PILLAR 3 & CAPITAL UPDATE

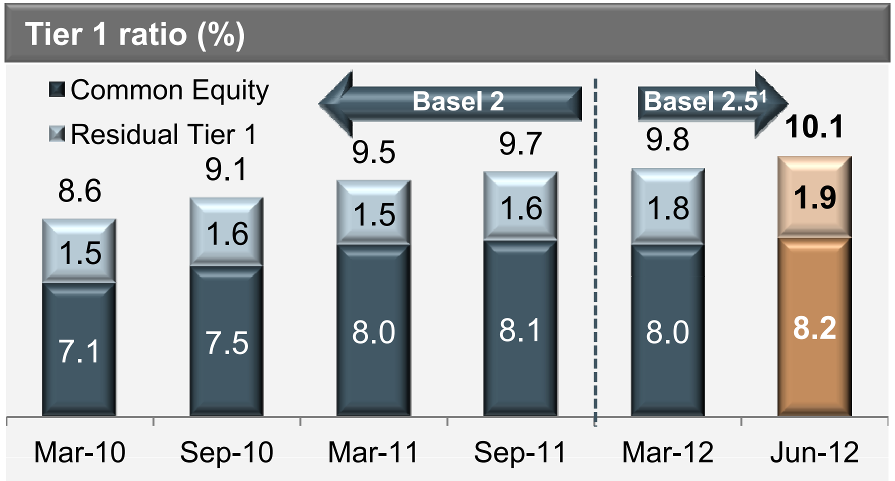
FOR 30 JUNE 2012

22 August 2012

Highlights of June 2012 Pillar 3 Report

Balance sheet and exposure highlights

- Tier 1 capital ratio at 30 June 2012 up 25bps from March 2012
  - Tier 1 capital balances up 2%
  - Risk weighted assets (RWA) down 1%
- Reduction in RWA mostly due to
  - Non-credit RWA down 8%, with lower market risk (from lower market exposures) and a decline in RWA associated with interest rate risk in the banking book (lower interest rates and a higher embedded gain)
  - Credit RWA up 1% mostly from increased corporate RWA, and higher housing balances. Methodology changes added around $1bn to RWA
  - No optimisation of RWA took place over the quarter
- Exposure at default (EAD) up 2%, including from methodology change. Off balance sheet exposures also higher from a rise in market transactions that have been completed but not yet settled



Risk and provisioning highlights

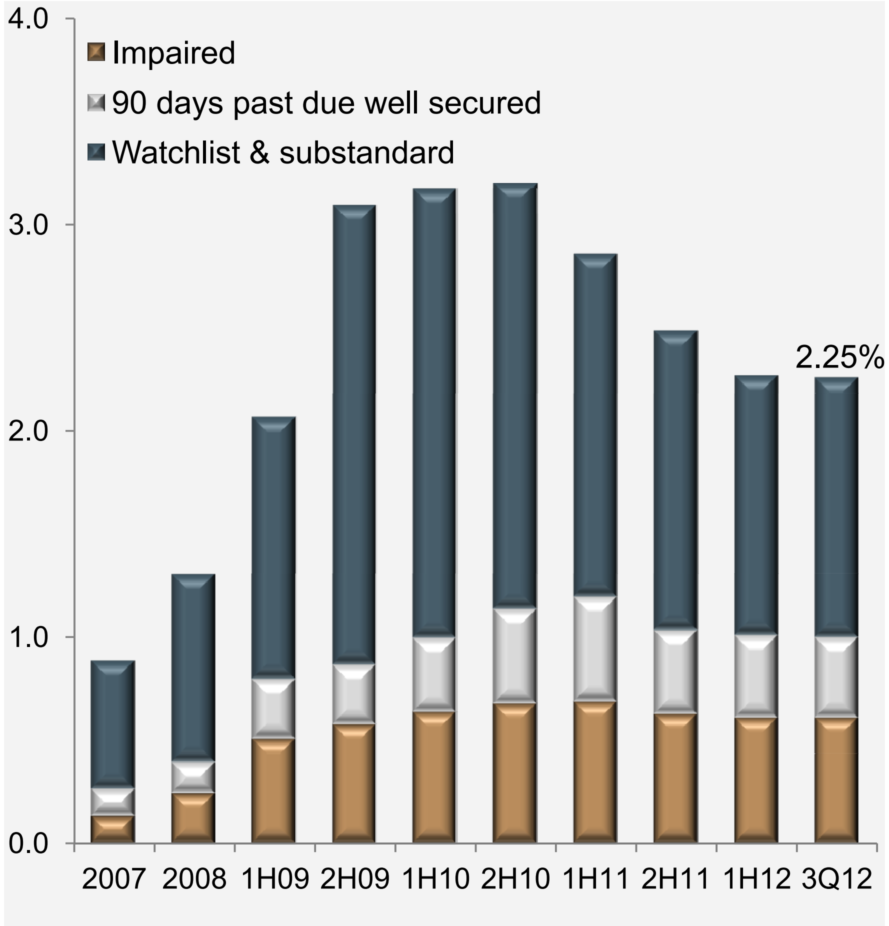
- Portfolio quality relatively stable over 3Q12
- Regulatory expected loss little changed over the quarter
- Impaired loans relatively flat (up $6m), with new and increased impaireds offset by write-offs and companies being upgraded. Impairment provisions up $37m
- Actual losses of $359m for 3Q12, a little below average of 1Q12 and 2Q12 of $371m
- Collective provisions of $2,844m down $65m, mostly from improved consumer portfolio. No change to economic overlay
- GRCL adjustment little changed at $158m ($13m lower)

