



# 2017 WESTPAC GROUP CORPORATE GOVERNANCE STATEMENT



200 years proudly supporting Australia

Left to right:  
Barangaroo, Sydney  
Westpac customer Wakatu Incorporation  
Bank of New South Wales Croydon branch, 1906

Westpac Banking Corporation  
ABN 33 007 457 141

## Introduction

This Corporate Governance Statement, which has been approved by the Board, describes our corporate governance framework, policies and practices as at 6 November 2017.

## Framework and approach

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

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

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

## Australia

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

We comply with the ASX Corporate Governance Principles and Recommendations (third edition) (ASXCGC Recommendations) published by the ASX Limited's Corporate Governance Council (ASXCGC). We must also comply with the Corporations Act and, as an Authorised Deposit-taking Institution, with governance requirements prescribed by APRA under Prudential Standard CPS 510 Governance.

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

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

## New Zealand

Westpac's ordinary shares are also quoted on the NZX, which is the main board equity security market operated by NZX Limited. Westpac also has subordinated notes quoted on the NZX Debt Market. As an overseas listed issuer in New Zealand, we are deemed to satisfy and comply with the NZX Listing Rules, provided that we remain listed on the ASX and comply with the ASX Listing Rules.

The ASX, through the ASXCGC Recommendations and the NZX, through the NZX Corporate Governance Code, have adopted similar 'comply or explain' approaches to corporate governance. The ASXCGC Recommendations may, however, materially differ from the corporate governance rules and the principles of NZX's Corporate Governance Code.

## United States

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

Rules. However, we are still required to comply with certain audit committee and additional notification requirements.

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

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

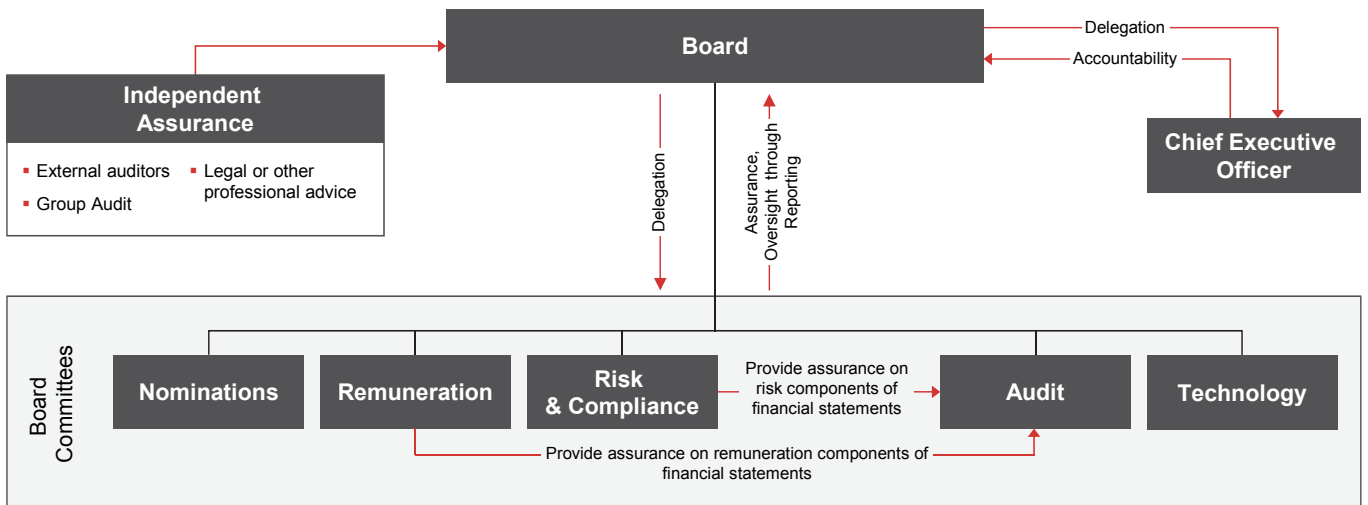
The NYSE Listing Rules require that, subject to limited exceptions, shareholders be given the opportunity to vote on equity compensation plans and material revisions to those plans. In Australia, there are no laws or ASX Listing Rules that require shareholder approval of equity based incentive plans or individual grants under those plans (other than for Directors, including the Chief Executive Officer (CEO)).

Westpac's employee equity plans have been disclosed in the Remuneration Report in Section 10 of the Directors' report, (located in our 2017 Annual Report), which is subject to a non-binding shareholder vote at the Annual General Meeting (AGM) and grants to our CEO are approved by shareholders. The details of grants under our equity-based incentive plans have been disclosed in Note 37 of our financial statements for the year ended 30 September 2017.

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

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

## Governance framework



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

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

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

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



## Board, Committees and oversight of management

### Board of Directors

#### *Roles and responsibilities*

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

- overseeing the sound and prudent management of the Westpac Group;
- approving the strategic direction of Westpac Group;
- evaluating Board performance and determining Board size and composition;
- considering and approving the Westpac Board Renewal Policy;
- appointing and determining the duration, remuneration and other terms of appointment of the CEO, Chief Financial Officer (CFO) and other Group Executives;
- determining the remuneration of persons whose activities in the Board's opinion affects, the financial soundness of Westpac, any person specified by APRA, and any other person the Board determines;
- evaluating the performance of the CEO;
- succession planning for the Board, CEO and Group Executives;
- approving the appointment of Group Executives and the General Manager Group Audit and monitoring the performance of senior management;
- approving the annual targets and financial statements and monitoring performance against forecast and prior periods;
- determining our dividend policy;
- determining our capital structure;
- approving our risk management strategy and frameworks, and monitoring their effectiveness;
- considering the social, ethical and environmental impact of our activities and monitoring compliance with our sustainability policies and practices;
- monitoring Workplace Health and Safety (WHS) issues in the Group and considering appropriate WHS reports and information;
- maintaining an ongoing dialogue with Westpac's external auditor and, where appropriate, principal regulators; and
- overseeing internal governance, including delegated authorities, policies for appointments to our controlled entity boards and monitoring resources available to senior executives.

