

# Westpac 2009 Interim Result

Investor Discussion Pack  
May 2009



## Westpac 2009 Interim Results **Index**

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# 1H09 Results Overview

May 2009



## Overview

## Westpac Banking Corporation – at a glance

- Australia's largest bank, and the world's 15<sup>th</sup> largest bank, ranked by market cap<sup>1</sup>
- One of only 11 banks globally rated AA or higher<sup>2</sup>, and recognised as one of the "20 safest banks globally"<sup>3</sup>
- Strategy focused on domestic markets of Australia, New Zealand and the near Pacific
- Broad, multi-brand franchise providing retail, business, institutional banking and wealth management services to around 10 million customers
- Strong capital, liquidity, funding and provisioning
- Solid earnings profile
- Leader in sustainability

### Key financial data for the half year to 31 Mar 2009

Net profit after tax (reported)	\$2,175m
Cash earnings (pro forma) <sup>4</sup>	\$2,295m
Tier 1 ratio (Basel II)	8.37%
Return on equity (pro forma, cash basis)	14.3%
Total assets	\$594,230m
Market cap <sup>1</sup>	\$55bn

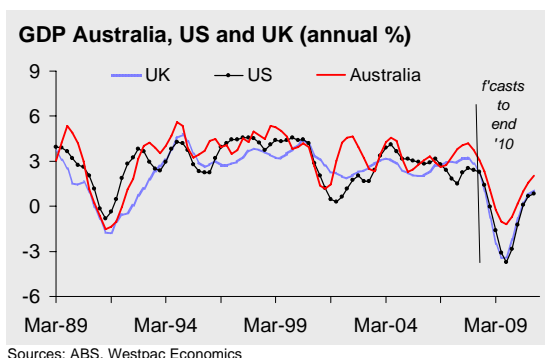
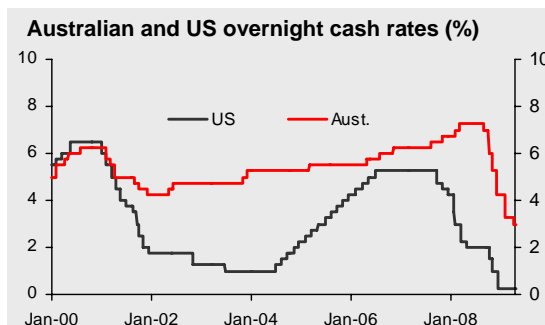
### Credit ratings

Standard and Poor's	AA / Stable / A-1+
Moody's Investor Services	Aa1 / Negative / P-1
Fitch Ratings	AA- / Stable / F1+

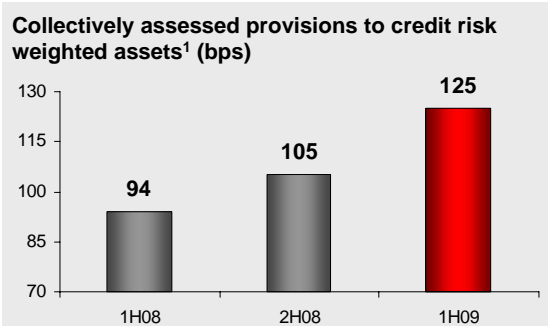
1. As at 29 April 2009. Source: IRESS, CapitalIQ and www.xe.com 2. Excluding government-owned banks. Rated AA and higher by Standard & Poor's.

3. Global Finance Magazine, February 2009. 4. Reported results adjusted to include the addition of the cash earnings of St. George for the full period (pro forma adjustments) and for material items to ensure they appropriately reflect profits normally available to ordinary shareholders (cash earnings adjustments). Refer to the Westpac 2009 Interim Results for details on the basis of preparation

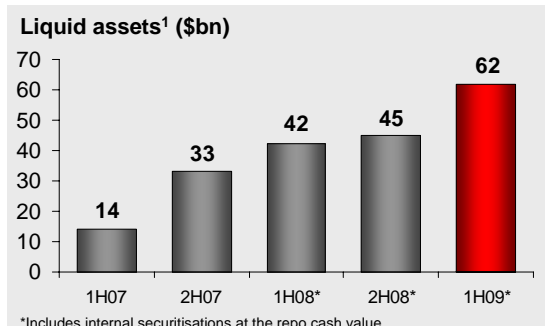
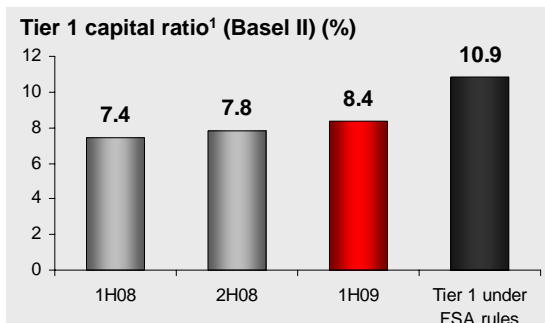
- Extraordinary operating conditions in 1H09:
  - Further deterioration in global capital markets
  - Unprecedented government intervention, including deposit and debt guarantees
  - Sharp declines in interest rates, along with lower equity and commodity prices
  - Ongoing market volatility and difficult liquidity conditions
- Weakening economic conditions:
  - Most developed economies in recession
  - Weaker Australian and New Zealand economic conditions, although Australia relatively well placed
  - Unemployment rising



- Strengthened capital base – Tier 1 at 8.37%, with \$4.7bn Tier 1 capital raised since Sep 08
- Reduction in dividend further supports capital strength
- Increased provision cover - collective provisions to credit risk weighted assets up 31bps to 125bps
- Maintaining prudent liquid asset balances – currently \$62bn, all eligible for repo with a central bank
- Positioned to continue supporting customers

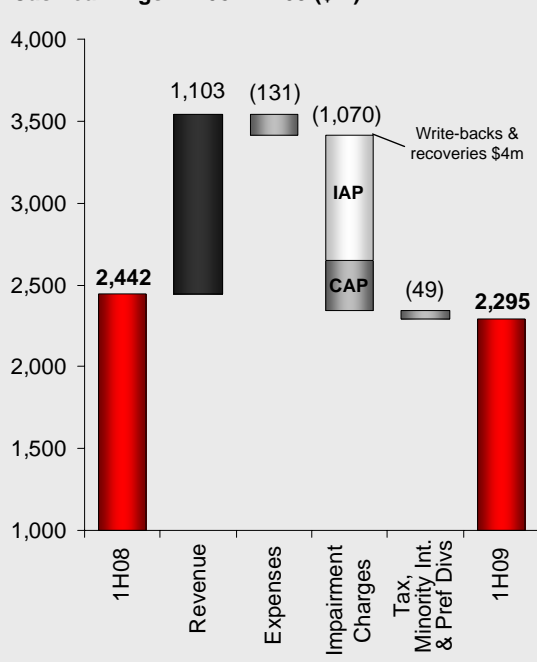


1. 2007 and 2008 comparatives are not on a pro forma basis



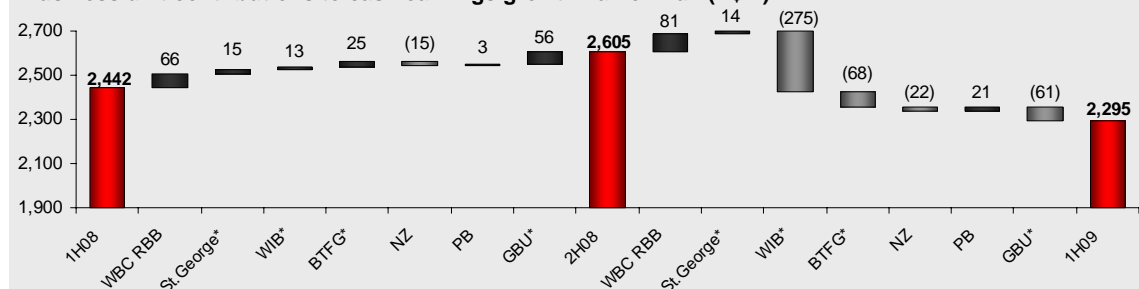
\*Includes internal securitisations at the repo cash value.

- Group cash earnings<sup>1</sup> reduced by 6% to \$2,295m; core earnings<sup>1</sup> up 24% offset by a significant increase in impairment charges
- Revenue<sup>1</sup> up 15%, benefiting from solid volumes, improved margins and markets revenue
- Expense growth<sup>1</sup> moderated to 4%
- Impairment charges<sup>1</sup> increased \$1,070m over 1H08:
  - Reflects more broad based stress
  - Individually assessed provision (IAP) charge up \$764m, primarily due to 3 large corporate exposures
  - Collectively assessed provision (CAP) charge up \$302m, including an additional \$112m in economic overlay<sup>2</sup>
- Reported net profit after tax down 1% to \$2,175m
  - Includes St.George results from 18 November 2008

Cash earnings<sup>1</sup> 1H08 – 1H09 (\$m)

1. Pro forma basis. 2. Compared to \$31m in economic overlay raised in 1H08

Business unit contributions to cash earnings growth half on half (A\$m)

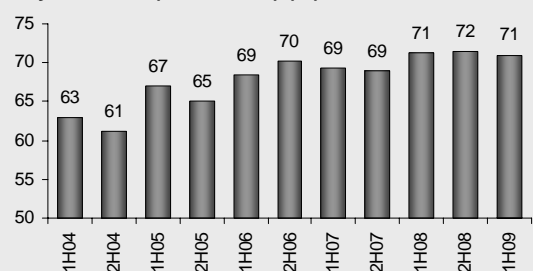


\*Pro forma basis

1H09 cash earnings <sup>1</sup> (A\$m)	WBC RBB	St.George	WIB <sup>1</sup>	BTFG <sup>1</sup>	NZ	PB	GBU <sup>1</sup>	Group <sup>1</sup>
Operating income	3,116	1,550	1,648	735	694	152	412	8,307
Expenses	(1,478)	(595)	(507)	(427)	(303)	(45)	-	(3,355)
Impairment charges	(224)	(198)	(907)	(5)	(153)	(4)	(120)	(1,611)
Tax and minority interests	(424)	(228)	(76)	(96)	(70)	(34)	(118)	(1,046)
Pro forma cash earnings	990	529	158	207	168	69	174	2,295
Contribution to cash earnings <sup>1</sup>	43%	23%	7%	9%	7%	3%	8%	100%

1. Pro forma basis. See slide 120 for Business Unit definitions

- Dividend 56 cents, down 20%
- Key considerations:
  - Supporting shareholders with 5.7% yield<sup>1</sup> (7.5% fully franked yield<sup>1</sup>)
  - Pay-out ratio of 71%<sup>2</sup>, in line with recent levels
  - Preserving capital position Tier 1 8.4%; 10.9% (FSA)
  - Higher share count, up 9% from new capital issued (excluding merger)
- EPS down 16%<sup>3</sup>
- DRP to be satisfied by new share issuance, continuing 2.5% DRP discount
- Significant franking balance, \$1.5bn

Payout ratio<sup>3</sup> (cash basis) (%)

3. 2004 and 2005 reported under AGAAP. 2006 onwards reported under A-IFRS.

1. Based on Westpac closing share price 4 May 2009. Source: IRESS 2. Cash basis (pro forma) 3. Cash EPS on pro-forma basis for 1H09; prior period excludes the St George merger

Revenue	<ul style="list-style-type: none"> <li>• Treasury and markets income remaining solid but unlikely to match 1H09</li> <li>• Financial system credit growth slowing, but expect to grow above system</li> <li>• Higher cost of funds, including deposits; lending spreads also to rise</li> </ul>
Expenses	<ul style="list-style-type: none"> <li>• Merger benefits becoming more prominent</li> <li>• Increased productivity focus gaining traction</li> </ul>
Impairments	<ul style="list-style-type: none"> <li>• No large single names currently in the pipeline but the economy is still deteriorating</li> <li>• Commercial sector showing increased stress, including property</li> <li>• Expect household sector to remain solid</li> </ul>



# Strategy and St.George Merger Progress

May 2009



## Strategy

**Westpac is differentiated by its focus and risk disciplines**

<b>Focus on core markets</b>	<ul style="list-style-type: none"><li>• Major Australian bank most focussed on Australia and New Zealand</li><li>• Better leveraging Australian &amp; New Zealand growth through customer-focussed, multi-brand strategy</li></ul>
<b>Well positioned in current environment</b>	<ul style="list-style-type: none"><li>• Proactive response to financial crisis<ul style="list-style-type: none"><li>- No sub-prime or related losses</li><li>- No conduit losses</li><li>- Led market in strengthening funding, liquidity and provisioning</li></ul></li><li>• Strong Tier 1 capital at 8.4% and sound, diverse earnings profile</li><li>• Low risk approach evident in loan portfolio quality – over 55% Australian mortgages</li></ul>
<b>Transformational St.George merger</b>	<ul style="list-style-type: none"><li>• Merger assists in transforming Westpac, as it adds multiple brands</li><li>• 40% increase in the distribution network</li><li>• Heading to a sub 40% cost/income ratio</li><li>• Integration model maximises opportunities, minimises risks</li></ul>
<b>Sustainability leader</b>	<ul style="list-style-type: none"><li>• Global sustainability leader</li><li>• Employer of choice</li></ul>

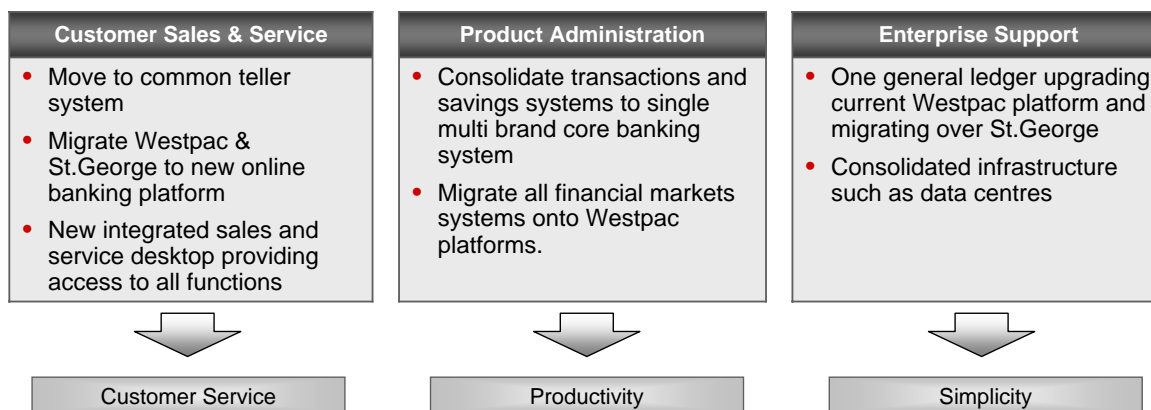


	Objective	1H09 Progress
<b>Customers</b>	Earn all of our customers' business	<ul style="list-style-type: none"> <li>Products per customer - best of banks<sup>1</sup></li> <li>Strong uplift in customer deposits, up 24%</li> <li>Improving cross sell – Insurance, BT Super for Life</li> </ul>
<b>Distribution</b>	Strengthen and drive locally empowered business	<ul style="list-style-type: none"> <li>Multi-brand strategy taking shape</li> <li>Westpac Local being rolled out, with improved banker empowerment</li> <li>St.George contact centre globally recognised, improving Westpac contact centres</li> </ul>
<b>Operations</b>	Transform service delivery	<ul style="list-style-type: none"> <li>Simplifying processes, eliminating unnecessary requests, improving online tools</li> <li>Effective use of overflow space and capacity between Westpac and St.George</li> </ul>
<b>Technology</b>	Strengthen capability & improve flexibility/simplicity	<ul style="list-style-type: none"> <li>Completed strategic roadmap incorporating merger</li> <li>Improved systems reliability</li> <li>Significantly strengthened IT bench strength</li> </ul>
<b>People</b>	Drive one team approach	<ul style="list-style-type: none"> <li>Staff engagement up to 82% (from 78%)</li> <li>Effective implementation of merger in operational areas with best from Westpac and St.George teams</li> <li>New operating model removing organisational barriers to improve cross sell</li> </ul>
<b>Merger</b>	Integrate without customer disruption	<ul style="list-style-type: none"> <li>St.George momentum is building</li> <li>Westpac RBB strong performance, not distracted</li> <li>Strong customer satisfaction and retention</li> </ul>

1. Source Roy Morgan Research 2009

- IT architecture and priorities are focused on helping Westpac achieve its multi-brand business strategy
  - Improve customer alignment
  - Ensure the group is easy to do business with
  - Maintain reliable and stable technology
  - Achieve economics of scale from St.George merger
- IT architecture established along with desired roadmap
- Implementation plan spans the next 5 years and involves a mix of Westpac, St.George and new technology solutions. Importantly, use of St.George technology has higher application than initially anticipated.

### Key technology plans:



Objective: to be a global leader in sustainability - and clearly recognised as such by customers, investors, employees and communities		
Strategy	Enhanced accountability	Measurement
<ul style="list-style-type: none"> <li>Reduce direct and financed emissions</li> <li>Transition to low carbon economy</li> <li>Leading human capital management</li> <li>Responsible banking and investment</li> <li>Engage on local issues and concerns</li> <li>Best practice risk management and governance</li> </ul>	<ul style="list-style-type: none"> <li>Clear plans and one, three and five year objectives for focus areas</li> <li>Integrated into Business Strategy</li> <li>Sustainability leaders in each business division</li> <li>Westpac Group Sustainability Council to coordinate and share best practice</li> </ul>	 <p>Leading performance with Westpac's highest overall sustainability rating of 87%</p>  <p>Top-rated (10.0) in 17 consecutive assessments by GovernanceMetrics International</p>

### 2009 objectives across key focus areas

Environment			Local social leadership	Governance best practice
Managing our footprint	Relevant products & services	Transitioning to low carbon/water future		
<ul style="list-style-type: none"> <li>Reduce Scope 1 and 2 emissions by 5% (30% by 2012/13)</li> <li>Site by site energy management plans</li> <li>Increased accountability for Scope 3 emissions</li> </ul>	<ul style="list-style-type: none"> <li>Achieve at least second highest sector Net Promoter Score</li> <li>Wealth products using sustainability principles</li> <li>Expand Westpac Assist to SMEs</li> </ul>	<ul style="list-style-type: none"> <li>Launch Commodities, Carbon &amp; Energy products and services</li> <li>Engage customers on carbon risk</li> <li>Institutional and business banking carbon risk training</li> </ul>	<ul style="list-style-type: none"> <li>Maintain employee engagement at 78%</li> <li>Reduce time lost through injury by 5%</li> <li>Roll out local social engagement and investment model</li> </ul>	<ul style="list-style-type: none"> <li>Release sector lending/investment policies</li> <li>Further integrate financial and non-financial reporting</li> <li>Report against UNPRI</li> </ul>



## Merger

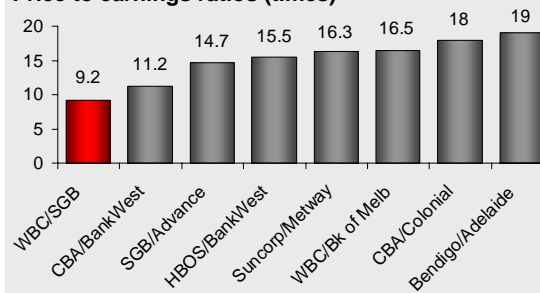
## St.George merger progressing well

- Merger preserves the best of both:
  - Multiple brands
  - 40% increase in distribution
  - Leader in funds management and funds administration
- Approaching a sub 40% cost/income ratio
- Purchase price of A\$12.2bn
  - Compares favourably with a P/E ratio of 9.2x and price to book ratio of 1.7x
  - Westpac share price \$16.32 (St.George implied share price \$21.38)
- Formal accounting acquisition date 17 November 2008
- Integration proceeding well with no customer disruption
  - Key organisational appointments in place



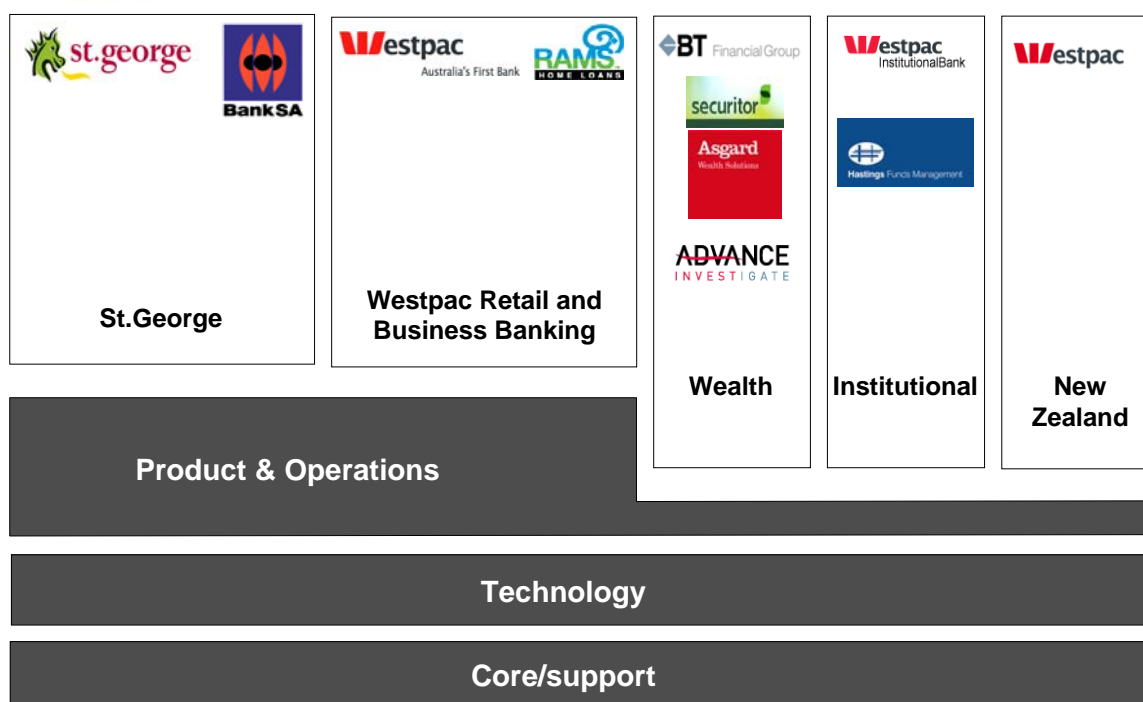
Customers (m)	2.6	7.3	9.9
Australian retail representation	395	917	1,312
ATMs	1,128	1,735	2,863

Price to earnings ratios (times)



## Merger

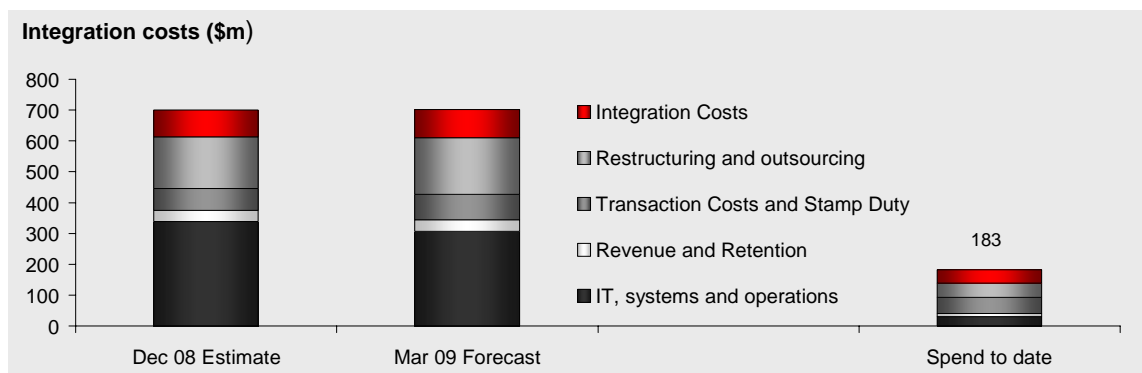
## Operating model supports multi-brand strategy



