

## 2006 First Half Results

**4 May 2006**

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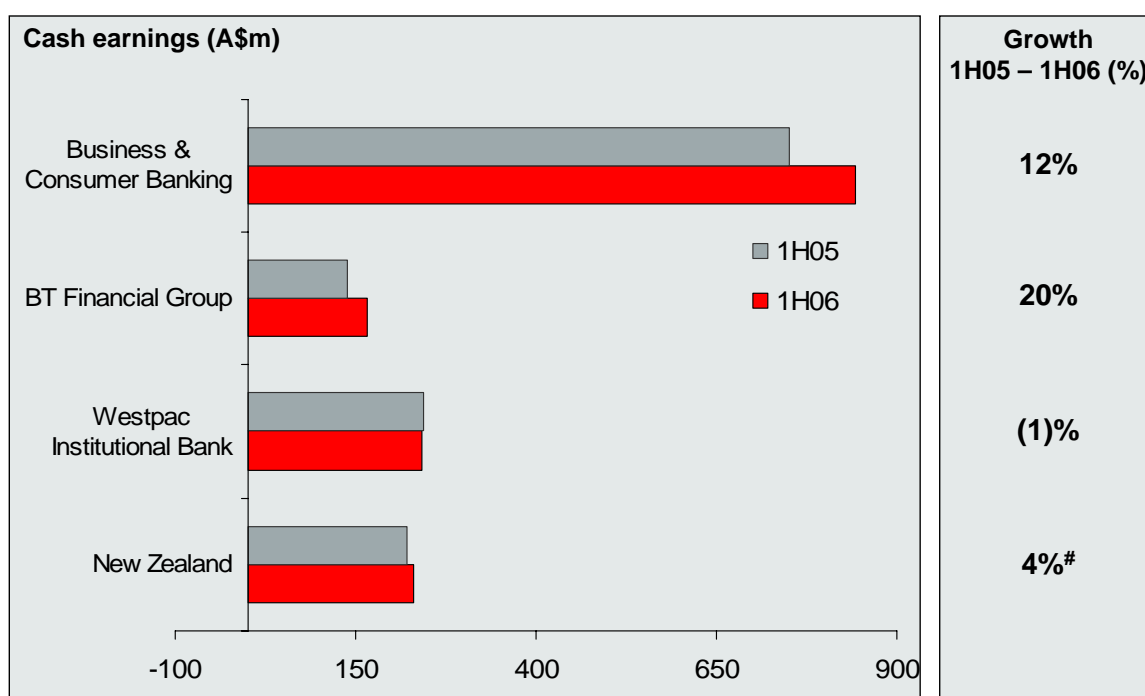
**David Morgan    Chief Executive Officer**

**4 May 2006**

## Strong first half performance

Cash earnings	up 12%
Cash EPS	up 12%
Cash ROE	23%
Revenue growth	up 10%
Expense growth	up 3%
Cost to income ratio	47%, down 300 bps
Fully franked dividend	56 cents, up 14%

## Australian retail & BT leading the growth



# New Zealand cash earnings in NZ\$

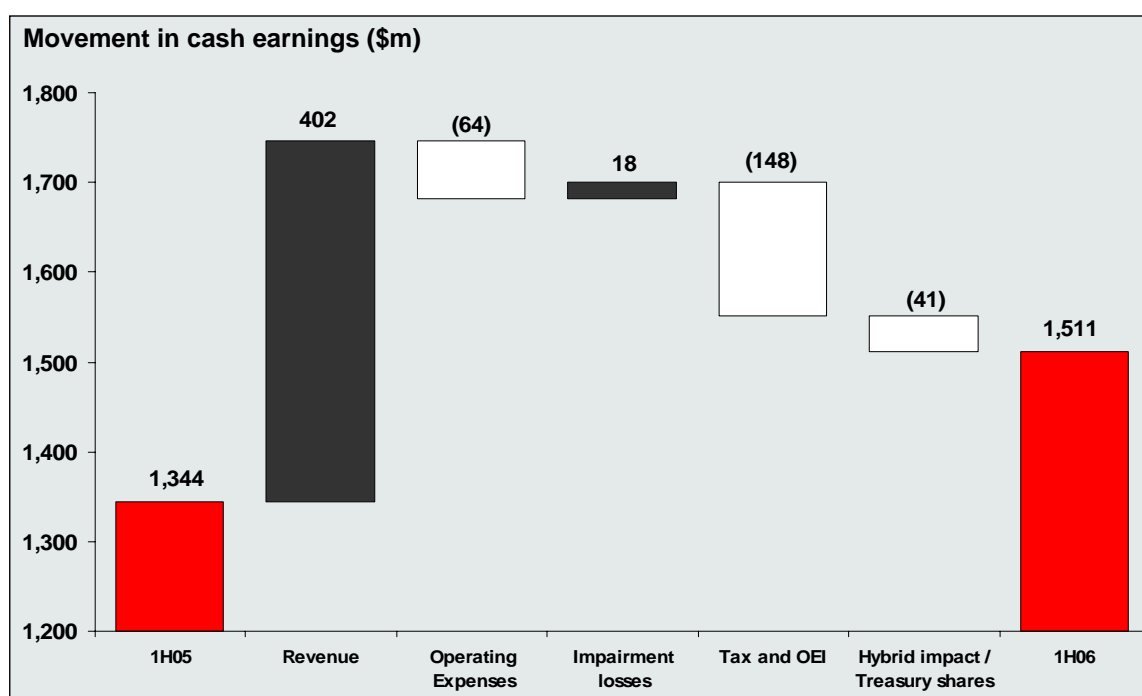
## Five main features

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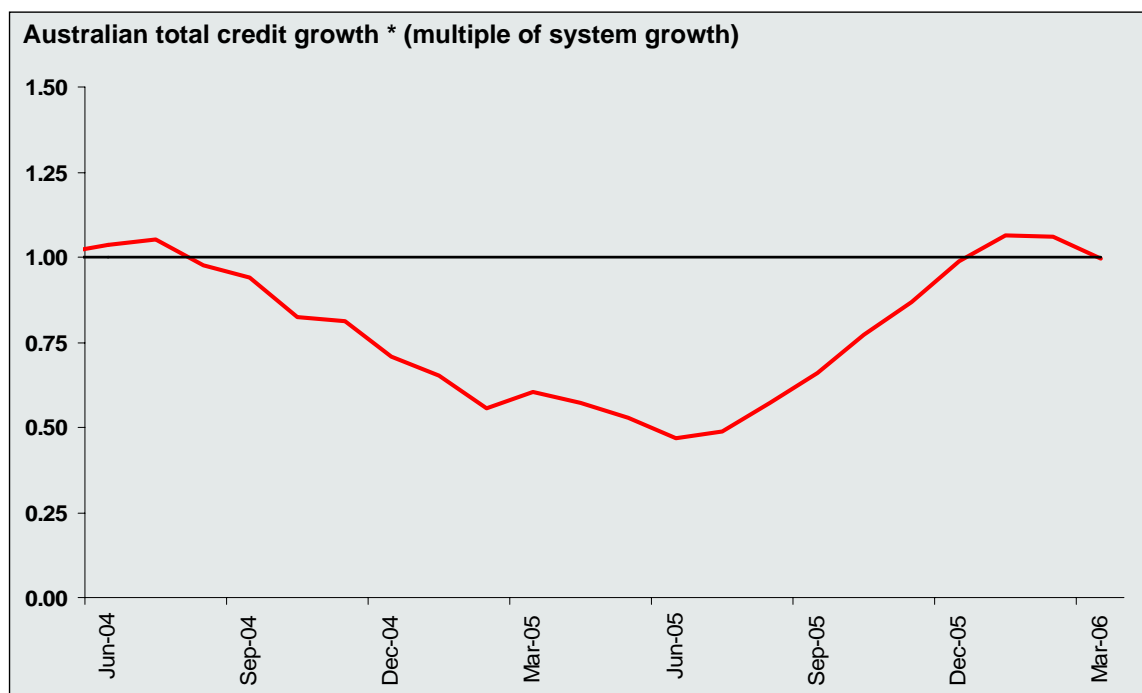
1. Revenue led
2. Growth momentum restored
3. High quality
4. Consistency
5. Value to shareholders