### *Delegated authority*

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

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

- Audit;
- Risk & Compliance;
- Nominations;
- Remuneration; and
- Technology.

The Board Charter, Board Committee Charters and the Constitution are available on our website at [www.westpac.com.au/corpgov](http://www.westpac.com.au/corpgov).

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

### *Independence*

Together, the Board members have a broad range of relevant financial and other skills and knowledge, combined with the extensive experience necessary to guide our business. Details are set out in Section 1 of the Directors' report, in our 2017 Annual Report.

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

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

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

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

**Size and membership of Board Committees as at 30 September 2017**

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

<sup>1</sup> Composition requirements for each Committee are set out in the relevant Committee Charter.

## **Chairman**

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

- providing effective leadership to the Board in relation to all Board matters;
- guiding the agenda and conducting all Board meetings;
- in conjunction with the Company Secretaries, arranging regular Board meetings throughout the year, confirming that minutes of meetings accurately record decisions taken and, where appropriate, the views of individual Directors;
- overseeing the process for appraising Directors and the Board as a whole;
- overseeing Board succession;
- acting as a conduit between management and the Board, and being the primary point of communication between the Board and CEO;
- representing the views of the Board to the public; and
- taking a leading role in creating and maintaining an effective corporate governance system.

## **CEO**

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

- leadership of the management team;
- developing strategic objectives for the business; and
- the day-to-day management of the Westpac Group's operations.

## **Board meetings**

The Board had nine scheduled meetings for the financial year ended 30 September 2017, with additional meetings held as required. In addition to the Board considering strategic matters at each Board meeting, the Board also discusses our strategic plan and approves our overall strategic direction on an annual basis. The Board also conducts a half year review of our strategy. The Board conducts workshops on specific subjects relevant to our business throughout the year. Board meetings are characterised by robust exchanges of views, with Directors bringing their experience and independent judgement to bear on the issues and decisions at hand.

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

Meetings attended by Directors for the financial year ended 30 September 2017 are reported in Section 9 of the Directors' report, in our 2017 Annual Report.

## **Nomination and appointment**

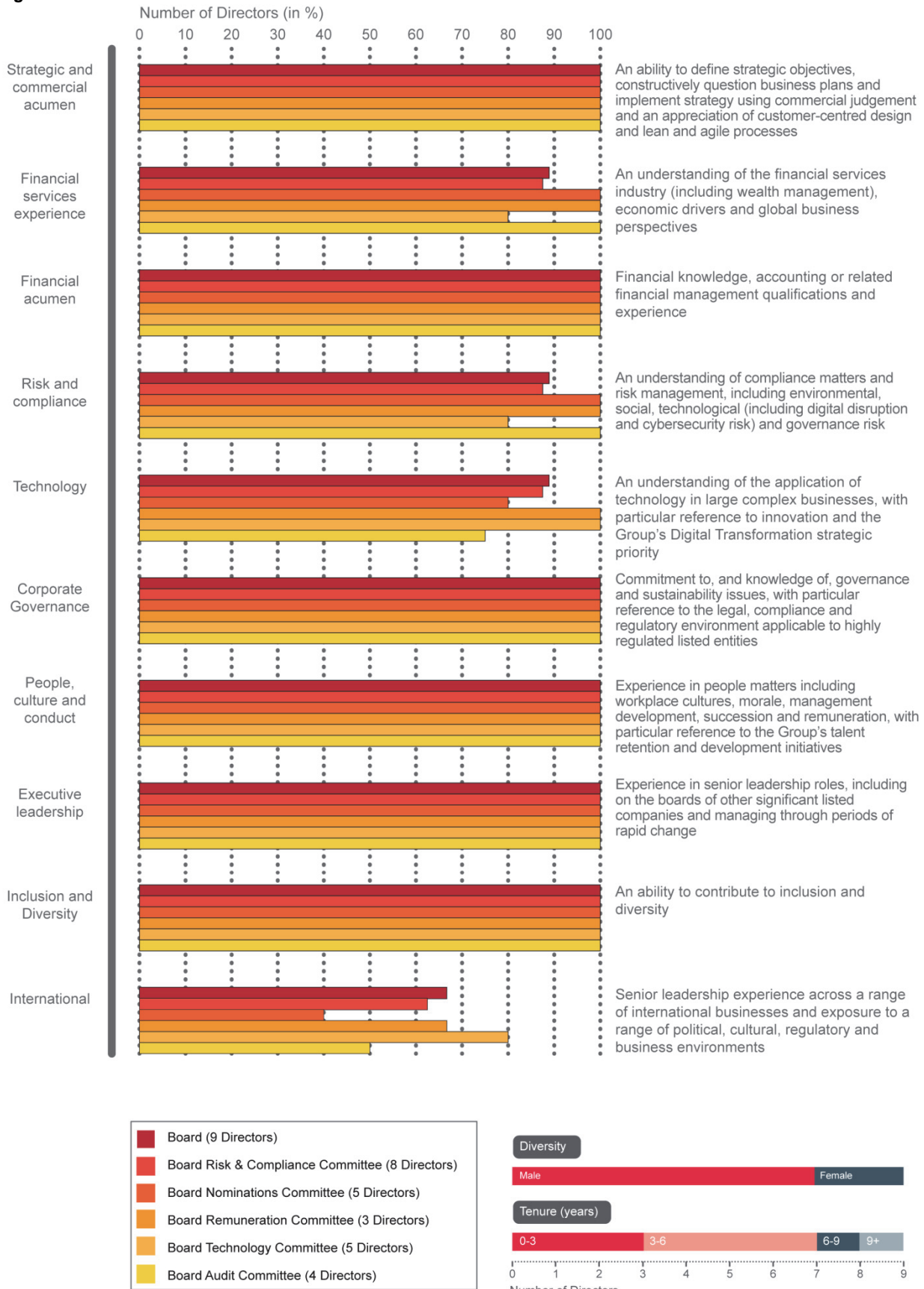
As set out in its Charter, the Board Nominations Committee is responsible for:

