Westpac GROUP

EST. 1817

PILLAR 3 & CAPITAL UPDATE
FOR 31 DECEMBER 2013

18 February 2014

This document should be read in conjunction with Westpac's Pillar 3 Report for December 2013, incorporating the requirements of APS330

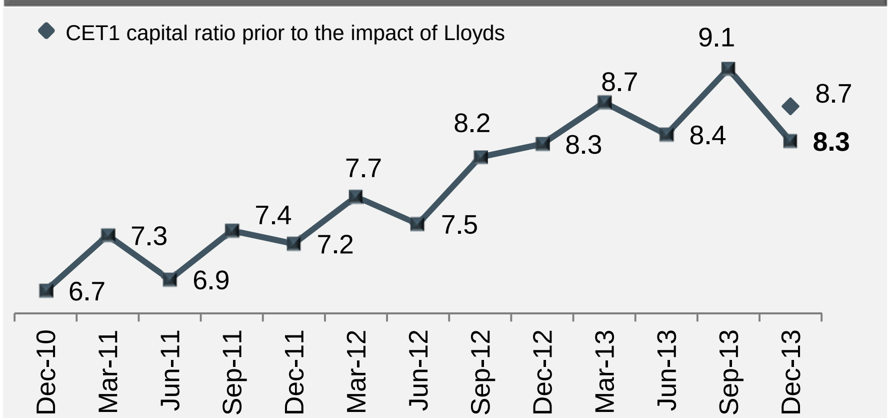
All comparisons in this release refer to 1Q14 against 2H13 unless stated otherwise

Capital strength maintained[1]

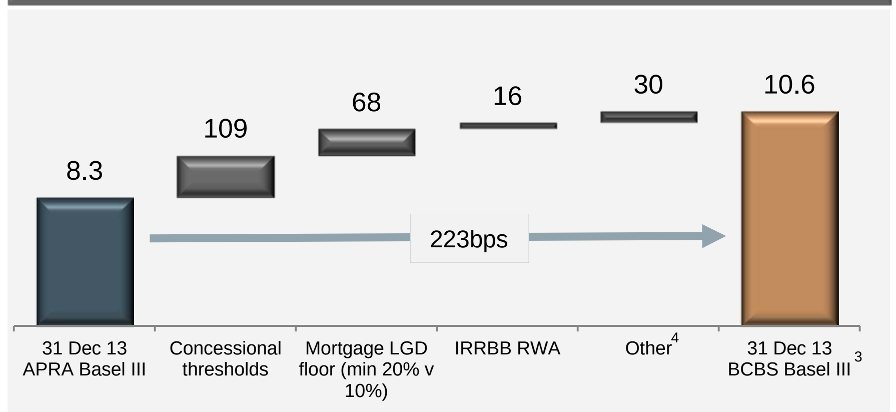
- Westpac's Common equity tier 1 capital ratio was 8.3% at 31 December 2013
- Common equity tier 1 capital ratio was down 77bps from September 2013 with the main impacts
  - Final ordinary dividend (85bps) and special dividend (10bps)
  - The acquisition of selected assets of Lloyds Banking Group's Australian businesses (Lloyds) utilised 37bps (RWA 25bps, goodwill 8bps and other capital deductions 4bps)
  - Partly offset by organic capital growth and a reduction in deferred tax assets from the previously disclosed St.George tax consolidation benefit

Key capital ratios (%)	Mar-13	Sept-13	Dec-13
Common equity tier 1 capital ratio	8.7	9.1	**8.3**
Additional tier 1 capital	2.1	1.6	**1.5**
Tier 1 capital ratio	10.8	10.7	**9.8**
Tier 2 capital	1.7	1.6	**1.5**
Total regulatory capital ratio	12.5	12.3	**11.3**
Risk weighted assets ($bn)	308.0	307.4	**320.9**
Common equity tier 1 capital ratio (BCBS[3])	11.4	11.6	**10.6**

Common equity tier 1 (CET1) capital ratio[2] (%)



Common equity tier 1 capital ratio (% and bps)

