St.George & Westpac proposed merger

Merger Implementation Agreement - signed

26 May 2008

Westpac

Index - Creating Australia's leading financial institution

Summary – A compelling Australian financial services merger

- Agreement to merge St.George and Westpac
- All scrip consideration, exchange ratio of 1.31 Westpac shares for each St.George share
- Proposed operating model preserves the best of both
- Strong cultural fit
- Extensive modelling has provided clarity around valuation
  - Allowance for $700m in integration and transaction costs
  - Pre-tax cost synergies equivalent to 20%-25% of St.George cost base from common infrastructure and scale economies
  - Strong revenue opportunities
- No material issues arising from due diligence
- Merger creates a strengthened entity, with AA credit rating, strong capital and broad based funding

Key terms and conditions

Consideration	All scrip offer
Exchange ratio	Exchange ratio of 1.31 Westpac ordinary shares for each St George ordinary share. Excluding recently announced interim dividends, represents a premium of 24.1%[1] based on a 1 month VWAP and a premium of 28.5%[2] based on the spot premium
Capital gains	St.George shareholders expected to obtain roll-over relief
Effected by	Scheme of arrangement to be voted on by St.George shareholders
Key conditions	Subject to regulatory consents from Federal Treasurer, APRA, ACCC Independent expert report recommending that the transaction is in the best interests of St.George shareholders
Dividends	St.George shareholders to receive final St.George dividend based on St.George performance Westpac shareholders to receive final Westpac dividend based on Westpac performance
Board	A new combined Westpac Board with an additional three St.George members St.George Chairman John Curtis to be Deputy Chairman
Implementation committee	Joint steering committee responsible for scheme preparation and merger implementation planning

1. Based on the VWAP for both St.George and Westpac over the month ended 9 May 2008, adjusted to remove the value of their respective dividends, which shareholders separately retain
2. Based on the closing prices of Westpac and St.George shares on 9 May 2008, adjusted to remove their respective interim dividends of 70 cents and 88 cents respectively

Summary of Merged Group

	st.george	Westpac	Merged Group
Market capitalisation ($bn) [1]	19	47	66
Weight in S&P ASX 200 index (%)	1.56	3.69	5.25
Customers (million)	3.0	7.1	10.1
Australian retail representation	400	923 [4]	1,323
Business banking centres	33	36	69
ATMs	1,129	1,713	2,842
Loans ($bn) [2]	113	295	408
Deposits ($bn) [2]	79	220	299
Funds under management ($bn) [2, 5]	7.3	35.3	42.6
Funds under administration ($bn) [2, 5]	33.3	42.4	75.7
Credit ratings [3]			
- Fitch	A+	AA-	AA-
- Moody's	Aa2	Aa1	Aa1
- Standard & Poor's	A+	AA	AA

1. Based on an exchange ratio of 1.31 Westpac shares for each St.George share and the closing price of Westpac shares on 9 May 2008, adjusted to remove the Westpac dividend of 70 cents per share
2. As at 31 March 2008
3. Merged group subject to final rating agency assessment. All agencies have reaffirmed Westpac's current rating with an unchanged outlook. Fitch have a positive outlook on Westpac
4. Includes 100 RAMS franchise outlets
5. Source: Westpac and St.George 1H08 results announcements (differs from Plan for Life analysis)

The strategic rationale – it's a growth story

- Significant value to St.George and Westpac shareholders
- A strong suite of brands benefiting from enhanced scale
- An institution focused on Australian/New Zealand growth opportunities
- Strong strategic fit for the sector:
  - Aligned customer focus
  - Complementary employee cultures
  - Leaders in sustainability and community engagement
- Building a stronger organisation with a better platform for growth, including: increased customer and product diversity; improved efficiency; and, a stronger funding and capital position
- Accelerate investment in world class operations and technology

Proposed operating model – capitalising on the best of both

The proposed operating model capitalises on the distinctive strengths of Westpac and St.George. Key elements of the preliminary operating model include:

