3Q18
Capital, Funding and Credit Quality Update

24 August 2018

Westpac Banking Corporation | ABN 33 007 457 141

Financial results based on cash earnings unless otherwise stated
Refer to the 1H18 Investor Discussion Pack for definition
This document should be read in conjunction with Westpac's Pillar 3 Report June 2018, incorporating the requirements of APS330.
All comparisons in this document refer to 30 June 2018 compared to 31 March 2018 (unless otherwise stated)

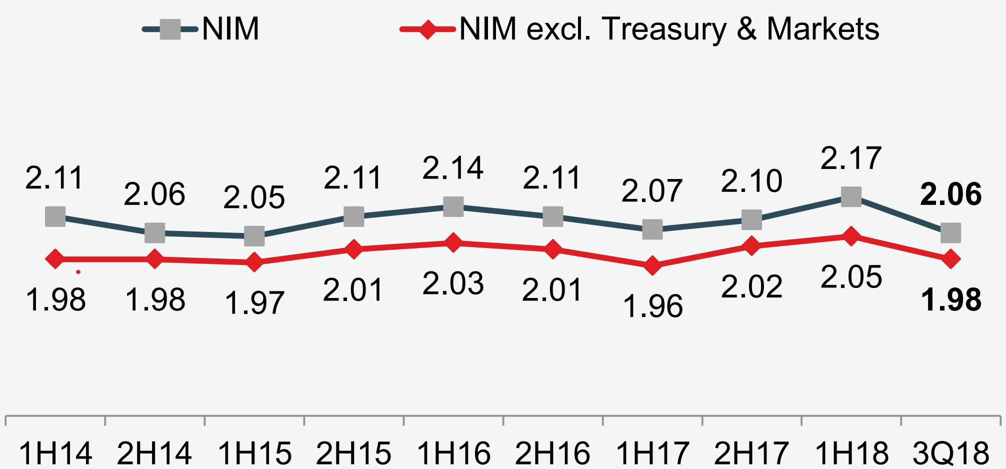
Summary of 3Q18

Net interest margin down 11 basis points in 3Q18	• 5bps of the decline due to rise in Bank Bill Swap Rate (BBSW), 4bps due to a lower Treasury contribution and other factors impacted margins by 2bps
Well placed to meet APRA's CET1 unquestionably strong benchmark	• Common equity Tier 1 (CET1) capital ratio 10.4% at 30 June 2018 • Down from 10.5% at 31 March 2018 as capital generated over the quarter (including conversion of $566m of preference shares (CPS) to ordinary shares) was more than offset by the determination of the 1H18 dividend (net of the DRP) • Risk weighted assets (RWA) up modestly (0.4%); credit RWAs up $0.2bn and non-credit RWA up $1.6bn. No material impact on RWA from regulatory model changes in 3Q18 • Internationally comparable[1] CET1 capital ratio 16.0% at 30 June 2018
Credit quality remains sound	• Credit quality metrics remain near cyclical lows • Level of impaired assets stable with no new individual impaired loans over $10m in the quarter. Stressed assets to TCE[2] 1bp lower at 1.08% • Australian mortgage 90+ day delinquencies 0.72% (up 3bps over the quarter) • Australian unsecured 90+ day delinquencies 1.76% (up 5bps over the quarter)
Sound funding/liquidity position	• Net stable funding ratio (NSFR) 112%, liquidity coverage ratio (LCR) 127% - well above regulatory minimums • $31bn term funding issued to end July 2018. FY18 term funding largely complete
Mortgage growth comfortably within macro-prudential boundaries	• Flow of interest only lending (based on limits) was 24% in 3Q18 (APRA requirement <30%) • Interest only lending represented 37% of portfolio at 30 June 2018 (down from 40% at 31 March 2018) • Investor lending growth, using APRA definition, 3.7% - comfortably below 10% cap
Regulatory developments	• Estimated impact of model changes during 4Q18 from changes to operational risk model overlay and updates to mortgage PD[3] models to add approximately $11.5bn in RWA, ~30bps reduction in CET1 ratio • New consultation released from APRA on capital in 3Q18 on proposed changes to international comparability • Further updates from APRA on proposals to the capital framework expected later in 2018 • AASB 9 applicable from 1 October 2018

1 Internationally comparable methodology aligns with the APRA study titled 'International Capital Comparison Study' of 13 July 2015. 2 TCE is Total committed exposure. 3 PD is Probability of default

Margins lower in 3Q18

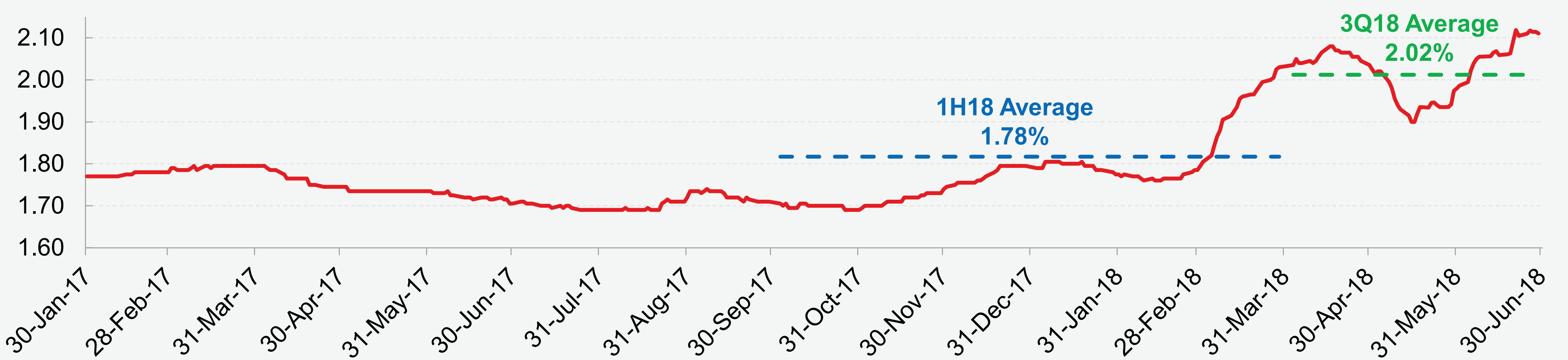
Net interest margin (NIM) (%)



3Q18 Margin drivers

- Every 5bp movement in BBSW impacts Westpac's margins by around 1bp
- In 3Q18 margins declined by 11bps
  - 5bps due to higher BBSW – which was up 24bps over 3Q18
  - 4bps due to a lower Treasury contribution, principally due to less opportunities in markets
  - 2bps from all other factors. These included ongoing changes in the mix of the mortgage portfolio (less interest only lending) along with lower rates on new mortgages. These were partially offset by some deposit repricing