## Revenue driven result

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## Growth momentum restored



\* Rolling three month average.

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2006 Interim Results



## BT – strongly positioned

Current Australian market share			Current share of new business	
Product	Market share (%)	Rank	Market share (%)	Rank
Platforms (Wrap)	12	2	16	2
Corporate super	7	6	10	3
Margin lending	15	3	31	1*
Broking	10	3	10	3
Life and risk	-	-	7	5

**Source:**

\*BT competitor analysis on ranking  
 Platforms– S&P Dec 05  
 Margin Lending RBA Dec 05 market share  
 Broking: IRESS Feb 06

Life and Risk: Plan for Life Sept 05;  
 Corp Super: Dext&r Dec 05

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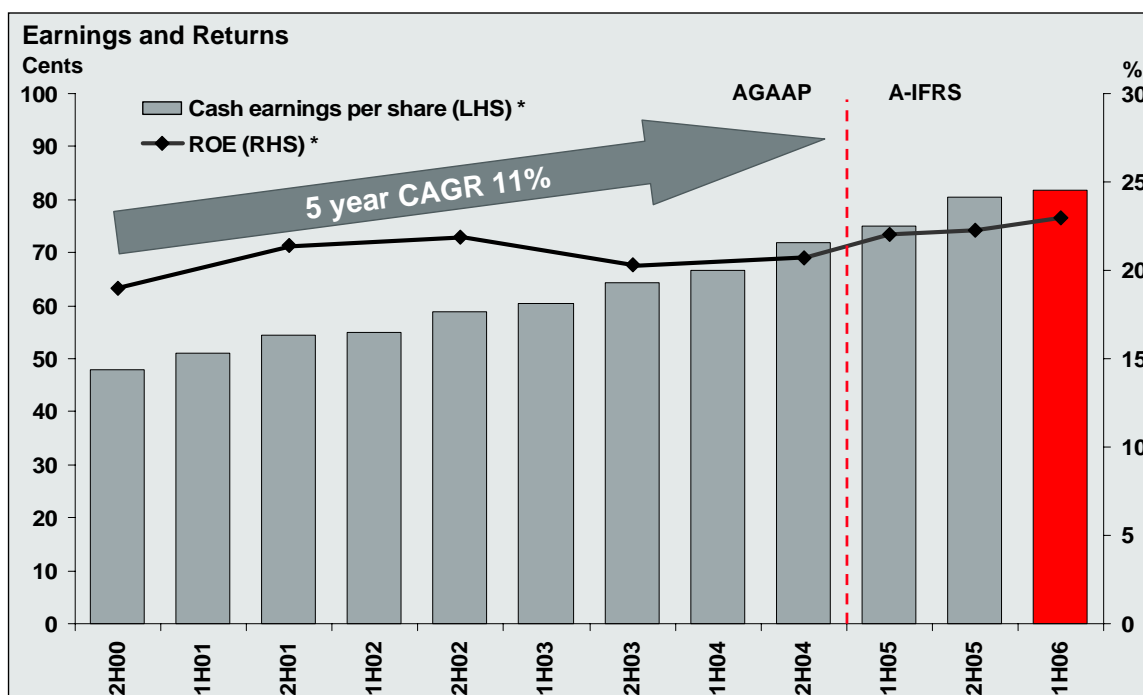
2006 Interim Results



# High quality result

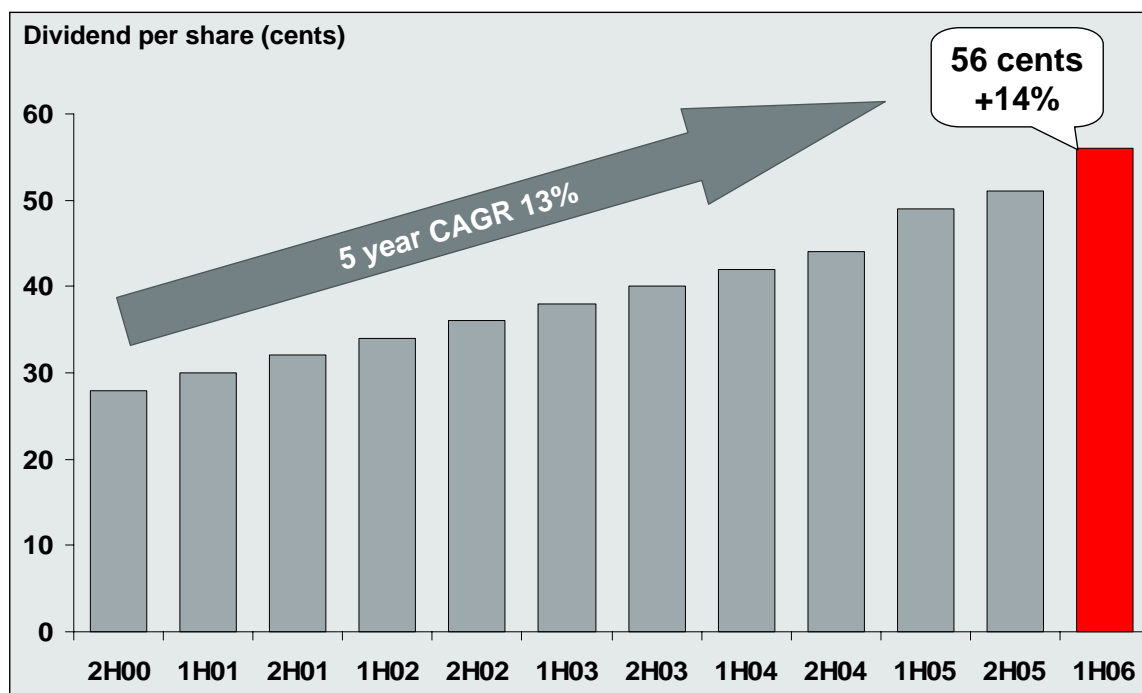
	STANCE	IMPACT
<b>Competitiveness</b>	<ul style="list-style-type: none"> <li>• Price responsive – meeting not leading the market</li> <li>• Fees aligned to market – both up and down</li> </ul>	<ul style="list-style-type: none"> <li>• Margin decline within expectations</li> </ul>
<b>Risk</b>	<ul style="list-style-type: none"> <li>• Maintain risk disciplines</li> </ul>	<ul style="list-style-type: none"> <li>• Risk indicators remaining within comfortable levels</li> </ul>
<b>Investment</b>	<ul style="list-style-type: none"> <li>• Placing greater emphasis on front line</li> </ul>	<ul style="list-style-type: none"> <li>• Substantial investment in Reach and Pinnacle.</li> <li>• Additional front line personnel</li> </ul>

# Consistent growth & returns



\* AGAAP to 30 Sept 2004; A-IFRS from 1 Oct 2005.

