Investor Workshop

Australian equivalents to International Financial Reporting Standards (A-IFRS)

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22 September 2005

Important notice and disclaimer

- This presentation reflects Westpac's interpretation of Australian equivalents to International Financial Reporting Standards (A-IFRS) as at September 2005
- Figures stated in this presentation are unaudited and are subject to revision due to expected changes in estimates and in accounting interpretation
- Comparisons between present and potential A-IFRS outcomes are based on figures reported by Westpac for the six months ended 31 March 2005. No estimate has been made of credit provisioning impacts given current uncertainty over interpretation
- Comparisons are subject to such other qualifications and assumptions as are set out on the relevant slides of this presentation
- The material contained in this presentation is intended to be general background information on Westpac Banking Corporation and its activities
- The information is supplied in summary form and is therefore not necessarily complete. Also, it is not intended that it be relied upon as advice to investors or potential investors, who should consider seeking independent professional advice depending upon their specific investment objectives, financial situation or particular needs
- The financial information contained in this presentation includes non-GAAP financial measures. For a reconciliation of these measures to the most comparable GAAP measure, please refer to full year financial statements filed with the Securities Exchange Commission and the Australian Stock Exchange

Outline and Objectives

- Provide greater clarity on what the market can expect from A-IFRS and from Westpac under A-IFRS
- Develop an understanding of the key A-IFRS changes and how these will impact Westpac
- Articulate Westpac's current position on areas where industry practice is not yet settled

Key messages

- Economic value and cash flows of the business are unchanged under A-IFRS apart from regulatory capital impacts
- We will redefine key performance measures including our current primary external performance measure of *cash earnings*
- Earnings volatility will increase due to impact of hedge accounting and credit provisioning
- Impact on regulatory capital ratios is not expected to be material in aggregate
- Interpretation of standards continues so numbers disclosed today are subject to revision

Project overview

- A-IFRS project has been running since early 2003 on a business unit led approach
- General ledger and key financial reports on an A-IFRS and AGAAP basis since March 2005
- Internal business processes changed, including Treasury deal externalisation and restructuring
- Business unit established to assist customers align risk and accounting outcomes
- Loan covenants amended for A-IFRS impacts
- Total cost of program is approximately $20m

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Impact on financial reporting

- Westpac New Zealand's Group Disclosure Statement for the quarter ended 31 December 2005 will be on an NZ-IFRS basis
- First Group A-IFRS numbers - March 2006 interim report, to be released in May 2006
- Statutory A-IFRS comparative numbers will exclude impacts of insurance and financial instrument standards (AASB 4, 132 and 139), however we will provide financial reports including these standards to assist in understanding comparatives
- Data in this presentation is on a 'full' A-IFRS basis including insurance and financial instrument standards, but excluding the impact of credit provisioning

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Primary performance measure - current

- AGAAP net profit after tax (NPAT) is not an effective measure of value generated for ordinary shareholders
- Currently there is strong industry consensus on adjustments to NPAT to produce an appropriate measure, known as *cash earnings*. Adjustments are:
  - Goodwill amortisation
  - Hybrid equity distributions
  - Revaluation movements on 2004 TPS swap
- A-IFRS corrects for these issues, however new issues have emerged

Primary performance measure - proposed

- A-IFRS consensus needs to emerge, our proposed approach is as follows:
  - **Rebase** current AGAAP NPAT for A-IFRS impacts such as increased revenue deferral and equity based remuneration
  - **Adjust** reported A-IFRS NPAT to an effective measure of cash earnings attributable to ordinary shareholders
  - **Explain** significant items in reported A-IFRS NPAT that impact volatility of earnings

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Cash earnings comparison

Six months ended 31 March 2005 A$ millions	AGAAP	Full A-IFRS
Statutory net profit after tax	1,325	1,313
Goodwill amortisation/impairment	83	
NZ Class share distributions	-	22
Hybrid equity distributions	(68)	-
2004 TPS FX swap revaluation	40	-
2003 TPS IR swap revaluation	-	40
Treasury shares	-	20
Tax effect on equity compensation	-	-
Cash earnings	1,380	1,395

Numbers are for six months ended 31 March 2005 and exclude any impact for credit provisioning

