

# Westpac Banking Corporation

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**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 the 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 27 March 2007       | A\$49 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, low-risk strategy – tilted towards growth

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## Focused on core markets

- Focus on Australia, New Zealand and the near Pacific
- Given crowded heartland, innovating to support: strengthened distribution; deep segmentation; end-to-end process efficiency
- Disciplined acquisition strategy

## Oriented to growth

- Leveraging sector leading platform investment – Reach, Pinnacle, Wrap, Corporate Online, Corporate super
- Focused growth portfolio – particularly via investments in superannuation
- Expanding distribution footprint

## Disciplined & low risk

- Cash earnings CAGR of 11% over last 8 years, ROE above 20% for last 8 years
- Franchise and infrastructure investment without compromising earnings growth
- Intensive performance management around a disaggregated portfolio of businesses
- Low risk profile with sound provisioning

## Sustainability led

- For employees – a great place to work
- For customers – an institution customers want to do business with
- For shareholders – an institution investors want to invest in

## Strong franchise – significant growth opportunity

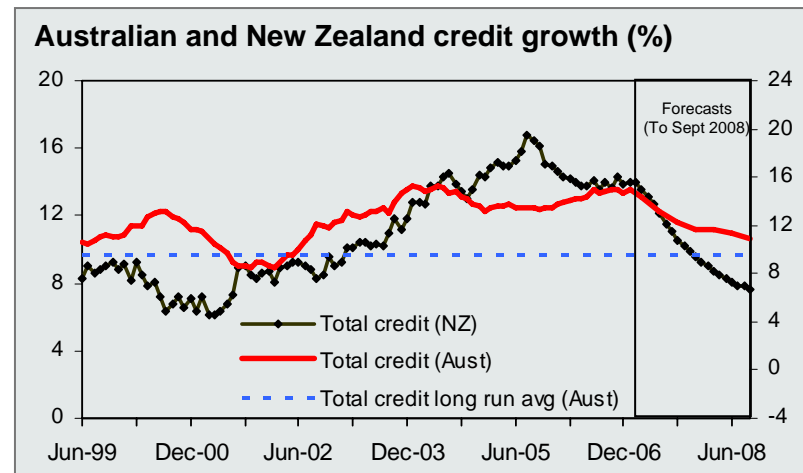
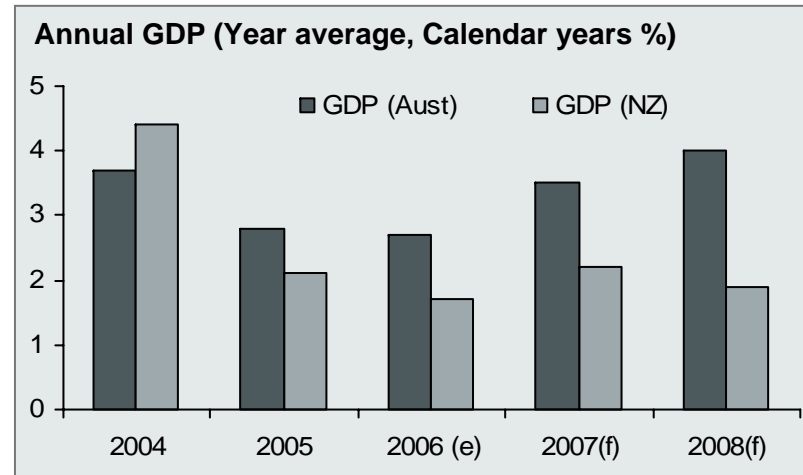
| Business Units                           | Approximate Revenue Contribution by Portfolio |                                 | Indicative Medium Term Revenue Growth |
|--|---|---------------------------------|---------------------------------------|
| <b>BT Financial Group</b>                | 10%   | Funds Management & Distribution | 13% – 15%                             |
|  | 3%  | Insurance                       | 12% – 14%                             |
| <b>Business Financial Services</b>       | 17%   | Business Banking                | 10% – 11%                             |
|  | 5%  | Payments                        | 8% – 9%                               |
| <b>Consumer Financial Services</b>       | 7%  | Unsecured Lending               | 9% – 10%                              |
|  | 28%   | Consumer Banking                | 6% – 8%                               |
| <b>Institutional Banking</b>             | 16%   | Institutional Bank              | 7% – 9%                               |
| <b>New Zealand &amp; Pacific Banking</b> | 14%   | NZ & Pacific                    | 5% – 6%                               |

