

# The Westpac Group 3Q09 Update

21 August 2009

Westpac Banking Corporation ABN 33 007 457 141



## Outlook improving in 3Q09, although risks remain

- Economic outlook improving
  - Global growth forecasts being revised up
  - Lift in confidence supporting stabilisation
  - China's economy strengthening
- Global capital and financial markets continue to open up
- Headwinds remain
  - Customers continuing to come under stress, particularly in commercial lending and in New Zealand
  - Average funding costs continuing to rise; customer rates heading higher
  - System credit growth still slowing
  - Unemployment expected to increase
- The Westpac Group is strongly positioned



## The Westpac Group is strongly positioned

<p><b>Strategically well placed</b></p>	<ul style="list-style-type: none"> <li>▪ Westpac Local roll-out continues, empowering bank managers, increasing branches and placing more people in the front line</li> <li>▪ Leading position in Institutional Banking</li> <li>▪ BTFG continuing to see improvement in market share</li> <li>▪ Multi-brand strategy increases strategic options</li> </ul>
<p><b>Transformational St.George merger on track</b></p>	<ul style="list-style-type: none"> <li>▪ Integration progressing smoothly – on plan to achieve \$120m in expense synergies in FY09</li> <li>▪ Franchise momentum restored, with customer numbers increasing. In 3Q09 St.George achieved:             <ul style="list-style-type: none"> <li>– 1.2 times system growth in mortgages</li> <li>– 2.0 times system growth in household deposits</li> </ul> </li> </ul>
<p><b>Disciplined risk management</b></p>	<ul style="list-style-type: none"> <li>▪ Large rise in watchlist, following extensive portfolio reviews and desire to proactively identify and assist customers showing some signs of stress</li> <li>▪ Consumer sector continues to perform strongly</li> <li>▪ Strong capital and provisioning cover maintained through 3Q09:             <ul style="list-style-type: none"> <li>– Collective provisions to credit RWA 1.33% (1H09 1.25%)</li> <li>– Impairment provisions to impaired assets 52.6% (1H09 48.4%)</li> </ul> </li> <li>▪ Intense focus on funding composition</li> </ul>



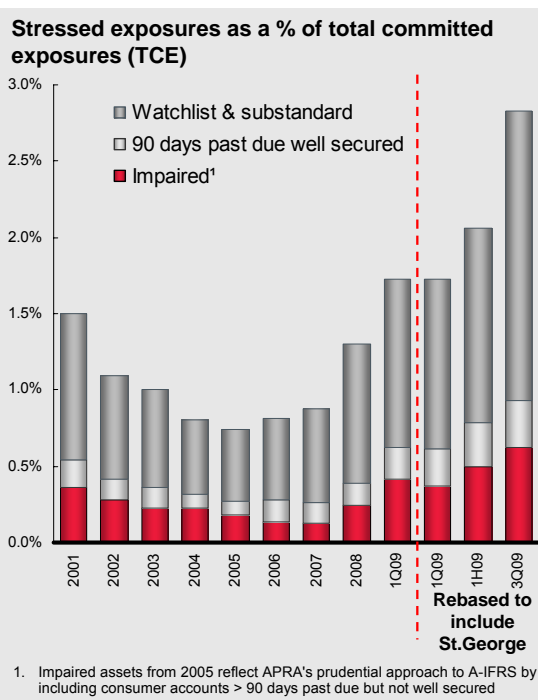
## Solid 3Q09 performance

- 3Q09 cash earnings consistent with recent quarters at approximately \$1.1bn<sup>1</sup>
- All brands growing above system in targeted areas:
  - Solid deposit growth, although system growth is easing
  - Strong mortgage lending; business lending softer
- Higher average funding costs; customer margins flat
- Impairment charge remains high at \$865m for 3Q09 (76bps of gross loans, 3Q annualised), including \$230m from New Zealand
- Consumer credit quality continues to be better than expected, although unemployment likely to rise
- Strong balance sheet

1. The Westpac Group cash earnings on an unaudited basis

## Stressed exposures continue to rise

- Stressed exposures increased to 2.8% at 3Q09 from 2.1% at 1H09
- Impaired assets up \$794m, a similar increase to 2Q09 rise
  - One third from NZ, mostly 2 names
  - Remainder of increase due to commercial business in WIB and some small business
  - \$36m written off against impaired in 3Q09
- Consumer continues to perform well: Australian delinquencies lower; NZ delinquencies little change
- Large rise in Watchlist & substandard:
  - 95% of increase are watchlist facilities
  - 76% of increase secured
  - Property a large contributor, with residual broadly spread across industries
  - Expect rate of increase to slow

