INTERIM FINANCIAL RESULTS 2016

Fixed Income Investor Presentation

Westpac GROUP

EST. 1817

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Contents

Westpac overview

Financials at 31 March 2016	• First half cash earnings[1] of $3.9bn • Net profit before impairment charges and income tax expense (pre-provision profit, cash basis) $6.2bn • Return on average ordinary equity (cash basis) 14.2% • Cost to income ratio (cash basis) 41.6%
Balance sheet at 31 March 2016	• CET1 capital ratio 10.5% APRA Basel III basis • CET1 capital ratio 14.7% Basel III internationally comparable[2] basis • Stable funding ratio[3] 83% • LCR 127% • Gross impaired assets to gross loans 39bps • Australian mortgage +90 days delinquencies 55bps
Franchise at 31 March 2016	• Australia's 2nd largest bank, and 13th largest bank in the world, ranked by market capitalisation[4] • Number 1 or Number 2 market share in key customer segments in Australia and New Zealand • 13.2m customers • Total assets $832bn
Ratings at 15 July 2016	• AA- / Stable / F1+ (Fitch) • Aa2 / Stable / P-1 (Moody's) • AA- / Negative / A-1+ (Standard and Poor's)

1 Cash earnings is a non-GAAP measure. Refer to Appendix 1 and Appendix 2 for a reconciliation of reported net profit to cash earnings. 2 The basis of the internationally comparable CET1 capital ratio aligns with the APRA study titled "International capital comparison study", dated 13 July 2015. For more details on adjustments made refer Appendix 4. 3 Stable Funding Ratio is calculated on the basis of customer deposits plus wholesale funding with residual maturity greater than 12 months plus equity plus securitisation, as a proportion of total funding. 4 As at 31 March 2016. Source: IRESS, CapitalIQ and www.xe.com based in US Dollars.

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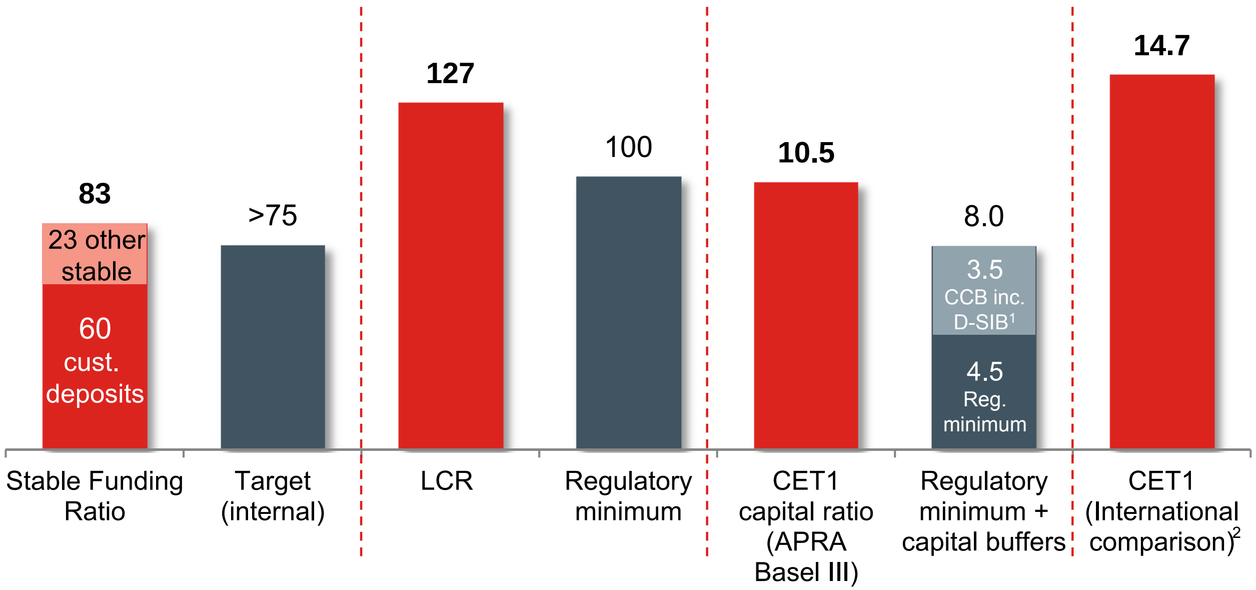
A resilient balance sheet

Westpac key balance sheet ratios at 31 March 2016 (%)



83% Stable Funding Ratio

- Stable funding includes
  - Customer deposits 60%
  - Equity 8%
  - Securitisation and wholesale funding >1 year 15%
- Short term funding 17% - more than halved since 2008

127% LCR

- Comfortably above 100% regulatory minimum
- Fully compliant since 1 January 2015

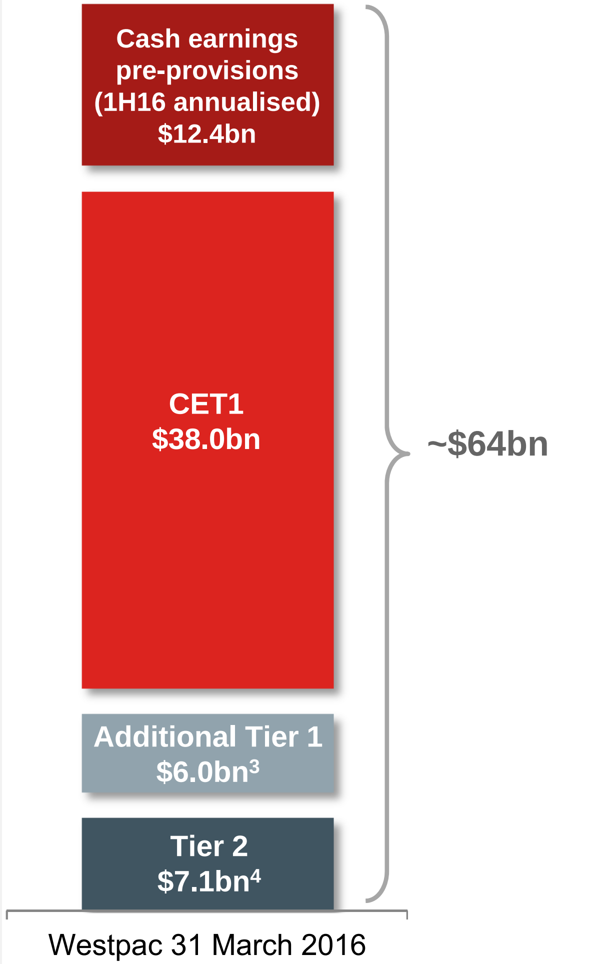
10.5% CET1 capital ratio (APRA Basel III basis)

- Materially higher - $6.0 billion in CET1 capital raised in calendar 2015

14.7% CET1 capital ratio

- Internationally comparable[2] basis
- Places Westpac comfortably within the top quartile of banks globally

Capital resources at 31 March 2016



1 CCB is Capital Conservation buffer. D-SIB is Domestic systemically important bank. 2 Analysis aligns with the APRA study entitled, 'International Capital Comparison Study' released 13 July 2015. 3 Additional Tier 1 includes $4.0bn of Basel III complying instruments. 4 Tier 2 includes $3.7bn of Basel III complying instruments.

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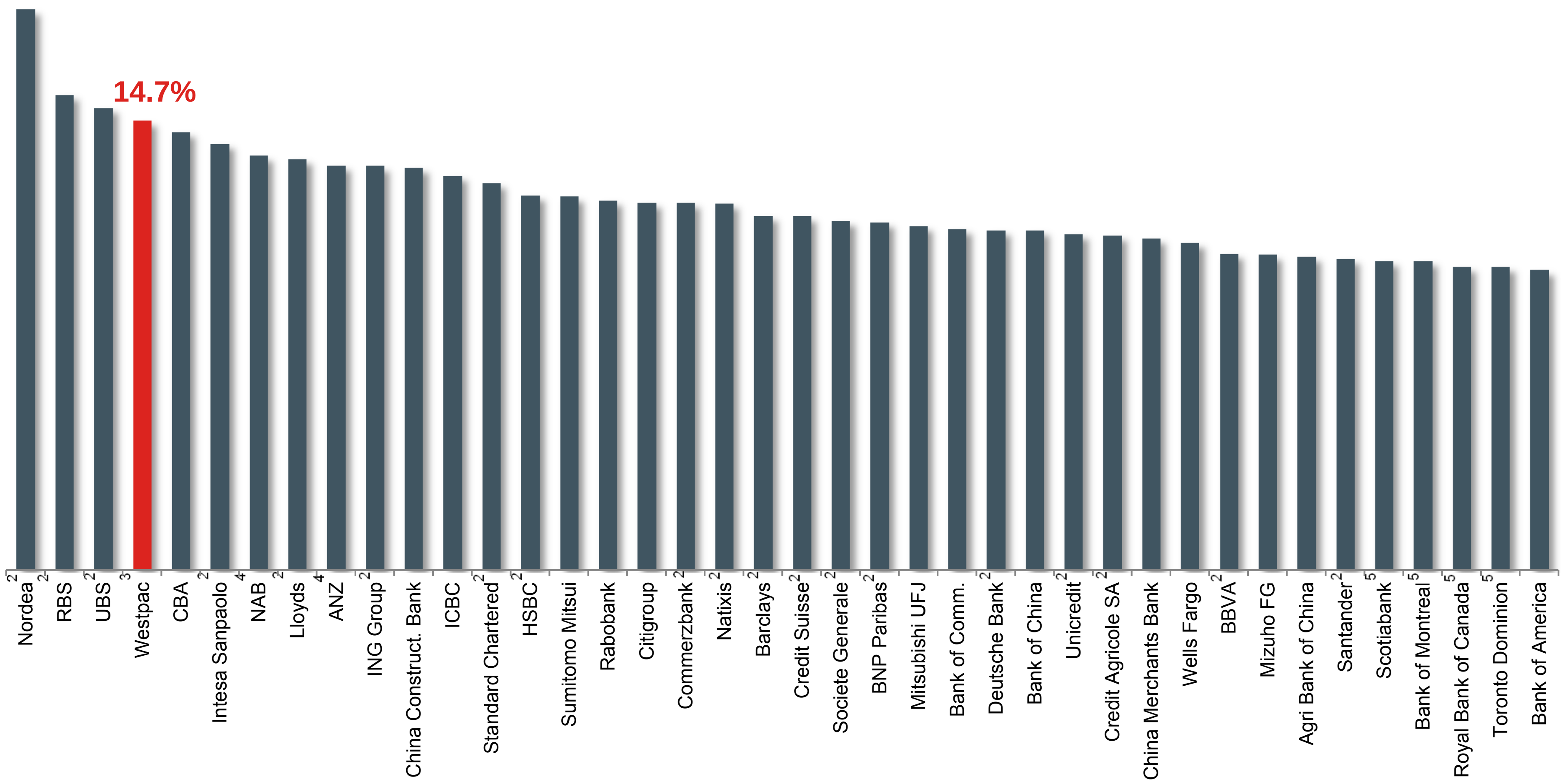
Basel III CET1 capital ratios global comparison[1]



Peer group comprises listed commercial banks with total assets in excess of A$700 billion and which have disclosed fully implemented Basel III ratios or provided sufficient disclosure for an estimate. Based on company reports and investor presentations.

1 Based on CET1 capital ratios as at 31 December 2015 unless otherwise stated, assuming Basel III capital reforms fully implemented. 2 Deduction for accrued expected future dividends added back for comparability. 3 As at 31 March 2016. 4 As at 30 September 2015. 5 As at 31 Jan 2016.

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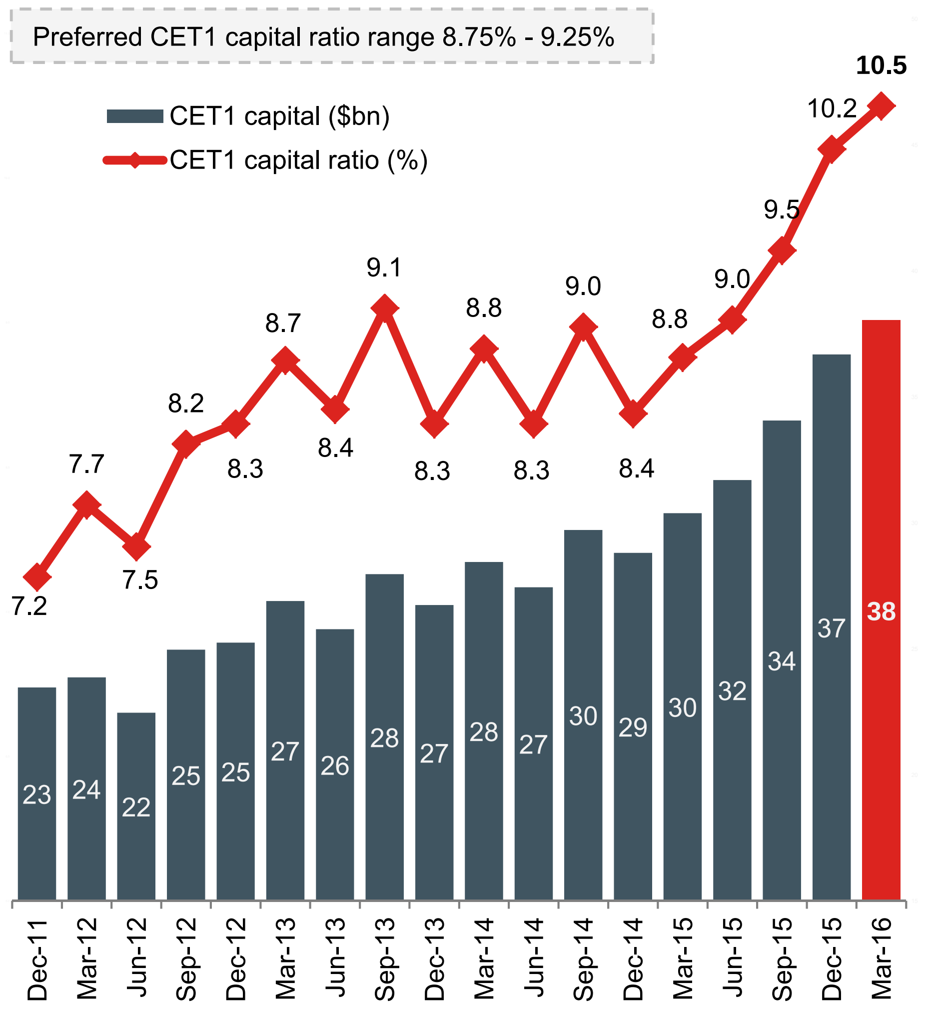
Capital ratios materially strengthened

CET1 capital ratio (%) and CET1 capital ($bn) (APRA basis)



Key capital ratios (%)	Mar-15	Sep-15	Mar-16
Common equity Tier 1 (CET1) capital ratio	8.8	9.5	**10.5**
Additional Tier 1 capital	1.5	1.9	**1.6**
Tier 1 capital ratio	10.3	11.4	**12.1**
Tier 2 capital	1.8	1.9	**1.9**
Total regulatory capital ratio	12.1	13.3	**14.0**
Internationally comparable CET1 capital ratio[1]	12.2	13.2	**14.7**
Risk weighted assets (RWA) ($bn)	347	359	**363**
Leverage ratio (APRA)	n/a	4.8	**5.0**
Leverage ratio (internationally comparable)	n/a	5.5	**5.6**

Changes to current regulatory capital ratios

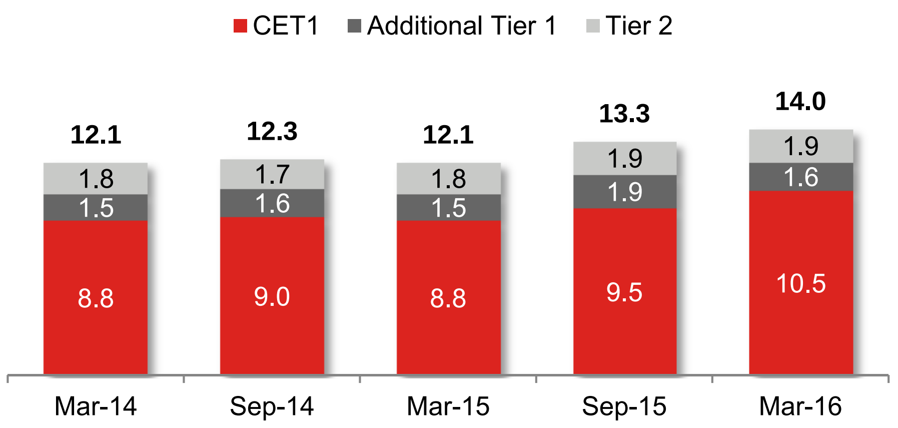
The adjacent chart sets out Westpac's reported CET1 capital ratios (at Level 2). Subsequent to 31 March 2016 a number of factors will impact Westpac's reported capital ratios in future periods including:

- A change in the way APRA calculates risk weighted assets for Australian residential mortgages, including new models for assessing mortgages in hardship
- The payment of Westpac's 2016 interim dividend (reducing the CET1 capital ratio by approximately 0.8%)
- Westpac's earnings since 31 March 2016
- Various other impacts (e.g. IRRBB, movements in foreign exchange rates)

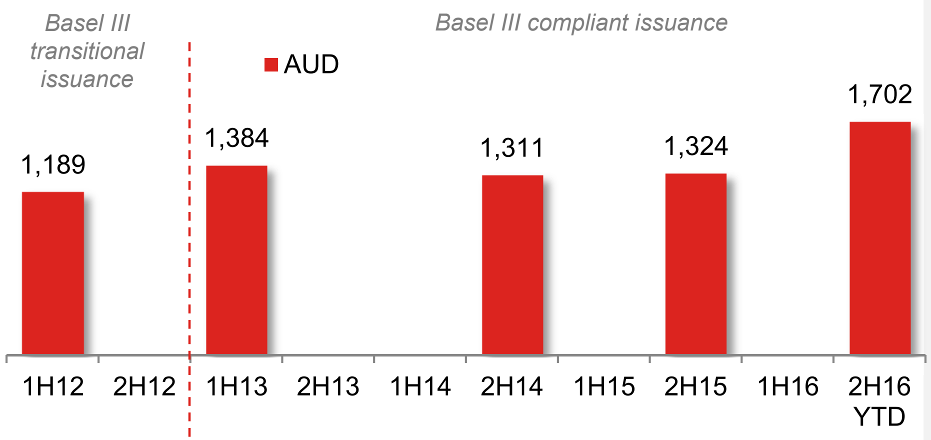
1 The internationally comparable CET1 capital ratio aligns with the APRA study titled "International capital comparison study", of 13 July 2015. For more details on adjustments refer to Appendix 4. 2 Source: Citi Research 3 March 2015. Based on Citi coverage stocks. Canadian bank IRB average includes guaranteed mortgages (largest portion of portfolio) at an estimated 0% risk weight.

Additional Tier 1 and Tier 2 capital

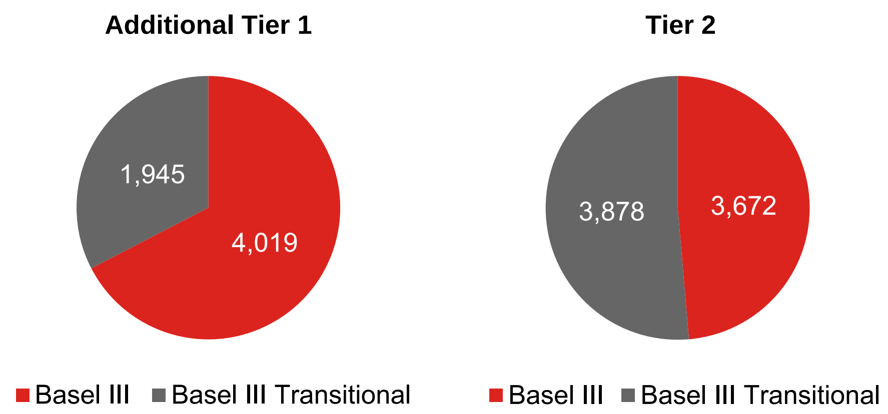
Westpac Total Regulatory Capital (%)



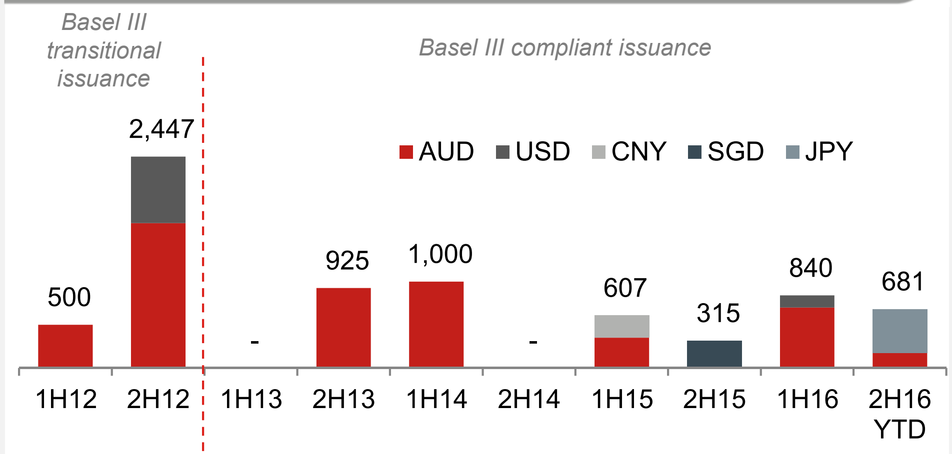
Westpac Additional Tier 1 issuance (issuance amount A$m) 1 October 2011 to 30 June 2016



Westpac Additional Tier 1 and Tier 2 as at 31 March 2016 (A$m)



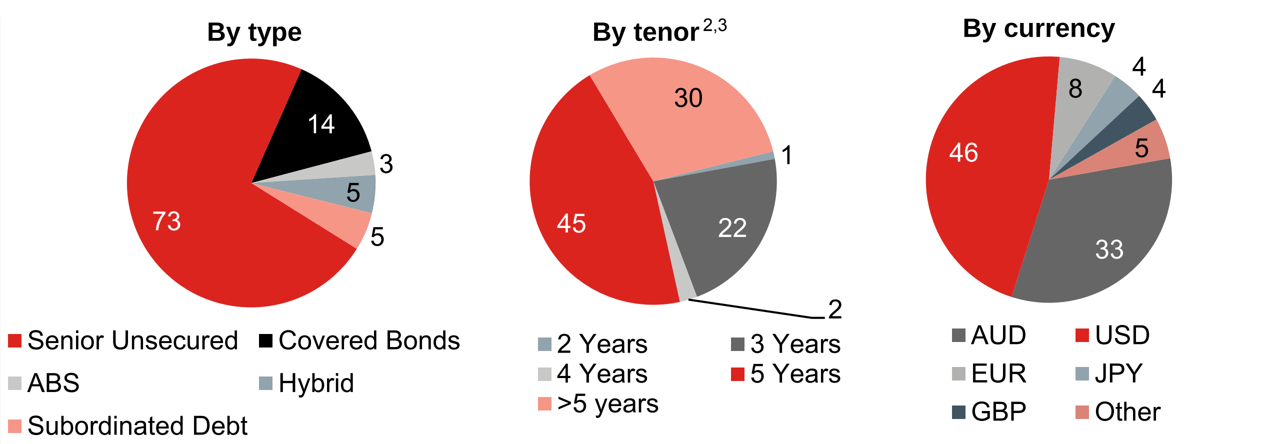
Westpac Tier 2 issuance[1] since 2012 (issuance amount A$m) 1 October 2011 to 30 June 2016



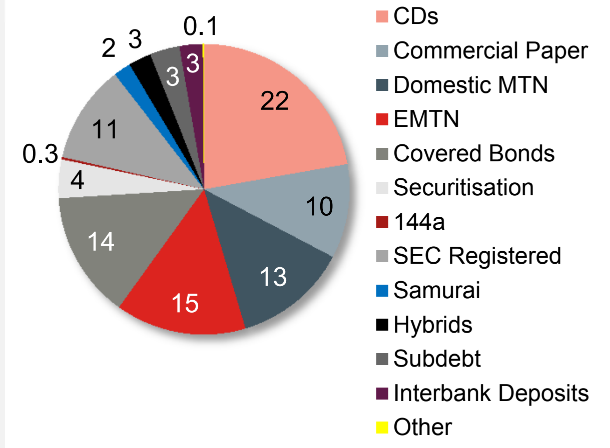
1 Represents A$ equivalent notional amount using spot FX translation at time of issuance.

