

# Investor Discussion Pack

June 2003

## Disclaimer

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The material contained in this presentation is intended to be general background information on Westpac Banking Corporation and its activities.

The information is supplied in summary form and is therefore not necessarily complete. Also, it is not intended that it be relied upon as advice to investors or potential investors, who should consider seeking independent professional advice depending upon their specific investment objectives, financial situation or particular needs.

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# Earnings terminology

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- Cash earnings - strips out EV uplift in 2002 and adjusts for hybrid distributions, adds back goodwill amortisation
- Reported - includes everything
- Underlying - removes individually significant items in 2H02
- Ongoing - adjusted for acquisitions and AGC divestment

Focus on cash underlying, given:

- Significant items in 2H02 were non-recurring
- Base on which dividends are determined

Ongoing earnings used to highlight organic growth

# Maintaining growth momentum

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- **High quality result**

- Reported cash earnings of \$1,095m up 10%
- Ongoing cash earnings of \$1,075m up 19%
- Dividend of 38 cents per share fully franked up 12%
- Cash return on equity maintained at 21%

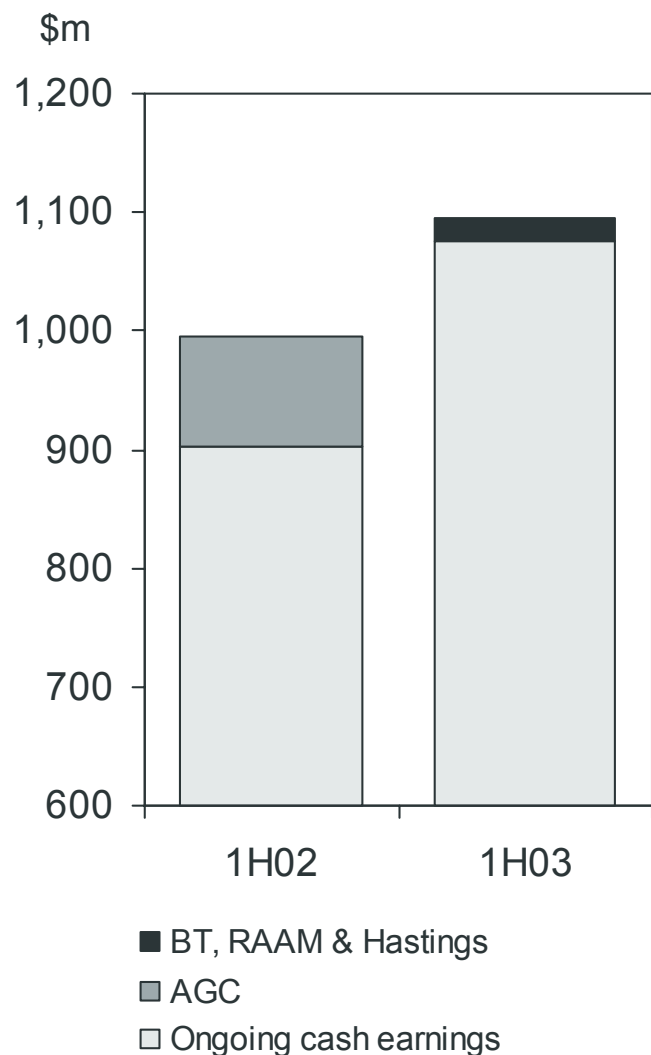
- **Key drivers of growth**

- Robust loan growth with no margin deterioration
- Australian Retail business cash earnings up 13%
- Turnaround in New Zealand Banking, cash earnings up 46%
- Institutional Bank – back to trend performance, cash earnings up 64%
- Re-acquiring AGC business finance assets ahead of expectations

- **Quality of earnings significantly improved**

- Wealth management:
  - Integration progressing well
  - Additional synergies identified \$51m
  - Wealth cash earnings up 10%
- No significant or one-off items in 1H03
- Improved asset quality, with lower net non-accrual loans down 40%

# Revenue growth underpinning the result

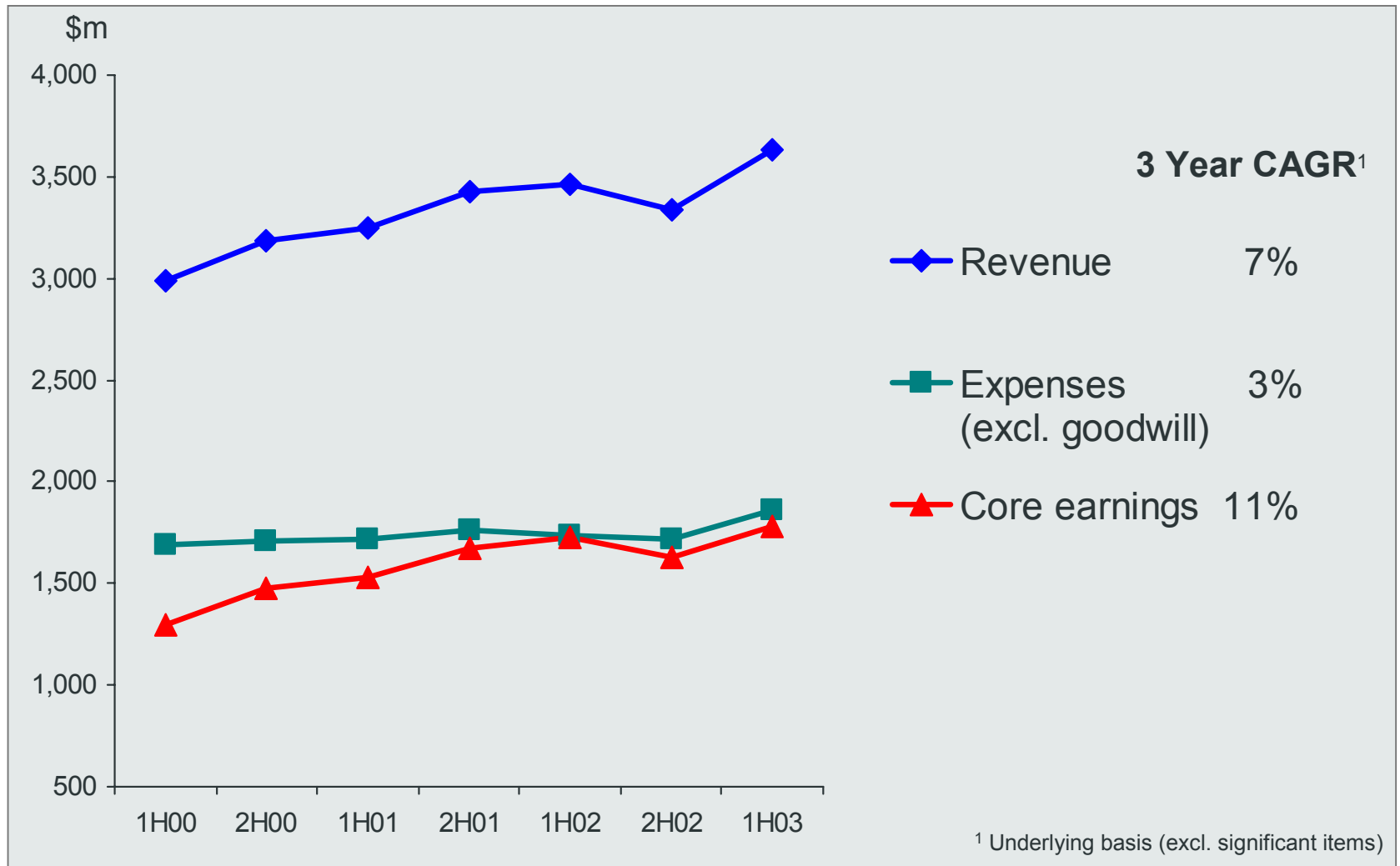


Ongoing Earnings <sup>1</sup>	1H03	1H02	% Mov't
<b>\$m</b>			
Total revenue	3,491	3,182	10
Operating expenses	(1,738)	(1,670)	(4)
<b>Underlying performance</b>	<b>1,753</b>	<b>1,512</b>	<b>16</b>
Goodwill	(51)	(49)	(4)
Bad debts	(214)	(201)	(6)
Tax & OEI	(430)	(381)	(13)
<b>Net profit attributable to equity holders</b>	<b>1,058</b>	<b>879</b>	<b>20</b>
Add back goodwill	51	49	4
Less distributions on other equity instruments	(34)	(25)	(36)
<b>Ongoing cash earnings<sup>2</sup></b>	<b>1,075</b>	<b>903</b>	<b>19</b>
<u>Reconciliation to underlying earnings</u>			
Add back BT, RAAM & Hastings	(20)	-	n/a
Add back AGC earnings	-	(93)	n/a
<b>Underlying earnings</b>	<b>1,095</b>	<b>996</b>	<b>10%</b>

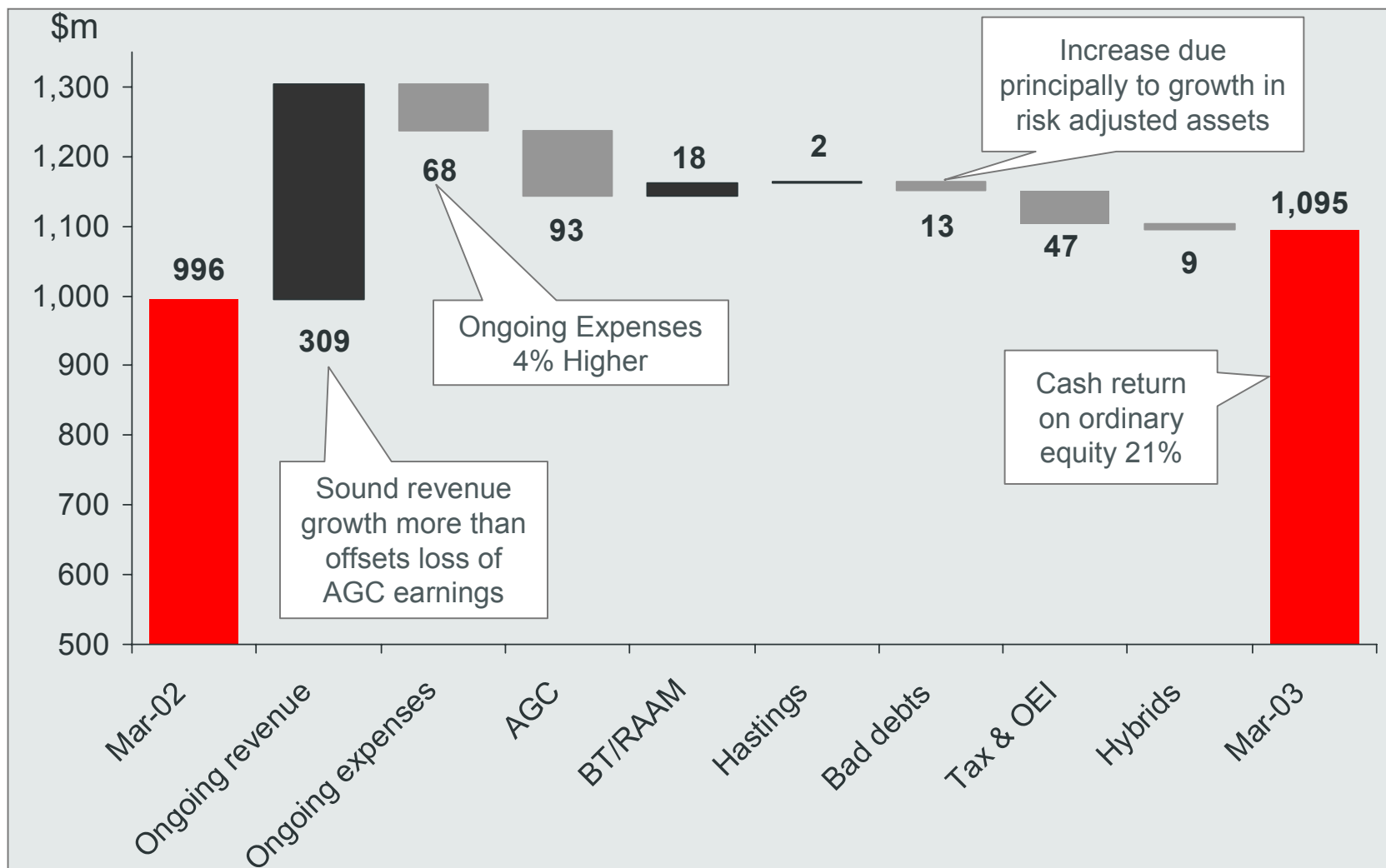
1. Ongoing includes reported earnings adjusted for acquisitions and AGC divestment

2. Includes \$13m from regrowth of equipment finance book.

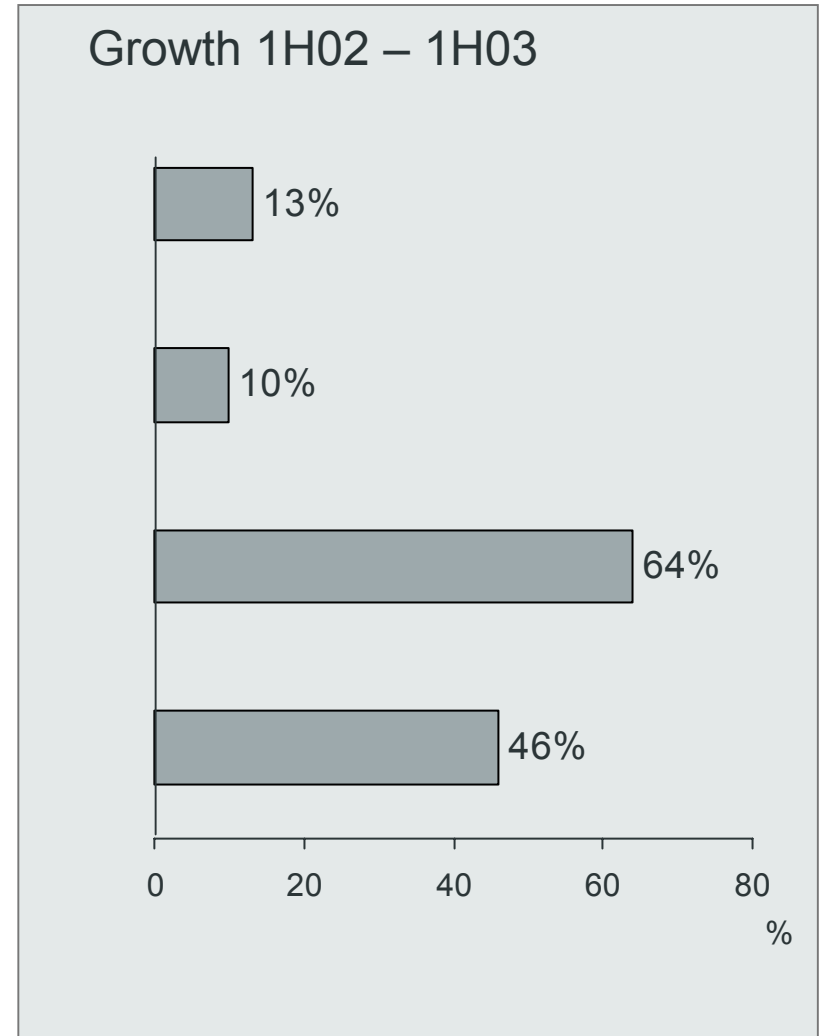
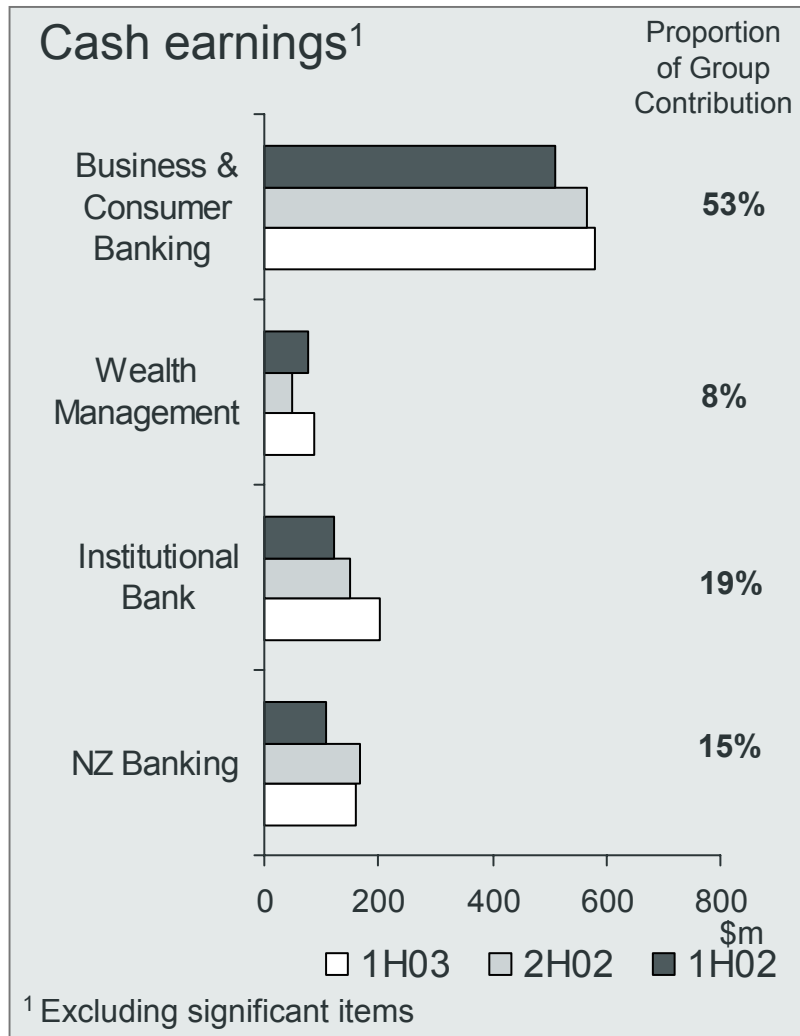
# Revenue - the key driver of growth



# Cash earnings up 10%



# All businesses contributing

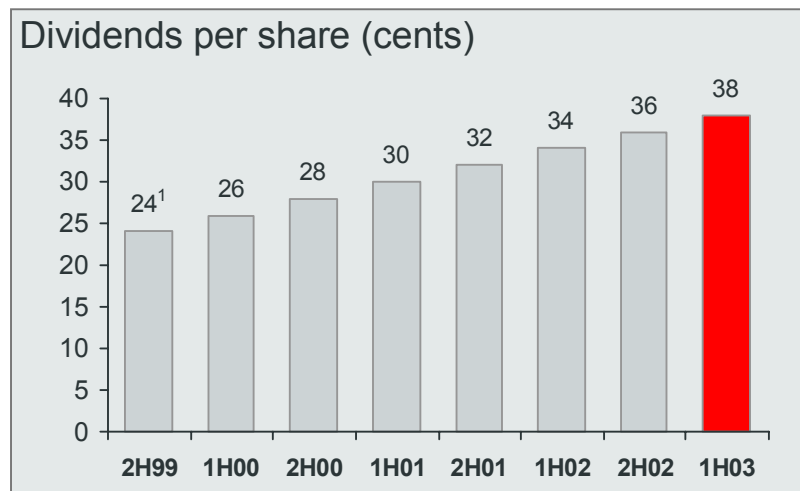


## Tax breakdown

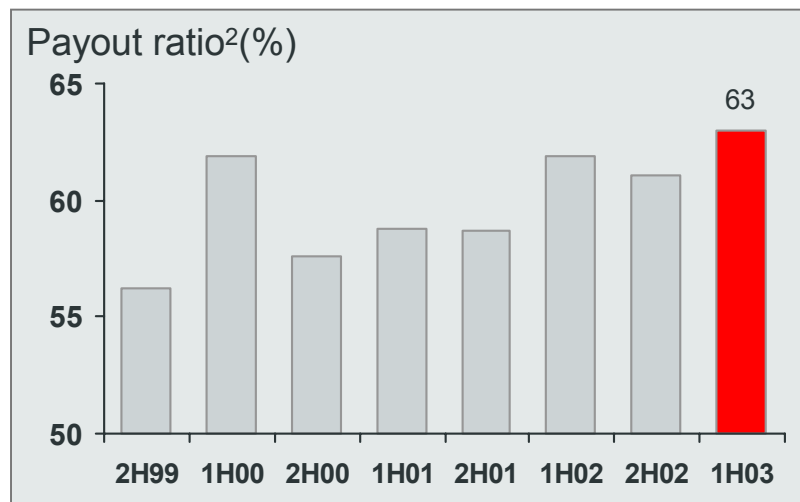
\$m	1H03	1H02
Tax expense (incl. gross up)	431	443
Tax expense as a % NPBT (incl. gross up)	29.0%	30.3%
Adjustments		
Policy holder tax recoveries	19	(14)
Normalised tax expense	450	429
Normalised tax expense as a % of reported NPBT	30.3%	29.3%

