

# Westpac 2009 Full Year Results

Gail Kelly  
Chief Executive Officer

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Westpac Banking Corporation ABN 33 007 457 141

## Key areas of focus in 2009

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- Position the Group strongly through the GFC and economic downturn
- Deliver on our strategic agenda
- Effectively manage the St. George merger and restore St. George growth
- Focus on technology reliability and the future technology roadmap

## A Transformational year

		Sept 08	Sept 09	Movements
<b>Customers</b>	▪ Customers	7m	10m	40% distribution uplift
	▪ Branches (Aust)	1,045	1,645	
	▪ NPS <sup>1</sup> Westpac RBB	-24	-15	Improving NPS
	▪ NPS <sup>1</sup> St.George	-13	-9	
<b>Australian Market share</b>	▪ Housing	14%	23%	Around 1% of mortgage and deposit share from organic growth
	▪ Business	13%	18%	
	▪ Household Deposits	14%	23%	
	▪ Wealth platforms	13%	20%	
<b>Productivity</b>	▪ Expense/income ratio	44%	40%	
<b>Balance sheet</b>	▪ Tier 1 Ratio	7.8%	8.1%	Positioned to help customers reach their goals
	▪ Stable funding ratio	70%	84%	
<b>Brands</b>				
<b>Size</b>	▪ Market capitalisation	\$41bn	\$77bn	Up almost 90%

<sup>1</sup> Source for Consumer NPS (Net Promoter Score): Roy Morgan Research – NPS of main financial institution Aged 14+. Data at Sep09.

## Sound financial performance in challenging conditions

		% change FY08 – FY09
<b>Cash earnings<sup>1</sup></b>	\$4,627m	- 8
Reported NPAT	\$3,446m	- 11
Core earnings <sup>1,2</sup>	\$10,015m	+ 19
Impairment charges to average loans <sup>1</sup>	73 bps	+ 44 bps
Cash EPS <sup>3</sup>	162c	- 18
Cash Return on Ordinary Equity <sup>3</sup>	13.8%	- Large
Expense to income ratio (cash basis) <sup>1</sup>	40.2%	- 310 bps
Fully franked dividend	116c	- 18

<sup>1</sup> On a pro forma basis calculated as if Westpac merged with St.George on 1 October 2007.

<sup>2</sup> Core earnings equals cash earnings before impairment charges, tax and minority interests.

<sup>3</sup> Cash EPS and Cash Return on Ordinary Equity on pro-forma basis for FY09; FY08 excludes the St.George Merger.

## Core earnings growth strongest in over a decade

		% change FY08 – FY09	
		Core <sup>1</sup> earnings	Cash earnings
Westpac RBB	<i>Distribution investment driving strong core earnings</i>	+ 15	+ 9
St.George <sup>2</sup>	<i>Healthy core earnings offset by commercial stress</i>	+ 16	- 5
Westpac Institutional Bank <sup>2</sup>	<i>Strong market revenues with high impairment charge</i>	+ 29	- 58
BT Financial Group <sup>2</sup>	<i>Earnings impacted by lower markets, improving trend</i>	- 4	- 8
New Zealand <sup>3</sup>	<i>Disappointing result from weak economy &amp; property book</i>	+ 4	- 50

<sup>1</sup> Core earnings equals cash earnings before impairment charges, tax and minority interests. <sup>2</sup> On a pro forma basis. <sup>3</sup> In NZ\$.

## Strong balance sheet

### Strong Tier 1 ratio at 8.1%

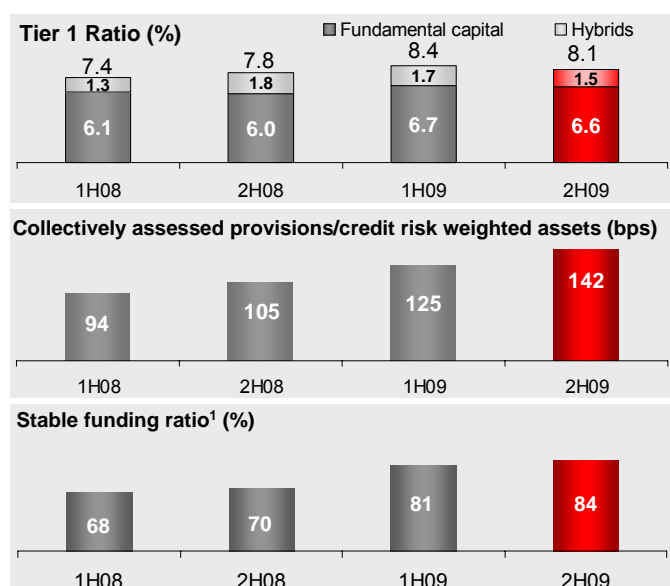
- Healthy organic capital growth
- Comfortably above target range
- Supported 2H09 dividend increase

