

Media Release

7 November 2016

WESTPAC DELIVERS CONSISTENT OPERATING PERFORMANCE

Westpac Group today announced a Full Year 2016 statutory net profit of \$7,445 million, down 7% compared to the prior corresponding period.

Key features of the result compared to the prior corresponding period (pcp) include¹:

- Cash earnings of \$7,822 million, in line with the prior year;
- Cash earnings per share of 235.5 cents, down 5%;
- Cash return on equity (ROE) of 14.0%, down 185 basis points;
- Unchanged final, fully franked dividend of 94 cents per share (cps), taking total dividends paid for the year to 188 cps;
- Common equity Tier 1 capital ratio of 9.5%, down 2 basis points;
- Lending and customer deposit growth of 6% and 9%, respectively; and
- Expense to income ratio at 42%, down 7 basis points.

Westpac Chief Executive Officer, Mr Brian Hartzler, said Westpac has delivered a solid result in a challenging environment.

“We are continuing to deliver our service-led strategy, increasing customer numbers, delivering world-leading digital services, and supporting more customer needs.

“At the same time we have strengthened our balance sheet, carefully managed margins, and achieved \$263 million in productivity savings, while increasing our investment in digital and other service initiatives.

“The result demonstrates our consistent approach to managing our core franchise over many years, including the discipline we apply to balancing growth and returns,” Mr Hartzler said.

“The Consumer and Business divisions performed strongly.

“The Consumer Bank continued to be the driver of the Group’s growth. It expanded its customer base by 3% and had strong home loan and deposit growth of 8% and 7% respectively. Expenses and margins were well managed in a very competitive environment.

“The Business Bank delivered solid growth in core earnings, with a 5% rise in lending and a 9% increase in deposits. It expanded its digital capabilities this year, benefiting both customers and bankers. For example, its online loan origination platform is now being used in two out of three eligible deals, which reduces the time for customers to access new funds.

“WIB and BTFG delivered improvements in their customer franchises, despite challenging conditions. WIB is operating in an environment of lower institutional activity, while absorbing an increase in credit

¹ Reported on a cash earnings basis unless otherwise stated. For an explanation of cash earnings and reconciliation to reported results refer to pages 5, 6 and 120-123 of the Group’s 2016 Full Year Financial Results Announcement.

impairments in the first half from a small number of names. BTFG's result reflects the partial sale of BTIM and higher regulatory and compliance costs, offsetting solid growth in funds under management, funds under administration, and insurance premiums."

Mr Hartzler said a key feature of the year had been further significant strengthening of the Group's balance sheet with higher capital, as well as improved funding and liquidity. The Group's Common equity Tier 1 capital ratio sits comfortably in the top quartile globally.

"The improvements we've made further reinforce that Westpac's balance sheet remains unquestionably strong. However, the additional shares issued at the start of the year have lowered the Group's earnings per share and reduced our return on equity.

"Given the current operating environment, including the expectation that low interest rates will continue for some time, the evolving regulations for capital and liquidity, and higher regulatory and compliance costs, the current 15% ROE target for the Group as a whole is no longer realistic. Westpac believes in maintaining strong return disciplines and will be seeking to achieve a ROE in the range of 13% to 14% in the medium term."

Mr Hartzler said Australia needs strong banks to support the economic aspirations of Australian households and businesses.

"A strong and profitable banking system benefits the broader economy and community. In addition to increasing loans to Australian individuals and businesses last year by \$33 billion, Westpac will distribute \$6.3 billion in dividends to shareholders in 2016, pay over \$3 billion in corporate income taxes, provide employment to almost 40,000 people, and directly purchase goods and services from over 9,000 domestic suppliers."

See info.westpac.com.au/supportingaustralia for more information about Westpac's contribution to Australia.

