



Westpac 2008 Interim Results

1 May 2008



Westpac 2008 Interim Results

Gail Kelly
Chief Executive Officer



Agenda

- Overview of current market conditions
- Summary of performance
- Result details
- First impressions and strategic priorities

A changed environment

- Higher funding costs
- Decline in equity markets
- Increased market volatility
- Moderation in risk appetite
- Current credit cycle accelerated by changed environment

Westpac is well placed

- Strongly positioned leading into changed environment
- Timely and coordinated response
- Robust risk management with a depth of management experience
- Actively supporting customers

Funding and liquidity

- Proactively managed funding requirements:
 - Access to markets maintained
 - Excellent investor relationships
 - Strong funding profile
 - Over 80% of 2008 term funding plan complete
- Very strong liquidity position

Credit risk remains a key focus

- Additional economic overlay provision in FY07 and 1H08
- Extensive reviews of certain sectors including:
 - Property
 - Infrastructure
 - Securitisation
 - Margin lending
 - Highly leveraged companies
- Supporting existing customers a priority

Robust performance despite challenging conditions

| | | Change 1H07 – 1H08 |
|------------------------------------|-----------------|-----------------------|
| Cash earnings | \$1,839m | ▲ 10% |
| NPAT | \$2,202m | ▲ 34% |
| Revenue (cash basis) | \$5,430m | ▲ 12% |
| Impairment charge to average loans | 30bps | ▲ 11bps |
| Cash EPS | 98.2c | ▲ 8% |
| Cash ROE | 22.7% | ▼ 90bps |
| Cost to income ratio (cash basis) | 44.4% | ▼ 150bps |
| Fully franked dividend | 70c | ▲ 11% |

All business units positioned well

Cash earnings
% growth

Consumer Financial Services

Growth restrained by higher funding costs and RAMS acquisition ▲ 10%

Business Financial Services

Prior investment delivering ▲ 13%

Westpac Institutional Bank

Strong earnings offset by higher impairment charges ▼ 6%

BT Financial Group

Adverse market movements impacting earnings ▼ 10%

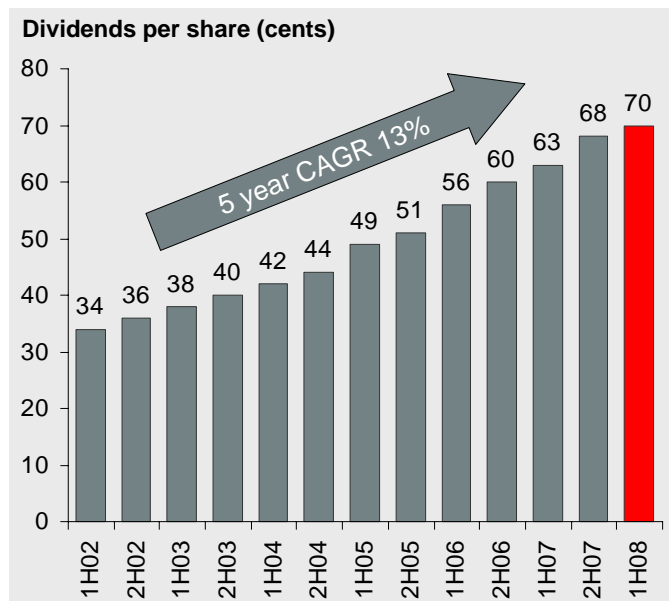
New Zealand

Continuing the turnaround with good growth ▲ 12%¹

1. In NZ\$

Maintaining consistent dividend path

- Dividends up 11%
- Pay-out ratio of 71%, maintained around recent levels
- Solid capital position under Basel II
- DRP satisfied by new share issuance



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Phil Coffey
Chief Financial Officer

