MEDIA RELEASE

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WESTPAC DELIVERS STRONG RESULTS

Highlights FY12 (Compared with FY11)[1]

- Cash earnings of $6,598 million, up 5%
- Cash earnings per share of 215.9 cents, up 3%
- Final fully franked dividend of 84 cents per share; total dividend 166 cents, up 6%
- Revenue up 6%, ahead of expense growth of 4%
- Statutory net profit of $5,970 million, down 15%, as previous year benefited from one-off St.George tax consolidation
- Return on equity of 15.5%
- Net interest margin 5bps lower at 2.17%
- Expense to income ratio improved 70bps to 40.8%
- Improved APRA Basel III common equity ratio by 79bps to 8.2%, within our preferred range (equivalent to 10.6% on Basel III fully harmonised basis)
- Strengthened balance sheet, including customer deposit to loan ratio up 5 percentage points to 67.6% and liquid assets boosted to $110 billion

Westpac Group today announced cash earnings of $6,598 million for the 12 months to 30 September 2012, up 5% compared to the same period last year.

Statutory net profit was lower over the year principally as a result of a large one-off tax benefit from St.George tax consolidation that was reported in the 2011 full year result.

Westpac Group Chief Executive Officer Gail Kelly said: “This is a strong result in a lower growth economic environment, and it reflects the progress we have made over the past five years in building a stronger, more productive and more customer focused company.

“We have strengthened our balance sheet while delivering attractive returns to shareholders and investing for future growth. Our performance, particularly in the second half, demonstrates that we have increasing momentum across our businesses.

“Our disciplined approach to productivity has improved customer service and increased efficiency. Importantly, we continue to be the most efficient Australian bank, with an expense to income ratio down to 40.8%.”

Mrs Kelly said a highlight of the result was the strong performance of the new Australian Financial Services division (AFS), which includes the Australian retail banking, business banking and wealth operations.

[1] Reported on a cash earnings basis unless otherwise stated. For an explanation of cash earnings and reconciliation to reported results refer to pages 4-6 of the Group's Full Year Results 2012 announcement.

"Revenue growth in AFS was pleasing, particularly in the second half. At the same, time expense growth was low despite ongoing investment in our wealth and banking distribution capabilities," Mrs Kelly said.

"Westpac Retail & Business Banking is performing strongly, benefiting from the investment in Westpac Local over the past four years. St.George's performance is improving under new, energised management while BT Financial Group led the market in net market flows of funds onto its platforms and continued its strong insurance cross-sell.

"Westpac Institutional Bank's strong growth in core earnings[2] reflects its industry leadership and strength in relationship management, including supporting its customers in what continue to be volatile times. Westpac New Zealand is also performing strongly with significant front-line investment and improving credit quality supporting a 22% increase in cash earnings compared to the prior year.

"Strengthening our balance sheet and improving our funding profile has been a key area of focus in recent years. At our half year results, I stressed that a priority was growing deposits so I am pleased that our total customer deposits grew 12% or $38 billion this year, more than funding our growth in loans. Combined with a reduction in short-term wholesale debt, this has materially improved our funding mix.

"Our capital ratios are at the upper end of the banking sector globally, with our APRA Basel III common equity ratio improving to 8.2%. Our credit quality and provisioning are leading the sector."

Other key aspects of the FY12 result compared to FY11 include:

- Lending increased 4% or $18 billion with a 4% rise in Australian housing loans and solid business loan growth in Westpac Retail & Business Banking;
- Net interest margin was 2.17%, down 5bps. The decline was due to higher funding costs, mostly from the increased benefit customers received from higher deposit interest rates relative to market rates;
- Solid revenue growth and productivity savings have enabled the Group to continue to invest in growth areas, which accounted for the majority of the expense growth of 4%;
- Impairment charges were $219 million higher, due to total economic overlays increasing $17 million, compared to a $107 million reduction in FY11, and lower write-backs in Westpac Institutional Bank compared to the previous year; and
- Funding profile materially improved with the stable funding ratio up 6 percentage points to 83% and liquid assets higher at $110 million.

Dividend

Westpac declared a record fully franked final dividend of 84 cents per share, up 2 cents, or 2% over first half 2012. Total dividends for the year were 166 cents, up 6% over the prior year, and reflected a pay-out ratio of 77%.

Mrs Kelly said: "Our strong balance sheet and sustainable earnings performance allows us to return three quarters of our profit as dividends to shareholders, the vast majority of whom are Australians owning shares directly or through their superannuation funds."

