on the NZ Class shares. However, the constitution of WestpacTrust Investments requires that where a dividend is declared by the company, the dividend must equal the cash dividend paid on one Westpac ordinary share, adjusted by the conversion ratio (the Exchange Fraction) and converted into NZ dollars pursuant to the Exchange Deed. The holders of the NZ Class shares have limited voting rights in WestpacTrust Investments. They do not have direct voting rights in Westpac, however, a special purpose company has been established to hold Enhanced Voting Shares in Westpac, and will vote those Enhanced Voting Shares in accordance with the indications of the NZ Class shareholders.

The NZ Class shares can be exchanged for ordinary shares in Westpac, upon the occurrence of certain limited events which may result in a compulsory exchange, an exchange at the option of Westpac or an exchange at the option of the NZ Class shareholder. The Exchange Fraction is initially one Westpac share for each NZ Class share. However, the Exchange Fraction will be adjusted for subsequent bonus issues, share splits or consolidations and rights issues where such an activity by either Westpac or WestpacTrust Investments has not been mirrored by the other. The exchange events include a takeover of Westpac, change in laws which adversely affect the rights of the NZ Class shareholders, failure to pay a dividend on NZ Class shares equivalent to Westpac ordinary share dividend as adjusted by the Exchange Fraction, or commencement of liquidation, statutory management or administration of either Westpac or WestpacTrust Investments.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2001 $m** | 2000 $m | **2001 $m** | 2000 $m |
| **Note 25. Equity (continued)** | | | | |
| **Other equity instruments** | | | | |
| 12,900,000 trust originated preferred securities (TOPrS) of US$25 each fully paid (net of total issue costs of A$20 million) | **465** | 465 | **–** | – |
| 1 convertible debenture of NZ$611,724,203 (net of issue costs of A$20 million) | **–** | – | **465** | 465 |
| 51,068 (2000 30,844) perpetual capital notes of $10,000 each fully paid | **–** | – | **511** | 308 |
| **Total other equity instruments** | **465** | 465 | **976** | 773 |

**Perpetual capital notes**

On 15 October 1999 30,844 perpetual capital notes of $10,000 each were issued at par value to Westpac Tasman No. 1 Pty Limited, a wholly owned controlled entity of Westpac. A further 20,224 notes of $10,000 each were issued at par value to Westpac Tasman No. 1 Pty Limited on 20 December 2000. These notes will yield a non-cumulative half yearly distribution (15 April, 15 October) in arrears at the bank bill swap rate (BBSW) plus 1.25% and will rank subordinate and junior in right of payment of principal and distributions to Westpac's obligations to its depositors and creditors.

**Convertible debenture and TOPrS**

A wholly-owned entity Westpac Capital Trust I (Capital Trust) has issued 12,900,000 TOPrS at US$25 each with a non-cumulative quarterly distribution (31 March, 30 June, 30 September and 31 December) in arrears at the annual rate of 8%. The sole assets of the Capital Trust comprise 12,900,040 Funding TOPrS issued by a wholly-owned entity, the Tavarua Funding Trust I (Funding Trust) totalling US$322,501,000. The Funding TOPrS have an issue price of US$25 each with a non-cumulative quarterly distribution in arrears at the annual rate of 8%. The Funding Trust has issued common securities with a total price of US$1,000 to Westpac Funding Holdings Pty Limited. The sole assets of the Funding Trust comprise a NZ$611,724,203 convertible debenture of Westpac, US government securities purchased with the proceeds of the common securities, and a currency swap with Westpac.

The convertible debenture is an unsecured, junior subordinated obligation of Westpac and will rank subordinate and junior in right of payment of principal and distributions to Westpac's obligations to its depositors and creditors. The convertible debenture will only pay a distribution to the extent it is declared by the Board of Directors of Westpac, or an authorised committee of the Board. Any distribution is subject to Westpac having sufficient distributable profits. If certain conditions exist a distribution is not permitted to be declared unless approved by APRA. The convertible debenture will automatically convert into American Depository Receipts (ADRs) representing Westpac preference shares (8% non-cumulative preference shares in Westpac with a liquidation amount of US$25) on 16 July 2049, or earlier in the event that a distribution is not made or certain other events occur. The dividend payment dates on Westpac preference shares will be the same days of the year as the distribution payment dates on the TOPrS. The TOPrS will then be redeemed for ADRs.

Under the currency swap, the Funding Trust paid an amount equal to the proceeds of the issue of the Funding TOPrS in US dollars to Westpac, which paid the Funding Trust the New Zealand dollar equivalent using a fixed exchange rate of NZ$1.00 = US$0.5272. The Funding Trust is also required to pay to Westpac any amount in New Zealand dollars it receives under the convertible debenture, in return for an amount denominated in US dollars at the fixed exchange rate.

The currency swap terminates upon:

- payment in full of the cash redemption price of the outstanding convertible debenture and the exchange of such redemption price for US dollars; or
- the conversion of the convertible debenture into ADRs.

A netting agreement has been entered between Westpac and the Funding Trust. Pursuant to the netting agreement, the distributions on the convertible debenture will be treated as payment by the Funding Trust under the currency swap. In return, Westpac will pay US dollars to the Funding Trust under the currency swap equal to the NZ dollars it receives from the Funding Trust under the currency swap (calculated by reference to the fixed exchange rate).

As a consequence of the terms of the currency swap, and the netting agreement, the convertible debenture and their distributions are treated as a US dollar denominated instrument.

Westpac has guaranteed, on a subordinated basis, the payment in full of distributions or redemption amounts, the delivery of ADRs and other payments on the TOPrS and the Funding TOPrS to the extent that the Capital Trust and the Funding Trust have funds available.

With the prior written consent of APRA, if required, Westpac may elect to redeem the convertible debenture for cash before 16 July 2004 in whole upon the occurrence of certain specific events, and in whole or in part on one or more occasions any time on or after 16 July 2004. The proceeds received by Funding Trust from the redemption of the convertible debenture must be used to redeem the Funding TOPrS and ultimately the TOPrS. The redemption price of the TOPrS will equal US$25 per TOPrS plus the accrued and unpaid distribution for the then current quarterly period to the date of redemption or, if the date of redemption is a distribution payment date, the accrued and unpaid distribution for the most recent quarterly period from the assets of Capital Trust available for distribution.

The holders of the convertible debenture, Funding TOPrS and TOPrS do not have an option to require redemption of these instruments.

## Note 25. Equity (continued)

**Options**

Options are granted to selected executives and senior officers under the following three schemes:

**i) General Management Share Option Plan (GMSOP)**

The following table relates to options granted to selected executives at General Manager level or above under the GMSOP to take up ordinary shares in Westpac:

| Latest Date for Exercise of Options | Exercise Price | At 1 October 2000 | Issued During the Year | Exercised During the Year | Lapsed During the Year | **Number of options At 30 September 2001** |
|---|---|---|---|---|---|---|
| 1 March 2009 | $10.85 | 50,000 | – | – | – | **50,000** |
| 6 April 2009 | $10.60 | 450,000 | – | 100,000 | – | **350,000** |
| 19 April 2009 | $11.45 | 100,000 | – | – | – | **100,000** |
| 3 August 2009 | $9.99 | 325,000 | – | 43,950 | 31,050 | **250,000** |
| 29 December 2009 | $9.57 | 3,913,000 | – | 339,349 | 869,651 | **2,704,000** |
| 24 January 2010 | $10.63 | 400,000 | – | – | 400,000 | **–** |
| 6 March 2010 | $10.70 | 140,000 | – | – | – | **140,000** |
| 3 April 2010 | $10.51 | 40,000 | – | – | – | **40,000** |
| 3 April 2010 | $10.75 | 100,000 | – | – | – | **100,000** |
| 4 September 2010 | $12.39 | 1,170,000 | – | – | – | **1,170,000** |
| 8 January 2011 | $13.32 | – | 5,317,000 | 33,790 | 856,210 | **4,427,000** |
| 22 January 2011 | $13.72 | – | 100,000 | – | – | **100,000** |
| 5 February 2011 | $13.07 | – | 100,000 | 9,041 | 90,959 | **–** |
| 19 March 2011 | $13.85 | – | 200,000 | – | – | **200,000** |
| 26 March 2011 | $13.71 | – | 50,000 | – | – | **50,000** |
| 23 April 2011 | $13.67 | – | 100,000 | – | – | **100,000** |
| 7 August 2011 | $14.37 | – | 200,000 | – | – | **200,000** |
| **Total** | | 6,688,000 | 6,067,000 | 526,130 | 2,247,870 | **9,981,000** |

The weighted average exercise price of options issued during the year was $13.38.

| | Weighted average exercise price $ | Weighted average market price $ |
|---|---|---|
| 5,457,000 options outstanding as at 30 September 2001 whose exercise price exceeded the market price on grant date | 13.05 | 12.94 |
| 4,524,000 options outstanding as at 30 September 2001 whose exercise price was less than the market price on grant date | 10.63 | 11.46 |

Under the GMSOP, approved by shareholders in December 1998, Westpac has granted options to acquire fully paid ordinary shares issued by Westpac.

Participants in the GMSOP are limited to selected executives at General Manager level or above. Non-executive Directors are not eligible to participate in the plan and no Executive Directors may participate in the plan without specific shareholder approval.

No consideration is payable for the grant of an option under the GMSOP. The exercise price is equal to the average closing price of Westpac's ordinary shares on the Australian Stock Exchange Limited (ASX) during the five business days before the date of the offer of options to the selected executive.

The options have a ten year life, and are subject to a performance requirement that will determine the particular proportion which may be exercised following the end of the performance period. The performance hurdles compare the total shareholders returns received by Westpac shareholders against those received by shareholders of a peer group over the performance period. The peer group will be the 50 largest industrial companies listed on ASX at the time of the commencement of each performance period.

Upon exercising an option, the officer has the right to take up his or her entitlement in whole or in part (but in multiples of 1,000) as fully paid ordinary shares. The exercise price is payable at that time. If an option is not exercised prior to the end of its term, it lapses.

At 30 September 2001, 40 executives (49 in 2000) held options under the GMSOP.

## Note 25. Equity (continued)

### ii) Senior Officers' Share Purchase Scheme (SOSPS)

The following table relates to options granted to senior officers under the SOSPS to take up ordinary shares in Westpac:

| Latest Date for Exercise of Options | Exercise Price | At 1 October 2000 | Issued During the Year | Exercised During the Year | Lapsed During the Year | **Number of options At 30 September 2001** |
|---|---|---|---|---|---|---|
| 29 January 2001 | $5.51 | 1,062,000 | – | 1,017,000 | 45,000 | **–** |
| 15 April 2001 | $5.58 | 15,000 | – | 15,000 | – | **–** |
| 28 January 2002 | $7.10 | 3,645,000 | – | 2,577,000 | 65,000 | **1,003,000** |
| 7 April 2002 | $7.05 | 200,000 | – | – | – | **200,000** |
| 14 April 2002 | $7.05 | 100,000 | – | – | – | **100,000** |
| 19 May 2002 | $6.85 | 100,000 | – | 100,000 | – | **–** |
| 5 August 2002 | $7.84 | 50,000 | – | 30,000 | – | **20,000** |
| 29 September 2002 | $7.89 | 1,300,000 | – | 800,000 | – | **500,000** |
| 22 December 2002 | $8.60 | 8,153,000 | – | 5,372,045 | 64,955 | **2,716,000** |
| 2 March 2003 | $9.92 | 185,000 | – | 65,000 | 30,000 | **90,000** |
| 9 March 2003 | $9.91 | 20,000 | – | 20,000 | – | **–** |
| 6 April 2003 | $10.24 | 30,000 | – | – | 30,000 | **–** |
| 4 May 2003 | $11.04 | 100,000 | – | 100,000 | – | **–** |
| 11 May 2003 | $11.08 | 50,000 | – | 50,000 | – | **–** |
| 18 May 2003 | $10.60 | 180,000 | – | 30,000 | – | **150,000** |
| 9 June 2003 | $10.61 | 145,000 | – | 115,000 | – | **30,000** |
| 22 June 2003 | $10.41 | 60,000 | – | – | 60,000 | **–** |
| 27 July 2003 | $10.00 | 380,000 | – | 165,525 | 79,475 | **135,000** |
| 10 August 2003 | $10.67 | 120,000 | – | – | – | **120,000** |
| 24 August 2003 | $10.50 | 70,000 | – | – | – | **70,000** |
| 28 August 2003 | $10.04 | 125,000 | – | – | – | **125,000** |
| 14 September 2003 | $9.94 | 75,000 | – | – | – | **75,000** |
| 18 September 2003 | $9.30 | 20,000 | – | – | – | **20,000** |
| 21 December 2003 | $9.56 | 8,059,443 | – | 1,290,142 | 859,282 | **5,910,019** |
| 4 January 2004 | $10.22 | 200,000 | – | – | – | **200,000** |
| 15 February 2009 | $10.75 | 100,000 | – | 100,000 | – | **–** |
| 1 March 2009 | $10.63 | 190,000 | – | 21,370 | 53,630 | **115,000** |
| 8 March 2009 | $10.28 | 75,000 | – | – | – | **75,000** |
| 10 May 2009 | $11.56 | 165,000 | – | 31,781 | 18,219 | **115,000** |
| 30 August 2009 | $10.10 | 10,000 | – | – | – | **10,000** |
| 5 October 2009 | $9.55 | 40,000 | – | – | – | **40,000** |
| 29 December 2009 | $9.53 | 9,445,151 | – | 697,892 | 1,439,086 | **7,308,173** |
| 20 January 2010 | $10.31 | 55,000 | – | – | – | **55,000** |
| 24 January 2010 | $10.10 | 20,000 | – | – | – | **20,000** |
| 6 March 2010 | $10.42 | 105,000 | – | 14,941 | 50,059 | **40,000** |
| 29 May 2010 | $10.43 | 80,000 | – | 3,644 | 16,356 | **60,000** |
| 4 September 2010 | $12.20 | 265,000 | – | – | 45,000 | **220,000** |
| 9 October 2010 | $12.72 | – | 15,000 | – | – | **15,000** |
| 8 January 2011 | $13.26 | – | 8,624,500 | 72,167 | 948,030 | **7,604,303** |
| 15 January 2011 | $13.54 | – | 60,000 | – | 10,000 | **50,000** |
| 5 February 2011 | $12.87 | – | 10,000 | – | – | **10,000** |
| 19 March 2011 | $13.61 | – | 50,000 | – | – | **50,000** |
| 2 April 2011 | $13.76 | – | 30,000 | – | – | **30,000** |
| 9 April 2011 | $13.85 | – | 40,000 | – | – | **40,000** |
| 23 April 2011 | $13.50 | – | 153,000 | – | 8,758 | **144,242** |
| 14 May 2011 | $12.35 | – | 70,000 | – | – | **70,000** |
| 25 June 2011 | $12.54 | – | 20,000 | – | – | **20,000** |
| 25 June 2011 | $12.80 | – | 50,000 | – | – | **50,000** |
| 7 August 2011 | $14.23 | – | 65,000 | – | – | **65,000** |
| | | 34,994,594 | 9,187,500 | 12,688,507 | 3,822,850 | **27,670,737** |

The weighted average exercise price of options issued during the year was $13.27.

## Note 25. Equity (continued)

**(ii) Senior Officers' Share Purchase Scheme (continued)**

Under the SOSPS, senior officers had been able to purchase a limited number of new ordinary shares issued by Westpac at market price, but paid up initially to only $0.01. The residual is payable when called by Westpac. The outstanding amount per share is $3.95. Only fully paid ordinary shares qualify for the payment of dividends.

Pursuant to amendments to the SOSPS rules, approved by shareholders in January 1988, Westpac has granted options to senior officers to purchase ordinary shares. The option term was five years. Options are exercisable during the last two years of the term or within twelve months of retirement or death in service.

Pursuant to further amendments to the SOSPS rules, approved by shareholders in December 1998, options granted by Westpac following those amendments have a term of ten years and are exercisable during the last seven years of the term or within twelve months of retirement or death in service.

The consideration payable for the grant of an option prior to December 1998 was $0.01 per share. From December 1998, no consideration is payable. The exercise price is equal to the closing market price of Westpac's ordinary shares on the ASX on the day before the option is offered to the senior officer. Upon exercising an option, the officer has the right to take up his or her entitlement in whole or in part (but in multiples of 1,000) as fully paid shares, in which event the whole of the exercise price (less the $0.01 per share if paid upon grant of the option) becomes payable.

If an option is not exercised prior to the end of its term, it lapses and the $0.01 per share, if previously paid, is forfeited by the officer.

Eligibility for participation in the SOSPS, as now constituted, is restricted to full-time Group employees who do not qualify for the GMSOP and who are designated by the Directors from time to time to have achieved the status equal to or above senior officer. At 30 September 2001 704 officers (823 in 2000) held partly paid ordinary shares or options under the SOSPS. Managing Director Dr D.R. Morgan holds 175,000 options at $7.10 per ordinary share exercisable by 28 January 2002 and 500,000 options at $7.89 per ordinary share exercisable by 29 September 2002.

**iii) Chief Executive Share Option Agreement**

Pursuant to a resolution passed at a special general meeting of Westpac on 2 September 1999, Managing Director Dr D.R. Morgan holds three tranches of non-transferable options, each enabling him to subscribe for 1,000,000 ordinary shares at a price of $10.83 per share. The first tranche is exercisable between 1 March 2002 and 1 March 2009. The second tranche is exercisable between 1 March 2003 and 1 March 2009. The third tranche is exercisable between 1 March 2004 and 1 March 2009. All tranches are subject to a performance requirement that will determine the particular proportion which may be exercised following the end of the performance period for that tranche. The performance hurdles compare the total shareholder returns received by Westpac's shareholders against those received by shareholders of a peer group over the performance period. The peer group will be the 50 largest industrial companies listed on the ASX at the time of the commencement of each performance period.

**iv) General information**

The market price of Westpac's ordinary shares at 30 September 2001 was $13.29 (2000 $12.75). The market value of shares issued upon exercise of options under the GMSOP and SOSPS during the year was $180 million (2000 $145 million) and the total consideration received was $110 million (2000 $91 million).

The plans contain a provision which ensures compliance with the 5% over five years rule set under the Australian Securities and Investments Commission Class Order 00/220, which provides relief from the prospectus regime of the Australian Corporations Act 2001(Cwlth). Under that class order, the number of shares the subject of options to be offered to employees at any particular time cannot, at the time the offer is made and when aggregated with the number of shares the subject of previously issued unexercised options issued to employees under those plans and with the number of shares issued during the previous five years under all employee share schemes, exceed 5% of the total number of shares on issue at that time the offer is made.

The names of all persons who hold options currently on issue are entered in Westpac's register of option holders which may be inspected at Computershare Registry Services Pty Limited, 60 Carrington Street, Sydney, New South Wales.

## Note 26. Capital adequacy

APRA has responsibility for the prudential supervision of authorised deposit-taking institutions (ADI), life and general insurance companies and superannuation funds in Australia. Westpac is an ADI.

Australia's risk-based capital adequacy guidelines are generally consistent with the approach agreed upon by the Basle Committee on Banking Supervision. On 1 October 2000 APRA released harmonised ADI prudential standards. In applying these standards some changes were required to the calculation of risk-adjusted assets and capital deductions. The impact of these changes was not significant.

Australian banks are required to maintain a minimum ratio of capital to risk-adjusted assets of 8%. At least half of this capital must be in the form of 'core' or 'Tier 1' capital. Subject to certain limitations, core capital basically consists of equity, i.e. paid-up share capital, retained profits, certain reserves and other equity instruments. The balance of eligible capital is defined as 'supplementary' or 'Tier 2' capital. Certain deductions are made for holdings of other banks' capital instruments and capital invested in controlled entities that are not consolidated for capital adequacy purposes such as insurance and funds management controlled entities. Deduction is also made for any capital invested or guarantees or similar support provided to entities involved in securitisation activities. Supplementary capital includes, subject to limitations, premises revaluation reserves, general provisions for doubtful debts, mandatory convertible notes, perpetual floating rate notes and like instruments, and term subordinated debt provided such term debt is not in excess of 50% of Tier 1 capital.

| | **2001 $m** | 2000 $m |
|---|---|---|
| **Eligible capital and relevant ratios as at 30 September** | | |
| **Tier 1 capital** | | |
| Total equity | **9,705** | 9,262 |
| Less: Receivable in respect of New Zealand Class shares | **–** | (190) |
| Premises revaluation reserve | **(8)** | (36) |
| Goodwill | **(1,501)** | (1,535) |
| Estimated reinvestment under dividend reinvestment plan [1] | **75** | 33 |
| Retained profits, reserves and intangibles in life and general insurance, funds management and securitisation entities [2] | **(229)** | N/A |
| Equity in captive lenders mortgage insurance entities [2] | **(21)** | N/A |
| **Total Tier 1 capital** | **8,021** | 7,534 |
| **Tier 2 capital** | | |
| Premises revaluation reserve | **8** | 36 |
| Subordinated undated capital notes | **793** | 717 |
| General provision for doubtful debts | **1,294** | 1,212 |
| Future income tax benefit related to general provision | **(389)** | (374) |
| Eligible subordinated bonds, notes and debentures | **3,599** | 3,310 |
| **Total Tier 2 capital** | **5,305** | 4,901 |
| **Total Tier 1 and Tier 2 capital** | **13,326** | 12,435 |
| Deductions: | | |
| Other banks' capital instruments | **–** | (9) |
| Capital in life and general insurance, funds management and securitisation entities | **(769)** | (1,091) |
| **Net qualifying capital** | **12,557** | 11,335 |
| **Risk adjusted assets** | **127,242** | 114,816 |
| Tier 1 capital ratio | **6.3%** | 6.6% |
| Tier 2 capital ratio | **4.2%** | 4.3% |
| Deductions | **(0.6)%** | (1.0)% |
| **Net capital ratio** | **9.9%** | 9.9% |

1 The amount is derived from reinvestment experience on the Group's dividend reinvestment plan.

2 Effective from 1 October 2000 the new harmonised ADI standards requires certain capital deductions against Tier 1 capital. Comparatives have not been restated.

## Note 26. Capital adequacy (continued)

In determining risk adjusted assets, assets (including off-balance sheet exposures) are weighted according to notional credit risk. Classes of asset are assigned a risk weighting according to the amount of capital required to support that asset. Four categories of risk weights (0%, 20%, 50%, 100%) are applied to the different types of assets. For example, cash, bullion, claims on the Reserve Bank of Australia (RBA) and Commonwealth of Australia securities have a zero risk-weighting, meaning that no capital is required to support the holding of these assets. Loans to corporations and individuals carry a 100% risk-weighting, meaning that they must be supported by capital equal to 8% of the amounts outstanding. Other asset categories have intermediate weighting's, such as loans secured by residential housing mortgages which generally carry a 50% weighting and claims on other Australian and other OECD banks which carry a 20% weighting. For loans secured by residential housing mortgages approved after 5 September 1994, where the loan-to-valuation ratio is in excess of 80%, a 100% risk weight applies; except where the loan is 100% mortgage insured through an acceptable lender's mortgage insurer. Off-balance sheet exposures are taken into account by applying different categories of 'credit conversion factors' to arrive at credit-equivalent amounts, which are then weighted in the same manner as balance sheet assets according to counterparty, except that, in respect of derivatives a maximum weighting of 50% for corporations and individuals normally applies.

APRA also requires Australian banks to assess capital adequacy in respect of market risk in their trading book. Required capital for market risk is calculated on standard models or on internal models approved by APRA.

| | Balance | | Risk | Risk Adjusted Balance | |
|---|---|---|---|---|---|
| | **2001 $m** | 2000 $m | Weight % | **2001 $m** | 2000 $m |
| **Risk adjusted assets** | | | | | |
| **On-balance sheet assets** | | | | | |
| Cash, claims on the RBA, Australian Commonwealth Government securities under one year and other zero-weighted assets [1] | **27,429** | 23,745 | 0% | **–** | – |
| Claims on OECD banks and local governments | **9,305** | 7,299 | 20% | **1,861** | 1,460 |
| Loans secured by residential mortgages | **71,684** | 63,328 | 50% | **35,842** | 31,664 |
| All other assets | **69,587** | 63,886 | 100% | **69,587** | 63,886 |
| **Total on-balance sheet assets – credit risk** | **178,005** | 158,258 | | **107,290** | 97,010 |

| | Contract or Notional Amount | | Credit Equivalent Amount | | Risk Adjusted Balance | |
|---|---|---|---|---|---|---|
| | **2001 $m** | 2000 $m | **2001 $m** | 2000 $m | **2001 $m** | 2000 $m |
| Gross off-balance sheet exposures – credit risk | **697,605** | 615,727 | **46,610** | 35,251 | **22,014** | 17,275 |
| Netting of off-balance sheet exposures [2] | **(360,880)** | – | **(9,225)** | – | **(2,550)** | – |
| Total off-balance sheet exposures – credit risk | **336,725** | 615,727 | **37,385** | 35,251 | **19,464** | 17,275 |
| Total risk adjusted assets – credit risk | | | | | **126,754** | 114,285 |
| Risk adjusted assets – market risk | | | | | **488** | 531 |
| Total risk adjusted assets | | | | | **127,242** | 114,816 |

1 Other zero-weighted assets include gross unrealised gains on trading derivative financial instruments of $14,120 million (2000 $13,594 million), which are included in the credit equivalent amount of off-balance sheet exposures and life insurance investment assets of $7,352 million (2000 $7,547 million) that are not consolidated for capital adequacy purposes.

2 During the year ended 30 September 2001 the Group was able to net certain off-balance sheet exposures in accordance with APRA guidelines.

## Note 27. Maturity analysis

The following maturity analysis of monetary assets and liabilities is based on contractual terms. The majority of the longer term maturity assets are variable rate products. When managing interest rate and liquidity risks, the Group adjusts this contractual profile for customer behaviour.