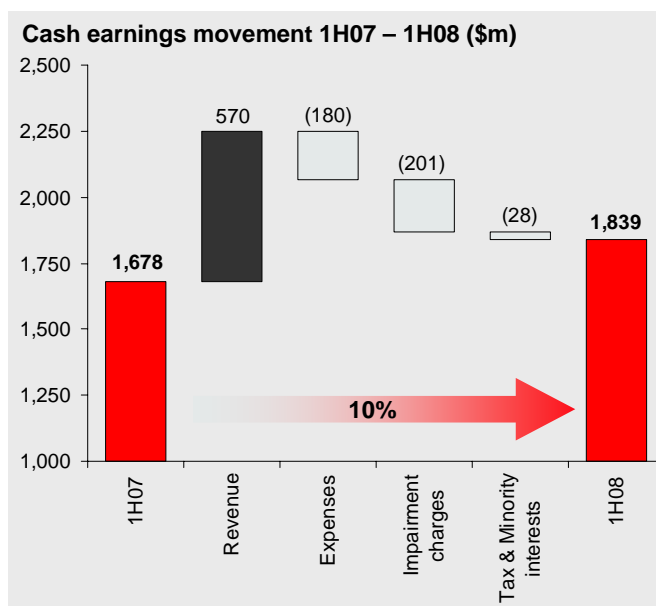


Result discussion and analysis

- 1H08 performance
- Analysis of key earnings components
- Credit quality and impairment charges
- Funding
- Basel II and implications for capital
- Forward considerations

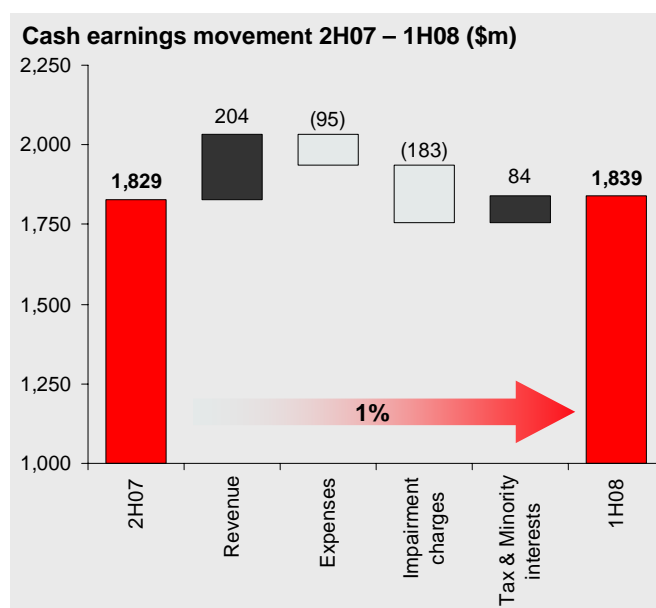
Robust result in current conditions

- Reported NPAT up 34%, including significant asset sales
- Cash earnings up 10%
- Strong revenue growth, up 12%
- Higher impairment charges
- Operating environment impacted composition of the result



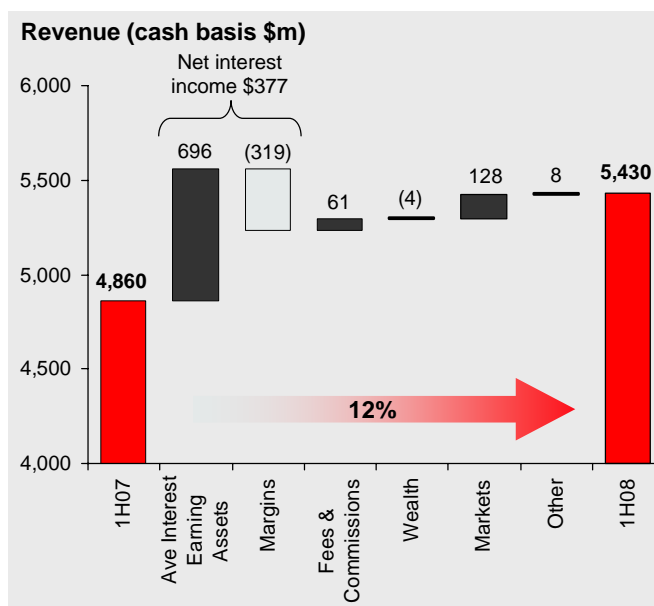
Earnings over prior period relatively flat

