

# INTERIM FINANCIAL RESULTS 2014

INCORPORATING  
THE REQUIREMENTS  
OF APPENDIX 4D

STRENGTH

RETURN

GROWTH

PRODUCTIVITY

## RESULTS ANNOUNCEMENT TO THE MARKET

### ASX APPENDIX 4D

### RESULTS FOR ANNOUNCEMENT TO THE MARKET<sup>1</sup>

### REPORT FOR THE HALF YEAR ENDED 31 MARCH 2014<sup>2</sup>

Revenue from ordinary activities <sup>3,4</sup> (\$m)	up	7%	to	\$9,790
Profit from ordinary activities after tax attributable to equity holders <sup>4</sup> (\$m)	up	10%	to	\$3,622
Net profit for the period attributable to equity holders <sup>4</sup> (\$m)	up	10%	to	\$3,622
<b>Dividend Distributions (cents per ordinary share)</b>	Amount per security		Franked amount per security	
Interim Dividend	90		90	
Record date for determining entitlements to the dividend	16 May 2014 (Sydney) 15 May 2014 (New York)			

<sup>1</sup> This document comprises the Westpac Group interim results and is provided to the Australian Securities Exchange under Listing Rule 4.2A.

<sup>2</sup> This report should be read in conjunction with the Westpac Group Annual Report 2013 and any public announcements made in the period by the Westpac Group in accordance with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules.

<sup>3</sup> Comprises reported interest income, interest expense and non-interest income.

<sup>4</sup> All comparisons are with the reported results for the six months ended 31 March 2013.

# MEDIA RELEASE

5 May 2014

## WESTPAC GROUP DELIVERS A QUALITY RESULT WITH GOOD MOMENTUM

Westpac Group today announced statutory net profit for the six months to 31 March 2014 of \$3,622 million, up 10% on the prior corresponding period (six months to 31 March 2013).

Highlights of the result included<sup>1</sup>:

- Cash Earnings per share of 121.3 cents, up 7%;
- Cash Earnings of \$3,772 million, up 8%;
- Core earnings<sup>2</sup> of \$5,794 million, up 5%;
- Cash return on equity (ROE) of 16.5%, up 43 basis points (bps);
- Interim fully franked dividend of 90 cents per share, up 4 cents or 5%;
- Sector leading expense to income ratio of 41.2%;
- Common equity tier 1 capital ratio of 8.82%; and
- Significant progress against all elements of the Group's strategic priorities.

Westpac Group Chief Executive Officer, Gail Kelly, said the result was driven by a strong operating performance from each division, supported by a further improvement in asset quality: "I am pleased with this result and the momentum we have built across the Group. It is a strong performance and reflects the consistent execution of our strategy, which has customers at its centre.

"Our balance sheet is strong, and we have sector leading positions in capital, credit quality and in productivity. This enables us to further support customers as we tilt towards growth. Over the past six months we have provided more than \$41 billion in new lending to Australian retail and business customers.

"Customer numbers have grown across all our major brands, and relationships have deepened further. In particular, we are increasingly able to support our customers with long term investment and retirement solutions and with products to protect their assets.

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<sup>1</sup> All comparisons are against the prior corresponding period (six months to 31 March 2013) and reported on a cash earnings basis unless otherwise stated.

<sup>2</sup> Core earnings are operating profit before income tax and impairment charges.

“We continue to invest significantly in the future, including around \$500 million invested over the half for the long term benefit of the business. Westpac is responding proactively and strongly to digitisation, and we have delivered a range of new products and services to meet customers’ changing needs. We will continue to innovate and invest in this area to deliver even more convenience for customers.

“This is part of our commitment to building a more customer-centric organisation, while simplifying our business and generating strong returns for shareholders.”

Mrs Kelly said the Group had made significant progress in delivering its strategic priorities during the first half, including:

- Developing new technology to enhance the customer experience. This includes launching Westpac’s new Australian online banking platform, new contactless payments functionality for Samsung Galaxy and Note devices, and the first stage of the BT Panorama investment platform. A more advanced merchant terminal fleet with WiFi and 3G capability that provides greater functionality and flexibility for businesses, is being progressively rolled out. We will also continue to implement additional online and mobile solutions to make managing finances easier for business and retail customers;
- Continuing the transformation of the branch network with a further 17 Westpac Bank Now and 54 St.George FreshStart branches opened or upgraded during the period. Westpac’s Connect Now and St.George’s Business Connect are progressively rolling out, enabling small businesses to connect with bankers and specialists via video technology. The Group is also enabling customers to bank anywhere, anytime through more Smart ATMs being available 24 hours a day, 7 days a week;
- Ensuring strong banking and wealth alignment, resulting in the highest number of customers with a wealth product across the industry<sup>1</sup>. Around 20% of Australian Financial Services customers now have at least one wealth product, with Westpac Retail & Business Banking at 21.9% and St.George the fastest growing in the market, at 16.1%;
- Progressing well on our Asian strategy, which included receiving General Derivatives Licences for Westpac’s Shanghai and Beijing branches, and being one of the first Australian banks to be granted initial approval to establish a sub-branch in the Shanghai Free Trade Zone. Westpac has also established a lead position in Australian dollar/Chinese Yuan trading and was recently granted one of the first New Zealand dollar/Chinese Yuan market maker’s licences;
- Building on our productivity and simplification program, with \$102 million in efficiencies delivered during the half. This included simplifying product offerings and streamlining processes to improve customer service, such as our sixty minute home loan approvals in St.George;
- Completing the acquisition of selected Australian businesses from Lloyds, with the corporate loan and equipment finance books adding around \$1.3 billion to the Westpac Institutional Bank portfolio, and contributing \$6.3 billion (or 4%) to St.George lending. The businesses are performing well and integration is progressing smoothly. The businesses have contributed \$20 million to Cash Earnings since deal completion on 31 December; and
- Being named the World’s Most Sustainable Company by the Global 100 at the Davos World Economic Forum in January 2014.

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<sup>1</sup> Based on Roy Morgan research.

### CAPITAL POSITION AND DIVIDENDS

Mrs Kelly said the Group's common equity tier 1 capital ratio of 8.82% is the strongest in the sector.

"We have a market leading capital position that enables us to strike the right balance between providing additional value to shareholders and remaining appropriately conservative to invest in future growth," she said.

The strength of capital, and the quality of the result, enabled the Board to increase the fully franked interim dividend 4 cents per share (cps) on the prior corresponding period and 2 cps against the prior half, to 90 cps.

"We are pleased to continue to provide strong returns directly to our approximately 585,000 shareholders. Today's dividend represents a payout ratio of 74%, demonstrating our commitment to return a high portion of earnings to our owners," Mrs Kelly said.

In December 2013, APRA announced an additional one percentage point buffer to regulatory requirements to be applied to Domestic Systemically Important Banks (D-SIBs). The Group will finalise its new preferred capital range in the second half of 2014. The Group's strong common equity tier 1 capital ratio positions it well for the change.

Given this strong position, the Group intends to arrange for the purchase of shares on market to satisfy the Dividend Reinvestment Plan (DRP) for the 2014 interim dividend.

Westpac is also considering the issuance of a new Additional Tier 1 capital security, should market conditions remain conducive.

### FINANCIAL HIGHLIGHTS

Other key aspects of the first half result, compared to the prior corresponding period include:

- Net interest income of \$6,677 million, up 4%, with a 7% rise in average interest-earning assets and an 8 bps decrease in margins to 2.11% (margins declined a more modest 1 bp against the prior period). The decline in margins principally reflects more intense competition, in particular in the Institutional and New Zealand businesses;
- Australian housing loans increased 5%, with AFS mortgage growth at 0.9x system in the March quarter. Personal lending rose by 21%, and business lending increased by 5%, including the contribution from the Lloyds acquisition. Group-wide, customer deposits increased \$29 billion to \$389 billion, up 8%;
- An expense to income ratio of 41.2%, which is sector leading;
- Non-interest income of \$3,182 million, a 9% increase, driven largely by the wealth business; and
- Impairment charges were \$97 million lower, consistent with the Group's high quality portfolio. Economic overlays were slightly higher. Stressed assets have continued to decrease and the incidence of new impaired facilities has also declined.

DIVISIONAL PERFORMANCE: 1H14 CASH EARNINGS<sup>1</sup>

Cash Earnings (\$million)	1H14	2H13	1H13	% increase 2H13- 1H14	% increase 1H13- 1H14
<b>Australian Financial Services</b>	2,461	2,324	2,196	6	12
Westpac Retail & Business Banking	1,251	1,213	1,142	3	10
St.George Banking Group	772	701	691	10	12
BT Financial Group	438	410	363	7	21
<b>Westpac Institutional Bank</b>	752	790	785	(5)	(4)
<b>New Zealand (NZ\$)</b>	432	400	368	8	17

**Australian Financial Services**

*Australian Financial Services* delivered strong Cash Earnings, up 12%, supported by improved growth, solid margins, lower impairment charges and disciplined expense control.

*Westpac Retail and Business Bank* generated Cash Earnings of \$1,251 million, up 10%. The pick-up in loan growth through the period, combined with a disciplined management of margins, contributed to an 8% increase in core earnings. With cost growth held to 3%, the expense to income ratio showed continued improvement, down 108 bps. Impairment charges were 7% lower, consistent with a further improvement in the division's already high quality portfolio.

*St.George Banking Group* delivered Cash Earnings of \$772 million, up 12%. All of the division's brands – St.George, BankSA, Bank of Melbourne and RAMS – contributed positively to the result. Revenue was supported by good momentum across the business, including an increase in MyBank customers, a further increase in the number of customers with wealth products, and sound balance sheet growth. Consistent with the improvement in asset quality, impairment charges were significantly lower, down 11%.

*BT Financial Group* grew Cash Earnings 21% and generated a 17% increase in revenue, from higher Funds Under Management (FUM) and Funds Under Administration (FUA) (up 25% and 12% respectively) and performance fees. Insurance earnings were also higher, supported by a further uplift in gross written premiums and lower general insurance claims. BT Financial Group maintained its strong market position. It is ranked number 1 on all Platforms, with FUA share of 19.7%. It also remains number 1 on Retail Super (excluding cash), with 18.5% FUA, and number 3 ranking on Corporate Super with a 14.2% share of FUA<sup>2</sup>.

**Westpac Institutional Bank**

*Westpac Institutional Bank* delivered Cash Earnings of \$752 million, down \$33 million or 4%. The lower result was principally due to the impact of items that boosted 2013 earnings. These included a \$20 million CVA benefit in the first half of 2013 and significant revenue in the same period from the exit of listed infrastructure funds. Without these impacts, the division's Cash Earnings increased by 3% against the prior corresponding period and 7% against the prior period, supported by higher customer revenue and a strong performance from the markets businesses. WIB made good progress on its strategy during the half, particularly in Asia where it increased revenue 40% (in US dollar terms), and maintained its leading position in institutional banking in Australia and New Zealand.

<sup>1</sup> All comparisons in the commentary are to the prior corresponding period unless otherwise stated.

<sup>2</sup> Source: Plan for Life Quarterly Data System (December 2013).

### ***Westpac New Zealand***

*Westpac New Zealand* delivered a 17% increase in Cash Earnings, to NZ\$432 million. While loan and deposit growth have increased 6% and 8% respectively, intense competition and a customer preference for fixed rate mortgages has seen margins compress, contributing to 1% growth in revenue on the same period last year. Expenses were well managed in the period due to the division's simplification program. A further improvement in both business and consumer asset quality contributed to much lower impairment charges.

### OUTLOOK

Mrs Kelly said that the world economy had generally improved in recent times with Europe pulling out of recession and the United States slowly moving towards trend growth. Partly offsetting that more positive environment was a deceleration in growth in China (although we expect China's growth rate to settle comfortably above 7%).

In Australia, while households remain cautious, the pace of their spending growth has lifted somewhat and confidence has trended higher. Housing markets have responded well to low interest rates and housing construction is likely to provide a boost to economic activity over the next few years.

"We have recently seen signs of increased customer activity and expect the economy to gradually improve throughout the remainder of 2014," Mrs Kelly said.

An improving trend in the business sector is also beginning to emerge. Although the slowdown in mining investment is well underway, business confidence and conditions outside the mining sector appear to have passed the lows in the investment and borrowing cycles. On these trends, it is reasonable to expect a sustained, albeit modest, lift in business activity over the course of the remainder of this year and next year.

Mrs Kelly said that she was positive about the second half for the Westpac Group: "Our focus on tilting to growth is delivering, and this is expected to continue into the second half of the year. We also expect to see further benefits from our simplification and productivity programs.

"Shareholders can expect a consistent focus on the disciplined execution of our strategy. We have a strong team, a high quality franchise and the right strategy to deliver returns for customers and shareholders alike," she said.

For further information

Samantha Stevens  
Westpac Media Relations  
Ph: 02 8219 8512  
Mob: 0400 693 915

Andrew Bowden  
Westpac Investor Relations  
Ph: 02 8253 4008  
Mob: 0438 284 863



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In this announcement references to 'Westpac', 'WBC', 'Westpac Group', 'the Group', 'we', 'us' and 'our' are to Westpac Banking Corporation and its controlled entities, unless it clearly means just Westpac Banking Corporation.

In this announcement references to 'St.George' refer to the division and its brands namely: 'St.George Bank', 'Bank of Melbourne', 'BankSA', and 'RAMS' unless it clearly means just the St.George Bank brand.

In this announcement references to 'Lloyds' refer to the acquisition of select Australian businesses of Lloyds Banking Group, including Capital Finance Australia Limited and BOS International (Australia) Ltd.

All references to \$ in this document are to Australian dollars unless otherwise stated.

### Financial Calendar

Ex-dividend date for interim dividend	14 May 2014
Record date for interim dividend (Sydney)	16 May 2014
Interim dividend payable	2 July 2014
Final results announcement	3 November 2014
Ex-dividend date for final dividend	10 November 2014
Record date for final dividend (Sydney)	12 November 2014
Final dividend payable	19 December 2014

**INTERIM RESULTS 2014**  
**GROUP RESULTS**  
**REPORTED RESULTS**

1.0 GROUP RESULTS

1.1 Reported Results

Reported net profit attributable to owners of Westpac Banking Corporation (WBC) is prepared in accordance with the requirements of Australian Accounting Standards (AAS) and regulations applicable to Australian Authorised Deposit-taking Institutions (ADIs).

				% Mov't <sup>1</sup>	% Mov't <sup>1</sup>
\$m	Half Year March 14	Half Year Sept 13	Half Year March 13	Mar 14- Sept 13	Mar 14- Mar 13
Net interest income	6,639	6,529	6,292	2	6
Non-interest income	3,151	2,896	2,878	9	9
Net operating income before operating expenses and impairment charges	9,790	9,425	9,170	4	7
Operating expenses	(4,195)	(4,043)	(3,933)	(4)	(7)
<b>Net profit before impairment charges and income tax expense</b>	<b>5,595</b>	<b>5,382</b>	<b>5,237</b>	<b>4</b>	<b>7</b>
Impairment charges	(341)	(409)	(438)	17	22
<b>Profit before income tax</b>	<b>5,254</b>	<b>4,973</b>	<b>4,799</b>	<b>6</b>	<b>9</b>
Income tax expense	(1,595)	(1,470)	(1,477)	(9)	(8)
<b>Net profit for the period</b>	<b>3,659</b>	<b>3,503</b>	<b>3,322</b>	<b>4</b>	<b>10</b>
Profit attributable to non-controlling interests	(37)	(39)	(35)	5	(6)
<b>NET PROFIT ATTRIBUTABLE TO OWNERS OF WESTPAC BANKING CORPORATION</b>	<b>3,622</b>	<b>3,464</b>	<b>3,287</b>	<b>5</b>	<b>10</b>

Net profit attributable to owners for First Half 2014 was \$3,622 million, an increase of \$335 million or 10% compared to First Half 2013. Features of this result include a 7% increase in net operating income and a 22% reduction in impairment charges.

The result includes the acquisition of select Australian businesses of Lloyds Banking Group from 31 December 2013.

Net interest income increased \$347 million or 6% compared to First Half 2013 reflecting lending growth of 8%, partly offset by a decrease in net interest margin of 4 basis points. The reduction in net interest margin reflects reduced Treasury income, lower returns on non-interest earning liabilities and capital and the impact of holding higher levels of liquid assets. Net interest income is discussed in more detail in Section 2.2.1.

Non-interest income increased \$273 million or 9% compared to First Half 2013 reflecting growth in wealth management income, insurance income and fees and commission income. Non-interest income is discussed further in Section 2.2.2.

Operating expenses increased \$262 million or 7% compared to First Half 2013 due to foreign exchange translation impacts, operating and integration costs associated with the Lloyds acquisition and higher software amortisation and personnel costs from investment in the business. Operating expenses are discussed further in Section 2.2.3.

Impairment charges decreased \$97 million or 22% compared to First Half 2013 reflecting continued improvements in asset quality with further reductions in stressed exposures. Australian Financial Services (AFS), Westpac Institutional Bank (WIB) and Westpac New Zealand all recorded lower impairment charges, whilst economic overlays were slightly higher this half. Impairment charges are discussed further in Section 2.2.4.

The effective tax rate was 30.4% in First Half 2014 compared to 30.8% in First Half 2013. This decrease was largely due to higher deductible expenses related to employee share schemes. Income tax expense is discussed further in Section 2.2.5.

<sup>1</sup> Percentage movement represents favourable/(unfavourable) variances to the relevant comparative period.

**INTERIM RESULTS 2014**  
**GROUP RESULTS**  
**REPORTED RESULTS**

1.2 Reported Balance Sheet

\$m	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013	%Mov't Mar 14- Sept 13	%Mov't Mar 14- Mar 13
<b>Assets</b>					
Cash and balances with central banks	16,375	11,699	6,600	40	148
Receivables due from other financial institutions	8,744	11,210	12,580	(22)	(30)
Trading securities, other financial assets designated at fair value and available-for-sale securities	79,392	79,100	76,664	-	4
Derivative financial instruments	26,207	28,356	29,323	(8)	(11)
Loans	564,569	536,164	521,130	5	8
Life insurance assets	12,841	13,149	12,895	(2)	-
Other assets	21,247	21,419	22,686	(1)	(6)
<b>Total assets</b>	<b>729,375</b>	<b>701,097</b>	<b>681,878</b>	<b>4</b>	<b>7</b>
<b>Liabilities</b>					
Payables due to other financial institutions	15,211	8,836	8,043	72	89
Deposits and other borrowings	437,405	424,482	403,406	3	8
Trading liabilities and other financial liabilities at fair value through income statement	15,077	10,302	8,833	46	71
Derivative financial instruments	31,330	32,990	34,081	(5)	(8)
Debt issues	150,098	144,133	144,303	4	4
Life insurance liabilities	11,594	11,938	11,794	(3)	(2)
Loan capital	10,320	9,330	10,880	11	(5)
Other liabilities	10,309	11,549	13,301	(11)	(22)
<b>Total liabilities</b>	<b>681,344</b>	<b>653,560</b>	<b>634,641</b>	<b>4</b>	<b>7</b>
<b>Equity</b>					
Total equity attributable to owners of Westpac Banking Corporation	47,165	46,674	45,260	1	4
Non-controlling interests	866	863	1,977	-	(56)
<b>Total equity</b>	<b>48,031</b>	<b>47,537</b>	<b>47,237</b>	<b>1</b>	<b>2</b>

**INTERIM RESULTS 2014**  
**GROUP RESULTS**  
**REPORTED RESULTS**

1.3 Key Financial Data

	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>Shareholder Value</b>					
Earnings per ordinary share (cents)	116.8	111.9	106.5	4	10
Weighted average ordinary shares (millions) <sup>1</sup>	3,098	3,090	3,083	-	-
Fully franked dividends per ordinary share (cents)	90	88	86	2	5
Fully franked special dividend per ordinary share (cents)	-	10	10	(100)	(100)
Return on average ordinary equity	15.82%	15.40%	15.04%	42bps	78bps
Average ordinary equity (\$m)	45,907	44,866	43,831	2	5
Average total equity (\$m)	46,770	46,842	45,799	-	2
Net tangible asset per ordinary share (\$)	11.13	11.09	10.73	-	4
<b>Productivity and efficiency</b>					
Expense to income ratio	42.8%	42.9%	42.9%	5bps	4bps
<b>Business performance</b>					
Interest spread	1.90%	1.93%	1.88%	(3bps)	2bps
Benefit of net non-interest bearing assets, liabilities and equity	0.19%	0.21%	0.25%	(2bps)	(6bps)
Net interest margin	2.09%	2.14%	2.13%	(5bps)	(4bps)
Average interest-earning assets (\$m)	635,657	608,153	591,539	5	7
	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>Capital adequacy ratio (%)</b>					
Common equity Tier 1 capital ratio					
- APRA Basel III	8.82%	9.10%	8.74%	(28bps)	8bps
- Internationally fully harmonised Basel III <sup>2</sup>	11.26%	11.56%	11.40%	(30bps)	(14bps)
Credit risk weighted assets (RWA) (\$bn)	272.0	260.3	253.7	4	7
Total risk weighted assets (RWA) (\$bn)	322.5	307.4	308.0	5	5
	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>Asset quality</b>					
Total impaired assets to gross loans	0.51%	0.67%	0.82%	16bps	31bps
Total impaired assets to equity and total provisions	5.6%	7.0%	8.3%	142bps	275bps
Total impaired asset provisions to total impaired assets	46.4%	43.2%	40.2%	327bps	large
Total stressed exposures as a % of total committed exposures	1.37%	1.60%	1.94%	23bps	57bps
Total provisions to gross loans	67bps	73bps	80bps	(6bps)	(13bps)
Collectively assessed provisions to performing non-housing loans <sup>3</sup>	134bps	142bps	151bps	(8bps)	(17bps)
Mortgages 90 days past due	0.48%	0.51%	0.57%	3bps	9bps
Other consumer loans 90 days past due	1.12%	1.04%	1.30%	(8bps)	18bps
Collectively assessed provisions to credit RWA	97bps	99bps	106bps	(2bps)	(9bps)
	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>Other information</b>					
Total committed exposures (TCE) (\$bn)	844.0	809.3	768.4	4	10

<sup>1</sup> Weighted average number of fully paid ordinary shares listed on the ASX for the relevant period less Westpac shares held by the Group ("Treasury shares").

<sup>2</sup> International fully harmonised Basel III common equity Tier 1 capital ratio is Westpac's estimated ratio applying the Basel Committee on Banking Supervision's (BCBS) fully harmonised approach. The main differences between APRA's Basel III and fully harmonised Basel III under BCBS are that APRA requires 100% deductions from common equity Tier 1 capital for certain items (deferred tax assets, investments in non-consolidated subsidiaries and equity investments) rather than risk weighted asset treatment if individually these items are below prescribed thresholds, applies higher mortgage risk weights than the BCBS, and applies a risk weighted asset requirement to Interest Rate Risk in the Banking Book (IRRBB).

<sup>3</sup> Non-housing loans have been determined on a loan purpose basis.

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1.4 Cash Earnings Results

Throughout this results announcement, reporting and commentary of financial performance for First Half 2014, Second Half 2013 and First Half 2013 will refer to "Cash Earnings results", unless otherwise stated.

\$m	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14- Sept 13	%Mov't Mar 14- Mar 13
Net interest income	6,677	6,467	6,445	3	4
Non-interest income	3,182	3,011	2,910	6	9
Net operating income	9,859	9,478	9,355	4	5
Operating expenses	(4,065)	(3,935)	(3,824)	(3)	(6)
<b>Core earnings</b>	<b>5,794</b>	<b>5,543</b>	<b>5,531</b>	<b>5</b>	<b>5</b>
Impairment charges	(341)	(409)	(438)	17	22
<b>Operating profit before income tax</b>	<b>5,453</b>	<b>5,134</b>	<b>5,093</b>	<b>6</b>	<b>7</b>
Income tax expense	(1,643)	(1,539)	(1,549)	(7)	(6)
<b>Net profit</b>	<b>3,810</b>	<b>3,595</b>	<b>3,544</b>	<b>6</b>	<b>8</b>
Net profit attributable to non-controlling interests	(38)	(40)	(36)	5	(6)
<b>Cash Earnings</b>	<b>3,772</b>	<b>3,555</b>	<b>3,508</b>	<b>6</b>	<b>8</b>

1.4.1 Key Financial Information

	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>Shareholder Value</b>					
Cash Earnings per ordinary share (cents)	121.3	114.5	113.3	6	7
Economic profit (\$m)	2,250	2,020	2,048	11	10
Weighted average ordinary shares (millions) - Cash Earnings <sup>1</sup>	3,109	3,104	3,096	-	-
Dividend payout ratio - Cash Earnings <sup>2</sup>	74.2%	77.0%	76.1%	(278bps)	(192bps)
Cash Earnings return on average ordinary equity	16.48%	15.80%	16.05%	68bps	43bps
Cash Earnings return on average tangible ordinary equity	21.40%	20.61%	21.13%	79bps	27bps
Average ordinary equity (\$m)	45,907	44,866	43,831	2	5
Average tangible ordinary equity (\$m) <sup>3</sup>	35,350	34,399	33,298	3	6
<b>Productivity and efficiency</b>					
Expense to income ratio - Cash Earnings	41.2%	41.5%	40.9%	29bps	(35bps)
Total banking expense to income ratio - Cash Earnings	40.0%	40.6%	39.4%	63bps	(58bps)
Full time equivalent employees (FTE)	36,494	35,597	36,000	3	1
Revenue per FTE (\$ '000's)	274	265	260	3	5
<b>Business performance</b>					
Interest spread	1.91%	1.90%	1.94%	1bps	(3bps)
Benefit of net non-interest bearing assets, liabilities and equity	0.20%	0.22%	0.25%	(2bps)	(5bps)
Net interest margin	2.11%	2.12%	2.19%	(1bps)	(8bps)
Average interest-earning assets (\$m)	635,657	608,153	591,539	5	7
Customer return on credit RWA	4.03%	4.00%	3.96%	3bps	7bps
Effective tax rate	30.1%	30.0%	30.4%	(15bps)	28bps
<b>Impairment Charges</b>					
Impairment charges to average loans annualised	12bps	15bps	17bps	3bps	5bps
Net write-offs to average loans annualised	22bps	29bps	21bps	7bps	(1bps)

<sup>1</sup> Weighted average ordinary shares – Cash Earnings – weighted average number of fully paid ordinary shares listed on the ASX for the relevant period.

<sup>2</sup> Excludes special dividend.

<sup>3</sup> Average tangible ordinary equity is calculated as average ordinary equity less average goodwill and other intangible assets (excluding capitalised software).

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**Cash Earnings Policy**

In assessing financial performance, including divisional results, Westpac Group uses a measure of performance referred to as "Cash Earnings". Cash Earnings is not a measure of cash flow or net profit determined on a cash accounting basis, as it includes non-cash items reflected in net profit determined in accordance with AAS. The specific adjustments outlined below include both cash and non-cash items. Cash Earnings, as calculated by the Westpac Group, is viewed as a measure of the level of profit that is generated by ongoing operations and is therefore available for distribution to shareholders.

Management believes this allows the Group to more effectively assess performance for the current period against prior periods and to compare performance across business divisions and across peer companies.

Three categories of adjustments are made to reported results to determine Cash Earnings:

- Material items that key decision makers at the Westpac Group believe do not reflect ongoing operations;
- Items that are not considered when dividends are recommended, such as the amortisation of intangibles, impact of Treasury shares and economic hedging impacts; and
- Accounting reclassifications between individual line items that do not impact reported results, such as policyholder tax recoveries<sup>1</sup>.

**Reconciliation of Reported Results to Cash Earnings**

\$m	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14- Sept 13	% Mov't Mar 14- Mar 13
<b>NET PROFIT ATTRIBUTABLE TO OWNERS OF WESTPAC BANKING CORPORATION</b>	<b>3,622</b>	<b>3,464</b>	<b>3,287</b>	<b>5</b>	<b>10</b>
TPS revaluations	-	1	8	(100)	(100)
Treasury shares	13	13	29	-	(55)
Ineffective hedges	17	3	(23)	large	174
Fair value gain/(loss) on economic hedges	46	(36)	57	large	(19)
Buyback of government guaranteed debt	(30)	-	43	-	(170)
Fair value amortisation of financial instruments	9	35	32	(74)	(72)
Amortisation of intangible assets	70	75	75	(7)	(7)
Acquisition transaction and integration expenses	25	-	-	-	-
<b>Total Cash Earnings adjustments (post-tax)</b>	<b>150</b>	<b>91</b>	<b>221</b>	<b>65</b>	<b>(32)</b>
<b>Cash Earnings</b>	<b>3,772</b>	<b>3,555</b>	<b>3,508</b>	<b>6</b>	<b>8</b>

Outlined below are the Cash Earnings adjustments to the reported result:

- **TPS revaluations** – This adjustment related to TPS 2003 securities which were redeemed on 30 September 2013. Historically this adjusted for movements in economic hedges, including associated tax effects impacting the foreign currency translation reserve, relating to hybrid instruments classified as non-controlling interests. The adjustment was required as these hybrid instruments were not fair valued, however, the hedges were fair valued and therefore there was a mismatch in the timing of income recognition in the reported results. The mismatch was added back to reported results in deriving Cash Earnings as it did not affect the Group's profits over time;
- **Treasury shares** – Under AAS, Westpac shares held by the Group in the managed funds and life businesses are deemed to be Treasury shares and the results of holding these shares are not permitted to be recognised as income in the reported results. In deriving Cash Earnings, these results are included to ensure there is no asymmetrical impact on the Group's profits because the Treasury shares support policyholder liabilities and equity derivative transactions which are re-valued in determining income;
- **Ineffective hedges** – The gain/(loss) on ineffective hedges is reversed in deriving Cash Earnings for the period because the gain or loss arising from the fair value movement in these hedges reverses over time and does not affect the Group's profits over time;

<sup>1</sup> Policyholder tax recoveries – Income and tax amounts that are grossed up to comply with the AAS accounting standard covering Life Insurance Business (policyholder tax recoveries) are reversed in deriving income and taxation expense on a Cash Earnings basis.

- Fair value gain/(loss) on economic hedges (which do not qualify for hedge accounting under AAS) comprises:
  - The unrealised fair value gain/(loss) on foreign exchange hedges of future New Zealand earnings impacting non-interest income is reversed in deriving Cash Earnings as they may create a material timing difference on reported results but do not affect the Group's Cash Earnings during the life of the hedge;
  - The unrealised fair value gain/(loss) on foreign exchange hedges of fees payable for the use of the Government guarantee on foreign denominated wholesale funding is reversed in deriving Cash Earnings as they may create a material timing difference on reported results but do not affect the Group's Cash Earnings during the life of the hedge; and
  - The unrealised fair value gain/(loss) on hedges of accrual accounted term funding transactions are reversed in deriving Cash Earnings as they may create a material timing difference on reported results but do not affect the Group's Cash Earnings during the life of the hedge.
- Gain/(loss) on buyback of Government guaranteed debt – The Group has bought back certain Government guaranteed debt issues which reduces Government guarantee fees (70 basis points) paid. In undertaking the buybacks, a cost was incurred reflecting the difference between current interest rates and the rate at which the debt was initially issued. In the reported result the cost incurred is recognised at the time of the buyback. In Cash Earnings, the cost incurred is being amortised over the original term of the debt that was bought back consistent with a 70 basis point saving being effectively spread over the remaining life of the issue. The Cash Earnings adjustment gives effect to the timing difference between reported results and Cash Earnings;
- The accounting for the merger with St.George resulted in the recognition of fair value adjustments on the St.George retail bank loans, deposits, wholesale funding and associated hedges, with these fair value adjustments being amortised over the life of the underlying transactions. The amortisation of these adjustments is considered to be a timing difference relating to non-cash flow items that do not affect cash distributions available to shareholders and therefore, have been treated as a Cash Earnings adjustment;
- Amortisation of intangible assets - the merger with St.George and the acquisitions of J O Hambro Capital Management (JOHCM) and Lloyds resulted in the recognition of identifiable intangible assets. These assets include intangibles related to core deposits, customer relationships, management contracts and distribution relationships. These intangible items are amortised over their useful lives, ranging between four and twenty years. The amortisation of intangible assets (excluding capitalised software) is a Cash Earnings adjustment because it is a non-cash flow item and does not affect cash distributions available to shareholders; and
- Acquisition, transaction and integration expenses - costs associated with the acquisition of Lloyds have been treated as a Cash Earnings adjustment as they do not impact the earnings expected from the acquired businesses following the integration period.

#### Revision of 2013 results

Following the adoption of new or revised accounting standards this period, there have been a number of comparative restatements to reported results and Cash Earnings:

- Defined benefits – amendments to AASB 119 *Employee Benefits* resulted in an increase to defined benefits expense (Second Half 2013 \$25 million; First Half 2013 \$24 million), reduced income tax expense (Second Half 2013 \$8 million; First Half 2013 \$7 million), reduced other liabilities (Second Half 2013 \$61 million; First Half 2013 \$61 million), reduced other assets (Second Half 2013 \$18 million; First Half 2013 \$18 million), increased retained profits (Second Half 2013 \$43 million; First Half 2013 \$43 million) and higher expense to income ratio (Second Half 2013 26 basis points; First Half 2013 26 basis points). This adjustment impacted both reported results and Cash Earnings;
- Consolidation – adoption of AASB10 *Consolidated Financial Statements* and associated standards increased life insurance assets and life insurance liabilities (September 2013 \$4,512 million; March 2013 \$4,387 million); and
- Own credit – early adoption of part of AASB 9 *Financial Instruments* resulted in a reduction in net interest income (Second Half 2013 \$44 million), reduction in income tax expense (Second Half 2013 \$13 million), reduction in other liabilities (September 2013 \$13 million) and increased retained profits (September 2013 \$13 million). This restatement impacted reported results, but did not impact Cash Earnings.



The guidance provided in Australian Securities and Investments Commission Regulatory Guide 230 has been followed when presenting this information.

PricewaterhouseCoopers has reviewed the financial statements contained within the Westpac 2014 Interim Financial Report and has issued an unqualified review report. The half year results announcement has not been subject to review by PricewaterhouseCoopers. The financial information contained in this Interim Results Announcement includes financial information extracted from the reviewed financial statements together with financial information that has not been reviewed. The Cash Earnings disclosed as part of this Interim results announcement have not been separately reviewed, however are consistent with the financial information included in Note 9 of the reviewed 2014 Interim Financial Report.

**INTERIM RESULTS 2014**  
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1.5 Market Share and System Multiple Metrics

1.5.1 Market Share

	Half Year March 14	Half Year Sept 13	Half Year March 13
<b>Australia</b>			
<b>Banking System (APRA)<sup>1</sup></b>			
Housing credit <sup>2</sup>	25%	25%	25%
Cards	23%	22%	22%
Household deposits	23%	23%	23%
Business deposits	20%	21%	21%
<b>Financial System (RBA)<sup>3</sup></b>			
Housing credit <sup>2</sup>	23%	23%	23%
Business credit	19%	18%	18%
Retail deposits <sup>4</sup>	21%	22%	22%
<b>New Zealand<sup>5,6</sup></b>			
Consumer lending	20%	20%	20%
Deposits	21%	21%	21%
Business lending	16%	16%	17%
<b>Australian Wealth Management<sup>7</sup></b>			
Platforms (includes Wrap and Corporate Super)	20%	20%	20%
Retail (excludes Cash)	19%	18%	19%
Corporate Super	14%	14%	14%
Funds Management - BTIM	5%	5%	5%
Wholesale - BTIM/Advance Asset Management	2%	2%	2%
<b>Australian Life Insurance<sup>8</sup></b>			
Life Insurance - in-force	9%	8%	8%
Life Insurance - new business	11%	10%	10%

<sup>1</sup> Source: Australian Prudential Regulation Authority (APRA).

<sup>2</sup> Includes securitised loans.

<sup>3</sup> Source: Reserve Bank of Australia (RBA).

<sup>4</sup> Retail deposits as measured by the RBA Financial system includes financial corporations deposits.

<sup>5</sup> New Zealand comprises New Zealand banking operations.

<sup>6</sup> Source: Reserve Bank of New Zealand (RBNZ).

<sup>7</sup> Market Share Funds under Management/Funds under Administration based on published market share statistics from Plan for Life and Morningstar as at 31 December 2013 (for First Half 2014), as at 30 June 2013 (for Second Half 2013), and as at 31 December 2012 (for First Half 2013) and represents the addition of St. George Wealth and BT Wealth business market share at these times.

<sup>8</sup> Source: Life Insurance – Plan for Life 31 December 2013 (for First Half 2014), 30 June 2013 (for Second Half 2013), 31 December 2012 (for First Half 2013).

### 1.5.2 System Multiples

	Half Year March 14	Half Year Sept 13	Half Year March 13
<b>Australia</b>			
<b>Banking System (APRA)<sup>1</sup></b>			
Housing credit <sup>2</sup>	0.9	0.7	0.7
Cards <sup>3</sup>	1.9	n/a	0.6
Household deposits	1.0	1.3	1.2
Business deposits <sup>3</sup>	n/a	1.1	n/a
<b>Financial System (RBA)<sup>4</sup></b>			
Housing credit <sup>2</sup>	0.9	0.7	0.8
Business credit <sup>3</sup>	1.1	n/a	n/a
Retail deposits <sup>3,5</sup>	0.0	0.7	1.1
<b>New Zealand<sup>6,7,8</sup></b>	<b>Half Year March 14</b>	<b>Half Year Sept 13</b>	<b>Half Year March 13</b>
Consumer lending	1.0	0.9	0.6
Deposits	1.0	0.6	1.2

<sup>1</sup> Source: APRA.

<sup>2</sup> Includes securitised loans.

<sup>3</sup> n/a indicates that system growth or Westpac growth was negative, and as such system growth multiples cannot be calculated.

<sup>4</sup> Source: RBA.

<sup>5</sup> Retail deposits as measured by the RBA Financial system includes financial corporations deposits.

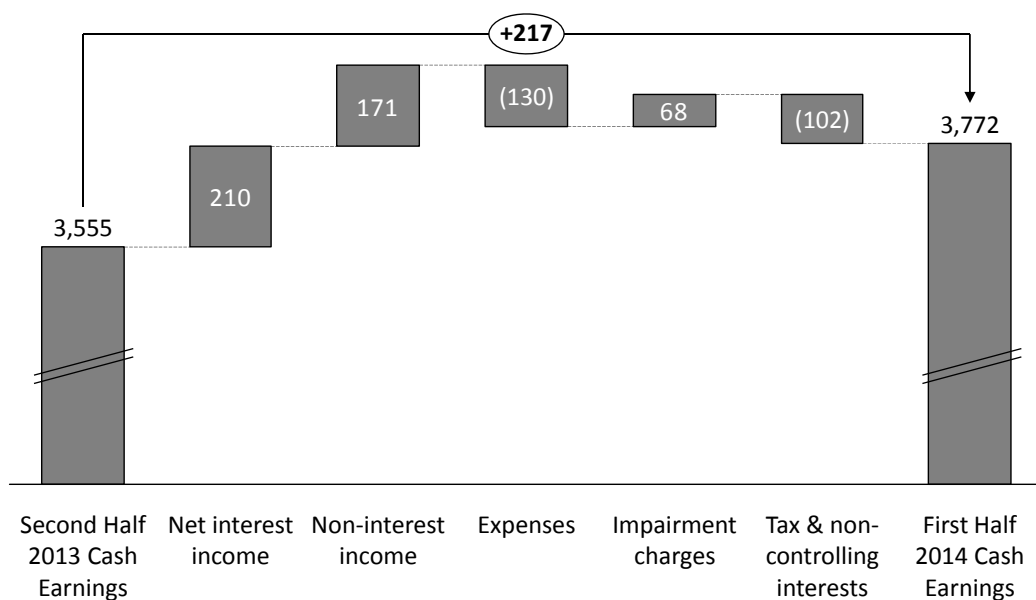
<sup>6</sup> New Zealand comprises New Zealand banking operations.

<sup>7</sup> Source: RBNZ.

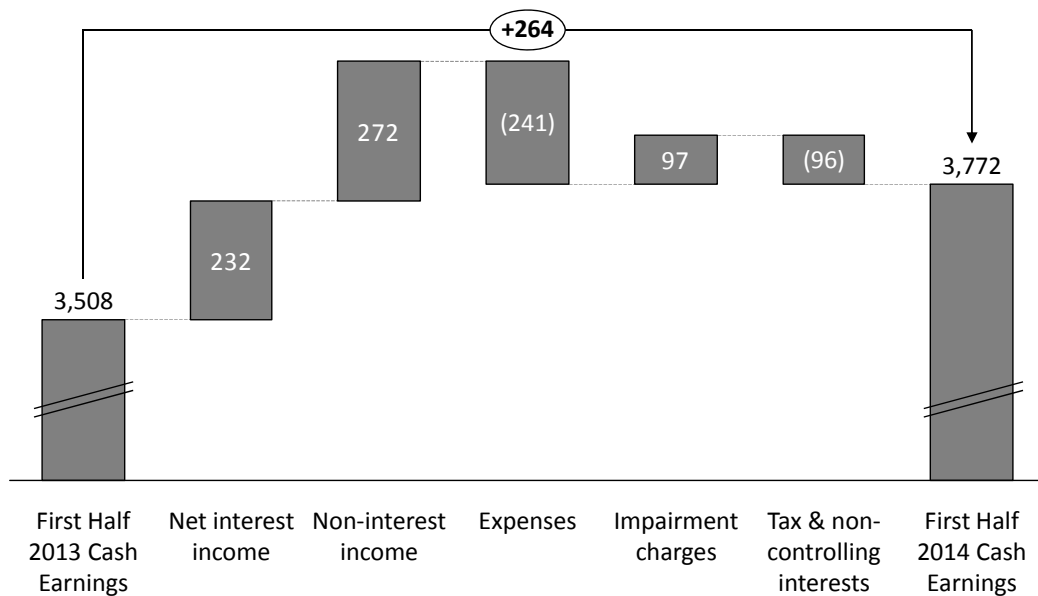
<sup>8</sup> System multiple calculated as a six month rolling average.

2.0 REVIEW OF GROUP OPERATIONS

**Movement in Cash Earnings (\$m)**  
**First Half 2014 – Second Half 2013**



**Movement in Cash Earnings (\$m)**  
**First Half 2014 – First Half 2013**



## 2.1 Performance Overview (Cash Earnings basis)

The Westpac Group delivered another quality result with First Half 2014 Cash Earnings of \$3,772 million, an 8% rise on First Half 2013 and a 6% rise over Second Half 2013. The result was driven by 5% core earnings growth and a further improvement in asset quality that contributed to a decline in impairment charges.

Cash Earnings of \$3,772 million for First Half 2014 translated to Cash Earnings per share of 121.3 cents, up 7% on First Half 2013 and up 6% on Second Half 2013. The Cash Earnings return on equity for First Half 2014 was 16.5%, 43 basis points higher than First Half 2013, and above the Group's objective of maintaining a ratio above 15%.

A key feature of the First Half 2014 performance has been the progress made across divisions, all achieving good growth in their business and delivering on their strategies. Australian Financial Services (AFS) increased Cash Earnings 12% over the prior corresponding period, New Zealand increased its Cash Earnings contribution 33% (in \$A) and Westpac Pacific recorded a 2% uplift in Cash Earnings. The Cash Earnings result from Westpac Institutional Bank was 4% lower although this was due to a lower CVA benefit and prior period gains associated with the exit of Hastings listed infrastructure funds which were not repeated.

In addition to a strong financial result, the Group also delivered significant strategic progress over the half including: completing major milestones on key strategic investments, further enhancing customer service through new digital technologies and improving operating momentum by tilting the organisation to growth. Key strategic capabilities delivered included:

- Westpac Retail & Business Banking (Westpac RBB) implemented its new online and mobile platform, with customers now migrating onto the system and benefiting from its state of the art capabilities;
- Launched the first stage of the Group's new wealth administration platform called 'Panorama' with the cash hub 'BT Cash' now operational;
- Continued the reconfiguration of the distribution network including the completion of 71 new innovative branches, the further roll out of an enhanced model for supporting small and medium business customers called Business Connect in St. George and Connect Now in Westpac RBB;
- Completed the acquisition of selected assets of Lloyds Banking Group's Australian businesses (Lloyds). The business is performing as anticipated and integration is progressing to plan; and
- Further expansion in Asia including the granting of a General Derivatives License for the Group's China branches, employing more people on the ground and boosting trade volumes. Revenues in the region were up 40%.

Digitisation is changing the face of financial services as customers choose to conduct more activity online and via self-service channels. In addition to the above strategic investments, the Group has continued the implementation of a range of services that will further improve the experience for customers. Some of these have included:

- Establishing alliances with some of the biggest banks globally, to effectively deliver the world's largest ATM network of over 50,000 machines. The alliances have been supported by a Global ATM finder app to make it easier for customers to withdraw funds around the world at no cost<sup>1</sup>;
- Creating more 24/7 locations, enabling customers to bank anywhere anytime using Smart<sup>2</sup> ATMs. Westpac increased the number of Smart ATMs across Australia and New Zealand, in the half, to around 730;
- A more advanced merchant terminal fleet with WiFi and 3G capability that provides greater functionality and flexibility for businesses, is being progressively rolled out; and
- Continuing to deliver more online and mobile solutions to better meet customer needs including: account opening and approval, simplifying common inquiries and ensuring apps are available across the major mobile platforms (Apple iOS, Android and Windows 8).

The Group continues to focus on building a sustainable company with key highlights including:

- Ranked number one in the 2014 Global 100 most sustainable corporations in the world by Corporate Knights, announced at World Economic Forum in January 2014;
- Maintaining employee engagement above the global high performing norm; and

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<sup>1</sup> No foreign bank withdrawal fee.

<sup>2</sup> A Smart ATM has enhanced features including: cash/coin deposits that are immediately credited to a customer's account; cheque deposits (with a receipt that includes the cheque image).

- Further enhancing workforce flexibility and diversity including increasing the proportion of women in leadership to 43%.

Last year, Westpac indicated that after 6 years of strengthening the balance sheet across all dimensions, it was appropriate to tilt the organisation to growth while maintaining the strength, productivity and risk disciplines that have been a hallmark of the company. In First Half 2014 that approach has started delivering benefits including an uplift in Australian mortgage and personal lending growth relative to system. At the same time, solid growth in target areas has continued including Asian trade finance, Bank of Melbourne, household deposits, wealth and insurance. Customer numbers continue to increase, benefiting from the differentiated proposition of the Group's retail brands and customer relationships have strengthened with MyBank customers increasing 2%.