Consumer and Business[1] Banking	Retaining distinctive St.George and Westpac distribution for consumer and business, with separate management and dedicated CEOs Common product manufacture and processing to improve scale of respective brands
Institutional	Combine the institutional businesses under the Westpac brand with common infrastructure
Wealth	Combine the wealth businesses into a single business but preserving the individual brands
Support	Single corporate centre combining the best talent from each

1. Includes middle market and SME business banking

Proposed model creates a stronger franchise

Customers

Westpac	**RAMS**	**St.George**	**BankSA**
• Westpac brands and distribution Australia wide • Distribute best group products • Utilise wider ATM network	• RAMS outlets • RAMS products and selected group products	• St.George distribution and brand in all states except SA and NT • Distribute best group products • Expanded distribution utilising wider ATM network	• Separate CEO • BankSA distribution and brand in SA and NT • Distribute best group products • Expanded distribution utilising wider ATM network
Westpac Consumer and Business[1] Banking CEO		St.George CEO	

Product collaboration – better meeting customer needs

Banking infrastructure
Product manufacture and processing

Common technology infrastructure

Corporate centre functions
Finance, risk, human resources, property, procurement, head office

1. Includes middle market and SME business banking

Building on the superannuation / wealth opportunity

- Stronger wealth capability across the value chain
- Benefit from two of the sector's leading platforms
- Combine insurance/LMI into a single business
- Access to a broader distribution network
- Benefit from common back office infrastructure
- Combined planner force >1,000

	Investment Management	Product Manufacture	Bundling Platform	Distribution & Advice
BT	BT Investment Management	BTFG BT Investment Solutions	Wrap Corporate super Super for Life	Westpac financial planning Magnitude
St.George		Advance	Asgard	St.George financial planning Securitor

It's all about customers, brands and distribution

Customers	Brands	Distribution
• Around 10m customers • Retaining existing relationships and key brand attributes • Increased value for customers - More access, more convenience - Increased product choice • Accelerate investment in world class operations and technology supporting customers	• Strong suite of customer brands across banking, wealth and insurance • Each brand to retain distinctiveness • Enhanced strategic optionality, with tailored customer propositions	• Extensive distribution network providing benefits for all customers, including reciprocal ATM usage

Distribution[1] – increased footprint

NT	BankSA	Westpac
Retail representation	4	9
ATMs	4	26

WA	St.George	Westpac
Retail representation	9	103
Business banking centres	7	3
ATMs	37	231

SA	Bank SA	Westpac
Retail representation	109	50
Business banking centres	3	1
ATMs	193	66

Tas	St.George	Westpac
Retail representation	0	22
ATMs	1	31

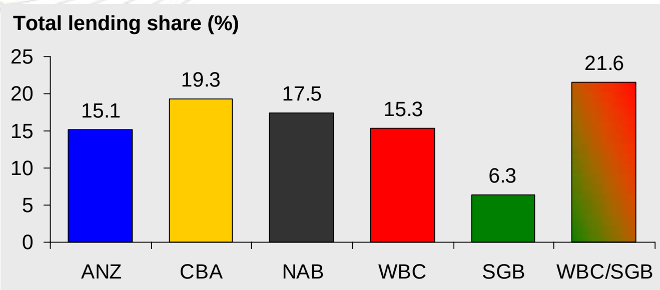
QLD	St.George	Westpac
Retail representation	28	163
Business banking centres	4	6
ATMs	100	327

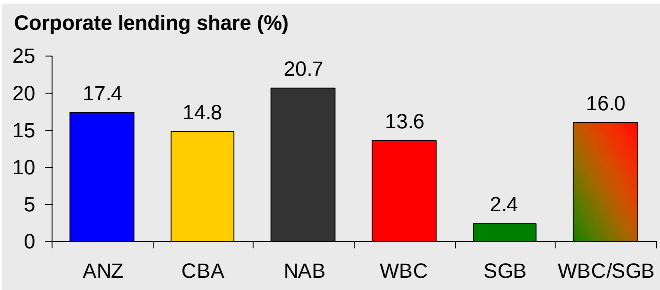
NSW / ACT	St.George	Westpac
Retail representation	213	288
Business banking centres	14	17
ATMs	671	591