FINANCIAL HIGHLIGHTS

Key financial aspects of the full year 2016 result include^{2,3}:

- Total revenue up 3%, with good growth in net interest income to \$15,348 million, up 8%;
- Total lending rose 6%, with growth in Australian mortgages of 8% and Australian business lending rising 3%, with a skew to SME lending. New Zealand lending increased 9% in NZ\$. Loan growth was fully funded by customer deposits which increased by \$39 billion, or 9%, with the deposit to loan ratio improving 2 percentage points to 70.5%;
- Non-interest income of \$5,855 million was down 7%. This reflects a range of infrequent and volatile items including lower revenue from BTIM following the partial sell down in the second half of 2015. Excluding infrequent and volatile items, most of the decline was due to lower markets activity — impacting fees in WIB — and lower cards-related income in the Consumer Bank;
- The net interest margin was up 5 basis points to 2.13%. Excluding Treasury and Markets, net interest margin was up 3 basis points. During the second half the 3 basis point fall in the margin reflects the impact of higher funding costs and lower interest rates; and
- The expense to income ratio was 42%, with expenses up 3% in line with revenue growth. Regulatory and compliance costs added 1% to expense growth for the year.

² Cash earnings basis.

³ All comparisons in the commentary are to the prior corresponding period unless otherwise stated.

CAPITAL POSITION AND DIVIDENDS

Mr Hartzler said the 2016 financial year was significant for the Group's capital position, having raised around \$3.5 billion in capital through the Entitlement Offer in November 2015.

On an internationally comparable basis, Westpac's CET1 capital ratio was 14.4% and comfortably in the top quartile of banks globally. On an APRA basis, the CET1 capital ratio was lower over Second Half 2016 at 9.5%, as the Group implemented recent APRA requirements that increased RWA by \$43 billion for Australian residential mortgages.

"Our healthy capital level positions the Group well for any further regulatory changes, while ensuring we can continue to support both customers and economic growth in Australia," Mr Hartzler said.

The Westpac Group Board has determined a final, fully franked dividend of 94 cps, unchanged from the interim dividend and the 2015 final dividend. The full year dividend is 188 cps up 1 cent compared to 2015. The Group will issue shares to satisfy the Dividend Reinvestment Plan (DRP) for the final dividend, with no discount applied.

The dividend will be paid on 21 December 2016, to shareholders registered at 15 November 2016.

CREDIT QUALITY

The 49% rise in impairments compared to the prior corresponding period mostly reflects a small number of institutional exposures that were downgraded in the first half 2016. The second half impairment charge of \$457 million was 31% lower compared to the first half 2016.

Credit quality remains sound; however, the level of stressed assets rose modestly over the year by 21 basis points to 1.20% at 30 September 2016. Second Half 2016 saw an increase in stressed exposures, reflecting continuing low prices for NZ dairy products and the ongoing impact of the slowdown in mining investment on some regions.

Australian mortgage 90+ day delinquencies have increased 21 basis points compared to 2015, including 13 basis points from changes in how loans to customers that have been granted hardship assistance are reported. There are only 262 houses in possession in a mortgage book which comprises 1.6 million mortgages; with losses in the portfolio equivalent to 0.02%.

DIVISIONAL PERFORMANCE: FY16 CASH EARNINGS

Cash earnings (\$million)	FY16	2H16	1H16	% mvt FY16-FY15	% mvt 2H16-1H16
Consumer Bank	\$2,981	\$1,537	\$1,444	14	6
Business Bank	\$1,999	\$1,011	\$988	1	2
BT Financial Group	\$876	\$424	\$452	(4)	(6)
Westpac Institutional Bank	\$1,098	\$581	\$517	(18)	12
Westpac New Zealand (NZ\$)	\$872	\$427	\$445	(4)	(4)

Consumer Bank continued to build the value of the franchise, with record new customer acquisition and 8% loan growth, contributing to a 14% rise in cash earnings. However, growth slowed in the second half, in part reflecting the impact of higher funding costs and increased competition. The business has continued to invest in service initiatives by improving its mobile banking apps and increasing the functionality of its online platforms. Consumer Bank remained disciplined on costs, with its cost to income ratio down 166 basis points to 40.8%.

