Westpac GROUP

WESTPAC RESULTS 2012

Fixed Income Investor Presentation
November 2012

Westpac BankSA st.george BT Financial Group RAMS Bank of Melbourne

Westpac Banking Corporation ABN 33 007 457 141.

Disclaimer

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

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All amounts are in Australian dollars unless otherwise indicated.

Financial information in this presentation may be presented on a cash earnings basis. Cash earnings is a non-GAAP measure. Refer to Westpac Full Year 2012 Results (incorporating the requirements of Appendix 4E) for the year ended 30 September 2012 available at www.westpac.com.au for details of the basis of preparation of Cash earnings. Refer to Appendix 1 slide 49 for a reconciliation of reported net profit to cash earnings.

This presentation contains statements that constitute “forward-looking statements” within the meaning of Section 21E of the US Securities Exchange Act of 1934. Forward-looking statements are statements about matters that are not historical facts. 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’, ‘intend’, ‘seek’, ‘would’, ‘should’, ‘could’, ‘continue’, ‘plan’, ‘estimate’, ‘anticipate’, ‘believe’, ‘probability’ or similar words to identify forward-looking statements. These forward-looking statements reflect our current views with respect to future events and have been made based upon management’s expectations and beliefs concerning future developments and their potential effect upon us. There can be no assurance that future developments will be in accordance with our expectations or that the effect of future developments on us will be those anticipated. Actual results may differ materially from those which we expect, depending on the outcome of various factors. Factors that may impact on the forward-looking statements made include those described in the section entitled ‘Risk factors' in Westpac’s 2012 Annual Report available at www.westpac.com.au. 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.

Westpac FY12 Overview

- Westpac well positioned – strong financial results delivered in 2012
- Strengthened balance sheet across all dimensions – capital, funding, liquidity and asset quality
- Excellent portfolio of businesses, all with good momentum and stronger financial and non-financial metrics
- Productivity contributing to improved efficiency while supporting targeted investment
- Strategy is delivering and being executed well – with a clear forward agenda

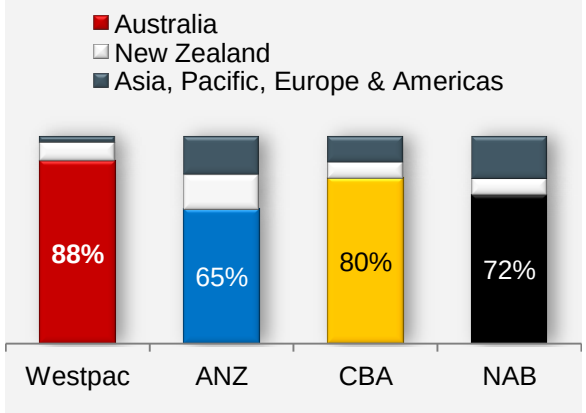
Why Westpac?

"Westpac…outperformed its domestic peer group in terms of credit costs during the global financial crisis."

- Moody's Investors Service Credit Opinion
7 September 2012

- One of Australia's "4 pillars"
- Most strategically focused on domestic markets – 98% of assets in Australia and NZ
- Strong franchise position, with significant market shares >20% in all core segments
- Approximately 11.8 million customers, more than 1,500 points of representation and 3,500 ATMs
- Capital position ahead of local peers[5] at 10.6% and amongst strongest of global banks
- Strong asset quality metrics
- Highly rated
  - Fitch: AA-/F1+/Stable
  - Moody's: Aa2/P-1/Stable
  - S&P: AA-/A-1+/Stable

Total exposure by geography[1] (%)



Westpac Group	Market share
Australian mortgages[2]	26%
Aust. household deposits[2]	23%
NZ consumer lending[3]	20%
NZ household deposits[3]	21%
Wealth platforms Australia[4]	21%

1. Exposure at default. Source: Company Pillar 3 reports at 31 March 2012. CBA as at 30 June 2012. NAB (excludes non-lending assets, Equities and Securitisation). 2 APRA Banking Statistics, September 2012. 3 RBNZ September 2012. 4 Plan for Life, June 2012, All Master Funds Admin. 5 Basel III fully harmonised common equity Tier 1 ratio

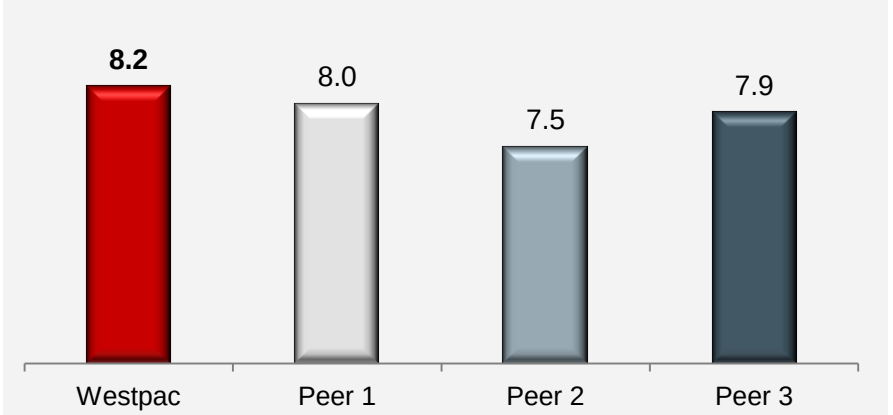
Response to the FY12 financial result

"THIS WAS A GOOD RESULT FROM WBC, PROBABLY ITS BEST SINCE THE FINANCIAL CRISIS. NOT ONLY DID IT DELIVER A CONSISTENT STORY ACROSS THE P&L BY DIVISION, BUT THE STRENGTHENING OF ITS BALANCE SHEET WAS A STANDOUT."

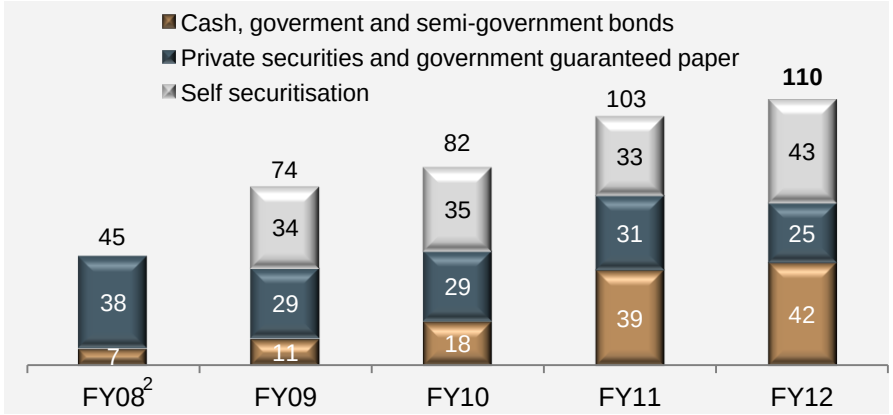
UBS SECURITIES AUSTRALIA LIMITED 5 NOVEMBER 2012

Balance sheet strength a key focus

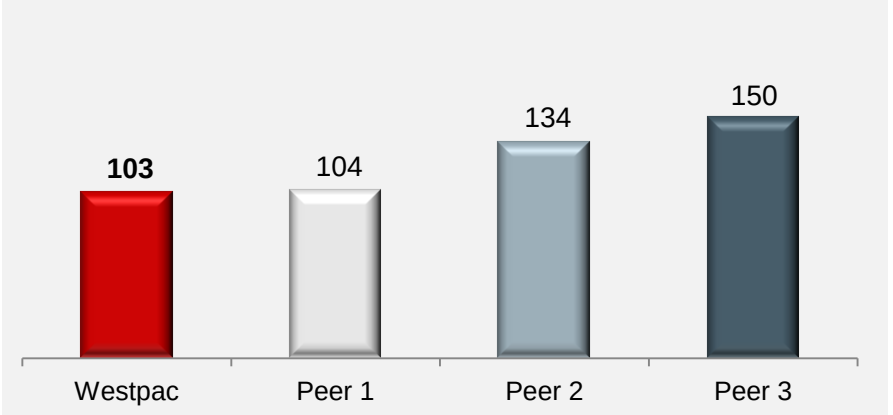
Common equity ratio[1] (APRA Basel III) (%)



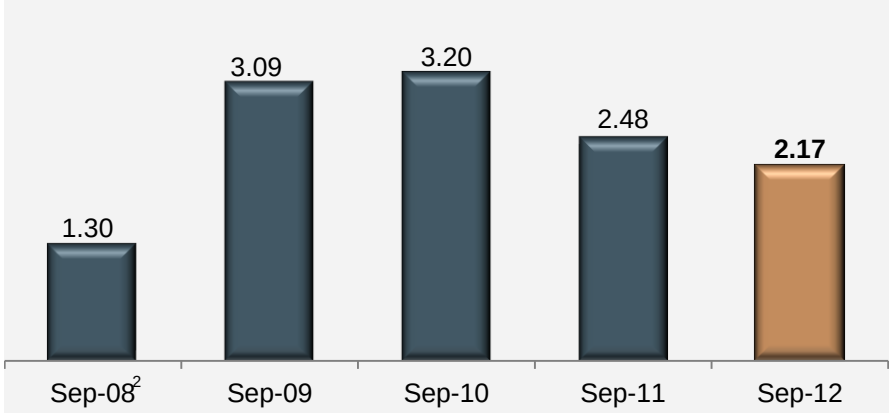
Liquid assets ($bn)



Short term funding[1,3] ($bn)



Stressed assets to total committed exposures (%)

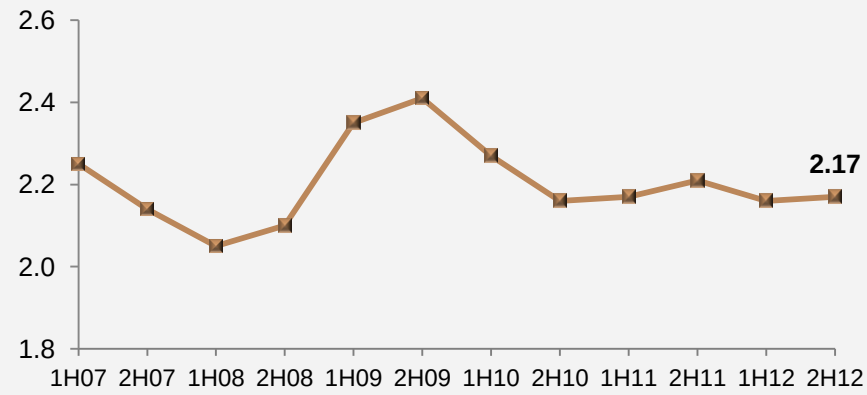


1 Source: Company reports. Westpac, Peer 1 and Peer 3 as at 30 September 2012. Peer 2 as at 30 June 2012. 2. 2008 excludes St.George. 3. Short term funding includes Central Bank deposits and long term wholesale funding with a residual maturity less than 1 year

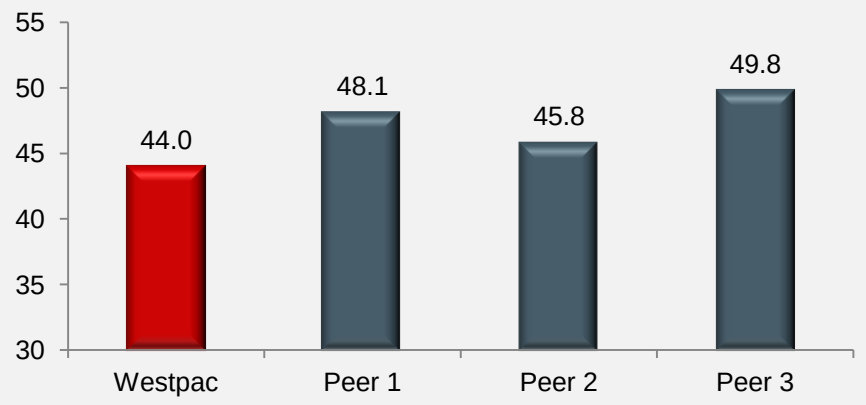
FY12 snapshot – A strong financial result

Earnings	FY12	change FY12– FY11
Net profit after tax	**$5.970bn**	Down 15%
Cash earnings	**$6.598bn**	Up 5%
Cash EPS	**215.9c**	3%
Revenue, reported	**$17.983bn**	Up 6%
Net interest margin, reported	**2.16%**	Down 3bps
Expense to income ratio, reported	**44.0%**	Down 20bps
Return on equity, reported	**14.0%**	Down 380bps

Net interest margin (reported, %)



Expense to income ratio[1] (reported, %)



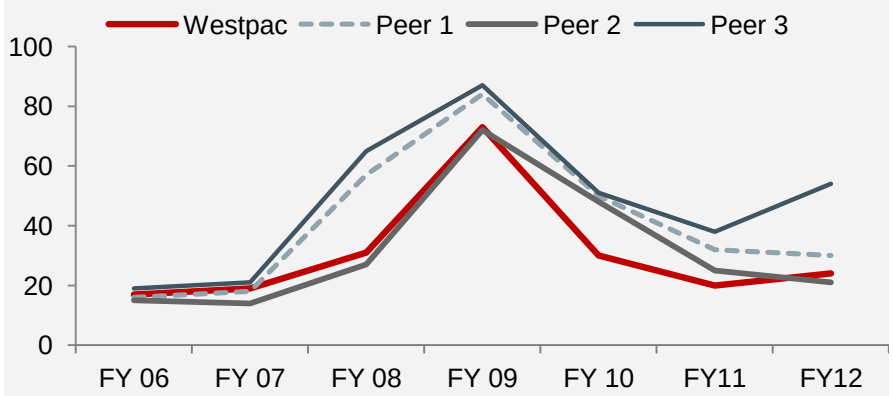
1 Source: Company reports. Westpac, Peer 1 and Peer 3 as at 30 September 2012. Peer 2 as at 30 June 2012.

FY12 snapshot – A strengthened balance sheet

	FY12	change FY12 – FY11
Capital, Funding and Liquidity		
Common equity ratio (Basel III fully harmonised)	**10.6%**	Up 87bps
Tier 1 ratio (APRA Basel 2.5)	**10.3%**	Up 57bps
Risk weighted assets	**$298bn**	Up 6%
Customer deposits to loans ratio	**67.6%**	Up 510bps
Stable funding ratio[1]	**83%**	Up 6ppts
Total liquid assets	**$110bn**	Up $7bn
Balance sheet		
Total assets	**$674.9bn**	Up 1%
Loans	**$514.4bn**	Up 4%
Customer deposits	**$347.7bn**	Up 12%

	FY12	change FY12 – FY11
Asset Quality		
Impairment charges to average gross loans	**24bps**	Up 4bps
Net write-offs to average loans annualised	**32bps**	Down 6bps
Total provisions to RWA (APRA Basel 2.5)	**1.42%**	Down 16bps
Impairment provisions to impaired assets	**37%**	Up 1ppt
Collectively assessed provisions to CRWA	**1.13%**	Down 13bps

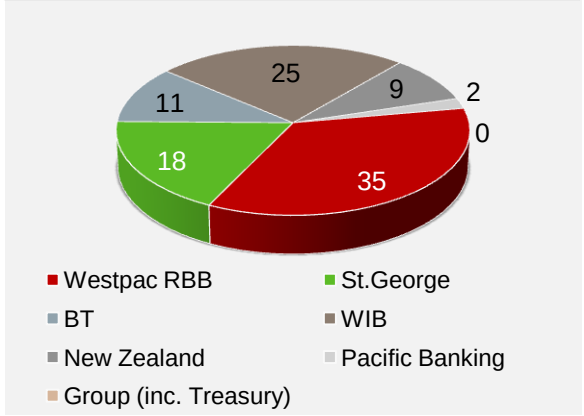
Impairment losses on loans to average gross loans[2] (bps)



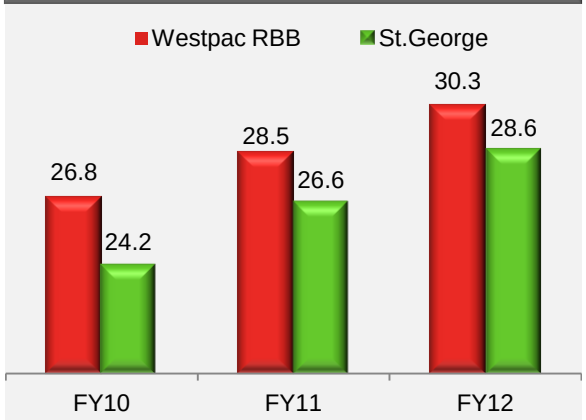
1 Stable Funding Ratio calculated on the basis of customer deposits + wholesale funding with residual maturity greater than 12 months + equity + securitisation, as a proportion of total funding 2. From 2008 Westpac includes St.George Source: Company reports.

Focus on deeper customer relationships driving earnings

Contribution to NPAT (%)



Customers with 4+ Products (%)



Australian Financial Services

- **Westpac Retail and Business Banking:** Retail and business banking for Australian consumers, SMEs and commercial customers
  - Cash earnings of $2.1billion in FY12, up 14% on FY11
  - Investment in Westpac Local continues to deliver
- **St.George Banking Group:** Australian retail and business banking under the St.George, Bank SA, Bank of Melbourne and RAMS brands
  - Cash earnings of $1.2billion, flat on FY11
  - Improved momentum in 2H12 with cash earnings up 14% on 1H12
- **BT Financial Group:** Westpac's Australian wealth division with $56.5billion FUM at 30 Sep 12; $87.9billion FUA at 30 Sep 12
  - Cash earnings of $653 million in FY12, down 10% on FY11
  - Positive flows and insurance sales offset by weak equities markets and increased investment spend

Institutional

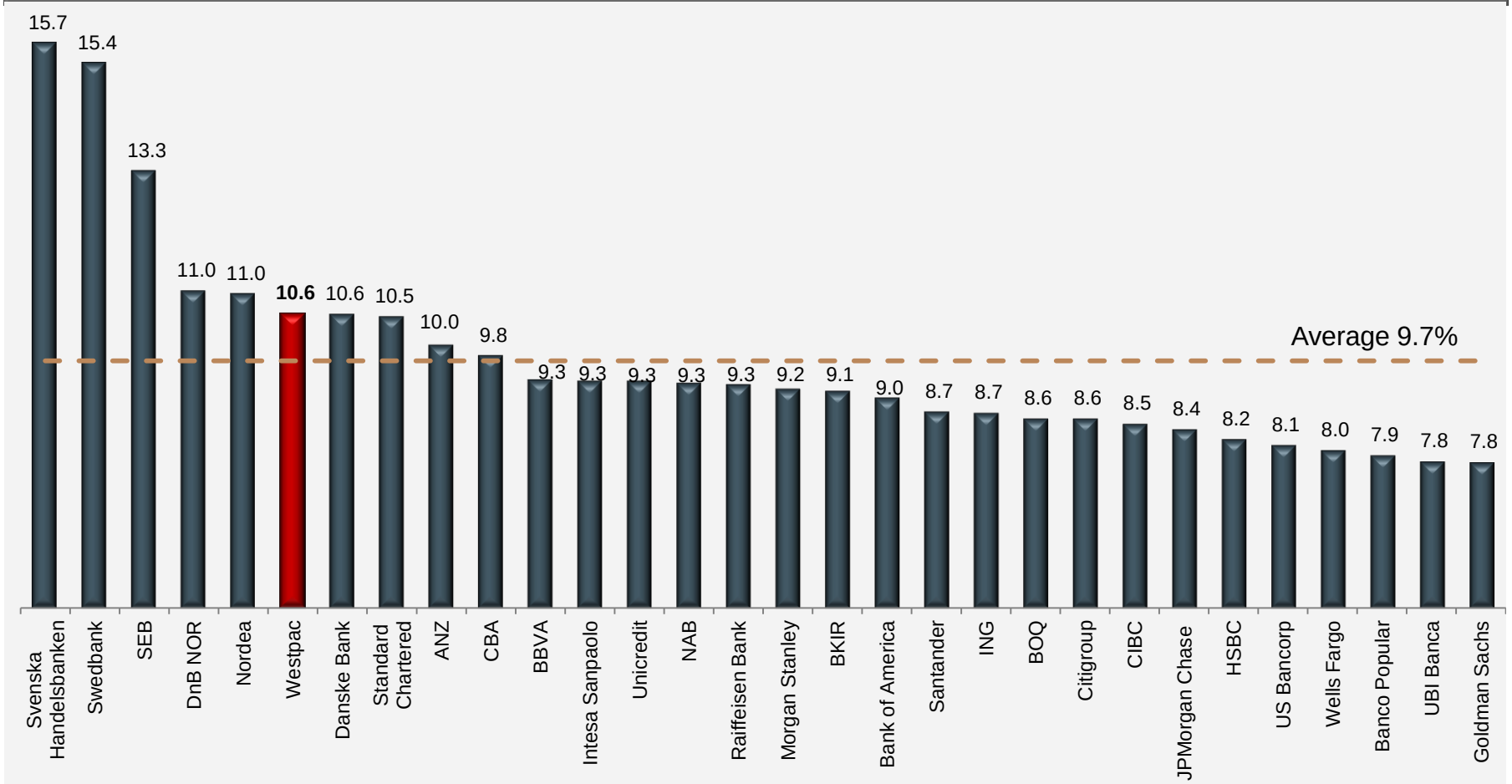
- **Westpac Institutional Bank:** Leading Australasian wholesale bank, with branches and representative offices in Australia, NZ, US, UK and Asia
  - Cash earnings of $1.5billion in FY12, up 3% on FY11
  - Core earnings up 13%, improved revenues offset by impairment charges