# Consistent dividend growth and higher payout

- Dividend growing at or above earnings:
  - Cash EPS 10%
  - Dividends 12%
- Payout ratio likely to increase near term
- Medium term drivers of payout ratio:
  - Cash earnings
  - Franking capacity– surplus now exceeding \$400m
  - Organic capital requirements



<sup>1</sup> Unfranked



<sup>2</sup> Based on underlying cash earnings

# What the market is saying

June 2003

# What the market is saying

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	Page
• Where is Westpac sourcing its <b>growth</b> ? Is this sustainable?	14
• Where are you achieving <b>asset growth</b> ? Are you compromising fees for growth?	16
• How is Westpac growing market share in the <b>SME market</b> ?	22
• Is the turnaround in the <b>Institutional Bank</b> sustainable?	23
• What is the impact of the <b>New Zealand dollar</b> on earnings?	24
• Are there any signs of <b>credit risk</b> across the portfolio?	26
• How are Westpac's <b>wealth management acquisitions</b> progressing?	34
• What is happening in the <b>mortgage market</b> ? What are the risks in the portfolio?	43
• How will <b>capital</b> be deployed?	50
• What will be the impact on Westpac of the <b>Basel 2</b> Accord?	55
• How is Westpac positioned for the conversion to <b>international financial reporting</b> standards?	57

# Key source of growth – a superior customer franchise

## Customer numbers

Australia	6.0m
New Zealand	1.3m
Other	<u>0.2m</u>
<b>Total</b>	<b><u>7.5m</u></b>

Position in core markets		
	Australia	New Zealand
Consumer	2 <sup>1</sup>	1 <sup>2</sup>
Business	2 <sup>3</sup>	2 <sup>2</sup>
Corporate	1 <sup>4</sup>	2 <sup>5</sup>
Wealth management	5 <sup>6</sup>	5 <sup>7</sup>

## Sources

1. Reported customer numbers
2. KPMG FIPS NZ 2002, AC Nielson, Greenwich
3. Greenwich Associates
4. Corporate transactional business – Greenwich Associates
5. Greenwich large corporate banking survey
6. Retail funds under management ASSIRT Mar 2003
7. Melville Jessup Weaver, Investment Survey, March 2002

## Australian value quintiles<sup>8</sup>

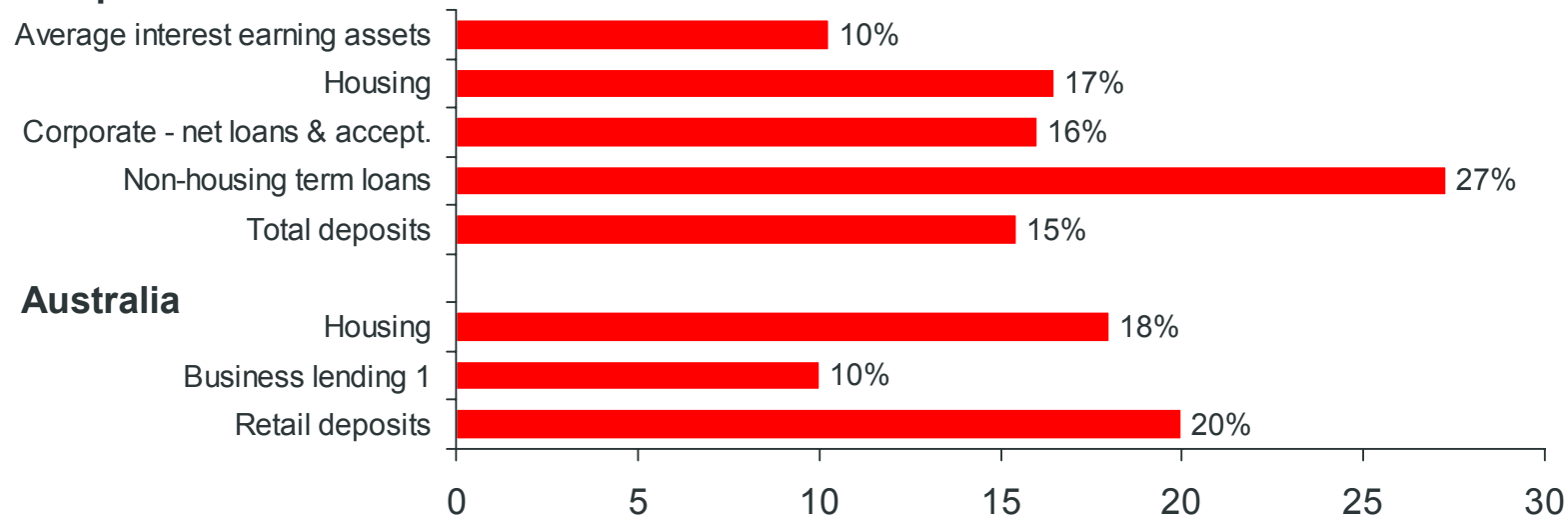


<sup>8</sup> Source: Roy Morgan Research : Ranking of Australians by education, income and occupation



# Loan growth and market share in key products

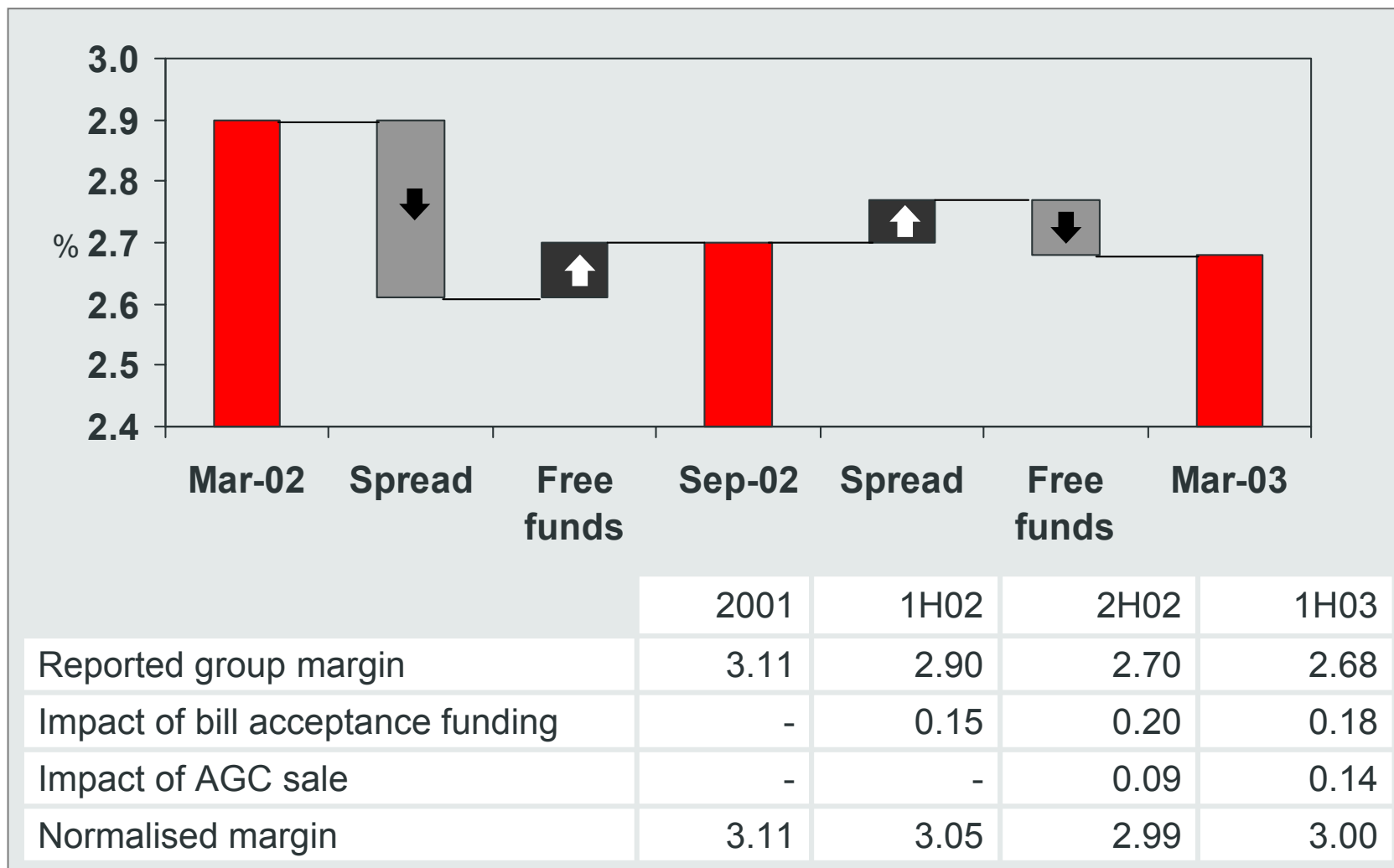
## Group



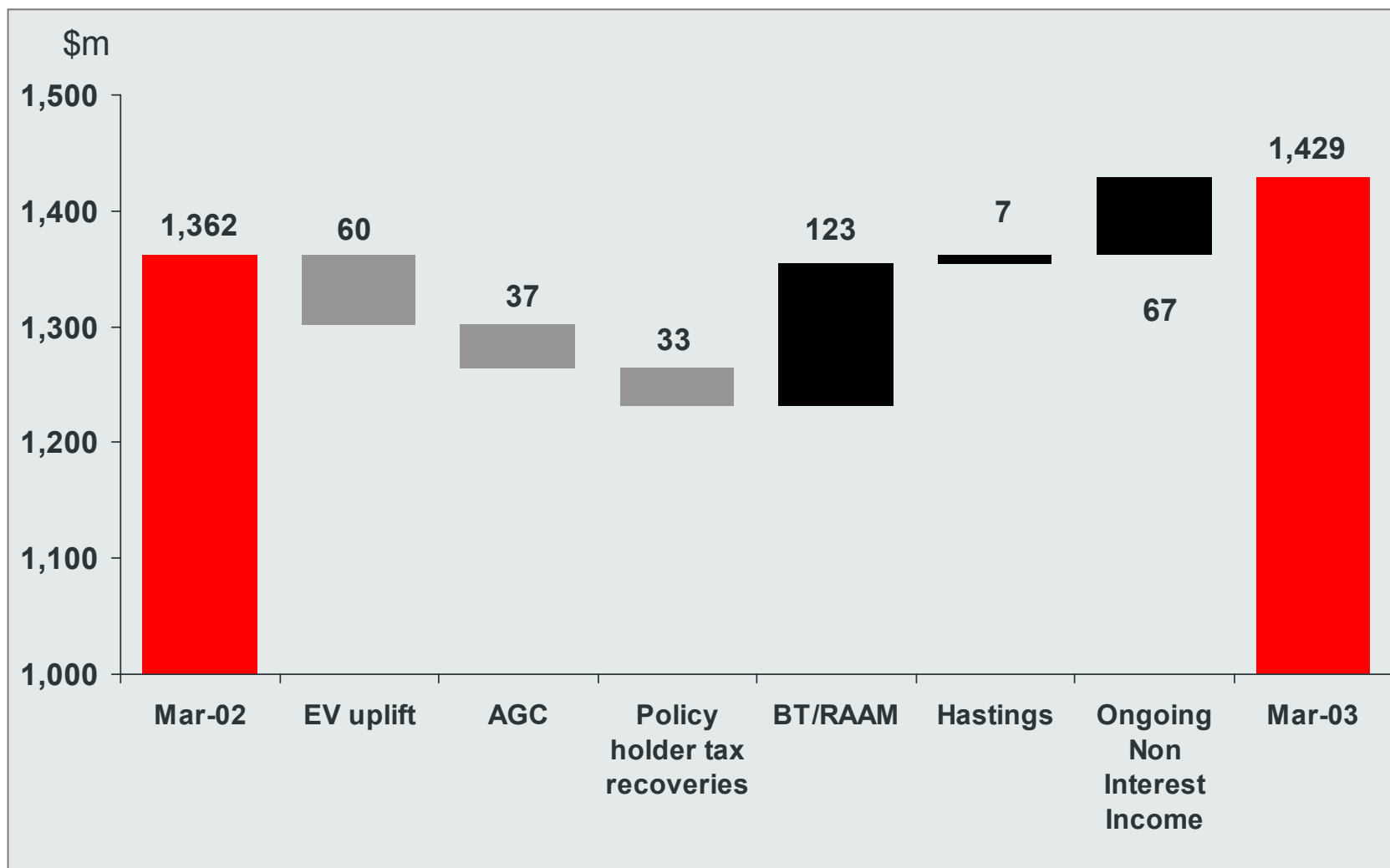
Market share -RBA financial system aggregates %	Mar 03	Mar 02	Change (basis points)
<b>Credit</b>			
Housing	17.9	18.1	(20)
Personal	11.5	10.2	113
Other (mainly business)	11.0	10.0	100
<b>Total credit</b>	14.2	13.4	80
<b>Total deposits</b>	13.3	12.7	60

1 Excludes impact of rebuilding ex-AGC equipment finance book.

# Analysis of margin dynamics



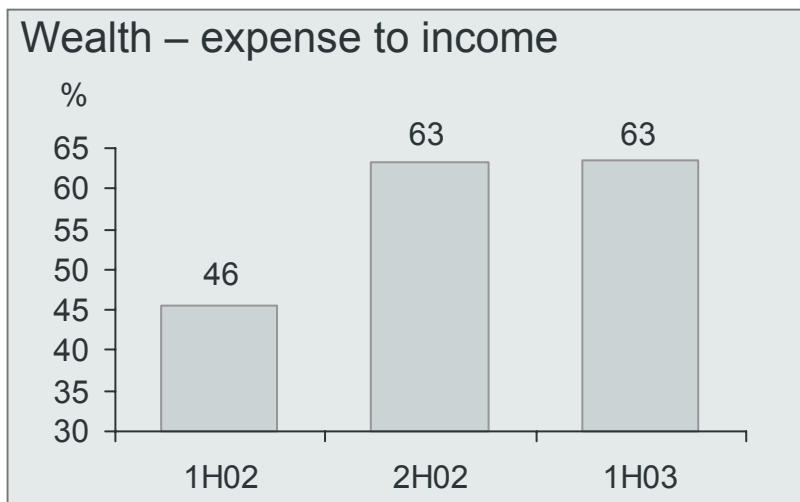
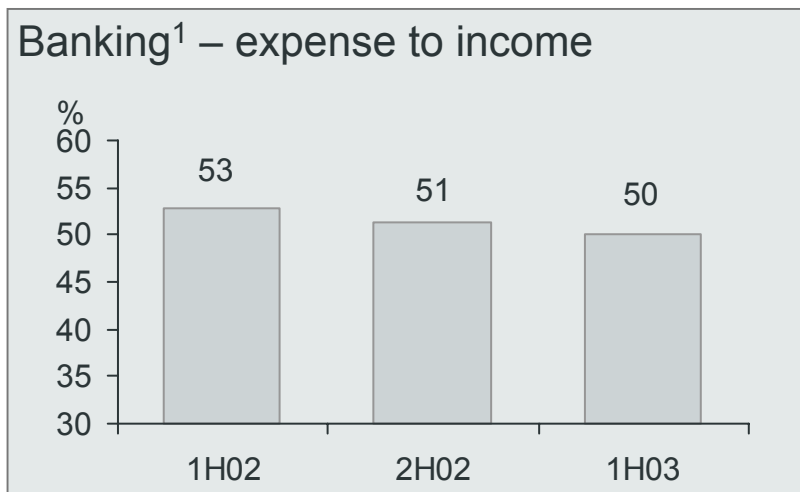
# Non-interest income analysis



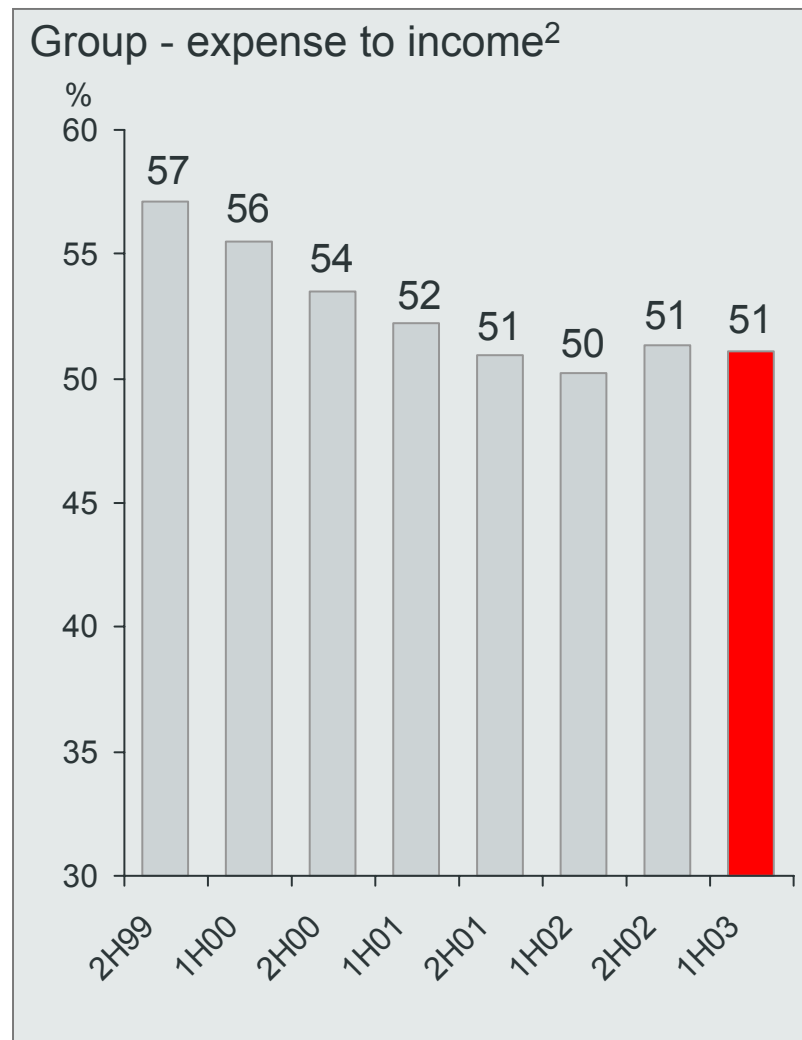
# Non-interest income analysis

\$bn	1H03	2H02	1H02	% Mov't Sep 02- Mar 03	% Mov't Mar 02- Mar 03	
<b>Fees &amp; commissions</b>						
Lending fees	365	372	365	(2)	0	Transfer from bill accept to term lending led to a decrease in bill fees in 1H03 \$5m impact. Netting of fees paid on structured transactions and purchasing protection on securities portfolio in 1H03 approx \$13m
Transaction fees & commissions rec	713	668	647	7	10	AGC contributed \$34m in 1H02
Other non-risk income	137	113	113	21	21	Acquisition of BT added \$18m in 1H03
Fess & commissions paid	(344)	(278)	(282)	(24)	(22)	Higher interchange and card transaction fees
Service & mgt fees	5	5	2	0	150	
<b>Total fess &amp; commissions</b>	<b>876</b>	<b>880</b>	<b>845</b>	<b>0</b>	<b>4</b>	
<b>Trading income</b>	<b>145</b>	<b>77</b>	<b>146</b>	<b>88</b>	<b>(1)</b>	Income returned to more normal levels in 1H03
<b>Wealth management income</b>	<b>357</b>	<b>19</b>	<b>292</b>	<b>large</b>	<b>22</b>	EV uplift \$60 in 1H02, Write down in EV in 2H02.
<b>Other income</b>	<b>51</b>	<b>640</b>	<b>79</b>	<b>large</b>	<b>large</b>	Impacted by significant items in 2H02 and asset sales in 1H02
<b>Total non-interest income</b>	<b>1,429</b>	<b>1,616</b>	<b>1,362</b>	<b>(12)</b>	<b>5</b>	