### High provision coverage

- Economic overlay remains over \$500m

### Funding profile improved

- Customer deposits up 17%
- Higher proportion of term wholesale funding, with a longer duration



<sup>1</sup> Stable funding ratio includes, customer deposits plus term funding with a residual maturity greater than one year and securitisation. Ratio for 1H08 and 2H08 are on a Westpac standalone basis (not including the merger with St.George)

## Transformational merger has added strength and capability

- Maintained growth
  - Both Westpac RBB and St. George gaining share and customers
  - Improving net promoter scores
  - Employee engagement higher than before the merger
- Sharing of best practice underway
  - Product development
  - Customer management
- Merger savings supporting investment

**Stronger than ever**

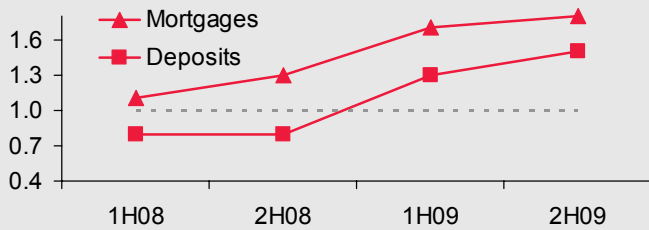
- Australia's 5<sup>th</sup> largest bank, and strongest regional bank
- Building on 'Big enough; Small enough' market position
- New regional structure locks in local focus
- Expanded distribution network
- Outstanding BankSA performance
  - Cash earnings up 20%
  - Only \$6m in impairments

## Assessment of FY09 performance

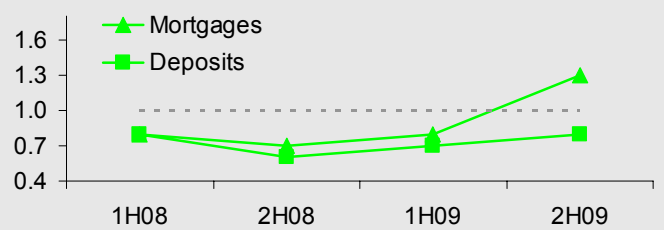
- ✓ Actively supporting customers
- ✓ Solid momentum delivering improved share, including deposits
- ✓ Transformational merger progressing well
- ✓ Continued progress on strategy, with significant front line investment
- ✓ Consumer asset quality
- ✓ Sustainability leader
- ✗ Credit losses
  - Asset write-downs
  - Margin lending
  - Development property
- ✗ NZ legacy issues

# Supporting customers through the more challenging period

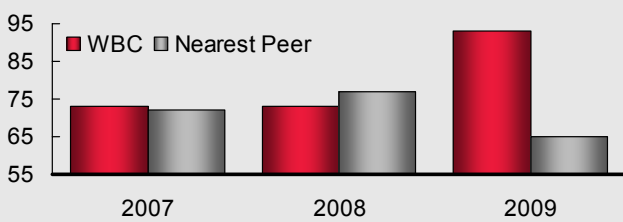
**Westpac RBB growth versus banking system<sup>1</sup> (times)**



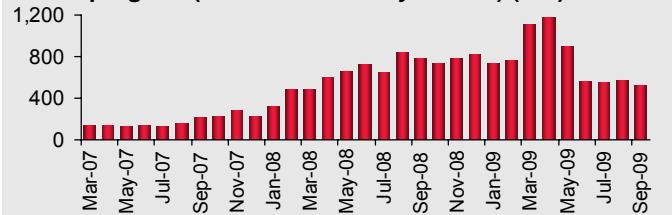
**St.George growth versus banking system<sup>1</sup> (times)**



