



Australia's First Bank

# Consumer Financial Services

Mike Pratt, Group Executive

30 July 2007

Setting Us Apart...

The Integrated Sales through Service Operating Model

Setting us apart: Integrated Sales through Service Operating Model

Brand

Distribution disciplines

Platforms

Risk management

People and culture

# Our report card – update from July 2006

- A year ago we said we would fix customer satisfaction ... we have!
- We have also built on the positives of last year
- **Today ... we will** present you a picture of a business with strong momentum

**Our report card - delivering on our commitments** Analyst briefing, 31<sup>st</sup> July 2006

**Investing in Business Banking**

- ☑ Recruit additional relationship managers
- ☑ Address Pinnacle issues for SME
- ☑ Roll out Pinnacle to Middle Markets

**Restoring Growth in Consumer Banking**

- ☑ Restore profitable mortgage growth
- ☑ Address sales productivity
- ☑ Actively manage deposit growth and spreads
- ☑ Improve customer satisfaction

**Business & Consumer Banking**

- ☑ Fully implement Reach and Westpac Way

2 2006 Market Update **Westpac**

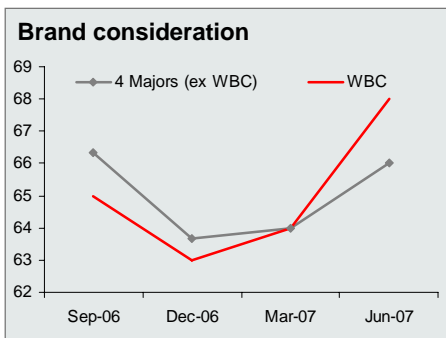


## Key drivers have lifted customer satisfaction

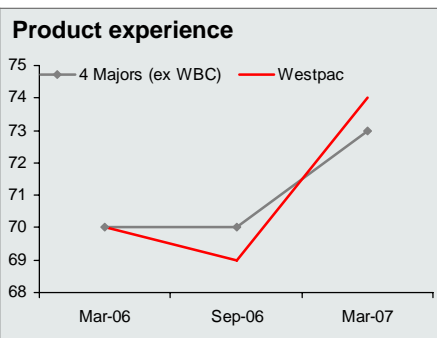
**Brand position:**  
Strong sustainability message

**Product experience:**  
Competitively positioned

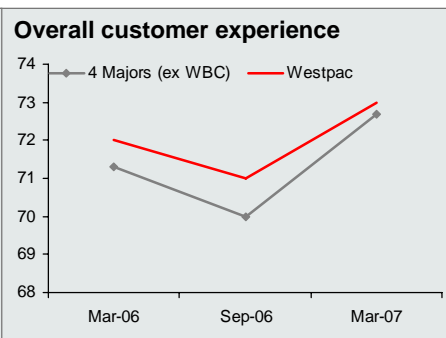
**Customer experience:**  
Consistent across channels



Source: Australia Market Research (AMR)  
New campaign commenced in October quarter 2006



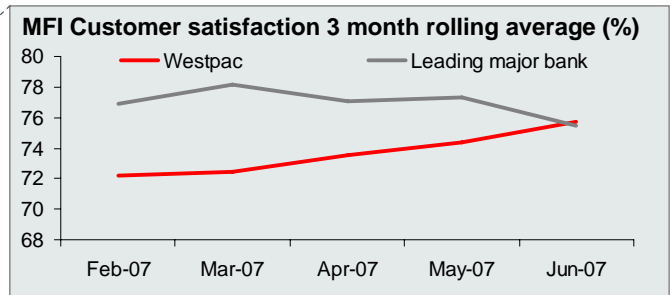
Source: Australia Market Research (AMR)  
Product experience scores based on survey data available in six month waves for periods to March and September



Source: Australia Market Research (AMR)



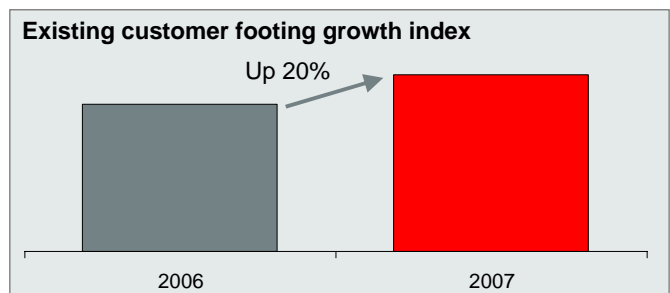
## Customer satisfaction gap to leading major is closing



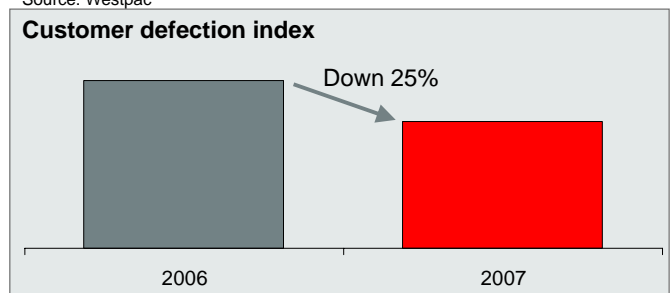
Source: Roy Morgan Research – % of customers very/fairly satisfied with their main financial institution (MFI) that are aged 14+

## Higher customer satisfaction is delivering tangible value

- Improving satisfaction has lead to:
  - Existing customers doing more with us
  - A reduction in defection
  - Built strong word of mouth reputation in the market
- Changes in satisfaction have added around 2% to incremental growth