**Consolidated Maturity Analysis as at 30 September 2001**

| | At Call $m | Overdrafts $m | 1 day to 3 months $m | Over 3 months to 1 year $m | Over 1 year to 5 years $m | Over 5 years $m | No specific maturity $m | Total $m |
|---|---|---|---|---|---|---|---|---|
| **Australia** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with central banks | 845 | – | – | – | – | – | – | **845** |
| Due from other financial institutions | 151 | – | 2,870 | – | – | – | – | **3,021** |
| Trading securities | – | – | 2,499 | 3,088 | 2,917 | 172 | – | **8,676** |
| Investment securities | – | – | – | 37 | 662 | 125 | – | **824** |
| Loans | – | 3,488 | 7,435 | 10,134 | 16,694 | 56,764 | – | **94,515** |
| Acceptances of customers | – | – | 15,296 | 381 | – | – | – | **15,677** |
| Life insurance investment assets | – | – | 1,204 | 287 | 237 | 145 | 5,442 | **7,315** |
| All other assets | – | – | 2,540 | 860 | 14,362 | 1,739 | 1,047 | **20,548** |
| **Total assets** | 996 | 3,488 | 31,844 | 14,787 | 34,872 | 58,945 | 6,489 | **151,421** |
| **Liabilities** | | | | | | | | |
| Due to other financial institutions | 960 | – | 1,075 | – | – | – | – | **2,035** |
| Deposits and public borrowings | 41,676 | – | 16,634 | 6,511 | 2,624 | 1,375 | – | **68,820** |
| Debt issues | – | – | 1,638 | 1,346 | 14,868 | 831 | – | **18,683** |
| Acceptances | – | – | 15,296 | 381 | – | – | – | **15,677** |
| Life insurance policy liabilities | – | – | – | 245 | 136 | 69 | 6,664 | **7,114** |
| All other liabilities | – | – | 3,007 | 2,866 | 13,089 | – | 146 | **19,108** |
| Net intragroup payable | 9,780 | – | – | – | – | – | – | **9,780** |
| **Total liabilities excluding loan capital** | 52,416 | – | 37,650 | 11,349 | 30,717 | 2,275 | 6,810 | **141,217** |
| **Loan capital** | – | – | – | – | 711 | 4,086 | – | **4,797** |
| **Total liabilities** | 52,416 | – | 37,650 | 11,349 | 31,428 | 6,361 | 6,810 | **146,014** |
| **Net assets Australia** | (51,420) | 3,488 | (5,806) | 3,438 | 3,444 | 52,584 | (321) | **5,407** |
| **Overseas** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with central banks | 234 | – | – | – | – | – | – | **234** |
| Due from other financial institutions | 8 | – | 2,065 | – | – | – | – | **2,073** |
| Trading securities | – | – | 745 | 870 | 274 | 64 | – | **1,953** |
| Investment securities | – | – | – | 257 | 872 | 1,007 | – | **2,136** |
| Loans | – | 1,020 | 7,221 | 3,829 | 10,202 | 5,463 | – | **27,735** |
| Acceptances of customers | – | – | 23 | – | – | – | – | **23** |
| Regulatory deposits | – | – | 208 | 71 | 203 | – | – | **482** |
| Life insurance investment assets | – | – | 28 | 1 | 8 | – | – | **37** |
| All other assets | – | – | 760 | 230 | 2,038 | 723 | – | **3,751** |
| Net intragroup receivable | 9,780 | – | – | – | – | – | – | **9,780** |
| **Total assets** | 10,022 | 1,020 | 11,050 | 5,258 | 13,597 | 7,257 | – | **48,204** |
| **Liabilities** | | | | | | | | |
| Due to other financial institutions | 176 | – | 3,743 | – | – | – | – | **3,919** |
| Deposits and public borrowings | 8,275 | – | 10,429 | 5,862 | 2,771 | – | – | **27,337** |
| Debt issues | – | – | 4,122 | 2,726 | 2,458 | – | – | **9,306** |
| Acceptances | – | – | 23 | – | – | – | – | **23** |
| Life insurance policy liabilities | – | – | – | – | – | – | 9 | **9** |
| All other liabilities | – | – | 1,870 | 291 | 1,110 | – | – | **3,271** |
| **Total liabilities excluding loan capital** | 8,451 | – | 20,187 | 8,879 | 6,339 | – | 9 | **43,865** |
| Loan capital | – | – | – | – | – | 41 | – | **41** |
| **Total liabilities** | 8,451 | – | 20,187 | 8,879 | 6,339 | 41 | 9 | **43,906** |
| **Net assets Overseas** | 1,571 | 1,020 | (9,137) | (3,621) | 7,258 | 7,216 | (9) | **4,298** |
| **Total net assets** | (49,849) | 4,508 | (14,943) | (183) | 10,702 | 59,800 | (330) | **9,705** |

| | Consolidated Maturity Analysis as at 30 September 2000 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | At Call $m | Overdrafts $m | 1 day to 3 months $m | Over 3 months to 1 year $m | Over 1 year to 5 years $m | Over 5 years $m | No specific maturity $m | Total $m |

## Note 27. Maturity analysis (continued)

| | At Call $m | Overdrafts $m | 1 day to 3 months $m | Over 3 months to 1 year $m | Over 1 year to 5 years $m | Over 5 years $m | No specific maturity $m | Total $m |
|---|---|---|---|---|---|---|---|---|
| **Australia** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with central banks | 645 | – | – | – | – | – | – | 645 |
| Due from other financial institutions | 91 | – | 1,262 | – | – | – | – | 1,353 |
| Trading securities | – | – | 2,738 | 1,606 | 378 | 598 | – | 5,320 |
| Investment securities | – | – | – | – | 635 | 93 | – | 728 |
| Loans | – | 3,502 | 9,352 | 9,190 | 12,712 | 50,065 | – | 84,821 |
| Acceptances of customers | – | – | 12,809 | 503 | 2,030 | 269 | – | 15,611 |
| Life insurance investment assets | – | – | – | 572 | 179 | 917 | 5,879 | 7,547 |
| All other assets | 2 | – | 2,583 | 625 | 11,906 | 1,464 | 1,153 | 17,733 |
| **Total assets** | 738 | 3,502 | 28,744 | 12,496 | 27,840 | 53,406 | 7,032 | 133,758 |
| **Liabilities** | | | | | | | | |
| Due to other financial institutions | 803 | – | – | – | – | – | – | 803 |
| Deposits and public borrowings | 35,986 | – | 14,262 | 8,771 | 5,452 | – | – | 64,471 |
| Debt issues | – | – | 168 | 2,458 | 8,621 | 135 | – | 11,382 |
| Acceptances | – | – | 12,809 | 503 | 2,030 | 269 | – | 15,611 |
| Life insurance policy liabilities | – | – | – | 453 | 259 | 69 | 6,210 | 6,991 |
| All other liabilities | – | – | 2,964 | 1,840 | 9,543 | – | 84 | 14,431 |
| Net intragroup payable | 9,582 | – | – | – | – | – | – | 9,582 |
| **Total liabilities excluding loan capital** | 46,371 | – | 30,203 | 14,025 | 25,905 | 473 | 6,294 | 123,271 |
| Loan capital | – | – | – | 735 | 643 | 3,477 | – | 4,855 |
| **Total liabilities** | 46,371 | – | 30,203 | 14,760 | 26,548 | 3,950 | 6,294 | 128,126 |
| **Net assets Australia** | (45,633) | 3,502 | (1,459) | (2,264) | 1,292 | 49,456 | 738 | 5,632 |
| **Overseas** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with central banks | 191 | – | – | – | – | – | – | 191 |
| Due from other financial institutions | 7 | – | 1,883 | 82 | – | – | – | 1,972 |
| Trading securities | – | – | 999 | 505 | 341 | 9 | – | 1,854 |
| Investment securities | – | – | – | 143 | 951 | 909 | – | 2,003 |
| Loans | – | 793 | 5,474 | 3,130 | 8,300 | 5,015 | – | 22,712 |
| Acceptances of customers | – | – | 54 | – | – | – | – | 54 |
| Regulatory deposits | – | – | 228 | 391 | – | – | 1 | 620 |
| All other assets | 89 | – | 515 | 240 | 3,008 | 589 | 13 | 4,454 |
| Net intragroup receivable | 9,582 | – | – | – | – | – | – | 9,582 |
| **Total assets** | 9,869 | 793 | 9,153 | 4,491 | 12,600 | 6,522 | 14 | 43,442 |
| **Liabilities** | | | | | | | | |
| Due to other financial institutions | 197 | – | 2,972 | – | – | – | – | 3,169 |
| Deposits and public borrowings | 6,499 | – | 9,493 | 8,640 | 891 | – | – | 25,523 |
| Debt issues | – | – | 1,645 | 3,208 | 2,968 | – | – | 7,821 |
| Acceptances | – | – | 54 | – | – | – | – | 54 |
| All other liabilities | – | – | 725 | 747 | 1,721 | – | 15 | 3,208 |
| **Total liabilities excluding loan capital** | 6,696 | – | 14,889 | 12,595 | 5,580 | – | 15 | 39,775 |
| Loan capital | – | – | – | – | 37 | – | – | 37 |
| **Total liabilities** | 6,696 | – | 14,889 | 12,595 | 5,617 | – | 15 | 39,812 |
| **Net assets Overseas** | 3,173 | 793 | (5,736) | (8,104) | 6,983 | 6,522 | (1) | 3,630 |
| **Total net assets** | (42,460) | 4,295 | (7,195) | (10,368) | 8,275 | 55,978 | 737 | 9,262 |

## Note 28. Average balances and related interest

The following table lists the average balances and related interest for the major categories of the Group's interest earning assets and interest bearing liabilities. Averages used are predominantly daily averages:

| | Consolidated | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2001** | | | 2000 | | | 1999 | | |
| | **Average Balance $m** | **Interest [1] $m** | **Average Rate %** | Average Balance $m | Interest [1] $m | Average Rate % | Average Balance $m | Interest [1] $m | Average Rate % |
| **Assets** | | | | | | | | | |
| **Interest earning assets** | | | | | | | | | |
| Due from other financial institutions | | | | | | | | | |
| Australia | **1,618** | **68** | **4.2** | 1,531 | 71 | 4.6 | 956 | 30 | 3.1 |
| New Zealand | **1,572** | **67** | **4.3** | 1,298 | 70 | 5.4 | 1,120 | 54 | 4.8 |
| Other Overseas | **1,574** | **95** | **6.0** | 1,691 | 120 | 7.1 | 1,849 | 108 | 5.8 |
| Investment and trading securities | | | | | | | | | |
| Australia | **8,080** | **449** | **5.6** | 7,029 | 382 | 5.4 | 6,528 | 400 | 6.1 |
| New Zealand | **822** | **73** | **8.9** | 691 | 62 | 9.0 | 586 | 37 | 6.3 |
| Other Overseas | **2,741** | **179** | **6.5** | 1,923 | 166 | 8.6 | 2,368 | 153 | 6.5 |
| Regulatory deposits | | | | | | | | | |
| Other Overseas | **487** | **29** | **6.0** | 517 | 32 | 6.2 | 302 | 15 | 5.0 |
| Loans and other receivables | | | | | | | | | |
| Australia | **92,304** | **7,284** | **7.9** | 85,409 | 6,757 | 7.9 | 73,693 | 5,488 | 7.4 |
| New Zealand | **21,327** | **1,854** | **8.7** | 19,746 | 1,645 | 8.3 | 19,332 | 1,435 | 7.4 |
| Other Overseas | **3,988** | **289** | **7.2** | 3,041 | 232 | 7.6 | 3,251 | 261 | 8.0 |
| Impaired loans | | | | | | | | | |
| Australia | **339** | **6** | **1.8** | 313 | 7 | 2.2 | 428 | 16 | 3.7 |
| New Zealand | **124** | **5** | **4.0** | 102 | 6 | 5.9 | 114 | 5 | 4.4 |
| Other Overseas | **178** | **9** | **5.1** | 171 | 9 | 5.3 | 207 | 1 | 0.5 |
| Intragroup receivable | | | | | | | | | |
| Other Overseas | **16,383** | **945** | **5.8** | 16,960 | 998 | 5.9 | 9,988 | 535 | 5.4 |
| Interest earning assets and interest income including intragroup | **151,537** | **11,352** | **7.5** | 140,422 | 10,557 | 7.5 | 120,722 | 8,538 | 7.1 |
| Intragroup elimination | **(16,383)** | **(945)** | | (16,960) | (998) | | (9,988) | (535) | |
| **Total interest earning assets and interest income** | **135,154** | **10,407** | **7.7** | 123,462 | 9,559 | 7.7 | 110,734 | 8,003 | 7.2 |
| **Non-interest earning assets** | | | | | | | | | |
| Cash, due from other financial institutions and regulatory deposits | **809** | | | 486 | | | 864 | | |
| Life insurance investment assets | **7,457** | | | 7,303 | | | – | | |
| All other assets | **19,711** | | | 16,389 | | | 19,369 | | |
| Provisions for doubtful debts | | | | | | | | | |
| Australia | **(1,325)** | | | (1,241) | | | (1,324) | | |
| New Zealand | **(92)** | | | (91) | | | (106) | | |
| Other Overseas | **(120)** | | | (153) | | | (146) | | |
| **Total non-interest earning assets** | **26,440** | | | 22,693 | | | 18,657 | | |
| Acceptances of customers | | | | | | | | | |
| Australia | **16,654** | | | 12,403 | | | 10,905 | | |
| New Zealand | **–** | | | – | | | 4 | | |
| Other Overseas | **26** | | | 8 | | | 50 | | |
| **Total acceptances** | **16,680** | | | 12,411 | | | 10,959 | | |
| **Total assets** | **178,274** | | | 158,566 | | | 140,350 | | |

1 Interest income includes fully tax equivalent gross up.

| | Consolidated | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2001** | | | 2000 | | | 1999 | | |
| | **Average Balance $m** | **Interest $m** | **Average Rate %** | Average Balance $m | Interest $m | Average Rate % | Average Balance $m | Interest $m | Average Rate % |
| **Note 28. Average balances and related interest (continued)** | | | | | | | | | |
| **Liabilities** | | | | | | | | | |
| **Interest bearing liabilities** | | | | | | | | | |
| Deposits | | | | | | | | | |
| Australia | **56,307** | **2,403** | **4.3** | 53,742 | 2,311 | 4.3 | 50,367 | 1,817 | 3.6 |
| New Zealand | **15,276** | **806** | **5.3** | 14,002 | 695 | 5.0 | 15,431 | 647 | 4.2 |
| Other Overseas | **9,709** | **546** | **5.6** | 11,711 | 705 | 6.0 | 8,690 | 465 | 5.4 |
| Public borrowings by controlled entity borrowing corporations | | | | | | | | | |
| Australia | **5,986** | **344** | **5.7** | 5,912 | 331 | 5.6 | 5,495 | 298 | 5.4 |
| New Zealand | **7** | **1** | **10.0** | 96 | 7 | 7.3 | 247 | 19 | 7.7 |
| Due to other financial institutions | | | | | | | | | |
| Australia | **1,530** | **70** | **4.6** | 589 | 32 | 5.4 | 314 | 13 | 4.1 |
| New Zealand | **213** | **10** | **4.7** | 127 | 10 | 7.9 | 138 | 8 | 5.8 |
| Other Overseas | **3,805** | **208** | **5.5** | 3,239 | 179 | 5.5 | 3,264 | 173 | 5.3 |
| Loan capital | | | | | | | | | |
| Australia | **4,944** | **348** | **7.0** | 3,242 | 264 | 8.1 | 2,386 | 170 | 7.1 |
| New Zealand | **40** | **3** | **7.5** | 74 | 6 | 8.1 | 52 | 5 | 9.6 |
| Other interest bearing liabilities | | | | | | | | | |
| Australia | **15,052** | **925** | **6.1** | 9,811 | 736 | 7.5 | 6,951 | 501 | 7.2 |
| New Zealand [1] | **269** | **13** | **4.8** | 337 | 20 | 5.9 | 2,662 | 98 | 3.7 |
| Other Overseas [1] | **9,360** | **530** | **5.7** | 6,772 | 425 | 6.3 | 3,905 | 186 | 4.8 |
| Intragroup payable | | | | | | | | | |
| Australia | **10,872** | **562** | **5.2** | 11,201 | 654 | 5.8 | 7,862 | 424 | 5.4 |
| New Zealand | **5,511** | **383** | **6.9** | 5,759 | 344 | 6.0 | 2,126 | 111 | 5.2 |
| Interest bearing liabilities and interest expense including intragroup | **138,881** | **7,152** | **5.1** | 126,614 | 6,719 | 5.3 | 109,890 | 4,935 | 4.5 |
| Intragroup elimination | **(16,383)** | **(945)** | | (16,960) | (998) | | (9,988) | (535) | |
| **Total interest bearing liabilities and interest expense** | **122,498** | **6,207** | **5.1** | 109,654 | 5,721 | 5.2 | 99,902 | 4,400 | 4.4 |
| **Non-interest bearing liabilities** | | | | | | | | | |
| Deposits and due to other financial institutions | | | | | | | | | |
| Australia | **3,810** | | | 3,651 | | | 3,603 | | |
| New Zealand | **900** | | | 925 | | | 959 | | |
| Other Overseas | **245** | | | 302 | | | 527 | | |
| Life insurance policy liabilities | **7,150** | | | 6,804 | | | – | | |
| All other liabilities | **17,721** | | | 15,280 | | | 15,685 | | |
| **Total non-interest bearing liabilities** | **29,826** | | | 26,962 | | | 20,774 | | |
| Acceptances | | | | | | | | | |
| Australia | **16,654** | | | 12,403 | | | 10,905 | | |
| New Zealand | **–** | | | – | | | 4 | | |
| Other Overseas | **26** | | | 8 | | | 50 | | |
| **Total acceptances of customers** | **16,680** | | | 12,411 | | | 10,959 | | |
| **Total liabilities** | **169,004** | | | 149,027 | | | 131,635 | | |
| Ordinary shareholders' equity | **8,795** | | | 9,070 | | | 8,609 | | |
| TOPrS | **465** | | | 465 | | | 103 | | |
| Outside equity interests | **10** | | | 4 | | | 3 | | |
| **Total equity** | **9,270** | | | 9,539 | | | 8,715 | | |
| **Total liabilities and equity** | **178,274** | | | 158,566 | | | 140,350 | | |

1 Other interest bearing liabilities of a New Zealand controlled entity's London branch, established in 2000, are now classified as other overseas liabilities. The 2000 comparatives have been restated by $5,367 million for average balance and $312 million for interest. There is no impact on the 1999 comparatives. The change in classification has no impact on net interest income or net profit.

## Note 28. Average balances and related interest (continued)

The following table allocates changes in net interest income [1] between changes in volume and changes in rate for the last two fiscal years. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest-earning assets and average interest bearing liabilities. The variance caused by change in both volume and rate has been allocated in proportion to the relationship of the absolute dollar amount of each change to the total.

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 2001 Change due to | | | 2000 Change due to | | |
| | **Volume $m** | **Rate $m** | **Total $m** | Volume $m | Rate $m | Total $m |
| **Interest-earning assets** | | | | | | |
| Due from other financial institutions | | | | | | |
| Australia | **4** | **(7)** | **(3)** | 18 | 23 | 41 |
| New Zealand | **15** | **(18)** | **(3)** | 8 | 8 | 16 |
| Other Overseas | **(8)** | **(17)** | **(25)** | (10) | 22 | 12 |
| Investment and trading securities | | | | | | |
| Australia | **57** | **10** | **67** | 31 | (49) | (18) |
| New Zealand | **12** | **(1)** | **11** | 6 | 19 | 25 |
| Other Overseas | **71** | **(58)** | **13** | (27) | 40 | 13 |
| Regulatory deposits | | | | | | |
| Other Overseas | **(2)** | **(1)** | **(3)** | 11 | 6 | 17 |
| Loans and other receivables | | | | | | |
| Australia | **545** | **(18)** | **527** | 842 | 427 | 1,269 |
| New Zealand | **132** | **77** | **209** | 32 | 178 | 210 |
| Other Overseas | **72** | **(15)** | **57** | (17) | (12) | (29) |
| Impaired loans | | | | | | |
| Australia | **1** | **(2)** | **(1)** | (4) | (5) | (9) |
| New Zealand | **1** | **(2)** | **(1)** | (1) | 2 | 1 |
| Other Overseas | **–** | **–** | **–** | – | 8 | 8 |
| Intragroup receivable | | | | | | |
| Overseas | **(34)** | **(19)** | **(53)** | 378 | 85 | 463 |
| Total change in interest income including intragroup | **866** | **(71)** | **795** | 1,267 | 752 | 2,019 |
| Intragroup elimination | **34** | **19** | **53** | (378) | (85) | (463) |
| **Total change in interest income** | **900** | **(52)** | **848** | 889 | 667 | 1,556 |
| **Interest-bearing liabilities** | | | | | | |
| Deposits | | | | | | |
| Australia | **110** | **(18)** | **92** | 118 | 376 | 494 |
| New Zealand | **63** | **48** | **111** | (64) | 112 | 48 |
| Other Overseas | **(91)** | **(68)** | **(159)** | 170 | 70 | 240 |
| Public borrowings by controlled entity borrowing corporations | | | | | | |
| Australia | **4** | **9** | **13** | 21 | 12 | 33 |
| New Zealand | **(6)** | **–** | **(6)** | (12) | – | (12) |
| Due to other financial institutions | | | | | | |
| Australia | **51** | **(13)** | **38** | 11 | 8 | 19 |
| New Zealand | **7** | **(7)** | **–** | (1) | 3 | 2 |
| Other Overseas | **31** | **(2)** | **29** | – | 6 | 6 |
| Loan capital | | | | | | |
| Australia | **109** | **(25)** | **84** | 62 | 32 | 94 |
| New Zealand | **(3)** | **–** | **(3)** | 2 | (1) | 1 |
| Other interest-bearing liabilities | | | | | | |
| Australia | **232** | **(43)** | **189** | 206 | 29 | 235 |
| New Zealand | **(4)** | **(3)** | **(7)** | (85) | 7 | (78) |
| Other Overseas | **162** | **(57)** | **105** | 137 | 102 | 239 |
| Intragroup payable | | | | | | |
| Australia | **(19)** | **(73)** | **(92)** | 185 | 45 | 230 |
| New Zealand | **(15)** | **54** | **39** | 187 | 46 | 233 |
| Total change in interest expense including intragroup | **631** | **(198)** | **433** | 937 | 847 | 1,784 |
| Intragroup elimination | **34** | **19** | **53** | (372) | (91) | (463) |
| Total change in interest expense | **665** | **(179)** | **486** | 565 | 756 | 1,321 |
| **Change in net interest income** | | | | | | |
| Australia | **101** | **73** | **174** | 469 | (61) | 408 |
| New Zealand | **103** | **18** | **121** | 205 | 86 | 291 |
| Other Overseas | **31** | **36** | **67** | (350) | (114) | (464) |
| **Total change in net interest income** | **235** | **127** | **362** | 324 | (89) | 235 |

1 Net interest income includes fully tax equivalent gross up.

## Note 29. Group segment information

The basis of reporting reflects the management of the business within the Group, rather than the legal structure of the Group. The business segment results have been presented on a management reporting basis and consequently internal charges and transfer pricing adjustments have been reflected in the performance of each business segment. Intersegment pricing is determined on an arm's length basis.

The business segments are defined by the customers they service and the services they provide. The Australian Retail Financial Services segment consists of the combined results of Business and Consumer Banking, Banking and Financial Solution, eBusiness and Information Technology. The Institutional Banking segment represents primarily corporate and government customers, providing services including corporate finance and financial markets. The New Zealand Retail segment comprises the retail operations of this region. Other includes the results of Group Treasury, Pacific Banking and Head Office functions.

| | Consolidated 2001 | | | | |
|---|---|---|---|---|---|
| **Primary reporting – business segments** | Australian Retail Financial Services $m | Institutional Banking $m | New Zealand Retail $m | Other $m | **Total $m** |
| Revenue from external customers | 8,772 | 1,703 | 1,809 | 1,717 | **14,001** |
| Internal revenue | 268 | 730 | 72 | (1,070) | **–** |
| **Total segment revenue** | 9,040 | 2,433 | 1,881 | 647 | **14,001** |
| Interest income [1] | 6,827 | 1,555 | 1,550 | 475 | **10,407** |
| Interest expense | (2,176) | (670) | (964) | (2,397) | **(6,207)** |
| Internal charges [2] | (1,533) | (363) | 61 | 1,835 | **–** |
| Net interest income | 3,118 | 522 | 647 | (87) | **4,200** |
| Net non-interest income | 1,540 | 515 | 322 | 160 | **2,537** |
| Internal charges [2] | (47) | (10) | – | 57 | **–** |
| Total operating income | 4,611 | 1,027 | 969 | 130 | **6,737** |
| Depreciation and goodwill amortisation | (241) | (11) | (71) | (70) | **(393)** |
| Other non-cash expenses | (125) | (1) | (4) | (19) | **(149)** |
| Other operating expenses | (2,141) | (278) | (425) | (184) | **(3,028)** |
| Internal charges [2] | (127) | (89) | (11) | 227 | **–** |
| Total operating expenses | (2,634) | (379) | (511) | (46) | **(3,570)** |
| Bad and doubtful debts | (311) | (114) | (31) | 23 | **(433)** |
| Operating profit before income tax | 1,666 | 534 | 427 | 107 | **2,734** |
| Income tax expense [1] | (524) | (149) | (144) | (9) | **(826)** |
| Outside equity interest | – | – | – | (5) | **(5)** |
| Net profit | 1,142 | 385 | 283 | 93 | **1,903** |
| Total assets | 107,177 | 51,874 | 18,509 | 12,285 | **189,845** |
| Total liabilities | 78,936 | 37,642 | 19,301 | 44,261 | **180,140** |
| Acquisition of fixed assets and goodwill | 107 | 6 | 48 | 148 | **309** |

1 Interest income and income tax expense includes fully tax equivalent gross up of $149 million.

2 Internal charges are eliminated on consolidation.

## Note 29. Group segment information (continued)

**Consolidated**
2000

**Primary reporting – business segments**

| | Australian Retail Financial Services $m | Institutional Banking $m | New Zealand Retail $m | Other $m | Total $m |
|---|---|---|---|---|---|
| Revenue from external customers | 8,508 | 1,488 | 1,650 | 3,341 | 14,987 |
| Internal revenue | 219 | 882 | 73 | (1,174) | – |
| Total segment revenue | 8,727 | 2,370 | 1,723 | 2,167 | 14,987 |
| Interest income [1] | 6,314 | 1,541 | 1,375 | 329 | 9,559 |
| Interest expense | (1,981) | (608) | (809) | (2,323) | (5,721) |
| Internal charges [2] | (1,477) | (474) | 34 | 1,917 | – |
| Net interest income | 2,856 | 459 | 600 | (77) | 3,838 |
| Net non-interest income | 1,535 | 334 | 297 | 248 | 2,414 |
| Internal charges [2] | 8 | 30 | – | (38) | – |
| Total operating income | 4,399 | 823 | 897 | 133 | 6,252 |
| Depreciation and goodwill amortisation | (234) | (7) | (69) | (57) | (367) |
| Other non-cash expenses | (115) | (9) | (4) | (17) | (144) |
| Other operating expenses | (2,129) | (266) | (417) | (179) | (2,992) |
| Internal charges [2] | (115) | (91) | (7) | 213 | – |
| Total operating expenses | (2,593) | (373) | (497) | (40) | (3,503) |
| Bad and doubtful debts | (184) | 6 | (26) | 2 | (202) |
| Operating profit before income tax | 1,622 | 456 | 374 | 95 | 2,547 |
| Income tax expense [1] | (584) | (140) | (123) | 18 | (829) |
| Outside equity interest | – | – | – | (3) | (3) |
| Net profit | 1,038 | 316 | 251 | 110 | 1,715 |
| Total assets | 98,976 | 48,817 | 15,951 | 3,874 | 167,618 |
| Total liabilities | 71,306 | 31,047 | 17,454 | 38,549 | 158,356 |
| Acquisition of fixed assets and goodwill | 158 | 7 | 64 | 189 | 418 |

1 Interest income and income tax expense includes fully tax equivalent gross up of $169 million.

2 Internal charges are eliminated on consolidation.

## Note 29. Group segment information (continued)

**Primary reporting – business segments**

| | Consolidated 1999 | | | | |
|---|---|---|---|---|---|
| | Australian Retail Financial Services $m | Institutional Banking $m | New Zealand Retail $m | Other $m | Total $m |
| Revenue from external customers | 6,101 | 1,193 | 1,450 | 1,487 | 10,231 |
| Internal revenue | 215 | 586 | 90 | (891) | – |
| Total segment revenue | 6,316 | 1,779 | 1,540 | 596 | 10,231 |
| Interest income [1] | 5,217 | 1,239 | 1,287 | 260 | 8,003 |
| Interest expense | (1,598) | (564) | (584) | (1,654) | (4,400) |
| Internal charges [2] | (938) | (341) | (25) | 1,304 | – |
| Net interest income | 2,681 | 334 | 678 | (90) | 3,603 |
| Net non-interest income | 1,145 | 453 | 272 | 285 | 2,155 |
| Internal charges [2] | 60 | (5) | (1) | (54) | – |
| Total operating income | 3,886 | 782 | 949 | 141 | 5,758 |
| Depreciation and goodwill amortisation | (210) | (17) | (67) | (43) | (337) |
| Other non-cash expenses | (117) | (16) | (9) | 38 | (104) |
| Other operating expenses | (1,622) | (249) | (459) | (663) | (2,993) |
| Internal charges [2] | (482) | (103) | (12) | 597 | – |
| Total operating expenses | (2,431) | (385) | (547) | (71) | (3,434) |
| Bad and doubtful debts | (130) | (8) | 10 | (43) | (171) |
| Operating profit before income tax | 1,325 | 389 | 412 | 27 | 2,153 |
| Income tax expense [1] | (452) | (137) | (148) | 43 | (694) |
| Outside equity interest | – | – | – | (3) | (3) |
| Net profit | 873 | 252 | 264 | 67 | 1,456 |
| Total assets | 79,409 | 36,473 | 16,307 | 8,031 | 140,220 |
| Total liabilities | 60,180 | 24,081 | 15,428 | 31,534 | 131,223 |
| Acquisition of fixed assets and goodwill | 112 | 7 | 50 | 193 | 362 |

1 Interest income and income tax expense includes fully tax equivalent gross up of $127 million.

2 Internal charges are eliminated on consolidation.

## Note 29. Group segment information (continued)

Geographic segmentation of assets, revenue and profit is based on the location of the office in which these items are booked. Intersegment pricing is determined on an arm's length basis.

