



Westpac 2009 Interim Results

6 May 2009



Westpac





Westpac 2009 Interim Results

Gail Kelly
Chief Executive Officer



Key messages

- Sound result benefiting from a diversified portfolio
- Franchise in good shape; actively supporting customers
- Merger progressing well with St.George showing improved momentum
- Strongly provisioned, most stress across commercial and corporate customers
- Bolstered balance sheet for tougher environment
- Economy still slowing, but household sector remains solid

Sound performance in challenging conditions

		% Change 1H08 – 1H09
Cash earnings¹	\$2,295m	- 6
Reported NPAT	\$2,175m	- 1
Core earnings ¹	\$4,952m	+ 24
Impairment charge to average loans ¹	73bps	+ 46bps
Cash EPS ²	82.4c	- 16
Cash ROE ²	14.3%	- Large
Cost to income ratio (cash basis) ¹	40.4%	- 440bps
Fully franked dividend	56c	- 20

1. On a pro forma basis calculated as if Westpac merger with St.George was completed on 1 October 2007

2. Cash EPS and cash ROE on pro-forma basis for 1H09; prior periods exclude the St.George Merger

Benefiting from a diversified portfolio

	% Change 1H08 – 1H09	
	Core earnings ¹	Cash earnings
Westpac Retail & Business Banking		
Strong performance with good lending and deposit growth	+ 20	+ 17
Westpac Institutional Bank²		
Very strong revenues offset by significant rise in impairment charges	+ 44	- 62
St.George²		
Improving momentum offset by higher impairment charges	+ 20	+ 6
BT Financial Group²		
Weaker investment markets impacting earnings	- 10	- 17
New Zealand³		
Improved core earnings offset by higher impairment charges	+ 13	- 15

1. Core earnings equals cash earnings before impairment charges, tax and minority interests
2. Pro-forma basis
3. In NZ\$

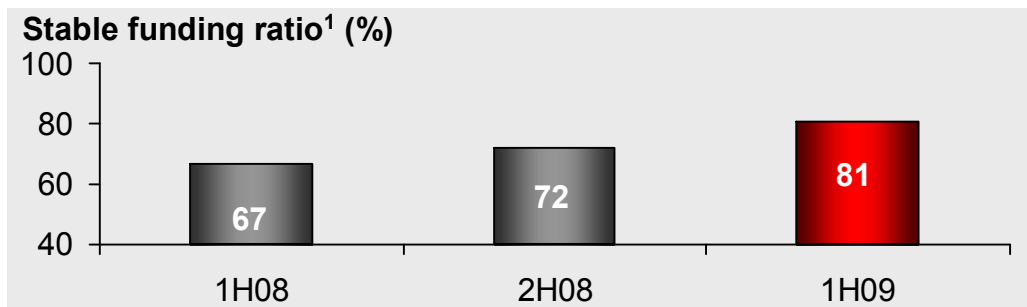
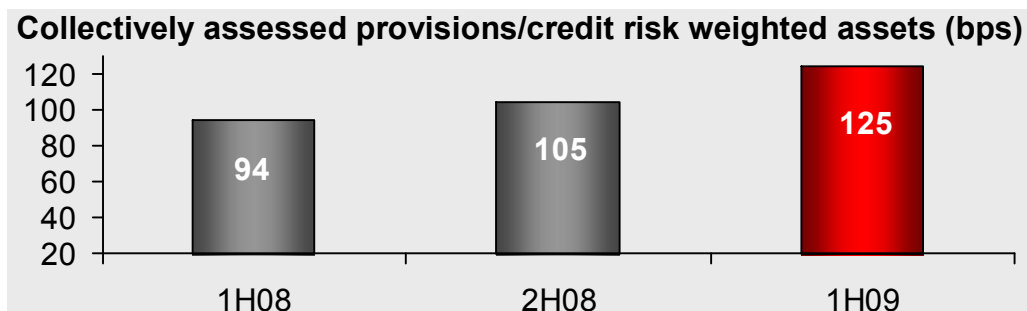
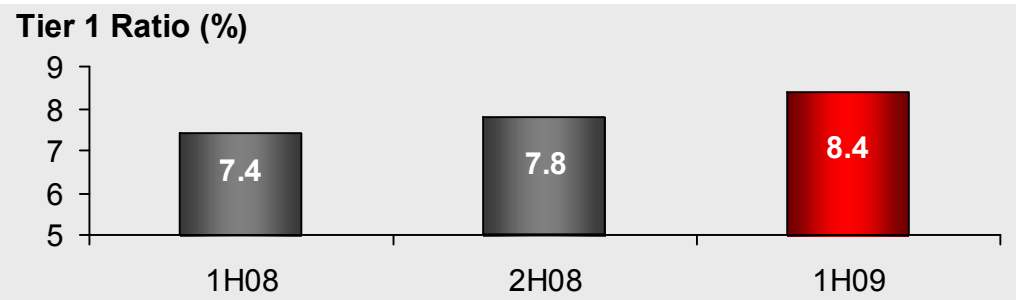


st.george merger progressing well

- Synergy benefits on track
- New operating model up and running
- Momentum in St.George improving
- Employee engagement up, ahead of global high performing norm
- Excellent customer retention and high customer satisfaction
- Projects underway to implement wealth and insurance cross sell

Strengthened balance sheet

- Strong Tier 1 ratio at 8.4%
 - \$4.7bn Tier 1 capital raised over half
 - Dividend 56 cents, down 20% on pcp
- Higher provisioning cover
 - Collectively assessed provisions to credit risk weighted assets up to 125bps
- Funding profile improved
 - Stable funding ratio boosted by higher customer deposits and wholesale term funding



1. Stable funding ratio includes, customer deposits plus term funding with a residual maturity greater than one year and securitisation

Assessment of 1H09 performance

- ✓ Excellent revenue performance
- ✓ Restored deposit momentum and enhanced funding profile
- ✓ Strengthened balance sheet with stronger Tier 1 ratio and higher provision coverage
- ✓ Good progress on customer strategy with strong Westpac RBB performance
- ✓ Merger progressing well, St. George momentum improving
- ✗ Significant and rapid rise in stressed exposures
- ✗ Margin lending impairment charges
- ✗ Operational service issues