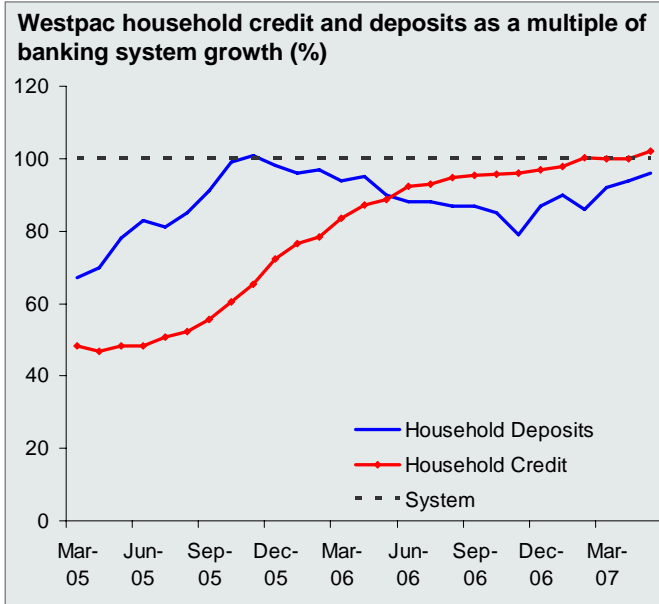


Source: Westpac

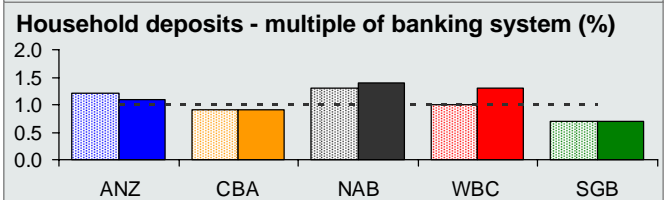
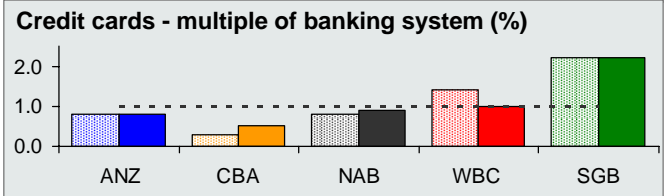
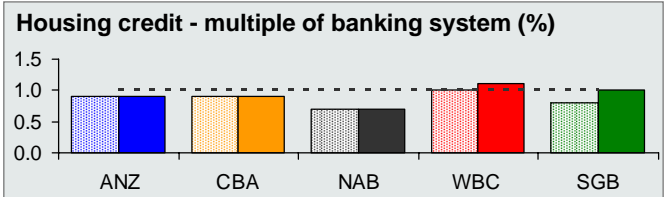


Source: Westpac

# Volume growth is strong – best of peers



Source: RBA; APRA Latest is 12 months to May 2007



Legend: Last 12 months to May 07 (light red), Last 6 months to May 07 (dark red), System (dashed line)

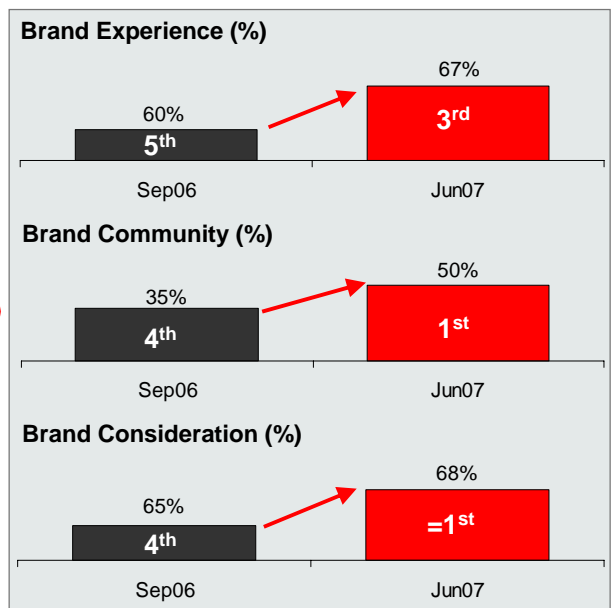
Source: APRA



# Brand in a strong position

Phase 1

Phase 2



Source: Australia Market Research (AMR); ranking compared to major banks plus St George



## Distribution disciplines – all about managing the detail

<b>Westpac Way</b>	Disciplined framework to monitor, coach and improve sales effectiveness
<b>Quality Needs-Based Conversations</b>	Toolkit to identify and capture customer needs in order to generate future opportunities
<b>Pipeline Management and Driver Tree Analytics</b>	Systems and processes enabling the micro-monitoring and management of the sales pipeline

## Sector leading platforms boosting productivity

<b>Relationship Builder</b>	Integrated technology platform to support customer sales through service
<b>Team Builder</b>	Branch resource efficiency tool to optimise resource allocation to match our customer needs and desired service levels
<b>Personal lending origination</b>	An instant decisioning tool for unsecured finance products

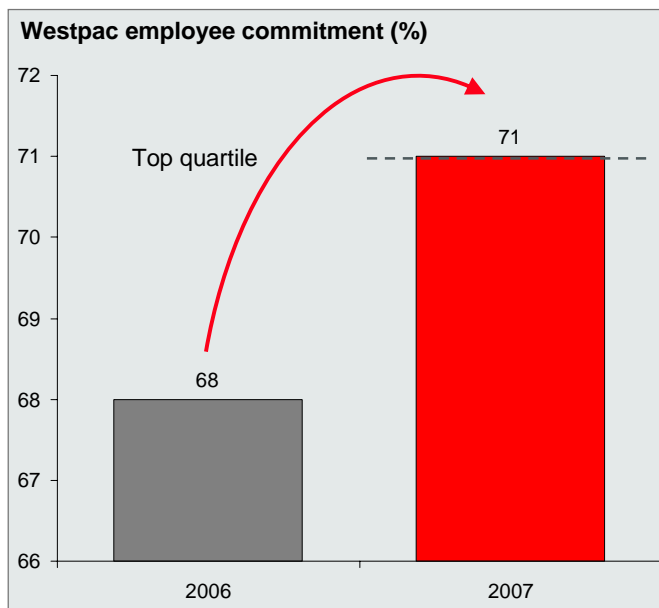
# Risk management investments align to growth strategy

- Credit cycle consistent with economic environment and our experience
- Active management of risk / reward trade-off:
  - Leveraging Basel II investment
  - Significant increase in risk analytics
- Collections capability and capacity

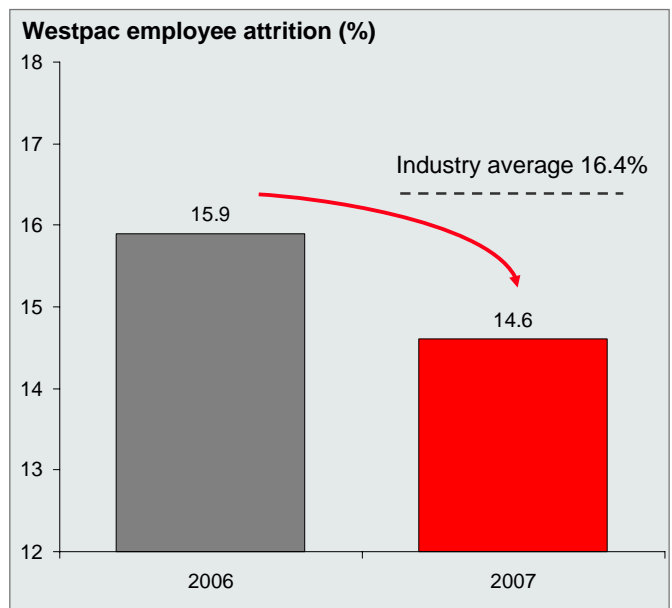
Completed risk related investments	Cost
Originations platform and decision engines	\$10m
Collections capability	\$8m
Credit models	\$3m
Customer decisions not 'Product' decisions	\$3m
<b>Total risk investment</b>	<b>\$24m</b>