**Secondary reporting – Geographic Segments**

| | **2001** | | 2000 | | 1999 | |
|---|---|---|---|---|---|---|
| | **$m** | **%** | $m | % | $m | % |
| **Operating revenue (excluding gross up)** | | | | | | |
| Australia | **10,432** | **74.5** | 10,831 | 72.3 | 7,659 | 74.9 |
| New Zealand | **2,382** | **17.0** | 1,898 | 12.7 | 1,801 | 17.6 |
| Other [1] | **1,187** | **8.5** | 2,258 | 15.0 | 771 | 7.5 |
| **Total** | **14,001** | **100.0** | 14,987 | 100.0 | 10,231 | 100.0 |
| **Net profit attributable to equity holders of Westpac Banking Corporation** | | | | | | |
| Australia | **1,301** | **68.4** | 1,161 | 67.7 | 1,081 | 74.2 |
| New Zealand | **336** | **17.7** | 329 | 19.2 | 230 | 15.8 |
| Other [1] | **266** | **13.9** | 225 | 13.1 | 145 | 10.0 |
| **Total** | **1,903** | **100.0** | 1,715 | 100.0 | 1,456 | 100.0 |
| **Assets** | | | | | | |
| Australia | **151,432** | **79.8** | 133,758 | 79.8 | 110,554 | 78.9 |
| New Zealand | **28,966** | **15.3** | 24,973 | 14.9 | 22,748 | 16.2 |
| Other [1] | **9,447** | **4.9** | 8,887 | 5.3 | 6,918 | 4.9 |
| **Total** | **189,845** | **100.0** | 167,618 | 100.0 | 140,220 | 100.0 |
| **Acquisition of fixed assets and goodwill** | | | | | | |
| Australia | **249** | **80.6** | 340 | 81.4 | 304 | 83.9 |
| New Zealand | **48** | **15.5** | 64 | 15.3 | 50 | 13.9 |
| Other [1] | **12** | **3.9** | 14 | 3.3 | 8 | 2.2 |
| **Total** | **309** | **100.0** | 418 | 100.0 | 362 | 100.0 |

1 Other includes Pacific Islands, Asia, Americas and Europe.

## Note 30. Credit risk concentrations

Credit risk is the risk of financial loss from the failure of a customer to fully honour the terms of their contract with the Group. It arises not only from lending activities, but from any transaction which requires assured payment of funds on a given date. The process of controlling credit risk is integrated in the form of portfolio management. The portfolio is reviewed regularly to ensure that credit risk remains well diversified.

The following table sets out the credit risk concentrations of the Group:

**Consolidated**
**Credit Risk Concentration as at 30 September 2001**

| | Trading Securities $m | Investment Securities $m | Loans $m | Acceptances $m | Credit Commitments[1] $m | Derivatives[1] $m | Life Insurance Investment Assets $m | Total $m |
|---|---|---|---|---|---|---|---|---|
| **Australia** | | | | | | | | |
| Government and other public authorities | 5,239 | – | 575 | 20 | 924 | 223 | – | **6,981** |
| Agriculture, forestry and fishing | – | – | 1,335 | 1,089 | 52 | 16 | – | **2,492** |
| Commercial and financial | 3,287 | 824 | 24,072 | 13,447 | 11,092 | 18,155 | 7,315 | **78,192** |
| Real estate – construction | – | – | 817 | 275 | 299 | 157 | – | **1,548** |
| Real estate – mortgage | 150 | – | 53,877 | – | 2,816 | – | – | **56,843** |
| Instalment loans and other personal lending | – | – | 12,906 | 846 | 169 | – | – | **13,921** |
| Lease financing | – | – | 2,334 | – | – | – | – | **2,334** |
| **Total Australia** | 8,676 | 824 | 95,916 | 15,677 | 15,352 | 18,551 | 7,315 | **162,311** |
| **New Zealand** | | | | | | | | |
| Government and other public authorities | 1,278 | – | 304 | – | 65 | 3 | 5 | **1,655** |
| Agriculture, forestry and fishing | 12 | – | 1,810 | – | 220 | 32 | – | **2,074** |
| Commercial and financial | 99 | – | 8,120 | – | 932 | 2,129 | 32 | **11,312** |
| Real estate – construction | – | – | 199 | – | 32 | 16 | – | **247** |
| Real estate – mortgage | – | – | 10,934 | – | 1,734 | – | – | **12,668** |
| Instalment loans and other personal lending | – | – | 2,352 | – | 115 | – | – | **2,467** |
| Lease financing | – | – | 25 | – | – | – | – | **25** |
| **Total New Zealand** | 1,389 | – | 23,744 | – | 3,098 | 2,180 | 37 | **30,448** |
| **Other Overseas** | | | | | | | | |
| Government and other public authorities | – | 56 | 12 | – | 2 | – | – | **70** |
| Agriculture, forestry and fishing | – | – | 48 | – | 30 | – | – | **78** |
| Commercial and financial | 562 | 2,080 | 3,537 | 23 | 6,892 | 476 | – | **13,570** |
| Real estate – construction | – | – | 30 | – | 3 | – | – | **33** |
| Real estate – mortgage | – | – | 264 | – | 5 | – | – | **269** |
| Instalment loans and other personal lending | – | – | 174 | – | 20 | – | – | **194** |
| Lease financing | – | – | 126 | – | 1 | – | – | **127** |
| **Total Other Overseas** | 562 | 2,136 | 4,191 | 23 | 6,953 | 476 | – | **14,341** |
| **Total** | 10,629 | 2,960 | 123,851 | 15,700 | 25,403 | 21,207 | 7,352 | **207,102** |
| **Other risk concentrations** | | | | | | | | |
| Amounts due from other financial institutions | | | | | | | | **5,094** |
| Regulatory deposits | | | | | | | | **482** |
| **Total gross credit risk** | | | | | | | | **212,678** |

1 Credit risk for credit commitments and derivatives are based on definitions per notes 34 and 35.

Collateral security, in the form of real property or a floating charge, is generally taken for business credit except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance is generally secured against real estate while revolving consumer credit is generally unsecured.

## Note 30. Credit risk concentrations (continued)

| | Consolidated | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Credit Risk Concentration as at 30 September 2000 | | | | | | | |
| | Trading Securities $m | Investment Securities $m | Loans $m | Acceptances $m | Credit Commitments[1] $m | Derivatives[1] $m | Life Insurance Investment Assets $m | Total $m |
| **Australia** | | | | | | | | |
| Government and other public authorities | 3,636 | 116 | 544 | – | 890 | 20 | – | 5,206 |
| Agriculture, forestry and fishing | – | – | 1,587 | 1,028 | 76 | 43 | – | 2,734 |
| Commercial and financial | 1,625 | 612 | 22,423 | 12,172 | 5,020 | 14,877 | 7,547 | 64,276 |
| Real estate – construction | – | – | 789 | 1,714 | 435 | 14 | – | 2,952 |
| Real estate – mortgage | 59 | – | 47,844 | – | 2,479 | – | – | 50,382 |
| Instalment loans and other personal lending | – | – | 10,996 | 697 | 48 | – | – | 11,741 |
| Lease financing | – | – | 1,906 | – | – | – | – | 1,906 |
| **Total Australia** | 5,320 | 728 | 86,089 | 15,611 | 8,948 | 14,954 | 7,547 | 139,197 |
| **New Zealand** | | | | | | | | |
| Government and other public authorities | 1,139 | – | 367 | – | 37 | 23 | – | 1,566 |
| Agriculture, forestry and fishing | 29 | – | 1,335 | – | 68 | 52 | – | 1,484 |
| Commercial and financial | 37 | – | 5,974 | – | 787 | 2,714 | – | 9,512 |
| Real estate – construction | – | – | 129 | – | 17 | 9 | – | 155 |
| Real estate – mortgage | – | – | 9,484 | – | 1,338 | – | – | 10,822 |
| Instalment loans and other personal lending | – | – | 2,168 | – | 33 | – | – | 2,201 |
| Lease financing | 32 | – | – | – | – | – | – | 32 |
| **Total New Zealand** | 1,237 | – | 19,457 | – | 2,280 | 2,798 | – | 25,772 |
| **Other Overseas** | | | | | | | | |
| Government and other public authorities | – | 117 | 53 | – | 3 | – | – | 173 |
| Agriculture, forestry and fishing | – | – | 17 | – | 3 | – | – | 20 |
| Commercial and financial | 617 | 1,886 | 2,914 | 54 | 5,234 | 917 | – | 11,622 |
| Real estate – construction | – | – | 23 | – | 3 | – | – | 26 |
| Real estate – mortgage | – | – | 241 | – | 5 | – | – | 246 |
| Instalment loans and other personal lending | – | – | 97 | – | 8 | – | – | 105 |
| Lease financing | – | – | 120 | – | – | – | – | 120 |
| **Total Other Overseas** | 617 | 2,003 | 3,465 | 54 | 5,256 | 917 | – | 12,312 |
| **Total** | 7,174 | 2,731 | 109,011 | 15,665 | 16,484 | 18,669 | 7,547 | 177,281 |
| **Other risk concentrations** | | | | | | | | |
| Amounts due from other financial institutions | | | | | | | | 3,325 |
| Regulatory deposits | | | | | | | | 620 |
| **Total gross credit risk** | | | | | | | | 181,226 |

1 Credit risk for credit commitments and derivatives are based on definitions per notes 34 and 35.

Collateral security, in the form of real property or a floating charge, is generally taken for business credit except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance is generally secured against real estate while revolving consumer credit is generally unsecured.

| | Consolidated | | | Parent Entity | |
|---|---|---|---|---|---|
| | **2001 $'000** | 2000 $'000 | 1999 $'000 | **2001 $'000** | 2000 $'000 |

## Note 31. Auditors' remuneration

| | | | | | |
|---|---|---|---|---|---|
| Remuneration for audit or review of the financial statements: | | | | | |
| Auditors of Westpac [1] | **2,617** | 2,609 | 2,585 | **2,617** | 2,609 |
| Auditors of controlled entities [1] | | | | | |
| PricewaterhouseCoopers | **991** | 945 | 1,133 | **–** | – |
| Other auditors | **73** | 32 | 17 | **–** | – |
| | **3,681** | 3,586 | 3,735 | **2,617** | 2,609 |
| Goods and services tax | **331** | 167 | 27 | **260** | 121 |
| | **4,012** | 3,753 | 3,762 | **2,877** | 2,730 |
| Remuneration for other services by Westpac auditors and PricewaterhouseCoopers [1 2] | | | | | |
| Auditors of Westpac | **118** | 485 | 794 | **118** | 485 |
| PricewaterhouseCoopers – Australian firm | **10,412** | 9,127 | 2,890 | **9,303** | 8,340 |
| Related practices of PricewaterhouseCoopers | **2,297** | 3,838 | 2,753 | **1,537** | 3,279 |
| | **12,827** | 13,450 | 6,437 | **10,958** | 12,104 |
| Goods and services tax | **1,222** | 559 | 138 | **1,022** | 549 |
| | **14,049** | 14,009 | 6,575 | **11,980** | 12,653 |

1 The auditors of Westpac are Messrs Chowdry and Codling (1999 Messrs Lynn and Chowdry). The firm in which they are partners, PricewaterhouseCoopers, audit most of the controlled entities.

2 Other services, excluding GST, includes $578,000 (2000 $547,000) for regulatory and statutory services, $8,200,000 (2000 $7,2100,000) for consulting and advisory services, $2,778,000 (2000 $1,793,000) for taxation services and $1,271,000 (2000 $3,900,000) for other assurance services.

It is Westpac's policy to employ the external auditors on assignments additional to their statutory audit duties only if their independence is not impaired or seen to be impaired, and where their expertise and experience with Westpac is important. As described above, these assignments relate principally to regulatory reporting, taxation services and other assurance services, or where the external auditors are awarded assignments on a competitive basis.

PricewaterhouseCoopers became the auditor of controlled entities with effect from 1 July 1998, following the merger of Coopers & Lybrand and Price Waterhouse. Up to and including the 30 September 2001 financial year, a small number of former Price Waterhouse partners had loans with Westpac on normal commercial terms. In order to eliminate potential conflicts of interest, Class Order 98/1869 dated 22 September 1998 was received from ASIC which 'grandfathers' all indebtedness of these partners. This Class Order requires:

- Westpac to report to ASIC within thirty days of its occurrence any event of default or any enforcement action taken on these loans;
- the Directors of Westpac to report to ASIC within 7 days after signing the Directors' Report whether, in the opinion of the Audit Committee, the class order has been complied with; and
- PricewaterhouseCoopers to report to ASIC within 7 days after signing the Auditors' Report whether the audit has been influenced by the indebtedness.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2001 $m** | 2000 $m | **2001 $m** | 2000 $m |
| **Note 32. Expenditure commitments** | | | | |
| **Commitments for capital expenditure not provided for in the financial statements:** | | | | |
| Payable within one year | **10** | 17 | **1** | 14 |
| **Total commitments for capital expenditure not provided for in the financial statements** | **10** | 17 | **1** | 14 |
| **Lease commitments (all leases are classified as operating leases)** | | | | |
| Premises and sites | **1,043** | 971 | **1,034** | 999 |
| Furniture and equipment | **79** | 32 | **67** | 31 |
| **Total lease commitments** | **1,122** | 1,003 | **1,101** | 1,030 |
| Due within one year | **234** | 217 | **230** | 220 |
| Due after one year but not later than 5 years | **555** | 504 | **547** | 527 |
| Due after 5 years | **332** | 282 | **324** | 283 |
| **Total lease commitments** | **1,122** | 1,003 | **1,101** | 1,030 |

As at 30 September 2001, the total future minimum lease payments expected to be received by both the Group and Westpac from non cancellable sub-leases was $82 million (2000 $81 million).

**Operating leases arrangements**

Operating leases are entered into to meet the business needs of the Group. Leases are primarily over commercial and industrial premises and plant and equipment. Lease rentals are determined in accordance with market conditions when leases are entered into or on rental review dates. Leased premises that have become excess to the Group's business needs have been sublet where possible and any expected rental shortfalls fully provided for. There are no restrictions imposed on the Group by lease arrangements other than in respect of the specific premises being leased.

The Group has lease commitments resulting from the sale and lease back of various premises. These leases are generally for a term of five years with an option to extend for another five years. In most instances, other than the lease arrangements, the Group has no ongoing interests in the premises. In a small number of earlier sale and lease back arrangements the Group retained the right of first refusal to purchase the property.

## Note 33. Superannuation commitments

There are numerous defined contribution and defined benefit superannuation schemes operating throughout the Group. Contributions, as specified in the rules of the respective defined benefit and defined contribution funds are made by Westpac or the respective controlled entity and employees. Where required, actuarial valuations of the funds are undertaken every three years. Contributions to the various defined benefit schemes are at rates, reviewed from time to time, sufficient to keep the schemes solvent based on actuarial assessments.

The Group's two principal schemes for employees in Australia, the Westpac Staff Superannuation Plan ('WSSP') and the AGC Staff Retirement Fund ('AGCSRF') are defined benefit schemes and provide lump sum and pension benefits. WSSP also has a section which provides accumulation benefits. As both schemes are in surplus, the Group's contributions for the years ended 30 September 2001, 2000 and 1999 were nominal.

Actuarial reviews, as at 30 June 2000, were carried out by independent actuaries on the WSSP and the AGCSRF. See also notes 1(h) i., 5 and 18. The next full actuarial review is expected to be undertaken at 30 June 2003.

The financial status of the WSSP, the AGCSRF and the principal defined benefit schemes overseas are as follows:

| | WSSP $m | AGCSRF $m | Overseas Schemes $m | Total $m |
|---|---|---|---|---|
| (i) Present value of employees' accrued benefits [1] | **1,638** | **98** | **425** | **2,161** |
| (ii) Net market value of assets held by the scheme to meet future benefit payments | **2,360** | **168** | **492** | **3,029** |
| Excess of assets held to meet future benefit payments over present value of employees' accrued benefits | **722** | **70** | **67** | **868** |
| (iii) Vested benefits [2] | **1,551** | **94** | **189** | **1,834** |

1 Accrued benefits represent the scheme's present obligation to pay benefits to members and beneficiaries based on the present value of the expected future payments which arise from membership of the scheme up to reporting date. The figure is determined by reference to expected future salary levels and by application of a market-based risk adjusted discount rate and relevant actuarial assumptions.

2 Vested benefits are benefits which are not conditional upon continued membership of the scheme (or any factor other than resignation from the scheme) and include benefits which members were entitled to receive had they terminated their scheme membership as at year end.

The above amounts have been extracted from the financial statements and actuarial valuations of the scheme as at:

- for WSSP and AGCSRF item (i) 30 June 2000, items (ii) and (iii) 30 June 2001; and
- for overseas schemes various dates between 5 April 2000 and 30 September 2001.

The Group has no material obligations in respect of post-retirement employee benefits other than pensions.

## Note 34. Contingent liabilities and credit commitments

The Group is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers and in managing its own risk profile. These financial instruments include commitments to extend credit, bill endorsements, financial guarantees, standby letters of credit and underwriting facilities.

The Group's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract or notional amount of those instruments. However, some commitments to extend credit and provide underwriting facilities can be cancelled or revoked at any time at the Group's option.

The Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The Group takes collateral where it is considered necessary to support, both on and off-balance sheet, financial instruments with credit risk. The Group evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral taken, if deemed necessary, on the provision of a financial facility is based on management's credit evaluation of the counterparty. The collateral taken varies but may include cash deposits, receivables, inventory, plant and equipment, real estate and investments.

The Group is obliged to repurchase securitised loans where there is a breach of warranty within 120 days of sale, or where the securitised loans cease to conform with the terms and conditions of the WST program.

Off-balance sheet credit-risk related financial instruments are as follows:

| | Consolidated | | | | Parent Entity | | | |
|---|---|---|---|---|---|---|---|---|
| | **2001** | | 2000 | | **2001** | | 2000 | |
| | **Contract or Notional Amount $m** | **Credit Equivalent[1] $m** | Contract or Notional Amount $m | Credit Equivalent[1] $m | **Contract or Notional Amount $m** | **Credit Equivalent[1] $m** | Contract or Notional Amount $m | Credit Equivalent[1] $m |
| **Credit-risk related instruments** | | | | | | | | |
| Standby letters of credit and financial guarantees | **1,764** | **1,764** | 1,890 | 1,890 | **1,758** | **1,758** | 1,857 | 1,857 |
| Trade letters of credit [2] | **441** | **88** | 421 | 84 | **438** | **88** | 411 | 82 |
| Non-financial guarantees [3] | **3,291** | **1,646** | 3,064 | 1,532 | **3,285** | **1,643** | 3,056 | 1,528 |
| Commitments to extend credit: | | | | | | | | |
| Residual maturity less than 1 year [4] | **32,318** | **–** | 31,166 | – | **32,264** | **–** | 31,159 | – |
| Residual maturity 1 year or more | **17,501** | **8,751** | 13,632 | 6,816 | **17,496** | **8,748** | 13,632 | 6,816 |
| Other commitments [5] | **11,390** | **13,154** | 3,522 | 5,018 | **11,295** | **13,059** | 3,705 | 5,093 |
| **Total credit-risk-related instruments** | **66,705** | **25,403** | 53,695 | 15,340 | **66,536** | **25,296** | 53,820 | 15,376 |

1 Credit equivalents are determined in accordance with the APRA risk-weighted capital adequacy guidelines (refer note 26).

2 Trade letters of credit are for terms up to 1 year secured against an underlying shipment of goods or backed by a confirmatory letter from another bank.

3 Non-financial guarantees include other trade related letters of credit and obligations backing the performance of commercial contracts.

4 The credit conversion factor is 0% for credit commitments with a residual maturity of less than one year or which can be unconditionally cancelled by the Group at any time without notice.

5 Other commitments include forward purchases of assets, forward deposits, underwriting commitments and credit derivatives.

## Note 34. Contingent liabilities and credit commitments (continued)

**Additional liabilities and commitments**

*Legislative liabilities*

The Group has the following assessed liabilities at 30 September 2001:

- $3 million (2000 $2 million) based on an actuarial assessment as a self-insurer under the Accident Compensation Act, 1985 (Victoria);
- $13 million (2000 $8 million) based on an actuarial assessment as a self-insurer under the Workers' Compensation Act, 1987 (New South Wales); and
- $2 million (2000 $3 million) based on an actuarial assessment as a self-insurer under the Workercover Queensland Act, 1996 (Queensland).

Adequate provision has been made for these liabilities in the provision for annual leave and other staff benefits (note 22).

*Litigation*

A contingent liability exists in respect of actual and potential claims and proceedings. An assessment of the Group's likely loss has been made on a case-by-case basis and provision has been made where appropriate within the provision for doubtful debts (note 14) or the provision for non-lending losses (note 22).

*Liquidity support*

In accordance with the Regulations of the Australian Payments Clearing Association (APCA), Westpac may be required to provide liquidity support for any other APCA member that fails to settle its clearing obligations.

In addition, Westpac is a participant to the Interbank Deposit Agreement along with three other Australian banks. In accordance with the Interbank Deposit Agreement, a deposit notice may be served upon the other participants by a bank which is experiencing liquidity problems. The other participants are then required to deposit equal amounts of up to $2 billion each for a period of 30 days. At the end of 30 days the deposit holder has the option to repay the deposit in cash or by way of assignment of mortgages to the value of the deposit.

*Long term contracts*

On 3 December 2000, Westpac entered into a ten year contract with IBM Global Services Australia relating to the management of the core banking technology operations in Australia, New Zealand and the Pacific. The exact amount of the contract commitment is unable to be reliably measured as Westpac's obligations are dependent upon business volumes over the period of the contract.

**Parent Entity guarantees and undertakings**

Excluded from the consolidated amounts disclosed above are the following guarantees and undertakings extended to entities in the Group by Westpac:

(i) Guarantees of commercial paper and other debt securities issued by certain controlled entities;

(ii) Issue of letters of comfort in respect of certain controlled entities in the normal course of business. The letters recognise that Westpac has a responsibility to ensure that those controlled entities continue to meet their obligations;

(iii) Guarantee of the repayment of loans made by Westpac Bank-PNG-Limited to the extent that they exceed a prescribed limit;

(iv) Guarantee of certain liabilities of Westpac Investment Management Pty Limited to the extent of $25 million; and

(v) Guarantee of the performance of lessees under certain finance leases entered into by AGC as lessor.

## Note 35. Derivative financial instruments

Derivative contracts include forwards, futures, swaps and options, all of which are bilateral contracts or payment exchange agreements, whose values derive from the value of an underlying asset, reference rate or index. Derivatives are flexible and cost-effective tools for assisting in the management of interest rate, exchange rate, commodity, credit and equity exposures.

A ***forward*** contract obliges one party to buy and the other to sell, a specific underlying product/instrument at a specific price, amount, and date in the future. A ***forward rate agreement (FRA)*** is an agreement between two parties establishing a contract interest rate on a notional principal over a specified period commencing at a specific future date.

A ***futures*** contract is similar to a forward contract. A futures contract obliges its owner to buy a specific underlying commodity or financial instrument at a specified price on the contract maturity date (or to settle the value for cash). Futures are exchange traded.

A ***swap*** transaction obliges the two parties to the contract to exchange a series of cash flows at specified intervals known as payment or settlement dates.

An ***option*** contract gives the option holder the right, but not the obligation, to buy or sell a specified amount of a given commodity or financial instrument at a specified price during a certain period or on a specific date. The writer of the option contract is obliged to perform if the holder exercises the right contained therein.

The following terms are used in the remainder of this note to describe the Group's exposure to derivatives.

The 'notional amount' is a measure of the volume which may be used for examining changes in derivative activity over time. The notional amount is the face value of the contract. Unlike an on-balance sheet financial instrument, the notional amount of a derivative does not reflect the amount at risk which is generally only a small fraction of this value.

The 'regulatory credit equivalent' is calculated for capital adequacy purposes using APRA's current exposure method. Credit equivalent amounts are calculated as replacement cost (positive mark-to-market) plus an add-on for potential credit exposure based on a credit conversion factor (percentage) of the notional amount. The credit conversion factors are as shown below:

| | Less than 1 year % | Over 1 year to 5 years % | Over 5 years % |
|---|---|---|---|
| Interest rate | Nil | 0.5 | 1.5 |
| Foreign exchange (including gold) | 1.0 | 5.0 | 7.5 |
| Equities | 6.0 | 8.0 | 10.0 |
| Precious metals (excluding gold) | 7.0 | 7.0 | 8.0 |
| Other commodities | 10.0 | 12.0 | 15.0 |

The 'positive mark-to-market' (replacement cost) is the cost of replacing all transactions in a gain position to the Group and is included in 'other assets' on the statement of financial position.

The 'negative mark-to-market' represents the cost to the Group's counterparties of replacing all transactions in a loss position to the Group and is included in 'other liabilities' on the statement of financial position. The mark-to-market values do not include any offsetting physical positions that may exist, including structural balance sheet positions, and they do not include any benefits from master netting agreements.

The Group uses derivatives in two distinct capacities; as a dealer and as an end-user as part of its asset and liability management activities. As a dealer, the Group's primary objective is to derive income from the sale of derivatives to meet Westpac's customers needs. In addition to the sale of derivatives to customers, the Group also undertakes market making and discretionary trading activities. Market making involves providing quotes to other dealers who reciprocate by providing the Group with their own quotes. This process ensures liquidity in the key markets in which the Group operates. The Group also trades on its own account to exploit arbitrage opportunities and market anomalies, as well as to take outright views on market direction. These activities, known as proprietary trading, represent a limited part of the Group's derivative activities.

Certain leveraged derivatives include an explicit leverage factor in the payment formula. The leverage factor has the effect of multiplying the notional amount such that the impact of changes in the underlying price or prices may be greater than that indicated by the notional amount alone. The Group has no significant exposure to those types of transactions.

## Note 35. Derivative financial instruments (continued)

Details of the Group's trading derivatives outstanding in terms of notional amount, regulatory credit equivalent and mark-to-market values (both positive and negative) as at 30 September are shown in the following table:

| Trading Derivatives Outstanding | Notional Amount $m | Regulatory Credit Equivalent $m | Positive Mark-to-market (replacement cost) $m | Negative Mark-to-market $m | Average Positive Mark-to-market (replacement cost) $m | Average Negative Mark-to-market $m |
|---|---|---|---|---|---|---|
| **2001** | | | | | | |
| **Interest rate** | | | | | | |
| Futures | **21,024** | **–** | **2** | **(3)** | **2** | **(3)** |
| Forwards | **55,344** | **21** | **20** | **(24)** | **11** | **(361)** |
| Swaps | **195,130** | **5,300** | **4,127** | **(4,041)** | **3,020** | **(2,703)** |
| Purchased options | **17,051** | **139** | **110** | **–** | **67** | **–** |
| Sold options | **6,767** | **–** | **–** | **(88)** | **–** | **(66)** |
| **Foreign exchange** | | | | | | |
| Forwards | **242,547** | **8,559** | **6,476** | **(4,795)** | **6,528** | **(4,514)** |
| Swaps | **47,688** | **4,590** | **2,385** | **(1,109)** | **1,861** | **(1,273)** |
| Purchased options | **21,149** | **1,233** | **950** | **–** | **999** | **–** |
| Sold options | **18,588** | **–** | **–** | **(543)** | **–** | **(608)** |
| **Commodities** | **913** | **143** | **49** | **(23)** | **43** | **(23)** |
| **Equities and credit** | **5,678** | **1,222** | **1** | **(20)** | **2** | **(13)** |
| **Total trading derivatives outstanding** | **631,879** | **21,207** | **14,120** | **(10,646)** | **12,533** | **(9,564)** |
| **2000** | | | | | | |
| **Interest rate** | | | | | | |
| Futures | 40,869 | 1 | 1 | 2 | 7 | 2 |
| Forwards | 26,620 | 2 | 2 | 5 | 5 | 6 |
| Swaps | 161,004 | 2,467 | 1,703 | 1,679 | 1,715 | 1,652 |
| Purchased options | 10,176 | 19 | 10 | – | 17 | – |
| Sold options | 4,718 | – | – | 38 | – | 23 |
| **Foreign exchange** | | | | | | |
| Forwards | 212,539 | 10,596 | 8,696 | 6,093 | 4,906 | 3,706 |
| Swaps | 37,380 | 3,741 | 2,164 | 1,792 | 1,180 | 1,354 |
| Purchased options | 21,624 | 1,271 | 964 | – | 661 | – |
| Sold options | 19,843 | – | – | 640 | – | 452 |
| **Commodities** | 1,316 | 184 | 52 | 48 | 47 | 44 |
| **Equities and credit** | 5,785 | 388 | 2 | 3 | 3 | 14 |
| **Total trading derivatives outstanding** | 541,874 | 18,669 | 13,594 | 10,300 | 8,541 | 7,253 |

Derivative positions used in the Group's asset and liability management activities are transacted internally with the Group's independently managed dealing units. The dealing units, in turn, cover their position in the market place.

