AUSTRALIAN

RESEARCH

MANAGED INVESTMENTS ANALYSIS

Westpac Maximiser

April 2010

Deferred Purchase Agreement that provides exposure to the performance of the S&P/ASX 200 Index

Aegis Measured by Performance

Contents

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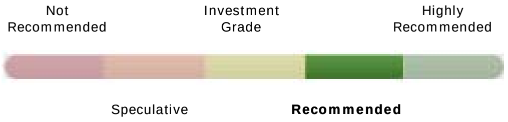
Note: This report is based on the Westpac Maximiser PDS, dated **16 April 2010**, together with other information provided by Westpac Banking Corporation as at April 2010.

Australian Managed Investments

Structured Products

Westpac Maximiser

Deferred Purchase Agreement that provides exposure to the performance of the S&P/ASX 200 Index



Offer Overview

Product Summary

Westpac Maximiser (the *product*) is issued by Westpac Banking Corporation (the *Issuer*). The product is structured as a Deferred Purchase Agreement (*DPA*) that provides exposure to the performance of the S&P/ASX 200 Index over a five-year period. The product offers two strategies from which investors can select. Strategy A has unlimited return potential and will have a participation rate of between 85% and 100%. Strategy B will have a participation rate of between 175% and 200%, with the movement of the index capped at 100%. Both strategies offer capital protection. Strategy A offers 100% capital protection and Strategy B offers 75% capital protection. Investors are not eligible to receive any dividends paid out by companies within the S&P/ASX 200 Index over the period. Capital protection will be provided via a zero coupon bond (*ZCB*). At maturity, investors may elect to receive the delivery asset, which will be a security determined by the Issuer, or cash (see *Product Structure*, page 5). The amount received will be equal to the greater of the protected amount or the amount as calculated on the basis of the index performance and the participation rate for the respective strategies (calculations detailed in Section 4). There is no secondary market for the product. Investors may submit an early withdrawal request, which will be processed at the end of each calendar quarter; however, acceptance of the request is at the discretion of the Issuer.

Investment View

Investor Suitability

An investment in the product is suited to those investors who are seeking exposure to the domestic market but have a low to medium level of risk tolerance. This product is appropriate for those investors who are concerned about market volatility over the medium term and, hence, seek to ensure that losses are capped in the event the market moves in an adverse direction over the investment term. An investment in Strategy A is for those investors who have no tolerance for loss. With respect to Strategy B, given the amount the index has to increase to redeem the initial investment amount at maturity, investors should have a moderately positive outlook on the Australian market. Aegis' backtesting indicated that Strategy B outperformed Strategy A over the period of our backtesting. Investors have no entitlement to dividend income throughout the investment term. As such, this product is not suitable for those investors seeking a regular income.

Recommendation

Aegis has assigned Westpac Maximiser with a **Recommended** rating.

Offer Details

Offer Period	19 April 2010 - 4 June 2010
Issue Date	18 June 2010*
Maturity (years)	18 June 2015 (five)*
Min. Investment	A$10,000
Liquidity	Not listed
Distributions	None

*Dates are indicative.

Risk/Return Profile*

*This profile reflects Strategy B.

Fees (paid to advisors), incl. GST, %

Up-front	Up to 2.2
Ongoing	n/a

Note: The above represent the maximum advisor fees payable by investors. Actual fee levels are subject to the commercial relationship between investors and advisors.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

SWOT Summary

Strengths

- Capital protection is provided over the full investment amount in Strategy A and 75% of the investment amount in Strategy B.
- Strategy B offers investors the ability to leverage their investment by 75% to 100% (depending on the participation rate set), providing investors the opportunity to participate in returns in excess of those that would be generated from a direct investment in the market.
- The Issuer is utilising a ZCB to provide capital protection. This method ensures that volatility and correction risk are borne by the Issuer, whereas with the alternate method (constant proportion portfolio analysis (*CPPI*)), these risks are borne by the investor. Given the recent volatility in the market, Aegis views ZCB as the most appropriate capital protection mechanism for this product.