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Phil Coffey
Chief Financial Officer



Approach to 1H09 reporting

Provide
clarity on
performance

Maintain full
financial
integrity

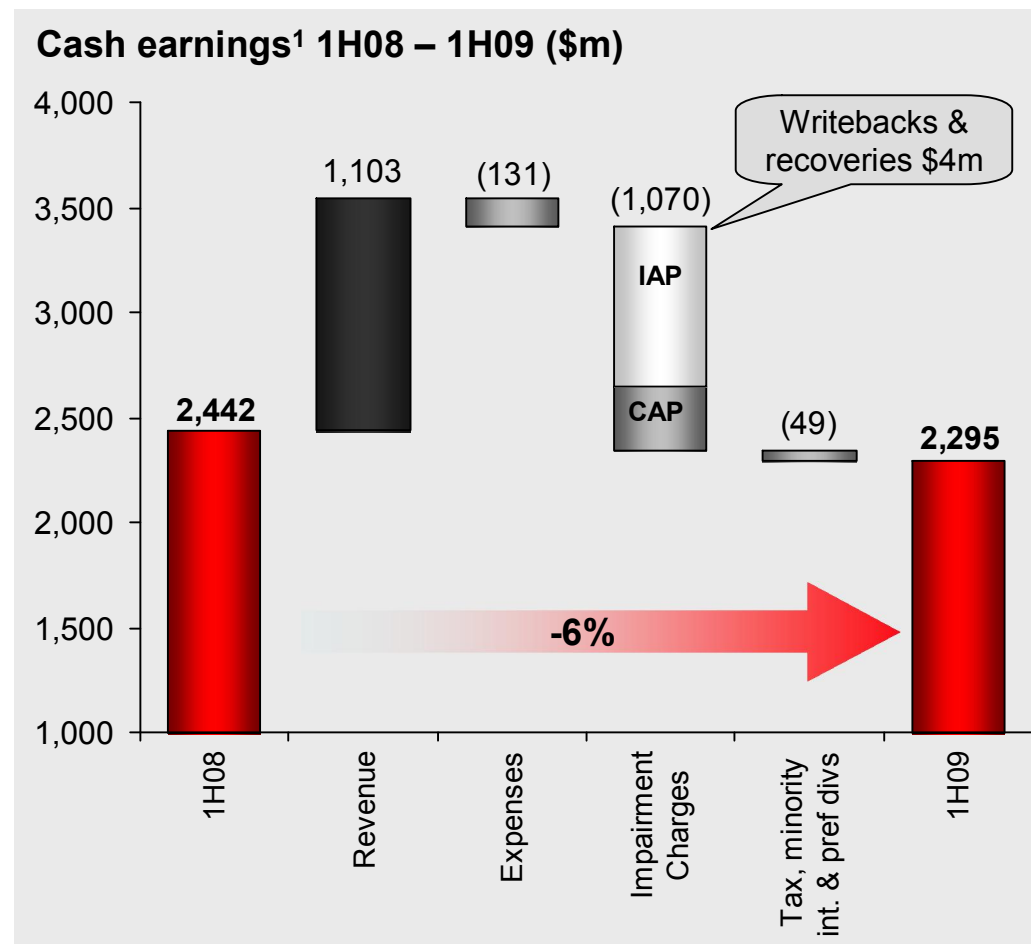
New cash
earnings
adjustments

- Full pro forma accounts for the Westpac Group and each business unit with two comparative periods
- No changes to St. George or Westpac prior period numbers
- Align accounting/risk policies
- Produce statutory and cash earnings accounts
- Detailed reconciliations between statutory earnings and cash earnings and with prior reporting periods
- Merger and integration costs
- Amortisation of intangible assets
- Movements in the fair value of short term deposits/wholesale deposits

Sound performance in current conditions

- Cash earnings¹ down 6%
- Very strong revenue performance:
 - Good volumes with improved margins
 - Exceptional markets income
- Expense growth easing
- Materially higher impairment charges¹:
 - \$764m rise in IAP
 - \$302m rise in CAP
- Higher tax rate¹ at 30.1%
- Similar earnings composition trends over 2H08

