WESTPAC BANKING CORPORATION
ABN 33 007 457 141

3Q16 Capital, Funding & Asset Quality Update (Pillar 3)

August 2016

This document should be read in conjunction with Westpac's Pillar 3 Report June 2016, incorporating the requirements of APS330. All comparisons in this document refer to 30 June 2016 compared to 31 March 2016 (unless otherwise stated)

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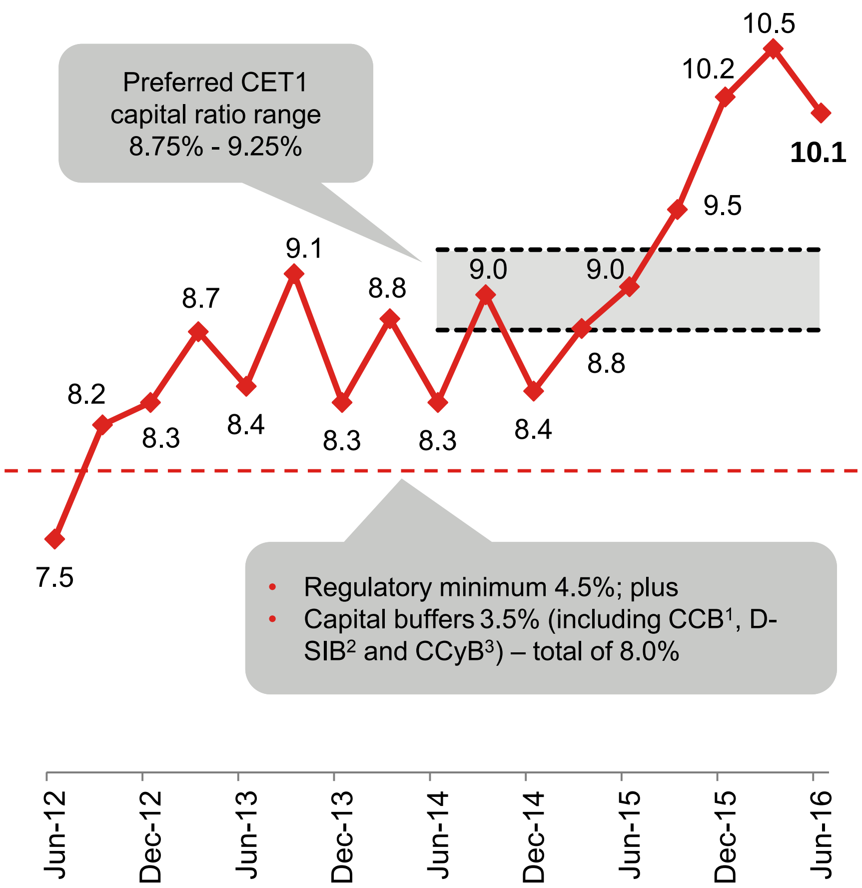
Summary of 3Q16

Strongly capitalised	• Common equity Tier 1 (CET1) capital ratio 10.1% at 30 June 2016 • Internationally comparable[1] CET1 capital ratio 14.1% at 30 June 2016, in the top quartile of banks globally[2] • 1.1% growth in RWA over 3Q16, mostly from movements in AUD/NZD exchange rate
Asset quality sound, provisioning strengthened	• Asset quality metrics remain near cyclical lows • Impaired assets $52m lower. No impaired exposures over $20m emerged in 3Q16 • Stressed assets higher (up 12bps to TCE[3]) reflecting a rise in mortgage delinquencies (mostly regions impacted by mining slowdown, and from changes in reporting of mortgage hardship[4]) and from some companies still performing but downgraded; including mining related and NZ dairy • Provision cover remains high, and above sector average • Impairment charge in 3Q16 below quarterly average of 1H16
Strong funding/ liquidity position although funding costs rising	• Westpac stable funding ratio 84% at 30 June 2016, up 70bps over 3Q16 • Liquidity coverage ratio 126% at 30 June 2016, compared to 127% at 31 March 2016 • Funding costs rising across both wholesale markets and customer deposits
3Q16 key items impacting non-interest income	• Institutional activity has remained subdued leading to lower markets related income and a decline in fees from debt markets activities • Insurance claims in 3Q16 were higher relative to quarterly average of 1H16, including the impact of severe storms and higher life claims • These contributed to 3Q16 non-interest income being around 5% below the 1H16 quarterly average

1 Internationally comparable aligns with the APRA study titled 'International Capital Comparison Study' of 13 July 2015. 2 Based on APRA Insight Issue Two "International capital comparison update" of 4 July 2016. 3 Total committed exposure. 4 Details of the impact from changes in the reporting of mortgage hardship provided on page 72 of Westpac's 2016 Interim Presentation and Investor Discussion Pack.

