Start of Transcript

Gail Kelly: Good morning and welcome everyone, those of you in the room and those of you listening in via the website or via the telephone. Thanks very much for joining us. I know it is a busy period for many of you with reporting season just commencing. We really do appreciate you being here today.

We have a three part agenda for today, hopefully detailing with the topics that are most on the mind of investors. I am here to talk briefly through the progress being made on our strategic agenda and on the proposed merger with St George. I am also going to provide some insight into our earnings' expectations for the full year.

Now, I should stress this is not something that we would normally do but really light of the recent market developments we believe it to be prudent to do so. Phil Chronican will then come up and he will provide an update on the Institutional Bank (WIB), including more detail on our credit portfolio. And Phil Coffey will talk to funding, risk management more broadly, and our capital position.

In our perspective, Westpac has performed well through the current cycle largely due to the disciplined risk management that we have in place, the skill and experience of our people and the teams' pro-active response. I think today our key objective is to give you the background and the facts behind this performance and therefore, hopefully, to demonstrate to you why we believe that we remain well positioned.

In terms of the key or summary points from my section of the presentation; they are noted here in this slide. With regard to our strategic agenda we are making good progress. The proposed merger with St.George remains on track with implementation planning well underway.

While the current environment is certainly more challenging than ever Westpac is well positioned to deal with it. We are on track for another solid performance in terms of cash earnings for the full year 2008.

Turning to our strategic agenda, you may recall that at the half yearly result and subsequently the UBS conference in June, I outlined our key strategic priorities. In a nutshell there are five as follows.

Firstly, driving a strong customer culture. We are seeking to integrate banking and wealth with a clear focus on key customer segments.

Secondly, strengthening our distribution, driving strong locally empowered businesses very close to the communities they serve.

Thirdly, we are focusing on our operations. We are seeking here to transform service delivery and re-design processes from a customer perspective.

With regard to technology our focus is on strengthening our capability, improving our reliability and developing a long run architecture and strategy.

Critically, encompassing all of this is driving a one team approach. Breaking down barriers, breaking down silos, reducing unnecessary red tape and building alignment, indeed strong alignment, to our customer centred vision.

While today is not the day to go into detail on these priorities I can say that we are making really good progress. The very simple vision of putting customers at the centre, of earning all of our customer's business has struck a strong chord in the company.

I have been delighted by the enthusiasm and the willingness of the people of Westpac to get on board. We have actually just completed our most recent staff perspective survey. A very strong take out from this particular survey is the response of our people to the vision, the changed agenda around customers and the drive for moving forward on this.

I should mention that each one of these priority areas has detailed and specific plans, either developed or in the process of being developed. We are busy planning the investment around these priorities and right now, as we lead up to the next financial year, we are refining this prioritisation and thinking through the sequencing.

Brad Cooper, our recently appointed Group Chief Transformational Officer, you will recall I appointed Brad in June, has carried through the delivery of this integrated programme. He is working very closely with our accountable, executive team members.

As you are no doubt aware, we recently announced a new organisational model to directly support this strategic agenda of putting customers at the centre. It is always very good when you have a structure actually to follow strategy. Let me then move to this new organisational model and just provide a little bit more perspective on it.

The key elements to call out here, the key elements would include; the customer facing business unit for Retail and Business Banking, led by Peter Hanlon. This business unit will be totally focused on sales, service and distribution and really allow that dedicated focus on customers and that dedicated focus on distribution.

Within this business unit we will have very clear lines of accountability and we will be reducing layers of management and the complexity of structures that are there today. For example, today, in any one geographic area, covering a range of branches, we have four regional managers; a regional manager for sales, a regional manager for service, a regional manager for lending and a regional manager for wealth. So branch managers literally marching, you know, to four different drums.

In this new model we will be simplifying that, reducing that complexity, having a much cleaner, simpler approach and driving clear accountability. So a better set up to drive an integrated approach towards linking banking and wealth.

The Product and Operations division, led by Peter Clare, will focus on end to end product development, product management and delivery. Over time, and I must stress this will take time, but over time we expect simpler, streamlined consistent processes for customers and staff really making us a whole lot easier to deal with.

Technology is such an important area for us at the moment that we believe it warrants dedicated focus and a strengthened team. So Bob McKinnon has been appointed and he will bring experience and weight to this key strategic area and indeed to the team as a whole. I am pleased to say he starts ten days from now, on 18 August 2008.

Our wealth business and our institutional business while not directly affected by these changes will benefit from the stronger and more integrated one Westpac approach at the frontline. In other words, their customers will be better supported when visiting branches, contact centres or our business banking centres.

If you look at this next slide you can actually see how the model helps us get Westpac ready for the implementation of the St.George merger. As you would be aware our proposed business model is to retain the St.George brands and the St.George distribution system and indeed, over time, to invest further in that.

As this diagram shows, the St.George, sales, service and distribution business will sit alongside the Westpac, sales, service and distribution business and both will leverage off the product and operations' division.

For completeness, I should add that the St.George wealth division will be added into the single, integrated wealth business and will retain both BT and the Asgard brands. St.George's institutional business will be integrated into WIB.

Before I move onto the logical next stage of this presentation and give you an update on the proposed merger and on our planning for the merger, I would like to pause for a moment, and share with you a story that reveals the progress we are making on driving a customer centred process. You know, making it easier for our customers to do business with us and effectively breaking down silos and building this one, strong Westpac team.

The story goes to our Super for Life product, which we launched last year in September. I know you have heard me say before this really is an excellent product designed very much with the customer in mind. It is a simple product, it is easy to use and it is very, very easy to communicate.

To Rob Coombe's frustration this product has been launched since September and he has really battled actually to get the product sold through the retail distribution network. So when I first arrived in February, I remember listening in on conversations of all the reasons why it was difficult actually to sell this product through the retail distribution network.

You know, there were reasons that went to compliance issues, lack of training, lack of skills, and lack of confidence of our front line people. People at the front line doing lots of other things and with other priorities, the net consequence of all of that was not a lot got done. Of course, at the heart of that, are the siloed business units that we have and lack of alignment and lack of alignment of incentives from the very top.

But when Peter Clare arrived in April, he and Rob Coombe sat down and said this is a great product. It really plays to our customer needs. We have a strategic advantage in this category of Super. It directly supports our vision of earning all of our customer's business so let's actually crack this one and let's see what we can do to get this right.

So really from leadership at the top, proper communication and alignment of incentives and matrix and really facilitating, the people at the branch level got behind it. We have moved from what were then around 30 sales per week, across the whole of the Westpac network to now consistently over 2,000 sales per week; with all of our business bankers out there feeling comfortable with this particular product.

It is not just a question of selling a product, they are really good balances coming into these products as well. The industry average for this product, this Super for Life type of product, would be at about $28,000, and it now stands at the same average. But if you look at the retirees' Super for Life balances, our balance, here in Westpac, would be $175,000, well ahead of the industry average which is about $127,000.

So, you know a great product for us that now with the team getting behind and actually supporting and driving in a one Westpac way. I should just mention this is also going to be great product for the St.George and Bank SA networks, once the merger is concluded. It is certainly not a product they have at the moment and there is absolutely no reason why this kind of success couldn't be replicated there.

Let me then move onto a few comments on the proposed merger with St.George. Really the simple message is to say that we remain on track. You would be aware of the preliminary ACCC findings and we expect the final report on 20 August 2008. Other key dates are listed here on the slide, perhaps the most notable ones being the draft scheme booklet to ASIC on 1 September 2008 and mailing to shareholders later that month. The shareholder vote in early November and all going well, we then look for the court approval and final implementation towards the end of November.