- Sound revenue growth, up 4%
- Three significant headwinds in the half:
 - Higher cost of funds \$115m
 - Lower BTFG revenue \$34m
 - Higher impairments \$183m



Revenue growth mix reflects market conditions

- Strong revenue growth - different mix
- Net interest income up 12%
 - Average interest earning assets up 23%
 - Margin decline (-20bps) impacted by additional liquidity
- Modest fee growth:
 - Solid banking and Specialised Capital Group fees
 - Lower transaction fees
- Wealth impacted by decline in investment markets
- Solid markets income



Markets and Treasury – managing volatility well

- Strong FX and Energy performance
- Soft Equities trading performance
- Good Debt Markets performance:
 - Good market sales
 - Strong credit markets outcome
 - Lower debt markets trading
- Strong Treasury result
- Rise in VaR reflects higher market volatility and changing correlations – little change in underlying positions

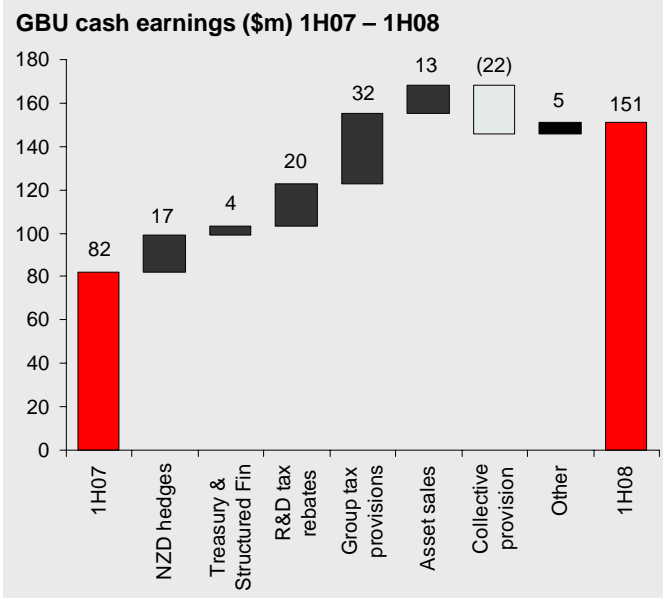
| Markets revenue (\$m) | 1H07 | 2H07 | 1H08 |
|--------------------------------|------------|------------|------------|
| FX and Energy | 139 | 230 | 213 |
| Equities | 15 | 19 | -1 |
| Debt Markets sales and trading | 99 | 82 | 115 |
| Total | 253 | 331 | 327 |
| Average VaR ¹ | 4.7 | 5.3 | 7.1 |

| Treasury revenue (\$m) | 1H07 | 2H07 | 1H08 |
|--------------------------|------------------|------------|------------|
| Net interest income | 123 | 96 | 142 |
| Non-interest income | - | 7 | - |
| Total | 123 | 103 | 142 |
| Average VaR ¹ | 8.4 ² | 7.2 | 9.9 |