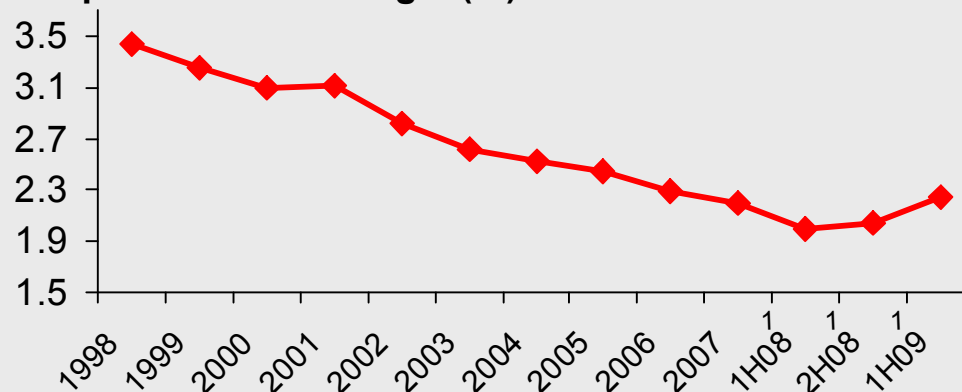
1. Pro-forma basis



Solid volume/margin mix

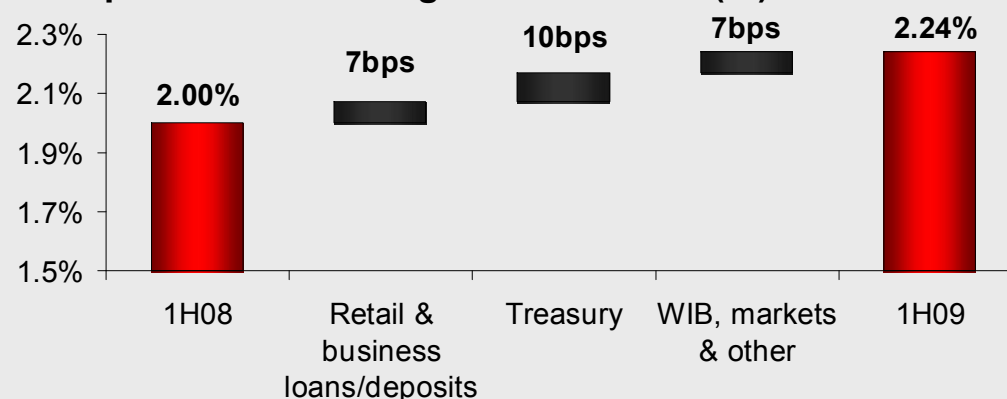
- Lending up 9%; customer deposits up 24%; market share gains offsetting slowing environment
- Margins up 24bps; includes 17bps from Treasury, WIB and Markets
- Retail and business margins up 7bps:
 - Higher lending spreads given higher risk premiums and higher funding costs
 - Deposit spreads sharply lower
- Total margins back to pre-financial crisis levels, retail and business margins still lower

Group net interest margin (%)



1. Half year margins annualised

Group net interest margin 1H08 – 1H09 (%)



Strong Markets and Treasury revenues

- Improved volumes, better market spreads and trading gains. Revenue benefited from:
 - Strong customer flows
 - Increased market volatility
 - Lower market liquidity from exit of some counterparties
- Very strong Treasury result benefiting from big moves in interest rates
- Higher Treasury VaR from market conditions although little change in underlying positions

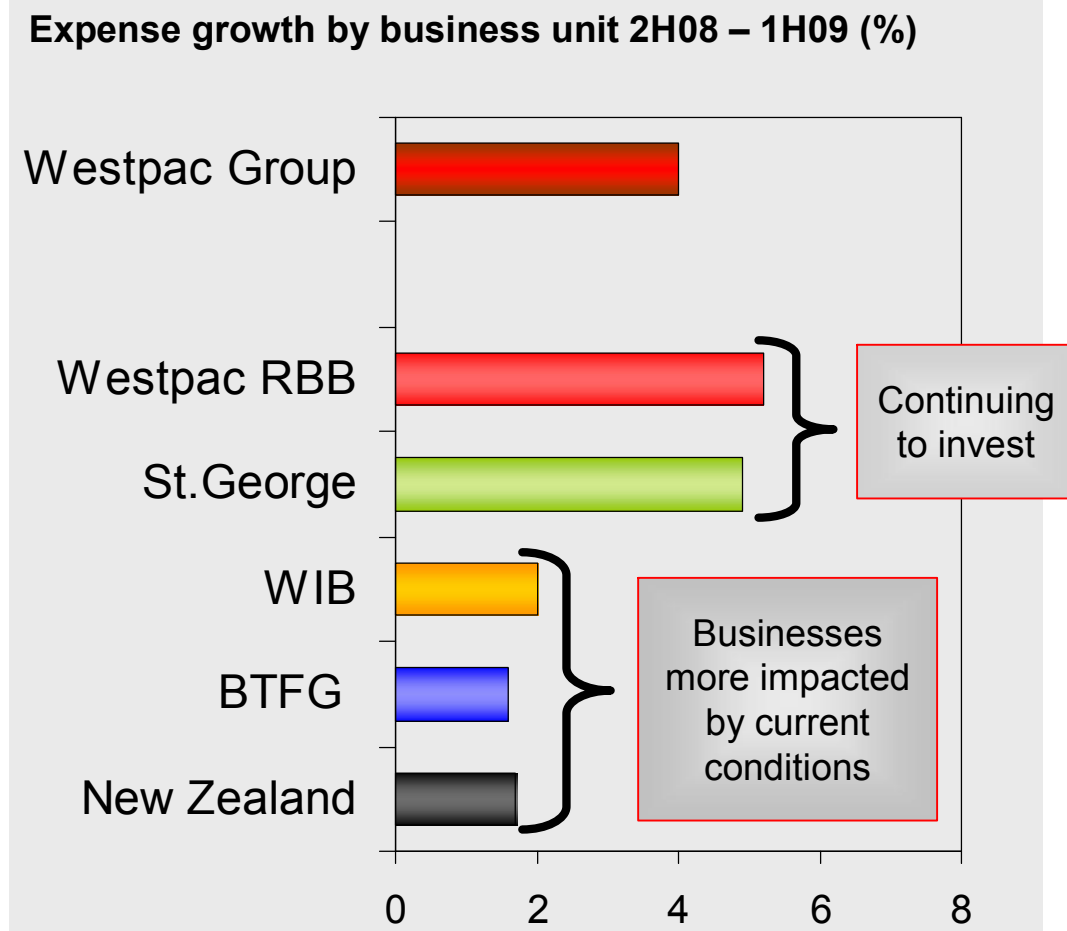
Markets revenue ¹ (\$m)	1H08	2H08	1H09
Customer activity	180	190	337
Trading	170	124	376
Total	350	314	713
Average VaR ²	7.1	9.5	9.3

Treasury revenue (\$m)	1H08	2H08	1H09
Net interest income	158	231	450
Non-interest income	(1)	57	14
Total	157	288	464
Average VaR ²	9.9	22.9	41.4

