Media Release

7 May 2018

Westpac delivers good quality result

Financial highlights First Half 2018 compared to First Half 2017[1]

- Statutory net profit $4,198 million, up 7%
- Cash earnings $4,251 million, up 6%
- Cash earnings per share, 125 cents, up 4%
- Cash return on equity (ROE) 14.0%, at top end of the 13 – 14% range Westpac is seeking to achieve
- Interim fully franked dividend of 94 cents per share, unchanged
- Common equity Tier 1 capital ratio 10.5%, in line with APRA's unquestionably strong benchmark

Westpac Group CEO, Mr Brian Hartzer, said: "This is a good quality result built on consistent performance and a disciplined approach to growth and returns.

"Over the past 12 months we have continued to make progress on our service-led strategy, including adding over 370,000 new customers and making it easier for customers to manage their money. We have invested over $1.3 billion in delivering new services to customers and upgrading the bank's infrastructure.

"Our businesses continue to perform solidly, with the results for the Consumer and Business banks particularly good. All businesses increased core earnings over the prior half. We are pleased that there were no one-offs, making it a clean result," Mr Hartzer said.

Compared to the prior corresponding period, the Consumer Bank delivered cash earnings growth of 12% and revenue growth of 7%, supported by a 6% growth in mortgages. The Business Bank's 13% increase in cash earnings reflects good growth in the small business segment and a lower impairment charge as credit quality improved. BT Financial Group had a solid performance, with cash earnings increasing 7% due to lower general insurance claims and growth in Private Wealth, funds administration, and insurance premiums. WIB's cash earnings were 12% lower: While the underlying performance was solid, the prior corresponding period had a strong markets performance which was not repeated.

"Including costs associated with the Royal Commission, our operating expenses rose 1% compared to the second half last year, and our cost to income ratio fell to 41.7%.

"Our portfolio of businesses and brands means we are well positioned strategically to support customers' changing financial requirements across our key markets.

"We have introduced a number of new digital initiatives that make it easier for customers to manage their money, including PayWear, our 'wearable' payment cards, access to finances via Amazon's virtual assistant Alexa, and more convenient wealth management through our wealth system Panorama. Meanwhile our investments in companies such as Uno Home Loans, zipMoney, and Assembly Payments, as well as Reinventure's portfolio of fintech startups, position Westpac to benefit from the rapid technology and data-driven changes in our core markets."

[1] Reported on a cash earnings basis unless otherwise stated. For an explanation of cash earnings and reconciliation to reported results refer to Section 1.3 and Section 5, Note 8 of Westpac Group's 2018 Interim Financial Results Announcement.

Royal Commission

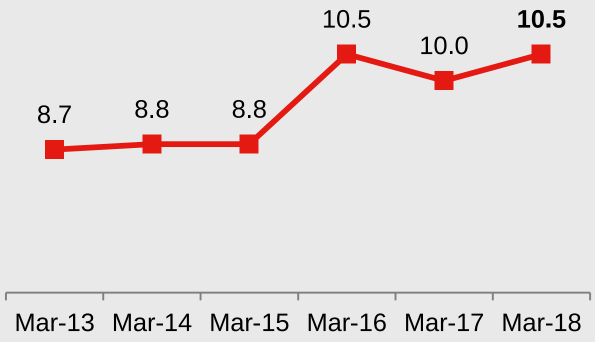
Noting the importance of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, Mr Hartzer said: "We acknowledge the significant customer and community concerns that have been raised by the Royal Commission and recognise that the process provides a critical opportunity to restore customer trust across the sector.

"Westpac is already well advanced in taking steps that will improve customer outcomes. We have been actively seeking out instances where we've got it wrong, and in those cases, putting it right for the customers affected.

"Over the last three years we have reviewed more than 300 products and made over 150 changes to our products, policies, and business practices, including introducing a low rate credit card, removing sales incentives for tellers, and providing an independent advocate for our customers. This work is ongoing and we will continue to make changes to our business based on our reviews and feedback from our customers, our regulators, and the Royal Commission itself."

