Media Release

5 November 2018

Westpac announces 2018 Full Year Results

Financial highlights Full Year 2018 compared to Full Year 2017[1]

- Statutory net profit $8,095 million, up 1%
- Cash earnings $8,065 million, little changed
- Cash earnings per share, 236.2 cents, down 1%
- Cash return on equity (ROE) 13.0%, at the lower end of the range Westpac is seeking to achieve
- Unchanged, final, fully franked dividend of 94 cents per share (cps), (full year, fully franked dividend of 188 cps)
- Common equity Tier 1 capital ratio 10.6%, above APRA's unquestionably strong benchmark
- Bank levy $378 million (pre-tax), effective tax rate including bank levy 33%

Westpac Group CEO, Mr Brian Hartzer said, "In a difficult year, Westpac delivered a flat financial result.

"While the economic environment remains supportive, this result reflects the tough operating conditions for banks, with higher regulatory, compliance, and funding costs, and increased competitive pressure, particularly in the second half. In addition, provisions for customer refunds and related costs, along with legal costs, were $281 million after tax (equivalent to 3.5% of cash earnings) as we continued to work through regulatory investigations, remediations, and putting things right for customers.

"In response to these challenges, we've lifted productivity savings 16% to $304 million over the year.

"While earnings were flat, our balance sheet remains strong across all dimensions of asset quality, capital, and liquidity. We have also made substantial progress on our service-led strategy and digital transformation program.

"Westpac's mortgage book remains fundamentally sound, with around 70% of Australian customers ahead on repayments[2] and 90 day delinquencies remaining low.

"Results for the Business Bank and New Zealand divisions were the standout. The Business Bank delivered cash earnings growth of 8% supported by good growth in the small business sector and declining impairment charges. New Zealand's result benefited from the completion of a two-year restructuring program, with cash earnings up 5% (NZD). WIB maintained good discipline on margin and costs, but cash earnings were down 6% mainly due to lower markets income.

"Elsewhere, conditions were more difficult. Provisions for customer refunds were higher for BT Financial Group, and the Consumer division experienced both increased funding costs and higher remediation costs.

"Out of a total investment spend of $1.4 billion, we invested more than $800 million in system upgrades, digital transformation, and innovation to support our ambition to be one of the world's great service companies. Our focus has been on delivering our technology platforms, while simplifying and automating processes to make banking easier for customers. We have already migrated 100 applications onto our cloud infrastructure platforms which are now largely complete. Additionally, we have over 120 APIs in production and another 180 in development.

[1] Reported throughout this release on a cash earnings basis unless otherwise stated. For an explanation of cash earnings and reconciliation to reported results refer to pages 4-6 and 125-128 of the Group's 2018 Full Year Financial Results Announcement

[2] Including offset balances

"These capabilities support our Customer Service Hub which is progressing to schedule. While delivering these major projects, we have also significantly improved system reliability and response times, helping our people to provide better service to customers.

"We have introduced a number of new digital initiatives including Siri for Westpac, mobile cheque deposits, new online home loan applications, and E-Sign which allows a customer to complete a mortgage application online or via their mobile. Consumer payment innovations include partnerships with Google Pay, Garmin, Fit Bit, and Beem It—a mobile payment app which enables free and instant payments for anyone in Australia with a debit card, regardless of whom they bank with.

"Strategic investments in companies including Assembly Payments, Zip, Uno, and Open Agent, as well as Reinventure's growing portfolio of Fintech startups, position Westpac to harness the benefits of data and rapid technological change while bringing new value-added services to our customers," Mr Hartzer said.

Royal Commission

Mr Hartzer said Westpac continues to focus on addressing issues that have been highlighted during the Royal Commission into Misconduct in the Banking, Superannuation, and Financial Services Industry.