Strong capital position

Common equity Tier 1 (CET1) capital ratio (%)



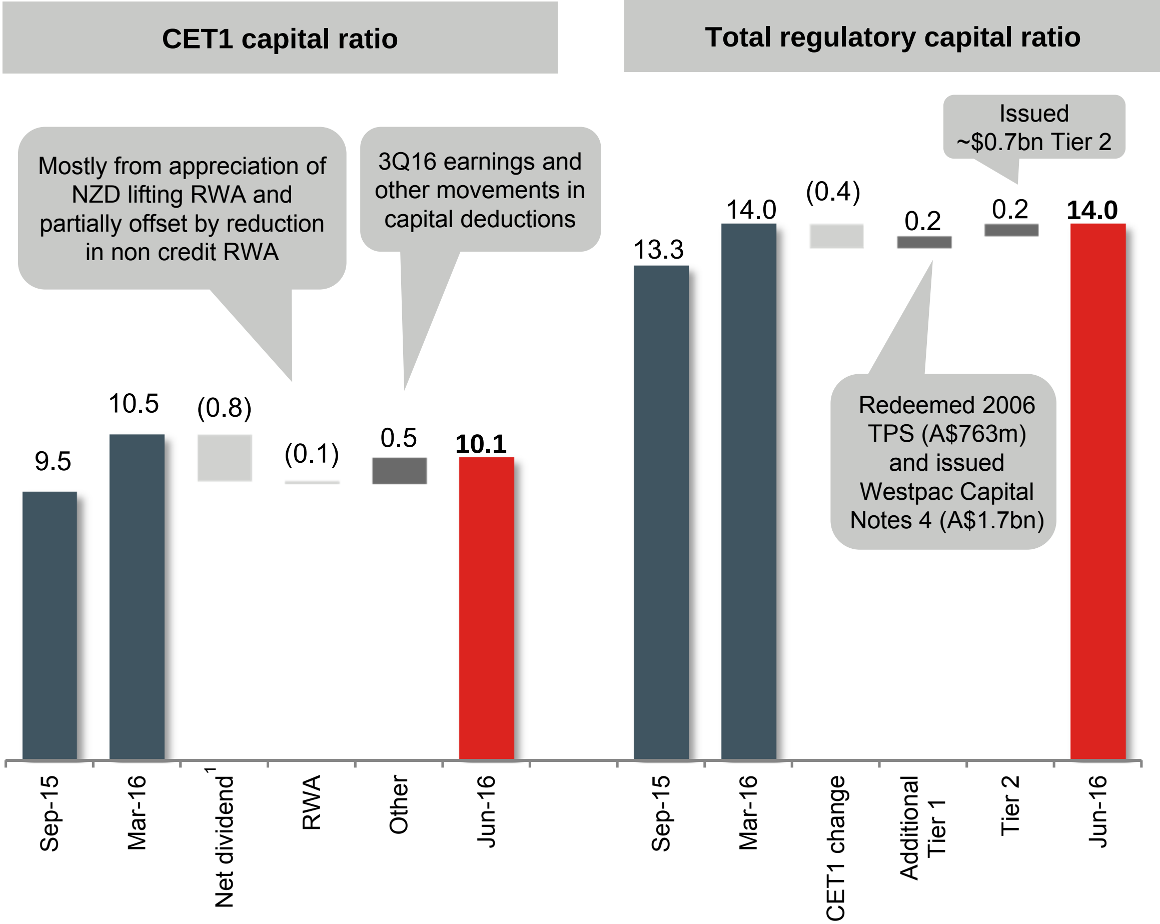
Key capital ratios (%)