## Returning value to shareholders



## Strong performance all round

	5 year CAGR to 1H06	1H05 to 1H06
	Reported	AIFRS
Cash earnings growth %	11	12
Cash EPS growth %	11	12
ROE (cash basis) %	21*	23
Dividend growth %	13	14
Revenue %	8	10
Expenses %	4	3

\* 5-year average

## The Details

**Philip Coffey** Chief Financial Officer

**4 May 2006**

## The reporting approach

- Continue to focus on cash earnings
- Reported - appropriate for assessing cash earnings growth at both group and a business unit level
- Adjusted - appropriate for assessing movements in the profit and loss components

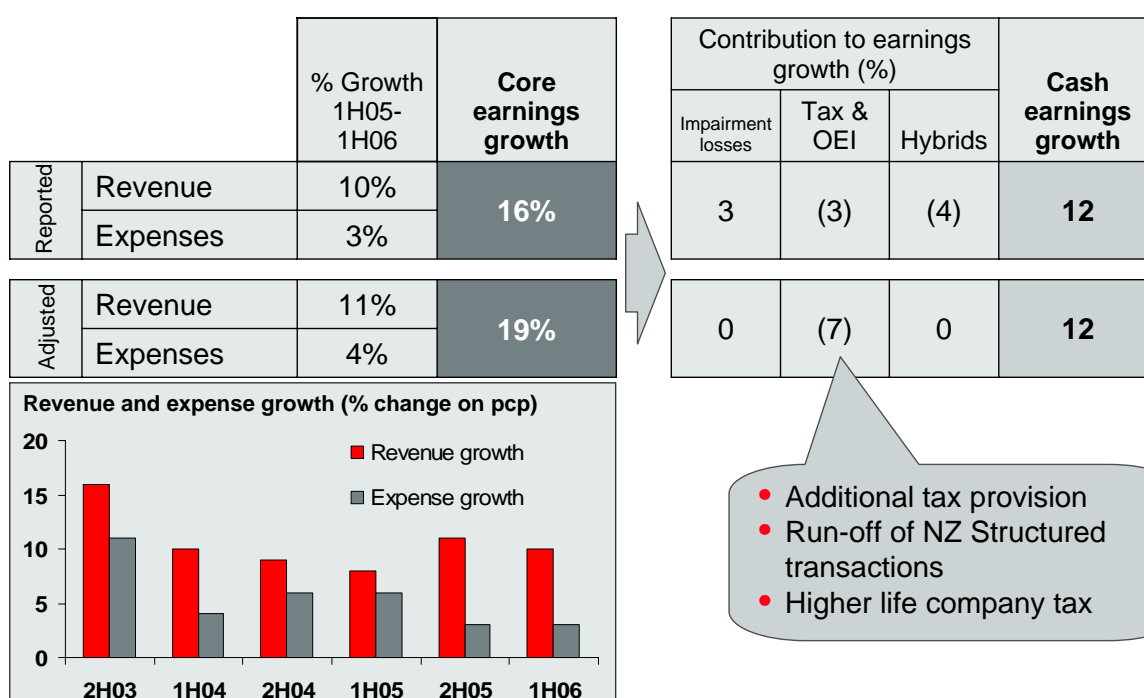
	1H06	2H05	1H05
<b>“Reported”</b>	Full A-IFRS	A-IFRS excluding AASB 132 & 139	
<b>“Adjusted”</b>	A-IFRS excluding AASB 132 & 139 where practical, and accounting reclassifications	A-IFRS excluding AASB 132 & 139, and accounting reclassifications	

## Another consistent performance

			Scorecard
Reported	Cash earnings	12% higher	✓✓
	Net interest income <sup>1</sup>	6% higher	✓
Adjusted	Non-interest income	14% growth	✓✓
	Expenses	4% growth	✓
	Impairment losses	7% higher	✓

<sup>1</sup> After tax equivalent gross-up

## Revenue productivity driving earnings





## Revenue quality - looking beyond the top line

\$m	1H05	2H05	1H06	% Change <sup>1</sup>	
				2H05 – 1H06	1H05 – 1H06
<b>Reported operating income</b>	<b>4,161</b>	<b>4,552</b>	<b>4,563</b>	<b>0%</b>	<b>10%</b>
Remove AASB 132/139			68		
Net accounting changes & Epic	4	(140)	(2)		
<b>Adjusted operating income</b>	<b>4,165</b>	<b>4,412</b>	<b>4,629</b>	<b>5%</b>	<b>11%</b>
NZ\$ Impact <sup>2</sup> gain / (loss)	(2)	18	8		
Fair value of securities portfolios	(28)	(36)	(32)		
JDV Profit	-	(13)	-		
Property sales	(5)	(6)	(10)		
Mortgage broker amortisation	(9)	(7)	-		
Private equity business	(7)	(9)	-		
<b>Core operating income</b>	<b>4,114</b>	<b>4,359</b>	<b>4,595</b>	<b>5%</b>	<b>12%</b>

Normalising for above trend results in Treasury and Financial Markets revenue growth would be 9%