The following table shows the notional amount of such internal derivative transactions outstanding at year end. The notional amounts do not represent direct credit exposures. Credit risk does arise in respect of offsetting external transactions. The regulatory credit equivalent is included in the above table of trading derivatives.

## Note 35. Derivative financial instruments (continued)

| | Notional Principal Amount 2001 $m | 2000 $m |
|---|---|---|
| **Derivatives used for asset and liability management purposes** | | |
| **Interest rate** | | |
| Futures | **28,552** | 39,721 |
| Forwards | **448** | 1,165 |
| Swaps | **71,069** | 44,043 |
| Purchased options | **554** | 566 |
| **Foreign exchange** | | |
| Forwards | **2,115** | 15,154 |
| Swaps | **15,330** | 18,353 |
| **Total derivatives used for asset and liability management purposes** | **118,068** | 119,002 |

Where hedge transactions are terminated prior to the maturity of the underlying exposures, gains or losses on termination are deferred and recognised over the remaining term of the maturity. As at 30 September 2001, the net amount of the deferred gains in relation to terminated and matured hedge contracts was $6.3 million (2000 $13.3 million) which will be amortised to the statement of financial performance.

## Note 36. Interest rate risk

Sensitivity to interest rates arises from mismatches in the interest rate characteristics of the assets and their corresponding liability funding. One of the major causes of these mismatches is timing differences in the repricing of the asset and liabilities. These mismatches are actively managed as part of the overall interest rate risk management process which is conducted in accordance with Group policy guidelines.

The following table represents a break down of the contractual repricing, by time, of the Group's net asset position as at 30 September 2001. The Group uses this contractual repricing information as a base, which is then altered to take account of consumer behaviour, to manage its interest rate risk.

| | Consolidated 2001 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than 1 month $m | Over 1 month to 3 months $m | Over 3 months to 1 year $m | Over 1 year to 5 years $m | Over 5 years $m | Non-interest bearing $m | **Total $m** | Weighted Average Rate % |
| **Australia** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with central banks | – | – | – | – | – | 845 | **845** | – |
| Due from other financial institutions | 2,226 | – | – | – | – | 795 | **3,021** | 5.0% |
| Trading securities | 8,676 | – | – | – | – | – | **8,676** | 6.0% |
| Investment securities | 512 | 309 | 3 | – | – | – | **824** | 6.0% |
| Loans [1] | 71,455 | 3,540 | 6,124 | 14,182 | 609 | (1,395) | **94,515** | 7.4% |
| Acceptances of customers | – | – | – | – | – | 15,677 | **15,677** | – |
| Life insurance investment assets [2] | 1,454 | 202 | 216 | 1 | – | 5,442 | **7,315** | 5.0% |
| Statutory deposits | | | | | | | **–** | – |
| Fixed assets | – | – | – | – | – | 824 | **824** | – |
| All other assets | – | – | – | – | – | 19,724 | **19,724** | – |
| **Total assets** | 84,323 | 4,051 | 6,343 | 14,183 | 609 | 41,912 | **151,421** | |
| **Liabilities** | | | | | | | | |
| Due to other financial institutions | 560 | 284 | 689 | – | – | 502 | **2,035** | 3.8% |
| Deposits and public borrowings | 48,316 | 7,643 | 6,714 | 2,447 | 34 | 3,666 | **68,820** | 3.5% |
| Debt issues | 4,345 | 5,153 | 1,309 | 7,808 | 68 | – | **18,683** | 4.5% |
| Acceptances | – | – | – | – | – | 15,677 | **15,677** | – |
| Life insurance policy liabilities | – | – | 245 | 136 | 69 | 6,664 | **7,114** | – |
| All other liabilities | – | – | – | – | – | 19,108 | **19,108** | – |
| Net intragroup payable | 9,780 | – | – | – | – | – | **9,780** | 5.7% |
| **Total liabilities excluding loan capital** | 63,001 | 13,080 | 8,957 | 10,391 | 171 | 45,617 | **141,217** | |
| Loan capital | 1,152 | 2,087 | 1,118 | 112 | 328 | – | **4,797** | 4.9% |
| **Total liabilities** | 64,153 | 15,167 | 10,075 | 10,503 | 499 | 45,617 | **146,014** | |
| **Net assets** | 20,170 | (11,116) | (3,732) | 3,680 | 110 | (3,705) | **5,407** | |
| **Total equity** | – | – | – | – | – | 5,407 | **5,407** | |
| **Off-balance sheet items** | (1,897) | (310) | 1,701 | 593 | (87) | – | **–** | |
| **Net mismatch – Australia** | 18,273 | (11,426) | (2,031) | 4,273 | 23 | (9,112) | **–** | |

1 The non-interest bearing category for loans include the provisions for bad and doubtful debts.

2 The investment earnings on life insurance investment assets support the life insurance policy liabilities and does not contribute to market risk on the Group's banking operations.

## Note 36. Interest rate risk (continued)

| | Less than 1 month $m | Over 1 month to 3 months $m | Over 3 months to 1 year $m | Over 1 year to 5 years $m | Over 5 years $m | Non-interest bearing $m | **Total $m** | Weighted Average Rate % |
|---|---|---|---|---|---|---|---|---|
| | | | | **Consolidated 2001** | | | | |
| **New Zealand** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with central banks | – | – | – | – | – | 100 | **100** | – |
| Due from other financial institutions | 745 | 33 | 58 | – | – | – | **836** | 5.0% |
| Trading securities | 116 | 193 | 743 | 337 | – | – | **1,389** | 5.4% |
| Loans [1] | 10,948 | 2,954 | 3,656 | 6,180 | 7 | (81) | **23,664** | 8.1% |
| Life insurance investment assets [2] | – | – | 1 | 8 | – | 28 | **37** | 1.3% |
| Fixed assets | – | – | – | – | – | 169 | **169** | – |
| All other assets | – | – | – | – | – | 2,782 | **2,782** | – |
| **Total assets** | 11,809 | 3,180 | 4,458 | 6,525 | 7 | 2,998 | **28,977** | |
| **Liabilities** | | | | | | | | |
| Due to other financial institutions | 86 | 2 | – | – | – | 165 | **253** | 3.1% |
| Deposits and public borrowings | 9,990 | 3,571 | 2,493 | 468 | – | 847 | **17,369** | 4.4% |
| Debt issues | 171 | 17 | – | 50 | – | – | **238** | 1.7% |
| Life insurance policy liabilities | – | – | – | – | – | 9 | **9** | – |
| All other liabilities | 154 | – | – | – | – | 1,867 | **2,021** | – |
| Net intragroup payable | 6,982 | – | – | – | – | – | **6,982** | – |
| **Total liabilities excluding loan capital** | 17,383 | 3,590 | 2,493 | 518 | – | 2,888 | **26,872** | |
| Loan capital | – | – | – | 41 | – | – | **41** | 7.6% |
| **Total liabilities** | 17,383 | 3,590 | 2,493 | 559 | – | 2,888 | **26,913** | |
| **Net assets** | (5,574) | (410) | 1,965 | 5,966 | 7 | 110 | **2,064** | |
| **Total equity** | – | – | – | – | – | 2,064 | **2,064** | |
| **Off-balance sheet items** | 2,337 | (103) | (615) | (2,279) | 660 | – | **–** | |
| **Net mismatch – New Zealand** | (3,237) | (513) | 1,350 | 3,687 | 667 | (1,954) | | |
| **Other Overseas** | | | | | | | | |
| Total assets | 19,671 | 555 | 778 | 2,639 | 1,602 | 964 | **26,209** | 5.2% |
| Total liabilities | 7,987 | 8,099 | 4,474 | 1,722 | 219 | 1,474 | **23,975** | 3.9% |
| Net assets | 11,684 | (7,544) | (3,696) | 917 | 1,383 | (510) | **2,234** | |
| Total equity | – | – | – | – | – | 2,234 | **2,234** | |
| **Off-balance sheet items** | (52) | (3,317) | 2,859 | (23) | 533 | – | **–** | |
| **Net mismatch – Other Overseas** | 11,632 | (10,861) | (837) | 894 | 1,916 | (2,744) | **–** | |

1 The non-interest bearing category for loans include the provisions for bad and doubtful debts.

2 The investment earnings on life insurance investment assets support the life insurance policy liabilities and does not contribute to market risk on the Group's banking operations.

## Note 36. Interest rate risk (continued)

| | Consolidated 2000 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Less than 1 month $m | Over 1 month to 3 months $m | Over 3 months to 1 year $m | Over 1 year to 5 years $m | Over 5 years $m | Non-interest bearing $m | Total $m | Weighted Average Rate % |
| **Australia** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with central banks | – | – | – | – | – | 645 | 645 | – |
| Due from other financial institutions | 488 | 644 | – | – | – | 221 | 1,353 | 6.3% |
| Trading securities | 4,300 | – | – | – | – | 1,020 | 5,320 | 6.1% |
| Investment securities | 728 | – | – | – | – | – | 728 | 6.6% |
| Loans [1] | 58,552 | 6,522 | 7,669 | 12,806 | 665 | (1,393) | 84,821 | 7.4% |
| Acceptances of customers | – | – | – | – | – | 15,611 | 15,611 | – |
| Life insurance investment assets [2] | 1,129 | – | 574 | 29 | 915 | 4,900 | 7,547 | 6.3% |
| Fixed assets | – | – | – | – | – | 957 | 957 | – |
| All other assets | – | – | – | – | – | 16,776 | 16,776 | – |
| **Total assets** | 65,197 | 7,166 | 8,243 | 12,835 | 1,580 | 38,737 | 133,758 | |
| **Liabilities** | | | | | | | | |
| Due to other financial institutions | 122 | – | – | – | – | 681 | 803 | 5.7% |
| Deposits and public borrowings | 47,248 | 7,838 | 4,246 | 1,709 | 7 | 3,423 | 64,471 | 4.9% |
| Debt issues | 3,084 | 6,248 | 2,027 | 23 | – | – | 11,382 | 6.7% |
| Acceptances | – | – | – | – | – | 15,611 | 15,611 | – |
| Life insurance policy liabilities | – | – | 453 | 259 | 69 | 6,210 | 6,991 | – |
| All other liabilities | – | – | – | – | – | 14,431 | 14,431 | – |
| Net intragroup payable | 9,582 | – | – | – | – | – | 9,582 | 6.0% |
| **Total liabilities excluding loan capital** | 60,036 | 14,086 | 6,726 | 1,991 | 76 | 40,356 | 123,271 | |
| Loan capital | – | 4,527 | – | 328 | – | – | 4,855 | 7.4% |
| **Total liabilities** | 60,036 | 18,613 | 6,726 | 2,319 | 76 | 40,356 | 128,126 | |
| **Net assets** | 5,161 | (11,447) | 1,517 | 10,516 | 1,504 | (1,619) | 5,632 | |
| **Total equity** | – | – | – | – | – | 5,632 | 5,632 | |
| **Off-balance sheet items** | 9,074 | 8,709 | (10,400) | (6,009) | (1,374) | – | – | |
| **Net mismatch – Australia** | 14,235 | (2,738) | (8,883) | 4,507 | 130 | (7,251) | – | |

1 The non-interest bearing category for loans include the provisions for bad and doubtful debts.

2 The investment earnings on life insurance investment assets support the life insurance policy liabilities and does not contribute to market risk on the Group's banking operations.

## Note 36. Interest rate risk (continued)

| | Consolidated | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2000 | | | | | | | |
| | Less than 1 month $m | Over 1 month to 3 months $m | Over 3 months to 1 year $m | Over 1 year to 5 years $m | Over 5 years $m | Non-interest bearing $m | Total $m | Weighted Average Rate % |
| **New Zealand** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash and balances with central banks | – | – | – | – | – | 86 | 86 | – |
| Due from other financial institutions | 470 | 168 | 82 | – | – | 56 | 776 | 5.8% |
| Trading securities | – | 276 | 476 | 332 | – | 206 | 1,290 | 6.5% |
| Loans | 9,157 | 2,967 | 2,793 | 4,540 | – | (82) | 19,375 | 8.9% |
| Fixed assets | – | – | – | – | – | 180 | 180 | – |
| All other assets | – | – | – | – | – | 3,266 | 3,266 | – |
| **Total assets** | 9,627 | 3,411 | 3,351 | 4,872 | – | 3,712 | 24,973 | |
| **Liabilities** | | | | | | | | |
| Due to other financial institutions | 25 | – | – | – | – | 168 | 193 | 1.7% |
| Deposits and public borrowings | 7,593 | 2,528 | 2,632 | 265 | – | 675 | 13,693 | 5.1% |
| Debt issues [1] | 170 | – | 56 | 62 | – | – | 288 | 6.3% |
| All other liabilities | 287 | – | – | – | – | 1,867 | 2,154 | – |
| Net intragroup payable | 7,384 | – | – | – | – | – | 7,384 | 4.5% |
| **Total liabilities excluding loan capital** | 15,459 | 2,528 | 2,688 | 327 | – | 2,710 | 23,712 | |
| Loan capital | – | – | – | 37 | – | – | 37 | 7.6% |
| **Total liabilities** | 15,459 | 2,528 | 2,688 | 364 | – | 2,710 | 23,749 | |
| **Net assets** | (5,832) | 883 | 663 | 4,508 | – | 1,002 | 1,224 | |
| **Total equity** | – | – | – | – | – | 1,224 | 1,224 | |
| **Off-balance sheet items** | 1,655 | 1,619 | (1,254) | (2,774) | 754 | – | – | |
| **Net mismatch – New Zealand** | (4,177) | 2,502 | (591) | 1,734 | 754 | (222) | – | |
| **Other Overseas** | | | | | | | | |
| Total assets | 19,856 | 1,547 | 750 | 12 | – | 3,688 | 25,853 | 6.7% |
| Total liabilities [1] | 8,207 | 5,085 | 7,456 | 466 | 22 | 2,211 | 23,447 | 5.9% |
| Net assets | 11,649 | (3,538) | (6,706) | (454) | (22) | 1,477 | 2,406 | |
| Total equity | – | – | – | – | – | 2,406 | 2,406 | |
| **Off-balance sheet items** | 1,915 | (1,837) | (436) | 51 | 307 | – | – | |
| **Net mismatch – Other Overseas** | 13,564 | (5,375) | (7,142) | (403) | 285 | (929) | – | |

1 As set out in note 28 Average Balances and Related Interest, the 2000 comparatives for New Zealand debt issues have been restated by $6,364 million and are now classified in overseas debt issues.

## Note 37. Fair value of financial instruments

The following information represents estimates of fair values at a point in time. Quoted market prices, when available, are used as the measure of fair values. However, for a significant portion of the Group's financial instruments, quoted market prices do not exist. For such financial instruments, fair values presented are estimates derived using net present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. In addition, the value of long term relationships with depositors (core deposit intangibles) and other customers (such as credit card intangibles) are not reflected. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amount the Group could have realised in a sales transaction at 30 September 2001.

The fair value estimates were determined by application of the methods and assumptions described below.

**Certain short-term financial instruments**

For cash and cash at bank, loans to dealers in the Australian short-term money market, amounts due from other financial institutions with maturities of less than three months, and other types of short-term financial instruments recognised in the balance sheet under 'other assets' or 'other liabilities', the carrying amount is a reasonable estimate of fair value.

**Floating rate financial instruments**

For floating rate financial instruments, the carrying amount is generally a reasonable estimate of fair value.

**Trading and investment securities**

For trading securities, the estimated fair values, which are also the carrying amounts, are generally based on quoted market prices or dealer quotes. For investment securities, fair values are also based on quoted market prices or dealer quotes, or, where there is no ready market in certain securities, fair values have been assessed by reference to interest yields.

**Regulatory deposits**

The Group is required by law, in several countries in which it operates, to lodge regulatory deposits with the local central bank at a rate of interest below that generally prevailing in that market. As the Group's ability to carry on the business of banking is conditional upon the maintenance of these deposits, their fair value is assumed to be equal to their carrying value, notwithstanding the below market rate of interest being earned thereon.

**Due from other financial institutions and loans**

For amounts due from other financial institutions with maturities of three months or more and fully-performing fixed-rate loans, fair values have been estimated by reference to current rates at which similar advances would be made to banks and other borrowers with a similar credit rating and the same remaining maturities.

For variable-rate loans, excluding impaired loans, the carrying amount is generally a reasonable estimate of fair value.

Fair value of credit card receivables is based on the carrying value of receivables outstanding which is generally a reasonable estimate and does not include the value associated with the relationships Westpac has with its credit card customers.

The fair values of impaired loans are estimated by discounting the estimated future cash flows using current market interest rates incorporating an appropriate risk factor or, where such loans are collateralised and have been written down to the current market value of the collateral, the estimated fair value is based on the written-down carrying value.

In arriving at the fair values for loans on the above bases, the total fair value of the entire loan portfolio has been reduced by $1,294 million (2000 $1,212 million) being the carrying value of the general provision for doubtful debts which covers unidentified losses inherent in the portfolio.

**Acceptances of customers**

Given the short term nature of acceptances of customers and the fact that they exactly net off against the contra liability acceptances, the carrying amount is a reasonable estimate of the fair value.

**Other investments**

For shares in companies, the estimated fair values are based on quoted market prices, the expected future cash flows or on the Group's share of net assets at book value.

**Deposits and public borrowings, due to other financial institutions, bonds, debt issues and subordinated debt**

The fair value of demand deposits is the amount payable on demand at the reporting date. For other liabilities with maturities of less than 3 months, the carrying amount is a reasonable estimate of fair value.

For liabilities with maturities of 3 months or longer, fair values have been based on quoted market prices, where such prices exist. Otherwise, fair values have been estimated using the rates currently offered for similar liabilities of similar remaining maturities.

**Commitments to extend credit, financial guarantees, letters of credit and bill endorsements**

A fair value has not been ascribed to credit and other commitments (contractual value 2001 $61.2 billion, 2000 $48.3 billion), guarantees and letters of credit (combined contractual value 2001 $5.5 billion, 2000 $5.4 billion) as estimated fair values are not readily ascertainable. These financial instruments are generally not sold nor traded. They generate ongoing fees at the Group's current pricing levels which are in line with general market prices. The fair value may be represented by the present value of fees expected to be received, less associated costs. The overall level of fees involved is not material.

**Exchange-rate, interest-rate and equity contracts and commodity-swap agreements**

The fair value of exchange-rate, interest-rate and equity contracts and commodity-swap agreements (used for hedging purposes) is the estimated amount the Group would receive or pay to terminate the contracts at the reporting date.

## Note 37. Fair value of financial instruments (continued)

Estimated fair value of the Group's financial instruments at 30 September are as follows:

| | **2001** | | 2000 | |
|---|---|---|---|---|
| | **Carrying Amount $m** | **Estimated Fair Value $m** | Carrying Amount $m | Estimated Fair Value $m |
| **Financial assets** | | | | |
| Cash and short-term liquid assets | **1,079** | **1,079** | 836 | 836 |
| Due from other financial institutions | **5,094** | **5,096** | 3,325 | 3,325 |
| Trading securities | **10,629** | **10,629** | 7,174 | 7,174 |
| Investment securities | **2,960** | **2,814** | 2,731 | 2,670 |
| Regulatory deposits | **482** | **482** | 620 | 620 |
| Loans (net of unearned income) | | | | |
| Loans and other receivables | **123,851** | | 109,011 | |
| Specific provisions for bad and doubtful debts | **(307)** | | (266) | |
| General provisions for bad and doubtful debts | **(1,294)** | | (1,212) | |
| | **122,250** | **122,523** | 107,533 | 107,287 |
| Acceptances of customers | **15,700** | **15,700** | 15,665 | 15,665 |
| Life insurance investment assets | **7,352** | **7,352** | 7,547 | 7,547 |
| Other assets | | | | |
| Accrued interest receivable | **620** | **620** | 575 | 575 |
| Securities purchased under agreement to resell | **283** | **283** | 289 | 289 |
| Securities sold not delivered | **4,179** | **4,179** | 2,636 | 2,636 |
| Other financial markets assets | **14,120** | **14,120** | 13,549 | 13,549 |
| Other investments | **166** | **202** | 175 | 175 |
| **Financial liabilities** | | | | |
| Due to other financial institutions | **5,954** | **5,970** | 3,972 | 3,995 |
| Deposits and public borrowings | **96,157** | **96,368** | 89,994 | 89,667 |
| Debt issues | **27,989** | **28,089** | 19,203 | 18,908 |
| Acceptances | **15,700** | **15,700** | 15,665 | 15,665 |
| Life insurance policy liabilities | **7,123** | **7,123** | 6,991 | 6,991 |
| Other liabilities | | | | |
| Accrued interest payable | **881** | **881** | 1,135 | 1,135 |
| Securities sold under agreement to repurchase | **464** | **464** | 210 | 210 |
| Securities short sold | **1,309** | **1,309** | 1,213 | 1,213 |
| Securities purchased not delivered | **4,288** | **4,288** | 1,144 | 1,144 |
| Other financial markets liabilities | **11,034** | **11,034** | 10,352 | 10,352 |
| Subordinated bonds, notes and debentures | **4,045** | **4,261** | 4,175 | 4,161 |
| Subordinated undated capital notes | **793** | **799** | 717 | 717 |
| **Off-balance sheet derivative financial instruments** | | | | |
| Exchange-rate, interest-rate and equity contracts used for hedging purposes in: | | | | |
| receivable position | | **1,368** | | 2,370 |
| payable position | | **(1,138)** | | (2,239) |
| net receivable position | | **230** | | 131 |

## Note 38. Group entities

The consolidated financial statements at 30 September 2001 include the following controlled entities. The financial years of all controlled entities are the same as that of the Westpac.

| Name | Notes | Country of Incorporation (a) |
|---|---|---|
| **Westpac Banking Corporation** | (b),(c) | Australia |
| **52 Collins Street Pty Limited** | | Australia |
| **A.G.C. (Advances) Limited** | | Australia |
| General Credits Holdings Limited | | Australia |
| General Credits Limited | | Australia |
| G.C.L. Investments Limited | | Australia |
| Island Princess Holdings Pty Limited | | Australia |
| The Airlie Trust | | Australia |
| Reef International Pty Limited | | Australia |
| **Australian Guarantee Corporation Limited** | | Australia |
| A.G.C. (Commercial) Limited | | Australia |
| M.A.C. Nominees Pty Limited | | Australia |
| Mazbond Pty Limited | | Australia |
| Palaver Pty Limited | | Australia |
| Reveille Pty Limited | | Australia |
| Runkelli Pty Limited | | Australia |
| S.C.F. No. 5 Limited | | Australia |
| S.C.F. No. 6 Limited | | Australia |
| A.G.C. (Finance) Limited | | Australia |
| A.G.C. (General Finance) Limited | | Australia |
| A.G.C. (Industrial) Limited | | Australia |
| A.G.C. (Industrial) Leasing Pty Limited | | Australia |
| A.G.C. (Insurance Premium Funding) Limited | | Australia |
| A.G.C. (Properties) Limited | | Australia |
| A.G.C. House Limited | | Australia |
| A.G.C. (Leasing) Limited | | Australia |
| A.G.C. (Pacific) Limited | | Papua New Guinea |
| A.G.C. Finance (Vanuatu) Limited | | Vanuatu |
| A.G.C. (Securities) Limited | | Australia |
| AOC Holdings Limited | | Australia |
| Colmso Pty Limited | | Australia |
| Colmtea Pty Limited | | Australia |
| Como Properties Pty Limited | | Australia |
| Ormiston Pty Limited | | Australia |
| Broadbeach International Holding Trust | | Australia |
| Pranbrooke Pty Limited | | Australia |
| Hesse Pty Limited | | Australia |
| Howlong Pty Limited | | Australia |
| Piccadilly of Sydney Pty Limited | (d) | Australia |
| Jaunty Pty Limited | | Australia |
| Piccadilly Plaza Trust | | Australia |
| Sarnia Pty Limited | (d) | Australia |
| The Swan Trust | | Australia |
| The Exchange Plaza Trust | | Australia |
| Traders Finance Corporation Limited | | Australia |
| Vicpac Chatswood Pty Limited | (d) | Australia |
| The Vicpac Unit Trust | | Australia |

| Name | Notes | Country of Incorporation (a) |
|---|---|---|
| **Bank of Tonga** | (e),(f) | Tonga |
| **Beach Hill Investments (No 3) Pty Limited** | | Australia |
| **Bill Acceptance Corporation Limited** | | Australia |
| Mortgage Management Limited | | Australia |
| **Biralo Pty Limited** | (g) | Australia |
| **Brenmar Holdings Pty Limited** | | Australia |
| **BLE Capital Limited** | | Australia |
| BLE Capital Investments Pty Limited | | Australia |
| BLE Development Pty Limited | | Australia |
| BLE Holdings Pty Limited | | Australia |
| BLE Capital (NZ) Limited | | New Zealand |
| **C.B.A. Limited** | | Australia |
| Belliston Pty Limited | | Australia |
| Westpac Properties-Vic-Limited | | Australia |
| Westpac Properties-NSW-Pty Limited | | Australia |
| **Carseldine Pty Limited** | | Australia |
| **Challenge Limited** | | Australia |
| Challenge Finance Limited | | Australia |
| Challenge Funds Management Limited | | Australia |
| Challenge Information Technology Pty Limited | | Australia |
| **Huben Holdings Pty Limited** | | Australia |
| **Hull 4381 and 4382 Leasing Pty Limited** | | Australia |
| **MFS Services Pty Limited** | | Australia |
| **Maracorp Financial Services Pty Limited** | | Australia |
| **Partnership Pacific Limited** | | Australia |
| Glenunga Pty Limited | | Australia |
| Maliny Pty Limited | | Australia |
| Partnership Pacific Securities Limited | | Australia |
| Wistow Pty Limited | | Australia |
| **Pitco Pty Limited** | (g) | Australia |
| The Pitco Trust | (g) | Australia |
| **RESI – Statewide Corporation Limited** | | Australia |
| **RESI – Statewide Mortgage Corporation Limited** | | Australia |
| S.A.L. Financial Services Pty Limited | | Australia |
| **RESI – Statewide Nominees Limited** | | Australia |
| **Sallmoor Pty Limited** | | Australia |
| **Sixty Martin Place (Holdings) Pty Limited** | | Australia |
| Claremont Bond Pty Limited | | Australia |
| Comserv (No 3011) Pty Limited | | Australia |
| EHM Investco Pty Limited | (h) | Australia |
| Enfield Downs Pty Limited | | Australia |
| Infrastructure Australia (No 1) Limited | | Australia |
| Infrastructure Australia (No 2) Limited | | Australia |
| Infrastructure Australia (No 3) Limited | | Australia |
| Infrastructure Australia (No 4) Limited | | Australia |
| Ivaness Pty Limited | | Australia |
| Loy Yang B Agencies Pty Limited | | Australia |

