



# Westpac FY16 Fixed Income Investor Update

November 2016

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# Westpac Banking Corporation **highlights**

## **Financials** at 30 Sep 2016

- Full Year 2016 reported net profit \$7.445bn
- Net profit before impairment charges and income tax expense (pre-provision profit) \$11.768bn
- Return on average ordinary equity 13.3%
- Cost to income ratio 43.9%

## **Balance sheet** at 30 Sep 2016

- CET1 capital ratio 9.5% APRA Basel III basis
- CET1 capital ratio 14.4% Basel III internationally comparable<sup>1</sup> basis
- LCR 134%
- Estimated NSFR >100%
- Gross impaired assets to gross loans 32bps
- Australian mortgage 90+ day delinquencies 66bps

## **Franchise** at 30 Sep 2016

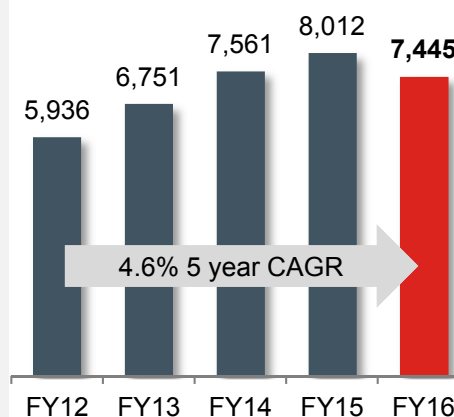
- Australia's 2nd largest bank, and 13th largest bank in the world, ranked by market capitalisation<sup>2</sup>
- Total assets of \$839bn
- Over 13m customers
- Well positioned across key customer segments in Australia and New Zealand
- Operating in one of the lowest-risk banking systems globally<sup>3</sup>, with strong prudential regulation

<sup>1</sup> The basis of the internationally comparable CET1 capital ratio aligns with the APRA study titled "International capital comparison study", released 13 July 2015. For more details on adjustments made refer Appendix 2. <sup>2</sup> As at 30 September 2016. Source: IRESS, CapitalIQ and www.xe.com based in US Dollars. <sup>3</sup> Source: Standard and Poor's Australian Banks Outlook February 2016.

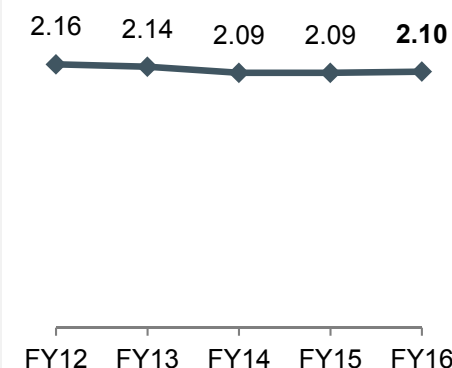
# Full Year 2016 Financial Results

| FY16 Reported Results                     | FY16    | % Change<br>FY16 – FY15 |
|---|---------|-------------------------|
| <b>Financial results (A\$m)</b>           |         |                         |
| Reported net profit after tax             | 7,445   | (7)                     |
| Net operating income                      | 20,985  | (3)                     |
| Expenses                                  | (9,217) | (3)                     |
| Core earnings                             | 11,768  | (3)                     |
| Impairment charges                        | (1,124) | 49                      |
| Cash earnings <sup>1</sup>                | 7,822   | -                       |
| <b>Financial metrics</b>                  |         |                         |
| Return on average ordinary equity         | 13.3%   | (291bps)                |
| Earnings per share                        | 224.6c  | (12)                    |
| Net interest margin                       | 2.10%   | 1bp                     |
| Expense to income ratio                   | 43.9%   | 15bps                   |
| Impairment charges to average gross loans | 17bps   | 5bps                    |
| <b>Balance sheet and asset quality</b>    |         |                         |
| Total committed exposure (TCE)            | \$977bn | 4                       |
| Loans                                     | \$662bn | 6                       |
| Deposits and other borrowings             | \$513bn | 8                       |
| Total impaired loans to total loans       | 32bps   | 2bps                    |

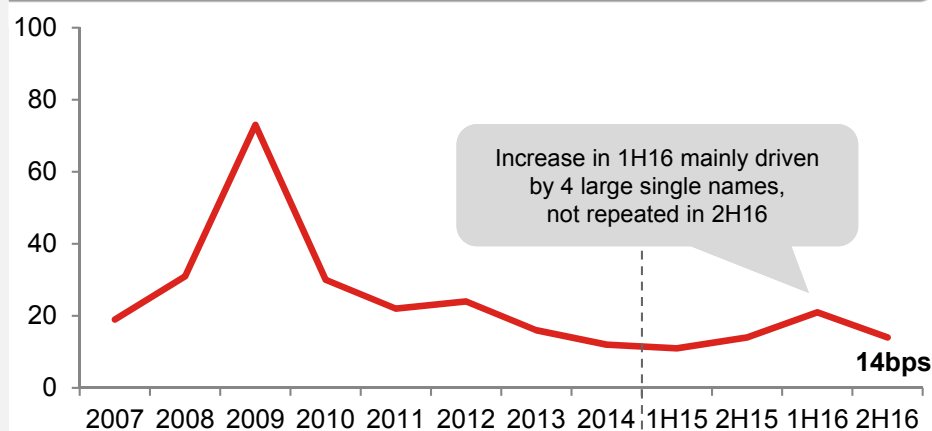
Reported NPAT (\$m)



Net interest margin (%)



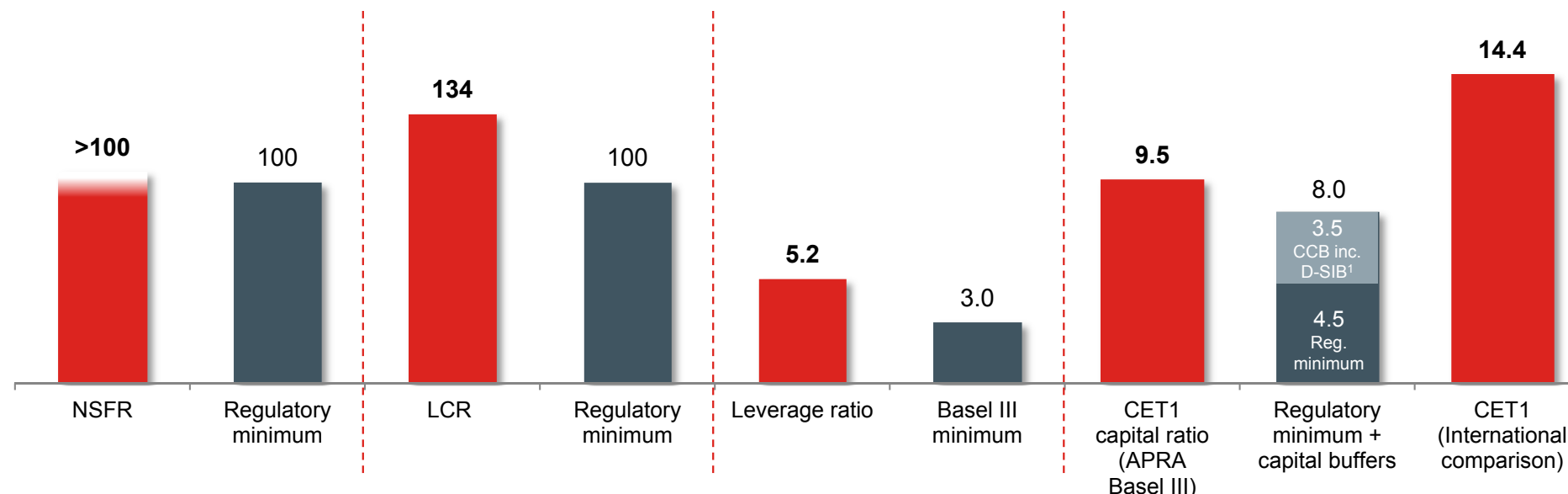
Impairment charges to average gross loans <sup>2</sup> (bps)