I would like to comment that we are not dealing with any of this lightly. In fact the team sitting here in front of me would endorse this. This is very heavy duty stuff and lots of hard work is going into it. But we are acutely aware of the risks of a transaction of this size and we are acutely aware of the need for thorough preparation. Let me, perhaps, turn to some remarks on that.

In driving for success in any integration but certainly a large scale integration of this sort and in driving to best manage risk, there really are two things that one needs particularly to focus on and recognise. I think the first one is the importance of strong leadership and with that strong disciplines, frameworks and measurement systems to support the merger programme.

All of this Brad Cooper has under construction. He has built around him a very strong team of people with appointments that have been made -- general manager appointments for two years on his team; you know drawing from the very best of the best within Westpac.

He is ensuring that these people are sitting alongside people within the business units. He is ensuring that the change agenda that we are pursuing within Westpac anyway is dovetailing with and where appropriate will leverage off the merger platform. Let me just give you an example of that.

You know there would be some things on our strategic agenda, the Westpac stand alone strategic agenda that are unaffected and that we just need to get on with anyway. An example would be the work we are doing on our key customer segmentation, commercial segmentation, the affluent segment, the SME segment, that work needs to go on anyway and Peter Hanlon and his team are pursuing that.

Then there is some work that actually we need to accelerate in order to be Westpac ready for the merger. An example of that would be we are doing some work with our core functions at the moment. Our core areas of finance and human resources and the like really to get rid of some layers, get rid of some bureaucracy, simplify and really understand where work best gets done and to eliminate duplication. We think we should be accelerating that work so that we are Westpac ready for when the merger occurs and the functional areas of St.George can then more easily map into the functional areas that we have here.

Let me give you an example of areas where we would slow things down in order to wait for a proposed merger. There are some examples in our technology area. One would be the establishment of a new data centre. We recognise Westpac stand alone, we need to establish a new data centre. But if the merger goes ahead with St.George, well St.George has a couple of data centres so we may not need to make that investment, so it is an opportunity to evaluate that in an area that we would wait.

The first point I am making really a need for strong leadership, strong controls, strong frameworks and disciplines and strong team. The second point is to insulate your business as usual from the integration task. So from the outset we have charged Peter Hanlon, Peter Clare, and Rob Coombe with focusing on current issues and on current momentum. It should be no surprise that they are not here today. They are spending lots of time in the field they are out with customers and they are out with staff. As an executive team we are managing and measuring current business momentum very actively.

Let me move on from this topic of merger. I will be happy to take questions, obviously in the Q&A session at the end of the time. We have Rob Whitfield with us today who has been running with the transaction and also Brad Cooper is here today who has been running with the integration planning. Both of them will be happy to take questions.

But, let me move forward and change tack and talk a little bit about the overall economy. There is no question that the operating environment that we are working within has deteriorated at a more rapid rate than we anticipated at the half year. We are seeing the impact of higher interest rates, higher oil prices, rising food prices on consumer discretionary spending. This is reflected in lower consumer confidence, weaker retail sales and softer business expectations. Of course we have also had the ongoing dislocation in capital markets, which has added a further layer of uncertainty, particularly in the corporate sector.

All of this is resulting in system credit growth falling quite rapidly. It is now down to an annualised rate of 5.6% over the June quarter. We are in the position where the Reserve Bank as flagged in their statement on Tuesday, is looking to ease monetary policy. So, quite a change from a few months ago. I think it's positive that we have a Reserve Bank that's prepared to move quickly, and that we have considerable room to move.

There are a few other points on this slide, which I know Phil Coffey will expand on. Funding remains expensive but accessible. Credit quality continues to deteriorate, as one might expect at this point in the cycle, and the New Zealand economy is slowing even more sharply.

Turning to our own business; as with the economy we're seeing a slowing in lending activity. In some categories, however, we're growing ahead of system and performing well. I think housing is really good example of that. We've delivered almost a 4% rise in home lending over the quarter, which is a strong result in the current market. That growth has been predominantly driven by new activity, with new growth or good growths coming across our branch and our RAMS channels. This growth has been achieved without being overly reliant on brokers, with a proportion of loans written via brokers easing a little over recent months, currently running at closer to 36% from what was around 38% in the first half.

In cards, we've been cautious over the last 18 months and grown well below system. But we're comfortable with this position really, because we believe that the relative lack of growth is compensated by the high quality of the portfolio.

In business lending, we've continued to see good growth in our small and medium segments, 6% in the third quarter, based on, of course, what is traditionally a third quarter that's very strong. Peter Hanlon calls is the 'premiership quarter'. And Phil Chronican will talk in a little while to the performance in WIB, that's a very different position here where the growth file is substantively different.

As regards to retail deposits, it would be very fair to say that we remain disappointed. We were disappointed in the results at the end of the first half, and we remain disappointed. There's no question we've been slow to pick up our game here, and this is reflected in our below system growth. There are a number of elements that we're addressing in this area to significantly improve our performance, and I'd be happy to talk a little bit more about that in questions.

Now that I've covered the environment, let me turn to our outlook for the year. Again, I'd just like to mention that Westpac does not normally provide an earnings update, and you shouldn't interpret this slide as reversing this practice – but I'd say again, these are not normal times and we feel that given recent announcements by our peers and the merger process, it's appropriate to provide an update of how Westpac is currently positioned.

So turning to the detail; on the top line we expect to deliver a very respectable 8 to 9% revenue growth for the full year. Driving that performance is solid volume performance and relatively flat margins. In fact, the margin performance is a little better than we have experienced over recent periods, reflecting improved lending spreads partially offset by reduced deposit spreads, which are consequence of the strong competition for funds.

Wealth revenues will be weaker, reflecting lower returns on invested capital, and the valuation impacts from lower funds under administration. On the other hand, WIB trading and treasury performance is good.

On the expense fronts, we're expecting around 6 to 7% growth for the full year. This is slower than the trajectory evident in the first half, but expense management is and will be a key area of focus.

Impairment charges are more challenging to predict in the current environment, although I can say that we've seen no new large impaired exposures since we last reported. Our individually assessed provisions for the second half will be predominantly driven by the small and medium business segments in both Australia and New Zealand, rather than a deterioration in the institutional book, and Phil Chronican will discuss this in more detail.

We expect higher collectively assessed provisions in the second half, a function of both a rise in delinquencies and an expected further increase in our economic overlay provision. You will recall that we added to our economic overlay in both March earlier this year, and September last year.

The bottom line is that at the end of this year we believe we're on track to deliver cash earnings growth in the order of 6 to 8%, and given the environment and the performance of banks around the world, we think this is a respectable performance.

I want to conclude before I hand over to Phil Chronican with just a brief discussion on risk. You may recall that in our first half results I mentioned that we'd established a multidisciplinary cross-divisional team, chaired by Phil Coffey, meeting at least once a week to ensure a coordinated and anticipatory approach. This group continues to meet and to work through to drill down into our individual portfolios to conduct the stress testing and to try and think ahead about where the next issues may come from.

Before I hand over to Phil, I'd also like to share with you something that I came across recently. What I have here is a file note, it comes from November 2006 and it records a discussion that took place amongst a number of our executives here on CDOs in considering the risks and the issues associated with investing in US structured debt. At the meeting amongst others, where Phil Chronican, Curt Zuber and Rob Whitfield, people who are here with us today. The note from this meeting comments firstly on diversifications and comments on liquidity, comments on volatility and the mark-to-market treatment and what that implies in terms of P&L impacts. But the piece I'd like to read out to you here is on product and product knowledge. What it says is:

"Product knowledge is important. Some of the asset classes mentioned are not ones where we have a natural competitive advantage. Relying on the rating agencies is one of the mistakes we've made in the past where the minimum rating of A- was not the protection we thought it was. I think we built up a decent knowledge of CDOs, but I wonder if we really know how to manage a portfolio of student loans, credit cards, auto loans and US mortgages. There are new answers in these markets we would need to learn".

