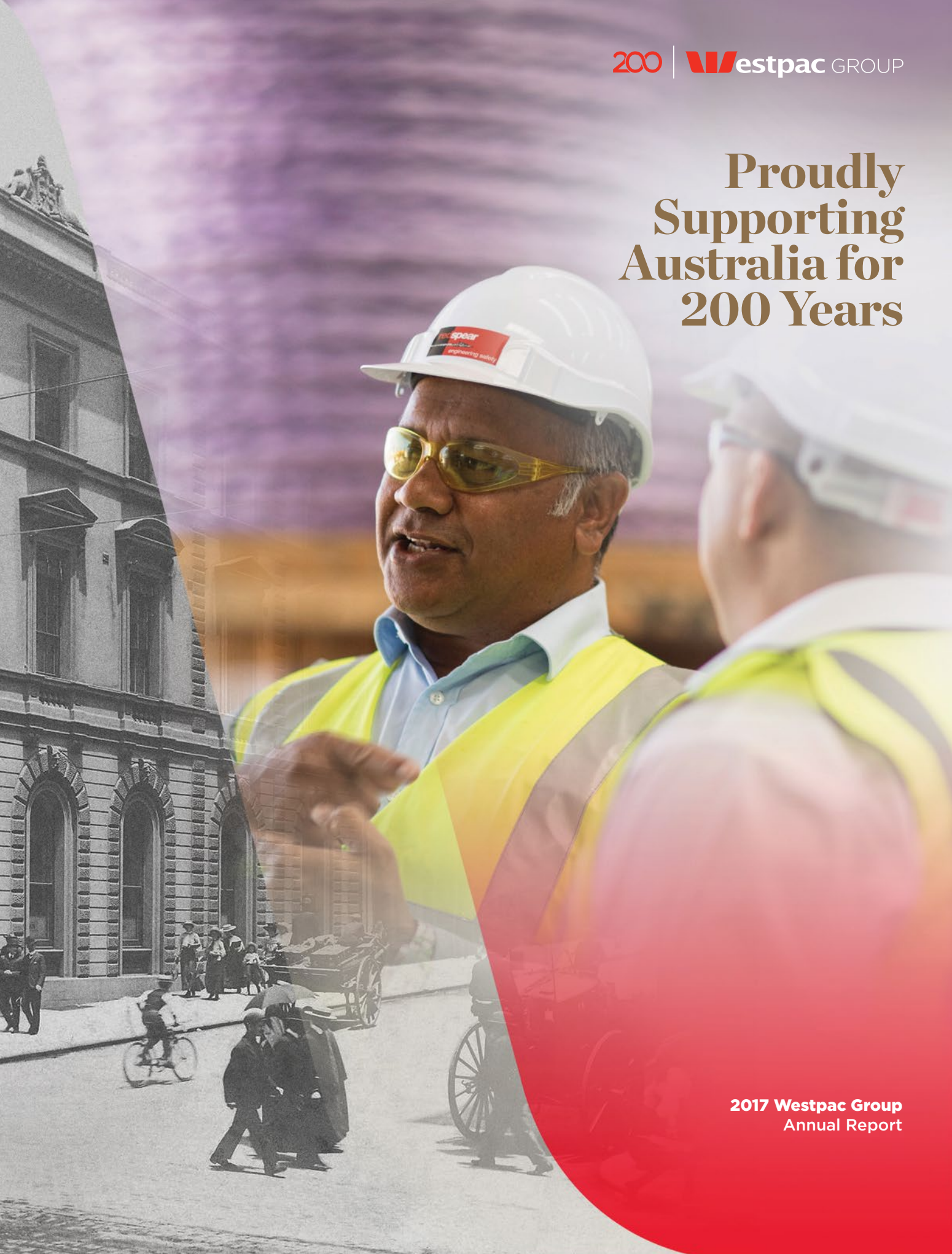


Proudly Supporting Australia for 200 Years



On the 8th April 2017 Westpac reached a significant milestone, celebrating its 200th anniversary.

For 200 years we have helped millions of customers across Australia and New Zealand manage their finances and realise their dreams. Much has changed since our company first began but our commitment to helping our customers, communities and people to prosper and grow remains at the heart of everything we do.

ON THE COVER

Bank of New South Wales Sydney office, 1853, and Barry McGuire, Managing Director and co-founder of Redspear Safety and Westpac customer. Read Barry's story online via the website address below.

This page

Barry McGuire and Francois Witbooi from Redspear Safety with their local Westpac business banker Matt Turnbull.



2017 Annual Report



2017 Annual Review & Sustainability Report



2017 Sustainability Performance Report

The Westpac Group Annual Report, Annual Review & Sustainability Report and Sustainability Performance Report represent Westpac's extended reporting framework and can be found online at www.westpac.com.au/investorcentre.



Table of contents

<i>Annual Report</i>	
Performance highlights	2
<i>Section 1</i>	3
Chairman's report	4
Chief Executive Officer's report	7
Information on Westpac	13
Business strategy	13
Outlook	16
Significant developments	17
Directors' report	26
Remuneration Report	40
<i>Section 2</i>	69
Five year summary	70
Reading this report	71
Review of Group operations	73
Income statement review	75
Balance sheet review	80
Capital resources	84
Divisional performance	86
Consumer Bank	89
Business Bank	90
BT Financial Group (Australia)	91
Westpac Institutional Bank	93
Westpac New Zealand	94
Group Businesses	96
Risk and risk management	97
Risk factors	97
Risk management	105
Credit risk	106
Liquidity risk	106
Market risk	107
Operational risk and compliance risk	108
Other risks	109
Westpac's approach to sustainability	112
Sustainability performance	112
Five year non-financial summary	117
Other Westpac business information	119
<i>Section 3</i>	121
Financial statements	122
Notes to the financial statements	128
Statutory statements	241
<i>Section 4</i>	253
Shareholding information	254
Additional information	266
Information for shareholders	270
Glossary of abbreviations and defined terms	274
Contact us	inside back cover

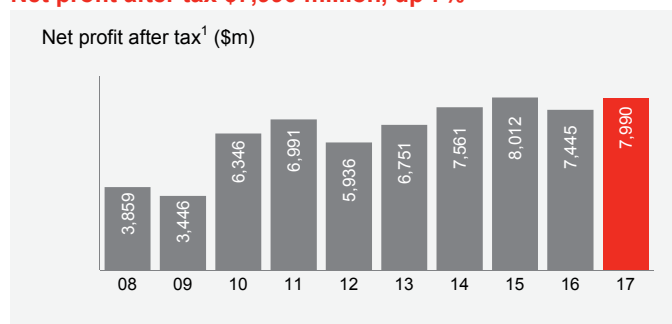
In this Annual Report a reference to 'Westpac', 'Group', 'Westpac Group', 'we', 'us' and 'our' is to Westpac Banking Corporation ABN 33 007 457 141 and its subsidiaries unless it clearly means just Westpac Banking Corporation.

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

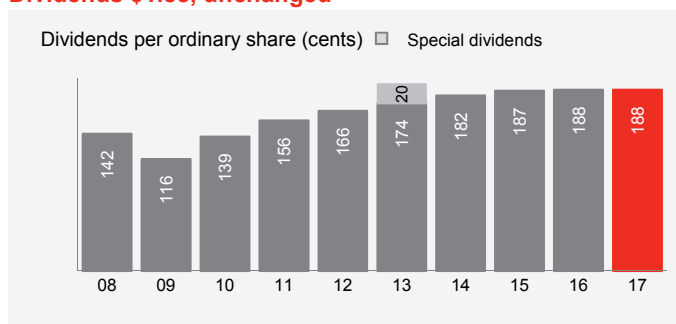
Information contained in or accessible through the websites mentioned in this Annual Report does not form part of this report unless we specifically state that it is incorporated by reference and forms part of this report. All references in this report to websites are inactive textual references and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

Performance highlights

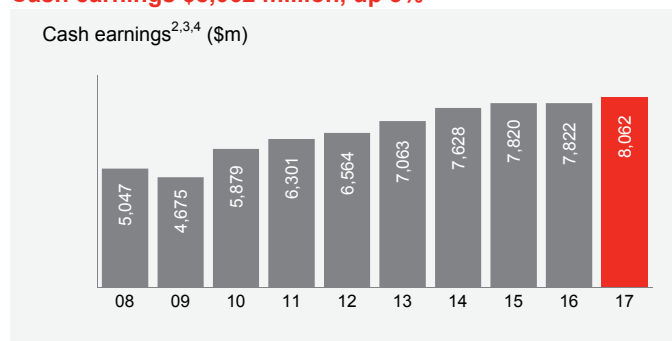
Net profit after tax \$7,990 million, up 7%



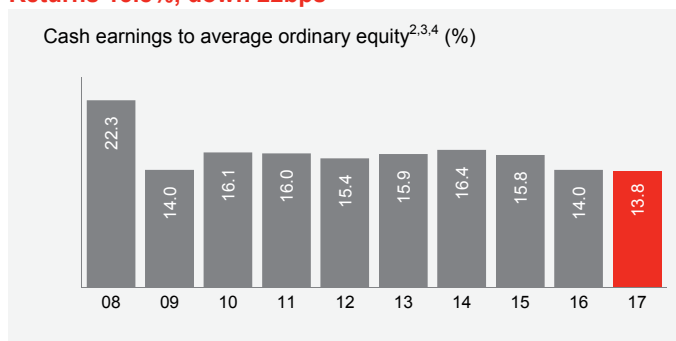
Dividends \$1.88, unchanged



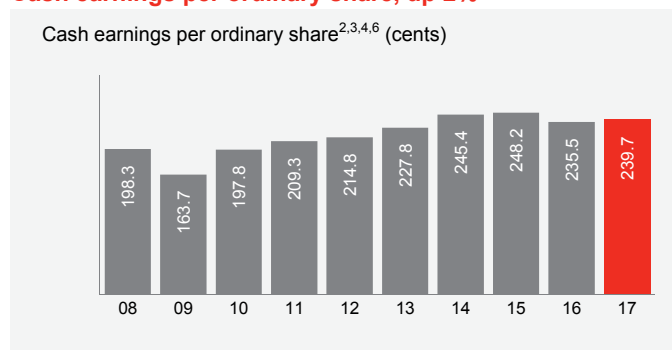
Cash earnings \$8,062 million, up 3%



Returns 13.8%, down 22bps



Cash earnings per ordinary share, up 2%



	2017	2016	% change 2017 / 2016
Reported earnings			
Net profit after tax ¹ (\$m)	7,990	7,445	7%
Earnings per share (cents)	238.0	224.6	6%
Dividends per share (cents)	188	188	–
Return on equity ⁵ (%)	13.6	13.3	33bps
Expense to income ratio (%)	43.3	43.9	(65bps)
Common Equity Tier 1 capital ratio (%)	10.6	9.5	108bps
Cash earnings basis²			
Cash earnings (\$m)	8,062	7,822	3%
Cash earnings per share (cents)	239.7	235.5	2%
Cash earnings return on equity ⁵ (%)	13.8	14.0	(22bps)
Economic profit ⁷ (\$m)	3,774	3,774	–

¹ Net profit attributable to ordinary equity holders.

² The adjustments to our reported results to derive cash earnings are described in Note 2 of our 2017 financial statements.

³ Figures for 2009 (and for cash earnings in 2008 only) are presented on a 'pro forma' basis; that is, as if the merger between Westpac and St. George Bank Limited was completed on 1 October 2007. The basis of presentation of the pro forma results is explained in more detail in Section 2.1 of Westpac's Full Year 2009 Results (incorporating the requirements of Appendix 4E) lodged with the ASX on 4 November 2009 and that section of the ASX Announcement is incorporated by reference into this Annual Report.

⁴ Cash earnings for 2009 has been restated to exclude the impact of fair value adjustments related to the St. George merger. For further information refer to Note 32 to the financial statements in Westpac's 2010 Annual Report.

⁵ Return on average ordinary equity.

⁶ Periods prior to 2015 have not been restated for the bonus element of the 2015 share entitlement offer.

⁷ Economic profit represents the excess of adjusted cash earnings over a minimum required rate of return on equity invested. For this purpose, adjusted cash earnings is defined as cash earnings plus the estimated value of franking credits paid to shareholders. The calculation of economic profit is described in more detail in Section 5 of Westpac's Full Year 2017 Results (incorporating the requirements of Appendix 4E) lodged with the ASX on 6 November 2017 (the 'ASX Announcement').

01

Chairman's report
Chief Executive Officer's report
Information on Westpac
Directors' report
(including Remuneration Report)

Chairman's report



Lindsay Maxsted
Chairman

It has been an extraordinary year for your company, with some significant highs and some challenging lows. Westpac's 200 year anniversary was the highlight, marking an important milestone for your company, and for Australia. Few companies globally have reached this significant milestone and to do so with perhaps our strongest ever balance sheet, sound returns, and as the world's most sustainable bank, is something shareholders can be very proud of. The low for the year has been the further deterioration in the industry's reputation and the imposition of a new federal bank levy (Bank Levy) that has impacted both the value and the returns from your investment in Westpac. I will speak further on this below.

2017 performance

Our financial performance this year was sound with statutory net profit up 7%, lifted by good growth across our banking businesses and a gain on the further sell-down of our investment in BT Investment Management of \$279 million. Cash earnings (our preferred measure of performance) for the year ended 30 September 2017 was up 3% compared to 2016.

Growth across lending, deposits and funds under administration was sound with margins lower, mostly in the early part of the year. As a result, net interest income was 2% higher although growth was reduced by the Bank Levy, which became effective from 1 July 2017. The Bank Levy had a \$95 million impact on revenue and reduced cash earnings by \$66 million, or around 1% for Full Year 2017.

Non-interest income was a little lower over Full Year 2017 (less than 1% down) with a strong performance from our financial markets business early in the year, partially offset by lower wealth and insurance income and a provision for customer payments.

The 2% growth in net interest income combined with the small decline in non-interest income led to a 2% rise in net operating income.

Expenses also increased 2% over the year. The rise was mostly associated with investment in the business and rising regulatory and compliance costs. Ordinary expense growth (mostly inflationary increases) was largely offset by \$262 million in productivity improvements.

Impairment charges were significantly lower this year, down \$271 million or 24%. The lower charge reflects the high quality of our loan portfolio and the successful work-out of some large stressed facilities.

In our assessment of Westpac's performance for the year, the Board was pleased with both overall financial outcomes and progress on the Group's strategy. Strategically there have been further developments on the digital transformation of the organisation, stronger customer satisfaction results, another significant reduction in complaints (down 18% in Australia and 21% in New Zealand) and a lift in employee engagement — all good indicators of the strength of the Group's franchise and value.

The Group's improved financial performance and excellent strategic progress contributed to a rise in short term incentives payable to key management personnel this year. The Board considered that, overall, performance across a range of measures exceeded documented expectations. The Board also considered how the executive team responded to the sector's reputation issues.

Longer term incentives did not vest this year as the stretching hurdles set by the Board when the incentives were first issued in 2014 were not achieved. These long term incentives would typically comprise around one third of an executive's remuneration.

Capital

From a capital perspective, 2017 has been an important year for the Group. After a 10-year process we have achieved a level of capital that our regulator, the Australian Prudential Regulation Authority (APRA), considers to be 'unquestionably strong'. Our common equity tier 1 capital now stands at 10.6%, more than a full percentage point higher than a year earlier. If we convert this on a like-for-like basis with international peers, it places us comfortably in the top quartile of banks globally.

There is a similar story on liquidity. Over the past 10 years our liquid assets have increased more than fourfold to \$138 billion at 30 September 2017.

APRA has consistently sought to be ahead of global regulatory trends and this saw a Liquidity Coverage Ratio introduced in January 2015, with a new Net Stable Funding Ratio coming into effect from 1 January 2018. Today, Westpac has ratios of 124% and 109% respectively, ahead of the 100% benchmarks for both.

We are now materially stronger on both capital and liquidity in absolute terms and relative to global peers. Of course in banking you can never be complacent on strength, but it should be of comfort to shareholders that these ratios are some of the best in the world.

Building strength however comes at a cost — increasing shareholders' equity, lifting shares on issue and holding additional liquid assets all impact returns. More specifically, with the increase in shares on issue, our cash earnings per share of 239.7 cents was up 2% over the year while the Group's return on equity (ROE) was 13.8%¹, marginally down from 14.0% in 2016. A further consequence of building strength is that the Group has held dividends unchanged over recent halves.

Dividends

This year the Board has determined a final dividend of 94 cents per share, which is unchanged over the prior half and over the final dividend for 2016. This brings the full year dividend to 188 cents per share, unchanged from 2016.

In setting the dividend the Group seeks to maintain a payout ratio that is sustainable over the long term. That is, we aim to retain sufficient capital for growth and to maintain an unquestionably strong capital position. At the same time, we seek to maximise the distribution of franking credits. The impact of the Bank Levy (which cost an equivalent of 2 cents per share) was also considered.

The final ordinary dividend represents a payout ratio of 79%². The 94 cents represents a dividend yield of 5.9% based on the closing share price at 29 September 2017 of \$31.92, or a yield of over 8% after adjusting for franking.

The final ordinary dividend will be paid on 22 December 2017 with the record date of 14 November 2017.

Board changes

There were two changes to the Board over the year. As discussed in last year's report, after an outstanding 10-year tenure, Elizabeth Bryan retired at the conclusion of our 2016 Annual General Meeting (AGM).

In September 2017, we were pleased to announce the appointment of Nerida Caesar to the Board. Nerida was most recently the CEO of Equifax, formerly Veda, in Australia and brings with her a wealth of experience in technology and innovation.

After the end of the financial year we announced that Robert Elstone will be retiring following the 2017 AGM. Robert has been an exceptional director in his six years on the Board; he has a sharp mind, an attention to detail and an ability to distil issues and focus on what is important. In a period of heightened global volatility, having a financial markets specialist such as Robert has also been an asset to your Board.

Succession planning for new directors is a regular item on the Board's agenda and discussions with new potential candidates are ongoing. As a result, we anticipate the appointment of one or two new non-executive directors to the Board in 2018. Potential appointees are expected to add strength and diversity to your Board.

Banking on trust

Last year I spoke about the important role Australia's banks play in the economy, and society, and the overwhelming benefits they have brought. At an economic level, banks support Australia's investment requirements and facilitate the efficient flow of much-needed foreign capital. At a micro level, banks not only back individual customers and businesses to help them meet their financial goals, they facilitate the efficient flow of funds around the economy.

It has been globally acknowledged that Australia and New Zealand have been well served by their major banks, both during and since the Global Financial Crisis. You need only look at other global markets such as the UK, parts of Europe and the US to appreciate the devastating impact poorly performing banks can have on customers and economies over extended periods. Unfortunately the strength of our banking sector is not always recognised domestically.

In my report last year I sought to address some of the banking 'myths' that have continued to feature in commentary on the sector. However, unfortunately, the quality of debate regarding banks has not improved during the year.

It is clear that some of the criticism of the Australian Banks is warranted. There have been times over recent years when issues surrounding the quality of financial advice; the treatment of insurance claims, and the quality of lending and/or enforcement decisions have not been consistent with putting the customer first and/or acting in their best interests. As a Bank, and an industry, we have also underestimated the intensity of community, regulatory and government reaction to the matters where expectations have not been met.

At the same time the over reaction by many in leadership positions has been unhelpful and unnecessarily raised the level of concern in the community relating to trust in the sector. In part this is why many people respond to the question that they trust their banker but don't trust Banks.

Having said that, let me also be perfectly clear that the Board and management at Westpac understand we must act. We have to take more responsibility and lift our standards to an even higher level – and we are. Brian will talk to developments further but I can say that the Board is fully behind these initiatives which essentially involve getting it right for the customer first time and, in those cases where we fail to do so, calling out the issue and remediating promptly and appropriately.

The Bank Levy

I wrote to shareholders when the Bank Levy was first proposed, to make our position clear and seek your feedback and support. I want to thank the many shareholders who responded and those who also shared their views more broadly, including with their local Members of Parliament.

¹ On a cash earnings basis.

² On a cash earnings basis.

The Bank Levy is now in place, but we must continue to agitate for its removal. It is a highly inefficient and distortive tax that places an impost on a small number of Australia's largest taxpayers. It discriminates against Australian banks relative to global peers and it has impacted the value of your investment and the investments of millions of superannuation holders across Australia.

Australia's oldest company

It has been a privilege to be Chairman of Westpac in its 200th year. 2017 has been a special time for the company and its people and it has given us the opportunity to reflect on what has been behind our success and our legacy for the future.

We have created the Westpac Bicentennial Foundation, and the Businesses of Tomorrow program, and we have increased community sponsorship. Through each of these initiatives we have created a stronger connection with the markets in which we operate. And in so doing we have created a stronger foundation for your company's future success.

It was a real highlight for me to share memories with shareholders, current and past employees and some of Westpac's great leaders over the last 30 years.

It was a particular pleasure to connect with, and speak to, our last five CEOs, and the last four Chairmen. We had some great discussions and it is very clear what a great love all these leaders had, and still have, for your company.

While each leader brought unique skills and experience to Westpac, what stood out for me was how aligned they were in their view on strategy and their focus on customer service. And so as the baton passed between these CEOs it was invariably a seamless transition. I strongly believe that this consistency of long-term strategy has played a vital role in your company's success.

To mark our 200 years we also published a book filled with stories about the bank, its people and customers. It is a great read and I encourage you to see the online version on our website.

Outlook

We remain very positive about the Australian and New Zealand economies. Both markets have strong fundamentals with solid GDP growth, low unemployment and controlled inflation.

These trends are expected to broadly continue in the year ahead with Westpac Economics expecting Australia's GDP growth to be 3% in 2018. We anticipate that growth will be supported by an ongoing contribution from exports of resources and services along with higher public spending, including for infrastructure and private non-residential construction. We are however expecting growth to slow through the year as the construction cycle peaks and weak income growth continues to weigh on consumers.

Looking ahead, these settings combined with a further tightening of credit standards and regulatory limits on elements of mortgage growth, will likely lead to slower growth in lending and deposits in 2018 relative to 2017. Our financial settings are in good shape but we will be subject to the full period impact of the Bank Levy in 2018.

Asset quality is expected to remain sound in the year ahead, and while there are no signs of material concern we will remain vigilant, consistent with our low risk approach.

Summary

It has been a landmark year for Westpac. The success we have achieved, the strength in our balance sheet and the positive momentum across the Group means we are well positioned for the future.

As we begin our third century, our biggest challenge lies in rebuilding our reputation across the communities in which we operate. If we are to continue prospering in the period ahead, we must actively demonstrate the value we bring to society and the value we bring to customers every day. We will continue to improve on service delivery; genuinely listening to customers and putting them at the centre of everything we do. That's why our service strategy is so important.

One of the key things our 200th anniversary has shown me is the passion and commitment of the people of Westpac to supporting our customers and creating a better future for all Australians and New Zealanders. It is this passion and commitment that has seen us through the highs and lows of the past 200 years and continues to drive us forward and helps us continue to deliver sustainable returns for you, our shareholders.



LINDSAY MAXSTED
Chairman



Brian Hartzler
Chief Executive Officer

Dear fellow shareholders,

2017 has been a landmark year for the Westpac Group. As CEO, it has been an immense honour to lead this company through our 200th year and into our third century of business.

At events across the country, and in many of our overseas offices, I have had the pleasure of speaking with thousands of our customers, community partners, and staff members. It has given me—and I know many of our people—a tremendous sense of pride in this company and the role it has played in the lives of so many Australians and New Zealanders throughout its history.

There were many special moments during these events. As a history 'tragic', a particular highlight for me was meeting Bill McRae, a former employee who served as a Lancaster Bomber Command pilot in the Royal Air Force during the Second World War. Bill joined the Bank of New South Wales in 1929, working in Sydney before our legendary General Manager, Alfred Davidson, sent him to London to help build our business in the UK (Alfred Davidson helped restore Australia's prosperity during the Great Depression by initiating the devaluation of the Australian pound). Bill shared anecdotes of his time in the Royal Air Force and at the bank on both sides of the war—including how he was chosen to set up the bank's first training academy, thanks to his experience training pilots during the War. I will cherish his stories.

I also enjoyed meeting customers such as the McDonald family from Cloncurry, who have banked with Westpac (or the Bank of New South Wales) since the 1860s. One customer even brought along his ancestor's Bank of New South Wales passbook from 1827—still proudly passed down as a family heirloom.

Another highlight was sharing a stage in April with five of Westpac's former leaders: Gail Kelly, David Morgan, Bob Joss, Frank Conroy, and Bob White (who sadly passed away in June). As the Chairman writes in his letter, it was extraordinary to have some of the great minds of Westpac all in one place. To put it in perspective, since 1992 these executives have presided over an increase in the value of your bank from just less than \$5 billion to over \$108 billion today — the total shareholder return over that time averaging 13% per annum.

There aren't many companies of our size who could get such an unbroken chain of former leaders together; and each of them provided interesting insights from their time as CEO and observations about today's business. What really struck me though was the consistency of their message over time—the focus on customers, the importance of a strong balance sheet and inclusive culture, and their pride in Westpac's broader role in the community. It was also pleasing to hear each of them endorse our 'Service Revolution' as the natural extension of these principles and the right strategy for today.

Bringing our vision to life

As I've described in previous letters, our 'Service Revolution' strategy is designed to bring to life our vision **'To be one of the world's great service companies, helping our customers, communities, and people to prosper and grow'**. Our strategy has remained consistent over several years now, and I'm pleased to report that we've continued to build momentum and deliver projects against each of the five priorities that comprise the strategy: Service leadership, performance disciplines, digital transformation, targeted growth, and workforce revolution.

At its heart, this strategy recognises that we're a service business, not a product business—which means that our core purpose is to help customers achieve what's important to them. For shareholders, this means that we create value by building long-term relationships with our customers—supporting them through thick and thin.

We recognise that our industry, like the economy as a whole, is currently undergoing a period of substantial change. That's why our primary focus as a management team is on transforming the company—through the 'Service Revolution' program—to make sure we can continue to compete and grow value successfully over the medium-to-long term.

In summary then, our long-term strategy to create value is to:

- maintain a strong balance sheet and conservative risk appetite, focused on serving our home markets of Australia and New Zealand;
- increase the size of our customer base, through the development of our multiple brands and well-targeted segment marketing strategies;

- extend the duration and deepen those relationships by delivering world-class service and using our digital assets to encourage people to consolidate their business with us;
- reduce costs and fuel innovation by consolidating and modernising our technology platforms and forming partnerships with selected fintech companies;
- continue to develop a highly-engaged, inclusive culture and sustainable work practices that help us to attract and retain the best talent in our market; *while*
- continuing to deliver a disciplined performance, year-in and year-out, in order to maintain the shareholder support for the longer-term investments that we are making.

With this in mind, let me turn now to our 2017 performance.

2017 performance—an overview

At the start of the financial year, with the support of your Board, the executive team and I agreed three over-arching goals for our 200th year:

- first, to deliver a strong financial result;
- second, to deliver substantial improvements in service quality for our customers; and
- third, to make material progress on our culture and reputation.

Looking back over the year, I'm pleased with the progress on each of these goals—although we've clearly got more to do.

Financial performance

Our financial performance exceeded the internal earnings target that we set at the start of the year. Cash earnings rose 3%, with a 2% increase in operating income, a 2% rise in expenses, and a substantial reduction in impairment charges for bad debts. At the same time, we significantly strengthened our balance sheet, lifting our common equity tier 1 (CET1) capital ratio above APRA's benchmark for banks to be seen as 'unquestionably strong'. As these results include the start of the Federal Government's new bank levy, increased 'macro-prudential' lending requirements, and a provision to remediate a number of historical customer issues (I'll address these shortly), we consider this to be a good result. (Note too that our cash earnings exclude the gain on the sale of shares in BT Investment Management (BTIM) during the period, which benefits shareholders' equity. This gain is included in our reported statutory profit.)

All of our banking divisions performed well, with cash earnings growth of between 4% and 18%. However, earnings from BT Financial Group (our wealth management and insurance business) were 11% down on last year. This was primarily driven by a number of infrequent items, as well as significant incremental regulatory and compliance costs. However, underlying growth in funds under administration, insurance premiums, and lending within BTFG continued to be strong.

We sold down our shareholding in BTIM this year from 29% to 10%, booking a gain of \$279 million. It's worth reflecting that this has been an outstanding investment for our shareholders, many of whom also participated in BTIM's initial float back in 2007. The decision to sell down reflects our belief that the future of this business is about 'open architecture' platforms that provide customers and advisors with a convenient place to manage all of their money, wherever they choose to invest it. While some of our competitors are increasingly looking to exit their wealth and insurance businesses, we continue to believe that having a strong business in this category will give us an increasing competitive advantage as Australia's population ages in the years ahead.

Within our banking businesses, there were a number of significant dynamics at play this year that are worth highlighting.

The first was in Australian mortgages, where APRA extended its requirements for banks in ways designed to improve the resilience of the sector to a potential downturn or substantial increase in interest rates. Specifically, we were required to maintain investor mortgage growth to less than 10% per year, and to reduce the proportion of new mortgage lending with an interest only option to below 30%. Through a combination of pricing and other actions, both of these targets were met: Investor mortgage lending grew at around 6%, and the proportion of interest only lending for the September 2017 quarter was 26%. However, the consequence of these and other changes on loan serviceability assessments was that our overall mortgage lending grew a little slower than the overall financial system this year—a result we were comfortable with.

Looking at our balance sheet more broadly, we continued to prioritise strong growth in deposits while limiting growth in lending to where returns remain attractive. Total deposits were up 4% for the year, with high quality household deposits growing faster than the financial system. Overall loans grew 3%, with strong growth in small and medium business as well as the faster-growing service sectors of health, education, and tourism. However, this was offset by slower growth in areas such as commercial property, trade finance and auto finance, where strong competition from offshore firms has made the returns much less attractive.

We substantially increased the strength of our capital position this year as well. Our CET1 capital ratio increased more than a full percentage point to 10.6%, due to business unit profit growth, our dividend reinvestment plan, the further sell-down in BTIM, and better capital efficiency. Although we are still waiting for APRA's final capital rules, it is satisfying to know that the strengthening of our balance sheet required post the GFC is now nearing its end.

Our funding and liquidity position also improved over the year. We've grown deposits, reduced our reliance on offshore short-term wholesale funding, and further lengthened the tenor of funding. We also met the new Net Stable Funding Ratio requirements (essentially a measure of our longer-term liquidity position) almost a year before the required 1 January 2018 start date.

The combination of all of these factors meant that net interest margin was down 4 basis points over the year, including one quarter's impact of the Federal Government's Bank Levy (which reduced the margin by 1 basis point). Most of the margin decline happened early in the year, with the impact of repricing and a greater focus on return leading to higher margins in the second half of the financial year.

Asset quality remained strong during the year, with the ratio of stressed assets to total committed exposures (TCE) declining 15 basis points to 1.05%, and a significant reduction in credit impairment charges over the year. This reflects both a reduction in new impaired assets along with the work-out of a small number of larger impairments during the year. Mortgage delinquencies have also been sound with little change over the year—although we are monitoring Western Australia and regional Queensland closely, as these regions continue to be impacted by the slowdown in mining investment. Fortunately, recent indicators suggest that the worst may now have passed, especially in WA.

Non-interest income was a little lower over the year (down \$36 million). The Group recorded higher markets income (particularly in the first half of the year), improved business line fees, and good funds management and insurance flows—however these gains were offset by regulatory reductions to credit card interchange fees as well as provisions for customer payments that totalled \$169 million (most of which was included in non-interest income).

Operating expenses grew 2% over the year, which was at the lower end of the 2-3% medium term range that we expect—a good result. In a challenging revenue environment, our goal continues to be to offset business-as-usual expense growth with productivity savings. This year we generated \$262 million in productivity savings—equal to around 3% of our cost base—and removed over 900 roles. Some of the productivity initiatives we completed this year included:

- launching new mobile banking features to help customers do their banking on the go;
- installing new call centre technology that speeds up customer ID verification and provides better functionality to our call centre team members to help serve customers better;
- streamlining organisation structures and 'spans of control'; and
- consolidating head office locations and transforming them into more flexible workspaces.

Thanks to initiatives like these, the overall 2% rise in expenses was largely driven by investments we are making in our strategic agenda, along with some increases in cost for regulatory and compliance activities. The cost to income ratio for FY17 was 42.2%, which puts us among the most efficient banks in the world, and we remain committed to taking this ratio below 40% over the next few years.

At a cash earnings level, 3% growth in cash earnings translated to a 2% increase in earnings per share—mostly due to the impact of additional shares issued under the dividend reinvestment plan. What this highlights is that higher capital levels come at a cost: With increased capital during the year contributing to a 22 basis point decline in return on equity (ROE) to 13.8% (although that level remains within the 13% to 14% band the Group is seeking to achieve).

Customer performance

The best assessment of whether we are achieving our goal of becoming one of the world's great service companies comes from our customers, and given the size and scope of our businesses we look at a number of different customer feedback measures to help us evaluate our performance.

Although any sample-based survey of customer feedback has its drawbacks, one of the best overall measures is the Net Promoter Score (NPS), which looks at the relationship between customers who are advocates for the bank versus customers who are detractors of the bank. Pleasingly, the NPS of our consumer banking business has gradually improved over the year, moving from the bottom of our major bank peer group 12 months ago to being ranked first in September 2017.

Another measure we track is the volume of complaints we receive, and the relationship between those complaints and the compliments received over the same period. This year customer complaints across Australian operations fell 18% compared to FY16, continuing a trend that we've seen for the last several years. Meanwhile compliments received by our branch network outnumbered complaints by 3.5 to 1, improving from 3 to 1 last year.

Few things frustrate customers more than not having services available when they need them. This year, improvements to our infrastructure have led to a material reduction in system downtime: In the first half of FY17 we recorded five 'severity one' incidents (system outages with a significant customer impact) in Australia—and we had no such outages in the second half of the year. This compares with 19 such incidents in the previous year.

Improvements in our technology and processes are reinforced by the Our Service Promise program, a Group-wide initiative that defines excellent service for our people and reminds them to incorporate this mindset into action every day. The program is fundamental to our efforts to build a genuine service culture, and it's working. Across the Westpac Group I regularly see examples of our people taking the initiative to solve a customer's problem, to find creative ideas that help our customers to thrive financially, and to build genuine long-term relationships.

It's also important that I and my leadership team support our people to deliver that high standard of service. So this year we've worked to reduce roadblocks for our people and free up more time for them to spend with customers: We've digitised time-absorbing tasks, improved the usability of staff tools, and reduced the number products on offer—making it easier for our people to recommend the right product and navigate our processes.

In our Consumer Bank, we've also removed product-based sales incentives for our front line tellers and personal bankers, replacing them with service-based metrics. This means that our people are now more empowered to deliver better service to customers and indeed are explicitly rewarded for doing so.

Culture and reputation

As a service business in a highly competitive market, the quality of our people and culture is a major determinant of our success. That's why we're so focused on making the Westpac Group attractive to the best bankers in the market, and creating an environment where those people can do their best work.

The 200th anniversary gave us the opportunity to remind our people of the role our company has played—and continues to play—in helping our customers and Australia/New Zealand as a whole to thrive. As a result, we've seen a significant increase in staff pride over the year. This—along with investments we've made in our people's skills, leadership training, and a variety of community and sustainability initiatives during the year—has led to a significant increase in staff morale, as measured by our employee survey.

On our preferred measure of 'staff engagement', we saw a 10 percentage-point increase over the year to 79%. This is above the global high-performance benchmark for large companies, and a remarkable increase in a year for a company with over 39,000 employees.

As well as investing in our people's skills, we continue to work hard to make sure the culture is one where everyone feels welcome and supported. Our Sustainability Performance Report sets out a number of the initiatives we undertook this year, but one milestone deserves special mention: In 2017 Westpac reached its target of having 50% of its leadership positions held by women. Of course, we have more to do to ensure diversity is better reflected across the organisation, but this is a significant achievement.

Improving our reputation

It's no secret that bank reputations have been under scrutiny over the past few years, and Westpac has not been immune. Given the amount of media attention this has received in recent months, I'd like to make a few observations about the causes of this situation and what we're doing about it.

There are a number of causes, starting with missteps by the banks themselves—including Westpac. These include high-profile incidents around poor financial advice, denied insurance claims, poor service, loose or inadequate risk controls, and allegations of inappropriate staff behaviour. Although many of these incidents have been specific to individual institutions, in the current environment each one affects the reputation of the industry as a whole.

Compounding these issues has been a significant step-up in community expectations and regulatory intervention. This has meant that some policies or business practices that were acceptable in the past no longer pass muster.

At the same time, the volatile political situation in our State and Federal Parliaments means that issues which would previously have been dealt with by the appropriate regulator are now attracting attention from all sides of politics.

The banking sector is working hard to address these concerns and has nearly completed implementing a six-point action plan that addresses issues like sales incentives, complaint handling, support for whistle-blowers, and the removal of individuals from the industry who breach the law or codes of conduct. Westpac is fully committed to this effort and has completed its work on five of the six points (the final point, a re-write of the Code of Banking Practice, should be finished next month).

In Westpac's case, we have participated in a large number of formal reviews this year by our various regulators and political bodies, covering topics such as financial planning, insurance, superannuation, mortgage lending and pricing practices, credit cards, systems stability, and anti-money laundering. The Australian Securities and Investments Commission (ASIC) has also initiated various legal proceedings against us, alleging we manipulated the bank bill swap rate (BBSW), provided inappropriate financial advice through our 'scaled advice' phone channel, and breached our responsible lending obligations. Our principle is to accept responsibility when we have done the wrong thing, but in each of these cases we disagree with ASIC's position and are defending our actions.

Regardless of the merits, the reality is that the industry has a significant challenge ahead to rebuild its reputation. In particular, we need to address the perception that we put our own needs ahead of those of our customers.

Getting it right and—when we don't—putting it right

Across the bank we are proactively reviewing our products and services and the way we have engaged with our customers. I call this program 'Get it Right/Put it Right'. The idea is to make sure that we align all of our products and services with our customers' interests, while making them simpler, fairer, and more transparent. And, where we uncover an issue that we need to put right, we ensure that no customer has been disadvantaged from these past practices. This work has already led to a number of important changes and actions.

We've introduced our new Westpac Lite credit card, with an interest rate of 9.9% p.a.—the first card of its kind in the Australian market. We've also reduced everyday transaction fees on our 'legacy' personal transaction accounts, and removed ATM withdrawal fees when non-customers use one of our ATMs.

Our reviews of our superannuation disclosure resulted in payments to some of our customers with pre-existing conditions who did not have the benefit of our improved disclosure practices. Similarly, we identified that for some product packages sold in the past customers did not receive all the benefits to which they were entitled—and we're now going back and rectifying the error for each affected customer. We've also automated these benefits so this can't happen again.

Based on what we know now, we believe we have dealt with the most significant of these issues in our 2017 result. However, these reviews will continue for some time and it is possible that more issues will emerge that we need to address. In any event I am confident that this is the right approach to put our business on a more sustainable footing.

In November last year we appointed Adrian Ahern, a highly respected former senior lawyer, as our first 'Customer Advocate'. Mr. Ahern reports through to me separate from our businesses, and is thus an independent avenue for customers to seek a fair and balanced outcome for their complaints. Our new Customer Council and the new Stakeholder Advisory Panel are both designed to help us better understand customer and community views and identify areas where we could do better. We have also taken steps to encourage our people to speak up when they see something that isn't right, including a new anonymous phone line and additional protections for whistle-blowers. As a result we have seen a significant (up 10%) increase in employees confirming they feel it is 'safe to speak up'¹.

The current level of public and political scrutiny is likely to continue for some time. Hopefully you can see from the initiatives above that we are committed to taking actions that will address the substantive issues over time.

Creating a sustainable future

One of the highlights of 2017 was retaining our position as the most sustainable bank globally in the Dow Jones Sustainability Index (DJSI). This was the fourth year in a row and 10th time overall that Westpac has achieved the global banking sector's leadership position. The DJSI assesses companies on a range of criteria including corporate governance, codes of conduct, HR practices, community involvement, and environmental policies.

A commitment to sustainable business practices is a big part of the culture at Westpac: In fact many of our staff have told me that they were attracted to work at Westpac in large part because of these policies.

This year we released an updated Climate Change Action Plan, which attracted significant media and community attention. In our plan we outlined the steps we will take to meet our commitment to helping limit global warming to less than two degrees. This includes our approach to lending to energy-intensive and renewable sectors, reducing our own carbon footprint, and helping Australian households to become more climate-resilient, improve their energy efficiency and reduce their environmental impact.

The feedback we received on our new climate policy was overwhelmingly positive. However I know that there are some shareholders who do not agree with our policy, and who believe that our actions have overstepped the mark. Some of you told us that banks should stay out of the climate debate and just focus on their lending activities. We respectfully disagree, for two reasons. First, it's important that we assess all the risks associated with any lending proposal, and environmental risks—along with potentially-related government actions—are increasingly a risk in many

transactions. Second, we believe it is in the best long-term interest of the economy—and therefore our shareholders—to support a balanced but deliberate transition towards a two degree economy.

Preparing for a digital future

The final topic I would like to address is how we're preparing Westpac for the rapidly-arriving digital future. As many of you would recall, 2017 saw the 10-year anniversary of Apple's iPhone—and it's astonishing to reflect on how many aspects of our economy and our daily life have changed in 10 short years.

The impact of digital technology on banking around the world has been profound, and the changes aren't close to done yet. In early October, I visited our branch in Shanghai, where the vast majority of customers now use an app on their mobile phone as their main payment device. And two of the biggest payment applications—WeChatPay and AliPay—are operated by companies that aren't even banks. The threats—and opportunities—created by mobile banking are profound.

Meanwhile advances in software development, data storage, and broadband internet mean that so-called 'cloud computing' is an increasingly viable tool for large companies to improve efficiency and reduce technology costs.

At Westpac one of the main reasons we have survived 200 years is that we've always been willing to adapt—to changes in the economy, in society, and in technology. So we're staring straight into these changes and adapting both our customer service and our underlying technology to make sure we stay nimble and competitive—and support our customers to do the same.

This year we also rolled out numerous technology innovations to customers, including our new wealth platform (BT Panorama), a new corporate lending portal for customers of Westpac Institutional Bank, e-conveyancing for mortgages, cheque digitisation, Lantern Pay (a new payment platform that supports the Government's National Disability Insurance Scheme), and numerous feature and useability enhancements for mobile banking across all brands.

Our Panorama wealth platform has been a highlight. Panorama allows investor customers and their advisors to manage and protect an individual's wealth and insurance in a simple-to-use, mobile-accessible platform that integrates fully into the Group's online banking systems. The number of advisers using the platform has continued to grow, with around \$4 billion of funds added to the platform—nearly 100% growth over the year. Other major projects delivered this year included a new call centre platform, a new 'big data' platform, and the first phase of our new 'customer service hub'—which will ultimately help us to consolidate the St. George and Westpac back-end systems.

We also recognise that much of the innovation and advances in technology will emerge from small fintech companies, and so are working hard to build our links with potential leaders in this arena. To date our Reinventure venture capital fund has made early-stage investments in

¹ 2017 Employee Engagement Survey.

around 15 fintech startups, giving us an early insight into emerging innovations in data analysis, payments, and digital lending. We have also made direct investments in companies such as zipMoney and Uno Home Loans, which have the potential to serve as important partners in areas that are a related but a bit outside of our core businesses.

We must acknowledge that investments in early-stage companies such as these are inherently risky. However we have been very pleased so far with the progress these companies are making. We also find that our involvement gives us valuable exposure to trends in technology and some of the emerging business models with which we will need to compete.

Summary

As you can see, 2017 has been a huge year for the banking industry, and for the Group. Despite the challenges we faced, I'm proud of our team and what we have delivered for you and the future value of your investment in Westpac shares.

I'll finish by assuring you that we enter our third century in great shape, with a clear strategy, growing momentum, and renewed confidence that we are well on the way to building one of the world's great service companies.

All the best,



BRIAN HARTZER

Chief Executive Officer
Westpac Group

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

We have branches, affiliates and controlled entities² throughout Australia, New Zealand, Asia and in the Pacific region, and maintain branches and offices in some of the key financial centres around the world.³

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

At 30 September 2017, our market capitalisation was \$108 billion⁴ and we had total assets of \$852 billion.

Business strategy

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

Our strategy seeks to deliver on this vision by building deep and enduring customer relationships, being a leader in the community, being a place where the best people want to work and, in so doing, delivering superior returns for shareholders.

In delivering on our strategy, we are focused on our core markets, including Australia and New Zealand, where we provide a comprehensive range of financial products and services that assist us in meeting the financial services needs of customers. With our strong position in these markets, and over 13 million customers⁵, our focus is on organic growth, growing customer numbers in our chosen segments and building stronger and deeper customer relationships.

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

As we continue to build the business, the financial services environment remains challenging and has required us to maintain focus on strengthening our financial position while at the same time improving efficiency. This strengthening has involved:

- lifting the level and quality of our capital;
- improving our funding and liquidity position; and
- seeking to maintain a high level of asset quality and provisioning.

While we are currently one of the most efficient banks globally, as measured by a cost to income ratio, we continue to focus on ways to simplify our business to make it easier for customers to do business with us and to make work more enjoyable for our people. We believe these improvement efforts also contribute to reducing unit costs that create capacity for further investment for growth.

Throughout 2017 we continued our focus on delivering superior outcomes for our customers and shareholders through our Service Revolution transformation. The Service Revolution is seeking to: provide a truly personal service for customers while better anticipating their needs; put customers in control of their finances; respond to the increased pace of innovation, disruption and changing customer behaviours through digitisation and increasing our capacity for innovation; and innovate and simplify to reinvent the customer experience.

As part of our delivery of the Service Revolution, we have developed an integrated, multi-year plan that will be executed across the Group. In 2017, we delivered significant outcomes and met key milestones on a number of our transformation programs focused on the digitisation of the company through the design and development of a single bank technology infrastructure. We expect this will significantly transform customer experiences and drive operational efficiency. At the same time, our Consumer Bank and Business Bank transformation programs continued to deliver market-leading customer services, while lowering the cost to serve.

Over the year, substantial work has also been undertaken on conduct and culture, with work focused on continuing to strengthen our conduct management across the Group. In addition, work continues on ensuring that we are responding to our changing regulatory and industry landscape, with initiatives around a product remediation program, implementing Australian Bankers' Association (ABA) industry initiatives (further information is contained in 'Significant developments') and enhancing our remuneration frameworks.

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

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

² Refer to Note 35 to the financial statements for a list of our material controlled entities as at 30 September 2017.

³ Contact details for our head office, major businesses and offshore locations can be found on the inside back cover.

⁴ Based on the closing share price of our ordinary shares on the ASX as at 30 September 2017.

⁵ All customers with an active relationship (excludes channel only and potential relationships) as at 30 September 2017.

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

- integrity;
- service;
- one team;
- courage; and
- achievement.

Strategic priorities

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

a) Service leadership

- provide a seamless customer experience across all channels;
- deepen relationships through context-based customer experiences using our portfolio of brands; and
- acquire new customers by making it simpler, easier and better for customers to choose us.

b) Digital transformation

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

c) Performance discipline

- to be the region's best performing bank;
- manage the business in a balanced way across strength, growth, return and productivity;
- maintain strong levels of capital, to meet the needs of all our stakeholders and requirements of regulators;
- continue to enhance our funding and liquidity position, including ensuring a diversity of funding pools and meeting new liquidity requirements; and
- maintain a high quality portfolio of assets, coupled with appropriate provisioning.

d) Growth highways

- focus on stronger growth in:
 - small to medium enterprises;
 - wealth; and
- be targeted in specific business segments.

e) Workforce revolution

- focus on a customer-centric culture;
- strengthen the skills of our people to better serve customers and meet their complete financial needs;
- empower our people to drive innovation, deliver new and improved ways of working and be responsive to change; and

- continue to enhance the diversity of our workforce.

Organisational structure

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

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

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

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

Westpac Institutional Bank (WIB) delivers a broad range of financial products and services to commercial, corporate, institutional and government customers with connections to Australia and New Zealand. WIB operates through dedicated industry relationship and specialist product teams, with expert knowledge in transactional banking, financial and debt capital markets, specialised capital and alternative investment solutions. Customers are supported throughout Australia as well as via branches and subsidiaries located in New Zealand, the US, UK and Asia. WIB is also responsible

for Westpac Pacific, currently providing a range of banking services in Fiji and PNG. WIB works in an integrated way with all the Group's divisions in the provision of more complex financial needs, including across foreign exchange and fixed interest solutions.

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

- Westpac New Zealand Limited (WNZL), which is incorporated in New Zealand; and
- Westpac Banking Corporation (New Zealand Branch), which is incorporated in Australia.

Westpac New Zealand operates via an extensive network of branches and ATMs across both the North and South Islands. Business and institutional customers are also served through relationship and specialist product teams. Banking products are provided under the Westpac brand, while insurance and wealth products are provided under Westpac Life and BT brands, respectively. Westpac New Zealand also maintains its own infrastructure, including technology, operations and treasury.

Group Businesses include:

- Treasury, which is responsible for the management of the Group's balance sheet including wholesale funding, capital and management of liquidity. Treasury also manages the interest rate risk and foreign exchange risks inherent in the balance sheet, including managing the mismatch between Group assets and liabilities. Treasury's earnings are primarily sourced from managing the Group's balance sheet and interest rate risk (excluding Westpac New Zealand) within set risk limits;
- Group Technology, which comprises functions for the Australian businesses, is responsible for technology strategy and architecture, infrastructure and operations, applications development and business integration; and
- Core Support, which comprises functions performed centrally, including Australian banking operations, property services, strategy, finance, risk, compliance, legal and human resources.

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

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

Competition

The Group operates in a highly competitive environment across the regions in which we do business.

We serve the banking, wealth and risk management needs of customer segments from consumers to small businesses

through to large corporate and institutional clients. The Group competes with other financial services industry players for customers, by covering their transacting, saving, investing, protecting and borrowing needs with a wide set of products and services. Our competitors range from large global organisations with broad offerings to entities more focused on specific regions, products or services. Our competitors include financial services and advisory companies such as banks, investment banks, credit unions, building societies, mortgage originators, credit card issuers, brokerage firms, fund and asset management companies, insurance companies, online financial services providers and increasingly, technology companies are also developing competitive offerings.

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

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

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

Competition within Australia's financial system is evidenced by both the significant number of providers and the range of products and services available to customers. In Australia, we have seen competition for deposits partly driven by clearer global regulatory requirements for liquidity management in the post-Global Financial Crisis environment, such as the introduction of the Liquidity Coverage Ratio (LCR) in 2015 and the upcoming Net Stable Funding Ratio (NSFR). Banks and other financial institutions also seek to achieve a higher proportion of high quality deposit funding as credit rating agencies and debt investors look for strong balance sheet positions in their assessment of quality institutions.

Competition for lending is also expected to remain high. At the same time, businesses and consumers are cautious about the global outlook and continue to reduce gearing. The residential mortgage business continues to be highly competitive, with increased regulatory oversight to make the balance sheets of both borrowers and lenders more resilient. In particular, the most recent regulatory focus has been on limiting interest only lending. The high degree of competition

and regulatory interest is expected to continue. Serving business customers' transaction and trade financing needs has been at the centre of competitive activity as customer expectations increase.

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

In New Zealand, the Group is experiencing strong competition as banks vie for new customers. Competition for deposits remains intense and home lending is particularly competitive on price and switching incentives.

Outlook¹

The Australian economy has continued to grow solidly in 2017. GDP increased by 1.8% for the year to June 2017, being affected by the severe weather along Australia's eastern seaboard in the March quarter 2017. As this impact fades, GDP growth is forecast to increase to around 3% by the end of calendar 2017.

Recent growth has been supported by continued employment growth, more confidence around the global economy, higher commodity prices, a boost in public spending and a reduced drag from the slowdown in mining investment. We have also been encouraged by some improvement in the level of non-mining business investment, particularly in the construction sector.

Despite this encouraging news, the Reserve Bank has chosen to keep interest rates on hold. Concerns around the consumer are a key issue. Income growth has been modest; household leverage has increased and household budgets are being impacted by rising energy costs.

The current mix of growth has continued to vary across Australia. NSW and Victoria are performing particularly well, benefiting from low interest rates and stronger housing construction. Conditions have been much more challenging in areas impacted by the slowdown in mining (WA and regional Queensland). In both these regions we have seen rising unemployment, falling house prices, restrained spending and higher loan delinquencies. More recently, there are signs of an improvement, particularly in light of higher commodity prices, although realistically, a full recovery is likely to take some time.

In New Zealand, the economy has also been sound, with a solid pipeline of construction projects, strong population growth and low interest rates all supporting growth. Some construction delays and capacity constraints have, however, limited this growth. GDP growth has held at around 3%, with unemployment of around 5% and inflation near 2%.

The international outlook has improved over the year. The consensus view at the recent IMF meeting in Washington was that 2017 has been the best year for synchronised global growth since the Global Financial Crisis.

Within Australia, the 2018 outlook is for real GDP to grow at around 2.5%, with growth expected to slow through the year. That profile reflects the Group's expectation that ongoing

weak income growth will further weigh on the consumer through 2018. Prospects for a reasonable lift in business investment are still clouded while housing construction, after being a contributor to growth, is likely to peak with its impact slowing in the year ahead. On the other hand, there will be ongoing contributions from exports, both resources and services, public demand, including infrastructure and from private non-residential construction. Consistent with that growth profile, we expect the recent strength in employment growth to slow next year, with a small rise in the unemployment rate likely.

Inflation is also anticipated to remain at the lower end of the RBA's target band and this, along with a modest slowdown in growth, is expected to see the RBA's cash rate hold at 1.5% through 2018.

Financial system credit grew by just below 6% in the year to September 2017, with system housing credit rising 6.5%, and system business credit expanding by 4.5%. Other consumer credit declined over the year by just over 1% – this continues a path of no growth in other consumer credit for a number of years.

Given the economic backdrop, and the further tightening of credit standards as the full consequences of macro-prudential measures flow through, growth in financial system credit in the year to September 2018 is expected to slow to around 4.5%. In particular, housing credit growth is forecast to ease to closer to 5.0%, while business credit is expected to slow to nearer 4.0%.

Westpac Group remains focused on executing our strategy of creating a great service company, with our five strategic priorities assisting to guide this transformation. These include:

- maintaining our performance disciplines – continuing to be prudent in the management of capital, funding and liquidity; managing returns effectively seeking to achieve a cash ROE between 13% and 14% and remaining disciplined on asset growth;
- through service leadership, continue to build our customer base while also increasing the depth of customer relationships;
- digital transformation is utilising technology to materially improve efficiency and reduce the Group's cost to income ratio to below 40% in the medium term;
- wealth, small and medium business enterprises will continue to be our areas of targeted growth. These include further building on the Group's wealth management system, called Panorama, and using new technologies to make business banking more accessible to customers; and
- through our workforce revolution priority we are seeking to further build a stronger and more diverse workforce where the best people want to work.

The financial services industry continues to experience significant regulatory change and pressure. The Bank Levy will be fully applied through the year. Following announcements from our regulator, APRA, we have greater clarity on what sort of capital levels we require to be considered 'unquestionably strong'. APRA have indicated

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

they expect to finalise their updated capital rules by the end of calendar 2017, which will draw upon the capital frameworks being developed by the Basel Committee on Banking Supervision. Banks are expected to be required to meet these new standards by 1 January 2020. We believe the Group is already well placed to meet the Net Stable Funding Ratio (NSFR) which applies from 1 January 2018.

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

Looking ahead, with our strong positioning, disciplined growth and solid operating performance across all divisions, combined with good progress on our strategic priorities, Westpac believes it is well positioned to continue delivering sustainable outcomes for shareholders and customers.

Significant developments

Corporate significant developments

Bank Levy for Authorised Deposit-taking Institutions (ADIs)

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

The Bank Levy applies to liabilities of Westpac (including its offshore branches), but does not apply to liabilities of Westpac's subsidiaries. Furthermore, the Bank Levy is not charged on Additional Tier 1 capital, deposits protected by the Financial Claims Scheme and RBA exchange settlement balances. The legislation also provides for inclusion of derivative liabilities on a net basis and for the Bank Levy to be tax deductible.

The Bank Levy cost Westpac \$95 million in Full Year 2017, with an after tax impact of \$66 million and is estimated to cost Westpac approximately \$405 million in Full Year 2018, with an after tax impact of approximately \$284 million.

House of Representatives Standing Committee on Economics' Review of the Four Major Banks and other reviews

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

The first report of the Parliamentary Review was published on 24 November 2016 and contained ten recommendations.

The second report was published on 21 April 2017. In its second report, the Committee restated its support for the recommendations in the first report and supported a recommendation of the Australian Small Business and Family Enterprise Ombudsman to remove non-monetary default clauses in small business loan contracts.

In May 2017, the Australian Government announced that it supported nine of the ten recommendations made by the Committee in its first report and announced a range of measures designed to implement these recommendations, such as:

- the introduction of the Banking Executive Accountability Regime (discussed below);
- an independent review to recommend the best approach to implement an open banking regime with respect to banking product and consumer data; and
- the creation of a new dispute resolution framework, including the establishment of the Australian Financial Complaints Authority, which is designed to be a single external dispute resolution body for the handling of financial and superannuation disputes.

On 29 November 2016, the Senate referred an inquiry into the regulatory framework for the protection of consumers, including small businesses, in the banking, insurance and financial services sector to the Senate Economics References Committee. The terms of reference for the inquiry focus on a range of matters relating to the protection of consumers against wrongdoing in the sector. They also require the inquiry to examine the availability and adequacy of redress and support for consumers who have been victims of wrongdoing. The inquiry is scheduled to produce a report in the first half of 2018.

Further, there are a number of other reviews commissioned by the Australian Government, including an independent review to recommend the best approach to implement an open banking regime in Australia. The review will advise on the design of the model and regulatory framework to require banks to share product and customer data with customers and third parties, including the scope of data sets to be shared, data transfer mechanisms, risks such as customer trust and privacy safeguard requirements, and costs of implementation. The review will report to the Government by the end of 2017.

In addition to the reviews and inquiries mentioned above, the ACCC is undertaking a specific inquiry, until 30 June 2018, into the pricing of residential mortgages by those banks affected by the Bank Levy (including Westpac), which includes monitoring the extent to which the Bank Levy is passed on to customers.

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

Banking Executive Accountability Regime

In May 2017, the Australian Government announced that it would introduce the Banking Executive Accountability Regime (BEAR). The Government's stated intention is to introduce a strengthened responsibility and accountability framework for the most senior and influential directors and executives in ADI groups (referred to as 'accountable persons' under BEAR). The Treasury Laws Amendment (Banking Executive Accountability and Related Measures) Bill 2017 was introduced into Parliament on 19 October 2017. The Bill has been referred to the Senate Economics Legislation Committee, which is expected to report on the Bill by 24 November 2017.

If enacted in the form currently proposed, BEAR will involve a range of new measures, including:

- imposing a set of requirements to be met by ADIs and accountable persons, including accountability obligations;
- requirements for ADIs to register accountable persons with APRA prior to their commencement in an accountable person role, to maintain and provide APRA with a map of the roles and responsibilities of accountable persons across the ADI group, and to give APRA accountability statements for each accountable person detailing that individual's roles and responsibilities; and
- new and stronger APRA enforcement powers, including disqualification powers in relation to accountable persons who breach the obligations of BEAR and a new civil penalty regime that will enable APRA to seek civil penalties in the Federal Court of up to \$210 million (for large ADIs, such as Westpac) where an ADI breaches its obligations under BEAR and the breach relates to 'prudential matters'.

The proposed commencement date for implementation of BEAR is 1 July 2018 (with transitional arrangements for certain aspects of BEAR).

Productivity Commission Inquiry into Competition in the Australian Financial System

In May 2017, the Australian Government announced a Productivity Commission inquiry into competition in the financial system. This review was a recommendation of the Financial System Inquiry. The terms of reference are broad and require the Productivity Commission to review competition in Australia's financial system with a view to improving consumer outcomes, and the productivity and international competitiveness of the financial system and the economy more broadly, and supporting ongoing financial system innovation, while balancing these with financial stability objectives. The review commenced on 1 July 2017 and the Productivity Commission is due to hand its final report to the Government by 1 July 2018.

Australian Bankers' Association Banking Reform Program and industry initiatives

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

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

- a review of product sales commissions and product based payments;
- the establishment of an independent customer advocate in each bank;
- supporting the broadening of external dispute resolution schemes;
- evaluating the establishment of an industry-wide, mandatory, last resort compensation scheme;
- strengthening protections available to whistleblowers;

- the implementation of a new information sharing protocol to help stop individuals with a history of poor conduct moving around the industry;
- strengthening the commitment to customers in the Code of Banking Practice; and
- supporting ASIC as a strong regulator.

On 20 October 2017, the independent governance expert overseeing the ABA action plan released his sixth report titled, *Australian banking industry: Package of Initiatives*, which noted that banks are continuing to make good progress in delivering the initiatives, with a number of the initiatives now implemented or moving into implementation stage.

Australian Securities and Investments Commission (ASIC) Enforcement Review Taskforce

On 19 October 2016, the Australian Government released the terms of reference for the ASIC Enforcement Review Taskforce (Taskforce), which will assess the suitability of ASIC's existing regulatory tools (including the penalties available) and whether they need to be strengthened.

The Taskforce has completed consultations on a range of matters, including proposed reforms to the mandatory breach reporting framework. These reforms include clarifying when a reporting obligation is triggered, expanding the class of reports that must be made to include misconduct by individual advisers and employees and strengthening the penalties for failing to report, including through the introduction of an infringement notice regime.

The Taskforce has also consulted on:

- strengthening ASIC's licensing powers, which would enable ASIC to take action to refuse to grant, or to suspend or cancel, a licence where the applicant or licensee is not considered to be a fit and proper person; and
- proposals to expand ASIC's powers to ban senior managers working in financial services businesses.

It is currently consulting on proposals to strengthen penalties for corporate and financial sector misconduct.

The Taskforce is scheduled to report its recommendations to the Australian Government in 2017.

Product design and distribution obligations and product intervention power

As part of a package of reforms announced by the Australian Government in 2016, the Federal Government announced that it would accelerate the implementation of certain recommendations made by the Financial System Inquiry (FSI), including granting ASIC a product intervention power and introducing a new 'principles-based' product design and distribution obligation on issuers and distributors.

On 13 December 2016, the Australian Government released a consultation paper seeking feedback on these proposed reforms. Submissions on the consultation paper closed on 15 March 2017 and it is anticipated that draft legislation will be released for consultation in 2018.

Financial benchmarks reform

In October 2016, the Australian Government announced a package of measures designed to strengthen the regulation of financial benchmarks. The measures were recommended to the Australian Government by the Council of Financial Regulators following a consultation process on financial benchmark reform.

The key measures to be implemented include:

- ASIC will be empowered to develop enforceable rules for administrators and entities that make submissions to significant benchmarks (such as Westpac), including the power to compel submissions to benchmarks in the case that other calculation mechanisms fail;
- administrators of significant benchmarks will be required to hold a new 'benchmark administration' licence issued by ASIC (unless granted an exemption); and
- the manipulation of any financial benchmark or financial product used to determine a financial benchmark (such as negotiable certificates of deposit) will be made a specific criminal and civil offence.

These measures are expected to be implemented over the next 6-12 months.

Residential mortgage lending – reviews by and engagement with regulators

APRA has been looking at, and speaking publicly about, the broader issue of bank serviceability standards pertaining to residential mortgage lending. Westpac is engaging proactively with APRA in relation to its work in this area.

In the mortgage area, ASIC continues to focus on interest only mortgage origination and high risk customer groups. ASIC has also initiated a review into public statements by some banks (including Westpac) about interest rate changes. We are working with ASIC on their reviews in these areas.

BBSW proceedings

Following ASIC's investigations into the interbank short-term money market and its impact on the setting of the bank bill swap reference rate (BBSW), on 5 April 2016, ASIC commenced civil proceedings against Westpac in the Federal Court of Australia, alleging certain misconduct, including market manipulation and unconscionable conduct. The conduct that is the subject of the proceedings is alleged to have occurred between 6 April 2010 and 6 June 2012. Westpac is defending these proceedings. ASIC is seeking from the court declarations that Westpac breached various provisions of the *Corporations Act 2001* (Cth) and the *Australian Securities and Investments Commission Act 2001* (Cth), pecuniary penalties of unspecified amounts and orders requiring Westpac to implement a comprehensive compliance program for persons involved in Westpac's trading in the relevant market.

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

ASIC's responsible lending litigation against Westpac

On 1 March 2017, ASIC commenced Federal Court proceedings against Westpac in relation to home loans entered into between December 2011 and March 2015, which were automatically approved by Westpac's systems. ASIC has alleged that the way in which Westpac used the Household Expenditure Measure (HEM) benchmark to assess the suitability of home loans for customers during this period was in contravention of the *National Consumer Credit Protection Act 2009* (Cth) (NCCPA). On 26 September 2017, ASIC amended its court documents to include an additional allegation that the way serviceability was assessed for interest only loans during the same period also contravened the NCCPA. ASIC has also raised specific allegations in respect of seven loan applications. ASIC alleges that Westpac improperly assessed whether those loans were unsuitable because of the way Westpac used HEM, and for five of the loan applications (which are loans with an interest only period), because of the way Westpac assessed serviceability. ASIC has not made any criminal allegations, or allegations against specific individuals. Westpac is defending the proceedings.

Outbound scaled advice division proceedings

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

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

On 12 October 2017, a class action was filed in the Federal Court of Australia on behalf of customers who, since October 2011, have obtained insurance issued by Westpac Life Insurance Services Limited (WLIS) on the recommendation of financial advisers at Westpac Banking Corporation, St. George Bank, Bank of Melbourne, BankSA or BT Advice. The action is in relation to the premiums these customers have been charged for the WLIS policies. The plaintiffs have alleged, amongst other things, that in providing the financial advice Westpac breached the fiduciary duties it owed to the members of the class, the conduct was unconscionable and WLIS was knowingly involved in these breaches. Westpac and WLIS are defending the proceedings.

Brexit

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

As Westpac's business and operations are based predominantly in Australia and New Zealand, the direct impact of the UK's departure from the EU is unlikely to be

material to Westpac. However, it remains difficult to predict the impact that Brexit may have on financial markets, the global economy and the global financial services industry.

Reduction to the corporate tax rate

On 11 May 2017, the Australian Government introduced into Parliament a bill to reduce the corporate tax rate progressively from 30% to 25% over the next 10 years for all corporate entities in a staged approach with reference to aggregated annual turnover thresholds. If the legislation is passed in its current form, the benefit will begin to take effect from 1 July 2023, when the corporate tax rate for Westpac will reduce to 27.5%. Accordingly, the proposed reduction to the corporate tax rate will not significantly impact Westpac in the short term. A reduction to the corporate tax rate will reduce the value of imputation credits ultimately attached to franked dividends and distributions to certain security holders.

Taxation of cross-border financing arrangements

The Australian and New Zealand Governments have each decided to implement the Organisation for Economic Co-operation and Development's (OECD) proposals relating to the taxation treatment of cross-border financing arrangements. These proposals may affect the taxation arrangements for 'hybrid' regulatory capital instruments issued by Westpac. If implemented without grandfathering, the potential effect of the OECD proposals is to increase the after-tax cost to Westpac of certain previously issued Additional Tier 1 capital securities. Neither Government has released draft legislation.

Comprehensive Credit Reporting (CCR)

On 2 November 2017, the Federal Treasurer announced that the Australian Government will legislate for a mandatory comprehensive credit reporting regime to come into effect by 1 July 2018. This would require credit providers to provide a monthly update to credit reporting agencies of all open consumer credit accounts, including credit cards, personal loans, mortgages and auto loans. According to the announcement, the four major banks will be required to have 50% of their credit data ready for reporting by 1 July 2018, increasing to 100% a year later.

Westpac is currently moving to implement CCR, as we recognise that CCR supports our principles for responsible lending by enhancing transparency of consumers' existing liabilities. Westpac is also focused on ensuring the highest level of security of personal data is maintained within the data sharing arrangements that will underpin CCR data supply and use.

Sale of shares in BTIM

On 26 May 2017, Westpac sold 60 million shares in BTIM at a price of \$10.75 per share, pursuant to a fully underwritten institutional offer. Following completion of the sale, Westpac's holding in BTIM decreased to approximately 10%. Westpac has announced that it intends to sell its remaining 10% shareholding in BTIM in the future, subject to favourable market conditions. In accordance with escrow arrangements communicated to BTIM in respect of the retained shareholding, any sale would not occur prior to the release of BTIM's first half 2018 results (expected to be in May 2018).

Issue of Additional Tier 1 capital securities

On 21 September 2017, Westpac issued US\$1.25 billion Additional Tier 1 capital securities, which qualify as Additional Tier 1 capital under APRA's capital adequacy framework.

Regulatory significant developments

Financial System Inquiry's (FSI) recommendations on bank capital

The Australian Government's response to the FSI has endorsed APRA's actions in implementing the FSI's capital-related recommendations, and has confirmed APRA's responsibility for implementing the remaining recommendations.

On 19 July 2017, APRA released an information paper titled, *Strengthening banking system resilience – establishing unquestionably strong capital ratios*. In its release, APRA concluded that the four major Australian banks, including Westpac, need to have a CET1 ratio of at least 10.5%, as measured under the existing capital framework to be considered 'unquestionably strong'. Banks are expected to meet this new benchmark by 1 January 2020.

APRA's implementation of capital standards to produce 'unquestionably strong capital ratios' will also incorporate changes to the prudential framework, including consideration of the finalisation of international Basel III reforms. The final Basel III reforms may result in significant changes in the risk weighted asset framework including the introduction of a revised capital floor for internal model-based methods, based on standardised approaches.

Whilst APRA has signalled that its revisions to the capital framework will not necessitate further capital increases for the industry above the 10.5% benchmark, the details of the changes (including at a product level) remain unclear.

APRA has announced that it intends to release a discussion paper on proposed revisions to the capital framework later in 2017 and, following release of the discussion paper, that it expects to consult on draft prudential standards giving effect to the new framework in 2018, leading to the release of final prudential standards in 2019. The new framework is anticipated to take effect in early 2021.

In addition to the risk-based capital ratio, APRA may also implement other key FSI recommendations, including:

- the introduction of a leverage ratio that acts as a backstop to an ADI's risk-based capital requirements. Whilst APRA requires the disclosure of the leverage ratio on a quarterly basis, it is yet to be implemented as a minimum requirement; and
- the implementation of a framework for additional loss-absorbing capacity, discussed further below.

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

In response to the FSI recommendations, the Australian Government also agreed to further reforms regarding crisis management. In August 2017, Treasury issued draft legislation to strengthen APRA's crisis management powers. This was introduced into Parliament in October 2017. The intention of these reforms is to strengthen APRA's powers to facilitate the orderly resolution of an institution so as to protect the interests of depositors and to protect the stability

of the financial system. The reforms also enhance APRA's ability to take actions in relation to resolution planning, including measures to ensure regulated entities and their groups are better prepared for resolution.

Consistent with international developments, APRA may also establish a framework for additional loss absorbing capacity for the four major Australian banks, including Westpac. The intention of this would be to facilitate the orderly resolution of banks and minimise taxpayer support. APRA is yet to release any consultation on additional loss-absorbing capacity.

Macro-prudential regulation

From December 2014, APRA has made use of macro-prudential measures targeting mortgage lending that continue to impact lending practices in Australia. The measures include limiting investment property lending growth to below 10% and imposing additional levels of conservatism in serviceability assessments.

On 31 March 2017, APRA added to these measures, requiring ADIs to restrict mortgage lending with interest only terms to 30% of new mortgage lending. APRA also indicated that it expects ADIs to place strict internal limits on the volume of interest only loans with loan-to-valuation ratios above 80%.

Westpac has implemented steps to achieve these limits, including introducing differential pricing for investor property loans and interest only loans, a restriction on the volume of interest only loans with an LVR of greater than 80% (includes limit increases, interest only term extension and switches), no repayment switch fee for customers switching to principal and interest from interest only loans and no longer accepting external refinances (from other financial institutions) for owner occupied interest only loans. Interest only residential mortgages constituted 26% of new mortgage lending for the quarter ended 30 September 2017 (currently 46% of Westpac's overall Australian residential mortgage portfolio as at 30 September 2017).

Further details of Westpac's other regulatory disclosures required in accordance with prudential standard APS 330 can be accessed at

www.westpac.com.au/aboutwestpac/investor-centre/financial-information/regulatorydisclosures.

Other regulatory developments

Net Stable Funding Ratio

APRA released a revised prudential standard on liquidity (APS 210) on 20 December 2016. This prudential standard includes the Net Stable Funding Ratio (NSFR) requirement, a measure designed to encourage longer-term funding of assets and better match the duration of assets and liabilities. The revised APS 210, inclusive of the NSFR, will commence from 1 January 2018. During Full Year 2017, Westpac continued to take steps in preparation for the introduction of the NSFR from 1 January 2018. Based on the latest guidance from APRA, Westpac had an estimated NSFR at 30 September 2017 which is above that required from 1 January 2018.

OECD Common Reporting Standard

The OECD has developed Common Reporting Standard (CRS) rules for the automatic exchange of customer tax

residency and financial account information amongst participating CRS countries.

CRS requires the Westpac Group to collect and check the tax residency of all customers and to report the tax residency and financial account details of non-resident customers to the relevant authorities in jurisdictions with which Australia has entered into an exchange of information agreement.

Together with other Australian financial institutions, Westpac began collecting tax residency information from 1 July 2017 and will report these details and associated financial account information from July 2018.

Westpac has implemented changes to its business operations to comply with the CRS requirements in countries which have implemented the rules prior to 1 July 2017.

European Union General Data Protection Regulation

The European Union General Data Protection Regulation (the GDPR) contains new data protection requirements that will apply from 25 May 2018. The GDPR is intended to 'strengthen and unify' data protection for individuals across the EU and supersedes the existing EU Data Protection Directive. Australian businesses of any size may need to comply if they have an establishment in the EU, if they offer goods or services in the EU, or if they monitor the behaviour of individuals in the EU. Westpac is evaluating the impact of GDPR on its businesses with a view to implementing the necessary changes before commencement of the GDPR.

OTC derivatives reform

International regulatory reforms relating to over-the-counter (OTC) derivatives continue to be implemented by financial regulators across the globe, with the focus moving to implementing variation margin and initial margin requirements for non-centrally cleared derivatives.

Variation margin requirements in a number of key jurisdictions for Westpac (being Australia, the EU, US and Hong Kong) became applicable during Full Year 2017.

Westpac has completed a substantial amount of work to comply with all applicable variation margin requirements. In addition, initial margin requirements commenced on 1 September 2016. These requirements are being introduced in phases through to 1 September 2020.

Westpac currently expects that it will be required to commence exchanging initial margin by either September 2018 or September 2019.

New Zealand

Regulatory reforms and significant developments in New Zealand include:

Reserve Bank of New Zealand (RBNZ) – macro-prudential policy framework

On 8 June 2017, the RBNZ published a consultation paper seeking feedback on serviceability restrictions such as debt-to-income ratio (DTI) limits being added to its macro-prudential toolkit. The RBNZ stated in the consultation paper that the RBNZ would not utilise a DTI policy in current market conditions, but considers DTI limits a useful option in the future.

RBNZ – Review of Outsourcing Policy

On 19 September 2017, the RBNZ released the final version of its revised Outsourcing Policy (and updated conditions of registration). These took effect on 1 October 2017. Key changes under the revised policy are:

- banks will need to obtain a non-objection letter from the RBNZ before entering into outsourcing arrangements with a parent or other related party;
- a bank that outsources certain functions to any third party will need to have certain prescribed contractual terms with that third party and ensure that the third party has adequate disaster recovery and business continuity plan capability in relation to the outsourced function;
- a bank that outsources certain functions to its overseas parent or to another non-controlled related party will need to have robust back-up arrangements in place;
- banks will be required to maintain a compendium of functions and processes that have been outsourced; and
- banks that are members of foreign-owned banking groups, such as WNZL, will be required to have a separation plan which describes how they would operate previously outsourced services if a statutory manager is appointed or they are otherwise separated from their overseas parent.

There will be a five year transitional period in relation to existing outsourcing arrangements.

The key impact of the revised policy will be in respect of outsourcing arrangements related to institutional products, settlements, finance, risk management and regulatory reporting.

RBNZ Capital Review

In March 2017, the RBNZ outlined its plans for its review of bank capital requirements. The RBNZ's aim is to agree a capital regime that ensures a very high level of confidence in the solvency of the banking system while avoiding economic inefficiency. The review will look at the three key components of the regulatory capital regime:

- the definition of eligible capital instruments;
- the measurement of risk, in particular the risk weights attached to credit exposures; and
- the minimum capital ratio and buffers.

The RBNZ has said that the outcomes of the review will be heavily influenced by the international regulatory context, the risk characteristics of the New Zealand system, and the RBNZ's regulatory capital approach. The RBNZ released a high-level Issues Paper in May 2017 and a consultation paper considering what type of financial instruments should qualify as bank capital. The RBNZ expects to conclude its review in the first quarter of 2018. Based on the high level information released to date, the expectation is that the RBNZ will likely propose increasing capital ratios and certain risk weights, with internal ratings-based (IRB) banks having fewer models to use (to reduce the difference between standardised and IRB banks).

Reform of the regulation of financial advice

The New Zealand Government announced plans for changes to the regime regulating financial advice in July 2016. In August 2017, the Financial Services Legislation Amendment Bill was introduced into Parliament. Under the proposed new regime, financial advice will be provided by licensed firms who will employ financial advisers and nominated representatives. A Code of Conduct will apply to all advice and advisers and representatives will be subject to the same duties and ethical standards, including a duty to give priority to the client's interests. Firms will be responsible for ensuring their advisers and representatives comply with these duties. The reforms will also remove legislative barriers to the provision of robo-advice.

A two stage transition is proposed with all industry participants being required to be operating under a full licence by May 2021.

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

On 10 February 2017, the RBNZ issued WNZL with a notice under section 95 of the Reserve Bank of New Zealand Act 1989, requiring WNZL to obtain an independent review of its compliance with advanced internal rating-based aspects of the RBNZ's 'Capital Adequacy Framework (Internal Models Based Approach) (BS2B)' (BS2B). WNZL has disclosed non-compliance with BS2B (compliance with which is a condition of registration for WNZL) in its quarterly disclosure statements. WNZL expects to receive the RBNZ's final decision in 2017. There are a range of possible consequences for WNZL, including potential increases in minimum capital requirements.

Supervision and regulation

Australia

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

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

As an ADI, we report prudential information to APRA, including information in relation to capital adequacy, large exposures, credit quality and liquidity. Our controlled entities in Australia that are authorised insurers and trustees of superannuation funds are also subject to the APRA regulatory regime. Reporting is supplemented by consultations, on-site inspections and targeted reviews. Our

external auditor also has an obligation to report on compliance with certain statutory and regulatory banking requirements and on any matters that in their opinion may have the potential to materially prejudice the interests of depositors and other stakeholders.

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

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

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

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

The ACCC is the regulator responsible for the regulation and prohibition of anti-competitive and unfair market practices and mergers and acquisitions in Australia. Its broad objective is to administer the *Competition and Consumer Act 2010* (Cth) and related legislation to bring greater competitiveness, fair trading, consumer protection and product safety to the Australian economy. The ACCC's role in consumer protection complements that of ASIC (for financial services) and Australian state and territory consumer affairs agencies that administer the unfair trading legislation of their jurisdictions.

The Australian Government's present policy, known as the 'four pillars policy', is that there should be no fewer than four major banks to maintain appropriate levels of competition in the banking sector. Under the *Financial Sector (Shareholdings) Act 1998* (Cth), the Australian Government's Treasurer must approve an entity acquiring a

stake of more than 15% in a particular financial sector company.

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

AUSTRAC oversees the compliance of Australian reporting entities (including Westpac) with the requirements under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) and the *Financial Transaction Reports Act 1988* (Cth). These requirements include:

- implementing programs for identifying and monitoring customers, and for managing the risks of money laundering and terrorism financing;
- reporting suspicious matters, threshold transactions and international funds transfer instructions; and
- submitting an annual compliance report.

AUSTRAC provides financial information to Australian federal law enforcement, national security, human services and revenue agencies, and certain international counterparts.

New Zealand

The Reserve Bank of New Zealand (RBNZ) is responsible for supervising New Zealand registered banks. The New Zealand prudential supervision regime requires that registered banks publish quarterly disclosure statements, which contain information on financial performance and risk positions as well as attestations by the directors about the bank's compliance with its conditions of registration and certain other matters. The RBNZ is developing proposals to replace off-quarter disclosure statements with a 'dashboard' of key information about each locally incorporated bank to be published on the RBNZ's website.

The Financial Markets Authority (FMA) is a financial conduct regulator whose main objective is to promote and facilitate the development of fair, efficient and transparent financial markets. Its functions include promoting the confident and informed participation of businesses, investors and consumers in those markets. The Financial Markets Conduct Act, which was passed in 2013, resulted in the FMA having extensive new responsibilities in the licensing and supervision of various market participants as well as new enforcement powers.

United States

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

A US federal branch must maintain, with a US Federal Reserve member bank, a capital equivalency deposit as prescribed by the US Comptroller of the Currency, which is at least equal to 5% of its total liabilities (including

acceptances, but excluding accrued expenses, and amounts due and other liabilities to other branches, agencies and subsidiaries of the foreign bank).

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

A US federal branch of a foreign bank is, by virtue of the IBA, subject to the receivership powers exercisable by the US Comptroller of the Currency.

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

Westpac and some of its affiliates are engaged in various activities that are subject to regulation by other US federal regulatory agencies, including the US Securities and Exchange Commission and the US Commodity Futures Trading Commission.

Anti-money laundering regulation and related requirements

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

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

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

United States

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

US economic and trade sanctions, as administered by the Office of Foreign Assets Control (OFAC), prohibit or significantly restrict US financial institutions, including the US branches and operations of foreign banks, and other US

persons from doing business with certain persons, entities and jurisdictions. Westpac's New York branch and Westpac Capital Markets LLC maintain compliance programs designed to comply with OFAC sanctions programs, and Westpac has a Group-wide program to ensure adequate compliance.

Legal proceedings

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

Principal office

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

Corporate Governance Statement

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

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

We comply with the ASX Corporate Governance Principles and Recommendations (third edition) published by the ASX Limited's Corporate Governance Council.

Westpac's 2017 Corporate Governance Statement and a range of documents referred to in it are available on our corporate governance website at www.westpac.com.au/corpgov. This website contains copies and summaries of charters, principles and policies referred to in the Corporate Governance Statement.

Websites

Investor communications and information, including this 2017 Westpac Group Annual Report, the 2017 Westpac Group Annual Review and Sustainability Report, the 2017 Westpac Group Sustainability Performance Report and investor discussion packs and presentations can be accessed at www.westpac.com.au/investorcentre.

Directors' report

Our Directors present their report together with the financial statements of the Group for the financial year ended 30 September 2017.

1. Directors

The names of the persons who have been Directors, or appointed as Directors, during the period since 1 October 2016 and up to the date of this report are: Lindsay Philip Maxsted, Brian Charles Hartzler, Elizabeth Blomfield Bryan (retired as a Director on 9 December 2016), Nerida Frances Caesar (Director from 1 September 2017), Ewen Graham Wolseley Crouch, Catriona Alison Deans (Alison Deans), Craig William Dunn, Robert George Elstone, Peter John Oswin Hawkins and Peter Ralph Marriott.

Particulars of the skills, experience, expertise and responsibilities of the Directors at the date of this report, including all directorships of other listed companies held by a Director at any time in the past three years immediately before 30 September 2017 and the period for which each directorship has been held, are set out below.



Name: Lindsay Maxsted, DipBus (Gordon), FCA, FAICD

Age: 63

Term of office: Director since March 2008 and Chairman since December 2011.

Date of next scheduled re-election: December 2017.

Independent: Yes.

Current directorships of listed entities and dates of office: Transurban Group (since March 2008, and Chairman since August 2010), BHP Billiton Limited (since March 2011) and BHP Billiton plc (since March 2011).

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

Other interests: Nil.

Other Westpac related entities directorships and dates of office: Nil.

Skills, experience and expertise: Lindsay was formerly a partner at KPMG and was the CEO of that firm from 2001 to 2007. His principal area of practice prior to his becoming CEO was in the corporate recovery field managing a number of Australia's largest insolvency/workout/turnaround engagements including

Linter Textiles (companies associated with Abraham Goldberg), Bell Publishing Group, Bond Brewing, McEwans Hardware and Brashes. He is also a former Director and Chairman of the Victorian Public Transport Corporation.

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

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



Name: Brian Hartzler, BA, CFA

Age: 50

Term of office: Managing Director & Chief Executive Officer since February 2015.

Date of next scheduled re-election: Not applicable.

Independent: No.

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

Other principal directorships: The Australian National University Business and Industry Advisory Board (Chairman since March 2017), the Financial Markets Foundation for Children and Australian Bankers' Association Incorporated.

Other interests: Nil.

Other Westpac related entities directorships and dates of office: Nil.

Skills, experience and expertise: Brian was appointed Managing Director & Chief Executive Officer in February 2015. Brian joined Westpac as Chief Executive, Australian Financial Services in June 2012 encompassing Westpac Retail & Business Banking, St. George Banking Group and BT Financial Group. Prior to joining Westpac, Brian spent three years in the UK as CEO for Retail, Wealth and Ulster Bank at the Royal Bank of Scotland Group.

Prior to that, he spent ten years with Australia and New Zealand Banking Group Limited (ANZ) in Australia in a variety of roles, including his final role as CEO, Australia and Global Segment Lead for Retail and Wealth. Before joining ANZ, Brian spent ten years as a financial services consultant in New York, San Francisco and Melbourne.

Westpac Board Committee membership: Member of the Board Technology Committee.

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



Name: Nerida Caesar, BCom, MBA, GAICD

Age: 53

Term of office: Director since September 2017.

Date of next scheduled re-election: December 2017.

Independent: Yes.

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

Other principal directorships: Stone and Chalk Limited and Genome.One Pty Ltd.

Other interests: Member of the University of Technology Vice Chancellor's Industry Advisory Board and the Federal Government's FinTech Advisory Group.

Other Westpac related entities directorships and dates of office: Nil.

Skills, experience and expertise:

Nerida has 30 years of broad-ranging commercial and business management experience. Most recently, Nerida was Group Managing Director and Chief Executive Officer, Australia and New Zealand, of Equifax (formerly Veda Group Limited) from February 2011.

Nerida was formerly Group Managing Director, Telstra Enterprise and Government, responsible for Telstra's corporate, government and large business customers in Australia as well as the international sales division. She also worked as Group Managing Director, Telstra Wholesale, and prior to that held the position of Executive Director National Sales where she was responsible for

managing products, services and customer relationships throughout Australia.

Prior to joining Telstra, Nerida held several senior management and sales positions with IBM within Australia and internationally over a 20 year period, including as Vice President of IBM's Intel Server Division for the Asia Pacific region.

Westpac Board Committee membership: Member of each of the Board Risk & Compliance and Board Technology Committees.

Directorships of other listed entities over the past three years and dates of office: Veda Group Limited (December 2013 – February 2016). Veda Group Limited was a listed entity from December 2013 to February 2016 when it was delisted upon its acquisition by Equifax Inc.



Name: Ewen Crouch AM, BEc (Hons.), LLB, FAICD

Age: 61

Term of office: Director since February 2013.

Date of next scheduled re-election: December 2019.

Independent: Yes.

Current directorships of listed entities and dates of office: BlueScope Steel Limited (since March 2013).

Other principal directorships: Sydney Symphony Orchestra Holdings Pty Limited and Jawun.

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

Committee of the Law Council of Australia.

Other Westpac related entities directorships and dates of office: Nil.

Skills, experience and expertise:

Ewen was a Partner at Allens from 1988 to 2013, where he was one of Australia's most accomplished mergers and acquisitions lawyers. He served as a member of the firm's board for 11 years, including four years as Chairman of Partners. His other roles at Allens included Co-Head Mergers and Acquisitions and Equity Capital Markets, Executive Partner, Asian offices and Deputy Managing Partner. He is now a Consultant to Allens. Ewen served as a director of

Mission Australia from 1995 and as Chairman from 2009, before retiring in November 2016. From 2010 to 2015, Ewen was a member of the Takeovers Panel. In 2013, Ewen was awarded an Order of Australia in recognition of his significant service to the law as a contributor to legal professional organisations and to the community.

Westpac Board Committee membership: Chairman of the Board Risk & Compliance Committee. Member of each of the Board Nominations and Board Remuneration Committees.

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



Name: Alison Deans, BA, MBA, GAICD

Age: 49

Term of office: Director since April 2014.

Date of next scheduled re-election: December 2017.

Independent: Yes.

Current directorships of listed entities and dates of office: Cochlear Limited (since January 2015).

Other principal directorships: kikki.K Holdings Pty Ltd and SCEGGS Darlinghurst Limited.

Other interests: Senior Advisor, McKinsey & Company and

Investment Committee member of the CSIRO Innovation Fund (Main Sequence Ventures).

Other Westpac related entities directorships and dates of office: Nil.

Skills, experience and expertise: Alison has more than 20 years' experience in senior executive roles focused on building digital businesses and digital transformation across e-commerce, media and financial services. During this time, Alison served as the CEO of eCorp Limited, CEO of Hoyts Cinemas and CEO of eBay, Australia and New Zealand. She was the CEO

of a technology-based investment company netus Pty Ltd. Alison was an Independent Director of Social Ventures Australia from September 2007 to April 2013.

Westpac Board Committee membership: Member of each of the Board Risk & Compliance and Board Technology Committees.

Directorships of other listed entities over the past three years and dates of office: Insurance Australia Group Limited (February 2013 – October 2017).



Name: Craig Dunn, BCom, FCA

Age: 54

Term of office: Director since June 2015.

Date of next scheduled re-election: December 2018.

Independent: Yes.

Current directorships of listed entities and dates of office: Telstra Corporation Limited (since April 2016).

Other principal directorships: Financial Literacy Australia Limited, Chairman of The Australian Ballet and Chairman of Stone and Chalk Limited.

Other interests: Chairman of the Australian Government's Fintech Advisory Group and the International Standards Technical Committee on Blockchain and

Distributed Ledger Technologies (ISO/TC 307). Member of the ASIC External Advisory Panel, and the New South Wales Government's Quantum Computing Fund Advisory Panel. Board member of Jobs for New South Wales and Consultant to King & Wood Mallesons.

Other Westpac related entities directorships and dates of office: Nil.

Skills, experience and expertise: Craig has more than 20 years' experience in financial services, including as CEO of AMP Limited from 2008 to 2013. Craig was previously a Board member of the Australian Japanese Business Cooperation Committee and the New South Wales Government's Financial Services Knowledge Hub, and

former Chairman of the Investment and Financial Services Association (now the Financial Services Council). He was also a member of the Financial Services Advisory Committee, the Australian Financial Centre Forum, the Consumer and Financial Literacy Taskforce and a Panel member of the Australian Government's Financial System Inquiry.