# Strong franchise – significant growth opportunity

| Business Units                           | Areas of Opportunity |   |
|--|----------------------|---|
| <b>BT Financial Group</b>                | Wealth management    | <ul style="list-style-type: none"> <li>• Capture growth with leading Wrap and Corporate Super platforms</li> <li>• Further build suite of investment products (Specialised Capital and Structured Equities)</li> </ul>  |
|  | Insurance            | <ul style="list-style-type: none"> <li>• Improving cross-sell and expanding distribution</li> </ul>   |
| <b>Business Financial Services</b>       | Business Banking     | <ul style="list-style-type: none"> <li>• Focus growth on WA &amp; Qld</li> <li>• Increasing footprint with more frontline personnel, and refurbishing and expanding existing centres</li> <li>• Pinnacle (loan origination system) providing a comparative advantage</li> </ul> |
|  | Payments             | <ul style="list-style-type: none"> <li>• Leverage sector leading online corporate payments capability</li> </ul>  |
| <b>Consumer Financial Services</b>       | Unsecured Lending    | <ul style="list-style-type: none"> <li>• Investment in analytics and collections capability</li> <li>• Product innovation</li> </ul>  |
|  | Consumer Banking     | <ul style="list-style-type: none"> <li>• More feet on the street and increasing geographic footprint</li> <li>• Enhanced sales productivity and skills with CRM</li> </ul>  |
| <b>Institutional Bank</b>                | Institutional Bank   | <ul style="list-style-type: none"> <li>• Capitalise on leading position and leverage into capital markets</li> <li>• Asia – increasing footprint to leverage financial flows</li> </ul>   |
| <b>New Zealand &amp; Pacific Banking</b> | NZ & Pacific         | <ul style="list-style-type: none"> <li>• Drive efficiency</li> </ul>  |