Cash earnings - A-IFRS impact

- Cash earnings excluding impacts of A-IFRS credit provisioning for the six months to 31 March 2005 are:
  - $60m or 4% lower than AGAAP, excluding volatile items
  - $15m or 1% higher than AGAAP, including volatile items
- A-IFRS cash earnings will be more volatile due to the impacts of:
  - investment portfolios needing to be held at fair value
  - an increase in Treasury portfolios held at fair value
  - Treasury portfolios subject to a greater degree of hedge ineffectiveness
  - incurred loss model for credit provisioning

Numbers are for six months ended 31 March 2005 and exclude any impact for credit provisioning

Cash earnings - A-IFRS impact

Six months ended 31 March 2005	**A$ millions**
AGAAP cash earnings	**1,380**
Fee revenue	(15)
Deferred acquisition costs	(15)
Share based payments	(30)
Full A-IFRS earnings excluding volatile items	**1,320**
Volatile items – fair value/hedging	75
Full A-IFRS earnings including volatile items	**1,395**

Numbers are for six months ended 31 March 2005 and exclude any impact for credit provisioning

Key performance measures

- Significant change to interest margins will result in changes in how we report interest margins and spread
  - Inclusion of securitised assets
  - Potential volatility between net interest income and non-interest income lines from hedging activities
  - Acceptance fees reclassified as net interest income
  - Fees deferred on an effective yield basis reported in net interest income
  - Hybrid distributions split between net interest income and minority interests
  - Unwind of discounting of credit provisions booked in net interest income

Key performance measures (continued)

- Cost to income ratio to increase due to lower revenues and inclusion of share based payments in expenses
- Average adjusted equity measure to be simplified, though will still require adjustment for treasury shares and cash flow hedging reserve
- Number of shares used for earnings per share measure will be adjusted for impact of treasury shares
- Reported dividend payout ratio will change

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Credit provisioning

- Current AGAAP methodology:
  - Specific provisions
  - General provisions (dynamic provisioning)
- A-IFRS requires an incurred loss approach:
  - Impaired assets
    - Individually assessed, where significant
    - Collectively assessed, where not significant
  - Non impaired assets
    - Collectively assessed (akin to incurred but not reported losses)
- Some credit provisions reclassified as 'other provisions'

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Credit provisioning (continued)

- Interpretation differences exist on how A-IFRS should be applied – currently working on achieving global and local consistency
- USGAAP requires use of an incurred loss approach, however practical implementation differences result in a very wide range of results, which covers both AGAAP and A-IFRS outcomes
- Westpac estimates a reduction in credit provisioning levels could be between $300m and $1,000m to comply with A-IFRS
- Regulatory capital treatment of changes in credit provisioning to be confirmed by APRA

International approach to credit provisioning

	Australia		United States		United Kingdom
Pre IFRS	AGAAP	= ⇒	USGAAP	⇐ =	UKGAAP
	AGAAP		≠		UKGAAP
Post IFRS	A-IFRS	⇔ =	USGAAP	⇔ =	UK-IFRS

Interpretation of USGAAP covers both AGAAP and UKGAAP outcomes

Current view is that no reconciliation for USGAAP appears to be required either now or in the future.

Regulatory capital impact

- APRA is finalising A-IFRS proposals, with discussion paper due in late September
- New innovative hybrid equity limit of 15% - ‘innovative’ definition required. Non-innovative more expensive
- Increased earnings, and therefore regulatory capital volatility, will require a review of capital buffers
- A-IFRS convergence should assist global comparability of regulatory capital ratios, however different regulatory approaches are distorting comparisons

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Impact of new hybrid equity rules

As at 31 March 2005 **A$ millions**	**As at 31 March 05**	**Pro-forma Impact from Jan 2008**
Fundamental Tier 1 capital (FT1)[2]	12,329	12,329
Deductions[2]	(3,354)	(3,354)
Net Fundamental Tier 1(NFT1)	8,975	8,975
Hybrid limit @ 25% of FT1	3,082	NA
Hybrid limit @ 25/75^{ths} of NFT1		2,992
Innovative Hybrid limit 15/75^{ths} of NFT1		1,795
Total Hybrid limit	**3,082**	**2,992**
Westpac Hybrids		
FIRsTS	655	655[1]
2003 TPS & 2004 TPS	1,817	1,817
Total Hybrids	2,472	2,472
Applicable Hybrid limit	3,082	1,795
Excess hybrid capital	-	677