Strong progress on our strategic priorities

In Westpac's FY11 results, the Group outlined key indicators in a number of priority areas. Each of these metrics improved over the year highlighting strong progress in growing revenues from deeper customer relationships and building shareholder returns. In particular:

- Revenue per FTE increased 10%, from significantly enhanced productivity;
- Wealth and insurance products cross-sell[3] is sector leading at 18.4%. Westpac Retail & Business Banking cross-sell ranked first among the large banks at 20.8% and St.George had

[2] Core earnings is operating profit before income tax and impairment charges.
[3] Data based on Roy Morgan Research, see investor discussion pack slide 119 for more details.

the greatest improvement, up 235bps to 15%. In addition, customers with four or more products increased 170bps to 30.2% in Westpac Retail and Business Banking and 200bps to 28.6% at St.George;

- Customer return on credit risk weighted assets improved 8bps to 4.09%;
- Customer numbers increased with growth in Bank of Melbourne particularly strong, up 13%; and
- Westpac Institutional Bank grew customer revenue 8% and was ranked No. 1 lead domestic transactional bank for the 9th consecutive year, according to the Peter Lee[4] survey.

Continued investment in digital and IT innovation and stability
Significant IT investment in recent years is resulting in simpler products and processes, improving reliability and driving digital innovation.

The Strategic Investment Priorities program, having completed its third year, is meeting its milestones and is 70% complete. It has materially improved the stability of the Group's IT infrastructure and delivered much improved functionality and performance benefiting customers and lifting employee productivity. Highlights for the year include:

- Completion of the roll-out of new call centre and teller platforms across Westpac Retail & Business Banking, delivering efficiency benefits and faster response times to customers;
- A major upgrade in payments infrastructure combining Westpac Retail & Business Banking and St.George systems and supporting over $3.2 trillion worth of payments each year. This has improved stability and performance;
- A new 'state of the art' data centre in Western Sydney; and
- Significant progress in upgrading online and digital banking capabilities and infrastructure. This includes introducing the innovative Westpac iPad application, upgrading St.George's internet banking platform, and providing Westpac and St.George PayWay applications that assist small business operators to receive payments from customers.

In Wealth, the Group has commenced the development of a next generation platform to help build on its leading position in wealth platforms and deliver a more comprehensive solution for customers wanting to self manage their superannuation.

Divisional performance

Cash earnings ($million)	**FY12**	**2H12**	**1H12**	**% increase FY11-FY12**	**% increase 1H12-2H12**
Australian Financial Services	3,998	2,122	1,876	5	13
Westpac Retail & Business Banking	2,114	1,113	1,001	14	11
St.George Banking Group	1,231	657	574	0	14
BT Financial Group	653	352	301	(10)	17
Westpac Institutional Bank	1,473	739	734	3	1
Westpac New Zealand (NZ$)	707	361	346	22	4

Australian Financial Services
In November 2011, the Group established the Australian Financial Services division to improve and better co-ordinate the performance of our brands and reduce duplication.

Westpac Retail & Business Banking delivered a strong 14% increase in cash earnings, as the investment in its Westpac Local strategy continues to deliver benefits through empowered local staff, improved cross-sell and customer retention. While sector credit growth has remained modest, the division achieved sound balance sheet growth, including 11% deposit growth, 3% mortgage growth and 4% business loan growth, with a 3bps reduction in margins. Expenses were flat, with productivity initiatives offsetting annual salary rises and increased investment costs.

[4] Peter Lee Associates Large Corporate & Institutional Transactional Banking survey, Australia 2004-2012.

St.George Banking Group cash earnings were little changed over the year. However, a feature of the St.George performance was the improved momentum through the year with second half 2012 cash earnings increasing 14% compared to the first half 2012. The second half improvement was built on higher home and auto lending, improved margins, solid expense control and lower impairment charges.

BT Financial Group had a strong second half, with cash earnings increasing 17% compared to the first half 2012. Cash earnings were down 10% compared to FY11, impacted by lower asset markets, a reduced contribution from the equities business and the de-risking of its lenders mortgage insurance business. The strong underlying performance was supported by further growth in its planner network and a strong result across life and general insurance. The division continued to lead the market in funds under administration flows and insurance and wealth cross-sell.

Westpac Institutional Bank

Westpac Institutional Bank delivered a solid increase in cash earnings of 3% compared to FY11, with strong core earnings growth of 13% on the back of improved customer activity in financial markets, an increased contribution from Hastings and well-managed expenses. A highlight has been strong deposit growth as the division leverages its leading transactional banking position. Strong core earnings growth was partially offset by relatively higher impairment charges, due to significant provision write-backs in 2011 not being matched in 2012.