**Westpac Institutional Bank – Relationship Strength<sup>2</sup>**



**Australian mortgage customers supported via the assist program (customers in early stress<sup>3</sup>) (No.)**



1. APRA Monthly Banking Statistics, September 2009.

2. The Relationship Strength Index is a single measure combining a range of service quality factors, including Relationship Manager capability, visibility, knowledge of client's business and industry, and understanding and advice. The number is a statistical combination of evaluations. Peter Lee (July/August 2009). Peer group includes ANZ, CBA and NAB

3. Customers contacting the Assist program for assistance in managing their mortgage repayments

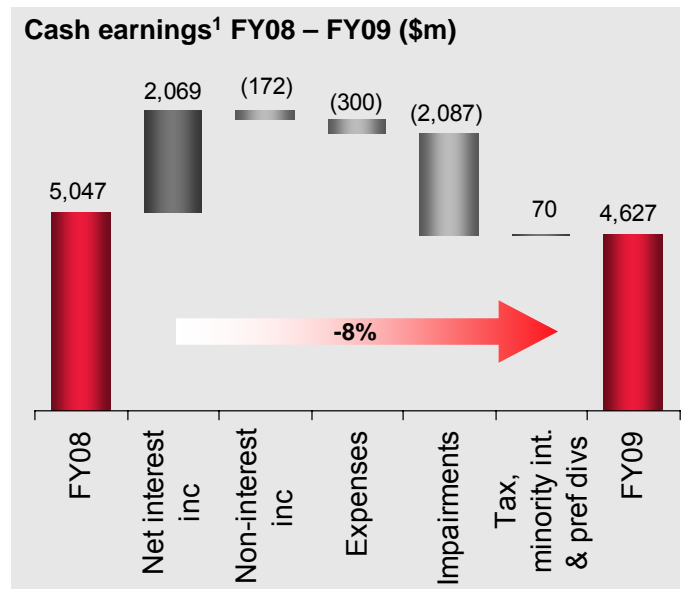


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Philip Coffey  
Chief Financial Officer

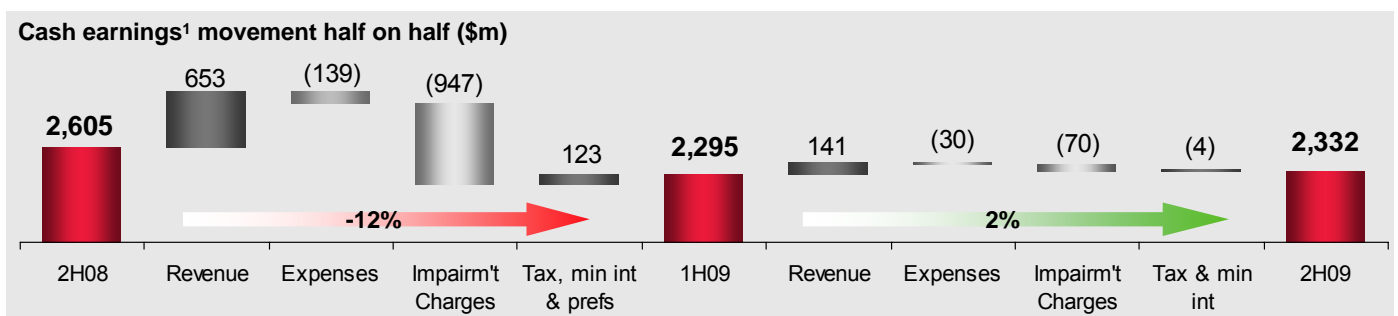
## Sound financial performance in current conditions

- Cash earnings<sup>1</sup> down 8%, core earnings up 19%
- Very strong revenue performance
  - Net interest – good volumes, higher margins and strong Treasury
  - Non-interest - strong Markets income offset by lower wealth and fee income
- Expense growth 5%
- Materially higher impairment charges
- Reported NPAT down 11%, includes St. George from 17<sup>th</sup> November 08 and NZ structured finance transactions tax provision



<sup>1</sup> On a pro forma basis.

## Good cash earnings recovery in second half



### 2H08 – 1H09 key features

- Very strong Markets, solid volumes/margins
- Expense growth beginning to moderate
- Impairment charges higher, particularly related to the GFC and commercial sector

### 1H09 – 2H09 key features

- Wealth revenue recovering, Treasury higher, Markets revenues lower
- Low expense growth of 1%
- Impairment charges little changed over half although remaining high

<sup>1</sup> Pro forma basis.

