HD **Westpac delivers another high quality result**

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Westpac Group today announced a 12% increase in statutory net profit to $7,561 **million** for the 12 months to 30 September 2014 (Full Year 2013: $6,751 **million**).

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Highlights of the result compared to the prior year included1:

?Cash earnings per share of 245.4 cents, up 8%

?Cash earnings of $7,628 **million**, up 8%

?Core earnings2 of $11,574 **million**, up 5%

?Cash return on **equity** (ROE) of 16.4%, up 48 basis points

?Final fully franked dividend of 92 cents per share (cps) taking total dividends paid for the year to 182 cps, up 5%

?Common **equity** tier 1 capital ratio of 9.0%

?Sector leading expense to income ratio of 41.6%

?Improved lending and customer deposit growth, up 8% and 7% respectively

?A year of significant delivery and progress on our customer service revolution.

Westpac Chief Executive Officer, Gail Kelly, said the result was driven by a strong operating performance from all divisions: ‘This is a high quality result, which reflects the consistent execution of our customer-focused strategy. We have delivered on improved growth and returns, while maintaining our disciplines of strength and productivity that have become hallmarks of Westpac.

‘While all divisions performed well, Australian Financial Services has had a particularly strong year. All businesses in AFS delivered double digit earnings growth, with well managed margins and a 6% increase in banking customer numbers. We provided more than $87 **billion** in new lending to Australian retail and business customers over the year, while growing in line or above system across all key markets in the second half.

‘At the same time, the Group’s balance sheet remains very strong, with robust levels of capital and a sector leading position in credit quality. I am particularly pleased that we have delivered for all of our stakeholders. We have sustainably grown our business, created better customer solutions, and substantially contributed to the communities in which we operate,’ she said.

‘This was not only a year of significant delivery, but also one in which we accomplished a substantial step change in our strategic agenda. Rapid developments in digital and mobile technologies are providing us with greater opportunities to build a more customer-centric organisation. We have invested $470 **million** during the year on initiatives targeting growth and productivity, including the development of innovative products and services. This is fundamentally transforming our business and providing customers with easier, simpler services and greater control over how they manage their finances. Just as importantly, the implementation of our customer service revolution is resulting in streamlined processes that are driving down customer complaints, with a reduction of 27% achieved in Australian Financial Services alone.

‘As a result, customer numbers have grown at their fastest pace in four years. A real highlight for the year is that St.George and Westpac Retail & Business Banking now rank ahead of the major banks for consumer and business customer satisfaction3.

‘I am also proud that we have been recognised as the most sustainable bank globally. We were ranked number one in the Global 100 Most Sustainable Corporations in the World4, and were recognised as the global banking leader in the 2014 Dow Jones Sustainability Indices Review,’ she said.

Key achievements for the year included:

Introducing major enhancements to better support customers, including:

Upgrading the level of digital services with the successful roll-out of our new mobile/online platform, ‘Westpac Live’, to more than 2.7 million Westpac Retail & Business Banking customers;

Innovating through contactless payments, introducing mobile technology to provide the location of more than 50,000 fee free ATMs globally, launching fingerprint recognition technology for mobile banking across St.George, Bank of Melbourne, BankSA and RAMS, and introducing ‘live chat’ on the Westpac Live mobile app and Westpac Get Cash (the mobile app to enable access to emergency cash);

Providing increased functionality and convenience for business customers with the introduction of a new merchant terminal fleet, and the roll-out of our mobile payments solution, Mobile PayWay, enabling business customers to turn their smartphone or tablet into a merchant terminal;

Completing the first stage of the new BT Wealth platform, ‘Panorama’, that will simplify and enhance the management and administration of customers’ wealth;

Upgrading a further 181 branches, including technology that provides more convenience with 24 hours a day, seven days a week access and more self-serve options. In addition, 202 branches were upgraded to digitally connect with financial services specialists across business banking, merchant services and advice; and

Opening a further 17 Bank of Melbourne branches, taking the total network to 94. Bank of Melbourne continues to exceed expectations with the business increasing share, including growing at 2.4x mortgage system growth5 and 3.2x deposit system growth6.

-Improving growth across key lending categories. The Group grew at or above system in all key markets in the second half of 2014, including growing at system in Australian mortgages, 1.3x system in household deposits, and 1.4x system in business lending. We grew market share in credit cards, up 87bps to 22.9%, and Westpac Retail & Business Banking continues to lead the industry in the highest percentage of customers with a wealth product, at 21.9%7.

-Increasing lending in Westpac Institutional Bank (WIB) by $9.7 billion, or 17%, and deposits by $4.5 billion (6%). WIB continues to successfully capture new growth opportunities, particularly in infrastructure, and was recognised as the number one Lead Domestic Transactional Bank8 for the 11th consecutive year.

-Building on the strong progress we made in the first half year on our Asian strategy, we continue to deepen our capabilities with the approval of our China FX Derivative licence for G7 currencies, and preparations to open a sub-branch in the Shanghai Free Trade Zone. We have also implemented an agreement with China UnionPay to accept its cards in our Australian ATMs, merchant terminals and online payment facilities.