NZ

- **Westpac New Zealand:** One of New Zealand's largest banks, providing banking and wealth services to consumers, businesses and institutions
  - Cash earnings of NZ$707million in FY12, up 22% on FY11
  - Strong deposit growth, improved margins, uplift in wealth cross-sell

Strong common equity ratio against global peers

Global peer comparison of Basel III pro-forma common equity ratios (%)



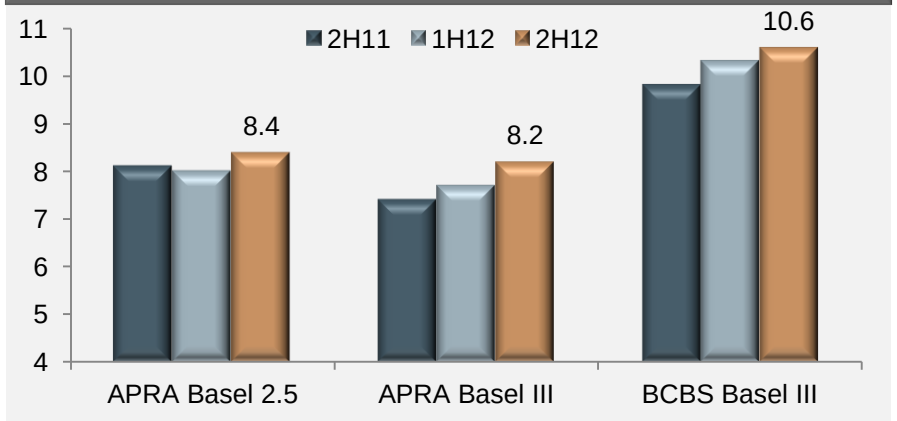
Source: Credit Suisse, Company data (latest reporting date as at 26 October 2012)

Strong capital position, up on all measures

- Westpac's common equity ratio up under all measures
  - Principally due to organic capital generation
- Common equity ratio under fully harmonised Basel III, 10.6%
  - Well above regulatory minimums, including CCB
- Tier 1 ratio increased to 10.3% (APRA Basel 2.5)
- Total capital ratio also increased to 11.7%, supported by the issue of both Tier 1 hybrid securities and subordinated debt
- APRA released their final capital reform package on 28 September 2012
  - Final capital standards are largely as anticipated
  - Full implementation on 1 January 2013 (no transitional relief or phasing in of deductions)
  - Capital conservation buffer (CCB) of 2.5% comes into effect on 1 January 2016
- Westpac's new preferred range for common equity ratio of 8.0% to 8.5%, based on APRA Basel III standards
  - Comfortably above APRA minimums
  - Range takes into consideration
    - Regulatory minimums and capital conservation buffer
    - Stress testing to maintain an appropriate buffer in a downturn
    - Quarterly volatility of capital ratios under Basel III from dividends
  - Range equivalent to minimum of 10.0% under BCBS fully harmonised Basel III

Key capital ratios (%)	2H11	1H12	2H12
Common equity ratio (APRA Basel 2.5)	8.1	8.0	**8.4**
Common equity ratio (APRA Basel III)	7.4	7.7	**8.2**
Common equity ratio (BCBS Basel III)	9.8	10.3	**10.6**
Tier 1 ratio (APRA Basel 2.5)	9.7	9.8	**10.3**
Total capital ratio (APRA Basel 2.5)	11.0	10.8	**11.7**
Risk weighted assets	$280bn	$300bn	**$298bn**

Westpac common equity ratio (%)



APRA to BCBS Basel III reconciliation

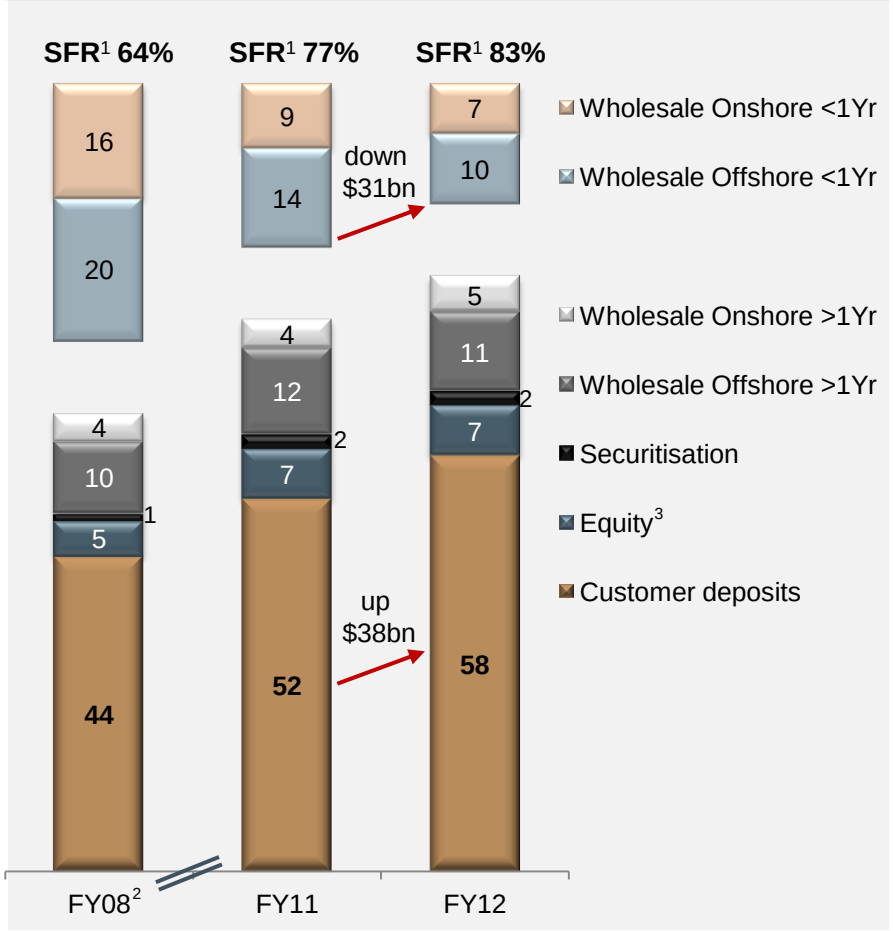
- The Australian Prudential Regulation Authority (APRA) has maintained a conservative stance under its Basel III capital standards, resulting in a significant variance between capital measured under APRA standards and under the fully harmonised Basel III standards
- Key differences between APRA's Basel III and fully harmonised Basel III under Basel Committee on Banking Supervision (BCBS) are highlighted in the table below

Description	Common equity ratio
Common equity ratio under APRA Basel III	**8.16%**
Concessional thresholds: Under BCBS, supervisors have the option of applying concessional thresholds when determining the capital requirements of deferred tax assets, investments in non-consolidated subsidiaries (NCS) and equity investments. Risk weighted asset treatments apply in lieu of common equity deductions if these items are individually less than 10% and together less than 15% of common equity. To the extent the amounts are greater than the concessional thresholds, common equity deductions apply APRA has chosen not to apply this concessional treatment and requires a 100% deduction from common equity for deferred tax assets, investments in non-consolidated financial institutions, NCS, equity investments in commercial entities held in the banking book, and all under-writing positions in financial and commercial institutions held for more than 5 business days	+134bps
Mortgage risk weights: Mortgage risk weights under APRA are based on a minimum loss given default (LGD) of 20% whereas BCBS sets a minimum LGD of 10%. APRA's higher minimum means that Australian mortgage risk weights are typically higher than those calculated using the lower BCBS LGD minimum	+67bps
Interest rate risk in the banking book (IRRBB): APRA applies a risk weighted asset requirement to IRRBB. This is not currently considered under BCBS Basel III requirements	+29bps
Other differences	+17bps
Fully Harmonised Basel III under BCBS	**10.63%**

Funding profile materially improved

- Westpac has significantly strengthened its funding profile since 2008:
  - Customer deposits up from 44% in 2008 to 58% of total funding in 2012
    - Westpac's loan growth has been fully funded by deposit growth since 2H10
  - Short term funding reduced from 36% in 2008 to 17% of total funding
  - Short term portfolio duration lengthened (120 days at 30 September 2012)
  - Increased stable funding - more term debt at longer duration
  - Increased liquid assets from $45bn in 2008 to $110bn in 2012

Funding composition by residual maturity (%)

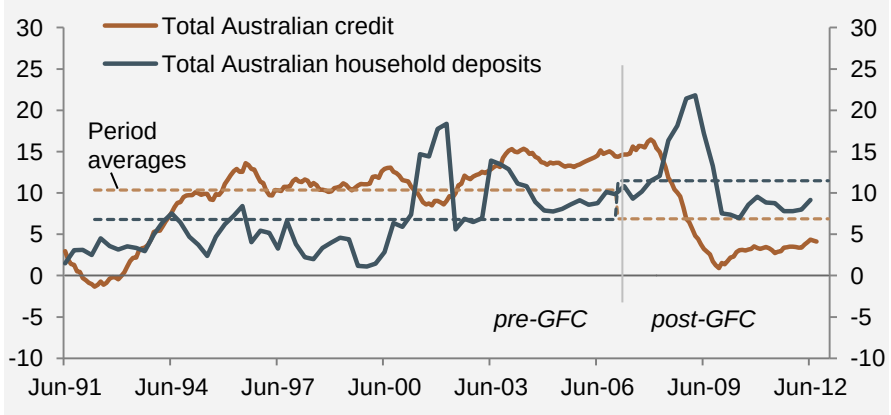


1 SFR is the stable funding ratio calculated on the basis of customer deposits + wholesale funding with residual maturity greater than 12 months + equity + securitisation, as a proportion of total funding. 2 2008 comparatives excludes St.George. 3 Equity excludes FX translation, Available for Sale Securities and Cash Flow Hedging Reserves..

Environment has supported improved funding profiles

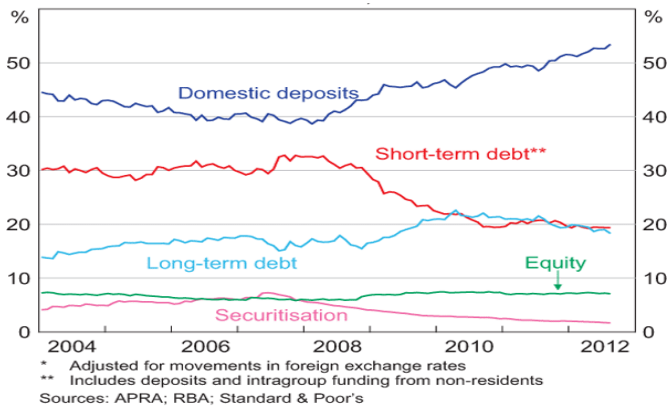
- Since 2008, the composition of Australian bank funding has improved
  - Loan-to-deposit ratios have improved as deposit growth has outpaced credit growth
  - The use of short term debt has declined significantly

Credit growth and deposit growth (% annual)

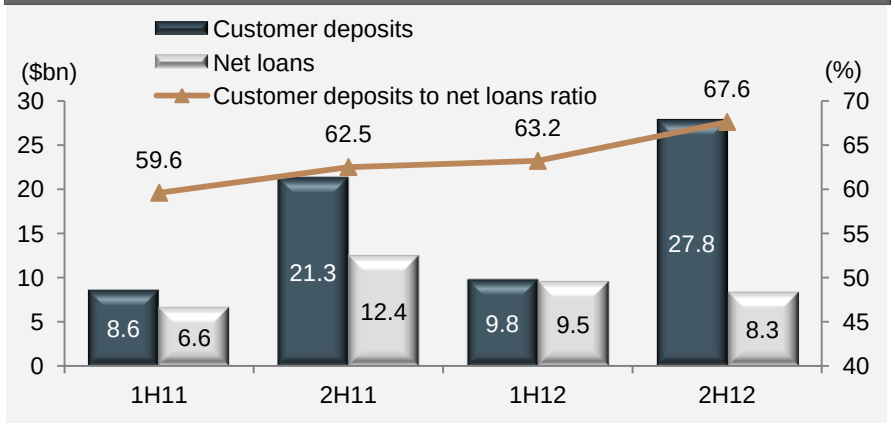


Sources: RBA, Westpac Economics

Australian bank funding (% of total, all banks)

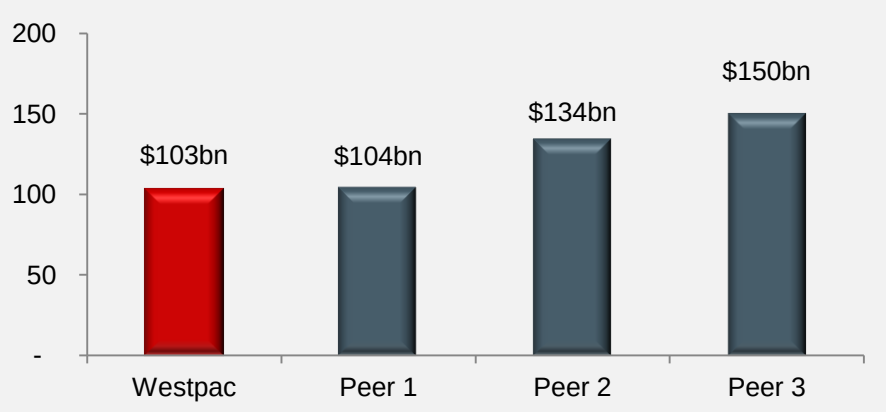


Westpac deposit growth funding loan growth

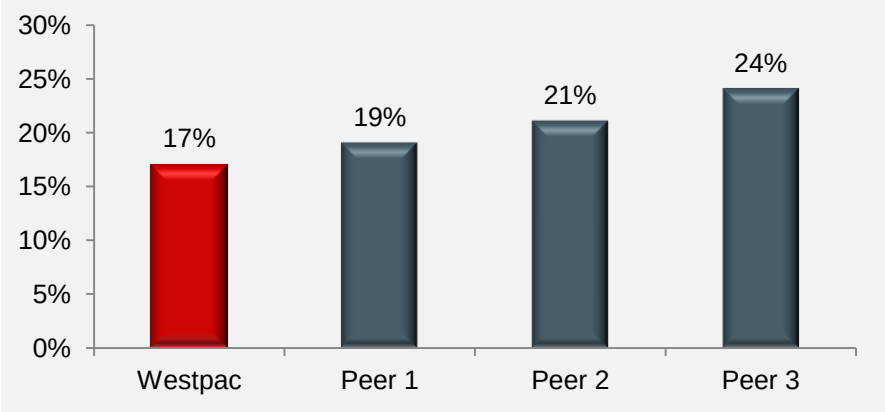


Westpac's funding composition in good shape; Lowest short term funding of peers

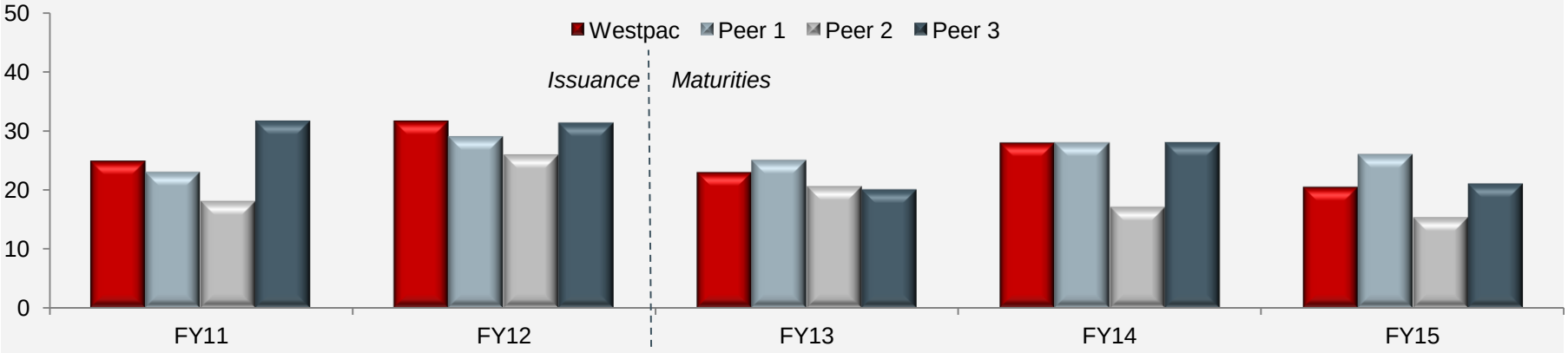
Short term funding[1] ($bn)



Short term funding /Total funding including equity[1] (%)



Term wholesale issuance and maturities[2] ($bn)

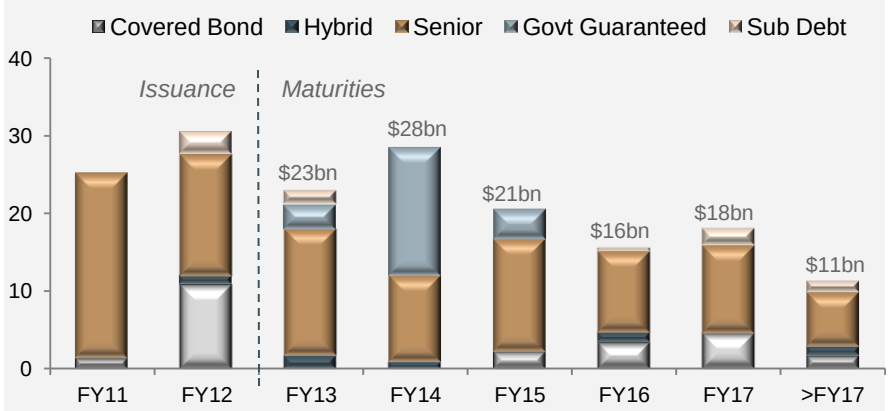


1 Short term funding includes Central Bank deposits and long term wholesale funding with a residual maturity less than 1 year. Source: Company reports. Westpac, Peer 1 and Peer 3 as at 30 September 2012. Peer 2 as at 30 June 2012. 2 Source: Company reports. Westpac, Peer 2 and Peer 3 issuance as at 30 September 2011 (FY11) and 30 September 2012 (FY12). Peer 1 issuance as at 30 June 2011 (FY11) and 30 June 2012 (FY12). Peer 2 and Peer 3 FY13, FY14 and FY15 maturities estimated from chart disclosures as at 30 September 2012.

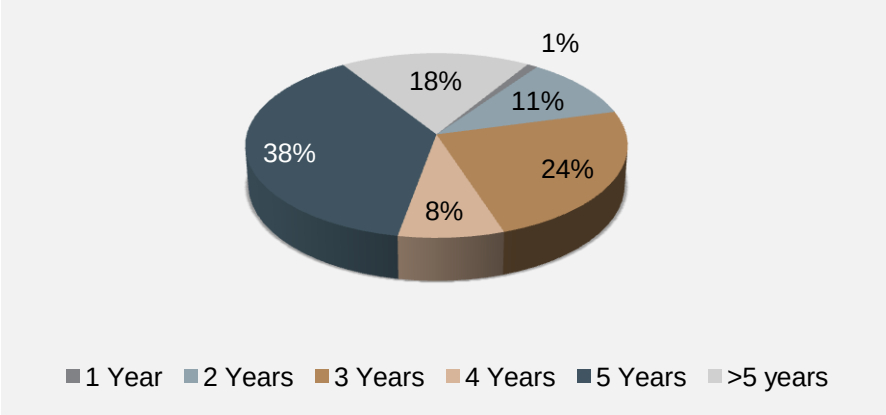
FY12 term issuance highly diverse

- Westpac's term debt issuance in FY12 shows the strength and breadth of the Group's funding franchise
- Raised $31.7bn across senior unsecured, covered bonds, securitisation and subordinated debt
  - Includes $3.25bn of pre-funding for 2013
  - Includes $10.7bn of covered bonds, reducing issuance in senior unsecured markets
- Raised a further $1.2bn in hybrid securities
- Maintaining appropriate maturity profile – weighted average maturity of new term issuance 4.3years[1]
- A broad range of currencies and tenors used to meet investor demand, particularly from new investors to the Westpac name, including central banks and government institutions, as well as strong demand from Asian investors

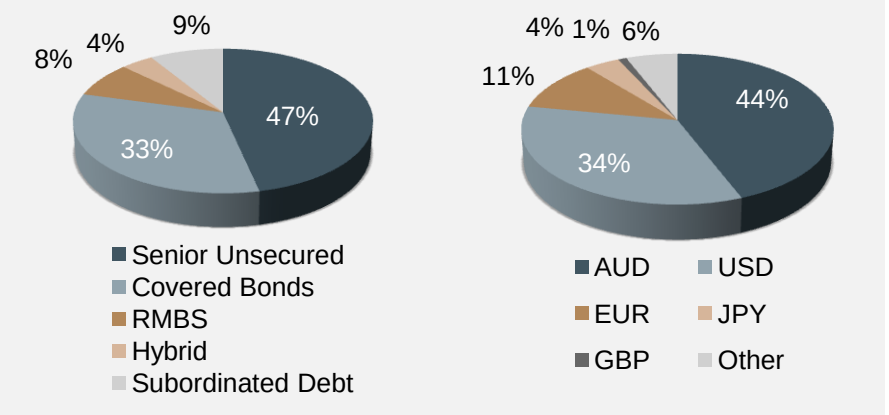
Term debt issuance and maturity profile[2] ($bn)



FY12 new term issuance by original tenor[1,2] (%)



FY12 new term issuance by type[2] (%)

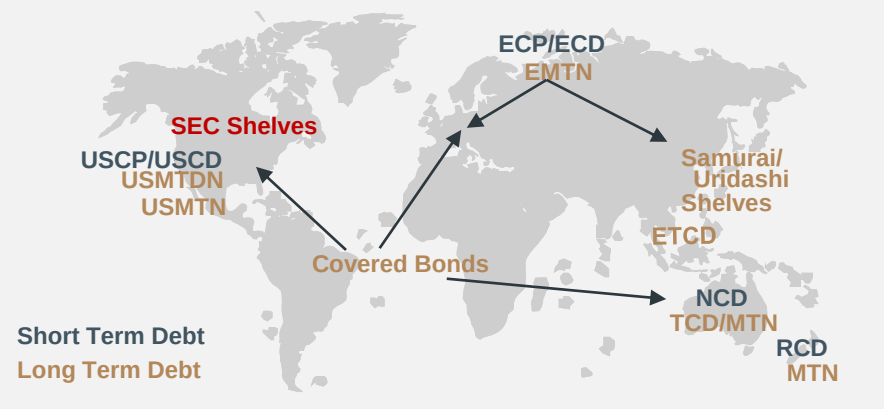


1 Excludes securitisation. 2 Based on residual maturity and FX spot currency translation. Includes all debt issuance with contractual maturity greater than 13 months, excluding US Commercial paper. Contractual maturity date for hybrids and callable subordinated instruments is the first scheduled conversion date or call date for the purposes of this disclosure. Perpetual sub-debt has been included in >FY17 maturity bucket.