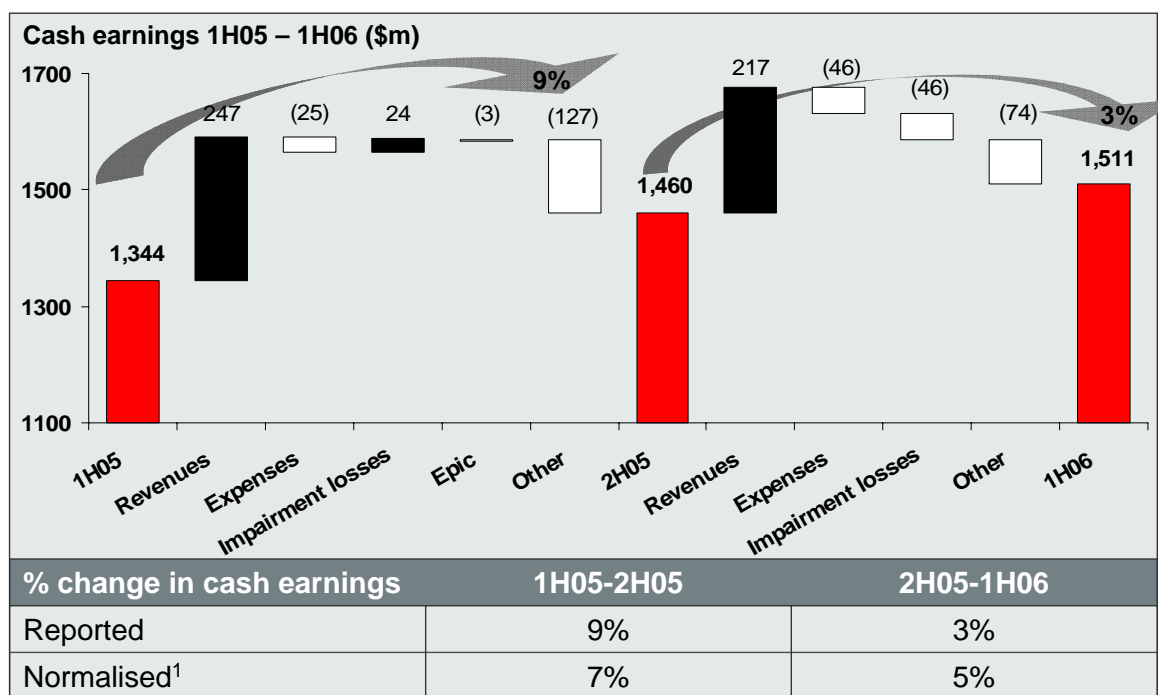
1. Reported basis  
2. Net of hedges

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2006 Interim Results



## Half on half movements



1. Adjusts for one-offs in prior periods

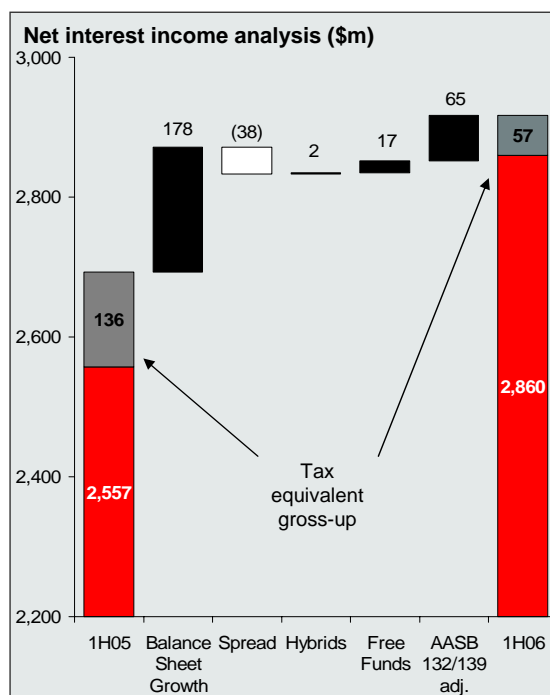
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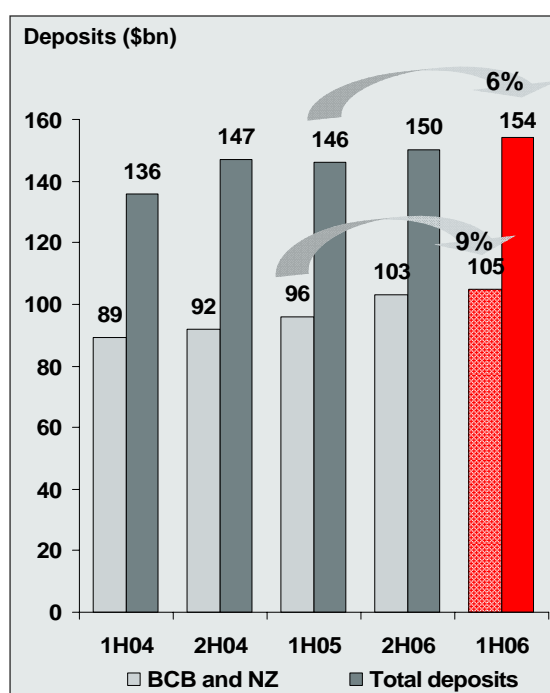
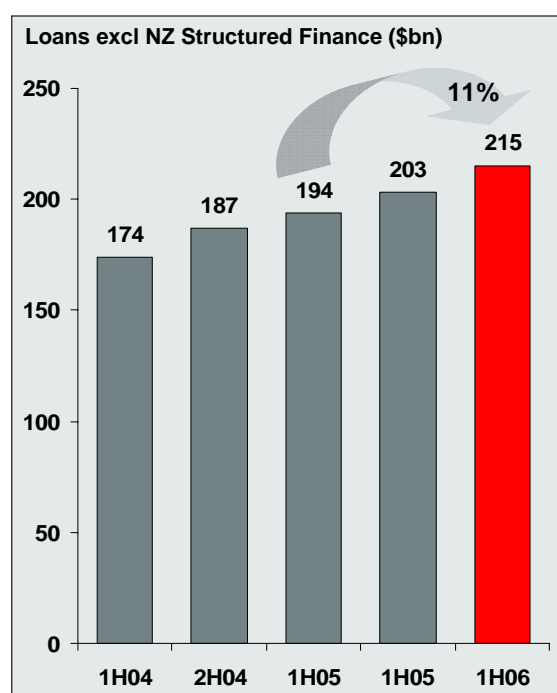


# Asset growth driving net interest income

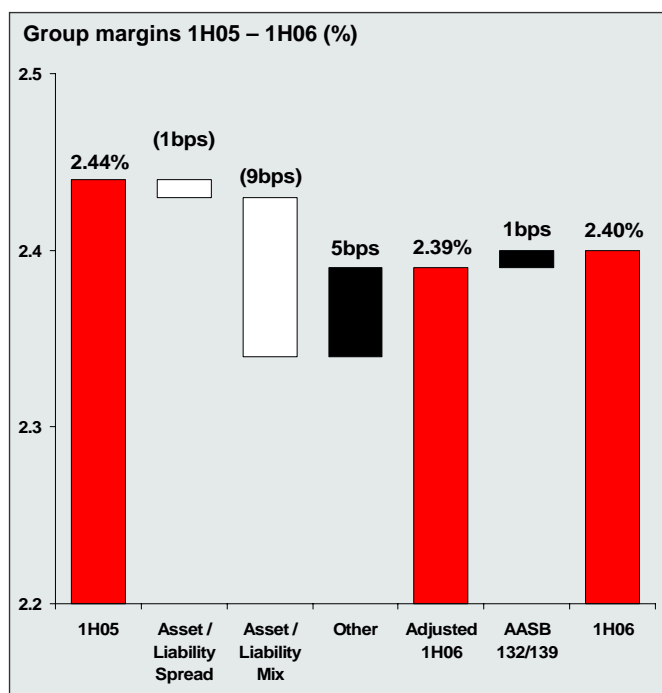
- Fully adjusted<sup>1</sup> net interest income increased 6%
- Solid balance sheet growth with improving momentum:
  - 8% growth in adjusted average interest earning assets
- Adjusted margin 5 bps lower:
  - 3bps decline in spread
  - 2bps decline in free funds benefit