### **Dividends**

Given the strength and quality of the Group's performance, the Board has determined an interim dividend of 90 cents, fully franked, up 4 cents or 5% on the First Half 2013 interim dividend and 2 cents higher than the Second Half 2013 final dividend. Dividends for First Half 2014 represent a payout ratio of 74%.

Following payment of the interim dividend, the Group's franking credit balance remains a strong \$315 million.

Westpac will neutralise the impact of the dividend reinvestment plan on the share count.

### **Achieving balanced outcomes**

Central to the Group's strategy has been the delivery of balanced outcomes across Strength/ Return/ Growth/ Productivity. Westpac believes that to achieve sustainable returns it is important to concurrently focus on all elements of value in managing the business and to fully consider the inherent trade-offs. In First Half 2014 this balance was maintained with good outcomes delivered across each element.

### **Growth**

Westpac's balance sheet experienced improving momentum in First Half 2014 with lending relative to system steadily improving over the half and household deposit growth remaining robust. Loans increased 5% since September 2013 with major contributors including:

- Acquisition of Lloyds added \$7.6 billion in business and personal loans;
- Growth in Australian mortgages of \$9.5 billion, up 3%;
- Good growth in Asian trade finance up \$2.4 billion; and
- Other personal lending in Australia was up \$0.9 billion or 5%, with credit cards growing at 1.9 times system.

Customer deposit growth was concentrated in the household segment with customer preferences seeing a shift to at call and transaction accounts at the expense of term deposits. Business deposit growth was more modest as the Group focused on relationship-based deposits that contribute positively to the liquidity coverage ratio (LCR).

In addition to the improving momentum in lending, the Group has maintained its strong growth profile in wealth management and insurance with a good uplift in FUM and FUA balances and continuing double digit growth in insurance gross written premiums.

### **Return**

Westpac maintained its focus on enhancing returns with the Cash Earnings return on equity rising 68 basis points to 16.5% for the First Half 2014.

In seeking to enhance returns, the Group has:

- Remained disciplined in managing margins with margins down 1 basis point compared to Second Half 2013, and down 8 basis points over First Half 2013. Margins were a little higher in AFS (up 2 basis points) although in the institutional business intensified competition contributed to lower margins. The competitive environment combined with a switch to fixed rate mortgages has contributed to lower margins in New Zealand;
- Continued to focus on deepening customer relationships by progressively embedding the MyBank (customers who hold a number of products with the bank including an active transaction account) approach across all brands. The Group has seen a further rise in products per customer and the Group's sector leading wealth penetration; and
- Further enhanced its capital allocation methodology leading to more capital allocated to divisions.

In other measures of shareholder value, net tangible assets per share increased to \$11.13. Economic profit, measuring the shareholder value created above the Group's cost of capital increased a solid 10% over First Half 2013 and 11% over Second Half 2013.

## **Productivity**

Productivity has remained a key focus for the Group and \$102 million in new efficiency savings were realised in First Half 2014. Key productivity achievements over First Half 2014 included:

- Delivery of \$72 million in savings from the Group's broad productivity and simplification programs;
- Simplifying product offerings with an 5% decline in the number of products for sale; and
- In New Zealand, new digital technologies are improving distribution efficiency including a material uplift in transactions conducted via Smart ATMs and more transactions resolved online or via mobile devices.

These efficiency gains have enabled the Group to maintain its investment program and support the elevated regulatory and compliance spending of \$155 million in First Half 2014.

The Group's expense to income ratio was 41.2%, down 29 basis points since Second Half 2013 and up 35 basis points over the prior corresponding period and is around 280 basis points below the peer average<sup>1</sup>.

## **Strength**

Westpac's balance sheet remained strong across all dimensions. The Group's common equity tier 1 capital ratio was 8.8% at 31 March 2014 which continues to lead the sector and is comfortably above regulatory requirements. The ratio was 28 basis points lower than 30 September 2013, principally due to the acquisition of Lloyds which utilised 37 basis points of capital.

Asset quality further improved over the half with stressed assets to total committed exposures declining 23 basis points. Stressed assets are now 57% lower than their peak in 2010 and are approaching pre-GFC levels. The decline has been due to the continued work-out and refinance of stressed facilities combined with a reduction in the emergence of new stressed assets. Within stressed assets, impaired facilities have also declined with impaired assets representing 0.51% of the portfolio, down from 0.67% at 30 September 2013.

Consumer asset quality has similarly remained sound with mortgage 90+ day delinquencies 3 basis points lower compared to 30 September 2013 and 9 basis points lower than 31 March 2013.

Provisioning cover has also been maintained with individually assessed provisions to impaired assets at 46.4% at 31 March 2014, up from 43.2% at 30 September 2013. The ratio of collectively assessed provisions to credit risk weighted assets was 97 basis points. Economic overlays were slightly higher over the half.

The general reserve for credit loss (GRCL) adjustment was \$92 million at 31 March 2014 up from \$83 million at 30 September 2013 mostly reflecting the Group's strong provision coverage.

The Group's funding mix has remained strong with the stable funding ratio at 83% and the customer deposit to loan ratio of 68.9%. The customer deposit to loan ratio is in line with 31 March 2013 levels however it is lower than at 30 September 2013, as the acquisition of the Lloyds business increased lending \$7.6 billion but added little to deposit balances. The Lloyds acquisition, along with a lift in loan growth led the Group to raise \$19.7 billion in term wholesale borrowing over the half with an average maturity of 4.9 years.

Liquid assets remain at a robust \$127 billion and are sufficient to cover all outstanding short term wholesale funding.

## **Divisional Performance**

All of the Group's divisions have continued to grow their franchises.

Australian Financial Services (AFS) Cash Earnings of \$2,461 million in First Half 2014 was up 12% over the prior corresponding period and 6% higher than the very strong Second Half 2013 performance. The business benefited from improving loan momentum, slightly higher margins and a very strong wealth result from BT Financial Group.

Westpac RBB delivered a strong performance for the half with Cash Earnings of \$1,251 million up 10% on First Half 2013 and up 3% compared to Second Half 2013. Revenue growth was supported by improving growth through the half, particularly in mortgages, and a small rise in margins (up 2 basis points). Impairment charges were lower over both the prior period and the prior corresponding period consistent with a further improvement in the division's already high quality portfolio.

St.George's Cash Earnings in First Half 2014 increased 12% over First Half 2013 and by 10% compared to Second Half 2013. All of the division's brands, St.George, Bank of Melbourne, BankSA and RAMS contributed positively to the result. The division also benefited from the acquisition of Lloyds from January 2014. Mortgage lending continued to track broadly in line with system while business lending was higher from the Lloyds

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<sup>1</sup> Based on the latest expense to income ratio (Cash Earnings basis) of ANZ (1H14), CBA (1H14), and NAB (2H13).



acquisition. Good new lending in the business portfolio was offset by continued run-off, including a reduction in stressed loans. Margins were well managed rising 2 basis points over the prior period. Expenses increased 5% (1% excluding Lloyds) over the prior period with productivity gains helping to offset ongoing investment, particularly in Bank of Melbourne and in the new operating model for supporting SME customers, Business Connect. Consistent with the improvement in asset quality, particularly in the commercial portfolio, impairment charges were significantly lower, down 37% compared to Second Half 2013.

BTFG, Westpac's wealth and insurance division, continued its strong momentum with Cash Earnings in First Half 2014 up 21% over the prior corresponding period and 7% higher than Second Half 2013. The result was supported by good funds flows and a further uplift in insurance gross written premiums. Advice and private wealth revenues were much higher. The division benefited from improved asset markets and very strong performance fees from BTIM.

WIB delivered Cash Earnings of \$752 million in First Half 2014, a decrease of 4% compared to First Half 2013 and 5% lower compared to Second Half 2013. The decline was due to a lower CVA contribution (down \$68 million from Second Half 2013 and down \$21 million from First Half 2013) and significant revenue associated with the exit of the Hastings listed infrastructure funds in 2013 that were not repeated. Excluding these items, Cash Earnings was higher with good revenue growth in foreign exchange and energy business from both customer flows and trading. Loan growth was up 13% over the half and 14% over the prior year although margins were lower from competitive pressure. The high quality of the portfolio and active work-out of stressed assets has seen the business record another impairment benefit in First Half 2014. The \$90 million benefit was around twice the benefit recorded in First Half 2013 and Second Half 2013 and was a strong contributor to Cash Earnings.

Westpac New Zealand continued to perform well in a competitive market with sound core earnings and improving asset quality contributing to Cash Earnings of NZ\$432 million up 17% over First Half 2013 and 8% higher than Second Half 2013. Impairment charges were particularly low at only NZ\$4 million, declining 94% over First Half 2013 and 92% lower than Second Half 2013. This reflected significant reduction in stressed assets, down 111 basis points on First Half 2013 and 51 basis points on Second Half 2013. Deposit growth was strong, up 8% over the year, while supporting customers with wealth solutions has contributed to FUM growth of 20%. The introduction of RBNZ limits on higher loan-to-valuation ratio (LVR) mortgage lending has seen competition intensify in New Zealand over the half and this combined with a rise in lower spread fixed rate loans has contributed to a 6 basis point decline in margins over the prior corresponding period and a 4 basis point fall over the prior half.

Westpac Pacific delivered Cash Earnings of \$65 million. The result was in line with Cash Earnings recorded in First Half 2013 but \$14 million below the result recorded in Second Half 2013. The business has continued its expansion across the region with the roll out of more accessible banking and this has seen banking become available to a further 44,000 customers in the last six months. While the financial performance of the business has continued to be solid, a reduction in foreign exchange revenue and higher impairment charges contributed to the lower result compared to the prior period.

## Financial Performance Summary

### First Half 2014 – Second Half 2013

Cash Earnings in First Half 2014 of \$3,772 million was 6% higher compared to Second Half 2013. The increase was due to a 5% uplift in core earnings and a 17% decline in impairment charges. The \$251 million rise in core earnings was due to a 4% rise in operating income and a 3% rise in expenses.

Net interest income was up 3% with improving operating momentum contributing to a 5% rise in average interest-earning assets. Net interest margins were little changed, down 1 basis point to 2.11%. Margins excluding Treasury and Markets decreased 5 basis points. Lending margins were adversely impacted through increased mortgage competition and customer preferences for fixed rate mortgages, although this was partly offset by improved deposit spreads and lower wholesale funding costs, including from the maturity of high cost Government-guaranteed funding.

Loan growth of 5% (4% excluding Lloyds) was mostly due to a rise in Australian housing lending, a strong lift in consumer lending, especially credit cards and a further pick up in trade finance, particularly in Asia. Lloyds contributed \$7.6 billion to lending in the half. Australian business lending was higher with a rise in institutional lending and good growth in SME partially offset by a fall in commercial loans. New Zealand lending increased 3% (in NZ\$) over the last six months, mostly in housing.

Deposits increased \$6.3 billion up 2% with solid growth in Australian household deposits, particularly at call accounts. This was offset by lower institutional and treasury deposits as the Group chose not to compete as vigorously for deposits that are of less value to the LCR. New Zealand deposits rose 4% (in \$NZ) with growth in online and transaction accounts.

The 6% increase in non-interest income reflected improved fee income from higher lending activity, increased cards income, good customer flows lifting markets income, and a very strong performance from wealth and insurance including higher performance fees. These gains were partially offset by seasonally higher insurance claims and a \$88 million reduction in revenue associated with the prior exit of one of the listed Hastings funds.

Expenses continued to be well managed over the prior period rising 3% (up 2% excluding Lloyds) with \$102 million in productivity savings assisting to offset increased investment costs including the expansion of the Bank of Melbourne network, increased investment in mobile technologies, expansion in Asia and the rollout of new format branches.

A further improvement in asset quality contributed to a \$68 million reduction in impairment charges, with all major divisions contributing to the improvement.

The effective tax rate was little changed at 30.1%.

### First Half 2014 – First Half 2013

Cash Earnings in First Half 2014 were \$264 million higher than First Half 2013, a rise of 8%. The increase was due to core earnings growth of 5% combined with a 22% reduction in impairment charges.

Net interest income was 4% higher over the prior corresponding period with a 7% rise in average interest-earning assets partially offset by an 8 basis point decline in margins. Margins excluding Treasury and Markets were 5 basis points lower over the prior corresponding period principally due to asset margin pressure, lower returns from capital and impact of higher liquid assets.

Lending increased 8% (7% excluding Lloyds) over the year with Australian mortgages continuing to be the main source of growth. Excluding Lloyds, Australian business lending was flat and overseas lending was boosted by Asian trade finance.

Deposits rose 8% or \$29.3 billion with household savings and transaction accounts generating the majority of growth. Term deposits and treasury deposits were lower over the prior corresponding period.

Non-interest income was particularly strong over the prior corresponding half with a significant uplift in wealth and insurance earnings and improved customer flows lifting markets income. Expenses rose 6% (up 4% excluding foreign exchange translation impact and Lloyds) with productivity savings partially offsetting increased investment costs and higher compliance spending.

A further improvement in the health of the credit portfolio contributed to a \$97 million reduction in impairment charges with all major divisions contributing to the result.

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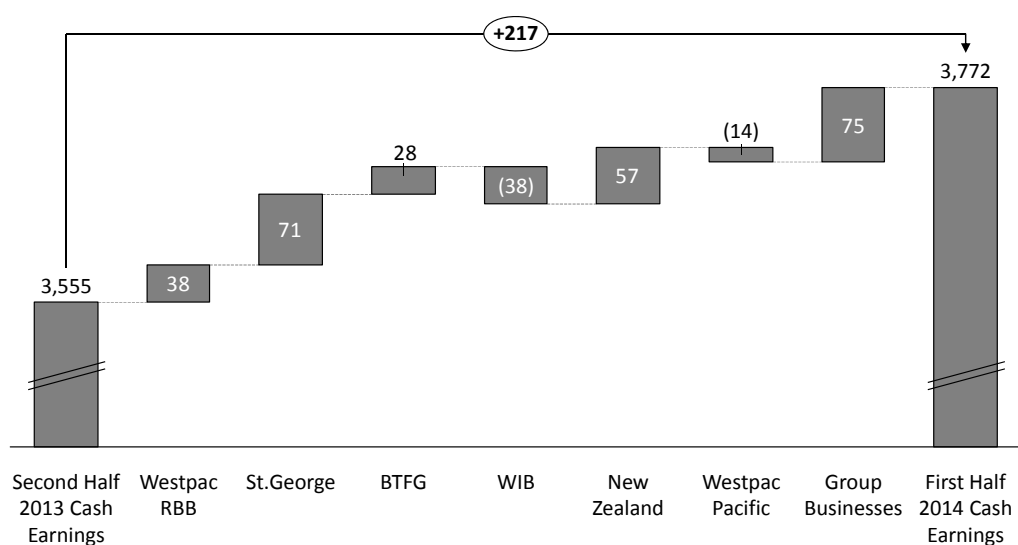
### Divisional Cash Earnings Summary

Six months to 31 March 2014	Westpac Retail & Business Banking	St.George Banking Group	BT Financial Group (Australia)	AFS	Westpac Institutiona l Bank	New Zealand (\$A)	Westpac Pacific	Group Businesse s	Group
\$m									
Net interest income	2,918	1,708	205	4,831	811	714	70	251	6,677
Non-interest income	691	252	1,116	2,059	770	217	87	49	3,182
Net operating income	3,609	1,960	1,321	6,890	1,581	931	157	300	9,859
Operating expenses	(1,595)	(747)	(670)	(3,012)	(590)	(385)	(52)	(26)	(4,065)
<b>Core earnings</b>	<b>2,014</b>	<b>1,213</b>	<b>651</b>	<b>3,878</b>	<b>991</b>	<b>546</b>	<b>105</b>	<b>274</b>	<b>5,794</b>
Impairment charges	(226)	(108)	4	(330)	90	(3)	(6)	(92)	(341)
<b>Operating profit before income tax</b>	<b>1,788</b>	<b>1,105</b>	<b>655</b>	<b>3,548</b>	<b>1,081</b>	<b>543</b>	<b>99</b>	<b>182</b>	<b>5,453</b>
Income tax expense	(537)	(333)	(192)	(1,062)	(329)	(149)	(29)	(74)	(1,643)
<b>Net profit</b>	<b>1,251</b>	<b>772</b>	<b>463</b>	<b>2,486</b>	<b>752</b>	<b>394</b>	<b>70</b>	<b>108</b>	<b>3,810</b>
Net profit attributable to non-controlling interests	-	-	(25)	(25)	-	(1)	(5)	(7)	(38)
<b>Cash Earnings</b>	<b>1,251</b>	<b>772</b>	<b>438</b>	<b>2,461</b>	<b>752</b>	<b>393</b>	<b>65</b>	<b>101</b>	<b>3,772</b>

Six months to 30 September 2013	Westpac Retail & Business Banking	St.George Banking Group	BT Financial Group (Australia)	AFS	Westpac Institutiona l Bank	New Zealand (\$A)	Westpac Pacific	Group Businesse s	Group
\$m									
Net interest income	2,869	1,639	201	4,709	812	662	73	211	6,467
Non-interest income	683	241	993	1,917	821	199	97	(23)	3,011
Net operating income	3,552	1,880	1,194	6,626	1,633	861	170	188	9,478
Operating expenses	(1,574)	(709)	(609)	(2,892)	(566)	(353)	(50)	(74)	(3,935)
<b>Core earnings</b>	<b>1,978</b>	<b>1,171</b>	<b>585</b>	<b>3,734</b>	<b>1,067</b>	<b>508</b>	<b>120</b>	<b>114</b>	<b>5,543</b>
Impairment charges	(242)	(171)	(1)	(414)	46	(43)	(1)	3	(409)
<b>Operating profit before income tax</b>	<b>1,736</b>	<b>1,000</b>	<b>584</b>	<b>3,320</b>	<b>1,113</b>	<b>465</b>	<b>119</b>	<b>117</b>	<b>5,134</b>
Income tax expense	(523)	(299)	(164)	(986)	(323)	(127)	(34)	(69)	(1,539)
<b>Net profit</b>	<b>1,213</b>	<b>701</b>	<b>420</b>	<b>2,334</b>	<b>790</b>	<b>338</b>	<b>85</b>	<b>48</b>	<b>3,595</b>
Net profit attributable to non-controlling interests	-	-	(10)	(10)	-	(2)	(6)	(22)	(40)
<b>Cash Earnings</b>	<b>1,213</b>	<b>701</b>	<b>410</b>	<b>2,324</b>	<b>790</b>	<b>336</b>	<b>79</b>	<b>26</b>	<b>3,555</b>

Movement March 2014 - Sept 2013	Westpac Retail & Business Banking	St.George Banking Group	BT Financial Group (Australia)	AFS	Westpac Institutiona l Bank	New Zealand (\$A)	Westpac Pacific	Group Businesse s	Group
%									
Net interest income	2%	4%	2%	3%	-	8%	(4%)	19%	3%
Non-interest income	1%	5%	12%	7%	(6%)	9%	(10%)	large	6%
Net operating income	2%	4%	11%	4%	(3%)	8%	(8%)	60%	4%
Operating expenses	(1%)	(5%)	(10%)	(4%)	(4%)	(9%)	(4%)	65%	(3%)
<b>Core earnings</b>	<b>2%</b>	<b>4%</b>	<b>11%</b>	<b>4%</b>	<b>(7%)</b>	<b>7%</b>	<b>(13%)</b>	<b>140%</b>	<b>5%</b>
Impairment charges	7%	37%	large	20%	96%	93%	large	large	17%
<b>Operating profit before income tax</b>	<b>3%</b>	<b>11%</b>	<b>12%</b>	<b>7%</b>	<b>(3%)</b>	<b>17%</b>	<b>(17%)</b>	<b>56%</b>	<b>6%</b>
Income tax expense	(3%)	(11%)	(17%)	(8%)	(2%)	(17%)	15%	(7%)	(7%)
<b>Net profit</b>	<b>3%</b>	<b>10%</b>	<b>10%</b>	<b>7%</b>	<b>(5%)</b>	<b>17%</b>	<b>(18%)</b>	<b>125%</b>	<b>6%</b>
Net profit attributable to non-controlling interests	-	-	(150%)	(150%)	-	50%	17%	68%	5%
<b>Cash Earnings</b>	<b>3%</b>	<b>10%</b>	<b>7%</b>	<b>6%</b>	<b>(5%)</b>	<b>17%</b>	<b>(18%)</b>	<b>large</b>	<b>6%</b>

Movement in Cash Earnings by Division (\$m)  
First Half 2014 – Second Half 2013



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Six months to 31 March 2014	Westpac Retail & Business Banking	St.George Banking Group	BT Financial Group (Australia)	AFS	Westpac Institutional Bank	New Zealand (\$A)	Westpac Pacific	Group Businesses	Group
\$m									
Net interest income	2,918	1,708	205	4,831	811	714	70	251	6,677
Non-interest income	691	252	1,116	2,059	770	217	87	49	3,182
Net operating income	3,609	1,960	1,321	6,890	1,581	931	157	300	9,859
Operating expenses	(1,595)	(747)	(670)	(3,012)	(590)	(385)	(52)	(26)	(4,065)
<b>Core earnings</b>	<b>2,014</b>	<b>1,213</b>	<b>651</b>	<b>3,878</b>	<b>991</b>	<b>546</b>	<b>105</b>	<b>274</b>	<b>5,794</b>
Impairment charges	(226)	(108)	4	(330)	90	(3)	(6)	(92)	(341)
<b>Operating profit before income tax</b>	<b>1,788</b>	<b>1,105</b>	<b>655</b>	<b>3,548</b>	<b>1,081</b>	<b>543</b>	<b>99</b>	<b>182</b>	<b>5,453</b>
Income tax expense	(537)	(333)	(192)	(1,062)	(329)	(149)	(29)	(74)	(1,643)
<b>Net profit</b>	<b>1,251</b>	<b>772</b>	<b>463</b>	<b>2,486</b>	<b>752</b>	<b>394</b>	<b>70</b>	<b>108</b>	<b>3,810</b>
Net profit attributable to non-controlling interests	-	-	(25)	(25)	-	(1)	(5)	(7)	(38)
<b>Cash Earnings</b>	<b>1,251</b>	<b>772</b>	<b>438</b>	<b>2,461</b>	<b>752</b>	<b>393</b>	<b>65</b>	<b>101</b>	<b>3,772</b>

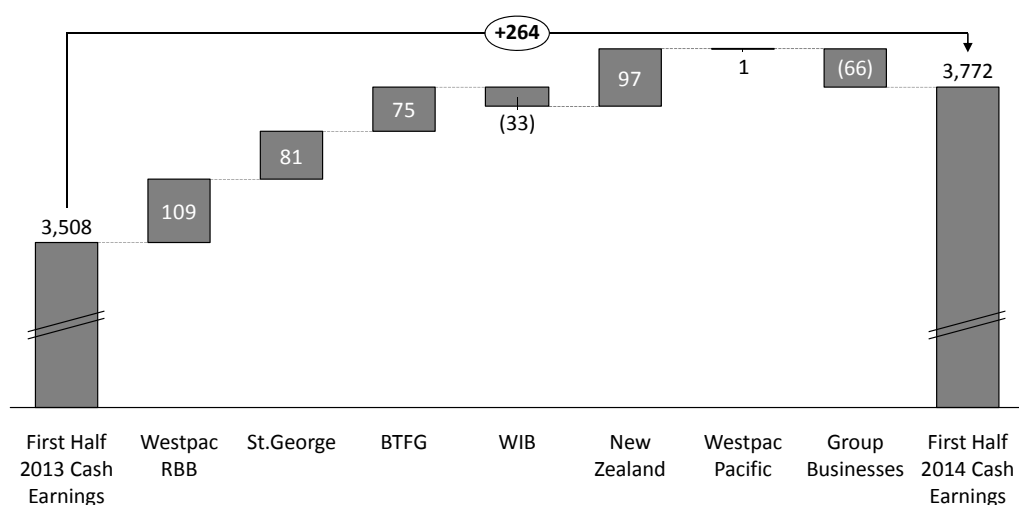
  

Six months to 31 March 2013	Westpac Retail & Business Banking	St.George Banking Group	BT Financial Group (Australia)	AFS	Westpac Institutional Bank	New Zealand (\$A)	Westpac Pacific	Group Businesses	Group
\$m									
Net interest income	2,786	1,577	205	4,568	818	619	75	365	6,445
Non-interest income	637	228	924	1,789	812	190	70	49	2,910
Net operating income	3,423	1,805	1,129	6,357	1,630	809	145	414	9,355
Operating expenses	(1,550)	(693)	(597)	(2,840)	(549)	(344)	(48)	(43)	(3,824)
<b>Core earnings</b>	<b>1,873</b>	<b>1,112</b>	<b>532</b>	<b>3,517</b>	<b>1,081</b>	<b>465</b>	<b>97</b>	<b>371</b>	<b>5,531</b>
Impairment charges	(244)	(122)	-	(366)	43	(54)	(2)	(59)	(438)
<b>Operating profit before income tax</b>	<b>1,629</b>	<b>990</b>	<b>532</b>	<b>3,151</b>	<b>1,124</b>	<b>411</b>	<b>95</b>	<b>312</b>	<b>5,093</b>
Income tax expense	(487)	(299)	(161)	(947)	(339)	(114)	(26)	(123)	(1,549)
<b>Net profit</b>	<b>1,142</b>	<b>691</b>	<b>371</b>	<b>2,204</b>	<b>785</b>	<b>297</b>	<b>69</b>	<b>189</b>	<b>3,544</b>
Net profit attributable to non-controlling interests	-	-	(8)	(8)	-	(1)	(5)	(22)	(36)
<b>Cash Earnings</b>	<b>1,142</b>	<b>691</b>	<b>363</b>	<b>2,196</b>	<b>785</b>	<b>296</b>	<b>64</b>	<b>167</b>	<b>3,508</b>

Movement March 2014 - March 2013	Westpac Retail & Business Banking	St.George Banking Group	BT Financial Group (Australia)	AFS	Westpac Institutional Bank	New Zealand (\$A)	Westpac Pacific	Group Businesses	Group
%									
Net interest income	5%	8%	-	6%	(1%)	15%	(7%)	(31%)	4%
Non-interest income	8%	11%	21%	15%	(5%)	14%	24%	-	9%
Net operating income	5%	9%	17%	8%	(3%)	15%	8%	(28%)	5%
Operating expenses	(3%)	(8%)	(12%)	(6%)	(7%)	(12%)	(8%)	40%	(6%)
<b>Core earnings</b>	<b>8%</b>	<b>9%</b>	<b>22%</b>	<b>10%</b>	<b>(8%)</b>	<b>17%</b>	<b>8%</b>	<b>(26%)</b>	<b>5%</b>
Impairment charges	7%	11%	-	10%	109%	94%	(200%)	(56%)	22%
<b>Operating profit before income tax</b>	<b>10%</b>	<b>12%</b>	<b>23%</b>	<b>13%</b>	<b>(4%)</b>	<b>32%</b>	<b>4%</b>	<b>(42%)</b>	<b>7%</b>
Income tax expense	(10%)	(11%)	(19%)	(12%)	3%	(31%)	(12%)	40%	(6%)
<b>Net profit</b>	<b>10%</b>	<b>12%</b>	<b>25%</b>	<b>13%</b>	<b>(4%)</b>	<b>33%</b>	<b>1%</b>	<b>(43%)</b>	<b>8%</b>
Net profit attributable to non-controlling interests	-	-	large	large	-	-	-	68%	(6%)
<b>Cash Earnings</b>	<b>10%</b>	<b>12%</b>	<b>21%</b>	<b>12%</b>	<b>(4%)</b>	<b>33%</b>	<b>2%</b>	<b>(40%)</b>	<b>8%</b>

Movement in Cash Earnings by Division (\$m)  
First Half 2014 – First Half 2013



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## 2.2 Review of Earnings

### 2.2.1 Net Interest Income

#### First Half 2014 - Second Half 2013

Net interest income was \$210 million or 3% higher than Second Half 2013. The increase reflected growth in average interest-earning assets (AIEA) of \$27.5 billion or 5%, partly offset by one less interest-earning day in the half and a 1 basis point reduction in net interest margins. AIEA growth reflected loan growth of \$17.9 billion, which included \$3.9 billion relating to New Zealand foreign currency translation and a \$3.8 billion contribution from the acquisition of Lloyds. Additionally, average liquid asset holdings were \$6.7 billion higher and market inventory increased \$2.5 billion.

#### First Half 2014 – First Half 2013

Net interest income was \$232 million or 4% higher than First Half 2013. The increase reflected growth in AIEA of \$44.1 billion or 7%, partly offset by an 8 basis point reduction in net interest margin. AIEA growth reflected loan growth of \$28.1 billion, which included \$7.1 billion relating to New Zealand foreign currency translation and \$3.8 billion from the acquisition of Lloyds. Additionally, average liquid assets were \$12.8 billion higher and market inventory increased \$3.1 billion.

#### Loans<sup>1</sup>

\$m	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013	% Mov't Mar 14- Sept 13	% Mov't Mar 14- Mar 13
<b>Australia</b>	<b>490,959</b>	<b>471,115</b>	<b>464,681</b>	<b>4</b>	<b>6</b>
Housing	338,036	328,532	321,938	3	5
Personal (loans and cards)	20,524	17,142	17,011	20	21
Business	133,197	126,320	126,718	5	5
Margin lending	2,038	2,041	2,168	-	(6)
Other (including provisions)	(2,836)	(2,920)	(3,154)	3	10
<b>New Zealand (A\$)</b>	<b>59,636</b>	<b>55,094</b>	<b>48,443</b>	<b>8</b>	<b>23</b>
New Zealand (NZ\$)	63,604	62,038	60,371	3	5
Housing	38,669	37,596	36,552	3	6
Personal (loans and cards)	1,786	1,728	1,709	3	5
Business	23,493	23,142	22,614	2	4
Other (including provisions)	(344)	(428)	(504)	20	32
<b>Other overseas</b>	<b>13,974</b>	<b>9,955</b>	<b>8,006</b>	<b>40</b>	<b>75</b>
<b>Total loans</b>	<b>564,569</b>	<b>536,164</b>	<b>521,130</b>	<b>5</b>	<b>8</b>

#### First Half 2014 – Second Half 2013

Total loans were \$28.4 billion or 5% higher than Second Half 2013. Excluding foreign exchange translation impacts, total loans increased \$25.1 billion or 5% reflecting the Lloyds acquisition and good growth in new lending, particularly in housing.

Key features of total loan growth were:

- Improved momentum in Australian housing loans, increasing \$9.5 billion or 3%. New lending increased 12% in the half although this was partially offset by higher run-off<sup>2</sup>. Growth in fixed rate lending continued with fixed rate loans now comprising 21% of the portfolio compared to 19% in Full Year 2013;
- Australian personal loans and cards increased \$3.4 billion or 20% reflecting the acquisition of the \$2.5 billion Lloyds auto finance portfolio; growth in St.George auto finance and above system growth of 4% in credit cards;

<sup>1</sup> Spot net loan balances.

<sup>2</sup> Refer Glossary for definition.

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- Australian business lending increased \$6.9 billion or 5% mostly reflecting the acquisition of the \$5.1 billion of Lloyds equipment finance portfolio and increased lending in WIB. Westpac RBB increased 1% while the St.George portfolio continued to see higher levels of run-off particularly in stressed exposures;
- Other overseas lending grew \$4.0 billion mostly from growth in trade finance to customers in Asia; and
- New Zealand lending increased NZ\$1.6 billion or 3%. Growth was primarily in housing, which was ahead of system and weighted towards fixed rate loans. Business lending also grew above system with growth primarily in term finance.

First Half 2014 – First Half 2013

Total loans were \$43.4 billion or 8% higher than First Half 2013. Excluding foreign exchange translation impacts, total loans increased \$33.3 billion or 6%.

Key features of total loan growth were:

- Australian housing loans increased \$16.1 billion or 5%. Momentum improved across all brands with both higher applications and increased drawn balances compared to First Half 2013;
- Australian personal loans and cards increased \$3.5 billion or 21% reflecting Lloyds auto finance acquisition; growth in St.George auto finance; and growth in St.George credit cards;
- Australian business loans increased \$6.5 billion or 5% driven by the acquisition of Lloyds' equipment finance business and increased corporate loans in WIB. New lending was higher in Westpac RBB and St.George by 15% and 18% respectively, with portfolio growth impacted by continued elevated run-off particularly in St.George;
- The increase in other overseas loans of \$6.0 billion reflected growth in trade finance lending to customers in Asia; and
- New Zealand loan growth of NZ\$3.2 billion or 5%, from above system mortgage growth (predominantly fixed rate lending) and a rise in corporate lending.

Deposits and other borrowings<sup>1</sup>

\$m	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013	% Mov't Mar 14- Sept 13	% Mov't Mar 14- Mar 13
<b>Customer deposits</b>					
<b>Australia</b>	<b>329,369</b>	<b>327,594</b>	<b>312,010</b>	<b>1</b>	<b>6</b>
At call	178,755	175,102	160,885	2	11
Term	127,447	132,028	132,768	(3)	(4)
Non-interest bearing	23,167	20,464	18,357	13	26
<b>New Zealand (A\$)</b>	<b>45,344</b>	<b>41,428</b>	<b>36,142</b>	<b>9</b>	<b>25</b>
New Zealand (NZ\$)	48,359	46,648	45,032	4	7
At call	20,420	18,488	17,440	10	17
Term	24,481	24,889	24,335	(2)	1
Non-interest bearing	3,458	3,271	3,257	6	6
<b>Other overseas (A\$)</b>	<b>14,178</b>	<b>13,610</b>	<b>11,458</b>	<b>4</b>	<b>24</b>
<b>Total customer deposits</b>	<b>388,891</b>	<b>382,632</b>	<b>359,610</b>	<b>2</b>	<b>8</b>
<b>Certificates of deposit</b>	<b>48,514</b>	<b>41,850</b>	<b>43,796</b>	<b>16</b>	<b>11</b>
Australia	32,047	29,286	28,029	9	14
New Zealand (A\$)	1,225	1,362	831	(10)	47
Other overseas (A\$)	15,242	11,202	14,936	36	2
<b>Total Deposits and other borrowings</b>	<b>437,405</b>	<b>424,482</b>	<b>403,406</b>	<b>3</b>	<b>8</b>

<sup>1</sup> Spot deposit balances.

#### First Half 2014 – Second Half 2013

Total deposits and other borrowings were \$12.9 billion or 3% higher than Second Half 2013. Excluding the impact of foreign exchange translation impacts, total deposits increased \$10.2 billion.

Total customer deposits were \$6.3 billion or 2% higher than Second Half 2013. Growth was weighted to household deposits with growth of 4.1%, which matched system growth. Business deposit growth was lower, particularly in financial institution deposits as the Group focused on sources of funds which were more efficient for liquidity and regulatory purposes.

Key features of customer deposit growth were:

- Australian customer deposits increased \$1.8 billion or 1%, with growth weighted to at call consumer savings and corporate working capital accounts. AFS transaction account balances were 3% higher in the half, mostly in consumer;
- Customers continued to direct funds to mortgage offset accounts, which was the primary reason for growth in Australian non-interest bearing deposits growth; and
- New Zealand customer deposits increased NZ\$1.7 billion or 4% with growth predominantly in online and transaction accounts offset by a decline in term deposits.

Certificates of deposit increased \$6.7 billion or 16%, reflecting an increase in short term wholesale to assist funding growth in trade finance.

#### First Half 2014 – First Half 2013

Total deposits and other borrowings were \$34.0 billion or 8% higher compared to First Half 2013. Excluding foreign exchange translation impacts, total deposits increased \$25.7 billion.

The strong growth in customer deposits of \$29.3 billion (or 8%) was supported by consumer preferences for bonus saver deposits and above system growth in household deposits. This change in preferences for at call deposits contributed to a fall in term deposit balances.

Key features of customer deposit growth were:

- Australian customer deposits increased \$17.4 billion or 6%, from strong growth in household deposits; and
- New Zealand customer deposits increased NZ\$3.3 billion or 7%, predominantly reflecting strong growth in consumer online deposits.

Certificates of deposit were \$4.7 billion higher reflecting an increase in short term wholesale to fund growth in trade finance.

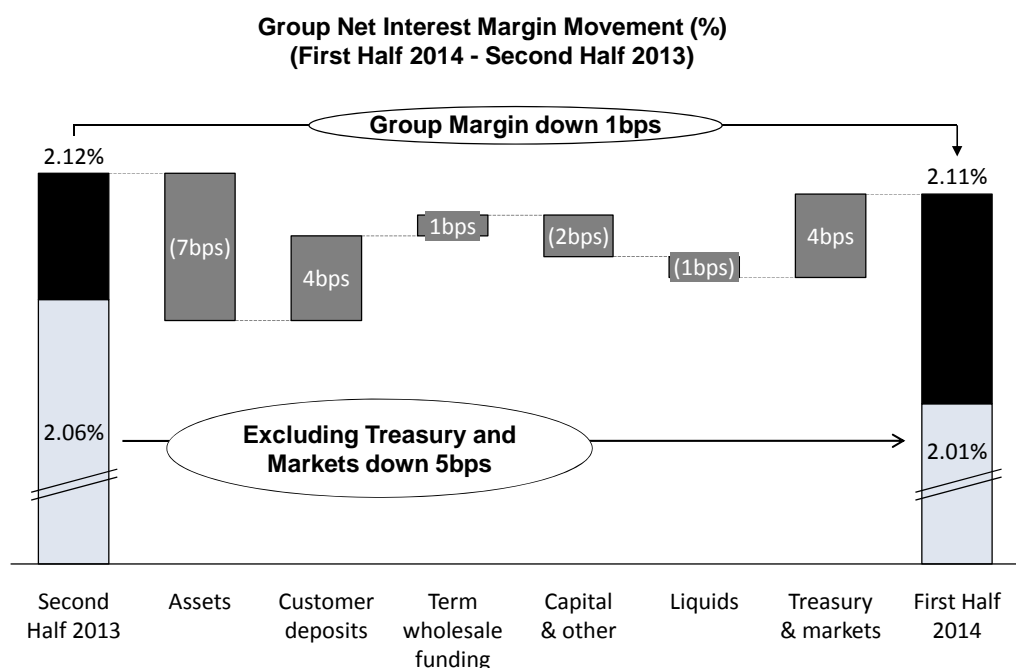


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Margins<sup>1</sup>

	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14- Sept 13	% Mov't Mar 14- Mar 13
<b>\$m</b>					
Net interest income	6,677	6,467	6,445	3	4
Markets net interest income	45	33	37	36	22
Treasury net interest income <sup>1</sup>	250	148	318	69	(21)
Net interest income excluding Treasury & Markets	6,382	6,286	6,090	2	5
Average interest-earning assets	635,657	608,153	591,539	5	7
Group net interest margin	2.11%	2.12%	2.19%	(1bps)	(8bps)
Group net interest margin excluding Treasury & Markets	2.01%	2.06%	2.06%	(5bps)	(5bps)

First Half 2014 – Second Half 2013



Group net interest margin was 2.11% for First Half 2014, a decrease of 1 basis point from Second Half 2013.

Net interest margin excluding the contribution from Treasury and Markets was 2.01%, a decrease of 5 basis points from Second Half 2013. Margins in AFS increased, while competitive pressure in WIB and New Zealand saw margins decline. Holding higher average liquid asset balances also reduced margins.

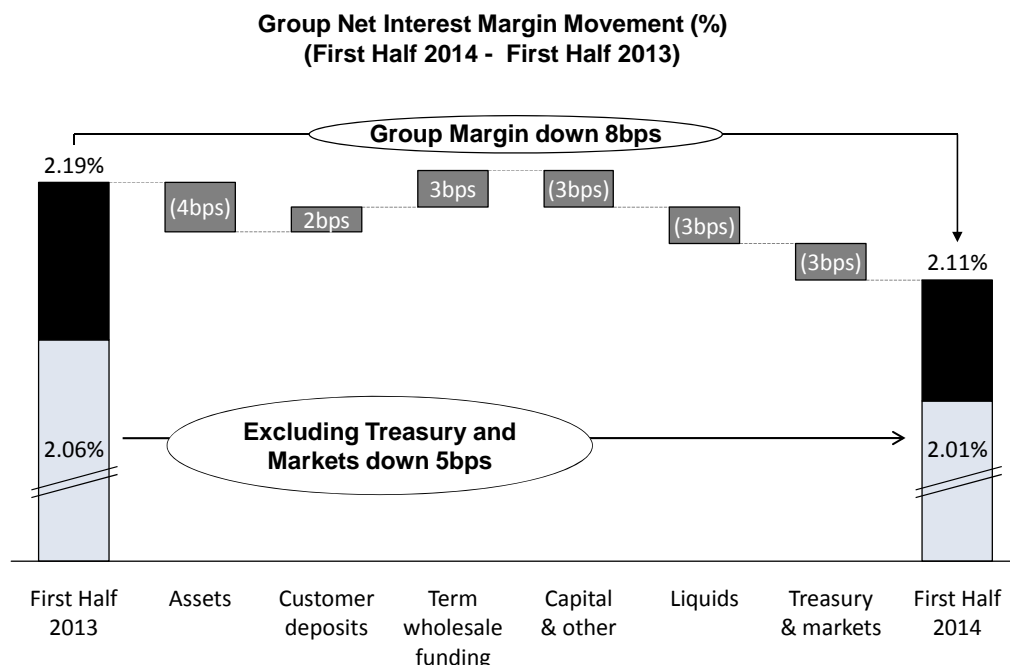
The components of the movements in margin excluding the contribution from Treasury and Markets were:

- 7 basis points decrease from asset spreads. Mortgages were the primary driver of the reduction, with spreads lower in both Australia and New Zealand due to competition for new lending and customer preference for lower spread fixed rate mortgages. Business and institutional spreads were also lower in the half;
- 4 basis point increase from customer deposit impacts, from improved term deposit spreads, offset by a lower hedging benefit on low interest deposits. Whilst headline rates reduced in the half, take up of bonus rate offers remained high, particularly with online savings products;
- 1 basis point improvement from term wholesale funding, as pricing for new longer term senior issuances was lower than maturing wholesale funding (2 basis points). This was in part offset by the higher cost of new Tier 1 and Tier 2 capital issues (1 basis point);
- 2 basis point decline from capital and other due to the impact of lower hedge rates on capital returns; and
- 1 basis point decline from holding higher average levels of liquid assets (\$6.7 billion higher).

<sup>1</sup> Treasury net interest income excludes capital benefit.

Treasury and Markets contribution to Group net interest margin increased 4 basis points from earnings associated with the improved returns from management of the liquids portfolio and interest rate risk management.

First Half 2014 – First Half 2013



Group net interest margin was 2.11% for First Half 2014, a decrease of 8 basis points from First Half 2013.

Net interest margin excluding the contribution from Treasury and Markets was 2.01%, 5 basis points lower than First Half 2013. Margins in AFS increased while competitive pressure in WIB and New Zealand saw margins lower. The components of the 5 basis point decrease were:

- 4 basis point decline from asset spreads. The decrease was attributable to compression across the institutional and business lending portfolios, including mix impacts from the run down in stressed assets and growth in lower spread trade finance. Mortgage spreads were little changed relative to First Half 2013 with the benefit from reduced funding costs offset by lower spreads from customer preference for fixed rate mortgages;
- 2 basis point increase from customer deposit impacts, mostly from improved term deposit spreads. This was partially offset by a lower hedging benefit on low interest deposits and spread contraction in working capital balances following repricing;
- 3 basis point benefit from lower wholesale funding costs as pricing for new long term senior issuances was lower than maturing deals (4 basis points), many of which were originated during the GFC. This was partly offset by additional higher cost Tier 1 capital issues (1 basis point);
- 3 basis point decline from lower returns on capital balances as hedge rates reduced over the twelve months; and
- 3 basis point decline from holding higher average levels of liquid assets (\$12.8 billion higher).

Treasury and Markets contribution to the Group net interest margin was 3 basis points lower. This reflected lower returns from the management of the liquids portfolio and balance sheet management in Treasury, following a particularly strong performance in the First Half 2013.

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2.2.2 Non-Interest Income<sup>1</sup>

	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14- Sept 13	%Mov't Mar 14- Mar 13
<b>\$m</b>					
Fees and commissions	1,458	1,393	1,330	5	10
Wealth management and insurance income	1,111	1,024	934	8	19
Trading income	547	550	520	(1)	5
Other income	66	44	126	50	(48)
<b>Non-interest income</b>	<b>3,182</b>	<b>3,011</b>	<b>2,910</b>	<b>6</b>	<b>9</b>

First Half 2014 – Second Half 2013

Non-interest income increased \$171 million or 6% compared to Second Half 2013, from improved fees and commissions income and strong growth in wealth management and insurance income. Lloyds contributed \$21 million to non-interest income in First Half 2014.

Fees and commissions

The \$65 million increase in fees and commissions included:

- Higher credit card income of \$32 million reflecting seasonality and higher interchange income driven by the Westpac Black credit card as well as increased loyalty points redemptions; and
- Higher undrawn line fees and income from trade finance to WIB customers of \$22 million.

Wealth management and insurance income

Wealth management and insurance income increased \$87 million, or 8%, compared to Second Half 2013.

Major factors impacting wealth management and insurance income were:

- FUM/FUA related income increased \$44 million, or 9%, with the benefit from positive net flows and improved investment markets;
  - Average Group FUM increased \$10.8 billion, or 13%, reflecting positive inflows in the BT Wholesale portfolios and stronger asset markets partially offset by margin compression. JOHCM saw FUM up 18% on Second Half 2013 of which 4% related to foreign exchange translation impacts; and
  - Average Group FUA increased \$6.8 billion, or 7%, reflecting positive inflows to the BT Wrap Platforms and Corporate Super portfolios and the benefit of stronger asset markets.
- Performance fees were \$47 million higher. BTIM performance fees increased \$105 million in First Half 2014. Second Half 2013 included \$54 million of performance fees associated with the sale of Hastings listed infrastructure funds;
- General Insurance income decreased \$10 million mainly reflecting higher seasonal claims, partly offset by 7% growth in net premiums. Claims tend to be seasonal, with higher claims (associated with weather events/fires) in the first half of the year increasing \$29 million in First Half 2014 compared to Second Half 2013;
- Life Insurance income increased \$15 million reflecting in-force premium growth of 7% partly offset by a small rise in loss rates; and
- Lenders Mortgage Insurance (LMI) income was little changed compared to Second Half 2013.