# Expense to income



1 Excludes AGC



2 Underlying earnings basis

# Ongoing expense growth and cost efficiency pipeline

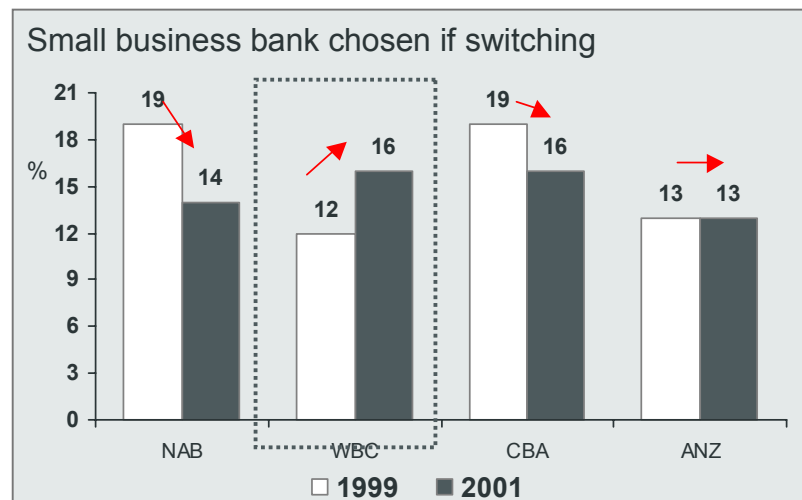
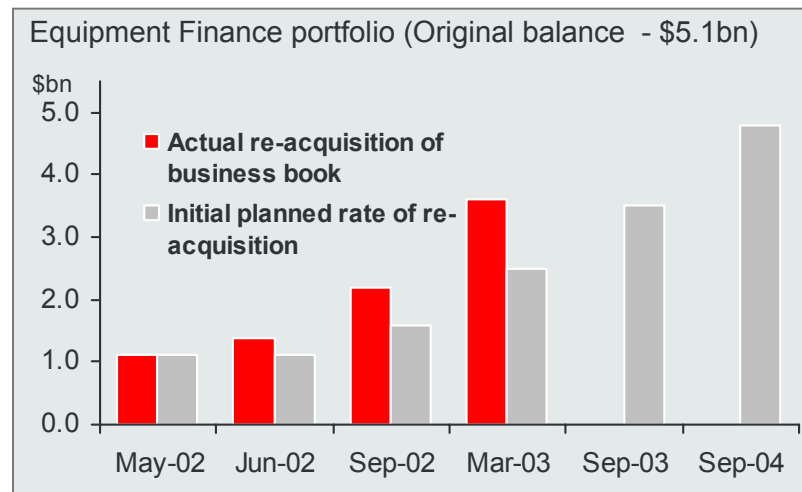
\$m	1H03	1H02	% Mov't
<b>Operating expenses</b>	<b>1,857</b>	<b>1,739</b>	<b>7</b>
Impact of change in business mix	(50)	-	n/a
<b>Ongoing operating expenses</b>	<b>1,807</b>	<b>1,739</b>	<b>4</b>
NZ currency appreciation	(22)	-	n/a
Superannuation – adoption of IAS19	(29)	-	n/a

Cost efficiency pipeline					
\$m	FY02A	FY03F	Achieved <sup>1</sup> 1H 03	FY04F	FY05F
Outsourcing	83	115	56	123	132
Organisational simplification	4	73	34	77	77
Wealth integration	-	46	16	72	93
Lending processes	-	-	0	19	60
Other operational efficiency initiatives	5	115	29	160	169
<b>Cumulative total</b>	<b>92</b>	<b>349</b>	<b>135</b>	<b>451</b>	<b>531</b>
<b>Annual increment</b>	<b>-</b>	<b>257</b>	<b>43</b>	<b>102</b>	<b>80</b>

1. Cumulative savings realised in the half

# Growth in small and medium enterprises (SME)

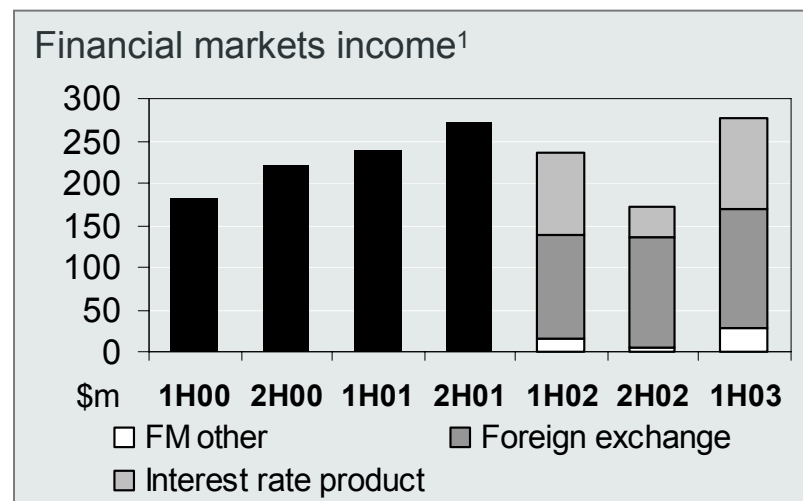
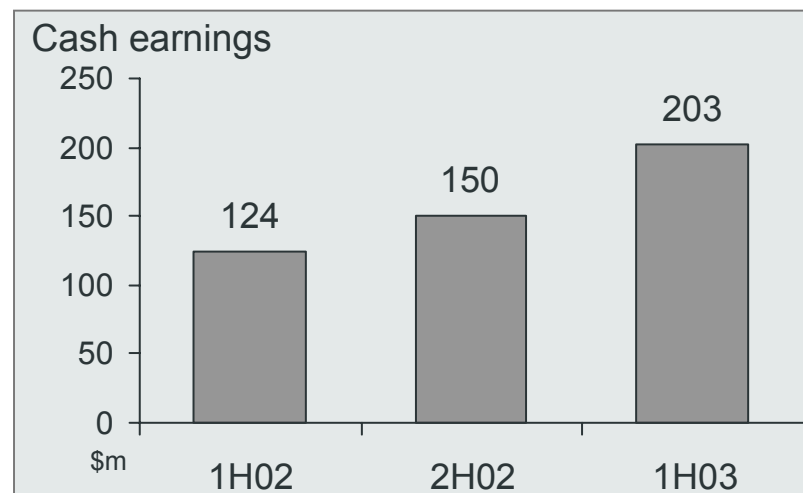
- SME lending increased 10% over the year, excluding the reacquisition of the business finance portfolio. Initiatives boosting growth have included:
  - Industry specialisation - 6 industry packages now in place and more planned
  - Lifecycle packages – specialist business options tailored to each business’ lifecycle stage
  - Rolling out CRM to business bankers
  - Redeployment of business specialists closer to the customer; including 30 business development managers and 250 branch based business specialists
  - For past 3 years, number 1 in customer satisfaction compared to peers
- Cash earnings from the re-build of the equipment finance portfolio in 1H03 - \$13m
- Equipment finance growth not a contributor to risk adjusted assets growth
- Growth achieved without compromising credit standards
- Business acquired from other financial institutions is subject to rigorous review and higher approval authorities



Source: Greenwich Associates

# Institutional Bank – sustained improved performance

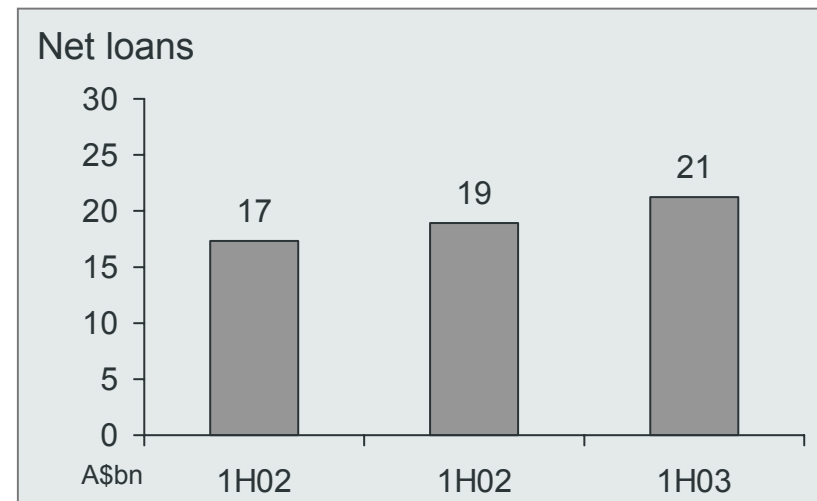
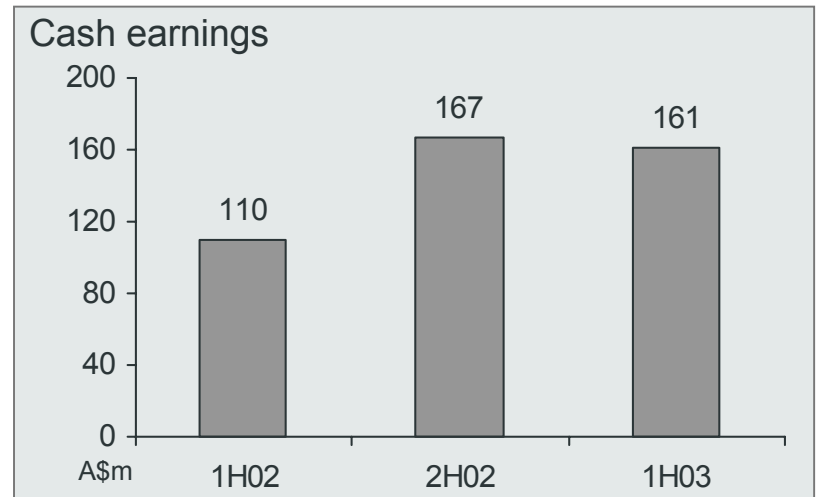
- Cash earnings up 64%
- Net interest income up 24% driven by growth in loans, financial markets (FM) income and high margin structured finance deals
- FM income up 17% on pcp and 62% on prior half, driven by:
  - Higher customer activity
  - Improved capabilities in energy and commodities markets
- Asset quality continues to improve
  - Impaired assets down 38%
  - No material change to overseas investment securities carrying value
  - Bad debts down 54%



<sup>1</sup> Comparable income composition not available earlier than 1H02

# New Zealand Banking – significant revenue uplift

- Cash earnings up 40%<sup>1</sup> (up 46% in A\$)
- Performance improvement program delivering:
  - Increased focus on Auckland market including relocation of head office
  - Boosting specialist sales force numbers and productivity
- Expense to income down 560 bps<sup>1</sup> over the year, absorbing re-branding and relocation costs
- Net loans up 9%<sup>1</sup>

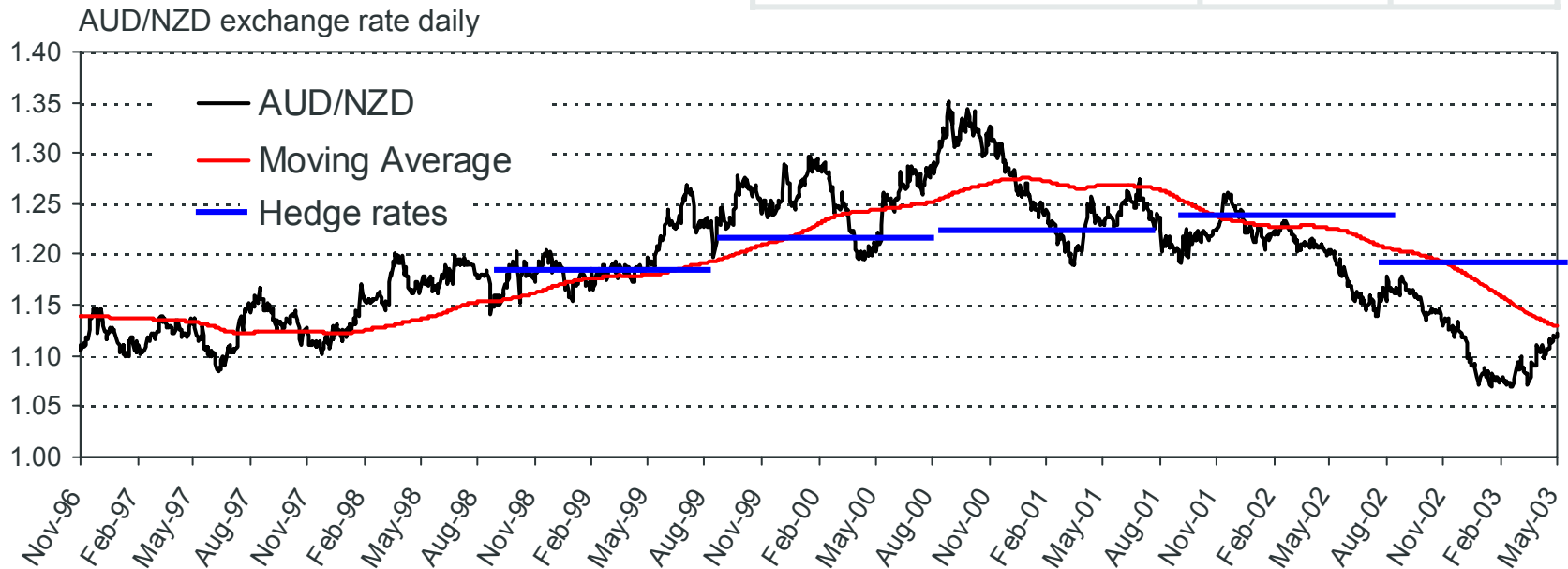


<sup>1</sup> NZD currency

# NZ dollar impact

- Rolling 12-month focus – timing main impact
- 2004 AUD/NZD hedge position to be around 1.10 – 1.12
- Hedge gain/loss recognised in non-interest income.

Impact on group financials (A\$)	Currency impact	Hedge impact
Operating revenue	54m	(28m)
Operating expenses	22m	
Cash earnings	22m	(20m)
Loans and acceptances	+2.2bn	
Risk weighted assets (NZ retail)	+1.5bn	