1 Introduction of Basel 2.5 reduced capital ratios by 37bps.

Asset quality stable

- Stressed assets to TCE[1] down 1bp on 1H12 to 2.25% (down 23bps from 2H11)
  - Little change across all categories of Impaired, 90 days past due well secured and Watchlist & substandard
  - Small rise in the dollar value of stressed exposures (up $140m) offset by an increase in total committed exposures
- Impaired assets to TCE have remained the same since 1H12 (down 2bps from 2H11) at 60bps. The rate of companies moving to Impaired from Watchlist & substandard has been matched by write-offs and companies improving their position
- New and increased impaired assets in 3Q12 of $538m, similar to the quarterly average of 1H12
- Write-offs of individually assessed provisions of $189m for the quarter and $616m year to date
- Stressed assets in commercial property portfolio continue to decline, offset by a rise in stressed exposures in other sectors – mostly those that have been impacted by the strong $A and more cautious consumer behaviour, including manufacturing, and wholesale & retail trade
- Consumer asset quality continues to be very sound with reduced delinquencies

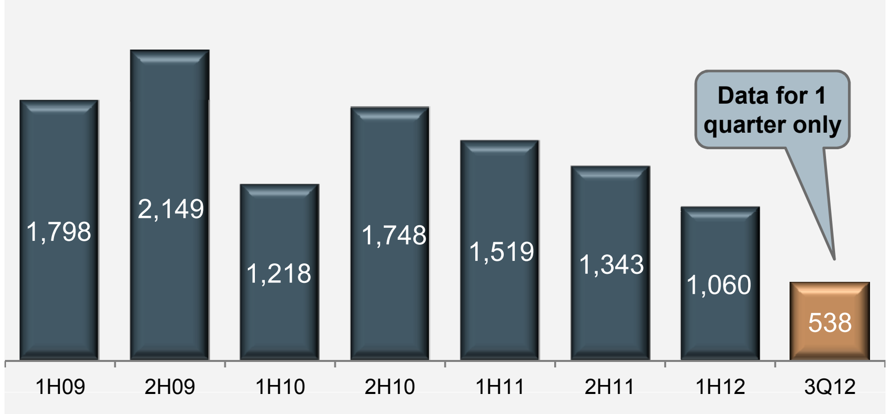
Stressed exposures as a % of TCE[1]