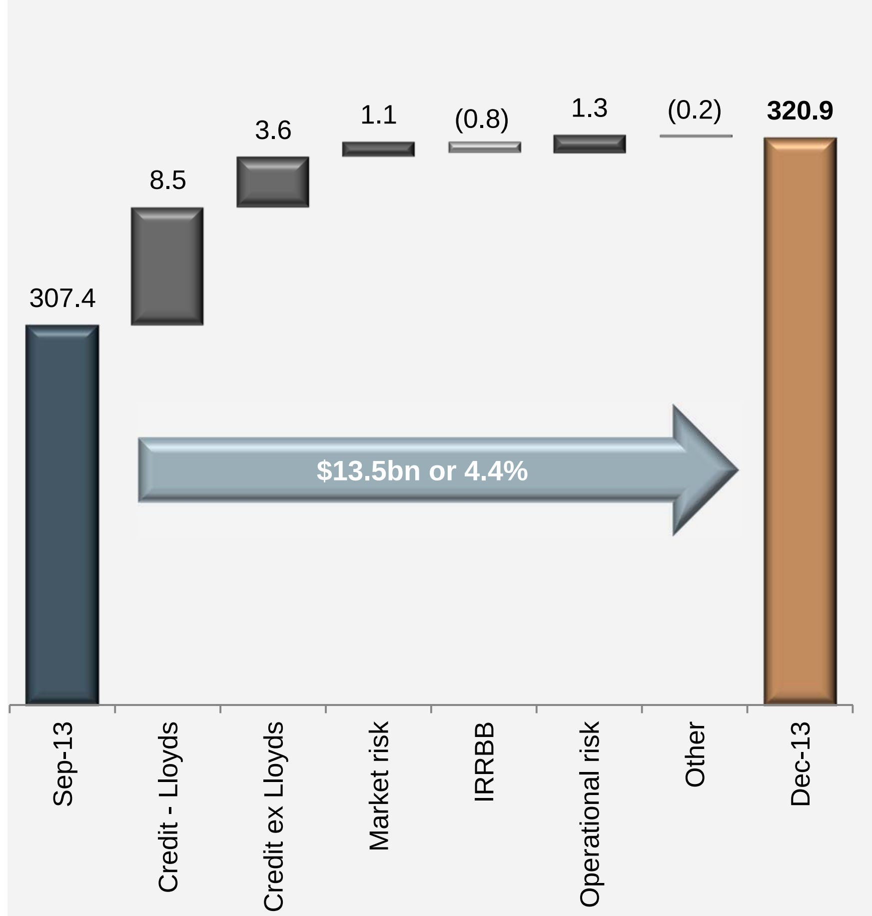


1 All capital ratios and risk weighted assets disclosed in this presentation are calculated on a Westpac Level 2 consolidated basis (see Westpac's Pillar 3 Report, December 2013 for more detail). 2 All numbers prior to Mar-13 on a pro-forma Basel III basis. 3 BCBS is Basel Committee on Banking Supervision. 4 Other includes the treatment of specialised lending

Movements in risk weighted assets (RWA)