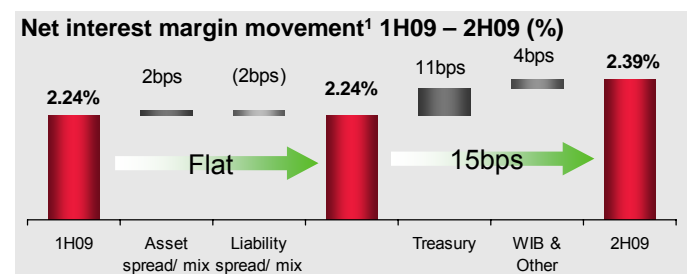
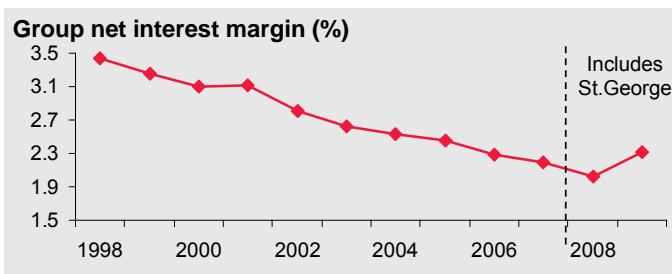
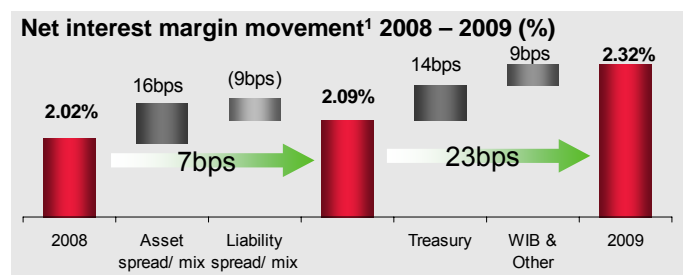
## Healthy growth in customer balances

Business Unit	Deposits FY08 – FY09		Loans FY08 – FY09	
	Change \$bn	Change %	Change \$bn	Change %
Westpac RBB	16.9	19	26.6	14
St. George	7.2	13	10.9	10
Institutional Bank	12.7	33	(8.6)	(10)
New Zealand (NZ\$)	1.6	6	1.2	3
<b>Group total<sup>1</sup></b>	<b>39.1</b>	<b>17</b>	<b>30.0</b>	<b>7</b>

1. Group total includes Pacific Banking and other.

## Small rise in customer margins

- Customer (consumer and business) margins up 7 basis points over 2009
- Flat 2H09 customer margins, large Treasury contribution
- Treasury margin contribution likely to retrace in year ahead



<sup>1</sup> Pro forma basis.

## Excellent Markets and Treasury performance

- Markets revenue assisted by
  - Strong customer flows
  - Higher market spreads reverting in 2H09 from return of competition
  - Well positioned for market movements
- Very strong Treasury result
  - 1H09 driven by Bills/Libor spreads and global interest rate movements
  - 2H09 from positioning of liquidity portfolio for narrowing credit spreads
- VaR modestly higher

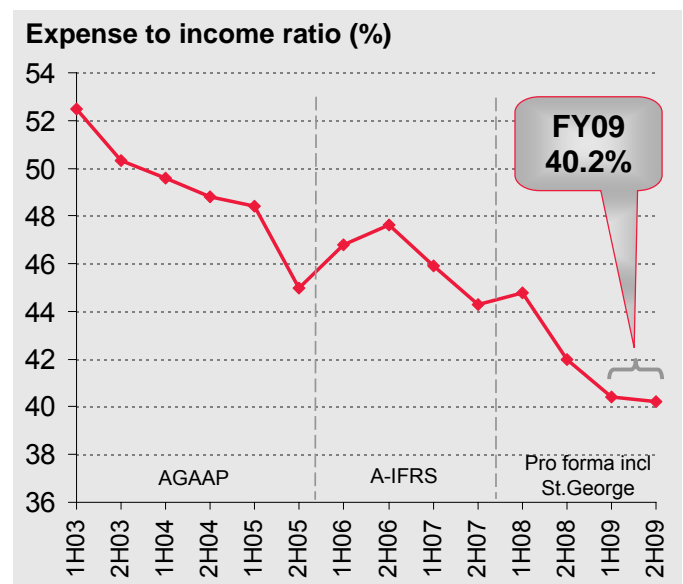
Markets revenue <sup>1</sup> (\$m)	1H08	2H08	1H09	2H09
Customer activity	180	190	337	224
Trading	170	124	376	143
<b>Total</b>	<b>350</b>	<b>314</b>	<b>713</b>	<b>367</b>
Average VaR <sup>2</sup>	7.1	9.5	9.3	10.6