# Supported by sound economic environment

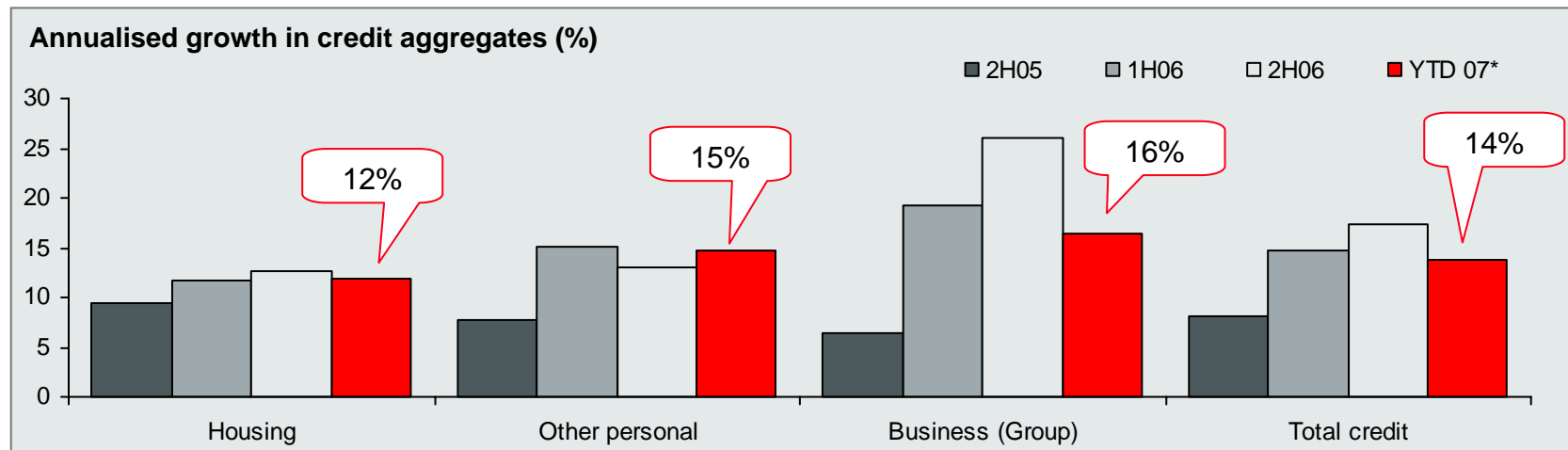
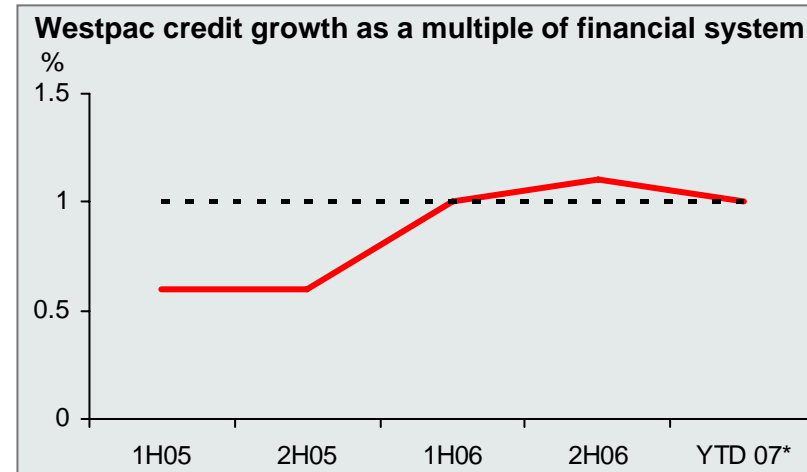
- Expansion continues in Australia, despite impact from drought
- By contrast, a period of slower growth and consolidation in New Zealand
- Continuing solid global growth
- In Australia:
  - Inflation trending modestly higher, but under control
  - Unemployment at 31 year low
  - Double-digit credit growth to continue



