

CAPITAL & ASSET QUALITY UPDATE (PILLAR 3) FOR JUNE 2014

20 AUGUST 2014

This document should be read in conjunction with Westpac's Pillar 3 Report for June 2014, incorporating the requirements of APS330

All comparisons in this document refer to 30 June 2014 compared to 31 March 2014 unless otherwise stated

STRENGTH

RETURN

GROWTH

PRODUCTIVITY

Improved growth while maintaining balance sheet strength¹

- Strong capital position maintained with common equity tier 1 (CET1) ratio of 8.3%
- Normal seasonal pattern sees lower CET1 ratio from March 2014 due to 1H14 interim dividend payment and no shares issued to satisfy the dividend reinvestment plan (DRP)
- 3% risk weighted asset (RWA) growth, with the rise due to an increase in Credit RWA
 - Grew mortgages at system
 - Strong lift in institutional exposures, mostly infrastructure and corporate (\$6.3bn) of which most are off-balance sheet commitments
 - Outside of institutional, total business and small business RWA up \$0.5bn
 - \$1.1bn uplift in RWA from mark-to-market related credit risk
- Asset quality strong and continues to improve
 - Stressed assets 7bps lower with declines across all categories
 - Consumer delinquencies little changed
 - Individually assessed provision cover remains strong at 47%

Key metrics (%)	Dec-13	Mar-14	Jun-14
Common equity tier 1 capital ratio	8.3	8.8	8.3
Total regulatory capital ratio	11.3	12.1	11.7
Risk weighted assets (\$bn)	320.9	322.5	331.4
Common equity tier 1 capital ratio (BCBS ²)	10.6	11.3	10.6
Stressed assets to total committed exposures	1.60	1.37	1.30
Impaired assets to gross loans	0.58	0.51	0.47

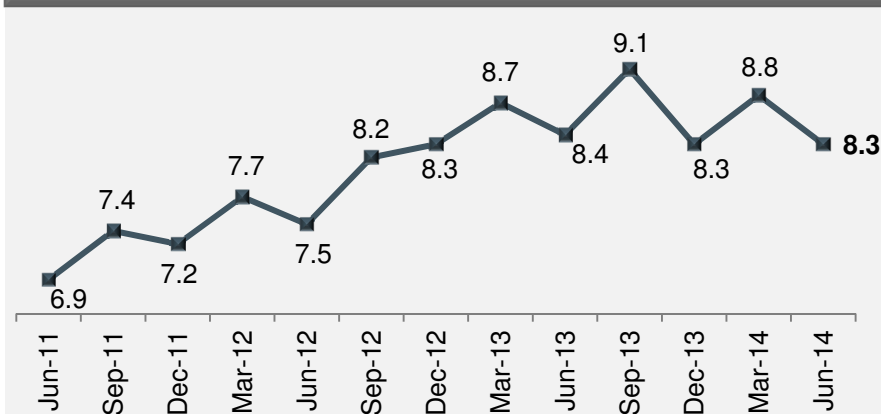
¹ All capital ratios and risk weighted assets disclosed in this presentation are calculated on a Westpac Level 2 consolidated basis (see Westpac's Pillar 3 Report June 2014 for more detail). ² BCBS is Basel Committee on Banking Supervision.