- developing and reviewing policies on Board composition, strategic function and size;
- reviewing and making recommendations to the Board annually on diversity generally within the Group, measurable objectives for achieving diversity and progress in achieving those objectives;
- planning succession of the Non-executive Directors;
- reviewing the process for the orientation and education of new Directors and any continuing education for existing Directors;
- reviewing eligibility criteria for the appointment of Directors;
- recommending the appointment of Directors to the Board; and
- considering and recommending candidates for appointment to the Boards of relevant subsidiaries (including Westpac New Zealand Limited and our insurance and superannuation businesses).

## **Board skills, experience and attributes**

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

**Figure 1**



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

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

- service leadership;
- digital transformation;
- performance discipline;
- growth highways; and
- workforce revolution.<sup>1</sup>

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

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

### **Term of office**

The Board may appoint a new Director, either to fill a casual vacancy or as an addition to the existing Directors, provided the total number of Directors does not exceed fifteen Non-executive Directors and three Executive Directors. Except for the Managing Director, a Director appointed by the Board holds office only until the close of the next AGM but is eligible for election by shareholders at that meeting.

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

The Westpac Board Renewal Policy limits the maximum tenure of office that any Non-executive Director other than the Chairman may serve to nine years, from the date of first election by shareholders. The maximum tenure for the

Chairman is twelve years (inclusive of any term as a Director prior to being elected as Chairman), from the date of first election by shareholders. The Board, on its initiative and on an exceptional basis, may exercise discretion to extend the maximum terms specified above where it considers that such an extension would benefit the Group. Such discretion will be exercised on an annual basis and the Director concerned will be required to stand for re-election annually.

### **Director induction and continuing education**

All new Directors participate in an induction program to familiarise themselves with our business and strategy, culture and values and any current issues before the Board. The induction program includes meetings with the Chairman, the CEO, the Board Committee Chairs and each Group Executive.

The Board encourages Directors to undertake continuing education and training to develop and maintain the skills and knowledge needed to perform their role as Directors effectively, including by participating in workshops held throughout the year, attending relevant site visits and undertaking relevant external education.

### **Access to information and advice**

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

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

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

In addition, the Board collectively, and all Directors individually, have the right to seek independent professional advice, at our expense, to help them carry out their responsibilities. While the Chairman's prior approval is needed, it may not be unreasonably withheld.

<sup>1</sup> Further information about the Service Revolution and our strategic priorities is available in our 2017 Annual Report.



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## Company Secretaries

Westpac has two Company Secretaries:

- The Senior Company Secretary is our Group Executive, Compliance, Legal & Secretariat<sup>1</sup>. The Senior Company Secretary attends Board and Board Committee meetings and is responsible for providing Directors with advice on legal and corporate governance issues.
- The Group Company Secretary also attends Board and Board Committee meetings and is responsible for the operation of the secretariat function, including implementing our governance framework and, in conjunction with management, giving practical effect to the Board's decisions. The Group Company Secretary is accountable to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

Profiles of our Company Secretaries for the financial year ended 30 September 2017 are set out in Section 1 of the Directors' report, in our 2017 Annual Report.

## Board Committees

### Composition and independence

Board Committee members are chosen for the skills and experience they can contribute to the respective Board Committees and their qualifications are set out in Section 1 of the Directors' report, in our 2017 Annual Report. The membership of each Board Committee is set out in the table entitled 'Size and membership of Board Committees as at 30 September 2017' in this Corporate Governance Statement. All of the Board Committees are comprised of independent Non-executive Directors, save for the Board Technology Committee, of which the CEO is also a member.

### Operation and reporting

Scheduled meetings of the Board Committees occur at least quarterly. Each member's attendance at Board Committee meetings held during the financial year ended 30 September 2017 is reported in Section 9 of the Directors' report, in our 2017 Annual Report. All Board Committees are able to meet more frequently as necessary. Each Board Committee is entitled to the resources and information it requires and has direct access to our employees and advisers. The CEO attends all Board Committee meetings, except where he has a material personal interest in a matter being considered. Senior executives and other selected employees are invited to attend Board Committee meetings as required. All Directors can receive all Board Committee papers and can attend any Board Committee meeting, provided there is no conflict of interest.

## Performance

### Board, Board Committees and Directors

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

The review process conducted in 2017 included an assessment of the performance of the Board, the Board Committees and each Director, with outputs collected, analysed and presented to the Board. The Board discussed the results and agreed follow up action on matters relating to Board composition, process and priorities.

