

# Profit Announcement

for year ended  
30 September 2002

 [www.westpac.com.au](http://www.westpac.com.au)

# TABLE OF CONTENTS

Page

<b>1</b>	<b>Press Release</b> .....	<b>3</b>
<b>2</b>	<b>Results at a Glance</b> .....	<b>6</b>
2.1	Business Unit Performance .....	7
<b>3</b>	<b>Review of Group Operations</b> .....	<b>8</b>
3.1	Overview of the Reported Result and the Year .....	8
3.2	Business Transformation .....	8
3.3	Individually Significant Items .....	8
3.4	Underlying Cash Earnings .....	9
3.5	Review of Ongoing Business .....	10
3.6	Capital and Dividends .....	11
3.7	Credit Quality .....	11
3.8	Strategic Growth Drivers .....	12
3.9	Corporate Responsibility .....	13
3.10	Post Balance Date Events .....	14
3.11	Outlook .....	14
3.12	Discussion of Individually Significant Items .....	15
<b>4</b>	<b>Statement of Financial Performance</b> .....	<b>18</b>
4.1	Statement of Financial Performance .....	18
4.2	Movements in Retained Profits .....	19
4.3	Cash Earnings .....	19
4.4	Earnings Per Share .....	19
4.5	Dividends .....	19
4.6	Interest Spread and Margin Analysis .....	20
4.6.1	Spread and Margin Analysis .....	20
4.6.2	Average Balance Sheets and Interest Rates .....	21
4.7	Non Interest Income Analysis .....	24
4.8	Operating Expense Analysis .....	25
4.9	Income Tax .....	26
<b>5</b>	<b>Statement of Financial Position</b> .....	<b>27</b>
5.1	Statement of Financial Position .....	27
5.1.1	Loans .....	28
5.1.2	Deposits and Public Borrowings .....	29
<b>6</b>	<b>Asset Quality</b> .....	<b>30</b>
6.1	Impaired Assets .....	30
6.2	Items Past Due 90 Days but Well Secured .....	30
6.3	Income on Non-accrual and Restructured Assets .....	30
6.4	Provisions for Bad and Doubtful Debts .....	31
6.5	Impaired Assets and Ratios .....	31
6.6	Charge for Bad and Doubtful Debts .....	32
<b>7</b>	<b>Capital Adequacy</b> .....	<b>33</b>
<b>8</b>	<b>Business Group Results</b> .....	<b>34</b>
8.1	Australian Business and Consumer Banking .....	34
8.1.1	Australian Consumer Distribution .....	35
8.1.2	Australian Business & Regional Banking Distribution .....	36
8.1.3	Australian Consumer Products .....	37
8.1.4	Australian Business Products .....	38
8.2	Australian Wealth Management .....	39
8.3	Westpac Institutional Bank .....	40
8.4	New Zealand Retail .....	41
<b>9</b>	<b>Funds Management and Life Insurance</b> .....	<b>42</b>
9.1	Total Funds Management and Life Insurance .....	42
9.2	Funds Management Business .....	43
9.3	Life Insurance Risk Business (excludes general insurance) .....	44
9.4	Other Business .....	45
9.5	Embedded Value and Value of New Business .....	45
<b>10</b>	<b>Trading Derivatives</b> .....	<b>46</b>
<b>11</b>	<b>Credit Ratings</b> .....	<b>47</b>
<b>12</b>	<b>Exchange Rates</b> .....	<b>47</b>
<b>13</b>	<b>Changes in Accounting Policies</b> .....	<b>48</b>
<b>14</b>	<b>Disclosure Regarding Forward-Looking Statements</b> .....	<b>48</b>
<b>15</b>	<b>Reconciliation to US GAAP</b> .....	<b>49</b>
<b>16</b>	<b>Shareholder Calendar</b> .....	<b>50</b>
<b>17</b>	<b>Business Unit Half Yearly Analysis</b> .....	<b>51</b>
<b>18</b>	<b>Reconciliation of Reported Results</b> .....	<b>52</b>
18.1	Full Year Reconciliation .....	52
18.2	Half Year Reconciliation .....	53
19	Appendix 4B .....	Attached

In this announcement references to 'Westpac', 'we', 'us' and 'our' are to Westpac Banking Corporation. References to 'Westpac', 'we', 'us' and 'our' under the captions include Westpac and its consolidated subsidiaries unless they clearly mean just Westpac Banking Corporation.

## Westpac reshapes for growth

Westpac Banking Corporation today announced an operating profit after tax of \$2,192 million (including significant items), for the 12 months ended September 2002, an increase of 15% on 2001. Earnings per share (EPS) were up 15% to 118 cents per share and return on equity increased to 22%.

Directors have determined to pay a final dividend of 36 cents per ordinary share, taking the total dividend for the year to 70 cents fully franked, an increase of 13% on 2001.

Excluding one-off significant items, cash earnings were up 9% to \$2,063 million. Underlying cash EPS was up 8% to 114 cents, despite the loss of four months of AGC income following its sale in May.

Profits and cash earnings on an ongoing business basis (excluding significant items and the operations of AGC) were both up 12%.

The strong result was achieved despite the fundamental transformation in business composition delivered through the sale of AGC and the acquisition of Rothschild Australia Asset Management and the BT Financial Group. In addition, Westpac also purchased a 51% stake in Hastings Funds Management.

Australian Business and Consumer Banking's operations delivered a 24% lift in profit to \$1,046 million on the corresponding period. Home loan outstandings grew 12% to \$60 billion in Australia. Credit card outstandings (excluding AGC card products) were up 8% on the corresponding period, following the successful launch of the Altitude program.

Australian retail deposit balances were up 13% in the year. Business lending outstandings were up 9%.

The Australian funds management business contributed \$105 million to profit - an increase of 14% on the previous year. Westpac's Australian life business also had a successful year, increasing its profit to \$36 million, up 50% on 2001.

Second half performance was assisted by a sharp turnaround in the New Zealand retail operations, up 50% half on half, reflecting the success of the revitalisation program implemented under new management which delivered strong growth in consumer and business lending as well as deposits.

This result was also achieved despite a 25% decline in profit in the Institutional Bank's operations to \$281 million. This reflected the combined impact of a small number of problem corporate exposures on bad debt charges and a subdued trading performance in financial markets.

Asset quality improved in the year despite the continued volatility in world financial markets. Total impaired assets as a percentage of total loans and acceptances declined to 0.5% from 0.6%. Credit losses in the mortgage market remain at historically low levels, with loans in default more than 90 days declining 8 basis points to 0.15% of mortgage outstandings.

Westpac's Chief Executive Officer, David Morgan, said today's result continued recent momentum in delivering consistent earnings growth.

"It's particularly pleasing to have achieved this strong earnings momentum in our ongoing business while undertaking a number of transformational initiatives that enhance our sustainable growth, fill key capability gaps and firmly position us as a major league wealth management player," he said.

"At the same time we have not been diverted from our core retail and commercial banking businesses in Australia and New Zealand, which continue to perform strongly."

## Year End Profit Announcement 2002

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The individual significant items includes initiatives to present a lower risk, more relevant and transparent set of financial statements in the future, or were a direct result of the acquisition and divestment activities. They included:

- an after tax profit of \$754 million, realised on the sale of AGC to GE Capital;
- a charge of \$60 million (after tax) relating to the integration of our existing wealth management businesses into Westpac's newly acquired operations;
- the standardisation of the accounting treatment for our existing and newly acquired wealth management businesses to an accrual accounting basis, resulting in a net charge of \$109 million (post tax) relating to the embedded value write off and deferred acquisition cost reinstatement;
- A write down to fair value accounting on a portfolio of high yield investments (previously held on a cost basis) resulting in an after tax charge of \$149 million. The accounting treatment follows management's intention in regard to this portfolio, which was established in 1997 and has now been made available for sale;
- the expensing of \$95 million of capitalised start up costs associated with establishing outsourcing agreements, reflecting the adoption of a more relevant and transparent accounting treatment for outsourced services; and
- the early adoption of the international accounting standard for superannuation (IAS 19) which has resulted in an additional after tax charge of \$160 million in this year's results reflecting an increased valuation of superannuation obligations derived from more conservative discount rates and the requirement to use market as opposed to actuarial values for assets.

Apart from the early adoption of IAS 19 and the adoption of more transparent accounting treatment for outsourced services, these items were previously announced to the market.

Dr Morgan said: "These changes clear the decks, taking risk out of the balance sheet and improving transparency for the market.

"They are prudent as we change our business mix onto a higher growth path. We have the balance right between growth and risk.

"We are now well positioned to deliver on the challenging task ahead in integrating our wealth management business, while delivering sustainable earnings improvement."

During 2002, Westpac's leadership in governance and corporate responsibility was recognised, being judged the top company in the 2002 Good Reputation Index and the number one bank globally in the Dow Jones Sustainability Index.

Senior executive equity linked incentive schemes have been enhanced to strengthen the link to shareholder value and to toughen performance hurdles and eligibility criteria.

Under the new schemes, executives will now forfeit all options and performance share rights for below median returns relative to the peer group of companies. Executives will only fully benefit from any options or performance share right grants if performance is at or above the 75<sup>th</sup> percentile relative to the peer group. Option grants will be limited to 50% of any long-term incentives, with the remainder received as performance share rights.

"We support the adoption of accounting treatments that clearly and transparently recognise the true cost of executive equity linked incentives. Once an international accounting standard supporting this is agreed and adopted as an Australian GAAP, and related potential tax implications addressed, we will expense the cost in our Australian accounts," Dr Morgan said.

The fair value of share options and performance share rights, however, will be expensed in Westpac's 2002 US GAAP accounts under relevant US GAAP accounting standards.

## Year End Profit Announcement 2002

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### Outlook

The global outlook remains volatile and a degree of uncertainty surrounds the outlook in the year ahead. Nevertheless, core business performance remains strong and growth and efficiency initiatives on plan. Combined with improving service quality trends and staff commitment at global best practice levels, further improvement in earnings are expected in the year ahead.

Our ongoing businesses continue to perform well with earnings growth in the next twelve months likely to be in line with double-digit EPS growth expectations.

“Allowing for the near-term earnings dilution from our strategic repositioning, as indicated at the time of each announcement, we expect to deliver underlying cash earnings per share growth in the 7% to 9% range in 2003.

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## Year End Profit Announcement 2002

### 2 RESULTS AT A GLANCE

	Six months to/as at		Twelve months to/as at		% Mov't Sept 01- Sept 02
	30 Sept 2002	31 March 2002	30 Sept 2002	30 Sept 2001	
<b>Reported Performance</b>					
Operating income <sup>1</sup> (\$m)	3,741	3,522	7,263	6,737	8
Operating expenses (excluding amortisation of goodwill) \$m	2,156	1,739	3,895	3,472	12
Net profit attributable to equity holders (\$m)	1,174	1,018	2,192	1,903	15
Cash earnings <sup>2</sup>	1,202	1,042	2,244	1,950	15
Economic profit <sup>3</sup> (\$m)	728	652	1,380	1,198	15
Net interest spread	2.31	2.60	2.45	2.63	-18bps
Net interest margin	2.70	2.90	2.80	3.11	-31bps
<b>Shareholder value</b>					
Earnings per ordinary share <sup>4</sup> (cents)	63.5	54.8	118.3	102.8	15
Return on average ordinary equity <sup>5</sup> (%)	22.4	20.8	21.7	21.1	60bps
Fully franked dividends per ordinary share (cents)	36	34	70	62	13
Dividend payout ratio to ordinary shareholders <sup>6</sup> (%)	56.7	62.0	59.2	60.3	-110bps
<b>Productivity and efficiency</b>					
Expense to income ratio before amortisation of goodwill (%)	57.6	49.4	53.6	51.5	-210bps
Implied full time equivalent staff (FTE) <sup>7</sup>	24,776	26,704	24,776	28,534	(13)
<b>Underlying Business Performance<sup>8,9</sup></b>					
Operating income (\$m)	3,281	3,522	6,803	6,674	2
Operating expenses (excluding amortisation of goodwill) \$m	1,713	1,739	3,452	3,472	(1)
Net profit attributable to equity holders (\$m)	993	1,018	2,011	1,854	8
Cash Earnings	1,021	1,042	2,063	1,901	9
Net interest spread	2.31	2.60	2.45	2.63	-18bps
Net interest margin	2.70	2.90	2.80	3.11	-31bps
Cash earnings per ordinary share (cents)	56.3	57.5	113.9	105.6	8
Expense to income ratio before amortisation of goodwill (%) <sup>10</sup>	51.3	50.2	50.7	52.0	130bps
Economic profit (\$m) <sup>10</sup>	598	600	1,198	1,149	4
<b>Capital adequacy</b>					
Capital adequacy ratios					
Net capital ratio	9.4%	10.2%	9.4%	9.9%	-50bps
Tier 1	6.5%	6.8%	6.5%	6.3%	20bps
Average ordinary equity (\$m)	10,269	9,511	9,890	8,795	12
Average total equity (\$m)	10,731	9,991	10,361	9,270	12
<b>Assets</b>					
Total assets (\$m)	191,037	186,192	191,037	189,845	1
Net loans and acceptances (\$m)	140,658	138,075	140,658	137,950	2
Securitised loans net of amortisation (\$m)	4,318	5,317	4,318	3,606	20
Risk adjusted assets (\$m)	128,651	124,056	128,651	127,242	1
<b>Asset quality</b>					
Total impaired assets to total loans and acceptances	0.5%	0.6%	0.5%	0.6%	10bps
Net impaired assets to equity and general provisions	3.5%	4.4%	3.5%	5.4%	190bps
Specific provisions to total impaired assets	40.0%	41.3%	40.0%	34.0%	600bps
Total provisions to total loans and acceptances	1.0%	1.2%	1.0%	1.1%	10bps
Total bad and doubtful debt charge <sup>5</sup> to average loans and acceptances (basis points)	26	39	33	32	1bps

1 Operating income includes net interest income, non interest income, and tax equivalent gross up.

2 Net profit attributable to ordinary equity holders before goodwill and after preference dividends.

3 Net profit attributable to ordinary equity holders before goodwill plus 70% of the face value of franked dividends less the minimum rate of return (12%) on equity invested.