Balancing capital strength and growth

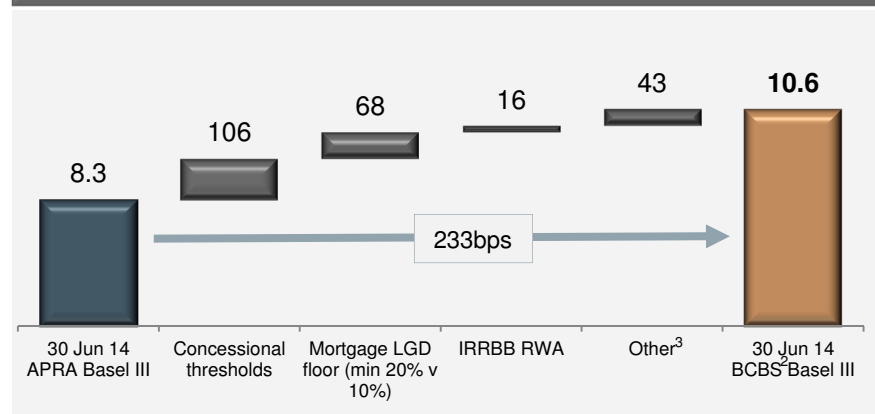
- Common equity tier 1 capital ratio was lower compared to March 2014, consistent with quarterly pattern
 - Payment of the interim ordinary dividend reduced CET1 ratio by 84bps, with no need for DRP issuance
 - Strong RWA growth, particularly in institutional exposures
 - Partly offset by quarterly earnings
- Additional Tier 1 capital higher from the issue of Westpac Capital Notes II. This was partly offset by the redemption of some Westpac Stapled Preference Shares II (SPS II). SPS II remaining on issue are expected to be bought back and cancelled on 30 September 2014
- Westpac is not impacted by APRA announcement confirming treatment of external debt held in intermediate holding companies

Key capital ratios (%)	Dec-13	Mar-14	Jun-14
Common equity tier 1 capital ratio	8.3	8.8	8.3
Additional tier 1 capital	1.5	1.5	1.7
Tier 1 capital ratio	9.8	10.3	10.0
Tier 2 capital	1.5	1.8	1.7
Total regulatory capital ratio	11.3	12.1	11.7
Risk weighted assets (\$bn)	320.9	322.5	331.4
Common equity tier 1 capital ratio (BCBS ²)	10.6	11.3	10.6

Common equity tier 1 capital ratio¹ (%)



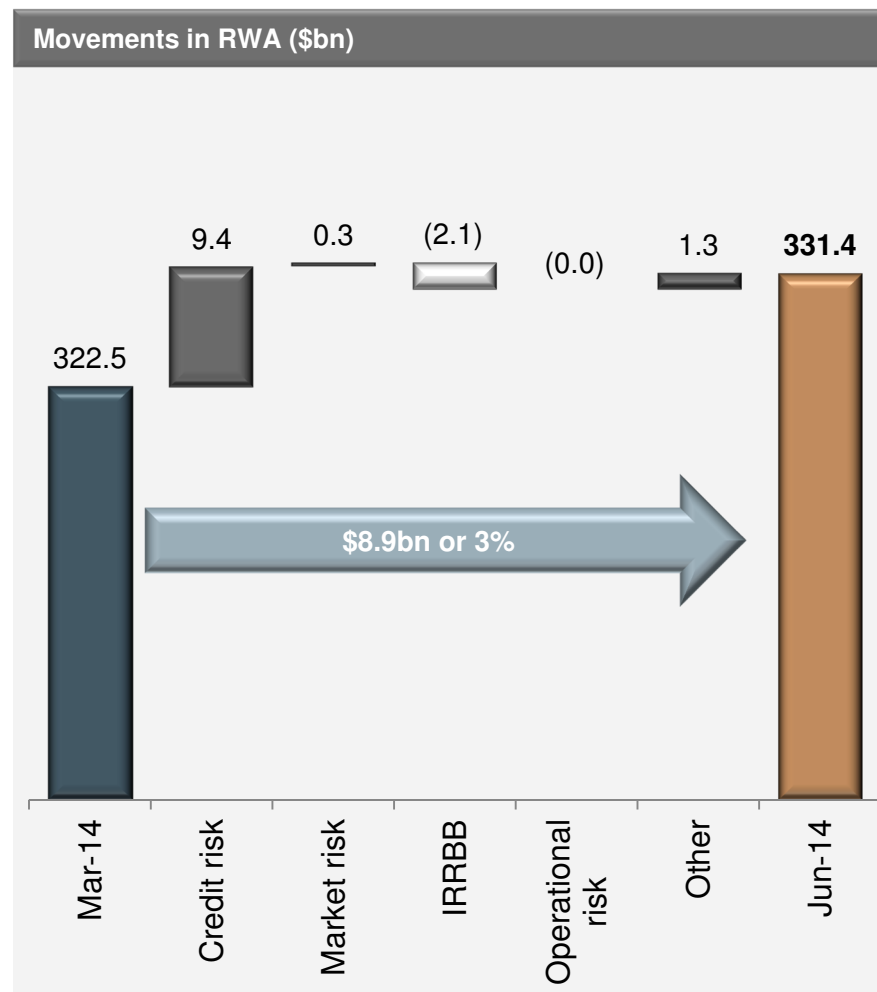
Common equity tier 1 capital ratio (% and bps)