Business Bank grew core earnings by 5%, with 5% growth in lending, including 8% growth in business lending to small and medium enterprises. This reflects success in strengthening the franchise, including investing in improved digital platforms for both customers and bankers, with LOLA originating \$1.4 billion in new lending to date. Revenue was up 5%, while cost growth was contained to 4% despite

significant investment in digital applications. Cash earnings growth was lower at 1%, due to higher impairment charges. This largely reflects lower write-backs than previous years, and increased provisions for auto finance and those sectors and regions that are affected by the slowdown in mining investment.

BT Financial Group achieved significant strategic milestones, although cash earnings were 4% lower due to the partial sale of BTIM, lower Ascalon contribution, and higher regulatory costs. Excluding the impact of the partial sale of BTIM in 2015, cash earnings reduced by 2%. BTFG has delivered important new core capabilities through the development of its Panorama platform, as well as significantly expanding its insurance product offering and growing FUM and FUA by 5% and 7% respectively.

Westpac Institutional Bank continues to face both structural and cyclical pressures with cash earnings down 18%. The lower result was driven by a \$215 million increase in impairment charges and reduced fee income from subdued lending and markets activity. Markets income was \$109 million higher due to the absence of the derivative valuation impact last year. While margins were lower over the year, WIB's margin stabilised in the second half, expanding by 4 basis points. Despite difficult conditions, WIB was disciplined on balance sheet growth and costs, while continuing to support key customers. WIB's asset quality remains sound. However, provisions for four large names in First Half 2016 and lower write-backs and recoveries saw an impairment charge of \$177 million, compared to an impairment benefit of \$38 million in full year 2015.

Westpac New Zealand's cash earnings decreased 4% to NZ\$872 million. Loans grew 9%, however, intense competition for new lending and a shift to lower-spread fixed rate mortgages has compressed margins. Weak financial conditions in the dairy sector drove stressed assets to TCE up 94 basis points to 2.54%. Impairment charges increased \$12 million as a result of the increased stress in the dairy portfolio and also from a lower level of write-backs and recoveries compared to the prior corresponding period.

OUTLOOK

Mr Hartzler said the outlook for Australia remains positive overall, with GDP expected to increase by around 3% in 2017.

"This growth reflects an expected rise in household spending, ongoing contributions from exports, and continuing government investment in infrastructure.

"However, growth in WA and Queensland, which rely more heavily on resources, will continue to be below trend. In addition, the international outlook has softened over the year, with growth in China continuing to slow and uncertain economic conditions in Europe."

Mr Hartzler said Westpac's consistent focus on Australia and New Zealand over a long period means its high quality portfolio is strongly positioned in these key markets.

"Financial system credit growth is likely to be in line with the current year at around 5.5%. Housing credit growth is likely to ease a little as price growth slows. Business credit growth is likely to improve moderately as it rebounds off a low base.

"The financial services industry continues to experience significant regulatory change. Globally this includes the expected release next year of a revised capital framework by the Basel Committee on Banking Supervision, and further developments on the implementation of the Net Stable Funding Ratio (NSFR) and Total Loss Absorbing Capital (TLAC). Given the strength of our business and our balance sheet, we are well placed to respond to any additional regulatory requirements.

"Westpac's foundation is built on a strong and prudently managed balance sheet, strict performance disciplines, and a service-led strategy that is embracing technology to deliver great service and deeper customer relationships. With top-quartile capital, healthy liquidity, and sector-leading asset quality, we remain in a strong position to respond to the volatile global environment. As we approach the Group's 200th anniversary in April of 2017, we are well placed to continue to deliver solid returns for our shareholders," Mr Hartzler said.

Ends.

For Further Information

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