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

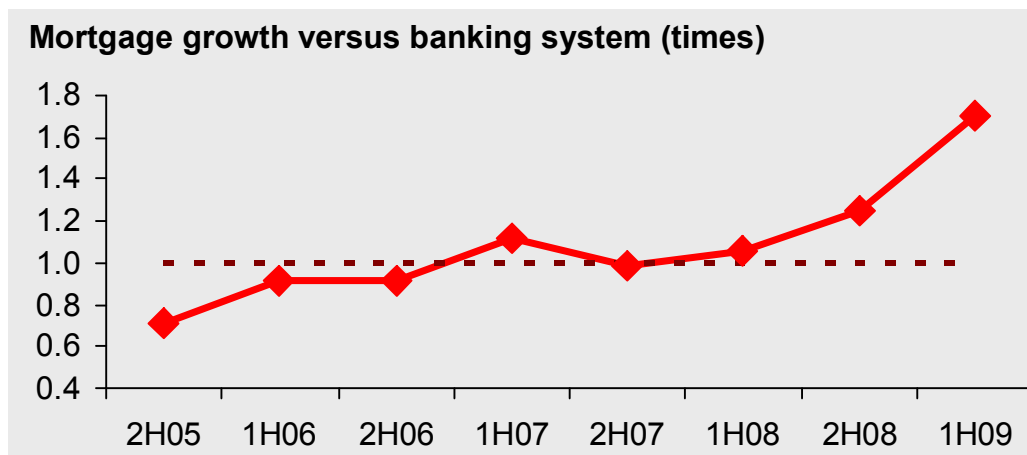
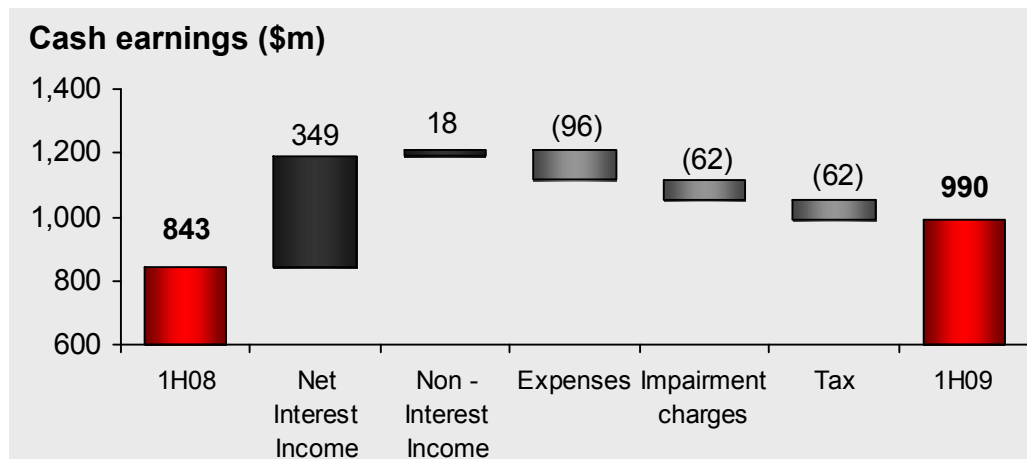
Expense growth easing, matching the tougher environment

- Expenses up 4% over the year and prior half contributing to lower expense to income ratio:
 - Westpac Group 40.4%
 - Banking 38.5%
- One-offs impacting current half
- Business units effectively managing expense profile
- Further savings in the pipeline:
 - Merger benefits coming through
 - Lower economic profit impacting remuneration



Westpac RBB - Investment in front line delivering

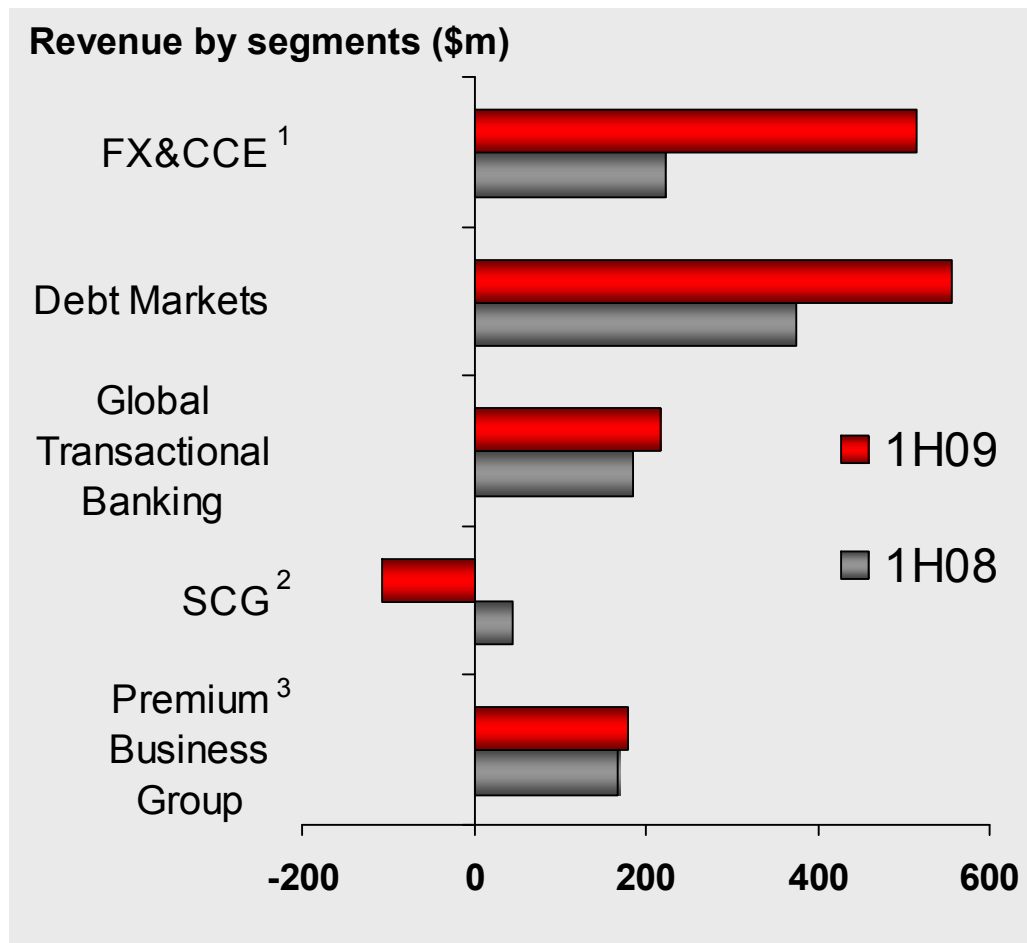
- Strong performance with cash earnings up 17%
- Above system growth in mortgages (+15%) and deposits (+21%), overall margin up
- Impairment charges higher, mostly for small business
- Further front line investment:
 - 258 more employees, 5 new branches and business banking centres
 - 2.36 products per consumer customer, sector leading
- RAMS now profitable on a stand-alone basis