	Dec-15	Mar-16	Jun-16
CET1 capital ratio	10.2	10.5	**10.1**
Additional Tier 1 capital	1.8	1.6	**1.8**
Tier 1 capital ratio	12.0	12.1	**11.9**
Tier 2 capital	1.9	1.9	**2.1**
Total regulatory capital ratio	13.9	14.0	**14.0**
CET1 capital ratio (internationally comparable[4])	14.3	14.7	**14.1**
Risk weighted assets (RWA) ($bn)	361	363	**367**
Leverage ratio (APRA)	4.9	5.0	**4.9**
Leverage ratio (internationally comparable[4])	5.6	5.8	**5.7**

1 Capital Conservation Buffer. 2 Domestic Systemically Important Bank. 3 Countercyclical buffer. 4 Internationally comparable aligns with the APRA study titled 'International Capital Comparison Study' of 13 July 2015.

Strong capital position

Regulatory capital ratios (%)



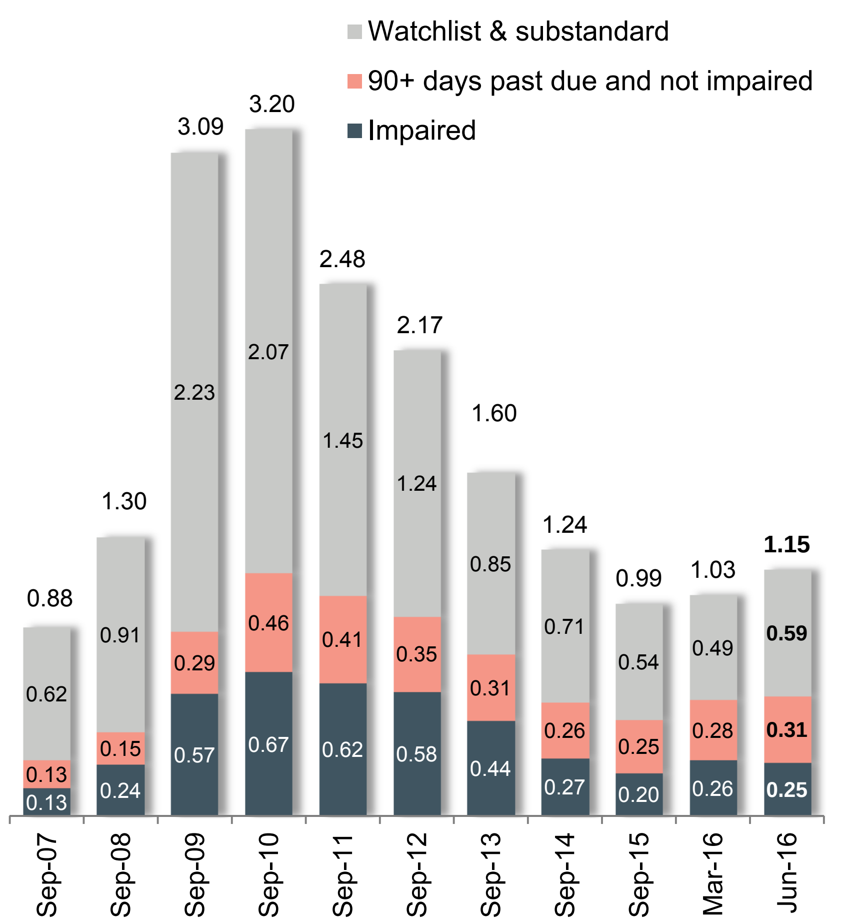
1 2016 interim dividend (-85bps) net of dividend reinvestment plan (+8bps).

Future capital developments

- Changes in the calculation of RWA for Australian residential mortgages are expected to see the ratio of total mortgage RWA to EAD rise to 25% from currently around 16%. This will reduce the CET1 capital ratio by approximately 110bps
- Changes to factors for determining interest rate risk in the banking book (IRRBB) after 30 June 2016
- Basel Committee on Banking Supervision expected to finalise new arrangements (Basel IV) by end 2016. These include:
  - Adjustment to advanced models for credit risk
  - Revised standardised credit risk
  - Advanced RWA floors based on standardised approach
  - Fundamental review of trading book
  - Counterparty credit risk changes
  - Operational risk to standardised approach
- APRA consultation on Basel IV expected to commence in 2017 with implementation from 2018

Asset quality remains sound

Stressed exposures[1] (as a % of TCE)



