

Guide to Taxation of Westpac Vanilla Instalment Equity Warrants for the Financial Year ended 30 June 2014



1. Taxation of capital protected borrowings

Division 247 applies to certain capital protected borrowings entered into on or after 1 July 2007.

Division 247 operates to ensure that part of the cost of a capital protected product that is attributable to the capital protection feature is not deductible as interest or otherwise (but instead forms part of the capital gains tax cost base of the relevant asset). It effectively caps an investor's interest deductions by reference to a benchmark rate of interest. To the extent that the interest paid by the investor on a capital protected loan exceeds what would have been incurred if the benchmark rate had applied, the excess is not deductible.

The benchmark interest rate is the Reserve Bank's variable indicator rate for standard housing loans plus 100 basis points (1%).

Month	Standard Housing Loan Rate	Margin	Benchmark Interest Rate
April 2014	5.95%	1.00%	6.95%
May 2014	5.95%	1.00%	6.95%
June 2014	5.95%	1.00%	6.95%

2. Purchasing Westpac Vanilla Instalment Equity Warrants during the 2013–2014 financial year

Your Westpac Tax Statement shows the amount of prepaid interest, Borrowing Fees* (if any) and (notional) put option cost you are treated as having incurred as a result of the application of Division 247 at the time of purchasing your Westpac Vanilla Instalment Equity Warrants. The following table sets out the income tax treatment of the amounts in your Westpac Tax Statement.

Interest (less any (notional) put option cost)	Deduction is generally spread on a days basis over the period to the Completion Date**
(Notional) put option cost	Non-deductible, but is added to the cost base of your (notional) put option
Borrowing Fees	Deduction is spread on a days basis over the period to the Completion Date

* If you purchased your instalments via a Primary Market Application (Cash, Security Holder, or Rollover), you may have been charged a Borrowing Fee as indicated in the statement confirming your purchase.

** where the interest is in respect of an interest period not longer than 12 months ending on or before 30 June of the next income year or the prepaid interest is less than \$1,000 you may be able to claim a full deduction. Please refer to the tax section of the View PDS.

The allocation of amounts incurred between interest and (notional) put option cost on the Tax Statement has been determined by the application of Division 247 as follows:

Primary market purchases

For primary market purchasers, Westpac Vanilla Instalment Equity Warrants have a separately identifiable Initial Interest Amount.

Primary market purchases of those Westpac Vanilla Instalment Equity Warrants are likely to have an amount of the Initial Interest Amount attributed to the cost of the capital protection as determined by the application of Division 247. Where this is the case, the interest deductions shown on the Tax Statement have been appropriately reduced and the reduction amounts are disclosed as (notional) put option cost.

Secondary market purchases

If you acquire your Westpac Vanilla Instalment Equity Warrants on the secondary market, there is no itemised cost associated with the payment of an Initial Interest Amount.

Broadly, the purchase price paid by the investor to acquire their Westpac Vanilla Instalment Equity Warrants in the secondary market includes an amount that is attributable to the Initial Interest Amount. The Initial Interest Amount is calculated as the purchase consideration for the warrant plus the Loan Amount less the market price of the Underlying Security.

The amount of the Initial Interest Amount (if any) attributable to the cost of capital protection will be determined by the application of Division 247. Division 247 will treat any amount above what would have been paid if the benchmark interest rate had applied as attributable to the cost of capital protection. The amounts shown as deductible prepaid interest and (notional) put option cost in your Tax Statement have been determined by the application of Division 247.

The following table sets out how the interest and notional put option amounts in your Westpac Tax Statement have been determined:

	Deductible Interest	Notional Put Option
Primary market acquisitions	Is the lesser of: <ul style="list-style-type: none"> the actual amount of Initial Interest Amount charged by Westpac; and the amount of interest that would have been incurred if the applicable benchmark interest rate had applied to the loan. 	Is the excess (if any) of the actual Initial Interest Amount over the amount of interest that would have been incurred if the benchmark interest rate had applied to the loan.
Secondary market applications	Is the lesser of: <ul style="list-style-type: none"> the actual acquisition price attributable to the Initial Interest Amount; and the amount of interest that would have been incurred if the applicable benchmark interest rate had applied to the loan. 	Is the excess (if any) of the actual acquisition price attributable to the Initial Interest Amount over the amount of interest that would have been incurred if the benchmark interest rate had applied to the loan.

Timing of deduction for interest

The deduction for the interest will generally be required to be spread over the period to which the interest relates.

However where the interest is in respect of an interest period not longer than 12 months ending on or before 30 June of the next income year or the prepaid interest is less than \$1,000 you may be able to claim a full deduction. Please refer to the tax section of the Westpac Vanilla Instalment Equity Warrants PDS.

Cost Base of Underlying Securities

Cash applicants and on-market purchasers will, for CGT purposes, be considered to have acquired a beneficial interest in the respective Underlying Securities of their Westpac Vanilla Instalment Equity Warrants although the legal title to the Underlying Securities will be held by the Security Trustee.

