Media Release

6 May 2009

Westpac Group delivers sound result in challenging environment

Highlights:[1] (Comparisons are with prior corresponding period[2])

- Statutory net profit of $2,175 million, down 1%
- Pro forma cash earnings of $2,295 million, down 6%
- Pro forma economic profit of $1,019 million, down 26%
- Pro forma cash earnings per share 82.4 cents down 16%
- Pro forma revenue of $8,307 million, up 15%
- First half dividend of 56 cents, down 20%
- Pro forma return on equity (cash basis) of 14.3%
- Pro forma expense to income ratio (cash basis) 40.4% down 440 bps
- Tier 1 capital ratio of 8.4%

Half Year Profit Result

The Westpac Group today announced pro forma cash earnings of $2,295 million, down 6% for the six months ended 31 March 2009. Net profit after tax was down 1% to $2,175 million for the six months ended 31 March 2009. Pro forma cash earnings per share of 82.4 cents for the first half 2009 was 16% lower than cash earnings per share for Westpac in the 2008 first half.

Westpac announced it will reduce its dividend as part of its efforts to conservatively manage its capital. Westpac will pay a fully franked interim dividend of 56 cents, down 20% on the prior corresponding period.

Westpac Chief Executive Officer, Gail Kelly, said the Westpac Group had performed soundly in a very challenging operating environment.

“While it is disappointing to announce an overall decline in cash earnings, the Group’s performance demonstrates that we have strong, diversified and resilient businesses. Our 9% increase in lending, 24% increase in customer deposits and 24% increase in core earnings (revenue less expenses) reflects the solid momentum in Westpac’s key businesses.

“Importantly, we further strengthened our balance sheet to ensure that we can continue to support our customers through these difficult economic times. This was achieved through capital raisings, lengthening our funding profile, strong growth in

[1] Following Westpac’s merger with St.George on 17 November 2008, the results have been prepared on a “pro forma” basis. For details of the pro forma adjustments and details of statutory results, refer to the ASX Announcement and statutory financial reports released by Westpac today.

[2] Changes in pro forma economic profit and pro forma cash earnings per share are based on comparison of 2009 first half pro forma result with the 2008 first half actual result for Westpac. Other comparisons of 2009 first half pro forma results in the table are with 2008 first half pro forma result.

customer deposits, a reduction in our dividend and maintaining a stronger than usual liquidity position.

“While impairments have significantly increased over the period, we have also maintained a conservative approach to provisioning and have increased our provisioning coverage for bad debts, including an additional $112 million of economic overlay.

“Collectively, these measures reflect our prudent management of the business for the long term, putting the Group in a strong position to meet the challenges ahead.”

Mrs Kelly said that the initial integration with St.George has progressed smoothly and to plan.

“St.George has shown significantly improved momentum since completion of the merger. Pleasingly, customer retention and satisfaction results have also been strong, reflecting the benefits of our new operating model,” she said.

Result Highlights

Pro forma revenue rose 15% to $8,307 million, well above the 4% growth in expenses.

Strong growth in total deposits was a highlight this half, growing 8% on the corresponding period. Australian customer deposits were up $46 billion or 27%, ahead of Australian system growth of 17%. This significantly improved the Group’s funding mix. Growth in customer deposits more than funded our loan growth.

Total loan growth of 9% was another pleasing result, particularly in Australian housing and business, including $27.1 billion of new lending in Australian mortgages. Growth rates, however, are slowing in line with declining economic activity.

Impairment charges rose to $1,611 million during the first half, a direct consequence of the economic slowdown and the global financial crisis. In particular, the global financial crisis led to a small number of large Australian corporate exposures becoming impaired at the beginning of the half which contributed $372 million to the overall impairment charge.

The economic slowdown has impacted the Australian business sector and is causing a rise in customer stress, particularly in commercial property, pubs and clubs, mining services, retail and some financial services companies. The Australian consumer portfolio continues to perform well, with modest losses. In New Zealand, the stresses in the economy have been more broadly spread reflecting the fact that the economy has been in recession for over a year.

Westpac has increased its impairment provisioning as the economic environment deteriorates. Total provisioning now stands at almost $4.5 billion, with collective provisions to credit risk weighted assets increasing by 31 basis points to 125 basis points.

The Westpac Group is strongly capitalised with a Tier 1 ratio of 8.4%, up from 7.4% in March 2008, having raised over $4.6 billion of core equity over the period.

Funding Environment

Funding costs have remained very high. Wholesale term funding costs are more then 100 basis points higher than pre-financial crisis. The cost of raising term deposits has increased on average more than 80 basis points over the last 12 months.

Collectively, this will see our average cost of funds continue to rise through 2009 as cheaper funding matures and is replaced by more expensive funding and as competition for deposits remains strong.

The overall net interest margin of 2.24% was 24 basis points higher than the prior corresponding period, and is in line with levels prior to the financial crisis. Higher Group Treasury income drove a 10 basis point increase in net interest margin, with overall consumer and business customer margins 7 basis points higher.