Treasury revenue <sup>1</sup> (\$m)	1H08	2H08	1H09	2H09
Net interest income	90	160	375	578
Non-interest income	(1)	57	14	3
<b>Total</b>	<b>89</b>	<b>217</b>	<b>389</b>	<b>581</b>
Average VaR <sup>2</sup>	9.9	22.9	41.4	36.0

1. Pro forma basis.  
2. VaR at 99% confidence level, 1 day hold period.

## Expenses – maintaining investment

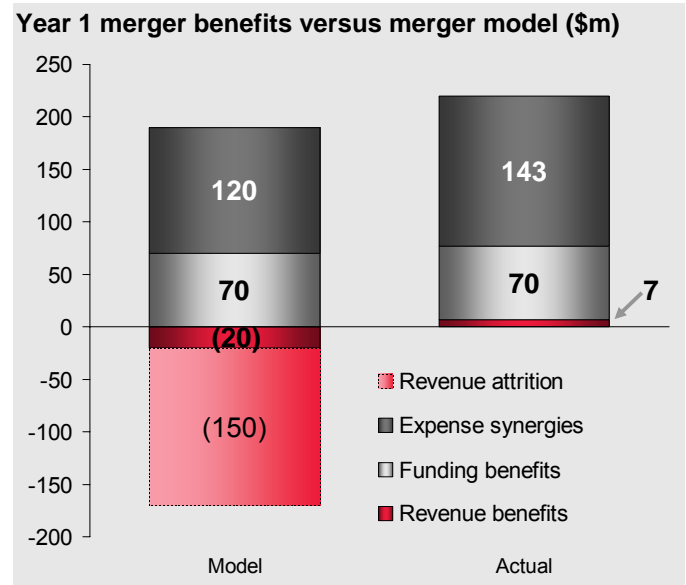
- Expense growth of 5%, investment funded by productivity initiatives
- Continued investment
  - More employees in the front line
  - Additional branches and ATMs
  - Brand investment in St. George
  - Enhancing reliability of IT
- Productivity benefits
  - Merger benefits
  - Processing efficiencies in BT, and Product and Operations





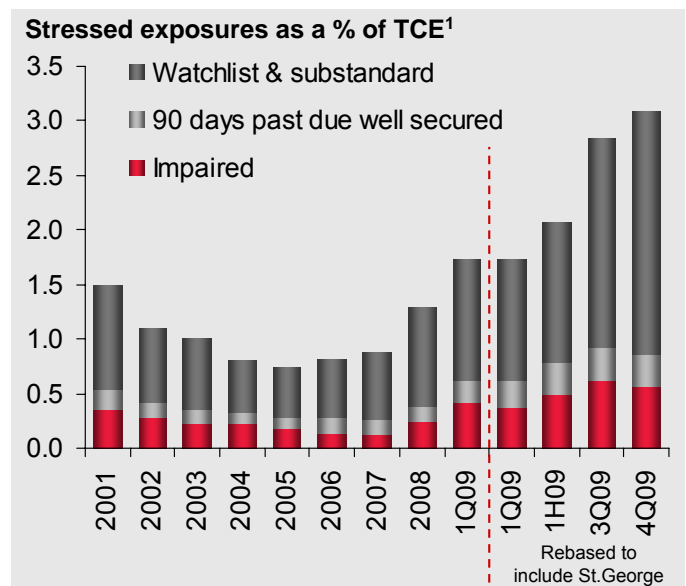
## Merger benefits ahead of plan

- Merger benefits \$200m ahead of expectations
  - No customer or revenue attrition
  - Expense synergies 19% ahead of schedule
- Integration costs in line with plan
- Sharing of best practice greater than expected
- Began distributing BT insurance products and launched BT Super for Life through St.George