Source: RBA, RBNZ, Westpac Economics

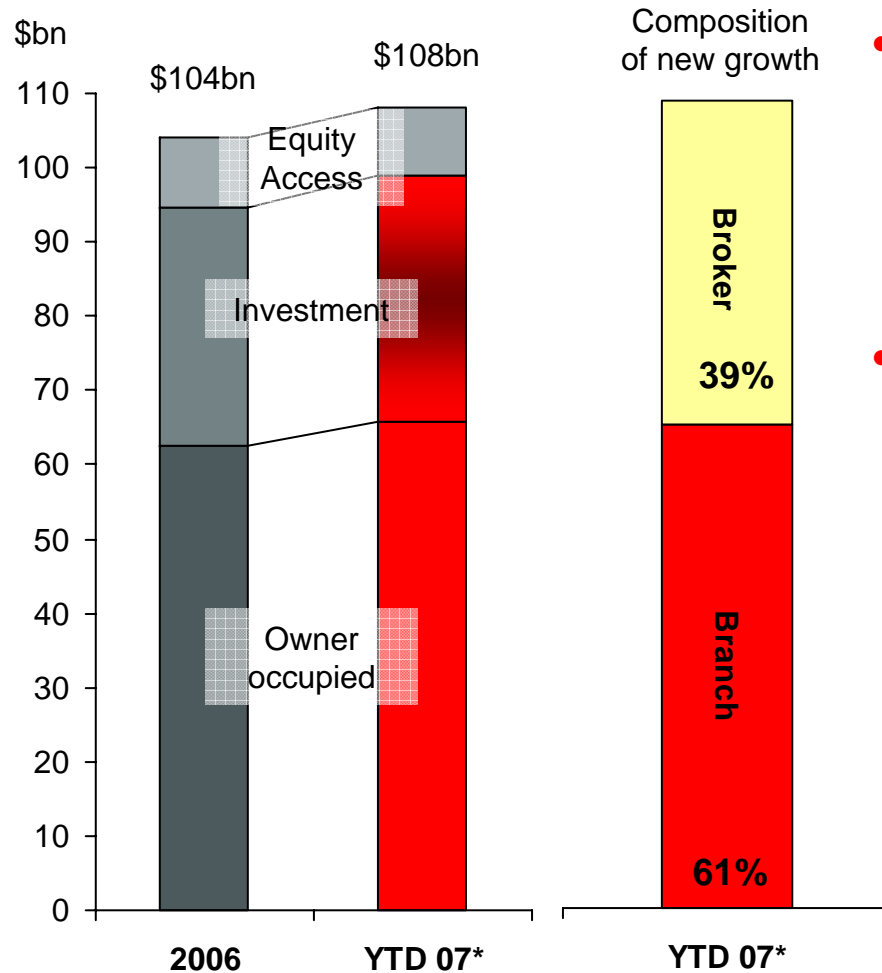
# 2007 off to a solid start

- Growth in line with system in first four months of year (Oct 06 – Jan 07\*):
- Robust growth across all product sets
- Double digit wealth growth continues



\*YTD to 31 Jan, growth annualised; Charts source: APRA, Westpac

# Mortgages – solid growth across all channels

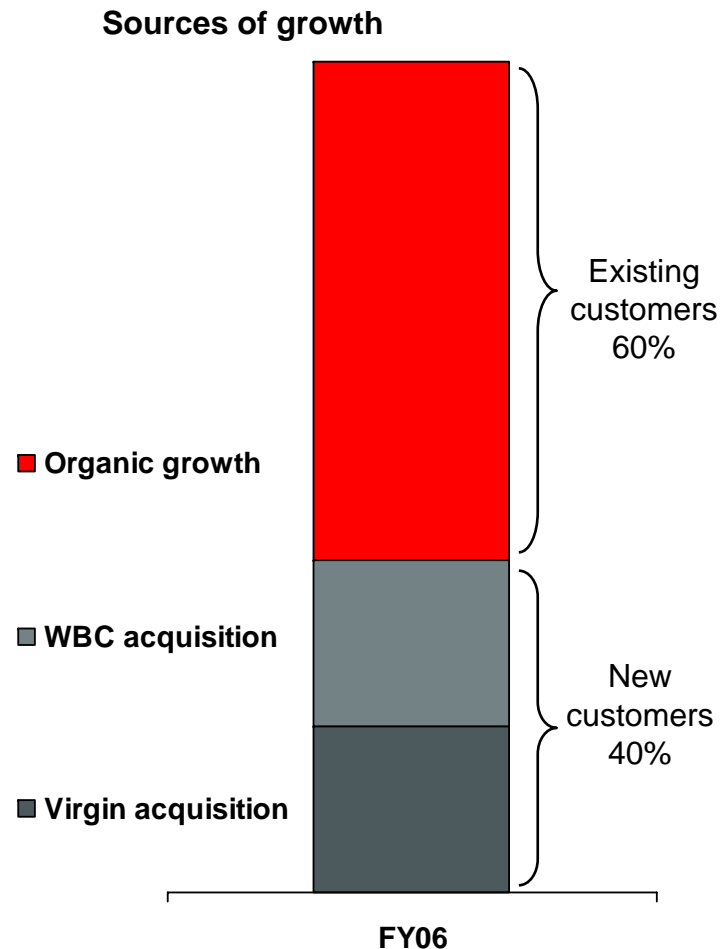


- Australian outstandings up 12% (annualised 4 months to 31 Jan 07)
  - 0.9 times financial system
  - 1.1 times banking system
- Proportion of loans via Westpac channels strong at just above 60%, supported by:
  - People and Westpac Way sales processes
  - Reach- customer relationship management
  - Sector leading housing products, with packages delivering 80% of growth
  - Improved retention