Source: APRA

WIB - Strong revenues offset by higher impairment charges

- Cash earnings \$158m down \$262m from 1H08
- Revenue boosted by strong markets income
- Strong transactional revenue +17%
- Impairment charge \$907m, including margin lending of \$156m
- SCG² negative revenue from asset writedowns
 - \$75m in assets held for ultimate placement into investment vehicles (residual value \$347m)
 - \$12m in direct equity investments (residual value \$54m)
 - \$38 in strategic investments in listed funds (residual value \$37m)



1. FX & CCE = Sales and trading in Foreign Exchange, Commodities Carbon and Energy

2. Specialised Capital Group, incorporating Hastings Funds Management

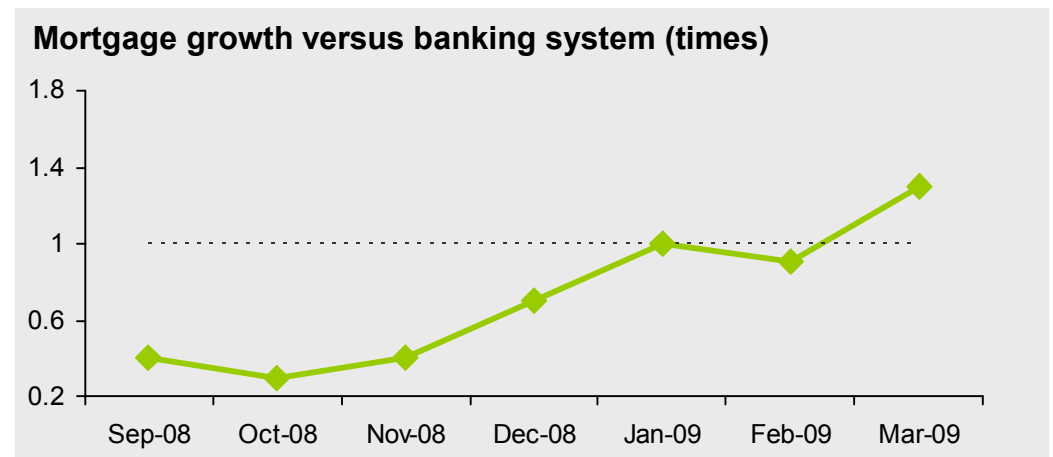
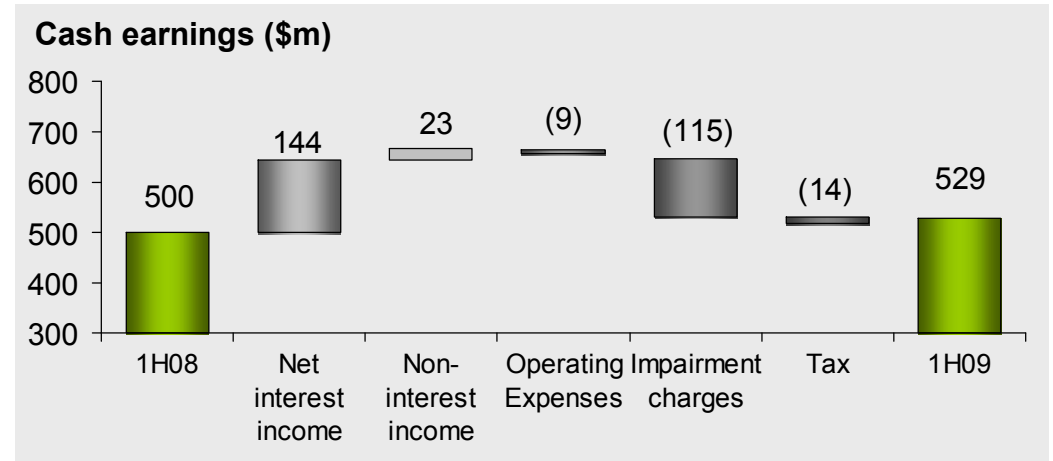
3. Premium Business Group transferred from Westpac RBB in 1H08. Typically includes customers with facilities of between \$10m and \$100m



st.george¹ momentum rebuilding

- Cash earnings up 6%
- Maintaining distinctiveness:
 - High customer satisfaction (77%) and excellent retention
 - Momentum improving over the half, particularly mortgages
- Impairment charges up \$115m mostly larger property customers
- Strong BankSA performance, cash earnings up 20%

1. St.George (including the St.George and BankSA brands) includes consumer customers as well as business customers with facilities typically less than \$150m, this differs from Westpac RBB that typically has business customers with facilities less than \$15m



Source: APRA



BTFG¹ - Market headwinds offset sound business performance

- Cash earnings down 17%
- FUA inflows sound, although FUM and FUA impacted by market movements
- Excellent BT Super for Life sales; more than 100,000 accounts opened
- Insurance cash earnings up 10%:
 - Life insurance in-force premiums up 12%
 - General – improved premiums offset by storms/fires
 - LMI – higher premiums, little change in loss rates
- Expenses flat, realigning to revenue outlook