Weaknesses

- No entitlement to dividends over the investment term.
- Lack of transparency with respect to fees and early redemption value due to lack of disclosure of option pricing.
- The participation rate in Strategy A will likely be set at less than 100%, which means investors' returns will likely be less than the return of a direct investment in the S&P/ASX 200 Index. From January 1980 to March 2010, on a rolling five-year basis, with a participation rate of 85%, Strategy A underperformed the index 97.37% of the time.
- The use of capital protection in Strategy B means that the index has to increase by more than 25% (given the maximum participation rate) or 33.3% (given the minimum participation rate) for the Strategy to outperform a direct investment in the market.

Opportunities

- Both strategies provide investors who may be concerned about volatility over the medium term with the opportunity to gain exposure to the domestic market.

Threats

- With Strategy B, the index has to increase by about 14.3% if the participation rate is 175% and 12.5% if the participation rate is 200% for an investor to redeem the investment amount.
- For Strategy B, the movement of the Index is capped at 100% over the investment term. This may result in investors missing out on potential upside in the index.

Product Fees (paid by investors)

Base Fees, % of Assets	Product	Sector Avg.
Up-front[1]	2.2	1.9
Ongoing[2]	n/a	1.7
Exit[3]	0.22	0.20

[1]Assumes maximum advisor commission. Actual commissions may be less.
[2]This is a set-and-forget product. As such, there are no explicit ongoing fees incurred by investors.
[3]Exit fees include the delivery deduction fee at maturity. Note, if investors elect to receive cash settlement at maturity, an additional 0.22% fee will be incurred. In the event of an early withdrawal by an investor, a fee of 1.10% of the greater of the aggregate investment amount or the early withdrawal amount will be incurred.

Total Fees, % of Expected Total Return*

	Product	Sector Avg.
Up-front	3.4	2.9
Ongoing	0.0	14.2
Exit	0.0	0.3
Total	**3.4**	**16.7**

*Based on an average return of 13% p.a.

Performance Fees

n/a

Indirect Fees/Product Costs

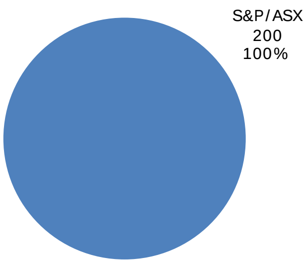
Product costs include those associated with the options to provide the participation rate and the costs associated with providing the capital protection. In addition, investors forego the dividends and associated franking credits issued by companies in the index for capital protection.

Fee Commentary

Transparency of fees is poor, given a lot of the fees/costs associated with the product are implicit in the option pricing. The cost to investors represents the opportunity cost of a lower participation rate than would otherwise be determined in the absence of the Issuer taking a profit margin. The extent of the opportunity cost is unknown, given the pricing structure is not disclosed by the Issuer.

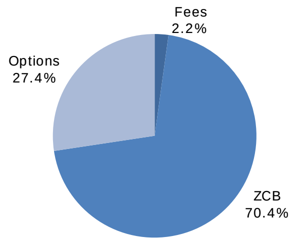
Portfolio Diversification

By Strategy

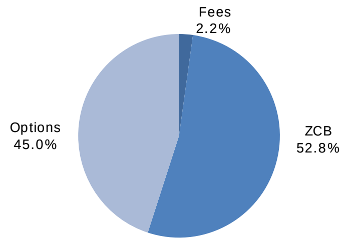


By Financial Instrument (Indicative)

Strategy A



Strategy B



2. Structure

Product Overview

Westpac Maximiser (the product) is issued by Westpac Banking Corporation (the Issuer). The product is structured as a DPA providing exposure to the performance of the S&P/ASX 200 Index over a five-year period. Upon issue, fees are deducted from the investment amount and the remaining funds are notionally invested in two asset classes (the amount depending on the respective strategy and market conditions at the time of investment): (1) a ZCB for capital protection and (2) an option providing exposure to the performance of the S&P/ASX 200 Index.