90 Day Bank Bill Swap Rate (%)

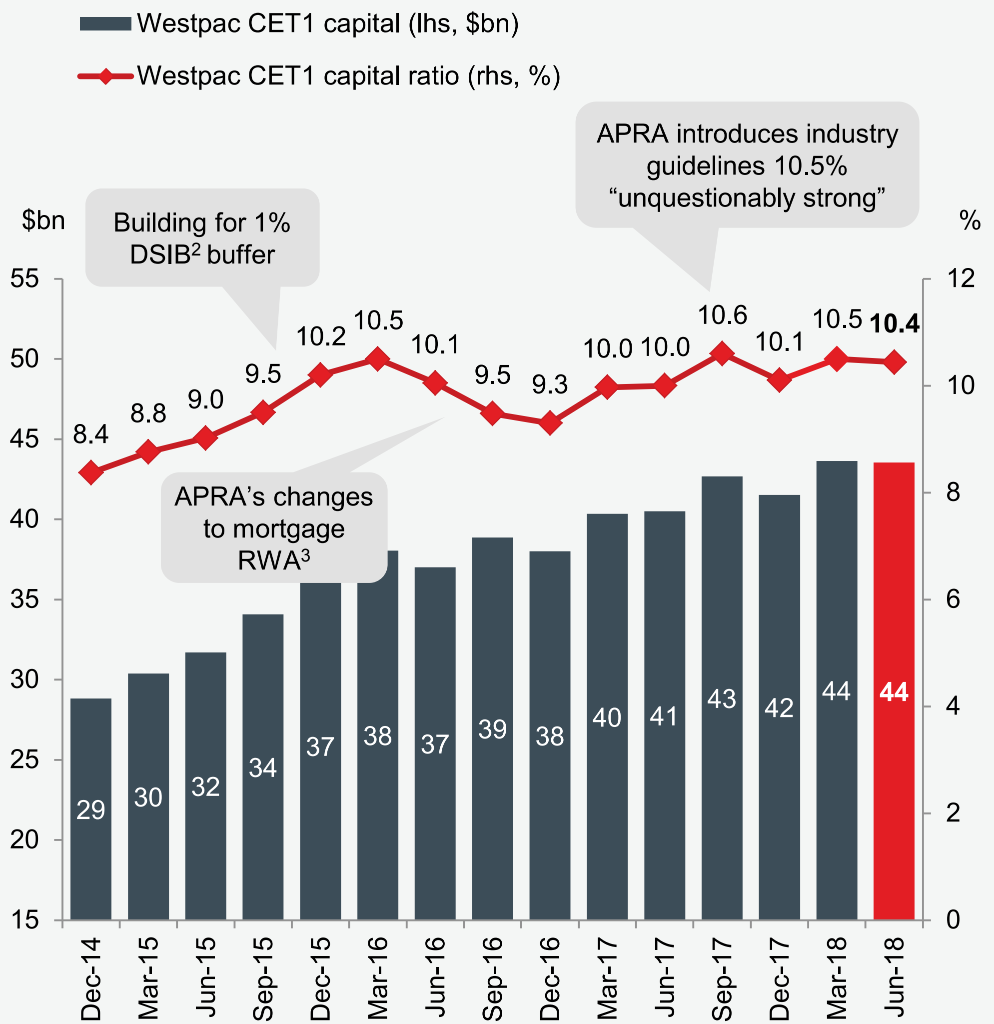


Continue to be well placed for “unquestionably strong”

Capital ratios (%)

	Sep-17	Mar-18	Jun-18
CET1 capital ratio	10.6	10.5	**10.4**
Additional Tier 1 capital	2.1	2.3	**2.2**
Tier 1 capital ratio	12.7	12.8	**12.6**
Tier 2 capital	2.1	2.0	**2.2**
Total regulatory capital ratio	14.8	14.8	**14.8**
Risk weighted assets (RWA) ($bn)	404	416	**418**
Leverage ratio	5.7	5.8	**5.6**
Internationally comparable ratios[1]			
Leverage ratio	6.3	6.4	**6.3**
CET1 capital ratio	16.2	16.1	**16.0**

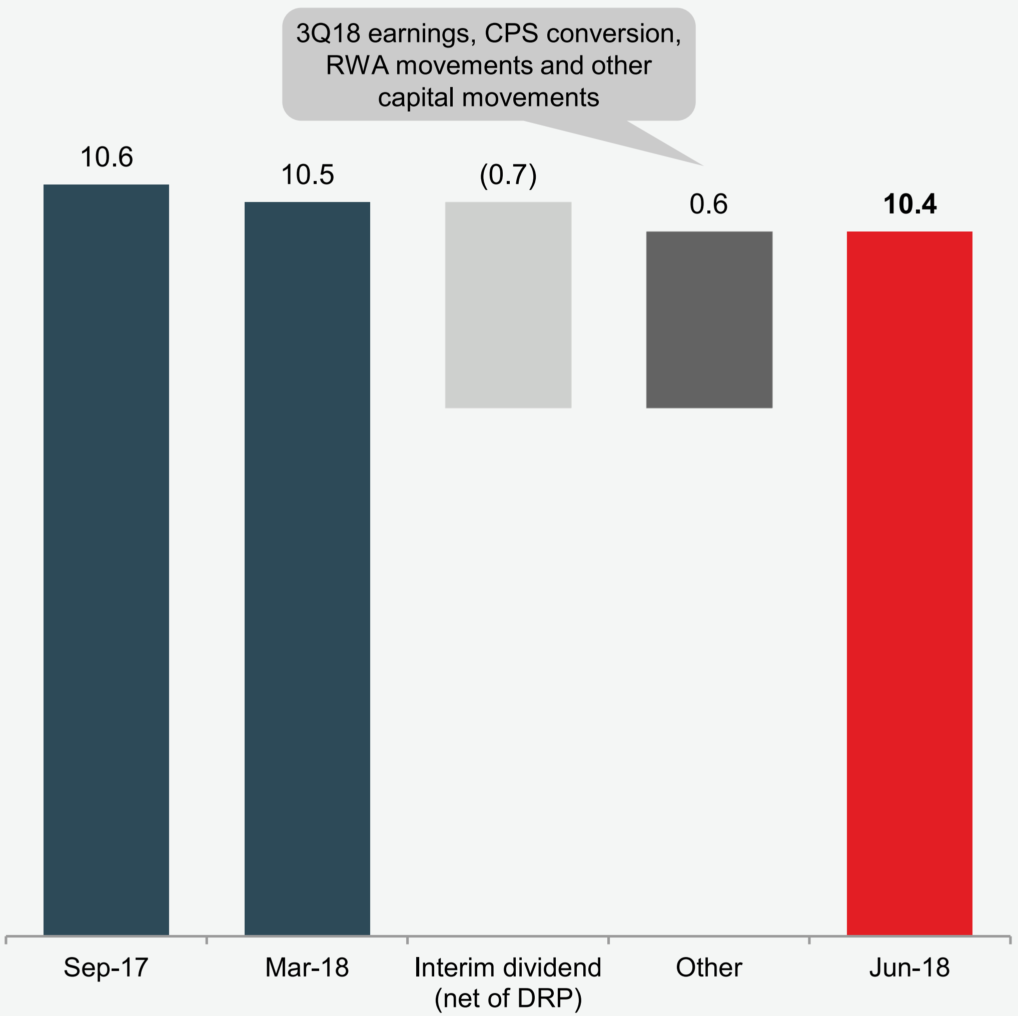
CET1 capital ratio (%) and CET1 capital ($bn)



1 Internationally comparable methodology aligns with the APRA study titled ‘International Capital Comparison Study’ dated 13 July 2015. 2 DSIB is domestic systemically important bank. 3 APRA's revision to the calculation of RWA for Australian residential mortgages, which came into effect on 1 July 2016.

