

## Westpac Banking Corporation

Philip Chronican  
Group Executive Westpac Institutional Bank

March 2007

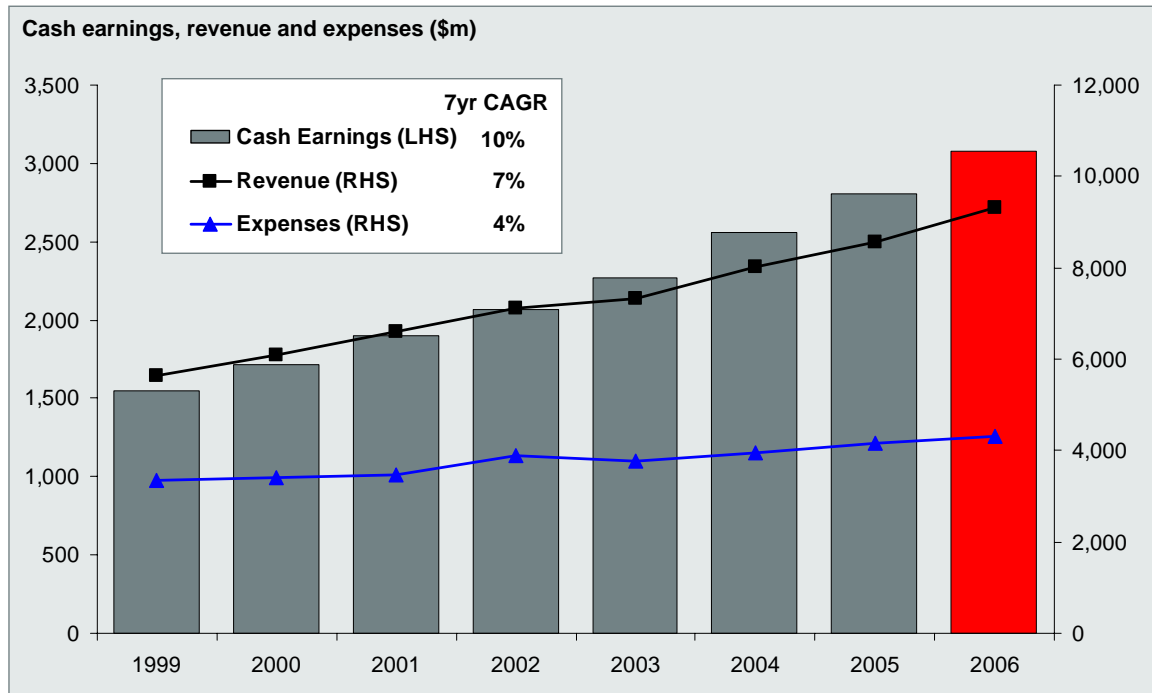
### Westpac Banking Corporation – at a glance

- Australia's first bank – est. 1817
- Top 50 bank globally<sup>1</sup>
- Consistent earnings growth
- Strong franchise in core markets of Australia, New Zealand and near Pacific
- Global sustainability leader
- Sound asset quality

	30 September 2006
Cash earnings	A\$3,079 million
Return on equity	23%
Tier 1 ratio	6.9%
Long-term credit rating <sup>2</sup>	AA
Total assets	A\$300 billion
Market cap as at 28 Feb 2007	A\$47 billion
Customers	7 million

1. FT Global 500 2006 by sector, rank by market capitalisation  
2. S&P Long-term issuer credit rating – upgraded from AA- on 22 Feb 2007

## Consistent solid growth over long term



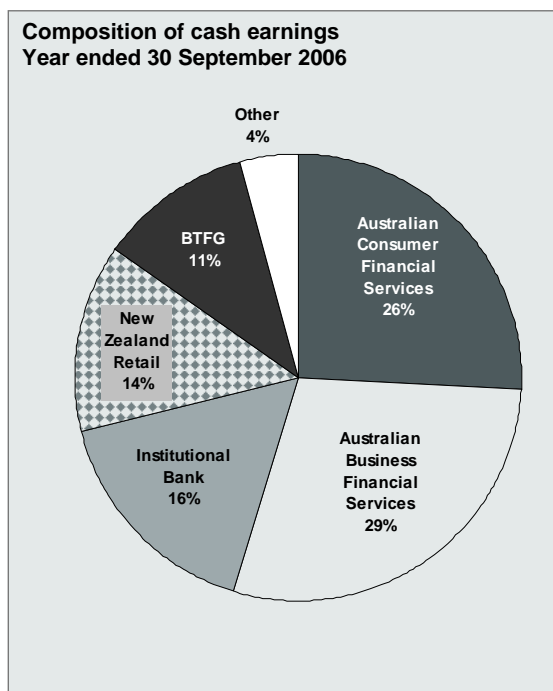
1999 to 2004 on AGAAP basis. 2005 and 2006 adjusted for the impacts of A-IFRS, accounting reclassifications, NZ\$ exchange rate impacts and one-off significant items. Source: Westpac

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## Strong financial services franchise



### Business and Consumer Banking

- Large, high quality retail franchise
- Fastest growing major bank

### BT Financial Group

- 2<sup>nd</sup> tier in size – 1<sup>st</sup> tier in capability
- Fund Manager of the Year<sup>1</sup>

### Institutional Bank

- Leading position in Australasia

### New Zealand

- Solid franchise, though consumer has under performed recently
- Business banking performing well

1. 2006 AFR Smart Investor Blue Ribbon Awards

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## Areas of strategic focus

### Group Strategic Themes

Feet on the street

Investing in growth

Productivity improvement

### Business Unit Strategic Themes

#### Wealth

- Capitalise on new opportunities from superannuation reforms

#### Australian retail banking

- Deliver profitable market share growth in housing, cards
- Expanding Business banking
- Leverage investment in new systems – Reach and Pinnacle

#### New Zealand retail

- Retain and grow customer numbers
- Improve market share

#### Westpac Institutional Bank

- Leverage leading institutional and capital solutions positions
- Grow specialised capital income

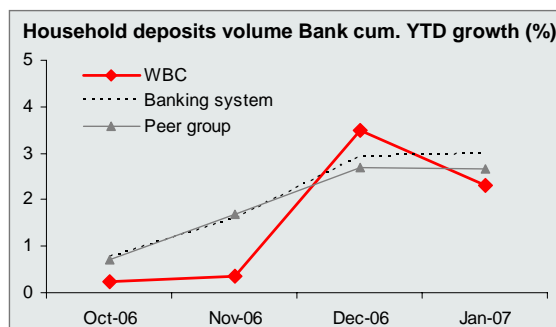
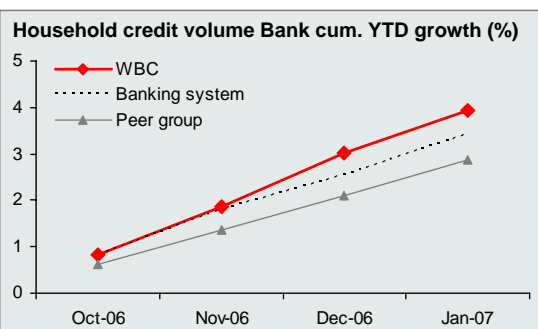
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## Australian Consumer Financial Services

- Strong momentum with leading bank sector growth in Q1:
  - Housing 3.8%
  - Credit cards 6.5%
  - Deposits 2.3%
- Growth achieved from enhanced sales process and leading CRM infrastructure
- Risk metrics stable over quarter



Charts source: Cumulative YTD growth; APRA, Westpac; Peer group is ANZ, CBA, NAB & SGB, which is subset of Banking system.