Westpac Board Committee membership: Chairman of the Board Remuneration Committee. Member of each of the Board Nominations and Board Risk & Compliance Committees.

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



Name: Robert Elstone, BA (Hons.), MA (Econ.), MCom

Age: 64

Term of office: Director since February 2012.

Date of next scheduled re-election: Not applicable. Robert Elstone will retire following the 2017 AGM.

Independent: Yes.

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

Other principal directorships: University of Western Australia Business School.

Other interests: Adjunct Professor at the Business Schools of the Universities of

Sydney and Western Australia.

Other Westpac related entities directorships and dates of office: Nil.

Skills, experience and expertise: Robert has over 30 years' experience in senior management roles spanning investment banking, corporate finance, wholesale financial markets and risk management. From July 2006 to October 2011, Robert was Managing Director and CEO of ASX Limited. Previously, he was Managing Director and CEO of the Sydney Futures Exchange from May 2000 to July 2006, and from January 1995 to May 2000, he

was Finance Director of Pioneer International. Robert was a Non-executive Director of the National Australia Bank from September 2004 to July 2006, an inaugural member of the Board of Guardians of the Future Fund, and former Chairman of the Financial Sector Advisory Council to the Federal Treasurer.

Westpac Board Committee membership: Member of each of the Board Audit, Board Remuneration and Board Risk & Compliance Committees.

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



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

Age: 63

Term of office: Director since December 2008.

Date of next scheduled re-election: December 2017.

Independent: Yes.

Current directorships of listed entities and dates of office: Mirvac Group (since January 2006).

Other principal directorships: Liberty Financial Pty Ltd and Crestone Holdings Limited.

Other interests: Nil.

Other Westpac related entities directorships and dates of office: Member of the Bank of Melbourne Advisory Board since November 2010.

Skills, experience and expertise: Peter's career in the banking and financial services industry spans over 40 years in Australia and overseas at both the highest levels of management and directorship of major organisations. Peter has held various senior management and directorship positions with Australia and New Zealand Banking Group Limited from 1971 to 2005.

He was also previously a Director of BHP (NZ) Steel Limited, ING Australia Limited, Esanda Finance Corporation, Visa Inc and Clayton Utz.

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

Directorships of other listed entities over the past three years and dates of office: MG Responsible Entity Limited, which is the responsible entity for ASX listed MG Unit Trust (April 2015 to October 2016).



Name: Peter Marriott, BEc (Hons.), FCA

Age: 60

Term of office: Director since June 2013.

Date of next scheduled re-election: December 2019.

Independent: Yes.

Current directorships of listed entities and dates of office: ASX Limited (since July 2009).

Other principal directorships: ASX Clearing Corporation Limited, ASX Settlement Corporation Limited and Austraclear Limited.

Other interests: Member of the Review Panel & Policy Council of the Banking & Finance Oath.

Other Westpac related entities directorships and dates of office: Nil.

Skills, experience and expertise: Peter has over 30 years' experience in senior management roles in the finance industry encompassing international banking, finance and auditing. Peter joined Australia and New Zealand Banking Group Limited (ANZ) in 1993 and held the role of Chief Financial Officer from July 1997 to May 2012. Prior to his career

at ANZ, Peter was a banking and finance, audit and consulting partner at KPMG Peat Marwick. Peter was formerly a Director of ANZ National Bank Limited in New Zealand and various ANZ subsidiaries.

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

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

Company Secretary

Our Company Secretaries as at 30 September 2017 were Rebecca Lim and Tim Hartin.

Rebecca Lim (B Econ, LLB (Hons.)) was appointed as a Group Executive effective 1 October 2016, with her title now being Group Executive, Compliance, Legal & Secretariat¹, as well as Company Secretary. Rebecca joined Westpac in 2002 and has held a variety of senior leadership roles including General Manager, Human Resources for St. George Bank and General Manager, St. George Private Clients. She was appointed Group General Counsel in November 2011 and Chief Compliance Officer from 2013 to 2017. Rebecca held an in-house role in investment banking at Goldman Sachs in London after which she joined Westpac on her return to Australia. Rebecca was previously with US firm Skadden Arps where she worked in the Corporate Finance area in both New York and London. Prior to that she worked at Blake Dawson Waldron (now Ashurst) as a solicitor.

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

2. Executive Team

As at 30 September 2017 our Executive Team was:

Name	Position	Year Joined Group	Year Appointed to Position
Brian Hartzler	Managing Director & Chief Executive Officer	2012	2015
Lyn Cobley	Chief Executive, Westpac Institutional Bank	2015	2015
Brad Cooper	Chief Executive Officer, BT Financial Group	2007	2010
Dave Curran	Chief Information Officer	2014	2014
George Frazis	Chief Executive, Consumer Bank	2009	2015
Alexandra Holcomb	Chief Risk Officer	1996	2014
Peter King	Chief Financial Officer	1994	2014
Rebecca Lim ¹	Group Executive, Compliance, Legal & Secretariat	2002	2016
David Lindberg	Chief Executive, Business Bank	2012	2015
David McLean	Chief Executive Officer, Westpac New Zealand Limited	1999	2015
Christine Parker	Group Executive, Human Resources, Corporate Affairs & Sustainability	2007	2011
Gary Thursby	Group Executive, Strategy & Enterprise Services	2008	2016

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

¹ Prior to 2 October 2017, Rebecca Lim's title was Group General Counsel & Chief Compliance Officer.



Brian Hartzler BA, CFA. Age 50
Managing Director & Chief Executive Officer

Brian was appointed Managing Director & Chief Executive Officer in February 2015. Brian joined Westpac as Chief Executive, Australian Financial Services in June 2012 encompassing Westpac Retail & Business Banking, St. George Banking Group and BT Financial Group.

Brian is a Director of the Australian Bankers' Association and was formerly the Chairman until December 2015. Prior to joining Westpac, Brian spent three years in the UK as CEO for Retail, Wealth and Ulster Bank at the Royal Bank of Scotland Group. Prior to that, he spent ten years with Australia and New Zealand Banking Group Limited (ANZ) in Australia in a variety of roles, including his final role as CEO, Australia and Global Segment Lead for Retail and Wealth. Before joining ANZ, Brian spent ten years as a financial services consultant in New York, San Francisco and Melbourne.

Brian graduated from Princeton University with a degree in European History and is a Chartered Financial Analyst.



Lyn Cobley BEc, SF FIN, GAICD. Age 54
Chief Executive, Westpac Institutional Bank

Lyn was appointed Chief Executive, Westpac Institutional Bank in September 2015. She has responsibility for Westpac's global relationships with corporate, institutional and government clients as well as all products across financial and capital markets, transactional banking, structured finance and working capital payments. In addition, Lyn oversees Hastings Funds Management as well as Westpac's International and Pacific Island businesses.

Lyn has over 25 years' experience in financial services. Prior to joining Westpac, Lyn held a variety of senior positions at the Commonwealth Bank of Australia including serving as Group Treasurer from 2007 to 2013 and most recently as Executive General Manager, Retail Products & Third Party Banking. She was also Head of Financial Institutions at Barclays Capital in Australia, held senior roles at Citibank in Australia and Asia Pacific including Head of Securitisation and was CEO of Trading Room (a joint venture between Macquarie Bank and Fairfax).

Lyn is a Board member of the Australian Financial Markets Association (AFMA), the Banking & Finance Oath and the Westpac Foundation. She is Chairman of Westpac's Asia Advisory Board and is also a member of Chief Executive Women.

Lyn has a Bachelor of Economics from Macquarie University, is a Senior Fellow of the Financial Services Institute of Australia and is a graduate of the Australian Institute of Company Directors.



Brad Cooper DipBM, MBA. Age 55
Chief Executive Officer, BT Financial Group

Brad was appointed Chief Executive Officer, BT Financial Group in February 2010. Brad initially joined Westpac in April 2007 as Chief Executive, Westpac New Zealand Limited and after successfully leading a change program in that market, moved to the role of Group Chief Transformation Officer, leading the Westpac Group's St. George merger implementation. Prior to joining Westpac, Brad was Chairman of GE Capital Bank and CEO of GE Consumer Finance UK & Ireland. He drove GE's UK Six Sigma program and was certified as a Quality Leader (Black Belt) in December 2002. He was promoted to CEO of GE Consumer Finance UK in January 2003 and appointed Chairman of GE Capital Bank in April 2004.



Dave Curran BCom. Age 52
Chief Information Officer

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

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

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



George Frazis B Eng (Hons.), MBA (AGSM/Wharton). Age 53
Chief Executive, Consumer Bank

George was appointed Chief Executive, Consumer Bank in June 2015, responsible for managing the end to end relationship with consumer customers. This includes all consumer distribution, digital, marketing, transformation and banking products and services under the Westpac, St.George, BankSA, Bank of Melbourne and RAMS brands.

Prior to this appointment, he was CEO, St.George Banking Group. George joined the Westpac Group in March 2009 as Chief Executive, Westpac New Zealand Limited. George is highly experienced in the financial services industry. He was formerly Group Executive General Manager at National Australia Bank. Prior to that, George was a senior executive in Commonwealth Bank of Australia's Institutional Banking Division and has also been a partner with the Boston Consulting Group and an officer in the Royal Australian Air Force. George is a Governor of the St.George Foundation and is Chair of the Prime Minister's Industry Advisory Committee on Veterans' Employment.



Alexandra Holcomb BA, MBA, MA. Age 56
Chief Risk Officer

Alexandra was appointed Chief Risk Officer in August 2014. As Westpac Group's Chief Risk Officer, Alexandra is responsible for key risk management activities across the enterprise.

Since joining Westpac in 1996, Alexandra has held a number of senior positions including Group General Manager, Group Strategy, M&A and Major Projects, Group Executive, Group Strategy, Head of Westpac Institutional Bank Strategy, and until August 2014 was the Group General Manager of Global Transactional Services.

Prior to joining Westpac, Alexandra was a senior executive from 1992 to 1996 with Booz Allen & Hamilton International where she specialised in international credit, working throughout the Asia Pacific region. Before that, she worked with Chase Manhattan Bank in New York in private and business banking and international credit audit. She also worked in project finance in Paris and New York for Banque Indosuez and Barclays Bank respectively.

Alexandra is Deputy Chairman of the Asia Society Australia and serves on the Westpac Foundation Board. She is a member of Chief Executive Women and a Fellow of the Australian Institute of Company Directors. Alexandra has an MBA in Finance and Multinational Management from the Wharton School of Business and a Master of Arts in International Studies and French from the University of Pennsylvania. She also holds a BA in English and Economics from Cornell University.



Peter King BEc, FCA. Age 47
Chief Financial Officer

Peter was appointed Chief Financial Officer in April 2014, with responsibility for Westpac's Finance, Group Audit, Tax, Treasury and Investor Relations functions. Prior to this appointment, Peter was the Deputy Chief Financial Officer for three years.

Since joining Westpac in 1994, Peter has held senior finance positions across the Group, including in Group Finance, Business and Consumer Banking, Business and Technology Services, Treasury and Financial Markets.

Peter commenced his career at Deloitte Touche Tohmatsu. He has a Bachelor of Economics from Sydney University and completed the Advanced Management Programme at INSEAD. He is a Fellow of the Institute of Chartered Accountants.



Rebecca Lim B Econ, LLB (Hons). Age 45
Group Executive, Compliance, Legal & Secretariat

Rebecca was appointed as Westpac's Group Executive responsible for compliance, legal and secretariat functions globally from October 2016. She was appointed Group General Counsel in November 2011 and was Chief Compliance Officer from 2013 to 2017.

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

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

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



David Lindberg HBA (Hons. Economics). Age 42
Chief Executive, Business Bank

David was appointed Chief Executive, Business Bank in June 2015. He manages the Group's end to end relationships with business customers for the Westpac, St. George, BankSA and Bank of Melbourne brands. The Business Bank provides a wide range of banking and financial products and services to Australia's small, commercial, corporate and agri businesses.

Prior to this appointment, David was Chief Product Officer, responsible for the Group's retail and business products across all brands, as well as overseeing the Group's digital activities. Before joining Westpac in 2012, David was Executive General Manager, Cards, Payments & Retail Strategy at the Commonwealth Bank of Australia. David was also formerly Managing Director, Strategy, Marketing & Customer Segmentation at Australia and New Zealand Banking Group Limited and Managing Vice President and Head of Australia for First Manhattan.



David McLean LLB (Hons.). Age 59
Chief Executive Officer, Westpac New Zealand Limited

David was appointed Chief Executive Officer, Westpac New Zealand Limited in February 2015. Since joining Westpac in February 1999, David has held a number of senior roles, including Head of Debt Capital Markets New Zealand, General Manager, Private, Wealth and Insurance New Zealand and Head of Westpac Institutional Bank New Zealand, and most recently, Managing Director of the Westpac New York branch.

Before joining Westpac, David was Director, Capital Markets at Deutsche Morgan Grenfell since 1994. He also established the New Zealand branch of Deutsche Bank and was New Zealand Resident Branch Manager. In 1988, David joined Southpac/National Bank as a Capital Markets Executive. Prior to this, David worked as a lawyer in private practice and also served as in-house counsel for NatWest NZ from 1985. David is a Barrister & Solicitor of the High Court of New Zealand.



Christine Parker BGDipBus (HRM). Age 57
Group Executive, Human Resources, Corporate Affairs & Sustainability

Christine was appointed Group Executive, Human Resources, Corporate Affairs & Sustainability in October 2011, with responsibility for human resources strategy and management, including reward and recognition, safety, learning and development, careers and talent, employee relations and employment policy. She is also responsible for Corporate Affairs and Sustainability, and Customer Advocacy.

Prior to this appointment, she was Group General Manager, Human Resources, from March 2010, with responsibilities across the entire Westpac Group. Prior to that, Christine was General Manager, Human Resources, Westpac New Zealand Limited.

Prior to joining Westpac in 2007, Christine was Group Human Resources Director, Carter Holt Harvey, and from 1999 to 2004, she was Director of Human Resources with Restaurant Brands New Zealand.

Christine is a Governor of the St. George Foundation and also a Director of Women's Community Shelters.



Gary Thursby BEc, DipAcc, FCA. Age 55
Group Executive, Strategy & Enterprise Services

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

Gary's responsibilities also include banking operations, procurement, property, analytics, and enterprise investments. In addition, Gary oversees the Group's mergers & acquisitions and business development portfolios.

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

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

3. Report on the business

a) Principal activities

The principal activities of the Group during the financial year ended 30 September 2017 were the provision of financial services including lending, deposit taking, payments services, investment portfolio management and advice, superannuation and funds management, insurance services, leasing finance, general finance, interest rate risk management and foreign exchange services.

There have been no significant changes in the nature of the principal activities of the Group during 2017.

b) Operating and financial review

The net profit attributable to equity holders of Westpac for the financial year ended 30 September 2017 was \$7,990 million, an increase of \$545 million or 7% compared to 2016. Key features of this result were:

- a 4% increase in net operating income before operating expenses and impairment charges with:
 - net interest income of \$15,516 million, an increase of \$368 million or 2% compared to 2016, with total loan growth of 3% and a 4 basis point decrease in net interest margin to 2.06%; and
 - non-interest income of \$6,286 million, an increase of \$449 million or 8% compared to 2016, primarily due to a \$279 million gain associated with the sale of shares in BT Investment Management Limited (BTIM), a rise in trading income of \$78 million and the impact of volatility in economic hedges of \$140 million. These increases were partly offset by provisions for customer refunds and lower wealth management and insurance income;
- operating expenses were \$9,434 million, an increase of \$217 million or 2% compared to 2016 due to annual salary and rental increases, higher technology expenses related to the Group's investment program, a rise in regulatory and compliance costs and expenses associated with the sale of shares in BTIM. These increases were partially offset by productivity benefits; and
- impairment charges were \$853 million, a decrease of \$271 million or 24% compared to 2016. Asset quality remained sound, with stressed exposures as a percentage of total committed exposures at 1.05%, down 15 basis points over the year. The decrease in impairment charges was primarily due to significantly lower large individual provisions. Additional provisioning for these larger facilities was required in 2016, following the downgrade to impaired.

A review of the operations of the Group and its divisions and their results for the financial year ended 30 September 2017 is set out in Section 2 of the Annual Report under the sections 'Review of Group operations', 'Divisional performance' and 'Risk and risk management', which form part of this report.

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

c) Dividends

Since 30 September 2017, Westpac has announced a final ordinary dividend of 94 cents per Westpac ordinary share, totalling approximately \$3,191 million for the year ended 30 September 2017 (2016 final ordinary dividend of 94 cents per Westpac ordinary share, totalling approximately \$3,145 million). The dividend will be fully franked and will be paid on 22 December 2017.

An interim ordinary dividend for the current financial year of 94 cents per Westpac ordinary share for the half year ended 31 March 2017, totalling \$3,156 million, was paid as a fully franked dividend on 4 July 2017 (2016 interim ordinary dividend of 94 cents per Westpac ordinary share, totalling \$3,136 million). The payment comprised direct cash disbursements of \$2,031 million with \$1,125 million being reinvested by participants through the DRP.

Further, in respect of the year ended 30 September 2016, a fully franked final dividend of 94 cents per ordinary share totalling \$3,145 million was paid on 21 December 2016. The payment comprised direct cash disbursements of \$2,818 million with \$327 million being reinvested by participants through the DRP.

New shares were issued to satisfy the DRP for each of the 2016 final ordinary dividend and the 2017 interim ordinary dividend.

d) Significant changes in state of affairs and events during and since the end of the 2017 financial year

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

- introduction of the Federal Government's Bank Levy for ADIs. The Bank Levy cost Westpac \$95 million in Full Year 2017, with an after tax impact of \$66 million and is estimated to cost Westpac approximately \$405 million in Full Year 2018, with an after tax impact of approximately \$284 million;
- the sale by Westpac of 60 million shares in BTIM for \$10.75 per share;
- the issuance of US\$1.25 billion AT1 securities, which qualify as Additional Tier 1 capital under APRA's capital adequacy framework;
- the proposed sale by Westpac of its interest in Hastings Management Pty Limited, which is subject to confirmatory due diligence and regulatory approvals; and

- ongoing regulatory changes and developments, which have included changes relating to liquidity, capital, financial services, taxation, executive accountability and other regulatory requirements.

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

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

e) Business strategies, developments and expected results

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

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

4. Directors' interests

a) Directors' interests in securities

The following particulars for each Director are set out in the Remuneration Report in Section 10 of the Directors' report for the year ended 30 September 2017 and in the tables below:

- their relevant interests in our shares or the shares of any of our related bodies corporate;
- their relevant interests in debentures of, or interests in, any registered managed investment scheme made available by us or any of our related bodies corporate;
- their rights or options over shares in, debentures of, or interests in, any registered managed investment scheme made available by us or any of our related bodies corporate; and
- any contracts:
 - to which the Director is a party or under which they are entitled to a benefit; and
 - that confer a right to call for or deliver shares in, debentures of, or interests in, any registered managed investment scheme made available by us or any of our related bodies corporate.

Directors' interests in Westpac and related bodies corporate as at 6 November 2017

	Number of Relevant Interests in Westpac Ordinary Shares	Number of Westpac Share Rights	Westpac CPS
Westpac Banking Corporation			
Current Directors			
Lindsay Maxsted	20,689	-	-
Brian Hartzler	77,427 ¹	569,426 ²	-
Nerida Caesar	-	-	-
Ewen Crouch	36,450 ³	-	-
Alison Deans	9,392	-	-
Craig Dunn	8,869	-	-
Robert Elstone	12,096	-	-
Peter Hawkins	15,880 ⁴	-	1,370
Peter Marriott	20,870	-	-

¹ Brian Hartzler's interest in Westpac ordinary shares includes 20,222 restricted shares held under the CEO Restricted Share Plan.

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

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

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

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

b) Indemnities and insurance

Under the Westpac Constitution, unless prohibited by statute, we indemnify each of the Directors and Company Secretaries of Westpac and of each of our related bodies corporate (except related bodies corporate listed on a recognised stock exchange), each employee of Westpac or our subsidiaries (except subsidiaries listed on a recognised stock exchange), and each person acting as a responsible manager under an Australian Financial Services Licence of any of Westpac's wholly-owned subsidiaries against every liability (other than a liability for legal costs) incurred by each such person in their capacity as director, company secretary, employee or responsible manager, as the case may be; and all legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil or criminal or of an administrative or investigatory nature, in which the person becomes involved because of that capacity.

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

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

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

- statutory officers (other than as a director) of Westpac;
- directors and other statutory officers of wholly-owned subsidiaries of Westpac; and
- directors and statutory officers of other nominated companies as approved by Westpac in accordance with the terms of the deed poll and Westpac's Contractual Indemnity Policy.

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

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

- we are forbidden by statute to pay or agree to pay the premium; or
- the contract would, if we paid the premium, be made void by statute.

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

For the year ended 30 September 2017, the Group has insurance cover which, in certain circumstances, will provide reimbursement for amounts which we have to pay under the indemnities set out above. That cover is subject to the terms and conditions of the relevant insurance, including but not limited to the limit of indemnity provided by the insurance. The insurance policies prohibit disclosure of the premium payable and the nature of the liabilities covered.

c) Options and share rights outstanding

As at the date of this report there are 256,840 share options outstanding and 5,107,825 share rights outstanding in relation to Westpac ordinary shares. The expiry date of the share options range between 17 December 2017 and 1 October 2018 and the weighted average exercise price is \$26.36. The latest dates for exercise of the share rights range between 17 December 2017 and 1 October 2032.

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

d) Proceedings on behalf of Westpac

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

5. Environmental disclosure

As part of our 2017 Sustainability Strategy, we have set targets for our environmental performance. The Westpac Group's environmental framework starts with 'Our Principles for Doing Business', which outline our broad environmental principles. This framework includes:

- our Westpac Group Environment Policy, which has been in place since 1992;
- our Sustainability Risk Management Framework;
- our Responsible Sourcing Code of Conduct; and
- public reporting of our environmental performance.

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

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

The Group was previously subject to the reporting requirements of the *Energy Efficiency Opportunities Act 2006* (Cth) (EEO Act). The Commonwealth Government repealed the EEO Act, effective from 29 June 2014. Accordingly, all obligations and activities under the EEO Program, including reporting requirements, have ceased.²

Our operations are not subject to any other significant environmental regulation under any law of the Commonwealth of Australia or of any state or territory of Australia. We may, however, become subject to environmental regulation as a result of our lending activities in the ordinary course of business and we have policies in place to ensure that this potential risk is addressed as part of our normal processes.

We have not incurred any liability (including for rectification costs) under any environmental legislation.

Further details on our environmental performance, including information on our climate change approach, details of our emissions profile and environmental footprint, and progress against our environmental targets and carbon neutral program are available on our website at www.westpac.com.au/sustainability.

6. Human rights supply chain disclosure

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

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

7. Rounding of amounts

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

8. Political expenditure

In line with Westpac policy, no cash donations were made to political parties during the financial year ended 30 September 2017.

In Australia, political expenditure for the financial year ended 30 September 2017 was \$162,726. This relates to payment for participation in legitimate political activities where they were assessed to be of direct business relevance to Westpac. Such activities include business observer programs attached to annual party conferences, policy dialogue forums and other political functions, such as speeches and events with industry participants.

In New Zealand, political expenditure for the financial year ended 30 September 2017 was NZD\$2,756. In line with Westpac policy, no cash donations were made to political parties in New Zealand during the year.

¹ Formerly known as the Carbon Disclosure Project.

² Westpac implemented energy efficiency opportunities that are expected to result in estimated energy savings of 14,964GJ, carbon savings of 2,858 tCO₂e and cost savings of \$791,544 per year.

9. Directors' meetings

Each Director attended the following meetings of the Board and Committees of the Board during the financial year ended 30 September 2017:

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

This table shows membership of standing Committees of the Board. From time to time the Board may form other committees or request Directors to undertake specific extra duties.

A - Meetings eligible to attend as a member B - Meetings attended as a member

Unless otherwise stated, each Director has been a member, or the Chairman, of the relevant Committee for the whole of the period from 1 October 2016.

- ¹ Chairman of the Board Nominations Committee. Member of the Board Audit Committee and the Board Risk & Compliance Committee.
- ² Member of the Board Technology Committee.
- ³ Elizabeth Bryan retired from the Board and its Committees on 9 December 2016.
- ⁴ Nerida Caesar was appointed as a Director on 1 September 2017. Member of the Board Risk & Compliance Committee and Board Technology Committee from 28 September 2017.
- ⁵ Chairman of the Board Risk & Compliance Committee from 9 December 2016. Chairman of the Board Remuneration Committee, and member of the Board Risk & Compliance Committee, until 9 December 2016. Member of the Board Nominations Committee and from 9 December 2016, a member of the Board Remuneration Committee.
- ⁶ Member of the Board Risk & Compliance Committee and the Board Technology Committee.
- ⁷ Chairman of the Board Remuneration Committee from 9 December 2016. Member of the Board Remuneration Committee until 9 December 2016. Member of the Board Risk & Compliance Committee, and from 9 December 2016, a member of the Board Nominations Committee.
- ⁸ Member of the Board Remuneration Committee, the Board Risk & Compliance Committee and the Board Audit Committee.
- ⁹ Chairman of the Board Technology Committee. Member of the Board Audit Committee, the Board Nominations Committee and the Board Risk & Compliance Committee.
- ¹⁰ Chairman of the Board Audit Committee. Member of the Board Risk & Compliance Committee, the Board Technology Committee and the Board Nominations Committee.

10. Remuneration Report

Introduction from the Chairman of the Board Remuneration Committee

Dear Shareholder,

We are pleased to present Westpac's 2017 Remuneration Report (Report).

The past year has seen significant developments in the banking industry relating to remuneration. The Banking Executive Accountability Regime (BEAR) will be put before Parliament and the Retail Banking Remuneration Review commissioned by the Australian Banker's Association (known as the Sedgwick report) was released earlier this year.

A comprehensive review is being undertaken in anticipation of the enactment of the BEAR legislation to ensure that our CEO and Group Executive remuneration framework and principles remain consistent with both the letter and spirit of legislative developments. While this review is underway in 2018, the remuneration framework will remain unchanged and be consistent with the 2017 structures outlined in this Report.

We are also committed to implementing fully the recommendations of the Sedgwick report, which we are addressing in a phased manner over the next three years. To date we have made significant progress on implementing around three quarters of the recommendations, with good progress made on implementation of the remaining recommendations as we develop appropriate support systems, frameworks and metrics. For example, in November 2016 we removed all product-related incentives from around 2,000 tellers in the Westpac branch network.

2017 Remuneration outcomes – the link to Group performance

Each year the Board assesses a number of factors when determining remuneration outcomes. In addition to the financial results included in Short-term Incentive (STI) balanced scoreboards, the Committee assesses other elements of performance such as the quality of the results, key performance drivers, meeting customer needs, the risk and operating environment and effectiveness of implementation of strategic initiatives to determine if the scoreboard outcomes adequately reflect actual performance and returns to shareholders.

In what continues to be a challenging and competitive business environment, the Group's financial performance was sound. There was moderate growth in cash earnings and earnings per share, with marginal declines in return on equity and economic profit, as capital and funding positions were strengthened further to position the Group to meet APRA's unquestionably strong benchmark. Significant improvements were achieved in net promoter scores (NPS) for customers, with Westpac being rated with the highest overall NPS among major Australian banks for the first time in September 2017; employee engagement scores also increased significantly, with outcomes achieved above the high performing global norm. This year we also retained our position as the most sustainable bank globally in the 2017 Dow Jones Sustainability Indices for the fourth year running.

STI outcomes

It is against these outcomes that the short and long-term incentives were determined. STI outcomes during the year for the CEO and the Group Executive team averaged 109% of target, up by an average of 14% on last year, and were within a range of 96% to 116%. Different incentive outcomes across the Group Executive team reflect the performance of each division and the quality of the performance delivered by the accountable executive.

Long-term Incentive (LTI) outcomes

In 2017, the 2014 LTI reached its test date. As the minimum performance vesting thresholds were not met, none of the 2014 LTI will vest.

More specifically:

- Westpac's LTI plan Total Shareholder Return (TSR) over the last three years was 11.791%, which was below the 50th percentile vesting threshold, so none of the 2014 TSR hurdled rights vested. This is the third consecutive year where the TSR hurdle has not been met; and
- Westpac's Cash Earnings per Share (EPS) growth over the last three years was also below the vesting threshold of 15.8% (5.0% compound annual growth), so none of the 2014 EPS hurdled rights vested.

Changes to Key Management Personnel in 2017

The appointment effective 1 October 2016 of Rebecca Lim as the Group General Counsel & Chief Compliance Officer¹ and Gary Thursby as Group Executive, Strategy & Enterprise Services was advised in last year's Report, and their remuneration details for the full 2017 period have been disclosed.

Philip Coffey retired during the year, after 21 years with Westpac.

This year we have made some minor changes to the way that we have presented the information in our Report, with the aim of improving its format and layout.

We welcome your feedback as we continue to improve the disclosure of our remuneration policies, practices and outcomes.



Craig Dunn

Chairman – Board Remuneration Committee

¹ Rebecca Lim's title was amended to Group Executive, Compliance, Legal & Secretariat effective 2 October 2017.

Topics covered in this Report

<i>Section 1</i>	List of 2017 Key Management Personnel
<i>Section 2</i>	Summary of 2017 CEO and Group Executive remuneration strategy and framework
<i>Section 3</i>	Summary of 2017 remuneration outcomes including: <ul style="list-style-type: none">▪ remuneration paid and vested;▪ equity awarded;▪ LTI and STI outcomes; and▪ further details on the link to Group performance
<i>Section 4</i>	Further detail on 2017 executive remuneration structure
<i>Section 5</i>	Remuneration governance
<i>Section 6</i>	Non-executive Director remuneration structure
<i>Section 7</i>	Statutory remuneration disclosures including: <ul style="list-style-type: none">▪ Non-executive Director remuneration;▪ CEO and Group Executive remuneration; and▪ additional statutory disclosures

Note: All references to Return on Equity (ROE) in this remuneration report are on a cash ROE basis. Refer to the Glossary of abbreviations and defined terms for more detail.

1. Key Management Personnel remuneration disclosed in this Report

The remuneration of Key Management Personnel (KMP) for the Group is disclosed in this Report. In 2017, KMP comprised Non-executive Directors, the CEO and Group Executives who reported to the CEO.

CEO and Group Executives

Name	Position	Term as KMP
Managing Director & Chief Executive Officer		
Brian Hartzler	Managing Director & Chief Executive Officer	Full Year
Current Group Executives		
Lyn Cobley	Chief Executive, Westpac Institutional Bank	Full Year
Brad Cooper	Chief Executive Officer, BT Financial Group	Full Year
Dave Curran	Chief Information Officer	Full Year
George Frazis	Chief Executive, Consumer Bank	Full Year
Alexandra Holcomb	Chief Risk Officer	Full Year
Peter King	Chief Financial Officer	Full Year
Rebecca Lim	Group General Counsel & Chief Compliance Officer	Commenced 1 October 2016
David Lindberg	Chief Executive, Business Bank	Full Year
David McLean	Chief Executive Officer, Westpac New Zealand Limited	Full Year
Christine Parker	Group Executive, Human Resources, Corporate Affairs & Sustainability	Full Year
Gary Thursby	Group Executive, Strategy & Enterprise Services	Commenced 1 October 2016
Former Group Executive		
Philip Coffey	Deputy Chief Executive Officer	Ceased role 31 May 2017

Non-executive Directors

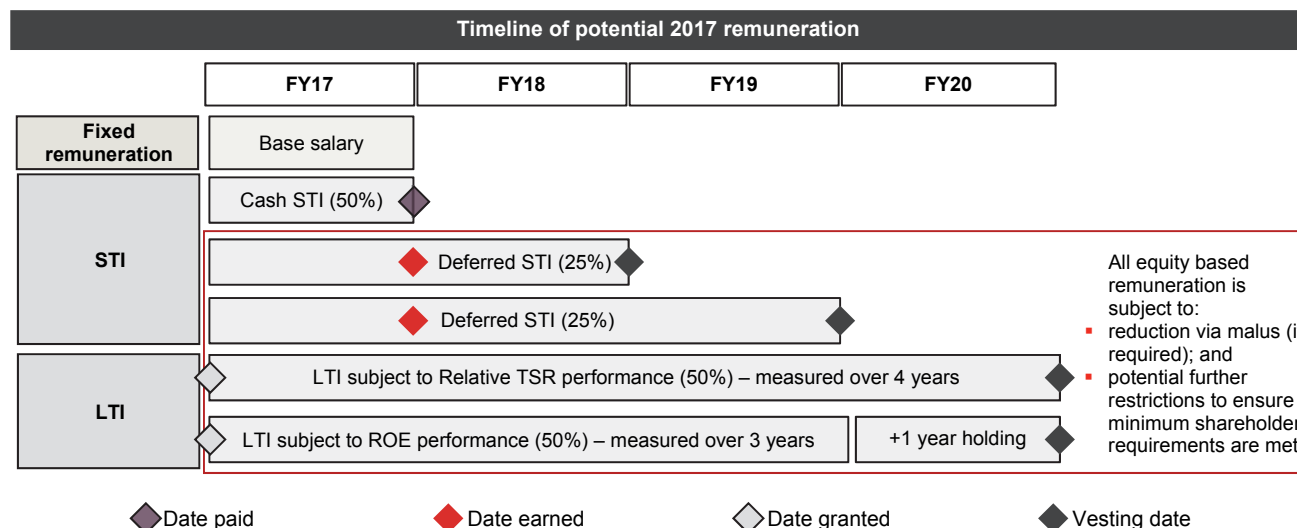
Name	Position	Term as KMP
Current Non-executive Directors		
Lindsay Maxsted	Chairman	Full Year
Nerida Caesar	Director	Appointed 1 September 2017
Ewen Crouch	Director	Full Year
Alison Deans	Director	Full Year
Craig Dunn	Director	Full Year
Robert Elstone	Director	Full Year
Peter Hawkins	Director	Full Year
Peter Marriott	Director	Full Year
Former Non-executive Director		
Elizabeth Bryan	Director	Retired 9 December 2016

2. Summary of the 2017 CEO and Group Executive remuneration framework

Remuneration Principles	
Westpac's remuneration strategy is designed to attract and retain talented employees by rewarding them for achieving high performance and delivering superior long term results for our customers and shareholders, while adhering to sound management and governance principles and reflecting accountability.	
The remuneration framework is designed to:	
<ul style="list-style-type: none"> align remuneration with customer and shareholder interests; support appropriate risk culture and employee conduct; differentiate pay for behaviour and performance in line with our strategy and vision; 	<ul style="list-style-type: none"> provide market competitive and fair remuneration; enable recruitment and retention of talented employees; provide the ability to risk adjust remuneration; and be simple, flexible and transparent.

Total Reward Framework				
	Fixed Remuneration	At Risk Remuneration (Variable Reward)		
		Short-term Incentive (STI)		Long-term Incentive (LTI)
		Cash STI	Deferred STI	
Target pay mix	34%	34%		32%
Purpose	Provided to attract and retain executives, and takes into account the size and complexity of the role, individual responsibilities, experience and skills.	Rewards financial and non-financial performance consistent with the Group's strategy over the short to medium term. The deferred component provides: <ul style="list-style-type: none"> alignment with shareholders over the medium term; and at risk pay with malus provisions. 		Aligns executive accountability and remuneration outcomes with the delivery of sustained group performance and shareholder interests over the long term. The LTI is also subject to adjustments via malus provisions during the performance period if required.
Delivery	Fixed remuneration comprises: <ul style="list-style-type: none"> cash salary; salary sacrificed items; and superannuation contributions. 	STI delivered as: <ul style="list-style-type: none"> 50% cash; and 50% restricted ordinary shares or share rights (for Group Executives outside Australia). 		LTI comprises: <ul style="list-style-type: none"> performance share rights which may vest to varying degrees if performance hurdles are achieved.
FY17 approach	Fixed remuneration is set with reference to relevant market benchmarks in the financial services industry.	STI performance measures include economic profit, earnings, risk, strategic programs, customer outcomes, people and sustainability. The STI performance measures have been selected to ensure focus in these key areas.		LTI performance measures (50:50): <ul style="list-style-type: none"> TSR is a comparative measure of Westpac's performance relative to peers; and ROE aims to reward achievement of returns above the cost of capital while generating shareholder value.

Performance, governance and risk-adjustment overlay	
All performance is assessed by the Board with reference to Group and divisional risk management policies. The Board retains the ultimate discretion to adjust remuneration outcomes and/or unvested variable reward (including to zero). This applies to equity granted under both the deferred STI and LTI plans if information comes to light that all or part of the award was not justified (malus).	



3. Summary of remuneration outcomes

3.1. Executive KMP remuneration – paid and vested in 2017¹

The following table shows the actual remuneration paid or vested to each executive KMP in 2017 compared to 2016 (unaudited) and includes:

- fixed remuneration earned during the year;
- cash STI awarded and paid in respect of the 2017 and 2016 performance years;
- deferred STI amounts awarded in prior years that vested at the end of 2017 and 2016 respectively; and
- LTI originally granted in 2014 and 2013 that vested or was forfeited at the end of 2017 and 2016 respectively.

This table shows actual remuneration paid, vested or forfeited while Section 7 represents outcomes prepared in accordance with Australian Accounting Standards (AAS).

Name	Fixed Remuneration \$	Cash STI awarded and paid \$	Prior year Deferred STI vested \$	Prior year LTI vested ² \$	Total realised remuneration \$	Prior year LTI forfeited ² \$
Managing Director & Chief Executive Officer						
Brian Hartzler						
2017	2,686,000	1,490,730	1,280,114	-	5,456,844	3,046,592
2016	2,686,000	1,302,710	949,349	-	4,938,059	2,610,944
Current Group Executives						
Lyn Cobley, Chief Executive, Westpac Institutional Bank						
2017	1,122,000	640,000	244,864	-	2,006,864	-
2016	1,122,000	492,500	-	-	1,614,500	-
Brad Cooper, Chief Executive Officer, BT Financial Group						
2017	1,102,517	792,500	779,625	-	2,674,642	2,206,129
2016	1,102,517	735,000	733,887	-	2,571,404	1,350,495
Dave Curran, Chief Information Officer						
2017	952,000	552,500	510,291	-	2,014,791	-
2016	952,000	467,500	258,810	-	1,678,310	-
George Frazis, Chief Executive, Consumer Bank						
2017	1,150,000	872,500	876,225	-	2,898,725	1,155,565
2016	1,150,000	815,000	798,746	-	2,763,746	990,344
Alexandra Holcomb, Chief Risk Officer						
2017	1,003,000	532,500	498,536	-	2,034,036	772,487
2016	1,003,000	492,500	400,492	-	1,895,992	450,134
Peter King, Chief Financial Officer						
2017	1,088,000	615,000	536,202	-	2,239,202	1,132,480
2016	1,088,000	545,000	410,367	-	2,043,367	270,075
Rebecca Lim, Group General Counsel & Chief Compliance Officer						
2017	750,000	412,500	248,227	-	1,410,727	388,674
2016	-----Not a KMP in 2016-----					
David Lindberg, Chief Executive, Business Bank						
2017	952,000	532,500	419,808	-	1,904,308	709,083
2016	901,000	477,500	314,033	-	1,692,533	405,142
David McLean, Chief Executive Officer, Westpac New Zealand Limited						
2017	864,889	412,570	430,410	-	1,707,869	-
2016	854,565	363,050	285,422	-	1,503,037	-

Name	Fixed Remuneration \$	Cash STI awarded and paid \$	Prior year Deferred STI vested \$	Prior year LTI vested ² \$	Total realised remuneration \$	Prior year LTI forfeited ² \$
Current Group Executives (cont.)						
Christine Parker, Group Executive, Human Resources, Corporate Affairs & Sustainability						
2017	850,000	517,500	481,816	-	1,849,316	1,365,665
2016	850,000	450,000	457,952	-	1,757,952	630,225
Gary Thursby, Group Executive, Strategy & Enterprise Services						
2017	840,000	485,000	371,764	-	1,696,764	409,680
2016	-----Not a KMP in 2016-----					
Former Group Executive						
Philip Coffey, Deputy Chief Executive Officer ³						
2017	908,741	457,500	669,828	-	2,036,069	2,237,655
2016	1,363,112	597,500	694,327	-	2,654,939	1,530,554

¹ We have adopted a new approach for this table regarding equity disclosures, where we show equity that vests at the end of the performance year as being part of the remuneration for that performance year (i.e. the 1 October 2017 vesting of deferred STI and LTI is one day after the completion of the 2017 performance year and is shown as vested or forfeited against 2017 in the table below). This is different from the approach adopted in prior years, where equity was disclosed as being part of remuneration in the year in which it vested or was forfeited.

² The value shown is calculated by multiplying the number of equity instruments by the closing share price on the date of vesting or forfeiture.

³ See Section 1 for details.

Summary of Group LTI vesting outcomes

The vesting outcomes for LTI awards to the CEO (CEO LTI Plan) and Group Executives (Westpac LTI Plan) that reached the completion of the performance period in 2017 and 2016 appear below:

	Performance measure	Performance start date	Test date	Performance range		Outcome	% Vested	% Lapsed
				Threshold	Maximum			
2014 LTI grant	TSR (50% of award)	1 October 2014	1 October 2017	50 th percentile	75 th percentile	20 th percentile	0%	100%
	EPS (50% of award)	1 October 2014	1 October 2017	5.0% CAGR	7.0% CAGR	(0.8%) CAGR	0%	100%
2013 LTI grant	TSR (50% of award)	1 October 2013	1 October 2016	50 th percentile	75 th percentile	20 th percentile	0%	100%
	EPS (50% of award)	1 October 2013	1 October 2016	4.0% CAGR	6.0% CAGR	1.10% CAGR	0%	100%

Other equity that vested during 2017

Lyn Cobley had 16,696 restricted shares which vested in July 2017 which were allocated in respect of equity forfeited from her previous employer on joining Westpac.

3.2. Executive KMP remuneration – equity awarded in 2017

The following table shows the fair value of equity awarded in 2017 and 2016 (unaudited) which is due to vest in future years, subject to performance hurdles, tenure and malus conditions as applicable including:

- deferred STI awards, being restricted shares valued as 50% of the STI allocated in the year divided by the 5 day volume weighted average price (VWAP)¹ to date of grant; and
- LTI awards, showing fair value of share rights granted in the year, where fair value is 40% of face value at date of grant for the 2017 award, and 41.5%² of face value at the date of grant for the 2016 award. LTI share rights are subject to performance conditions – see Section 4.3 for more detail.

The final value of equity that vests will depend on the proportion of shares or share rights that vest and the share price at the time of vesting. The values differ from those in Section 7 which represent outcomes prepared in accordance with AAS.

This table can be read in conjunction with table 7.3 which shows the number of securities granted in 2017.

Name		Deferred STI	LTI (Fair value)
		\$	\$
Managing Director & Chief Executive Officer			
Brian Hartzler ³	2017	1,490,730	2,528,000
	2016	1,302,710	2,528,000
Group Executives			
Lyn Cobley Chief Executive, Westpac Institutional Bank	2017	640,000	1,056,000
	2016	492,500	1,056,000
Brad Cooper Chief Executive Officer, BT Financial Group	2017	792,500	1,050,000
	2016	735,000	1,050,000
Dave Curran Chief Information Officer	2017	552,500	896,000
	2016	467,500	896,000
George Frazis Chief Executive, Consumer Bank	2017	872,500	1,000,000
	2016	815,000	1,000,000
Alexandra Holcomb Chief Risk Officer	2017	532,500	944,000
	2016	492,500	944,000
Peter King Chief Financial Officer	2017	615,000	1,024,000
	2016	545,000	1,024,000
Rebecca Lim Group General Counsel & Chief Compliance Officer	2017	412,500	700,000
	2016	----- Not a KMP in 2016 -----	-----
David Lindberg Chief Executive, Business Bank	2017	532,500	912,000
	2016	477,500	848,000
David McLean Chief Executive Officer, Westpac New Zealand Limited	2017	412,570	810,138
	2016	363,050	804,296
Christine Parker Group Executive, Human Resources, Corporate Affairs & Sustainability	2017	517,500	750,000
	2016	450,000	750,000
Gary Thursby Group Executive, Strategy & Enterprise Services	2017	485,000	700,000
	2016	----- Not a KMP in 2016 -----	-----
Former Group Executive			
Philip Coffey ⁴ Deputy Chief Executive Officer	2017	457,500	1,280,000
	2016	597,500	1,280,000

¹ The 2017 award 5 day VWAP was \$29.87, and the 2016 award 5 day VWAP was \$29.87.

² The fair value of 2016 TSR and EPS rights was 40% and 43% respectively.

³ The 2016 LTI opportunity for Brian Hartzler does not include the part year award for 2015 following his appointment as CEO that was awarded at the same time as the 2016 LTI award.

⁴ See Section 1 for details.

3.3. Summary of 2017 STI outcomes - How Group performance impacted CEO and Group Executive STI outcomes

STI scoreboard targets provide the basis of short term variable reward and communicate the areas of focus for the year, which includes the management of risk and demonstrating behaviours which are aligned to the Group values.

Application of discretion

The Board and the Remuneration Committee recognise that the scoreboard approach, while embracing a number of complementary performance objectives, may not always enable a complete assessment of overall performance. The Board and Remuneration Committee may therefore make discretionary adjustments, positive and negative, to the scoreboard outcomes for the CEO and Group Executives. The Board and Remuneration Committee use the following criteria to apply discretionary adjustments:

- matters not known or not relevant at the beginning of the financial year, which are relevant to the under or over performance of the CEO and Group Executives during the financial year;
- the degree of stretch implicit in the scoreboard measures and targets themselves and the context in which the targets were set;
- whether the operating environment during the financial year has been materially better or worse than forecast;
- comparison with the performance of the Group's principal competitors;
- any relevant positive or negative risk management or reputational issue that impacts the Group;
- the quality of the financial result including its composition and sustainability;
- whether there have been major positive or negative aspects regarding the quality of leadership and/or behaviours consistent with our values; and
- any other relevant under or over performance or other matter not captured.

The process ensures that financial measures such as economic profit are adjusted for non-operating items which impact the current year process such as write-offs, accounting standard changes or one-off transactions (where appropriate) to ensure that employees are neither advantaged nor disadvantaged when determining the incentive outcome. Adjustments are considered on a multi-year basis where appropriate e.g. where a material adjustment impacts future earnings.

Group balanced scoreboard – CEO performance objectives

The structure of the Group balanced scoreboard (which forms the CEO scoreboard), performance measures, weightings, assessment and the resulting STI outcomes are detailed in the following tables. The Group balanced scoreboard is also used in part for the Group Executive STI outcomes, in combination with individual scoreboard measures which contribute to determining the overall Group outcome.

The STI outcomes for individual executives have been determined using both quantitative and qualitative inputs including: the overall Group performance relative to the external competitive environment, individual performance against stretching targets, and judgement of individual's capability and contribution to the Group relative to peer executives including demonstrated leadership behaviours.

Group balanced scoreboard – CEO performance objectives (cont.)

	Measure	Weighting	Assessment	Considerations
Performance disciplines	Economic profit <i>Delivering underlying returns that create value for shareholders</i>	30%		<ul style="list-style-type: none"> Delivered economic profit of \$3,774 million with ROE at 13.8% within the 13-14% range we are seeking to achieve. Cash earnings growth of 3% was offset by a 5% increase in capital charge as we boosted capital levels in preparation for APRA 'unquestionably strong' capital requirements. The Group prioritised return over growth, and capital requirements were managed actively with credit risk weighted assets down 3%.
	Core earnings growth <i>Delivering consistent and sustainable growth in core earnings</i>	10%		<ul style="list-style-type: none"> Increased 1%. Revenues grew 2% supported by a 5% lending growth and 4% deposit growth partly offset by 4bps margin compression. Expenses rose just below 2% with productivity largely offsetting operating costs, with the increase due to investment and higher regulatory and compliance costs.
	Capital management <i>Providing a strong, stable and sustainable capital base on which to grow the business</i>	10%		<ul style="list-style-type: none"> Capital and liquidity positions are well placed to meet new regulatory requirements. Common equity tier 1 ratio of 10.6% was over a full percentage point higher over the year. Ended the year above the 'unquestionably strong' capital requirement set by APRA which does not come into effect until 2020. The Group is well placed for the introduction of the Net Stable Funding Ratio from 1 January 2018, with the 30 September 2017 ratio at 109%.
	Adherence to Group Risk Appetite Statement <i>Ensuring we operate within accepted risk tolerances</i>	10%		<ul style="list-style-type: none"> The external risk, regulatory and compliance environment continues to be increasingly complex and challenging. Overall we have remained within the Group Risk Appetite. Financial risk classes have been managed well including capital, funding and credit risk. We have continued to tighten underwriting standards in the residential and commercial property portfolios. Improvements have been made to the control environment across fraud, financial crime and conduct risk. Responsible lending, financial advice and sales practices have been a key focus, with management accelerating the pace of customer remediation programs. We have also made provisions for customer refunds and payments where we've identified instances where we need to take action so that our customers are not at a disadvantage from certain past practices. Ongoing programs of work are underway to address and enhance management of system and data related risks.
Driving strategic change	Service revolution <i>Putting customers at the centre of everything we do</i>	10%		<ul style="list-style-type: none"> Finished the year as No 1 in the Australian ranking for both consumer and business Net Promoter Score (Roy Morgan); with Westpac finishing the year ranked No 2 for Customer Satisfaction in the DBM survey. Complaints reduced by 18%. Continued to roll out multiple technology innovations to customers, including Panorama (our wealth management platform), e-conveyancing, Corporate Lending portal and faster on-boarding, Collections web portal, LOLA (our Live Online Lending Application), and numerous feature and usability enhancements for mobile banking across all brands.

	Measure	Weighting	Assessment	Considerations
Driving strategic change (cont.)	Service revolution (cont.)			<ul style="list-style-type: none"> Continued to receive external recognition with some of the awards won this year being: Retail Financial Institution of the year, Best Private Bank in Australia, Best use of technology in Private Banking/Wealth Management, and Best Digital Bank (NZ).
	Building growth highways <i>Securing future growth in earnings</i>	10%		<ul style="list-style-type: none"> Grew ahead of expectations on deposits and SME lending and in target segments of health and professional services. In Wealth maintained a market share of #1 on all retail platforms with positive net flows in funds under administration.
	Digital transformation <i>Delivering solutions that anticipate the needs and expectations of our customers</i>	10%		<ul style="list-style-type: none"> Delivered \$262 million in productivity savings, through digitising activities and transactions, reducing manual activity and increasing eStatements. Good progress on a number of major investments - Customer Service Hub, launched a Big Data platform and installed a new call centre platform. Major milestones included implementation of the Oracle Banking platform and Group Customer Master within the Westpac Technology environment. All programs on track, delivering committed milestones and outcomes. Continued our focus on using technology to drive transformation. We have used process automation and simplification initiatives across ~500 processes and the management of ~32 million customer activities annually. Upgraded our Cybersecurity Coordination Centre (further improving our ability to detect and respond to global threats 24x7). Installed new call centre infrastructure that will materially improve the experience of calling Westpac as well as providing the foundation for a range of new customer service initiatives.
People	People and sustainability <i>Providing an environment that encourages our employees to be the best they can be and drives the right behaviours</i>	10%		<ul style="list-style-type: none"> We were awarded the Dow Jones Sustainability Index's most sustainable bank for 4th year in a row, with our highest score ever achieved of 94 out of 100 points. Achieved our target of 50% of women in leadership roles. Group employee engagement was 79%, 2% above the Global High Performing Norm, with employee pride in the organisation increasing 11 points to 91%. Strengthened our incident management and whistleblowing processes to help our employees 'feel safe to speak up' (latest employee survey result being 80% and above the Global High Performing Norm of 79%). Our Health, Safety and Wellbeing metrics continue to be market leading with Lost Time Injury Frequency rates of 0.65 relative to a target of 0.75 and our same day incident reporting exceeding 90%.

CEO STI outcome for 2017

The CEO outcome for 2017 was determined by the Board with reference to the Group balanced scoreboard outcome and the principles of discretion detailed overleaf.

Name and position title	Target STI	STI outcome % of target	STI outcome % of max	Actual Cash STI (50%)	Actual Deferred STI (50%)
Brian Hartzler Managing Director & Chief Executive Officer	\$2,686,000	111%	74%	\$1,490,730	\$1,490,730

Individual Group Executive STI outcomes for 2017

Name and position title	Target STI	STI outcome % of target	STI outcome % of max	Actual Cash STI (50%)	Actual Deferred STI (50%)
Current Group Executives					
Lyn Cobley Chief Executive, Westpac Institutional Bank	\$1,122,000	114%	76%	\$640,000	\$640,000
Brad Cooper Chief Executive Officer, BT Financial Group	\$1,600,000	99%	66%	\$792,500	\$792,500
Dave Curran Chief Information Officer	\$952,000	116%	77%	\$552,500	\$552,500
George Frazis Chief Executive, Consumer Bank	\$1,600,000	109%	73%	\$872,500	\$872,500
Alexandra Holcomb Chief Risk Officer	\$1,003,000	106%	71%	\$532,500	\$532,500
Peter King Chief Financial Officer	\$1,088,000	113%	75%	\$615,000	\$615,000
Rebecca Lim Group General Counsel & Chief Compliance Officer	\$750,000	110%	73%	\$412,500	\$412,500
David Lindberg Chief Executive, Business Bank	\$969,000	110%	73%	\$532,500	\$532,500
David McLean Chief Executive Officer, Westpac New Zealand Limited	\$860,772	96%	64%	\$412,570	\$412,570
Christine Parker Group Executive, Human Resources, Corporate Affairs & Sustainability	\$900,000	115%	77%	\$517,500	\$517,500
Gary Thursby Group Executive, Strategy & Enterprise Services	\$860,000	113%	75%	\$485,000	\$485,000
Former Group Executive					
Philip Coffey¹ Deputy Chief Executive Officer	\$906,667	101%	67%	\$457,500	\$457,500

¹ See Section 1 for details.

3.4. Group financial performance – five year perspective

The following table provides the Group's economic profit, ROE, TSR, dividends per share, cash earnings per share and share price performance each year from 2013 for the past five years including 2017 and the STI outcomes for the CEO over the same period:

	Years Ended 30 September				
	2017	2016	2015	2014	2013
CEO STI outcome (% target)	111%	97%	108%	127%	123%
Economic profit (\$m)	3,774	3,774	4,418	4,491	4,068
ROE	13.77%	14.00%	15.80%	16.40%	15.90%
TSR – three years	11.79%	15.24%	62.30%	102.03%	66.09%
TSR – five years	81.32%	100.72%	92.78%	103.74%	90.91%
Dividends per Westpac share (cents) ¹	188	188	187	182	174
Cash earnings per Westpac share ²	\$2.40	\$2.35	\$2.48	\$2.45	\$2.28
Share price – high	\$35.39	\$33.74	\$40.07	\$35.99	\$34.79
Share price – low	\$28.92	\$27.57	\$29.10	\$30.00	\$24.23
Share price – close	\$31.92	\$29.51	\$29.70	\$32.14	\$32.73

¹ Does not include \$0.20 special dividend determined in 2013.

² Cash earnings are not prepared in accordance with AAS and have not been subject to audit.

4. Further detail on 2017 executive remuneration structure

4.1. Fixed remuneration

Fixed remuneration takes into account the size and complexity of the role, individual responsibilities, experience and skills. Fixed remuneration is set based on relevant market benchmarks within the financial services industry.

4.2. Short-term incentive

STI provides the opportunity for participants to earn cash and deferred equity incentives where specific outcomes have been achieved in the financial year. The STI outcomes for the CEO and each Group Executive are assessed using a balanced scoreboard, combining both annual financial and non-financial objectives which support the Group's strategy.

2017 STI Plan	
Plan structure	50% cash, 50% deferred equity in the form of restricted ordinary shares (or share rights for Group Executives based outside of Australia). The equity portion of the STI award vests over the following schedule: 50% at the end of year 1, and 50% at the end of year 2.
Target opportunity	The CEO's STI target for 2017 was \$2,686,000, unchanged from 2016. STI targets for the CEO and Group Executives are set by the Remuneration Committee and approved by the Board at the beginning of each performance year, based on a range of factors including market competitiveness and the nature of each role. The STI targets for the 2017 performance year did not increase for those Group Executives whose fixed remuneration was unchanged in 2017.
Maximum opportunity	The maximum STI opportunity is 150% of target (the minimum opportunity being nil).
Performance conditions	Performance is measured against risk-adjusted financial targets and non-financial targets which support the Group's strategy. Performance measures are based on performance at Group, divisional and individual level. The deferred STI awards recognise past performance and are not subject to further performance hurdles (other than continued service) and receive dividends over the vesting period. See Section 3.3 for the Group balanced scoreboard.
Assessment of performance outcomes	STI outcomes are subject to both a quantitative and qualitative assessment, including a risk management overlay, which is embedded in the scoreboard measurement process. The Board has the capacity to adjust STI outcomes (and reduce STI outcomes to zero if appropriate) in the assessment process.

4.3. Long-term incentive

The LTI is designed to align the remuneration of executives to the long-term performance of the Group and the interests of shareholders. The amount of the award takes into account market benchmarks, individual performance over time, succession potential and key skills.

LTI structure 2017 (awarded at the beginning of the 2017 performance year)

CEO LTI Plan and Westpac LTI Plan	
Equity instrument	Performance share rights - One share right entitles the holder to one ordinary share at the time of vesting at a nil exercise cost. Share rights do not attract the payment of dividends.
LTI award opportunity	The CEO was granted an LTI award of \$2,528,000 (at fair value) in the form of share rights for 2017 under the CEO LTI Plan. At the beginning of each year, the Board, advised by the Remuneration Committee, sets the dollar value of the LTI award target for the CEO and each Group Executive.
Determining the number of securities	The number of share rights each individual receives is determined by dividing the dollar value of the LTI award by the fair value of the share rights at the beginning of the performance assessment period (performance period). The fair value of share rights is determined by an independent valuer taking as a starting point the market price of Westpac shares at grant and using a Monte Carlo simulation pricing model, applying assumptions based on expected life, volatility, risk-free interest rate and dividend yield associated with the securities and the risk of forfeiture attributed to each performance hurdle. The Remuneration Committee caps the valuation at a maximum discount of 60% of the relevant share price. The value of a TSR hurdled share right may be different to an ROE hurdled share right.

CEO LTI Plan and Westpac LTI Plan																																											
Performance hurdles	2017 LTI (Awarded in December 2016)																																										
	TSR 50% of the allocation																																										
	ROE 50% of the allocation																																										
The TSR performance hurdle measures Westpac's TSR against a composite TSR index over the four year performance period, providing an arms-length assessment of our comparative performance against peers. At the end of the performance period, TSR performance of each of the index companies will be multiplied by its index TSR weighting, and the total of the 10 scores will comprise the composite index performance measure. Performance levels required for vesting of TSR share rights are detailed in the table below:	This hurdle aims to reward achievement of returns comfortably above the Group's cost of capital while generating shareholder value and further improving how efficiently the Group uses its limited capital resources within the Group's risk appetite. The ROE performance hurdle measures the average cash return on average ordinary equity over the three year performance period. ROE rights which satisfy the ROE hurdle and qualify for vesting at the completion of the three year performance period will have a one year holding lock applied and will vest at the completion of the four year term from the commencement date. A description of the process used to determine cash earnings is provided at Note 2 to the financial statements. Performance levels required for vesting of ROE share rights are detailed in the table below:																																										
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;">TSR performance (2017 to 2020 inclusive)</th> <th style="width: 40%;">% vesting</th> </tr> </thead> <tbody> <tr> <td>At or exceeding the index growth by 21.55¹</td> <td style="text-align: center;">100%</td> </tr> <tr> <td>Between meeting index and exceeding the index growth by 21.55</td> <td style="text-align: center;">Straight line vesting</td> </tr> <tr> <td>Equal to index</td> <td style="text-align: center;">50%</td> </tr> <tr> <td>Below index</td> <td style="text-align: center;">0%</td> </tr> </tbody> </table> <p>¹ 21.55 (5% average compound annual growth rate)</p> <p>The companies in the 2017 peer group for the Westpac LTI Plan and their relative weightings are:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 70%;">Company</th> <th style="width: 30%;">TSR weighting</th> </tr> </thead> <tbody> <tr><td>ANZ Banking Group</td><td style="text-align: right;">16.67%</td></tr> <tr><td>Commonwealth Bank</td><td style="text-align: right;">16.67%</td></tr> <tr><td>National Australia Bank</td><td style="text-align: right;">16.67%</td></tr> <tr><td>AMP</td><td style="text-align: right;">7.14%</td></tr> <tr><td>Bank of Queensland</td><td style="text-align: right;">7.14%</td></tr> <tr><td>Bendigo and Adelaide Bank</td><td style="text-align: right;">7.14%</td></tr> <tr><td>Challenger</td><td style="text-align: right;">7.14%</td></tr> <tr><td>Macquarie Group</td><td style="text-align: right;">7.14%</td></tr> <tr><td>Perpetual</td><td style="text-align: right;">7.14%</td></tr> <tr><td>Suncorp Group</td><td style="text-align: right;">7.14%</td></tr> </tbody> </table> <p>For the 2017 grant, the TSR share rights will be tested against the performance hurdle on 30 September 2020.</p>	TSR performance (2017 to 2020 inclusive)	% vesting	At or exceeding the index growth by 21.55 ¹	100%	Between meeting index and exceeding the index growth by 21.55	Straight line vesting	Equal to index	50%	Below index	0%	Company	TSR weighting	ANZ Banking Group	16.67%	Commonwealth Bank	16.67%	National Australia Bank	16.67%	AMP	7.14%	Bank of Queensland	7.14%	Bendigo and Adelaide Bank	7.14%	Challenger	7.14%	Macquarie Group	7.14%	Perpetual	7.14%	Suncorp Group	7.14%	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;">ROE performance (2017 to 2019 inclusive)</th> <th style="width: 40%;">% vesting</th> </tr> </thead> <tbody> <tr> <td>At or above 14.5%</td> <td style="text-align: center;">100%</td> </tr> <tr> <td>Between 13.5% and 14.5%</td> <td style="text-align: center;">Straight line vesting</td> </tr> <tr> <td>Equal to 13.5%</td> <td style="text-align: center;">50%</td> </tr> <tr> <td>Below 13.5%</td> <td style="text-align: center;">0%</td> </tr> </tbody> </table> <p>For the 2017 grant, the share rights will be tested against the performance hurdles on 30 September 2019. Share rights that qualify for vesting will have a one year holding lock applied and will vest on 30 September 2020.</p>	ROE performance (2017 to 2019 inclusive)	% vesting	At or above 14.5%	100%	Between 13.5% and 14.5%	Straight line vesting	Equal to 13.5%	50%	Below 13.5%	0%
TSR performance (2017 to 2020 inclusive)	% vesting																																										
At or exceeding the index growth by 21.55 ¹	100%																																										
Between meeting index and exceeding the index growth by 21.55	Straight line vesting																																										
Equal to index	50%																																										
Below index	0%																																										
Company	TSR weighting																																										
ANZ Banking Group	16.67%																																										
Commonwealth Bank	16.67%																																										
National Australia Bank	16.67%																																										
AMP	7.14%																																										
Bank of Queensland	7.14%																																										
Bendigo and Adelaide Bank	7.14%																																										
Challenger	7.14%																																										
Macquarie Group	7.14%																																										
Perpetual	7.14%																																										
Suncorp Group	7.14%																																										
ROE performance (2017 to 2019 inclusive)	% vesting																																										
At or above 14.5%	100%																																										
Between 13.5% and 14.5%	Straight line vesting																																										
Equal to 13.5%	50%																																										
Below 13.5%	0%																																										
Who measures the performance hurdle outcomes?	To ensure objectivity and external validation, TSR results are calculated by an independent external consultant and are provided to the Board or its delegate to review and determine vesting outcomes. Under the relevant plan rules, the Board may exercise discretion if in all prevailing circumstances Directors think it is appropriate to do so when determining the ultimate vesting outcome.																																										
No re-testing	There has been no re-testing on LTI awards made since 2011. No award currently on foot is subject to re-testing. Accordingly, securities that have not vested after the measurement period lapse immediately.																																										

CEO LTI Plan and Westpac LTI Plan

Early vesting is possible in limited cases	For awards made since 1 October 2009, unvested securities may vest before a test date if the executive is no longer employed by the Group due to death or disability. In general, any such vesting is not subject to performance hurdles being met.
Treatment of securities	<p>The Board has discretion in relation to performance share rights where the CEO or a Group Executive resigns or retires or otherwise leaves the Group before vesting occurs. This discretion enables the Board to vest the relevant securities or leave them on foot for the remainder of the performance period. In exercising its discretion, the Board will take into account all relevant circumstances including those surrounding the departure in question. The Board may also adjust the number of performance share rights downwards, or to zero (in which case they will lapse) where the circumstances of the departure warrant, or to respond to misconduct resulting in significant financial and/or reputational impact to Westpac.</p> <p>Where a holder acts fraudulently or dishonestly, or is in material breach of their obligations under the relevant equity plan, unexercised performance share rights (whether vested or unvested) will lapse unless the Board determines otherwise.</p>

Details for other LTI awards currently on foot (CEO and Group Executives) can be found in the following Reports:

- 2015 LTI award, vesting on 30 September 2018 – 50% of award subject to ranked TSR performance against a peer group, and 50% of the award subject to cash EPS CAGR performance condition. Refer to the 2015 Annual Report; and
- 2016 LTI award, vesting on 30 September 2019 – 50% of award subject to TSR performance against a weighted composite index of comparator companies, and 50% of the award subject to cash EPS CAGR performance condition. Refer to the 2016 Annual Report.

LTI structure 2018 (awarded at the beginning of 2018 performance year)

The LTI structure for the 2018 award will retain the same design features as the 2017 award.

The TSR hurdle, as detailed above, will remain unchanged in 2018.

The performance range for the ROE component of the 2018 LTI has been set at an average ROE of between 13.25% and 14.25%. The range is 25 basis points lower than the 2017 LTI ROE target as it reflects updated information on regulatory capital requirements, and the likely prospects of a more competitive business environment and higher impairment charges. The ROE target range also takes into account the Group's risk appetite whilst incentivising the delivery of stretching performance outcomes.

The Board retains ultimate discretion to ensure that vesting outcomes deliver alignment between performance and shareholder outcomes.

4.4. Shareholding requirements and hedging policy

To align further their interests with those of shareholders, the CEO and Group Executives are required to build and maintain a substantial Westpac shareholding within five years of being appointed to their role.

	Minimum shareholding requirement
CEO	Five times annual fixed remuneration (\$13.43 million)
Group Executives	\$1.2 million each

All Group Executives who have been in a Group Executive role for more than five years meet these shareholding requirements. Executives that have been in Group Executive roles for less than five years are working towards, or have already satisfied, these requirements.

Participants in the Group's equity plans are forbidden from entering, either directly or indirectly, into hedging arrangements for unvested securities in their STI and LTI equity awards. No financial products of any kind may be used to mitigate the risk associated with these awards. Any attempt to hedge these securities makes them subject to forfeiture. These restrictions have been in place for some time and satisfy the requirements of the Corporations Act which prohibit hedging of unvested securities.

4.5. Employment agreements

The remuneration and other terms of employment for the CEO and Group Executives are formalised in their employment agreements. Each of these employment agreements provides for the payment of fixed and performance-based remuneration, employer superannuation contributions and other benefits such as death and disablement insurance cover.

The term and termination provisions of the employment agreements for the FY17 Executive KMP are summarised below:

Term	Who	Conditions
Duration of agreement	CEO and all Group Executives	<ul style="list-style-type: none"> Ongoing until notice given by either party
Notice to be provided by the executive or the Group to terminate the employment agreement	CEO and Group Executives (excluding Philip Coffey)	<ul style="list-style-type: none"> 12 months¹
	Philip Coffey	<ul style="list-style-type: none"> 6 months
Termination payments to be made on termination without cause ²	CEO and all Group Executives	<ul style="list-style-type: none"> Deferred STI and LTI awards vest according to the applicable equity plan rules
Termination for cause	CEO and Group Executives (excluding Brad Cooper and Philip Coffey)	<ul style="list-style-type: none"> Immediately for misconduct 3 months' notice for poor performance
	Brad Cooper and Philip Coffey	<ul style="list-style-type: none"> Immediately for misconduct Contractual notice period for poor performance
Post-employment restraints	CEO and all Group Executives	<ul style="list-style-type: none"> 12 month non-solicitation restraint

¹ Payment in lieu of notice may in certain circumstances be approved by the Board for some or all of the notice period.

² The maximum liability for termination benefits for the CEO and other Executive KMP at 30 September 2017 was \$13.4 million (2016: \$13 million).

5. Remuneration governance

The Group's remuneration policy supports Westpac's vision and strategy by:

- requiring the design and management of remuneration to align with customer and shareholder interests;
- supporting financial soundness; and
- encouraging prudent risk management.

The role of the Board is to provide strategic guidance for the Group and effective oversight of management. As part of this role, the Board has overall accountability for remuneration.

The Remuneration Committee assists the Board to fulfil its remuneration responsibilities to shareholders by monitoring the remuneration policies and practices of the Group, external remuneration practices, market expectations and regulatory requirements in Australia and internationally. The Committee's purpose, responsibilities and duties are outlined in the Board Remuneration Committee Charter which is available on the Group's website. The Charter was last reviewed and amended in March 2016.

The Group's remuneration strategy, executive remuneration framework, policies and practices all reflect the sound risk management that is fundamental to the way the Group operates, the law and high standards of governance. The performance of each division is reviewed and measured with reference to how risk is managed and the results influence remuneration outcomes for accountable employees.

In carrying out its duties, the Remuneration Committee can access risk and financial control personnel and engage external advisors who are independent of management. The Chairman of the Board Risk & Compliance Committee is also a member of the Remuneration Committee, and members of the Remuneration Committee are also members of the Board Risk & Compliance Committee.

The executive Total Reward framework (outlined in Section 2 of this Report) specifically includes features to take account of risk.

Members of the Remuneration Committee during 2017

All members of the Remuneration Committee are independent Non-executive Directors. During 2017, the members were:

- Craig Dunn (Chairman from 9 December 2016);
- Ewen Crouch (Chairman to 9 December 2016);
- Elizabeth Bryan (retired on 9 December 2016); and
- Robert Elstone.

Independent remuneration consultant

In 2017, the Board retained Guerdon Associates as its independent consultant to provide specialist information on executive remuneration and other remuneration matters, the services being provided directly to the Remuneration Committee independent of management. The Chairman of the Remuneration Committee oversees the engagement and costs of the independent consultant.

Work undertaken by Guerdon Associates during 2017 included the provision of information relating to the benchmarking of Non-executive Director, CEO and Group Executive remuneration. No remuneration recommendations, as prescribed under the Corporations Act, were made by Guerdon Associates in 2017.

Approval of remuneration decisions

The Group follows a strict process of 'two-up' approval for all remuneration decisions. This means that remuneration is approved by the next most senior person above the employee's manager. This concept is also reflected in our requirement for the Board, based on recommendations from the Remuneration Committee, to approve performance outcomes and remuneration for:

- the CEO and Group Executives; and
- other executives who report directly to the CEO, other persons whose activities in the Board's opinion affect the financial soundness of the Group and any other person specified by the Australian Prudential Regulation Authority.

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

6. Non-executive Director remuneration

6.1. Structure and policy

Remuneration policy

Westpac's Non-executive Director remuneration strategy is designed to attract and retain experienced, qualified Board members and remunerate them appropriately for their time and expertise.

Fees for Non-executive Directors are not related to the Group's short-term results and Non-executive Directors do not receive performance-based remuneration. Non-executive Director remuneration consists of the following components:

Remuneration Component	Paid as	Detail
Base fee	Cash	This fee is for service on the Westpac Banking Corporation Board. The base fee for the Chairman covers all responsibilities, including all Board Committees.
Committee fees	Cash	Additional fees are paid to other Non-executive Directors for chairing or participating in Board Committees.
Employer superannuation contributions	Superannuation	Reflects statutory superannuation contributions which are capped at the superannuation maximum contributions base as prescribed under the Superannuation Guarantee legislation.
Subsidiary Board and Advisory Board fees	Cash	Fees are for service on Subsidiary Boards and Advisory Boards and are paid by the relevant subsidiary.

Non-executive Director remuneration in 2017

Non-executive Director fee review – Effective 1 October 2016

The Board reviewed the Non-executive Director fee framework in late 2016. On the basis of market data provided by Guerdon Associates, the Board approved an increase to the member fees for the Board Technology Committee recognising the workload associated with these roles.

Changes to Board and Committee composition

The following changes were made to Board and Committee composition:

- Elizabeth Bryan retired on 9 December 2016 following the 2016 Annual General Meeting;
- Ewen Crouch was appointed Chairman of the Board Risk & Compliance Committee effective 9 December 2016 stepping down as Chairman of the Board Remuneration Committee on the same date (remaining a member of that Committee);
- Craig Dunn was appointed as Chairman of the Board Remuneration Committee and member of the Board Nominations Committee effective 9 December 2016; and
- Nerida Caesar was appointed as a Non-executive Director to the Westpac Board effective 1 September 2017 and appointed to the Board Risk & Compliance and Board Technology Committees effective 28 September 2017.

Fee pool

At the 2008 Annual General Meeting, the current fee pool of \$4.5 million per annum was approved by shareholders. For the year ended 30 September 2017, \$2.94 million (65%) of this fee pool was used. The fee pool is inclusive of employer superannuation contributions.

Fee framework

This section details the current Non-executive Director fee framework.

Base and Committee fees

The following table sets out the Board and standing Committee fees:

Base Fee	Annual Rate \$
Chairman	810,000
Non-executive Directors	225,000
Committee Chairman Fees	
Audit Committee	70,400
Risk and Compliance Committee	70,400
Remuneration Committee	63,800
Technology Committee	35,200
Committee Membership Fees	
Audit Committee	32,000
Risk and Compliance Committee	32,000
Remuneration Committee	29,000
Technology Committee	20,000

Committee fees are not payable to the Chairman of the Board and members of the Nominations Committee.

Employer superannuation contributions

The Group pays superannuation contributions to Non-executive Directors of up to 9.5% of their fees. The contributions are capped at the superannuation maximum compulsory contributions base prescribed under the Superannuation Guarantee legislation.

Subsidiary Board and Advisory Board fees

During the reporting period, additional fees of \$35,000 were paid to Peter Hawkins as a member of the Bank of Melbourne Advisory Board.

Minimum shareholding

Non-executive Directors are required to build and maintain their individual holdings of Westpac ordinary shares to align their interests with the long-term interests of shareholders. The Board Chair and each Non-executive Director are required to hold an interest in shares in Westpac with a market value not less than the Board base fee within five years of appointment to the Board. Details of Non-executive Directors' Westpac (and related bodies corporate) shareholdings are set out in Section 7.4.

7. Statutory remuneration details

7.1. Details of Non-executive Director remuneration

Details of Non-executive Director remuneration are set out in the table below:

Name	Short-Term Benefits		Post-Employment Benefits		Total \$
	Westpac Banking Corporation Board Fees ¹ \$	Subsidiary and Advisory Board Fees \$	Superannuation \$		
Current Non-executive Directors					
Lindsay Maxsted, Chairman					
2017	810,000	-	19,734		829,734
2016	810,000	-	19,540		829,540
Nerida Caesar ²					
2017	18,921	-	1,619		20,540
Ewen Crouch					
2017	323,719	-	19,734		343,453
2016	320,800	-	19,540		340,340
Alison Deans					
2017	277,000	-	19,734		296,734
2016	273,000	-	19,540		292,540
Craig Dunn					
2017	314,221	-	19,734		333,955
2016	286,000	-	19,540		305,540
Robert Elstone					
2017	318,000	-	19,734		337,734
2016	318,000	-	19,540		337,540
Peter Hawkins					
2017	324,200	35,000	19,658		378,858
2016	324,200	35,000	19,465		378,665
Peter Marriott					
2017	347,400	-	19,734		367,134
2016	343,400	-	19,540		362,940
Former Non-executive Director					
Elizabeth Bryan ²					
2017	62,214	-	3,709		65,923
2016	324,400	-	19,540		343,940
Total fees					
2017	2,795,675	35,000	143,390		2,974,065
2016 ³	2,999,800	35,000	156,245		3,191,045

¹ Includes fee paid to the Chairman and members of Board Committees.

² Refer to Section 1 of the Report for details.

³ The total fees for 2016 reflect the prior year remuneration for the 2016 reported Non-executive Directors.

7.2. Remuneration details – CEO and Group Executives

This section sets out details of remuneration for the CEO and Group Executives for the 2017 financial year, calculated in accordance with AAS.

Name	Short-Term Benefits			Other Short-Term Benefits ⁴	Post-Employment Benefits Superannuation Benefits ⁵	Other Long-Term Benefits Long Service Leave	Share-Based Payments		Total ⁹
	Fixed Remuneration ¹	STI (Cash) ²	Non-Monetary Benefits ³				Restricted Shares ⁶	Share Rights ^{7,8}	
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Managing Director & Chief Executive Officer									
Brian Hartzler									
2017	2,665,249	1,490,730	19,494	-	41,226	40,697	1,287,590	1,136,724	6,681,710
2016	2,774,879	1,302,710	21,349	-	36,522	40,722	1,128,139	1,447,696	6,752,017
Current Group Executives									
Lyn Cobley, Chief Executive, Westpac Institutional Bank									
2017	1,089,650	640,000	4,014	-	37,818	16,995	767,014	591,601	3,147,092
2016	1,097,409	492,500	1,850	-	27,480	17,005	977,182	307,514	2,920,940
Brad Cooper, Chief Executive Officer, BT Financial Group									
2017	1,064,384	792,500	2,924	-	39,503	(41,160)	754,634	347,391	2,960,176
2016	1,060,435	735,000	4,089	-	36,727	16,730	831,388	800,145	3,484,514
Dave Curran, Chief Information Officer									
2017	941,632	552,500	4,014	-	28,451	14,424	487,089	404,406	2,432,516
2016	914,905	467,500	4,089	-	25,921	14,424	428,244	461,898	2,316,981
George Frazis, Chief Executive, Consumer Bank									
2017	1,127,559	872,500	4,014	-	40,509	17,419	842,782	401,563	3,306,346
2016	1,131,541	815,000	3,039	-	37,090	17,451	925,520	591,094	3,520,735
Alexandra Holcomb, Chief Risk Officer									
2017	950,564	532,500	2,924	-	39,645	4,669	520,145	386,131	2,436,578
2016	949,671	492,500	3,039	-	36,936	16,199	587,415	566,909	2,652,669
Peter King, Chief Financial Officer									
2017	1,047,360	615,000	4,014	-	34,421	16,485	537,796	405,875	2,660,951
2016	1,041,344	545,000	4,089	-	31,072	48,728	499,345	661,789	2,831,367
Rebecca Lim, Group General Counsel & Chief Compliance Officer									
2017	756,722	412,500	3,512	-	28,201	45,641	425,776	206,069	1,878,421
David Lindberg, Chief Executive, Business Bank									
2017	928,528	532,500	11,901	-	27,244	18,507	453,174	398,655	2,370,509
2016	880,296	477,500	17,070	-	23,103	15,069	403,624	464,140	2,280,802
David McLean, Chief Executive Officer, Westpac New Zealand Limited									
2017	736,628	412,570	39,739	-	76,082	-	39	837,360	2,102,418
2016	760,848	363,050	33,753	-	76,093	-	14,322	932,957	2,181,023
Christine Parker, Group Executive, Human Resources, Corporate Affairs & Sustainability									
2017	824,006	517,500	4,604	-	26,643	(3,479)	464,335	260,141	2,093,750
2016	849,556	450,000	4,650	-	24,279	(5,013)	518,374	558,680	2,400,526
Gary Thursby, Group Executive, Strategy & Enterprise Services									
2017	820,262	485,000	2,924	-	29,819	12,642	372,119	225,354	1,948,120
Former Group Executive									
Philip Coffey, Deputy Chief Executive Officer ¹⁰									
2017	844,753	457,500	3,053	-	28,654	13,750	780,444	2,811,904	4,940,058
2016	1,289,796	597,500	4,105	-	41,497	20,678	766,988	913,187	3,633,751

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

² 2017 STI figures reflect annual cash performance awards accrued but not yet paid in respect of the year ended 30 September 2017. STI awards are paid in the December pay cycle.

³ Non-monetary benefits are determined on the basis of the cost to the Group (including associated FBT, where applicable) and include annual health checks, provision of taxation advice, relocation costs, living away from home expenses and allowances.

⁴ Includes payments on cessation of employment or other contracted amounts.

⁵ The CEO and Group Executives are provided with life insurance cover under the Westpac Group Plan at no cost. Superannuation benefits have been calculated consistent with AASB 119 Employee Benefits.

⁶ The value of restricted shares is amortised over the applicable vesting period and the amount shown is the amortisation relating to the 2017 reporting year (and 2016 year as comparison). See footnote 10 for the treatment of Philip Coffey's equity.

- ⁷ Equity-settled remuneration is based on the amortisation over the vesting period (normally three or four years) of the 'fair value' at grant date of hurdled and unhurdled options and share rights that were granted during the four years ended 30 September 2017. Details of prior years' grants have been disclosed in previous Annual Reports. The value for David McLean includes 53% attributed to deferred STI. See footnote 10 for the treatment of Philip Coffey's equity.
- ⁸ The expensed value of the December 2015 LTI EPS hurdled rights has been reduced to 0% and the expensed value of the December 2016 LTI EPS hurdled rights and 2017 LTI ROE hurdled rights have been reduced to 50%. This reflects the Board's current assessment of the probability of the threshold ROE (2017 grant) or EPS hurdles (2015 and 2016 grants) being met and share rights vesting over time. See footnote 10 for the treatment of Philip Coffey's equity.
- ⁹ The percentage of the total remuneration which is performance related (i.e. STI cash plus share-based payments) was: Brian Hartzler 59%, Lyn Cobley 64%, Philip Coffey 82%, Brad Cooper 64%, Dave Curran 59%, George Frazis 64%, Alexandra Holcomb 59%, Peter King 59%, Rebecca Lim 56%, David Lindberg 58%, David McLean 59%, Christine Parker 59% and Gary Thursby 56%. The percentage of total remuneration delivered in the form of options (including share rights) was: Brian Hartzler 17%, Lyn Cobley 19%, Philip Coffey 57%, Brad Cooper 12%, Dave Curran 17%, George Frazis 12%, Alexandra Holcomb 16%, Peter King 15%, Rebecca Lim 11%, David Lindberg 17%, David McLean 40%, Christine Parker 12% and Gary Thursby 12%.
- ¹⁰ Refer Section 1 of the Report for details. The share based payment values for Philip Coffey reflect the accruals for all unvested equity granted for the entire period up to the end of each performance period. For example, the 2017 LTI will include the accrual for four years until the vesting date in lieu of a single year accrual value for 2017. While the full value is being accrued for all unvested equity held by Philip Coffey, the awards may or may not vest subject to the relevant performance hurdles.

7.3. Movement in equity-settled instruments during this year

This table shows the details of movements during 2017 in the number and value of equity instruments for the CEO and Group Executives under the relevant plans:

Name	Type of Equity-Based Instrument	Number Granted ¹	Number Vested ²	Number Exercised ³	Value Granted ⁴ \$	Value Exercised ⁵ \$	Value Forfeited or Lapsed ^{5,6} \$
Managing Director & Chief Executive Officer							
Brian Hartzler	CEO Performance share rights	211,548	-	-	4,226,729	-	-
	Performance share rights	-	-	-	-	-	2,610,944
	Shares under the CEO Restricted Share Plan	40,444	19,746	-	1,302,187	-	-
	Shares under Restricted Share Plan	-	12,075	-	-	-	-
Current Group Executives							
Lyn Cobley	Performance share rights	88,368	-	-	1,693,573	-	-
	Shares under Restricted Share Plan	15,290	16,696	-	492,296	-	-
Brad Cooper	Performance share rights	87,866	-	-	1,683,952	-	1,350,495
	Shares under Restricted Share Plan	22,819	24,599	-	734,710	-	-
Dave Curran	Performance share rights	74,978	-	-	1,436,953	-	-
	Shares under Restricted Share Plan	14,514	8,675	-	467,311	-	-
George Frazis	Performance share rights	83,682	-	-	1,603,766	-	990,344
	Shares under Restricted Share Plan	25,302	26,773	-	814,655	-	-
Alexandra Holcomb	Performance share rights	78,994	-	-	1,513,920	-	450,134
	Performance options	-	-	38,847	-	65,509	-
	Shares under Restricted Share Plan	15,290	19,268	-	492,296	-	-
Peter King	Performance share rights	85,690	-	-	1,642,249	-	270,075
	Shares under Restricted Share Plan	16,920	13,755	-	544,778	-	-
Rebecca Lim	Performance share rights	58,576	-	-	1,122,609	-	252,066
	Shares under Restricted Share Plan	7,619	8,433	-	245,311	-	-
David Lindberg	Performance share rights	76,316	-	-	1,462,596	-	405,142
	Shares under Restricted Share Plan	14,824	11,849	-	477,292	-	-
David McLean	Performance share rights	67,094	-	-	1,285,857	-	-
	Unhurdled share rights	12,332	14,623	-	356,629	-	-
	Shares under Restricted Share Plan	-	1,327	-	-	-	-
Christine Parker	Performance share rights	62,760	-	-	1,202,795	-	630,225
	Shares under Restricted Share Plan	13,970	15,350	-	449,796	-	-
Gary Thursby	Performance share rights	58,576	-	-	1,122,609	-	351,085
	Shares under Restricted Share Plan	11,176	11,609	-	359,837	-	-
Former Group Executive							
Philip Coffey	Performance share rights	107,112	-	-	2,052,801	-	1,503,554
	Shares under Restricted Share Plan	18,550	23,273	-	597,259	-	-

¹ No performance options were granted in 2017. Deferred STI in the form of restricted shares or unhurdled share rights (David McLean) are awarded in December. David McLean's unhurdled deferred STI share rights allocated in December 2016 were allocated at a fair value of \$30.28 (rights vesting on 1 October 2017) and \$28.47 (rights vesting on 1 October 2018).

² No hurdled share rights granted in 2013 vested in October 2016 as assessed against the TSR and EPS performance hurdles.

³ Vested options and share rights that were awarded prior to October 2009 can be exercised up to a maximum of 10 years from their commencement date. Vested rights awarded between October 2009 and July 2015 are automatically exercised at vesting. Vested rights granted after July 2015 may be exercised at will up to a maximum of 15 years from their commencement date. For each share right and each performance option exercised during the year, the relevant executive received one fully paid Westpac ordinary share. The exercise price for share rights is nil.

- ⁴ For performance share rights, the value granted represents the number of securities granted multiplied by the fair value per instrument as set out in the table in the sub-section titled 'Fair value of LTI grants made during the year' below. For restricted shares, the value granted represents the number of ordinary shares granted multiplied by the five day VWAP of a Westpac ordinary share on the date the shares were granted. These values, which represent the full value of the equity-based awards made to disclosed CEO and Group Executives in 2017, do not reconcile with the amount shown in the table in Section 7.2 of this Report, which shows the amount amortised in the current year of equity awards over their vesting period. The minimum total value of the grants for future financial years is nil and an estimate of the maximum possible total value in future financial years is the fair value, as shown above.
- ⁵ The value of each option or share right exercised or lapsed is calculated based on the five day volume weighted average price of Westpac ordinary shares on the ASX on the date of exercise (or lapse), less the relevant exercise price (if any). Where the exercise price is greater than the five day VWAP of Westpac ordinary shares, the value has been calculated as nil.
- ⁶ Apart from equity instruments referred to in this section, no other equity instruments granted in prior years vested and none were forfeited during the financial year.

Fair value of LTI grants made during the year

The table below provides a summary of the fair value of LTI awards granted to the CEO and Group Executives during 2017 calculated in accordance with AASB 2 (Share-based Payment) and is used for accounting purposes only. The LTI grants will vest on satisfaction of performance and/or service conditions tested in future financial years.

Equity Instrument	Granted to	Performance Hurdle	Grant Date	Commencement Date ¹	Test Date	Expiry	Fair Value ² per Instrument
CEO Long-Term Incentive Plan	Brian Hartzler	TSR Index	9 December 2016	1 October 2016	1 October 2020	1 October 2031	\$14.09
		ROE	9 December 2016	1 October 2016	1 October 2019	1 October 2031	\$25.87
Westpac Long-Term Incentive Plan	All Group Executives	TSR Index	1 December 2016	1 October 2016	1 October 2020	1 October 2031	\$13.33
		ROE	1 December 2016	1 October 2016	1 October 2019	1 October 2031	\$25.00

¹ The commencement date is the start of the performance period.

² The fair values of share rights granted during the year included in the table above have been independently calculated at their respective grant dates based on the requirements of AASB 2 (Share-based Payment). The fair value of rights with ROE hurdles has been assessed with reference to the share price at grant date and a discount rate reflecting the expected dividend yield over their vesting periods which for the rights valued at \$25.00 is four years to the 1 October 2019 vesting date. For the purpose of allocating rights with ROE hurdles, the valuation also takes into account the average ROE outcome using a Monte Carlo simulation model. The fair value of rights with hurdles based on TSR performance relative to a group of comparator companies also takes into account the average TSR outcome determined using a Monte Carlo simulation pricing model.

7.4. Movement in equity-settled instruments during this year

Equity holdings

The following table sets out details of relevant interests in Westpac ordinary shares held by Non-executive Directors (including their related parties) during the year ended 30 September 2017¹:

Name	Number Held at Start of the Year	Other Changes During the Year	Number Held at End of the Year
Current Non-executive Directors			
Lindsay Maxsted	19,550	1,217	20,767
Nerida Caesar ²	n/a	-	-
Ewen Crouch ³	40,245	19	40,264
Alison Deans	9,392	-	9,392
Craig Dunn	8,869	-	8,869
Robert Elstone	11,384	712	12,096
Peter Hawkins ⁴	15,880	-	15,880
Peter Marriott	20,870	-	20,870
Former Non-executive Director			
Elizabeth Bryan ²	27,967	-	n/a

¹ None of these share interests include non-beneficially held shares.

² The information relates to the period these individuals were Non-executive Directors. Refer Section 1 for details.

³ In addition to holdings of ordinary shares, Ewen Crouch and his related parties held interests in 250 Westpac Capital Notes 2 at year end.

⁴ In addition to holdings of ordinary shares, Peter Hawkins and his related parties held interests in 1,370 Convertible Preference Shares, 850 Westpac Capital Notes 3 and 882 Westpac Capital Notes 4 at year end.