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

# A resilient balance sheet

Westpac key balance sheet ratios as at 30 September 2016 (%)



## >100% Net Stable Funding Ratio

- Estimated, based on current APRA guidance
- NSFR effective 1 January 2018

## 134% LCR

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

## 5.2% Leverage ratio (APRA Basel III basis)

- APRA has not prescribed any minimum leverage ratio requirements at this time
  - Well ahead of Basel III minimum of 3%
- ## 5.9% Leverage ratio
- Internationally comparable<sup>2</sup> basis

## 9.5% CET1 capital ratio (APRA Basel III basis)

- CET1 capital ratio well above target range
- More than \$6.0 billion in CET1 capital added in calendar 2015

## 14.4% CET1 capital ratio

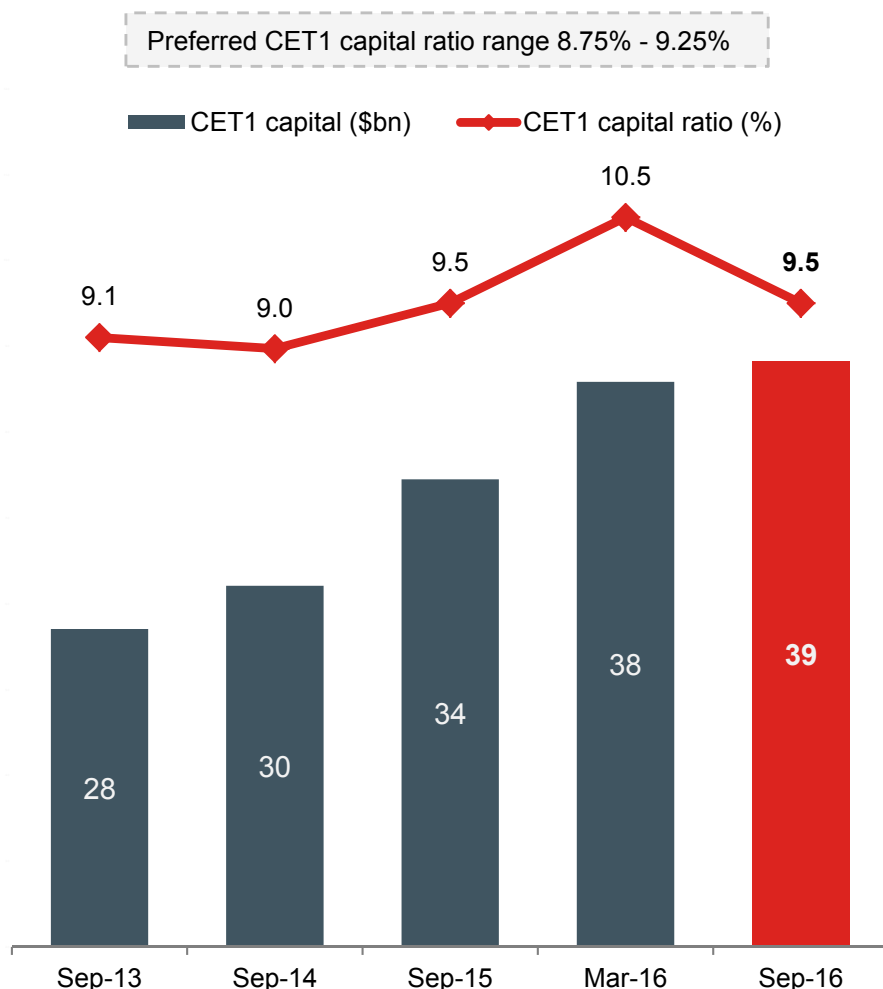
- Internationally comparable<sup>2</sup> basis
- Places Westpac comfortably within the top quartile of banks globally<sup>3</sup>

<sup>1</sup> CCB is Capital Conservation buffer. D-SIB is Domestic Systemically Important bank. <sup>2</sup> Analysis aligns with the APRA study entitled, 'International Capital Comparison Study' released 13 July 2015.

<sup>3</sup> Source: Westpac analysis, APRA International Capital Comparison Update 2016 available [www.apra.gov.au/Insight/Pages/insight-issue2-2016](http://www.apra.gov.au/Insight/Pages/insight-issue2-2016)

# Capital ratios **well above** target range

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



| Key capital ratios (%)                                     | Sep-15 | Mar-16 | Sep-16      |
|--|--------|--------|-------------|
| Common equity Tier 1 (CET1) capital ratio                  | 9.5    | 10.5   | <b>9.5</b>  |
| Additional Tier 1 capital                                  | 1.9    | 1.6    | <b>1.7</b>  |
| Tier 1 capital ratio                                       | 11.4   | 12.1   | <b>11.2</b> |
| Tier 2 capital   | 1.9    | 1.9    | <b>1.9</b>  |
| Total regulatory capital ratio                             | 13.3   | 14.0   | <b>13.1</b> |
| Internationally comparable CET1 capital ratio <sup>1</sup> | 13.2   | 14.7   | <b>14.4</b> |
| Risk weighted assets (RWA) (\$bn)                          | 359    | 363    | <b>410</b>  |

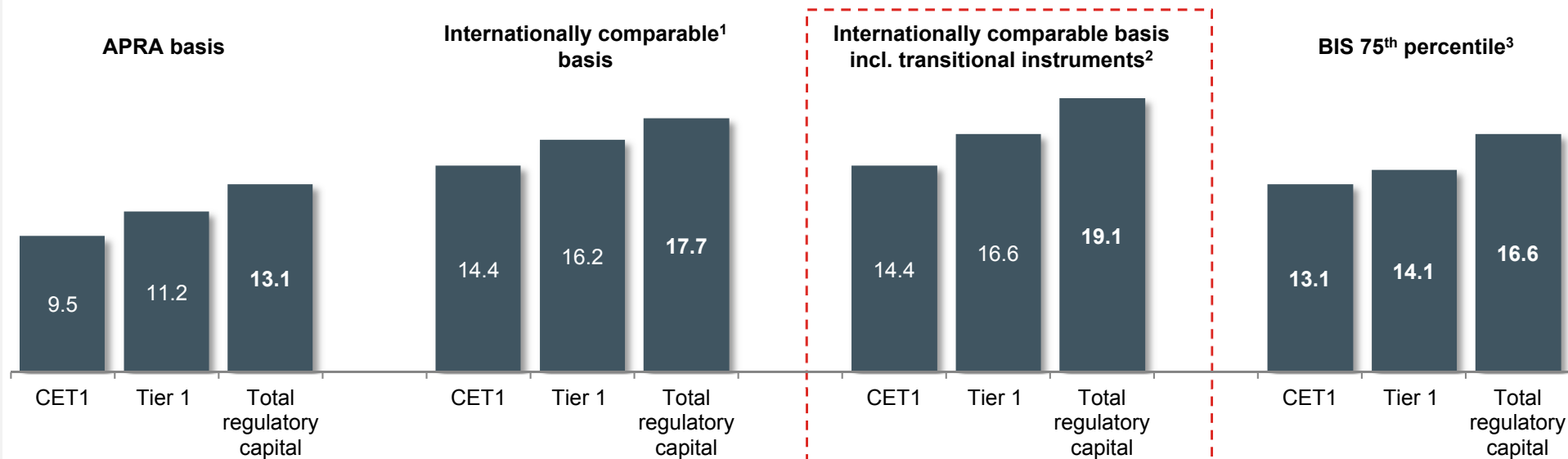
## Movements in CET1 capital ratios

- Following APRA's announcement that mortgage risk weighted asset (RWA) methodology would change in 2016, Westpac raised \$3.5bn of CET1 capital in 1H16
- This saw the CET1 capital ratio increase from 9.5% to 10.5% at 31 March 2016
- Following APRA's revision to mortgage RWA calculations on 1 July 2016, the CET1 capital ratio reduced 110bps
- This change combined with other movements saw the CET1 capital ratio reduce by 99bps to 9.5% in 2H16

<sup>1</sup> The internationally comparable CET1 capital ratio aligns with the APRA study titled "International capital comparison study", released 13 July 2015. For more details on adjustments refer to Appendix 2.