Target a diversified funding base

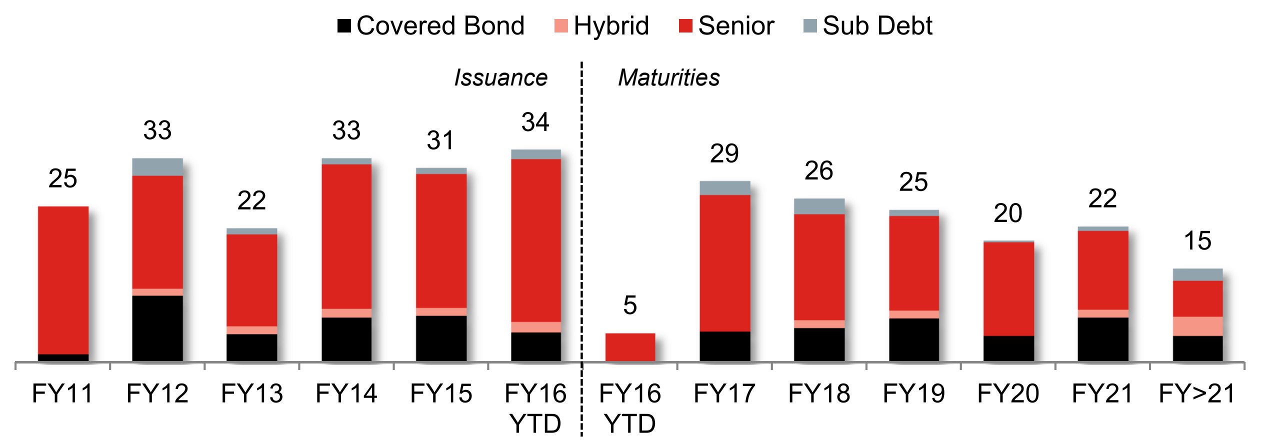
FY16 YTD new term issuance composition[1] as at 30 June 2016 (%)



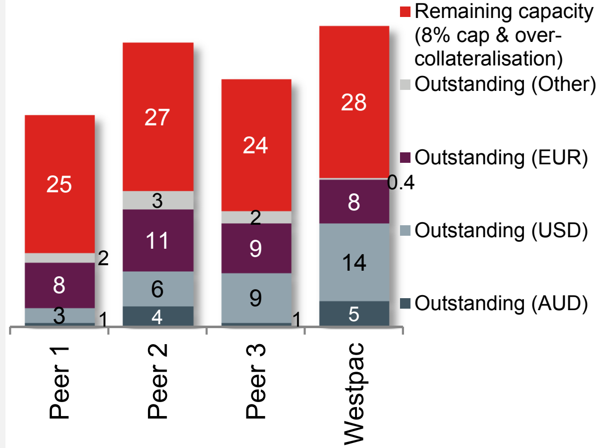
Wholesale funding composition[6] as at 31 March 2016 (%)



Term debt issuance and maturity profile[2,4,5] as at 30 June 2016 ($bn)



Australian covered bond issuance ($bn)[7]



1 Based on residual maturity and FX rates at time of transaction. Includes all debt issuance with contractual maturity greater than 370 days excluding US Commercial Paper and Yankee Certificates of Deposit.
2 Contractual maturity date for hybrids and callable subordinated instruments is the first scheduled conversion date or call date for the purposes of this disclosure. 3 Tenor excludes RMBS and ABS. 4 Based on residual maturity and FX spot currency translation. 5 Perpetual sub-debt has been included in >FY21 maturity bucket. Maturities exclude securitisation amortisation. 6 Shown by product. At FX spot currency translation. 7 Sources: Westpac, APRA Banking Statistics May 2016.

Regulatory change agenda to continue

Regulation		2016	2017	Post 2017
Net Stable Funding ratio (NSFR)	• Ensures that banks hold a minimum amount of stable funding based, based on a one-year horizon	APRA consultation APRA Consultation released Mar 2016 Draft prudential standard expected 2H16		**NSFR commences 1 Jan 2018**
Basel IV	• Advanced models for credit risk • Revised standardised credit risk • Advanced RWA floors based on standardised approach • Review of sovereign, bank and large corporate exposures • Fundamental review of trading book • Counterparty credit risk changes • Operational risk to standardised approach	Basel consultation Basel consultation releases: - Credit risk, Standardised approach (Dec 2015) - Operational risk (Mar 2016) - Credit risk, Internal models (Mar 2016) Basel finalised requirements: - Market risk (Jan 2016) - IRRBB risk (Apr 2016)	APRA consultation	**APRA implementation from 2018**
Leverage ratio	• Non-risk based ratio to act as a backstop to risk based capital requirements.	Basel consultation Basel consultation released Apr 2016		**Basel:** **Leverage commences 1 Jan 2018** *(Minimum 3% of Leverage)*
Total Loss Absorbing Capacity (TLAC)	• TLAC seeks to boost loss absorbing capital for systemically important banks • TLAC ratios would be both risk-based (% of RWA) and non-risk based (leverage)		APRA consultation (expected)	**FSB:** **1 Jan 2019** *(6% leverage & 16% of RWA)* **1 Jan 2022** *(6.75% leverage & 18% of RWA)*

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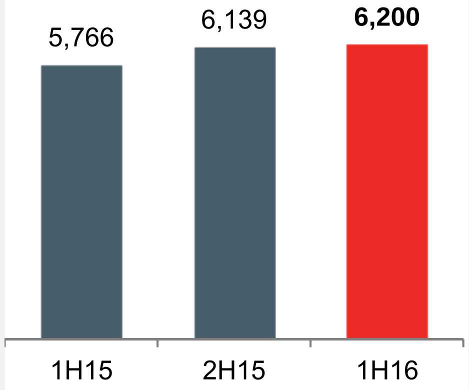
First Half 2016 Financial results

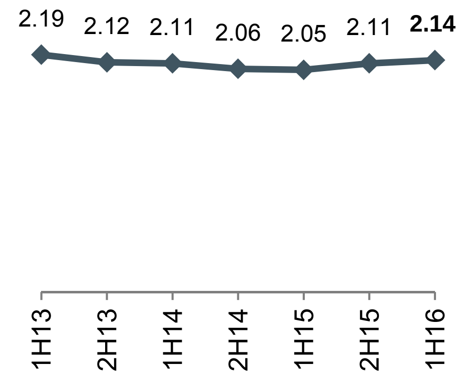
1H16 Cash Earnings[1] Results	1H16	% Change 1H16 – 1H15
Financial results (A$m)		
Net operating income	**10,619**	*6*
Expenses	**(4,419)**	*4*
Core earnings	**6,200**	*8*
Impairment charges	**(667)**	*96*
Cash earnings[1]	**3,904**	*3*
Reported net profit after tax	**3,701**	*3*
Financial metrics		
Return on average ordinary equity	**14.2%**	*(166bps)*
Earnings per share	**118.2c**	*(2)*
Net interest margin	**2.14%**	*9bps*
Expense to income ratio	**41.6%**	*(85bps)*
Impairment charges to avg. loans ann.	**21bps**	*10bps*
Balance sheet and asset quality		
Net loans	**$641bn**	*6*
Total committed exposure (TCE)	**$956bn**	*5*
Customer deposits	**$442bn**	*5*
Impaired loans to total gross loans	**39bps**	*4bps*

Core earnings ($m)

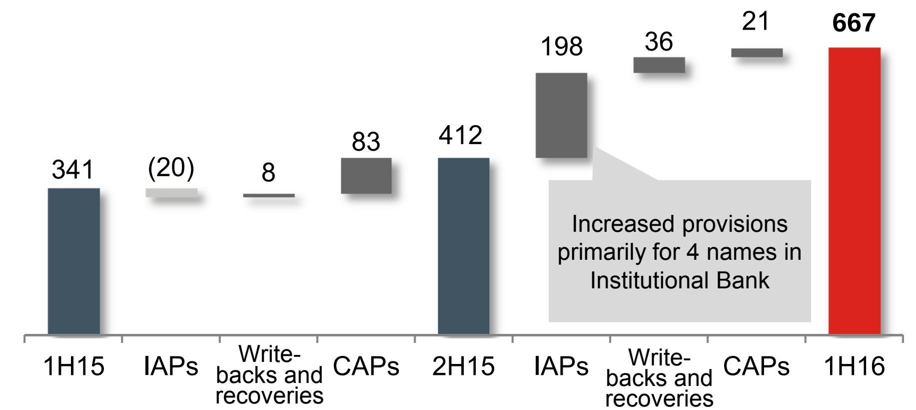
(Net profit before impairment charges and income tax expense)



Net interest margin[2] (%)



Movement in impairment charges ($m)



1 Cash earnings is a non-GAAP measure. Refer to Appendix 1 and Appendix 2 for a reconciliation of reported net profit to cash earnings. 2 Prior periods have not been restated for accounting changes.

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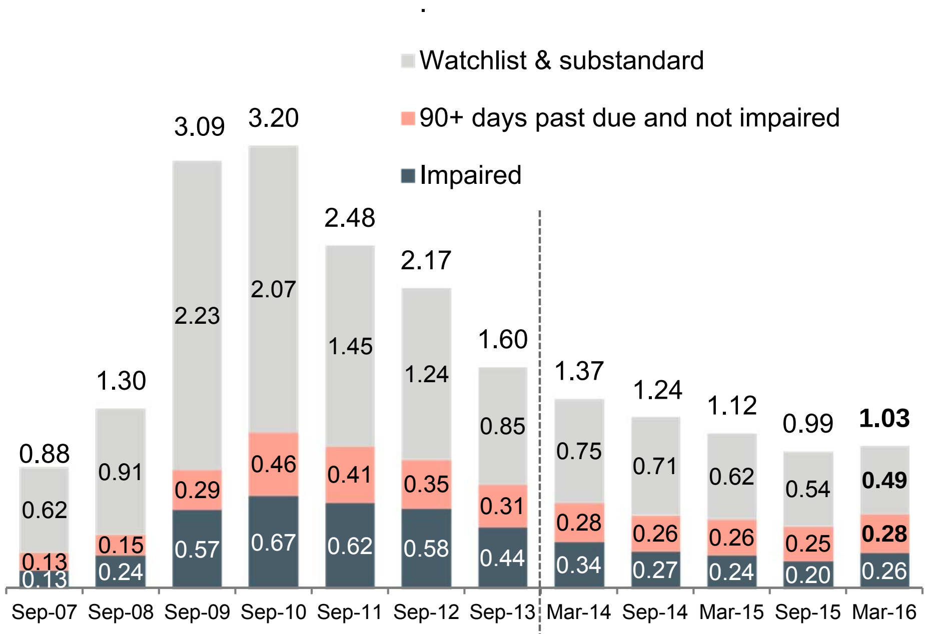
Asset quality remains sound

Stressed exposures as a % of TCE (%)



Provisions	Mar-15	Sep-15	Mar-16
Total provisions to gross loans (bps)	58	53	**57**
Impaired asset provisions to impaired assets (%)	48	46	**48**
Collectively assessed provisions to credit RWA (bps)	89	86	**87**
Economic overlay ($m)	387	388	**393**

Areas of interest

Mining (inc. Oil and Gas) portfolio	Sep-15	Mar-16
TCE	$14.4bn	**$11.8bn**
% of Group TCE	1.54%	**1.23%**
% of portfolio graded as 'stressed'[1]	1.86%	**3.03%**
% of portfolio in impaired	0.28%	**1.26%**

Commercial property portfolio	Sep-15	Mar-16
TCE	$65.6bn	**$67.5bn**
% of Group TCE	7.00%	**7.06%**
% of portfolio graded as 'stressed'[1]	1.48%	**1.34%**
% of portfolio in impaired	0.64%	**0.54%**

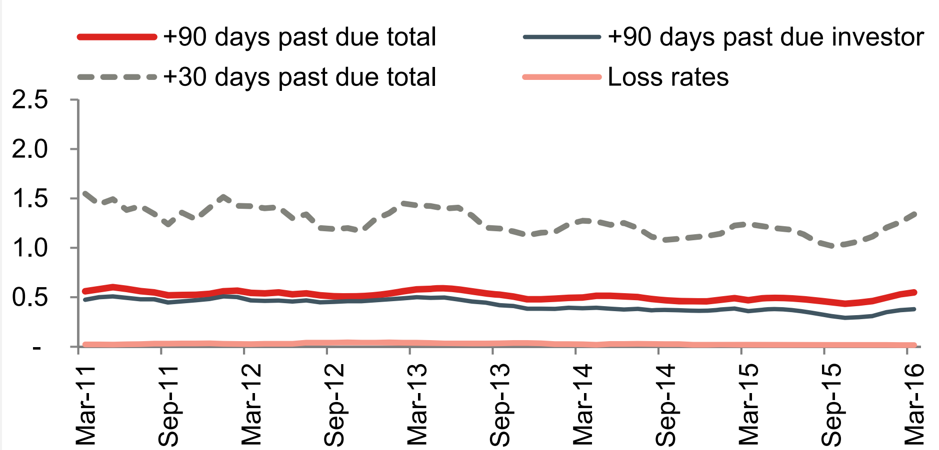
NZ agribusiness portfolio	Sep-15	Mar-16
TCE	NZ$7.8bn	**NZ$8.1bn**
Agriculture as a % of NZ TCE	7.9%	**7.9%**
% of portfolio graded as 'stressed'[1]	3.92%	**7.81%**
% of portfolio in impaired	0.34%	**0.32%**

1 Includes impaired exposures.

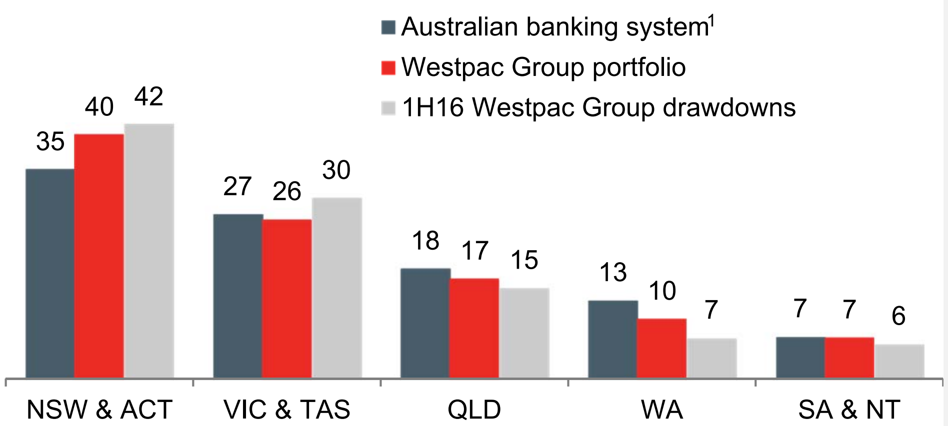
Australian mortgage delinquencies remain low

Australian mortgage portfolio	1H15	2H15	1H16
+30 days delinquencies (bps)	124	102	**134**
+90 days delinquencies (bps) *(includes impaired mortgages)*	47	45	**55**
estimated impact of changes to hardship reporting (bps)			*4-5*
+90 days delinquencies – investment property loans (bps)	36	31	**38**
Properties in possession (#)	263	255	**253**

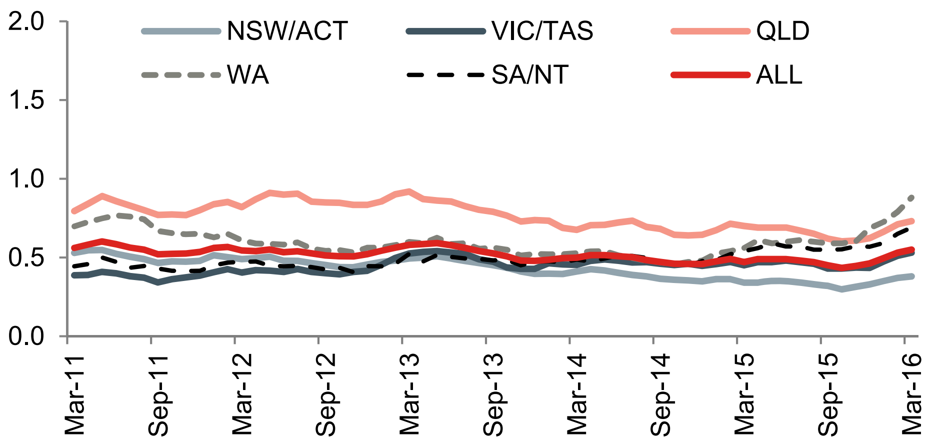
Australian mortgages delinquencies (%)



Westpac Australian housing portfolio and system share by State (%)



Australian mortgages +90 days delinquencies by state (%)



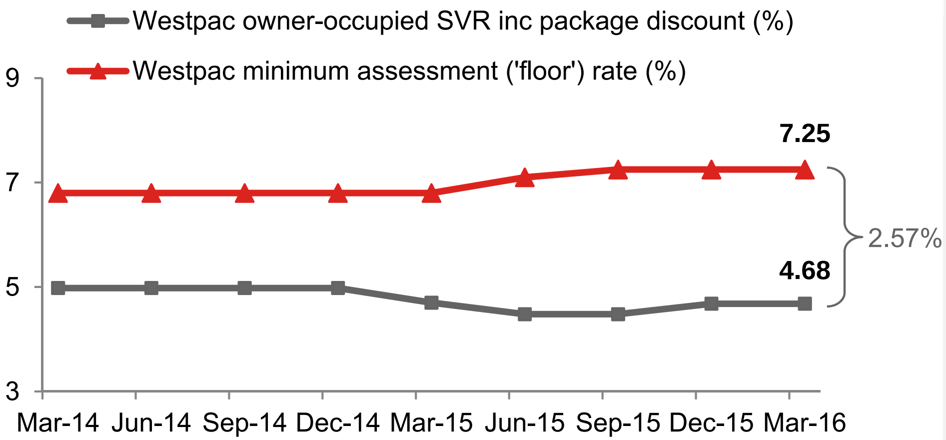
1 Source ABA Cannex February 2016.

Australian mortgage lending standards on a tightening bias

Notable changes to Westpac mortgage lending (12 months to 30 April 2016)

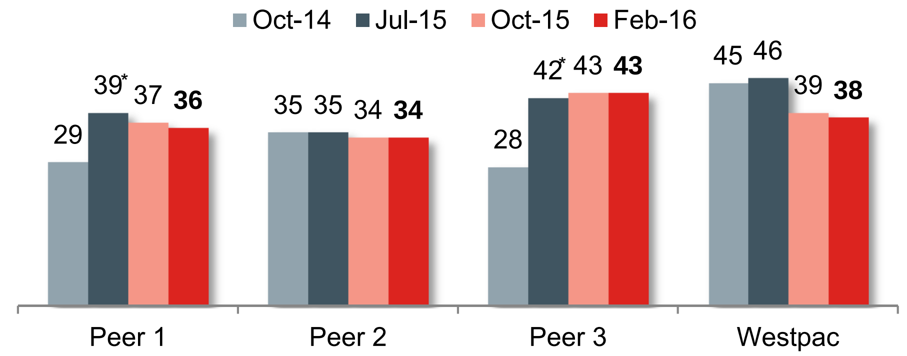
Serviceability	• Minimum floor rate 7.25% • Buffer rate at least 2.25% • Tightened policy on assessment of living expenses and income verification • Discounting of rental income, annuity and pension income increased for certain loans
Investment property lending	• Growth below 10% p.a., in line with APRA industry benchmark • Maximum LVR for stand alone residential investment property loans
Pricing	• Variable interest rates on residential investment property loans increased by 0.27% (Westpac brand) and 0.25% (St.George, Bank of Melbourne, BankSA brands) • Fixed rates on residential investment property loans increased by up to 0.30%
Mortgage insurance	• Mortgage insurance for new originations >90% LVR moved to Arch Capital from Genworth Australia and QBE LMI
Non-resident lending	• Non-resident customers no longer qualify for mortgage loans (limited exceptions for Premium and Private Bank customers) • For Australian and NZ citizens and permanent visa holders using foreign income, tightened verification processes and LVR restricted to 70% maximum

Increase in mortgage interest rate buffers (%)



Investor / Owner Occupied portfolio mix changing

Investor share of housing portfolio[1] (%)



*Increase reflects reclassification of previously reported data for reporting purposes

1 Source: Westpac, APRA Monthly Banking Statistics. Definition of investor lending per Monthly Banking Statistics excludes non-resident and SMSF.