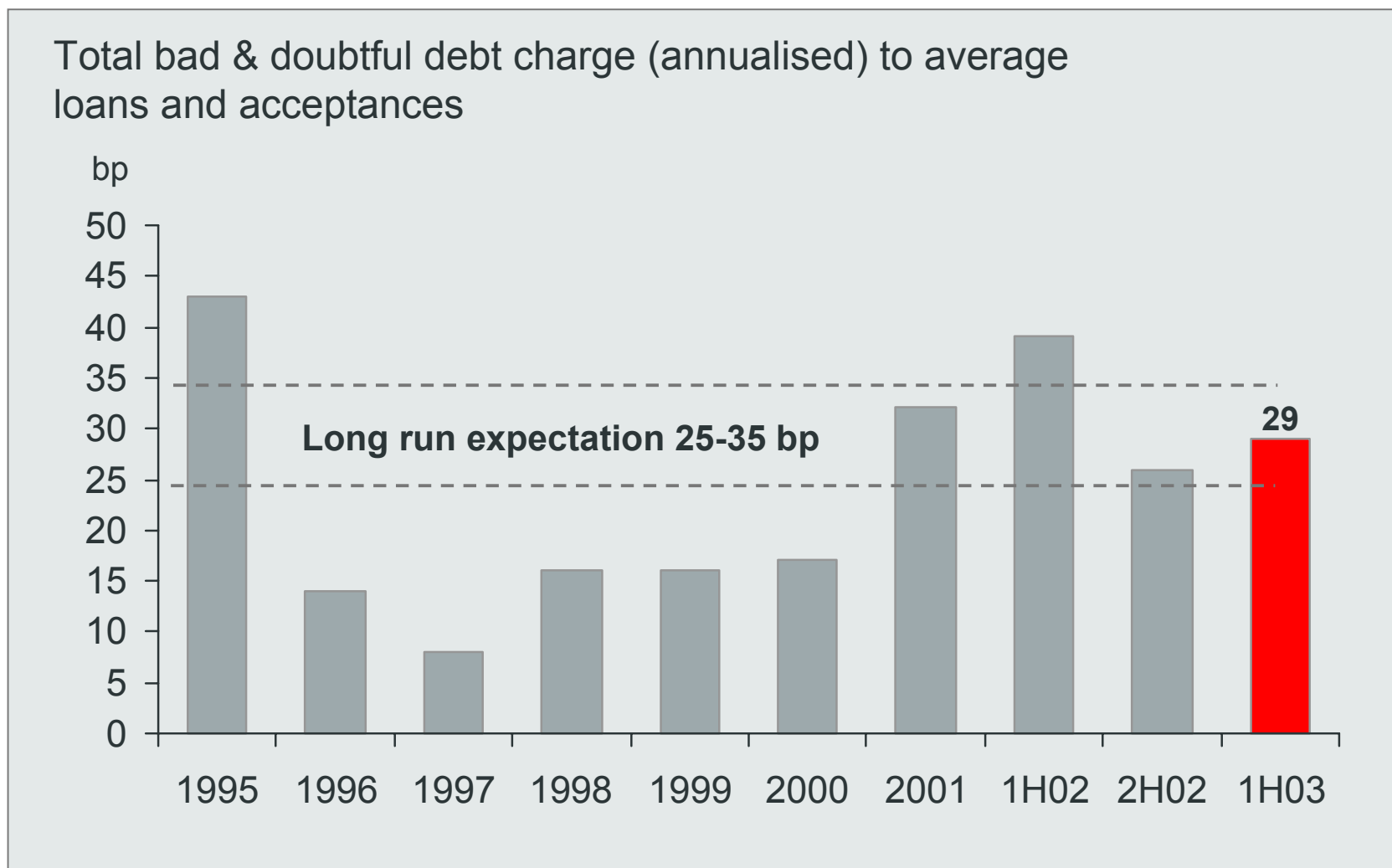


## Bad debts analysis

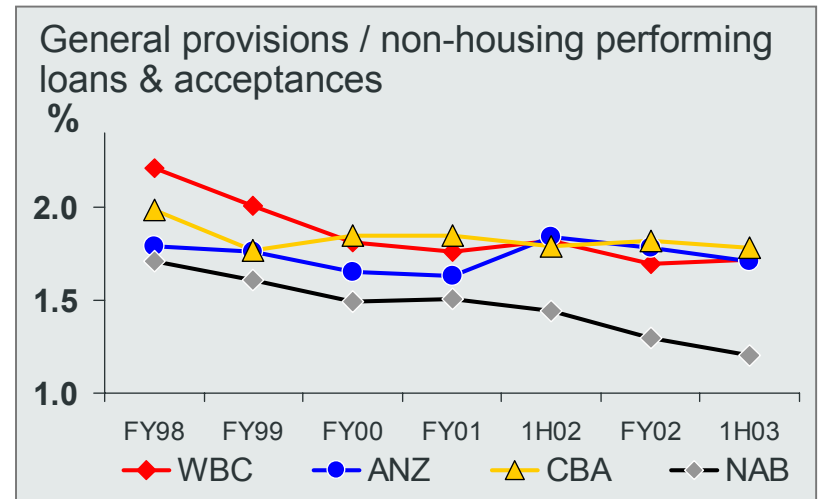
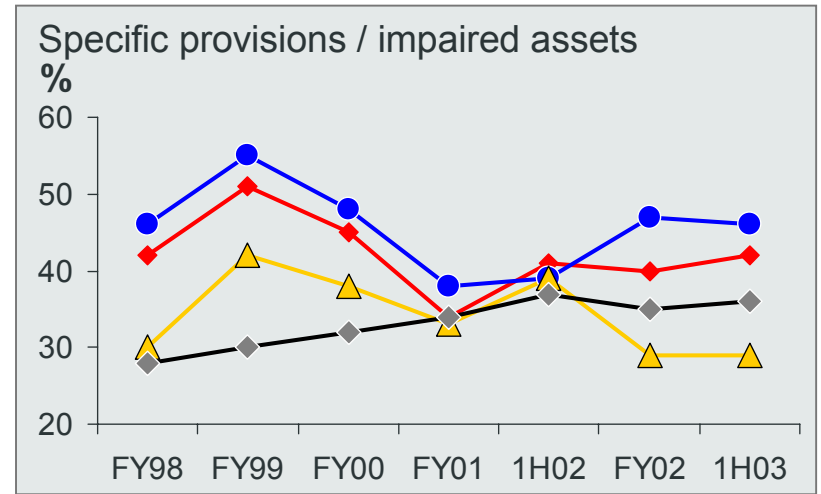
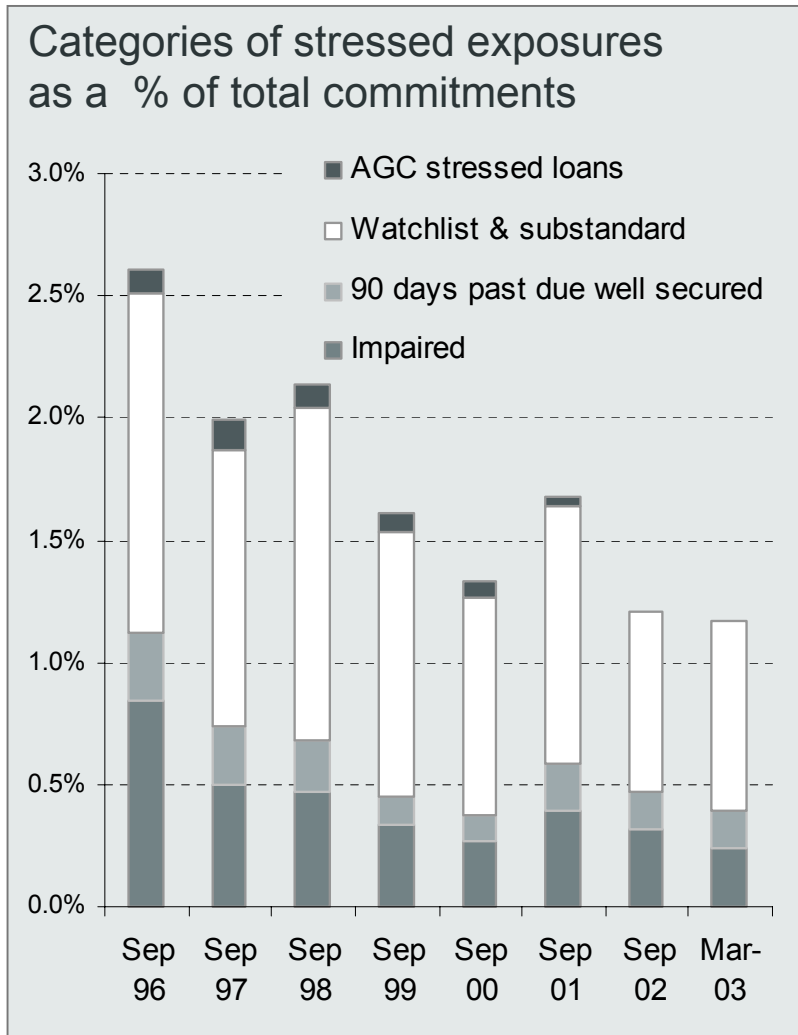
\$m	1H03	2H02	1H02
Write-offs	(142)	(171)	(208)
Net transfer to/from specific provisions	17	(70)	(102)
Recoveries of debts previously W/O	47	35	49
<b>Bad debt charge-off</b>	<b>(78)</b>	<b>(206)</b>	<b>(261)</b>
Increase in general provision	(136)	16 <sup>1</sup>	(10)
<b>Net bad debt expense</b>	<b>(214)</b>	<b>(190)</b>	<b>(271)</b>
General provision	1,309	1,162	1,301
General provision to non-housing loans & acceptances	1.7%	1.7%	1.8%

1. Adjusted (\$133m) for provisions transferred on sale of AGC

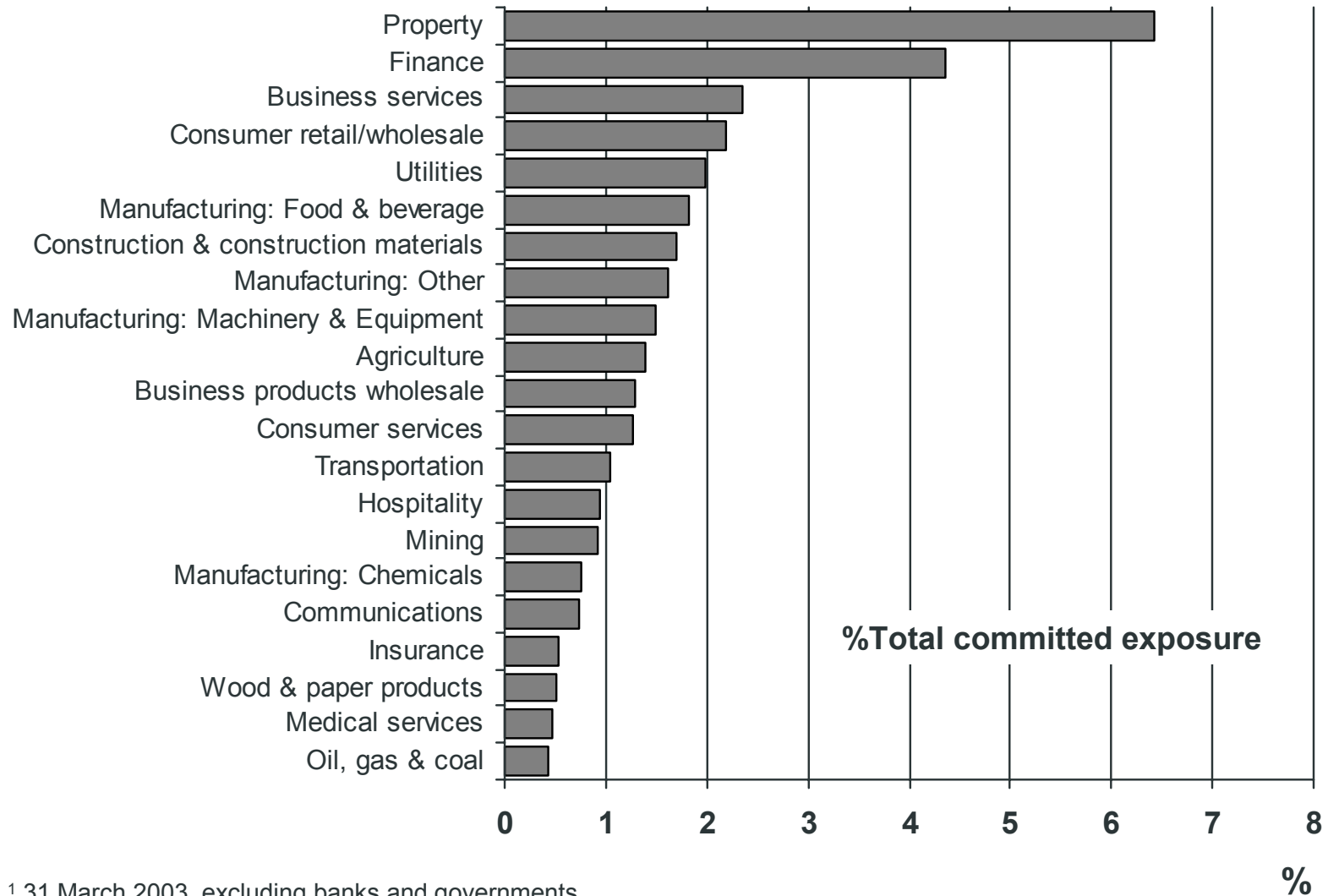
## Bad debt charge



# Stressed exposures lower - provisions increased



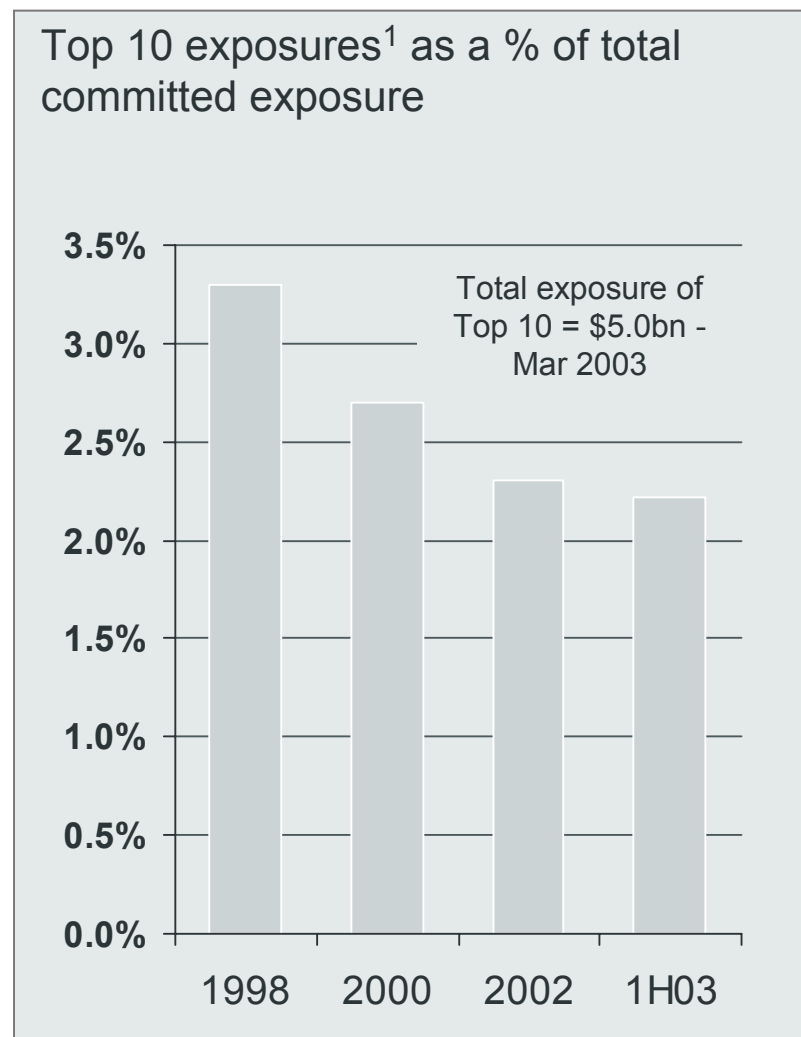
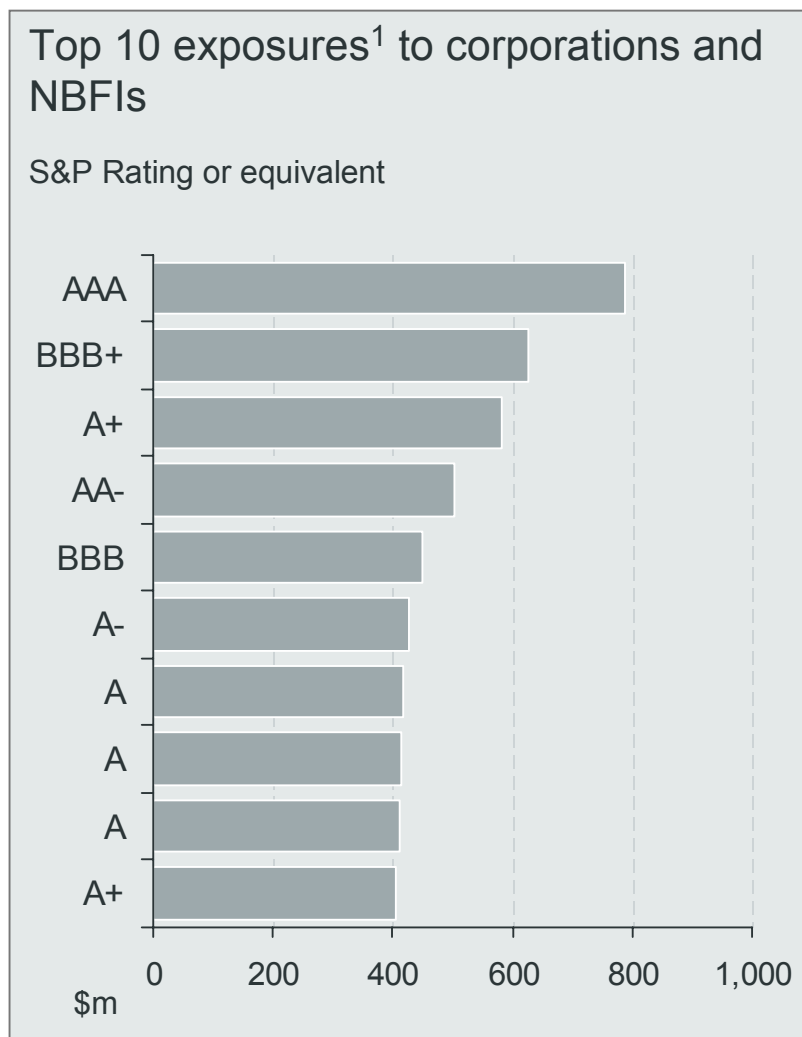
# Portfolio by industry<sup>1</sup>



<sup>1</sup> 31 March 2003, excluding banks and governments

%

# Single name exposure concentrations



<sup>1</sup> 31 March 2003, excluding banks and governments

## Total exposure by region<sup>1</sup>

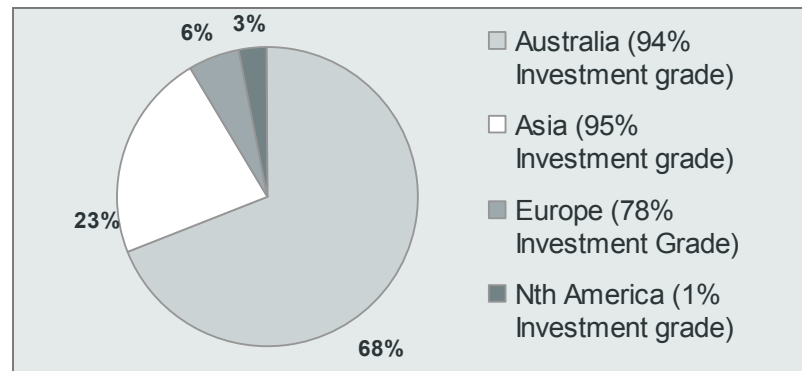
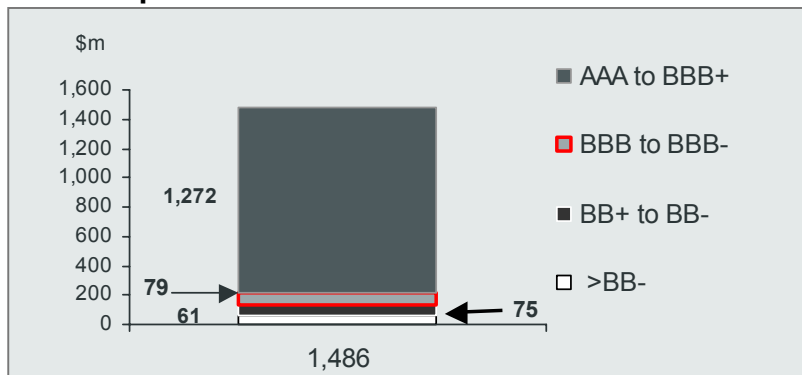
- Exposures outside core markets represent less than 5% of total committed exposures – sub investment grade represent 0.5% of total exposures

\$m	Australia	NZ / Pacific	Americas	Europe	Asia ex Japan	Japan	Group
<b>AAA to AA-</b>	24,511	8,401	827	783	88	148	<b>34,758</b>
<b>A+ to A-</b>	13,174	2,153	2,370	1,696	5	2	<b>19,400</b>
<b>BBB+ to BBB-</b>	22,314	5,676	1,146	2,177	24	0	<b>31,337</b>
<b>BB+ to B+</b>	33,418	6,772	165	540	33	51	<b>40,979</b>
<b>&lt;B+</b>	1,216	650	221	138	41	11	<b>2,277</b>
<b>Secured consumer</b>	75,488	13,799	0	0	0	0	<b>89,390</b>
<b>Unsecured consumer</b>	6,772	1,003	0	0	0	0	<b>7,672</b>
	<b>176,893</b>	<b>38,455</b>	<b>4,729</b>	<b>5,334</b>	<b>189</b>	<b>212</b>	<b>225,812</b>

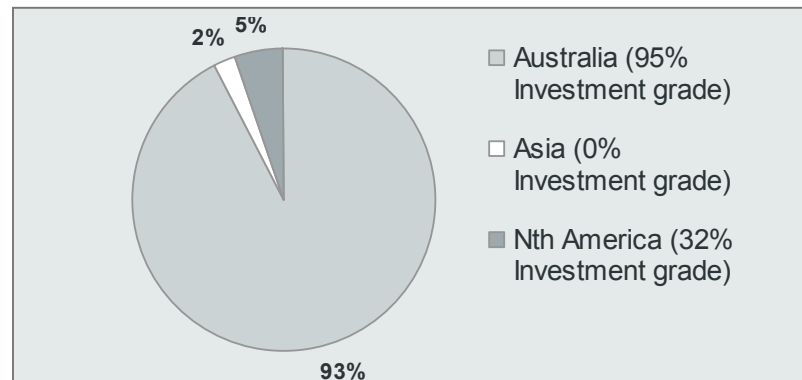
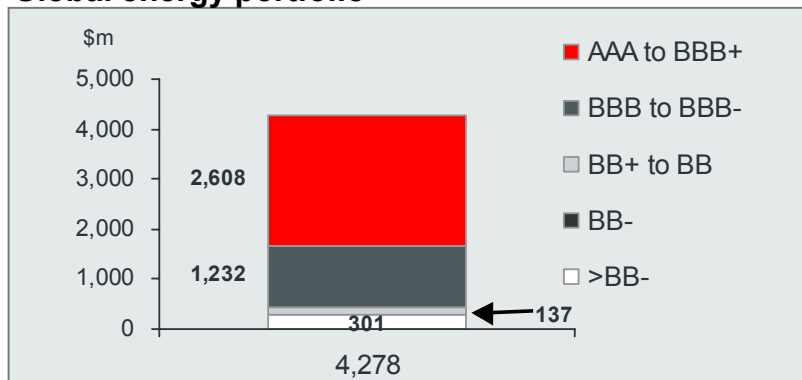
<sup>1</sup> Exposures by booking office at 31 March 2003