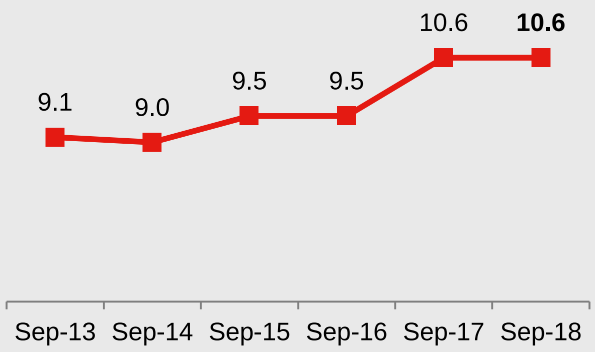
"We remain committed to getting things right for our customers and have made good progress on implementing the ABA's Six Point Plan. We have reinforced our values and service culture to all employees through additional training, introduced the Sedgwick remuneration recommendations for employees two years earlier than required, removed grandfathered commission payments for our salaried financial planners, and launched a simpler and more transparent pricing structure for BT's investment platform, Panorama.

"Importantly, our new Customer and Corporate Relations division has been established to oversee complaints handling across the Group, and to improve the way we deal with customer issues, building on the important role of our Customer Advocate," Mr Hartzer said.

Results

Strong balance sheet

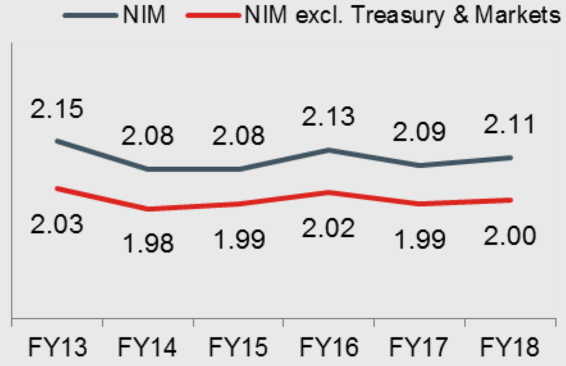
CET1 capital ratio (%)



- 10.6% CET1 capital ratio, above APRA's 'unquestionably strong' benchmark
- Liquidity ratios above regulatory minimums of 100%:
  - Liquidity coverage ratio 133%
  - Net stable funding ratio 114%

Margin management

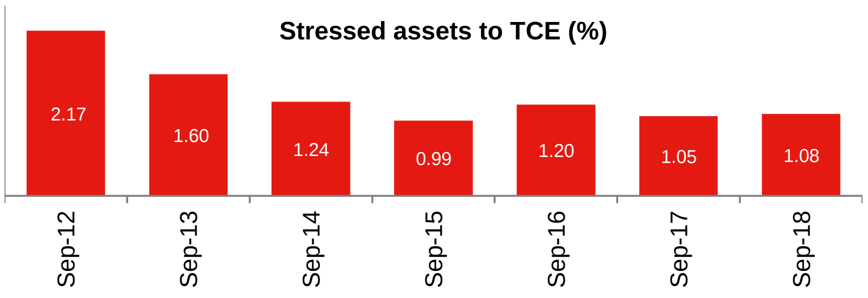
Net interest margin (NIM) (%)



- Net interest margin up 2bps over the year
- A rise in Treasury & Markets income contributed 1bp to NIM, and margins excluding Treasury & Markets also increased 1bp
- Higher lending and deposit spreads were largely offset by the full period impact of the Bank Levy