- Delivered \$22m in merger savings in 1H09 (\$103m in annual run rate benefits)
- Key appointments across the organisation complete
- Maintained merger commitments:
  - Preserved multiple brands
  - Protected customer relationships
  - Merit based approach to internal appointments
  - Maintained branches and ATMs
  - Maintained corporate presence in Kogarah
- Reciprocal ATM usage in place benefiting both bank's customers
- Consolidated Group Treasury in place to fund and risk manage the Group
- Aligned accounting and risk policies and procedures, including a consistent credit decision and credit provisioning approach
- Record employee engagement through the merger integration – 82%; 1 point above the average of the Global High Performing Norm
- Reviewed all operating licenses and third party contracts
- Finalised Technology strategy for merged entity
- Created secure technology bridge across the two organisations
- Commenced projects to deliver:
  - Finance Integration – effective governance and consolidated reporting, including a single general ledger
  - People Systems Integration – payroll, recruitment and occupational health and safety systems
  - Wealth cross-sell initiatives into St.George including BT Super for Life and Insurance products
  - Integration of risk frameworks across the merged organisation to achieve Basel II Advanced Accreditation
  - Transition to a single ADI including the transfer of all assets and liabilities of St.George to Westpac

- \$700m forecast integration spend remains, with composition broadly in line with that presented in December 2008
- \$183m spend to date

Integration costs (\$m)	2H08	1H09	Spend to date
Acquisition costs	18	27	45
Cash earnings adjustments	13	125	138
Total cash spend	31	152	183

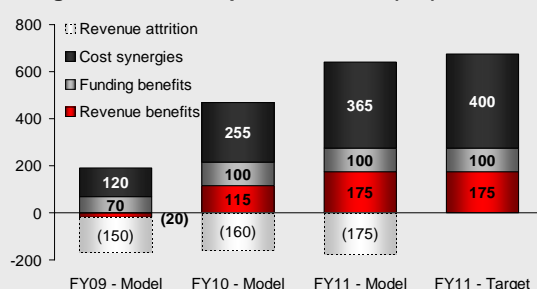


1H09 merger benefits (\$m)	Benefits	Annual run-rate	Comment
Personnel	18	87	<ul style="list-style-type: none"> <li>198 people exited the organisation</li> <li>300 vacant roles (not replaced since merger first announced) have been eliminated</li> </ul>
Non-personnel	4	16	<ul style="list-style-type: none"> <li>Sourcing savings from a complete review of external contracts</li> <li>Early technology and operations synergies</li> </ul>
Total	22	103	

#### Key revenue benefits

- Progressing plans to cross sell BT insurance products into St.George
- Development underway to make BT Super for Life available to St.George customers

Merger benefits - acquisition model (\$m)



Balance sheet impacts (\$bn)	
Consideration	12.2
Less St.George net assets as at 17 Nov 2008	
St.George net assets 30 Sept 08 (includes 1.1bn of goodwill)	7.0
St.George 2008 final dividend	(0.7)
Removing hybrids (SAINTS & SPS)	(0.5)
Fair value, including credit provisions	(0.4)
Profit & reserve movements to 17 Nov 08	(0.1)
Less Identified intangible assets	
Brand – St.George and Asgard	0.6
Core deposit intangible	1.5
Other intangibles	0.3
Deferred tax liabilities (for amortising intangibles only)	(0.5)
Goodwill movement	5.0

Capital impacts	
The fair value approach and the alignment of accounting policy between Westpac and St.George reduced Westpac's capital by \$379m. The reduction comprised:	
\$185m for credit provisioning	<ul style="list-style-type: none"> <li>\$66m increase in individually assessed provisions to align provisioning process</li> <li>\$491m increase in collectively assessed provisions, including aligning risk grades \$392m and economic overlay \$99m</li> <li>Offset by reducing the General Reserve for Credit losses by \$205m (post tax item)</li> </ul>
\$194m write down in other tangible assets	<ul style="list-style-type: none"> <li>Includes \$132m Crusade CP No.1 (Asset-backed CP conduit) portfolio of diversified corporate debt revalued 17 Nov 08. Also includes a \$21m loss on liquidity facilities provided to external conduits</li> </ul>

Cash earnings impacts	
The application of these accounting adjustments has an impact on future earnings as some of these adjustments unwind or amortise over time. As a result two cash earnings adjustments have subsequently been established	
Amortisation of intangibles	Unwind of adjustments to the value of term deposits and short term wholesale funding
Intangible assets with a definite life have been determined as part of the merger including the core deposit intangible and distribution relationships. The unwind (an expense) of these intangibles occurs over their estimated life and will be removed from cash earnings because they are a non-cash item	The revaluation of these items will occur over the year to Sept 09 consistent with their contractual maturity. The unwind will increase interest income in 1H09 (\$118m) and 2H09 and will be removed from cash earnings because of its size and non-recurring nature

# Capital, Funding and Liquidity

May 2009

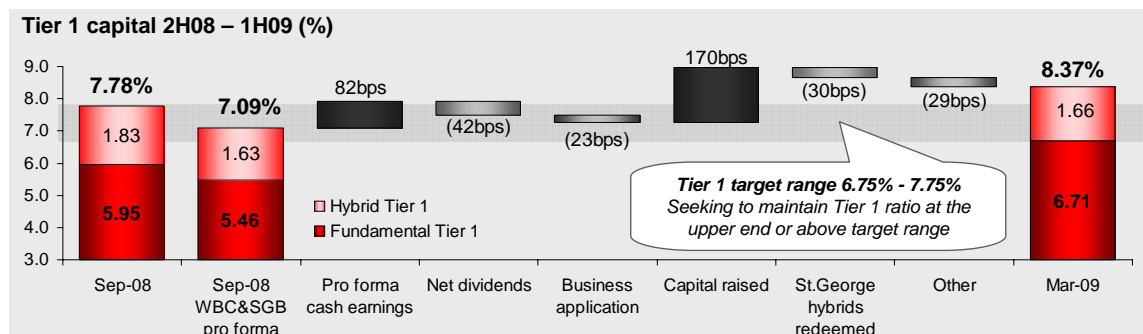


## Capital

## Strong capital position

- Increase in Tier 1 capital over the half, from 4 separate sources, reflects the strength of the franchise
  - Dividend underwrite \$0.9bn
  - Institutional placement \$2.5bn
  - Retail Share Purchase Plan \$0.4bn
  - Non-Innovative hybrid capital \$0.9bn
- Capital flexibility retained
  - St.George not Basel II advanced accredited
  - Maintain contingent capital of \$1bn (convertible at Westpac's option)
  - Hybrid capacity \$1.5bn

Key capital ratios (%)	1H08	2H08	1H09
Tier 1 ratio	7.4	7.8	<b>8.4</b>
Tier 1 ratio (FSA)	10.1	10.1	<b>10.9</b>
Total capital ratio	10.1	10.8	<b>11.4</b>
Fundamental capital ratio	6.1	6.0	<b>6.7</b>
Risk weighted assets	\$187bn	\$196bn	<b>\$280bn</b>



(\$m)	Loans			Basel II RWA		
	Sep-08	Mar-09	% change	Sep-08	Mar-09	% change
<b>Business purposes</b>						
On-balance sheet	126,343	128,403	2	85,799	87,708	2
Off-balance sheet				38,836	38,653	0
<b>Total business purposes</b>	126,343	128,403	2	124,635	126,361	1
<b>Consumer purposes</b>						
On balance sheet	189,147	200,039	6	38,906	42,014	8
Off balance sheet				3,457	4,032	17
<b>Total consumer purposes</b>	189,147	200,039	6	42,363	46,046	9
On-balance sheet		124,573			69,137	n/a
Off-balance sheet					2,972	n/a
<b>Total St. George Bank</b>		124,573			72,109	n/a
Provision for impairment	(1,945)	(4,143)	(113)			
<b>Total credit risk</b>	<b>313,545</b>	<b>448,872</b>	<b>43</b>	<b>166,998</b>	<b>244,516</b>	<b>46</b>
% of total RWA				85%	87%	
Total on balance sheet credit risk				124,705	198,859	59
Total off balance sheet credit risk				42,293	45,657	8
<b>Non-credit risk</b>						
Equity risk				604	1,045	73
Market risk				6,559	8,003	22
Operational risk				13,641	19,319	42
IRRBB				4,135	2,538	(39)
Other assets				3,568	4,608	29
<b>Total non-credit risk</b>				<b>28,507</b>	<b>35,513</b>	<b>25</b>
% of RWA				15%	13%	
<b>Total RWA</b>				<b>195,505</b>	<b>280,029</b>	<b>43</b>

Growth in line with business loan growth

RWA growth higher than loan growth from deterioration in Credit Cards and change in debt sale costs

Decline in IRRBB due to increase in embedded gain

Impact of changes in RWA on capital <sup>1</sup> 2H08 – 1H09	Impact on capital ratios (bps)
Volume growth in credit RWA	-13bps
Change in credit parameters	-1bps
Change in credit quality in RWA	-6bps
Non-credit movement in RWA	1bps
<b>Total change in RWA</b>	<b>19bps</b>

Pro-cyclicality of capital 2H08 – 1H09	Impact on capital ratios (bps)
Change in credit quality	-6bps
Change in impairment charges	-24bps
Change in regulatory expected loss	Nil
<b>Total pro-cyclicality impact</b>	<b>30bps</b>

Scenarios: Impact from changes in our current institutional and corporate portfolio	Impact on Tier 1 capital
Equivalent to a 1 notch downgrade across the entire portfolio	100 to 120 bps
Equivalent to a 2 notch downgrade in the property portfolio (updated for more recent analysis)	50 to 60 bps
<b>Change over last 6 months</b>	<b>30bps</b>

Impacts on pro-cyclicality include:

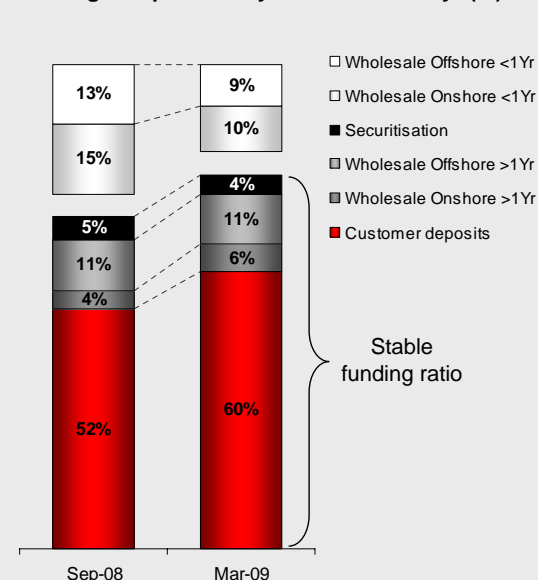
- Changes in RWA from downgrades to exposures, excluding those downgraded to impaired
- Change in impairment charges accounts for exposures downgraded to impaired (and hence have an individually assessed provision) and higher collectively assessed provisions
- Changes in regulatory expected loss have not impacted capital as eligible provisions have increased in line with the increase in the regulatory expected loss

1. On a pro forma basis assuming the merger with St. George was completed on 1 October 2007



- Stable funding ratio improved to 81%:
  - Stable funding ratio represents customer deposits plus wholesale term debt with a residual maturity >1 year and securitisation
  - Targeting above 75%
  - Up from 72% at Sep 08
- Strong growth in customer deposits:
  - Proportion increased from 52% to 60% of the Bank's funding
- Increased proportion of wholesale term funding:
  - 17% of the Bank's funding, up from 15% at Sep 08
- Reduction in short term wholesale funding, from 28% to 19%
- Weighted average maturity of term funding raised in 1H09 is 3.6 years

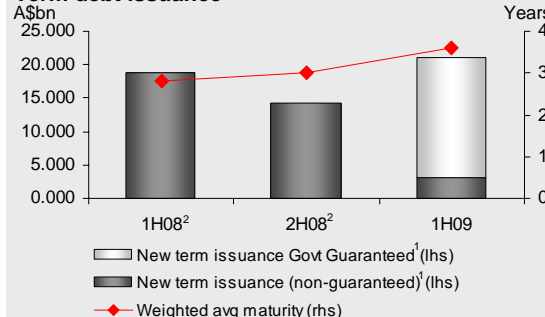
Funding composition by residual maturity<sup>1</sup> (%)



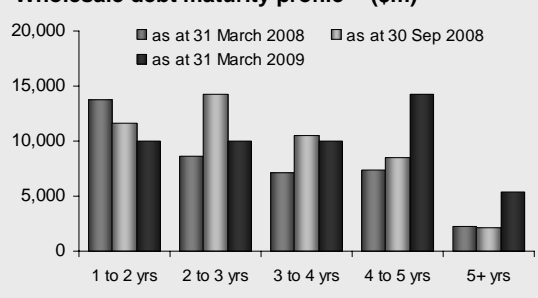
1. Sep-08 is restated on a pro forma basis. Represents % of total net funding. Less than 12 months includes liquid assets excess over minimum. Netted equally against onshore and offshore.

- Continued access to wholesale markets:
  - \$21bn raised in term markets in 1H09, with a weighted average maturity of 3.6 years
  - Australian Government Guarantee has enabled Westpac to compete for funds with other government guaranteed issuers – at a cost of 70bps
- Benefiting from flight to quality and an established global funding franchise:
  - Completed benchmark public deals in Japan, US, Australia, Switzerland, New Zealand and UK, including:
    - Re-opened the Samurai market with the First Government Guaranteed Samurai bond by an issuer (Feb 09)
    - Largest domestic bond deal by any issuer (Mar 09) \$3.5bn
  - Ongoing strong reverse enquiry for Westpac bonds
- Well progressed on FY09 term funding plans
- Expect term issuance in 2H09 to be significantly lower than 1H09

Term debt issuance



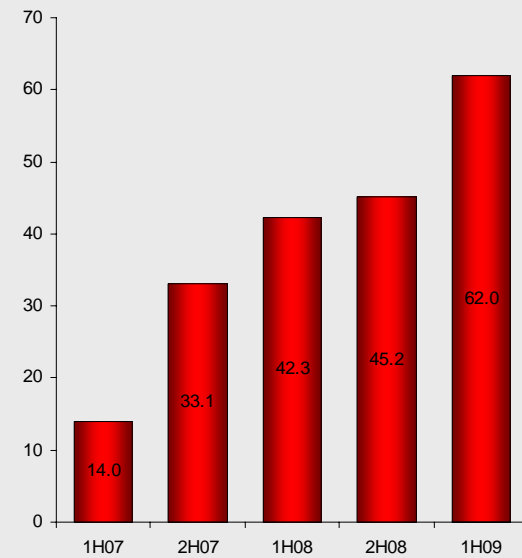
Wholesale debt maturity profile<sup>3,4</sup> (\$m)



1. Wholesale funding issued off term debt programmes. Does not include wholesale funding from short term money markets with maturities greater than 12 months.  
 2. Excludes St George issuance. 3. Remaining maturity. To next call date. 2008 numbers have been re-stated to include hybrid securities 4. 2008 comparatives are not presented on a pro forma basis

- Strong liquidity position maintained:
  - Westpac Treasury currently holds liquid assets of A\$62bn
  - Covers all offshore maturities for more than 12 months
  - All securities in liquidity portfolio are available for repurchase in normal daily open market operations with a central bank
- Additional sources of liquidity of A\$3.6bn are also available, including trading assets held in WIB Financial Markets

Westpac liquid assets<sup>1</sup> (\$bn)

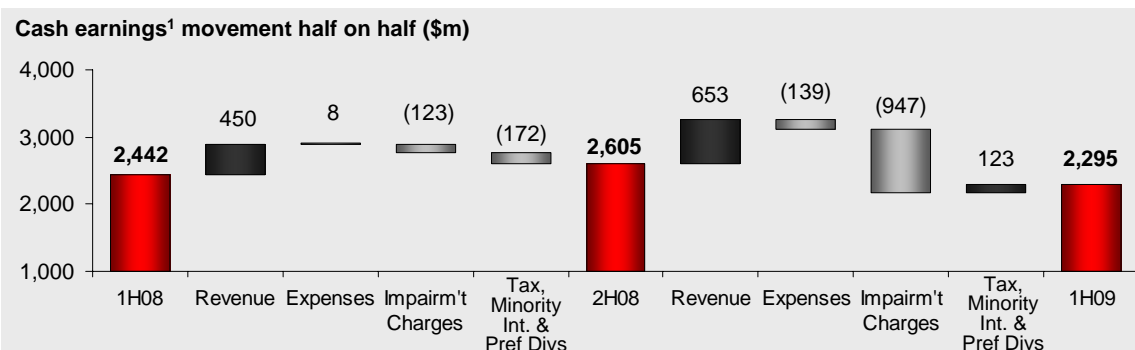


1. Net of assets on repo with central banks. Internal securitisations included at the repo cash value. 2008 comparatives have not been restated on a pro forma basis

## Features of the Result

May 2009

## Cash earnings **Sound cash earnings half on half**

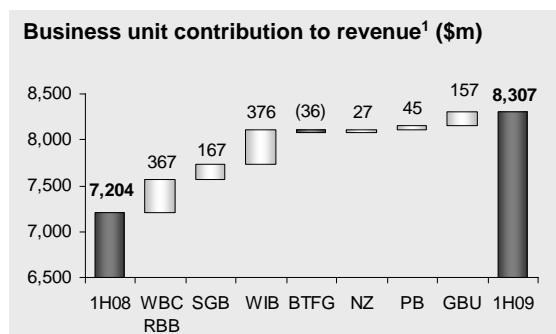


- Sound annual performance given conditions
- 1H08 – 2H08 key features:
  - Stronger revenues with good balance sheet growth
  - Expenses in 2H08 were low, due to a decline in St. George expenses pre-merger
  - Impairment charges higher but in early stage of cycle
- 2H08 – 1H09 key features:
  - Continuing strong markets income and improved margins boosting revenue
  - Significant impairment charge increase from the financial crisis and deteriorating economy

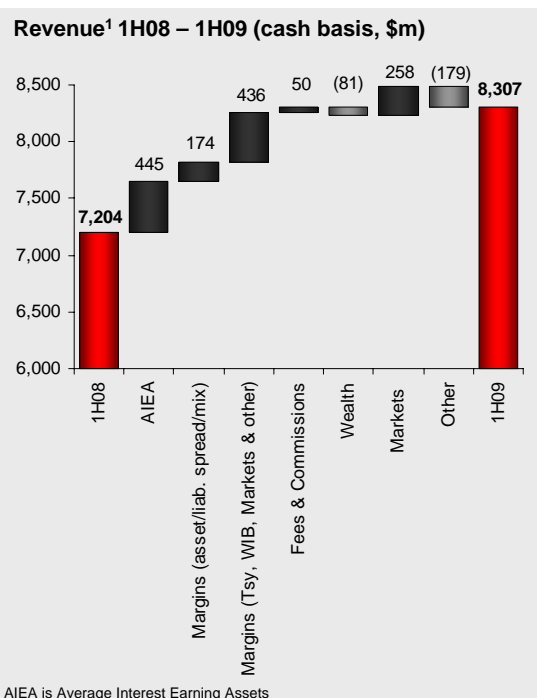
1. Pro forma basis

## Revenue **Strong revenue reflecting a diverse portfolio**

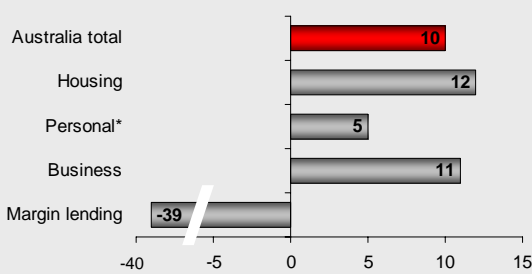
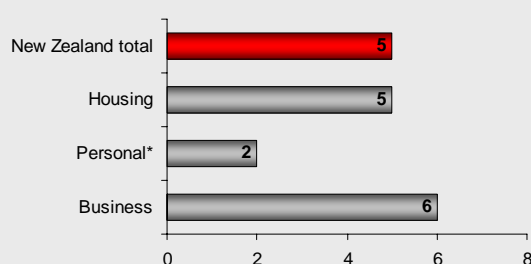
- Net interest income up 23%<sup>1</sup>, with solid growth, rising margins and higher Treasury income
- 2% growth in non-interest income<sup>1</sup>:
  - Excellent markets performance
  - Weaker wealth earnings
  - Asset writedowns in Specialised Capital Group (negative revenue)



1. Pro forma basis

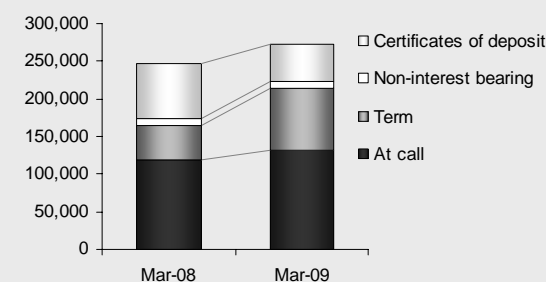
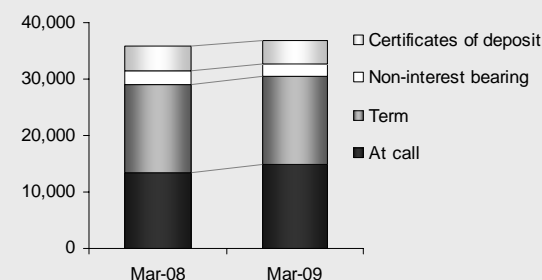


- Group net loans up \$37bn, or 9%, to \$449bn
- Total Westpac Australian credit growth 10%, vs 5% system growth<sup>1</sup>, supported by:
  - Improved market share, with customers seeking the security of a AA rated institution
  - Housing growth of 12%, 1.8x financial system, and 1.2x banking system
  - 11% growth in lending to corporates and businesses
- Total Westpac New Zealand credit growth below system growth<sup>2</sup> of 7%

Australian loan<sup>3</sup> growth 1H08 – 1H09 (%)New Zealand loan<sup>3,4</sup> growth 1H08 – 1H09 (NZ\$ %)

\* Personal is personal loans and credit cards. 1. Source: RBA financial system growth, 12 months to 31 March 2009. 2. Source: RBNZ system growth, 12 months to 31 March 2009. 3. Spot gross loan balances. 4. New Zealand comprises our New Zealand retail banking operations and wealth management business, WIB New Zealand and Treasury.

- In early 2008, Westpac was growing deposits below system. That position has been reversed with good customer deposit growth across all businesses, up 24%
- Australian customer deposits up \$46bn on 1H08:
  - Growth of 27%, compared to system<sup>2</sup> growth of 17%
  - Increased focus on deposit gathering
  - Customer preference for bank deposits over other asset classes
  - Strong growth in term deposits, up 74%, with customers seeking high relative returns
- Structural shift in deposit mix has enabled a reduction in the reliance on wholesale funding sources:
  - Australian Treasury deposits, mostly certificates of deposit (CDs), down \$24bn, or 32%
- New Zealand retail<sup>5</sup> deposits up 8%, compared to system<sup>3</sup> 11% in NZ\$ terms - lower relative growth from not matching more aggressive market rates

Australian deposit<sup>4</sup> balances (A\$m)New Zealand deposit<sup>4,5</sup> balances (A\$m)

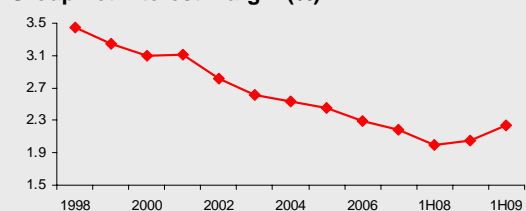
1. Westpac's total Australian deposits less Australian certificates of deposit (RBA data). 2. Source: RBA financial system growth, 12 months to 31 March 2009. 3. Source: RBNZ system growth, 12 months to 31 March 2009. 4. Spot deposit balances. 5. New Zealand comprises our New Zealand retail banking operations and wealth management business, WIB New Zealand and Treasury.