# Telco and energy exposures (at 31 March 2003)

## Telco exposure



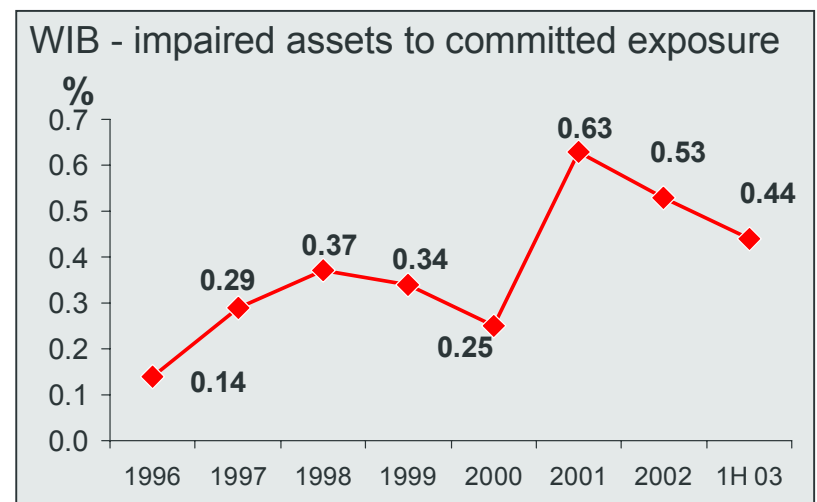
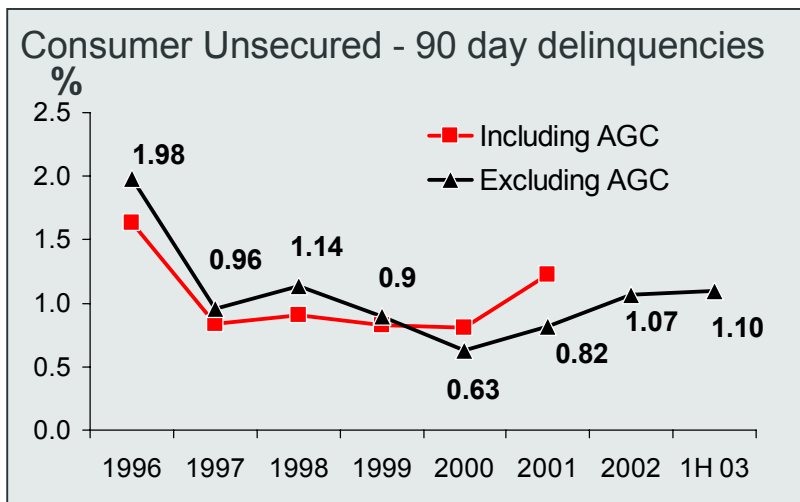
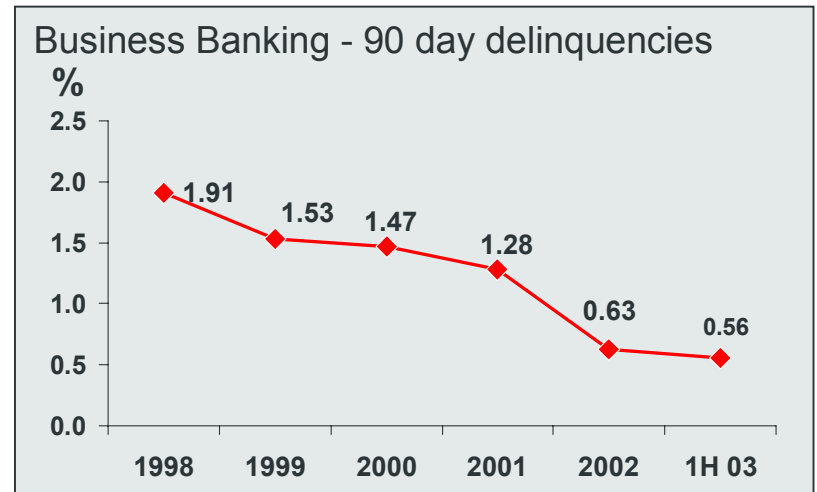
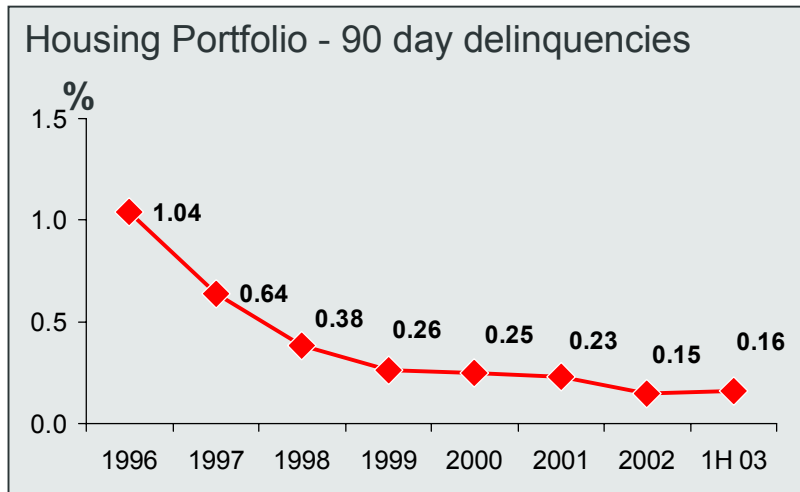
## Global energy portfolio



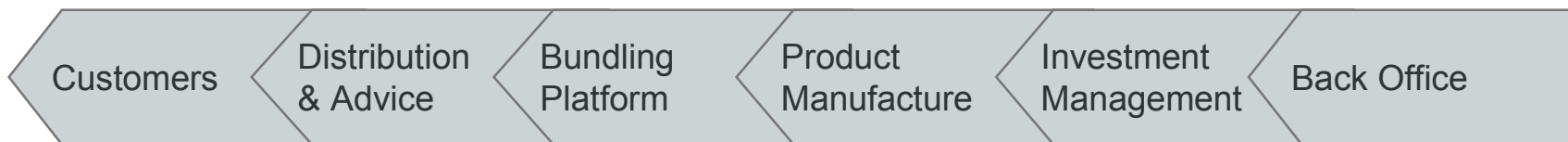
	Telco	Energy	Total non-investment grade*
WBC	1.5	4.3	0.6
NAB	3.0	11.1	2.8
ANZ	3.9	7.3	3.1
CBA	1.5	3.4	1.2

\*Source: Most recently available company reports

# No signs of deterioration across the portfolio



# Wealth - operating across the value chain



7.5 Million Westpac customers Access to non-Westpac customers through EFA networks	700 Westpac planners & advisers 1,000 premier planners Over 15,000 EFAs	Leading wrap and corporate super platforms	Broad product range Proven servicing capability Life Ins. Margin Lending	Core Australian equities style External managers for International equities, hedge funds, property and fixed interest	Outsourced partners for funds admin Centralised servicing centre for wrap
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- Wealth management position **now complete** with strong capability across the value chain
- Open architecture model provides significant benefits:
  - Ensures each element of the chain remains efficient by competing in the market
  - Provides **optionality in business model**, resources can be redirected to elements of the chain generating the greatest value
- Focused on the 'new' and growing elements of wealth management without excess baggage of lower growth life insurance business

## Wealth performance – BT Financial Group

\$m	1H03	2H02	1H02
Operating income	303	169	169
Operating expenses	(192)	(107)	(77)
Tax & outside equity interests	(25)	(12)	(14)
<b>Cash earnings</b>	<b>86</b>	<b>50</b>	<b>78</b>
Goodwill	28	2	2
<b>Composition of cash earnings</b>			
Existing operations	68	48	78
Rothschild & BT	18	2	0

## Market share of key wealth products

- Growing ahead of market share in key products segments

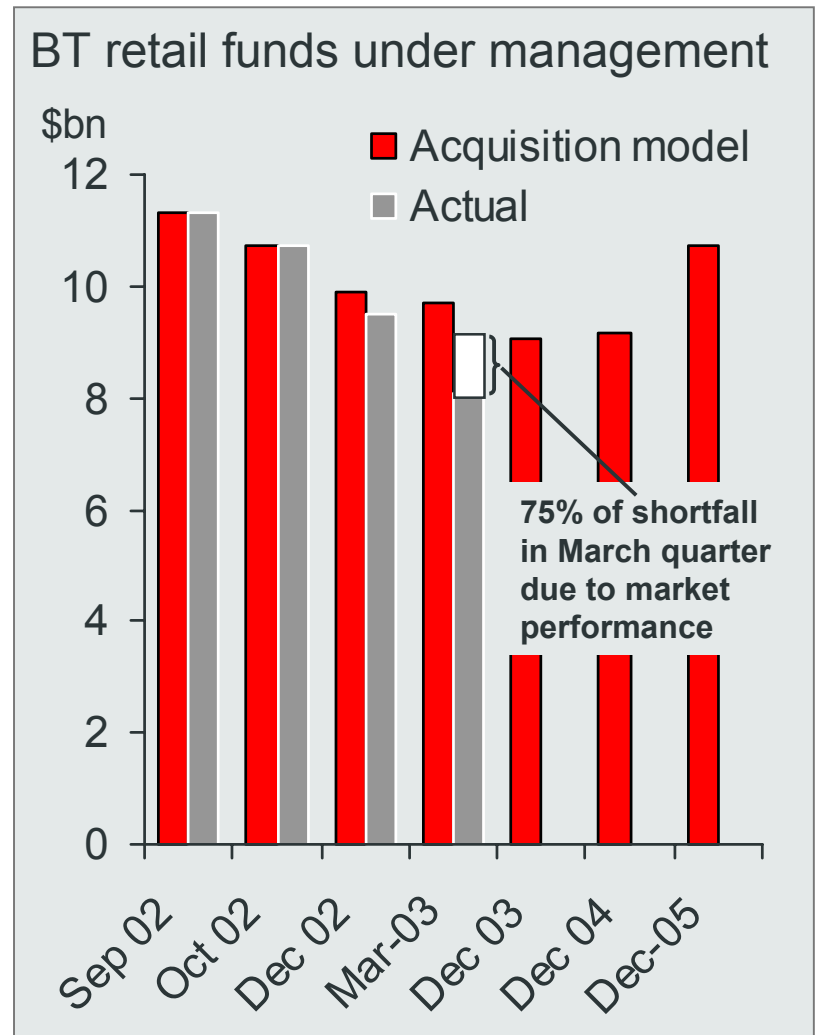
Product	Market share	Rank	New business	
			Market share	Rank
Corporate super	5.0%	9	9.8%	6
Wrap & master trust	9.8%	5	19.5%	2
Life and risk	6.0%	8	9.7%	5
Margin lending	15.5%	2	27.6%	na
Retail	10.2%	5	Net outflows	

Sources:

Retail	- ASSIRT Mar 03
Wrap and Master Trust	- ASSIRT Mar 03 Market share report
Corporate super	- Dext&r Dec 02 Market share report
Life and risk	- Dext&r Sep 02 (Share of new business is for the year to Sept 02)
Margin lending	- internal research and RBA, Dec 02

# Turning around the retail fund outflows

- Delivering true to label performance
- More disciplined investment management process
- Returns achieved through a larger number of smaller active positions
- Extreme market volatility previously experienced will not be repeated
- Fund performance improvement over last 6 months



## Combined Australian funds under management

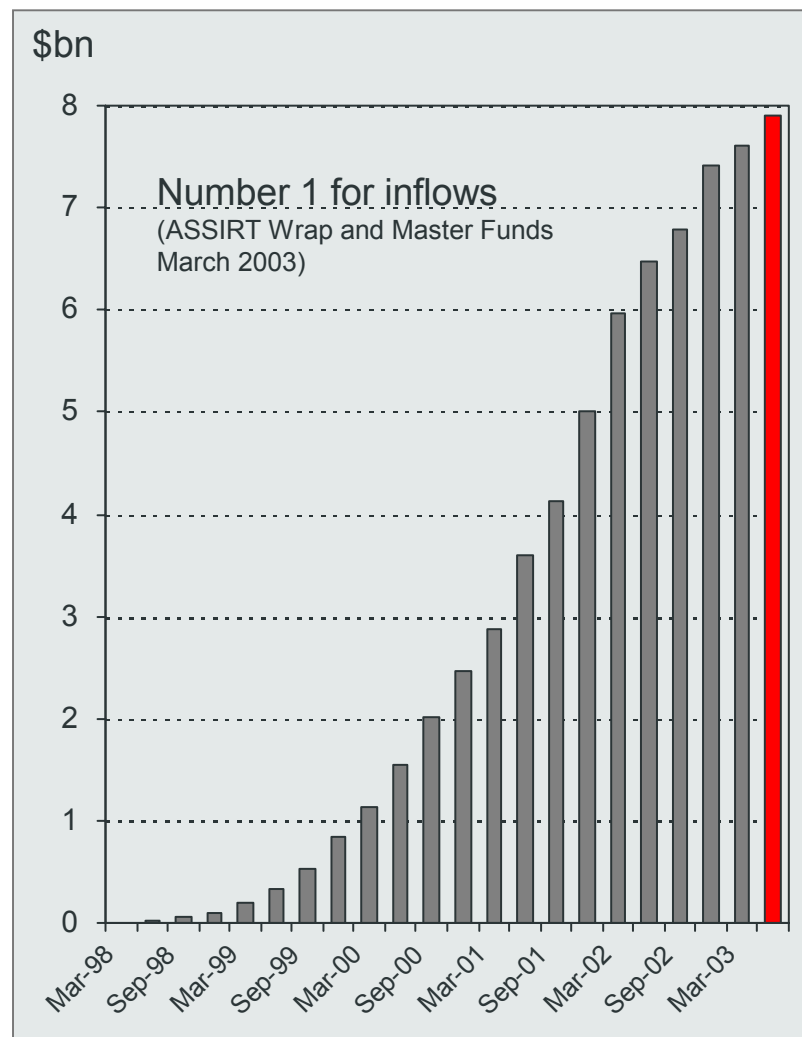
\$bn	Rated funds				Unrated	Total FUM
	Roths-child	BT	Total Rated	Asset Consultant view	WBC	
Cash & liquid assets	0.2	2.2	2.4	✓	5.4	7.8
Australian fixed interest	2.1	1.0	3.1	✓	3.3	6.4
International fixed interest	1.3	0.7	2.0	✓	0.8	2.8
Property	1.3	0.5	1.8	●	1.6	3.4
Australian equities	2.1	2.2	4.3	●	4.8	9.1
International equities	1.6	3.8	5.4	✓	2.5	7.9
Other	0.2	0.1	0.3	n/a	2.9	3.2
<b>Total</b>	<b>8.8</b>	<b>10.5</b>	<b>19.3</b>		<b>21.3</b>	<b>40.6</b>

Other includes FX, currency, and asset allocation

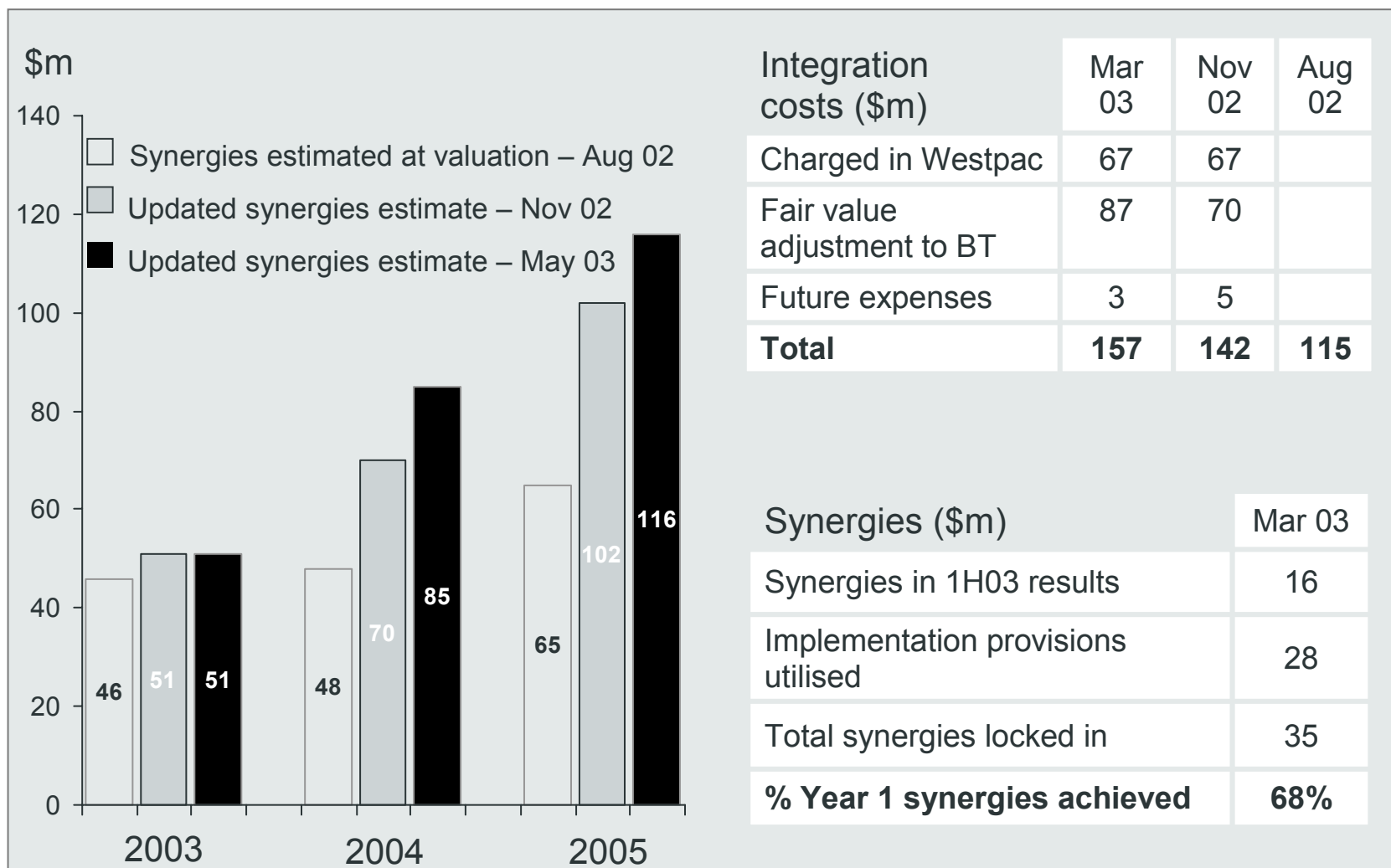
● Asset consultants on hold/ sell rating

# Wrap funds under administration

- Wrap products are the fastest growing sector in the market
- Wrap is preferred administration solution for financial planners and advisors and planner groups given:
  - Choice – broader product range including managed funds (300+ funds) and listed equities
  - Transparency – greater clarity of fees paid
  - Flexibility – ability to easily shift between investments. Advisors are able to structure fees to best meet customer needs
  - Productivity – significant enhancement in planner productivity from online tools



## Synergies further upgraded in May 03



Integration costs (\$m)	Mar 03	Nov 02	Aug 02
Charged in Westpac	67	67	
Fair value adjustment to BT	87	70	
Future expenses	3	5	
<b>Total</b>	<b>157</b>	<b>142</b>	<b>115</b>

Synergies (\$m)	Mar 03
Synergies in 1H03 results	16
Implementation provisions utilised	28
Total synergies locked in	35
<b>% Year 1 synergies achieved</b>	<b>68%</b>