# Basel III regulatory capital ratios

## Regulatory capital ratios (%)



## Internationally comparable capital ratios

- Internationally comparable ratios exclude Basel III transitional instruments, which are included in the APRA capital ratios on a transitional basis
- If Basel III transitional instruments were included in the internationally comparable calculation of Westpac's capital ratios:
  - CET1 capital ratio would be unchanged
  - Tier 1 capital ratio would be 16.6%<sup>2</sup> (up from 16.2%)
  - Total regulatory capital ratio would be 19.1%<sup>2</sup> (up from 17.7%)

<sup>1</sup> Internationally comparable methodology aligns with the APRA study titled 'International Capital Comparison Study' released 13 July 2015. For more details on adjustments refer Appendix 2.

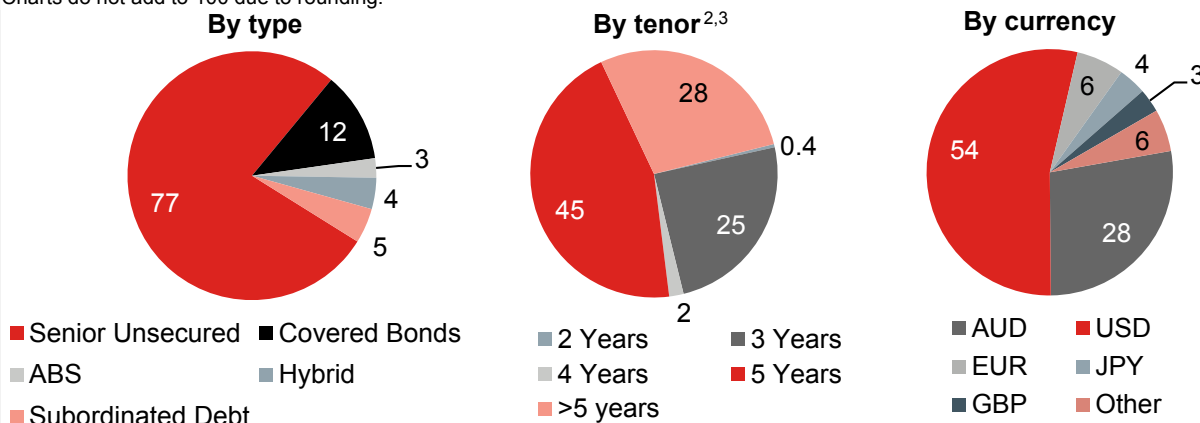
<sup>2</sup> Includes transitional capital instruments eligible as Additional Tier 1 and Tier 2 capital under APRA Basel III rules. <sup>3</sup> Group 1 banks BIS 75<sup>th</sup> percentile fully phased-in Basel III capital ratios from BIS monitoring report released 13 September 2016.



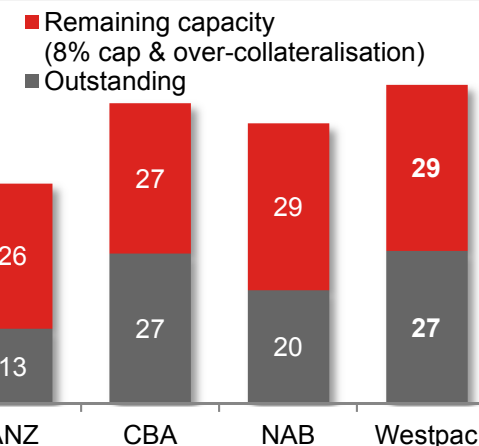
# Targeting a diversified funding base

## FY16 new term issuance composition<sup>1</sup> (%)

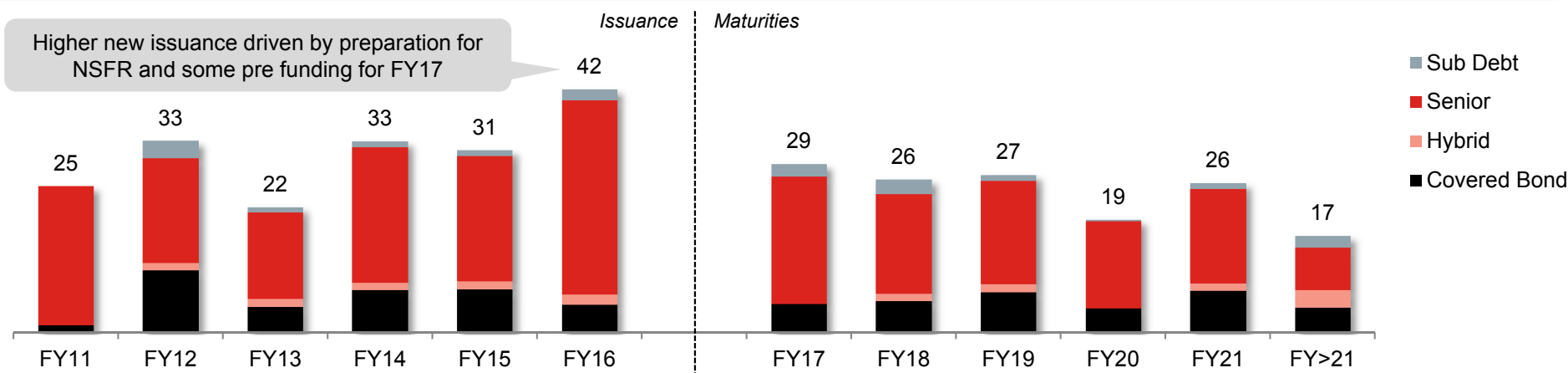
Charts do not add to 100 due to rounding.



## Australian covered bond issuance<sup>5</sup> (\$bn)



## Term debt issuance and maturity profile<sup>1,2,4</sup> (\$bn)

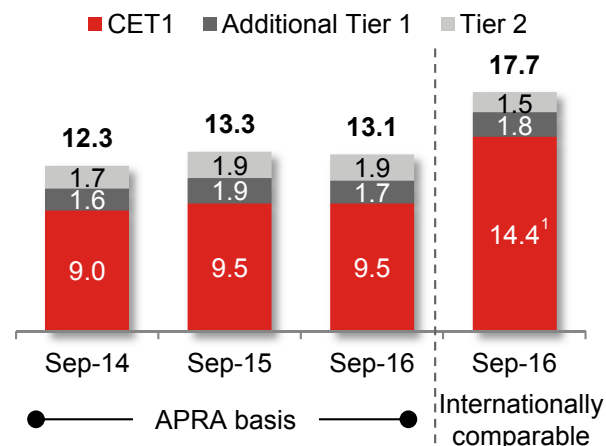


<sup>1</sup> Based on residual maturity and FX spot currency translation. Includes all debt issuance with contractual maturity greater than 370 days excluding US Commercial Paper and Yankee Certificates of Deposit.  
<sup>2</sup> Maturity date for hybrids and callable subordinated instruments is the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



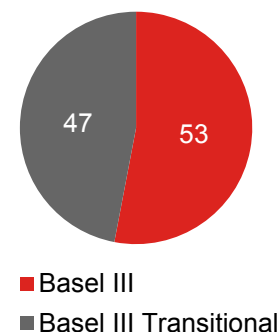
# Westpac Tier 2 capital issuance profile

## Westpac Total Regulatory Capital (%)

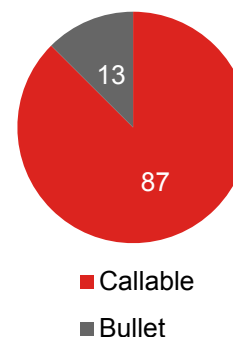


## Westpac Tier 2 capital<sup>2</sup> as at 30 September 2016 (notional amount, %)

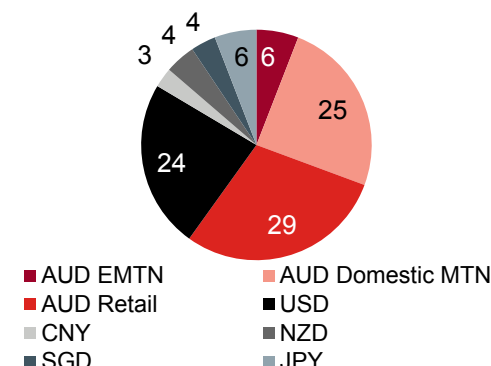
### Basel III and Basel III Transitional capital