## Net Interest Margin

## Margins and product spreads reflect market dynamics

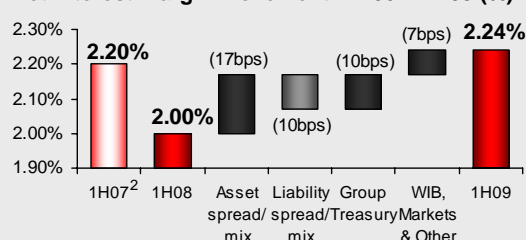
- Margins up 24bps, includes 17bps from Treasury, Markets and other; retail and business margins up 7bps
- Total margins back to pre-financial crisis levels
- Deposit spreads declined materially:
  - Increased competition for customer deposits given more difficult wholesale markets
  - Change in the mix of deposits, with the majority of new flows in term deposits
- Lending spreads generally higher:
  - Increasing risk premiums given deteriorating environment
  - Catch-up in recouping higher funding costs

Group net interest margin (%)



1. Pro forma basis 2. Represents merged margins based on previously reported data for Westpac and St.George. 3. Includes broker commissions and wholesale term funding costs

Net interest margin movement<sup>1</sup> 1H08 – 1H09 (%)



Product spreads<sup>3</sup> – Australia (%)

	Pro-forma		1H09 vs 1H08
	1H08	2H08	
Mortgages	0.67	0.66	+0.19
Business lending	1.56	1.49	+0.11
Cards	5.06	5.26	+1.53
Institutional lending	0.60	0.65	+0.13
Retail deposits	2.11	2.09	-0.44

Product spreads – New Zealand (%)

	Pro-forma		1H09 vs 1H08
	1H08	2H08	
Consumer lending	1.11	1.27	+0.44
Business lending	1.50	1.56	+0.20
Total lending	1.27	1.39	+0.34
Deposits	1.81	1.60	-0.35

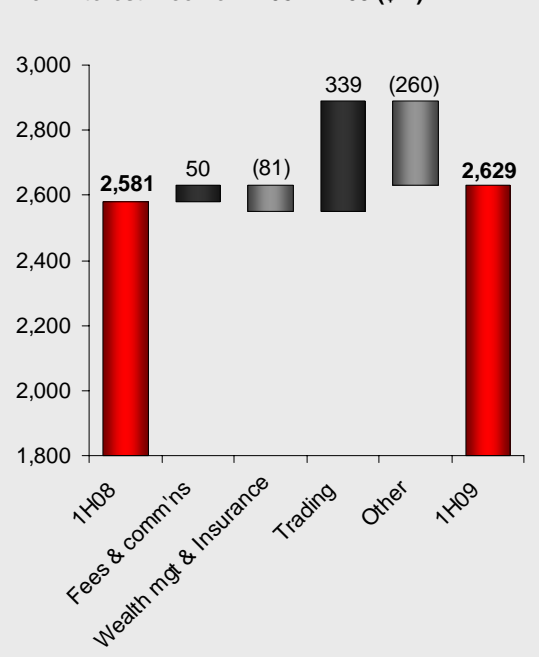
## Non-Interest Income

## Modest growth in non-interest income

- Modest non-interest income<sup>1</sup> growth with strong trading offset by weak wealth and other income
- Fees and commission up 4%:
  - Higher line and origination fees in institutional banking
  - Lower transaction fees
- Wealth management and insurance down 11%:
  - Funds management revenue down 15% from lower FUM and FUA
  - Insurance revenue up 15% on good premium growth
- Trading up significantly:
  - Improved customer volumes and wider spreads from higher market volatility and reduced liquidity
- Other income lower, including asset writedowns in Specialised Capital Group

1. Pro forma basis

Non-interest income<sup>1</sup> 1H08 – 1H09 (\$m)





- Conditions for markets income have been positive with stronger volumes and wider markets spreads
- Strong growth in markets volumes:
  - Customer sales up 87% on 1H08
  - More customer activity given more volatile and uncertain conditions
  - Improved competitive position
  - Increased demand for AA rated counterparties
- Well positioned trading portfolio, particularly for falling interest rates and foreign exchange volatility
- Improved market spreads:
  - Price volatility in the foreign exchange markets
  - Illiquidity – exiting of some players, including hedge funds
- Stable VaR represents portfolio diversification in the face of higher volatility

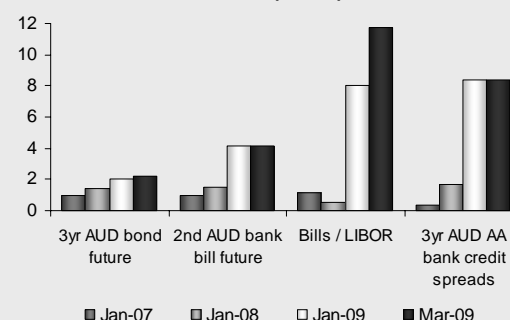
Pro forma Markets revenue by division (\$m)	1H08	2H08	1H09
Foreign Exchange and Commodities, Carbon and Energy (FX & CCE)	223	272	511
Equities <sup>1</sup>	(5)	(15)	(1)
Debt markets sales and trading	132	57	203
<b>Total</b>	<b>350</b>	<b>314</b>	<b>713</b>
Pro forma Markets revenue (\$m)	1H08	2H08	1H09
Customer activity	180	190	337
Trading	170	124	376
<b>Total</b>	<b>350</b>	<b>314</b>	<b>713</b>
Average VaR <sup>2</sup>	7.1	9.5	9.3

1. Represents Structured Products component of Equities business only. 2. VaR at 99% confidence level, 1 day hold period.

- Strong Treasury result reflects positioning for lower rates and basis positions in both short end and cross currency derivatives markets
- Higher Treasury VaR reflects increased market volatility despite little change in structural risk positions

Pro forma Treasury revenue (\$m)	1H08	2H08	1H09
Net interest income	158	231	450
Non-interest income	(1)	57	14
<b>Total revenue</b>	<b>157</b>	<b>288</b>	<b>464</b>
<b>Cash earnings</b>	<b>101</b>	<b>183</b>	<b>301</b>
Average VaR <sup>1</sup>	9.9	22.9	41.4

Increase in relative VaR<sup>2</sup> (index)



1. VaR at 99% confidence level, 1 day hold period. 2. Indexed July 2006 = 1

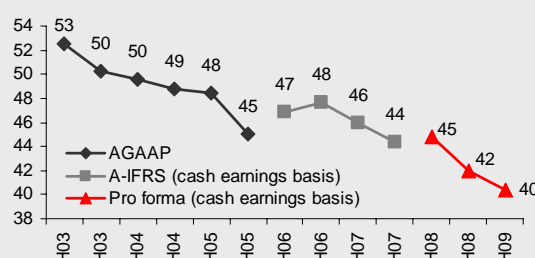
## Expenses

## Expense growth easing matching the tougher environment

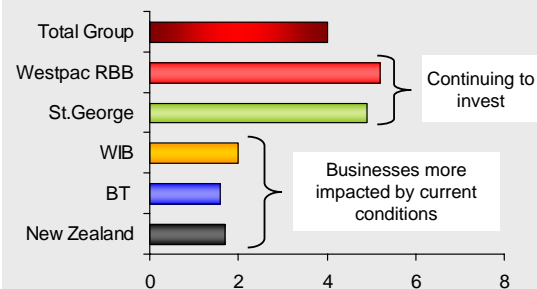
- Expense to income<sup>1</sup> ratio down 4.4 percentage points from 1H08 to 40.4%
- Banking expense to income ratio 38.5%
- Expense growth of 4% in 1H09
- Employee expenses up 4%:
  - General wage increases and higher front line staff boosting growth
  - Lower head office and support staff, including from merger
- Equipment and occupancy up 3%:
  - Lower software amortisation offset by increases in the distribution network
- Other expenses up 5%:
  - Higher credit card loyalty costs
  - Lower legal, advertising and travel expenses
- Achieved \$22m in merger savings in the half with the impact more pronounced in 2H09
- Expense growth lower in businesses more impacted by current environment (BT, NZ, WIB); higher in Westpac RBB and St.George

1. Pro forma basis

Group - expense to income (%)



Expense growth by business unit 2H08 – 1H09 (%)



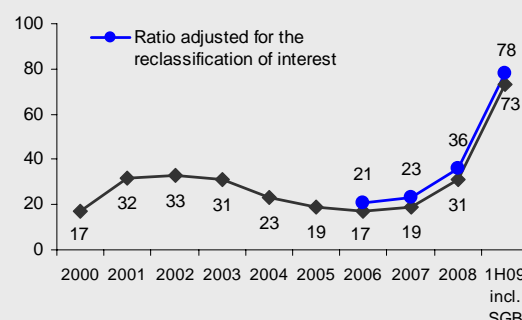
## Impairment Charges

## Impairment charges

- Impairment charges as a proportion of gross loans increased by 42bps<sup>1</sup> on 2H08:
  - Increases in both individually assessed and collectively assessed provisions
  - Increase in the economic overlay given uncertain economic outlook
  - A small number of large corporate exposures becoming impaired
  - Weakness in asset markets combined with the closure of certain funds has also contributed to impairments in a small number of concentrated margin lending portfolios
  - An increase in customer financial stress as domestic economic activity slows, particularly in the commercial business segment (facilities \$10m to \$100m)
  - In New Zealand, stress has been more broadly spread across business, particularly property, and consumer, reflecting an economy that has been in recession since early 2008

1. Pro forma basis

Impairment charge to average gross loans (bps)



Note: 2000 – 2005 reported under AGAAP. 2006 onwards reported on A-IFRS basis

Category	Charge 1H08 <sup>1</sup> (\$m)	Charge 1H09 <sup>1</sup> (\$m)	Change over 1H08 (\$m)	Comments
<b>Individually assessed</b>				
<b>New individually assessed</b>	266	1,030	567	WIB, from 3 large corporate exposures, increases in stress in the Premium Business Group and higher margin lending provisions
			197	St.George (\$110m) mainly due to commercial property and New Zealand (\$48m) across both business and housing sectors
<b>Write-backs and recoveries</b>	(58)	(54)	4	
<b>Total individually assessed</b>	<b>208</b>	<b>976</b>	<b>768</b>	
<b>Collectively assessed</b>				
<b>Write-offs</b>	234	281	47	Predominantly in the cards portfolio, including from lower debt sale prices
<b>New collectively assessed</b>	161	461	219	Increase in stressed exposures across all business units, particularly in the commercial sector
			81	Further increase in economic overlay (\$112m compared to \$31m charge in 1H08)
<b>Total collectively assessed</b>	<b>395</b>	<b>742</b>	<b>347</b>	
<b>Interest adjustments</b>	(62)	(107)	(45)	Increases due to increased collective pool
<b>Total impairment charge</b>	<b>541</b>	<b>1,611</b>	<b>1,070</b>	

1. Pro forma basis

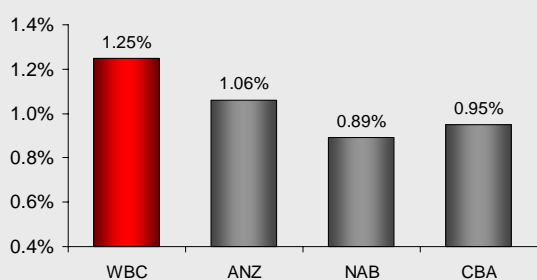
# Asset Quality and Risk Management

May 2009

## Asset Quality **Increased provisioning levels, leading peers**

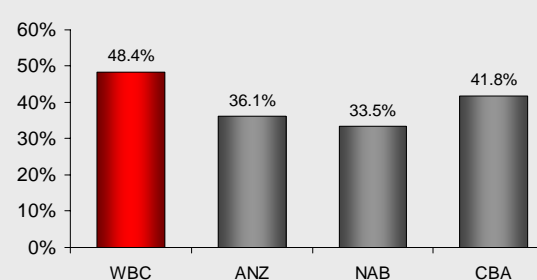
Key coverage ratios	1H08	2H08	1H09
	Westpac	Westpac	Westpac incl. St. George
Collective provision to credit RWA	94bps	105bps	<b>125bps</b>
Collective provision to performing non-housing loans	104bps	113bps	<b>152bps</b>
Impairment provisions to impaired assets	44.2%	45.4%	<b>48.4%</b>
Total provisions to total RWA	100bps	111bps	<b>160bps</b>
Total provisions to gross loans	62bps	69bps	<b>99bps</b>

**Collective provisions to credit RWA (%)**



Source: Westpac, Company data. CBA as at 30 December 2008

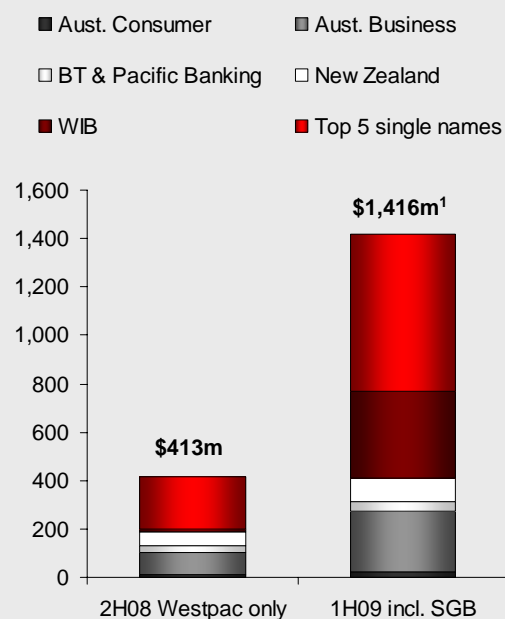
**Impairment provisions to gross impaired assets (%)**



Source: Westpac, Company data. CBA as at 30 December 2008

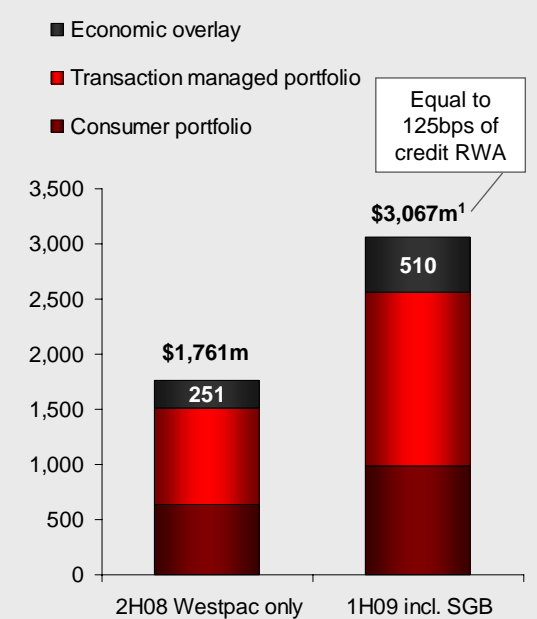
## Asset Quality **Material increase in balance sheet provisions**

**Individually assessed provisions (\$m)**



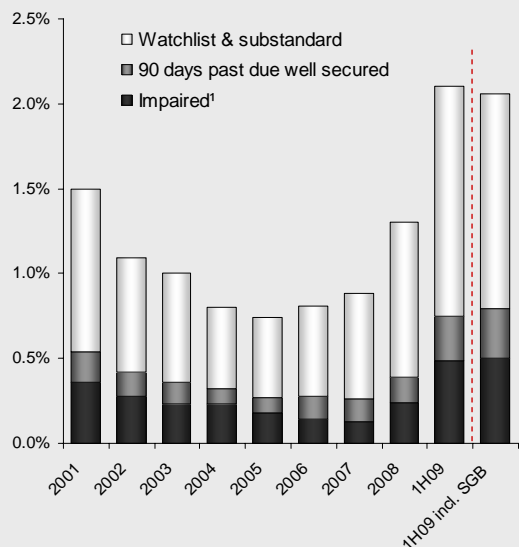
1. Includes the addition of St. George provision balances

**Collectively assessed provisions (\$m)**



## Asset Quality Significant rise in stressed exposures

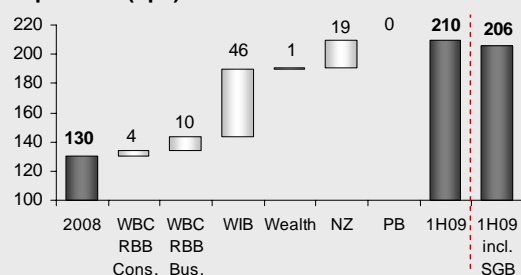
**Stressed exposures as a % of total committed exposures (TCE)**



1. Westpac's impaired assets from 2005 reflect APRA's prudential approach to the adoption of A-IFRS by ADIs to include consumer accounts > 90 days past due but not well secured

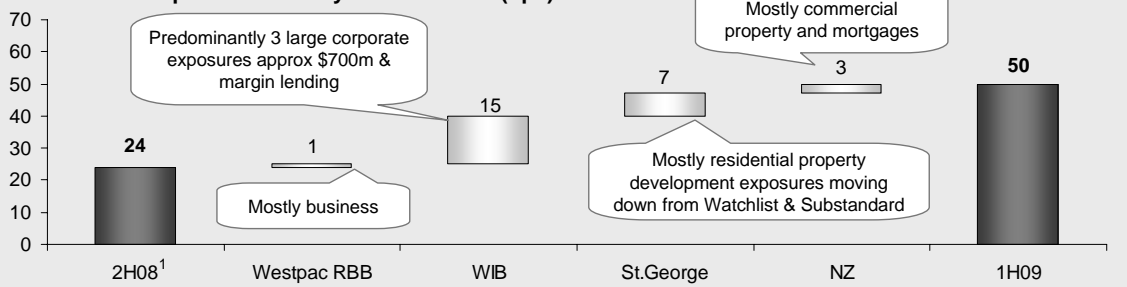
- Sharp rise in stressed loans
- Impaired assets up 26bps from FY08
- 90 days past due well secured higher from mortgages and small business
- Stressed facilities higher particularly commercial segment, including property
- Risk profile little changed after merger with St.George

**Business unit contribution to changes in stressed exposures (bps)**

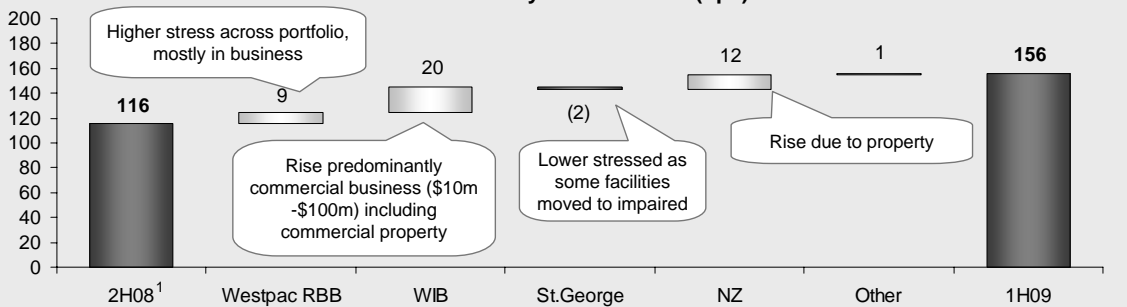


## Asset Quality Movement in stressed exposures by business units

**Movement in impaired assets by business unit (bps)**



**Movement in Watchlist and Substandard assets by business unit (bps)**



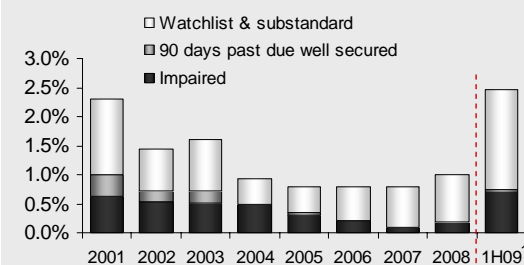
1. Pro forma basis



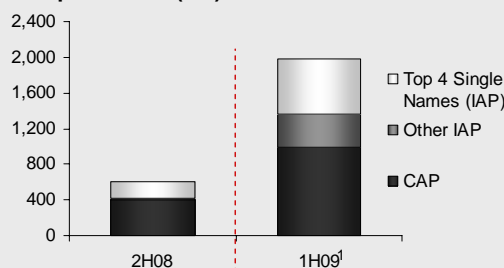
## Asset Quality Institutional loan portfolio – well provisioned

- Stressed exposures 2.5% of the WIB portfolio<sup>1</sup> at 1H09
- Impaired assets 0.7% of the WIB portfolio<sup>1</sup>, predominantly:
  - Exposure to ABC Learning, Allco and Babcock and Brown International (approx. \$700m in total)
  - Small number of margin loans
- Increase in Watchlist and Substandard assets reflects:
  - Downgrades of customers predominantly in commercial segment (facilities \$10m - \$100m)
  - A different portfolio mix, incorporating Premium Business Group and a small number of St.George customers transferred to WIB
- Significant increase in provisions in response to deteriorating environment

Stressed exposures as a % of WIB TCE (%)



WIB provisions (\$m)

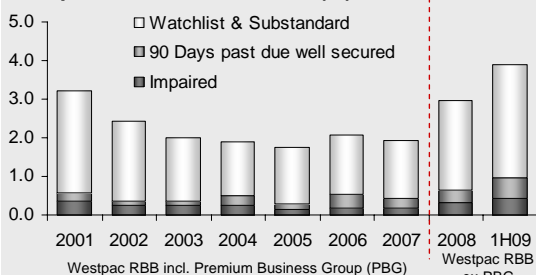


1. WIB in 1H09 includes Equities, Premium Business Group (which was transferred from Westpac RBB during 1H09) and a small number of St.George corporate and institutional customers. Comparatives have not been restated and do not include PBG or St.George customers.

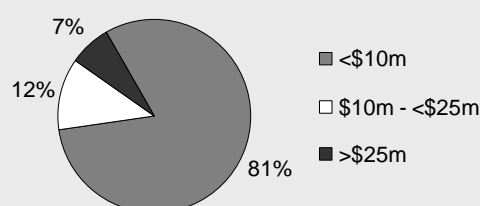
## Asset Quality Australian business portfolio – Westpac RBB asset quality

- Westpac RBB business portfolio impacted by slower demand associated with weakening economic activity
- Increase in Westpac RBB stressed exposures by 92bps from Sep 08 to 3.88%
  - Top 20 stressed customer groups account for 23% of stressed exposures
  - Small businesses have performed relatively well to date although increased stress is also evident
- Impaired exposures increased by 11bps over 2008 to 0.42%
  - Top 10 impaired customer groups account for 52% of impaired exposures at 1H09
- Low relative stressed exposures compared to other business units is due to the Westpac RBB portfolio predominantly comprising small companies (typically facilities under \$15m)

Westpac RBB stressed exposures as a % of Westpac RBB business TCE<sup>1</sup> (%)



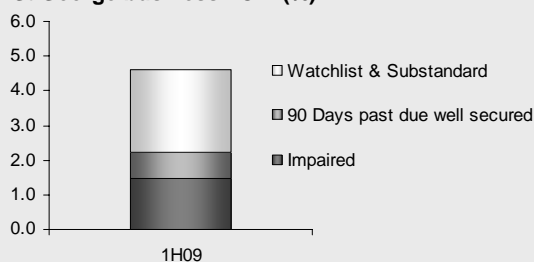
Westpac RBB business lending by size % of TCE<sup>2</sup>



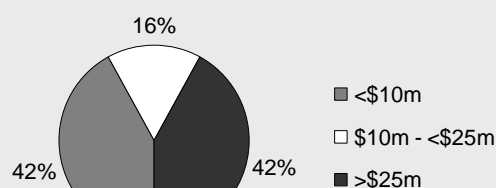
1. TCE is total committed exposure. 2. Total business TCE split by customer group TCE band

- Alignment of risk policies, processes and risk grades at St.George is well progressed with over 3,000 files reviewed
  - Given the realignment, comparisons with prior periods is not possible
- St.George has a broad business portfolio including larger facilities (typically up to \$150m) and a higher level of commercial and property exposures
- This mix means the St.George portfolio has experienced an increase in impaired facilities over the half, consistent with the deterioration in the commercial business segment
- Impaired loans have increased to 1.46% of TCE from 0.26% at Sept 08
  - Rise predominantly due to residential property development exposures that have been downgraded from Watchlist

**St.George stressed exposures as a % of St.George business TCE<sup>1</sup> (%)**



**St.George business lending by size % of TCE<sup>2</sup>**



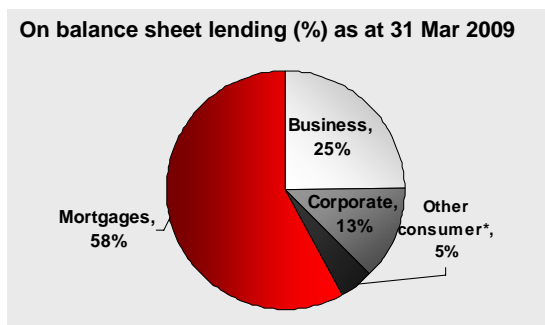
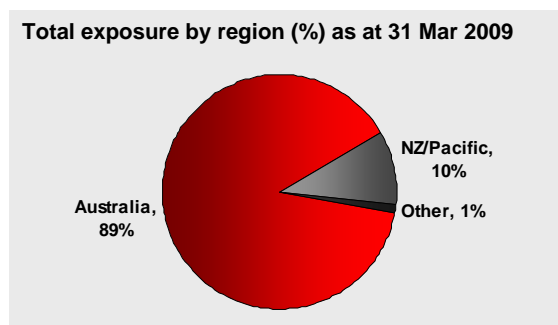
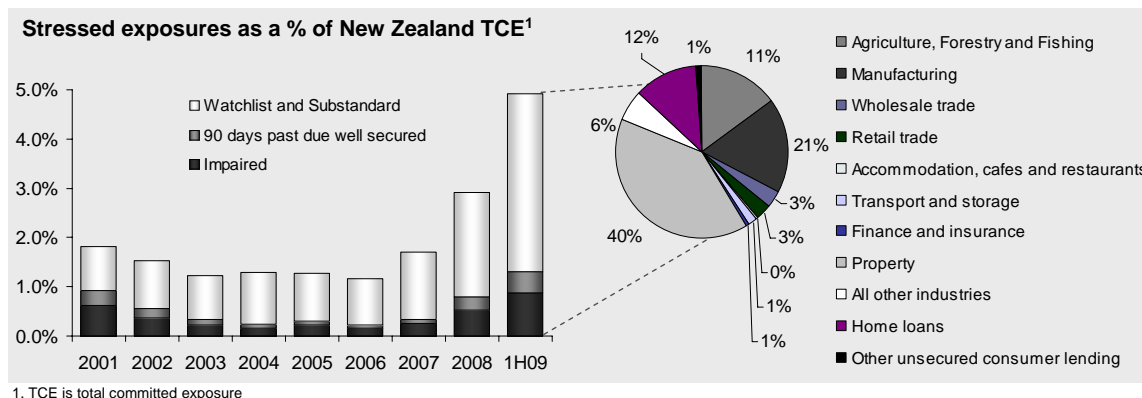
1. TCE is total committed exposure. 2. Total business TCE split by customer group TCE band