# Wealth management acquisitions

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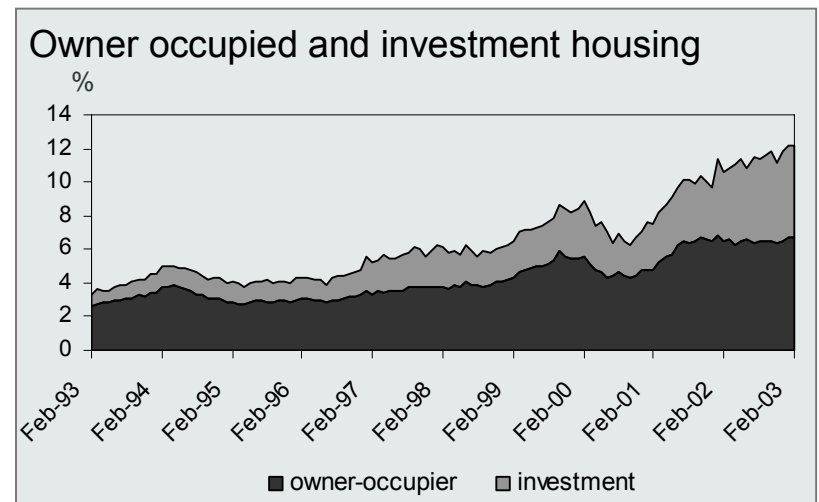
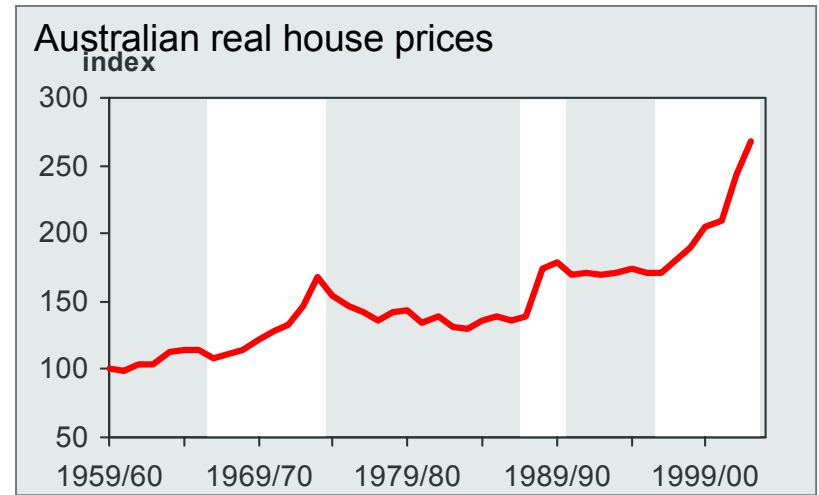
- No use of embedded or appraisal value
- Carrying value of goodwill for acquisitions (at 31 Mar 03)
  - BT Financial Group \$839m
  - Rothschild \$319m
- Closing accounts for BT yet to be completed. Final numbers usually settled up to 12 months after acquisition
- Value buffers – BT and RAAM
  - Paid 80% of NPV \$305m
  - Additional BT synergies \$328m
  - Easily accommodates harsher revenue environment
- No impairment to carrying value

## Wealth near term priorities

<b>Retail FUM</b>	Deliver true to label performance - improved researcher ratings to follow Roll-out partner series
<b>Wholesale</b>	Further leverage international alliances and demonstrate improved Australian equities capability Improve asset consultant communications
<b>Corp Super</b>	Leverage Westpac business relationships
<b>Platforms</b>	Continue to grow badges on Wrap and maximize usage by existing and new badges (including Westpac FPA network) Continue to enhance platforms in line with demand
<b>Margin Lending, Life Risk</b>	Expand distribution through Westpac and external channels
<b>Westpac FP&amp;A</b>	Deliver best practice capability and improve productivity by leveraging BT platforms and understanding of the IFA channel
<b>Broking</b>	Enhance distribution capability by combining Westpac broking and BT direct

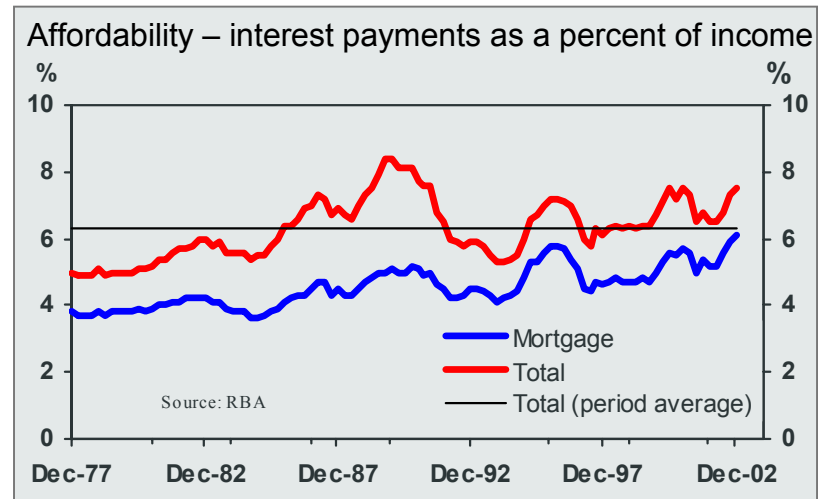
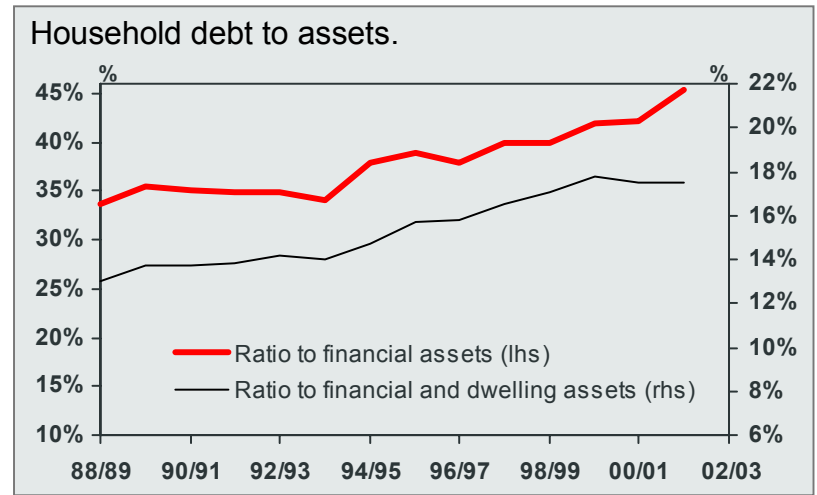
# Housing market – economic setting

- Established house prices have risen sharply – circa 40% over last two years
- Investment housing has replaced first home owners as predominant source of growth
- First home owners are now a smaller proportion of new lending



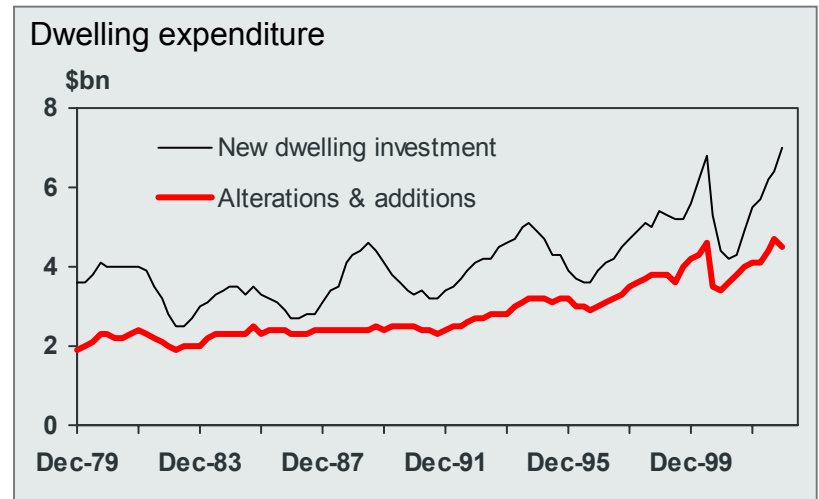
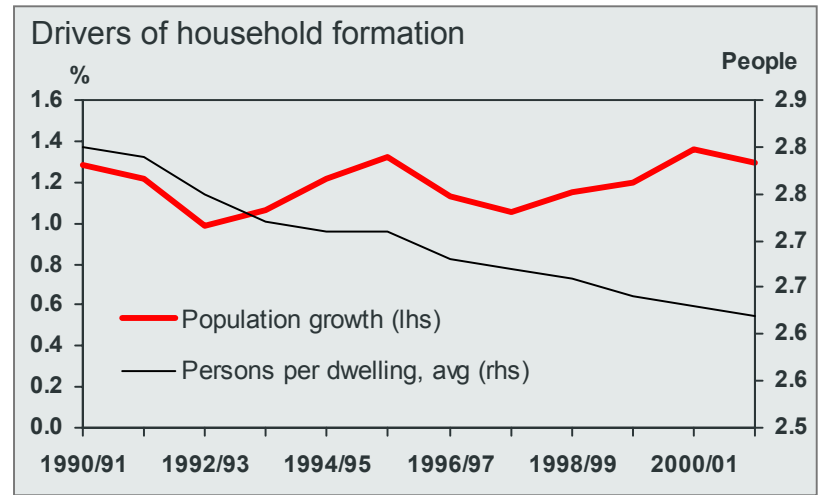
# Housing market – state of play

- Household gearing has increased moderately
- Affordability not stretched
- In Westpac's portfolio over 70% of borrowers paying in excess of scheduled repayments



# Housing credit growth

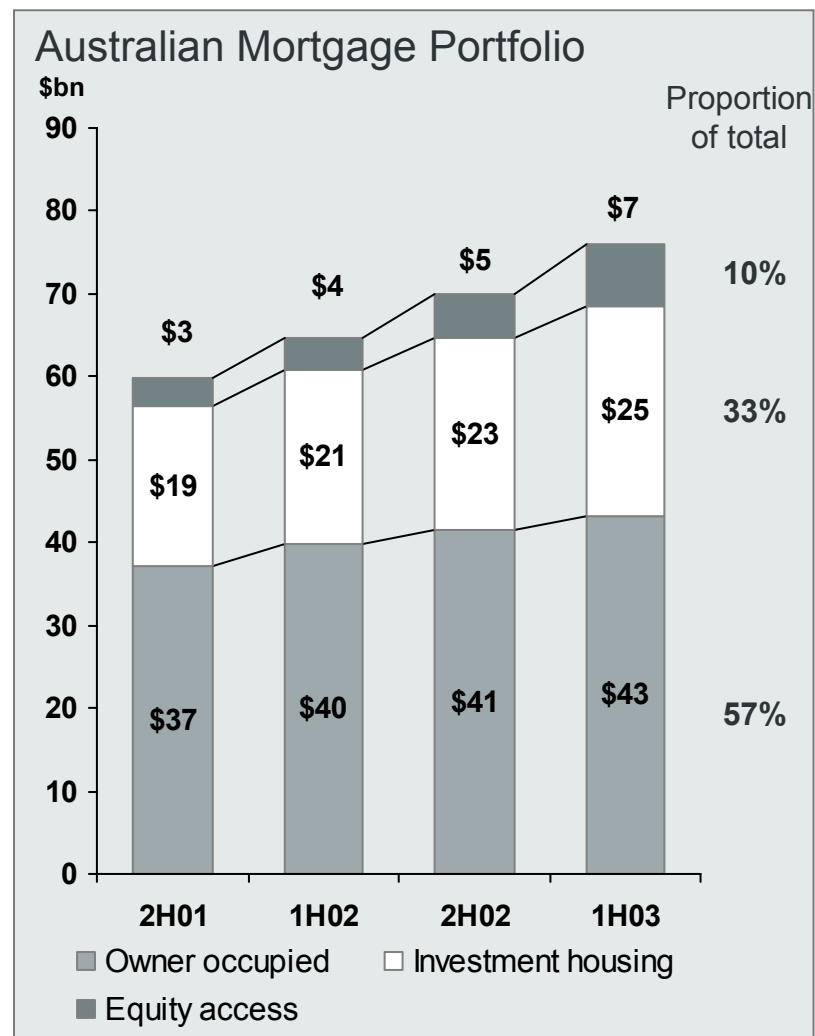
- Housing credit growth returning to decade average in year ahead
- Housing credit growth will, on average, continue to grow ahead of nominal GDP supported by:
  - Continuing positive population growth
  - Decrease in average household size
  - As standards of living increase, a higher proportion of earnings devoted to dwelling investment
- Alterations and additions accounting for a substantial proportion of overall dwelling investment



Source: APRA

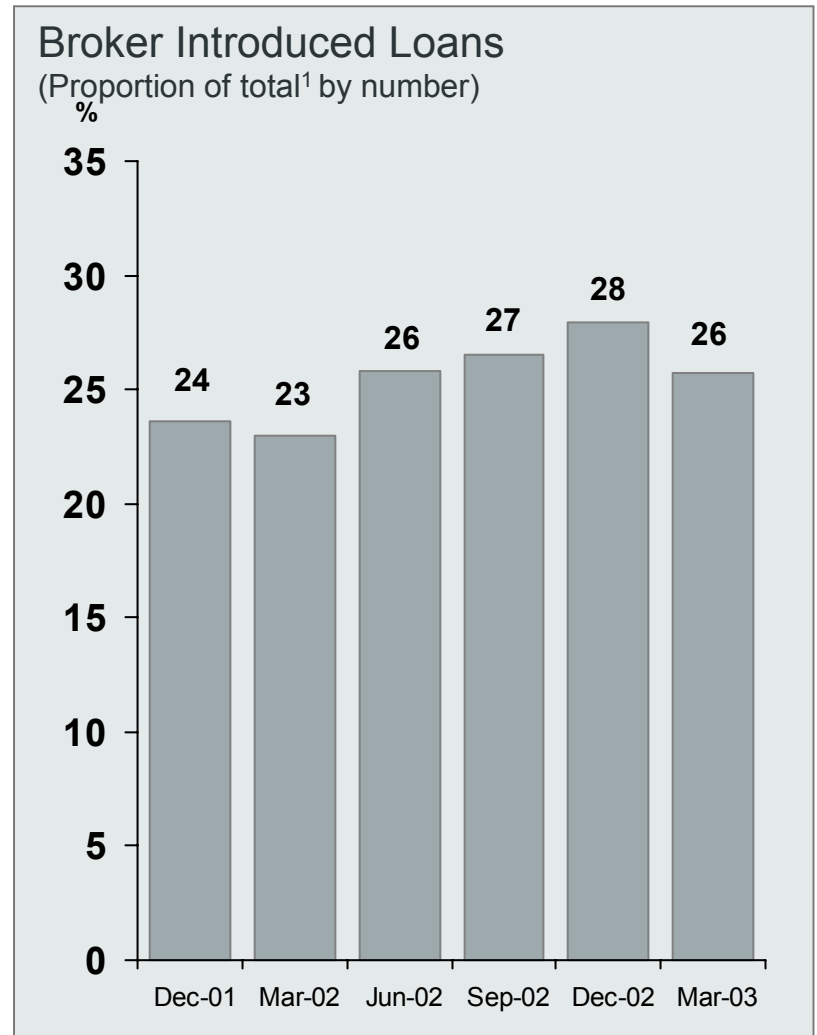
# Mortgage portfolio characteristics

- Investment loans grew 20% but only represent 33% of Australian portfolio; behaviour closely tracks that of owner occupied portfolio
- Average LVR of new loans 61%
- 20% of portfolio mortgage insured
- Lending criteria tightened for specific 'hot spots'
- Delinquencies continue to track at record lows



# Mortgages - broker introduced loans

- 30% of outstanding mortgage portfolio is broker originated
- Brokers on average introduce 25% – 35% of new loans<sup>1</sup> by way of value
- Average size of loan is up to 15% higher than branch originated loan
- Strict accreditation and monitoring processes in place for all brokers
- Same underwriting standards applied to all applications, and more rigorous validation process
- Broker introduced loans behave no differently to branch introduced loans

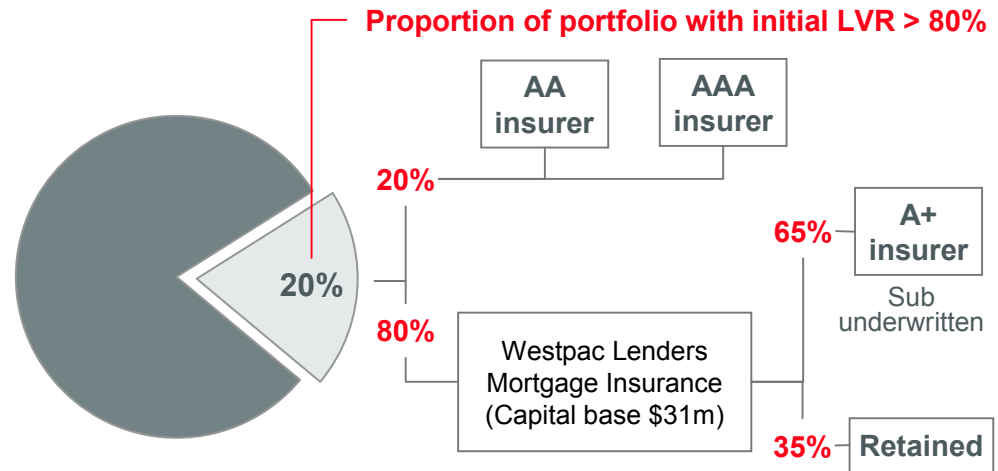


<sup>1</sup> Australian Retail housing

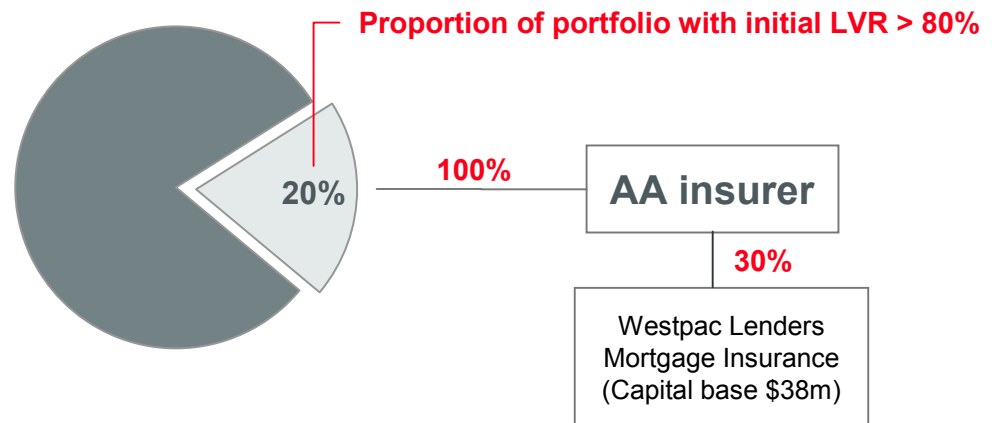
# Housing portfolio quality

- 100% mortgage insurance where Loan to value (LVR) ratio > 80%
- Insurance required for loans > \$1.3M and LVR > 70%, and for inner city apartments with LVR > 70%
- Transitional arrangements in mortgage insurance following industry changes
- Long run losses less than 3 basis points
- More rigorous criteria for potential property hot spots, i.e. inner city apartments
- Exposure to inner city apartments 2% of mortgage portfolio (\$1.6bn) with an average LVR of 56%

Mortgage insurance for new loans – as at September 2002



Mortgage insurance for new loans – as at March 2003



# Housing portfolio stress test

- Stress tested separately and jointly for:
  - Up to a 4 percentage point increase in interest rates;
  - 20 per cent decline in housing prices; and
  - A 200 basis point increase in the unemployment rate
- Behaviour of the investment loans closely tracks that of the owner occupied portfolio

Interest rate % pa	6.5%	8.5%	10.5%
Individual effect \$m	0.0	2.2	5.2
Price fall %	0%	10%	20%
Individual effect \$m	0.0	6.8	20.3
Unemployment rate	6.3%	7.3%	8.3%
Individual effect \$m	0.0	1.6	3.3
<b>Total effect \$m <sup>1</sup></b>	<b>0.0</b>	<b>15.5</b>	<b>64.3</b>
Total write-offs \$m <sup>2</sup>	6.7	22.2	71.0
Total write-offs bps <sup>2</sup>	0.9	3.1	10.1

1. Individual effects do not sum to the total effect because the impact of each of the individual effects is multiplicative in the model
2. Total write-offs on residential mortgage products should all factors coincide