# Top quartile employee commitment and retention



Source: Westpac; ISR Large Australian Company Norms



Source: Westpac; Mercer-Financial Industry Resignation Benchmark



## Our strategy has three key areas of focus

<b>Distribution</b>	<ul style="list-style-type: none"> <li>• Introduce new distribution model in target markets</li> <li>• Selectively expand our footprint in pockets of high growth</li> <li>• Enhance multi-channel capabilities</li> </ul>
<b>Platform and workflow management</b>	<ul style="list-style-type: none"> <li>• Further leverage platforms</li> <li>• Continue support for process and workflow investments</li> </ul>
<b>Infrastructure and efficiency</b>	<ul style="list-style-type: none"> <li>• Improve straight through processing</li> <li>• Continue to monitor and refine our risk management practices</li> <li>• Mortgage process re-engineering</li> </ul>

## A leadership team with diverse backgrounds and experience

### Group Executive – Consumer Financial Services

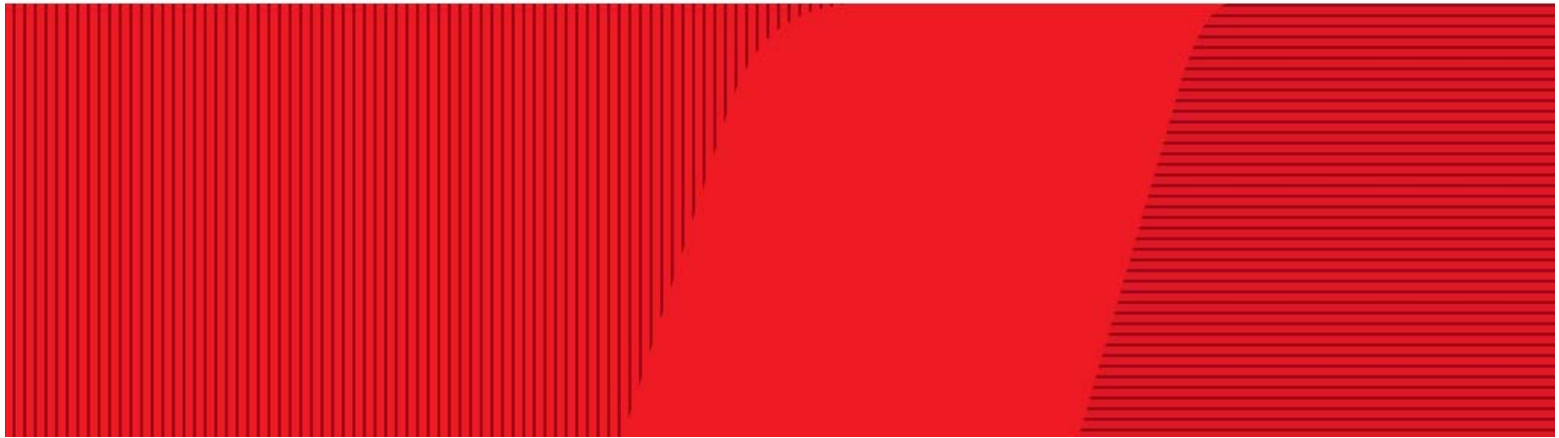
Mike Pratt

Business Portfolios		Support Functions		
<b>Distribution</b> Jeremy Dean	<b>Product</b> James Galloway	<b>Marketing</b> Susan Nixon	<b>CFO</b> John Frechtling	<b>Risk</b> David Malcolm
<b>Consumer Fin &amp; Direct Dist'n</b> Pradeep Roy*	<b>Product &amp; Channel Transformation</b> Rob Craig	<b>Strategy, People &amp; Performance</b> Dharma Chandran	<b>CIO</b> Patrick Eltridge	

\* Commences 1 September 2007

# Consumer Distribution

Jeremy Dean, General Manager



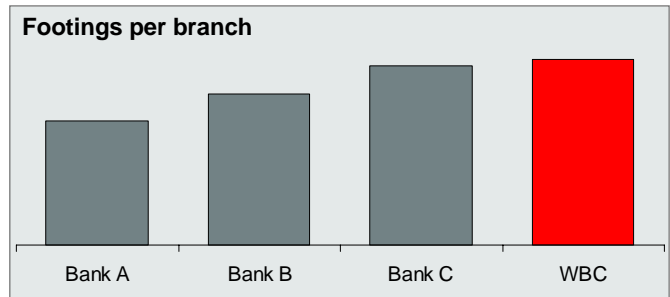
## Building on our solid distribution platform

<b>Solid distribution franchise</b>	<ul style="list-style-type: none"><li>• Sound network although under-represented in certain locations</li><li>• Strategy has focussed on:<ul style="list-style-type: none"><li>- Productivity and efficiency</li><li>- Improving consistency across channels</li><li>- Selective increase in presence</li></ul></li></ul>
<b>Excellent infrastructure &amp; processes</b>	<ul style="list-style-type: none"><li>• Leading sales / service management systems &amp; processes</li></ul>

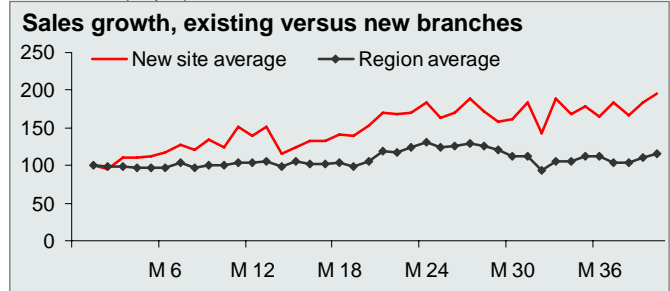


## Developed a more efficient distribution platform

- Most efficient branch network of majors
- Strong productivity of new branches
- Branch network continued to evolve
  - 9 more branches, 15 refurbished
  - Introduced enhanced branch format
- Reconfigured ATMs - 283 installed and replaced
- Led the market in extended trading hours



Source: Company reports



Source: Westpac

## Team builder – efficiency and customer experience

### The Tool

- Online resource management tool
- Balances cost to serve with desired customer experience

System inputs	
Activities	Capabilities
<ul style="list-style-type: none"> <li>• Duration</li> <li>• Volume</li> </ul>	<ul style="list-style-type: none"> <li>• Skill</li> <li>• Availability</li> <li>• Utilisation</li> </ul>