1. Includes St.George wealth business

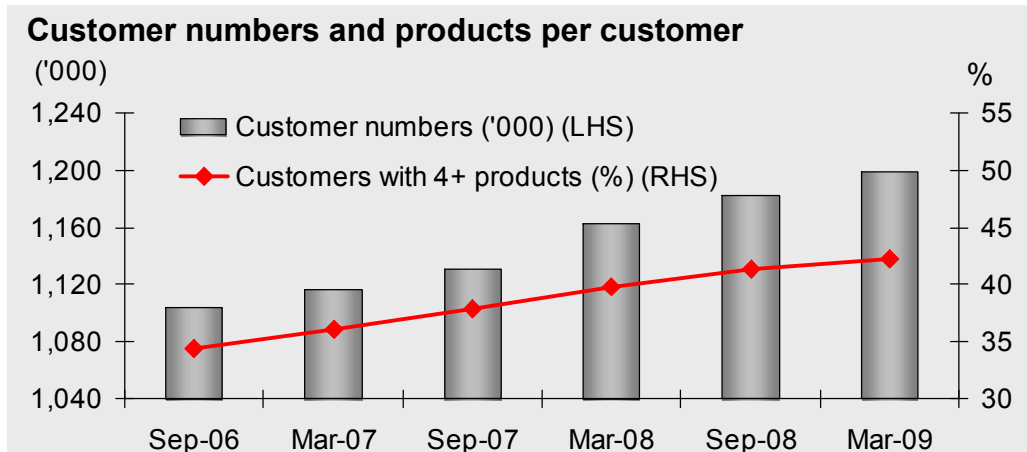
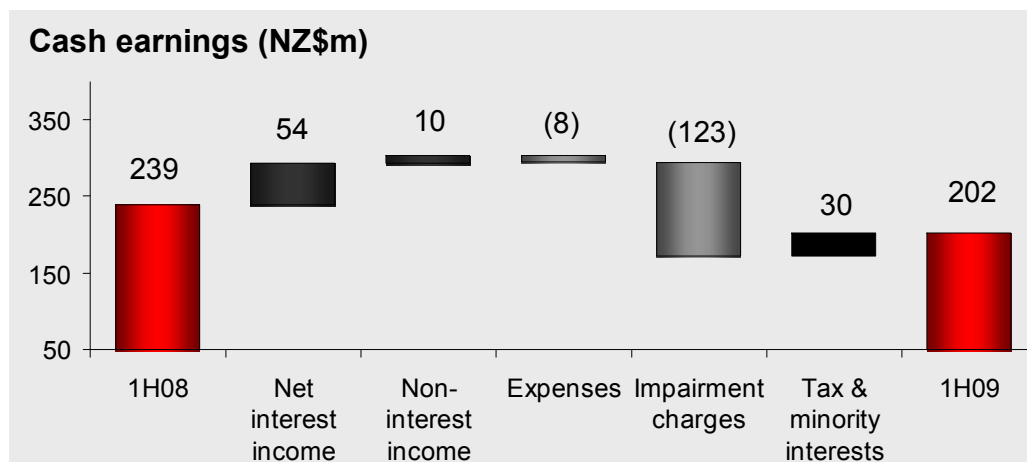
Key performance indicators	% Change 1H08 – 1H09
Cash earnings	↓ 17
Funds management operating income	↓ 15
Insurance net operating income	↑ 15

FUM / FUA	% Change 1H08 – 1H09	
	Net flows	Including market move
Wrap/Asgard FUA	↑ 3	↓ (19)
Corporate Super FUA	↑ 6	↓ (16)
Total FUA	↑ 3	↓ (18)
Total FUM	↓ (1)	↓ (22)

New Zealand - more difficult operating conditions

- Cash earnings down 15%
- Core earnings up 13% from solid income growth
- Customer numbers up 3% over year
- Maintained modest expense growth of 2%
- Impairments up \$123m:
 - Increased business stress particularly in commercial property
 - Higher mortgages losses from small business customers

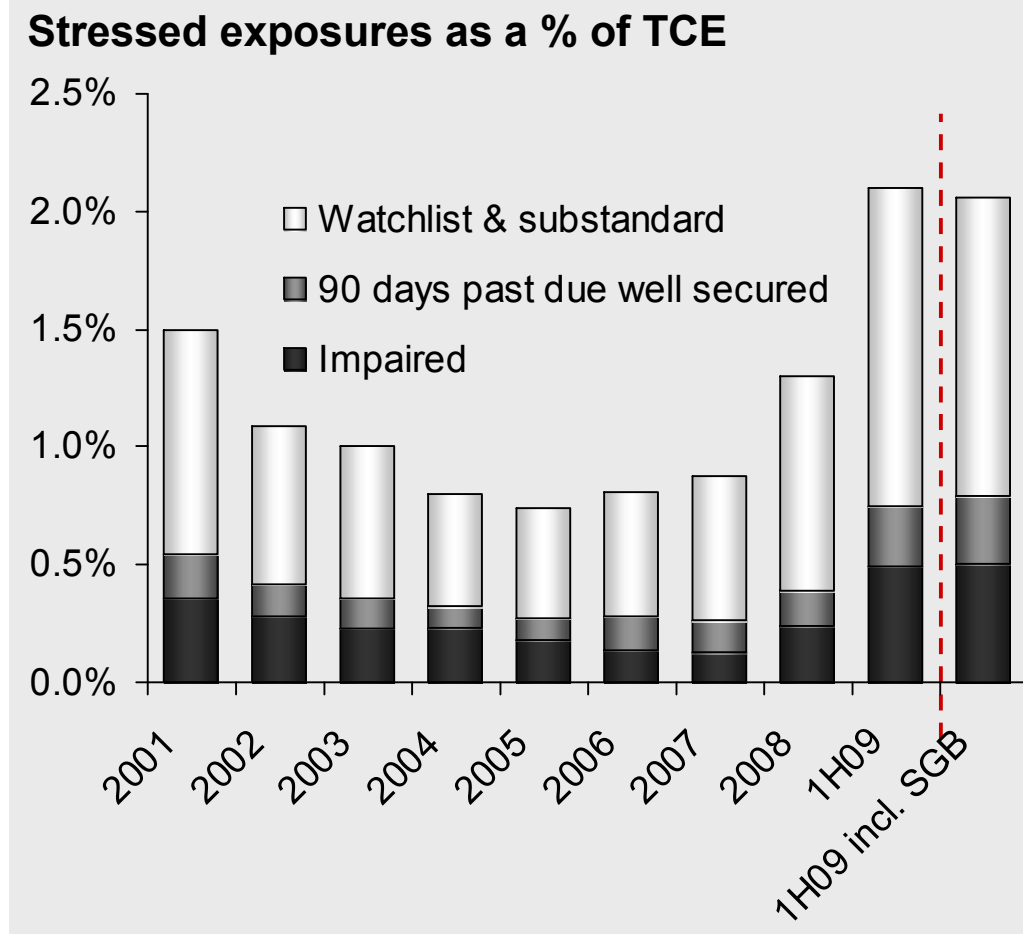
All figures are in NZ\$.