# Loan and deposit growth

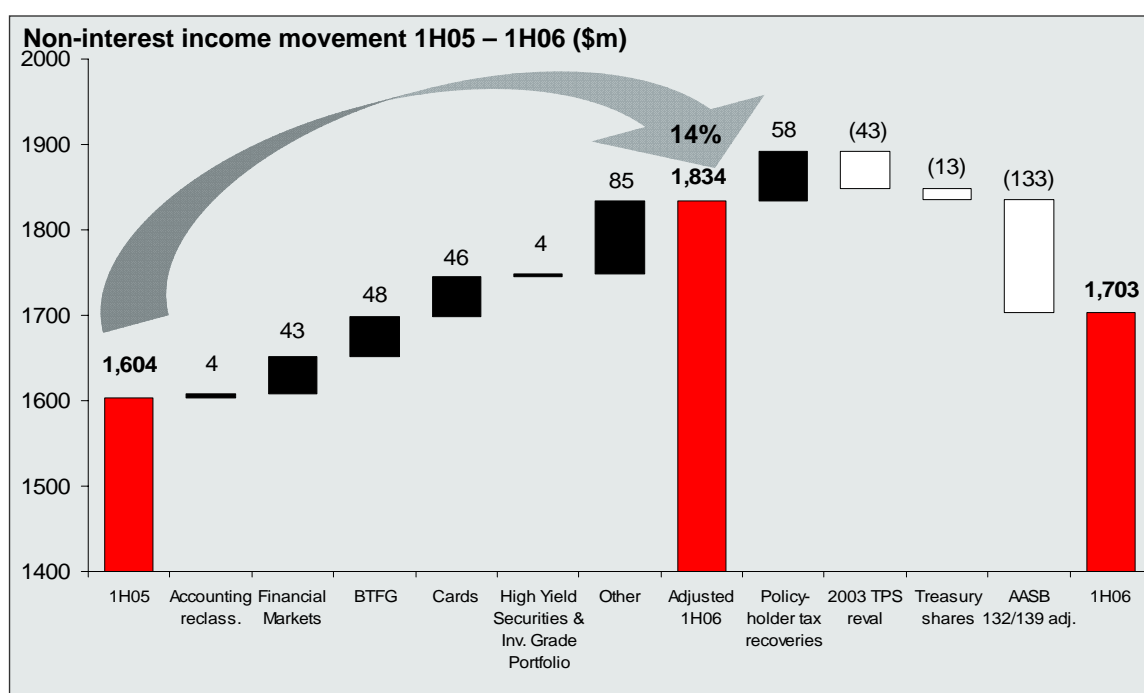


## Analysis of margin movements



- Adjusted margin decline 5bps
- Major impacts on margins:
  - Treasury +2bps
  - Financial markets +5bps
  - NZ Structured Fin -3bps
- Amending for these items the margin decline is consistent with medium term expectations

## Non-interest income analysis

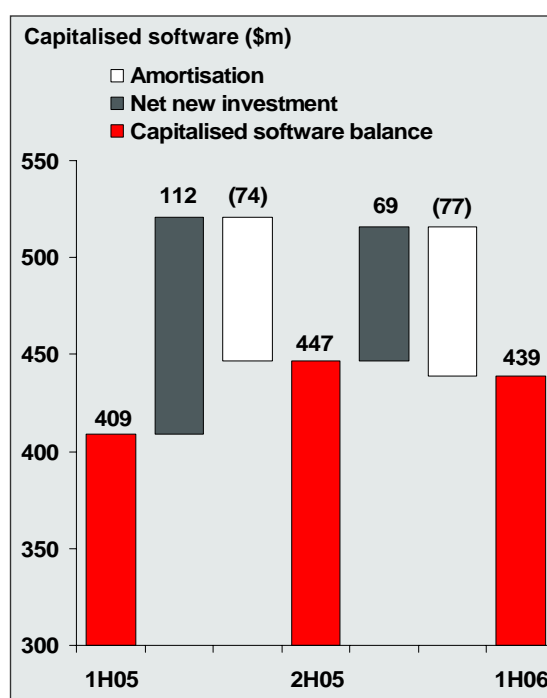


## Expenses – continued tight management

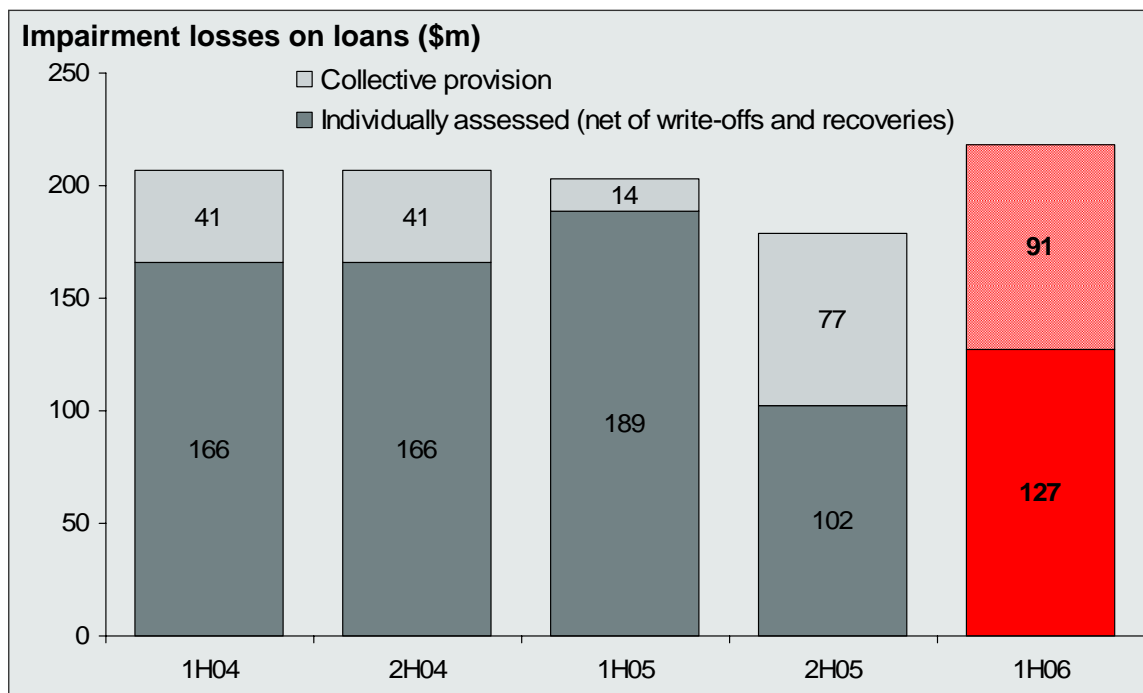
\$m	1H05	1H06	%Change
Salary and other staff expenses	1,095	1,165	6
Equipment and occupancy	231	227	(2)
Other	745	743	(0)
<b>Reported expenses</b>	<b>2,071</b>	<b>2,135</b>	<b>3.1</b>
AASB 132/139 adjustments:		(3)	
Consolidation of Epic	(8)	0	
Consolidation of the Life Company MIS	(2)	0	
Translation of NZ\$ expenses to A\$	0	2	
<b>Adjusted expenses</b>	<b>2,061</b>	<b>2,134</b>	<b>3.5</b>
Adjusted cost to income ratio	50%	46%	340bps

## Capitalised software growth easing

Capitalised software - major projects (\$m)	Amortisation period (years)	Mar 2005	Sep 2005	Mar 2006
Business loan origination (Pinnacle)	3	85	91	82
Institutional Bank	3	34	34	31
Standardised platform (One Bank)	3	66	76	83
Channel development and distribution	3	19	22	19
Product enhancement	3	11	9	6
Customer relationship management (Reach)	3	52	46	43
Connect@Westpac	5	7	17	24
Other – Australia & NZ	3	101	117	118
Teller platform, NZ	5	33	36	34
<b>Total</b>		<b>408</b>	<b>447</b>	<b>439</b>