- Workforce can be managed at various levels – branch, region, state

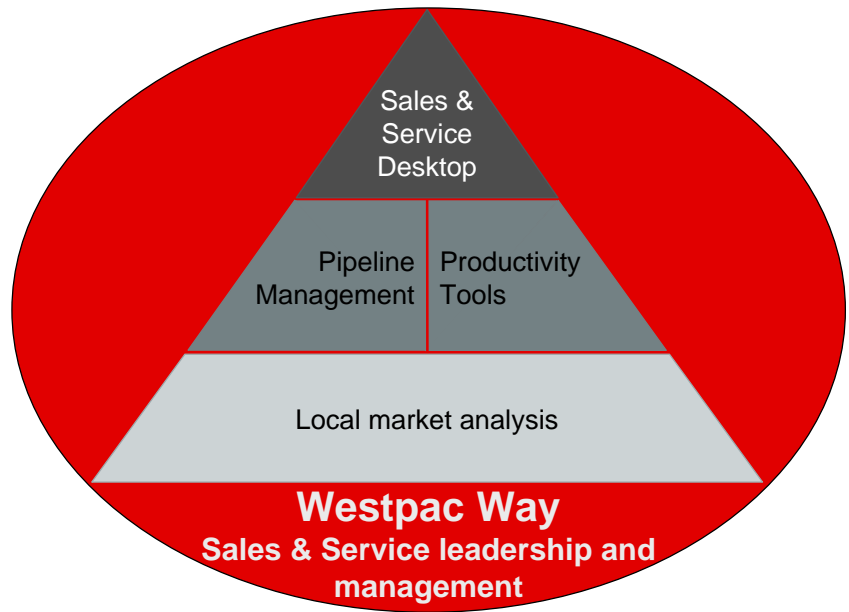
### The Outcomes

- More effective workforce utilisation
- Capacity release - 240 FTE
- Enhanced employee commitment eliminating over / under utilisation
- Transparency in decision making
- Customer experience queue score improved 5%
- Improved flexibility

# Market leading integrated sales through service operating model

Integrated suite of tools for achieving the sales through service operating model

Westpac Way provides the discipline for utilising all the tools

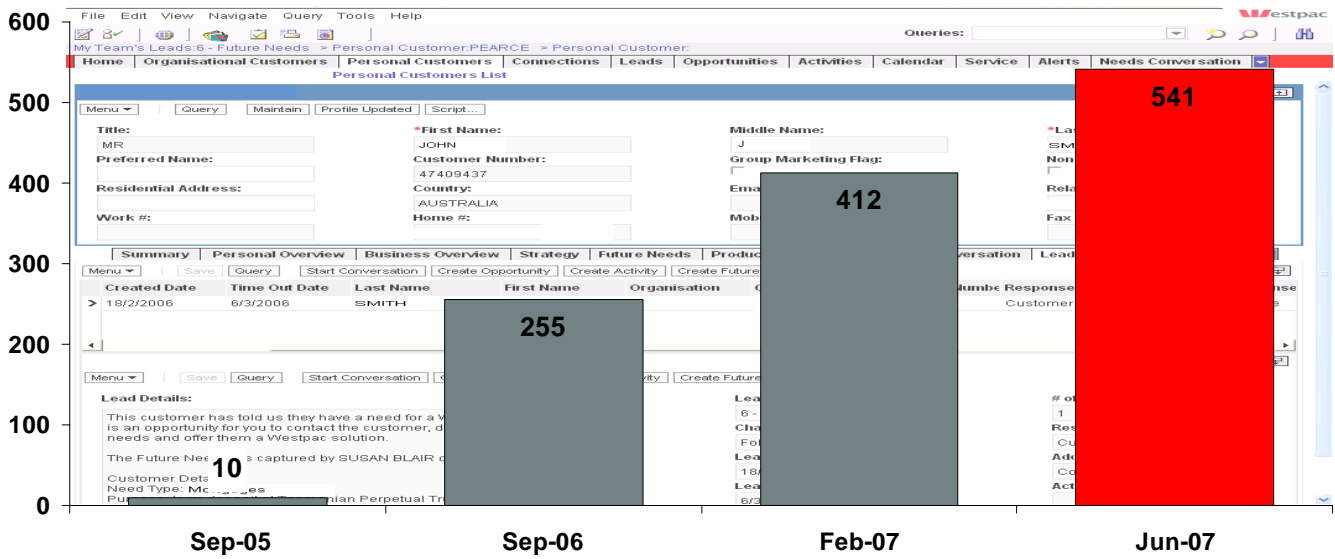


# Sales & Service Desktop transforming customer interaction

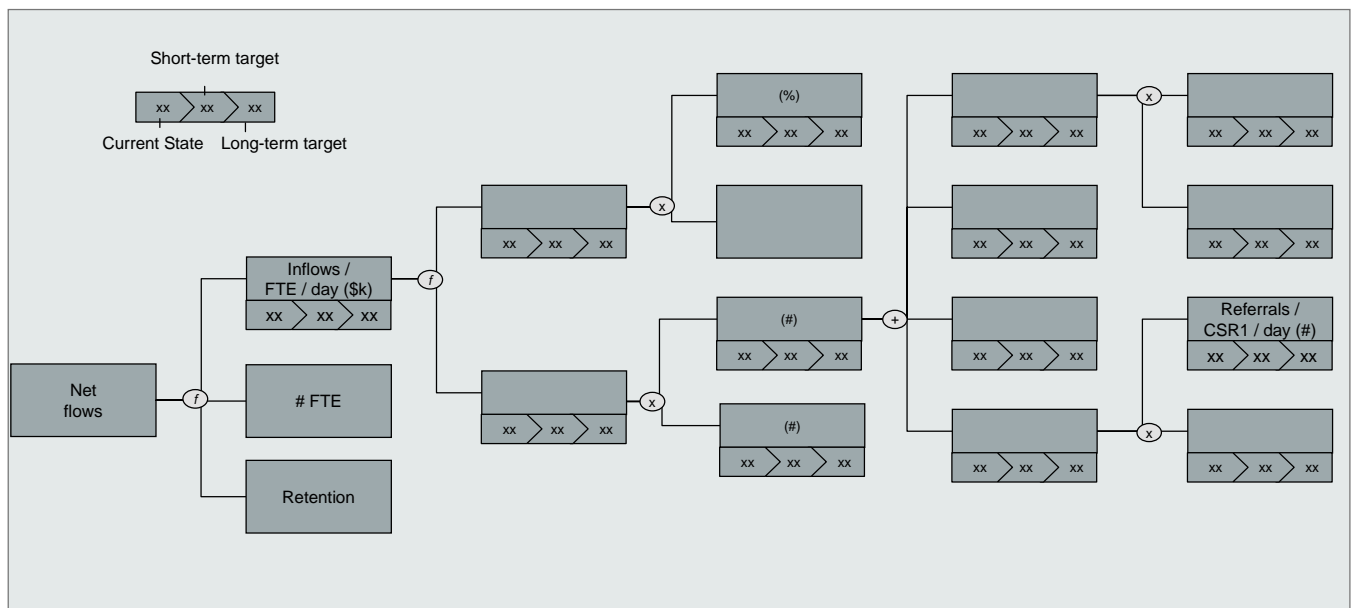
Sales & Services Desktop			
Sales & Service Transformation	Sales Skills Upgrade	Marketing Transformation	Integrated Technology Delivery
<ul style="list-style-type: none"> <li>✓ Capture future customer needs and profiles</li> <li>✓ Lead actioning</li> <li>✓ Easy referrals, service requests - single customer view / information management</li> <li>✓ Advanced customer analysis capturing opportunities</li> <li>▪ Front end origination</li> </ul>	<ul style="list-style-type: none"> <li>✓ Tools substantially enhance sales skills</li> <li>✓ Integrated application process</li> <li>✓ Proactively call customers</li> <li>✓ Disciplined sales management</li> <li>✓ Dashboards for visibility</li> </ul>	<ul style="list-style-type: none"> <li>✓ Moved from mass marketing to 1:1 targeting</li> <li>✓ From intuitive customer selection to "needs" and event-triggered analytics</li> </ul>	<ul style="list-style-type: none"> <li>✓ Market-leading packaged applications</li> <li>✓ Integrated with existing systems</li> <li>✓ Web based user centric front-end</li> </ul>