7.5. Details of Westpac equity holdings of Executive Key Management Personnel

The following table sets out details of Westpac equity held by the CEO and Group Executives (including their related parties) for the year ended 30 September 2017¹:

Name	Type of Equity-based Instrument	Number Held at Start of the Year	Number Granted During the Year as Remuneration	Received on Exercise and/or Exercised During the Year	Number Lapsed During the Year	Other Changes During the Year	Number Held at End of the Year	Number Vested and Exercisable at End of the Year
Managing Director & Chief Executive Officer								
Brian Hartzler	Ordinary shares	53,722	40,444	-	-	(16,739)	77,427	-
	CEO Performance share rights	323,615	211,548	-	-	-	535,163	-
	Performance share rights	215,375	-	-	(85,828)	-	129,547	-
Current Group Executives								
Lyn Cobley	Ordinary shares	56,360	15,290	-	-	-	71,650	-
	Performance share rights	90,914	88,368	-	-	-	179,282	-
Brad Cooper	Ordinary shares	83,973	22,819	-	-	-	106,792	-
	Performance share rights	272,648	87,866	-	(44,394)	-	316,120	-
Dave Curran	Ordinary shares	17,350	14,514	-	-	-	31,864	-
	Performance share rights	135,898	74,978	-	-	-	210,876	-
George Frazis	Ordinary shares	136,267	25,302	-	-	(90,000)	71,569	-
	Performance share rights	207,708	83,682	-	(32,555)	-	258,835	-
Alexandra Holcomb	Ordinary shares	27,188	15,290	38,847	-	(58,115)	23,210	-
	Performance options	38,847	-	(38,847)	-	-	-	-
	Performance share rights	178,733	78,994	-	(14,797)	-	242,930	-
Peter King	Ordinary shares	61,323	16,920	-	-	-	78,243	-
	Performance share rights	192,804	85,690	-	(8,878)	-	269,616	-
Rebecca Lim	Ordinary shares	27,084	7,619	-	-	(8,433)	26,270	-
	Performance share rights	51,228	58,576	-	(8,286)	-	101,518	-
David Lindberg	Ordinary shares	41,202	14,824	-	-	(8,000)	48,026	-
	Performance share rights	133,486	76,316	-	(13,318)	-	196,484	-
David McLean	Ordinary shares	9,613	-	-	-	-	9,613	-
	Performance share rights	102,608	67,094	-	-	-	169,702	2,148
	Unhurdled share rights	30,504	12,332	-	-	-	42,836	19,770
Christine Parker	Ordinary shares	23,408	13,970	-	-	(15,350)	22,028	-
	Performance share rights	177,182	62,760	-	(20,717)	-	219,225	-
Gary Thursby	Ordinary shares	65,853	11,176	-	-	-	77,029	-
	Performance share rights	65,601	58,576	-	(11,541)	-	112,636	-
Former Group Executive								
Philip Coffey ²	Ordinary shares	350,253	18,550	-	-	(100,076)	n/a	-
	Performance share rights	314,438	107,112	-	(50,313)	-	n/a	-

¹ The highest number of shares held by an individual in the table is 0.0031% of total Westpac ordinary shares outstanding as at 30 September 2017.

² The information relates to the period the individual was a Key Management Personnel. Refer Section 1 for details.

7.6. Loans to Non-executive Directors and Executive Key Management Personnel disclosures

All financial instrument transactions that occurred during the financial year between Directors or Executive KMP and the Group are in the ordinary course of business on terms and conditions (including interest and collateral) as apply to other employees and certain customers. These transactions consisted principally of normal personal banking and financial investment services.

Details of loans to Non-executive Directors and Executive KMP (including their related parties) of the Group:

	Balance at Start of the Year ^{1,2} \$	Interest Paid and Payable for the Year \$	Interest Not Charged During the Year \$	Balance at End of the Year \$	Number in Group at End of the Year
Non-executive Directors	3,932,987	163,646	-	3,199,593	2
Executive KMP	14,912,791	575,820	-	12,090,727	7
	18,845,778	739,466	-	15,290,320	9

¹ Some opening balances have been restated to include additional individual loans.

² Opening balances are reflective of changes to Key Management Personnel effective from 1 October 2016.

Individuals (including their related parties) with loans above \$100,000 during the 2017 financial year:

	Balance at Start of the Year ^{1,2} \$	Interest Paid and Payable for the Year \$	Interest Not Charged During the Year \$	Balance at End of the Year \$	Highest Indebtedness during the Year \$
Directors					
Lindsay Maxsted	2,598,160	111,846	-	2,061,911	2,971,831
Ewen Crouch	1,334,827	51,800	-	1,137,682	1,516,138
Executive KMP					
Brian Hartzler	106,748	6,544	-	83,617	191,366
Philip Coffey ³	2,394,000	78,148	-	n/a	2,399,831
Brad Cooper	867,571	73,943	-	2,037,998	2,058,343
Alexandra Holcomb	3,665,374	183,799	-	4,114,727	4,122,365
Rebecca Lim	2,856,283	18,096	-	711,642	2,863,432
David McLean	475,551	24,414	-	534,828	597,442
Christine Parker	2,619,094	111,610	-	2,647,386	2,776,565
Gary Thursby	1,928,170	79,266	-	1,960,529	2,088,080

¹ Some opening balances have been restated to include additional individual loans.

² Opening balances are reflective of changes to Key Management Personnel effective from 1 October 2016.

³ The information relates to the period the individual was a Key Management Personnel. Refer Section 1 of this Report for details.

11. Auditor

a) Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is below:



Auditor's Independence Declaration

As lead auditor for the audit of Westpac Banking Corporation for the year ended 30 September 2017, I declare that, to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Westpac Banking Corporation and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Lona Mathis'.

Lona Mathis
Partner
PricewaterhouseCoopers

Sydney
6 November 2017

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, BARANGAROO NSW 2000
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation

b) Non-audit services

We may decide to engage PwC on assignments additional to their statutory audit duties where their expertise or experience with Westpac or a controlled entity is important.

Details of the non-audit service amounts paid or payable to PwC for non-audit services provided during the 2016 and 2017 financial years are set out in Note 39 to the financial statements.

PwC also provides audit and non-audit services to non-consolidated entities, non-consolidated trusts of which a Westpac Group entity is trustee, manager or responsible entity and non-consolidated superannuation funds or pension funds. The fees in respect of these services were approximately \$6 million in total (2016 \$8.1 million). PwC may also provide audit and non-audit services to other entities in which Westpac holds a minority interest and which are not consolidated. Westpac is not aware of the amount of any fees paid to PwC by those entities.

Westpac has a policy on engaging PwC, details of which are set out in Westpac's Corporate Governance Statement and in the subsection entitled 'Engagement of the external auditor', which forms part of this Directors' report.

The Board has considered the position and, in accordance with the advice received from the Board Audit Committee, is satisfied that the provision of the non-audit services during 2017 by PwC is compatible with the general standard of independence for auditors imposed by the Corporations Act. The Directors are satisfied that the provision of non-audit services by PwC, as set out above, did not compromise the auditor independence requirements of the Corporations Act for the following reasons:

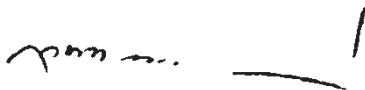
- all non-audit services have been reviewed by the Board Audit Committee, which is of the view that they do not impact the impartiality and objectivity of the auditor; and
- based on Board quarterly independence declarations made by PwC to the Board Audit Committee, none of the services undermine the general principles relating to auditor independence including reviewing or auditing PwC's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

12. Responsibility statement

The Directors of Westpac Banking Corporation confirm that to the best of their knowledge:

- the consolidated financial statements for the financial year ended 30 September 2017, which have been prepared in accordance with the accounting policies described in Note 1 to the consolidated financial statements, being in accordance with Australian Accounting Standards (AAS), give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Annual Report from the section entitled 'Information on Westpac' to and including the section entitled 'Other Westpac business information' includes a fair review of the information required by the Disclosure Guidance and Transparency Rules 4.1.8R to 4.1.11R of the United Kingdom Financial Conduct Authority, together with a description of the principal risks and uncertainties faced by the Group.

Signed in accordance with a resolution of the Board.



Lindsay Maxsted
Chairman
6 November 2017



Brian Hartzer
Managing Director & Chief Executive Officer
6 November 2017

This page has been intentionally left blank

02

Five year summary

Reading this report

Review of Group operations

Divisional performance

Risk and risk management

Westpac's approach to sustainability

Other Westpac business information

Five year summary¹

(in \$m unless otherwise indicated)	2017	2016	2015	2014	2013
Income statements for the years ended 30 September²					
Net interest income	15,516	15,148	14,267	13,542	12,821
Non-interest income	6,286	5,837	7,375	6,395	5,774
Net operating income before operating expenses and impairment charges	21,802	20,985	21,642	19,937	18,595
Operating expenses	(9,434)	(9,217)	(9,473)	(8,547)	(7,976)
Impairment charges	(853)	(1,124)	(753)	(650)	(847)
Profit before income tax	11,515	10,644	11,416	10,740	9,772
Income tax expense	(3,518)	(3,184)	(3,348)	(3,115)	(2,947)
Profit attributable to non-controlling interests	(7)	(15)	(56)	(64)	(74)
Net profit attributable to owners of Westpac Banking Corporation	7,990	7,445	8,012	7,561	6,751
Balance sheet as at 30 September²					
Loans	684,919	661,926	623,316	580,343	536,164
Other assets	166,956	177,276	188,840	190,499	164,933
Total assets	851,875	839,202	812,156	770,842	701,097
Deposits and other borrowings	533,591	513,071	475,328	460,822	424,482
Debt issues	168,356	169,902	171,054	152,251	144,133
Loan capital	17,666	15,805	13,840	10,858	9,330
Other liabilities	70,920	82,243	98,019	97,574	75,615
Total liabilities	790,533	781,021	758,241	721,505	653,560
Total shareholders' equity and non-controlling interests	61,342	58,181	53,915	49,337	47,537
Key financial ratios					
Shareholder value					
Dividends per ordinary share (cents)	188	188	187	182	174
Special dividends per ordinary share (cents)	-	-	-	-	20
Dividend payout ratio (%) ³	79.28	84.19	73.39	74.68	79.71
Return on average ordinary equity (%)	13.65	13.32	16.23	16.27	15.22
Basic earnings per share (cents)	238.0	224.6	255.0	242.5	217.2
Net tangible assets per ordinary share (\$) ⁴	14.66	13.90	13.02	11.51	11.02
Share price (\$):					
High	35.39	33.74	40.07	35.99	34.79
Low	28.92	27.57	29.10	30.00	24.23
Close	31.92	29.51	29.70	32.14	32.73
Business performance					
Operating expenses to operating income ratio (%)	43.27	43.92	43.77	42.87	42.89
Net interest margin (%)	2.06	2.10	2.09	2.09	2.14
Capital adequacy					
Total equity to total assets (%)	7.2	6.9	6.6	6.4	6.8
Total equity to total average assets (%)	7.1	6.9	6.8	6.7	6.9
APRA Basel III:					
Common equity Tier 1 (%)	10.56	9.48	9.50	8.97	9.10
Tier 1 ratio (%)	12.66	11.17	11.38	10.56	10.65
Total capital ratio (%)	14.82	13.11	13.26	12.28	12.25
Credit quality					
Net impaired assets to equity and collectively assessed provisions (%)	1.29	1.79	1.80	2.49	4.08
Total provisions for impairment on loans and credit commitments to total loans (basis points)	45	54	53	60	73
Other information					
Full time equivalent employees (number at financial year end) ⁵	35,096	35,580	35,484	36,596	35,894

¹ Where accounting classifications have changed or where changes in accounting policy are adopted retrospectively, comparatives have been revised and may differ from results previously reported.

² The above income statement extracts for 2017, 2016 and 2015 and balance sheet extracts for 2017 and 2016 are derived from the consolidated financial statements included in this Annual Report. The above income statement extracts for 2014 and 2013 and balance sheet extracts for 2015, 2014 and 2013 are derived from financial statements previously published.

³ Excludes special dividends and adjusted for Treasury shares.

⁴ Total equity attributable to owners of Westpac Banking Corporation, after deducting intangible assets divided by the number of ordinary shares outstanding, less Treasury shares held.

⁵ Full-time equivalent employees includes full-time, pro-rata part-time, overtime, temporary and contract staff.

Disclosure regarding forward-looking statements

This Annual Report contains statements that constitute 'forward-looking statements' within the meaning of Section 21E of the US Securities Exchange Act of 1934.

Forward-looking statements are statements about matters that are not historical facts. Forward-looking statements appear in a number of places in this Annual Report and include statements regarding Westpac's intent, belief or current expectations with respect to its business and operations, market conditions, results of operations and financial condition, including, without limitation, future loan loss provisions and financial support to certain borrowers. Words such as 'will', 'may', 'expect', 'intend', 'seek', 'would', 'should', 'could', 'continue', 'plan', 'estimate', 'anticipate', 'believe', 'probability', 'risk', 'aim' or other similar words are used to identify forward-looking statements. These forward-looking statements reflect Westpac's current views with respect to future events and are subject to change, certain risks, uncertainties and assumptions which are, in many instances, beyond Westpac's control, and have been made based upon management's expectations and beliefs concerning future developments and their potential effect upon Westpac. There can be no assurance that future developments will be in accordance with Westpac's expectations or that the effect of future developments on Westpac will be those anticipated. Actual results could differ materially from those expected, depending on the outcome of various factors, including, but not limited to:

- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices and government policy, particularly changes to liquidity, leverage and capital requirements;
- regulatory investigations, litigation, fines, penalties, restrictions or other regulator imposed conditions, including as a result of our failure to comply with laws (such as financial crime laws), regulations or regulatory policy;
- internal and external events which may adversely impact Westpac's reputation;
- information security breaches, including cyberattacks;
- reliability and security of Westpac's technology and risks associated with changes to technology systems;
- the stability of Australian and international financial systems and disruptions to financial markets and any losses or business impacts Westpac or its customers or counterparties may experience as a result;
- market volatility, including uncertain conditions in funding, equity and asset markets;
- adverse asset, credit or capital market conditions;
- the conduct, behaviour or practices of Westpac or its staff;
- changes to Westpac's credit ratings or to the methodology used by credit rating agencies;
- levels of inflation, interest rates, exchange rates and market and monetary fluctuations;
- market liquidity and investor confidence;
- changes in economic conditions, consumer spending, saving and borrowing habits in Australia, New Zealand and in other countries in which Westpac or its customers or counterparties conduct their operations and Westpac's ability to maintain or to increase market share, margins and fees, and control expenses;
- the effects of competition in the geographic and business areas in which Westpac conducts its operations;
- the timely development and acceptance of new products and services and the perceived overall value of these products and services by customers;
- the effectiveness of Westpac's risk management policies, including internal processes, systems and employees;
- the incidence or severity of Westpac insured events;
- the occurrence of environmental change (including as a result of climate change) or external events in countries in which Westpac or its customers or counterparties conduct their operations;
- changes to the value of Westpac's intangible assets;
- changes in political, social or economic conditions in any of the major markets in which Westpac or its customers or counterparties operate;
- the success of strategic decisions involving diversification or innovation, in addition to business expansion and integration of new businesses; and
- various other factors beyond Westpac's control.

The above list is not exhaustive. For certain other factors that may impact on forward-looking statements made by Westpac, refer to 'Risk factors' under the section 'Risk and risk management'. When relying on forward-looking statements to make decisions with respect to Westpac, investors and others should carefully consider the foregoing factors and other uncertainties and events.

Westpac is under no obligation to update any forward-looking statements contained in this Annual Report, whether as a result of new information, future events or otherwise, after the date of this Annual Report.

Significant developments

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

Currency of presentation, exchange rates and certain definitions

In this Annual Report, 'financial statements' means our audited consolidated balance sheets as at 30 September 2017 and 30 September 2016 and income statements, statements of comprehensive income, changes in equity and cash flows for each of the years ended 30 September 2017, 2016 and 2015 together with accompanying notes which are included in this Annual Report.

Our financial year ends on 30 September. As used throughout this Annual Report, the financial year ended 30 September 2017 is referred to as 2017 and other financial years are referred to in a corresponding manner.

We publish our consolidated financial statements in Australian dollars. In this Annual Report, unless otherwise stated or the context otherwise requires, references to 'dollars', 'dollar amounts', '\$', 'AUD' or 'A\$' are to Australian dollars, references to 'US\$', 'USD' or 'US dollars' are to United States dollars and references to 'NZ\$', 'NZD' or 'NZ dollars' are to New Zealand dollars. Solely for the convenience of the reader, certain Australian dollar amounts have been translated into US dollars at a specified rate. These translations should not be construed as representations that the Australian dollar amounts actually represent such US dollar amounts or have been or could be converted into US dollars at the rate indicated. Unless otherwise stated, the translations of Australian dollars into US dollars have been made at the rate of A\$1.00 = US\$0.7840, the noon buying rate in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York (the 'noon buying rate') as of Friday, 29 September 2017. The Australian dollar equivalent of New Zealand dollars at 29 September 2017 was A\$1.00 = NZ\$1.0867, being the closing spot exchange rate on that date. Refer to 'Exchange rates' in Section 4 for information regarding the rates of exchange between the Australian dollar and the US dollar for the financial years ended 30 September 2013 to 30 September 2017.

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

Selected consolidated financial and operating data

We have derived the following selected financial information as of, and for the financial years ended, 30 September 2017, 2016, 2015, 2014 and 2013 from our audited consolidated financial statements and related notes.

This information should be read together with our audited consolidated financial statements and the accompanying notes included elsewhere in this Annual Report.

Accounting standards

The financial statements and other financial information included elsewhere in this Annual Report, unless otherwise indicated, have been prepared and presented in accordance with Australian Accounting Standards (AAS). Compliance with AAS ensures that the financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared in accordance with the accounting policies described in the Notes to the financial statements.

Recent accounting developments

For a discussion of recent accounting developments refer to Note 1 to the financial statements.

Critical accounting estimates

Our reported results are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the income statement and the balance sheet. Note 1(b) includes details of the areas of our critical accounting assumptions and estimates and a reference to the relevant note in the financial statements providing further information. Each of the assumptions and estimates have been discussed at our Board Audit Committee (BAC). The following is a summary of the areas involving our most critical accounting estimates.

Fair value of financial instruments

Financial instruments classified as held-for-trading (including derivatives) or designated at fair value through income statement and financial assets classified as available-for-sale are recognised in the financial statements at fair value. All derivatives are measured and recognised at fair value. As far as possible, financial instruments are valued with reference to quoted, observable market prices or by using models which employ observable valuation parameters. Where valuation models rely on parameters for which inputs are not observable, judgements and estimation may be required.

As at 30 September 2017, the fair value of trading securities and financial assets designated at fair value through profit or loss, available-for-sale securities, loans designated at fair value, life insurance assets and regulatory deposits with central banks overseas was \$101,923 million (2016: \$102,595 million). The value of other financial liabilities at fair value through income statement, deposits and other borrowings at fair value, debt issues at fair value and life insurance liabilities was \$64,317 million (2016: \$67,643 million). The fair value of outstanding derivatives was a net liability of \$1,342 million (2016: \$3,849 million net liability). The fair value of financial assets and financial liabilities determined by valuation models that use unobservable market prices was \$1,399 million (2016: \$1,587 million) and \$9 million (2016: \$17 million), respectively. The fair value of financial assets and financial liabilities, including derivatives, is largely determined based on valuation models using observable market prices and rates. Where observable market inputs are not available, day one profits or losses are not recognised.

We believe that the judgements and estimates used are reasonable in the current market. However, a change in these judgements and estimates would lead to different results as future market conditions can vary from those expected.

Provisions for impairment charges on loans

Provisions for credit impairment represent management's best estimate of the impairment charges incurred in the loan portfolios as at the balance date. There are two components of our loan impairment provisions: Individually Assessed Provisions (IAPs) and Collectively Assessed Provisions (CAPs).

IAPs are raised where loans exceeding specified thresholds are assessed as impaired. In determining IAPs, considerations that have a bearing on the amount and timing of expected future cash flows are taken into account. For example, the business prospects of the customer, the realisable value of collateral, our position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process. These judgements and estimates can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are made.

CAPs are raised for impaired loans below specified thresholds and for all loans which are not individually identified as impaired. The CAPs are established on a portfolio basis taking into account the level of arrears, collateral and security, past loss experience, current economic conditions, expected default and timing of recovery based on portfolio trends. The most significant factors in establishing these provisions are estimated loss rates and related emergence periods. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates, unemployment levels, payment behaviour and bankruptcy rates.

As at 30 September 2017, gross loans to customers were \$687,785 million (2016: \$665,256 million) and the provision for impairment on loans was \$2,866 million (2016: \$3,330 million).

Goodwill

Goodwill represents the excess of purchase consideration, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the identified net assets of acquired businesses. The determination of the fair value of the assets and liabilities of acquired businesses requires the exercise of management judgement. Different fair values would result in changes to the goodwill and to the post-acquisition performance of the acquisitions.

Goodwill is tested for impairment annually by determining if the carrying value of the cash-generating unit (CGU) that it has been allocated to is recoverable. The recoverable amount is the higher of the CGU's fair value less costs to sell and its value-in-use. Determination of appropriate cash flows and discount rates for the calculation of the value in use is subjective. As at 30 September 2017, the carrying value of goodwill was \$9,012 million (2016: \$9,030 million).

Superannuation obligations

The actuarial valuation of our defined benefit plan obligations are dependent upon a series of assumptions, the key ones being price inflation, salary growth, mortality, morbidity, discount rate and investment returns. Different assumptions could significantly alter the amount of the difference between plan assets and defined benefit obligations and the amount recognised directly in retained profits.

The aggregate superannuation deficits across all our plans as at 30 September 2017 were \$43 million (2016: \$282 million). One plan had a superannuation surplus as at 30 September 2017 of \$48 million (2016: \$32 million).

Provisions (other than loan impairment charges)

Provisions are held in respect of a range of obligations such as employee entitlements, restructuring costs, litigation provisions, non-lending losses, impairment charges on credit commitments and surplus lease space. Some of the provisions involve significant judgement about the likely outcome of various events and estimated future cash flows. Refer Note 29.

Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. All our businesses predominantly operate in jurisdictions with similar tax rates to the Australian corporate tax rate. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. For these circumstances, we hold appropriate provisions. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period where such determination is made.

Life insurance contract liabilities

The actuarial valuation of life insurance contract liabilities and associated deferred policy acquisition costs are dependent upon a number of assumptions. The key factors impacting the valuation of these liabilities and related assets are the cost of providing benefits and administering the contracts, mortality and morbidity experience, discontinuance experience and the rate at which projected future cash flows are discounted.

Income statement review

Consolidated income statement¹

For the years ending 30 September (in \$m unless otherwise indicated)	2017 US\$ ²	2017 A\$	2016 A\$	2015 A\$	2014 A\$	2013 A\$
Interest income	24,486	31,232	31,822	32,295	32,248	33,009
Interest expense	(12,321)	(15,716)	(16,674)	(18,028)	(18,706)	(20,188)
Net interest income	12,165	15,516	15,148	14,267	13,542	12,821
Non-interest income	4,928	6,286	5,837	7,375	6,395	5,774
Net operating income before operating expenses and impairment charges	17,093	21,802	20,985	21,642	19,937	18,595
Operating expenses	(7,396)	(9,434)	(9,217)	(9,473)	(8,547)	(7,976)
Impairment charges	(669)	(853)	(1,124)	(753)	(650)	(847)
Profit before income tax	9,028	11,515	10,644	11,416	10,740	9,772
Income tax expense	(2,758)	(3,518)	(3,184)	(3,348)	(3,115)	(2,947)
Net profit for the year	6,270	7,997	7,460	8,068	7,625	6,825
Profit attributable to non-controlling interests	(6)	(7)	(15)	(56)	(64)	(74)
Net profit attributable to owners of Westpac Banking Corporation	6,264	7,990	7,445	8,012	7,561	6,751
Weighted average number of ordinary shares (millions)	3,355	3,355	3,313	3,140	3,114	3,103
Basic earnings per ordinary share (cents)	186.6	238.0	224.6	255.0	242.5	217.2
Diluted earnings per share (cents) ³	179.8	229.3	217.8	248.2	237.6	212.5
Dividends per ordinary share (cents)	147	188	188	187	182	174
Special dividends per ordinary share (cents)	-	-	-	-	-	20
Dividend payout ratio (%) ⁴	79.28	79.28	84.19	73.39	74.68	79.71

¹ Where accounting classifications have changed or where changes in accounting policy are adopted retrospectively, comparatives have been revised and may differ from results previously reported.

² Australian dollar amounts have been translated into US dollars solely for the convenience of the reader at the rate of A\$1.00 = US\$0.7840, the noon buying rate in New York City on 29 September 2017.

³ Based on basic earnings per share, with the weighted average number of fully paid ordinary shares outstanding adjusted for the conversion of dilutive potential ordinary shares, issued for no consideration, and after adjusting earnings for distributions on dilutive potential ordinary shares.

⁴ Excludes special dividends and adjusted for Treasury shares.

Overview of performance – 2017 v 2016

Net profit attributable to owners of Westpac Banking Corporation for 2017 was \$7,990 million, an increase of \$545 million or 7% compared to 2016. Features of this result included a \$817 million or 4% increase in net operating income before operating expenses and impairment charges, a \$217 million or 2% increase in operating expenses and a \$271 million or 24% decrease in impairment charges.

Net interest income increased \$368 million or 2% compared to 2016, with total loan growth of 3%, primarily from Australian housing which grew 6%. Reported net interest margin decreased 4 basis points to 2.06% from higher funding costs, the impact of lower interest rates, and lower treasury earnings, partly offset by loan repricing.

Non-interest income increased \$449 million or 8% compared to 2016 primarily due to a \$279 million gain associated with sale of shares in BT Investment Management Limited (BTIM), a rise in trading income of \$78 million and the impact of volatility in economic hedges of \$140 million. These increases were partly offset by provisions for customer refunds, and lower wealth management and insurance income.

Operating expenses increased \$217 million or 2% compared to 2016. The rise in operating expenses includes annual salary and rental increases, higher technology expenses related to the Group's investment program, a rise in regulatory and compliance costs and expenses associated with the sale of shares in BTIM. These increases were partially offset by productivity benefits.

Impairment charges were \$271 million lower or 24% compared to 2016. Asset quality remained sound, with stressed exposures as a percentage of total committed exposures (TCE) at 1.05%, down 15 basis points over the year. The decrease in impairment charges was primarily due to significantly lower large individual provisions. Additional provisioning for these larger facilities was required in 2016, following the downgrade to impaired.

The effective tax rate of 30.6% in 2017 was higher than the 2016 effective tax rate of 29.9% as 2016 benefited from the finalisation of some prior period taxation matters.

2017 basic earnings per share were 238.0 cents per share compared to 224.6 cents per share in 2016.

The Board has determined a final dividend of 94 cents per ordinary share. The full year ordinary dividends of 188 cents is unchanged over ordinary dividends declared in 2016 and a pay-out ratio of 79.3%. The full year ordinary dividend is fully franked.

The Board considered the impact of the Bank Levy on shareholders (which equated to 2 cents per share in 2017), and decided to leave the dividend unchanged.

Income statement review – 2017 v 2016

Net interest income – 2017 v 2016

\$m	2017	2016	2015
Interest income	31,232	31,822	32,295
Interest expense	(15,716)	(16,674)	(18,028)
Net interest income	15,516	15,148	14,267
Increase/(decrease) in net interest income			
Due to change in volume	855	1,313	878
Due to change in rate	(487)	(432)	(153)
Change in net interest income	368	881	725

Net interest income increased \$368 million or 2% compared to 2016. Key features include:

- 4% increase in average interest-earning assets, primarily from growth in Australian housing. Third party liquid assets increased \$11 billion or 13% in response to a \$10 billion lower Committed Liquidity Facility (CLF), which reduced from \$59 billion to \$49 billion on 1 January 2017;
- Group net interest margin decreased 4 basis points. Higher funding costs primarily from term deposit competition, the impact of lower interest rates and lower Treasury earnings were, partly offset by loan repricing and economic hedge volatility.

Total loans increased \$23.0 billion or 3% compared to 2016. Excluding foreign currency translation impacts, total loans increased \$26.0 billion or 4%.

Key features of total loan growth were:

- Australian housing loans increased \$23.0 billion or 6%. During the year, the Group further tightened origination standards, reduced new lending discounts and adjusted interest rates on different loan categories. Based on the APRA definition of investor lending, the Group's investor property lending grew 6%, below the 10% cap. Fixed rate loans increased from 17% of the portfolio in 2016 to 21% in 2017;
- Australian business loans increased \$0.3 billion, with growth in Business Bank (BB) across SME, professional services and health, largely offset by lower institutional lending including a decline in the utilisation of mortgage warehouse facilities; and
- New Zealand lending increased NZ\$2.1 billion or 3%. Housing loans grew at 4% and business lending increased 1% primarily from growth in SME and agriculture. Following the Loan to Value Ratio (LVR) restrictions imposed by the RBNZ on investor property loans (with an LVR of greater than 60%), the proportion of new flows for investor property lending decreased by 9 percentage points to 22%.

Total customer deposits increased \$20.1 billion or 4% compared to 2016. Excluding foreign currency translation impacts, customer deposits increased \$22.3 billion or 5%.

Key features of total customer deposits growth were:

- Australian customer deposits increased \$23.8 billion or 6%, with above system¹ growth in household deposits and growth in institutional deposits. Customers continued to direct funds to mortgage offset accounts, supporting 8% growth in Australian non-interest bearing deposits. The Group continues to focus on growing higher quality deposits in preparation for the introduction of the Net Stable Funding Ratio (NSFR) on 1 January 2018;
- New Zealand customer deposits increased NZ\$0.9 billion or 2%, with a 14% increase in non-interest bearing deposits from growth in business and consumer transaction accounts; and
- Other overseas deposits decreased \$2.6 billion or 18% due to a decline in Asian deposits.

Certificate of deposits increased \$0.5 billion or 1%, with lower balances offshore more than offset by growth in Australia.

¹ Source: Australian Prudential Regulation Authority (APRA)

Interest spread and margin – 2017 v 2016

\$m	2017	2016	2015
Group			
Net interest income	15,516	15,148	14,267
Average interest earning assets	752,294	721,843	683,814
Average interest earning liabilities	694,924	667,276	640,628
Average net non-interest bearing assets, liabilities and equity	57,370	54,567	43,186
Interest spread ¹	1.89%	1.91%	1.91%
Benefit of net non-interest bearing assets, liabilities and equity ²	0.17%	0.19%	0.18%
Net interest margin³	2.06%	2.10%	2.09%

¹ Interest spread is the difference between the average yield on all interest earning assets and the average yield on all interest bearing liabilities.

² The benefit of net non-interest bearing assets, liabilities and equity is determined by applying the average yield paid on all interest bearing liabilities to the average level of net non-interest bearing funds as a percentage of average interest earning assets.

³ Net interest margin is calculated by dividing net interest income by average interest earning assets.

Net interest margin was 2.06% in 2017, down 4 basis points compared to 2016. Key drivers of the margin decrease were:

- 9 basis points increase from loan spreads primarily from the full year impact of Australian mortgage and business lending repricing in 2016 and changes to Australian mortgage rates for interest-only and investor loans during 2017. This was partly offset by broad based competition and higher short term funding costs;
- 5 basis points decrease from customer deposit spreads, driven by increased competition for term deposits in late 2016 and early 2017 and the impact of lower interest rates on the hedging of transaction deposits;
- 2 basis points decrease from higher term wholesale funding costs as the Group lengthened average tenors in preparation for the implementation of NSFR on 1 January 2018 and an increase in Additional Tier 1 and Tier 2 capital balances and the higher cost of these instruments;
- 1 basis point decrease from the introduction of the Bank Levy;
- Capital and other decreased 2 basis points primarily from the impact of lower interest rates;
- 2 basis points decrease from liquidity, due to increased holdings of third party liquid assets; and
- 1 basis point decrease from Treasury and Markets, with lower market volatility impacting returns from interest rate risk management.

Non-interest income – 2017 v 2016

\$m	2017	2016	2015
Fees and commissions	2,755	2,755	2,942
Wealth management and insurance income	1,800	1,899	2,228
Trading income	1,202	1,124	964
Other income	529	59	1,241
Non-interest income	6,286	5,837	7,375

Non-interest income was \$6,286 million in 2017, an increase of \$449 million or 8% compared to 2016. The increase was impacted by a number of infrequent items (\$136 million), including the profit on the further sale of BTIM shares (\$279 million), provisions for customer refunds and payments related to Advice and wealth products¹ (\$111 million) and a revaluation loss on the Group's investments in boutique funds (\$32 million). Excluding these items, non-interest income increased \$313 million or 5% due to the impact of hedging New Zealand future earnings, higher Westpac Institutional Bank (WIB) markets income, increase in operating lease rental income and higher business lending fees, partly offset by lower wealth management and insurance income and a reduction in Australian credit card interchange fees.

Fees and commissions of \$2,755 million in 2017 were flat compared to 2016, due to:

- lower Advice income including provisions for customer refunds and payments (\$55 million);
- lower Australian credit card income (\$39 million) primarily from lower revenue associated with rewards programs and regulatory impacts on interchange rates from 1 July 2017; partly offset by

¹ Some of the items provided for include: payments to superannuation customers with pre-existing conditions who did not have the benefit of our improved disclosure practices and had their claims denied; payments to customers who did not receive all the benefits to which they were entitled under their 'packaged accounts'; and refunds where ongoing advice fees were paid but we were unable to demonstrate that advice service was provided in the relevant period.

- increased business lending fees (\$50 million) supported by higher line fees from business growth;
- higher New Zealand credit card income (\$41 million) primarily from a change to accounting treatment for credit card rewards scheme to align with Group practice; and
- higher transaction fees (\$15 million) from an increase in account numbers, pricing changes, and transaction volumes across the Group.

Wealth management and insurance income was \$1,800 million in 2017, a decrease of \$99 million or 5% compared to 2016 with:

- provisions for customer refunds and payments related to wealth products (\$56 million);
- insurance income decreased \$29 million, primarily from:
 - general insurance income reduced \$32 million from higher claims, including the impact of Cyclone Debbie, partly offset by a 2% increase in net earned premiums; and
 - life insurance income was little changed (down \$3 million) with higher claims partly offset by a 6% increase in net earned premiums; partly offset by
 - higher Lenders mortgage insurance (LMI) income (\$6 million) related to arrangements for mortgages with an LVR >90%;
- lower contribution from investments in boutique funds (\$26 million); and
- a decrease in funds under management (FUM) and funds under administration (FUA) income (\$13 million), with the benefit from higher asset markets and positive net flows more than offset by margin compression from the transfer of legacy products to lower fee 'MySuper' products; partly offset by
- increase in WIB wealth management income (\$6 million).

Trading income was \$1,202 million in 2017, an increase of \$78 million or 7% compared to 2016. This was primarily driven by higher WIB markets income from an increase in risk management income across fixed income, foreign exchange and commodities and higher derivative valuation adjustments.

Other income was \$529 million in 2017, an increase of \$470 million compared to 2016. This result was driven by the profit on a further sale of BTIM shares (\$279 million), the impact of hedging New Zealand future earnings (\$140 million) and higher rental income on operating leases (\$34 million) from portfolio growth.

Operating expenses – 2017 v 2016

\$m	2017	2016	2015
Staff expenses	4,701	4,601	4,704
Occupancy expenses	1,073	1,032	954
Technology expenses	2,008	1,929	2,288
Other expenses	1,652	1,655	1,527
Total operating expenses	9,434	9,217	9,473
Total operating expenses to net operating income ratio	43.27%	43.92%	43.77%

Operating expenses increased \$217 million or 2% compared to 2016. The key factors of the result were:

- growth in regulation and compliance expenses of \$84 million;
- higher investment related expenses of \$82 million;
- separation costs related to the sale of shares in BTIM of \$35 million; and
- productivity benefits of \$262 million largely offset growth in other operating costs.

Staff expenses were \$4,701 million, an increase of \$100 million or 2% compared to 2016. Annual salary increases, higher investment costs and separation costs related to the further sale of shares in BTIM were partly offset by productivity benefits, lower restructuring costs and reduced share based payments.

Occupancy expenses increased \$41 million or 4% compared to 2016 due to higher expenses relating to annual rental expenses and exit costs associated with retail property consolidation and branch network optimisation.

Technology expense increased \$79 million or 4% compared to 2016 largely from the completion of key elements of the Group's investment programs. This included higher amortisation of software assets (\$57 million) and higher software maintenance and licensing costs (\$36 million) from programs including the Customer Service Hub, Panorama, new payment platform and systems for regulatory and compliance purposes.

Other expenses decreased \$3 million compared to 2016. The increase in regulatory and compliance costs have been mostly offset by lower outsourced operational costs. In addition, non-lending losses were \$8 million lower from reduced credit card and digital fraud, which has benefitted from recent enhancements to early detection capability and additional security.

Impairment charges – 2017 v 2016

\$m	2017	2016	2015
Impairment charges	853	1,124	753
Impairment charges to average gross loans (basis points)	13	17	12

Asset quality improved through 2017 with stressed assets to total committed exposures reducing 15 basis points to 1.05%. The reduction in stress mostly reflects the work-out or return to health of a number of watchlist and substandard facilities. Impaired assets were also lower, with gross impaired assets to gross loans reducing 10 basis points to 0.22%. The reduction in impaired assets principally related to the work-out or write-off of a small number of institutional facilities. Where stress in the portfolio has emerged it can mostly be traced back to the slowdown in mining investment, sectors undergoing structural change, along with a rises in delinquencies and properties in possession in these regions, particularly in Western Australia and Queensland.

The improved asset quality and the write-off of a small number of larger impaired facilities led to a reduction in provisions which were down \$483 million. IAPs were \$389 million lower while collectively assessed provisions were \$94 million lower. Within collectively assessed provisions the economic overlay was reduced by \$66 million, ending at \$323 million as at 30 September 2017.

This trend of improved asset quality and work-out of existing stressed facilities has contributed to the reduction in impairment charges in 2017.

Impairment charges of \$853 million were down \$271 million or 24% compared to 2016.

Key movements included:

- total new IAPs less write-backs and recoveries were \$226 million lower than 2016. New IAPs decreased \$117 million primarily due to a small number of large impairments in WIB in 2016 whereas there were only two larger facilities that migrated to impaired over 2017. This was partially offset by higher new IAPs in the Business Bank and in mortgages. 2017 also benefitted from a larger number of write-backs and recoveries which were \$109 million higher than 2016 as impaired facilities were worked out; and
- CAPs were \$45 million lower due to a \$66 million reduction in the economic overlay provision and a \$45 million benefit from improvement in asset quality, partially offset by a \$66 million lift in write-offs principally in personal lending associated with changes to reporting of customers granted hardship assistance.

Income tax expense – 2017 v 2016

\$m	2017	2016	2015
Income tax expense	3,518	3,184	3,348
Tax as a percentage of profit before income tax expense (effective tax rate)	30.55%	29.91%	29.33%

The effective tax rate of 30.6% in 2017 was higher than the 2016 effective tax rate of 29.9% as 2016 benefitted from the finalisation of some prior period taxation matters. The effective tax rate above the Australian corporate tax rate of 30% reflects several Additional Tier 1 instruments whose distributions are not deductible for Australian taxation purposes.

Balance sheet review

Selected consolidated balance sheet data¹

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

As at 30 September	2017 US\$m ²	2017 A\$m	2016 A\$m	2015 A\$m	2014 A\$m	2013 A\$m
Cash and balances with central banks	14,423	18,397	17,015	14,770	25,760	11,699
Receivables due from other financial institutions	5,588	7,128	9,951	9,583	7,424	11,210
Trading securities and financial assets designated at fair value and available-for-sale securities	67,451	86,034	81,833	82,287	81,933	79,100
Derivative financial instruments	18,842	24,033	32,227	48,173	41,404	28,356
Loans	536,976	684,919	661,926	623,316	580,343	536,164
Life insurance assets	8,344	10,643	14,192	13,125	11,007	13,149
All other assets	16,246	20,721	22,058	20,902	22,971	21,419
Total assets	667,870	851,875	839,202	812,156	770,842	701,097
Payables due to other financial institutions	17,175	21,907	18,209	18,731	18,636	8,836
Deposits and other borrowings	418,335	533,591	513,071	475,328	460,822	424,482
Other financial liabilities at fair value through income statement	3,180	4,056	4,752	9,226	19,236	10,302
Derivative financial instruments	19,894	25,375	36,076	48,304	39,539	32,990
Debt issues	131,991	168,356	169,902	171,054	152,251	144,133
Life insurance liabilities	7,071	9,019	12,361	11,559	9,637	11,938
All other liabilities	8,282	10,563	10,845	10,199	10,526	11,549
Total liabilities excluding loan capital	605,928	772,867	765,216	744,401	710,647	644,230
Total loan capital	13,850	17,666	15,805	13,840	10,858	9,330
Total liabilities	619,778	790,533	781,021	758,241	721,505	653,560
Net assets	48,092	61,342	58,181	53,915	49,337	47,537
Total equity attributable to owners of Westpac Banking Corporation	48,050	61,288	58,120	53,098	48,456	46,674
Non-controlling interests	42	54	61	817	881	863
Total shareholders' equity and non-controlling interests	48,092	61,342	58,181	53,915	49,337	47,537
Average balances						
Total assets	677,788	864,525	843,555	798,703	737,124	688,295
Loans and other receivables ³	515,917	658,058	629,159	594,200	559,789	516,482
Total equity attributable to owners of Westpac Banking Corporation	45,908	58,556	55,896	49,361	46,477	44,350
Non-controlling interests	16	20	575	854	862	1,972

¹ Where accounting classifications have changed or where changes in accounting policy are adopted retrospectively, comparatives have been revised and may differ from results previously reported.

² Australian dollar amounts have been translated into US dollars solely for the convenience of the reader at the rate of A\$1.00 = US\$0.7840, the noon buying rate in New York City on 29 September 2017.

³ Includes interest earning balances. Other receivables include cash and balances with central banks and other interest earning assets.

Summary of consolidated ratios

As at 30 September (in \$m unless otherwise indicated)	2017 US\$ ¹	2017 A\$	2016 A\$	2015 A\$	2014 A\$	2013 A\$
Profitability ratios (%)						
Net interest margin ²	2.06	2.06	2.10	2.09	2.09	2.14
Return on average assets ³	0.92	0.92	0.88	1.00	1.03	0.98
Return on average ordinary equity ⁴	13.65	13.65	13.32	16.23	16.27	15.22
Return on average total equity ⁵	13.64	13.64	13.18	15.96	15.97	14.57
Capital ratios (%)						
Average total equity to average total assets	6.78	6.78	6.69	6.29	6.42	6.73
Common equity Tier 1	10.56	10.56	9.48	9.50	8.97	9.10
Tier 1 ratio	12.66	12.66	11.17	11.38	10.56	10.65
Total capital ratio	14.82	14.82	13.11	13.26	12.28	12.25
Earning ratios						
Basic earnings per ordinary share (cents) ⁶	186.6	238.0	224.6	255.0	242.5	217.2
Diluted earnings per ordinary share (cents) ⁷	179.8	229.3	217.8	248.2	237.6	212.5
Dividends per ordinary share (cents)	147	188	188	187	182	174
Special dividends per ordinary share (cents)	-	-	-	-	-	20
Dividend payout ratio (%)	79.28	79.28	84.19	73.39	74.68	79.71
Credit quality ratios						
Impairment charges on loans written off (net of recoveries)	1,167	1,488	1,052	1,107	1,302	1,323
Impairment charges on loans written off (net of recoveries) to average loans (bps)	22	22	16	18	23	25

¹ Australian dollar amounts have been translated into US dollars solely for the convenience of the reader at the rate of A\$1.00 = US\$0.7840, the noon buying rate in New York City on 29 September 2017.

² Calculated by dividing net interest income by average interest earning assets.

³ Calculated by dividing net profit attributable to owners of Westpac Banking Corporation by average total assets.

⁴ Calculated by dividing net profit attributable to owners of Westpac Banking Corporation by average ordinary equity.

⁵ Calculated by dividing net profit attributable to owners of Westpac Banking Corporation by average ordinary equity and non-controlling interests.

⁶ Based on the weighted average number of fully paid ordinary shares.

⁷ Based on basic earnings per share, with the weighted average number of fully paid ordinary shares outstanding adjusted for the conversion of dilutive potential ordinary shares, issued for no consideration, and after adjusting earnings for distributions on dilutive potential ordinary shares.

Balance sheet review

Assets – 2017 v 2016

Total assets as at 30 September 2017 were \$851.9 billion, an increase of \$12.7 billion or 2% compared to 30 September 2016. Significant movements during the year included:

- cash and balances with central banks increased \$1.4 billion or 8% reflecting higher liquid assets;
- receivables due from other financial institutions decreased \$2.8 billion or 28% mainly due to reduction in collateral posted with derivative counterparties;
- trading securities and financial assets designated at fair value and available-for-sale securities increased \$4.2 billion or 5% in response to a CLF reduction on 1 January 2017;
- derivative assets decreased \$8.2 billion or 25% mainly driven by the closing out of positions via cash settlement, partly offset by movements in foreign currency translation impacts on cross currency swaps and forward contracts;
- loans grew \$23.0 billion or 3%. Refer to loan quality – 2017 v 2016 below for further information; and
- life insurance assets decreased \$3.5 billion or 25% mainly due to the deconsolidation of 16 managed funds as a result of a decline in the Group's unit holdings.

Liabilities and equity – 2017 v 2016

Total liabilities as at 30 September 2017 were \$790.5 billion, an increase of \$9.5 billion or 1% compared to 30 September 2016. Significant movements during the year included:

- payables due to other financial institutions increased \$3.7 billion or 20% due to increased funding of securities through repurchase agreement and interbank borrowings, partially offset by lower offshore central bank deposits;
- deposits and other borrowings increased \$20.5 billion or 4%;
- other financial liabilities at fair value through the income statement decreased \$0.7 billion or 15% reflecting reduced securities sold through repurchase agreements;
- derivative liabilities decreased \$10.7 billion or 30% mainly driven by the closing out of positions via cash settlement, partly offset by movements in foreign currency translation impacts on cross currency swaps and forward contracts;
- debt issues decreased \$1.5 billion or 1% (\$1.7 billion or 1% increase excluding foreign currency translation impacts);
- life insurance liabilities decreased \$3.3 billion or 27% mainly due to the deconsolidation of 16 managed funds as a result of a decline in the Group's unit holdings; and
- loan capital increased \$1.9 billion or 12% mainly due to issuances of \$1.6 billion of USD Additional Tier 1 securities and net issuances of \$0.3 billion of Tier 2 subordinated notes. During the year \$2.5 billion of Tier 2 Basel III fully compliant subordinated notes were issued, mostly offset by the redemption of \$2.2 billion of Tier 2 Basel III transitional subordinated notes (including foreign currency translation impacts).

Equity attributable to owners of Westpac Banking Corporation increased \$3.2 billion reflecting additional retained profits less dividends paid during the period and shares issued under the 2017 interim DRP and 2016 final DRP.

Loan quality – 2017 v 2016

\$m	As at 30 September		
	2017	2016	2015
Total gross loans¹	687,785	665,256	626,344
Average gross loans			
Australia	588,920	562,633	526,378
New Zealand	72,269	67,686	62,508
Other overseas	12,837	15,112	15,906
Total average gross loans	674,026	645,431	604,792

¹ Gross loans are stated before related provisions for impairment.

Total gross loans represented 81% of the total assets of the Group as at 30 September 2017, compared to 79% in 2016.

Australia average gross loans were \$588.9 billion in 2017, an increase of \$26.3 billion or 5% from \$562.6 billion in 2016. This increase was primarily due to growth in housing lending.

New Zealand average gross loans were \$72.3 billion in 2017, an increase of \$4.6 billion or 7% from \$67.7 billion in 2016. This increase was primarily due to growth in housing lending.

Other overseas average loans were \$12.8 billion in 2017, a decrease of \$2.3 billion or 15% from \$15.1 billion in 2016. This was primarily due to a decline in Asia.

Approximately 13.1% of the loans at 30 September 2017 mature within one year and 18.9% mature between one year and five years. Retail lending comprises the majority of the loan portfolio maturing after five years.

Review of Group operations

\$m	As at 30 September				
	2017	2016	2015	2014	2013
Impaired loans					
Non-performing loans ¹ :					
Gross	1,142	1,851	1,593	2,030	3,249
Impairment provisions	(507)	(885)	(689)	(862)	(1,363)
Net	635	966	904	1,168	1,886
Restructured loans:					
Gross	27	31	39	93	156
Impairment provisions	(12)	(16)	(16)	(44)	(56)
Net	15	15	23	49	100
Overdrafts, personal loans and revolving credit facilities greater than 90 days past due:					
Gross	373	277	263	217	195
Impairment provisions	(195)	(166)	(172)	(141)	(135)
Net	178	111	91	76	60
Net impaired loans	828	1,092	1,018	1,293	2,046
Provisions for impairment on loans and credit commitments					
Individually assessed provisions	480	869	669	867	1,364
Collectively assessed provisions	2,639	2,733	2,663	2,614	2,585
Total provisions for impairment on loans and credit commitments	3,119	3,602	3,332	3,481	3,949
Loan quality					
Total impairment provisions for impaired loans to total impaired loans ²	46.30%	49.42%	46.28%	44.76%	43.17%
Total impaired loans to total loans	0.22%	0.32%	0.30%	0.40%	0.67%
Total provisions for impairment on loans and credit commitments to total loans	0.45%	0.54%	0.53%	0.60%	0.73%
Total provisions for impairment on loans and credit commitments to total impaired loans	202.3%	166.8%	175.8%	148.8%	109.7%

¹ Non-performing loans are loans with an impaired internal risk grade, excluding restructured assets.

² Impairment provisions relating to impaired loans include IAP plus the proportion of the CAP that relate to impaired loans. The proportion of the CAP that relates to impaired loans was \$234 million as at 30 September 2017 (2016: \$198 million, 2015: \$208 million, 2014: \$180 million, 2013: \$190 million). This sum is compared to the total gross impaired loans to determine this ratio.

The credit quality of the portfolio improved over 2017, with total stressed exposures to TCE remaining low. Total impaired loans as a percentage of total gross loans were 0.22% at 30 September 2017, a decrease of 0.10% from 0.32% at 30 September 2016.

At 30 September 2017, we had one impaired counterparty with exposure greater than \$50 million, accounting for 5% of total impaired loans. This compares to four impaired counterparties with exposure greater than \$50 million in 2016 accounting for 30% of total impaired loans. There were four impaired exposures at 30 September 2017 that were less than \$50 million and greater than \$20 million (2016: seven impaired exposures).

At 30 September 2017, 78% of our exposure was to either investment grade or secured consumer mortgage segment (2016: 78%, 2015: 77%, 2014: 77%) and 96% of our exposure as at 30 September 2017 was in Australia, New Zealand and the Pacific region (2016: 96%, 2015: 95%, 2014: 95%).

We believe that Westpac remains appropriately provisioned. Total impairment provisions for impaired loans to total impaired loans coverage at 46.3% at 30 September 2017 compared to 49.4% at 30 September 2016. Total provisions for impairment on loans and credit commitments to total impaired loans represented 202.3% of total impaired loans as at 30 September 2017, up from 166.8% at 30 September 2016. Total provisions for impairments on loans and credit commitments to total loans were 0.45% at 30 September 2017, down from 0.54% at 30 September 2016 (2015: 0.53%).

Group mortgage loans 90 days past due at 30 September 2017 were 0.62% of outstandings, up from 0.61% of outstandings at 30 September 2016 (2015: 0.42%).

Group other consumer loan delinquencies (including credit card and personal loan products) were 1.57% of outstandings as at 30 September 2017, an increase of 46 basis points from 1.11% of outstandings as at 30 September 2016 (2015: 1.07%).

Potential problem loans as at 30 September 2017 amounted to \$1,247 million, a decrease of 13% from \$1,436 million at 30 September 2016. The decrease in potential problem loans was mainly due to the upgrade of loans that were impacted by the downturn in the New Zealand dairy portfolio.

Potential problem loans are facilities that are performing and no loss is expected, but the customer demonstrates significant weakness in debt servicing or security cover that could jeopardise repayment of debt on current terms if not rectified. Potential problem loans are identified using established credit frameworks and policies, which include the ongoing monitoring of facilities through the use of watchlists.

Capital resources

APRA measures an ADI's regulatory capital using three measures:

- Common Equity Tier 1 Capital (CET1) comprises the highest quality components of capital that consists of paid-up share capital, retained profits and certain reserves, less certain intangible assets, capitalised expenses and software, and investments and retained profits in insurance and funds management subsidiaries that are not consolidated for capital adequacy purposes;
- Tier 1 Capital being the sum of CET1 and Additional Tier 1 Capital. Additional Tier 1 Capital comprises high quality components of capital that consists of certain securities not included in CET1, but which include loss absorbing characteristics; and
- Total Capital being the sum of Tier 1 Capital and Tier 2 Capital. Tier 2 Capital includes subordinated instruments and other components of capital that, to varying degrees, do not meet the criteria for Tier 1 Capital, but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.

Under APRA's Prudential Standards, Australian ADIs, including Westpac, are required to maintain a minimum CET1 ratio of at least 4.5%, Tier 1 ratio of at least 6.0% and Total Regulatory Capital of at least 8.0%. APRA may also require ADIs, including Westpac, to meet Prudential Capital Requirements (PCRs) above the minimum capital ratios. APRA does not allow the PCRs for individual ADIs to be disclosed.

APRA also requires ADIs to hold additional CET1 buffers comprising of:

- a capital conservation buffer (CCB) of 3.5%, for ADI's designated by APRA as domestic systemically important banks (D-SIBs) (unless otherwise determined by APRA), which includes a 1.0% surcharge for D-SIBs. APRA has determined that Westpac is a D-SIB; and
- a countercyclical buffer. The countercyclical buffer is set on a jurisdictional basis and APRA is responsible for setting the requirement in Australia. The countercyclical buffer requirement is currently set to zero for Australia and New Zealand.

Collectively, the above buffers are referred to as the "Capital Buffer". Should the CET1 capital ratio fall within the capital buffer range, restrictions on the distributions of earnings will apply. This includes restrictions on the amount of earnings that can be distributed through dividends, Additional Tier 1 Capital distributions and discretionary staff bonuses.

Capital management strategy

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

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

- the development of a capital management strategy, including consideration of regulatory minimums, capital buffers and contingency plans;
- consideration of both economic and regulatory capital requirements;
- a stress testing framework that challenges the capital measures, coverage and requirements including the impact of adverse economic scenarios; and
- consideration of the perspectives of external stakeholders including rating agencies and equity and debt investors.

In light of APRA's announcement on 'unquestionably strong' capital on 19 July 2017, Westpac has ceased to use its preferred range of 8.75% to 9.25% as a guide to managing capital levels. Westpac will revise its preferred range for the CET1 ratio once APRA finalises its review of the capital adequacy framework. In the interim, Westpac will seek to operate with a CET1 ratio of at least 10.5% in March and September as measured under the existing capital framework. This also takes into consideration:

- current regulatory capital minimums and the CCB, which together are the total CET1 requirement;
- stress testing to calibrate an appropriate buffer against a downturn; and
- quarterly volatility of capital ratios due to the half yearly cycle of ordinary dividend payments.

Basel Capital Accord

APRA's risk-based capital adequacy standards are generally consistent with the International Regulatory Framework for Banks, also known as Basel III, issued by the Basel Committee on Banking Supervision (BCBS), except where APRA has exercised certain discretions. On balance, the application of these discretions acts to reduce capital ratios reported under APRA's Prudential Standards relative to the BCBS approach and to those reported in some other jurisdictions.

Westpac is accredited by APRA to apply advanced models permitted by the Basel III global capital adequacy regime to the measurement of its regulatory capital requirements. Westpac uses the Advanced Internal Ratings Based approach for credit risk, the Advanced Measurement Approach (AMA) for operational risk and the internal model approach for Interest Rate Risk in the Banking Book (IRRBB).

Westpac's Level 2 regulatory capital ratios as at 30 September are summarised in the table below. As the table summarises Westpac's Level 2 regulatory capital structure, the capital amounts shown are not the same as the Westpac Group's consolidated financial statements. Westpac's Pillar 3 Report provides further details regarding Westpac's capital structure.

\$m	2017	2016
Common equity	60,520	57,235
Deductions from common equity	(17,850)	(18,360)
Total common equity after deductions	42,670	38,875
Additional Tier 1 capital	8,505	6,910
Net Tier 1 regulatory capital	51,175	45,785
Tier 2 capital	8,952	8,201
Deductions from Tier 2 capital	(217)	(218)
Total Tier 2 capital after deductions	8,735	7,983
Total regulatory capital	59,910	53,768
Credit risk	349,258	358,812
Market risk	8,094	7,861
Operational risk	31,229	33,363
Interest rate risk in the banking book	11,101	5,373
Other assets	4,553	4,644
Total risk weighted assets	404,235	410,053
Common Equity Tier 1 capital ratio	10.56%	9.48%
Additional Tier 1 capital ratio	2.10%	1.69%
Tier 1 capital ratio	12.66%	11.17%
Tier 2 capital ratio	2.16%	1.94%
Total regulatory capital ratio	14.82%	13.11%

Refer to 'Significant developments' in Section 1 for a discussion on future regulatory developments that may impact upon capital requirements.

Divisional performance

Divisional performance – 2017 v 2016

Westpac reports under the following five primary customer-facing business divisions:

- Consumer Bank, which we refer to as CB: responsible for all Australian consumer relationships across all brands;
- Business Bank, which we refer to as BB: responsible for all Australian business and commercial consumer relationships across all brands;
- BT Financial Group (Australia), which we refer to as BTFG: responsible for the Group's wealth management, insurance and private banking businesses;
- Westpac Institutional Bank, which we refer to as WIB: responsible for the relationship with institutional and corporate customers, along with the Group's international operations including Asia and the Pacific; and
- Westpac New Zealand: responsible for all customer segments in New Zealand.

Group Businesses include Treasury, Group Technology and Core Support.

The Group has completed an update to its capital allocation framework. The update further improves the alignment of capital held by divisions with regulatory capital requirements. Divisional results have been restated for 2016 and 2015 to ensure comparability with 2017 results (refer to Note 2 to the financial statements for the disclosure of the Group's reportable operating segments and revisions to capital allocation).

The accounting standard AASB 8 *Operating Segments* requires segment results to be presented on a basis that is consistent with information provided internally to Westpac's key decision makers. In assessing financial performance, including divisional results, Westpac Group uses a measure of performance referred to as 'cash earnings'. Cash earnings is viewed as a measure of the level of profit that is generated by ongoing operations and is therefore considered in assessing distributions, including dividends. Cash earnings is neither a measure of cash flow nor net profit determined on a cash accounting basis, as it includes non-cash items reflected in net profit determined in accordance with AAS. To calculate cash earnings, the specific adjustments to the net profit attributable to owners of Westpac Banking Corporation include both cash and non-cash items and are outlined below. Management believes this allows the Group to more effectively assess performance for the current period against prior periods and to compare performance across business divisions and across peer companies.

A reconciliation of cash earnings to net profit attributable to owners of Westpac Banking Corporation for each business division is set out in Note 2 to the financial statements.

To determine cash earnings, three categories of adjustments are made to statutory results:

- material items that key decision makers at Westpac believe do not reflect ongoing operations;
- items that are not considered when dividends are recommended, such as the amortisation of intangibles, impact of Treasury shares and economic hedging impacts; and
- accounting reclassifications between individual line items that do not impact statutory results.

The discussion of our divisional performance in this section is presented on a cash earnings basis unless otherwise stated. Cash earnings is not directly comparable to statutory results presented in other parts of this Annual Report.

Outlined below are the cash earnings adjustments to the reported result:

- amortisation of intangible assets: The merger with St. George and the acquisition of select Lloyds' Australian businesses resulted in the recognition of identifiable intangible assets. Notional identifiable intangible assets were also recognised within the carrying value of BTIM during the period this investment was equity accounted. The intangible assets recognised relate to core deposits, customer relationships, management contracts and distribution relationships. These intangible items are amortised over their useful lives, ranging between four and twenty years. This amortisation (excluding capitalised software) is a cash earnings adjustment because it is a non-cash flow item and does not affect cash distributions available to shareholders;
- acquisition, transaction and integration expenses: Costs associated with the acquisition of select Lloyds' Australian businesses were treated as a cash earnings adjustment as they do not reflect the earnings expected from the acquired businesses following the integration period;
- capitalised technology cost balances: Following changes to the Group's technology and digital strategy, rapid changes in technology and evolving regulatory requirements, a number of accounting changes were introduced in 2015, including moving to an accelerated amortisation methodology for most existing assets with a useful life of greater than three years, writing off the capitalised cost of regulatory program assets where the regulatory requirements have changed and directly expensing more project costs. The expense recognised in 2015 to reduce the carrying value of impacted assets was treated as a cash earnings adjustment given its size and that it does not reflect ongoing operations;
- fair value on economic hedges (which do not qualify for hedge accounting under AAS) comprise:
 - the unrealised fair value (gain)/loss on foreign exchange hedges of future New Zealand earnings impacting non-interest income is reversed in deriving cash earnings as they may create a material timing difference on reported results but do not affect the Group's cash earnings over the life of the hedge; and

- the unrealised fair value (gain)/loss on hedges of accrual accounted term funding transactions are reversed in deriving cash earnings as they may create a material timing difference on reported results but do not affect the Group's cash earnings over the life of the hedge;
- ineffective hedges: The unrealised (gain)/loss on ineffective hedges is reversed in deriving cash earnings for the period because the gain or loss arising from the fair value movement in these hedges reverses over time and does not affect the Group's profits over time;
- Lloyds tax adjustments: Tax adjustments arising from the acquisition of Lloyds have been treated as a cash earnings adjustment in line with our treatment of Lloyds acquisition and integration costs;
- sale of BTIM shares: During 2015 the Group recognised a significant gain following the partial sale of the Group's shareholding in BTIM. This gain has been treated as a cash earnings adjustment given its size and that it does not reflect ongoing operations. During 2017 the Group recognised a gain, net of costs, following the further sell down of the Group's shareholding in BTIM. Consistent with previous treatment this gain has been treated as a cash earnings adjustment given its size and that it does not reflect ongoing operations. The Group has indicated that it may sell the remaining 10% shareholding in BTIM at some future date. Any future gain or loss on the sale will similarly be excluded from the calculation of cash earnings;
- Treasury shares: Under AAS, Westpac shares held by the Group in the managed funds and life businesses are deemed to be Treasury shares and the results of holding these shares cannot be recognised as income in the reported results. In deriving cash earnings, these results are included to ensure there is no asymmetrical impact on the Group's profits because the Treasury shares support policyholder liabilities and equity derivative transactions which are re-valued in determining income;
- accounting reclassifications between individual line items that do not impact reported results comprise:
 - in 2017 the Group changed the accounting treatment for Westpac New Zealand credit card rewards scheme to align with Group practice. This change has no impact on cash earnings or reported profit but it has led to the restatement of non-interest income and operating expenses, within cash earnings, in prior periods. Components of reported profit have not been changed;
 - policyholder tax recoveries: Income and tax amounts that are grossed up to comply with the AAS accounting standard covering Life Insurance Business (policyholder tax recoveries) are reversed in deriving income and taxation expense on a cash earnings basis; and
 - operating leases: Under AAS rental income on operating leases is presented gross of the depreciation of the assets subject to the lease. These amounts are offset in deriving non-interest income and operating expenses on a cash earnings basis.

The guidance provided in Australian Securities and Investments Commission (ASIC) Regulatory Guide 230 has been followed when presenting this information.

Cash earnings and assets by division

The following tables present, for each of the key divisions of our business, the cash earnings and total assets at the end of the financial years ended 30 September 2017, 2016 and 2015. Refer to Note 2 to the financial statements for the disclosure of our geographic and business segments and the reconciliation to net profit attributable to owners of Westpac Banking Corporation.

Cash earnings by business division

\$m	2017	2016	2015
Consumer Bank	3,104	2,984	2,625
Business Bank	2,099	1,975	1,957
BT Financial Group (Australia)	771	868	906
Westpac Institutional Bank	1,304	1,106	1,357
Westpac New Zealand	916	825	863
Group Businesses	(132)	64	112
Total cash earnings	8,062	7,822	7,820

Total assets by business division

\$bn	2017	2016	2015
Consumer Bank	369.5	351.5	328.6
Business Bank	161.1	156.8	149.3
BT Financial Group (Australia)	35.2	38.2	35.8
Westpac Institutional Bank	102.9	110.4	127.3
Westpac New Zealand	81.3	82.1	71.5
Group Businesses	101.9	100.2	99.7
Total assets	851.9	839.2	812.2

In presenting divisional results on a management reporting basis, internal charges and transfer pricing adjustments are included in the performance of each division reflecting the management structure rather than the legal entity (these results cannot be compared to results for individual legal entities). Where management reporting structures or accounting classifications have changed, financial results for comparative periods have been revised and may differ from results previously reported.

Our internal transfer pricing frameworks facilitate risk transfer, profitability measurement, capital allocation and business unit alignment, tailored to the jurisdictions in which we operate. Transfer pricing allows us to measure the relative contribution of our products and divisions to the Group's interest margin and other dimensions of performance. Key components of our transfer pricing frameworks are funds transfer pricing for interest rate and liquidity risk and allocation of basis and contingent liquidity costs, including capital allocation.

Consumer Bank

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

Financial performance

\$m	2017	2016	2015
Net interest income	7,509	7,175	6,403
Non-interest income	802	850	940
Net operating income before operating expenses and impairment charges	8,311	8,025	7,343
Operating expenses	(3,337)	(3,270)	(3,113)
Impairment charges	(541)	(492)	(478)
Profit before income tax	4,433	4,263	3,752
Income tax expense	(1,329)	(1,279)	(1,127)
Cash earnings for the year	3,104	2,984	2,625
Net cash earnings adjustments	(116)	(116)	(116)
Net profit attributable to owners of Westpac Banking Corporation	2,988	2,868	2,509
	\$bn	\$bn	\$bn
Deposits and other borrowings	191.8	180.6	168.2
Net loans	362.5	344.8	320.7
Total assets	369.5	351.5	328.6
Total operating expenses to net operating income ratio	40.15%	40.75%	42.39%

2017 v 2016

The 4% rise in cash earnings to \$3,104 million, was due to balance sheet growth and disciplined expense management.

Net interest income up \$334 million, 5%	<ul style="list-style-type: none"> mortgages growth was slightly below system¹. The decline in other lending was in credit cards and personal loans (in line with lower system¹ balances); the above system growth in deposits included a 9% lift in transaction account balances; and net interest margin was 3 basis points lower primarily from higher wholesale funding and deposits costs, partly offset by some repricing and continued discipline on discounting.
Non-interest income down \$48 million, 6%	<ul style="list-style-type: none"> decline mostly due to lower cards income (net impact of interchange fee changes, loyalty point redemption costs, and a prior year benefit not repeated) and provisions for customer refunds and payments; partly offset by; some fee repricing and higher foreign exchange income.
Operating expenses up \$67 million, 2%	<ul style="list-style-type: none"> higher technology and investment related costs; a rise in regulatory and compliance spending; increased product development and marketing costs; and productivity benefits largely offset business as usual expense increases.
Impairment charges up \$49 million, 10%	<ul style="list-style-type: none"> higher impairments were mostly due to an increase in mortgage IAPs for regions impacted by the slowing of the mining investment cycle and CAPs for hardship changes in the other consumer lending portfolio; and 90+ day other consumer loan delinquencies were higher mostly due to changes in the measurement and reporting of customers in hardship arrangements. Excluding hardship changes, 90+ day delinquencies improved.

¹ Source: RBA September 2017.

Business Bank

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

Financial performance

\$m	2017	2016	2015
Net interest income	4,055	3,925	3,735
Non-interest income	1,153	1,104	1,068
Net operating income before operating expenses and impairment charges	5,208	5,029	4,803
Operating expenses	(1,839)	(1,796)	(1,731)
Impairment charges	(367)	(410)	(273)
Profit before income tax	3,002	2,823	2,799
Income tax expense	(903)	(848)	(842)
Cash earnings for the year	2,099	1,975	1,957
Net cash earnings adjustments	(10)	(10)	(10)
Net profit attributable to owners of Westpac Banking Corporation	2,089	1,965	1,947
	\$bn	\$bn	\$bn
Deposits and other borrowings	115.3	110.6	101.8
Net loans	157.5	153.4	146.4
Total assets	161.1	156.8	149.3
Total operating expenses to net operating income ratio	35.31%	35.71%	36.04%

2017 v 2016

Cash earnings of \$2,099 million was \$124 million, or 6% higher than 2016 from net operating income before operating expenses and impairment charges growth of 4% and a 10% decline in impairment charges. The result was supported by increased fee income, balance sheet growth and productivity gains.

Net interest income up \$130 million, 3%	<ul style="list-style-type: none"> lending growth of 3% was supported by growth in SME and targeted industries while commercial property lending was lower from optimising risk return profile; a 15% rise in transaction balances supported the 4% rise in deposits. Term deposit balances declined following the migration of some customers to Private Wealth (in BTFG); and net interest margin was little changed over the year. Asset spreads were higher following some repricing, although these were offset by lower deposit spreads and higher wholesale funding costs.
Non-interest income up \$49 million, 4%	<ul style="list-style-type: none"> higher line fees from both portfolio growth and some repricing for facilities; and fees were also supported by the growth in transaction balances and repricing.
Operating expenses up \$43 million, 2%	<ul style="list-style-type: none"> business as usual cost increases were largely offset by efficiency gains from digitisation of processes and streamlining in the division's service model including specialist industry teams and more targeted handling of customer service requests; and increased investment spending and technology costs led to most of the increase.
Impairment charges down \$43 million, 10%	<ul style="list-style-type: none"> lower impairments were principally due to improved collections processes for auto finance. This was partly offset by increased provisions across the property, construction, mining and manufacturing sectors, particularly in Queensland; and credit quality remains sound, with total stressed assets to TCE lower. Auto delinquencies were higher due to the changes in hardship reporting.

BT Financial Group (Australia)

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

In 2017 Westpac sold down its investment in BT Investment Management Limited (BTIM) from 29% to 10%. That sale led to a change in the way the business is accounted for from being equity accounted to being reflected as an available-for-sale investment. The profit on sale of shares in BTIM is not included in BTFG's cash earnings results below.

Financial performance

\$m	2017	2016	2015
Net interest income	537	486	434
Non-interest income	1,744	1,908	2,192
Net operating income before operating expenses and impairment charges	2,281	2,394	2,626
Operating expenses	(1,176)	(1,160)	(1,286)
Impairment (charges)/benefit	(4)	-	4
Profit before income tax	1,101	1,234	1,344
Income tax expense	(330)	(366)	(406)
Profit attributable to non-controlling interests	-	-	(32)
Cash earnings for the year	771	868	906
Net cash earnings adjustments	160	(32)	(23)
Net profit attributable to owners of Westpac Banking Corporation	931	836	883
	\$bn	\$bn	\$bn
Deposits and other borrowings	29.7	25.5	23.4
Net loans	20.1	18.6	17.2
Total assets	35.2	38.2	35.8
Funds Under Management (FUM) ¹	53.1	48.4	46.3
Funds Under Administration (FUA)	138.3	130.8	121.9
Total operating expenses to net operating income ratio	51.56%	48.45%	48.97%

Cash earnings

\$m	2017	2016	2015
Funds management business	435	520	560
Insurance	293	309	291
Capital and other	43	39	55
Total cash earnings	771	868	906

¹ FUM represents Retail which includes Annuities, Retail Investment, Retirement Products and Retail Superannuation where risk profiles are selected by investors and Investment Solutions through Advance (a multi manager of investment management companies).

2017 v 2016

Cash earnings was 11% lower than full year 2016, impacted by a number of infrequent items totalling \$129 million before tax. The cash earnings impact of infrequent items (after tax) includes provisions for customer refunds and payments (\$58 million), revaluation loss on investments in boutique funds (\$24 million) and lower revenue following the further sale of shares in BTIM (\$10 million). The underlying business was flat over the year with volume growth partly offset by lower FUM and FUA margins, lower Advice activity levels, higher insurance claims and increased regulatory and compliance costs.

Net interest income up \$51 million, 10%	<ul style="list-style-type: none"> ▪ balance sheet growth in Private Wealth, deposits up 16% and loans up 8%; and ▪ net interest margin was up 13 basis points mostly due to repricing of certain mortgages and improved term deposit spreads.
Non-interest income down \$164 million, 9%	<ul style="list-style-type: none"> ▪ Funds Management contribution was down \$151 million: <ul style="list-style-type: none"> - infrequent items indicated above (\$129 million); - advice income was lower mostly from reduced activity (\$33 million); and - FUM and FUA revenue was higher with growth in average FUM and FUA (10% and 7% respectively) offsetting lower margins from product mix changes, including the migration to MySuper products. FUM and FUA net flows were \$4 billion for the year. ▪ insurance income was down \$26 million (or 5%); <ul style="list-style-type: none"> - general insurance income was lower (\$33 million) mostly from higher claims concentrated in the first half of the year; - life insurance income was flat as the 10% growth in in-force premiums and improved lapses were offset by higher claims; and - LMI contribution was higher mostly due to the arrangements for loans with a LVR >90%. ▪ partly offsetting this was improved returns on capital mostly related to lower hedging costs.
Operating expenses up \$16 million, 1%	<ul style="list-style-type: none"> ▪ regulatory and compliance costs were \$28 million higher over the year; ▪ investment related spending was up from costs associated with the launch of Panorama; and ▪ productivity benefits mostly offset these increases.

Funds management business

\$m	2017	2016	2015
Net interest income	525	474	416
Non-interest income	1,183	1,334	1,663
Net operating income before operating expenses and impairment charges	1,708	1,808	2,079
Operating expenses	(1,082)	(1,067)	(1,219)
Impairment (charges)/benefit	(3)	-	4
Profit before income tax	623	741	864
Income tax expense	(188)	(221)	(272)
Profit attributable to non-controlling interests	-	-	(32)
Cash earnings for the year	435	520	560
Net cash earnings adjustments	160	(32)	(23)
Net profit attributable to owners of Westpac Banking Corporation	595	488	537
Total operating expenses to net operating income ratio	63.35%	59.02%	58.63%

Insurance business

The Insurance business result includes the Westpac and St. George Life Insurance, General Insurance and Lenders Mortgage Insurance (LMI) businesses.

\$m	2017	2016	2015
Net interest income	8	5	6
Non-interest income	499	525	488
Net operating income before operating expenses and impairment charges	507	530	494
Operating expenses	(92)	(88)	(79)
Profit before income tax	415	442	415
Income tax expense	(122)	(133)	(124)
Cash earnings for the year	293	309	291
Net cash earnings adjustments	-	-	-
Net profit attributable to owners of Westpac Banking Corporation	293	309	291
Total operating expenses to net operating income ratio	18.15%	16.60%	15.99%

Westpac Institutional Bank

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

Financial performance

\$m	2017	2016	2015
Net interest income	1,507	1,574	1,658
Non-interest income	1,706	1,536	1,578
Net operating income before operating expenses and impairment charges	3,213	3,110	3,236
Operating expenses	(1,323)	(1,347)	(1,319)
Impairment (charges)/benefit	(56)	(177)	38
Profit before income tax	1,834	1,586	1,955
Income tax expense	(523)	(473)	(590)
Profit attributable to non-controlling interests	(7)	(7)	(8)
Cash earnings for the year	1,304	1,106	1,357
Net cash earnings adjustments	-	-	-
Net profit attributable to owners of Westpac Banking Corporation	1,304	1,106	1,357
	\$bn	\$bn	\$bn
Deposits and other borrowings ¹	89.4	88.4	80.3
Net loans	74.0	73.8	76.3
Total assets	102.9	110.4	127.3
Total operating expenses to net operating income ratio	41.18%	43.31%	40.76%

¹ Refers to total customer deposits in this table and excludes Certificates of Deposit.

2017 v 2016

Cash earnings of \$1,304 million, was \$198 million or 18% higher compared to 2016, supported by higher customer and trading income, disciplined expense management and lower impairments.

Net interest income down \$67 million, 4%	<ul style="list-style-type: none"> average loan balances were lower over the year, which contributed to lower net interest income; partly offset by 7 basis points improvement in net interest margin from the run-down in lower returning assets and pricing disciplines.
Non-interest income up \$170 million, 11%	<ul style="list-style-type: none"> higher trading revenue across both fixed income and commodities; customer revenue was higher reflecting some larger customer transactions; and positive movement in derivative valuation adjustments.
Operating expenses down \$24 million, 2%	<ul style="list-style-type: none"> disciplined operating expense management, productivity initiatives and lower investment in Asia contributed to the 2% reduction in operating expenses.
Impairment charges down \$121 million, 68%	<ul style="list-style-type: none"> asset quality was sound, with the ratio of impaired assets to TCE down 26 basis points following the work-out and write-off of some larger facilities; and the lower charge was partly due to higher impairment charges in 2016 with increased provisions for the downgrade of a small number of large names.

Westpac New Zealand

Westpac New Zealand is responsible for sales and service of banking, wealth and insurance products for consumers, business and institutional customers in New Zealand. Westpac conducts its New Zealand banking business through two banks in New Zealand: Westpac New Zealand Limited, which is incorporated in New Zealand and Westpac Banking Corporation (New Zealand Branch), which is incorporated in Australia. Westpac New Zealand operates via an extensive network of branches and ATMs across both the North and South Islands. Business and institutional customers are also served through relationship and specialist product teams. Banking products are provided under the Westpac brand while insurance and wealth products are provided under Westpac Life and BT brands, respectively. Westpac New Zealand also maintains its own infrastructure, including technology, operations and treasury.

Financial performance

\$m	2017	2016	2015
Net interest income	1,627	1,606	1,583
Non-interest income ¹	479	482	493
Net operating income before operating expenses and impairment charges	2,106	2,088	2,076
Operating expenses ¹	(903)	(889)	(844)
Impairment (charges)/benefit	72	(54)	(44)
Profit before income tax	1,275	1,145	1,188
Income tax expense	(359)	(320)	(322)
Profit attributable to non-controlling interests	-	-	(3)
Cash earnings for the year	916	825	863
Net cash earnings adjustments	(14)	2	-
Net profit attributable to owners of Westpac Banking Corporation	902	827	863
	\$bn	\$bn	\$bn
Deposits and other borrowings ²	53.7	54.9	47.3
Net loans	71.1	71.7	62.8
Total assets	81.3	82.1	71.5
Funds under management ³	7.7	7.1	5.9
Funds under administration ³	1.6	2.0	1.8
Total operating expenses to net operating income ratio	42.88%	42.58%	40.66%

¹ Comparatives have been restated for the accounting change to the Westpac New Zealand credit card rewards scheme. (2016: \$33 million, 2015: \$36 million).

² Refers to total customer deposits in this table.

³ During 2017 \$0.2 billion transferred from FUA to FUM.

2017 v 2016

Cash earnings up 11% to \$916 million, with an impairment benefit of \$72 million, from higher write-back and recoveries. Net operating income before operating expenses and impairment charges was up 1%, with volume growth offset by margin decline. Operating expenses were up 2% driven by investment in the division's transformation program.

<p>Net interest income up \$21 million, 1%</p>	<ul style="list-style-type: none"> ▪ excluding foreign currency translation impacts, loan growth of 3% was mostly in mortgages, up 4% with business lending 1% higher; ▪ excluding foreign currency translation impacts, deposits growth of 2% was mostly in term deposits (3%) with customers preferring higher rate term products over at call accounts; ▪ net interest margin was 13 basis points lower mostly from increased deposit competition and increased wholesale funding costs, partly offset by; ▪ repricing of certain mortgages and business loans.
<p>Non-interest income down \$3 million, 1%</p>	<ul style="list-style-type: none"> ▪ increased investment income (from a 6% increase in FUM and FUA excluding foreign currency translation impacts) and higher cards income were offset by higher insurance claims and lower banking fees following the removal of some consumer fees.
<p>Operating expenses up \$14 million, 2%</p>	<ul style="list-style-type: none"> ▪ the increase was principally due to costs of and investment in the division's transformation program; and ▪ outside of this increase operating expenses were 3% lower through a range of productivity initiatives including a net reduction of 20 branches, a 3% reduction in FTE, increased self-serve adoption and the digitisation of more processes.
<p>Impairment benefit of \$72m compared to a \$54 million impairment charge.</p>	<ul style="list-style-type: none"> ▪ asset quality remained sound with stressed assets to TCE reducing 48 basis points to 2.06%. The decline was due to reduction of stress in the dairy sector (improving milk prices). Consumer 90+ day delinquencies were a little higher but continue to be near historical lows; and ▪ the impairment benefit reflects the work-out and write-back of a few large facilities combined with the lower levels of stress.

Group Businesses

This segment comprises:

- Treasury, which is responsible for the management of the Group's balance sheet including wholesale funding, capital and management of liquidity. Treasury also manages the interest rate risk and foreign exchange risks inherent in the balance sheet, including managing the mismatch between Group assets and liabilities. Treasury's earnings are primarily sourced from managing the Group's balance sheet and interest rate risk, (excluding Westpac New Zealand) within set risk limits;
- Group Technology¹, which comprises functions for the Australian businesses is responsible for technology strategy and architecture, infrastructure and operations, applications development and business integration;
- Core Support², which comprises functions performed centrally, including Australian banking operations, property services, strategy, finance, risk, compliance, legal and human resources; and
- Group Businesses also includes: earnings on capital not allocated to divisions, accounting entries for certain intra-group transactions that facilitate the presentation of the performance of the Group's operating segments, earnings from non-core asset sales, earnings and costs associated with the Group's fintech investments, and certain other head office items such as centrally raised provisions.

Financial performance

\$m	2017	2016	2015
Net interest income	469	582	426
Non-interest income	(32)	8	66
Net operating income before operating expenses and impairment charges	437	590	492
Operating expenses	(527)	(469)	(378)
Impairment benefits	43	9	-
Profit before income tax	(47)	130	114
Income tax (expense)/benefit	(85)	(58)	13
Profit attributable to non-controlling interests	-	(8)	(15)
Cash earnings for the year	(132)	64	112
Net cash earnings adjustments	(92)	(221)	341
Net profit attributable to owners of Westpac Banking Corporation	(224)	(157)	453

2017 v 2016

Cash earnings decreased by \$196 million from lower Treasury revenue, increased expenses and a higher tax expense.

Net operating income down \$153 million, 26%	<ul style="list-style-type: none"> ▪ net interest income decreased \$113 million largely from lower Treasury revenue related to interest rate risk management; and ▪ non-interest income decreased \$40 million primarily due to the impact of exchange rate movements on the hedging of New Zealand earnings.
Operating expenses up \$58 million, 12%	<ul style="list-style-type: none"> ▪ increase in operating expenses primarily from higher expenses associated with the Group's fintech investments and higher regulatory and compliance costs.
Impairment benefits up \$34 million	<ul style="list-style-type: none"> ▪ impairment benefit increased \$34 million due to a reduction to the centrally held economic overlay provisions, largely related to the mining sector. This reduction offsets provisions raised in divisions.
Tax and non-controlling interests up \$19 million, 29%	<ul style="list-style-type: none"> ▪ tax and non-controlling interests increased \$19 million, as 2016 benefitted from the finalisation of prior period taxation matters, and hybrid distributions (not deductible for tax purposes) were also higher in the current year.

¹ Costs are fully allocated to other divisions in the Group.

² Costs are partially allocated to other divisions in the Group, with costs attributed to enterprise activity retained in Group Businesses.

Risk factors

Our business is subject to risks that can adversely impact our financial performance, financial condition and future performance. If any of the following risks occur, our business, prospects, reputation, financial performance or financial condition could be materially adversely affected, with the result that the trading price of our securities could decline and as a security holder you could lose all, or part, of your investment. You should carefully consider the risks described and the other information in this Annual Report before investing in our securities. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently deem to be immaterial, may also become important factors that affect us.

Risks relating to our business

Our businesses are highly regulated and we could be adversely affected by changes in laws, regulations or regulatory policy

As a financial institution, we are subject to detailed laws and regulations in each of the jurisdictions in which we operate or obtain funding, including Australia, New Zealand, the United Kingdom, the United States and various jurisdictions in Asia. We are also supervised by a number of different regulatory and supervisory authorities which have broad administrative powers over our businesses. In Australia, the relevant regulatory authorities include the Australian Prudential Regulation Authority (APRA), Reserve Bank of Australia (RBA), Australian Securities and Investments Commission (ASIC), Australian Securities Exchange (ASX), Australian Competition and Consumer Commission (ACCC), the Australian Transaction Reports and Analysis Centre (AUSTRAC) and the Australian Taxation Office (ATO). The Reserve Bank of New Zealand (RBNZ) and the Financial Markets Authority (FMA) have supervisory oversight of our New Zealand operations. In the United States, we are subject to supervision and regulation by the US Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission (CFTC) and the US Securities and Exchange Commission (SEC). In the United Kingdom, we are subject to supervision and regulation by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). In Asia, we are subject to supervision and regulation by local authorities, including the Monetary Authority of Singapore (MAS), the China Banking Regulatory Commission (CBRC) and the Hong Kong Monetary Authority (HKMA). In other jurisdictions in which we operate, including various Pacific countries, we are also required to comply with relevant requirements of the local regulatory bodies.

The Group's business, reputation, prospects, financial performance and financial condition could all be affected by changes to law and regulation, changes to policies and changes in the supervisory activities of our regulators.

As with other financial services providers, we face increasing supervision and regulation in most of the jurisdictions in which we operate or obtain funding particularly in the areas of funding, liquidity, capital adequacy, tax, anti-money laundering and counter-terrorism financing, conduct, competition and consumer protection (including in the design and distribution of financial products), remuneration, privacy, data access, prudential regulation, anti-bribery and corruption, and economic and trade sanctions.

Regulatory changes could impact us in a number of ways. For example, new regulation could require us to have increased levels of liquidity and higher levels of, and better quality, capital and funding. Regulatory change could also result in restrictions on how we operate our business by imposing restrictions on the types of businesses we can conduct, require us or our competitors to change our business models or require us to amend our corporate structure.

If regulatory change has any such effect, it could adversely affect one or more of our businesses, restrict our flexibility, require us to incur substantial costs and could impact the profitability of one or more of our business lines. Any such costs or restrictions could adversely affect our business, prospects, financial performance or financial condition.

Regulation may also affect how we provide products and services to our customers. New laws and regulations could restrict our ability to provide products and services to certain customers (including by imposing regulatory limits on certain types of lending and on lending to certain customer segments), require us to alter our product and service offerings and restrict our ability to set prices for certain products and services. These types of changes could affect our profitability by adversely affecting our ability to maintain or increase margins and fees. This could occur because a regulation seeks to place a cap on the price of a product or service we provide, or because, in response to new regulation, we increase the price we charge for a product or service. This price increase could lead to customers seeking out alternative products or services, whether within the Group or with a competitor (including customers switching residential mortgages from interest-only to principal and interest).

There are numerous sources of regulatory change that could affect our business. In some cases, changes to regulation are driven by international bodies. For example, in December 2010, the Basel Committee on Banking Supervision (BCBS) announced a revised global regulatory framework known as Basel III. Basel III, among other things, increased the required quality and quantity of capital held by banks and introduced new standards for the management of liquidity risk. The BCBS continues to refine this framework, while, in July 2017, APRA took steps to implement the next wave of capital requirements for banks by clarifying its expectations for banks to hold 'unquestionably strong' levels of capital. In other cases, authorities in the various jurisdictions in which we operate or obtain funding may propose regulatory change for financial institutions. Examples of proposed regulatory change that could impact us include changes to accounting and reporting standards, derivatives reform and changes to tax legislation (including dividend imputation). Further details on regulatory changes that may impact Westpac (including the Basel III framework) are set out in 'Significant developments' in Section 1.

Further changes may occur driven by policy, prudential or political factors. Westpac is currently operating in an environment where there is increased political scrutiny of the Australian financial services sector. This environment has served to increase the pace and scope of regulatory change. For example, as part of the Federal Government's 2017 Budget, a series of reforms impacting the banking sector were announced, including the introduction of the Bank Executive Accountability Regime (BEAR) and a new levy on ADIs with liabilities of at least A\$100 billion. Further details about the Bank Levy and BEAR are set out in 'Significant developments' in Section 1.

Legislation introduced in one jurisdiction may lead to other governments seeking to introduce similar legislation in their jurisdiction. This was demonstrated by the South Australian Government's proposal to introduce a levy on the banks that are subject to the Federal Government's Bank Levy. While it is unclear if the South Australian levy will come into effect, it is possible that other governments may attempt to introduce their own version of the Bank Levy or similar legislation in the future.

As part of the heightened political scrutiny on the financial services sector, the Australian Government, other regulators and parliamentary bodies are increasingly initiating reviews and inquiries (such as the Financial System Inquiry, the House of Representatives Standing Committee on Economics' ongoing 'Review of Australia's Four Major Banks' and the Senate Economics References Committee's inquiry into consumer protection in the banking, insurance and financial sector, the Productivity Commission Inquiry into Competition in the Australian Financial System and the ACCC inquiry into residential mortgage pricing). These reviews and commissions of inquiry could lead to substantial regulatory change or investigations, which could have a material impact on our business, prospects, financial performance or financial condition.

It is also possible that governments or regulators in jurisdictions in which we operate or obtain funding might revise their application of existing regulatory policies that apply to, or impact, our business (including by instituting macro-prudential limits on lending). Regulators or governments may take this action for a variety of reasons, including for reasons relating to national interest and/or systemic stability.

Regulatory changes and the timing of their introduction continue to evolve and we manage our businesses in the context of regulatory uncertainty and complexity. The nature and impact of future changes are not predictable and are beyond our control. Regulatory compliance and the management of regulatory change are an important part of our planning processes. We expect that we will be required to continue to invest significantly in compliance and the management and implementation of regulatory change and, at the same time, significant management attention and resources will be required to update existing, or implement new, processes to comply with new regulations. Furthermore, the challenge in managing regulatory change may be heightened by multiple jurisdictions seeking to adopt a coordinated approach to the introduction of new regulations. Where these jurisdictions elect not to adopt regulation in a uniform manner across each jurisdiction, this may result in conflicts between the specific requirements of the different jurisdictions in which we operate.

For further information refer to 'Significant developments' in Section 1 and the sections 'Critical accounting assumptions and estimates' and 'Future developments in accounting standards' in Note 1 to the financial statements.

Our businesses are highly regulated and we could be adversely affected by failing to comply with laws, regulations or regulatory policy

We are responsible for ensuring that we comply with all applicable legal and regulatory requirements (including accounting standards) and industry codes of practice in the jurisdictions in which we operate or obtain funding, as well as meeting our ethical standards.

The Group is subject to compliance risk, which is the risk of legal or regulatory sanction or financial or reputational loss, arising from our failure to abide by the compliance obligations required of us. This risk is exacerbated by the increasing complexity and volume of global regulation. Compliance risk can also arise where we interpret our regulatory obligations, compliance requirements and rights (including tax incentives) differently to our regulators or a court.

The Group's failure, or suspected failure, to comply with a compliance obligation could lead to a regulator commencing an investigation into the Group or taking other administrative or enforcement action against us. In addition, the failure or alleged failure of our competitors to comply with their compliance obligations could lead to increased regulatory scrutiny across the financial services sector.