## Note 38. Group entities (continued)

| Name | Notes | Country of Incorporation (a) |
|---|---|---|
| Oakjet Pty Limited | | Australia |
| Packaging Properties 1 Pty Limited | (h) | Australia |
| Packaging Properties 2 Pty Limited | (h) | Australia |
| Packaging Properties 3 Pty Limited | (h) | Australia |
| Selbourne Pty Limited | | Australia |
| Teuton Pty Limited | (i) | Australia |
| Westpac Administration Pty Limited | | Australia |
| Westpac Asian Lending Pty Limited | | Australia |
| Westpac Debt Securities Pty Limited | | Australia |
| Westpac Equipment Finance Limited | | Australia |
| Westpac Equipment Finance (No. 1) Pty Limited | (i) | Australia |
| Westpac Equipment Finance (Vic) Pty Limited | | Australia |
| Westpac Unit Trust | | Australia |
| Westpac Investment Vehicle Pty Limited | | Australia |
| Westpac Resources and Infrastructure Pty Limited | | Australia |
| Westpac Syndications Management Pty Limited | | Australia |
| **The Mortgage Company Pty Limited** | | Australia |
| The Home Loan Partnership Pty Limited | | Australia |
| **Westpac Bank-PNG-Limited** | (e) | Papua New Guinea |
| **Westpac Bank Samoa Limited** | (e),(j) | Western Samoa |
| **Westpac Capital Corporation** | | U.S.A. |
| **Westpac Capital Holdings Inc** | | U.S.A. |
| Westpac Capital Trust 1 | | U.S.A. |
| **Westpac Equity Holdings Pty Limited** | | Australia |
| Autodirect Pty Limited | | Australia |
| Personaldirect Limited | | Australia |
| Pacific Structured Funding Limited | | Australia |
| Westpac Financial Consultants Limited | | Australia |
| Westpac Financial Services Group Limited | | Australia |
| Westpac Financial Services Limited | | Australia |
| Westpac Managed Funds Limited (in voluntary liquidation) | | Australia |
| Westpac Insurance Services (Brokers) Limited | | Australia |
| Westpac Equity Pty Limited | | Australia |
| A.F.G. Insurances Limited | | Australia |
| Westpac General Insurance Limited | | Australia |
| Westpac Lenders Mortgage Insurance Limited | | Australia |
| Westpac Investment Management Pty Limited | | Australia |
| Westpac Life Insurance Services Limited | | Australia |
| Westpac Custodian Nominees Limited | | Australia |
| Metiom Australasia Pty Limited | (k) | Australia |
| Westpac Property Funds Management Limited | | Australia |
| Westpac Securities Administration Limited | | Australia |
| The Wales Nominees (Vic.) Pty Limited | | Australia |
| Westpac Insurance Services Superannuation Fund Limited | | Australia |
| Westpac Nominees-Canberra-Pty Limited | | Australia |
| Westpac Nominees-SA-Pty Limited | | Australia |
| Westpac Information Technology Services Pty Limited | | Australia |
| Westpac Private Equity Pty Limited | | Australia |
| Westpac Retirement Plan Pty Limited | | Australia |

| Name | Notes | Country of Incorporation (a) |
|---|---|---|
| Westpac Securities Limited | | Australia |
| Net Nominees Limited | | Australia |
| Westpac Securitisation Management Pty Limited | | Australia |
| Westpac Training Services Pty Limited | | Australia |
| **Westpac Finance Pty Limited** | | Australia |
| **Westpac Funding Holdings Pty Limited** | | Australia |
| Tavarua Funding Trust 1 | | U.S.A. |
| **Westpac Investment Holdings Pty Limited** | | Australia |
| **Westpac Leasing Nominees Pty Limited** | | Australia |
| **Westpac Leasing Nominees-Vic.-Pty Limited** | | Australia |
| **Westpac Leasing Pty Limited** | | Australia |
| **Westpac Matching Gifts Limited** | | Australia |
| **Westpac OMG Holdings Pty Limited** | | Australia |
| **Westpac Overseas Holdings Pty Limited** | | Australia |
| A.G.C. Finance (S.I.) Limited | | Solomon Islands |
| Diversified Investments LLC | | Cayman Islands |
| Westpac Americas Inc. | | U.S.A |
| Westpac Investment Capital Corporation | | U.S.A |
| Westpac USA Inc. | | U.S.A |
| Southern Cross Inc. | | U.S.A. |
| Westpac Banking Corporation (Jersey) Limited | | Jersey |
| Westpac Finance (HK) Limited | | Hong Kong |
| WFAL No1 Loan Trust | | Hong Kong |
| Westpac Group Investment-NZ-Limited | | New Zealand |
| Westpac Holdings-NZ-Limited | | New Zealand |
| Australian Guarantee Corporation (N.Z.) Limited | | New Zealand |
| AGC Equities Limited | | New Zealand |
| Mortgage Services Limited | | New Zealand |
| TBNZ Limited | | New Zealand |
| TBNZ Capital Limited | | New Zealand |
| TBNZ Developments Limited | | New Zealand |
| TBNZ Investments Limited | | New Zealand |
| TBNZ Equity Limited | | New Zealand |
| TBNZ Investments (UK) Limited | | U.K. |
| The Home Mortgage Company Limited | | New Zealand |
| The Warehouse Financial Services Limited | (h),(e) | New Zealand |
| Westpac Finance Limited | | New Zealand |
| Ngauranga Gorge Limited | | New Zealand |
| Yasmin Properties Limited | | New Zealand |
| Westpac Nominees-NZ-Limited | | New Zealand |
| WestpacTrust Investment Management-NZ-Limited | | New Zealand |
| WestpacTrust Life-NZ-Limited | | New Zealand |
| WestpacTrust Superannuation Nominees-NZ-Limited | | New Zealand |
| WestpacTrust Capital-NZ-Limited | | New Zealand |
| Aotearoa Financial Services Limited | (l) | New Zealand |
| C.B.A. Finance Nominees Limited | | New Zealand |
| Sfaka Investments Limited | | New Zealand |
| Systems and Technology Limited | | New Zealand |

## Note 38. Group entities (continued)

| Name | Notes | Country of Incorporation (a) |
|---|---|---|
| Westpac Fund Acceptances-NZ-Limited | | New Zealand |
| Westpac Lease Discounting-NZ-Limited | | New Zealand |
| Bag Inns Limited | | New Zealand |
| Bag Inns Two Limited | (h) | New Zealand |
| Bag Inns Three Limited | (h) | New Zealand |
| Toliman Investments Limited | | New Zealand |
| Westpac Operations Integrated Limited | (h) | New Zealand |
| Westpac Financial Synergy Limited | (h) | New Zealand |
| WestpacTrust Overseas Investments Limited | | New Zealand |
| WestpacTrust Investments Limited | (a) | New Zealand |
| WestpacTrust Securities NZ Limited | | New Zealand |
| Pacific Structured Funding-NZ-Limited | | New Zealand |
| Westpac Securities Inc | | U.S.A. |
| Westpac Overseas Funding Pty Limited | | Australia |
| Westpac Singapore Limited | | Singapore |
| WSJKK (formerly Westpac Securities Japan KK) | | Japan |
| **Westpac Properties Limited** | | Australia |
| Collins Wales Pty Limited | | Australia |
| **Westpac Property Investments Pty Limited** | (m) | Australia |
| **Westpac Structured Products Limited** | | Australia |
| **Westpac Tasman No.1 Pty Limited** | | Australia |
| Westpac Tasman No.2 Pty Limited | | Australia |

Notes

(a) Overseas companies predominantly carry on business in the country of incorporation, except for WestpacTrust Securities Limited which predominantly operates through its London Branch. For unincorporated entities, 'Country of Incorporation' refers to the country where business is carried on.

(b) Controlled entities shown in bold type are owned directly by Westpac.

(c) Westpac Banking Corporation carries on business in various countries throughout the world.

(d) 50% of the equity in Piccadilly of Sydney Pty Limited, Sarnia Pty Limited and Vicpac Chatswood Pty Limited is held directly by Australian Guarantee Corporation Limited. The other 50% interests are held directly by Westpac.

(e) All entities listed in this note are wholly owned controlled entities except the following:

| | Percentage Owned 2001 | Percentage Owned 2000 |
|---|---|---|
| Bank of Tonga | **60.0%** | 30.0% |
| The Warehouse Financial Services Limited | **51.0%** | na |
| Westpac Bank-PNG-Limited | **89.9%** | 89.9% |
| Westpac Bank Samoa Limited | **93.5%** | 42.7% |

(f) During the year Westpac's shareholding increased to 60% in this entity.

(g) 50% of the equity or issued units in Pitco Pty Limited, Biralo Pty Limited and The Pitco Trust are held directly by Westpac Property Investments Pty Limited. The other 50% interests are held directly by Westpac.

(h) Incorporated or formed during the year.

(i) During the year Teuton Pty Limited purchased 5% of Westpac Equipment Financing (No.1) Pty Limited (formerly Mayne Equipment Financing Pty Limited). The remaining equity is held by Sixty Martin Place (Holdings) Pty Limited.

(j) During the year Westpac's shareholding increased to 93.5% and the name was changed from Pacific Commercial Bank Limited.

(k) Previously a 49% held entity. As of 8 October 2001, the entity's name has been changed to Qvalent Pty Limited.

(l) During the year Aotearoa Financial Services Limited became a wholly owned controlled entity of WestpacTrust Capital-NZ-Limited.

(m) Less than 1 per cent of equity in Westpac Property Investments Pty Limited is held directly by Westpac Properties Limited. The remaining equity is held directly by Westpac.

During the year, the following controlled entities were sold:
- Westpac Investment Property Limited and Westpac Asset Management Pty Limited were sold during the year to the unitholders of Westpac Property Trust, in exchange for units in that Trust, which was subsequently renamed Investa Property Trust.
- Westpac's 51% holding in Bank of Kiribati was sold during the year for a consideration of $5 million. The profit on sale was $4 million.
- Wholesale Currency Services Pty Limited was sold during the year for a consideration of $57 million. The profit on sale was $27 million.
- Trioba Pty Limited was sold during the year for a consideration of $14 million. The profit on sale was $2 million.

| **Investments in controlled entities** | **Parent Entity 2001 $m** | Parent Entity 2000 $m |
|---|---|---|
| At valuation | **–** | 6,859 |
| At cost | **5,769** | – |
| **Net investment in controlled entities** | **5,769** | 6,859 |

## Note 39. Other group investments

The Group has a significant non-controlling shareholding in the following entities as at 30 September 2001:

| | Country where Business is Carried on | Beneficial Interest % | Carrying Amount $m | Nature of Business |
|---|---|---|---|---|
| AA Financial Services Limited | New Zealand | 50.0% | 4 | Financial services |
| A.G.C. Staff Superannuation Pty Limited | Australia | 50.0% | – | Corporate trustee |
| AusMarkets Limited | Australia | 25.0% | 1 | On-line distribution portal |
| Cardlink Services Limited | Australia | 16.7% | 1 | Card clearing system |
| Colobus Pty Limited | Australia | 50.0% | – | Corporate trustee |
| Electronic Transaction Services Limited | New Zealand | 25.0% | – | Credit card processing |
| Krava Nominees Pty Limited | Australia | 50.0% | – | Corporate trustee |
| Lawrence Collateral Indemnity Pty Limited (in liquidation) | Australia | 50.0% | – | Corporate trustee |
| McGrath Limited | Australia | 20.0% | 4 | Property |
| Mondex Australia Pty Limited | Australia | 25.0% | – | Smart card operations |
| Mondex New Zealand Limited | New Zealand | 16.7% | – | Smart card operations |
| Runaway Bay Unit Trust | Australia | 50.0% | – | Property development |
| Somersby Park Pty Limited | Australia | 25.0% | – | Investment company |
| Westpac Staff Superannuation Plan Pty Limited | Australia | 50.0% | – | Corporate trustee |
| Westpac Employee Assistance Foundation Pty Limited | Australia | 50.0% | – | Employee assistance foundation |
| Yieldbroker Pty Limited | Australia | 25.0% | 1 | On-line distribution portal |
| 60 Martin Place Unit Trust | Australia | 50.0% | 61 | Property investment |

During the year the Group's 33.3% interest in FAI First Mortgage Pty Limited was sold to Homeloans Limited for a consideration of $2 million. The profit on sale was nil.

In terms of the contribution to the results of the Group, the above investments are not material either individually or in aggregate.

## Note 40. Related party disclosures

Directors of Westpac during the year ended 30 September 2001 were:

Mr J.A. Uhrig (Chairman – retired 15 December 2000)
Mr L.A. Davis (appointed Chairman 15 December 2000)
Dr D.R. Morgan (Managing Director and Chief Executive Officer)
Mr W.B. Capp
The Hon. Sir Llewellyn Edwards
Mr J.B. Fairfax
Mr R.P. Handley (Executive Director and Chief Financial Officer – resigned 31 January 2001)
Mr I.R.L. Harper
Professor W.P. Hogan
Ms H.A. Lynch
Ms E. Mahlab
Mr J.P. Morschel (resigned 6 July 2001)
Mr P.D. Ritchie
Mr C.J. Stewart (retired 15 December 2000)

Westpac and controlled entities are exempt, subject to certain conditions, by an ASIC Class Order 98/110 dated 10 July 1998, from the requirement to disclose the detail of certain loans or financial instrument transactions made by a bank to related parties (other than Directors), in the ordinary course of banking business and either on an arm's length basis or with the approval of the shareholders of the relevant entity and its ultimate parent entity. The Class Order does not apply to a loan or financial instrument transaction which a director should be reasonably aware that if not disclosed, would have the potential to adversely affect the decisions made by users of the financial statements about allocation of scarce resources.

A condition of the Class Order is that Westpac must lodge a statutory declaration, signed by two Directors, with ASIC confirming that Westpac has appropriate systems of internal controls and procedures in place to provide assurance that any financial instruments transaction of a bank which is not entered into regularly is drawn to the attention of the Directors so that it may be disclosed.

All financial instrument transactions that have occurred during the financial year between the Directors and Westpac were conducted on an arm's length basis in the ordinary course of business and on commercial terms and conditions. These transactions were trivial or domestic in nature and consisted principally of normal personal banking and financial investment services.

## Note 40. Related party disclosures (continued)

### Loans to Directors and Director-related parties

Loans made to Directors of Westpac and controlled entities and to parties related to them are made in the ordinary course of business on normal terms and conditions. In respect of loans to Executive Directors, loans are made on the same terms and conditions as apply to other employees of the Group in accordance with established policy.

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | **2001 $'000** | 2000 $'000 | **2001 $'000** | 2000 $'000 |
| Aggregate amount of loans to Directors [1] | **2,057** | 2,704 | **1,941** | 2,609 |
| Loans advanced during the year | **36** | 527 | **12** | 592 |
| Loan repayments received during the year | **683** | 572 | **680** | 391 |

1 During the year the application of AASB 1017 Related Party Disclosures in conjuction with the relief granted by Class Order 98/110 was reviewed in respect of loans made to Director-related entities. At 30 September 2001 and 30 September 2000 the group did not have any loans to Director-related entities that are required to be disclosed. Accordingly the comparative amounts have been restated by $229,295,000 for the aggregate amount of loans to Directors, $40,481,000 in respect of loans advanced during the year and $300,000 in respect of loan repayments received during the year.

The Directors of Westpac and other controlled entities concerned in the relevant loans made and repayments received were:

| | **2001** | 2000 | | **2001** | 2000 |
|---|---|---|---|---|---|
| W.B. Capp | **2,3** | 2,3 | I.R.L. Harper | **2,3** | 1,2,3 |
| H. Chan | **3** | 1,3 | H.A. Lynch | **1,2,3** | 1,2,3 |
| Sir L. Edwards | **2,3** | 1,2,3 | N.C. Musiker | **1,2,3** | 2,3 |
| J.B. Fairfax | **2,3** | 1,3 | J.A. Uhrig | **4** | 1,2,3 |

1 Loan made to this person during the year.

2 Repayment made by this person during the year.

3 Ordinary course of business and normal terms and conditions apply, including fluctuating overdraft facilities.

4 Ceased to be a Director during the year.

### Directors' shares and share option transactions

Details of share options issued to the Managing Director and Chief Executive Officer Dr D.R. Morgan are set out in note 25. No share options are granted to non-executive Directors.

| | **2001** | 2000 |
|---|---|---|
| (i) Ordinary shares issued during the year | | |
| The aggregate number of shares issued by Westpac to the Directors of Westpac and their Director-related entities during the year | **8,403**[1] | 7,841 |
| (ii) Ordinary shares disposed of during the year | **193,924**[2] | 621,585 |
| (iii) Ordinary shares held at the end of the year | | |
| The aggregate number of shares of Westpac held directly, indirectly or beneficially by Directors of Westpac and their Director-related entities at year end | **950,471**[3] | 1,911,992 |

1 Includes 2,289 (2000 2,841) shares issued under the Dividend Reinvestment Plan and 6,114 (2000 Nil) shares issued under the Directors' fees sacrifice arrangements.

2 Includes 6,924 (2000 75,510) shares disposed of by a staff/community related benefit fund of which some Directors are personal trustees.

3 Includes 168,739 (2000 175,663) shares owned by a staff/community related benefit fund of which some Directors are personal trustees.

### Directors' interests in contracts

As required by the Corporations Act 2001, some Directors have given notice that they hold office in specified companies and as such are to be regarded as having an interest in any contract or proposed contract which may be made between Westpac and those companies.

All other transactions with Directors, Director-related entities and other related parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally involve the provision of financial and investment services.

## Note 40. Related party disclosures (continued)

**Controlled entities**

Transactions between Westpac and its controlled entities during the year have included the provision of a wide range of banking and other financial facilities, some of which have been on commercial terms and conditions, others have been on terms and conditions which represented a concession to the controlled entities. Details of amounts paid to or received from related parties, in the form of dividends or interest, are set out in notes 3 and 4. Other intra-Group transactions, which may or may not be on commercial terms, include the provision of management and administration services, staff training, data processing facilities, transfer of tax losses and leasing of properties, plant and equipment.

Similar transactions between Group entities and other related parties have been almost invariably on commercial terms and conditions as agreed between the parties. Such transactions are not considered to be material, either individually or in aggregate.

## Note 41. Directors' remuneration

Income paid, or due and payable, from Westpac and related entities to Directors of Westpac fell within the bands below:

| | **2001** | 2000 |
|---|---|---|
| 10,001 – 20,000 | **1** | – |
| 70,001 – 80,000 | **2** | 1 |
| 80,001 – 90,000 | **–** | 6 |
| 90,001 – 100,000 | **5** | 3 |
| 100,001 – 110,000 | **2** | 1 |
| 110,001 – 120,000 | **1** | – |
| 300,001 – 310,000 | **1** | 1 |
| 1,350,001 – 1,360,000 | **–** | 1 |
| 2,430,001 – 2,440,000 | **–** | 1 |
| 2,500,001 – 2,510,000 | **1** | – |
| 5,270,001 – 5,280,000 | **1** | – |
| Total | **14** | 14 |

| | **Directors of the Group** | | **Directors of the Parent Entity** | |
|---|---|---|---|---|
| | **2001 $'000** | 2000 $'000 | **2001 $'000** | 2000 $'000 |
| Income paid, or due and payable, from Westpac and related entities to Directors | **37,749** | 34,107 | **9,060** | 5,040 |

Directors' remuneration has been determined on the basis of the cost of the remuneration to the Group. Where non-monetary benefits are provided to a Director, the amount of remuneration includes the total cost to the Group of providing the benefits, including fringe benefits tax and the notional cost of superannuation for Executive Directors who are members of the Westpac Staff Superannuation Plan.

In accordance with Australian Accounting Standard AASB 1017 'Related Party Disclosures', remuneration of Directors of the Group excludes the remuneration of executive officers (refer note 42), who are required to be Directors of wholly-owned Australian controlled entities in order to discharge their duties as executive officers of Westpac. The remuneration of Directors of the Group does include the remuneration of 144 (2000 140) employees who are Directors of controlled entities in order to discharge their duties as employees of Westpac but are not classified as executive officers of Westpac.

**Retirement benefits**

The non-executive Directors of Westpac have Service Agreements which have been approved by the shareholders at a General meeting. The Service Agreements provide for a retiring allowance depending on the period of service of the Director. Where the Director's period of service is less than three years the Director is not entitled to a retiring allowance. Where the period of service is at least three years but less than five years, the Director is entitled to a proportion of the retirement allowance that the Director would have been entitled had the Director served for a period of five years, that proportion being the same proportion as the period of the Director's service bears to five years. Where the period of service is five years the Director is entitled to a sum equal to the total emoluments to which the Director was entitled during the period of three years ending on the date of his or her retirement or death before retirement. Where the period of service is greater than five years entitles the Director to the sum which would have been payable had the Director served for the period of five years, ending on the date of his or her retirement or death before retirement, plus 5% per annum of that sum for the period of service in excess of five years. This amount cannot exceed five times the average annual emoluments to which the Director was entitled during the period of three years ending on his or her retirement or death before retirement.

The following Directors received retirement benefits in accordance with the Service Agreements approved by shareholders at the January 1989 Annual General Meeting:

| | **Consolidated** | | **Parent Entity** | |
|---|---|---|---|---|
| | **2001 $** | 2000 $ | **2001 $** | 2000 $ |
| J.A. Uhrig (retired 15 December 2000) | **1,099,862** | – | **1,099,862** | – |
| J.P. Morschel (resigned 6 July 2001) | **294,660** | – | **294,660** | – |
| C.J. Stewart (retired 15 December 2000) | **130,430** | – | **130,430** | – |
| | **1,524,952** | – | **1,524,952** | – |

## Note 42. Executive officers' remuneration

The following table shows the number of executive officers of Westpac and the Group in Australia whose income paid, or due and receivable, from Westpac and related entities fell within the stated bands. In accordance with the requirements of accounting standard AASB 1034 'Information to be disclosed in Financial Reports', remuneration includes any money, consideration and benefits, including fringe benefits tax and a notional cost of superannuation for those executive officers who are members of the Westpac Staff Superannuation Plan. No value has been ascribed to any options issued to any of the executive officers.

| | **Consolidated** | | **Parent Entity** | |
|---|---|---|---|---|
| | **2001** | 2000 | **2001** | 2000 |
| 110,001 - 120,000 | - | 1[1] | - | 1[1] |
| 130,001 - 140,000 | - | 1[2] | - | 1[2] |
| 140,001 - 150,000 | - | 1[1] | - | 1[1] |
| 180,001 - 190,000 | - | 1[2] | - | 1[2] |
| 190,001 - 200,000 | - | 1[1] | - | 1[1] |
| 200,001 - 210,000 | **1**[2] | - | **1**[2] | - |
| 210,001 - 220,000 | - | 1[1] | - | 1[1] |
| 230,001 - 240,000 | **1**[1] | - | **1**[1] | - |
| 240,001 - 250,000 | - | 1[1] | - | 1[1] |
| 260,001 - 270,000 | **1**[2] | 2[1] | **1**[2] | 2[1] |
| 300,001 - 310,000 | - | 2 | - | 2 |
| 310,001 - 320,000 | - | 2[1] | - | 2[1] |
| 320,001 - 330,000 | - | 3[1] | - | 3[1] |
| 330,001 - 340,000 | - | 2[2] | - | 2[2] |
| 340,001 - 350,000 | **1** | 2[1] | **1** | 2[1] |
| 350,001 - 360,000 | **2**[2] | 2 | **2**[2] | 2 |
| 360,001 - 370,000 | - | 3 | - | 3 |
| 380,001 - 390,000 | - | 1 | - | 1 |
| 390,001 - 400,000 | **1** | 1 | **1** | 1 |
| 400,001 - 410,000 | **4** | - | **4** | - |
| 410,001 - 420,000 | **3** | - | **3** | - |
| 420,001 - 430,000 | **1** | - | **1** | - |
| 430,001 - 440,000 | - | 1[2] | - | 1[2] |
| 440,001 - 450,000 | **1** | 1 | **1** | 1 |
| 450,001 460,000 | **1** | - | **1** | - |
| 460,001 - 470,000 | - | 2 | - | 2 |
| 470,001 - 480,000 | **2**[1] | 2 | **2**[1] | 2 |
| 480,001 - 490,000 | **1** | 1 | **1** | 1 |
| 500,001 - 510,000 | **2** | 1 | **2** | 1 |
| 510,001 - 520,000 | **1**[1] | - | **1**[1] | - |
| 530,001 - 540,000 | **1** | 1 | **1** | 1 |
| 540,001 - 550,000 | **1** | 2 | **1** | 2 |
| 550,001 - 560,000 | **1** | 3 | **1** | 3 |
| 560,001 - 570,000 | - | 1 | - | 1 |
| 570,001 - 580,000 | **1**[2] | 1 | **1**[2] | 1 |
| 580,001 - 590,000 | **1**[2] | - | **1**[2] | - |
| 620,001 - 630,000 | **2**[1] | - | **2**[1] | - |
| 630,001 - 640,000 | - | 1 | - | 1 |
| 640,001 - 650,000 | - | 2 | - | 2 |
| 660,001 - 670,000 | **3** | 1 | **3** | 1 |
| 680,001 - 690,000 | **1** | 1 | **1** | 1 |
| 690,001 - 700,000 | **1**[1] | - | **1**[1] | - |
| 730,001 - 740,000 | **1** | - | **1** | - |
| 750,001 - 760,000 | **1** | - | **1** | - |
| 810,001 - 820,000 | **1** | - | **1** | - |
| 870,001 - 880,000 | **1** | - | **1** | - |
| 880,001 - 890,000 | - | 1 | - | 1 |
| 890,001 - 900,000 | **1** | - | **1** | - |
| 920,001 - 930,000 | **1** | - | **1** | - |
| 1,030,001 - 1,040,000 | - | 1 | - | 1 |
| 1,110,001 - 1,120,000 | **1** | - | **1** | - |
| 1,140,001 - 1,150,000 | **1** | 1 | **1** | 1 |
| 1,150,001 - 1,160,000 | - | 1 | - | 1 |
| 1,180,001 - 1,190,000 | **1** | - | **1** | - |
| 1,190,001 - 1,200,000 | - | 1[2] | - | 1[2] |
| 1,260,001 - 1,270,000 | **1** | - | **1** | - |
| 1,350,001 - 1,360,000 | - | 1 | - | 1 |
| 1,430,001 - 1,440,000 | **1**[1] | - | **1**[1] | - |
| 1,960,001 - 1,970,000 | **1** | - | **1** | - |
| 2,430,001 - 2,440,000 | - | 1 | - | 1 |
| 2,500,001 - 2,510,000 | **1** | - | **1** | - |
| 5,270,001 - 5,280,000 | **1**[1] | - | **1**[1] | - |
| **Total** | **49** | 55 | **49** | 55 |

1 Includes payments to one or more executive officers in this remuneration band who retired/resigned during the year.

2 Includes payments to one or more executive officers in this remuneration band who commenced employment with Westpac during the year.

| | **Consolidated** | | **Parent Entity** | |
|---|---|---|---|---|
| | **2001 $'000** | 2000 $'000 | **2001 $'000** | 2000 $'000 |
| Total income paid, or due and payable, from Westpac and related entities to executive officers whose income exceeded $100,000 | **37,316** | 28,624 | **37,316** | 28,624 |

The above table discloses data in respect of only those officers who are responsible for the strategic direction and operational management ('executive officers') of Westpac and related entities.

## Note 43. Statement of cash flows

### Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with central banks as shown in the statement of financial position.

Formal commercial standby facilities have not been obtained as the Group has liquidity controls limiting the extent of cash flow mismatch and has access to central bank facilities in certain locations in the event that market difficulties arise.

