Media Release

2 May 2016

WESTPAC DELIVERS SOUND RESULT IN CHALLENGING CONDITIONS

Westpac Group today announced First Half 2016 statutory net profit of $3,701 million, up 3% over the prior corresponding period.

Key features of the result compared to the prior corresponding period included[1]:

- Cash earnings of $3,904 million, up 3%;
- Cash earnings per share of 118.2 cents, down 2%;
- Cash return on equity (ROE) of 14.2%, down 166 basis points;
- Interim, fully franked dividend of 94 cents per share (cps), up 1%;
- Common equity Tier 1 capital ratio of 10.5%, up 171 basis points;
- Lending and customer deposit growth of 6% and 5% respectively; and
- Expense to income ratio at 41.6% down from 42.5%.

Westpac Chief Executive Officer, Mr Brian Hartzer, said the Group had delivered a sound result in a volatile economic environment with significant regulatory change.

"The quality and value of our franchise continues to grow, with increased customer numbers, deeper customer relationships and strategic technology investments that make it easier for customers to do their banking. At the same time we have continued to focus on controlling costs and delivering sustainable returns," Mr Hartzer said.

“The Consumer Bank delivered strong home loan and deposit growth and well-managed margins. The Business Bank also recorded sound balance sheet growth, particularly in SME, with margins stable over the period.

“However, sector headwinds contributed to a softer performance in other divisions. In particular, Westpac Institutional Bank (WIB) was affected by lower net interest margins and significantly higher impairment charges related principally to four large exposures which added $252 million to provisions.”

In response to regulatory change, the Group raised around $6 billion in equity over calendar 2015, lifting the Group’s common equity Tier 1 ratio to 10.5%, or around 2 percentage points higher than a year earlier.

“These actions have materially strengthened the Group’s capital base but have impacted earnings per share and return on equity,” Mr Hartzer said.

“Importantly, on most measures, overall asset quality remains sound, with the level of stressed assets little changed over the half. There have been a few pockets of stress, mostly related to lower commodity prices, and an increase in provisions for a small number of larger exposures, which contributed to a rise in impairment charges.

“Westpac remains well-placed to respond to this challenging environment. We have strengthened our balance sheet and made good progress implementing our strategy to build one of the world’s great service companies by investing in growth, service, and productivity initiatives.”

[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, 5 and 123-125 of the Group’s 2016 Interim Financial Results Announcement.*

WESTPAC BANKING CORPORATION ABN 33 007 457 141

DELIVERING ON THE STRATEGY

Mr Hartzer said significant progress had been made on delivering Westpac's strategy including:

- Launch of the 'Service Promise' program across the entire organisation. Building on the success of a similar initiative in St.George, this brings together a common set of service standards and behaviours across the Group;
- A 24% reduction in complaints across the Australian Consumer and Business Banks compared to First Half 2015;
- Continued reconfiguration of the network, with 39% of branches now in the new format;
- Simplified the process for establishing new transaction accounts, and enabling customers to block/unblock credit cards online;
- Launched 'Wonder' – which allows Westpac customers to easily see (and put to use) the equity in their homes;
- Upgraded 100,000 merchant terminals to our new market leading EFTPOS1 technology, which accepts cards issued by UnionPay International;
- Rolled-out new functionality for BT Panorama, including direct trading of listed securities for advised investors and launch of the first phase of the Self-Managed Super Fund offering; and
- Commenced development of the customer service hub, the first major program in our new systems architecture.

CAPITAL POSITION AND DIVIDENDS

Mr Hartzer said the 2015 calendar year was significant for the Group, including having raised around $6 billion in capital through capital issuance and the partial sale of BT Investment Management (BTIM).

On an internationally comparable basis, Westpac's CET1 ratio was 14.7% and comfortably in the top quartile of banks globally.

"Our strong level of capital positions us well for further regulatory changes, while ensuring we can continue to support our customers and economic growth in Australia," Mr Hartzer said.

The Westpac Board has determined a dividend of 94cps, up 1% on the 2015 interim dividend and in line with the 2015 final dividend. The Group will issue shares to satisfy the Dividend Reinvestment Plan (DRP) for the interim dividend, with no discount applied.

The dividend will be paid on 4 July 2016, to shareholders registered at 13 May 2016.

CREDIT QUALITY

The credit quality of the Group's portfolio was little changed since First Half 2015 with stressed exposures to total committed exposures of 1.03%, down from 1.12%.

The increase in the stressed exposures ratio of 4 basis points over Second Half 2015 principally reflects a rise in consumer delinquencies, including in geographies more affected by the slowdown in mining.

Impaired assets remained low at 0.26% of total committed exposures, up 2 basis points over the year, while the provision coverage of impaired assets has remained high at 48%.