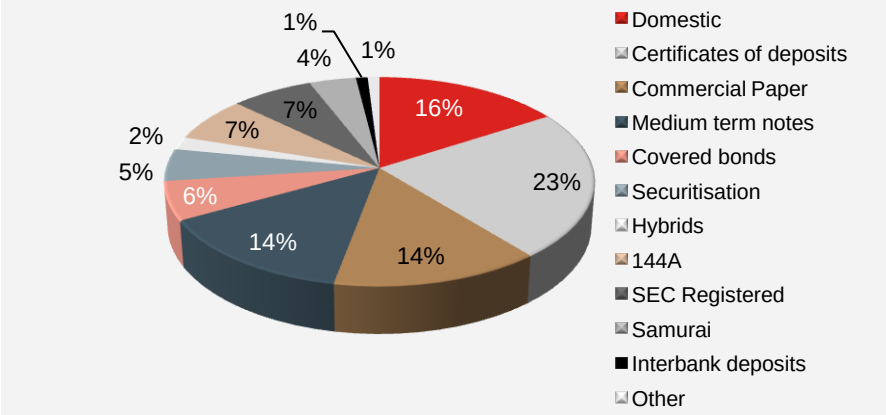
Westpac aims to efficiently meet investor preferences

- Westpac's wholesale funding strategy is focused on diversity and flexibility
- Able to issue in a broad range of formats, tenors and currencies, including covered bonds
- Westpac is the only major Australian bank to be SEC registered
  - A comparative advantage over peers
  - SEC registered deals are included in the index; have greater reach into investor base, including retail investors; deliver greater liquidity for investors and have a higher level of disclosure requirements
  - Westpac also maintains its ability to issue in US 144A format

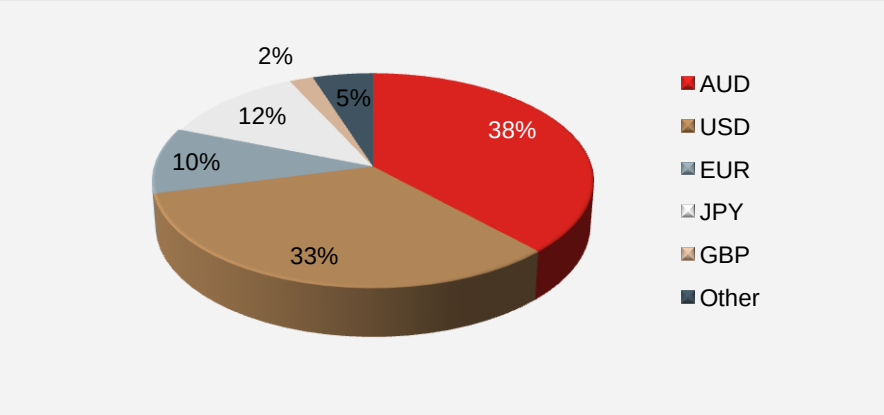
Westpac's wholesale funding capabilities



Wholesale funding composition[1] as at 30 Sep 2012 (%)



Term wholesale funding by currency[2] as at 30 Sep 2012 (%)

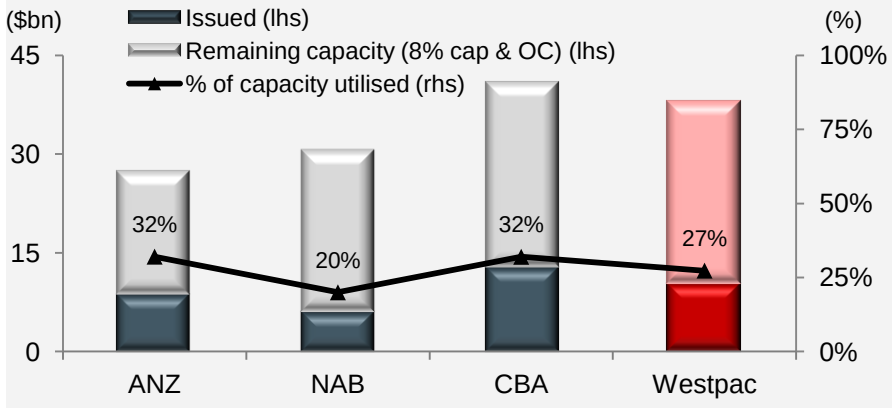


1 At FX spot currency translation. 2 Based on spot FX currency translation. Includes all debt issuance with contractual maturity greater than 13 months, excluding US Commercial paper. USD issuance includes issuance in US, Asia and other USD buyers.

Covered bonds provide further funding diversity

- Covered bonds provide additional diversification to Westpac's existing funding programs
  - Westpac Banking Corporation US$20bn covered bond program
    - RCB/N-bond capability expected November 2012
  - Westpac Securities New Zealand EUR5billion covered bond program separate and guaranteed by Westpac New Zealand Limited
- Westpac issued A$10.7bn (Australia and NZ) in covered bond format during FY12, including inaugural (Australian) US, EUR and AUD public transactions
- In Australia, covered bond issuance is capped at 8% of Australian assets
  - Limits balance sheet encumbrance
  - 27% of Westpac's covered bond capacity utilised (including over-collateralisation)
  - Weighted average tenor is 4.9 years for issuance since October 2011 for the Australian covered bond program
  - Maturity profile well managed - covered bonds maturing adds to total capacity

Australian covered bond issuance (A$bn)



Sources: Westpac, Bloomberg, Company reports

Australian covered pool highlights (as at 30 September 2012)

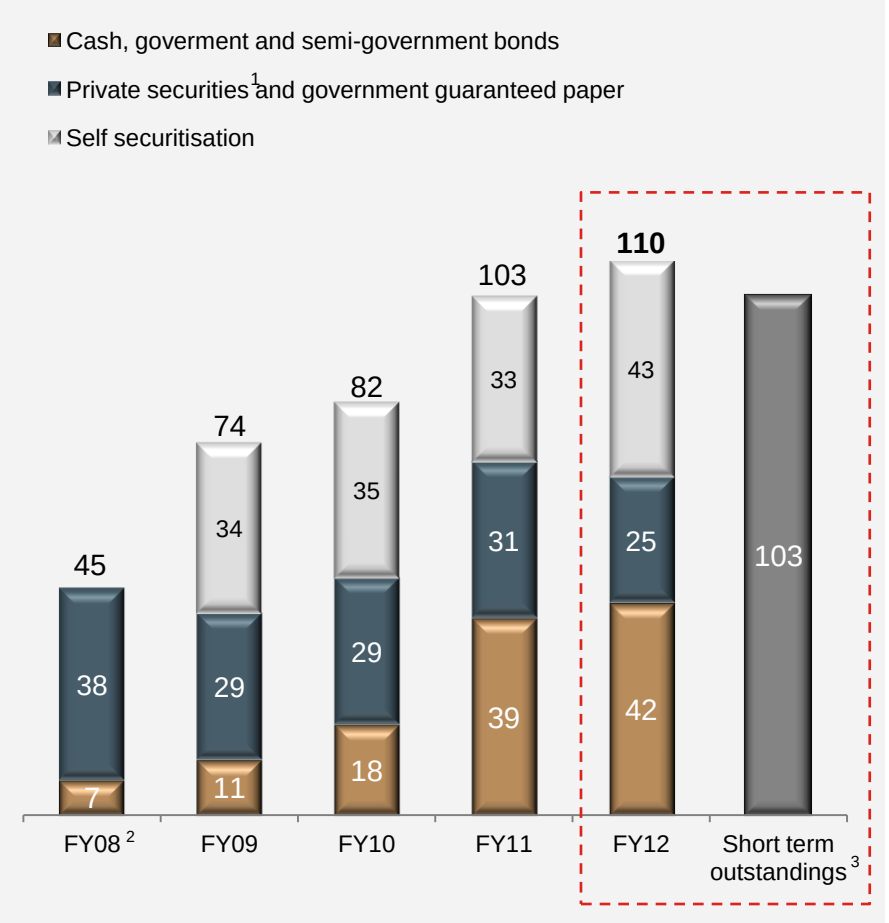
Total pool loan balance	A$13.693bn
Number of loans	55,364
Average loan size	A$247,330
Weighted average current LVR (unindexed)	61.7%
Weighted average current LVR (indexed)	59.6%
Weighted average seasoning	45 months
Moody's collateral score[1]	9.30%
Minimum issuer rating to maintain Aaa/AAA on covered bonds	A3/A+

1. The collateral score is Moody's opinion of how much credit enhancement is needed to protect investors from the credit deterioration of assets in a cover pool in order to reach a theoretical Aaa expected loss, assuming those assets are otherwise unsupported. The higher the credit quality of the cover pool, the lower the collateral score.

Liquidity position further improved

- Unencumbered liquid asset balance of $110bn as at 30 September 2012
  - Covers all short term wholesale outstandings (offshore and onshore)
  - Covers all wholesale debt maturities for over 16 months
  - All held and controlled by Group Treasury
- Additional liquid assets are also held in the Institutional Bank but are not included in the above liquid assets
- Portfolio provides a source of reserve liquidity as eligible collateral under the Reserve Bank of Australia's (RBA) repurchase facility
- APRA discussion paper and draft prudential standards on Basel III liquidity reforms released November 2011. Includes compliance with
  - Liquidity Coverage Ratio by 1 Jan 2015
  - Net Stable Funding Ratio by 1 Jan 2018
- In November 2011, RBA announced the introduction of a Committed Liquidity Facility (CLF) to enable Australian banks to meet the requirements of the LCR given the lack of Level 1 and 2 liquid assets in Australia. Key features
  - 15bps fee per annum, based on the size of the commitment (both drawn and undrawn)
  - Repo cost of 25bps over cash rate for usage
  - Self-securitised assets eligible for inclusion in CLF

Liquid assets ($bn)



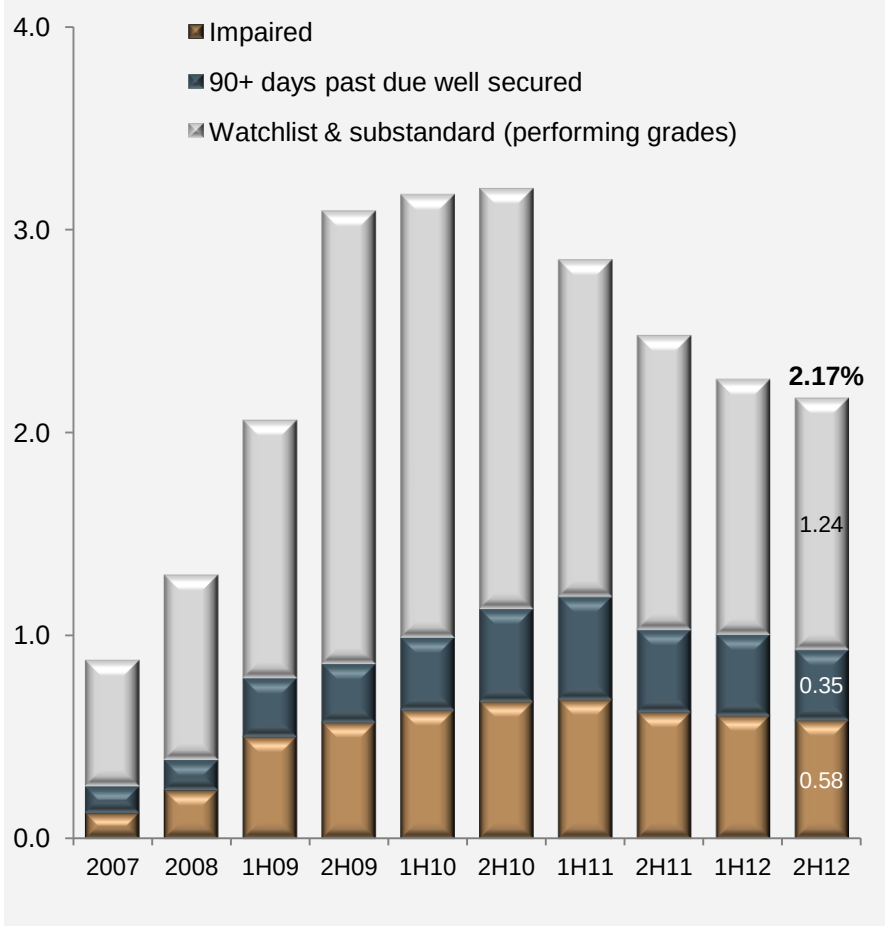
1 Private securities include Bank paper, RMBS, and Supra-nationals. 2. 2008 does not include St.George 3. Includes long term wholesale funding with a residual maturity less than 1 year.

Downward trend in stressed exposures

- Asset quality continued to improve, with a reduction in portfolio stress, declining new stress and improving consumer delinquencies
- Stressed exposures represented 2.17% of total committed exposures (TCE) at 30 September 2012, down 9bps on 1H12, and down 31bps on 2H11
- This continues the downward trend of stressed exposures to TCE since reaching a peak in 2H10, however the rate of improvement has slowed, with stressed exposures down 9bps in 2H12, compared to 22bps in 1H12
- The reduction in stress has been partly due to upgrades out of stress resulting from repayments and refinancing, as well as lower flows into stressed asset grades

	FY12	change FY12 – FY11
Asset Quality		
Stressed exposures to total committed exposures	**2.17%**	Down 31bps
Impaired assets to total committed exposures	**58bps**	Down 4bps
Impaired assets to gross loans	**85bps**	Down 7bps
Net write-offs to average loans annualised	**32bps**	Down 6bps

Stressed exposures as a % of TCE[1] (%)

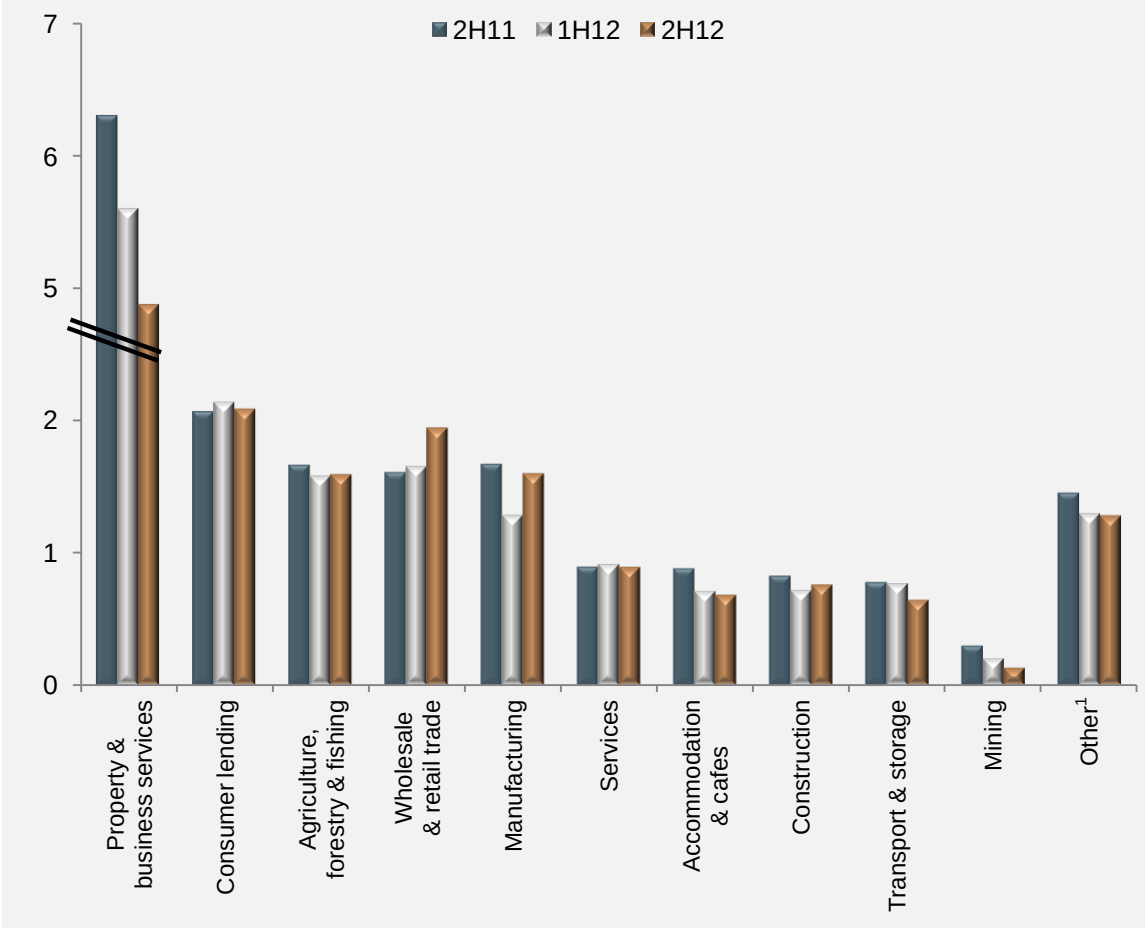


1 Includes St.George from 1H09 onwards.

Stressed exposures across sectors

- Asset quality in the consumer segment has remained strong, benefiting from ongoing consumer caution, higher repayment levels, as well as low unemployment and interest rates
- The SME sector has also performed well, although it is beginning to recognise additional stress in those sectors undergoing structural change, impacted by soft consumer demand and those impacted by the high Australian dollar, such as retail, tourism and manufacturing
- Commercial property continues to be the sector under the most stress however trends in the portfolio are generally positive, with the level of stress in that portfolio declining to 7.7% at 30 September 2012 (Commercial property represents 6.8% of the Group's TCE)
- The institutional and corporate segment continues to perform well, with further improvements in balance sheet strength and reductions in gearing over the year

Stressed exposures by industry ($bn)



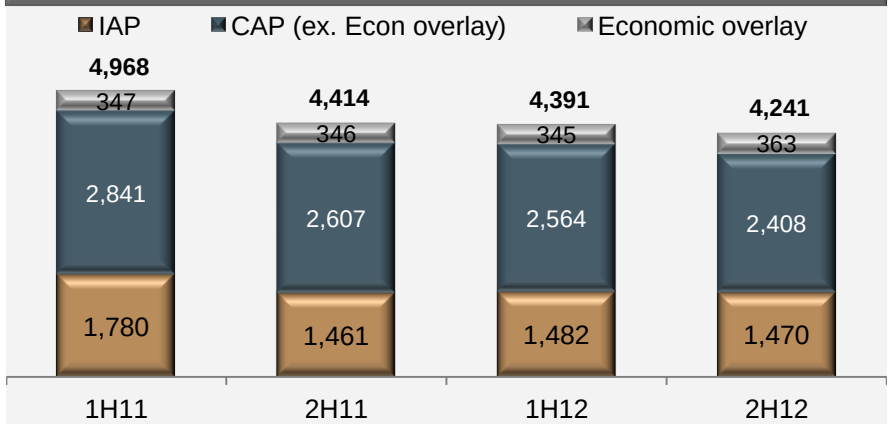
1 Other includes Government, administration and defence, and utilities sectors. .

