



**Westpac 2008**  
Full year results  
30 October 2008

**estpac**





# Westpac 2008

## Full year results

Gail Kelly

Chief Executive Officer



**W**estpac



## Key messages

- Performed well in a challenging environment, delivering a robust financial result and enhancing our risk management focus
- Underway with a strong and clear strategic agenda
- Positioned to actively support customers

# Responded quickly to the changing landscape

## Market changes

Dislocation in  
capital markets

Funding conditions  
more challenging

Deterioration in  
asset markets

Economic activity  
slowing

Weakening of  
banks  
outside Australia

Government  
intervention and  
support



6% increase in  
cash earnings

## Robust performance in challenging conditions

		Change FY07 – FY08
<b>Cash earnings</b>	<b>\$3,726m</b>	<b>▲ 6%</b>
NPAT	\$3,859m	▲ 12%
Revenue (cash basis)	\$11,117m	▲ 10%
Impairment charge to average loans	31bps	▲ 12bps
Cash EPS	198.3c	▲ 5%
Cash ROE	22.3%	▼ 150bps
Cost to income ratio (cash basis)	43.9%	▼ 110bps
Fully franked dividend	142c	▲ 8%

# A strong portfolio with good momentum

	Growth in cash earnings %	
	FY07 to FY08	1H08 to 2H08
<b>Consumer Financial Services</b>		
Good earnings growth on improved volumes	▲9%	▲7%
<b>Business Financial Services</b>		
Front line investment continues to deliver	▲11%	▲2%
<b>Westpac Institutional Bank</b>		
Strong customer revenues offset by higher impairment charges	▼4%	▲18%
<b>BT Financial Group</b>		
Decline in asset markets impacting earnings	▼12%	▲1%
<b>New Zealand</b>		
Strong core earnings partially offset by higher impairments	▲6% <sup>1</sup>	▼2% <sup>1</sup>

1. In NZ\$

## Strong strategic performance

- Developed and implemented a new strategic agenda – putting customers at the centre
- Intensity of focus on risk management enhanced
- Delivering on opportunities:
  - RAMs franchise acquisition – business on track
  - Proposed St.George merger
- Maintained business momentum - core earnings up 13% (cash basis)

## Risk management – intensity of focus enhanced

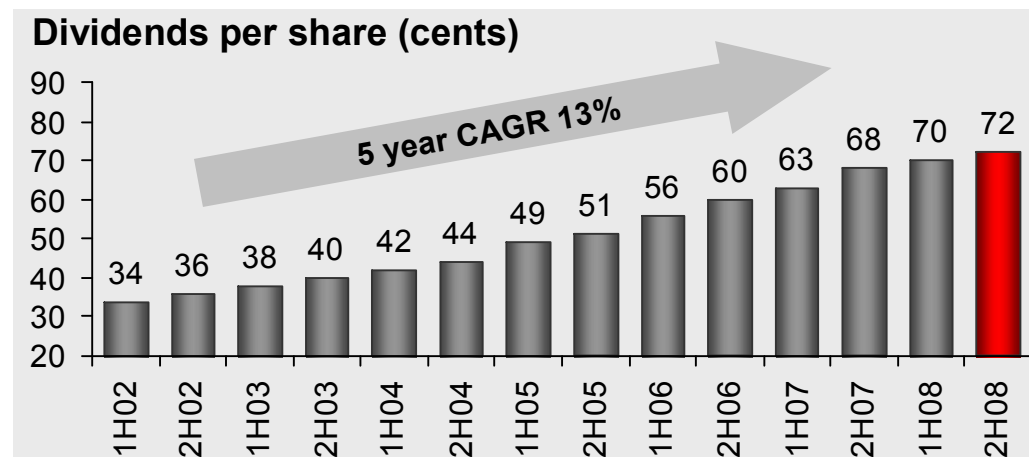
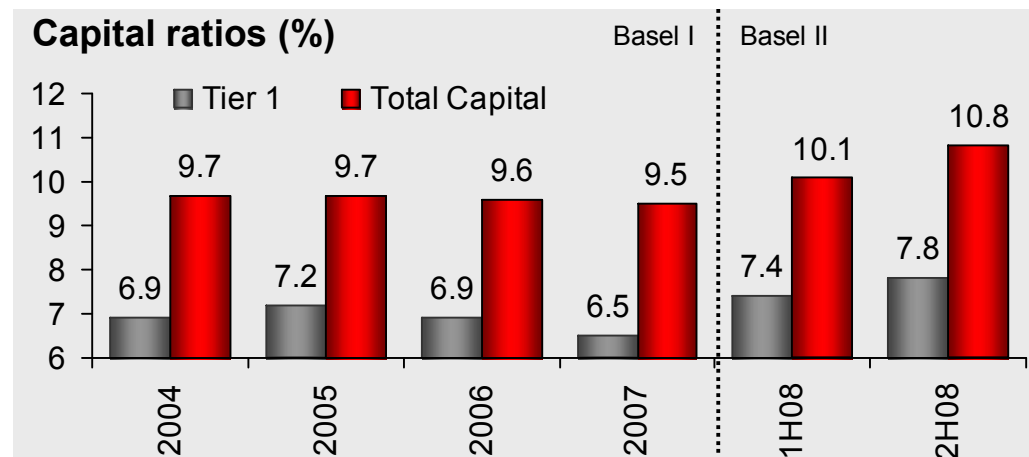
- Skilled and experienced team
- Well positioned in funding, liquidity and capital
- Proactive management and identification of credit risk issues
  - Actively escalating companies to watchlist
  - Collections teams well resourced
  - Ongoing reviews of stressed sectors
  - Launched Westpac Assist

### 2008 Risk Scorecard

Rise in stressed assets matched by rise in provisions
Well placed on large, single name exposures
Concentrations in margin loan portfolio reduced, no stock lending
Lehman Bros. exposure <\$10m
No credit intermediation trades, no negative mark to market on credit portfolio
No sub-prime or related exposures
Strengthened capital position