<sup>1</sup> Refer to Section 4 Note 4 for Reported Results breakdown. Refer to Section 5 Note 4 for Cash Earnings results breakdown. Refer to Section 8 for reconciliation between Reported Results and Cash Earnings. As discussed in Section 1.4, commentary is reflected on a Cash Earnings basis and does not directly align with reported non-interest income as disclosed in Section 4 Note 4.

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	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013	% Mov't Mar 14- Sept 13	% Mov't Mar 14- Mar 13
<b>\$bn</b>					
<b>Funds Under Management (FUM)</b>					
BT	71.4	66.5	57.2	7	25
Advance Asset Management	10.7	9.7	8.5	10	26
Westpac Institutional Bank	6.6	6.0	7.4	10	(11)
New Zealand (A\$)	4.6	3.9	3.3	18	39
<b>Group FUM</b>	<b>93.3</b>	<b>86.1</b>	<b>76.4</b>	<b>8</b>	<b>22</b>
<b>Funds Under Administration (FUA)</b>					
BT	72.9	69.7	62.7	5	16
Asgard	33.9	33.0	32.8	3	3
New Zealand (A\$)	1.4	1.2	1.0	17	40
<b>Group FUA</b>	<b>108.2</b>	<b>103.9</b>	<b>96.5</b>	<b>4</b>	<b>12</b>

	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14- Sept 13	% Mov't Mar 14- Mar 13
<b>\$bn</b>					
Average FUM for the Group <sup>1</sup>	91.3	80.5	72.3	13	26
Average FUA for the Group <sup>1</sup>	106.2	99.4	92.5	7	15

#### Trading Income<sup>1</sup>

Trading income decreased \$3 million, or 1%, compared to Second Half 2013. Higher sales and risk management income in WIB markets was largely offset by lower CVA benefit in First Half 2014. This is discussed further in the Markets Related Income section.

#### Other income

Other income was \$66 million in First Half 2014 up \$22 million. Asset sales were higher, due to the sale of some Visa shares in the half. Lloyds added \$12 million of rental income on operating leases in First Half 2014.

#### First Half 2014 – First Half 2013

Non-interest income was \$272 million or 9% higher than First Half 2013 reflecting solid growth in wealth management and insurance income, higher fees and commissions income and a small increase in trading income.

#### Fees and commissions

The \$128 million or 10% increase in fees and commissions mostly reflected higher cards income in Australia (\$48 million), higher business lending fee income and an increase in institutional fee income. Growth in cards income included higher credit card interchange fees from increased customer spending, and benefit from launching the new Westpac Black credit card. Higher loyalty point redemption income also contributed.

#### Wealth management and insurance income

Wealth management and insurance income increased \$177 million or 19% compared to First Half 2013. The major factors were:

- Increase in FUM/FUA related income of \$69 million, or 14%, from improved asset markets and positive net inflows, partially offset by lower margins:
  - Average Group FUM increased \$19.0 billion, or 26%, due to strong markets and positive inflows in the BT institutional and wholesale portfolios. JOHCM saw FUM increase 67%, of which 27% related to foreign exchange translation impacts; and

<sup>1</sup> Average FUM and FUA for the Group for First Half 2014, Second Half 2013 and First Half 2013 is based on a six month average.

- Average Group FUA increased \$13.7 billion, or 15%, with good flows in the BT Wrap and Corporate Super portfolios and positive investment markets including the ASX 200 average up 13%.
- Performance fees increased \$55 million from higher BTIM fees. First Half 2013 included \$26 million of performance fees from Hastings listed infrastructure funds which have been sold;
- General Insurance income increased \$34 million with net premiums growing 10% and lower claims experience with a small number of major events occurring in First Half 2014;
- Life Insurance income increased \$12 million with in-force premiums growth of 16% partly offset by higher claims; and
- LMI income decreased \$3 million with the impact of de-risking of the portfolio offset by a lower claims experience.

#### Trading Income

Trading income increased \$27 million or 5% compared to First Half 2013 from growth in WIB markets and Westpac Pacific, particularly in foreign exchange. This is discussed further in the Markets Related Income section.

#### Other income

Other income decreased \$60 million compared to First Half 2013 reflecting losses on hedging New Zealand earnings. Asset sales revenue was similar to First Half 2013.

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Markets Related Income<sup>1</sup>

Markets income comprises sales and risk management revenue derived from the creation, pricing and distribution of risk management products to business, corporate and institutional customers. Dedicated relationship specialists provide product solutions to these customers to mitigate their risks, including interest rate, foreign exchange and credit.

	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14- Sept 13	% Mov't Mar 14- Mar 13
<b>\$m</b>					
Net interest income	45	33	37	36	22
Non-interest income	483	498	453	(3)	7
Trading income	449	476	449	(6)	-
Other non-interest income	34	22	4	55	large
<b>Total Markets Income</b>	<b>528</b>	<b>531</b>	<b>490</b>	<b>(1)</b>	<b>8</b>
Customer Income	389	380	360	2	8
Non-customer Income	139	151	130	(8)	7
<b>Total Markets Income</b>	<b>528</b>	<b>531</b>	<b>490</b>	<b>(1)</b>	<b>8</b>

First Half 2014 – Second Half 2013

Markets income decreased \$3 million, or 1%, compared to Second Half 2013.

Customer related income increased \$9 million or 2% in First Half 2014 from sustained strong foreign exchange and debt capital markets customer sales income. Continued market volatility has resulted in customers continuing to actively manage foreign exchange risks.

Non-customer related income decreased \$12 million in First Half 2014 as higher markets risk management income, particularly in energy, was more than offset by a lower impact of CVA (\$68 million). CVA in First Half 2014 was a charge of \$1 million compared to a \$67 million benefit in Second Half 2013.

First Half 2014 – First Half 2013

Markets income increased \$38 million, or 8%, compared to First Half 2013.

Customer related income increased \$29 million or 8% compared to First Half 2013. Increased market volatility saw more customers actively managing their foreign exchange risks leading to higher foreign exchange customer sales income.

Non-customer related income increased \$9 million or 7% compared to First Half 2013 reflecting strong gains in energy trading offset by a lower impact of CVA. CVA in First Half 2014 was a charge of \$1 million compared to a \$20 million benefit in First Half 2013.

Markets Value at Risk (VaR)<sup>2</sup>

Risk taking as measured by VaR increased compared to Second Half 2013.

Average VaR for First Half 2014 was \$10.0 million compared to \$8.6 million for Second Half 2013 and \$5.4 million for First Half 2013. The components and range of daily VaR are further outlined in Section 4, Note 19.

<sup>1</sup> Markets income includes WIB, AFS and Westpac New Zealand markets.

<sup>2</sup> VaR measures the potential for loss using a history of price movements. Therefore, price volatility is a key component of this measure.

### 2.2.3 Operating Expenses<sup>1</sup>

				% Mov't	% Mov't
	Half Year	Half Year	Half Year	Mar 14-	Mar 14-
\$m	March 14	Sept 13	March 13	Sept 13	Mar 13
Salaries and other staff expenses	(2,344)	(2,176)	(2,160)	(8)	(9)
Equipment and occupancy expenses	(692)	(710)	(660)	3	(5)
Other expenses	(1,029)	(1,049)	(1,004)	2	(2)
<b>Total expenses</b>	<b>(4,065)</b>	<b>(3,935)</b>	<b>(3,824)</b>	<b>(3)</b>	<b>(6)</b>

#### First Half 2014 – Second Half 2013

Operating expenses increased \$130 million or 3% compared with Second Half 2013. Excluding foreign exchange translation impacts (\$32 million), and Lloyds (\$35 million), operating expenses increased \$63 million or 2%. Growth in operating expenses reflected higher performance related payments in the wealth business and higher investment related costs, with the delivery of \$102 million in productivity benefits offsetting operating cost increases.

#### Salaries and other staff expenses

Salaries and other staff expenses increased \$168 million or 8% compared to Second Half 2013. Excluding foreign exchange translation impacts (\$15 million) and Lloyds (\$19 million) salaries and other staff expenses increased \$134 million or 6%. This result was driven primarily by higher performance related payments in the wealth business (\$55 million) associated with higher performance fees earned, salary increases from January 2014, restructuring costs across the Group and additional FTE to support investments. These increases were partly offset by the delivery of productivity programs across the Group.

#### Equipment and occupancy expenses

Equipment and occupancy costs were \$18 million or 3% lower compared to Second Half 2013. Savings from consolidation of property, new branch layouts and benefits from GST recoveries were partly offset by rental increases and investment in seven new Bank of Melbourne branches. Software amortisation expense was broadly flat on Second Half 2013.

#### Other expenses

Total other expenses were \$20 million or 2% lower compared to Second Half 2013. Operating expenses continued to be well managed with cost management initiatives more than offsetting the impact of investment spend including higher software licences and technology support costs and seasonally higher credit card reward program costs due to increased points redemptions.

#### First Half 2014 – First Half 2013

Operating expenses increased \$241 million or 6% compared to First Half 2013. Excluding foreign exchange translation impacts (\$60 million) and Lloyds (\$35 million), operating expenses increased \$146 million or 4%. Growth in operating expenses mostly reflected higher investment related costs which added 3%, including 1% from higher software amortisation and hardware depreciation.

#### Salaries and other staff expenses

Salaries and other staff expenses increased \$184 million or 9% compared to First Half 2013. Excluding foreign exchange translation impacts (\$26 million) and Lloyds (\$19 million) salaries and other staff expenses increased \$139 million or 6%. This result was driven primarily by higher performance related payments in the wealth business (\$43 million), salary increases, higher restructuring costs and additional FTE to support growth in Asia, Bank of Melbourne and regulatory change programs. These increases were partly offset by the delivery of productivity programs across the Group.

<sup>1</sup> Refer to Section 4 Note 5 for Reported Results breakdown. Refer to Section 5 Note 5 for Cash Earnings breakdown. Refer to Section 8 for reconciliation between Reported Results and Cash Earnings. As discussed in Section 1.4, commentary is on a Cash Earnings basis and does not directly align with reported operating expenses as disclosed in Section 4 Note 5.



#### Equipment and occupancy expenses

Equipment and occupancy costs increased \$32 million or 5% compared to First Half 2013. This was driven by higher software amortisation and hardware depreciation (\$32 million) related to the Group's investment programs. An increase in rental and other property related costs including the impact of an additional 13 Bank of Melbourne branches was partly offset by savings from property consolidation, GST recoveries and a smaller footprint from new branch layouts.

#### Other expenses

Total other expenses were \$25 million or 2% higher compared to First Half 2013. Higher technology, licensing and maintenance costs related to the Group's investment programs were partially offset by disciplined expense management and lower advertising spend, as First Half 2013 saw the relaunch of a number of the Group's brands.

#### Full Time Equivalent Employees (FTE)

	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013	% Mov't Mar 14- Sept 13	% Mov't Mar 14- Mar 13
<b>Analysis of movement in FTE</b>					
Permanent employees	33,619	33,045	33,391	2	1
Temporary employees	2,875	2,552	2,609	13	10
<b>FTE</b>	<b>36,494</b>	<b>35,597</b>	<b>36,000</b>	<b>3</b>	<b>1</b>
<b>Average FTE</b>	<b>35,962</b>	<b>35,904</b>	<b>35,968</b>	<b>-</b>	<b>-</b>

#### First Half 2014 – Second Half 2013

FTE increased 897 or 3% compared to Second Half 2013 largely due to the acquisition of Lloyds (586 FTE). Other increases included; regulatory change and compliance programs (137 FTE), Bank of Melbourne (61 FTE) and expansion in Asia (59 FTE). This was partially offset by productivity initiatives, including the supplier program.

#### First Half 2014 – First Half 2013

FTE increased 494 or 1% compared to First Half 2013 largely as a result of the acquisition of Lloyds (586 FTE). Benefits from productivity initiatives more than offset growth in FTE relating to Bank of Melbourne (175 FTE), regulatory change and compliance programs (137 FTE), simplification programs (130 FTE) and expansion in Asia (117 FTE).

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Investments

	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14- Mar 13
<b>\$m</b>					
Expensed	186	183	193	2	(4)
Capitalised software and fixed assets	345	475	294	(27)	17
<b>Total</b>	<b>531</b>	<b>658</b>	<b>487</b>	<b>(19)</b>	<b>9</b>
Growth and productivity	249	325	265	(23)	(6)
Regulatory change	155	173	128	(10)	21
Other technology	127	160	94	(21)	35
<b>Total</b>	<b>531</b>	<b>658</b>	<b>487</b>	<b>(19)</b>	<b>9</b>

Investment spend was \$531 million during First Half 2014, with 47% spent on growth and productivity initiatives, 29% directed to regulatory change and 24% invested in other technology. Of this expenditure, 65% was capitalised, while 35% was expensed.

Growth and productivity programs delivered core capabilities and efficiencies across the Group. Initiatives in First Half 2014 include:

- Commenced migration of customers onto the Group's new online and mobile banking platform;
- Increased expenditure on productivity programs, including investments in digital and mobile, branch transformation and mortgage transformation initiatives. The "60 Minute Mortgage" project, successfully piloted the capability to unconditionally approve non-complex loans in a single branch visit; and
- BT is developing "Panorama", a new integrated wealth platform to transform how customers build, manage and protect their wealth. The first phase of this platform, BT Cash, was completed during First Half 2014.

Regulatory change programs reflected commitments to address requirements by Governments and regulators globally. Spend for First Half 2014 was \$155 million, which included delivery of the following initiatives:

- Future of Financial Advice (FOFA) reforms within the Wealth business, providing the advisor network better and faster access to improved client information, and enabling improved service levels while satisfying compliance obligations;
- Stronger Super program successfully implemented MySuper requirements, involving superannuation system updates, staff training and customer communications;
- ASX Direct Clearing stream, with Westpac Group becoming a Direct ASX Clearing member for a number of interest rate derivatives;
- Low Value Settlement Services initiative facilitated the roll out of RBA-mandated intra-day settlement payments for low value settlements;
- The Privacy Program has implemented the necessary changes following amendments to the Privacy Act, which come into effect in 2014; and
- National Consumer Credit Protection Program achieved a significant milestone in compliance with the required legislation, with the implementation of the October 2013 Hardship regulatory requirements.

Other technology spend was \$127 million, including significant upgrades to security applications, general ledger and payroll systems as well as progressing the migration of server infrastructure into Westpac's new data centre.

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Capitalised Software

\$m	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14- Sept 13	%Mov't Mar 14- Mar 13
Capitalised Softw are opening balance	1,897	1,651	1,551	15	22
Total additions	332	452	286	(27)	16
Amortisation expense	(209)	(206)	(182)	(1)	(15)
Impairment expense	(6)	(12)	(3)	50	(100)
Foreign exchange translation	9	14	1	(36)	large
Other	-	(2)	(2)	100	100
<b>Closing Balance</b>	<b>2,023</b>	<b>1,897</b>	<b>1,651</b>	<b>7</b>	<b>23</b>

First Half 2014 – Second Half 2013

Capitalised software increased \$126 million or 7% compared to Second Half 2013 driven by:

- Additions of \$332 million. This represents a 27% decrease on Second Half 2013, primarily due to the cyclical nature of investments whereby portfolios typically transition from design to implementation phases in the second half of the year; partially offset by;
- Amortisation expense of \$209 million broadly unchanged during the half; and
- As part of the Group's regular asset review, \$6 million of software assets were identified as no longer being actively used.

First Half 2014 – First Half 2013

Capitalised software increased \$372 million or 23% compared to the First Half 2013 due to:

- Expenditure in relation to investments in digital and mobile, branch transformation and mortgage transformation initiatives;
- Increased regulatory change spend in line with regulatory change requirements;
- Increased spend on IT core technology applications, including upgrades to the Group's general ledger and payroll systems as well as enhancements to security systems across the Group; and
- This was partially offset by an increase in amortisation expense of \$27 million or 15%.

## 2.2.4 Impairment Charges

	Half Year	Half Year	Half Year	% Mov't	% Mov't
\$m	March 14	Sept 13	March 13	Mar 14 - Sept 13	Mar 14 - Mar 13
<b>Individually assessed provisions (IAPs)</b>					
New IAPs	(349)	(555)	(557)	37	37
Write-backs	244	254	225	(4)	8
Recoveries	48	35	41	37	17
<b>Total IAPs, write-backs and recoveries</b>	<b>(57)</b>	<b>(266)</b>	<b>(291)</b>	<b>79</b>	<b>80</b>
<b>Collectively assessed provisions (CAPs)</b>					
Write-offs	(331)	(382)	(326)	13	(2)
Other changes in CAPs	47	239	179	(80)	(74)
<b>Total new CAPs</b>	<b>(284)</b>	<b>(143)</b>	<b>(147)</b>	<b>(99)</b>	<b>(93)</b>
<b>Total impairment charges</b>	<b>(341)</b>	<b>(409)</b>	<b>(438)</b>	<b>17</b>	<b>22</b>

The improvement in asset quality experienced over Full Year 2013 continued into First Half 2014 with stressed assets and the emergence of new impaired assets continuing to reduce. This improvement contributed to a \$97 million reduction in impairment charges compared to First Half 2013. Divisionally, the improvement in impairment charges was most evident in the WIB and Westpac New Zealand portfolios. Economic overlays for specific risks were increased marginally, up \$9 million in First Half 2014, with a balance of \$398 million at 31 March 2014.

### First Half 2014 – Second Half 2013

Impairment charges for First Half 2014 were \$341 million, down \$68 million or 17% compared to Second Half 2013, and were equivalent to 12 basis points of average gross loans.

Key movements included:

- Total new individually assessed provisions (IAP) less write-backs and recoveries were \$57 million in First Half 2014, \$209 million lower than Second Half 2013:
  - The continued slowing in the emergence of new impaired assets is a trend that was consistent across all the major divisions. New IAPs were down \$206 million with write-backs and recoveries little changed (up \$3 million); and
  - In total, new IAPs less write-backs and recoveries within St.George, New Zealand, Westpac RBB and WIB were down \$87 million, \$56 million, \$40 million and \$26 million respectively.
- Total new collectively assessed provisions (CAP) contributed \$284 million to impairment charges in First Half 2014, \$141 million higher than recorded in Second Half 2013. Key movements included:
  - Write-offs direct were \$51 million lower compared to Second Half 2013, mostly in the credit card and overdraft portfolios, with the improvement in line with seasonal patterns; and
  - Other changes in CAP's were a benefit of \$47 million in First Half 2014 compared to a \$239 million benefit in Second Half 2013, a \$192 million difference:
    - Business and institutional credit quality has continued to improve although the CAP benefits from this reduction in stress have slowed;
    - In the consumer portfolios, CAP charges were higher, mostly reflecting the seasonal increase in short term delinquencies in the unsecured portfolios; and
    - The economic overlays were increased by \$9 million in First Half 2014 following little change in Second Half 2013.

First Half 2014 – First Half 2013

Impairment charges for First Half 2014 were \$341 million, down \$97 million or 22% compared to First Half 2013 primarily due to the lower incidence of new impaired assets.

Key movements included:

- New IAPs less write-backs and recoveries were \$234 million lower compared to First Half 2013 from improving asset quality across all major divisions, with the largest reductions recorded in WIB, Westpac RBB and St.George with charges \$106 million, \$48 million and \$44 million lower respectively;
- Total new CAPs were \$137 million higher compared to First Half 2013, as the benefits from reducing stress in the business portfolios which led to lower collective provision requirements slowed. This was particularly evident in WIB, Westpac RBB and St.George portfolios; and
- Consumer portfolios experienced a modest rise in new CAP charges over First Half 2014 compared to First half 2013 including higher write-offs.

#### 2.2.5 Tax Expense

##### First Half 2014 – Second Half 2013

The effective tax rate of 30.1% in First Half 2014 was broadly unchanged from Second Half 2013 effective tax rate of 30.0%.

##### First Half 2014 – First Half 2013

The effective tax rate of 30.1% in First Half 2014 decreased compared to the First Half 2013 effective tax rate of 30.4%. This decrease was largely due to higher deductible expenses related to employee share schemes.

#### 2.2.6 Non-Controlling Interests

The non-controlling interests primarily represent distributions on hybrid equity instruments 2003 TPS<sup>11</sup> and 2006 TPS<sup>1</sup>, as well as other non-controlling interests, including the 38.9% portion of BTIM that Westpac does not own.

Non-controlling interests of \$38 million for First Half 2014 were \$2 million lower than Second Half 2013 and \$2 million higher than First Half 2013. The reduction in distributions on hybrid equity instruments following the redemption of the 2003 TPS on 30 September 2013 was largely offset by non-controlling interests share in the after tax contribution of BTIM in First Half 2014.

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<sup>1</sup> Non-controlling interests include distributions on 2003 Trust Preferred Securities (TPS) and 2006 TPS:

- There were 750,000 2003 TPS issued in the United States of America at US\$1,000 each on 13 August 2003, with non-cumulative semi-annual distributions (31 March and 30 September) in arrears at the annual rate of 5.819% up to but excluding 30 September 2013. These were redeemed on 30 September 2013; and
- Westpac TPS Trust issued 7,627,375 2006 TPS in Australia at \$100 each on 21 June 2006. The 2006 TPS are preferred units in the Westpac TPS Trust, with non-cumulative floating rate distributions which are expected to be fully franked. Westpac TPS Trust also issued one ordinary unit with an issue price of \$100 to Westpac. Westpac, as holder of the ordinary unit, is entitled to any residual income or assets of the Westpac TPS Trust not distributed to holders of 2006 TPS. The 2006 TPS are scheduled to pay quarterly distributions (30 September, 31 December, 31 March and 30 June) in arrears, subject to certain conditions being satisfied. The distribution rate on 2006 TPS, until 30 June 2016 (the step-up date) is calculated as the Australian 90 day bank bill rate plus 1% per annum (the initial margin), together multiplied by one minus the Australian corporate tax rate (30% during all periods). After the step-up date, the initial margin will increase by a one-time step-up of 1% per annum.

## 2.3 Credit Quality

The improvement in the quality of the portfolio seen over Full Year 2013 continued into First Half 2014, with a reduction in stressed assets and a decrease in the emergence of new problem facilities.

Total stressed assets declined \$1.3 billion over the half with the ratio of stressed assets to total committed exposures declining 23 basis points to 1.37% at 31 March 2014 (see 2.3.1 Credit Quality Key Metrics). The improvement in stressed assets over the prior half was spread across all categories with the ratio of impaired assets declining 10 basis points to 0.34%, the ratio of 90 days past due but well secured assets falling 3 basis points and the proportion of watchlist and substandard assets declining 10 basis points. The reduction in impaired assets was a particular highlight, with their value 20% lower. The decline in New Zealand impaired assets was even larger with the level of impaired assets falling by over one third over the last six months.

The acquisition of Lloyds had little overall impact on asset quality metrics in the half. The corporate loan portfolio acquired was of a high quality given the non-performing book was sold separately. As anticipated, the equipment finance and auto finance portfolio's contained low levels of stressed facilities consistent with similar assets held by the Group. From an asset quality perspective, the acquired portfolio is performing to expectations.

### Portfolio segments

The institutional and commercial segment continues to perform particularly well as customers remain cautious and protective of their balance sheets. Stressed assets further reduced, with the work-out of a number of impaired facilities, while watchlist assets also fell as a number of facilities were refinanced or returned to full health, often after asset sales or restructurings.

The commercial property segment has been the largest source of impairments over recent years, although stress in the portfolio has reduced dramatically from a peak of 15.5% (stressed assets as a per cent of total committed exposures) at 30 September 2010 to 3.0% at 31 March 2014. The level of stress in commercial property is now similar to other business sectors. The continued improvement in the portfolio reflects better liquidity in the property market which has supported property sales and assisted in the work out of existing stressed facilities.

Across the Group there was only one new large (>\$50 million) problem facility that emerged during First Half 2014.

The small and medium business portfolio has performed well and the number of facilities in work-out has continued to reduce over the last 6 months. Despite this decline, the Group is closely monitoring sectors impacted by the peaking of the mining investment cycle along with sectors and regions undergoing structural change including from certain manufacturing sectors.

A key feature of asset quality over the recent periods has been a fall in the emergence of new impaired assets consistent with the improvement in the economy, low interest rates and modest levels of business gearing. This trend continued in First Half 2014 with levels of new impaired assets more than 25% lower than levels recorded in the previous two halves.

In the consumer sector, unsecured consumer delinquencies have trended lower over the year supported by low relative interest rates and continuing cautious behaviour by consumers. 90+ day delinquencies were 18 basis points lower over the year falling to 1.12%. 90+ day delinquencies did increase 8 basis points since 30 September 2013, consistent with normal seasonal trends associated with Christmas/New Year spending. Trends were similar across Australia and New Zealand.

Australian mortgage 90+ day delinquencies were 0.50% at 31 March 2014 a fall of 3 basis points over First Half 2014 and 8 basis points lower compared to 31 March 2013. While seasonal trends saw early cycle delinquencies a little higher over the half the impact was less pronounced for 90+ day delinquencies.

Queensland delinquencies have improved slightly, although they continue to be around 50% higher than the portfolio average reflecting the more challenging conditions in that State.

New Zealand mortgage 90+ day delinquencies were stable at 0.29% when compared to 30 September 2013, and 10 basis points lower compared to 31 March 2013, the lowest level since early 2008. The low level of delinquencies and the improvement over the year reflects the improving economy and the stronger Auckland housing market.

Australian properties in possession reduced by 164 over First Half 2014 to 189 supported by the improved Australian property market. Realised mortgage losses were \$45 million for First Half 2014 equivalent to 2 basis points of the portfolio.



## Provisioning

Westpac has maintained strong provisioning coverage with:

- The ratio of impaired asset provisions to total impaired assets at 46%; and
- The ratio of collectively assessed provisions to credit risk weighted assets at 0.97%. This ratio has declined slightly from 0.99% at 30 September 2013 and remains strong as provisions have moderated in line with reducing stress.

Total impairment provisions were \$3,791 million at 31 March 2014, down \$158 million over the half consistent with \$1.3 billion reduction in stressed assets. IAPs reduced \$225 million to \$1,139 million and CAPs increased \$67 million to \$2,652 million at 31 March 2014. In line with the fall in impaired assets, IAPs were lower over the year.

Collectively assessed provision balances were slightly higher over First Half 2014. Movements in the collectively assessed provision can principally be traced back to:

- Increase in provisions for the unsecured consumer portfolio in line with the seasonal delinquency trends, particularly early cycle delinquencies; and
- A net \$9 million increase in the economic overlay to \$398 million. Over the half, the composition of the overlay changed with provisions against commercial property and New Zealand segments (including earthquake related provisions) no longer required. Offsetting these reductions has been an increase in economic overlay provisions for sectors and regions of the economy undergoing structural change, including elements of the manufacturing sector.

Loans acquired in the Lloyds transaction were initially recognised by the Group at fair value and presented net of the impact of provisions. This recognition treatment has had only a minor impact on asset quality metrics and provision coverage ratios, including 3 basis points on CAP to credit risk weighted assets.

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2.3.1 Credit Quality Key Metrics<sup>1</sup>

<b>Stressed Exposures by Credit Grade as a % of total committed exposures</b>	<b>Half Year March 14</b>	<b>Half Year Sept 13</b>	<b>Half Year March 13</b>
Impaired	0.34%	0.44%	0.56%
90 days past due, well secured	0.28%	0.31%	0.35%
Watchlist and substandard	0.75%	0.85%	1.03%
<b>Total Stressed Exposures</b>	<b>1.37%</b>	<b>1.60%</b>	<b>1.94%</b>
<b>Impaired Assets to total committed exposures for Business and Institutional</b>	<b>Half Year March 14</b>	<b>Half Year Sept 13</b>	<b>Half Year March 13</b>
Business impaired assets to business total committed exposures:			
Business Australia	1.20%	1.60%	2.13%
Business New Zealand	1.16%	1.88%	2.62%
Institutional	0.29%	0.37%	0.43%
<b>90 days past due for other consumer loans</b>	<b>Half Year March 14</b>	<b>Half Year Sept 13</b>	<b>Half Year March 13</b>
90 days past due:			
Group	1.12%	1.04%	1.30%
Australia	1.15%	1.06%	1.32%
New Zealand	0.90%	0.81%	0.96%
<b>90 days past due for mortgages</b>	<b>Half Year March 14</b>	<b>Half Year Sept 13</b>	<b>Half Year March 13</b>
90 days past due:			
Group	0.48%	0.51%	0.57%
Australia	0.50%	0.53%	0.58%
New Zealand	0.29%	0.29%	0.39%
<b>Other</b>	<b>Half Year March 14</b>	<b>Half Year Sept 13</b>	<b>Half Year March 13</b>
Total impaired assets to gross loans	0.51%	0.67%	0.82%
Total impaired asset provisions to total impaired assets	46.4%	43.2%	40.2%
Total provisions to gross loans	67bps	73bps	80bps
Collectively assessed provisions to performing non-housing loans <sup>1</sup>	134bps	142bps	151bps
Collectively assessed provisions to risk weighted assets	82bps	84bps	87bps
Collectively assessed provisions to credit risk weighted assets	97bps	99bps	106bps
<b>Other</b>	<b>Half Year March 14</b>	<b>Half Year Sept 13</b>	<b>Half Year March 13</b>
Impairment charges to average loans annualised	12bps	15bps	17bps
Net write-offs to average loans annualised	22bps	29bps	21bps

<sup>1</sup> Non-housing loans have been determined on a loan purpose basis.

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2.4 Balance Sheet and Funding

2.4.1 Balance Sheet

\$m	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013	%Mov't Mar 14- Sept 13	%Mov't Mar 14- Mar 13
<b>Assets</b>					
Cash and balances with central banks	16,375	11,699	6,600	40	148
Receivables due from other financial institutions	8,744	11,210	12,580	(22)	(30)
Trading securities, other financial assets designated at fair value and available-for-sale securities	79,392	79,100	76,664	-	4
Derivative financial instruments	26,207	28,356	29,323	(8)	(11)
Loans	564,569	536,164	521,130	5	8
Life insurance assets	12,841	13,149	12,895	(2)	-
Other assets	21,247	21,419	22,686	(1)	(6)
<b>Total assets</b>	<b>729,375</b>	<b>701,097</b>	<b>681,878</b>	<b>4</b>	<b>7</b>
<b>Liabilities</b>					
Payables due to other financial institutions	15,211	8,836	8,043	72	89
Deposits and other borrowings	437,405	424,482	403,406	3	8
Trading liabilities and other financial liabilities at fair value through income statement	15,077	10,302	8,833	46	71
Derivative financial instruments	31,330	32,990	34,081	(5)	(8)
Debt issues	150,098	144,133	144,303	4	4
Life insurance liabilities	11,594	11,938	11,794	(3)	(2)
Loan capital	10,320	9,330	10,880	11	(5)
Other liabilities	10,309	11,549	13,301	(11)	(22)
<b>Total liabilities</b>	<b>681,344</b>	<b>653,560</b>	<b>634,641</b>	<b>4</b>	<b>7</b>
<b>Equity</b>					
Total equity attributable to owners of Westpac Banking Corporation	47,165	46,674	45,260	1	4
Non-controlling interests	866	863	1,977	-	(56)
<b>Total equity</b>	<b>48,031</b>	<b>47,537</b>	<b>47,237</b>	<b>1</b>	<b>2</b>

First Half 2014 – Second Half 2013

Significant movements during First Half 2014 included:

Assets

- Cash and balances with central banks increased \$4.7 billion to facilitate same day settlements;
- Receivables due from other financial institutions decreased \$2.5 billion primarily due to lower cash collateral posted with counterparties and interbank lending;
- Trading securities, other financial assets designated at fair value and available-for sale securities increased \$0.3 billion;
- Derivative assets decreased \$2.1 billion mainly due to foreign exchange revaluation impacts of cross currency swaps; and
- Loans grew \$28.4 billion or 5%, which included Lloyds loan book of \$7.6 billion and foreign exchange translation impacts of \$3.3 billion. Refer to Section 2.2.1 Loans for further information on movements.

#### Liabilities

- Payables due to other financial institutions increased \$6.4 billion primarily due to repo facilities and an increase in interbank deposits;
- Deposits and other borrowings increased \$12.9 billion, with foreign exchange translation impacts contributing \$2.7 billion to total deposit growth. Refer to Section 2.2.1 Deposits for further information on deposit movements;
- Trading liabilities and other financial liabilities designated at fair value through income statement increased \$4.8 billion reflecting funding of higher market inventory;
- Derivative liabilities decreased \$1.7 billion primarily driven by foreign exchange impacts of the revaluation of cross currency swaps; and
- Debt issues increased \$6.0 billion with the issuance of an additional \$4.3 billion worth of covered bonds and a \$1.1 billion increase in securitisation programs. Refer to Section 2.4.2 Funding and Liquidity Risk Management for further information on movements.

#### Equity

Equity increased \$0.5 billion from increased retained profits (net of the payment of 2013 final and special dividends).

#### First Half 2014 – First Half 2013

Significant movements during the year included:

#### Assets

- Cash and balances with central banks increased \$9.8 billion from higher liquid assets and to facilitate same day settlements;
- Receivables due from other financial institutions declined \$3.8 billion primarily due to lower interbank lending and lower collateral posted with counterparties;
- Trading securities, other financial assets designated at fair value and available-for-sale securities increased \$2.7 billion reflecting additional market inventory;
- Derivative assets decreased \$3.1 billion mainly due to foreign exchange revaluation impacts of cross currency swaps; and
- Loans grew \$43.4 billion or 8% which included Lloyds loan book of \$7.6 billion and foreign exchange translation impacts \$10.1 billion. Refer to Section 2.2.1 Loans for further information on movements.

#### Liabilities

- Payables due to other financial institutions increased \$7.2 billion primarily due to repo facilities and placements from offshore central banks;
- Deposits and other borrowings increased \$34.0 billion, with foreign exchange translation impacts contributing \$8.3 billion to total deposit growth. Refer to Section 2.2.1 Deposits for further information on deposit movements;
- Trading liabilities and other financial liabilities designated at fair value increased \$6.2 billion reflecting higher market inventory and securities trading activity in WIB;
- Derivative liabilities decreased \$2.8 billion due to the foreign exchange revaluation impacts of cross currency swaps; and
- Debt issues increased \$5.8 billion reflecting increased covered bond outstandings of \$8.8 billion, partly offset by reductions in senior debt. Refer to Section 2.4.2 Funding and Liquidity Risk Management for further information.

#### Equity

Equity increased \$0.8 billion reflecting increased retained profits (net of the payment of dividends). There was also a \$1.1 billion decline in non-controlling interests following the redemption of a hybrid instrument (TPS 2003).

#### 2.4.2 Funding and Liquidity Risk Management

Liquidity risk is the risk that the Group will be unable to fund assets and meet obligations as they become due. This type of risk is inherent in all banks through their role as intermediaries between depositors and borrowers.

The Group has a robust liquidity risk management framework to ensure its ability to meet cash flow obligations under a wide range of market conditions, including Westpac specific and market-wide stress scenarios.

The regulatory environment for funding and liquidity risk is changing in response to the global financial crisis and reform measures announced by the Basel Committee on Banking Supervision (BCBS) in 2010. A description of the BCBS liquidity reforms, and an update on APRA's recently released Liquidity standard (APS210), are detailed in Section 2.6.

The Liquidity Coverage Ratio (LCR) is a key prudential requirement designed to promote resilience against potential liquidity disruptions over a 30 day horizon (short term stress scenario) including through the holding of sufficient high quality liquid assets. The Group is required to meet a LCR of at least 100% when it comes into effect from 1 January 2015.

Westpac held \$127 billion in unencumbered liquid assets as at 31 March 2014. This portfolio provides a source of reserve liquidity as eligible collateral under the Central Bank repurchase agreement facility and proposed Committed Liquidity Facility (CLF). Unencumbered liquid assets at 31 March 2014 were relatively unchanged compared to 30 September 2013.

At 31 March 2014 the Group's liquid asset portfolio comprised:

- \$43 billion of cash and balances on deposit at Central Banks, along with Government and semi-Government bonds;
- \$26 billion of repo-eligible private securities and Government guaranteed bonds; and
- \$58 billion of self-originated AAA rated mortgage backed securities, which in extraordinary circumstances are eligible for repurchase with the RBA or the RBNZ.

As at 31 March 2014, the Group held sufficient liquid assets to cover all wholesale debt maturities within the next 21 months.

The Group monitors the composition and stability of its funding base to ensure it remains appropriately within the Group's funding risk appetite. This includes a target Stable Funding Ratio (SFR)<sup>1</sup> greater than 75%. Stable funding includes customer deposits, wholesale term funding with residual contractual maturity greater than 12 months, securitisation and equity.

During First Half 2014, a pick-up in system credit growth and the acquisition of Lloyds translated into a lift in asset growth for the Group. This was funded through growth in customer deposits and an increase in term wholesale funding, maintaining the Group's SFR at 83%, 45 basis points lower compared to 30 September 2013. The Group's SFR has remained stable at or above 83% since September 2012, as the Group focuses on maintaining the strength of its balance sheet and funding new lending through stable sources.

The Group's funding composition has also remained stable over recent periods. Customer deposits represented 60% of the Group's total funding at 31 March 2014, little changed from 30 September 2013 (61%) and 31 March 2013 (59%).

In addition to the 60% of customer deposits, the Group's SFR of 83% includes 2% from securitisation, 15% from long term funding with a residual maturity greater than one year and 7% from equity. These components were largely unchanged over First Half 2014.

The proportion of total funding from wholesale sources maturing within one year was 17%, an increase of 45 basis points. Excluding long term funding that has less than one year to maturity, the percent of this portion of the Group's portfolio has remained stable.

Customer deposits increased \$29.3 billion or 8% compared to First Half 2013. At the same time, net loans increased \$43.4 billion or 8%, with the acquisition of Lloyds adding \$7.6 billion in lending but little in deposit balances. As a result, the Group's customer deposit to loan ratio was broadly unchanged at 68.9% at 31 March 2014.

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<sup>1</sup> Stable funding ratio is total stable funding divided by total funding. Total funding includes customer deposits, total wholesale funding (short and long term) and equity.

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Higher loan growth led the Group to take advantage of positive conditions in wholesale markets during First Half 2014, raising \$19.7 billion in wholesale term funding, with a weighted average maturity of 4.9 years, excluding securitisation. This included \$1.0 billion in Basel III compliant Tier 2 capital issued in March 2014.

High levels of market liquidity and strong investor demand across markets, particularly in the Australian market, supported successful issuance by the Group in a number of formats, including senior unsecured debt, covered bonds, RMBS, auto ABS and capital securities. Improved conditions in cross currency markets also provided opportunities for the Group to issue in currencies, such as Euro and Yen, at more economic levels compared to the last two years.

Overall, support for Westpac across global funding markets remains strong and the Group is well positioned for the remainder of Full Year 2014.

The table below illustrates the Group's funding on a residual maturity basis. Further analysis of the funding view of the balance sheet is provided in Section 4 Note 22.

Funding by residual maturity

	As at 31 March 2014		As at 30 Sept 2013		As at 31 March 2013	
	\$m	Ratio %	\$m	Ratio %	\$m	Ratio %
<b>Customer deposits</b>	<b>388,891</b>	<b>59.6</b>	<b>382,632</b>	<b>60.6</b>	<b>359,610</b>	<b>59.0</b>
<b>Wholesale funding - residual maturity</b>						
Securitisation	11,488	1.8	10,372	1.6	11,470	1.9
Greater than 12 months	96,592	14.8	89,604	14.3	90,726	14.8
<b>Equity<sup>1</sup></b>	<b>47,215</b>	<b>7.2</b>	<b>46,641</b>	<b>7.4</b>	<b>45,471</b>	<b>7.5</b>
<b>Stable Funding Ratio (SFR)</b>	<b>544,186</b>	<b>83.4</b>	<b>529,249</b>	<b>83.9</b>	<b>507,277</b>	<b>83.2</b>
Less than 6 months	63,748	9.8	58,948	9.3	64,241	10.5
6 to 12 months	22,051	3.4	19,269	3.0	15,281	2.5
Long term to short term scroll <sup>2</sup>	22,415	3.4	23,628	3.7	23,111	3.8
<b>Short term wholesale funding</b>	<b>108,214</b>	<b>16.6</b>	<b>101,845</b>	<b>16.1</b>	<b>102,633</b>	<b>16.8</b>
<b>Total funding<sup>3</sup></b>	<b>652,400</b>	<b>100.0</b>	<b>631,094</b>	<b>100.0</b>	<b>609,910</b>	<b>100.0</b>

Deposits to Net Loans Ratio

	As at 31 March 2014		As at 30 Sept 2013		As at 31 March 2013	
	\$m	Ratio %	\$m	Ratio %	\$m	Ratio %
Customer deposits	388,891		382,632		359,610	
Net loans	564,569	68.9	536,164	71.4	521,130	69.0

<sup>1</sup> Equity less FX translation, Available-for-Sale Securities and Cash Flow Hedging Reserves.

<sup>2</sup> Scroll represents wholesale funding with an original maturity greater than 12 months that now has a residual maturity less than 12 months.

<sup>3</sup> Including Equity as described in footnote 1. Hybrids in the amount of \$0.9 billion have been included in wholesale funding.

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Funding view of the balance sheet

\$m	As at 31 March 2014					
	Liquid Assets	Customer Deposits	Wholesale Funding	Customer Franchise	Market Inventory	Total
Total assets	126,519	-	-	526,055	76,801	729,375
Total liabilities	-	(388,891)	(215,430)	-	(77,023)	(681,344)
Total equity	-	-	(866)	(47,215)	50	(48,031)
<b>Total</b>	<b>126,519</b>	<b>(388,891)</b>	<b>(216,296)</b>	<b>478,840</b>	<b>(172)</b>	<b>-</b>
Net loans <sup>2</sup>	58,078	-	-	506,491	-	564,569

\$m	As at 30 Sept 2013					
	Liquid Assets	Customer Deposits	Wholesale Funding	Customer Franchise	Market Inventory	Total
Total assets	125,647	-	-	500,030	75,420	701,097
Total liabilities	-	(382,632)	(200,958)	-	(69,970)	(653,560)
Total equity	-	-	(863)	(46,641)	(33)	(47,537)
<b>Total</b>	<b>125,647</b>	<b>(382,632)</b>	<b>(201,821)</b>	<b>453,389</b>	<b>5,417</b>	<b>-</b>
Net loans <sup>2</sup>	54,536	-	-	481,628	-	536,164

\$m	As at 31 March 2013					
	Liquid Assets	Customer Deposits	Wholesale Funding	Customer Franchise	Market Inventory	Total
Total assets	111,073	-	-	495,177	75,628	681,878
Total liabilities	-	(359,610)	(202,853)	-	(72,178)	(634,641)
Total equity	-	-	(1,977)	(45,471)	211	(47,237)
<b>Total</b>	<b>111,073</b>	<b>(359,610)</b>	<b>(204,830)</b>	<b>449,706</b>	<b>3,661</b>	<b>-</b>
Net loans <sup>2</sup>	45,500	-	-	475,630	-	521,130

<sup>1</sup> Refer to Section 4 Note 22 for a detailed analysis of the funding view of the balance sheet. Liquid assets are defined as assets that are eligible for re-purchase agreements with the Reserve Bank of Australia and the Reserve Bank of New Zealand.

<sup>2</sup> Liquid assets in net loans include internally securitised assets that are eligible for re-purchase agreements with the Reserve Bank of Australia and the Reserve Bank of New Zealand.



## 2.5 Capital and Dividends<sup>1</sup>

	<b>Preferred Range</b>	<b>As at 31 March 2014</b>	<b>As at 30 Sept 2013</b>	<b>As at 31 March 2013</b>
<b>Regulatory Capital Structure</b>				
Common equity Tier 1 (CET1) capital ratio	8.0% - 8.5%	8.8%	9.1%	8.7%
Additional Tier 1 capital		1.5%	1.6%	2.1%
Tier 1 capital ratio		10.3%	10.7%	10.8%
Tier 2 capital		1.8%	1.6%	1.7%
Total regulatory capital ratio		12.1%	12.3%	12.5%
<b>Risk weighted assets (RWA) \$m</b>		<b>322,498</b>	<b>307,372</b>	<b>307,976</b>

### Westpac Preferred Range

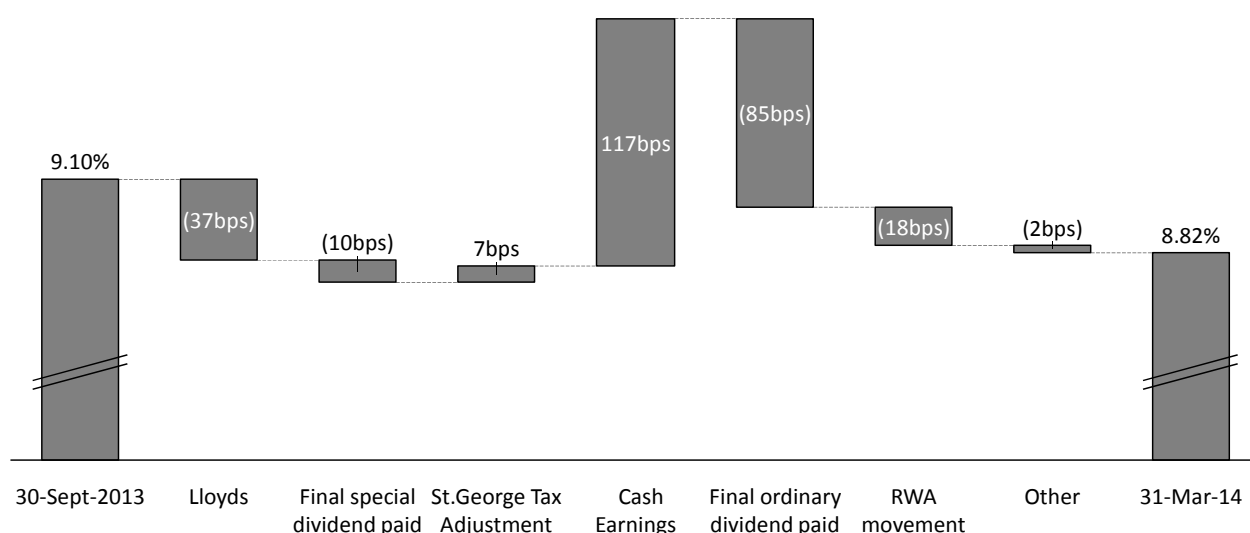
At 31 March 2014, Westpac's preferred range for the CET1 capital ratio calculated according to APRA's prudential standards was 8.0% - 8.5%. This range takes the following into consideration:

- Regulatory requirements and capital conservation buffer;
- Stress testing to maintain an appropriate buffer in a downturn; and
- Volatility of capital ratios associated with dividend payments.