Provision levels remain at upper end of peers

- Total provisions were $4,241m at 30 September 2012
- Strong coverage was maintained, although provisioning levels have moderated consistent with reducing stress in the portfolio
  - Provisioning coverage levels remain at the upper end of peers
- New individually assessed provisions were lower, although remain relatively high as stressed assets continue to be worked through
- Economic overlay increased by $18m in 2H12 to $363m
  - Improvement in the commercial property sector led to a $7m economic overlay unwind, offset by a $25m increase in the overlay related to those sectors seeing emerging signs of stress due to structural changes, the high A$, soft consumer demand and lower commodity prices

Provisioning coverage ratios	2H11	1H12	2H12
Collectively assessed provisions to credit RWA	126bps	122bps	**113bps**
Collectively assessed provisions to performing non-housing loans	169bps	164bps	**155bps**
Impairment provisions to impaired assets	36%	38%	**37%**
Total provisions to gross loans	88bps	86bps	**82bps**

Provisioning ($m)

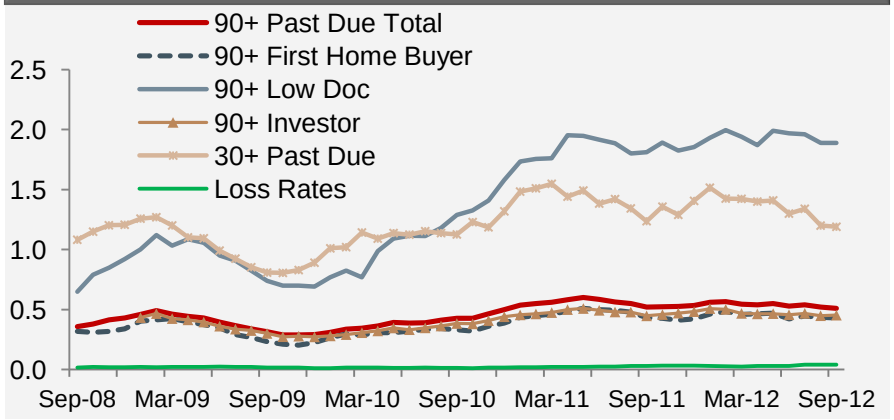


Economic overlay lifted ($m)		
Balance at Sept-11		346
Property overlay utilised	(24)	
Earthquake /flood overlays no longer required/utilised	(11)	
New economic / industry overlays	52	
Closing balance at Sept-12		363

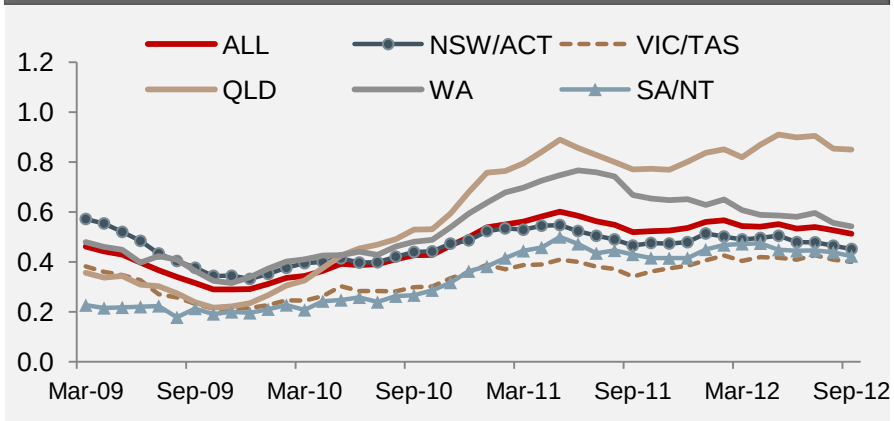
Low losses and delinquencies in Australian housing portfolio

- Australian mortgage delinquencies remain below industry benchmarks, with total portfolio 90+ days delinquencies 52bps, down 1bp on FY11
- Early cycle (30+ days) delinquencies are also lower, at 119bps, down 4bps on FY11
- Good performance across segments reflects continued cautious consumer behaviour and current low levels of unemployment, as well as improved early collections activities, including better segmentation
- Across the states, there has been significant improvement in WA over 2012 and modest improvements in NSW and SA. VIC remains the best performing state although delinquencies are modestly higher compared to 2011. Despite some improvement, QLD continues to experience difficulties, reflecting challenges to tourism and property market in that state
- Properties in possession 289, down significantly from 519 at FY11. This reflects lower inflow, as well as an increase in activity to clear portfolios
- Actual loss rates in the mortgage portfolio increased to $94m (net of insurance[1] claims), up $50m on FY11
  - 3bps annualised
  - Increase over FY11 reflects softening property values in some regions
  - Loss rates remain low by international standards and reflect sound underwriting standards

Australian mortgages delinquencies and loss rates (%)



Australian mortgage 90+ days delinquencies (%)



1 Mortgage insurance claims 2H12 $17m (1H12 $13m and 2H11 $11m)

“THE OUTLOOK FOR THE AGGREGATE ECONOMY REMAINS FAVORABLE.”

INTERNATIONAL MONETARY FUND 20 SEPTEMBER 2012

Australian and New Zealand economic outlook

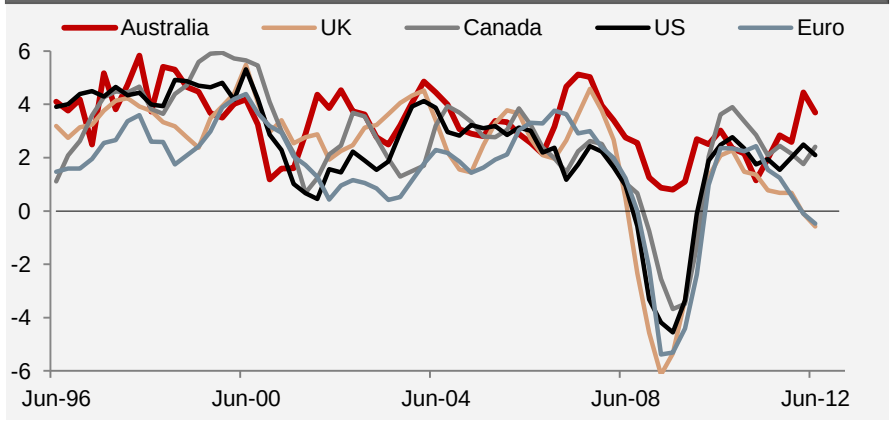
Key economic indicators as at October 2012 (%)		Calendar year			
		2011	2012f	2013f	2014f
World	GDP	3.9	2.9	3.6	3.2
Australia	GDP	2.1	3.5	3.2	2.8
	Private consumption	3.3	4.0	3.0	3.4
	Business investment[1, 2]	16.0	15.2	10.5	0.5
	Unemployment – end period	5.2	5.6	5.4	5.4
	CPI headline – year end	3.1	2.6	2.2	3.0
	Interest rates – cash rate	4.50	3.00	2.75	3.25
	Credit growth, Total – year end	3.5	4.0	5.0	5.5
	Credit growth, Housing – year end	5.4	4.5	5.0	6.0
	Credit growth, Business – year end	1.2	4.0	5.0	5.0
New Zealand	GDP	1.3	2.6	3.4	2.8
	Unemployment – end period	6.4	6.6	5.3	4.6
	Consumer prices	1.8	1.3	2.7	2.5
	Interest rates – official cash rate	2.5	2.5	3.25	4.5
	Credit growth – Total	0.9	3.5	4.5	5.0
	Credit growth – Housing	1.1	2.8	5.1	5.1
	Credit growth – Business (incl. agri)	0.7	4.8	3.8	4.9

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

Australia remains well placed relative to developed economies

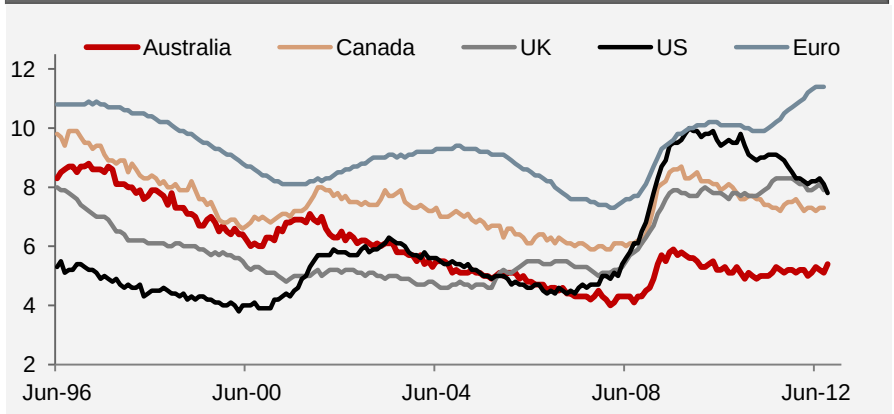
- The Australian economy continues to outperform peers
- After maintaining positive momentum through the global recession in 2008-09, GDP growth has picked up to 3.7%yr
- GDP forecast to rise by 3.5% over 2012 and 3.2% over 2013
- Unemployment remains low – at Sep 2012, 5.4% of the work force were unemployed
  - While up slightly on a year ago, and labour market conditions somewhat softer than this measure indicates, this is still a solid result given historical and international comparisons
- Inflation remains low – 'underlying' inflation, the best gauge of ongoing inflation momentum, is at the low end of the RBA's 2-3% target range and expected to remain close to 2% near term

Real GDP growth (%, year-ended)



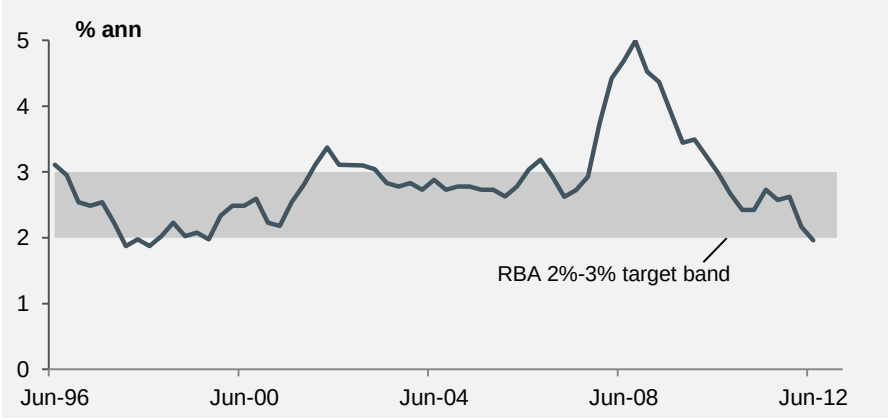
Sources: OECD, Westpac Economics

Unemployment rate (%)



Sources: OECD, Westpac Economics

CPI core inflation at lower end of RBA target band

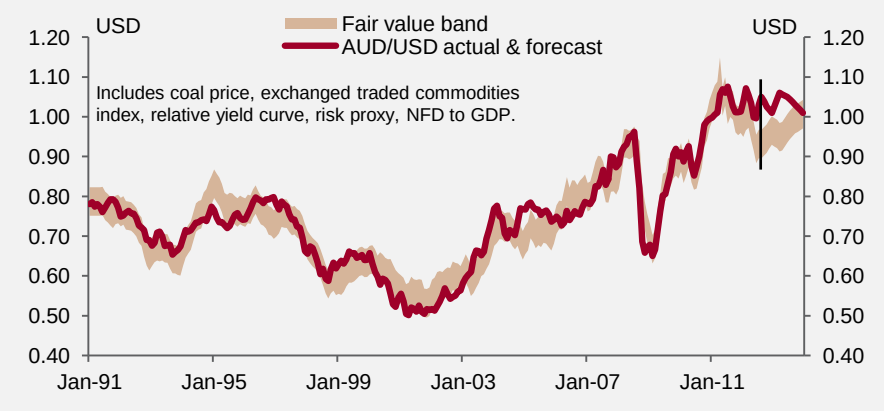


Sources: ABS, RBA, Westpac Economics

...though conditions uneven across sectors...

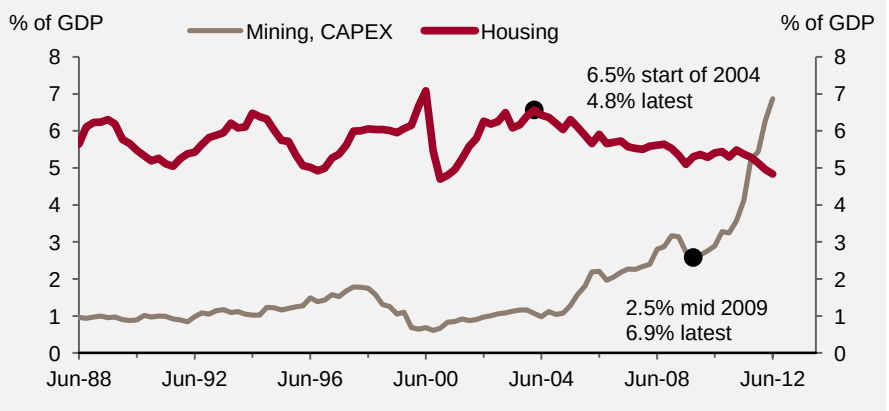
- Recent growth dominated by expansion in the mining sector
  - Particularly capital expenditure which is expected to be up 52%yr for the sector in 2012 reaching 7% of GDP
- Gain has masked a more uneven growth performance elsewhere
  - Weaker conditions in many non-mining sectors
  - Persistently high AUD, restrained consumer demand and subdued housing-related activity have weighed heavily and led some employers to reduce employment
- Conditions expected to become more balanced in 2013
  - Mining investment will remain strong but lower commodity prices will be a drag on incomes
  - Rate cuts will ease the pressure on consumer and housing-related sectors

The Australian dollar



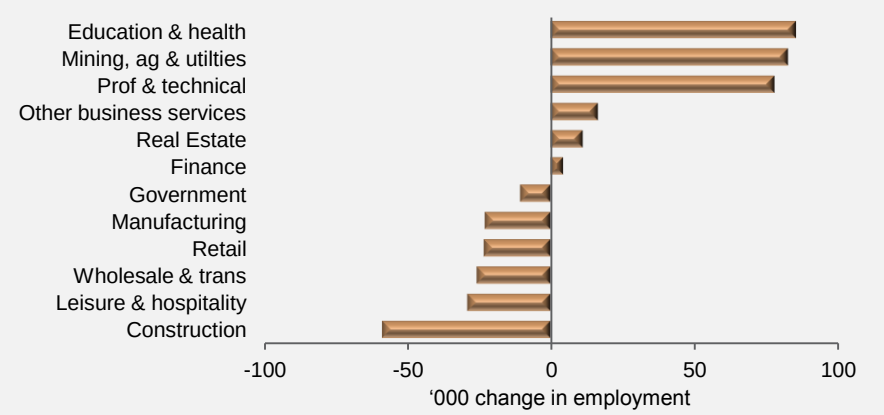
Sources: RBA, Westpac Economics

Investment: share of Australian economy



Sources: ABS, Westpac Economics

Annual jobs growth by sector to June qtr

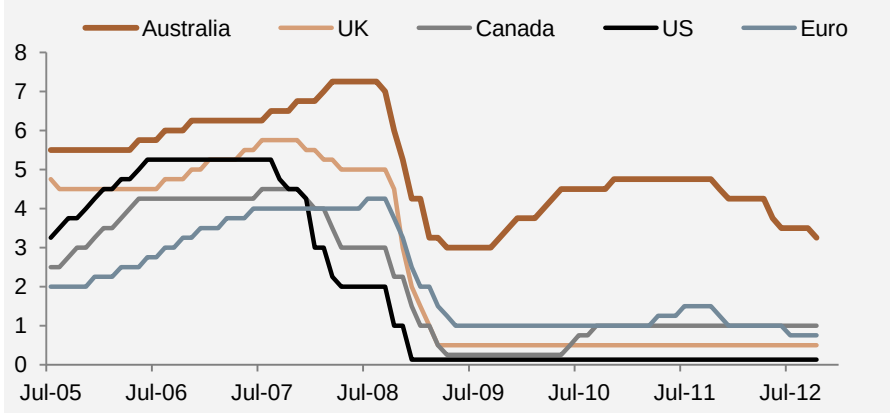


Sources: ABS, Westpac Economics

Importantly, Australia has monetary and fiscal flexibility

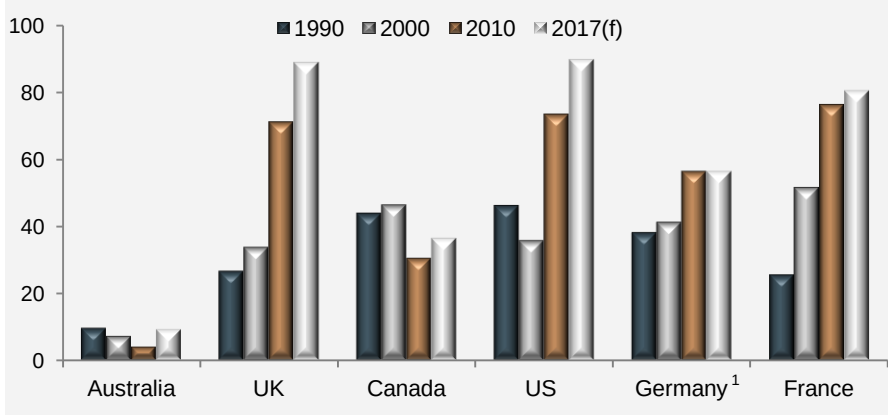
- In contrast to most other developed economies, Australian policy makers continue to enjoy considerable flexibility
- Australia's official cash rate is currently 3.25%
  - Low by historical standards but still leaves ample scope for additional easing if required
  - Policy rate changes also continue to have an immediate impact on lending rates for both new and existing loans (85% of mortgages are on variable rate terms
- Plenty of fiscal scope
  - Net public debt levels are very low at 8% of GDP
  - While Government is currently focused on fiscal consolidation there is ample scope for discretionary fiscal easing if needed

Major countries' policy rates (%)



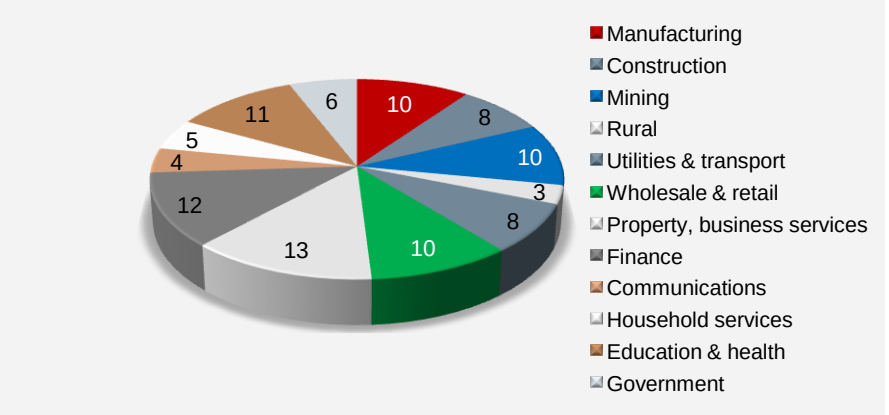
Sources: RBA, OECD, Westpac Economics

Net public debt levels (% GDP)[1]



Sources: Westpac Economics, IMF

Australia's economy diversified and flexible (% of GDP)[2]



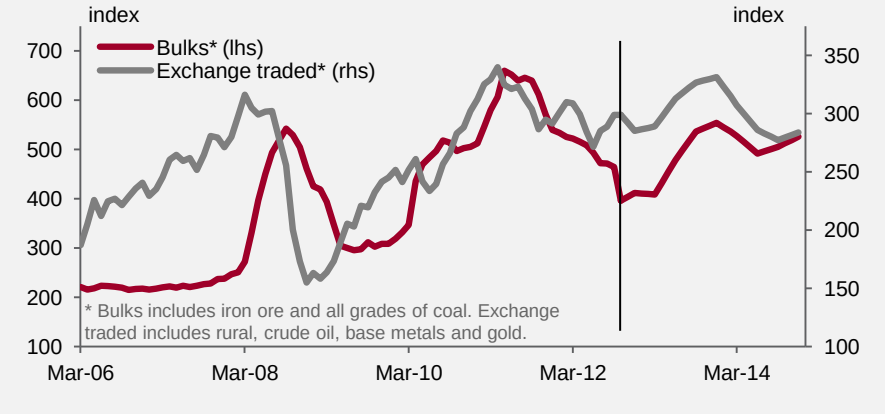
Sources: ABS, Westpac Economics

1. German figure for 1990 is actually 1995 due to re-unification 2. Excludes ownership of dwellings and taxes less subsidies.