## Strongly capitalised

- Strong capital position
  - New, higher capital targets
  - Tier 1 ratio 7.8%
  - To be further strengthened via DRP underwrite adding 51bps to capital ratios
- Dividends up 8% over year
- Pay-out ratio of 72%, maintained around recent levels





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Phil Coffey

Chief Financial Officer

 **estpac**

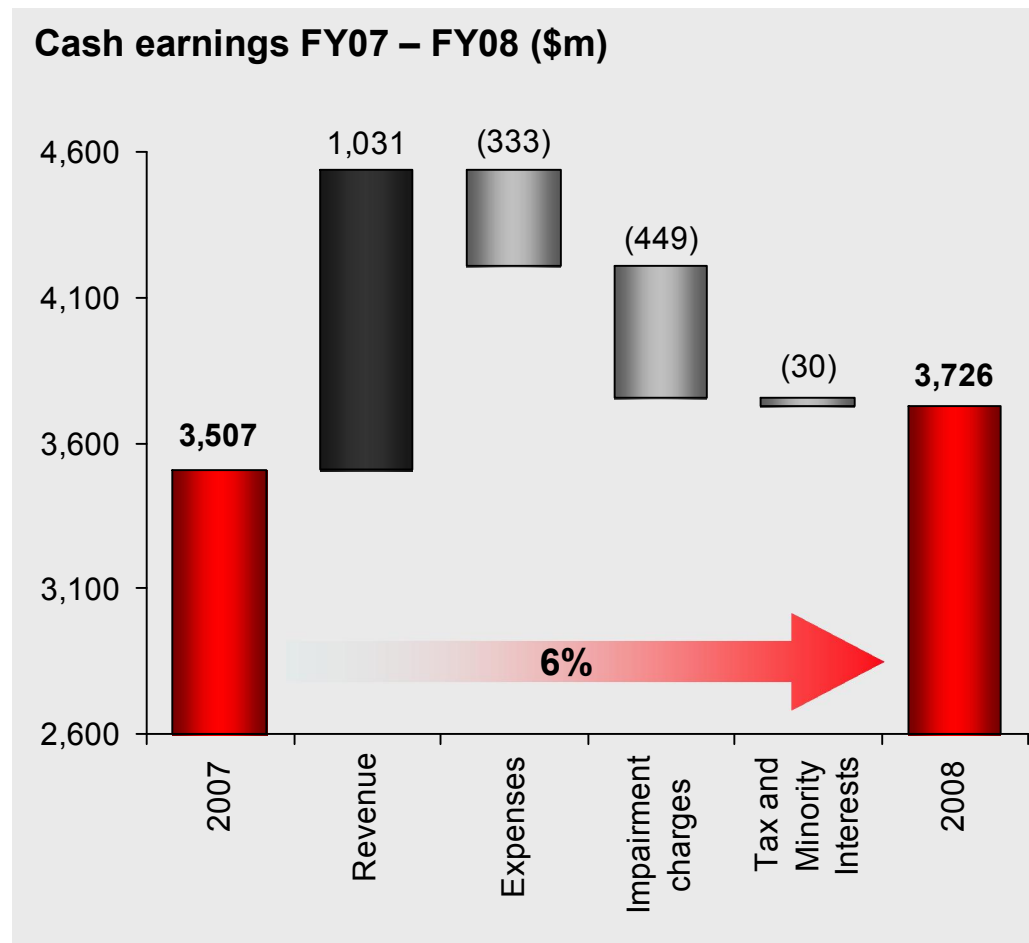


## Result discussion and analysis

- FY08 performance
- Analysis of key earnings components
- Credit quality and impairment charges
- Funding and capital
- Forward considerations