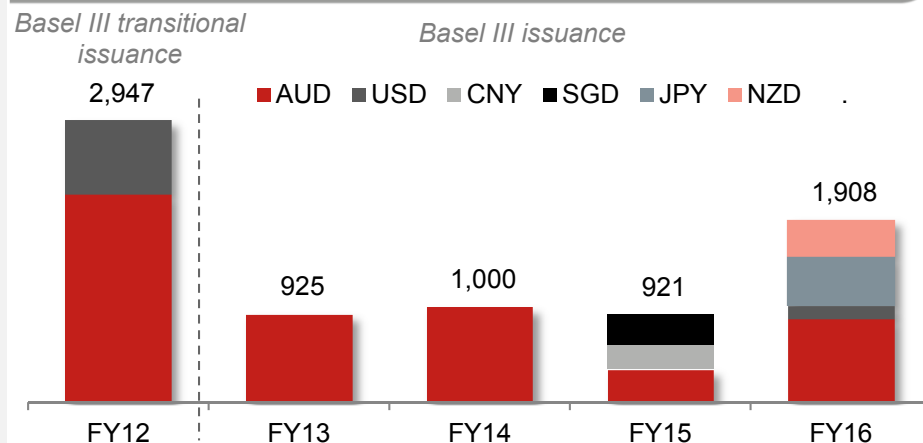
### Tier 2 capital by format



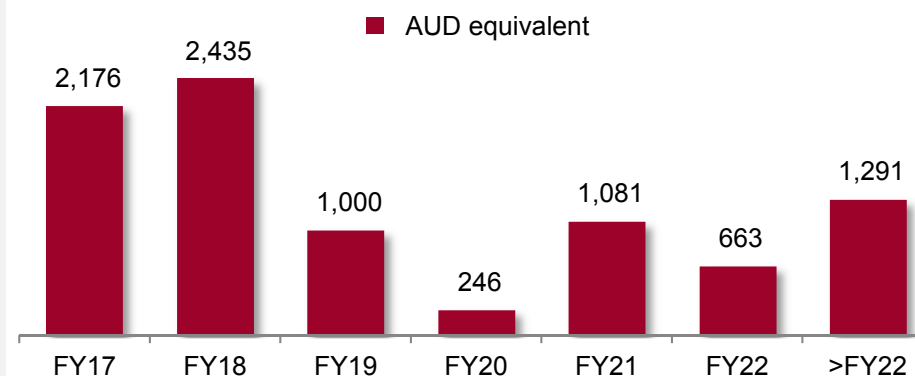
### Tier 2 capital by currency<sup>3</sup>



## Westpac Tier 2 issuance<sup>4</sup> since 2012 (notional amount, \$m)



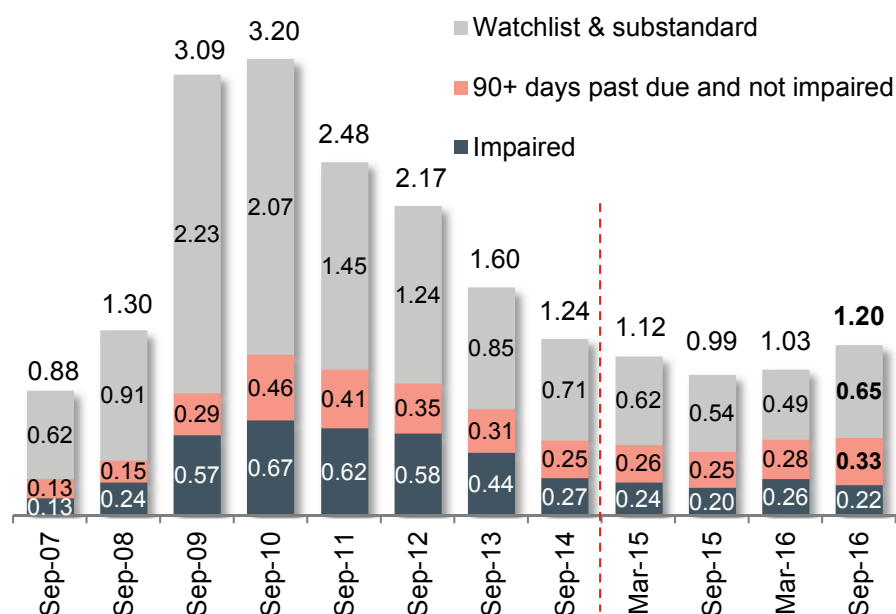
## Westpac Tier 2 calls/maturities<sup>2,5</sup> (notional amount, \$m)



1 The basis of the internationally comparable CET1 capital ratio aligns with the APRA study titled "International capital comparison study", released 13 July 2015. For details on adjustments made refer Appendix 2.  
 2 Represents A\$ equivalent notional amount using spot FX translation at 30 September 2016. 3 Chart does not add to 100 due to rounding. 4 Represents A\$ equivalent notional amount using spot FX translation at time of issuance. 5 Securities in callable format profiled to first call date. Securities in bullet format profiled to maturity date.

# Asset quality **remains sound**; provision cover maintained

## Stressed exposures as a % of TCE (%)



## Provision coverage ratios

Collectively assessed provisions to credit RWA

Sep-15 Mar-16 Sep-16

86bps 87bps **76bps**

87bps excluding the impact of increase in mortgage risk weights from 1 July 2016

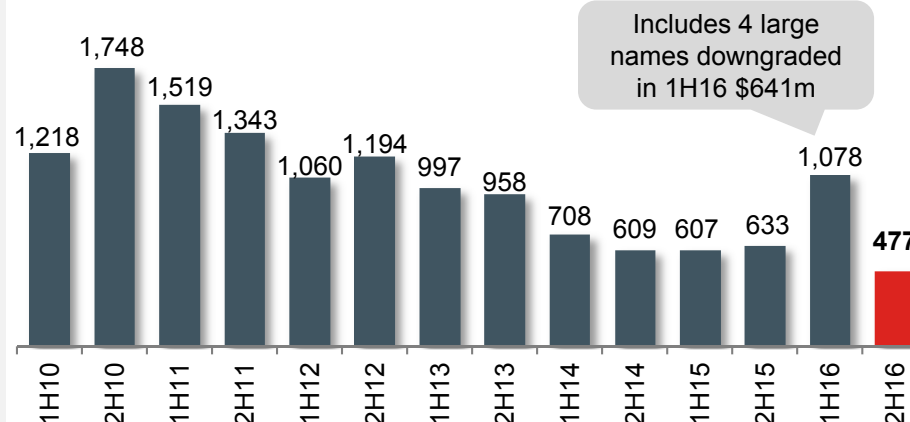
Impairment provisions to impaired assets