In December 2013, APRA designated Westpac as a Domestic Systemically Important Bank (D-SIB). As a D-SIB, Westpac will be required to hold an additional one percentage point of capital as an extension to the capital conservation buffer. This requirement does not apply until 1 January 2016. Westpac is currently reviewing its preferred range following this announcement.

At 31 March 2014 Westpac's CET1 capital ratio of 8.82% was above its preferred range and well in excess of regulatory requirements.

### Common Equity Tier 1 Capital Ratio Movement for First Half 2014



The CET1 capital ratio of 8.82% at 31 March 2014 is 28 basis points lower than at 30 September 2013. The decline was principally due to the acquisition of Lloyds (37 basis point decrease) and the 10 cent special dividend (10 basis point decrease), partially offset by the last tranche of the St.George tax benefit (7 basis point increase). Excluding these items, the CET1 capital ratio increased 12 basis points due to:

- First Half 2014 Cash Earnings of \$3.8 billion (117 basis point increase);

<sup>1</sup> The capital ratios within this section are on a Level 2 basis. For reference, the Level 1 CET1 capital ratio at 31 March 2014 was 8.87%. Refer to the Glossary for a definition of Level 1 and Level 2 for regulatory capital purposes.

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- The 2013 final ordinary dividend (85 basis point decrease);
- Excluding Lloyds, risk weighted assets (RWA) increased \$6.1 billion from increased credit RWA (\$3.2 billion), higher market risk RWA (\$1.6 billion) and higher IRRBB RWA (\$1.5 billion). RWA changes are discussed later in this section; and
- Other movements in CET1 capital ratio (2 basis point decrease).

Additional Tier 1 Capital Movement for the First Half 2014

There were no Additional Tier 1 redemptions or issuances in First Half 2014. The small movement in Additional Tier 1 capital (from 1.6% to 1.5%) is due to growth in RWA.

Tier 2 Capital Movement for the First Half 2014

\$1.0 billion of Basel III compliant Tier 2 subordinated notes was issued in March 2014 which increased Tier 2 capital by 31 basis points. This increase was partially offset by the required regulatory amortisation of Tier 2 instruments that are not compliant with Basel III.

Risk weighted assets (RWA)

\$m	RWA				
	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>Credit risk</b>	<b>272,038</b>	<b>260,268</b>	<b>253,734</b>	<b>5</b>	<b>7</b>
Market risk	10,610	9,059	10,555	17	1
Operational risk	28,474	27,299	26,761	4	6
Interest rate risk in the banking book	8,459	6,929	13,744	22	(38)
Other	2,917	3,817	3,182	(24)	(8)
<b>Total</b>	<b>322,498</b>	<b>307,372</b>	<b>307,976</b>	<b>5</b>	<b>5</b>

Movements in RWA for First Half 2014 included:

- The Lloyds acquisition increased credit RWA \$8.5 billion and operational risk RWA \$0.5 billion;
- Excluding Lloyds, credit risk RWA increased 1% or \$3.2 billion, as the decline in the Australian dollar increased the value of non-Australian dollar lending and the residential mortgage, corporate and specialised lending portfolios grew. This was partially offset by a reduction in credit RWA from the continued run-off of stressed assets in the institutional and business lending portfolios;
- Market risk RWA increased \$1.6 billion, primarily due to increased exposure to Australian dollar and US dollar interest rate risk;
- Excluding Lloyds, operational risk RWA increased \$0.7 billion, driven by updated modelling that takes into consideration operational risk losses experienced by other financial institutions globally; and
- IRRBB increased \$1.5 billion reflecting increased interest rate exposure and a lower embedded gain.

## Capital Deduction for Regulatory Expected Credit Loss

For capital adequacy purposes APRA requires the amount of regulatory expected credit losses in excess of eligible provisions to be deducted from common equity tier 1 capital.

\$m	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013
<b>Provisions associated with eligible portfolios</b>			
Total provisions for impairment charges (Section 4 Note 11)	3,791	3,949	4,199
plus general reserve for credit losses adjustment	92	83	83
plus provisions associated with partial write-offs	528	640	622
less ineligible provisions <sup>1</sup>	(141)	(139)	(139)
<b>Total eligible provisions</b>	<b>4,270</b>	<b>4,533</b>	<b>4,765</b>
<b>Regulatory expected downturn loss<sup>2</sup></b>	<b>4,964</b>	<b>5,165</b>	<b>5,617</b>
<b>Common equity Tier 1 capital deduction for regulatory expected downturn loss in excess of eligible provisions</b>	<b>(694)</b>	<b>(632)</b>	<b>(852)</b>

### First Half 2014 – Second Half 2013

The capital deduction for regulatory expected downturn loss increased slightly over First Half 2014 when compared to Second Half 2013 as the reduction in regulatory expected loss of \$201 million was less than the reduction in total eligible provisions of \$263 million. This was due to:

- Improving asset quality reduced total provisions for impairment charges as fewer new IAPs were required and stressed assets continued to decline; and
- Regulatory expected loss also reduced through improving asset quality, but at a slightly slower rate than eligible provisions. The main reductions were in the property and Corporate portfolios.

### First Half 2014 – First Half 2013

The capital deduction for regulatory expected downturn loss decreased \$158 million as the reduction in regulatory expected loss of \$653 million was greater than that for eligible provisions, \$495 million. Both measures reduced in line with improvements in asset quality, however, the reductions in the stressed property portfolio have a greater impact on the calculation of regulatory expected downturn loss.

<sup>1</sup> Provisions associated with portfolios subject to the Basel standardised approach to credit risk are not eligible.

<sup>2</sup> Regulatory expected loss is calculated for portfolios subject to the Basel advanced IRB approach to credit risk. The comparison between regulatory expected loss and eligible provisions is performed separately for defaulted and non-defaulted exposures.

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Dividends

Ordinary dividend (cents per share)	Half Year March 14	Half Year Sept 13	Half Year March 13
Interim (fully franked)	90	-	86
Final (fully franked)	-	88	-
<b>Total ordinary dividend</b>	<b>90</b>	<b>88</b>	<b>86</b>
Special (fully franked)	-	10	10
<b>Total dividend</b>	<b>90</b>	<b>98</b>	<b>96</b>

The Directors have determined a fully franked interim dividend of 90 cents per share, an increase of 2 cents per share or 2% over the 2013 final dividend. The interim dividend represents a payout ratio of 74% on a Cash Earnings basis.

The Group's ability to continue to frank dividends remains strong, with an adjusted franking account balance at \$315 million as at 31 March 2014 after allowing for the reduction in franking credits for the 2014 interim dividend.

The Group has applied New Zealand imputation credits to the interim dividend of 6.0 cents (NZ) per share. New Zealand imputation credits can be utilised by shareholders that are New Zealand tax payers.

Dividend Reinvestment Plan (DRP)

The Board has determined to satisfy the DRP for the 2014 interim dividend, by arranging for the purchase of existing shares on issue and delivery to participants. The Market Price used to determine the number of shares allocated to DRP participants will be set over the 17 trading days commencing 22 May 2014 and will not include a discount.

Exchange Rate Risk on Future NZ\$ Earnings

Westpac's policy in relation to the hedging of the future earnings of the Group's New Zealand division is to manage the economic risk where Westpac believes there is a likelihood of depreciation of NZ\$ against A\$. Westpac manages these flows over a time horizon under which up to 100% of the expected earnings for the following twelve months and 50% of the expected earnings for the subsequent twelve months can be hedged. Westpac has hedges in place for forecast Second Half 2014 earnings (average rate \$1.19) and for forecast Full Year 2015 earnings (average rate \$1.12).

## 2.6 Significant Developments

### Corporate significant developments

#### Inquiry into Australia's Financial System

On 20 November 2013, the Federal Government formally announced the appointment of Mr David Murray AO to head an inquiry into Australia's financial system (Inquiry).

The Inquiry's terms of reference, announced on 20 December 2013, charge the Inquiry with examining how the financial system could be positioned to best meet Australia's evolving needs and support Australia's economic growth. Recommendations will be made that foster an efficient, competitive and flexible financial system, consistent with financial stability, prudence, public confidence and capacity to meet the needs of users.

Initial submissions to the Inquiry were due by 31 March 2014. The Inquiry is scheduled to release an interim-report by mid-2014, with the opportunity for a second round of submissions before the Inquiry makes its final report to the Government, expected by November 2014.

Westpac has lodged its initial submission with the Inquiry, and will continue to actively contribute to the Inquiry in the period ahead.

#### Westpac Bicentennial Foundation

On 2 April 2014, Westpac announced the launch of the Westpac Bicentennial Foundation. The charitable Foundation will have an exclusive focus on the education and advancement of Australians. A one-off contribution of \$100 million will fund 100 scholarships every year in perpetuity to Australians who have the potential to shape Australia's future. The program has commenced now so that the earnings from the fund will see the initial scholarships fully operational by the Group's 200<sup>th</sup> anniversary in 2017. The one-off \$100 million contribution will be reflected in Westpac's Second Half 2014 statutory results.

#### Acquisition of select Australian businesses of Lloyds Banking Group

On 11 October 2013 Westpac announced it had entered into an agreement to acquire selected assets of Lloyds Banking Group's asset finance business, Capital Finance Australia Limited (CFAL), and its corporate loan portfolio, BOS International (Australia) Ltd (BOSI), for \$1.45 billion.

The transaction was completed on 31 December 2013, adding \$7.9 billion in motor vehicle finance, equipment finance and corporate loans to Westpac's lending and \$8.5 billion in risk weighted assets. The acquisition was funded from internal resources and reduced Westpac's common equity tier 1 capital ratio by 37 basis points.

#### Litigation

- Exception fees – Westpac has been served with two separate class action proceedings by customers seeking to recover exception fees paid by those customers. The first set of proceedings was commenced in December 2011 by customers of the Westpac brand; the second was commenced in February 2012 by customers of the St.George Bank and BankSA brands. Similar class actions have been commenced against several other Australian banks. Westpac has agreed with the plaintiffs to put the proceedings against Westpac on hold until at least December 2014, pending further developments in the litigation against one of those other banks.
- Bell litigation – Westpac was one of 20 defendant banks named in proceedings concerning the Bell Group of companies. The proceedings were brought by the liquidators of several Bell Group companies who challenged the defendant banks' entitlement to receive the proceeds of realisation of Bell Group assets in the early 1990s.

Westpac, along with the other defendant banks, had been found liable to repay its share of the monies received from the Bell Group plus interest. In March 2013, the defendant banks were granted special leave to appeal to the High Court of Australia. The appeal was due to be heard in 2013 but has been adjourned to 2014.

On 17 September 2013 the parties announced that the matter was settled. Prior to the settlement, Westpac was entitled to file a claim as an unsecured creditor in the liquidation of the Bell companies and stood to recover part of the funds available for distribution to creditors. As part of the settlement, Westpac has agreed to release its claim for the distribution. The terms of the settlement remain confidential. The settlement is subject to various approvals being obtained in local and overseas jurisdictions. Such approvals are still being obtained. Westpac considers that appropriate provisioning has been made for this matter.

## Changes to accounting standards

In a continuing response to the global financial crisis, governments, regulators and accounting standard setters are working to revise certain accounting standards. The specific areas that have been targeted include accounting for financial instruments, provisioning for loan impairment charges, off-balance sheet exposures, the impairment and valuation of financial assets, consolidation and lease accounting. New accounting standards dealing with consolidation and the measurement of fair value applied to the Group from 1 October 2013. These new standards did not have a material impact on the Group's financial position or performance. The Group expects that there will be a number of new standards issued in coming years that will require further changes to the Group's current accounting approaches.

## Other significant developments

### *Basel Committee on Banking Supervision*

Regulatory reforms and significant developments arising in relation to changes initiated by the Basel Committee on Banking Supervision (BCBS) include:

#### *Liquidity*

On 16 December 2010, the BCBS released the final text of the Basel III liquidity framework. The framework introduces two new liquidity measures: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).

Following a consultation process, the Australian Prudential Regulation Authority (APRA) released a final liquidity standard (APS 210) in December 2013. Under APS 210 Westpac will need to meet the requirement of a minimum LCR of 100% from 1 January 2015. The NSFR requirement has been excluded from APS 210 however APRA has indicated its intention to implement this measure. Following a consultation process, it is expected that the NSFR will come into effect from 1 January 2018.

The LCR requires banks to hold sufficient high-quality liquid assets, as defined, to withstand 30 days under a regulator defined acute stress scenario. Given the limited amount of government debt in Australia, the Reserve Bank of Australia (RBA) jointly with APRA, will make available to Australian ADIs a Committed Liquidity Facility (CLF) that, subject to satisfaction of qualifying conditions, can be accessed to help meet the LCR requirement. In January 2014, following a trial exercise, APRA released further details to the industry on the determination and workings of the CLF. The cost of the CLF is expected to be a 15 basis points commitment fee and an additional 25 basis points for any drawn component.

#### *Systemically Important Financial Institutions (SIFIs)*

In November 2011, the BCBS published the final methodology for determining Global Systemically Important Banks (G-SIBs). Each year in November the Financial Stability Board (FSB) publishes the list of identified G-SIBs and specifies the higher capital requirements proposed for each. These increased capital requirements will be phased in from January 2016. Westpac has not been named as a G-SIB.

#### *Capital*

On 16 December 2010, the BCBS released the final text of the Basel III capital framework, which incorporates higher global minimum capital requirements and the introduction of two new capital buffers. The framework includes:

- an increase in the minimum common equity requirement from 2.0% to 4.5%;
- an increase in the minimum Tier 1 capital requirement from 4.0% to 6.0%;
- a capital conservation buffer at 2.5%, to be met with common equity; and
- a countercyclical buffer of between 0% to 2.5% to be met with common equity or other fully loss absorbing capital (subject to further BCBS guidance). The buffer is intended to be applied during times of excess credit growth.

The framework includes a compliance timetable, with phase-in arrangements starting from 1 January 2013 and some elements not becoming fully effective until 1 January 2019.

In late 2012, APRA released capital adequacy standards that govern the implementation of the Basel III capital framework in Australia. APRA has required Australian ADIs such as Westpac to meet the new minimum capital requirements from 1 January 2013 and has indicated that the capital conservation buffer will apply in full from its introduction date of 1 January 2016.

The BCBS has issued a framework for extending the SIFIs requirements to domestic systemically important banks (D-SIBs) and in December 2013 APRA released a paper setting out its approach for implementing the D-SIB framework in Australia. Westpac is one of four Australian banks which APRA has identified as a D-SIB. APRA has proposed that each D-SIB, including Westpac, will have to meet a higher loss absorbency requirement of 1% to be met by common equity. The 1% requirement will be added to the capital conservation buffer effectively increasing the buffer from 2.5% to 3.5%.

Westpac's current capital levels are already above the regulatory requirement which will apply from 1 January 2016 including the expanded capital conservation buffer. Further details of Westpac's regulatory capital disclosures can be accessed at: [www.westpac.com.au/about-westpac/investor-centre/financial-information/basel-iii-risk-reports](http://www.westpac.com.au/about-westpac/investor-centre/financial-information/basel-iii-risk-reports).

#### *Other Basel Accord reforms*

The Basel III capital framework also introduced a leverage ratio requirement. The BCBS proposes that introducing a simple, non-risk based leverage ratio requirement would act as a credible supplementary measure to the risk-based capital requirements. In January 2014, the BCBS published an amended leverage ratio framework. The proposed timetable for the leverage ratio provides for testing and recalibration of the framework to occur until 2017, with public disclosure to commence from January 2015 and migration of the final standard to a Pillar 1 requirement from January 2018.

The BCBS is also currently conducting analysis on risk weighted assets, which forms the denominator of the capital ratios. The BCBS has indicated that this work is intended to examine the consistency in the determination of risk weighted assets within and across jurisdictions and which will ultimately allow the BCBS to develop potential policy options.

Each of these measures is in different stages of development and, following release of the respective regulations by the BCBS, APRA will consult on and develop the regulations to apply in Australia.

#### *Recovery and resolution planning*

In November 2011, the FSB finalised a comprehensive package of policy measures to improve the capacity of authorities to resolve failing SIFIs, without systemic disruption and without exposing taxpayers to risk of loss. As part of the package, a Recovery and Resolution Plan is required for any firm deemed by its home authority to have systemic importance to the domestic economy. APRA has undertaken a pilot Recovery Planning project applying to Australia's largest banks, including Westpac, with final plans delivered to APRA in mid-2012. APRA has advised Westpac of its expectation that the Recovery Plan be maintained and Westpac is reviewing and updating its Recovery Plan where required.

In the US, Westpac is also required to satisfy the resolution plan requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). In December 2013, Westpac submitted a resolution plan in relation to the Group's US operations to US bank regulatory authorities.

#### **Australia**

The Federal Government has embarked on a program of regulatory reform which will affect Westpac. This includes:

##### *OTC derivatives reform*

The international regulatory reforms relating to over-the-counter (OTC) derivatives continue to be implemented by financial regulators across the globe.

Locally, Westpac commenced reporting OTC Derivatives transactions to a Prescribed Repository in accordance with the *Derivative Transaction Rules (Reporting) 2013* on 1 October 2013. Westpac continues to work with ASIC and industry associations in relation to the implementation of these rules and the phase-in of requirements to other industry participants.

In February 2014, the Australian Treasury issued a Proposals Paper on the Implementation of Australia's G-20 OTC derivatives commitments, in which they proposed a central clearing mandate for US dollar, Euro, British Pound and Yen denominated interest rate derivatives traded between dealers with significant cross-border activities. It is expected that any such mandate would cover Westpac. The commencement of the central clearing mandate is expected to occur by early 2015.

As a provisionally-registered Swap Dealer with the US Commodity Futures Trading Commission (CFTC), Westpac is subject to a range of entity-level and transaction-level requirements pursuant to the Dodd-Frank Act. Under the CFTC Rules implementing the provisions of the Dodd-Frank Act, limited mandates relating to central clearing, reporting, exchange trading and risk mitigation are now in place.



On 4 December 2013, a lawsuit was filed by global industry bodies challenging the CFTC's cross-border guidance and the cross-border aspects of related rules. Westpac is actively monitoring the progress of the lawsuit and will assess the impact of any determination.

Westpac continues to monitor developments and comply with requirements imposed by international regulators. These include regulations published by the CFTC and the Securities and Exchange Commission under the Dodd-Frank Act; by the European Securities and Markets Authority and local European financial regulators under the European Market Infrastructure Regulations (EMIR) and Markets in Financial Instruments Directive (MiFID II); and by various financial regulators in Asia. Westpac also continues to monitor the international response to the final policy framework for establishing margin requirements for uncleared OTC derivatives as published by the BCBS and the International Organisation of Securities Commission (IOSCO) on 2 September 2013.

#### *Superannuation changes*

In December 2013, BT launched a number of MySuper products to allow employers to make their super guarantee contributions to their BT default super fund. A MySuper product is a default investment option where investment choice is not elected by the member and is generally a low cost, simple superannuation product. Other legislative changes include enhanced trustee and director obligations as well as 'SuperStream', a measure to improve the efficiency of processing superannuation transactions through the use of technology. An established project team continues to assess and implement changes to the Group's existing superannuation products and governance to ensure compliance with the new requirements.

#### *Financial advice changes*

The majority of the Future of Financial Advice (FOFA) reforms commenced for the Westpac Group on 1 July 2013, although several provisions relating to employee remuneration and payments under particular existing arrangements will not apply until 1 July 2014. The Government announced proposed reforms to the FOFA laws on 20 December 2013. The proposed reforms include the removal of the requirement to opt-in to ongoing adviser services every two years and the addition of a general advice exemption from the ban on conflicted remuneration. A bill to amend FOFA was introduced into parliament on 19 March 2014. The bill has been referred to the Senate Economics Legislation Committee, which is due to report in mid-June. Other proposed changes which were intended to be made by regulations in the first quarter of this year have been delayed by the Government. The final form and timing of these changes is still uncertain.

#### *Privacy law reform*

Significant amendments to the *Privacy Act 1988* (Cth) commenced on 12 March 2014. As a result the Westpac Group has amended a wide range of documents, systems and procedures in relation to the management of personal and credit information.

#### **United States**

There are a number of significant regulatory reforms currently occurring in the United States (US). These include:

##### *Dodd-Frank Act*

Legislation designed to reform the system for supervision and regulation of financial firms in the US was signed into law on 21 July 2010. The Dodd-Frank Act contains a wide range of provisions that will affect financial institutions operating in the US, including foreign banks like Westpac. Included among its provisions are reforms designed to:

- reduce systemic risk presented by very large financial institutions;
- promote enhanced supervision, regulation, and prudential standards for financial institutions;
- establish comprehensive supervision of financial markets;
- impose new limits on permissible financial institution activities and investments;
- expand regulation of the derivatives markets, protect consumers and investors from financial abuse; and
- provide the US Government with the tools needed to manage a financial crisis.

Many of the provisions of the Dodd-Frank Act require extensive rulemaking by US regulatory agencies before the provisions become effective. The issuance of final rules under the Dodd-Frank Act remains far from complete, with the process continuing. US regulatory agencies have released final rules to implement Section 619 of the Dodd-Frank Act (the Volcker rule) and to strengthen the regulation of the US operations of non-US banks. At this time, apart from investments in compliance activities, we do not expect these rules to have a significant impact on the Group's business activities.

#### *Foreign Account Tax Compliance Act (FATCA)*

Provisions commonly referred to as FATCA and related US Treasury regulations generally require Foreign Financial Institutions (FFIs), such as Westpac, to enter into an FFI agreement (if they are not subject to the provisions of a Model 1 Intergovernmental Agreement (IGA)) under which they agree to identify and provide the US Internal Revenue Service (IRS) with information on certain US connected accounts, or otherwise face 30% withholding tax on certain payments made to the FFI. In addition, FFIs that have entered into an FFI agreement will be required to withhold on certain payments made to FFIs that are neither party to an FFI agreement nor subject to an IGA and certain account holders that fail to provide prescribed information. On 28 April 2014, the Australian Government announced it had signed an IGA with the United States and that it would introduce legislation to give effect to the IGA as soon as possible. The Australian IGA and any IGAs that may be concluded between the US and other countries in which Westpac conducts business, will relieve Westpac of the requirement to withhold on payments to, or close certain accounts, and will provide certain other benefits.

Westpac is implementing changes to its business operations to comply with the requirements of FATCA across all jurisdictions in which it operates. Westpac currently expects (subject to any restrictions under local law), that it will enter into an FFI agreement with respect to its branches and affiliated FFIs not located in countries that have entered into an IGA. It is anticipated that compliance with FATCA will give rise to significant costs and operational burdens, but that IGAs will reduce those costs and burdens, where applicable.

#### *OECD Common Reporting Standard*

The Organisation for Economic Cooperation and Development (OECD) is developing Common Reporting Standard (CRS) rules for the automatic exchange of financial account information amongst OECD member states. These rules are expected to impose identification and reporting obligations similar to the FATCA rules. Final CRS rules and a final model CRS agreement have not yet been released. If implemented the CRS rules could impose additional costs and operational burdens on Westpac.

#### ***New Zealand***

Regulatory reforms and significant developments in New Zealand include:

##### *Basel III*

The RBNZ has adopted the core Basel III capital measures relating to new capital ratios and most of the recommendations relating to the definition of capital. From 1 January 2013, the requirements for Total Tier 1 capital increased to 6.0% and must include common equity of 4.5%. The conservation buffer was implemented in full from 1 January 2014 at which time Total Tier 1 capital increased to 8.5% and is required to include 7% common equity. The RBNZ has not specified any upper limit on the countercyclical buffer. The RBNZ has not adopted the leverage ratio.

##### *Financial Markets Conduct Act (FMCA)*

The FMCA represents an overhaul of the existing securities law regime in New Zealand and will impact various aspects of the wider Westpac New Zealand business. It introduces changes to product disclosure and governance together with new licensing and registration requirements. The existing prospectus/investment statement dual disclosure model will no longer apply. A single product disclosure statement will be implemented and this will be supported by an online register of other material documentation. The FMCA was enacted in September 2013, however, most of the provisions will come into force at a later date. Much of the detail will be prescribed in regulations which are being promulgated in stages.

##### *Credit law reform/responsible lending*

The *Credit Contracts and Financial Services Law Reform Bill* was introduced into the House of Representatives in April 2013 and reported back from the Parliamentary Select Committee in March 2014. The Bill reforms the entire suite of legislation that governs consumer credit contracts. The *Credit Contracts and Consumer Finance Act 2003* (CCCFA) is being amended to provide for a regulatory responsible lending code. In addition, existing consumer protections are being strengthened by changing current CCCFA provisions on disclosure, fees, hardship and 'oppressive contracts'.

##### *Covered bond legislation*

The *Reserve Bank of New Zealand (Covered Bonds) Amendment Bill* was passed in December 2013. It provides a legislative framework for the issuance of covered bonds by New Zealand registered banks. New Zealand registered banks were already permitted by the RBNZ to issue covered bonds and have a condition of registration that a covered bond issuance cannot exceed 10% of total assets. However, the legislation provides certainty for investors that the cover pool assets will be disgorged from statutory management and liquidation regimes.

Covered bond programs must be registered with the RBNZ under the legislation. A transition period of nine months has been provided for the registration of existing programs.

*Consumer Law Reform*

The *Consumer Law Reform Bill* was passed in December 2013. The Bill amended six separate acts, including the *Fair Trading Act*. Among the amendments being introduced into the *Fair Trading Act* are prohibitions on unfair contract terms and on making unsubstantiated representations about a product or service. The unfair contract terms provisions comes into force in March 2015 while the unsubstantiated representations prohibitions come into effect in June 2014.

## 2.7 Sustainability Performance

### The Group's approach to sustainability

Westpac Group's approach to operating sustainably, as outlined in its 2013-2017 sustainability strategy, is designed to anticipate and shape the most pressing emerging societal issues where the bank has the skills and experience to make a meaningful, positive impact.

The following three initial focus areas were strategic priorities were identified for action:

- Embracing societal change. Help improve the way people work and live, as our society changes;
- Environmental solutions. Help find solutions to environmental challenges; and
- Better financial futures. Help customers to have a better relationship with money, for a better life.

These areas are supported by ten objectives and an update is provided.

The Group's identification of and responses to the most material current issues continues to be subject to independent external assurance against the AA1000 AccountAbility Principles Standard (2008).

### External recognition, rankings and commitments

During the six months to 31 March 2014:

- Westpac was ranked number one in the 2014 Global 100 Most Sustainable Corporations in the World list compiled by Corporate Knights as announced at the World Economic Forum in January 2014. Westpac has featured in the Global 100 for 8 of the last 9 years;
- Westpac was assigned a Gold Class ranking in the RobecoSam Sustainability Yearbook for 2013, released in January 2014. This is a listing of companies with the best sustainability performance as analysed through the Dow Jones Sustainability Index, in which Westpac was assigned a score of 92%;
- Westpac was named as one of the World's Most Ethical Companies in 2014 by the Ethisphere Institute in March 2014. This is the seventh consecutive year Westpac has been included in this global list; and
- Westpac adopted the global Banking Environment Initiative's Soft Commodities Compact, in January 2014. Signatories commit to do their part to help achieve zero net deforestation by 2020 by supporting initiatives to transform the supply chains of soft commodities.

On 2 April 2014, Westpac launched Australia's largest ever private education scholarship fund, the Westpac Bicentennial Fund, \$100 million designed to support 100 scholars every year, in perpetuity.

Westpac partnered with the World Bank to launch the first green bond (the Kangaroo Green Bond) to the Australian market on 16 April 2014.

Performance against Sustainability Objectives

Priority	Objectives	Half Year March 14 Achievements
Help improve the way people work and live as our society changes.	<ul style="list-style-type: none"> <li>• Ensure our workforce is representative of community</li> </ul>	<ul style="list-style-type: none"> <li>• Increased women in leadership<sup>1</sup> to 43%, up 1%</li> <li>• Increased participation of mature aged workers (50+) to 20.8%, up 0.3%</li> </ul>
	<ul style="list-style-type: none"> <li>• Extend length and quality of working lives</li> </ul>	<ul style="list-style-type: none"> <li>• Increased mean employee retirement age to 61.4 yrs, up 0.8 yrs</li> </ul>
	<ul style="list-style-type: none"> <li>• Anticipate the future product and service needs of aging and culturally diverse customers</li> </ul>	<ul style="list-style-type: none"> <li>• Launched the Stella Network, supporting female financial planners at Westpac – to better support 45+ Prime of Life female customers</li> </ul>
Help find solutions to environmental challenges.	<ul style="list-style-type: none"> <li>• Provide products/services to help customers adapt to environmental challenges</li> </ul>	<ul style="list-style-type: none"> <li>• Partnered with the World Bank to develop the first green bond for the Australian market (launched 16 April 2014)</li> </ul>
	<ul style="list-style-type: none"> <li>• Increase lending and investment in CleanTech and environmental services</li> </ul>	<ul style="list-style-type: none"> <li>• \$4.0 billion lent to this sector as at 31 March 2014, up from \$3.6 billion</li> </ul>
	<ul style="list-style-type: none"> <li>• Continue to reduce our environmental footprint</li> </ul>	<ul style="list-style-type: none"> <li>• Achieved carbon neutrality and tracking against all environmental performance targets</li> </ul>
Customers to have a better relationship with money, for a better life.	<ul style="list-style-type: none"> <li>• Ensure customers have access to the right advice to achieve a secure retirement</li> </ul>	<ul style="list-style-type: none"> <li>• Developed a 'building wealth acumen' learning program for Westpac RBB managers</li> </ul>
	<ul style="list-style-type: none"> <li>• Help customers meet their financial goals in retirement</li> </ul>	<ul style="list-style-type: none"> <li>• 7.9% of Westpac Group customers with Westpac Group Superannuation, up 0.5%<sup>1</sup></li> <li>• Piloted a Self Managed Super Contact Centre</li> </ul>
	<ul style="list-style-type: none"> <li>• Increase access to financial services in Pacific Island nations</li> </ul>	<ul style="list-style-type: none"> <li>• 44,000 new customers</li> </ul>
	<ul style="list-style-type: none"> <li>• Help people gain access to social and affordable housing</li> </ul>	<ul style="list-style-type: none"> <li>• \$0.7 billion lent to the social and affordable housing sector as at 31 March 2014, up \$0.5 million</li> </ul>

<sup>1</sup> Refer Glossary for definition.

### 3.0 DIVISIONAL RESULTS

Divisional results are presented on a management reporting basis. Internal charges and transfer pricing adjustments are included in the performance of each division reflecting the management structure rather than the legal entity (these results cannot be compared to results for individual legal entities). Where management reporting structures or accounting classifications have changed, financial results for comparative periods have been revised and may differ from results previously reported. Results below are presented on a Cash Earnings basis. Overhead costs are allocated to revenue generating divisions.

The Group's internal transfer pricing frameworks facilitate risk transfer, profitability measurement, capital allocation and business unit alignment, tailored to the jurisdictions in which we operate. Transfer pricing allows us to measure the relative contribution of our products and divisions to the Group's interest margin, and other dimensions of performance. Key components of the Group's transfer pricing frameworks are funds transfer pricing for interest rate and liquidity risk and allocation of basis and contingent liquidity costs, including capital allocation.

**INTERIM RESULTS 2014**  
**DIVISIONAL**  
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3.1 Australian Financial Services

Australian Financial Services (AFS) is responsible for the Westpac Group's Australian retail banking, business banking and wealth operations. It incorporates the operations of Westpac Retail & Business Banking (Westpac RBB), St.George Banking Group (St.George) and BT Financial Group Australia (BTFG). AFS also includes the product, marketing and risk responsibilities for Australian retail banking and wealth.

	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>\$m</b>					
Net interest income	4,831	4,709	4,568	3	6
Non-interest income	2,059	1,917	1,789	7	15
Net operating income	6,890	6,626	6,357	4	8
Operating expenses	(3,012)	(2,892)	(2,840)	(4)	(6)
<b>Core earnings</b>	<b>3,878</b>	<b>3,734</b>	<b>3,517</b>	<b>4</b>	<b>10</b>
Impairment charges	(330)	(414)	(366)	20	10
<b>Operating profit before tax</b>	<b>3,548</b>	<b>3,320</b>	<b>3,151</b>	<b>7</b>	<b>13</b>
Tax and non-controlling interests	(1,087)	(996)	(955)	(9)	(14)
<b>Cash Earnings</b>	<b>2,461</b>	<b>2,324</b>	<b>2,196</b>	<b>6</b>	<b>12</b>
Economic profit	2,134	2,045	1,893	4	13
Expense to income ratio	43.7%	43.6%	44.7%	(7bps)	96bps
Net interest margin	2.35%	2.33%	2.30%	2bps	5bps

	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>\$m</b>					
Westpac Retail & Business Banking	1,251	1,213	1,142	3	10
St.George Banking Group	772	701	691	10	12
BT Financial Group (Australia)	438	410	363	7	21
<b>Total Cash Earnings</b>	<b>2,461</b>	<b>2,324</b>	<b>2,196</b>	<b>6</b>	<b>12</b>

	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>\$bn</b>					
<b>Deposits</b>					
Term deposits	101.0	105.2	106.6	(4)	(5)
Other	162.3	153.8	140.3	6	16
<b>Total deposits</b>	<b>263.3</b>	<b>259.0</b>	<b>246.9</b>	<b>2</b>	<b>7</b>
<b>Net loans</b>					
Mortgages	337.8	328.2	321.5	3	5
Business	80.2	76.7	75.7	5	6
Other	22.0	18.8	18.6	17	18
<b>Total net loans</b>	<b>440.0</b>	<b>423.7</b>	<b>415.8</b>	<b>4</b>	<b>6</b>
Deposit to loan ratio	59.8%	61.1%	59.4%	(129bps)	46bps
<b>Total assets</b>	<b>466.6</b>	<b>453.9</b>	<b>446.1</b>	<b>3</b>	<b>5</b>
Total committed exposure	535.9	514.2	502.5	4	7
Average interest-earning assets	412.2	403.2	398.9	2	3
Consumer lending (mortgages) third party origination	44%	43%	43%	114bps	162bps



**INTERIM RESULTS 2014**  
**DIVISIONAL**  
**RESULTS**

3.1.1 Westpac Retail & Business Banking

Westpac Retail & Business Banking (Westpac RBB) is responsible for sales and service to consumer, SME, commercial and agribusiness customers (with turnover of up to \$100 million) in Australia under the Westpac brand. Activities are conducted through Westpac RBB's network of branches, third party distributors, call centres, ATM's EFTPOS terminals, internet and mobile banking services, business banking centres and specialised consumer and business relationship managers. Support is provided by cash flow, trade finance, transactional banking, financial markets, property finance and wealth specialists. All revenue from wealth products sold to Westpac RBB customers is included in BTFG's financial results. Westpac WRBB also recognises 50% of revenue generated from the sale of specific WIB products as part of the WIB/AFS partnership.

	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>\$m</b>					
Net interest income	2,918	2,869	2,786	2	5
Non-interest income	691	683	637	1	8
Net operating income	3,609	3,552	3,423	2	5
Operating expenses	(1,595)	(1,574)	(1,550)	(1)	(3)
<b>Core earnings</b>	<b>2,014</b>	<b>1,978</b>	<b>1,873</b>	<b>2</b>	<b>8</b>
Impairment charges	(226)	(242)	(244)	7	7
<b>Operating profit before tax</b>	<b>1,788</b>	<b>1,736</b>	<b>1,629</b>	<b>3</b>	<b>10</b>
Tax and non-controlling interests	(537)	(523)	(487)	(3)	(10)
<b>Cash Earnings</b>	<b>1,251</b>	<b>1,213</b>	<b>1,142</b>	<b>3</b>	<b>10</b>
Economic profit	1,109	1,104	1,017	-	9
Expense to income ratio	44.2%	44.3%	45.3%	11bps	108bps
Net interest margin	2.37%	2.35%	2.31%	2bps	6bps

	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>\$bn</b>					
<b>Deposits</b>					
Term deposits	52.4	53.8	54.2	(3)	(3)
Other	101.3	96.3	88.0	5	15
<b>Total deposits</b>	<b>153.7</b>	<b>150.1</b>	<b>142.2</b>	<b>2</b>	<b>8</b>
<b>Net loans</b>					
Mortgages	205.6	200.7	197.4	2	4
Business	47.1	46.6	45.6	1	3
Other	9.4	9.1	9.1	3	3
<b>Total net loans</b>	<b>262.1</b>	<b>256.4</b>	<b>252.1</b>	<b>2</b>	<b>4</b>
Deposit to loan ratio	58.6%	58.5%	56.4%	11bps	223bps
<b>Total assets</b>	<b>268.2</b>	<b>261.9</b>	<b>257.5</b>	<b>2</b>	<b>4</b>
Total committed exposure	328.4	320.3	313.4	3	5
Average interest-earning assets	246.7	243.4	241.5	1	2

	Half Year March 14	Half Year Sept 13	Half Year March 13
<b>Credit Quality</b>			
Mortgage delinquencies > 90 days	0.47%	0.50%	0.55%
Other consumer loans delinquencies > 90 days	1.17%	1.04%	1.15%
Business impaired assets to total committed exposure	0.85%	1.07%	1.14%
Total stressed assets to total committed exposure	1.22%	1.31%	1.39%

## Financial Performance

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### First Half 2014 - Second Half 2013

- Westpac RBB delivered a 3% increase in Cash Earnings and a 2% uplift in core earnings with an increase in customers, a deepening of relationships and good margin management; and
  - Impairment charges fell 7% from continued improvements in asset quality.
- 

Westpac RBB delivered another solid result with Cash Earnings of \$1,251 million, up \$38 million. Core earnings were up 2% to \$2,014 million. Lending showed good momentum as the division tilted towards growth.

Over recent years, Westpac RBB has delivered significant earnings growth from prior investments in Westpac Local. In First Half 2014 the division built further on these gains with good margin management, disciplined growth and a further deepening of customer relationships. These trends are reflected in an improvement in a number of key metrics over the half including:

- A 1% rise in customer numbers (up 85,000);
- Average products per customer increasing 1% to 3.03%<sup>1</sup>.
- MyBank customers up 2% to 1.25 million customers. This outcome has been supported by good sales of BT Super for Life (customers up 9%) and market leading wealth penetration<sup>1</sup> at 21.9%;
- The number of active mobile banking customers increased 8% and online banking customers increased 3%;
- Maintained a high customer retention rate of 97.5%;
- Revenue per FTE was up 3%; and
- Westpac RBB was awarded CANSTAR Blue's Most Satisfied Customers Awards for Major Banks 2013 and Roy Morgan's Major Business Bank of the Year Satisfaction Award 2013.

Net interest income increased 2% with average interest-earning assets rising 1% and margins up 2 basis points.

- Net interest margin increased to 2.37% as the division remained disciplined in pricing:
  - Deposit spreads increased 4 basis points from improved term deposit spreads and reduction in at call rates. This benefit was partly offset by lower hedging benefit on low interest deposits and a higher take-up of bonus rate offers;
  - Lending spreads were 4 basis points lower, due to the repricing of mortgage rates in August 2013, a lift in the proportion of lower spread fixed rate lending and strong competition in mortgage and business lending; and
  - Wholesale funding and other impacts improved 2 basis points.
- Lending was up 2% or \$5.7 billion to \$262.1 billion:
  - Mortgages grew \$4.9 billion or 2% from targeted advertising including the 'Home Owns' campaign, and an increase in the mortgage sales force and from an improvement in processes. New lending was up strongly, rising 13% on Second Half 2013 but this was partly offset by accelerated repayments;
  - Business lending increased a modest \$0.5 billion (or 1%) with growth in commercial lending offset by seasonal repayments in Agribusiness; and
  - Other consumer lending rose \$0.3 billion (or 3%) with good growth in both personal lending and cards. The division improved its processes for targeting and assessing personal lending in the branch network and this has contributed to the growth.
- Deposits increased \$3.6 billion (or 2%), with particularly good growth in household deposits which grew at 1.0 times system:
  - Much of the growth was in at call Reward Saver, eSaver and business working accounts given the potential for higher rates of interest along with a preference to hold cash in more flexible at call accounts;
  - Consumer transaction account balances were higher supported by the division's focus on building stronger, MyBank customer relationships and from a \$1.5 billion uplift in mortgage offset accounts; and

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<sup>1</sup> Refer Glossary for definition.

- Business savings and transaction balances grew \$0.4 billion.

Non-interest income was up \$8 million (or 1%) reflecting:

- A rise in card related fees, including higher interchange driven by the introduction of the new Westpac Black credit card and income associated with loyalty point redemptions; partly offset by
- Lower markets income on fixed rate bills as interest rates stabilised and lower fee income from business lending.

Operating expenses increased \$21 million (or 1%) with productivity benefits creating capacity for increased investment.

- Distribution expenses were down 3% with improved productivity from previous investment and reduced property spend partially offset by annual salary increases effective from 1 January 2014; offset by
- Additional regulatory and compliance costs and higher amortisation; and
- Higher credit card loyalty point redemption expenses.

Asset quality has remained sound across the portfolio with impairment charges falling \$16 million (or 7%):

- Consumer impairment charges were \$31 million higher reflecting portfolio growth and seasonally higher short term delinquencies; and
- Business impairments were down \$47 million from lower new impaired assets, improvements in the quality of the portfolio and a reduction in direct write-offs.

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#### First Half 2014 – First Half 2013

- The Westpac Local strategy continued to deliver with Cash Earnings rising 10% and core earnings rising 8% further building on gains of recent years; and
  - The result was supported by active margin management, strong growth in non-interest income, well managed expenses and a 7% fall in impairment charges.
- 

Westpac RBB delivered Cash Earnings of \$1,251 million, up \$109 million, or 10%. Core earnings were up 8% at \$2,014 million.

Net interest income increased 5% with a 2% rise in average interest-earning assets and an improvement in margins:

- Margins rose 6 basis points to 2.37%. The benefit was primarily attributable to improved term deposit spreads and a reduction in wholesale funding costs.
- Lending increased \$10.0 billion (or 4%):
  - Mortgages accounted for the majority of growth, rising \$8.2 billion (up 4%), with growth skewed to the latter months of the year;
  - Other consumer lending was up 3% with strong growth in personal lending; and
  - Business lending increased 3% to be broadly in line with system growth. Most of the rise was in term lending with other short-term lending and working capital balances (including overdrafts) lower. Run-off was also higher over the year, including from accelerated repayments, as businesses took advantage of low interest rates.
- Deposits increased \$11.5 billion (or 8%):
  - Consumer at call deposits were up \$11.3 billion (or 19%) driven by good growth across a range of products (Reward saver, eSaver and mortgage offset accounts);
  - Business savings and transaction balances were up \$2.1 billion (or 7%) from targeted campaigns such as *Think Transactional* and the introduction of products such as Notice Saver; and

- Term deposits were down 3%.

Non-interest income was up 8% reflecting:

- A rise in cards income due to an increase in the use of premium rewards cards, such as Westpac Black; and
- An increase in business lending fees, which were repriced to more appropriately reflect the risk of providing business facilities.

Operating expenses increased 3%:

- Higher investment related costs, particularly amortisation of technology investments, caused the majority of operating expense increases;
- Salaries and wages were relatively flat with productivity improvements offset by annual salary increases; and
- Occupancy expenses rose in line with market rent reviews while other expenses were slightly lower with reduced spending on advertising and disciplined expense management.

Impairment charges were \$18 million (or 7%) lower from the continued improvement in asset quality over the year. Most of the decline was due to a reduction in new impaired assets in the business portfolio and this was also reflected in the reduction in stressed assets. Mortgage 90+ days delinquencies improved 8 basis points while other consumer delinquencies were little changed.

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3.1.2 St.George Banking Group

St.George Banking Group (St.George) is responsible for sales and service to consumer, SME and corporate customers (businesses with facilities up to \$150 million) in Australia under the St.George, BankSA, Bank of Melbourne and RAMS brands. Activities are conducted through St.George's network of branches, third party distributors, call centres, ATMs, EFTPOS terminals, internet and mobile banking services, business banking centres and specialised consumer and business relationship managers. Support is provided by cash flow, trade finance, transactional banking, automotive and equipment finance, financial markets, property finance, and wealth specialists. All revenue from wealth products sold to St.George customers is included in BTFG's financial results. St.George also recognises 50% of revenue generated from the sale of specific WIB products as part of the WIB/AFS partnership.

	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>\$m</b>					
Net interest income	1,708	1,639	1,577	4	8
Non-interest income	252	241	228	5	11
Net operating income	1,960	1,880	1,805	4	9
Operating expenses	(747)	(709)	(693)	(5)	(8)
<b>Core earnings</b>	<b>1,213</b>	<b>1,171</b>	<b>1,112</b>	<b>4</b>	<b>9</b>
Impairment charges	(108)	(171)	(122)	37	11
<b>Operating profit before tax</b>	<b>1,105</b>	<b>1,000</b>	<b>990</b>	<b>11</b>	<b>12</b>
Tax and non-controlling interests	(333)	(299)	(299)	(11)	(11)
<b>Cash Earnings</b>	<b>772</b>	<b>701</b>	<b>691</b>	<b>10</b>	<b>12</b>
Economic profit	621	571	562	9	10
Expense to income ratio	38.1%	37.7%	38.4%	(40bps)	28bps
Net interest margin	2.27%	2.25%	2.20%	2bps	7bps

	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>\$bn</b>					
<b>Deposits</b>					
Term deposits	36.4	39.6	39.7	(8)	(8)
Other	52.4	49.0	44.5	7	18
<b>Total deposits</b>	<b>88.8</b>	<b>88.6</b>	<b>84.2</b>	<b>-</b>	<b>5</b>
<b>Net loans</b>					
Mortgages	120.2	116.3	113.4	3	6
Business	31.8	28.9	28.9	10	10
Other	10.5	7.5	7.2	40	46
<b>Total net loans</b>	<b>162.5</b>	<b>152.7</b>	<b>149.5</b>	<b>6</b>	<b>9</b>
Deposit to loan ratio	54.7%	58.0%	56.3%	(337bps)	(167bps)
<b>Total assets</b>	<b>169.6</b>	<b>159.8</b>	<b>156.9</b>	<b>6</b>	<b>8</b>
Total committed exposure	188.3	175.6	171.2	7	10
Average interest-earning assets	150.7	145.5	143.6	4	5

	Half Year March 14	Half Year Sept 13	Half Year March 13
<b>Credit Quality</b>			
Mortgage delinquencies > 90 days	0.58%	0.59%	0.64%
Other consumer loans delinquencies > 90 days	1.14%	1.10%	1.54%
Business impaired assets to total committed exposure	1.71%	2.33%	3.17%
Total stressed assets to total committed exposure	1.79%	2.26%	2.77%

## Financial Performance

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### First Half 2014 - Second Half 2013

- A 10% increase in Cash Earnings built on solid revenue growth and a significant decline in impairment charges;
  - All brands positively contributed to the performance. Cash Earnings increased 8% excluding Lloyds;
  - Revenue was supported with good momentum across the business including an increase in MyBank customers, further gains in meeting customers' wealth/insurance needs and improving loan growth; and
  - Lloyds integration is proceeding as planned.
- 

St.George delivered Cash Earnings of \$772 million in First Half 2014, up \$71 million, or 10%. Core earnings were up 4% at \$1,213 million. The result was strong across the board, further building on the solid increase in earnings achieved in Full Year 2013. The inclusion of Lloyds added \$14 million to Cash Earnings.