-Furthering our productivity and simplification program, with $219 million in efficiencies delivered during the year. This included simplifying products and streamlining processes to improve customer service, such as the introduction of a 60 Minute Mortgage for Westpac Retail & Business Banking home finance managers (reducing the average application approval time from over a week), streamlining the application process for BT Super for Life (reducing the application process time by approximately 75%), and enhancing our process for installing merchant services enabling Westpac customers to be up and running in one day, compared previously to three days.

-Completing the acquisition of selected Australian businesses from Lloyds, boosting the Group’s scale and capability in equipment and auto financing. The business contributed $64 million to cash earnings and integration is progressing ahead of plan.

-Launching the $100 million Westpac Bicentennial Foundation. In addition, the Group contributed $117 million of in-kind support and contributions to a range of community initiatives. The Group recognised a tax expense of $3.2 billion, reflecting an effective tax rate of 29.6%.

Capital position and dividends

Mrs Kelly said the Group's common equity tier 1 (CET1) capital ratio of 9.0% places the Group in a strong position to continue to support growth and meet future regulatory requirements.

The effective management of capital has seen the CET1 capital ratio just 13bps points lower than September 2013, notwithstanding the acquisition of the Lloyds business in December 2013, the payment of a special dividend in December 2013, and a $44 billion overall increase in lending. The Group also did not issue shares to satisfy the Dividend Reinvestment Plan (DRP) for the 2H13 and 1H14 dividends which ensured there was no share dilution over the year.

The Group has revised its preferred capital range to 8.75% - 9.25% for its CET1 capital ratio9.

The strength of capital and the quality of the result enabled the Board to increase the final dividend another 2 cps to 92 cps. This takes the total dividends for the year to 182 cps, up 5%. This represents a dividend yield of 5.7%10.

'We are pleased to continue to provide strong returns directly to our almost 600,000 shareholders. Today's dividend represents a payout ratio of 74% of cash earnings, demonstrating that we continue to return a high portion of earnings to our owners. Over the full year, this represents $5.7 billion in dividends to our shareholders,' Mrs Kelly said.

The Group will issue shares to satisfy the DRP for the final dividend. Shares to be issued under the DRP will have no discount applied.

Financial highlights

Key financial aspects of the FY14 result11 compared to FY13 include:

-Net interest income of $13,496 million, up 5%, with an 8% rise in average interest-earning assets and a 7bps decrease in net interest margin to 2.08%. The full year decline in net interest margin principally reflects a lower Treasury contribution, higher levels of liquid assets and lower interest rates impacting returns on capital.

-Australian housing loans increased 7%, with AFS mortgage growth at 1.0x system in the second half of 2014. Personal lending rose by 24%, and business lending increased by 8%, both of which were boosted by the Lloyds acquisition. Group-wide, customer deposits increased $27 billion to $409 billion, up 7%.

-Non-interest income of $6,324 million, a 7% increase, driven largely by another strong performance from our Australian wealth and insurance business, BT Financial Group.

-An expense to income ratio of 41.6%, which is sector leading.

-A further decline in impairment charges which were 23% or $197 million lower. The high quality of the Group's portfolio has seen a decline in new impaired facilities. Economic overlays were unchanged over the year and provisioning cover remains strong.

Divisional performance: FY14 cash earnings12

Cash earnings ($million)

FY14

2H14

1H14

% increase FY14-FY13

% increase

2H14-1H14

Australian Financial Services 5,057 2,596 2,461 12 5

Westpac Retail & Business Banking 2,582 1,331 1,251 10 6

St.George Banking Group 1,580 808 772

14

5

BT Financial Group 895 457 438 16 4

Westpac Institutional Bank 1,468 716 752 (7) (5)

New Zealand (NZ$) 864 432 432 13 -

Australian Financial Services

Australian Financial Services (AFS) delivered a strong performance with cash earnings, up 12%, supported by improved growth, solid margins and lower impairment charges. All AFS businesses delivered double digit earnings growth.

Westpac Retail & Business Banking's focus on customers and investment in the front line contributed to a 10% uplift in cash earnings to $2,582 million and a 6% increase in revenue. Loan growth increased through the year, up 6%, and combined with above system deposit growth, resulted in a 181bps improvement in the deposit to loan ratio. Growth was achieved in a disciplined way with margins well managed, asset quality improving and expense growth held to 3%. The expense to income ratio showed continued improvement, down 87bps to 43.9%.

St.George Banking Group delivered cash earnings of $1,580 million, up 14%. All of the division's brands - St.George, BankSA, Bank of Melbourne and RAMS - contributed positively to the result. Revenue was supported by good momentum across the business, sound balance sheet growth and good margin management. The addition of the Lloyds business has also contributed positively. Customer numbers increased 11%. Investment in the business continued, including the Lloyds acquisition, ongoing investment in Bank of Melbourne, and the deployment of Business Connect and roll-out of FreshStart branches, which are all delivering improved earnings. Consistent with the improvement in asset quality, impairment charges were lower, down 19%.