¹ All numbers prior to Mar-13 are on a pro-forma Basel III basis. ² BCBS is Basel Committee on Banking Supervision. No changes have been made to the fully harmonised Basel III calculations compared to prior periods. ³ Other includes the treatment of specialised lending.

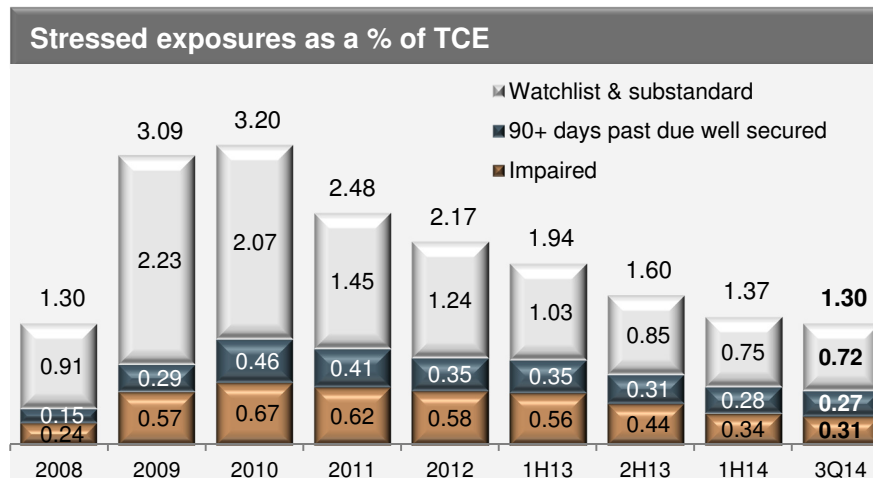
Rise in risk weighted assets from increased institutional activity

- Total RWA up \$8.9bn (up 3%) with the rise due to Credit RWA
 - Credit RWA up \$9.4bn (up 3%) principally due to institutional transactions including infrastructure and property investment
 - Corporate RWA up \$1.7bn
 - Specialised lending RWA up \$4.6bn
 - High portion of increased exposures (Corporate and specialised lending) due to undrawn commitments
 - Mark to market related credit risk up \$1.1bn
 - Non-credit RWA \$0.5bn lower
 - \$2.1bn reduction in interest rate risk in the banking book (IRRBB) RWA from higher embedded gain and reduced interest rate exposure
 - Small rise in market risk RWA, up \$0.3bn
 - \$1.3bn rise in RWA for other assets, mostly seasonal
- Exposure at default (EAD) up \$26.8bn (up 3%) with \$19.8bn growth in on-balance sheet exposures and \$7bn rise in off-balance sheet exposures. EAD movements included
 - Good growth in corporate and specialised lending categories up \$8bn
 - Mortgages up \$8bn (growing at system for 3Q14)
 - Higher sovereign exposures up \$9bn reflecting increased liquid assets at 30 June 2014