St.George has further built on its position as a leading local/regional banking alternative. The continued success of this approach has been reflected in good momentum across its brands including loan growth and solid improvement across a number of key areas. In First Half 2014:

- Customer numbers increased 9% (2% excluding Lloyds);
- Continued growth in customer depth of relationship with the number of MyBank customers rising 2% to 518k;
- The number of mobile banking customers increased 10.1% and active online customers increased 4.0%;
- Rise in wealth penetration<sup>1</sup> up 122 basis points to 16.1%;
- The reconfiguration of the network continued with 54 new concept branches rolled out in the half, bringing the total branches to 61 as part of 'FreshStart'. These branches provide customers with more flexible service options;
- Continued the roll out of Business Connect with over 90 branches upgraded in the half, increasing the reach of business bankers and combined with simplified processes, improving the experience for business customers; and
- Awarded Best First Home Buyer Lender at the Australian Lending Awards.

Net interest income increased \$69 million (or 4%) with average interest-earning assets increasing 4% and margins rising 2 basis points to 2.27%:

- Excluding Lloyds, margins were flat with reduction in lending spreads from increased competition and customer preference for lower margin fixed rate lending. This was partly offset by lower deposit costs due to term and at call deposit repricing.
- Lending increased \$9.8 billion (or 6%):
  - Mortgages increased \$3.9 billion (up 3%) with all brands contributing to the rise. The St.George brand contributed \$2.2 billion, Bank of Melbourne added \$1.2 billion, BankSA rose \$0.2 billion and RAMS lifted its portfolio by \$0.3 billion;
  - Lloyds added \$6.3 billion (or 4%) to loans with \$2.5 billion reported in other consumer (auto finance) lending and \$3.8 billion reported under business lending;
  - Other consumer lending (excluding Lloyds) increased \$0.5 billion (or 7%) with good growth in cards (up 9%), auto finance (up 5%) and personal loans (up 6%) as the division focused on supporting customers broader financial needs; and
  - Business lending (excluding Lloyds) was \$0.9 billion lower (or 3%) over First Half 2014 principally from a further reduction in gearing from property related companies and the work-out or exit of stressed assets.
- Deposits increased \$0.2 billion with growth concentrated in household savings and business transaction accounts:
  - Savings deposits were up \$4.6 billion, particularly Incentive Saver and mortgage offset accounts. Business transaction accounts were also higher; and

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<sup>1</sup> Refer to Glossary for definition.

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- Term deposits were 8% lower driven largely by business term deposits, as lower interest rates led to an increased customer preference to hold balances in at call accounts.

Non-interest income was up \$11 million (or 5%) from:

- A rise in business lending fees which have continued to be aligned to better reflect associated risk;
- Higher interchange fees from growth in credit card balances and a rise in card activity;
- Fee income related to Lloyds; and
- Partly offset by a decrease in merchant facility fees.

Operating expenses increased \$38 million (or 5%), with Lloyds accounting for \$28 million. Excluding Lloyds, expense growth was 1%:

- Continued investment associated with the expansion of Bank of Melbourne along with the further roll out of Business Connect and FreshStart;
- Technology related costs also increased, including project amortisation; and
- Other expenses were relatively flat with productivity initiatives and disciplined expense management offsetting increased salaries and CPI related increases.

Impairment charges fell \$63 million (down 37%) reflecting a further improvement in asset quality, particularly in the business portfolio:

- Business impairment charges declined significantly, mostly due to a reduction in new impaired assets, the improvement in the existing portfolio also contributed to the fall, particularly property, with the further work-out or exit of some stressed exposures; and
- Consumer impairment charges were higher over the half mostly due to credit cards and auto finance loans.

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#### First Half 2014 – First Half 2013

- St.George Cash Earnings were up a strong 12% or \$81 million with a \$101 million increase in core earnings and a \$14 million decline in impairment charges.

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St.George delivered Cash Earnings of \$772 million, up 12% and 10% excluding Lloyds. Core earnings were up \$101 million (or 9%) to \$1,213 million driven by 9% lending and 5% deposit growth, improved margins and good growth in non-interest income.

Net interest income was up \$131 million (or 8%) supported by a 5% rise in average interest-earning assets and a 7 basis point improvement in margins:

- The rise in margins was due to improved deposit spreads following repricing, particularly in term deposits with a reduction in at call headline rates. Lending spreads were flat over the year, with an improvement in short-term funding costs offset by increased competition and customer preferences for fixed rate lending.
- Lending was up \$13.0 billion (or 9%):
  - Mortgages rose \$6.8 billion (or 6%). Growth was achieved across brands with the St.George brand up \$3.7 billion, Bank of Melbourne contributing \$2.1 billion, BankSA up \$0.4 billion and RAMS rising \$0.6 billion;
  - Lloyds accounted for \$6.3 billion of the increase; and
  - Business lending (excluding Lloyds) decreased 3% over the period mostly from lower commercial property lending including a reduction in stressed assets.
- Deposits have increased \$4.6 billion or 5% over the year:
  - With the focus on high quality deposits, the majority of the increase was in consumer savings accounts which increased \$5.8 billion as customers preferred to hold funds at call. This increase was partially offset by an 8% fall in term deposits driven largely by business term deposits;
  - Mortgage offset accounts increased \$1.4 billion; and
  - Business transaction deposits grew \$0.8 billion.

Non-interest income was up \$24 million (or 11%):



- Higher business line fees from the repricing of facilities;
- Higher revenue associated with the growth in mortgages; and
- The addition of Lloyds.

Operating expenses increased \$54 million (or 8%). Excluding Lloyds, expenses increased 4% from:

- Increased investment in Bank of Melbourne, Business Connect and the roll out of FreshStart branches. This investment has included more branches, increased employees, fit-out expenses and a rise in depreciation and software amortisation; and
- Increases in business as usual costs were largely offset by productivity savings and disciplined expense management.

Impairment charges were down \$14 million (or 11%) with lower business impairment charges:

- Business impairment charges decreased \$38 million mostly due the continued improvement in asset quality and lower levels of new impaired business facilities; and
- Consumer impairment charges increased \$24 million mostly from growth and higher provisions for personal loans and credit cards.

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3.1.3 BT Financial Group (Australia)

BT Financial Group (Australia) (BTFG) is Westpac's Australian wealth division.

BTFG's funds management operations include the manufacturing and distribution of investment, superannuation and retirement products, platforms including BT Wrap and Asgard, private banking, financial planning as well as equity capability and broking. BTFG's insurance solutions cover the manufacturing and distribution of life, general and lenders mortgage insurance. BTFG's brands include Advance Asset Management, Ascalon, Asgard, BT, BT Investment Management Ltd (61.1% owned by the Westpac Group and consolidated in BTFG's Funds Management business), Licensee Select, BT Select, Securitator and the Advice, Private Banking and Insurance operations of Bank of Melbourne, BankSA, St.George, and Westpac.

	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>\$m</b>					
Net interest income	205	201	205	2	-
Non-interest income	1,116	993	924	12	21
Net operating income	1,321	1,194	1,129	11	17
Operating expenses	(670)	(609)	(597)	(10)	(12)
<b>Core earnings</b>	<b>651</b>	<b>585</b>	<b>532</b>	<b>11</b>	<b>22</b>
Impairment charges	4	(1)	-	large	-
<b>Operating profit before tax</b>	<b>655</b>	<b>584</b>	<b>532</b>	<b>12</b>	<b>23</b>
Tax and non-controlling interests	(217)	(174)	(169)	(25)	(28)
<b>Cash Earnings</b>	<b>438</b>	<b>410</b>	<b>363</b>	<b>7</b>	<b>21</b>
Economic profit	404	370	314	9	29
Expense to income ratio	50.7%	51.0%	52.9%	29bps	216bps
Income on invested capital <sup>1</sup>	36	52	54	(31)	(33)

	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>\$bn</b>					
Deposits	20.8	20.3	20.5	2	1
Net loans	15.4	14.6	14.2	5	8
Deposit to loan ratio	135.1%	139.0%	144.4%	(398bps)	large
Funds under management (FUM)	82.1	76.2	65.7	8	25
Average funds under management <sup>2</sup>	80.5	70.7	62.2	14	29
Funds under administration (FUA)	106.8	102.7	95.5	4	12
Average funds under administration <sup>2</sup>	104.8	98.3	91.5	7	15

	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>Cash Earnings</b>					
<b>\$m</b>					
Funds management business	265	222	207	19	28
Insurance	147	148	120	(1)	23
Total funds management and insurance	412	370	327	11	26
Capital and other	26	40	36	(35)	(28)
<b>Total Cash Earnings</b>	<b>438</b>	<b>410</b>	<b>363</b>	<b>7</b>	<b>21</b>

<sup>1</sup> Income on Invested Capital represents revenue generated from investing BTFG's capital balances (required for regulatory purposes).

<sup>2</sup> Average Funds are based on six month averages for Half Year March 2014, Half Year September 2013 and Half Year March 2013.

## Financial Performance

BTFG delivered a strong result in First Half 2014. Given the normal seasonality in the wealth business associated with insurance claims and fund activity, Cash Earnings for BTFG is best compared against the First Half 2013. On this basis, Cash Earnings of \$438 million in First Half 2014 was \$75 million higher (up 21%) compared to First Half 2013.

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### First Half 2014 - Second Half 2013

- Cash Earnings rose \$28 million, or 7%;
  - The Funds Management Cash Earnings result was up \$43 million or 19%, with higher FUA income from underlying business momentum and improved markets along with a stronger asset management contribution, including higher performance fees from BTIM;
  - Insurance flows continue to be strong with Life in-force premiums up 7% and General Insurance gross written premiums up 4%. Offsetting this performance has been higher general insurance claims, consistent with the seasonal pattern of more severe weather events normally occurring in the first half of the year. As a result, Insurance Cash Earnings in First Half 2014 of \$147 million were little changed (down by \$1 million); and
  - The Cash Earnings contribution from Capital and other was \$26 million, down \$14 million, principally due to a reduction in investment earnings from lower interest rates and impact from higher stamp duty costs.
- 

### First Half 2014 – First Half 2013

- Cash Earnings increased \$75 million or 21% with strong contributions from the Funds Management and Insurance businesses partially offset by a \$10 million reduction in the contribution from Capital and other;
  - Funds Management Cash Earnings were up a very strong \$58 million (or 28%) supported by fee growth from an increase in average FUA of 15% and average FUM of 29% and higher funds management performance fees. Advice income was up strongly from increases in both the planner network and improved planner productivity. The contribution from Private Wealth was also higher, mostly from increased lending;
  - The Insurance result was up \$27 million (or 23%) driven by higher in-force premiums of 16% in Life Insurance and a 15% rise in General Insurance gross written premiums. These increases were partially offset by a lower contribution from LMI; and
  - Contribution from Capital and other was \$10 million lower, due to reduction in investment earnings (mostly lower interest rates) and impact from higher stamp duty cost.
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3.1.3.1 Funds Management Business

	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>\$m</b>					
Net interest income	176	171	168	3	5
Non-interest income	868	728	698	19	24
Net operating income	1,044	899	866	16	21
Operating expenses	(634)	(566)	(561)	(12)	(13)
<b>Core earnings</b>	<b>410</b>	<b>333</b>	<b>305</b>	<b>23</b>	<b>34</b>
Impairment charges	4	(1)	-	large	-
<b>Operating profit before tax</b>	<b>414</b>	<b>332</b>	<b>305</b>	<b>25</b>	<b>36</b>
Tax and non-controlling interests	(149)	(110)	(98)	(35)	(52)
<b>Cash Earnings</b>	<b>265</b>	<b>222</b>	<b>207</b>	<b>19</b>	<b>28</b>
Expense to income ratio	60.7%	63.0%	64.8%	223bps	large

	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>Cash Earnings</b>					
<b>\$m</b>					
Funds Management business (ex BTIM)	208	197	189	6	10
BTIM	57	25	18	128	large
<b>Total Cash Earnings</b>	<b>265</b>	<b>222</b>	<b>207</b>	<b>19</b>	<b>28</b>

Movement of FUM/FUA

	Sept 2013	Inflows	Outflows	Net Flows	Other Mov't <sup>1</sup>	March 2014	March 2013	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>\$bn</b>									
Retail <sup>2</sup>	16.3	1.1	(1.0)	0.1	0.1	16.5	15.8	1	4
Institutional	22.4	4.1	(5.0)	(0.9)	0.4	21.9	19.7	(2)	11
Wholesale	37.5	9.9	(6.4)	3.5	2.7	43.7	30.2	17	45
<b>Total FUM</b>	<b>76.2</b>	<b>15.1</b>	<b>(12.4)</b>	<b>2.7</b>	<b>3.2</b>	<b>82.1</b>	<b>65.7</b>	<b>8</b>	<b>25</b>
Wrap	82.8	11.1	(7.9)	3.2	0.6	86.6	77.0	5	12
Corporate Super	15.9	1.3	(1.0)	0.3	1.0	17.2	14.7	8	17
Other <sup>3</sup>	4.0	-	-	-	(1.0)	3.0	3.8	(25)	(21)
<b>Total FUA</b>	<b>102.7</b>	<b>12.4</b>	<b>(8.9)</b>	<b>3.5</b>	<b>0.6</b>	<b>106.8</b>	<b>95.5</b>	<b>4</b>	<b>12</b>

Market share in key Australian wealth products are displayed below:

<b>Current Australian Market Share<sup>4</sup></b>		
<b>Product</b>	<b>Market Share (%)</b>	<b>Rank</b>
Platforms (includes Wrap and Corporate Super)	20%	1
Retail (excludes Cash)	19%	1
Corporate Super	14%	3
Funds Management - BTIM	5%	7
Wholesale - BTIMAAM	2%	16

<sup>1</sup> Other movement includes market movement and other client transactions including fund transfers, account fees and distributions.

<sup>2</sup> Retail includes Annuities, Retail Investment, Retirement Products and Retail Superannuation.

<sup>3</sup> Other includes Capital and Reserves.

<sup>4</sup> Market share FUM/FUA based on published market share statistics from Plan for Life and Morningstar as at 31 December 2013 and represents the addition of St. George Wealth and BT Wealth business market share at this time.

## Financial Performance

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### First Half 2014 - Second Half 2013

- Strong business momentum has continued across all elements of the wealth business and combined with improved market performance saw Cash Earnings rise 19% to \$265 million; and
  - Increased revenue from higher funds under management (FUM) and funds under administration (FUA), stronger performance fees and increased contributions from private wealth and advice businesses. These gains were partially offset by higher expenses from increased investment and a rise in performance related payments.
- 

The Funds Management business delivered Cash Earnings of \$265 million, up a very strong \$43 million, or 19%.

The strong market position held by the Group's asset management and platform businesses and improved advice income contributed to the strong earnings for the half.

Stronger asset markets in both Australia and overseas also contributed to the result, helping to increase FUA and FUM balances and associated revenue. BTFG maintained its strong market position over the year including:

- Ranked number 1 on all Platforms (including Corporate Super) with FUA share of 19.7%<sup>1</sup>;
- Ranked number 1 on Retail Super (excluding Cash) with 18.5% FUA<sup>1</sup>;
- Ranked number 3 on Corporate Super with a 14.2% share of FUA<sup>1</sup>;
- BT Super for Life retail balances were up a further 16% over the half to \$4.3 billion. Each month around 8,000 new accounts were opened and the number of active accounts has risen 29% over the half;
- Asgard Infinity balances have now reached \$6 billion since launching in October 2011. Balances increased 19% over the half; and
- Corporate super balances also increased 8.2%.

Net interest income was \$5 million higher (or 3%) driven by increased volumes and stronger margins in private wealth:

- Lending increased a strong 5% as business lending and mortgages increased in private wealth;
- Deposits increased 2% with more money flowing into at call accounts that allow investors to be more responsive to opportunities; and
- Partially offset by lower average balances in margin lending.

Non-interest income increased a very strong \$140 million, or 19%:

- Strong asset management performance with returns above benchmarks has led to a significant rise in performance fees received in BTIM (up \$105 million);
- FUM related revenue increased \$34 million (or 14%) with average FUM balances increasing 14% (partly due to markets and exchange rate movements) and margins flat; and
- FUA related revenue was up \$10 million (or 4%), with positive inflows onto the BT Wrap and Asgard platforms and improved markets including the ASX 200 up 5%. FUA margins were marginally lower due to competitive pressures and higher average balances.

Operating expenses increased \$68 million (or 12%):

- An increase in performance related payments (\$55 million) associated with the strong performance fees received;
- Investments added around \$10 million to expenses, including the expansion of the distribution network, particularly financial planners and their support staff. Project costs were also higher mostly associated with the investment in the new Panorama platform; and
- Other costs were largely flat with increases from annual salary reviews and CPI increases offset by productivity benefits.

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<sup>1</sup> Source: Plan for Life Quarterly Data System (December 2013).

## INTERIM RESULTS 2014

### DIVISIONAL RESULTS

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There was an impairment benefit of \$4 million for the half from provision write-backs and recoveries in margin lending.

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First Half 2014 – First Half 2013

- Cash Earnings of \$265 million was up a very strong \$58 million, or 28%.
- 

Net interest income was up \$8 million or 5%:

- The increase was driven by increased volumes and stronger margins in private wealth, mostly related to mortgages growth and deposit repricing.

Non-interest income increased \$170 million, or 24%:

- Performance fees in BTIM were \$81 million higher than First Half 2013;
- FUM related revenue increased \$55 million up 26% with a 29% rise in average FUM from both inflows and improved markets;
- FUA revenue increased \$13 million, up 5% with a 15% rise in average FUA from inflows and improved asset markets, offset by a decline in margins; and
- Advice income was up \$20 million (or 13%) due to a productivity uplift in salaried financial planners and strong flows across dealer groups.

Operating expenses increased \$73 million (or 13%) from:

- An increase in performance related payments associated with higher performance fees;
- Costs associated with regulatory change and investments; and
- Increases in business as usual costs were offset by productivity benefits.

**INTERIM RESULTS 2014**  
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3.1.3.2 Insurance Business

The Insurance business result includes the Westpac and St.George Life Insurance, General Insurance and Lenders Mortgage Insurance (LMI) businesses.

\$m	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
Net interest income	3	3	3	-	-
Non-interest income	242	238	199	2	22
Net operating income	245	241	202	2	21
Operating expenses	(35)	(29)	(30)	(21)	(17)
<b>Core earnings</b>	<b>210</b>	<b>212</b>	<b>172</b>	<b>(1)</b>	<b>22</b>
Tax and non-controlling interests	(63)	(64)	(52)	2	(21)
<b>Cash Earnings</b>	<b>147</b>	<b>148</b>	<b>120</b>	<b>(1)</b>	<b>23</b>
Expense to income ratio	14.3%	12.0%	14.9%	(226bps)	56bps

Cash Earnings	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
\$m					
Life Insurance	77	69	73	12	5
General Insurance	56	64	30	(13)	87
Lenders Mortgage Insurance	14	15	17	(7)	(18)
<b>Total Cash Earnings</b>	<b>147</b>	<b>148</b>	<b>120</b>	<b>(1)</b>	<b>23</b>

Insurance Key Metrics

Life Insurance in-force premiums	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
\$m					
Life Insurance in-force premiums at start of period	685	635	601	8	14
Sales	101	102	81	(1)	25
Lapses	(49)	(48)	(42)	(2)	(17)
Net Inflow s	52	54	39	(4)	33
Other Movements	(3)	(4)	(5)	25	40
Life Insurance in-force premiums at end of period	734	685	635	7	16

Loss ratios <sup>1</sup> for Insurance Business	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
(%)					
Life Insurance	29	32	28	300bps	(100bps)
General Insurance	45	31	61	large	large
Lenders Mortgage Insurance	10	39	30	large	large

Gross written premiums	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
\$m					
General Insurance gross w ritten premium	227	218	198	4	15
Lenders Mortgage Insurance gross w ritten premium	24	25	25	(4)	(4)

**Current Australian Market Share<sup>2</sup>**

Product	Market Share (%)	Rank
Life Insurance - in-force	9%	6
Life Insurance - new business	11%	5

<sup>1</sup> Loss ratio is claims over earnings premium plus reinsurance rebate plus exchange commission. First Half 2014, Second Half 2013 and First Half 2014 General Insurance loss ratios have been calculated to align with industry standards and exclude internal commission payments from earned premiums.

<sup>2</sup> Source: Life Insurance – Plan for Life December 2013.



## Financial Performance

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### First Half 2014 - Second Half 2013

- Cash Earnings of \$147 million were relatively flat over the half; and
  - Underlying flows continue to be solid with Life Insurance in-force premiums and General Insurance gross written premiums up 7% and 4% respectively. Revenue growth from premiums was largely offset by higher seasonal general insurance claims.
- 

A key feature of the performance has been the continued improvement in the sale of insurance products across the Group. This, combined with the expansion of distribution into the independent and aligned planner network, has led to solid growth of new Life Insurance business and a rise in market share<sup>1</sup> up 47 basis points to 10.8%. General Insurance sales continue to do well across the brands and also benefited from higher market activity.

Net operating income increased \$4 million to \$245 million (or 2%):

- Life Insurance revenue was up \$15 million supported by increased in-force premiums. Revenue from premiums was up \$16 million and claims were broadly in line with Second Half 2013;
- General Insurance revenue was down \$10 million with an \$18 million rise in claims associated with extreme weather events consistent with seasonal trends. Net earned premiums increased 7% in line with the uplift in gross written premiums; and
- LMI revenue was broadly flat as lower income from premiums due to a reduction of risk in the portfolio implemented in 2009 was offset by lower claims.

Operating expenses rose \$6 million (or 21%) from an increase in the insurance portfolio and costs related to expansion of the distribution network. Business as usual expense increases, such as salary and CPI, were offset by productivity benefits from changes to the operating model.

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### First Half 2014 – First Half 2013

- Cash Earnings increased \$27 million, or 23% due to higher revenue from the expanded distribution network and improved sales across the Group's banking brands.
- 

Net operating income increased \$43 million (or 21%):

- Life Insurance revenue was up \$12 million with higher net earned premiums partly offset by a small rise in loss rates. In-force premiums rose 16% over the year with stronger sales following the expansion of distribution to the independent financial advisor and aligned financial planner networks. Claims were up \$18 million, from both the impact of the larger portfolio and the higher loss rates;
- General Insurance revenue increased \$34 million with net earned premiums rising \$16 million (or 10%) from strong home and contents sales, as a result of a multi-channel acquisition strategy. Extreme weather event claims were \$13 million lower compared to those experienced in First Half 2013; and
- LMI revenue was down \$3 million.

Expenses increased \$5 million (or 17%) in line with increased premiums and from costs related to the expansion of the distribution network. Business as usual expense increases, were largely offset by productivity benefits.

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<sup>1</sup> Source: Plan for Life December 2013.

**INTERIM RESULTS 2014**  
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3.2 Westpac Institutional Bank

Westpac Institutional Bank (WIB) delivers a broad range of financial services to commercial, corporate, institutional and Government customers with connections to Australia and New Zealand. WIB operates through dedicated industry relationship and specialist product teams, with expert knowledge in transactional banking, financial and debt capital markets, specialised capital, and alternative investment solutions. Customers are supported through branches and subsidiaries located in Australia, New Zealand, US, UK and Asia.

	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>\$m</b>					
Net interest income	811	812	818	-	(1)
Non-interest income	770	821	812	(6)	(5)
Net operating income	1,581	1,633	1,630	(3)	(3)
Operating expenses	(590)	(566)	(549)	(4)	(7)
<b>Core earnings</b>	<b>991</b>	<b>1,067</b>	<b>1,081</b>	<b>(7)</b>	<b>(8)</b>
Impairment (charges) / benefits	90	46	43	96	109
<b>Operating profit before tax</b>	<b>1,081</b>	<b>1,113</b>	<b>1,124</b>	<b>(3)</b>	<b>(4)</b>
Tax and non-controlling interests	(329)	(323)	(339)	(2)	3
<b>Cash Earnings</b>	<b>752</b>	<b>790</b>	<b>785</b>	<b>(5)</b>	<b>(4)</b>
Economic profit	537	601	568	(11)	(5)
Expense to income ratio	37.3%	34.7%	33.7%	(266bps)	(364bps)
Net interest margin	2.04%	2.21%	2.29%	(17bps)	(25bps)

	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>\$bn</b>					
Deposits	72.2	72.8	66.3	(1)	9
Net loans	64.0	56.5	56.0	13	14
Deposit to loan ratio	112.8%	128.9%	118.4%	large	large
Total assets	105.7	97.2	95.5	9	11
Total committed exposure	220.6	213.9	193.4	3	14
Average interest-earning assets	79.8	73.3	71.6	9	11
Impaired assets to total committed exposure	0.34%	0.42%	0.59%	8bps	25bps
Total stressed assets to total committed exposure	1.03%	1.16%	1.63%	13bps	60bps
Funds under management	6.6	6.0	7.4	10	(11)

Revenue Contribution by Business Segments

	Half Year March 14	Half Year Sept 13	Half Year March 13
<b>\$m</b>			
Debt Markets	912	908	976
Foreign Exchange and Commodities, Carbon and Energy (FX&CCE)	253	239	189
Global Transactional Services	383	399	403
Hastings	23	83	56
Other	10	4	6
<b>Total</b>	<b>1,581</b>	<b>1,633</b>	<b>1,630</b>

## Financial Performance

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### First Half 2014 - Second Half 2013

- Cash Earnings of \$752 million, declined 5%. Second Half 2013 Cash Earnings were boosted by non-interest income associated with Hastings' exit of its listed infrastructure funds and a large CVA benefit. These items were not repeated in First Half 2014; and
  - The underlying business continues to perform well. Excluding these items, WIB's Cash Earnings was up 7% (\$47 million), supported by a lift in customer revenue, a strong performance from the markets businesses and a higher impairment benefit.
- 

WIB delivered Cash Earnings of \$752 million, down 5% (\$38 million). The lower result was principally due to the impact of items that boosted Second Half 2013 earnings, in particular:

- CVA was a charge of \$1 million in First Half 2014, compared to a \$67 million benefit in Second Half 2013, largely due to currency movements; and
- Performance fees from Hastings' exit of its listed infrastructure funds generated income of \$54 million in Second Half 2013. This income was not repeated in First Half 2014.

WIB's Cash Earnings from all other activities increased \$47 million.

WIB continues to maintain its leading position in institutional banking in Australia and New Zealand. The First Half included a strong contribution from sales and trading in Debt Markets and FX&CCE, which has resulted in WIB being recognised as:

- Number 1 Australian Domestic Bank of Choice (Fixed Income Markets)<sup>1</sup>; and
- Number 1 Australian Bank for FX Relationship and Sales Strength Index (FX)<sup>2</sup>.

The division also made very good progress on its strategy, particularly in Asia where Westpac has continued to build its capabilities, with revenue increasing 40% (in US\$ terms). In First Half 2014, Westpac's Shanghai and Beijing branches received their General Derivatives Licence, the business also received approval to establish a sub-branch in the Shanghai Free Trade Zone and the Structured Commodity Finance business signed its first deal.

WIB has also largely completed the integration of the Lloyds business acquired on 31 December 2013 with the corporate loan and equipment finance books adding around \$1.3 billion to the WIB loan portfolio. Lloyds contributed \$12 million to Cash Earnings in First Half 2014.

Revenue of \$1,581 million was 3% lower (\$52 million). Excluding the Hastings performance fee income and adverse CVA movements, revenue increased 5%, or \$69 million. The business recorded increased markets revenue and good volume growth in targeted areas, although these gains were partially offset by margin compression.

Net interest income was flat, with growth in average interest-earning assets of 9% offset by a 17 basis point decline in net interest margin.

- Lending increased \$7.5 billion (or 13%) supported by growth in WIB's targeted areas of Asian and Australian trade finance, natural resources, agribusiness and healthcare. Excluding Lloyds, lending was up 11%; and
- Deposits were \$0.6 billion (or 1%) lower as the division continued to focus on the quality of its deposit base in the lead-up to the introduction of the LCR.

Net interest margins decreased by 17 basis points, with reduced asset spreads and the mix impact of high growth in lower margin trade finance. The spread on transactional deposits was lower due to strong competition given the attractiveness of these deposits under new LCR requirements. The acquisition of Lloyds had a minimal impact on margins.

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<sup>1</sup> Peter Lee Associates Debt Securities Investors Australia Survey 2013. Rank vs. top 4 major domestic banks. Based upon the most active investors in each type of security. Based upon Westpac achieving a No. 1 ranking amongst the four major domestic banks for estimated market share across Commonwealth Treasury and Semi Government Bonds, Corporate Bonds, Asset Backed Securities and CPI Linked Securities, a No. 1 ranking for Relationship Strength amongst the four major domestic banks across Commonwealth Treasury and Semi Government Bonds, Corporate Bonds and Asset Backed Securities.

<sup>2</sup> Peter Lee Associates Foreign Exchange Survey Australia 2013. Rank vs. top 4 from 310 corporate and financial institution respondents.

## INTERIM RESULTS 2014

### DIVISIONAL RESULTS

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Non-interest income decreased 6% (\$51 million). Excluding the negative CVA movements and large Hastings income in the prior period, WIB's non-interest income increased \$70 million (or 10%), from:

- Increased sales and trading revenues in Debt Markets;
- FX sales maintained the high level delivered in Second Half 2013 as moves in the AUD/USD supported a lift in customer demand for hedging products;
- Particularly strong returns from the Energy business; and
- An \$11 million contribution from Lloyds.

Operating expenses increased \$24 million (or 4%), primarily due to increased investment in building the Group's capability in Asia, including additional FTE, foreign exchange translation impact and enhanced product systems. The acquisition of Lloyds added \$5 million.

Asset quality continued to improve in First Half 2014 leading to a \$90 million impairment benefit, a \$44 million improvement over Second Half 2013. Over recent halves, the fall in impaired and stressed assets has led to a reduction in provisions required. This combined with ongoing write-backs has led to the positive impairment contributions.

---

#### First Half 2014 – First Half 2013

- Cash Earnings down 4% compared to First Half 2013;
  - First Half 2013 was boosted by a CVA benefit and additional income associated with the exit of listed infrastructure funds; and
  - Excluding these impacts WIB's Cash Earnings increased \$25 million (or 3%).
- 

Net interest income declined \$7 million (or 1%) compared to First Half 2013 with an 11% increase in average interest-earning assets more than offset by a 25 basis point decline in margins:

- Lending grew \$8.0 billion (\$6.7 billion excluding Lloyds) with most of the growth recorded in target areas including trade finance;
- Deposits increased \$5.9 billion, or 9%, with term deposits up 21%; and
- The decline in margin to 2.04% can principally be attributed to an increase in competitive pressures across both assets and liabilities over the last 12 months. Asset spreads have reduced in response to increased global liquidity and improved wholesale funding markets. The spread in liabilities has not improved to the same extent as increased demand for high quality customer deposits has reduced transaction deposit spreads.

Non-interest income declined \$42 million (or 5%). First Half 2013 included a \$20 million benefit from CVA compared to a \$1 million charge in First Half 2014. First Half 2013 also included significant revenue from the exit of listed infrastructure funds.

Excluding the impact of these items, WIB's non-interest income was up \$40 million (or 5%), from:

- A 35% uplift in sales and trading revenue from FX&CCE, with the business well positioned to assist customers looking to manage currency exposures, primarily as the Australian dollar moved against the US dollar and for movements in energy markets; partially offset by
- Lower contribution from Debt Markets following a strong performance in First Half 2013. A period of stability in interest rates and a more benign interest rate outlook has reduced customer demand for interest rate hedging.

Operating expenses increased \$41 million (or 7%), from:

- Lloyds operating expenses (\$5 million); and
- Increased investment in Asia contributed to higher FTE and increased technology costs.

Excluding these items, operating expenses were relatively flat.

Asset quality in WIB has continued to perform strongly contributing a \$90 million benefit to earnings in First Half 2014, compared to a \$43 million benefit in First Half 2013. The improvement in asset quality and further write-backs has continued to see a positive impairment contribution. The slightly larger benefit in the current half has been due to lower new individually assessed provisions.

**INTERIM RESULTS 2014**  
**DIVISIONAL**  
**RESULTS**

### 3.3 Westpac New Zealand

Westpac New Zealand is responsible for sales and service of banking, wealth and insurance products for consumers, business and institutional customers in New Zealand. Westpac conducts its New Zealand banking business through two banks in New Zealand: Westpac New Zealand Limited, which is incorporated in New Zealand and Westpac Banking Corporation (NZ Division), a branch of Westpac, which is incorporated in Australia. The division operates via an extensive network of branches and ATMs across both the North and South Islands. Business and institutional customers are also served through relationship and specialist product teams. Banking products are provided under the Westpac and WIB brands while insurance and wealth products are provided under Westpac Life and BT brands, respectively. New Zealand also has its own infrastructure, including technology, operations and treasury. All figures are in New Zealand dollars (NZ\$).

NZ\$m	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
Net interest income	783	780	774	-	1
Non-interest income	239	236	237	1	1
Net operating income	1,022	1,016	1,011	1	1
Operating expenses	(422)	(414)	(431)	(2)	2
<b>Core earnings</b>	<b>600</b>	<b>602</b>	<b>580</b>	-	<b>3</b>
Impairment charges	(4)	(50)	(67)	92	94
<b>Operating profit before tax</b>	<b>596</b>	<b>552</b>	<b>513</b>	<b>8</b>	<b>16</b>
Tax and non-controlling interests	(164)	(152)	(145)	(8)	(13)
<b>Cash Earnings</b>	<b>432</b>	<b>400</b>	<b>368</b>	<b>8</b>	<b>17</b>
Economic profit	208	178	150	17	39
Expense to income ratio	41.3%	40.7%	42.6%	(54bps)	134bps
Net interest margin	2.28%	2.32%	2.34%	(4bps)	(6bps)

NZ\$bn	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>Deposits</b>					
Term deposits	24.5	24.9	24.3	(2)	1
Other	23.9	21.7	20.7	10	15
<b>Total deposits<sup>1</sup></b>	<b>48.4</b>	<b>46.6</b>	<b>45.0</b>	<b>4</b>	<b>8</b>
<b>Net loans</b>					
Mortgages	38.6	37.5	36.4	3	6
Business	22.8	22.3	21.7	2	5
Other	1.8	1.8	1.8	-	-
<b>Total net loans</b>	<b>63.2</b>	<b>61.6</b>	<b>59.9</b>	<b>3</b>	<b>6</b>
Deposit to loan ratio	76.6%	75.7%	75.2%	93bps	141bps
<b>Total assets</b>	<b>71.3</b>	<b>69.2</b>	<b>68.4</b>	<b>3</b>	<b>4</b>
Total committed exposure	90.1	88.0	86.3	2	4
Average interest-earning assets	68.8	67.0	66.4	3	4
Funds under management	4.9	4.4	4.1	11	20
Funds under administration	1.5	1.4	1.3	7	15

	Half Year March 14	Half Year Sept 13	Half Year March 13
<b>Credit Quality</b>			
Mortgage delinquencies > 90 days	0.29%	0.29%	0.39%
Other consumer loans delinquencies > 90 days	0.90%	0.81%	0.96%
Impaired assets to total committed exposure	0.47%	0.77%	0.99%
Total stressed assets to total committed exposure	1.85%	2.36%	2.96%

<sup>1</sup> Total deposits in this table refers to total customer deposits.

Financial Performance (NZ\$)

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First Half 2014 - Second Half 2013

- Westpac New Zealand delivered an 8% increase in Cash Earnings with improving asset quality driving lower impairment charges; and
  - Investment in enhanced digital self-service solutions is meeting customer demands and helping drive good balance sheet growth and additional efficiency opportunities.
- 

Westpac New Zealand delivered Cash Earnings of \$432 million in First Half 2014, up \$32 million (or 8%). Core earnings of \$600 million were in line with Second Half 2013.

Westpac New Zealand has invested in the business over recent years including changes to the distribution network, a new online platform and increased use of digital technologies to deliver sales and service. Meeting changing customer behaviour is driving these changes in distribution. In turn, this investment has provided more convenient banking and assisted in building deeper customer relationships. Performance is reflected across key metrics:

- The number of MyBank customers increased 1% to 335k;
- Customers with wealth products increased from 26.7% to 27.0%;
- The number of active online customers increased 3% to 647k;
- Mobile banking customers increased 16% to 254k;
- Deposits via Smart ATMs increased 25% and now represents 25% of all deposits.
- Deposit to loan ratio improved 93 basis points to 76.6%; and
- Revenue per FTE rose 2% to \$230k.

Net interest income was up \$3 million compared to Second Half 2013, with a 3% rise in average interest-earning assets largely offset by a 4 basis point decline in margins.

- The 4 basis point decline in margins was due to:
  - Lending spreads down principally due to the ongoing competitive environment and customers switching to lower spread fixed rate mortgages;
  - The reduction in business stressed assets (down 21%) also led to lower lending spreads; and
  - Partially offset by improved deposit spreads from actively managing the portfolio.
- Lending increased 3% to \$63.2 billion:
  - Mortgages increased 3% in the half, ahead of system growth with solid growth in the LVR below 80% category. Mortgages with an LVR greater than 80% represented just 7% of new flows; and
  - Business lending increased 2%, also ahead of system growth. The division has experienced a good increase in the level of new business although this was partially offset by the run-off in stressed business assets.
- Deposits increased \$1.8 billion (or 4%) to \$48.4 billion, with growth in retail deposits of 3% in line with system growth. The rise in deposits fully funded loan growth leading to a 93 basis point improvement in the deposit to loan ratio of 76.6%:
  - Significant growth in other deposits, up \$2.2 billion (or 10%), driven by targeted growth in online savings balances; and
  - Term deposits decreased \$0.4 billion (or 2%).

Non-interest income increased \$3 million (or 1%) with:

- Continued improvement in sales of wealth and insurance which has contributed to an 11% and 7% rise in FUM and FUA respectively and a 7% uplift of insurance in-force premiums.



Operating expenses increased \$8 million (or 2%):

- Operating expenses were well managed with increases driven by timing of marketing activity and investment in key strategic priorities, particularly digital; and
- Increases were partially offset by ongoing productivity arising from changes in customer behaviour along with product and process simplification.

The improvement in asset quality contributed to a \$46 million decline (92%) in impairment charges. A further decline in business stressed assets and a lower incidence of new impaired assets were the principal reasons for the improvement. Mortgage 90+ day delinquencies were in line with 30 September 2013 and other consumer 90+ day delinquencies were higher, consistent with seasonal trends.

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First Half 2014 – First Half 2013

- Cash Earnings growth of 17%, up \$64 million, supported by core earnings growth of 3% and a 94% reduction in impairment charges.
- 

Westpac New Zealand delivered Cash Earnings of \$432 million, up \$64 million, (or 17%). Core earnings were up 3% to \$600 million.

Net interest income increased \$9 million (or 1%) with average interest-earning assets increasing 4% and margins declining 6 basis points:

- Drivers of the 6 basis point contraction in net interest margin were:
  - Lending spreads down due to the ongoing competitive environment and a change in interest rate expectations that has seen customers continuing to switch from variable to lower spread fixed rate mortgages;
  - The run-off of business stressed assets (down 36%) has also reduced lending spreads as these assets typically have higher spreads; and
  - Declines were partially offset by improved deposit spreads driven by actively managing the portfolio and targeted growth in online accounts.
- Total lending increased \$3.3 billion (or 6%) to \$63.2 billion:
  - Mortgages up \$2.2 billion (or 6%), driven by solid growth in the LVR below 80% category; and
  - Business lending up \$1.1 billion (or 5%). Improved new business origination was partially offset by the aforementioned reduction in stressed business assets.
- Deposits increased \$3.4 billion (or 8%) to \$48.4 billion and fully funded loan growth:
  - Term deposits increased \$0.2 billion (or 1%) to \$24.5 billion and other deposits increased \$3.2 billion (or 15%) to \$23.9 billion driven by growth in online savings accounts reflecting the change in customer preference.

Non-interest income increased 1% from:

- Improved cross-sell contributing to a 20% and 15% increase in FUM and FUA respectively and a rise in wealth income; and
- Partially offset by infrequent items in First Half 2013, including insurance recoveries associated with the Christchurch earthquake, which were not repeated in First Half 2014.

Operating expenses decreased \$9 million (2%) driven by:

- Benefits from productivity programs implemented during Full Year 2013 including a review of operating models along with product and process simplification; and
- Partially offset by higher operating costs from investment in new distribution and digital technologies.

Impairment charges decreased \$63 million (94%) as asset quality continued to improve:

- Further reduction in business stressed assets and a lower incidence of new impaired assets; and
- Reductions in mortgage and other consumer 90+ day delinquencies which improved 10 basis points and 6 basis points respectively.



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3.4 Westpac Pacific

Westpac Pacific provides banking services for retail and business customers in seven Pacific Island Nations. Branches, ATMs, telephone banking and internet banking channels are used to deliver business activities in Fiji, Papua New Guinea (PNG), Vanuatu, Cook Islands, Tonga, Solomon Islands and Samoa. Westpac Pacific's financial products include personal savings, business transactional accounts, personal and business lending products, business services and a range of international products.

\$m	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
Net interest income	70	73	75	(4)	(7)
Non-interest income	87	97	70	(10)	24
Net operating income	157	170	145	(8)	8
Operating expenses	(52)	(50)	(48)	(4)	(8)
<b>Core earnings</b>	<b>105</b>	<b>120</b>	<b>97</b>	<b>(13)</b>	<b>8</b>
Impairment charges	(6)	(1)	(2)	<i>large</i>	(200)
<b>Operating profit before tax</b>	<b>99</b>	<b>119</b>	<b>95</b>	<b>(17)</b>	<b>4</b>
Tax and non-controlling interests	(34)	(40)	(31)	15	(10)
<b>Cash Earnings</b>	<b>65</b>	<b>79</b>	<b>64</b>	<b>(18)</b>	<b>2</b>
Economic profit	44	59	45	(25)	(2)
Expense to income ratio	33.1%	29.4%	33.1%	(371bps)	(2bps)

\$bn	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
Deposits	2.5	2.6	2.6	(4)	(4)
Net loans	1.6	1.7	1.6	(6)	-
Deposit to loan ratio	156.3%	152.9%	162.5%	331bps	<i>large</i>
Total assets	3.0	3.0	3.1	-	(3)
Total committed exposure	3.0	3.1	3.2	(3)	(6)
Average interest-earning assets	2.9	2.9	2.8	-	4

Financial Performance

First Half 2014 – Second Half 2013

- Cash Earnings of \$65 million, down \$14 million or 18%, due mainly to lower foreign exchange customer activity and an increase in impairments in First Half 2014.

In First Half 2014, Westpac Pacific delivered Cash Earnings of \$65 million. The result was \$14 million (or 18%) lower compared to the strong performance in Second Half 2013.

Translation gains from movements between the \$A and local currencies had little impact on Cash Earnings in First Half 2014

Net interest income was down \$3 million (or 4%) compared to Second Half 2013. Lending and deposit balances were modestly lower as the business sought to actively manage volumes and margin in a competitive market. Competition for lending has lifted, particularly in PNG and Fiji while margins have declined.

Non-interest income was \$10 million lower (or 10%). Customer foreign exchange income was lower as competition impacted margins, while the devaluation of the Kina reduced customer hedging activities.

Westpac Pacific continues to focus on improving the accessibility of basic banking services to people in the Pacific, through its "Everywhere Banking" initiatives. These initiatives have made it easier for customers outside of the larger cities to access banking services. As a result, new customers in the Pacific increased by 44,000 and fee income is increasing.

Operating expenses grew \$2 million (or 4%) reflecting the increased investment in people and technology.

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Impairment charges increased \$5 million to \$6 million, due primarily to a small number of larger exposures that became impaired in First Half 2014. Despite these instances overall credit quality remains stable across the region.

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#### First Half 2014 – First Half 2013

- Cash Earnings of \$65 million was in line with First Half 2013, supported by a high level of customer related foreign exchange income.
- 

Translation gains for movements between the \$A and local currencies had little impact on Cash Earnings between First Half 2014 and First Half 2013.

Net interest income decreased \$5 million (or 7%). Balance sheet volumes declined slightly as the business managed intense competitive pressures in a modest credit growth environment. A growing number of competitors in the region has kept downward pressure on margins, with net interest margins declining 51 basis points since First Half 2013.

Non-interest income increased strongly, up \$17 million (or 24%), mostly due to higher foreign exchange income. Westpac Pacific has leveraged its leading position in currency trade flows to maintain good customer foreign exchange volumes. An easing in the intense competitive pressures experienced in First Half 2013 supported improved margins on customer hedging in First Half 2014.

Operating expenses increased \$4 million (or 8%) from increased investment in technology, higher salaries and a rise in other operating expenses.

Impairment charges increased \$4 million to \$6 million, mainly due to the downgrade of a small number of larger exposures to impaired.