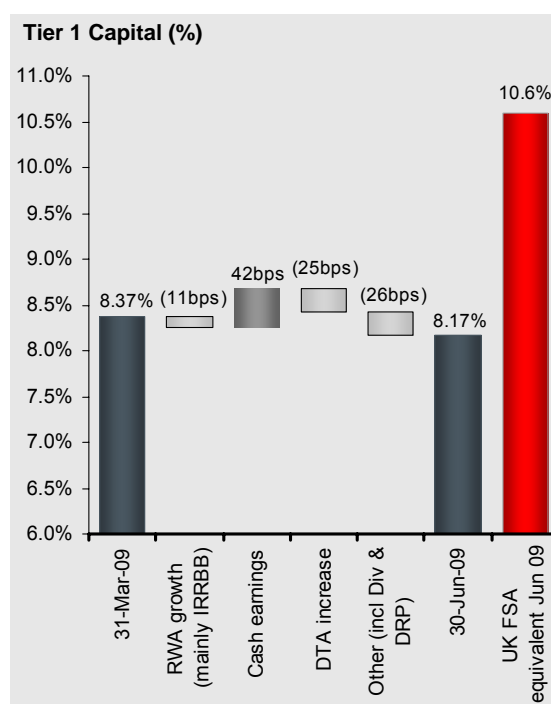


## Key points from the 3Q09 Pillar 3 Report

Key points	Drivers
Exposure at default up 1%	<ul style="list-style-type: none"> <li>▪ 5% growth in mortgages (incl St.George) offset by an 8% decline in corporate exposures</li> </ul>
Risk weighted assets up 1%	<ul style="list-style-type: none"> <li>▪ Movement in RWA predominantly due to \$3.7bn rise in RWA from IRRBB. Increase due to higher Treasury VAR from rapid movements in the yield curve and lower embedded gains</li> <li>▪ Credit RWA little changed as:                             <ul style="list-style-type: none"> <li>– Growth in mortgages and some credit deterioration (mostly corporate &amp; specialised lending)</li> <li>– Offset by a decline in corporate RWA</li> </ul> </li> </ul>
Impaired assets up \$794m	<ul style="list-style-type: none"> <li>▪ 51% from corporate and business lending, of which around half was from New Zealand</li> <li>▪ 35% from specialised lending – mostly commercial property</li> </ul>
Non-defaulted regulatory expected loss up \$48m	<ul style="list-style-type: none"> <li>▪ Small increase due to migration in corporate and specialised lending portfolios</li> <li>▪ Growth in watchlist largely secured and with moderate probability of default resulting in limited change in loss potential</li> </ul>
Defaulted regulatory expected loss up \$371m	<ul style="list-style-type: none"> <li>▪ 62% due to defaulted corporate facilities</li> <li>▪ 30% due to defaulted specialised lending exposures – mostly commercial property</li> <li>▪ Increase in defaulted regulatory expected loss has been relatively modest as most new impaired assets migrated from the substandard category, and were already well represented in defaulted regulatory expected loss balances</li> </ul>
Individually Assessed Provisions up \$504m	<ul style="list-style-type: none"> <li>▪ 80% due to corporate, business and specialised lending</li> <li>▪ Total impairment provisions to total impaired assets 52.6% (48.4% at March 09)</li> </ul>
Collectively Assessed Provisions up \$182m	<ul style="list-style-type: none"> <li>▪ Collectively assessed provisions to credit risk weighted assets 133bps (125bps at March 09)</li> </ul>
Strong capital position maintained	<ul style="list-style-type: none"> <li>▪ Tier 1 ratio of 8.17%</li> <li>▪ Pro-cyclicality of 8 bps for the quarter due to credit deterioration</li> </ul>

## Maintaining a strong capital position

- Tier 1 ratio of 8.17% at June 09
- July Tier 1 ratio above 31 March 09 levels
- Some volatility in Tier 1 ratio from rise in deferred tax assets (DTA), which are a capital deduction. DTA movements due to timing differences including:
  - Tax treatment of certain funding hedges
  - Timing between when credit provisions raised and facilities written off
- Maintaining capital strength
  - Tier 1 remains well above target range (6.75% to 7.75%)
  - Organic growth a priority