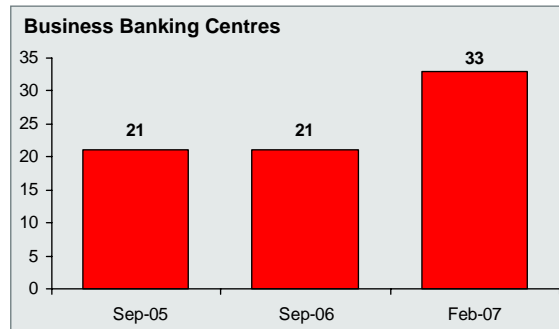
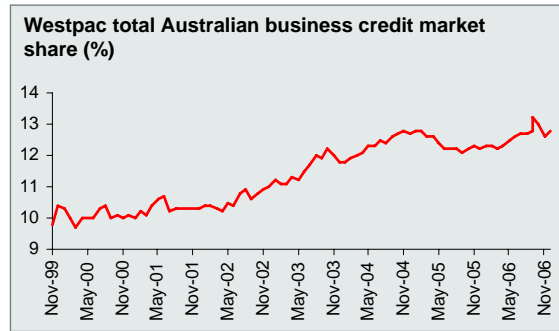
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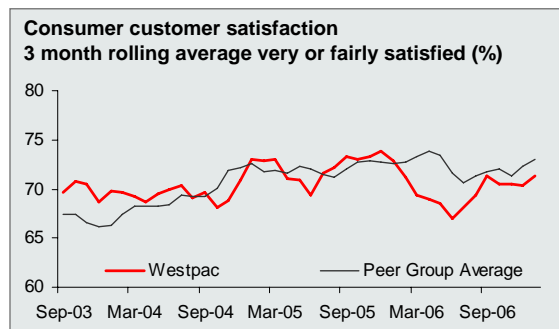
# Australian Business Financial Services

- Business banking became a separate business unit in March 2007
- Growing business lending just above system
- Expanding Business Banking capability:
  - 17% additional bankers since 2005
  - 12 new business banking centres



# Investing further in brand

- Customer satisfaction showing renewed signs of recovery in latest three-month data
- Reinvigorated our brand in October 2006 providing specific proof points on Westpac's customer focused strengths
- Higher levels of brand spend for 2007

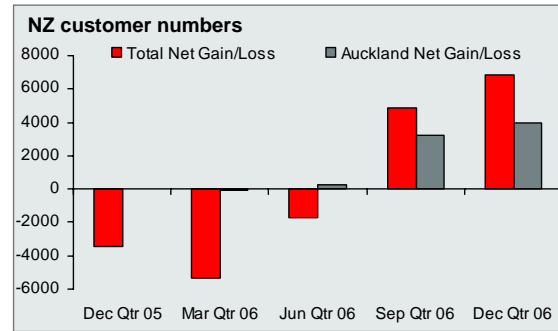


Source: Roy Morgan Research – main financial institution 14+  
Peer group is average of 3 major banks plus SGB

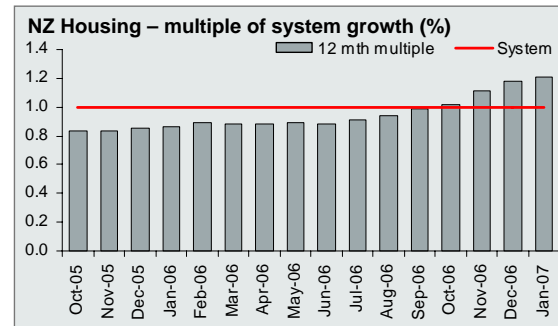


## New Zealand - consumer banking – slow turnaround

- Initiatives are having some impact, in what is expected to be an ongoing restoration process
  - Improving customer growth and retention
  - Increased share in Auckland
  - Improving sales force effectiveness
- Performance improving gradually



Source: Westpac



Source: Westpac

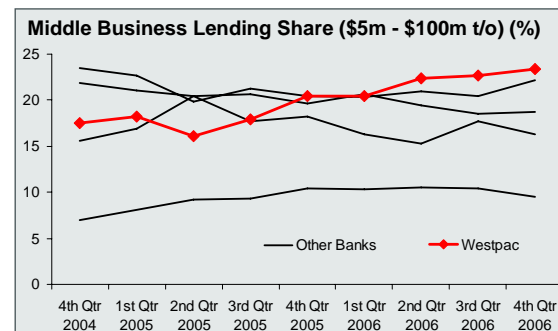
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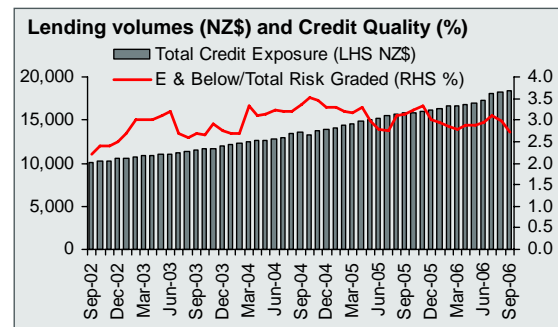


## New Zealand – business banking – solid growth

- Business banking revenues up 8% in 2006
- Solid performance driven by:
  - Number 1 position in key segments
  - Improved customer and balance share
  - Market leading advice in middle markets and corporate
  - Agri-lending 1.4x system in 2006
  - Leverage of Institutional Bank products



Source: TNS Business Finance Monitor September 2006



Source: Westpac

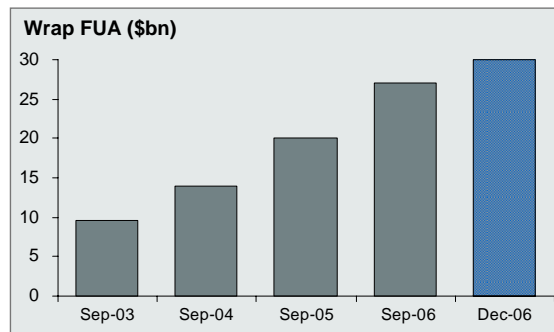
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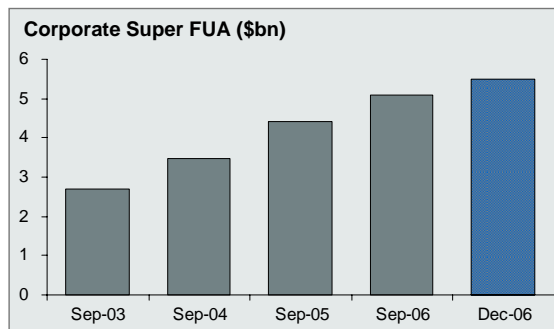