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### 3.5 Group Businesses

This segment comprises:

- Group items, including earnings on capital not allocated to divisions, accounting entries for certain intra-group transactions that facilitate the presentation of the performance of the Group's operating segments earnings from non-core asset sales and certain other head office items such as centrally raised provisions;
- Group Services, which encompasses technology, banking operations, compliance, legal and property services;
- Treasury, the primary focus of which is the management of the Group's interest rate risk and funding requirements by managing the mismatch between Group assets and liabilities. Treasury's earnings are primarily impacted by the hedging decisions taken on behalf of the Group to manage net interest income outcomes and assist net interest income growth; and
- Core Support, which comprises certain functions performed centrally, including finance, risk and human resources.

	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>\$m</b>					
Net interest income	251	211	365	19	(31)
Non-interest income	49	(23)	49	large	-
Net operating income	300	188	414	60	(28)
Operating expenses	(26)	(74)	(43)	65	40
<b>Core earnings</b>	<b>274</b>	<b>114</b>	<b>371</b>	<b>140</b>	<b>(26)</b>
Impairment charges	(92)	3	(59)	large	(56)
<b>Operating profit before tax</b>	<b>182</b>	<b>117</b>	<b>312</b>	<b>56</b>	<b>(42)</b>
Tax and non-controlling interests	(81)	(91)	(145)	11	44
<b>Cash Earnings</b>	<b>101</b>	<b>26</b>	<b>167</b>	<b>large</b>	<b>(40)</b>

	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>\$m</b>					
Net interest income	292	194	362	51	(19)
Non-interest income	11	7	14	57	(21)
<b>Cash Earnings</b>	<b>198</b>	<b>125</b>	<b>241</b>	<b>58</b>	<b>(18)</b>

### Financial Performance

#### First Half 2014 – Second Half 2013

- Increased net operating income from higher Treasury income; and
- Increase in centrally held economic overlay impairment provisions.

Cash Earnings increased \$75 million compared to Second Half 2013 mainly due to higher Treasury earnings.

Net operating income increased \$112 million (or 60%) to \$300 million through higher Treasury income reflecting improved returns from management of the liquids portfolio and interest rate positions. Other major Group items in the half included the profit from sale of shares in Visa (\$43 million).

Operating expenses decreased \$48 million due to a reduction in defined benefits superannuation expense, employee provisions raised in Second Half 2013 were not repeated and a decrease in centrally managed program costs.

Impairment charges of \$92 million in First Half 2014 reflects an increase in centrally held economic overlay impairment provisions related to sectors in the economy undergoing structural change.

Distributions to non-controlling interests reduced \$15 million in First Half 2014 due to the maturity of 2003 TPS in Second Half 2013.

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First Half 2014 – First Half 2013

- Lower net operating income from a reduction in Treasury income; and
  - Increase in centrally held economic overlay impairment charges.
- 

Cash Earnings reduced \$66 million or 40% compared to First Half 2013 primarily reflecting lower Treasury earnings and higher impairments.

Net operating income decreased \$114 million (or 28%) primarily due to reduced Treasury income following lower returns from management of the liquids portfolio. Other Group items were broadly consistent.

Operating expenses reduced \$17 million due to lower costs associated with centrally managed programs.

Impairment charges increased \$33 million, reflecting a larger change to centrally held economic overlay impairment provisions.

Distributions to non-controlling interest reduced by \$15 million due to the maturity of the 2003 TPS in Second Half 2013.

Treasury Value at Risk (VaR)

Risk taking as measured by VaR for First Half 2014 was lower than in prior periods.

Average daily VaR for First Half 2014 was \$15.5 million compared to \$17.9 million for Second Half 2013 and \$25.5 million for First Half 2013.

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4.1 Consolidated Income Statement

					<i>% Mov't</i>	<i>% Mov't</i>
<b>\$m</b>	<b>Note</b>	<b>Half Year March 14</b>	<b>Half Year Sept 13</b>	<b>Half Year March 13</b>	<b>Mar 14 - Sept 13</b>	<b>Mar 14 - Mar 13</b>
Interest income	3	15,864	16,145	16,864	(2)	(6)
Interest expense	3	(9,225)	(9,616)	(10,572)	4	13
Net interest income		6,639	6,529	6,292	2	6
Non-interest income	4	3,151	2,896	2,878	9	9
Net operating income before operating expenses and impairment charges		9,790	9,425	9,170	4	7
Operating expenses	5	(4,195)	(4,043)	(3,933)	(4)	(7)
Impairment charges	11	(341)	(409)	(438)	17	22
<b>Profit before income tax</b>		<b>5,254</b>	<b>4,973</b>	<b>4,799</b>	<b>6</b>	<b>9</b>
Income tax expense	7	(1,595)	(1,470)	(1,477)	(9)	(8)
<b>Net profit for the period</b>		<b>3,659</b>	<b>3,503</b>	<b>3,322</b>	<b>4</b>	<b>10</b>
Profit attributable to non-controlling interests		(37)	(39)	(35)	5	(6)
<b>Net profit attributable to owners of Westpac Banking Corporation</b>		<b>3,622</b>	<b>3,464</b>	<b>3,287</b>	<b>5</b>	<b>10</b>

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4.2 Consolidated Balance Sheet<sup>1</sup>

\$m	Note	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>Assets</b>						
Cash and balances with central banks		16,375	11,699	6,600	40	148
Receivables due from other financial institutions		8,744	11,210	12,580	(22)	(30)
Trading securities		43,420	46,330	46,346	(6)	(6)
Other financial assets designated at fair value		2,787	2,759	2,543	1	10
Derivative financial instruments	19	26,207	28,356	29,323	(8)	(11)
Available-for-sale securities		33,185	30,011	27,775	11	19
Loans – housing and personal	10	398,643	382,702	371,880	4	7
Loans – business	10	165,926	153,462	149,250	8	11
Life insurance assets		12,841	13,149	12,895	(2)	-
Regulatory deposits with central banks overseas		1,575	1,571	1,529	-	3
Property, plant and equipment		1,294	1,174	1,084	10	19
Deferred tax assets		1,395	1,773	1,855	(21)	(25)
Goodwill and other intangible assets <sup>1</sup>		12,683	12,341	12,108	3	5
Other assets		4,300	4,560	6,110	(6)	(30)
<b>Total assets</b>		<b>729,375</b>	<b>701,097</b>	<b>681,878</b>	<b>4</b>	<b>7</b>
<b>Liabilities</b>						
Payables due to other financial institutions		15,211	8,836	8,043	72	89
Deposits and other borrowings	17	437,405	424,482	403,406	3	8
Financial liabilities at fair value through income statement		15,077	10,302	8,833	46	71
Derivative financial instruments	19	31,330	32,990	34,081	(5)	(8)
Debt issues		150,098	144,133	144,303	4	4
Current tax liabilities		430	895	523	(52)	(18)
Life insurance liabilities		11,594	11,938	11,794	(3)	(2)
Provisions		1,364	1,576	1,391	(13)	(2)
Deferred tax liabilities		27	22	22	23	23
Other liabilities		8,488	9,056	11,365	(6)	(25)
<b>Total liabilities excluding loan capital</b>		<b>671,024</b>	<b>644,230</b>	<b>623,761</b>	<b>4</b>	<b>8</b>
<b>Loan capital</b>						
Subordinated bonds		5,873	4,886	5,500	20	7
Subordinated perpetual notes		382	378	338	1	13
Convertible debentures and trust preferred securities		612	616	562	(1)	9
Convertible preference shares		1,178	1,177	1,176	-	-
Stapled preferred securities (SPS)		-	-	1,034	-	(100)
Stapled preferred securities II (SPS II)		907	906	904	-	-
Capital Notes		1,368	1,367	1,366	-	-
<b>Total loan capital</b>		<b>10,320</b>	<b>9,330</b>	<b>10,880</b>	<b>11</b>	<b>(5)</b>
<b>Total liabilities</b>		<b>681,344</b>	<b>653,560</b>	<b>634,641</b>	<b>4</b>	<b>7</b>
<b>Net assets</b>		<b>48,031</b>	<b>47,537</b>	<b>47,237</b>	<b>1</b>	<b>2</b>
<b>Shareholders' equity</b>						
Share capital:						
Ordinary share capital		26,954	27,021	26,879	-	-
Treasury shares and RSP treasury shares		(305)	(253)	(254)	(21)	(20)
Reserves		960	953	657	1	46
Retained profits		19,556	18,953	17,978	3	9
<b>Total equity attributable to owners of Westpac Banking Corporation</b>		<b>47,165</b>	<b>46,674</b>	<b>45,260</b>	<b>1</b>	<b>4</b>
<b>Non-controlling interests</b>						
Trust Preferred Securities 2003 (TPS 2003)		-	-	1,137	-	(100)
Trust Preferred Securities 2006 (TPS 2006)		755	755	755	-	-
Other		111	108	85	3	31
<b>Total non-controlling interests</b>		<b>866</b>	<b>863</b>	<b>1,977</b>	<b>-</b>	<b>(56)</b>
<b>Total shareholders' equity and non-controlling interests</b>		<b>48,031</b>	<b>47,537</b>	<b>47,237</b>	<b>1</b>	<b>2</b>

<sup>1</sup> Goodwill and other intangible assets included \$2,023 million in capitalised software (\$1,897 million at 30 September 2013 and \$1,651 million at 31 March 2013).



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4.3 Consolidated Cash Flow Statement<sup>1</sup>

\$m	Note	Half Year March 14	Half Year Sept 13	Half Year <sup>1</sup> March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>Cash flows from operating activities</b>						
Interest received		15,745	16,310	16,738	(3)	(6)
Interest paid		(9,263)	(9,765)	(10,755)	5	14
Dividends received excluding life business		5	6	4	(17)	25
Other non-interest income received		2,770	4,101	2,517	(32)	10
Operating expenses paid		(4,276)	(3,379)	(3,338)	(27)	(28)
Income tax paid excluding life business		(1,581)	(1,182)	(1,509)	(34)	(5)
Life business:						
Receipts from policyholders and customers		765	909	850	(16)	(10)
Interest and other items of similar nature		30	23	22	30	36
Dividends received		92	192	109	(52)	(16)
Payments to policyholders and suppliers		(844)	(1,023)	(889)	17	5
Income tax paid		(59)	(72)	(37)	18	(59)
Cash flows from operating activities before changes in operating assets and liabilities		3,384	6,120	3,712	(45)	(9)
Net (increase)/decrease in:						
Trading and other financial assets designated at fair value		3,593	622	(941)	large	large
Loans		(17,678)	(8,793)	(6,874)	(101)	(157)
Due from other financial institutions		2,468	1,853	(2,364)	33	large
Life insurance assets and liabilities		(21)	(86)	(68)	76	69
Regulatory deposits with central banks overseas		(6)	120	369	(105)	(102)
Derivative financial instruments		937	9,747	(621)	(90)	large
Net increase/(decrease) in:						
Financial liabilities at fair value through income		4,840	1,401	(1,135)	large	large
Deposits and other borrowings		10,253	13,993	8,162	(27)	26
Due to other financial institutions		6,199	(100)	463	large	large
<b>Net cash provided by/(used in) operating activities</b>	20	<b>13,969</b>	<b>24,877</b>	<b>703</b>	<b>(44)</b>	<b>large</b>
<b>Cash flows from investing activities</b>						
Proceeds from available-for-sale securities		3,535	2,008	3,035	76	16
Purchase of available-for-sale securities		(6,751)	(4,679)	(7,123)	(44)	5
Purchase of intangible assets		(358)	(452)	(286)	21	(25)
Purchase of property, plant and equipment		(157)	(226)	(78)	31	(101)
Proceeds from disposal of property, plant and equipment		5	1	6	large	(17)
Purchase of controlled entity, net of cash acquired		(7,744)	-	-	-	-
<b>Net cash used in investing activities</b>		<b>(11,470)</b>	<b>(3,348)</b>	<b>(4,446)</b>	<b>large</b>	<b>(158)</b>
<b>Cash flows from financing activities</b>						
Issue of loan capital (net of issue costs)		998	592	1,366	69	(27)
Redemption of loan capital		(23)	(2,244)	-	99	-
Net increase/(decrease) in debt issues		4,004	(13,013)	(992)	131	large
Proceeds from exercise of employee options		25	74	50	(66)	(50)
Purchase of shares on exercise of employee options and rights		(73)	(114)	(60)	36	(22)
Shares purchased for delivery of employee share plan		(27)	-	-	-	-
Purchase of RSP treasury shares		(59)	-	(68)	-	13
Net sale/(purchase) of other treasury shares		7	1	6	large	17
Payment of dividends		(3,043)	(2,975)	(2,053)	(2)	(48)
Payment of distributions to non-controlling interests		(31)	(22)	(28)	(41)	(11)
Redemption of 2003 Trust Preferred Securities		-	(805)	-	100	-
<b>Net cash provided by financing activities</b>		<b>1,778</b>	<b>(18,506)</b>	<b>(1,779)</b>	<b>110</b>	<b>200</b>
Net increase/(decrease) in cash and cash equivalents		4,277	3,023	(5,522)	41	177
Effect of exchange rate changes on cash and cash equivalents		399	2,076	(401)	(81)	200
Cash and cash equivalents as at the beginning of the period		11,699	6,600	12,523	77	(7)
<b>Cash and cash equivalents as at the end of the period</b>		<b>16,375</b>	<b>11,699</b>	<b>6,600</b>	<b>40</b>	<b>148</b>

<sup>1</sup> The 31 March 2013 comparatives have been revised to align with current presentation. Certain cash flows have been reclassified between operating activities, investing activities and financing activities. The reclassification had no impact on the reported net increase/decrease in cash and cash equivalents.

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4.4 Consolidated Statement of Comprehensive Income

	Half Year	Half Year	Half Year	% Mov't	% Mov't
\$m	March 14	Sept 13	March 13	Mar 14 - Sept 13	Mar 14 - Mar 13
<b>Net profit for the period</b>	<b>3,659</b>	<b>3,503</b>	<b>3,322</b>	<b>4</b>	<b>10</b>
<b>Other comprehensive income</b>					
<b>Items that may be reclassified subsequently to profit or loss</b>					
Gains/(losses) on available-for-sale securities:					
Recognised in equity	180	97	(40)	86	large
Transferred to income statements	(67)	(76)	(28)	12	(139)
Gains/(losses) on cash flow hedging instruments:					
Recognised in equity	(122)	283	(334)	(143)	63
Transferred to income statements	(110)	(117)	(117)	6	6
Exchange differences on translation of foreign operations	(4)	129	(15)	(103)	73
Income tax on items taken directly to or transferred directly from equity:					
Available-for-sale securities reserve	(34)	(7)	22	large	large
Cash flow hedging reserve	71	(51)	136	large	(48)
Foreign currency translation reserve	-	(11)	-	100	-
<b>Items that will not be reclassified subsequently to profit or loss</b>					
Ow n credit adjustment on financial liabilities designated at fair value	(14)	44	-	(132)	-
Remeasurement of defined benefit obligation recognised in equity (net of tax)	38	146	101	(74)	(62)
<b>Other comprehensive income for the period (net of tax)</b>	<b>(62)</b>	<b>437</b>	<b>(275)</b>	<b>(114)</b>	<b>77</b>
<b>Total comprehensive income for the period</b>	<b>3,597</b>	<b>3,940</b>	<b>3,047</b>	<b>(9)</b>	<b>18</b>
Attributable to:					
Ow ners of Westpac Banking Corporation	3,560	3,901	3,012	(9)	18
Non-controlling interests	37	39	35	(5)	6
<b>Total comprehensive income for the period</b>	<b>3,597</b>	<b>3,940</b>	<b>3,047</b>	<b>(9)</b>	<b>18</b>

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4.5 Consolidated Statement of Changes in Equity

\$m	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>Share capital</b>					
Balance as at beginning of period	26,768	26,625	26,163	1	2
Shares issued:					
Dividend reinvestment plan	-	-	531	-	(100)
Exercise of employee share options and rights	25	74	50	(66)	(50)
Redemption of Westpac Stapled Performance Securities 'SPS'	-	173	-	(100)	-
Shares purchased for delivery upon exercise of options and share rights (net of tax)	(65)	(105)	(57)	38	(14)
Shares purchased for delivery of employee share plan	(27)	-	-	-	-
Acquisition of RSP treasury shares	(59)	-	(68)	-	13
Disposal of other treasury shares	7	1	6	large	17
<b>Balance as at period end</b>	<b>26,649</b>	<b>26,768</b>	<b>26,625</b>	<b>-</b>	<b>-</b>
<b>Available-for-sale securities reserve</b>					
Balance as at beginning of period	12	(2)	44	large	(73)
Current period movement due to changes in other comprehensive income:					
Net gains/(losses) from changes in fair value	180	97	(40)	86	large
Income tax effect	(54)	(30)	13	(80)	large
Transferred to income statements	(67)	(76)	(28)	12	(139)
Income tax effect	20	23	9	(13)	122
<b>Balance as at end of period end</b>	<b>91</b>	<b>12</b>	<b>(2)</b>	<b>large</b>	<b>large</b>
<b>Share-based payment reserve</b>					
Balance as at beginning of period	920	868	790	6	16
Current period movement due to transactions with employees	90	52	78	73	15
<b>Balance as at period end</b>	<b>1,010</b>	<b>920</b>	<b>868</b>	<b>10</b>	<b>16</b>
<b>Cash flow hedging reserve</b>					
Balance as at beginning of period	271	156	471	74	(42)
Current period movement due to changes in other comprehensive income:					
Net gains/(losses) from changes in fair value	(122)	283	(334)	(143)	63
Income tax effect	38	(87)	101	144	(62)
Transferred to income statements	(110)	(117)	(117)	6	6
Income tax effect	33	36	35	(8)	(6)
<b>Balance as at period end</b>	<b>110</b>	<b>271</b>	<b>156</b>	<b>(59)</b>	<b>(29)</b>
<b>Foreign currency translation reserve</b>					
Balance as at beginning of period	(251)	(369)	(354)	32	29
Current period movement due to changes in other comprehensive income:					
Exchange differences on translation of foreign operations	(4)	129	(15)	(103)	73
Tax on foreign currency translation adjustment	-	(11)	-	100	-
<b>Balance as at period end</b>	<b>(255)</b>	<b>(251)</b>	<b>(369)</b>	<b>(2)</b>	<b>31</b>
<b>Other reserves</b>					
Balance as at beginning of period	1	4	7	(75)	(86)
Transactions with owners	3	(3)	(3)	200	200
<b>Balance as at period end</b>	<b>4</b>	<b>1</b>	<b>4</b>	<b>large</b>	<b>-</b>
<b>Total reserves</b>	<b>960</b>	<b>953</b>	<b>657</b>	<b>1</b>	<b>46</b>
<b>Movements in retained profits were as follows</b>					
Balance as at beginning of period	18,953	17,978	17,174	5	10
Current period movement due to changes in other comprehensive income:					
Profit attributable to owners of Westpac Banking Corporation	3,622	3,464	3,287	5	10
Own credit adjustment on financial liabilities designated at fair value	(14)	44	-	(132)	-
Remeasurement of defined benefit obligation recognised in equity (net of tax)	38	146	101	(74)	(62)
Transactions with owners:					
Final dividend paid	(2,733)	-	(2,584)	-	(6)
Interim dividend paid	-	(2,665)	-	100	-
Special dividends paid	(310)	(310)	-	-	-
Realised gain on redemption of 2003 TPS	-	296	-	(100)	-
<b>Balance as at period end</b>	<b>19,556</b>	<b>18,953</b>	<b>17,978</b>	<b>3</b>	<b>9</b>
<b>Total comprehensive income attributable to owners of Westpac Banking Corporation</b>	<b>3,560</b>	<b>3,901</b>	<b>3,012</b>	<b>(9)</b>	<b>18</b>
<b>Total comprehensive income attributable to non-controlling interests</b>	<b>37</b>	<b>39</b>	<b>35</b>	<b>(5)</b>	<b>6</b>
<b>Total comprehensive income for the period</b>	<b>3,597</b>	<b>3,940</b>	<b>3,047</b>	<b>(9)</b>	<b>18</b>

#### 4.6 Notes to Interim 2014 Reported Financial Information

##### Note 1. Basis of preparation of financial information

The accounting policies and methods of computation adopted in the preparation of the Interim Financial Information are the same as those in the previous financial year and corresponding interim reporting period, unless specifically noted and are in accordance with Australian Accounting Standards (AAS) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current period. All amounts have been rounded to the nearest million dollars unless otherwise stated.

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Note 2. Average balance sheet and interest rates<sup>1234</sup>

	Half Year 31 March 2014			Half Year 30 September 2013			Half Year 31 March 2013		
	Average Balance	Interest Income	Average Rate	Average Balance	Interest Income	Average Rate	Average Balance	Interest Income	Average Rate
	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
<b>Assets</b>									
<b>Interest earning assets</b>									
Receivables due from other financial institutions	8,599	43	1.0%	9,238	52	1.1%	9,060	61	1.4%
Trading securities	46,425	753	3.3%	45,299	772	3.4%	47,238	893	3.8%
Available-for-sale securities	29,377	664	4.5%	26,182	624	4.8%	23,108	602	5.2%
Other financial assets designated at fair value	2,068	36	3.5%	1,899	25	2.6%	1,723	42	4.9%
Regulatory deposits	1,402	10	1.4%	1,500	12	1.6%	1,524	11	1.4%
Loans and other receivables <sup>1</sup>	547,786	14,358	5.3%	524,035	14,660	5.6%	508,886	15,255	6.0%
<b>Total interest earning assets and interest income</b>	<b>635,657</b>	<b>15,864</b>	<b>5.0%</b>	<b>608,153</b>	<b>16,145</b>	<b>5.3%</b>	<b>591,539</b>	<b>16,864</b>	<b>5.7%</b>
<b>Non-interest earning assets</b>									
Cash, receivables due from other financial institutions and regulatory deposits	1,213			299			1,149		
Life insurance assets	13,356			13,024			12,400		
All other assets <sup>2</sup>	74,428			77,981			71,984		
<b>Total non-interest earning assets</b>	<b>88,997</b>			<b>91,304</b>			<b>85,533</b>		
<b>Total assets</b>	<b>724,654</b>			<b>699,457</b>			<b>677,072</b>		
	Half Year 31 March 2014			Half Year 30 September 2013			Half Year 31 March 2013		
	Average Balance	Interest Expense	Average Rate	Average Balance	Interest Expense	Average Rate	Average Balance	Interest Expense	Average Rate
	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
<b>Liabilities</b>									
<b>Interest bearing liabilities</b>									
Deposits and other borrowings	408,126	5,704	2.8%	392,604	6,088	3.1%	380,715	6,467	3.4%
Payables due to other financial institutions	14,408	144	2.0%	11,064	104	1.9%	7,574	86	2.3%
Loan capital	9,427	231	4.9%	9,659	259	5.3%	9,579	270	5.7%
Other interest bearing liabilities <sup>3</sup>	163,379	3,146	3.9%	155,520	3,165	4.1%	154,179	3,749	4.9%
<b>Total interest bearing liabilities and interest expense</b>	<b>595,340</b>	<b>9,225</b>	<b>3.1%</b>	<b>568,847</b>	<b>9,616</b>	<b>3.4%</b>	<b>552,047</b>	<b>10,572</b>	<b>3.8%</b>
<b>Non-interest bearing liabilities</b>									
Deposits and payables due to other financial institutions	26,614			23,562			21,500		
Life insurance policy liabilities	12,064			11,873			11,274		
All other liabilities <sup>4</sup>	43,866			48,333			46,452		
<b>Total non-interest bearing liabilities</b>	<b>82,544</b>			<b>83,768</b>			<b>79,226</b>		
<b>Total liabilities</b>	<b>677,884</b>			<b>652,615</b>			<b>631,273</b>		
Shareholders' equity	45,907			44,866			43,831		
Non-controlling interests	863			1,976			1,968		
<b>Total equity</b>	<b>46,770</b>			<b>46,842</b>			<b>45,799</b>		
<b>Total liabilities and equity</b>	<b>724,654</b>			<b>699,457</b>			<b>677,072</b>		

<sup>1</sup> Other receivables includes other assets, cash and balances held with central banks.

<sup>2</sup> Includes property, plant and equipment, goodwill and intangibles, other assets, deferred tax assets and non-interest bearing loans relating to mortgage offset accounts.

<sup>3</sup> Includes net impact of Treasury balance sheet management activities.

<sup>4</sup> Includes provisions for current and deferred income tax and derivative financial instruments.

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Note 2. Average balance sheet and interest rates (continued)<sup>1</sup>

	Half Year 31 March 2014			Half Year 30 September 2013			Half Year 31 March 2013		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
<b>Loans and other receivables<sup>1</sup></b>									
Australia	465,618	12,552	5.4%	451,173	13,023	5.8%	447,627	13,689	6.1%
New Zealand	58,464	1,646	5.6%	52,987	1,494	5.6%	48,603	1,430	5.9%
Other overseas	23,704	160	1.4%	19,876	143	1.4%	12,656	136	2.2%
<b>Deposits and other borrowings</b>									
Australia	338,600	4,928	2.9%	329,135	5,356	3.2%	322,114	5,785	3.6%
New Zealand	41,877	682	3.3%	37,532	629	3.3%	33,806	585	3.5%
Other overseas	27,649	94	0.7%	25,938	103	0.8%	24,795	97	0.8%

<sup>1</sup> Other receivables includes other assets, cash and balances held with central banks.

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Note 3. Net interest income

	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>\$m</b>					
<b>Interest income</b>					
Cash	104	52	50	100	108
Receivables due from other financial institutions	43	52	61	(17)	(30)
Net ineffectiveness on qualifying hedges	(22)	(8)	39	(175)	(156)
Trading securities	753	772	893	(2)	(16)
Other financial assets designated at fair value	36	25	42	44	(14)
Available-for-sale securities	664	624	602	6	10
Loans	14,271	14,616	15,165	(2)	(6)
Regulatory deposits with central banks overseas	10	12	11	(17)	(9)
Other interest income	5	-	1	-	large
<b>Total interest income</b>	<b>15,864</b>	<b>16,145</b>	<b>16,864</b>	<b>(2)</b>	<b>(6)</b>
<b>Interest expense</b>					
Payables due to other financial institutions	(144)	(104)	(86)	(38)	(67)
Certificates of deposit	(435)	(443)	(566)	2	23
At call and term deposits	(5,269)	(5,645)	(5,901)	7	11
Trading liabilities	(1,243)	(1,102)	(1,704)	(13)	27
Debt issues	(1,861)	(2,032)	(1,976)	8	6
Loan capital	(231)	(259)	(270)	11	14
Other interest expense	(42)	(31)	(69)	(35)	39
<b>Total interest expense</b>	<b>(9,225)</b>	<b>(9,616)</b>	<b>(10,572)</b>	<b>4</b>	<b>13</b>
<b>Net interest income</b>	<b>6,639</b>	<b>6,529</b>	<b>6,292</b>	<b>2</b>	<b>6</b>



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Note 4. Non-interest income<sup>123</sup>

				% Mov't	% Mov't
\$m	Half Year March 14	Half Year Sept 13	Half Year March 13	Mar 14 - Sept 13	Mar 14 - Mar 13
<b>Fees and commissions</b>					
Facility fees	644	645	608	-	6
Transaction fees and commissions received	631	577	583	9	8
Other non-risk fee income	183	171	139	7	32
<b>Total fees and commissions</b>	<b>1,458</b>	<b>1,393</b>	<b>1,330</b>	<b>5</b>	<b>10</b>
<b>Wealth management and insurance income<sup>1</sup></b>					
Life insurance and funds management net operating income	990	904	834	10	19
General insurance and lenders mortgage insurance net operating income	112	122	84	(8)	33
<b>Total wealth management and insurance income</b>	<b>1,102</b>	<b>1,026</b>	<b>918</b>	<b>7</b>	<b>20</b>
<b>Trading income<sup>2</sup></b>					
Foreign exchange income	274	238	202	15	36
Other trading securities	272	314	315	(13)	(14)
<b>Total trading income</b>	<b>546</b>	<b>552</b>	<b>517</b>	<b>(1)</b>	<b>6</b>
<b>Other income</b>					
Dividends received	5	6	4	(17)	25
Net gain on disposal of assets	53	31	36	71	47
Net gain/(loss) on ineffective hedges	(1)	2	(3)	(150)	67
Net gain/(loss) on hedging overseas operations	4	(25)	19	116	(79)
Net gain/(loss) on derivatives held for risk management purposes <sup>3</sup>	(71)	(103)	(15)	31	large
Net gain/(loss) on financial instruments designated at fair value	(2)	9	23	(122)	(109)
Rental income on operating leases	12	-	-	-	-
Other	45	5	49	large	(8)
<b>Total other income</b>	<b>45</b>	<b>(75)</b>	<b>113</b>	<b>160</b>	<b>(60)</b>
<b>Total non-interest income</b>	<b>3,151</b>	<b>2,896</b>	<b>2,878</b>	<b>9</b>	<b>9</b>

<sup>1</sup> Wealth management and insurance income includes policyholder tax recoveries. A reconciliation between wealth management and insurance income in Note 4 and non-interest income for BTFG is provided in Section 5, Note 4.

<sup>2</sup> Trading income represents a component of total markets income from our WIB markets business, St. George and Westpac Pacific businesses and our Treasury foreign exchange operations in Australia and New Zealand.

<sup>3</sup> Income from derivatives held for risk management purposes reflects the impact of economic hedges of foreign currency capital and earnings where hedge accounting is not achieved.

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Note 5. Operating expenses

	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>\$m</b>					
<b>Salaries and other staff expenses</b>					
Salaries and wages	1,783	1,650	1,614	(8)	(10)
Other staff expenses	522	516	528	(1)	1
Restructuring costs	46	10	18	large	(156)
<b>Total salaries and other staff expenses</b>	<b>2,351</b>	<b>2,176</b>	<b>2,160</b>	<b>(8)</b>	<b>(9)</b>
<b>Equipment and occupancy expenses</b>					
Operating lease rentals	271	286	279	5	3
Depreciation, amortisation and impairment:					
Premises	6	2	11	(200)	45
Leasehold improvements	54	60	48	10	(13)
Furniture and equipment	30	32	30	6	-
Technology	47	49	45	4	(4)
Software	215	218	185	1	(16)
Assets under lease	5	-	-	-	-
Other	64	63	62	(2)	(3)
<b>Total equipment and occupancy expenses</b>	<b>692</b>	<b>710</b>	<b>660</b>	<b>3</b>	<b>(5)</b>
<b>Other expenses</b>					
Amortisation of deferred expenditure & intangible assets	107	113	111	5	4
Non-lending losses	22	16	27	(38)	19
Purchased services:					
Technology and information services	209	190	160	(10)	(31)
Legal	22	17	9	(29)	(144)
Other professional services	184	208	172	12	(7)
Credit card loyalty programs	76	65	70	(17)	(9)
Postage and stationery	100	114	108	12	7
Outsourcing costs	281	289	298	3	6
Insurance	8	10	10	20	20
Advertising	72	70	94	(3)	23
Training	9	12	9	25	-
Travel	33	34	30	3	(10)
Other expenses	29	19	15	(53)	(93)
<b>Total other expenses</b>	<b>1,152</b>	<b>1,157</b>	<b>1,113</b>	<b>-</b>	<b>(4)</b>
<b>Total operating expenses</b>	<b>4,195</b>	<b>4,043</b>	<b>3,933</b>	<b>(4)</b>	<b>(7)</b>

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Note 6. Deferred expenses and capitalised software

\$m	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
Capitalised software	2,023	1,897	1,651	7	23
Deferred acquisition costs	118	126	139	(6)	(15)
Other deferred expenditure	28	24	20	17	40

Note 7. Income tax<sup>123</sup>

\$m	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>The income tax expense for the year is reconciled to the profit before income tax as follows</b>					
<b>Profit before income tax</b>	<b>5,254</b>	<b>4,973</b>	<b>4,799</b>	<b>6</b>	<b>9</b>
Prima facie income tax based on the Australian company tax rate of 30%	1,576	1,492	1,440	6	9
<b>The effect of amounts which are not deductible/(assessable) in calculating taxable income</b>					
Change in tax rate <sup>1</sup>	1	(2)	-	150	-
Rebateable and exempt dividends	3	(2)	-	large	-
Life insurance:					
Tax adjustment on policyholders earnings <sup>2</sup>	3	11	13	(73)	(77)
Adjustment for life business tax rates	(4)	(3)	(5)	(33)	20
Hybrid capital distributions <sup>3</sup>	16	17	9	(6)	78
Other non-assessable items	(12)	(6)	(12)	(100)	-
Other non-deductible items	24	12	25	100	(4)
Adjustment for overseas tax rates	(10)	5	(5)	large	(100)
Income tax under/(over) provided in prior years	(1)	(10)	3	90	(133)
Other items	(1)	(44)	9	98	(111)
<b>Total income tax expense in the income statement</b>	<b>1,595</b>	<b>1,470</b>	<b>1,477</b>	<b>9</b>	<b>8</b>
Average effective income tax rate	30.4%	29.6%	30.8%	(80bps)	40bps
Effective tax rate (excluding life company accounting)	30.3%	29.3%	30.5%	(100bps)	20bps

<sup>1</sup> During 2014 the company tax rate in the UK reduced from 23% to 21%. The impact of this change has been taken in account in the measurement of deferred tax at the end of the reporting period. The impact of the change in the UK tax rates from 24% to 23% was included in 2013.

<sup>2</sup> In accordance with the requirements of AASB 1038, tax expense for First Half 2014 includes a \$5 million tax expense on policyholders' investment earnings (Second Half 2013: \$16 million tax expense, First Half 2013: \$19 million tax expense) of which \$2 million is a prima facie tax expense (Second Half 2013: \$5 million tax expense, First Half 2013: \$6 million tax expense) and the balance of \$3 million tax expense (Second Half 2013: \$11 million tax expense, First Half 2013: \$13 million tax expense) is shown here.

<sup>3</sup> Reflects distributions on Westpac Convertible Preference Shares and Westpac Capital Notes which are not tax deductible.

Note 8. Dividends

	Half Year March 14	Half Year Sept 13	Half Year March 13
<b>Dividends per ordinary share (cents per share)</b>			
Interim (fully franked)	90	-	86
Final (fully franked)	-	88	-
<b>Total ordinary dividend</b>	90	88	86
Special (fully franked)	-	10	10
<b>Total dividend</b>	90	98	96
<b>Total dividends paid (\$m)</b>			
Ordinary dividends paid	2,733	2,665	2,584
Special dividends paid	310	310	-
	3,043	2,975	2,584
<b>Ordinary dividend payout ratio<sup>1</sup></b>	<b>77.1%</b>	<b>78.6%</b>	<b>80.8%</b>

The Group operates a Dividend Reinvestment Plan (DRP), which is available to holders of fully paid ordinary shares who are resident in, or whose address on the register of shareholders is in Australia or New Zealand. Shares allocated under the DRP will rank equally with other ordinary shares on issue. As noted in Section 2.5, the Directors have made certain determinations in relation to the calculation of the Market Price that will apply to the DRP for the 2014 interim dividend only.

Shareholders who wish to commence participation in the DRP, or to vary their current participation election, must do so by 5.00pm (Sydney time) on 19 May 2014, which is one business day after the record date for the 2014 interim dividend. Shareholders can provide these instructions by:

- For shareholders with holdings that have a market value of less than AUD50,000, logging into the Westpac share registrar's website at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) and electing into the DRP or amending their existing instructions online; or
- Completing and returning a DRP Application or Variation form to Westpac's share registry. Registry contact details are listed in Section 6.4.

<sup>1</sup> Excludes special dividend.

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Note 9. Earnings per ordinary share<sup>1</sup>

	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>Earnings per ordinary share (cents)</b>					
Basic	116.8	111.9	106.5	4	10
Fully diluted	114.5	109.0	104.2	5	10
<b>Weighted average number of fully paid ordinary shares (millions)</b>					
Basic	3,098	3,090	3,083	-	-
Fully diluted	3,230	3,260	3,221	(1)	-

	Half Year March 14	Half Year Sept 13	Half Year March 13
<b>Reconciliation of ordinary shares on issue before the effect of own shares held (millions)</b>			
Opening balance	3,109	3,104	3,080
Number of shares issued under the Dividend Reinvestment Plan (DRP)	-	-	22
Number of shares issued upon conversion of the Westpac Stapled Preferred Securities (SPS)	-	5	-
Number of shares issued under the Employee Share Plan (ESP)	-	-	1
Number of shares issued under Restricted Share Plan (RSP), option and share right schemes	-	-	1
<b>Closing balance</b>	<b>3,109</b>	<b>3,109</b>	<b>3,104</b>

	Half Year 31 Mar 2014		Half Year 30 September 2013		Half Year 31 Mar 2013	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Net profit attributable to ow ners of Westpac Banking Corporation	3,622	3,622	3,464	3,464	3,287	3,287
RSP treasury shares distributions <sup>1</sup>	(4)	-	(7)	-	(5)	-
2004 Trust Preferred Securities (TPS 2004) distributions	-	10	-	11	-	9
Stapled preferred share (SPS) distributions	-	-	-	12	-	14
Stapled preferred share II (SPS II) distributions	-	14	-	15	-	15
Convertible preference share dividends	-	24	-	26	-	27
Westpac Capital Notes distributions	-	28	-	26	-	4
<b>Net profit attributable to owners of Westpac Banking Corporation adjusted for the effect of dilution</b>	<b>3,618</b>	<b>3,698</b>	<b>3,457</b>	<b>3,554</b>	<b>3,282</b>	<b>3,356</b>
<b>Weighted average number of ordinary shares (millions)</b>						
Weighted average number of ordinary shares	3,109	3,109	3,104	3,104	3,096	3,096
Effect of ow n shares held	(11)	(11)	(14)	(14)	(13)	(13)
Potential dilutive adjustment:						
Exercise of options and share rights and vesting of restricted shares	-	12	-	14	-	13
Conversion of Trust Preferred Securities 2004 (TPS 2004)	-	17	-	17	-	16
Conversion of stapled preferred securities (SPS)	-	-	-	31	-	34
Conversion of stapled preferred securities II (SPS II)	-	27	-	28	-	30
Conversion of convertible preference shares (CPS)	-	35	-	37	-	39
Conversion of Westpac Capital Notes	-	41	-	43	-	6
<b>Total weighted average number of ordinary shares</b>	<b>3,098</b>	<b>3,230</b>	<b>3,090</b>	<b>3,260</b>	<b>3,083</b>	<b>3,221</b>
<b>Earnings per ordinary share (cents)</b>	<b>116.8</b>	<b>114.5</b>	<b>111.9</b>	<b>109.0</b>	<b>106.5</b>	<b>104.2</b>

<sup>1</sup> While the equity granted to employees remains unvested, Restricted Share Plan (RSP) treasury shares are deducted from ordinary shares on issue in arriving at the weighted average number of ordinary shares outstanding. Despite the shares being unvested, employees are entitled to dividends and voting rights on the shares. Consequently, a portion of the profit for the period is allocated to RSP treasury shares to arrive at earnings attributed to ordinary shareholders.

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Note 10. Loans<sup>1</sup>

\$m	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
Loans are classified based on the location of the booking office:					
<b>Australia</b>					
Overdrafts	2,789	2,965	3,086	(6)	(10)
Credit card outstandings	9,926	9,560	9,788	4	1
Overnight and at call money market loans	55	112	73	(51)	(25)
Acceptance of finance	34,338	36,191	37,071	(5)	(7)
Term loans:					
Housing	309,791	298,967	290,811	4	7
Housing - line of credit	28,245	29,565	31,127	(4)	(9)
Total housing	338,036	328,532	321,938	3	5
Non-housing	98,219	87,240	85,482	13	15
Finance leases	5,849	4,976	5,462	18	7
Margin lending	2,038	2,041	2,168	-	(6)
Trade finance	1,879	1,670	2,028	13	(7)
Other	772	857	844	(10)	(9)
<b>Total Australia</b>	<b>493,901</b>	<b>474,144</b>	<b>467,940</b>	<b>4</b>	<b>6</b>
<b>New Zealand</b>					
Overdrafts	1,131	1,125	946	1	20
Credit card outstandings	1,293	1,201	1,073	8	21
Overnight and at call money market loans	1,352	1,230	1,203	10	12
Term loans:					
Housing	36,258	33,389	29,327	9	24
Non-housing	19,603	18,242	16,034	7	22
Trade finance	262	256	230	2	14
Other	164	142	130	15	26
<b>Total New Zealand</b>	<b>60,063</b>	<b>55,585</b>	<b>48,943</b>	<b>8</b>	<b>23</b>
<b>Other Overseas</b>					
Overdrafts	147	149	134	(1)	10
Term loans:					
Housing	843	885	911	(5)	(7)
Non-Housing	5,934	4,260	4,290	39	38
Finance leases	71	77	88	(8)	(19)
Trade finance	7,098	4,706	2,679	51	165
<b>Total Other Overseas</b>	<b>14,093</b>	<b>10,077</b>	<b>8,102</b>	<b>40</b>	<b>74</b>
<b>Total loans</b>	<b>568,057</b>	<b>539,806</b>	<b>524,985</b>	<b>5</b>	<b>8</b>
Provision on loans	(3,488)	(3,642)	(3,855)	(4)	(10)
<b>Total net loans<sup>1</sup></b>	<b>564,569</b>	<b>536,164</b>	<b>521,130</b>	<b>5</b>	<b>8</b>

<sup>1</sup> Total net loans include securitised loans of \$11,266 million at 31 March 2014, (\$10,408 million at 30 September 2013 and \$11,785 million at 31 March 2013). The level of securitised loans excludes loans where Westpac is the holder of the related debt securities.

Note 11. Provisions for impairment charges

\$m	Half Year March 14	Half Year Sept 13	Half Year March 13
<b>Collectively assessed provisions</b>			
Balance at beginning of the period	2,585	2,694	2,771
Provisions raised/(released)	284	143	147
Write-offs	(331)	(382)	(326)
Interest adjustment	91	96	100
Exchange rate and other adjustments	23	34	2
<b>Closing balance</b>	<b>2,652</b>	<b>2,585</b>	<b>2,694</b>
<b>Individually assessed provisions</b>			
Balance at beginning of the period	1,364	1,505	1,470
Provisions raised	349	555	557
Write-backs	(244)	(254)	(225)
Write-offs	(314)	(430)	(261)
Interest adjustment	(23)	(37)	(38)
Exchange rate and other adjustments	7	25	2
<b>Closing balance</b>	<b>1,139</b>	<b>1,364</b>	<b>1,505</b>
<b>Total provisions for impairment charges on loans and credit commitments</b>	<b>3,791</b>	<b>3,949</b>	<b>4,199</b>
Less: provisions for credit commitments	(303)	(307)	(344)
<b>Total provisions for impairment charges on loans</b>	<b>3,488</b>	<b>3,642</b>	<b>3,855</b>
<b>\$m</b>	<b>Half Year March 14</b>	<b>Half Year Sept 13</b>	<b>Half Year March 13</b>
<b>Reconciliation of impairment charges</b>			
Individually assessed provisions raised	349	555	557
Write-backs	(244)	(254)	(225)
Recoveries	(48)	(35)	(41)
Collectively assessed provisions raised/(released)	284	143	147
<b>Impairment charges</b>	<b>341</b>	<b>409</b>	<b>438</b>



Note 12. Impaired loans

	Australia			New Zealand			Other Overseas			Total		
	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013	As at 30 Sept 2013	As at 31 March 2013	As at 31 March 2013
<b>\$m</b>												
<b>Non-Performing Loans:</b>												
Gross amount	2,065	2,574	3,112	377	586	672	105	89	82	3,249	3,866	
Impairment provision	(952)	(1,099)	(1,233)	(129)	(210)	(227)	(64)	(54)	(46)	(1,363)	(1,506)	
Net	1,113	1,475	1,879	248	376	445	41	35	36	1,886	2,360	
<b>Restructured loans:</b>												
Gross amount	39	34	63	-	-	-	64	122	111	156	174	
Impairment provision	(23)	(23)	(33)	-	-	-	(20)	(33)	(24)	(56)	(57)	
Net	16	11	30	-	-	-	44	89	87	100	117	
<b>Overdrafts, personal loans and revolving credit greater than 90 days past due:</b>												
Gross amount	226	181	226	16	14	14	1	-	1	195	241	
Impairment provision	(142)	(126)	(150)	(12)	(9)	(9)	(1)	-	(1)	(135)	(160)	
Net	84	55	76	4	5	5	-	-	-	60	81	
<b>Total Impaired loans:</b>												
Gross amount	2,330	2,789	3,401	393	600	686	170	211	194	3,600	4,281	
Impairment provision	(1,117)	(1,248)	(1,416)	(141)	(219)	(236)	(85)	(87)	(71)	(1,554)	(1,723)	
Net	1,213	1,541	1,985	252	381	450	85	124	123	2,046	2,558	

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Note 13. Movement in gross impaired assets<sup>1</sup>

\$m	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
Balance as at beginning of period	3,600	4,281	4,386	16	18
New and increased	708	958	997	26	29
Write-offs	(645)	(812)	(587)	(21)	10
Returned to performing or repaid	(1,179)	(1,232)	(886)	(4)	33
Portfolio managed - new /increased/returned/repaid	367	336	368	(9)	-
Exchange rate and other adjustments	42	69	3	39	large
<b>Balance as at period end</b>	<b>2,893</b>	<b>3,600</b>	<b>4,281</b>	<b>20</b>	<b>32</b>

Note 14. Items past 90 days but well secured

\$m	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>Australia</b>					
Housing products	1,540	1,508	1,670	(2)	8
Other products	754	821	864	8	13
<b>Total Australia</b>	<b>2,294</b>	<b>2,329</b>	<b>2,534</b>	<b>2</b>	<b>9</b>
<b>New Zealand</b>					
Housing products	76	70	73	(9)	(4)
Other products	24	66	36	64	33
Other Overseas	18	22	25	18	28
<b>Total Overseas</b>	<b>118</b>	<b>158</b>	<b>134</b>	<b>25</b>	<b>12</b>
<b>Total</b>	<b>2,412</b>	<b>2,487</b>	<b>2,668</b>	<b>3</b>	<b>10</b>

Note 15. Impaired assets and provisioning ratios<sup>2</sup>

	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
Net impaired assets to equity and collectively assessed provisions	3.1%	4.1%	5.1%	100bps	200bps
Total impaired assets to gross loans	0.51%	0.67%	0.82%	16bps	31bps
Total impaired assets to equity and total provisions	5.6%	7.0%	8.3%	142bps	275bps
Total impaired asset provisions to total impaired assets	46.4%	43.2%	40.2%	327bps	large
Total provisions to gross loans	67bps	73bps	80bps	(6bps)	(13bps)
Collectively assessed provisions to performing non-housing loans <sup>2</sup>	134bps	142bps	151bps	(8bps)	(17bps)
Collectively assessed provisions to RWA	82bps	84bps	87bps	(2bps)	(5bps)
Collectively assessed provisions to credit RWA	97bps	99bps	106bps	(2bps)	(9bps)
Total provisions to RWA	118bps	128bps	136bps	(10bps)	(18bps)

Note 16. Delinquencies (90 days past due loans)

	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013	Mov't Mar 14 - Sept 13	Mov't Mar 14 - Mar 13
Mortgages	0.48%	0.51%	0.57%	3bps	9bps
Other personal lending	1.12%	1.04%	1.30%	(8bps)	18bps
Total personal lending	0.52%	0.54%	0.60%	2bps	8bps

<sup>1</sup> Movement represents a six month period.