# Capability provided a rich pipeline of business

Cumulative future needs created ('000)



# Driver tree – next generation in workforce productivity



# Focus on different productivity levers in each branch

## Local market analysis

**Regional Toolkit: Impact of Changing Selected Levers on Branch Sales Performance** Region A

Branch	Productivity Level 1	Productivity Level 2	Productivity Level 3	Productivity Level 4	Productivity Level 5	Productivity Level 6	Productivity Level 7	Productivity Level 8
National Top Quartile	x	x	x	x	x	x	x	x
State Top Quartile	x	x	x	x	x	x	x	x
Region Average	x	x	x	x	x	x	x	x
Branch A	3.77	3.19	1.18	1.30	1.87	0.02	0.98	0.02
Branch B	4.81	2.76	1.74	0.35	2.34	0.07	0.62	0.11
Branch C	3.07	4.01	0.76	1.99	1.95	0.07	0.77	0.09
Branch D	4.04	3.72	1.08	1.85	1.87	0.00	1.26	0.00
Branch E	3.34	2.85	1.17	0.97	1.86	0.02	0.84	0.02
Branch F	4.86	3.60	1.35	1.52	2.07	0.01	1.28	0.01
Branch G	3.26	2.37	1.37	0.45	1.87	0.05	0.56	0.08
Branch H	4.16	3.53	1.18	1.91	1.55	0.06	1.02	0.06
Branch I	4.10	3.65	1.13	1.56	2.04	0.04	1.22	0.04
Branch J	3.71	3.64	1.02	1.57	2.02	0.05	1.42	0.04
Branch K	2.88	2.89	1.00	0.86	2.02	0.01	1.04	0.01
Branch L	2.98	2.79	1.07	1.10	1.65	0.04	0.93	0.05
Branch M	4.28	3.79	1.13	1.78	1.96	0.05	1.81	0.03
Branch N	3.06	2.33	1.31	0.74	1.56	0.03	1.16	0.02
Branch O	3.83	3.98	0.96	2.55	1.34	0.09	1.31	0.07
Branch P	3.25	3.04	1.07	1.55	1.48	0.01	1.39	0.01
Branch Q	3.19	2.44	1.31	0.56	1.86	0.02	0.31	0.07

■ Bottom Quartile Performance    
 ■ 3<sup>rd</sup> Quartile Performance    
 ■ Top Quartile Performance



# Westpac Way drives our sales through service disciplines



# The growth opportunities

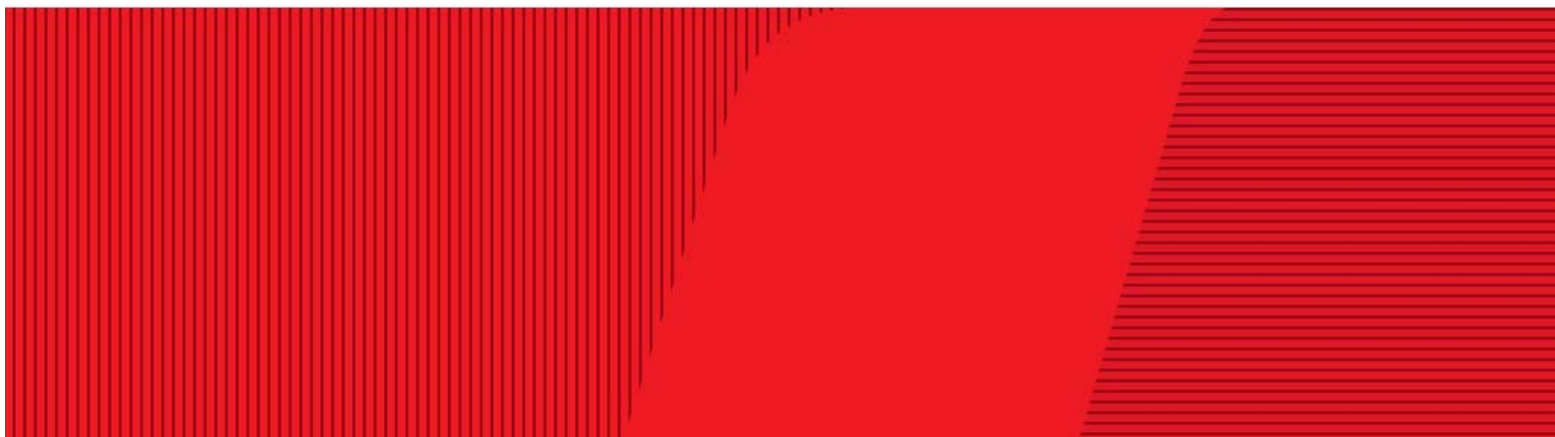
	Good momentum	Further opportunity
<b>Solid distribution franchise</b>	<ul style="list-style-type: none"> <li>• Solid franchise, highly productive</li> </ul>	<ul style="list-style-type: none"> <li>• Introducing new distribution models in target markets:               <ul style="list-style-type: none"> <li>- Fully utilising existing platforms</li> <li>- Locally tailored by region</li> <li>- Utilise new branch formats</li> </ul> </li> <li>• Multi-channel enhancements</li> <li>• Increase number of premium relationship bankers</li> </ul>
<b>Excellent infrastructure &amp; processes</b>	<ul style="list-style-type: none"> <li>• Leading sales / service management systems &amp; processes</li> </ul>	<ul style="list-style-type: none"> <li>• Further leverage platforms</li> <li>• Improving straight through processing</li> <li>• Progressive delivery of product origination</li> </ul>