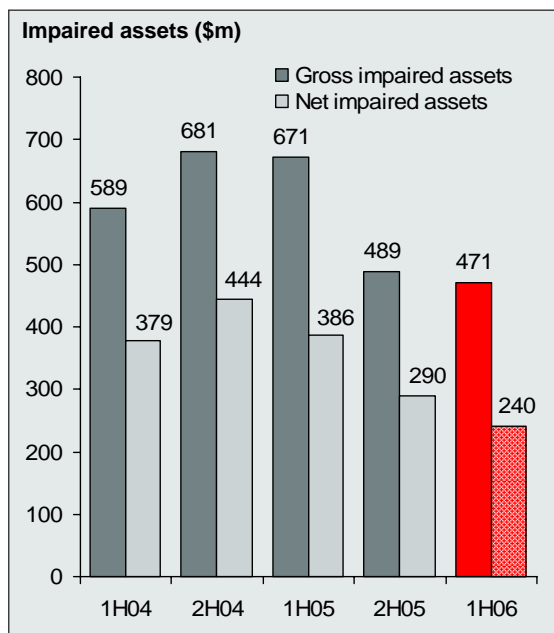


# Credit charges increasing with loan growth

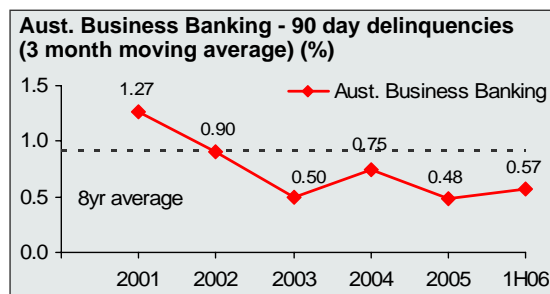
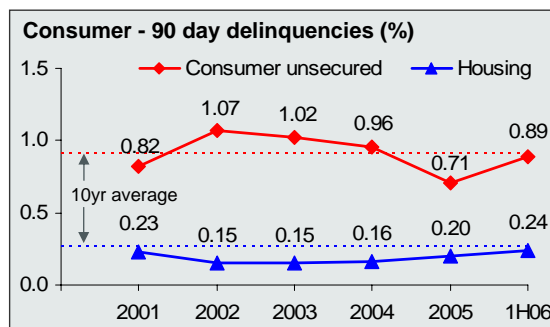


# Asset quality remains positive

## Impaired assets declining



## Delinquencies heading to long run averages



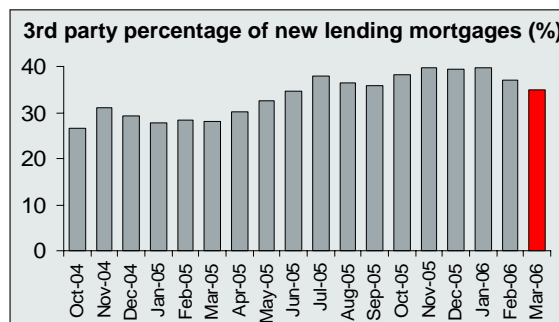
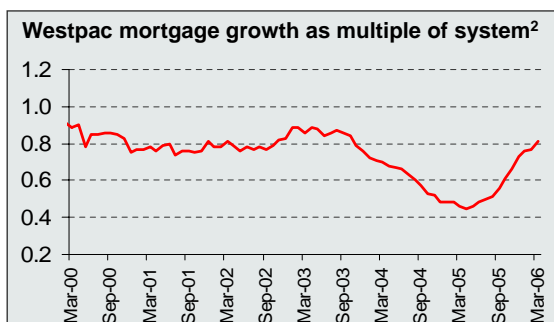
## BCB – growth momentum enhanced

- Solid performance with volume growth skewed to latest half
- Strong consumer result, slower in business
- All portfolios close to, or above system, except SME
- Margins 11bps lower
- Modest expense growth despite front-line investment

\$m	1H06	% Rptd	% Adj
Net interest income	2,020	8	5
Non-interest income	547	(3)	12
Operating expenses	1,233	2	2
<b>Core earnings</b>	<b>1,334</b>	<b>9</b>	<b>11</b>
Impairment losses	(124)	(18)	(5)
Tax & OEI	(368)	(16)	(16)
<b>Cash earnings</b>	<b>842</b>	<b>12</b>	<b>12</b>

## Housing loan growth back on track

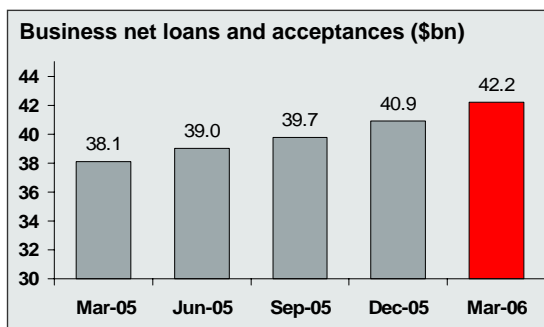
Initiative	Outcome
Implemented a new sales management program, 'Westpac Way'	Productivity <sup>1</sup> increased by 31% from March 2005 to March 2006
More active broker engagement	Uplift in broker sales - averaging 38% of total drawdowns over the half
Selected tactical pricing initiatives	Spreads down around 4bps from 1H05 to 1H06



1. Average drawdown volumes in \$ per Home Finance Manager  
 2. Westpac rolling annual growth as a % of RBA Housing credit aggregates

## BCB Business lending picking up

- Growth in loans and acceptances 11%
  - Strong gains in middle markets
  - Small business lending growing slower
- Growth skewed to late in the period with strong pipeline of deals
- Modest spread compression
- Pinnacle embedded and delivering



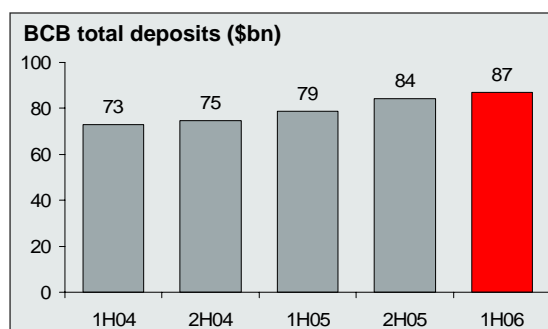
Product spreads <sup>1</sup>	AGAAP		A-IFRS Adjusted		
	1H04	2H04	1H05	2H05	1H06
Business	1.79	1.80	1.78	1.78	1.75
Equipment Finance	2.16	2.02 <sup>^</sup>	2.15	2.11	2.07

<sup>1</sup> Small and medium business lending

<sup>^</sup> Spread in 2H04 impacted by repurchase of portfolio of equipment finance loans under the terms of the sale of AGC to GE Capital Finance in 2002

## Deposits market undergoing structural change

- Growing deposits in line with bank system growth
- Portfolio composition is undergoing significant change with most growth in:
  - Flat fee transaction account (Westpac One)
  - High interest online savings account (Max-i Direct)
- Max-i Direct growth has impacted margins, although partially offset by rate movements on other savings accounts