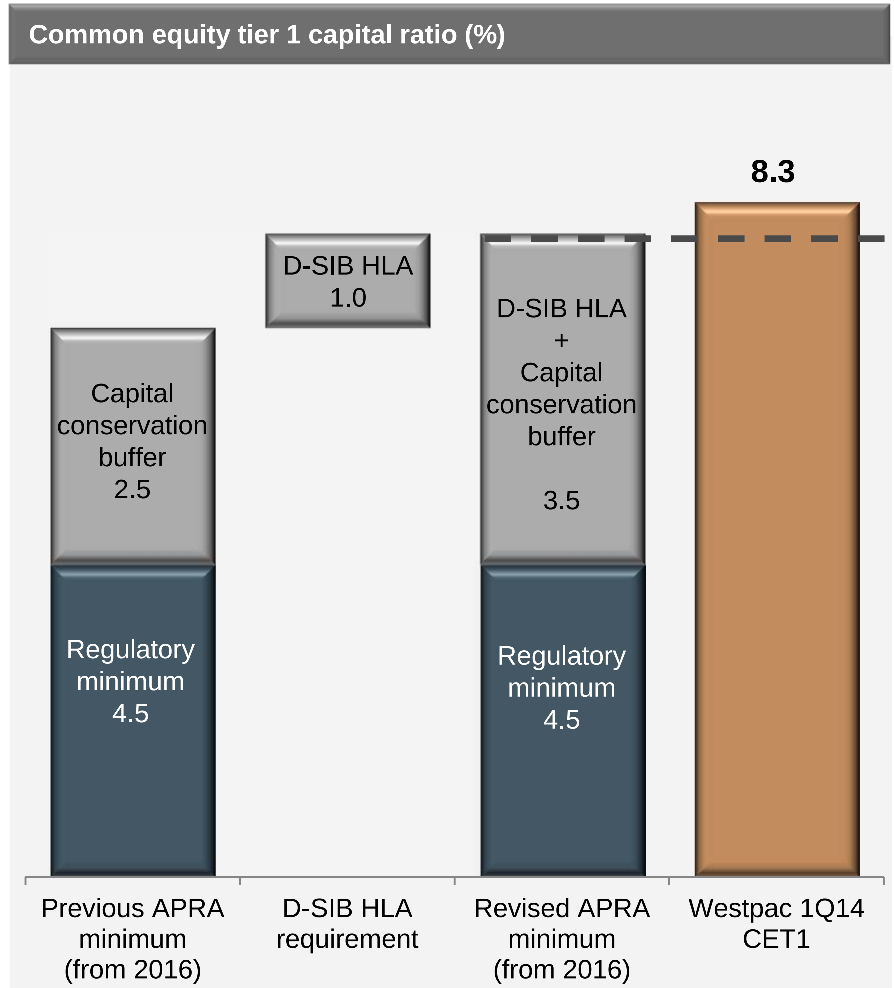
- Impact of Lloyds acquisition
  - Added $8.5bn to Credit RWA and $0.5bn to operational risk RWA
  - Lloyds corporate book is measured applying the Advanced IRB approach, with the remaining asset finance portfolio currently measured applying the Standardised approach
  - Also led to a $9.2bn rise in exposure at default (EAD) and an easing in Westpac's deposit to loan ratio (impact of around 100bps)
- Excluding Lloyds, Credit RWA up $3.6bn (1.4%) primarily from
  - Currency movements from the fall in $A compared to NZ$ and US$ ($2.0bn)
  - Increase in Corporate lending exposures ($1.3bn)
  - Other Credit RWA increases were partially offset by improved asset quality
- EAD up 3.4% (ex Lloyds) reflected sound mortgage growth and an increase in liquid assets (higher Sovereign and Bank EAD) all of which increase EAD but have a small impact on RWA
- Market risk RWA up $1.1bn reflected an increase in the average exposure to short dated AUD interest rate risk
- Interest rate risk in the banking book (IRRBB) RWA was down due primarily to a higher embedded gain
- Operational risk RWA increased $1.3bn due to Lloyds and updated modelling to reflect operational risk losses experienced by other financial institutions globally

Movements in RWA ($bn)



Capital well positioned for D-SIB capital requirements

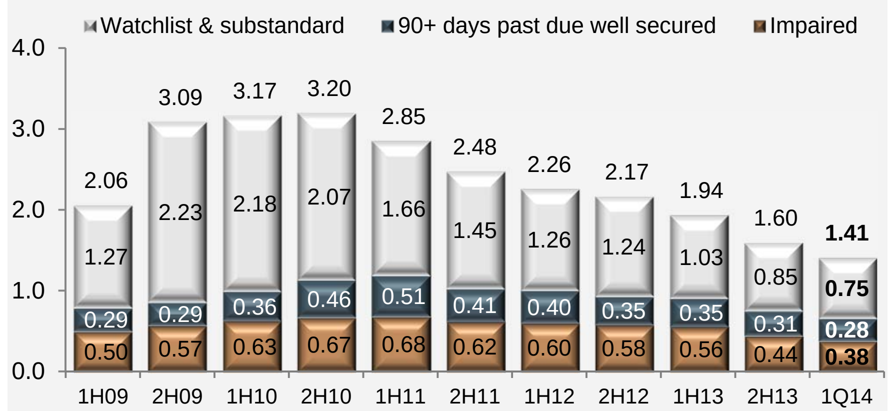
- On 23 December 2013, APRA issued an information paper which
  - Identified the four major Australian banks as domestic systemically important banks (D-SIB)
  - Provided detail of the additional higher loss absorbency (HLA) requirements for D-SIB
- D-SIB HLA requirement of 1% is to be met by Common equity tier 1 capital (CET1)
- Implementation of the D-SIB HLA is through an extension of the capital conservation buffer (CCB) effectively increasing the buffer above regulatory minimums
- The CCB and D-SIB HLA will commence from 1 January 2016 with no phase-in period
- Westpac is reviewing its preferred capital levels noting that APRA have indicated relatively lower management capital buffers are reasonable given the additional regulatory buffer. This review will take place in 2014