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

### Management

The Board, in conjunction with its Board Remuneration Committee, is responsible for approving the performance objectives and measures for the CEO and other senior executives, and providing input into the evaluation of performance against these objectives. The Board Risk & Compliance Committee also refers to the Board Remuneration Committee any matters that come to its attention that are relevant with respect to remuneration policy or practices.

Management performance evaluations for the financial year ended 30 September 2017 were conducted following the end of the financial year.

There is a further discussion on performance objectives and performance achieved in the Remuneration Report in Section 10 of the Directors' report (which is located in our 2017 Annual Report).

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

### Advisory Boards

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

Responsibilities of the Advisory Boards include:

- providing advice to management on management's strategies and initiatives to continue to strengthen the position and identity of the business;
- providing advice to management of the relevant business so as to promote and preserve its distinct position and identity and align business values with those of the relevant communities served;
- considering and assessing reports provided by management on the health of the relevant business;

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<sup>1</sup> Rebecca Lim's title was changed from Group General Counsel & Chief Compliance Officer to Group Executive, Compliance, Legal & Secretariat effective from 2 October 2017.

- acting as ambassadors for the business, including by supporting community and major corporate promotional events to assist in building relationships with the bank's customers, local communities and the business and government sector, and advising senior management on community matters relevant to the provision of financial services in the community it serves; and
- alerting management to local market opportunities and issues of which Advisory Board members are aware that would enhance the provision of services to customers and potential customers and the position of the bank in its local communities.

## Ethical and responsible decision-making

### Code of Conduct and Principles for Doing Business

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

- we act with honesty and integrity;
- we comply with laws and with our policies;
- we do the right thing by our customers;
- we respect confidentiality and do not misuse information;
- we value and maintain our professionalism;
- we work as a team; and
- we manage conflicts of interest responsibly.

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

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

- we believe our success depends on the trust and confidence placed in us by our customers, people, shareholders, suppliers, advisers and the community;
- we believe in maintaining the highest level of governance and ethical practice while protecting the interests of our stakeholders;
- we believe in putting our customers at the centre of everything we do;
- we believe our people are a crucial element of a successful service business;
- we are committed to managing our direct and indirect impacts on the environment;
- we believe being actively involved in our community is fundamental to the sustainability of our business; and

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

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

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

- a range of internal guidelines, policies, frameworks, communications and training processes and tools, including an online learning module entitled 'Doing the Right Thing'; and
- a range of externally-facing codes, frameworks, operating principles, policies, and position statements, addressing issues such as human rights, climate change and the environment.

### Key policies

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

### Code of Ethics for Senior Finance Officers

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

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

### Conflicts of interest

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

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

### The Board

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

Any Director with a material personal interest in a matter being considered by the Board must declare their interest and, unless the Board resolves otherwise, may not be

present during the boardroom discussions or vote on the relevant matter.

### **Our employees and contractors**

We expect our employees and contractors to:

- have in place adequate arrangements for the management of actual, potential or apparent conflicts of interest;
- obtain consent from senior management before accepting a directorship on the board of a non-Westpac Group company;
- disclose any material interests they have with our customers or suppliers to their manager and not be involved with customer relationships where they have such an interest;
- not participate in business activities outside their employment with us (whether as a principal, partner, director, agent, guarantor, investor or employee) without approval or when it could adversely affect their ability to carry out their duties and responsibilities; and
- not solicit, provide facilitation payments, accept or offer money, gifts, favours or entertainment that might influence, or might appear to influence, their business judgement.

### **Fit and Proper Person assessments**

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

### **Concern reporting and whistleblower protection**

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

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

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

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

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

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

### **Securities trading**

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

We manage and monitor these obligations through:

- the insider trading provisions of our Policy, which prohibit any dealing in any securities where a Director or employee has access to inside information that may affect the price of those securities;
- restrictions limiting the periods in which the Directors and Prescribed Employees can trade in Westpac securities and other Westpac financial products (Blackout Periods);
- placing limitations upon Directors, employees and contractors participating in a new product issue where their position puts them in an actual, potential or apparent position of conflict of interest;
- requiring Directors and Prescribed Employees to either obtain approval or notify their intention to trade outside Blackout Periods and confirm that they have no inside information;
- monitoring the trading of Westpac securities by Directors and Prescribed Employees;
- maintaining a register of Prescribed Employees, which is regularly updated;
- notifying ASX of trades by Directors of Westpac securities as required under the ASX Listing Rules; and

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

## Diversity

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

The objectives of the policy are to ensure that the Group:

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

To achieve these objectives, the Group:

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

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

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

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

- Inclusion & Diversity Business Unit Councils, chaired by the relevant Group Executive of that business unit; and
- the Inclusion & Diversity Working Group, consisting of appointed general manager representatives across each business unit and chaired by the Head of Inclusion & Diversity.

We continue to listen to the needs of our employees through the engagement of our employee action groups, our annual employee survey (which includes questions that constitute an 'Inclusion Index'), and bi-annual inclusion and diversity focused surveys.

Our Inclusive Leadership program ensures we are investing in the right capabilities for an inclusive culture. Senior leaders and Group Executives have already completed the program which will be rolled out to approximately 3,000 members of Westpac's wider leadership team from late 2017.

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

At 30 September 2017, the proportion of women employed by the Group was as follows:

- Board of Directors: 22%;
- leadership<sup>1</sup> roles: 50%; and
- total Westpac workforce: 58%.

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

Further information on our inclusion and diversity programs and performance can be found on our website at <https://www.westpac.com.au/about-westpac/inclusion-and-diversity/>.

<sup>1</sup> 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.