- Australian business portfolio (Westpac RBB and St.George) is well diversified across industries, customers and geography
- Broad-based economic slowdown in 1H09 has seen customers under stress spread across geographies and industries:
  - However, greater recent stress in QLD and WA, primarily due to the impacts of mining activity slowdown and general economic deterioration
  - Higher levels of stress in commercial property development, manufacturing, wholesale trade, pubs and clubs and mining services
- Property exposures are currently performing in line with the overall portfolio:
  - Majority of stressed property exposures relate to property developments and land banks
  - Gold Coast and WA property markets have been the most impacted

Australian business exposures by industry	% of Aust. business portfolio	% of Aust. business stressed <sup>1</sup> TCE
Agriculture, Forestry and Fishing	8.4%	9.8%
Manufacturing	7.4%	9.7%
Wholesale trade	5.6%	6.9%
Retail trade	8.5%	5.7%
Accommodation, cafes and restaurants	5.0%	6.8%
Transport and storage	4.5%	3.8%
Finance and insurance	3.4%	1.9%
Property	28.0%	32.4%
All other industries	29.1%	22.9%
Australian business exposures by geography	% of Aust. business portfolio	% of Aust. business stressed <sup>1</sup> TCE
VIC	17.3%	13.6%
NSW/ACT	38.8%	42.3%
QLD	18.5%	18.7%
SA	12.4%	11.1%
WA	13.0%	14.3%

1. Stressed exposures include watchlist, substandard, 90 past due well secured and impaired assets for the business portfolios included in Westpac RBB and St.George

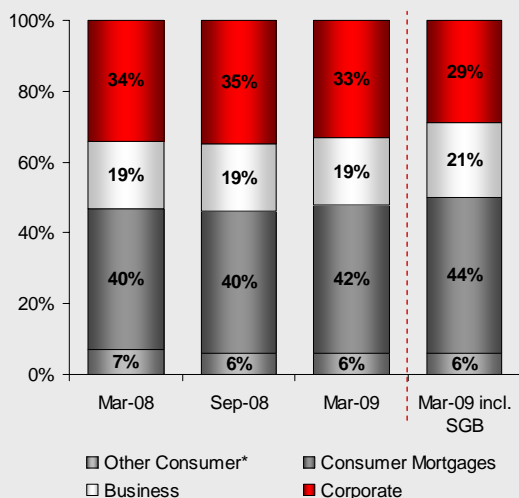
- New Zealand stressed exposures increased by 201bps on 2H08 to 4.92%
  - Business customers continued to be impacted by the recessionary environment, particularly in the property sector as property prices continue to decline
- Watchlist and Substandard exposures increased by 151bps
  - Watchlist focus covers all sectors as the recession in New Zealand deepens
- Impaired exposures increased by 36bps



Exposure by risk grade <sup>1</sup> as at 31 March 2009 (\$m)							
Risk grade	Australia	NZ / Pacific	Americas	Europe	Asia	Group	% of Total
AAA to AA-	67,581	4,306	864	222	662	73,635	11%
A+ to A-	43,864	2,982	1,628	1,642	445	50,561	8%
BBB+ to BBB-	47,229	7,824	1,506	1,508	227	58,294	9%
BB+ to BB	63,087	8,345	601	545	112	72,690	11%
BB- to B+	58,824	4,443	4	28	-	63,299	9%
<B+	9,299	2,386	199	47	-	11,931	2%
Secured consumer	255,828	30,819	-	-	-	286,647	44%
Unsecured consumer	36,465	3,781	-	-	-	40,246	6%
<b>Total committed exposure</b>	<b>582,177</b>	<b>64,886</b>	<b>4,802</b>	<b>3,992</b>	<b>1,446</b>	<b>657,303</b>	
<b>Exposure by region (%)</b>	<b>89%</b>	<b>10%</b>	<b>&lt;1%</b>	<b>&lt;1%</b>	<b>&lt;1%</b>		

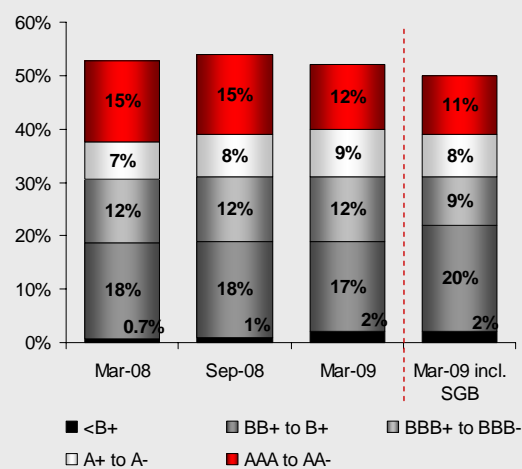
1. Exposure by booking office

**Total Committed Exposure<sup>1</sup> by customer segment**



- Business exposures and Consumer mortgages have increased as a proportion of total committed exposures following the merger with St. George

**Total Committed Business / Corporate exposure<sup>1</sup> by risk grade**

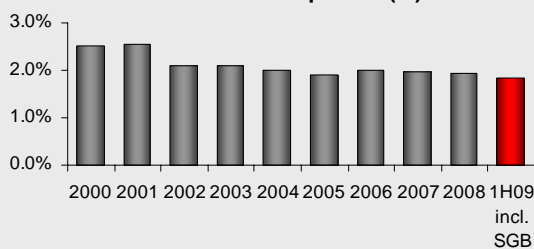


- Increase in SME (BB+ to B+) exposures following the merger with St. George

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

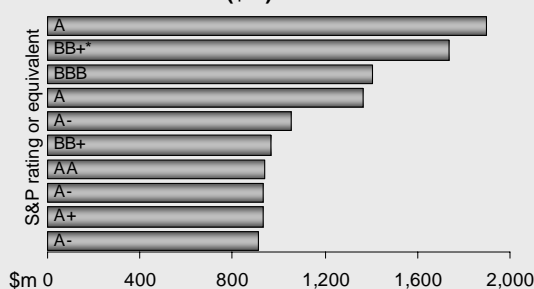
- Single name concentrations continue to be below 2% of total committed exposures

**Top 10 exposures to corporations and NBFIs – as a % of total committed exposure (%)**



- Following recent market events, Westpac has reassessed the aggregation of certain related parties, leading to the aggregation of a small number of previously non-aggregated counterparties

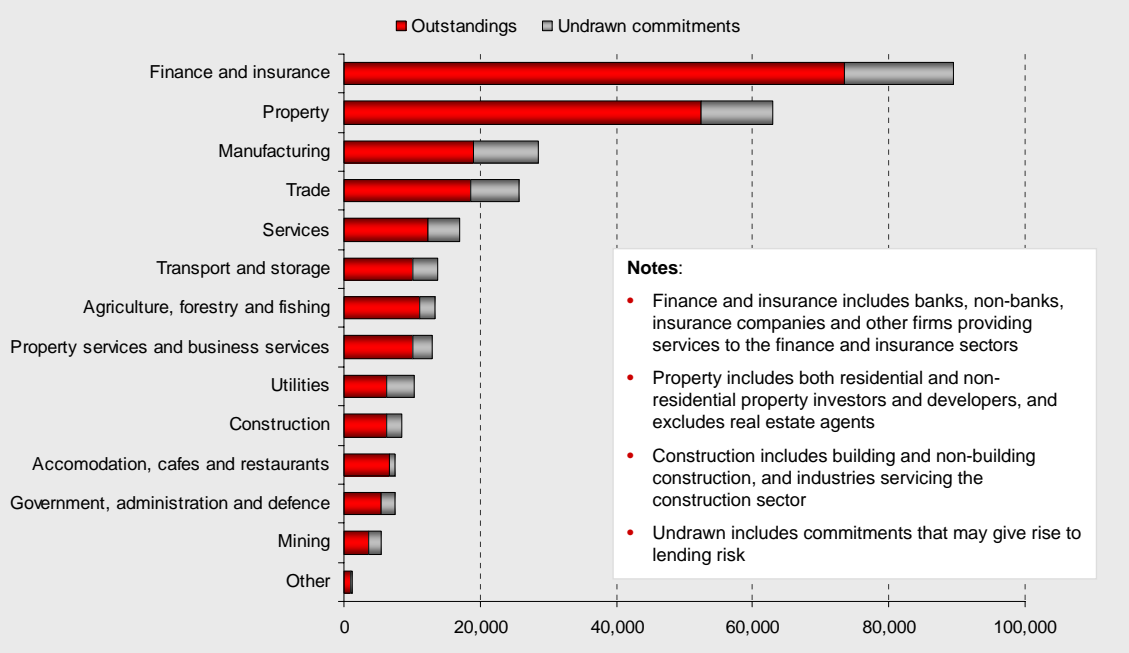
**Top 10 exposures to corporations and NBFIs – as at 31 March 2009 (\$m)**



\*Average grade of performing facilities shown. Total exposure shown includes one impaired facility to related party of net \$117m

## Asset Quality Portfolio well diversified across industries

Total Committed Exposure and Outstandings – as at 31 Mar 2009 (\$m)



Changes in classifications from previous slide packs have been made to align to annual report disclosures

## Asset Quality Commercial property showing signs of additional stress

	Property portfolio			Total Transaction-managed Portfolio	Total Portfolio
	2H08 WBC	1H09 WBC	1H09 WBC+SGB	1H09	1H09
Total committed exposures (\$m)	41,279	41,198	63,050	330,410	657,303
Impaired assets as a % of TCE	0.40%	1.04%	1.47%	0.83%	0.50%
Stressed <sup>1</sup> assets as a % of TCE	2.84%	5.83%	6.29%	3.61%	2.06%

- Additional stress in the commercial property portfolio has emerged over the half, particularly in the second quarter of 2009
- Outlook for property sector taken into account in economic overlay
- Stressed property loans contain a relatively high share of exposures to:
  - Large companies experiencing re-financing risk;
  - New Zealand; and
  - Developers

% of property exposures in stressed categories by region property TCE (%) <sup>1,2</sup>	
NSW	7.5%
VIC	2.1%
QLD	5.8%
SA & NT	2.0%
WA	5.6%
NZ & Pacific	20.3%
WIB diversified property groups and property trusts	4.4%

1. Stressed exposures include watchlist, substandard, 90 past due well secured and impaired assets. 2. Shown by booking office location



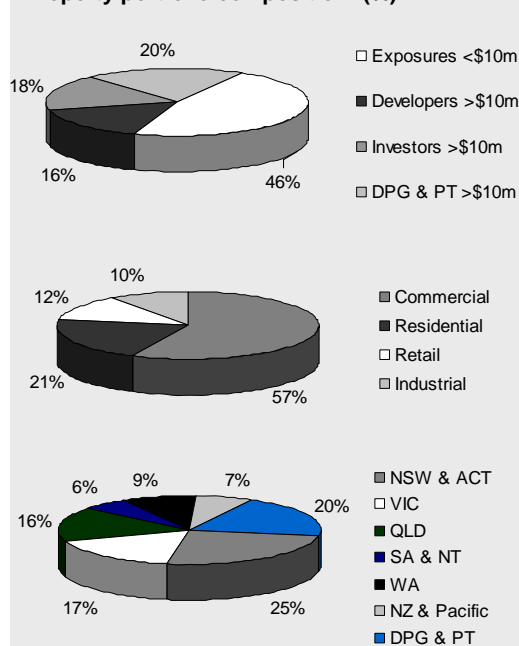
Property Market Segment	% of exposures stressed	Comments
Australia >\$10m	5.7%	<b>Institutional:</b> <ul style="list-style-type: none"> <li>Portfolio generally performing well</li> <li>Low LVR, diversified exposures (multiple properties)</li> <li>Have been able to raise equity, although markets now more difficult</li> </ul>
		<b>Commercial, incl. PBG &amp; St.George:</b> <ul style="list-style-type: none"> <li>More stress evident - valuation adjustments flowing through the portfolio.</li> <li>Take-out risk has increased for property developments</li> </ul>
Australia <\$10m	3.9%	<ul style="list-style-type: none"> <li>A very diverse portfolio</li> <li>Borrowers generally have other sources of income</li> </ul>
New Zealand	20%	<ul style="list-style-type: none"> <li>Significantly affected by the demise of some finance companies and mortgage trusts</li> <li>Depressed property values have reduced the ability of developers to sell stock and seen some pre-sale defaults</li> </ul>

## Asset Quality Commercial property portfolio well diversified; lending standards tightened in response to conditions

- Following the St.George merger, the property portfolio as a proportion of TCE has increased from 8.2% to 9.6%
- St.George commercial property portfolio integrated into Group property limits, with management of approx. 60 large property names transferred to WIB
- Portfolio remains well diversified across names, states and sectors
  - Sub-limits for developers, investors, LPTs and DPGs >\$10m actively monitored to limit concentrations
  - Approx. 1,000 customers within exposure >\$10m category
- Given environment, changes to the management of the commercial property portfolio have included:
  - Policies aligned across Westpac and St.George
  - Maximum LVR for investment and development lending (irrespective of pre-sales) reduced
  - Minimum Interest Cover Ratio (ICR) aligned across the organisation (increased in some business units)
  - Maximum term for new lending reduced
  - Return hurdles increased to reflect increased cost of funds and risk profile
  - Substantially reduced appetite for higher risk areas

1. DPG & PT is Diversified Property Groups and Property Trusts.

Property portfolio composition<sup>1</sup> (%)



### CDSs, CDOs and CLOs

as at  
31 March 2009

- Westpac manages a portfolio of credit derivatives to enhance the economic profit of the institutional bank (WIB) loan portfolio. Target hedging between 5% and 15% of the WIB loan portfolio
- All CDSs, CDOs and CLOs held on balance sheet and marked-to-market by an independent middle office derived from external marks
- Cumulative mark-to-market on the portfolio is positive year-to-date
- Underlying exposures through CDSs, CDOs and CLOs include global and Australian corporate and institutional risk
- No direct exposure to US mortgages or other US ABS product
- CDS - around 20 counterparties; no US monolines; netting and collateral agreements in place
- All credit exposures are individually assessed and internally rated in line with our normal credit criteria; no credit intermediation trades
- Majority of positions purchased within last 18 months and all are performing

Credit Portfolio position <sup>1</sup>	30 Sep 2008	31 Mar 2009
WIB corporate lending	\$51.5bn <sup>2</sup>	\$75.2bn <sup>2,3</sup>
Net bought protection (CDS)	\$5.2bn	\$5.4bn
CDOs, CLOs and Portfolio CDS investments	\$0.7bn	\$0.9bn

1. Position size includes impact of FX movements 2. Excludes margin lending and Private Bank Asia; includes securitisation and asset finance 3. WIB includes Premium Business Group, which was transferred from Westpac RBB during 1H09 and a small number of St.George corporate and institutional customers.

## Asset Quality Asset-Backed Commercial Paper (ABCP) conduits

### Westpac-sponsored ABCP conduit

as at  
31 March 2009

- Waratah Receivables Corporation – approx. A\$2.9bn outstanding
- In operation since 1994, offering quality Australian and New Zealand assets originated by Westpac customers, primarily prime mortgages (no sub-prime)
- Does not purchase securities in secondary markets
- No liquidity drawn as at 31 March 2009

### St.George-sponsored ABCP conduit

as at  
31 March 2009

- Crusade CP No.1 Pty Limited – approx. A\$644m outstanding.
- Primarily diversified corporate debt securities, including wrapped bonds, and mortgage backed securities
- Fully funded on balance sheet as at 31 March 2009
- Plans in place to wind down portfolio

### Liquidity facilities

as at  
31 March 2009

- Liquidity facilities to external customer conduits approx. A\$1,119m
  - US\$ related receivables A\$81m (A\$4m drawn)
  - A\$ related receivables A\$660m (A\$173m drawn)
  - NZ\$ related receivables A\$378m (A\$202m drawn)

### **Asset Backed Securities (ABS)**

as at  
31 March 2009

- ABS positions are held for market making and customer facilitation
- Holding UK AAA-rated RMBS (A\$74.3m) and Australian AAA-rated (A\$1.187bn) and AA-rated (A\$11.5m) RMBS
- Small holding of CMBS, rated AAA (A\$169.1m), A (A\$2.8m) and BBB (A\$9.1m)
- Treasury also holds A\$2.5bn RMBS in its liquidity book – all currently rated AAA, all backed by prime Australian residential mortgages, all available for repo with a central bank in normal daily open market operations

### **Monoline insurance exposures**

as at  
31 March 2009

- Holding of 'wrapped' loans and bonds totals A\$868m: A\$284m originated by Westpac, A\$584m originated by St.George
- Exposures comprises A\$651m of wrapped bonds, including A\$450m held in the St.George sponsored Crusade CP conduit, and \$217m of wrapped debt
- Wrapped loans and bonds are investment grade and predominately infrastructure/utilities related. Credit assessment is conducted on the underlying borrower/counterparty

### **Hedge funds**

as at  
31 March 2009

- Little direct lending to hedge funds (approx. A\$22.9m)
- Some indirect exposure to hedge funds via Financial Markets business, largely via FX and interest rate swap products, which are fully collateralised (net exposure approx. A\$11m)

### **Fund of hedge funds (FOHF)**

as at  
31 March 2009

- Westpac has exposure to diversified funds that invest in hedge funds (net exposure approx. A\$298m)

### **Fund of hedge funds managers**

as at  
31 March 2009

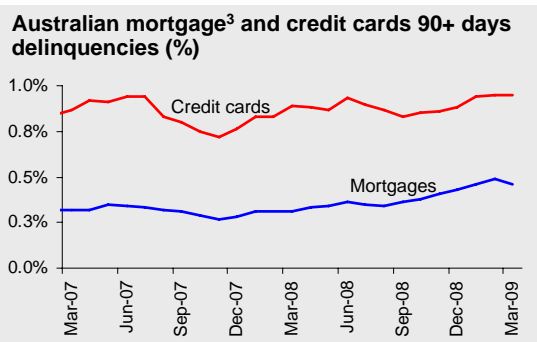
- Westpac has exposure to managers that operate primarily in the FOHF market (net exposures approx. A\$229m)

### **Private equity**

as at  
31 March 2009

- Current exposure A\$4.2bn (representing 0.6% of Group total committed exposures), with \$3.4bn originated by WIB, \$0.5bn by PBG and \$0.3bn by New Zealand Retail
- Total of 87 transactions, well diversified across a broad range of industries, with an average deal size of approx. \$48m
- 80% of portfolio by exposure (66 accounts) in performing grades; 19% of portfolio by exposure (19 accounts) in Watchlist and Substandard categories; 2 accounts impaired (total impaired exposure A\$47.6m) with appropriate provisions

- Australian Consumer quality remains relatively sound in comparison to the global experience
- However gradual rise in delinquencies as the economy slows:
  - Credit Cards 90+ day delinquencies up 12 bps from 2H08 to 95bps
  - Mortgage 90+ days delinquency up 10bps from 2H08 to 46bps
- Losses remain low:
  - Mortgage losses<sup>1,2</sup> remain in line with expectations, \$9m for 1H09
- Responding to environment with tighter lending standards and focus on collections and risk systems
- Expect the consumer segment performance to be correlated with unemployment

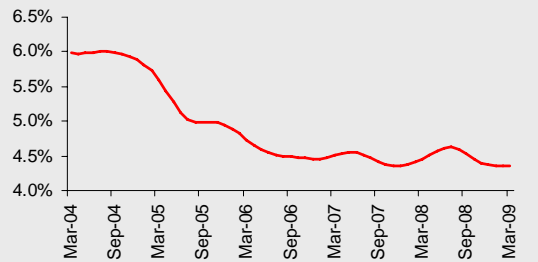


1. Net of mortgage insurance. 2. Before collective and individually assessed provision charges. 3. Mortgages include Westpac and St.George only excl. RAMS \$4bn portfolio

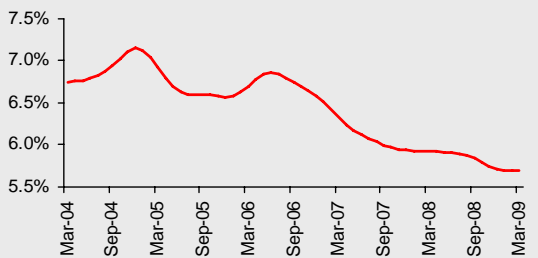
- Responding appropriately to difficult economic environment by tightening lending standards
- All brands operate within the Westpac Group's risk appetite
  - Mortgages:
    - Reduced maximum LVR to 95% for existing customers and RAMS franchisee customers; and 90% for all new customers
    - Put a floor in interest rate serviceability buffer - all loans assessed on ability to repay with a minimum interest rate (if rates go down, the buffer increases)
    - Strict requirement on genuine savings, limitations on use of First Home Owner's Grant
    - Various other restrictions on higher LVR loans
  - Unsecured Lending:
    - Tightened approval criteria on Credit Cards and Personal Loans
    - Reduced income weighting factors on non-core income such as overtime and commissions
    - Enhanced income verification including further documented proof of income
    - More conservative Credit Limit increase policy
    - New Collections operating model with a focus on specialist skills

- Investment in collections capabilities in prior years has seen early cycle delinquencies trend down over a long period of time
  - Credit Cards 1-29 day delinquencies down 10bps over the last 12 months, personal loan 1-29 day delinquencies down 49bps, despite tougher economic conditions
- Limits the number of customers entering late cycle delinquencies and enhances recovery rates
- Attributable to:
  - Introduction of advanced risk segmentation in collections strategies within both Westpac and St.George
  - More collections resources

**Australian credit cards 1-29 day delinquencies (%)**

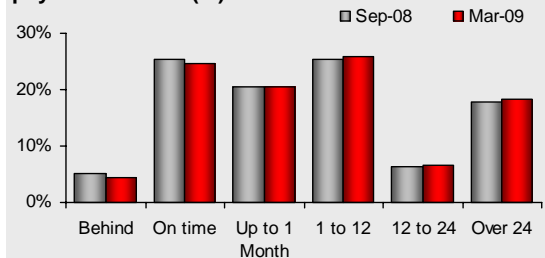


**Australian personal loans 1-29 day delinquencies (%)**

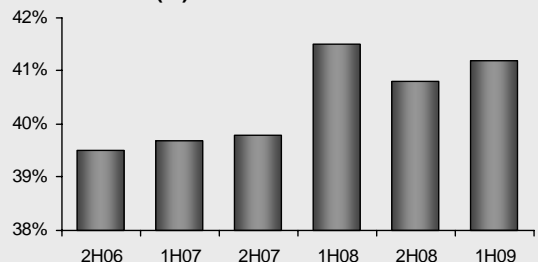


- Customers are taking a more conservative approach to finances and paying down debt
- More than 73% of Australian mortgage customers are ahead on repayments:
  - Some customers keeping repayment levels at pre-425bps cut levels to stay ahead on repayments
- Australian customers also paying more off their credit cards:
  - Average credit card payments to balance ratio up 150bps from 1H07 to 41.2% in 1H09
  - Westpac RBB ratio has increased to 44%, supported by a higher proportion of premium, loyalty-based cards in the portfolio
  - St.George ratio is lower at 29%, given higher proportion of cards in low rate Vertigo portfolio