Portfolio stress continues to decrease

- Stressed assets to TCE[1] down 19bps, to 1.41% with all categories of stress lower
  - Value of stressed exposures down $1,064m (8%)
  - Impaired assets/TCE down 6bps to 38bps
  - 90+ days past due/TCE down 3bps to 28bps
  - Watchlist & substandard/TCE down 10bps to 75bps as the flow of new stress continued to moderate
- Stress in the commercial property portfolio continued to reduce, down from 4.5% at 2H13 to 3.4% at 1Q14, reflecting continued improvements in asset markets and some portfolio growth
- Provision cover remains strong
  - Collectively assessed provisions to credit RWA down 1bp to 0.98%
  - In keeping with our traditional conservative approach, impaired provisions to impaired assets increased to 46%. Outstanding impaired assets fell to $3,183m
  - Total provisions $3,957m

Stressed exposures as a % of TCE[1]



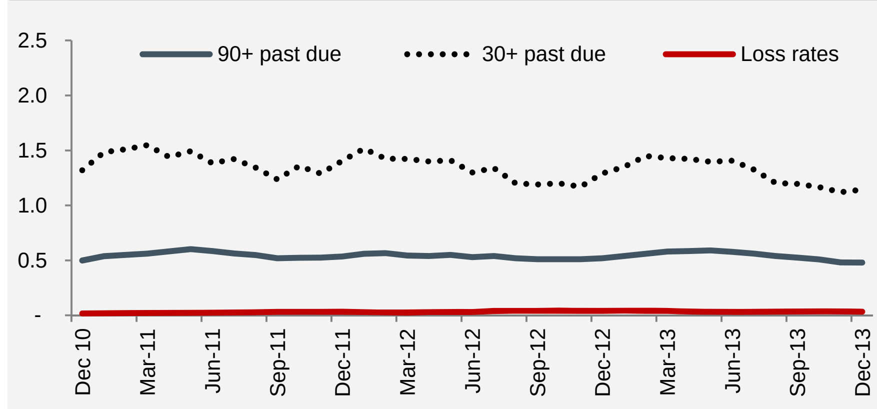
Provisioning coverage ratios	2H12	1H13	2H13	1Q14
Collectively assessed provisions to credit RWA[2]	108bps	106bps	99bps	**98bps**
Collectively assessed provisions to performing non-housing loans	155bps	151bps	142bps	**136bps**
Impairment provisions to impaired assets	37%	40%	43%	**46%**
Total provisions to gross loans	82bps	80bps	73bps	**71bps**