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## Sustainability

We view sustainable and responsible business practices as important for our business and shareholder value.

Sustainability is about managing risks and opportunities in a way that best balances the long term needs of all our stakeholders – our customers, employees, suppliers, investors and community partners – as well as the wider community and the environment at large.

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

### Reporting

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

Our sustainability reporting is subject to independent limited assurance, performed in accordance with the Australian Standard on Assurance Engagements 3000 (revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information ('ASAE 3000'). The AA1000 AccountAbility Principles Standard and the Global Reporting Initiative G4 Guidelines are also used by the assurance provider to test the extent to which sustainability policies and processes are embedded across the organisation.

## Financial reporting

### Approach to financial reporting

Our approach to financial reporting reflects three core principles:

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

The Board, through the Board Audit Committee, monitors Australian and international developments relevant to these principles, and reviews our practices accordingly.

The Board delegates oversight responsibility for risk management between the Board Audit Committee and the Board Risk & Compliance Committee. Similarly, the Board delegates oversight responsibility for the preparation of remuneration reports and disclosures to the Board Remuneration Committee.

## Board Audit Committee

As detailed in its charter, the Board Audit Committee has oversight of:

- the integrity of the financial statements and financial reporting systems and matters relating to taxation risks;
- the external audit engagement, including the external auditor's qualifications, performance, independence and fees;
- performance of the internal audit function;
- financial reporting and compliance with prudential regulatory reporting. With reference to the Board Risk & Compliance Committee, this includes an oversight of regulatory and statutory reporting requirements; and
- procedures for the receipt, retention and treatment of financial complaints, including accounting, internal controls or auditing matters, and the confidential reporting by employees of concerns regarding accounting or auditing matters.

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

- any significant financial reporting issues and judgements made in connection with the preparation of the financial reports;
- the processes used to monitor and comply with laws, regulations and other requirements relating to external reporting of financial and non-financial information; and
- the process surrounding the disclosures made by the CEO and CFO in connection with their personal certifications of the annual financial statements.

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

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

- the external auditor, about our major financial reporting risk exposures and the steps management has taken to monitor and control such exposures;
- the General Manager Group Audit and external auditor concerning their audits and any significant findings, and the adequacy of management's responses;
- management and the external auditor concerning the half year and annual financial statements;
- management and the external auditor regarding any correspondence with regulators or government agencies, and reports which raise material issues or could impact on matters regarding the Westpac Group's financial statements or accounting policies; and

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

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

## Financial knowledge

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

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

The Board has determined that Mr Marriott, who is a member of the Board Audit Committee, is an 'audit committee financial expert' and independent in accordance with US securities law.

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

## CEO and CFO assurance

The Board receives regular reports from management about our financial condition and operational results, as well as that of our controlled entities. Before the Board approves the financial statements for a financial period, the CEO and the CFO provide formal statements to the Board, and have done so for the financial year ended 30 September 2017, that state that in all material respects:

- Westpac's financial records have been properly maintained in that they:
  - correctly record and explain its transactions, and financial position and performance;
  - enable true and fair financial statements to be prepared and audited; and
  - are retained for seven years after the transactions covered by the records are completed;
- the financial statements and notes comply with the appropriate accounting standards;
- the financial statements and notes give a true and fair view of Westpac's and its consolidated entities' financial position and of their performance;
- any other matters that are prescribed by the Corporations Act and regulations as they relate to the financial statements and notes are satisfied; and

- the declarations provided in accordance with section 295A of the Corporations Act are founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting risks.

## External auditor

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

Our external auditor is PricewaterhouseCoopers (PwC), appointed by shareholders at the 2002 Annual General Meeting (AGM). Our present PwC lead audit partner is Lona Mathis and the quality review partner is Wayne Andrews. Ms Mathis and Mr Andrews assumed responsibility for these roles in June 2017 and January 2015, respectively.

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

As our external auditor, PwC is required to confirm its independence and compliance with specified independence standards on a quarterly basis.

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

## Engagement of the external auditor

To avoid possible independence or conflict issues, the external auditor is not permitted to carry out certain types of non-audit services for Westpac and may be limited as to the extent to which it can perform other non-audit services as specified in our 'Pre-approval of engagement of PwC for audit and non-audit services' (Guidelines). Use of the external audit firm for any non-audit services must be assessed and approved in accordance with the pre-approval process determined by the Board Audit Committee and set out in the Guidelines.

The breakdown of the aggregate fees billed by the external auditor in respect of each of the two most recent financial years for audit, audit-related, tax and other services is provided in Note 39 to our financial statements for the year ended 30 September 2017. A declaration regarding the Board's satisfaction that the provision of non-audit services by PwC is compatible with the general standards of auditor independence is provided in Section 11 of the Directors' report, in our 2017 Annual Report.

## Group Audit (internal audit)

Group Audit is Westpac's internal audit function and includes the Credit Portfolio Review team, both of which provide the Board and Executive Management with an independent and objective evaluation of the adequacy and effectiveness of management's control over risk. Group Audit is governed by a Charter approved by the Board Audit Committee that sets out the purpose, role, scope and high level standards for the function. Group Audit covers the governance, risk management and internal control frameworks of Westpac

and our wholly owned subsidiaries. It has access to all of our wholly owned entities and conducts audits and reviews following a risk-based planning approach. The General Manager Group Audit has a direct reporting line to the Chairman of the Board Audit Committee and an administrative line to the Chief Financial Officer. Group Audit also has direct access to the Chief Executive Officer.