Maximum additional expected loss if all economic factors coincided

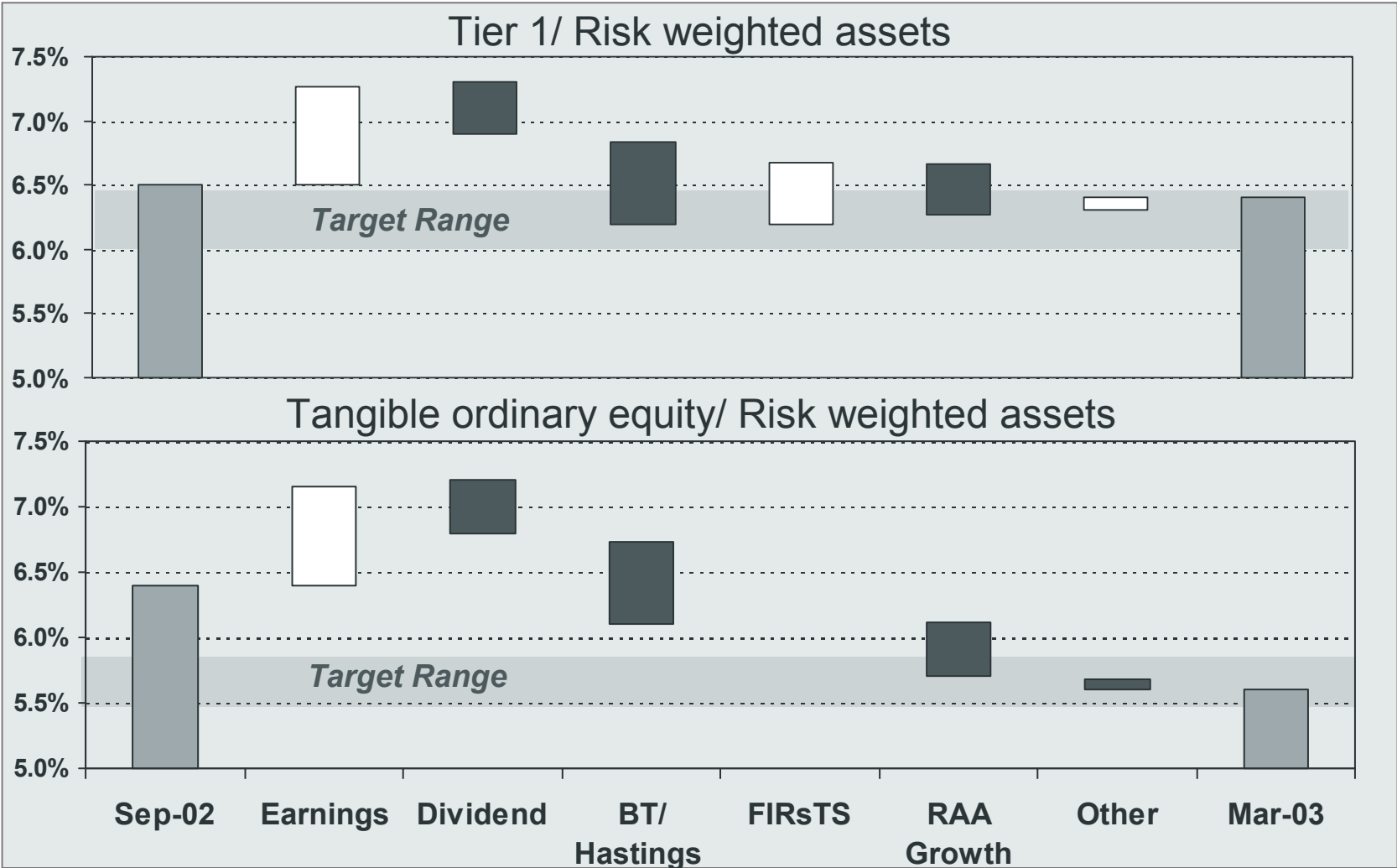
## Priorities for capital deployment

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1	Profitable growth	21% cash ROE, growth in risk adjusted assets 11% over the year
2	Franked dividend	Franking balance <sup>1</sup> now comfortably in surplus - \$408m
3	Buyback	Requires significant capital surplus above target ratios to trigger buyback of shares (i.e 50m shares ~ \$800m)
4	Unfranked/ partially franked dividend	Tax inefficient for shareholders  Not on agenda

<sup>1</sup> After 2003 interim dividend requirement

# Capital ratios – back in target ranges



## Surplus capital generation model – 2002

- In 2002 we demonstrated that our business model could generate growth in surplus capital per annum based on certain assumptions

<b>INDICATIVE</b>	\$ million	% of avg ordinary equity	Comments
Average ordinary equity	10,269		
Cash earnings	2,063	20%	Strong cash returns
Dividends paid	(1,266)	12%	Payout ratio 61%
Clawback through Dividend Reinvestment Plan (DRP)	289	3%	DRP participation 23%
Reinvested for growth	(597)	6%	To fund 7% growth in risk weighted assets
Growth in surplus capital	489	5%	Delivers 3-4 bp increase in Tier 1 ratio per month

## First half 2003 – actual capital outcome

- Organic growth opportunities exceeded expectations without eroding returns. Combined with a higher payout to shareholders saw no excess capital accumulated in H1 2003

	2002 estimate	H1 2003 actual	Comments
Return on equity	20%	21%	Strong cash returns on equity maintained
Dividends payout ratio	61%	63%	Increased payout ratio
Dividend Reinvestment Plan Participation	23%	27%	DRP participation slightly higher
Risk weighted asset growth	7%	14% (annualised)	Organic opportunities saw risk asset growth double expectations
Growth in surplus capital	5%	0%	

# Capital levels and ratios

	Mar-03	Sep-02	Mar-02
<b>Tier 1</b>			
Total equity (less dividends provided)	11,593	10,468	10,188
Goodwill (excluding funds management entities)	(1,406)	(1,424)	(1,449)
Net future income tax benefit	(216)	(159)	-
DRP reinvestment estimate	179	166	123
Retained earns & goodwill in wealth mgt & securitisation entities	(1,358)	(683)	(397)
Equity in captive lenders mortgage insurance	(38)	(31)	(25)
<b>Total tier 1 equity</b>	<b>8,754</b>	<b>8,337</b>	<b>8,439</b>
<b>Total Tier 2 Capital</b>	<b>5,624</b>	<b>4,791</b>	<b>4,954</b>
<b>Deductions</b>	<b>(965)</b>	<b>(1,017)</b>	<b>(769)</b>
<b>Total regulatory capital</b>	<b>13,413</b>	<b>12,111</b>	<b>12,624</b>
<b>Tangible ordinary equity</b>			
Shareholders funds	11,593	10,468	10,188
DRP reinvestment estimate	179	166	123
Less goodwill (including funds management entities) and intangibles	(2,599)	(1,754)	(1,449)
Less net future income tax benefit Incl. Non consolidated subsidiaries	(281)	(159)	0
Less hybrid tier 1	(1,120)	(465)	(465)
<b>Total tangible ordinary equity</b>	<b>7,773</b>	<b>8,256</b>	<b>8,395</b>
<b>Adjusted common equity</b>			
Other Tier 1 deductions	(204)	(385)	(422)
Tangible investment in non-consolidated subs	(965)	(1,017)	(769)
<b>Total adjusted common equity</b>	<b>6,605</b>	<b>6,855</b>	<b>7,205</b>
<b>Ratios %</b>			
Tier 1 / Risk adjusted assets	6.4%	6.5%	6.8%
Tier 2 / Risk adjusted assets	4.0%	3.7%	4.0%
Deductions	(0.7%)	(0.8%)	(0.6%)
Tangible ordinary equity / Risk adjusted assets	5.6%	6.4%	6.7%
Adjusted common equity / Risk adjusted assets	4.8%	5.3%	5.8%

## Basel 2 – the story so far

- Basel 2 involves the development of more sophisticated and comprehensive risk measurement for banks globally including credit, market and operational risks.
- Third stage of detailed global benchmarking now complete (QIS3) resulting in a model which sees no overall reduction in capital held by the global banking system but some recalibration required across regions and banks
- Preliminary findings suggest Australian banks have less risk than offshore counterparts
- Any potential reduction in capital from implementation of the accord, contingent upon agreement with APRA and the rating agencies

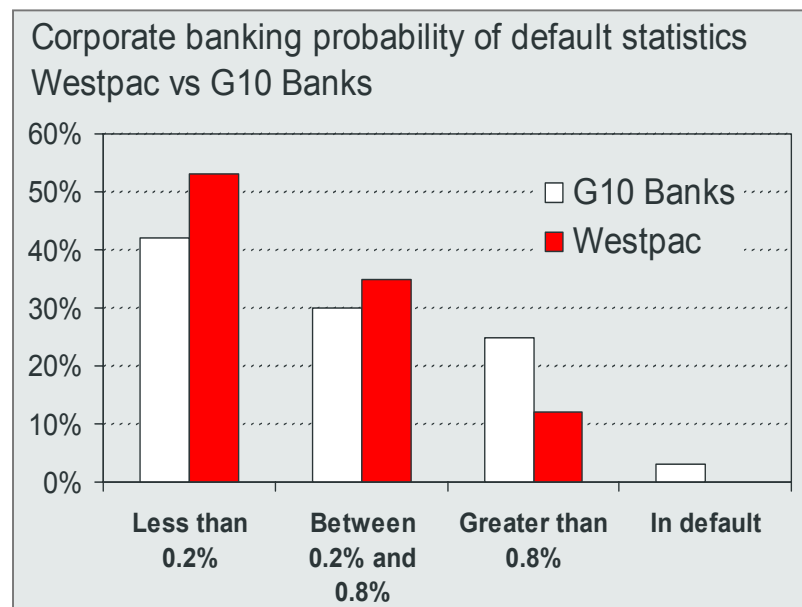
QIS3 Results - expected percentage change in risk weighted assets based on the risk measurement methodology adopted - standardised, foundation or advanced. The more rigorous the methodology, the greater the potential reduction in risk assets

	Standardised	Foundation	Advanced
G10 Group 1 Banks <sup>1</sup>	11%	3%	-2%
Australian Banks (average)	2%	-30%	-36%

1. Group 1 banks include large diversified and internationally active banks with Tier 1 capital exceeding Euro 3bn

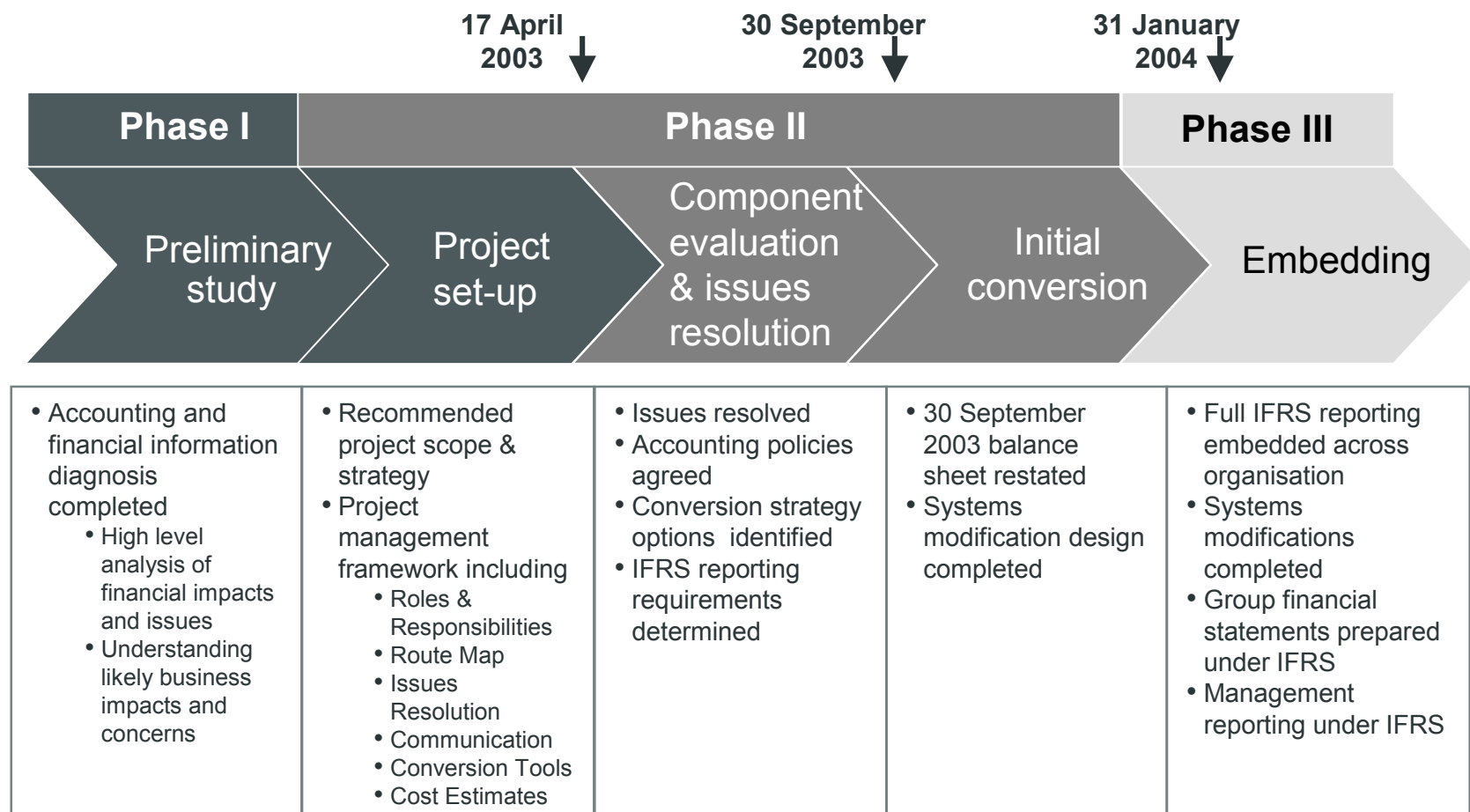
# Westpac and Basel 2

- Formal Basel 2 program in place for 18 months and we have been working on data issues for even longer
- Participated in the all global benchmarking studies and most recently QIS3
- Targeting the most sophisticated approaches permitted by the Accord for credit and operational risk – compliance expected by 1 January 2007.
- Westpac is expecting a material reduction (around one third) in risk-adjusted assets from the new accord
- Drivers of this improvement include:
  - High proportion of the portfolio in mortgages - 39% of committed exposures
  - Quality of corporate loan book - expected risk weighted asset reduction for Westpac is four times global average



# Conversion to international reporting standards

- Westpac is well advanced in preparing for the conversion to International Financial Reporting Standards (IFRS)



# Conversion to international reporting standards

Key areas of impact	Business impact	Financial impact	Comments
Hedge Accounting	H	H	All derivatives accounted for at fair value under stricter hedge accounting requirements. Potential for significant volatility if hedge accounting not achieved as per SFAS133
Provisions for doubtful debts	M	H	Stricter requirements on provision recognition may see current general provision levels significantly reduced. General provision may only cover incurred losses.
Life insurance	H	M	Insurance contract vs investment contract, significant impact on reporting systems and disclosures.
Debt vs equity	H	M	Stricter debt/equity classifications, may impact Tier 1 capital levels depending on APRA.
Interest calculations	M	L	To be recognised on an effective yield basis. Systems may need to be updated to capture all required data.
Superannuation	L	H	Further transitional adjustment possible, additional volatility if 10% corridor removed.
Special purpose vehicles (SPVs)	L	M	Interpretation of “control” to converge under IFRS, leading to consolidation of some SPVs and possible consolidation of some securitisation structures.
Business combinations	M	L	Amortisation of goodwill replaced by rigorous impairment testing, identifiable intangible assets must be identified and valued.

H = High    M = Medium    L = Low

# Outlook

June2003

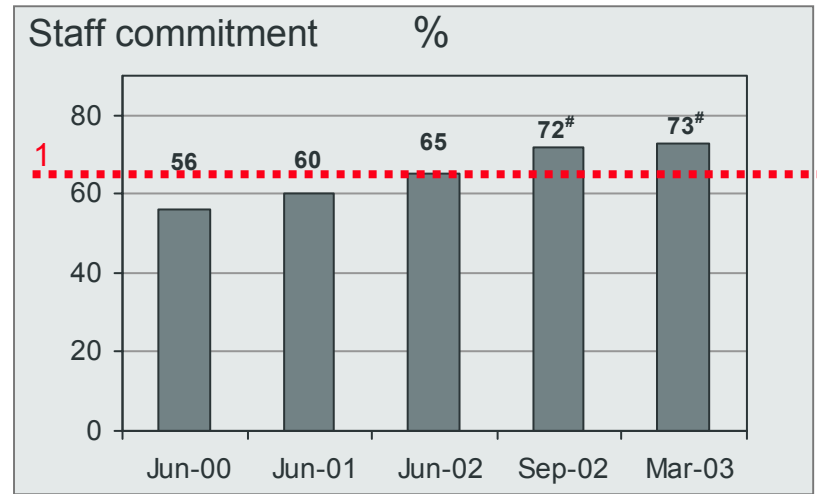
## Core objectives on track

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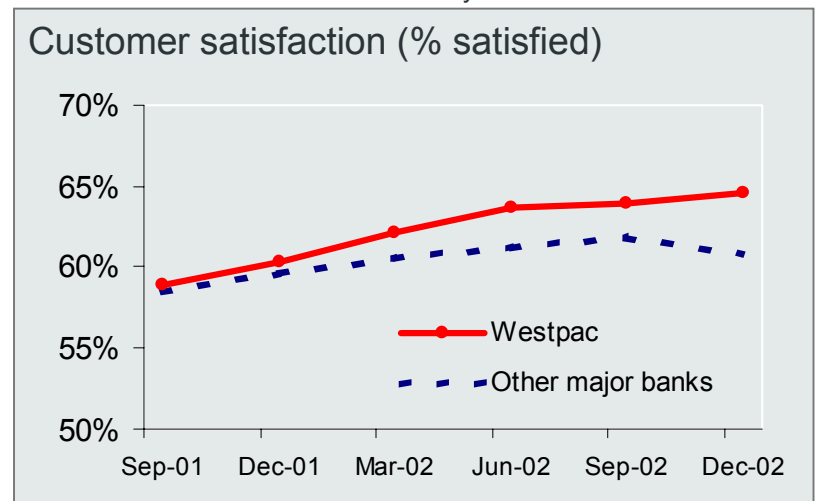
- Increase employee commitment by at least 5%
- Improve customer satisfaction by at least 5%
- Deliver cash earnings per share growth of 7% to 9% in 02/03
- Maintain global sector leadership position in sustainability practices

# Sustainably meeting the needs of all stakeholders

- Staff commitment above industry norms
- Beginning to exceed peers in customer satisfaction
- **Number 1** financial institution globally in Dow Jones Sustainability Index 2002/03
- **Number 1** *Sydney Morning Herald / The Age* Good Reputation Index 2002
- Second social impact report to be published by mid June 2003



<sup>1</sup> Global Financial Services Industry Norm



## Where are the risks?

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Risk	Probability of occurrence
• Major blow-out in bad debts	Low
• Greater than expected funds outflows	Low
• Irrational competition	Medium/Low
• Higher than planned impact from credit card and EFTPOS/debit cards reforms	Low
• Re-regulation	Low
• New wave of corporate collapses	Low
• Global economic recession	Medium/Low

# Regulatory issues

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- **Credit card reform**

- Reforms released by Reserve Bank of Australia August 02
- Affects interchange fees, ends restrictions on cost recovery by merchants and removes restrictions on new entrants
- Interchange reforms apply from October 03
- Assuming average reduction of 40 bps<sup>1</sup> in interchange fees from 2004

- **EFTPOS/debit card reform**

- RBA currently reviewing submissions
- Westpac expected to be a net beneficiary

- **Expected earnings impact**

- Full year impact approximately \$25 - \$40m<sup>1</sup> p.a (post tax) from 2004

<sup>1</sup> The card schemes are still coordinating the specific cost calculations for all banks

## Market consensus for 03-04

- We do not believe it is possible to forecast the macroeconomic outlook for more than about nine months ahead
- Accordingly, earnings guidance for the next financial year (2003-04) will be provided at the normal time (November 2003)
- In the meantime, we provide the broad economic market consensus with respect to the outlook for 2003-04 for the economy, credit growth and banks' performance outlook