Product spreads	AGAAP		A-IFRS Adjusted		
	1H04	2H04	1H05	2H05	1H06
Savings & investments <sup>1</sup>	1.90	1.88	1.86	1.85	1.83

<sup>1</sup> Excludes working capital

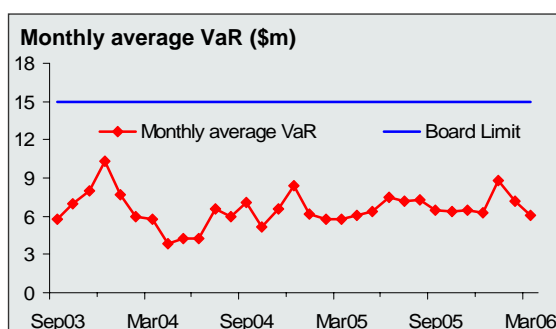
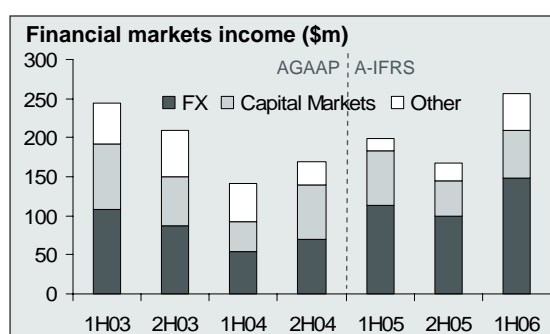
## WIB – solid underlying performance

- Cash earnings decline impacted by:
  - Run off of NZ structured finance transactions
  - Run down of Quadrant private equity business
  - Lower credit spreads and lending fees
- Excluding structured finance cash earnings up 26%:
  - Strong financial markets
  - Transactional banking growth
  - Fair value of investment grade portfolio

\$m	1H06	% Rptd	% Adj
Net interest income	228	(5)	(18)
Non-interest income	424	0	6
Operating expenses	282	0	0
<b>Core earnings</b>	<b>370</b>	<b>(3)</b>	<b>(5)</b>
Impairment losses	(38)	(27)	(47)
Tax & OEI	(91)	17	17
<b>Cash earnings</b>	<b>241</b>	<b>(1)</b>	<b>(5)</b>
<b>Cash earnings excl. SF</b>	<b>199</b>	<b>26</b>	<b>19</b>

## Financial markets

- Strong foreign exchange result given volatility in key currencies
- Other products assisted by energy and equities performance
- Performance within risk tolerance





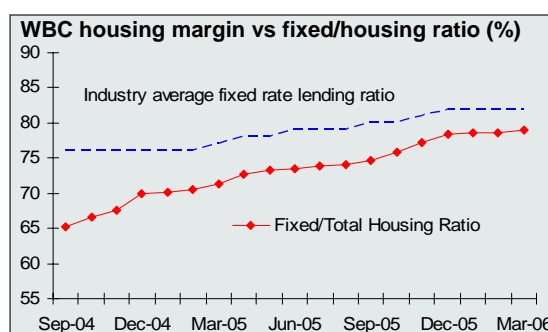
## New Zealand – tougher conditions

- Balance sheet growth in line with system:
  - Housing up 13%
  - Business up 12%
  - Deposits up 8%
- Significant margin decline from fixed / floating housing loan mix
- Fee income lower from customer switching
- Expenses under control

NZ\$m	1H06	% Rptd	% Adj
Net interest income	469	4	2
Non-interest income	209	(10)	(2)
Operating expenses	(327)	1	1
<b>Core earnings</b>	<b>351</b>	<b>1</b>	<b>2</b>
Impairment losses	(11)	42	21
Tax & OEI	(110)	(3)	(4)
<b>Cash earnings</b>	<b>230</b>	<b>4</b>	<b>4</b>

## New Zealand – addressing the challenges

- Switch from floating to fixed rate housing lending abating:
  - Caused 15bps housing spread decline
  - Limited future margin impact
- Customers becoming more responsive to fees has led to a decline in non-interest income:
  - New system to highlight cross-sell opportunities
  - Review of product features/ pricing



## BT Financial Group

- Solid revenue growth from:
  - Above market growth in FUA
  - Favourable equity market conditions and excellent investment performance
  - Strong growth in margin lending
- Life company tax changes increasing tax expense
- Planner productivity up 29%

\$m	1H06	% Rptd	% Adj
Operating income	501	13	13
Operating expenses	265	(2)	(2)
Core earnings	236	28	29
Tax & OEI	71	(14)	(52)
<b>Cash earnings</b>	<b>165</b>	<b>20</b>	<b>22</b>

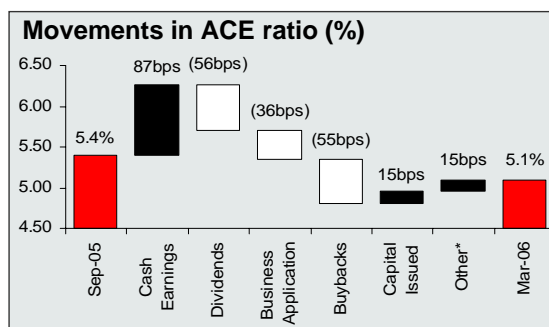
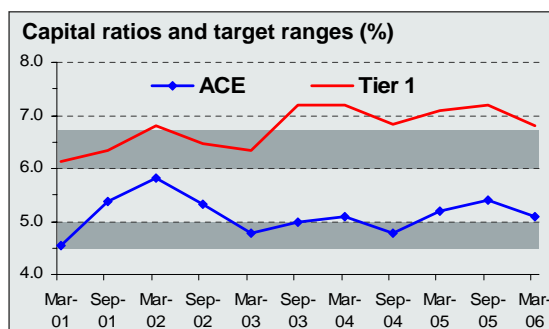
## Group business unit

- Higher earnings from Treasury, up \$63m
- Increase in tax provisions by \$61m

\$m	1H05	1H06
Operating income	(39)	137
Operating expenses	(6)	(29)
Core earnings	(45)	108
Tax & OEI	(48)	(124)
<b>Net profit</b>	<b>(96)</b>	<b>(25)</b>
<b>Cash earnings</b>	<b>(13)</b>	<b>17</b>

## Strong capital generation

- \$580m in capital generated over half
- Strong capital position has supported:
  - \$1bn buy-back
  - Uplift in dividends
- A-IFRS adjustments from July 06 manageable. Inclusion of these adjustments at 31 March 06 (without transition) would see:
  - ACE ratio of 4.7%
  - Tier 1 ratio of 6.5%
- We are still discussing potential transition arrangements and possible changes to target ranges



\*Includes movements in the foreign currency translation reserve and deferred tax balances

## Higher dividend payout

Factor	Current approach
• Dividend path	• Deliver dividend increase each half
• Franking	• Only pay fully franked dividends
• New share issues	• General principle is to neutralise new share issuance although some dilution tolerated to utilise franking credits
• Pay-out ratio	• Absorb some movement in payout ratio given earnings volatility and A-IFRS
• Capital	• Seek to hold capital ratios within target ranges