1. VaR at 99% confidence level, 1 day hold period
 2. No diversification benefits taken into account in 1H07

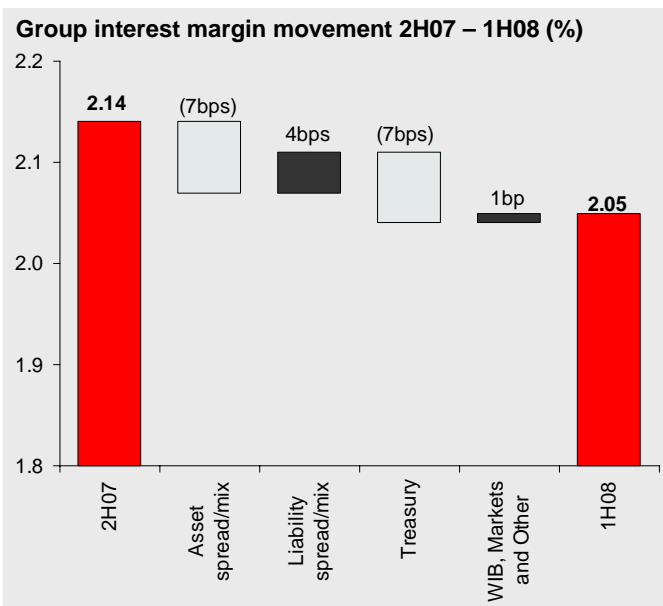
Group business unit

- Benefiting from a number of management initiatives:
 - Hedging NZ retail earnings
 - Resolution of certain tax issues
 - Sale of Bedford Park operations centre in Adelaide
 - R&D tax rebates
- Additional collective provision for current environment, \$31m pre tax



Factors impacting 1H08 margins

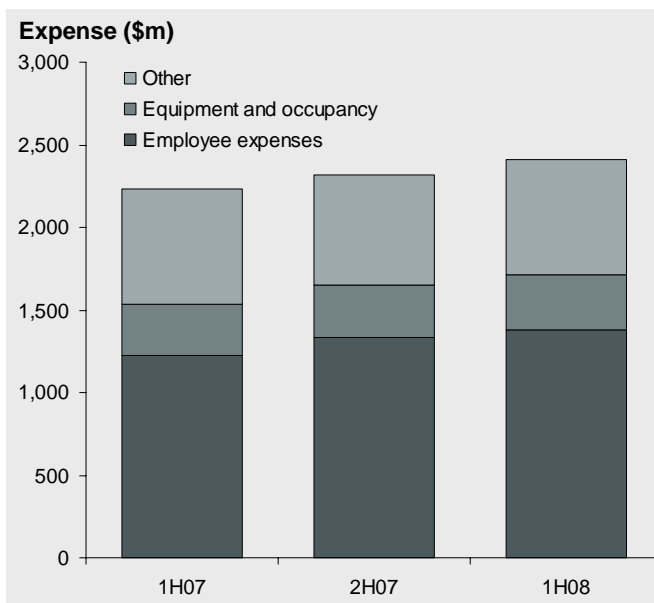
- Net decline in asset and liability spread/mix down 3bps:
 - Higher cost of funds and more fixed rate lending -7bps
 - Increase in deposit spreads 4bps
- Treasury down 7bps from impact of higher liquidity, 10bps, offset by higher interest income
- WIB movement from change in income recognition +2bps offset by mix impacts -1bp
- Total structural¹ impacts on margins 8bps