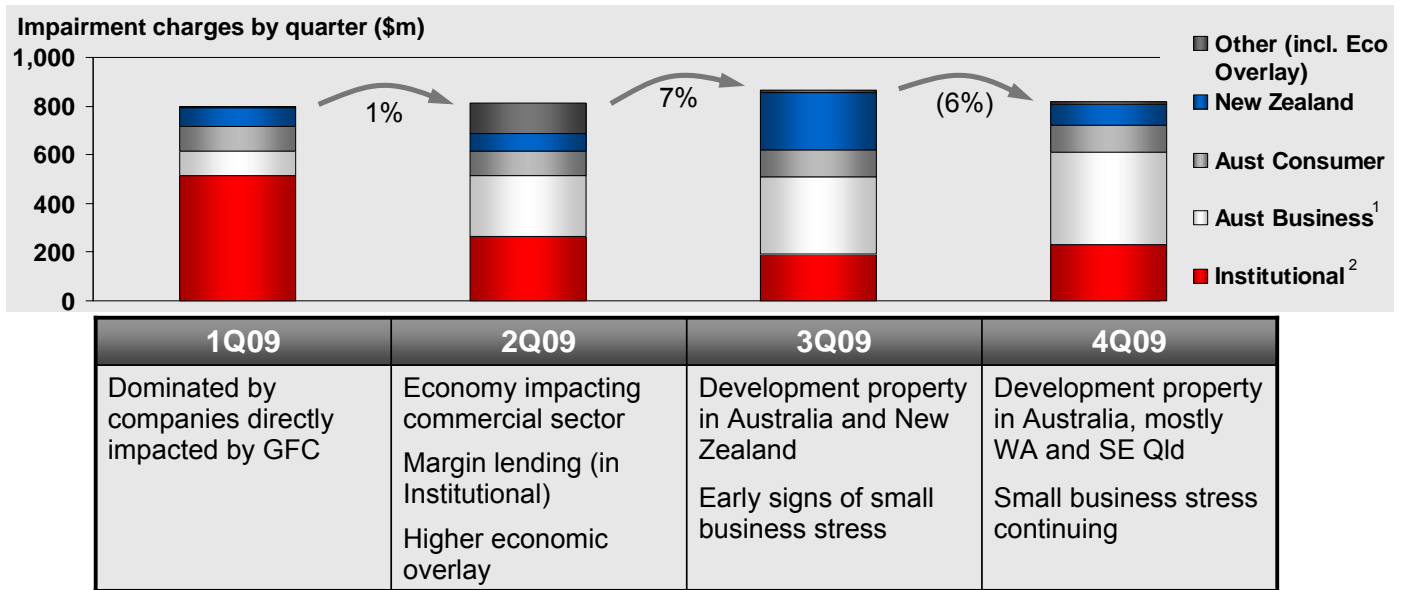
## Credit cycle nearing the top

- Stressed exposures increased to 3.1%
- Impaired assets higher over year, but down in 4Q09, following write-downs
- 90 days well secured a little higher over the year
- Large rise in watchlist and substandard
  - 79% are watchlist facilities
  - Largely commercial sector including property
- Household sector represents 65% of total loan portfolio and remains resilient



<sup>1</sup> TCE is Total Committed Exposure.

## Composition of impairment charges



1. Australian business includes business customers in St. George, Westpac RBB, and Premium Business Group (PBG) within the Institutional Bank.  
 2. Includes Westpac Institutional Bank customers and Margin Lending excluding PBG (which are mostly commercial customers with exposures between \$10m to \$100m).