The product offers two strategies from which investors can select. Strategy A has unlimited return potential and will have a participation rate of between 85% and 100%. Strategy B will have a participation rate of between 175% and 200%, with the participation in the movement of the index capped at 100%. Participation rates will be determined on the issue date and fixed for the investment term. Both strategies offer capital protection. Strategy A offers 100% capital protection and Strategy B offers 75% capital protection. Investors are not eligible to receive any dividends paid out by companies within the S&P/ASX 200 over the investment term. It should be noted that the capital-protected amount will be equal to the initial investment amount minus the up-front fee. For example, if maximum fees were incurred, a A$10,000 investment in Strategy A would result in A$9,780 being protected while a A$10,000 investment in Strategy B would result in A$7,335 being protected. In addition, delivery deductions and/or cash settlement fees will be incurred upon maturity.

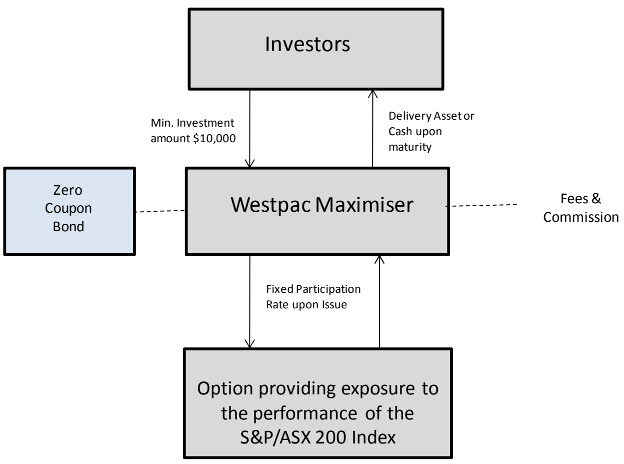
At maturity, investors will receive the greater of the capital-protected amount or the performance of the product as calculated by the Issuer, less delivery deductions or cash settlement fees. The calculation method used to determine the performance of the product is detailed in Section 4. Investors may elect to receive the delivery asset or cash at maturity. The delivery asset will be one of the following stocks selected by the Issuer: Telstra Corporation Limited (TLS), BHP Billiton Limited (BHP), Woolworths Limited (WOW), Commonwealth Bank of Australia (CBA) or SPDR S&P/ASX 200 Fund (STW).

There is no secondary market for the product. For early withdrawal requests, see *Exit Details*.

Key Exposure	
Underlying Exposure:	Performance is linked to the S&P/ASX 200 Index. Return at maturity is determined by the product performance calculation.
FX Exposure:	None

Exit Details	
Exit Facility:	The product is expected to be held to maturity. Investors may submit an early withdrawal request to the Issuer prior to the maturity date; however, acceptance of the request is at the discretion of the Issuer. Early withdrawal requests will be processed at the end of each calendar quarter. If an early withdrawal request is accepted, then the withdrawal amount will be determined by the Issuer. The amount received will be the fair economic value of the underlying investment, as determined by the Issuer, minus any costs associated with terminating the investment. Early withdrawal invalidates capital protection and may result in the investor receiving an amount lower than the initial investment amount.
Issuer Early Redemption:	The Issuer may terminate the investment if an early termination event occurs (see PDS for a list of early termination events). The amount received will be the fair economic value of the underlying investment minus any costs associated with the termination of the investment, including break costs, funding costs and administrative costs.