In many cases, our regulators have broad administrative and enforcement powers. For example, under the *Banking Act 1959* (Cth), APRA can, in certain circumstances, investigate our affairs and/or issue a direction to us (such as a direction to comply with a prudential requirement, to conduct an audit, to remove a Director, executive officer or employee or not to undertake transactions). Other regulators also have the power to investigate, including looking into past conduct.

The powers exercisable by our regulators may also be expanded in the future. For example, the Australian Government has consulted on a proposal to provide ASIC with a product intervention power and has also consulted on expanding ASIC's powers to ban individuals working in the financial services sector. Further details are set out in 'Significant developments' in Section 1.

Changes may also occur in the oversight approach of regulators which could result in a regulator exercising its enforcement powers rather than adopting a more consultative approach.

In recent years, there have been significant increases in the nature and scale of regulatory investigations, enforcement actions and the quantum of fines issued by global regulators. The nature of regulatory activity can be wide-ranging and may result in litigation, fines, penalties, reputational damage, revocation, suspension or variation of conditions of relevant regulatory licences (including potentially requiring us to change or adjust our business model) or other enforcement or administrative action or agreements (such as enforceable undertakings).

For example:

- In April 2016, ASIC commenced civil proceedings against Westpac in the Federal Court of Australia, alleging certain misconduct in relation to the setting of the BBSW in the period April 2010 to June 2012, including market manipulation and unconscionable conduct. Westpac is defending the proceedings;
- On 1 March 2017, ASIC commenced civil proceedings against Westpac in the Federal Court of Australia in relation to certain home loan responsible lending practices (including interest only lending). Westpac is defending the proceedings; and
- On 15 March 2017, Westpac entered into an enforceable undertaking with ASIC following ASIC's industry-wide investigation into wholesale Spot Foreign Exchange (FX) trading activity between January 2008 and June 2013. As part of the enforceable undertaking, Westpac undertook, amongst other things, to continue to progress its program of strengthening its policies and processes in its Spot FX trading business, with input from an independent expert.

Furthermore, regulatory activity may result in Westpac being exposed to the risk of litigation brought by third parties (including through class action proceedings). The outcome of such litigation (including class action proceedings) may be payment of compensation to third parties and/or further remediation activities. In addition, action taken in one jurisdiction may prompt similar action to be taken in another jurisdiction.

During the year ended 30 September 2017, Westpac has responded to requirements, compulsory notices and requests for information from its regulators as part of both industry-wide and Westpac-specific reviews, including in relation to matters involving sales practices, responsible lending, reverse mortgages, interest only loans, the provision of financial advice and ongoing advice service fees.

Regulatory investigations, litigation, fines, penalties, revocation, suspension or variation of conditions of relevant regulatory licences or other enforcement or administrative action or agreements (such as enforceable undertakings) could, either individually or in aggregate with other regulatory action, adversely affect our business, reputation, prospects, financial performance or financial condition.

The failure to comply with financial crime obligations could have an adverse effect on our business and reputation

The Group is subject to anti-money laundering and counter-terrorism financing laws, anti-bribery and corruption laws and economic and trade sanctions laws in the jurisdictions in which it operates. These laws can be complex, and are undergoing change in a number of jurisdictions. Furthermore, in recent years there has been increased focus on compliance with these obligations, with regulators around the globe commencing large-scale investigations and taking enforcement action where they have identified non-compliance (often seeking significant monetary penalties).

While the Group has systems, policies, processes and controls in place that are designed to manage its financial crime obligations, these may not always be effective. If we fail to comply with these obligations, we could face regulatory action such as litigation, fines, penalties and the revocation, suspension or variation of licence conditions. Non-compliance could also lead to litigation commenced by third parties (including class action proceedings) and cause reputational damage. These actions could, either individually or in aggregate, adversely affect our business, reputation, prospects, financial performance or financial condition.

Reputational damage could harm our business and prospects

Our ability to attract and retain customers and our prospects could be adversely affected if our reputation is damaged.

Reputation risk is the risk of loss of reputation, stakeholder confidence or public trust and standing. It arises where there are differences between stakeholders' current and emerging perceptions, beliefs and expectations and our current and planned activities, processes, performance and behaviours.

During the full year ended 30 September 2017, we commenced a broader program to reduce complexity and resolve prior issues that have the potential to impact customers and reputation. As part of these reviews, we are strengthening our processes and controls in certain businesses and we have identified some prior instances where we are now taking action to put things right so that our customers are not at a disadvantage from certain past practices. For further information about these and other internal reviews, refer to Note 31 to the Financial Statements.

There are various potential sources of reputational damage, including failure to effectively manage risks in accordance with our risk management frameworks, potential conflicts of interest, failure to comply with legal and regulatory requirements, failure to meet our market disclosure obligations, regulatory investigations into past conduct, adverse findings from regulatory reviews (including Westpac-specific and industry-wide reviews), making inaccurate public statements, environmental, social and ethical issues, engagement and conduct of external suppliers, failure to comply with anti-money laundering and counter-terrorism

financing laws, anti-bribery and corruption laws, economic and trade sanctions legislation or privacy laws, litigation, failure of information security systems, improper sales and trading practices, failure to comply with personnel and supplier policies, improper conduct of companies in which we hold strategic investments, technology failures and security breaches and inadequate record keeping which may prevent Westpac from demonstrating that a past decision was appropriate at the time it was made.

Westpac may incur reputational damage where one of its practices fails to meet evolving community expectations. As these expectations may exceed the standard required in order to comply with the law, Westpac may incur reputational damage even where it has met its legal obligations. A divergence between community expectations and Westpac's practices could arise in a number of ways, including in relation to our product and services disclosure practices, the features and benefits available under our products, pricing policies and use of data. Our reputation could also be adversely affected by the actions of the financial services industry in general or from the actions of our competitors, customers, suppliers and other counterparties. Furthermore, the risk of reputational damage may be heightened by the increasing use of social media.

Failure, or perceived failure, to appropriately address issues that could or do give rise to reputational risk could also impact the regulatory change agenda, give rise to additional legal risk, subject us to regulatory investigations, regulatory enforcement actions, fines and penalties or litigation brought by third parties (including class actions), require us to remediate and compensate customers and incur remediation costs or harm our reputation among customers, investors and the marketplace. This could lead to loss of business which could adversely affect our business, prospects, financial performance or financial condition.

We could suffer information security risks, including cyberattacks

The proliferation of new technologies, the increasing use of the internet and telecommunications to conduct financial transactions and the growing sophistication and activities of attackers (including organised crime and state-sponsored actors) have resulted in increased information security risks for major financial institutions such as Westpac and our external service providers.

While Westpac has systems in place to protect against, detect and respond to cyberattacks, these systems may not always be effective and there can be no assurance that we will not suffer losses from cyberattacks or other information security breaches in the future.

Our operations rely on the secure processing, storage and transmission of information on our computer systems and networks, and the systems and networks of external suppliers. Although we implement measures to protect the security, integrity and confidentiality of our information, there is a risk that the computer systems, software and networks on which we rely may be subject to security breaches, unauthorised access, malicious software, external attacks or internal breaches that could have an adverse impact on our confidential information or that of our customers and counterparties.

Major banks in other jurisdictions have suffered security breaches from sophisticated cyberattacks. Our external service providers or other parties that facilitate our business activities (such as vendors, exchanges, clearing houses, central depositories and financial intermediaries) are also subject to the risk of cyberattacks. Any such security breach could result in the loss of customers and business opportunities, significant disruption to Westpac's operations, misappropriation of Westpac's confidential information and/or that of our customers and damage to Westpac's computers or systems and/or those of our customers. Such a security breach could also result in reputational damage, claims for compensation and regulatory investigations and penalties, which could adversely affect our business, prospects, financial performance, or financial condition.

Our risk and exposure to such threats remains heightened because of the evolving nature of technology, Westpac's prominence within the financial services industry, the prominence of our customers (including government, mining and health) and our plans to continue to improve and expand our internet and mobile banking infrastructure.

We could suffer losses due to technology failures

The reliability, integrity and security of our information and technology is crucial in supporting our customers' banking requirements and meeting our compliance obligations and our regulators' expectations.

While the Group has a number of processes in place to provide for and monitor the availability and recovery of our systems, there is a risk that our information and technology systems might fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control. If we incur a technology failure we may fail to meet a compliance obligation, which could result in a regulator commencing an investigation and/or taking administrative or enforcement action against us.

Further, in order to continue to deliver new products and services to customers and comply with our regulatory obligations, we need to regularly renew and enhance our technology. We are constantly managing technology projects including projects to consolidate technology platforms, simplify and enhance our technology and operations environment, improve productivity and provide for a better customer experience. Failure to implement these projects or manage associated change effectively could result in cost overruns, unrealised productivity, operational instability or reputational damage. In turn, this could place us at a competitive disadvantage and adversely affect our financial performance.

Adverse credit and capital market conditions or depositor preferences may significantly affect our ability to meet funding and liquidity needs and may increase our cost of funding

We rely on deposits, and credit and capital markets, to fund our business and as a source of liquidity. Our liquidity and costs of obtaining funding are related to credit and capital market conditions.

Global credit and capital markets can experience periods of extreme volatility, disruption and decreased liquidity as was demonstrated during the Global Financial Crisis. While there have now been extended periods of stability in these markets, the environment remains unpredictable. The main risks we face are damage to market confidence, changes to the access and cost of funding and a slowing in global activity or other impacts on entities with whom we do business.

As of 30 September 2017, approximately 30% of our total funding originated from domestic and international wholesale markets. Of this, around 62% was sourced outside Australia and New Zealand. Customer deposits provide around 62% of total funding. Customer deposits held by Westpac are comprised of both term deposits which can be withdrawn after a certain period of time and at call deposits which can be withdrawn at any time.

A shift in investment preferences could result in deposit withdrawals by customers which could increase our need for funding from other, potentially less stable, or more expensive, forms of funding.

If market conditions deteriorate due to economic, financial, political or other reasons, there may also be a loss of confidence in bank deposits and we could experience unexpected deposit withdrawals. In this situation our funding costs may be adversely affected and our liquidity and our funding and lending activities may be constrained.

If our current sources of funding prove to be insufficient, we may be forced to seek alternative financing. The availability of such alternative financing, and the terms on which it may be available, will depend on a variety of factors, including prevailing market conditions, the availability of credit, our credit ratings and credit market capacity. Even if available, these alternatives may be more expensive or on unfavourable terms, which could adversely affect our financial performance, liquidity, capital resources or financial condition. There is no assurance that we will be able to obtain adequate funding and do so at acceptable prices, nor that we will be able to recover any additional costs.

If Westpac is unable to source appropriate funding, we may also be forced to reduce our lending or begin selling liquid securities. Such actions may adversely impact our business, prospects, liquidity, capital resources, financial performance or financial condition.

Westpac enters into collateralised derivative obligations, which may require Westpac to post additional collateral based on movements in market rates, which has the potential to adversely affect Westpac's liquidity or ability to use derivative obligations to hedge its interest rate, currency and other financial instrument risks.

For a more detailed description of liquidity risk, refer to 'Funding and liquidity risk management' in Note 22 to the financial statements.

Sovereign risk may destabilise financial markets adversely

Sovereign risk is the risk that foreign governments will default on their debt obligations, will be unable to refinance their debts as they fall due or will nationalise parts of their economy including assets of financial institutions such as Westpac. Sovereign defaults could negatively impact the value of our holdings of high quality liquid assets. There may also be a cascading effect to other markets and countries, the consequences of which, while difficult to predict, may be similar to or worse than those experienced during the Global Financial Crisis. Such an event could destabilise global financial markets adversely affecting our liquidity, financial performance or financial condition.

Failure to maintain credit ratings could adversely affect our cost of funds, liquidity, competitive position and access to capital markets

Credit ratings are independent opinions on our creditworthiness. Our credit ratings can affect the cost and availability of our funding from capital markets and other funding sources and they may be important to customers or counterparties when evaluating our products and services. Therefore, maintaining high credit ratings is important.

The credit ratings assigned to us by rating agencies are based on an evaluation of a number of factors, including our financial strength, the quality of our governance, structural considerations regarding the Australian financial system and the credit rating of the Australian Government. A credit rating downgrade could be driven by a downgrade of the Australian Government, the occurrence of one or more of the other risks identified in this section or by other events including changes to the methodologies used by the rating agencies to determine ratings.

A downgrade or series of downgrades to our credit ratings could have an adverse effect on our cost of funds and related margins, collateral requirements, liquidity, competitive position and our access to capital markets. The extent and nature of these impacts would depend on various factors, including the extent of any ratings change, whether our ratings differ among agencies (split ratings) and whether any ratings changes also impact our competitors or the sector.

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

There is a risk that a major systemic shock could occur that causes an adverse impact on the Australian, New Zealand or other financial systems.

As outlined above, during the past decade the financial services industry and capital markets have been, and may continue to be, adversely affected by market volatility, global economic conditions, geopolitical instability (such as threats of or actual conflict occurring around the world) and political developments (such as Brexit). A shock to one of the major global economies could again result in currency and interest rate fluctuations and operational disruptions that negatively impact the Group.

Any such market and economic disruptions could adversely affect financial institutions such as Westpac because consumer and business spending may decrease, unemployment may rise and demand for the products and services we provide may decline, thereby reducing our earnings. These conditions may also affect the ability of our borrowers to repay their loans or our counterparties to meet their obligations, causing us to incur higher credit losses and affect investors' willingness to invest in the Group. These events could also result in the undermining of confidence in the financial system, reducing liquidity, impairing our access to funding and impairing our customers and counterparties and their businesses. If this were to occur, our business, prospects, financial performance or financial condition could be adversely affected.

The nature and consequences of any such event are difficult to predict and there can be no certainty that we could respond effectively to any such event.

Declines in asset markets could adversely affect our operations or profitability

Declines in Australian, New Zealand or other asset markets, including equity, residential and commercial property and other asset markets, could adversely affect our operations and profitability.

Declining asset prices also impact our wealth management business. Earnings in our wealth management business are, in part, dependent on asset values because we typically receive fees based on the value of securities and/or assets held or managed. A decline in asset prices could negatively impact the earnings of this business.

Declining asset prices could also impact customers and counterparties and the value of security (including residential and commercial property) we hold against loans and derivatives. This may impact our ability to recover amounts owing to us if customers or counterparties were to default. It may also affect our level of provisioning which in turn impacts our profitability and financial condition.

Our business is substantially dependent on the Australian and New Zealand economies

Our revenues and earnings are dependent on economic activity and the level of financial services our customers require. In particular, lending is dependent on various factors including economic growth, business investment, business and consumer sentiment, levels of employment, interest rates, asset prices and trade flows in the countries in which we operate.

We conduct the majority of our business in Australia and New Zealand and, consequently, our performance is influenced by the level and cyclical nature of lending in these countries. These factors are in turn impacted by both domestic and international economic conditions, natural disasters and political events. A significant decrease in Australian and New Zealand housing valuations could adversely impact our home lending activities because borrowers with loans in excess of their property value show a higher propensity to default. In the event of defaults our security may be eroded, causing us to incur higher credit losses. The demand for our home lending products may also decline due to adverse changes in tax legislation (such as changes to tax rates, concessions or deductions), regulatory requirements or other buyer concerns about decreases in values.

Adverse changes to economic and business conditions in Australia and New Zealand and other countries such as China, India and Japan, could also adversely affect the Australian economy and our customers. In particular, due to the current economic relationship between Australia and China, particularly in the mining and resources sectors, a slowdown in China's economic growth could negatively impact the Australian economy. Changes in commodity prices, Chinese government policies and broader economic conditions could, in turn, result in reduced demand for our products and services and affect the ability of our borrowers to repay their loans. If this were to occur, it could negatively impact our business, prospects, financial performance or financial condition.

An increase in defaults in credit exposures could adversely affect our liquidity, capital resources, financial performance or financial condition

Credit risk is the risk of financial loss where a customer or counterparty fails to meet their financial obligations to Westpac. It is a significant risk and arises primarily from our lending activities.

We establish provisions for credit impairment based on current information. If economic conditions deteriorate, some customers and/or counterparties could experience higher levels of financial stress and we may experience a significant increase in defaults and write-offs, and be required to increase our provisioning. Such events would diminish available capital and could adversely affect our liquidity, capital resources, financial performance or financial condition.

Credit risk also arises from certain derivative, clearing and settlement contracts we enter into, and from our dealings with, and holdings of, debt securities issued by other banks, financial institutions, companies, clearing houses, governments and government bodies, the financial conditions of which may be affected to varying degrees by economic conditions in global financial markets.

For a discussion of our risk management procedures, including the management of credit risk, refer to the 'Risk management' section and Note 22 to the financial statements.

We face intense competition in all aspects of our business

The financial services industry is highly competitive. We compete, both domestically and internationally, with retail and commercial banks, asset managers, investment banking firms, brokerage firms, other financial service firms and businesses in other industries with emerging financial services aspirations. This includes specialist competitors that may not be subject to the same capital and regulatory requirements and therefore may be able to operate more efficiently. Digital technologies are changing consumer behaviour and the competitive environment. The use of digital channels by customers to conduct their banking continues to rise and emerging competitors are increasingly utilising new technologies and seeking to disrupt existing business models, including in relation to digital payment services. The Group faces competition from established providers of financial services as well as from banking businesses developed by non-financial services companies.

If we are unable to compete effectively in our various businesses and markets, our market share may decline. Increased competition may also adversely affect us by diverting business to our competitors or creating pressure to lower margins and fees.

Increased competition for deposits could also increase our cost of funding and lead us to seek access to other types of funding or reduce lending. We rely on bank deposits to fund a significant portion of our balance sheet and deposits have been a relatively stable source of funding. We compete with banks and other financial services firms for such deposits. To the extent that we are not able to successfully compete for deposits, we would be forced to rely more heavily on other, potentially less stable or more expensive forms of funding, or reduce lending.

We are also dependent on our ability to offer products and services that match evolving customer preferences. If we are not successful in developing or introducing new products and services or responding or adapting to changes in customer preferences and habits, we may lose customers to our competitors. This could adversely affect our business, prospects, financial performance or financial condition.

For more detail on how we address competitive pressures refer to 'Competition' in Section 1.

We could suffer losses due to market volatility

We are exposed to market risk as a consequence of our trading activities in financial markets, our defined benefit plan and through the asset and liability management of our financial position. This is the risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, commodity prices, equity prices and interest rates including the potential for negative interest rates. This includes interest rate risk in the banking book, such as the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities. If we were to suffer substantial losses due to any market volatility it may adversely affect our business, prospects, liquidity, capital resources, financial performance or financial condition. For a discussion of our risk management procedures, including the management of market risk, refer to the 'Risk management' section.

We could suffer losses due to operational risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It also includes, among other things, technology risk, model risk and outsourcing risk, as well as the risk of business disruption due to external events such as natural disasters, environmental hazard, damage to critical utilities, and targeted activism and protest activity. While we have policies, processes and controls in place to manage these risks, these may not always be effective.

If a process or control is ineffective, it could result in an adverse outcome for Westpac's customers. For example, a process breakdown could result in a customer not receiving a product on the terms and conditions, or at the pricing, they agreed to. In addition, inadequate record keeping may prevent Westpac from demonstrating that a past decision was appropriate at the time it was made. If this was to occur, Westpac may incur significant costs in paying refunds and compensation to customers, as well as remediating any underlying process breakdown. These types of failure may also result in increased regulatory scrutiny, with a regulator potentially commencing an investigation and/or taking other enforcement, administrative or supervisory action.

We could incur losses from fraudulent applications for loans or from incorrect or fraudulent payments and settlements, particularly real-time payments. Fraudulent conduct can also emerge from external parties seeking to access the bank's systems and customers' accounts. If systems, procedures and protocols for managing fraud fail, or are ineffective, they could lead to losses which could adversely affect our business, prospects, reputation, financial performance or financial condition.

As a financial services organisation, Westpac is heavily reliant on the use of data and models in the conduct of its business (including in the calculation of risk-weighted assets). We are therefore exposed to model risk, being the risk of loss arising because of errors or inadequacies in data or a model, or in the control and use of the model.

Westpac relies on a number of suppliers, both in Australia and overseas, to provide services to it and its customers. Failure by these suppliers to deliver services as required could disrupt services and adversely impact Westpac's operations, profitability or reputation.

Operational risks can directly impact our reputation and result in financial losses (including through decreased demand for our products and services) which would adversely affect our financial performance or financial condition.

The Group (and individual entities within the Group) may, from time to time, be involved in legal proceedings (including class action proceedings), regulatory actions or arbitration arising from the conduct of their business. These may, either individually or in aggregate, adversely affect the Group's business, operations, prospects or financial condition. Such matters are subject to many uncertainties (for example, the outcome may not be able to be predicted accurately) and the Group may be required to pay money such as damages, fines, penalties or legal costs. The Group's material contingent liabilities are described in Note 31 to the financial statements. There is a risk that these contingent liabilities may be larger than anticipated or that additional litigation or other contingent liabilities may arise.

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

We could suffer losses due to conduct risk

Conduct risk is the risk that our provision of services and products results in unsuitable or unfair outcomes for our stakeholders or undermines market integrity. This risk can manifest itself through the poor conduct of our employees, contractors and external service providers. In addition, conduct risk could occur through the provision of products and services to our customers that do not meet their needs or do not support market integrity. This could occur through a failure to meet professional obligations to specific clients (including fiduciary and suitability requirements), poor product design and implementation, selling products and services outside of customer target markets or a failure to adequately provide the products or services we had agreed to provide a customer. While we have policies and processes that are designed to manage poor conduct outcomes, these policies and processes may not always be effective. The failure of these policies and processes could result in financial losses and reputational damage and this could adversely affect our business, prospects, financial performance or financial condition.

We could suffer losses due to failures in governance or risk management strategies

We have implemented risk management strategies, frameworks and internal controls involving processes and procedures intended to identify, monitor and manage risks including liquidity risk, credit risk, equity risk, market risk (such as interest rate and foreign exchange risk), compliance risk, conduct risk, insurance risk, sustainability risk, related entity (contagion) risk and operational risk, all of which may impact the Group's reputation.

However, there are inherent limitations with any risk management framework as there may exist, or emerge in the future, risks that we have not anticipated or identified. The effectiveness of risk management frameworks is also connected to the establishment and maintenance of a sound risk management culture.

If any of our governance or risk management processes and procedures prove ineffective or inadequate or are otherwise not appropriately implemented, we could suffer unexpected losses and reputational damage which could adversely affect our business, prospects, financial performance or financial condition.

For a discussion of our risk management procedures, refer to the 'Risk management' section.

Climate change may have adverse effects on our business

We and our customers may be adversely affected by the physical risks of climate change, including increases in temperatures, sea levels, and the frequency and severity of adverse climatic events including fires, storms, floods, and droughts. These changes may directly impact us and our customers through reputational damage, environmental factors, insurance risk, and an increase in defaults in credit exposures.

Initiatives to mitigate or respond to adverse impacts of climate change may in turn impact market and asset prices, economic activity, and customer behaviour, particularly in geographic locations and industry sectors adversely affected by these changes. Failure to effectively manage these transition risks could adversely affect our reputation, business, prospects, financial performance or financial condition.

We could suffer losses due to environmental factors

We and our customers operate businesses and hold assets in a diverse range of geographic locations. Any significant environmental change or external event (including fire, storm, flood, earthquake, pandemic, civil unrest or terrorism events) in any of these locations has the potential to disrupt business activities, impact on our operations, damage property and otherwise affect the value of assets held in the affected locations and our ability to recover amounts owing to us. In addition, such an event could have an adverse impact on economic activity, consumer and investor confidence, or the levels of volatility in financial markets, all of which could adversely affect our business, prospects, financial performance or financial condition.

We could suffer losses due to insurance risk

We have exposure to insurance risk in our life insurance, general insurance and lenders mortgage insurance businesses, which may adversely affect our business, operations or financial condition.

Insurance risk is the risk of mis-estimation of the expected cost of insured events, volatility in the number or severity of insured events, and mis-estimation of the cost of incurred claims.

In the life insurance business, risk arises primarily through mortality (death) and morbidity (illness and injury) risks, the costs of claims relating to those risks being greater than was anticipated when pricing those risks and policy lapses.

In the general insurance business, insurance risk arises mainly through environmental factors (including storms, floods and bushfires) and other calamities, such as earthquakes, tsunamis and volcanic activity, as well as general variability in home and contents insurance claim amounts. The frequency and severity of external events such as natural disasters is difficult to predict and it is possible that the amounts we reserve for potential losses from existing events, such as those arising from natural disaster events, may not be adequate to cover actual claims that may arise.

In the lenders mortgage insurance business, insurance risk arises primarily from unexpected downturn in economic conditions leading to higher levels of mortgage defaults from unemployment or other economic factors.

If our reinsurance arrangements are not effective, this could also lead to greater risks, and more losses than anticipated.

We could suffer losses due to impairment of capitalised software, goodwill and other intangible assets that may adversely affect our business, operations or financial condition.

In certain circumstances Westpac may be exposed to a reduction in the value of intangible assets. As at 30 September 2017, Westpac carried goodwill principally related to its investments in Australia, other intangible assets principally relating to assets recognised on acquisition of subsidiaries and capitalised software balances.

Westpac is required to assess the recoverability of the goodwill and other intangible asset balances on at least an annual basis or wherever an indicator of impairment exists. For this purpose Westpac uses a discounted cash flow calculation. Changes in the methodology or assumptions upon which the calculation is based, together with expected changes in future cash flows, could materially impact this assessment, resulting in the potential write-off of part or all of the intangible assets.

Capitalised software and other intangible assets are assessed for indicators of impairment at least annually or on indication of impairment. In the event that an asset is no longer in use, or its value has been reduced or that its estimated useful life has declined, an impairment will be recorded, adversely impacting the Group's financial condition. The estimates and assumptions used in assessing the useful life of an asset can be affected by a range of factors including changes in strategy and the rate of external changes in technology and regulatory requirements.

We could suffer losses if we fail to syndicate or sell down underwritten securities

As a financial intermediary, we underwrite listed and unlisted debt and equity securities. Underwriting activities include the development of solutions for corporate and institutional customers who need capital and investor customers who have an appetite for certain investment products. We may guarantee the pricing and placement of these facilities. We could suffer losses if we fail to syndicate or sell down our risk to other market participants. This risk is more pronounced in times of heightened market volatility.

Certain strategic decisions may have adverse effects on our business

Westpac, at times, evaluates and may implement strategic decisions and objectives including diversification, innovation, divestment or business expansion initiatives, including acquisitions of businesses. The expansion or integration of a new business, or entry into a new business, can be complex and costly and may require Westpac to comply with additional local or foreign regulatory requirements which may carry additional risks. In addition, we may be unable to successfully divest businesses or assets. These activities may, for a variety of reasons, not deliver the anticipated positive business results and could have a negative impact on our business, prospects, engagement with regulators, financial performance or financial condition.

Risk management

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

Effective risk management including a sound risk culture is one of the keys to achieving our vision as it influences our customers' experiences, the public's perceptions, our financial performance, our reputation and our shareholders' expectations. It is critical to our future success. We regard managing risk as a core function performed at all levels of the Group.

The Risk Management Strategy is approved by the Board and reviewed by the Board Risk and Compliance Committee (BRCC) on an annual basis or more frequently where required by a material business or strategy change or a material change to the Group's risk profile. It is owned by the Chief Executive Officer (CEO).

For further information regarding the role and responsibilities of the BRCC and other Board committees in managing risk, refer to Westpac's 2017 Corporate Governance Statement available at www.westpac.com.au/corpgov.

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

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

For a discussion of the risks to which Westpac is exposed, and its policies to manage these risks, refer to Westpac's 2017 Corporate Governance Statement and Note 22 to the financial statements.

Credit risk

Credit risk is the risk of financial loss where a customer or counterparty fails to meet their financial obligations to Westpac.

We have a framework and supporting policies for managing the credit risk associated with lending across our business divisions. The framework and policies encompass all stages of the credit cycle – origination, evaluation, approval, documentation, settlement, ongoing administration and problem management. For example, we have established product-based standards for lending to individuals, with key controls including minimum serviceability standards and maximum loan to security value ratios. We offer residential property loans to both owner-occupiers and investors at both fixed and variable rates, secured by a mortgage over the property or other acceptable collateral. Where we lend to higher loan to value ratios, we typically also require lenders mortgage insurance. Similarly, we have established criteria for business, commercial, corporate and institutional lending, which can vary by industry segment. In this area we focus on the performance of key financial risk ratios, including interest coverage, debt serviceability and balance sheet structure. When providing finance to smaller business, commercial and corporate borrowers we typically obtain security, such as a mortgage over property and/or a general security agreement over business assets. For larger corporates and institutions, we typically also require compliance with selected financial ratios and undertakings and may hold security. In respect of commercial property lending, we maintain loan origination and ongoing risk management standards, including specialised management for higher value loans. We consider factors such as the nature, location, quality and expected demand for the asset, tenancy profile and experience and quality of management. We actively monitor the Australian and New Zealand property markets and the composition of our commercial property loan book across the Group.

The extension of credit is underpinned by the Group's Principles of Responsible Lending. This is reflected in our commitment to comply with all local legislation, codes of practice and relevant guidelines and obligations to market our products responsibly and stay in touch with the expectations of customers and the community.

Refer to Note 22 to the financial statements for details of our credit risk management policies.

Provisions for impairment charges on loans

For information on the basis for determining the provision for impairment charges on loans refer to 'Critical accounting assumptions and estimates' in Note 14 to the financial statements.

Credit risk concentrations

We monitor our credit portfolio to manage risk concentrations. At 30 September 2017, our exposure to consumers comprised 72% (2016: 72%, 2015: 71%) of our on-balance sheet loans and 59% (2016: 58%, 2015: 57%) of total credit commitments. At 30 September 2017, 92% (2016: 91%, 2015: 90%) of our exposure to consumers was supported by residential real estate mortgages. The consumer category includes investment property loans to individuals, credit cards, personal loans, overdrafts and lines of credit. Our consumer credit risks are diversified, with substantial consumer market share in every state and territory in Australia, New Zealand and the Pacific region. Moreover, these customers service their debts with incomes derived from a wide range of occupations, in city as well as country areas.

Exposures to businesses, government and other financial institutions are classified into a number of industry clusters based on groupings of related Australian and New Zealand Standard Industrial Classification (ANZSIC) codes and are monitored against industry risk limits. The level of industry risk is measured and monitored on a dynamic basis. We also control the concentration risks that can arise from large exposures to individual borrowers.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to fund assets and meet obligations as they become due. This risk could potentially arise as a result of:

- an inability to meet both expected and unexpected current and future cash flows and collateral needs without affecting either daily operations or the financial condition of the bank; and/or
- inadequate market depth or market disruption impacting the ability to offset or eliminate a position at the market price.

The Westpac Group has a liquidity risk management framework which seeks to meet cash flow obligations under a wide range of market conditions, including name specific and market-wide scenarios as well as meeting the requirements of the LCR.

Refer to Note 22 to the financial statements for a more detailed discussion of our liquidity risk management policies.

Westpac debt programs and issuing shelves

Access in a timely and flexible manner to a diverse range of debt markets and investors is provided by the following programs and issuing shelves as at 30 September 2017:

Program Limit	Issuer(s)	Program/Issuing Shelf Type
Australia		
No limit	WBC	Debt Issuance Program
Euro Market		
USD 2.5 billion	WBC	Euro Transferable Certificate of Deposit Program
USD 20 billion	WBC/WSNZL ¹	Euro Commercial Paper and Certificate of Deposit Program
USD 70 billion	WBC	Euro Medium Term Note Program
USD 10 billion	WSNZL ¹	Euro Medium Term Note Program
USD 40 billion	WBC ²	Global Covered Bond Program
EUR 5 billion	WSNZL ³	Global Covered Bond Program
Japan		
JPY 750 billion	WBC	Samurai shelf
JPY 750 billion	WBC	Uridashi shelf
United States		
USD 45 billion	WBC	US Commercial Paper Program
USD 10 billion	WSNZL ¹	US Commercial Paper Program
USD 35 billion	WBC	US Medium Term Note Program
USD 15 billion	WBC (NY Branch)	US Medium Term Deposit Note Program
No limit	WBC (NY Branch)	Certificate of Deposit Program
No limit	WBC	US Securities and Exchange Commission registered shelves
New Zealand		
No limit	WNZL	Medium Term Note and Registered Certificate of Deposit Program

¹ Notes issued under this program by Westpac Securities NZ Limited, London branch are guaranteed by Westpac New Zealand Limited, its parent company.

² Notes issued under this program are guaranteed by BNY Trust Company of Australia Limited as trustee of the Westpac Covered Bond Trust.

³ Notes issued under this program by Westpac Securities NZ Limited, London branch are guaranteed by Westpac New Zealand Limited, its parent company, and Westpac NZ Covered Bond Limited.

Market risk

Market risk is the risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, interest rates, commodity prices or equity prices. This includes interest rate risk in the banking book – the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities. Market risk arises in both trading and banking book activities.

Our trading activities are conducted in our Financial Markets and Treasury businesses. Financial Markets trading book activity represents dealings that encompass book running and distribution activity. Treasury's trading activity represents dealings that include the management of interest rate, foreign exchange (FX) and credit spread risk associated with wholesale funding, liquid asset portfolios and hedging of foreign currency earnings and capital deployed offshore.

Refer to Note 22 to the financial statements for a more detailed discussion of our market risk management policies.

The table below depicts the aggregate Value at Risk (VaR), by risk type, for traded risk for the year ended 30 September:

Consolidated and Parent Entity \$m	2017			2016			2015		
	High	Low	Average	High	Low	Average	High	Low	Average
Interest rate risk	16.0	4.6	8.5	14.0	4.6	8.8	18.1	7.0	11.4
Foreign exchange risk	9.4	0.6	3.1	12.2	1.4	5.1	11.8	0.5	3.6
Equity risk	0.4	0.0	0.1	2.9	0.1	0.3	0.6	0.1	0.3
Commodity risk ¹	14.1	3.3	6.6	4.5	1.4	2.7	5.7	1.7	3.1
Other market risks ²	5.1	3.5	4.2	6.0	2.6	3.6	6.7	2.9	4.6
Diversification effect	n/a	n/a	(8.6)	n/a	n/a	(8.0)	n/a	n/a	(7.2)
Net market risk	22.9	9.7	13.9	18.7	7.7	12.5	23.5	9.0	15.8

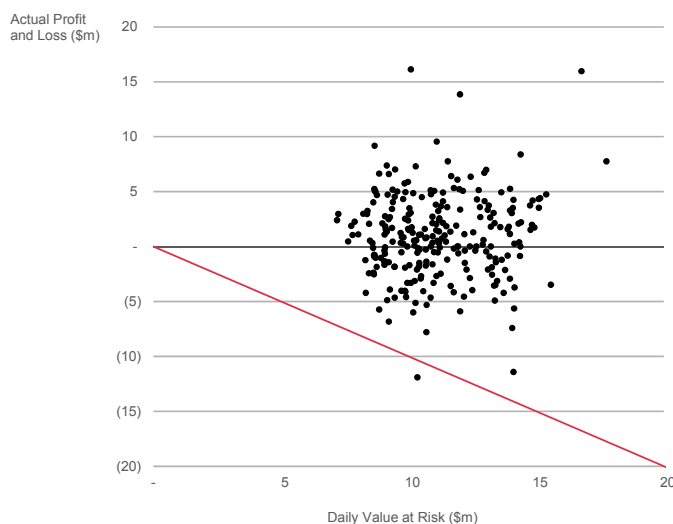
¹ Includes electricity risk.

² Include prepayment risk and credit spread risk (exposure to movements in generic credit rating bands).

The graph below compares the actual profit and loss from trading activities on a daily basis to VaR¹ over the reporting period:

Traded Risk: Actual Profit and Loss vs. VaR

01 October 2016 to 30 September 2017



Each point on the graph represents one day's profit or loss from trading activities. The result is placed on the graph relative to the associated VaR utilisation. The downward sloping line represents the point where a loss is equal to VaR utilisation. Therefore, any point below the line represents a back-test exception (i.e. where the loss is greater than VaR).

Operational risk and compliance risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition is aligned to regulatory (Basel II) definition, including legal and regulatory risk but excluding strategic and reputation risk. It also includes, among other things, technology risk, model risk and outsourcing risk.

The way operational risk is managed has the potential to positively or negatively impact our customers, our employees, our financial performance and our reputation.

Compliance risk is the risk of legal or regulatory sanction, financial or reputational loss, arising from our failure to abide by the compliance obligations required of us.

For information on our management of operational and compliance risk, refer to Westpac's 2017 Corporate Governance Statement, available at www.westpac.com.au/corgov.

¹ Westpac estimates VaR as the potential loss in earnings from adverse market movements and is calculated over a 1 day time horizon to a 99% confidence level using 1 year of historical data.

The Group's Operational Risk Management Framework and Compliance Management Framework provide the basis for divisions to identify, assess, measure, manage, monitor and report on their risks. The Operational Risk Management Framework sets out the Group's approach to managing operational risk, and is supported by a number of key Group-wide and divisional operational risk policies. The Compliance Management Framework sets out the approach of Westpac Group to managing compliance obligations and mitigating compliance risk, in order to achieve our compliance objective. This is discussed in further detail in Note 22 to the financial statements.

Other risks

Business risk

The risk associated with the vulnerability of a line of business to changes in the business environment.

Conduct risk

The risk that our provision of services and products results in unsuitable or unfair outcomes for our stakeholders or undermines market integrity.

The Westpac Group Code of Conduct describes the standards of conduct expected of our people, both employees and contractors. It is supported by policies and procedures to manage conduct-related risks, including through our dealings in financial markets, and through managing our statutory and professional obligations to specific clients, including fiduciary and suitability requirements, and product management and design.

Sustainability risk

The risk of reputational or financial loss due to failure to recognise or address material existing or emerging sustainability related environmental, social or governance issues.

The Group has in place a Sustainability Risk Management Framework that is supported by a suite of key policies and position statements. These include the Principles for Doing Business, Responsible Investment Position Statement, Environmental, Social and Governance (ESG) Credit Risk Policy, Climate Change Position Statement and Action Plan, Human Rights Position Statement and Action Plan and sensitive sector position statements, and Responsible Sourcing Code of Conduct and Framework, many of which are publicly available. The Sustainability Risk Management Framework was reviewed and updated in 2017.

Westpac is also a signatory to a number of voluntary principles-based frameworks that guide the integration of ESG-related issues into banking, lending and investment analysis. These include the Equator Principles, covering project finance activities and the Principles for Responsible Investments, covering investment analysis.

Equity risk

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

The Group's direct equity risk arises from principal investments or net trading or underwriting positions in listed or unlisted equities. It also includes seed funding, debt for equity swaps, equity derivatives and other situations where the value of Westpac's investment is directly affected by the change in value of the equity instrument to the full extent of that change.

Our indirect equity risk arises from movements in the equity markets that affect business performance e.g. income derived as a result of managing or the administration of equity investments on behalf of other parties where fee income is based on the value of funds under management.

Our contingent equity risk arises from normal lending activities secured by, or with recourse to, listed and/or unlisted equities or to another equity-like source of risk protection. This risk materialises when there is a default, and a subsequent shortfall from the realisation of equity-related assets that is not covered from other sources of recourse.

The Group has in place various policies, limits and controls which seek to manage these risks and the conflicts of interest that can potentially arise.

Insurance risk

The risk in our licensed regulated insurance entities of mis-estimation of the expected cost of insured events, volatility in the number or severity of insured events, and mis-estimation of the cost of incurred claims.

Subsidiaries within the Group undertake life insurance, general insurance and lenders mortgage insurance. They are governed by independent boards and are subject to separate regulatory oversight and controls. These subsidiaries have reinsurance arrangements in place to reduce risk, including from catastrophic events. They are capitalised to a level that exceeds the minimum required by the relevant regulator.

Related entity (contagion) risk

The risk that problems arising in other Westpac Group members compromise the financial and operational position of the authorised deposit-taking institution in the Westpac Group.

The Group has in place a Related Entity Risk Management Framework and a suite of supporting policies and procedures governing the control of dealings with, and activities that may be undertaken by, Group members. Controls include the measurement, approval and monitoring of, and limitations on, the extent of intra-group credit exposures and other forms of

parent entity support, plus requirements related to control of Group badging, product distribution, promotional material, service-level agreements and managing potential conflicts of interest.

Reputation risk

The risk of the loss of reputation, stakeholder confidence, or public trust and standing.

Reputation risk arises where there are differences between stakeholder's current and/or emerging perceptions, beliefs and expectations relative to our current and planned activities, performance and behaviours. It can affect the Group's brands and businesses positively or negatively. Stakeholder perceptions can include (but are not limited to) views on financial performance, quality of products or services, quality of management, leadership and governance, history and heritage and our approach to sustainability, social responsibility and ethical behaviour.

We have a Reputation Risk Management Framework and key supporting policies in place covering the way we manage reputation risk as one of our key risks across the Group, including the setting of risk appetite and roles and responsibilities for risk identification, measurement and management, monitoring and reporting. The Reputation Risk Management Framework was reviewed and updated in 2017.

Structured entities

We are associated with a number of structured entities in the ordinary course of business, primarily to provide funding and financial services products to our customers.

Structured entities are typically set up for a single, pre-defined purpose, have a limited life, generally are not operating entities and do not have employees. The most common form of structured entity involves the acquisition of financial assets by the structured entity that is funded by the issuance of securities to external investors (securitisation). Repayment of the securities is determined by the performance of the assets acquired by the structured entity.

Under AAS, a structured entity is consolidated and reported as part of the Group if it is controlled by the parent entity in line with AASB 10 Consolidated Financial Statements. The definition of control is based on the substance rather than the legal form. Refer to Note 36 to the financial statements for a description of how we apply the requirements to evaluate whether to consolidate structured entities and for information on both consolidated and unconsolidated structured entities.

In the ordinary course of business, we have established or sponsored the establishment of structured entities in relation to securitisation, as detailed below.

Covered bond guarantors

Through our covered bond programs we assign our equitable interests in residential mortgage loans to a structured entity covered bond guarantor which guarantees the obligations of our covered bonds. We provide arm's length swaps to the covered bond guarantor in accordance with relevant prudential guidelines. We have no obligation to repurchase any assets from the covered bond guarantor, other than in certain circumstances where there is a breach of representation or warranty. We may repurchase loans from the covered bond guarantor at our discretion, subject to the conditions set out in the transaction documents.

As at 30 September 2017, the carrying value of assets pledged for the covered bond programs for the Group was \$42.1 billion (2016: \$45.4 billion).

Refer to Note 25 to the financial statements for further details.

Securitisation structured entities

Through our securitisation programs we assign our equitable interests in assets (in respect of RMBS, principally residential mortgage loans, and in respect of ABS, principally auto receivables) to structured entities, which issue securities to investors. We provide arm's length interest rate swaps and liquidity facilities to the structured entities in accordance with relevant prudential guidelines. We have no obligation to repurchase any securitisation securities, unless there is a breach of representation or warranty within 120 days of the initial sale (except in respect of our program in New Zealand which imposes no such time limitation). We may remove assets from the program where they cease to conform with the terms and conditions of the securitisation programs or through a program's clean-up features.

As at 30 September 2017, our assets securitised through a combination of privately or publicly placed issues primarily to Australian, New Zealand, European and Asian investors was \$8.2 billion (2016: \$9.5 billion).

Under AAS substantially all of the structured entities involved in our loan securitisation programs are consolidated by the Group.

Refer to Note 25 to the financial statements for further details.

Customer funding conduits

We arrange financing for certain customer transactions through a commercial paper conduit that provides customers with access to the commercial paper market. As at 30 September 2017, we administered one significant conduit (2016: one), that was created prior to 1 February 2003, with commercial paper outstanding of \$0.4 billion (2016: \$0.9 billion). We provide a letter of credit facility as credit support to the commercial paper issued by the conduit. This facility is a variable interest in the conduit that we administer and represents a maximum exposure to loss of \$41 million as at 30 September 2017 (2016: \$97 million). The conduit is consolidated by the Group.

Refer to Note 25 to the financial statements for further details.

Structured finance transactions

We have entered into transactions with structured entities to provide financing to customers or to provide financing to the Group. Any financing arrangements to customers are entered into under normal lending criteria and are subject to our normal credit approval processes. The assets arising from these financing activities are generally included in loans, receivables due from other financial institutions or available-for-sale securities. The liabilities arising from these financing activities are generally included in payables due to other financial institutions, debt issues or financial liabilities designated at fair value. Exposures in the form of guarantees or undrawn credit lines are included within contingent liabilities and credit-related commitments.

Other off-balance sheet arrangements

Refer to Note 38 to the financial statements for details of our superannuation plans and Note 31 for details of our contingent liabilities, contingent assets and credit commitments.

Financial reporting

Internal control over financial reporting

The US Congress passed the Public Company Accounting Reform and Investor Protection Act in July 2002, which is commonly known as the Sarbanes-Oxley Act of 2002 (SOx). SOx is a wide ranging piece of US legislation concerned largely with financial reporting and corporate governance. We are obligated to comply with SOx by virtue of being a foreign registrant with the SEC and we have established procedures designed to comply with all applicable requirements of SOx.

Disclosure controls and procedures

Our management, with the participation of our CEO and CFO, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the US Securities Exchange Act of 1934) as of 30 September 2017.

Based upon this evaluation, our CEO and CFO have concluded that the design and operation of our disclosure controls and procedures were effective as of 30 September 2017.

Management's Report on internal control over financial reporting

Rule 13a-15(a) under the US Securities Exchange Act of 1934 requires us to maintain an effective system of internal control over financial reporting. Refer to the sections headed 'Management's report on internal control over financial reporting' and 'Report of independent registered public accounting firm' in Section 3 for those reports.

Changes in our internal control over financial reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the US Securities Exchange Act of 1934) for the year ended 30 September 2017 that has been identified and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Westpac's approach to sustainability

Sustainability performance

Westpac's approach to sustainability

The Group's approach to operating sustainably is designed to anticipate, respond to and shape the most pressing emerging topics (issues and opportunities) that have the potential to materially impact customers, employees, suppliers, shareholders and communities. We believe that as one of Australia's largest companies we have a role to play in helping to create positive social, economic and environmental impact, for the benefit of all. This view is embedded within our core business activities, and aligns with the priorities set out in the Group's strategy.

Guiding our approach

Accountability for the Group's Sustainability Strategy starts with the Board and flows through to all employees. The Board has responsibility for considering the social, ethical and environmental impact of the Group's activities, setting standards and monitoring compliance with sustainability policies and practices. The Westpac Sustainability Council, comprising senior leaders from across the business and meeting four times a year, oversees strategic progress and guides the Group's approach.

Progress against the sustainability strategy is reported to and discussed with the Executive Team and Board twice each year, with other items discussed on an as needs basis.

Westpac's sustainability strategy is based upon the use of the widely accepted global standard for corporate responsibility and sustainable development, the AA1000 AccountAbility Principles Standard (2008).

Our sustainability principles

In line with AA1000, Westpac has adopted the Standard's three key principles:

- Involving all stakeholders in identifying topics and developing strategy – Inclusivity;
- Evaluating all topics identified to determine the impact they may have on stakeholders and the Group's operations – Sustainability materiality; and
- Ensuring decisions, actions and performance, as well as communication with stakeholders, is responsive to the topics identified – Responsiveness.

Frameworks and policies

Westpac responds to enduring and emerging material topics through frameworks and policies that are complementary to the business strategy and form part of the Group's overall approach to risk management. Collectively, they help to guide decisions, manage risk and drive action. Key frameworks and policies include:

- Our Principles for Doing Business – which sets out the behaviours the Group expects to be judged against in pursuit of the vision, and the framework to embed sustainable practices throughout the business in the areas of: governance and ethics; customer practices; employee practices; care for the environment; community involvement; and supply chain management;
- Our Sustainability and Reputation Risk Management Frameworks – which set out how the Group manages these risks in operations, lending and investment decisions, and the supply chain provides a clear guide on roles and responsibilities within the organisation, reflecting the Group's 'three lines of defence' risk management approach; and
- A suite of policies that embed the principles and management requirements into day to day operations. These include internal and external sensitive sector position statements, as well as Group-wide issue-based positions.

Sustainability leadership

Leadership in sustainability is regularly acknowledged and validated by a number of third party ratings and awards. During 2017, these included:

- Assessed as the most sustainable bank globally in the 2017 Dow Jones Sustainability Indices (DJSI) achieving a score of 94. This marks the fourth year in a row and 10th time that Westpac has achieved global banking sector leadership, and the 16th year in a row that Westpac has been recognised among global banking leaders;
- Assigned a Gold Class ranking in the RobecoSAM Sustainability Yearbook for 2017, released in January 2017; and
- Recognised as one of only ten Australian companies to achieve Leadership level in the 2017 CDP¹, with a climate score of A-. This puts Westpac among the top 22% of companies globally to achieve this level.

¹ Formerly the Carbon Disclosure Project.

Material sustainability topics

Westpac identifies the most material sustainability topics through regular assessments of industry trends, internal reports, information from stakeholder engagement and independent research. The table below outlines those topics considered highly material for the Group and its stakeholders, and further detailed in Westpac's 2017 Sustainability Performance Report. Prioritisation of material topics continues to be subject to annual independent external assurance by PricewaterhouseCoopers.

Material sustainability topic	Full year responses and achievements
<p>Customer experience, support and access</p> <p>Customers' needs are becoming more complex, and at the same time they want banking to be simpler and more efficient.</p>	<ul style="list-style-type: none"> ▪ Launched a new credit card, Westpac Lite, in response to customer feedback for a simple, low rate and low limit 'no frills' credit card and also launched Westpac SmartPlan, an online tool to help customers manage their credit card balance and pay down their debts more easily; ▪ Introduced a number of new products and services such as 'Bump Savings account' which encourages savings habits early that allows parents and children to set and track savings goals; and partnered with Mathspace to provide free access to online maths education for all Australians; and ▪ Released a Financial Inclusion Plan outlining our vision for financial inclusion, with priority areas of crisis and hardship, understanding money and inclusive growth.
<p>Information security and data privacy</p> <p>Maintaining customer confidentiality and the security of our systems is paramount given the threat of cyberattacks and the evolving nature of technology.</p>	<ul style="list-style-type: none"> ▪ Invested in new cybersecurity capability and additional dedicated resources to counter new and emerging threats; ▪ Enhanced the resilience and security of systems to protect the privacy, confidentiality, integrity and availability of customer information and sensitive commercial data; and ▪ Delivered cybercrime information sessions to more than 3,000 business customer across Australian capital cities.
<p>Digital product and service transformation</p> <p>Digitisation offers opportunities to improve efficiency and deliver services in new ways, including new fintech business models which we are embracing to better meet changing customer expectations.</p>	<ul style="list-style-type: none"> ▪ Introduced 160 new features and enhancements across digital banking platforms, including: <ul style="list-style-type: none"> – categorisation of customers transactions into groups such as bills and payments, food and beverages etc; – secured and unsecured personal loan applications where existing customers can apply online, receive an instant response, accept their contract electronically and receive funds automatically 24/7. ▪ Westpac Quick Transfer is a new function in our mobile banking app allowing customers to make transfers among their own accounts without having to log in. This was awarded a 2017 CANSTAR Innovation Excellence Award; and ▪ Continued to incubate and partner with a number of fintech start-ups to offer new services for customers now and in the future.
<p>Changing regulatory landscape</p> <p>Supervision and regulation in jurisdictions in which Westpac operates continues to evolve, creating uncertainty in the operating environment.</p>	<ul style="list-style-type: none"> ▪ Invested over \$325 million during the year to enhance existing and implement new processes to comply with recent regulatory and compliance changes; and ▪ For further detail, see Section 1 Information on Westpac.
<p>Conduct and culture</p> <p>Conduct and culture is vital for maintaining the trust of customers, shareholders and regulators.</p>	<ul style="list-style-type: none"> ▪ Established a customer advocate to provide a new independent avenue of review of complaints for personal and small business customers; ▪ Rolled out refreshed 'Doing the Right Thing' mandatory compliance training which aligns to our Values and includes an updated ethical awareness component; ▪ Improved alignment of sales practices to Our Service Promise by removing all sales incentives for tellers and personal bankers are now incentivised equally for sales and service; ▪ Updated Whistleblower Policy, increased the channels available to report matters, and established a wellbeing and quality assurance process to ensure whistleblowers receive adequate support; ▪ Continue to actively review the design and communication of our products and services for fairness and suitability, and established Product Governance Committees in each division; and ▪ Made progress in implementing industry reform initiatives, such as the conduct background check protocol, through our commitment to the ABA-led Better Banking Reform Program.

Material sustainability topic	Full year responses and achievements
Governance, risk and remuneration	<ul style="list-style-type: none"> For further detail, see Section 1 Corporate governance and our Remuneration Report and Section 2 Risk and risk management.
Financial and economic performance	<ul style="list-style-type: none"> Delivered another sound performance with a cash return on equity of 13.8% supported by disciplined business growth and well managed margins; Strengthened the balance sheet meeting APRA's 'unquestionably strong' capital benchmark capital ratio of 10.5%. On track for the implementation of the Net Stable Funding Ratio on 1 January 2018; and
Climate change transition and opportunities	<ul style="list-style-type: none"> Asset quality has improved with level of stressed assets decreasing over the year. Informed by our climate scenario analysis completed in 2016, developed the next phase of actions we are taking over the short, medium and long term demonstrating our commitment to operate consistent with limiting global warming to less than two degrees Celsius; Issued the first offshore foreign currency Climate Bond by an Australian bank, and published the first Westpac Climate Bond Impact Report; Announced new targets to increase lending and facilitate climate change solutions; and Continued to report climate related disclosures in our annual Sustainability Performance Report and commenced alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
Value chain sustainability risks	<ul style="list-style-type: none"> Continued to apply the Group's Sustainability Risk Management Framework to the identification, assessment and management of sustainability risks across the organisation – including to decisions related to customers and suppliers; Refreshed and reset our Position Statement and 2020 Action Plan for both Human Rights and Climate Change and updated other position statements, including Financing Agribusiness and Providers of Payday Lending; Released our Responsible Sourcing Code of Conduct and established a global Responsible Sourcing Steering Committee to oversee its application across jurisdictions; and Released our first statement in response to the UK Modern Slavery Act requirements for large companies operating in the UK to report on the steps taken to prevent slavery and human trafficking in supply chains.
Inclusion and diversity	<ul style="list-style-type: none"> Reached 50% women in leadership roles and exceeded 40% women in general management positions; Indigenous employment parity was maintained, whereby the proportion of Indigenous Australians employed is 4%, reflecting the proportion of Indigenous Australians in the wider Australian population; Hosted Australia's first corporate LGBTIQ inclusion summit which featured a number of high profile speakers from business, sports and entertainment; Announced our Accessibility Action Plan for 2017-2020 continuing our public commitment to enhance access and inclusion for our employees, customers and communities; and St. George Bank became the first Australian bank to be accredited as dementia-friendly by Alzheimer's Australia.
Talent attraction and retention	<ul style="list-style-type: none"> Launched Certificate of Executive Leadership, a professional accreditation with the Australian Graduate School of Management in Australia and the University of Auckland in New Zealand to more than 900 leaders to strengthen the leadership capabilities of our middle managers; Introduced Motivate, our new approach to performance, development and reward to four divisions, with the remainder set to follow in 2018; To build the skills of the future and encourage a culture of lifelong learning, LearningBank (our new learning and development platform) was extended to all employees and to Westpac Scholars through the Westpac Bicentennial Foundation; and Conducted a Group-wide employee engagement survey which demonstrated good progress in all key areas and an overall engagement score of 79%, placing the Group in the top 25% of companies globally against the survey benchmark.

For further detail, please see our Annual Review and Sustainability Report and Sustainability Performance Report.

Sustainability objectives

Our 2013-2017 Sustainability Strategy sets measurable objectives against the following three priority areas:

- Embracing societal change: helping improve the way people work and live, as our society changes;
- Environmental solutions: helping find solutions to environmental challenges; and
- Better financial futures: helping customers to have a better relationship with money, for a better life.

Performance against sustainability objectives¹

Priority	Objectives	Full year 2017 performance
Help improve the way people work and live, as our society changes	Ensure our workforce is representative of the community	<ul style="list-style-type: none"> ▪ Proportion of leadership roles held by women increased from 48% to 50% achieving the Group's 2017 target; ▪ Recruited an additional 177 people who identify as Aboriginal and Torres Strait Islander peoples, bringing to 628 those recruited and exceeding our three year goal of 500 by 2017; ▪ Participation of mature aged workers (50+) is 22.2%, up from 21.5% a year ago; and ▪ Financial wellbeing of women aged 40+ as rated by the BT Financial Health Index survey remained stable.
	Extend length and quality of working lives	<ul style="list-style-type: none"> ▪ Mean employee retirement age was 62.3 years, up compared to a year ago; and ▪ Workplace wellbeing as measured by the Work Ability Index remained within the 'good' range.
Help find solutions to environmental challenges	Anticipate the future product and service needs of ageing and culturally diverse customers	<ul style="list-style-type: none"> ▪ Increased convenience for multi-cultural customers by enabling foreign currency accounts in core currencies to be opened via Westpac Live online banking; ▪ Introduced new Bereavement Support sites on the websites for all our major bank brands, as well as Bereavement customer guide booklets; ▪ Improved online guidance and banker training supporting bereaved customers for all four bank brands in Australia; ▪ Launched educational videos via the Westpac Davidson Institute to help new arrivals and multicultural Australians better understand Australian super, tax and the process of transferring money overseas; and ▪ Launched live stream videos via our social media platforms with tips on how Chinese students in the midst of planning their move to Australia can manage their finances.
	Provide products and services to help customers adapt to environmental challenges	<ul style="list-style-type: none"> ▪ Since 2013 launched nine unique products/services, including incorporation of sustainability market data into the Panorama investment platform and announced as the preferred financial partner for the Tasmanian Energy Efficiency Loan Scheme.
	Increase lending and investment in CleanTech and environmental services	<ul style="list-style-type: none"> ▪ Increased committed exposure to the CleanTech and environmental services sector relative to 2016, taking total committed exposure to \$7.0 billion, surpassing the 2017 target by 16%.
	Reduce our environmental footprint	<ul style="list-style-type: none"> ▪ Maintained carbon neutral status and achieved a reduction of more than 40% in office paper consumption since 2012; ▪ Bank of Melbourne's 525 Collins Street branch became the first 6 Star Green Star bank branch in Victoria, reflecting leading eco-efficient practices; ▪ Achieved 2017 power usage effectiveness target of 1.6 and surpassed the 2017 energy efficiency target with 169 kWh/m²; and ▪ Recycling rates and water consumption in Sydney head offices improved to 75% and 104,866 kL respectively.

¹ All results as at 30 September 2017 except environmental footprint which is as at 30 June 2017. Refer to www.westpac.com.au/sustainability for glossary of terms and metric definitions.

Priority	Objectives	Full year 2017 performance
Help customers to have a better relationship with money, for a better life	Ensure all our customers have access to the right advice to achieve a secure retirement	<ul style="list-style-type: none"> Lifted engagement between customers and BT Adviser View to increase transparency on quality of advice and service; and BT Advice average customer satisfaction rating was 4.91 out of 5.00 for 2017, above the target of 4.90.
	Help our customers meet their financial goals in retirement	<ul style="list-style-type: none"> The proportion of Group customers with Group superannuation was 7.5%, a decrease compared to 7.8% in 2016; Launched SuperCheck, a tool which allows our customers to find all their superannuation within 60 seconds and open an account and rollover in three clicks, in Westpac and St.George group channels; and 'Wealth Review' tool provided members and their families key insights into their financial position.
	Increase access to financial services in the Pacific	<ul style="list-style-type: none"> Launched Choice Wantok, an ambitious financial inclusion program in PNG as part of a joint venture between Westpac and the Pacific Financial Inclusion Program; Met 2017 target for the number of 300,000 Choice Basic banking customers in our Pacific operations ahead of schedule; and There were nearly 177,000 mobile banking activations and over 330,000 In-store transactional volumes as at 30 September 2017.
	Help people gain access to social and affordable housing and services	<ul style="list-style-type: none"> Lent over \$1.32 billion to the social and affordable housing sector, up from \$1.05 billion at 30 September 2016 and short of our \$2 billion 2017 target.

Five year non-financial summary¹

Key trends across a range of non-financial areas of performance are provided in the following five year non-financial summary, with a more detailed account of sustainability performance included in our Annual Review and Sustainability Report and Sustainability Performance Report.

	2017	2016	2015	2014	2013
Customer					
Total customers (millions) ²	13.8	13.4	13.1	12.8	12.2
Digitally active customers (millions) ³	5.3	4.9	4.9	4.7	4.2
Branches ⁴	1,251	1,310	1,429	1,534	1,544
Branches with 24/7 capability (%) ⁵	29	27	22	15	-
ATMs	3,665	3,757	3,850	3,890	3,814
Smart ATMs (%) ⁶	44	37	31	24	17
Change in consumer compliments (%) - Australia	19	38	-	-	-
Change in consumer complaints (%) - Australia	(18)	(31)	(31)	(27)	(15)
Change in consumer complaints (%) - NZ	(21)	(7)	(18)	(16)	19
Wealth customer penetration (%) ⁷	17.6	19.1	19.7	20.0	18.7
Employees					
Total employees (full-time equivalent) ⁸	35,096	35,580	35,484	36,596	35,894
Employee voluntary attrition (%) ⁹	9.6	10.6	10.6	9.8	9.8
New starter retention (%) ¹⁰	84.7	85.5	85.3	88.0	86.7
Employee engagement index (%) ¹¹	79	69	-	-	-
Lost Time Injury Frequency Rate (LTIFR) ¹²	0.6	0.8	0.8	1.1	1.5
Women as percentage of the total workforce (%)	58	58	59	59	60
Women in leadership (%) ¹³	50	48	46	44	42
Environment					
Total Scope 1 and 2 emissions - Aust and NZ (tonnes CO ₂ -e) ¹⁴	131,723	154,339	173,437	175,855	180,862
Total Scope 3 emissions - Aust and NZ (tonnes CO ₂ -e) ¹⁵	68,415	63,016	67,899	73,871	85,013
Paper consumption - Aust and NZ (tonnes) ¹⁶	2,706	3,304	4,857	5,334	5,762
Sustainable lending and investment					
CleanTech and environmental services attributable financing - Aust and NZ (\$m)	6,979	6,193	6,054	7,978	6,438
Proportion of electricity generation financing in renewables including hydro - Aust and NZ (%) ¹⁷	65	59	61	59	55
Electricity generation portfolio emissions intensity (tonnes CO ₂ -e/MWh) ¹⁸	0.36	0.38	0.38	0.41	0.44
Finance assessed under the Equator Principles - Group (\$m) ¹⁹	891	617	1,065	851	268
Responsible investment funds under management (\$m) ²⁰	21,881	18,723	15,017	-	-
Social impact					
Community investment (\$m) ²¹	164	148	149	217	131
Community investment as a percentage of pre-tax profits - Group (%)	1.42	1.39	1.30	2.02	1.33
Community investment as a percentage of pre-tax operating profit (cash earnings basis)	1.41	1.32	1.33	1.99	1.28
Financial education (participants) ²²	112,263	59,596	65,538	49,812	32,577
Supply chain²³					
Number of suppliers assessed against Responsible Sourcing Code of Conduct	31	-	-	-	-
Spend with indigenous Australian suppliers - Australia (\$m) ²⁴	2.5	1.6	1.2	-	-

1 All data represents Group performance as at 30 September unless otherwise stated.
2 All customers with an active relationship (excludes channel only and potential relationships).
3 Unique customers who have successfully authenticated (including Quickzone) into the digital banking platforms within 90 days. Figures
4 prior to 2016 are not comparable.
5 FY16 restated from 1,309 to 1,310.
6 Branches that allow customers to self-serve 24/7 via a range of devices that allow them to withdraw and deposit cash, coin exchange etc.
7 (not all these services would be available at every 24/7 zone). Access determined by individual location (i.e. shopping centre opening
8 hours may prevent 24/7 access).
9 ATMs with deposit taking functionality. Excludes old style envelope deposit machines.
10 Data based on Roy Morgan Research, respondents aged 14+; 12 month average to September. Wealth customer penetration is defined
11 as the proportion of Australians who have a Deposit or Transaction Account, Mortgage, Personal Lending or Major Card with the Westpac
12 Group and also have Managed Investments, Superannuation or Insurance with the Westpac Group.
13 Full-time equivalent employees include permanent (full-time and pro-rata part-time staff) employees, and temporary (overtime, temporary
14 and contract staff) employees.
15 Employee voluntary attrition refers to the total voluntary separation of permanent employees over the 12 month average total permanent
16 headcount for the period (includes full time, part time and maximum term employees). Westpac Pacific figures included since FY15.
17 Voluntary new starter retention over the 12 month rolling new starter headcount for the period (includes full time and part time permanent
18 employees). Westpac Pacific figures included since FY15.
19 New employee engagement survey conducted in 2016 and prior data not included due to change in survey methodology.
20 Lost Time Injury Frequency Rate (LTIFR) measures the number of Lost Time Injuries, defined as injuries or illnesses (based on workers
21 compensation claims accepted) resulting in an employee being unable to work for a full scheduled day (or shift) other than the day (or
22 shift) on which the injury occurred where work was a significant contributing factor, per one million hours worked in the rolling 12 months
23 reported. Westpac Pacific figures included since FY16.
24 Women in Leadership refers to the proportion of women (permanent and maximum term) in leadership roles across the Group. It includes
the CEO, Group Executives, General Managers, senior leaders with significant influence on business outcomes (direct reports to General
Managers and their direct reports), large (3+) team people leaders three levels below General Manager, and Bank and Assistant Bank
Managers.
Scope 1 greenhouse emissions are the release of greenhouse gases into the atmosphere as a direct result of Westpac's Australian and
New Zealand banking operations. Scope 2 emissions are indirect greenhouse gas emissions from consumption of purchased electricity
from Westpac's Australian and New Zealand banking operations. Australian data is prepared in accordance with the National Greenhouse
and Energy Reporting Act 2007. New Zealand data is prepared in accordance with the guidance for Voluntary Corporate Greenhouse Gas
Reporting published by the New Zealand Ministry for the Environment. These definitions also align with the GHG protocol and ISO 14064-
1 standard and are reported for the period 1 July to 30 June.
Scope 3 emissions are greenhouse gases emitted as a consequence of Westpac's Australian and New Zealand banking operations but by
another facility. Australian data is prepared in accordance with the National Carbon Offset Standard. New Zealand data is prepared in
accordance with the New Zealand Ministry for the Environment for GHG reporting. These definitions also align with the GHG protocol and
ISO 14064-1 standard and are reported for the period 1 July to 30 June.
Total copy paper purchased (in tonnes) by the Group as reported by its suppliers.
Measured as the percentage of indirect and direct financing (total committed exposure) to energy generation assets in the Australian and
New Zealand electricity markets.
Data is based on the reported exposures to energy generation (AUD lending only). The average financed emissions intensity is calculated
by weighting each loan (total committed exposures) by the emissions intensity of each company.
The Equator Principles is a voluntary set of standards for determining, assessing and managing social and environmental risk in project
financing.
BTFG funds applying an environmental, social and governance (ESG integration) approach. Data prior to 2015 not available due to
change in reporting methodology.
This amount includes monetary contributions, time contributions, management costs and in-kind contributions comprising gifts and
foregone fee revenue. The 2014 figure includes Westpac's \$100 million contribution to the Westpac Bicentennial Foundation.
Total number of employees, customers and general public attending financial education courses offered by the Westpac Group during the
year (including online webinars). In Australia financial education covers personal, business and social sector content inclusive of modules
on financial basics, owning your home, building wealth, retirement planning, starting and growing a business and financials for non-profit
organisations. New Zealand and Pacific businesses deliver locally tailored programs.
New metrics introduced as we implement the Group's Responsible Sourcing Code of Conduct.
Annual spend with businesses that are 51% or more owned and operated by an Aboriginal or Torres Strait Islander person and certified
with a relevant member organisation.

Employees

The number of employees in each area of business as at 30 September:

	2017	2016	2015
Consumer Bank ¹	10,162	9,207	9,240
Business Bank	3,136	3,186	3,060
BT Financial Group (Australia)	4,175	4,153	4,045
Westpac Institutional Bank	2,682	2,693	2,846
Westpac New Zealand ²	4,328	4,445	4,618
Group Businesses	10,613	11,896	11,675
Total Group businesses³	35,096	35,580	35,484

¹ Consumer Bank and Group Businesses employees impacted by the transfer of customer contact centres during 2017. Prior periods were not restated

² Comparatives have been restated for New Zealand contractors. (2016: increased by 300, 2015: increased by 243)

³ Total employees include full-time, pro-rata part time, overtime, temporary and contract staff.

2017 v 2016

Total employees decreased by 484 compared to 30 September 2016 from productivity initiatives that have streamlined and digitised processes across both technology and operations, partly offset by investment in growth and productivity initiatives and resources for compliance activities.

Property

We occupy premises primarily in Australia, New Zealand and the Pacific Islands including 1,251 branches (2016: 1,310) as at 30 September 2017. As at 30 September 2017, we owned approximately 1.6% (2016: 1.6%) of the premises we occupied in Australia, none (2016: none) in New Zealand and 40% (2016: 40%) in the Pacific Islands. The remainder of premises are held under commercial lease with terms generally averaging three to five years. As at 30 September 2017, the carrying value of our directly owned premises and sites was approximately \$95 million (2016: \$102 million).

Westpac Place in the Sydney CBD is the Group's head office. In December 2015, an Agreement for Lease was executed for 275 Kent Street, allowing for Westpac's continued occupation of levels 1-23 until 2030, and for an earlier exit of levels 24-32 in 2024. This site is currently undergoing a refurbishment program and will have the capacity for over 6,000 staff in an agile environment upon its completion.

Westpac also occupies levels 1-28 of T2 in International Towers Sydney with a lease extended until 2030. This site has a capacity for over 6,000 personnel in an agile environment.

We continue a corporate presence in Kogarah, in the Sydney metro area, which is a key corporate office of St. George. The Kogarah office has a 2,650 seat capacity and is home to 'The Hive', our innovation centre. A lease commitment at this site extends to 2034 with five five-year options to extend.

In Melbourne, Westpac has occupied the majority of 150 Collins Street since October 2015 with a lease term that extends to 2026. This was Westpac's first fully agile workspace environment with over 1,000 staff now occupying our new Melbourne Head Office.

'Westpac on Takutai Square' is Westpac New Zealand's head office, located at the eastern end of Britomart Precinct near Customs Street in Auckland, contains 24,510 square metres of office space across two buildings and has a capacity of approximately 2,110 seats. A lease commitment at this site extends to 2021, with two six-year options to extend.

Significant long term agreements

Westpac has no individual contracts, other than contracts entered into in the ordinary course of business, that would constitute a material contract.

Related party disclosures

Details of our related party disclosures are set out in Note 40 to the financial statements and details of Directors' interests in securities are set out in the Remuneration Report included in the Directors' Report.

Other than as disclosed in Note 40 to the financial statements and the Remuneration Report, if applicable, loans made to parties related to Directors and other key management personnel of Westpac are made in the ordinary course of business on normal terms and conditions (including interest rates and collateral). Loans are made on the same terms and conditions (including interest rates and collateral) as they apply to other employees and certain customers in accordance with established policy. These loans do not involve more than the normal risk of collectability or present any other unfavourable features.

Auditor's remuneration

Auditor's remuneration, including goods and services tax, to the external auditor for the years ended 30 September 2017 and 2016 is provided in Note 39 to the financial statements.

Audit related services

Westpac Group Secretariat monitors the application of the pre-approval process in respect of audit, audit-related and non-audit services provided by PricewaterhouseCoopers (PwC) and promptly brings to the attention of the BAC any exceptions that need to be approved pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X. The pre-approval guidelines are communicated to Westpac's divisions through publication on the Westpac intranet.

During the year ended 30 September 2017, there were no fees paid by Westpac to PwC that required approval by the BAC pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

03

Financial statements

Income statements
Statements of comprehensive income
Balance sheets
Statements of changes in equity
Cash flow statements

Notes to the financial statements

Note 1 Financial statements preparation

Financial performance

Note 2 Segment reporting
Note 3 Net interest income
Note 4 Non-interest income
Note 5 Operating expenses
Note 6 Impairment charges
Note 7 Income tax
Note 8 Earnings per share
Note 9 Average balance sheet and interest rates

Financial assets and financial liabilities

Note 10 Receivables due from other financial institutions
Note 11 Trading securities and financial assets designated at fair value
Note 12 Available-for-sale securities
Note 13 Loans
Note 14 Provisions for impairment charges
Note 15 Life insurance assets and life insurance liabilities
Note 16 Payables due to other financial institutions
Note 17 Deposits and other borrowings
Note 18 Other financial liabilities at fair value through income statement
Note 19 Debt issues
Note 20 Loan capital
Note 21 Derivative financial instruments
Note 22 Financial risk
Note 23 Fair values of financial assets and financial liabilities

Note 24 Offsetting financial assets and financial liabilities
Note 25 Securitisation, covered bonds and other transferred assets

Other assets, other liabilities, commitments and contingencies

Note 26 Intangible assets
Note 27 Other assets
Note 28 Provisions
Note 29 Other liabilities
Note 30 Operating lease commitments
Note 31 Contingent liabilities, contingent assets and credit commitments

Capital and dividends

Note 32 Shareholders' equity
Note 33 Capital adequacy
Note 34 Dividends

Group structure

Note 35 Investments in subsidiaries and associates
Note 36 Structured entities

Employee benefits

Note 37 Share-based payments
Note 38 Superannuation commitments

Other

Note 39 Auditor's remuneration
Note 40 Related party disclosures
Note 41 Notes to the cash flow statements
Note 42 Subsequent events

Statutory statements

Directors' declaration
Management's report on internal control over financial reporting
Independent auditor's report to the members of Westpac Banking Corporation
Report of independent registered public accounting firm

Financial statements

Income statements for the years ended 30 September
Westpac Banking Corporation

\$m	Note	Consolidated			Parent Entity	
		2017	2016	2015	2017	2016
Interest income	3	31,232	31,822	32,295	30,865	31,803
Interest expense	3	(15,716)	(16,674)	(18,028)	(17,765)	(19,182)
Net interest income		15,516	15,148	14,267	13,100	12,621
Non-interest income	4	6,286	5,837	7,375	6,131	4,617
Net operating income before operating expenses and impairment charges		21,802	20,985	21,642	19,231	17,238
Operating expenses	5	(9,434)	(9,217)	(9,473)	(7,898)	(7,572)
Impairment charges	6	(853)	(1,124)	(753)	(870)	(922)
Profit before income tax		11,515	10,644	11,416	10,463	8,744
Income tax expense	7	(3,518)	(3,184)	(3,348)	(2,620)	(2,437)
Net profit for the year		7,997	7,460	8,068	7,843	6,307
Profit attributable to non-controlling interests		(7)	(15)	(56)	-	-
Net profit attributable to owners of Westpac Banking Corporation		7,990	7,445	8,012	7,843	6,307
Earnings per share (cents)						
Basic	8	238.0	224.6	255.0		
Diluted	8	229.3	217.8	248.2		

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

Statements of comprehensive income for the years ended 30 September
Westpac Banking Corporation

\$m	Consolidated			Parent Entity	
	2017	2016	2015	2017	2016
Net profit for the year	7,997	7,460	8,068	7,843	6,307
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Gains/(losses) on available-for-sale securities:					
Recognised in equity	75	56	(148)	88	71
Transferred to income statements	(3)	(8)	(73)	(3)	(1)
Gains/(losses) on cash flow hedging instruments:					
Recognised in equity	(91)	(304)	(59)	(42)	(193)
Transferred to income statements	115	21	(131)	19	(106)
Exchange differences on translation of foreign operations	(116)	(238)	15	(77)	(105)
Income tax on items taken to or transferred from equity:					
Available-for-sale securities reserve	(18)	(13)	67	(25)	(19)
Cash flow hedging reserve	(6)	85	54	7	90
Share of associates' other comprehensive income:					
Recognised in equity (net of tax)	3	(17)	5	-	-
Transferred to income statements	9	-	-	-	-
Items that will not be reclassified subsequently to profit or loss					
Own credit adjustment on financial liabilities designated at fair value (net of tax)	(164)	(54)	160	(164)	(54)
Remeasurement of defined benefit obligation recognised in equity (net of tax)	190	(47)	111	182	(42)
Other comprehensive income for the year (net of tax)	(6)	(519)	1	(15)	(359)
Total comprehensive income for the year	7,991	6,941	8,069	7,828	5,948
Attributable to:					
Owners of Westpac Banking Corporation	7,984	6,926	8,013	7,828	5,948
Non-controlling interests	7	15	56	-	-
Total comprehensive income for the year	7,991	6,941	8,069	7,828	5,948

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

Balance Sheets as at 30 September
Westpac Banking Corporation

\$m	Note	Consolidated		Parent Entity	
		2017	2016	2017	2016
Assets					
Cash and balances with central banks	41	18,397	17,015	16,405	15,186
Receivables due from other financial institutions	10	7,128	9,951	6,357	8,325
Trading securities and financial assets designated at fair value	11	25,324	21,168	22,946	18,562
Derivative financial instruments	21	24,033	32,227	23,823	32,090
Available-for-sale securities	12	60,710	60,665	55,800	56,161
Loans	13	684,919	661,926	606,237	579,739
Life insurance assets	15	10,643	14,192	-	-
Regulatory deposits with central banks overseas		1,048	1,390	945	1,269
Due from subsidiaries		-	-	142,455	143,549
Investment in subsidiaries		-	-	3,975	4,622
Investment in associates	35	60	726	46	-
Property and equipment		1,487	1,737	1,250	1,458
Deferred tax assets ¹	7	1,112	1,351	1,053	1,399
Intangible assets ¹	26	11,652	11,721	9,259	9,305
Other assets	27	5,362	5,133	4,318	4,055
Total assets		851,875	839,202	894,869	875,720
Liabilities					
Payables due to other financial institutions	16	21,907	18,209	21,775	18,141
Deposits and other borrowings	17	533,591	513,071	477,693	455,742
Other financial liabilities at fair value through income statement	18	4,056	4,752	4,038	4,371
Derivative financial instruments	21	25,375	36,076	24,911	35,209
Debt issues	19	168,356	169,902	144,116	145,576
Current tax liabilities		308	385	234	314
Life insurance liabilities	15	9,019	12,361	-	-
Due to subsidiaries		-	-	143,834	142,808
Provisions	28	1,462	1,420	1,295	1,267
Deferred tax liabilities	7	10	36	-	-
Other liabilities	29	8,783	9,004	7,126	7,286
Total liabilities excluding loan capital		772,867	765,216	825,022	810,714
Loan capital	20	17,666	15,805	17,666	15,805
Total liabilities		790,533	781,021	842,688	826,519
Net assets		61,342	58,181	52,181	49,201
Shareholders' equity					
Share capital:					
Ordinary share capital	32	34,889	33,469	34,889	33,469
Treasury shares and RSP treasury shares	32	(495)	(455)	(437)	(369)
Reserves	32	794	727	858	790
Retained profits		26,100	24,379	16,871	15,311
Total equity attributable to owners of Westpac Banking Corporation		61,288	58,120	52,181	49,201
Non-controlling interests	32	54	61	-	-
Total shareholders' equity and non-controlling interests		61,342	58,181	52,181	49,201

¹ Comparatives have been revised for changes in accounting policy. Refer to Note 1(iv).

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

Statements of changes in equity for the years ended 30 September Westpac Banking Corporation

Consolidated

\$m	Share	Reserves	Retained	Total equity	Non-	Total
	capital (Note 32)	(Note 32)	profits	attributable to owners of Westpac Banking Corporation	controlling interests (Note 32)	shareholders' equity and non- controlling interests
Balance at 1 October 2014	26,639	1,176	20,641	48,456	881	49,337
Net profit for the year	-	-	8,012	8,012	56	8,068
Net other comprehensive income for the year	-	(270)	271	1	-	1
Total comprehensive income for the year	-	(270)	8,283	8,013	56	8,069
Transactions in capacity as equity holders						
Dividends on ordinary shares ¹	-	-	(5,752)	(5,752)	-	(5,752)
Dividend reinvestment plan	1,412	-	-	1,412	-	1,412
Dividend reinvestment plan underwrite	1,000	-	-	1,000	-	1,000
Other equity movements						
Share based payment arrangements	-	141	-	141	-	141
Exercise of employee share options and rights	16	-	-	16	-	16
Purchase of shares (net of issue costs)	(91)	-	-	(91)	-	(91)
(Acquisition)/disposal of treasury shares	(81)	-	-	(81)	-	(81)
Disposal of controlled entities	-	-	-	-	(105)	(105)
Other	-	(16)	-	(16)	(15)	(31)
Total contributions and distributions	2,256	125	(5,752)	(3,371)	(120)	(3,491)
Balance at 30 September 2015	28,895	1,031	23,172	53,098	817	53,915
Net profit for the year	-	-	7,445	7,445	15	7,460
Net other comprehensive income for the year	-	(418)	(101)	(519)	-	(519)
Total comprehensive income for the year	-	(418)	7,344	6,926	15	6,941
Transactions in capacity as equity holders						
Dividends on ordinary shares ¹	-	-	(6,128)	(6,128)	-	(6,128)
Dividend reinvestment plan	726	-	-	726	-	726
Share entitlement offer	3,510	-	-	3,510	-	3,510
Other equity movements						
Share based payment arrangements	-	116	-	116	-	116
Exercise of employee share options and rights	2	-	-	2	-	2
Purchase of shares (net of issue costs)	(49)	-	-	(49)	-	(49)
(Acquisition)/disposal of treasury shares	(70)	-	-	(70)	-	(70)
Other ²	-	(2)	(9)	(11)	(771)	(782)
Total contributions and distributions	4,119	114	(6,137)	(1,904)	(771)	(2,675)
Balance at 30 September 2016	33,014	727	24,379	58,120	61	58,181
Net profit for the year	-	-	7,990	7,990	7	7,997
Net other comprehensive income for the year	-	(32)	26	(6)	-	(6)
Total comprehensive income for the year	-	(32)	8,016	7,984	7	7,991
Transactions in capacity as equity holders						
Dividends on ordinary shares ¹	-	-	(6,291)	(6,291)	-	(6,291)
Dividend reinvestment plan	1,452	-	-	1,452	-	1,452
Other equity movements						
Share based payment arrangements	-	98	-	98	-	98
Exercise of employee share options and rights	11	-	-	11	-	11
Purchase of shares (net of issue costs)	(43)	-	-	(43)	-	(43)
(Acquisition)/disposal of treasury shares	(40)	-	-	(40)	-	(40)
Other	-	1	(4)	(3)	(14)	(17)
Total contributions and distributions	1,380	99	(6,295)	(4,816)	(14)	(4,830)
Balance at 30 September 2017	34,394	794	26,100	61,288	54	61,342

¹ 2017 comprises 2017 interim dividend 94 cents (\$3,150 million) and 2016 final dividend 94 cents per share (\$3,141 million) (2016: 2016 interim dividend 94 cents (\$3,130 million) and 2015 final dividend 94 cents (\$2,998 million), 2015: 2015 interim dividend 93 cents (\$2,897 million) and 2014 final dividend 92 cents (\$2,855 million), all fully franked at 30%.

² On 30 June 2016 the 2006 TPS were redeemed in full.

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Statements of changes in equity for the years ended 30 September (continued)
Westpac Banking Corporation

Parent Entity

	Share capital (Note 32)	Reserves (Note 32)	Retained profits	Total equity attributable to owners of Westpac Banking Corporation	Convertible debentures (Note 32)	Total shareholders' equity and other equity instruments
\$m						
Balance at 1 October 2015	28,972	940	15,248	45,160	755	45,915
Net profit for the year	-	-	6,307	6,307	-	6,307
Net other comprehensive income for the year	-	(263)	(96)	(359)	-	(359)
Total comprehensive income for the year	-	(263)	6,211	5,948	-	5,948
Transactions in capacity as equity holders						
Dividends on ordinary shares ¹	-	-	(6,129)	(6,129)	-	(6,129)
Dividend reinvestment plan	726	-	-	726	-	726
Share entitlement offer	3,510	-	-	3,510	-	3,510
Distributions on convertible debentures	-	-	(11)	(11)	-	(11)
Other equity movements						
Share based payment arrangements	-	113	-	113	-	113
Exercise of employee share options and rights	2	-	-	2	-	2
Purchase of shares (net of issue costs)	(49)	-	-	(49)	-	(49)
(Acquisition)/disposal of treasury shares	(61)	-	-	(61)	-	(61)
Other ²	-	-	(8)	(8)	(755)	(763)
Total contributions and distributions	4,128	113	(6,148)	(1,907)	(755)	(2,662)
Balance at 30 September 2016	33,100	790	15,311	49,201	-	49,201
Net profit for the year	-	-	7,843	7,843	-	7,843
Net other comprehensive income for the year	-	(33)	18	(15)	-	(15)
Total comprehensive income for the year	-	(33)	7,861	7,828	-	7,828
Transactions in capacity as equity holders						
Dividends on ordinary shares ¹	-	-	(6,301)	(6,301)	-	(6,301)
Dividend reinvestment plan	1,452	-	-	1,452	-	1,452
Other equity movements						
Share based payment arrangements	-	101	-	101	-	101
Exercise of employee share options and rights	11	-	-	11	-	11
Purchase of shares (net of issue costs)	(43)	-	-	(43)	-	(43)
(Acquisition)/disposal of treasury shares	(68)	-	-	(68)	-	(68)
Other	-	-	-	-	-	-
Total contributions and distributions	1,352	101	(6,301)	(4,848)	-	(4,848)
Balance at 30 September 2017	34,452	858	16,871	52,181	-	52,181

¹ 2017 comprises 2017 interim dividend 94 cents (\$3,156 million) and 2016 final dividend 94 cents per share (\$3,145 million) (2016: 2016 interim dividend 94 cents (\$3,136 million) and 2015 final dividend 94 cents (\$2,993 million), all fully franked at 30%.

² On 30 June 2016 the 2006 TPS were redeemed in full.

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Cash flow statements for the years ended 30 September Westpac Banking Corporation

\$m	Note	Consolidated			Parent Entity	
		2017	2016	2015	2017	2016
Cash flows from operating activities						
Interest received		31,133	31,817	32,377	30,784	31,812
Interest paid		(15,415)	(16,721)	(18,319)	(17,458)	(19,221)
Dividends received excluding life business		27	43	12	1,861	960
Other non-interest income received		5,064	5,050	5,289	4,457	3,426
Operating expenses paid		(7,966)	(8,106)	(7,502)	(6,748)	(6,496)
Income tax paid excluding life business		(3,388)	(3,373)	(3,322)	(3,192)	(3,143)
Life business:						
Receipts from policyholders and customers		2,239	1,893	1,921	-	-
Interest and other items of similar nature		24	30	33	-	-
Dividends received		433	348	328	-	-
Payments to policyholders and suppliers		(1,861)	(1,642)	(1,754)	-	-
Income tax paid		(164)	(96)	(104)	-	-
Cash flows from operating activities before changes in operating assets and liabilities		10,126	9,243	8,959	9,704	7,338
Net (increase)/decrease in:						
Trading securities and financial assets designated at fair value		(5,054)	6,755	21,538	(5,194)	6,706
Loans		(26,815)	(38,082)	(39,569)	(27,677)	(35,852)
Receivables due from other financial institutions		2,653	(896)	(1,000)	1,817	(128)
Life insurance assets and liabilities		219	(253)	(191)	-	-
Regulatory deposits with central banks overseas		308	(209)	497	294	(219)
Derivative financial instruments		(5,042)	(5,107)	11,730	(5,378)	(3,796)
Other assets		200	(476)	95	136	4
Net increase/(decrease) in:						
Other financial liabilities at fair value through income statement		(681)	(4,488)	(10,027)	(325)	(4,861)
Deposits and other borrowings		23,062	38,771	8,526	22,518	33,508
Payables due to other financial institutions		3,859	(73)	(1,194)	3,792	459
Other liabilities		(15)	312	95	78	284
Net cash provided by/(used in) operating activities	41	2,820	5,497	(541)	(235)	3,443
Cash flows from investing activities						
Proceeds from available-for-sale securities		25,717	18,779	8,471	23,707	14,357
Purchase of available-for-sale securities		(27,028)	(24,724)	(26,551)	(24,820)	(20,149)
Net (increase)/decrease in investments in controlled entities		-	-	-	640	(37)
Net movement in amounts due to/from controlled entities		-	-	-	2,999	888
Purchase of intangible assets		(766)	(707)	(630)	(692)	(625)
Purchase of property and equipment		(264)	(521)	(677)	(203)	(441)
Proceeds from disposal of property and equipment		65	32	24	55	17
Net (increase)/decrease in investments in associates		(52)	-	-	(46)	-
Proceeds from sale of associates		630	-	-	-	-
Proceeds from disposal of controlled entities, net of cash disposed	41	-	(104)	648	-	(104)
Net cash provided by/(used in) investing activities		(1,698)	(7,245)	(18,715)	1,640	(6,094)
Cash flows from financing activities						
Issue of loan capital (net of issue costs)		4,437	3,596	2,244	4,437	3,596
Redemption of loan capital		(2,188)	(1,444)	-	(2,188)	(1,444)
Net increase/(decrease) in debt issues		3,249	5,213	6,826	2,746	5,674
Proceeds from Share Entitlement Offer		-	3,510	-	-	3,510
Dividend reinvestment plan underwrite		-	-	1,000	-	-
Proceeds from exercise of employee options		11	2	16	11	2
Purchase of shares on exercise of employee options and rights		(17)	(24)	(73)	(17)	(24)
Shares purchased for delivery of employee share plan		(27)	(27)	(27)	(27)	(27)
Purchase of RSP treasury shares		(68)	(62)	(69)	(68)	(62)
Net sale/(purchase) of other treasury shares		7	(8)	(12)	-	1
Payment of dividends		(4,839)	(5,402)	(4,340)	(4,849)	(5,414)
Payment of distributions to non-controlling interests		(13)	(18)	(52)	-	-
Redemption of 2006 Trust Preferred Securities		-	(763)	-	-	(763)
Net cash provided by/(used in) financing activities		552	4,573	5,513	45	5,049
Net increase/(decrease) in cash and cash equivalents		1,674	2,825	(13,743)	1,450	2,398
Effect of exchange rate changes on cash and cash equivalents		(292)	(580)	2,753	(231)	(584)
Cash and cash equivalents as at the beginning of the year		17,015	14,770	25,760	15,186	13,372
Cash and cash equivalents as at the end of the year	41	18,397	17,015	14,770	16,405	15,186

The above cash flow statements should be read in conjunction with the accompanying notes. Details of the reconciliation of net cash (used in)/provided by operating activities to net profit are provided in Note 41.

Notes to the financial statements

Note 1. Financial statements preparation

This financial report of Westpac Banking Corporation (the Parent Entity), together with its controlled entities (the Group or Westpac), for the year ended 30 September 2017 was authorised for issue by the Board of Directors on 6 November 2017. The Directors have the power to amend and reissue the financial report.