1 TCE is Total Committed Exposure.

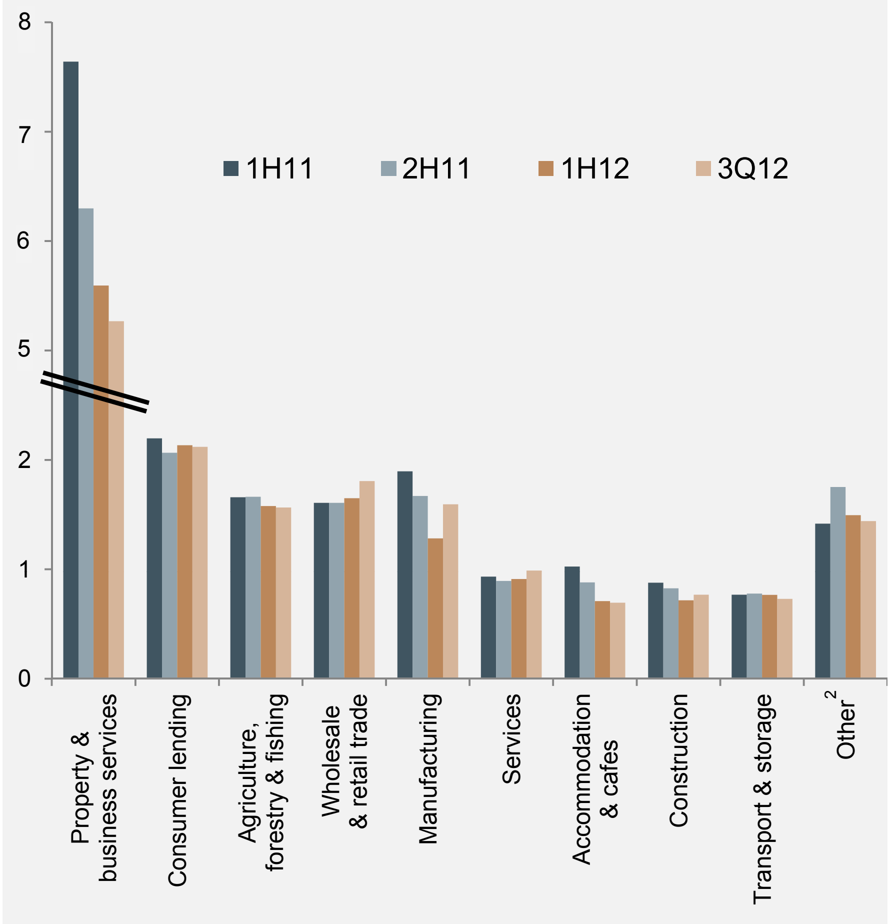
Stressed exposures stable; provisioning remains strong

New and increased gross impaired assets ($m)



Provisioning coverage ratios	1H11	2H11	1H12	3Q12
Collectively assessed provisions to credit RWA	138bps	126bps	122bps	**118bps**
Collectively assessed provisions to performing non-housing loans	182bps	169bps	164bps	**159bps**
Impairment provisions to impaired assets	42%	36%	38%	**39%**
Total provisions to gross loans	102bps	88bps	86bps	**85bps**

Stressed exposures[1] by industry ($bn)



1 Exposure is Total Committed Exposure. 2 Other includes Government, administration and defence, mining and utilities sectors.

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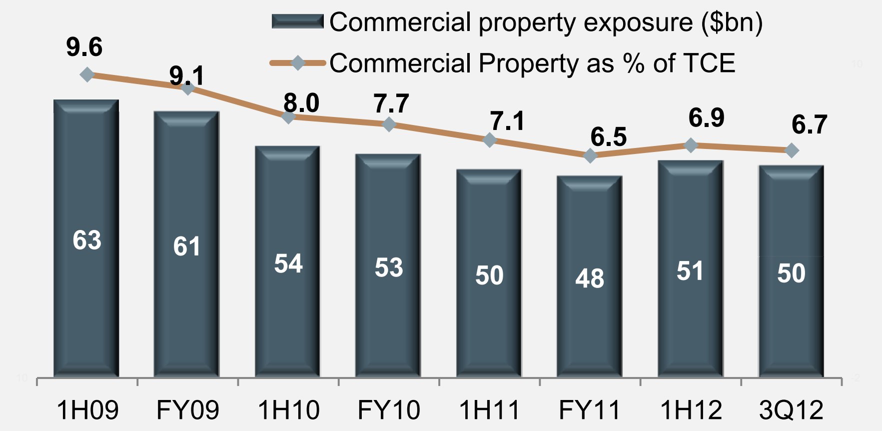
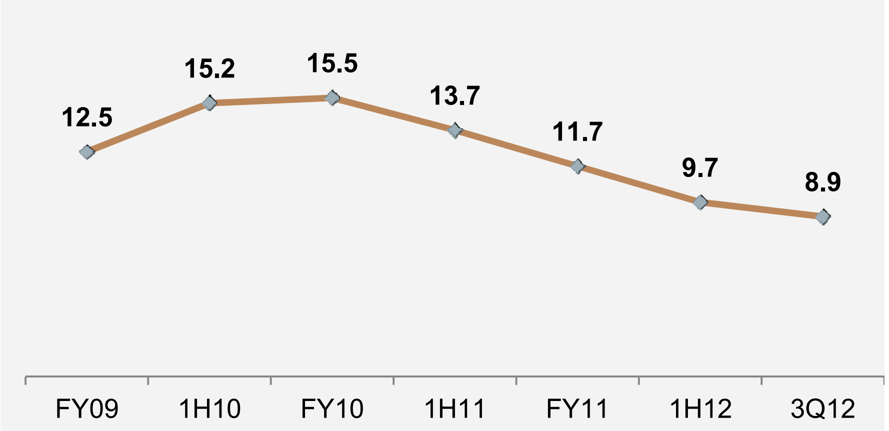
Commercial property exposures comfortably within appetite