BT Financial Group grew cash earnings 16% on the back of a 14% increase in revenue. Highlights included the growth of Funds Under Management (FUM) and Funds Under Administration (FUA) (up 17% and 10% respectively), stronger performance fees, improved returns from private wealth and advice and a 19% uplift in insurance cash earnings. BT Financial Group maintained its market leading position, ranking number 1 on all Platforms, with FUA share of 19.7%. It also remains number 1 on Retail (excluding cash), with 18.4% share of FUA, and number three ranking on Corporate Super with a 14.7% share of FUA13. The Insurance contribution was up a strong $51 million, or 19%, supported by a rise in in-force premiums of 16% in Life Insurance and an 11% increase in gross written premiums in General Insurance.

Westpac Institutional Bank

Westpac Institutional Bank delivered cash earnings of $1,468 million, down $107 million or 7%. Significant items reported in FY13 were not repeated in FY14 (namely the revenue associated with the exit of Hastings' listed infrastructure funds and a large CVA benefit). Excluding these items, WIB's cash earnings were up 4%, supported by a lift in customer revenue (up 6%) and a higher impairment benefit over the year.

In the context of a low interest rate, low volatility environment, WIB performed well. It had a continued solid operating performance with growth on both sides of the balance sheet, good customer related flows, and strong asset quality. Lending increased $9.7 billion (or 17%), deposits grew by $4.5 billion (6%), with particularly good growth in our Asia business. WIB maintained its lead position in transactional banking in Australia and New Zealand14 for the 11th year in a row, and was ranked the number one Australian bank for FX globally15 for the ninth year in a row.

New Zealand

Westpac New Zealand delivered a 13% increase in cash earnings, to NZ$864 million, supported by a 3% growth in core earnings and a 78% reduction in impairment charges. Loan growth increased 5% (including a 6% increase in mortgages, achieving 1.2x system), with deposits up 6%, helping to maintain the division's peer leading deposit to loan ratio of 76.5%. Partially offsetting this growth has been lower margins from strong competition and a customer preference for fixed rate mortgages.

Outlook

Mrs Kelly said global growth had been slower than expected throughout 2014, with Europe and Japan facing temporary setbacks, while growth in the United States continues to improve. Growth in **China** has moderated but it is expected to remain sound at around 7% per annum, while structural reform occurs.

In Australia, the economy is expanding at a moderate pace, supported by low interest rates.

'Housing credit growth has increased over 2014 and we expect growth at similar levels to continue through 2015, driven by strong demand and continued low interest rates. An upswing in home building is also underway,' Mrs Kelly said.

While businesses remain cautious, there are signs of improving prospects for non-**mining** investment and a continued moderate pick-up in business credit growth is expected.

Mrs Kelly said that she is positive about the outlook for the Group: 'These results demonstrate that our business is performing well with strong momentum. Importantly, employee engagement is at a record high and we are lifting the pace of delivery and innovation across the Group through our service revolution for customers.

'Overall, we have a strong franchise that is well positioned for the year ahead. We believe we will continue to deliver strong outcomes for our customers and our shareholders in FY15. Less than three years out from our bicentennial year, the Westpac Group is in great shape,' she said.

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 and 6 of the Group's 2014 Full Year Results announcement.

2 Core earnings are net operating income less operating expenses.

3 Refer slide 148 in the Westpac Group Investor Discussion Pack for provider details.

4 2014 Global 100 Most Sustainable Corporations in the World by Corporate Knights.

5 Growth multiple is for the 11 months to August 2014 for Victoria and estimated based on ABS new housing finance statistics, State based ABS National Accounts data along with ABA/Cannex surveys.

6 Bank of Melbourne growth multiple is for the 9 months to June 2014 for Victoria and estimated based on State based ABS National Accounts data along with ABA/Cannex surveys.

7 Refer slide 148 in the Westpac Group Investor Discussion Pack for wealth metrics provider.

8 2014 Peter Lee Associates Large Corporate and Institutional Transactional Banking Survey Australia. Quantitative measure from 576 votes in 2014. Westpac ranks no. 1 for citations as '**lead**' transactional bank from 2004-2014.

9 The ratio incorporates APRA's announced additional one percentage point buffer to regulatory requirements to be applied to Domestic Systemically Important Banks (D-SIBs). Previous range as at 31 March 2014 was 8.0% to 8.5%.

10 Based on 30 September 2014 Westpac closing share price of $32.14.

11 Cash earnings basis.

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

13 Plan for Life Quarterly Data System (June 2014).

14 2014 Peter Lee Associates Large Corporate and Institutional Transactional Banking Survey Australia. Quantitative measures from 576 votes in 2014. Westpac ranks no. 1 for citations as '**lead**' transactional bank from 2004-2014.

15 Peter Lee Associates Large Corporate and Institutional Transactional Banking Survey Australia. Rank vs. Top 4 platforms. Quantitative measure from 576 votes in 2014.

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