The principal accounting policies are set out below and in the relevant notes to the financial statements. The accounting policy for the recognition and derecognition of financial assets and financial liabilities precedes Note 10. These accounting policies provide details of the accounting treatments adopted for complex balances and where accounting standards provide policy choices. These policies have been consistently applied to all the years presented, unless otherwise stated.

a. Basis of preparation

(i) Basis of accounting

This financial report is a general purpose financial report prepared in accordance with:

- the requirements for an authorised deposit-taking institution under the *Banking Act 1959* (as amended);
- Australian Accounting Standards (AAS) and Interpretations as issued by the Australian Accounting Standards Board (AASB); and
- the *Corporations Act 2001*.

Westpac Banking Corporation is a for-profit entity for the purposes of preparing this financial report.

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Interpretations as issued by the IFRS Interpretations Committee (IFRIC). It also includes additional disclosures required for foreign registrants by the United States Securities and Exchange Commission (US SEC).

All amounts have been rounded in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, to the nearest million dollars, unless otherwise stated.

(ii) Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by applying fair value accounting to available-for-sale securities, and financial assets and liabilities (including derivative instruments) measured at fair value through income statement or in other comprehensive income.

(iii) Comparative revisions

Comparative information has been revised where appropriate to conform to changes in presentation in the current year and to enhance comparability.

(iv) Changes in accounting policies

In November 2016 the IFRS Interpretations Committee (IFRIC) published an agenda decision addressing the expected manner of recovery of intangible assets with indefinite useful lives for the purposes of measuring deferred tax.

The IFRIC determined that the fact that an entity does not amortise an intangible asset with an indefinite useful life does not mean that it has an infinite life and that the entity will recover the carrying amount of that asset only through sale and not through use.

As a result, the Group has retrospectively changed its accounting policy for the accounting of deferred income tax on our brand name indefinite life intangible assets acquired through business combinations. The deferred tax was determined based on the full difference between the carrying amount and the tax base of these assets as the assets are expected to be recovered through use.

The change in accounting policy resulted in the following adjustments to the Group's consolidated financial statements:

Balance Sheet	Consolidated			Parent Entity		
	Reported 30-Sep 2016	Adjustment	Restated 30-Sep 2016	Reported 30-Sep 2016	Adjustment	Restated 30-Sep 2016
\$m						
Assets						
Deferred tax assets ¹	1,552	(201)	1,351	1,590	(191)	1,399
Intangible assets ²	11,520	201	11,721	9,114	191	9,305
Total assets	839,202	-	839,202	875,720	-	875,720

¹ The adjustment was made against deferred tax liability which was offset (where appropriate) against deferred tax assets.

² The adjustment was made against goodwill.

Note 1. Financial statements preparation (continued)**(v) Business combinations**

Business combinations are accounted for using the acquisition method of accounting. Acquisition cost is measured as the aggregate of the fair value at the date of acquisition of the assets given, equity instruments issued or liabilities incurred or assumed. Acquisition-related costs are expensed as incurred (except for those costs arising on the issue of equity instruments which are recognised directly in equity).

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value on the acquisition date. Goodwill is measured as the excess of the acquisition cost, the amount of any non-controlling interest and the fair value of any previous Westpac equity interest in the acquiree, over the fair value of the identifiable net assets acquired.

(vi) Foreign currency translation*Functional and presentational currency*

The consolidated financial statements are presented in Australian dollars which is the Parent Entity's functional and presentation currency. The functional currency of offshore entities is usually the main currency of the economy it operates in.

Transactions and balances

Foreign currency transactions are translated into the functional currency of the relevant branch or subsidiary using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income for qualifying cash flow hedges and qualifying net investment hedges.

Foreign operations

Assets and liabilities of foreign branches and subsidiaries that have a functional currency other than the Australian dollar are translated at exchange rates prevailing on the balance date. Income and expenses are translated at average exchange rates prevailing during the year. Other equity balances are translated at historical exchange rates. The resulting exchange differences are recognised in the foreign currency translation reserve and in other comprehensive income.

On consolidation, exchange differences arising from the translation of borrowings and other foreign currency instruments designated as hedges of the net investment in foreign operations are reflected in the foreign currency translation reserve and in other comprehensive income. When all or part of a foreign operation is disposed or borrowings that are part of the net investments are repaid, a proportionate share of such exchange differences is recognised in the income statement as part of the gain or loss on disposal or repayment of borrowing.

b. Critical accounting assumptions and estimates

Applying the Group's accounting policies requires the use of judgement, assumptions and estimates which impact the financial information. The significant assumptions and estimates used are discussed in the relevant notes below:

- Note 7 Income tax
- Note 14 Provisions for impairment charges
- Note 15 Life insurance assets and life insurance liabilities
- Note 23 Fair values of financial assets and financial liabilities
- Note 26 Intangible assets
- Note 28 Provisions
- Note 38 Superannuation commitments

c. Future developments in accounting standards

The following new standards and interpretations which may have a material impact on the Group have been issued, but are not yet effective, and unless otherwise stated, have not been early adopted by the Group:

AASB 9 *Financial Instruments* (December 2014) (AASB 9) will replace AASB 139 *Financial Instruments: Recognition and Measurement* (AASB 139). It includes a forward looking 'expected credit loss' impairment model, revised classification and measurement model and modifies the approach to hedge accounting. The standard is effective for the 30 September 2019 year end. The major changes under the standard and details of the implementation project are outlined below.

Note 1. Financial statements preparation (continued)

Impairment

AASB 9 introduces a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward looking information, replacing the existing incurred loss model which only recognises impairment if there is objective evidence that a loss has been incurred. Key elements of the new impairment model are:

- requires more timely recognition of expected credit losses using a three stage approach. For financial assets where there has been no significant increase in credit risk since origination a provision for 12 months expected credit losses is required (stage 1). For financial assets where there has been a significant increase in credit risk or where the asset is credit impaired a provision for full lifetime expected losses is required (stages 2 and 3 respectively);
- expected credit losses are probability-weighted amounts determined by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions. This will involve a greater use of judgement than the existing impairment model; and
- interest is calculated on the gross carrying amount of a financial asset, except where the asset is credit impaired.

Implementation

The Group has established an AASB 9 impairment project which will deliver conversion to the new standard effective 1 October 2018.

Models are currently being developed, tested and approved for core portfolios. These models use three main components to determine the expected credit loss (as well as the time value of money) including:

- Probability of default (PD): the probability that a counterparty will default;
- Loss given default (LGD); the loss that is expected to arise in the event of a default; and
- Exposure at default (EAD): the estimated outstanding amount of credit exposure at the time of the default.

The models use a 12 month timeframe for expected losses in stage 1 and a lifetime timeframe for expected losses in stages 2 and 3. This incorporates past experience, current conditions and multiple probability-weighted macroeconomic scenarios for reasonably supportable future economic conditions.

There will be a new governance framework to implement appropriate controls to address the new requirements of AASB 9 including key areas of judgement such as the determination of a significant increase in credit risk and the use of forward looking information in future economic scenarios.

The judgement to determine significant deterioration of credit risk will be based on changes in internally assessed customer risk grades since origination of the facility. The movement between stages 2 and 3 will be based on whether financial assets are credit-impaired at the reporting date which is expected to be similar to the individual assessment of impairment for financial assets under the current AASB 139.

New AASB 9 models will be independently reviewed and validated in accordance with the Group's model risk policies and approved by the Credit Risk Estimates Committee (CREC). The Board Risk and Compliance Committee (BRCC) will also approve the methodology and key areas of judgement will be discussed with the Board Audit Committee.

Models and credit risk processes will be further tested during a parallel run prior to adoption to provide a better understanding of the implications of the new impairment requirements. This includes an evaluation of the effect on the Group's results as well as validating the controls and effectiveness of the governance and operational processes.

Classification and measurement

AASB 9 replaces the classification and measurement model in AASB 139 with a new model that categorises financial assets based on a) the business model within which the assets are managed, and b) whether the contractual cash flows under the instrument solely represent the payment of principal and interest. Financial assets will be measured at:

- amortised cost where the business model is to hold the financial assets in order to collect contractual cash flows and those cash flows represent solely payments of principal and interest;
- fair value through other comprehensive income where the business model is to both collect contractual cash flows and sell financial assets and the cash flows represent solely payments of principal and interest. Non-traded equity instruments can also be measured at fair value through other comprehensive income; or
- fair value through profit or loss if they are held for trading or if the cash flows on the asset do not solely represent payments of principal and interest. An entity can also elect to measure a financial asset at fair value through profit or loss if it eliminates or reduces an accounting mismatch.

The accounting for financial liabilities is largely unchanged.

Note 1. Financial statements preparation (continued)**Implementation**

The Group's classification and measurement implementation project is in progress including an assessment of business models and a review of the contractual cash flows across financial assets balances. The Group does not currently expect that there will be a material change to the classification and measurement of financial instruments as a result of implementing AASB 9.

Hedging

AASB 9 will change hedge accounting by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assessing hedge effectiveness. Adoption of the new hedge accounting model is optional until the IASB completes its accounting for dynamic risk management project. Until this time, current hedge accounting under AASB 139 can continue to be applied.

Implementation

The Group currently anticipates applying the option to continue hedge accounting under AASB 139, however will implement the amended AASB 7 hedge accounting disclosures as required.

Transition

The impairment and classification and measurement requirements of AASB 9 will be applied retrospectively by adjusting the opening balance sheet at the date of initial application, 1 October 2018. There is no requirement to restate comparatives and the Group does not expect that the comparatives will be restated. However, detailed transitional disclosures will be provided in accordance with the amended requirements of AASB 7.

The Group intends to quantify the potential impact of adopting AASB 9 once it is practical to provide a reliable estimate. We expect that this will be no later than the 2018 Westpac Group Annual Report.

AASB 15 *Revenue from Contracts with Customers* (AASB 15) was issued on 28 May 2014 and will be effective for the 30 September 2019 financial year. The standard provides a single comprehensive model for revenue recognition. It replaces AASB 118 *Revenue* and related interpretations. The application of AASB 15 is not expected to have a material impact on the Group.

AASB 16 *Leases* was issued on 24 February 2016 and will be effective for the 30 September 2020 financial year. The main changes under the standard are:

- all operating leases of greater than 12 months duration will be required to be presented on balance sheet as a right-of-use asset and lease liability. The asset and liability will initially be measured at the present value of non-cancellable lease payments and payments to be made in optional periods where it is reasonably certain that the option will be exercised. Details of the Group's current lease obligations are included in Note 30; and
- all leases on balance sheet will give rise to a combination of interest expense on the lease liability and depreciation of the right-of-use asset.

The standard will result in the recognition of an asset and liability on the balance sheet, however, the quantum of these balances will be determined by the level of operating lease commitments greater than 12 months duration at adoption and is not yet practicable to determine.

AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107* was issued on 23 March 2016 and will be effective for the 30 September 2018 year end unless early adopted. Comparatives are not required on first application. The standard requires additional disclosures regarding both cash and non-cash changes in liabilities arising from financing activities. The standard is not expected to have a material impact on the Group.

AASB 17 *Insurance Contracts* was issued on 18 July 2017 and will be effective for the 30 September 2022 year end unless early adopted. This will replace AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. The main changes under the standard are:

- the scope of the standard may result in some contracts that are currently "unbundled", i.e. accounted for separately as insurance and investment contracts being required to be "bundled" and accounted for as an insurance contract;
- portfolios of contracts (with similar risks which are managed together) will be required to be disaggregated to a more granular level by both the age of a contract and the likelihood of the contract being onerous in order to determine the recognition of profit over the contract period (i.e. the contractual service margin). The contractual service margin uses a different basis to recognise profit to the current Margin on Services approach for life insurance and therefore the pattern of profit recognition is likely to differ;
- risk adjustments, which reflect uncertainties in the amount and timing of future cash flows, are required for both general and life insurance contracts rather than just general insurance contracts under the current accounting standards;

Note 1. Financial statements preparation (continued)

- the contract boundary, which is the period over which profit is recognised, differs and is determined based on the ability to compel the policyholder to pay premiums or the substantive obligation to provide coverage/services. For some general insurance contracts (e.g. some lender mortgage insurance and reinsurance contracts) this may result in the contract boundary being longer. For life insurance, in particular term renewable contracts, the contract boundary is expected to be shorter. Both will be impacted by difference patterns of profit recognition compared to the current standards;
- a narrower definition of what acquisition costs may be deferred;
- an election to recognise changes in assumptions regarding discount rate in other comprehensive income rather than profit and loss;
- an election to recognise changes in the fair value of assets supporting policy liabilities in other comprehensive income rather than through profit and loss;
- reinsurance contracts and the associated liability is to be determined separately to the gross contract liability and may have different contract boundaries; and
- additional disclosure requirements.

The standard is expected to result in a reduction in the level of deferred acquisition costs, however the quantum of this and the profit and loss impacts to the Group are not yet practicable to determine.

FINANCIAL PERFORMANCE

Note 2. Segment reporting

Accounting policy

Operating segments are presented on a basis consistent with information provided internally to Westpac's key decision makers and reflects the management of the business, rather than the legal structure of the Group.

Internally, Westpac uses 'cash earnings' in assessing the financial performance of its divisions. Management believes this allows the Group to:

- more effectively assess current year performance against prior years;
- compare performance across business divisions; and
- compare performance across peer companies.

Cash earnings is viewed as a measure of the level of profit that is generated by ongoing operations and is therefore considered in assessing distributions, including dividends. Cash earnings is neither a measure of cash flow nor net profit determined on a cash accounting basis, as it includes both cash and non-cash adjustments to statutory net profit.

To determine cash earnings, three categories of adjustments are made to statutory results:

- material items that key decision makers at Westpac Group believe do not reflect ongoing operations;
- items that are not considered when dividends are recommended, such as the amortisation of intangibles, impact of Treasury shares and economic hedging impacts; and
- accounting reclassifications between individual line items that do not impact statutory results.

Internal charges and transfer pricing adjustments have been reflected in the performance of each operating segment. Inter-segment pricing is determined on an arm's length basis.

Reportable operating segments

The operating segments are defined by the customers they service and the services they provide:

- Consumer Bank (CB):
 - responsible for sales and service of banking and financial products and services;
 - customer base is consumer customers in Australia; and
 - operates under the Westpac, St.George, BankSA, Bank of Melbourne and RAMS brands.
- Business Bank (BB):
 - responsible for sales and service of banking and financial products and services;
 - customer base is micro, SME and commercial business customers for facilities up to approximately \$150 million; and
 - operates under the Westpac, St.George, BankSA and Bank of Melbourne brands.

Note 2. Segment reporting (continued)

- **BT Financial Group (Australia) (BTFG):**
 - Westpac's Australian wealth management and insurance division;
 - services include the manufacturing and distribution of investment, superannuation, retirement products, wealth administration platforms, private banking, margin lending and equities broking;
 - BTFG's insurance business covers the manufacturing and distribution of life, general and lenders mortgage insurance;
 - operates under the Advance, Ascalon Capital Managers, Asgard, Licensee Select, BT Select, and Securitor brands, as well as the Advice, Private Banking and Insurance operations of Westpac, St. George, Bank of Melbourne and BankSA brands; and
 - includes the share of the Group's interest in BT Investment Management (BTIM) which was equity accounted from July 2015 to May 2017. In May 2017, the Group sold a further interest in BTIM which reduced its ownership to approximately 10%. Following completion of sale, the remaining interest in BTIM was reclassified to available-for-sale securities (refer to Note 35).
- **Westpac Institutional Bank (WIB):**
 - Westpac's institutional financial services division delivering a broad range of financial products and services;
 - expert knowledge in transactional banking, financial and debt capital markets, specialised capital and alternative investment solutions;
 - customer base includes commercial, corporate, institutional and government customers in Australia and New Zealand;
 - supports customers through branches and subsidiaries located in Australia, New Zealand, US, UK and Asia; and
 - also responsible for Westpac Pacific, providing a range of banking services in Fiji and Papua New Guinea (PNG).
- **Westpac New Zealand:**
 - responsible for sales and service of banking, wealth and insurance products to customers in New Zealand;
 - customer base includes consumers, business and institutional customers; and
 - operates under the Westpac brand for banking products, the Westpac Life brand for life insurance products and the BT brand for wealth products.

Group Businesses include:

- Treasury which is responsible for the management of the Group's balance sheet including wholesale funding, capital and management of liquidity. Treasury also manages the interest rate risk and foreign exchange risks inherent in the balance sheet, including managing the mismatch between Group assets and liabilities. Treasury's earnings are primarily sourced from managing the Group's balance sheet and interest rate risk, (excluding Westpac New Zealand) within set risk limits;
- Group Technology¹ which comprises functions for the Australian businesses is responsible for technology strategy and architecture, infrastructure and operations, applications development and business integration;
- Core Support², which comprises functions performed centrally, including Australian banking operations, property services, strategy, finance, risk, compliance, legal, and human resources; and
- Group Businesses also includes items, including earnings on capital not allocated to divisions, accounting entries for certain intra-group transactions that facilitate the presentation of the performance of the Group's operating segments, earnings from non-core asset sales, earnings and costs associated with the Group's fintech investments, and certain other head office items such as centrally held provisions.

Revisions to capital allocation

The Group has completed an update to its capital allocation framework. The update further improves the alignment of capital held by divisions with regulatory capital requirements. The change has led to more capital being allocated to WIB, Westpac New Zealand and Group Businesses with less capital allocated to CB, BB and BTFG. Divisional results have been restated to ensure comparability with 2017 results.

The capital allocation change impacts divisional financials including net interest income, as each division earns interest on capital held. Importantly, the change has no impact on Westpac Group's reported results, cash earnings or any of the Group's performance metrics.

Revisions to Westpac New Zealand

In 2017 the Group changed the accounting treatment for Westpac New Zealand's credit card rewards scheme to align with Group practice. This change has no impact on cash earnings or reported profit but has led to a restatement which increases both non-interest income and expenses within cash earnings in prior periods. Comparatives of reported profit have not been changed.

¹ Costs are fully allocated to other divisions in the Group.

² Costs are partially allocated to other divisions in the Group, with costs attributed to enterprise activity retained in Group Businesses.

Note 2. Segment reporting (continued)

The following tables present the segment results on a cash earnings basis for the Group:

\$m	BT						Total	Net cash earnings adjustment	Income Statement
	Consumer Bank	Business Bank	Financial Group (Australia)	Westpac Institutional Bank	Westpac New Zealand	Group Businesses			
Net interest income	7,509	4,055	537	1,507	1,627	469	15,704	(188)	15,516
Non-interest income	802	1,153	1,744	1,706	479	(32)	5,852	434	6,286
Net operating income before operating expenses and impairment charges	8,311	5,208	2,281	3,213	2,106	437	21,556	246	21,802
Operating expenses	(3,337)	(1,839)	(1,176)	(1,323)	(903)	(527)	(9,105)	(329)	(9,434)
Impairment (charges)/benefits	(541)	(367)	(4)	(56)	72	43	(853)	-	(853)
Profit before income tax	4,433	3,002	1,101	1,834	1,275	(47)	11,598	(83)	11,515
Income tax expense	(1,329)	(903)	(330)	(523)	(359)	(85)	(3,529)	11	(3,518)
Profit attributable to non-controlling interests	-	-	-	(7)	-	-	(7)	-	(7)
Cash earnings for the year	3,104	2,099	771	1,304	916	(132)	8,062	(72)	7,990
Net cash earnings adjustments	(116)	(10)	160	-	(14)	(92)	(72)		
Net profit attributable to owners of Westpac Banking Corporation	2,988	2,089	931	1,304	902	(224)	7,990		
Additional information									
Depreciation, amortisation and impairments	(169)	(51)	(46)	(113)	(82)	(514)	(975)		
Balance Sheet									
Total assets	369,522	161,107	35,187	102,929	81,285	101,845	851,875		
Total liabilities	198,065	119,731	40,383	116,194	71,433	244,727	790,533		
Additions of property and equipment and intangible assets	276	54	93	55	85	442	1,005		

\$m	BT						Total	Net cash earnings adjustment	Income Statement
	Consumer Bank	Business Bank	Financial Group (Australia)	Westpac Institutional Bank	Westpac New Zealand ²	Group Businesses			
Net interest income	7,175	3,925	486	1,574	1,606	582	15,348	(200)	15,148
Non-interest income	850	1,104	1,908	1,536	482	8	5,888	(51)	5,837
Net operating income before operating expenses and impairment charges	8,025	5,029	2,394	3,110	2,088	590	21,236	(251)	20,985
Operating expenses	(3,270)	(1,796)	(1,160)	(1,347)	(889)	(469)	(8,931)	(286)	(9,217)
Impairment (charges)/benefits	(492)	(410)	-	(177)	(54)	9	(1,124)	-	(1,124)
Profit before income tax	4,263	2,823	1,234	1,586	1,145	130	11,181	(537)	10,644
Income tax expense	(1,279)	(848)	(366)	(473)	(320)	(58)	(3,344)	160	(3,184)
Profit attributable to non-controlling interests	-	-	-	(7)	-	(8)	(15)	-	(15)
Cash earnings for the year	2,984	1,975	868	1,106	825	64	7,822	(377)	7,445
Net cash earnings adjustments	(116)	(10)	(32)	-	2	(221)	(377)		
Net profit attributable to owners of Westpac Banking Corporation	2,868	1,965	836	1,106	827	(157)	7,445		
Additional information									
Depreciation, amortisation and impairments	(116)	(36)	(43)	(115)	(97)	(524)	(931)		
Balance Sheet									
Total assets ¹	351,528	156,804	38,217	110,416	82,071	100,166	839,202		
Total liabilities	186,629	116,804	39,710	120,653	72,408	244,817	781,021		
Additions of property and equipment and intangible assets	178	83	88	459	96	417	1,321		

¹ Total assets for BT Financial Group (Australia) include the equity accounted carrying value of the investment in BTIM of \$718 million.

² Comparatives have been restated to account for the Westpac New Zealand credit card rewards scheme (2016: \$33 million).

Note 2. Segment reporting (continued)

\$m	BT						Total	Net cash earnings adjustment	Income Statement
	Consumer Bank	Business Bank	Financial Group (Australia)	Westpac Institutional Bank	Westpac New Zealand ²	Westpac Group Businesses			
Net interest income	6,403	3,735	434	1,658	1,583	426	14,239	28	14,267
Non-interest income	940	1,068	2,192	1,578	493	66	6,337	1,038	7,375
Net operating income before operating expenses and impairment charges	7,343	4,803	2,626	3,236	2,076	492	20,576	1,066	21,642
Operating expenses	(3,113)	(1,731)	(1,286)	(1,319)	(844)	(378)	(8,671)	(802)	(9,473)
Impairment (charges)/benefits	(478)	(273)	4	38	(44)	-	(753)	-	(753)
Profit before income tax	3,752	2,799	1,344	1,955	1,188	114	11,152	264	11,416
Income tax expense	(1,127)	(842)	(406)	(590)	(322)	13	(3,274)	(74)	(3,348)
Profit attributable to non-controlling interests	-	-	(32)	(8)	(3)	(15)	(58)	2	(56)
Cash earnings for the year	2,625	1,957	906	1,357	863	112	7,820	192	8,012
Net cash earnings adjustments	(116)	(10)	(23)	-	-	341	192		
Net profit attributable to owners of Westpac Banking Corporation	2,509	1,947	883	1,357	863	453	8,012		
Additional information									
Depreciation, amortisation and impairments	(118)	(27)	(42)	(132)	(93)	(1,047)	(1,459)		
Balance Sheet									
Total assets ¹	328,566	149,346	35,813	127,316	71,538	99,577	812,156		
Total liabilities	175,247	108,589	37,168	127,600	63,490	246,147	758,241		
Additions of property and equipment and intangible assets	90	42	73	282	58	768	1,313		

¹ Total assets for BT Financial Group (Australia) include the equity accounted carrying value of the investment in BTIM of \$756 million.

² Comparatives have been restated to account for the Westpac New Zealand credit card rewards scheme (2015: \$36 million).

Note 2. Segment reporting (continued)

Reconciliation of cash earnings to net profit

\$m	2017	2016	2015
Cash earnings for the year	8,062	7,822	7,820
Cash earning adjustments:			
Partial sale of BTIM	171	-	665
Capitalised technology cost balances	-	-	(354)
Amortisation of intangible assets	(137)	(158)	(149)
Acquisition, transaction and integration expenses	-	(15)	(66)
Lloyds tax adjustments	-	-	64
Fair value gain/(loss) on economic hedges	(69)	(203)	33
Ineffective hedges	(16)	9	(1)
Treasury shares	(21)	(10)	(1)
Buyback of government guaranteed debt	-	-	1
Total cash earnings adjustments	(72)	(377)	192
Net profit attributable to owners of Westpac Banking Corporation	7,990	7,445	8,012

Further details of the above cash earnings adjustments, which are all net of tax, are provided in Divisional performance in Section 2.

Revenue from products and services

Details of revenue from external customers by product or service are disclosed in Notes 3 and 4. No single customer amounted to greater than 10% of the Group's revenue.

Geographic segments

Geographic segments are based on the location of the office where the following items were recognised:

	2017		2016		2015	
	\$m	%	\$m	%	\$m	%
Revenue						
Australia	32,328	86.2	32,868	87.3	33,991	85.7
New Zealand	4,360	11.6	4,158	11.0	4,937	12.4
Other ¹	830	2.2	633	1.7	742	1.9
Total	37,518	100.0	37,659	100.0	39,670	100.0
Non-current assets²						
Australia ³	12,326	93.8	12,607	93.7	12,150	90.9
New Zealand	745	5.7	774	5.8	751	5.6
Other ¹	68	0.5	77	0.5	466	3.5
Total	13,139	100.0	13,458	100.0	13,367	100.0

¹ Other included Pacific Islands, Asia, the Americas and Europe.

² Non-current assets represent property and equipment and intangible assets.

³ Comparatives have been revised for changes in accounting policy. Refer to Note 1(iv) for further details.

Note 3. Net interest income**Accounting policy**

Interest income and expense for all interest earning financial assets and interest bearing financial liabilities, detailed within the table below, are recognised using the effective interest rate method. Net income from treasury's interest rate and liquidity management activities and the cost of the Bank levy are included in net interest income.

The effective interest rate method calculates the amortised cost of a financial instrument by discounting the financial instrument's estimated future cash receipts or payments to their present value and allocates the interest income or interest expense, including any fees, costs, premiums or discounts integral to the instrument, over its expected life.

\$m	Consolidated			Parent Entity	
	2017	2016	2015	2017	2016
Interest income					
Cash and balances with central banks	241	260	219	216	228
Receivables due from other financial institutions	110	100	87	85	64
Net ineffectiveness on qualifying hedges	(22)	12	(13)	(13)	8
Trading securities and financial assets designated at fair value	558	645	1,032	505	585
Available-for-sale securities	1,795	1,808	1,634	1,613	1,625
Loans	28,504	28,953	29,307	24,577	24,641
Regulatory deposits with central banks overseas	17	13	12	17	13
Due from subsidiaries	-	-	-	3,838	4,608
Other interest income	29	31	17	27	31
Total interest income	31,232	31,822	32,295	30,865	31,803
Interest expense					
Payables due to other financial institutions	(279)	(345)	(304)	(278)	(344)
Deposits and other borrowings	(8,868)	(9,369)	(10,669)	(7,680)	(8,074)
Trading liabilities	(2,065)	(2,520)	(2,475)	(1,646)	(2,206)
Debt issues	(3,585)	(3,737)	(3,908)	(3,034)	(3,101)
Due to subsidiaries	-	-	-	(4,211)	(4,788)
Loan capital	(693)	(589)	(535)	(693)	(571)
Bank levy	(95)	-	-	(95)	-
Other interest expense	(131)	(114)	(137)	(128)	(98)
Total interest expense	(15,716)	(16,674)	(18,028)	(17,765)	(19,182)
Net interest income	15,516	15,148	14,267	13,100	12,621

Of the amounts noted in total interest income and total interest expense, the amounts related to financial instruments not measured at fair value through income statement were as follows:

\$m	Consolidated			Parent Entity	
	2017	2016	2015	2017	2016
Interest income	30,555	30,941	31,276	30,232	30,986
Interest expense	12,673	13,101	14,363	15,205	15,993

Note 4. Non-interest income

Accounting policy

Fees and commissions

Fees and commission income are recognised as follows:

- facility fees are primarily earned for the provision of credit and other facilities to customers and are recognised as the services were provided;
- transaction fees are earned for facilitating transactions and are recognised once the transaction is executed;
- other non-risk fee income includes advisory and underwriting fees which are recognised when the related service is completed.

Income which forms an integral part of the effective interest rate of a financial instrument is recognised using the effective interest method and recorded in interest income (for example, loan origination fees).

Funds management income

Funds management fees earned for the ongoing management of customer funds and investments are recognised over the period of management.

Premium income

Premium income includes premiums earned for life insurance, life investment and general insurance products:

- life insurance premiums with a regular due date are recognised as revenue on an accrual basis. Premiums with no due date are recognised on a cash received basis;
- life investment premiums included a management fee component which is recognised as funds management income over the period the service is provided. The deposit components of life insurance and investment contracts are not revenue and were treated as movements in life insurance policy liabilities;
- general insurance premium comprises amounts charged to policyholders, excluding taxes and is recognised based on the likely pattern in which the insured risk is likely to emerge. The portion not yet earned based on the pattern assessment is recognised as unearned premium liability.

Claims expense

- life and general insurance contract claims are recognised as an expense when the liability is established;
- claims incurred in respect of life investment contracts represent withdrawals and are recognised as a reduction in life insurance liabilities.

Trading income

- realised and unrealised gains or losses from changes in the fair value of trading assets, liabilities and derivatives are recognised in the period in which they arise (except day one profits or losses which are deferred, refer to Note 23). Those relating to foreign exchange related products are recognised in foreign exchange income, the remaining gains and losses are recognised in other trading products;
- dividend income on the trading portfolio is recorded as part of trading income;
- net income related to Treasury's interest rate and liquidity management activities is included in net interest income.

Dividend income

- dividends on quoted shares are recognised on the ex-dividend date;
- dividends on unquoted shares are recognised when the company's right to receive payment is established.

Note 4. Non-interest income (continued)

\$m	Consolidated			Parent Entity	
	2017	2016	2015	2017	2016
Fees and commissions					
Facility fees	1,333	1,297	1,342	1,299	1,256
Transaction fees and commissions received	1,193	1,177	1,247	953	965
Other non-risk fee income	229	281	353	211	252
Total fees and commissions	2,755	2,755	2,942	2,463	2,473
Wealth management and insurance income¹					
Life insurance and funds management net operating income	1,590	1,657	2,033	-	-
General insurance and lenders mortgage insurance net operating income	210	242	195	-	-
Total wealth management and insurance income	1,800	1,899	2,228	-	-
Trading income^{2,3}					
Foreign exchange income	875	974	708	838	927
Other trading products	327	150	256	257	85
Total trading income	1,202	1,124	964	1,095	1,012
Other income					
Dividends received from subsidiaries	-	-	-	1,859	954
Dividends received from other entities	2	7	12	2	6
Net gain on sale of associates ⁴	279	-	-	-	-
Net gain on disposal of assets	6	1	103	5	-
Net gain/(loss) on ineffective hedges	-	-	2	-	-
Net gain/(loss) on hedging overseas operations	-	(6)	(1)	152	(241)
Net gain/(loss) on derivatives held for risk management purposes ⁵	52	(88)	(27)	52	(88)
Net gain/(loss) on financial instruments designated at fair value	11	(6)	(10)	3	-
Gain on disposal of controlled entities	-	1	1,041	-	1
Rental income on operating leases	143	109	54	104	74
Share of associates' net profit	17	30	5	-	-
Other	19	11	62	20	-
Total other income	529	59	1,241	2,197	706
Transactions with subsidiaries	-	-	-	376	426
Total non-interest income	6,286	5,837	7,375	6,131	4,617
Wealth management and insurance income comprised					
Funds management income	997	1,006	1,334	-	-
Life insurance premium income	1,204	1,114	1,002	-	-
Life insurance commissions, investment income and other income	544	386	530	-	-
Life insurance claims and changes in life insurance liabilities	(1,155)	(849)	(833)	-	-
General insurance and lenders mortgage insurance net premiums earned	451	455	453	-	-
General insurance and lenders mortgage insurance investment, commissions and other income	77	70	30	-	-
General insurance and lenders mortgage insurance claims incurred, underwriting and commission expenses	(318)	(283)	(288)	-	-
Total wealth management and insurance income	1,800	1,899	2,228	-	-

¹ Wealth management and insurance income includes policy holder tax recoveries.

² Trading income represents a component of total markets income from our WIB markets business, Westpac Pacific and Treasury foreign exchange operations in Australia and New Zealand.

³ Comparatives have been revised for consistency.

⁴ On 26 May 2017, the Group sold shares of BTIM (19% of BTIM's shares on issue). Refer to Note 35 for further details.

⁵ Income from derivatives held for risk management purposes reflected the impact of economic hedges of foreign currency capital and earnings.

Note 5. Operating expenses

\$m	Consolidated			Parent Entity	
	2017	2016	2015	2017	2016
Staff expenses					
Employee remuneration, entitlements and on-costs	4,133	4,005	4,094	3,371	3,233
Superannuation expense ¹	380	369	362	314	304
Share-based payments	113	135	174	96	108
Restructuring costs	75	92	74	68	89
Total staff expenses	4,701	4,601	4,704	3,849	3,734
Occupancy expenses					
Operating lease rentals	648	622	586	579	554
Depreciation of property and equipment	291	285	229	235	225
Other	134	125	139	111	105
Total occupancy expenses	1,073	1,032	954	925	884
Technology expenses					
Amortisation and impairment of software assets ²	628	571	1,051	572	503
Depreciation and impairment of IT equipment ²	158	156	170	139	136
Technology services	639	672	575	512	518
Software maintenance and licences	313	277	221	269	235
Telecommunications	190	181	204	163	160
Data processing	80	72	67	78	70
Total technology expenses	2,008	1,929	2,288	1,733	1,622
Other expenses					
Professional and processing services ³	755	741	615	515	535
Amortisation and impairment of intangible assets and deferred expenditure	192	216	221	169	197
Postage and stationery	217	217	204	179	175
Advertising	155	156	150	107	110
Credit card loyalty programs	152	144	134	118	144
Non-lending losses	73	81	74	58	74
Impairment/(reversal of impairment) on investments in subsidiaries	-	-	-	7	(4)
Other expenses	108	100	129	238	101
Total other expenses	1,652	1,655	1,527	1,391	1,332
Total operating expenses	9,434	9,217	9,473	7,898	7,572

¹ Superannuation expense includes both defined contribution and defined benefit expense. Further details of the Group's defined benefit plans are in Note 38.

² In 2015, the Group reviewed the depreciation method and useful lives of certain technology assets, resulting in increased depreciation, amortisation and impairment of \$505 million which otherwise would have been recognised over the following 8 years. Refer to Note 26 for further details on Intangible assets.

³ Professional and processing services relates to services provided by external suppliers including items such as cash handling and security services, marketing costs, research and recruitment fees (2017: \$268 million; 2016: \$283 million; 2015: \$202 million), operations processing (2017: \$184 million; 2016: \$196 million; 2015: \$170 million), consultants (2017: \$162 million; 2016: \$120 million; 2015: \$104 million), credit assessment (2017: \$53 million; 2016: \$60 million; 2015: \$46 million), legal and audit fees (2017: \$61 million; 2016: \$51 million; 2015: \$68 million), and regulatory fees and share market related costs (2017: \$27 million; 2016: \$31 million; 2015: \$25 million).

Note 6. Impairment charges**Accounting policy**

At each balance sheet date, the Group assesses whether there is any objective evidence of impairment of its loan portfolio. An impairment charge is recognised if there is objective evidence that principal or interest repayments may not be recoverable and when the financial impact of the non-recoverable loan can be reliably measured.

Objective evidence of impairment could include a breach of contract with the Group such as a default on interest or principal payments, a borrower experiencing significant financial difficulties or observable economic conditions that correlate to defaults on a group of loans.

The impairment charge is measured as the difference between the loan's current carrying amount and the present value of its estimated future cash flows. The estimated future cash flows exclude any expected future credit losses which have not yet occurred and are discounted to their present value using the loan's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment is the current effective interest rate.

The impairment charge is recognised in the income statement with a corresponding reduction of the carrying value of the loan through an offsetting provision account (refer to Note 14).

In subsequent periods, objective evidence may indicate that an impairment charge should be reversed. Objective evidence could include a borrower's credit rating or financial circumstances improving. The impairment charge is reversed in the income statement of that future period and the related provision for impairment is reduced.

Uncollectable loans

A loan may become uncollectable in full or part if, after following the Group's loan recovery procedures, the Group remains unable to collect that loan's contractual repayments. Uncollectable amounts are written off against their related provision for impairment, after all possible repayments have been received.

The Group may subsequently be able to recover cash flows from loans written off. In the period which these recoveries are made, they are recognised in the income statement.

Critical accounting assumptions and estimates relating to impairment charges are included in Note 14.

\$m	Consolidated			Parent Entity	
	2017	2016	2015	2017	2016
Individually assessed provisions raised	610	727	566	581	694
Write-backs	(288)	(210)	(297)	(218)	(188)
Recoveries	(168)	(137)	(131)	(121)	(94)
Collectively assessed provisions raised	699	744	615	628	510
Impairment charges	853	1,124	753	870	922

Refer to Note 14 for further details on Provisions for impairment charges.

Note 7. Income tax

Accounting policy

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in the statement of other comprehensive income.

Current tax is the tax payable for the year using enacted or substantively enacted tax rates and laws for each jurisdiction. Current tax also includes adjustments to tax payable for previous years.

Deferred tax accounts for temporary differences between the carrying amounts of assets and liabilities in the financial statements and their values for taxation purposes.

Deferred tax is determined using the enacted or substantively enacted tax rates and laws for each jurisdiction which are expected to apply when the assets will be realised or the liabilities settled.

Deferred tax assets and liabilities have been offset where they relate to the same taxation authority, the same taxable entity or group, and where there is a legal right and intention to settle on a net basis.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available to utilise the assets.

Deferred tax is not recognised for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither the accounting nor taxable profit or loss;
- the initial recognition of goodwill in a business combination;
- retained earnings in subsidiaries which the Parent Entity does not intend to distribute for the foreseeable future.

The Parent Entity is the head entity of a tax consolidated group with its wholly owned, Australian subsidiaries. All entities in the tax consolidated group have entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liabilities in the case of a default by the Parent Entity.

Tax expense and income deferred tax balances arising from temporary differences are recognised using a 'group allocation basis'. As head entity, the Parent Entity recognises all current tax balances and deferred tax assets arising from unused tax losses and relevant tax credits for the tax-consolidated group. The Parent Entity fully compensates/is compensated by the other members for these balances.

Critical accounting assumptions and estimates

The Group operates in multiple tax jurisdictions and significant judgement is required in determining the worldwide current tax liability. There are many transactions with uncertain tax outcomes and provisions are held to reflect these tax uncertainties.

Note 7. Income tax (continued)**Income tax expense**

The income tax expense for the year reconciles to the profit before income tax as follows:

\$m	Consolidated			Parent Entity	
	2017	2016	2015	2017	2016
Profit before income tax	11,515	10,644	11,416	10,463	8,744
Tax at the Australian company tax rate of 30%	3,455	3,193	3,425	3,139	2,623
The effect of amounts which are not deductible (assessable) in calculating taxable income					
Hybrid capital distributions	64	50	46	64	50
Life insurance:					
Tax adjustment on policyholder earnings	8	(2)	-	-	-
Adjustment for life business tax rates	(1)	-	(4)	-	1
Dividend adjustments	(3)	(4)	11	(558)	(286)
Other non-assessable items	(3)	(10)	(52)	(2)	(5)
Other non-deductible items	32	35	25	25	27
Adjustment for overseas tax rates	(30)	(26)	(27)	(5)	(4)
Income tax (over)/under provided in prior years	4	(65)	(88)	1	(65)
Other items	(8)	13	12	(44)	96
Total income tax expense	3,518	3,184	3,348	2,620	2,437
Income tax analysis					
Income tax expense comprises:					
Current income tax	3,404	3,351	3,347	2,367	2,540
Movement in deferred tax	110	(102)	89	252	(38)
Income tax (over)/under provision in prior years	4	(65)	(88)	1	(65)
Total income tax expense	3,518	3,184	3,348	2,620	2,437
Total Australia	3,072	2,835	2,964	2,544	2,426
Total Overseas	446	349	384	76	11
Total income tax expense¹	3,518	3,184	3,348	2,620	2,437

¹ As the Bank Levy is not a levy on income, it is not included in income tax. It is included in Note 3: Net interest income.

The effective tax rate was 30.55% in 2017 (2016: 29.91%, 2015: 29.33%).

Note 7. Income tax (continued)

Deferred tax assets

The balance comprises temporary differences attributable to:

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Amounts recognised in the income statements				
Provisions for impairment charges on loans	847	983	701	793
Provision for long service leave, annual leave and other employee benefits	321	300	292	272
Financial instruments	3	49	4	8
Property and equipment	198	234	180	220
Other provisions	239	173	223	163
Other liabilities	100	356	99	356
Total amounts recognised in the income statements	1,708	2,095	1,499	1,812
Amounts recognised directly in other comprehensive income				
Available-for-sale securities	(19)	(1)	(26)	(1)
Defined benefit deficit	3	82	3	79
Total amounts recognised directly in other comprehensive income	(16)	81	(23)	78
Gross deferred tax assets	1,692	2,176	1,476	1,890
Set-off of deferred tax assets and deferred tax liabilities ¹	(580)	(825)	(423)	(491)
Net deferred tax assets	1,112	1,351	1,053	1,399
Movements				
Opening balance ¹	1,351	1,176	1,399	1,272
Recognised in the income statements ²	(387)	(130)	(313)	(121)
Recognised in other comprehensive income	(97)	7	(101)	(1)
Set-off of deferred tax assets and deferred tax liabilities ²	245	298	68	249
Closing balance	1,112	1,351	1,053	1,399

Deferred tax liabilities

The balance comprises temporary differences attributable to:

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Amounts recognised in the income statements				
Financial instruments	3	42	3	2
Finance lease transactions	106	134	83	78
Property and equipment	162	181	163	183
Life insurance assets	47	79	-	-
Other assets ¹	335	494	215	262
Total amounts recognised in the income statements	653	930	464	525
Amounts recognised directly in other comprehensive income				
Cash flow hedges	(63)	(69)	(41)	(34)
Gross deferred tax liabilities	590	861	423	491
Set-off of deferred tax assets and deferred tax liabilities ¹	(580)	(825)	(423)	(491)
Net deferred tax liabilities	10	36	-	-
Movements				
Opening balance	36	55	-	-
Recognised in the income statements ²	(277)	(232)	(61)	(159)
Recognised in other comprehensive income	6	(85)	(7)	(90)
Set-off of deferred tax assets and deferred tax liabilities ²	245	298	68	249
Closing balance	10	36	-	-

¹ Comparatives have been revised for changes in accounting policy. Refer to Note 1 (iv) for further details.

² Comparatives have been revised for consistency.

Note 7. Income tax (continued)**Unrecognised deferred tax balances**

The following potential deferred tax balances have not been recognised. The values shown are the gross balances and not tax effected. The tax effected balances would be approximately 30% of the values shown.

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Unrecognised deferred tax asset				
Tax losses on revenue account	213	204	162	180
Unrecognised deferred tax liability				
Gross retained earnings of subsidiaries which the Parent Entity does not intend to distribute in the foreseeable future	51	51	-	-

Note 8. Earnings per share**Accounting policy**

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to shareholders, by the weighted average number of ordinary shares on issue during the year, adjusted for treasury shares. Diluted EPS is calculated by adjusting the basic earnings per share by assuming all dilutive potential ordinary shares (share based payments – Note 37 and convertible loan capital – Note 20) are converted.

Consolidated \$m	2017		2016		2015	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net profit attributable to shareholders	7,990	7,990	7,445	7,445	8,012	8,012
Adjustment for RSP dividends ¹	(6)	-	(5)	-	(6)	-
Adjustment for potential dilution:						
Distributions to convertible loan capital holders ²	-	253	-	222	-	184
Adjusted net profit attributable to shareholders	7,984	8,243	7,440	7,667	8,006	8,196
Weighted average number of ordinary shares (millions)						
Weighted average number of ordinary shares on issue	3,364	3,364	3,322	3,322	3,150	3,150
Treasury shares (including RSP share rights)	(9)	(9)	(9)	(9)	(10)	(10)
Adjustment for potential dilution:						
Share-based payments	-	4	-	4	-	6
Convertible loan capital ²	-	236	-	203	-	157
Adjusted weighted average number of ordinary shares	3,355	3,595	3,313	3,520	3,140	3,303
Earnings per ordinary share (cents)	238.0	229.3	224.6	217.8	255.0	248.2

¹ RSP share rights are explained in Note 37. Some RSP share rights have not vested and are not ordinary shares but do receive dividends. These RSP dividends are deducted to show the profit attributable to ordinary shareholders.

² The Group has issued convertible loan capital which is expected to convert into ordinary shares in the future (refer to Note 20 for further details). These convertible loan capital instruments are all dilutive and diluted EPS is therefore calculated as if the instruments had already been converted.

Note 9. Average balance sheet and interest rates

The daily average balances of the Group's interest earning assets and interest bearing liabilities are shown below along with their interest income or expense.

Consolidated	2017			2016			2015		
	Average Balance	Interest Income	Average Rate	Average Balance	Interest Income	Average Rate	Average Balance	Interest Income	Average Rate
	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
Assets									
Interest earning assets									
Receivables due from other financial institutions:									
Australia	7,422	82	1.1	9,616	84	0.9	2,542	63	2.5
New Zealand	850	8	0.9	449	6	1.3	359	6	1.7
Overseas	851	20	2.4	1,292	10	0.8	7,005	18	0.3
Trading securities and financial assets designated at fair value:									
Australia	18,418	416	2.3	18,632	481	2.6	28,077	822	2.9
New Zealand	4,238	96	2.3	4,105	118	2.9	3,812	138	3.6
Overseas	3,214	46	1.4	3,339	46	1.4	4,772	72	1.5
Available-for-sale securities:									
Australia	52,457	1,573	3.0	48,151	1,581	3.3	36,974	1,422	3.8
New Zealand	3,479	147	4.2	3,193	141	4.4	2,886	130	4.5
Overseas	2,272	75	3.3	2,710	86	3.2	2,040	82	4.0
Regulatory deposits:									
Other Overseas	1,035	17	1.6	1,197	13	1.1	1,147	12	1.0
Loans and other receivables ¹ :									
Australia	557,865	24,772	4.4	532,172	25,162	4.7	502,474	25,280	5.0
New Zealand	72,938	3,460	4.7	68,370	3,617	5.3	63,349	3,818	6.0
Overseas	27,255	520	1.9	28,617	477	1.7	28,377	432	1.5
Total interest earning assets and interest income	752,294	31,232	4.2	721,843	31,822	4.4	683,814	32,295	4.7
Non-Interest earning assets									
Cash, receivables due from other financial institutions and regulatory deposits	2,000			2,431			1,970		
Derivative financial instruments	37,673			48,666			49,400		
Life insurance assets	12,447			12,702			11,590		
All other assets ²	60,111			57,913			51,929		
Total non-interest earning assets	112,231			121,712			114,889		
Total assets	864,525			843,555			798,703		

¹ Loans and other receivables are stated net of provisions for impairment charges on loans. Other receivables include cash and balances with central banks and other interest earning assets.

² Includes property and equipment, intangibles, deferred tax, non-interest bearing loans relating to mortgage offset accounts and other assets.

Note 9. Average balance sheet and interest rates (continued)

Consolidated	2017			2016			2015		
	Average Balance \$m	Interest Expense \$m	Average Rate %	Average Balance \$m	Interest Expense \$m	Average Rate %	Average Balance \$m	Interest Expense \$m	Average Rate %
Liabilities									
Interest bearing liabilities									
Payables due to other financial institutions:									
Australia	15,740	241	1.5	16,570	301	1.8	11,839	247	2.1
New Zealand	642	9	1.4	567	10	1.8	584	14	2.4
Overseas	2,451	29	1.2	2,811	34	1.2	5,417	43	0.8
Deposits and other borrowings:									
Australia	409,586	7,344	1.8	376,115	7,801	2.1	357,199	8,815	2.5
New Zealand	51,042	1,173	2.3	48,251	1,280	2.7	45,555	1,643	3.6
Overseas	24,085	351	1.5	29,336	288	1.0	30,760	211	0.7
Loan capital:									
Australia	15,841	638	4.0	12,150	513	4.2	10,888	492	4.5
New Zealand	43	2	4.7	-	-	-	-	-	-
Overseas	1,324	53	4.0	1,687	76	4.5	753	43	5.7
Other interest bearing liabilities ¹ :									
Australia	157,842	5,117	3.2	164,871	5,574	3.4	164,075	5,856	3.6
New Zealand	15,821	747	4.7	14,067	787	5.6	12,842	661	5.1
Overseas	507	12	2.4	851	10	1.2	716	3	0.4
Total interest bearing liabilities and interest expense	694,924	15,716	2.3	667,276	16,674	2.5	640,628	18,028	2.8
Non-interest bearing liabilities									
Deposits and payables due to other financial institutions:									
Australia	40,514			36,594			29,948		
New Zealand	4,716			4,105			3,531		
Overseas	869			1,023			1,061		
Derivative financial instruments	42,780			55,956			51,808		
Life insurance policy liabilities	10,560			10,985			10,035		
All other liabilities ²	11,586			11,145			11,477		
Total non-interest bearing liabilities	111,025			119,808			107,860		
Total liabilities	805,949			787,084			748,488		
Shareholders' equity	58,556			55,896			49,361		
Non-controlling interests	20			575			854		
Total equity	58,576			56,471			50,215		
Total liabilities and equity	864,525			843,555			798,703		

¹ Include net impact of Treasury balance sheet management activities.² Include other liabilities, provisions, current and deferred tax liabilities.

Note 9. Average balance sheet and interest rates (continued)

Net interest income may vary from year to year due to changes in the volume of, and interest rates associated with, interest earning assets and interest bearing liabilities. The table below allocates the change in net interest income between changes in volume and interest rate for those assets and liabilities.

Calculation of variances

- volume changes are determined based on the movements in average asset and liability balances.
- interest rate changes are determined based on the change in interest rate associated with those assets and liabilities.

Where variances arise due to a combination of volume and interest rate changes, the absolute dollar value of each change is allocated in proportion to their impact on the total change.

Consolidated \$m	2017			2016		
	Volume	Rate	Total	Volume	Rate	Total
Interest earning assets						
Receivables due from other financial institutions:						
Australia	(19)	17	(2)	175	(154)	21
New Zealand	5	(3)	2	2	(2)	-
Overseas	(3)	13	10	(15)	7	(8)
Trading securities and financial assets designated at fair value:						
Australia	(6)	(59)	(65)	(277)	(64)	(341)
New Zealand	4	(26)	(22)	11	(31)	(20)
Overseas	(2)	2	-	(22)	(4)	(26)
Available-for-sale securities:						
Australia	141	(149)	(8)	430	(271)	159
New Zealand	13	(7)	6	14	(3)	11
Overseas	(14)	3	(11)	27	(23)	4
Regulatory deposits:						
Overseas	(2)	6	4	1	-	1
Loans and other receivables:						
Australia	1,217	(1,607)	(390)	1,494	(1,612)	(118)
New Zealand	242	(399)	(157)	303	(504)	(201)
Overseas	(25)	68	43	4	41	45
Total change in interest income	1,551	(2,141)	(590)	2,147	(2,620)	(473)
Interest bearing liabilities						
Payables due to other financial institutions:						
Australia	(15)	(45)	(60)	99	(45)	54
New Zealand	1	(2)	(1)	-	(4)	(4)
Overseas	(4)	(1)	(5)	(21)	12	(9)
Deposits and other borrowings:						
Australia	693	(1,150)	(457)	467	(1,481)	(1,014)
New Zealand	75	(182)	(107)	97	(460)	(363)
Overseas	(52)	115	63	(10)	87	77
Loan capital:						
Australia	156	(31)	125	57	(36)	21
New Zealand	2	-	2	-	-	-
Overseas	(16)	(7)	(23)	53	(20)	33
Other interest bearing liabilities:						
Australia	(237)	(220)	(457)	28	(310)	(282)
New Zealand	98	(138)	(40)	63	63	126
Overseas	(5)	7	2	1	6	7
Total change in interest expense	696	(1,654)	(958)	834	(2,188)	(1,354)
Change in net interest income:						
Australia	736	(352)	384	1,171	(229)	942
New Zealand	88	(113)	(25)	170	(139)	31
Overseas	31	(22)	9	(28)	(64)	(92)
Total change in net interest income	855	(487)	368	1,313	(432)	881

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Accounting policy

Recognition

Purchases and sales of financial assets, except for loans and receivables, are recognised on trade-date; the date on which the Group commits to purchase or sell the asset. Loans and receivables are recognised on settlement date, when cash is advanced to the borrowers.

Financial liabilities are recognised when an obligation arises.

Classification and measurement

The Group classifies its financial assets in the following categories: cash and balances with central banks, receivables due from financial institutions, trading securities and financial assets designated at fair value, derivative financial instruments, available-for-sale securities, loans, life insurance assets and regulatory deposits with central banks overseas. The Group has not classified any of its financial assets as held-to-maturity investments.

The Group classifies significant financial liabilities in the following categories: payables due to other financial institutions, deposits and other borrowings, other financial liabilities at fair value through income statement, derivative financial instruments, debt issues and loan capital.

Financial assets and financial liabilities measured at fair value through income statement are recognised initially at fair value. All other financial assets and financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

The accounting policy for each category of financial asset or financial liability mentioned above is set out in the note for the relevant item.

The Group's policies for determining the fair value of financial assets and financial liabilities are set out in Note 23.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the asset have expired, or when the Group has either transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full under a 'pass through' arrangement and transferred substantially all the risks and rewards of ownership.

There may be situations where the Group has partially transferred the risks and rewards of ownership but has neither transferred nor retained substantially all the risks and rewards of ownership. In such situations, the asset continues to be recognised on the balance sheet to the extent of the Group's continuing involvement in the asset.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with the difference in the respective carrying amounts recognised in the income statement.

Note 10. Receivables due from other financial institutions

Accounting policy

Receivables due from other financial institutions are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method.

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Conduit assets ¹	392	936	-	-
Cash collateral	4,834	7,128	4,462	6,441
Interbank lending	1,902	1,887	1,895	1,884
Total receivables due from other financial institutions	7,128	9,951	6,357	8,325

¹ Further information on conduit assets is disclosed in Note 25. Conduit assets are only available to meet associated conduit liabilities disclosed in Note 19.

Note 11. Trading securities and financial assets designated at fair value

Accounting policy

Trading securities

Trading securities include actively traded debt (government and other) and equity instruments and those acquired for sale in the near term.

As part of its trading activities, the Group also lends and borrows securities on a collateralised basis. Securities lent remain on the Group's balance sheet and securities borrowed are not reflected on the Group's balance sheet, as the risk and rewards of ownership remain with the initial holder. Where cash is provided as collateral, the amount advanced to or received from third parties is recognised as a receivable in other assets (Note 27) or as a borrowing in other liabilities (Note 29) respectively.

Gains and losses on trading securities are recognised in the income statement. Interest received from government and other debt securities is recognised in net interest income (Note 3) and dividends on equity securities are recognised in non-interest income (Note 4).

Securities purchased under agreements to resell ('reverse repos')

Securities purchased under agreements to resell are not recognised on the balance sheet as Westpac has not obtained the risks and rewards of ownership. The cash consideration paid is recognised as an asset. Reverse repos which are part of a trading portfolio are designated at fair value. Gains and losses on these financial assets are recognised in non-interest income. Interest received under these agreements is recognised in interest income.

Other financial assets designated at fair value

Other financial assets designated at fair value either: contain an embedded derivative; are managed on a fair value basis, or are held at fair value to reduce or eliminate an accounting mismatch. Gains and losses on these financial assets are recognised as non-interest income. Interest received from these other financial assets is recognised in interest income.

A portfolio of fixed rate bills designated at fair value to reduce an accounting mismatch have, due to their nature, been presented in loans (Note 13).

\$m	Consolidated			Parent Entity	
	2017	2016	2015	2017	2016
Trading securities	15,860	15,288	20,170	14,151	13,258
Securities purchased under agreement to resell	6,887	3,260	3,982	6,887	3,260
Other financial assets designated at fair value	2,577	2,620	3,302	1,908	2,044
Total trading securities and financial assets designated at fair value	25,324	21,168	27,454	22,946	18,562

Trading securities included the following:

\$m	Consolidated			Parent Entity	
	2017	2016	2015	2017	2016
Government and semi-government securities	11,339	9,267	12,545	10,452	8,601
Other debt securities	4,453	5,960	7,555	3,631	4,596
Equity securities	11	7	20	11	7
Other	57	54	50	57	54
Total trading securities	15,860	15,288	20,170	14,151	13,258

Other financial assets designated at fair value included:

\$m	Consolidated			Parent Entity	
	2017	2016	2015	2017	2016
Other debt securities	2,259	2,319	2,900	1,848	1,989
Equity securities	318	301	402	60	55
Total other financial assets designated at fair value	2,577	2,620	3,302	1,908	2,044

Note 12. Available-for-sale securities**Accounting policy**

Available-for-sale debt (government and other) and equity securities are held at fair value with gains and losses recognised in other comprehensive income except for the following amounts recognised in the income statement:

- interest on debt securities;
- dividends on equity securities; and
- impairment charges.

The cumulative gain or loss recognised in other comprehensive income is subsequently recognised in the income statement when the instrument is disposed.

At each reporting date, the Group assesses whether any available-for-sale securities are impaired. Impairment exists if one or more events have occurred which have a negative impact on the security's estimated cash flows.

For debt instruments, evidence of impairment includes significant financial difficulties or adverse changes in the payment status of an issuer.

For equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered evidence of impairment.

If impairment exists, the cumulative loss is removed from other comprehensive income and recognised in the income statement. Any subsequent reversals of impairment on debt securities are also recognised in the income statement. Subsequent reversal of impairment charges on equity instruments is not recognised in the income statement until the instrument is disposed.

\$m	Consolidated			Parent Entity	
	2017	2016	2015	2017	2016
Available-for-sale securities					
Government and semi-government securities	43,382	46,255	41,112	40,491	43,286
Other debt securities	16,863	14,323	13,672	15,252	12,831
Equity securities ¹	465	87	49	57	44
Total available-for-sale securities	60,710	60,665	54,833	55,800	56,161

¹ Certain equity securities are measured at cost because their fair value cannot be reliably measured (there is no active market and quoted prices are not available) 2017: nil for the Group (2016: \$59 million, 2015: \$33 million) and nil for the Parent Entity (2016: \$16 million).

The following table shows the maturities of the Group's available-for-sale securities and their weighted-average yield as at 30 September 2017. There are no tax-exempt securities.

2017	Within 1 Year		Over 1 Year to 5 Years		Over 5 Years to 10 Years		Over 10 Years		No Specific Maturity		Total	Weighted Average
	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%		
Carrying amount												
Government and semi-government securities	5,662	2.8%	22,533	3.4%	14,642	2.9%	545	2.6%	-	-	43,382	3.1%
Other debt securities	2,384	2.2%	13,808	2.8%	671	2.3%	-	-	-	-	16,863	2.7%
Equity securities	-	-	-	-	-	-	-	-	465	-	465	-
Total by maturity	8,046		36,341		15,313		545		465		60,710	

The maturity profile is determined based upon contractual terms for available-for-sale instruments.

Included in available-for-sale securities (above) and trading securities and financial assets designated at fair value (Note 11) are:

- US Government treasury notes of \$8,019 million (2016: \$8,593 million, 2015: \$8,473 million); and
- at 30 September 2017, total holdings of debt securities, where the aggregate book value exceeds 10% of equity attributable to Westpac's owners were held with Queensland Treasury Corporation totalling \$12,900 million.

Note 13. Loans

Accounting policy

Loans are financial assets initially recognised at fair value plus directly attributable transaction costs. Except for a portfolio of fixed rate bills (see below), loans are subsequently measured at amortised cost using the effective interest rate method and are presented net of any provisions for impairment.

Loan products that have both mortgage and deposit facilities are presented gross on the balance sheet, segregating the asset and liability component, because they do not meet the criteria to be offset. Interest earned on these products is presented on a net basis in the income statement as this reflects how the customer is charged.

Finance leases, where the Group acts as lessor, are also included within loans. These are leases where substantially all the risks and rewards of the leased asset have been transferred to the lessee. Finance income is recognised on a basis reflecting a constant rate of return on the net investment in the finance lease. The net investment of a finance lease is the present value of future cash flows on the lease. Gross future cash flows are discounted using the interest rate implicit in the lease to determine their present value.

The loan portfolio is disaggregated by location of booking office and product type, as follows:

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Australia				
Housing	427,167	404,190	427,155	404,173
Personal (loans and cards)	21,952	22,825	19,905	19,199
Business	150,542	150,209	146,143	144,562
Margin lending	1,885	1,912	1,885	1,912
Other	100	108	100	108
Total Australia	601,646	579,244	595,188	569,954
New Zealand				
Housing	43,198	43,035	-	-
Personal (loans and cards)	1,856	1,865	-	-
Business	26,667	27,499	321	336
Other	85	96	-	-
Total New Zealand	71,806	72,495	321	336
Other overseas				
Trade finance	2,818	2,358	2,818	2,354
Other	11,515	11,159	10,283	9,805
Total other overseas	14,333	13,517	13,101	12,159
Total loans	687,785	665,256	608,610	582,449
Provisions for impairment charges on loans (refer to Note 14)	(2,866)	(3,330)	(2,373)	(2,710)
Total net loans¹	684,919	661,926	606,237	579,739

¹ Total net loans include \$4,587 million (2016: \$5,562 million) of fixed rate bills designated at fair value to reduce an accounting mismatch. The change in fair value of fixed rate bills attributable to credit risk recognised during the year was \$6 million (2016: \$12 million) for both the Group and Parent Entity. The cumulative change in fair value of the fixed rate bills attributable to credit risk was a decrease of \$23 million (2016: \$29 million decrease) for both the Group and Parent Entity.

Note 13. Loans (continued)

Loans included the following finance lease receivables:

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Gross investment in finance leases, receivable:				
Due within one year	661	745	433	409
Due after one year but not later than five years	4,619	4,342	3,349	2,707
Due after five years	301	289	237	187
Unearned future finance income on finance leases	(796)	(718)	(606)	(455)
Net investment in finance leases	4,785	4,658	3,413	2,848
Accumulated allowance for uncollectable minimum lease payments	(6)	(7)	(2)	(3)
Net investment in finance leases after accumulated allowance	4,779	4,651	3,411	2,845
The net investment in finance leases may be analysed as follows:				
Due within one year	634	717	416	393
Due after one year but not later than five years	3,913	3,724	2,809	2,308
Due after five years	238	217	188	147
Total net investment in finance leases	4,785	4,658	3,413	2,848

Note 13. Loans (continued)

The following table shows loans presented based on their industry classification¹:

Consolidated					
\$m	2017	2016	2015	2014	2013
Australia					
Accommodation, cafes and restaurants	8,177	7,536	7,490	7,273	6,999
Agriculture, forestry and fishing	8,182	7,953	7,667	7,246	7,354
Construction	6,043	5,797	5,596	5,533	5,227
Finance and insurance	12,923	14,298	13,175	12,202	11,120
Government, administration and defence	554	675	796	750	843
Manufacturing	9,054	9,140	9,342	8,876	9,016
Mining	3,025	3,641	4,415	3,207	2,247
Property	43,220	44,785	44,667	41,718	37,666
Property services and business services	12,050	11,674	10,703	10,045	8,453
Services	12,950	12,362	10,798	9,629	8,608
Trade	16,063	16,044	15,484	14,449	13,516
Transport and storage	8,624	9,015	9,940	9,186	8,751
Utilities	5,237	4,025	3,554	3,232	2,984
Retail lending	451,315	429,522	400,441	376,662	350,044
Other	4,229	2,777	1,587	1,247	1,316
Total Australia	601,646	579,244	545,655	511,255	474,144
New Zealand					
Accommodation, cafes and restaurants	290	256	182	159	148
Agriculture, forestry and fishing	7,772	7,788	6,860	6,019	5,635
Construction	447	396	359	361	409
Finance and insurance	2,478	2,682	1,725	1,158	1,032
Government, administration and defence	137	163	292	350	536
Manufacturing	2,090	2,324	2,110	1,848	1,727
Mining	141	280	407	484	455
Property	5,858	5,925	5,301	5,116	4,961
Property services and business services	1,113	1,084	925	869	676
Services	1,810	1,396	1,173	996	1,040
Trade	2,163	2,333	2,003	1,878	1,883
Transport and storage	1,080	1,257	1,094	868	884
Utilities	1,237	1,600	1,021	1,004	1,103
Retail lending	45,190	45,011	40,277	37,222	35,051
Other	-	-	-	138	45
Total New Zealand	71,806	72,495	63,729	58,470	55,585
Other overseas					
Accommodation, cafes and restaurants	97	118	111	127	130
Agriculture, forestry and fishing	5	12	568	465	376
Construction	55	147	247	120	172
Finance and insurance	4,289	2,767	4,297	2,006	1,246
Government, administration and defence	4	4	130	35	31
Manufacturing	2,982	2,619	3,848	2,886	2,418
Mining	349	535	778	1,617	857
Property	491	479	409	352	306
Property services and business services	540	526	403	140	56
Services	205	99	182	242	172
Trade	2,680	3,463	2,898	3,248	2,611
Transport and storage	1,389	1,186	1,099	689	440
Utilities	514	442	722	701	299
Retail lending	657	1,120	1,191	1,111	900
Other	76	-	77	52	63
Total other overseas	14,333	13,517	16,960	13,791	10,077
Total loans	687,785	665,256	626,344	583,516	539,806
Provisions for impairment charges on loans	(2,866)	(3,330)	(3,028)	(3,173)	(3,642)
Total net loans	684,919	661,926	623,316	580,343	536,164

¹ Comparatives have been revised for consistency.

Note 13. Loans (continued)

Parent Entity \$m	2017	2016 ¹
Australia		
Accommodation, cafes and restaurants	8,098	7,421
Agriculture, forestry and fishing	8,063	7,776
Construction	5,440	5,001
Finance and insurance	12,882	14,200
Government, administration and defence	541	652
Manufacturing	8,782	8,771
Mining	2,985	3,567
Property	43,220	44,707
Property services and business services	10,979	10,375
Services	12,605	11,850
Trade	15,760	15,525
Transport and storage	8,167	8,460
Utilities	5,206	3,983
Retail lending	449,207	425,426
Other	3,253	2,240
Total Australia	595,188	569,954
New Zealand		
Accommodation, cafes and restaurants	-	-
Agriculture, forestry and fishing	1	2
Construction	3	6
Finance and insurance	-	-
Government, administration and defence	-	-
Manufacturing	88	102
Mining	-	-
Property	-	-
Property services and business services	9	7
Services	1	4
Trade	217	215
Transport and storage	-	-
Utilities	-	-
Retail lending	-	-
Other	2	-
Total New Zealand	321	336
Other overseas		
Accommodation, cafes and restaurants	88	100
Agriculture, forestry and fishing	4	11
Construction	44	135
Finance and insurance	4,284	2,762
Government, administration and defence	3	152
Manufacturing	2,969	2,462
Mining	349	535
Property	288	303
Property services and business services	525	454
Services	74	164
Trade	2,446	3,142
Transport and storage	1,159	953
Utilities	508	430
Retail lending	280	556
Other	80	-
Total other overseas	13,101	12,159
Total loans	608,610	582,449
Provisions for impairment charges on loans	(2,373)	(2,710)
Total net loans	606,237	579,739

¹ Comparatives have been revised for consistency.

Note 13. Loans (continued)

The following table shows the consolidated contractual maturity distribution of all loans by type of customer as at 30 September 2017:

Consolidated 2017				
\$m	Up to 1 Year	1 to 5 Years	Over 5 Years	Total
Loans by type of customer in Australia				
Accommodation, cafes and restaurants	3,434	4,367	376	8,177
Agriculture, forestry and fishing	3,059	4,448	675	8,182
Construction	1,490	3,962	591	6,043
Finance and insurance	6,558	4,773	1,592	12,923
Government, administration and defence	57	193	304	554
Manufacturing	3,072	4,616	1,366	9,054
Mining	450	1,189	1,386	3,025
Property	17,378	22,560	3,282	43,220
Property services and business services	2,949	7,715	1,386	12,050
Services	3,323	8,064	1,563	12,950
Trade	6,022	8,422	1,619	16,063
Transport and storage	1,524	5,379	1,721	8,624
Utilities	508	3,749	980	5,237
Retail lending	15,862	29,038	406,415	451,315
Other	991	3,053	185	4,229
Total Australia	66,677	111,528	423,441	601,646
Total overseas	23,340	18,281	44,518	86,139
Total loans	90,017	129,809	467,959	687,785

Consolidated	2017			2016		
	Loans at Variable Interest Rates	Loans at Fixed Interest Rates	Total	Loans at Variable Interest Rates	Loans at Fixed Interest Rates	Total
\$m						
Interest rate segmentation of Group loans maturing after one year						
By offices in Australia	417,643	117,326	534,969	419,728	91,907	511,635
By offices overseas	18,371	44,428	62,799	19,005	44,013	63,018
Total loans maturing after one year	436,014	161,754	597,768	438,733	135,920	574,653

Note 14. Provisions for impairment charges**Accounting policy**

The Group recognises two types of impairment provisions for its loans, being provisions for loans which are:

- individually assessed for impairment; and
- collectively assessed for impairment.

Note 6 explains how impairment charges are determined.

The Group assesses impairment as follows:

- individually for loans that exceed specified thresholds. Where there is objective evidence of impairment, individually assessed provisions will be recognised; and
- collectively for loans below the specified thresholds noted above or if there is no objective evidence of impairment. These loans are included in a group of loans with similar risk characteristics and collectively assessed for impairment. If there is objective evidence that the group of loans is collectively impaired, collectively assessed provisions will be recognised.

Critical accounting assumptions and estimates

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce differences between impairment provisions and actual loss experience.

Individual component

Key judgements include the business prospects for the customer, the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of recovering the loan.

Judgements can change with time as new information becomes available or as loan recovery strategies evolve, which may result in revisions to the impairment provision.

Collective component

Collective provisions are established on a portfolio basis taking into account the level of arrears, collateral and security, past loss experience, current economic conditions, expected default and timing of recovery based on portfolio trends.

Key judgements include estimated loss rates and their related emergence periods. The emergence period for each loan type is determined through studies of loss emergence patterns. Loan files are reviewed to identify the average time period between observable loss indicator events and the loss becoming identifiable.

Actual credit losses may differ materially from reported loan impairment provisions due to uncertainties including interest rates and their effect on consumer spending, unemployment levels, payment behaviour and bankruptcy rates.

\$m	Consolidated			Parent Entity	
	2017	2016	2015	2017	2016
Individually assessed provisions					
Opening balance	869	669	867	752	543
Provisions raised	610	727	566	581	694
Write-backs	(288)	(210)	(297)	(218)	(188)
Write-offs	(688)	(287)	(445)	(681)	(267)
Interest adjustment	(16)	(13)	(22)	(16)	(13)
Other adjustments	(7)	(17)	-	(1)	(17)
Closing balance	480	869	669	417	752
Collectively assessed provisions					
Opening balance	2,733	2,663	2,614	2,198	2,203
Provisions raised	699	744	615	628	510
Write-offs	(968)	(902)	(793)	(810)	(682)
Interest adjustment	188	193	190	152	156
Other adjustments	(13)	35	37	12	11
Closing balance	2,639	2,733	2,663	2,180	2,198
Total provisions for impairment charges on loans and credit commitments	3,119	3,602	3,332	2,597	2,950
Less provisions for credit commitments (refer to Note 28)	(253)	(272)	(304)	(224)	(240)
Total provisions for impairment charges on loans	2,866	3,330	3,028	2,373	2,710

Note 14. Provisions for impairment charges (continued)

The following table presents provisions for impairment charges on loans by industry classification for the past five years:

Consolidated	2017		2016		2015		2014		2013	
	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%
Individually assessed provisions by industry										
Australia										
Accommodation, cafes and restaurants	15	0.5	39	1.1	38	1.1	47	1.4	59	1.5
Agriculture, forestry and fishing	9	0.3	21	0.6	23	0.7	47	1.4	80	2.0
Construction	20	0.6	23	0.6	20	0.6	61	1.8	66	1.7
Finance and insurance	6	0.2	15	0.4	23	0.7	24	0.7	24	0.6
Manufacturing	40	1.3	120	3.4	41	1.2	36	1.0	108	2.7
Mining	19	0.6	41	1.1	11	0.3	15	0.4	4	0.1
Property ¹	74	2.4	125	3.5	127	3.9	200	5.7	320	8.2
Property services and business services ¹	77	2.5	215	6.0	97	2.9	83	2.4	108	2.7
Services	25	0.8	16	0.4	20	0.6	32	0.9	48	1.2
Trade	37	1.2	62	1.7	39	1.2	70	2.0	116	2.9
Transport and storage	14	0.4	14	0.4	54	1.6	12	0.3	45	1.1
Utilities	-	-	-	-	-	-	2	0.1	29	0.8
Retail lending	94	3.0	57	1.6	57	1.7	60	1.7	76	1.9
Other	3	0.1	4	0.1	3	0.1	2	0.1	6	0.2
Total Australia	433	13.9	752	20.9	553	16.6	691	19.9	1,089	27.6
New Zealand										
Accommodation, cafes and restaurants	-	-	-	-	-	-	-	-	1	-
Agriculture, forestry and fishing	11	0.4	11	0.3	6	0.2	6	0.2	17	0.4
Construction	-	-	1	-	1	-	1	-	6	0.2
Finance and insurance	-	-	-	-	-	-	-	-	9	0.2
Manufacturing	4	0.1	34	0.9	33	1.0	33	0.9	6	0.2
Mining	-	-	14	0.4	13	0.4	36	1.0	37	0.9
Property ¹	20	0.6	31	0.9	42	1.3	38	1.1	69	1.7
Property services and business services ¹	-	-	1	-	1	-	-	-	2	0.1
Services	2	0.1	2	0.1	2	0.1	1	-	40	1.0
Trade	1	-	1	-	1	-	2	0.1	2	0.1
Transport and storage	-	-	-	-	-	-	1	-	-	-
Utilities	-	-	-	-	-	-	-	-	1	-
Retail lending	7	0.2	4	0.1	8	0.2	10	0.3	17	0.4
Total New Zealand	45	1.4	99	2.7	107	3.2	128	3.6	207	5.2
Total other overseas	2	0.1	18	0.5	9	0.3	48	1.4	68	1.7
Total individually assessed provisions	480	15.4	869	24.1	669	20.1	867	24.9	1,364	34.5
Total collectively assessed provisions	2,639	84.6	2,733	75.9	2,663	79.9	2,614	75.1	2,585	65.5
Total provisions for impairment charges and credit commitments	3,119	100.0	3,602	100.0	3,332	100.0	3,481	100.0	3,949	100.0

¹ Comparatives have been revised for consistency.

Note 14. Provisions for impairment charges (continued)

The following table shows details of loan write-offs by industry classifications for the past five years:

Consolidated					
\$m	2017	2016	2015	2014	2013
Write-offs					
Australia					
Accommodation, cafes and restaurants	(38)	(17)	(40)	(26)	(31)
Agriculture, forestry and fishing	(10)	(12)	(36)	(60)	(30)
Construction	(30)	(20)	(40)	(37)	(46)
Finance and insurance	(6)	(13)	(12)	(10)	(14)
Manufacturing	(105)	(21)	(20)	(85)	(50)
Mining	(46)	(18)	(17)	(4)	(5)
Property ¹	(76)	(44)	(104)	(182)	(239)
Property services and business services ¹	(203)	(43)	(70)	(50)	(101)
Services	(97)	(36)	(18)	(22)	(58)
Trade	(59)	(30)	(56)	(70)	(69)
Transport and storage	(17)	(48)	(24)	(43)	(18)
Utilities	-	(1)	(2)	(3)	(2)
Retail lending	(898)	(803)	(658)	(603)	(545)
Other	(17)	(13)	(13)	(14)	(9)
Total Australia	(1,602)	(1,119)	(1,110)	(1,209)	(1,217)
New Zealand					
Accommodation, cafes and restaurants	-	-	-	(2)	(1)
Agriculture, forestry and fishing	-	(1)	(3)	(10)	(7)
Construction	(1)	(1)	-	(5)	(4)
Finance and insurance	-	-	-	(10)	(13)
Manufacturing	-	-	(1)	(1)	(3)
Mining	-	-	(28)	(10)	-
Property ¹	(2)	(10)	(18)	(41)	(65)
Property services and business services ¹	-	(2)	-	-	(29)
Services	-	-	(1)	(37)	(5)
Trade	(1)	(1)	(4)	(3)	(4)
Transport and storage	-	-	-	-	(1)
Utilities	-	-	-	-	-
Retail lending	(49)	(51)	(55)	(49)	(46)
Other	-	(1)	-	-	-
Total New Zealand	(53)	(67)	(110)	(168)	(178)
Total other overseas	(1)	(3)	(18)	(31)	(4)
Total write-offs	(1,656)	(1,189)	(1,238)	(1,408)	(1,399)
Write-offs in relation to:					
Collectively assessed provisions	(968)	(902)	(793)	(702)	(708)
Individually assessed provisions	(688)	(287)	(445)	(706)	(691)
Total write-offs	(1,656)	(1,189)	(1,238)	(1,408)	(1,399)

¹ Comparatives have been revised for consistency.

Note 14. Provisions for impairment charges (continued)

The following table shows details of recoveries of loans by industry classifications for the past five years:

Consolidated \$m	2017	2016	2015	2014	2013
Recoveries					
Australia					
Accommodation, cafes and restaurants	3	-	-	-	1
Agriculture, forestry and fishing	-	-	-	-	1
Construction	2	1	4	2	1
Finance and insurance	1	34	8	8	3
Manufacturing	2	1	3	3	8
Mining	1	-	-	-	-
Property ¹	10	3	15	12	11
Property services and business services ¹	3	2	2	-	-
Services	-	2	1	-	-
Trade	3	1	1	1	1
Transport and storage	1	1	-	-	1
Utilities	-	-	-	2	-
Retail lending	118	84	78	62	41
Other	5	2	1	2	-
Total Australia	149	131	113	92	68
Total New Zealand	19	6	18	14	8
Total other overseas	-	-	-	-	-
Total recoveries	168	137	131	106	76
Total write-offs	(1,656)	(1,189)	(1,238)	(1,408)	(1,399)
Net write-offs and recoveries	(1,488)	(1,052)	(1,107)	(1,302)	(1,323)

¹ Comparatives have been revised for consistency.

Note 15. Life insurance assets and life insurance liabilities

Accounting policy

The Group conducts its life insurance business in Australia primarily through Westpac Life Insurance Services Limited and its subsidiaries, which are separate statutory funds and registered under the *Life Insurance Act 1995* (Life Act) and; in New Zealand through Westpac Life-NZ-Limited which are separate statutory funds licensed under the *Insurance (Prudential Supervision) Act 2010*.

Life insurance assets

Life insurance assets, including investments in funds managed by the Group, are designated at fair value through income statement. Changes in fair value are recognised in non-interest income. The determination of fair value of life insurance assets involves the same judgements as other financial assets, which are described in the critical accounting assumptions and estimates in Note 23.

The Life Act places restrictions on life insurance assets, including that they 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 a distribution, when the fund has met its solvency and capital adequacy requirements.

Life insurance liabilities

Life insurance liabilities primarily consist of life investment contract liabilities and life insurance contract liabilities. Claims incurred in respect of life investment contracts are withdrawals of customer deposits, and are recognised as a reduction in life insurance liabilities.

Life investment contract liabilities

Life investment contract liabilities are designated at fair value through income statement. Fair value is the higher of the valuation of life insurance assets linked to the life investment contract, or the minimum current surrender value (the minimum amount the Group would pay to a policyholder if their policy is voluntarily terminated before it matures or the insured event occurs). Changes in fair value are recognised in non-interest income.

Life insurance contract liabilities

The value of life insurance contract liabilities is calculated using the margin on services methodology (MoS), specified in the Prudential Standard LPS 340 *Valuation of Policy Liabilities*.

Note 15. Life insurance assets and life insurance liabilities (continued)

MoS accounts for the associated risks and uncertainties of each type of life insurance contract written. At each reporting date, planned profit margins and an estimate of future liabilities are calculated. Profit margins are released to non-interest income over the period that life insurance is provided to policyholders (Note 4). The cost incurred in acquiring specific insurance contracts is deferred provided that these amounts are recoverable out of planned profit margins. The deferred amounts are recognised as a reduction in life insurance policy liabilities and are amortised to non-interest income over the same period as the planned profit margins.

External unit holder liabilities of managed investment schemes

The life insurance statutory funds include controlling interests in managed investment schemes which are consolidated. When the managed investment scheme is consolidated, the external unit holder liabilities are recognised as a liability and included in life insurance liabilities. They are designated at fair value through income statement.

Critical accounting assumptions and estimates

The key factors that affect the estimation of life insurance liabilities and related assets are:

- the cost of providing benefits and administering contracts;
- mortality and morbidity experience, which includes policyholder benefits enhancements;
- discontinuance rates, which affects the Group's ability to recover the cost of acquiring new business over the life of the contracts; and
- the discount rate of projected future cash flows.

Regulation, competition, interest rates, taxes, securities market conditions and general economic conditions also affect the estimation of life insurance liabilities.

Life insurance assets**Consolidated**

\$m	2017	2016
Investments held directly and in unit trusts		
Equities	3,169	4,403
Debt securities	3,420	8,628
Property	257	763
Loans	27	37
Other ¹	3,770	361
Total life insurance assets	10,643	14,192

¹ Primarily consists of investments in unit trusts with diversified holdings mainly in equities, debt securities and property.

There were no life insurance assets in the Parent Entity as at 30 September 2017 (2016: nil).

Life insurance liabilities

Consolidated	Life Investment		Life Insurance		Total	
Reconciliation of movements in policy liabilities	Contracts		Contracts		Total	
\$m	2017	2016	2017	2016	2017	2016
Opening balance	13,234	12,395	(873)	(836)	12,361	11,559
Movements in policy liabilities reflected in the income statement	544	416	38	(37)	582	379
Contract contributions recognised in policy liabilities	790	780	-	-	790	780
Contract withdrawals recognised in policy liabilities	(1,214)	(1,052)	-	-	(1,214)	(1,052)
Contract fees, expenses and tax recoveries	(100)	(112)	-	-	(100)	(112)
Change in external unit holders of managed investment schemes	(3,400)	807	-	-	(3,400)	807
Closing balance	9,854	13,234	(835)	(873)	9,019	12,361

There were no life insurance liabilities in the Parent Entity as at 30 September 2017 (2016: nil).

Note 16. Payables due to other financial institutions

Accounting policy

Payables due to other financial institutions are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method.

Security repurchase agreements

Where securities are sold subject to an agreement to repurchase at a predetermined price, they remain recognised on the balance sheet in their original category (i.e. 'Trading securities' or 'Available-for-sale').

The cash consideration received is recognised as a liability ('Security repurchase agreements'). Security repurchase agreements are designated at fair value and recognised as part of 'Other financial liabilities at fair value through income statement' (refer to Note 18) where they are managed as part of a trading portfolio; otherwise they are measured on an amortised cost basis and recognised in 'Payables due to other financial institutions'.

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Cash collateral	2,429	1,615	2,304	1,557
Offshore central bank deposits	3,108	5,493	3,108	5,493
Interbank borrowing	6,953	6,092	6,946	6,082
Security repurchase agreements ¹	9,417	5,009	9,417	5,009
Total payables due to other financial institutions	21,907	18,209	21,775	18,141

¹ The carrying value of the related securities' assets pledged under repurchase agreements for the Group and the Parent Entity is \$15,192 million (2016: \$7,052 million).

Note 17. Deposits and other borrowings**Accounting policy**

Deposits and other borrowings are initially recognised at fair value and subsequently either measured at amortised cost using the effective interest rate method or at fair value.

Deposits and other borrowings are designated at fair value if they are managed on a fair value basis, reduce or eliminate an accounting mismatch or contain an embedded derivative.

Where they are measured at fair value, any changes in fair value (except those due to changes in credit risk) are recognised as non-interest income.

The change in the fair value that is due to changes in credit risk is recognised in other comprehensive income except where it would create an accounting mismatch, in which case it is also recognised in the income statement.

Interest expense incurred is recognised in net interest income using the effective interest rate method.

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Australia				
Certificates of deposit	37,515	29,774	37,515	29,910
Non-interest bearing, repayable at call	40,324	37,491	40,324	37,491
Other interest bearing at call	226,920	210,666	226,338	210,397
Other interest bearing term	153,597	148,876	153,597	148,876
Total Australia	458,356	426,807	457,774	426,674
New Zealand				
Certificates of deposit	546	1,192	-	-
Non-interest bearing, repayable at call	4,853	4,407	-	-
Other interest bearing at call	21,273	22,642	-	-
Other interest bearing term	27,620	27,826	-	-
Total New Zealand	54,292	56,067	-	-
Other overseas				
Certificates of deposit	8,860	15,497	8,860	15,497
Non-interest bearing, repayable at call	810	845	322	391
Other interest bearing at call	1,505	1,441	1,150	1,050
Other interest bearing term	9,768	12,414	9,587	12,130
Total other overseas	20,943	30,197	19,919	29,068
Total deposits and other borrowings	533,591	513,071	477,693	455,742
Deposits and other borrowings at fair value ¹	46,569	44,227	46,023	43,171
Deposits and other borrowings at amortised cost	487,022	468,844	431,670	412,571
Total deposits and other borrowings	533,591	513,071	477,693	455,742

¹ The contractual outstanding amount payable at maturity for the Group is \$46,713 million (2016: \$44,326 million) and for the Parent Entity is \$46,168 million (2016: \$43,270 million).

Note 17. Deposits and other borrowings (continued)

The following table shows average balances and average rates in each of the past three years for major categories of deposits:

Consolidated	2017		2016		2015	
	Average	Average	Average	Average	Average	Average
	Balance	Rate	Balance	Rate	Balance	Rate
	\$m	%	\$m	%	\$m	%
Australia						
Non-interest bearing	39,355		35,732		29,201	
Certificates of deposit ¹	33,350	2.0%	31,165	2.4%	32,201	2.3%
Other interest bearing at call ¹	226,753	1.2%	211,878	1.6%	199,110	2.0%
Other interest bearing term ¹	149,483	2.6%	133,072	2.8%	125,888	3.3%
Total Australia	448,941		411,847		386,400	
Overseas						
Non-interest bearing	5,527		5,051		4,514	
Certificates of deposit ¹	13,151	1.4%	16,938	0.9%	16,617	0.6%
Other interest bearing at call ¹	24,163	1.3%	24,686	1.9%	22,732	2.9%
Other interest bearing term ¹	37,813	2.7%	35,963	2.7%	36,966	3.0%
Total overseas	80,654		82,638		80,829	

¹ Comparatives have been revised for consistency.

Certificates of deposit and term deposits

All certificates of deposit issued by foreign offices were greater than US\$100,000.

The maturity profile of certificates of deposit and term deposits greater than US\$100,000 issued by Australian operations is set out below:

Consolidated 2017	Less Than	Between			Total
		3 Months	3 and 6 Months	6 Months and 1 Year	
\$m					
Certificates of deposit greater than US\$100,000	21,335	15,738	329	113	37,515
Term deposits greater than US\$100,000	68,277	26,523	23,469	14,264	132,533

Note 18. Other financial liabilities at fair value through income statement

Accounting policy

Other financial liabilities at fair value through income statement include trading securities sold short and security repurchase agreements which have been designated at fair value at initial recognition.

The accounting policy for security repurchase agreements is consistent with that detailed in Note 16.

Securities sold short reflect the obligation to deliver securities to a buyer for the sale of securities Westpac does not own at the time of sale but that are promised to be delivered to the buyer. Securities delivered to the buyer are usually borrowed and/or subsequently purchased.

Subsequent to initial recognition, these liabilities are measured at fair value with changes in fair value (except credit risk) recognised through the income statement as they arise. The change in fair value that is attributable to credit risk is recognised in other comprehensive income except where it would create an accounting mismatch, in which case it is recognised through the income statement.

Interest expense is recognised in net interest income using the effective interest rate method.

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Security repurchase agreements ¹	3,543	4,363	3,525	3,982
Securities sold short	513	389	513	389
Total other financial liabilities at fair value through income statement	4,056	4,752	4,038	4,371

¹ The carrying value of securities pledged under repurchase agreements for the Group is \$3,554 million (2016: \$4,595 million) and for the Parent Entity is \$3,536 million (2016: \$4,213 million).

At maturity, the Group is contractually required to pay \$4,056 million (2016: \$4,752 million), and the Parent Entity \$4,038 million (2016: \$4,371 million) to holders of these financial liabilities.

Note 19. Debt issues**Accounting policy**

Debt issues are bonds, notes, commercial paper and debentures that have been issued by entities in the Group. Debt issues also include acceptances which are bills of exchange initially accepted and discounted by the Group that have been subsequently rediscounted into the market. Bill financing provided to customers by accepting and discounting of bills of exchange is reported as part of loans.

Debt issues are initially measured at fair value and subsequently either measured at amortised cost using the effective interest rate method or at fair value.

Debt issues are designated at fair value if they:

- reduce or eliminate an accounting mismatch; or
- contain an embedded derivative.

They are measured at fair value with changes in fair value (except those due to changes in credit risk) recognised as non-interest income.

The change in the fair value that is due to credit risk is recognised in other comprehensive income except where it would create an accounting mismatch, in which case it is also recognised in the income statement.

Interest expense incurred is recognised within net interest income using the effective interest rate method.

In the table below, the distinction between short-term (less than 12 months) and long-term (greater than 12 months) debt is based on the original maturity of the underlying security.

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Short-term debt:				
Own issuances	26,167	18,931	24,655	16,633
Customer conduits ¹	392	936	-	-
Acceptances	6	12	6	12
Total short-term debt	26,565	19,879	24,661	16,645
Long-term debt:				
Covered bonds	34,516	33,529	29,698	30,211
Senior	98,823	106,626	89,757	98,720
Securitisation	8,209	9,445	-	-
Structured notes	243	423	-	-
Total long-term debt	141,791	150,023	119,455	128,931
Total debt issues	168,356	169,902	144,116	145,576
Debt issues at fair value ²	4,673	6,303	2,940	3,589
Debt issues at amortised cost	163,683	163,599	141,176	141,987
Total debt issues	168,356	169,902	144,116	145,576

¹ Further information on customer conduits is disclosed in Note 25.