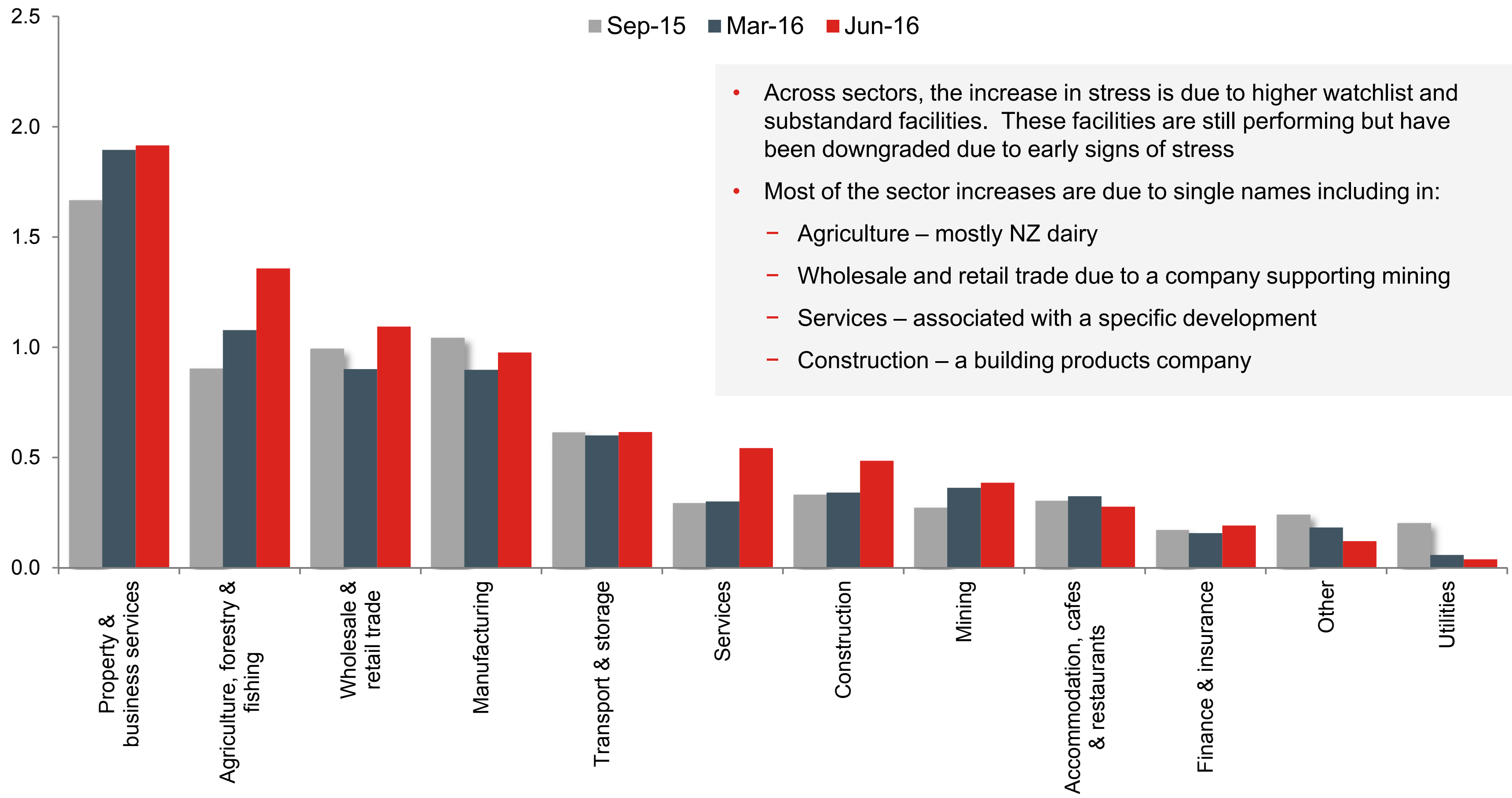
- Stressed exposures to TCE up 12bps to 1.15%
  - Impaired assets $52m lower
  - Small increase in 90+ days past due and not impaired (mainly residential mortgages) mostly reflecting changes in reporting of mortgages in hardship, and higher delinquencies in WA, SA and Qld
  - Watchlist & substandard assets (fully performing loans) up $1.4bn. This rise includes:
    - Increasing stress in mining related regions for some Business Bank customers
    - Impact of stress in New Zealand dairy industry