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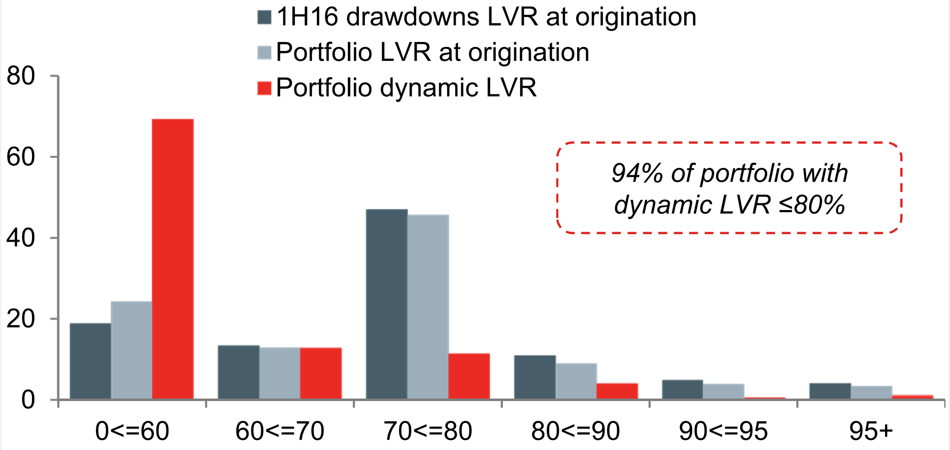
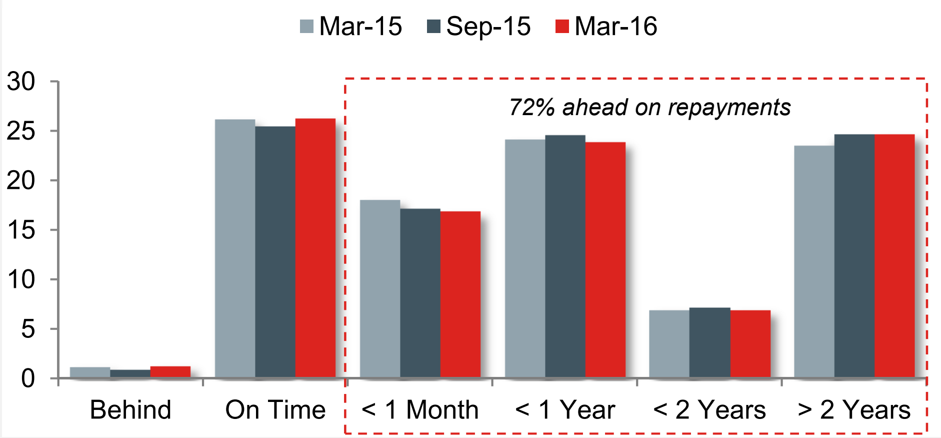
High levels of borrower equity support Australian mortgage portfolio

Australian housing portfolio	1H15 balance	2H15 balance	1H16 balance	1H16 flow[1]
Total portfolio ($bn)	362.8	375.8	**390.8**	**42.1**
Owner occupied (%)	46.6	48.9	**54.3**	**62.9**
Investment property loans (%)	46.3	44.5	**39.5**	**34.6**
Portfolio loan/line of credit (%)	7.1	6.6	**6.2**	**2.5**
Variable rate / Fixed rate (%)	78 / 22	80 / 20	**83 / 17**	**87 / 13**
Low Doc (%)	3.4	3.0	**2.7**	**0.4**
Proprietary channel (%)	59.8	59.1	**58.2**	**50.8**
First Home Buyer (%)	9.7	9.2	**8.9**	**7.6**
Mortgage insured (%)	20.3	19.4	**18.8**	**13.7**
	1H15	**2H15**	**1H16**	
Average LVR at origination[2] (%)	70	70	**70**	
Average dynamic[2,3] LVR (%)	43	43	**43**	
Average LVR of new loans[2,4] (%)	71	71	**70**	
Average loan size ($'000)	235	242	**249**	
Customers ahead on repayments, including offset accounts[2,5] (%)	73	74	**72**	
Actual mortgage losses (net of insurance)[6] ($m)	38	32	**35**	
Actual mortgage loss rate annualised (bps)	2	2	**2**	

Australian housing loan-to-value ratios (LVRs)[2,3] (%)



Australian home loan customers ahead on repayments[2,5] (%)



1 Flow is all new mortgage originations settled during the 6 month period ended 31 March 2016 and includes RAMS. 2 Excludes RAMS. 3 Dynamic LVR represents the loan-to-value ratio taking into account the current outstanding loan balance, changes in security value and other loan adjustments. Property valuation source Australian Property Monitors. 4 Average LVR of new loans is based on rolling 6 month window. 5 Customer loans ahead on payments exclude equity/line of credit products as there are no scheduled principal payments. Includes mortgage offset account balances. 'Behind' is more than 30 days past due. 'On time' includes up to 30 days past due. 6 Mortgage insurance claims 1H16 $4m (2H15 $3, 1H15 $1m).

Economics

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Snapshot

More than mining, the Australian economy is diverse and flexible

Australian economy key statistics (latest available)

3.1% GDP
Australian economy has surprised to the upside, with growth near trend, benefitting from low rates and a low dollar

5.8% unemployment
Employment grew by a solid 1.9% over the past year, supported by demand for labour in the services sector

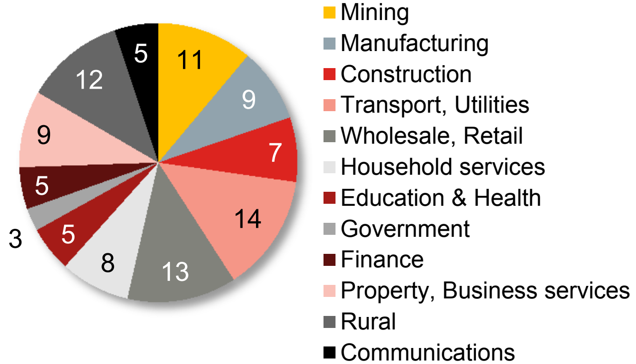
1.3% inflation
Below the RBA's 2% to 3% target range

1.75% cash rate
The RBA lowered the cash rate by 25bps in May. Risks to current forecasts remain to the downside given the importance of the inflation outlook to future moves

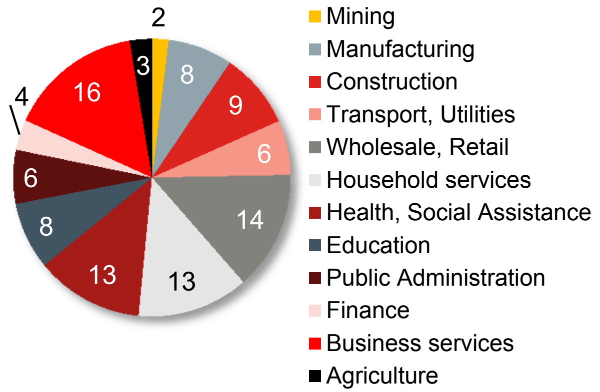
US$0.76 = AU$1
The Australian dollar is now back to average levels. Despite rebounding recently, the lower AUD is supporting services sectors and helping to cushion the fall in commodity prices. Westpac Economics expect the AUD to move lower in 2016, to USD 71¢

Australia's economy is diversified and flexible

Sector contribution to GDP (%)[1]

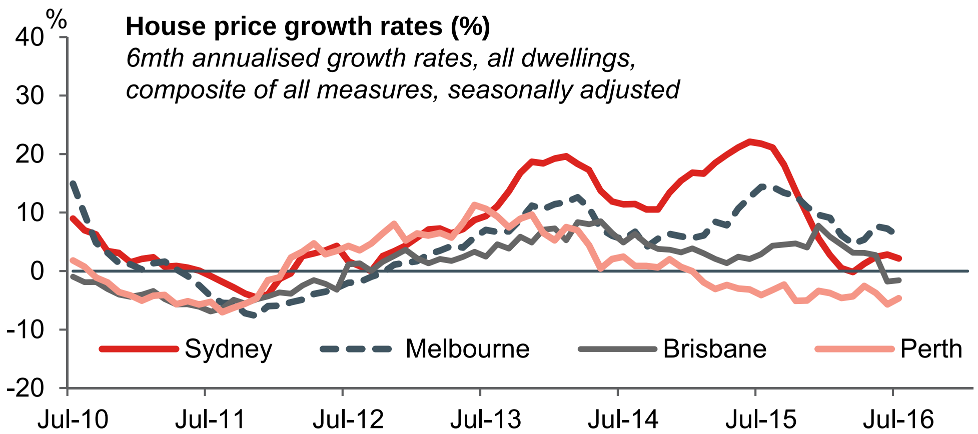


Australian employment by sector 2015 (%)



Sources: ABS, Westpac Economics. 1 Excludes ownership of dwellings and taxes less subsidies.

Australian housing sector beginning to cool



House price growth in Sydney and Melbourne has cooled as regulatory constraints on investor lending, tighter lending standards and mortgage rate increases in 2015 impact the market

Sources: ABS, CoreLogic RP Data, APM, Residex, Westpac Economics.

Australian and New Zealand economic forecasts

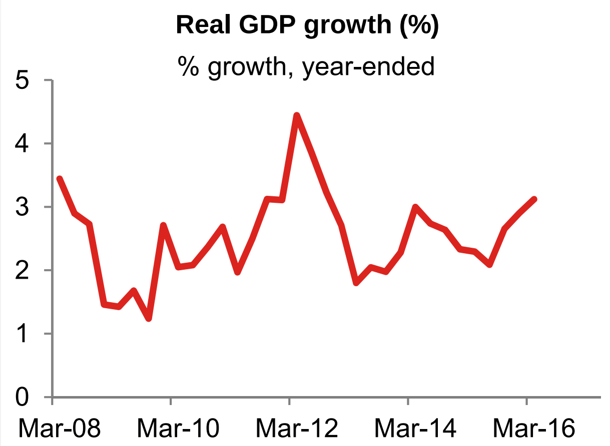
Key economic indicators[1] (%) as at July 2016		Calendar year			
		2014	2015	2016f	2017f
World	**GDP**	**3.4**	**3.1**	**3.2**	**3.4**
Australia	**GDP**	**2.7**	**2.5**	**3.0**	**3.0**
	Private consumption	2.8	2.8	3.0	3.2
	Business investment[2,3]	-4.2	-9.3	-11.0	-4.5
	Unemployment – end period	6.2	5.8	5.6	5.5
	CPI headline – year end	1.7	1.7	2.0	1.5
	Interest rates – cash rate	2.50	2.00	1.50	1.50
	Credit growth, Total – year end	5.8	6.6	5.8	5.5
	Credit growth, Housing – year end	7.0	7.4	6.4	5.6
	Credit growth, Business – year end	4.7	6.4	6.0	6.0
New Zealand	**GDP**	**3.7**	**2.5**	**2.9**	**2.7**
	Unemployment – end period	5.8	5.4	5.7	5.0
	Consumer prices	0.8	0.1	1.3	2.1
	Interest rates – official cash rate	3.5	2.5	2.0	2.0
	Credit growth – Total	4.6	6.2	7.5	7.0
	Credit growth – Housing	5.1	6.0	8.5	8.8
	Credit growth – Business	3.7	6.7	6.6	4.9

1 Source: Westpac Economics. 2 GDP and component forecasts updated following the release of quarterly national accounts. 3 Business investment adjusted to exclude the effect of private sector purchases of public assets.

Australian economy adjusting well

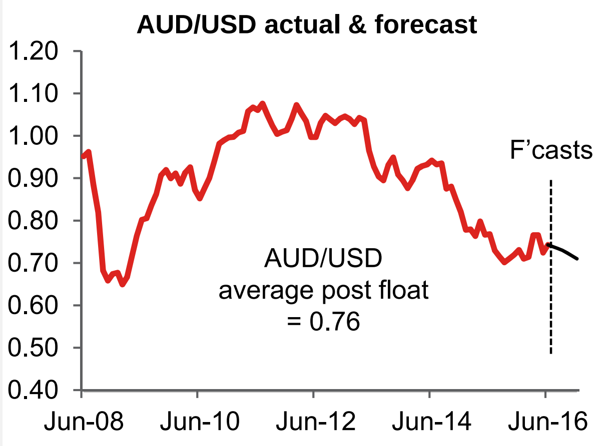
- Australian economy adjusting well to significant changes
  - The terms of trade peaked in September 2011 and has since fallen by 36%
  - Commodity prices, in USD terms, have fallen around 60% over this period
  - Chinese demand has slowed
- Australian economy has continued to grow
- Lower AUD and low interest rates key to rebalancing
- Service sectors creating the bulk of new jobs

Economy continues to grow



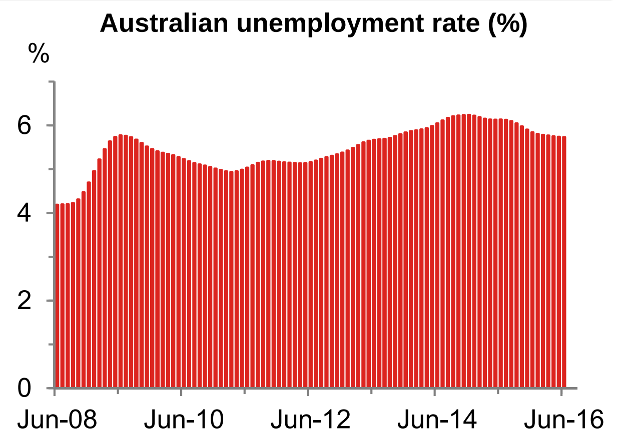
Sources: OECD, Westpac Economics.

AUD close to post float average



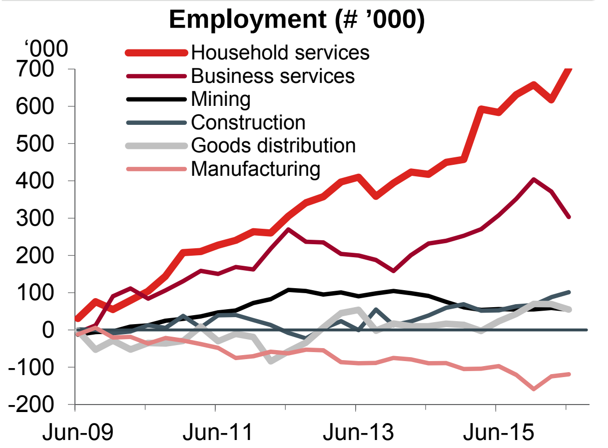
Sources: RBA, Westpac Economics.

Unemployment trending lower



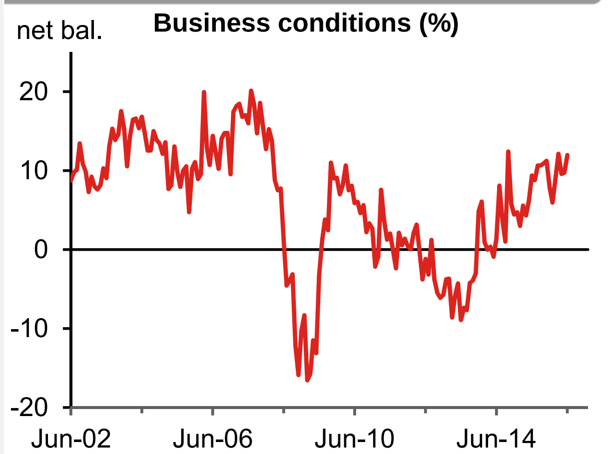
Sources: OECD, Westpac Economics.

Lower AUD boosting service sectors



Source: ABS, Westpac Economics

Business conditions strengthened

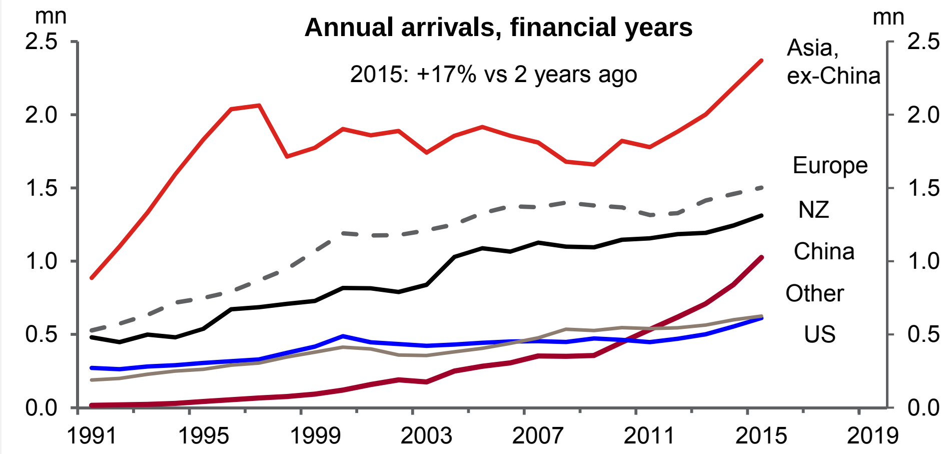


Sources: NAB, RBA, Westpac Economics

Lower AUD sees non-mining sectors pick up

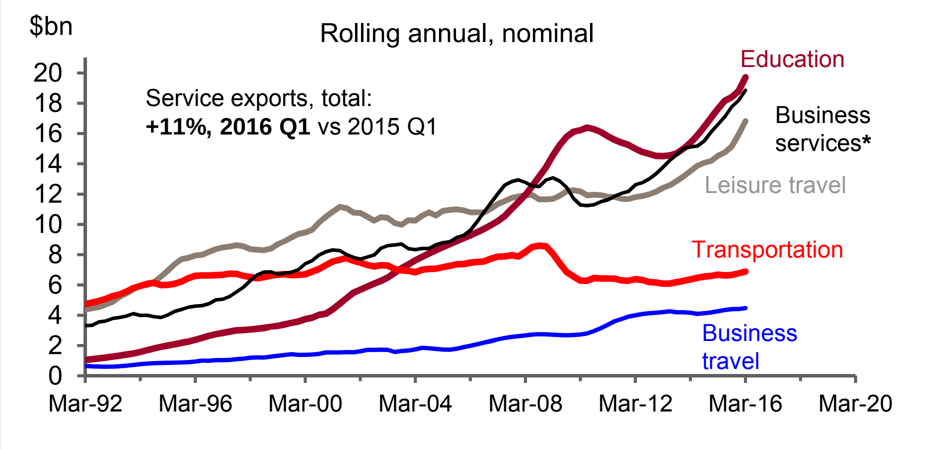
Education Australia's 4th largest export	• $119bn education sector, of which 6.1% are international students[1] • International student enrolments up 20.4% in 2015 on 2012[2] • International students brought $19bn to Australia in the year to September 2015[3] • Lower AUD, more accommodative visa policies and continuing positive performance on university league tables
Tourism Australia's 5th largest export	• Inbound arrivals up 17% over the last 2 years • Outbound growth has slowed to 3% from 9% average over previous 5 years • Added 42,000 jobs over the last 3 years (+7.7%) after holding flat for the previous 5 years
Business services Approx. 1/3rd of Australia's service exports	• Increased competitiveness sees Australian expertise in demand offshore, with business services exports – legal, financial, communications and other professionals – up 34% in the last 3 years
Agriculture 15.5% of Australia's merchandise exports	• Improved export competitiveness and more attractive to foreign investment • Outlook for beef, lamb, wheat and dairy positive • Wine, an important sector for smaller states and regional areas, has exports worth $2.1billion • 122 countries import Australian wines and value of exports grew in 15 markets in 2015[4]

International arrivals in Australia (millions)



Sources: ABS, Westpac Economics

Service exports ($bn)

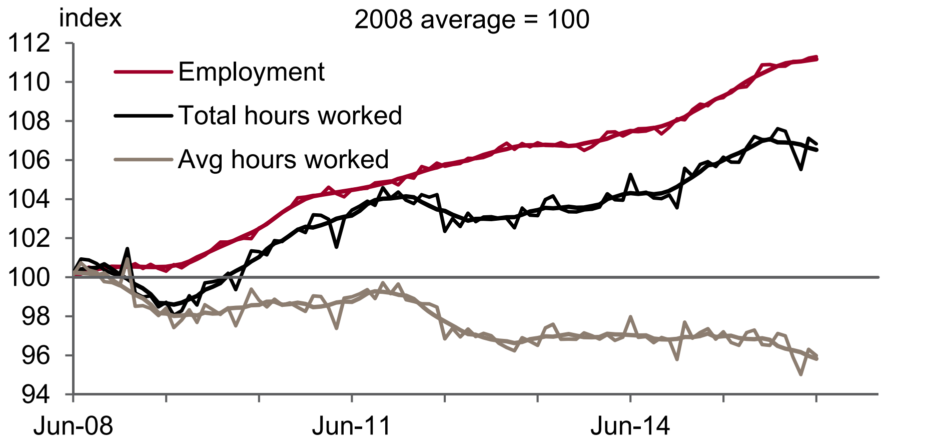


Sources: ABS, Westpac Economics

1. Source IBIS World. 2 Source Australian Government Department of Education and Training. 3 Source ABS. 4 Source Wine Australia Export Report.
* Total: $17.9bn, including: legal & prof' services $5.1bn, financial services $3.9bn, IT & Telecomm $2.9bn, Intellectual property rights $1.0bn and other, $4.9bn

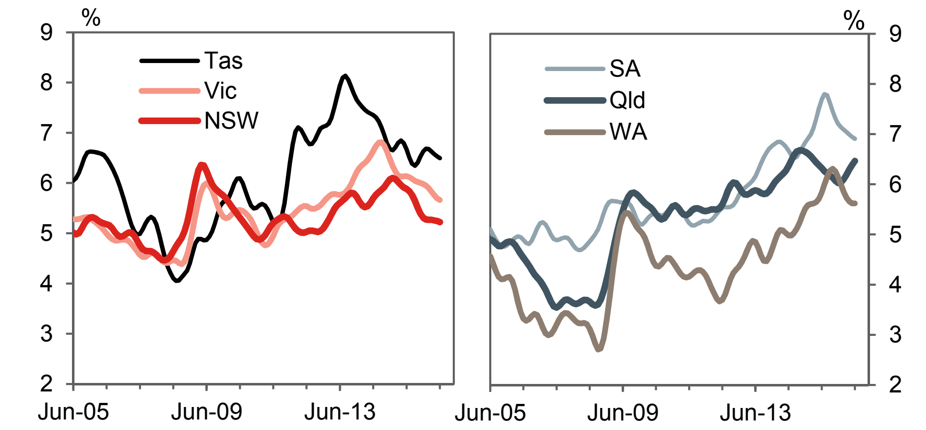
Australian labour market
Conditions improving, although wage growth subdued

Employment and hours worked (index)



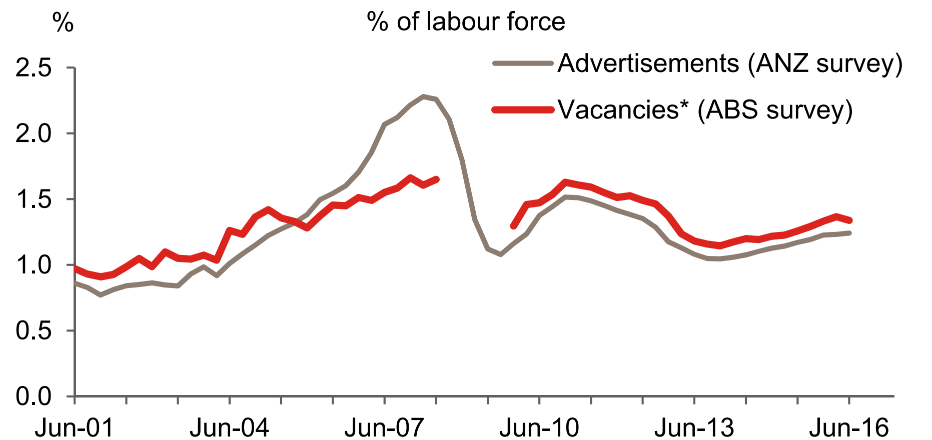
Sources: ABS, Westpac Economics

State unemployment rates (% trend)



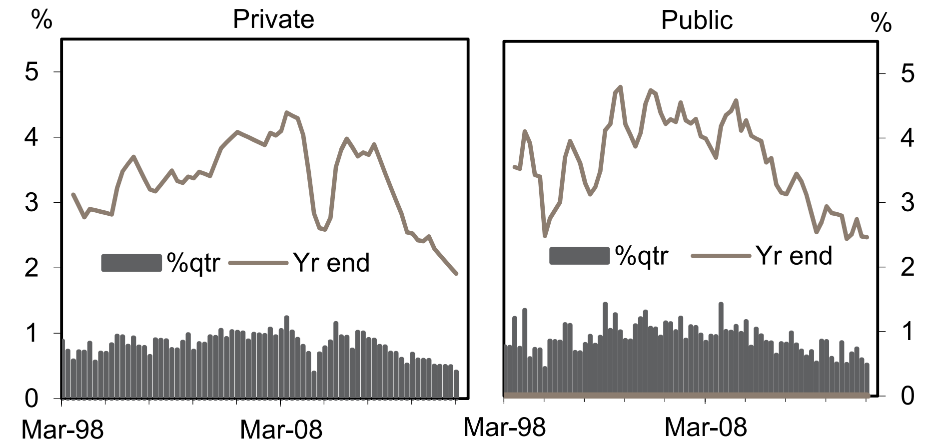
Sources: ABS, Westpac Economics

Job ads and job vacancies (%)



Sources: ABS, ANZ, Westpac Economics

Wage Price Index growth (%)

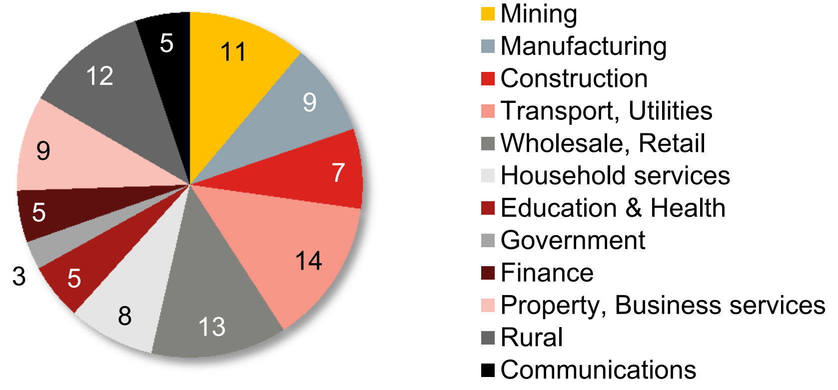


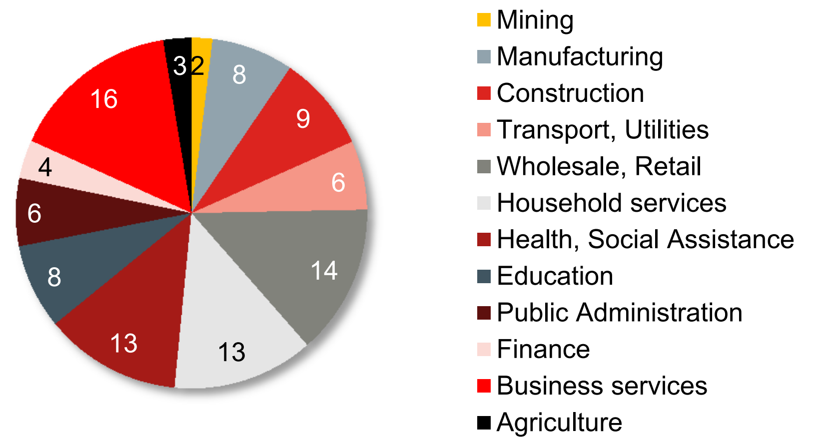
Sources: ABS, Westpac Economics

*ABS survey suspended between May 2008 and November 2009.