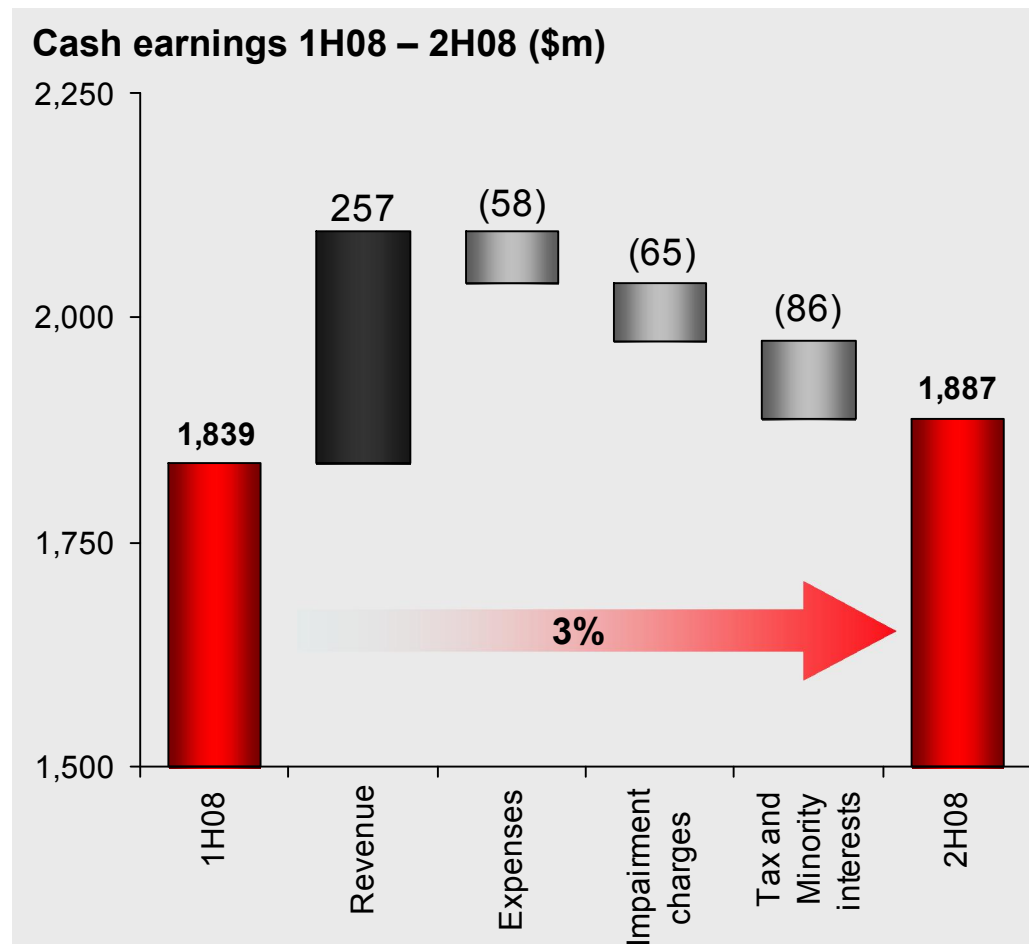
## Robust result in current conditions

- Absorbed end year challenges:
  - More severe deterioration in financial markets
  - Re-valued liquid assets
  - Provision included in result for one post balance date corporate downgrade
- Cash earnings up 6%, revenue up 10%
- Expense trajectory moderating
- Impairment charges significantly higher
- Reported NPAT up 12%, including one-off and non-cash items



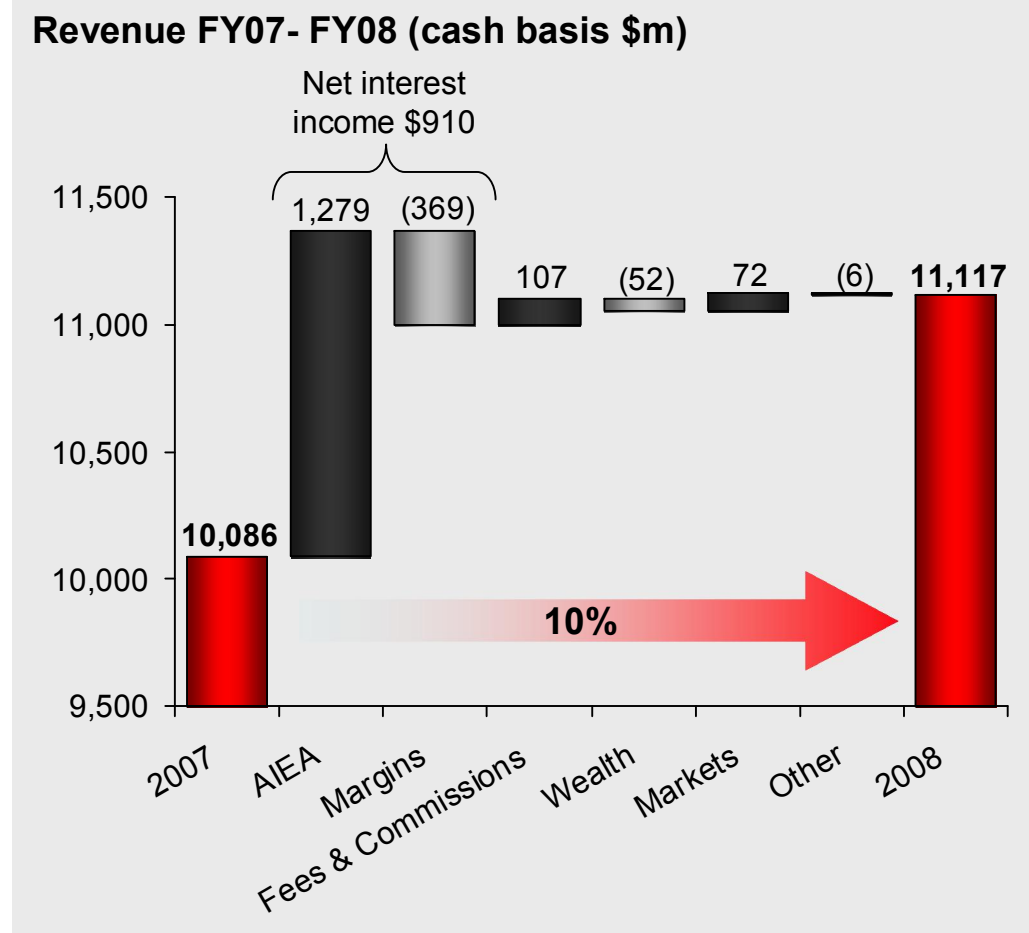
## Revenue momentum drives earnings in the second half

- Strong revenue growth, up 5% with all business units contributing
  - Good loan growth in Australia – Consumer (6%), Business (10%)
  - Stronger customer deposit growth (9%)
- Expenses well managed – up 2%
- Core earnings (before impairment charges) up 7%
- Higher impairment charges and tax