4 Basic earnings per share are calculated after charging payments to holders of other equity instruments. NZ Class shares are treated as ordinary equity.

5 Calculated on an annualised basis.

6 Dividends per ordinary share divided by earnings per ordinary share.

7 Implied full time equivalent staff numbers include core full time equivalent, overtime, temporary staff and contractors.

8 Underlying business refers to our results excluding individually significant items.

9 2001 full year results have been restated to exclude \$49 million (post tax) embedded value uplift.

10 Comparatives for the six months ended 31 March 2002 and 30 September 2002 have been adjusted for embedded value uplift of \$60 million (pre tax).

## Year End Profit Announcement 2002

### 2.1 BUSINESS UNIT PERFORMANCE

\$m	Six months to:		Twelve months to:		% Mov't Sept 01 - Sept 02
	30 Sept 02	30 March 02	30 Sept 02	30 Sept 01 <sup>1</sup>	
Australian Business and Consumer Banking	550	496	1,046	843	24
<i>Consumer Distribution</i>	113	106	219	150	46
<i>Business &amp; Regional Banking Distribution</i>	181	156	337	281	20
<i>Consumer Products</i>	198	165	363	300	21
<i>Business Products</i>	58	69	127	112	13
Wealth Management Australia	39	68	107	132	(19)
<i>Funds Management</i>	54	51	105	92	14
<i>Life Insurance Business</i>	21	15	36	24	50
<i>Other Wealth Management</i>	(36)	2	(34)	16	large
Westpac Institutional Bank	154	127	281	374	(25)
New Zealand	154	103	257	271	(5)
<i>New Zealand Retail</i>	144	93	237	257	(8)
<i>New Zealand Funds Management</i>	1	2	3	5	(40)
<i>New Zealand Life Insurance Risk Business</i>	9	8	17	9	89
Corporate Centre & Group Items	83	131	214	82	161
<b>Total ongoing businesses profit on operations</b>	<b>980</b>	<b>925</b>	<b>1,905</b>	<b>1,702</b>	<b>12</b>
AGC Australia	8	85	93	143	(35)
AGC New Zealand	5	8	13	9	44
<b>Underlying business profit on operations</b>	<b>993</b>	<b>1,018</b>	<b>2,011</b>	<b>1,854</b>	<b>8</b>
Significant Items	181	-	181	49	large
<b>Total reported profit on operations</b>	<b>1,174</b>	<b>1,018</b>	<b>2,192</b>	<b>1,903</b>	<b>15</b>

<sup>1</sup> Comparative figures have been restated to exclude embedded value uplift to align the accounting methodology between the periods.

Business unit performance is discussed in sections 8 and 9. An analysis of business unit profit on operations for the six months ended 30 September 2001 and 30 March 2001 is included in Section 17.

# Year End Profit Announcement 2002

## REVIEW OF GROUP OPERATIONS<sup>1</sup>

### 3.1 OVERVIEW OF THE REPORTED RESULT

The year has been a successful and significant one. We delivered our 10th successive record annual profit<sup>2</sup> and have enhanced our medium term growth trajectory through a number of transformational strategic initiatives.

Reported after tax profit for the year ended 30 September 2002 was \$2,192 million, an increase of 15% on the prior year. Earnings per share (EPS) was also up 15% to 118.3 cents per share.

In addition, reported return on average ordinary equity increased to 22%.

Directors have determined to pay a final dividend of 36 cents per ordinary share (fully franked) resulting in a total dividend for the year of 70 cents (fully franked), an increase of 13% on 2001. The reported dividend payout ratio fell slightly to 59.2%.

The key features of the result were:

- a 24% lift in profit from our Australian Business and Consumer Banking business;
- a sharp turnaround in our New Zealand Retail business with profit up 50% half on half; and
- a weaker contribution from our Institutional Banking business where difficult trading conditions combined with a small number of credit downgrades and defaults led to a 25% decline in annual profit.

As detailed below, a comprehensive program to reposition the business onto an enhanced growth trajectory was successfully undertaken. The Australian Guarantee Corporation (AGC) finance business was sold and the proceeds reinvested in the wealth management segment. Given the significance of the transformation, the result is particularly pleasing. Our ability to undertake major change without unduly distracting from our core business performance continues to be a major strength.

The changes in business composition, however, do complicate the interpretation of our 2002 result. This has been further complicated by a number of individually significant items (see Section 3.3), which have been recognised in the 2002 financial statements.

In order to assist analysis and interpretation of the result, we have enhanced disclosure and also presented analysis of the 2002 results on an underlying earnings<sup>3</sup> basis (see Section 3.4) and on an ongoing business<sup>4</sup> basis (see Section 3.5).

In summary:

- Underlying cash earnings (adjusted for all significant items) was up 9%, despite AGC contributing only eight months of earnings in 2002.
- Underlying cash EPS was up 8% again despite the loss of four months of AGC income.
- On an ongoing business basis, after tax profit and cash earnings were both up 12%, with cash EPS up 11%.

The Statement of Financial Performance incorporates all elements of our results, including recognising the individually significant items in reported net profit.

A full reconciliation of our results, incorporating the impact of the AGC sale, acquisitions and other significant items is presented in Section 18 of this announcement.

### 3.2 BUSINESS TRANSFORMATION

Our wealth management capabilities were greatly enhanced in the year following a series of acquisitions. In May 2002, the purchase of Rothschild Australia Asset Management (Rothschild) was finalised for \$323 million. Then in August 2002 we completed our wealth management acquisition program with the purchase of key parts of the Australian and New Zealand operations of the BT Financial Group (BT) for \$900 million.

These acquisitions have filled key capability gaps and firmly positioned us as a major player in wealth management. Further details are set out in Section 3.8 on these acquisitions and resultant capabilities and market position.

In addition, we acquired an initial 51% stake in Hastings Funds Management (Hastings) with a commitment to acquire the remainder of the company in three years time. This positions us well in the wholesale infrastructure funds management business.

The sale of AGC enabled us to complete the strategic repositioning without needing to raise additional capital. While a profitable business, AGC had lower growth prospects and operated in an increasingly competitive area of our business. After tax profit on the sale of AGC was \$754 million.

### 3.3 INDIVIDUALLY SIGNIFICANT ITEMS

In this result, a number of significant items have been accounted for in the Statement of Financial Performance and reflected in reported after tax profit. These items have been detailed in this announcement as individually significant due to their size and non-recurring nature.

The items are either:

- a direct result of our acquisition and divestment activity; or
- designed to ensure we present a lower risk, more relevant, and transparent set of financial statements in the future.

<sup>1</sup> Comparisons in this document are with the year ended 30 September 2001 unless otherwise stated.

<sup>2</sup> Excluding abnormal items.

<sup>3</sup> Reported cash earnings adjusted for individually significant items. For comparability purposes 2001 comparatives have been reduced by \$49 million (after tax) to record wealth management income on the same accrual accounting basis as in 2002.

<sup>4</sup> Ongoing business cash earnings refers to our results excluding individually significant items and the operations of AGC.

## Year End Profit Announcement 2002

Details of the individually significant items are:

- The after tax profit of \$754 million realised on the sale of AGC to GE Capital on 31 May 2002.
- A charge of \$60 million (after tax) relating to costs associated with the integration of our existing wealth management businesses into our newly acquired operations.
- The standardisation of the accounting treatment for our existing and newly acquired wealth management businesses to an accrual accounting basis. This accounting change improves the transparency of earnings and removes the volatility created by market revaluations previously included in our embedded value movements. A net charge of \$109 million (post tax) has been recognised in our Statement of Financial Performance as a result of this change.
- The expensing of \$95 million (post tax) in previously capitalised start up costs associated with outsourcing agreements. This will better align our reported expense with the underlying economics of these contracts and the ongoing cost improvements generated by these initiatives will now flow directly through to future results. In addition this change lowers the level of deferred expenditure on the balance sheet.
- The adoption of the principles of the International Accounting Standard for Superannuation (IAS 19), which has resulted in an additional after tax charge of \$160 million in the current year results. This change is largely the result of a more conservative approach to valuing our funds' liabilities.
- A change in investment strategy on a portfolio of high yield investments. These securities had previously been intended to be held to maturity. The portfolio has now been made available for sale and an after tax charge of \$149 million has been recognised.

A more detailed discussion of these items is included in Section 3.12.

### 3.4 UNDERLYING CASH EARNINGS

To assist in the analysis of performance trends, we have set out below an analysis of our result based on the underlying cash earnings. That is, before the non-recurring significant items, and excluding the impact of goodwill amortisation and preference share distributions.

	Twelve months to:		% Mov't
	30 Sept 2002	30 Sept 2001	
<b>Underlying cash earnings</b>			
<b>\$m</b>			
Reported NPAT	2,192	1,903	15%
Embedded value uplift	-	(49)	
Normalised NPAT	2,192	1,854	18%
Goodwill	100	98	
Preference dividends	(48)	(51)	
<b>Cash earnings</b>	<b>2,244</b>	<b>1,901</b>	<b>18%</b>
less individually significant items:			
Profit on sale of AGC	754		
Integration expenses	(60)		
Wealth accounting treatment	(109)		
Outsourcing start up costs	(95)		
Superannuation	(160)		
Securities writedown	(149)		
<b>Net effect</b>	<b>181</b>	<b>-</b>	
<b>Underlying cash earnings</b>	<b>2,063</b>	<b>1,901</b>	<b>9%</b>
<b>Cash earnings per share (cents)</b>	<b>113.9</b>	<b>105.6</b>	<b>8%</b>

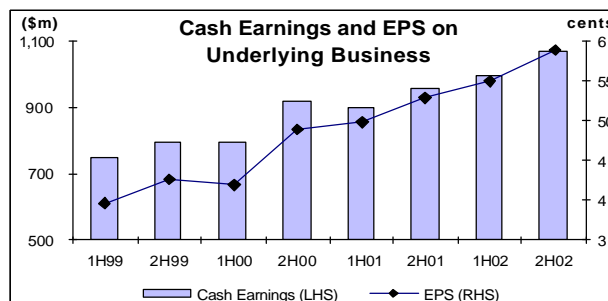
Despite the fact that the 2002 result included only eight months of AGC earnings, underlying cash earnings were up 9% and underlying cash EPS up 8% on 2001. This was a strong result given the adverse global economic environment in the past year.

Details of the composition of our underlying cash earnings is set out below:

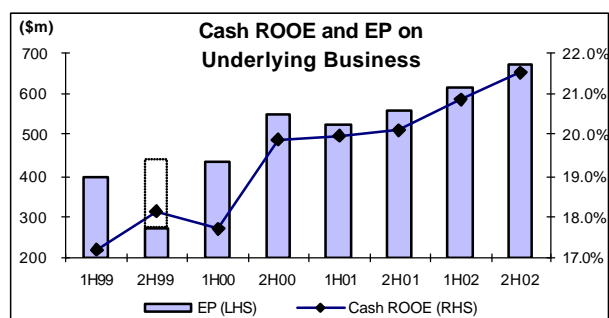
	Twelve months to:		% Mov't
	30 Sept 2002	30 Sept 2001	
<b>Underlying cash earnings</b>			
<b>\$m</b>			
Operating income	6,803	6,674	2%
Total expenses	(3,552)	(3,570)	1%
Underlying profit	3,251	3,104	5%
Bad debts	(461)	(433)	-6%
NPBT	2,790	2,671	4%
Tax	(774)	(812)	5%
Outside equity interests	(5)	(5)	-
NPAT	2,011	1,854	8%
Goodwill	100	98	2%
Preference dividends	(48)	(51)	6%
<b>Underlying cash earnings</b>	<b>2,063</b>	<b>1,901</b>	<b>9%</b>

We have achieved our business transformation with only a minor disruption to earnings.

A 10% compound average growth in underlying cash earnings was achieved over the past three years. Over this same period, underlying cash EPS also increased at an annual rate of 11%.



Due to effective capital management, the return on equity on the underlying business has been maintained above 21% in the year. Combined with a lift in franked dividend distributions, economic profit for the underlying business has improved at a greater rate than earnings. As illustrated below, a compound annual growth in economic profit of 14% has been achieved since September 1999.



## Year End Profit Announcement 2002

### 3.5 REVIEW OF ONGOING BUSINESS

Analysing the results on an ongoing business basis provides a clearer picture of earnings trends. For the purpose of ongoing business comparability the results of AGC (sold May 2002) and individually significant items have been excluded from the following review.