46% 48% **49%**

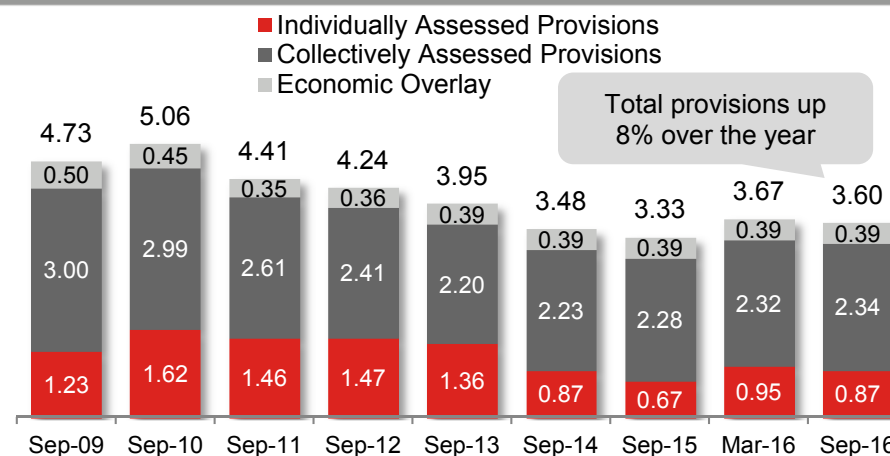
Total provisions to gross loans

53bps 57bps **54bps**

## New and increased gross impaired assets (\$m)



## Total provisions (\$bn)



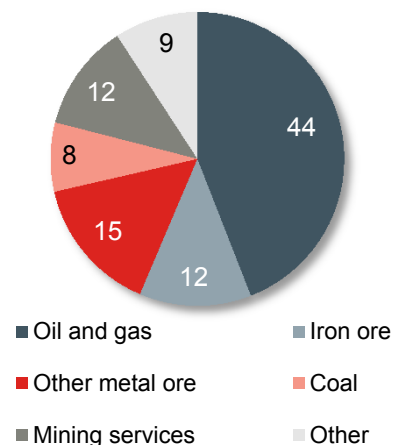
1. Change in mortgage risk weights increased credit RWA by \$43bn, reducing the collectively assessed provisions to credit RWA by 11bps.

# Asset quality **areas of interest**

## Mining (inc. Oil and Gas) portfolio

|  | Mar-16   | Sep-16          |
|--|----------|-----------------|
| Total committed exposures (TCE)                    | \$11.8bn | <b>\$11.3bn</b> |
| Lending  | \$5.9bn  | <b>\$6.2bn</b>  |
| % of Group TCE                                     | 1.23     | <b>1.16</b>     |
| % of portfolio graded as 'stressed' <sup>1,2</sup> | 3.03     | <b>3.94</b>     |
| % of portfolio in impaired <sup>2</sup>            | 1.26     | <b>1.32</b>     |

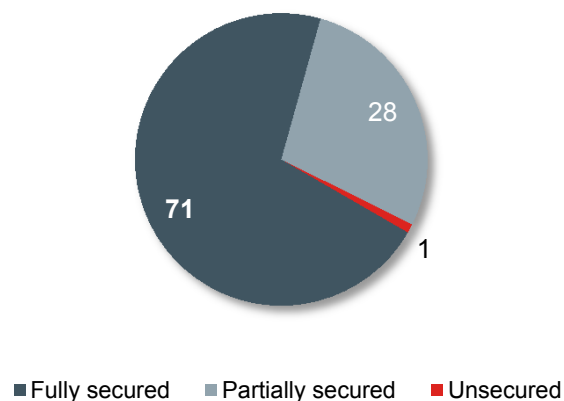
Mining portfolio (TCE) by sector<sup>3</sup> (%)



## New Zealand dairy portfolio

|  | Mar-16    | Sep-16           |
|--|-----------|------------------|
| Total committed exposure (TCE)                     | NZ\$5.8bn | <b>NZ\$5.9bn</b> |
| Lending  | NZ\$5.5bn | <b>NZ\$5.7bn</b> |
| % of Group TCE                                     | 0.55      | <b>0.58</b>      |
| % of portfolio graded as 'stressed' <sup>1,2</sup> | 10.04     | <b>25.29</b>     |
| % of portfolio in impaired <sup>2</sup>            | 0.13      | <b>0.34</b>      |

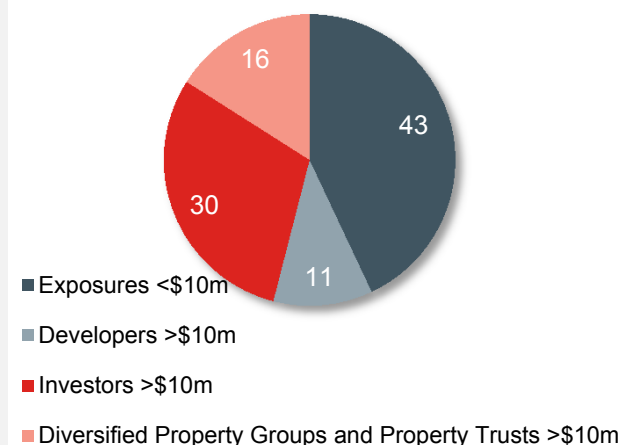
NZ dairy portfolio<sup>3</sup> (%)



## Commercial property portfolio

|  | Mar-16   | Sep-16          |
|--|----------|-----------------|
| Total committed exposures (TCE)                    | \$67.5bn | <b>\$67.1bn</b> |
| Lending  | \$52.1bn | <b>\$52.6bn</b> |
| % of Group TCE                                     | 7.06     | <b>6.87</b>     |
| % of portfolio graded as 'stressed' <sup>1,2</sup> | 1.34     | <b>1.32</b>     |
| % of portfolio in impaired <sup>2</sup>            | 0.54     | <b>0.53</b>     |

Commercial property portfolio by borrower type<sup>3</sup> (%)



1 Includes impaired exposures. 2 Per cent of portfolio is to TCE. 3 As at 30 September 2016.

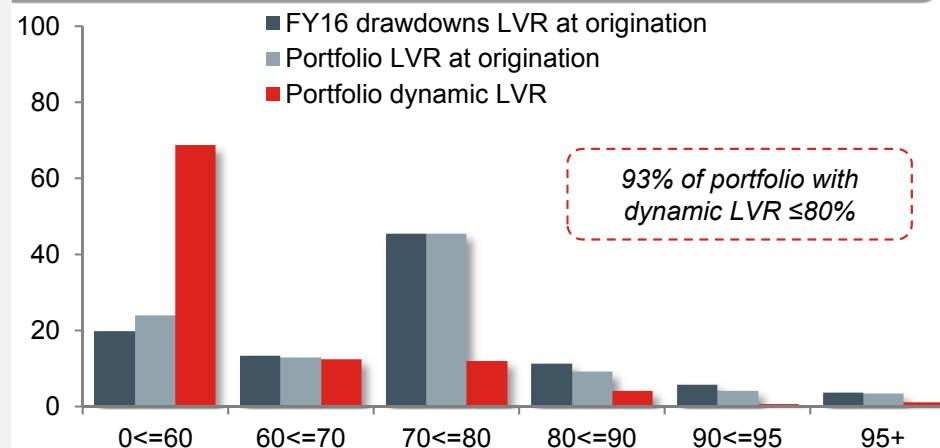
# High levels of borrower equity create buffers in the Australian mortgage portfolio

| Australian housing portfolio      | Sep-15<br>balance | Mar-16<br>balance | Sep-16<br>balance | 2H16<br>flow <sup>1</sup> |
|-----------------------------------|-------------------|-------------------|-------------------|---------------------------|
| Total portfolio (\$bn)            | 375.8             | 390.8             | <b>404.2</b>      | <b>41.8</b>               |
| Owner occupied (%)                | 48.9              | 54.3              | <b>55.0</b>       | <b>58.6</b>               |
| Investment property loans (%)     | 44.5              | 39.5              | <b>39.3</b>       | <b>39.5</b>               |
| Portfolio loan/line of credit (%) | 6.6               | 6.2               | <b>5.7</b>        | <b>1.9</b>                |
| Variable rate / Fixed rate (%)    | 80 / 20           | 83 / 17           | <b>83 / 17</b>    | <b>77 / 23</b>            |
| Low Doc (%)                       | 3.0               | 2.7               | <b>2.4</b>        | <b>0.5</b>                |
| Proprietary channel (%)           | 59.1              | 58.2              | <b>57.9</b>       | <b>55.9</b>               |
| First Home Buyer (%)              | 9.2               | 8.9               | <b>8.6</b>        | <b>8.4</b>                |
| Mortgage insured (%)              | 19.4              | 18.8              | <b>18.4</b>       | <b>15.0</b>               |