- Commercial property represents 6.7% of TCE and 8.1% of gross lending at June 2012, down from peak of 10.0% and 13.0% respectively in December 2008
- Current level of commercial property is well within risk appetite. The portfolio is well diversified across: names; states; and sectors
- Credit performance of commercial property portfolio continues to improve with the percentage identified as stressed at 8.9%, down 80bps on 1H12
- No new large stress emerging with most activity focused on working out existing stressed exposures
- Appropriate provisioning with cover on individual facilities regularly reviewed
- Commercial Property definition is based on specific ANZSIC codes including: Office properties; Retail properties; Industrial properties; Land; Other residential properties; Tourism and leisure properties; and Other properties. This definition is broader than the Pillar 3 sub-asset class of Specialised Lending as this only includes facilities (with TCE in excess of $1m) where the primary source of debt service, security and repayment is derived from either the sale of a property development, or income produced by one or more investment properties. In Pillar 3, commercial property with multi-diversified income streams is included in the Corporate sub-asset class. Commercial property under $1m is included in the SME Retail sub-asset class

Commercial property exposures[1] size ($bn) and % of TCE



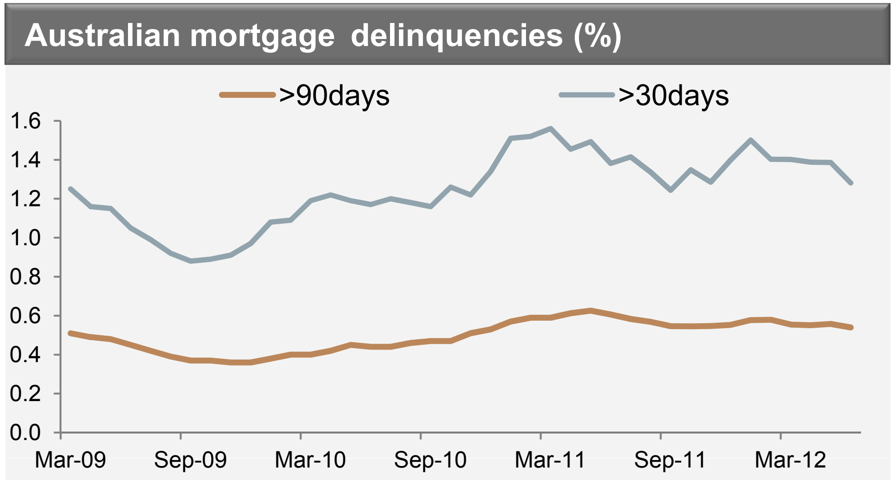
Commercial property, % of portfolio stressed[2]

