

# 2007 Final Results

David Morgan  
Chief Executive Officer

1 November 2007

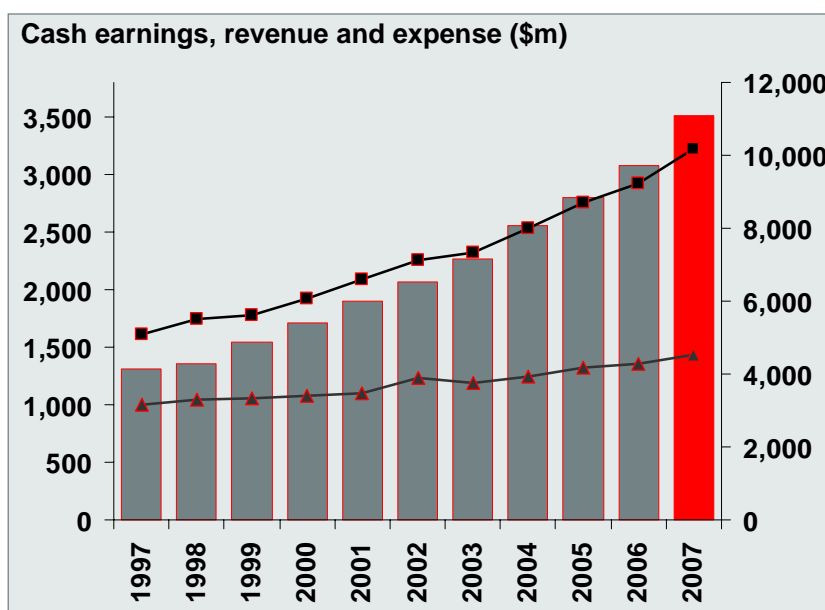
## A strong, high quality result

- Strong earnings growth and a higher return on equity
- High quality revenue led performance
- Enhanced franchise health across all businesses
- Well provisioned for known risks
- Investing for growth
- Broad based momentum into 2008

## A strong set of numbers: growth and return

<b>Cash earnings</b>	<b>\$3,507m</b>	<b>▲ 14%</b>
Revenue	\$10,086m	▲ 11%
Cash EPS	189c	▲ 13%
Economic profit	\$2,693m	▲ 16%
Cash ROE	24%	▲ 80bps
Cost to income ratio (cash basis)	45%	▼ 220bps
Fully franked dividend	131c	▲ 13%

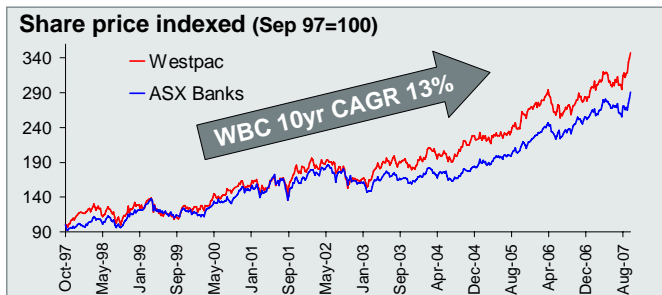
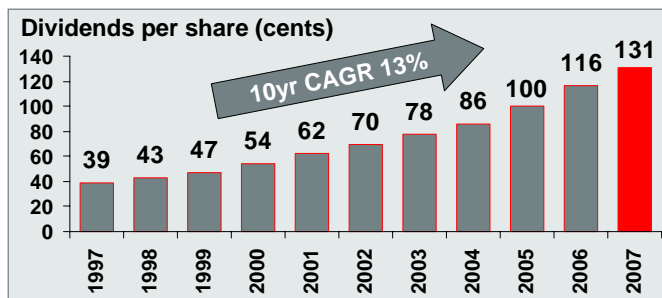
## Consistency over the long term



\* AGAAP 1999 to 2004; A-IFRS 2005 to 2007. Source: Westpac

	10 year CAGR	2007
Cash Earnings (LHS)*	10%	14%
Revenue (RHS)	7%	11%
Expenses (RHS)	4%	6%

## Strong returns to shareholders



- Dividend increase in line with EPS growth
- Sustained higher pay-out ratio of 69%
- Fully franked with significant franking surplus of \$274m
- Total shareholder return (TSR) over last year of 31% - highest of peers
- 10yr share price CAGR
  - Westpac 13%
  - ASX Banks 11%
- 10yr TSR CAGR 18%

## Broad based business unit performance

Business Unit	Cash earnings
<b>Consumer Financial Services</b> Strong growth, solid momentum	▲ 21%
<b>Business Financial Services</b> Prior investments delivering higher growth path	▲ 11%
<b>Westpac Institutional Bank</b> Leading position and strong activity driving returns	▲ 16%
<b>BT Financial Group</b> Growing market share in a fast growing market	▲ 23%
<b>New Zealand</b> Turnaround on track	▲ 2% <sup>1</sup>

1. In NZ\$ terms

## Enhanced franchise health

<b>High employee commitment</b>	<ul style="list-style-type: none"> <li>• Employee commitment up to 71% - an all time high</li> <li>• Employee turnover 17% - 4 percentage points below sector median</li> </ul>
<b>Rising customer satisfaction</b>	<ul style="list-style-type: none"> <li>• No1 with Corporate and Institutional customers</li> <li>• Customer satisfaction: Australian Consumer<sup>1</sup> 73% up from 70%; Australian Business<sup>2</sup> 72% up from 66%</li> </ul>
<b>Increased investment</b>	<ul style="list-style-type: none"> <li>• Project investment up 9% to over \$500m</li> <li>• An additional 800 employees, most in the front line</li> </ul>
<b>Increased brand strength</b>	<ul style="list-style-type: none"> <li>• Significant increase in brand spend</li> <li>• Equal No1 brand consideration<sup>3</sup> of 68% up from 65% last year</li> </ul>
<b>A sustainable company</b>	<ul style="list-style-type: none"> <li>• Global sustainability and governance leader</li> <li>• Numerous sustainable initiatives/products including e-statements, Landcare deposits, green housing loans</li> </ul>