Australia's First Bank

## Consumer Product

James Galloway, General Manager

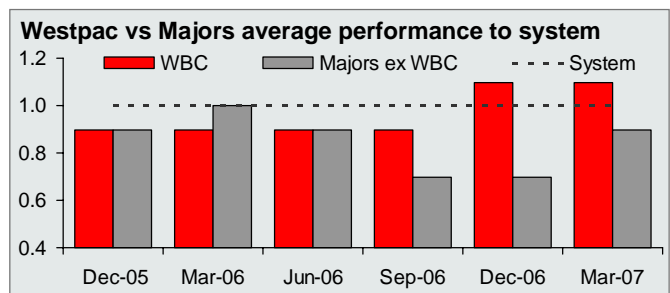


## Strong product suite

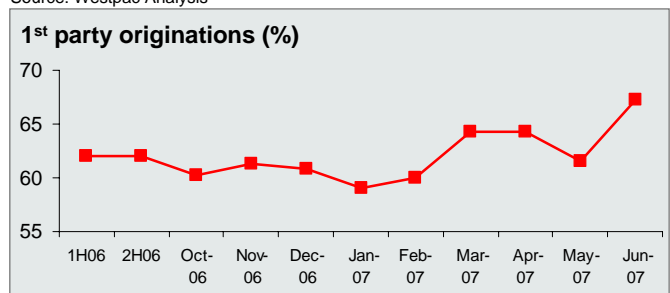
<b>Mortgages</b>	<ul style="list-style-type: none"> <li>• Growth consistently in line with market – best of major banks</li> <li>• Momentum enhanced by improving sales productivity / channel mix</li> <li>• Disciplined margin management and improved retention</li> </ul>
<b>Credit Cards</b>	<ul style="list-style-type: none"> <li>• Well positioned and differentiated product suite</li> <li>• Market leading origination process</li> <li>• Enhanced analytics and risk management</li> </ul>
<b>Liabilities</b>	<ul style="list-style-type: none"> <li>• “For Sale” deposit suite competitively positioned</li> <li>• Not “For Sale” product suite run-off moderating</li> </ul>

## Mortgages – solid performance continues

- Market share maintained around system
- Improving Westpac sales productivity - increasing proportion of 1st party loans
- Balanced growth across all States
- Increase in value of products sold:
  - Packages represent 80% of mortgages sold
  - Cross sell results solid, with further upside
  - Discounting reduced across portfolio, pricing tightly linked to profitability



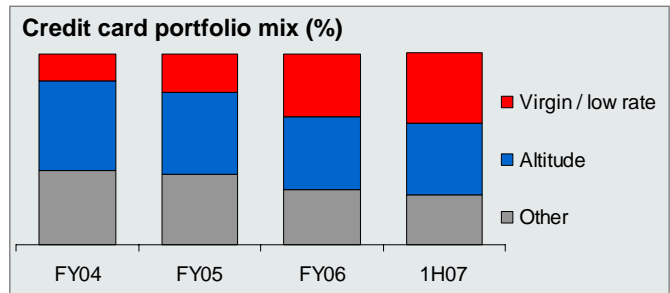
Source: Westpac Analysis



Source: Westpac Analysis

## Credit cards growth solid but easing

- Card growth above system in 1H07
  - Solid growth in both proprietary and partner portfolios
- Some slowing in 2H07 expected given:
  - One off uplift in 2006 unlikely to be repeated
  - Regular review of scorecards with tightening bias
- Shift to low rate abating given balanced portfolio
  - Margin trend positive



## Instant decisioning for credit cards

It takes **less than 60 seconds** to provide a credit decision on a new credit card via:



Online channels



Branch



Telephone Banking

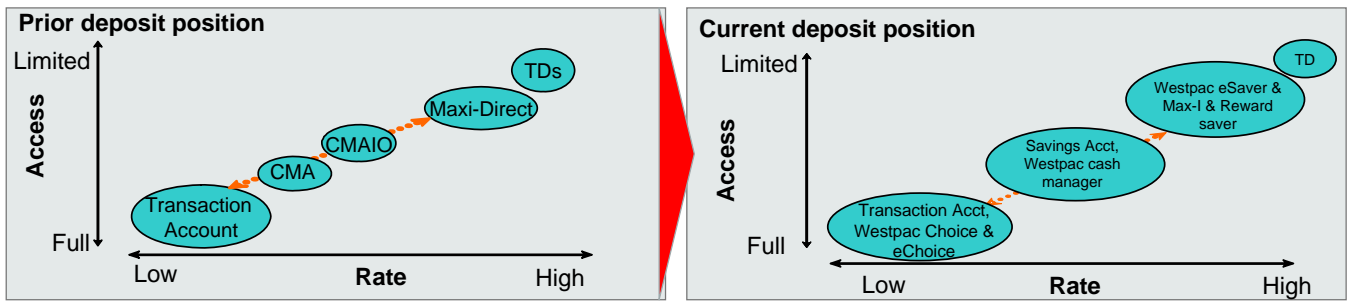
### Significantly improved customer experience

- 60 second unconditional decision
- Multi-channel capability and straight through processing
- Pre-populated applications
- Intuitive tool for staff

### Significantly improved productivity

- Released equivalent of 25 FTE
- Telemarketing call costs down 25%
- Branch productivity improved
- Enhanced risk control
- Improved cross sell – particularly insurance

# Consumer liability product repositioning - enhancing value



- Polarised offer
- Loss of access and rate trade off
- Primary flows in low margin products
- Back book spread management

- “For Sale” products promote choice between access and rate
- Product gaps closed
- Competitively priced product suite
- Household deposit growth improved
- Back book retention improving

Source: Westpac

# Good momentum – with further opportunity

	Good momentum	Further opportunity
Mortgages	<ul style="list-style-type: none"> <li>• Sustainable momentum and improving channel mix</li> </ul>	<ul style="list-style-type: none"> <li>• Improving efficiency of origination</li> </ul>
Credit Cards	<ul style="list-style-type: none"> <li>• Well positioned in competitive market</li> </ul>	<ul style="list-style-type: none"> <li>• Fully leverage enhanced origination and analytics</li> </ul>
Deposits	<ul style="list-style-type: none"> <li>• New product suite beginning to deliver</li> </ul>	<ul style="list-style-type: none"> <li>• Continued focus on performance of new product suite</li> </ul>