Investment Structure



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Product Leverage	
Used:	Leverage is implicit in the option structure and is reflected in the participation rate.
Cost (incl. Fees):	The cost of leverage is not separately disclosed. The cost of leverage is implicit in the margin between the fair market value of the options and the actual pricing of the options. The cost to investors, therefore, is represented by the opportunity cost of a lower participation rate than would otherwise be determined in the absence of a profit margin to the Issuer.
Recourse:	n/a
Capital Protection	
Method:	ZCB (notional) – The benefit of the ZCB method of capital protection in comparison to the CPPI method for this product is that a ZCB is not adversely affected by market volatility or a market correction. That is, the ZCB method does not expose the investor to being less than 100% exposed to the underlying strategy as a consequence of deleverage events. The disadvantage of the ZCB method is the lack of entitlement to dividend income.
Conditions:	Must be held to maturity.
Cost:	Opportunity cost embedded in the ZCB.
Counterparty Risk:	The risk that Westpac Banking Corporation (S&P: AA) fails in its obligation to provide capital protection at maturity.
Tax	
Disclaimer:	Tax consequences depend on individual circumstances. Investors must seek their own taxation advice. The following comments show Aegis' expectation of tax for ordinary Australian taxpayers, but cannot be considered tax advice.
Capital gains:	A capital gains tax (*CGT*) event is likely to apply upon both the maturity of the product and the sale of the delivery asset if the investor elects to accept the delivery asset at maturity, given a capital gain is made. The cost base for the CGT calculation will likely be reduced after the CGT event at the maturity of the product and so investors will not be double-taxed for capital gains upon the sale of the delivery asset post maturity. Investors will likely be eligible for the CGT discount (50% for individuals and 33.3% for super funds) at the maturity of the product if the delivery asset is redeemed and upon the sale of the delivery asset post maturity, given the delivery asset has been held for greater than 12 months post maturity of the product. Note that investors who elect to take cash at maturity may not be eligible to receive the CGT discount on any gain made upon the disposal of their securities by Westpac.
Distributions:	Dividends will not be received by investors and investors will not be eligible for franking credits issued by companies in the S&P/ASX 200 Index over the investment term.
Interest deductibility:	No
Foreign Income Fund (*FIF*):	No
Legal Structure	
Wrapper:	Deferred Purchase Agreement
Custodian:	n/a
Trustee:	n/a
Offer Document:	The Product Disclosure Statement (*PDS*), dated 16 April 2010, has not been lodged with the Australian Securities Investment Commission (*ASIC*) and is not required by the *Corporations Act* 2001 to be lodged with ASIC.
Returns	
Capital vs. Income:	Returns will be on capital account, with returns linked to the capital growth of the S&P/ASX 200 Index over the five-year investment term (minus associated costs and fees).
Income Frequency:	Investors will not receive any dividends distributed by companies in the S&P/ASX 200 Index.
Foreign Currency Risk:	No
Investor Leverage	
Available:	n/a
Cost (incl. Fees):	n/a
Recourse:	n/a
Risks	Investments in structured products are subject to a range of risks, including general market risks and risks specific to the product. Refer to the PDS for a full list of risks associated with this product.

3. Management & Corporate Governance

Board of Directors

The directors of Westpac Banking Corporation are not directly involved in the product; however, they are involved in determining the overall strategy of the Westpac Group. The group has board-approved corporate governance principles, which include maintaining a board that consists of a majority number of independent directors.

Management Team

The product will be managed by the Westpac Structured Investments team, which sits within the Equities Division of Westpac Institutional Bank. Westpac has been issuing structured products to the Australian retail market for 10 years. The product is essentially a 'set and forget' product. With the derivative structures being entered into on day one, the management team has limited involvement in the product beyond the issue date.

Information Flow

Indicative values of the product will be published on the Westpac website (www.westpac.com.au/structuredinvestments) on a monthly basis. The indicative value will reflect the fair economic value of the product at that point in time. A statement providing the details of an individual's investment will be provided on an annual basis. At least 20 business days prior to maturity, investors will be issued with a Settlement Election Form, in which investors nominate either physical settlement or cash settlement.

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4. Investment Process

Investment Philosophy/Objective

The objective of the product is to provide capital-protected exposure to the S&P/ASX 200 Index. The product is intended to provide a choice to investors with differing risk-return appetites. This is achieved by offering two strategies that provide differing levels of capital protection and differing levels of participation at maturity.