<sup>2</sup> Non-housing loans have been determined on a loan purpose basis.

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Note 17. Deposits and other borrowings

\$m	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>Australia</b>					
<b>Certificates of deposit</b>					
At fair value	31,919	29,163	27,902	9	14
At amortised cost	128	123	127	4	1
<b>Total certificates of deposit</b>	<b>32,047</b>	<b>29,286</b>	<b>28,029</b>	<b>9</b>	<b>14</b>
<b>At call and term deposits</b>					
Non-interest bearing, repayable at call	23,167	20,464	18,357	13	26
Other interest bearing:					
At call	178,755	175,102	160,885	2	11
Term	127,447	132,028	132,768	(3)	(4)
<b>Total at call and term deposits</b>	<b>329,369</b>	<b>327,594</b>	<b>312,010</b>	<b>1</b>	<b>6</b>
<b>Total Australia</b>	<b>361,416</b>	<b>356,880</b>	<b>340,039</b>	<b>1</b>	<b>6</b>
<b>New Zealand</b>					
<b>Certificates of deposit</b>					
At fair value	1,225	1,362	831	(10)	47
<b>Total certificates of deposit</b>	<b>1,225</b>	<b>1,362</b>	<b>831</b>	<b>(10)</b>	<b>47</b>
<b>At call and term deposits</b>					
Non-interest bearing, repayable at call	3,242	2,905	2,614	12	24
Other interest bearing:					
At call	19,147	16,419	13,997	17	37
Term	22,955	22,104	19,531	4	18
<b>Total at call and term deposits</b>	<b>45,344</b>	<b>41,428</b>	<b>36,142</b>	<b>9</b>	<b>25</b>
<b>Total New Zealand</b>	<b>46,569</b>	<b>42,790</b>	<b>36,973</b>	<b>9</b>	<b>26</b>
<b>Other overseas</b>					
<b>Certificates of deposit</b>					
At fair value	14,597	11,111	14,804	31	(1)
At amortised cost	645	91	132	large	large
<b>Total certificates of deposit</b>	<b>15,242</b>	<b>11,202</b>	<b>14,936</b>	<b>36</b>	<b>2</b>
<b>At call and term deposits</b>					
Non-interest bearing, repayable at call	798	766	735	4	9
Other interest bearing:					
At call	1,727	1,914	1,838	(10)	(6)
Term	11,653	10,930	8,885	7	31
<b>Total at call and term deposits</b>	<b>14,178</b>	<b>13,610</b>	<b>11,458</b>	<b>4</b>	<b>24</b>
<b>Total other overseas</b>	<b>29,420</b>	<b>24,812</b>	<b>26,394</b>	<b>19</b>	<b>11</b>
<b>Total deposits and other borrowings</b>	<b>437,405</b>	<b>424,482</b>	<b>403,406</b>	<b>3</b>	<b>8</b>
Deposits and other borrowings at fair value	48,044	42,015	43,892	14	9
Deposits and other borrowings at amortised cost	389,361	382,467	359,514	2	8
<b>Total deposits and other borrowings</b>	<b>437,405</b>	<b>424,482</b>	<b>403,406</b>	<b>3</b>	<b>8</b>

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Note 18. Capital adequacy

\$m	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013
<b>Tier 1 capital</b>			
<b>Common equity Tier 1 capital</b>			
Paid up ordinary capital	26,954	27,021	26,879
Treasury shares	(240)	(181)	(182)
Equity based remuneration	885	801	804
Foreign currency translation reserve	(303)	(283)	(348)
Accumulated other comprehensive income	90	13	1
Non-controlling interests - other	48	51	51
Retained earnings	19,556	18,897	17,935
Less retained earnings in life and general insurance, funds management and securitisation entities	(1,124)	(1,096)	(929)
Deferred fees	118	138	122
<b>Total common equity Tier 1 capital</b>	<b>45,984</b>	<b>45,361</b>	<b>44,333</b>
<b>Deductions from common equity Tier 1 capital</b>			
Goodwill (excluding funds management entities)	(9,196)	(8,988)	(9,024)
Deferred tax assets	(1,401)	(1,772)	(1,783)
Goodwill in life and general insurance, funds management and securitisation entities	(1,264)	(1,265)	(1,290)
Capitalised expenditure	(1,076)	(761)	(692)
Capitalised software	(1,903)	(1,773)	(1,546)
Investments in subsidiaries not consolidated for regulatory purposes	(1,321)	(1,499)	(1,577)
Regulatory expected loss	(694)	(632)	(852)
General reserve for credit losses adjustment	(92)	(83)	(83)
Securitisation	(8)	(7)	(7)
Equity investments	(367)	(413)	(426)
Regulatory adjustments to fair value positions	(203)	(193)	(147)
Other Tier 1 deductions	(4)	(6)	(3)
<b>Total deductions from common equity Tier 1 capital</b>	<b>(17,529)</b>	<b>(17,392)</b>	<b>(17,430)</b>
<b>Total common equity after deductions Tier 1 capital</b>	<b>28,455</b>	<b>27,969</b>	<b>26,903</b>
<b>Additional Tier 1 capital</b>			
Basel III complying instruments	1,383	1,367	1,366
Basel III non complying instruments (net of transitional amortisation)	3,466	3,402	5,016
<b>Total Additional Tier 1 capital</b>	<b>4,849</b>	<b>4,769</b>	<b>6,382</b>
<b>Net Tier 1 regulatory capital</b>	<b>33,304</b>	<b>32,738</b>	<b>33,285</b>

Note 18. Capital adequacy (continued)

	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013
<b>\$m</b>			
<b>Tier 2 capital</b>			
Basel III complying instruments	1,925	916	-
Basel III non complying instruments (net of transitional amortisation)	3,966	3,984	5,117
Eligible general reserve for credit loss	67	68	49
<b>Total Tier 2 capital</b>	<b>5,958</b>	<b>4,968</b>	<b>5,166</b>
<b>Deductions from Tier 2 capital</b>			
Investments in subsidiaries not consolidated for regulatory purposes	(140)	-	-
Holdings of own and other financial institutions Tier 2 capital instruments	(106)	(50)	(50)
<b>Total deductions from Tier 2 capital</b>	<b>(246)</b>	<b>(50)</b>	<b>(50)</b>
<b>Net Tier 2 regulatory capital</b>	<b>5,712</b>	<b>4,918</b>	<b>5,116</b>
<b>Total regulatory capital</b>	<b>39,016</b>	<b>37,656</b>	<b>38,401</b>
<b>Risk weighted assets</b>	<b>322,498</b>	<b>307,372</b>	<b>307,976</b>
Common equity Tier 1 capital ratio	8.8%	9.1%	8.7%
Additional Tier 1 capital	1.5%	1.6%	2.1%
Tier 1 capital ratio	10.3%	10.7%	10.8%
Tier 2 capital	1.8%	1.6%	1.7%
<b>Total regulatory capital ratio</b>	<b>12.1%</b>	<b>12.3%</b>	<b>12.5%</b>

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Note 18. Capital adequacy (continued)

\$m	As at 31 March 2014	As at 30 Sept 2013	As at 31 March 2013
<b>Credit risk - on-balance sheet</b>			
Corporate <sup>1</sup>	34,600	33,105	32,558
Business lending <sup>2</sup>	26,222	27,611	27,878
Sovereign <sup>3</sup>	1,140	1,322	1,301
Bank <sup>4</sup>	4,619	4,953	5,020
Residential mortgages	55,926	54,946	54,887
Australian credit cards	4,538	3,515	3,913
Other retail	9,338	8,673	8,369
Small business <sup>5</sup>	5,194	5,143	5,492
Specialised lending: Property and project finance <sup>6</sup>	38,267	37,519	35,495
Securitisation <sup>7</sup>	2,329	2,679	2,926
Standardised	12,857	5,557	5,341
<b>Total on-balance sheet assets - credit risk</b>	<b>195,030</b>	<b>185,023</b>	<b>183,180</b>
<b>Credit risk - off-balance sheet</b>			
Corporate <sup>1</sup>	33,940	33,010	29,782
Business lending <sup>2</sup>	7,224	7,209	6,730
Sovereign <sup>3</sup>	247	723	417
Bank <sup>4</sup>	4,019	4,514	4,236
Residential mortgages	6,253	6,074	4,998
Australian credit cards	1,650	1,355	1,296
Other retail	927	884	827
Small business <sup>5</sup>	1,314	1,363	1,222
Specialised lending: Property and project finance <sup>6</sup>	9,780	8,651	8,107
Securitisation <sup>7</sup>	3,192	3,197	3,521
Standardised	1,205	1,098	943
Mark-to-market related credit risk	7,257	7,167	8,475
<b>Total off-balance sheet assets - credit risk</b>	<b>77,008</b>	<b>75,245</b>	<b>70,554</b>
Market risk	10,610	9,059	10,555
Operational risk <sup>8</sup>	28,474	27,299	26,761
Interest rate risk in the banking book	8,459	6,929	13,744
Other assets	2,917	3,817	3,182
<b>Total risk weighted assets</b>	<b>322,498</b>	<b>307,372</b>	<b>307,976</b>

<sup>1</sup> Corporate – Typically includes exposure where the borrower has annual turnover greater than \$50 million, and other business exposures not captured under the definitions of either Business Lending or Small Business.

<sup>2</sup> Business Lending – Includes exposures where the borrower has annual turnover less than or equal to \$50 million and exposure greater than \$1 million.

<sup>3</sup> Sovereign – Includes exposures to Governments themselves and other non-commercial enterprises that are owned or controlled by them.

<sup>4</sup> Bank – Includes exposures to licensed banks and their owned or controlled subsidiaries, and overseas central banks.

<sup>5</sup> Small business – Includes exposures less than or equal to \$1 million.

<sup>6</sup> Specialised lending: Property & project finance – Includes exposures to entities created to finance and/or operate specific assets where, apart from the income received from the assets being financed, the borrower has little or no independent capacity to repay from other activities or assets.

<sup>7</sup> Securitisation – Exposures reflect Westpac's involvement in activities ranging from originator to investor and include the provision of securitisation services for clients wishing to access capital markets.

<sup>8</sup> Operational Risk – The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk but excluding strategic or reputational risk.

Note 19. Derivative financial instruments<sup>1</sup>

\$m	Notional Amount <sup>1</sup>	Fair Value Asset	Fair Value Liability
<b>Held for trading</b>			
<b>Interest rate</b>			
Futures	105,968	-	-
Forwards	129,287	13	(14)
Swaps	1,548,417	12,089	(11,508)
Options	110,301	277	(300)
<b>Foreign exchange</b>			
Forwards	524,711	3,962	(4,523)
Swaps	296,666	5,460	(8,637)
Options	28,124	364	(418)
<b>Commodities</b>	3,483	140	(110)
<b>Equities</b>	341	6	(7)
<b>Credit</b>	33,043	197	(216)
<b>Total held for trading derivatives</b>	<b>2,780,341</b>	<b>22,508</b>	<b>(25,733)</b>
<b>Fair value hedges</b>			
<b>Interest rate</b>			
Swaps	43,120	471	(1,891)
<b>Foreign exchange</b>			
Swaps	28,711	1,885	(1,745)
<b>Total fair value hedging derivatives</b>	<b>71,831</b>	<b>2,356</b>	<b>(3,636)</b>
<b>Cash flow hedges</b>			
<b>Interest rate</b>			
Swaps	106,267	1,081	(568)
<b>Foreign exchange</b>			
Swaps	11,097	227	(1,370)
<b>Total cash flow hedging derivatives</b>	<b>117,364</b>	<b>1,308</b>	<b>(1,938)</b>
<b>Total net investment hedges</b>	<b>6,406</b>	<b>35</b>	<b>(23)</b>
<b>Total derivatives as at 31 March 2014</b>	<b>2,975,942</b>	<b>26,207</b>	<b>(31,330)</b>
<b>Total derivatives as at 30 September 2013</b>	<b>2,718,380</b>	<b>28,356</b>	<b>(32,990)</b>
<b>Total derivatives as at 31 March 2013</b>	<b>2,290,741</b>	<b>29,323</b>	<b>(34,081)</b>

<sup>1</sup> Notional amount refers to the face value of the contract upon which cash flows are calculated.



Note 19. Derivative financial instruments (continued)

Value at Risk (VaR) is used as the primary method for measuring and monitoring market risk exposure against Board approved limits. VaR is an estimate of the worst case loss in the value of trading positions, to a 99% confidence level, assuming positions were held unchanged for one day. The types of market risk arising from trading activity include interest rate, foreign exchange, commodity, equity, credit spread and volatility risks. The table below depicts the aggregate Markets VaR for the last three half-years.

Markets - Daily Value at Risk (VaR)

\$m	High	Low	Average
Six months ended 31 March 2014	16.7	5.3	10.0
Six months ended 30 September 2013	14.3	6.4	8.6
Six months ended 31 March 2013	10.6	3.6	5.4

Average	Half Year 31 March 2014	Half Year 30 Sept 2013	Half Year 31 March 2013
\$m			
Interest rate risk	6.1	5.0	3.3
Foreign exchange risk	2.2	2.1	1.5
Equity risk	0.4	0.4	0.2
Commodity risk <sup>2</sup>	2.1	3.7	2.1
Credit and other market risks <sup>3</sup>	5.8	4.8	2.8
Diversification benefit	(6.6)	(7.4)	(4.5)
<b>Net market risk</b>	<b>10.0</b>	<b>8.6</b>	<b>5.4</b>

Treasury's Traded Risk and Non-Traded Interest Rate Risk

\$m	High	Low	Average
Six months ended 31 March 2014	24.0	11.2	15.5
Six months ended 30 September 2013	26.6	10.7	17.9
Six months ended 31 March 2013	34.4	16.2	25.5

<sup>1</sup> The daily VaR presented in Note 19 above reflects a divisional view of VaR being the VaR for Markets and the VaR for Treasury's traded risk and non-traded interest rate risk. This presentation aligns with the presentation of Markets and Treasury, as referred to in Sections 2.2.2 and 3.5 respectively. It varies from the presentations of VaR in Westpac's 2013 Annual Report and Australian Prudential Standard (APS) 330 Prudential Disclosure under Basel III where market risk disclosures are segregated as trading and banking book. The different treatment reflects the aggregation of Treasury's trading activities with those of Markets in the trading VaR disclosure under the Basel III presentation whereas these activities are included in Treasury's trading risks and non-traded interest rate risk in the table above.

<sup>2</sup> Includes electricity risk.

<sup>3</sup> Includes prepayment risk and credit spread risk (exposures to movements in generic credit rating bands).

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Note 20. Note to the cash flow statement

	Half Year March 14	Half Year Sept 13	Half Year <sup>1</sup> March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>\$m</b>					
<b>Reconciliation of net cash provided by/(used in) operating activities to net profit for the period</b>					
Net profit for the period	3,659	3,503	3,322	4	10
Adjustments:					
Depreciation, amortisation and impairment	464	478	426	(3)	9
(Decrease)/increase in sundry provisions and other non-cash items	(970)	1,518	142	(164)	large
Impairment charges	389	444	479	(12)	(19)
(Increase)/decrease in loans	(17,678)	(8,793)	(6,874)	(101)	(157)
Increase/(decrease) in deposits and other borrowings	10,253	13,993	8,162	(27)	26
Decrease/(increase) in receivables due from other financial institutions	2,468	1,853	(2,364)	33	large
Increase/(decrease) in payables due to other financial institutions	6,199	(100)	463	large	large
(Increase)/decrease in trading and fair value assets	3,593	622	(941)	large	large
Increase/(decrease) in financial liabilities at fair value through income statement	4,840	1,401	(1,135)	large	large
Decrease/(increase) in derivative financial instruments	937	9,747	(621)	(90)	large
(Increase)/decrease in accrued interest receivable	(89)	188	(104)	(147)	14
(Decrease)/increase in accrued interest payable	(51)	(193)	(183)	74	72
(Decrease)/increase in current and deferred tax	(45)	216	(69)	(121)	35
<b>Net cash provided by/(used in) operating activities</b>	<b>13,969</b>	<b>24,877</b>	<b>703</b>	<b>(44)</b>	<b>large</b>
<b>Fair value of assets and liabilities of controlled entities and businesses acquired<sup>2</sup></b>					
Assets acquired					
Cash and cash equivalents	149	-	-	-	-
Derivative assets	30	-	-	-	-
Loans and advances	7,895	-	-	-	-
Identifiable intangible assets	56	-	-	-	-
Operating lease assets	80	-	-	-	-
Other assets and prepayments	6	-	-	-	-
Total assets acquired	8,216	-	-	-	-
Liabilities acquired					
Trade creditors and other accrued expenses	24	-	-	-	-
Provisions	11	-	-	-	-
Deferred tax liabilities	25	-	-	-	-
Debt securities on issue	488	-	-	-	-
Borrowings	6,368	-	-	-	-
Total liabilities acquired	6,916	-	-	-	-
<b>Fair value of identifiable net assets acquired</b>	<b>1,300</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Goodwill	225	-	-	-	-
<b>Total</b>	<b>1,525</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash consideration</b>					
Purchase of shares	1,525	-	-	-	-
Replacement of intergroup funding	6,368	-	-	-	-
<b>Total cash consideration</b>	<b>7,893</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cash consideration	7,893	-	-	-	-
Less cash and cash equivalents acquired	(149)	-	-	-	-
<b>Cash paid (net of cash acquired)</b>	<b>7,744</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>1</sup> The 31 March 2013 comparatives have been revised to align with current presentation. Certain cash flows have been reclassified between operating activities, investing activities and financing activities. The reclassification had no impact on the reported net increase/decrease in cash and cash equivalents.

<sup>2</sup> On 31 December 2013 the Group acquired 100% of the share capital in Capital Finance Australia Ltd (CFAL) and BOS International Ltd (BOSI). Fair value of assets and liabilities are provisional amounts.

Note 21. Other Group investments and changes in control of Group entities

The Group had a significant non-controlling shareholding in the following entities as at 31 March 2014:

	Country where Business is Carried on	Beneficial Interest %	Nature of Business
Above The Index Asset Management Pty Limited	Australia	33.3	Funds management
Alleron Investment Management Limited	Australia	39.7	Funds management
Angusknight Pty Limited	Australia	50.0	Employment and training
Athos Capital Limited	Hong Kong	35.0	Funds management
Boyd Cook Cove Unit Trust	Australia	50.0	Investment fund
Cardlink Services Limited	Australia	25.0	Card clearing system
Cards NZ Limited	New Zealand	18.8	Credit card provider
Cash Services Australia Pty Limited	Australia	25.0	Cash logistics
Cook Cove Investment Pty Limited	Australia	50.0	Investment company
Cook Cove Investment Trust	Australia	50.0	Investment fund
Cook Cove Pty Limited and its controlled entities	Australia	50.0	Investment company
Exact Mining Group Pty Limited	Australia	25.5	Services to mining
Paymark Limited	New Zealand	25.0	Electronic payments processing
Payments NZ Limited	New Zealand	23.0	Electronic payments processing
Regal Funds Management Asia Limited	Singapore	30.0	Funds management
Regal Funds Management Pty Limited	Australia	30.0	Funds management
RV Capital Pte Limited	Singapore	30.0	Funds management
SocietyOne Holdings Pty Limited	Australia	17.0	Technology Platform
St Hilliers Enhanced Property Fund No.2	Australia	15.0	Property fund
Sydney Harbour Bridge Holdings Pty Limited	Australia	49.0	Intellectual property
Vipro Pty Limited	Australia	33.3	Voucher processing
Westpac Employee Assistance Foundation Pty Limited	Australia	50.0	Corporate trustee
Westpac Essential Services Trust I and II and their controlled and non-controlled entities	Australia	36.8	Asset management

The total carrying amount of the Group's significant non-controlling shareholding was \$181 million (30 September 2013 \$191 million, 31 March 2013 \$206 million).

During the six months ended 31 March 2014 the Group acquired a non-controlling interest in the following entity:

- SocietyOne Holdings Pty Limited (acquired 28 February 2014).

During the six months ended 31 March 2014 the Group's interest in the following investment changed:

- Above The Index Asset Management Pty Limited (reduced to 33.3% from 37.0% on 13 January 2014).

During the six months ended 31 March 2014 the Group's interest in the following investment ceased:

- H3 Global Advisors Pty Limited (disposed on 13 November 2013, previous holding 43.9%).

In terms of the contribution to the results of the Group, the above investments are not material either individually or in aggregate.

During the six months ended 31 March 2014 the following controlled entities were incorporated, formed or acquired:

- Bella Trust (acquired 31 December 2013);
- Bella Trust No. 2 (acquired 31 December 2013);
- BOS International (Australia) Limited (acquired 31 December 2013);
- BOS International (Securities) Pty Ltd (acquired 31 December 2013);
- BOSI Security Services Limited (acquired 31 December 2013);
- Capital Corporate Finance Limited (acquired 31 December 2013);
- Capital Finance (NZ) Limited (acquired 31 December 2013);
- Capital Finance Australia Limited (acquired 31 December 2013);

- Capital Finance New Zealand Limited (acquired 31 December 2013);
- Capital Fleetlease Limited (acquired 31 December 2013);
- Capital Motor Finance Limited (acquired 31 December 2013);
- Capital Rent Group Limited (acquired 31 December 2013);
- Core Infrastructure Income Feeder 1 L.P. (formed 12 December 2013);
- Core Infrastructure Income Feeder 2 L.P. (formed 12 December 2013);
- Core Infrastructure Income Master L.P. (formed 16 December 2013);
- Crusade ABS Series 2013 -1 WST (formed 12 December 2013);
- Hastings Korea Company Limited (formed 23 December 2013);
- Infrastructure GP 2 LLP (formed 10 December 2013);
- North Ryde Office Trust (acquired 28 February 2014);
- Reinventure Fund, I.L.P. (formed 15 January 2014);
- Series 2013 -2 WST Trust (formed 1 October 2013);
- SIE-LEASE (Australia) Limited (acquired 31 December 2013); and
- SIE-LEASE (NZ) Limited (acquired 31 December 2013).

During the six months ended 31 March 2014 the following controlled entities ceased to be controlled or were disposed of:

- BT Life Limited (deregistered 2 October 2013);
- JOCM Share Trustee Limited (dissolved 2 April 2013);
- JOHCM (USA) General Partner Inc. (dissolved 1 December 2013); and
- Southern Cross Inc. (deregistered 3 January 2014).

During the six months ended 31 March 2014 the Group interest in the following controlled entity changed:

- BT Investment Management Limited (reduced to 61.12% from 62.14% on 20 December 2013).

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Note 22. Funding view of the balance sheet

\$m	As at 31 March 2014					Total
	Liquid Assets	Customer Deposits	Wholesale Funding	Customer Franchise	Market Inventory	
<b>Assets</b>						
Cash and balances with central banks	12,273	-	-	4,102	-	16,375
institutions	1,310	-	-	1,485	5,949	8,744
Trading securities, other financial assets designated at fair value and available-for-sale securities	54,423	-	-	-	24,969	79,392
Derivative financial instruments	-	-	-	-	26,207	26,207
Loans	58,078	-	-	506,491	-	564,569
Life insurance assets	-	-	-	-	12,841	12,841
Goodwill and other intangibles	-	-	-	12,683	-	12,683
Property, plant and equipment	-	-	-	1,294	-	1,294
Other assets	435	-	-	-	6,835	7,270
<b>Total assets</b>	<b>126,519</b>	<b>-</b>	<b>-</b>	<b>526,055</b>	<b>76,801</b>	<b>729,375</b>
<b>Liabilities</b>						
Payables due to other financial institutions	-	-	6,498	-	8,713	15,211
Deposits and other borrowings:	-	-	-	-	-	-
At call	-	226,836	-	-	-	226,836
Term deposits	-	162,055	-	-	-	162,055
Medium term deposit notes	-	-	-	-	-	-
Certificates of deposit	-	-	48,514	-	-	48,514
Derivative financial instruments	-	-	-	-	31,330	31,330
Financial liabilities at fair value through income statement	-	-	-	-	15,077	15,077
Acceptances	-	-	92	-	-	92
Debt issues	-	-	150,006	-	-	150,006
Life insurance liabilities	-	-	-	-	11,594	11,594
Other liabilities	-	-	-	-	10,309	10,309
Loan capital	-	-	10,320	-	-	10,320
<b>Total liabilities</b>	<b>-</b>	<b>388,891</b>	<b>215,430</b>	<b>-</b>	<b>77,023</b>	<b>681,344</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>866</b>	<b>47,215</b>	<b>(50)</b>	<b>48,031</b>
<b>Total net</b>	<b>126,519</b>	<b>(388,891)</b>	<b>(216,296)</b>	<b>478,840</b>	<b>(172)</b>	<b>-</b>

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Note 22. Funding view of the balance sheet (continued)

\$m	As at 30 September 2013					Total
	Liquid Assets	Customer Deposits	Wholesale Funding	Customer Franchise	Market Inventory	
<b>Assets</b>						
Cash and balances with central banks	8,522	-	-	3,177	-	11,699
institutions	1,370	-	-	1,710	8,130	11,210
Trading securities, other financial assets designated at fair value and available-for-sale securities	61,219	-	-	-	17,881	79,100
Derivative financial instruments	-	-	-	-	28,356	28,356
Loans	54,536	-	-	481,628	-	536,164
Life insurance assets	-	-	-	-	13,149	13,149
Goodwill and other intangibles	-	-	-	12,341	-	12,341
Property, plant and equipment	-	-	-	1,174	-	1,174
Other assets	-	-	-	-	7,904	7,904
<b>Total assets</b>	<b>125,647</b>	<b>-</b>	<b>-</b>	<b>500,030</b>	<b>75,420</b>	<b>701,097</b>
<b>Liabilities</b>						
Payables due to other financial institutions	-	-	5,645	-	3,191	8,836
Deposits and other borrowings:	-	-	-	-	-	-
At call	-	217,570	-	-	-	217,570
Term deposits	-	165,062	-	-	-	165,062
Medium term deposit notes	-	-	-	-	-	-
Certificates of deposit	-	-	41,850	-	-	41,850
Derivative financial instruments	-	-	-	-	32,990	32,990
Financial liabilities at fair value through income statement	-	-	-	-	10,302	10,302
Acceptances	-	-	102	-	-	102
Debt issues	-	-	144,031	-	-	144,031
Life insurance liabilities	-	-	-	-	11,938	11,938
Other liabilities	-	-	-	-	11,549	11,549
Loan capital	-	-	9,330	-	-	9,330
<b>Total liabilities</b>	<b>-</b>	<b>382,632</b>	<b>200,958</b>	<b>-</b>	<b>69,970</b>	<b>653,560</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>863</b>	<b>46,641</b>	<b>33</b>	<b>47,537</b>
<b>Total net</b>	<b>125,647</b>	<b>(382,632)</b>	<b>(201,821)</b>	<b>453,389</b>	<b>5,417</b>	<b>-</b>

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Note 22. Funding view of the balance sheet (continued)

\$m	As at 31 March 2013					Total
	Liquid Assets	Customer Deposits	Wholesale Funding	Customer Franchise	Market Inventory	
<b>Assets</b>						
Cash and balances with central banks	2,546	-	-	4,054	-	6,600
institutions	2,806	-	-	2,301	7,473	12,580
Trading securities, other financial assets designated at fair value and available-for-sale securities	60,221	-	-	-	16,443	76,664
Derivative financial instruments	-	-	-	-	29,323	29,323
Loans	45,500	-	-	475,630	-	521,130
Life insurance assets	-	-	-	-	12,895	12,895
Goodwill and other intangibles	-	-	-	12,108	-	12,108
Property, plant and equipment	-	-	-	1,084	-	1,084
Other assets	-	-	-	-	9,494	9,494
<b>Total assets</b>	<b>111,073</b>	<b>-</b>	<b>-</b>	<b>495,177</b>	<b>75,628</b>	<b>681,878</b>
<b>Liabilities</b>						
Payables due to other financial institutions	-	-	3,874	-	4,169	8,043
Deposits and other borrowings:						
At call	-	198,426	-	-	-	198,426
Term deposits	-	161,184	-	-	-	161,184
Medium term deposit notes	-	-	-	-	-	-
Certificates of deposit	-	-	43,796	-	-	43,796
Derivative financial instruments	-	-	-	-	34,081	34,081
Financial liabilities at fair value through income statement	-	-	-	-	8,833	8,833
Acceptances	-	-	105	-	-	105
Debt issues	-	-	144,198	-	-	144,198
Life insurance liabilities	-	-	-	-	11,794	11,794
Other liabilities	-	-	-	-	13,301	13,301
Loan capital	-	-	10,880	-	-	10,880
<b>Total liabilities</b>	<b>-</b>	<b>359,610</b>	<b>202,853</b>	<b>-</b>	<b>72,178</b>	<b>634,641</b>
<b>Total equity</b>	<b>-</b>	<b>-</b>	<b>1,977</b>	<b>45,471</b>	<b>(211)</b>	<b>47,237</b>
<b>Total net</b>	<b>111,073</b>	<b>(359,610)</b>	<b>(204,830)</b>	<b>449,706</b>	<b>3,661</b>	<b>-</b>



#### Note 23. Contingent liabilities

##### Litigation

Contingent liabilities exist in respect of actual and potential claims and proceedings. An assessment of the Group's likely loss has been made on a case-by-case basis for the purpose of the financial statements and specific provisions have been made where appropriate.

- Westpac has been served with two separate class action proceedings by customers seeking to recover exception fees paid by those customers. The first set of proceedings was commenced by customers of the Westpac brand; the second by customers of the St.George Bank and BankSA brands. Westpac has agreed with the plaintiffs to put the proceedings against Westpac, St.George and BankSA on hold until at least December 2014, pending further developments in similar litigation commenced against another Australian bank.
- Westpac has been served with a class action proceeding brought on behalf of Westpac customers who borrowed money to invest in Storm Financial-badged investments. Westpac intends to defend these proceedings. As the two named applicants have not quantified the damages that they seek, and given the preliminary nature of these proceedings, it is not possible to estimate any potential liability at this stage.

#### Note 24. Events subsequent to balance date

No matter or circumstance has arisen since half year ended 31 March 2014 which is not otherwise dealt with in the Interim Financial Report, that has significantly affected or may significantly affect the operations of the Group, the results of its operations or the state of affairs of the Group in subsequent periods.

4.7 Statement in Relation to the Review of the Financial Statements

PricewaterhouseCoopers has reviewed the financial statements contained within the Westpac 2014 Interim Financial Report and has issued an unqualified review report. A copy of their report is available with the Interim Financial Report. This Interim Results Announcement has not been subject to audit or review by PricewaterhouseCoopers. The preceding financial information contained in Section 4 "Interim 2014 Reported Financial Information" includes financial information extracted from the reviewed financial statements together with financial information that has not been reviewed.

Dated at Sydney this 5<sup>th</sup> day of May 2014 for and on behalf of the Board.



Tim Hartin  
Company Secretary

5.1 INTERIM 2014 CASH EARNINGS FINANCIAL INFORMATION

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Note 1. Interest spread and margin analysis (Cash Earnings basis)<sup>1</sup>

	Half Year March 14	Half Year Sept 13	Half Year March 13
<b>Group</b>			
Average interest-earning assets (\$m)	635,657	608,153	591,539
Net interest income (\$m)	6,677	6,467	6,445
Net interest spread	1.91%	1.90%	1.94%
Benefit of net non-interest bearing assets, liabilities and equity	0.20%	0.22%	0.25%
Net interest margin	2.11%	2.12%	2.19%
<b>Analysis by division</b>			
<b>Average interest-earning assets (\$m)</b>			
Australian Financial Services	412,169	403,239	398,892
Westpac Retail & Business Banking	246,717	243,414	241,487
St.George Banking Group	150,720	145,539	143,592
BT Financial Group	14,732	14,286	13,813
Westpac Institutional Bank	79,831	73,343	71,564
Westpac New Zealand (A\$)	62,764	56,999	52,972
Westpac Pacific	2,893	2,922	2,808
Group Businesses	78,000	71,650	65,303
<b>Group total</b>	<b>635,657</b>	<b>608,153</b>	<b>591,539</b>
<i>Westpac New Zealand (NZ\$)</i>	68,808	67,016	66,440
<b>Net interest income (\$m) (including capital benefit)<sup>1</sup></b>			
Australian Financial Services	4,831	4,709	4,568
Westpac Retail & Business Banking	2,918	2,869	2,786
St.George Banking Group	1,708	1,639	1,577
BT Financial Group	205	201	205
Westpac Institutional Bank	811	812	818
Westpac New Zealand (A\$)	714	662	619
Westpac Pacific	70	73	75
Group Businesses	251	211	365
<b>Group total</b>	<b>6,677</b>	<b>6,467</b>	<b>6,445</b>
<i>Westpac New Zealand (NZ\$)</i>	783	780	774
<b>Interest margin</b>			
Australian Financial Services	2.35%	2.33%	2.30%
Westpac Retail & Business Banking	2.37%	2.35%	2.31%
St.George Banking Group	2.27%	2.25%	2.20%
BT Financial Group	2.79%	2.81%	2.98%
Westpac Institutional Bank	2.04%	2.21%	2.29%
Westpac New Zealand (A\$)	2.28%	2.32%	2.34%
Westpac Pacific	4.85%	4.98%	5.36%
Group Businesses	0.65%	0.59%	1.12%
<i>Westpac New Zealand (NZ\$)</i>	2.28%	2.32%	2.34%

<sup>1</sup> Capital benefit represents the notional revenue earned on capital allocated to divisions under Westpac's economic capital framework.

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Note 2. Average balance sheet and interest rates (Cash Earnings basis)

	Half Year 31 March 2014			Half Year 30 September 2013			Half Year 31 March 2013		
	Average	Interest	Average	Average	Interest	Average	Average	Interest	Average
	Balance	Income	Rate	Balance	Income	Rate	Balance	Income	Rate
	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
<b>Assets</b>									
<b>Interest earning assets</b>									
Receivables due from other financial institutions	8,599	43	1.0%	9,238	52	1.1%	9,060	61	1.4%
Trading securities	46,425	753	3.3%	45,299	772	3.4%	47,238	893	3.8%
Available-for-sale securities	29,377	664	4.5%	26,182	624	4.8%	23,108	602	5.2%
Other financial assets designated at fair value	2,068	36	3.5%	1,899	25	2.6%	1,723	42	4.9%
Regulatory deposits	1,402	10	1.4%	1,500	12	1.6%	1,524	11	1.4%
Loans and other receivables <sup>1</sup>	547,786	14,382	5.3%	524,035	14,667	5.6%	508,886	15,219	6.0%
<b>Total interest earning assets and interest income</b>	<b>635,657</b>	<b>15,888</b>	<b>5.0%</b>	<b>608,153</b>	<b>16,152</b>	<b>5.3%</b>	<b>591,539</b>	<b>16,828</b>	<b>5.7%</b>
<b>Non-interest earning assets</b>									
Cash, receivables due from other financial institutions and regulatory deposits	1,213			299			1,149		
Life insurance assets	13,356			13,024			12,400		
All other assets <sup>2</sup>	74,428			77,981			71,984		
<b>Total non-interest earning assets</b>	<b>88,997</b>			<b>91,304</b>			<b>85,533</b>		
<b>Total assets</b>	<b>724,654</b>			<b>699,457</b>			<b>677,072</b>		
	Half Year 31 March 2014			Half Year 30 September 2013			Half Year 31 March 2013		
	Average	Interest	Average	Average	Interest	Average	Average	Interest	Average
	Balance	Expense	Rate	Balance	Expense	Rate	Balance	Expense	Rate
	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
<b>Liabilities</b>									
<b>Interest bearing liabilities</b>									
Deposits and other borrowings	408,126	5,704	2.8%	392,604	6,088	3.1%	380,715	6,467	3.4%
Payables due to other financial institutions	14,408	144	2.0%	11,064	104	1.9%	7,574	86	2.3%
Loan capital	9,427	218	4.6%	9,659	247	5.1%	9,579	257	5.4%
Other interest bearing liabilities <sup>3</sup>	163,379	3,145	3.9%	155,520	3,246	4.2%	154,179	3,573	4.6%
<b>Total interest bearing liabilities and interest expense</b>	<b>595,340</b>	<b>9,211</b>	<b>3.1%</b>	<b>568,847</b>	<b>9,685</b>	<b>3.4%</b>	<b>552,047</b>	<b>10,383</b>	<b>3.8%</b>
<b>Non-interest bearing liabilities</b>									
Deposits and payables due to other financial institutions	26,614			23,562			21,500		
Life insurance policy liabilities	12,064			11,873			11,274		
All other liabilities <sup>4</sup>	43,866			48,333			46,452		
<b>Total non-interest bearing liabilities</b>	<b>82,544</b>			<b>83,768</b>			<b>79,226</b>		
<b>Total liabilities</b>	<b>677,884</b>			<b>652,615</b>			<b>631,273</b>		
Shareholders' equity	45,907			44,866			43,831		
Non-controlling interests	863			1,976			1,968		
<b>Total equity</b>	<b>46,770</b>			<b>46,842</b>			<b>45,799</b>		
<b>Total liabilities and equity</b>	<b>724,654</b>			<b>699,457</b>			<b>677,072</b>		

<sup>1</sup> Other receivables includes other assets, cash and balances held with central banks.

<sup>2</sup> Includes property, plant and equipment, goodwill and intangibles, other assets, deferred tax and non-interest bearing loans relating to mortgage offset accounts.

<sup>3</sup> Includes net impact of Treasury balance sheet management activities.

<sup>4</sup> Includes provisions for current and deferred income tax and derivative financial instruments.

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Note 2. Average balance sheet and interest rates (Cash Earnings basis) (continued)

	Half Year 31 March 2014			Half Year 30 September 2013			Half Year 31 March 2013		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
<b>Loans and other receivables<sup>1</sup></b>									
Australia	465,618	12,578	5.4%	451,173	13,032	5.8%	447,627	13,650	6.1%
New Zealand	58,464	1,644	5.6%	52,987	1,492	5.6%	48,603	1,433	5.9%
Other overseas	23,704	160	1.4%	19,876	143	1.4%	12,656	136	2.2%
<b>Deposits and other borrowings</b>									
Australia	338,600	4,928	2.9%	329,135	5,356	3.2%	322,114	5,785	3.6%
New Zealand	41,877	682	3.3%	37,532	629	3.3%	33,806	585	3.5%
Other overseas	27,649	94	0.7%	25,938	103	0.8%	24,795	97	0.8%

<sup>1</sup> Other receivables includes other assets, cash and balances held with central banks.

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Note 3. Net interest income (Cash Earnings basis)

	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>\$m</b>					
<b>Interest income</b>					
Cash	104	52	50	100	108
Loans	14,271	14,616	15,165	(2)	(6)
Receivables due from other financial institutions	43	52	61	(17)	(30)
Available-for-sale securities	664	624	602	6	10
Regulatory deposits with central banks overseas	10	12	11	(17)	(9)
Trading securities	753	772	893	(2)	(16)
Net ineffectiveness on qualifying hedges	2	(1)	3	large	(33)
Other financial assets designated at fair value	36	25	42	44	(14)
Other interest income	5	-	1	-	large
<b>Total interest income</b>	<b>15,888</b>	<b>16,152</b>	<b>16,828</b>	<b>(2)</b>	<b>(6)</b>
<b>Interest expense</b>					
At call and term deposits	(5,269)	(5,645)	(5,901)	7	11
Certificates of deposit	(435)	(443)	(566)	2	23
Payables due to other financial institutions	(144)	(104)	(86)	(38)	(67)
Debt issues and acceptances	(1,869)	(2,010)	(1,947)	7	4
Loan capital	(218)	(247)	(257)	12	15
Trading liabilities	(1,242)	(1,205)	(1,557)	(3)	20
Other interest expense	(34)	(31)	(69)	(10)	51
<b>Total interest expense</b>	<b>(9,211)</b>	<b>(9,685)</b>	<b>(10,383)</b>	<b>5</b>	<b>11</b>
<b>Net interest income</b>	<b>6,677</b>	<b>6,467</b>	<b>6,445</b>	<b>3</b>	<b>4</b>

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Note 4. Non-interest income (Cash Earnings basis)

\$m	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>Fees and commissions</b>					
Facility fees	644	645	608	-	6
Transaction fees and commissions	631	577	583	9	8
Other non-risk fee income	183	171	139	7	32
<b>Total fees and commissions</b>	<b>1,458</b>	<b>1,393</b>	<b>1,330</b>	<b>5</b>	<b>10</b>
<b>Wealth management and insurance income</b>					
Life insurance and funds management net operating income	999	919	869	9	15
General insurance and lenders mortgage insurance net operating income	112	105	65	7	72
<b>Total wealth management and insurance income</b>	<b>1,111</b>	<b>1,024</b>	<b>934</b>	<b>8</b>	<b>19</b>
<b>Trading income<sup>1</sup></b>					
Foreign exchange income	274	238	202	15	36
Other trading securities	273	312	318	(13)	(14)
<b>Total trading income</b>	<b>547</b>	<b>550</b>	<b>520</b>	<b>(1)</b>	<b>5</b>
<b>Other income</b>					
Dividends received	5	6	4	(17)	25
Net gain/(loss) on disposal of assets	53	31	36	71	47
Net gain/(loss) on ineffective hedges	(1)	2	(3)	(150)	67
Net gain/(loss) on hedging overseas operations	4	11	17	(64)	(76)
Net gain/(loss) on derivatives held for risk management purposes <sup>2</sup>	(51)	(20)	(2)	(155)	large
Net gain/(loss) on financial instruments designated at fair value	(2)	9	23	(122)	(109)
Rental income on operating leases	12	-	-	-	-
Other	46	5	51	large	(10)
<b>Total other income</b>	<b>66</b>	<b>44</b>	<b>126</b>	<b>50</b>	<b>(48)</b>
<b>Total non-interest income (Cash Earnings basis)</b>	<b>3,182</b>	<b>3,011</b>	<b>2,910</b>	<b>6</b>	<b>9</b>

Wealth Management and Insurance Income Reconciliation

\$m	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
BTFG non-interest income	1,116	993	924	12	21
Net commission, premium, fee and banking income	(91)	(106)	(101)	14	10
<b>BTFG wealth management and insurance income</b>	<b>1,025</b>	<b>887</b>	<b>823</b>	<b>16</b>	<b>25</b>
NZ wealth management & insurance	65	56	52	16	25
WIB wealth management	21	81	59	(74)	(64)
<b>Total wealth management &amp; insurance income</b>	<b>1,111</b>	<b>1,024</b>	<b>934</b>	<b>8</b>	<b>19</b>

<sup>1</sup> Trading income primarily includes earnings from WIB Markets, Westpac Pacific businesses and Treasury foreign exchange operations in Australia and New Zealand.

<sup>2</sup> Income from derivatives held for risk management purposes reflects the impact of economic hedges of foreign currency capital and earnings where hedge accounting is not achieved.



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Note 5. Operating expense analysis (Cash Earnings basis)

	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>\$m</b>					
<b>Salaries and other staff expenses</b>					
Salaries and wages	1,776	1,650	1,614	(8)	(10)
Other staff expenses	522	516	528	(1)	1
Restructuring costs	46	10	18	large	(156)
<b>Total salaries and other staff expenses</b>	<b>2,344</b>	<b>2,176</b>	<b>2,160</b>	<b>(8)</b>	<b>(9)</b>
<b>Equipment and occupancy expenses</b>					
Operating lease rentals	271	286	279	5	3
Depreciation, amortisation and impairment:					
Premises	6	2	11	(200)	45
Leasehold improvements	54	60	48	10	(13)
Furniture and equipment	30	32	30	6	-
Technology	47	49	45	4	(4)
Software	215	218	185	1	(16)
Assets under lease	5	-	-	-	-
Other	64	63	62	(2)	(3)
<b>Total equipment and occupancy expenses</b>	<b>692</b>	<b>710</b>	<b>660</b>	<b>3</b>	<b>(5)</b>
<b>Other expenses</b>					
Amortisation of deferred expenditure and intangible assets	5	5	2	-	(150)
Non-lending losses	22	16	27	(38)	19
Purchased services:					
Technology and information services	209	190	160	(10)	(31)
Legal	9	17	9	47	-
Other professional services	181	208	172	13	(5)
Credit card loyalty programs	76	65	70	(17)	(9)
Postage and stationery	100	114	108	12	7
Outsourcing costs	281	289	298	3	6
Insurance	8	10	10	20	20
Advertising	72	70	94	(3)	23
Training	9	12	9	25	-
Travel	33	34	30	3	(10)
Other expenses	24	19	15	(26)	(60)
<b>Total other expenses</b>	<b>1,029</b>	<b>1,049</b>	<b>1,004</b>	<b>2</b>	<b>(2)</b>
<b>Total operating expenses</b>	<b>4,065</b>	<b>3,935</b>	<b>3,824</b>	<b>(3)</b>	<b>(6)</b>

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Note 6. Earnings per share (Cash Earnings basis)

	Half Year March 14	Half Year Sept 13	Half Year March 13	%Mov't Mar 14 - Sept 13	%Mov't Mar 14 - Mar 13
<b>\$m</b>					
Net profit	3,810	3,595	3,544	6	8
Net profit attributable to non-controlling interests	(38)	(40)	(36)	5	(6)
<b>Cash Earnings</b>	<b>3,772</b>	<b>3,555</b>	<b>3,508</b>	<b>6</b>	<b>8</b>
<b>Weighted average number of fully paid ordinary shares (millions)</b>	<b>3,109</b>	<b>3,104</b>	<b>3,096</b>	<b>-</b>	<b>-</b>
<b>Cash Earnings per ordinary share (cents)</b>	<b>121.3</b>	<b>114.5</b>	<b>113.3</b>	<b>6</b>	<b>7</b>

	Half Year March 14	Half Year Sept 13	Half Year March 13
<b>Reconciliation of ordinary shares on issue before the effect of own shares held (millions)</b>			
Opening balance	3,109	3,104	3,080
Number of shares issued under the Dividend Reinvestment Plan (DRP)	-	-	22
Number of shares issued upon conversion of the Westpac Stapled Preferred Securities (SPS)	-	5	-
Number of shares issued under the Employee Share Plan (ESP)	-	-	1
Number of shares issued under option and share right schemes	-	-	1
<b>Closing balance</b>	<b>3,109</b>	<b>3,109</b>	<b>3,104</b>

## 6.0 OTHER INFORMATION

### 6.1 Exchange Rates against A\$

Six months to/as at Currency	31 March 2014		30 September 2013		31 March 2013	
	Average	Spot	Average	Spot	Average	Spot
US\$	0.9124	0.9230	0.9542	0.9316	1.0388	1.0430
GBP	0.5578	0.5549	0.6191	0.5767	0.6578	0.6859
NZ\$	1.0973	1.0665	1.1775	1.1260	1.2533	1.2460

### 6.2 Credit Ratings

Rating agency	Long Term	Short Term
Fitch Ratings	AA-	F1+
Moody's Investor Services	Aa2	P-1
Standard & Poor's	AA-	A-1+

### 6.3 Disclosure Regarding Forward-Looking Statements

This Report contains statements that constitute 'forward-looking statements' within the meaning of Section 21E of the US *Securities Exchange Act of 1934*.