Asset quality continues to improve

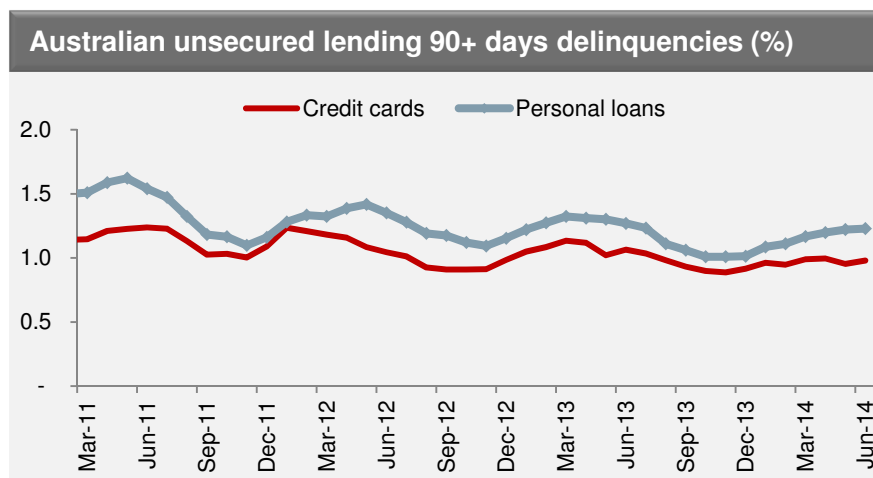
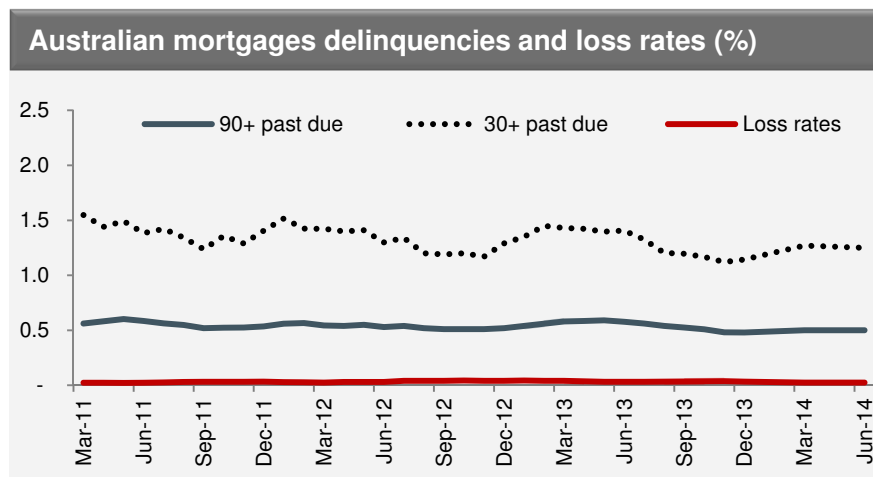
- Stressed assets to total committed exposures (TCE) down 7bps, to 1.30% with all categories of stress lower
 - Value of stressed exposures down \$254m (2%)
 - Impaired assets/TCE down 3bps
 - 90+ days past due/TCE down 1bp
 - Watchlist & substandard/TCE down 3bps
- New and increased impaired assets continued to fall and, combined with further work-outs, contributed to a \$175m fall in impaired assets. The ratio of impaired assets to gross loans has now fallen to 0.47% from 0.51%
- Stress in the commercial property portfolio continued to reduce, down from 3.0% at 1H14 to 2.5% at 3Q14, reflecting both continued improvements in asset markets and portfolio growth
- Strong provisions and coverage
 - Collectively assessed provisions up \$22m with no change to economic overlays
 - Ratio of collectively assessed provisions to credit RWA down 2bps to 95bps, mostly from strong growth in credit RWA
 - The more modest reduction in specific provisions (down \$76m) relative to the fall in impaired assets led to a further rise in the ratio of specific provisions to impaired assets to 47%
 - Total provisions \$3,737m



Provisioning coverage ratios	1H13	2H13	1H14	3Q14
Collectively assessed provisions to credit RWA	106bps	99bps	97bps	95bps
Collectively assessed provisions to performing non-housing loans	151bps	142bps	134bps	133bps
Impairment provisions to impaired assets	40%	43%	46%	47%
Total provisions to gross loans	80bps	73bps	67bps	65bps

Consumer portfolios performing well

- Westpac's consumer portfolio continues to perform well
 - High quality of the book and strong underwriting standards
 - More focused collections activities undertaken in late 2013 and 2014
 - Interest rates remaining relatively low
- Australian mortgage delinquencies little changed
 - 90+ days delinquencies up 1bp to 51bps
 - 30+ days delinquencies down 2bps to 125bps
- Australian credit card 90+ days delinquencies decreased 1bp to 98bps. Personal loan 90+ days delinquencies up 6bps to 123bps
- New Zealand consumer asset quality also remained strong
 - 90+ days mortgage delinquencies down 3bps to 26bps
 - 90+ days credit card delinquencies down 4bps to 72bps



Investor Relations Team

Investor Relations Team

Andrew Bowden

Head of Investor Relations
+61 2 8253 4008
andrewbowden@westpac.com.au

Leigh Short

Senior Manager, Equity Investor Relations
+61 2 8253 1667
lshort@westpac.com.au

Jacqueline Boddy

Director, Debt Investor Relations
+61 2 8253 3133
jboddy@westpac.com.au

Louise Coughlan

Director, Investor Relations
+61 2 8254 0549
lcoughlan@westpac.com.au

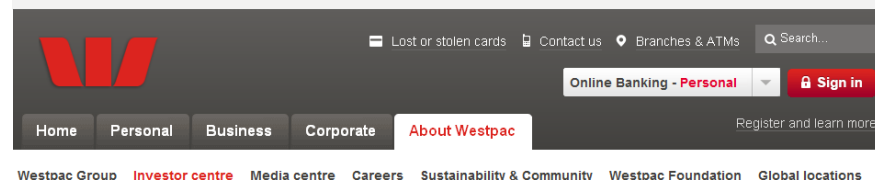
Rebecca Plackett

Manager, Retail Investor Relations
+61 2 8253 6556
rplackett@westpac.com.au

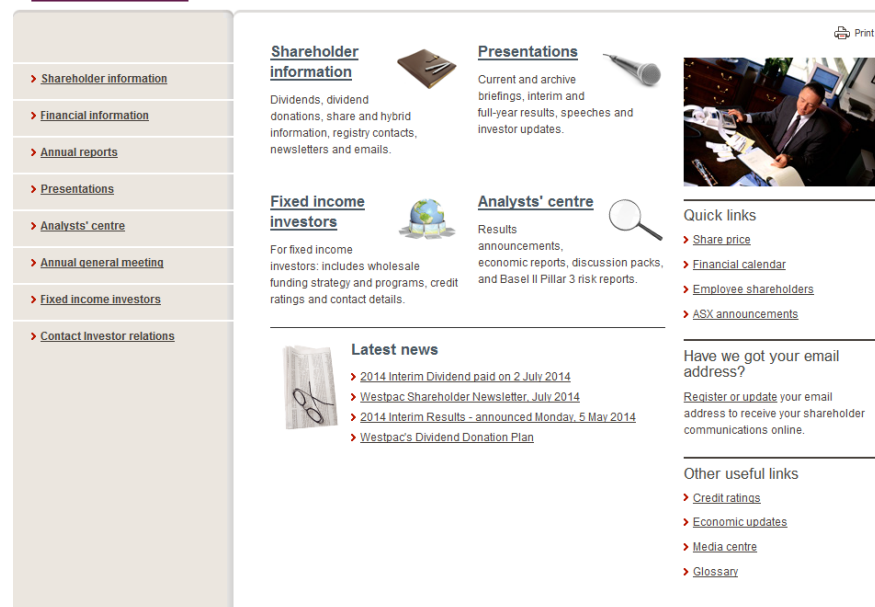
or email: investorrelations@westpac.com.au

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