And as you'd see today, investments in these categories were not made. So for me this note is helpful in understanding why it is that Westpac is differentially positioned today. I think it speaks to culture, speaks to experience, speaks to skill, speaks to wisdom and to learning from mistakes.

So with that, I'll hand over to Phil Chronican.

Phil Chronican: Thank you Gail. In answering some questions at the time of our half year results briefing, I made a couple of key points. One was that we were more focused on managing the troubled assets that we already had, rather than dealing with the way of the new troubled assets. And secondly, that the rapid loan growth that we'd seen over the previous halves was likely to top out in the rest of the calendar year, once that structural shift of credit demand came from the offshore markets back onshore. With the update that we're giving you today, hopefully I can confirm that both of those comments have been borne out.

What I'd like to do today is cover those issues, but also talk to you about some of the instruments that we do have in our credit risk management portfolio to give you comfort that where we do hold instruments that there is a purpose behind them, and that there are no hidden valuation risks that confront us in this area. Lastly, I'll be touching on some developments in other parts of the business where there is some risk sensitivity, including the margin loan portfolio.

Since peaking at around $50 billion, our loan book, which includes the consolidated securitisation conduits, the WIB loan book has now fallen back to around $48 billion at the end of June. We still have quite strong demand for new facilities from corporates, but the balance sheet outstandings are being reduced as a lot of corporates are taking advantage of their still strong cashflows to reduce leverage in a period where they sense that there is a riskier environment ahead.

The margins that we're achieving on the loan book though, are improving. This is a book that has an approximately two year duration. So what we would expect in theory is that as the repricing takes effect, it would take approximately two years for that to fully work its way into the back book.

What we're seeing though, as a result of these early repayments from a large number of our corporates, we're actually getting a quicker positive effect on the overall margin, and a shortening in the duration of the book in its entirety.

The green line at the bottom in the chart up there, is the year to date margin after cost of funds, whereas the red line is the monthly margin prior to cost of funds. So you can see that while we have been able to achieve relatively rapid repricing of corporate facilities, it's only in the last couple or three months that we've stabilised, and if the scale were better, you might actually see a small up tick in the last reported period.

The other point to make though about the corporate loan book is that we're no longer seeing any pressure for weaker covenants and structures, indeed, the opposite is true.

Importantly in WIB, we have had no new loans enter impaired status in the last quarter. That's not to say we don't have issues with some of the exposures that are in impaired status, and we would expect to top up the provisioning against one of those exposures in particular in the current half. But there have been quite a lot of movements in and out of the other stressed categories, but you can see that overall the portfolio in fact is remarkably similar in aggregate and shape to what it was when we reported, ie, the portfolio risk profile is largely unchanged.

We do actively manage our credit risk portfolio. This is essential for an Australian bank, because left unmanaged in a bank where there's a market where there are four large banks and a small number of large corporates, what you would have is a situation where our portfolio would be inadequately diversified with a large number of single name concentrations.

We've taken up a practice of hedging, somewhere between 5 and 15% of the portfolio, depending on the relative value available at any point in time in the market for credit derivative protection. That is when hedging is cheap relative to our outlook we do more of it, and when it looks expensive, we're happy to turn that position around. Mostly we would achieve this through using bought credit default swaps positions. But sometimes other instruments can achieve the same net effect at better overall economics. This can include acquiring CDOs and CLOs as they help manage the mark-to-market volatility on the credit default swaps.

What's important in a sense, is not that something is a CDO or a CLO, what is important is the nature of the underlying exposure that sits within these instruments. What we've done is ensure that where we have any exposure through these types of derivatives, it's in asset classes where we actually have some knowledge. So our CDS protection is largely provided by well rated banks, we have no CDS protection from online insurers, although I should caution there was a very small amount from a specialist credit product derivative company. But as you can see, these exposures and aggregate are quite small when you look at it in terms of the size of the credit exposure portfolio we're managing, and within that the loan book that we're managing.

All of the instruments that I've spoken about are held in marked-to-market portfolios, and I would point out here that the cumulative marked-to-market on these for this year is positive. They are individually assessed, individually rated on our internal rating system, and we use external source to marks to achieve the daily pricing, and that's updated in our regular financials.

As Gail commented towards the end of her speech, from as early as 2006 we've been recognising the inherent risks in some of the underlying assets in these structures and have consciously decided not to rely on external credit ratings to assess creditworthiness of instruments that we acquire. This approach has proven to be prudent, as has been demonstrated by the performance of this portfolio.

This is information that we've presented to you previously. We do have a securitisation conduit which is Waratah. This is on balance sheet and it is fully funded in the market. The majority of the exposures that underpin this are in relation to Australian and New Zealand assets, mostly prime mortgages. We also provide liquidity to customers vehicles in some cases, although, as you can see, largely these are undrawn at present.

Treasury has increased its holdings of liquid assets and, as a result, it is holding $1.1 billion of mortgage back securities. These are prime Australian residential mortgage back securities where the underlying mortgages were originated by other ADIs in Australia and therefore, these are qualified as assets which can be repaid at the Reserve Bank. So you can see that they're wholly appropriate for us to be holding in our liquidity portfolio.

As we indicated earlier, where we do have monoline exposures, we've done our decisioning and analysis based on the underlying risk. So while we will occasionally hold assets, particularly where we're providing customer facilitation, we may find that we hold assets which have got a monoline wrap in it, we've no relied on that wrap in our acquisition of it.

Similarly where there's an infrastructure or a project finance with an insurance wrap we would do the project analysis or the credit analysis on the underlying, and take the insurance wrap as an additional source of protection.

It's worth pointing out, just because somebody might ask, we have no exposure to either Freddie Mac or Fannie Mae.

Markets have been quite volatile over recent times, I don't think I need to emphasise that to anyone in this room. But I wanted to highlight a couple of areas where markets have been even more volatile than others. In particular there are a couple of instruments that we would use as part of our treasury management, where markets have been extraordinarily volatile at points in time. One of those is the Bills/LIBOR basis swap, that is the vehicle through which we're able to swap floating rate US dollars we fund offshore into the domestic market.

This is obviously a very natural position for a bank like Westpac to have and we have consciously acquired position in this swap market, sometimes ahead of the time that we would need, i.e. we'll effectively warehouse the basis swap when we think the pricing's attractive, a form of pre-hedging of future funding requirements.

Similarly, we're active users of the Euro dollar hedge market to manage the floating rates US dollar exposures. These are under the current accounting rules since the IFRS transition, these are market to market positions and therefore we have a volatility we need to manage with that and we continue to do so.

The importance of raising this today is these markets in particular have prove extraordinarily volatile and this higher volatility means that the same level of underlying structural risk translates into a much higher level of VaR when we measure it. This has been particularly pronounced in those US dollar instruments that I referred to earlier.

On shore instruments like the bond and bill futures in Australia have shown much less volatility. So as you can see on the chart here, the same structural position that we would have had in the bills Libor market would now have three and a half times as much VaR attributed to it as it would a year ago. Whereas in the case of the bill futures or bond futures, it's one and a half to two times as much VaR.

The importance of raising this is that what we will see when we report later this year is that we'll have much higher levels of VaR usage, particularly in our treasury. So this doesn't reflect materially different levels of risk being taken. Indeed we're being surprisingly consistent in the size of structural risk positions that we hold. Some of the additional VaR we're showing here also represents the risk of the higher liquidity portfolios that we're running, because they carry market to market risk as well. So you will see and the charts for treasury is particularly pronounced where we're rising from around $9.9 million of average VaR in the first half, to just under $20 million in the last quarter.