1. FIRsTS initial call date is 31 December 2007
2. Refer to Appendix (slide 44) for detailed calculation

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A-IFRS financial results

- A-IFRS numbers exclude the impact of credit provisioning and some deals that will terminate within the 2005 financial year
- Uncertainty on other changes including deferral of wealth fees, day 1 profit and loss. and split of hedging effect between net interest and non-interest income
- Numbers only include significant issues – earnings are rounded to the nearest \$5m and balance sheet impacts to the nearest \$50m
- Numbers are unaudited and are subject to revision due to changes in estimates and changes in accounting interpretation
- Numbers presented will not be the same as statutory comparatives to be used in the 2006 interim financial report

Comparison of AGAAP and A-IFRS earnings

Six months ended 31 March 2005 ($m)	Reported AGAAP	Hybrid equity	Fee revenue	Deferred acq. costs	Goodwill	Securit-isation	Share based payments	Treasury shares	Fair value/ hedging	Full A-IFRS
Net-interest income	2,545	(40)	90	-	-	25	-		-	2,620
Non-interest income	1,659	-	(110)	(15)	-	(25)	-	(20)	110	1,599
Operating expenses	(2,034)	-	(5)	-	-	-	(35)	-	-	(2,074)
Goodwill amortisation	(83)	-	-	-	83	-	-	-	-	-
Bad and doubtful debts	(203)	-	-	-	-	-	-	-	-	(203)
Tax and outside equity interests	(559)	(50)	10	-	-	-	5	-	(35)	(629)
Net profit after tax	**1,325**	**(90)**	**(15)**	**(15)**	**83**	**-**	**(30)**	**(20)**	**75**	**1,313**
Goodwill amortisation	83	-	-	-	(83)	-	-	-	-	-
Hybrid distributions	(68)	90	-	-	-	-	-	-	-	22
Treasury shares	-	-	-	-	-	-	-	20	-	20
TPS revaluations	40	-	-	-	-	-	-	-	-	40
Cash earnings	**1,380**	**-**	**(15)**	**(15)**	**-**	**-**	**(30)**	**-**	**75**	**1,395**

- Numbers are for six months ended 31 March 2005 and exclude any impact for credit provisioning
- IFRS impacts rounded to nearest $5m

Comparison of AGAAP and A-IFRS balance sheet

31 March 2005 ($m)	Reported AGAAP	Hybrid equity	Fee revenue	Deferred acq. costs	Goodwill	Securi-tisation	Treasury shares	Defined Benefit plans	Fair Value/ Hedging	Full A-IFRS
Cash and due from financial institutions	12,134	-	-	-	-	4,900	-	-	-	17,034
Trading & investment securities and fair value assets	13,221	-	-	-	-	50	-	-	(100)	13,171
Loans and acceptances	194,096	-	-	-	-	3,050	-	-	250	197,396
Life insurance assets	12,711	-	-	-	-	-	(100)	-	-	12,611
Other Assets	21,509	-	(100)	50	80	(250)	-	(150)	3,900	25,039
Due to other financial institutions	8,137	-	-	-	-	-	-	-	-	8,137
Deposits	145,814	-	-	-	-	(200)	-	-	100	145,714
Debt issues and acceptances	47,223	-	-	-	-	8,200	-	-	100	55,523
Life insurance policy liabilities	11,252	-	-	150	-	-	-	-	-	11,402
Loan capital	4,762	1,300	-	-	-	-	-	-	(50)	6,012
Other liabilities	20,230	50	50	50	-	(250)	-	-	3,850	23,980
Minority interest	724	1,550	-	-	-	-	-	-	-	2,274
Equity attributable to equity holders of WBC	**15,529**	**(2,900)**	**(150)**	**(150)**	**80**	**-**	**(100)**	**(150)**	**50**	**12,209**

- Numbers are for six months ended 31 March 2005 and exclude any impact for credit provisioning
- IFRS impacts rounded to nearest $5m