² The contractual outstanding amount payable at maturity for the Group is \$4,604 million (2016: \$6,185 million) and for the Parent Entity is \$2,875 million (2016: \$3,484 million). The cumulative change in the fair value of debt issues which is attributable to changes in Westpac's own credit risk is a decrease of \$2 million (2016: \$165 million) for the Group and Parent Entity.

Note 19. Debt issues (continued)

Consolidated \$m	2017	2016
Short-term debt		
US commercial paper	26,167	18,683
Euro commercial paper	-	248
	26,167	18,931
Asset backed commercial paper (by currency):		
AUD	392	936
Total assets backed commercial paper	392	936
Acceptances	6	12
Total short-term debt	26,565	19,879
Long-term debt (by currency):		
AUD	37,680	42,946
CHF	1,903	2,294
EUR	25,049	20,267
GBP	7,838	12,134
JPY	2,137	4,333
NZD	3,416	3,422
USD	61,156	61,788
Other	2,612	2,839
Total long-term debt	141,791	150,023

Consolidated \$m	2017	2016	2015
Short-term borrowings			
US commercial paper			
Maximum amount outstanding at any month end	27,456	36,478	38,774
Approximate average amount outstanding	23,025	26,351	35,482
Approximate weighted average interest rate on:			
Average amount outstanding	1.3%	0.7%	0.3%
Outstanding as at end of the year	1.2%	0.9%	0.3%

The Group manages foreign exchange exposure from debt issuances as part of its hedging activities. Further details of the Group's hedge accounting are in Note 21.

Note 20. Loan Capital

Accounting policy

Loan capital are instruments issued by the Group which qualify for inclusion as regulatory capital under Australian Prudential Regulation Authority (APRA) Prudential Standards. Loan capital is initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method. Interest expense incurred is recognised in net interest income.

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Additional Tier 1 (AT1) loan capital				
Convertible preference shares	1,188	1,185	1,188	1,185
Westpac capital notes	5,684	5,673	5,684	5,673
USD AT1 securities	1,556	-	1,556	-
Total Additional Tier 1 loan capital	8,428	6,858	8,428	6,858
Tier 2 loan capital				
Subordinated notes	8,789	8,485	8,789	8,485
Subordinated perpetual notes	449	462	449	462
Total Tier 2 loan capital	9,238	8,947	9,238	8,947
Total loan capital	17,666	15,805	17,666	15,805

Note 20. Loan capital (continued)**Additional Tier 1 loan capital**

A summary of the key terms and common features of AT1 instruments are provided below¹.

Consolidated and Parent Entity

\$m	Dividend/distribution/ interest rate	Potential scheduled conversion date ²	Optional redemption date ³	2017	2016
Westpac convertible preference shares (CPS)⁵					
\$1,189 million CPS	(180 day bank bill rate + 3.25% p.a.) x (1 - Australian corporate tax rate)	31 March 2020	31 March 2018 ⁴	1,188	1,185
Total convertible preference shares				1,188	1,185
Westpac capital notes (WCN)					
\$1,384 million WCN	(90 day bank bill rate + 3.20% p.a.) x (1 - Australian corporate tax rate)	8 March 2021	8 March 2019	1,379	1,375
\$1,311 million WCN2	(90 day bank bill rate + 3.05% p.a.) x (1 - Australian corporate tax rate)	23 September 2024	23 September 2022	1,304	1,302
\$1,324 million WCN3	(90 day bank bill rate + 4.00% p.a.) x (1 - Australian corporate tax rate)	22 March 2023	22 March 2021	1,313	1,310
\$1,702 million WCN4	(90 day bank bill rate + 4.90% p.a.) x (1 - Australian corporate tax rate)	20 December 2023	20 December 2021	1,688	1,686
Total Westpac capital notes				5,684	5,673
USD AT1 securities					
US\$1,250 million securities	5.000% p.a. until but excluding 21 September 2027 (first reset date). If not redeemed, converted or written-off earlier, from, and including, each reset date ⁶ to, but excluding, the next succeeding reset date, at a fixed rate p.a. equal to the prevailing 5-year USD mid- market swap rate plus 2.888% p.a.	n/a	21 September 2027 ⁷	1,556	-
Total USD AT1 securities				1,556	-

¹ A\$ unless otherwise noted.

² Conversion is subject to the satisfaction of the scheduled conversion conditions. If the conversion conditions are not satisfied on the relevant scheduled conversion date, conversion will not occur until the next dividend or distribution payment date on which the scheduled conversion conditions are satisfied.

³ Westpac may elect to redeem the relevant AT1 instrument, subject to APRA's prior written approval.

⁴ Each dividend payment date on or after 31 March 2018.

⁵ CPS are Basel III transitional instruments. All other AT1 loan capital are fully compliant Basel III instruments.

⁶ 21 September 2027 and every fifth anniversary thereafter is a reset date.

⁷ Westpac may elect to redeem on 21 September 2027 and every fifth anniversary thereafter.

Common features of AT1 instruments**Payment conditions**

Semi-annual dividends on the CPS are discretionary and will only be paid if the dividend payment test is satisfied, including that the amount of the dividend does not exceed Westpac's distributable profits (unless APRA gives its prior written approval), and APRA does not object to the payment of the dividend.

Quarterly distributions on the Westpac capital notes and semi-annual interest payments on the USD AT1 securities are discretionary and will only be paid if the payment conditions are satisfied, including that the payment will not result in a breach of Westpac's capital requirements under APRA's prudential standards; not result in Westpac becoming, or being likely to become, insolvent; or if APRA does not object to the payment.

Broadly, if for any reason a dividend, distribution or interest payment has not been paid in full on the relevant payment date, Westpac must not determine or pay any dividends on Westpac ordinary shares or undertake a discretionary buy back or capital reduction of Westpac ordinary shares, unless the unpaid payment is paid in full within 20 business days of the relevant payment date or in certain other circumstances.

Note 20. Loan capital (continued)

The AT1 instruments convert into Westpac ordinary shares in the following circumstances:

Scheduled Conversion

On the scheduled conversion date, provided certain conversion conditions are satisfied, it is expected that the relevant AT1 instrument¹ will be converted and holders will receive a variable number of Westpac ordinary shares calculated using the formula described in the terms of the relevant AT1 instrument, subject to a maximum conversion number. The conversion number of Westpac ordinary shares will be calculated using the face value or outstanding principal amount of the relevant AT1 instrument and the Westpac ordinary share price determined over the 20 business day period prior to the scheduled conversion date, including a 1% discount.

Capital Trigger Event or Non-Viability Trigger Event

Westpac will be required to convert some or all AT1 instruments into a variable number of Westpac ordinary shares upon the occurrence of a capital trigger event² or non-viability trigger event³. No conversion conditions apply in these circumstances.

A capital trigger event occurs when Westpac determines, or APRA notifies Westpac in writing that it believes, Westpac's Common Equity Tier 1 Capital ratio is equal to or less than 5.125% (on a level 1 or level 2 basis^{4,5}).

A non-viability trigger event will occur when APRA notifies Westpac in writing that it believes conversion of all or some AT1 instruments (or conversion, write-off or write-down of relevant capital instruments of the Westpac Group), or public sector injection of capital (or equivalent support), in each case is necessary because without it, Westpac would become non-viable.

For each AT1 instrument converted, holders will receive a variable number of Westpac ordinary shares calculated using the formula described in the terms of the relevant AT1 instrument, subject to a maximum conversion number. The conversion number of Westpac ordinary shares is calculated using the face value or outstanding principal amount of the relevant AT1 instrument and the Westpac ordinary share price determined over the 5 business day period prior to the capital trigger event date or non-viability trigger event date and includes a 1% discount. For each AT1 instrument, the maximum conversion number is set using a Westpac ordinary share price which is broadly equivalent to 20% of the Westpac ordinary share price at the time of issue.

Following the occurrence of a capital trigger event or non-viability trigger event, if conversion of an AT1 instrument does not occur within five business days, holders' rights in relation to the relevant AT1 instrument will be immediately and irrevocably terminated⁶.

Early conversion

Westpac is able to elect to convert⁷, or may be required to convert, AT1 instruments early in certain circumstances. The terms of conversion and the conversion conditions are broadly similar to scheduled conversion.

Early redemption

Westpac is able to elect to redeem the relevant AT1 instrument on the optional redemption date or for certain taxation or regulatory reasons, subject to APRA's prior written approval.

¹ Scheduled conversion does not apply to USD AT1 securities.

² All CPS must be converted upon the occurrence of a capital trigger event.

³ CPS does not contain a non-viability trigger event.

⁴ Level 1 comprises Westpac Banking Corporation and subsidiaries approved by APRA as being part of a single 'Extended Licenced Entity' for the purposes of measuring capital adequacy. Level 2 includes all subsidiaries except those entities specifically excluded by APRA regulations for the purposes of measuring capital adequacy.

⁵ On a level 2 basis only for CPS.

⁶ The requirement to terminate, if not converted within five business days following a capital trigger event, is not incorporated in the CPS terms.

⁷ Excludes WCN and USD AT1 securities.

Note 20. Loan capital (continued)

Tier 2 loan capital

A summary of the key terms and common features of Westpac's Tier 2 instruments are provided below¹.

Consolidated and Parent Entity

\$m	Interest rate ²	Maturity date	Optional redemption date ³	2017	2016
Basel III transitional subordinated notes					
US\$350 million subordinated notes	Fixed 4.625% p.a.	1 June 2018	n/a	454	483
A\$500 million subordinated notes	Floating 90 day bank bill rate + 3.00% p.a.	21 March 2022	21 March 2017 ⁴	-	500
A\$1,676 million subordinated notes	Floating 90 day bank bill rate + 2.75% p.a.	23 August 2022	23 August 2017 ⁴	-	1,673
US\$800 million subordinated notes	3.625% p.a. until but excluding 28 February 2018. Thereafter, if not redeemed, fixed rate equal to 5 year US Treasury rate + 2.90% p.a.	28 February 2023	28 February 2018	1,018	1,052
Basel III fully compliant subordinated notes					
A\$925 million subordinated notes	90 day bank bill rate + 2.30% p.a.	22 August 2023	22 August 2018	923	921
A\$1,000 million subordinated notes	90 day bank bill rate + 2.05% p.a.	14 March 2024	14 March 2019	991	1,000
CNY1,250 million subordinated notes	4.85% p.a. until but excluding 9 February 2020. Thereafter, if not redeemed, a fixed rate per annum equal to the one year CNH HIBOR reference rate plus 0.8345% p.a.	9 February 2025	9 February 2020	239	252
A\$350 million subordinated notes	4.50% p.a. until but excluding 11 March 2022. Thereafter, if not redeemed, a fixed rate per annum equal to the five year AUD semi-quarterly mid-swap reference rate plus 1.95% p.a., the sum of which will be annualised	11 March 2027	11 March 2022	350	361
S\$325 million subordinated notes	4.00% p.a. until but excluding 12 August 2022. Thereafter, if not redeemed, a fixed rate per annum equal to the five year SGD swap offer rate plus 1.54% p.a.	12 August 2027	12 August 2022	312	322
A\$175 million subordinated notes	4.80% p.a. until but excluding 14 June 2023. Thereafter, if not redeemed, a fixed rate per annum equal to the five year AUD semi-quarterly mid-swap reference rate plus 2.65% p.a., each of which will be annualised	14 June 2028	14 June 2023	171	179
US\$100 million subordinated notes	Fixed 5.00% p.a.	23 February 2046	n/a	117	144
A\$700 million subordinated notes	Floating 90 day bank bill rate + 3.10% p.a.	10 March 2026	10 March 2021	700	695
JPY20,000 million subordinated notes	Fixed 1.16% p.a.	19 May 2026	n/a	225	262
JPY10,200 million subordinated notes	Fixed 1.16% p.a.	2 June 2026	n/a	115	134
JPY10,000 million subordinated notes	Fixed 0.76% p.a.	9 June 2026	n/a	112	130
NZ\$400 million subordinated notes	4.6950% p.a. until but excluding 1 September 2021. Thereafter, if not redeemed, a fixed rate per annum equal to the New Zealand 5 year swap rate on 1 September 2021 plus 2.60% p.a.	1 September 2026	1 September 2021	357	377
JPY8,000 million subordinated notes	0.9225% p.a. until but excluding 7 October 2021. Thereafter, if not redeemed, a fixed rate per annum equal to the five-year JPY mid-swap rate plus 1.0005% p.a.	7 October 2026	7 October 2021	90	-
US\$1,500 million subordinated notes	4.322% p.a. until but excluding 23 November 2026. Thereafter, if not redeemed, a fixed rate per annum equal to the five-year USD mid-swap rate plus 2.236% p.a.	23 November 2031	23 November 2026	1,882	-
JPY12,000 million subordinated notes	0.87% p.a. until but excluding 6 July 2022. Thereafter, if not redeemed, a fixed rate per annum equal to the five-year JPY mid-swap rate plus 0.78% p.a.	6 July 2027	6 July 2022	136	-
JPY13,500 million subordinated notes	0.868% p.a. until but excluding 6 July 2022. Thereafter, if not redeemed, a fixed rate per annum equal to the five year JPY mid-swap rate plus 0.778% p.a.	6 July 2027	6 July 2022	152	-
HKD600 million subordinated notes	3.15% p.a. until but excluding 14 July 2022. Thereafter, if not redeemed, a fixed rate per annum equal to the five-year HKD mid-swap rate plus 1.34% p.a.	14 July 2027	14 July 2022	98	-
A\$350 million subordinated notes	4.334% p.a. until but excluding 16 August 2024. Thereafter, if not redeemed, a fixed rate per annum equal to the five-year AUD semi-quarterly mid-swap reference rate plus 1.83% p.a., each of which will be annualised.	16 August 2029	16 August 2024	347	-
Total subordinated notes				8,789	8,485

¹ Excludes subordinated perpetual notes.

² Interest payments are made periodically as set out in the terms of the subordinated notes.

³ Westpac may elect to redeem the relevant Tier 2 instrument on the optional redemption date, subject to APRA's prior written approval. If not redeemed on the first optional redemption date, Westpac may elect to redeem the relevant Tier 2 instrument on any interest payment date after the first optional redemption date (except for US\$1,500 million subordinated notes), subject to APRA's prior written approval.

⁴ The subordinated notes were redeemed in full on the relevant optional redemption date.

Note 20. Loan capital (continued)

Common features of the Basel III transitional subordinated notes

Interest payments are subject to Westpac being solvent at the time of, and immediately following, the interest payment. These subordinated notes do not contain non-viability loss absorption requirements and pay non-discretionary, cumulative interest.

Common features of Basel III fully compliant subordinated notes

Interest payments are subject to Westpac being solvent at the time of, and immediately following, the interest payment. These subordinated notes contain non-viability loss absorption requirements.

Non-viability trigger event

Westpac will be required to convert some or all subordinated notes into a variable number of Westpac ordinary shares upon the occurrence of a non-viability trigger event. A non-viability trigger event will occur on similar terms as described under Additional Tier 1 loan capital.

For each subordinated note converted, holders will receive a variable number of Westpac ordinary shares calculated using the formula described in the terms of the relevant Tier 2 instrument, subject to a maximum conversion number. The conversion number of Westpac ordinary shares will be calculated in a manner similar to that described under Additional Tier 1 loan capital for a non-viability trigger event. For each Tier 2 instrument, the maximum conversion number is set using a Westpac ordinary share price which is broadly equivalent to 20% of the Westpac ordinary share price at the time of issue.

Following the occurrence of a non-viability trigger event, if conversion of a Tier 2 instrument does not occur within five business days, holders' rights in relation to the relevant Tier 2 instrument will be immediately and irrevocably terminated.

Subordinated perpetual notes

These notes have no final maturity but Westpac can choose to redeem them at par on any interest payment date falling on or after September 1991, subject to APRA approval and certain other conditions. Interest is cumulative and payable on the notes semi-annually at a rate of 6 month US\$ LIBOR plus 0.15% p.a., subject to Westpac being solvent immediately after making the payment and having paid any dividend on any class of share capital of Westpac within the prior 12 month period.

These notes qualify for transitional treatment as Tier 2 capital of Westpac under APRA's Basel III capital adequacy framework.

The rights of the noteholders and coupon holders are subordinated to the claims of all creditors (including depositors) of Westpac other than creditors whose claims against Westpac rank equally with, or junior to, these notes.

Note 21. Derivative financial instruments**Accounting policy**

Derivative financial instruments are instruments whose values derive from the value of an underlying asset, reference rate or index and include forwards, futures, swaps and options.

All derivatives are held at fair value. Changes in fair value are recognised in the income statement, unless designated in a cash flow or net investment hedge relationship. Derivatives are presented as an asset where they have a positive fair value at balance date or as a liability where the fair value at balance date is negative.

The Group uses derivative instruments for trading and also as part of its asset and liability risk management activities, which are discussed in Note 22. Derivatives used for risk management activities include designating derivatives into one of three hedge accounting relationships: fair value hedge; cash flow hedge; or hedge of a net investment in a foreign operation, where permitted under AASB 139. These hedge designations and associated accounting treatment are as follows:

Fair value hedges

Fair value hedges hedge the exposure to changes in the fair value of an asset or liability.

Changes in the fair value of derivatives and the hedged asset or liability in fair value hedges are recognised in interest income. The carrying value of the hedged asset or liability is adjusted for the changes in fair value.

If a hedge is discontinued, any fair value adjustments to the carrying value of the asset or liability are amortised to interest income over the period to maturity. If the asset or liability is sold, any unamortised adjustment is immediately recognised in interest income.

Cash flow hedges

Cash flow hedges hedge the exposure to variability of cash flows attributable to an asset, liability or future forecast transaction.

For effective hedges, changes in the fair value of derivatives are recognised in the cash flow hedge reserve through other comprehensive income and subsequently recognised in interest income when the asset or liability that was hedged impacts the income statement.

For hedges with some ineffectiveness, the changes in the fair value of the derivatives relating to the ineffective portion are immediately recognised in interest income.

If a hedge is discontinued, any cumulative gain or loss remains in other comprehensive income. It is amortised to interest income over the period which the asset or liability that was hedged also impacts the income statement.

If a hedge of a forecast transaction is no longer expected to occur, any cumulative gain or loss in other comprehensive income is immediately recognised in interest income.

Net investment hedges

Net investment hedges hedge foreign currency risks arising from a net investment of a foreign operation.

For effective hedges, changes in the fair value of derivatives are recognised in the foreign currency translation reserve through other comprehensive income.

For hedges with some ineffectiveness, the changes in the fair value of the derivatives relating to the ineffective portion are immediately recognised in non-interest income.

If a foreign operation is disposed of, any cumulative gain or loss in other comprehensive income is immediately recognised in non-interest income.

a. Fair value hedges

The Group hedges its interest rate risk from fixed debt issuances and fixed assets with single currency interest rate derivatives.

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Change in fair value hedging instruments	(328)	(39)	(337)	(52)
Change in fair value hedge items attributed to hedged risk	292	47	306	62
Ineffectiveness in interest income	(36)	8	(31)	10

b. Cash flow hedges

Exposure to the volatility of interest cash flows from customer deposits and loans is hedged with interest rate derivatives.

Exposure to foreign currency principal and interest cash flows from floating rate debt issuances is hedged through the use of cross currency derivatives.

Note 21. Derivative financial instruments (continued)

Gross cash inflows and outflows on derivatives designated in cash flow hedges are, as a proportion of total gross cash flows, expected to occur in the following periods:

	Less Than 1 Month	1 Month to 3 Months	3 Months to 1 Year	1 Year to 2 Years	2 Years to 3 Years	3 Years to 4 Years	4 Years to 5 Years	Over 5 Years
2017								
Cash inflows	3.2%	3.6%	15.6%	21.6%	17.5%	14.6%	14.7%	9.2%
Cash outflows	3.7%	3.6%	15.3%	20.6%	17.1%	15.4%	14.4%	9.9%
2016								
Cash inflows	0.6%	8.8%	29.5%	13.0%	13.1%	12.6%	9.9%	12.5%
Cash outflows	0.7%	8.9%	30.4%	13.2%	12.3%	12.4%	10.1%	12.0%

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Cash flow hedge ineffectiveness	14	4	18	(2)

c. Dual fair value and cash flow hedges

Fixed rate foreign currency denominated debt is hedged using cross currency interest rate derivatives, designated as fair value hedges of foreign interest rates and cash flow hedges of foreign exchange rates.

d. Net investment hedges

The Group uses foreign exchange forward contracts when hedging the currency translation risk of net investments in foreign operations. For both the Group and Parent Entity, ineffectiveness arising from net investments hedges amounted to nil (2016: \$6 million loss).

Note 21. Derivative financial instruments (continued)

The notional amount and fair value of derivative instruments held for trading and designated in hedge relationships are set out in the following tables:

Consolidated 2017

\$m	Notional Amount	Fair Value									
		Trading		Hedging				Total			
		Assets	Liabilities	Fair Value		Cash Flow		Net Investment		Fair Value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	
Interest rate contracts											
Futures contracts ¹	132,785	-	-	-	-	-	-	-	-	-	-
Forward rate agreements	215,934	21	(20)	-	-	-	-	-	-	21	(20)
Swap agreements	2,655,134	16,438	(15,361)	446	(3,241)	498	(707)	-	-	17,382	(19,309)
Options	69,016	156	(183)	-	-	-	-	-	-	156	(183)
Total interest rate contracts	3,072,869	16,615	(15,564)	446	(3,241)	498	(707)	-	-	17,559	(19,512)
Foreign exchange contracts											
Spot and forward contracts	668,896	5,781	(6,027)	-	-	-	-	19	(19)	5,800	(6,046)
Cross currency swap agreements ²	444,421	6,272	(7,893)	573	4	1,006	(744)	-	-	7,851	(8,633)
Options	13,604	124	(138)	-	-	-	-	-	-	124	(138)
Total foreign exchange contracts	1,126,921	12,177	(14,058)	573	4	1,006	(744)	19	(19)	13,775	(14,817)
Commodity contracts	7,772	270	(235)	-	-	-	-	-	-	270	(235)
Equities	202	3	-	-	-	-	-	-	-	3	-
Credit default swaps	10,907	79	(78)	-	-	-	-	-	-	79	(78)
Total of gross derivatives	4,218,671	29,144	(29,935)	1,019	(3,237)	1,504	(1,451)	19	(19)	31,686	(34,642)
Impact of netting arrangements ³	-	(7,332)	7,178	(149)	1,782	(172)	307	-	-	(7,653)	9,267
Total of net derivatives	4,218,671	21,812	(22,757)	870	(1,455)	1,332	(1,144)	19	(19)	24,033	(25,375)

Consolidated 2016

\$m	Notional Amount	Fair Value									
		Trading		Hedging				Total			
		Assets	Liabilities	Fair Value		Cash Flow		Net Investment		Fair Value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	
Interest rate contracts											
Futures contracts ¹	252,462	-	-	-	-	-	-	-	-	-	-
Forward rate agreements	325,877	29	(28)	-	-	-	-	-	-	29	(28)
Swap agreements	2,556,563	27,734	(25,771)	927	(3,819)	1,092	(1,387)	-	-	29,753	(30,977)
Options	82,534	412	(487)	-	-	-	-	-	-	412	(487)
Total interest rate contracts	3,217,436	28,175	(26,286)	927	(3,819)	1,092	(1,387)	-	-	30,194	(31,492)
Foreign exchange contracts											
Spot and forward contracts	652,452	5,380	(5,308)	-	-	-	(40)	44	(52)	5,424	(5,400)
Cross currency swap agreements ²	449,954	6,295	(10,455)	1,031	213	1,312	(2,405)	-	-	8,638	(12,647)
Options	23,562	212	(219)	-	-	-	-	-	-	212	(219)
Total foreign exchange contracts	1,125,968	11,887	(15,982)	1,031	213	1,312	(2,445)	44	(52)	14,274	(18,266)
Commodity contracts	10,979	337	(276)	-	-	-	-	-	-	337	(276)
Equities	106	1	-	-	-	-	-	-	-	1	-
Credit default swaps	17,565	80	(76)	-	-	-	-	-	-	80	(76)
Total of gross derivatives	4,372,054	40,480	(42,620)	1,958	(3,606)	2,404	(3,832)	44	(52)	44,886	(50,110)
Impact of netting arrangements ³	-	(11,982)	12,459	(362)	1,177	(315)	398	-	-	(12,659)	14,034
Total of net derivatives	4,372,054	28,498	(30,161)	1,596	(2,429)	2,089	(3,434)	44	(52)	32,227	(36,076)

¹ The fair value differential of futures contracts are settled daily with the exchange. The notional balance represents open contracts as at 30 September.

² The unrealised foreign exchange gains or loss on derivatives in hedge relationships are substantially offset by the retranslation at spot exchange rates of the foreign currency denominated debt being hedged.

³ Primarily consists of derivative trades settled directly with central clearing counterparties and their associated variation margin. Refer to Note 24.

Note 21. Derivative financial instruments (continued)

Parent Entity 2017

\$m	Fair Value										
	Notional Amount	Trading		Fair Value		Hedging Cash Flow		Net Investment		Total Fair Value	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate contracts											
Futures contracts ¹	132,785	-	-	-	-	-	-	-	-	-	-
Forward rate agreements	215,934	21	(20)	-	-	-	-	-	-	21	(20)
Swap agreements	2,646,153	16,472	(15,549)	426	(3,008)	465	(588)	-	-	17,363	(19,145)
Options	69,016	156	(183)	-	-	-	-	-	-	156	(183)
Total interest rate contracts	3,063,888	16,649	(15,752)	426	(3,008)	465	(588)	-	-	17,540	(19,348)
Foreign exchange contracts											
Spot and forward contracts	668,322	5,774	(6,024)	-	-	-	-	19	(16)	5,793	(6,040)
Cross currency swap agreements ²	434,600	6,273	(7,894)	545	9	849	(454)	-	-	7,667	(8,339)
Options	13,604	124	(138)	-	-	-	-	-	-	124	(138)
Total foreign exchange contracts	1,116,526	12,171	(14,056)	545	9	849	(454)	19	(16)	13,584	(14,517)
Commodity contracts	7,772	270	(235)	-	-	-	-	-	-	270	(235)
Equities	202	3	-	-	-	-	-	-	-	3	-
Credit default swaps	10,907	79	(78)	-	-	-	-	-	-	79	(78)
Total of gross derivatives	4,199,295	29,172	(30,121)	971	(2,999)	1,314	(1,042)	19	(16)	31,476	(34,178)
Impact of netting arrangements ³	-	(7,338)	7,330	(148)	1,711	(167)	226	-	-	(7,653)	9,267
Total of net derivatives	4,199,295	21,834	(22,791)	823	(1,288)	1,147	(816)	19	(16)	23,823	(24,911)

Parent Entity 2016

\$m	Fair Value										
	Notional Amount	Trading		Fair Value		Hedging Cash Flow		Net Investment		Total Fair Value	
		Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate contracts											
Futures contracts ¹	252,462	-	-	-	-	-	-	-	-	-	-
Forward rate agreements	325,877	29	(28)	-	-	-	-	-	-	29	(28)
Swap agreements	2,552,413	27,796	(26,157)	899	(3,444)	1,026	(1,154)	-	-	29,721	(30,755)
Options	81,620	411	(487)	-	-	-	-	-	-	411	(487)
Total interest rate contracts	3,212,372	28,236	(26,672)	899	(3,444)	1,026	(1,154)	-	-	30,161	(31,270)
Foreign exchange contracts											
Spot and forward contracts	651,469	5,379	(5,307)	-	-	-	(40)	37	(52)	5,416	(5,399)
Cross currency swap agreements ²	442,606	6,297	(10,708)	945	100	1,300	(1,395)	-	-	8,542	(12,003)
Options	23,562	212	(219)	-	-	-	-	-	-	212	(219)
Total foreign exchange contracts	1,117,637	11,888	(16,234)	945	100	1,300	(1,435)	37	(52)	14,170	(17,621)
Commodity contracts	10,979	337	(276)	-	-	-	-	-	-	337	(276)
Equities	106	1	-	-	-	-	-	-	-	1	-
Credit default swaps	17,565	80	(76)	-	-	-	-	-	-	80	(76)
Total of gross derivatives	4,358,659	40,542	(43,258)	1,844	(3,344)	2,326	(2,589)	37	(52)	44,749	(49,243)
Impact of netting arrangements ³	-	(11,982)	12,459	(362)	1,177	(315)	398	-	-	(12,659)	14,034
Total of net derivatives	4,358,659	28,560	(30,799)	1,482	(2,167)	2,011	(2,191)	37	(52)	32,090	(35,209)

¹ The fair value differential of futures contracts are settled daily with the exchange. The notional balance represents open contracts as at 30 September.

² The unrealised foreign exchange gains or loss on derivatives in hedge relationships are substantially offset by the retranslation at spot exchange rates of the foreign currency denominated debt being hedged.

³ Primarily consists of derivative trades settled directly with central clearing counterparties and their associated variation margin. Refer to Note 24.

Note 21. Derivative financial instruments (continued)**Credit default swaps**

The Group buys and sells credit protection through the use of credit default swap (CDS) derivatives. These CDSs either protect the Group (as a buyer) or expose it (as a seller) to the risk of default of the entity referenced by the CDS. The CDSs are predominantly executed with other financial institutions and are entered into to facilitate institutional customer transactions and to manage the Group's credit risk exposures.

The notional amount and fair value of CDSs are presented in the following table for both the Group and the Parent Entity:

\$m	2017			2016		
	Notional Amount	Fair value Asset	Fair value Liability	Notional Amount	Fair value Asset	Fair value Liability
Credit protection bought	5,630	5	(78)	9,231	7	(75)
Credit protection sold	5,277	74	-	8,334	73	(1)
Total	10,907	79	(78)	17,565	80	(76)

Note 22. Financial risk

Financial instruments are fundamental to the Group's business of providing banking and financial services. The associated financial risks (including credit risk, funding and liquidity risk and market risk) are a significant proportion of the total risks faced by the Group.

This note details the financial risk management policies, practices and quantitative information of the Group's principal financial risk exposures.

Principal financial risks	Note name	Note number
Overview	Risk management frameworks	22.1
Credit risk	Credit risk ratings system	22.2.1
The risk of financial loss where a customer or counterparty fails to meet their financial obligations.	Credit risk mitigation, collateral and other credit enhancements	22.2.2
	Credit risk concentrations	22.2.3
	Credit quality of financial assets	22.2.4
	Financial assets that are past due, but not impaired	22.2.5
	Items 90 days past due, or otherwise in default, and not impaired	22.2.6
	Impaired loans	22.2.7
	Collateral held	22.2.8
Funding and liquidity risk	Liquidity modelling	22.3.1
The risk that the Group will be unable to fund assets and meet obligations as they become due.	Sources of liquidity	22.3.2
	Assets pledged as collateral	22.3.3
	Contractual maturity of financial liabilities	22.3.4
	Expected maturity	22.3.5
Market risk	Value-at-Risk (VaR)	22.4.1
The risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices.	Traded market risk	22.4.2
	Non-traded market risk	22.4.3

Note 22. Financial risk (continued)

22.1 Risk management frameworks

The Board is responsible for approving the Westpac Group Risk Management Strategy and Westpac Group Risk Appetite Statement and for monitoring the effectiveness of risk management by the Westpac Group. The Board has delegated to the Board Risk and Compliance Committee (BRCC) responsibility to:

- review and recommend the Westpac Group Risk Management Strategy and Westpac Group Risk Appetite Statement to the Board for approval;
- set risk appetite consistent with the Group Risk Appetite Statement;
- approve frameworks, policies and processes for managing risk (consistent with the Westpac Group Risk Management Strategy and Westpac Group Risk Appetite Statement); and
- review and, where appropriate, approve risks beyond the approval discretion provided to management.

For each of its primary financial risks, the Group maintains risk management frameworks and a number of supporting policies that define roles and responsibilities, acceptable practices, limits and key controls:

Risk	Risk management framework and controls
Credit risk	<ul style="list-style-type: none">▪ The Credit Risk Management Framework describes the principles, methodologies, systems, roles and responsibilities, reports and key controls for managing credit risk.▪ The BRCC, Westpac Group Executive Risk Committee (RISKCO) and Westpac Group Credit Risk Committee (CREDCO) monitor the risk profile, performance and management of the Group's credit portfolio and the development and review of key credit risk policies.▪ The Credit Risk Rating System Policy describes the credit risk rating system philosophy, design, key features and uses of rating outcomes.▪ All models materially impacting the risk rating process are periodically reviewed in accordance with Westpac's model risk policies.▪ An annual review is performed of the Credit Risk Rating System by the BRCC and CREDCO.▪ Specific credit risk estimates (including probability of default (PD), loss given default (LGD) and exposure at default (EAD) levels) are overseen, reviewed annually and supported by the Credit Risk Estimates Committee (a subcommittee of CREDCO) prior to approval under delegated authority from the Chief Risk Officer.▪ Policies for the delegation of credit approval authorities and formal limits for the extension of credit are established throughout the Group.▪ Credit manuals are established throughout the Group including policies governing the origination, evaluation, approval, documentation, settlement and ongoing management of credit risks.▪ Sector policies guide credit extension where industry-specific guidelines are considered necessary (e.g. acceptable financial ratios or permitted collateral).▪ The Related Entity Risk Management Framework and supporting policies govern credit exposures to related entities, to minimise the spread of credit risk between Group entities and to comply with prudential requirements prescribed by APRA.
Funding and liquidity risk	<ul style="list-style-type: none">▪ The Liquidity Risk Management Framework sets out the liquidity risk appetite, roles and responsibilities, tools for measuring and managing liquidity risk, reporting procedures and supporting policies. It also documents the limits and targets for cash flow mismatch levels, wholesale funding and balance sheet ratios. It is reviewed by Westpac Asset and Liability Committee (ALCO) prior to approval by the BRCC.▪ The Group's Treasury function is responsible for managing funding and liquidity including managing the balance sheet against approved limits and targets and managing the Group's funding base so that it is appropriately maintained, stable and diversified.▪ Daily liquidity risk reports are reviewed by Treasury and the Liquidity risk teams. Liquidity reports are presented to ALCO monthly and to the BRCC quarterly.▪ An annual wholesale funding strategy is prepared by Treasury and includes consideration of trends in global markets, peer analysis, wholesale funding capacity, expected funding requirements and funding risk analysis. The strategy is continuously reviewed to take into account current market conditions.▪ A contingent funding plan is also maintained, detailing actions to be taken in response to severe disruptions in the Group's ability to conduct its activities in a timely manner and at a reasonable cost. The plan identifies the committee of senior executives to manage any crisis and their responsibilities. The plan is aligned with the Group's broader Liquidity Crisis Management Policy.

Note 22. Financial risk (continued)

Risk	Risk management framework and controls
Market risk	<ul style="list-style-type: none"> ▪ The Market Risk Framework describes the Group's approach to managing traded and non-traded market risk. ▪ Traded market risk includes interest rate, foreign exchange, commodity, equity price, credit spread and volatility risks. Non-traded market risk includes interest rate, credit spread and foreign exchange risks. ▪ Market risk is managed using VaR limits, Net interest income at risk (NaR) and structural risk limits (including credit spread and interest rate basis point value limits) as well as scenario analysis and stress testing. ▪ The BRCC approves the risk appetite for traded and non-traded risks through the use of VaR, NaR and specific structural risk limits. ▪ RISKCO has approved separate VaR sub-limits for the trading activities of Financial Markets and Treasury and for Asset and Liability Management (ALM) activities. ▪ Market risk limits are assigned to business managers based upon business strategies, experience, and the consideration of market liquidity and the concentration of risks. ▪ Market risk positions are managed by the trading desks and ALM unit consistent with their delegated authorities and the nature and scale of the market risks involved. ▪ Daily monitoring of current exposure and limit utilisation is conducted independently by the Market Risk unit, which monitors market risk exposures against VaR and structural risk limits. Daily VaR position reports are produced by risk type, by product lines and by geographic region. Quarterly reports are produced for the Westpac Group Market Risk Committee (MARCO), RISKCO and the BRCC. ▪ Daily stress testing and backtesting of VaR results is performed to support model integrity and to analyse extreme or unexpected movements. A review of both the potential profit and loss outcomes is also undertaken to monitor any skew created by the historical data. ▪ The BRCC has approved a framework for profit or loss escalation which considers both single day and 20 day cumulative results. ▪ Treasury's ALM unit is responsible for managing the non-traded interest rate risk including risk mitigation through hedging using derivatives. This is overseen by the Market Risk unit and reviewed by MARCO, RISKCO and BRCC.

Further details regarding the Group's principal risks including our strategic approach to their management is contained within the Corporate governance statement in Section 1 and the Risk and risk management section in Section 2.

22.2 Credit Risk**22.2.1 Credit risk ratings system**

The principal objective of the credit risk rating system is to reliably assess the credit risk to which the Group is exposed. The Group has two main approaches to this assessment.

Transaction-managed customers

The Group assigns a Customer Risk Grade (CRG) to each customer, corresponding to their expected PD. Each facility is assigned an LGD. The Group's risk rating system has a tiered scale of risk grades for both non-defaulted customers and defaulted customers. Non-defaulted CRGs are mapped to Moody's and S&P Global Ratings (S&P) external senior ranking unsecured ratings.

Note 22. Financial risk (continued)

Customer risk grades

The table below maps the Group's high level CRGs to their corresponding external rating.

Financial statement disclosure	Westpac CRG	Moody's Rating	S&P Rating
Strong	A	Aaa – Aa3	AAA – AA–
	B	A1 – A3	A+ – A–
	C	Baa1 – Baa3	BBB+ – BBB–
Good/satisfactory	D	Ba1 – B1	BB+ – B+
Weak	E		Westpac Rating Watchlist
	F		Special Mention
Weak/default/non-performing	G		Substandard/Default
	H		Default

Program-managed portfolio

Customers that are not transaction-managed are grouped into pools of similar risk. Pools are created by analysing similar risk characteristics that have historically predicted that an account is likely to go into default. Customers grouped according to these predictive characteristics are assigned a PD and LGD relative to their pool. The credit quality of these pools is based on a combination of delinquency trends, PD estimates and loan to valuation ratio (housing loans only).

22.2.2 Credit risk mitigation, collateral and other credit enhancements

Westpac uses a variety of techniques to reduce the credit risk arising from its lending activities.

This includes the Group establishing that it has direct, irrevocable and unconditional recourse to collateral and other credit enhancements through obtaining legally enforceable documentation.

Collateral

The table below describes the nature of collateral or security held for each relevant class of financial asset:

Loans – housing and personal ¹	<p>Housing loans are secured by a mortgage over property and additional security may take the form of guarantees and deposits.</p> <p>Personal lending (including credit cards and overdrafts) is predominantly unsecured. Where security is taken, it is restricted to eligible motor vehicles, caravans, campers, motor homes and boats.</p>
Loans – business ¹	<p>Business loans may be secured, partially secured or unsecured. Security is typically taken by way of a mortgage over property and/or a general security agreement over business assets or other assets.</p> <p>Other security such as guarantees, standby letters of credit or derivative protection may also be taken as collateral, if appropriate.</p>
Trading securities, financial assets designated at fair value and derivatives	<p>These exposures are carried at fair value which reflects the credit risk.</p> <p>For trading securities, no collateral is sought directly from the issuer or counterparty; however this may be implicit in the terms of the instrument (such as an asset-backed security). The terms of debt securities may include collateralisation.</p> <p>For derivatives, master netting agreements are typically used to enable the effects of derivative assets and liabilities with the same counterparty to be offset when measuring these exposures. Additionally, collateralisation agreements are also typically entered into with major institutional counterparties to avoid the potential build-up of excessive mark-to-market positions. Derivative transactions are increasingly being cleared through central clearers.</p>

¹ This includes collateral held in relation to associated credit commitments.

Note 22. Financial risk (continued)**Management of risk mitigation**

The Group mitigates credit risk through controls covering:

Collateral and valuation management	<p>The estimated realisable value of collateral held in support of loans is based on a combination of:</p> <ul style="list-style-type: none"> ▪ formal valuations currently held for such collateral; and ▪ management's assessment of the estimated realisable value of all collateral held. <p>This analysis also takes into consideration any other relevant knowledge available to management at the time. Updated valuations are obtained when appropriate.</p> <p>The Group revalues collateral related to financial markets positions on a daily basis and has formal processes in place to promptly call for collateral top-ups, if required. These processes include margining for non-centrally cleared customer derivatives as regulated by Australian Prudential Standard CPS226. The collateralisation arrangements are documented via the Credit Support Annex of the International Swaps and Derivatives Association (ISDA) dealing agreements.</p> <p>In relation to financial markets positions, Westpac only recognises collateral which is:</p> <ul style="list-style-type: none"> ▪ cash, primarily in Australian dollars (AUD), New Zealand dollars (NZD), US dollars (USD), Canadian dollars (CAD), British pounds (GBP) or European Union euro (EUR); ▪ bonds issued by Australian Commonwealth, State and Territory governments or their Public Sector Enterprises, provided these attract a zero risk-weighting under Australian Prudential Standard (APS) 112; ▪ securities issued by other specified Aa3 / AA- or better rated sovereign governments.
Other credit enhancements	<p>The Group only recognises guarantees, standby letters of credit, or credit derivative protection from the following entities (provided they are not related to the entity with which Westpac has a credit exposure):</p> <ul style="list-style-type: none"> ▪ Sovereign; ▪ Australia and New Zealand public sector; ▪ ADIs and overseas banks with a minimum risk grade equivalent of A3 / A-; and ▪ Others with a minimum risk grade equivalent of A3 / A-. <p>Credit Portfolio Management (CPM) manages the Group's corporate, sovereign and bank credit portfolios through monitoring the exposure and any offsetting hedge positions.</p> <p>CPM purchases credit protection from entities meeting the criteria above and sells credit protection to diversify the Group's credit risk.</p>
Offsetting	<p>Creditworthy customers domiciled in Australia and New Zealand may enter into formal agreements with the Group, permitting the Group to set-off gross credit and debit balances in their nominated accounts. Cross-border set-offs are not permitted.</p> <p>Close-out netting is undertaken with counterparties with whom the Group has entered into a legally enforceable master netting agreement for their off-balance sheet financial market transactions in the event of default.</p> <p>Further details of offsetting are provided in Note 24.</p>
Central clearing (ASX/LCH)	<p>The Group executes derivative transactions through central clearing counterparties. Central clearing counterparties mitigate risk through stringent membership requirements, the collection of margin against all trades placed, the default fund, and an explicitly defined order of priority of payments in the event of default.</p>

Note 22. Financial risk (continued)

22.2.3 Credit risk concentrations

Credit risk is concentrated when a number of counterparties are engaged in similar activities, have similar economic characteristics and thus may be similarly affected by changes in economic or other conditions.

The Group monitors its credit portfolio to manage risk concentrations and rebalance the portfolio.

Individual customers or groups of related customers

The Group has large exposure limits governing the aggregate size of credit exposure normally acceptable to individual customers and groups of related customers. These limits are tiered by customer risk grade.

Specific industries

Exposures to businesses, governments and other financial institutions are classified into a number of industry clusters based on related Australian and New Zealand Standard Industrial Classification (ANZSIC) codes and are monitored against the Group's industry risk appetite limits.

Individual countries

The Group has limits governing risks related to individual countries, such as political situations, government policies and economic conditions that may adversely affect either a customer's ability to meet its obligations to the Group, or the Group's ability to realise its assets in a particular country.

Maximum exposure to credit risk

The carrying amount of on-balance sheet financial assets (which comprises receivables due from financial institutions, trading securities and financial assets designated at fair value; derivatives; available-for-sale securities; loans; and regulatory deposits with central banks overseas) and undrawn credit commitments, represents the maximum exposure to credit risk (excluding any collateral received) as set out in the following tables.

The following tables set out the credit risk concentrations to which the Group and the Parent Entity are exposed for on-balance sheet financial assets and for undrawn credit commitments. Cash and balances with central banks are excluded as it is not considered to give rise to material credit risk.

Life insurance assets are excluded as primarily the credit risk is passed on to the policyholder and backed by the policyholder liabilities.

The balances for trading securities and financial assets designated at fair value and available-for-sale securities exclude equity securities as the primary financial risk is not credit risk.

The credit concentrations for each significant class of financial asset are:

Trading securities and financial assets designated at fair value (Note 11)	<ul style="list-style-type: none">52% (2016: 51%) were issued by financial institutions for the Group; 50% (2016: 50%) for the Parent Entity.45% (2016: 45%) were issued by government or semi-government authorities for the Group; 47% (2016: 45%) for the Parent Entity.76% (2016: 66%) were held in Australia by the Group; 81% (2016: 72%) by the Parent Entity.
Available-for-sale securities (Note 12)	<ul style="list-style-type: none">26% (2016: 23%) were issued by financial institutions for the Group; 27% (2016: 23%) for the Parent Entity.74% (2016: 77%) were issued by government or semi-government authorities for the Group; 73% (2016: 77%) for the Parent Entity.90% (2016: 90%) were held in Australia by the Group; 98% (2016: 97%) by the Parent Entity.
Loans (Note 13)	<ul style="list-style-type: none">Note 13 provides a detailed breakdown of loans by industry and geographic classification.
Derivative financial instruments (Note 21)	<ul style="list-style-type: none">77% (2016: 74%) were issued by financial institutions for both the Group and Parent Entity.86% (2016: 85%) were held in Australia by the Group; 86% (2016: 85%) by the Parent Entity.

Note 22. Financial risk (continued)

Consolidated \$m	Total on balance sheet	2017	Total	2016	Total ¹
		Undrawn credit commit- ments		Undrawn credit commit- ments ¹	
Australia					
Accommodation, cafes and restaurants	8,189	1,468	9,657	7,558	8,627
Agriculture, forestry and fishing	8,193	2,155	10,348	8,074	9,913
Construction	6,050	3,666	9,716	5,802	9,682
Finance and insurance	59,432	8,415	67,847	62,080	69,454
Government, administration and defence	49,341	813	50,154	49,976	51,137
Manufacturing	9,784	6,186	15,970	10,259	16,279
Mining	3,411	3,568	6,979	4,325	7,954
Property	43,640	12,046	55,686	45,530	58,094
Property services and business services	12,119	5,145	17,264	11,745	16,715
Services	13,198	6,082	19,280	12,913	19,242
Trade	16,401	8,712	25,113	16,288	24,631
Transport and storage	9,554	6,038	15,592	10,272	14,858
Utilities	6,418	4,216	10,634	5,326	9,416
Retail lending	451,315	88,363	539,678	429,522	517,177
Other	4,360	1,519	5,879	3,011	4,413
Total Australia	701,405	158,392	859,797	682,681	837,592
New Zealand					
Accommodation, cafes and restaurants	290	42	332	256	299
Agriculture, forestry and fishing	7,809	745	8,554	7,841	8,511
Construction	450	397	847	400	728
Finance and insurance	7,626	2,038	9,664	10,098	11,668
Government, administration and defence	5,051	549	5,600	4,402	5,250
Manufacturing	2,185	1,527	3,712	2,441	4,084
Mining	144	197	341	286	532
Property	5,901	1,039	6,940	6,033	7,121
Property services and business services	1,142	405	1,547	1,084	1,602
Services	1,834	604	2,438	1,524	2,358
Trade	2,215	1,176	3,391	2,375	3,742
Transport and storage	1,118	847	1,965	1,324	2,359
Utilities	1,822	1,302	3,124	2,299	3,720
Retail lending	45,190	11,995	57,185	45,011	56,639
Other	3	227	230	1	221
Total New Zealand	82,780	23,090	105,870	85,375	108,834
Other overseas					
Accommodation, cafes and restaurants	97	13	110	118	133
Agriculture, forestry and fishing	5	1	6	52	53
Construction	55	242	297	147	406
Finance and insurance	7,713	3,182	10,895	7,435	11,273
Government, administration and defence	3,071	1	3,072	3,798	3,836
Manufacturing	3,107	4,259	7,366	2,661	7,115
Mining	378	1,518	1,896	590	2,605
Property	491	40	531	479	507
Property services and business services	542	508	1,050	526	903
Services	205	105	310	99	194
Trade	2,680	2,458	5,138	3,464	6,872
Transport and storage	1,426	437	1,863	1,231	1,546
Utilities	544	260	804	485	678
Retail lending	657	37	694	1,120	1,160
Other	78	8	86	1	36
Total other overseas	21,049	13,069	34,118	22,206	37,317
Total gross credit risk	805,234	194,551	999,785	790,262	983,743

¹ Comparatives have been revised for consistency.

Note 22. Financial risk (continued)

Parent Entity \$m	2017			2016		
	Total on balance sheet	Undrawn credit commit- ments	Total	Total on balance sheet ¹	Undrawn credit commit- ments ¹	Total ¹
Australia						
Accommodation, cafes and restaurants	8,110	1,468	9,578	7,443	1,069	8,512
Agriculture, forestry and fishing	8,073	2,155	10,228	7,897	1,837	9,734
Construction	5,447	3,666	9,113	5,006	3,880	8,886
Finance and insurance	58,589	8,415	67,004	60,712	7,374	68,086
Government, administration and defence	49,330	813	50,143	49,953	1,161	51,114
Manufacturing	9,511	6,186	15,697	9,890	6,018	15,908
Mining	3,371	3,568	6,939	4,251	3,629	7,880
Property	43,641	12,043	55,684	45,452	12,560	58,012
Property services and business services	11,047	5,143	16,190	10,446	4,967	15,413
Services	12,853	6,081	18,934	12,401	6,327	18,728
Trade	16,098	8,691	24,789	15,769	8,317	24,086
Transport and storage	9,097	6,038	15,135	9,717	4,580	14,297
Utilities	6,386	4,216	10,602	5,284	4,090	9,374
Retail lending	449,207	88,362	537,569	425,426	87,654	513,080
Other	3,385	1,518	4,903	2,474	1,402	3,876
Total Australia	694,145	158,363	852,508	672,121	154,865	826,986
New Zealand						
Accommodation, cafes and restaurants	-	-	-	-	-	-
Agriculture, forestry and fishing	38	7	45	55	26	81
Construction	6	13	19	10	15	25
Finance and insurance	3,230	56	3,286	4,459	172	4,631
Government, administration and defence	929	23	952	818	85	903
Manufacturing	183	110	293	219	145	364
Mining	3	3	6	6	5	11
Property	43	10	53	108	15	123
Property services and business services	38	57	95	7	19	26
Services	25	64	89	132	57	189
Trade	269	216	485	257	260	517
Transport and storage	38	89	127	67	57	124
Utilities	498	128	626	622	225	847
Retail lending	-	33	33	-	13	13
Other	5	4	9	1	1	2
Total New Zealand	5,305	813	6,118	6,761	1,095	7,856
Other overseas						
Accommodation, cafes and restaurants	88	13	101	100	14	114
Agriculture, forestry and fishing	4	1	5	51	1	52
Construction	44	237	281	135	253	388
Finance and insurance	7,420	3,161	10,581	7,176	3,821	10,997
Government, administration and defence	2,449	1	2,450	3,230	38	3,268
Manufacturing	3,089	4,166	7,255	2,500	4,357	6,857
Mining	378	1,516	1,894	585	2,001	2,586
Property	288	34	322	303	21	324
Property services and business services	527	507	1,034	454	375	829
Services	74	101	175	164	93	257
Trade	2,446	2,354	4,800	3,143	3,284	6,427
Transport and storage	1,196	414	1,610	998	297	1,295
Utilities	538	259	797	473	191	664
Retail lending	280	34	314	556	32	588
Other	82	5	87	-	5	5
Total other overseas	18,903	12,803	31,706	19,868	14,783	34,651
Total gross credit risk	718,353	171,979	890,332	698,750	170,743	869,493

¹ Comparatives have been revised for consistency.

Note 22. Financial risk (continued)**22.2.4 Credit quality of financial assets**

An asset is considered to be past due when any payment under the contractual terms has been missed. The entire contractual balance is considered to be past due, rather than only the overdue portion. Assets may be overdue for a number of reasons, including late payments or incomplete documentation. Late payment may be influenced by the timing of weekends and holidays. This does not always align with the underlying basis by which credit risk is managed.

The tables below segregate the financial assets of the Group and Parent Entity between financial assets that are neither past due nor impaired, past due but not impaired and impaired. The credit quality of financial assets that are neither past due nor impaired is determined by reference to the credit risk ratings system (refer to Note 22.2.1).

Consolidated 2017 \$m	Neither past due nor impaired				Past due but not impaired		Total	Impairment provision	Total carrying value
	Strong	Good/ Satisfactory	Weak	Total	impaired	Impaired			
Cash and balances with central banks	18,397	-	-	18,397	-	-	18,397	-	18,397
Receivables due from other financial institutions	7,119	9	-	7,128	-	-	7,128	-	7,128
Trading securities and financial assets designated at fair value ¹	24,973	22	-	24,995	-	-	24,995	-	24,995
Derivative financial instruments	23,184	815	33	24,032	-	1	24,033	-	24,033
Available-for-sale securities ¹	59,752	493	-	60,245	-	-	60,245	-	60,245
Loans:									
Loans - housing and personal	363,026	113,363	3,542	479,931	16,539	681	497,151	(1,331)	495,820
Loans - business	86,437	95,556	4,507	186,500	3,273	861	190,634	(1,535)	189,099
Regulatory deposits with central banks overseas	814	234	-	1,048	-	-	1,048	-	1,048
Other financial assets ²	4,340	364	14	4,718	34	3	4,755	-	4,755
Total	588,042	210,856	8,096	806,994	19,846	1,546	828,386	(2,866)	825,520

Consolidated 2016 \$m	Neither past due nor impaired				Past due but not impaired		Total	Impairment provision	Total carrying value
	Strong	Good/ Satisfactory	Weak	Total	impaired	Impaired			
Cash and balances with central banks	17,015	-	-	17,015	-	-	17,015	-	17,015
Receivables due from other financial institutions	9,908	43	-	9,951	-	-	9,951	-	9,951
Trading securities and financial assets designated at fair value ¹	20,845	15	-	20,860	-	-	20,860	-	20,860
Derivative financial instruments	30,931	1,224	71	32,226	-	1	32,227	-	32,227
Available-for-sale securities ¹	59,962	616	-	60,578	-	-	60,578	-	60,578
Loans:									
Loans - housing and personal	338,648	119,094	1,960	459,702	15,067	515	475,284	(1,320)	473,964
Loans - business	86,959	93,226	4,472	184,657	3,671	1,644	189,972	(2,010)	187,962
Regulatory deposits with central banks overseas	1,169	221	-	1,390	-	-	1,390	-	1,390
Other financial assets ²	4,098	357	11	4,466	31	4	4,501	-	4,501
Total	569,535	214,796	6,514	790,845	18,769	2,164	811,778	(3,330)	808,448

¹ Equity securities are excluded from these balances and as a result the total carrying value will not represent the balance reported on the balance sheet.

² Other financial assets include accrued interest of \$1,193 million (2016: \$1,118 million) which is allocated to the relevant credit quality classifications in proportion to the loan balances to which it relates. Securities sold not yet delivered of \$1,408 million (2016: \$1,195 million) are also included in this balance which is allocated proportionately based on the trading securities balance classifications.

Note 22. Financial risk (continued)

Parent Entity 2017	Neither past due nor impaired				Past due but not impaired	Impaired	Total	Impairment provision	Total carrying value
	Strong	Good/Satisfactory	Weak	Total					
Cash and balances with central banks	16,405	-	-	16,405	-	-	16,405	-	16,405
Receivables due from other financial institutions	6,352	5	-	6,357	-	-	6,357	-	6,357
Trading securities and financial assets designated at fair value ¹	22,870	5	-	22,875	-	-	22,875	-	22,875
Derivative financial instruments	22,974	815	33	23,822	-	1	23,823	-	23,823
Available-for-sale securities ¹	55,737	6	-	55,743	-	-	55,743	-	55,743
Loans:									
Loans - housing and personal	344,739	85,673	3,223	433,635	15,312	542	449,489	(1,091)	448,398
Loans - business	74,019	78,584	2,981	155,584	2,843	694	159,121	(1,282)	157,839
Regulatory deposits with central banks overseas	814	131	-	945	-	-	945	-	945
Due from subsidiaries	142,455	-	-	142,455	-	-	142,455	-	142,455
Other financial assets ²	3,681	278	10	3,969	31	2	4,002	-	4,002
Total	690,046	165,497	6,247	861,790	18,186	1,239	881,215	(2,373)	878,842

Parent Entity 2016	Neither past due nor impaired				Past due but not impaired	Impaired	Total	Impairment provision	Total carrying value
	Strong	Good/Satisfactory	Weak	Total					
Cash and balances with central banks	15,186	-	-	15,186	-	-	15,186	-	15,186
Receivables due from other financial institutions	8,282	43	-	8,325	-	-	8,325	-	8,325
Trading securities and financial assets designated at fair value ¹	18,491	9	-	18,500	-	-	18,500	-	18,500
Derivative financial instruments	30,796	1,222	71	32,089	-	1	32,090	-	32,090
Available-for-sale securities ¹	56,111	6	-	56,117	-	-	56,117	-	56,117
Loans:									
Loans - housing and personal	320,916	89,510	1,509	411,935	13,713	425	426,073	(1,033)	425,040
Loans - business	73,671	75,651	2,533	151,855	3,122	1,399	156,376	(1,677)	154,699
Regulatory deposits with central banks overseas	1,169	100	-	1,269	-	-	1,269	-	1,269
Due from subsidiaries	143,549	-	-	143,549	-	-	143,549	-	143,549
Other financial assets ²	3,449	269	7	3,725	27	3	3,755	-	3,755
Total	671,620	166,810	4,120	842,550	16,862	1,828	861,240	(2,710)	858,530

¹ Equity securities are excluded from these balances and as a result the total carrying value will not represent the balance reported on the balance sheet.

² Other financial assets include accrued interest of \$1,029 million (2016: \$948 million) which is allocated to the relevant credit quality classifications in proportion to the loan balances to which it relates. Securities sold not yet delivered of \$1,388 million (2016: \$1,192 million) are also included in this balance which is allocated proportionately based on the trading securities balance classifications.

Details of collateral held in support of these balances are provided in Note 22.2.8.

Note 22. Financial risk (continued)**22.2.5 Financial assets that are past due, but not impaired**

Financial assets that were past due, but not impaired, can be disaggregated based on days overdue at 30 September as follows:

Consolidated \$m	2017				2016			
	1-5 days	6-89 days	90+ days	Total	1-5 days	6-89 days	90+ days	Total
Loans:								
Loans - housing and personal	4,515	9,331	2,693	16,539	3,681	8,834	2,552	15,067
Loans - business	698	2,085	490	3,273	1,052	2,154	465	3,671
Other financial assets	9	19	6	34	8	18	5	31
Total	5,222	11,435	3,189	19,846	4,741	11,006	3,022	18,769

Parent Entity \$m	2017				2016			
	1-5 days	6-89 days	90+ days	Total	1-5 days	6-89 days	90+ days	Total
Loans:								
Loans - housing and personal	4,216	8,471	2,625	15,312	3,258	7,951	2,504	13,713
Loans - business	603	1,810	430	2,843	878	1,869	375	3,122
Other financial assets	8	18	5	31	7	15	5	27
Total	4,827	10,299	3,060	18,186	4,143	9,835	2,884	16,862

Details of collateral held in support of these balances are provided in Note 22.2.8.

22.2.6 Items 90 days past due, or otherwise in default, and not impaired

These include financial assets that are:

- currently 90 days or more past due but well secured;
- assets that were, but are no longer 90 days past due but are yet to satisfactorily demonstrate sustained improvement to allow reclassification; and
- other assets in default and not impaired, including those where an order for bankruptcy or similar legal action has been taken (e.g. appointment of an Administrator or Receiver).

Consolidated \$m	Gross amount		
	2017	2016	2015
Australia	3,322	3,075	2,149
New Zealand	117	89	130
Other Overseas	19	17	13
Total	3,458	3,181	2,292

22.2.7 Impaired loans

The determination of the provision for impairment is one of the Group's critical accounting assumptions and estimates. Details of this and the Group's accounting policy for the provision for impairment charges are discussed in Notes 6 and 14.

Impaired loans are those for which there is objective evidence that their principal or interest payments may not be recoverable. These include:

- non-performing loans (aligned to an impaired internal credit risk grade);
- unsecured facilities including overdrafts, personal loans and revolving credit facilities which are greater than 90 days past due; and
- restructured loans (the original contractual terms have been modified to provide for concessions for a customer facing financial difficulties).

Note 22. Financial risk (continued)

The gross amount of impaired loans, along with the provision for impairment, by class of asset at 30 September, is summarised in the tables below:

Consolidated	2017			2016		
	Loans- Housing and Personal	Loans - Business	Total	Loans- Housing and Personal	Loans - Business	Total
\$m						
Individually impaired						
Gross amount	164	692	856	136	1,472	1,608
Impairment provision	(104)	(376)	(480)	(76)	(793)	(869)
Carrying amount	60	316	376	60	679	739
Collectively impaired						
Gross amount	517	169	686	379	172	551
Impairment provision	(202)	(32)	(234)	(173)	(25)	(198)
Carrying amount	315	137	452	206	147	353
Total gross amount	681	861	1,542	515	1,644	2,159
Total impairment provision	(306)	(408)	(714)	(249)	(818)	(1,067)
Total carrying amount	375	453	828	266	826	1,092

Parent Entity	2017			2016		
	Loans- Housing and Personal	Loans - Business	Total	Loans- Housing and Personal	Loans - Business	Total
\$m						
Individually impaired						
Gross amount	121	534	655	104	1,237	1,341
Impairment provision	(83)	(334)	(417)	(63)	(689)	(752)
Carrying amount	38	200	238	41	548	589
Collectively impaired						
Gross amount	421	160	581	321	162	483
Impairment provision	(162)	(17)	(179)	(146)	(24)	(170)
Carrying amount	259	143	402	175	138	313
Total gross amount	542	694	1,236	425	1,399	1,824
Total impairment provision	(245)	(351)	(596)	(209)	(713)	(922)
Total carrying amount	297	343	640	216	686	902

Note 22. Financial risk (continued)

The gross amount of impaired loans, along with the provision for impairment, by type and geography of impaired loans at 30 September, is summarised in the table below:

Consolidated	2017	2016	2015	2014	2013
\$m					
Australia					
Non-performing loans					
Gross amount	975	1,589	1,220	1,580	2,574
Impairment provision	(460)	(769)	(572)	(697)	(1,099)
Net	515	820	648	883	1,475
Restructured loans					
Gross amount	12	13	22	34	34
Impairment provision	(7)	(11)	(12)	(23)	(23)
Net	5	2	10	11	11
Overdrafts, personal loans and revolving credit facilities greater than 90 days past due					
Gross amount	362	267	252	203	181
Impairment provision	(187)	(159)	(164)	(132)	(126)
Net	175	108	88	71	55
New Zealand					
Non-performing loans					
Gross amount	152	218	348	397	586
Impairment provision	(41)	(95)	(104)	(130)	(210)
Net	111	123	244	267	376
Restructured loans					
Gross amount	15	16	17	-	-
Impairment provision	(5)	(4)	(4)	-	-
Net	10	12	13	-	-
Overdrafts, personal loans and revolving credit facilities greater than 90 days past due					
Gross amount	11	10	10	13	14
Impairment provision	(8)	(7)	(7)	(9)	(9)
Net	3	3	3	4	5
Other Overseas					
Non-performing loans					
Gross amount	15	44	25	53	89
Impairment provision	(6)	(21)	(13)	(35)	(54)
Net	9	23	12	18	35
Restructured loans					
Gross amount	-	2	-	59	122
Impairment provision	-	(1)	-	(21)	(33)
Net	-	1	-	38	89
Overdrafts, personal loans and revolving credit facilities greater than 90 days past due					
Gross amount	-	-	1	1	-
Impairment provision	-	-	(1)	-	-
Net	-	-	-	1	-
Total net impaired assets	828	1,092	1,018	1,293	2,046

Details of collateral held in support of these balances are provided in Note 22.2.8.

Note 22. Financial risk (continued)

The following table summarises the interest received and forgone on non-performing loans and restructured financial assets:

Consolidated 2017

\$m	Australia	Overseas	Total
Interest received	4	15	19
Interest forgone	52	-	52

22.2.8 Collateral held

Loans

The Group analyses the coverage of the loan portfolio which is secured by the collateral that it holds. Coverage is measured as follows:

Coverage	Secured loan to collateral value ratio
Fully secured	Less than or equal to 100%
Partially secured	Greater than 100% but not more than 150%
Unsecured	Greater than 150%, or no security held (e.g. can include credit cards, personal loans, and exposure to highly rated corporate entities)

The Group's loan portfolio has the following coverage from collateral held:

Neither past due nor impaired

Consolidated	2017			2016		
	Loans- Housing and Personal	Loans - Business	Total	Loans- Housing and Personal	Loans - Business	Total
%						
Fully secured	97.0	54.0	84.9	96.7	53.5	84.3
Partially secured	0.9	25.7	7.9	1.1	25.7	8.2
Unsecured	2.1	20.3	7.2	2.2	20.8	7.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Parent Entity	2017			2016		
	Loans- Housing and Personal	Loans - Business	Total	Loans- Housing and Personal	Loans - Business	Total
%						
Fully secured	97.9	55.4	86.7	97.7	55.1	86.3
Partially secured	0.3	23.7	6.5	0.3	23.9	6.6
Unsecured	1.8	20.9	6.8	2.0	21.0	7.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

Past due but not impaired

Consolidated	2017			2016		
	Loans- Housing and Personal	Loans - Business	Total	Loans- Housing and Personal	Loans - Business	Total
%						
Fully secured	93.9	58.2	87.9	92.7	47.9	84.0
Partially secured	2.6	28.3	6.9	3.0	28.9	8.0
Unsecured	3.5	13.5	5.2	4.3	23.2	8.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note 22. Financial risk (continued)

Parent Entity	2017			2016		
	Loans- Housing and Personal	Loans - Business	Total	Loans- Housing and Personal	Loans - Business	Total
%						
Fully secured	96.4	60.2	90.8	95.7	47.8	86.8
Partially secured	0.6	25.7	4.5	0.6	26.9	5.5
Unsecured	3.0	14.1	4.7	3.7	25.3	7.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Impaired

Consolidated	2017			2016		
	Loans- Housing and Personal	Loans - Business	Total	Loans- Housing and Personal	Loans - Business	Total
%						
Fully secured	69.5	17.3	40.3	63.9	11.4	24.0
Partially secured	10.7	25.7	19.1	13.0	35.4	30.0
Unsecured	19.8	57.0	40.6	23.1	53.2	46.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

Parent Entity	2017			2016		
	Loans- Housing and Personal	Loans - Business	Total	Loans- Housing and Personal	Loans - Business	Total
%						
Fully secured	73.2	19.6	43.1	69.6	9.9	23.8
Partially secured	6.3	17.1	12.4	6.4	38.5	31.0
Unsecured	20.5	63.3	44.5	24.0	51.6	45.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Collateral held against financial assets other than loans

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Cash, primarily for derivatives	2,480	1,788	2,354	1,730
Securities under reverse repurchase agreements ¹	6,814	3,260	6,814	3,260
Securities under derivatives and stock borrowing ¹	32	135	32	135
Total other collateral held	9,326	5,183	9,200	5,125

¹ Securities received as collateral are not recognised on the Group and Parent Entity's balance sheet.

22.3 Funding and liquidity risk

22.3.1 Liquidity modelling

As required under APRA's liquidity prudential standard, the Group maintains a 'going concern' model with reports issued and reviewed on a daily basis. Under the 'going concern' model wholesale debt maturities are added to planned net asset growth to provide an estimate of the wholesale funding task across a range of time horizons. Maturity concentrations are measured against a Board approved limit structure; with limits, set at intervals from one week to 15 months.

Stress testing is carried out to assess Westpac's ability to meet cash flow obligations under a range of market conditions and scenarios. These scenarios inform liquidity limits and strategic planning.

The Liquidity Coverage Ratio (LCR) requires banks to hold sufficient high-quality liquid assets, as defined by APRA, to withstand 30 days under a regulator-defined acute stress scenario. The LCR came into effect on 1 January 2015. Westpac maintains a buffer over the regulatory minimum of 100%.

Note 22. Financial risk (continued)

22.3.2 Sources of liquidity

Sources of liquidity are regularly reviewed to maintain a wide diversification by currency, geography, product and term. Sources include, but are not limited to:

- deposits;
- debt issues;
- proceeds from sale of marketable securities;
- repurchase agreements with central banks;
- principal repayments on loans;
- interest income; and
- fee income.

Group's funding composition

The Group monitors the composition and stability of its funding so that it remains within the Group's funding risk appetite. This includes targeting greater than 75% of total funding from stable sources. Stable sources include customer deposits, wholesale term funding with residual maturity greater than 12 months, securitisation and equity.

The Group's overall funding composition saw a 106 basis point increase in stable sources in 2017 due mainly to an increase in customer deposits and equity.

%	2017	2016
Customer deposits	61.8	60.9
Wholesale term funding with residual maturity greater than 12 months	15.2	15.0
Wholesale funding with a residual maturity less than 12 months	14.1	15.2
Securitisation	1.0	1.2
Equity	7.9	7.7
Group's total funding	100.0	100.0

Movements in the Group's funding composition in 2017 included:

- customer deposits increased by 92 basis points to 61.8% of the Group's total funding at 30 September 2017, as the Group continued to take steps in preparation for the introduction of the NSFR at the start of 2018.
- long term funding with a residual maturity greater than 12 months also increased by 13 basis points to 15.2%, although funding from securitisation decreased by 19 basis points to 1.0%.
- wholesale funding with a residual maturity less than 12 months decreased, down 106 basis points to 14.1%. This portfolio had a weighted average maturity of 148 days and is more than covered by the \$137.8 billion of unencumbered repo-eligible liquid assets and cash held by the Group.
- funding from equity increased by 20 basis points to 7.9%.

Maintaining a diverse funding base with the capacity and flexibility to access a wide range of funding markets, debt investors, currencies, maturities and products is an important part of managing liquidity risk. Westpac is the only major Australian bank with an active Auto ABS capability and the only Australian bank with access to the US SEC registered market (See Note 19).

In 2017 the Group raised \$36.6 billion of new term wholesale funding with a weighted average maturity of 5.8 years (excluding securitisation). This included benchmark senior and covered bond trades in all major currencies, an auto ABS transaction in A\$, as well as smaller senior bond trades and private placements. New term issuance also included \$4.4 billion of Basel III compliant Additional Tier 1 and Tier 2 capital (see Note 20).

Borrowings and outstanding issuances from existing debt programs at 30 September 2017 can be found in Note 16, Note 17, Note 19 and Note 20.

Note 22. Financial risk (continued)**Liquid assets**

Treasury holds a portfolio of high-quality liquid assets as a buffer against unforeseen funding requirements. These assets are eligible for repurchase agreements with the Reserve Bank of Australia (RBA) or another central bank and are held in cash, Government, State Government and highly rated investment grade securities. The level of liquid asset holdings is reviewed frequently and is consistent with both the requirements of the balance sheet and market conditions.

Liquid assets that qualify as eligible collateral for repurchase agreements with a central bank (including internal securitisation) decreased by \$6.5 billion to \$137.8 billion over the last 12 months.

Given the limited amount of government debt in Australia, the RBA, jointly with APRA, makes available to Australian ADIs a CLF. Subject to satisfaction of qualifying conditions, the CLF can be accessed to help meet the LCR requirement. In order to have access to a CLF, ADIs are required to pay a fee of 15 basis points (0.15%) per annum to the RBA on the approved undrawn facility. APRA approved Westpac's CLF allocation of \$49.1 billion for the 2017 calendar year (2016: \$58.6 billion). APRA has approved a CLF allocation of \$57.0 billion for Westpac for the 2018 calendar year reflecting an increase in the total CLF made available by APRA.

A summary of the Group's liquid asset holdings is as follows:

\$m	2017		2016	
	Actual	Average	Actual	Average
Cash	17,339	20,594	16,221	19,889
Receivables due from other financial institutions	834	662	1,088	618
Trading securities and financial assets designated at fair value	11,405	12,891	10,062	7,537
Available-for-sale securities	59,735	59,887	60,193	55,645
Loans ¹	47,935	48,561	56,057	56,481
Regulatory deposits with central banks	549	628	663	493
Total liquid assets	137,797	143,223	144,284	140,663

¹ Loans are self-originated AAA rated mortgage backed securities which are eligible for repurchase with the RBA and Reserve Bank of New Zealand.

Credit ratings

As at 30 September 2017 the Parent Entity's credit ratings were:

2017	Short-term	Long-term	Outlook
S&P Global Ratings	A-1+	AA-	Negative
Moody's Investors Services	P-1	Aa3	Stable
Fitch Ratings	F1+	AA-	Stable

If Westpac's credit ratings were to be lowered from current levels, the Group's borrowing costs and capacity may be adversely affected. A downgrade in Westpac's credit ratings from current levels is likely to require the Group to pay higher interest rates than currently paid on our wholesale borrowings.

On 19 June 2017, Moody's lowered the Macro Profile for Australia to "Strong +" from "Very Strong -". As a result of this revision, Moody's lowered the ratings for the major Australian banks, including Westpac, by one notch to Aa3, from Aa2. At the same time, Moody's updated their rating outlook on Westpac to "stable" from "negative".

22.3.3 Assets pledged as collateral

The Group and Parent Entity are required to provide collateral to other financial institutions, as part of standard terms, to secure liabilities. In addition to assets supporting securitisation and covered bond programs disclosed in Note 25, the carrying value of these financial assets pledged as collateral is:

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Cash ¹	5,687	8,177	5,315	7,490
Cash deposit on stock borrowed	15	18	15	18
Securities (including certificates of deposit)	1,421	3,041	1,421	3,041
Securities pledged under repurchase agreements	18,746	11,647	18,728	11,265
Total amount pledged to secure liabilities	25,869	22,883	25,479	21,814

¹ Primarily comprised of Receivables due from other financial institutions.

Note 22. Financial risk (continued)

22.3.4 Contractual maturity of financial liabilities

The tables below present cash flows associated with financial liabilities, payable at the balance sheet date, by remaining contractual maturity. The amounts disclosed in the table are the future contractual undiscounted cash flows, whereas the Group manages inherent liquidity risk based on expected cash flows.

Cash flows associated with financial liabilities include both principal payments as well as fixed or variable interest payments incorporated into the relevant coupon period. Principal payments reflect the earliest contractual maturity date. Derivative liabilities designated for hedging purposes are expected to be held for their remaining contractual lives, and reflect gross cash flows over the remaining contractual term.

Derivatives held for trading and certain liabilities classified in "Other financial liabilities at fair value through income statement" are not managed for liquidity purposes on the basis of their contractual maturity, and accordingly these liabilities are presented in the up to 1 month column. Only the liabilities that the Group manages based on their contractual maturity are presented on a contractual undiscounted basis in the tables below.

Consolidated 2017 \$m	Up to 1 Month	Over 1 Month to 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total
Financial liabilities						
Payables due to other financial institutions	16,496	4,438	1,014	23	-	21,971
Deposits and other borrowings	337,821	76,557	102,306	20,605	197	537,486
Other financial liabilities at fair value through income statement	3,253	803	-	-	-	4,056
Derivative financial instruments:						
Held for trading	22,757	-	-	-	-	22,757
Held for hedging purposes (net settled)	98	146	489	1,088	108	1,929
Held for hedging purposes (gross settled):						
Cash outflow	865	3,368	1,039	5,617	2,057	12,946
Cash inflow	(737)	(3,275)	(821)	(4,634)	(1,745)	(11,212)
Debt issues	3,111	10,492	46,730	101,045	18,796	180,174
Other financial liabilities	1,603	575	2,586	-	-	4,764
Total financial liabilities excluding loan capital	385,267	93,104	153,343	123,744	19,413	774,871
Loan capital	5	86	729	4,781	16,548	22,149
Total undiscounted financial liabilities	385,272	93,190	154,072	128,525	35,961	797,020
Total contingent liabilities and commitments						
Letters of credit and guarantees	15,460	-	-	-	-	15,460
Commitments to extend credit	178,443	-	-	-	-	178,443
Other commitments	648	-	-	-	-	648
Total undiscounted contingent liabilities and commitments	194,551	-	-	-	-	194,551

Note 22. Financial risk (continued)

Consolidated 2016 \$m	Up to 1 Month	Over 1 Month to 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total
Financial liabilities						
Payables due to other financial institutions	12,798	2,696	2,596	177	-	18,267
Deposits and other borrowings	315,122	82,287	102,111	16,880	425	516,825
Other financial liabilities at fair value through income statement	3,301	1,403	-	-	-	4,704
Derivative financial instruments:						
Held for trading	28,588	-	-	-	-	28,588
Held for hedging purposes (net settled)	99	283	1,140	3,196	498	5,216
Held for hedging purposes (gross settled):						
Cash outflow	2,205	4,140	9,958	6,418	722	23,443
Cash inflow	(2,137)	(3,641)	(8,625)	(5,564)	(628)	(20,595)
Debt issues ¹	3,443	16,629	44,516	100,127	14,306	179,021
Other financial liabilities	1,967	543	2,443	-	-	4,953
Total financial liabilities excluding loan capital	365,386	104,340	154,139	121,234	15,323	760,422
Loan capital	-	85	257	4,353	13,275	17,970
Total undiscounted financial liabilities	365,386	104,425	154,396	125,587	28,598	778,392
Total contingent liabilities and commitments						
Letters of credit and guarantees	16,435	-	-	-	-	16,435
Commitments to extend credit	176,811	-	-	-	-	176,811
Other commitments	235	-	-	-	-	235
Total undiscounted contingent liabilities and commitments	193,481	-	-	-	-	193,481

¹ Comparatives have been revised for consistency.

Parent Entity 2017 \$m	Up to 1 Month	Over 1 Month to 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total
Financial liabilities						
Payables due to other financial institutions	16,364	4,438	1,014	23	-	21,839
Deposits and other borrowings	306,013	65,078	91,055	18,618	197	480,961
Other financial liabilities at fair value through income statement	3,235	803	-	-	-	4,038
Derivative financial instruments:						
Held for trading	22,791	-	-	-	-	22,791
Held for hedging purposes (net settled)	83	128	409	1,000	106	1,726
Held for hedging purposes (gross settled):						
Cash outflow	11	2,929	820	2,796	1,294	7,850
Cash inflow	-	(2,861)	(680)	(2,376)	(1,052)	(6,969)
Debt issues	2,069	9,127	42,116	84,960	16,270	154,542
Due to subsidiaries	143,834	-	-	-	-	143,834
Other financial liabilities	1,576	523	2,353	-	-	4,452
Total financial liabilities excluding loan capital	495,976	80,165	137,087	105,021	16,815	835,064
Loan capital	5	86	729	4,781	16,548	22,149
Total undiscounted financial liabilities	495,981	80,251	137,816	109,802	33,363	857,213
Total contingent liabilities and commitments						
Letters of credit and guarantees	14,908	-	-	-	-	14,908
Commitments to extend credit	156,423	-	-	-	-	156,423
Other commitments	648	-	-	-	-	648
Total undiscounted contingent liabilities and commitments	171,979	-	-	-	-	171,979

Note 22. Financial risk (continued)

Parent Entity 2016 \$m	Up to 1 Month	Over 1 Month to 3 Months	Over 3 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Total
Financial liabilities						
Payables due to other financial institutions	12,782	2,696	2,544	177	-	18,199
Deposits and other borrowings	286,669	66,726	89,864	15,181	405	458,845
Other financial liabilities at fair value through income statement	2,920	1,403	-	-	-	4,323
Derivative financial instruments:						
Held for trading	29,223	-	-	-	-	29,223
Held for hedging purposes (net settled)	81	228	901	2,887	494	4,591
Held for hedging purposes (gross settled):						
Cash outflow	2,182	3,872	6,671	2,473	120	15,318
Cash inflow	(2,127)	(3,464)	(5,889)	(2,329)	(113)	(13,922)
Debt issues	2,900	14,221	37,773	86,633	11,969	153,496
Due to subsidiaries	142,808	-	-	-	-	142,808
Other financial liabilities	1,932	480	2,159	-	-	4,571
Total financial liabilities excluding loan capital	479,370	86,162	134,023	105,022	12,875	817,452
Loan capital	-	85	257	4,353	13,275	17,970
Total undiscounted financial liabilities	479,370	86,247	134,280	109,375	26,150	835,422
Total contingent liabilities and commitments						
Letters of credit and guarantees	15,725	-	-	-	-	15,725
Commitments to extend credit	154,783	-	-	-	-	154,783
Other commitments	235	-	-	-	-	235
Total undiscounted contingent liabilities and commitments	170,743	-	-	-	-	170,743

22.3.5 Expected maturity

The tables below present the balance sheet based on expected maturity dates, except for deposits, based on historical behaviours. The liability balances in the following tables will not agree to the contractual maturity tables (Note 22.3.4) due to the analysis below being based on expected rather than contractual maturities, the impact of discounting and the exclusion of interest accruals beyond the reporting period. Included in the tables below are equity securities classified as trading securities, available-for-sale securities and life insurance assets that have no specific maturity. These assets have been classified based on the expected period of disposal. Deposits are presented in the following table on a contractual basis, however as part of our normal banking operations, the Group would expect a large proportion of these balances to be retained.

Note 22. Financial risk (continued)

Consolidated 2017 \$m	Due within 12 Months	Greater than 12 Months	Total
Assets			
Cash and balances with central banks	18,397	-	18,397
Receivables due from other financial institutions	7,128	-	7,128
Trading securities and financial assets designated at fair value	11,258	14,066	25,324
Derivative financial instruments	18,346	5,687	24,033
Available-for-sale securities	7,988	52,722	60,710
Loans (net of provisions)	88,676	596,243	684,919
Life insurance assets	1,514	9,129	10,643
Regulatory deposits with central banks overseas	676	372	1,048
Investments in associates	-	60	60
All other assets	5,681	13,932	19,613
Total assets	159,664	692,211	851,875
Liabilities			
Payables due to other financial institutions	21,885	22	21,907
Deposits and other borrowings	512,856	20,735	533,591
Other financial liabilities at fair value through income statement	4,056	-	4,056
Derivative financial instruments	18,435	6,940	25,375
Debt issues	56,952	111,404	168,356
Life insurance liabilities	1,457	7,562	9,019
All other liabilities	9,907	656	10,563
Total liabilities excluding loan capital	625,548	147,319	772,867
Loan capital	1,641	16,025	17,666
Total liabilities	627,189	163,344	790,533
Net assets/(net liabilities)	(467,525)	528,867	61,342

Note 22. Financial risk (continued)

Consolidated 2016	Due within	Greater than	
\$m	12 Months	12 Months	Total
Assets			
Cash and balances with central banks	17,015	-	17,015
Receivables due from other financial institutions	9,951	-	9,951
Trading securities and financial assets designated at fair value	14,633	6,535	21,168
Derivative financial instruments	24,886	7,341	32,227
Available-for-sale securities	13,499	47,166	60,665
Loans (net of provisions)	88,962	572,964	661,926
Life insurance assets	7,409	6,783	14,192
Regulatory deposits with central banks overseas	776	614	1,390
Investments in associates	-	726	726
All other assets	5,621	14,321	19,942
Total assets	182,752	656,450	839,202
Liabilities			
Payables due to other financial institutions	18,037	172	18,209
Deposits and other borrowings	497,072	15,999	513,071
Other financial liabilities at fair value through income statement	4,752	-	4,752
Derivative financial instruments	24,349	11,727	36,076
Debt issues	59,464	110,438	169,902
Life insurance liabilities	1,184	11,177	12,361
All other liabilities	9,935	910	10,845
Total liabilities excluding loan capital	614,793	150,423	765,216
Loan capital	2,173	13,632	15,805
Total liabilities	616,966	164,055	781,021
Net assets/(net liabilities)	(434,214)	492,395	58,181

Parent Entity 2017	Due within	Greater than	
\$m	12 Months	12 Months	Total
Assets			
Cash and balances with central banks	16,405	-	16,405
Receivables due from other financial institutions	6,357	-	6,357
Trading securities and financial assets designated at fair value	9,812	13,134	22,946
Derivative financial instruments	18,340	5,483	23,823
Available-for-sale securities	6,447	49,353	55,800
Loans (net of provisions)	70,868	535,369	606,237
Regulatory deposits with central banks overseas	573	372	945
Due from subsidiaries	142,455	-	142,455
Investments in associates	-	46	46
Investments in subsidiaries	-	3,975	3,975
All other assets	4,649	11,231	15,880
Total assets	275,906	618,963	894,869
Liabilities			
Payables due to other financial institutions	21,753	22	21,775
Deposits and other borrowings	458,829	18,864	477,693
Other financial liabilities at fair value through income statement	4,038	-	4,038
Derivative financial instruments	18,321	6,590	24,911
Debt issues	50,415	93,701	144,116
Due to subsidiaries	143,834	-	143,834
All other liabilities	8,060	595	8,655
Total liabilities excluding loan capital	705,250	119,772	825,022
Loan capital	1,641	16,025	17,666
Total liabilities	706,891	135,797	842,688
Net assets/(net liabilities)	(430,985)	483,166	52,181

Note 22. Financial risk (continued)

Parent Entity 2016 \$m	Due within 12 Months	Greater than 12 Months	Total
Assets			
Cash and balances with central banks	15,186	-	15,186
Receivables due from other financial institutions	8,325	-	8,325
Trading securities and financial assets designated at fair value	12,847	5,715	18,562
Derivative financial instruments	24,872	7,218	32,090
Available-for-sale securities	12,617	43,544	56,161
Loans (net of provisions)	70,686	509,053	579,739
Regulatory deposits with central banks overseas	655	614	1,269
Due from subsidiaries	143,549	-	143,549
Investments in subsidiaries	-	4,622	4,622
All other assets	4,598	11,619	16,217
Total assets	293,335	582,385	875,720
Liabilities			
Payables due to other financial institutions	17,969	172	18,141
Deposits and other borrowings	441,290	14,452	455,742
Other financial liabilities at fair value through income statement	4,371	-	4,371
Derivative financial instruments	24,096	11,113	35,209
Debt issues	52,196	93,380	145,576
Due to subsidiaries	142,808	-	142,808
All other liabilities	8,063	804	8,867
Total liabilities excluding loan capital	690,793	119,921	810,714
Loan capital	2,173	13,632	15,805
Total liabilities	692,966	133,553	826,519
Net assets/(net liabilities)	(399,631)	448,832	49,201

22.4 Market risk**22.4.1 Value-at-Risk**

The Group uses VaR as one of the mechanisms for controlling both traded and non-traded market risk.

VaR is a statistical estimate of the potential loss in earnings over a specified period of time and to a given level of confidence based on historical market movements. The confidence level indicates the probability that the loss will not exceed the VaR estimate on any given day.

VaR seeks to take account of all material market variables that may cause a change in the value of the portfolio, including interest rates, foreign exchange rates, price changes, volatility and the correlations between these variables. Daily monitoring of current exposure and limit utilisation is conducted independently by the Market Risk unit which monitors market risk exposures against VaR and structural concentration limits. These are supplemented by escalation triggers for material profits or losses and stress testing of risks beyond the 99% confidence interval.

The key parameters of VaR are:

Holding period	1 day
Confidence level	99%
Period of historical data used	1 year

Note 22. Financial risk (continued)

22.4.2 Traded market risk

The table below depicts the aggregate VaR, by risk type, for the year ended 30 September:

Consolidated and Parent Entity \$m	2017			2016			2015		
	High	Low	Average	High	Low	Average	High	Low	Average
Interest rate risk	16.0	4.6	8.5	14.0	4.6	8.8	18.1	7.0	11.4
Foreign exchange risk	9.4	0.6	3.1	12.2	1.4	5.1	11.8	0.5	3.6
Equity risk	0.4	0.0	0.1	2.9	0.1	0.3	0.6	0.1	0.3
Commodity risk ¹	14.1	3.3	6.6	4.5	1.4	2.7	5.7	1.7	3.1
Other market risks ²	5.1	3.5	4.2	6.0	2.6	3.6	6.7	2.9	4.6
Diversification effect	n/a	n/a	(8.6)	n/a	n/a	(8.0)	n/a	n/a	(7.2)
Net market risk	22.9	9.7	13.9	18.7	7.7	12.5	23.5	9.0	15.8

¹ Includes electricity risk.

² Include prepayment risk and credit spread risk (exposure to movements in generic credit rating bands).

22.4.3 Non-traded market risk

Non-traded market risk includes interest rate risk in the banking book (IRRBB) – the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities.

Net interest income (NII) sensitivity is managed in terms of the NaR. A simulation model is used to calculate Westpac's potential NaR. This combines the underlying balance sheet data with assumptions about run off and new business, expected repricing behaviour and changes in wholesale market interest rates. Simulations using a range of interest rate scenarios are used to provide a series of potential future NII outcomes. The interest rate scenarios modelled, over a three year time horizon using a 99% confidence interval, include those projected using historical market interest rate volatility as well as 100 and 200 basis point shifts up and down from the current market yield curves in Australia and New Zealand. Additional stressed interest rate scenarios are also considered and modelled.

A comparison between the NII outcomes from these modelled scenarios indicates the sensitivity to interest rate changes.

Net interest income-at-risk (NaR)

The table below depicts NaR assuming a 100 basis point shock (decrease) over the next 12 months as a percentage of reported net interest income:

%	As at	2017			As at	2016		
		Maximum Exposure	Minimum Exposure	Average Exposure		Maximum Exposure	Minimum Exposure	Average Exposure
Consolidated	0.62	0.62	(0.01)	0.31	0.89	1.08	0.14	0.47
Parent Entity	0.34	0.34	(0.33)	0.05	0.54	0.85	(0.11)	0.23

Value at Risk - IRRBB¹

The table below depicts VaR for IRRBB:

\$m	As at	2017			As at	2016		
		High	Low	Average		High	Low	Average
Consolidated	57.3	57.3	27.0	40.8	49.5	53.6	31.1	39.4

As at 30 September 2017 the Value at Risk – IRRBB for the Parent Entity was \$56.9 million (2016: \$42.9 million).

Risk mitigation

IRRBB stems from the ordinary course of banking activities, including structural interest rate risk (the mismatch between the duration of assets and liabilities) and capital management.

The Group hedges its exposure to such interest rate risk using derivatives. Further details on the Group's hedge accounting are discussed in Note 21.

The same controls as used to monitor traded market risk allow management to continuously monitor and manage IRRBB.

¹ IRRBB VaR includes interest rate risk, credit spread risk on liquid assets and other basis risks as used for internal management purposes.

Note 22. Financial risk (continued)**Structural foreign exchange risk**

Structural foreign exchange risk results from the generation of foreign currency denominated earnings and from Westpac's capital deployed in offshore branches and subsidiaries, where it is denominated in currencies other than Australian dollars. As exchange rates move, the Australian dollar equivalent of offshore earnings and capital is subject to change that could introduce significant variability to the Bank's reported financial results and capital ratios. To minimise this impact, Westpac manages offshore earnings and capital on the following basis:

- New Zealand future earnings are overseen by Group Asset and Liability Committee (ALCO) and may be hedged as per policy approved by Group ALCO;
- Permanent capital (capital permanently employed in an offshore jurisdiction to meet regulatory, prudential and/or strategic requirements) of subsidiaries and branches is not hedged. However, hedges on permanently deployed capital may still be considered in light of the cyclical nature of currency valuations;
- Free capital (capital that can be repatriated at Westpac's discretion), excluding capital denominated in minor currencies, may be fully hedged; and
- Minor currencies may not be hedged because of liquidity, expensive pricing and materiality.