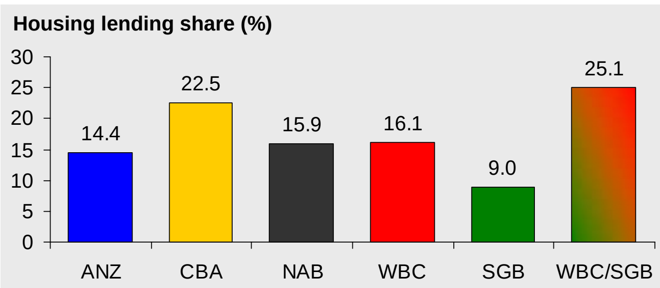
Vic	St.George	Westpac
Retail representation	37	188
Business banking centres	5	9
ATMs	122	426

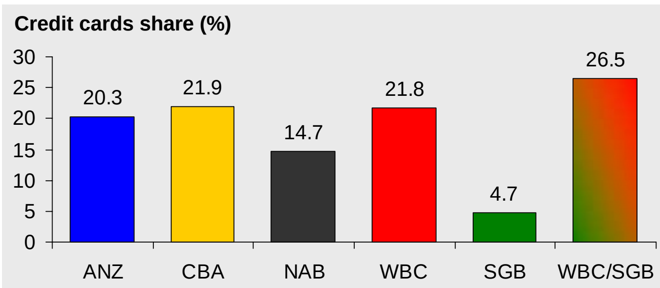
1. Distribution includes only Westpac and St.George outlets (excludes RAMS)

Strong bank lending position



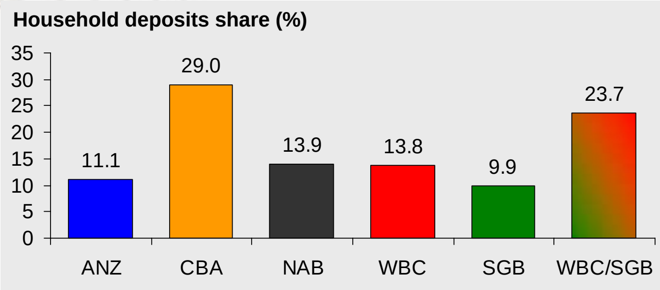


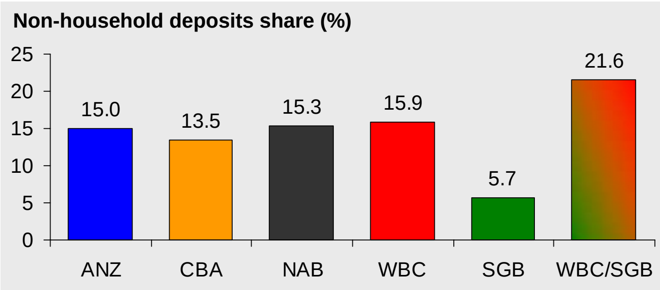




Source: Credit Suisse, Bank Lending Share, 1 May 2008 – Based on March 2008 APRA Data

Strong bank deposit share





Source: Credit Suisse, Bank Deposit Share 1 May 2008 – Based on March 2008 APRA Data

Sustainability and community champions

Common values on sustainability

Westpac	St.George
Global sustainability leader *Embedding sustainable practices for all stakeholders* Leader in corporate governance *Deep commitment to doing the right thing* Strong community involvement *Making it easy for our employees to get involved. Collaborating with community partners to help address community issues. Helping community groups improve their effectiveness*	Leader in customer satisfaction Regional/mutual heritage Local support to local communities *"…we strive to play a positive role in the community by supporting charities, the arts, sporting clubs, business programs and disaster relief initiatives. We also recognise our important community function as a major employer and financial services provider."*[1]

1. Source: www.stgeorge.com.au

Combining two strong employment brands

- Strong and complementary employee cultures enhancing merger attractiveness:
  - Customer focused and relationship based cultures
  - Affinity and pride in brand and history
  - Strong employment brands attracting talent
- Expanded options for employees:
  - Operating model and multiple brands expands employee options
  - Committed to preserving existing employee/customer relationships
  - Leading work practices and policies - opportunity to take the best of both forward
- Dedicated team to maximise internal opportunities and support external job placement where employee redundancies occur (in support, back office and product areas)