1. Source: Roy Morgan Research – % of customers very/fairly satisfied main financial institution Aged 14+

2. Source: TNS Business Finance Monitor August 2007; Base: all businesses with annual turnover up to \$100m

3. Source: Australia Market Research (AMR); ranking compared to major banks plus St George at Jun 07 compared to Sept 06



## Portfolio repositioning – contributing to growth path

Separated Business and Consumer Banking (BCB)	Proposed acquisition of RAMS distribution assets	IPO of BT Investment Management
<ul style="list-style-type: none"> <li>• Finalised separation of BCB into two divisions                             <ul style="list-style-type: none"> <li>- Consumer Financial Services</li> <li>- Business Financial Services</li> </ul> </li> <li>• Divisional focus delivering enhanced results</li> </ul>	<ul style="list-style-type: none"> <li>• Provides a new alternative distribution channel                             <ul style="list-style-type: none"> <li>- Distribution up 10%</li> <li>- Extends distribution of existing Westpac products</li> </ul> </li> <li>• Strong positive NPV</li> </ul>	<ul style="list-style-type: none"> <li>• Enhances future growth of investment management business</li> <li>• Aligns interests of all stakeholders</li> </ul>
Aligned for growth	Distribution for growth	Structured for growth



## Quality growth

### Pricing

- Growth in-line with system - not growth for growth's sake
- Margin decline consistent with medium term experience

### Risk

- Quality of portfolio maintained
  - Focus on core markets, no sub-prime exposure
  - Stressed loans remain at low levels
- Maintained appropriate provisioning
  - Impairment charges up 29% including additional collective provision
  - Coverage ratios remain high
- Benefiting from enhanced risk management disciplines developed through Basel II

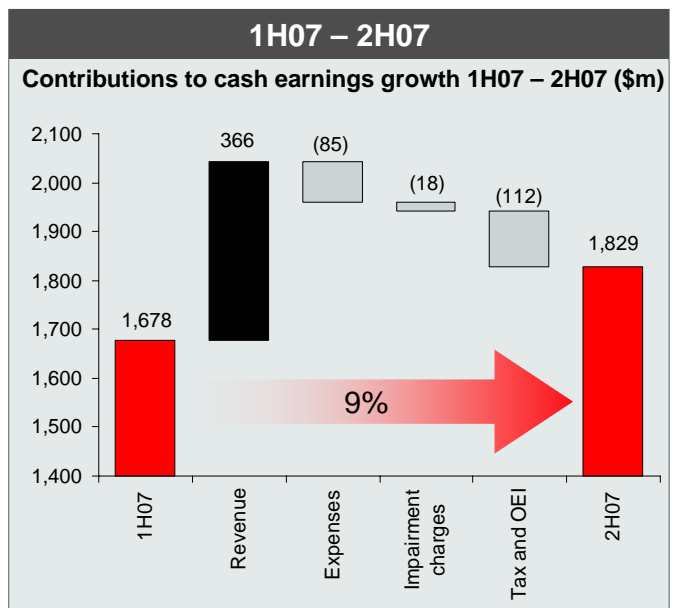
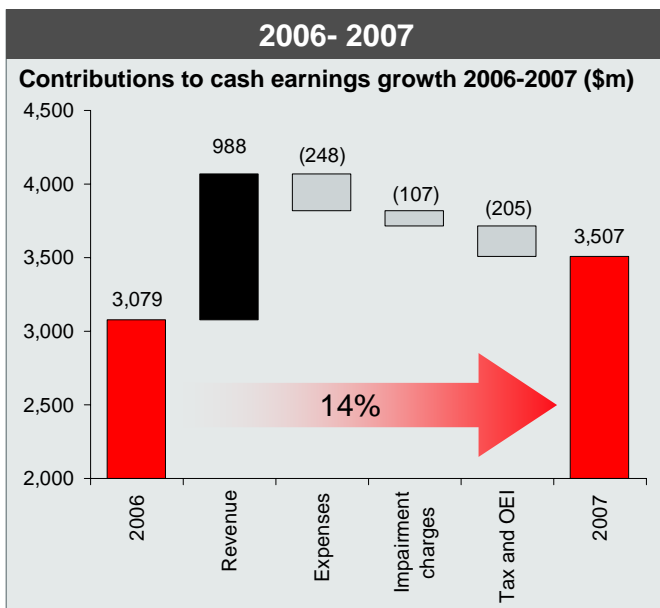
## A strong, high quality result

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- Broad based momentum into 2008