Strong balance sheet

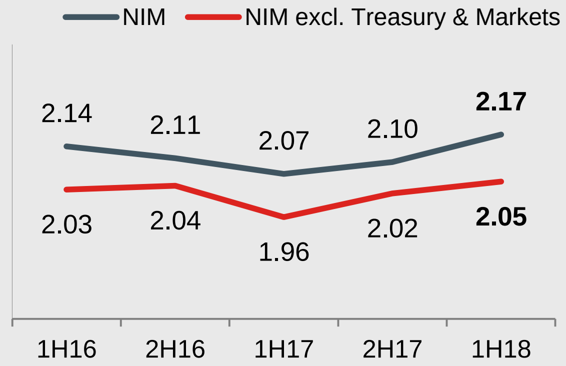
CET1 capital ratio (%)



- 10.5% CET1 capital ratio, in line with APRA's 'unquestionably strong' benchmark
- Liquidity ratios well above regulatory minimums of 100%:
  - Liquidity coverage ratio 134%
  - Net stable funding ratio 112%

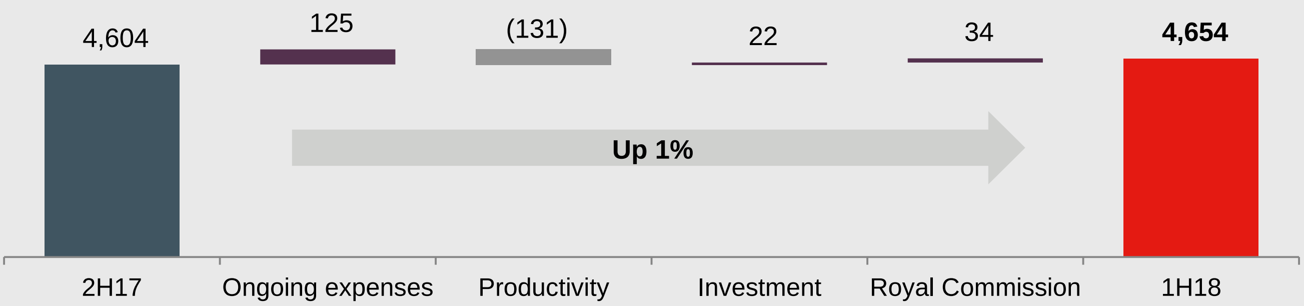
Margins well-managed

Net interest margin (NIM) (%)



- Net interest margin up 7bps from prior period
- A rise in Treasury & Markets income contributed 4bps to NIM, while margins excluding Treasury & Markets increased 3bps

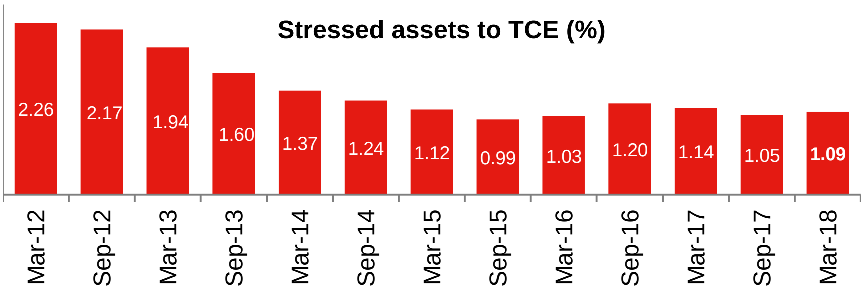
Expenses ($m)



- Operating expenses increased $50 million or 1% in the half, primarily due to the Group's investment program and higher regulatory and compliance spend, including costs associated with the Royal Commission
- An increase in ongoing expenses in the half was more than offset by productivity savings of $131 million