Australia's mining boom entering a transition phase

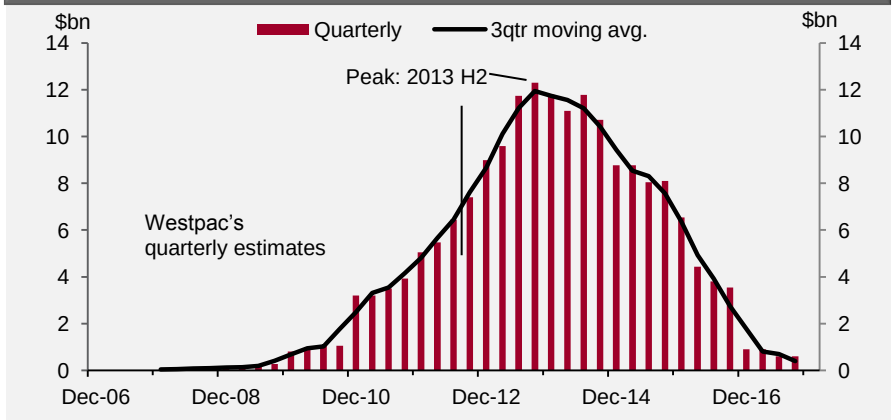
- Australia's mining boom best described as 3 separate but overlapping stages led by the cycles in:
  1. Prices;
  2. Investment; and
  3. Exports/production
- Upswing in Australia's commodity prices now matured - most prices peaking in 2008
- Investment cycle still ramping up (led most recently by very large round of gas projects)
  - Expected to mature some time in 2H 2013 with mining investment likely to become a drag on growth in 2013-14
- This will coincide with the beginning of a sustained upturn in resource exports as projects come on line. Will also see a smaller net contribution to growth nationally and fewer jobs in the mining sector

Price cycle appears to have peaked



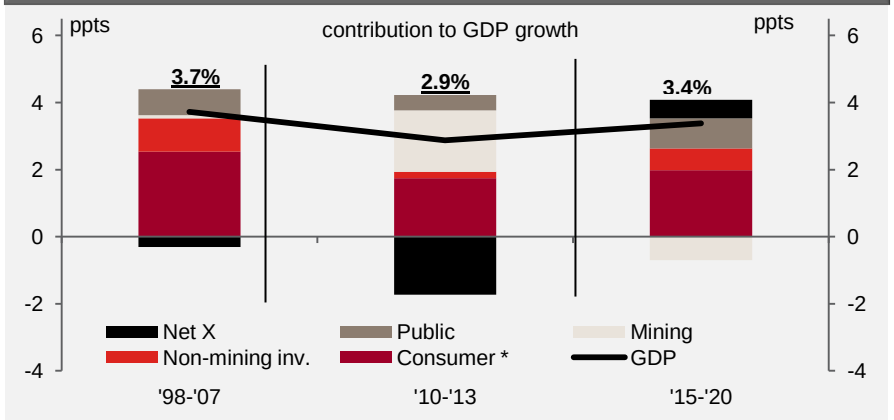
Sources: Westpac Economics, Bloomberg, ABS.

Gas projects dominate; half way through investment ramp up



Sources: Westpac Economics, Access "Investment Monitor"

Net exports will contribute to GDP as mining cycle continues

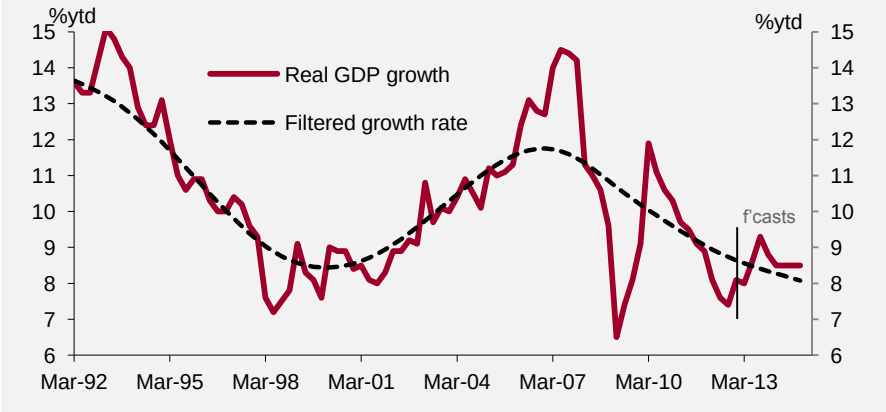


Sources: ABS, Westpac Economics. * Includes housing

Chinese growth finding a sustainable level

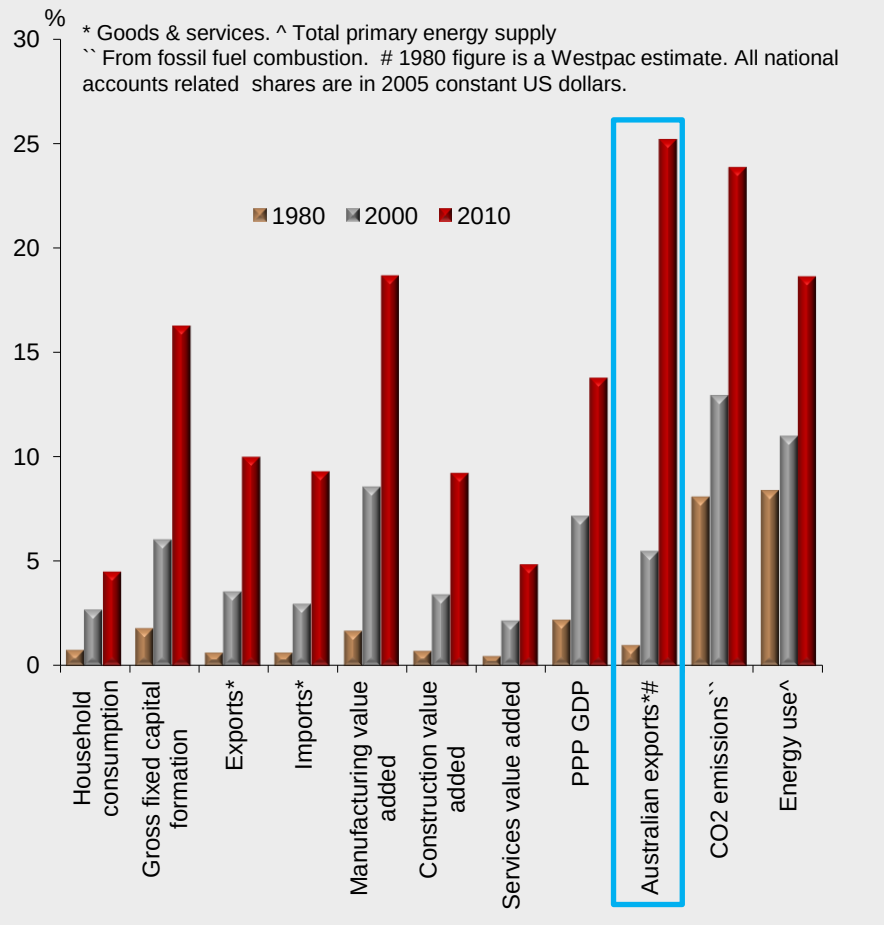
- The Chinese economy is in the middle stages of its development - it is no longer poor but it is still far from rich
- Westpac estimates Chinese potential growth is now between 7% and 8%, with a bias towards the top of that range
  - Lower than the 10% average in the 2000s, which was a unique time - China benefited from a number of growth accelerating factors concentrated in a short timeframe, including WTO entry, supportive demographics and urbanisation, the global credit bubble and a reform dividend from sound decisions taken in the 1990s (SOE, banks, housing, fiscal)
- As a $US7 trillion economy, China grew at 10%. As a $US10 trillion economy, it is forecast to grow at 7%
  - Represents an equivalent incremental contribution to global absorptive capacity, at higher levels of energy, protein, metal and consumer goods demand per head.

Chinese economic growth (% ytd)



Sources: CEIC, Westpac

China's share: world activity & Australian exports (%)



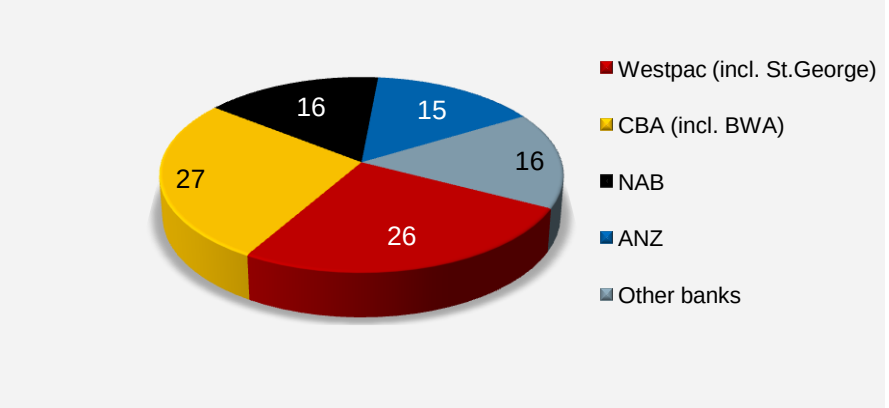
Sources: UN, IMF, IEA, Westpac Economics.

WESTPAC'S AUSTRALIAN MORTGAGE PORTFOLIO – HIGH QUALITY AND PERFORMING WELL IN FY12.

Australian mortgage market

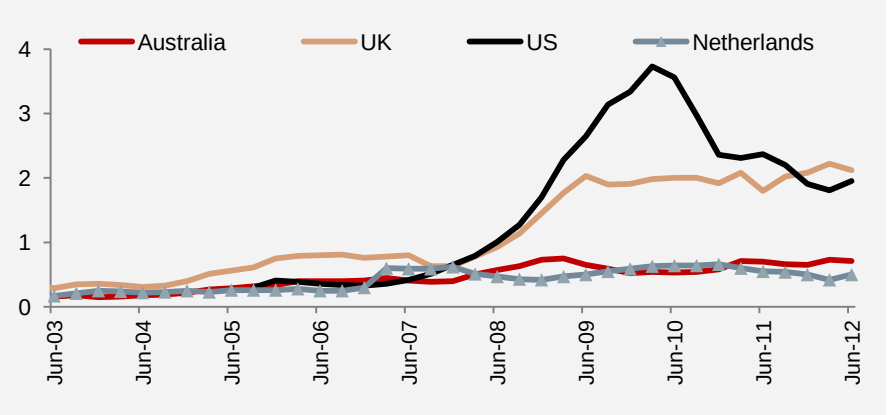
Australian mortgage market	
Market share	• 4 major banks dominate - 83% share held • Major banks have low share of low doc market
Lenders recourse	• Banks in Australia have full recourse to the borrower's mortgaged property and other assets and future earnings • Banks can and do pursue defaulting lenders for losses • Reduces speculative buying behaviour
Products	• Majority of housing loans are variable rate (>85%) • Fixed rate loans for short periods of time – generally 3 to 5 years • Fixed rate borrowers incur a break fee if they choose to refinance within the fixed period • Interest rate buffers built into loan serviceability tests at application • Interest payments on primary residence are not tax deductible, provides incentive to pay off mortgage
Regulation	• For mortgage insured loans, mortgage insurance covers the entire loan • Strict prudential supervision provided by one national regulator, APRA
Performance	• Australian 90+ day prime arrears at low levels - absolutely and relative to other major economies

Australian bank mortgage market share (%)



Source: APRA Banking Statistics August 2012 – Banking system market share

90+ day prime arrears by country (%)

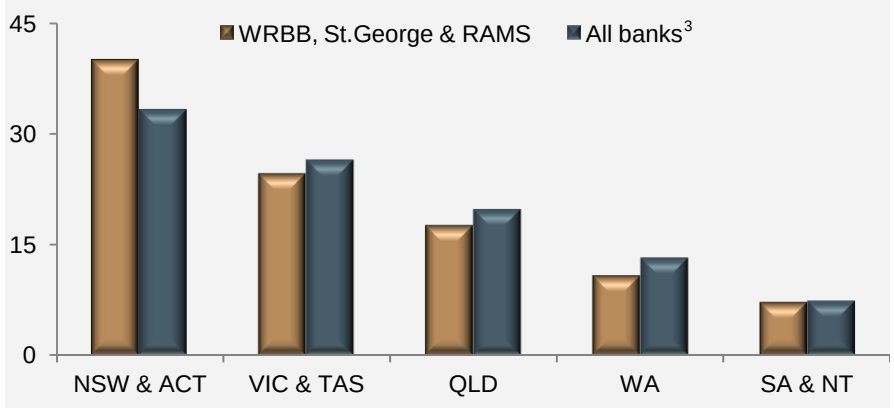


Source: S&P and Bloomberg.

New flows support quality Australian housing portfolio

- Australian housing portfolio $316bn, up 4% on FY12
- Portfolio composition reflects brand strength across market segments
  - Owner occupied lending 48.2%
  - Investor lending 41.5%. All investor loans are first lien
- Continued reduction in the Low Doc portfolio due to policy tightening
  - <2% of flows and <6% of portfolio
  - Low Doc lending, where borrowers certify income, has tighter lending standards to mitigate risk, including lower LVRs, more mortgage insurance and restricted location and security types

Australian housing portfolio by State (%)



Australian housing portfolio[1]

	FY11 Balance	FY12 Balance	2H12 Flow[2]
Total portfolio ($bn)	304.6	316.3	25.3
Owner-occupied (%)	48.8	48.2	49.0
Investment (%)	39.7	41.5	46.0
Portfolio loan/line of credit (%)	11.5	10.3	4.7
Variable rate / Fixed rate (%)	88 / 12	87 / 13	78 / 22
Low Doc (%)	6.6	5.7	1.8
Proprietary channel (%)	60.1	58.4	56.8
First Home Buyer (incl. Low Doc) (%)	12.2	11.8	10.4
Mortgage insured (%)	27.0	25.8	15.6

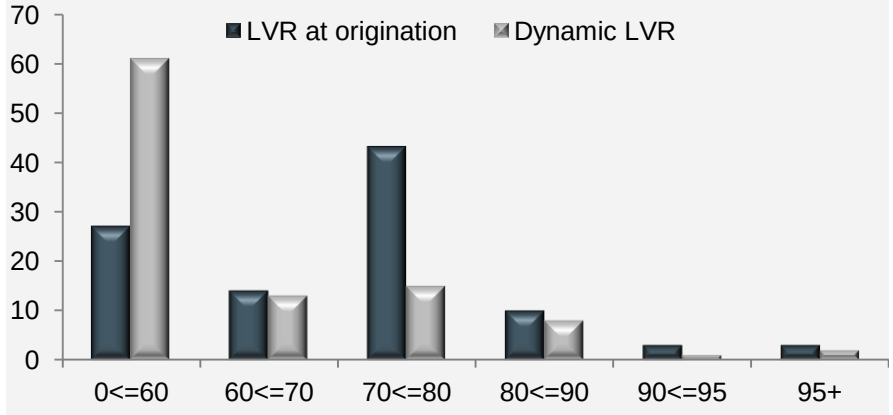
1 Represents WRBB and St.George (including RAMS). 2 Flow is all new mortgage originations total settled amount originated during the 6 month period ended 30 September 2012 and excludes RAMS. 3 ABA Cannex August 2012.

Australian housing portfolio well collateralised

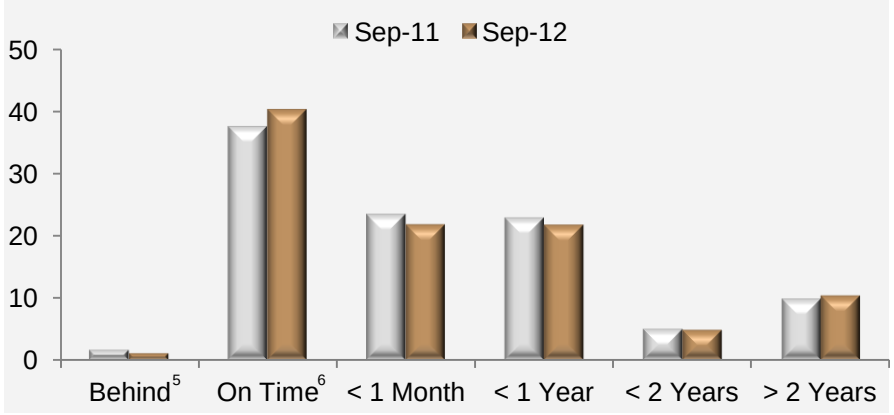
- Australian housing portfolio remains well collateralised
- Average dynamic LVR is 48%
  - Modestly up compared to FY11, mainly due to declines in property valuations in some regions in 1H12, including QLD and WA
- Average LVR of new loans unchanged at 69%
- Average LVR at origination slightly higher, reflecting a modestly higher proportion of investor lending in new flows
- Consumer caution continues to see a significant proportion of customers ahead of scheduled mortgage repayments at 59% (excluding offset balances)

Australian housing portfolio	FY11	FY12
Average LVR at origination[1] (%)	68	69
Average dynamic[1,2,3] LVR (%)	47	48
Average LVR of new loans[1,7] (%)	69	69
Average loan size ($'000)	210	214
Customers ahead on repayments[1,4] (%)	61	59

Australian housing portfolio[1,2,3]



Australian home loan customers ahead of payments[1,4]

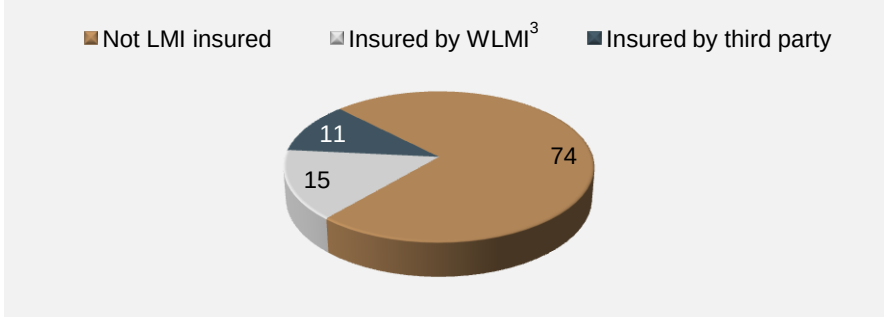


1 Includes WRBB and St.George (excl. RAMS). 2 Dynamic LVR represents the loan-to-value ratio taking into account the current outstanding loan balance, changes in security value and other loan adjustments. 3 Property valuation source Australian Property Monitors. 4 Customer loans ahead on payments exclude equity loans/line of credit products as there is no scheduled principal payments. 5 'Behind' is more than 30 days past due. 6 'On time' includes up to 30 days past due. 7 Average LVR of new loans is based on rolling 12 month window for each year end period. Includes WRBB and St.George (excl. RAMS).

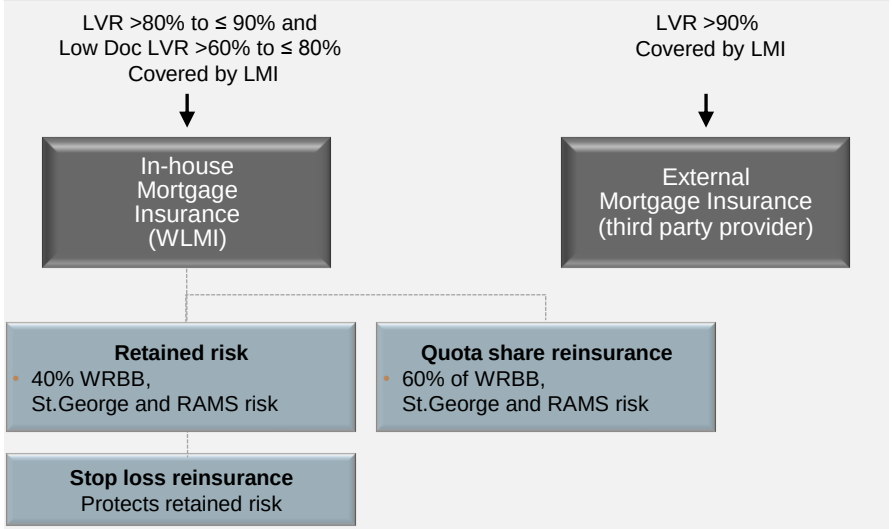
Lenders mortgage insurance managing risk transfer

- Westpac Group has one captive mortgage insurer, Westpac Lenders Mortgage Insurance (WLMI)[1], which insures mortgages originated through all brands and channels
- Capital conservatively invested (cash and fixed interest) so returns primarily based on premium income and risk management
- All mortgages with origination LVR >90% insured with a third party since 2009 (prior to 2009 insured through WLMI)
- Mortgages with origination LVR between 80-90% and Low Doc between 60-80% are covered by WLMI. Westpac reduced its overall retained risk of higher LVR mortgages and further restructured the arrangement for mortgages originated from 1 October 2011
  - WLMI reduced its retained risk to 40% for both WRBB and St.George brands (down from 70%)
  - Retained risk for RAMS brand remains at 40%
  - Increased number of quota share providers from one to four parties (Genworth Australia, QBE LMI, Arch Re and Tokio Millennium)
- Additional stop loss insurance with a separate party to cover potential extreme loss scenarios
- WLMI is strongly capitalised (separate from bank capital) and subject to APRA regulation. Capitalised at 1.33x MCR[2]
- Scenarios confirm sufficient capital to fund claims arising from events of severe stress (up to 1 in 250 years)
  - In a 1 in 250 years loss scenario, estimated losses for WLMI are $303m (net of re-insurance recoveries)
- 2H12 insurance claims $17m (1H12 $13m and 2H11 $11m)

Australian mortgage portfolio LMI coverage (%) at 30 September 2012



Lenders Mortgage Insurance (LMI) structure from 1 October 2011

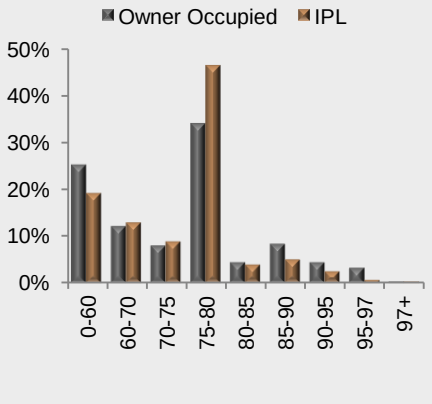


1 WLMI provides cover for residential mortgages originated under WRBB, St.George and RAMS brand. 2 Minimum Capital Requirements (MCR) determined by Australian Prudential Regulation Authority. 3 Insured coverage is net of quota share.