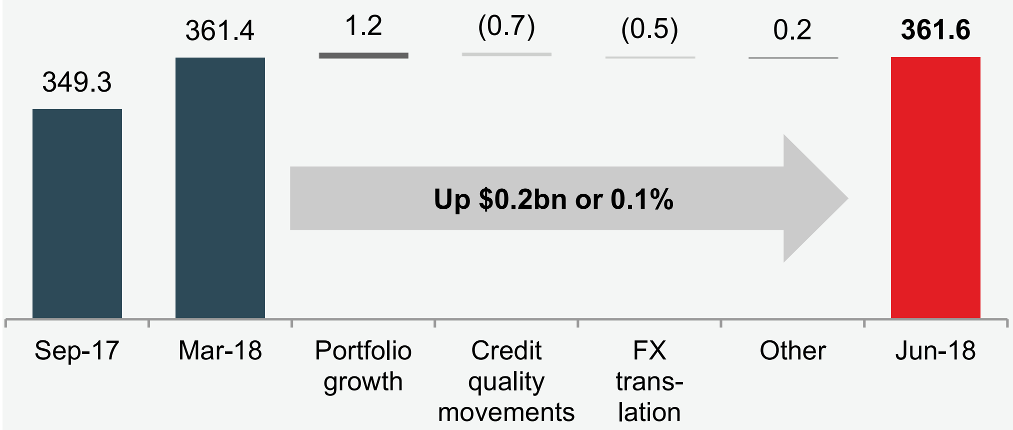
CET1 capital and RWA movements

CET1 capital ratio (%)



RWA movements ($bn)

Credit RWA movements ($bn)



Regulatory developments

APRA developments

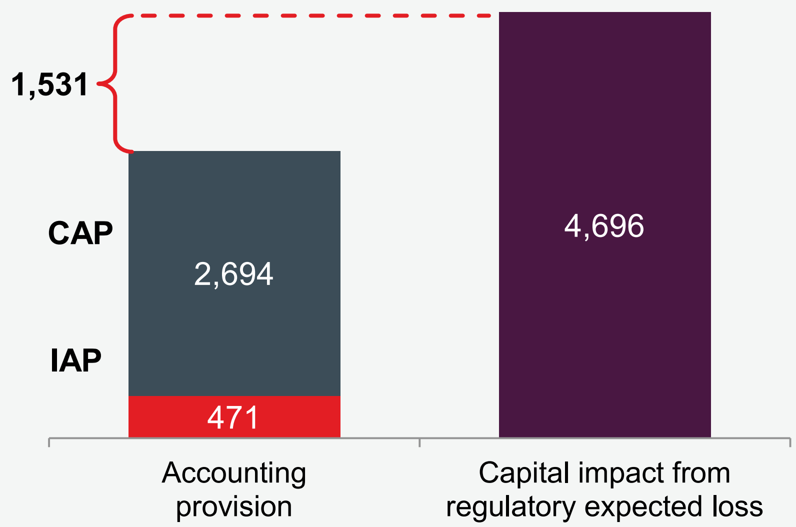
Regulatory capital framework

- On 14 August 2018, APRA released their next capital paper – *Improving the transparency, comparability and flexibility of the ADI[1] capital framework*
  - None of the proposals under consideration would change the level of capital ADIs are required to hold to meet the unquestionably strong capital benchmarks
- Following the release in February 2018 – *Revisions to the capital framework for ADIs*, ADIs including Westpac, have completed an initial quantitative impact study (QIS), which will be used by APRA to inform calibration of the changes
- APRA is intending to introduce a minimum leverage ratio of 4.0% from 1 July 2019
- Further updates from APRA are expected later in 2018

AASB 9 Financial Instruments

- Applicable for Westpac from 1 October 2018
- For regulatory capital purposes, the impact of potential credit losses is captured through regulatory expected loss
- Significant buffer ($1.5bn) to absorb a rise in accounting provisions at implementation of AASB 9

Accounting provisions and capital at 31 March ($m)



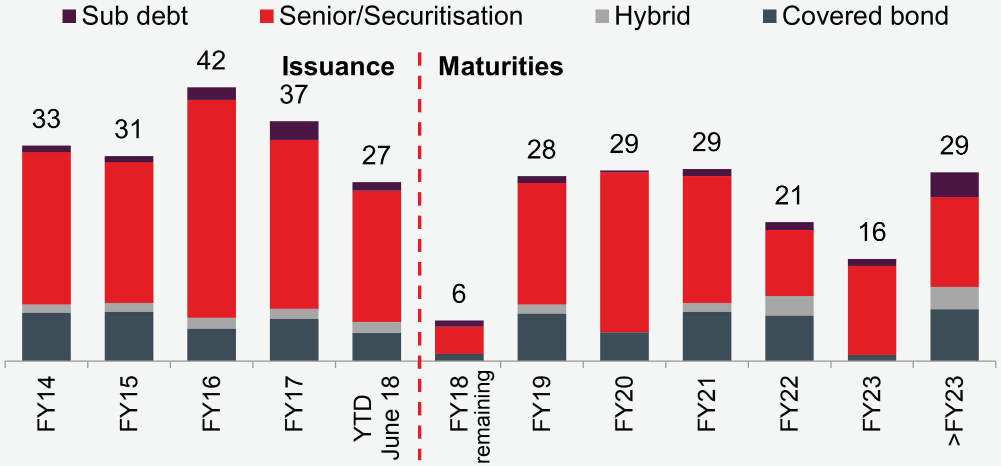
1 Authorised deposit-taking institution.

FY18 term funding largely complete

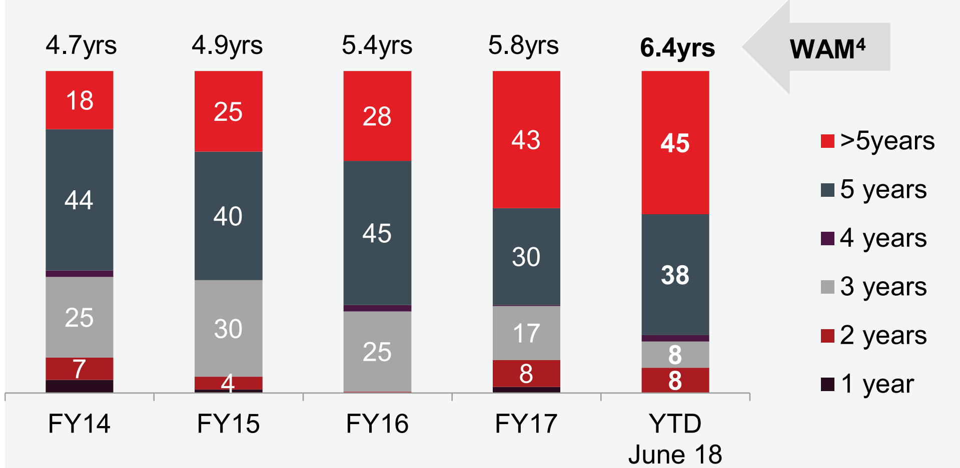
3Q18 funding and liquidity highlights

- LCR 127% (134% at 31 March 2018)
- NSFR 112% (112% at 31 March 2018)
- Largely completed FY18 term funding plan, with $27bn issued by end 3Q18. A further $4bn issued in July 2018
- New term issuance has been well diversified across currencies, products and tenors

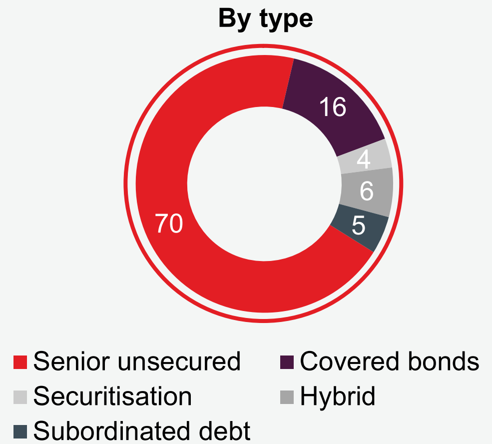
Term debt issuance and maturity profile[1,2,5] ($bn)

