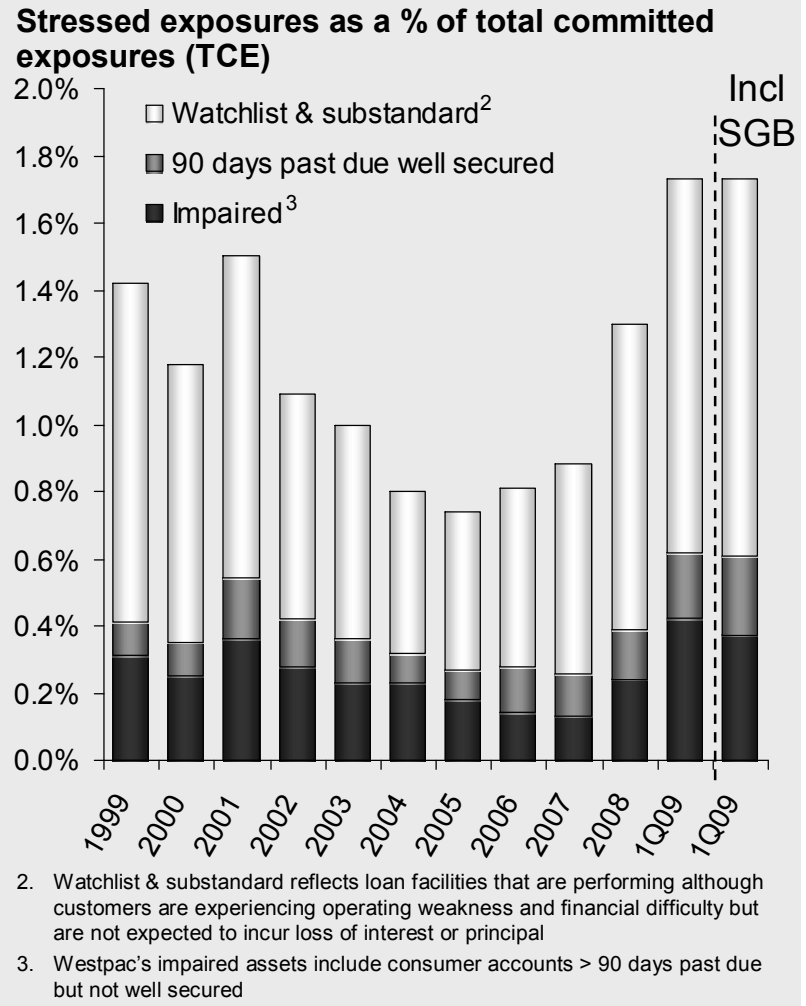


# Westpac Update

18 February 2009

- Solid first quarter with strong revenue growth
- Good customer volumes, especially in deposits
- Weakening economy with further stress in institutional, commercial business and New Zealand
- Significantly higher impairment charges
- Australian consumer portfolio continues to perform well
- St. George merger integration progressing to plan – no surprises in the portfolio
- Continuing to invest in identified strategic areas
- Balance sheet strengthened:
  - Between September 2008 and January 2009 raised over \$3.8bn in capital
  - Increased provisioning
  - Strong funding and liquidity position

- Stressed exposures increased to 1.73% at December 2008 from 1.30% at September 2008:
  - Increase in impaired assets mainly due to 3 large corporate exposures
  - Impaired assets includes \$300m exposure to Babcock and Brown International
  - Rise in watchlist & substandard predominantly due to institutional, commercial and New Zealand segments
- Australian consumer 90+ day delinquencies rising in line with cycle, but still relatively benign:
  - Mortgages 43bps (up 7bps<sup>1</sup>)
  - Consumer unsecured 99bps (up 6bps<sup>1</sup>)
- New Zealand consumer 90+ day delinquencies showing signs of increasing stress as economic conditions deteriorate:
  - Mortgages 66bps (up 19bps<sup>1</sup>)
  - Consumer unsecured 131bps (up 4bps<sup>1</sup>)
- Westpac Group stressed exposure profile little changed from inclusion of St. George stressed exposures