Strategic Progress

The Westpac Group continues to make good progress on implementing its customer focussed strategy. Significant progress has been made on implementing our local market model in Westpac Retail and Business Banking, with 569 additional people in Westpac branches and business banking centres.

An important initiative has been to give local bankers more authority to make decisions quickly, allowing them to more easily assist customers. Deepening relationships with customers has also been a key area of focus, with improved cross sell of Wealth and Insurance products.

At the same time, the integration with St.George is proceeding well, without any disruption to customers. A key initial priority was the development of customer retention plans, which have been successfully implemented in both Westpac and St.George.

The Group is also improving the reliability and capability of its operations, as well as developing longer term process and technology investment programs for the entire Group.

Business Unit Performance

Cash earnings $A millions	Half Year March 2009	Half Year March 2008	% Change
WBC Retail & Business Banking	$990	$843	17
Westpac Institutional Bank[3]	$158	$420	(62)
St.George[3]	$529	$500	6
BT Financial Group[3]	$207	$250	(17)
New Zealand (NZD)	$202	$239	(15)

WBC Retail & Business Banking (Westpac RBB) – cash earnings increased 17% supported by strong growth in lending and deposits, partially offset by a $62 million increase in impairment charges. Mortgages grew above system in the half with growth at 15% and business lending grew 8%. Consumer delinquencies continued to trend higher although losses remain low. Business impairment charges increased $47 million with more businesses affected by the deteriorating operating environment.

Westpac Institutional Bank (WIB) – cash earnings decreased by 62%. Core earnings (revenue less expenses) were particularly strong, up 44%, supported by revenue growth in the Markets areas. Increased customer volumes and higher market volatility supported these results. Transactional services also made a solid contribution. More than offsetting this was a steep increase in impairment charges reflecting the impact of the financial crisis on three large corporate exposures and the

[3] On a pro forma basis

margin lending portfolio. The credit portfolio also saw a broader based deterioration in line with the slowing economy.

St.George – delivered cash earnings growth of 6% with solid deposit growth of 18% and lending growth of 10%, partly offset by an increase in impairment charges of $115 million. The higher impairments reflect the effects of the deteriorating economic environment on St.George's commercial lending portfolio (middle markets and corporate segment), coupled with its relatively higher exposure to the NSW market. The recognition of the St.George brand remains strong, with customer satisfaction continuing to remain high.

BT Financial Group (BTFG)

BTFG, which incorporates St.George's wealth business, saw its cash earnings fall 17% impacted by lower fees from funds under management and funds under administration related to weaker investment markets. The funds business saw net positive flows of $0.6 billion. Notwithstanding higher general insurance claims, the performance of the insurance business was pleasing, with cash earnings up 10% and strong gains made in cross-selling into the broader Westpac Group. In keeping with the more difficult environment, expenses were kept flat compared to the prior corresponding period.

New Zealand

New Zealand cash earnings declined 15% to $202 million, primarily due to higher impairment costs resulting from the deepening and prolonged recession. Core earnings growth of 13% was very solid with business lending up 9% and deposits up 6%. Consumer lending growth was subdued at 3% reflecting the slowing demand in the housing market.

Outlook

The first half of the 2009 financial year has seen significant and rapid change, including further stress in the global financial sector, a number of large corporate failures and a material and more broad-based deterioration in global economic activity.

These events have prompted unprecedented action and intervention by governments around the world to restore confidence in the financial system and support their respective economies. Government intervention has, in part, helped stabilise markets and assisted in reopening wholesale funding sources although it will be some time before markets are operating effectively and autonomously.

While it appears some of the severe stresses of the financial crisis have now stabilised, the more dominant impact on Westpac will be the size and duration of the recession in our home economies of Australia and New Zealand.

There will be two main impacts. Firstly slower loan growth is expected, in part from lower demand for credit but also because both consumers and businesses are expected to use the opportunity of lower interest rates to de-leverage their balance sheets. Secondly, it is expected that more customers will come under pressure as the effects of the slowing activity become more widespread.

Mrs Kelly said that Westpac is well positioned to continue to support customers through this more challenging period.

"Looking ahead, while we expect system credit growth to continue slowing, our strong franchise and multiple brands should position us favourably to achieve further market share gains," Mrs Kelly said.

"Conditions for markets income are also expected to remain favourable given continued market volatility and a customer preference for dealing with strong, AA rated, banks. That said, the very strong market revenues delivered in the first half 2009 are unlikely to be repeated.

"We are also further strengthening our productivity focus. Initiatives underway will begin to be reflected in our second half results but will be more pronounced in 2010. While seeking to reduce expense growth, we continue to prioritise key elements of our strategy, particularly investments to enhance customer service and develop our technology infrastructure.

"While the larger impairments associated with the impacts of the global financial crisis appear largely behind us, we are seeing more pressure across our business customers and expect consumer stress to grow as unemployment rises. As a result we expect impairment charges to remain at a high level throughout the second half of 2009 and into 2010.

"Westpac has delivered a sound result while considerably strengthening our balance sheet, and I believe we are well placed for these challenging times. Supporting our customers remains our priority," Mrs Kelly said.

Ends.

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