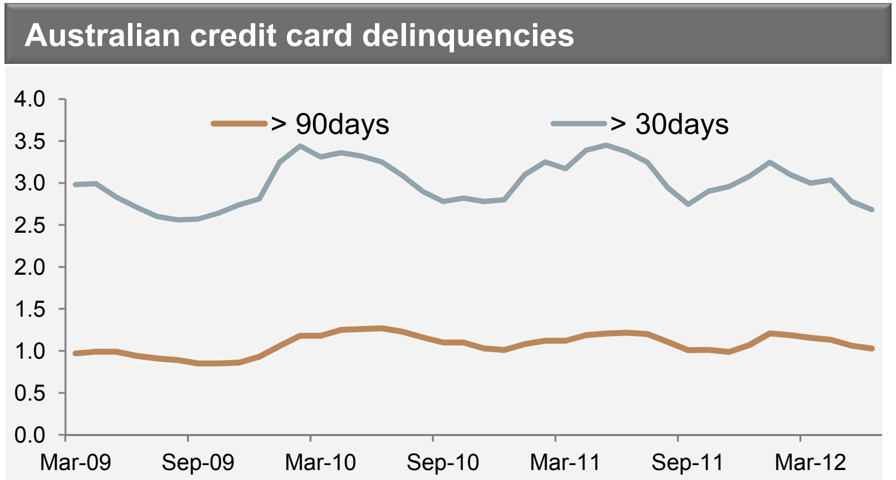


1 Exposure is Total Committed Exposure. 2 % of Commercial Property Total Committed Exposures classified as stressed.

Consumer asset quality continues to perform well

- Consumer asset quality continues to perform well given the low levels of unemployment and ongoing cautious consumer behaviour
- Mortgage 90+ day delinquencies little changed from March 2012 to June 2012 (down 1bp to 54bps). Early cycle delinquencies lower with 30+ day delinquencies down 12bps
- Delinquency trends consistent across all Australian States except for Queensland where the more challenging property market continues to impact
- Properties in possession down 111 to 387, as the Group continues to actively manage its stressed portfolio
- Credit card delinquencies also lower from March 2012. The fall has been due to the continuing consumer caution but is also consistent with seasonal trends





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Strong capital position

- Common equity ratio up 22bps to 8.18% over 3Q12 supported by good organic capital generation and normal dividends paid up from wealth entities
  - Common equity capital 2% higher
  - Risk weighted assets 1% lower

- Strength of capital position further supported by provisioning cover at the upper end of peers

- Total capital ratio down due to maturity of subordinated debt in 3Q12. Approximately $1.5bn in subordinated debt is being raised through Westpac Subordinated Notes which will be issued in August

Capital ratios (%)	2H11 (Basel II)	1H12 (Basel 2.5)	3Q12 (Basel 2.5)
Common equity ratio	8.1	8.0	**8.2**
Tier 1 ratio	9.7	9.8	**10.1**
Total capital ratio	11.0	10.8	**10.7**

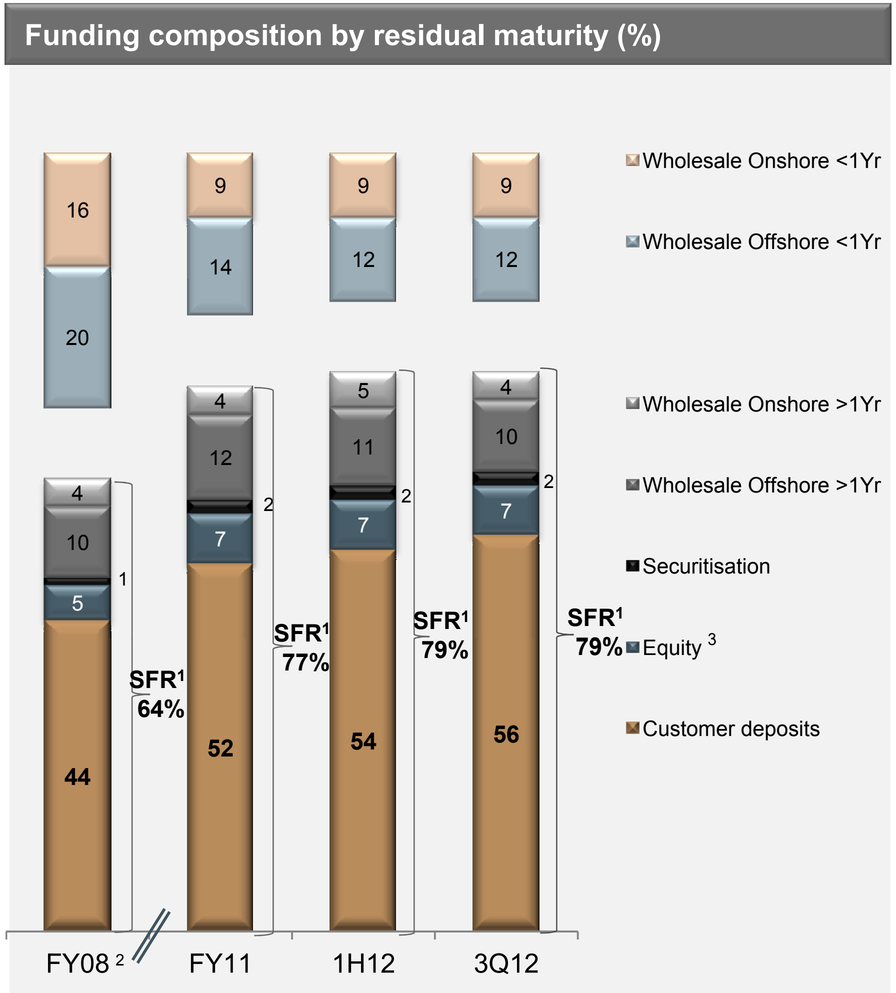
Strongly placed for new capital rules

Westpac is in a very strong capital position in the lead-up to the implementation of Basel III. In assessing appropriate capital levels the following are key considerations