\*YTD to 31 Jan, growth annualised; Chart source: APRA, Westpac



# Cards – solid growth from existing customers



## Existing customer growth – 60%

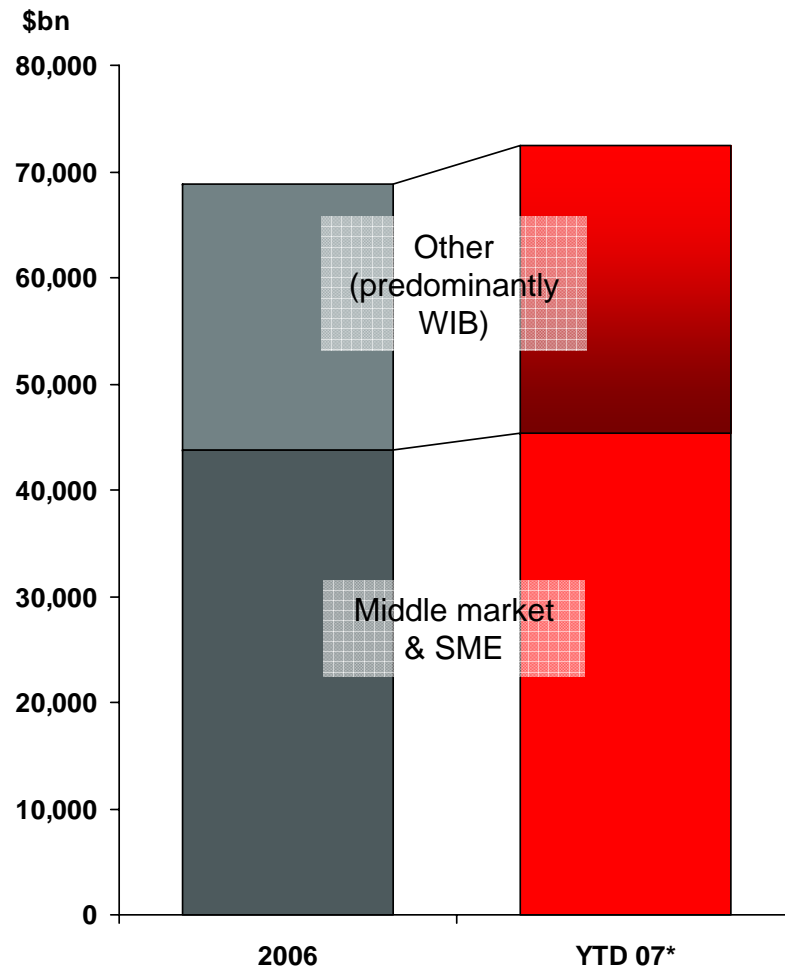
- Utilising improved analytics to generate increased business from established customers
- 50% increase in branch and telephone origination

## New customer growth – 40%

- Most new growth in lower margin products
- Increased new customers from partners Virgin and Qantas
- Improved branch origination supported by online applications

Chart source: Westpac

# Business growth



- Strong growth in Australian business lending in four months to 31 January 2007, up 16% (annualised):
- Business Financial Services up 12% since 30 September 2006 (annualised)
  - Pinnacle embedded with 80% of deals automatically assessed
  - Lending through third party referrers increased ~11% of new lending
  - Driving productivity from new business bankers added in 2006
- Other (predominantly WIB) up 25% YTD (annualised)
  - Strong institutional demand
  - Supported by leading debt capital market position

\*YTD to 31 Jan, growth annualised; Chart source: APRA, Westpac

## BT – increasing share in a fast growing market

|                 | Current Australian market share |      | Current share of new business |      |
|-----------------|---------------------------------|------|-------------------------------|------|
| Product         | Market share (%)                | Rank | Market share (%)              | Rank |
| Retail          | 11                              | 4    | 14                            | 2    |
| Corporate Super | 7                               | 5    | 10                            | 5    |
| Platforms       | 12                              | 2    | 21                            | 1    |
| Margin Lending  | 15                              | 3    | 10                            | 4    |
| Wholesale       | 3                               | 13   | 23                            | 3    |
| Life Insurance  | 6                               | 8    | 6                             | 7    |

**Source:** Retail – S&P Dec 2006; Corporate Super – DEXA Dec 2006; Platforms – S&P Dec 2006; Margin Lending – RBA Quarterly Statistics Dec 2006, ranking data for margin lending is based on an internally generated estimate; Wholesale – S&P Dec 2006; Life insurance – Plan for Life data Dec 2006.

