Media Release

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WESTPAC DELIVERS SOLID FIRST HALF 2015 OPERATING RESULT

Westpac Group today announced First Half 2015 cash earnings of $3,778 million, in line with the prior corresponding period. Statutory net profit was $3,609 million.

The Group's operating businesses continued to perform well, particularly the Group's retail and business banking divisions. However, the result was affected by a lower Treasury contribution and a $85 million (post-tax) charge following the introduction of the previously announced methodology changes to derivative valuations[1] (derivative adjustments). Prior to the derivative adjustments, cash earnings were up 2%, compared to the prior corresponding period.

Key features of the result compared to the prior corresponding period included[2]:

- Statutory net profit of $3,609 million, in line with the prior corresponding period
- Cash earnings per share of 121.3 cents, in line with the prior corresponding period
- Cash earnings of $3,778 million, in line with the prior corresponding period
- Interim fully franked dividend of 93 cents per share (cps) up 3%
- Common equity Tier 1 capital ratio of 8.8% down 6bps
- Cash return on equity (ROE) of 15.8% down 67bps
- Lending up 7%, customer deposits up 8%, funds under management up 25% and funds under administration up 17%
- Margins (ex-Treasury and Markets) unchanged at 2.01%
- Expense to income ratio at 42.5% from 41.2%
- Further improvements in asset quality with impaired assets as a percentage of gross loans falling 16bps to 0.35%

Westpac Chief Executive Officer, Brian Hartzer, said: "Our operating divisions, particularly retail and business banking, have continued to perform well during the period. However, the headline result was impacted by derivative adjustments in our WIB business and a lower Treasury result.

"Our primary goal is to continue to build the value of our franchise, and the drivers of value are heading in the right direction. We have grown our customer base and continued to improve customer service, while maintaining our disciplined approach to growth and margin management.

"At the same time we have delivered $230 million in efficiency gains over the year and further improved the quality of the portfolio through a reduction in stressed assets.

"In our retail and business banking divisions we had solid loan and deposit growth, along with well managed margins.

"We are seeing the results of our Service Revolution program, with Westpac Retail & Business Banking delivering record customer growth and improved customer satisfaction. Our St.George

[1] In First Half 2015 changes were made to derivative valuation methodologies, which include the first time adoption of a FVA to the fair value of derivatives. The impact of these changes resulted in a $122 million (pre-tax) charge which reduced non-interest income.

[2] Reported on a cash earnings basis unless otherwise stated. For an explanation of cash earnings and reconciliation to reported results refer to pages 4 to 5 and 118 to 120 of the Group's 2015 Interim Financial Results announcement.

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Banking Group brands also contributed positively, with Bank of Melbourne continuing to grow market share.

"We achieved good growth in New Zealand, supported by changes to our distribution network and the increased use of digital channels.

"In WIB, cash earnings were 17% lower due to the $85 million post tax charge as a result of derivative adjustments and a lower impairment benefit. Customer revenues were up 6% with strong lending growth. That's a good outcome given the competitive market."

During the six-month period more than $450 million was invested in the business including initiatives to help transform the customer experience and drive growth. Highlights include:

- Completed the roll-out of 'Westpac Live', the new mobile/online platform, to 3.1 million Westpac consumer customers. The migration of Westpac business customers is well underway, with 300,000 customers already on the enhanced platform. A new internet and mobile banking platform, Westpac One, was also launched in New Zealand;

- Continued the redesign of the branch network to provide customers with a more efficient, accessible service, including: upgraded a further 49 branches to a new format with more 24/7 access options; launched an agreement with Australia Post to provide 3,000 more locations for customers to do over the counter banking; and opened a further seven Bank of Melbourne branches;

- Introduced a number of initiatives within BT Financial Group including: rolled out the next phase of the new BT Wealth platform, 'Panorama', offering advisers and their clients a simple way to access shares, managed funds and cash through a range of professionally managed portfolios; expanded our insurance product set through our alliance with Allianz; and restructured mortgage insurance arrangements to give a better customer experience and improve returns;

- Progressed the Asian strategy, completing the global trade platform and core banking systems in Singapore, Hong Kong and India, delivering faster processing and servicing times for customers; and

- Continued to build on the productivity and simplification program, with $113 million in efficiencies including branch simplification, increased self-service options for customers, and product simplification.