## BT - delivering Wrap and Corporate Super growth

- Wrap Funds Under Administration (FUA) up 12% in Q1 to \$30bn
- BT's platforms No.1 for new business in December Qtr\*
- Corporate Super FUA grew 6% in Q1 to \$5.5bn
- Tax changes provide additional incentives for superannuation savings



Source: BT



Source: BT

Source: \* S&P Market Share Report for December 2006

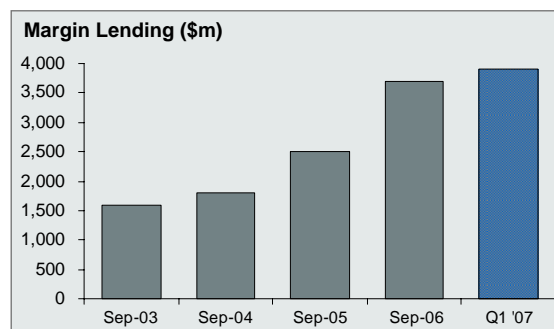
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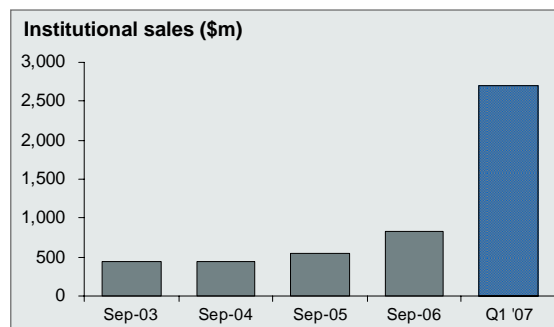


## BT - strong momentum in Margin Lending and Investment Management

- Margin Lending - \$4bn in balances reached in early 2007
- Enhanced link to WRAP platform in Sep 2006
- Well placed for high demand months of April, May and June
- Institutional sales:
  - Aussie Equities Institutional sales over \$1.1 billion in Q1
  - Solid pipeline also developing with alliance partner products especially AEW (Global Property) and AQR (International Equities)



Source: RBA



Source: BT

\* Margin Lending sales represents net flows

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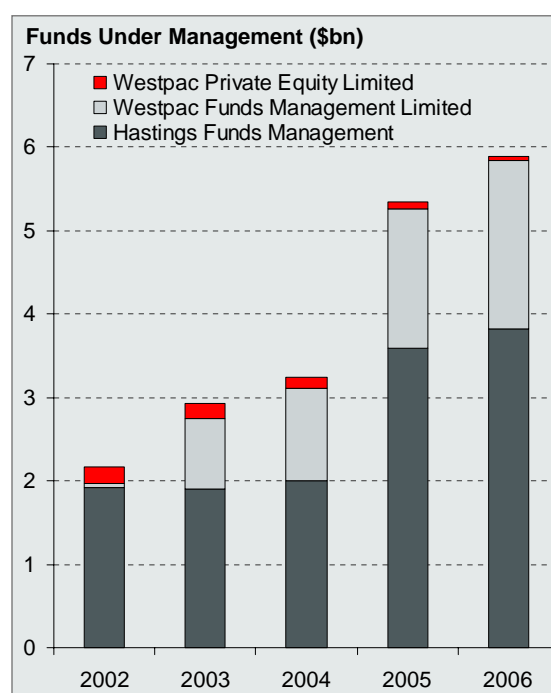


## Asia – executing on growth opportunities

Revenues	<ul style="list-style-type: none"> <li>Locally booked revenues up 38% in 2006</li> </ul>
Footprint	<ul style="list-style-type: none"> <li>Repositioned geographic footprint and seeking to expand activities into India and China. Applications submitted in late 2006 to open branch in Shanghai and representative office in Mumbai</li> </ul>
Capabilities	<ul style="list-style-type: none"> <li>Growing success in corporate banking and financial markets</li> <li>Focus on working capital and trade, introducing business banking</li> <li>Continuing to utilise third party relationships to support our efforts</li> <li>Supporting Australian and New Zealand small to medium enterprises interested in entering the China market</li> <li>Collaboration with Standard Chartered on promoting India-Australia/NZ banking capabilities for Australia/NZ firms interested in India and vice versa</li> </ul>
Key Transactions	<ul style="list-style-type: none"> <li>Singtel Group Treasury Pte Ltd</li> <li>Asian Development Bank</li> <li>Hongkong Electric Company Limited</li> <li>World Bank</li> <li>American Express Credit Corporation</li> </ul>

## Specialised Capital Group

- Provides alternative asset and structured products, and institutional funds management
- Solid position in a competitive market
  - Funds under management up 11% over prior year
  - Successful fund performance
- Launching new funds:
  - Westpac Essential Services Trust
  - Westpac Residential Property Trust
  - Westpac Diversified Property Fund
- Hastings accessing new markets through offices in UK and USA
- Strong pipeline of deals for 2007



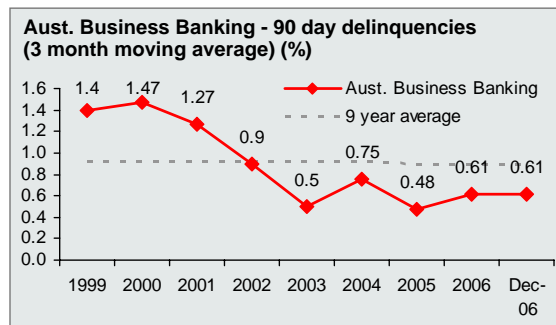
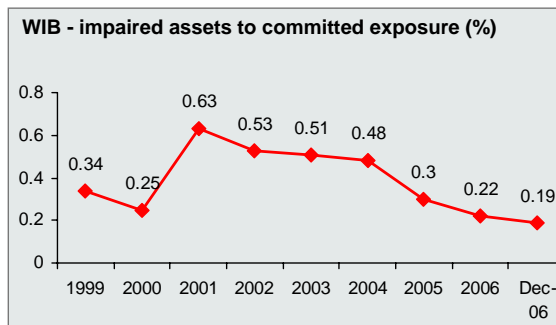
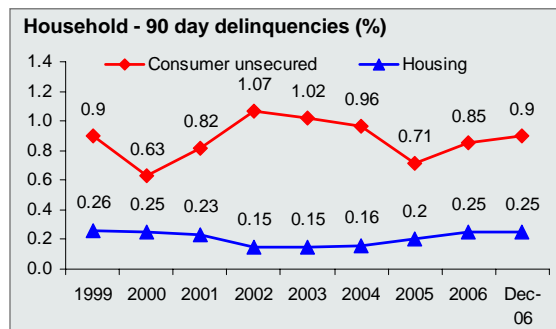
# Private Equity