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

### **Market disclosure**

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

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

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

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

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

### **Shareholder communication and participation**

We seek to keep shareholders fully informed about our business operations, performance and governance framework. As part of our investor relations program, these methods are regularly reviewed to continue to encourage effective two-way communication with shareholders and utilise new technologies. These approaches include:

- direct communications via mail and email;
- the publication of all relevant company information in the Investor Centre section of our website; and
- access to all major market briefings and shareholder meetings, including via webcasts and lodging information on our website.

Shareholders are provided with advance notice of all major market briefings and shareholder meetings through ASX announcements. We also publish an investor calendar of events on our website.

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

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

### **Risk management**

#### **Roles and responsibilities**

The Board is responsible for approving the Westpac Group Risk Management Strategy and Westpac Group Risk Appetite Statement and for monitoring the effectiveness of risk management by the Westpac Group. The Board has delegated to the Board Risk & Compliance Committee responsibility to: review and recommend the Westpac Group Risk Management Strategy and Westpac Group Risk Appetite Statement to the Board for approval; set risk appetite consistent with the Group Risk Appetite Statement; approve frameworks, policies and processes for managing risk; and review and, where appropriate, approve risks beyond the approval discretion provided to management.

Westpac's Risk Management Strategy was reviewed by the Board Risk & Compliance Committee and was approved by the Board during the financial year ended 30 September 2017.

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

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

We 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. Effective risk management enables us to:

- accurately measure our risk profile and balance risk and reward within our risk appetite, optimising financial growth opportunities and mitigating potential loss or damage;
- protect Westpac's depositors, policyholders and investors by maintaining a balance sheet with sound credit quality and buffers over regulatory minimums;
- embed adequate controls to guard against excessive risk or undue risk concentration; and
- meet our regulatory and compliance obligations.

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

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

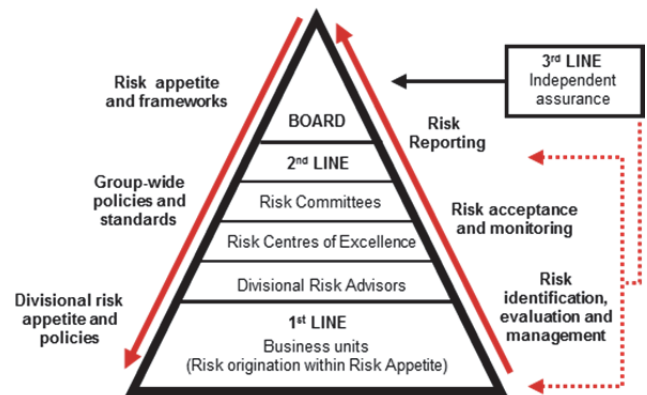
## **The 2nd Line of Defence – Establishment of risk management frameworks and policies and risk management oversight**

Our 2nd Line of Defence comprises separate risk and compliance advisory, control, assurance and monitoring functions, which establish frameworks, policies, limits and processes for the management, monitoring and reporting of risk. The 2nd Line of Defence can approve risks outside the authorities granted to the 1st Line, and evaluates and provides assurance over the adequacy and effectiveness of 1st Line controls and application of frameworks and policies and, where necessary, require improvement and monitor the 1st Line's progress toward remediation of identified deficiencies.

## **The 3rd Line of Defence – Independent assurance**

Group Audit is an independent assurance function that evaluates and opines on the adequacy and effectiveness of both 1st and 2nd Line risk management approaches and tracks remediation progress, with the aim of providing the Board, and senior executives, with comfort that the Group's governance, risk management and internal controls are operating effectively.

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



Our overall risk management governance structure is set out in more detail in the table 'Risk Management Governance Structure' included in this Corporate Governance Statement.

Westpac distinguishes between different types of risk:

- **credit risk** – the risk of financial loss where a customer or counterparty fails to meet their financial obligations to Westpac;
- **liquidity risk** – the risk that the Group will be unable to fund assets and meet obligations as they become due;
- **market risk** – the risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates, interest rates, commodity prices or equity prices. This includes interest rate risk in the banking book - the risk to interest income from a mismatch between the duration of assets and liabilities that arises in the normal course of business activities;
- **conduct risk** – the risk that the provision of our services and products results in unsuitable or unfair outcomes for our stakeholders or undermines market integrity;
- **operational risk** – the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition is aligned to the regulatory (Basel II) definition, including legal and regulatory risk but excluding strategic and reputation risk;
- **compliance risk** – the risk of legal or regulatory sanction, financial or reputational loss, arising from our failure to abide by the compliance obligations required of us;
- **business risk** – the risk associated with the vulnerability of a line of business to changes in the business environment;
- **sustainability risk** – the risk of reputational or financial loss due to failure to recognise or address material existing or emerging sustainability related environmental, social or governance issues;
- **equity risk** – the potential for financial loss arising from movements in equity values. Equity risk may be direct, indirect or contingent;



- **insurance risk** – the risk in our insurance entities of 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;
- **related entity (contagion) risk** – the risk that problems arising in other Westpac Group members compromise the financial and operational position of the authorised deposit-taking institution in the Westpac Group; and
- **reputation risk** – the risk of the loss of reputation, stakeholder confidence, or public trust and standing.

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

#### **Material exposure to economic, environmental and social sustainability risks**

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

Further details about these risks and how Westpac manages them are referred to in our 2017 Annual Review and Sustainability Report and our 2017 Sustainability Performance Report available on our website at <https://2017annualreport.westpacgroup.com.au>.