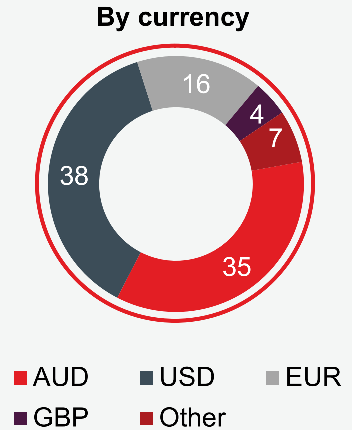


New term issuance by tenor[2,3] (%)



New term issuance year to 30 June 2018 composition[1] (%)

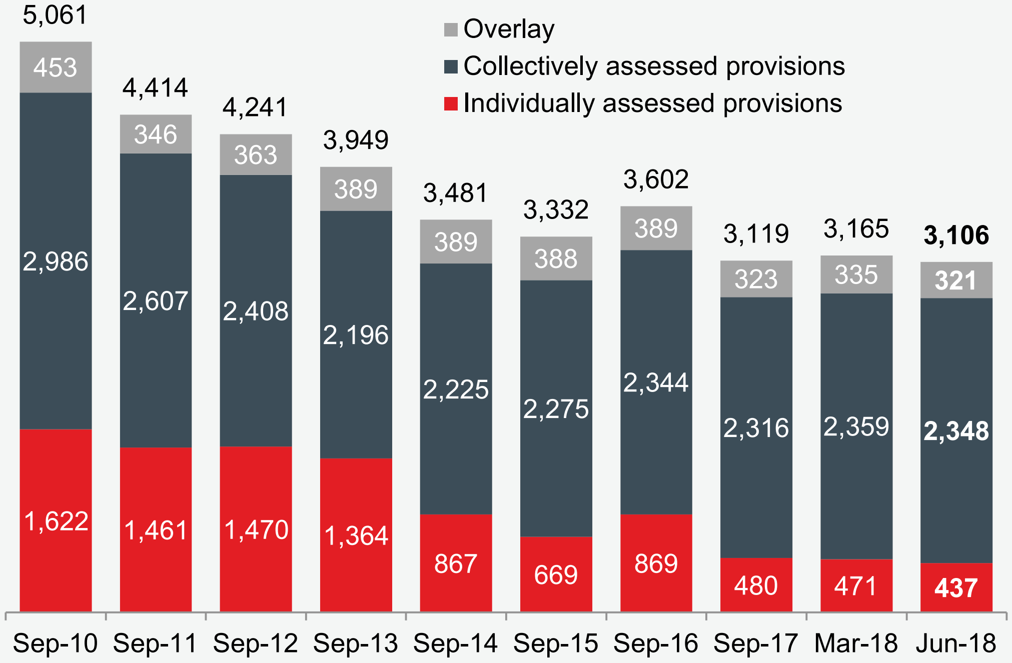




1 Based on residual maturity and FX spot currency translation. Includes all debt issuance with contractual maturity greater than 13 months excluding US Commercial Paper and Yankee Certificates of Deposit. 2 Contractual maturity date for hybrids and callable subordinated instruments is the first scheduled conversion date or call date for the purposes of this disclosure. 3 Tenor excludes RMBS and ABS. 4 WAM is weighted average maturity. 5 Perpetual sub-debt has been included in >FY23 maturity bucket. Maturities exclude securitisation amortisation.

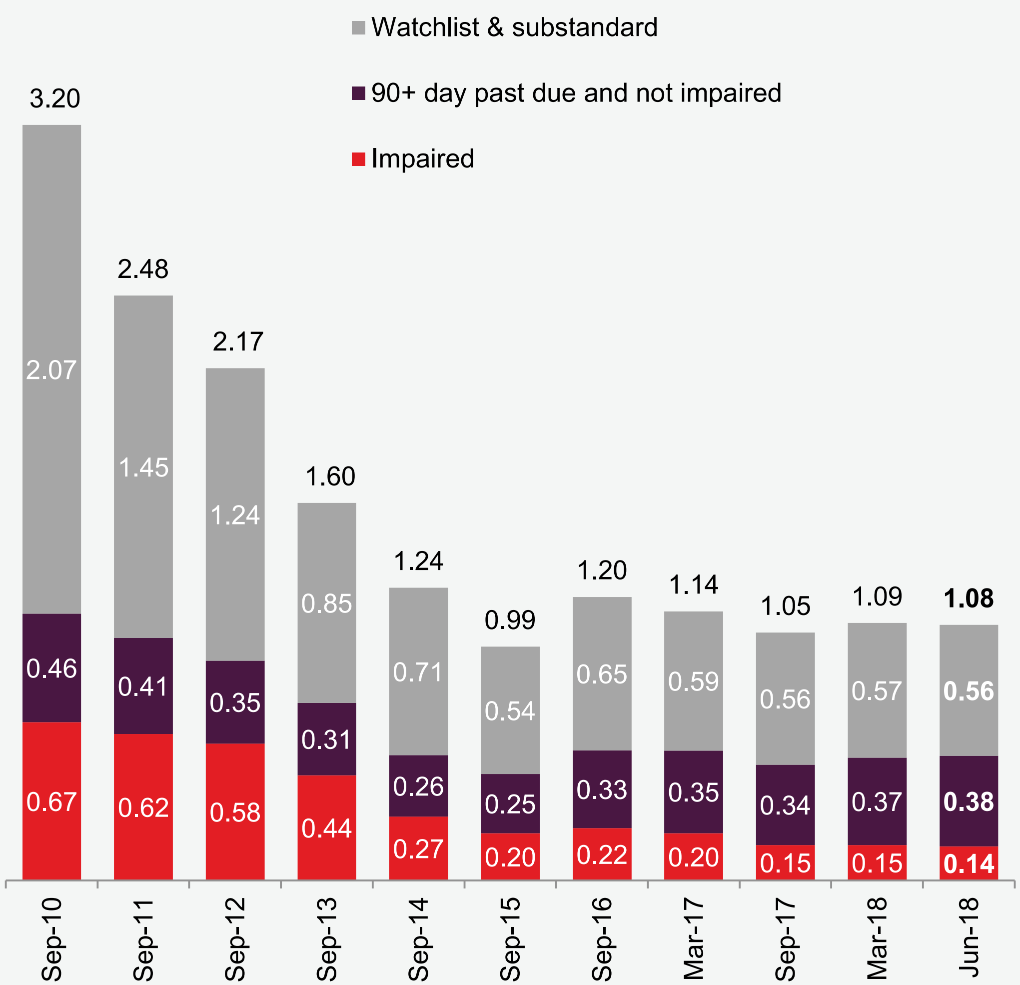
Well provisioned, credit quality remains sound

Total impairment provisions ($m)