**Australian mortgage customer accounts – payments ahead (%)**

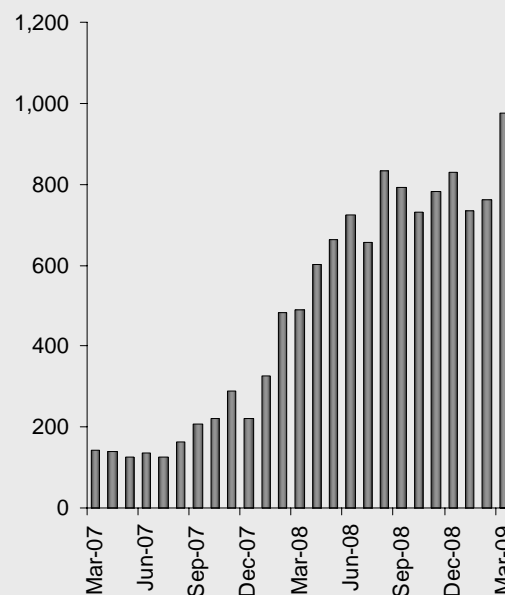


**Australian credit card average payments to balance ratio (%)**



- Over the last 12 months there has been an increase in the number of hardship cases across both Westpac and St.George:
  - Rapidly deteriorating economy
  - Reduced customer incomes
- Westpac Assist extended to small business
- Hardship approaches for Westpac and St.George have been aligned
- Significant assistance for customers affected by the VIC Bushfires and Qld Floods
  - Over 650 customers across both Westpac and St.George assisted
  - Support provided to over 400 mortgage and over 300 credit cards customers

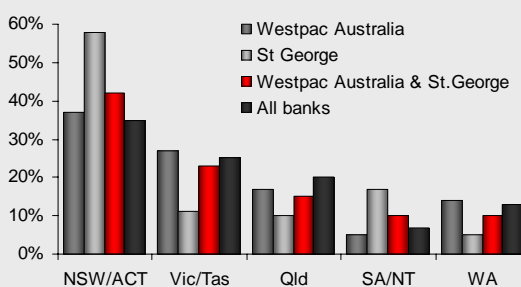
**Australian delinquent mortgage<sup>1</sup> customers in hardship assisted**



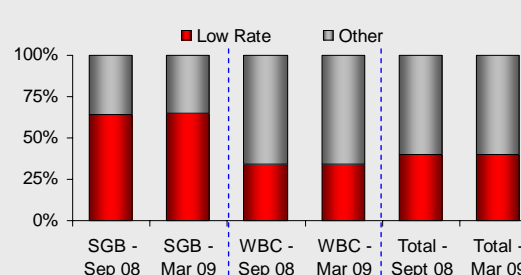
1. Chart shows new cases for Westpac and St.George only excl. RAMS

- Mortgages:
  - Westpac has 82% of its book variable rate, versus St.George at 74%
  - Low Doc proportions broadly similar
  - Average LVR of portfolio at origination 68% both for Westpac and St.George
  - Geographic concentration
    - NSW higher for St.George
    - VIC and WA higher concentration for Westpac due to Bank of Melbourne and Challenge Bank mergers
    - SA higher concentration for St.George due to BankSA
- Credit cards:
  - Relative to Westpac's portfolio (approx. \$7.5bn), St.George has a small portfolio (approx \$1.8bn) with more low rate cards/revolvers

**Australian mortgage book by state (%)**



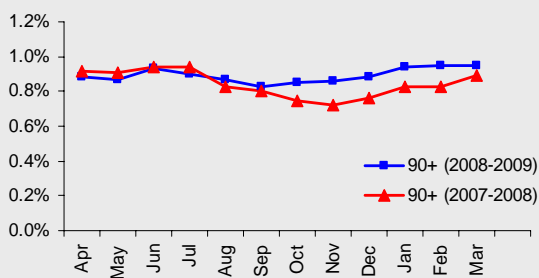
**Australian credit card portfolio composition (%)**





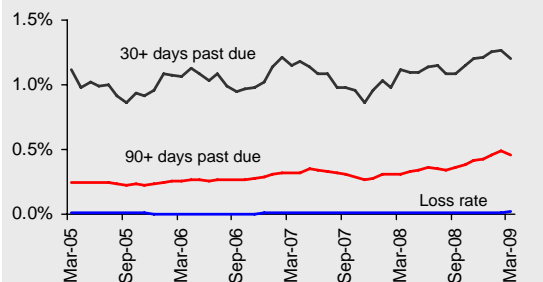
- Australian credit cards 90+ day delinquencies 95bps at 1H09
  - Up 6bps on 1H08
  - Up 12 bps on 2H08
- Delinquencies are below industry benchmarks, due mainly to larger Westpac portfolio being well seasoned; St.George delinquencies in line with industry
- Prepared for further deterioration in line with increased unemployment, with focus on:
  - Quality customer origination, including tighter approval processes
  - Account management, including more conservative policies on limit increases
  - Targeted collections programs

**Australian credit cards 90+ delinquencies (%)**

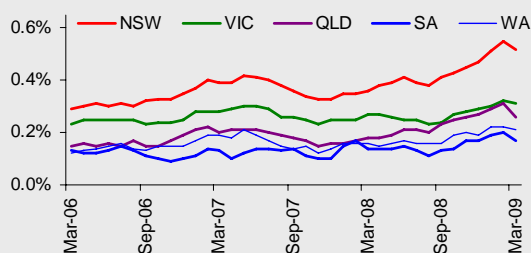


- Australian mortgage portfolio is experiencing rising delinquencies:
  - 90+ day mortgage delinquencies 46bps, up 15bps over 1H08
  - Westpac up 9bps to 0.43% and St.George up 26bps to 0.52%, due to differences in portfolio mix
- However, total portfolio losses remain low, due to low LVRs, mortgage insurance and sound underwriting standards:
  - Over the last 6 months, Australian mortgage losses<sup>1</sup> were \$9m – very low by global standards
- Properties in possession remain low:
  - 294 properties at March 2009 vs 2008 average of 240 properties

**Australian mortgage<sup>2</sup> delinquencies (%)**

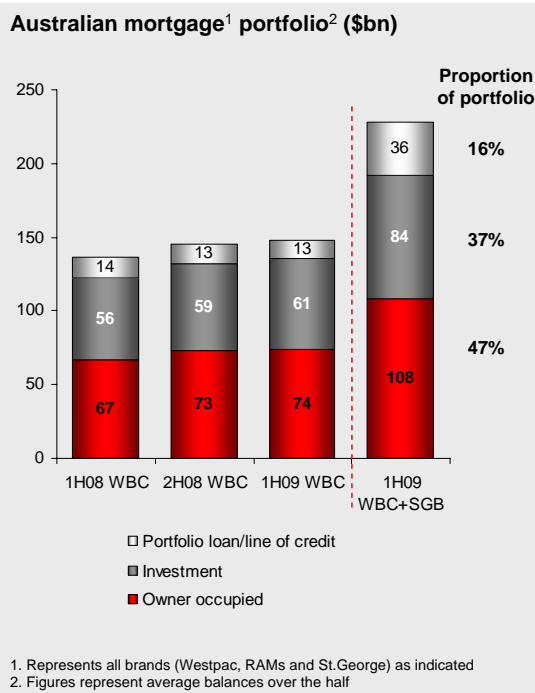


**Australian mortgage<sup>2</sup> 90+ days delinquencies by state (%)**



1. Net of mortgage insurance and before collective and individually assessed provision charges. 2. Westpac and St.George only excl. RAMS

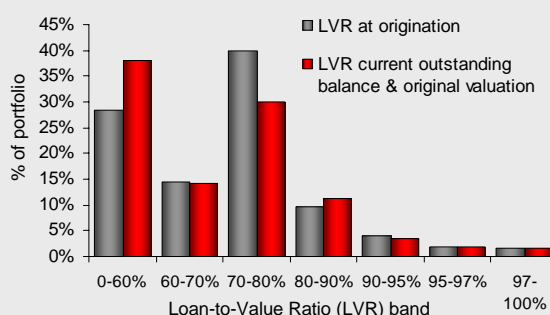
- Australian mortgage portfolio \$234bn
- All mortgages to prime borrowers - no sub-prime mortgages
- Low Doc lending, approx 8% of portfolio, has additional risk mitigants:
  - Lower LVRs – max 60% LVR without insurance, max 82% LVR with insurance
- To date, a total of 8 Low Doc claims for mortgage insurance totalling \$430k
- Managing the portfolio to ensure risk appetite is maintained, including:
  - Lower LVRs on new lending
  - Additional lending restrictions to high end LVR mortgages, including limited postcode locations, security types, loan size and loan purpose
  - Targeted collections initiatives



- Well collateralised mortgage portfolio:
  - More than 83% of the portfolio with an LVR 80% or less, based on current outstanding balance and original valuation
- Low LVRs provides cover against significant fall in house prices
- Additional cover from mortgage insurance, required where:
  - Standard mortgage LVR >80%
  - Low Doc mortgage LVR >60%
- Approx. 17% of mortgages originated with an LVR >80%
- Less than 7% of mortgages originated with an LVR >90%

Australian mortgage portfolio	1H08	2H08	1H09
	WBC	WBC	Total <sup>1</sup>
Average LVR of portfolio at origination	67%	67%	68%
Average LVR based on current outstanding balances and value at origination	46%	44%	49%
Average LVR of new loans <sup>2</sup>	69%	70%	71%

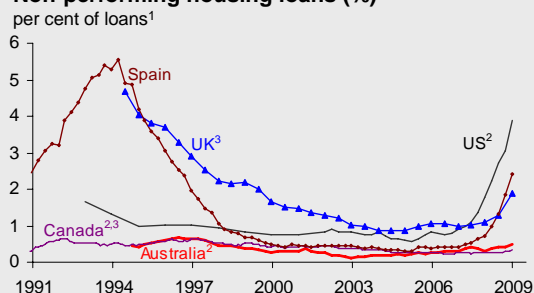
**Australian mortgage<sup>1</sup> portfolio LVR distribution (%)**



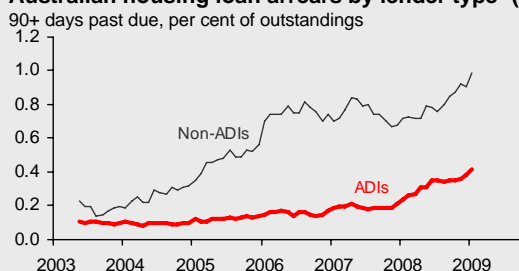
1. Includes Westpac and St.George excl RAMS. 2. Average LVR of new loans is for the 12 months to 31 March 2009.

- Majority of loans (~75%) are floating rate
- Majority of interest rate reductions being passed through
- Non-conforming and sub-prime loans not offered by major banks
- RBA estimates sub-prime lending approx. 1% of the Australian market (vs ~15% in the US)
- No "step-up/ARM" loans
- Low loan-to-value ratios
- For mortgage-insured loans, mortgage insurance covers the entire loan
- Fixed rate loans for relatively short periods – generally 3 to 5 years
- Interest payments on primary residence are not tax deductible – generally leads to mortgages being paid off quickly
- Banks in Australia have recourse to the borrower, not just the home

**Non-performing housing loans (%)**



**Australian housing loan arrears by lender type<sup>4</sup> (%)**



1. Per cent of loans by value. Includes 'impaired' loans unless otherwise stated. For Australia, only includes loans 90+ days in arrears prior to September 2003. 2. Banks only. 3. Per cent of loans by number that are 90+ days in arrears. Sources: RBA; APRA; Bank of Spain; Canadian Bankers' Association; Council of Mortgage Lenders; FDIC. 4. Securitised loans. Sources: RBA, Perpetual

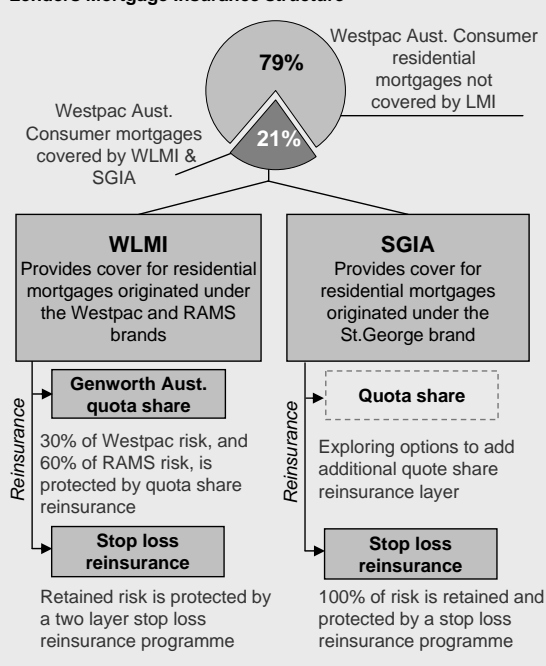
Investor Discussion Pack May 2009

**Westpac**

**Asset Quality Lenders Mortgage Insurance – managing risk transfer**

- The Group has 2 captive mortgage insurers:
  - Westpac Lenders Mortgage Insurance (WLMI)
  - St. George Insurance Australia (SGIA)<sup>1</sup>
- Conservatively positioned - focus on risk management and underwriting profit, not investment returns:
  - WLMI all investments in cash
  - SGIA de-risked – portfolio moving to cash
- Underwriting standards tightened and premiums increased
- Reinsurance arrangements transfer risk away from the bank and provide cover during periods of extremely high claims
- Both WLMI and SGIA are strongly capitalised (separate from bank capital) and subject to APRA regulation:
  - WLMI capitalised at 1.28x MCR<sup>2</sup> as at Mar 09
  - SGIA at 1.51x MCR<sup>2</sup> as at Mar 09
- Stress testing is conducted on both portfolios to ensure that captive insurers hold sufficient capital to cover mortgage claims arising from a stressed mortgage environment
- Scenarios confirm sufficient capital to fund claims arising from events with return periods of up to 1 in 250 years
  - In a 1 in 250 years loss scenario, estimated losses for WLMI \$168m and SGIA \$175m (combined, net of re-insurance recoveries)

**Lenders Mortgage Insurance structure**



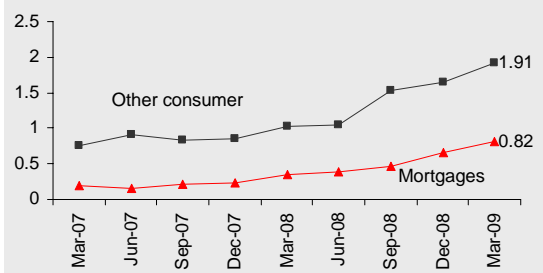
1. SGIA is rated AA-/Aa3, Stable outlook. 2. The MCR is an insurers Minimum Capital Requirement. The MCR is determined having regard to a range of risk factors that may threaten the ability of the insurer to meet policyholder obligations.

Investor Discussion Pack May 2009

**Westpac**

- Continued recession has further impacted NZ consumer delinquencies
- Mortgage 90 day delinquencies up 35bps from Sep 08 to 82bps
- Other consumer delinquencies up 38bps from Sep 08 to 191bps
  - Most of the increase is due to a policy change in personal lending where facilities are now written off later (180 days)
  - Credit cards (representing approx. 90% of unsecured TCE) delinquencies are little changed from Sep 08 at 123bps
- A range of initiatives have been employed to ensure credit risks are being effectively managed, including:
  - Ensuring asset management teams are appropriately staffed
  - Enlisting branches to participate in the early detection of problem loans and actively contacting customers in early delinquency
  - Utilising collections strategies successfully applied in Australia

**New Zealand 90+ day delinquencies<sup>1</sup> (%)**



1. Note: increases in New Zealand other consumer lending delinquencies also impacted by change in write-off methodology for personal loans

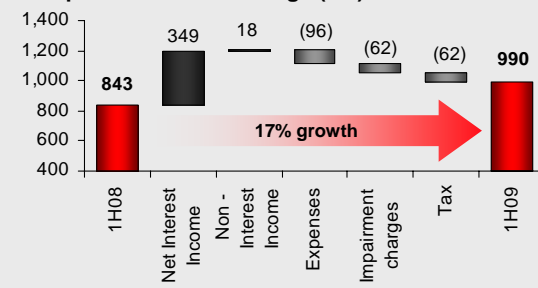
## **Business Unit Performance**

May 2009

## Westpac RBB Strong cash earnings, built on solid growth

- Cash earnings up 17% on 1H08
- Net interest income up 17% supported by growth in:
  - Mortgages (incl. RAMS) up 15%
  - Credit cards up 1%
  - Business lending up 8%
  - Deposits 21%
- Overall margins up 10bps
- Non-interest income up 3%:
  - Significant one-off increase from loyalty card point redemptions
  - Reduced transaction fees from migration to lower fee accounts
- Expenses up 7%:
  - Increase in distribution
  - Full half year impact of RAMS franchise distribution business
  - Increased redemption expenses from withdrawal of Qantas from the Altitude program
- Impairment charges up 38%
  - Consumer performing well, \$15m impairment rise mostly due to credit cards
  - Business impairments up \$47m in line with deteriorating operating environment

Westpac RBB cash earnings (\$m)



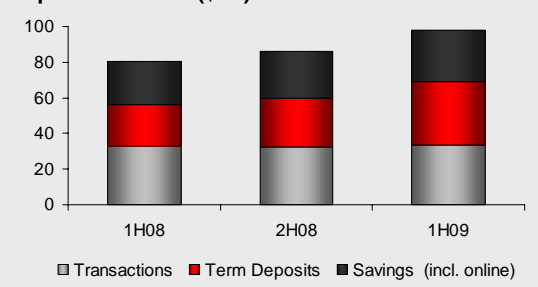
### Investing in the franchise

- Rolling out Westpac Local Model
- Additional 258 customer facing employees
- 3 new branches and 2 new business banking centres
- 29 refurbished branches
- 2.36 products per consumer customer, sector leading

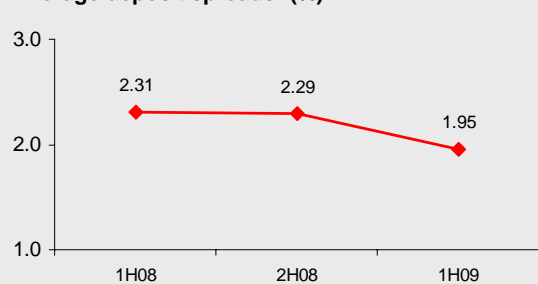
## Westpac RBB Deposits consistently growing ahead of system

- Deposit growth very strong, up 21%
  - 1.3x banking system<sup>1</sup>
  - Growth in customer accounts, driven by new to Bank customers
  - Increased deposit gathering focus in bankers' scorecards
  - Focussed marketing campaign
- Term deposits represent 38% of deposits
  - Grew by 53% and contributed 72% of total deposit growth
- Deposit spreads down 36bps
  - Significant increase in competition
  - Mix impact from strong growth in lower spread term deposits and online savings products
  - Incurring high costs on deeming accounts as rates have not been reset by government

Deposit balances (\$bn)



Average deposit spreads<sup>2</sup> (%)



1. APRA Monthly Banking Statistics, March 2009. 2. Includes transfer pricing

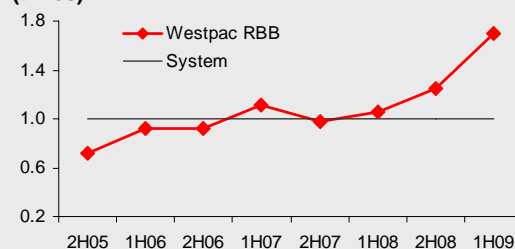


## Westpac RBB Mortgage franchise strong performance

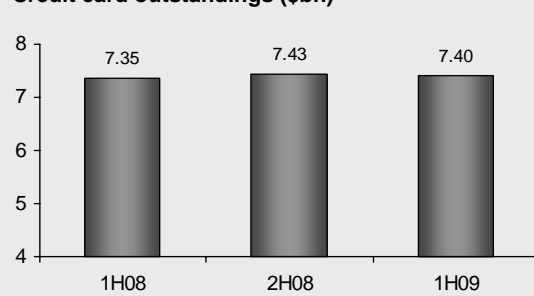
- Mortgages up 15%, 1.7x banking system<sup>1</sup>
  - 19% of growth contributed by RAMS
- 3<sup>rd</sup> party originations up to 43% (from 38%)
  - More profitable channel post realignment of broker commissions in 2008
  - Increase attributable to RAMS portfolio
- First Home Buyers represented 15% of new lending in 1H09, in comparison to 12% in 1H08
- Fixed rate lending 8% of 1H09 new lending, but starting to rise
- Credit cards up 1%:
  - Cards growth below system for almost 2 years and card portfolio now quite mature
  - Tightened credit standards, including fewer credit limit increases
  - Revolver rate declined to 74% as customers actively seek to reduce balances
- Virgin card re-branded to Ignite
  - Re-branded card with same features such as low rate card including no annual fee

1. APRA Monthly Banking Statistics, March 2009

**Mortgage credit growth versus banking system<sup>1</sup> (times)**



**Credit card outstandings (\$bn)**

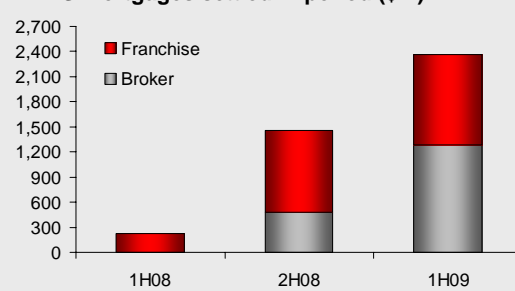


## Westpac RBB RAMS deepening distribution and customer reach

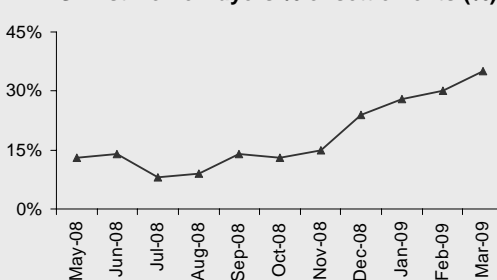


- Growth strong and ahead of expectations
  - RAMS now profitable on a standalone basis
- RAMS contributed 19% of Westpac new mortgage growth
  - Lending growth improving post acquisition
  - RAMS segmentation maintained post-acquisition with strong performance, especially in first home buyers
  - Record flows through franchisees compared to pre-acquisition levels
- Areas of focus
  - Rollout of a new franchise model with recruitment of new franchisees
  - Further building of brand
  - Transform origination process to deliver straight-through processing by Dec 09
  - Continue rollout of electronic lodgement to lift auto credit-decisioning and reduce origination costs
  - Greater development emphasis on franchise channel

**RAMS mortgages settled in period (\$m)**



**RAMS First Home Buyers % of settlements (%)**

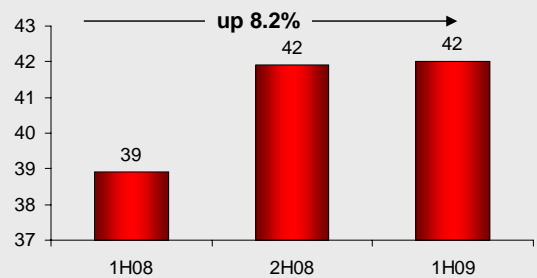




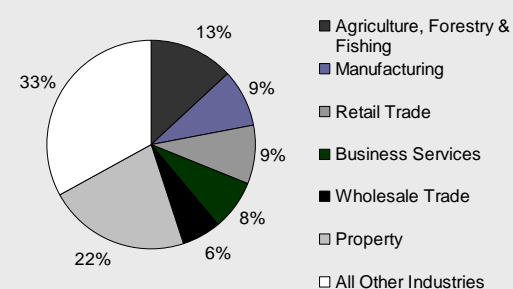
## Westpac RBB Business lending growth solid

- Westpac RBB focuses primarily on SME (typically facilities under \$15m)
- Lending growth 8.2% on 1H08
  - New lending growth has weakened over the past 6 months in line with system
- Spreads improved
  - Progressively repricing to accommodate higher funding costs and higher risk premiums
- Pricing managed proactively across the portfolio

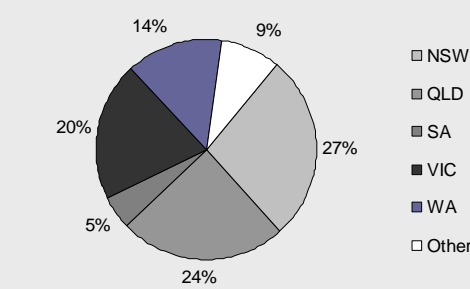
Business lending (\$bn)



Business lending by industry (%)



Business lending in 1H09 by state composition (%)

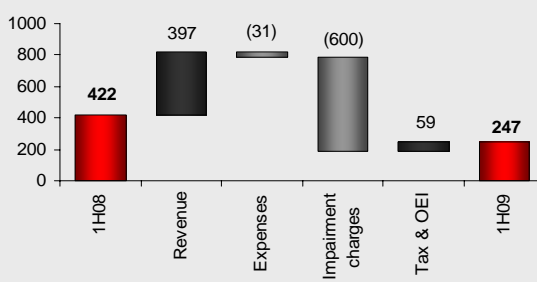


## Westpac Institutional Bank

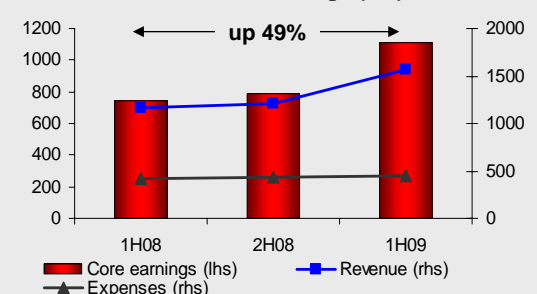
### Institutional Bank (ex-Equities) – strong revenues offset by higher impairment charges

- Cash earnings decreased by \$175m in 1H09, with very strong revenues offset by higher impairment charges
- Strong revenue performance, up 34%, and core earnings, up 49%, driven by:
  - Increased customer activity, up 35%, across the business
  - Strong trading results in FX, Commodities, Carbon and Energy and Debt Markets
- Expenses up 7% from volume and revenue growth, and translation impact of offshore expenses from lower A\$
- Impairment charge of \$751m in 1H09, up \$600m on 1H08
  - Including \$372m increase in provisions for Babcock & Brown International, Allco and ABC Learning
- Portfolio mix includes Premium Business Group (customers with facilities typically from \$10m to \$100m) transferred from Westpac RBB to WIB during 1H09, and a small number of St. George corporate and institutional customers

Institutional Bank<sup>1</sup> cash earnings (\$m)

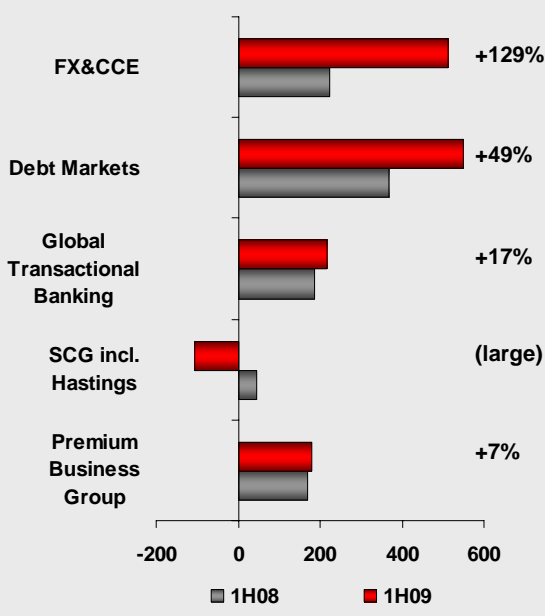


Institutional Bank<sup>1</sup> core earnings (\$m)



1. Institutional Bank excluding Equities includes the Premium Business Group which was transferred from Westpac RBB during 1H09 and a small number of St. George corporate and institutional customers. Comparatives have been restated.