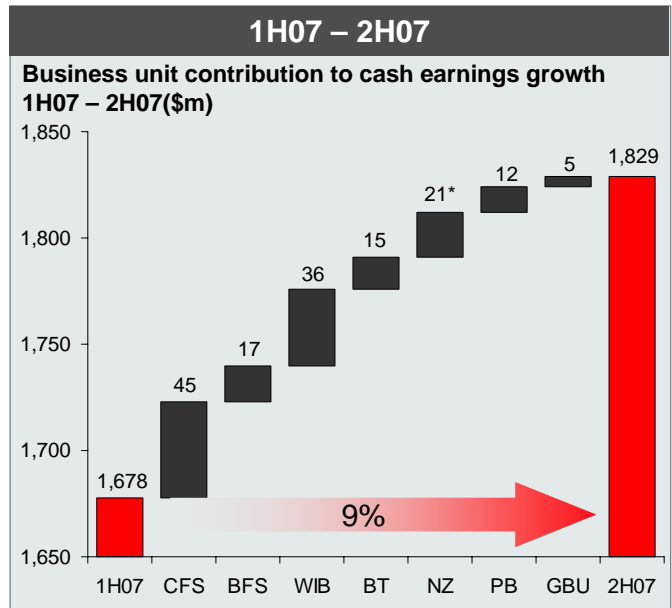
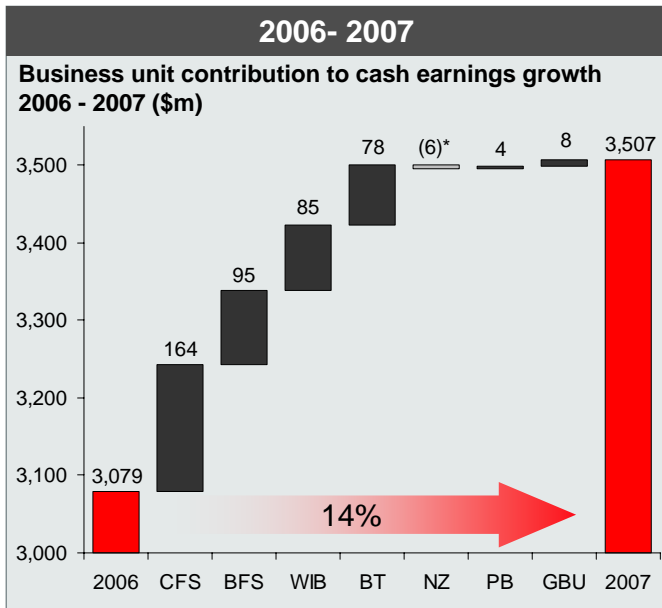
# The Details

Phil Coffey  
Chief Financial Officer

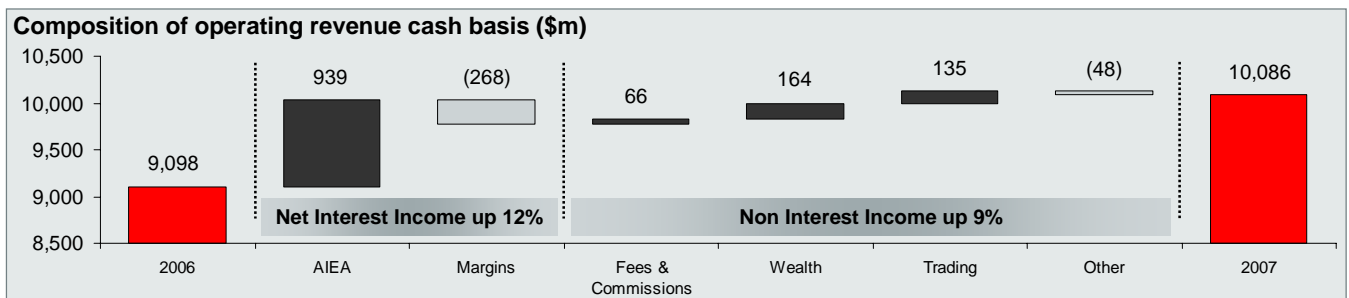
## Revenue driving the bottom line



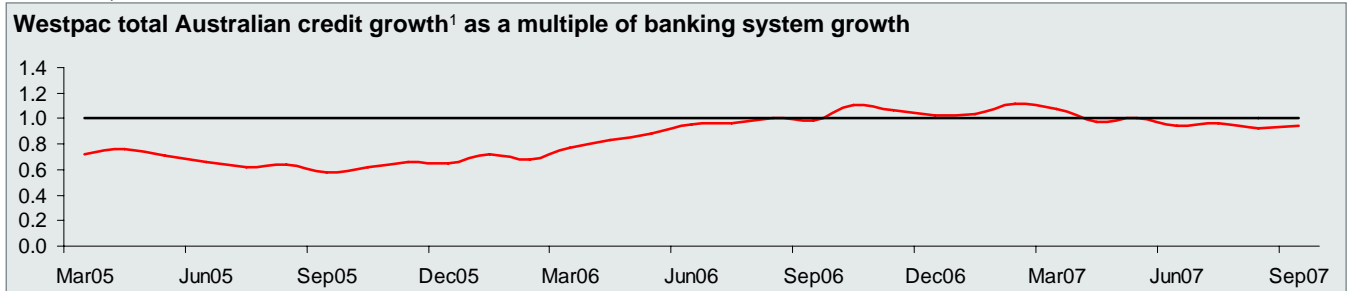
# Balanced contribution across businesses



# Broad revenue components supported by good loan growth



Source: Westpac



1. Annual (12-monthly) change. Source: APRA



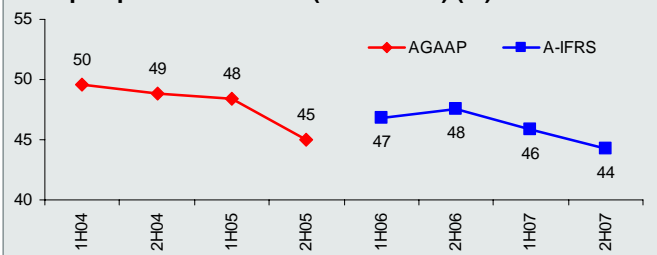
## Strong 'Jaws' improving productivity

Revenue & expense growth (% change over year)



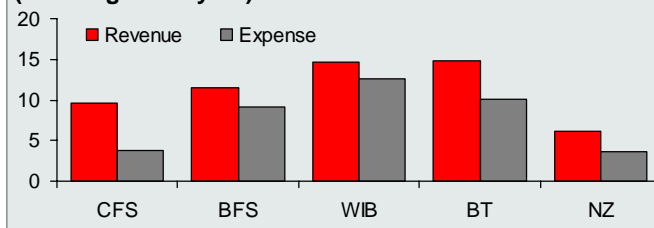
- Employee costs up 10%, composed of
  - Higher salary costs including from more people, particularly in the front line 8%
  - Increased incentive payments 2%
- Achieving returns on our investment

Group expense to income (cash basis) (%)