The statements of cash flows comply with International Accounting Standard No. 7.

| | Consolidated | | | Parent Entity | |
|---|---|---|---|---|---|
| | **2001 $'000** | 2000 $'000 | 1999 $'000 | **2001 $'000** | 2000 $'000 |
| **Reconciliation of net cash provided by operating activities to net profit attributable to equity holders of Westpac Banking Corporation** | | | | | |
| Net profit attributable to equity holders of Westpac Banking Corporation | **1,903** | 1,715 | 1,456 | **1,801** | 1,311 |
| Adjustments: | | | | | |
| Outside equity interests | **5** | 3 | 3 | **–** | – |
| Depreciation and goodwill amortisation | **393** | 367 | 337 | **325** | 294 |
| Sundry provisions and other non-cash items | **1,566** | 2,150 | (277) | **2,295** | 1,736 |
| Bad and doubtful debts | **331** | 292 | 246 | **281** | 157 |
| (Increase)/decrease in other financial market items | **111** | (3,148) | 1,052 | **115** | (2,833) |
| (Increase)/decrease in trading securities | **(143)** | 764 | (2,204) | **(196)** | 723 |
| (Increase)/decrease in accrued interest receivable | **(45)** | (156) | (3) | **(41)** | (117) |
| Increase/(decrease) in accrued interest payable | **(254)** | 344 | (162) | **(207)** | 277 |
| Increase/(decrease) in provision for income tax | **68** | 9 | (3) | **160** | 60 |
| Increase/(decrease) in provision for deferred income tax | **(13)** | 98 | (19) | **(26)** | 127 |
| (Increase)/decrease in future income tax benefits | **26** | 61 | 202 | **71** | 51 |
| Increase in excess of net market value over net assets of a controlled entity | **(133)** | (128) | – | **–** | – |
| Amounts paid out of sundry provisions | **(164)** | (201) | (127) | **(140)** | (172) |
| Net cash provided by operating activities | **3,651** | 2,170 | 501 | **4,438** | 1,614 |
| **Non cash operating, investing and financing activities** | | | | | |
| Controlled entities and businesses acquired | | | | | |
| Details of assets and liabilities of controlled entity acquired are as follows: | | | | | |
| Due from other financial institutions | **16** | – | – | **–** | – |
| Investment securities | **16** | – | – | **–** | – |
| Regulatory deposits | **10** | – | – | **–** | – |
| Loans | **79** | – | – | **–** | – |
| Fixed assets | **12** | – | – | **–** | – |
| Other assets | **19** | – | – | **–** | – |
| Deposits and public borrowings | **(101)** | – | – | **–** | – |
| Due to other financial institutions | **(2)** | – | – | **–** | – |
| Other liabilities | **(14)** | – | – | **–** | – |
| Fair value of entities and businesses acquired | **35** | – | – | **–** | – |
| Carrying amount of existing investment | **(44)** | | | | |
| Goodwill | **10** | – | – | **–** | – |
| Minority interest | **(6)** | – | – | **–** | – |
| | **(5)** | – | – | **–** | – |
| Cash consideration and costs | **(21)** | – | – | **–** | – |
| Cash acquired | **26** | – | – | **–** | – |
| Cash received on acquisition (net of cash paid) | **5** | – | – | **–** | – |

## Note 43. Statement of cash flows (continued)

| | Consolidated | | | Parent Entity | |
|---|---|---|---|---|---|
| | **2001 $'000** | 2000 $'000 | 1999 $'000 | **2001 $'000** | 2000 $'000 |
| **Controlled entities and businesses disposed** | | | | | |
| Details of assets and liabilities of controlled entities and businesses disposed of are as follows: | | | | | |
| Due from other financial institutions | **3** | – | 15 | **–** | – |
| Statutory deposits | **–** | – | 14 | **–** | – |
| Loans | **16** | 290 | 785 | **–** | – |
| Due from related parties | **–** | – | 33 | **–** | – |
| Fixed assets | **1** | – | 38 | **–** | – |
| Other assets | **7** | 3 | 23 | **–** | – |
| Deposits and public borrowings | **(60)** | (156) | (815) | **–** | – |
| Due to other financial institutions | **49** | – | (20) | **–** | – |
| Other liabilities | **(4)** | – | (31) | **–** | – |
| Minority interest | **(1)** | – | – | **–** | – |
| Net assets of entities and businesses disposed | **11** | 137 | 42 | **–** | – |
| Gain on disposal | **33** | 2 | 16 | **–** | – |
| Cash consideration (net of sale costs) | **44** | 139 | 58 | **–** | – |

**Equity transactions**

Shares issued under the dividend reinvestment plan amounted to $257 million in the year ended 30 September 2001 (2000 $214 million, 1999 $221 million).

| | Consolidated |
|---|---|
| | **2001 $m** |
| **Cash flows from securitised loans** | |
| **Summarised cash flows received from securitisation trusts during the year ended 30 September 2001:** | |
| Proceeds from new securitisations | **202** |
| Servicing fees received | **11** |
| Residual income from securitisation trusts | **26** |
| Other | **12** |
| **Total cash flows received from securitisation trusts** | **251** |

## Note 44. Events subsequent to balance date

Effective 1 October 2001, Westpac entered into a 10 year agreement with EDS (Business Process Administration) Pty Limited (EDS) whereby EDS will provide mortgage and other processing services in connection with Westpac's mortgage loan portfolio. Westpac will continue to perform the sales, credit and collection functions related to the mortgage business.

## Note 45. Reconciliation with US Generally Accepted Accounting Principles (US GAAP)

The consolidated financial statements of the Group are prepared in accordance with accounting principles and policies as summarised in note 1. These principles and policies differ in some respects from generally accepted accounting principles applicable in the United States (US GAAP).

The following are reconciliations of the consolidated financial statements, for any significant adjustments, to comply with US GAAP:

| | | Consolidated | |
|---|---|---|---|
| | **2001 $m** | 2000 $m | 1999 $m |
| **Statement of financial performance** | | | |
| **Net profit as reported** | **1,903** | 1,715 | 1,456 |
| **Adjustments: (see following commentary for details)** | | | |
| Item No. | | | |
| 1 Premises and sites | **54** | (54) | 20 |
| 2 Amortisation of goodwill | **(17)** | (13) | (28) |
| 3 Superannuation (pension) expense adjustment | **42** | 19 | 4 |
| Related income tax expense | **(12)** | (11) | (2) |
| 5 Provision for employee redundancy benefit adjustment | **–** | – | (51) |
| Related income tax credit | **–** | – | 18 |
| 6 Life insurance adjustment | **(93)** | (87) | – |
| Related income tax credit | **21** | 27 | – |
| 7 Write down of available-for-sale securities | **(149)** | – | – |
| 9 Executive options | **(7)** | – | – |
| 12 TOPrS distribution | **(51)** | (43) | (8) |
| 14 Start up cost adjustment | **6** | (30) | – |
| Related income tax (expense)/credit | **(2)** | 9 | – |
| 15 Software capitalisation adjustment | **(4)** | (8) | – |
| Related income tax credit | **1** | 3 | – |
| 16 New Zealand Class shares | **–** | 5 | – |
| Related income tax expense | **–** | (5) | – |
| 17 Effect of initial application of SFAS 133 | **(86)** | – | – |
| Related income tax credit | **29** | – | – |
| 17 Derivative instruments (under SFAS 133) | **196** | – | – |
| Related income tax expense | **(62)** | – | – |
| **Adjusted net income according to US GAAP** | **1,769** | 1,527 | 1,409 |
| **Other comprehensive income** | | | |
| Foreign currency translation reserve | **74** | 115 | (13) |
| 7 Unrealised net gain/(loss) on available-for-sale securities | **(1)** | (37) | (28) |
| Reclassification adjustment for losses/(gains) now included in net income | **63** | (1) | – |
| **Total other comprehensive income** | **136** | 77 | (41) |
| **Total comprehensive income according to US GAAP** | **1,905** | 1,604 | 1,368 |
| **Adjusted net income per share (in cents):** | | | |
| Basic | **98.2** | 81.1 | 74.9 |
| Fully diluted | **97.6** | 80.1 | 74.5 |
| **Weighted average number of shares (in millions)** | **1,801** | 1,883 | 1,881 |
| **Non-interest expenses as reported** | **3,570** | 3,503 | 3,434 |
| **Adjustments: (see following commentary for details)** | | | |
| Item No. | | | |
| 1 Premises and sites | **(2)** | 4 | (7) |
| 2 Amortisation of goodwill | **17** | 13 | 28 |
| 3 Superannuation (pension) expense adjustment | **(42)** | (19) | (4) |
| 5 Provision for employee redundancy benefits adjustment | **–** | – | 51 |
| 9 Executive options | **7** | – | – |
| 14 Start up cost adjustment | **(6)** | 30 | – |
| 15 Software capitalisation adjustment | **4** | 8 | – |
| **Non-interest expenses according to US GAAP** | **3,548** | 3,539 | 3,502 |

## Note 45. Reconciliation with US Generally Accepted Accounting Principles (US GAAP) (continued)

Tax effect of each component of other comprehensive income

| | Consolidated | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2001** | | | 2000 | | | 1999 | | |
| | **Before Tax Amount $m** | **Tax (Expense) or Benefit $m** | **After Tax Amount $m** | Before Tax Amount $m | Tax (Expense) or Benefit $m | After Tax Amount $m | Before Tax Amount $m | Tax (Expense) or Benefit $m | After Tax Amount $m |
| Available for sale securities adjustment: | | | | | | | | | |
| Unrealised holding gains/(losses) arising during the year | **(1)** | **–** | **(1)** | (24) | (13) | (37) | (44) | 16 | (28) |
| Less: Reclassification adjustment | – | | | | | | | | |
| for gains included in net income | **63** | **–** | **63** | (1) | – | (1) | – | – | – |
| Net available for sale securities adjustment | **62** | **–** | **62** | (25) | (13) | (38) | (44) | 16 | (28) |
| Foreign currency translation adjustment | **74** | **–** | **74** | 115 | – | 115 | (13) | – | (13) |
| **Total other comprehensive income** | **136** | **–** | **136** | 90 | (13) | 77 | (57) | 16 | (41) |

| | Consolidated | | |
|---|---|---|---|
| | **2001 $m** | 2000 $m | 1999 $m |
| **Accumulated other comprehensive income balances** | | | |
| **Foreign currency translation reserve** | | | |
| Balance at beginning of year | **74** | (39) | (15) |
| Transfers (to)/from retained profits | **1** | (2) | (11) |
| Foreign currency adjustments net of hedging | **74** | 115 | (13) |
| Balance at year end | **149** | 74 | (39) |
| **Available-for-sale securities** | | | |
| Balance at beginning of year | **(63)** | (25) | 3 |
| Adjustments | **62** | (38) | (28) |
| Balance at year end | **(1)** | (63) | (25) |
| **Total other comprehensive income balances** | **148** | 11 | (64) |

| | **2001 $m** | 2000 $m | 1999 $m |
|---|---|---|---|
| **Equity as reported** | **9,691** | 9,257 | 8,994 |
| **Adjustments: (see following commentary for details)** | | | |
| Item No. | | | |
| 1 Premises and sites | **(87)** | (141) | (112) |
| 2 Goodwill | **(13)** | 4 | 17 |
| 3 Superannuation (pension) expense adjustment | **(57)** | (87) | (95) |
| 6 Life insurance adjustment (net of tax) | **(140)** | (68) | (8) |
| 7 Available-for-sale securities | **(150)** | (63) | (25) |
| 8 Final dividend provided | **577** | 512 | 445 |
| 12 TOPrS | **(465)** | (465) | (465) |
| 14 Start up cost adjustment | **(17)** | (21) | – |
| 15 Software capitalisation adjustment | **(8)** | (5) | – |
| 16 New Zealand Class shares | **–** | (190) | – |
| 17 Derivative instruments (under SFAS 133) | **77** | – | |
| **Adjusted equity according to US GAAP** | **9,408** | 8,733 | 8,751 |

## Note 45. Reconciliation with US Generally Accepted Accounting Principles (US GAAP) (continued)

The following is a summary of the significant adjustments made to consolidated net profit and shareholders' equity to reconcile the Australian GAAP results with US GAAP.

1 Premises and sites are carried at deemed cost where held at 30 September 2000 or cost for subsequent additions. Refer note 1 (h) vi. for details of the change in accounting policy. Depreciation of buildings is based on deemed cost or cost. Under US GAAP, revaluations of premises and sites have not been permitted and depreciation is based on historical cost.

Where properties are sold, the Group's previous policy of periodically revaluing such assets results in the difference between net sale proceeds and deemed cost of the assets sold being recorded in the statement of financial performance. Under US GAAP, the profit or loss on sale of such assets to be reflected in the statement of financial performance is calculated by reference to original cost (less depreciation in respect of properties and provision for diminution). Also under US GAAP, where properties are sold with a leaseback arrangement, the profit on sale is spread over the term of the initial lease.

2 Contrary to US GAAP, Westpac did not assign market values to the shares it issued in respect of certain acquisitions prior to 1982. The adjusted statement of financial performance and adjusted shareholders' equity statement reflect the assignment of market values to the shares issued by Westpac and the goodwill which emerges as a consequence.

Up until 1987, goodwill arising in connection with the acquisition of entities was written off in the year the acquisition took place. Under US GAAP goodwill is to be amortised on the basis of its estimated life but not exceeding 25 years for financial institutions. For the purposes of the US GAAP reconciliation, a write-off period of 20 years has been adopted.

Since 1987, the Group's accounting policies have complied with Australian accounting standards in relation to goodwill which are similar to US GAAP except that the maximum amortisation period is restricted to 20 years.

3 Surpluses in the Group's principal pension plans for employees have been recognised as assets of the Group.

Under US GAAP, such surpluses are not recognised immediately as assets. SFAS No. 87 'Employers' Accounting for Pensions' requires, upon its initial application, such previously unrecognised surpluses to be amortised to income, as an adjustment to pension expense, on a straight-line basis over the average remaining service period of members of the plans. If this period is less than 15 years, a 15 year amortisation period may be adopted.

4 Future income tax benefits have been recognised where realisation of the benefits through future income is virtually certain. US GAAP (SFAS No. 109 'Accounting for Income Taxes') is not materially different from Australian GAAP except that in relation to the criteria for recognition of future income tax benefits, Australian GAAP requires a 'virtual certainty' test, while SFAS No. 109 adopts a lower level of probability, namely a 'more likely than not' threshold. Application of SFAS No. 109 does not materially impact Westpac and no adjustment is required to either shareholders' equity or to net profit.

Under Australian GAAP, the future income tax benefit and the deferred tax liability are offset to the extent that they are expected to reverse within the same financial year. US GAAP does not permit this offset. The gross deferred tax asset and liability under Australian GAAP before valuation allowance and netting is $737 million and $622 million respectively (2000 $969 million and $840 million, respectively).

At 30 September, net deferred tax assets under Australian GAAP comprise:

| | **2001 $m** | 2000 $m |
|---|---|---|
| Total deferred tax assets | **519** | 545 |
| Total valuation allowances recognised for deferred tax assets[1] | **(78)** | (78) |
| Deferred tax assets (future income tax benefits as per note 17) | **441** | 467 |
| Total deferred tax liabilities (note 21) | **(403)** | (416) |
| **Net deferred tax assets** | **38** | 51 |
| Net increase in the total valuation allowance during the year | **–** | 46 |

1 This item comprises potential future tax benefits not brought to account under Australian GAAP because realisation is uncertain. See footnote to note 17.

## Note 45. Reconciliation with US Generally Accepted Accounting Principles (US GAAP) (continued)

5 The provision for restructuring costs as at 30 September 1998 of $106 million included staff redundancy costs of $51 million and a liability for premises costs of $55 million. The provision for restructuring principally covered the costs of the redevelopment of the distribution network in Australia and New Zealand and rationalisation of Westpac's operations in Asia. US GAAP requires that the plan of termination specifically identifies the number of employees to be terminated, their job classifications or functions, their locations and communication of the benefits to the affected employees. The staff redundancy provisions were recognised as a US GAAP expense during the year ended 30 September 1999.

6 AASB 1038 Life Insurance Business requires the consolidation of all the assets and liabilities of the statutory funds of Westpac Life Insurance Services Limited (WLIS). Prior to the year ended 30 September 2000, for Australian GAAP the assets and liabilities of the WLIS statutory funds were excluded from the consolidated balance sheet. Under US GAAP, the amount of these funds and the related liabilities are included in consolidated assets and liabilities of the Group. All related investments of WLIS and the funds are reflected at market value. Australian GAAP requires that investments in controlled entities held by a life company are subject to revaluation each reporting period, so that the investment is carried at net market value. The excess of the net market value of a controlled entity of the life company over the amount of the controlled entity's net assets is recognised in the consolidated financial statements with any subsequent movements included in the statement of financial performance. Under US GAAP, the excess of the net market value over the amount of the controlled entity's net assets is not recognised.

Under Australian GAAP, in accordance with the applicable Insurance Commissioner's rules, both fixed and variable acquisition costs can be deferred and recognised over the estimated life of the policy. Due to the restructure of the WLIS Group, with effect from 1 February 2000 acquisition costs associated with the life insurance and funds management activities are expensed as incurred for Australian GAAP. Under US GAAP the direct variable acquisition costs are deferred and recognised over the estimated life of the policy. Additionally, under Australian GAAP, investments included in shareholders' funds are reflected at market value with the corresponding gain or loss recognised in income under the applicable Insurance Commissioner's rules. In accordance with US GAAP, these investments would be classified as available for sale and the unrealised gain or loss reflected as a separate component of shareholder's equity.

7 Subject to the constraints of prudential and regulatory requirements, Westpac's investment securities are generally available-for-sale securities as defined by US GAAP (SFAS No. 115 'Accounting for Certain Investments in Debt and Equity Securities'). Such securities have been reported at cost, adjusted for premium or discount amortisation and any recoverable amount write down. SFAS No. 115 requires that such securities be reported at fair value, with unrealised gains and losses, net of tax effects, included in comprehensive income and reported as a separate component of equity, unless an unrealised loss is considered to be an other than temporary diminution in value.

8 Dividends proposed after the end of each financial year are recorded in the period to which they relate. Under US GAAP, dividends are recorded in the financial year in which they are declared.

9 Westpac has not attributed any cost to options granted to employees under either the Senior Officers' Share Purchase Scheme (SOSPS), General Management Share Option Plan (GMSOP), or Chief Executive Share Option Agreement (see note 25) in either its statement of financial performance prepared in accordance with Australian GAAP or in the statement reconciled to US GAAP. Had Westpac adopted the requirements of US accounting standard SFAS No. 123, 'Accounting for Stock-Based Compensation', net income according to US GAAP in the year ended 30 September 2001, would have reduced by $20 million (2000 $17 million) or 1.11 cents per share (2000 0.90 cents per share). The options granted during the current financial year have been calculated using the dividend adjusted Black-Scholes pricing model assuming an average life of 6.5 years (2000 6.5 years), risk-free interest rate of 5.7% (2000 6.5%), dividend yield of 4.3% (2000 4.2%), volatility of 18% (2000 22%) and a probability of performance for the GMSOP of 85% (2000 85%).

We have recognised a compensation expense for variations in the terms of options issued under the GMSOP and the SOSPS in accordance with FIN (FASB Interpretation Number) 44 'Accounting for Certain Transactions Involving Stock Compensation' which was applicable from 1 July 2000.

10 In accordance with US accounting standard SFAS No.114 'Accounting by Creditors for Impairment of a Loan' the measurement of impaired loans is to be based on the present value of expected future cash flows discounted at the loan's effective interest rate; or based on a loan's observable market price; or on the fair value of the collateral if the loan is collateral dependent, that is, repayment of the loan is expected to be provided solely by the underlying collateral.

A significant portion of Westpac's portfolio of impaired loans is collateral dependent and the net carrying value, after deducting specific provisions, is based on the estimated market value of the collateral. Moreover, to the extent that the carrying value of non-collateral dependent impaired loans, after deduction of specific provisions, may exceed the present value of expected future cash flows relating to such loans, adequate provision has been made for the shortfall within the general provision for doubtful debts. Accordingly, application of SFAS No. 114 does not give rise to a US GAAP reconciliation adjustment.

## Note 45. Reconciliation with US Generally Accepted Accounting Principles (US GAAP) (continued)

11 Westpac has entered into various tax effective financing transactions that derive income that is subject to either a reduced or zero rate of income tax. In accordance with Australian GAAP and in order to provide comparability of tax-exempt income to taxable income, fully tax equivalent gross up has been used in the financial statements. This has not been applied in the determination of the US GAAP income.

12 Under Australian GAAP, the TOPrS are considered as effectively equity holders in Westpac, and as such, have not been classified as outside equity interest. Under US GAAP, the TOPrS would be classified as minority interest in the balance sheet and the distributions would be included as a reduction in the net income attributable to Westpac equity holders.

13 Westpac maintains a general provision for bad and doubtful debts which is treated as a deduction from loans. Included within the provision is an amount of $161 million (2000 $186 million) in respect of off-balance sheet credit related commitments. Under US GAAP this component of the provision would be included with other liabilities.

14 Effective 1 October 1999, Westpac applied the requirement of Statement of Position (SOP98-5) "Start-up Costs". The initial application of SOP98-5 on 1 October 1999 resulted in the recognition of an expense of $35 million before tax ($24 million after tax). This was in respect of start-up costs, which had been capitalised during previous financial years. These costs have continued to be capitalised under Australian GAAP and are being amortised over a period of up to 10 years.

15 Under Australian GAAP Westpac capitalises overheads incurred in developing computer software. Under US GAAP these costs are expensed.

16 Under Australian GAAP, Westpac recognised an increase in equity and a corresponding receivable for the second instalment due on the NZ Class shares. The second instalment was received on 20 December 2000. Foreign exchange contacts were entered to hedge the foreign exchange risk on this receivable, as it was denominated in New Zealand dollars. The gain and losses after tax on these hedges have been included within the foreign currency translation reserve. Under US GAAP the receivable was treated as a reduction in shareholders' equity until received. Further, any gains and losses after tax on the hedge contracts are included within earnings.

17 The requirements of Statement of Financial Standards (SFAS) No.133 'Accounting for Derivative Instruments and Hedging Activities' requires all derivative instruments to be recognised as either assets or liabilities on the balance sheet, measured at their fair values. The statement permits special hedge accounting for fair value, cash flow and foreign currency hedges providing specific criteria are met. Certain aspects of the required hedge criteria do not allow portfolio hedging. The estimated cost of changing our risk management systems and practices to meet the specific hedge criteria was judged to be prohibitive.

For US GAAP purposes, most of our hedging transactions would not qualify for hedge accounting and the hedging derivatives are accounted for at fair value in accordance with SFAS 133. The adjustment for US GAAP reporting for the year ended 30 September 2001 includes an opening cumulative charge of $57 million after tax, to net income.

| | **2001 $m** | 2000 $m | 1999 $m |
|---|---|---|---|
| **Consolidated statement of changes in US GAAP shareholders' equity** | | | |
| Balance at beginning of year | **8,733** | 8,751 | 8,840 |
| (Decrease)/ increase in share capital | **166** | 215 | (46) |
| Premium on shares issued | **342** | 273 | 273 |
| Premium on shares bought back | **(697)** | (1,164) | (845) |
| Currency translation adjustments (net of hedging gains/losses) | **74** | 115 | (13) |
| Net income | **1,769** | 1,527 | 1,409 |
| Dividends provided for or paid | **(1,106)** | (1,013) | (866) |
| US GAAP adjustments for: | | | |
| Final dividend proposed for the current year | **577** | 512 | 445 |
| Final dividend proposed for the prior year | **(512)** | (445) | (418) |
| Available-for-sale securities | **62** | (38) | (28) |
| **Balance at year end** | **9,408** | 8,733 | 8,751 |

**Superannuation (pension) expense**

For the purpose of calculating net income in accordance with US GAAP, the Group has adopted SFAS No. 87 in respect of the Group's two principal pension plans for employees of Westpac and AGC in Australia. Other pension plans operated by the Group are not material.

In accordance with SFAS No. 87, the amount by which assets of the pension plans exceeded the actuarial present value of projected benefit obligations is being applied as a reduction of net pension cost over fifteen years.

The reconciliation of net income calculated in accordance with Australian GAAP to net income calculated in accordance with US GAAP for the years ended 30 September 2001, 2000 and 1999 includes superannuation (pension) credit adjustments after tax of $30 million, $8 million and $2 million respectively.

## Note 45. Reconciliation with US Generally Accepted Accounting Principles (US GAAP) (continued)

| | Consolidated | | |
|---|---|---|---|
| | **2001 $m** | 2000 $m | 1999 $m |
| The superannuation (pension) expense adjustments comprise: | | | |
| Elimination of superannuation expense/(benefit) for Australian accounting purposes | **15** | 3 | (51) |
| Income tax applicable | **(4)** | (1) | 18 |
| | **11** | 2 | (33) |
| Recognition of a pension benefit calculated in accordance with US GAAP | **27** | 16 | 55 |
| Income tax applicable | **(8)** | (10) | (20) |
| | **19** | 6 | 35 |
| **Net superannuation (pension) expense adjustment** | **30** | 8 | 2 |
| The pension benefit calculated in accordance with US GAAP at 30 June comprises: | | | |
| Service cost | **(80)** | (82) | (98) |
| Interest cost | **(101)** | (100) | (98) |
| Return on assets | **174** | 163 | 197 |
| Net amortisation and deferral | **74** | 60 | 58 |
| Net periodic pension benefit | **67** | 41 | 59 |
| Contributions to the accumulation plan | **(40)** | (24) | (4) |
| **Net Group periodic pension benefit** | **27** | 17 | 55 |
| The following table presents the funded status of the Group's two principle pension plans at 30 June : | | | |
| **Change in benefit obligation:** | | | |
| Benefit obligation at beginning of year | **1,551** | 1,538 | 1,723 |
| Net service cost | **80** | 82 | 98 |
| Member contributions | **12** | 15 | 41 |
| Interest cost | **101** | 100 | 98 |
| Benefit changes | **–** | – | 35 |
| Actuarial (losses)/gains | **59** | 99 | (114) |
| Curtailment and settlement of benefit obligation | **–** | – | (152) |
| Benefits and expenses paid | **(334)** | (283) | (191) |
| Benefit obligation at year end | **1,469** | 1,551 | 1,538 |
| **Change in fair value of assets:** | | | |
| Fair value of assets at beginning of year | **2,405** | 2,402 | 2,526 |
| Actual return on assets | **141** | 296 | 184 |
| Total contributions | **12** | 15 | 41 |
| Benefits and expenses paid | **(334)** | (283) | (191) |
| Contributions to the accumulation plan | **(40)** | (25) | (4) |
| Settlements | **–** | – | (154) |
| Fair value of assets at year end[1] | **2,184** | 2,405 | 2,402 |
| **Funded status at measurement date** | **715** | 854 | 864 |
| Assets not recognised: | | | |
| Transitional obligation assets | **(261)** | (348) | (435) |
| Unrecognised net loss | **236** | 144 | 178 |
| Unrecognised prior year service costs | **16** | 28 | 52 |
| Prepayment of pension costs | **706** | 678 | 659 |

1 Plan assets are invested primarily in fixed-interest securities, listed Australian and overseas stocks and real estate. Included in the plan assets at 30 June 2001 are deposits with Westpac Banking Corporation totalling $9.6 million (2000 $10.3 million) and 2.2 million (2000 3.5 million) Westpac Banking Corporation ordinary shares having a total market value at that date of $32 million (2000 $42 million).

## Note 45. Reconciliation with US Generally Accepted Accounting Principles (US GAAP) (continued)

Assumptions used in determining the projected benefit obligation at 30 June 2001, 2000 and 1999 and in determining the pension benefit for the year ended on those dates included the following:

| | **2001** | 2000 | 1999 |
|---|---|---|---|
| Pension benefit | | | |
| Assumed rate of return on plan assets | **7.5%** | 7.5% | 8.0% |
| Projected benefit obligation | | | |
| Average increase in future compensation levels[1] | **3.5%** | 3.5% | 4.0% |
| Discount rate | **6.0%** | 6.5% | 5.5% |

1 plus promotional scales equivalent to approximately 1%

The Group has no material obligations in respect of post-retirement employee benefits other than pensions.

**Capital adequacy**

At 30 September 2001, Westpac's Tier 1 and total capital ratios were 6.3% and 9.9% respectively (2000 6.6% and 9.9% respectively) well in excess of the APRA's minimum requirement.

Differences between the Australian and United States definitions of Tier 1 and Tier 2 capital which would have a significant effect on Westpac are:

i) Premises revaluation reserves which qualify as Tier 2 capital under the APRA's guidelines do not qualify under United States guidelines.

ii) Under the APRA's guidelines, the general allowance for loan losses, net of associated future income tax benefits, qualifies as Tier 2 capital. Under United States guidelines, the associated future income tax benefit is not deducted from the general allowance but, subject to the exemption in (iii) below, is a direct deduction from Tier 1 capital to the extent that the future income tax benefit exceeds off-setting deferred tax liabilities.

iii) The United States guidelines allow net future income tax benefits reversing within 1 year to be included in Tier 1 capital up to a bank's projected annual income or 10% of core capital, whichever is less.

Certain differences between Australian GAAP and US GAAP, detailed above also give rise to differences between Tier 1 capital calculated in accordance with Australian guidelines and Tier 1 capital calculated in accordance with United States guidelines.

After adjusting for the above items and differences between Australian GAAP and US GAAP, Westpac's Tier 1 and total capital, at 30 September 2001, in accordance with United States guidelines, was 6.2% and 10.7% respectively (2000 6.5% and 11.1% respectively). Westpac's leverage ratio for US GAAP purposes is 4.4% (2000 4.6%).