After tax profit was up 12% on an ongoing business basis, continuing recent double digit profit growth. The performance accelerated through the year with our second half cash earnings 6% higher than that achieved in the first six months.

As set out below, cash earnings for our ongoing business improved by 12% on the prior year.

	Twelve months to:		%
	30 Sept 2002	30 Sept 2001	
<b>Ongoing business</b>			
<b>\$m</b>			<b>Mov't</b>
Operating income	6,438	6,125	5%
Total expenses	(3,458)	(3,427)	-1%
Underlying profit	2,980	2,698	10%
Bad debts	(360)	(275)	-31%
NPBT	2,620	2,423	8%
Tax	(710)	(716)	1%
Outside equity interests	(5)	(5)	
NPAT	1,905	1,702	12%
Goodwill	100	98	2%
Preference dividends	(48)	(51)	6%
<b>Ongoing cash earnings</b>	<b>1,957</b>	<b>1,749</b>	<b>12%</b>
Expense/income ratio <sup>1</sup>	52.2%	54.4%	220bps
FTE	24,776	26,598	-7%

<sup>1</sup> Excluding amortisation of goodwill

A detailed reconciliation of the results on an ongoing business basis is set out in Section 18.

#### Revenue growth

Operating income for the ongoing business was up 5% on that achieved in 2001. Net interest income was up 7% with strong volume growth in both Australian retail lending and deposit taking fuelling the improvement.

Improved customer satisfaction and a focus on service improvement have supported the volume growth. The number of priority customers (typically those with whom we have a significant multi-product relationship) increased 18% over the year.

Australian home loan outstandings were up 12% in the year and our share of new home lending by banks increased to 22.5%<sup>2</sup>.

Despite the significant disruption from the Ansett failure, bank issued credit card outstandings also grew, up 8% on September 2001<sup>3</sup> levels following the successful launch of our new Altitude rewards program in Australia.

While non-interest income only increased by 2%, fees and commissions were up 7%. Insurance and funds management income grew 7% despite declines in global

equity markets and a difficult global economic environment in 2002.

The performance of our institutional bank has been disappointing, with a 9% decline in operating income.

Our New Zealand retail business underwent a significant turnaround in the second half. Following a major review of operations and a revitalisation program, operating income increased 11% on the first half of the year.

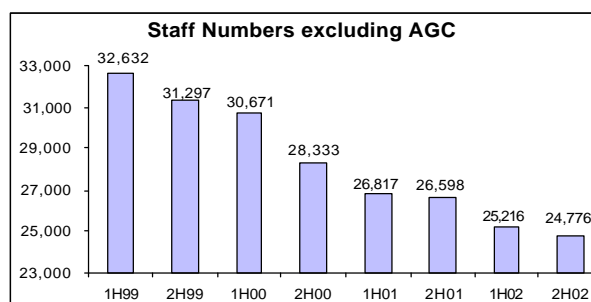
#### Expenses

Continued tight focus on expense management through efficiency improvement programs has resulted in expense growth for our ongoing business increasing slightly less than one percent for the year. As a result, the expense to income ratio (excluding goodwill amortisation) improved to 52.2%, down from 54.4% in 2001.

Efficiency improvement initiatives undertaken during the year have included:

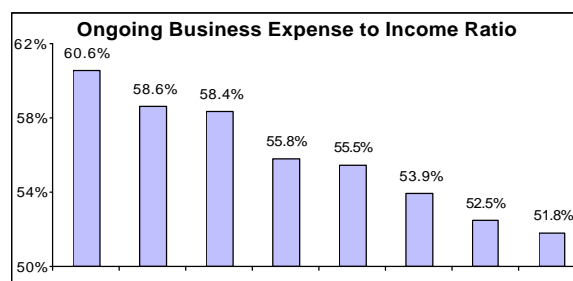
- the outsourcing of mortgage processing and servicing to Electronic Data Systems;
- transitioning our voucher processing operations to Unisys; and
- enhanced efficiency of non customer facing functions which generated overall cost savings of \$77 million per annum.

The number of full time equivalent staff is down 1,822 to 24,776 as at 30 September 2002, following our outsourcing program and continued efficiency initiatives. Staff numbers have reduced by a compound annual rate of 8% since September 1999.



Further programs have been embarked on to improve the effectiveness of our operations and add functionality, including:

- the \$100 million multi-year agreement to outsource our credit card processing to First Data Resources Australia Limited, entered into at the end of September 2002. This will ensure access to the latest available technology for card processing allowing us to reduce processing costs and to introduce new features and products more quickly;
- the optimisation of the existing call centre infrastructure. New contact centres will be established providing a wider range of services to customers and improved efficiencies through additional economies of scale; and
- further initiatives to simplify our lending and credit processes across the organisation.



<sup>2</sup> ABS August 2002

<sup>3</sup> Based on RBA August 2002 information

## Year End Profit Announcement 2002

### Bad debt charges

On an ongoing business basis, the charge for bad and doubtful debts increased by \$85 million, or 31% on the prior year.

Factors influencing the increased charge included:

- specific provisioning against a small number of corporate defaults including Pasmenco, Enron and Worldcom;
- provisioning against the growth in our business and consumer banking portfolios; and
- a rise in bad debt charges in our unsecured consumer portfolio (including credit cards and personal loans) in line with growth in these businesses.

A more detailed review of our credit quality is contained in Section 3.7.

This concludes the analysis of the ongoing business.

### 3.6 CAPITAL AND DIVIDENDS

#### Capital

As at 30 September 2002, the Tier 1 ratio was 6.5% and the tangible ordinary equity to risk adjusted asset ratio (TOE/RAA) was 6.4%. These are at the upper end of, or above, our stated capital target ranges of:

- Tier 1 ratio in the range of 6.0-6.5%
- TOE/RAA at 5.60-5.80%.

Movements in our capital base including the settlement of the purchase of BT, are expected to reduce our Tier 1 ratio by 46 bps and TOE/RAA ratio by 65 bps early in the 2003 financial year.

Consideration is being given to a further issue of Tier 1 hybrid equity, the timing of which will be governed by market conditions.

We anticipate both ratios will continue to grow through strong capital accumulation provided by retained earnings and the dividend reinvestment plan.

#### Dividend Policy

Our policy of increasing the dividend in line with the sustainable growth in cash earnings and franking capacity has been maintained.

The directors have determined to pay a final dividend of 36 cents, giving a full year dividend of 70 cents. This represents a 13% increase over the prior year and compares to a growth in cash earnings per share for our underlying business of 8%. This dividend path is in line with our recent practice of growing dividends by 2 cents per half.

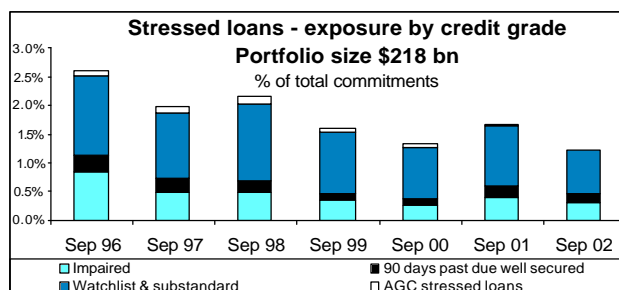
The payout ratio falls slightly to 59.2% for 2002, down from 60.3% in the prior year, based on reported EPS. On an underlying business cash EPS basis, the payout ratio rose to 61.5% from 58.7% in 2001.

### 3.7 CREDIT QUALITY

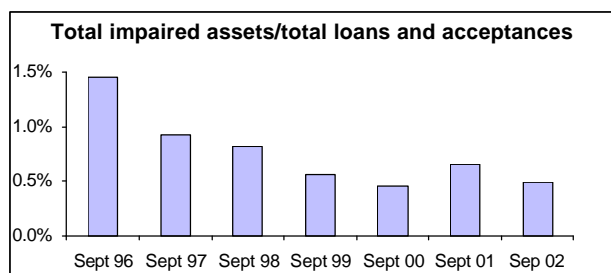
Importantly, asset quality has improved despite the continued turmoil in world financial markets. The year was unfortunately marked by a small number of high profile corporate collapses. Despite this, performance of our core portfolios remained strong and total impaired

assets as a percentage of total loans and acceptances declined to 0.5% from 0.6% and remains at low levels. The sale of AGC assisted this to a small degree.

Stressed loans (comprising the impaired and watchlist categories) also declined, down 47 basis points to 1.21% of total commitments. In part this outcome was achieved by writing-off \$95 million of impaired assets against specific provisions in respect of two significant exposures.

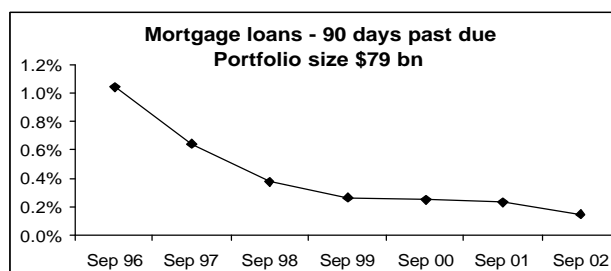


At 30 September 2002, only two impaired exposures were greater than \$50 million, and these accounted for 29% of total impaired assets. A further 13 impaired exposures were less than \$50 million but greater than \$5 million. Specific provision coverage of impaired assets remained strong at 40%, an increase of 6 percentage



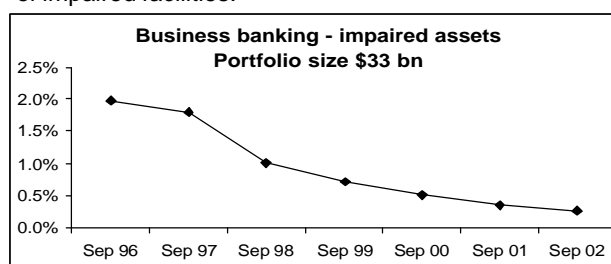
points over the prior year.

Delinquencies also fell during the year. Mortgage loans accruing but 90 days past due declined 8 basis points to 0.15% of mortgage outstandings. This continues the



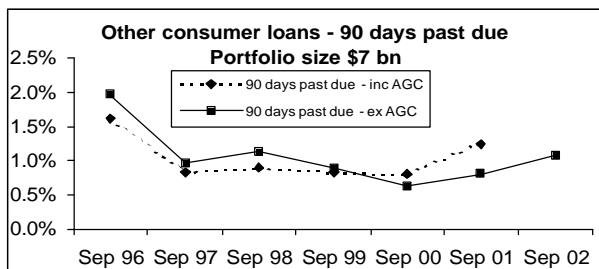
favourable trend in this book since 1996.

Growth in our business lending portfolio has also been achieved without compromise to asset quality. The proportion of impaired assets in this portfolio continued to decline to around 0.3%, due to the quality of new business written, close monitoring, and effective workout of impaired facilities.

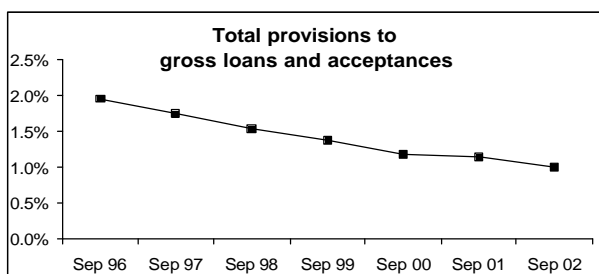


## Year End Profit Announcement 2002

Other consumer loan delinquencies (including credit card, and personal loan products) fell 17 basis points to 1.07% of outstandings, following the sale of AGC. Excluding the AGC portfolio, 90 days past due levels have risen 25 bps. The chart below illustrates the complete delinquency trend with and without the AGC business.



As a result of the improvement in overall asset quality and the change in asset mix following the sale of AGC, general provisions have fallen by 10.2% to \$1,162 million. Total provisions declined to 1.0% of total loans and acceptances.



### 3.8 STRATEGIC GROWTH DRIVERS

#### Transformational Change

A comprehensive program re-positioning the business onto an enhanced growth trajectory was successfully undertaken during the year. This involved the sale of our high return but low growth finance company and several acquisitions in the higher growth wealth management and funds management sectors.

AGC was sold to GE Capital in May, realising an after tax profit on the sale of \$754 million. This combined with existing excess capital has allowed the acquisitions to be funded from existing resources.

Rothschild was acquired for \$323m on 31 May 2002. This acquisition provided a highly rated investment business, advanced the scale of our wealth management activities and further strengthened our distribution capabilities.

The integration of Rothschild has progressed in line with our original plan.

In August 2002 we announced an agreement to purchase most of BT from the Principal Financial Group for \$900m. It is anticipated the transaction will be completed early in our new financial year. This transaction further expands our end-to-end wealth management capabilities through increased distribution reach to the external advisor market and access to a broader range of products and services overall.

Combined with BT's best in class wrap platform, we now have the second largest master trust and wrap capability in Australia with \$11 billion of funds under administration.

Wrap platforms are increasingly the investment platform of choice for customers.

The combination of BT and our existing wealth business increases our total retail funds under management (FUM) by over 68%, making us the fourth largest retail funds manager in Australia with more than \$28 billion retail FUM.