Source: Nielsen Consumer Finance Monitor Toplines Q407-Q109 (March 2009)

Further deterioration in the credit cycle

- Sharp rise in stressed loans
- Impaired assets up:
 - 3 large corporate exposures \$700m
 - Margin lending \$160m
 - Commercial segment
- 90 Days well secured are higher from mortgages and small business
- Watchlist facilities higher, particularly commercial segment, including property
- Risk profile little changed after merger with St.George



TCE is Total Committed Exposure.

Disappointing margin lending performance

- Weak performance driven by lower volumes and a significant increase in impairment charges
- Portfolio review in early 2008 reduced single name concentrations for large facilities – loans >\$10m declined by \$687m to \$603m
- Remaining concentrated facilities impacted by further declines in markets and exposure to closed or illiquid funds
- Substantial provisions raised in response:
 - \$110m in IAP
 - \$46m in CAP covering risk remaining in portfolio

Margin Lending	1H08	2H08	1H09
Standard exposures			
Total exposures	\$5.3bn	\$4.7bn	\$3.5bn
Exposures >\$10m	\$610m	\$430m	\$290m
Impairment losses	nil	\$13m	\$5m
Concentrated ¹ exposures			
Total exposures	\$1.3bn	\$1.1bn	\$0.5bn
Exposures >\$10m	\$680m	\$500m	\$313m
Impairment losses	\$50m	\$16m	\$151m
Total margin lending exposures	\$6.6bn	\$5.8bn	\$4.0bn
Total Gearing / LVR	45%	54%	51%

1. Concentrated exposures = loans >\$3m where a single security represents more than 40% of a customer's portfolio. Also includes loans exposed to illiquid managed funds and all Absolute Investment Loans (100% LVR with capital protection at maturity)
2. Standard exposures are typically loans to a diverse portfolio of listed and liquid securities with conservative LVR

Significant increase in impairment coverage

- Sector leading coverage ratios across the board
- Individually assessed provisions (IAP) up to \$1,416m, with strong coverage
 - New IAPs typically required higher assessed provisions
- Collectively assessed provisions (CAP) up to \$3,067m
 - \$893m from merger, including \$491m in merger adjustments
 - \$30m from portfolio growth/migration
 - \$112m from further economic overlay

Key coverage ratios	1H08	2H08	1H09
	WBC only	WBC only	WBC & SGB
Impaired provisions/ impaired assets	44.2%	45.4%	48.4%
CAP/credit RWA	94bps	105bps	125bps
Total provisions/ to RWA	100bps	111bps	160bps
Total provisions/ gross loans	62bps	69bps	99bps

RWA = Risk weighted assets

Impairment charge¹ supporting higher coverage

Category	Charge (\$m)	Change on 1H 08 (\$m)	Comments
Individually assessed			
New IAP	1,030	567	WIB, from 3 large corporate exposures, increases in stress in Premium Business Group & margin lending
		197	St. George (\$110m) mainly property lending; New Zealand (\$48m) across both business and housing
Write-backs & recoveries	(54)	4	
Total IAP	976	768	
Collectively assessed			
Write-offs	281	47	Predominantly cards from lower debt sale prices
New CAP	461	219	Increase in stressed exposures across all business units, particularly in commercial sector
		81	Further rise in economic overlay (from \$31m in 1H08)
Total CAP	742	347	
Interest adjustments	(107)	(45)	Increases due to increased collective pool
1H09 impairment charge	1,611	1,070	

1. Pro-forma basis

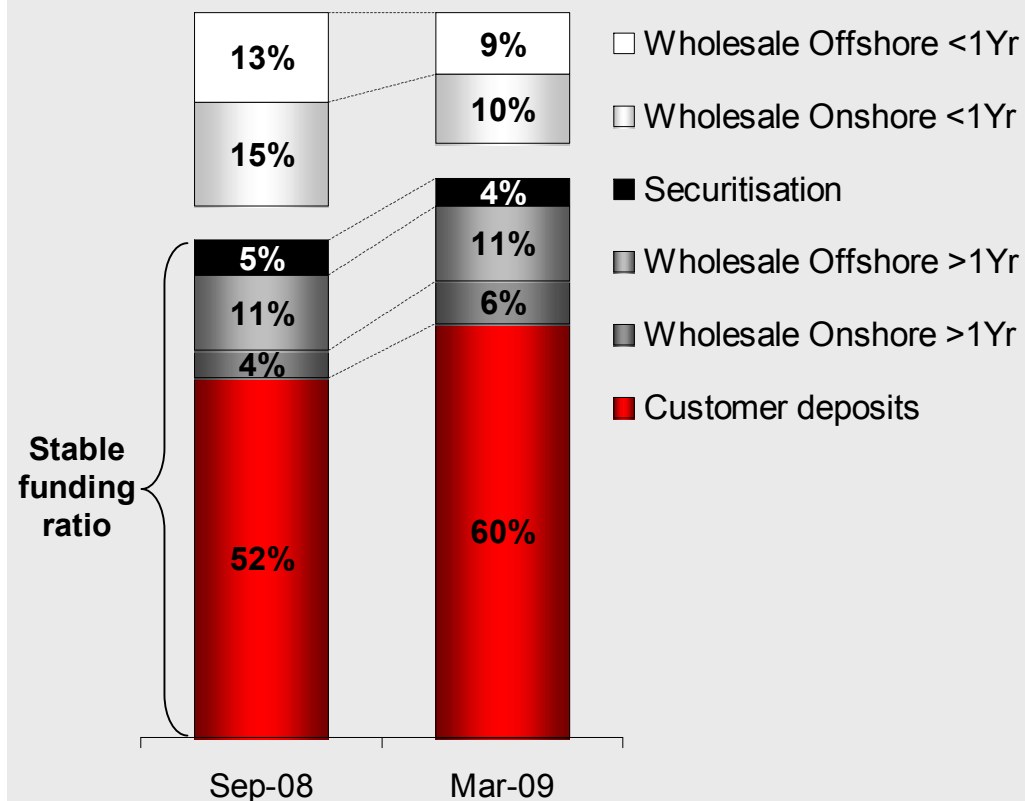
Improved funding profile

- Significantly improved the quality of our funding profile:
 - More customer deposits, up 8 percentage points
 - Increased term funding, up 2 percentage points
- Stable funding ratio² targeting above 75% (currently 81%)
- Liquidity buffer increased