The Issuer has chosen to utilise a ZCB to provide capital protection for the product. Given the recent volatility in the market, Aegis views ZCB as the most appropriate capital-protection mechanism for the product. The Issuer has selected the S&P/ASX 200 Index as the basis for the product's return, as this index is commonly used to represent the performance of the domestic market.

Return Calculation Methodology

Return at maturity is calculated using the following methodology for the respective strategies:

Strategy A – The greater of the capital-protected amount or an amount equal to A + [A x B x (D-C)/C]

Strategy B – The greater of the capital-protected amount or the lesser of

- A x 0.75 + [A x B x Cap Level] and
- A x 0.75 + [A x B x (D-C)/C].

Where:

A = The Investment Amount

B = The Participation Rate

C = The Index level on the Issue Date

D = The Index level at the Maturity Date

Cap Level = 100% (returns will be capped at this amount).

Figure 1 below provides an example of the calculation methodology. For illustration purposes, we have used the minimum possible participation rate. Please note that this example is for illustration purposes only and does not reflect in any way the potential outcomes of the product.

Figure 1. Example of Return Calculation

	Strategy A	**Strategy B**
Investment Amount	$10,000	$10,000
Participation Rate	85%	175%
Cap Level	0%	100%
Index level at Issue Date	4,000	4,000
Index level at Maturity Date	6,000	6,000
Return	10,000+[10,000 x 85% x (6,000-4,000)/4,000] = **$14,250**	10,000 x 75%+[10,000 x 175% x (6000-4000)/4000]= **$16,250**[1]
Return (%)	42.50%	62.50%
Return (p.a.)	7.34%	10.20%

[1] The latter of the two calculation methods was used for this calculation. The former of the two calculations listed will only be used if the index level at maturity is greater than 100% above the index level at the issue date.

Source: Aegis Equities Research

5. Performance Analytics

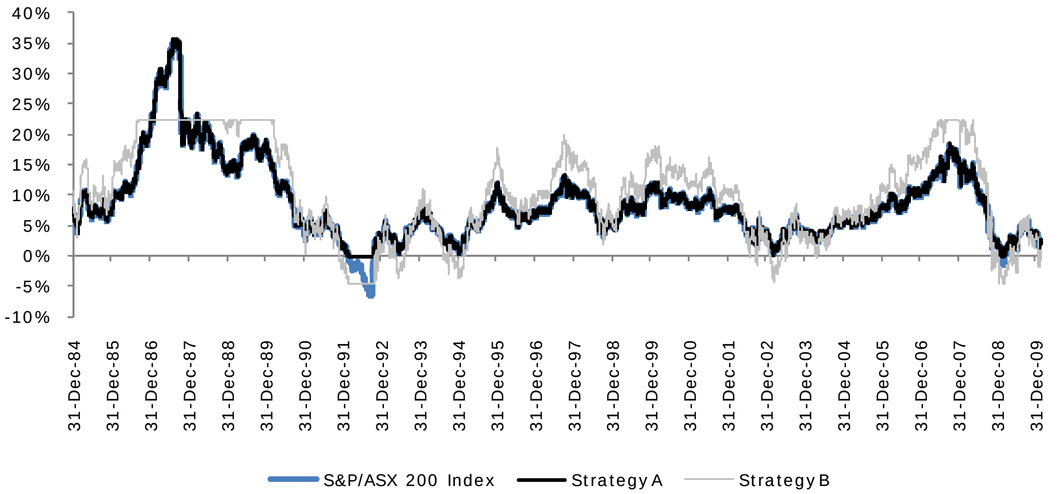
The key points of the performance analysis are as follows:

- The historical market data used by Aegis in the analysis were provided by Westpac and have not been verified by Aegis;
- Note that calculations do not take into consideration product fees. Therefore, the results for the two strategies may be slightly overstated. In addition, the analysis is based on the historical performance of the index and the strategies to provide some direction for investors; however, it should be noted that past performance does not reflect future performance;
- Strategy A outperformed the index only 2.63% of the time on a rolling five-year basis from January 1980 to March 2010 with a 100% participation rate. Outperformance of the strategy occurred when the index generated negative returns over the five-year period. The return was the same in all other observations less fees. With the minimum participation rate of 85%, Strategy A outperformed the index only 2.63% of the time on a rolling five-year basis; and
- Strategy B outperformed the index 69.11% of the time on a rolling five-year basis from January 1980 to March 2010 with a 200% participation rate. Periods of underperformance occurred when the index level fell by less than 25% and increased by less than 25% or the returns were in excess of the cap level. With the minimum participation rate of 175%, Strategy B outperformed the index only 53.8% of the time over the same period. Outperformance over the index was reduced with the lower participation rate because the return required for the strategy to outperform increased from 25% to about 33.3%.

Historical Performance

Figure 2 illustrates the historical performance of the S&P/ASX 200 Index compared to the two strategies on a five-year rolling basis (annualised) from January 1980 to March 2010 incorporating the maximum participation rates for the two strategies. The S&P/ASX 200 Index excludes dividends. As the Index has only been in existence since 31 March 2000, Index performance between 1 January 1980 and 28 May 1992 has been simulated with reference to the All Ordinaries Index and performance between 29 May 1992 and 30 March 2000 has been simulated with reference to the S&P/ASX 200 calculation methodology. Had the S&P/ASX 200 Accumulation Index been used, it is likely that both strategies would not have performed as well, as the accumulation index includes dividends paid. As can be seen in the figure, Strategy B outperformed both the index and Strategy A for a large portion of the period; however, it underperformed both the index and Strategy A when the market surged throughout the 1982 to 1987 period, resulting in returns well in excess of the cap level of Strategy B. Strategy B also underperformed the market during those periods when the index decreased by less than 25% or increased by less than 25% over the investment term. Strategy A performed largely in line with the index, with the only difference occurring when the index generated a negative return over the five-year period. Over the observation period, Strategy A outperformed the index 2.63% of the time.

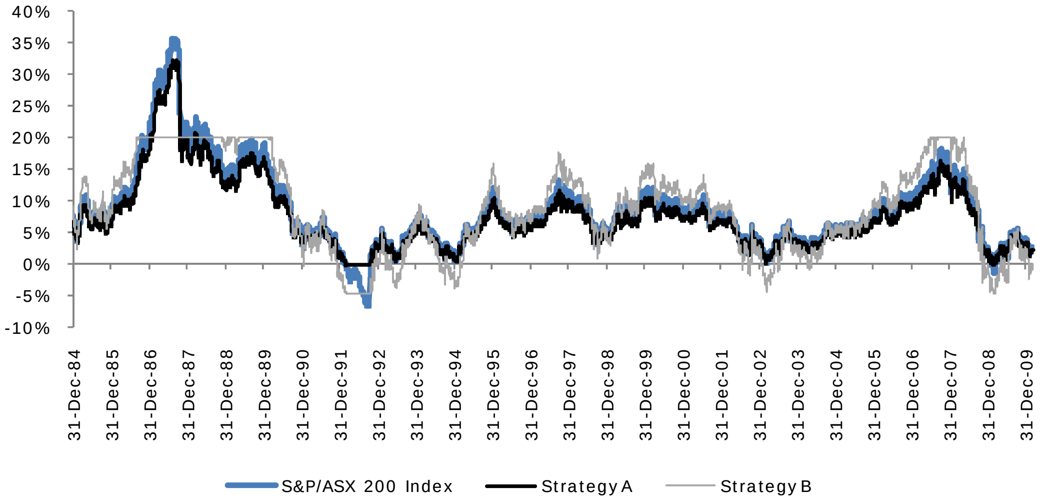
Figure 2. Historical Performance of S&P/ASX 200 Index vs. Strategies With Maximum Participation Rates (January 1980 to March 2010)