<b>Economy</b> <sup>1</sup> (Financial year) %	<b>2002/03F</b>	<b>2003/04F</b>
GDP: real	3.0	3.25
Inflation – ongoing	3.25	2.75

<b>Credit growth</b> (Calendar year) %	<b>2003F</b>	<b>2004F</b>
Housing	13-15	10-12
Business	5-7	6-7
Total system credit	10-12	8-10

<b>Major Australian banks avg. performance</b> (Banks' financial year) %	<b>2003F</b>	<b>2004F</b>
Revenue growth	2.3	8.5
Expenses growth	3.8	3.4
EPS growth	6.4	8.6

<sup>1</sup> Source – May 2003 Australian Federal Budget Papers

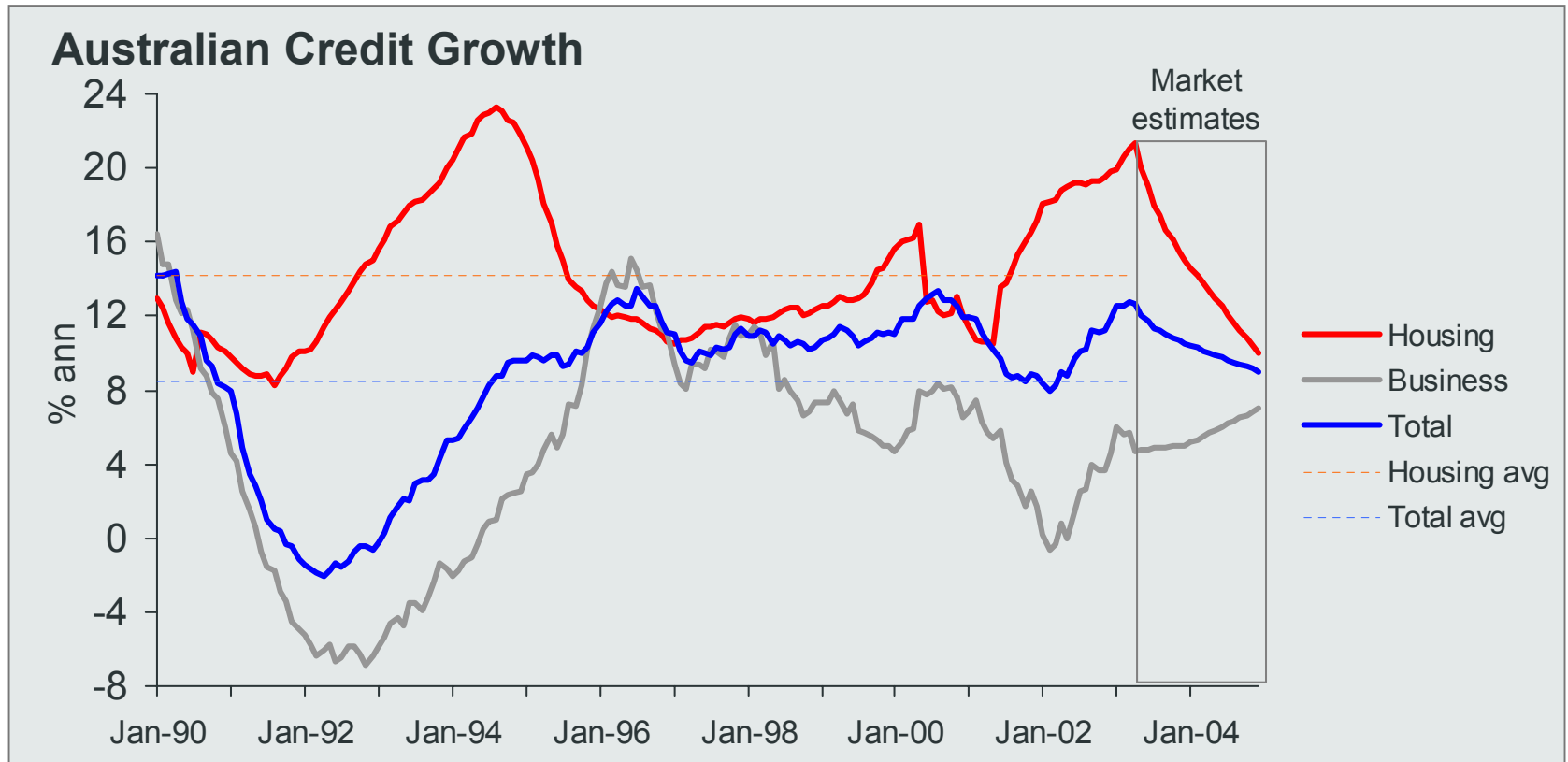
# Macro economic environment

- Australian economy consistently performed ahead of OECD
- Continued sound growth in Australia and New Zealand reliant on:
  - Breaking of drought
  - Recovery in world economy
  - Impact of SARS on major trading partners
- Interest rate outlook - stable



# Credit growth

- System credit growth easing
- Housing credit growth to fall but remain at respectable levels
- Business credit continuing modest recovery along with economic growth and investment cycle



Source: APRA

# Priorities for 2003

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- Maintain momentum in ongoing businesses
  - NZ program review
  - Implement Australian restructuring programs
  - Complete end-to-end re-engineering of lending process
  - Enhance customer experience and relationship management
- Deliver value from new acquisitions
  - Complete wealth integration and deliver synergies

## Westpac outlook remains positive

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- Solid revenue momentum across all businesses
- Low risk profile
- All businesses in good shape
- Recent strategic initiatives delivering value

Overall position - previous cash earnings per share guidance of 7% – 9% remains appropriate for this year

# Supplementary information

June2003

## Deferred expenditure

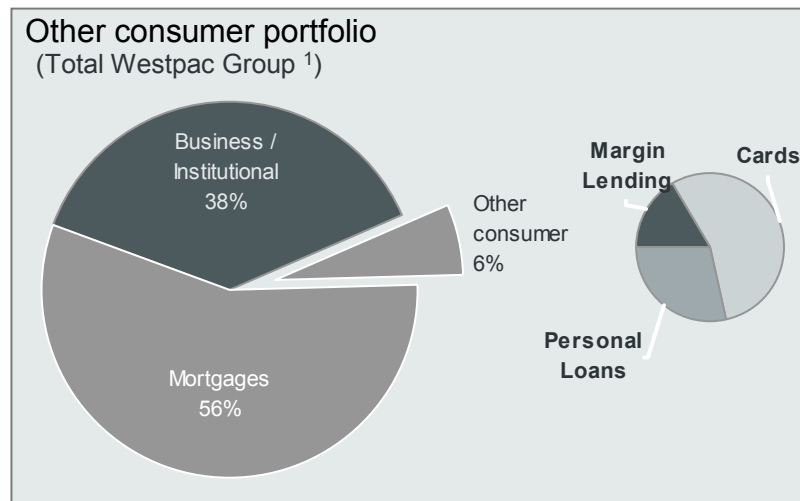
\$m	Mar 03	Sept 02	Mar 02
Capitalised software	283	232	229
Other deferred expenditure <sup>1</sup>	207	162	215
Deferred acquisition costs <sup>2</sup>	90	86	33
Deferred start up costs	-	-	64

1. Other deferred expenditure relates to commissions paid to acquire interest earning assets and fees and discounts associated with wholesale bank debt issues and associated hedges

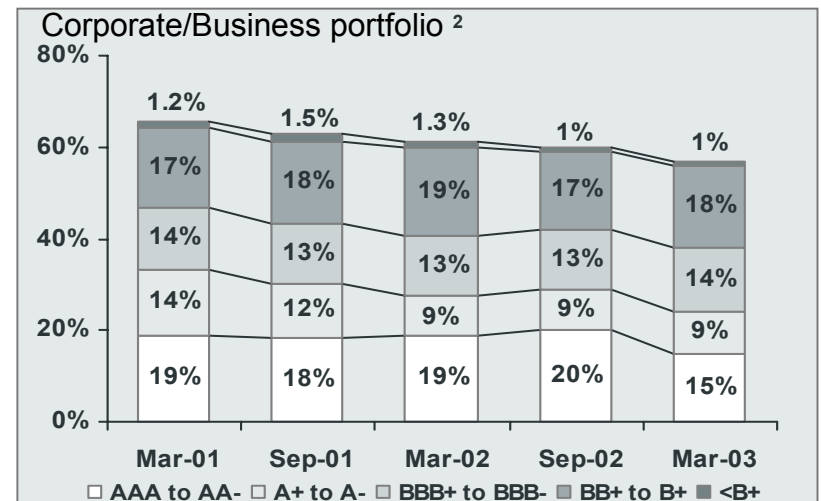
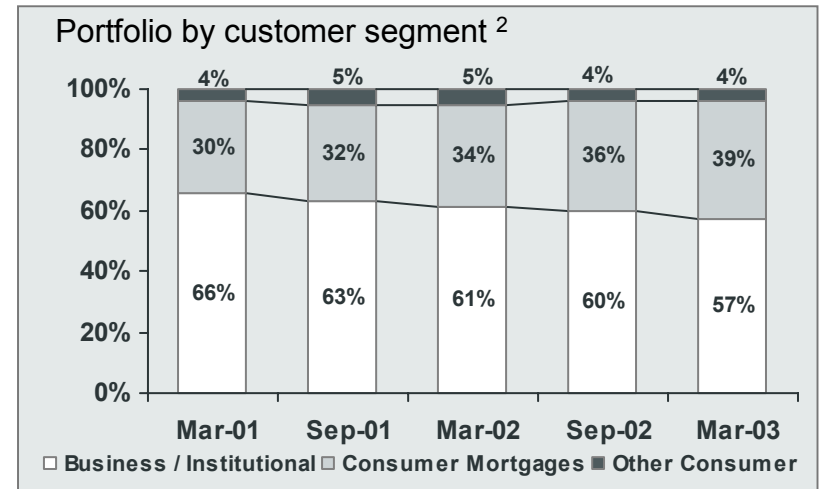
2. Deferred acquisition costs relate to costs incurred in acquiring non-life wealth management customers as well as general insurance business.

# Composition of portfolio

- Mortgages represent 39% of total commitments and 56% of funded lending
- 67% business / corporate portfolio exceeding investment grade
- Other consumer includes credit cards, personal lending and margin lending

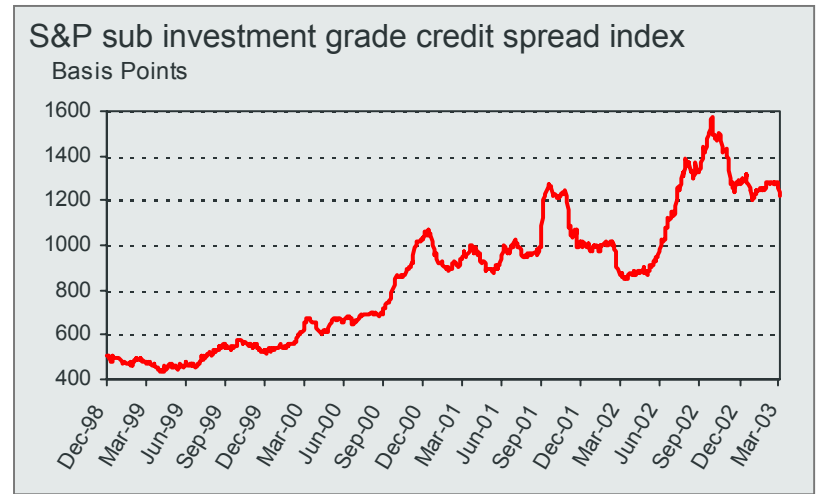
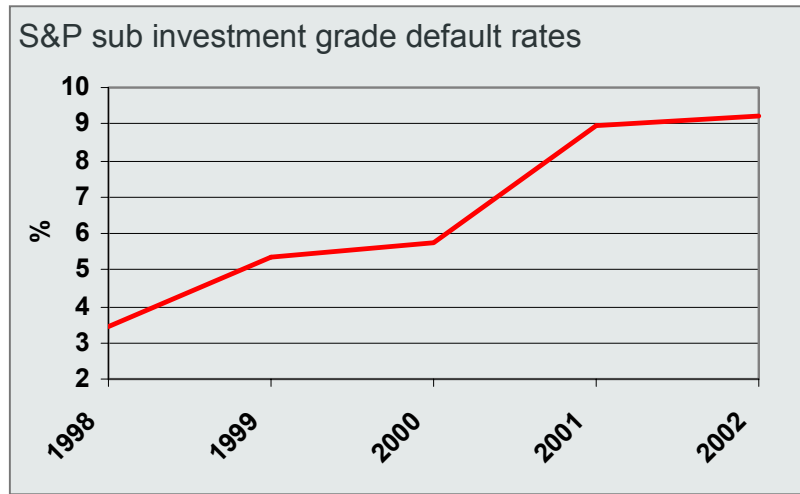


<sup>1</sup> On balance sheet funded lending - 31 March 2003



<sup>2</sup> % of Total Exposure - 31 March 2003

# Offshore exposures - investment securities



## March 2003

- Face value of \$US239.6m (carrying value of \$US130m) - reduction in par and book value from Sep 02 primarily represents pre-payments and sale of one asset at a price of 98.5%.
- Credit spreads have improved in the last half, however tempered by increase in sub-investment grade default rates

# Half year earnings reconciliation – 1H03

6 months to:	31 March 2003					
	Reported results	Individ. significant items	Underlying Business	BTFM and RAAM <sup>2</sup>	Hastings	Ongoing business
A\$m						
Interest income (incl. gross up)	4,973	-	4,973	15	-	4,958
Interest expense	(2,767)	-	(2,767)	(1)	-	(2,766)
Net interest income (incl. gross up)	2,206	-	2,206	14	-	2,192
Total non-interest income <sup>1</sup>	1,429	-	1,429	123	7	1,299
Net operating income (incl. gross up)	3,635	-	3,635	137	7	3,491
Operating expenses						
Salaries and other staff expenses	(898)	-	(898)	(57)	(3)	(838)
Equipment and occupancy expenses	(296)	-	(296)	(17)	-	(279)
Other expenses	(663)	-	(663)	(41)	(1)	(621)
Operating expenses (excl. goodwill)	(1,857)	-	(1,857)	(115)	(4)	(1,738)
Amortisation of goodwill	(78)	-	(78)	(26)	(1)	(51)
Operating profit before bad and doubtful debts	1,700	-	1,700	(4)	2	1,702
Bad and doubtful debts	(214)	-	(214)	-	-	(214)
Profit from ordinary activities before income tax (incl. gross up)	1,486	-	1,486	(4)	2	1,488
Tax equivalent gross up	(98)	-	(98)	-	-	(98)
Profit before income tax	1,388	-	1,388	(4)	2	1,390
Income tax expense <sup>1</sup>	(333)	-	(333)	(4)	(1)	(328)
Net profit attributable to outside equity interests	(4)	-	(4)	-	-	(4)
<b>Net profit attributable to equity holders</b>	<b>1,051</b>	<b>-</b>	<b>1,051</b>	<b>(8)</b>	<b>1</b>	<b>1,058</b>
Goodwill amortisation	78	-	78	26	1	51
Distributions on other equity instruments	(34)	-	(34)	-	-	(34)
Cash earnings	1,095	-	1,095	18	2	1,075
<b>Cash earnings (cents) per ordinary share</b>	<b>60.3</b>		<b>60.3</b>			<b>59.2</b>
Shares	1,815		1,815			1,815

<sup>1</sup> Includes 8 months of AGC profit

# Half year earnings reconciliation – 2H02

6 months to:	30 September 2002						
A\$m	Reported results	Individ. significant items	Embedded Value Uplift	Underlying Business	AGC <sup>3</sup>	RAAM <sup>2</sup>	Ongoing business
Interest income (incl. gross up)	4,688	-	-	4,688	178	-	4,510
Interest expense	(2,563)	-	-	(2,563)	(105)	-	(2,458)
Net interest income (incl. gross up)	2,125	-	-	2,125	73	-	2,052
Total non-interest income <sup>1</sup>	1,616	460	(60)	1,216	12	28	1,176
Net operating income (incl. gross up)	3,741	460	(60)	3,341	85	29	3,227
Operating expenses							
Salaries and other staff expenses	(1,006)	(221)	-	(785)	(10)	(12)	(763)
Equipment and occupancy expenses	(298)	-	-	(298)	(5)	(2)	(291)
Other expenses	(852)	(222)	-	(630)	(10)	(11)	(609)
Operating expenses (excl. goodwill)	(2,156)	(443)	-	(1,713)	(25)	(25)	(1,663)
Amortisation of goodwill	(51)	-	-	(51)	-	-	(51)
Operating profit before bad debts	1,534	17	(60)	1,577	60	3	1,514
Bad and doubtful debts	(190)	-	-	(190)	(31)	-	(159)
Profit from ordinary activities before income tax (incl. gross up)	1,344	17	(60)	1,387	29	3	1,355
Taxequivalent gross up	(72)	-	-	(72)	-	-	(72)
Profit before income tax	1,272	17	(60)	1,315	29	3	1,283
Income tax expense <sup>1</sup>	(95)	164	14	(273)	(16)	(1)	(256)
Net profit attributable to outside equity interests	(3)	-	-	(3)	-	-	(3)
<b>Net profit attributable to equity holders</b>	<b>1,174</b>	<b>181</b>	<b>(46)</b>	<b>1,039</b>	<b>13</b>	<b>2</b>	<b>1,024</b>
Goodwill amortisation	51	-	-	51	-	-	51
Embedded value uplift	46	-	46	-	-	-	-
Distributions on other equity instruments	(23)	-	-	(23)	-	-	(23)
Cash earnings	1,248	181	-	1,067	13	2	1,052
<b>Cash earnings(cents) per ordinary share</b>	<b>68.9</b>			<b>58.9</b>			<b>58.2</b>
Shares	1,812			1,812			1,812

<sup>1</sup> Includes 8 months of AGC profit

# Half year earnings reconciliation – 1H02

6 months to:	31 March 2002				
A\$m	Reported results	Embedded Value Uplift	Underlying Business	AGC <sup>2</sup>	Ongoing business
Interest income (incl. gross up)	4,671	-	4,671	535	4,136
Interest expense	(2,511)	-	(2,511)	(292)	(2,219)
Net interest income (incl. gross up)	2,160	-	2,160	243	1,917
Total non-interest income <sup>1</sup>	1,362	60	1,302	37	1,265
Net operating income (incl. gross up)	3,522	60	3,462	280	3,182
Operating expenses					
Salaries and other staff expenses	(823)	-	(823)	(29)	(794)
Equipment and occupancy expenses	(291)	-	(291)	(13)	(278)
Other expenses	(625)	-	(625)	(27)	(598)
Operating expenses (excl. goodwill)	(1,739)	-	(1,739)	(69)	(1,670)
Amortisation of goodwill	(49)	-	(49)	-	(49)
Operating profit before bad debts	1,734	60	1,674	211	1,463
Bad and doubtful debts	(271)	-	(271)	(70)	(201)
Profit from ordinary activities before income tax (incl. gross up)	1,463	60	1,403	141	1,262
Tax equivalent gross up	(67)	-	(67)	-	(67)
Profit before income tax	1,396	60	1,336	141	1,195
Income tax expense <sup>1</sup>	(376)	(14)	(362)	(48)	(314)
Net profit attributable to outside equity interests	(2)	-	(2)	-	(2)
<b>Net profit attributable to equity holders</b>	<b>1,018</b>	<b>46</b>	<b>972</b>	<b>93</b>	<b>879</b>
Goodwill amortisation	49	-	49	-	49
Embedded value uplift	(46)	(46)	-	-	-
Distributions on other equity instruments	(25)	-	(25)	-	(25)
Cash earnings	<b>996</b>	-	<b>996</b>	<b>93</b>	<b>903</b>
<b>Cash earnings(cents) per ordinary share</b>	<b>55.0</b>		<b>55.0</b>		<b>49.8</b>
Shares	1,812		1812		1812

<sup>1</sup> Includes 8 months of AGC profit

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