- Core customers increasingly involved in private equity transactions. We underwrite debt for investee companies of private equity funds
- Westpac supports private equity transactions that are appropriately structured and bear acceptable risk
- Builds on our leading capital markets position
- Current residual holdings around \$1.7bn (representing <0.5% of Group total committed exposures). Average deal size \$50m.
- Westpac is alert to aggregate changes in leverage across private equity transactions but also levels of gearing generally
- Westpac monitoring risks as:
  - Recent higher debt multiples not yet fully tested; and
  - Trend toward lite covenants



# Forward credit indicators – modest upward trend

- Asset quality environment remains sound:
  - Consistent economic growth
  - Low unemployment
- Household delinquencies trending back to long-term norms
- No systemic portfolio issues



Source: Westpac





## Westpac is well positioned for growth

1	<b>Consumer distribution</b>	<ul style="list-style-type: none"><li>• Increases in sales force leveraging enhanced infrastructure</li><li>• Increasing footprint in selected geographic locations</li></ul>
2	<b>Business distribution</b>	<ul style="list-style-type: none"><li>• Pinnacle loan origination system providing a comparative advantage</li><li>• Increasing footprint and refurbishing and expanding existing centres</li></ul>
3	<b>Customer solutions (Wealth products)</b>	<ul style="list-style-type: none"><li>• Growing market share in key product areas</li><li>• Double digit market growth in funds under management and administration</li><li>• Leveraging off market leading Wrap and Corporate Super platforms and new superannuation changes</li></ul>
5	<b>Investment management</b>	<ul style="list-style-type: none"><li>• Strong market growth supported by top quartile fund performance over 3 years</li></ul>
6	<b>Payments</b>	<ul style="list-style-type: none"><li>• Sector leading institutional transaction banking platform</li><li>• Additional investment underway to capture further growth in business banking</li></ul>
7	<b>Specialised capital group</b>	<ul style="list-style-type: none"><li>• Unique capability for alternative asset and structured products among major banks, with significant experience base including with Hastings</li></ul>
8	<b>Life insurance</b>	<ul style="list-style-type: none"><li>• Strong product set but low cross sell relative to global best practice</li></ul>
9	<b>Advice</b>	<ul style="list-style-type: none"><li>• New advice (financial planning solutions) model beginning to deliver benefits</li><li>• Under represented across the broader Westpac customer base</li></ul>
10	<b>Equity (derivatives, broking)</b>	<ul style="list-style-type: none"><li>• Established business with solid earnings stream</li><li>• Options to build distribution through financial planners is underway</li></ul>
11	<b>Asia</b>	<ul style="list-style-type: none"><li>• Small business leveraging off Asian/Australasian capital/financial flows</li><li>• Increasing footprint and personnel to stimulate growth</li></ul>

Source: BU BSR submissions

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## Leadership transition

- **Board**
  - Chairman Leon Davis retiring March 2007
  - Chairman elect Ted Evans, Board member since 2001
- **Chief Executive Officer**, David Morgan, confirmed in 2006 his intention to retire as scheduled in December 2007. Succession process continuing.
- **Divisional Heads**
  - Brad Cooper CEO NZ elect, to commence in April 2007
  - Business and Consumer Banking Australia split:
    - Mike Pratt, Group Executive, Consumer Financial Services
    - Peter Hanlon, Group Executive, Business Financial Services

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## Financial sector short-term outlook

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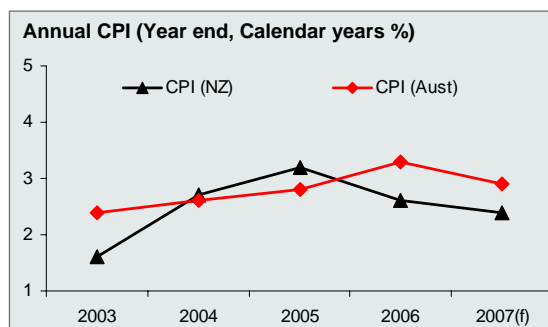
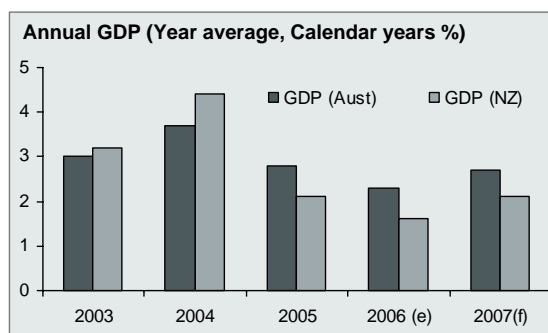
- Expect credit growth to moderate to more sustainable levels
- Ongoing competitive intensity, with rising demands around customer experience
- Bad debt environment trending modestly higher, but no signs of systemic stress
- Wealth management represents major growth opportunity
- Overall sector dynamics remain favourable

A graphic consisting of a dark grey rectangular box at the top containing the text 'Supplementary slides', and a larger red rectangular box below it.

Supplementary slides

## Economic environment sound

- Expansion continues in Australia, although drought a negative
- By contrast, a period of consolidation in New Zealand
- Global growth above par for last four years, likely to be solid for 2007
- Inflation relatively high, but risks receding as energy costs fall and wages remain contained
- Unemployment at 31 year low



Source: Westpac Economics

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## Australian and New Zealand economic outlook

Key economic indicators	Calendar year		
	2005	2006f	2007f
<b>World</b>			
GDP	4.9%	5.2%	4.6%
<b>Australia</b>			
Private consumption	3.0%	2.9%	3.1%
Business investment <sup>1</sup>	15.9%	8.5%	5.2%
GDP	2.8%	2.3%	2.7%
Unemployment – end period	5.2%	4.6%	4.8%
CPI headline - yr end	2.8%	3.3%	2.9%
Interest rates – cash rate	5.50% (Dec 05)	6.25% (Dec 06)	6.25% (Dec 07)
<b>New Zealand</b>			
GDP	2.1%	1.6%	2.1%
Unemployment – end period	3.6%	3.7%	3.5%
Consumer prices	3.2%	2.6%	2.4%
Interest rates – overnight cash rate	7.25% (Dec 05)	7.25% (Dec 06)	7.50% (Dec 07)