# Growth without compromising risk and return

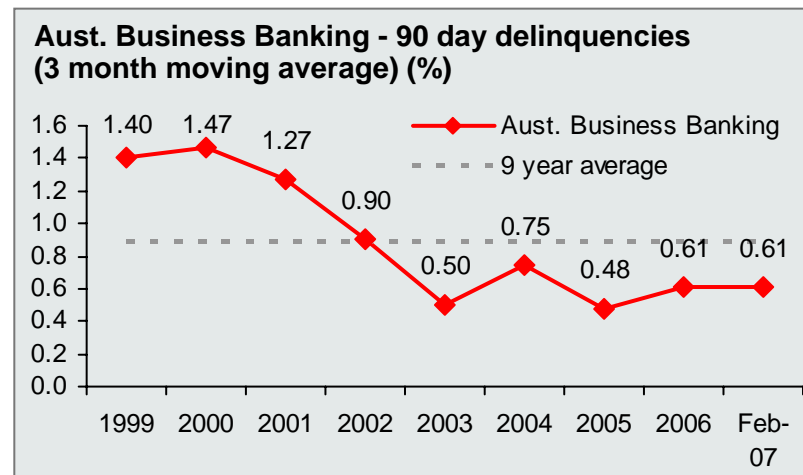
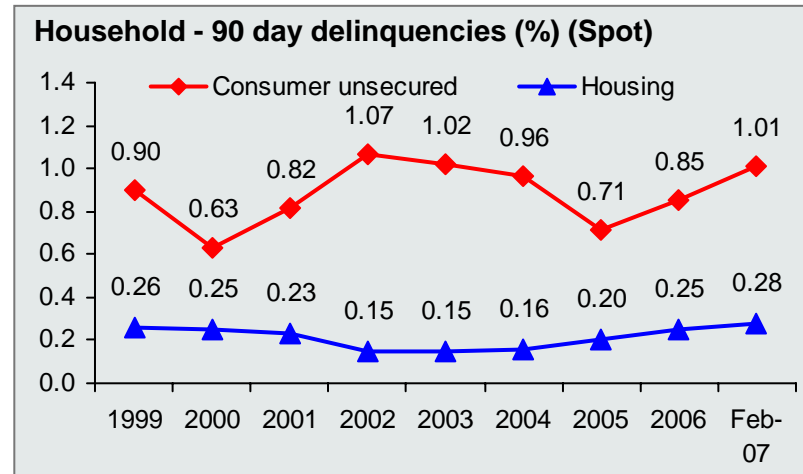
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Strong asset growth is impacting outcomes across other performance metrics

| Margins   | Impairment losses   | Capital  |
|---|---|--|
| <p>Decline likely to be at top end of 5-10 bps expectations given:</p> <ul style="list-style-type: none"><li>- Strong growth driving bigger front book impact</li><li>- Increased wholesale funding task</li><li>- Relatively high growth in low margin institutional lending</li></ul> | <p>Rising, consistent with growth, asset mix and delinquency trends:</p> <ul style="list-style-type: none"><li>- Strong growth in credit cards</li><li>- Delinquencies trending higher from low base</li><li>- Overall growth will be ahead of lending growth</li></ul> | <p>Increased capital demand in line with higher risk weighted asset growth, reflecting:</p> <ul style="list-style-type: none"><li>- Strong business and Corporate lending</li><li>- Lower relative mortgage growth</li></ul> |