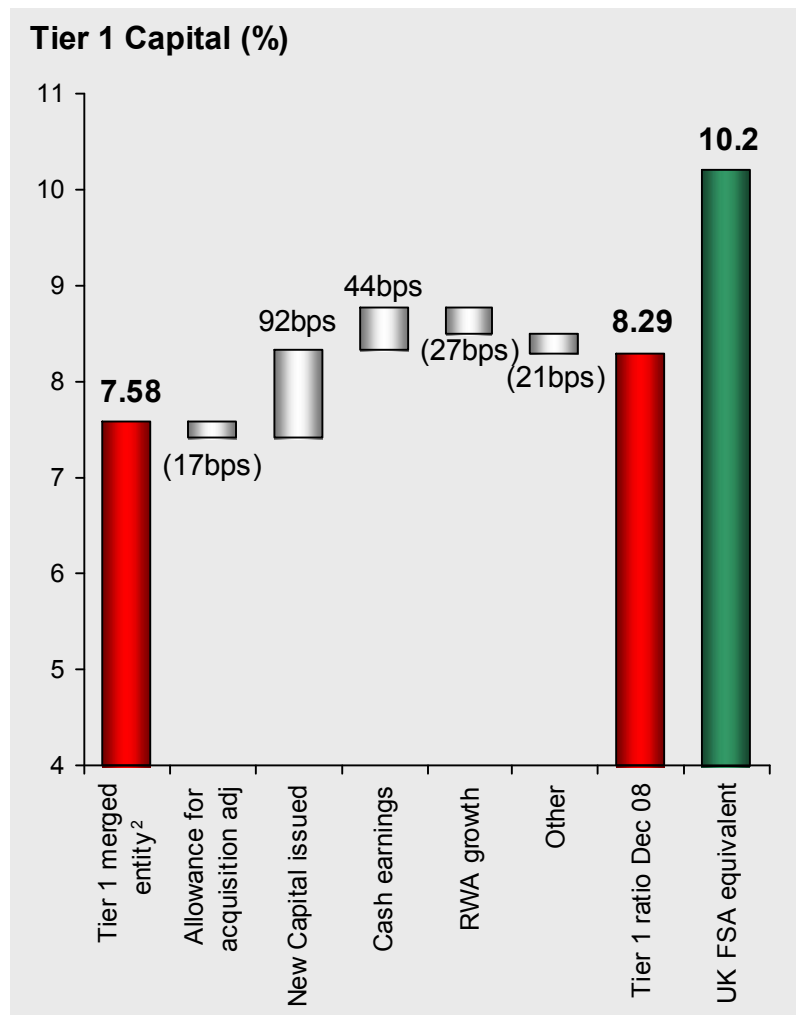
1. Increase from September 2008

**Background**

- Report covers Westpac only; St.George is treated as a non-consolidated subsidiary for this quarter only. Approximately \$40bn increase in Bank exposures reflects an undrawn Westpac lending limit to St.George Bank
- Some changes in parameters over the period :
  - Credit card LGD's have increased following annual parameter review
  - Some adjustments to EAD calculations across the portfolio

Key points	Drivers
Exposure at default up 10%	<ul style="list-style-type: none"> <li>• Change in mortgage methodology, business growth and incorporating an undrawn lending limit to St.George</li> </ul>
Credit risk weighted assets up 5.9%	<ul style="list-style-type: none"> <li>• 5% due to growth in portfolio and the St.George facility</li> <li>• 0.9% due to change in risk profile</li> </ul>
Impaired loans up \$930m	<ul style="list-style-type: none"> <li>• 74% from corporate, mostly 3 large names</li> <li>• 9% from mortgages (mostly New Zealand)</li> </ul>
Regulatory Expected Loss up \$702m	<ul style="list-style-type: none"> <li>• 78% due to increase in impaired facilities predominantly corporate</li> <li>• 22% of the increase from portfolio growth and some migration in the portfolio</li> </ul>
Individually Assessed Provisions up \$501m	<ul style="list-style-type: none"> <li>• IAP coverage increased to 50%</li> <li>• Provisions for recent corporate impaired assets above long run average</li> </ul>
Collectively Assessed Provisions up \$129m	<ul style="list-style-type: none"> <li>• Volume growth combined with new watchlist/substandard in institutional, commercial banking and New Zealand partly offset by movement of some CAP into IAP</li> </ul>
Strong capital position remains	<ul style="list-style-type: none"> <li>• Tier 1 ratio of 8.3% fully consolidated (Reported Tier 1 ratio of 9.8% with St.George treated as a non-consolidated subsidiary)</li> <li>• Pro-cyclicality 21bps for the quarter</li> </ul>

- Tier 1 ratio of 8.3%, if St.George fully consolidated
  - Excludes Share purchase plan (+16bps)
  - Excludes future redemption of St.George hybrids of \$875m (-31bps)
  - Considering issue of replacement hybrid<sup>1</sup>
- Institutional capital raising added \$2.5bn to share capital
- Movement in RWA due mainly to portfolio growth
- Target Tier 1 capital ratio of 6.75% to 7.75% and seek to maintain a healthy capital position



1. Any offer of a new hybrid instrument will be made under a prospectus issued at the time of offer

2. At 30 September 2008 and includes the underwritten portion of Westpac's dividend reinvestment and the \$350m redemption of the St.George SAINTS

<b>Volumes</b>	<ul style="list-style-type: none"> <li>• Customer deposit growth of 9.6% over prior quarter</li> <li>• Total lending up 2.4% over prior quarter</li> </ul>
<b>Margins</b>	<ul style="list-style-type: none"> <li>• Wholesale funding costs continue to increase</li> <li>• Margins strong over the quarter including benefiting from Treasury income</li> </ul>
<b>Non-interest income</b>	<ul style="list-style-type: none"> <li>• Strong WIB markets performance</li> <li>• Wealth earnings remain under pressure from declines in asset markets</li> </ul>
<b>Expenses</b>	<ul style="list-style-type: none"> <li>• Continuing to invest in strategic initiatives</li> <li>• Expense run rate is easing from FY08 growth rate</li> <li>• One-off impacts<sup>1</sup> expected to add 1-2% to FY09 cost growth</li> </ul>
<b>Impairment charges</b>	<ul style="list-style-type: none"> <li>• Impairment charge of \$800m</li> </ul>
<b>Tax</b>	<ul style="list-style-type: none"> <li>• Similar tax rate to prior periods</li> </ul>
<b>Cash earnings</b>	<ul style="list-style-type: none"> <li>• Unaudited pro-forma<sup>2</sup> cash earnings of \$1.2bn for 3 months to end December 2008, down 2% on prior corresponding period</li> </ul>

1. One off impacts include additional defined benefit plan expense, full period impact of RAMS, BTIM share based payments and from FX translation

2. The current and prior corresponding period pro-forma accounts have been prepared on the basis that St.George earnings were consolidated into the Westpac Group from 1 October 2007

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