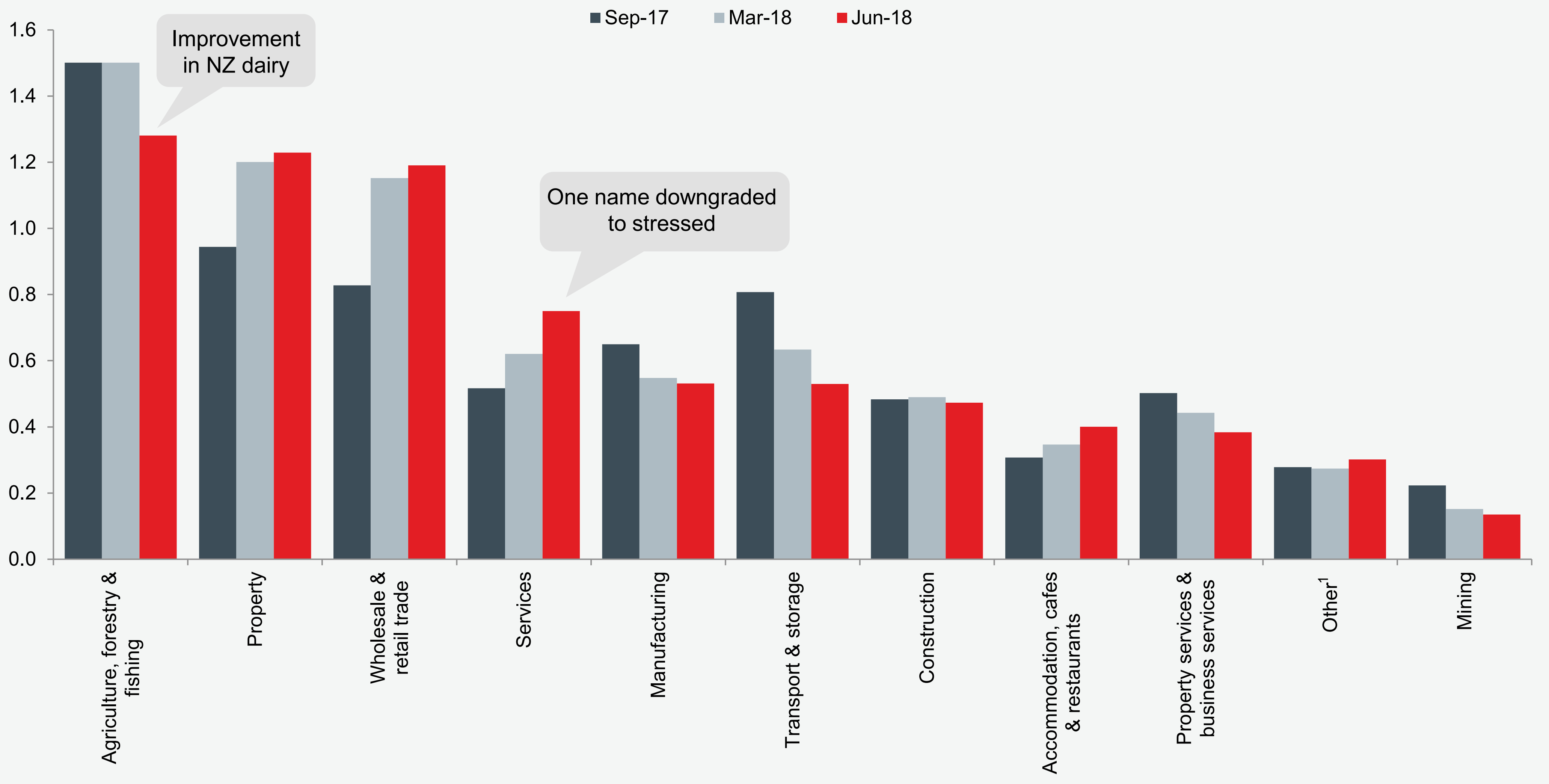
	Sep-17	Mar-18	Jun-18
Total provisions to gross loans (bps)	45	45	**44**
Impaired asset provisions to impaired assets (%)	46	46	**45**
Collectively assessed provisions to credit RWA (bps)	76	75	**74**

Stressed exposures as a % of TCE



Overall stressed exposures little changed over 3Q18

Corporate and business portfolio stressed exposures by industry ($bn)



1 Includes Finance & insurance, Utilities, Government admin. & defence, Other/Margin Lending and Pacific Banking.

Credit quality areas of interest

Mining (including oil and gas) portfolio

	Sep-17	Mar-18	Jun-18
Total committed exposures (TCE)	$9.7bn	$9.3bn	**$9.7bn**
Lending	$5.1bn	$5.1bn	**$5.4bn**
% of Group TCE	0.96	0.91	**0.93**
% of portfolio graded as stressed[1,2]	2.33	1.72	**1.45**
% of portfolio in impaired[2]	0.44	0.31	**0.26**

Retail trade portfolio

	Sep-17	Mar-18	Jun-18
Total committed exposures (TCE)	$15.4bn	$15.5bn	**$15.7bn**
Lending	$11.5bn	$11.3bn	**$11.7bn**
% of Group TCE	1.53	1.51	**1.52**
% of portfolio graded as stressed[1,2]	3.02	4.67	**4.91**
% of portfolio in impaired[2]	0.31	0.48	**0.43**

New Zealand dairy portfolio

	Sep-17	Mar-18	Jun-18
Total committed exposures (TCE)	NZ$6.0bn	NZ$6.1bn	**NZ$6.2bn**
Lending	NZ$5.8bn	NZ$5.8bn	**NZ$6.0bn**
% of Group TCE	0.55	0.55	**0.55**
% of portfolio graded as stressed[1,2]	17.02	14.94	**11.78**
% of portfolio in impaired[2]	0.34	0.47	**0.37**

Commercial property portfolio

	Sep-17	Mar-18	Jun-18
Total committed exposures (TCE)	$65.2bn	$66.3bn	**$67.8bn**
Lending	$49.6bn	$51.1bn	**$51.4bn**
% of Group TCE	6.48	6.48	**6.55**
% of portfolio graded as stressed[1,2]	1.27	1.74	**1.75**
% of portfolio in impaired[2]	0.38	0.28	**0.27**

1 Includes impaired exposures. 2 Percentage of portfolio TCE.

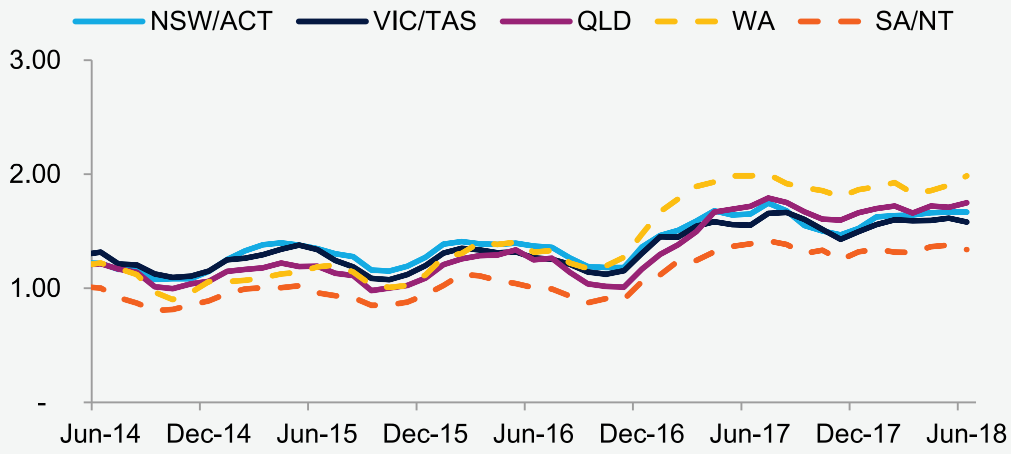
Australian consumer unsecured lending, 3% of Group loans