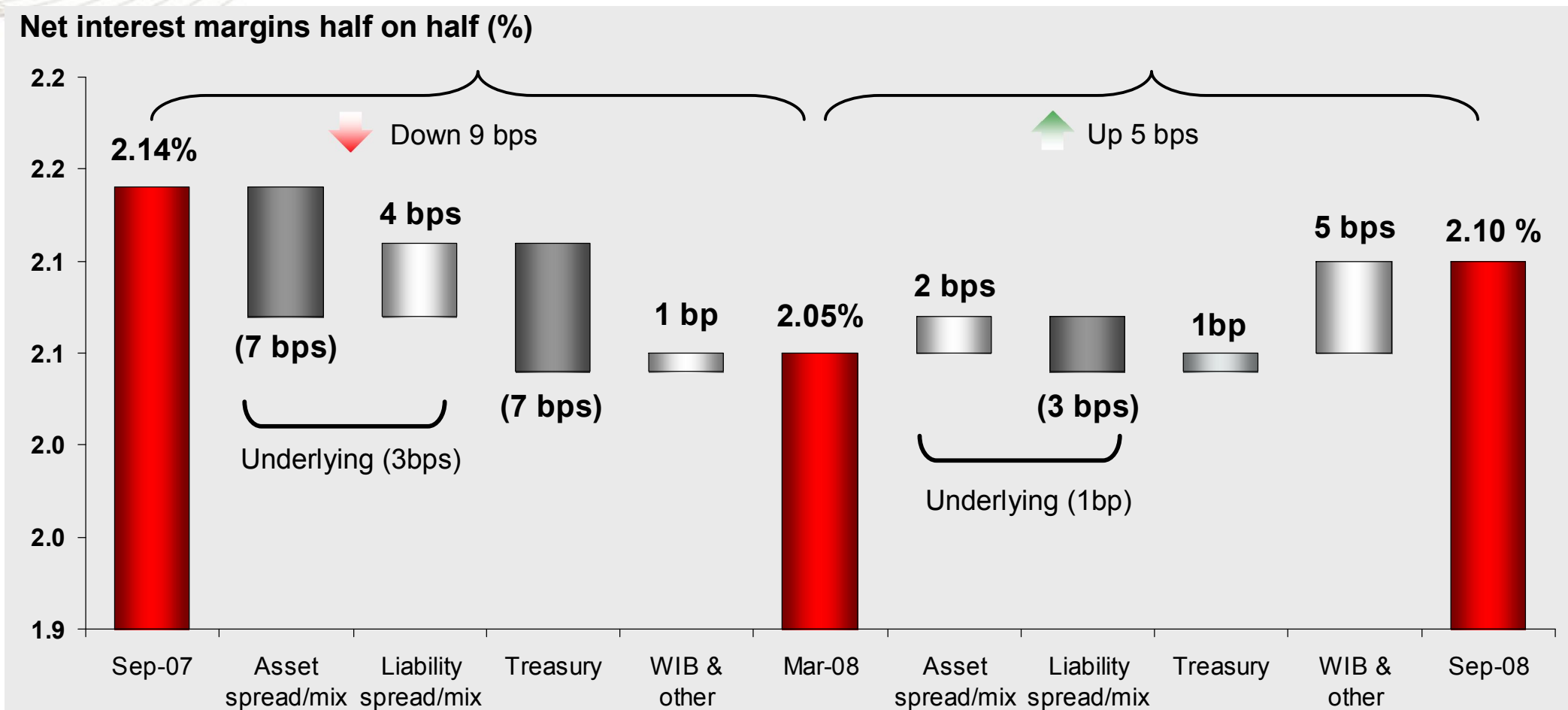


## Revenue growth mix reflects market conditions

- Strong franchise performance
- Net interest income up 14%
  - Average interest earning assets up 20%
  - Margin decline of 12bps
- Modest fee growth
  - Solid banking and Specialised Capital Group fees
  - Lower transaction fees
- Wealth lower
- Good markets income



# Margins – a tale of two halves



## Managing volatility well

- Benefiting from a broad markets business
- Markets well positioned for volatility:
  - Customer sales up 20%
  - Strong FX and Debt Markets contribution
  - Softer Energy and Equities
- Strong contribution from Treasury
- Higher VaR reflecting increased volatility yet little change in position size

Markets revenue (\$m)	1H07	2H07	1H08	2H08
FX and energy	139	230	213	257
Equities <sup>1</sup>	15	19	(1)	(15)
Debt markets sales and trading	99	82	115	50
<b>Total</b>	<b>253</b>	<b>331</b>	<b>327</b>	<b>292</b>
Average VaR <sup>2</sup>	4.7	5.3	7.1	9.5

Treasury revenue (\$m)	1H07	2H07	1H08	2H08
Net interest income	123	96	142	183
Non-interest income	-	7	-	46
<b>Total</b>	<b>123</b>	<b>103</b>	<b>142</b>	<b>229</b>
Average VaR <sup>2</sup>	8.4 <sup>3</sup>	7.2	9.9	22.9

1. Represents Structured Products component of Equities business only. 2. VaR at 99% confidence level, 1 day hold period. 3. No diversification benefit taken into account between trading and banking activities of Treasury in 1H07

## Weaker investment markets impacted returns

- Lower investment markets impacting wealth cash earnings:
  - Lower FUM/FUA \$55m
  - Lower returns on invested capital \$38m
  - Excluding market moves FUA/FUM up 9% and 2% respectively

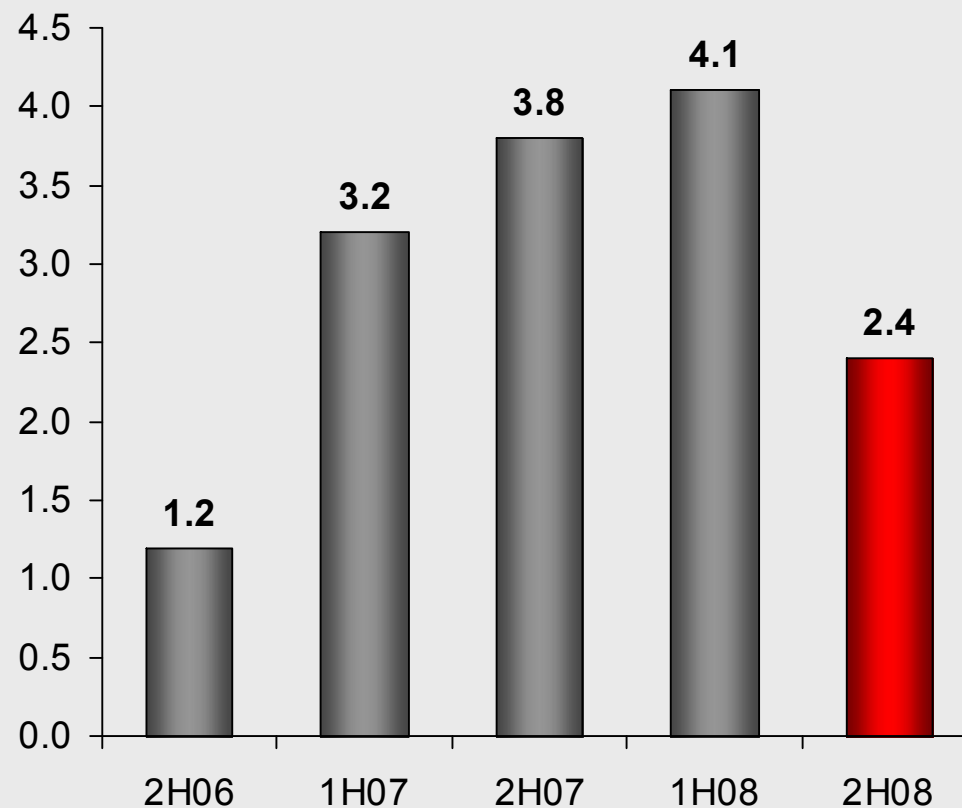
FUM / FUA	Change FY07 – FY08	
	Excluding market movements	Including market movements
FUA	↑ 9%	↓ (10)%
FUM	↑ 2%	↓ (17)%