Source: Westpac Banking Corporation/Aegis Equities Research

Figure 3 illustrates the historical performance of the S&P/ASX 200 Index compared to the two strategies on a five-year rolling basis (annualised) from January 1980 to March 2010 using the minimum participation rates for the two strategies. Strategy B continued to outperform both the index and Strategy A for a majority of the observation period; however, the strategy outperformed to a lesser extent. One of the main reasons for the reduced level of outperformance over the index was that the amount required for Strategy B to increase over the index increased from 25% to 33.3%. Strategy A underperformed the index over the observation period 97.37% of the time due to the reduced participation rate. As with the maximum participation rate, Strategy A outperformed only when the index generated a negative return over the five-year period.

Figure 3. Historical Performance of S&P/ASX 200 Index vs. Strategies with Minimum Participation Rates (January 1980 to March 2010)



Source: Westpac Banking Corporation/Aegis Equities Research

Figure 4 provides a summary of the five-year rolling returns analysis over the observation period (January 1980 to March 2010). The capital protection offered by the two strategies ensured that the losses made by the strategies were restricted compared to those of the Index. The cap level imposed on Strategy B resulted in the maximum return observed being significantly less than that of the Index and Strategy A, which is not capped. The figure shows the impact on the returns of the two strategies when the participation rate is lowered. The volatility of Strategy A over the observation period is less than that of the Index, whereas the volatility of Strategy B is greater than that of the Index. This is expected, given the inherent leverage in the strategy.

Figure 4. Summary of Five-year Rolling Returns (January 1980 to March 2010)

	S&P/ASX 200	**Strategy A**		**Strategy B**	
		Minimum Participation Rate (85%)	Maximum Participation Rate (100%)	Minimum Participation Rate (175%)	Maximum Participation Rate (200%)
Min. Return[1]	-36.55%	0.00%	0.00%	-25.00%	-25.00%
Max. Return[1]	358.23%	304.49%	358.23%	150.00%	175.00%
Average Return (p.a.) annualised	9.43%	7.93%	9.17%	9.49%	11.12%
Outperformance of Strategy as a % of observations[2]		2.63%	2.63%	53.8%	69.11%
Underperformance of Strategy as a % of observations[2]		97.37%	97.37%	46.2%	30.89%

[1] For each of the Strategies the minimum and maximum returns are calculated on the investment amount to give the maturity amount (product fees and deductions are excluded).

[2] Figures reflect percentage of time the two strategies outperformed/underperformed the Index over the observation period after accounting for the advisor deduction and delivery deduction, but excluding any cash settlement fees.

Source: Westpac Banking Corporation/Aegis Equities Research

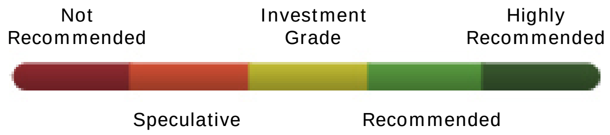
Appendix – Ratings Process

Aegis has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors.

Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

The Ratings

Our rating is based on the following scale:



Highly Recommended: indicates that Aegis believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and scored exceptionally in a number of categories. It has an attractive risk/return trade-off; however, we caution that the risk/return trade-off will not be suitable for all investors.

Recommended: indicates that Aegis believes this is an above average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above average risk/return trade-off; however, we caution that the risk/return trade-off will not be suitable for all investors.

Investment Grade: indicates that Aegis believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation parameters. The product may provide unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off; however, we caution that the risk/return trade-off will not be suitable for all investors. In the previous five category rating system, this category was termed 'Approved'.

Speculative: indicates that Aegis believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While Aegis does not rule out investing in this product, investors should be very aware of, and be comfortable with, the specific risks. The product may provide unique diversification opportunities; however, concerns over one or more features means that it may not be suitable for most investors.

Not Recommended: indicates that Aegis believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. However, this does not mean that the product is without merit.

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