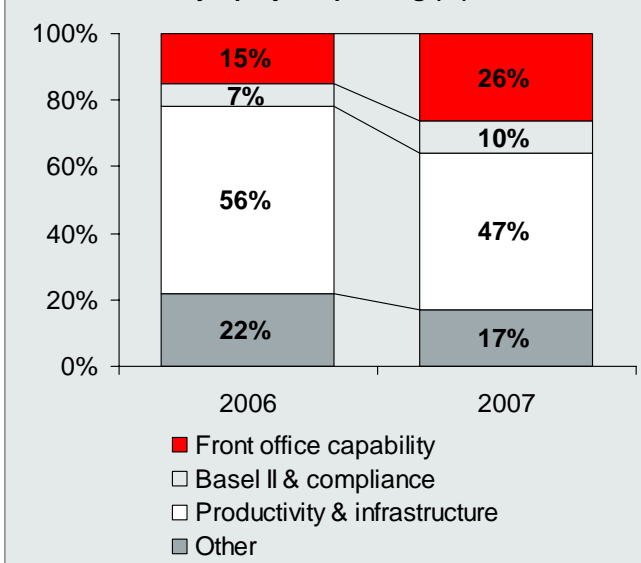
Source: Westpac

Business unit revenue & expense growth (% change over year)



## Continuing to shift investment to the front line

Allocation of major project spending (%)



- Invested over \$500m in projects over year
- Increasing front-office capability
  - Significant investment in 'BT Super for Life'
  - Card origination enhanced by linking to Reach CRM
  - NZ lending originations system
  - Improved equipment finance capability via Pinnacle
- Higher compliance costs as Basel II nears implementation

Capitalised software (\$m)

	1H06	2H06	1H07	2H07
Balance	439	480	485	527
Amortisation <sup>1</sup>	77	98	92	95

1. Amortisation includes impairments



## Features of the result

- Impact of global credit market volatility
- Factors influencing revenue growth
- How we are seeing our risks and their effect on credit and capital
- Aspects of some business units

## Current global capital market conditions

	Conditions	Response / Impact
<b>Funding &amp; liquidity</b>	<ul style="list-style-type: none"> <li>• Tighter funding at a higher cost</li> </ul>	<ul style="list-style-type: none"> <li>• Holding significantly more liquid assets than normal</li> <li>• Continuing to fund ourselves across the curve</li> </ul>
<b>Market volatility</b>	<ul style="list-style-type: none"> <li>• Increase in market volatility</li> </ul>	<ul style="list-style-type: none"> <li>• More customers hedging interest rate and FX exposures</li> <li>• Increased trading opportunities</li> </ul>
<b>Credit risk</b>	<ul style="list-style-type: none"> <li>• Some falls in financial asset values</li> </ul>	<ul style="list-style-type: none"> <li>• No direct sub-prime exposure</li> <li>• No material impact from revaluation of financial assets</li> </ul>
<b>Capital</b>	<ul style="list-style-type: none"> <li>• Higher risk weighted asset growth</li> </ul>	<ul style="list-style-type: none"> <li>• Customers increasingly seeking bank funding</li> <li>• Waratah conduit fully self funded as at 30 Sept</li> </ul>

Source: Westpac

## A high quality result – little impact from one-offs

Significant one-off impacts on revenue (\$m)	1H06	2H06	1H07	2H07
Credit card income over-accrual	23	(49)	-	-
Fair value of securities portfolios	32	13	4	-
MasterCard profit	-	15	21	-
Asset sales	10	-	1	-
Concessional R&D rebates	-	-	-	25
Sub-custody earn out	-	-	5	14
NZ\$ Impact <sup>1</sup>	-	(35)	(44)	(41)
<b>Total net impact</b>	<b>65</b>	<b>(56)</b>	<b>(14)</b>	<b>(2)</b>

1. The NZ\$ impact represents the impact of movements in the NZD/AUD exchange rate by restating all NZD income at the 1H06 average exchange rate and includes gains/losses on NZD hedges

Source: Westpac

## Markets and Treasury – strong sales and trading performance

Markets (\$m)	1H06	2H06	1H07	2H07
Foreign exchange	148	120	128	193
Equity and energy	31	25	26	56
Capital markets	77	39	99	82
<b>Total</b>	<b>256</b>	<b>184</b>	<b>253</b>	<b>331</b>

Average VaR <sup>1</sup>	6.9	5.9	4.7	5.3
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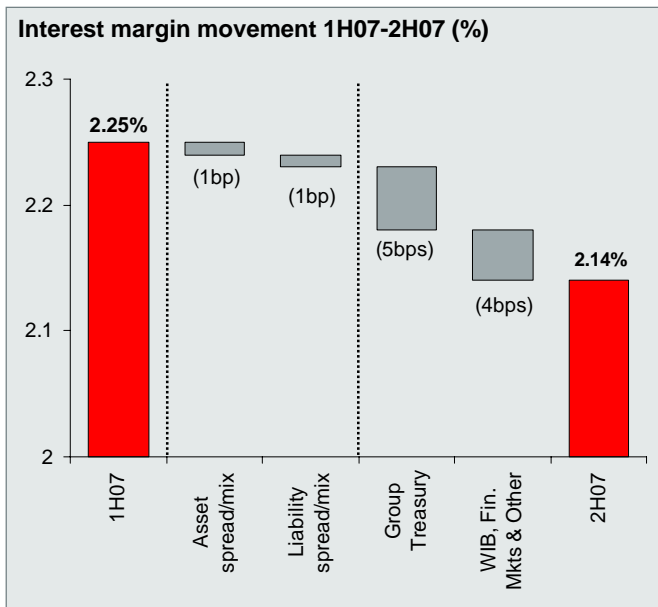
Treasury (\$m)	1H06	2H06	1H07	2H07
Net interest income	125	17	123	96
Non-interest income	25	23	-	7
<b>Total</b>	<b>150</b>	<b>40</b>	<b>123</b>	<b>103</b>