1. Structural impacts include impact of higher liquidity -10bps and change in income recognition in WIB +2bps

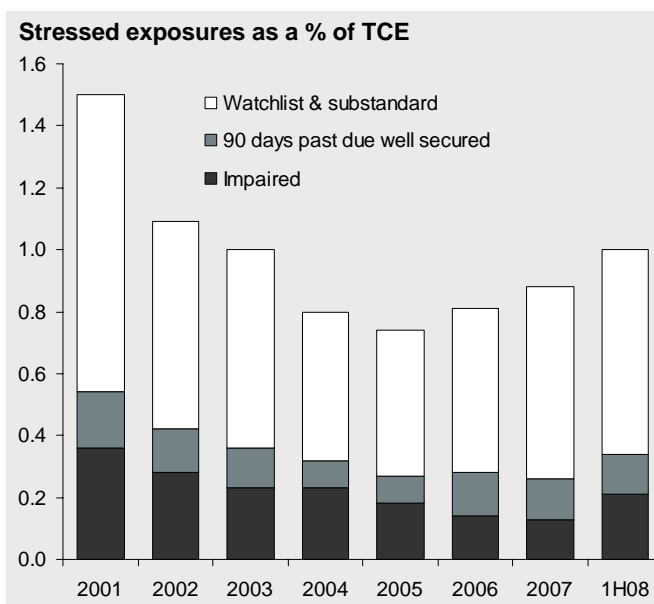
Expenses up 8%

- Employee expenses up 13% reflecting:
 - More people +4%
 - Salary increases +7%
 - RAMS franchise acquisition +\$8m
- Equipment and occupancy costs higher
 - Increased branches and business banking centres
- Investment focus led to higher expense growth in BFS, 10% and BT, 12%



Credit cycle continues to turn

- Total stressed exposures increased to 1% of TCE, back to 2003 levels
- Gross impaired assets up \$416m over prior period, predominantly due to:
 - Two corporate exposures (migrated from watchlist)
 - One margin loan
 - A number of smaller business exposures



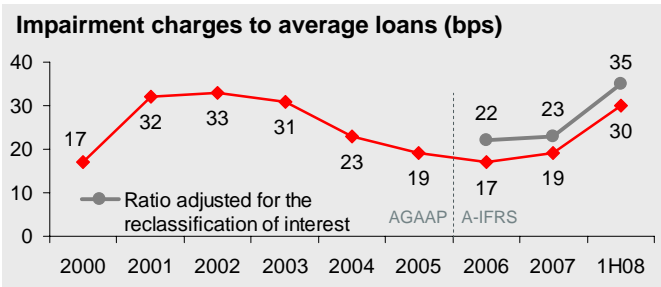
TCE is Total Committed Exposure.

Impairment charge increase consistent with environment

| Category | \$m | Comments |
|------------------------------|------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| March 2007 | 232 | |
| Individually assessed | | |
| New individually assessed | 184 | Two corporate exposures. One impaired margin loan. Additional impaired loans in Business banking and New Zealand consistent with credit cycle |
| Write-backs and recoveries | (15) | Marginally higher recoveries and write-backs in 2008 |
| Collectively assessed | | |
| Write offs | 44 | Higher write-offs in cards consistent with portfolio seasoning |
| New collectively assessed | (49) | Lower new consumer collectively assessed primarily due to lower cards growth compared to 1H07. 1H07 also included additional collective provision in the Pacific of \$12m |
| | 6 | Within WIB, one institutional downgrade, partly offset by 2 exposures migrating to individually assessed provision and compositional changes |
| Additional provision | 31 | Additional provisions in consideration of current environment |
| March 2008 | 433 | |

Impairments higher – solid coverage

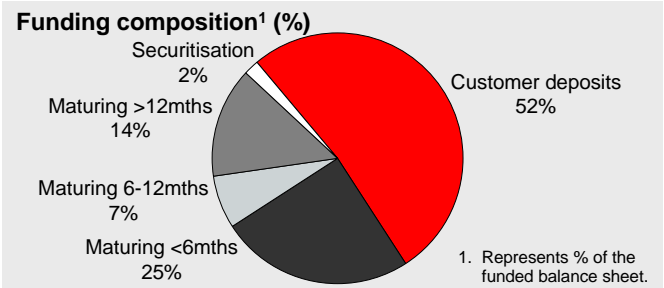
- Impairment charges to average loans higher, at 30bps
- Solid provision coverage against impaired assets
- Total collectively assessed provisions also strong – up 17% on 1H07
- Further \$31m addition to economic provision, now \$213m in total