Extensive valuation assessment highlighted value

- Commenced updating valuation model for current conditions from January 2008
- Extensive model and assumption validation over 4 months utilising:
  - Internal bottom-up forecasts
  - International reviews of like transactions
  - Business unit by business unit assessment of key assumptions, integration costs and synergies
  - External banking sector forecasts
- Two models prepared: DCF valuation and EPS accretion

Outcomes from models at agreed exchange ratio

- Cash EPS accretive for Westpac shareholders within 3 years and strong accretion thereafter
- Strongly NPV positive for both Westpac and St.George shareholders

Valuation approach - DCF

Standalone valuation
• 10 year DCF model • 11% cost of capital • Separate banking and wealth models • Extensive model input validation including market forecasts

✚

Net combination benefits	
Integration & transition costs	Allowance for $700m in costs over 2 years includes: transaction costs (including already incurred), restructuring costs, stamp duty, technology
Cost synergies	Expect pre tax savings equivalent to 20% – 25% of St.George cost base by 2011. Cost savings sourced from the combined group
Funding synergies	Lower cost of wholesale funding for combined entity
Revenue opportunities	Revenue upside from combined entity over time
Revenue attrition	Nature of the operating model has seen us assume revenue attrition <5%

Sensitivity analysis across major variables

Valuation approach – EPS accretion

- Given ‘all scrip’ approach – relative value assessment is equally important
- Assessment utilises:
  - Westpac’s forecasts of St.George EPS based on DCF inputs
  - Broker consensus forecasts of Westpac’s EPS
- Based on 3 year phasing of cost synergies, the transaction is EPS dilutive in 2009 and 2010 but becomes EPS accretive by 2011
- Strong EPS accretion after 2011

Common infrastructure and scale economies driving synergies

Remove duplicate support infrastructure	Corporate centre support with synergies from combining various support functions
Common processing and support infrastructure	Expect to utilise common technology and systems across network May avoid new Westpac disaster recovery site
Economies of scale	Consolidation of certain servicing infrastructure for products and for customer service
Benefit from renegotiation of procurement and service contracts	Major IT and telephony contracts due for renewal in 2010. Larger organisation enhances potential contract value
Drive more from investment spending	Economies of investment enabling entire network to benefit from single investment 'Invest once deliver twice'

Cost synergies expected to be fully achieved by year 3
Benefit from cost synergies leading to a sub 40% cost to income ratio

Strong capital and dividend position maintained

Capital

- Benefits from Basel II accreditation experience
- Tier 1 ratio expected to be maintained at similar level to Westpac's 1H08 level
- Continued strong asset quality supported by:
  - Quality of the combined portfolio
  - Enhanced risk analytics and disciplines

Impact on future dividends

- Westpac is expected to maintain consistent dividend path
- Already strong franking position further enhanced

Positive revenue opportunities

Revenue opportunities	Minimising revenue attrition
• Broader distribution base enhances reach of St.George brand • Benefit from expanded capability in wealth, insurance and institutional banking • Sharing best practice in products and service models across networks • Valuation models assume conservative revenue uplift over 3 years • Funding benefits from the combined entity's AA rating • Revenue opportunities and funding benefits more than offset revenue attrition from year 2	• Business model focused on protecting income: - Customer/bank relationships preserved - No net change in distribution network - Integration focused around the customer • Joint implementation planning team • Detailed knowledge of both organisations • Strong cultural fit • Attrition across similar transactions is estimated to have been between 2% and 5% • For valuation models we have assumed revenue attrition to be less than 5%

Extensive case study review

Analysed a number of deals around the globe for best practices, synergies attained and attrition levels. Close attention paid to multi-brand models with overlap. Similar models listed below. RBS and ANZ models considered most similar