1. Represents % of total net funding. Less than 12 months includes liquid assets excess over target minimum. Netted equally against onshore and offshore

2. Stable funding ratio includes customer deposits plus term funding with a residual maturity greater than one year and securitisation

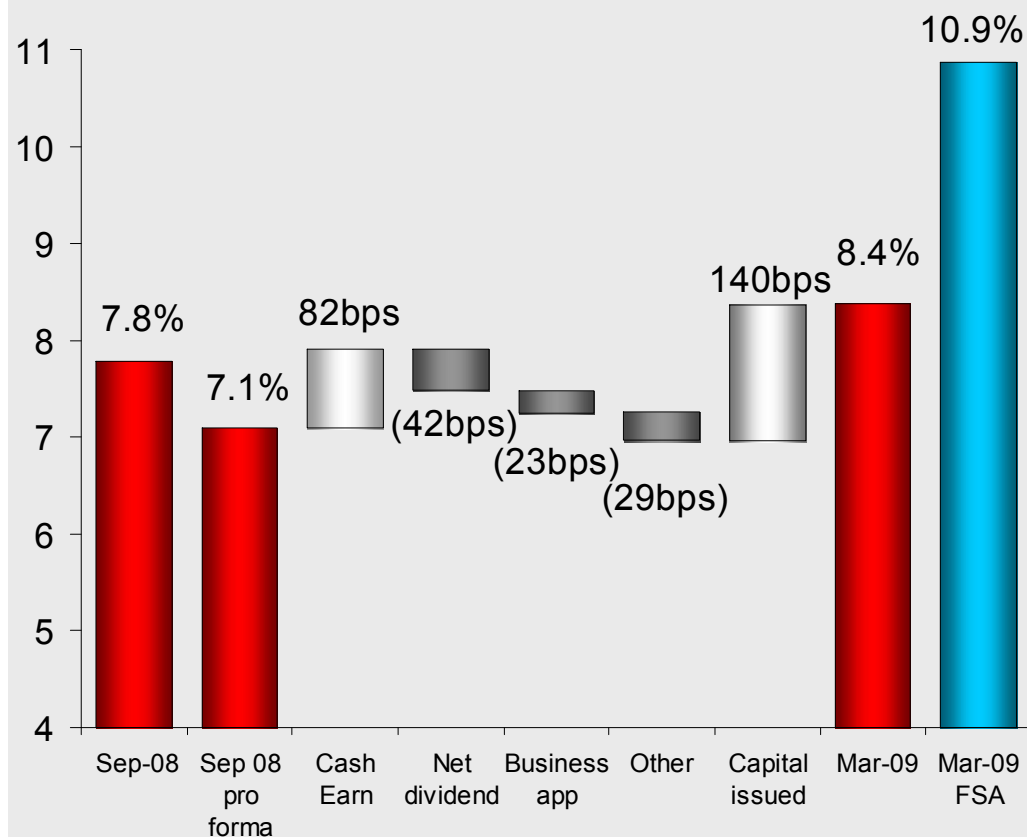
Funding composition by residual maturity¹
(% of total funding)



Strengthened capital position

- Tier 1 ratio comfortably above target range:
 - \$4.7bn in capital raised over the half
 - Merger fair value adjustments impacted capital by \$379m
 - Strong cash earnings with lower dividend
 - Higher 'Other', mostly deferred tax assets
- Fundamental capital (core capital) ratio 6.7%
- Movements in credit quality impacted capital ratios by:
 - 6bps for changes in risk grades
 - 24bps for changes in impairment charges

Tier 1 Capital 2H08 to 1H09 (Basel II) (%)



2H09 considerations

Revenue	<ul style="list-style-type: none">• Treasury and Markets income remaining solid, but unlikely to match 1H09• Financial system credit growth slowing but expect to grow above system• Higher cost of funds, including deposits; lending spreads also to rise
Expenses	<ul style="list-style-type: none">• Merger benefits becoming more prominent• Increased productivity focus gaining traction
Impairments	<ul style="list-style-type: none">• No large single names currently in the pipeline but the economy is still deteriorating• Commercial sector showing increased stress, including property• Expect household sector to remain solid

Summary – a sound financial performance

- Earnings supported by 15% revenue growth, offsetting impairment cycle
- Franchise in good shape:
 - Improving market position in key products
 - Expense run-rate slowing
 - St.George momentum improving
- Further deterioration in credit cycle, but strongly provisioned
- Strong capital, funding and liquidity position



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Gail Kelly
Chief Executive Officer



Strategic priority areas

	Objective	Progress
Customers	Earn all of our customers' business	<ul style="list-style-type: none"> • Products per customer - best of banks (2.36) • Strong uplift in customer deposits, up 24% • Improving cross sell – Insurance, BT Super for Life
Distribution	Strengthen and drive locally empowered business	<ul style="list-style-type: none"> • Multi-brand strategy taking shape • Westpac Local being rolled out, with improved banker empowerment • St.George contact centre globally recognised, improving Westpac contact centres
Operations	Transform service delivery	<ul style="list-style-type: none"> • Simplifying processes eliminating unnecessary requests, improving online tools • Effective use of overflow space between Westpac and St.George

Strategic priority areas ... continued

	Objective	Progress
Technology	Strengthen capability & improve flexibility/simplicity	<ul style="list-style-type: none"> • Completed strategic roadmap incorporating merger • Improved systems reliability • Significantly strengthened IT bench strength
People	Drive one team approach	<ul style="list-style-type: none"> • Employee engagement up to 82% (from 78%) • Effective implementation of merger in operational areas with best from Westpac and St.George teams • New operating model removing organisational barriers to improve cross sell
Merger	Integrate without customer disruption	<ul style="list-style-type: none"> • St.George momentum is building • Westpac RBB strong performance, not distracted • Strong customer satisfaction and retention

Looking ahead

- Depth and length of current recession remains uncertain
- Growth is expected to improve in 2010, although the recovery will be slower and will take longer than prior cycles
- Household sector is expected to perform reasonably well, notwithstanding higher unemployment
- Westpac risk settings to remain conservative
- Positioned to continue supporting customers



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