Product	Current Aust. market share		Share of annual new business	
	Market share (%)	Rank	Market share (%)	Rank
Platforms	13	2	24	1
Corp Super	7	6	23	3

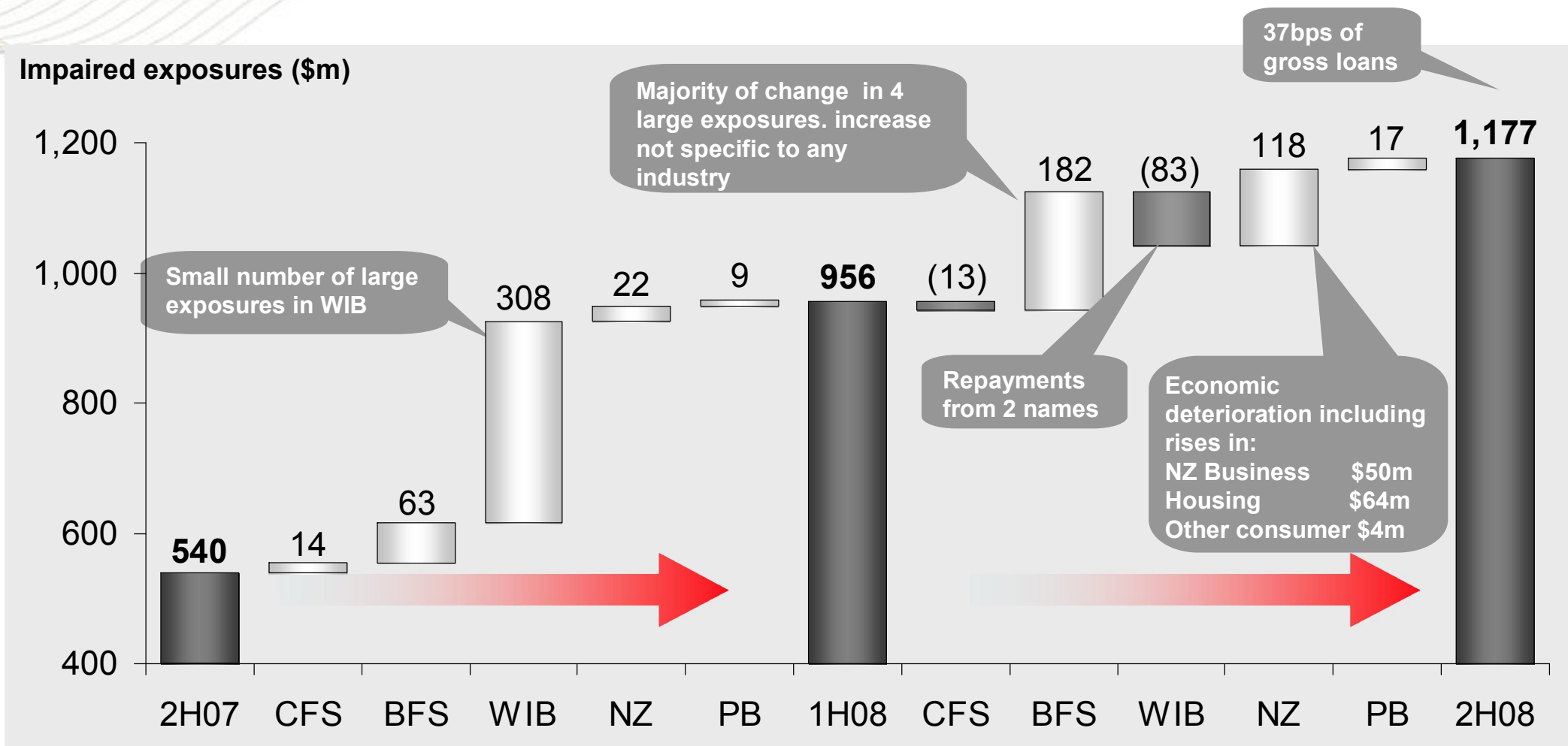
## Expense run-rate slowed – investment maintained

- Expenses up 7% over year:
  - 284 increase in FTE, with 353 new front line employees
  - 29 additional branches and business banking centres
  - RAMS acquisition added 1% to expense growth (\$36m)
- Continuing project investment
- 2H08 expense growth lower with employee costs flat
- One off restructuring charge – little impact on 2008 expenses

Expense growth on prior half (%)