We also acquired BT's corporate superannuation business and platform, filling a capability gap that will allow us to strengthen our offerings to the business customer base.

BT's New Zealand's business was also acquired, making us the 4th largest fund manager in New Zealand.

The expansion of our wealth management capability allows us to provide our 7.5 million customers with improved capabilities and expanded product offerings to help meet their financial needs.

In August 2002 we purchased a 51% stake in Hastings Funds Management, with a commitment to acquire the remainder of the company in the next three years. This purchase builds expertise in specialised funds management encompassing infrastructure and private equity, and complements the existing strengths of our Institutional Bank.

#### Other Business Initiatives

In September 2002 we launched the Westpac One product, which allows our customers to manage their finances better by combining up to six savings and transaction accounts into one product. Over 2,000 new Westpac One accounts have been opened to date.

We have recently built capabilities in the energy trading market. This business gives us the opportunity to benefit from further deregulation of the energy industry and increased focus on greenhouse issues and the trading of carbon credits.

#### Business Awards

Our performance has been recognised during the year in many areas, including:

- the Bank of the Year for Australia in *The Banker Awards 2002* based on growth and performance in terms of capital, assets and return on equity;
- number 3 global ranking for best risk adjusted financial returns among global financial companies over the last five years, as rated by Oliver, Wyman & Co.
- Business Lender of the Year<sup>1</sup>;
- Australian derivatives house of the year<sup>2</sup>; and
- best overall multibank portal for research, trading and straight through processing for FXall<sup>3</sup>.

Our Business Lender of the Year award involved the receipt of seven out of a possible eleven gold medals for excellence in financial services for our business lending products. Gold medals were also received for our savings and investment account and the mortgage offset account.

<sup>1</sup> Personal Investor awards July 2002

<sup>2</sup> Asia Risk magazine (October 2002)

<sup>3</sup> Euromoney FX poll 2002

## Year End Profit Announcement 2002

### 3.9 CORPORATE GOVERNANCE AND RESPONSIBILITY

#### Responsibility Initiatives

We believe that to deliver on the financial bottom line sustainably, we must also deliver on good governance and broader social and environmental responsibilities. The way we conduct our business and our impact on staff, customers and society more generally is integral to our sustainability. People want to deal with a company that is responsible, ethical and trustworthy.

In line with this belief, we released our first social impact report, *A fresh perspective*, in July showing clear measures of our performance against more than 70 indicators covering the social, environmental and economic dimensions. This report improves the transparency of our performance across all of our business activities and provides indicators of the impact of those activities on all stakeholders. We remain the only Australian financial institution to release a triple bottom line report conforming to new global standards under the UN sponsored Global Reporting Initiative.

In June 2002, we also issued our Personal Customer Charter setting out the level of service and behaviour that our customers can expect from us everyday. Going forward we will measure each of the promises listed in the Charter and report publicly on our performance.

Throughout the year we have focused on building our employment brand in providing a good workplace environment for all our staff. This has included:

- achieving an 8% improvement in staff commitment moving us into line with global best practice companies. We have a very highly committed and engaged staff, benchmarked against global financial services companies and global best practice companies;
- improving opportunities for people with disabilities to gain employment and being recognised with the Prime Minister's award for NSW Employer of the year;
- offering family friendly policies, including paid maternity, paternity leave and expanded childcare provisions, resulting in a high commendation award for these practices at the ACCI National Work and Family Awards 2002;
- actively increasing the number of working mothers employed throughout the organisation. Between 70-80% of our female staff return to work after paid maternity leave; and
- actively seeking to employ some 900 new staff in a more mature age group to better match our customer demographics.

Our strong commitment to the community was again demonstrated in many areas including: drought relief packages offered to farmers across Australia; our partnership with the Cape York indigenous communities to help create economic independence; our continued support of the Rescue Helicopter Services, the Smith Family, the Salvation Army, and the Life Education Trust in New Zealand; and our matching gift program through which we financially support in excess of 300 charities.

In the past year, we have provided more than \$25 million in community and financial inclusion initiatives in Australia

alone to play our part in strengthening the social fabric of the communities we serve.

#### External Governance and Responsibility Assessment

We endorse the principle of having our corporate governance and responsibility programs assessed externally and are proud to have achieved the following positions in the latest ratings:

- The Dow Jones Sustainability Index 2002 - Number 1 global rating for overall sustainability in finance and banking. This index includes assessments of corporate governance and broader social and environmental responsibility performance;
- The Sydney Morning Herald/The Age Good Reputation Index 2002 - Number 1 company overall, ranked against Australia's top 100 companies based on stakeholder and research group perceptions of the key elements contributing to corporate reputation, including ethics and governance;
- Corporate Monitor, reported in Ethical Investor magazine – top rating of 5 stars for social and environmental performance and 4 stars for corporate governance;
- Horwarth 2002 Corporate Governance Report - 4.5 out of 5 stars for corporate governance based on disclosures in the 2001 Annual Report; and
- Standard & Poor's Company transparency and disclosure survey - One of only six of 100 Asian Pacific companies to achieve a top score ranking for transparency and disclosure.

We consult formally with a broad range of stakeholders to ensure we have responsible and sustainable business practices. We will extend this process to capture the new governance agenda and issues as they arise, and will make our findings and recommendations available on our website.

We continually seek ways to be assessed externally for our corporate governance practices. We also support the development of new measures, such as those by the Monash University Governance Research Unit in creating a governance index.

#### Executive Remuneration

Consistent with the maintenance of high governance standards, the Board has introduced stricter performance hurdles and eligibility criteria for executive equity based remuneration plans. Executives will only be rewarded when we out-perform the peer group of top 50 industrial companies and will only benefit fully when our performance is at or above the 75<sup>th</sup> percentile relative to the peer group. In addition, executives will receive only 50% of their long-term incentives as options, with the remaining 50% received as hurdled performance shares.

Equity based remuneration to the value of \$48 million was awarded to executives and senior management in the current year (2001 \$37 million).

The cost of options and performance shares will be fully expensed in the financial statements in the year of offer once approved accounting standards are in place and issues relating to taxation implications concerning the possible tainting of share capital are resolved.

## Year End Profit Announcement 2002

### 3.10 POST BALANCE DATE EVENTS

The Hastings acquisition was completed on 16 October 2002 and the BT purchase from the Principal Financial Group is scheduled for completion early in our new financial year.

### 3.11 OUTLOOK

Notwithstanding the softer world economy we expect Australian economic growth to be around 3% next year. At the same time, inflation is likely to move back inside the RBA's target through the course of the year. In this environment monetary conditions are likely to remain stable.

The housing cycle is at or near its peak. The combination of higher house prices and a rise in vacancy rates is expected to temper home loan growth going forward. That said, the momentum currently in the housing sector should continue to see strong performance in home lending in 2003.

A solid pick up in business investment is likely, although it will be mainly concentrated in the mining and transport sectors. Business' balance sheets are in very good condition, investment levels are near cyclical lows and interest rate settings are expansionary. However, global uncertainty and an expected slowdown in the housing market will moderate the investment recovery. Nevertheless, we expect business lending growth in the economy to pick up from last year's historical lows of around 2% to nearer 5% next year.

The net result of these dynamics is likely to see overall credit growth slow somewhat from around 10% over the past year to around 8% to 10% in the year ahead.

Given the advances made in building staff commitment, implementation of a range of service enhancement initiatives, and the rolling out of new relationship management tools we expect to hold or increase market share across most product groups in the year ahead.

As with 2001/02, our reported interest margins will be impacted by the flow-on effects of structural changes in the composition of the balance sheet, including the sale of AGC and the decision to fund bill acceptances from deposit sources. The highly competitive environment and expectations of a relatively stable yield curve, should result in any easing in margins being consistent with longer term trends.

While our wealth management business is expected to make an increased contribution to cash earnings in 2003, the integration of the businesses and BT, combined with the expected weakness in equity markets for much of the coming year will mean our combined wealth management business will not reach its full synergy potential until the 2004 year.

Importantly, our existing in house advisor and planner force is not impacted by the integration of the funds management operations and this should ensure the team continues to gather funds at a rate ahead of its current market share. Similarly, BT's wrap and corporate superannuation operations are expected to continue the inflow momentum experienced over recent periods.

In New Zealand, the strategic realignment of our retail banking business will continue in the year ahead. After completing a number of earnings initiatives in the second half of this year, the business is now in the process of implementing a range of medium and longer term growth initiatives that will further add to the division's strength. These include a better segmentation of the sales force and a renewed focus on the Auckland market. These plans, combined with an economy expected to post solid growth while keeping inflation under control, are expected to see an improved result from that region.

Asset quality trends remain positive. At the corporate end, no new signs of stress are evident and small and medium business quality has continued to improve with no signs of weakness. In the rural sector, while the drought will undoubtedly affect this sector, the low gearing and sensible approach to credit has at this point seen no stresses emerge.

Although house prices have risen significantly over recent years, the credit quality of the housing loan portfolio continues to be outstanding. With debt servicing remaining comfortable against most economic scenarios and the average loan to asset value ratio below 60%, we continue to expect this portfolio to perform in line with longer-term norms.

If stresses are to be seen they are likely to emerge in the unsecured consumer credit areas (although the highest risk area in this segment left us with the sale of AGC). At this time we are not expecting any marked increase in loss rates.

The past year has reminded us clearly that it is difficult to foresee all market and economic events that can impact a company's performance. With global tensions remaining, there continues to be a degree of uncertainty as to the outlook in the year ahead.

Nevertheless, our core business remains strong and our growth and efficiency initiatives on plan. Combined with improving service quality trends and staff commitment at global best practice levels, we expect to deliver further improvement in earnings in the year ahead.

Our ongoing businesses continue to perform well with earnings growth in the next twelve months likely to be in line with double digit EPS growth expectations.

Allowing for the near term dilution from our strategic repositioning, as indicated at the time of each announcement, we expect to deliver underlying cash earnings per share growth in the 7% to 9% range in 2003.

## Year End Profit Announcement 2002

### 3.12 DISCUSSION OF INDIVIDUALLY SIGNIFICANT ITEMS

The individually significant items included in our 2002 result effect the following lines in our statement of financial performance:

\$m	Operating		Tax	Net Profit after tax
	Income	Expenses		
AGC	754	-	-	754
Integration expenses	-	(86)	26	(60)
Wealth accounting treatment	(142)	-	33	(109)
GIP	(149)	-	-	(149)
Superannuation	-	(221)	61	(160)
Deferred expenses	-	(136)	41	(95)
<b>Total</b>	<b>463</b>	<b>(443)</b>	<b>161</b>	<b>181</b>

#### Sale of AGC

On 31 May 2002, we sold our shares in AGC Australia and certain loan assets in AGC New Zealand to GE Capital. The sale generated a total profit of \$754 million after tax, net of transaction related provisions and disposal costs.

#### Integration expenses

Following the acquisition of Rothschild on 31 May 2002 and the impending settlement of our acquisition of key parts of the Australian and New Zealand operations of BT, we have commenced planning for the integration of these businesses with our existing WFS business.

Under Australian Generally Accepted Accounting Principles (GAAP), costs incurred directly as a result of restructuring an acquired entity must be taken into account in measuring the fair value of the net assets acquired. Such costs are booked as provisions and reduce the value of net assets acquired, increasing goodwill on acquisition. Any provision remaining upon completion of the restructure must be reversed against goodwill.

Retention payments for key staff within the acquired Rothschild business were booked as a fair value adjustment on the acquisition of Rothschild. As at 30 September 2002, \$9 million of this provision had not been utilised.

In addition, we have booked \$86 million (\$60 million after tax) of restructuring provisions associated with the restructure of our pre-existing wealth management business during 2002. This provision relates to the following items associated with our existing wealth management business:

- rationalisation of systems;
- reductions and relocations of staff;
- surplus lease space; and
- retention payments for key wealth management staff.

As at 30 September 2002, \$79 million of this provision had not been utilised.

We estimate that we will book a fair value adjustment of \$70 million on acquisition of BT. This provision is expected to relate principally to retention payments for key BT staff as well costs associated with rationalising other parts of the BT business.

#### Wealth accounting treatment

Since February 2000, we have reported our combined life insurance and funds management results on an embedded value basis in accordance with AASB 1038, Life Insurance Business. AASB 1038 requires life insurance companies to value all assets, including

investments in subsidiaries on a market value basis. Changes in the value of investments in subsidiaries are reported in the life company statement of financial performance. On consolidation, the excess of market value over the fair value of net assets of subsidiaries is recorded as an intangible asset in the statement of financial position. This intangible asset is not amortised.

On 30 September 2002, we restructured our Australian wealth management group and standardised the accounting treatment of our wealth management entities.

#### Write-off embedded value intangible asset

As part of the restructure, our life company, Westpac Life Insurance Services Limited (Westpac Life) transferred its investments in Westpac Custodian Nominees and Sagitta Asset Management Limited (formerly Rothschild) to a non-life, related company. This transfer eliminated the accumulated embedded value recognised by Westpac Life. Westpac Life will no longer report an embedded value uplift in its statement of financial performance and our funds management entities will report their results on an accrual basis.

#### Reinstate deferred wealth acquisition costs

Since February 2000, we expensed acquisition costs associated with life insurance and funds management activities as incurred. These costs were generally incurred by a subsidiary of Westpac Life. In a market value accounting environment, the effect of these acquisition costs did not impact the reported results of our wealth management business.