Westpac New Zealand

Westpac New Zealand performed strongly in FY12, with cash earnings increasing 22% compared to FY11. The division continues to benefit from its investment in upskilling staff and the revitalisation of its branch network. Despite subdued economic conditions, the business achieved sound balance sheet growth, improved margins, strong wealth and insurance cross-sell and well managed expenses. Deposits increased 11%, asset quality continued to improve and impairments were down 21%.

Asset quality

Asset quality continued to improve over the year with the proportion of stressed loans to total committed exposures steadily declining. At 30 September 2012 the ratio had fallen to 2.17%, down 31bps over the year and down 9bps since 31 March 2012. The rate of improvement eased in the second half of the year with reduced stress in the commercial property sector partially offset by a small rise in stress from sectors affected by the persistently high Australian dollar and consumer caution, which has affected domestic spending.

Consumer asset quality remains sound as deleveraging, healthy employment levels and lower interest rates contribute to improving household balance sheets. As a result, mortgage delinquencies greater than 90 days declined over the year to 51bps, down 4bps.

Balance sheet strength

Westpac further strengthened its balance sheet over the year across all elements of capital, funding and liquidity. The Group's APRA Basel III common equity ratio increased 79bps on FY11 to 8.2%. On a fully harmonised Basel III basis, Westpac's common equity ratio would be 10.6%, placing the Group at the upper end of banks globally.

In assessing appropriate capital levels under APRA's Basel III standards, the Group has set a preferred range of 8.0% to 8.5% for its common equity ratio, well above regulatory requirements.

The Westpac Group's funding and liquidity position strengthened over the year. The stable funding ratio increased 6 percentage points; the customer deposit to loan ratio rose 5 percentage points to 67.6%; short-term funding was reduced by $31 billion and, there was a further increase in liquid asset holdings of $9 billion over the half to $110 billion.

Outlook
Australian economic indicators have remained relatively robust throughout 2012 with good growth, low unemployment and controlled inflation. However, a gradual softening of global economic activity has continued to weigh on domestic business and consumer confidence.

For the banking sector, these conditions have seen modest demand for finance. System housing credit growth eased further over the year to 4.7% per annum, while business credit growth gradually lifted after declining for most of the previous three years. As a result, total financial system credit growth increased 4% for the year. System deposit growth, on the other hand, continued to expand at a rate double that of credit growth.

In New Zealand, economic conditions improved through the year with some growth in consumer spending, a stronger housing sector and improving agricultural commodity prices. Despite these trends, the economy remains in a deleveraging phase, with credit growth remaining low at around 3% and deposit growth stronger at 9%.

As Westpac has previously indicated, these economic shifts are part of broader structural changes for the banking sector which also include significantly increased regulatory demands and costs. Westpac is reshaping the organisation to be well positioned in this changed environment. In particular:

- The Group has materially repositioned its balance sheet with stronger capital levels, an improved funding position with a higher deposit to loan ratio and materially higher holdings of liquid assets;
- With the sector's leading expense to income ratio Westpac made good progress on its productivity agenda including implementing its new divisional structure and supplier program. Nevertheless, there remain significant opportunities to simplify processes and improve efficiency;
- From a growth perspective, the Group is building on its strength in wealth through increasing focus on superannuation and insurance, investing in developing a next generation wealth platform and increasing the number of advisers;
- Westpac is also directing more effort and resources to sectors generating higher growth and return including the pre and post retirement customer segment, small to medium enterprises, natural resources, agriculture, trade and transaction banking; and
- The Group is growing in Asia by expanding its capabilities and distribution network. The key focus is assisting Australian and New Zealand customers in the region and expanding Westpac's reach to Asian customers operating in the bank's core markets of Australia and New Zealand.

In conclusion, Mrs Kelly said: "We expect continued modest credit growth and strong saving levels. Volatility in global markets is likely to continue and as a result of the structural changes that are now occurring, both overseas and domestically, the operating environment will remain challenging. However, the Australian economy is robust relative to most other developed economies and its connections to Asia's growth markets support its underlying strength.

"We have a clear strategy in place and, as a result of the work we have undertaken in recent years, Westpac is in good shape. Our balance sheet is strong and we are well advanced in repositioning our business for the slower growth environment. We will continue to deepen customer relationships, invest in growth opportunities and drive productivity. We expect our good momentum to continue."

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