• Santander / Banesto (1994) • Credit Agricole / Credit Lyonnais (2003)	• Banco Commercial Portugues / Banco Portugues do Atlantico (1995) • Suncorp Metway / Promina (2007)	• RBS / Natwest (1999) • ANZ / National Bank of NZ (2003)

Royal Bank of Scotland / NatWest merger (2000)	ANZ / NBNZ merger (2003)
• Biggest bank merger in British history • Customer, branch and product overlap: - 320 of 680 RBS branches in England - RBS favoured by Scottish customers; NatWest favoured by English • Maintained customer facing divisions with multiple brands: - No branch closures - Most NatWest customers unaware of change in ownership • Integrated back office and corporate: - 29% cost synergies - 26% revenue synergies - Less than 5% customer attrition - Fully integrated in 3 years	• Merger creating largest New Zealand Bank • Customer, branch and product overlap: - NBNZ market leader in lending (23%) ahead of ANZ (15%) - ANZ stronger in institutional banking, NBNZ stronger in rural • Maintained customer facing divisions with multiple brands: - Separate management teams retained to manage separate brands - Drew on best resources regardless of bank - Customer satisfaction at time of deal was higher for NBNZ than ANZ - ANZ customer satisfaction improved through applying NBNZ model • Integrated back office, IT and NZ head office: - Combined group maintained market share - Lower cost synergies due to regulatory requirements

Source: Bain & Company research 2008

Managing the risks

Risk	Mitigants
Funding	• Confident of maintaining AA rating for combined entity • All scrip transaction minimises cash funding • Combined 2009 term funding task comfortably achievable
Attrition	• Proposed business model maintains brands and distribution, protecting customer relationships • Early additional benefits to customers e.g. expanded ATM distribution • Further building brands and brand capability
Integration	• Establishing an independent team comprising both St.George and Westpac employees • Teams focused on momentum, cost synergies and revenue opportunities • Deep knowledge and understanding of St.George and its culture • Extensive integration experience
Government/ Regulatory	• Commenced dialogue with regulatory and government authorities • Confident of satisfying regulatory authorities given nature of transaction

Clear governance principles and processes

- Appropriate arrangements for Westpac CEO in place:
  - Westpac CEO's shares in St.George have been fully disclosed to Westpac Board
  - Westpac CEO does not vote on Westpac Board decisions on the transaction
  - Westpac CEO will not vote St.George shares on the scheme

- Westpac CEO's interests are aligned with Westpac shareholders:
  - Westpac CEO will only deal with Westpac scheme shares progressively over 3 years
  - Westpac CEO will maintain a significant Westpac shareholding

Key accounting considerations - goodwill

	Accounting items	Comments
	Consideration	• Share price times shares issued is added to Tier 1
Less	Fair value of net tangible assets acquired	• Fair value of assets and liabilities results in an adjustment to intangibles/goodwill (may be positive or negative) • Expect some change in the composition of balance sheet provisions and reserves to align accounting policies
Less	Identifiable intangibles	• Brand value calculated and deducted from Tier 1. Brand value is indefinite so will not change over time although the brand intangible subject to an annual impairment test. Any impairment charge will be a cash earnings adjustment. • Core deposit intangibles ('CDI') representing the value of deposit franchise, is estimated and its value is deducted from Tier 1. CDI value is subsequently amortised over average estimated life. Amortisation impacts statutory NPAT but is reversed for cash earnings • Other small intangible items likely to be treated similar to CDIs.
Equals	Goodwill	• Goodwill deducted from Tier 1 and is subject to an annual impairment test

In aggregate, Westpac's Tier 1 ratio is expected to be similar post merger. Some small changes in Tier 1 may result from fair valuing net tangible assets

No change to cash earnings principles

Cash Earnings Principles: The following adjustments are applied to NPAT

Items that permanently affect reported earnings but do not impact returns available to shareholders

Such items typically have an accounting impact on earnings but no economic impact on earnings

e.g.

Treasury shares

Intangible amortisation[1]

Items that have the potential for a material timing difference on reported earnings but would not impact returns available for shareholders

An example would be where an effective hedge is in place but because hedge accounting is not available for certain transactions under A-IFRS, there may be differences in the value of the hedge verses the value of the underlying item at any point in time. We will adjust for these when they are material

e.g.