Note 23. Fair values of financial assets and financial liabilities**Accounting policy**

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

On initial recognition, the transaction price generally represents the fair value of the financial instrument unless there is observable information from an active market to the contrary. Where unobservable information is used, the difference between the transaction price and the fair value (day one profit or loss) is only recognised in the income statement when the inputs become observable, or over the life of the instrument.

Critical accounting assumptions and estimates

The majority of valuation models used by the Group employ only observable market data as inputs. However, for certain financial instruments data may be employed which is not readily observable in current markets.

The availability of observable inputs is influenced by factors such as:

- product type;
- depth of market activity;
- maturity of market models; and
- complexity of the transaction.

Where unobservable market data is used, more judgement is required to determine fair value. The significance of these judgements depends on the significance of the unobservable input to the overall valuation. Unobservable inputs are generally derived from other relevant market data and adjusted against:

- standard industry practice;
- economic models; and
- observed transaction prices.

In order to determine a reliable fair value for a financial instrument, management may apply adjustments to the techniques previously described. These adjustments reflect the Group's assessment of factors that market participants would consider in setting the fair value.

These adjustments incorporate bid/offer spreads, credit valuation adjustments and funding valuation adjustments.

Fair Valuation Control Framework

The Group uses a Fair Valuation Control Framework where the fair value is either determined or validated by a function independent of the transaction. This framework formalises the policies and procedures used to achieve compliance with relevant accounting, industry and regulatory standards. The framework includes specific controls relating to:

- the revaluation of financial instruments;
- independent price verification;
- fair value adjustments; and
- financial reporting.

Note 23. Fair values of financial assets and financial liabilities (continued)

A key element of the Framework is the Revaluation Committee, comprising senior valuation specialists from within the Group. The Revaluation Committee reviews the application of the agreed policies and procedures to assess that a fair value measurement basis has been applied.

The method of determining fair value differs depending on the information available.

Fair value hierarchy

A financial instrument's categorisation within the valuation hierarchy is based on the lowest level input that is significant to the fair value measurement.

The Group categorises all fair value instruments according to the hierarchy described below.

Valuation techniques

The Group applies market accepted valuation techniques in determining the fair valuation of over the counter (OTC) derivatives. This includes credit valuation adjustments (CVA) and funding valuation adjustments (FVA), which incorporates credit risk and funding costs and benefits that arise in relation to uncollateralised derivative positions, respectively.

The specific valuation techniques, the observability of the inputs used in valuation models and the subsequent classification for each significant product category are outlined below:

Level 1 instruments

The fair value of financial instruments traded in active markets based on recent unadjusted quoted prices. These prices are based on actual arm's length basis transactions.

The valuations of Level 1 instruments require little or no management judgement.

Instrument	Balance sheet category	Includes:	Valuation
Exchange traded products	Derivatives	Exchange traded interest rate futures and options and commodity, energy and carbon futures.	All these instruments are traded in liquid, active markets where prices are readily observable. No modelling or assumptions are used in the valuation.
Foreign exchange products	Derivatives	FX spot and futures contracts	
Equity products	Derivatives	Listed equities and equity indices	
	Trading securities and financial assets designated at fair value		
Non-asset backed debt instruments	Other financial liabilities at fair value through income statement	Australian and New Zealand Commonwealth government bonds	
	Trading securities and financial assets designated at fair value		
Life insurance assets and liabilities	Available-for-sale securities	Listed equities, exchange traded derivatives and short sale of listed equities within controlled managed investment schemes	
	Other financial liabilities at fair value through income statement		
	Life insurance assets		
	Life insurance liabilities		

Note 23. Fair values of financial assets and financial liabilities (continued)

Level 2 instruments

The fair value for financial instruments that are not actively traded are determined using valuation techniques which maximise the use of observable market prices. Valuation techniques include:

- the use of market standard discounting methodologies;
- option pricing models; and
- other valuation techniques widely used and accepted by market participants.

Instrument	Balance sheet category	Includes:	Valuation
Interest rate products	Derivatives	Interest rate and inflation swaps, swaptions, caps, floors, collars and other non-vanilla interest rate derivatives	Industry standard valuation models are used to calculate the expected future value of payments by product, which is discounted back to a present value. The model's interest rate inputs are benchmark interest rates and active broker quoted interest rates in the swap, bond and futures markets. Interest rate volatilities are sourced from brokers and consensus data providers.
Foreign exchange products	Derivatives	FX swap, FX forward contracts, FX options and other non-vanilla FX derivatives	Derived from market observable inputs or consensus pricing providers using industry standard models.
Other credit products	Derivatives	Single Name and Index credit default swaps (CDS)	Valued using an industry standard model that incorporates the credit spread as its principal input. Credit spreads are obtained from consensus data providers. If consensus prices are not available, these are classified as Level 3 instruments.
Commodity products	Derivatives	Commodity, energy and carbon derivatives	Valued using industry standard models. The models calculate the expected future value of deliveries and payments and discounts them back to a present value. The model inputs include forward curves, volatilities implied from market observable inputs, discount curves and underlying spot and futures prices. The significant inputs are market observable or available through a consensus data service. If consensus prices are not available, these are classified as Level 3 instruments.
Equity products	Derivatives	Exchange traded equity options, OTC equity options and equity warrants	Due to low liquidity exchange traded options are Level 2. Valued using industry standard models based on observable parameters such as stock prices, dividends, volatilities and interest rates.
Asset backed debt instruments	Trading securities and financial assets designated at fair value Available-for-sale securities	Australian residential mortgage backed securities (RMBS) denominated in Australian dollar and other asset backed securities (ABS).	Valued using an industry approach to value floating rate debt with prepayment features. The main inputs to the model are the trading margin and the weighted average life (WAL) of the security. These inputs are sourced from a consensus data provider. If consensus prices are not available these are classified as Level 3 instruments.

Note 23. Fair values of financial assets and financial liabilities (continued)

Level 2 instruments (continued)

Instrument	Balance sheet category	Includes:	Valuation
Non-asset backed debt instruments	Trading securities and financial assets designated at fair value	State and other government bonds, corporate bonds and commercial paper.	Valued using observable market prices which are sourced from consensus pricing services, broker quotes or inter-dealer prices.
	Available-for-sale securities	Security repurchase agreements and reverse repurchase agreements over non-asset backed debt securities.	
	Regulatory deposits		
	Other financial liabilities through income statement		
Loans at fair value	Loans	Fixed rate bills	Discounted cash flow approach, using a discount rate which reflects the terms of the instrument and the timing of cash flows, adjusted for creditworthiness based on market observable inputs.
Certificates of deposit	Deposits and other borrowings	Certificates of deposit	Discounted cash flow using market rates offered for deposits of similar remaining maturities.
Debt issues at fair value	Debt issues	Debt issues	Discounted cash flows, using a discount rate which reflects the terms of the instrument and the timing of cash flows adjusted for market observable changes in Westpac's implied credit worthiness.
Life insurance assets and liabilities	Life insurance assets Life insurance liabilities	Corporate bonds, over the counter derivatives, units in unlisted unit trusts, life insurance contract liabilities, life investment contract liabilities and external liabilities of managed investment schemes controlled by statutory life funds.	Valued using observable market prices or other widely used and accepted valuation techniques utilising observable market input.

Note 23. Fair values of financial assets and financial liabilities (continued)

Level 3 instruments

Financial instruments valued where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historical transactions.

These valuations are calculated using a high degree of management judgement.

Instrument	Balance sheet category	Includes:	Valuation
Asset backed debt instruments	Trading securities and financial assets designated at fair value	Collateralised loan obligations and offshore asset-backed debt instruments.	As prices for these securities are not available from a consensus provider these are revalued based on third party revaluations (lead manager or inter-dealer). Due to their illiquidity and/or complexity they are classified as Level 3 assets.
	Available-for-sale securities		
Non-asset backed debt instruments	Trading securities and financial assets designated at fair value	Government securities (predominantly PNG government bonds)	Government securities from illiquid markets are classified as Level 3. Fair value is monitored by reference to recent issuances.
	Available-for-sale securities		

Note 23. Fair values of financial assets and financial liabilities (continued)

The table below summaries the attribution of financial instruments carried at fair value to the fair value hierarchy:

Consolidated	2017				2016			
	Quoted Market Prices (Level 1)	Valuation Techniques (Market Observable) (Level 2)	Valuation Techniques (Non-Market Observable) (Level 3)	Total	Quoted Market Prices (Level 1)	Valuation Techniques (Market Observable) (Level 2)	Valuation Techniques (Non-Market Observable) (Level 3)	Total
Financial assets measured at fair value on a recurring basis								
Trading securities and financial assets designated at fair value	6,815	17,742	767	25,324	2,431	17,897	840	21,168
Derivative financial instruments	9	24,009	15	24,033	21	32,163	43	32,227
Available-for-sale securities	7,252	52,841	617	60,710	5,047	54,914	704	60,665
Loans	-	4,587	-	4,587	-	5,562	-	5,562
Life insurance assets	2,768	7,875	-	10,643	5,076	9,116	-	14,192
Regulatory deposits with central banks overseas	-	659	-	659	-	1,008	-	1,008
Total financial assets carried at fair value	16,844	107,713	1,399	125,956	12,575	120,660	1,587	134,822
Financial liabilities measured at fair value on a recurring basis								
Deposits and other borrowings at fair value	-	46,569	-	46,569	-	44,227	-	44,227
Other financial liabilities at fair value through income statement	208	3,848	-	4,056	151	4,601	-	4,752
Derivative financial instruments	8	25,358	9	25,375	12	36,047	17	36,076
Debt issues at fair value	-	4,673	-	4,673	-	6,303	-	6,303
Life insurance liabilities	-	9,019	-	9,019	1,180	11,181	-	12,361
Total financial liabilities carried at fair value	216	89,467	9	89,692	1,343	102,359	17	103,719
Parent Entity								
	Quoted Market Prices (Level 1)	Valuation Techniques (Market Observable) (Level 2)	Valuation Techniques (Non-Market Observable) (Level 3)	Total	Quoted Market Prices (Level 1)	Valuation Techniques (Market Observable) (Level 2)	Valuation Techniques (Non-Market Observable) (Level 3)	Total
Financial assets measured at fair value on a recurring basis								
Trading securities and financial assets designated at fair value	6,797	15,648	501	22,946	1,976	15,996	590	18,562
Derivative financial instruments	9	23,799	15	23,823	21	32,027	42	32,090
Available-for-sale securities	5,480	50,256	64	55,800	3,513	52,598	50	56,161
Loans	-	4,587	-	4,587	-	5,562	-	5,562
Regulatory deposits with central banks overseas	-	659	-	659	-	1,008	-	1,008
Total financial assets carried at fair value	12,286	94,949	580	107,815	5,510	107,191	682	113,383
Financial liabilities measured at fair value on a recurring basis								
Deposits and other borrowings at fair value	-	46,023	-	46,023	-	43,171	-	43,171
Other financial liabilities at fair value through income statement	208	3,830	-	4,038	151	4,220	-	4,371
Derivative financial instruments	8	24,894	9	24,911	12	35,180	17	35,209
Debt issues at fair value	-	2,940	-	2,940	-	3,589	-	3,589
Total financial liabilities carried at fair value	216	77,687	9	77,912	163	86,160	17	86,340

Note 23. Fair values of financial assets and financial liabilities (continued)

Analysis of movements between Fair Value Hierarchy Levels

During the year there were no material transfers between levels of the fair value hierarchy. Transfers into and out of Level 3 are reported using the fair values at the end of year and are discussed in the following table. These have occurred due to changes in observability in the significant inputs in the valuation models.

Reconciliation of non-market observables

The tables below summarise the changes in financial instruments measured at fair value derived from non-market observable valuation techniques (Level 3):

Consolidated 2017

\$m	Trading Securities and Financial Assets Designated at Fair Value		Available-for-Sale Securities	Total Level 3 Assets	Derivatives	Debt Issues at Fair Value	Total Level 3 Liabilities
	at Fair Value	Derivatives					
Balance as at beginning of year	840	43	704	1,587	17	-	17
Gains/(losses) on assets/(gains)/ losses on liabilities recognised in:							
Income statements	(26)	(8)	-	(34)	(3)	-	(3)
Available-for-sale reserve	-	-	4	4	-	-	-
Acquisition and issues	122	5	1,572	1,699	6	-	6
Disposal and settlements	(162)	(13)	(1,645)	(1,820)	(9)	-	(9)
Transfer into or out of non-market observables	10	(12)	-	(2)	(2)	-	(2)
Foreign currency translation impacts	(17)	-	(18)	(35)	-	-	-
Balance as at end of year	767	15	617	1,399	9	-	9
Unrealised gains/(losses) recognised in the income statements for financial instruments held as at 30 September 2017	(29)	(2)	-	(31)	(3)	-	(3)

Consolidated 2016

\$m	Trading Securities and Financial Assets Designated at Fair Value		Available-for-Sale Securities	Total Level 3 Assets	Derivatives	Debt Issues at Fair Value	Total Level 3 Liabilities
	at Fair Value	Derivatives					
Balance as at beginning of year	1,007	44	918	1,969	39	18	57
Gains/(losses) on assets/(gains)/ losses on liabilities recognised in:							
Income statements	(1)	(6)	-	(7)	(12)	6	(6)
Available-for-sale reserve	-	-	2	2	-	-	-
Acquisition and issues	83	15	3,135	3,233	11	-	11
Disposal and settlements	(245)	(11)	(3,215)	(3,471)	(17)	(24)	(41)
Transfer into or out of non-market observables	-	1	-	1	(4)	-	(4)
Foreign currency translation impacts	(4)	-	(136)	(140)	-	-	-
Balance as at end of year	840	43	704	1,587	17	-	17
Unrealised gains/(losses) recognised in the income statements for financial instruments held as at 30 September 2016	(9)	9	-	-	(1)	-	(1)

Note 23. Fair values of financial assets and financial liabilities (continued)

Parent Entity 2017

\$m	Trading		Available- for-Sale Securities	Total Level 3 Assets	Derivatives	Total Level 3 Liabilities
	Financial Assets Designated at Fair Value	Derivatives				
Balance as at beginning of year	590	42	50	682	17	17
Gains/(losses) on assets/(gains)/ losses on liabilities recognised in:						
Income statements	8	(7)	-	1	(3)	(3)
Available-for-sale reserve	-	-	-	-	-	-
Acquisition and issues	32	5	14	51	6	6
Disposal and settlements	(122)	(13)	-	(135)	(9)	(9)
Transfer into or out of non-market observables	10	(12)	-	(2)	(2)	(2)
Foreign currency translation impacts	(17)	-	-	(17)	-	-
Balance as at end of year	501	15	64	580	9	9
Unrealised gains/(losses) recognised in the income statements for financial instruments held as at 30 September 2017	1	(2)	-	(1)	(3)	(3)

Parent Entity 2016

\$m	Trading		Available- for-Sale Securities	Total Level 3 Assets	Derivatives	Total Level 3 Liabilities
	Financial Assets Designated at Fair Value	Derivatives				
Balance as at beginning of year	721	44	79	844	37	37
Gains/(losses) on assets/(gains)/ losses on liabilities recognised in:						
Income statements	8	(7)	-	1	(10)	(10)
Available-for-sale reserve	-	-	2	2	-	-
Acquisition and issues	72	15	81	168	11	11
Disposal and settlements	(207)	(11)	(109)	(327)	(17)	(17)
Transfer into or out of non-market observables	-	1	-	1	(4)	(4)
Foreign currency translation impacts	(4)	-	(3)	(7)	-	-
Balance as at end of year	590	42	50	682	17	17
Unrealised gains/(losses) recognised in the income statements for financial instruments held as at 30 September 2016	1	8	-	9	(1)	(1)

Note 23. Fair values of financial assets and financial liabilities (continued)

Significant unobservable inputs

Sensitivities to reasonably possible changes in non-market observable valuation assumptions would not have a material impact on the Group's reported results.

Day one profit or loss

The closing balance of unrecognised day one profit for both the Group and the Parent Entity for the year was \$5 million (30 September 2016: \$6 million profit).

Financial instruments not measured at fair value

For financial instruments not measured at fair value on a recurring basis, fair value has been derived as follows:

Instrument	Valuation
Loans	Where available, the fair value of loans is based on observable market transactions; otherwise fair value is estimated using discounted cash flow models. For variable rate loans, the discount rate used is the current effective interest rate. The discount rate applied for fixed rate loans reflects the market rate for the maturity of the loan and the credit worthiness of the borrower.
Deposits and other borrowings	Fair values of deposit liabilities payable on demand (interest free, interest bearing and savings deposits) approximate their carrying value. Fair values for term deposits are estimated using discounted cash flows, applying market rates offered for deposits of similar remaining maturities.
Debt issues and loan capital	Fair values are calculated using a discounted cash flow model. The discount rates applied reflect the terms of the instruments, the timing of the estimated cash flows and are adjusted for any changes in Westpac's credit spreads.
All other financial assets and liabilities	For all other financial assets and liabilities, the carrying value approximates the fair value. These items are either short-term in nature, re-price frequently or are of a high credit rating.

Note 23. Fair values of financial assets and financial liabilities (continued)

The following table summarises the estimated fair value and fair value hierarchy of financial instruments not measured at fair value:

Consolidated	2017				Total
	Fair Value				
\$m	Carrying Amount	Quoted Market Prices (Level 1)	Valuation Techniques (Market Observable) (Level 2)	Valuation Techniques (Non-Market Observable) (Level 3)	
Financial assets not measured at fair value					
Cash and balances with central banks	18,397	18,397	-	-	18,397
Receivables due from other financial institutions	7,128	4,834	1,902	392	7,128
Loans	680,332	-	-	680,568	680,568
Regulatory deposits with central banks overseas	389	389	-	-	389
Other financial assets	4,754	-	4,754	-	4,754
Total financial assets	711,000	23,620	6,656	680,960	711,236
Financial liabilities not measured at fair value					
Payables due to other financial institutions	21,907	2,429	19,478	-	21,907
Deposits and other borrowings	487,022	-	484,929	2,794	487,723
Debt issues ¹	163,683	-	165,151	-	165,151
Loan capital	17,666	-	18,087	-	18,087
Other financial liabilities	7,490	-	7,490	-	7,490
Total financial liabilities	697,768	2,429	695,135	2,794	700,358

¹ The estimated fair value of debt issues includes the impact of changes in Westpac's credit spreads since origination.

Consolidated	2016				Total
	Fair Value				
\$m	Carrying Amount	Quoted Market Prices (Level 1)	Valuation Techniques (Market Observable) (Level 2)	Valuation Techniques (Non-Market Observable) (Level 3)	
Financial assets not measured at fair value					
Cash and balances with central banks	17,015	17,015	-	-	17,015
Receivables due from other financial institutions	9,951	7,128	1,887	936	9,951
Loans	656,364	-	-	657,594	657,594
Regulatory deposits with central banks overseas	382	382	-	-	382
Other financial assets	4,501	-	4,501	-	4,501
Total financial assets	688,213	24,525	6,388	658,530	689,443
Financial liabilities not measured at fair value					
Payables due to other financial institutions	18,209	1,615	16,594	-	18,209
Deposits and other borrowings	468,844	-	466,980	2,729	469,709
Debt issues ¹	163,599	-	164,811	-	164,811
Loan capital	15,805	-	15,773	-	15,773
Other financial liabilities	7,531	-	7,531	-	7,531
Total financial liabilities	673,988	1,615	671,689	2,729	676,033

¹ The estimated fair value of debt issues includes the impact of changes in Westpac's credit spreads since origination.

Note 23. Fair values of financial assets and financial liabilities (continued)

Parent Entity	2017	Fair Value			Total
		Carrying Amount	Quoted Market Prices (Level 1)	Valuation Techniques (Market Observable) (Level 2)	
Financial assets not measured at fair value					
Cash and balances with central banks	16,405	16,405	-	-	16,405
Receivables due from other financial institutions	6,357	4,462	1,895	-	6,357
Loans	601,650	-	-	601,784	601,784
Regulatory deposits with central banks overseas	286	286	-	-	286
Due from subsidiaries	142,455	-	-	142,455	142,455
Other financial assets	4,000	-	4,000	-	4,000
Total financial assets	771,153	21,153	5,895	744,239	771,287
Financial liabilities not measured at fair value					
Payables due to other financial institutions	21,775	2,304	19,471	-	21,775
Deposits and other borrowings	431,670	-	431,113	1,216	432,329
Debt issues	141,176	-	142,474	-	142,474
Due from subsidiaries	143,834	-	-	143,834	143,834
Loan capital	17,666	-	18,087	-	18,087
Other financial liabilities	6,868	-	6,868	-	6,868
Total financial liabilities	762,989	2,304	618,013	145,050	765,367

Parent Entity	2016	Fair Value			Total
		Carrying Amount	Quoted Market Prices (Level 1)	Valuation Techniques (Market Observable) (Level 2)	
Financial assets not measured at fair value					
Cash and balances with central banks	15,186	15,186	-	-	15,186
Receivables due from other financial institutions	8,325	6,441	1,884	-	8,325
Loans	574,177	-	-	574,947	574,947
Regulatory deposits with central banks overseas	261	261	-	-	261
Due from subsidiaries	143,549	-	-	143,549	143,549
Other financial assets	3,755	-	3,755	-	3,755
Total financial assets	745,253	21,888	5,639	718,496	746,023
Financial liabilities not measured at fair value					
Payables due to other financial institutions	18,141	1,557	16,584	-	18,141
Deposits and other borrowings	412,571	-	412,289	1,098	413,387
Debt issues	141,987	-	143,116	-	143,116
Due from subsidiaries	142,808	-	-	142,808	142,808
Loan capital	15,805	-	15,773	-	15,773
Other financial liabilities	6,832	-	6,832	-	6,832
Total financial liabilities	738,144	1,557	594,594	143,906	740,057

Note 24. Offsetting financial assets and financial liabilities

Accounting policy

Financial assets and liabilities are presented net in the balance sheet when the Group has a legally enforceable right to offset them in all circumstances and there is an intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously. The gross assets and liabilities behind the net amounts reported in the balance sheet are disclosed in the table below.

Some of the Group's offsetting arrangements are not enforceable in all circumstances. The assets and liabilities under such agreements are also disclosed in the table below, to illustrate the net balance sheet amount if these future events should occur. The amounts in the tables below may not tie back to the balance sheet if there are balances which are not subject to offsetting arrangements. The amounts presented in this note do not represent the credit risk exposure of the Group or Parent Entity. Refer to Note 22.2 for information on credit risk management. The offsetting and collateral arrangements and other credit risk mitigation strategies used by the Group are further explained in the 'Management of risk mitigation' section of Note 22.2.2.

Consolidated \$m	Effects of Offsetting on Balance Sheet			Amounts Subject to Enforceable Netting Arrangements But Not Offset			
	Gross Amounts	Amounts Offset	Net Amounts Reported on the Balance Sheet	Other Recognised Financial Instruments	Cash Collateral	Financial Instrument Collateral	Net Amount
2017							
Assets							
Receivables due from other financial institutions ¹	15	-	15	-	-	(14)	1
Derivative financial instruments	31,686	(7,653)	24,033	(16,707)	(2,438)	(18)	4,870
Securities purchased under agreement to resell ²	6,887	-	6,887	-	(42)	(6,814)	31
Loans ³	15,990	(15,925)	65	-	-	-	65
Other assets ⁴	2,269	(1,615)	654	-	-	-	654
Total assets	56,847	(25,193)	31,654	(16,707)	(2,480)	(6,846)	5,621
Liabilities							
Derivative financial instruments	34,642	(9,267)	25,375	(16,707)	(5,552)	(1,421)	1,695
Security repurchase agreements ⁵	12,960	-	12,960	-	(2)	(12,958)	-
Deposits and other borrowings ³	21,349	(15,925)	5,424	-	-	-	5,424
Other liabilities ⁴	13	(1)	12	-	-	-	12
Total liabilities	68,964	(25,193)	43,771	(16,707)	(5,554)	(14,379)	7,131
2016							
Assets							
Receivables due from other financial institutions ¹	18	-	18	-	-	(17)	1
Derivative financial instruments	44,886	(12,659)	32,227	(22,551)	(1,774)	(118)	7,784
Securities purchased under agreement to resell ²	3,260	-	3,260	-	(14)	(3,246)	-
Loans ³	22,036	(21,963)	73	-	-	-	73
Other assets ⁴	2,926	(2,148)	778	-	-	-	778
Total assets	73,126	(36,770)	36,356	(22,551)	(1,788)	(3,381)	8,636
Liabilities							
Derivative financial instruments	50,110	(14,034)	36,076	(22,551)	(8,031)	(3,041)	2,453
Security repurchase agreements ⁵	9,372	-	9,372	-	(1)	(9,371)	-
Deposits and other borrowings ³	29,706	(21,963)	7,743	-	-	-	7,743
Other liabilities ⁴	773	(773)	-	-	-	-	-
Total liabilities	89,961	(36,770)	53,191	(22,551)	(8,032)	(12,412)	10,196

¹ Consist of stock borrowing arrangements, reported as part of cash collateral in Note 10.

² Securities purchased under agreement to resell form part of Note 11.

³ Consist of debt and interest set-off accounts which meet the requirements for offsetting as described above. These accounts form part of business loans in Note 13 and part of Deposits and other borrowings at amortised cost in Note 17.

⁴ Gross amounts consist of initial and variation margin held directly with central clearing counterparties, where variation margin is receivable it is reported as part of Other in Note 27. Where variation margin is payable it is reported as part of Other in Note 29. Amounts offset relate to variation margin.

⁵ Security repurchase agreements form part of Note 16 recognised at amortised cost and part of Note 18 recognised at fair value through income statement.

Note 24. Offsetting financial assets and financial liabilities (continued)

Parent Entity \$m	Effects of Offsetting on Balance Sheet			Amounts Subject to Enforceable Netting Arrangements But Not Offset			
	Gross Amounts	Amounts Offset	Net Amounts Reported on the Balance Sheet	Other Recognised Financial Instruments	Cash Collateral	Financial Instrument Collateral	Net Amount
2017							
Assets							
Receivables due from other financial institutions ¹	15	-	15	-	-	(14)	1
Derivative financial instruments	31,476	(7,653)	23,823	(16,552)	(2,312)	(18)	4,941
Securities purchased under agreement to resell ²	6,887	-	6,887	-	(42)	(6,814)	31
Loans ³	15,990	(15,925)	65	-	-	-	65
Other assets ⁴	2,269	(1,615)	654	-	-	-	654
Total assets	56,637	(25,193)	31,444	(16,552)	(2,354)	(6,846)	5,692
Liabilities							
Derivative financial instruments	34,178	(9,267)	24,911	(16,522)	(5,179)	(1,421)	1,789
Security repurchase agreements ⁵	12,942	-	12,942	-	(2)	(12,940)	-
Deposits and other borrowings ³	21,349	(15,925)	5,424	-	-	-	5,424
Other liabilities ⁴	13	(1)	12	-	-	-	12
Total liabilities	68,482	(25,193)	43,289	(16,522)	(5,181)	(14,361)	7,225
2016							
Assets							
Receivables due from other financial institutions ¹	18	-	18	-	-	(17)	1
Derivative financial instruments	44,749	(12,659)	32,090	(22,431)	(1,716)	(118)	7,825
Securities purchased under agreement to resell ²	3,260	-	3,260	-	(14)	(3,246)	-
Loans ³	22,036	(21,963)	73	-	-	-	73
Other assets ⁴	2,926	(2,148)	778	-	-	-	778
Total assets	72,989	(36,770)	36,219	(22,431)	(1,730)	(3,381)	8,677
Liabilities							
Derivative financial instruments	49,243	(14,034)	35,209	(22,431)	(7,344)	(3,041)	2,393
Security repurchase agreements ⁵	8,991	-	8,991	-	(1)	(8,990)	-
Deposits and other borrowings ³	29,706	(21,963)	7,743	-	-	-	7,743
Other liabilities ⁴	773	(773)	-	-	-	-	-
Total liabilities	88,713	(36,770)	51,943	(22,431)	(7,345)	(12,031)	10,136

¹ Consist of stock borrowing arrangements, reported as part of cash collateral in Note 10.

² Securities purchased under agreement to resell form part of Note 11.

³ Consist of debt and interest set-off accounts which meet the requirements for offsetting as described above. These accounts form part of business loans in Note 13 and part of Deposits and other borrowings at amortised cost in Note 17.

⁴ Gross amounts consist of initial and variation margin held directly with central clearing counterparties, where variation margin is receivable it is reported as part of Other in Note 27. Where variation margin is payable it is reported as part of Other in Note 29. Amounts offset relate to variation margin.

⁵ Security repurchase agreements form part of Note 16 recognised at amortised cost and part of Note 18 recognised at fair value through income statement.

Other recognised financial instruments

These financial assets and liabilities are subject to master netting agreements which are not enforceable in all circumstances, so they are recognised gross in the balance sheet. The offsetting rights of the master netting arrangements can only be enforced if a predetermined event occurs in the future, such as a counterparty defaulting.

Cash collateral and financial instrument collateral

These amounts are received or pledged under master netting arrangements against the gross amounts of assets and liabilities. Financial instrument collateral typically comprises securities which can be readily liquidated in the event of counterparty default. The offsetting rights of the master netting arrangement can only be enforced if a predetermined event occurs in the future, such as a counterparty defaulting.

Note 25. Securitisation, covered bonds and other transferred assets

The Group enters into transactions in the normal course of business by which financial assets are transferred to counterparties or structured entities. Depending on the circumstances, these transfers may result in derecognition of the assets in their entirety, partial derecognition or no derecognition of the assets subject to the transfer. For the Group's accounting policy on derecognition of financial assets refer to the notes to the financial statements section before Note 10 titled 'Financial assets and financial liabilities'.

Securitisation

Securitisation is the transferring of assets (or an interest in either the assets or the cash flows arising from the assets) to a structured entity which then issues interest bearing debt securities to third party investors.

Own assets securitised

Securitisation of its own assets is used by Westpac as a funding and liquidity tool.

For securitisation structured entities which Westpac controls, as defined in Note 35, the structured entities are classified as subsidiaries and consolidated. When assessing whether Westpac controls a structured entity, it considers its exposure to and ability to affect variable returns. Westpac may have variable returns from a structured entity through ongoing exposures to the risks and rewards associated with the assets, the provision of derivatives, liquidity facilities, trust management and operational services.

Undrawn funding and liquidity facilities of \$511 million were provided by Westpac (30 September 2016: \$503 million) for the securitisation of its own assets.

Customer conduits

Westpac also facilitates securitisation structures to arrange funding on behalf of customers in customer conduits through a subsidiary (Waratah Receivables Corporation Limited and its subsidiaries). The assets securitised are not assets of Westpac. The lending provided to the customer conduits is disclosed in Note 10 and the funding liability is disclosed in Note 19.

Westpac provided undrawn liquidity facilities to the customer conduits of \$392 million at 30 September 2017 (30 September 2016: \$936 million).

Covered bonds

The Group has two covered bond programs relating to Australian residential mortgages (Australian Program) and New Zealand residential mortgages (New Zealand Program). Under these programs, selected pools of residential mortgages are assigned to bankruptcy remote structured entities which provide guarantees on the payments to bondholders. Through the guarantees and derivatives with the structured entities, Westpac has variable returns from these structured entities and consolidated them.

Security repurchase agreements

Where securities are sold subject to an agreement to repurchase at a predetermined price, they remain recognised on the balance sheet in their original category (i.e. Trading securities or Available-for-sale securities).

The cash consideration received is recognised as a liability (Security repurchase agreements). Refer to Notes 16 and 18 for further details.

Note 25. Securitisation, covered bonds and other transferred assets (continued)

The following table presents Westpac's assets transferred and their associated liabilities:

Consolidated	Carrying amount of transferred assets	Carrying amount of associated liabilities	For those liabilities that only have recourse to the transferred assets:		
			Fair value of transferred assets	Fair value of associated liabilities	Net fair value position
\$m					
2017					
Securitisation - own assets ¹	8,249	8,209	8,282	8,223	59
Covered bonds ²	42,122	34,516	n/a	n/a	n/a
Repurchase agreements	18,746	12,960	n/a	n/a	n/a
Total⁴	69,117	55,685	8,282	8,223	59
2016					
Securitisation - own assets ¹	9,503	9,445	9,557	9,382	175
Covered bonds ²	45,409	33,529	n/a	n/a	n/a
Repurchase agreements ³	11,647	9,372	n/a	n/a	n/a
Total⁴	66,559	52,346	9,557	9,382	175

Parent Entity	Carrying amount of transferred assets	Carrying amount of associated liabilities	For those liabilities that only have recourse to the transferred assets:		
			Fair value of transferred assets	Fair value of associated liabilities	Net fair value position
\$m					
2017					
Securitisation - own assets ¹	98,368	97,872	98,434	94,735	3,699
Covered bonds ²	35,202	29,698	n/a	n/a	n/a
Repurchase agreements	18,728	12,942	n/a	n/a	n/a
Total	152,298	140,512	98,434	94,735	3,699
2016					
Securitisation - own assets ¹	94,853	94,364	94,944	91,794	3,150
Covered bonds ²	38,237	30,211	n/a	n/a	n/a
Repurchase agreements	11,265	8,991	n/a	n/a	n/a
Total	144,355	133,566	94,944	91,794	3,150

¹ The carrying amount of assets securitised exceeds the amount of notes issued primarily because the carrying amount includes both principal and income received from the transferred assets.

² The difference between the carrying values of covered bonds and the assets pledged reflects the over-collateralisation required to maintain the ratings of the covered bonds and also additional assets to allow immediate issuance of additional covered bonds if required. These additional assets can be repurchased by Westpac at its discretion, subject to the conditions set out in the transaction documents.

³ Comparatives have been revised for consistency.

⁴ This table excludes securitisation – customer conduits as the assets securitised are not assets of Westpac.

OTHER ASSETS, OTHER LIABILITIES, COMMITMENTS AND CONTINGENCIES

Note 26. Intangible assets

Accounting policy

Indefinite life intangible assets

Goodwill

Goodwill acquired in a business combination is initially measured at cost, generally being the excess of:

- i) the consideration paid; over
- ii) the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Subsequently, goodwill is not amortised but rather tested for impairment. Impairment is tested at least annually or whenever there is an indication of impairment. An impairment charge is recognised when a cash generating unit's (CGU) carrying value exceeds its recoverable amount. Recoverable amount means the higher of the CGU's fair value less costs to sell and its value-in-use.

Brand names

Brand names acquired in a business combination including St.George, BT, BankSA and RAMS, are recognised at cost. Subsequently brand names are not amortised but tested for impairment at least annually or whenever there is an indication of impairment.

Finite life intangible assets

Finite life intangibles including computer software and core deposits, are recognised initially at cost and subsequently at amortised cost less any impairment.

Intangible	Useful life	Depreciation method
Goodwill	Indefinite	Not applicable
Brand names	Indefinite	Not applicable
Computer software	3 to 10 years	Straight-line or the diminishing balance method (using the Sum of the Years Digits)
Core deposit intangibles	9 years	Straight-line
Other intangibles	3 to 8 years	Straight-line

Critical accounting assumptions and estimates

Judgement is required in determining the fair value of assets and liabilities acquired in a business combination. A different assessment of fair values would have resulted in a different goodwill balance and different post-acquisition performance of the acquired entity.

When assessing impairment of intangible assets, significant judgement is needed to determine the appropriate cash flows and discount rates to be applied to the calculations. The significant assumptions applied to the value-in-use calculations are outlined below.

Note 26. Intangible assets (continued)

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Goodwill¹				
Opening balance	9,030	9,010	6,844	6,844
Other adjustments	(18)	20	-	-
Closing balance	9,012	9,030	6,844	6,844
Computer software				
Opening balance	1,781	1,654	1,635	1,512
Additions	766	696	692	628
Impairment	(14)	(6)	(14)	(6)
Amortisation	(614)	(565)	(558)	(497)
Other adjustments	(3)	2	3	(2)
Closing balance	1,916	1,781	1,758	1,635
Cost	5,059	4,453	4,249	3,693
Accumulated amortisation and impairment	(3,143)	(2,672)	(2,491)	(2,058)
Carrying amount	1,916	1,781	1,758	1,635
Brand Names				
Opening balance	670	670	636	636
Closing balance	670	670	636	636
Carrying amount	670	670	636	636
Core deposit intangibles				
Opening balance	187	352	187	352
Amortisation	(166)	(165)	(166)	(165)
Closing balance	21	187	21	187
Cost	1,494	1,494	1,279	1,279
Accumulated amortisation	(1,473)	(1,307)	(1,258)	(1,092)
Carrying amount	21	187	21	187
Other intangible assets				
Opening balance	53	89	3	27
Additions through business combination	-	4	-	-
Amortisation	(20)	(40)	(3)	(24)
Closing balance	33	53	-	3
Cost	398	398	160	160
Accumulated amortisation and impairment	(365)	(345)	(160)	(157)
Carrying amount	33	53	-	3
Total intangible assets¹	11,652	11,721	9,259	9,305

¹ Comparatives have been revised for changes in accounting policy. Refer to Note 1(iv) for further details.

Note 26. Intangible assets (continued)

Goodwill has been allocated to the following CGU's:

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Consumer Bank	3,359	3,359	3,144	3,144
Business Bank	2,513	2,513	2,378	2,378
Westpac Institutional Bank	487	487	487	487
BT Financial Group (Australia)	2,048	2,048	835	835
New Zealand Retail Banking	472	489	-	-
BT New Zealand	13	14	-	-
Hastings	120	120	-	-
Total goodwill	9,012	9,030	6,844	6,844

Significant assumptions used in recoverable amount calculations

Assumptions are used to determine the CGU's recoverable amount for goodwill, which is based on value-in-use calculations. Value-in-use refers to the present value of expected cash flows under its current use. The Group discounts the projected cash flows by its adjusted pre-tax equity rate.

- Group's equity rate was 11.0% (2016: 11.0%)
- Group's adjusted pre-tax equity rate for:
 - Australia was 15.7% (2016: 15.7%)
 - New Zealand was 15.3% (2016: 15.3%)

For the purpose of goodwill impairment testing, the assumptions in the following table are made for each significant CGU. The forecasts applied by management are not reliant on any one particular assumption.

Assumption	Based on:
Cash flows	Zero growth rate beyond 2 year forecast
Economic market conditions	Current market expectations
Business performance	Observable historical information and current market expectations of the future

There are no reasonably possible changes in assumptions for any significant CGU that would result in an indication of impairment or have a material impact on the Group's reported results.

Note 27. Other assets

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Accrued interest receivable	1,193	1,118	1,029	948
Securities sold not delivered	1,408	1,195	1,388	1,192
Deferred acquisition costs	86	101	1	1
Trade debtors	810	744	358	305
Prepayments	220	216	182	148
Accrued fees and commissions	149	171	64	71
Other	1,496	1,588	1,296	1,390
Total other assets	5,362	5,133	4,318	4,055

Note 28. Provisions**Accounting policy**

Provisions are recognised for present obligations arising from past events where a payment (or other economic transfer) is likely to be necessary to settle the obligation and can be reliably estimated.

Employee benefits – long service leave

Long service leave must be granted to employees in Australia and New Zealand. The provision is calculated based on the expected payments. When payments are expected to be more than one year in the future, the payments factor in expected employee service periods and average salary increases which are then discounted.

Employee benefits – annual leave and other employee benefits

The provision for annual leave and other employee benefits (including wages and salaries, inclusive of non-monetary benefits, and any associated on-costs (e.g. payroll tax)) is calculated based on expected payments.

Provision for impairment on credit commitments

The Group is committed to provide facilities and guarantees as explained in Note 31. If it is probable that a facility will be drawn and the resulting asset will be less than the drawn amount then a provision for impairment is recognised. The provision for impairment is calculated using the same methodology as the provision for impairment charges on loans (refer to Note 14).

Critical accounting assumptions and estimates

Some of the provisions involve significant judgement about the likely outcome of various events and estimated future cash flows. Judgement has also been applied in determining the measurement of the customer refunds and payments referred to in Note 29.

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

Provisions carried for long service leave are supported by an independent actuarial report.

\$m	Long Service Leave	Annual Leave and Other Employee Benefits	Litigation and Non-Lending Losses	Provision for Impairment on Credit Commitments	Leasehold Premises	Restructuring Provisions	Total
Consolidated							
Balance at 1 October 2016	379	696	32	272	27	14	1,420
Additions	64	878	56	-	2	5	1,005
Utilisation	(39)	(829)	(43)	-	(3)	(12)	(926)
Reversal of unutilised provisions	(5)	(3)	(3)	-	-	(1)	(12)
Unwinding of discount	-	-	-	5	-	-	5
Other	-	(5)	-	(24)	-	(1)	(30)
Balance at 30 September 2017	399	737	42	253	26	5	1,462
Parent Entity							
Balance at 1 October 2016	346	616	24	240	27	14	1,267
Additions	63	831	42	-	2	5	943
Utilisation	(35)	(792)	(36)	-	(3)	(12)	(878)
Reversal of unutilised provisions	(5)	(11)	-	-	-	(1)	(17)
Unwinding of discount	-	-	-	4	-	-	4
Other	(2)	-	(1)	(20)	-	(1)	(24)
Balance at 30 September 2017	367	644	29	224	26	5	1,295

Legislative liabilities

The Group had the following assessed liabilities as at 30 September 2017:

- \$23 million (2016: \$15 million) based on an actuarial assessment as a self-insurer under the *Workers' Compensation Act 1987* and the *Workplace Injury Management and Workers' Compensation Act 1998* (New South Wales);
- \$9 million (2016: \$11 million) based on actuarial assessment as a self-insurer under the *Accident Compensation Act 1985* (Victoria);
- \$6 million (2016: \$4 million) based on actuarial assessment as a self-insurer under the *Workers' Rehabilitation and Compensation Act 1986* (South Australia);

Note 28. Provisions (continued)

- \$2 million (2016: \$2 million) based on an actuarial assessment as a self-insurer under the *Workers' Compensation and Rehabilitation Act 2003* (Queensland);
- \$1 million (2016: \$1 million) based on an actuarial assessment as a self-insurer under the *Workers' Compensation Act 1951* (Australian Capital Territory);
- \$2 million (2016: \$1 million) based on an actuarial assessment as a self-insurer under the *Workers' Compensation and Injury Management Act 1981* (Western Australia); and
- \$1 million (2016: \$1 million) based on an actuarial assessment as a self-insurer under the *Workers' Rehabilitation and Compensation Act 1988* (Tasmania).

Adequate provision has been made for these liabilities in the provision for annual leave and other employee benefits above.

Note 29. Other liabilities

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Unearned insurance premiums	396	388	-	-
Outstanding insurance claims	339	331	-	-
Defined benefit deficit ¹	43	282	30	256
Accrued interest payable	2,727	2,579	2,416	2,262
Credit card loyalty program ²	284	270	16	15
Securities purchased not delivered	1,315	1,695	1,315	1,692
Trade creditors and other accrued expenses	1,111	1,124	892	884
Other ^{2,3}	2,568	2,335	2,457	2,177
Total other liabilities	8,783	9,004	7,126	7,286

¹ Refer to Note 38 for more details.

² Comparatives have been revised for consistency.

³ 2017 includes customer refunds and payments of \$169 million. Some of the payments provided for include: payment to superannuation customers who previously had their claims denied, so that these customers now benefit from our improved disclosure practices; payments to customers who did not receive all the benefits they were entitled to under their 'packaged accounts'; and refunds where ongoing advice fees were paid but we are unable to formally demonstrate that the advice service was provided in the relevant period. The determination of the amount recognised for these payments involves the exercise of significant judgement (refer to critical accounting assumptions and estimates in Note 28). Further information on regulatory action and internal reviews is included in the contingent liabilities section of Note 31.

Note 30. Operating lease commitments

Westpac leases various commercial and retail premises and related plant and equipment. The lease commitments at 30 September are as follows:

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Due within one year	548	537	480	463
Due after one year but not later than five years	1,591	1,319	1,395	1,120
Due after 5 years	1,994	1,275	1,652	1,046
Total lease commitments	4,133	3,131	3,527	2,629

Operating leases are entered into to meet the business needs of entities in the Group. 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.

The future minimum lease payments receivable from non-cancellable sub-leases were \$9 million (2016: \$11 million) for both the Group and Parent Entity.

Note 31. Contingent liabilities, contingent assets and credit commitments**Undrawn credit commitments**

The Group enters into various arrangements with customers which are only recognised in the balance sheet when called upon. These arrangements include commitments to extend credit, bill endorsements, financial guarantees, standby letters of credit and underwriting facilities.

They expose the Group to liquidity risk when called upon and also to credit risk if the customer fails to repay the amounts owed at the due date. The maximum exposure to credit loss is the contractual or notional amount of the instruments disclosed below. Some of the arrangements can be cancelled by the Group at any time and a significant portion is expected to expire without being drawn. The actual required liquidity and credit risk exposure is therefore less than the amounts disclosed.

The Group uses the same credit policies when entering into these arrangements as it does for on-balance sheet instruments. Refer to Note 22 for further details of liquidity risk and credit risk management.

Undrawn credit commitments excluding derivatives at 30 September are as follows:

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Undrawn credit commitments				
Letters of credit and guarantees ¹	15,460	16,435	14,908	15,725
Commitments to extend credit ²	178,443	176,811	156,423	154,783
Other	648	235	648	235
Total undrawn credit commitments	194,551	193,481	171,979	170,743

¹ Letters of credit are undertakings to pay, against presentation documents, an obligation in the event of a default by a customer. Guarantees are unconditional undertakings given to support the obligations of a customer to third parties. The Group may hold cash as collateral for certain guarantees issued.

² Commitments to extend credit include all obligations on the part of the Group to provide credit facilities. As facilities may expire without being drawn upon, the notional amounts do not necessarily reflect future cash requirements. In addition to the commitments disclosed above, at 30 September 2017 the Group had offered \$5.5 billion (2016: \$5.6 billion) of facilities to customers, which had not yet been accepted.

Consolidated 2017 \$m	Up to	Over 1	Over 3	Over	Total
	1 Year	to 3 Years	to 5 Years	5 Years	
Letters of credit and guarantees	8,797	2,860	1,009	2,794	15,460
Commitments to extend credit	66,663	34,523	16,906	60,351	178,443
Other	-	-	100	548	648
Total undrawn credit commitments	75,460	37,383	18,015	63,693	194,551

Contingent assets

The credit commitments shown in the table above also constitute contingent assets. These commitments would be classified as loans in the balance sheet on the contingent event occurring.

Contingent liabilities*Regulatory action and internal reviews*

Globally, regulators continue to progress various reviews involving the financial services sector. The nature of these reviews can be wide ranging and, in Australia, currently include investigations into potential misconduct in credit and financial services. For example, regulators such as ASIC, APRA, ACCC and AUSTRAC are currently conducting reviews (some of which are industry-wide) that consider a range of matters, including in relation to sales practices, responsible lending (including in the context of reverse mortgages and interest only lending), financial adviser conduct (including compliance with the obligation to act in the client's best interests), the provision of personal and general advice, life insurance claims handling and the pricing of residential mortgages. These reviews may result in litigation, fines, penalties, revocation, suspension or variation of conditions of relevant regulatory licences or other enforcement or administrative action by regulators. Westpac has received various notices and requests for information from its regulators as part of both industry-wide and Westpac-specific reviews.

In addition, Westpac is undertaking a number of reviews to identify and resolve prior issues that have the potential to impact our customers and reputation. These reviews have identified, and may continue to identify, some prior instances where we are now taking or will take action to put things right (including in relation to areas of industry focus such as record keeping and the way some product terms and conditions are operationalised) so that our customers are not at a disadvantage from certain past practices.

An assessment of the likely cost to the Group of these reviews and actions has been made on a case-by-case basis for the purpose of the financial statements and specific provisions have been made where appropriate.

Note 31. Contingent liabilities, contingent assets and credit commitments (continued)

Litigation

There are outstanding court proceedings, claims and possible claims for and against the Group. Contingent liabilities exist in respect of actual and potential claims and proceedings, including those listed below. An assessment of the Group's likely loss has been made on a case-by-case basis for the purpose of the financial statements and specific provisions have been made where appropriate.

- As part of ASIC's ongoing industry-wide investigations into the interbank short-term money market and its impact on the setting of the bank bill swap reference rate (BBSW), on 5 April 2016, ASIC commenced civil proceedings against Westpac in the Federal Court of Australia, alleging certain misconduct, including market manipulation and unconscionable conduct. The conduct that is the subject of the proceedings is alleged to have occurred between 6 April 2010 and 6 June 2012. Westpac is defending these proceedings. ASIC is seeking from the court declarations that Westpac breached various provisions of the *Corporations Act 2001* (Cth) and the *Australian Securities and Investments Commission Act 2001* (Cth), pecuniary penalties of unspecified amounts and orders requiring Westpac to implement a comprehensive compliance program for persons involved in Westpac's trading in the relevant market.
- In August 2016, a class action was filed in the United States District Court for the Southern District of New York against Westpac and a large number of Australian and international banks alleging misconduct in relation to BBSW. Those proceedings are at a very early stage and the level of damages sought has not been specified. Westpac is defending these proceedings.
- On 1 March 2017, ASIC commenced litigation in relation to certain Westpac home loans (including certain interest only loans) alleging contraventions of the *National Consumer Credit Protection Act 2009* (Cth). For further information, refer to 'Significant developments' under 'Information on Westpac' in Section 1.
- On 22 December 2016, ASIC commenced Federal Court proceedings against BT Financial Management Limited (BTFM) and Westpac Securities Administration Limited (WSAL) in relation to a number of superannuation account consolidation campaigns conducted between 2013 and 2016. ASIC has alleged that in the course of some of these campaigns, customers were provided with personal advice in contravention of a number of *Corporations Act 2001* (Cth) provisions, BTFM and WSAL are defending the proceedings.

Financial Claims Scheme

Under the Financial Claims Scheme (FCS) the Australian Government provides depositors a free guarantee of deposits in eligible ADIs up to and including \$250,000. The FCS applies to an eligible ADI if APRA has applied for the winding up of the ADI and the responsible Australian Government minister has declared that the FCS applies to the ADI.

The *Financial Claims Scheme (ADIs) Levy Act 2008* provides for the imposition of a levy to fund the excess of certain APRA FCS costs connected to an ADI. The levy would be imposed on liabilities of eligible ADIs to their depositors and cannot be more than 0.5% of the amount of those liabilities.

Contingent tax risk

Tax and regulatory authorities are reviewing the taxation treatment of certain transactions undertaken by the Group in the course of normal business activities and the claiming of tax incentives (including research and development tax incentives). The Group also responds to various notices and requests for information it receives from tax and regulatory authorities.

Risk reviews and audits are also being undertaken by revenue authorities in other jurisdictions, as part of normal revenue authority activity in those countries. These reviews, notices and requests may result in additional tax liabilities (including interest and penalties).

The Group has assessed these and other taxation claims arising in Australia and elsewhere, including seeking independent advice where appropriate, and holds appropriate provisions.

Settlement risk

The Group is subject to a credit risk exposure in the event that another counterparty fails to settle for its payments clearing activities (including foreign exchange). The Group seeks to minimise credit risk arising from settlement risk in the payments system by aligning our processing method with the legal certainty of settlement in the relevant clearing mechanism.

Parent Entity guarantees and undertakings

The Parent Entity makes the following guarantees and undertakings to subsidiaries:

- letters of comfort for certain subsidiaries which recognise that Westpac has a responsibility that those subsidiaries continue to meet their obligations; and
- guarantees to certain wholly owned subsidiaries which are Australian financial services or credit licensees to comply with legislative requirements. Each guarantee is capped at \$40 million per year and can only be utilised if the entity concerned becomes legally obliged to pay for a claim under the relevant licence. The Parent Entity has a right to recover any funds payable under the guarantees from the relevant subsidiary.

CAPITAL AND DIVIDENDS

Note 32. Shareholders' equity

Accounting policy

Share capital

Ordinary shares are recognised at the amount paid up per ordinary share net of directly attributable issue costs.

Non-controlling interests

Non-controlling interests represent the share in the net assets of subsidiaries attributable to equity interests that are not owned directly or indirectly by the Parent Entity.

Reserves

Foreign currency translation reserve

Exchange differences arising on translation of the Group's foreign operations, any offsetting gains or losses on hedging the net investment and any associated tax effect are reflected in the foreign currency translation reserve. A cumulative credit balance in this reserve would not normally be regarded as being available for payment of dividends until such gains are realised and recognised in the income statement on sale or disposal of the foreign operation.

Available-for-sale securities reserve

This comprises the changes in the fair value of available-for-sale financial securities, net of tax. These changes are transferred to non-interest income in the income statement when the asset is either disposed of or impaired.

Cash flow hedging reserve

This comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments, net of tax.

Share-based payment reserve

This comprises the fair value of equity-settled share-based payments recognised as an expense.

Other reserves

Other reserves for the Parent Entity relates to certain historic internal group restructurings performed at fair value. The reserve is eliminated on consolidation.

Other reserves for the Group consist of transactions relating to changes in the Parent Entity's ownership of a subsidiary that do not result in a loss of control.

The amount recorded in other reserves reflects the difference between the amount by which non-controlling interests are adjusted and the fair value of any consideration paid or received.

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Share capital				
Ordinary share capital, fully paid	34,889	33,469	34,889	33,469
Restricted Share Plan (RSP) treasury shares held ¹	(434)	(366)	(434)	(366)
Other treasury shares held ²	(61)	(89)	(3)	(3)
Total treasury shares held	(495)	(455)	(437)	(369)
Total share capital	34,394	33,014	34,452	33,100
Non-controlling interests	54	61	-	-

¹ 2017: 3,549,035 unvested shares held (2016: 3,472,010).

² 2017: 4,652,579 shares held (2016: 5,577,632).

Note 32. Shareholders' equity (continued)

Ordinary shares

Westpac does not have authorised capital and the ordinary shares have no par value. Ordinary shares entitle the holder to participate in dividends and, in the event of Westpac winding up, to a share of the proceeds in proportion to the number of and amounts paid on the shares held.

Each ordinary share entitles the holder to one vote, either in person or by proxy, at a shareholder meeting.

Reconciliation of movement in number of ordinary shares.

Consolidated and Parent Entity

(number)	2017	2016
Opening balance	3,346,166,853	3,183,907,786
Share entitlement offer ¹	-	138,998,404
Dividend reinvestment plan ²	48,197,426	23,260,663
Closing balance	3,394,364,279	3,346,166,853

¹ The price for the issuance of shares in relation to the entitlement offer was \$25.50. Net issue costs of \$36 million were recognised in contributed equity.

² The price for the issuance of shares in relation to the dividend reinvestment plan for the 2017 interim dividend was \$29.79 (2016 final dividend was \$31.32, 2016 interim dividend was \$30.43 and 2015 final dividend was \$31.83).

Ordinary shares purchased on market

Consolidated and Parent Entity	2017 Number	2017 Average Price (\$)
For share-based payment arrangements:		
Employee share plan (ESP)	862,912	30.97
Restricted share plan (RSP) ¹	2,123,635	32.08
WPP - options exercised ²	52,745	31.55
WPP - share rights exercised	142,093	31.03
LTI - options exercised ²	326,178	33.52
As treasury shares:		
Treasury shares purchased (excluding RSP) ^{3,4}	275,014	33.59
Treasury shares sold ⁵	(1,200,067)	32.62
Total ordinary shares purchased/(sold) on market⁶	2,582,510	

¹ Ordinary shares allocated to employees under the RSP are classified as treasury shares until the shares vest.

² The average exercise price received was \$23.98 on the exercise of the WPP options and \$28.54 on the exercise of the LTI options.

³ Treasury shares include ordinary shares held by statutory life funds and managed investment schemes and ordinary shares held by Westpac for equity derivatives sold to customers.

⁴ Treasury shares purchased (excluding RSP) by the Parent Entity during the year was nil.

⁵ Treasury shares sold by the Parent Entity during the year was 6,321 shares at an average price of \$31.35.

⁶ The purchase of ordinary shares on market resulted in a tax benefit of \$0.7 million being recognised as contributed equity.

For details of the share-based payment arrangements refer to Note 37.

Note 32. Shareholders' equity (continued)

Reconciliation of movement in reserves

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Available-for-sale securities reserve				
Opening balance	10	(25)	10	(41)
Net gains/(losses) from changes in fair value	75	53	88	69
Income tax effect	(19)	(15)	(26)	(19)
Transferred to income statements	(3)	(8)	(3)	(1)
Income tax effect	1	2	1	-
Exchange differences	-	3	-	2
Closing balance	64	10	70	10
Share-based payment reserve				
Opening balance	1,333	1,217	1,221	1,108
Share-based payment expense	98	116	101	113
Closing balance	1,431	1,333	1,322	1,221
Cash flow hedging reserve				
Opening balance	(172)	26	(78)	131
Net gains/(losses) from changes in fair value	(91)	(304)	(42)	(193)
Income tax effect	27	89	13	58
Transferred to income statements	115	21	19	(106)
Income tax effect	(33)	(4)	(6)	32
Closing balance	(154)	(172)	(94)	(78)
Foreign currency translation reserve				
Opening balance	(413)	(175)	(404)	(299)
Exchange differences on translation of foreign operations (net of associated hedges)	(116)	(238)	(77)	(105)
Closing balance	(529)	(413)	(481)	(404)
Other reserves				
Opening balance	(19)	(17)	41	41
Transactions with owners	1	(2)	-	-
Closing balance	(18)	(19)	41	41
Group's share of reserves of associates	-	(12)	-	-
Total reserves	794	727	858	790

Note 33. Capital adequacy

APRA measures an ADI's regulatory capital using three measures:

Level of capital	Definition
Common Equity Tier 1 Capital (CET1)	Comprises the highest quality components of capital that consists of paid-up share capital, retained profits and certain reserves, less certain intangible assets, capitalised expenses and software, and investments and retained profits in insurance and funds management subsidiaries that are not consolidated for capital adequacy purposes.
Tier 1 Capital	The sum of CET1 and Additional Tier 1 Capital. Additional Tier 1 Capital comprises high quality components of capital that consist of certain securities not included in CET1, but which include loss absorbing characteristics.
Total Regulatory Capital	The sum of Tier 1 Capital and Tier 2 Capital. Tier 2 Capital includes subordinated instruments and other components of capital that, to varying degrees, do not meet the criteria for Tier 1 Capital, but nonetheless contribute to the overall strength of an ADI and its capacity to absorb losses.

Under APRA's Prudential Standards, Australian ADIs, including Westpac, are required to maintain a minimum Common Equity Tier 1 (CET1) ratio of at least 4.5%, Tier 1 ratio of at least 6.0% and Total Regulatory Capital of at least 8.0%. APRA may also require ADIs, including, Westpac, to meet Prudential Capital Requirements (PCRs) above the minimum capital ratios. APRA does not allow the PCRs for individual ADIs to be disclosed.

APRA also requires ADIs to hold additional CET1 buffers comprising of:

- a capital conservation buffer (CCB) of 3.5% for ADIs designated by APRA as domestic systemically important banks (D-SIBs) unless otherwise determined by APRA, which includes a 1.0% surcharge for D-SIBs. APRA has determined that Westpac is a D-SIB; and
- a countercyclical capital buffer. The countercyclical buffer is set on a jurisdictional basis and APRA is responsible for setting the requirement in Australia. The countercyclical buffer requirement is currently set to zero for Australia and New Zealand.

Collectively, the above buffers are referred to as the "Capital Buffer" (CB). Should the CET1 capital ratio fall within the capital buffer range restrictions on the distributions of earnings will apply. This includes restrictions on the amount of earnings that can be distributed through dividends, Additional Tier 1 Capital distributions and discretionary staff bonuses.

Capital management strategy

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

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

- the development of a capital management strategy, including consideration of regulatory minimums, capital buffers and contingency plans;
- consideration of both economic and regulatory capital requirements;
- a stress testing framework that challenges the capital measures, coverage and requirements including the impact of adverse economic scenarios; and
- consideration of the perspective of external stakeholders', including rating agencies and equity and debt investors.

In light of APRA's announcement on 'unquestionably strong' capital on 19 July 2017, Westpac has ceased to use its preferred range of 8.75% to 9.25% as a guide to managing capital levels. Westpac will revise its preferred range for the CET1 ratio once APRA finalises its review of the capital adequacy framework. In the interim, Westpac will seek to operate with a CET1 ratio of at least 10.5% in March and September as measured under the existing capital framework. This also takes into consideration:

- current regulatory capital minimums and the capital conservation buffer (CCB), which together are the total CET1 requirement;
- stress testing to calibrate an appropriate buffer against a downturn; and
- quarterly volatility of capital ratios due to the half yearly cycle of ordinary dividend payments.

Note 34. Dividends

\$m	Consolidated			Parent Entity	
	2017	2016	2015	2017	2016
Dividends not recognised at year end					
Since year end the Directors have proposed the following dividends:					
Final dividend 94 cents per share (2016: 94 cents, 2015: 94 cents)					
all fully franked at 30%	3,186	3,142	2,988	3,191	3,145
Total dividends not recognised at year end	3,186	3,142	2,988	3,191	3,145

Shareholders can choose to receive their dividends as cash or reinvest for an equivalent number of shares under the Dividend Reinvestment Plan (DRP). The Board has decided to issue new shares to satisfy the DRP for the 2017 final dividend. The DRP will not include a discount.

The Board considered a range of factors including the impact of the Bank Levy on shareholders (which equated to 2 cents per share in the second half of 2017), however decided to leave the dividend unchanged at 94 cents per share.

Details of dividends recognised during the year are provided in the statement of changes in equity.

Australian franking credits

Australian franking credits available to the Parent Entity for subsequent years are \$1,063 million (2016: \$911 million; 2015: \$793 million). This is calculated as the year end franking credit balance, adjusted for the Australian current tax liability and the proposed 2017 final dividend.

New Zealand imputation credits

New Zealand imputation credits of NZ\$0.07 (2016: NZ\$0.07, 2015: NZ\$0.06) per share will be attached to the proposed 2017 final dividend. New Zealand imputation credits available to the Parent Entity for subsequent years are NZ\$375 million (2016: NZ\$423 million, 2015: NZ\$522 million). This is calculated on the same basis as the Australian franking credits but using the New Zealand current tax liability.

GROUP STRUCTURE**Note 35. Investments in subsidiaries and associates****Accounting policy***Subsidiaries*

Westpac's subsidiaries are entities which it controls and consolidates as it is exposed to, or has rights to, variable returns from the entity, and can affect those returns through its power over the entity.

When the Group ceases to control a subsidiary, any retained interest in the entity is remeasured to fair value, with any resulting gain or loss recognised in the income statement.

Changes in the Group's ownership interest in a subsidiary which do not result in a loss of control are accounted for as transactions with equity holders in their capacity as equity holders.

In the Parent Entity's financial statements, investments in subsidiaries are initially recorded at cost and are subsequently held at the lower of cost and recoverable amount.

All transactions between Group entities are eliminated on consolidation.

Associates

Associates are entities in which the Group has significant influence, but not control, over the operating and financial policies. The Group accounts for associates using the equity method. The investments are initially recognised at cost (except where recognised at fair value due to a loss of control of a subsidiary), and increased (or decreased) each year by the Group's share of the associate's profit (or loss). Dividends received from the associate reduce the investment in associate.

Overseas companies predominantly carry on business in the country of incorporation. For unincorporated entities, 'Country of Incorporation' refers to the country where business is carried on. The financial years of all controlled entities are the same as that of Westpac unless otherwise stated. From time to time, the Group consolidates a number of unit trusts where the Group has variable returns from its involvement with the trusts, and has the ability to affect those returns through its power over the trusts. These unit trusts are excluded from the table.

Note 35. Investments in subsidiaries and associates (continued)

The following table includes the material controlled entities of the Group as at 30 September 2017.

Name	Country of Incorporation	Name	Country of Incorporation
Advance Asset Management Limited	Australia	Westpac Covered Bond Trust	Australia
Asgard Capital Management Limited	Australia	Westpac Equity Holdings Pty Limited	Australia
Asgard Wealth Solutions Limited	Australia	Westpac Financial Services Group Limited	Australia
BT Financial Group Pty Limited	Australia	Westpac General Insurance Limited	Australia
BT Funds Management Limited	Australia	Westpac General Insurance Services Limited	Australia
BT Portfolio Services Limited	Australia	Westpac Lenders Mortgage Insurance Limited	Australia
Capital Finance Australia Limited	Australia	Westpac Life Insurance Services Limited	Australia
Crusade ABS Series 2016-1 Trust	Australia	Westpac Securities Limited	Australia
Crusade ABS Series 2017-1 Trust	Australia	Westpac Securitisation Holdings Pty Limited	Australia
Crusade Trust No.2P of 2008	Australia	BT Funds Management (NZ) Limited	New Zealand
Hastings Funds Management Limited	Australia	Westpac Life-NZ-Limited	New Zealand
Hastings Management Pty Limited	Australia	Westpac New Zealand Group Limited	New Zealand
Series 2008-1M WST Trust	Australia	Westpac New Zealand Limited	New Zealand
Series 2014-1 WST Trust	Australia	Westpac NZ Covered Bond Limited ¹	New Zealand
Series 2014-2 WST Trust	Australia	Westpac NZ Securitisation Limited ¹	New Zealand
Series 2015-1 WST Trust	Australia	Westpac Securities NZ Limited	New Zealand
St. George Finance Limited	Australia	Westpac Term PIE Fund ²	New Zealand
St. George Motor Finance Limited	Australia	Westpac Bank-PNG-Limited	Papua New Guinea

¹ The Group indirectly owns 19% of Westpac NZ Covered Bond Limited (WNZCBL) and Westpac NZ Securitisation Limited (WNZSL), however, due to contractual and structural arrangements both WNZCBL and WNZSL are considered to be controlled entities within the Group.

² The Group has funding agreements in place with this entity and is deemed to have exposure to the associated risks and rewards. The entity is consolidated where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The following controlled entities have been granted relief from compliance with the balance date synchronisation provisions in the *Corporations Act 2001*:

- Westpac Cash PIE Fund;
- Westpac Notice Saver PIE Fund; and
- Westpac Term PIE Fund.

The following material controlled entities are not wholly owned:

Percentage Owned	2017	2016
St. George Motor Finance Limited	75.0%	75.0%
Westpac Bank-PNG-Limited	89.9%	89.9%
Westpac NZ Covered Bond Limited	19.0%	19.0%
Westpac NZ Securitisation Limited	19.0%	19.0%

Non-controlling interests

Details of the balance of non-controlling interests are set out in Note 32. There are no non-controlling interests that are material to the Group.

Significant restrictions

There were no significant restrictions on the ability to transfer cash or other assets, pay dividends or other capital distributions, provide or repay loans and advances between the entities within the Group subject to local regulatory requirements. There were also no significant restrictions on Westpac's ability to access or use the assets and settle the liabilities of the Group resulting from protective rights of non-controlling interests.

Associates

On 26 May 2017, the Group sold 60 million shares of BTIM, which reduced the Group's ownership to approximately 10%. Following completion of the sale, the remaining interest in BTIM was reclassified to available-for-sale securities.

The following table summarises the financial information of BTIM and reconciles the summarised financial information to the carrying amount of the Group's 29.0% investment in BTIM as at 26 May 2017 immediately prior to the sale (30 September 2016: 29.5%). The table also summarises the gain recognised on the sale of the Group's interest in BTIM as well as the fair value of the remaining interest in BTIM initially recognised in available-for-sale securities.

Note 35. Investments in subsidiaries and associates (continued)

Consolidated \$m	Period ended 26 May 2017	12 months ended 30 September 2016
Summarised results		
Revenue for the period	262	455
Net profit for the period	90	142
Other comprehensive income for the period	11	(83)
Total comprehensive income (100%)	101	59
Group's share of net profit ¹	26	42
Equity accounting adjustments	(13)	(22)
Group's share in net profit recognised in the income statement	13	20
Group's share of other comprehensive income ¹	4	(24)
Tax effect on Group's share of other comprehensive income	(1)	7
Share of total comprehensive income recognised by the Group	16	3
Dividends received from associates during the period	22	34
Summarised balance sheet		
Total assets	887	913
Total liabilities	(122)	(169)
Total net assets (100%)	765	744
Group's share of total net assets ¹	222	220
Other equity accounting adjustments	-	(6)
Fair value adjustments (including notional goodwill) on acquisition (net of amortisation)	491	504
Carrying amount of interest in BTIM²	713	718
Carrying amount of interest in BTIM sold	(471)	n/a
Carrying amount of remaining interest reclassified to available-for-sale securities	(242)	n/a
Remaining interest in BTIM accounted for under equity method	-	718
Fair value of remaining interest reclassified to available-for-sale securities	375	n/a
Proceeds from sale of BTIM interest, net of transaction costs	630	n/a
Amount of reserves recycled to profit or loss	(13)	n/a
Gain on sale of interest in BTIM	279	n/a
Fair value of investment	n/a	807

¹ Represents the Group's share of BTIM (26 May 2017: 29.0%, 30 September 2016: 29.5%).

² The amount disclosed as at 26 May 2017 represented the carrying value of interest in BTIM immediately prior to the sale.

Changes in ownership of subsidiaries**Businesses disposed during the year ending 30 September 2017**

No businesses were sold in the year ended 30 September 2017.

Businesses disposed during the year ending 30 September 2016**Pacific Islands**

Westpac sold its banking operations in Solomon Islands and Vanuatu to the Bank of South Pacific Limited (BSP). Settlement occurred on 30 October 2015 and 1 July 2016 respectively, with a gain of \$1 million recognised in non-interest income.

The total cash consideration paid, net of transaction costs and cash held, was \$104 million.

Details of the assets and liabilities over which control was lost are provided in Note 41.

Note 36. Structured entities

Accounting policy

Structured entities are generally created to achieve a specific, defined objective and their operations are restricted such as only purchasing specific assets. Structured entities are commonly financed by debt or equity securities that are collateralised by and/or indexed to their underlying assets. The debt and equity securities issued by structured entities may include tranches with varying levels of subordination.

Structured entities are classified as subsidiaries and consolidated if they meet the definition in Note 35. If the Group does not control a structured entity then it will not be consolidated.

The Group engages in various transactions with both consolidated and unconsolidated structured entities that are mainly involved in securitisations, asset backed and other financing structures and managed funds.

Consolidated structured entities

Securitisation and covered bonds

The Group uses structured entities to securitise its financial assets, including two covered bond programs to assign pools of residential mortgages to bankruptcy remote structured entities.

The Group also uses structured entities to give its customers access to funding from commercial paper markets.

Refer to Note 25 for further details.

Group managed funds

The Group acts as the responsible entity and/or fund manager for various investment management funds. As fund manager, if the Group is deemed to be acting as a principal rather than agent then it consolidates the fund. The principal vs. agent decision requires judgement of whether the Group has sufficient exposure to variable returns.

Non-contractual financial support

The Group does not provide non-contractual financial support to these consolidated structured entities.

Unconsolidated structured entities

The Group has interests in various unconsolidated structured entities including debt or equity instruments, guarantees, liquidity and other credit support arrangements, lending, loan commitments, certain derivatives and investment management agreements.

Interests exclude non-complex derivatives (e.g. interest rate or currency swaps), instruments that create, rather than absorb, variability in the entity (e.g. credit protection under a credit default swap), and lending to a structured entity with recourse to a wider operating entity, not just the structured entity.

The Group's main interests in unconsolidated structured entities, which arise in the normal course of business, are:

Trading securities	The Group actively trades interests in structured entities and normally has no other involvement with the structured entity. The Group earns interest income on these securities and also recognises fair value changes through trading income in non-interest income.
Available-for-sale securities	The Group holds mortgage-backed securities for liquidity purposes and the Group normally has no other involvement with the structured entity. These assets are highly-rated, investment grade and eligible for repurchase agreements with the RBA or another central bank. The Group earns interest income and net gains or losses on selling these assets are recognised in the income statements.
Loans and other credit commitments	The Group lends to unconsolidated structured entities, subject to the Group's collateral and credit approval processes, in order to earn interest and fee income. The structured entities are mainly property trusts, securitisation entities and those associated with project and property financing transactions.
Investment management agreements	The Group manages funds that provide customers with investment opportunities. The Group also manages superannuation funds for its employees. The Group earns management and performance fee income which is recognised in non-interest income. The Group may also retain units in these investment management funds, primarily through life insurance subsidiaries. The Group earns fund distribution income and recognises fair value movements through non-interest income.

Note 36. Structured entities (continued)

The following table shows the Group's interests in unconsolidated structured entities and its maximum exposure to loss in relation to those interests. The maximum exposure does not take into account any collateral or hedges that will reduce the risk of loss.

- For on-balance sheet instruments, including debt and equity instruments in and loans to unconsolidated structured entities, the maximum exposure to loss is the carrying value; and
- For off-balance sheet instruments, including liquidity facilities, loan and other credit commitments and guarantees, the maximum exposure to loss is the notional amounts.

Consolidated 2017	Investment in Third Party Mortgage and Other Asset-Backed Securities¹				Interest in Other Structured Entities	Total
	Financing to Securitisation Vehicles	Group Managed Funds	Group Managed Funds	Group Managed Funds		
\$m						
Assets						
Receivables due from other financial institutions	-	392	-	-	-	392
Trading securities and financial assets designated at fair value	1,740	-	-	674	-	2,414
Available-for-sale securities	6,981	-	-	-	-	6,981
Loans	-	20,032	44	22,488	-	42,564
Life insurance assets	-	-	4,344	1,735	-	6,079
Other assets	-	-	52	-	-	52
Total on-balance sheet exposures	8,721	20,424	4,440	24,897	-	58,482
Total notional amounts of off-balance sheet exposures	-	5,802	66	7,718	-	13,586
Maximum exposure to loss	8,721	26,226	4,506	32,615	-	72,068
Size of structured entities ²	60,573	26,226	70,070	134,548	-	291,417

¹ The Group's interests in third party mortgage and other asset-backed securities are senior tranches of notes and are investment grade rated.

² Represented either by the total assets or market capitalisation of the entity, or if not available, the Group's total committed exposure (for lending arrangements and external debt and equity holdings), funds under management (for Group managed funds) or the total value of notes on issue (for investments in third-party asset-backed securities).

Consolidated 2016	Investment in Third Party Mortgage and Other Asset-Backed Securities¹				Interest in Other Structured Entities	Total
	Financing to Securitisation Vehicles	Group Managed Funds	Group Managed Funds	Group Managed Funds		
\$m						
Assets						
Receivables due from other financial institutions	-	936	-	-	-	936
Trading securities and financial assets designated at fair value	1,955	-	4	1,870	-	3,829
Available-for-sale securities	4,253	-	-	-	-	4,253
Loans	-	18,339	111	23,673	-	42,123
Life insurance assets	90	-	291	2,450	-	2,831
Other assets	3	-	55	-	-	58
Total on-balance sheet exposures	6,301	19,275	461	27,993	-	54,030
Total notional amounts of off-balance sheet exposures	-	3,469	62	7,078	-	10,609
Maximum exposure to loss	6,301	22,744	523	35,071	-	64,639
Size of structured entities ²	40,320	22,744	62,397	146,488	-	271,949

¹ The Group's interests in third party mortgage and other asset-backed securities are senior tranches of notes and are investment grade rated.

² Represented either by the total assets or market capitalisation of the entity, or if not available, the Group's total committed exposure (for lending arrangements and external debt and equity holdings), funds under management (for Group managed funds) or the total value of notes on issue (for investments in third-party asset-backed securities).

Non-contractual financial support

The Group does not provide non-contractual financial support to these unconsolidated structured entities.

EMPLOYEE BENEFITS

Note 37. Share-based payments

Accounting policy

The Group enters into various share-based payment arrangements with its employees as a component of overall compensation for services provided. Share-based payment arrangements comprise options to purchase shares at a pre-determined price (share options), rights to receive shares for free (share rights) and restricted shares (issued at no cost). Share-based payment arrangements typically require a specified period of continuing employment (the service period or vesting period) and may include performance targets (vesting conditions). Specific details of each arrangement are provided below.

Share-based payments must be classified as either cash-settled or equity-settled arrangements. The Group's significant arrangements are equity-settled, as the Group is not obliged to settle in cash.

Options and share rights

Options and share rights are equity-settled arrangements. The fair value is measured at grant date and is recognised as an expense over the service period, with a corresponding increase in the share-based payment reserve in equity.

The fair value of share options and share rights is estimated at grant date using a binomial/Monte Carlo simulation pricing model which incorporates the vesting and market-related performance targets of the grants. The fair value of share options and rights excludes non-market vesting conditions such as employees' continuing employment by the Group. The non-market vesting conditions are instead incorporated in estimating the number of share options and rights that are expected to vest and are therefore recognised as an expense. At each reporting date the non-market vesting assumptions are revised and the expense recognised each year takes into account the most recent estimates. The market-related assumptions are not revised each year as the fair value is not re-estimated after the grant date.

Restricted share plan (RSP)

The RSP is accounted for as an equity-settled arrangement. The fair value of shares allocated to employees for nil consideration is recognised as an expense over the vesting period with a corresponding increase in the share-based payments reserve in equity. The fair value of ordinary shares issued to satisfy the obligation to employees is measured at grant date and is recognised as a separate component of equity.

Employee share plan (ESP)

The value of shares expected to be allocated to employees for nil consideration is recognised as an expense over the financial year and provided for as other employee benefits. The fair value of any ordinary shares issued to satisfy the obligation to employees is recognised in equity. Alternatively, shares may be purchased on market to satisfy the obligation to employees.

Scheme name	Westpac Long Term Incentive Plan (LTI)	Westpac Performance Plan (WPP)	Restricted Share Plan (RSP)	Employee Share Plan (ESP)
Type of share-based payment	Share rights (allocated at no cost). Share options (no longer issued since October 2009).	Share rights (allocated at no cost). Share options (no longer issued since October 2009).	Westpac ordinary shares (allocated at no cost).	Westpac ordinary shares (allocated at no cost) of up to \$1,000 per employee per year.
How it is used	Aligns executive remuneration and accountability with shareholder interests over the long term.	The mandatory deferral of a portion of short-term incentives for New Zealand employees and key employees based outside Australia.	To reward key employees in respect of the previous financial year.	To reward eligible Australian employees (unless they have already been provided instruments under another scheme for the previous year).
Exercise price:	Nil.	Nil.	n/a.	n/a.
Shares rights				
Share options	The market price of Westpac shares at the start of the performance period.	The market price of Westpac shares at the start of the performance period.	n/a.	n/a.

Note 37. Share-based payments (continued)

Scheme name	Westpac Long Term Incentive Plan (LTI)	Westpac Performance Plan (WPP)	Restricted Share Plan (RSP)	Employee Share Plan (ESP)
Performance hurdles	Relative total shareholder return (TSR) over a 4 year performance period and average cash Return on Equity (cash ROE) over a three year performance period plus 1 year holding lock, each applying to half of the award ¹ (commencing with the 2016 LTI award) ² .	None.	None.	None.
Service conditions	Continued employment throughout the vesting period or as determined by the Board.	Continued employment throughout the vesting period or as determined by the Board.	Continued employment throughout the restriction period or as determined by the Board.	Shares must normally remain within the ESP for three years from granting unless the employee leaves Westpac.
Vesting period (period over which expenses are recognised)	4 years ²	Defined period set out at time of grant.	Defined period set out at time of grant.	1 year
Treatment at end of term	Lapse if not exercised.	Lapse if not exercised.	Vested shares are released from the RSP at the end of the vesting period. Shares granted prior to October 2009 may be held in the RSP for up to 10 years from the grant date.	Shares are released at the end of the restriction period or when the employee leaves Westpac.
Does the employee receive dividends and voting rights during the vesting period?	No	No	Yes	Yes

¹ Details of the TSR and cash ROE performance targets are provided in the Remuneration Report in section 4.3.

² For the 2015 LTI awards, the TSR is subject to a four year performance period and Cash EPS compound annual growth rate (CAGR) over a three year performance period plus 1 year holding lock. For awards granted for the periods 2011 to 2014 both the TSR and CAGR hurdles are subject to a three year performance and vesting period. TSR hurdled awards granted prior to 2011 were measured over an initial three year performance period with subsequent performance testing possible at the fourth and fifth anniversaries however further vesting may only occur if the TSR ranking has improved.

Note 37. Share-based payments (continued)

Each share-based payment scheme is quantified below:

(i) Westpac Long Term Incentive Plan

	Outstanding at 1 October 2016	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at 30 September 2017	Outstanding and Exercisable at 30 September 2017
2017						
Share options	583,018	-	326,178	-	256,840	256,840
Weighted average exercise price	\$27.58	-	\$28.54	-	\$26.36	\$26.36
Weighted average remaining contractual life	1.5 years				0.7 years	
Share rights	5,275,652	930,012	-	973,760	5,231,904	6,648
Weighted average remaining contractual life	9.9 years				10.3 years	
2016	1 Oct 2015				30 Sept 2016	
Share options	588,876	-	5,858	-	583,018	583,018
Weighted average exercise price	\$27.61	-	\$29.96	-	\$27.58	\$27.58
Performance share rights	4,632,477	1,788,881	334,095	811,611	5,275,652	6,648

The weighted average fair value at grant date of LTI share rights issued during the year was \$19.17 (2016: \$19.84).

(ii) Westpac Performance Plan (WPP)

	Outstanding at 1 October 2016	Granted During the Year	Exercised During the Year	Lapsed During the Year	Outstanding at 30 September 2017	Outstanding and Exercisable at 30 September 2017
2017						
Share options	74,094	-	52,745	21,349	-	-
Weighted average exercise price	\$23.98	-	\$23.98	-	-	-
Weighted average remaining contractual life	0.2 years				n/a	
Share rights						
One-year vesting period	92,248	114,758	51,124	463	155,419	41,124
Two-year vesting period	187,523	124,382	55,745	22,704	233,456	38,967
Three-year vesting period	111,732	27,874	35,224	-	104,382	38,821
Four-year vesting period	-	126,522	-	-	126,522	-
Total share rights	391,503	393,536	142,093	23,167	619,779	118,912
Weighted average remaining contractual life	7.7 years				12.3 years	
2016	1 Oct 2015				30 Sept 2016	
Share options	158,276	-	84,182	-	74,094	74,094
Weighted average exercise price	\$23.49	-	\$23.05	-	\$23.98	\$23.98
Performance share rights	546,282	168,154	289,807	33,126	391,503	106,863

The weighted average fair value at grant date of unharded share rights issued during the year was \$27.40 (2016: \$29.85).

(iii) Restricted Share Plan (RSP)

Allocation date ¹	Outstanding at 1 October 2016	Granted During the Year	Released	Forfeited During the Year	Outstanding at 30 September 2017
Granted prior to October 2009	994,050	-	318,721	-	675,329
Granted subsequent to October 2009	3,432,822	2,195,572	2,014,264	84,706	3,529,424
Total 2017	4,426,872	2,195,572	2,332,985	84,706	4,204,753
Total 2016	5,653,085	1,971,204	3,145,121	52,296	4,426,872

¹ For awards made prior to October 2009, shares may be held in the RSP for up to 10 years from the date they are granted. For awards made from October 2009, shares are released from the RSP on vesting.

(iv) Employee Share Plan (ESP)

	Allocation Date	Number of Participants	Average Number of Shares Allocated per Participant	Total Number of Shares Allocated	Market Price per Share	Total Fair Value
2017	25 November 2016	26,966	32	862,912	\$31.25	\$26,966,000
2016	18 November 2015	27,816	32	890,112	\$30.32	\$26,988,196

Note 37. Share-based payments (continued)

The 2016 ESP award was satisfied through the purchase of shares on market.

The liability accrued for the ESP at 30 September 2017 is \$28 million (2016: \$27 million) and is provided for as other employee benefits.

(v) CEO plans

Details of share-based payment arrangements held by the CEO, Brian Hartzer, which are on the same terms and conditions as described above for the relevant plan, are provided in the Remuneration report in Section 1.

(vi) Other plans

Westpac also provides plans for small, specialised parts of the Group. The benefits under these plans are directly linked to growth and performance of the relevant part of the business. The plans individually and in aggregate are not material to the Group in terms of expenses and dilution of earnings.

The names of all persons who hold share options and/or rights currently on issue are entered in Westpac's register of option holders which may be inspected at Link Market Services, Level 12, 680 George Street, Sydney, New South Wales.

(vii) Fair value assumptions

The fair values of share options and share rights have been independently calculated at their respective grant dates.

The fair value of share rights with performance targets based on relative TSR also takes into account the average TSR outcome determined using a Monte Carlo simulation pricing model.

The fair values of share rights without TSR based performance targets, including share rights with Cash EPS CAGR performance targets, have been assessed with reference to the share price at grant date and a discount rate reflecting the expected dividend yield over their vesting periods.

Other significant assumptions include:

- a risk free rate of 2.1% for share rights with four-year vesting period (2.1% for share rights issued to the CEO);
- a dividend yield on Westpac shares of 6.0% (5.9% for share rights issued to the CEO);
- volatility in the Westpac share price of 20.7%; and
- volatilities of, and correlation factors between, share price movements of the comparator group and Westpac for TSR.

Note 38. Superannuation commitments**Accounting policy**

The Group recognises an asset or a liability for its defined benefit schemes, being the net of the defined benefit obligations and the fair value of the schemes' assets. The defined benefit obligation is calculated as the present value of the estimated future cash flows, discounted using high-quality long dated corporate bond rates.

The superannuation expense is recognised in operating expenses and remeasurements are recognised through other comprehensive income.

Critical accounting assumptions and estimates

The actuarial valuation of plan obligations is dependent upon a series of assumptions, principally price inflation, salary growth, mortality, morbidity, discount rate and investment returns. Different assumptions could significantly alter the valuation of the plan assets and obligations and the superannuation cost recognised in the income statement.

Note 38. Superannuation commitments (continued)

Westpac had the following defined benefit plans at 30 September 2017:

Name of Plan	Type	Form of Benefit	Date of Last Actuarial Assessment of the Funding Status
Westpac Group Plan (WGP)	Defined benefit and accumulation	Indexed pension and lump sum	30 June 2015
Westpac New Zealand Superannuation Scheme (WNZS) ¹	Defined benefit and accumulation	Indexed pension and lump sum	30 June 2014
Westpac Banking Corporation UK Staff Superannuation Scheme (UKSS)	Defined benefit	Indexed pension and lump sum	5 April 2015
Westpac UK Medical Benefits Scheme	Defined benefit	Medical benefits	n/a

¹ The 30 June 2017 actuarial assessment for WNZS will be available in January 2018, where applicable the 30 June 2017 interim valuation data has been used.

The defined benefit sections of the schemes are closed to new members. The Group has no obligation beyond the annual contributions for the accumulation or defined contribution sections of the schemes.

The WGP is the Group's principal defined benefit plan and is managed and administered in accordance with the terms of its trust deed and relevant legislation in Australia. Its defined benefit liabilities are based on salary and length of membership for active members and inflation in the case of pensioners.

The defined benefit schemes expose the Group to the following risks:

- discount rate – reductions in the discount rate would increase the present value of the future payments;
- inflation rate – increases in the inflation rate would increase the payments to pensioners;
- investment risk – lower investment returns would increase the contributions needed to offset the shortfall;
- mortality risk – members may live longer than expected extending the cash flows payable by the Group; and
- legislative risk – legislative changes could be made which increase the cost of providing defined benefits.

Investment risk is managed by setting benchmarks for the allocation of plan assets between asset classes. The long-term investment strategy will often adopt relatively high levels of equity investment in order to:

- secure attractive long term investment returns; and
- provide an opportunity for capital appreciation and dividend growth, which gives some protection against inflation.

Funding recommendations for the WGP, WNZS and the UKSS are made based on triennial actuarial valuations. These valuations resulted in a funding surplus of \$315 million for the year ended 30 September 2017 (2016: \$354 million). Current contribution rates are as follows:

- WGP – contributions are made to the WGP at the rate of 11.8% of members' salaries;
- WNZS – contributions are made to the WNZS at the rate of 12% of members' salaries; and
- UKSS – contributions are made to the UKSS at the rate of £1.05 million per year.

Contributions

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Employer contributions	33	61	33	61
Member contributions	13	14	12	13

Expected employer contributions for the year ended 30 September 2018 are \$32 million.

Expense recognised

\$m	Consolidated			Parent Entity	
	2017	2016	2015	2017	2016
Current service cost	42	43	49	41	42
Net interest cost on net benefit liability	8	7	12	7	7
Total defined benefit expense	50	50	61	48	49

Note 38. Superannuation commitments (continued)**Defined benefit balances recognised**

\$m	Consolidated		Parent Entity	
	2017	2016	2017	2016
Benefit obligation at end of the year	2,284	2,476	2,209	2,385
Fair value of plan assets at end of the year	2,289	2,226	2,227	2,160
Net surplus/(deficit)	5	(250)	18	(225)
Defined benefit surplus (Note 27)	48	32	48	32
Defined benefit deficit (Note 29)	(43)	(282)	(30)	(257)
Net surplus/(deficit)	5	(250)	18	(225)

The average duration of the defined benefit obligation is 11 years (2016: 12 years).

Significant assumptions

Consolidated and Parent Entity	2017		2016	
	Australian Funds	Overseas Funds	Australian Funds	Overseas Funds
Discount rate	4.2%	2.7%-3%	3.3%	2.3%
Salary increases	3.0%	3%-5%	2.8%	3%-4.8%
Inflation rate (pensioners receive inflationary increases)	2.0%	2%-3.5%	1.8%	2%-3.2%
Life expectancy of a 60-year-old male	30.8	27.7-28.9	30.6	27.5-28.8
Life expectancy of a 60-year-old female	33.7	29.2-30.3	33.5	29.1-30.2

Sensitivity to changes in significant assumptions

The table below shows the impact of changes in assumptions on the defined benefit obligation for the WGB. No reasonably possible changes in the assumptions of the Group's other defined benefit plans would have a material impact on the defined benefit obligation.

Change in assumption	Increase in obligation	
	2017	2016
0.5% decrease in discount rate	116	146
0.5% increase in annual salary increases	10	19
0.5% increase in inflation rate (pensioners receive inflationary increases)	106	122
1 year increase in life expectancy	29	42

Asset allocation

Consolidated and Parent Entity	2017		2016	
	Australian Funds	Overseas Funds	Australian Funds	Overseas Funds
%				
Cash	4%	2%	2%	2%
Equity instruments	44%	13%	42%	20%
Debt instruments	29%	65%	26%	59%
Property	10%	10%	9%	10%
Other Assets	13%	10%	21%	9%
Total	100%	100%	100%	100%

Equity and debt instruments are mainly quoted assets while property and other assets are mainly unquoted. Other assets include infrastructure funds and private equity funds.