Australian labour market
Services sectors creating the vast bulk of new jobs

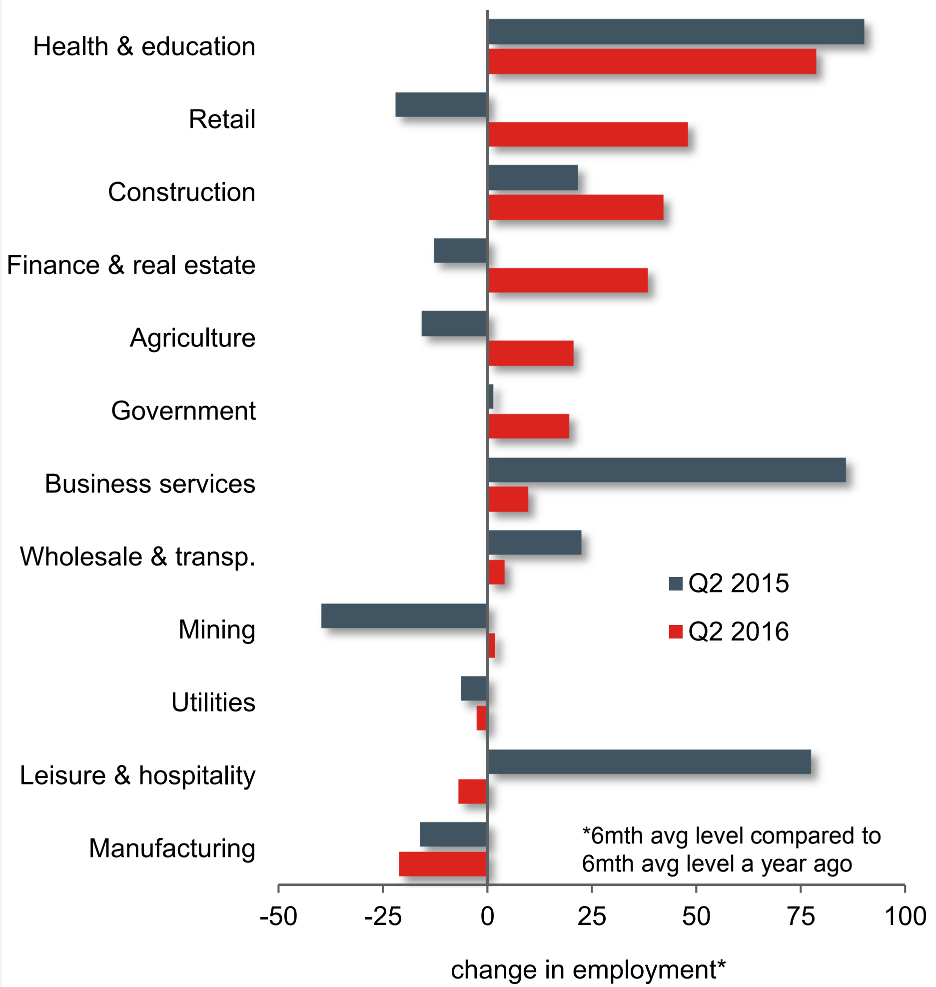
Australia: more than just mining





Sources: ABS, Westpac Economics. 1 Excludes ownership of dwellings and taxes less subsidies.

Australia: employment by sector (annual change, '000)



Sources: ABS, Westpac Economics.

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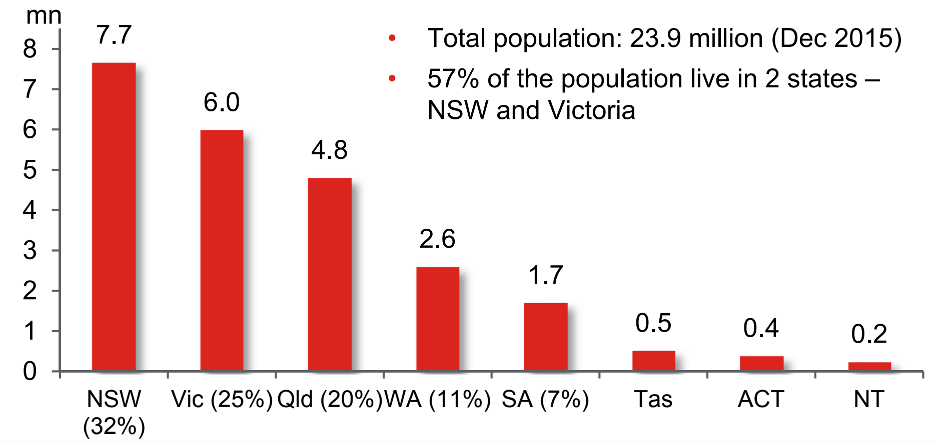
Australia's population and State breakdown

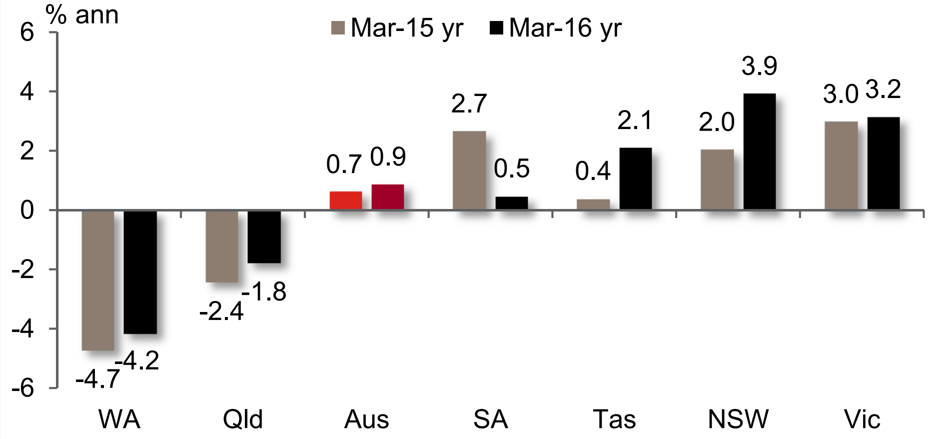
Australian population by State (million)



- Total population: 23.9 million (Dec 2015)
- 57% of the population live in 2 states – NSW and Victoria

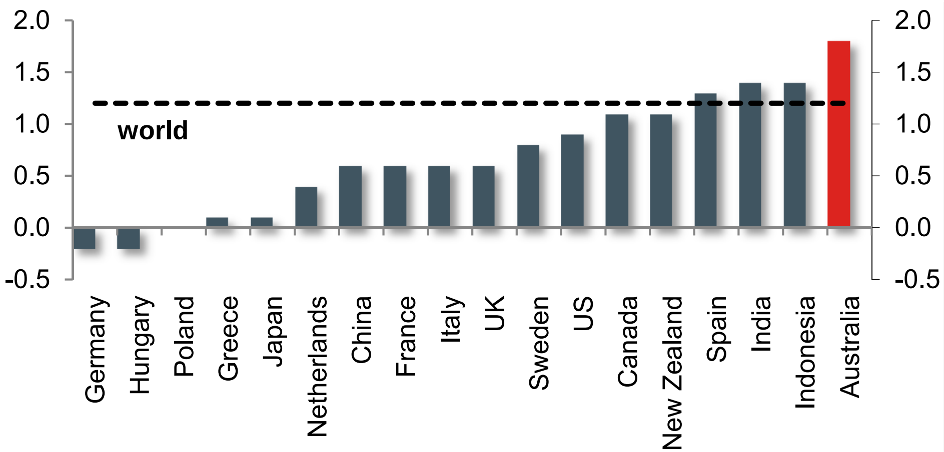
Sources: ABS, Westpac Economics

Domestic final demand (% ann)



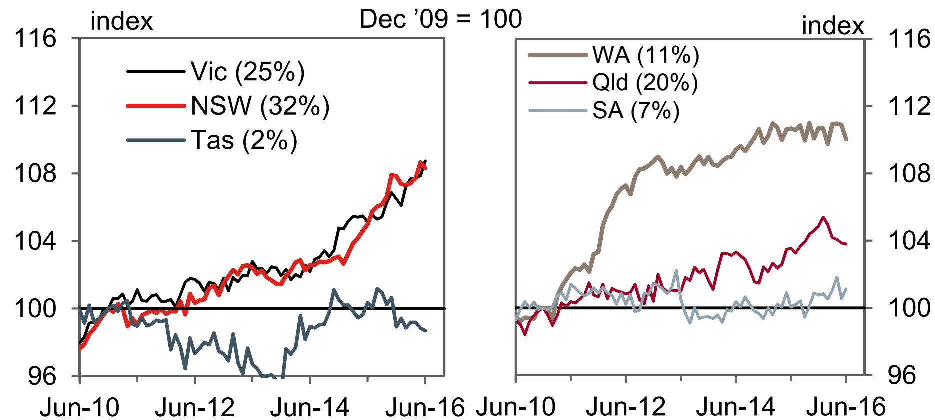
Sources: ABS, Westpac Economics

Population growth (average 2005-10) (%)



Sources: UN, Westpac

State jobs markets (index, share of total employment)



Sources: ABS, Westpac Economics

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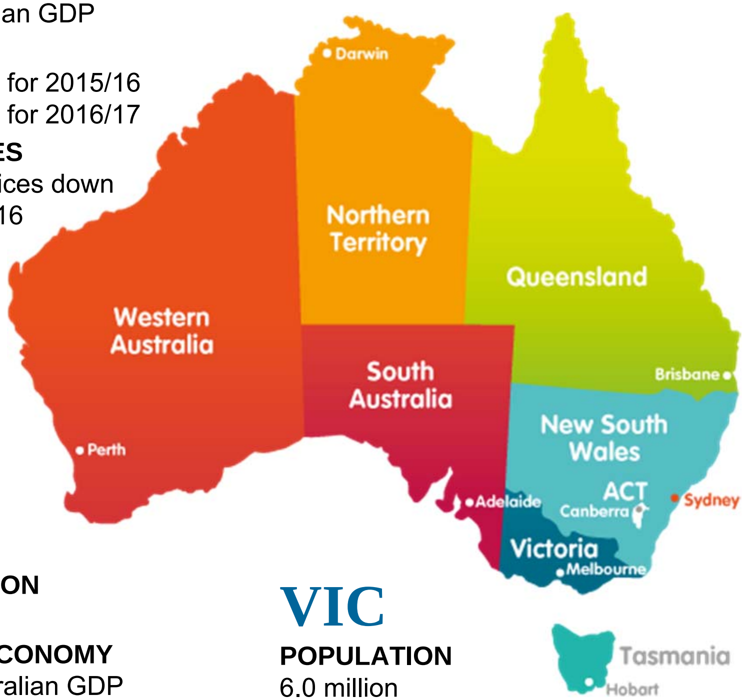
Australian state economies
Shift in growth with NSW the pace setter

- Domestic demand growth is shifting from the mining states of WA and Qld, to NSW and Victoria
  - 1 in 3 Australians live in NSW, with a similar number spread across WA and Qld, some 25% are in Victoria, and 12% reside in the smaller states and territories
- The downturn in mining investment and in global commodity prices is being particularly hard felt in WA and Qld, with per capita consumer spending is growing weakly
- The NSW economy, held back by the high interest rates prevailing during the mining boom, has responded strongly to low rates and to the lower dollar. Home building is in a catch-up phase and consumer spending growth is around trend, supported by gains in population, house prices and wage incomes
- In Victoria, conditions are also being supported by low interest rates and a sharply lower dollar. Home building activity has increased strongly and the service sectors (education and tourism) are expanding
- The exchange rate plays a key role in adjusting to swings in global commodity prices and in facilitating a rebalancing of growth between the mining and non-mining sectors of the economy

WA
POPULATION
2.6 million
SIZE OF ECONOMY
17% of Australian GDP
GROWTH
1.00% forecast for 2015/16
1.25% forecast for 2016/17
HOUSE PRICES
Perth house prices down 4.7%yr to Jun-16

QLD
POPULATION
4.8 million
SIZE OF ECONOMY
19% of Australian GDP
GROWTH
3.50% forecast for 2015/16
4.00% forecast for 2016/17
HOUSE PRICES
Brisbane house prices up 5.7%yr to Jun-16



NSW
POPULATION
7.7 million
SIZE OF ECONOMY
31% of Australian GDP
GROWTH
2.75% forecast for 2015/16
3.00% forecast for 2016/17
HOUSE PRICES
Sydney house prices up 11.3%yr to Jun-16

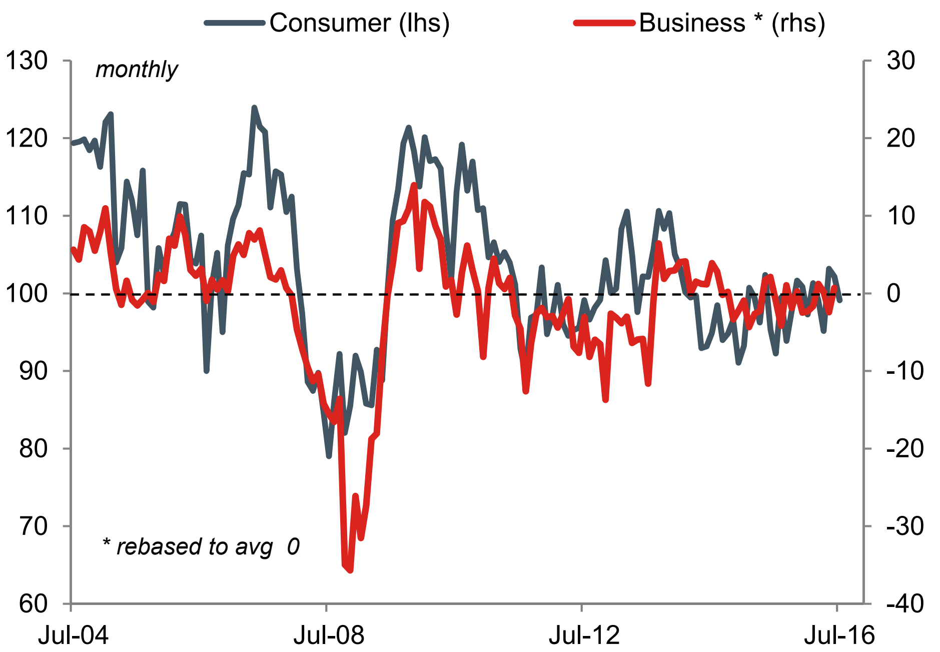
SA
POPULATION
1.7 million
SIZE OF ECONOMY
6% of Australian GDP
GROWTH
1.50% forecast for 2015/16
1.75% forecast for 2016/17
HOUSE PRICES
Adelaide house prices up 2.1%yr to Jun-16

VIC
POPULATION
6.0 million
SIZE OF ECONOMY
22% of Australian GDP
GROWTH
3.00% forecast for 2015/16
3.00% forecast for 2016/17
HOUSE PRICES
Melbourne house prices up 11.5%yr to Jun-16

Sources: ABS, CoreLogic RP Data, Westpac Economics

Credit growth expanding at a modest pace

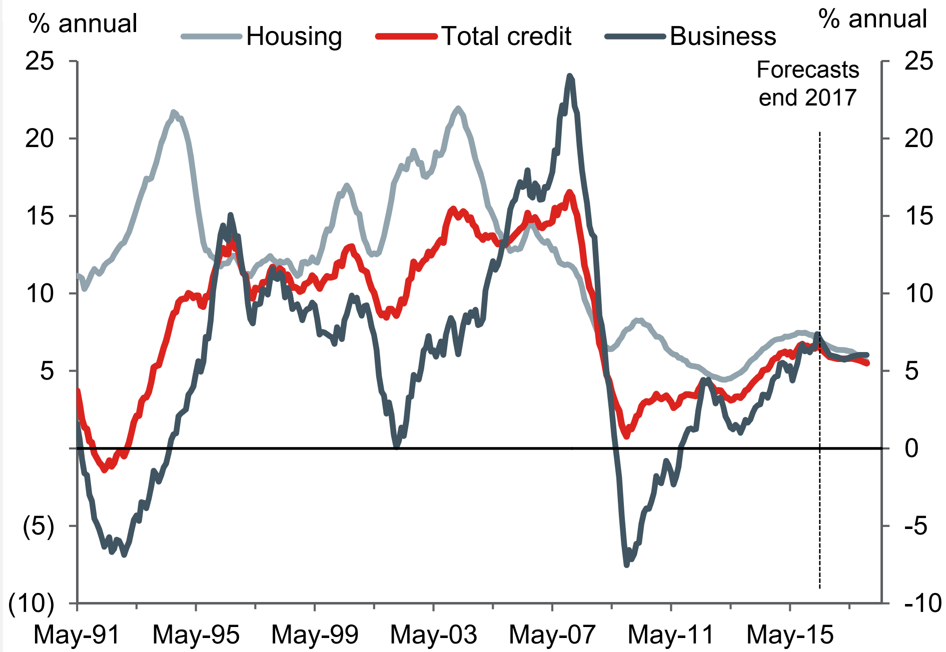
Business confidence and consumer confidence (net balance)



Sources: Westpac MI, NAB, Westpac Economics.

- Consumer sentiment generally improved in 2015, responding positively to the RBA's February and May rate cuts but with choppy results month to month. Sentiment, having softened in early 2016, again responded to the RBA's May rate cut, only to slip ahead of the Federal election result.
- Heightened job loss fears have been a recurring consumer theme in recent years but have shown some signs of easing in 2016.
- Business confidence is at around historic averages, supported by improved business conditions Actual business conditions have lifted to above average readings as the non-mining economy strengthens, responding to lower rates and a lower dollar.

Australian private sector credit growth (% ann)

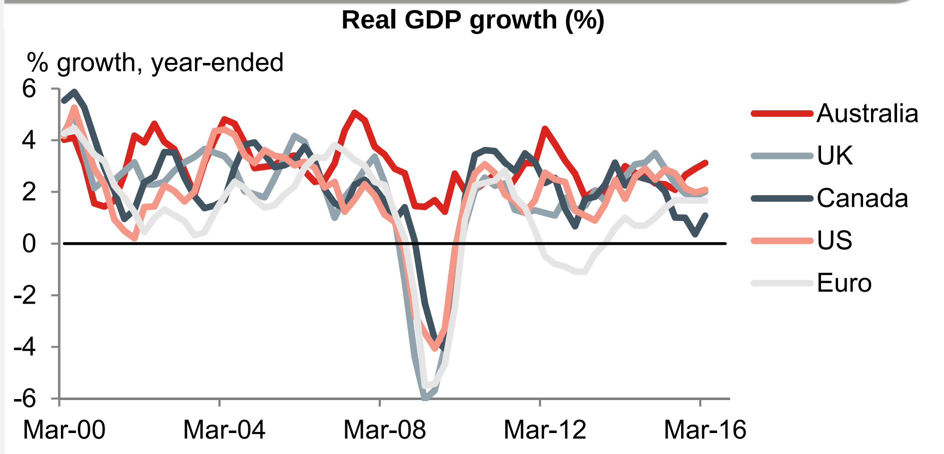


Sources: RBA, Westpac Economics.

- Credit grew by 6.5% in the year to May 2016, well up from 4.7% two years earlier, as housing and businesses responded to low interest rates
- Credit growth is expected to slow to 5.8% in December 2016, with housing credit growth moderating further from 7% o 6.4% as regulatory constraints limit investor credit growth, but cushioned by lower mortgage rates. Business credit growth is forecast to remain robust at 6.0%, in line with the 6.4% outcome for 2015

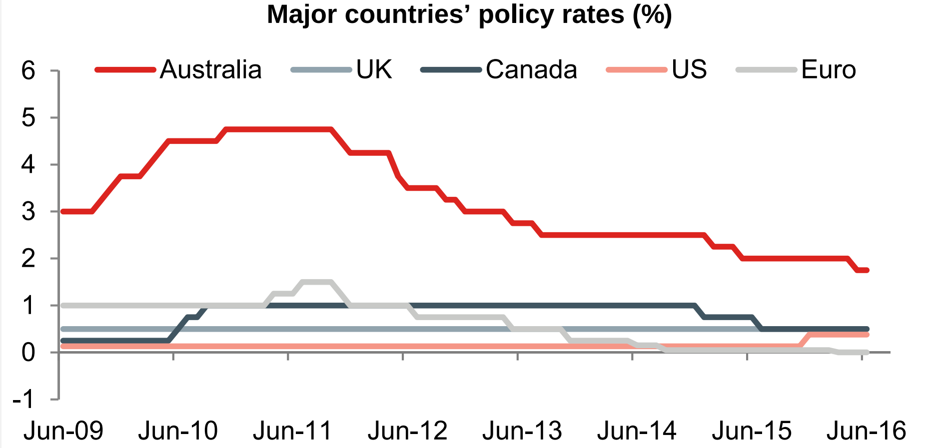
Australia economy: fiscal and monetary flexibility remain

GDP well placed relative to other developed economies



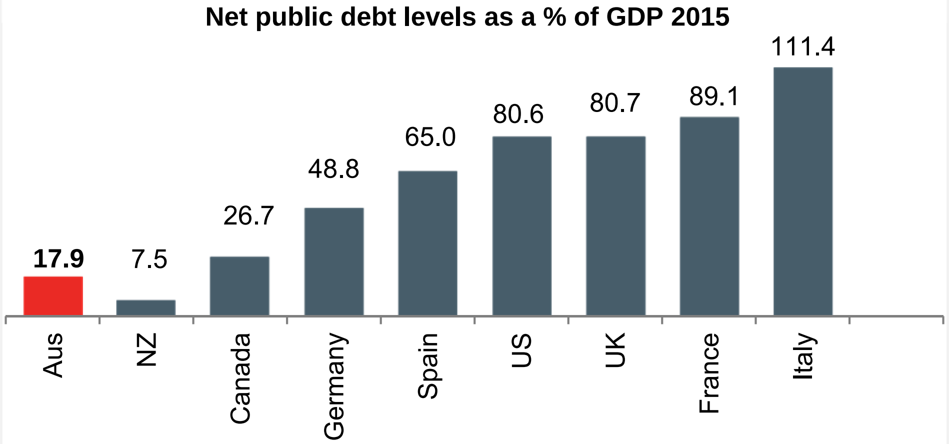
Sources: OECD, Westpac Economics.