Your cost base in the Underlying Securities depends on how you acquired your Westpac Vanilla Instalment Equity Warrants:

Cash applicant	Securityholder applicant	Rollover	On-market purchase
The acquisition price of the Underlying Security is stated in your investment confirmation and in your Westpac Tax Statement.	Your cost base in the Underlying Securities prior to converting them to Westpac Vanilla Instalment Equity Warrants.	Your cost base in the Underlying Securities from your previous series of Westpac Vanilla Instalment Equity Warrants.	Market Value of the Underlying Securities at the time of acquisition of your Westpac Vanilla Instalment Equity Warrants. As an estimate we provide you with the closing Market Value of the Underlying Securities in your Westpac Tax Statement.

3. Disposal

Sell Instalment on the ASX

If you dispose of your Westpac Vanilla Instalment Equity Warrants on the ASX, you will receive a refund of prepaid interest as set out on your Westpac Tax Statement. The interest refund is assessable to you in the year you sell your Westpac Vanilla Instalment Equity Warrants to the extent that the interest was previously claimed as an allowable deduction. You must also determine the capital gains tax consequences for both the Underlying Securities and your (notional) put option.

Underlying Securities

Capital proceeds	Instalment sale price + Completion Payment – interest refund – proceeds allocated to the (notional) put option (see below)
Cost base	See section 1 above
Capital gain	Where the capital proceeds > the cost base, you will make a capital gain; if not, a capital loss may arise

(Notional) put option

	If Market Value of Underlying Securities	Capital Proceeds on (notional) put option
Capital proceeds	> Completion Payment	Instalment sale price + Completion Payment - Interest refund - Market value of underlying security
	< Completion Payment	Instalment sale price - Interest refund
Cost base	See section 1 above	
Capital gain	Where the capital proceeds > the cost base, you will make a capital gain, if not a capital loss may arise	

Please note that for Westpac Vanilla Instalment Equity Warrants which do not have an explicit put option, any notional put option expires when the instalment is sold on the ASX. This may result in a capital loss equal to the cost base in the notional put option.

However, the capital proceeds received for the disposal of the Underlying Securities must be increased by an amount equal to the capital proceeds on the notional put option as shown in your statement.

If you are an individual or trustee, you should be entitled to the capital gains tax discount (50% for individuals and trusts, 33% for complying superannuation funds) if you have held your Westpac Vanilla Instalment Equity Warrants (or in the case of a Securityholder Applicant, the underlying shares) for at least 12 months.

Make Completion Payment

If you provided Westpac with a valid Completion Payment Notice by 5pm on 30 June 2014, you would have received legal title to one underlying share per warrant. This should not have given rise to the disposal of the Underlying Parcel for the purposes of the CGT provisions. On making the Completion Payment however, you would have realised a capital loss on the lapsing of the (Notional) Put Option for an amount equal to its reduced cost base. You will be entitled to a deduction for the remaining balance of any undeducted Borrowing Fees.

Capital losses can generally be offset against other capital gains derived during the income year or against future year capital gains.

4. Dividends and Distributions

Dividends and distributions paid by the Underlying Securities are assessable to you.

Where dividends are wholly or partially "franked" and you are a "qualified person" in relation to the dividends, you are required to include an additional amount (representing the franking credits) in your assessable income and are entitled to a tax offset equal to this additional amount. The tax offset will reduce your tax liability and, in certain circumstances, an individual, superannuation fund or tax exempt entity may be entitled to a tax refund.

If the Underlying Securities are or include units in a listed trust (e.g. STW), distributions from the trust should have the same character as the amounts derived by the trust (e.g. they may include capital gains, foreign tax credits or franked dividends). The tax composition of distributions from trusts is generally available from the relevant entities or their websites. You should refer to the Tax section of the relevant PDS for further details on the tax treatment of these distributions.

Things you should know. This Summary is provided for information purposes only and does not constitute tax advice. Westpac Banking Corporation does not provide taxation advice and we recommend that you speak to your professional taxation adviser for assistance when preparing your return. This Guide is based on current tax laws and interpretations and has been prepared with the assistance of KPMG. The information contained in this Guide is current as at 12 September 2014.

Westpac Banking Corporation ABN 33 007 457 141, AFSL 233714 ("Westpac") is the issuer of the Westpac Vanilla Instalment Equity Warrants Product Disclosure Statement ("PDS"). You should consider the PDS before making any decision to invest. Westpac has not taken into consideration the financial situation, investment objectives or particular needs of any particular investor and recommends that investors consider its appropriateness and seek independent advice before acting on this information. The information contained in this document is current at the date of publication but remains subject to change. Neither Westpac nor any related body corporate, director, officer or employee, warrants or represents that this information is free from error or omission, or is suitable for your intended use. Subject to any terms implied by law and which cannot be excluded, Westpac accepts no responsibility for any loss, damage, cost or expense (whether direct or indirect) incurred by you as a result of any error, omission or misrepresentation in any information in this document. Capitalise terms used in this document have the same meaning given to them in the PDS unless the context otherwise requires.

Westpac Institutional Bank is a division of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac")