
# 3Q15 Capital & Asset Quality Update (Pillar 3)

AUGUST 2015

This document should be read in conjunction with Westpac's Pillar 3 report for June 2015, incorporating the requirements of APS330. All comparisons in this document refer to 30 June 2015 compared to 31 March 2015 (unless otherwise stated)

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# Capital ratios strengthened

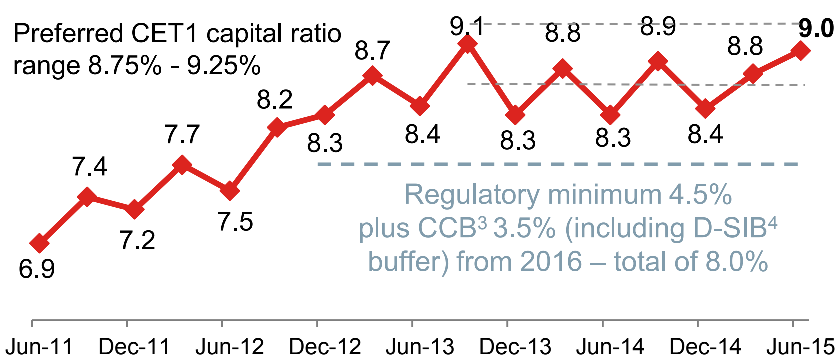
## Key movements in CET1[1] capital ratio in 3Q15

- 1H15 DRP and partial DRP underwrite (+58bps)
- Sale of shares in BTIM[2] (Institutional Offer) (+11bps)
- Other items impacting capital included
  - 1H15 interim dividend (-83bps)
  - RWA growth (excluding FX translation impact) (-22bps)
  - FX translation impact (+10bps)
  - 3Q15 earnings partially offset by rise in capital deductions

## Key capital ratios (%)

| | Jun-14 | Mar-15 | Jun-15 |
|---|---|---|---|
| Common equity Tier 1 capital ratio | 8.3 | 8.8 | **9.0** |
| Additional Tier 1 capital | 1.7 | 1.5 | **1.5** |
| Tier 1 capital ratio | 10.0 | 10.3 | **10.5** |
| Tier 2 capital | 1.7 | 1.8 | **1.9** |
| Total regulatory capital ratio | 11.7 | 12.1 | **12.4** |
| Risk weighted assets (RWA) ($bn) | 331 | 347 | **351** |

## CET1 capital ratio quarterly (%)




## Capital initiatives since June 2015

Since June 2015 a number of initiatives have been implemented that would have increased total regulatory capital by 49bps

- Finalised BTIM Retail Offer. Increases CET1 capital ratio and total regulatory capital ratio by around 4bps
- New hybrid - Westpac Capital Notes 3. Expected to raise around $1.25bn in Additional Tier 1 capital (adds around 36bps to Tier 1 and total regulatory capital ratios)
- In August 2015 issued $0.3bn of Tier 2 capital (adds around 9bps to Tier 2 capital and total regulatory capital ratios)

1 CET1 is common equity Tier 1. 2 BTIM is BT Investment Management. 3 CCB is capital conservation buffer. 4 D-SIB Is domestic systemically important banks.



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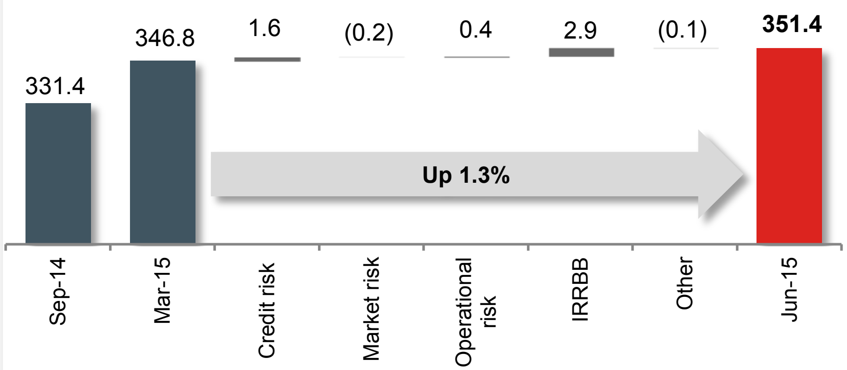
# RWA movements

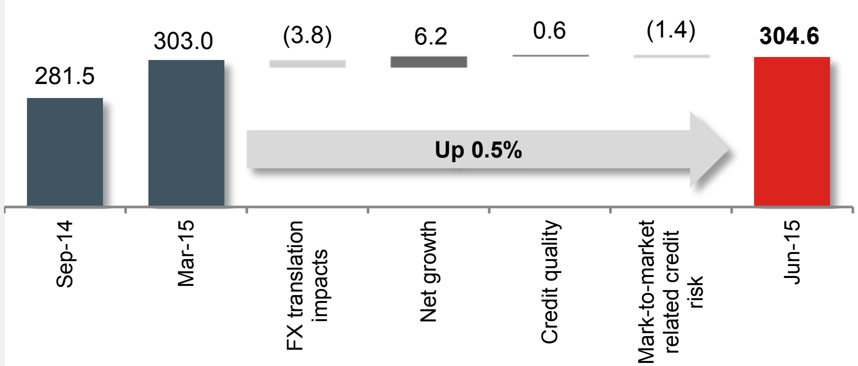
## RWA movements in 3Q15

- Total RWA increased 1.3%
- Credit RWA increased 0.5% or $1.6bn
  - $6.2bn reflecting business growth
  - $0.6bn from changes in credit risk
  - $3.8bn reduction from translation impacts of the lower NZD
  - $1.4bn reduction from lower mark-to-market credit risk
- Higher interest rate risk in the banking book (IRRBB) as rising market interest rates contributed to a lower embedded gain
- Other RWA classes relatively stable over the quarter

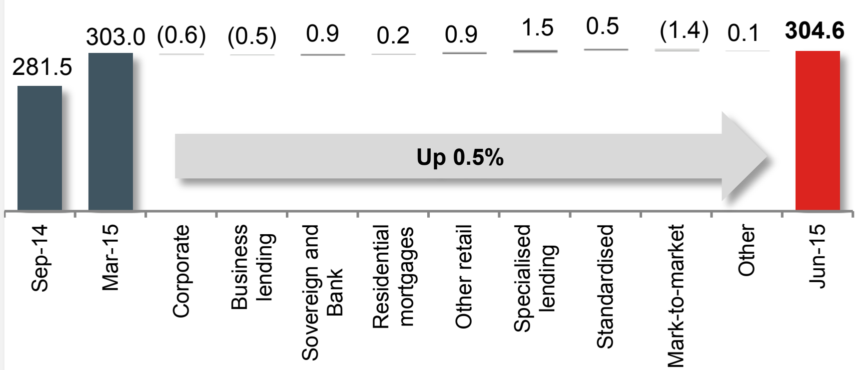
## RWA movements ($bn)




## Attribution of credit RWA movements ($bn)




## Credit RWA movements ($bn)



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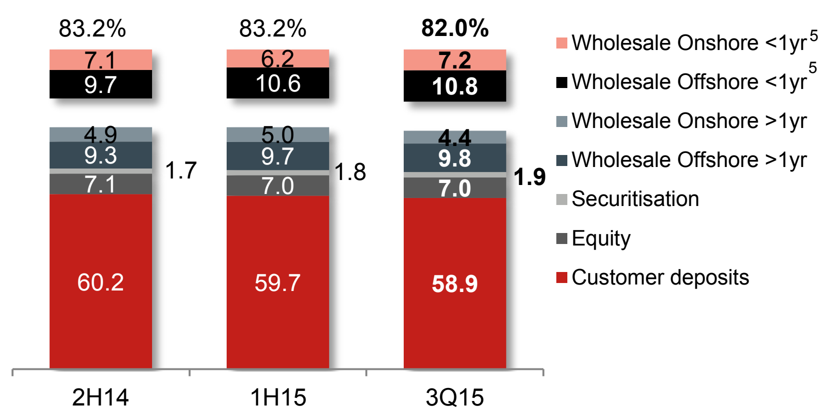
# Strong funding and liquidity position maintained

- Strong funding and liquidity position maintained
- Liquidity Coverage Ratio (LCR) 111% including
  - $63bn of High Quality Liquid Assets (HQLA)
  - APRA approved access to a Committed Liquidity Facility (CLF) of $66bn for calendar year 2015
- $141bn unencumbered liquid assets held as at 30 June 2015 (includes some liquids not qualifying for LCR and some liquids that are subject to haircut when included in LCR)
- Stable funding ratio 82.0%
  - $30bn of term wholesale funding raised year to date, including $2.2bn in capital securities. Weighted average term to maturity of 4.9 years

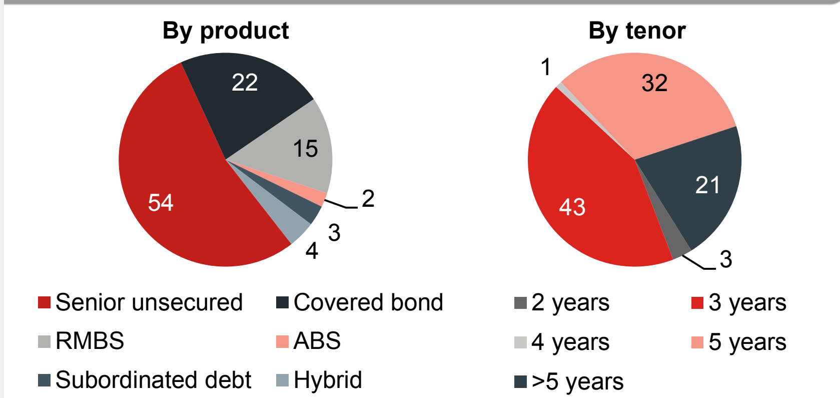
## Liquidity coverage ratio ($bn)

| | 1H15 | **3Q15** |
|---|---|---|
| High Quality Liquid Assets[1] (HQLA) | 57 | **63** |
| Committed Liquidity Facility[2] (CLF) | 66 | **66** |
| **Total LCR liquid assets** | 123 | **129** |
| **Cash outflows in a 30-day defined stressed scenario** | | |
| Customer deposits | 66 | **69** |
| Wholesale funding | 17 | **22** |
| Other flows[3] | 25 | **25** |
| **Total** | 108 | **116** |
| **LCR[4]** | 114% | **111%** |

## Stable funding ratio (%)




## FY15 year-to-date term funding[6] (%)



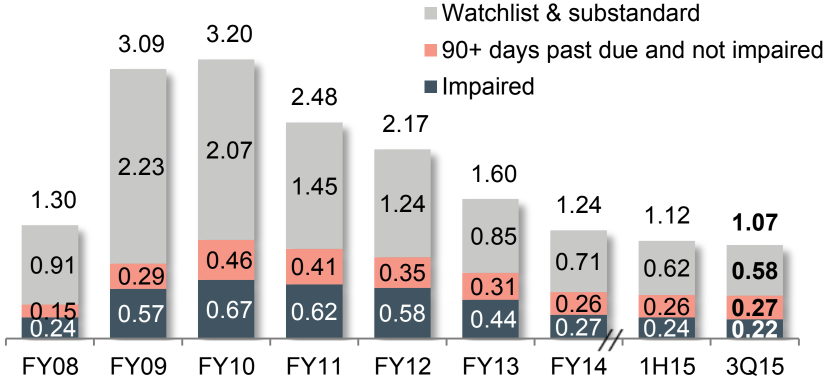

1 Includes HQLA as defined in APS 210, BS-13 qualifying liquids, less RBA open repos funding end of day exchange settlement account (ESA) balances with the RBA. 2 The RBA makes available to Australian Authorised Deposit-taking Institutions a CLF that, subject to qualifying conditions, can be accessed to meet LCR requirements under APS210 – Liquidity. 3 Other flows include credit and liquidity facilities, collateral outflows and inflows from customers. 4 LCR is calculated as the percentage ratio of HQLA and CLF over the total net cash outflows in a modelled 30-day defined stressed scenario. Calculated on a spot basis. 5 Includes long term wholesale funding with a residual maturity less than 1 year. 6 Full Year 2015 year to date term wholesale funding includes term funding raised up to 10 August 2015.

# High quality credit portfolio

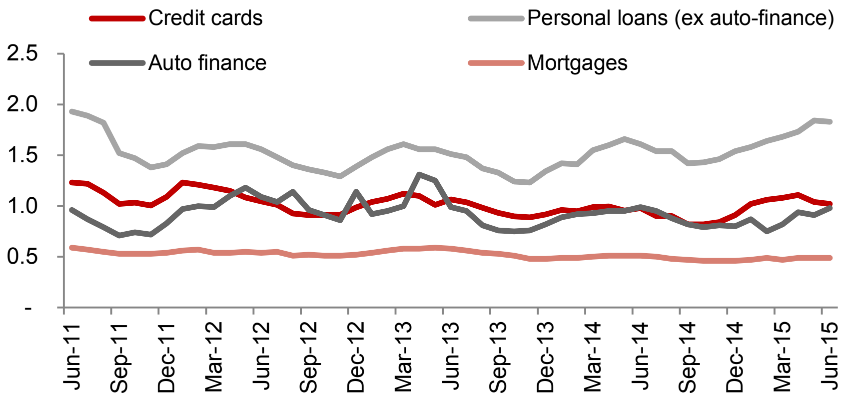
## Key asset quality metrics

- Stressed assets down $320m (3%) to $9.85bn
- Australian mortgage 90+ days delinquencies up 2bps to 49bps with most of the rise due to higher delinquencies in WA and Vic
- Australian credit card 90+ days delinquencies down 6bps to 102bps in line with seasonal trends
- Auto finance 90+ days delinquencies a little higher
- High quality New Zealand consumer portfolio maintained
  - 90+ days mortgage delinquencies down 4bps to 21bps
  - 90+ days credit card delinquencies down 10bps to 60bps
- Strong provisions and coverage
  - Total provisions $3,458m
  - No change to economic overlays