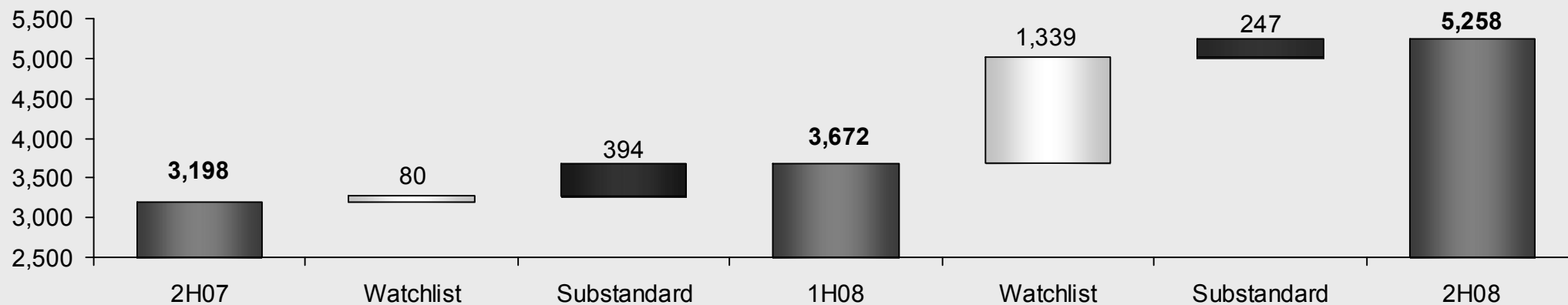


# Impaired exposures rising with the weaker environment

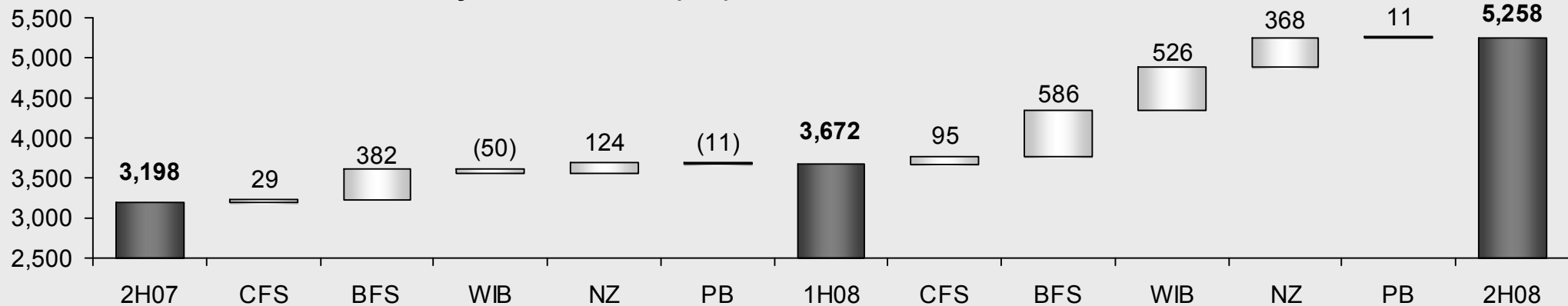


# Tougher environment, proactively moving on potential issues

Watchlist and Substandard assets (\$m)



Watchlist & Substandard assets by business unit (\$m)

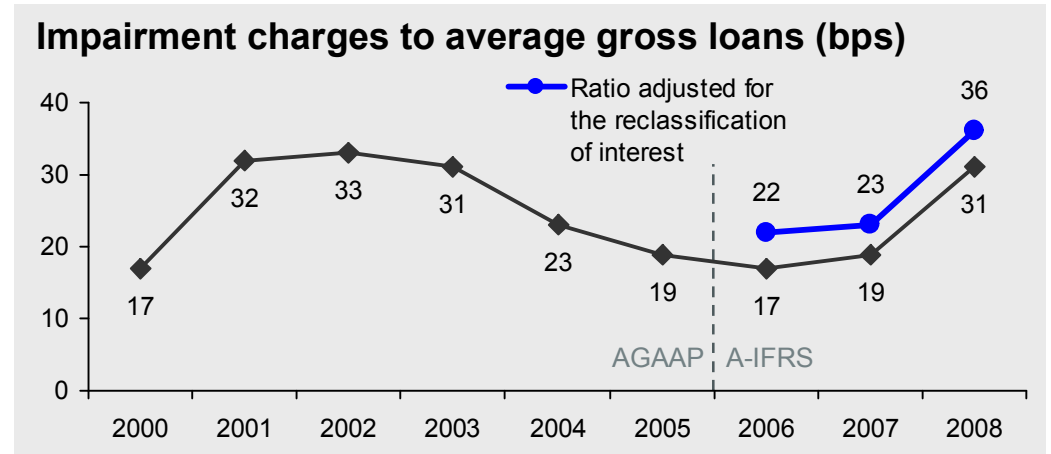


## Impairment charge increase consistent with environment

Category	Charge (\$m)	Change over yr (\$m)	Comments
<b>Individually assessed</b>			
<b>New individually assessed</b>	447	160	WIB, mostly in 1H08 from a small number of impaired loans
		157	Impaired loans in BFS (\$92m) predominantly 2 large facilities, and in New Zealand (\$51m), 2 large business loans and weaker housing
<b>Write-backs and recoveries</b>	(122)	(30)	Mostly in 2H08 from resolution of one long standing WIB exposure
<b>Total individually assessed</b>	<b>325</b>	<b>287</b>	
<b>Collectively assessed</b>			
<b>Write-offs</b>	378	76	Predominantly in the cards portfolio
<b>New collectively assessed</b>	228	38	Increase in stressed exposures in BFS, NZ & WIB
		48	Further rise in collective provision for financial crisis (\$76m for full year)
<b>Total collectively assessed</b>	<b>606</b>	<b>162</b>	
<b>Total 2008 Impairment charge</b>	<b>931</b>	<b>449</b>	

# Appropriately provisioned for known risks

- Impairment charges to average gross loans higher, at 31bps
- Provision coverage strong
- Total collectively assessed provisions – up \$351m or 25% on FY07

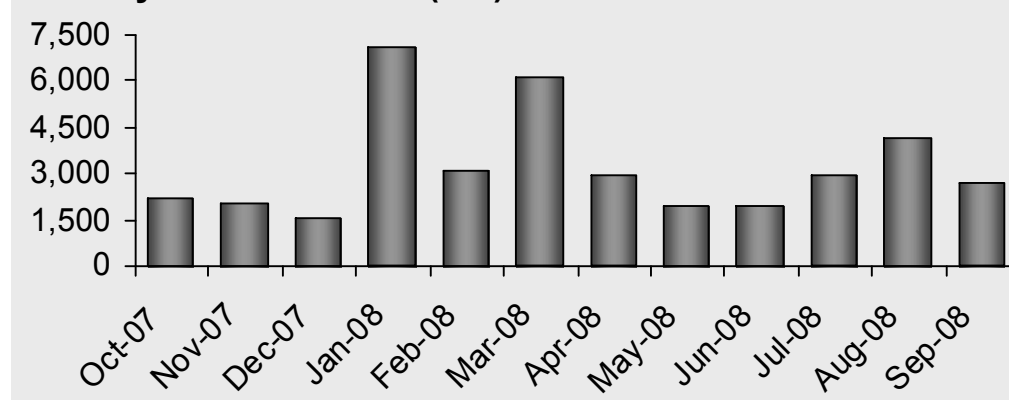


	2H07	1H08	2H08
Total provisions to gross loans	61bps	62bps	<b>69bps</b>
Total provisions to RWA (Basel II)	92bps	100bps	<b>111bps</b>
Collective provision to Credit RWA	94bps	94bps	<b>105bps</b>