RBA still has capacity to reduce rates further



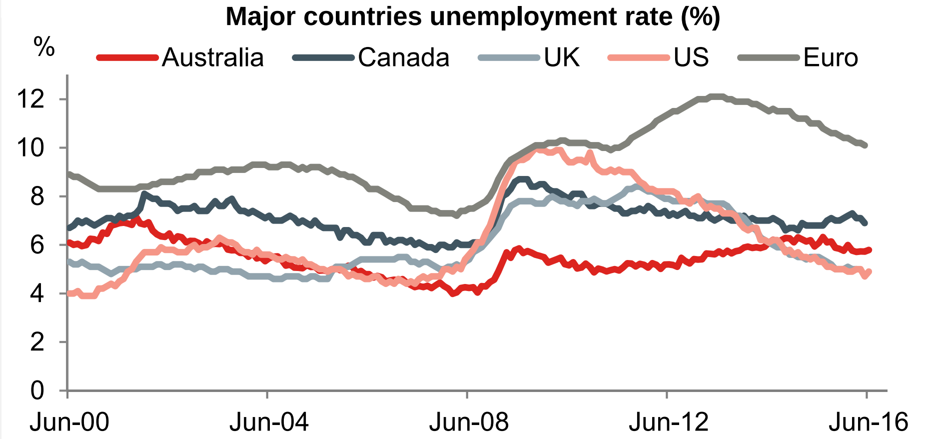
Sources: RBA, OECD, Westpac Economics.

Fiscal position remains sound



Sources: IMF, Westpac Economics.

Australian unemployment rate is expected to remain little changed



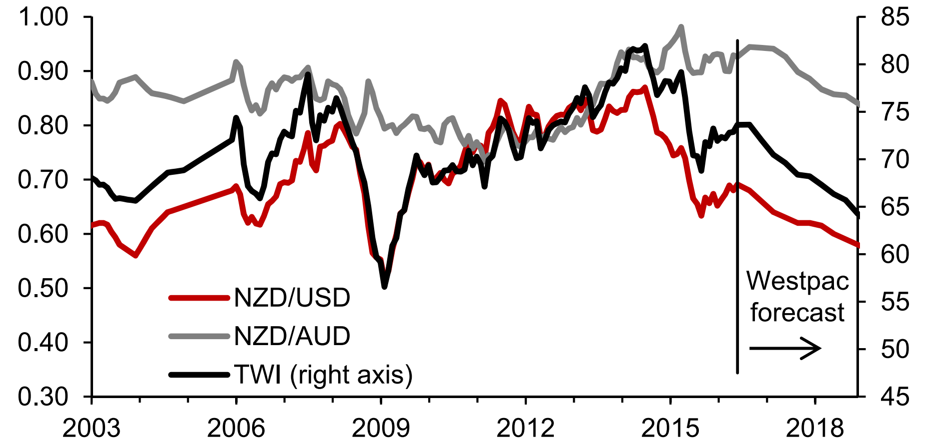
Sources: OECD, Westpac Economics.

New Zealand economy

Key economic statistics	FY15	FY16f	Change
GDP annual average growth	3.0%	2.8%	(20 ppts)
Inflation rate	0.4%	0.7%	30 ppts
Official cash rate (OCR)	2.5%	2.0%	(50 bps)
Unemployment rate	6.0%	5.7%	(30 ppts)
Dairy payout (ex dividend)[1,2]	$4.40	$3.90	($0.50)

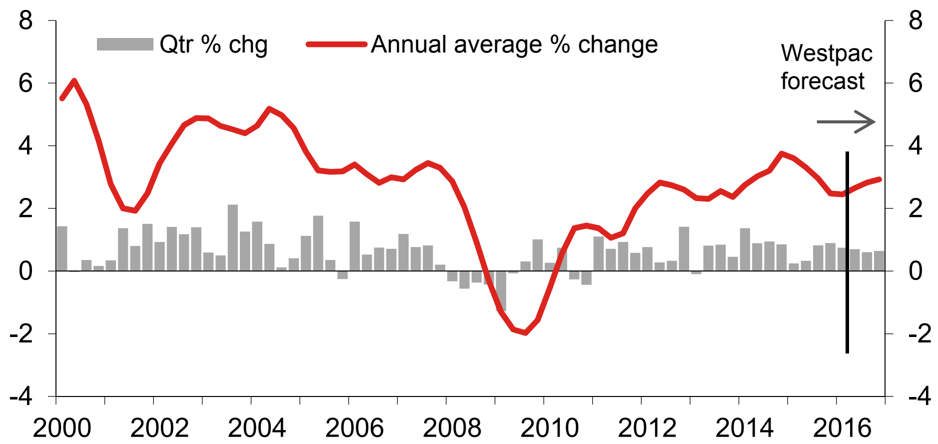
Source: RBNZ, Westpac Economics

NZD/USD, NZD/AUD and TWI



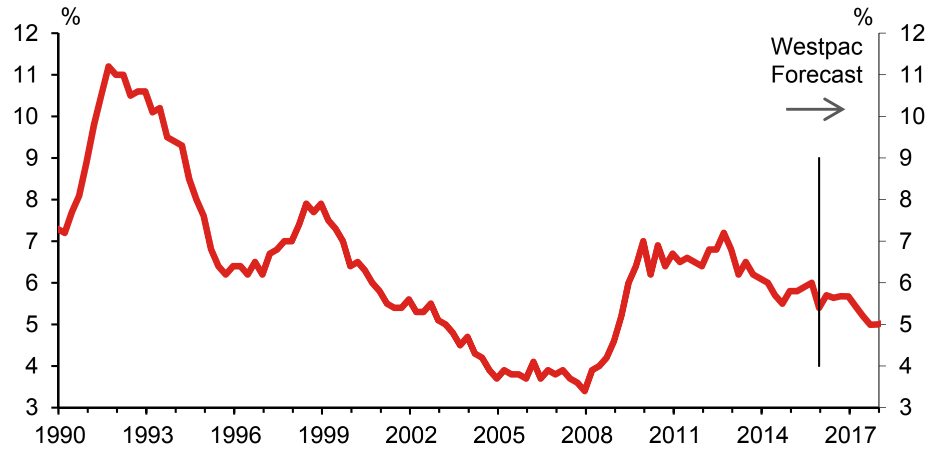
Source: RBNZ, Westpac Economics

GDP growth (%)



Source: Statistics NZ, Westpac Economics

New Zealand unemployment rate (%)



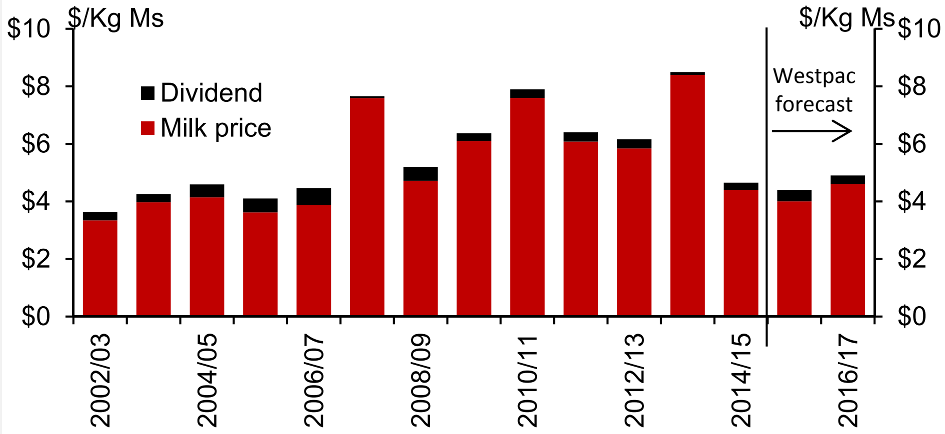
Source: Statistics NZ, Westpac Economics

1 Westpac NZ Economics forecast (ex dividend), Fonterra forecast is $3.90/kg. 2 Seasons ended May.

New Zealand economy
Conditions remain challenging for dairy sector

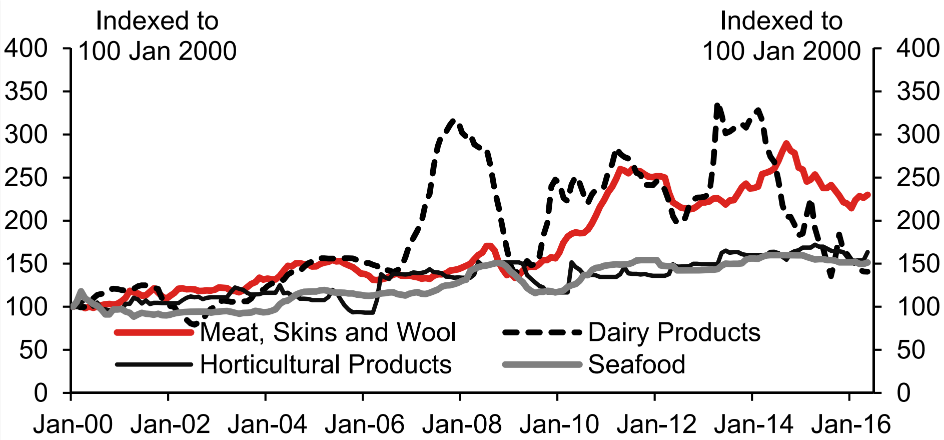
- Global dairy prices have lifted, but remain at low levels
- Prices continue to be dampened by lacklustre demand from China and strong growth in global supply, especially out of Europe
- Westpac Economics expect the sustained period of lower prices will eventually lead to slower growth in global milk supply. However, this is taking some time. Westpac Economics payout forecasts assume dairy prices remain around current levels until late 2016 before gradually starting to improve
- While dairy prices remain in the doldrums, prices for some of New Zealand's other agricultural commodity exports have been holding up better. In addition, strong growth in tourism exports has provided an offset

Dairy payout and dividend[1]



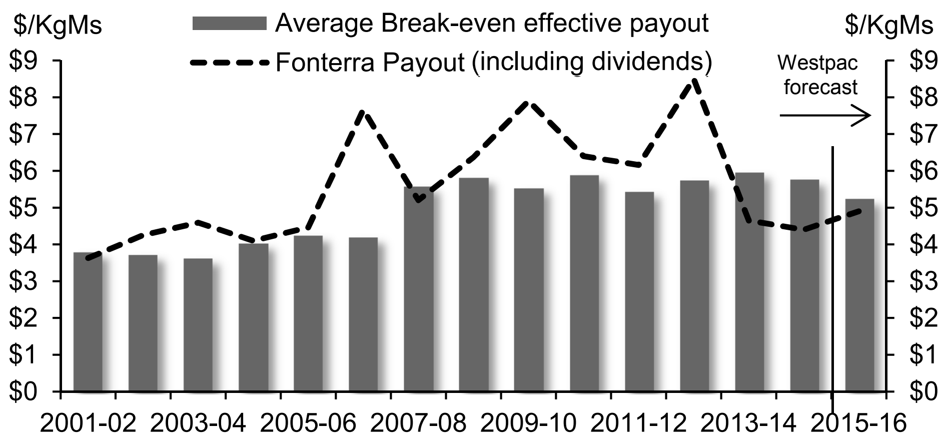
Source: Westpac Economics

NZ export commodity price index (NZD)



Source: ANZ, Westpac

Break-even dairy payout



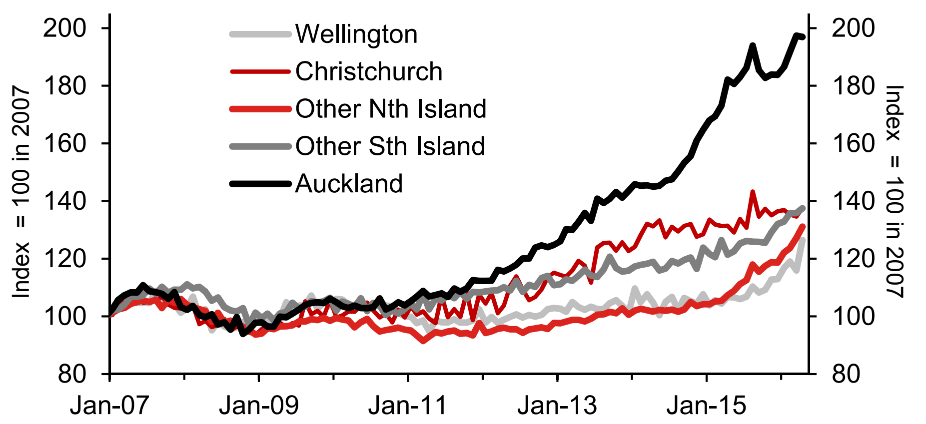
Source: RBNZ, DairyNZ, Westpac, Fonterra

1 Westpac NZ Economics forecast (ex dividend), Fonterra forecast is $3.90/kg. 2 Seasons ended May.

New Zealand economy
Housing market trends prompt policy response

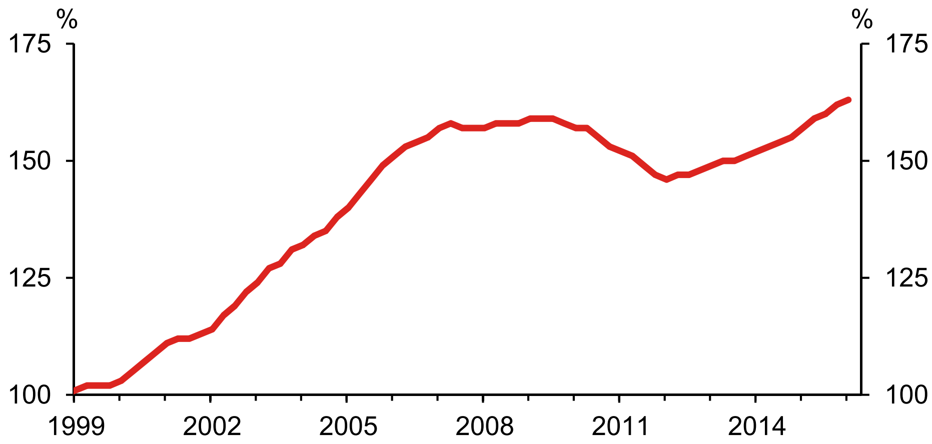
- House prices have been rising at a rapid pace, including strong growth in many regions outside of Auckland. This has been encouraged by record low interest rates. In addition, in parts of the country, such as Auckland, housing supply has not kept up with population growth. Increases in house prices and housing demand have seen credit growth accelerating
- In response, the RBNZ introduced new restrictions on mortgage lending on 18 July 2016 (effective from 1 September)
- For investors
  - Banks will require a 40% deposit - up from 30% - for at least 95% of investor loans. Restrictions for investor lending extended nationwide (previously Auckland only)
- For owner occupiers
  - Required deposit level remains at 20% for at least 90% of owner-occupied lending. Restrictions for owner-occupier lending also extended nationwide (previously Auckland only)

New Zealand house prices by region (index)



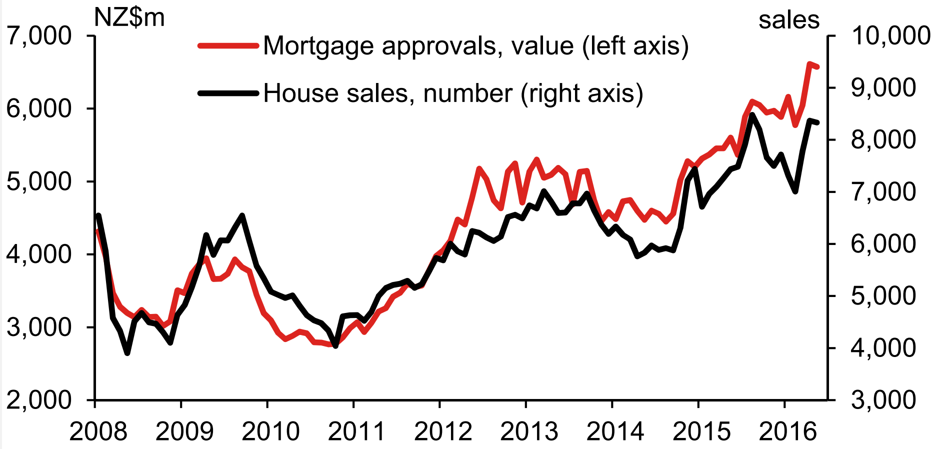
Source: REINZ, Westpac Economics

Household debt, share of disposable income (%)



Source: RBNZ

Housing turnover



Source: RBNZ, REINZ

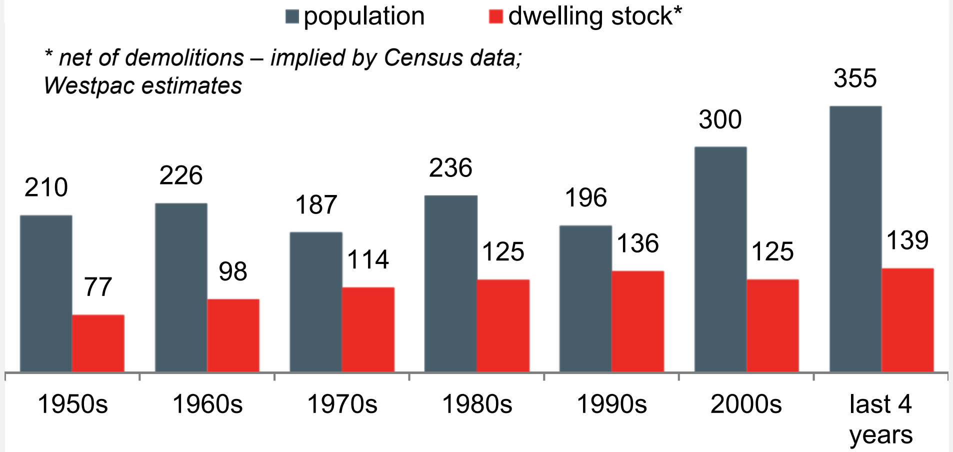
Australian Home Lending

Westpac GROUP

EST. 1817

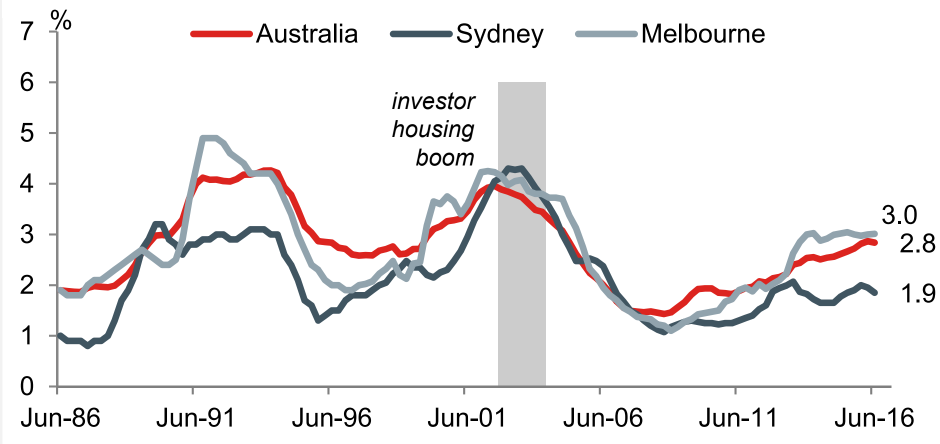
Australian housing market has sound fundamentals, Sector moderating

Population versus dwelling stock (annual average change '000)



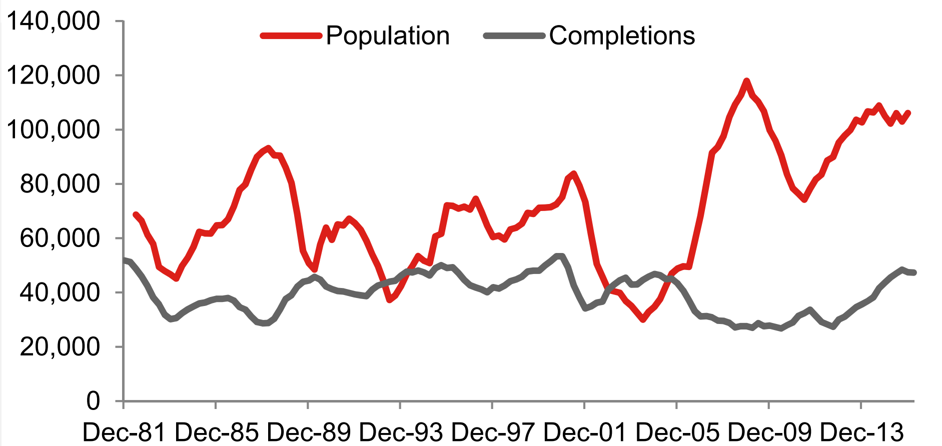
Sources: REIA, Westpac Economics.

Residential rental vacancy rates (%)



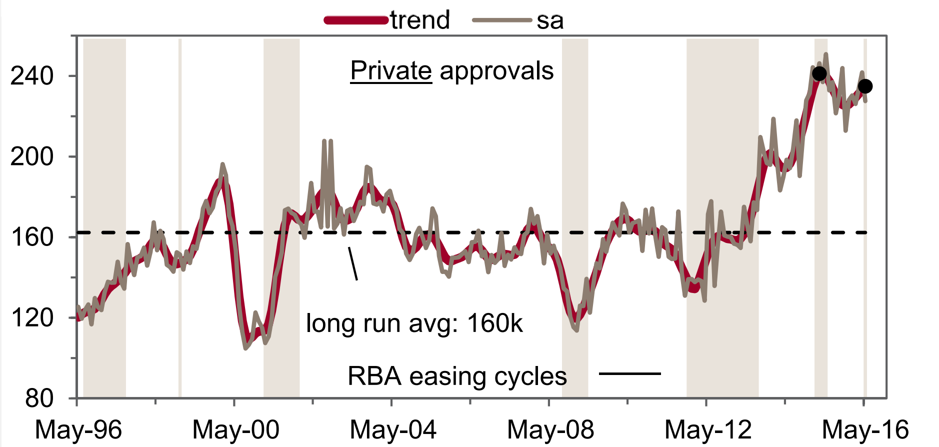
Sources: ABS, Westpac Economics.