## Stressed exposures as a % of TCE




## Australian 90+ days delinquencies (%)

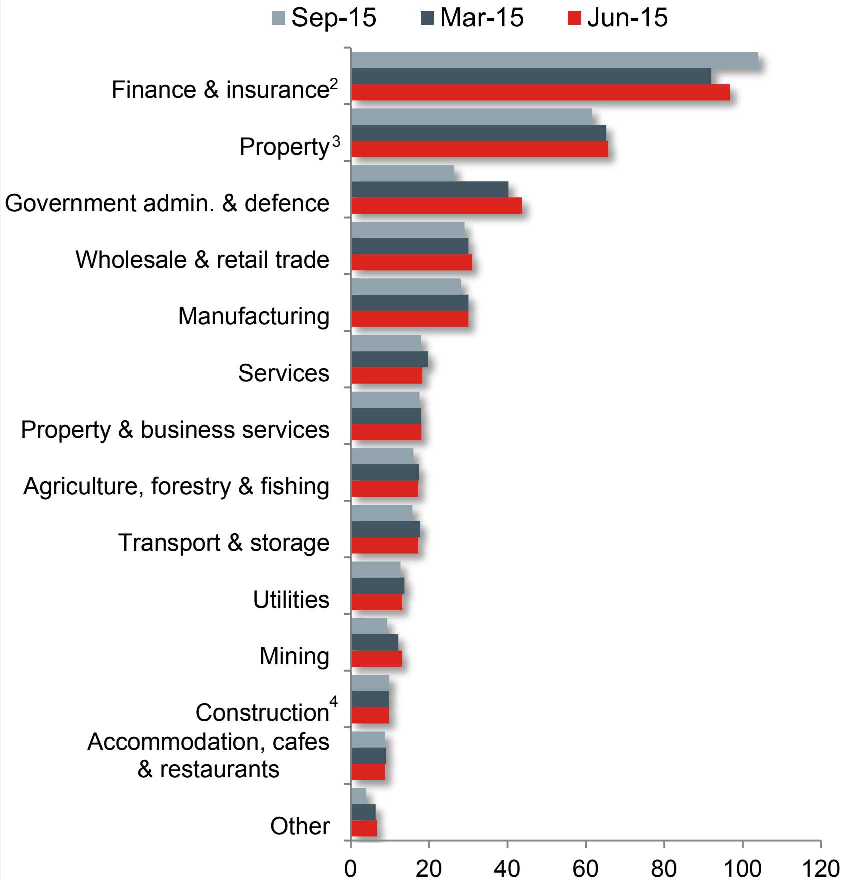



## Provision coverage ratios

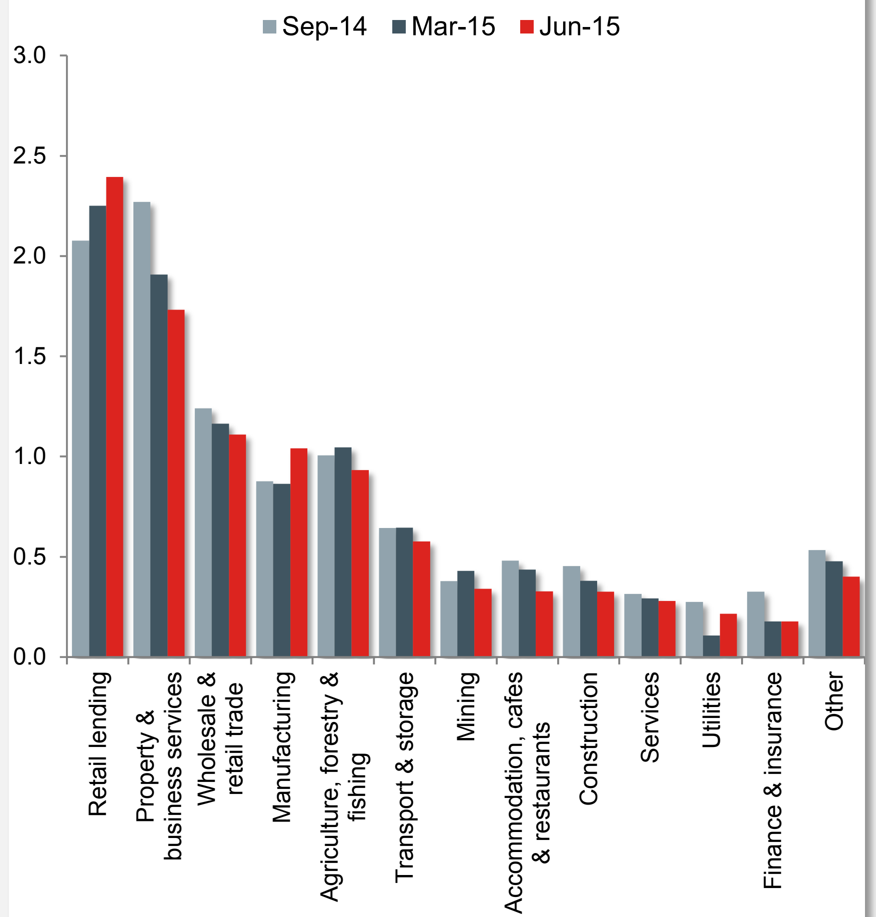
| | 1H14 | 2H14 | 1H15 | 3Q15 |
|---|---|---|---|---|
| Collectively assessed provisions to credit RWA | 97bps | 93bps | 89bps | **89bps** |
| Collectively assessed provisions to performing non-housing loans | 134bps | 129bps | 128bps | **128bps** |
| Impairment provisions to impaired assets | 46% | 45% | 48% | **47%** |
| Total provisions to gross loans | 67bps | 60bps | 58bps | **56bps** |

# A well diversified portfolio across industries

## Exposures at default[1] by sector ($bn)




## Stressed exposures by industry ($bn)




1 Exposures at default represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default. Chart excludes consumer lending. 2 Finance and insurance includes banks, non-banks, insurance companies and other firms providing services to the finance and insurance sectors. 3 Property includes both residential and non-residential property investors and developers, and excludes real estate agents. 4 Construction includes building and non-building construction, and industries serving the construction sector.