Following the wealth management restructure, and the move to an accrual accounting environment, we changed our accounting policy in respect of acquisition expenses, such that acquisition expenses for new profitable business are now deferred and amortised over a period not exceeding the expected life of the relevant product or policy sold. In an accrual accounting environment, the deferral and amortisation of wealth management acquisition costs provides more relevant information about the financial performance of the underlying business. Effective 1 October 2001, we recorded an asset of \$119 million before tax in the statement of financial position, representing life insurance and funds management acquisition costs which had previously been expensed. The deferred acquisition costs have been included in 'Life Insurance policy liabilities' in accordance with AASB1038 or 'Deferred expenditure' where applicable.

#### Wealth management changes and the statement of financial position

\$m	
Write off embedded value intangible	(261)
Reinstate funds management acquisition costs	24
Reinstate deferred acquisition costs	95
Net charge before tax	(142)
Tax	33
Net charge after tax	(109)

#### Deferred expenses

When the technology operations and mortgage processing activities were outsourced, start up costs (redundancies, incentives etc) were capitalised with a view to amortising these costs over the life of the outsourcing contracts matching the accretion of benefits from outsourcing. This treatment has resulted in the

## Year End Profit Announcement 2002

benefits of outsourcing not being immediately apparent in the results of the business.

Effective 1 October 2001, the accounting policy for outsourcing start-up costs was changed to expense costs as incurred. The change in policy aims to provide greater transparency of our cost base, as well as providing greater reliability in the measurement of our financial position. The net effect of the change in accounting policy was a charge of \$136 million before tax in 2002 (\$95 million after tax) relating to prior year and current year start up costs.

If we did not change our accounting policy, we would have recorded an annual amortisation charge of \$37m in respect of deferred start-up costs.

There are no costs of a similar nature on our balance sheet. Our categories of capitalised costs at 30 September 2002 include:

\$m	2002	2001
Item of deferred expenditure:		
Capitalised software	232	312
Other deferred expenditure <sup>1</sup>	162	230
Deferred acquisition costs <sup>2</sup>	86	28
Deferred start-up costs	-	44

### Superannuation

During the year ended 30 September 1991, we recognised the surplus of \$615 million in our Westpac Staff Superannuation Plan (WSSP) as an asset in our statement of financial position.

The amount recognised represents the excess of assets in the WSSP over the liabilities (the Plan Surplus); it is amortised to the statement of financial performance as it is used to fund superannuation contributions. While the Plan Surplus exists, we do not make cash contributions to the plan; without the Plan Surplus, we would be required to make ongoing contributions to the fund. Accordingly, the Plan Surplus is recorded as a prepayment of superannuation contributions.

### Accounting methodology

In the absence of an Australian standard or international standard in 1995, we adopted an accounting policy based on the principles of UK accounting standard SSAP 24, Accounting for Pension Costs.

Under this accounting policy, independent actuaries calculated the carrying value of the Plan Surplus every three years as the difference between the value of assets in the plan and the value of liabilities in the plan.

The actuarial valuation was then compared with the carrying value of the surplus and the difference was amortised to the statement of financial performance over the average life of the members of the fund. The last actuarial calculation was performed on 1 July 2000.

<sup>1</sup> 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.

<sup>2</sup> Deferred acquisition costs relate to costs incurred in acquiring non-life wealth management customers as well as general insurance business. (Refer to the discussion above regarding our change in accounting policy relating to wealth management acquisition costs effective 1 October 2001.)

The carrying value of the Plan Surplus was impacted in two ways:

- 1) Utilisation of the asset over time (via transfers from the Plan Surplus to the members of the plan); and
- 2) Investment earnings or losses on the plan's assets.

The Plan Surplus reduced as we utilised the prepayment. However, the Plan Surplus has also grown in value as equity markets performed strongly, particularly in the latter half of the 1990's.

### Changes to accounting standards

Two events have led us to change our accounting policy:

- the UK standard SSAP 24, will be superseded in 2003.
- the Australian Financial Reporting Council has announced that Australia will adopt international accounting standards from 2005.

Accordingly, effective 1 October 2001, we have changed our accounting policy to International Accounting Standard 19: Employee Benefits (IAS19).

### Comparison of SSAP 24 and IAS 19

	IAS 19	SSAP 24
Discounted rate used to value liabilities	Rate on high quality corporate bonds at a balance date	Long-term rate of return on the plan assets
Actuarial gains or losses in a period	Optional when within 10% of the funds assets or liabilities, Must amortise when outside 10%	Variations are allocated over the expected remaining services lives of current employees
Asset values	Market value	Actuarial value
Frequency of valuation	Annually	Not specified, but in practice at least every three years

### Financial impact in 2002

Adoption of the principles of IAS 19 reduces the value of the Plan Surplus, resulting in a charge to our statement of financial performance. The write-down primarily relates to IAS 19 being more conservative than SSAP 24. IAS 19:

- uses a lower discount rate to measure the present value of the plan's liabilities; and
- requires assets to be valued at market value rather than at actuarially assessed market value.

A \$221 million before tax charge (\$160 million after tax) has been recognised in the statement of financial performance in the current year relating to the adoption of IAS 19 in 2002. This write-down relates to the Australian (WSSP), New Zealand and UK superannuation plans.

The plan surplus at 30 September 2002 is:

\$m	2002	2001
Ongoing fund - WSSP	445	673
Ongoing fund - Offshore	22	47
Sub Total <sup>1</sup>	467	720
Disposed fund - AGC <sup>2</sup>	0	71
<b>Total</b>	<b>467</b>	<b>791</b>

<sup>1</sup> Movement between 2001 and 2002 includes foreign currency translation adjustment.

<sup>2</sup> On 31 May 2002 AGC was sold to GE Capital.

## Year End Profit Announcement 2002

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### ***Global Investments Portfolio***

Commencing in 1997 we acquired investments in a broad range of loans and securities held in our US and UK branches. This portfolio was originally set up with two aims:

- to provide a high yield return in locations where we had surplus income tax losses; and
- to reduce credit concentration in our wholesale portfolio.

The portfolio has been closed to new investments since 1999. The maximum portfolio size was around US\$800 million. By the end of 2001 the only remaining investments were a portfolio of securitised corporate loans. As at 30 September 2002 the face value of this portfolio was US\$255 million.

In accordance with Australian GAAP, given our hold-to-maturity intent for this portfolio the investments were held at historical cost unless they became permanently impaired where they were then written down to their recoverable amount.

During 2002, we changed our holding intention to manage this portfolio actively and to exit these investments when the opportunity arises. We did this because credit spreads in the sub-investment grade market in US loans had widened markedly and no longer appeared temporary. As a result, these securities are now recorded as "available-for-sale", rather than "hold-to-maturity". Upon changing the holding intention, the carrying value of the portfolio has been written down to its recoverable amount or fair value for Australian GAAP purposes, resulting in a charge of \$149 million. The write-down of the portfolio reflects our view of the recoverable value of the securities over a shorter time period in line with their available-for-sale status. The write-down has not been tax effected since we are uncertain that associated tax losses are recoverable in the near term.

Under US GAAP, these securities were consistently recorded as available-for-sale. The securities were measured at fair value and any unrealised gains or losses included in other comprehensive income as a separate component of equity, unless the diminution in value was deemed to be "other than temporary".

As at 30 September 2002 the carrying value of this portfolio was written down to its fair value of US\$146 million.

## Year End Profit Announcement 2002

### 4 FINANCIAL PERFORMANCE

#### 4.1 STATEMENT OF FINANCIAL PERFORMANCE

\$m	Six months to		Twelve months to		% Mov't Sept 01- Sept 02
	30 Sept 2002 <sup>2</sup>	31 March 2002	30 Sept 2002	30 Sept 2001	
<b>Interest income</b>					
Deposits with banks	119	91	210	230	(9)
Investment and trading securities	310	304	614	701	(12)
Regulatory deposits	3	5	8	29	(72)
Loans and other receivables	4,184	4,204	8,388	9,298	(10)
<b>Interest income</b>	<b>4,616</b>	<b>4,604</b>	<b>9,220</b>	<b>10,258</b>	<b>(10)</b>
Fully tax equivalent gross up <sup>1</sup>	72	67	139	149	(7)
<b>Interest income (including gross up)</b>	<b>4,688</b>	<b>4,671</b>	<b>9,359</b>	<b>10,407</b>	<b>(10)</b>
<b>Interest expense</b>					
Current and term deposits	(1,903)	(1,697)	(3,600)	(3,755)	4
Public borrowings	(28)	(124)	(152)	(345)	56
Deposits from banks	(79)	(100)	(179)	(288)	38
Loan capital	(97)	(104)	(201)	(351)	43
Other liabilities	(456)	(486)	(942)	(1,468)	36
<b>Interest expense</b>	<b>(2,563)</b>	<b>(2,511)</b>	<b>(5,074)</b>	<b>(6,207)</b>	<b>18</b>
<b>Net interest income (including gross up)</b>	<b>2,125</b>	<b>2,160</b>	<b>4,285</b>	<b>4,200</b>	<b>2</b>
<b>Non-interest income</b>					
Fees and commissions received	1,157	1,109	2,266	2,090	8
Fees and commissions paid	(278)	(282)	(560)	(485)	(15)
Proceeds from sale of assets	2,858	736	3,594	757	375
Carrying value of assets sold	(2,071)	(689)	(2,760)	(719)	(284)
Net life insurance and funds management income	20	310	330	524	(37)
Other non-interest income	(70)	178	108	370	(71)
<b>Total non-interest income</b>	<b>1,616</b>	<b>1,362</b>	<b>2,978</b>	<b>2,537</b>	<b>17</b>
<b>Net operating income (including gross up)</b>	<b>3,741</b>	<b>3,522</b>	<b>7,263</b>	<b>6,737</b>	<b>8</b>
<b>Operating expenses</b>					
Salaries and other staff expenses	(1,006)	(823)	(1,829)	(1,744)	(5)
Equipment and occupancy expenses	(298)	(291)	(589)	(648)	9
Other expenses	(852)	(625)	(1,477)	(1,080)	(37)
<b>Total operating expenses (excluding amortisation of goodwill)</b>	<b>(2,156)</b>	<b>(1,739)</b>	<b>(3,895)</b>	<b>(3,472)</b>	<b>(12)</b>
<b>Core earnings</b>	<b>1,585</b>	<b>1,783</b>	<b>3,368</b>	<b>3,265</b>	<b>3</b>
Amortisation of goodwill	(51)	(49)	(100)	(98)	(2)
<b>Operating profit before bad and doubtful debts (including gross up)</b>	<b>1,534</b>	<b>1,734</b>	<b>3,268</b>	<b>3,167</b>	<b>3</b>
Bad and doubtful debts	(190)	(271)	(461)	(433)	(6)
<b>Profit from ordinary activities before income tax (including gross up)</b>	<b>1,344</b>	<b>1,463</b>	<b>2,807</b>	<b>2,734</b>	<b>3</b>
Fully tax equivalent gross up <sup>1</sup>	(72)	(67)	(139)	(149)	7
<b>Profit from ordinary activities before income tax</b>	<b>1,272</b>	<b>1,396</b>	<b>2,668</b>	<b>2,585</b>	<b>3</b>
Income tax expense	(95)	(376)	(471)	(677)	30
Net profit attributable to outside equity interests	(3)	(2)	(5)	(5)	-
<b>Net profit attributable to equity holders of Westpac Banking Corporation</b>	<b>1,174</b>	<b>1,018</b>	<b>2,192</b>	<b>1,903</b>	<b>15</b>

1 We have entered into various tax effective financing transactions that derive income that is subject to either a reduced or zero rate of income tax. The impact of this is reflected in lower income tax expense and interest income. In order to provide improved comparability, this income is presented on a fully tax equivalent basis.

2 The full impact of accounting policy changes made in the second half of the year have been included in the results for the six months to 30 September 2002 notwithstanding that the policy change was effected from 1 October 2001.