# Continuing to perform at upper end of sector

Reported	Cash earnings per share growth	12%	Double digit
	Cash return on equity	23%	Leading peers
	Dividend growth	14%	Leading peers
Adjusted	Growth in loans and acceptances <sup>1</sup>	11%	Restoring momentum
	Revenue / expense growth differential	7	Percentage points

1. Excluding NZ structured finance transactions

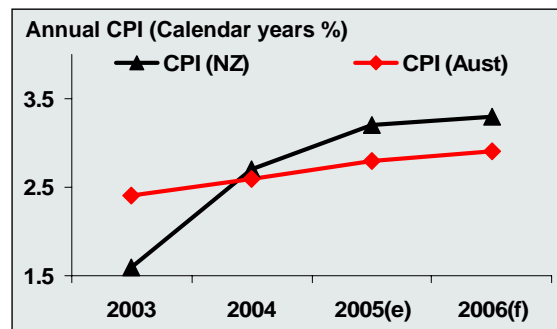
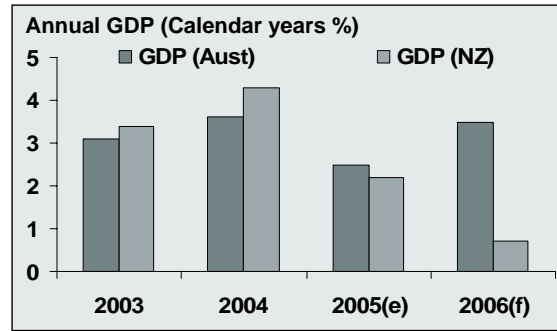
## Outlook

**David Morgan** Chief Executive Officer

**4 May 2006**

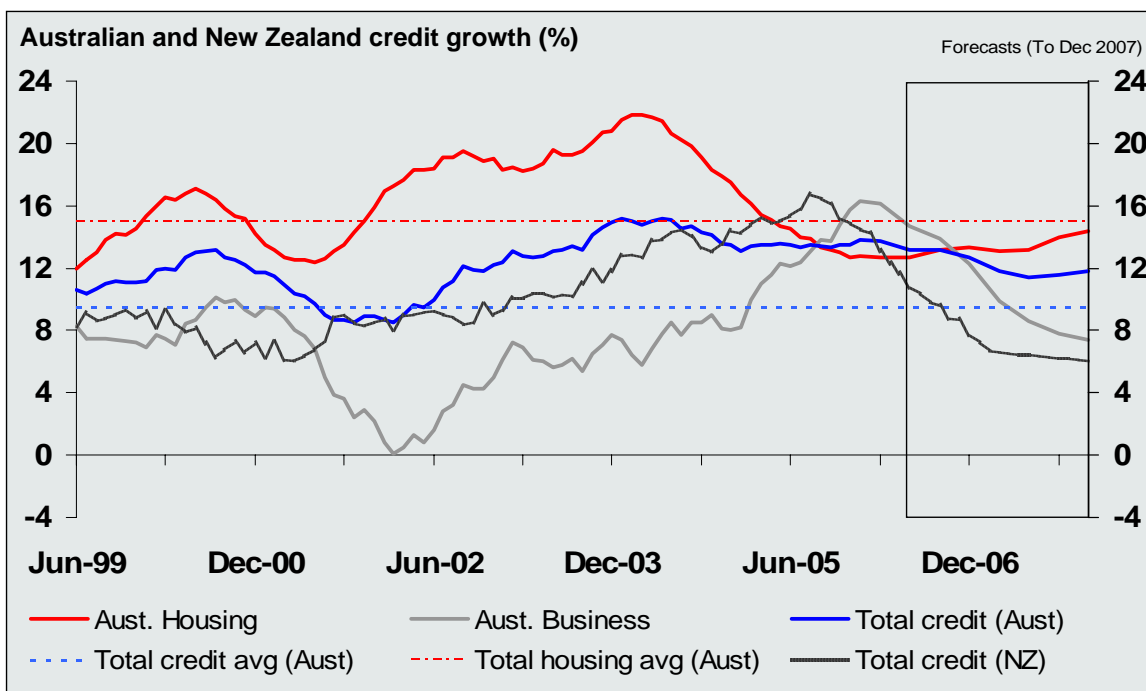
# Economic environment sound

- Global growth above par
- Headline inflation boosted by rising energy prices, but core inflation still contained
- Unemployment at 30 year lows
- Expansion continues in Australia
- A period of consolidation in New Zealand



Source: Westpac Economics

# Credit growth expected to edge lower



Source: RBA, RBNZ, Westpac

## Competitive environment remains challenging

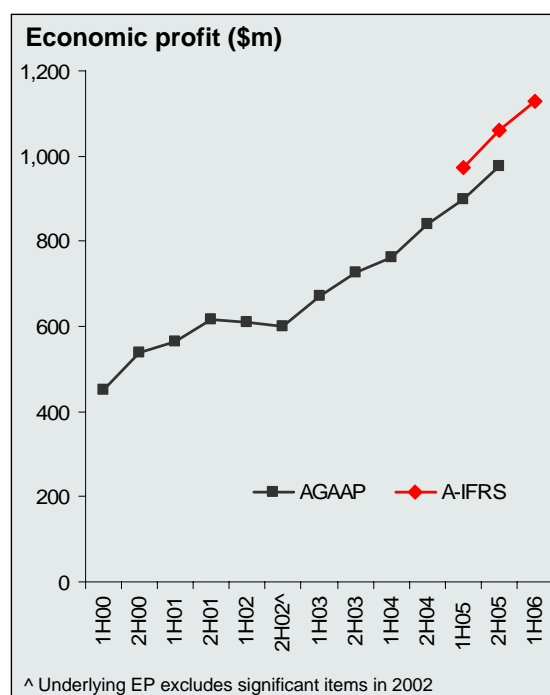
Competitive	Regulatory
<ul style="list-style-type: none"><li>• Competitors expanding their footprint</li><li>• Price increasingly used to attract business</li><li>• Competition for talent is intense</li></ul>	<ul style="list-style-type: none"><li>• Compliance requirements remain heavy</li><li>• International harmonisation challenges under control</li><li>• Significant progress on key regulatory issues</li></ul>

## Strong growth platform

Wealth	<ul style="list-style-type: none"><li>• Strong wealth platforms</li><li>• Top quartile investment performance</li><li>• Consistent gains in market share</li></ul>
Retail	<ul style="list-style-type: none"><li>• Large, high quality customer base with significant untapped potential</li><li>• Expanded sales force</li><li>• Technology: Reach and Pinnacle</li></ul>
Corporate relationships	<ul style="list-style-type: none"><li>• No.1 lead bank share</li><li>• Superior transactional banking platform and capability</li><li>• Growth potential in Specialised Capital Group / Hastings</li></ul>

## Westpac is in a strong position

- Momentum restored
- Impaired assets lower
- Strong provisioning for all known risks
- Capital ratios strong



## Confident outlook

- Westpac's franchise is in excellent health
  - Employees - Top quartile commitment
  - Customers - Sound progress in customer satisfaction
  - Sustainability - Global banking leader
  - Financial - Sector leading earnings growth and ROE

***Confident that we will continue to deliver strong outcomes for shareholders***

# Disclaimer

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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.

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