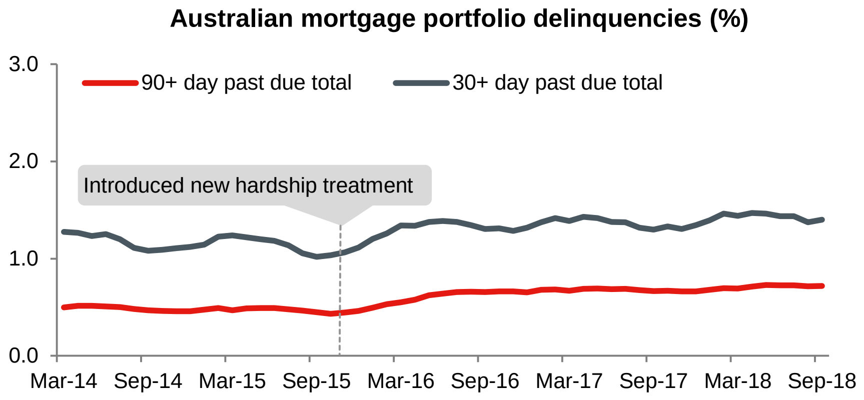
Credit quality

- Asset quality remains sound
- Stressed assets to total committed exposures (TCE) were up 3bps over the year
- Impaired asset provision coverage steady at 46%



Mortgage quality

- Mortgage book fundamentally sound
- 90+ day delinquencies up 5bps over the year
- Australian properties in possession reduced to 396, out of a portfolio of about 1.6 million loans



Divisional performance – cash earnings

Division	FY18 ($m)	% change FY17	% change 2H18 vs 1H18	Comments FY17-FY18
Consumer Bank	3,140	0	(17)	Flat cash earnings (down $15 million) 4 per cent loan growth and lower impairments offset by lower margins, increased provisions for customer refunds and reduced card and ATM fees
Business Bank	2,159	8	flat	Core earnings up 5 per cent with disciplined growth, higher margins (up 5bps), and lower impairment charges
BT Financial Group	645	(12)	(40)	Increased remediation costs and lower margins on funds Partially offset by higher funds and fee income, and sound growth in private wealth
Westpac Institutional Bank	1,086	(6)	(3)	Revenue impacted by lower markets income and fewer large transactions Margins well managed (up 6bps)
Westpac New Zealand ($NZ)	1,017	5	11	Core earnings up 10 per cent, benefiting from two year restructuring program (lower expenses) and a 12bps increase in margins Small impairment charge compared to a benefit in prior year

Dividends

The Westpac Board has determined an unchanged, final, fully franked dividend of 94 cents per share to be paid on 20 December 2018. Total dividends for 2018 were 188 cents per share representing a payout ratio of 80% of cash earnings.

The dividend reinvestment plan (DRP) will continue to operate and there will be no discount to the market price. Shares will be issued to satisfy the DRP.

Outlook

Mr Hartzer said the outlook for the Australian economy remains positive, although there are likely to be economic headwinds in 2019, with GDP growth expected to moderate to around 2.7%. He said consumers are likely to be more cautious in the face of flat wages growth and a soft housing market, while uncertainty ahead of a Federal election and a less favourable international backdrop are likely to weigh on business investment decisions.

"Employment growth is expected to remain solid, with continuing above-trend investment in private and public infrastructure. However, household income growth remains subdued and inflation is low. We expect the Reserve Bank of Australia to keep rates on hold throughout 2019.

"Growth is slowing in Europe and most emerging markets. China will be negatively impacted by the trade war with the US and official policies aimed at slowing growth in the non-bank sector. However, as the Chinese economy tilts towards services, Australian exports of education and tourism will continue to prosper.

"We expect house prices to cool further, and investor demand to remain weak. On the other hand, demand from first home buyers is holding up. These dynamics are likely to lead to housing credit growth easing to 4% next year, with total credit growth of 3.5%.

"With around 70% of Australian customers ahead on their repayments[3] and delinquencies low, credit risks in the housing market currently remain low.

"While we have more work to do, we are dealing decisively with known issues. We have lifted our productivity target for next year to $400 million as we continue to simplify our products, digitise our business, and modernise our platforms.

"At the same time, we are continuing to invest in technology to improve service to customers and make it easier for them to do business with us.

"We are committed to supporting our customers over the long term, and believe our service-led strategy remains the best way to create value for our shareholders," Mr Hartzer said.

To view Mr Hartzer's FY18 results video on Westpac Wire, please visit https://www.westpac.com.au/news/making-news/2018/11/service-strategy-right-for-the-times-hartzer.html

For further information

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[3] Including offset balances