Mr Hartzer said it was important that with intense competition in the mortgage, deposits and business lending markets, the Group is disciplined in its approach to returns and growth as well as maintaining prudent risk settings.

"We grew at system in household deposits, and slightly below system in mortgages, while holding our margin (excluding Treasury and Markets) flat. Our asset finance business has also grown strongly, leveraging the acquired Lloyds capability.

"The strength of our franchise and the disciplined implementation of our strategy are hallmarks of the Group. We've managed the transition to the new Liquidity Coverage Ratio framework well, with high levels of liquid assets and a well-diversified funding profile. Westpac also has a high quality credit portfolio, with asset quality metrics continuing to improve."

CAPITAL POSITION AND DIVIDENDS

The Group's common equity Tier 1 (CET1) capital ratio of 8.8% is well above regulatory minimums. However, due to other[3] items, including changes in mortgage risk factors implemented during the half, the ratio is currently at the lower end of the Group's preferred capital range of 8.75% to 9.25%.

There remains uncertainty over future capital settings, including the introduction of the next set of reforms from the Basel Committee on Banking Supervision, and the Federal Government's assessment of the final recommendations from the Financial System Inquiry. As a result, the Board has decided it is appropriate for the Group to be operating at the upper end of the preferred capital range. In line with this, the Group will issue shares to satisfy the DRP for the interim dividend (at a 1.5% discount), and partially underwrite the DRP to increase CET1 capital by approximately $2 billion. The interim dividend has been increased by 3 cps, or 3%, on the First Half 2014.

FINANCIAL HIGHLIGHTS

Key financial aspects of the First Half 2015 result[4,5]:

- Net interest income of $6,934 million, up 4%, with a 7% rise in average interest-earning assets and a 6bps decrease in net interest margin to 2.05%. Margins (ex-Treasury and Markets) were unchanged at 2.01%;
- Australian housing loans increased 7%, personal lending rose by 7% and business lending increased by 5%. Group-wide, customer deposits increased $31.4 billion to $420.3 billion, up 8%;
- Non-interest income of $3,086 million, a 3% decrease, with a strong performance from our funds management business more than offset by methodology changes to derivative valuations and higher insurance claims this period;
- An expense to income ratio of 42.5%; and
- The Group's high quality credit portfolio was reflected in the 11bps impairment charge relative to average gross loans. The Group has retained its strong provisioning coverage including economic overlays being maintained.

DIVISIONAL PERFORMANCE: 1H15 CASH EARNINGS[4,5]

Cash earnings ($million)	1H15	2H14	1H14	% increase 1H15-2H14	% increase 1H15-1H14
Westpac Retail & Business Banking	1,350	1,330	1,253	2	8
St.George Banking Group	837	806	769	4	9
BT Financial Group	451	459	441	(2)	2
Westpac Institutional Bank	624	717	750	(13)	(17)
New Zealand (NZ$)	441	432	432	2	2
Westpac Pacific (A$)	59	57	65	4	(9)

[3] Other items also include foreign currency translation impacts and revaluation of the defined benefit obligation.
[4] Cash earning basis.
[5] All comparisons in the commentary are to the prior corresponding period unless otherwise stated.

Westpac Retail & Business Banking's focus on investing in front line customer initiatives contributed to an 8% uplift in cash earnings to $1,350 million. The division achieved good loan and deposit growth which, together with disciplined management of margins, contributed to a 7% increase in core earnings. Efficiency continued to improve, with a 5% increase in revenue per FTE and a 47bps reduction in the expense to income ratio to 43.9%. Impairment charges were 2% lower, consistent with a further improvement in the division's already high quality portfolio.