What is also important to remember in this is that Westpac's treasury model is a little different from some of our other peer banks, that as we run more of this risk in a market to market environment than in the banking accrual book.

Moving on to talk about marginal lending for a second, the situation really has largely unchanged from what we disclosed at the half year results. Loan balances have stabilised at the lower levels and we have continued, of course, to have active management of the margin call process and volumes have been quite high in that regard.

The only measurable loss though that we've had, is a $10 million charge that we'll be taking in respect of the same exposure that we disclosed at the half which carried a $30 million charge. That $40 million cumulative provision against that exposure now means that we're fully provided against that loss.

Let me talk a little bit now about how we're responding more generally to the current environment. We are open for business. The pressure from loan demand that we had late last year, earlier this year, which led rise to talk in the market of expressions like credit rationing, those pressures are now long gone and we see it really much as a business as usual. We're continuing to actively manage the pipeline of these transactions to make sure that pricing and terms and conditions are fully up to speed with the latest market environment. So we have a group within the Institutional Bank that brings people from the loan syndication side, the capital market side and the relationship side together to ensure that all transactions meet latest market standards in terms of pricing and in terms and conditions.

We're closely monitoring the very sensitive sectors that we have, but we do not currently see major credit issues emerging from these. Nonetheless, the finance sector is one that has obviously had a lot of attention from us, the global investment banks, commercial banks and so on where we are concerned to ensure that we understand fully what's going on in the markets and that no loss has materialised.

The property sector, which has received a lot of press recently again exposures tend to be relatively large, but as we look through and to the underlying performance, while there has been quite a lot of equity market evaluation change, where we have had exposures, we're comfortable that the interest coverage remains well within our acceptable levels.

Similarly we're looking at the retail sector where downturns in consumer spending are putting some pressure, and lastly marginal lending where we've had quite active management to ensure that particularly high risk positions were managed out.

So that gives rise to a situation really where we've had to stay close but we're not currently seeing losses emerging from the portfolio. The principal area of risk really for us, we think, rests with businesses that are reliant on asset sales to generate cash flow and what we are seeking to do is to help customers get through those positions and get their debt levels to - get their debts to levels that are consistent with their cash flow generation capability. Nonetheless, this is an opportunity for us to grow the business as well and one that we are trying to take in a number of cases.

So let me sum up. We are seeing a slow down in loan growth as we expected and outlined earlier in the year and my comments about managing the existing pipeline of stressed assets remains a valid one to make.

We're pretty comfortable with the risk profile, but it is one that's taking a lot more of our time and attention, as we've seen events of the last six months move from one sector to another. Nonetheless, every time we do a deep dive into a particular risk sector, we do get comfort that we've got the right type of exposures and the right type of management in place.

So the key message really is that we see ourselves very much as being in a position to continue to support our customers and to grow the business in what is undoubtedly turbulent times.

So that's all from me for the moment, let me hand over now to Phil Coffey.

Phil Coffey: Well thanks Phil and good morning everyone. It seems like quite a long time since I presented to you in May and certainly a lot has happened. I'd like to cover three topics today. Firstly with funding where we've now effectively completed our '08 term funding and have now turned our time and attention to commencing pre-funding for 2009.

Secondly, on credit risk where our portfolios continue to reflect the stresses of the environment, but the trends are not out of line with what we expected and as Phil touched on earlier, it's not dissimilar to the statements that we made at the first half reporting.

Finally, on capital management, as CFO I'm very pleased to be operating with a very strong Tier 1 capital ratio.

In accessing markets over the past 12 months, flexibility has been the key and we've continued to adjust our sources of funding to meet both our requirements but also the requirements of our investors and that's one of the reasons why we've maintained such a large liquidity buffer. This approach is seen as increased the proportion of funding through private placements, we've increased our investor contacts and we've accessed new markets.

Given the tightening of markets over recent months, we've conducted less new public issuants and we've issued more into existing programs. At the same time, we've continued to look to other markets and we've accessed other markets such as Switzerland and Japan, which we tend to do less frequently.

Given the consistency of our overall approach, the profile or our total funding has changed little since what we reported in May. There's little doubt the market has become more challenging, but it's also become more discriminatory and that's good new for a AA rated bank such as Westpac. We remain very confident of managing our own nine wholesale funding requirements, including what's required from the proposed merged entity.

As Gail touched on earlier, we have seen the economic environment deteriorate more rapidly in the past quarter and we've seen that reflected in our portfolio with a further rise in stressed loans. What's interesting within that is the composition within stressed where we've only had a small rise in impaired and 90 day past due facilities but a larger rise in what we categorise as substandard and watch list loans. These latter categories include loans that are still performing but are showing signs of stress and they're typically facilities that we have downgraded.

Much of the rise in watch list facilities has originated from SME and commercial lending in both Australia and New Zealand; both sectors feeling the impact of higher interest rates, a high currency and higher oil prices. The extent to which these exposures continue to deteriorate is obviously impacted by the quality of the management and the extent to which business conditions continue to deteriorate.

Now you can see on this slide that in the period 1999 to 2001 we saw a significant rise in our stressed exposures, but we only had a limited impact flowing through to impaired. At this stage, the current flow through to substandard and impaired assets has also been quite limited. Excluding WIB, which Phil's touched on, of the top 10 substandard accounts, the largest is for $29 million and all others are for less than $20 million and there are only three new impaired assets in the quarter, the largest of which is for $19 million.

New Zealand is further advanced in the credit cycle with negative economic growth and all consumer and credit business credit indicators showing signs of deterioration. Asset markets are also weaker in certain regions and in some circumstances have placed pressure on the support that we have in terms of the support for the underlying security and we've seen $44 million of mortgage loans moving to impaired assets.

The extent to which losses increase in this portfolio will be determined by the speed with which monetary policy is eased and economic growth recovers. A number of government stimulatory measures are going to flow through in the second half and economic growth is expected to recover in 2009.

It's also worth noting the New Zealand impairment charges also had quite a step up for us in the first half and they still represent what is only a small proportion of our total impairment expenses.

In contrast, the Australian consumer portfolios continue to perform well, although we have seen some increase in stress. On the mortgage front we've seen a pick up in problem loans with much of that activity occurring in New South Wales where the economic impacts of rates and oil prices have probably been most severe. The greater than 90 day delinquencies have also increased due to changes in the mix of the portfolio where we now have more low-doc loans, at about 5% of our total portfolio, which tend to have a high delinquency experience, but they also have a lower loan to valuation ratio and hence a low overall loss.

In May, I referred to our 10 worst postcodes accounting for 81 accounts. I can report today that the top 10 now account for 103 accounts. Now there's obviously more than 10 postcodes where our customers are feeling pressure, but what we're talking about are very small numbers.

The unsecured portfolio is performing very well. As Gail mentioned, we've grown more slowly in this area over the last 18 months and this has improved the maturity of that portfolio. We've seen no change in the 90 day delinquency measure in this book and that's really encouraging when you consider the seasoning impact that's occurred in the portfolio.

What's been particularly pleasing in this cycle is that our prior year decisions around credit standards and the investment that we made in collection systems and resources is paying off.

The Australian business portfolio is also showing the signs of a slowing economy. The increase in stressed exposures in the last quarter though has tended to be from downgrades to our watch list category. Growth in impaired assets is still very modest and you can see that composition in the ratio of our business delinquencies greater than 90 days which have also only increased to a very small amount.

Given the trends in this portfolio, though, we are expecting a pick up in delinquencies by the end of the year but we've taken a prudent approach to risk rating and the impairment provisions rise that you'll see in this portfolio will be the most rapid for our portfolio. Business balance sheets, though, remain generally in good shape. However we continue to monitor the sectors that we think are most being impacted by the economy and they include tourism, property, transport and storage.