Australian consumer unsecured lending portfolio

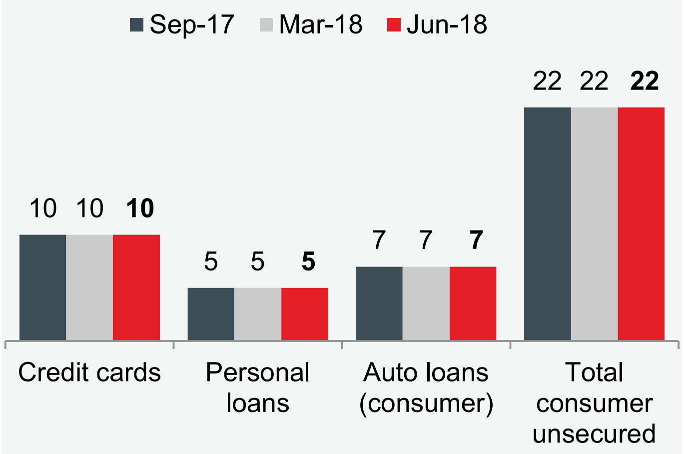
	Sep-17	Mar-18	Jun-18
30+ day delinquencies (%)	3.60	*3.95*	***3.89***
90+ day delinquencies (%)	1.66	*1.71*	***1.76***
Estimated impact of changes to hardship treatment for 90+ day delinquencies (bps)	*56ps*	*52ps*	***50ps***

- APRA hardship policy adopted across Westpac's Australian unsecured portfolios in FY17
- June 2018 unsecured consumer delinquencies, excluding hardship reporting changes are 8bps higher than March 2018, and 17bps higher than September 2017

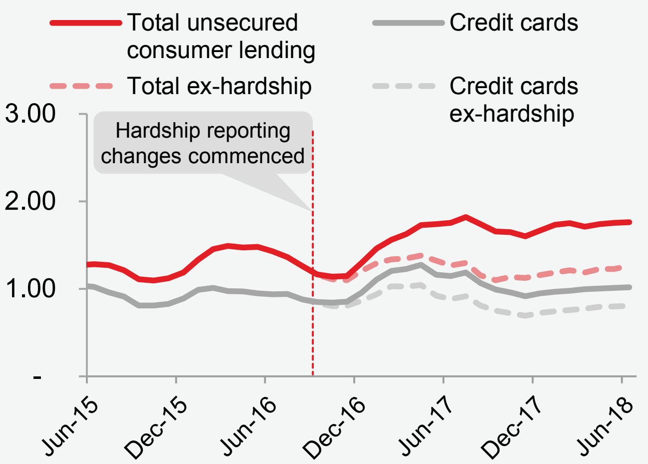
90+ day delinquencies (%) by State



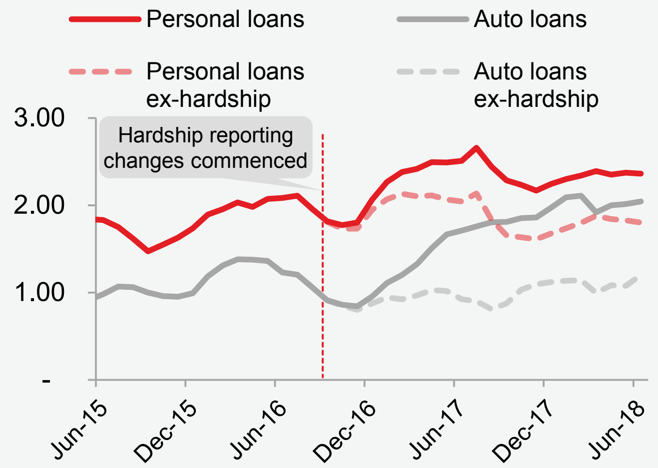
Australian unsecured portfolio ($bn)



90+ day delinquencies (%)



90+ day delinquencies (%)

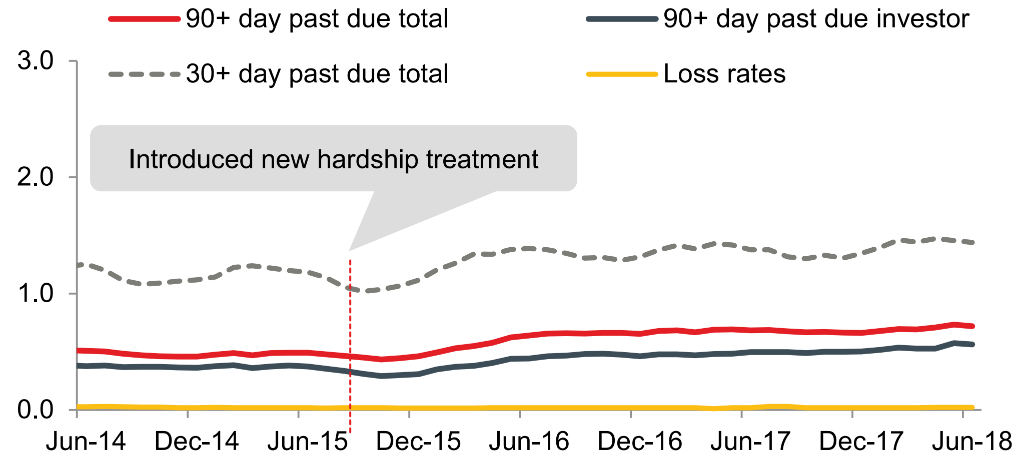


Australian mortgage portfolio continues to perform well

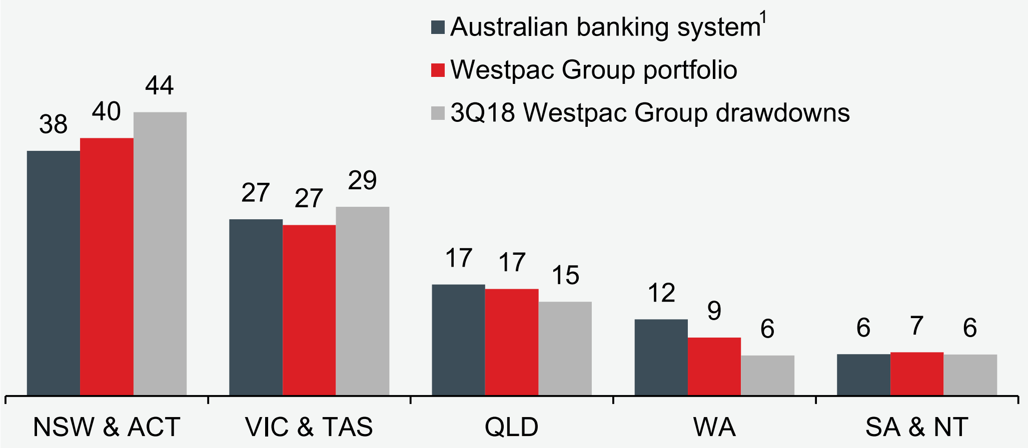
Australian mortgage delinquencies and properties in possession (PIPs)	Sep-17	Mar-18	Jun-18
30+ day delinquencies (bps)	130	144	**144**
90+ day delinquencies (bps) *(includes impaired mortgages)*	67	69	**72**
Consumer PIPs	437	398	**392**