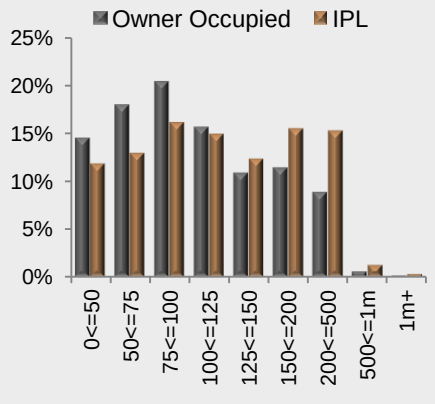
Australian investment property portfolio

- Investment property loans (IPLs) make up 41.5% of Westpac's Australian mortgage portfolio
- The majority (46%) of IPL loans are originated at 80% LVR, to take advantage of tax deductions and avoid mortgage insurance costs
- While the majority of IPLs are interest-only, the amortisation profile closely tracks the P&I portfolio
- Compared to owner-occupied applicants, IPL applicants on average are older, have higher incomes and higher credit scores
- Specific credit policies apply to IPLs to assist risk mitigation, for example:
  - Holiday apartments subject to tighter acceptance requirements
  - Additional LVR restrictions apply to single industry towns
- Reliance on rental income is limited, creating an income buffer and vacancy rate for more than half of all IPL customers
  - 30% of applicants have no reliance on rental income
  - A further 27% have 25% or less of total income from rent
- IPL portfolio performance has historically been better than the portfolio average
  - At FY12, IPL 90+ days delinquencies were 45bps compared to 52bps for the portfolio
- IPL customers with more than one investment loan perform better than IPL customers with one investment loan and better than the overall portfolio
  - Approximately 45% of IPL customers have more than one investment loan, a further 28% have a single IPL and 27% have both an IPL and an owner occupied loan

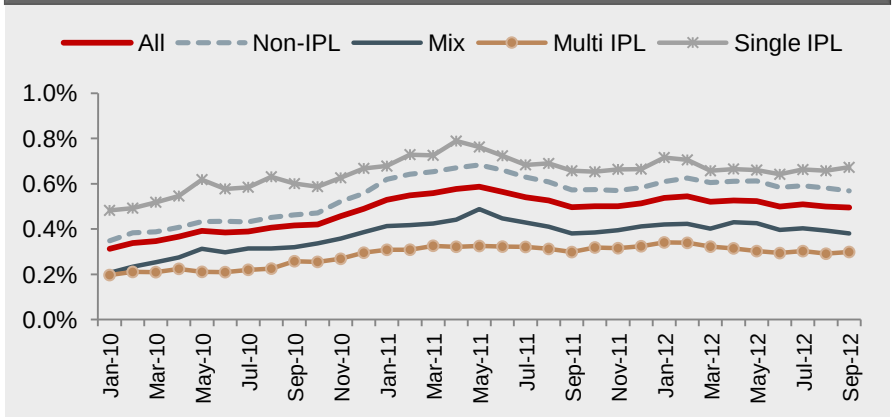
Loan-to-value ratio at origination (%)



Application total gross income (%)



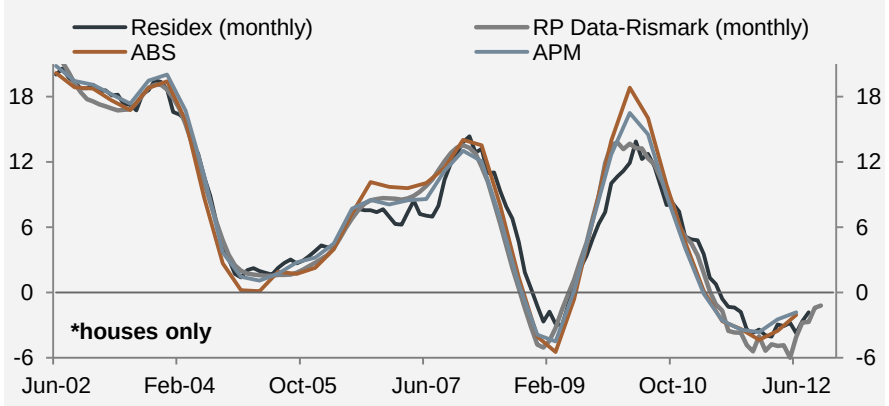
Westpac 90+ days delinquency by customer type (%)



Australian house prices have eased in an orderly fashion

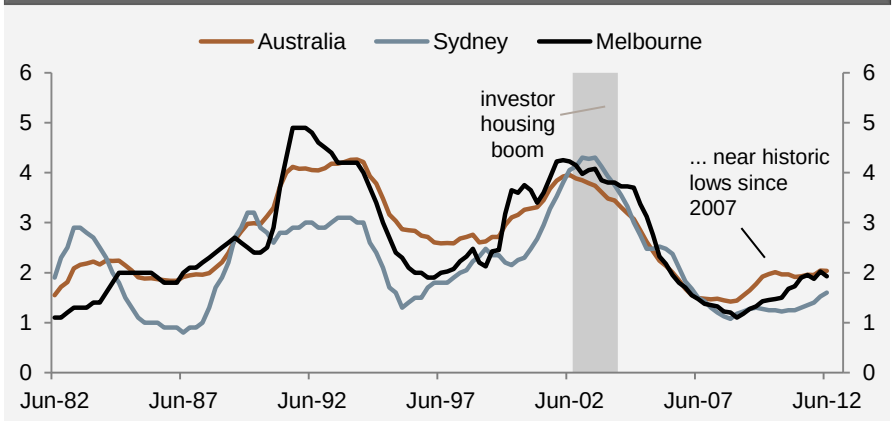
- Conditions in the Australian housing market have been subdued in 2012 although there are signs of a recovery starting to gain traction.
- Interest rate cuts since November 2011 have delivered a soft landing with a clear stabilisation in prices over the first half of the year.
- Indeed, while dwelling prices nationally are still down slightly (1-2%) on a year ago, all measures show they have been roughly flat since the start of the year.
- All capital cities have shown an improvement although conditions have been firmer in Sydney (dwelling prices up 0-1%yr) and slightly softer in Melbourne (dwelling prices down 2.5-3%yr).
- The more timely market information on auction market activity, house prices and consumer sentiment suggests a recovery is starting to gain traction with a stronger positive response to the latest interest rate reduction than previous rate moves.
- Other data on housing finance approvals, dwelling approvals and construction is only available up to August but even this suggests activity was on a slight firming trend prior to October's move.
- With another two 25bp rate cuts expected in the near term we expect a housing recovery to continue to gain traction over the course of 2013.
- However, the upturn is likely to be restrained as consumer confidence stays mixed, job loss fears linger and cautious attitudes towards debt persist.
- Supply conditions will remain broadly supportive. Low rental vacancy rates continue to point to tight supply in most markets. Meanwhile 'distressed sales' are likely to be minor – labour markets are softening but the forecast rise in the unemployment rate is unlikely to lead to a significant round of 'distressed sales', especially given the low level of interest rates.

House prices (annual % change)



Sources: Residex, RP Data-Rismark, ABS, APM, REIA, Westpac Economics

Rental vacancy rates (%)

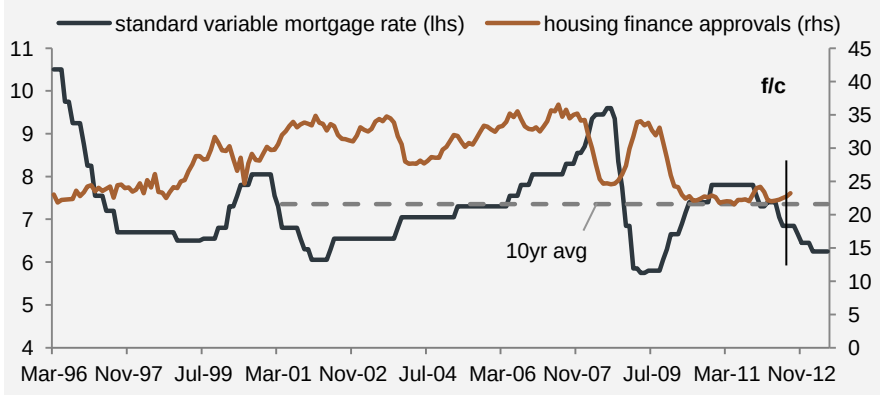


Sources: REIA, Westpac Economics

Improvements in housing affordability

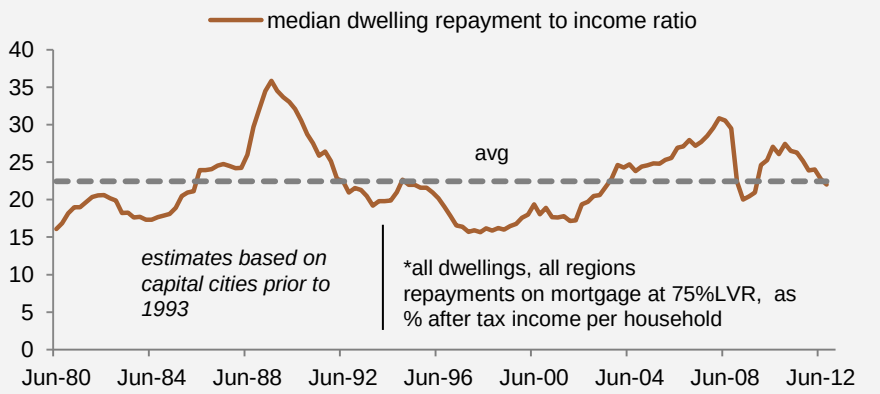
- Housing affordability has improved significantly over 2011-12.
- Westpac's preferred measures of affordability – the cost of servicing a mortgage on a median-priced dwelling as a % of household income, measured across all dwellings and all regions – shows the most favourable combination of interest rates, prices and incomes since early 2003 (excluding a brief period in 2009 when 'emergency' rate cuts brought mortgage interest rates to 40yr lows for nine months).
- So far, housing markets have been slow to respond to the more conducive mix.
- However, with relatively low mortgage arrears supporting the benign picture from affordability measures, the soft market conditions seem to be mainly due to 'voluntary restraint' on the part of buyers as consumers continue to take a more cautious approach to spending, saving and borrowing decisions.

Interest rates (%)



Sources: RBA, ABS, Westpac Economics

House affordability: all dwellings (%)

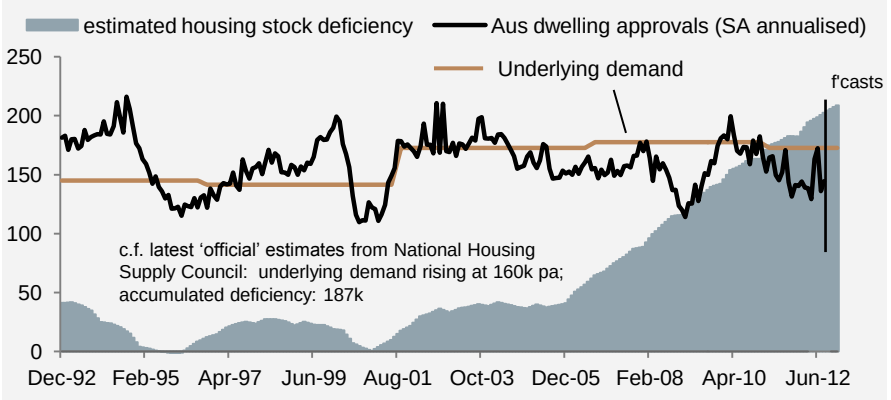


Sources: RP Data-Rismark, Residex, Westpac Economics

Housing stock: A structural supply/demand imbalance

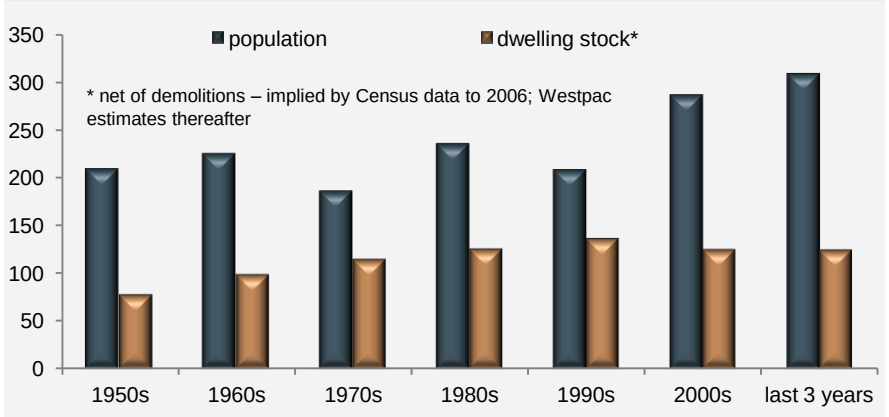
- A key feature of the Australian housing market and the main reason for its resilient price performance is an acute shortage of stock
- Westpac estimates that the housing shortage is close to 240k dwellings, over one and half times current annual construction
- New building has failed to keep pace with the strong rise in underlying demand associated with a sustained migration-driven rise in population growth.
- Over the last decade, Australia's population has increased by an average 290k per year[1]. The number of dwellings has increased by just 103k per year over the same period.[1]
- Annual population growth is currently tracking at 330k a year after a brief lull in migration inflows in 2009 - 2010. Net migration inflows are expected to see population growth continue at around its current pace.
- Underlying demand is also being supported by long-run demographic and social trends, including households with fewer people (e.g. 'baby boomers' becoming 'empty nesters')
- Housing supply is also negatively influenced by:
  - High costs and limited availability of land for development
  - Rigidities in planning and development processes
  - Physical limits to land availability in some major cities, particularly Sydney

Australia's housing stock deficiency[1] ('000)



Sources: RBA, ABS, Westpac Economics

Population vs dwelling stock[1] (annual average change, '000)



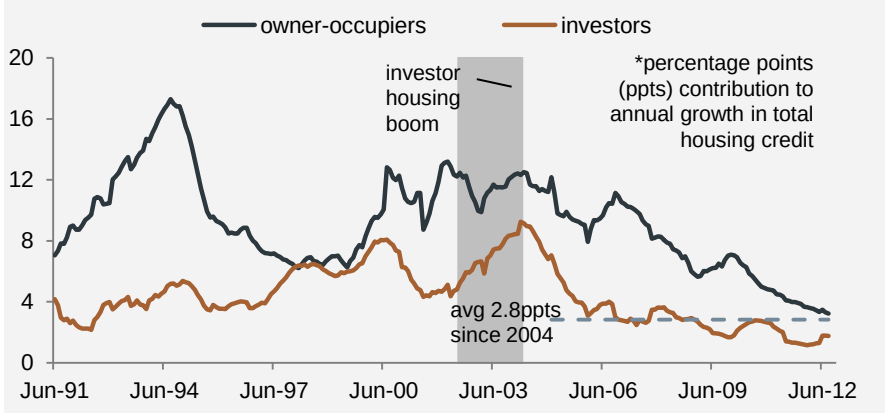
Sources: RP Data-Rismark, Residex, Westpac Economics.

1 Source: ABS, population incorporates 2011 Census estimates.

Little evidence of speculative investor activity

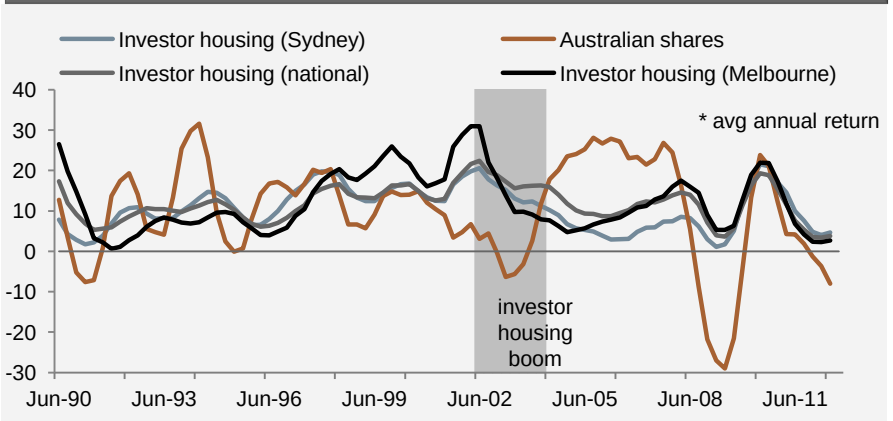
- There is little evidence of 'speculative' investor activity in the Australian market in recent years
- Lending to investors has lagged well behind owner-occupied lending since 2005
- Taxation data shows the proportion of taxpayers who own investment properties has remained broadly unchanged over the last 10 years at around 13%
- The proportion of housing stock turned over annually peaked in 2003 and has since been moving around its long run average (currently well below average).
- A substantial investor exodus is unlikely, despite yields being below the cost of finance
  - Since 2006, investment properties have mostly outperformed other asset classes and been more stable, particularly compared to equities
  - Real estate offers a secure income source, particularly with vacancy rates low and prospects for rising rents
  - Tax incentives for property investment, including tax deductibility of interest, are supportive

Investor boom ended 8 years ago* (annualised %)



Sources: RBA, Westpac Economics

Investor returns: housing vs shares* (% per annum)



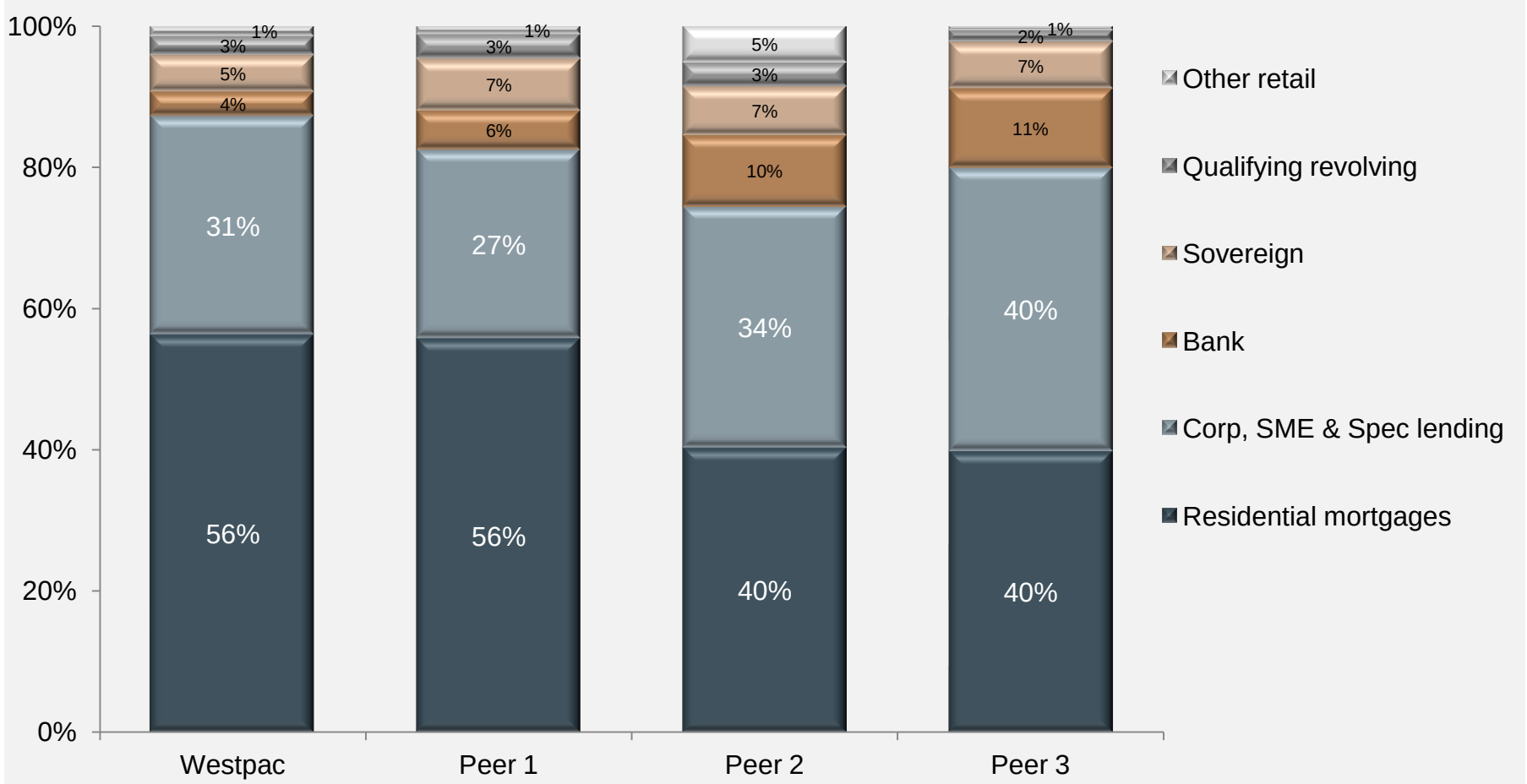
Sources: REIA, RBA, Westpac Economics

“A NUMBER OF POSITIVE DRIVERS SUPPORT THE WBC FRANCHISE, INCLUDING: STRONG CREDIT PROFILE, HIGH LEVELS OF PROVISIONING COVERAGE...”