Forward-looking statements are statements about matters that are not historical facts. Forward-looking statements appear in a number of places in this Report and include statements regarding our intent, belief or current expectations with respect to our business and operations, market conditions, results of operations and financial condition, including, without limitation, future loan loss provisions and financial support to certain borrowers. We use words such as 'will', 'may', 'expect', 'intend', 'seek', 'would', 'should', 'could', 'continue', 'plan', 'estimate', 'anticipate', 'believe', 'probability', 'risk' or other similar words to identify forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are subject to change, certain risks, uncertainties and assumptions which are, in many instances, beyond our control, and have been made based upon management's expectations and beliefs concerning future developments and their potential effect upon us. There can be no assurance that future developments will be in accordance with our expectations or that the effect of future developments on us will be those anticipated. Actual results could differ materially from those which we expect, depending on the outcome of various factors, including, but not limited to:

- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices and government policy, particularly changes to liquidity, leverage and capital requirements;
- the stability of Australian and international financial systems and disruptions to financial markets and any losses or business impacts Westpac or its customers or counterparties may experience as a result;
- market volatility, including uncertain conditions in funding, equity and asset markets;
- adverse asset, credit or capital market conditions;
- changes to our credit ratings;
- levels of inflation, interest rates, exchange rates and market and monetary fluctuations;
- market liquidity and investor confidence;
- changes in economic conditions, consumer spending, saving and borrowing habits in Australia, New Zealand and in other countries in which Westpac or its customers or counterparties conduct their operations and our ability to maintain or to increase market share and control expenses;
- the effects of competition in the geographic and business areas in which Westpac conducts its operations;
- reliability and security of Westpac's technology and risks associated with changes to technology systems;
- the timely development and acceptance of new products and services and the perceived overall value of these products and services by customers;
- the effectiveness of our risk management policies, including our internal processes, systems and employees;
- the occurrence of environmental change or external events in countries in which Westpac or its customers or counterparties conduct their operations;
- internal and external events which may adversely impact our reputation;
- changes in political, social or economic conditions in any of the major markets in which Westpac or its customers or counterparties operate;
- the success of strategic decisions involving business expansion and integration of new businesses; and
- various other factors beyond Westpac's control.

The above list is not exhaustive. For certain other factors that may impact on forward-looking statements made by us, refer to section 'Risk factors' in the 2014 Interim Report. When relying on forward-looking statements to make decisions with respect to us, investors and others should carefully consider the foregoing factors and other uncertainties and events.

Westpac is under no obligation to update any forward-looking statements contained in this Report, whether as a result of new information, future events or otherwise, after the date of this Report.

#### Websites

Information contained in or accessible through the websites mentioned in this Report does not form part of this Report unless we specifically state that it is incorporated by reference and forms part of this Report. All references in this Report to websites are inactive textual references and are for information only.

## 6.4 Financial Calendar and Share Registry Details

Westpac shares are listed on the securities exchanges in Australia (ASX) and New Zealand and as American Depositary Receipts in New York. Westpac Capital Notes, Westpac Convertible Preference Shares (Westpac CPS), Westpac Stapled Preferred Securities (Westpac SPS II), Westpac Subordinated Notes and Westpac Subordinated Notes II are listed on the ASX.

Important dates to note:

### Westpac Ordinary Shares (ASX code: WBC)

Ex-dividend date for interim dividends	14 May 2014
Record date for interim dividends	16 May 2014 <sup>1</sup>
Interim dividends payable	2 July 2014
Financial year end	30 September 2014
Final results and ordinary share dividend announcement	3 November 2014
Ex-dividend date for final dividend	10 November 2014
Record date for final dividend	12 November 2014 <sup>2,3</sup>
Annual General Meeting	12 December 2014 <sup>4</sup>
Final dividend payable	19 December 2014 <sup>2</sup>

### Westpac Capital Notes (ASX code: WBCPD)

Ex-dividend date for quarterly distribution	28 May 2014
Record date for quarterly distribution	30 May 2014
Payment date for quarterly distribution	10 June 2014 <sup>5</sup>
Ex-dividend date for quarterly distribution	27 August 2014
Record date for quarterly distribution	29 August 2014
Payment date for quarterly distribution	8 September 2014
Ex-dividend date for quarterly distribution	26 November 2014
Record date for quarterly distribution	28 November 2014
Payment date for quarterly distribution	8 December 2014

### Westpac Convertible Preference Shares (Westpac CPS) (ASX code: WBCPC)

Ex-dividend date for semi-annual dividend	18 September 2014
Record date for semi-annual dividend	22 September 2014
Payment date for semi-annual dividend	30 September 2014

### Westpac SPS II (ASX code: WBCPB)

Ex-distribution date for quarterly distribution	18 June 2014
Record date for quarterly distribution	20 June 2014
Payment date for quarterly distribution	30 June 2014
Ex-distribution date for quarterly distribution	18 September 2014
Record date for quarterly distribution	22 September 2014
Payment date for quarterly distribution	30 September 2014

<sup>1</sup> Record date for 2014 interim dividend in New York – 15 May 2014.

<sup>2</sup> Record date for 2014 final dividend in New York – 11 November 2014.

<sup>3</sup> Dates will be confirmed at the time of announcing the 2014 final results.

<sup>4</sup> Details regarding the location of this meeting and the business to be dealt with will be contained in the separate Notice of Meeting sent to shareholders in November 2014.

<sup>5</sup> Next business day when payment date falls on a non-business day.

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Westpac Subordinated Notes (ASX code: WBCHA)

Ex-interest date for quarterly interest payment	13 May 2014
Record date for quarterly interest payment	15 May 2014
Payment date for quarterly interest payment	23 May 2014
Ex-interest date for quarterly interest payment	13 August 2014
Record date for quarterly interest payment	15 August 2014
Payment date for quarterly interest payment	25 August 2014 <sup>1</sup>
Ex-interest date for quarterly interest payment	12 November 2014
Record date for quarterly interest payment	14 November 2014
Payment date for quarterly interest payment	24 November 2014 <sup>1</sup>

Westpac Subordinated Notes II (ASX code: WBCHB)

Ex-interest date for quarterly interest payment	12 May 2014
Record date for quarterly interest payment	14 May 2014
Payment date for quarterly interest payment	22 May 2014
Ex-interest date for quarterly interest payment	12 August 2014
Record date for quarterly interest payment	14 August 2014
Payment date for quarterly interest payment	22 August 2014
Ex-interest date for quarterly interest payment	12 November 2014
Record date for quarterly interest payment	14 November 2014
Payment date for quarterly interest payment	24 November 2014 <sup>1</sup>

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<sup>1</sup> Next business day when payment date falls on a non-business day.

Share Registries

**Australia**

Ordinary shares on the main register, Westpac Capital Notes, Westpac CPS, Westpac SPS II, Westpac Subordinated Notes and Westpac Subordinated Notes II  
Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000 Australia  
Postal Address: Locked Bag A6015,  
Sydney South NSW 1235  
Website: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)  
Telephone: 1800 804 255 (toll free in Australia)  
International: +61 2 8280 7070

**New York**

The Bank of New York Mellon  
PO Box 358516  
Pittsburgh PA 15252-8516  
USA  
Website: [www.bnymellon.com/shareowner](http://www.bnymellon.com/shareowner)  
Email: [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com)  
Telephone: +1 888 269 2377 (toll free in US)  
International: +1 201 680 6825

**New Zealand**

Ordinary shares on the New Zealand branch register

Link Market Services Limited  
Level 16, Brookfields House, 19 Victoria Street West  
Auckland 1142 New Zealand  
Postal Address: P.O. Box 91976, Auckland 1030,  
New Zealand  
Website: [www.linkmarketservices.com](http://www.linkmarketservices.com)  
Telephone: 0800 002 727 (toll free in New Zealand)  
International: +64 9 375 5998

**For further information contact:**

Media:  
Samantha Stevens, Westpac Media Relations,  
+61 2 8219 8512

Analysts and Investors:  
Andrew Bowden, Head of Investor Relations,  
+61 2 8253 4008

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**7.0 SEGMENT RESULT**

**7.1 Half Year Segment Reported Results**

<b>Six months to 31 March 2014</b>	<b>Westpac Retail &amp; Business Banking</b>	<b>St. George Banking Group</b>	<b>BT Financial Group (Australia)</b>	<b>AFS</b>	<b>Westpac Institutional Bank</b>	<b>New Zealand<sup>1</sup></b>	<b>Westpac Pacific</b>	<b>Group Businesses<sup>2</sup></b>	<b>Group</b>
<b>\$m</b>									
Net interest income	2,918	1,708	205	4,831	811	714	70	213	6,639
Non-interest income	691	252	1,116	2,059	770	217	87	18	3,151
Net operating income	3,609	1,960	1,321	6,890	1,581	931	157	231	9,790
Operating expenses	(1,595)	(832)	(687)	(3,114)	(590)	(385)	(52)	(54)	(4,195)
Impairment charges	(226)	(108)	4	(330)	90	(3)	(6)	(92)	(341)
<b>Profit from ordinary activities before income tax expense</b>	<b>1,788</b>	<b>1,020</b>	<b>638</b>	<b>3,446</b>	<b>1,081</b>	<b>543</b>	<b>99</b>	<b>85</b>	<b>5,254</b>
Tax expense	(537)	(307)	(187)	(1,031)	(329)	(149)	(29)	(57)	(1,595)
<b>Net profit</b>	<b>1,251</b>	<b>713</b>	<b>451</b>	<b>2,415</b>	<b>752</b>	<b>394</b>	<b>70</b>	<b>28</b>	<b>3,659</b>
Net profit attributable to non-controlling interests	-	-	(24)	(24)	-	(1)	(5)	(7)	(37)
<b>NET PROFIT ATTRIBUTABLE TO OWNERS OF WBC</b>	<b>1,251</b>	<b>713</b>	<b>427</b>	<b>2,391</b>	<b>752</b>	<b>393</b>	<b>65</b>	<b>21</b>	<b>3,622</b>
<b>WBC Cash Earnings adjustments:</b>									
TPS revaluations	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	13
Ineffective hedges	-	-	-	-	-	-	-	-	17
Fair value gain/(loss) on economic hedges	-	-	-	-	-	-	-	-	46
Buyback of government guaranteed debt	-	-	-	-	-	-	-	-	(30)
Fair value amortisation of financial instruments <sup>3</sup>	-	-	-	-	-	-	-	-	9
Amortisation of intangible assets <sup>4</sup>	-	59	11	70	-	-	-	-	70
Acquisition transaction and integration expenses	-	-	-	-	-	-	-	-	25
<b>Cash Earnings</b>	<b>1,251</b>	<b>772</b>	<b>438</b>	<b>2,461</b>	<b>752</b>	<b>393</b>	<b>65</b>	<b>101</b>	<b>3,772</b>

<sup>1</sup> New Zealand earnings are presented in Australian dollars (A\$), converted at the actual average A\$/NZ\$ exchange rate for First Half 2014 (1.0973).

<sup>2</sup> Group Businesses includes the following amounts associated with the requirements of AASB Life Insurance business (AASB 1038):

(i) Non-interest income \$5 million credit

(ii) Tax expense \$5 million debit

<sup>3</sup> Amortisation of fair value adjustments recognised on merger with St. George.

<sup>4</sup> Amortisation of intangible assets reflects the amortisation of St. George intangible assets including the core deposit intangible and credit card and financial planner relationships, as well as intangible assets related to the JOHCM and Lloyds acquisitions.



# INTERIM RESULTS 2014

## SEGMENT RESULT

### 7.1 Half Year Segment Reported Results (continued)

Six months to 30 September 2013									
	Westpac Retail & Business Banking	St. George Banking Group	BT Financial Group (Australia)		Westpac Institutional Bank	New Zealand <sup>1</sup>	Westpac Pacific	Group Businesses <sup>2</sup>	Group
\$m				AFS					
Net interest income	2,869	1,639	201	4,709	812	662	73	273	6,529
Non-interest income	683	241	993	1,917	821	199	97	(138)	2,896
Net operating income	3,552	1,880	1,194	6,626	1,633	861	170	135	9,425
Operating expenses	(1,574)	(800)	(626)	(3,000)	(566)	(353)	(50)	(74)	(4,043)
Impairment charges	(242)	(171)	(1)	(414)	46	(43)	(1)	3	(409)
Profit from ordinary activities before income tax expense									
Tax expense	1,736	909	567	3,212	1,113	465	119	64	4,973
	(523)	(272)	(159)	(954)	(323)	(127)	(34)	(32)	(1,470)
Net profit	1,213	637	408	2,258	790	338	85	32	3,503
Net profit attributable to non-controlling interests	-	-	(9)	(9)	-	(2)	(6)	(22)	(39)
NET PROFIT ATTRIBUTABLE TO OWNERS OF WBC									
	1,213	637	399	2,249	790	336	79	10	3,464
WBC Cash Earnings adjustments:									
TPS revaluations	-	-	-	-	-	-	-	1	1
Treasury shares	-	-	-	-	-	-	-	13	13
Ineffective hedges	-	-	-	-	-	-	-	3	3
Fair value gain/(loss) on economic hedges	-	-	-	-	-	-	-	(36)	(36)
Buyback of government guaranteed debt	-	-	-	-	-	-	-	-	-
Fair value amortisation of financial instruments <sup>3</sup>	-	-	-	-	-	-	-	35	35
Amortisation of intangible assets <sup>4</sup>	-	64	11	75	-	-	-	-	75
Acquisition transaction and integration expenses	-	-	-	-	-	-	-	-	-
Cash Earnings	1,213	701	410	2,324	790	336	79	26	3,555

<sup>1</sup> New Zealand earnings are presented in Australian dollars (A\$), converted at the actual average A\$/NZ\$ exchange rate for Second Half 2013 (1.1775).

<sup>2</sup> Group Businesses includes the following amounts associated with the requirements of AASB Life Insurance business (AASB 1038):

(i) Non-interest income \$16 million credit

(ii) Tax expense \$16 million debit

<sup>3</sup> Amortisation of fair value adjustments recognised on merger with St. George.

<sup>4</sup> Amortisation of intangible assets reflects the amortisation of St. George intangible assets including the core deposit intangible and credit card and financial planner relationships as well as intangible assets related to the JOHCM acquisition.

**INTERIM RESULTS 2014**  
**SEGMENT**  
**RESULT**

7.1 Half Year Segment Reported Results (continued)

Six months to 31 March 2013										
	Westpac Retail & Business Banking	St. George Banking Group	BT Financial Group (Australia)		Westpac Institutional Bank	New Zealand <sup>1</sup>	Westpac Pacific	Group Businesses <sup>2</sup>		
\$m				AFS						Group
Net interest income	2,786	1,577	205	4,568	818	619	75	212		6,292
Non-interest income	637	228	924	1,789	812	190	70	17		2,878
Net operating income	3,423	1,805	1,129	6,357	1,630	809	145	229		9,170
Operating expenses	(1,550)	(785)	(614)	(2,949)	(549)	(344)	(48)	(43)		(3,933)
Impairment charges	(244)	(122)	-	(366)	43	(54)	(2)	(59)		(438)
<b>Profit from ordinary activities before income tax expense</b>	<b>1,629</b>	<b>898</b>	<b>515</b>	<b>3,042</b>	<b>1,124</b>	<b>411</b>	<b>95</b>	<b>127</b>		<b>4,799</b>
Tax expense	(487)	(271)	(156)	(914)	(339)	(114)	(26)	(84)		(1,477)
<b>Net profit</b>	<b>1,142</b>	<b>627</b>	<b>359</b>	<b>2,128</b>	<b>785</b>	<b>297</b>	<b>69</b>	<b>43</b>		<b>3,322</b>
Net profit attributable to non-controlling interests	-	-	(7)	(7)	-	(1)	(5)	(22)		(35)
<b>NET PROFIT ATTRIBUTABLE TO OWNERS OF WBC</b>	<b>1,142</b>	<b>627</b>	<b>352</b>	<b>2,121</b>	<b>785</b>	<b>296</b>	<b>64</b>	<b>21</b>		<b>3,287</b>
<b>WBC Cash Earnings adjustments:</b>										
TPS revaluations	-	-	-	-	-	-	-	8		8
Treasury shares	-	-	-	-	-	-	-	29		29
Ineffective hedges	-	-	-	-	-	-	-	(23)		(23)
Fair value gain/(loss) on economic hedges	-	-	-	-	-	-	-	57		57
Buyback of government guaranteed debt	-	-	-	-	-	-	-	43		43
Fair value amortisation of financial instruments <sup>3</sup>	-	-	-	-	-	-	-	32		32
Amortisation of intangible assets <sup>4</sup>	-	64	11	75	-	-	-	-		75
Acquisition transaction and integration expenses	-	-	-	-	-	-	-	-		-
<b>Cash Earnings</b>	<b>1,142</b>	<b>691</b>	<b>363</b>	<b>2,196</b>	<b>785</b>	<b>296</b>	<b>64</b>	<b>167</b>		<b>3,508</b>

<sup>1</sup> New Zealand earnings are presented in Australian dollars (A\$), converted at the actual average A\$/NZ\$ exchange rate for First Half 2013 (1.2533).

<sup>2</sup> Group Businesses includes the following amounts associated with the requirements of AASB Life Insurance business (AASB 1038):

(i) Non-interest income \$19 million credit

(ii) Tax expense \$19 million debit

<sup>3</sup> Amortisation of fair value adjustments recognised on merger with St. George.

<sup>4</sup> Amortisation of intangible assets reflects the amortisation of St. George intangible assets including the core deposit intangible and credit card and financial planner relationships as well as intangible assets related to the UHCN acquisition.

**INTERIM RESULTS 2014**  
**SEGMENT**  
**RESULT**

7.2 Westpac New Zealand Division Performance (A\$ Equivalent to Section 3.3)

Westpac New Zealand operations provide banking, wealth and insurance products and services to New Zealand consumer, business and institutional customers. The New Zealand wealth business includes New Zealand Life Company and BT New Zealand. Results for the First Half 2014, Second Half 2013, and First Half 2013 have been converted into Australian dollars (A\$) at the actual average exchange rates each month, the average rates for the reporting periods are: 1.0973, 1.1775 and 1.2533 respectively.

	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>\$m</b>					
Net interest income	714	662	619	8	15
Non-interest income	217	199	190	9	14
Net operating income	931	861	809	8	15
Operating expenses	(385)	(353)	(344)	(9)	(12)
<b>Core earnings</b>	<b>546</b>	<b>508</b>	<b>465</b>	<b>7</b>	<b>17</b>
Impairment charges	(3)	(43)	(54)	93	94
<b>Operating profit before tax</b>	<b>543</b>	<b>465</b>	<b>411</b>	<b>17</b>	<b>32</b>
Tax and non-controlling interests	(150)	(129)	(115)	(16)	(30)
<b>Cash Earnings</b>	<b>393</b>	<b>336</b>	<b>296</b>	<b>17</b>	<b>33</b>
Economic profit	189	148	122	28	55
Expense to income ratio	41.4%	41.0%	42.5%	(35bps)	117bps
Net interest margin	2.28%	2.32%	2.34%	(4bps)	(6bps)

	Half Year March 14	Half Year Sept 13	Half Year March 13	% Mov't Mar 14 - Sept 13	% Mov't Mar 14 - Mar 13
<b>\$bn</b>					
Deposits	45.3	41.4	37.0	9	22
Net loans	59.2	54.7	48.1	8	23
Deposit to loan ratio	76.6%	75.7%	76.9%	93bps	(32bps)
Total assets	66.9	61.5	54.9	9	22
Total committed exposure	84.5	78.2	69.3	8	22
Average interest-earning assets	62.8	57.0	53.0	10	18
Funds under management	4.6	3.9	3.3	18	39
Funds under administration	1.4	1.2	1.0	17	40

7.3 Impact of Exchange Rate Movements on Group Results

	Half Year March 14 vs Half Year Sept 13			Half Year March 14 vs Half Year March 13		
	Cash Earnings grow th	FX impact \$m	Grow th ex-FX	Cash Earnings grow th	FX impact \$m	Grow th ex-FX
Net interest income	3%	59	2%	4%	109	2%
Non-interest income	6%	(6)	6%	9%	(21)	10%
Net operating income	4%	53	3%	5%	88	4%
Operating expenses	(3)%	(32)	(2)%	(6)%	(60)	(5)%
<b>Core earnings</b>	<b>5%</b>	<b>21</b>	<b>4%</b>	<b>5%</b>	<b>28</b>	<b>4%</b>
Impairment charges	17%	-	17%	22%	-	22%
<b>Operating profit before income tax</b>	<b>6%</b>	<b>21</b>	<b>6%</b>	<b>7%</b>	<b>28</b>	<b>7%</b>
Income tax expense	(7)%	(5)	(6)%	(6)%	(7)	(6)%
<b>Net profit</b>	<b>6%</b>	<b>16</b>	<b>6%</b>	<b>8%</b>	<b>21</b>	<b>7%</b>
Net profit attributable to non-controlling interests	5%	(1)	6%	(6)%	(1)	(4)%
<b>Cash Earnings</b>	<b>6%</b>	<b>15</b>	<b>6%</b>	<b>8%</b>	<b>20</b>	<b>7%</b>

**INTERIM RESULTS 2014**  
**GROUP**  
**RECONCILIATIONS**

**8.0 GROUP RECONCILIATIONS**

**8.1 Group Half Year Earnings Reconciliation**

Notes (refer to Reconciliation of Reported Results to Cash Earnings in Section 1.4)

Cash Earnings adjustments												
	WBC Reported Results	Policyholder Tax Recoveries	TPS Revaluations	Treasury Shares	Ineffective Hedges	Fair value gain/(loss) on economic hedges and own credit	Buyback of government guaranteed debt instruments	Fair value amortisation of financial assets <sup>1</sup>	Amortisation of intangible assets <sup>1</sup>	Acquisition transaction and integration expenses	Cash Earnings	
Six months to 31 March 2014												
\$m												
Net interest income	6,639	-	-	-	24	44	(43)	13	-	-	6,677	
Fees and commissions	1,458	-	-	-	-	-	-	-	-	-	1,458	
Wealth management & insurance income	1,102	(5)	-	14	-	-	-	-	-	-	1,111	
Trading income	546	-	-	-	-	1	-	-	-	-	547	
Other income	45	-	-	-	-	21	-	-	-	-	66	
Non-interest income	3,151	(5)	-	14	-	22	-	-	-	-	3,182	
Net operating income	9,790	(5)	-	14	24	66	(43)	13	-	-	9,859	
Salaries and other staff expenses	(2,351)	-	-	-	-	-	-	-	-	7	(2,344)	
Equipment and occupancy expenses	(692)	-	-	-	-	-	-	-	-	-	(692)	
Other expenses	(1,152)	-	-	-	-	-	-	-	102	21	(1,029)	
Operating expenses	(4,195)	-	-	-	-	-	-	-	102	28	(4,065)	
Core earnings	5,595	(5)	-	14	24	66	(43)	13	102	28	5,794	
Impairment charges	(341)	-	-	-	-	-	-	-	-	-	(341)	
Operating profit before tax	5,254	(5)	-	14	24	66	(43)	13	102	28	5,453	
Income tax expense	(1,595)	5	-	(1)	(7)	(20)	13	(4)	(31)	(3)	(1,643)	
Net profit	3,659	-	-	13	17	46	(30)	9	71	25	3,810	
Net profit attributable to non-controlling interests	(37)	-	-	-	-	-	-	-	(1)	-	(38)	
NET PROFIT ATTRIBUTABLE TO OWNERS OF WBC	3,622	-	-	13	17	46	(30)	9	70	25	3,772	
WBC Cash Earnings adjustments:												
TPS revaluations	-	-	-	-	-	-	-	-	-	-	-	
Treasury shares	13	-	-	(13)	-	-	-	-	-	-	-	
Ineffective hedges	17	-	-	-	(17)	-	-	-	-	-	-	
Fair value gain/(loss) on economic hedges	46	-	-	-	-	(46)	-	-	-	-	-	
Buyback of government guaranteed debt	(30)	-	-	-	-	-	30	-	-	-	-	
Fair value amortisation of financial instruments	9	-	-	-	-	-	-	(9)	-	-	-	
Amortisation of intangible assets <sup>1</sup>	70	-	-	-	-	-	-	-	(70)	-	-	
Acquisition transaction and integration expenses	25	-	-	-	-	-	-	-	-	(25)	-	
Cash Earnings	3,772	-	-	-	-	-	-	-	-	-	3,772	

<sup>1</sup> Amortisation of intangible assets reflects the amortisation of St.George intangible assets including the core deposit intangible and credit card and financial planner relationships as well as intangible assets related to the UHCNI and Lloyds acquisitions.

## 8.1 Group Half Year Earnings Reconciliation (continued)

Notes (refer to Reconciliation of Reported Results to Cash Earnings in Section 1.4)												
Cash Earnings adjustments												
	WBC Reported Results	Policyholder Tax Recoveries	TPS Revaluations	Treasury Shares	Ineffective Hedges	Fair value gain/(loss) on economic hedges and own credit	Buyback of government guaranteed debt instruments	Fair value amortisation of financial instruments	Amortisation of intangible assets <sup>1</sup>	Acquisition transaction and integration expenses	Cash Earnings	
Six months to 30 September 2013												
\$m												
Net interest income	6,529	-	-	-	7	(118)	-	49	-	-	6,467	
Fees and commissions	1,393	-	-	-	-	-	-	-	-	-	1,393	
Wealth management & insurance income	1,026	(16)	-	14	-	-	-	-	-	-	1,024	
Trading income	552	-	-	-	(2)	-	-	-	-	-	550	
Other income	(75)	-	54	-	-	65	-	-	-	-	44	
Non-interest income	2,896	(16)	54	14	(2)	65	-	-	-	-	3,011	
Net operating income	9,425	(16)	54	14	5	(53)	-	49	-	-	9,478	
Salaries and other staff expenses	(2,176)	-	-	-	-	-	-	-	-	-	(2,176)	
Equipment and occupancy expenses	(710)	-	-	-	-	-	-	-	-	-	(710)	
Other expenses	(1,157)	-	-	-	-	-	-	-	108	-	(1,049)	
Operating expenses	(4,043)	-	-	-	-	-	-	-	108	-	(3,935)	
Core earnings	5,382	(16)	54	14	5	(53)	-	49	108	-	5,543	
Impairment charges	(409)	-	-	-	-	-	-	-	-	-	(409)	
Operating profit before tax	4,973	(16)	54	14	5	(53)	-	49	108	-	5,134	
Income tax expense	(1,470)	16	(53)	(1)	(2)	17	-	(14)	(32)	-	(1,539)	
Net profit	3,503	-	1	13	3	(36)	-	35	76	-	3,595	
Net profit attributable to non-controlling interests	(39)	-	-	-	-	-	-	-	(1)	-	(40)	
NET PROFIT ATTRIBUTABLE TO OWNERS OF WBC	3,464	-	1	13	3	(36)	-	35	75	-	3,555	
WBC Cash Earnings adjustments:												
TPS revaluations	1	-	(1)	-	-	-	-	-	-	-	-	
Treasury shares	13	-	-	(13)	-	-	-	-	-	-	-	
Ineffective hedges	3	-	-	-	(3)	-	-	-	-	-	-	
Fair value gain/(loss) on economic hedges	(36)	-	-	-	-	36	-	-	-	-	-	
Buyback of government guaranteed debt	-	-	-	-	-	-	-	-	-	-	-	
Fair value amortisation of financial instruments	35	-	-	-	-	-	-	(35)	-	-	-	
A mortisation of intangible assets <sup>1</sup>	75	-	-	-	-	-	-	-	(75)	-	-	
Acquisition transaction and integration expenses	-	-	-	-	-	-	-	-	-	-	-	
Cash Earnings	3,555	-	-	-	-	-	-	-	-	-	3,555	

<sup>1</sup> Amortisation of intangible assets reflects the amortisation of St. George intangible assets including the core deposit intangible and credit card and financial planner relationships as well as intangible assets related to the JOHCM acquisition.

**INTERIM RESULTS 2014**  
**GROUP**  
**RECONCILIATIONS**

8.1 Group Half Year Earnings Reconciliation (continued)

Notes (refer to Reconciliation of Reported Results to Cash Earnings in Section 1.4)												
Cash Earnings adjustments												
Six months to 31 March 2013		WBC Reported Results	Policyholder Tax Recoveries	TPS Revaluations	Treasury Shares	Ineffective Hedges	Fair value gain/(loss) on economic hedges and own credit	Buyback of government guaranteed debt instruments	Fair value amortisation of financial instruments	Amortisation of intangible assets <sup>1</sup>	Acquisition transaction and integration expenses	Cash Earnings
\$m												
Net interest income		6,292	-	-	-	(36)	81	62	46	-	-	6,445
Fees and commissions		1,330	-	-	-	-	-	-	-	-	-	1,330
Wealth management & insurance income		918	(19)	-	35	-	-	-	-	-	-	934
Trading income		517	-	-	-	3	-	-	-	-	-	520
Other income		113	-	13	-	-	-	-	-	-	-	126
Non-interest income		2,878	(19)	13	35	3	-	-	-	-	-	2,910
Net operating income		9,170	(19)	13	35	(33)	81	62	46	-	-	9,355
Salaries and other staff expenses		(2,160)	-	-	-	-	-	-	-	-	-	(2,160)
Equipment and occupancy expenses		(660)	-	-	-	-	-	-	-	-	-	(660)
Other expenses		(1,113)	-	-	-	-	-	-	-	109	-	(1,004)
Operating expenses		(3,933)	-	-	-	-	-	-	-	109	-	(3,824)
Core earnings		5,237	(19)	13	35	(33)	81	62	46	109	-	5,531
Impairment charges		(438)	-	-	-	-	-	-	-	-	-	(438)
Operating profit before tax		4,799	(19)	13	35	(33)	81	62	46	109	-	5,093
Income tax expense		(1,477)	19	(5)	(6)	10	(24)	(19)	(14)	(33)	-	(1,549)
Net profit		3,322	-	8	29	(23)	57	43	32	76	-	3,544
Net profit attributable to non-controlling interests		(35)	-	-	-	-	-	-	-	(1)	-	(36)
NET PROFIT ATTRIBUTABLE TO OWNERS OF WBC		3,287	-	8	29	(23)	57	43	32	75	-	3,508
WBC Cash Earnings adjustments:												
TPS revaluations		8	-	-	-	(8)	-	-	-	-	-	-
Treasury shares		29	-	-	-	(29)	-	-	-	-	-	-
Ineffective hedges		(23)	-	-	-	23	-	-	-	-	-	-
Fair value gain/(loss) on economic hedges		57	-	-	-	-	(57)	-	-	-	-	-
Buyback of government guaranteed debt		43	-	-	-	-	-	(43)	-	-	-	-
Fair value amortisation of financial instruments		32	-	-	-	-	-	-	(32)	-	-	-
Amortisation of intangible assets <sup>1</sup>		75	-	-	-	-	-	-	-	(75)	-	-
Acquisition transaction and integration expenses		-	-	-	-	-	-	-	-	-	-	-
Cash Earnings		3,508	-	-	-	-	-	-	-	-	-	3,508

<sup>1</sup> Amortisation of intangible assets reflects the amortisation of St.George intangible assets including the core deposit intangible and credit card and financial planner relationships as well as intangible assets related to the JOHCM acquisition.

**INTERIM RESULTS 2014**  
**ECONOMIC**  
**PROFIT**

9.0 ECONOMIC PROFIT

Group economic profit is defined as Cash Earnings plus a franking benefit equivalent of 70% of the value of Australian tax paid less a capital charge calculated at 11% of average ordinary equity.

Divisional economic profit is defined as Cash Earnings plus the franking benefit less a capital charge. The capital charge is calculated at 11% on allocated capital.

Economic profit is used as a key measure of financial performance because it focuses on shareholder value generated by requiring a return in excess of a risk-adjusted cost of capital.

Six months to 31 March 2014		Westpac Retail & Business Banking	St.George Banking Group	BT Financial Group (Australia)		Westpac Institution al Bank	New Zealand <sup>1</sup>	Westpac Pacific
\$m	Group				AFS			
Cash Earnings	3,772	1,251	772	438	2,461	752	393	65
Franking benefit	996	376	233	121	730	215	-	-
Adjusted Cash Earnings	4,768	1,627	1,005	559	3,191	967	393	65
Average ordinary equity	45,907	9,449	7,006	2,834	19,289	7,831	3,722	385
Equity charge	(2,518)	(518)	(384)	(155)	(1,057)	(430)	(204)	(21)
<b>Economic profit</b>	<b>2,250</b>	<b>1,109</b>	<b>621</b>	<b>404</b>	<b>2,134</b>	<b>537</b>	<b>189</b>	<b>44</b>

Six months to 30 September 2013		Westpac Retail & Business Banking	St.George Banking Group	BT Financial Group (Australia)		Westpac Institution al Bank	New Zealand <sup>1</sup>	Westpac Pacific
\$m	Group				AFS			
Cash Earnings	3,555	1,213	701	410	2,324	790	336	79
Franking benefit	940	366	210	115	691	217	-	-
Adjusted Cash Earnings	4,495	1,579	911	525	3,015	1,007	336	79
Average ordinary equity	44,866	8,617	6,161	2,794	17,572	7,366	3,255	362
Equity charge	(2,475)	(475)	(340)	(155)	(970)	(406)	(188)	(20)
<b>Economic profit</b>	<b>2,020</b>	<b>1,104</b>	<b>571</b>	<b>370</b>	<b>2,045</b>	<b>601</b>	<b>148</b>	<b>59</b>

Six months to 31 March 2013		Westpac Retail & Business Banking	St.George Banking Group	BT Financial Group (Australia)		Westpac Institution al Bank	New Zealand <sup>1</sup>	Westpac Pacific
\$m	Group				AFS			
Cash Earnings	3,508	1,142	691	363	2,196	785	296	64
Franking benefit	944	341	209	108	658	224	-	-
Adjusted Cash Earnings	4,452	1,483	900	471	2,854	1,009	296	64
Average ordinary equity	43,831	8,499	6,161	2,870	17,530	8,040	3,223	344
Equity charge	(2,404)	(466)	(338)	(157)	(961)	(441)	(174)	(19)
<b>Economic profit</b>	<b>2,048</b>	<b>1,017</b>	<b>562</b>	<b>314</b>	<b>1,893</b>	<b>568</b>	<b>122</b>	<b>45</b>

<sup>1</sup> In A\$ equivalents.



## 10.0 GLOSSARY

<b>Earnings</b>	Cash Earnings	Net profit attributable to owners of WBC adjusted for the impact of the economic hedges related to TPS, earnings from Treasury shares, gains/losses on ineffective hedges, the impact of unrealised New Zealand earnings hedges gains/losses, and the impact of the amortisation of certain intangibles in relation to the merger with St.George and acquisition of JOHCM and Lloyds, fair value gains/losses on economic hedges, buyback of Government guaranteed debt and transaction and integration expenses in relation to the acquisition of Lloyds.
	Core earnings	Core earnings is operating profit, before income tax and impairment charges.
<b>Shareholder Value</b>	Earnings per ordinary share	Net profit attributable to the owners of WBC divided by the weighted average ordinary shares (statutory basis).
	Cash Earnings per ordinary share	Cash Earnings divided by the weighted average ordinary shares (Cash Earnings basis).
	Weighted average ordinary shares (Cash Earnings)	Weighted average number of fully paid ordinary shares listed on the ASX for the relevant period.
	Weighted average ordinary shares (reported)	Weighted average number of fully paid ordinary shares listed on the ASX for the relevant period less Westpac shares held by the Group ('Treasury shares').
	Fully franked dividends per ordinary shares (cents)	Dividends paid out of retained profits which carry a credit for Australian company income tax paid by Westpac.
	Dividend payout ratio – net profit	Ordinary dividend per share divided by net profit per share attributable to the owners of WBC.
	Dividend payout ratio – Cash Earnings	Ordinary dividend divided by Cash Earnings.
	Return on equity (ROE)	Net profit attributable to the owners of WBC divided by average ordinary equity.
	Cash ROE	Cash Earnings divided by average ordinary equity.
	Cash Earnings to average tangible equity	Cash Earnings divided by average tangible ordinary equity.
	Economic profit – Group	Cash Earnings less a capital charge calculated at 11% of average ordinary equity plus a value on franking credits calculated as 70% of the Group's Australian tax expense.
	Economic profit – Divisions	Cash Earnings less a capital charge calculated at 11% of allocated capital plus 70% of the value of Australian tax expense.
	Average ordinary equity	Average total equity less average non-controlling interests.
	Average tangible ordinary equity	Average ordinary equity less average goodwill and other intangible assets (excluding capitalised software).
	Net tangible assets per ordinary share	Net tangible assets (total equity less goodwill and other intangible assets less minority interests) divided by the number of ordinary shares on issue (statutory basis).
<b>Productivity and efficiency</b>	Operating expenses	Operating expenses do not include impairment charges on loans.
	Expense to income ratio	Operating expenses divided by net operating income.
	Total banking expense to income ratio	Total banking operating expenses divided by total banking operating revenue. Total banking business includes Westpac RBB, St.George Banking Group, WIB, Private Bank (part of BTFG), New Zealand banking operations, Westpac Pacific and the Group Businesses.
	Full-time equivalent employees (FTE)	A calculation based on the number of hours worked by full and part-time employees as part of their normal duties. For example, the full-time equivalent of one FTE is 76 hours paid work per fortnight.
	Revenue per FTE	Total operating income divided by the average number of FTE for the period.



<b>Business Performance</b>	Net interest spread	The difference between the average yield on all interest bearing assets and the average rate paid on interest bearing liabilities.
	Net interest margin	The net interest margin is calculated by dividing net interest income by average interest earning assets.
	Average interest-earning assets	The average balance of assets held by the Group that generate interest income. Where possible, daily balances are used to calculate the average balance for the period.
	Average interest-bearing liabilities	The average balance of liabilities owed by the Group that incur an interest expense. Where possible, daily balances are used to calculate the average balance for the period.
	Divisional margin	Net interest income (excluding capital benefit) for a division as a percentage of the average interest earning assets for that division.
	Customer return on credit RWA	Total operating income less income from Treasury and non-customer trading income less total operating expenses divided by the average credit RWA for the period.
<b>Capital Adequacy</b>	Total regulatory capital ratio	Total regulatory capital as defined by APRA divided by risk weighted assets.
	Tier 1 capital ratio	Total Tier 1 capital as defined by APRA divided by risk weighted assets.
	Common equity Tier 1 capital ratio	Total common equity capital as defined by APRA divided by risk weighted assets.
	Level 1 capital ratio	Comprising Westpac Banking Corporation and its subsidiary entities that have been approved by APRA as being part of a single 'Extended Licensed Entity' for the purpose of measuring capital adequacy.
	Level 2 capital ratio	Comprising Westpac Banking Corporation and its subsidiary entities except those entities specifically excluded under APRA's APS001 regulation. The head of the level 2 group is Westpac Banking Corporation.
	Risk weighted assets (RWA)	Assets (both on and off-balance sheet) of Westpac are assigned within a certain category, amounts included in these categories are multiplied by a risk weighting, and with the resulting weighted values added together to arrive at total risk weighted assets.
	Credit risk weighted assets (RWA)	Credit risk weighted assets represent risk weighted assets (on-balance sheet and off-balance sheet) that relate to credit exposures and therefore exclude market risk, operational risk, interest rate risk in the banking book and other assets. Note 18 in Section 4 provides a breakdown of risk weighted assets between credit risk weighted assets and other risk weighted assets.
<b>Asset quality</b>	Individually assessed provisions (IAPs)	Provisions raised for losses that have already been incurred on loans that are known to be impaired and are individually significant. The estimated losses on these impaired loans will be based on expected future cash flows discounted to their present value and, as this discount unwinds, interest will be recognised in the income statement.
	Collectively assessed provisions (CAPs)	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.

Asset quality (cont'd)	Impaired assets	<p>Includes exposures that have deteriorated to the point where full collection of interest and principal is in doubt, based on a conservative assessment of the customer's outlook, cashflow, and the net realisation of value of assets to which recourse is held:</p> <ul style="list-style-type: none"> <li>■ <b>facilities 90 days or more past due, and not well secured</b> – 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;</li> <li>■ <b>non-accrual assets</b> – exposures with individually assessed impairment provisions held against them, excluding restructured loans;</li> <li>■ <b>restructured assets</b> – 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;</li> <li>■ <b>other assets acquired through security enforcement (includes other real estate owned)</b> – includes the value of any other assets acquired as full or partial settlement of outstanding obligations through the enforcement of security arrangements; and</li> <li>■ <b>any other assets where the full collection of interest and principal is in doubt.</b></li> </ul>
	90 days past due – well secured	<p>Includes facilities where:</p> <ul style="list-style-type: none"> <li>■ 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; or</li> <li>■ 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</li> <li>■ the estimated net realisable value of assets/security to which Westpac has recourse is sufficient to cover repayment of all principal and interest, and interest is being taken to profit on an accrual basis.</li> </ul> <p>These facilities, while in default, are not treated as impaired for accounting purposes.</p>
	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.
	Stressed assets	Stressed assets are Watchlist and Substandard, 90 days past due well secured and impaired assets.
	Total committed exposure (TCE)	Total committed exposure (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 under-writing risk.
Other	First Half 2014	Six months ended 31 March 2014.
	Second Half 2013	Six months ended 30 September 2013.
	First Half 2013	Six months ended 31 March 2013.
	Prior corresponding period	Refers to the six months ended 31 March 2013.
	Prior half / Prior period	Refers to the six months ended 30 September 2013.
	St.George	In this announcement references to 'St.George' refer to the division and its brands namely: 'St.George Bank', 'Bank of Melbourne', and 'BankSA', and RAMS unless it clearly means the St.George Bank brand.
	JOHCM	Refers to J O Hambro Capital Management, a company incorporated in the United Kingdom and acquired by BTIM in October 2011.
	Lloyds	In this announcement references to Lloyds refer to the acquisition of select Australian businesses of Lloyds Banking Group including Capital Finance Australia Limited and BOS International (Australia) Ltd.
	MyBank customer	A MyBank customer is an adult consumer customer where the Group have their quality transaction account (has salary credit; and/or has multiple regular deposits) and the customer does multiple transactions per month; and the Group meet at least 2 out of 5 of the following customer needs: (a) long term borrowing; (b) short term borrowing; (c) savings and investment; (d) protection; and (e) wealth.

<b>Other (cont'd)</b>	Products per customer	Roy Morgan Research, Products Per Customer, total Banking & Finance (incl Work Based Super) customers aged 18+, 6 month rolling average, March 2014. WRBB refers to Westpac Group (excl STG) and SGB refers to St.George Group) includes: Westpac; Bankers Trust; BT; BT Financial Group; RAMS (until December 11); Rothschild; Challenge Bank; Bank of Melbourne (to July 11). Note that St.George Group includes: Advance (Managed Investment and Superannuation only); Asgard; Bank of Melbourne (from Aug 11); BankSA; RAMS (from Jan 12); Sealcorp; St.George Bank; and Dragondirect.
	Wealth penetration metric	Data based on Roy Morgan Research, Respondents aged 14+. Wealth penetration is defined as the number of Australians who have Wealth Management or Insurance with each group and who also have Traditional Banking products with each group as a proportion of the number of Australians who have Traditional Banking products with each Group, calculated as the 12 month rolling average to March 2014. Traditional Banking consists of Deposit or Transaction Accounts, Mortgages, Personal Lending or Major Cards. Wealth Management consists of Managed Investments or Superannuation. Insurance consists of Vehicle Insurance, Home Insurance (Building, Contents, Valuable Items), Life Insurance (Life Insurance, Disability Insurance, Income Protection or Replacement Insurance), Household and Property Insurance – Landlord, Business Insurance, Loan Insurance and Public Liability Insurance. WRBB includes Westpac, Bank of Melbourne (until Jul 2011), BT, Challenge Bank, RAMS (until Dec 2011) and Rothschild. SGB includes St. George, Advance Bank, ASGARD, BankSA, Bank of Melbourne (from Aug 2011), Barclays, Dragondirect, Sealcorp and RAMS (from Jan 2012). WBC Group includes WRBB and SGB.
	Women in Leadership	The proportion of women (permanent and maximum term) in people leadership roles or senior roles of influence as a proportion of all leaders across the Group. Includes CEO, Executive Team, General Managers, Senior Managers as direct reports to General Managers and the next two levels of management. Excludes Westpac Pacific.
	Run-off	Scheduled and unscheduled repayments, debt repayments, property sales, external refinancing and redraws.
	Credit Value Adjustment (CVA)	CVA adjusts the fair value of over-the-counter derivatives for credit risk. CVA is employed on the majority of derivative positions and reflects the market view of the counterparty credit risk. A Debit Valuation Adjustment (DVA) is employed to adjust for our own credit risk.