## Commercial property – most stress in development and New Zealand

Segment <sup>1</sup> exposures		TCE (\$m)	% of Total	% Stressed <sup>2</sup>
<b>Australia &lt;\$10m</b>		25,724	42%	10.3%
<b>Australia &gt;\$10m</b>	<b>Diversified property groups &amp; property trusts<sup>3</sup></b>	12,425	21%	9.1%
	<b>Investment</b>	10,525	17%	8.6%
	<b>Development</b>	7,785	13%	25.6%
<b>New Zealand</b>		3,959	7%	22.9%
<b>Total<sup>4</sup></b>		60,566	100%	12.5%

- 9.1% of TCE and 10.9% of gross lending at September 2009
- Down from 10% and 13% respectively at December 2008

Development + NZ = \$11,744  
1.8% of Group TCE

1. Geographic segments are shown by booking office location.  
 2. Stressed exposures include watchlist, substandard, 90 days past due well secured and impaired assets.  
 3. Includes exposures relating to both investment and development activities. 4. Total includes \$148m of Pacific Banking exposures

## Higher impairment charges boosting provisioning coverage

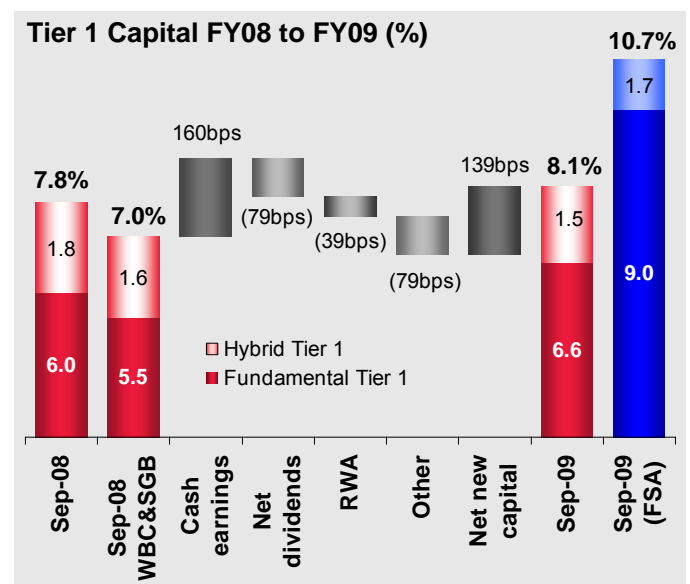
Movement in impairment charges FY08 – FY09	\$m
<b>Collectively assessed</b>	
Write-offs	112
New	476
<b>Total collectively assessed</b>	<b>588</b>
<b>Individually assessed</b>	
New	1,606
Write-backs & recoveries	(5)
<b>Total individually assessed</b>	<b>1,601</b>
Interest adjustments	(102)
<b>Total impairment charge</b>	<b>2,087</b>

Key coverage ratios	2H08 <sup>1</sup>	1H09	2H09
CAP / credit RWA <sup>2</sup>	105bps	125bps	142bps
Total provisions / RWA <sup>2</sup>	111bps	160bps	164bps
Total provisions / gross loans	69bps	99bps	101bps
Impaired provisions / impaired assets	45.4%	48.4%	39.3%

1. Ratio for Westpac prior to the merger with St.George.  
2. RWA = Risk Weighted assets

## Maintaining capital above targets

- Tier 1 ratio above target range (6.75% – 7.75%)
- Significant capital flexibility
- Tier 1 Ratio influenced by
  - Strong organic capital, earnings generated 160bps
  - Capital raised early in the year \$4.7bn
  - Other one-off negative factors, including DTA and NZ structured finance
- Strong capital ratios by international standards



## Capital considerations in 2010

Capital Type	%	Considerations
Fundamental	6.57%	<ul style="list-style-type: none"> <li>▪ Size and proportion in Tier 1 are key regulator considerations                             <ul style="list-style-type: none"> <li>– Westpac ratio compares well across Australia and internationally</li> <li>– Australian calculation is conservative</li> </ul> </li> <li>▪ Potential impacts on fundamental capital                             <ul style="list-style-type: none"> <li>– Contingent capital available, 35bps</li> <li>– St. George Basel II accreditation expected to add around 30bps</li> <li>– Pro-cyclicality of capital may turn positive in 2010/11</li> </ul> </li> </ul>
Hybrids	1.54%	<ul style="list-style-type: none"> <li>▪ Regulators weighing up appropriate proportion of Tier 1 capital</li> <li>▪ 64bps of current capacity</li> </ul>
Tier 2	2.67%	<ul style="list-style-type: none"> <li>▪ Only relevant in failure, likely less important after regulator considerations</li> <li>▪ Westpac has not issued Tier 2 capital since April 2008</li> </ul>