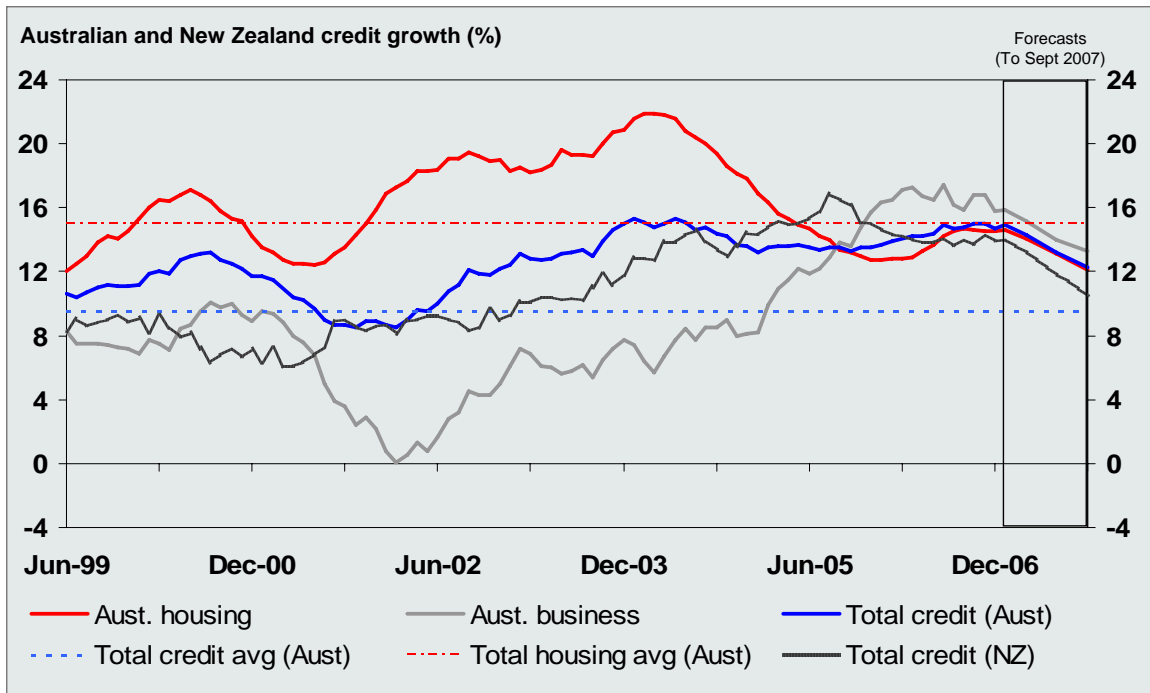
<sup>1</sup> Business investment adjusted to exclude the effect of private sector purchases of public assets. Source: Westpac Economics

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## Credit growth expected to edge lower



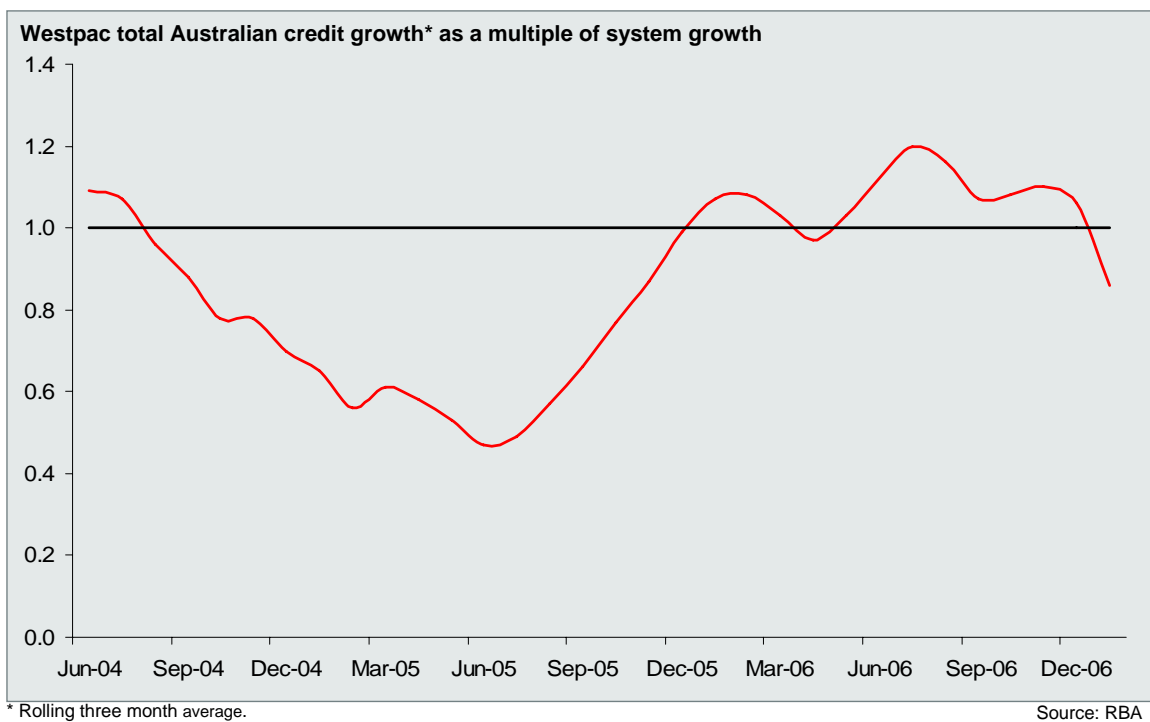
Source: RBA, RBNZ, Westpac

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## Improved momentum across the business



\* Rolling three month average.

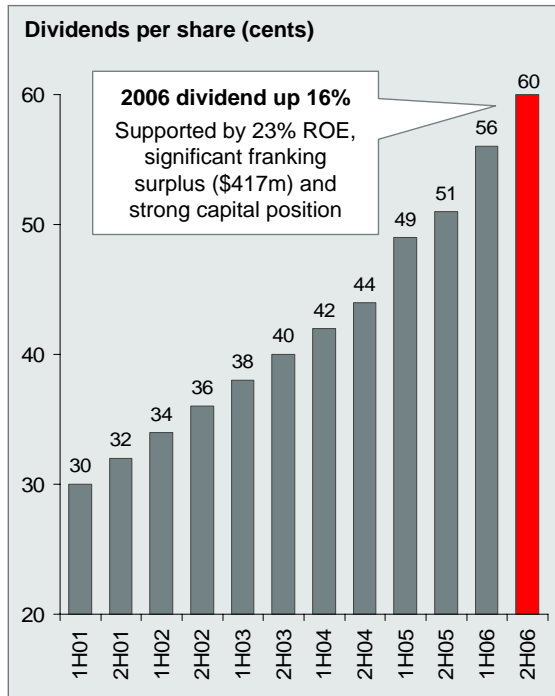
Source: RBA

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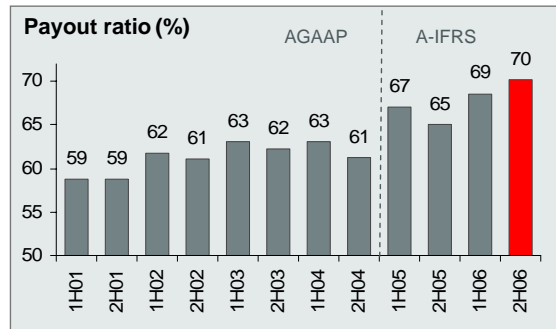