**Pro forma revenue contribution by business segments<sup>1</sup> (\$m)**

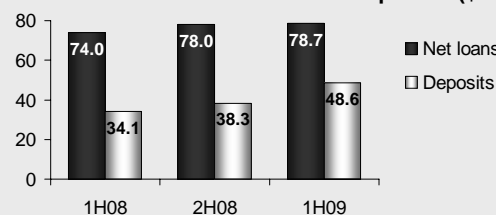


- FX, Commodities, Carbon and Energy (FX & CCE) revenue up 129%
  - Reflects a market leading position<sup>2</sup>, higher volumes and margins due to market volatility and profitable trading positions
- Debt Markets revenue up 49%
  - Strong customer activity, improved lending spreads and fee income contributed approx. 75% of revenue
  - Strong trading results reflect benefit of increased interest rate volatility, offsetting lower credit portfolio management revenue
- Global Transactional Banking revenue up 17%
  - Benefit from significant deposit growth
- Large decline in SCG revenue
  - Performance impacted by lower values of FUM and lack of origination income. Asset write-downs also significantly impacted revenue (negative revenue impact)
- Premium Business Group (PBG) revenue up 7%
  - Increased volumes and spreads partly offset by higher funding costs not fully recouped

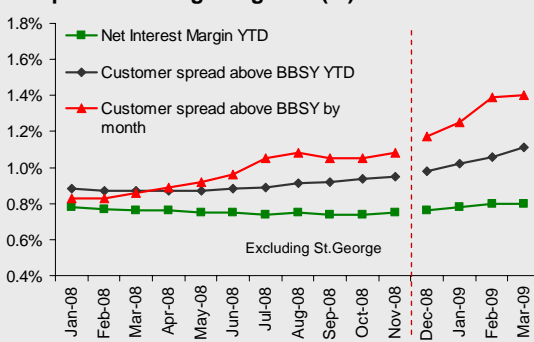
1. Institutional Bank excluding Equities includes the Premium Business Group which was transferred from Westpac RBB during 1H09 and a small number of St.George corporate and institutional customers. Comparatives have been restated. 2. Ranked No.1 Market Share in Peter Lee Associates Foreign Exchange Survey, Australia, 2009

- WIB well positioned to support customers
- Net loans up 6% to \$79bn
  - Focus on supporting existing customers
  - Lending growth slower as customers de-leverage
- Deposits up 43% to \$49bn
  - Primarily in transactional and PBG business
  - Reflects high levels of liquidity held by corporate customers
- Financing margins continue to improve:
  - Progressively repricing portfolio to reflect increased market credit risk spreads
  - Lower spread loans rolling off

**Institutional Bank net loans and deposits<sup>1</sup> (\$bn)**



**Corporate lending margins<sup>1,2</sup> (%)**



2. Includes financing, securitisation and asset finance. Customer spread YTD and net interest margin YTD are 12 month rolling average. Customer spread by month and YTD are incremental to BBSY. Net interest margin YTD includes cost of funds.

1. Institutional Bank excluding Equities includes the Premium Business Group which was transferred from Westpac RBB during 1H09 and a small number of St.George corporate and institutional customers. Comparatives have been restated.

- In line with deteriorating market conditions (asset values and capital markets appetite for new funds), we have undertaken a comprehensive review of assets. These included assets acquired for ultimate inclusion in new funds, direct equity holdings and other strategic holdings. This review (including seed assets in listed funds) resulted in:
  - Writedowns of \$125m
  - Remaining value of assets held \$438m
- The writedowns relate to the following three asset categories:
  1. Property assets targeted for ultimate sale into investment vehicles – total writedowns \$75m (remaining asset value held \$347m) including:
    - Cooks Cove – an industrial park near Sydney airport
    - Defence Force Housing portfolio
    - A Melbourne residential development site
  2. Direct equity investment assets – total write downs \$12m (remaining asset value held \$54m)
  3. Strategic holdings in investment vehicles revalued to current market value – total writedowns \$38m (remaining asset value held \$37m) including:
    - Hastings Diversified Utilities Fund
    - Westpac Office Trust
    - Australian Infrastructure Fund

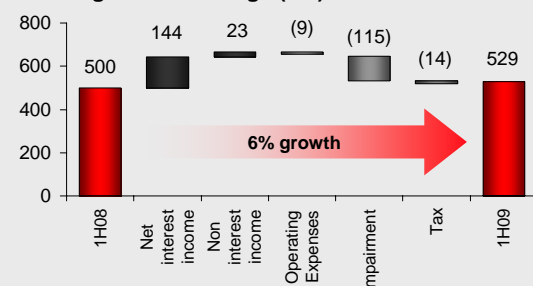
- Weak performance driven by lower volumes and a significant increase in impairment charges, partly offset by higher spreads in 1H09
- Portfolio review in early 2008 reduced single name concentrations for large facilities – loans >\$10m declined by \$687m to \$603m
- Remaining concentrated facilities impacted by further declines in markets between Oct 08 and Feb 09 and exposures to closed or illiquid funds
- Substantial provisions raised in response:
  - \$110m in IAP
  - \$46m in CAP to cover risk remaining in the portfolio
- We continue to work with customers to arrange alternate facilities to accommodate a further expected period of fund redemption and distribution suspension

Margin Lending <sup>1</sup>	1H08	2H08	1H09
Total standard exposures	\$5.3bn	\$4.7bn	\$3.5bn
Standard exposures >\$10m	\$610m	\$430m	\$290m
Standard exposures - impairment losses	nil	\$13m	\$5m
Total concentrated <sup>2</sup> exposures	\$1.3bn	\$1.1bn	\$0.5bn
Concentrated <sup>2</sup> exposures >\$10m	\$680m	\$500m	\$313m
Concentrated <sup>2</sup> exposures - impairment losses	\$50m	\$16m	\$151m
Total exposures	\$6.6bn	\$5.8bn	\$4.0bn
Total Gearing / LVR	45%	54%	51%
Margin calls	1H08	2H08	1H09
Number	4,883	3,951	4,102
% of clients	16%	13%	16%
Forced sales	5%	2%	4%

1. Includes St. George portfolio. 2. Concentrated exposures are defined as loans >\$3m where a single listed security represents more than 40% of the customer's portfolio, all loans exposed to illiquid managed funds and all Absolute Investment Loans (100% loan to value ratio with capital protection at maturity). Standard exposures are typically diversified portfolios to listed, liquid equities and funds.

- Core earnings up 20% on 1H08
- Net interest income up 14% supported by growth in:
  - Mortgages up 8%
  - Credit cards up 15%
  - Business lending up 16%
  - Deposits up 18%
- Overall margins up 5 bps
  - Increased lending spreads from improved margin management offset narrowing deposits spreads from increased competition
- Non-interest income up 7%
  - Increase in deposit and lending fees
- Expenses up 2%
  - Streamlined support functions as part of the merger
  - Higher marketing costs investing in the St.George brand
- Impairment charges up 139%
  - Consumer performing well with \$13m impairment rise due mostly to growth
  - Business impairments up \$102m, mostly commercial lending including property

St.George cash earnings (\$m)



## Maintaining distinctiveness

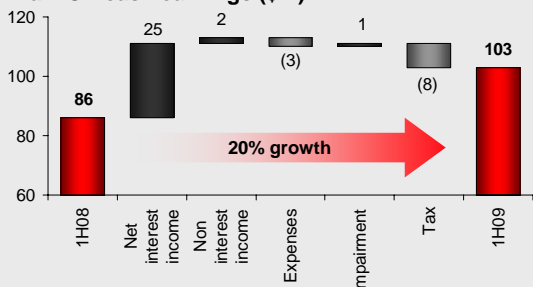
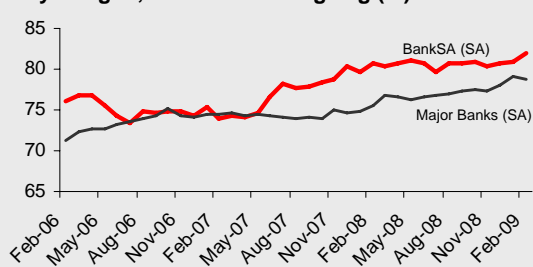
- Investing in the brand. Ranked 9th most valuable brand in Australia<sup>1</sup>
- Excellent customer retention
- Strong customer satisfaction at 77%<sup>2</sup>, well ahead of majors
- Employee engagement strong at 81%

1. Source: Interbrand March 09. 2. Source: Roy Morgan Research. Base: Main Financial Institution customers Measure: % Very or Fairly Satisfied St.George Group includes St.George, Dragon Direct and BankSA.



- Cash earnings up 20% on 1H08
- Net interest income up 14%, supported by balance growth in:
  - Mortgages up 12%
  - Credit cards up 8%
  - Business lending up 15%
  - Deposits up 11%
- Overall margins flat over year
- Non-interest income up 5%
- Expenses up 3%, with improved productivity
- Impairment charges little changed
- Franchise in strong shape
  - Customer satisfaction at record highs of 81.9%
  - Strongest distribution network in the state
  - Impaired loans 0.19% of total exposures

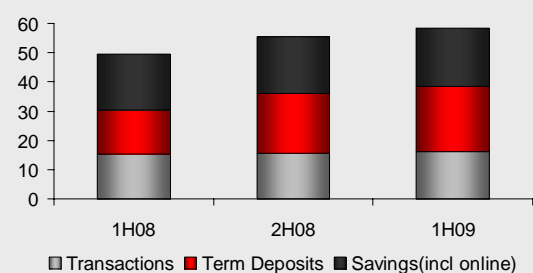
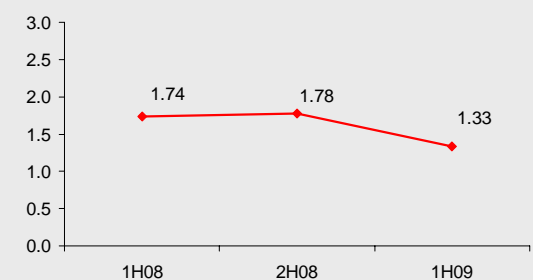
BankSA cash earnings (\$m)

Customer Satisfaction<sup>1</sup> –  
Roy Morgan, 12month moving avg (%)

1. Source: Roy Morgan Research. Base: Main Financial Institution customers Measure: % Very or Fairly Satisfied. Major Banks (SA) include Adelaide Bank, BankSA, WBC, ANZ, CBA and NAB

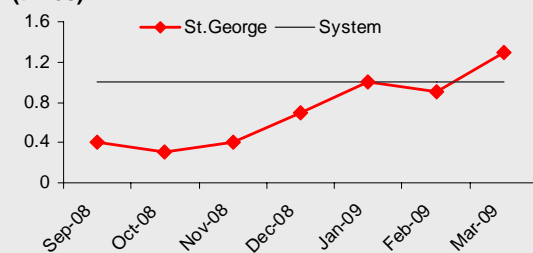
- Deposits up 18% on 1H08
  - Driven by strong growth in term deposits, up 48% on 1H08
  - Term deposits now represent 38% of portfolio
- Deposit spreads down 41bps on 1H08
  - Reflective of competitive environment and push for volume in term deposits and savings (including online products)
- Initiatives to increase deposits
  - Revised deposit targets for branches and contact centres
  - Launched a national deposit growth sales competition
  - Enhanced online activities to improve deposit lead generation and fulfilment

Deposit balances (\$bn)

Average deposit spread<sup>1</sup> (%)

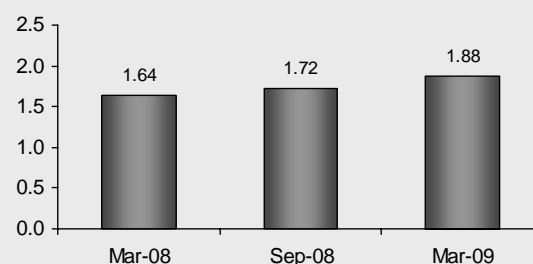
1. Includes transfer pricing

- Mortgages up 8% on 1H08, 0.8x banking system<sup>1</sup>
  - Reduced advertising spend in 2H08 adversely impacted 1Q09 pipeline, but growth improved through 1H09
  - 51% of business originated from NSW
  - 20% of new business was First Home Buyers
- Mortgage customer attrition fell 3 percentage points to 13%
  - Increased FTE in contact centre dedicated to home loan retention
- 3rd party originations down to 43% from 46%
  - Picked up in later months of 1H09 due to First Home Buyers propensity to use brokers
- Credit card book up 15%, off low base
  - Flagship product Vertigo, 53% of sales
  - Over 65% of sales are to existing customers
  - Tightened credit scorecards in 1H09

Mortgage credit growth versus banking system<sup>1</sup> (times)

Source: APRA, Peer group average includes NAB, CBA, ANZ

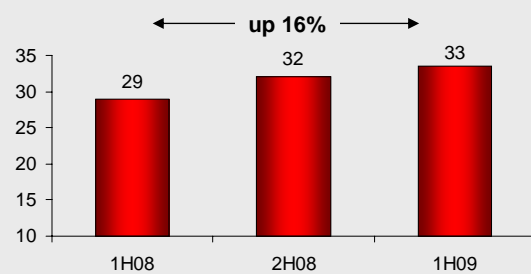
Credit card outstandings (\$bn)



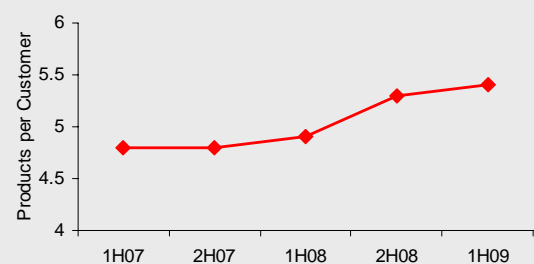
1. APRA Monthly Banking Statistics, March 2009

- Business lending growth of 16% on 1H08
  - Business lending strong particularly in NSW and SA
  - Well positioned to capture additional flows in Automotive Finance from the exit of major competitors
- C&BB<sup>1</sup> have improved quality and robustness of the business:
  - Continued diversification of new lending by industry and growing product penetration with existing customers
  - Improving product penetration
- 86% of new business lending in 1H09 from existing customers

**Business lending (\$bn)**

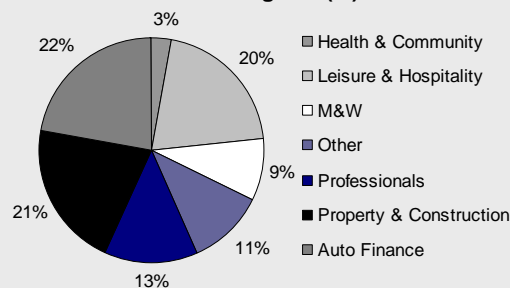


**C&BB product penetration**



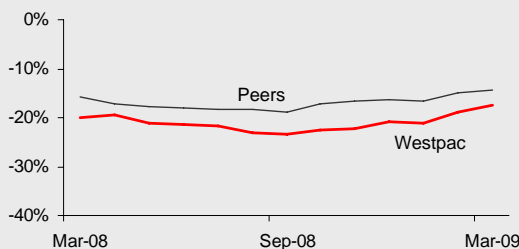
1.C&BB is St.George corporate and business banking

**C&BB<sup>1</sup> 1H09 new lending mix (%)**

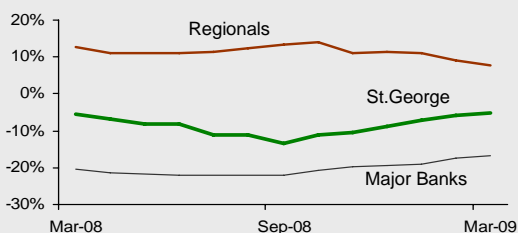


- NPS is a measure of franchise strength and the propensity of customers to recommend the bank. It is derived from a survey asking customers how likely they are to recommend the company to a friend or colleague.
- The NPS is calculated by taking those rating the company (on a 1 to 10 scale) a 9 or 10 (promoters) and subtracting those who rate the company 6 or less (detractors)
- Westpac RBB's Consumer NPS improved to -17.6 and has been improving faster than peer average
- Westpac RBB's Business NPS improved to -21.7 and has been improving well ahead of the market and closing gap on peers
- St.George Consumer NPS improved to -5.1, improving well ahead of major bank peers and closing the gap to Regionals from 27bps to 15bps

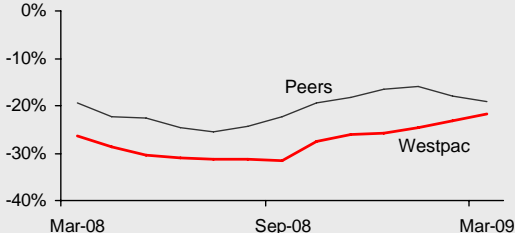
**Westpac RBB Australian Consumer NPS – 6 month moving average (%)**



**St.George Australian Consumer NPS – 6 month moving average (%)**



**Westpac RBB Australian Business NPS – 6 month moving average (%)**



Source for Westpac RBB Consumer NPS: Roy Morgan Research – NPS of main financial institution Aged 14+. Peers includes ANZ, CBA, NAB and SGB (simple average). Data till Mar09. Source for Westpac RBB Business NPS: TNS Research – NPS of MFI. Peers includes ANZ, CBA, NAB and SGB (simple average). Data till Mar09. Source of St.George Consumer NPS: Roy Morgan Research – NPS of main financial institution Aged 14+ 6MMA. St.George includes St.George and BankSA; Majors includes ANZ, CBA, NAB and Westpac; Regionals include BankWest, BEN, BOQ and SUN.



- Cash earnings down \$43m (17%) on 1H08:
  - \$36m due to weaker investment markets
  - Expenses held flat
- Funds Management cash earnings \$118m (down 36%)
  - FUM \$29.2bn down 22%, excluding market moves down 1%
  - FUM margins down 6bps to 85bps
  - FUA \$62.0bn down 18%, excluding market moves up 3%
  - FUA margins up 11bps to 59bps
  - Sector leading platforms (BT Wrap/Asgard) and Number 1 retail product
  - Expanding reach with BT Super for Life; Term deposits and Life insurance on Wrap
- Insurance cash earnings \$78m (up 10%)
  - Cross sell rates at record levels
  - General insurance impacted by severe weather events and natural disasters
- Capital and other cash earnings \$11m; Capital invested conservatively
- St. George integration proceeding well

Key performance indicators	Change 1H08 – 1H09
Cash earnings	↓ 17%
Funds Management operating income	↓ 15%
Insurance operating income	↑ 15%

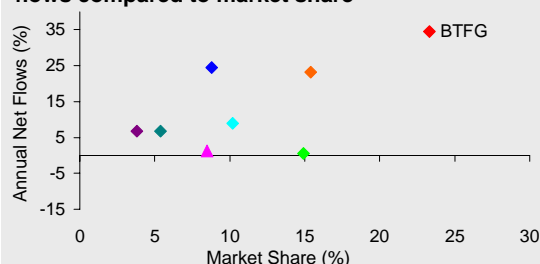
FUM / FUA	Change 1H08 – 1H09	
	Exclude market move	Include market move
BT Wrap/Asgard FUA	↑ 3%	↓ (19)%
Corporate Super FUA	↑ 6%	↓ (16)%
Total FUA	↑ 3%	↓ (18)%
Retail FUM	↓ (4)%	↓ (27)%
Institutional FUM	↑ 8%	↓ (5)%
Wholesale FUM	↓ (5)%	↓ (35)%
Total FUM	↓ (1)%	↓ (22)%

- Share of annual new business ranks in top 3 for major categories, well above existing market share
- Combined BT and Asgard Wrap platforms number 1 market share, earning \$1 in \$3 of all new flows
- BT Super for Life now has over 105,000 customers, averaging 2,100 signings per week
- Term deposits on Wrap platform now \$2.1bn (launched Apr08)

	Current Aust. market share		Share of annual new business	
Product	Market share (%)	Rank	Market share (%)	Rank
BT Wrap/Asgard Platforms	21	1	33	1
Corporate Super	10	5	25	3
Retail	19	1	56	1

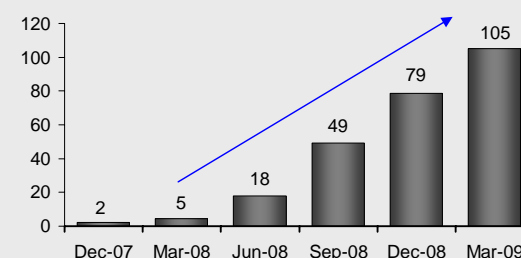
Source: Plan for Life, Dec 2008

Platforms (versus competitors) annual net flows compared to market share



Source: QDS, Plan for Life All Master Funds, Dec 2008. Competitors manually selected for wrap platforms

BT Super for Life customers (cumulative '000)



- Pro forma Cash NPAT \$12.7m, down 44% on 1H08
- FUM down 20% to \$30.6bn
  - Fall due to sharp market declines
  - Positive flows from institutional and wholesale clients but legacy retail run-off continued
- Margins on total revenue down 4bps primarily due to movement into lower margin cash-related products
- Cost to income ratio 66% (up from 58%)
  - Costs down 22% but increasingly hard to reduce
  - Employee costs down - rewards aligned to profitability, not relative fund performance; headcount savings
- Well positioned
  - Multi-boutique model has proved resilient
  - Experience, brand strength and stability key amid short-term challenges
  - Competitive performance by major funds especially across 3 & 5 years reflecting long term investment horizon
  - Won the two major awards in the period – Insto Fund Manager of the Year and Money Magazine Best of the Best Fund Manager
  - Un-gearred balance sheet