I think one of the most pleasing elements of the portfolio has been the behaviour of our customers during these times. I think they're responding very rationally to the circumstances. In particular, consumers have been paying down debt and there's no evidence to suggest that they are seeking to walk away from their problems. In the mortgage book, customers are still paying off more than they are borrowing and if anything, that trend has increased.

In the cards book, we've seen a reduction in revolving borrowers and they're borrowers who tend to use cards for longer term funding. At the same time, there's no evidence that customers are using cash advances to solve short term cash issues. In fact the trend is the reverse where we're seeing cash advances declining as a proportion of credit limits.

Now the statistics presented in this slide are based on the Australian portfolio, but we are seeing similar trends in New Zealand. We're of course watching these metrics closely, but we're comfortable with the trends we're seeing at the moment.

Now turning to capital. In this environment it seems appropriate to us to maintain greater levels of capital. Since we last reported, we've completed the DRP share issuance as expected at 27% of the first half dividend; we've completed the issuance of a new hybrid issue for a little over $1 billion, which has added a further 55 basis points to our Tier 1 capital ratios; and, we've agreed with APRA an advanced approach to interest rate risk in the banking book.

Much of our treasury risk management is fair valued via a marked-to-market approach, as Phil mentioned, and the net impact of the last element of our accreditation, interest rate risk in the banking book, is estimated at around a 25 basis point deduction to our Tier 1 capital ratio. The combination of those events means I'm very comfortable with the strength of our current capital position.

There has been quite a bit of interest in the impact of changes in the credit cycle to capital ratios under Basel II and so I thought it was worthwhile to provide some background to those calculations. As many of you would have noted, under Basel II our capital ratios become more sensitive in the changes in the quality of our portfolio by changes in the measure of our risk weighted assets. In effect our capital ratios become more pro-cyclical.

Now capital ratios have always moved in line with the credit cycle. Rise in delinquencies and stress loans impairment provisions increase the impairment expense. But Basel II is simply added to those changes through the change to risk weighted asset calculations, so they've put that into the mix of the calculation.

The pro-cyclicality is somewhat less than what you might expect because our risk weighted asset calculations, as we've agreed with APRA, already incorporate an element of stress because we use downturn estimates for our calculation of loss given default and for our calculation of exposure at default.

In looking at the impact on capital, we've modelled a variety of scenarios, including recent credit cycles, and those scenarios and the calculation incorporates both the impact of the portfolio downgrade and the increased provisioning and the impact that that would have on the capital ratio. We've presented a few of those in these slides, in this chart, and you can see interestingly that the most stressed economic environment we've seen for the last 30 years, the recession that we experienced in 1990 to '92 would have only impacted our Tier 1 ratio by somewhere between 90 and 130 basis points of Tier 1 capital.

So summarising our presentations today, we continue to make good progress on our strategic agenda, i.e. in the areas that have been emphasised by Gail in recent presentations, including ensuring the effective execution of the proposed merger with St.George and managing the potential for diversion risk. Our WIB portfolios in highly volatile markets are being managed well and no new risks have emerged in the past quarter.

Importantly, managing our credit portfolio as a core activity has enhanced returns and we've not been impacted by the revaluations that have impacted some of our peer banks. On the credit portfolio, our portfolio is tracking consistently with the cycle and we expect a further top up to our collective provisions through our economic overlay and we will maintain strong provisions coverage. We're also very comfortable with out strong capital position.

The bottom line is that within a more challenging environment, we are well positioned. Our portfolio of businesses is producing solid earnings and we're on track to deliver cash earnings growth of 6-8 per cent for 2008.

Thank you. We'd be happy to take your questions now. If I could ask Phil and Gail to join me up here and of course, can I just mention that we have, as Gail mentioned, Rob Whitfield and Brad Cooper with us. We've also got Andrew Carriline and Curt Zuber and a number of other executives to answer the really tricky questions. So be on guard, guys.

Question: (Jarrod Martin, ABN AMRO). Question for Gail and Phil. If you listen to the words that you've said today and what ANZ said a week or so ago, you're all talking about, you know, the credit quality continues to deteriorate, economic growth is slowing more rapidly than originally anticipating. New Zealand slowing more sharply and you're seeing, you know, you're going from single names to more of a cyclical deterioration.

Yet ANZ has taken a $300-400 million additional collective provision. Don't see anything like that in this update. Are you just delaying the inevitable, that you will have to actually take more at a later stage?

Gail Kelly: Let me start off. I mean, I think what we've tried to show today is how well positioned we were coming into the cycle and how substantively the effect of risk management culture that we have here, the risk management systems that we have and the skills and experience of the people that we have here have meant that we come into the cycle in excellent shape, with a strong portfolio and without the risk that many of our peers appear to have had in their portfolios.

So I think that's a key point for us here. That's what we've sought to actually demonstrate. We've also sought to demonstrate that we are being conservative with regard to our provisioning across the various portfolios that we have and the provisioning coverage that we have is very strong.

We continue to be conservative in taking a further economic overlay as we did in March and as we did in September. But let me stop at that and hand over to Phil.

Phil Coffey: I would only add a couple of extra points. I think you'll find that our coverage ratios compare very well against ANZ's. So therefore it reflects on how we've achieved that coverage. I would also call out that in our circumstance, the economic overlay is dealing with a general perception of risks that are in the portfolio somewhere, which we can't specifically identify.

We're not calling out any specific areas such as securities lending, which is an area I believe that ANZ called out. So you know, I don't think you necessarily can compare one with the other quite directly as you're suggesting, Jarrod.

Question: (Jarrod Martin, ABN AMRO). Have you called out what the size of that economic overlay is likely to be in the second half?

Phil Coffey: No, and because we're still working it through. I think we expected to be somewhat larger than the thirties that you've seen in the last two halves. But as I said, we're still working that through.

Question: (James Freeman, Goldman Sachs, JB Were). Just a very quick one and then I'll get on to my major question. Phil, just on the economic overlay, if you could just give us some idea as to what assumptions you are stressing in there and what are the main factors that are going into the change there.

But the main question was actually for Phil Chronican. Just you mentioned that there was an exposure to businesses that needed asset sales to meet the cash flows. Just wondering if we can get an idea of the size of that portfolio and just how quickly that portfolio is being addressed.

Phil Coffey: Well, if I just touch on the first one. The areas we've specifically focused on really in the last two halves have been around the additional pressures in the financial services sector and therefore the impact that we expected to see on – largely on non-bank financial institutions.

But the areas that we're stressing through the economic overlay in this half really have more to do with the fact that interest rates are higher than what the market curve would suggest because of the extra premiums that are being charged to borrowers. Therefore that has an impact on them and also looking at some of the conditions that exist in the New Zealand market today.

Phil Chronican: James, in terms of your second part of your question, it's not a large part of the portfolio but it's, you know, a small number of names with exposures generally in the sort of a couple of million dollars each. We've been actively managing that since January when I think the equity market declines in that third week of January really triggered a lot of our work, including where Phil and I and others had been working on the cross business unit committee.

So we've been actively managing that and most of them are on a resolution path as at now. So we see them as having improved over the last two to three months, not having deteriorated.

Question: (Brian Johnson, JP Morgan). I think everyone at Westpac should actually be congratulated because if you have a look in the late eighties, Westpac were the bank that grew market share and put on a lot of crap and were the one that blew up, whereas NAB were the hero and we now see the reverse of that.

But the two questions I suppose that I'd really like to get my head around, you've got a chart on slide 10 which shows credit growth slowing down quite dramatically but then actually picking up. What I'd like to understand is why credit growth – why you actually assume that it can grow faster than GDP for any extended period and why, in fact, wouldn't it go negative if we're actually seeing decline in commercial property values?