1. VaR at 99% confidence level, 1 day hold period

Source: Westpac

- Strong Markets performance in 2H07 given increased volatility
  - Well positioned in FX
  - Growing energy and equities income from a low base
- Little change in VaR
- Improved performance in both sales and trading activities
- Treasury was well positioned for market shift in 2H07 although earnings were offset by higher funding costs

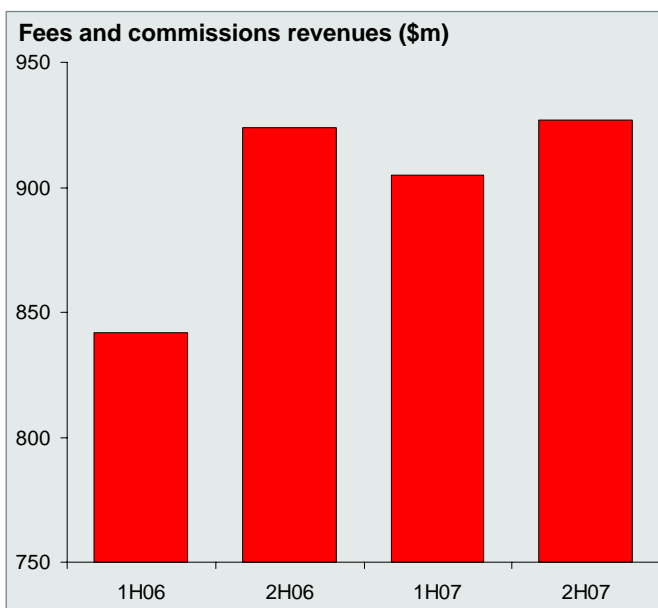
## Factors impacting 2H07 margins



- Strong balance sheet growth in retail and business yet margins only contributing 2bps to Group margin decline
- Some factors impacting margins in 2H07 do not reflect or imply earnings pressure
  - Higher liquidity in Treasury 3bps
  - Mix impacts of strong growth in WIB 2bps
  - Changed income recognition in markets income 2bps
- Spreads on new WIB lending flat
- Higher funding costs in Treasury, 2bps

Source: Westpac

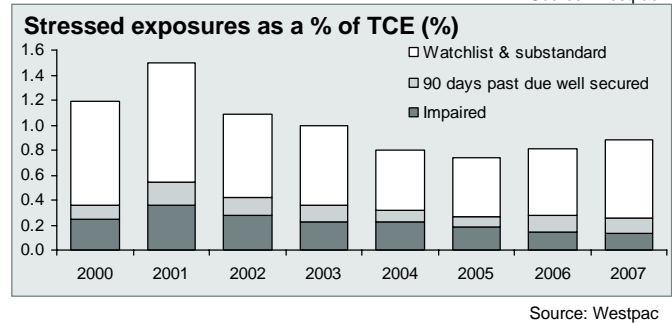
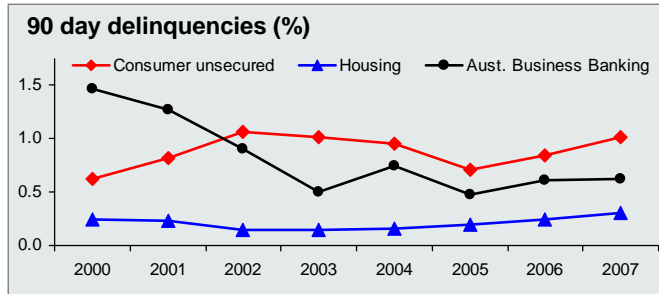
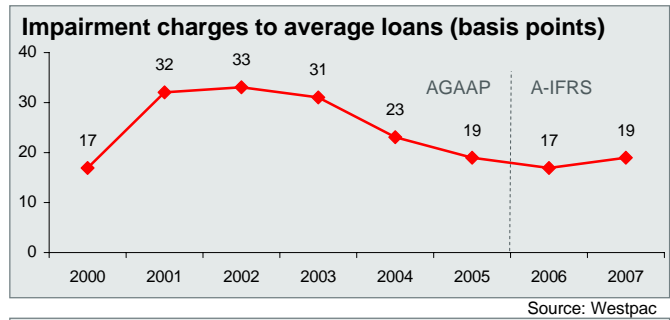
## Slower fee and commission revenue growth



- Growth in 2H06 from fee realignment in CFS in 1H06
- Lower growth over recent halves given
  - Full period impact of fee repositioning in NZ
  - Loss of sub-custody income
  - Lower SCG fees
  - Continuing customer migration to low fee products in CFS and BFS

## Credit quality remains sound

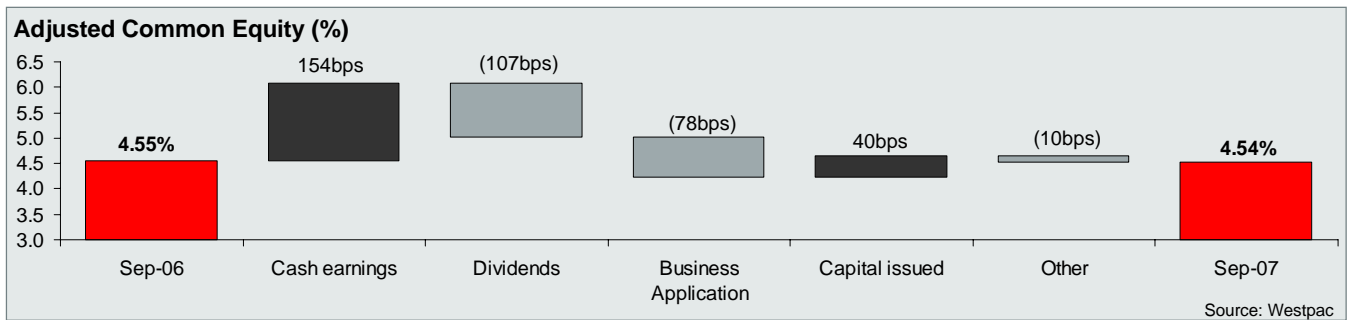
- Impairment charges rising off a low base
- Modest rise in stressed exposures although impaired assets lower from 0.14% to 0.13% of TCE
- Small rise in delinquencies