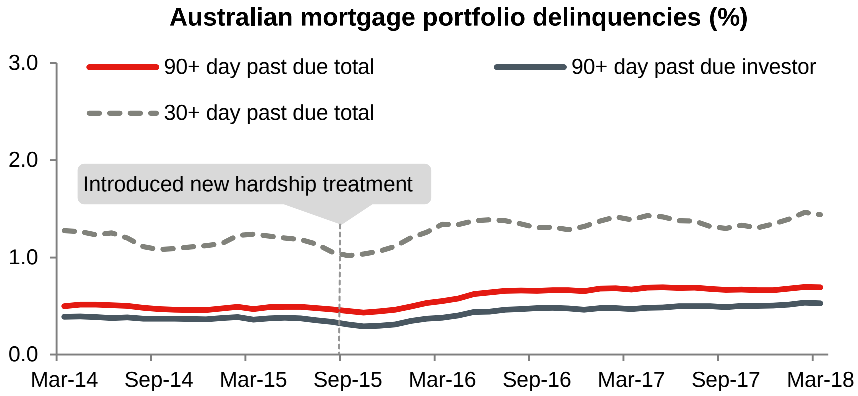
Credit quality

- Asset quality remains sound
- Stressed assets to total committed exposures (TCE) were down 5bps over the year
- Impaired asset provision coverage steady at 46% over the half



Mortgage quality

- Mortgage book fundamentally sound
- Little change to 90+ day delinquencies over the half
- Properties in possession reduced to 398 over the half, out of a portfolio of about 1.6 million loans



Divisional performance – cash earnings

Division	1H18 ($m)	% change 1H17	% change 2H17	Highlights (1H18 – 1H17)
Consumer Bank	1,717	12	6	Good balance sheet growth (loans up 5%, deposits up 5%), disciplined margin management, and reduced impairment charges
Business Bank	1,080	13	3	Core earnings growth of 7% (loans to small and medium enterprises up 5%, 6% rise in deposits) and a 32% decline in impairment charges
BT Financial Group	404	7	13	Cash earnings growth due to higher net interest income from Private Wealth, sound growth in funds administration, offset by lower fund margins. Insurance contribution higher from growth in premiums and lower general insurance claims
Westpac Institutional Bank	551	(12)	4	Lower cash earnings primarily due to strong markets performance in prior corresponding period which was not repeated Net interest income up 3%, loans increased 6%, margins 2bps higher from disciplined loan pricing and changes in deposit mix
Westpac New Zealand ($NZ)	482	4	(5)	Core earnings increased 14%, supported by a rise in net interest margin and improved productivity. Cash earnings growth of 4% impacted by impairments moving from a benefit to a small charge in 1H18

Dividends

The Westpac Group Board has determined an unchanged interim dividend of 94 cents per share to be paid on 4 July 2018.

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

The Federal Government bank levy cost Westpac $186 million pre-tax for the six months. The levy will be paid out of retained earnings and is equivalent to 4 cents per share.

Outlook

Mr Hartzer said the outlook for Australia remains positive with GDP growth expected to be near trend at around 2.7% for the remainder of 2018 and 2019.

“Australia is experiencing solid employment growth and continued business investment, especially in the construction sector. However, household income growth remains lacklustre and inflation is low. The Reserve Bank is likely to keep rates on hold for some time,” Mr Hartzer said.

“Prospects for the US in 2018 are strong. Tax reform and government spending are supplementing a booming jobs market, boosting growth to around 3%. However, rising interest rates and volatile markets are likely to slow the economy in 2019.

“Momentum in Europe is slowing and China is expected to cool somewhat in the second half. For Australia, that will weigh on commodity prices. Nevertheless the growing middle class and the rebalancing of the Chinese economy towards consumption will continue to boost Australian service exports, particularly in tourism and education.”

Mr Hartzer said Westpac’s credit portfolio is fundamentally sound and continues to be well positioned.

“While the housing market is expected to continue to cool, this dynamic means that opportunities are opening up for first home buyers, who are beginning to step up in place of investors. With solid underlying demand relative to supply, and almost 70% of our customers ahead on their repayments, the Australian housing market is in good shape.

“Westpac’s customer franchise continues to grow; we are making banking easier and more efficient, and the strength of our brands and quality of our people means we are well positioned to support growth across regions and industries. While there is much still to do, we remain committed to consistently increasing the value that we deliver to our customers and shareholders over the long term.”

For further information

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