## Note 45. Reconciliation with US Generally Accepted Accounting Principles (US GAAP) (continued)

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | **2001 $m** | 2000 $m | 1999 $m | 1998 $m | 1997 $m |
| **Computation of ordinary share earnings** | | | | | |
| **AUSTRALIAN GAAP** | | | | | |
| Net income after deducting converting and non-converting preference dividends and TOPrS distribution | **1,852** | 1,672 | 1,448 | 1,248 | 1,252 |
| Average number of fully paid shares on issue (millions) | **1,801** | 1,883 | 1,881 | 1,879 | 1,789 |
| Net income per share (cents) | **102.8** | 88.8 | 77.0 | 66.4 | 70.0 |
| Converting and non-converting preference dividends | **–** | – | – | 24 | 39 |
| TOPrS distribution | **51** | 43 | 8 | – | – |
| **US GAAP** | | | | | |
| Average issued fully paid $1 shares | **1,801** | 1,883 | 1,881 | 1,879 | 1,789 |
| Average convertible preference shares | **–** | – | – | 50 | 73 |
| Average partly paid shares issued | **–** | – | – | – | 1 |
| Average options | **11** | 23 | 11 | 22 | 22 |
| Average shares and share equivalents | **1,812** | 1,906 | 1,892 | 1,951 | 1,885 |
| Net income after deducting converting and non-converting preference dividends | **1,769** | 1,527 | 1,409 | 1,277 | 1,324 |
| Basic net income per share (cents) | **98.2** | 81.1 | 74.9 | 68.0 | 74.0 |
| Fully diluted net income per share (cents) | **97.6** | 80.1 | 74.5 | 66.7 | 72.4 |
| Earnings per ADS (5 times earnings per share in cents) | **491** | 405 | 374 | 340 | 370 |
| Converting and non-converting preference dividends | **–** | – | – | 24 | 39 |

**Recent Accounting Pronouncements**

The requirements of Statement of Financial Accounting Standards No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities"(SFAS 140) was effective for transfers occurring after 31 March 2001. Westpac's financial report for the year ended 30 September 2001 includes the disclosures required by SFAS 140. The implementation of SFAS 140 did not have a material impact on Westpac's operations or financial condition.

On July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires all business combinations initiated after 30 June 2001 to be accounted for under the purchase method of accounting (that is, the pooling-of-interests method is no longer permitted) and establishes specific criteria for recognising intangible assets apart from goodwill.

SFAS 142 is applicable to Westpac from 1 October 2002. The standard primarily addresses the accounting that must be applied to goodwill and intangible assets subsequent to their initial recognition. Upon adoption of SFAS 142, goodwill will no longer be amortised and will be tested for impairment at least annually at the reporting unit level for US GAAP purposes. Based on current levels of amortisation expense, Westpac estimates that the impact of adopting SFAS 142 will positively impact our US GAAP net income by approximately $98 million per annum.

# Statutory statements

**DIRECTORS' DECLARATION**

In accordance with a resolution of the Directors of Westpac Banking Corporation ('Westpac'), the Directors declare that:

(a) the financial statements of Westpac and consolidated financial statements of Westpac Banking Corporation ('the Group') and the notes to those financial statements:
   (i) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   (ii) give a true and fair view of Westpac and the Group's financial position as at 30 September 2001 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

(b) at the date of this declaration there are, in the Directors' opinion, reasonable grounds to believe that Westpac will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 2nd day of November 2001.

For and on behalf of the Board.

L.A. Davis
Chairman

D. R. Morgan
Managing Director and Chief Executive Officer

**INDEPENDENT AUDIT REPORT TO THE SHAREHOLDERS OF WESTPAC BANKING CORPORATION**

**Matters Relating to the Electronic Presentation of the Audited Financial Report**

This audit report relates to the financial report of Westpac Banking Corporation ("the Parent Entity") for the year ended 30 September 2001 included on Westpac Banking Corporation's web site. The Parent Entity's directors are responsible for the integrity of Westpac Banking Corporation's web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the annual financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

**Scope**

We have audited the financial report of Westpac Banking Corporation for the year ended 30 September 2001 as set out on pages 43 to 128. The Parent Entity's directors are responsible for the financial report which includes the financial statements of the Parent Entity and the consolidated financial statements of the consolidated entity ("the Group") comprising the Parent Entity and the entities it controlled at the end of, or during, the year. We have conducted an independent audit of this financial report in order to express an opinion on it to the shareholders of the Parent Entity.

Our audit has been conducted in accordance with Australian and United States Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements, and is in accordance with the provisions of, and provides the information required by, the Deed of Settlement, the Bank of New South Wales Act of 1850 (as amended), the Corporations Act 2001 in Australia and other statutory requirements, in a manner prescribed for an authorised deposit-taking institution under the Banking Act, 1959 (as amended), so as to present a view which is consistent with our understanding of the Parent Entity's and of the Group's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

**Audit Opinion**

In our opinion, the financial report of the Parent Entity is in accordance with:

(a) the Corporations Act 2001, including:
   (i) giving a true and fair view of the Parent Entity's and the Group's financial position as at 30 September 2001 and 2000, and of the Parent Entity's performance for each of the two years ended 30 September 2001 and 2000 and the Group's performance for each of the three years ended 30 September 2001, 2000 and 1999; and
   (ii) complying with Accounting Standards and the Corporations Regulations 2001;

(b) the provisions of and provides the information required by, the Deed of Settlement, the Bank of New South Wales Act of 1850 (as amended) and the Corporations Act 2001 in the manner authorised for an authorised deposit-taking institution under the Banking Act, 1959 (as amended); and

(c) other mandatory professional reporting requirements.

We have obtained all the information and explanations we have required.

Generally accepted accounting principles in Australia vary in certain respects from generally accepted accounting principles in the United States. An explanation of the major differences between the two sets of principles is presented in note 45 to the financial statements. The application of the United States principles would have affected the determination of consolidated net income for each of the three years ended 30 September 2001, 2000 and 1999 and the determination of consolidated shareholders' equity at 30 September 2001, 2000 and 1999 to the extent summarised in note 45 to the financial statements.

R. Chowdry
Chartered Accountants
Sydney, Australia 2 November 2001

M.J. Codling

## Top twenty ordinary shareholders at 2 October 2001

| | Number of Fully Paid Ordinary Shares | % held |
|---|---|---|
| Chase Manhattan Nominees Limited | 320,331,124 | 18.29 |
| National Nominees Limited | 167,742,699 | 9.58 |
| Westpac Custodian Nominees Limited | 158,065,266 | 9.03 |
| Citicorp Nominees Pty Limited | 89,846,314 | 5.13 |
| RBC Global Services Australia Nominees Pty Limited | 42,616,608 | 2.43 |
| AMP Life Limited | 31,960,609 | 1.83 |
| ANZ Nominees Limited | 28,337,186 | 1.62 |
| Queensland Investment Corporation | 26,770,567 | 1.53 |
| MLC Limited | 25,670,999 | 1.47 |
| Cede & Co | 19,059,885 | 1.09 |
| HSBC Custody Nominees (Australia) Limited | 18,813,412 | 1.07 |
| Commonwealth Custodial Services Limited | 17,253,556 | 0.98 |
| Cogent Nominees Pty Limited | 16,897,568 | 0.96 |
| ING Life Limited | 14,161,466 | 0.81 |
| NRMA Nominees Pty Limited | 12,865,233 | 0.73 |
| Australian Foundation Investment Company Limited | 10,961,616 | 0.63 |
| Perpetual Trustees Nominees Limited | 7,635,327 | 0.44 |
| Permanent Trustee Australia Limited | 6,106,936 | 0.35 |
| Zurich Australia Limited | 5,864,554 | 0.33 |
| The National Mutual Life Association of Australasia Limited | 5,770,060 | 0.33 |
| | 1,026,730,985 | 58.63 |

Top Twenty Shareholders hold 58.63 per cent of total fully paid ordinary shares issued.

## Substantial Shareholders as at 2 October 2001

Shareholders appearing on the Register of Substantial Shareholders as at 2 October 2001 are:

| | Number of Shares Held | % of Shares Held |
|---|---|---|
| Fully Paid Ordinary Shares | | |
| The Capital Group of Companies (by notice dated 23 August 2001) | 105,715,558 | 6.04 |

## Analysis of shareholdings as at 2 October 2001

***By class:***

| | Ordinary Shareholdings Fully Paid | % | No. of Ordinary Shares (000) | % | Ordinary Shares Partly Paid to 01¢ | Options to subscribe for Ordinary Shares [1] |
|---|---|---|---|---|---|---|
| 1 – 1,000 | 98,142 | 51.3 | 41,047 | 2.4 | – | – |
| 1,001 – 5,000 | 70,502 | 36.8 | 159,228 | 9.1 | – | 50 |
| 5,001 – 10,000 | 13,141 | 6.9 | 92,745 | 5.3 | – | 127 |
| 10,001 – 100,000 | 9,208 | 4.8 | 198,530 | 11.3 | 1 | 474 |
| 100,001 & over | 486 | 0.2 | 1,259,647 | 71.9 | – | 66 |
| Totals | 191,479 | 100.0 | 1,751,197 | 100.0 | 1 | 717 |
| Percentage of total securities held by Top 20 holders in each class | | | | 58.63 | 100.00 | 29.3 |
| Holdings less than a marketable parcel | | 7,698 | | | | |

1 Issued under Senior Officers' Share Purchase Scheme, General Management Share Option Plan or Chief Executive Share Option Agreement.

***By domicile:***

| | Number of Holdings [1] | % of Holdings | Number of Issued Shares & options (000s) | % of Issued Shares & Options |
|---|---|---|---|---|
| Australia | 179,182 | 93.23 | 1,737,667 | 96.98 |
| New Zealand | 8,347 | 4.34 | 18,414 | 1.03 |
| United Kingdom | 1,712 | 0.89 | 5,445 | 0.30 |
| Japan | 1,316 | 0.69 | 3,665 | 0.20 |
| United States | 536 | 0.28 | 21,649 | 1.21 |
| Other Overseas | 1,104 | 0.57 | 5,022 | 0.28 |
| Totals | 192,197 | 100.00 | 1,791,862 | 100.00 |

1 Some registered holders own more than one class of security.

### Significant changes in share ownership

On 7 April 1997 associates of Lend Lease Corporation Limited held 180,752,427 shares (10.15%). They ceased to be a substantial shareholder (i.e. holding less than 5% of shares) on 17 January 2000 when their holding reduced to 4.07% of total shares.

On 9 January 1998 The Capital Group of Companies held 156,740,757 shares (8.26%). On 19 January 2000, their holding increased to 171,233,042 shares (9.27%). On 9 November 2000 their holding reduced to 127,955,695 shares (7.22%). On 23 August 2001, the holding reduced to 105,715,558 shares (6.04%).

On 18 February 1998 Australian Mutual Provident Society (and its associates) held 239,378,341 shares (12.61%). On 10 November 1998 their holding reduced to 220,364,227 shares (11.6%). They ceased to be a substantial shareholder on 16 November 2000.

On 13 October 1998 Citibank Limited (and its related bodies including Salomon Smith Barney Securities Australia Pty Limited) held 134,740,368 shares or 7.00% (by virtue of 100 million warrants to convert to fully paid shares between 30 April 2000 and 31 July 2000). Salomon Smith Barney Australia Pty Limited ceased to be a substantial shareholder on 11 May 2000.

### Top twenty New Zealand Class shareholders at 2 October 2001

| | Number of Fully Paid NZ Class Shares | % held |
|---|---|---|
| New Zealand Central Securities Depositary Limited | 12,531,193 | 23.04 |
| Eltub Nominees Limited | 1,209,003 | 2. 22 |
| Forbar Custodians Limited | 539,460 | 0.99 |
| ABN AMRO Nominees NZ Limited | 468,185 | 0.86 |
| Moturua Properties Limited | 283,600 | 0.52 |
| Yarrow Consulting Limited | 213,131 | 0.39 |
| UBS Warburg Private Clients Nominees Pty Limited | 190,800 | 0.35 |
| Paradise Finance Limited | 188,000 | 0.35 |
| Investment Custodial Services Limited | 151,612 | 0.28 |
| Ace Finance Limited | 131,000 | 0.24 |
| Auckland Medical Research Foundation | 129,060 | 0.24 |
| Surrey Charles Innes Kent | 120,000 | 0.22 |
| Amalgamated Dairies Limited | 115,100 | 0.21 |
| Credit Suisse First Boston NZ Scrip | 103,137 | 0.19 |
| Dublin Nominees Limited | 100,000 | 0.18 |
| Alfred James Wakefield and Susan Mary Wakefield | 100,000 | 0.18 |
| Avalon Investment Trust Limited | 86,700 | 0.16 |
| AMI Insurance Limited | 85,878 | 0.16 |
| Galt Nominees Limited | 82,850 | 0.16 |
| Henry Michael Horton | 77,700 | 0.14 |
| | 16,906,409 | 31.08 |

Top Twenty Shareholders hold 31.08 per cent of total New Zealand Class shares issued.

## Analysis of New Zealand Class shareholdings as at 2 October 2001

***By class:***

| | NZ Class Shareholdings Fully Paid | % | (000) | No. of NZ Class Shares % |
|---|---|---|---|---|
| 1 – 1,000 | 23,919 | 75.3 | 10,193 | 18.7 |
| 1,001 – 5,000 | 6,784 | 21.4 | 15,515 | 28.5 |
| 5,001 – 10,000 | 700 | 2.2 | 5,256 | 9.7 |
| 10,001 – 100,000 | 312 | 1.0 | 7,056 | 13.0 |
| 100,001 & over | 15 | 0.1 | 16,373 | 30.1 |
| Totals | 31,730 | 100.0 | 54,393 | 100.0 |
| Holdings less than a marketable parcel | 1,072 | | | |

***By domicile:***

| | Number of Holdings [1] | % of Holdings | Number of Issued Shares & options (000s) | % of Issued Shares & Options |
|---|---|---|---|---|
| New Zealand | 31,471 | 99.18 | 53,936 | 99.17 |
| Australia | 146 | 0.46 | 349 | 0.64 |
| United Kingdom | 41 | 0.13 | 38 | 0.07 |
| United States | 13 | 0.04 | 13 | 0.02 |
| Hong Kong | 10 | 0.03 | 17 | 0.03 |
| Other Overseas | 49 | 0.16 | 40 | 0.07 |
| Totals | 31,730 | 100.00 | 54,393 | 100.00 |

## Westpac credit ratings (October 2001)

| | Short term | Long term |
|---|---|---|
| Fitch IBCA | F1+ | AA– |
| Moody's Investor Services | P-1 | Aa3 |
| Standard and Poor's | A-1+ | AA– |

## Control of Registrant

We are not directly or indirectly owned or controlled by any other corporation(s) or by any foreign government. Under our Deed of Settlement, no person (including corporations) may hold more than 10% (or with the approval of our Board of Directors such other percentage not exceeding 15%) of our outstanding shares.

(See also 'Exchange controls and other limitations affecting security holders – Foreign Acquisitions and Takeovers Act 1975 and Financial Sector (Shareholdings) Act 1998').

At 30 September 2001 to our knowledge, no other person owned beneficially, directly or indirectly, more than 10% of our outstanding ordinary shares. At 30 September 2001, our Directors and executive officers owned beneficially, directly or indirectly, an aggregate of 1,540,671 (0.09%) of the fully paid ordinary shares outstanding.

Participants in the General Management Share Option Plan approved by our shareholders in December 1998 are granted options to acquire fully paid ordinary shares issued by us. Participants are limited to selected executives at General Manager level or above. Non-executive Directors are not eligible to participate in the plan and no Executive Directors may participate in the plan without specific shareholder approval.

No consideration is payable for the grant of an option under the General Management Share Option Plan. The exercise price is equal to the average closing price of our ordinary shares on the Australian Stock Exchange Limited during the five business days before the date of the offer of options to the selected executive. The options have a ten year life and are subject to a performance requirement that will determine the proportion of shares in respect of which the options may be exercised following the end of the performance period. The performance hurdles compare the total shareholder returns received by our shareholders against those received by shareholders of a peer group over the performance period. The peer group will be the 50 largest (by market capitalisation) industrial companies listed on the Australian Stock Exchange Limited (excluding us) at the time of the commencement of each performance period. Upon exercising an option, the officer has the right to take up his or her entitlement in whole or in part (but in multiples of 1,000) as fully paid ordinary shares. The exercise price is payable at that time. If an option is not exercised prior to the end of its term, it lapses. At 30 September 2001, 40 officers (49 in 2000) held options under the General Management Share Option Plan.

Under the Senior Officers' Share Purchase Scheme, senior officers had been able to purchase a limited number of new ordinary shares issued by us at market price, but paid up initially to only $0.10 or $0.01. The residual is payable when called by us. Only fully paid ordinary shares qualify for the payment of dividends. Partly paid shares are no longer issued under this plan.

Pursuant to amendments to the Senior Officers' Share Purchase Scheme rules, approved by our shareholders in January 1988, we have granted options to senior officers to purchase ordinary shares. The option term was five years. Options are exercisable during the last two years of the term or within twelve months of retirement or death in service.

Pursuant to further amendments to the Senior Officers' Share Purchase Scheme rules, approved by our shareholders in December 1998, options granted by us following those amendments have a term of ten years and are exercisable during the last seven years of the term or within twelve months of retirement or death in service.

The consideration payable for the grant of an option prior to December 1998 was $0.01 per share. Since December 1998, no consideration has been payable. The exercise price is equal to the closing market price of our ordinary shares on the Australian Stock Exchange Limited on the day before the option is offered to the senior officer. Upon exercising an option, the officer has the right to take up his or her entitlement in whole or in part (but in applicable multiples of 1,000) as fully paid shares, in which event the whole of the exercise price (less the $0.01 per share if paid upon grant of the option) becomes payable. If an option is not exercised prior to the end of its term, it lapses and the $0.01 per share, if previously paid, is forfeited by the officer.

Eligibility for participation in the Senior Officers' Share Purchase Scheme, as now constituted, is restricted to our full-time employees who do not qualify for the General Management Share Option Plan and who are designated by the Directors from time to time to have achieved the status equal to or above senior officer. At 30 September 2001, there were 704 senior officers (823 in 2000) who held partly paid ordinary shares or options under the Senior Officers' Share Purchase Scheme. Managing Director and Chief Executive Officer David Morgan holds 175,000 options at $7.10 per ordinary share exercisable by 28 January 2002 and 500,000 options at $7.89 per ordinary share exercisable by 29 September 2002, which were granted to him prior to his appointment as Managing Director.

Pursuant to a resolution passed at a special general meeting of our shareholders on 2 September 1999, our Managing Director and Chief Executive Officer David Morgan holds three tranches of non-transferable options, each tranche enabling him to subscribe for 1,000,000 ordinary shares at a price of $10.83 per share. The first tranche is exercisable between 1 March 2002 and 1 March 2009. The second tranche is exercisable between 1 March 2003 and 1 March 2009. The third tranche is exercisable between 1 March 2004 and 1 March 2009. All tranches are subject to a performance requirement that will determine the particular proportion which may be exercised following the end of the performance period for that tranche. The performance hurdles compare the total shareholder returns received by our shareholders against those received by shareholders of a peer group over the performance period. The peer group will be the 50 largest (by market capitalisation) industrial companies listed on the Australian Stock Exchange Limited at the time of the commencement of each performance period.

The plans also contain a provision which ensures compliance with the 5% over 5 years rule set under the Australian Securities and Investments Commission Class Order CO 00/220, which provides relief from the prospectus regime of the Australian Corporations Act 2001. Under that class order, the number of shares the subject of options to be offered to employees at any particular time cannot, at the time the offer is made and when aggregated with the number of shares the subject of previously issued unexercised options issued to employees under those plans and with the number of shares issued during the previous five years under all employee share schemes, exceed 5% of the total number of shares on issue at the time that offer is made.

The names of all persons who hold options currently on issue are entered in our register of option holders which may be inspected at Computershare Investor Services Pty Limited, 60 Carrington Street, Sydney, New South Wales.

## Market price information

The principal listing of our ordinary shares is on the Australian Stock Exchange Limited. American Depositary Shares, each representing five ordinary shares, are listed on the New York Stock Exchange. The ordinary shares are also listed on the Tokyo Stock Exchange and the New Zealand Stock Exchange.

The tables below set forth, for the calendar periods indicated, the reported high and low market quotations for our ordinary shares on the Australian Stock Exchange Limited based on its daily official list and for our New Zealand Class shares [1], which are listed on the New Zealand Stock Exchange.

| | Per ordinary share in A$ | | Per NZ Class share in NZ$ | |
|---|---|---|---|---|
| | High | Low | High | Low |
| **Financial year ending** | | | | |
| September 2001 | 14.55 | 11.87 | 16.50 | 10.00[2] |
| September 2000 | 12.97 | 9.16 | 10.35[2] | 6.80[2] |
| September 1999 | 12.06 | 8.36 | n/a | n/a |
| September 1998 | 11.45 | 7.10 | n/a | n/a |
| September 1997 | 9.10 | 6.43 | n/a | n/a |

| | Per ordinary share in A$ | | Per NZ Class share in NZ$ | |
|---|---|---|---|---|
| | High | Low | High | Low |
| **Quarter ending** | | | | |
| **2001** | | | | |
| March | 14.38 | 12.22 | 15.45 | 13.20 |
| June | 14.55 | 12.52 | 16.50 | 13.85 |
| September | 14.55 | 11.87 | 16.40 | 13.10 |
| **2000** | | | | |
| March | 11.20 | 9.94 | 8.32[2] | 7.45[2] |
| June | 12.51 | 10.33 | 8.75[2] | 6.80[2] |
| September | 12.97 | 11.65 | 10.35[2] | 8.15[2] |
| December | 14.19 | 12.70 | 15.20 | 10.00[2] |
| **1999** | | | | |
| March | 11.73 | 10.27 | n/a | n/a |
| June | 12.06 | 9.55 | n/a | n/a |
| September | 10.26 | 9.15 | n/a | n/a |
| December | 11.05 | 9.16 | 8.79[2] | 7.10[2] |

| | Per ordinary share in A$ | | Per NZ Class share in NZ$ | |
|---|---|---|---|---|
| | High | Low | High | Low |
| **Month ending – 2001** | | | | |
| September | 14.22 | 11.87 | 15.50 | 13.10 |
| August | 14.55 | 13.72 | 16.10 | 15.42 |
| July | 14.31 | 13.17 | 16.40 | 15.17 |
| June | 14.55 | 13.73 | 16.50 | 15.55 |
| May | 14.00 | 12.53 | 15.35 | 14.05 |
| April | 13.50 | 12.52 | 14.50 | 13.85 |

1 Our New Zealand Class shares were first issued by a subsidiary, WestpacTrust Investments Limited, on 12 October 1999.
2 Our New Zealand Class shares were partly paid until 20 December 2000 when the final instalment of NZ $4.75 was due.

## Market price information (continued)

The tables below set forth for the calender periods indicated, the reported high and low sales prices for our American Depositary Shares.

| | Per American Depositary Share in US$ | |
|---|---|---|
| | High | Low |
| **Financial year ending** | | |
| September 2001 | 39.10 | 29.36 |
| September 2000 | 36 7/8 | 30 1/16 |
| September 1999 | 33 9/16 | 29 13/16 |
| September 1998 | 38 13/16 | 34 7/16 |
| September 1997 | 32 15/16 | 25 5/8 |

| | Per American Depositary Share in US$ | |
|---|---|---|
| | High | Low |
| **Quarter ending** | | |
| **2001** | | |
| March | 39.10 | 30.41 |
| June | 37.60 | 30.70 |
| September | 38.45 | 29.36 |
| **2000** | | |
| March | 35 7/16 | 30 3/4 |
| June | 36 3/4 | 31 |
| September | 36 7/8 | 34 1/16 |
| December | 37 7/8 | 33 5/8 |
| **1999** | | |
| March | 36 13/16 | 32 3/8 |
| June | 38 13/16 | 31 15/16 |
| September | 33 9/16 | 29 13/16 |
| December | 35 | 30 |

| | Per American Depositary Share in US$ | |
|---|---|---|
| | High | Low |
| **Month ending – 2001** | | |
| September | 37.10 | 29.36 |
| August | 38.45 | 35.60 |
| July | 36.33 | 33.70 |
| June | 37.60 | 35.17 |
| May | 35.90 | 32.47 |
| April | 33.25 | 30.70 |

Morgan Guaranty Trust Company of New York acts as depositary for our American Depositary Shares.

At 30 September 2001, there were 191,479 record holders, compared to 188,461 in 2000 and 188,631 in 1999, respectively of our outstanding fully paid ordinary shares. Record holders with registered addresses in Australia held approximately 98% of our fully paid ordinary share capital at 30 September 2001, 2000 and 1999 respectively.

Our 7 7/8% subordinated debentures due 2002 are not listed on any securities exchange. Several investment banks make a market in those debentures in the United States, but such market making may be terminated at any time.

## Exchange controls and other limitations affecting security holders

### Australian exchange controls

The Australian Banking (Foreign Exchange) Regulations and other Australian legislation and regulations control and regulate or permit the control and regulation of a broad range of payments and transactions involving nonresidents of Australia. Pursuant to certain general and specific exemptions, authorities and approvals, however, we are not restricted from transferring funds from Australia or placing funds to the credit of nonresidents of Australia subject to:

(i) Withholding taxes (see 'Taxation') in relation to remittances of dividends (to the extent they are unfranked) and interest payments;

(ii) A restriction on making payments from Australia to the Government of Iraq, its agencies or nationals;

(iii) A restriction on transactions involving the transfer of funds or payments to or from, by the order of, or on behalf of the authorities in the Federal Republic of Yugoslavia (Serbia and Montenegro), or their agencies, who are not residents of Australia . (Note: Effective 17 October 2001 the Reserve Bank of Australia lifted restrictions in place on financial transactions with the authorities of the Federal Republic of Yugoslavia and its agencies, and replaced them with mechanisms to monitor certain large transactions and transactions of known supporters of the former Milosevic regime); and

(iv) A restriction on transactions involving the transfer of funds or payments to, by the order of, or on behalf of:

- the Government of Libya or a public authority of Libya; or
- any commercial, industrial or public utility undertaking owned or controlled, directly or indirectly, by the Government of Libya, or by a public authority of Libya, or by an entity that is owned or controlled by the Government of Libya or a public authority of Libya; or
- any person acting for or on behalf of the Government of Libya or a public authority of Libya or an undertaking or entity as described above; or
- The Taliban (also known as the Islamic Emirate of Afghanistan) or any undertaking owned or controlled, directly or indirectly by the Taliban. This includes Usama Bin Laden, the Al-Qaida organisation and a list of named Taliban officials; or
- The National Union for Total Independence of Angola (UNITA) as an organisation, senior officials of UNITA or adult members of the immediate families of senior officials of UNITA.

Notwithstanding the restrictions referred to in paragraphs (ii), (iii) and (iv) above, the Reserve Bank of Australia may approve certain transactions in circumstances it deems appropriate.

Effectively, the only exchange controls limiting the purchase of domestic securities by nonresidents retained in terms of us are Foreign Exchange Regulations relating to the requirement of the Reserve Bank of Australia approval for investment in Australia by central banks, foreign governments and foreign government agencies which are holders of the official exchange reserves of their country and do not act independently of their government with respect to investment decisions.

### Limitations affecting security holders

The following Australian laws impose limitations on the right of non-residents or non-citizens of Australia to hold, own or vote shares in us. Our Deed of Settlement also imposes limitations on the right of persons to own or vote shares. All these limitations apply to the holders of the American Depositary Receipts evidencing American Depositary Shares, issued by our depositary in the United States.

Foreign Acquisitions and Takeovers Act 1975

Acquisitions of interest in shares in Australian companies by foreign interests are subject to review and approval by the Treasurer of Australia under the Foreign Acquisitions and Takeovers Act 1975. That statute applies to any acquisition of 15% or more of the outstanding shares of an Australian company or any acquisition which results in one foreign person including a corporation or group of associated foreign persons controlling 15% or more of total voting power. In addition, the statute applies to any acquisition by non-associated foreign persons resulting in foreign persons controlling, in the aggregate, 40% or more of total voting power or ownership. The statute requires any persons proposing to make any such acquisition to first notify the Treasurer of their intention to do so. Where such an acquisition has already occurred, the Treasurer has the power to order divestment. At 30 September 2001, 2.61% of our fully paid outstanding ordinary shares were held by shareholders with registered addresses outside Australia, of which 1.12% was represented by American Depositary Shares listed on the New York Stock Exchange.