# Strong dividend growth – higher sustainable payout



**Dividend considerations**

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



Source: Westpac

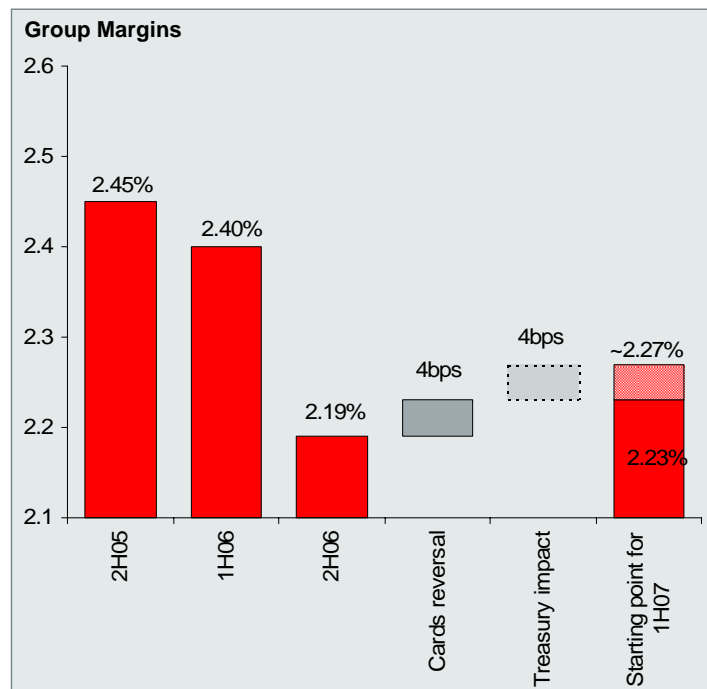
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# Starting point for 2007 margins

- One-off impacts on margins in 2006 provides a different starting point for 2007
- Starting point should be around 2.27% being the 2H06 margin (2.19%) adjusted for:
  - Cards impact 4bps
  - More normal Treasury performance (after soft 2H06) adding 4bps



Source: Westpac

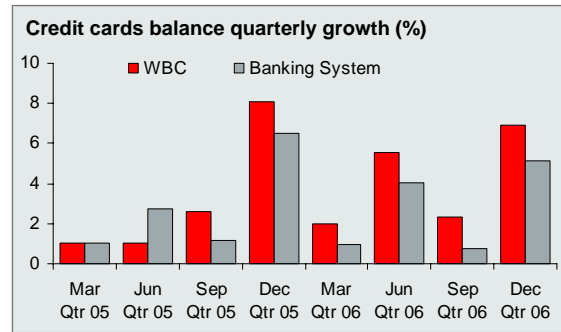
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## Cards portfolio continues to grow strongly

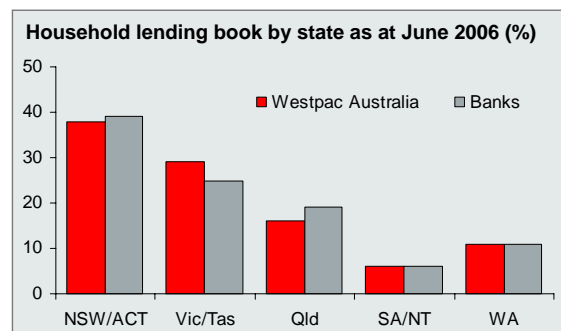
- Credit card portfolio up 7% in Q1, grown 18% in 12 months to Dec 06
- Above system growth driven by:
  - Launch of new products, complementing existing suite
  - Superior branch origination processes delivered by Reach via online applications
  - Improved analytics, enabling better leverage of existing customer base
  - Risk positioning remains sound
- Enhanced processes and increased capability in collections area



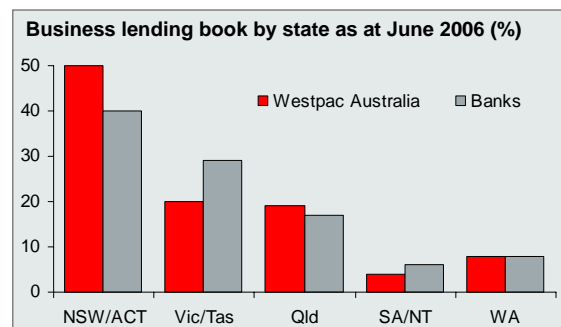
Source: APRA

## Geographically well diversified portfolio

- Household lending book is broadly in line with the market in NSW
- BCB's business lending in NSW/ACT is closer to market, at approximately 36%
- At a Group level, business credit is above market in NSW/ACT, given WIB exposures
- Importantly, at an aggregate level we are not underweight in WA and QLD

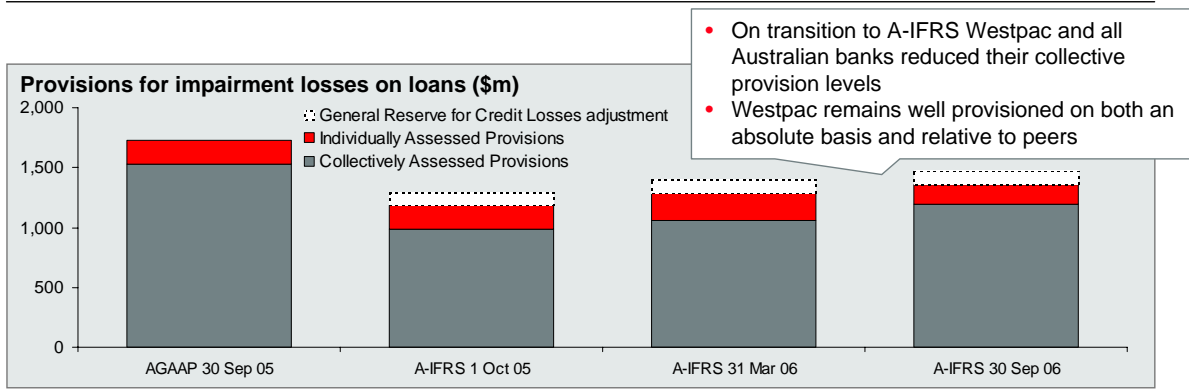


Source: ABA/Cannex data



Source: ABA/Cannex data

# Well provisioned under A-IFRS



- On transition to A-IFRS Westpac and all Australian banks reduced their collective provision levels
- Westpac remains well provisioned on both an absolute basis and relative to peers

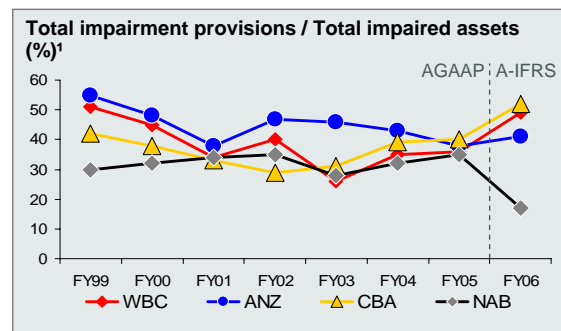
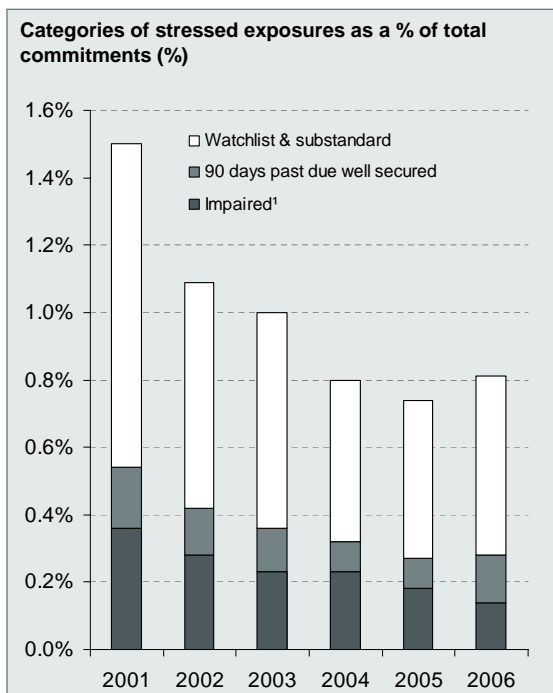
Source: Westpac