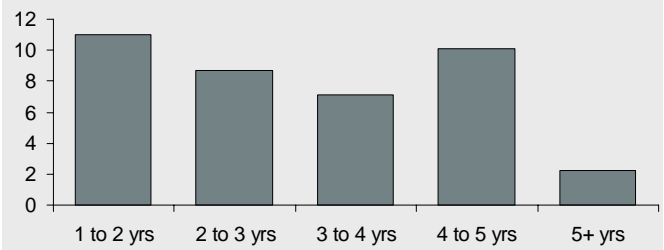
| | 1H07 | 2H07 | 1H08 |
|------------------------------------------|-------|-------|--------|
| Total provisions to gross loans | 63bps | 62bps | 63bps |
| Total provisions to RWA (Basel II) | na | 92bps | 100bps |
| CAP to RWA (Basel II) | na | 84bps | 83bps |
| Impairment provisions to impaired assets | 49bps | 49bps | 44bps |

Healthy funding and liquidity position

- Well ahead on FY08 term funding plan – \$25bn completed to date
- Strong funding profile:
 - Lengthened short term duration from 71 days (Sep 07) to 92 days (Mar 08)
 - Duration of new term issuance 2.8 yrs
- Lower term funding requirement in FY09 ~A\$20bn to \$25bn
- Very strong liquidity position:
 - \$34bn in liquidity, more than double normal levels
 - Additional innovative \$10.6bn internal securitisation

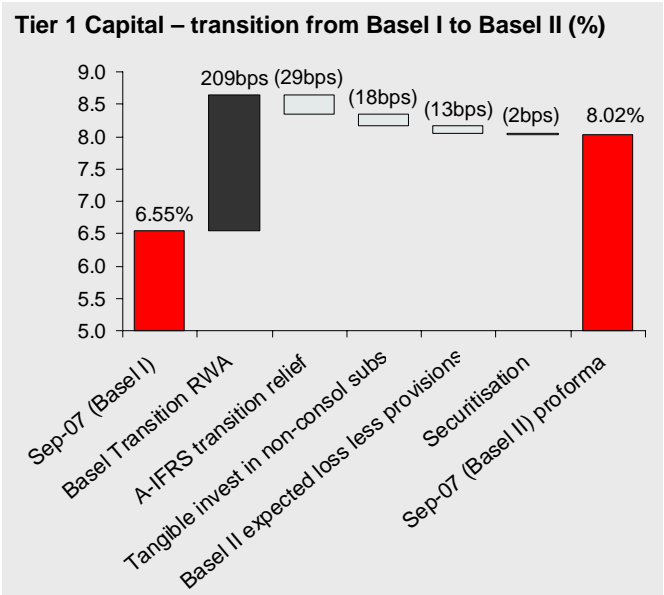


Wholesale term funding maturity profile at 31 Mar 08 (\$bn)



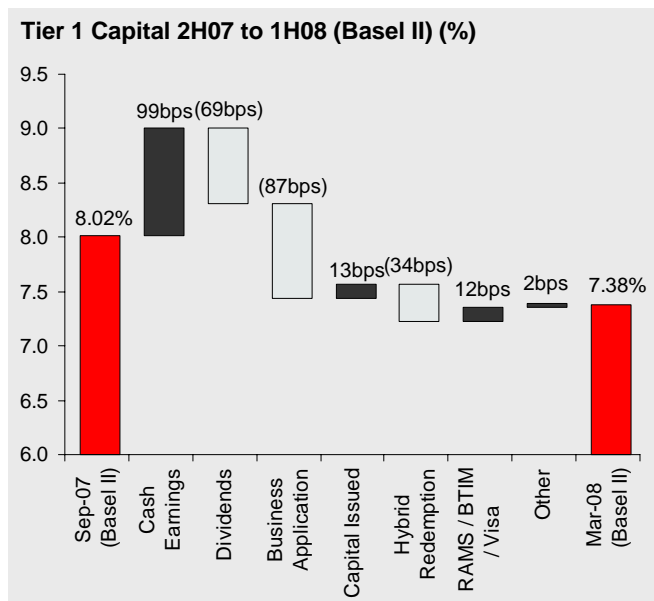
Well capitalised under Basel II

- Transition to Basel II leads to a significant rise in capital ratios
- Sources of that change:
 - 26% reduction in risk weighted assets, adding 209bps to Tier 1
 - Changes in capital deductions reducing Tier 1 by 9%, or 62bps