Properties in possession continue to be mostly in WA and Qld reflecting weaker economic conditions in those states. Targeted collections strategies in those states have contributed to lower PIPs in 3Q18 and improved customer outcomes

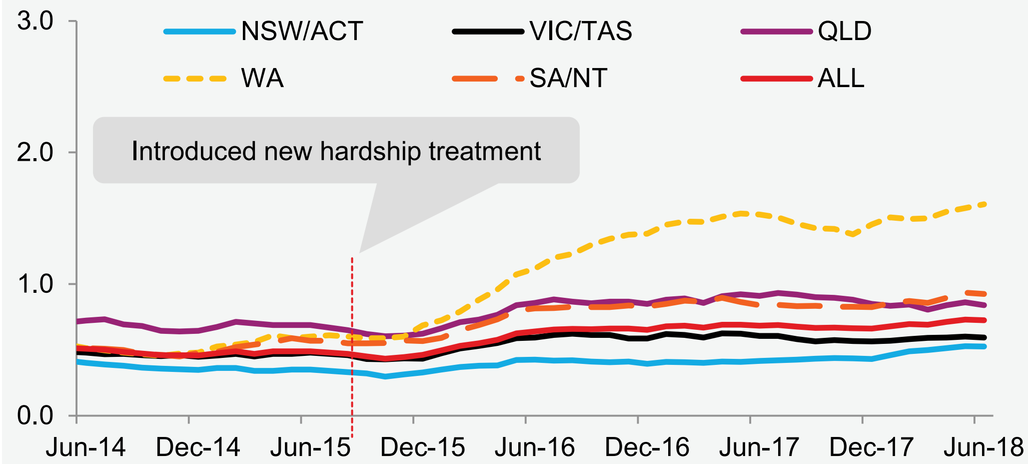
Australian mortgage portfolio delinquencies (%)



Housing lending by State (%)



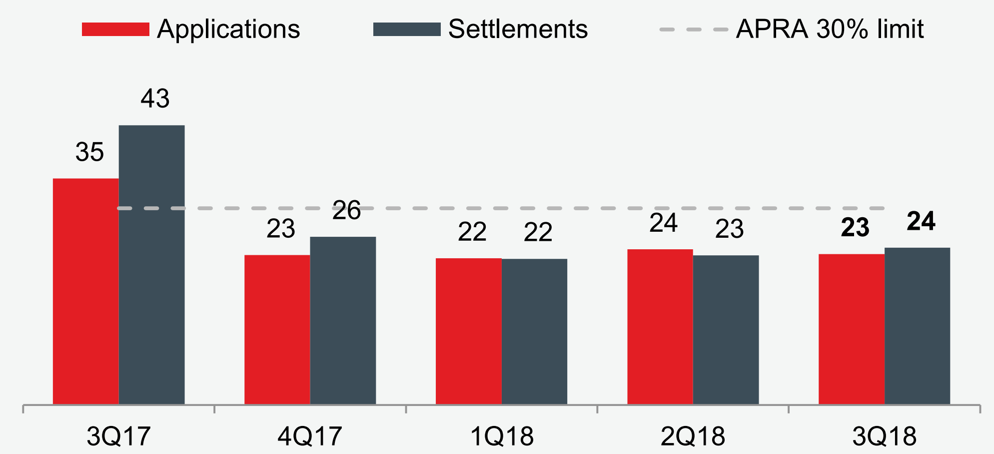
Australian mortgages 90+ day delinquencies by State (%)



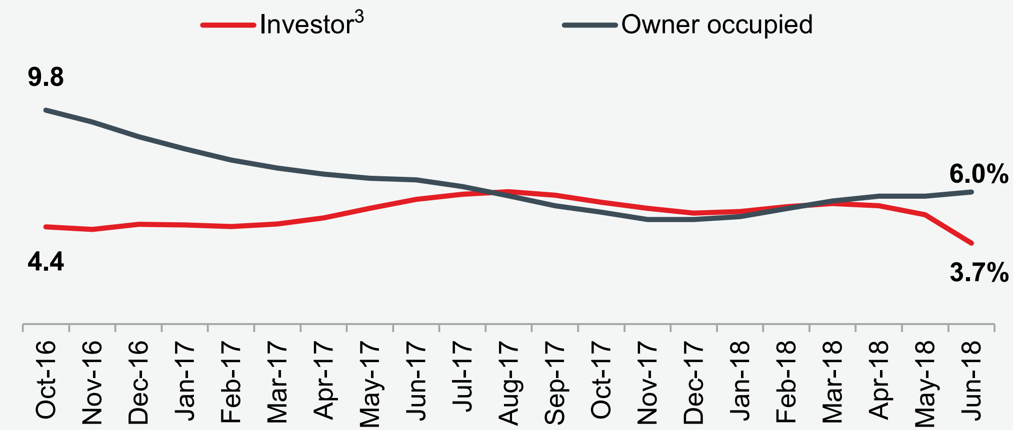
1 Source ABA Cannex June 2018.

Australian mortgage portfolio trends

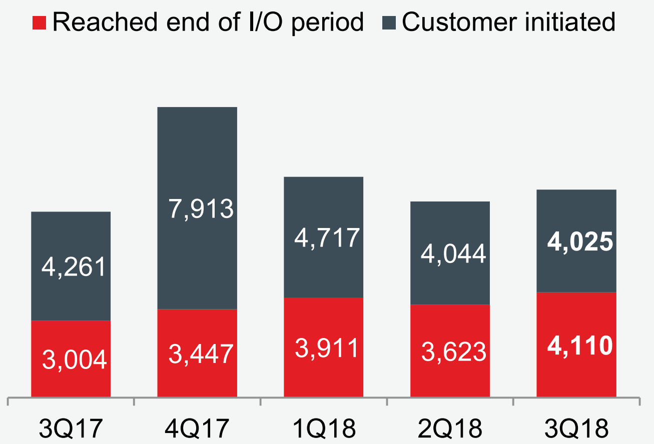
I/O[1] flows (% of total)



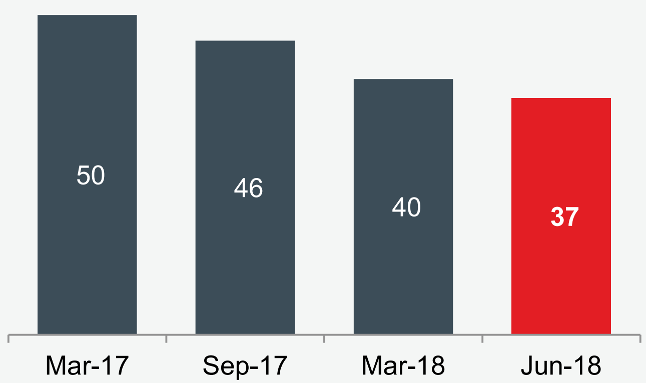
Mortgage lending growth (%)



Switching from I/O to P&I[2] ($m)

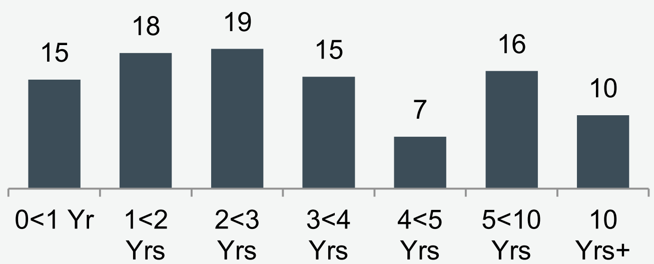


Proportion of I/O in total portfolio



Scheduled I/O term expiry[4]

(% of total I/O loans outstanding)



1 Flow is based on APRA definition. 2 I/O is interest only mortgage lending. P&I is principal and interest mortgage lending. 3 Investor is as per APRA extended definition used for reporting against the 10% cap.
4 Excludes I/O loans that should have switched to P&I but for the previously announced mortgage processing error.