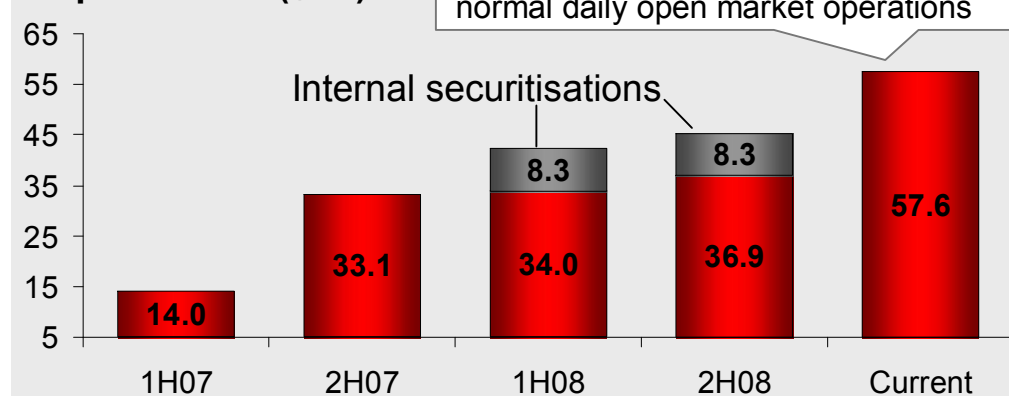
## Funding and liquidity well managed

- Raised A\$39bn in term markets over 2008
- Consistent access to markets benefiting from:
  - Diverse funding franchise
  - 60% of offshore term funding via private placements
  - Accessed new markets including Japan, Canada and Switzerland
- Raised an additional \$17b in retail deposits
- Strengthened liquidity position to ~\$58bn

Monthly term issuance (\$m)



Liquid assets (\$bn)



## New capital targets under Basel II established

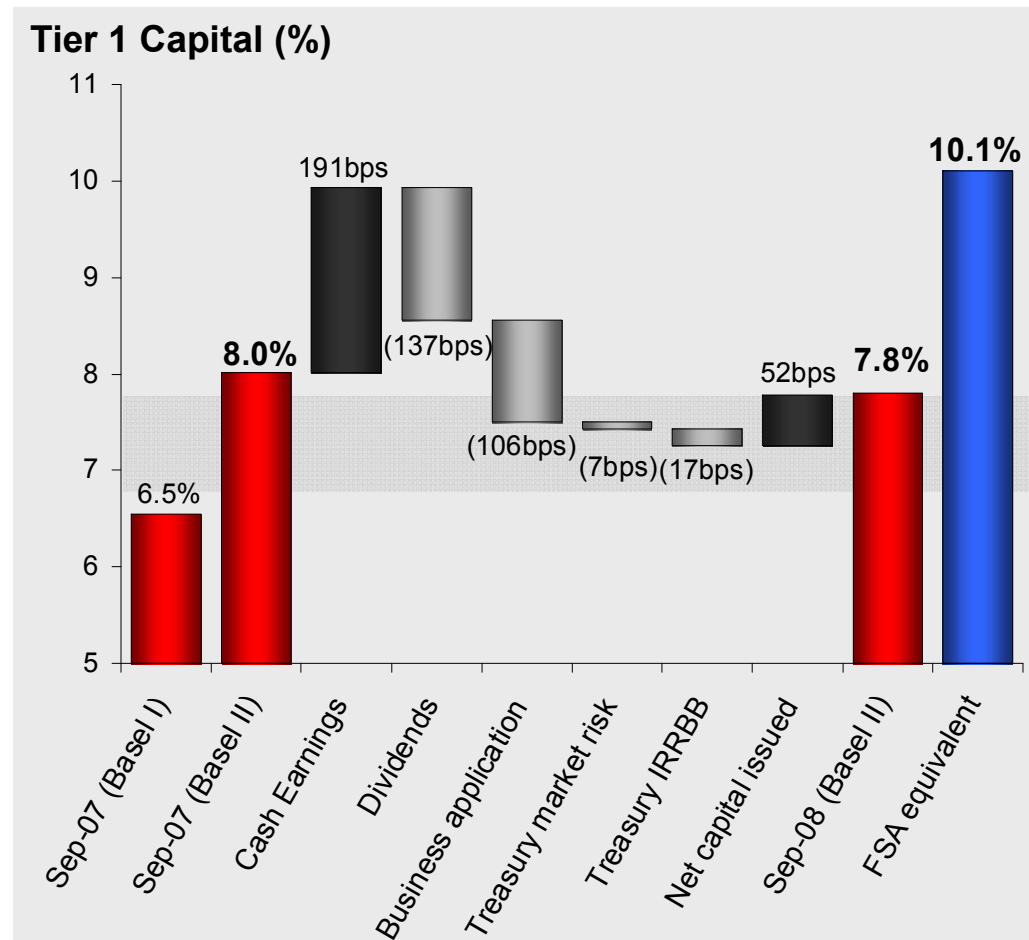
- Targets are higher than models and regulatory minimums suggest although higher ratios are currently preferred given:
  - Current environment supports higher ratios, from all stakeholders
  - We are still in transition with Basel II
  - Additional buffer for capital volatility
- Current preference to operate towards upper end of targets

Previous Targets (Basel I)	
Measure	Range (%)
ACE / RWA	4.00 - 4.75
Tier 1 / RWA	6.00 - 6.75
Total Capital / RWA	9.00 or more

Current Targets (Basel II)	
Measure	Range %
Tier 1 / RWA	6.75 - 7.75
Total Capital / RWA	9.75 - 10.75