Key considerations	Comment
Common equity ratio under APRA defined Basel III	Westpac's ratio is currently at upper end of peers
Common equity ratio fully harmonised to Basel III	Westpac's ratio is comfortably ahead of Australian peers. In top 10% of global peers
Provisioning cover	Upper end of peers for both individual and collectively assessed provisions
St.George tax consolidation/TOFA changes	Approximately 12bps in common equity capital to accrue over next 2 years
APRA minimum capital levels	Need to ensure the Group stays above minimums through the cycle (including capital conservation buffers) across various capital ratios: Common equity; Tier 1; and Total Capital
Finalisation of rules by APRA	Industry has a good understanding of capital rules and prudential capital ratios
Sector review of operational risk RWA underway	Westpac's new operational risk model has been accredited, including holding more RWA. Further increase in operational RWA likely for sector over time
Local systemically important banks	Awaiting APRA guidance
Volatility of capital ratios under Basel III	As dividends are not deducted from capital until paid, capital ratios are more volatile under Basel III. Volatility most evident in interim quarters
Stress testing	Ensuring sufficient capital to absorb possible adverse economic scenarios

Further rise in deposits enhances funding

- Stable Funding Ratio (SFR) remains strong at 79% for 3Q12
  - Deposit growth continued to more than fully fund loan growth over the quarter (and over the year to date)
  - Customer deposits as a percent of total funding at 56% up 2 percentage points over the quarter
  - Term funding proportion lower in 3Q12 as some deals reduced (scrolled in) below one year and limited new issuance
  - New term funding since 30 June 2012 of approximately $9bn
- Completed $28bn of term wholesale funding year to date, more than covering 2012 maturities of $27bn
- FY13 maturities more modest at $23bn
- Liquid asset balances little changed from 1H12



1 SFR is the stable funding ratio calculated on the basis of customer deposits + wholesale funding with residual maturity greater than 12 months + equity + securitisation, as a proportion of total funding. 2 2008 comparatives exclude St.George. 3 Equity excludes FX translation, Available for Sale Securities and Cash Flow Hedging Reserves.

Investor Relations Team

Equity Investor Relations

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

Leigh Short
Senior Manager
+61 2 8253 1667
lshort@westpac.com.au

Debt Investor Relations

Jacqueline Boddy
Senior Manager
+61 2 8253 3133
jboddy@westpac.com.au

Tanya Ward
Manager
+61 2 8253 1921
tanyaward@westpac.com.au

Retail Shareholder Investor Relations

Hugh Devine
Senior Manager
+61 2 8253 1047
hdevine@westpac.com.au

or email: investorrelations@westpac.com.au

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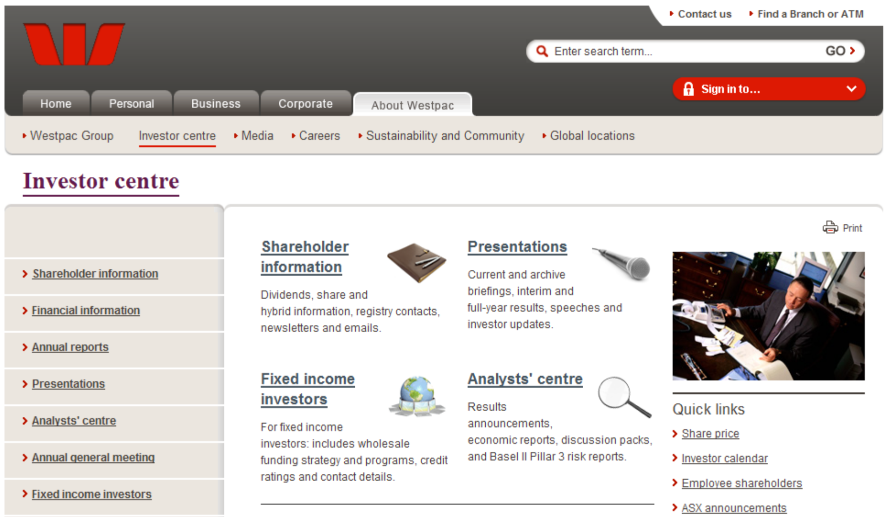

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