Performance and Quartile Ranking	1 yr (% pa)	Quartile	3 yrs (% pa)	Quartile	5 yrs (% pa)	Quartile
Core Australian Share Fund	(24.4)	Q1	(4.4)	Q1	8.8	Q1
Ethical Share Fund	(27.8)	Q3	(4.5)	Q1	9.3	Q1
Imputation Fund	(26.6)	Q2	(3.7)	Q1	9.6	Q1
Focus Fund	(28.8)	Q3	(4.9)	Q2	N/A	N/A
Smaller Companies Fund	(38.8)	Q3	(8.3)	Q2	8.2	Q1
Property	(52.8)	Q1	(21.0)	Q1	(6.9)	Q1
Domestic Fixed Interest	10.2	Q3	5.8	Q3	5.8	Q3
Managed Cash	6.9	Q1	6.7	Q1	6.3	Q1
Intl Fixed Interest	1.9	Q3	4.5	Q3	5.3	Q3
Intl Equities	(22.9)	Q2	(14.6)	Q4	(2.6)	Q4
Asian Share Fund	(25.7)	N/A	(6.3)	N/A	5.9	N/A
Balanced Fund	(19.6)	Q2	(5.4)	Q2	4.3	Q2

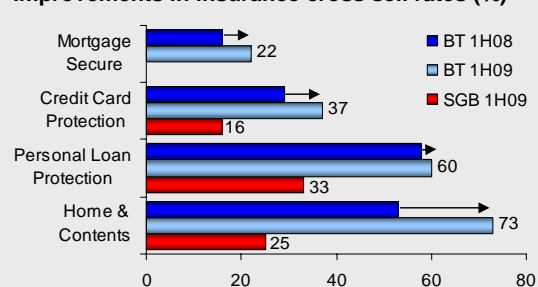
  

Flagship fund Ratings (S&P)		2008
Core, Imputation, Focus Fund		★★★★★
Ethical, Smaller Companies, International, Asian, Balanced		★★★★
Domestic Fixed Interest, Property		★★★

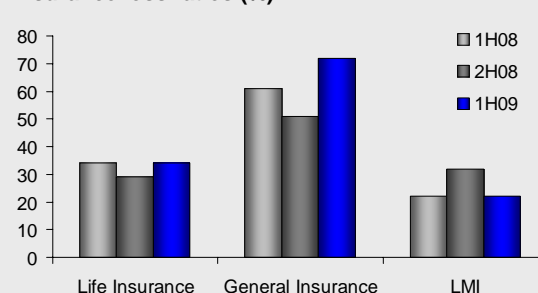
Source: Performance from InTech March 09 and Quartile Rankings February 09 - External managers: Intl Fixed Interest (BlackRock) and Intl Equity (AQR)

- Cash earnings up 10% on 1H08
- Life insurance cash earnings up 3%
  - In-force premium growth of 12%
  - Increased focus on selling life via planners
  - Cessation of AIA Australia<sup>1</sup> distribution agreement impacted earnings
- General Insurance cash earnings down 17%
  - Gross written premium growth of 11%
  - Total claims of \$58m, impacted by severe weather events and natural disasters
- Lenders Mortgage Insurance cash earnings up 56%
  - Gross written premiums up 38% reflecting growth in mortgage insured loans, particularly through the addition of RAMS channel
  - No change in mortgage insurance loss ratio, with increase in mortgage insurance claims of only \$2m
- Insurance cross sell increased to record levels
  - Home and Contents cross sell rate close to world's best practice
  - St.George cross sell rates well below BT, highlighting a significant opportunity

**Improvements in insurance cross sell rates (%)**



**Insurance loss ratios (%)**

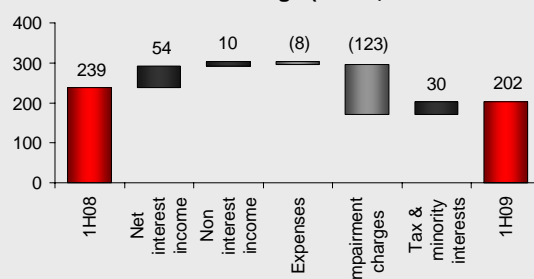


1. AIA Australia refers to American International Insurance Company (Australia) Limited

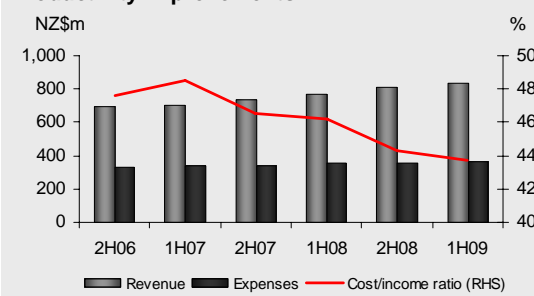
- Cash earnings down 15%; core earnings up 13%
- Operating income growth of 8%, from a 10% rise in net interest income and a 5% rise in non-interest income:
  - Modest loan and deposit growth boosted by higher margins
  - Margins up 8bps:
    - Re-pricing for risk across the portfolios
    - Increase in floating rate mortgages and roll-off of lower spread fixed rate products
    - Deposit spreads lower with intense competition
  - Non-interest income increased primarily due to higher income from mortgage funds
- Continued tight expense management, with expenses up 2%; expense to income ratio improving 250 bps to 43.7%.
- Impairment charges up \$123m due to continued deterioration in the New Zealand economy:
  - Increased business customer stress, particularly in commercial property
  - Higher mortgage losses from small business customers

All figures are in NZ\$.

New Zealand cash earnings (NZ\$m)



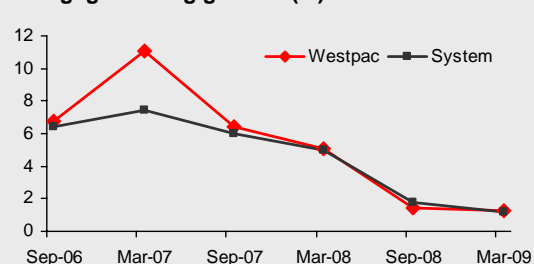
Productivity improvements



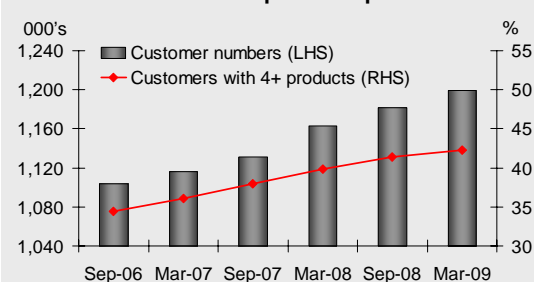
- Lending growth of 4%:
  - Consumer lending up 3%, with market share steady at 19%<sup>1</sup>
  - Business lending up 9%, with market share steady at 12%<sup>1</sup>
- Deposits up 6%, with most growth in term deposits, up 8%
  - Growth behind system due to decision taken not to match some of the more aggressive market pricing
- Customer-focused strategy continuing to deliver, with customer numbers up 3%
- Revenue per front office FTE up 10% due to enhancements in front line productivity
- Product per customer growth continues, supported by good cross-sell of new products such as Debitplus (debit credit card)

All figures are in NZ\$. 1. Source: RBNZ, March 2009

Mortgage lending growth<sup>1</sup> (%)

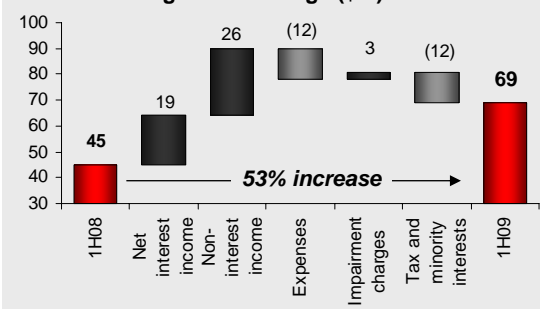


Customer numbers and products per customer



- Cash earnings up \$24m or 53% on 1H08
- Pacific region currencies strengthened significantly against the Australian dollar in 1H09
  - Increased 1H09 cash earnings by \$12m
  - Excluding FX impact, operating income was up 14% in 1H09
- Strong income growth driven by:
  - Continued strong economic growth in Papua New Guinea resulting in increased investment
  - Growth in Foreign exchange earnings in Papua New Guinea and Vanuatu
- Impairment charges remained low, however are expected to increase throughout 2H09 as the effect of the slowdown in global economies impacts the Pacific region
- Since 31 March developments in Fiji, including the 20 percent devaluation of the Fiji dollar and new regulations on banks, increases the likelihood for lower returns in the region

Pacific Banking cash earnings (\$m)



# Economics

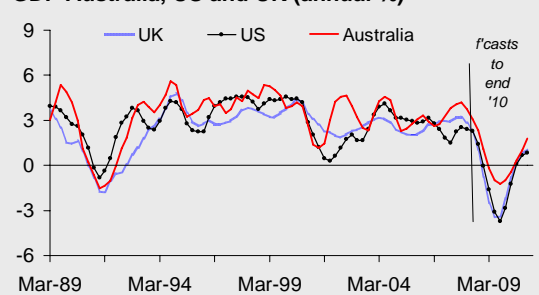
May 2009

Key economic indicators as at April 2009		Calendar year		
		2008	2009f	2010f
<b>World</b>	GDP	3.6	-1.0	2.1
<b>Australia</b>	GDP	2.1	-1.0	1.0
	Private consumption	2.1	1.0	1.5
	Business investment <sup>2</sup>	12.6	-8.0	-13.8
	Unemployment – end period	4.5	7.5	8.5
	CPI headline – year end	3.7	1.8	2.4
	Interest rates – cash rate	4.25	2.00	2.00
	Credit, Total – year end	6.5	2.0	1.0
	Credit, Housing – year end	7.7	8.0	7.0
	Credit, Business – year end	7.5	-4.0	-6.5
<b>New Zealand</b>	GDP	0.2	-2.8	1.1
	Unemployment – end period	4.7	7.6	7.3
	Consumer prices	3.4	1.3	1.1
	Interest rates – overnight cash rate	5.0	2.0	2.0
	Credit – Total	8.7	4.5	6.3
	Credit – Housing	4.4	3.8	6.0
	Credit – Business (incl. agriculture)	15.7	5.8	6.9

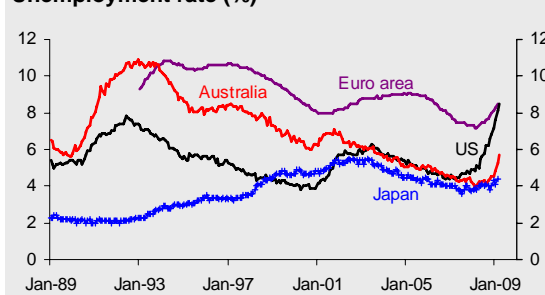
1. GDP and component forecasts are reviewed following the release of quarterly national accounts. 2. Business investment adjusted to exclude the effect of private sector purchases of public assets. Source: Westpac Economics

- World economy in a 'great recession' – much of the developed world in recession with some US and European banks insolvent
- Australia entered the crisis in good shape with solid growth and a strong fiscal position
- Australia continues to outperform:
  - Banks well capitalised, profitable
  - Monetary policy transmission effective, with further scope to ease
  - The fiscal stimulus is large, front loaded & relatively effective
  - Sharply lower AUD providing a cushion
  - Australia had considerable momentum (record pipeline of infrastructure work) & with pent-up demand (housing)
  - China, key trading partner, still growing
  - Commodity prices have only partially reversed earlier sharp gains.

GDP Australia, US and UK (annual %)



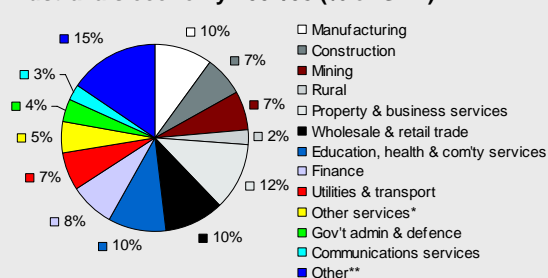
Unemployment rate (%)





- Australia is a diversified, flexible economy and not dependent on any one sector
- Proximity to the relatively fast growing Asian region a positive for our exporters – resources, tourism, education, etc
- The growth baton is passing from mining sector (7% of GDP) & mining investment to housing construction and public spending
- Flexible labour market aids population shift between states as growth cycle evolves
- Freely floating and responsive exchange rate helps to smooth the economic cycle – the Aussie dollar is now lower
- The services sectors dominate and are continuing to grow in importance
- Communication services has been the fastest growing sector over last 20 years
- Farm output (2½% of GDP), rebounding from drought, up 26% over 2nd half of 2008

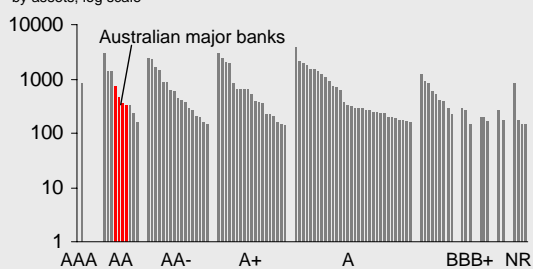
Australia's economy 2007/08 (% of GDP)



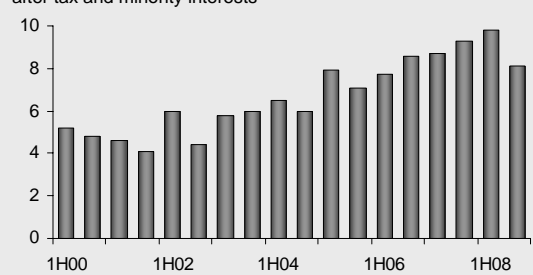
\*Other services is accommodation and cafes, personal services, cultural and recreation. \*\*Other is dwellings and taxes less subsidies. Source: ABS

- The strength of the banking sector is of significant benefit to the Australian economy
- No need for government capital injection
- Continuing to support the economy with lending
- Passing on most of the cut in interest rates
- Major banks in strong shape
  - >\$15bn in earnings in 2008
  - >\$14bn in equity raised over last 6 months
- Lifted sector Tier 1 ratios by around 100bps from private shareholders rather than government
- Australian Government Guarantee Scheme for Wholesale Funding and Large Deposits helped shore up banks' access to funding
- Major banks maintained their AA credit ratings
- Little exposure to high-risk securities such as CDOs, sub-prime mortgages
- Balance sheets heavily weighted towards domestic loans, particularly to the historically low-risk household sector
- Housing boom halted late 2003, some household balance sheet adjustment
- Problem loans have increased but from very low levels

Credit ratings of the largest 100 banks<sup>1</sup> (US\$bn) by assets, log scale



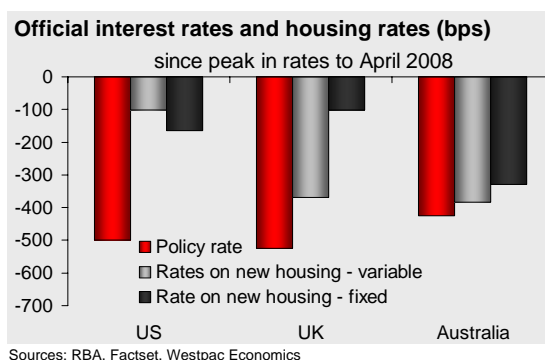
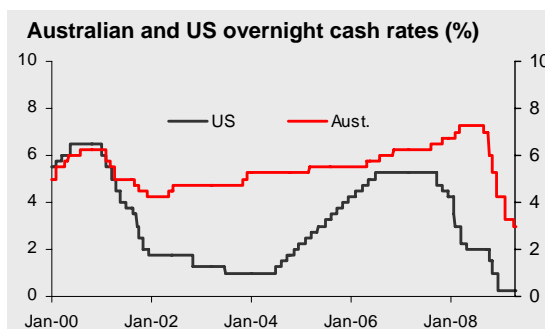
Australia's five largest banks' profits<sup>2</sup> (A\$bn) after tax and minority interests



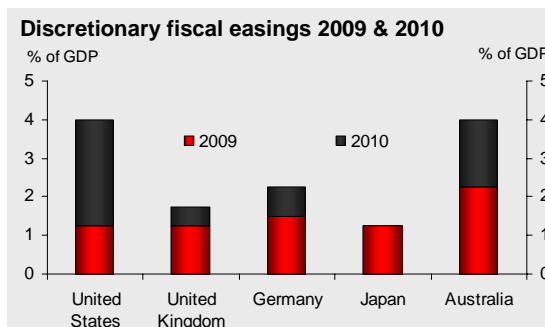
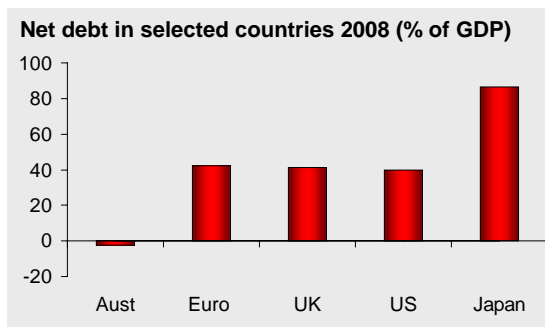
1. Holding company ratings; predominantly S&P. Sources: RBA, Bloomberg, The Banker. 2. Second half figures are for the half year to December for CBA and half year to September for the other banks. From 2006, data are on an IFRS basis; prior years are on an AGAAP basis. Sources: RBA, Banks' annual and interim reports



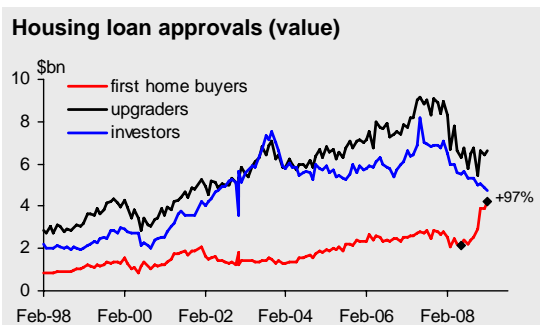
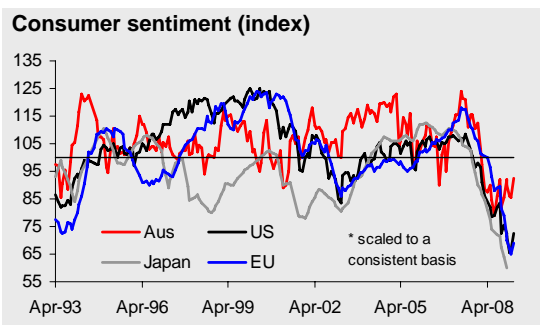
- Monetary policy has been effective through this cycle
- RBA cut rates by 4.25% since Sep '08, to just 3.0%
- Scope for more cuts – cash rate forecast to fall to a low of 2.0%
- Transmission mechanism working – variable mortgage rates fallen by 3.8%, benefiting consumers
- High proportion of variable rate loans, circa 80%
- Most corporate borrowing costs are directly linked to bank bill rate (floating rate) and have benefited from lower rates
- Financial sector healthy and been able to afford to pass on bulk of official rate cuts
- Interest rates now very low - standard variable rate of 5.80% lowest since 1968, below decade average of 7.30%



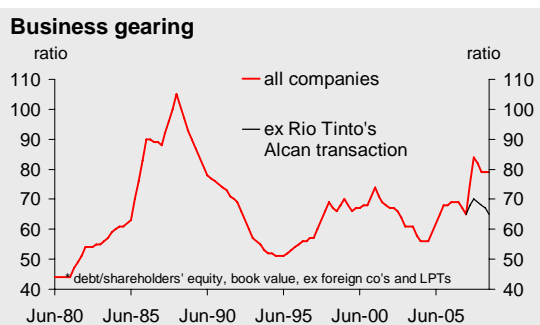
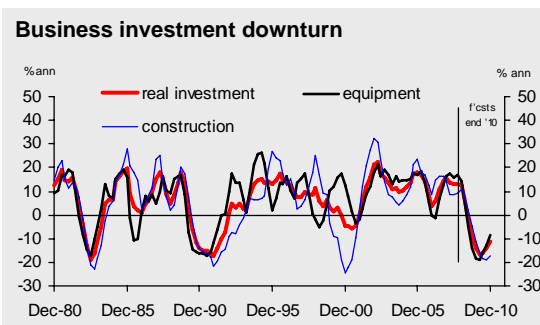
- Australian Government has been well placed to quickly respond to the financial crisis given a very strong fiscal position
  - Federal Government has no net debt and was running a surplus
  - Federal Government surplus of 1.7% of GDP in 2007/08
  - Capacity for further stimulus
- Fiscal stimulus substantial & front loaded – in contrast to many other countries – with 3 phase approach
  - About 4% of GDP in 2008/09
  - Cash handouts (1.6% of GDP) in '08/09; capital spending (schools etc) (1.3% of GDP) in '09/10
  - Additional stimulus in May 2010 budget, including phase 3: major infrastructure projects



- Monetary and fiscal easing has already had a discernible impact, particularly in the consumer and housing sectors
- After hitting a 16 year low in mid-2008, consumer sentiment has improved steadily. This is in contrast to sentiment abroad, where similar consumer measures continued to slide into deeply pessimistic territory
- The response has been more muted in terms of consumer spending, with much of the policy boost offset by a sharp rise in saving. Nevertheless, retail sales have still shown a positive response to policy stimulus in late 2008/early 2009
- Housing markets are responding to policy initiatives. Low interest rates and the increased first home buyer grant have generated a particularly strong rise in demand from first home buyers, although investors remain cautious

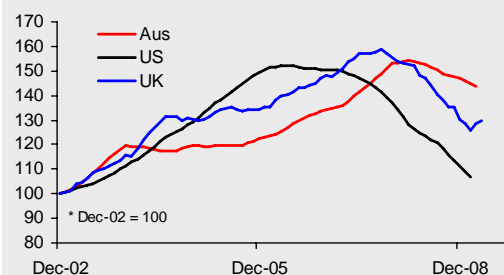


- Australian economy had considerable momentum entering this downturn, operating close to full capacity
- Corporate profitability strong, balance sheets sound, low debt servicing costs
- Strong profitability enhanced scope to fund investment from retained earnings
- Gearing for listed non-financial companies was around 70% in 2008, only a little above 15 year average (at the aggregate level)
- Asset write-downs have been largely offset by scaling back in debt and/or new equity raising. More than \$8bn of new equity raised by non-financial sector in 1Q09
- Contraction in business credit as businesses seek to deleverage
- Banks, focusing on concentration risk, are tightening credit for certain sectors
- Businesses are reducing investment in this environment, awaiting the upturn in household demand



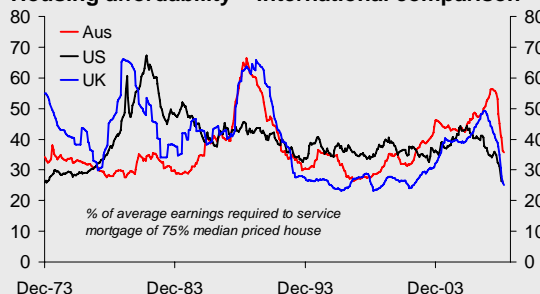
- Housing affordability in Australia has improved dramatically since mid-2008. The improvement has been on a par with that seen in the US and the UK but, critically, has come via lower mortgage interest rates (accounting for 70% of the improvement) rather than lower prices (which account for 40 to 50% of the turnaround in the US and the UK)
- In effect, the RBA's success in reducing mortgage rates has eased the downside pressure on prices
- The resilience of the banking system and an acute shortage of housing have also been key positives for the Australian housing market
- In contrast to the US (oversupplied) and the UK (where banking system weakness has led to excessively tight credit restrictions) the Australian housing market remains buoyant
- Whereas prices have fallen by well over 10% in the US and UK, Australian prices were down 6.7% in the year to March 2009 with weakness concentrated at the top end of the market. More recent data suggests a firming in prices in recent months

House prices – international comparison



Sources: S&P-Case Shiller, Nationwide, ABS, Westpac

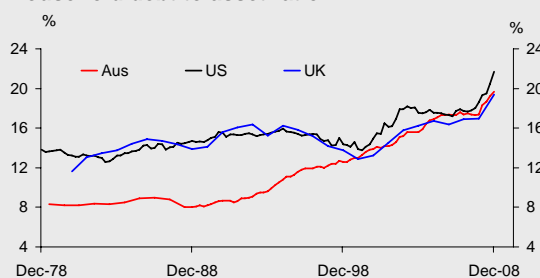
Housing affordability – international comparison