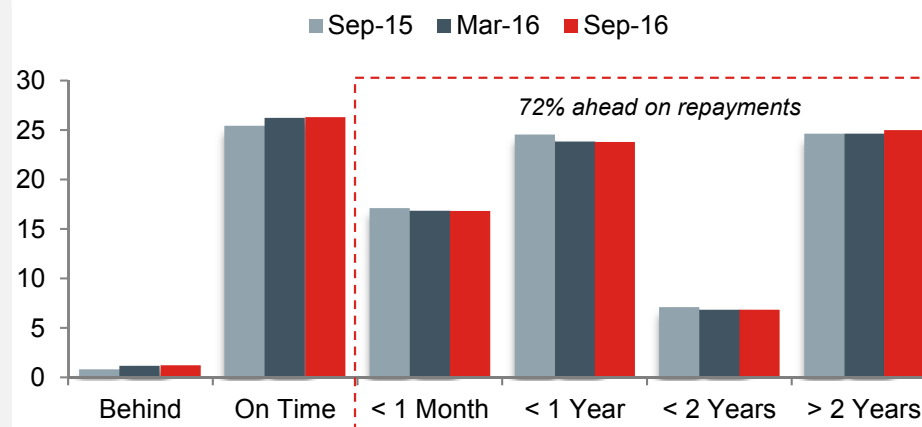
  

|   | Sep-15 | Mar-16 | Sep-16     |
|---|--------|--------|------------|
| Average LVR at origination <sup>2</sup> (%)                             | 70     | 70     | <b>70</b>  |
| Average dynamic LVR <sup>2,3</sup> (%)                                  | 43     | 43     | <b>43</b>  |
| Average LVR of new loans <sup>2,4</sup> (%)                             | 71     | 70     | <b>70</b>  |
| Average loan size <sup>5</sup> (\$'000)                                 | 242    | 249    | <b>254</b> |
| Customers ahead on repayments including offset accts <sup>2,6</sup> (%) | 74     | 72     | <b>72</b>  |
| Actual mortgage losses net of insurance <sup>7</sup> (\$m)              | 32     | 35     | <b>31</b>  |
| Actual mortgage loss rate annualised (bps)                              | 2      | 2      | <b>2</b>   |

Australian housing loan-to-value ratios (LVRs)<sup>2,3</sup> (%)



Australian home loan customers ahead on repayments<sup>2,6</sup> (%)



1 Flow is all new mortgage originations settled during the 6 month period ended 30 September 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 Portfolio as at 30 September 2016 including amortisation. 6 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. 7 Mortgage insurance claims 2H16 \$7m (1H16 \$4m, 2H15 \$3, 1H15 \$1m).

# Prudent lending standards support Australian mortgage portfolio quality

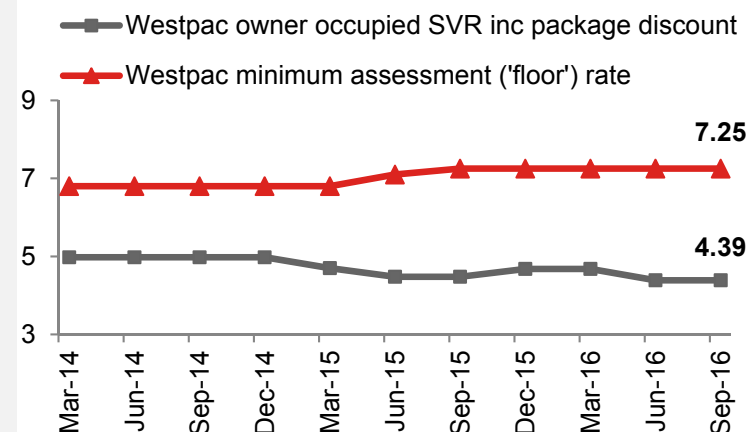
## Lending standards on a tightening bias since 2015

|  |   |
|--|---|
| <b>Serviceability</b>                  | <ul style="list-style-type: none"> <li>Minimum assessment (floor) rate 7.25% and buffer rate of at least 2.25% from September 2015</li> <li>Tightened policy on assessment of living expenses and income verification in November 2015</li> <li>Discounting of rental income, annuity and pension income increased for certain loans in January 2016</li> </ul> |
| <b>Non-resident and ex-pat lending</b> | <ul style="list-style-type: none"> <li>From April 2016, non-resident customers no longer qualify for mortgage loans (limited exceptions)</li> <li>For Australian and NZ citizens and permanent visa holders using foreign income, tightened verification processes and LVR restricted to 70% maximum</li> </ul>   |
| <b>Pricing</b>                         | <ul style="list-style-type: none"> <li>Different rates for investment property loans and interest only repayment types progressively introduced from August 2015</li> </ul>   |

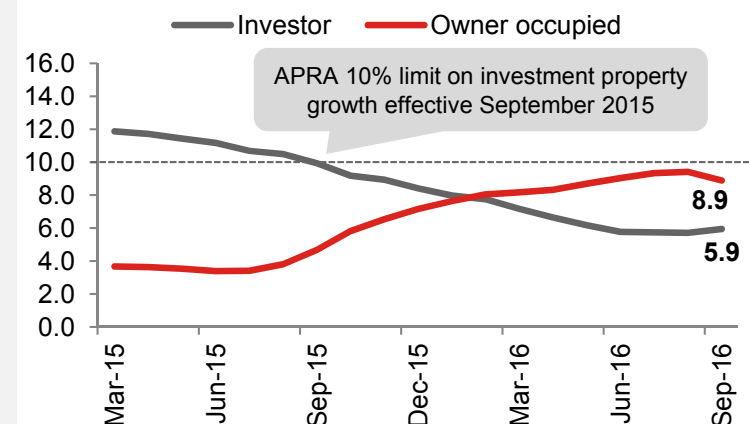
## Sound credit fundamentals underpin Australian mortgages

|                                |  |
|--------------------------------|--|
| <b>Full recourse</b>           | <ul style="list-style-type: none"> <li>Banks in Australia have full recourse to the borrower's mortgaged property, other assets and future earnings</li> </ul>   |
| <b>Tax</b>                     | <ul style="list-style-type: none"> <li>Interest payments on primary residence are not tax deductible – provides incentive to pay off mortgage</li> </ul>   |
| <b>Well regulated</b>          | <ul style="list-style-type: none"> <li>Strict prudential supervision by one national regulator, APRA</li> <li>National Consumer Protection Bill requires sound underwriting and origination standards</li> </ul>                                     |
| <b>Sound mortgage products</b> | <ul style="list-style-type: none"> <li>83% are variable rate</li> <li>Fixed rate loans for short periods of time – 3 to 5 years</li> <li>Interest only loans assessed on a principal and interest repayment basis over the remaining term</li> </ul> |

## Mortgage interest rate buffers (%)



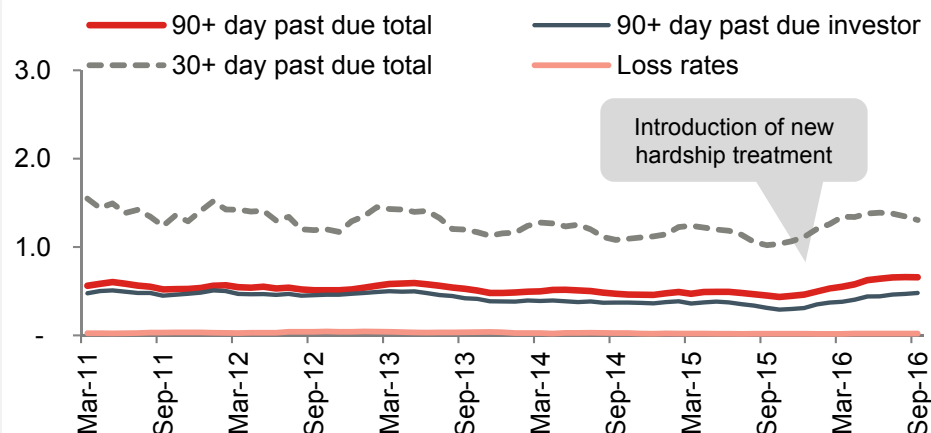
## Owner occupied vs Investment property lending growth (%)