#### **Board Risk & Compliance Committee**

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

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

- reviews and recommends the Risk Management Strategy and Westpac Group Risk Appetite Statement to the Board for approval;
- sets risk appetite consistent with the Westpac Group Risk Appetite Statement;
- approves the frameworks, policies and processes for managing risk;
- reviews and approves the limits and conditions that apply to credit risk approval authority delegated to the CEO, CFO and CRO and any other officers of the Westpac Group to whom the Board has delegated credit approval authority;
- monitors the alignment of the Westpac Group's risk profile and controls with risk appetite, and oversees the identification, management and reporting of risks inherent in the Westpac Group's operations;
- monitors changes anticipated for the economic and business environment and other factors relevant to our risk profile and risk appetite; and
- may approve risks beyond the approval discretion provided to management.

From the perspective of specific types of risk, the Board Risk & Compliance Committee's role includes:

- **credit risk** – approving key policies and limits supporting the Credit Risk Management Framework, and monitoring the risk profile, performance and management of our credit portfolio;
- **market risk** – approving key policies and limits supporting the Market Risk Management Framework, including, but not limited to, the Value at Risk and Net Interest Income at Risk limits, and monitoring the market risk profile;
- **liquidity risk** – approving key policies and limits supporting the Liquidity Risk Management Framework, including our annual funding strategy, recovery and resolutions plans and monitoring the liquidity position and requirements;
- **operational risk** – approving key policies supporting the Operational Risk Management Framework and monitoring the performance of operational risk management and controls;
- **conduct risk** – reviewing and approving the Group's approach to the management of conduct risk and reviewing and monitoring the performance of conduct risk management and controls;
- **reputation risk** – reviewing and approving the Reputation Risk Management Framework and reviewing the monitoring of the performance of reputation risk management and controls; and
- **compliance risk** – reviewing and approving the Compliance Risk Management Framework and reviewing compliance processes and our compliance with applicable laws, regulations and regulatory requirements, discussing with management and the external auditor any material correspondence with regulators or government agencies and any published reports that raise material issues, and reviewing complaints and whistleblower concerns.

The Board Risk & Compliance Committee also:

- approves the Internal Capital Adequacy Assessment Process and in doing so reviews the outcomes of enterprise wide stress testing, sets the preferred capital ranges for regulatory capital and reviews and monitors capital levels for consistency with the Westpac Group's risk appetite;
- provides relevant periodic assurances to the Board Audit Committee;
- assists the Board to make its annual declaration to APRA on risk management under APRA prudential standard CPS220 Risk Management;

- reviews and approves other risk management frameworks<sup>1</sup> and the monitoring of performance under those frameworks;
- oversees Westpac's risk culture, through the provision of regular risk culture and organisational culture reporting;
- refers to other Board Committees any matters that come to the attention of the Board Risk & Compliance Committee that are relevant for those respective Board Committees; and
- in its capacity as the Westpac Group's US Risk Committee, oversees the key risks, risk management framework and policies of the Group's US operations.

## Compliance Management Framework

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

- comply with our legal obligations, regulatory requirements, voluntary codes of practice to which we subscribe, and Group policies, including the Westpac Code of Conduct;
- establish frameworks, policies and processes designed to manage, monitor and report compliance and to minimise the potential for breaches, fines or penalties, or loss of regulatory accreditations; and
- ensure that appropriate remedial action is taken to address instances of non-compliance.

The Compliance Management Framework (the Framework) sets out our approach to managing compliance obligations and mitigating compliance risk, in order to achieve our compliance objective. It is an integral part of Westpac's Board-approved Risk Management Strategy and is supported by a number of key policies.

An effective Group compliance management system enables us to demonstrate our commitment to compliance and to comply with our compliance obligations. The approach we use to establish, implement, maintain, evaluate and improve our compliance management system includes:

- strategy and scope – business strategy, compliance objective and scope of the compliance management system;
- governance and accountability – roles and responsibilities, governance, developing a culture where employees understand their obligations and feel comfortable to identify compliance issues and incidents in a timely fashion, competence and training;
- framework and documentation – framework, policies and documentation supporting the compliance management system;
- compliance planning – management of compliance obligations, risks, controls, issues & incidents, and compliance monitoring and reporting; and

- evaluation and improvement – compliance performance measures, escalation and continual improvement.

As with other forms of risk, 1<sup>st</sup> Line management is primarily responsible for managing compliance. This is supported by an independent 2<sup>nd</sup> Line Compliance function, which reports to the Group Executive, Compliance, Legal & Secretariat. The Group Executive, Compliance, Legal & Secretariat is a member of the Westpac Group Executive Risk Committee, has direct access to the Chair of the Westpac Board Risk & Compliance Committee and regularly attends and presents to that Committee.

## Remuneration

The Board Remuneration Committee assists the Board by ensuring that Westpac has coherent remuneration policies and practices that fairly and responsibly reward individuals having regard to performance, Westpac's risk management framework, the law and the highest standards of governance.

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

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

- reviews and makes recommendations to the Board in relation to the Westpac Group Remuneration Policy (Group Remuneration Policy) and assesses the Group Remuneration Policy's effectiveness and its compliance with prudential standards;
- reviews and makes recommendations to the Board in relation to the individual remuneration levels of the CEO, Non-executive Directors, Group Executives, other Executives who report directly to the CEO, other persons whose activities in the Board's opinion affect the financial soundness of Westpac, any person specified by APRA, and any other person the Board determines;
- reviews and makes recommendations to the Board in relation to the remuneration structures for each category of persons covered by the Group Remuneration Policy;
- reviews and makes recommendations to the Board on corporate goals and objectives relevant to the remuneration of the CEO, and the performance of the CEO in light of these objectives;
- reviews and makes recommendations to the Board on the short-term and long-term incentive plans for Group Executives;
- reviews and makes recommendations to the Board in relation to approving equity based remuneration plans; and
- oversees general remuneration practices across the Group.