BANK OF AMERICA MERRILL LYNCH 5 NOVEMBER 2012

Balance sheet composition of Westpac and domestic peers

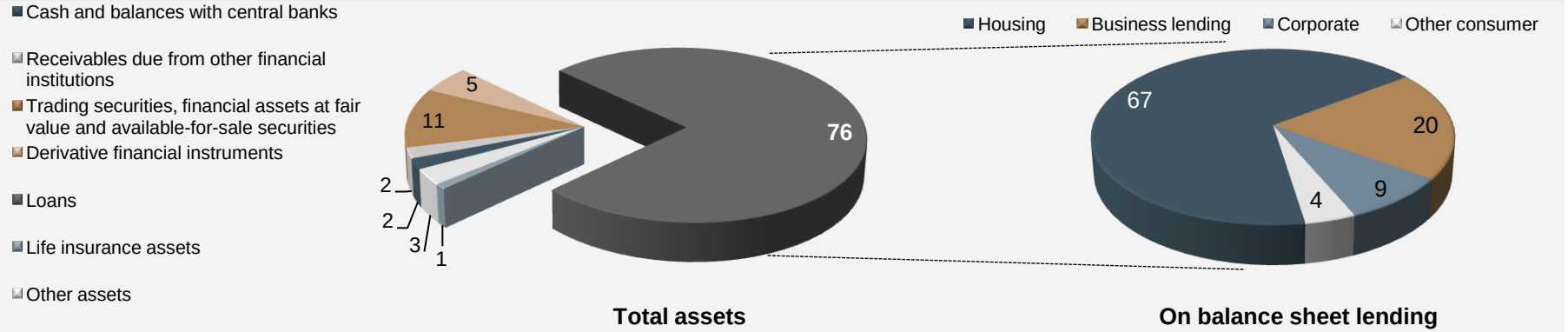
Regulatory exposure mix[1] (%)



1. Represents Exposure at Default. Source: Company reports at 30 June 2012. Includes Specialised Lending. Excludes Standardised exposures, Other Assets and Securitisation (representing 4% of Westpac, 14% of Peer 1, 5% of peer 2 and 11% of Peer 3). Exposure mix is re-baselined to total 100% for comparison.

High quality portfolio with bias to secured consumer lending

Asset composition as at 30 September 2012 (%)



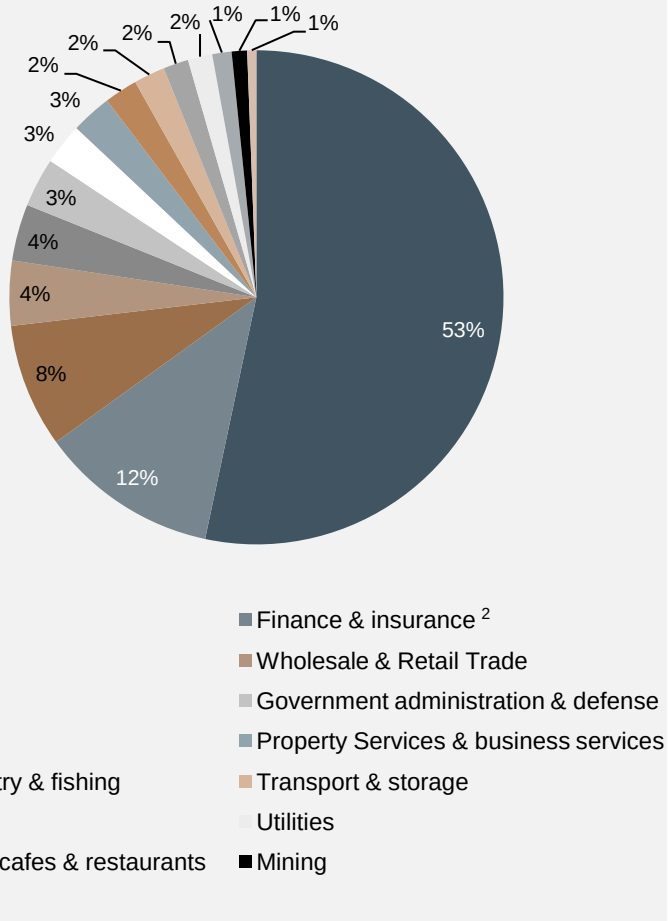
Exposure by risk grade[1] as at 30 September 2012 ($m)

Standard and Poor's risk grade	Australia	NZ / Pacific	Americas	Europe	Asia	Group	*% of Total*
AAA to AA-	70,736	7,214	8,252	697	248	**87,147**	11%
A+ to A-	28,043	3,457	1,894	1,305	1,029	**35,728**	5%
BBB+ to BBB-	45,281	7,189	1,084	1,069	3,483	**58,106**	8%
BB+ to BB	57,878	7,040	245	312	1,214	**66,689**	9%
BB- to B+	54,089	7,130	6	24	-	**61,249**	8%
<B+	11,641	2,352	68	205	-	**14,266**	2%
Secured consumer	358,354	34,191	-	-	598	**393,143**	52%
Unsecured consumer	38,077	3,836	-	-	83	**41,996**	5%
Total committed exposure	**664,099**	**72,409**	**11,549**	**3,612**	**6,655**	**758,324**	
Exposure by region (%)	88%	10%	2%	<1%	<1%		100%

1 Exposure by booking office.

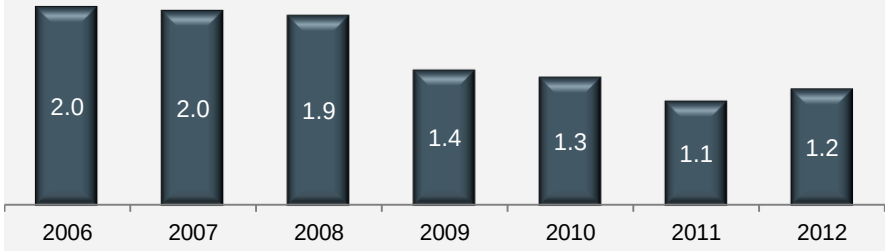
Diversification across industries and large exposures

Exposures at default[1] by sector ($m)

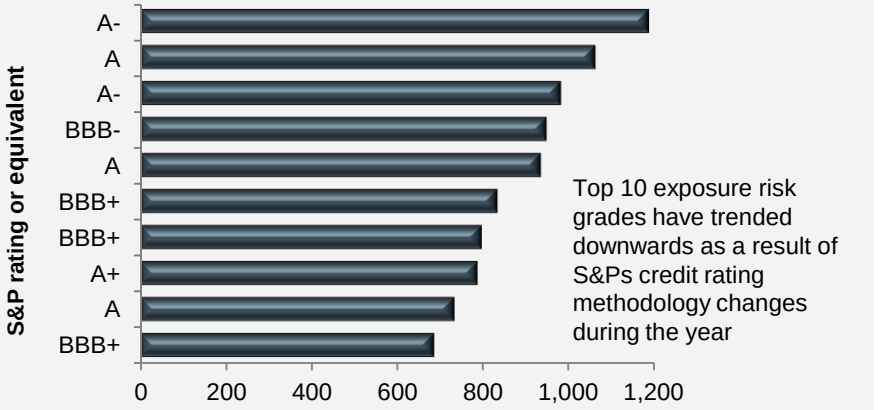


Top 10 exposures to corporations and NBFIs as a % of TCE[5] (%)

- Top 10 single name exposures to corporations and non-bank financial institutions (NBFIs) continue to be well below 2% of TCE
- Largest corporation/NBFI single name exposure represents 0.16% of TCE



Top 10 exposures to corporations and NBFIs as at 30 Sep 2012 ($m)

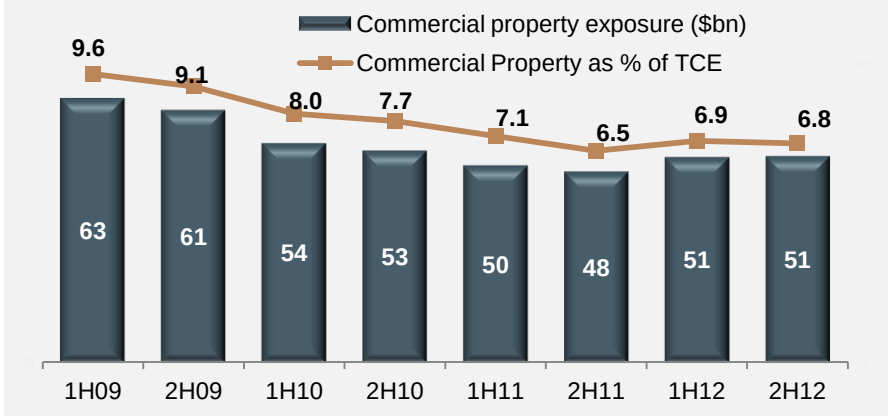


1 Exposure at default represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default and excludes consumer lending. 2 Finance and insurance includes banks, non-banks, insurance companies and other firms providing services to the finance and insurance sectors. 3 Property includes both residential and non-residential property investors and developers, and excludes real estate agents. 4 Construction includes building and non-building construction, and industries serving the construction sector. 5. Includes St.George from 2009 onwards.

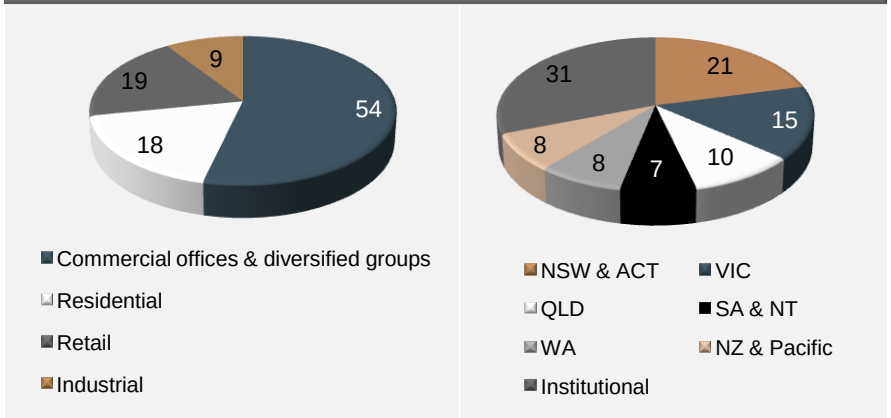
Commercial property portfolio comfortably within appetite

- Commercial property represents 6.8% of Total Committed Exposure (TCE) and 7.9% of gross lending at 30 September 2012, down from peak of 10.0% and 13.0% respectively in December 2008
- Current level of commercial property is well within risk appetite. The portfolio is well diversified across names, states and sectors
- Credit performance of commercial property portfolio continues to improve with the percentage identified as stressed at 7.7%, down 200bps on 1H12, and down significantly from the peak in FY10
- Upgrades, debt sales and refinancing has largely driven the improvement
- Low emergence of new stress, with most activity focused on working out existing stressed exposures

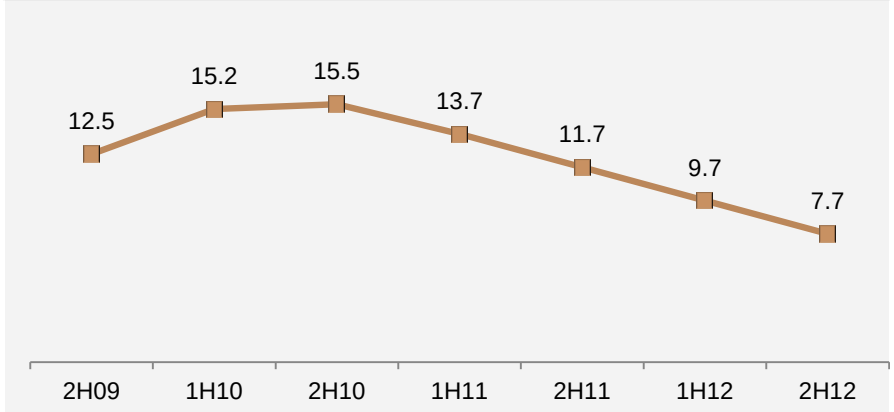
Commercial property exposures size ($bn) and % of TCE



Commercial property portfolio by sector and region (%)



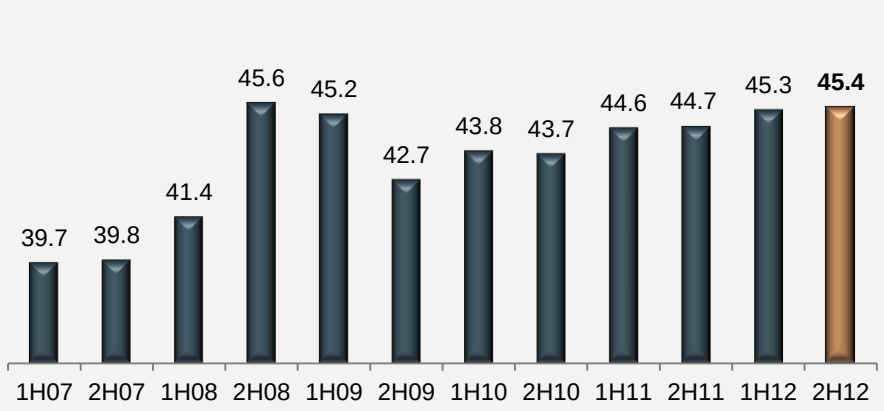
Commercial property portfolio TCE classified as stressed (%)



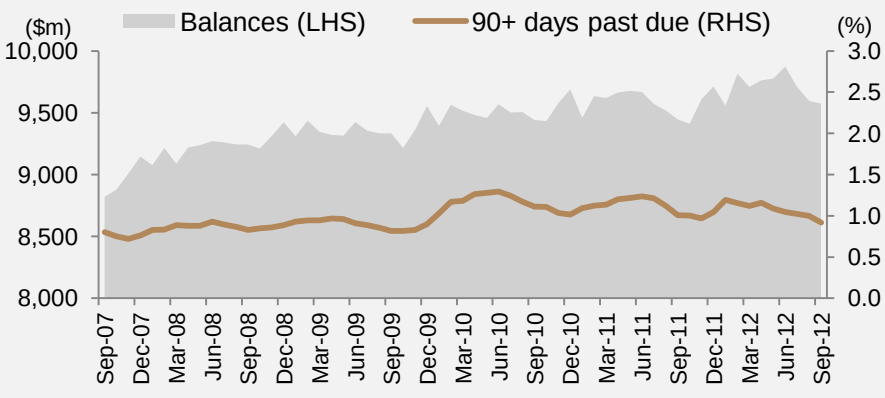
Australian credit card portfolio continues sound performance

- Australian credit card portfolio has continued to perform well, largely driven by cautious consumer behaviour resulting in increased payment levels
- The average credit card payments to balance ratio continued its improving trend, up 12bps to 45.4% (up 72bps FY11/FY12)
- Balances increased moderately over recent periods reflecting
  - Low system growth
  - Partially offset by some growth in both WRBB and St.George cards following new product launches and campaigns
- Total Australian credit card 90+ days delinquencies were down 26bps to 92bps (down 12bps FY11/FY12) due mainly to consumer deleveraging, current low unemployment levels and improvement in risk and collections strategies

Australian credit card average payments to balance ratio[1] (%)



Australian credit cards

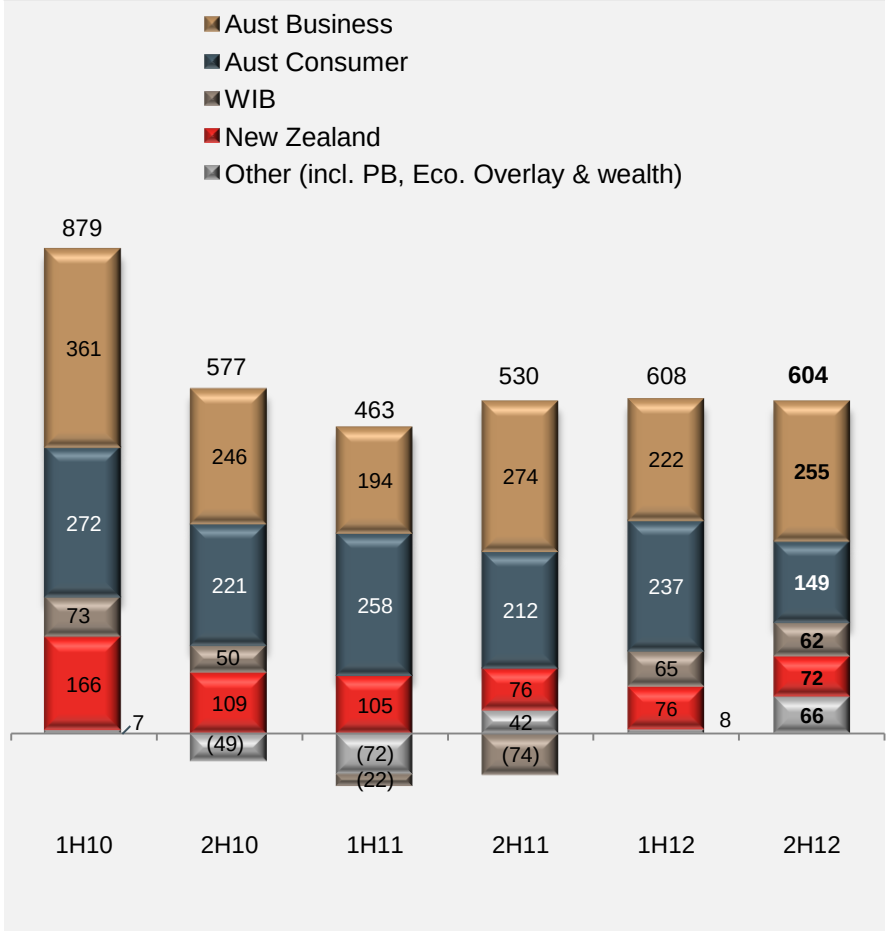


1 Cards average payments to balance ratio is calculated using the average payment received compared to the average statement balance at the end of the reporting month.