New dwelling completions v population growth - NSW (#)



Sources: ABS, Westpac Economics.

Dwelling approvals: 3% off their peak ('000 mth, annualised)



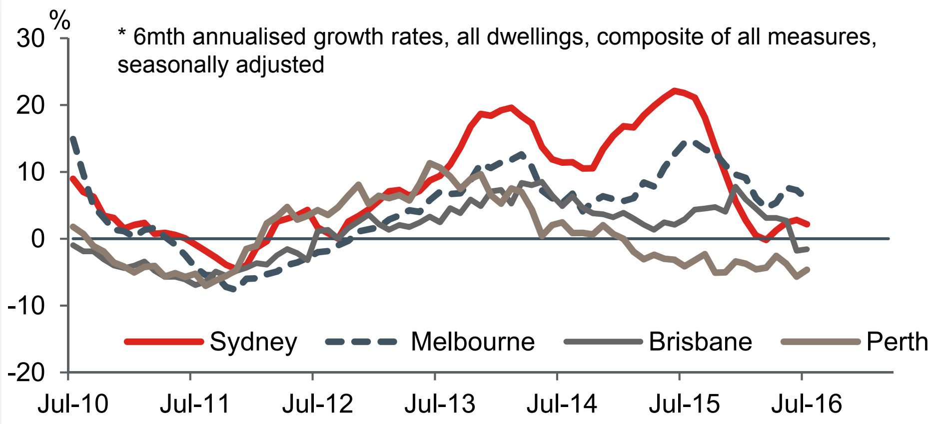
Sources: RBA, Westpac Economics

House price growth and activity
Some moderation, geographic differences

- After a surge in the first half of calendar 2015 house price growth has moderated from 10% in June 2015 to 6.6% in March 2016. Price growth has lifted again in recent months but remains patchy and uneven across geographies and market segments.
- Growth rates continue to vary between capital cities[1]
  - Sydney up 11.3%yr; average since 2007: 7.2%
  - Melbourne up 11.5%yr; average since 2007: 5.8%
  - Brisbane up 5.7%yr, average since 2007: 1.5%
  - Perth down 4.9%yr, average since 2007: 0.2%
- Housing credit slowed ahead of RBA's May rate cut, to 6.2%yr.
  Net credit growth is being tempered by high levels of repayment. Net of funds accumulating in offset accounts.

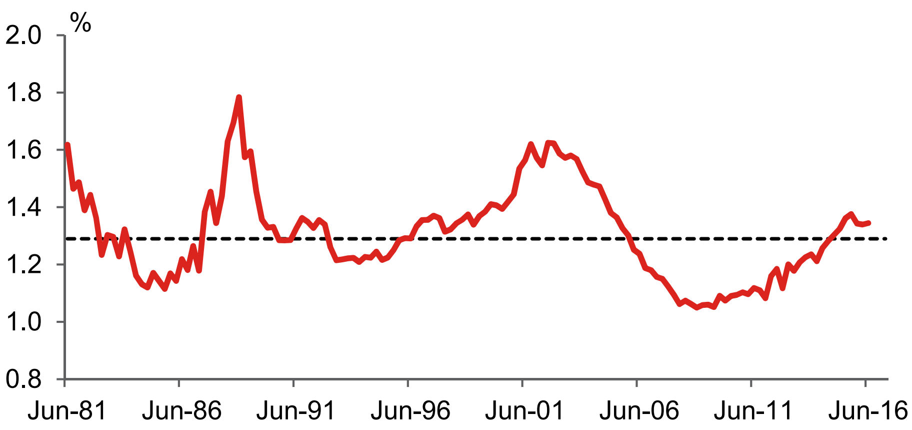
1 Sources: ABS, Westpac Economics.

Capital city dwelling prices – growth rates (%)



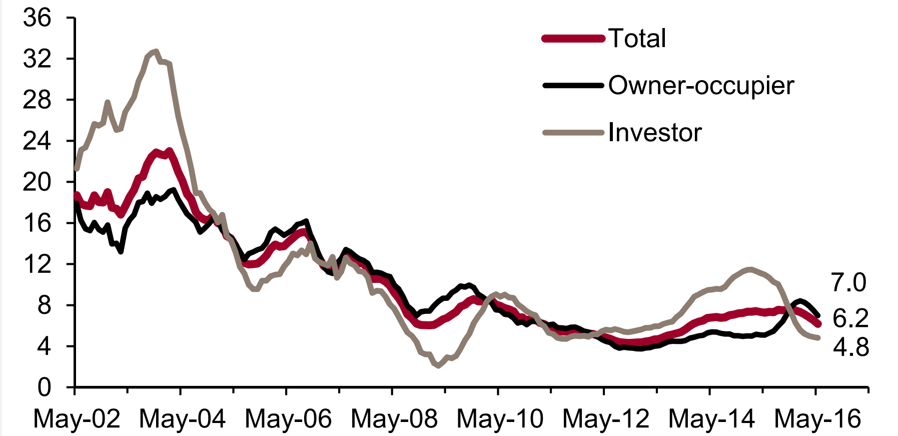
Sources: ABS, CoreLogic RP Data, APM, Residex, Westpac Economics.

Sydney dwelling prices vs rest of Australia (ratio of weighted medians other major capital cities)



Sources: ABS, CoreLogic RP Data, APM, Residex, Westpac Economics.

Housing credit (6mnth % change annualised)



Sources: RBA, Westpac Economics.

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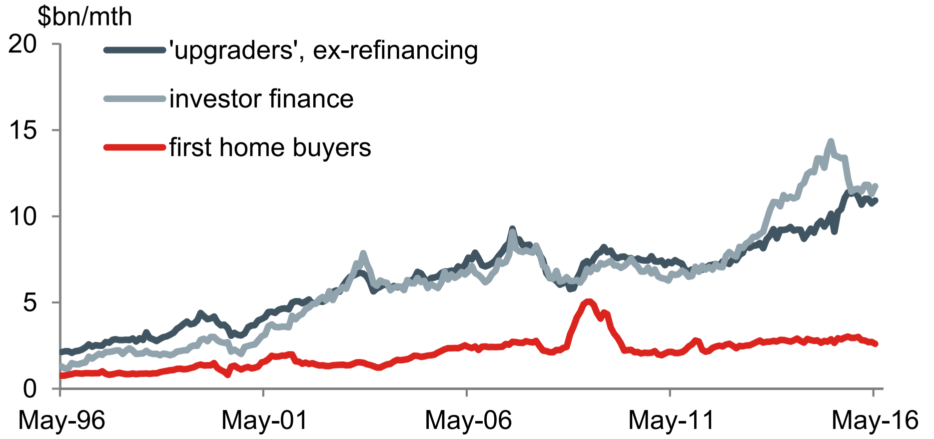
Investment property lending off highs

- Investor activity responded in 2014 and into 2015 to low vacancy rates, solid rental yields, and low interest rates, including low fixed rates offering attractive opportunities to hedge interest rate risk
- Regulators moved in 2015 to contain growth in this sector and signs are that these measures are having an effect, with investor credit growth slowing from 11.9% in November 2014 to 5.3% in November 2015 on a three month annualised basis[1]
- Total market turnover remains below recent peaks and well below the levels seen in 2002-03, when activity was strong (high turnover is often associated with greater speculative activity)

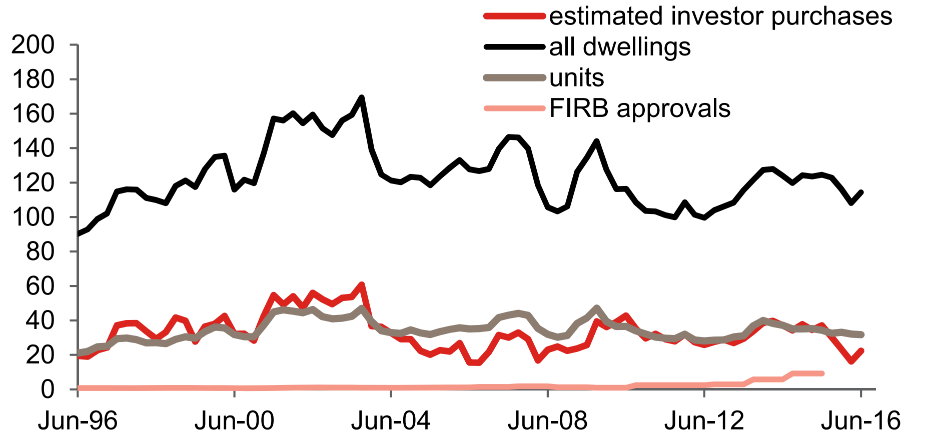
1 Source: RBA

Housing finance approvals: value of housing finance ($bn/mth)



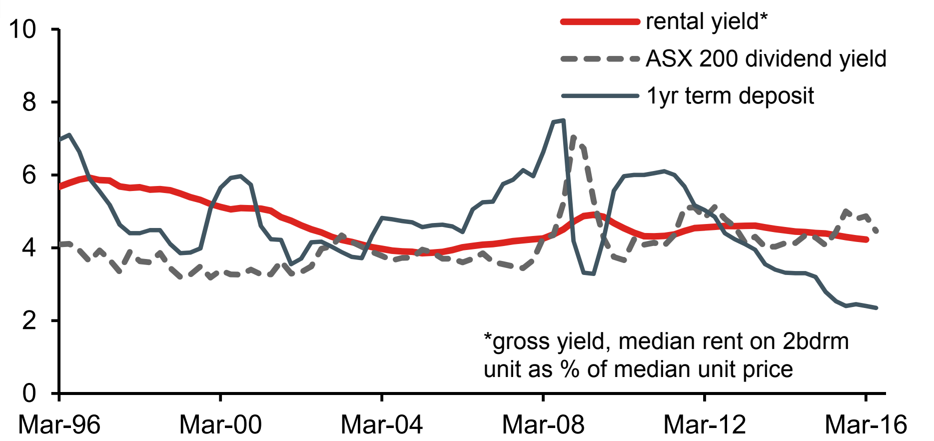
Sources: ABS, Westpac Economics.

Dwelling turnover (quarterly # '000)



Sources: CoreLogic RP Data, ABS, FIRB, Westpac Economics

Investor housing yields vs shares, deposits (% p.a.)

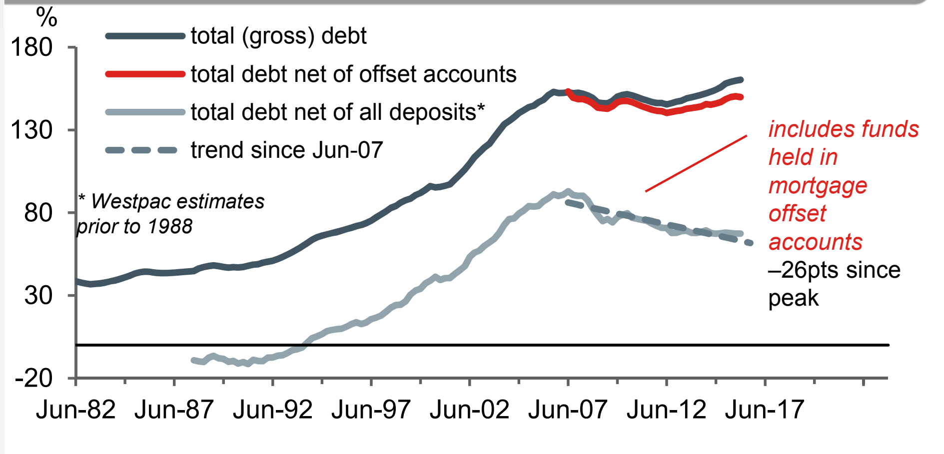


Sources: REIA, RBA, Westpac Economics.

Australian households

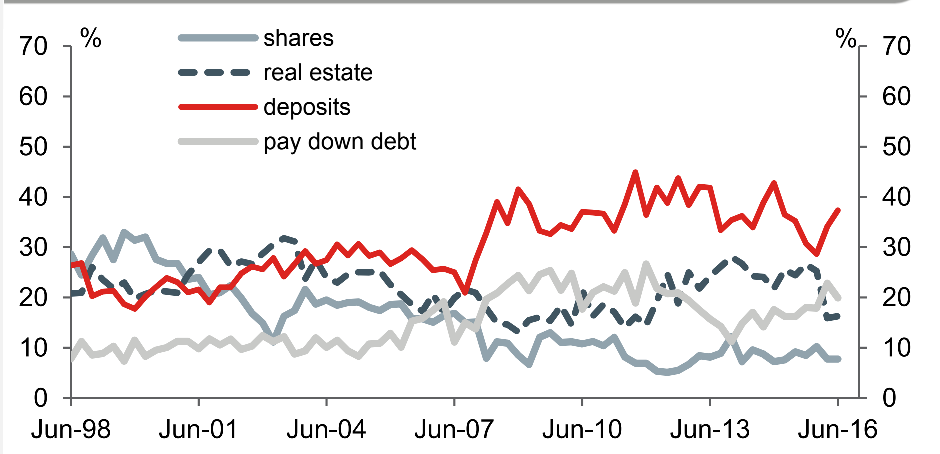
A cautious approach to household finances

Australian households: debt to income ratio (%)



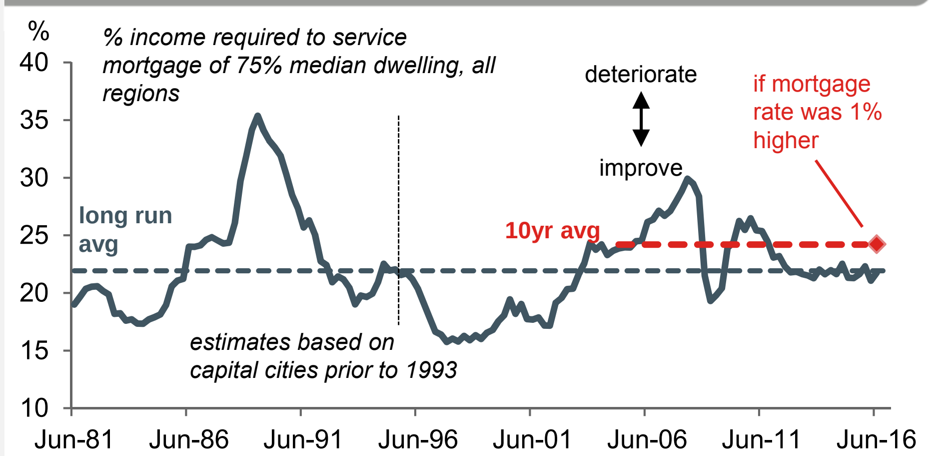
Sources: ABS, RBA, Westpac Economics.

Consumer survey: 'Wisest place for savings'



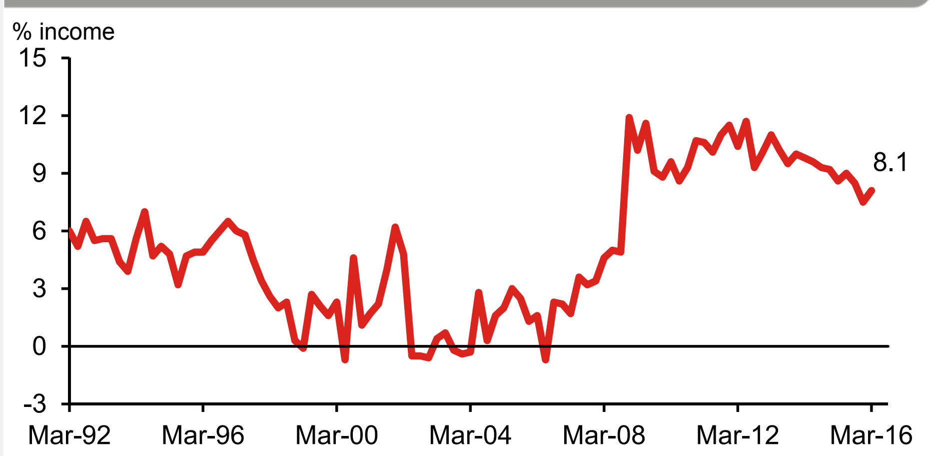
Sources: Melbourne Institute, Westpac Economics.

Housing affordability: all dwellings



Sources: CoreLogic RP Data, Residex, Westpac Economics.

Household savings rate (% income)



Sources: ABS, Westpac Economics.

Changes in the reporting of hardship

- Following guidance from APRA the industry is aligning treatment of hardship in delinquencies
- Westpac changed measurement and reporting of new hardship accounts in 1H16 and impacts will continue in 2H16
- No impact on the risk profile of the Group or asset classes
- At the same time, hardship policies have tightened

What is changing?

Previous approach

When an account enters hardship their position in the delinquency flow (30, 60, or 90 days etc) is frozen until they return to performing (or not)

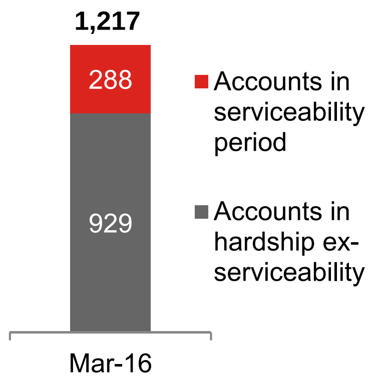
Changes made in 1H16

- An account in hardship is no longer frozen and continues to migrate through delinquency buckets until +90days
- Accounts continue to be reported as delinquent until the customer has maintained repayments for 6 months – called the 'serviceability period'
- Average hardship period granted 3-4months
- Hardship + serviceability period = 10 months average

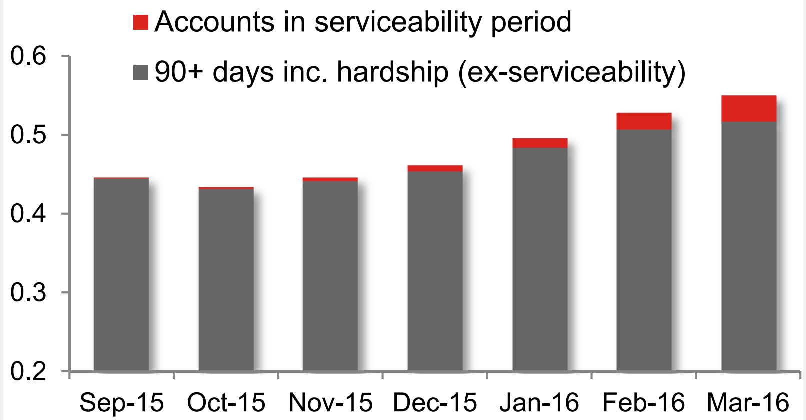
What is hardship?

- Allows customers the opportunity to reduce or defer current debt obligations in the short term so they can manage through a period of financial hardship (e.g. injury, illness, separation, natural disasters etc)
- May take the form of extending loan duration or restructuring
- Hardship solutions will differ based on customer circumstance, payment serviceability and recoverable position

Accounts in hardship ($m)



1H16 90+ days mortgage delinquencies (bps)



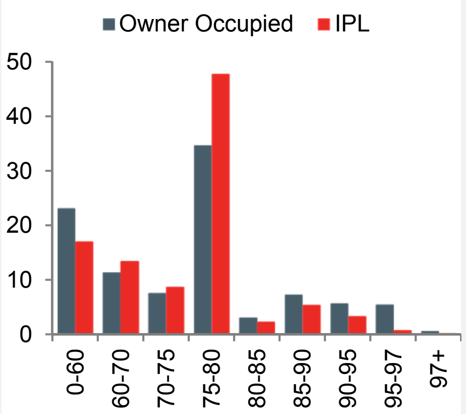
Westpac's Australian investment property portfolio

Investment property lending

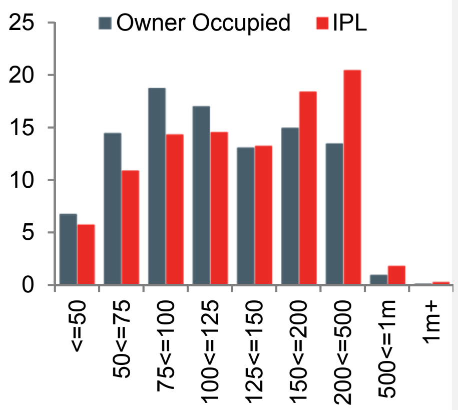
- Investment property loans (IPLs)[1] are full recourse
- Maximum LVR for stand alone investment property loans capped at 80%
- Majority of IPLs interest only, however repayment profile closely tracks the profile of the principal and interest portfolio
- Discounts to certain forms of income. For example dividends / rental income / bonus / overtime discounted by 20%
- Loan serviceability assessments include an interest rate buffer (at least 2.25%), minimum assessment rate (7.25%) and adequate surplus test
- Interest only loans are assessed on a principal and interest basis
- Specific credit policies apply to assist risk mitigation, including
  - Holiday apartments may be subject to tighter acceptance requirements (e.g. holiday resort style developments require approval prior to individual loans being considered)
  - Additional LVR restrictions and additional income discounting apply to single industry towns and higher risk postcodes
  - Minimum property size and location restrictions apply
- Loans to Australian citizens and permanent visa holders using foreign-sourced income restricted to maximum 70% LVR and discounts apply to foreign income recognition (up to 20%)
- From April ceased providing IPLs to non-residents

IPL portfolio statistics	1H15	2H15	1H16
Average LVR at origination[2] (%)	72	72	**72**
% IPL loans originated at or below 80% LVR	87	87	**87**
Average dynamic[2,3,4] LVR (%)	48	48	**48**
Average LVR of new loans[2,5] (%)	70	68	**67**
Average loan size ($'000)	292	297	**299**
Customers ahead on repayments including offset accounts[2] (%)	65	65	**62**
+90 days delinquencies (bps)	36	31	**38**
Annualised loss rate (net of insurance claims) (bps)	2	2	**2**

LVR at origination[2] (%)



Applicants by gross income band[2] (%)



1 Self-Managed Super Fund (SMSF) IPLs are limited recourse however do require member guarantees. 2 Excludes RAMS. 3 Dynamic LVR represents the loan-to-value ratio taking into account the current outstanding loan balance, changes in security value and other loan adjustments. 4 Property valuation source Australian Property Monitors. 5 Average LVR of new loans is based on rolling 6 month window.

