ACQUISITION OF

LLOYDS BANKING GROUP'S AUSTRALIAN BUSINESSES

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A value creating transaction

- Westpac has agreed to acquire selected assets of Lloyds Banking Group's Australian businesses (Lloyds)
- Asset base[1] of $8.4bn
- Meets Westpac's strict M&A criteria
  - Portfolio fits well within Westpac, building our capability and reach in key target segments
  - Transaction is expected to be EPS positive in FY14
- Given Westpac's strong capital and funding position, the transaction will be financed from internal resources – no need for additional capital
- Consideration of $1.45bn, including a premium over NTA of around $260m
- Expected completion 31 December 2013

1 Assets based on Lloyds management accounts as at 31 July 2013. Amount will not be finalised until settlement, expected 31 December 2013.

Summary of assets[1] to be acquired

Capital Finance Australia Limited (CFAL)		BOS International Australia Limited (BOSI)
Equipment finance	**Motor vehicle finance**	**Corporate loan portfolio**
• $2.9bn in lease receivables – $1.9bn SME[2] – $1.0bn corporate • 62,000 corporate/business customers • Low risk motor vehicle and machinery assets associated with waste management, mining, construction and transport industries	• $3.9bn in assets – $0.7bn dealer finance – $3.2bn personal car finance • 343 motor dealer franchise relationships • 151,000 consumer customers	• $1.6bn in corporate loans. Additional $1.1bn in undrawn facilities • 28 corporate customers • High quality portfolio with stressed assets sold previously • Potential for transfer of up to $0.9bn of deposits

1 All amounts based on Lloyds management accounts as at 31 July 2013. Numbers will not be finalised until settlement, expected 31 December 2013. 2 SME is small and medium enterprise businesses.

Good strategic fit within the Westpac Group

- Assets clearly aligned to Westpac target segments of SME and Corporate
- Grows customer base and enhances ability to deepen existing relationships through expanded operating lease capability
- Asset quality considered to be in line with similar Westpac assets
- Strong cultural alignment between Lloyds and Westpac
- Clear integration plans already in place

Equipment finance	Motor vehicle finance	Corporate loan portfolio
• SME assets managed within St.George • Corporate assets to be managed in WIB • Adds operating lease capability to WIB	• Complementary to St.George auto finance portfolio • Provides geographic diversity as Lloyds has more business in regional/rural areas relative to St.George • Significant efficiency opportunity	• Assets to be transferred to WIB • Westpac has relationship with approximately 80% of corporate customers and concentrations are manageable

Financial implications

Consideration	• Acquisition price $1.45bn, net tangible assets $1.19bn, and premium of $0.26bn • Total assets $8.4bn, risk weighted assets $9.1bn • Additional cash consideration for derivatives mark to market
Financial metrics	• Price to NTA 1.22x • Is expected to be EPS accretive in FY14. If equity funding were necessary, the transaction is expected to be EPS accretive before the end of FY15 • Immediately ROE neutral given utilisation of excess capital • Transaction costs approximately $15m, integration costs estimated at around $130m
Capital	• The proforma impact on common equity tier one capital ratio approximately 38bps • Higher RWA 26bps, goodwill and other capital impacts 12bps
Funding	• Funding of loan book (net of deposits/securitisation) requires refinance of Lloyds intercompany debt • Will be satisfied from internal resources given continued strong deposit growth and higher liquid assets • Acquisition includes $0.7bn in auto finance securitisation and potentially $0.9bn of corporate deposits
Value generation	• Including synergies, the business is expected to add at least $100m to Westpac's cash earnings in FY15 • Meaningful synergies expected from removing cost duplication. Majority to be realised in first 12 months. Expected cost synergies of approximately $70m (pre tax), equivalent to 50% of acquired expense base • Ability to deepen relationships with existing and acquired customers • Capital benefits over time by applying Westpac's Basel III methodologies to the standardised portfolio
Other	• Have notified the Australian Competition and Consumer Commission (ACCC) of the transaction and are cooperating with ACCC's informal merger review process • Westpac believes this transaction does not substantially lessen competition

Valuation considerations

Valuation assumptions

- Cost $1.45bn, transaction costs $15m
- Integration costs $130m
- Cost of capital and discount rate of 11%, franking credits valued at 70%
- Value to Westpac principally assessed based on hypothetical full equity funding
- Financial impact presented on an actual basis with Westpac utilising current strong capital/funding position
- Stress tests across portfolio to consider various scenarios
- Transaction expected to add over $100m to Westpac cash earnings in FY15

Valuation models/outcomes

Earnings per share

- Assesses impact on Westpac EPS and period of dilution
- Expected to be positive in FY14

ROE

- Assesses impact on Westpac's return metrics
- Transaction is ROE neutral after goodwill

Dividend discount

- 10 year forecast period
- Internal rate of return >15%

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All amounts are in Australian dollars unless otherwise indicated.

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