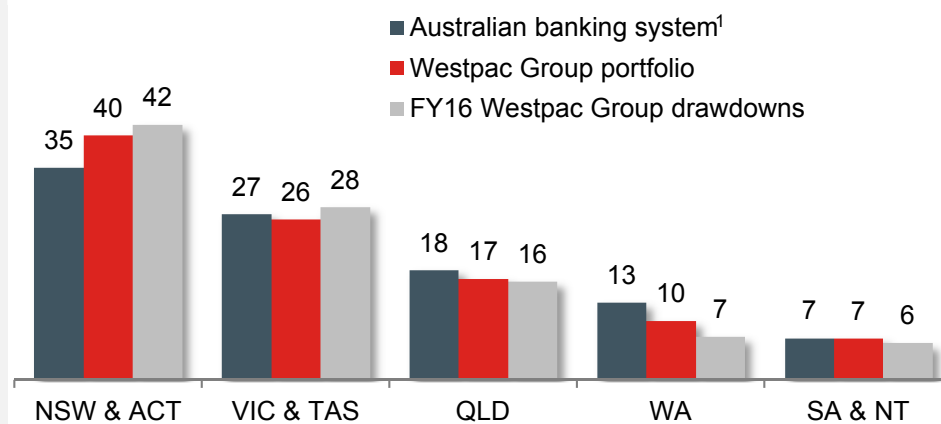
# Australian mortgage delinquencies remain low; Impacted by changes in hardship treatment

| Australian mortgage portfolio   | Sep-15 | Mar-16 | Sep-16     |
|---|--------|--------|------------|
| 30+ day delinquencies (bps)   | 102    | 134    | <b>130</b> |
| 90+ day delinquencies (bps)<br>(includes impaired mortgages)                    | 45     | 55     | <b>66</b>  |
| Estimated impact of changes to<br>hardship treatment (bps) (total impact 13bps) |        | 4      | 9          |
| 90+ day delinquencies –<br>investment property loans (bps)                      | 31     | 38     | <b>48</b>  |
| Consumer properties in possession (#)   | 255    | 253    | <b>262</b> |

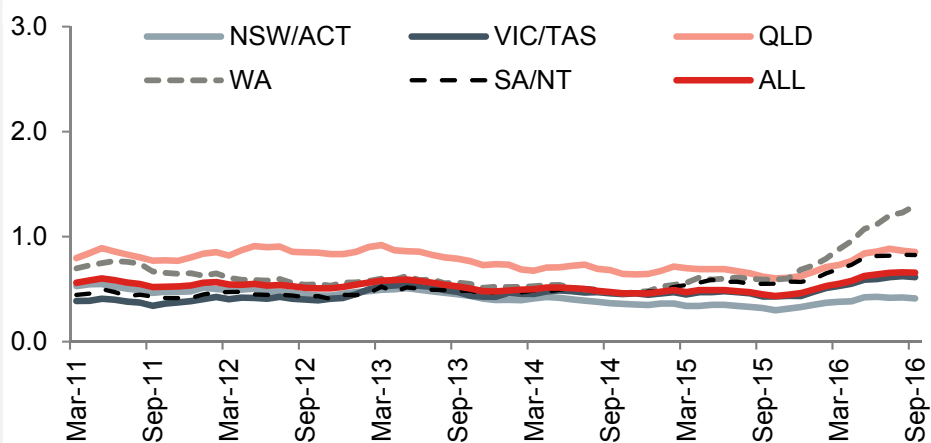
Australian mortgages delinquencies (%)



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



Australian mortgages 90+ day delinquencies by state (%)



<sup>1</sup> Source ABA Cannex August 2016.

# Snapshot

## More than mining, the Australian economy is diverse and flexible

### Australian economy key statistics (latest available as at 2 November 2016)

**GDP** **3.3%**

Westpac Forecast  
(end 2017) 3.3%

**Unemployment Rate** **5.6%**

Westpac Forecast  
(end 2017) 5.8%

**Inflation** **1.3%**

Westpac Forecast  
(end 2017) 1.7%

**Cash Rate** **1.50%**

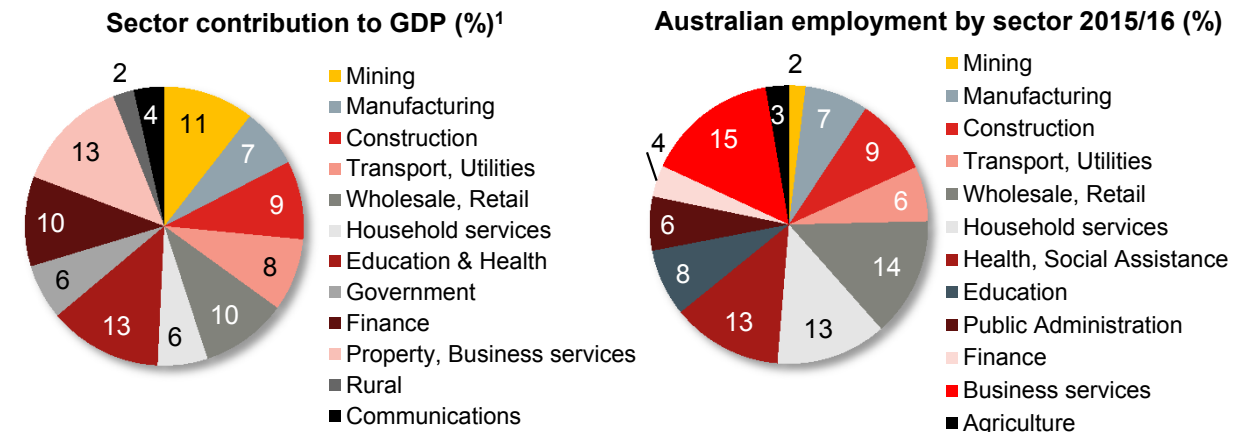
Westpac Forecast  
(June 2018) 1.50%

**AUD/USD** **US\$0.76**

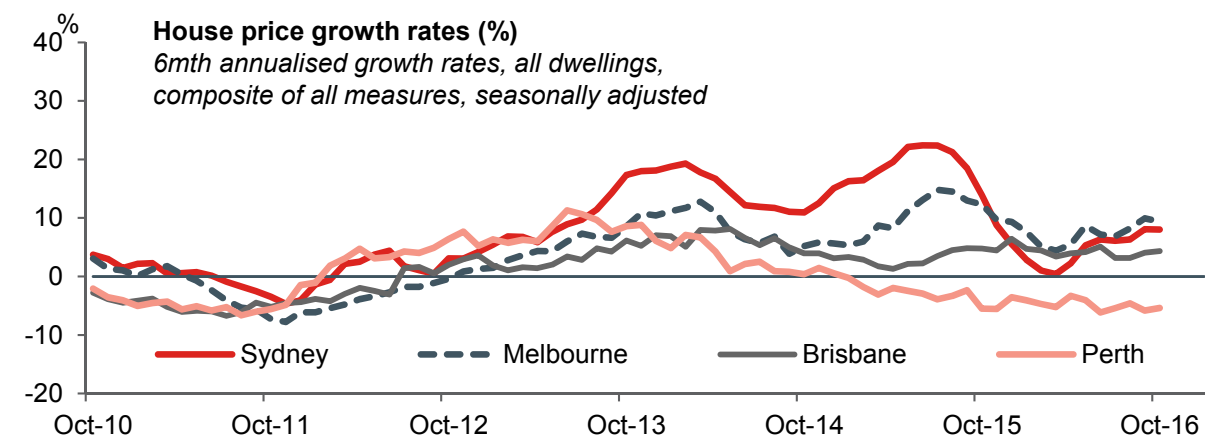
Westpac Forecast  
(June 2018) US\$0.68

Sources: RBA, ABS, Westpac Economics.