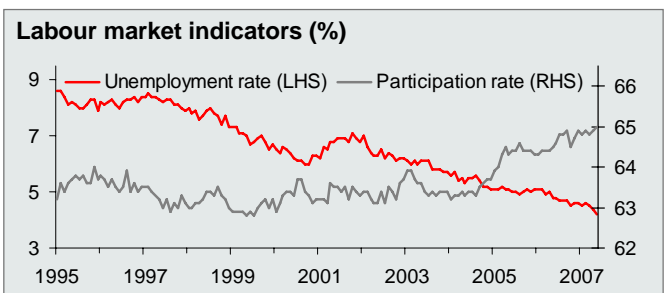


# Consumer Risk

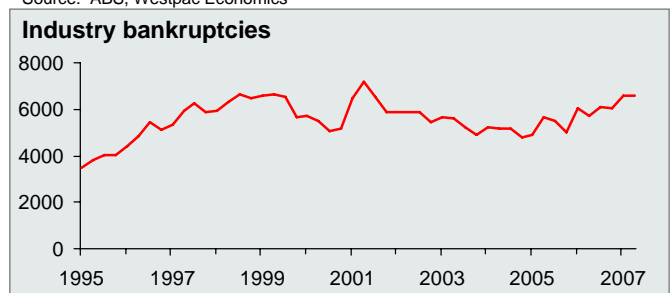
David Malcolm, General Manager

## Economic environment strong, some pockets of weakness

- Australian economic fundamentals are sound:
  - Unemployment rate at 30 year lows
  - Consumer confidence remains robust
- However, some divergence in regional growth
  - Some areas of NSW softer
- Bankruptcies have increased although from very low levels
- Further interest rate rises expected



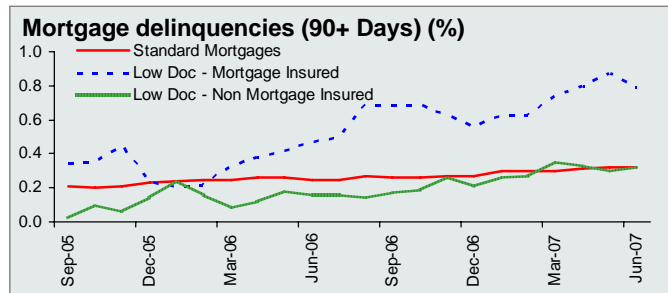
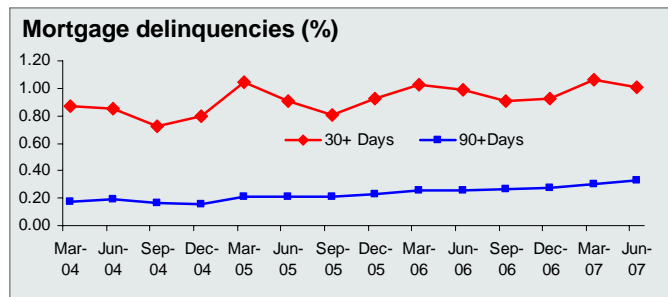
Source: ABS, Westpac Economics



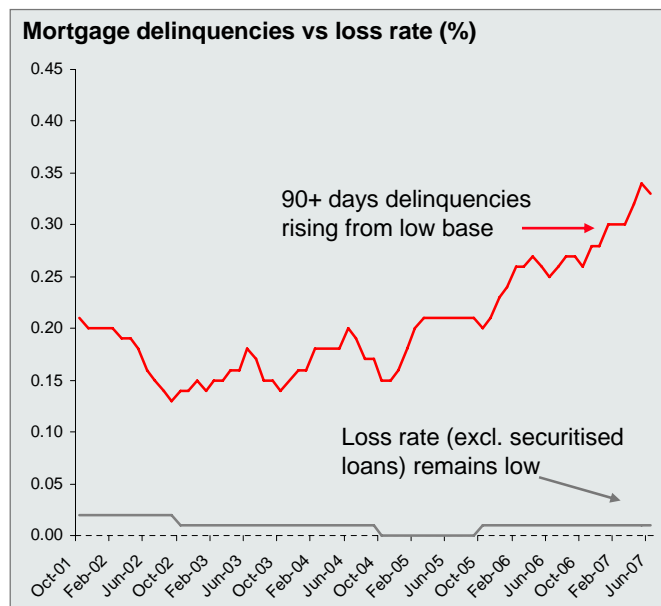
Source: ITSA

## Mortgage delinquencies rising, in line with expectations

- 90+ days delinquencies rising from an historically low base:
  - Customers impacted by higher interest rates
  - More subdued economic activity in South Eastern Australia
  - Change in portfolio mix:
    - Low Doc loans approximately 3.3% of portfolio
    - Seasoning of Low Doc portfolio



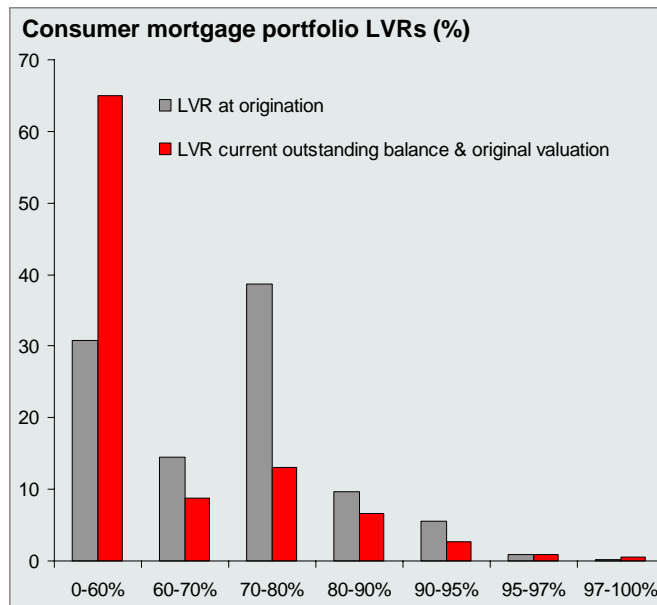
## Higher mortgage delinquencies not correlated to loss



- Higher delinquencies although loss given default has changed little given:
  - Mortgage insurance cover
    - All standard loans where LVR >85%
    - All Low Doc loans where LVR >60%
  - Low LVRs for non-mortgage insured loans
  - Well-seasoned portfolio > 66% of mortgages past the peak loss period (18-24 months)
- Current actual loss rate 1bp over 12 months
  - Loss rate under stressed conditions is 20bps over 12 months
  - 1992 actual loss rate was 11bps (during recession)

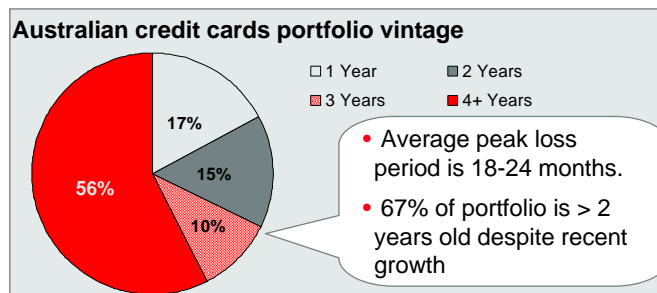
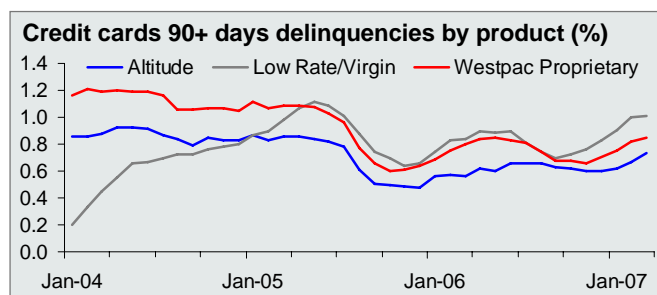
## Servicing capacity of customers remains sound