## Year End Profit Announcement 2002

### 4.2 MOVEMENTS IN RETAINED PROFITS

\$m	Six months to		Twelve months to		% Mov't Sept 01- Sept 02
	30 Sept 2002	31 March 2002	30 Sept 2002	30 Sept 2001	
Retained profits at the beginning of the financial period	4,546	4,174	4,174	3,435	22
Net profit attributable to equity holders	1,174	1,018	2,192	1,903	15
Aggregate of amounts transferred (to)/from reserves	880	(2)	878	(7)	n/a
<b>Total available for appropriation</b>	<b>6,600</b>	<b>5,190</b>	<b>7,244</b>	<b>5,331</b>	<b>36</b>
Dividends provided for or paid	(647)	(619)	(1,266)	(1,106)	(14)
Distributions on other equity instruments	(23)	(25)	(48)	(51)	5
<b>Retained profits at the end of the financial period</b>	<b>5,930</b>	<b>4,546</b>	<b>5,930</b>	<b>4,174</b>	<b>42</b>

### 4.3 CASH EARNINGS

\$m	Six months to		Twelve months to		% Mov't Sept 01- Sept 02
	30 Sept 2002	31 March 2002	30 Sept 2002	30 Sept 2001	
Net profit attributable to equity holders of Westpac Banking Corporation	1,174	1,018	2,192	1,903	15
Goodwill	51	49	100	98	2
Distributions on other equity instruments	(23)	(25)	(48)	(51)	5
<b>Cash earnings</b>	<b>1,202</b>	<b>1,042</b>	<b>2,244</b>	<b>1,950</b>	<b>15</b>

### 4.4 EARNINGS PER SHARE

	Six months to		Twelve months to		% Mov't Sept 01- Sept 02
	30 Sept 2002	31 March 2002	30 Sept 2002	30 Sept 2001	
Earnings (cents) per ordinary share <sup>1</sup> after deducting distributions on other equity instruments:					
Basic	63.5	54.8	118.3	102.8	15
Fully diluted <sup>2</sup>	63.4	54.5	117.9	102.4	15
Cash earnings (cents) per ordinary share <sup>1</sup> after deducting distributions on other equity instruments	66.3	57.5	123.8	108.3	14
Weighted average number of fully paid ordinary shares (millions)	1,812	1,812	1,812	1,801	1

### 4.5 DIVIDENDS

Cents per share	Six months to		Twelve months to	
	30 Sept 2002	31 March 2002	30 Sept 2002	30 Sept 2001
<b>Ordinary dividend</b>				
Interim (fully franked) <sup>3</sup>	-	34	34	30
Final (fully franked) <sup>3</sup>	36	-	36	32
	36	34	70	62
<b>Total dividend provided for or paid</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Ordinary dividends provided or paid	647	619	1,266	1,113
Under/(over) provision from previous period	-	-	-	(7)
	647	619	1,266	1,106
<b>Ordinary dividend payout ratio</b>	56.7%	62.0%	59.2%	60.3%
<b>Distributions on other equity instruments</b>				
TOPrS <sup>SM</sup> distributions provided for or paid	23	25	48	51
<b>Total distributions on other equity instruments</b>	23	25	48	51

1 Ordinary shares comprise ordinary shares issued and NZ Class shares.

2 Fully diluted earnings per share is calculated after adjusting for partly paid shares and options outstanding in accordance with the revised accounting standard AASB 1027 and comparatives, have been restated.

3 The interim and final dividends for the NZ Class shares are fully imputed.

## Year End Profit Announcement 2002

### 4.6 INTEREST SPREAD AND MARGIN ANALYSIS

#### 4.6.1 Spread and Margin Analysis

%	Six months to		Twelve months to	
	30 Sept 2002	31 March 2002	30 Sept 2002	30 Sept 2001
<b>Group</b>				
Interest spread on productive assets <sup>1</sup>	2.33	2.62	2.47	2.65
Impact of impaired loans	(0.02)	(0.02)	(0.02)	(0.02)
Interest spread <sup>2</sup>	2.31	2.60	2.45	2.63
Benefit of net non-interest bearing liabilities and equity <sup>3</sup>	0.39	0.30	0.35	0.48
<b>Interest margin</b>	<b>2.70</b>	<b>2.90</b>	<b>2.80</b>	<b>3.11</b>
<b>Australia</b>				
Interest spread on productive assets <sup>1</sup>	2.21	2.66	2.43	2.66
Impact of impaired loans	(0.01)	(0.01)	(0.02)	(0.02)
Interest spread <sup>2</sup>	2.20	2.65	2.41	2.64
Benefit of net non-interest bearing liabilities and equity <sup>3</sup>	0.39	0.28	0.34	0.44
<b>Interest margin</b>	<b>2.59</b>	<b>2.93</b>	<b>2.75</b>	<b>3.08</b>
<b>New Zealand</b>				
Interest spread on productive assets <sup>1</sup>	3.19	2.93	3.06	3.08
Impact of impaired loans	(0.01)	(0.01)	(0.01)	(0.03)
Interest spread <sup>2</sup>	3.18	2.92	3.05	3.05
Benefit of net non-interest bearing liabilities and equity <sup>3</sup>	0.27	0.15	0.21	0.23
<b>Interest margin</b>	<b>3.45</b>	<b>3.07</b>	<b>3.26</b>	<b>3.28</b>
<b>Other Overseas</b>				
Interest spread on productive assets <sup>1</sup>	0.43	0.39	0.42	0.50
Impact of impaired loans	-	(0.02)	(0.01)	(0.01)
Interest spread <sup>2</sup>	0.43	0.37	0.41	0.49
Benefit of net non-interest bearing liabilities and equity <sup>3</sup>	0.21	0.29	0.24	0.54
<b>Interest margin</b>	<b>0.64</b>	<b>0.66</b>	<b>0.65</b>	<b>1.03</b>

#### Group

During the year our reported interest spread decreased by 18 bps and net interest margin by 31 bps. The decline in net interest margins was principally due to one-off structural factors as detailed below:

	Six months to:		12 months to:
	30 Sept 2002	31 March 2002	30 Sept 2002
bps			
Change in Bill Acceptance funding	20	15	18
AGC Margins	9	-	5
	<u>29</u>	<u>15</u>	<u>23</u>

Excluding these structural shifts we would have reported a 8bps decline in interest margins over the full year largely as a result of reduced returns on free funds due to lower prevailing interest rates.

#### Australia

Reported interest spread for Australia decreased by 23 bps and net interest margin declined by 33 bps largely due to the structural factors apparent at Group Level.

#### New Zealand

Interest spread for New Zealand maintained while interest margin over the year fell moderately (2 bps) reflecting tight margin management in a lower average interest rate environment.

<sup>1</sup> Interest spread on productive assets is determined on the basis of the interest spread formula after excluding non-accrual loans and related interest.

<sup>2</sup> Interest spread is the difference between the average yield on all interest earning assets and the average rate paid on all interest bearing liabilities net of impaired loans.

<sup>3</sup> The benefit of net non-interest bearing liabilities and equity is determined by applying the average rate of interest paid on all interest bearing liabilities to the average level of net non-interest bearing funds as a percentage of average interest earning assets. The calculations for Australia and New Zealand take into account the interest expense/income of cross border, intragroup borrowing/lending. The sale of AGC in NZ has had a minimal impact on margins.

## Year End Profit Announcement 2002

### 4.6.2 Average Balance Sheets and Interest Rates

	Twelve months to 30 September 2002			Twelve months to 30 September 2001		
	Average		Average	Average		Average
	Balance \$m	Interest \$m	Rate %	Balance \$m	Interest \$m	Rate %
<b>Assets</b>						
<b>Interest earning assets</b>						
Due from other financial institutions						
Australia	2,496	93	3.7	1,618	68	4.2
New Zealand	1,718	57	3.3	1,572	67	4.3
Other Overseas	1,782	60	3.4	1,574	95	6.0
Investment and trading securities						
Australia	9,153	435	4.8	8,080	449	5.6
New Zealand	902	58	6.4	822	73	8.9
Other Overseas	2,553	121	4.7	2,741	179	6.5
Regulatory deposits						
Other Overseas	418	8	1.9	487	29	6.0
Loans and other receivables						
Australia	106,778	6,680	6.3	92,304	7,284	7.9
New Zealand	23,657	1,707	7.2	21,327	1,854	8.7
Other Overseas	2,939	124	4.2	3,988	289	7.2
Impaired loans						
Australia	339	5	1.5	339	6	1.8
New Zealand	95	4	4.2	124	5	4.0
Other Overseas	294	7	2.4	178	9	5.1
Intragroup receivable						
Other Overseas	15,839	449	2.8	16,383	945	5.8
Interest earning assets and interest income including intragroup	168,963	9,808	5.8	151,537	11,352	7.5
Intragroup elimination	(15,839)	(449)		(16,383)	(945)	
<b>Total interest earning assets and interest income</b>	<b>153,124</b>	<b>9,359</b>	<b>6.1</b>	<b>135,154</b>	<b>10,407</b>	<b>7.7</b>
<b>Non-interest earning assets</b>						
Cash, due from other financial institutions and regulatory deposits	2,220			809		
Life insurance investment assets	7,656			7,457		
Other assets <sup>1</sup>	14,233			19,633		
Provisions for doubtful debts						
Australia	(1,370)			(1,325)		
New Zealand	(79)			(92)		
Other Overseas	(154)			(120)		
<b>Total non-interest earning assets</b>	<b>22,506</b>			<b>26,362</b>		
Acceptances						
Australia	7,701			16,654		
Other Overseas	6			26		
<b>Total assets</b>	<b>183,337</b>			<b>178,196</b>		

<sup>1</sup> Includes fixed assets, goodwill, other financial market assets, future income tax benefit and prepaid superannuation contributions.

## Year End Profit Announcement 2002

### 4.6.2 Average Balance Sheets and Interest Rates (cont'd)

	Twelve months to 30 September 2002			Twelve months to 30 September 2001		
	Average Balance \$m	Interest \$m	Average Rate %	Average Balance \$m	Interest \$m	Average Rate %
<b>Liabilities and shareholders' equity</b>						
<b>Interest bearing liabilities</b>						
Deposits						
Australia	72,774	2,568	3.5	56,307	2,403	4.3
New Zealand	16,908	744	4.4	15,276	806	5.3
Other Overseas	9,963	288	2.9	9,709	546	5.6
Public borrowings by subsidiary borrowing corporations						
Australia	2,955	152	5.1	5,986	344	5.7
New Zealand	3	-	-	7	1	14.3
Other Overseas	-	-	-	-	-	-
Due to other financial institutions						
Australia	1,788	56	3.1	1,530	70	4.6
New Zealand	162	8	4.9	213	10	4.7
Other Overseas	3,100	115	3.7	3,805	208	5.5
Loan capital						
Australia	4,541	198	4.4	4,944	348	7.0
New Zealand	42	3	7.1	40	3	7.5
Other Overseas	-	-	-	-	-	-
Other interest bearing liabilities						
Australia	17,547	722	4.1	15,052	925	6.1
New Zealand	141	8	5.7	269	13	4.8
Other Overseas	8,726	212	2.4	9,360	530	5.7
Intragroup payable						
Australia	8,156	247	3.0	9,357	562	6.0
New Zealand	7,683	202	2.6	7,026	383	5.5
Interest bearing liabilities and interest expense including intragroup	154,489	5,523	3.6	138,881	7,152	5.1
Intragroup elimination	(15,839)	(449)	-	(16,383)	(945)	-
<b>Total interest bearing liabilities and interest expense</b>	<b>138,650</b>	<b>5,074</b>	<b>3.7</b>	<b>122,498</b>	<b>6,207</b>	<b>5.1</b>
<b>Non-interest bearing liabilities</b>						
Deposits and due to other financial institutions						
Australia	3,782	-	-	3,810	-	-
New Zealand	947	-	-	900	-	-
Other Overseas	250	-	-	245	-	-
Life insurance policy liabilities	7,431	-	-	7,150	-	-
Other liabilities <sup>1</sup>	14,209	-	-	17,643	-	-
<b>Total non-interest bearing liabilities</b>	<b>26,619</b>	<b>-</b>	<b>-</b>	<b>29,748</b>	<b>-</b>	<b>-</b>
Acceptances of customers						
Australia	7,701	-	-	16,654	-	-
Other Overseas	6	-	-	26	-	-
<b>Total liabilities</b>	<b>172,976</b>	<b>-</b>	<b>-</b>	<b>168,926</b>	<b>-</b>	<b>-</b>
Shareholders' equity						
TOPrS	9,890	-	-	8,795	-	-
Outside equity interests	465	-	-	465	-	-
Total equity	6	-	-	10	-	-
<b>Total equity</b>	<b>10,361</b>	<b>-</b>	<b>-</b>	<b>9,270</b>	<b>-</b>	<b>-</b>
<b>Total liabilities and equity</b>	<b>183,337</b>	<b>-</b>	<b>-</b>	<b>178,196</b>	<b>-</b>	<b>-</b>

<sup>1</sup> Includes provisions for dividends, income tax and deferred tax, and other financial market liabilities.