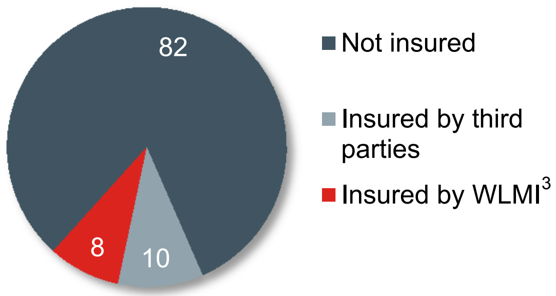
Lenders mortgage insurance

- Lenders mortgage insurance (LMI) provides benefits to the Westpac Group
  - Risk transfer / loss mitigation
  - Improvement in the quality of risk acceptance via the additional layer of independent review
- Mortgages are insured through Westpac's captive mortgage insurer, Westpac Lenders Mortgage Insurance (WLMI), and through external LMI providers, based on risk profile
- WLMI provides Westpac with an increased return on the mortgages it insures through the capture of underwriting profit
- WLMI is well capitalised (separate from bank capital) and subject to APRA regulation. Capitalised at 1.45x PCR[1]
- Scenarios indicate sufficient capital to fund claims arising from events of severe stress – estimated losses for WLMI from a 1 in 200 year event are $143m net of re-insurance recoveries (2H15: $135m)

Lenders mortgage insurance

LVR Band	• LVR ≤80% • Low Doc LVR ≤60%	• LVR >80% to ≤ 90% • Low Doc LVR >60% to ≤ 80%	• LVR >90%
Insurance	Not required	Generally insured through captive insurer, WLMI. LMI not required for certain borrower groups. Reinsurance arrangements: • 40% risk retained by WLMI • 60% risk transferred through quota share arrangements[2] with Arch Capital Group Limited, Tokio Millennium Re, Endurance Re, Everest Re, Trans Re and AWAC	Insured externally through Arch Capital Group Limited for all new business effective from 18 May 2015 Transitional arrangements are currently in place with LMI policies initially written by WLMI and then fully reinsured with Arch Capital Prior to 18 May 2015, external insurance provided by QBE and Genworth. Existing LMI policies remain in force

Australian mortgage portfolio (%)



Insurance statistics	1H15	2H15	1H16
Insurance claims ($m)	1	3	**4**
WLMI loss ratio[4] (%)	5	12	**10**
Gross written premiums ($m)	24	68	**133[5]**

1 Prudential Capital Requirement (PCR) determined by APRA. 2 For all new business effective from 1 October 2014. 3 Insured coverage is net of quota share. 4 Loss ratio is claims over the total of earned premium plus reinsurance plus exchange commission. 5 LMI gross written premium includes loans >90% LVR reinsured with Arch Capital. First Half 2016 gross written premium includes $102m from transitional arrangements.

Mortgage portfolio stress testing outcomes

- Westpac regularly conducts a range of portfolio stress tests as part of its regulatory and risk management activities
- The Australian mortgage portfolio stress testing scenario presented represents a severe recession and assumes that significant reductions in consumer spending and business investment lead to six consecutive quarters of negative GDP growth. This results in a material increase in unemployment and nationwide falls in property and other asset prices
- Estimated Australian housing portfolio losses under these stressed conditions are manageable and within the Group's risk appetite and capital base
  - Cumulative total losses of $2.6bn over three years for the uninsured portfolio (FY15: $2.3bn)
  - Cumulative claims on LMI, both WLMI and external insurers, of $875m over the three years (FY15: $968m)
  - Stress loss basis point outcomes have decreased (Years 1 and 2) mainly due to a decrease in dynamic LVRs. Cumulative losses however have increased compared to FY15 predominantly driven by increase in portfolio size
- WLMI separately conducts stress testing to test the sufficiency of its capital position to cover mortgage claims arising from a stressed mortgage environment
- Preferred capital ranges incorporate buffers at the Westpac Group level that also consider the combined impact on the mortgage portfolio and WLMI of severe stress scenarios

Australian mortgage portfolio stress testing as at 31 March 2016

Key assumptions	**Stressed scenario**			
	Current	**Year 1**	**Year 2**	**Year 3**
Portfolio size ($bn)	391	377	369	367
Unemployment rate (%)	5.8	11.6	10.6	9.4
Interest rates (cash rate, %)	2.00	0.50	0.50	0.50
House prices (% change cumulative)	0.0	(13.0)	(22.4)	(26.2)
Annual GDP growth (%)	2.8	(3.9)	(0.2)	1.7
Stressed loss outcomes (net of LMI recoveries)[1]				
$ million	70[2]	1,053	1,370	419
Basis points[3]	2	21	29	9

1 Assumes 30% of LMI claims will be rejected in a stressed scenario. 2 Represents 1H16 actual losses of $35m annualised. 3 Stressed loss rates are calculated as a percentage of mortgage exposure at default.

Westpac GROUP

WESTPAC BANKING CORPORATION
ABN 33 007 457 141

Additional Information

Westpac GROUP
EST. 1817

Westpac is a high quality credit
with a clear domestic focus and a strong market position

Unique portfolio of national and regional brands

Australian retail banking and wealth

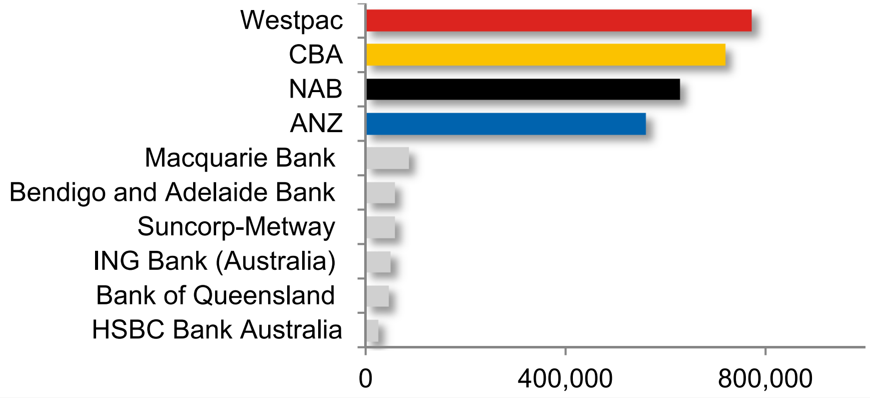
Westpac, BT, St.George, BankSA, Bank of Melbourne, RAMS

Westpac Institutional Bank

Westpac New Zealand

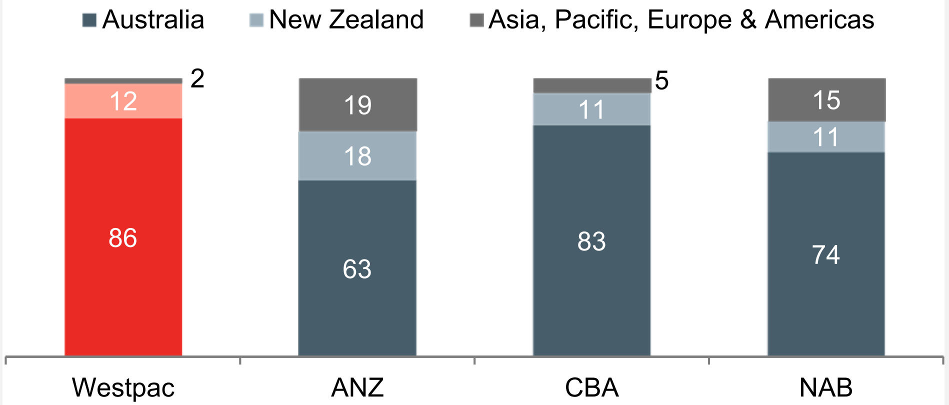
Large domestic presence

Top 10 banks in Australia by total resident assets[2] (A$bn)



Clear focus on Australia and New Zealand

Total income by geography[1] (%)



Strong market share positions

Customers	**13m**
Australian household deposit market share[3]	**23%**
Australian housing market share[4]	**23%**
Australian business market share[4]	**19%**
Australian wealth platforms market share[5]	**20%**
New Zealand deposit market share[6]	**21%**
New Zealand consumer lending market share[6]	**20%**

1 Source: Company Annual Reports. Westpac, ANZ and NAB as at 30 September 2015. CBA as at 30 June 2015. 2 APRA Banking Statistics February 2016. Total resident assets refers to all assets on the banks' domestic books that are due from residents. 3 APRA Banking Statistics September 2015. 4 RBA Financial Aggregates, September 2015. 5 Plan for Life, June 2015, All Master Funds Admin. 6 RBNZ, September 2015.

Westpac business divisions
A unique portfolio of brands

Consumer Bank
Sales and service, including residential mortgages, credit cards and personal loans, to consumer customers in Australia under the Westpac, St.George, BankSA, Bank of Melbourne and RAMS brands

Business Bank
Sales and service to micro, SMR and commercial business customers in Australia under the Westpac, St.George, BankSA and Bank of Melbourne brands

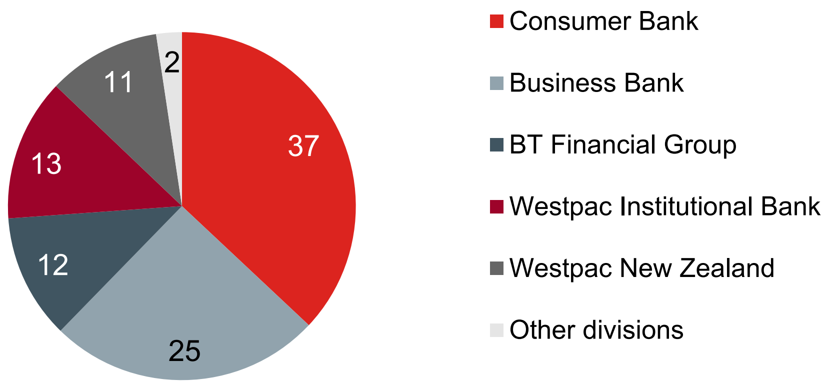
BT Financial Group
Australian Wealth and Insurance division with $46bn funds under management and $123bn funds under administration at 31 March 2016

Westpac Institutional Bank
Leading Australasian institutional bank, with branches and representative offices in Australia, NZ, US, UK and Asia

Westpac New Zealand
Banking and wealth services to consumers, businesses and institutions in New Zealand

Division	Cash earnings 1H16 ($m)	Cash earnings 1H16-2H15 % change	Core earnings 1H16-2H15 % change
Consumer Bank	**1,444**	*5*	*6*
Business Bank	**988**	*3*	*3*
BT Financial Group	**452**	*(2)*	*(5)*
Westpac Institutional Bank	**517**	*(25)*	*(4)*
Westpac NZ (in NZ$)	**445**	*(5)*	*(5)*
Other[1]	**93**	*(20)*	*(19)*

Contribution to 1H16 cash earnings by division (%)

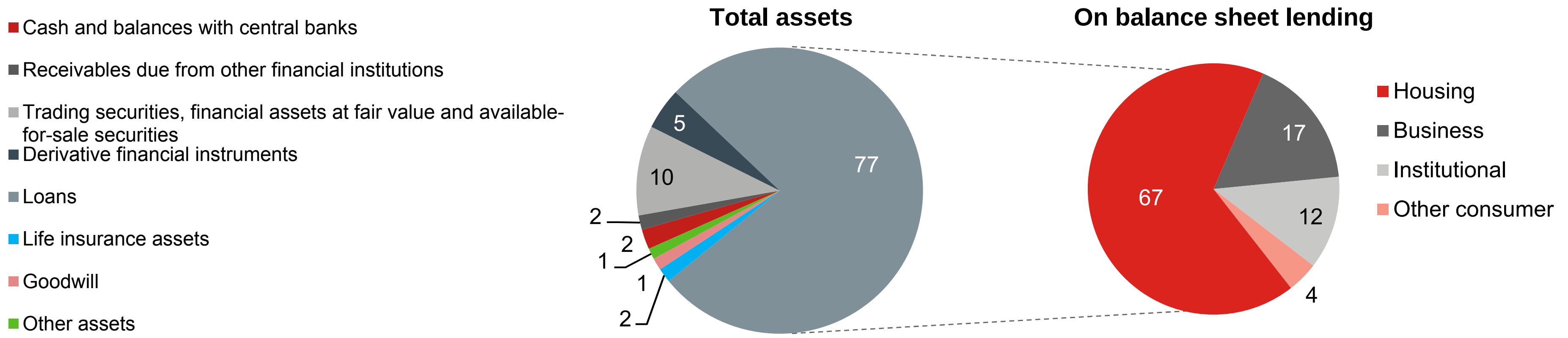


1 Other is Group Businesses, including Treasury.

Westpac GROUP

High quality portfolio with bias to secured consumer lending

Asset composition as at 31 March 2016 (%)



Exposure by risk grade as at 31 March 2016 ($m)

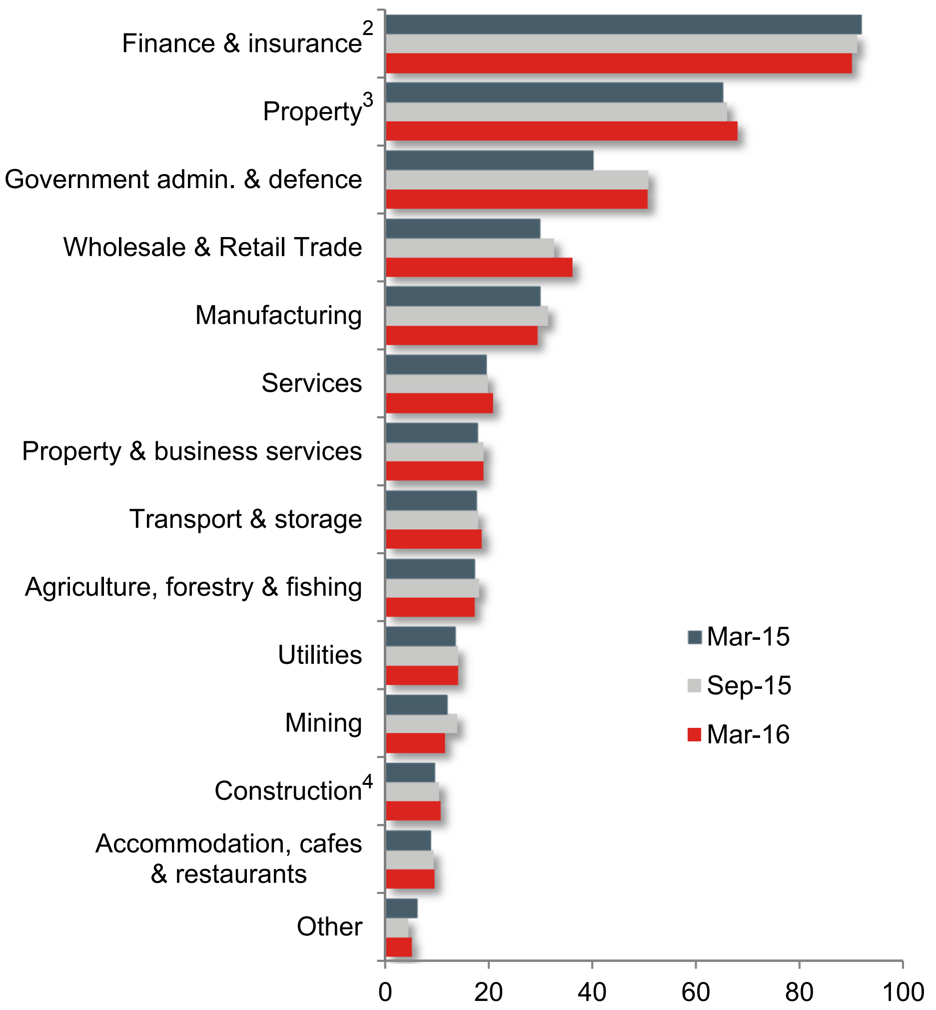
Standard and Poor's risk grade[1]	Australia	NZ / Pacific	Asia	Americas	Europe	Group	% of Total
AAA to AA-	90,533	6,997	1,339	9,369	1,027	**109,265**	11%
A+ to A-	28,655	5,235	6,849	4,405	3,044	**48,188**	5%
BBB+ to BBB-	60,046	10,326	10,675	1,496	1,697	**84,240**	9%
BB+ to BB	74,113	10,560	2,189	245	545	**87,652**	9%
BB- to B+	56,964	9,708	128	17	31	**66,848**	7%
<B+	5,446	1,643	-	60	-	**7,149**	1%
Secured consumer	454,315	46,987	500	-	-	**501,802**	53%
Unsecured consumer	45,857	5,155	275	-	-	**51,287**	5%
Total committed exposures (TCE)	**815,929**	**96,611**	**21,955**	**15,592**	**6,344**	**956,431**	
Exposure by region[2] (%)	85%	10%	2%	2%	1%		100%

1 Risk grade equivalent. 2 Exposure by booking office.

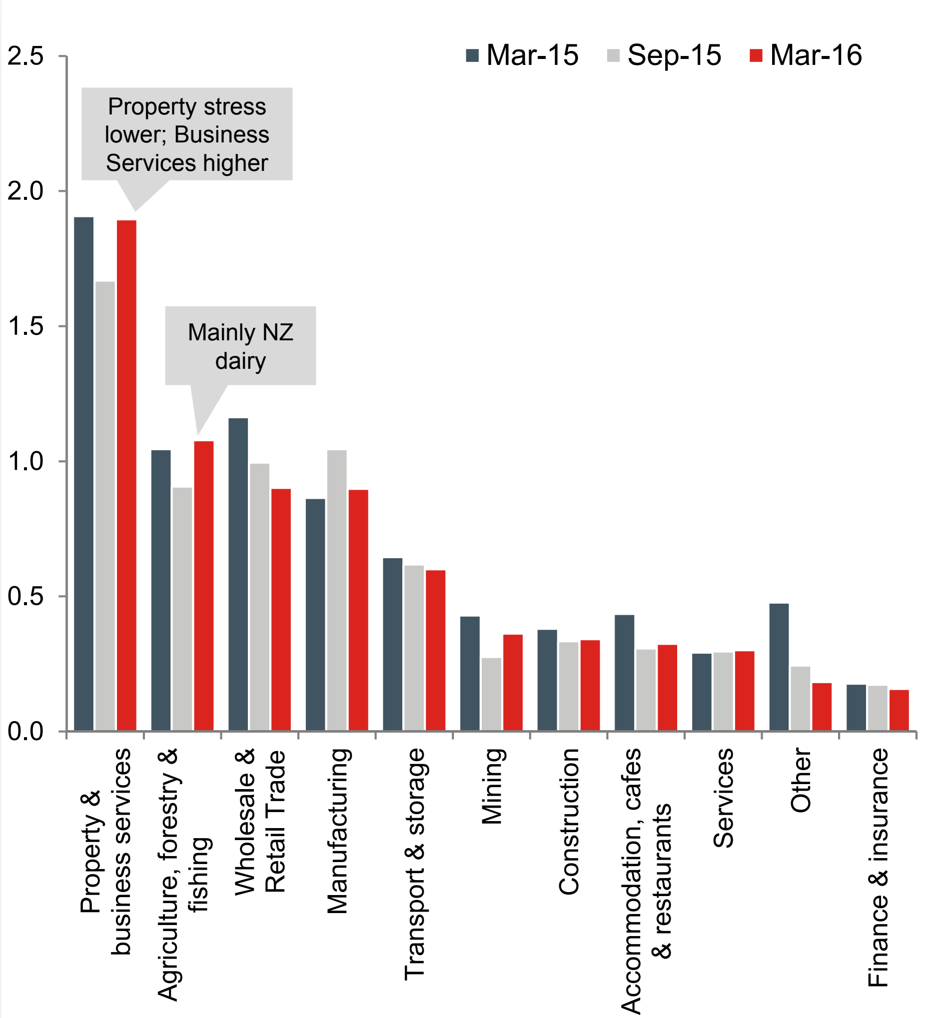
Westpac GROUP

Portfolio diversified across industries; Small rise in portfolio stress from low base

Exposures at default[1] by sector ($bn)



Stressed exposures by industry ($bn)



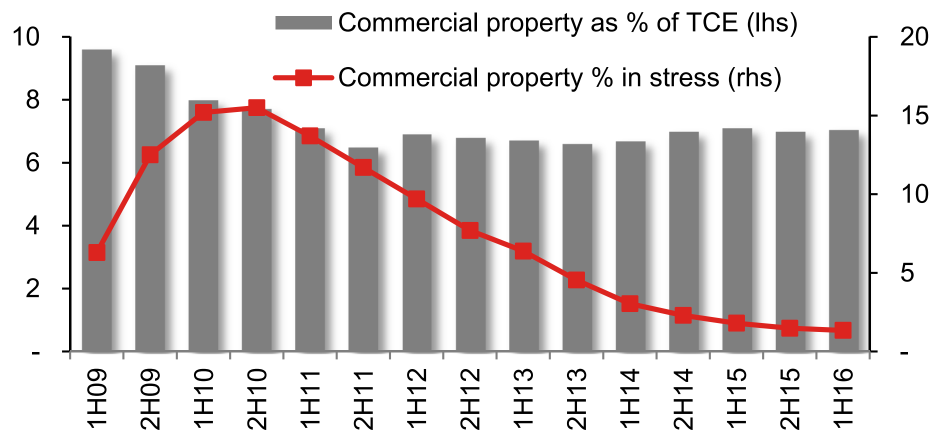
1 Exposures at default represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default. Chart excludes consumer lending. 2 Finance and insurance includes banks, non-banks, insurance companies and other firms providing services to the finance and insurance sectors. 3 Property includes both residential and non-residential property investors and developers, and excludes real estate agents. 4 Construction includes building and non-building construction, and industries serving the construction sector.