The Board Remuneration Committee reviews and recommends to the Board the size of variable reward pools

<sup>1</sup> Additional frameworks include the Sustainability Risk Management Framework, Equity Risk Management Framework, Related Entity Risk Management Framework and Insurance Risk Management Framework.

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

The Board Remuneration Committee also reviews and makes recommendations to the Board for the reduction or lapsing of incentive-based equity grants to employees, where subsequent information or circumstances indicate that the grant was not justified.

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

Further details of our remuneration framework are included in the Remuneration Report in Section 10 of the Directors' report (which is located in our 2017 Annual Report). The Board Remuneration Committee reviews and recommends the report for approval.

## Risk Management Governance Structure

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

<b>Board</b> <ul style="list-style-type: none"> <li>approves our overall Westpac Group Risk Management Strategy and the Westpac Group Risk Appetite Statement; and</li> <li>approves Aggregate Risk Exposures policy and Related Entity Risk Management Framework in accordance with APRA prudential standards 3PS221: Aggregate Risk Exposures and 3PS222: Intra-group Transactions and Exposures.</li> </ul>
<b>Board Risk &amp; Compliance Committee (BRCC)</b> <ul style="list-style-type: none"> <li>reviews and recommends the Risk Management Strategy and Westpac Group Risk Appetite Statement to the Board for approval;</li> <li>sets risk appetite consistent with the Westpac Group Risk Appetite Statement;</li> <li>approves the frameworks, policies and processes for managing risk;</li> <li>reviews and approves the limits and conditions that apply to credit risk approval authority delegated to the CEO, CFO, CRO and any other officers of the Westpac Group to whom the Board has delegated credit approval authority;</li> <li>monitors the alignment of the Westpac Group's risk profile and controls with risk appetite, and oversees the identification, management and reporting of risks inherent in the Westpac Group's operations;</li> <li>monitors changes anticipated for the economic and business environment and other factors relevant to our risk profile and risk appetite;</li> <li>assists the Board to make its annual declaration to APRA on risk management under APRA prudential standard CPS220 Risk Management; and</li> <li>may approve risks beyond the approval discretion provided to management.</li> </ul>
<b>Other Board Committees with a risk focus</b>
<b>Board Audit Committee</b> <ul style="list-style-type: none"> <li>oversees the integrity of financial statements and financial reporting systems, and matters relating to taxation risks.</li> </ul>
<b>Board Remuneration Committee</b> <ul style="list-style-type: none"> <li>oversees remuneration policies and practices of the Westpac Group.</li> </ul>
<b>Board Technology Committee</b> <ul style="list-style-type: none"> <li>oversees the implementation of the Westpac Group's technology strategy, including risks associated with major technology programs.</li> </ul>
<b>Executive Team</b> <ul style="list-style-type: none"> <li>executes the Board-approved strategy;</li> <li>delivers the Group's various strategic and performance goals within the approved risk appetite; and</li> <li>monitors key risks within each business unit, capital adequacy and the Group's reputation.</li> </ul>
<b>Executive risk committees</b>
<b>Westpac Group Executive Risk Committee</b> <ul style="list-style-type: none"> <li>leads the management and oversight of material risks across the Westpac Group within the context of the risk appetite approved by the Board;</li> <li>oversees the embedding of the Risk Management Strategy in the Group's approach to risk governance;</li> <li>oversees risk-related management frameworks and key supporting policies;</li> <li>oversees the Group's material risks;</li> <li>oversees reputation risk and sustainability risk management frameworks and key supporting policies; and</li> <li>identifies emerging credit, operational, compliance and market risks and allocates responsibility for assessing impacts and implementing appropriate actions to address these.</li> </ul>



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## Risk Management Governance Structure (continued)

### Executive risk committees (continued)

#### Westpac Group Asset & Liability Committee

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

#### Westpac Group Credit Risk Committee

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

#### Westpac Group Market Risk Committee

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

#### Westpac Group Operational Risk and Financial Crime Committee

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

#### Westpac Group Remuneration Oversight Committee

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

## Risk Management Governance Structure (continued)

### Risk and compliance functions

#### Risk Function

- assist the Board, Board Committees and senior management to establish, maintain and review the Risk Management Strategy and supporting risk management frameworks;
- operate within Board approved risk appetite;
- define risk appetite, risk concentration limits and authorities;
- notify the Board or Board Committees of any significant breach, or material deviation from the risk management framework;
- monitor emerging risk issues and risk concentration;
- monitor resources and capabilities (including systems and data); and
- maintain resources with the skills and tools required to fulfil their risk responsibilities and support the strategy.

#### Compliance Function

- assist the Board, Board Committees and senior management to establish, maintain and review compliance management frameworks;
- design, implement and monitor controls to ensure compliance with internal, regulatory and legislative requirements;
- provide independent advice on design, implementation and monitoring of controls and compliance;
- reports on compliance standards and directs the review and development of compliance policies, compliance plans, controls and procedures; and
- maintain resources with the skills and tools required to fulfil their compliance responsibilities and support the strategy.

### Independent internal review

#### Group Audit

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

### Divisional business units

#### Business Units

- responsible for identifying, evaluating and managing the risks that they originate within approved risk appetite and policies; and
- establish and maintain appropriate risk management and compliance controls, resources and self-assurance processes.