Hybrid hedging

NZD hedging

Ineffective hedges

Significant one off items that impact reported earnings

These items are genuinely one-off in that they are unlikely to reoccur in future periods

e.g.

Visa IPO

BTIM IPO

Integration and transaction costs[1]

1. New cash earnings adjustments following proposed St.George merger

Dividend FY2008

- The Merger Implementation Agreement ('MIA') seeks to ensure that neither St.George nor Westpac shareholders are disadvantaged in the transaction
- St.George shareholders will receive a final dividend based on St.George earnings. Regardless of timing, St.George shareholders will not receive a Westpac final dividend for FY2008
- Westpac shareholders will continue to receive their interim and final year dividend in FY2008 with dividends based on Westpac earnings
- Under the MIA, the separate Westpac and St.George final dividends payable are capped at 74 cents and 97 cents respectively. These caps reflect the merger exchange ratio of 1.31 Westpac shares for each St.George share.
- Final dividends for both St.George and Westpac are expected to be paid in December 2008
- Both St.George and Westpac shareholders to begin receiving dividends from the combined entity from FY2009

Merger is expected to be effective within 6 months

26 May 2008	• Merger Implementation Agreement signed
27 May to 30 August 2008	• Regulatory approvals sought and obtained
1 Sept 2008	• Draft of Scheme Booklet to ASIC
19 Sept 2008	• First court hearing
19 Sept 2008	• Scheme Booklet registered by ASIC and lodged with ASX
By 29 Sept 2008	• Mailing of Scheme Booklet to St.George shareholders
29 Oct 2008	• St.George 2008 final result announcement (and dividend)
30 Oct 2008	• Westpac 2008 final result announcement (and dividend)
4 Nov 2008	• Last date for lodgement of proxy forms

6 Nov 2008	• St.George EGM and Scheme meeting • New Westpac shares approved for trading on ASX
7 Nov 2008	• Court Approval Date • Effective Date - lodge with ASIC copies of Court orders approving the Scheme • Final day of trading of St.George shares • St.George serves exchange notices for Hybrids
10 Nov 2008	• New Westpac shares begin trading on a deferred settlement basis
11 Nov 2008	• Westpac 2008 Final Dividend record date
14 Nov 2008	• Scheme record date • St.George Final Dividend record date
21 Nov 2008	• Implementation Date
24 Nov 2008	• New Westpac shares begin trading on a normal settlement basis

Timetable is preliminary based on the best estimates of the parties
Both companies will seek to complete the transaction as soon as practical

Summary

- Agreed merger of St.George and Westpac to create Australia's leading financial services institution
- Strong value enhancement for both St.George and Westpac shareholders
- Merger brings together two complementary organisations building on the best of both
- Substantial revenue opportunities and improved efficiency
- Nature of transaction and the skills of the participants reduces integration risks
- Completion subject to regulatory approvals, independent expert confirming transaction is in the best interests of St.George shareholders and St.George shareholder approval

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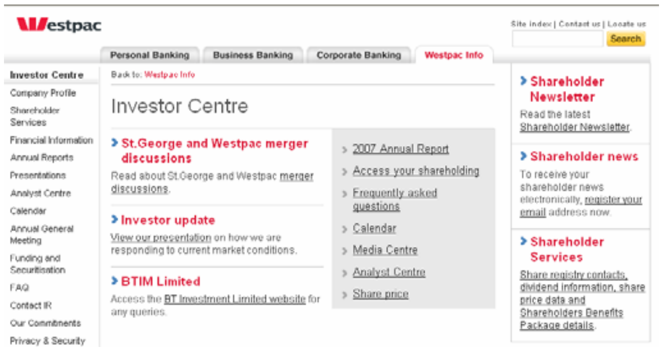
To keep up-to-date with any information associated with the proposed merger please visit our dedicated investor website

The site also contains a range of other information on Westpac including:
- Annual reports
- Financial results
- Presentations and webcasts
- Key policies

www.westpac.com.au/investorcentre



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