## 2010 considerations

<b>Revenues</b>	<ul style="list-style-type: none"> <li>▪ Good balance sheet momentum and wealth recovering</li> <li>▪ Treasury and Markets unlikely to replicate 2009 levels</li> <li>▪ Reduction in exception fees to impact revenue</li> </ul>
<b>Expenses</b>	<ul style="list-style-type: none"> <li>▪ Merger synergies more prominent in 2010 (starting run rate \$234m)</li> <li>▪ Further rise in IT expenditure as the IT strategy is implemented</li> </ul>
<b>Impairment charges</b>	<ul style="list-style-type: none"> <li>▪ Impairment charges likely to ease in 2010</li> <li>▪ Household sector expected to remain solid</li> </ul>

# Westpac 2009 Full Year Results

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## The new normal – changes flowing from the GFC

### Customers

- Customers choosing to have lower debt and more equity
- Higher savings a priority
- Increased rewards for saving, greater costs for borrowing
- Financial service relationships valued more highly

### Industry

- Deleveraging and easing of stimulus packages to impact sector growth
- Deposit growth to be a greater driver of lending
- Changes in risk assessment and pricing for risk
- Average funding costs continuing to rise
- Industry structure continuing to evolve

### Regulatory

- Many institutions have adjusted their business models. Regulatory change will reinforce:
  - Higher minimum capital and higher quality capital
  - More liquidity and changes in liquidity composition
- Transition to new models must be measured to support economic recovery

## 2010 will be building on platform of 2009

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### Customer

#### Customers at the centre

- Westpac Local: The Bank Manager is back
- St. George: Greater regional focus while increasing distribution presence and reach

### People

#### Investing in people

- Shift decision making and focus to front line
- Increased training, coaching and mentoring
- Pervasive cultural change, fundamentally improving customer focus

### Brands

#### More choice for customers

- St. George: Australia's leading regional bank 'Big enough; Small enough'
- Westpac brand: Strong, safe, local, responsible
- Leading 'Institutional' brand

### Productivity

#### Sustained gains

- Continue to deliver on merger synergies
- Build sales force productivity
- Process redesign and simplification

## Well positioned for improving outlook

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- Continued uncertainty in global environment
- Strong household sector supporting Australian economic recovery
- Impairment charges likely peaked and although more impairments to come we are strongly provisioned
- Clear focus on our key strategic priorities
- Starting 2010 with strong momentum across all our businesses

# Disclaimer

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

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

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All amounts are in Australian dollars unless otherwise indicated.

## Presentation of financial information

Unless otherwise noted, financial information in this presentation is presented on a cash earnings basis. Refer to Westpac's Full Year 2009 Results (incorporating the requirements of Appendix 4E) for the financial year ended 30 September 2009 available at [www.westpac.com.au](http://www.westpac.com.au) ("Profit Announcement") for details of the basis of preparation of cash earnings.

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

The pro forma financial information should be read in conjunction with the reported financial information in the Profit Announcement. Refer to the Profit Announcement for a description of the basis of preparation of pro forma financial information for the year ended 30 September 2009 and prior comparative periods.

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

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This presentation contains statements that constitute "forward-looking statements" within the meaning of Section 21E of the US Securities Exchange Act of 1934. The forward-looking statements include statements regarding our intent, belief or current expectations with respect to our business and operations, market conditions, results of operations and financial condition, including, without limitation, future loan loss provisions, financial support to certain borrowers, indicative drivers, forecasted economic indicators and performance metric outcomes.

We use words such as 'will', 'may', 'expect', 'indicative', 'intend', 'seek', 'would', 'should', 'could', 'continue', 'plan', 'probability', 'risk', 'forecast', 'likely', 'estimate', 'anticipate', 'believe' or similar words to identify forward-looking statements. These statements reflect our current views with respect to future events and are subject to change, certain risks, uncertainties and assumptions which are, in many instances, beyond our control and have been made based upon management's expectations and beliefs concerning future developments and their potential effect upon us. Should one or more of the risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from the expectations described in this presentation. Factors that may impact on the forward-looking statements made include those described in the sections entitled 'Competition' and 'Risk management' in Westpac's 2008 Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission and in the section entitled 'Principal risks and uncertainties' in Westpac's Interim Financial Report for the half year ended 31 March 2009 available at [www.westpac.com.au](http://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.