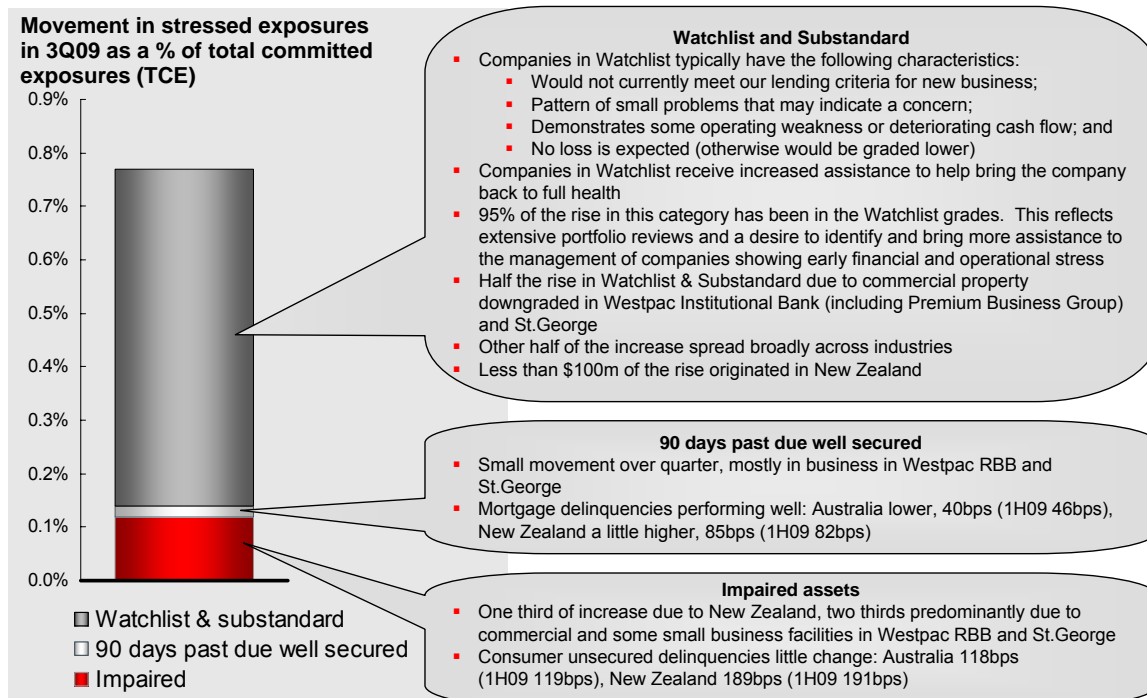
## Another solid performance in 3Q09

<b>Volumes</b>	<ul style="list-style-type: none"> <li>▪ Customer deposit growth of 2.3% over prior quarter</li> <li>▪ Total lending up 1.3% over prior quarter</li> </ul>
<b>Margins</b>	<ul style="list-style-type: none"> <li>▪ Average funding costs continue to increase</li> <li>▪ Customer margins flat, headline margins higher due to Treasury</li> </ul>
<b>Other income</b>	<ul style="list-style-type: none"> <li>▪ Wealth earnings improving and FUM/FUA up 6% over prior quarter</li> <li>▪ Solid markets performance, but run rate below 1H09</li> </ul>
<b>Expenses</b>	<ul style="list-style-type: none"> <li>▪ Expense growth tightly managed, continuing to invest</li> <li>▪ Merger synergies continue to flow through; on target to achieve \$120m in savings in FY09</li> </ul>
<b>Impairment charges</b>	<ul style="list-style-type: none"> <li>▪ Impairment charge of \$865m, including \$230m for New Zealand of which \$135m related to 2 names</li> </ul>
<b>Tax</b>	<ul style="list-style-type: none"> <li>▪ Similar tax rate to prior periods</li> </ul>
<b>Cash earnings</b>	<ul style="list-style-type: none"> <li>▪ Unaudited cash earnings for The Westpac Group of approximately \$1.1bn</li> </ul>

# Supplementary slides

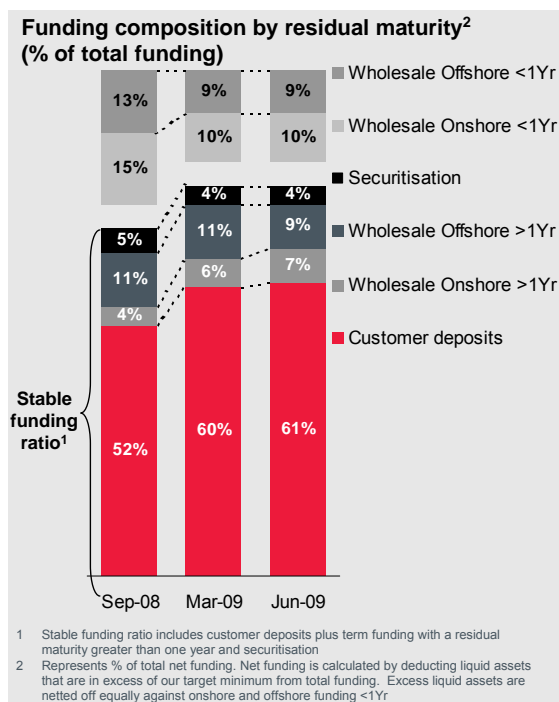
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## Movements in stressed exposures in 3Q09



## Maintaining focus on more stable funding sources

- Stable funding ratio<sup>1</sup> maintained at 81% at 30 June 2009:
  - Customer deposits represent 61% of total net funding
  - Term funding and securitisation represent 20%
- Term funding raised YTD \$34bn, including \$7bn raised without Government Guarantee
- Duration of new term funding raised YTD 3.8yrs
- Liquidity above \$65bn and covers all offshore maturities for more than 12 months



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