Provision coverage ratios	Sep-15	Dec-15	Mar-16	Jun-16
Collectively assessed provisions to credit RWA	86bps	87bps	87bps	**87bps**
Impairment provisions to impaired assets	46%	48%	48%	**49%**
Total provisions to RWA	93bps	94bps	101bps	**101bps**

1 Local currency sovereign exposure funded by local deposits excluded from stress.

Movements in stressed assets across sectors

Stressed exposures by industry ($bn)



- Across sectors, the increase in stress is due to higher watchlist and substandard facilities. These facilities are still performing but have been downgraded due to early signs of stress
- Most of the sector increases are due to single names including in:
  - Agriculture – mostly NZ dairy
  - Wholesale and retail trade due to a company supporting mining
  - Services – associated with a specific development
  - Construction – a building products company

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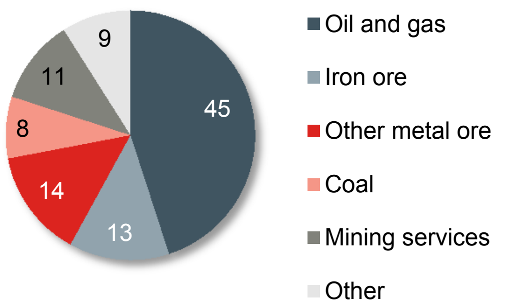
Areas of interest
mining, commercial property and NZ dairy portfolios

Mining portfolio (including oil and gas)

	Mar-16	Jun-16
TCE	$11.8bn	**$11.6bn**
Lending	$5.9bn	**$6.5bn**
% of Group TCE	1.23	**1.20**
% of portfolio graded as stressed[1, 2]	3.03	**3.15**
% of portfolio in impaired[2]	1.26	**1.36**

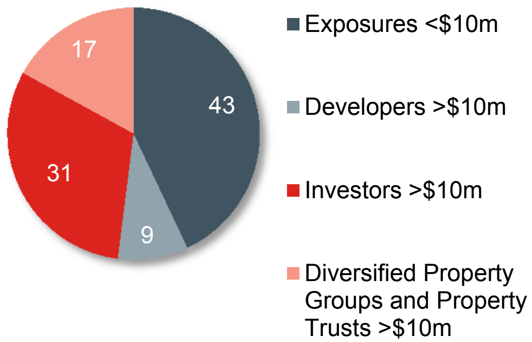
TCE by sector (%)



Commercial property portfolio

	Mar-16	Jun-16
TCE	$67.5bn	**$67.0bn**
Lending	$52.1bn	**$52.1bn**
% of Group TCE	7.06	**6.91**
% of portfolio graded as stressed[1, 2]	1.34	**1.37**
% of portfolio in impaired[2]	0.54	**0.56**

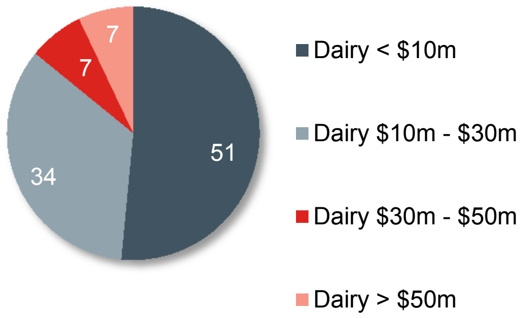
TCE by borrower type (%)



NZ dairy portfolio

	Mar-16	Jun-16
TCE (NZD)	$5.8bn	**$6.0bn**
Lending (NZD)	$3.3bn	**$3.4bn**
% of Group TCE	0.54	**0.59**
% of portfolio graded as stressed[1, 2]	10.04	**14.28**
% of portfolio in impaired[2]	0.13	**0.26**

TCE by exposure size (%)