Hybrid equity instruments

Current Approach	• Westpac has three hybrid equity instruments, 2003 TPS, 2004 TPS and FIRsTS, all treated as equity • Hybrid equity distributions classified as distributions of retained earnings • Add back distributions to arrive at cash earnings • Westpac NZ Class shares, treated as equity, were exchanged for Westpac ordinary shares in July 2005
A-IFRS	• Instruments with a contractual obligation to pay interest or principal as cash or equivalent are classified as debt • 2004 TPS and FIRsTS classified as debt, with distributions classified as interest expense. These deals will be classified as minority interests for the comparative year only • 2003 TPS and NZ Class shares principal and distributions classified as minority interests

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Hybrid equity instruments (continued)

P & L	• Net profit after tax decreases by $90m due to inclusion of distributions in net interest income (2004 TPS and FIRsTS) and minority interests (NZ Class shares and 2003 TPS)
Bal Sheet	• FIRsTS and 2004 TPS reclassified as debt • 2003 TPS and NZ class shares (now converted) reclassified as minority interests
Volatility	• Current volatility from cross currency swap hedging 2004 TPS in NPAT (adjusted in cash earnings) will cease • New volatility issue on interest rate swap hedging 2003 TPS deal in NPAT. This will be adjusted to arrive at our cash earnings figures
Business Impacts	• APRA paper on proposed regulatory approach to Tier 1 capital instruments released on 31 August 2005 • APRA has separated regulatory and accounting treatments, however has introduced a new 15% innovative capital limit

- Numbers are for six months ended 31 March 2005 and exclude any impact for credit provisioning
- IFRS impacts rounded to nearest $5m (P&L) and $50m (Balance sheet)

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Fee revenue

Current Approach	• Front end fees are segregated between cost recovery and risk margin, with the risk margin being taken to income over the period of the loan or other risk • Fees are reported as part of fee income in the non-interest income line
A-IFRS	• More fees will be deferred and recognised over the life of the transaction rather than recognised on a cash basis (application fees, line fees and Credit Card fees) • Fees associated with loan origination will be recognised as part of the yield as net interest income instead of non-interest income

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Fee revenue (continued)

P & L	• Revenue reduced by $20m and expenses increased by $5m • Income reclassified from non-interest income to net interest income
Bal Sheet	• Increase in deferred fees reduces shareholders equity by $150m
Volatility	• Lagged accounting impact of changes in cash fees received will result in a small reduction in earnings volatility • Changes in underlying business performance lagged in profit & loss
Business Impacts	• APRA's guidelines uncertain on extent of any deferred fee offset against Tier 1 capital deduction for capitalised expenses

- Numbers are for six months ended 31 March 2005 and exclude any impact for credit provisioning
- IFRS impacts rounded to nearest $5m (P&L) and $50m (Balance sheet)

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Deferred acquisition costs

Current Approach	• Wealth related entry fees booked to profit and loss on receipt • Excess costs of acquiring Wealth business are deferred over the life of the product
A-IFRS	• Entry fees are deferred over expected life • Only directly incremental acquisition costs can be deferred – ongoing salary costs cannot be deferred where as sales related commissions can be deferred • Industry approach still being debated and interpretation may change

Deferred acquisition costs (continued)

P & L	• Deferral of income recognition for certain fees reduces earnings by $15m
Bal Sheet	• The increased deferral reduces shareholders equity by $150m
Volatility	• No significant impact • Changes in underlying business performance lagged in profit & loss
Business Impacts	• Level of dividends available from wealth businesses to the bank reduced on a one off basis by $150m

- Numbers are for six months ended 31 March 2005 and exclude any impact for credit provisioning
- IFRS impacts rounded to nearest $5m (P&L) and $50m (Balance sheet)

Goodwill

Current Approach	• Goodwill is amortised on a straight-line basis over 20 years, consistent with the minimum period of expected benefits • Carrying value of goodwill is reviewed every six months for impairment by comparing the carrying value with value of expected future benefits
A-IFRS	• Regular amortisation of goodwill ceases • Carrying value of existing goodwill will be fixed at the balance date 30 September 2004, subject to impairment testing • Specific impairment testing rules introduced