## Increase in impairment charges consistent with environment

Category	\$m	Comments
<b>2006</b>	<b>375</b>	
<b>New individually assessed</b>	(14)	Lower individually assessed as no new significant impaired loans emerged over the year
<b>Write-backs and recoveries</b>	46	Lower write-backs in 2007 given high write-backs in 2006, predominantly in the institutional bank
<b>New other collectively assessed</b>	47	Higher write-offs direct, particularly in cards given larger portfolio but lower collectively assessed given more effective collections management
<b>Additional provision</b>	28	Additional provisions in consideration of uncertainty in current environment
<b>2007</b>	<b>482</b>	

## Healthy capital generation supporting significant growth



- Growth demands higher – risk weighted assets up 18% over year
- Actively managing balance sheet to optimise capital usage
  - Conduit fully funding itself in the market – no additional impact on capital
  - Active management of RWA with over \$2.6bn in portfolio risk mitigation

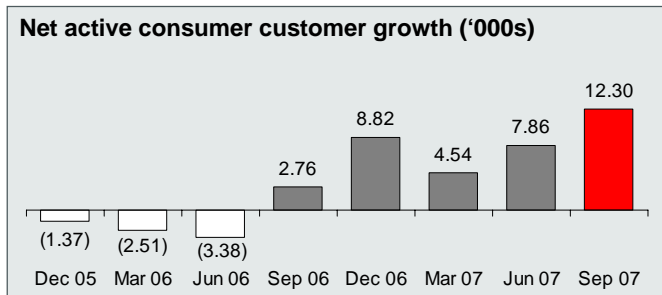
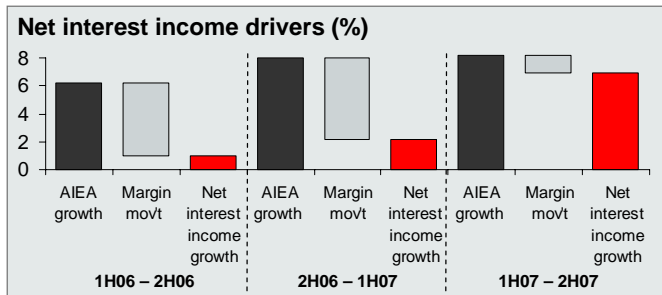
## Approaching Basel II implementation

- Seeking advanced accreditation under Basel II
  - Original submission - Sept 2005
  - Document detailing ICAAP<sup>1</sup> - Oct 2007
- Confident accreditation to take effect on 1 Jan 2008
- Working with APRA on final RWA and capital ratios. Higher capital ratios expected
- Extent of capital reduction constrained by APRA limits and strong internal demands for capital in current environment
- Tier 1 Capital to be lower by ~ \$1.2bn adjusting for AIFRS transitional relief \$664m and additional deductions from Basel implementation \$520m
- Basel II provides long run benefit by reducing capital intensity of asset growth and improving risk management capability

<sup>1</sup> ICAAP – Internal Capital Adequacy Assessment Process

Westpac expects a significant decline in RWA given	
Mortgages	Low default rates and loss experience in portfolio. Largest contributor to RWA reduction
Business lending	Quality of SME and middle market portfolio
Institutional lending	High quality portfolio. Portfolio quality relatively stable over time
Cards	Credit card loss experience consistently better than international peers. However capital to be applied to unused limits for first time
Other risk categories	RWA increases to account for requirement to hold capital against operational risk, market risk, and interest rate risk in the banking book

## New Zealand turnaround on track

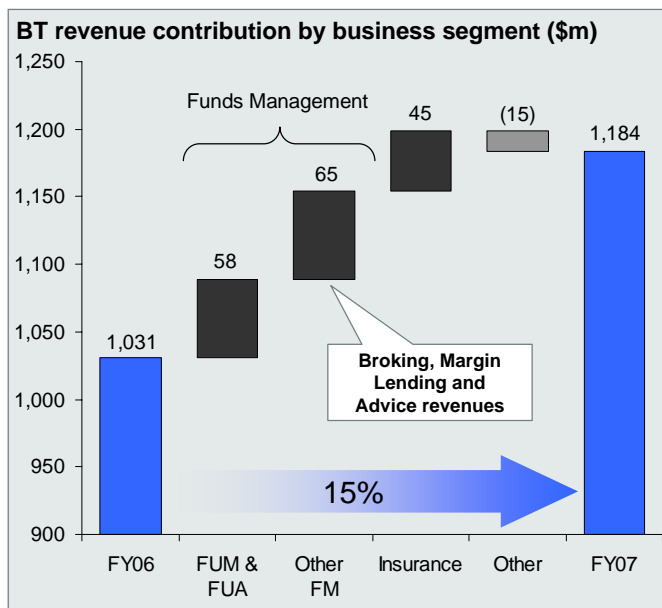


Note: Represents net growth in the quarter

- Refreshed management team
- Improved growth momentum
  - Auckland mortgage market share up 3% to 18%
  - Improving new customer growth in 2007 with customer retention<sup>1</sup> up 2% to 93%
- Improved productivity focus
  - New Head of Productivity and new Chief Operating Officer Consumer
  - Revenue per front office employee up 13%