# Trends in key business portfolios

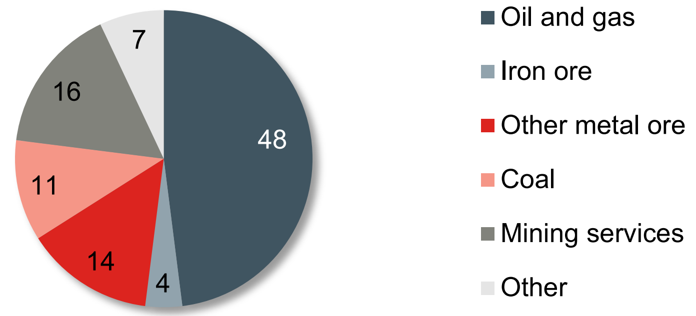
## Trends in key business portfolios over 3Q15

- Asset quality continues to improve with most portfolios recording a reduction in stress
- Some portfolios experienced a rise in stress including retail, manufacturing and utilities
  - In retail, the rise aligns with the small increase in delinquencies
  - In manufacturing and utilities, the rise in stress is isolated to a small number of names
- Economic overlay provisions are maintained for the manufacturing and mining segments
- Stress in the commercial property portfolio continued to reduce, down from 1.8% at 1H15 to 1.6% at 3Q15
- High quality mining portfolio
  - Stress in mining reduced in 3Q15
  - Diversified by commodity, customers and region
  - Focused on quality operators with efficient, lower cost operating models
  - Well rated, with under 1% of exposures in default
  - Underwriting includes customer sensitivity to movements in commodity prices
  - Some increase in retail and manufacturing stress related to pressure in the commodity sector

## Mining portfolio at 30 June 2015

| | |
|---|---|
| Exposure at default | $13.0bn |
| % of total portfolio | 1.4% |
| On balance sheet lending | $7.6bn |
| Average risk grade[1] | BBB equivalent |
| % of mining portfolio graded as 'stressed'[1] | 2.61% |
| % of mining portfolio in default | 0.82% |

## Mining portfolio by sector at 30 June 2015 (%)




1 Includes impaired exposures in default.



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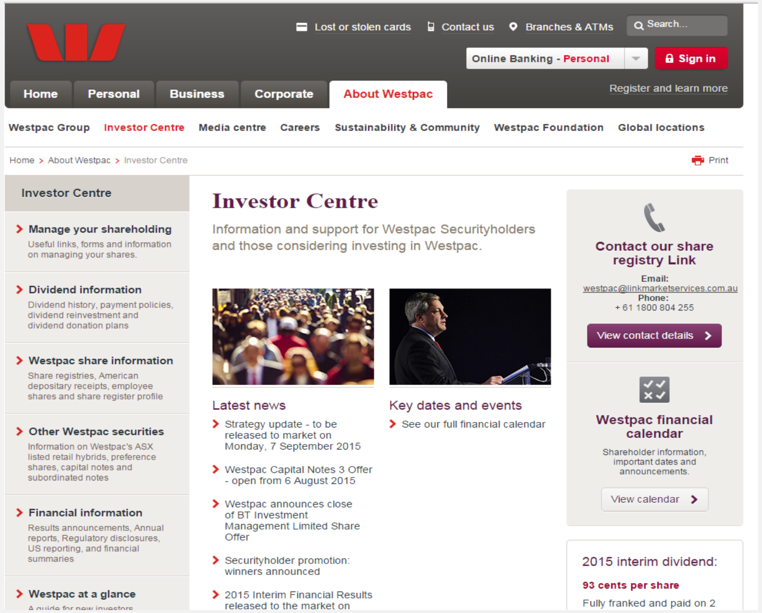




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