# Strong Tier 1 capital

- Tier 1 capital ratio of 7.8%, accommodating:
  - Rapid RWA growth; and
  - New Treasury RWA 24bps
- Total Regulatory Capital ratio 10.8%
- FSA Tier 1 equivalent 10.1%
- Capital management factors
  - Underwriting DRP adds ~51bps to Tier 1
  - Considering new Tier 1 hybrid post merger to replace St. George hybrids
- Maintaining capital in excess of targets to:
  - Accommodate proposed merger
  - Support customer growth
  - Buffer against extreme surprises



# Changes in credit RWA and capital ratios

Changes in credit RWA (and associated capital ratios) have been impacted by three factors:

1. Portfolio growth, including on and off balance sheet growth
2. Changes in the allocation of Basel II factors, in particular:
  - Movement in some business facilities from a conservative starting point
  - Changes in margin lending security
3. Changes in credit quality

**Impact on capital ratios**

(71bps)

12bps

(16bps)

Total risk weighted assets has also been impacted by various movements in non-credit RWA

	Growth in credit RWA (%)		
	Off balance sheet	On balance sheet	Total
Business loans	(2)	19	11
Consumer loans	5	15	14

Impact on capital ratios			(75bps)
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Composition of credit RWA growth (%)			
Volume growth (on & off balance sheet)	Change in factors	Change in credit quality	Total change
106%	(30)%	24%	100%
72%	12%	16%	100%

(71bps)	12bps	(16bps)	
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## FY09 considerations

<b>Revenues</b>	<ul style="list-style-type: none"><li>• Looking to grow share in lower growth environment</li><li>• Manage margin decline to lower end of long term average (5-10bps)</li></ul>
<b>Expenses</b>	<ul style="list-style-type: none"><li>• Benefit from restructuring program to emerge in 2009</li><li>• Expenses will be impacted by one-offs of around 1%- 2% from: additional defined benefit plan expense; full period impact of RAMS; and BTIM share based payments</li></ul>
<b>Impairment charges</b>	<ul style="list-style-type: none"><li>• Seek to retain appropriate level of cover as economy continues to soften</li><li>• Continued active management of portfolios</li></ul>
<b>SGB Merger</b>	<ul style="list-style-type: none"><li>• No change to \$700m integration costs or estimated cost savings</li><li>• Further detail to be provided mid December</li></ul>

## Summing up – a robust financial performance

- Robust earnings driven by 10% revenue growth
- Encouraging 2H08 performance from all businesses
- Franchise in good shape
  - Improving market position in key products
  - Expense run-rate slower
- Impairments higher reflecting realistic assessment of trends
- Comfortable with very strong capital position



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Chief Executive Officer



## Strategic agenda well underway

- Drive a strong customer culture
- Strengthen distribution and drive locally empowered businesses
- Transform service delivery and redesign processes around customer
- Strengthen technology reliability and flexibility
- Drive a one team approach
- Well progressed for the proposed transformational merger with St. George

## Good progress on the strategic priorities

	1H08 Commentary	Progress
<b>Customer</b>	Drive a strong customer culture integrating banking and wealth	<ul style="list-style-type: none"> <li>• Strategies in place for key segments: affluent, SME and commercial</li> <li>• Lifted focus on the customer including improved call centre management and complaint resolution and the use of net promoter score as a key metric</li> <li>• Managing customer facing activities through a single line of accountability</li> <li>• Reorientated investment to customer needs &amp; segments</li> </ul>
<b>Distribution</b>	Strengthen and drive locally empowered businesses	<ul style="list-style-type: none"> <li>• Local market model refined to include wealth and business, roll out commenced</li> <li>• New Regional GM roles in place               <ul style="list-style-type: none"> <li>- Delivering an integrated experience to customers</li> <li>- Consolidated reporting in place</li> </ul> </li> </ul>

## Good progress on the strategic priorities

	1H08 Commentary	Progress
Operations	<ul style="list-style-type: none"> <li>Transform service delivery, redesign processes from a customer perspective</li> </ul>	<ul style="list-style-type: none"> <li>New Product and Operations division to support customer facing businesses</li> <li>Commenced end-to-end redesign of products and processes to simplify and enhance efficiency</li> </ul>
Technology	<ul style="list-style-type: none"> <li>Strengthen capability; focus on simplicity, reliability and flexibility</li> </ul>	<ul style="list-style-type: none"> <li>Dedicated technology division</li> <li>Immediate focus on strengthening reliability showing early gains</li> <li>Refining long-run technology architecture and strategy underway</li> </ul>
People	<ul style="list-style-type: none"> <li>Drive 'one team' approach</li> </ul>	<ul style="list-style-type: none"> <li>Breaking down the barriers that have inhibited a single customer focus – early signs very positive</li> <li>Clear alignment of strategic direction to 'one team'</li> </ul>

## Forward agenda – delivering more for customers

- Finalise the merger with St. George:
  - Move quickly on integration – planning is well advanced
  - Focus on retaining customers and deepening relationships
- Complete IT architecture/roadmap and enhance system reliability
- Focused investment and specific projects in:
  - Affluent, SME and Commercial segments
  - Local market model
  - Up-skilling and training in the front line
  - Contact centre redesign
  - Simplification and redesign of operations

## Outlook – A challenging year expected

- Customers are experiencing flow-on impacts of financial crisis:
  - Real economic impacts
  - Growth slowing
  - Cost of capital / debt increased
  - De-leveraging of balance sheets continues
- Further significant developments:
  - Fiscal and monetary stimulus
  - Continued strength in demand for retail deposits
  - Further softening in credit cycle
  - Differentiation on quality

## Summary

- High quality and robust performance
  - Solid growth, strong returns
  - Portfolio of businesses delivering
- Excellent progress on strategic agenda
  - Redefined strategy with a clear path
  - Getting closer to customers
- Positioned for tougher environment
  - Demonstrated portfolio quality and risk management
  - Appropriately provisioned
  - Strengthened capital
  - Prepared to fully support customers in downturn



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