The second question was one for Phil. Phil, if you go back to the table that you very kindly put in on the sensitivity of the Tier 1 ratio going back, in 1991 Westpac actually lost basically its entire retained earnings base which would mean it lost all of its tier one capital. Can you go through and reconcile that or are you just talking about the risk weighted asset move there or have you also factored in the fact that in 1991 under that scenario, you would actually make losses which would greatly exaggerate, I suspect, that level of Tier 1 capital absorption. Can you just run us through the mechanics of that because it just doesn't look right to me?

Phil Chronican: Brian, the issue about credit growth relative to GDP growth is really one about the sort of long term trends of penetration of financial services into an economy. So as economies have become more advanced, more and more people see the opportunities to use leverage intelligently and sometimes not so intelligently.

We are going through a correction but I don't believe that the Australian and New Zealand economies are at sort of a long term end game where the only growth and credit availability is going to be related to GDP growth.

There's a large amount of the – I mean, when I first came here 20 years ago, there were larger elements of the Australian household sector were effectively unbanked and cash payments of salaries were still reasonably common. That disappeared over the ensuing five to six years.

Since then, households have become more accustomed to using leverage for their housing requirements but not for their investment portfolios, and businesses have come and gone in terms of the use of leverage but as recently as four or five years ago, we would've said that the business sector was under leveraged.

So I think that there is some reason to believe that we can continue to see growth and credit aggregates out strip growth and GDP, not by the extent we've seen it for the last 20 years but certainly I wouldn't see it as something that has to slavishly follow the level of GDP growth.

Question: (Brian Johnson, JP Morgan). Phil, can you come back to this about if commercial property values are falling, house prices are falling, why we don't have this negative credit growth like we actually saw in the 1990s?

Phil Chronican: Well, I don't believe that the severity of any downtown we're facing is anything like what we saw in the early 1990s. The start position in 1990, as I recall, was unemployment already in high single digits that went up into around 12 per cent. We had governments that were already deep in deficit and therefore a response to the recession had to cut spending.

We had inflation that was in the high single digits and was still being worked through. So I think the imbalances in the Australian economy in 1990 were fundamentally different from where we are today - where we have a fiscal sector and surplus where we have inflation already at low levels, unemployment reasonably sound and a resources sector that, touch wood, continues to provide stimulus to investments services and employment.

So I think we are dealing with a very different environment than we had at that period.

Gail Kelly: Can I just add one comment to that before, Phil, you handle the second question. Our authority as a Reserve Bank is also indicating, you know, very proactive responsive approach to the signals in the economy and so have moved quite quickly to signal an easing position. We do have room and levers that they can pull.

I mean we're, you know, 7.25% now. There's capacity to, in fact, pull some of those levers and ensure that we get growth to an appropriately moderate level, bearing in mind there's still significant inflationary pressures about.

Phil Coffey: So with regard to the second part of the question, what we've done there is model the economic conditions that we experienced in 1990, '91, '92, on the current portfolio, not on the portfolio that obviously existed at that time. So the current portfolio is vastly different from what we had at that time in a much greater asset coverage, much better cash coverage.

I think that's the primary reason. The second one is that as I mentioned in the discussion, we use downturn factors already. So for corporate exposures, a loss given default is already at 60 per cent in the current calculations. So the extra capital losses that you're going to incur come as you downgrade and then as you start to work through, well, what will be the losses over and above the 60 per cent that you've already calculated in your calculation.

Question:	(Brian Johnson, JP Morgan). Is there a probability to support that?
Phil Coffey:	Well, the probability of default comes through your risk grade and so what we've said is, based upon those economic conditions, how many of your portfolios would be downgraded, how would they go through and then how would that pass through in terms of extra capital charge.
Question:	(Brian Johnson, JP Morgan). So what you were saying is that you would not make losses in a 1992 situation to the point where it compromises ...
Phil Chronican:	If you had a similar level of economic downturn as '91-2, our current portfolio would not generate anything like the losses that were generated then because then we had the single name concentrations. As you will recall, there were multiple layers of exposure through AGC, PPL, the bank, and BAC to the same names. There was a high concentration of commercial property development, which is not something we have today. So the composition of the portfolio we have today is different from the composition of the portfolio that we had in '91.
Question:	(Richard Gluyas, The Australian). You just mentioned that the RBA has very quickly moved to an easing position. I'm just wondering if Westpac might follow the RBA to an easing position if the RBA does ease official rates and if you don't, don't you risk cooking the economic goose?
Gail Kelly:	Richard, how did I know I'd get that question this morning. I mean, look, obviously there are a number of factors that we have to consider at the time of making a rate move. Clearly this year, we've had to consider the cost of funding has been a particularly important input into that decision. We've also had to factor in and think about the competitive environment and then very clearly think about the impact on our customers. I think our track record over the course of the past

eight months has demonstrated that we've thought all three of those through very, very much.

With regard to the last one, the impact on customers, as you will have noted, you know, we delayed the passing through of the additional interest rate rises and we didn't pass through the full extent of the interest rate rises.

So we really have been very thoughtful about that. Now clearly, you know, let me say that we would love to pass through the full 25 basis point drop if that were to occur in September but we'll need to factor in all of these issues at that time.

Question: (Craig Williams, Citigroup). A couple of quick questions, if I could. Firstly, under what sort of circumstances could Westpac envisage pulling away from its interest in St George, be it some sort of severe economic downturn in the next six months or some sort of change of circumstances in St George or Westpac's position?

And secondly, with respect to property exposure. It's about probably 10 per cent of your book ex-mortgages and a large part of your security. You've called out that you've sort of done a review of that market. What in particular would you call out in terms of areas of risk or focus for Westpac in that area?

Gail Kelly: Perhaps I'll handle the first one really just to say that, Craig, I'm not going to speculate on those sorts of elements but to say, you know, nothing has changed for us since the due diligence that would warrant a change.

So as you've heard me say today, we're on track, the process is on track and there's nothing that we see at the moment that would change that.

Phil Coffey: In terms of property, what we're seeing across the capital cities is that there is not a massive over supply. Indeed in a couple of the capital cities, there's under supply. So we don't see that cash flows in the commercial property market are seriously under threat and aggregate.

Therefore for those investors in established property which is tenanted, generally we're seeing good cash flow coverage and a little risk to that because of the, in many cases, the shortage of supply or at least the absence of over supply.

That is not as true for a lot of development activity and I would have thought that the at risk part of the portfolio is commercial property development where the take out is the asset sale. So obviously that is an area we are acutely conscious of, given the nature of Brian's questioning for this organisation has this deeply rooted understanding of commercial property exposure and therefore we have pretty tight limits around that. And I would think that while there is potential for the industry to lose money in that area we would expect that Westpac's portfolio would be better positioned than the industry average.

Question: (John Mott, UBS). Just a couple of questions. The first one is on asset spreads. Over the last few years you have seen our asset spreads come in pretty aggressively for probably four or five years. A lot of the margin flattening out has come through the passing through of funding costs. I wanted to get a feel for whether you actually expect to see asset spreads widen back to a more midcycle normal level, or do you just expect the margins to flatten to pass through the additional funding cost.

That is the first. The second question is just that if you look at the Tier 1 deductions the banks have to take under Basel II, one is the stress test, APRA stress test on the expected loss and the difference between that and the collective provisions that are allowable. As your collective provisions start to take in an economic cycle, do the stress tests from APRA also go up? Or do you expect the collective provision to go towards the APRA stress test and therefore not the full impact to go through to your Tier 1?

Gail Kelly: Let me just start off on the first question and then hand over to my colleagues, which is to do with asset spreads.

I mean, I think what we are seeing, very pleasingly, is actually more of a return to pricing for risk, and there is no question that in the two or three years that have passed we had less of that actual pricing for risk. So we are seeing more of that coming back into the market which I think is entirely appropriate.