Appendix and Disclaimer

Appendix 1: Definitions – Capital & Funding

Capital ratios	As defined by APRA (unless stated otherwise)
Committed liquidity facility (CLF)	The RBA makes available to Australian Authorised Deposit-taking institutions a CLF that, subject to qualifying conditions, can be accessed to meet LCR requirements under APS210 Liquidity
Internationally comparable ratios	Internationally comparable regulatory capital ratios are Westpac's estimated ratios after adjusting the capital ratios determined under APRA Basel III regulations for various items. Analysis aligns with the APRA study titled "International capital comparison study" dated 13 July 2015
Leverage ratio	As defined by APRA (unless stated otherwise). Tier 1 capital divided by 'exposure measure' and expressed as a percentage. 'Exposure measure' is the sum of on-balance sheet exposures, derivative exposures, securities financing transaction exposures and other off-balance sheet exposures

Liquidity coverage ratio (LCR)	An APRA requirement to maintain an adequate level of unencumbered high quality liquid assets (HQLA), to meet liquidity needs for a 30 calendar day period under an APRA-defined severe stress scenario. Absent a situation of financial stress, the value of the LCR must not be less than 100%. LCR is calculated as the percentage ratio of stock of HQLA and CLF over the total net cash out-flows in a modelled 30 day defined stressed scenario
Net stable funding ratio (NSFR)	The NSFR is defined as the ratio of the amount of available stable funding (ASF) to the amount of required stable funding (RSF) defined by APRA. The amount of ASF is the portion of an ADI's capital and liabilities expected to be a reliable source of funds over a one year time horizon. The amount of RSF is a function of the liquidity characteristics and residual maturities of an ADI's assets and off-balance sheet activities. ADI's must maintain an NSFR of at least 100%
Risk weighted assets or RWA	Assets (both on and off-balance sheet) are risk weighted according to each asset's inherent potential for default and what the likely losses would be in case of default. In the case of non-asset-backed risks (ie. market and operational risk), RWA is determined by multiplying the capital requirements for those risks by 12.5

Appendix 1: Definitions – Credit Quality

Collectively assessed provisions (CAP)	Loans not found to be individually impaired or significant will be collectively assessed in pools of similar assets with similar risk characteristics. The size of the provision is an estimate of the losses already incurred and will be estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. The historical loss experience will be adjusted based on current observable data. Included in the collectively assessed provision is an overlay provision which is calculated based on changes that occurred in sectors of the economy or in the economy as a whole
Impaired assets	Includes exposures that have deteriorated to the point where full collection of interest and principal is in doubt, based on an assessment of the customer's outlook, cash flow, and the net realisation of value of assets to which recourse is held and includes: • facilities 90 days or more past due, and full recovery is in doubt: exposures where contractual payments are 90 or more days in arrears and the net realisable value of assets to which recourse is held may not be sufficient to allow full collection of interest and principal, including overdrafts or other revolving facilities that remain continuously outside approved limits by material amounts for 90 or more calendar days; • non-accrual assets: exposures with individually assessed impairment provisions held against them, excluding restructured loans; • restructured assets: exposures where the original contractual terms have been formally modified to provide for concessions of interest or principal for reasons related to the financial difficulties of the customer; • other assets acquired through security enforcement (includes other real estate owned): includes the value of any other assets acquired as full or partial settlement of outstanding obligations through the enforcement of security arrangements; and • any other assets where the full collection of interest and principal is in doubt
Individually assessed provisions (IAP)	Provisions raised for losses that have already been incurred on loans that are known to be impaired and are assessed on an individual basis. The estimated losses on these impaired loans is based on expected future cash flows discounted to their present value and, as this discount unwinds, interest will be recognised in the income statement

Stressed assets	The sum of watchlist and substandard, 90 days past due and not impaired and impaired assets
Total committed exposures (TCE)	Represents the sum of the committed portion of direct lending (including funds placement overall and deposits placed), contingent and pre-settlement risk plus the committed portion of secondary market trading and underwriting risk
Watchlist and substandard	Loan facilities where customers are experiencing operating weakness and financial difficulty but are not expected to incur loss of interest or principal
90 days past due and not impaired	Includes facilities where: • contractual payments of interest and/or principal are 90 or more calendar days overdue, including overdrafts or other revolving facilities that remain continuously outside approved limits by material amounts for 90 or more calendar days (including accounts for customers who have been granted hardship assistance); or • an order has been sought for the customer's bankruptcy or similar legal action has been instituted which may avoid or delay repayment of its credit obligations; and • the estimated net realisable value of assets / security to which Westpac has recourse is sufficient to cover repayment of all principal and interest, or where there are otherwise reasonable grounds to expect payment in full and interest is being taken to profit on an accrual basis These facilities, while in default, are not treated as impaired for accounting purposes

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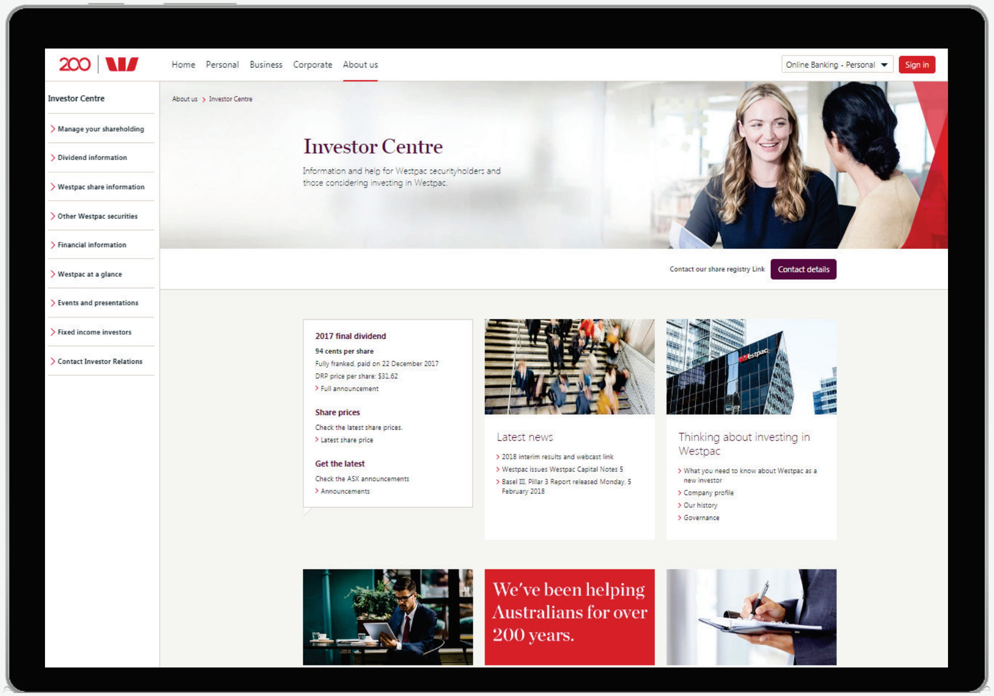

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All amounts are in Australian dollars unless otherwise indicated.

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