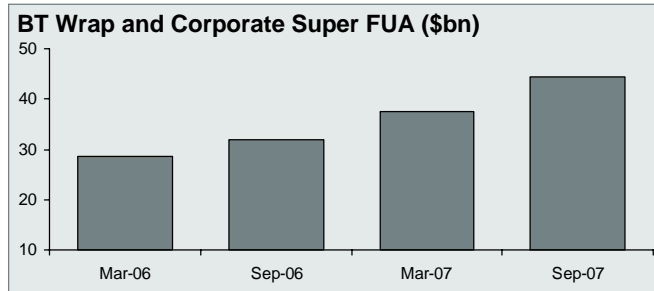
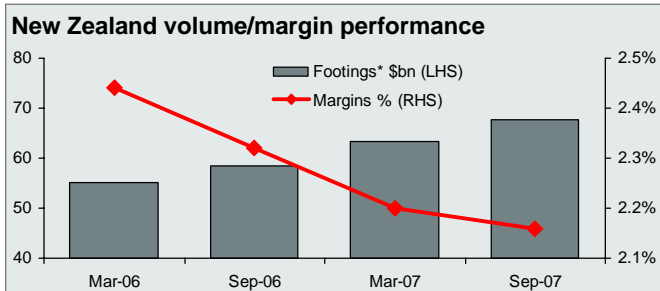
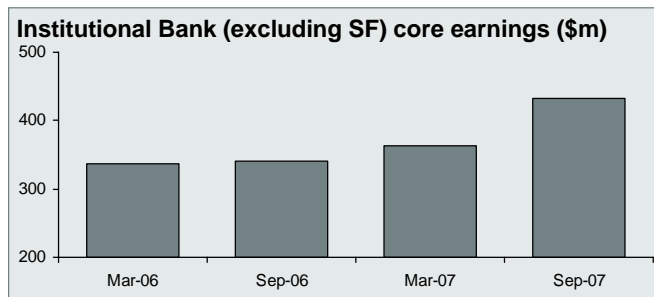
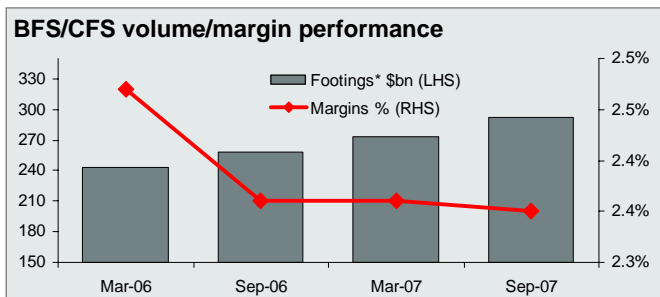
1. Customer retention represents the percentage of existing customers at the beginning of the year who remain customers at the end of the year.

## Strong growth in BT – more to come



- FUA & FUM flows solid but impacted by the redemption of low margin mandates
  - Wrap FUA up 44%
  - Wholesale FUM up 43%
  - Improved FUM & FUA margins
- Very strong funds management performance up 26% - particularly in 2H07
- Insurance up 21%
  - Improving cross-sell
  - Slower 2H07 earnings given higher storm/life claims
- High growth in other businesses. Broking, Margin lending, and Advice all delivering ~30% revenue growth

## Improving momentum across the business



\* Footings = loans plus deposits

Source: Westpac

## High quality – clear and straightforward result

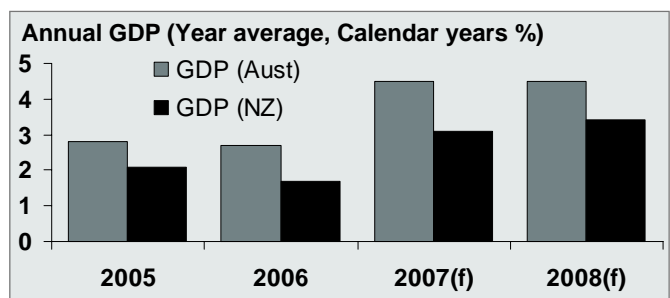
- Strong, broad based earnings growth
- High quality revenue driven performance
- Focusing on future earnings sustainability
  - Higher investment spend
  - Providing for known risks
- Excellent capital outcome – absorbed 18% risk weighted asset growth with higher ROE and no deterioration in capital ratios

# Outlook

David Morgan  
Chief Executive Officer

## Economic environment remains sound

- In Australia
  - Expansion continues in Australia, despite impact of drought
  - Inflation trending modestly higher
  - Unemployment at 31 year low
- New Zealand prospects solid
- Continuing solid global growth at around 5%



Source: RBA, RBNZ, Westpac Economics



## Current market conditions – impact on the outlook

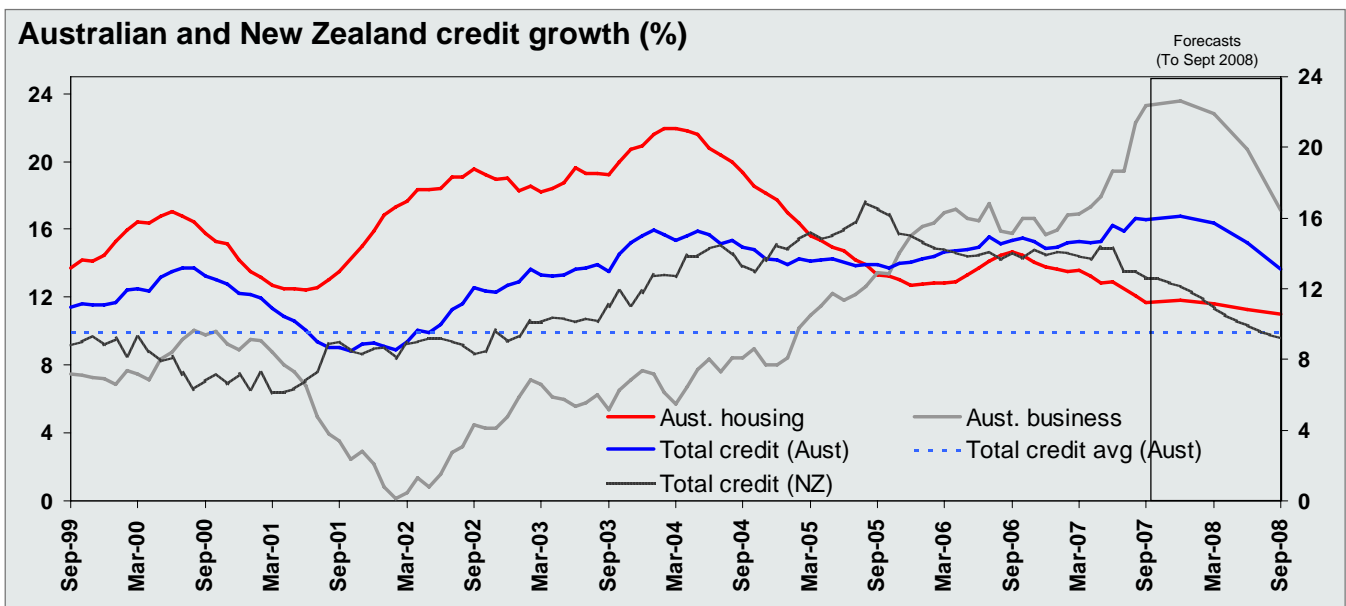
- Current conditions create some challenges for financial services companies

