Westpac GROUP

MEDIA RELEASE

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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[1]:

- Cash earnings per share of 121.3 cents, up 7%
- Cash earnings of $3,772 million, up 8%
- Core earnings[2] of $5,794 million, up 5%
- Cash return on equity (ROE) of 16.5%, up 43 basis points
- 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%
- 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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[1] *All comparisons are against the prior corresponding period (six months to 31 March 2013) and reported on a cash earnings basis unless otherwise stated.*
[2] *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[3]. 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.

- Being named the World's Most Sustainable Company by the Global 100 at the Davos World Economic Forum in January 2014.

[3] *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.
- 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[4]

Cash earnings ($million)	1H14	2H13	1H13	% increase 2H13-1H14	% increase 1H13-1H14
Australian Financial Services	2,461	2,324	2,196	6	12
Westpac Retail & Business Banking	1,251	1,213	1,142	3	10
St.George Banking Group	772	701	691	10	12
BT Financial Group	438	410	363	7	21
Westpac Institutional Bank	752	790	785	(5)	(4)
New Zealand (NZ$)	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[5].

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.

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[4] All comparisons in the commentary are to the prior corresponding period unless otherwise stated.

[5] *Source: Plan for Life Quarterly Data System (December 2013).*

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

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