But with that, can we hand over to Phil, do you want to add something to that, either Phil?

Phil Chronican: Actually that really was the answer I was going to give to Jonathan, which is that the – we are seeing a re-emergence of risk premium and it is very risk grade sensitive and very tenor sensitive. So I don't see, certainly in the corporate markets it is not as much a passing through of funding costs as it is simply a repricing of the market price of risk for a given name and a given tenor.

And therefore, if we do see bank term funding costs start to ease that won't necessarily immediately flow through to a triple B type names, but obviously it is all based of market pricing and we will be responsive to that market.

But as Gail said, I think the market is re-establishing a premium for risk.

Do you want to talk capital?

Phil Coffey: Yes, so there is a couple of elements of APRA overlay if you like, one is in the GRCL and as our collective provisions move higher through the cycle we would expect our GRCL to come back and that is what you saw in the last half and you should expect to continue to see that.

The second piece is around the expected loss based upon the stress test, and similarly, as our provisioning goes up and our incurred, or the reality of what we're experiencing approaches more of the stressed environment that we are being asked to, yes, that differential should come down. So what happens in terms of your capital ratios is you get the effective deduction through the earnings line from the higher provisions, but you get some compensation in terms of reduced deduction in terms of the differences between those two.

Question: (John Mott, UBS). And is that enough to offset the increase in risk weighted assets because obviously as the risk weightings go down your risk weighted assets go up? I just wanted to get a sensitivity…

Phil Coffey: No, I think you should expect that our risk weight asset impact will still have an impact on our capital ratios.

Question: (John Mott, UBS). And that will be more than offsetting the fall in GRCL and the approach to the stress test?

Phil Coffey: I don't have those numbers to hand but my gut feel is that yes, that is the case.

Question: (Richard Wiles, Morgan Stanley). I have two questions. Like Brian, I am interesting in the assumptions regarding the early '90s scenario. Do you assume that dividends are maintained under that scenario? And also, in the early '90s the loss rates on your non housing loans were around about 400 basis points. Given the change in the composition of the portfolio what would you expect them to be under a '90s scenario today?

Then a separate question. Households have a debt to income ratio of 180% in Australia, which compares with about 140% in the US. The debt service burden is about 15% of income, it was about 9% of income in the early '90s. So do you think that Australian households can continue to grow their debt levels relative to their income levels and therefore sustain credit growth through the next couple of years?

Phil Coffey: Let me have a go at your questions on the early '90s Richard.

What we pointed out is what happens to the impact on our capital ratios. So that assumes that we don't change anything else in terms of capital management. So in an environment in which our capital ratios dropped by 130 basis points, we would probably do something to offset that and that might mean reducing our dividends or it might mean going out and raising capital. You know, that – we have tried to give a scenario analysis and I don't want to over credit what we have done in terms of giving that calculation and mislead you into what we would be doing.

The question around the household debt servicing burden. One of the things we do in our mortgage portfolios is we look pretty hard at those customers that through either the initial transaction or through migration have moved beyond measures of affordability stresses that we feel comfortable with, and we look at that part of the portfolio in conjunction with the surplus valuation that they have in their property. And we look at their payment performance to see are there pockets of our portfolio where all those things come together which might give you loss. And no matter how we test those things we end up still coming back with reasonably modest levels of potential loss in our mortgage book, which is why we feel so positive about it.

In terms of whether households can continue to grow their debt levels, I think what we are calling out is that we actually expect that credit growth in that sector for mortgages is actually going to slow. In a system sense it is definitely going to come back into single digits.

That, in combination with income growth, which is taking place, we think will help to repair the income and balance sheets of our consumer customers.

That does not mean that we can't continue to have reasonably solid growth as we continue to grow share in those spaces.

Question: (Richard Wiles, Morgan Stanley). So you think debt service burdens and debt to income ratios for households will stay the same, come down?

Phil Coffey: I think over time they will have to repair. I think what we tend to see...

G Kelly: In the short term they will come down.

Phil Coffey: ...is they repair themselves and there are lots of different ways that that takes place and it will be different for different parts of the country too. You have got to be really looking at the different regions that exist across Australia.

Question: (Richard Wiles, Morgan Stanley). And Phil, you can still see positive consumer loan growth in that scenario?

Phil Coffey: Yes.

Question: (Peter Ryan, ABC). Yes Gail. Just going back to interest rates. I was interested to hear whether or not you had received any representations from the Treasurer's Office or the Prime Minister's Office just in relation to the current jawboning they have been undertaking on banks passing on potential rate cuts?

Gail Kelly: Look, I together with the rest of the industry talk quite frequently, and as you can imagine in the last eight months have talked particularly frequently with the Treasurer and the Prime Minister with regard to the financial markets and the dislocation of the financial markets and interest rates and so on.

No particular conversation that I have had over recent times about exactly what might happen in September or October or November, but let me repeat again, we've been very thoughtful about the impact on customers all the way through. Very well aware of the sensitive impact of interest rates on customers and the pain that some customers in some segments are bearing and you know, we can apply that level of thoughtfulness to the next rate change, which we think is likely to be a downward rate change.

Again, I would say we would like to be in a position to pass on the full 25 basis points of that, if that is what the rate change is, but we will just have to evaluate that in terms of all of the facts of competitive pressures, cost of funds, as well as our customers.

Question: (Peter Ryan, ABC). Would you give a guarantee here and now that you would pass that rate cut on?

Gail Kelly: I mean, I think I've just said we would like to, but that we need to evaluate it against the cost of funds, and we have done that all along and as you have seen in the past eight months we have been slow in passing on and we have not passed on the full amount.

We will also have a look at the competitive arena and very much contemplate and think about the issues to do with our customers.

Question: (Peter Ryan, ABC). Thank you very much.

Question: (Brett Le Mesurier, Wilson HTM). Thank you Andrew. I've got a question in relation to the fact that you have got slowing loan growth, increasing bad debt charges, and excluding the impact of the St.George acquisition, how difficult do you think it will be to achieve the 6% to 8% EPS growth that you are planning to achieve this year?

Then a second question. Given that expenses are falling in the second half as you move into an acquisition, a cynic would say that you have done that on the basis that you will have higher expense provision and therefore the earnings are inflated compared to the real number. Can you comment on the improvements you have made in efficiency in the last six months?

Gail Kelly: Let me add one or two remarks and Phil, you may want to comment on that as well.

We are here on 8 August talking about a planned 6% to 8% cash earnings growth for the end of September, so it is six or seven weeks away. So that is the sort of timeframe with regard to the full year position that we are talking to here.

With regard to our expense growth. I mean, we are in much more difficult economic environment and it is appropriate for us to actually look at efficiency in the different parts of our business and drive the different parts of our business appropriately in line with the growth prospects in that business. And as a new CEO coming in you would also expect me to apply a fresh set of eyes to where there may be opportunities, where there may be duplication, where we may be able to streamline things, where there may be additional layers that we can remove.

So both of those factors are coming into play and assisting us with regard to improving our expense run rate.

Phil, do you want to add anything?

Phil Coffey: The only other thing I would add Brett, is that we have called out for quite some time that we have been trying to marginalise more of our costs so that they would calibrate to the kind of growth and activity levels that we were seeing. And there is no doubt that we have seen a slowdown in lending growth. We have seen a slowdown in terms of the activities taking place in the wealth businesses and there is a commensurate reduction in terms of our operation costs supporting those businesses.

Gail Kelly: Lending growth though, I mean, the system has slowed quite significantly, but our own lending growth has actually held up pretty well. If you look at our core portfolios, housing growth, as you heard me say earlier, you know, 4% in the past quarter. And business lending growth 6% in the past quarter.