OTHER

Note 39. Auditor's remuneration

The fees payable to the auditor, PricewaterhouseCoopers (PwC), and overseas firms belonging to the PwC network of firms were:

\$'000	Consolidated		Parent Entity	
	2017	2016	2017	2016
Audit and audit-related fees				
Audit fees				
PwC Australia	17,886	18,233	17,833	18,189
Overseas PwC network firms	3,225	3,086	852	564
Total audit fees	21,111	21,319	18,685	18,753
Audit-related fees				
PwC Australia	3,938	1,485	3,739	1,380
Overseas PwC network firms	68	126	65	-
Total audit-related fees	4,006	1,611	3,804	1,380
Total audit and audit-related fees	25,117	22,930	22,489	20,133
Tax fees				
PwC Australia	5	23	-	23
Overseas PwC network firms	8	-	-	-
Total tax fees	13	23	-	23
Other fees				
PwC Australia	1,853	2,380	912	2,176
Overseas PwC network firms	90	614	90	142
Total other fees	1,943	2,994	1,002	2,318
Total audit and non-audit fees	27,073	25,947	23,491	22,474

Fees payable to the auditor have been categorised as follows:

Audit	The year end audit, half-year review and comfort letters associated with debt issues and capital raisings.
Audit-related	Consultations regarding accounting standards and reporting requirements, regulatory compliance reviews and assurance related to debt and capital offerings.
Tax	Tax compliance and tax advisory services.
Other	Various services including systems assurance, compliance advice and controls reviews.

It is Westpac's policy to engage PwC 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. All services were approved by the Audit Committee in accordance with the pre-approval policy and procedures.

PwC also received fees of \$6.0 million (2016: \$8.1 million) for various entities which are related to Westpac but not consolidated. These non-consolidated entities include entities sponsored by the Group, trusts of which a Westpac Group entity is trustee, manager or responsible entity, superannuation funds and pension funds.

Note 40. Related party disclosures

Related parties

Westpac's related parties are those it controls or can exert significant influence over. Examples include subsidiaries, associates, joint ventures and superannuation plans as well as key management personnel and their related parties.

Key management personnel (KMP)

Key management personnel are those who, directly or indirectly, have authority and responsibility for planning, directing and controlling the activities of Westpac. This includes all Executive and Non-Executive Directors.

Note 40. Related party disclosures (continued)**Parent Entity**

Westpac Banking Corporation is the ultimate parent company of the Group.

Subsidiaries - Note 35

The Parent Entity has the following related party transactions and balances with subsidiaries:

Type of transaction/balance	Details disclosed in
Balances due to / from subsidiaries	Balance Sheet
Dividend income / Transactions with subsidiaries	Note 4
Interest income	Note 3
Tax consolidated group transactions and undertakings	Note 7
Guarantees and undertakings	Note 31

The balances due to / from subsidiaries include a wide range of banking and other financial facilities.

The terms and conditions of related party transactions between the Parent Entity and subsidiaries are sometimes different to commercial terms and conditions. Related party transactions between the Parent Entity and subsidiaries eliminate on consolidation.

Associates - Note 35

The Group provides a wide range of banking and other financial facilities and funds management activities to its associates on commercial terms and conditions.

Superannuation plans

The Group contributed \$329 million (2016: \$318 million) to defined contribution plans and \$33 million to defined benefit plans (2016: \$61 million; refer to Note 38).

Remuneration of KMP

Total remuneration of the KMP was:

\$	Short-term Benefits	Post Employment Benefits	Other Long-term Benefits	Termination Benefits	Share-based Payments	Total
Consolidated						
2017	25,048,403	621,606	156,590	-	16,106,111	41,932,710
2016	24,423,422	577,061	220,264	-	16,177,450	41,398,197
Parent Entity						
2017	23,859,466	545,524	156,590	-	15,268,712	39,830,292
2016	23,265,771	500,968	220,264	-	15,230,171	39,217,174

Other transactions with KMP

KMP receive personal banking and financial investment services from the Group in the ordinary course of business. The terms and conditions, for example interest rates and collateral, and the risks to Westpac are comparable to transactions with other employees and did not involve more than the normal risk of repayment or present other unfavourable features.

Details of loans provided and the related interest charged to KMP and their related parties are as follows:

\$	Interest Payable for the Year	Closing Loan Balance	Number of KMP with Loans
2017	739,466	15,290,320	9
2016 ¹	709,238	16,388,429	9

¹ Balances have been revised to include additional individual loans as at 30 September 2016.

Further details of the KMP's remuneration, share rights and options and other transactions with KMP are included in the Remuneration report in Section 1.

Note 40. Related party disclosures (continued)

Options and share rights holdings

For compliance with SEC disclosure requirements, the following table sets out certain details of the performance options, performance share rights and unhurdled share rights held at 30 September 2017 by the CEO and other key management personnel (including their related parties):

	Latest Date of Exercise	Number of Share Rights	Number of Options	Exercise Price of Options
Managing Director & Chief Executive Officer				
Brian Hartzler	Ranges from 1 October 2024 to 1 October 2031	664,710	-	n/a
Group Executives				
Lyn Cobby	Ranges from 1 October 2030 to 1 October 2031	179,282	-	n/a
Brad Cooper	Ranges from 1 October 2024 to 1 October 2031	316,120	-	n/a
David Curran	Ranges from 1 October 2024 to 1 October 2031	210,876	-	n/a
George Frazis	Ranges from 1 October 2024 to 1 October 2031	258,835	-	n/a
Alexandra Holcomb	Ranges from 1 October 2024 to 1 October 2031	242,930	-	n/a
Peter King	Ranges from 1 October 2024 to 1 October 2031	269,616	-	n/a
Rebecca Lim	Ranges from 1 October 2024 to 1 October 2031	101,518	-	n/a
David Linberg	Ranges from 1 October 2024 to 1 October 2031	196,484	-	n/a
David McLean	Ranges from 1 October 2024 to 1 October 2031	212,538	-	n/a
Christine Parker	Ranges from 1 October 2024 to 1 October 2031	219,225	-	n/a
Gary Thursby	Ranges from 1 October 2024 to 1 October 2031	112,636	-	n/a
Former Group Executive				
Philip Coffey	Ranges from 1 October 2024 to 1 October 2031	371,237	-	n/a

Further details of the equity holdings of KMP are included in the Remuneration report in Section 1.

Note 41. Notes to the cash flow statements

Accounting policy

Cash and cash equivalents includes cash held at branches and in ATMs, balances with overseas banks in their local currency and balances with central banks including accounts with the RBA and accounts with overseas central banks.

Cash and balances with central banks

\$m	Consolidated			Parent Entity	
	2017	2016	2015	2017	2016
Cash on hand	11,006	10,838	9,282	10,492	10,229
Balances with central banks	7,391	6,177	5,488	5,913	4,957
Total cash and balances with central banks	18,397	17,015	14,770	16,405	15,186

Notes to the financial statements

Note 41. Notes to the cash flow statements (continued)

Reconciliation of net cash provided by/(used in) operating activities to net profit for the year is set out below:

\$m	Consolidated			Parent Entity	
	2017	2016	2015	2017	2016
Net profit for the year	7,997	7,460	8,068	7,843	6,307
Adjustments:					
Depreciation, amortisation and impairment	1,269	1,208	1,671	1,122	1,061
Impairment charges	1,021	1,261	884	991	1,016
Net (decrease)/increase in current and deferred tax	(34)	(285)	(78)	(572)	(706)
(Increase)/decrease in accrued interest receivable	(75)	25	115	(81)	9
(Decrease)/increase in accrued interest payable	148	(47)	(291)	154	(39)
(Decrease)/increase in provisions	42	(68)	(31)	28	(64)
Other non-cash items	(242)	(311)	(1,379)	219	(246)
Cash flows from operating activities before changes in operating assets and liabilities	10,126	9,243	8,959	9,704	7,338
Net (increase)/decrease in derivative financial instruments	(5,042)	(5,107)	11,730	(5,378)	(3,796)
Net (increase)/decrease in life insurance assets and liabilities	219	(253)	(191)	-	-
(Increase)/decrease in other operating assets:					
Trading securities and financial assets designated at fair value	(5,054)	6,755	21,538	(5,194)	6,706
Loans	(26,815)	(38,082)	(39,569)	(27,677)	(35,852)
Receivables due from other financial institutions	2,653	(896)	(1,000)	1,817	(128)
Regulatory deposits with central banks overseas	308	(209)	497	294	(219)
Other assets	200	(476)	95	136	4
(Decrease)/increase in other operating liabilities:					
Other financial liabilities at fair value through income statement	(681)	(4,488)	(10,027)	(325)	(4,861)
Deposits and other borrowings	23,062	38,771	8,526	22,518	33,508
Payables due to other financial institutions	3,859	(73)	(1,194)	3,792	459
Other liabilities	(15)	312	95	78	284
Net cash provided by/(used in) operating activities	2,820	5,497	(541)	(235)	3,443

Note 41. Notes to the cash flow statements (continued)

Details of the assets and liabilities over which control ceased

Details of the entities over which control ceased are provided in Note 35.

\$m	Consolidated			Parent Entity	
	2017	2016	2015	2017	2016
Assets:					
Cash and balances with central banks	-	138	95	-	138
Trading securities and financial assets designated at fair value	-	-	75	-	-
Available-for-sale securities	-	1	90	-	1
Loans	-	132	226	-	132
Regulatory deposits with central banks overseas	-	5	8	-	5
Property and equipment	-	3	11	-	3
Deferred tax assets	-	1	36	-	1
Intangible assets	-	1	450	-	1
Other assets	-	27	84	-	27
Total assets	-	308	1,075	-	308
Liabilities:					
Deposits and other borrowings	-	264	267	-	264
Debt issues	-	-	20	-	-
Current tax liabilities	-	2	14	-	2
Provisions	-	1	98	-	1
Deferred tax liabilities	-	-	23	-	-
Other liabilities	-	6	55	-	6
Total liabilities	-	273	477	-	273
Net assets	-	35	598	-	35
Non-controlling interests	-	-	(84)	-	-
Total equity attributable to owners of Westpac Banking Corporation	-	35	514	-	35
Cash proceeds (net of transaction costs)	-	34	743	-	34
Fair value of retained interest	-	-	745	-	-
Total consideration	-	34	1,488	-	34
Reserves recycled to income statement	-	2	62	-	2
Gain/(loss) on disposal	-	1	1,036	-	1
Reconciliation of cash proceeds from disposal					
Cash proceeds received (net of transaction costs)	-	34	743	-	34
Less: Cash deconsolidated	-	(138)	(95)	-	(138)
Cash consideration (paid)/received (net of transaction costs and cash held)	-	(104)	648	-	(104)

Non-cash financing activities

\$m	Consolidated			Parent Entity	
	2017	2016	2015	2017	2016
Shares issued under the dividend reinvestment plan	1,452	726	1,412	1,452	726

Restricted cash

The amount of cash and cash equivalents not available for use at 30 September 2017 was \$38 million (2016: \$48 million) for the Group and nil for the parent entity (2016: nil).

Note 42. Subsequent events

On 3 November 2017, the Group announced that it had entered into an agreement with Northill Capital regarding the sale of its interest in Hastings Management Pty Limited (HMPL). The proposed sale is subject to confirmatory due diligence and regulatory approvals.

No other matters have arisen since the year ended 30 September 2017 which is not otherwise dealt with in this report, that has significantly affected or may significantly affect the operations of the Group, the results of its operations or the state of affairs of the Group in subsequent periods.

Directors' declaration

In the Directors' opinion:

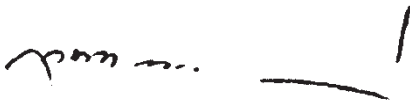
- a. the financial statements and notes set out in 'Section 3 – Financial report for the year ended 30 September 2017' are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - ii. giving a true and fair view of Westpac Banking Corporation and the Group's financial position as at 30 September 2017 and of their performance for the financial year ended on that date; and
- b. there are reasonable grounds to believe that Westpac will be able to pay its debts as and when they become due and payable.

Note 1(a) includes a statement that the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declaration by the Chief Executive Officer and the Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

For and on behalf of the Board.



Lindsay Maxsted
Chairman

Sydney
6 November 2017



Brian Hartzler
Managing Director &
Chief Executive Officer

Management's report on internal control over financial reporting

The following report is required by rules of the US Securities and Exchange Commission.

The management of Westpac is responsible for establishing and maintaining adequate internal control over financial reporting for Westpac as defined in Rule 13a – 15 (f) under the *Securities Exchange Act of 1934*, as amended. Westpac's internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable accounting standards.

Westpac's internal control over financial reporting includes policies and procedures that: pertain to the maintenance of records that in reasonable detail accurately reflect the transactions and dispositions of the assets of Westpac and its consolidated entities; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable accounting standards, and that receipts and expenditures of Westpac are being made only in accordance with authorizations of management and directors of Westpac and its consolidated entities; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets of Westpac and its consolidated entities that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Westpac management, with the participation of the CEO and CFO, assessed the effectiveness of Westpac's internal control over financial reporting as of 30 September 2017 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its 2013 Internal Control-Integrated Framework. Based on this assessment, management has concluded that Westpac's internal control over financial reporting as of 30 September 2017 was effective.

The effectiveness of Westpac's internal control over financial reporting as of 30 September 2017 has been audited by PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report which is included herein.



Independent auditor's report to the members of Westpac Banking Corporation

Report on the audit of the financial report

Our opinion

In our opinion the accompanying financial report of Westpac Banking Corporation (the Parent Entity) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Parent Entity's and Group's financial positions as at 30 September 2017 and of their financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The accompanying financial report comprises:

- the Consolidated and Parent Entity balance sheets as at 30 September 2017
- the Consolidated and Parent Entity income statements for the year then ended
- the Consolidated and Parent Entity statements of comprehensive income for the year then ended
- the Consolidated and Parent Entity statements of changes in equity for the year then ended
- the Consolidated and Parent Entity cash flow statements for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

PricewaterhouseCoopers, ABN 52 780 433 757
 One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
 T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.



Materiality for the Group audit

- For the purpose of our audit we used overall Group materiality of \$531 million, which represents approximately 5% of the Group's profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose profit before tax because it is a key financial statement metric and, in our view, it is the benchmark against which the performance of the Group is commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly accepted profit-related thresholds.

Audit scope for the Group audit

- We focused our audit where the Group made significant judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- We tailored the scope of our audit to enable us to provide an opinion on the financial report as a whole, taking into account the following factors: the geographic and management structure of the Group; the significance and risk profile of each division within the Group; the Group's accounting processes and controls; and the financial services industry and broader economies in which the Group operates. We also ensured that the audit team included the appropriate skills and competencies which are needed for the audit of a complex banking group. This included industry expertise in consumer, business and institutional banking and wealth management services, as well as specialists and experts in IT, actuarial, tax, treasury and valuation.
- We conducted an audit of the most financially significant operations, being the Consumer Bank, Business Bank and Westpac Institutional Bank divisions. For the purpose of our audit, the Group's treasury operations are included in the Westpac Institutional Bank division, given the commonality in systems and controls. In addition, we performed audit procedures over specified financial statement line items in relation to the Westpac New Zealand, BT Financial Group (Australia) divisions and the Group Businesses.
- Further audit procedures were performed over the remaining balances and the consolidation process, including substantive and analytical procedures. The work carried out in these divisions, together with those additional procedures performed at the Group level, gave us sufficient coverage to express an opinion on the financial report as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. The key audit matters identified below relate to both the Parent Entity and Group audit.

Key audit matter

*Provisions for impairment charges on loans
(Refer to Note 14 of the consolidated financial statements)*

How our audit addressed the key audit matter

We assessed the design and tested the operating effectiveness of key controls over the provisioning for impairment charges on loans.



Key audit matter

We focused on this area because of the highly subjective and complex judgements made by the Group in determining the necessity for, and then estimating the size of, impairment provisions against loans.

Provisions for impairment charges on loans that exceed specific thresholds are individually assessed by the Group with reference to the estimated future cash repayments and proceeds from the realisation of collateral held by the Group in respect of those loans.

If an individually assessed loan is not impaired, it is included in a group of loans with similar risk characteristics and, along with those loans below the specific thresholds noted above, is collectively assessed on a portfolio basis using internal models developed by the Group.

Key elements in the provisioning for impairment charges on loans include:

- the identification of impaired loans, and the cash flow forecasts (including the expected realisable value of any collateral held) supporting the calculation of individually assessed provisions;
- the design of the impairment models used in the collectively assessed provision calculations, and the appropriateness of the key assumptions used in the impairment models, including the emergence periods (EP) for unidentified impairments, the probabilities of default (PD) and the loss given default (LGD) factors; and
- the economic overlays added to the impairment models' calculations, to reflect emerging trends or particular situations which are not otherwise captured by the impairment models, such as the current persisting downturn in asset value in single industry towns and the mining sector.

Given the high level of subjectivity involved in estimating loan impairment provisions, one of our areas of audit focus is to consider whether the calculations and underlying assumptions are

How our audit addressed the key audit matter

Key controls included:

- governance, including the continuous re-assessment by the Group that the impairment models are calibrated in a way which is appropriate for the credit risks in the Group's loan portfolios;
- controls over timely identification of deterioration in credit quality of individual loans;
- controls inherent in the IT systems that manage and transfer the data between underlying source systems and the impairment models;
- the review and approval process for the outputs of the impairment models, and the adjustments and economic overlays that are applied to the modelled outputs.

For a sample of individually assessed provisions, our work included:

- considered the latest developments as known to the Group in relation to the borrower and the basis of measuring the impairment provision;
- examined the forecast cash flows from the impaired borrowers, as prepared by the Group, including the key assumptions in relation to both the amount and timing of recoveries; and
- compared the valuation of collateral held to external evidence (where available) and assessed whether any independent expert advice was: (i) up to date; (ii) consistent with the strategy being followed in respect of the particular borrower; (iii) appropriate for the purpose; and (iv) used in the impairment calculations.

For the collectively assessed provisions which were calculated using impairment models, our work included:

- for selected portfolios recalculated the collective provision using the key assumptions in the model, such as PDs and LGD;



Key audit matter

consistent with those applied in the previous year, or that any changes are appropriate in the circumstances.

See Note 14 to the consolidated financial statements which explains the critical accounting estimates and assumptions in determining provisions for impairment charges, including loss rates and emergence periods.

How our audit addressed the key audit matter

- performing analyses on key assumptions and considering key ratios, including provision-to-loan ratios at product and geographic levels; and
- for a sample of collectively assessed provisions, considered the latest financial information provided to the Group in relation to the borrower as it relates to the basis of measuring the impairment provision.

For economic overlays to model calculations, we considered the potential for impairment to be affected by events not captured by the Group's models, and assessed whether the economic overlays (for example, in relation to single industry towns and the mining sector) were appropriate.

*Valuation of financial instruments held at fair value
(Refer to Note 23 of the consolidated financial statements)*

Financial instruments held by the Group at fair value include derivative assets and liabilities, trading securities, available-for-sale securities, life insurance assets and liabilities, various debt instruments and some other assets and liabilities designated at fair value.

The Group's financial instruments are predominantly valued using quoted market prices ('Level 1') or market observable prices ('Level 2'). The balances of 'Level 3' or 'hard to value' instruments remained similar to the prior year and significantly less than Level 1 and Level 2 instruments.

There are two factors that led to our focus on this area. First, the magnitude of financial instruments held at fair value is material, being 15% of total assets and 11% of total liabilities. Second, judgement and inherent complexity is involved in estimating the fair value of financial instruments.

Particularly subjective aspects of the Level 2 valuation process are the adjustments applied to the uncollateralised derivative portfolio, such as credit and debit valuation adjustments (CVA and

We assessed the design and tested the operating effectiveness of key controls over the valuation of financial instruments held at fair value. Key controls included:

- governance mechanisms and monitoring over the valuation processes, including over derivative valuation adjustments;
- controls to ensure valuation models remain fit-for-purpose ('model validation');
- unit pricing controls and confirmations with external custodians;
- controls inherent in the IT systems that manage and transfer the data between underlying source systems and the valuation models;
- controls to independently validate valuations produced by the front office; and
- controls to approve new products.

For a sample of financial instruments, our work included:

- independently gathering pricing for instruments where market data existed and comparing the prices to the Group's prices;
- assessed any significant differences; and
- independently modelled instruments fair value, including testing key inputs to selected models. This involved sourcing independent inputs from market data providers, and using



Key audit matter

How our audit addressed the key audit matter

DVA) and funding valuation adjustments (FVA). For CVA and DVA, the adjustments are sensitive to factors such as expected future market volatility and credit risks. For FVA, the adjustment is sensitive to funding rates observed in market transactions, which are difficult to isolate from other elements of pricing.

See Note 23 to the consolidated financial statements which explains the 'Levels' and the valuation techniques used.

our valuation models. We considered variances where appropriate to assess whether a systemic bias or error was apparent.

In those instances where external information supporting valuations was limited, we sought other information which, while not always directly comparable, might be indicative of appropriate valuation. For example, we examined collateral disputes to identify possibly inappropriate valuations.

Operation of IT systems and controls

The Group is heavily dependent on complex IT systems for the processing and recording of significant volumes of transactions. We focused on this area because over 80% of the key financial controls we seek to rely on in our audit are related to IT systems and automated controls.

In particular, in common with all banks, access rights to technology are important because they are intended to ensure that changes to applications and data are appropriately authorised. Ensuring staff have appropriate access to IT systems, and that access is monitored, are key controls in mitigating the potential for fraud or error as a result of a change to an application or underlying data.

For significant financial statement balances we developed an understanding of the business processes, key controls and IT systems used to generate and support those balances. We assessed the design and tested the operating effectiveness of the key controls over the relevant IT systems. This involved assessing:

- technology control environment: the governance processes and controls used to monitor and enforce control consciousness throughout the Group's technology teams;
- change management: the processes and controls used to develop, test and authorise changes to the functionality and configurations within systems;
- security: the access controls designed to enforce segregation of duties or ensure that data is only changed through authorised means;
- system development: the project disciplines which ensure that new systems are developed to meet a defined business need, are appropriately tested before implementation and that data is converted and transferred completely and accurately; and
- IT operations: the controls over key operations occur when they should and that any issues that arise are managed appropriately.

For in-scope IT operations where technology services are provided by a third party, we:

- considered assurance reports from the third party's auditor on the design and operating effectiveness of controls; and/or



Key audit matter

How our audit addressed the key audit matter

- tested internal control design and operating effectiveness ourselves.

We also carried out further independent tests of the operation of key programs to establish the accuracy of selected calculations, the correct generation of certain reports, and to assess the correct operation of selected automated controls and technology-dependent manual controls.

While we noted some design and effectiveness issues with the change management and security controls, some of which are long-standing, the combination of compensating control tests and direct tests gave us sufficient evidence for our audit.

*Provisions, customer refunds and contingent liabilities relating to operational and reputational matters, litigation and regulatory actions including related disclosures
(Refer to Note 28, Note 29 and Note 31 of the consolidated financial statements)*

The Group is exposed to risk related to operational and reputational matters, litigation and regulatory actions or other matters which could give rise to significant liabilities for the Group.

We focused on this area because in assessing and measuring such potential provisions and customer refunds the Group is required to make significant judgements based on available information in relation to the probability and estimation of potential future financial outcomes. These outcomes may be dependent on legal and regulatory processes.

See Note 28, Note 29 and Note 31 for disclosure of provisions, customer refunds and contingent liabilities.

We assessed the design and tested the operating effectiveness of key controls over provisions, customer refunds and contingent liabilities relating to operational and reputational matters, litigation and regulatory actions. The key controls included:

- controls over compilation and monitoring of reports covering operational and reputational matters, litigation, regulatory actions and other matters;
- controls over accounting judgments to assess loss contingencies and the related accounting impacts; and
- controls inherent in the IT systems that manage the data utilised.

We read the minutes of the Group's Audit Committee, Risk and Compliance Committee and Board of Directors, attended the Audit Committee and Risk and Compliance Committee meetings and considered key correspondence with relevant regulatory bodies.

We obtained solicitor letters and discussed ongoing legal and regulatory matters with management. We also obtained access to relevant documents to develop our understanding of the Group's conclusions in these matters.

We considered the Group's judgement as to



Key audit matter

How our audit addressed the key audit matter

whether there is a potential material financial exposure for the Group and if so the amount of any provision or customer refund required and the adequacy of related disclosures.

Where the Group determined they were unable to reliably estimate the possible financial impact of a legal or regulatory action, we assessed the appropriateness of their conclusion and disclosure within the financial report.

Other information

The directors are responsible for the other information. The other information comprises the Performance Highlights and Sections 1, 2 and 4 included in the Group's annual report for the year ended 30 September 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Parent Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material



if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Our opinion on the Remuneration Report

We have audited the Remuneration Report included in Section 1 of the Group's annual report for the year ended 30 September 2017.

In our opinion, the Remuneration Report of Westpac Banking Corporation for the year ended 30 September 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Parent Entity are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A large, stylized cursive signature of 'PricewaterhouseCoopers' in black ink.

PricewaterhouseCoopers

A cursive signature of 'Lona Mathis' in black ink.

Lona Mathis
Partner
Sydney
6 November 2017

A cursive signature of 'Andrew Wilson' in black ink.

Andrew Wilson
Partner

Limitation on Independent Registered Public Accounting Firm's Liability

The liability of PricewaterhouseCoopers (an Australian partnership which we refer to as PwC Australia), with respect to claims arising out of its audit report included in this Annual Report, is subject to the limitations set forth in the Professional Standards Act 1994 of New South Wales, Australia, as amended (the Professional Standards Act) and Chartered Accountants Australia and New Zealand (NSW) scheme adopted by Chartered Accountants Australia and New Zealand on 8 October 2014 and approved by the New South Wales Professional Standards Council pursuant to the Professional Standards Act (the NSW Accountants Scheme). For matters occurring on or prior to 7 October 2014, the liability of PwC Australia may be subject to the limitations set forth in predecessor schemes. The current NSW Accountants Scheme expires on 7 October 2019 unless further extended or replaced.

The Professional Standards Act and the NSW Accountants Scheme may limit the liability of PwC Australia for damages with respect to certain civil claims arising in, or governed by the laws of, New South Wales directly or vicariously from anything done or omitted to be done in the performance of its professional services for us, including, without limitation, its audits of our financial statements. The extent of the limitation depends on the timing of the relevant matter and is:

- in relation to matters occurring on or after 8 October 2013, a maximum liability for audit work of A\$75 million; or
- in relation to matters occurring on or prior to 7 October 2013, the lesser of (in the case of audit services) ten times the reasonable charge for the service provided and a maximum liability for audit work of A\$75 million.

The limitations do not apply to claims for breach of trust, fraud or dishonesty.

In addition, there is equivalent professional standards legislation in place in other states and territories in Australia and amendments have been made to a number of Australian federal statutes to limit liability under those statutes to the same extent as liability is limited under state and territory laws by professional standards legislation. Accordingly, liability for acts or omissions by PwC Australia in Australian states or territories other than New South Wales may be limited in a manner similar to that in New South Wales. These limitations of liability may limit recovery upon the enforcement in Australian courts of any judgment under US or other foreign laws rendered against PwC Australia based on or related to its audit report on our financial statements. Substantially all of PwC Australia's assets are located in Australia. However, the Professional Standards Act and the NSW Accountants Scheme have not been subject to judicial consideration and therefore how the limitation might be applied by the courts and the effect of the limitation remain untested in a number of respects, including its effect in respect of the extensive enforcement of foreign judgments.

This page has been intentionally left blank

04

Shareholding information

Additional information

Information for shareholders

Glossary of abbreviations and defined terms

Contact us

Shareholding information

Westpac ordinary shares

Top 20 ordinary shareholders as at 4 October 2017

	Number of Fully Paid Ordinary Shares	% Held
HSBC Custody Nominees (Australia) Limited	811,030,138	23.89
J P Morgan Nominees Australia Limited	420,061,024	12.38
Citigroup Nominees Pty Limited	178,955,828	5.27
National Nominees Limited	141,407,769	4.17
BNP Paribas Nominees Pty Ltd	74,418,788	2.19
BNP Paribas Noms Pty Ltd	41,832,919	1.23
Citigroup Nominees Pty Limited	38,476,758	1.13
HSBC Custody Nominees (Australia) Limited	22,509,159	0.66
Australian Foundation Investment Company Limited	15,545,000	0.46
AMP Life Limited	13,085,344	0.39
Argo Investments Limited	11,116,768	0.33
Milton Corporation Limited	10,490,827	0.31
IOOF Investment Management Limited	5,147,258	0.15
Navigator Australia Ltd	5,119,236	0.15
Nulis Nominees (Australia) Limited	4,648,669	0.14
UBS Nominees Pty Ltd	4,313,715	0.13
Netwealth Investments Limited	3,632,822	0.11
JMB Pty Ltd	3,145,364	0.09
BNP Paribas Nominees Pty Ltd	2,770,466	0.08
HSBC Custody Nominees (Australia) Limited - A/C 2	2,541,183	0.07
Total of Top 20 registered shareholders¹	1,810,249,035	53.33

As at 4 October 2017 there were 633,272 holders of our ordinary shares compared to 641,374 in 2016 and 633,881 in 2015². Ordinary shareholders with a registered address in Australia held approximately 98% of our fully paid share capital at 4 October 2017 (approximately 98% in 2016 and 98% in 2015).

Substantial shareholders as at 4 October 2017

As at 4 October 2017 BlackRock Group (comprised of BlackRock Inc. and its subsidiaries) had a 'substantial holding' of our shares within the meaning of the Corporations Act. A person has a substantial holding of our shares 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 above table of the Top 20 ordinary shareholders includes shareholders that may hold shares for the benefit of third parties. As detailed below, BlackRock Group became a substantial shareholder on 4 April 2017.

Significant changes in ordinary share ownership of substantial shareholders

On 30 March 2017, BlackRock Group became a substantial shareholder holding 167,986,663 ordinary shares (5.00% of total votes outstanding). They ceased to be a substantial shareholder on 31 March 2017. On 4 April 2017, BlackRock Group became a substantial shareholder holding 167,878,165 ordinary shares (5.00% of total votes outstanding). There have been no other changes in ordinary share ownership of substantial shareholders notified to Westpac since that date.

Control of registrant

We are not directly or indirectly owned or controlled by any other corporation(s) or by any foreign government. Refer to the section 'Exchange controls and other limitations affecting security holders', which provides information on the *Foreign Acquisitions and Takeovers Act 1975*, *Corporations Act 2001* and *Financial Sector (Shareholdings) Act 1998*, which impose limits on equity holdings.

At 30 September 2017, our Directors and Executive Officers owned beneficially, directly or indirectly, an aggregate of 771,859 (0.02%) of the fully paid ordinary shares outstanding.

¹ As recorded on the share register by holder reference number.

² Numbers include employee holdings previously consolidated on the share registry.

Analysis by range of holdings of ordinary shares as at 4 October 2017

Number of Shares	Number of Holders of Fully Paid Ordinary Shares		Number of Fully Paid Ordinary Shares		Number of Holders of Share Options and Rights	
		%		%		
1 – 1,000	355,416	56.12	129,437,886	3.81	25	
1,001 – 5,000	213,689	33.74	479,399,802	14.12	54	
5,001 – 10,000	38,340	6.06	265,081,019	7.81	10	
10,001 – 100,000	25,176	3.98	522,397,578	15.39	81	
100,001 and over	651	0.10	1,998,047,994	58.87	16	
Totals	633,272	100.00	3,394,364,279	100.00	186	

There were 12,748 shareholders holding less than a marketable parcel (\$500) based on a market price of \$31.86 at the close of trading on 4 October 2017.

Voting rights of ordinary shares

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 ordinary share held by them.

Westpac Convertible Preference Shares (Westpac CPS)

Top 20 holders of Westpac CPS as at 4 October 2017

	Number of Westpac CPS	% Held
HSBC Custody Nominees (Australia) Limited	518,627	4.36
National Nominees Limited	241,288	2.03
Navigator Australia Ltd	209,245	1.76
IOOF Investment Management Limited	186,446	1.57
Nulis Nominees (Australia) Limited	181,088	1.52
J P Morgan Nominees Australia Limited	143,557	1.21
Australian Executor Trustees Limited	141,078	1.19
Netwealth Investments Limited	112,403	0.95
BT Portfolio Services Limited	100,000	0.84
Dimbulu Pty Ltd	70,000	0.59
HSBC Custody Nominees (Australia) Limited	66,674	0.56
BNP Paribas Noms Pty Ltd	65,104	0.55
BNP Paribas Nominees Pty Ltd	63,022	0.53
Mrs Linda Anne Van Lieshout	60,000	0.50
Eastcote Pty Ltd	50,000	0.42
JMB Pty Ltd	50,000	0.42
Randazzo C & G Developments Pty Ltd	50,000	0.42
Netwealth Investments Limited	45,653	0.38
Citigroup Nominees Pty Limited	38,722	0.33
Avanteos Investments Limited	30,000	0.25
Total of Top 20 registered holders¹	2,422,907	20.38

¹ As recorded on the holder register by holder reference number.

Analysis by range of holdings of Westpac CPS as at 4 October 2017

Number of Securities	Number of Holders of		Number of	
	Westpac CPS	%	Westpac CPS	%
1 – 1,000	16,497	91.72	5,136,946	43.19
1,001 – 5,000	1,322	7.35	2,852,165	23.98
5,001 – 10,000	103	0.57	798,840	6.71
10,001 – 100,000	57	0.32	1,371,922	11.54
100,001 and over	8	0.04	1,733,732	14.58
Totals	17,987	100.00	11,893,605	100.00

There were seven security holders holding less than a marketable parcel (\$500) of Westpac CPS based on a market price of \$100.68 at the close of trading on 4 October 2017.

Westpac Capital Notes**Top 20 holders of Westpac Capital Notes as at 4 October 2017**

	Number of Westpac Capital Notes	% Held
HSBC Custody Nominees (Australia) Limited	679,364	4.91
BNP Paribas Noms Pty Ltd	280,026	2.02
J P Morgan Nominees Australia Limited	201,898	1.46
BT Portfolio Services Limited	200,000	1.45
IOOF Investment Management Limited	180,802	1.31
Australian Executor Trustees Limited	175,097	1.27
National Nominees Limited	164,103	1.19
Citigroup Nominees Pty Limited	159,180	1.15
HSBC Custody Nominees (Australia) Limited - A/C 2	112,391	0.81
Navigator Australia Pty Ltd	104,504	0.76
Netwealth Investments Limited	97,862	0.71
BNP Paribas Nominees Pty Ltd	96,231	0.70
V S Access Pty Ltd	90,000	0.65
Nulis Nominees (Australia) Limited	85,473	0.62
Royal Freemasons Benevolent Institution	50,000	0.36
Mr Alexander Shaw	50,000	0.36
Willimbury Pty Ltd	50,000	0.36
Mutual Trust Pty Ltd	35,721	0.26
IOOF Investment Management Limited	33,139	0.24
Plougastel Pty Ltd	30,000	0.22
Total of Top 20 registered holders¹	2,875,791	20.81

¹ As recorded on the holder register by holder reference number.

Analysis by range of holdings of Westpac Capital Notes as at 4 October 2017

Number of Securities	Number of Holders of		Number of	
	Westpac Capital Notes	%	Westpac Capital Notes	%
1 – 1,000	17,128	89.93	5,682,593	41.07
1,001 – 5,000	1,744	9.16	3,638,142	26.30
5,001 – 10,000	112	0.59	882,018	6.37
10,001 – 100,000	51	0.27	1,375,572	9.94
100,001 and over	10	0.05	2,257,365	16.32
Totals	19,045	100.00	13,835,690	100.00

There were six security holders holding less than a marketable parcel (\$500) of Westpac Capital Notes based on a market price of \$101.30 at the close of trading on 4 October 2017.

Westpac Capital Notes 2

Top 20 holders of Westpac Capital Notes 2 as at 4 October 2017

	Number of Westpac Capital Notes 2	% Held
HSBC Custody Nominees (Australia) Limited	545,442	4.16
Citigroup Nominees Pty Limited	539,680	4.12
BT Portfolio Services Limited	250,000	1.91
Navigator Australia Ltd	154,852	1.18
Nulis Nominees (Australia) Limited	138,079	1.05
National Nominees Limited	126,110	0.96
Netwealth Investments Limited	116,930	0.89
HSBC Custody Nominees (Australia) Limited - A/C 2	111,609	0.85
IOOF Investment Management Limited	96,551	0.74
BNP Paribas Nominees Pty Ltd	83,202	0.63
Netwealth Investments Limited	74,798	0.57
Rakio Pty Ltd	63,000	0.48
Alsop Pty Ltd	60,000	0.46
BNP Paribas Noms Pty Ltd	59,571	0.45
Dimbulu Pty Ltd	51,000	0.39
Domer Mining Co P/L	50,000	0.38
Royal Freemasons Benevolent Institution	50,000	0.38
Randazzo C & G Developments Pty Ltd	50,000	0.38
Longhurst Management Services Pty Ltd	49,267	0.38
Pratt Property Group Pty Ltd	48,825	0.37
Total of Top 20 registered holders¹	2,718,916	20.73

¹ As recorded on the holder register by holder reference number.

Analysis by range of holdings of Westpac Capital Notes 2 as at 4 October 2017

Number of Securities	Number of Holders of Westpac Capital Notes 2	%	Number of Westpac Capital Notes 2	%
1 – 1,000	14,278	88.44	4,881,750	37.25
1,001 – 5,000	1,658	10.27	3,471,453	26.49
5,001 – 10,000	127	0.79	947,969	7.23
10,001 – 100,000	73	0.45	1,821,831	13.90
100,001 and over	8	0.05	1,982,702	15.13
Totals	16,144	100.00	13,105,705	100.00

There were five security holders holding less than a marketable parcel (\$500) of Westpac Capital Notes 2 based on a market price of \$100.00 at the close of trading on 4 October 2017.

Westpac Capital Notes 3**Top 20 holders of Westpac Capital Notes 3 as at 4 October 2017**

	Number of Westpac Capital Notes 3	% Held
HSBC Custody Nominees (Australia) Limited	921,805	6.96
JDB Services Pty Ltd	270,000	2.04
Navigator Australia Ltd	203,500	1.54
Citigroup Nominees Pty Limited	166,278	1.26
Nulis Nominees (Australia) Limited	148,445	1.12
National Nominees Limited	103,669	0.78
Balanced Property Pty Ltd	100,000	0.76
Seymour Group Pty Ltd	76,774	0.58
HSBC Custody Nominees (Australia) Limited - A/C 2	68,558	0.52
Netwealth Investments Limited	66,976	0.51
V S Access Pty Ltd	60,000	0.45
Barob Pty Limited	50,000	0.38
Dimbulu Pty Ltd	50,000	0.38
JMB Pty Ltd	50,000	0.38
KMJ Pty Ltd	50,000	0.38
Randazzo C & G Developments Pty Ltd	50,000	0.38
The Walter and Eliza Hall Institute of Medical Research	50,000	0.38
Marshstoke Pty Ltd	47,000	0.35
Jove Pty Ltd	44,550	0.34
BNP Paribas Nominees Pty Ltd	43,193	0.33
Total of Top 20 registered holders¹	2,620,748	19.82

¹ As recorded on the holder register by holder reference number.

Analysis by range of holdings of Westpac Capital Notes 3 as at 4 October 2017

Number of Securities	Number of Holders of		Number of	
	Westpac Capital Notes 3	%	Westpac Capital Notes 3	%
1 – 1,000	13,696	88.98	4,720,787	35.64
1,001 – 5,000	1,482	9.63	3,329,539	25.14
5,001 – 10,000	120	0.78	994,801	7.51
10,001 – 100,000	88	0.57	2,385,456	18.01
100,001 and over	6	0.04	1,813,697	13.70
Totals	15,392	100.00	13,244,280	100.00

There were two security holders holding less than a marketable parcel (\$500) of Westpac Capital Notes 3 based on a market price of \$103.50 at the close of trading on 4 October 2017.

Westpac Capital Notes 4

Top 20 holders of Westpac Capital Notes 4 as at 4 October 2017

	Number of Westpac Capital Notes 4	% Held
BNP Paribas Nominees Pty Ltd	3,000,000	17.63
HSBC Custody Nominees (Australia) Limited	960,561	5.64
Citigroup Nominees Pty Limited	278,585	1.64
Nora Goodridge Investments Pty	200,000	1.18
National Nominees Limited	178,528	1.05
HSBC Custody Nominees (Australia) Limited - A/C 2	151,844	0.89
Netwealth Investments Limited	148,690	0.87
J P Morgan Nominees Australia Limited	132,856	0.78
BNP Paribas Noms Pty Ltd	132,729	0.78
Mutual Trust Pty Ltd	123,817	0.73
Zashvin Pty Ltd	104,000	0.61
Dimbulu Pty Ltd	100,000	0.59
G Harvey Nominees Pty Ltd	100,000	0.59
Tandom Pty Ltd	80,000	0.47
Navigator Australia Ltd	78,143	0.46
Nulis Nominees (Australia) Limited	66,917	0.39
Willimbury Pty Ltd	60,000	0.35
Australian Executor Trustees Limited	58,859	0.35
Netwealth Investments Limited	51,817	0.30
V S Access Pty Ltd	51,570	0.30
Total of Top 20 registered holders¹	6,058,916	35.60

¹ As recorded on the holder register by holder reference number.

Analysis by range of holdings of Westpac Capital Notes 4 as at 4 October 2017

Number of Securities	Number of Holders of Westpac Capital Notes 4	%	Number of Westpac Capital Notes 4	%
1 – 1,000	15,892	89.53	5,218,307	30.66
1,001 – 5,000	1,635	9.21	3,483,779	20.47
5,001 – 10,000	144	0.81	1,103,731	6.49
10,001 – 100,000	69	0.39	1,803,107	10.59
100,001 and over	11	0.06	5,411,610	31.79
Totals	17,751	100.00	17,020,534	100.00

There were seven security holders holding less than a marketable parcel (\$500) of Westpac Capital Notes 4 based on a market price of \$106.12 at the close of trading on 4 October 2017.

Voting rights of Westpac CPS, Westpac Capital Notes, Westpac Capital Notes 2, Westpac Capital Notes 3 and Westpac Capital Notes 4

In accordance with the terms of issue, holders of Westpac CPS have no right to vote at any general meeting of Westpac except in the following circumstances:

- a. on a proposal:
 - to reduce the share capital of Westpac;
 - that affects rights attached to Westpac CPS;
 - to wind up Westpac; or
 - for the disposal of the whole of the property, business and undertaking of Westpac;
- b. on a resolution to approve the terms of a share buy-back agreement, other than a resolution to approve a redemption of Westpac CPS;
- c. during a period in which a dividend (or part of a dividend) in respect of Westpac CPS is in arrears; or
- d. during the winding up of Westpac.

When entitled to vote at a general meeting of Westpac in respect of the matters listed above, holders of Westpac CPS are entitled to exercise one vote on a show of hands and one vote for each Westpac CPS held on a poll.

Holders of Westpac CPS have the same rights as the holders of Westpac's ordinary shares in relation to receiving notices, reports and financial statements, and attending and being heard at all general meetings of Westpac.

In accordance with the terms of issue, holders of Westpac Capital Notes, Westpac Capital Notes 2, Westpac Capital Notes 3 and Westpac Capital Notes 4 have no right to vote at any general meeting of Westpac before conversion into Westpac ordinary shares.

If conversion occurs (in accordance with the applicable terms of issue), holders of Westpac CPS, Westpac Capital Notes, Westpac Capital Notes 2, Westpac Capital Notes 3 or Westpac Capital Notes 4 (as applicable) will become holders of Westpac ordinary shares and have the voting rights that attach to Westpac ordinary shares.

Exchange controls and other limitations affecting security holders

Australian exchange controls

Australian laws control and regulate or permit the control and regulation of a broad range of payments and transactions involving non-residents of Australia. Pursuant to a number of exemptions, authorities and approvals, there are no general restrictions from transferring funds from Australia or placing funds to the credit of non-residents of Australia. However, Australian foreign exchange controls are implemented from time to time against prescribed countries, entities and persons. At the present time, these include:

- a. withholding taxes in relation to remittances or dividends (to the extent they are unfranked) and interest payments;

- b. the financial sanctions administered by the Department of Foreign Affairs and Trade (DFAT) in accordance with the *Autonomous Sanctions Act 2011* and the *Autonomous Sanctions Regulations 2011*, specifically, in relation to transactions involving the transfer of funds or payments to, by the order of, or on behalf of individuals or entities including:
 - persons associated with the former Milosevic regime, and persons indicted or suspected of committing war crimes during the Balkan wars in the early 1990s;
 - persons or entities engaged in activities that seriously undermine democracy, respect for human rights and the rule of law in Zimbabwe;
 - certain persons or entities associated with the Democratic People's Republic of Korea's weapons of mass destruction program or missiles program;
 - certain persons or entities that have contributed to or are contributing to Iran's nuclear or missile program;
 - certain individuals and entities associated with the former Qadhafi regime in Libya;
 - certain individuals and entities supporting the Syrian regime or that are responsible for human rights abuses in Syria; and
 - persons who have been instrumental or complicit in the threat to the sovereignty and territorial integrity of Ukraine,

without the prior approval of the Minister for Foreign Affairs;
- c. the United Nations Security Council (UNSC) financial sanctions administered by DFAT, including:
 - **Terrorist Asset Freezing Regime**
In accordance with the *Charter of the United Nations Act 1945* and the Charter of the United Nations (Dealings with Assets) Regulations 2008, a person is prohibited from using or dealing with funds, financial assets or economic resources of persons or entities listed as terrorists by the Minister for Foreign Affairs in the Commonwealth of Australia Gazette. It is also a criminal offence to make assets available to such persons or entities; and
 - **Country-based sanctions**
Under the *Charter of the United Nations Act 1945* and associated regulations, UNSC financial sanctions have been implemented. It is an offence to use or deal with funds, financial assets or economic resources of certain persons or entities associated with countries designated by the UNSC. It is also a criminal offence to make assets available to such persons or entities.

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 Westpac shares. All these limitations apply to the holders of the American Depositary Receipts (ADRs) evidencing ADS, issued by our Depository in the United States.

Foreign Acquisitions and Takeovers Act 1975

Acquisitions of interests in shares in Australian companies by foreign persons that meet certain thresholds are required to be notified to the Treasurer of Australia (through the Foreign Investment Review Board) and to obtain a no objections notification under the *Foreign Acquisitions and Takeovers Act 1975* (Cth). That legislation applies to any acquisition by a foreign person, including a corporation or group of associated foreign persons, which results in ownership of 20% or more of the issued shares of an Australian company or the ability to control 20% or more of the total voting power. In addition, the legislation applies to any acquisition by a foreign government investor of 10% or more of the total voting power or ownership of an Australian company (or any interest if the foreign government investor acquires a control element – for example the right to appoint a director). The legislation 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 in the absence of a no objections notification, the Treasurer has the power to order divestment if he considers the acquisition to be contrary to Australia's national interest.

Financial Sector (Shareholdings) Act 1998

The *Financial Sector (Shareholdings) Act 1998* (Cth) imposes restrictions on shareholdings in Australian financial sector companies (which includes Westpac). Under that legislation 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 broadly defined. The Treasurer may approve a higher percentage stake if the Treasurer is satisfied that it is in the national interest to do so.

In addition, even if a person's stake in a financial sector company does not exceed the 15% limit, 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* (Cth) 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 our shares. The prohibition is subject to certain limited exceptions. In addition, under the Corporations Act, a person is required to give a notice to us and to the ASX providing certain prescribed information, including their name, address and details of their relevant interests in our voting shares if they begin to have, or cease to have, a substantial holding in us, or if they already have a substantial holding and there is a movement of at least 1% in their holding. Such notice must, generally, be provided

within two business days after the person becomes aware of that information.

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 interest' are broadly defined in the Corporations Act 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:

- a. are the holder of that share;
- b. have power to exercise, or control the exercise of, a right to vote attached to that share; or
- c. 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 that power. Nor does it matter that the power or control is express or implied, formal or informal, exercisable either alone or jointly with someone else.

The American Depositary Shares (ADS) agreement

There is a Deposit Agreement between The Bank of New York Mellon as Depository, and Westpac, and the record holders from time to time of all ADS. Holders of our ADS are subject to the foregoing limitations on the rights of non-residents or non-citizens of Australia to own or vote Westpac shares. Record holders of ADS are required by the Deposit Agreement to comply with our requests for information as to the capacity in which such holders own ADS and related ordinary shares as well as to the identity of any other person interested in such ADS and related ordinary shares and the nature of such interest.

Enforceability of foreign judgments in Australia

We are an Australian public corporation with limited liability. All of our Directors and Executive Officers reside outside the US. Substantially all or a substantial portion of the assets of all or many of such persons are located outside the US. As a result, it may not be possible for investors to effect service of process within the US upon such persons or to enforce against them judgments obtained in US courts predicated upon the civil liability provisions of the federal securities laws of the US. There may be doubt as to the enforceability in Australia, in original actions or in actions for enforcement of judgments of US courts, of civil liabilities predicated upon the federal securities laws of the US.

Taxation

Australian taxation

The following discussion is a summary of certain Australian taxation implications of the ownership and disposition of ordinary shares (including ADS) for shareholders holding their shares on capital account. This discussion is based on the laws in force at the date of the Annual Report and the Convention between the Government of Australia and the Government of the United States of America for the Avoidance of Double Taxation and The Prevention of Fiscal Evasion with Respect to Taxes on Income (the Tax Treaty), and is subject to any changes in Australian law and any change in the Tax Treaty occurring after that date.

This 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 that investors 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 (also called franking 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 offset to the extent of the franking credits, 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.

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 US who are entitled to the benefits of the Tax Treaty and are beneficially entitled to the dividends, 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 the 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 US that have a permanent establishment or fixed base in Australia where the shares in respect of which the dividends are paid are attributable to that permanent establishment or fixed base, there is no dividend withholding tax. Rather, such dividends will be taxed on a net assessment basis and, where the dividends are franked, entitlement to a tax offset may arise.

Fully franked dividends paid to non-resident shareholders and dividends that have been subject to dividend withholding tax should not be 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 depends upon the shareholder's own circumstances, including the period during 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

Generally, any profit made by a resident shareholder on disposal of shares will be subject to capital gains tax. However, if the shareholder is regarded as a trader or speculator, or carries on a business of investing for profit, any profits may be taxed as ordinary income.

A discount may be available on capital gains on shares held for 12 months or more by Australian resident individuals, trusts or complying superannuation entities. The discount is one half for individuals and trusts, and one third for complying superannuation entities. Companies are not eligible for the capital gains tax discount. For shares acquired prior to 21 September 1999, an alternative basis of calculation of the capital gain may be available which allows the use of an indexation formula.

Normal rates of income tax would apply to capital gains so calculated. Any capital loss can only be offset against capital gains. Excess capital losses may be able to be carried forward for offset against future capital gains.

Generally, subject to two exceptions, a non-resident disposing of shares in an Australian public company who holds those shares on capital account will be free from income tax in Australia. The main exceptions are:

- 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 tax. Losses may give rise to capital losses or be otherwise deductible; and
- shares held in companies where the shareholder and its associates have held at the time of disposal (or at least 12 months in the 24 months prior to disposal) a holding of 10% or more in the company and more than 50% of the company's assets are represented by interests in Australian real property (which is unlikely to be the case for Westpac). In such a case, capital gains tax would apply.

United States taxation

The following discussion is a summary of certain US federal income tax implications of the ownership and disposition of ordinary shares (including ADS) by US holders (as defined below) that hold the ordinary shares as capital assets. This discussion is based on the US Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, and the Tax Treaty, all as currently in effect and all of which are subject to change, possibly on a retroactive basis.

This discussion is intended only as a descriptive summary. It does not purport to be a complete analysis of all the potential US federal income tax consequences of owning and disposing of ordinary shares and does not address US federal income tax considerations that may be relevant to US holders subject to special treatment under US federal income tax law (such as banks, insurance companies, real estate investment trusts, regulated investment companies, dealers in securities, brokers, tax-exempt entities, retirement plans, certain former citizens or residents of the US, persons holding ordinary shares as part of a straddle, hedge, conversion or other integrated transaction, persons that have a 'functional currency' other than the US dollar, persons that own 10% or more (by voting power) of our

stock, persons that generally mark their securities to market for US federal income tax purposes or persons that receive ordinary shares as compensation). As this is a complex area, we recommend investors consult their own tax advisers concerning the US federal, state and/or local implications of owning and disposing of ordinary shares.

For the purposes of this discussion you are a US holder if you are a beneficial owner of ordinary shares and you are for US federal income tax purposes:

- an individual who is a citizen or resident of the US;
- a corporation created or organised in or under the laws of the US or any state thereof or the District of Columbia;
- an estate, the income of which is subject to US federal income taxation regardless of its source; or
- a trust, if a US court can exercise primary supervision over the trust's administration and one or more US persons are authorised to control all substantial decisions of the trust, or certain electing trusts that were in existence on 19 August 1996 and were treated as domestic trusts on that date.

If an entity treated as a partnership for US federal income tax purposes owns the ordinary shares, the US federal income tax implications of the ownership and disposition of ordinary shares will generally depend upon the status and activities of such partnership and its partners. Such an entity should consult its own tax adviser concerning the US federal income tax implications to it and its partners of owning and disposing of ordinary shares.

Taxation of dividends

If you are a US holder, you must include in your income as a dividend, the gross amount of any distributions paid by us out of our current or accumulated earnings and profits (as determined for US federal income tax purposes) without reduction for any Australian tax withheld from such distribution. We have not maintained and do not plan to maintain calculations of earnings and profits for US federal income tax purposes, and as a result, you may need to include the entire amount of any distribution in income as a dividend. If you are a non-corporate US holder, dividends paid to you that constitute qualified dividend income may be taxable to you at a preferential tax rate so long as certain holding period and other requirements are met. Dividends we pay with respect to the ordinary shares generally will be qualified dividend income. Each non-corporate US holder should consult their own tax advisor regarding the possible applicability of the reduced tax rate and the related restrictions and special rules.

Dividends paid by us constitute ordinary income that must generally be included in income when actually or constructively received. Such dividends will not be eligible for the dividends-received deduction generally allowed to corporate shareholders with respect to dividends received from US corporations. The amount of the dividend that you must include in your income as a US holder will be the US dollar value of the Australian dollar payments made, determined at the spot Australian dollar/US dollar rate on the date the dividend distribution is included in your income, regardless of whether the payment is in fact converted into US dollars. Generally, any gain or loss resulting from

currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into US dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. This gain or loss generally will be income from sources within the US for foreign tax credit limitation purposes. Distributions on an ordinary share in excess of current and accumulated earnings and profits, as determined for US federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in such ordinary share and thereafter as capital gain.

Subject to certain limitations, Australian tax withheld in accordance with the Tax Treaty and paid over to Australia may be claimed as a foreign tax credit against your US federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to a preferential tax rate. A US holder that does not elect to claim a US foreign tax credit for Australian income tax withheld may instead claim a deduction for such withheld tax, but only for a taxable year in which the US holder elects to do so with respect to all non-US income taxes paid or accrued in such taxable year.

Dividends paid by us generally will be income from sources outside the US for foreign tax credit limitation purposes. Under the foreign tax credit rules, dividends will, depending on your circumstances, be 'passive category' or 'general category' income for purposes of computing the foreign tax credit.

The rules relating to US foreign tax credits are very complex, and each US holder should consult its own tax adviser regarding the application of such rules.

Taxation of capital gains

If you sell, exchange or otherwise dispose of your ordinary shares, you will generally recognise a capital gain or loss for US federal income tax purposes equal to the difference between the US dollar value of the amount that you realise and your tax basis, determined in US dollars, in your ordinary shares. A capital gain of a non-corporate US holder is generally taxed at a reduced rate if the holder has a holding period greater than one year. The deductibility of capital losses is subject to limitations. Such capital gain or loss generally will be income from sources within the US, for foreign tax credit limitation purposes.

Medicare tax

In addition to regular US federal income tax, certain US holders that are individuals, estates or trusts are subject to a 3.8% tax on all or a portion of their 'net investment income', which may include all or a portion of their dividend income and net gain from the sale, exchange or other disposition of their ordinary shares.

Passive foreign investment company considerations

We believe that we will not be treated as a passive foreign investment company (PFIC) for US federal income tax purposes, and this discussion assumes we are not a PFIC. However, the determination as to whether we are a PFIC is made annually at the end of each taxable year and therefore could change. If we were to be treated as a PFIC, a US holder of ordinary shares could be subject to certain adverse tax consequences.

Disclosure requirements for specified foreign financial assets

Individual US holders (and certain US entities specified in US Internal Revenue Service (IRS) guidance) who, during any taxable year, hold any interest in any specified foreign financial asset, generally will be required to file with their US federal income tax returns certain information on IRS Form 8938 if the aggregate value of all such assets exceeds certain specified amounts. 'Specified foreign financial asset' generally includes any financial account maintained with a non-US financial institution and may also include the ordinary shares if they are not held in an account maintained with a financial institution. Substantial penalties may be imposed, and the period of limitations on assessment and collection of US federal income taxes may be extended, in the event of a failure to comply. US holders should consult their own tax advisers as to the possible application to them of this filing requirement.

Information reporting and backup withholding

Under certain circumstances, information reporting and/or backup withholding may apply to US holders with respect to payments on or the proceeds from the sale, exchange or other disposition of the ordinary shares, unless an applicable exemption is satisfied.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules generally will be allowed as a refund or credit against a US holder's US federal income tax liability if the required information is furnished by the US holder on a timely basis to the IRS.

Additional information

Our constitution

Overview

We were incorporated in 1850 under the *Bank of New South Wales Act*, a special piece of legislation passed by the New South Wales Parliament at a time when there was no general companies' legislation in Australia. On 23 August 2002, Westpac became registered under the *Corporations Act 2001* (Cth) as a public company limited by shares.

As part of the process of becoming a company regulated under the Corporations Act, shareholders adopted a new constitution at the AGM on 15 December 2000, which came into operation on 23 August 2002. Our constitution has been subsequently amended by shareholders on 15 December 2005, 13 December 2007 and 13 December 2012.

Our objects and purposes

Our constitution does not contain a statement of our objects and purposes. As a company regulated by the Corporations Act, we have the legal capacity and powers of an individual both within and outside Australia, and all the powers of a body corporate, including the power to issue and cancel shares, to issue debentures, to distribute our property among our equity holders (either in kind or otherwise), to give security by charging our uncalled capital, to grant a floating charge over our property and to do any other act permitted by any law.

Directors' voting powers

Under clause 9.11(a) of our constitution, subject to complying with the Corporations Act regarding disclosure of and voting on matters involving material personal interests, our Directors may:

- a. hold any office or place of profit in our company, except that of auditor;
- b. hold any office or place of profit in any other company, body corporate, trust or entity promoted by our company or in which it has an interest of any kind;
- c. enter into any contract or arrangement with our company;
- d. participate in any association, institution, fund, trust or scheme for past or present employees or directors of our company or persons dependent on or connected with them;
- e. act in a professional capacity (or be a member of a firm that acts in a professional capacity) for our company, except as auditor; and
- f. participate in, vote on and be counted in a quorum for any meeting, resolution or decision of the Directors and be present at any meeting where any matter is being considered by the Directors.

Under clause 9.11(b) of our constitution, a Director may do any of the above despite the fiduciary relationship of the Director's office:

- a. without any liability to account to our company for any direct or indirect benefit accruing to the Director; and

- b. without affecting the validity of any contract or arrangement.

Under the Corporations 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 ASIC permitting that Director to participate and vote. These restrictions do not apply to a limited range of matters set out in section 191(2) of the Corporations Act, where the Director's interest:

- a. arises because the Director is a shareholder of the company and is held in common with other shareholders;
- b. arises in relation to the Director's remuneration as a Director of the company;
- c. 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;
- d. 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;
- e. arises merely because the Director has a right of subrogation in relation to a guarantee or indemnity referred to in (d);
- f. 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 contract does not make the company or related body corporate the insurer);
- g. relates to any payment by the company or a related body corporate in respect of certain indemnities permitted by the Corporations Act or any contract relating to such an indemnity; or
- h. 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 there are not enough Directors to form a quorum for the Board meeting because of Directors' interests in a particular matter, a general meeting for shareholders may be called to consider the matter and interested Directors are entitled to vote on any proposal to requisition such a meeting.

Under clause 9.7 of our constitution, the maximum aggregate amount of annual remuneration to be paid to our Non-executive Directors must be approved by our shareholders. This aggregate amount is paid to the Non-executive Directors in such manner as the Board from time to time determines. Directors' remuneration is one of the exceptions under section 191 of the Corporations Act to the prohibitions against being present and voting on any matter in which a Director has a material personal interest.

Directors' borrowing powers

Clause 10.2 of our constitution empowers our Directors, as a Board, to exercise all the powers of Westpac to borrow or raise money, to charge any property or business of Westpac or all or any of its uncalled capital and to issue debentures or give any other security for a debt, liability or obligation of Westpac or of any other person. Such powers may only be changed by amending the constitution, which requires a special resolution (that is, a resolution passed by at least 75% of the votes cast by members entitled to vote on the resolution and for which notice has been given in accordance with the Corporations Act).

Minimum number of Directors

Our constitution requires that the minimum number of Directors is determined in accordance with the Corporations Act or other regulations. Currently the Corporations Act prescribes three as a minimum number of Directors and APRA governance standards specify five as the minimum number of Directors for APRA regulated entities. Westpac's current number of Directors is above these prescribed minimums.

Share rights

The rights attaching to our ordinary shares are set out in the Corporations Act and in our constitution, and may be summarised as follows:

a) Profits and dividends

Holders of ordinary shares are entitled to receive such dividends on those shares as may be determined by our Directors from time to time. Dividends that are paid but not claimed may be invested by our Directors for the benefit of Westpac until claimed or required to be dealt with in accordance with any law relating to unclaimed monies.

Our constitution requires that dividends be paid out of our profits. In addition, under the Corporations Act, Westpac must not pay a dividend unless our assets exceed our liabilities immediately before the dividend is declared and the excess is sufficient for payment of the dividend. In addition, the payment must be fair and reasonable to the company's shareholders and must not materially prejudice our ability to pay our creditors.

Subject to the Corporations Act, the constitution, the rights of persons (if any) entitled to shares with special rights to dividend and any contrary terms of issue of or applying to any shares, our Directors may determine that a dividend is payable, fix the amount and the time for payment and authorise the payment or crediting by Westpac to, or at the direction of, each shareholder entitled to that dividend.

If any dividends are returned unclaimed, we are generally obliged, under the *Banking Act 1959* (Cth), to hold those amounts as unclaimed monies for a period of seven years. If at the end of that period the monies remain unclaimed by the shareholder concerned, we must submit an annual unclaimed money return to the Australian Securities and Investment Commission by 31 March each year containing the unclaimed money as at 31 December of the previous year. Upon such payment being made, we are discharged from further liability in respect of that amount.

Our Directors may, before paying any dividend, set aside out of our profits such sums as they think proper as reserves, to be applied, at the discretion of our Directors, for any purpose for which the profits may be properly applied. Our Directors may carry forward so much of the profits remaining as they consider ought not to be distributed as dividends without transferring those profits to a reserve.

The following restrictions apply to our ability to declare and/or pay dividends:

- (i) if the payment of the dividend would breach or cause a breach by us of applicable capital adequacy or other supervisory requirements of APRA, including the capital conservation buffer. 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 and payments on more senior capital instruments, in the preceding 12 consecutive months to which they relate, would cause the aggregate of such dividend payments to exceed our after tax earnings for the preceding 12 consecutive months, as reflected in our relevant audited consolidated financial statements; and
- (ii) if, under the *Banking Act 1959* (Cth), we are directed by APRA not to pay a dividend;
- (iii) if the declaration or payment of the dividend would result in us becoming insolvent; or
- (iv) if any interest payment, dividend, redemption payment or other distribution on certain Additional Tier 1 securities issued by the Group is not paid in accordance with the terms of those securities, we may be restricted from declaring and/or paying dividends on ordinary shares. This restriction is subject to a number of exceptions.

b) Voting rights

Holders of our fully paid ordinary shares have, at general meetings, one vote on a show of hands and, upon a poll, one vote for each fully paid share held by them.

c) Voting and re-election of Directors

Under our constitution, at each AGM one-third of eligible Directors (or if their number is not a multiple of three, the number nearest to one-third) and any other Director who has held office for three years or more since the Director's last election, must retire from office. In determining the number of Directors to retire, no account is to be taken of a Director who holds office in order to fill a casual vacancy or the Managing Director. A retiring Director holds office until the conclusion of the meeting at which that Director retires but is eligible for re-election at the meeting.

Under the ASX Listing Rules, no 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 AGM following their appointment or three years, whichever is the longer.

Under the Corporations Act, the election or re-election of each Director by shareholders at a general meeting of a public company must proceed as a separate item, unless the shareholders first resolve that the elections or re-elections may be voted on collectively. A resolution to allow collective voting in relation to elections or re-elections 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 of holders of preference shares on issue at the relevant time, holders of our ordinary shares are entitled to share equally in any surplus assets if we are wound up.

e) Sinking fund provisions

We do not have any class of shares on issue that is subject to any sinking fund provisions.

Variation of rights attaching to our shares

Under the Corporations Act, unless otherwise provided by the terms of issue of a class of shares, the terms of issue of a class of shares in Westpac can only be varied or cancelled in any way by a special resolution of Westpac and with either the written consent of our shareholders holding at least three quarters of the votes in that class of shares or with the sanction of a special resolution passed at a separate meeting of the holders of that class of shares.

Convening general meetings

Under our constitution, our Directors may convene and arrange to hold a general meeting of Westpac whenever they think fit and must do so if required to do so under the Corporations Act and ASX Listing Rules. Under the Corporations Act, our Directors must call and arrange to hold a general meeting of Westpac if requested to do so by our shareholders who hold at least 5% of the votes that may be cast at the general meeting. Shareholders who hold at least 5% of the votes that may be cast at a general meeting may also call and arrange to hold a general meeting of Westpac at their own expense.

At least 28 days notice must be given of a meeting of our shareholders. Written notice must be given to all shareholders entitled to attend and vote at the meeting. All ordinary shareholders are entitled to attend and, subject to the constitution and the Corporations Act, to vote at general meetings of Westpac.

Limitations on securities ownership

A number of limitations apply in relation to the ownership of our shares, and these are more fully described in the section 'Limitations affecting security holders'.

Change in control restrictions

Restrictions apply under the Corporations Act, the *Financial Sector (Shareholdings) Act 1998* (Cth) and the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

For more detailed descriptions of these restrictions, refer to the sections 'Limitations affecting security holders', *Foreign Acquisitions and Takeovers Act 1975*, *Financial Sector (Shareholdings) Act 1998*, and *Corporations Act 2001*.

Substantial shareholder disclosure

There is no provision in our constitution that requires a shareholder to disclose the extent of their ownership of our shares.

Under the Corporations Act, however, any person who begins or ceases to have a substantial holding of our shares must notify us within two business days after they become aware of that information. A further notice must be given to us if there is an increase or decrease of 1% in a person's substantial holding. Copies of these notices must also be given to the ASX. A person has a substantial holding of our shares 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. For more details, refer to the section '*Corporations Act 2001*'.

We also have a statutory right under the Corporations Act to trace the beneficial ownership of our shares by giving a direction to a shareholder, or certain other persons, requiring disclosure to us of, among other things, their own relevant interest in our shares and 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 after the direction is received.

Australian Company and Business Numbers

All Australian companies have a unique nine-digit identifier, referred to as an Australian Company Number (ACN), which must be included on public documents, eligible negotiable instruments and the company's common seal. In addition, entities can apply for registration on the Australian Business Register and be allocated a unique eleven-digit identifier known as an Australian Business Number (ABN). For Australian companies, the last nine digits of their ABN are identical to their ACN. The ABN may be quoted on documents in lieu of the ACN.

Our ACN is 007 457 141 and our ABN is 33 007 457 141.

Documents on display

We are subject to the disclosure requirements of the US Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file Annual Reports with, and furnish other information to, the US Securities & Exchange Commission (SEC). These materials and other information furnished by us may be inspected and copied at the SEC's Conventional and Electronic Reading Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549 at prescribed rates. The public may obtain information on the operation of the SEC's Conventional and Electronic Reading Room by calling the SEC in the United States at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC. Since April 2002, we have filed our reports on Form 20-F and have furnished other information to the SEC in electronic format which may be accessed through this website.

Exchange rates

For each of the years indicated, the high, low, average and year-end noon buying rates¹ for Australian dollars were:

	2018 ²	2017	Year Ended 30 September		2014	2013
			2016	2015		
			(US\$ per A\$1.00)			
High	0.7885	0.8071	0.7817	0.8904	0.9705	1.0579
Low	0.7660	0.7174	0.6855	0.6917	0.8715	0.8901
Average ³	n/a	0.7624	0.7385	0.7781	0.9155	0.9885
Close (on 30 September) ⁴	n/a	0.7840	0.7667	0.7020	0.8737	0.9342

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

	Month					
	October 2017 ²	September 2017	August 2017	July 2017	June 2017	May 2017
			(US\$ per A\$1.00)			
High	0.7885	0.8071	0.7983	0.7991	0.7680	0.7534
Low	0.7660	0.7831	0.7822	0.7584	0.7387	0.7352

¹ 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.

² Through to 27 October 2017. On 27 October 2017, the noon buying rate was A\$1.00 = US\$0.7660.

³ The average is calculated by using the average of the exchange rates on the last day of each month during the period.

⁴ The noon buying rate at such date may differ from the rate used in the preparation of our consolidated financial statements at such date. Refer to Note 1(a) to the financial statements.

Information for shareholders

Financial calendar

Westpac shares are listed on the securities exchanges in Australia (ASX) and New Zealand (NZX) and as American Depository Receipts in New York. Westpac Convertible Preference Shares, Westpac Capital Notes, Westpac Capital Notes 2, Westpac Capital Notes 3, Westpac Capital Notes 4 and Westpac Subordinated Notes II are listed on the ASX. Westpac NZD Subordinated Notes are listed on the NZX.

Important dates to note are set out below, subject to change. Payment of any distribution, dividend or interest payment is subject to the relevant payment conditions and the key dates for each payment will be confirmed to the ASX for securities listed on the ASX.

Westpac Ordinary Shares (ASX code: WBC, NYSE code: WBK)

New York ex-dividend date for final dividend	10 November 2017
Ex-dividend date for final dividend	13 November 2017
New York record date for final dividend	13 November 2017
Record date for final dividend	14 November 2017
Annual General Meeting	8 December 2017 ¹
Final dividend payable	22 December 2017
Financial Half Year end	31 March 2018
Interim results and dividend announcement	7 May 2018
New York ex-dividend date for interim dividend	16 May 2018
Ex-dividend date for interim dividend	17 May 2018
New York record date for interim dividend	17 May 2018
Record date for interim dividend	18 May 2018
Interim dividend payable	4 July 2018
Financial Year end	30 September 2018
Final results and dividend announcement	5 November 2018
New York ex-dividend date for final dividend	9 November 2018
Ex-dividend date for final dividend	13 November 2018
New York record date for final dividend	13 November 2018
Record date for final dividend	14 November 2018
Annual General Meeting	12 December 2018 ¹
Final dividend payable	21 December 2018

¹ Details regarding the location of the meeting and the business to be dealt with will be contained in a Notice of Meeting sent to shareholders in the November before the meeting.

Westpac Convertible Preference Shares (ASX code: WBCPC)

Ex-date for semi-annual dividend	22 March 2018
Record date for semi-annual dividend	23 March 2018
Payment date for semi-annual dividend	3 April 2018 ^{1,3}
Ex-date for semi-annual dividend	20 September 2018
Record date for semi-annual dividend	21 September 2018 ²
Payment date for semi-annual dividend	1 October 2018 ¹

¹ Adjusted to next business day as payment date falls on a non-ASX business day.

² Adjusted to immediately preceding business day as record date falls on a non-ASX business day.

³ The First Optional Redemption Date for Westpac CPS will be 31 March 2018. Redemption on this date is subject to APRA's prior written consent. There can be no certainty that APRA will provide its consent and Westpac has not made any decision to redeem Westpac Convertible Preference Shares.

Westpac Capital Notes (ASX code: WBCPD)

Ex-date for quarterly distribution	29 November 2017
Record date for quarterly distribution	30 November 2017
Payment date for quarterly distribution	8 December 2017
Ex-date for quarterly distribution	27 February 2018
Record date for quarterly distribution	28 February 2018
Payment date for quarterly distribution	8 March 2018
Ex-date for quarterly distribution	30 May 2018
Record date for quarterly distribution	31 May 2018
Payment date for quarterly distribution	8 June 2018
Ex-date for quarterly distribution	30 August 2018
Record date for quarterly distribution	31 August 2018
Payment date for quarterly distribution	10 September 2018 ¹
Ex-date for quarterly distribution	29 November 2018
Record date for quarterly distribution	30 November 2018
Payment date for quarterly distribution	10 December 2018 ¹

¹ Adjusted to next business day as payment date falls on a non-ASX business day.

Westpac Capital Notes 2 (ASX code: WBCPE)

Ex-date for quarterly distribution	14 December 2017
Record date for quarterly distribution	15 December 2017
Payment date for quarterly distribution	27 December 2017 ¹
Ex-date for quarterly distribution	14 March 2018
Record date for quarterly distribution	15 March 2018
Payment date for quarterly distribution	23 March 2018
Ex-date for quarterly distribution	14 June 2018
Record date for quarterly distribution	15 June 2018
Payment date for quarterly distribution	25 June 2018 ¹
Ex-date for quarterly distribution	13 September 2018
Record date for quarterly distribution	14 September 2018 ²
Payment date for quarterly distribution	24 September 2018 ¹
Ex-date for quarterly distribution	13 December 2018
Record date for quarterly distribution	14 December 2018 ²
Payment date for quarterly distribution	24 December 2018 ¹

¹ Adjusted to next business day as payment date falls on a non-ASX business day.

² Adjusted to immediately preceding business day as record date falls on a non-ASX business day.

Westpac Capital Notes 3 (ASX code: WBCPF)

Ex-date for quarterly distribution	13 December 2017
Record date for quarterly distribution	14 December 2017
Payment date for quarterly distribution	22 December 2017
Ex-date for quarterly distribution	13 March 2018
Record date for quarterly distribution	14 March 2018
Payment date for quarterly distribution	22 March 2018
Ex-date for quarterly distribution	13 June 2018
Record date for quarterly distribution	14 June 2018
Payment date for quarterly distribution	22 June 2018
Ex-date for quarterly distribution	13 September 2018
Record date for quarterly distribution	14 September 2018
Payment date for quarterly distribution	24 September 2018 ¹
Ex-date for quarterly distribution	13 December 2018
Record date for quarterly distribution	14 December 2018
Payment date for quarterly distribution	24 December 2018 ¹

¹ Adjusted to next business day as payment date falls on a non-ASX business day.

Westpac Capital Notes 4 (ASX code: WBCPG)

Ex-date for quarterly distribution	21 December 2017
Record date for quarterly distribution	22 December 2017
Payment date for quarterly distribution	2 January 2018 ¹
Ex-date for quarterly distribution	21 March 2018
Record date for quarterly distribution	22 March 2018
Payment date for quarterly distribution	3 April 2018 ¹
Ex-date for quarterly distribution	21 June 2018
Record date for quarterly distribution	22 June 2018
Payment date for quarterly distribution	2 July 2018 ¹
Ex-date for quarterly distribution	20 September 2018
Record date for quarterly distribution	21 September 2018 ²
Payment date for quarterly distribution	1 October 2018 ¹
Ex-date for quarterly distribution	20 December 2018
Record date for quarterly distribution	21 December 2018 ²
Payment date for quarterly distribution	31 December 2018 ¹

¹ Adjusted to next business day as payment date falls on a non-ASX business day.

² Adjusted to immediately preceding business day as record date falls on a non-ASX business day.

Westpac Subordinated Notes II (ASX code: WBCHB)

Ex-date for quarterly interest payment	13 November 2017
Record date for quarterly interest payment	14 November 2017
Payment date for quarterly interest payment	22 November 2017
Ex-date for quarterly interest payment	13 February 2018
Record date for quarterly interest payment	14 February 2018
Payment date for quarterly interest payment	22 February 2018
Ex-date for quarterly interest payment	11 May 2018
Record date for quarterly interest payment	14 May 2018
Payment date for quarterly interest payment	22 May 2018
Ex-date for quarterly interest payment	13 August 2018
Record date for quarterly interest payment	14 August 2018
Payment date for quarterly interest payment	22 August 2018 ¹
Ex-date for quarterly interest payment	13 November 2018
Record date for quarterly interest payment	14 November 2018
Payment date for quarterly interest payment	22 November 2018

¹ The First Optional Redemption Date for Westpac Subordinated Notes II will be 22 August 2018. Redemption on this date is subject to APRA's prior written consent. There can be no certainty that APRA will provide its consent and Westpac has not made any decision to redeem Westpac Subordinated Notes.

Westpac NZD Subordinated Notes (NZX code: WBC010)

Ex-date for quarterly interest payment 20 November 2017

Record date for quarterly interest payment 21 November 2017

Payment date for quarterly interest payment 1 December 2017

Ex-date for quarterly interest payment 16 February 2018

Record date for quarterly interest payment 19 February 2018

Payment date for quarterly interest payment 1 March 2018

Ex-date for quarterly interest payment 21 May 2018

Record date for quarterly interest payment 22 May 2018

Payment date for quarterly interest payment 1 June 2018

Ex-date for quarterly interest payment 21 August 2018

Record date for quarterly interest payment 22 August 2018

Payment date for quarterly interest payment 3 September 2018¹

Ex-date for quarterly interest payment 20 November 2018

Record date for quarterly interest payment 21 November 2018

Payment date for quarterly interest payment 3 December 2018¹

¹ Adjusted to next business day as payment date does not fall on a day on which banks are open for general business in Wellington and Auckland, New Zealand and Sydney, Australia.

Annual General Meeting

The Westpac Annual General Meeting (AGM) will be held in The Darling Harbour Theatre, on Level 2, at the International Convention Centre Sydney, on Friday 8 December 2017, commencing at 10:00am (Sydney time).

The AGM will be webcast live on the internet at www.westpac.com.au/investorcentre and an archived version of the webcast will be placed on the website for viewing at a later time.

Useful information

Key sources of information for shareholders

We report our full year performance to shareholders, in late October or early November, in the following forms: an Annual Review & Sustainability Report; an Annual Report; a Sustainability Performance Report; an Investor Discussion Pack and earnings releases.

Electronic communications

Shareholders can elect to receive the following communications electronically:

- Annual Review & Sustainability Report and Annual Report;
- Dividend statements when paid by direct credit or via Westpac's Dividend Reinvestment Plan (DRP);
- Notices of Meetings and proxy forms; and
- Major company announcements.

Opt for electronic communications by logging into Westpac's Share Registrar's Investor Centre at www.linkmarketservices.com.au.

Online information

Australia

Westpac's website www.westpac.com.au provides information for shareholders and customers, including:

- access to internet banking and online investing services;
- details on Westpac's products and services;
- company history, results, market releases and news; and
- corporate responsibility and Westpac in the community activities.

Investors can access the Investor Centre at www.westpac.com.au/investorcentre. The Investor Centre also includes the current Westpac share price and links to the latest ASX announcements and Westpac's share registrars' websites.

New Zealand

Westpac's New Zealand website www.westpac.co.nz provides:

- access to internet banking services;
- details on products and services;
- economic updates, news and information, key financial results; and
- sponsorships and other community activities.

Westpac Investor Relations

Information other than that relating to your shareholding can be obtained from:

- Westpac Investor Relations
275 Kent Street
Sydney NSW 2000 Australia
Telephone: +61 2 8253 3143
Facsimile: +61 2 8253 1207
Email: investorrelations@westpac.com.au

Stock exchange listings

Westpac ordinary shares are listed on:

- Australian Securities Exchange (code WBC);
- New York Stock Exchange (NYSE), as American Depositary Shares (code WBK); and
- New Zealand Exchange Limited (code WBC).

Share registrars

Shareholders can check and update their information in Westpac's Share Registrars' Online Investor Centres, see details below. In Australia, broker sponsored holders must contact their broker to amend their address.

Australia – Ordinary shares on the main register, Westpac Convertible Preference Shares, Westpac Capital Notes, Westpac Capital Notes 2, Westpac Capital Notes 3, Westpac Capital Notes 4 and Westpac Subordinated Notes II

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
Postal address: Locked Bag A6015,
Sydney South NSW 1235, Australia
www.linkmarketservices.com.au

Shareholder enquiries:

Telephone: 1800 804 255 (toll free within Australia)
International: +61 1800 804 255
Facsimile: +61 2 9287 0303
Email: westpac@linkmarketservices.com.au

New Zealand – Ordinary shares on the New Zealand Branch register and Westpac NZD Subordinated Notes

Link Market Services Limited
Level 11, Deloitte Centre
80 Queen Street
Auckland 1010, New Zealand
Postal address: P.O. Box 91976, Auckland 1142,
New Zealand
www.linkmarketservices.co.nz

Shareholder enquiries:

Telephone: 0800 002 727 (toll free within New Zealand)
International: +64 9 375 5998
Facsimile: +64 9 375 5990
Email: enquiries@linkmarketservices.co.nz

Depositary in USA for American Depositary Shares¹

Listed on New York Stock Exchange (CUSIP 961214301)
BNY Mellon Shareowner Services
PO Box 305000
Louisville, KY 740233-5000, USA
www.mybnymdr.com

American Depositary Shares holder enquiries:

Telephone: 1-888-269-2377 (toll free in USA)
International: +1 201 680 6825
Email: shrrelations@cpuchareownerservices.com

¹ Each ADS represents one fully paid ordinary share.

Glossary of abbreviations and defined terms

AAS	Australian Accounting Standards	CVA	Credit valuation adjustment
AASB	Australian Accounting Standards Board	DFAT	Department of Foreign Affairs and Trade
ABS	Asset-backed securities	DRP	Dividend Reinvestment Plan
ACCC	Australian Competition and Consumer Commission	D-SIB	Domestic Systemically Important Banks
ADI	Authorised Deposit-taking Institution	EAD	Exposure at default
ADRs	American Depositary Receipts	EPS	Earnings per share
ADS	American Depositary Shares	ESG	Environmental, social and governance
Advanced IRB	Advanced Internal Ratings Based	ESP	Employee Share Plan
AGM	Annual General Meeting	FCA	Financial Conduct Authority
AIRB	Advanced Internal Ratings Based	FCS	Financial Claims Scheme
ALCO	Westpac Asset and Liability Committee	FMA	Financial Markets Authority
ALM	Asset and Liability Management	FSB	Financial Stability Board
AMA	Advanced Measurement Approach	FTE	Full time equivalent employees
ANZSIC	Australian and New Zealand Standard Industrial Classification	FUA	Funds under administration
APRA	Australian Prudential Regulation Authority	FUM	Funds under management
ASIC	Australian Securities and Investments Commission	FVA	Funding Valuation Adjustment
ASX	Australian Securities Exchange	FX	Foreign Exchange
ASXCGC	ASX Corporate Governance Council	GHG	Greenhouse gas
AT1	Additional Tier 1	G-SIBs	Global Systemically Important Banks
ATMs	Automatic teller machines	Hastings	Hastings Funds Management Limited
ATO	Australian Taxation Office	HKMA	Hong Kong Monetary Authority
AUSTRAC	Australian Transaction Reports and Analysis Centre	IAPs	Individually Assessed Provisions
BAC	Board Audit Committee	IASB	International Accounting Standards Board
BankSA	Bank of South Australia	ICAAP	Internal Capital Adequacy Assessment Process
BB	Business Bank	IFRS	International Financial Reporting Standards
BBSW	Bank Bill Swap Reference Rate	IMF	International Monetary Fund
BCBS	Basel Committee on Banking Supervision	IOSCO	International Organization of Securities Commission
bps	Basis points	IRRBB	Interest Rate Risk in the Banking Book
BRCC	Board Risk & Compliance Committee	IRS	Internal Revenue Service
BTFG	BT Financial Group (Australia)	ISDA	International Swaps and Derivatives Association
BTIM	BT Investment Management Limited	LCR	Liquidity Coverage Ratio
CAPs	Collectively assessed provisions	LGBTI	Lesbian, gay, bisexual, transgender and intersex
Cash EPS	Cash earnings per share	LGD	Loss given default
Cash EPS CAGR	Compound Annual Growth in Cash EPS	LIBOR	London InterBank Offer Rate
CB	Consumer Bank	LMI	Lenders mortgage insurance
CCB	Capital Conservation Buffer	LTI Plan	Westpac Long Term Incentive Plan
CDS	Credit default swap	LTIFR	Lost Time Injury Frequency Rate
CEO	Chief Executive Officer	LVR	Loan to value ratio
CEOPP	Chief Executive Officer Performance Plan	Moody's	Moody's Investors Service
CEO RSP	Chief Executive Officer Restricted Share Plan	NaR	Net interest income-at-risk
CET1	Common Equity Tier 1	NII	Net interest income
CFO	Chief Financial Officer	NYSE	New York Stock Exchange
CFTC	Commodity Futures Trading Commission	NSFR	Net Stable Funding Ratio
CGU	Cash Generating Unit	NZX	New Zealand Exchange Limited
CHF	Swiss franc	OBR	Open Bank Resolution
CLF	Committed Liquidity Facility	OCC	Office of the Comptroller of the Currency
Corporations Act	Corporations Act 2001 (Cth)	OFAC	Office of Foreign Assets Control
COSO	Committee of Sponsoring Organizations of the Treadway Commission	OTC	Over the counter
CPM	Credit Portfolio Management	PD	Probability of default
CRG	Customer Risk Grade	PFIC	Passive foreign investment company
CRO	Chief Risk Officer	PNG	Papua New Guinea
CRS	Common Reporting Standard	RAMS	RAMS Home Loans
		RBA	Reserve Bank of Australia

Glossary of abbreviations and defined terms

RBNZ	Reserve Bank of New Zealand
RISKCO	Westpac Group Executive Risk Committee
RMBS	Residential Mortgage Backed Securities
ROE	Return on equity
Cash ROE	Return on equity on a cash earnings basis
RSP	Restricted Share Plan
RWA	Risk-weighted assets
S&P	Standard & Poor's
SEC	US Securities and Exchange Commission
SME	Small to medium enterprises
SOx	Sarbanes-Oxley Act of 2002
SPS	Stapled Preferred Securities
St.George	St.George Banking Group
TCE	Total committed exposures
TLAC	Total Loss Absorbing Capacity
2006 TPS	Trust Preferred Securities 2006
TSR	Total Shareholder Return
UK	United Kingdom
UKSS	Westpac Banking Corporation UK Staff Superannuation Scheme
UNSC	United Nations Security Council
US	United States
VaR	Value at Risk
Westpac CPS	Westpac Convertible Preference Shares
WGP	Westpac Group Plan
WHS	Workplace Health and Safety
WIB	Westpac Institutional Bank
WNZL	Westpac New Zealand Limited
WNZS	Westpac New Zealand Superannuation Scheme
WPP	Westpac Performance Plan
WRP	Westpac Reward Plan
WSNZL	Westpac Securities NZ Limited

Notes



The Westpac Group 2017 Annual Report is printed on PEFC certified paper. Compliance with the certification criteria set out by the Programme for the Endorsement of Forest Certification (PEFC) means that the paper fibre is sourced from sustainable forests.

CONTACT US**WESTPAC GROUP**200 |  **Westpac** GROUP**Westpac Group****Head office**275 Kent Street
Sydney NSW 2000 Australia

Tel: +61 2 9155 7713

Fax: +61 2 8253 4128

From outside Australia: +61 2 9155 7700

www.westpac.com.au/westpacgroup200 | **Westpac**

Telephone – Consumer 132 032

Telephone – Business 132 142

From outside Australia: +61 2 9155 7700

www.westpac.com.au **st.george****St. George Bank**St. George House
4-16 Montgomery Street
Kogarah NSW 2217 AustraliaMail: Locked Bag 1
Kogarah NSW 1485 Australia

Tel: 13 33 30

www.stgeorge.com.au **Bank of Melbourne****Bank of Melbourne**Level 2, 525 Collins Street
Melbourne VIC 3000 Australia

Tel: 13 22 66

From outside Australia: +61 3 8536 7870

www.bankofmelbourne.com.au **bankSA****BankSA**97 King William Street
Adelaide SA 5000 AustraliaMail: GPO Box 399
Adelaide SA 5001 Australia

Tel: 131 376

From outside Australia: +61 2 9155 7850

www.banksa.com.au **RAMS****RAMS**RAMS Financial Group Pty Ltd
Level 12, 321 Kent Street
Sydney NSW 2000 Australia

Mail: GPO Box 4008

Sydney NSW 2001 Australia

Tel: +61 2 8218 7000

Fax: +61 2 8218 7171

Email: communications@rams.com.auwww.rams.com.au **BT Financial Group****BT Financial Group**Level 20, 275 Kent Street
Sydney NSW 2000 Australia

Tel: 132 135

From outside Australia: +61 2 8222 7154

Email: customer.relations@btfinancialgroup.comwww.bt.com.au **Westpac****Westpac Institutional Bank**

Tel: 132 032

www.westpac.com.au**Institutional Bank locations**

Hong Kong

India – Mumbai

People's Republic of China

– Beijing

– Shanghai

Republic of Indonesia – Jakarta

Republic of Singapore – Singapore

United States of America – New York

United Kingdom – London

 **Westpac****Westpac Pacific****Westpac PNG**Level 1, Burns Philp Haus
Corner Champion Parade
and Musgrave Street
Port Moresby, NCD, Papua New Guinea

Tel: +67 5 322 0511

Email: westpacpng@westpac.com.au**Westpac Fiji**Level 1, Westpac House
1 Thomson Street
Suva, Fiji

Tel: +67 9 321 7000

Email: westpacfiji@westpac.com.auwww.westpac.com.au/pacific**Westpac New Zealand**16 Takutai Square
Auckland 1010 New Zealand

Tel: +64 9 912 8000

Email: customer_solutions@westpac.co.nzwww.westpac.co.nz**Global locations**Specific contact details for the many locations globally can be located on our website at www.westpac.com.au.

Select 'About us' from the top menu bar, then 'Global locations' from the drop down menu.

Share RegistrarLink Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000 AustraliaMail: Locked Bag A6015
Sydney South NSW 1235 Australia

Tel: +61 1800 804 255

Fax: +61 2 9287 0303

Email: westpac@linkmarketservices.com.auwww.linkmarketservices.com.au**Westpac Investor Relations**

Tel: +61 2 8253 3143

Email: investorrelations@westpac.com.auwww.westpac.com.au/investorcentre**Westpac Group Sustainability**

Tel: 1300 130 964

From outside Australia:
+61 2 9767 0064Email: sustainability@westpac.com.auFor further information on Westpac Group's sustainability approach, policies and performance, please visit www.westpac.com.au/sustainability.For information on our compliance with international agreements, including the United Nations Global Compact and Declaration on Human Rights, contact the Group Head of Sustainability at sustainability@westpac.com.au.