Strong Tier 1 capital and additional hybrid capacity

- Strong earnings growth and net divestments / acquisitions adding over 100bps to Tier 1 ratio over the half
- Offset by:
 - Dividends, 69bps
 - Redemption of FIRsTS (hybrid) in December 2007
 - Business application, of 87bps
- Strong ACE ratio at 5.98%
- Total Regulatory Capital ratio >10%
- Significant hybrid capacity remains



Implications for capital management

- Basel II demonstrates Westpac is well positioned
- No immediate need for additional capital, given:
 - Strong capital levels and shape of portfolio
 - Utilised hybrid capacity 18% vs cap of 25%
 - Asset growth is expected to ease through the remainder of 2008
 - Basel II reduces the capital intensity of new growth. For example, for every \$1 lent for a consumer mortgage, the additional capital required equates to:
 - Basel I 4.0 cents
 - Basel II 1.4 cents
- Given market volatility and the current environment, we believe it is appropriate to maintain higher capital ratios

2H08 considerations

- Tougher operating conditions to continue in 2H08:
 - Funding costs to trend higher as term funding matures and is replaced
 - Pipeline of new business beginning to slow
 - Impairment charges likely to remain higher
 - Not expecting another major equity market correction
- Our response:
 - Continued risk diligence, keeping ahead of the curve
 - Further strengthen deposit gathering
 - Harder look at productivity initiatives

Summing up

- Robust result in the current conditions
- Strong revenue growth maintaining recent trends
- Market conditions, and our response, are clearly reflected in earnings
- Asset quality remains strong, with higher provisions
- Very strong funding, liquidity and capital
- Heading into 2H08 well positioned

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Chief Executive Officer



Early observations

Customer

- Exceptional customer base
- Limited segmentation
- Strong but underleveraged brand
- No.1 in Institutional Banking
- “Middle of the pack” customer service in retail and business banking
- Strong business units operating independently

People

- High level of engagement, enthusiasm for change
- Great place to work
- Deep skills and experience

Early observations ... continued

| | |
|--------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Distribution | <ul style="list-style-type: none">• Undervalued• Sub-par systems / tools / support, particularly in retail• Growing strength in business banking |
| Products | <ul style="list-style-type: none">• Exceptional strength in wrap, super and payments |
| Operations | <ul style="list-style-type: none">• Designed to support products rather than customers |
| Risk and financial management | <ul style="list-style-type: none">• Strong risk culture• Robust planning and financial systems |
| Sustainability | <ul style="list-style-type: none">• A real strength, compelling position |

Strategic priority areas

| | |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Customer | <ul style="list-style-type: none">• Drive a strong customer culture• Develop and implement compelling customer segment strategies integrating banking and wealth• Significantly improve customer experience |
| People | <ul style="list-style-type: none">• Strengthen capabilities and depth of talent particularly in distribution businesses• Strengthen collaboration and teamwork• Encourage boldness, promote achievement |

Strategic priority areas ... continued

| | |
|------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Distribution | <ul style="list-style-type: none">• Establish and drive locally empowered businesses• Continue to invest in Business Banking and Wealth |
| Operations & Investment | <ul style="list-style-type: none">• Focus on being easier to deal with• Transform service delivery, redesigning processes end-to-end• Invest to increase the reliability and consistency of services• Focus on driving productivity, eliminating duplication to provide headroom for additional investment |
| Sustainability | <ul style="list-style-type: none">• Embed in all elements of the business• Continue to develop risk management as a competitive advantage |

Next steps – clear plans underway

- Long range strategic planning process underway
- Specific streams of work commenced. Executive Officer accountability for each stream in place, with teams being mobilised
- Financial pathway and business cases to fund new investment have commenced - including utilising Visa IPO and BTIM proceeds
- Further detail to be provided later this year

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