So the system has slowed but our own position and performance in those particular categories has been good. Well above system.

Credit cards, as you have heard us say, we have been quite conservative there and have been comfortable to lose some share there.

Then in WIB is a different set of circumstances.

And New Zealand, notwithstanding that it is a more difficult environment and a sharper deterioration, our own performance in New Zealand is actually solid and the turnaround that the group started some year ago is travelling well. So our own performance in New Zealand is solid.

Question:	(Brett Le Mesurier, Wilson HTM). Can I ask the first question somewhat differently then. Do you think it will be tougher for EPS growth in '09 than '08?
Phil Coffey:	I think we have made a really big point of not projecting where our earnings were going to travel and so now is not the time to be changing that model.
Question:	(Peter Rae, Aegis Equities Research). Gail, you touched on deposit growth in your presentation and it does appear to be perhaps not as good as it could be in the current environment. I am wondering if you could expand a bit on what is behind that and what you are doing to try to address that?
Gail Kelly:	Thank you Peter. As I indicated, certainly a disappointing element for us. It was disappointing for the whole of the first half and we called out at the results presentation at the first half that we would get onto it. And the last quarter the situation has improved. I think we have been slow to adjust with regard to the competitive environment, so I think that would be point one. But perhaps the more underlying points to call out would be that Westpac is actually culturally very lending focused and lending orientated and if you speak to our bankers in the field they will talk first and foremost about lending. And have targets and sales objectives and a focus on lending. And deposits is very much, if it comes in it comes in and if it doesn't it doesn't. So we have had to reorientate our force, our field, to actually think about deposit is in a very different way and that means a different level of focus, a different level of measurement, of incentives, and we have actually started to think in a more sophisticated way about particular segments and particular channels and particular products and what we would be looking for our of each one of those.

So it is calibrating it differently, thinking about it differently, focusing on it, putting more incentive in place, as well as then thinking about the pricing and promotion elements.

So you don't turn these things overnight I'm afraid. I could say though that in the last month we have seen some pick up and hopefully that reflects in our APRA numbers and it is getting full throttle treatment. This very multidisciplinary committee that I mentioned earlier that looks at risks and issues has actually had retail deposits pretty much centre stage. So it has got my attention, Curt Zuber's attention, Phil Chronican, Phil Coffey, Peter Hanlon - I feel a bit sorry for these people in the field. They have got all of our attention.

Question: (Ross Brown, Deutsche). A couple of hopefully fairly simple questions. The first one. Of the 8 to 9% revenue growth, how much of that is coming from the Treasury and financial markets area, and of the NZ$150 million finance company exposure, can you talk about the provisioning and security levels on that exposure?

Phil Coffey: Do you want me to touch on financial markets or do you want to?

Phil Chronican: I am not sure I can translate it into any number.

Phil Coffey: I don't know whether we've got a proportion of the 8 to 9%.

Phil Chronican: Maybe if I can just position it qualitatively Phil. The Treasury performance is strong, no doubt about that. And they have been in a position because of the markets in which they operate have been the most volatile.

The core financial markets business is solid, good, whatever you want to call it. It is not unusual, so it will be a good percentage increase on last year, but I would not call it unusual in terms of its contribution. So maybe as background Phil?

Gail Kelly: To some extent offsets the weaker earnings in our wealth portfolio, which as you can expect have also negatively been impacted by the volatility and downturn in equity markets.

Phil Coffey: With regard to the $150 million, effectively our exposure in New Zealand to finance companies are to financial companies that we had previously direct lent to them on a company basis and then they use that as the funding for on-lending to customers. And so the size of the provisioning will basically be purely based upon our own credit assessment of the credit worthiness of that company and how its customers are performing in terms of delivering to them and the kind of credit health of that company.

I don't think we've got any specific provisions coverage for those companies because we think they are operating okay.

Question: (Ross Brown, Deutsche). What security do you have?

Phil Coffey: It is a – it is not a secured loan, it is a loan to a company on an unsecured basis.

Question: (Ross Brown, Deutsche). And just maybe to get a quantitative number on the Treasury. Can you give a dollar value expected increase in revenue in second half on first?

Phil Coffey: I don't think that is really a great time to be doing that. We've got seven weeks to go Ross. I will tell you in November.

Question: (Peter Ephraums, Commsec). I would just like to circle quickly back to the property question. You have had quite a few about it and people have reminded you of 1992. I am just intrigued that the global REIT industry has been absolutely destroyed in the market and the underlying values of properties implied from some of those REIT prices suggests pretty heavy write-downs are coming and I think the market, it may or may be right or wrong about that, but it is miles ahead of the property valuers, it is miles ahead of the accountants and I dare say it is a long way ahead of the banks. Have you looked at the sort of collapse of supposedly quality companies like GPT, with supposedly quality property portfolios and sort of thought through the implications if you know, if loan books like or property portfolios like that can get that kind of treatment what kind of treatment can some of the companies you are lending to get? What sort of treatment are the developments going to get, and what sort of risk are you picking up when you take on the property loan book from St.George?

And I would not normally ask you about another bank, but since you have done due diligence I would be very interested on your views on their property book.

Phil Chronican: Let me talk about the property trust, REITs, that sector generally.

As you can imagine, it is the sector that we have done a pretty thorough deep dive on and we've looked at it from lending value ratios and from interest coverage ratio viewpoint. We are primarily concerned in the near term with the interest coverage. Do the trusts have sufficient cash flows from their investment portfolios to provide adequate coverage? The ones that we have looked at that are the largest of our exposures in fact have very strong interest coverage ratios. So while they may – as I say, the equity mark to market may be severe in terms of the valuation risks and I don't in any sense understate that or underestimate that, we still see that the debt service capability of those trusts remain strong, for the ones that we have exposures to and where we have done that analysis.

It is true that the LVRs that we think we have today will be different, so obviously as valuations of properties fall the LVRs will increase and we have stress tested that at various levels and when we have done that analysis I think the situation, I'm trying to catch somebody's eye here, we have done that stress testing at various levels of property decline and generally speaking I think the institutional portfolio came through pretty solidly with no material losses emerging and there were some losses in the development components of our middle market portfolio.

Question: (Peter Ephraums, Commsec). I also asked about given you have done the due diligence, your view on the incoming St.George property portfolio.

Phil Coffey: I think I can probably answer that and say it is not appropriate for us to comment further, apart from the comment we made at the – that we found no due diligence issues.

Question: Mark Hancock, Precept Investment. Actually my question was about St.George also. I think it is clear we can all see the benefits, Gail, of the St.George merger, but you have talked about a deteriorating environment and although Westpac has clearly got a superior position it is somewhat concerning that perhaps St.George's position will show a more distressed position than Westpac going forward in terms of impaired loans, credit quality and funding position.

And, I think it is not unlikely to think that going forward Westpac shareholders are going to be increasingly concerned about the benefits, cost benefit trade-off of the St.George purchase, and I was just wondering could you give any comfort on those issues? And is it yet too late to consider what sort of actions you might undertake to protect Westpac shareholders from our superior position being diluted by perhaps some adverse impacts from the merger?

Gail Kelly: As I understand it, Paul [Fegan]will be doing an update on St.George early next week, and really, I think that will be the appropriate time to address all of these questions to Paul at that time.

We have just again commented that we are comfortable with our position. We have an agreed arrangement with St.George. Nothing has changed since due diligence, nothing unexpected emerged in due diligence and we are comfortable with our position.

But I think Paul will be the person, and I am sure he would look forward to an opportunity to talk about his business on Tuesday. Is it Monday or Tuesday. Anyway, early next week.

Facilitator: Thank you very much for attending. For those who didn't get it, there are a few other copies of the presentation pack on the outside I believe. Thank you again and good morning.

End of Transcript