- Capacity to absorb interest rate rises sound
  - 72% of amortising borrowers repay in excess of required minimum
- Average LVR based on current outstanding balances and value at origination is 45%:
  - Average LVR at origination: 68%
- In assessing capacity to repay for applications, Westpac adds an interest rate buffer above the base interest rate (approx. 145 bps)

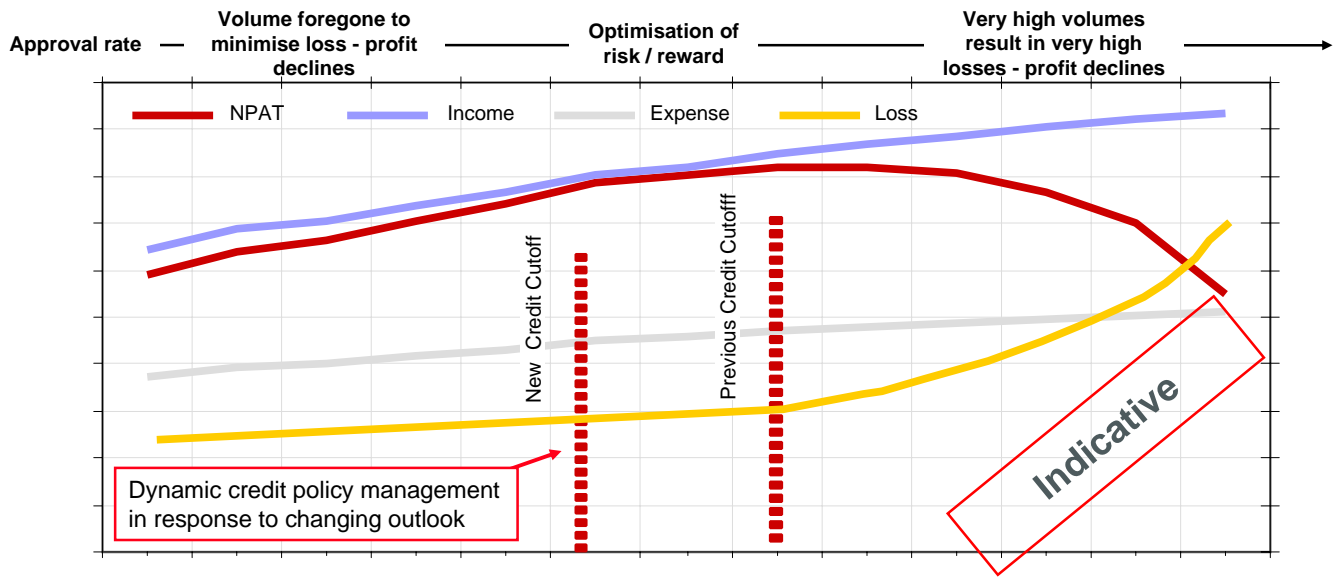


## Credit card portfolio performing as anticipated

- Cards portfolio more sensitive to economic changes and more responsive to risk mitigation
- Credit cards delinquencies rising given:
  - Change in portfolio mix – growth in Low Rate cards, though off a low base
  - Portfolio seasoning
  - Economic factors, including rising bankruptcy levels and higher interest rates
- Actual losses performing in line with expectations
- Scorecards monitored regularly and currently on a tightening basis



# Appropriate balance of risk and reward behind cards growth



# Enhanced analytics and collections capabilities

Completed projects	Amount invested	Benefits
Originations platform and decision engines	\$10m	<ul style="list-style-type: none"> <li>Lending origination decisions within 60 seconds</li> <li>Re-engineering of credit policies and processes</li> </ul>
Collections	\$8m	<ul style="list-style-type: none"> <li>Increased collections staff up 17%</li> <li>Improved overflow management including outsourcing</li> <li>Improved delinquency and volume forecasting</li> <li>Significantly improved recoveries</li> <li>New channels to manage delinquencies (ie SMS notification)</li> </ul>
Credit models	\$3m	<ul style="list-style-type: none"> <li>All decision points set by profitability</li> <li>Enhanced 'at loss' forecasting</li> </ul>
Customer not 'product' decisions	\$3m	<ul style="list-style-type: none"> <li>Customer decisions across the lifecycle – originations, line increases, authorisations, mortgage top-ups, collections</li> </ul>
<b>Total</b>	<b>\$24m</b>	

## Continuing to lend responsibly

### **Serviceability**

- Westpac maintains responsible lending practices to assess capacity to repay. In addition to credit scoring we use information from the Henderson Poverty Index, which incorporates changes in CPI and household disposable income

### **Current repayment behaviour**

- 72% of mortgage customers and 86% of credit card customers pay more than the minimum monthly repayment

### **Solutions for customers in financial difficulty**

- We assist customers whose accounts are in arrears to work out revised repayment arrangements
- Exploring the use of pre-delinquency analysis to identify customers who may require assistance in the future
- Relief packages for major catastrophes

## Summary

- Economy is sound
- Active monitoring of portfolio to identify possible weaknesses
- Mortgage portfolio in strong shape
- Cards portfolio well positioned with enhanced risk systems

# Wrap-Up

Mike Pratt, Group Executive

Setting Us Apart...

The Integrated Sales through Service Operating Model

All retail growth drivers and investments are tracking strongly

- Strong brand position from 'Every Generation'
- Market leading sales through service disciplines
- Platform investments underpinning growth
- Enhanced risk management capability and capacity
- Top quartile employee commitment
- Sustainably growing market share – best of peers

## Looking ahead – substantial opportunities remain

### Distribution

Further roll-out of new (more local) distribution model

### Platforms

Leveraging the investment by adding more bankers to the platform - particularly in Premium Financial Services

### Origination

Enhancing online sales capability

### Efficiency

Re-engineering mortgage origination and servicing

## Setting us apart: Integrated Sales through Service Operating Model

### Brand

Differentiated position, equal 1st in brand consideration

### Distribution disciplines

Disciplined sales through service management

### Platforms

Market leading integrated sales and service platforms

### Risk management

Sound risk / reward profile supported by excellent analytics and increased collection capability

### People and culture

Top quartile employee commitment

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