Sources: Westpac estimates

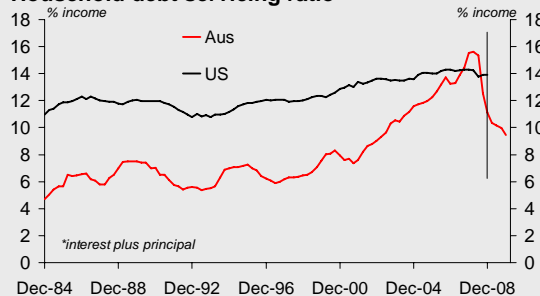
- Household gearing has risen steadily over the last 20 years with debt levels climbing from 45% of annual disposable income in 1989 to just under 160% in early 2008
- The rise has been mostly matched by higher asset values. The debt to asset ratio has risen from 8.2% in 1989 to 18% in 2008, bringing it in line with ratios in the US and UK. The ratio surged in 2008 as asset values, financial assets in particular, fell sharply
- Households have continued to meet their debt obligations well. The aggregate debt servicing to income ratio reached record highs in mid-2008 as high debt combined with a 16yr peak in mortgage rates. Although loan arrears rose through this period, they remained low by both historical and international standards
- The debt servicing to income ratio has improved dramatically since mid-2008 as rates have fallen sharply. It is set to drop below 10% in 2009. This will ease some of the pressure on households, although rising unemployment will present a challenge for many

Household debt to asset ratio



Sources: US Fed, ABS, RBA, Westpac

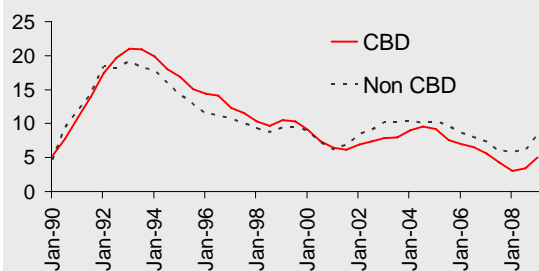
Household debt servicing ratio



Sources: US Fed, ABS, RBA, Westpac

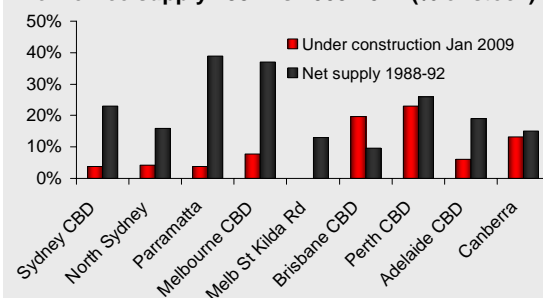
- Office vacancy is lifting, although remained either around or below average at 8.4% for non CBD and 5% for CBD office markets in January 2009
- Average vacancy over the past 10 years has been 7.2% for CBD markets and 8.4% for non CBD. Average vacancy over the past 20 years has been significantly higher
- Vacancy will rise further during the recession as companies reduce their requirement for office space and place excess space on the market through either sub or direct lease
- Fortunately, future supply remains well below the 1990s crash levels, with exceptions in South East Queensland, Perth and Canberra. As such, vacancies in excess of 20%, as occurred in the early 1990s are not expected in most markets

**Australian office vacancies (% vacant)**



Source: PCA

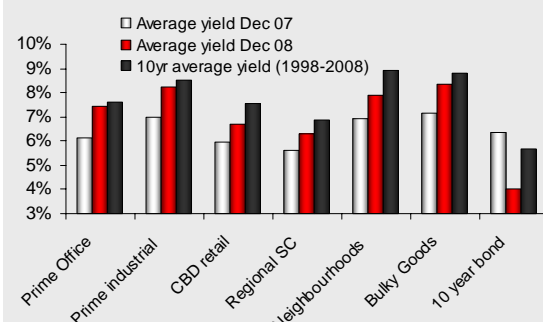
**New office supply 1992 vs 2009-2011 (% of stock)**



Sources: PCA, Westpac Property

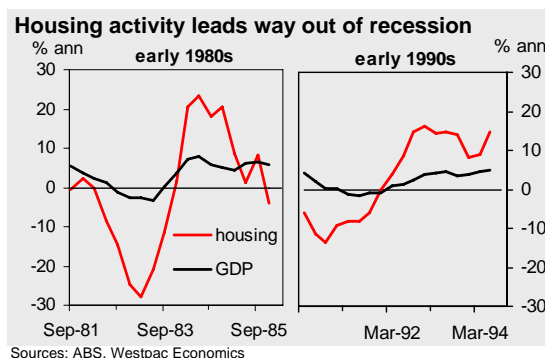
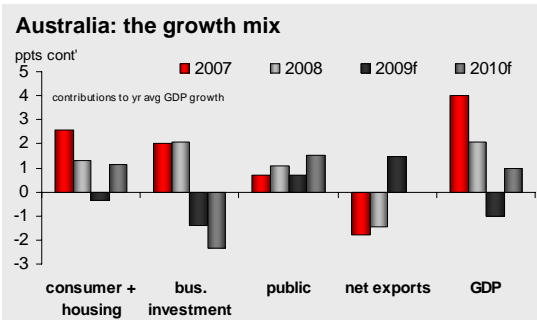
- While the level of commercial property transactions are considered to have fallen from over \$16bn in 2007 to just over \$6bn in 2008, investor caution has led to value falls and yield increases, despite a lack of evidence through transactions.
- However, an estimation as to the extent of yield increase suggest yields in all markets have risen from the lows of 2007 to close to the 10 year average as at the end of 2008.
- While further easing in yields is possible and likely, the risk premium above the ten year bond rate is now well above average.
- This lift in risk premium combined with the significant easing in yield that has occurred, reduces the pressure on how far yields have to rise.
- However, the focus now shifts from expectation of higher income yields to security of income in a recession. Values are expected to fall further.

**Australian commercial property yields**

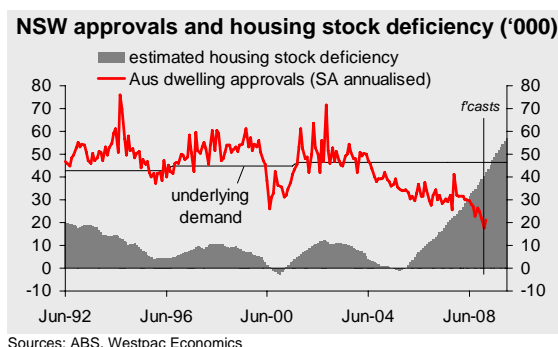
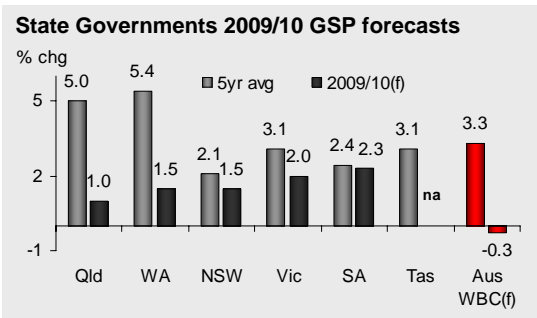


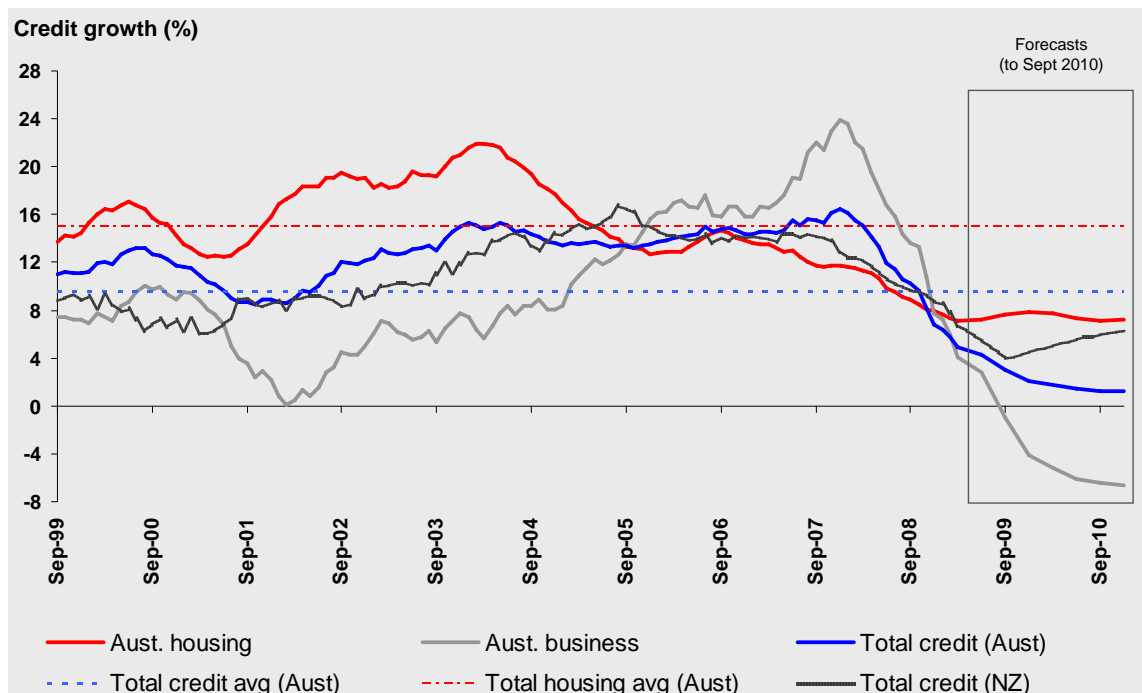
Source: CBRE/RBA

- The key settings necessary to bring about a recovery are falling into place:
  - Interest rates are very low (mortgage rates lowest since 1968)
  - The Australian dollar is sharply lower
  - Fiscal policy has become very accommodative
- Interest rate sensitive housing sector will lead the recovery
  - Pent-up demand for housing, population growth 1.7% average last 3 years
  - Housing upswing to emerge despite rising unemployment, as in past cycles
- A turnaround in net exports will also contribute to the recovery – the lower AUD contributes to a reduction in import demand
- Public demand is forecast to strengthen and expand by a brisk 7% through 2009/10
- World economy is the main risk to the growth outlook

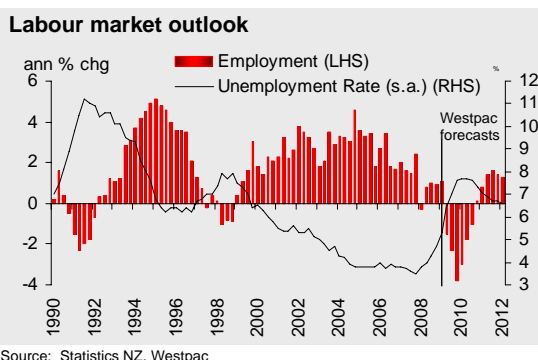
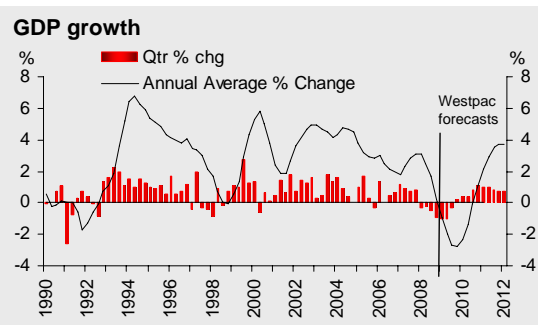


- Each of the six state economies will feel the impact of the global recession in 2009
- The loss of altitude will be greatest in the once booming resource rich states of WA & Qld – as evident from state government forecasts
- The non-resource rich states are better placed to outperform in 2010
- During the boom, high interest rates and a high dollar constrained growth – particularly in the non-resource rich states
- Very low interest rates will lead to a housing recovery – particularly in NSW where there is pent-up demand
- The lower AUD will boost international tourism and manufacturing exports, as global demand improves
- The population shift to the mining states has been halted



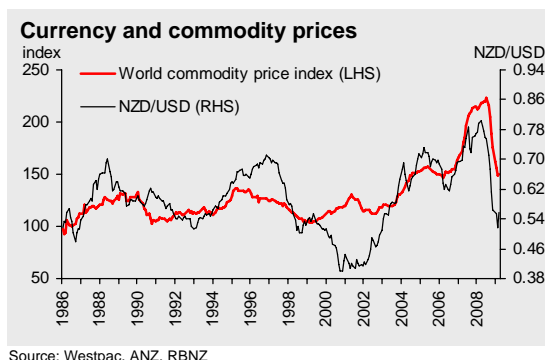
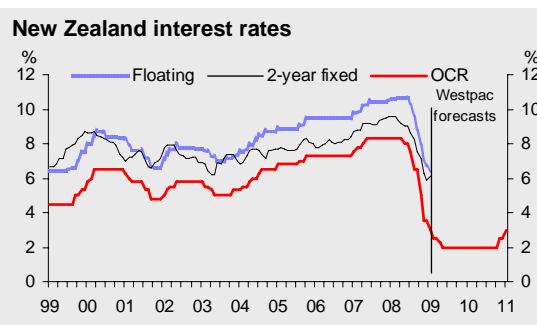


- New Zealand economy has already been in recession for a year
- The global outlook remains the key source of concern for 2009, with New Zealand's major trading partners expected to contract by 2.2% this year
- Domestically, consumers are diligently saving tax cuts, mortgage interest rate cuts and petrol savings, in response to concerns about job security and indebtedness – the unemployment rate is forecast to peak at 7.7% in early 2010, from 4.7% currently
- Business confidence remains at historically low levels, with cuts to business investment in the pipeline as profitability comes under pressure.
- GDP is expected to shrink by close to 3% in calendar 2009, with a very modest recovery in 2010
- Monetary policy and the exchange rate still have work to do. The OCR is forecast to be at a low of 2% around mid-year, with the NZD falling into the high USD0.40s in the second half of the year





- Monetary pass-through:
  - Between July 2008 and March 2009 the OCR was cut by 5.25ppts, with floating mortgage rates down close to 4.5ppts
  - Substantial pipeline interest rate relief to come
- Fiscal stimulus estimated at ~5% of GDP over 2009-2010
- Nature of New Zealand exports:
  - Exports are predominantly food-related goods, less impacted by slow demand
- Wealth correction more subdued:
  - Household exposure to equities is low, less than 5% of household assets
  - Housing comprises 80% of household assets
- Strong banking sector and access to credit remaining
- Currency as a buffer against economic shocks:
  - Commodity prices have fallen almost a third from their peak, however the exchange rate has also fallen. While some industries are struggling to sell products, others are getting a substantial improvement in income from the lower currency



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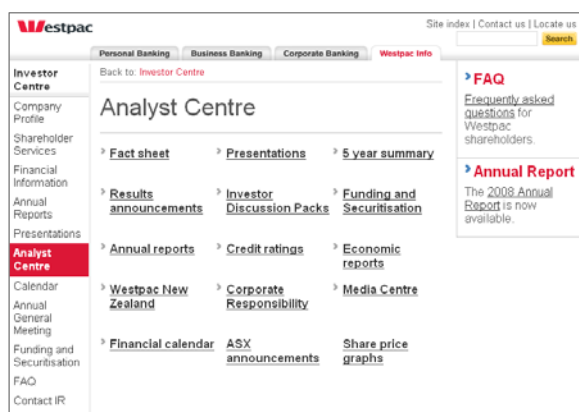
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click on 'Analyst Centre'



## Westpac 2009 Interim Results **Cash earnings adjustments**

Cash earnings adjustment		1H08	2H08	1H09	Description
<b>Reported NPAT</b>		<b>2,202</b>	<b>1,657</b>	<b>2,175</b>	Reported net profit after tax attributable to equity holders of Westpac
<b>St.George cash earnings prior to merger</b>		<b>603</b>	<b>718</b>	<b>163</b>	For 1H09 only, relates to the cash earnings of St.George from 1 Oct 2008 to 17 Nov 2008, the date of the merger for accounting purposes
Non-merger related items	TPS revaluations	(33)	(24)	(106)	The TPS hybrid instrument is not fair valued however the economic hedge is fair valued – the mismatch in the timing of income recognition is added back
	Treasury shares	(19)	(6)	(4)	Earnings on Westpac shares held by Westpac in the wealth business are not recognised under A-IFRS. These are added back as these shares support policyholder liabilities and equity derivative transactions, which are revalued in deriving income
	Unrealised NZ retail earnings hedges	3	1	(8)	The unrealised profit/loss on the revaluation of hedges on future NZ earnings are reversed because they may create a material timing difference on reported earnings in the current period which does not affect the profit available to shareholders
	Ineffective hedges	(3)	2	(5)	The gain/loss on ineffective hedges is reversed because the gain/loss from the fair value movements reverses over time
	Gain from BTIM IPO	(106)	20	-	Gain on the partial sale of BTIM, adjusted for share based payment amortisation from equity granted to BTIM employees, impairment of goodwill in NZ, a loss on the write-down of goodwill and tax
	Gain from Visa IPO	(205)	-	-	Gain on the sale of Visa Inc. shares acquired through the IPO plus an unrealised gain on the residual investment adjusted for income tax
	One-off expenses	-	226	54	Expenses which are one-off in nature are treated as cash earnings adjustments due to the size and non-recurring nature. In 2H08 included restructuring costs associated with efficiency initiatives and changes to capitalised expenses. 1H09 includes the provision for a long standing legal proceeding.
St.George merger related items	Merger transaction and integration expenses	-	11	90	Expenses relating to the proposed merger with St.George that impact the P&L are treated as a cash earnings adjustment due to their non-recurring nature
	Amortisation of intangible assets	-	-	54	The recognised balance of the majority of merger-related identifiable intangible assets including brands, the core deposits intangible and credit card and financial planner relationship intangible assets will be amortised over their useful life. The amortisation is a cash earnings adjustment because it is a non-cash flow item and does not affect returns to shareholders
	Short-term funding and deposits	-	-	(118)	The merger accounting treatment of deposits and short-term wholesale funding will be unwound during the year ending 30 Sep 2009 reflecting the contractual maturity of deposits and borrowings. Treated as a cash earnings adjustment due to the size and non-recurring nature
<b>Pro forma cash earnings</b>		<b>2,442</b>	<b>2,605</b>	<b>2,295</b>	

## Westpac 2009 Interim Results **Definitions**

Westpac's Business Units	
Westpac RBB or WBC RBB	Westpac Retail & Business Banking Represents banking products and services provided under the Westpac and RAMS brands to consumer and small to medium-sized enterprise customers within Australia
St.George or SGB	St.George Retail & Business Bank Represents banking products and services provided under the St.George and BankSA brands to consumer and small to medium-sized enterprise customers within Australia. Also includes middle markets and corporate customers managed by St.George
WIB	Westpac Institutional Bank Provides financial services to commercial, corporate, institutional and government customers
BTFG	BT Financial Group The Group's wealth management business, including St.George Wealth
NZ	Westpac's New Zealand operations
PB	Pacific Banking
GBU	Group Business Unit
PBG	Premium Business Group (included in WIB) Represents business customers with facilities typically from \$10m to \$100m, which were transferred from Westpac RBB to WIB during 1H09.

Financial Performance	
Cash earnings	Net profit attributable to equity holders adjusted for the impact of the economic hedges related to TPS, significant items that are one-off in nature, earnings from Treasury shares, gains/losses on ineffective hedges, the impact of unrealised New Zealand earnings hedges gains/losses and the impact of merger related integration costs and the amortisation of certain intangible assets
AIEA	Average interest earning assets
Net interest spread	The difference between the average yield on all interest bearing assets and the average rate paid on interest bearing liabilities
Net interest margin	The net interest spread plus the benefit of net non-interest bearing liabilities and equity
Full-time equivalent employees (FTE)	A calculation based on the number of hours worked by full and part-time employees as part of their normal duties. For example, the full-time equivalent of one FTE is 76 hours paid work per fortnight

## Westpac 2009 Interim Results Definitions

Asset Quality	
Stressed loans	Stressed loans are Watchlist and Substandard, 90 days past due well secured and impaired assets.
Impaired assets	Impaired assets can be classified as: 1) Non-accrual assets: Loans with individually assessed impairment provisions held against them, excluding restructured loans; 2) Restructured assets: Assets where the original contractual terms have been formally modified to provide concessions of interest or principal for reasons related to the financial difficulties of the customer; 3) 90 days past due: Consumer exposures where contractual payments are 90 days or more in arrears and not well secured; 4) other assets acquired through security enforcement; and 5) any other assets where the full collection of interest and principal is in doubt.
90 days past due - well secured	A loan facility where payments of interest or principal are 90 or more days past due and the value of the security is sufficient to cover the repayment of all principal and interest amounts due, and an additional six months interest
Watchlist and substandard	Loan facilities where customers are experiencing operating weakness and financial difficulty but are not expected to incur loss of interest or principal

Asset Quality	
Individually assessed provisions or IAPs	Provisions raised for losses that have already been incurred on loans that are known to be impaired and are individually significant. The estimated losses on these impaired loans will be based on expected future cash flows discounted to their present value and as this discount unwinds, interest will be recognised in the statement of financial performance
Collectively assessed provisions or CAPs	Loans not found to be individually impaired or significant will be collectively assessed in pools of similar assets with similar risk characteristics. The size of the provision is an estimate of the losses already incurred and will be estimated on the basis of historical loss experience of assets with credit characteristics similar to those in the collective pool. The historical loss experience will be adjusted based on current observable data
RWA	Risk weighted assets
TCE	Total committed exposure

## Westpac 2009 Interim Results Disclaimer

The material contained in this presentation is intended to be general background information on Westpac Banking Corporation (Westpac) and its activities.

The information is supplied in summary form and is therefore not necessarily complete. Also, it is not intended that it be relied upon as advice to investors or potential investors, who should consider seeking independent professional advice depending upon their specific investment objectives, financial situation or particular needs.

The material contained in this presentation may include information derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information.

All amounts are in Australian dollars unless otherwise indicated.

### Pro forma financial information

The material contained in this presentation includes pro forma financial information. This pro forma financial information is prepared on the assumption that Westpac's merger with St.George Bank Limited (St.George) was completed on 1 October 2007 with the exception of the impact of the allocation of purchase consideration, associated fair value adjustments and accounting policy alignments, which are only incorporated from the actual date of the merger, 17 November 2008, for consolidation purposes. The pro forma financial information is unaudited. It is provided for illustrative information purposes to facilitate comparisons of the latest period with prior periods and is not meant to be indicative of the results of operations that would have been achieved had the merger actually taken place at the date indicated.

The pro forma financial information should be read in conjunction with:

- The reported financial information in Westpac's Interim Financial Report for the half year ended 31 March 2009 available at [www.westpac.com.au](http://www.westpac.com.au) (Interim Financial Report); and
- The historical consolidated financial statements of Westpac and St.George as at and for the year ended 30 September 2008.

Refer to Westpac's Interim Results (incorporating the requirements of Appendix 4D) for a description of the basis of preparation of pro forma financial information for the six months ended 31 March 2009 and prior comparative periods.

Future operating results may differ materially from the unaudited pro forma financial information presented in this presentation due to various factors including those described below in the section "Disclosure regarding forward-looking statements".

### Disclosure regarding forward-looking statements

This presentation contains statements that constitute "forward-looking statements" including within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. The forward-looking statements include statements regarding our intent, belief or current expectations with respect to our business and operations, market conditions, results of operations and financial condition, including, without limitation, future loan loss provisions, financial support to certain borrowers, indicative drivers, forecasted economic indicators and performance metric outcomes.

We use words such as 'will', 'may', 'expect', 'indicative', 'intend', 'seek', 'would', 'should', 'could', 'continue', 'plan', 'probability', 'risk', 'forecast', 'likely', 'estimate', 'anticipate', 'believe', or similar words to identify forward-looking statements. These statements reflect our current views with respect to future events and are subject to change, certain risks, uncertainties and assumptions which are, in many instances, beyond our control and have been made based upon management's expectations and beliefs concerning future developments and their potential effect upon us. Should one or more of the risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from the expectations described in this presentation. Factors that may impact on the forward-looking statements made include those described in the sections entitled 'Competition' and 'Risk management' in Westpac's 2008 Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission and in the section entitled 'Principal risks and uncertainties' in the Interim Financial Report. When relying on forward-looking statements to make decisions with respect to us, investors and others should carefully consider such factors and other uncertainties and events. We are under no obligation, and do not intend, to update any forward-looking statements contained in this presentation.