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Goodwill (continued)

P & L	• Goodwill amortisation of \$83m reversed • Cash earnings continues to be adjusted for any impairment charge
Bal Sheet	• Goodwill amortisation change of \$83m reversed
Volatility	• Increased earnings volatility in the event of goodwill impairment
Business Impacts	• Regulatory capital treatment of goodwill unchanged

- Numbers are for six months ended 31 March 2005 and exclude any impact for credit provisioning
- IFRS impacts rounded to nearest \$5m (P&L) and \$50m (Balance sheet)

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Consolidation/securitisation

Current Approach	• Control is key factor in determining whether legal entities are consolidated • Corporate securitisation vehicle (Waratah) not consolidated • Own mortgage securitisation vehicles not consolidated
A-IFRS	• A-IFRS introduces stricter tests for recognition of financial assets, including securitised assets. Key test is whether substantially all risks and rewards have been transferred • Waratah and mortgage securitisation vehicles, except for NZ Home Loan Trust, will need to be consolidated • A number of smaller special purpose vehicles will also need to be consolidated

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Consolidation/securitisation (continued)

P & L	• No material net profit impact, however income relating to vehicles now consolidated will be reclassified from non-interest income to net interest income ($25m)
Bal Sheet	• Gross up of balance sheet of approximately $8bn
Volatility	• No material change
Business Impacts	• APRA have indicated current prudential approach to continue

- Numbers are for six months ended 31 March 2005 and exclude any impact for credit provisioning
- IFRS impacts rounded to nearest $5m (P&L) and $50m (Balance sheet)

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Share based payments

Current Approach	• Share based payments include share and performance options, performance share rights and employee share plan • Share based payments are not currently expensed through the profit and loss account • Value of share based payments are disclosed as a note to the accounts
A-IFRS	• Share based payments are expensed to profit and loss with corresponding credit to share capital • Expense is based on market value at time of grant spread over vesting period • Expense is adjusted for expected share based payment lapses due to staff resigning from the bank • Westpac has taken option to include all instruments currently on issue to normalise charge

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Share based payments (continued)

P & L	• Expense of $35m for 1H05 • Westpac will allow the cost of equity based remuneration to flow through to cash earnings.
Bal Sheet	• For employee share plan, there will be an increase in liabilities until the shares are issued • For other share based payments, no impact as the expense will be matched by an offsetting increase in equity
Volatility	• No change
Business Impacts	• Currently considering alternative structures for employee share plans – tax impacts may be a potential cash earnings adjustment

- Numbers are for six months ended 31 March 2005 and exclude any impact for credit provisioning
- IFRS impacts rounded to nearest $5m (P&L) and $50m (Balance sheet)

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Treasury shares

Current Approach	• Westpac has a number of Wealth vehicles which invest, inter alia, in Westpac shares on behalf of policy holders • These shares are called Treasury shares and are currently treated similarly to other equity investments
A-IFRS	• Earnings on shares held in consolidated entities are removed from earning in the financial statements • Cost of acquiring the shares is deducted from equity • If the shares are sold the total proceeds are added to equity • Number of shares in EPS calculation adjusted

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Treasury shares (continued)

P & L	• Charge of $20m, adjusted back to nil at cash earnings level
Bal Sheet	• Reduction in assets and shareholders equity
Volatility	• Increased volatility at NPAT level, but none at cash earnings as adjusted
Business Impacts	• Need to consider how to adjust reported EPS • Do not expect a regulatory impact as treated as owned by 'non-consolidated entity' from a regulatory perspective

- Numbers are for six months ended 31 March 2005 and exclude any impact for credit provisioning
- IFRS impacts rounded to nearest $5m (P&L) and $50m (Balance sheet)

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Defined benefit plans

Current Approach	• Westpac already follows the principles of International Accounting Standards for recognising pension costs • Cost recognised in profit and loss comprises current service cost, an interest cost and an expected return on plan assets. In addition, actuarial gains and losses, which exceed 10% of the greater of the value of the plan's obligations or assets, are spread on a straight-line basis over the expected remaining service period of members (corridor approach)
A-IFRS	• Accounting principles as above • Reset accounting surpluses/deficits at 30 September 2004