1 Includes impaired exposures. 2 Per cent of portfolio is to TCE.

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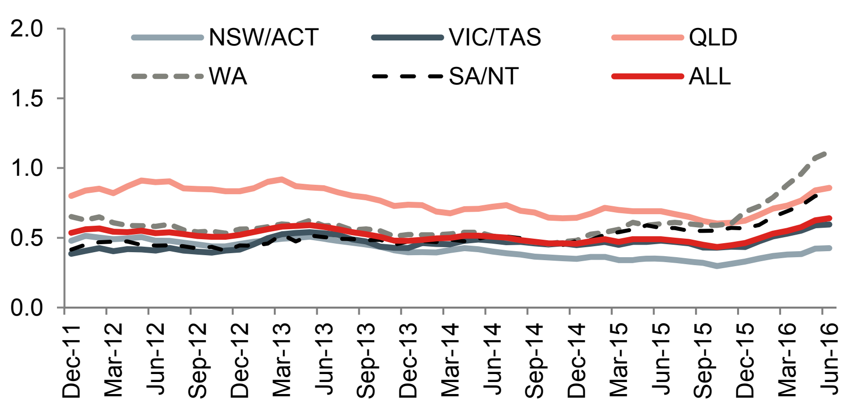
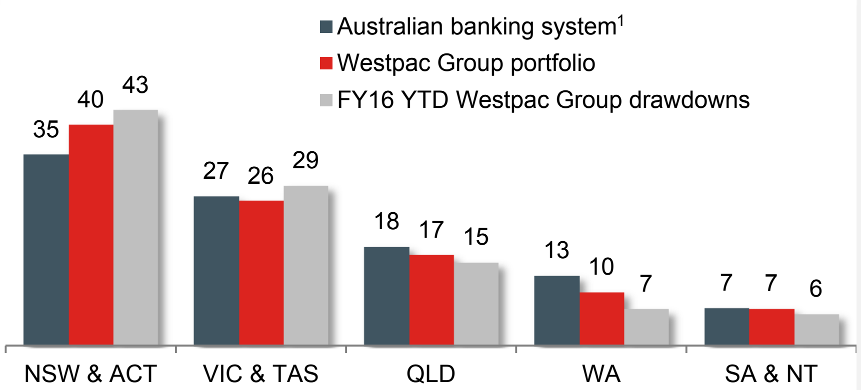
Australian consumer delinquencies

Australian mortgage portfolio	Sep-15	Mar-16	Jun-16
30+ days delinquencies (bps)	102	134	**139**
90+ days delinquencies (bps) *(includes impaired mortgages)*	45	55	**64**
Cumulative impact of changes to hardship reporting (bps)		*4-5*	***9***
90+ days delinquencies – investment property loans (bps)	31	38	**44**
Properties in possession (#)	255	253	**264**

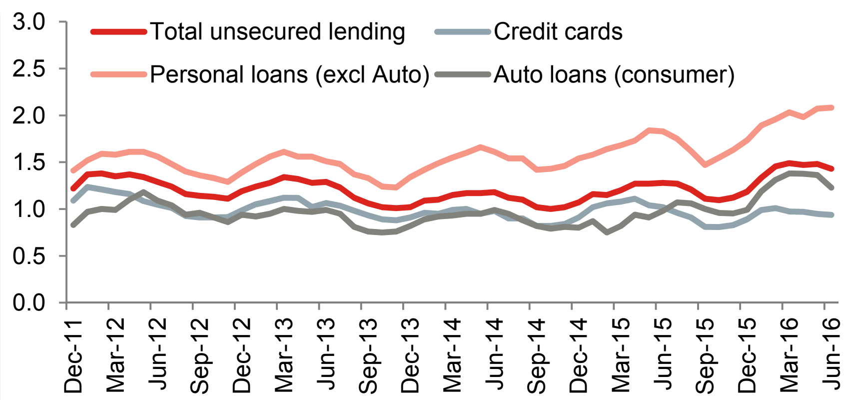
Australian mortgages 90+ days delinquencies by state (%)



Australian housing and share by State (%)



Australian consumer 90+ days delinquencies (%)