## Year End Profit Announcement 2002

### 4.6.2 Average Balance Sheets and Interest Rates (cont'd)

	Twelve months to 30 September 2002			Twelve months to 30 September 2001		
	Average Balance \$m	Interest \$m	Average Rate %	Average Balance \$m	Interest \$m	Average Rate %
<b>Interest earning assets (including impaired loans)</b>						
Australia	118,766	7,213	6.1	102,341	7,807	7.6
New Zealand	26,372	1,826	6.9	23,845	1,999	8.4
Other Overseas	23,825	769	3.2	25,351	1,546	6.1
Intragroup	(15,839)	(449)		(16,383)	(945)	
<b>Group</b>	<b>153,124</b>	<b>9,359</b>	<b>6.1</b>	<b>135,154</b>	<b>10,407</b>	<b>7.7</b>
<b>Interest bearing liabilities</b>						
Australia	107,761	3,943	3.7	93,176	4,652	5.0
New Zealand	24,939	965	3.9	22,831	1,216	5.3
Other Overseas	21,789	615	2.8	22,874	1,284	5.6
Intragroup	(15,839)	(449)		(16,383)	(945)	
<b>Group</b>	<b>138,650</b>	<b>5,074</b>	<b>3.7</b>	<b>122,498</b>	<b>6,207</b>	<b>5.1</b>
<b>Interest spread</b>						
Australia			2.4			2.6
New Zealand			3.1			3.1
Other Overseas			0.4			0.5
<b>Group</b>			<b>2.4</b>			<b>2.6</b>

## Year End Profit Announcement 2002

### 4.7 NON-INTEREST INCOME ANALYSIS

\$m	Six months to		Twelve months to		% Mov't Sept 01- Sept 02
	30 Sept 2002	31 March 2002	30 Sept 2002	30 Sept 2001	
<b>Fees and commissions</b>					
Lending fees	372	365	737	682	8
Transaction fees and commissions received	661	623	1,284	1,191	8
Other non-risk fee income	119	119	238	212	12
Fees and commissions paid	(278)	(282)	(560)	(485)	(15)
Service and management fees	5	2	7	5	40
	<b>879</b>	<b>827</b>	<b>1,706</b>	<b>1,605</b>	<b>6</b>
<b>Trading income</b>					
Foreign exchange	81	153	234	317	(26)
Trading securities	(6)	7	1	23	(96)
Other financial instruments	2	(14)	(12)	(66)	82
	<b>77</b>	<b>146</b>	<b>223</b>	<b>274</b>	<b>(19)</b>
<b>Wealth management income</b>					
Life insurance and funds management operating income	20	310	330	524	(37)
General insurance commissions and premiums (net of claims paid)	38	33	71	48	48
	<b>58</b>	<b>343</b>	<b>401</b>	<b>572</b>	<b>(30)</b>
<b>Other income</b>					
Dividends received	14	13	27	51	(47)
Lease rentals	5	5	10	11	(9)
Cost of hedging overseas operations	(18)	(12)	(30)	(17)	(76)
Net profit on sale of fixed assets and investments	787	47	834	38	large
Other	(186)	(7)	(193)	3	large
	<b>602</b>	<b>46</b>	<b>648</b>	<b>86</b>	<b>653</b>
<b>Non-interest income</b>	<b>1,616</b>	<b>1,362</b>	<b>2,978</b>	<b>2,537</b>	<b>17</b>

Reported non-interest income includes the impact of individually significant items and operations of AGC. To provide greater transparency on our performance, non interest income has been compiled on an ongoing business<sup>1</sup> basis in the table below:

\$m	Twelve months to:		% Mov't
	30 Sept 2002	30 Sept 2001	
Fees and commissions	1,653	1,541	7%
Wealth management income	543	509	7%
<b>Accrual non-interest income</b>	<b>2,196</b>	<b>2,050</b>	<b>7%</b>
Trading income	223	274	-19%
Other income	50	91	-45%
<b>Ongoing business non interest income</b>	<b>2,469</b>	<b>2,415</b>	<b>2%</b>

Ongoing business non interest income increased by 2% on the prior year. However the performance of our accrual revenue streams has improved 7%.

Net fees and commissions increased by \$112 million or 7% on 2001 driven by growth in lending fees and transaction fees and commissions received.

Despite the adverse global economic environment, our wealth income increased by 7% on the prior year. For a detailed analysis of our insurance and funds management performance, please refer to section 9 of this announcement.

Our financial markets operation has disappointed with trading income down by \$51 million on the prior year.

A complete picture of total financial markets income is included in the table below incorporating both net interest income and non-interest income:

\$m	Twelve months to		% Mov't Sept 2001- Sept 2002
	30 Sept 2002	30 Sept 2001	
Trading income	223	274	(18)
Dividend income	26	50	(49)
Other non-interest income	24	24	0
<b>Total non-interest income</b>	<b>273</b>	<b>348</b>	<b>(22)</b>
Net interest income	136	161	(15)
Total continuing business	410	509	(20)
Discontinued business <sup>2</sup>	0	(37)	(100)
<b>Total financial markets income</b>	<b>410</b>	<b>472</b>	<b>(13)</b>

Other income includes the profit on sale of properties including our remaining interest in 60 Martin Place. The second half of 2001 income included \$27 million from the sale of our foreign bank note business.

<sup>1</sup> A reconciliation of our ongoing business to our reported results is included in Section 18 of this announcement.

<sup>2</sup> Prior year comparatives included income from our foreign bank note business, which was sold in September 2001.

## Year End Profit Announcement 2002

### 4.8 OPERATING EXPENSE ANALYSIS

\$m	Six months to		Twelve months to		% Mov't Sept 01- Sept 02
	30 Sept 2002	31 March 2002	30 Sept 2002	30 Sept 2001	
<b>Salaries and other staff expenses</b>					
Salaries and wages	846	625	1,471	1,307	13
Restructuring expenses	6	39	45	72	(38)
Other staff expenses	154	159	313	365	(14)
	<b>1,006</b>	<b>823</b>	<b>1,829</b>	<b>1,744</b>	<b>5</b>
<b>Equipment and occupancy expenses</b>					
Operating lease rentals	116	129	245	282	(13)
Depreciation and amortisation:					
Premises	2	2	4	11	(64)
Leasehold improvements	15	14	29	31	(7)
Furniture and equipment	27	27	54	49	10
Technology	34	32	66	67	(2)
Computer software	62	58	120	137	(12)
Electricity, water, rates and land tax	5	3	8	7	14
Other equipment and occupancy expenses	37	26	63	64	(2)
	<b>298</b>	<b>291</b>	<b>589</b>	<b>648</b>	<b>(9)</b>
<b>Other expenses</b>					
Amortisation of goodwill	51	49	100	98	2
Amortisation of deferred expenditure	(3)	30	27	22	23
Non-lending losses	45	32	77	58	33
Consultancy fees, computer software maintenance, IT outsourcing costs and other professional services	353	282	635	456	39
Stationery	40	46	86	91	(6)
Postage and telecommunications	216	128	344	250	38
Insurance	8	4	12	11	9
Advertising	30	39	69	89	(23)
Transaction taxes	(7)	11	4	10	(60)
Training	12	7	19	15	27
Travel	25	23	48	51	(6)
Integration expenses	86	-	86	-	-
Other expenses	47	23	70	27	159
	<b>903</b>	<b>674</b>	<b>1,577</b>	<b>1,178</b>	<b>34</b>
<b>Operating expenses</b>	<b>2,207</b>	<b>1,788</b>	<b>3,995</b>	<b>3,570</b>	<b>12</b>
Expense/income ratio before amortisation of goodwill	57.6%	49.4%	53.6%	51.5%	

The reported expenses for the year ended 30 September 2002 include the impact of individually significant items and operations of AGC. To provide additional clarity as to our expense performance, charges for the ongoing business<sup>1</sup> have been detailed below.

\$m	Twelve months to:		% Mov't
	30 Sept 2002	30 Sept 2001	
Salaries & other staff	(1,569)	(1,685)	7%
Equipment and occupancy	(571)	(615)	7%
Other	(1,318)	(1,127)	-17%
<b>Ongoing business expenses</b>	<b>(3,458)</b>	<b>(3,427)</b>	<b>-1%</b>
Expense/income (excl. amortisation of goodwill)	52.2%	54.4%	
FTE	24,776	26,598	

Overall expense growth for the ongoing business has been contained to 1% growth on the prior year with volume and inflationary increases offset by efficiency programs. The expense to income ratio dropped by 220 bps to 52.2%.

The composition of our expense base has changed over the year, as we have continued our outsourcing program.

Salary and other staff expenses were reduced by \$116 million or 7%, largely as a result of the outsourcing agreements and initiatives undertaken during the year to streamline non customer-facing functions.

Equipment and occupancy expenses decreased by \$44 million or 7% as we optimised the use of our distribution network and other premises.

The reconfiguration of our expense base and outsourcing program have increased Other expenses by \$191 million over 2001. This includes \$19 million in non-lending losses from increased cheque and credit card fraud. We have invested in new fraud detection technology to mitigate these costs.

<sup>1</sup> A reconciliation of our ongoing business expenses to our reported results is included in Section 18.

## Year End Profit Announcement 2002

### 4.9 INCOME TAX

\$m	Six months to		Twelve months to	
	30 Sept 2002	31 March 2002	30 Sept 2002	30 Sept 2001
<b>INCOME TAX EXPENSE</b>				
<b>Profit from ordinary activities before income tax (including gross up)</b>	1,344	1,463	2,807	2,734
Fully tax equivalent gross up	(72)	(67)	(139)	(149)
<b>Profit from ordinary activities before income tax (excluding gross up)</b>	<u>1,272</u>	<u>1,396</u>	<u>2,668</u>	<u>2,585</u>
Prima facie income tax based on the company tax rate of 30% (2001 @ 34%) in Australia	381	419	800	879
<b>Add/(deduct) tax effect of permanent differences</b>				
Change in tax rate	-	-	-	1
Rebateable and exempt dividends	(82)	(45)	(127)	(97)
Tax losses and timing differences now tax effected	31	38	69	(27)
Life insurance :				
Tax adjustment on policyholders' earnings <sup>1</sup>	(43)	10	(33)	(27)
Adjustment for life business tax rates	(19)	(6)	(25)	(19)
Change in excess of net market value over net assets of life insurance subsidiaries	25	(7)	18	(16)
Gain on sale of controlled entities and businesses	(226)	-	(226)	-
Other non-assessable items	(10)	(37)	(47)	(30)
Other non-deductible items	21	23	44	29
Adjustment for overseas tax rates	23	(4)	19	(17)
Prior period adjustments	(8)	(16)	(24)	2
Other items	2	1	3	(1)
<b>Total income tax expense attributable to profit from ordinary activities</b>	<u>95</u>	<u>376</u>	<u>471</u>	<u>677</u>
Fully taxable equivalent gross up	72	67	139	149
<b>Total income tax expense (including gross up)</b>	<u>167</u>	<u>443</u>	<u>610</u>	<u>826</u>
<b>Effective tax rate (%) (including gross up)</b>	<u>12.4</u>	<u>30.3</u>	<u>21.7</u>	<u>30.2</u>

The tax charge for the current year includes the impact of the sale of AGC which was not assessable. Excluding the impact of this item our effective tax rate was 29.8% for the year.

<sup>1</sup> In accordance with the requirements of Australian accounting standard AASB 1038 Life Insurance Business, our tax expense for the year includes a \$47 million tax credit for income tax on policyholders' investment earnings (\$41 million tax credit in 2001), \$14 million of which is in the prima facie tax expense and the balance of \$33 million shown here.

## Year End Profit Announcement 2002

### 5 STATEMENT OF FINANCIAL POSITION

#### 5.1 STATEMENT OF FINANCIAL POSITION

As at \$m	30 Sept 2002	31 March 2002	30 Sept 2001	% Mov't Sept 01- Sept 02
<b>Assets</b>				
Cash and balances with central banks	1,669	2,127	1,079	55
Due from other financial institutions	5,242	5,937	5,094	3
Trading securities	10,643	10,014	10,629	-
Investment securities	3,313	2,751	2,960	12
Loans	135,870	133,282	122,250	11
Acceptances of customers	4,788	4,793	15,700	(70)
Life insurance assets	7,566	7,843	7,352	3
Regulatory deposits with central banks overseas	455	452	482	(6)
Goodwill	1,754	1,449	1,501	17
Fixed assets <sup>1</sup>	815	931	1,034	(21)
Deferred tax assets	587	446	441	33
Other assets	18,335	16,167	21,323	(14)
<b>Total assets</b>	<b>191,037</b>	<b>186,192</b>	<b>189,845</b>	<b>1</b>
<b>Liabilities</b>				
Due to other financial institutions	4,731	6,867	5,954	(21)
Deposits and public borrowings	110,763	109,292	96,157	15
Debt issues	27,575	24,856	27,989	(1)
Acceptances	4,788	4,793	15,700	(70)
Tax liabilities	617	658	706	(13)
Life insurance policy liabilities	7,163	7,538	7,123	1
Provisions	1,093	1,002	1,038	5
Other liabilities	19,327	16,418	20,635	(6)
<b>Total liabilities excluding loan capital</b>	<b>176,057</b>	<b>171,424</b>	<b>175,302</b>	<b>-</b>
<b>Loan capital</b>				
Subordinated bonds, notes and debentures	3,795	3,846	4,045	(6)
Subordinated perpetual notes	717	734	793	(10)
<b>Total loan capital</b>	<b>4,512</b>	<b>4,580</b>	<b>4,838</b>	<b>(7)</b>
<b>Total liabilities</b>	<b>180,569</b>	<b>176,004</b>	<b>180,140</b>	<b>-</b>
<b>Net assets</b>	<b>10,468</b>	<b>10,188</b>	<b>9,705</b>	<b>8</b>
<b>Equity</b>				
Ordinary Shares	3,503	1,764	1,751	100
NZ Class shares	471	482	482	(2)
Trust originated preferred securities (TOPrS <sup>SM</sup> )	465	465	465	-
Reserves <sup>2</sup>	82	2,915	2,819	(97)
Retained profits	5,930	4,546	4,174	42
<b>Equity attributable to equity holders of Westpac Banking Corporation</b>	<b>10,451</b>	<b>10,172</b>	<b>9,691</b>	<b>8</b>
Outside equity interests in controlled entities	17	16	14	21
<b>Total equity</b>	<b>10,468</b>	<b>10,188</b>	<b>9,705</b>	<b>8</b>

<sup>1</sup> Fixed assets includes \$232 million (\$229 million in 2001) in capitalised software costs with an average depreciation life of three years.