# Forward credit indicators – modest upward trend

- Asset quality environment remains sound:
  - Consistent economic growth
  - Low unemployment
- Modest increase in risk in NZ and the Pacific Islands
- Household delinquencies trending higher but below industry experience
  - Some seasonal pick-up in recent months
- No systemic portfolio issues



Source: Westpac



# Key challenges

## New Zealand

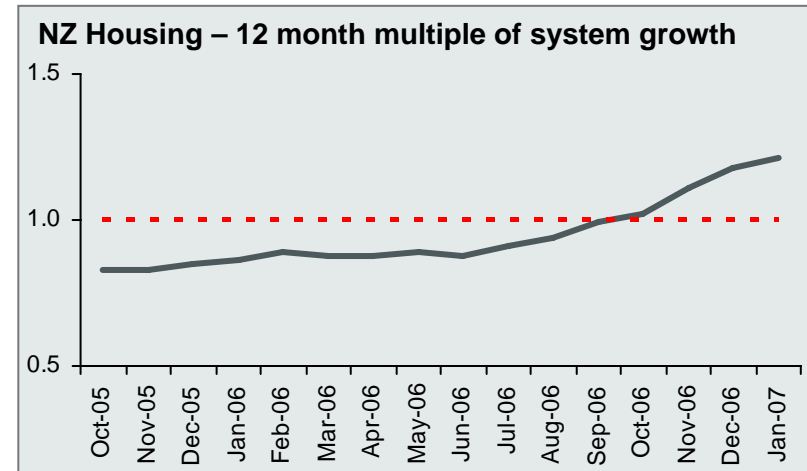
- Early signs of franchise turnaround
- Higher impairment losses offsetting underlying performance improvements

## Competition

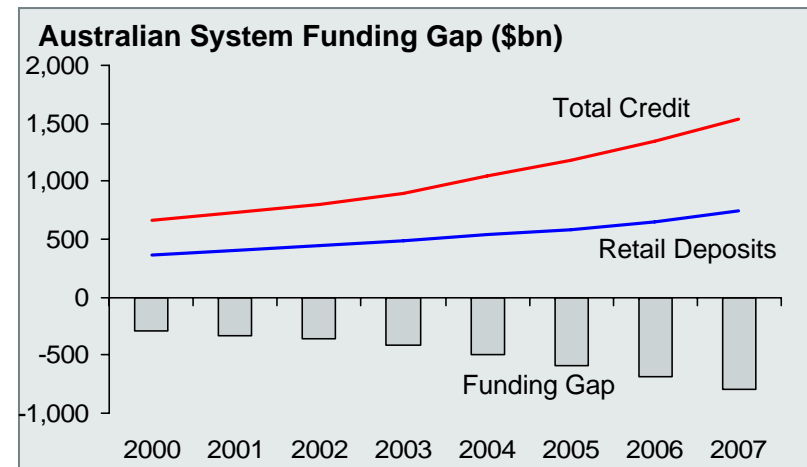
- Tough competition from new and existing players continues

## Funding

- Structural shift to high interest deposit accounts continues
- High asset growth requiring increased wholesale funding



Source: Westpac



Source: RBA

# Key opportunities

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## **Wealth management – continuing to grow our share profitably**

- Capture growth in superannuation with leading Wrap and Corporate Super platforms
- Positioning investment to capitalise on changes to super regime
- Improved cross sell from strong insurance product set
- Expand the size and productivity of advice network

## **Business Financial Services – capitalising on our comparative advantage**

- Increased footprint with expanded frontline personnel
- Sector leading online corporate payments capability
- Improving process and speed of decisioning via Pinnacle loan origination platform

## **Niche growth opportunities – building on our strengths**

- Specialised Capital Group – tapping infrastructure funds opportunity
- Equities – new business unit combining broking and structured equity products
- Asia – increasing footprint and personnel to capture regional flows

# Summary

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- Environment remains positive
- Solid start to 2007, with robust lending growth
- Credit quality remains sound, although delinquencies and impairment losses trending up from historic lows
- Established portfolio of growth opportunities supports positive outlook



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