***Financial Sector (Shareholdings) Act 1998***

The Financial Sector (Shareholdings) Act 1998 of Australia imposes restrictions on shareholdings in Australian financial sector companies (which includes us). Under that statute a person (including a corporation) may not hold more than a 15% 'stake' in a financial sector company without prior approval from the Treasurer of Australia. A person's stake in a financial sector company is equal to the aggregate of the person's voting power in the company and the voting power of the person's associates. The concept of voting power is very broadly defined. The Treasurer may approve a higher percentage shareholding limit if the Treasurer is satisfied that it is in the national interest to do so.

In addition, even if a person does not exceed the 15% shareholding limit in a financial sector company, the Treasurer has the power to declare that a person has 'practical control' of a financial sector company and require the person to relinquish that control or reduce their stake in that company.

### *Corporations Act 2001*

The Corporations Act 2001, as applied to us, prohibits any person (including a corporation) from acquiring a relevant interest in our voting shares if, after the acquisition, that person or any other person would be entitled to exercise more than 20% of the voting power in us. The prohibition is subject to certain limited exceptions, which must strictly be complied with to be applicable. In addition, under the Corporations Act 2001, any person who begins to have, or ceases to have, a substantial holding in us, or if any person already has a substantial holding and there is a movement of at least 1% in their holding, is required to give a notice to us and to the Australian Stock Exchange Limited providing certain prescribed information, including their name and address and details of their relevant interests in our voting shares. Such notice must, generally, be provided within two business days.

A person will have a substantial holding if the total votes attached to our voting shares in which they or their associates have relevant interests is 5% or more of the total number of votes attached to all our voting shares. The concepts of 'associate' and 'relevant interests' are broadly defined in the Corporations Act 2001 and investors are advised to seek their own advice on their scope. In general terms, a person will have a relevant interest in a share if they:

(i) Are the holder of that share;

(ii) Have power to exercise, or control the exercise of, a right to vote attached to that share; or

(iii) Have power to dispose of, or control the exercise of a power to dispose of, that share.

It does not matter how remote the relevant interest is or how it arises. If two or more persons can jointly exercise any one of these powers, each of them is taken to have a relevant interest. Nor does it matter that the power or control is express or implied, formal or informal, exercisable either alone or jointly with someone else or if the exercise of the power would result in a breach of contract, trust or other arrangement or understanding.

### *Deed of Settlement*

Our Deed of Settlement prohibits any person from owning more than the 'prescribed percentage', which is 10%, or, in certain circumstances, such other percentage not exceeding 15%, as determined by our Board of Directors, of our outstanding shares.

In order to give effect to the prescribed percentage limitations on ownership of the ordinary shares, the Deed of Settlement provides that our Board of Directors may cause us to give any shareholder notice requiring that the shareholder dispose of that number of shares as exceed such limitation. Such disposition must be effected within three months, in default of which our Board of Directors may sell such shares in such manner and upon such terms as they, in their absolute discretion, determine. A share transfer signed by any Director in order to give effect to any such sale shall be as valid and effective as if signed by the shareholder. The net proceeds of any such sale are to be paid to the shareholder.

The Deed of Settlement also provides that if our Board of Directors is satisfied that a shareholder holds shares in a representative or custodial capacity in accordance with the provisions of any law, contract or other binding requirement or rule, compliance with which is necessary to permit or facilitate the listing of shares or dealing in such shares, and the shareholder is ultimately accountable to other persons in relation to those shares or hold those shares for the ultimate benefit of others, our Board of Directors may by resolution declare that shareholder to be a 'Stock Market Fiduciary'. In its capacity as such, a Stock Market Fiduciary may hold more than 10% of our outstanding shares, notwithstanding the 10% limitation. This exception is without prejudice to the other limiting provisions of the Deed of Settlement in relation to any other person, including the beneficial owner of the shares held by the Stock Market Fiduciary.

### *The deposit agreement*

Pursuant to the Deposit Agreement among Morgan Guaranty Trust Company of New York as depositary, and us, and the record holders from time to time of all American Depositary Receipts issued thereunder, record holders of American Depositary Receipts must comply with our requests for information as to the capacity in which such holders own American Depositary Receipts and related ordinary shares as well as to the identity of any other person interested in such American Depositary Receipts and related ordinary shares and the nature of such interest. In addition, the Deposit Agreement applies all of the provisions of our Deed of Settlement to American Depositary Receipts holders.

### *Enforceability of foreign judgments in Australia*

We are an Australian public corporation having limited liability. All of our directors and executive officers, reside outside the United States. Substantially all or a substantial portion of the assets of those persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce against them judgments obtained in United States courts predicated upon the civil liability provisions of the Federal securities laws of the United States. We have been advised by our Australian counsel, Allens Arthur Robinson, that there is doubt as to the enforceability in Australia, or in actions for enforcement of judgments of United States courts, of civil liabilities predicated upon the Federal securities laws of the United States. We have expressly submitted to the jurisdiction of New York State and United States Federal courts sitting in the City of New York for the purpose of any suit, action or proceedings arising out of the offering of securities in the United States. We have appointed our legal counsel c/o Westpac Banking Corporation, 39th Floor, 575 Fifth Avenue, New York, New York 10017 as our agent upon whom process may be served in any such action.

## Taxation

The following discussion is a summary of certain Australian taxation implications of the ownership of Ordinary Shares (including American Depositary Shares). The statements concerning Australian taxation set out below are based on the laws in force at the date of the annual report and the Convention between the Government of the United States of America and the Government of Australia for the Avoidance of Double Taxation and The Prevention of Fiscal Evasion with respect to Taxes on Income ('the Tax Treaty'), and are subject to any changes in Australian law and any change in the Tax Treaty occurring after that date.

The discussion is intended only as a descriptive summary and does not purport to be a complete analysis of all the potential Australian tax implications of owning and disposing of Ordinary Shares. The specific tax position of each investor will determine the applicable Australian income tax implications for that investor and we recommend each investor consult their own tax advisers concerning the implications of owning and disposing of Ordinary Shares.

***Taxation of dividends***

Under the Australian dividend imputation system, Australian tax paid at the company level is imputed (or allocated) to shareholders by means of imputation credits which attach to dividends paid by the company to the shareholder. Such dividends are termed 'franked dividends'.

When an Australian resident individual shareholder receives a franked dividend, the shareholder receives a tax credit which can be offset against the Australian income tax payable by the shareholder. An Australian resident shareholder may, in certain circumstances, be entitled to a refund of excess franking credits in relation to dividends paid on or after 1 July 2000.

While a company may only declare a dividend out of profits, the extent to which a dividend is franked typically depends upon a company's available franking credits at the time of payment of the dividend. Accordingly, a dividend paid to a shareholder may be wholly or partly franked or wholly unfranked.

Fully franked dividends paid to non-resident shareholders are exempt from Australian dividend withholding tax. Dividends paid to a non-resident shareholder which are not fully franked are subject to dividend withholding tax at the rate of 30% (unless reduced by a double tax treaty) to the extent they are unfranked. In the case of residents of the United States, the rate is reduced to 15% under the Tax Treaty provided the shares are not effectively connected with a permanent establishment or a fixed base of a non-resident in Australia through which the non-resident carries on business in Australia or provides independent personal services. In the case of residents of the Unites States that have a permanent establishment or fixed base in Australia and the shares in respect of which the dividends are paid are effectively connected with such a permanent establishment or fixed base, withholding tax at the rate of 30% will apply to the extent the dividends are not franked.

Fully franked dividends paid to non-residents shareholders and dividends that have been subject to dividend withholding tax are not subject to any further Australian income tax.

There are circumstances where a shareholder may not be entitled to the benefit of franking credits. The application of these rules depend upon the shareholder's own circumstances, if a resident, including the period which the shares are held and the extent to which the shareholder is 'at risk' in relation to their shareholding.

***Gain or Loss on Disposition of Shares***

Subject to two exceptions, a non-resident disposing of shares in Australian public companies will be free from income tax in Australia. The exceptions are as follows:

- Shares held as part of a trade or business conducted through a permanent establishment in Australia. In such a case, any profit on disposal would be assessable to ordinary income tax. Losses would constitute an allowable deduction; and
- Shares held in public companies where such shares represent (or in the last five years have represented) a holding of 10% or more by value in the issued capital of the company. In such a case, capital gains tax would apply, but not otherwise.

Capital gains tax in Australia is payable on 50% of any capital gains (without adjustment for inflation indexation) on the disposal of assets acquired on or after 1 October 1999 and held for at least 12 months by individuals. For the assets acquired prior to 1 October 1999, individuals will be able to choose between the following alternatives:

- Taxed on any capital gain after allowing for indexation of the cost base where the shares have been held for at least 12 months (ie the difference between the disposal price and the original cost indexed for inflation over the period). Indexing does not apply where the shares are disposed of within 12 months of acquisition. Indexation of the cost base for calculating capital gains tax is frozen at 30 September 1999 for all taxpayers including non-residents; and
- Taxed on 50% of the actual capital gain (without adjustment for inflation indexation) where the shares have been held for at least 12 months.

Normal rates of income tax would apply to capital gains so calculated. Capital losses are not subject to indexation; they are available as deductions, but only in the form of offset against other capital gains. Depending upon which of the above alternatives is chosen, nominal capital losses are to be offset against capital gains net of frozen indexation or the full nominal capital gain before the 50% reduction. Excess capital losses can be carried forward for offset against future capital gains.

## Directors

Our business is governed by a Board of Directors of no fewer than seven and no more than fifteen in total, exclusive of executive directors. At 30 September 2001, the directors were:

| Name of Director | Year appointed | Expiry of current term in office |
|---|---|---|
| Leon Davis (Chairman) [1,2,3,4,5,6] | 1999 | 2002 |
| David Morgan (Managing Director) [5,7] | 1997 | N/A |
| Barry Capp [1,3,4] | 1993 | 2003 |
| Sir Llewellyn Edwards [3,4,5] | 1988 | 2002 |
| John Fairfax [2,5] | 1996 | 2001 |
| Ian Harper [1] | 1987 | 2001 |
| Warren Hogan [2,3] | 1986 | 2001 |
| Helen Lynch [1,3] | 1997 | 2003 |
| Eve Mahlab [2] | 1993 | 2001 |
| Peter Ritchie [1,4,5] | 1993 | 2002 |

1 Member of the Board Audit and Compliance Committee, which reviews our accounting and financial reporting practices, including the activities of internal and external auditors.
2 Member of the Board Credit and Market Risk Committee, which reviews and monitors our market risk limits and credit decisions, policies and control procedures, bad and doubtful debts performance and policies governing management of our credit portfolio. Above certain limits, credit decisions are also made by this committee.
3 Member of the Board Nominations Committee, which develops and reviews policies on director tenure, non-executive director remuneration and retirement schemes, board composition, strategic function and size, eligibility criteria for election of directors, and board and board committee effectiveness.
4 Member of the Board Remuneration Committee, which reviews our personnel matters, including remuneration, merit recognition, recruiting policies, management development, training policies and succession planning.
5 Member of the Board Social Responsibility Committee, which sets standards for social and ethical practices, considers and endorses proposals designed to enhance and implement our objective of differentiation from our competitors, and monitors compliance with our published statements on our social responsibility.
6 Appointed as Chairman on 15 December 2000.
7 Appointed as Managing Director and Chief Executive Officer on 1 March 1999.

### *Term of directors*

Our Board of Directors has the power to appoint persons as directors to fill any vacancies. Our Deed of Settlement provides that at every Annual General Meeting one-third of non-executive directors (or the nearest number to one-third but not exceeding one-third) shall retire from office and shall be eligible for re-election. The directors to retire by rotation shall be those who have been the longest in office. Under the Listing Rules of the Australian Stock Exchange Limited no director (apart from the managing director) of a listed entity may continue in office, without offering himself or herself for re-election, past the third annual general meeting following their appointment or previous re-election or 3 years, whichever is the longer.

Under our Deed, our directors must retire at the close of the annual general meeting that is held next after he or she attains the age of 72 years. Under our new constitution, when it becomes operational, the retiring age will be reduced to 70 years of age. Any director who is over 70 years of age at that time will be required to retire at the close of the next annual general meeting.

***Changes in Board of Directors***
Following the conclusion of our annual general meeting on 15 December 2000, directors John Uhrig (Chairman) and Christopher Stewart retired from our Board of Directors as they had reached the compulsory retirement age under our Deed of Settlement. Leon Davis assumed the position of Chairman of Directors from the conclusion of this meeting.

On 31 January 2001, executive director and Chief Financial Officer, Patrick Handley resigned from our Board of Directors.

On 6 July 2001, director John Morschel resigned from our Board of Directors.

Ted Evans was appointed a non-executive director, effective 5 November 2001.

**Group Executives**
At 30 September 2001 our Group Executives were:

| Name of Group Executive | Position | Year joined Group | Year appointed to position |
|---|---|---|---|
| David Morgan | Chief Executive Officer | 1990 | 1999 |
| Philip Chronican | Chief Financial Officer | 1982 | 2001 |
| Michael Hawker [1] | Group Executive, Business and Consumer Banking | 1995 | 1998 |
| David Willis | Group Executive, Westpac Institutional Bank | 1996 | 1999 |
| David Clarke | Group Executive, Banking and Financial Solutions | 2000 | 2000 |
| Ann Sherry | Group Executive, People and Performance | 1994 | 1999 |

1 On 7 September 2001, we announced that Michael Hawker is to resign on 2 November 2001.

There are no family relationships between or among any of our Directors or Group Executives.

## Memorandum and articles of association

***Overview***

We were incorporated in 1850 under a special piece of legislation passed by the New South Wales Parliament at a time when there was no general companies' legislation in Australia. That legislation has been amended on a number of occasions since 1850 and, as amended, is referred to as our Act of Incorporation. We do not have a memorandum and articles of association. In addition to our Act of Incorporation, our governing document is our Deed of Settlement ('Deed'), which has been in operation since 23 August 1850.

Today, companies in Australia are registered under the Corporations Act 2001 ('Act') and, under that legislation, their governing document is known as their constitution. We are not, generally speaking, a company as defined by the Act and are not subject to many of its provisions. We are, however, in the process of being registered under that legislation as a public company limited by shares. This process is not expected to be completed until some time in 2002. As part of this process, shareholders adopted a new constitution in December 2000, which will replace the Deed at the time the registration process is completed.

As a public company, we are however, subject to, and regulated by, certain aspects of the Act that apply to all corporate bodies; examples include the takeover rules and financial reporting to our shareholders. The Act also provides a mandatory statutory overlay to certain provisions of the Deed, which, where relevant, are mentioned below.

***Our objects and purposes***

The Deed does not contain a statement of our objects and purposes. These were originally contained in our Act of Incorporation but on 13 December 1996 they were repealed and replaced pursuant to regulations, made by the New South Wales Governor, and known as the Westpac Banking Corporation Amendment (Legal Capacity) Regulation 1996. Those regulations applied certain provisions of the then Corporations Law (the precursor of the Act) that did not apply to us, which had the effect of granting to us the legal capacity, powers and status of a natural person, both within and outside Australia, including the power to issue and allot fully paid or partly paid shares and debentures, to distribute our property among our shareholders (either in kind or otherwise), to pledge our uncalled capital; to grant a floating charge on our property and to do any other act permitted by any law.

All corporate entities in Australia have a unique, nine digit, identification number, which must be included on all public documents and negotiable instruments. Companies have what is known as an Australian Company Number (or ACN) and other corporate entities have an Australian Registered Business Number (or ARBN). In addition, since 1 July 2000, all businesses in Australian have (under the Australian tax system) been required to have what is known as an Australian Business Number (or ABN), an eleven digit number the last nine digits of which are, for corporate entities, identical to their ACN or ARBN. The ABN may be quoted on public documents and negotiable instruments in lieu of the ACN or ARBN.

Our ARBN is 007 457 141 and our ABN is 33 007 457 141.

***Directors' interest, powers re compensation, borrowing powers etc***

(a) Under clause 61 of our Deed, any of our directors that is directly or indirectly interested in any contract or proposed contract with us must, as soon as practicable, declare the nature of his or her interest at a meeting of the Board. This requirement does not apply in any case where the interest of the director consists only of being a shareholder or creditor of a corporation that is interested in any such contract. A director may give a standing notice of interest.

If any director is so interested, they are generally precluded from voting in respect of the contract in question.

Under the Act, however, a director who has a material personal interest in any matter to be considered at any Board meeting must not be present while the matter is being considered or vote on the matter, unless the other directors resolve to allow that director to be present and vote or a declaration is made by the Australian Securities and Investments Commission permitting that director to participate and vote. These restrictions do not apply to a limited range of matters set out in Section 191 of the Act where the director's interest:

1. Arises because the director is a shareholder of the company in common with other shareholders;
2. Arises in relation to the director's remuneration as a director of the company;
3. Relates to a contract the company is proposing to enter into that is subject to shareholder approval and will not impose obligations on the company if not approved by shareholders;
4. Arises merely because the director is a guarantor or has given an indemnity or security for all or part of a loan (or proposed loan) to the company;
5. Arises merely because the director has a right of subrogation in relation to a guarantee or indemnity referred to in 4;
6. Relates to a contract that insures, or would insure, the director against liabilities the director incurs as an officer of the company (but only if the company or a related body corporate is not the insurer);
7. Relates to any payment by the company or a related body corporate in respect of certain indemnities permitted by the Act or any contract relating to such an indemnity; or
8. Is in a contract or proposed contract with, or for the benefit of, or on behalf of, a related body corporate and arises merely because the director is a director of that related body corporate.

If, because of the interest of directors in a particular matter, the meeting is inquorate, the matter must be referred to shareholders and interested directors are entitled to vote on any proposal to requisition such a meeting.

(b) Under clause 55 of our Deed, the aggregate annual amount to be paid to our non-executive directors must be approved by shareholders, Once approved, that aggregate amount is paid to those directors in such manner as the Board from time to time determines.

As described in paragraph (a), directors' remuneration is one of the exceptions under section 191 of the Act to the prohibitions against being present and voting on any matter in which a director has a material personal interest.

(c) Clause 64(k) of our Deed empowers our directors, as a Board, to borrow or raise money, either on a secured or unsecured basis, for the purposes of our business on any terms and conditions, as they think fit. Such powers may only be changed by amending the Deed, which requires a special resolution (ie a resolution passed by a majority of not less than 75% of the votes of shareholders present at a meeting of which not less than 21 days' notice has been given).

(d) Under our Deed, our directors must retire at the close of the annual general meeting that is held next after he or she attains the age of 72 years. A similar rule applies to public companies under the Act.

Under our new constitution, when it becomes operational, the retiring age will be reduced to 70 years of age. Any director who is over 70 years of age at that time will be required to retire at the close of the next annual general meeting.

Under the Listing Rules of the Australian Stock Exchange Limited no director (apart from the managing director) of a listed entity may continue in office, without offering himself or herself for re-election, past the third annual general meeting following their appointment or previous re-election or 3 years, whichever is the longer.

(e) Our non-executive directors are required by the Deed to be the beneficial owner of at least 4,000 of our shares. This requirement will cease to apply once the new constitution commences operation.

***Share rights***

The rights attaching to our ordinary shares are set out in our Deed, and may be summarised as follows:

*(a) Profits and Dividends*

Holders of our ordinary shares are entitled to share in our profits in proportion to the number of shares held by them, subject to any preferred rights applying as a term of issue of any other class of shares. We presently do not have any other class of shares on issue.

Our Board may declare both interim and final dividends out of profits and reserves that are available for distribution. Dividends only become payable to our shareholders if and when declared by our Board. Once declared, a dividend becomes a debt due to our shareholders, at the later of the date of declaration or the date fixed for payment and, if not paid, remains enforceable against us by shareholders until recovery becomes time-barred under the relevant statute of limitations, which is generally 6 years from the date the dividend became payable.

Our share premium reserve, to which all premiums received on the issue of new shares is credited, may be used for the payment of dividends only if such dividends are satisfied by the issue of shares. Accordingly, cash dividends are only payable out of our undistributed profits.

Under our Deed, 5% of our net profits each year must be appropriated to maintaining a reserve fund until the amount of that fund is equal to one-half of our paid-up capital, As at 30 September 2001, this reserve fund was equal to 50% of our paid-up capital. This reserve fund must not be used for the payment of a dividend or bonus, but may be used to provide for occasional losses.

If any dividends are returned to us unclaimed, we are obliged, under the Banking Act 1959, to hold those amounts as unclaimed moneys for a period of six years. If at the end of that period the moneys remain unclaimed by the shareholder concerned, we must, within three months of the end of the calendar year in which that period expired, pay the moneys to the Commonwealth of Australia. Upon such payment being made, we are discharged from further liability in respect of that amount.

The following restrictions apply to our ability to declare and/or pay dividends:

1. If the payment of the dividend would breach or cause a breach by us of applicable capital adequacy or other supervisory requirements of the Australian Prudential Regulatory Authority (APRA). Currently, one such requirement is that a dividend should not be paid without APRA's prior consent if payment of that dividend, after taking into account all other dividends (if any) paid on our shares during the then current financial year, would cause the aggregate of such dividend payments to exceed our consolidated net income for that year, as reflected in our audited consolidated financial statements; and
2. If, under the Banking Act 1959, we are directed by APRA not to pay a dividend; and
3. If the declaration or payment of the dividend would result in our becoming insolvent.

*(b) Voting rights*

Holders of our fully paid ordinary shares have, at general meetings (including special general meetings) one vote on a show of hands and, upon a poll, one vote for each fully paid share held by them, except for a limited number of enhanced voting shares ('Enhanced Voting Shares') that were created in relation to New Zealand Class shares issued by one of our related corporate entities in New Zealand in October 1999.

These New Zealand Class shares are, in a limited range of circumstances, convertible in our ordinary shares on a predetermined conversion basis (currently on a one for one basis ('Conversion Ratio')). A feature of the New Zealand Class shares is the ability of the holders of those shares, if they choose to do so, to direct the holder of the Enhanced Voting Shares how to vote on any matter submitted to a poll at any of our general meetings.

A special purpose independent company, which is the full legal and beneficial owner of 500 of our fully paid ordinary shares, being the Enhanced Voting Shares, has covenanted to exercise the additional voting rights ('Enhanced Voting Rights') attaching to those shares in accordance with, and to the extent (if any) of indications received from the holders of the New Zealand Class shares. The number of Enhanced Voting Rights will be equivalent, in aggregate, to the number of fully paid New Zealand Class shares on issue that are not owned at the relevant time by us or any of our controlled entities, adjusted by the Conversion Ratio if that ratio is other than on a one for one basis. As at 30 September 2001 there were 54.4 million (approximately) New Zealand Class shares on issue.

*(c) Voting and re-election of directors*

Under our Deed, one-third of our non-executive directors (or if their number is not a multiple of three, the number nearest to but not exceeding one-third) must retire at each annual general meeting. The directors to retire are those that have been longest in office since they were appointed or last re-elected, as the case may be. If eligible, retiring directors may offer themselves for re-election.

Under the Listing Rules of the Australian Stock Exchange Limited, no executive and non-executive director of a listed entity, apart from the managing director, may continue to hold office, without offering himself or herself for re-election, past the third annual general meeting following their appointment or three years, whichever is the longer.

Under the Act, the election or re-election of each director by shareholders at a general meeting of a public company by shareholders must proceed as a separate item, unless the shareholders first resolve that the elections or re-elections may be voted on collectively. Such a resolution is effective only if no votes are cast against that resolution. Any resolution electing or re-electing two or more directors in contravention of this requirement is void.

*(d) Winding up*

Subject to any preferential entitlement (if any) of holders of preference shares on issue at the relevant time (we currently have no such shares on issue), holders of our ordinary shares are entitled to share equally in any surplus assets if we are wound up.

*(e) Redemption and sinking fund provisions*

We do not have any class of shares on issue that is subject to any redemption or sinking fun provisions.

*(f) Disentitlement and disenfranchisement provisions*

The maximum number of our ordinary shares that can be held by any person is 10% (or up to 15% if our Board approves that higher percentage) of the total number of our ordinary shares that are on issue from time to time.

If and to the extent that a person owns our ordinary shares in excess of the relevant percentage referred to above, those shares lose voting, dividend and other rights and our Board may direct that the excess shares be sold within three months, in default of which the Board may arrange for those excess shares to be sold and remit the net sale proceeds to the shareholder concerned.

***Variation of rights attaching to our shares.***

Under our Deed, our Board may, without prejudice to any special rights previously conferred upon the holders of any of our shares and subject to the maximum shareholding limit applying under our Deed, at any time and from time to time amend the terms of issue of, or attach new terms of issue to, any share previously issued if each of the following conditions is satisfied:

(a) the holder of that share or those shares agrees to the amendment or attachment; and

(b) the amendment or attachment attaches additional voting rights on a poll to the share or shares substantially in accordance with a proposal that has been approved by shareholders.

Otherwise, the rights attaching to our ordinary shares may only be altered with the approval of a resolution passed in general meeting by the affirmative vote of our shareholders holding between them at least 75% of the issued fully paid ordinary shares voted at that meeting.

***Convening general meetings***

Under clause 73 of our Deed, our annual general meeting must be held within five months of the end of our financial year (ie. 30 September) at such time and place as our Board determines. At least twenty-one days' notice of any such meeting must be given to shareholders.

Any other general meetings (known as special general meetings) may be convened by our Board at any time by giving to shareholders at least twenty-one days notice, if the business is or includes the passing of a special resolution, or ten days notice in any other case.

Shareholders who collectively hold shares representing 5% of the total voting power of all shareholders or not less than 100 shareholders each holding at least 500 shares may requisition a special general meeting at any time. Upon receipt of such notice and provided that it clearly specifies each item of business proposed, our directors must convene that meeting within twenty-one days, in default of which the requisitioning shareholders may themselves convene the meeting.

The notice of meeting sent to shareholders is accompanied by a form of proxy, and apart from each shareholder being required to register on entering the venue there are no conditions of admission. A shareholder may attend personally or by proxy (who need not be a shareholder).

***Limitations on securities ownership***

A number of limitations apply in relation to the ownership of our shares, and these are more fully described under 'Limitations affecting security holders' at page 136 of this report.

***Change in control restrictions***

Our Deed prohibits any person from owning more than the 'prescribed percentage', which is 10% or such other percentage not exceeding 15% as may be determined by our Board, of our outstanding shares. This restriction will not apply under our new constitution, when it becomes operational.

Restrictions also apply under the Act, the Financial Sector (Shareholdings) Act 1998 and the Foreign Acquisitions and Takeovers Act 1975.

For more detailed descriptions of these restrictions, 'Limitations affecting security holders', 'Foreign Acquisitions and Takeovers Act 1975', 'Financial Sector (Shareholdings) Act 1998', and 'Corporations Act 2001' at pages 136 to 137 of this report. See also 'Our Deed of Settlement' at page 137 of this report.

***Substantial shareholder disclosure***

There is no provision in our Deed (nor will there be any in our new constitution when it becomes operational) that requires a shareholder to disclose the extent of their ownership of our shares.

Under the Act, however, any person who begins or ceases to have a substantial holding in our shares must, within two business days, give us notice of that acquisition or disposal. A further notice must be given to us by a substantial shareholder within a similar period if at any time there is an increase or decrease of 1% in their holding. Copies of these notices must also be given to the Australian Stock Exchange Limited. A person will have a substantial holding of our shares if the voting rights attaching to our shares in which that person and their associates have relevant interests is 5% or more of the total number of votes attached to all our voting shares. For more details, see 'Corporations Act 2001' at page 137 of this report.

We have a statutory right under the Act to trace the beneficial ownership of shares held by any shareholder, by giving a direction to that shareholder requiring disclosure to us of, among other things, the name and address of each other person who has a relevant interest in those shares, the nature and extent of that interest and the circumstances that gave rise to that other person's interest. Such disclosure must, except in certain limited circumstances, be provided within two business days.

**Documents on display**

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file annual reports and other information to the Securities and Exchange Commission (SEC). These materials, including this Form 20-F and the exhibits thereto, may be inspected and copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the SEC's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661, and in New York, New York, at an address to be determined. Copies of the materials may be obtained from the Public Reference Room of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. The SEC also maintains a web site at http://www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC. Form 20-F reports and some of the other information submitted by us to the SEC may be accessed through this web site.

## Signatures

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this Annual Financial Report to be signed on its behalf by the undersigned, thereunto duly authorised.

**WESTPAC BANKING CORPORATION**

By:

Manuela Adl

Manuela Adl
Authorised Representative
Dated 2 November 2001