Westpac GROUP

Areas of interest: Commercial property

Commercial property portfolio	2H15	1H16
Total committed exposures (TCE)	$65.6bn	**$67.5bn**
Lending	$51.3bn	**$52.1bn**
Commercial property as a % of Group TCE	7.00%	**7.06%**
Median risk grade[1]	BB equivalent	**BB equivalent**
% of portfolio graded as 'stressed'[1]	1.48%	**1.34%**
% of portfolio in impaired	0.64%	**0.54%**

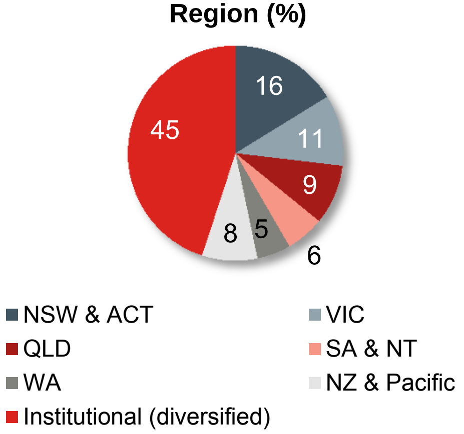
Commercial property exposures % of TCE and % in stress

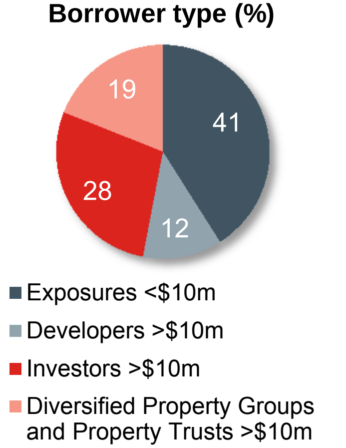


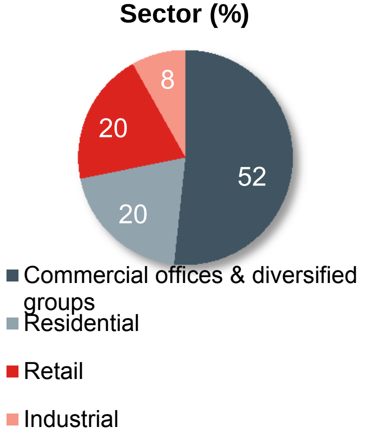
Commercial property lending

- Growth has moderated to 3% annualised
- Dedicated property risk managers provide additional risk assessment for all loans >$10m
- Sound underwriting standards with a maximum LVR 65%. Lower LVRs applied to areas of higher concerns e.g. low to mid 50% LVRs for Melbourne and Brisbane CBD and parts of Sydney
- Strong pre-sales are required – typically ≥100% of the loan and pre-sales to non-residents limited
- Focus on lending to customers with strong track records of delivering projects on time and on budget

Commercial property portfolio composition (%)



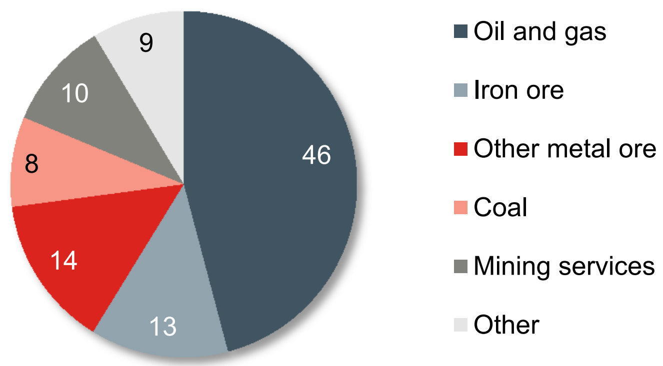




1 Includes impaired exposures.

Areas of interest: Mining (including Oil and Gas)

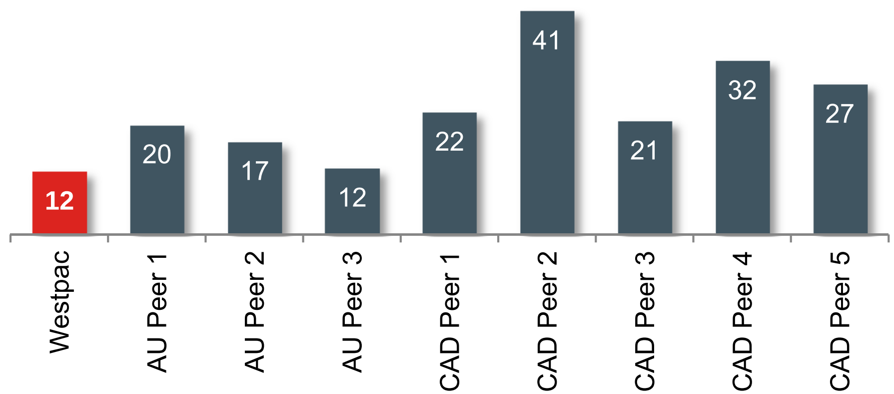
Mining portfolio (total committed exposure) by sector (%)[2]



- Diversified by commodity, customers and region
- Focused on operators with efficient, lower cost operating models
- Approx. 65% of the portfolio is investment grade
- Increase in stress and impaired in 1H16 driven by a small number of downgrades and reduction in the portfolio
- Specific provisions to impaired assets at 56%. Approx. 45% of the economic overlay allocated to the mining sector
- Oil and Gas exposure $5.4bn
  - Around half to LNG projects, generally large investment grade counterparties
  - No exposure to high cost shale oil

Mining portfolio	2H15	1H16
Total committed exposures (TCE)	$14.4bn	**$11.8bn**
Lending	$7.1bn	**$5.9bn**
Mining as a % of Group TCE	1.54%	**1.23%**
Median risk grade[1]	BBB equivalent	**BBB- equivalent**
% of portfolio graded as 'stressed'[1]	1.86%	**3.03%**
% of portfolio in impaired	0.28%	**1.26%**

Australian and Canadian major bank mining exposures (including oil and gas) (A$bn)[3]



1 Includes impaired exposures. 2 Changes in sectors partly relate to reclassification of certain conglomerate customers within the mining portfolio in 1H16. 3 Westpac is exposure at default (EAD) at 31 March 2016. Australian peers 1 and 3 are EAD at 30 September 2015. Australian peer 2 is EAD at 31 December 2015. All Canadian peers EAD at 31 January 2016, except peers 2 and 3, where mining exposure (excluding oil and gas) includes drawn commitments only. Conversion rate AUD/CAD 0.99. Source Company reports and presentations.

Westpac GROUP

Areas of interest: Agriculture

Agriculture portfolio

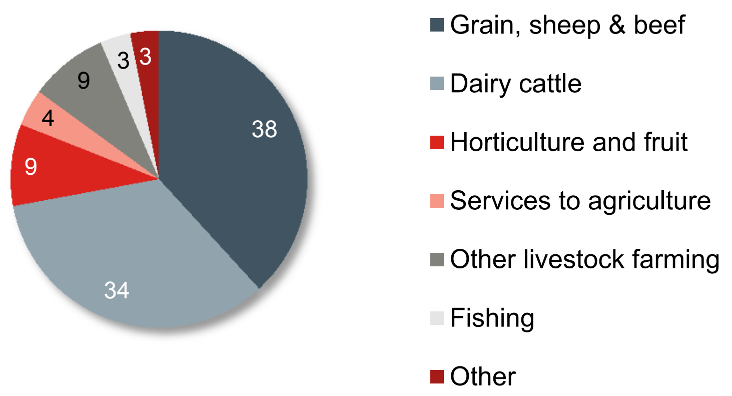
- Agriculture lending comprises 1.79% of Group TCE
- Australian agri portfolio improving. NZ dairy portfolio has been the sector under more stress from declines in milk prices
- The New Zealand dairy portfolio:
  - Focused on quality operators with efficient, lower cost models
  - Within the main regions farms can operate on a 'low cost farming model' due to climate / soil types
  - Majority of dairy security held in prime geographic farming areas
  - New Zealand's cost structure at the lower end of global competitors

Group agriculture portfolio	Sep-15	Mar-16
Total committed exposures (TCE)	$18.1bn	**$17.1bn**
Lending	$15.1bn	**$14.5bn**
Agriculture as a % of Group TCE	1.92%	**1.79%**
Median risk grade[1]	BB Equivalent	**BB Equivalent**
% of portfolio graded as 'stressed'[1]	4.80%	**5.84%**
% of portfolio in impaired	0.43%	**0.48%**

New Zealand agriculture portfolio	Sep-15	Mar-16
Total committed exposure (TCE)	NZ$7.8bn	**NZ$8.1bn**
Agriculture as a % of TCE	7.9%	**7.9%**
% of portfolio graded as 'stressed'[1]	3.92%	**7.81%**
% of portfolio in impaired	0.34%	**0.32%**

The increase in stress is driven by the downgrade of a number of customers, including one large customer

Group agriculture portfolio by sector (%)

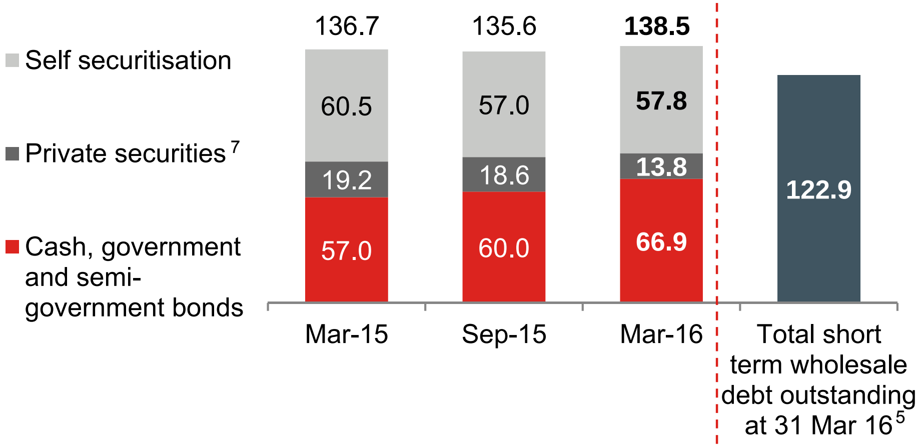


1. Includes impaired exposures.

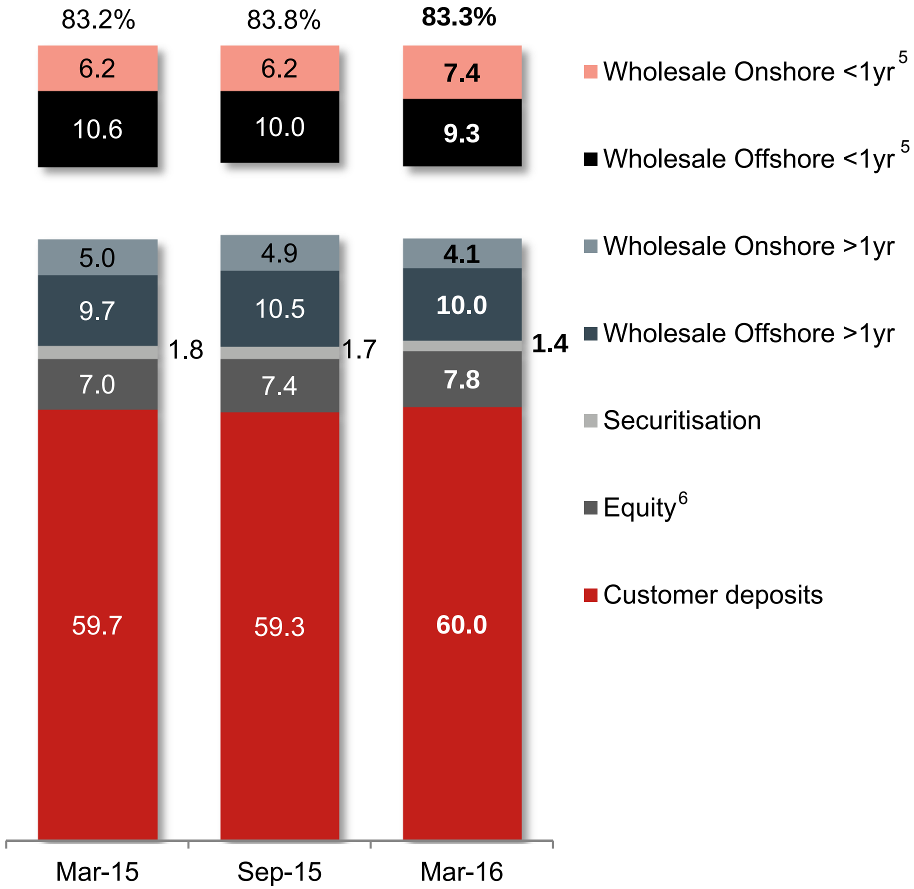
Stable sources provide 83% of all funding

Liquidity Coverage Ratio ($bn)	Sep-15	Mar-16	% Mov't Mar 16 – Sep 15
High Quality Liquid Assets[1] (HQLA)	61	66	9
Committed Liquidity Facility[2] (CLF)	66	59	*(11)*
Total LCR liquid assets	**127**	**125**	***(2)***
Customer deposits	65	63	*(3)*
Wholesale funding	15	13	*(10)*
Other flows[3]	25	22	*(10)*
Total cash outflows	**105**	**98**	***(6)***
LCR[4]	**121%**	**127%**	
Customer deposit average run off rate	*15.2%*	*14.3%*	

Unencumbered liquid assets ($bn)



Stable funding ratio (%)



1 Includes HQLA as defined in APS 210, BS-13 qualifying liquids, less RBA open repos funding end of day ESA balances with the RBA. 2 The RBA makes available to Australian Authorised Deposit-taking Institutions a CLF that, subject to qualifying conditions, can be accessed to meet LCR requirements under APS210 – Liquidity. 3 Other flows include credit and liquidity facilities, collateral outflows and inflows from customers. 4 LCR is calculated as the percentage ratio of stock of HQLA and CLF over the total net cash outflows in a modelled 30 day defined stressed scenario. Calculated on a spot basis. 5 Includes long term wholesale funding with a residual maturity less than or equal to 1 year. 6 Equity excludes FX translation, Available-for-Sale securities and Cash Flow Hedging Reserves. 7 Private securities include Bank paper, RMBS, and Supra-nationals.

Appendix 1: Cash earnings adjustments

Cash earnings adjustment	1H15 $m	2H15 $m	1H16 $m	Description
Reported net profit	3,609	4,403	**3,701**	
Partial sale of BTIM	0	(665)	**0**	During Second Half 2015 the Group recognised a significant gain following the partial sale of the Group's shareholding in BT Investment Management (BTIM). This gain has been treated as a cash earnings adjustment given its size and that it does not reflect ongoing operations
Capitalised technology cost balances	0	354	**0**	Following changes to the Group's technology and digital strategy, rapid changes in technology and evolving regulatory requirements a number of accounting changes were introduced in Second Half 2015, including moving to an accelerated amortisation methodology for most existing assets with a useful life of greater than three years, writing off the capitalised cost of regulatory program assets where the regulatory requirements have changed and directly expensing more project costs. The expense recognised in Second Half 2015 to reduce the carrying value of impacted assets has been treated as a cash earnings adjustment given its size and that it does not reflect ongoing operations
Amortisation of intangible assets	73	76	**79**	The merger with St. George, the acquisition of J O Hambro Capital Management and the acquisition of select Australian businesses of Lloyds Banking Group (Lloyds) resulted in the recognition of identifiable intangible assets. The commencement of equity accounting for BTIM also resulted in the recognition of notional identifiable intangible assets within the investments in associate's carrying value. The intangible assets recognised relate 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 these 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
Acquisition transaction and integration expenses	35	31	**7**	Costs associated with the acquisition of Lloyds have been treated as a cash earnings adjustment as they do not reflect the earnings expected from the acquired businesses following the integration period
Lloyds tax adjustments	0	(64)	**0**	Tax adjustments arising from the acquisition of Lloyds have been treated as a cash earnings adjustment in line with our treatment of Lloyds acquisition and integration costs
Fair value (gain)/loss on economic hedges	26	(59)	**83**	Unrealised fair value (gain)/loss on economic hedges: FX hedges on future NZ earnings and accrual accounted term funding transactions are reversed as they may create a material timing difference on reported earnings in the current period, which does not affect cash earnings over the life of the hedge
Ineffective hedges	(1)	2	**26**	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
Treasury shares	37	(36)	**8**	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
Buyback of government guaranteed debt	(1)	0	**0**	The Group previously bought back certain Government guaranteed debt issues which reduced Government guarantee fees (70bps) 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 was recognised at the time of the buyback. In cash earnings, the cost incurred was being amortised over the original term of the debt that was bought back, consistent with a 70bp 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
Cash earnings	**3,778**	**4,042**	**3,904**	

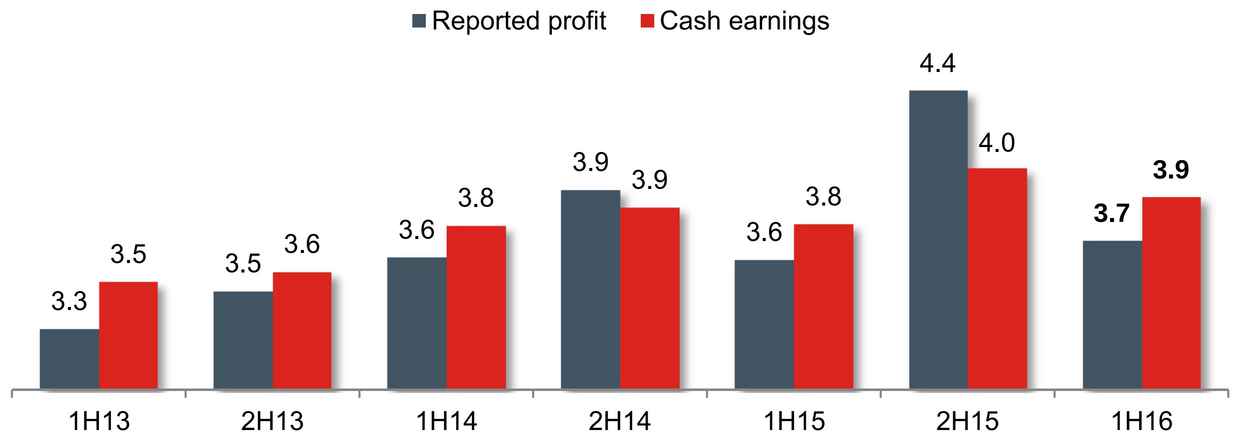
Westpac GROUP

Appendix 2: Cash earnings and reported net profit reconciliation

Cash earnings policy

- Westpac Group uses a measure of performance referred to as cash earnings to assess financial performance at both a Group and divisional level
- This measure has been used in the Australian banking market for over a decade and management believes it is the most effective way to assess performance for the current period against prior periods and to compare performance across divisions and across peer companies
- To calculate cash earnings, reported net profit is adjusted for
  - Material items that key decision makers at the Westpac Group believe do not reflect ongoing operations (both positive and negative)
  - Items that are not considered when dividends are recommended, such as the amortisation of intangibles, impact of Treasury shares and economic hedging impacts
  - Accounting reclassifications between individual line items that do not impact reported results

Reported profit and cash earnings ($bn)



Reported net profit and cash earnings[1] adjustments ($m)

	2H15	1H16
Reported net profit	4,403	**3,701**
Partial sale of BTIM	(665)	**-**
Capitalised technology cost balances	354	**-**
Amortisation of intangible assets	76	**79**
Acquisition transaction and integration expenses	31	**7**
Lloyds tax adjustments	(64)	**-**
Fair value (gain)/loss on economic hedges	(59)	**83**
Treasury shares	(36)	**8**
Ineffective hedges	2	**26**
Cash earnings	4,042	**3,904**

1 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 (Australian Accounting Standards). The specific adjustments outlined include both cash and non-cash items. Cash earnings is reported net profit adjusted for material items to ensure they appropriately reflect profits available to ordinary shareholders. All adjustments shown are after tax. For further details refer to Appendix 1.

Westpac GROUP

Appendix 3: Definitions

Cash earnings	Is a measure of the level of profit that is generated by ongoing operation and is therefore available for distribution to shareholders. Three categories of adjustments are made to reported results to determine cash earnings: material items that key decision makers at Westpac believe do not reflect ongoing operations; items that are not considered when dividends are recommended; and accounting reclassifications that do not impact reported results. For details of these adjustments refer to Appendix 1
AIEA	Average interest earning assets
Net interest spread	The difference between the average yield on all interest bearing assets and the average rate paid on all interest bearing liabilities
Net interest margin	Net interest income divided by average interest-earning assets
TCE	Total committed exposures
Risk Weighted Assets or RWA	Assets (both on and off-balance sheet) are risk weighted according to each asset's inherent potential for default and what the likely losses would be in case of default. In the case of non asset based risks (ie market and operational risk), RWA is determined by multiplying the capital requirements for those risks by 12.5
Internationally comparable	Internationally comparable regulatory capital ratios are Westpac's estimated ratios after adjusting the capital ratios determined under APRA Basel III regulations for various items, identified in Appendix 4. Analysis aligns with the APRA study titled "International capital comparison study" dated 13 Jul 2015
Leverage ratio	As defined by APRA (unless state otherwise). Tier 1 capital divided by 'exposure measure' and expressed as a percentage. 'Exposure measure' is the sum of on-balance sheet exposures, derivative exposures, securities financing transaction exposures and other off-balance sheet exposures

Stressed loans	Stressed loans are the total of watchlist and substandard assets, 90 days past due and not impaired assets, and impaired assets
Impaired assets	Impaired assets can be classified as 1. Non-accrual assets: Exposures with individually assessed impairment provisions held against them, excluding restructured loans 2. Restructured assets: exposures where the original contractual terms have been formally modified to provide concessions of interest or principal for reasons related to the financial difficulties of the customer 3. 90 days past due (and not well secured): exposures where contractual payments are 90 days or more in arrears and not well secured 4. Other assets acquired through security enforcement 5. Any other assets where the full collection of interest and principal is in doubt
90 days past due and not impaired	A loan facility where payments of interest and/or principal are 90 or more calendar days past due and the value of the security is sufficient to cover the repayment of all principal and interest amounts due, and interest is being taken to profit on an accrual basis
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
Individually assessed provisions or 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 is based on expected future cash flows discounted to their present value and as this discount unwinds, interest will be recognised in the statement of financial performance
Collectively assessed provisions or 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 of assets with credit characteristics similar to those in the collective pool. The historical loss experience will be adjusted based on current observable data

Appendix 4: Internationally comparable capital ratio

The APRA Basel III capital requirements are more conservative than those of the Basel Committee on Banking Supervision (BCBS), leading to lower reported capital ratios. In July 2015, APRA published a study that compared the major banks' capital ratios against a set of international peers[1]. The following provides details of the adjustments applied to the APRA Basel III capital requirements, which are aligned to this study

		APRA Study[1] %
Westpac's CET1 capital ratio (APRA basis) at 31 March 2016		**10.5**
Equity investments	Balances below prescribed threshold are risk weighted, compared to a 100% CET1 deduction under APRA's requirements	0.5
Deferred tax assets	Balances below prescribed threshold are risk weighted, compared to a 100% CET1 deduction under APRA's requirements	0.4
Interest rate risk in the banking book (IRRBB)	APRA requires capital to be held for IRRBB. The BCBS does not have a Pillar 1 capital requirement for IRRBB	0.2
Residential mortgages – LGD floor	Loss given default (LGD) of 15%, compared to the 20% LGD floor under APRA's requirements	0.7
Unsecured non-retail exposures	LGD of 45%, compared to the 60% or higher LGD under APRA's requirements	0.7
Non-retail undrawn commitments	Credit conversion factor of 75%, compared to 100% under APRA's requirements	0.5
Specialised lending	Use of IRB probabilities of default (PD) and LGDs for income producing real estate and project finance exposures, reduced by application of a scaling factor of 1.06. APRA applies higher risk weights under a supervisory slotting approach, but does not require the application of the scaling factors	0.6
Currency conversion threshold	Increase in the A$ equivalent concessional threshold level for small business retail and small to medium enterprise corporate exposures	0.2
Capitalised expenses	APRA requires these items to be deducted from CET1. The BCBS only requires exposures classified as intangible assets under relevant accounting standards to be deducted from CET1	0.4
Internationally comparable CET1 capital ratio at 31 March 2016		**14.7**

1 Analysis aligns with the APRA study titled "International capital comparison study", dated 13 July 2015.

Appendix 5: Tier 2 capital comparison across jurisdictions[1]

	US	Canada	UK / EU / Scandinavia	Singapore	Australia
Ranking	Senior to Tier 1 Capital	Senior to Additional Tier 1 Capital	Senior to Additional Tier 1 Capital	Senior to Additional Tier 1 Capital	Senior to Additional Tier 1 Capital
Step-ups	Not permitted	Not permitted	Not permitted	Not permitted	Not permitted
Capital amortisation	20% p.a. beginning 5 years prior to maturity (no credit in final year)	20% p.a. beginning 5 years prior to maturity (no credit in final year)	5 years prior to maturity on a straight-line amortised basis	4 years prior to maturity on a straight-line amortised basis	4 years prior to maturity on a straight-line amortised basis
Early redemption	Tax Event / Regulatory Event	Tax Event / Regulatory Event	Tax Event / Regulatory Event	Tax Event / Regulatory Event	Tax Event / Regulatory Event
Point of Non-Viability					
Definition	n.a.	Regulatory Discretion	Regulatory Discretion	Regulatory Discretion	Regulatory Discretion
Approach	n.a	Contractual	Statutory	Contractual	Contractual
Disclosure	n.a	Terms & Conditions	Risk factor	Terms & Conditions	Terms & Conditions
Primary loss absorption mechanism	n.a	Conversion into ordinary shares	Conversion into ordinary shares or Write-down	Write-down	Conversion into ordinary shares[2]

1 Source: Westpac Institutional Bank. 2 The Terms and Conditions of the Subordinated Instruments include a provision that enables the sale of shares, on Conversion, for cash, subject to possible Write-off.

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