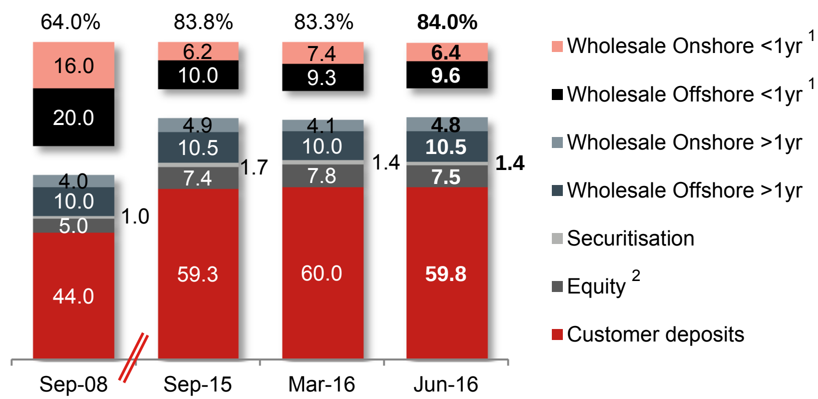


1 Source ABA Cannex June 2016.

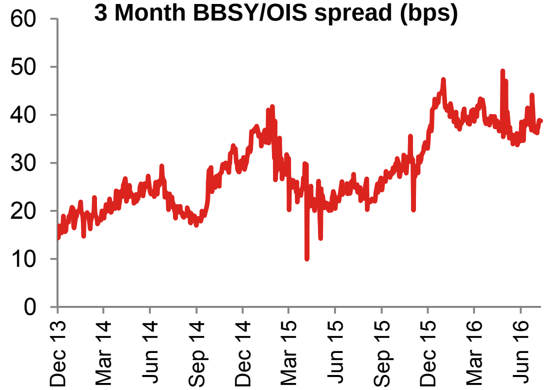
Strong funding and liquidity position, funding costs rising

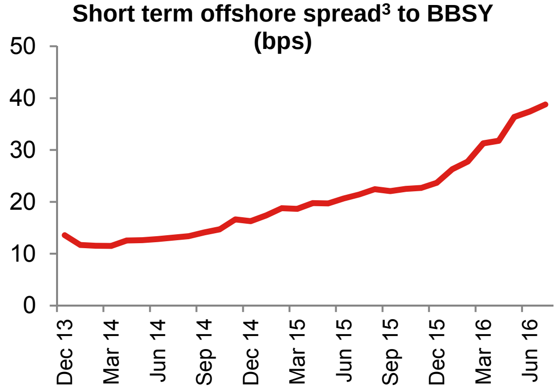
- Strong funding and liquidity profile maintained
  - Stable funding ratio 84.0%
  - Customer deposits 60% of total funding
  - Liquidity coverage ratio 126%
- Market dynamics and regulatory change have added 10 to 20bps to the cost of core funding pools over the last 12 months
  - Higher term deposit rates relative to market rates
  - Higher short term wholesale funding costs from both increased offshore costs and a widening of the Bills/OIS spread

Stable funding ratio (%)

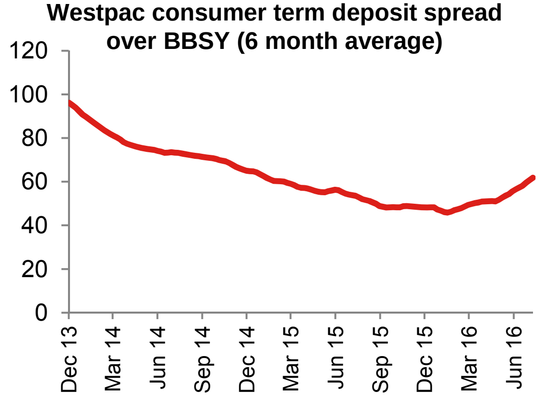


Higher short term wholesale funding costs





Higher deposit funding costs



1 Includes long term wholesale funding with a residual maturity less than or equal to 1 year. 2 Equity excludes FX translation, Available-for-Sale securities and Cash Flow Hedging Reserves. 3 The cost of offshore short term wholesale funding (swapped back to AUD) above BBSY.