Credit risk	Funding & liquidity	Market volatility	Capital
Expect some companies to come under financial stress Better risk pricing	Higher funding costs expected to ease, but settle above prior norms	Volatility lower from recent highs but uncertainty remains	Strong demand for bank funding to continue

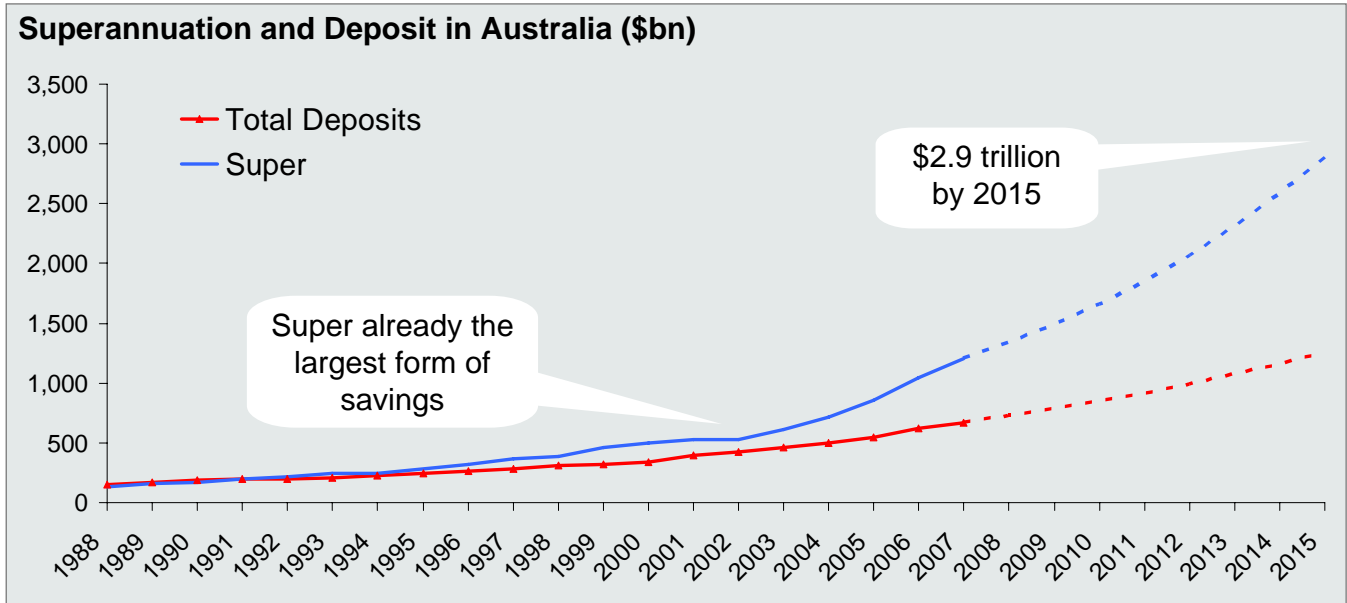
- For Westpac possible outcomes include
  - Some short term impact from higher funding costs
  - Continuing strong loan growth, with improved risk pricing
  - Opportunities in market sales and trading to continue

Source: Westpac

## Credit growth moderating but solid



## Superannuation increasingly dominant form of savings



## Strong broad based momentum into 2008

<b>CFS</b>	<ul style="list-style-type: none"> <li>• Enhancing distribution with a new local model and expanded presence</li> <li>• Begin to drive value from the RAMS franchise</li> </ul>
<b>BFS</b>	<ul style="list-style-type: none"> <li>• Realise full benefit from the strong platform and higher banker numbers</li> <li>• Sustained business improvement</li> </ul>
<b>WIB</b>	<ul style="list-style-type: none"> <li>• Further leverage leading market position, and strong customer demand</li> <li>• Effective execution of customer led strategy</li> </ul>
<b>BT</b>	<ul style="list-style-type: none"> <li>• Continuing to grow market share in a fast growing market</li> <li>• Capitalising on new investments in superannuation and insurance</li> </ul>
<b>NZ</b>	<ul style="list-style-type: none"> <li>• Turnaround on plan, with good progress in 2H07</li> <li>• Solid momentum into 2008</li> </ul>

## Key priorities

- Wealth management – actively grow our share
- Business Financial Services – capitalise on our investment
- New Zealand – consolidate the turnaround
- Consumer Financial Services – drive value from RAMS distribution assets

## Confident outlook

Confident we can continue to deliver strong results

- Solid earnings growth
- Leading return on equity
- High quality and sustainable performance

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