St.George Banking Group delivered cash earnings of $837 million, up 9%. Revenue was supported by good momentum across the business, sound balance sheet growth and good margin management. Bank of Melbourne continues to deliver above system lending and deposit growth and the addition of the Lloyds business has also contributed positively. Expenses were well controlled, with the expense to income ratio falling an additional 28bps to 37.9%. The balance sheet continued to strengthen with a further reduction in stressed assets, although impairment charges were a little higher ($8 million), from a low base.

BT Financial Group cash earnings increased 2%, with higher funds management earnings (up 10%) offset by weaker insurance earnings (down 13%), mostly from a rise in general insurance claims. Funds Under Management (FUM) and Funds Under Administration (FUA) grew, up 26% and 17% respectively. BT Financial Group maintained its market leading position, ranking number 1 on all Platforms, with FUA share of 19.9%. It remained number 1 on Retail (excluding cash), with 18.8% share of FUA, and number three ranking on Corporate Super, with a 14.8% share of FUA[6]. The insurance business continued to grow, with a rise in in-force premiums of 13% in Life Insurance and 8% in gross written premiums in General Insurance. These gains were offset by higher claims due principally to the Brisbane hail storm and Cyclone Marcia in northern Queensland.

Westpac Institutional Bank delivered cash earnings of $624 million, down $126 million (17%). The lower result was driven by derivative adjustments equivalent to $122 million (pre-tax), $68 million lower impairment benefits over the period, and competition driving down margins. WIB continued to deliver solid growth in lending (up $6.1 billion or 10%), good customer related flows, and continued success in its Asian investment. WIB maintained its position as the number one lead domestic transactional bank[7] for the 11th year in a row, and was ranked the number one Australian bank for FX globally[8]. Strong asset quality was maintained with a further reduction in stressed and impaired assets.

Westpac New Zealand delivered a 2% increase in cash earnings, to NZ$441 million, with 7% growth in core earnings on the back of solid loan growth and stable margins. This was partly offset by a rise in impairment charges off a very low base. Lending increased 5% (primarily due to mortgages up 5%), while deposits increased 6%. Disciplined expense growth of 4% helped deliver a 71bps reduction in the expense to income ratio to 40.6%.

Westpac Pacific cash earnings were down $6 million, negatively affected by foreign exchange controls introduced in Papua New Guinea in July 2014, offsetting a strong rise in net interest income. During the first half, we announced we had entered into an agreement to sell our banking operations in five Pacific Island Nations, while maintaining our presence in Fiji and Papua New Guinea. We also announced $100,000 in aid to Vanuatu in response to Cyclone Pam.

Group Businesses, which includes Treasury, reported cash earnings of $44 million, down $57 million on the first half 2014 due to a lower Treasury result. This reflected lower returns from management of the liquids portfolio and balance sheet management activities.

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[6] Plan for Life Quarterly Data System (December 2014).
[7] Peter Lee Associates Large Corporate and Institutional Transactional Banking Survey Australia. Quantitative measure from 576 votes in 2014. Westpac ranks number one for citations as a 'lead' domestic transactional bank 2004 – 2014.
[8] Euromoney FX Poll 2014.

OUTLOOK

Mr Hartzer said he was positive about the growth outlook for the Australian economy, with low interest rates, a lower Australian dollar and support from the housing sector.

“While I’m positive about the outlook, the economy is currently in transition and this means that we expect growth to be uneven across different industry sectors and geographies.

“Areas like housing, infrastructure, and agriculture will do relatively well, while other areas such as mining and resource-driven regions and adjacent service providers will find it tough.

“For Australian banks, this means that credit growth will be modest but positive with housing growing faster than business. Asset quality should remain strong, supported by low interest rates and healthy business balance sheets.

“This also means that banking competition will remain intense, including from new entrants.

“In this environment, and with considerable regulatory uncertainty, we will continue to run our businesses in a way that provides the headroom to manage volatility, while investing in our people and technology to build the value of the company.

“We are strongly positioned in our key markets and have set the clear ambition to be one of the world’s great service companies. When I look at every business across the franchise, we are moving in the right direction to achieve this and are delivering for all stakeholders. That, combined with the disciplined way we are managing the business, gives me confidence in the future,” Mr Hartzer said.

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