1 TCE is Total Committed Exposure. 2 2H12 ratio has been calculated based on Basel III pro-forma risk weighted assets.

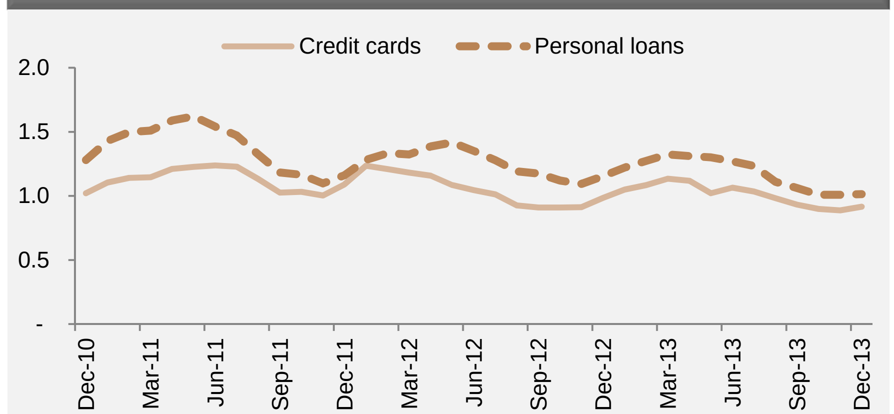
Consumer portfolios performing well

- The Group's consumer portfolios continued to perform well, due to
  - Quality of the book
  - Focused collections activities undertaken in late 2013
  - Interest rates remaining relatively low
- Australian mortgage 90+ days delinquencies were down 5bps to 48bps
- Early cycle delinquencies also improved, with 30+ days delinquencies down 5bps to 101bps
- Australian credit card 90+ days delinquencies declined 1bp to 92bps, in line with seasonal trends
- New Zealand consumer asset quality also remained strong, with 90+ days mortgage delinquencies down 2bps to 27bps while 90+ days credit card delinquencies declined 1bp to 76bps

Australian mortgages delinquencies and loss rates (%)



Australian unsecured lending 90+ days delinquencies (%)



Investor Relations Team

Investor Relations Team

Andrew Bowden
Head of Investor Relations
+61 2 8253 4008
andrewbowden@westpac.com.au

Leigh Short
Senior Manager, Equity Investor Relations
+61 2 8253 1667
lshort@westpac.com.au

Jacqueline Boddy
Senior Manager, Debt Investor Relations
+61 2 8253 3133
jboddy@westpac.com.au

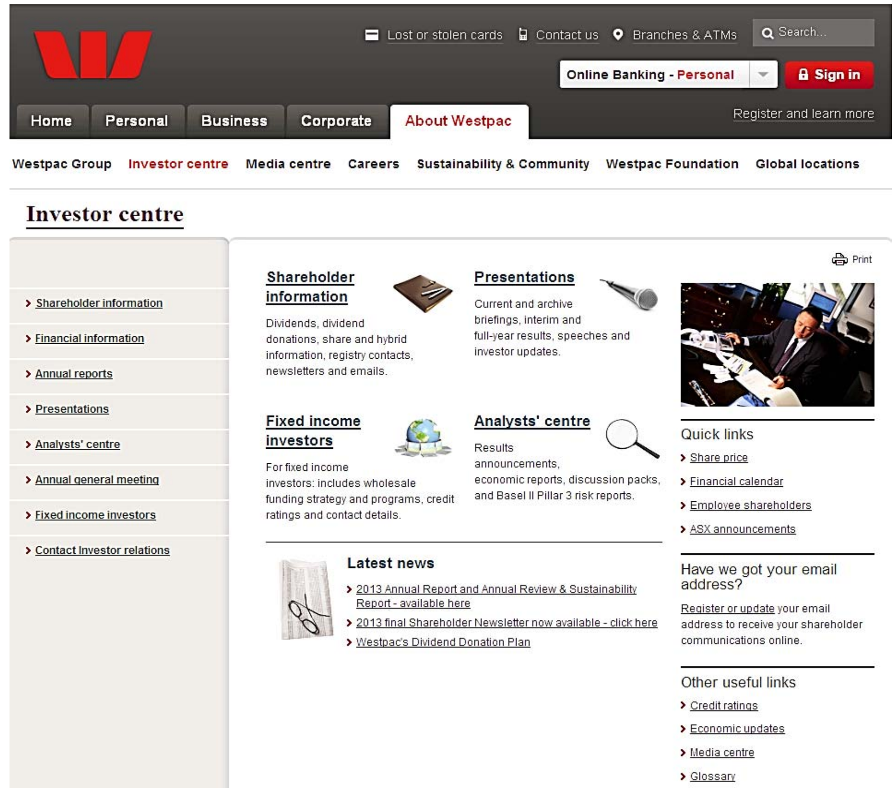
Louise Coughlan
Director, Investor Relations
+61 2 8254 0549
lcoughlan@westpac.com.au

Rebecca Plackett
Manager, Retail Investor Relations
+61 2 8253 6556
rplackett@westpac.com.au

or email: investorrelations@westpac.com.au

For further information on Westpac

Please visit our dedicated website
www.westpac.com.au/investorcentre



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