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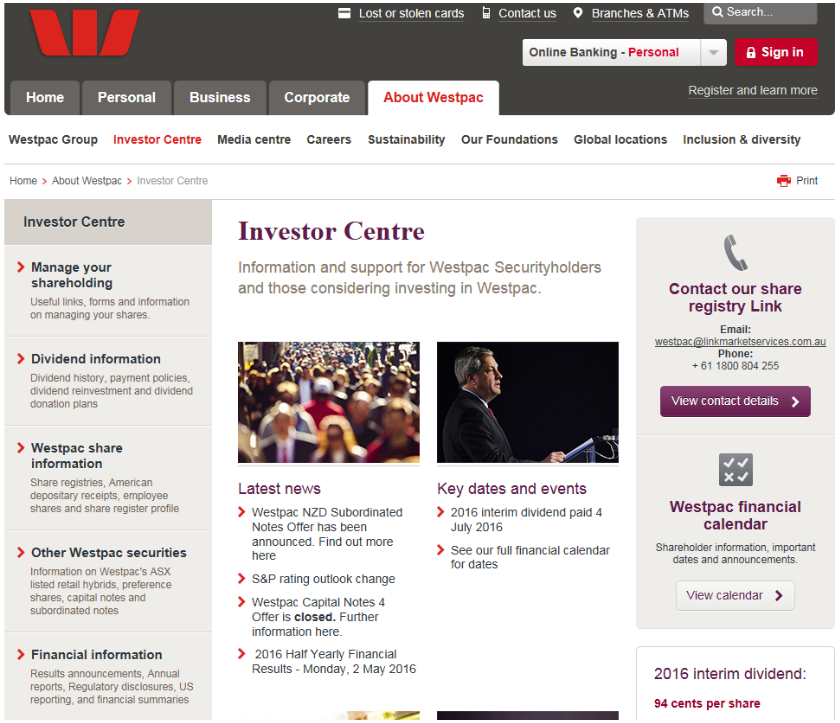

Appendix 1: Definitions

Capital and asset quality

Capital ratios	As defined by APRA (unless stated otherwise)
Internationally comparable	The internationally comparable common equity Tier 1 (CET1) capital ratio is an estimate of Westpac's CET1 ratio calculated on rules comparable with global peers. The ratio adjusts for differences between APRA's rules and those applied to global peers. The adjustments are applied to both the determination of regulatory CET1 and the determination of risk weighted assets. Methodology aligns with the APRA study titled "International capital comparison study" dated 13 July 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
Liquidity coverage ratio (LCR)	The level of high quality liquid assets (as defined by APRA) over total cash outflows in a 30-day defined stressed scenario
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 (i.e. market and operational risk), RWA is determined by multiplying the capital requirements for those risks by 12.5
Impaired assets	Exposures that have deteriorated to the point where full collection of interest and principal is in doubt, based on an assessment of a customer's outlook, cashflow, and the net realisation of value of assets to which recourse is held; facilities 90 days or more past due, and full recovery is not in doubt: exposures where contractual payments are 90 or more days in arrears and the net realisable value of assets to which recourse is held may not be sufficient to allow full collection of interest and principal, including overdrafts or other revolving facilities that remain continuously outside approved limits by material amounts for 90 or more calendar days; non-accrual assets: exposures with individually assessed impairment provisions held against them, excluding restructured loans; restructured assets: exposures where the original contractual terms have been formally modified to provide for concessions of interest or principal for reasons related to the financial difficulties of the customer; other assets acquired through security enforcement includes the value of any other assets acquired as full or partial settlement of outstanding obligations through the enforcement of security arrangements; and any other assets where the full collection of interest and principal is in doubt

Asset quality

Stressed loans	Stressed loans are the total of watchlist and substandard, 90 days past due and not impaired and impaired assets
90 days past due and not impaired	Includes facilities where: 1. contractual payments of interest and / or principal are 90 or more calendar days overdue, including overdrafts or other revolving facilities that remain continuously outside approved limits by material amounts for 90 or more calendar days, including from First Half 2016 accounts for customers who have been granted hardship assistance; or 2. an order has been sought for the customer's bankruptcy or similar legal action has been instituted which may avoid or delay repayment of its credit obligations; and 3. the estimated net realisable value of assets / security to which Westpac has recourse is sufficient to cover repayment of all principal and interest, or which are not secured but there is a reasonable expectation that full recovery or the amount due will be made and interest is being taken to profit on an accrual basis. While in default, facilities are not treated as impaired for accounting purposes.
Total committed exposures (TCE)	The sum of the committed portion of direct lending (including funds placement overall and deposits placed), contingent and pre-settlement risk plus the committed portion of secondary market trading and underwriting risk
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 for assets with credit characteristics similar to those in the collective pool. The historical loss experience will be adjusted based on current observable data. Includes an economic overlay provision calculated based on changes that occurred in sectors of the economy or in the economy as a whole

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