A-IFRS FY06	
Total provisions <sup>1</sup> to RWA (%)	0.76
Collective provisions for drawn and undrawn exposures <sup>1</sup> to RWA (%)	0.68
Total provisions <sup>1</sup> to GLAA (%)	0.63
Collective provisions <sup>1</sup> to GLAA (%)	0.56
Collective provisions <sup>1</sup> to non-housing GLAA (%)	1.13
Total provision coverage of impairment losses on loans written off (annualised, 3 year average)	4.80

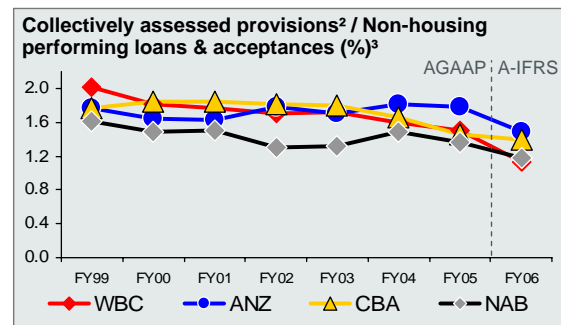
1. Includes General Reserve for Credit Losses (GRCL) adjustment (pre-tax) above A-IFRS provisioning levels (\$117m)



# Credit quality



• 2H 06 coverage ratio is 1.5x.



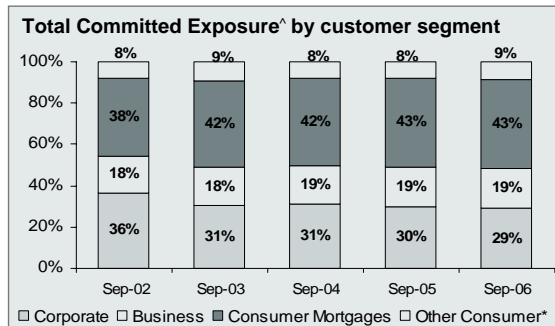
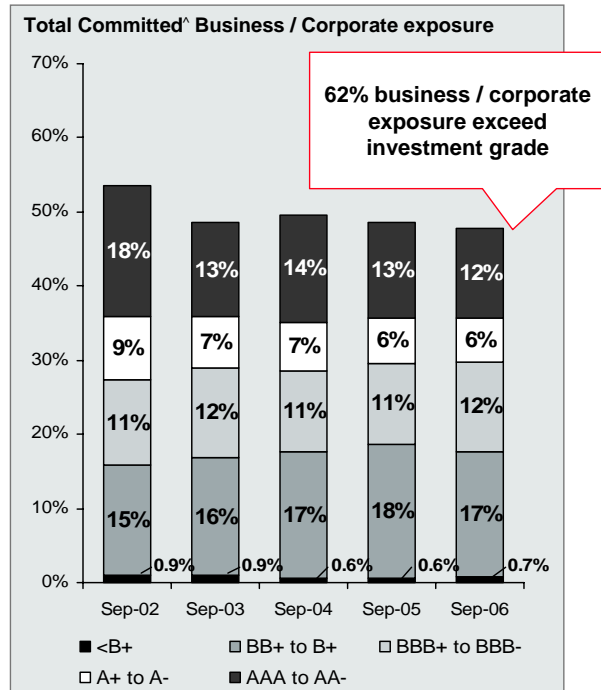
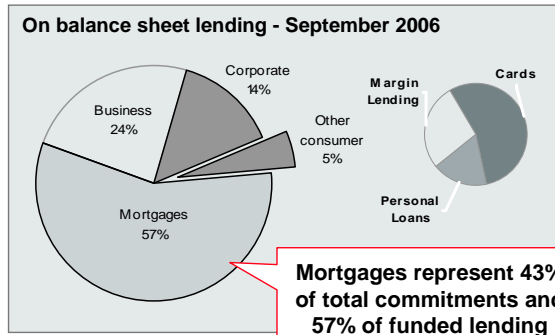
1. Westpac's impaired assets for Sep 05 have been restated to reflect APRA's prudential approach to the adoption of A-IFRS by ADI's, which came into effect 1 July 06. Total impaired assets for Sep 05 includes \$72m of consumer accounts > 90 days past due but not well secured. Prior to 2006, impaired provisions equals specific provisions.

2. Includes General Reserve for Credit Losses (GRCL) adjustment (pre-tax) above A-IFRS provisioning levels. WBC \$117m, CBA \$500m, ANZ nil and NAB \$193m.

3. Prior to 2006 : General provisions / Non-housing performing loans & acceptances



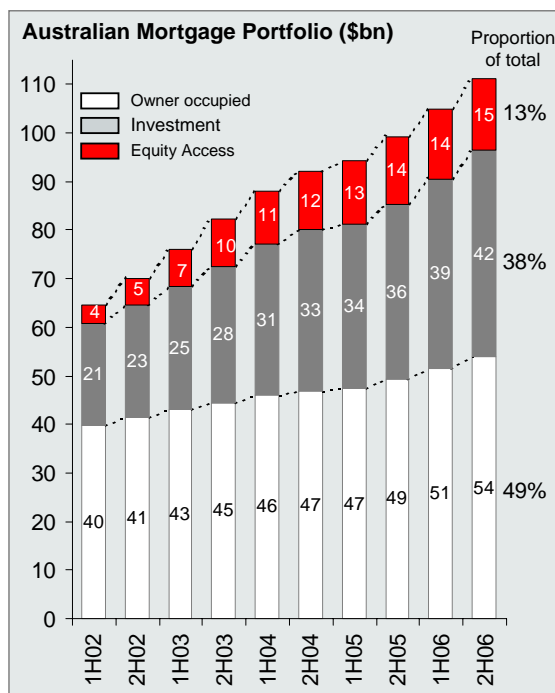
# Composition of portfolio



<sup>^</sup>Total committed exposures include outstanding facilities and un-drawn commitments that may give rise to lending risk or pre-settlement risk  
<sup>\*</sup>Other consumer includes credit cards, personal lending and margin lending