Asset quality improving; impairment charges little changed in 2H12

- In 2H12, impairment charges were $604m, or 1% lower than 1H12
  - In the Australian business portfolio, impairment charges were a little higher, due to a reduction in write backs and from some increase in stress in those sectors impacted by the higher $A and consumer caution
  - Australian consumer impairments were significantly lower as low unemployment and consumer caution has contributed to lower delinquencies in both the mortgage, and unsecured portfolios
  - Institutional asset quality has remained solid and combined with the sale of some stressed assets contributed to a small fall in impairment charges
  - New Zealand impairment charges continued to improve reflecting a further decline in stressed assets and significant improvements in mortgage and other consumer delinquencies which were down 15bps and 16bps respectively
  - The rise in impairment charges in the Other category was due to a rise in charges in Pacific Banking (both higher collective and individually assessed provisions) and the topping up of economic overlay provisions held in Group Businesses
- In FY12, impairment charges increased by $219m to $1,212m. This was mainly driven by
  - New collectively assessed provisions were $366m higher as benefits from improving asset quality were smaller
  - A $74m reduction in write-backs, mostly in WIB
  - A $17m increase in economic overlays, compared to a $107m reduction in overlays in FY11

Impairment charges movement by business ($m)



Appendix 1: Cash earnings adjustments

	Cash earnings adjustment (A$m)	2H12	1H12		FY12	FY11
	Reported NPAT	**3,003**	**2,967**		**5,970**	**6,991**
Non-merger related items	TPS revaluations	3	24		27	21
	Treasury shares	15	12		27	(6)
	Fair value gain/(loss) on economic hedges	(13)	20		7	36
	Ineffective hedges	1	(8)		(7)	13
	Buyback of government guaranteed debt	-	(5)		(5)	5
	Tax provision	-	-		-	70
	Supplier program	46	93		139	-
	Amortisation of intangible assets	3	2		5	-
	Significant item	78	–		78	-
St.George merger related items	Merger transaction and integration expenses	–	–		-	66
	Amortisation of intangible assets	74	72		146	146
	Fair value amortisation of financial instruments	28	18		46	69
	Tax consolidation adjustment	-	–		-	(1,110)
	TOFA tax consolidation adjustment	165	-		165	-
	Cash earnings	**3,403**	**3,195**		**6,598**	**6,301**

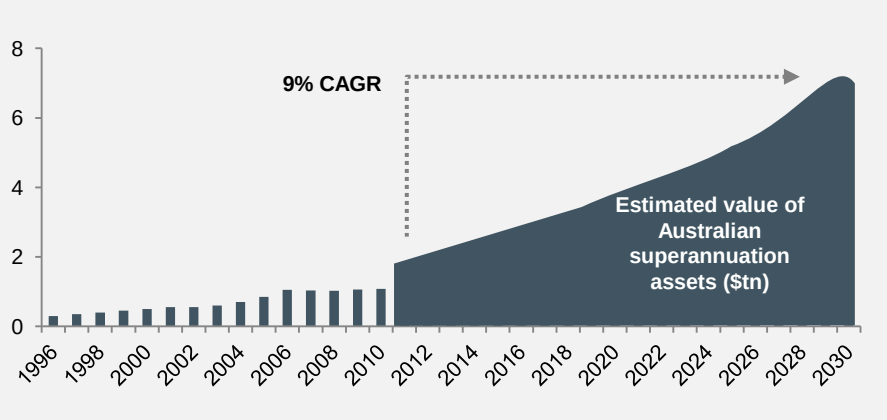
Appendix 2: Cash earnings adjustments by segment

	FY12 Segment Results (A$m)	Westpac Retail & Business Banking	St.George Banking Group	BT Financial Group (Australia)	Westpac Institutional Bank	New Zealand	Pacific Banking	Group Businesses
	Reported NPAT	**2,114**	**1,102**	**631**	**1,473**	**548**	**107**	**(5)**
Non-merger related items	TPS revaluations	-	-	-	-	-	-	27
	Treasury shares	-	-	-	-	-	-	27
	Fair value gain/(loss) on economic hedges	-	-	-	-	-	-	7
	Ineffective hedges	-	-	-	-	-	-	(7)
	Buyback of government guaranteed debt	-	-	-	-	-	-	(5)
	Tax provision	-	-	-	-	-	-	-
	Supplier program	-	-	-	-	-	-	139
	Amortisation of intangible assets	-	129	22	-	-	-	-
	Litigation provision	-	-	-	-	-	-	78
St.George merger related items	Merger transaction and integration expenses	-	-	-	-	-	-	-
	Amortisation of intangible assets	-	-	-	-	-	-	-
	Fair value amortisation of financial instruments	-	-	-	-	-	-	46
	Tax consolidation adjustment	-	-	-	-	-	-	-
	TOFA tax consolidation adjustment	-	-	-	-	-	-	165
	Cash earnings	**2,114**	**1,231**	**653**	**1,473**	**548**	**107**	**472**

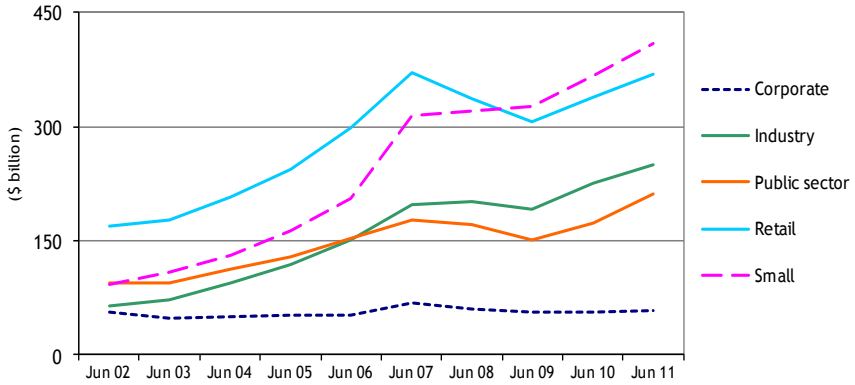
Appendix 3: Australia's superannnuation sector

- As at 30 June 2011, Australians had approx. A$1.34trillion[1] in superannuation savings
- Projected to increase to over $6trillion by 2030, driven by compulsory superannuation contributions of 9% (rising to 12% in 2013), population growth and the ageing population
- Compulsory superannuation sees a large portion of Australian retirement savings directed away from bank deposits into managed funds
- These funds are then "borrowed" by Australian banks from super funds, and appear as wholesale borrowings on bank balance sheets
- Only a small amount of superannuation savings are directed to fixed income

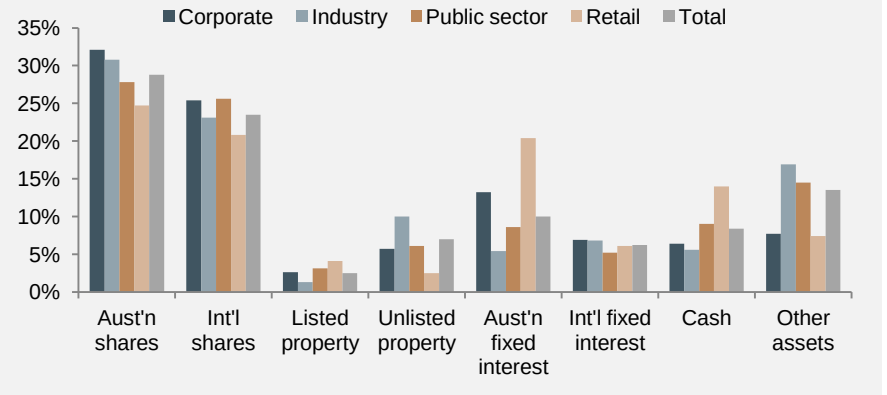
Expected growth in Australia's superannuation assets (A$tn)[2]



Superannuation assets by fund type[1]



Asset allocation of default investment strategy[1,3]
(year end June 2011, entities with more than four members)



1. Source: APRA. 2. Source: BT Financial Group. 3. Funds may have more than one default investment strategy, in which instance the largest default strategy is generally reported. Where there is no default strategy, funds may report the strategy of the largest option or the strategy of the whole fund.

Appendix 4: Westpac covered bond programme

Issuer	Westpac Banking Corporation
Issuer rating	AA-/Aa2/AA- by S&P / Moody's / Fitch
Format	Legislative Covered Bond
Covered Bond rating	Aaa / AAA by Moody's / Fitch
Programme size	US$20 billion
Maturity options	Soft and Hard Bullet
Covered Bond Guarantor	Westpac Covered Bond Trust, a special purpose vehicle (trust)
Covered Bond Guarantee	Covered Bond Guarantor has guaranteed payments of interest and principal under the Covered Bonds secured over the Mortgage Loans and its other assets (limited in recourse to its assets)
LVR cap in asset coverage test	80% (subject to indexation)
Asset percentage	Subject to rating agency requirements, programme maximum 95%
Collateral	Australian residential mortgages
Listing	London Stock Exchange

Program features

Structure	Covered Bonds are issued by Westpac, backed by an unconditional and irrevocable guarantee by the Covered Bond Guarantor (the "CBT Guarantor"), which is limited in recourse to the assets in the Westpac Covered Bond Trust
Security	Security comprises a pool of Australian residential mortgages which meet the eligibility criteria (the "cover pool"). It also includes certain other assets such as cash and investments (subject to legislative and rating agency limits). Mortgages in the cover pool sold to the CBT Guarantor to ensure that covered bondholders have a priority claim over the cover pool in the event of Issuer insolvency
Overcollateralisation	Prior to service of a Notice to Pay on the CBT Guarantor, an Asset Coverage Test will be run monthly to ensure the CBT Guarantor has sufficient assets to support the outstanding covered bonds. Defaulted loans will have nil value applied to them and remaining loans adjusted by the Asset Percentage. The Asset Percentage will be confirmed by the rating agencies quarterly and is subject to a maximum of 95%, which represents a minimum level of overcollateralisation of just over 5%. Following service of a Notice to Pay on the CBT Guarantor, an Amortisation Test is run monthly to ensure the CBT Guarantor has sufficient assets to meet the covered bond obligations
Asset Monitor	PricewaterhouseCoopers monitors the calculation of the Asset Coverage Test and the Amortisation Test on at least an annual basis. They will also provide the asset monitor reporting requirements in relation to the legislation on at least a six monthly basis. This includes verification of the asset register and provision of any other information APRA requires
Hedging	The Total Return Swap and Covered Bond Swap will be used to hedge any exposure of the CBT Guarantor to interest rate and currency risks

Westpac cover pool

Covered Bond Pool eligibility criteria

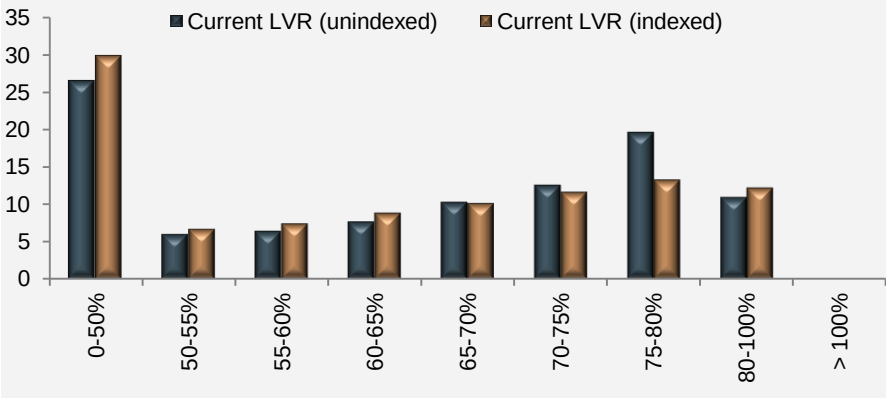
- At the time of sale, each loan:
  - Is denominated and payable only in AUD in Australia
  - Is secured by a mortgage that constitutes a first ranking Australian mortgage (second allowed as long as first held with the CBT Guarantor)
  - Is secured by a mortgage over a property which has erected on it a residential dwelling
  - Was approved and originated by the seller in the ordinary course of business
  - Is a loan under which the outstanding principal balance owed by the borrower is not more than AUD$2,000,000
  - Is a loan under which the relevant borrower is required to repay the loan within 30 years of the relevant cut-off date
  - Is not a delinquent mortgage or a defaulted loan and no legal demand has been served on the relevant borrower in respect of a payment on the loan
  - The sale of an interest in, or the sale of an interest in any related security, does not contravene or conflict with any law
  - The relevant borrower is a resident of Australia
  - Not a loan with an interest only payment period of >10 years
  - The related mortgage has been or will be stamped
  - Where applicable, all progress drawings have been made by the borrower and the residential dwelling has been completed; and
  - The borrower has made at least one monthly payment or two fortnightly payments in respect of the loan

Covered pool loan statistics as at 30 September 2012	
Total pool loan balance[1]	A$13,693,183,764
Number of loans	55,364
Average loan size	A$247,330
Max loan size	A$1,999,999
Weighted average current LVR (unindexed)	61.7%
Weighted average current LVR (indexed)	59.6%
Mortgage Insured	14.4%
90 day + arrears	0.0%
Weighted average seasoning	45 months
Weighted average remaining term to maturity	305 months
Max remaining term to maturity	354 months
Weighted average interest rate	6.3%
Fixed / floating split (by bal)	15.2% / 84.8%
Interest only (by bal)	8.8%
Owner occupied security	81.8%

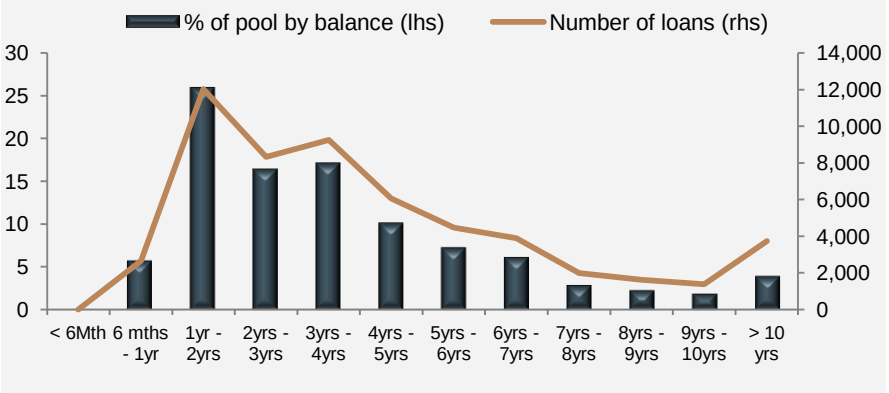
1 Pool loan balance excludes cash balances of A$1,506,816,236. Loans included in the cover pool are Westpac RBB originated mortgages and currently exclude Queensland loans.

Pools statistics as at 30 September 2012 (cont.)

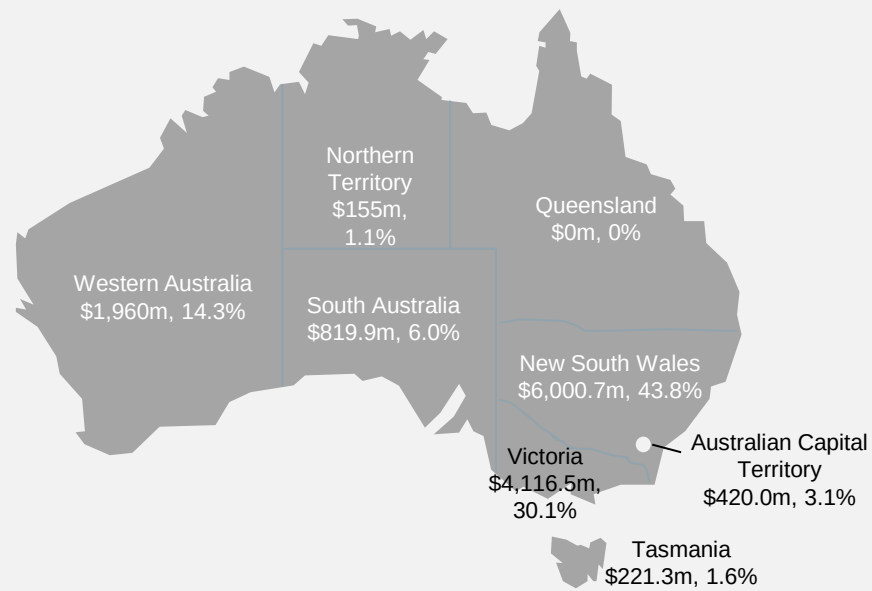
Loan to value ratio by balance (%)



Portfolio seasoning



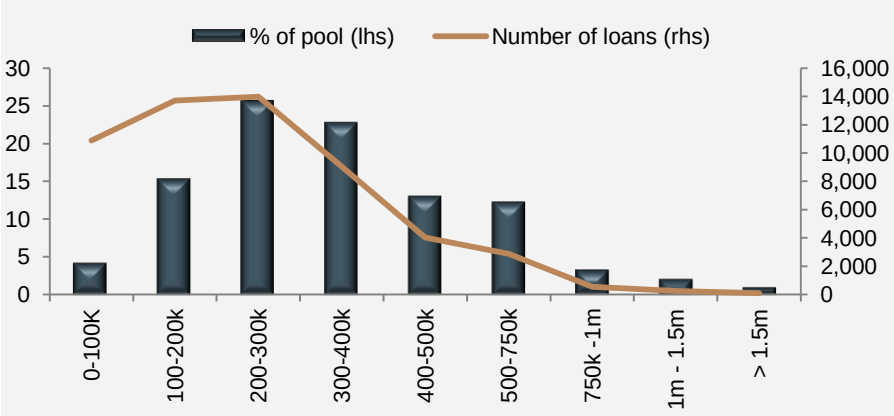
Geographic distribution by state (%)



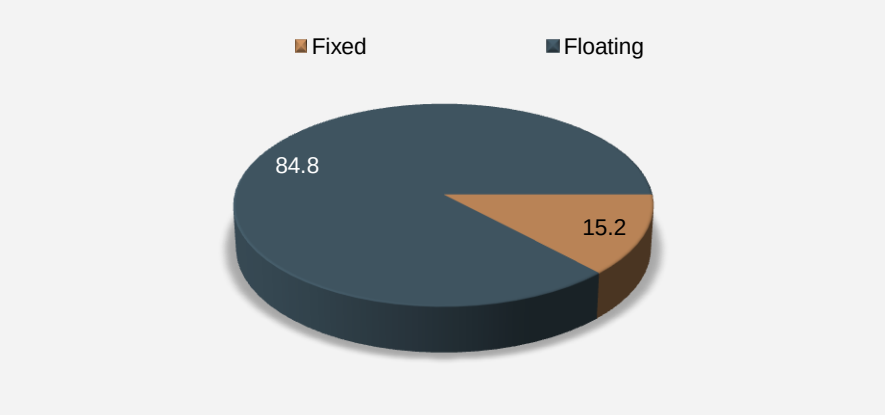
Distribution by region	Value of loans (A$m)	% of pool by value
Metropolitan	10,969	80%
Non-Metropolitan	2,724	20%

Pool statistics as at 30 September 2012

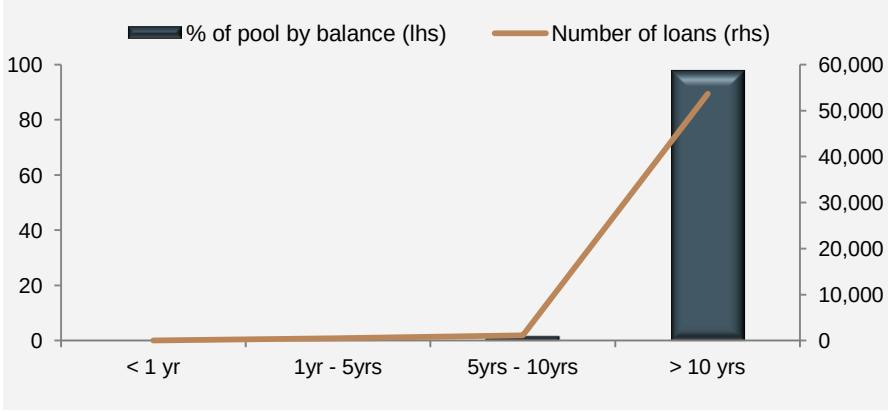
Mortgage principal balance distribution



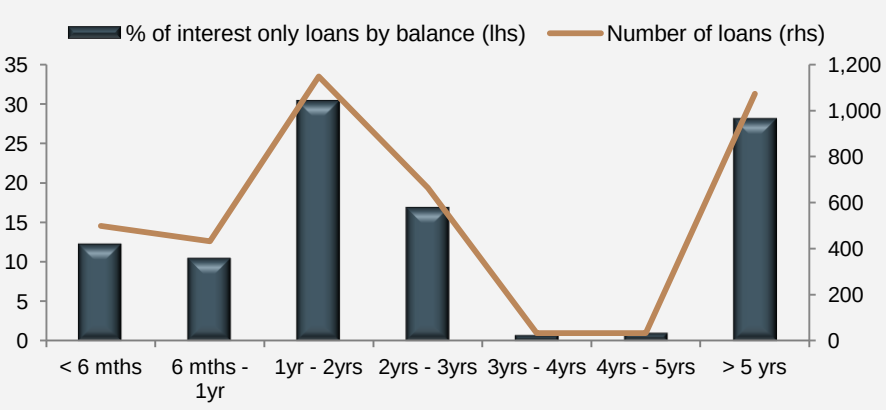
Interest rate split (%)



Years to maturity (legal)



Interest only expiry date remaining period



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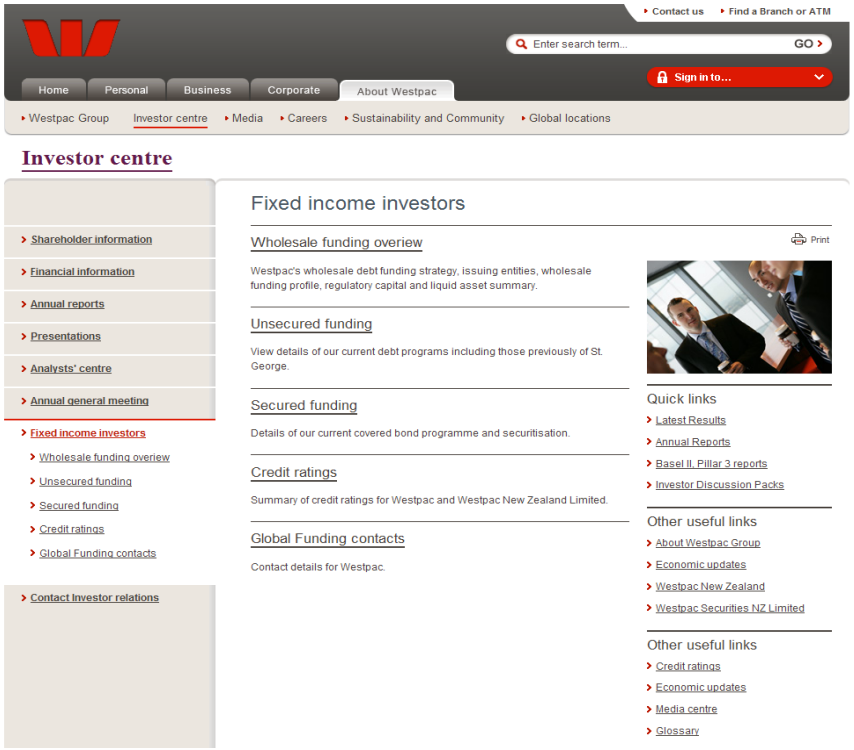
www.westpac.com.au/investorcentre

and click on 'Fixed income investors'

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