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Defined benefit plans (continued)

P & L	• Minimal change as already complying with international accounting standard principles • No change to earnings given unrecognised losses currently within threshold
Bal Sheet	• Reduction in equity of $150m
Volatility	• Resetting of accounting position to actuarial position reduces probability of moving above threshold • Capital volatility increases as surpluses can no longer be included in Tier 1 capital and actuarial deficits become a Tier 1 deduction
Business Impacts	• Increased capital volatility will need to be considered in the overall review of current capital target ranges • One off reduction in Tier 1 equity

- Numbers are for six months ended 31 March 2005 and exclude any impact for credit provisioning
- IFRS impacts rounded to nearest $5m (P&L) and $50m (Balance sheet)

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Fair Value/Hedging

Current Approach	• Flexibility in designating financial instruments at cost less impairment or fair value – mid point price generally used for fair values • Hedge accounting achievable where derivative is effective in reducing a risk arising from an existing asset, liability or forecast transaction • Fair value of hedging derivatives not reflected in the balance sheet
A-IFRS	• Certain Treasury and investment portfolios now at fair value using bid/offer price • Fair value of all derivatives to be reflected in the balance sheet • Westpac using both fair value and cash flow hedging - hedge effectiveness tested, with ineffectiveness taken to profit and loss • Onerous hedge documentation requirements • Creation of hedge reserve within equity where cash flow hedge accounting is used

Fair Value/Hedging (continued)

P & L	• Revenue increase of $110m due to fair value investment portfolios ($40m) and fair value Treasury portfolios/ hedging impacts ($70m) • Increased accounting volatility between net interest and non-interest income lines, subject to finalisation of policy
Bal Sheet	• Balance sheet gross up of approximately $4bn representing Treasury derivative positions, currently off-balance sheet
Volatility	• Treasury portfolios at fair value will increase earnings volatility • Investment portfolios at fair value will also increase earnings volatility, however these are in run-down mode
Business Impacts	• No change to economic hedging strategy, although certain deals restructured. Treasury now deals direct to market • Hedges of NZ future earnings do not qualify for hedge accounting from 2007 financial year

- Numbers are for six months ended 31 March 2005 and exclude any impact for credit provisioning
- IFRS impacts rounded to nearest $5m (P&L) and $50m (Balance sheet)

Capital impacts

A$ million	Book Equity	ACE	Tier 1	Tier 2
Fee revenue	(150)	(200)	(200)	-
Deferred acquisition costs	(150)	-	-	-
Treasury shares	(100)	-	-	-
Defined benefit plans	(150)	(300)[1]	(300)	-
Credit provisioning[2] (tax effected)	200 to 700	200 to 700[1]	200 to 700	(200) to (700)
Total	(350) to 150	(300) to 200	(300) to 200	(200) to (700)

1. Assumes rating agencies adjust ACE to follow Australian prudential treatment
2. Assumes A-IFRS credit provisioning is consistent with APRA prudential standards and no additional 'general reserve for credit risk
3. Assumes the reclassification of software to intangibles has no impact.

Expected timetable

- 2005 financial report and ASX announcement to include detailed financial disclosures on A-IFRS impacts including expected impact on opening balance sheet (November 2005)
- A-IFRS transition statement - final 2005 A-IFRS statutory and pro-forma comparatives and opening 1 October 2005 balance sheet to be published (February 2006)
- Half year ASX profit announcement template with comparative numbers (March/April 2006)
- ASX profit announcement (May 2006)

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Appendix - Capital calculations

Capital calculations (A$m)	
Capital at 31 March 2005 (including minority interests of $724m)	**16,253**
Hybrid deductions	
FIRsTS	(655)
TPS 2003	(1,132)
TPS 2004	(685)
Less	
life company minority interests	(706)
Dividends paid	(909)
Add Dividend reinvestment	163
Fundamental Tier 1	**12,329**

Tier 1 Deductions ($m)	
Goodwill	(1,198)
Net FITB	(291)
Investments in Funds Mgt & Securitisation	(1,509)
Investment in LMI captive	(69)
Capitalised costs	(287)
Total Tier 1 Deductions	(3,354)