# Australian mortgage portfolio



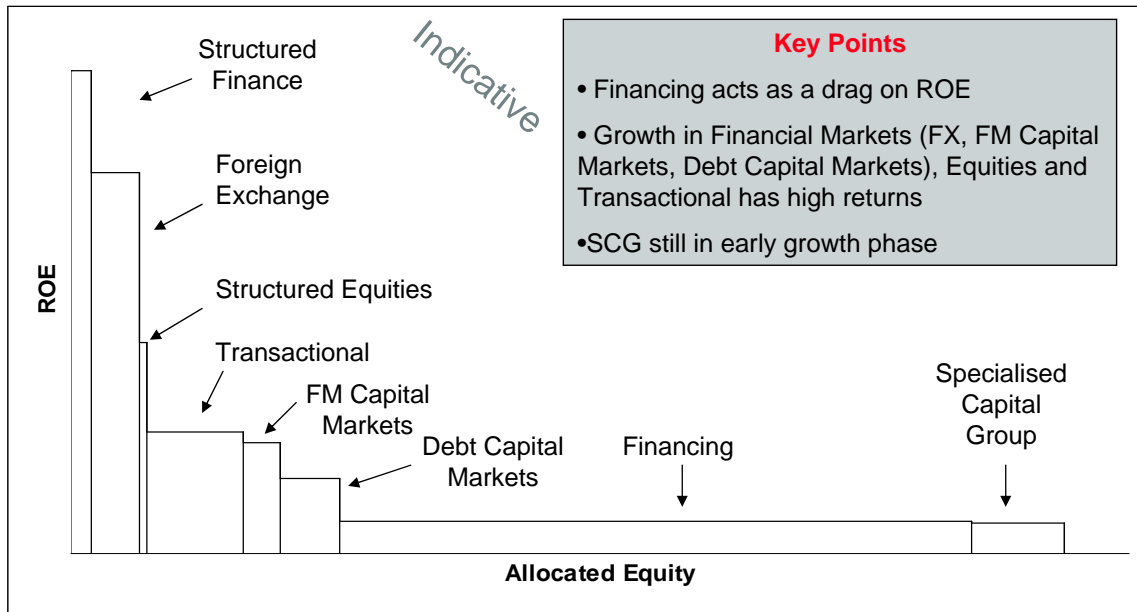
Total Portfolio – as at 30 September 2006		
Average LVR of portfolio <sup>1</sup>		68%
Average LVR of new loans		70%
Low Doc Portfolio – as at 30 September 2006		
	\$m	% of portfolio
Total portfolio	\$2,853	<3%
Avg new lending per month	\$184	<9%
Low Doc Lending		
<ul style="list-style-type: none"> <li>Primary applicant must have been self employed for minimum of 2 years</li> <li>Maximum loan-to-value ratio of 82%, mortgage insurance required where LVR &gt;60%</li> <li>Security restrictions on property size, type and location (e.g. CBD postcodes not acceptable)</li> <li>All loans require an internal inspection</li> <li>All standard credit policies (credit score, bureau, credit history, serviceability etc) are applied.</li> </ul>		

1. Based on valuation at drawdown





## WIB portfolio – ROE vs allocated equity



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## BT – key performance indicators

Key performance indicators	Dec 06	% Change Q4 06 to Q1 07
Total FUM	\$41bn ↑	6
Total FUA	\$44bn ↑	9
Margin lending LUM	\$4bn ↑	5
Life in-force premiums	\$258m ↑	2
GI gross premium revenue	\$69m ↑	13*

Note: \* % increase on same period last year

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## BT - researcher support for performance

- Continued researcher upgrades and new ratings for Aussie Equities since Oct 06
- Strong researcher support for international equities post AQR appointment

International Equities			
Rater	Rating	Change	Date
van Eyk	A	Previously not rated	Apr 06
S&P	4 Stars	Upgraded from Hold	Jun 06
Zenith	Highly Recommended	New Rating	Jun 06

Aussie Equities upgrades and new ratings since Oct 06			
Fund	Rating	Change	Rater
Core	5 Stars	Upgrade	S&P
Imputation	4 Stars	Upgrade	S&P
	BUY	New Rating	IWL
Focus	A	Upgrade	van Eyk
	5 Stars	New Rating	S&P
	BUY	New Rating	IWL
Ethical	4 Stars	Upgrade	S&P
	BUY	New Rating	IWL

- S&P's most recent sector review saw BT awarded the only 5 Star rating in its Enhanced Cash categories (Feb 07)

## BT - sustained investment performance over three years

	Performance and Quartile Ranking as at Dec 2006					
	1 yr (%)	Quartile	2 yrs (% pa)	Quartile	3 yrs (% pa)	Quartile
Core Australian Share Fund	25	2	26	1	27	1
Ethical Share Fund	30	1	30	1	31	1
Imputation Fund*	31	1	30	1	31	1
Smaller Companies Fund	36	2	31	1	36	1
Balanced	18	2	18	2	18	1
Domestic Fixed Interest	4	1	5	3	5	4
International Equities	15	1	16	2	14	2
Australian Property	34	3	22	4	25	4
Global Property	43	N/A	31	N/A	30	N/A

Source: Intech, \*Mercer

## BT - insurance businesses - great potential

- Continued momentum in insurance business
- Benefiting from cross-sell initiatives across the group
- Life sales up 32% on same period last year
- Life Direct accounts for approximately 1/3 of Life Insurance Sales
- In Q1, Life Direct increased new premiums by 73% and new policy numbers by 61% on same period in the previous year

Sales	Q1 06/07	% change on same period last year
General Insurance sales (volume)	60,861	7%
Life insurance (dollars)	\$12.8m	32%

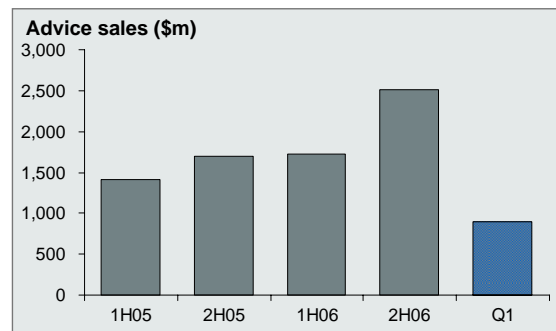
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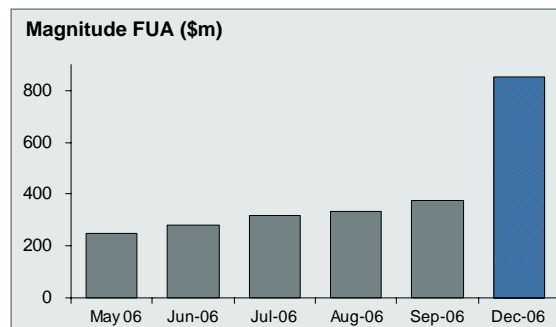


## BT - advice business showing improving results

- Improving turnover. Planner numbers increased 8% year on year
- Well placed to take advantage of superannuation opportunity
- Magnitude wealth advice channel:
  - 9 new representatives and 3 new practices on board since October 2006
  - 3 more practices to transition in Q2 2007



Source: BT



Source: BT

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## Disclaimer

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