FINANCIAL HIGHLIGHTS

Key financial aspects of the First Half 2016 result[2,3]:

- Total income up 6%, with good growth in net interest income;
- Net interest income of $7,653 million, up 10%, with net interest margin up 9 basis points. Excluding Treasury and Markets, net interest margins were up 6 basis points;
- Total lending rose 6% from March 2015, with above system growth in Australian mortgages, up 8%, and Australian business lending rising 6%. Lending in New Zealand increased 7% in NZ dollars. Customer deposits increased $21.7 billion, or 5%, with the deposit to loan ratio at 69%;
- Non-interest income of $2,966 million was down 4%. This outcome reflects a range of infrequent and volatile items including lower revenue from BTIM following the partial sell down in Second Half 2015. Excluding infrequent and volatile items, most of the decline was due to lower Australian credit card interchange income and lower institutional fee income in line with more subdued debt origination;
- An improved expense to income ratio, with expenses up 4%, mostly related to higher investment including increased technology and professional services costs; and
- Asset quality was little changed over the year, with stressed assets to total committed exposures falling 9 basis points to 1.03%. However, impairment charges increased $326 million due to lower write-backs, increased provisions for a small number of larger institutional facilities, and from a modest rise in consumer delinquencies.

DIVISIONAL PERFORMANCE: 1H16 CASH EARNINGS

Cash earnings ($million)	1H16	2H15	1H15	% mvt 1H16-2H15	% mvt 1H16-1H15
Consumer Bank	1,444	1,380	1,240	5	16
Business Bank	988	962	1,017	3	(3)
BT Financial Group	452	461	453	(2)	-
Westpac Institutional Bank	517	690	653	(25)	(21)
Westpac New Zealand (NZ$)	445	468	437	(5)	2

Consumer Bank continued to grow the value of the franchise, with more customers and above system lending growth contributing to a 15% rise in core earnings and a 16% rise in cash earnings. However, the impact of higher capital for mortgages reduced returns in this business. The business has continued to invest in improving service by transforming the network through the upgrade of 22 branches over the half, enhancements to self-serve options including more Smart ATMs, and increasing the functionality of its online platforms.

Business Bank grew core earnings by 5%, with good growth in lending. Non-interest income grew 3%, mostly through higher merchant revenue supported by the roll-out of new state-of-the-art payment terminals. Cash earnings were lower, down 3%, due to higher impairment charges. While asset quality has improved, a reduction in write-backs and an increase in auto delinquencies contributed to a $118 million increase in impairments.

BT Financial Group continues to be a leading provider of wealth solutions in Australia, with a Funds Under Administration (FUA) share of 19.6%. BTFG saw cash earnings little changed over the year with business growth offset by a reduction in Funds Management earnings mostly due to lower markets and the partial sale of BTIM in Second Half 2015. The business continued to benefit from good flows into FUM and FUA, while continued success in Private Wealth has

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[2] *Cash earnings basis.*
[3] *All comparisons in the commentary are to the prior corresponding period unless otherwise stated.*

seen lending increase 8%. Insurance has also continued to expand with Life in-force premiums up 12%.

Westpac Institutional Bank delivered cash earnings of $517 million, down $136 million. The lower result was driven by a $201 million increase in impairment charges, a reduction in fund performance fees, and lower margins. The division maintained its leading market position, growing customer numbers and generating good flows in FX. However, the more challenging market conditions from high levels of global liquidity continues to place pressure on margins. While asset quality was maintained, including a further reduction in stressed assets, downgrades to a small number of exposures was the main contributor to the higher impairment charge.

Westpac New Zealand's cash earnings were up 2% to NZ$445 million. The business has continued to grow broadly in line with system while steadily expanding its wealth and insurance business. However, intense competition for new lending and a shift to lower spread fixed rate mortgages has compressed margins. Notwithstanding deteriorating financial conditions in the dairy sector, asset quality has remained sound and consumer delinquencies remain near historic lows, contributing to continued low impairment charges.

OUTLOOK

Mr Hartzer said despite the mixed global economic conditions he remained positive about the outlook for the Australian economy and expected another year of sound growth, with GDP increasing by around 2.8% in the 2016 calendar year.

"Australia's transition to a more services-based economy is now well underway. While the higher than expected Australian dollar represents some risks on the export front, other aspects of the Australian economy are encouraging. The recent firming of commodity prices, solid employment growth – particularly in the services sectors – and ongoing low interest rates all support that outlook.

"The main threat we see is from global factors, which create fragility in businesses and regions that are more dependent on mining and mining construction. We also see signs of moderating housing investment, although housing fundamentals remain in good shape."

Mr Hartzer said that this environment is likely to see a slight moderation in credit and deposit growth through the year, as housing activity eases and the impact of the system tightening of credit standards flows through.

"We think asset quality will remain sound overall. While there have been a small number of large firms experiencing difficulties during the first half, these have been predominantly due to company specific issues that have been, in some cases, exacerbated by the mining cycle.

"Company balance sheets are generally in good shape – having used lower interest rates to pay down debt – and levels of stress remain low. We expect some increase in consumer delinquencies over the second half, but this is likely to be concentrated in segments and sectors that are more reliant on the resources industry. In this environment, and with the significant strengthening of our balance sheet, we will continue to manage the Group in a disciplined way."

Mr Hartzer said Westpac remains strongly positioned in its key markets, with a modest underweight position in both the New Zealand dairy and mining sectors, and those regions more reliant on resources.

"Westpac's strategy of having a strong and prudently managed balance sheet, strict performance disciplines, and a strategy built around embracing technology to deliver great service and deeper customer relationships, is the right one for the times. Given our position, unique portfolio of brands and high quality management team, I remain positive about our outlook."

For Further Information

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