### Australia's economy is diversified and flexible



### Australian housing sector: geographic differences







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## Appendices

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# Appendix 1:

## Cash earnings adjustments

| Cash earnings adjustment                                | FY16         | FY15         | Description  |
|---|--------------|--------------|--|
| <b>Reported net profit</b>                              | <b>7,445</b> | <b>8,012</b> | Net profit attributable to owners of Westpac Banking Corporation   |
| <b>Partial sale of BTIM</b>                             | -            | (665)        | During Second Half 2015 the Group recognised a significant gain following the partial sale and deconsolidation of the Group's shareholding in BT Investment Management. This gain has been treated as a cash earnings adjustment given its size and that it does not reflect ongoing operations  |
| <b>Capitalised technology cost balances</b>             | -            | 354          | Following changes to the Group's technology and digital strategy, rapid changes in technology and evolving regulatory requirements a number of accounting changes have been introduced, 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 2H15 to reduce the carrying value of impacted assets has been treated as a cash earnings adjustment given its size and that it did not reflect ongoing operations   |
| <b>Amortisation of intangible assets</b>                | 158          | 149          | The merger with St.George, the acquisition of J O Hambro Capital Management and acquisition of 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 |
| <b>Acquisition transaction and integration expenses</b> | 15           | 66           | 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   |
| <b>Lloyds tax adjustments</b>                           | -            | (64)         | 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  |
| <b>Fair value (gain)/loss on economic hedges</b>        | 203          | (33)         | 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  |
| <b>Ineffective hedges</b>                               | (9)          | 1            | 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  |
| <b>Treasury shares</b>                                  | 10           | 1            | 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   |
| <b>Buyback of government guaranteed debt</b>            | -            | (1)          | The Group has bought back certain Government guaranteed debt issues which reduced the 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  |
| <b>Cash earnings</b>                                    | <b>7,822</b> | <b>7,820</b> |  |

## Appendix 2:

# Internationally comparable capital ratio reconciliation

APRA's 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<sup>1</sup>. The following provides details of the adjustments applied to the APRA Basel III capital requirements to derive internationally comparable ratios, which are aligned to this study

|  |  | APRA Study <sup>1</sup> (%) |
|--|--|-----------------------------|
| <b>Westpac's CET1 capital ratio (APRA basis)</b>     |  | <b>9.5</b>                  |
| 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                                | Loss given default (LGD) of 15%, compared to the 20% LGD floor under APRA's requirements. APRA also applies a correlation factor for mortgages higher than the 15% factor prescribed in the Basel rules  | 1.6                         |
| Unsecured non-retail exposures                       | LGD of 45%, compared to the 60% or higher LGD under APRA's requirements  | 0.6                         |
| Non-retail undrawn commitments                       | Credit conversion factor of 75%, compared to 100% under APRA's requirements  | 0.4                         |
| Specialised lending                                  | Use of internal-ratings based (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                         |
| <b>Internationally comparable CET1 capital ratio</b> |  | <b>14.4</b>                 |

<sup>1</sup> Methodology aligns with the APRA study titled "International capital comparison study", released 13 July 2015

## Appendix 3:

# Regulatory capital securities outstanding

### Tier 2 securities on issue as at 30 September 2016

| Issue CCY    | Volume (issue ccy m) | Volume A\$m <sup>1</sup> | First Call Date | Maturity  | PONV |
|--------------|----------------------|--------------------------|-----------------|-----------|------|
| USD          | 352                  | 462                      | 30 Sep 91       | Perpetual | N    |
| USD          | 350                  | 459                      | N/A             | 1 Jun 18  | N    |
| AUD          | 500                  | 500                      | 21 Mar 17       | 21 Mar 22 | N    |
| AUD          | 1,676                | 1,676                    | 23 Aug 17       | 23 Aug 22 | N    |
| USD          | 800                  | 1,050                    | 28 Feb 18       | 28 Feb 23 | N    |
| AUD          | 925                  | 925                      | 22 Aug 18       | 22 Aug 23 | Y    |
| AUD          | 1,000                | 1,000                    | 14 Mar 19       | 14 Mar 24 | Y    |
| CNY          | 1,250                | 246                      | 9 Feb 20        | 9 Feb 25  | Y    |
| AUD          | 350                  | 350                      | 11 Mar 22       | 11 Mar 27 | Y    |
| SGD          | 325                  | 313                      | 12 Aug 22       | 12 Aug 27 | Y    |
| USD          | 100                  | 131                      | N/A             | 23 Feb 46 | Y    |
| AUD          | 700                  | 700                      | 10 Mar 21       | 10 Mar 26 | Y    |
| JPY          | 20,000               | 260                      | N/A             | 19 May 26 | Y    |
| JPY          | 10,200               | 133                      | N/A             | 2 Jun 26  | Y    |
| JPY          | 10,000               | 130                      | N/A             | 9 Jun 26  | Y    |
| AUD          | 175                  | 175                      | 14 Jun 23       | 14 Jun 28 | Y    |
| NZD          | 400                  | 381                      | 1 Sep 21        | 1 Sep 26  | Y    |
| <b>Total</b> |                      | <b>8,992</b>             |                 |           |      |

### Additional Tier 1 securities on issue as at 30 September 2016

| Security     | Volume A\$m  | Call Date              | Conversion Date | CET1 Trigger <sup>3</sup> | PONV |
|--------------|--------------|------------------------|-----------------|---------------------------|------|
| CPS          | 1,189        | 31 Mar 18 <sup>2</sup> | 31 Mar 20       | Y                         | N    |
| WCN          | 1,384        | 8 Mar 19               | 8 Mar 21        | Y                         | Y    |
| WCN2         | 1,311        | 23 Sep 22              | 23 Sep 24       | Y                         | Y    |
| WCN3         | 1,324        | 22 Mar 21              | 22 Mar 23       | Y                         | Y    |
| WCN4         | 1,702        | 20 Dec 21              | 20 Dec 2023     | Y                         | Y    |
| <b>Total</b> | <b>6,910</b> |                        |                 |                           |      |

1 Non-AUD issues shown as original face value at spot exchange rate on 30 September 2016.

2 First call date 31 March 2018. Subsequent call dates on each payment date after 31 March 2018.

3 Basel III AT1 securities have CET1 Triggers at 5.125% on a Level 1 and Level 2 basis (except CPS, on a Level 2 basis only).

# Appendix 4:

## 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.   | Stressed loans                           | Stressed loans are the total of watchlist and substandard, 90 days past due and not impaired and impaired assets   |
| 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. Included in the collectively assessed provision is an economic overlay provision which is calculated based on changes that occurred in sectors of the economy or in the economy as a whole   | 90 days past due and not impaired        | Includes facilities where: <ol style="list-style-type: none"> <li>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 accounts for customers who have been granted hardship assistance; or</li> <li>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</li> <li>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.</li> </ol> <p>These facilities, while in default, are not treated as impaired for accounting purposes</p> |
| 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 2. Analysis aligns with the APRA study titled "International capital comparison study" dated 13 July 2015. Available at <a href="http://www.apra.gov.au/adi/PrudentialFramework/Documents/150710-International-capital-comparison-information-paper.pdf">http://www.apra.gov.au/adi/PrudentialFramework/Documents/150710-International-capital-comparison-information-paper.pdf</a>   | Total committed exposures (TCE)          | Represents 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   |
| Impaired assets                          | Includes exposures that have deteriorated to the point where full collection of interest and principal is in doubt, based on an assessment of the customer's outlook, cashflow, and the net realisation of value of assets to which recourse is held: <ol style="list-style-type: none"> <li>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;</li> <li>non-accrual assets: exposures with individually assessed impairment provisions held against them, excluding restructured loans;</li> <li>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;</li> <li>other assets acquired through security enforcement (includes other real estate owned): includes the value of any other assets acquired as full or partial settlement of outstanding obligations through the enforcement of security arrangements; and</li> <li>any other assets where the full collection of interest and principal is in doubt</li> </ol> | 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 income statement  |
|  |  | High quality liquid assets (HQLA)        | As defined by APRA in Australian Prudential Standard APS210 Liquidity, including RBNZ eligible liquid assets, less RBA open repos funding end of day ESA balances with the RBA   |
|  |  | Committed liquidity facility (CLF)       | 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   |