<sup>2</sup> Following the incorporation of Westpac on 23 August 2002 balances in the share premium reserve (\$1,619 million) and capital redemption reserve (\$131 million) were transferred to ordinary share capital. In addition the reserve fund, which was funded by retained earnings and required by our Deed of Settlement, of \$876 million was transferred to retained profits.

## Year End Profit Announcement 2002

### 5.1.1 Loans

As at \$m	30 Sept 2002	31 March 2002	30 Sept 2001	% Mov't Mar 02- Sept 02	% Mov't Sept 01- Sept 02
<b>Australia</b>					
Overdrafts	3,007	3,019	3,488	-	(14)
Credit card outstandings <sup>1</sup>	4,131	5,690	5,631	(27)	(27)
Overnight and call money market loans	306	188	305	63	-
Own acceptances discounted <sup>2</sup>	13,025	13,157	3,270	(1)	298
Term loans:					
Housing	60,445	55,964	53,877	8	12
Non-housing	23,815	25,093	24,164	(5)	(1)
Finance leases	863	1,693	1,770	(49)	(51)
Investments in leveraged lease and equity lease	8	30	202	(73)	(96)
Other	2,202	3,227	3,209	(32)	(31)
<b>Total - Australia</b>	<b>107,802</b>	<b>108,061</b>	<b>95,916</b>	<b>(0)</b>	<b>12</b>
<b>New Zealand</b>					
Overdrafts	875	789	855	11	2
Credit card outstandings <sup>1</sup>	712	853	778	(17)	(9)
Overnight and call money market loans	854	665	657	28	30
Term loans:					
Housing	12,219	11,312	10,968	8	11
Non-housing	7,330	6,527	6,734	12	9
Finance leases	-	26	27	(100)	(100)
Redeemable preference share finance	3,777	2,791	2,792	35	35
Other	749	821	933	(9)	(20)
<b>Total - New Zealand</b>	<b>26,516</b>	<b>23,784</b>	<b>23,744</b>	<b>11</b>	<b>12</b>
<b>Other Overseas</b>					
Overdrafts	139	149	165	(7)	(16)
Term loans:					
Housing	328	270	261	21	26
Non-housing	1,608	1,586	2,284	1	(30)
Finance leases	14	19	20	(26)	(30)
Other	897	1,070	1,461	(16)	(39)
<b>Total - Other Overseas</b>	<b>2,986</b>	<b>3,094</b>	<b>4,191</b>	<b>(3)</b>	<b>(29)</b>
<b>Total gross loans</b>	<b>137,304</b>	<b>134,939</b>	<b>123,851</b>	<b>2</b>	<b>11</b>
Provisions for bad and doubtful debts	(1,434)	(1,657)	(1,601)	(13)	(10)
<b>Total net loans</b>	<b>135,870</b>	<b>133,282</b>	<b>122,250</b>	<b>2</b>	<b>11</b>
<b>Securitised loans</b>	<b>4,318</b>	<b>5,317</b>	<b>3,606</b>	<b>(19)</b>	<b>20</b>

<sup>1</sup> Comparatives for March 2002 (\$1.7 billion) and September 2001 (\$1.8 billion) include AGC card outstandings.

<sup>2</sup> Own acceptances discounted has increased by \$9,755 million as a result of a change in funding, from rediscounting acceptances to issuing certificates of deposit, following the removal of the financial institutions duty.

## Year End Profit Announcement 2002

### 5.1.2 Deposits and Public Borrowings

As at \$m	30 Sept 2002	31 March 2002	30 Sept 2001	% Mov't Mar 02- Sept 02	% Mov't Sept 01- Sept 02
<b>DEPOSITS</b>					
<b>Australia</b>					
Non-interest bearing	3,611	3,676	3,666	(2)	(2)
Certificates of deposit	15,525	16,885	4,137	(8)	275
Other interest bearing:					
At call	45,124	41,807	39,479	8	14
Term	17,701	15,209	15,828	16	12
<b>Total deposits in Australia</b>	<b>81,961</b>	<b>77,577</b>	<b>63,110</b>	<b>6</b>	<b>30</b>
<b>New Zealand</b>					
Non-interest bearing	874	848	847	3	3
Certificates of deposit	2,908	2,464	2,679	18	9
Other interest bearing:					
At call	7,039	5,737	5,703	23	23
Term	8,279	8,306	8,136	-	2
<b>Total deposits in New Zealand</b>	<b>19,100</b>	<b>17,355</b>	<b>17,365</b>	<b>10</b>	<b>10</b>
<b>Other Overseas</b>					
Non-interest bearing	234	199	201	18	16
Certificates of deposit	2,515	3,964	3,983	(37)	(37)
Other interest bearing:					
At call	487	530	489	(8)	-
Term	6,465	6,095	5,295	6	22
<b>Total deposits Other Overseas</b>	<b>9,701</b>	<b>10,788</b>	<b>9,968</b>	<b>(10)</b>	<b>(3)</b>
<b>Total deposits</b>	<b>110,762</b>	<b>105,720</b>	<b>90,443</b>	<b>5</b>	<b>22</b>
<b>PUBLIC BORROWINGS BY SUBSIDIARY BORROWING CORPORATIONS</b>					
<b>Australia</b>					
Secured	-	3,094	3,695	(100)	(100)
Unsecured	-	475	2,015	(100)	(100)
<b>Total public borrowings in Australia</b>	<b>-</b>	<b>3,569</b>	<b>5,710</b>	<b>(100)</b>	<b>(100)</b>
<b>New Zealand</b>					
Secured	1	3	4	(67)	(75)
<b>Total public borrowings in New Zealand</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>(67)</b>	<b>(75)</b>
<b>Total public borrowings by subsidiary borrowing corporations</b>	<b>1</b>	<b>3,572</b>	<b>5,714</b>	<b>(100)</b>	<b>(100)</b>

## Year End Profit Announcement 2002

### 6 ASSET QUALITY

#### 6.1 IMPAIRED ASSETS

As at \$m	30 September 2002			31 March 2002			30 September 2001		
	Gross	Specific Prov'n	Net	Gross	Specific Prov'n	Net	Gross	Specific Prov'n	Net
<b>Non-accrual assets</b>									
Australia	300	(105)	195	452	(184)	268	540	(163)	377
New Zealand	79	(13)	66	89	(22)	67	119	(32)	87
Other Overseas	269	(148)	121	307	(149)	158	207	(104)	103
<b>Total</b>	<b>648</b>	<b>(266)</b>	<b>382</b>	<b>848</b>	<b>(355)</b>	<b>493</b>	<b>866</b>	<b>(299)</b>	<b>567</b>
<b>Restructured assets</b>									
Australia	3	(1)	2	4	(1)	3	29	(8)	21
New Zealand	-	-	-	1	-	1	1	-	1
Other Overseas	28	(5)	23	8	-	8	6	-	6
<b>Total</b>	<b>31</b>	<b>(6)</b>	<b>25</b>	<b>13</b>	<b>(1)</b>	<b>12</b>	<b>36</b>	<b>(8)</b>	<b>28</b>
<b>Total impaired assets <sup>1</sup></b>	<b>679</b>	<b>(272)</b>	<b>407</b>	<b>861</b>	<b>(356)</b>	<b>505</b>	<b>902</b>	<b>(307)</b>	<b>595</b>

#### 6.2 ITEMS PAST DUE 90 DAYS BUT WELL SECURED<sup>2</sup>

As at \$m	30 Sept 2002	31 March 2002	30 Sept 2001
Australia			
Housing products	48	60	67
Other products	68	77	80
<b>Total Australia</b>	<b>116</b>	<b>137</b>	<b>147</b>
New Zealand			
Housing products	36	51	55
Other products	177	199	200
Other Overseas	6	9	9
<b>Total Overseas</b>	<b>219</b>	<b>259</b>	<b>264</b>
<b>Total</b>	<b>335</b>	<b>396</b>	<b>411</b>

#### 6.3 INCOME ON NON-ACCRUAL AND RESTRUCTURED ASSETS

\$m	Twelve months to	
	30 Sept 2002	30 Sept 2001
Interest received on non-accrual and restructured assets	16	20
Estimated interest forgone on non-accrual and restructured assets	47	37
Interest yield on average non-accrual and restructured assets (annualised)	2.1%	3.1%

<sup>1</sup> Includes off-balance sheet items of \$32 million (\$122 million as at 30 September 2001, \$192 million as at 31 March 2001).

<sup>2</sup> Under Australian Prudential Regulation Authority guidelines, loans which are 90 or more days past due are not classified as impaired assets where the estimated net realisable value of the security is sufficient to cover the repayment of all principal, interest amounts due and an additional six months interest. These loans need to be reported as a memorandum item only and are reported separately above. No losses are anticipated from these loans as they are well secured, for housing products usually by residential property, and are spread across a range of customer and product groups, including housing, overdraft and bill acceptance facilities.

## Year End Profit Announcement 2002

### 6.4 PROVISIONS FOR BAD AND DOUBTFUL DEBTS

\$m	Six months to		Twelve months to	
	30 Sept 2002	31 March 2002	30 Sept 2002	30 Sept 2001
<b>General provision</b>				
Balance at beginning of period	1,301	1,294	1,294	1,212
Charge to net profit	190	271	461	433
Transfer (to)/from specific provisions	(70)	(102)	(172)	(113)
Recoveries of debts previously written off	35	49	84	102
Write-offs	(171)	(208)	(379)	(356)
Provisions of controlled entities/businesses acquired/(disposed)	(133)	-	(133)	3
Exchange rate and other adjustments	10	(3)	7	13
Balance at period end	<u>1,162</u>	<u>1,301</u>	<u>1,162</u>	<u>1,294</u>
<b>Specific provisions</b>				
Balance at beginning of period	356	307	307	266
Transfer from/(to) general provision comprising:				
New specific provisions	149	154	303	223
Specific provisions no longer required	(79)	(52)	(131)	(110)
	70	102	172	113
Write-offs <sup>1</sup>	(121)	(41)	(162)	(86)
Provisions of controlled entities/businesses acquired/(disposed)	(32)	-	(32)	2
Exchange rate and other adjustments	(1)	(12)	(13)	12
Balance at period end	<u>272</u>	<u>356</u>	<u>272</u>	<u>307</u>
<b>Total provisions for bad and doubtful debts</b>	<b><u>1,434</u></b>	<b><u>1,657</u></b>	<b><u>1,434</u></b>	<b><u>1,601</u></b>
<sup>1</sup> <i>Write-offs from specific provisions comprised:</i>				
Australian Retail Financial Services	(19)	(24)	(43)	(33)
Westpac Institutional Bank	(96)	(7)	(103)	(33)
WestpacTrust and Pacific Banking	(6)	(10)	(16)	(20)
	<u>(121)</u>	<u>(41)</u>	<u>(162)</u>	<u>(86)</u>

### 6.5 IMPAIRED ASSETS AND RATIOS

As at %	30 Sept 2002	31 March 2002	30 Sept 2001
Total impaired assets to total loans and acceptances	0.5	0.6	0.6
Specific provisions to total impaired assets	40.0	41.3	34.0
Total provisions to total loans and acceptances	1.0	1.2	1.1
Total impaired assets to equity and total provisions	5.7	7.3	8.0
Net impaired assets to equity and general provisions	<u>3.5</u>	<u>4.4</u>	<u>5.4</u>

## Year End Profit Announcement 2002

### 6.6 CHARGE FOR BAD AND DOUBTFUL DEBTS

\$m	Six months to		Twelve months to	
	30 Sept 2002	31 March 2002	30 Sept 2002	30 Sept 2001
<b>GENERAL PROVISION:</b>				
<b>Recoveries of debts previously written off</b>				
Business and Consumer Banking	(29)	(41)	(70)	(70)
Westpac Institutional Bank	-	(3)	(3)	(12)
WestpacTrust and Pacific Banking	(6)	(5)	(11)	(20)
	(35)	(49)	(84)	(102)
<b>Write-offs</b>				
Business and Consumer Banking	144	184	328	306
Westpac Institutional Bank	1	2	3	14
WestpacTrust and Pacific Banking	26	22	48	36
	171	208	379	356
Dynamic provisioning charge	(16)	10	(6)	66
Transfer to specific provisions	70	102	172	113
<b>Charge for bad and doubtful debts</b>	190	271	461	433
<b>SPECIFIC PROVISIONS:</b>				
<b>New provisions</b>				
Business and Consumer Banking	35	25	60	82
Westpac Institutional Bank	108	122	230	100
WestpacTrust and Pacific Banking	6	7	13	41
	149	154	303	223
<b>No longer required</b>				
Business and Consumer Banking	(19)	(17)	(36)	(27)
Westpac Institutional Bank	(52)	(28)	(80)	(28)
WestpacTrust and Pacific Banking	(8)	(7)	(15)	(55)
	(79)	(52)	(131)	(110)
<b>Transfer from general provisions</b>	70	102	172	113
Bad and doubtful debts charge to average loans and acceptances annualised (basis points)	26	39	33	32

## Year End Profit Announcement 2002

### 7 CAPITAL ADEQUACY

As at \$m	30 Sept 2002	31 March 2002	30 Sept 2001
<b>Tier 1 capital</b>			
Total equity	10,468	10,188	9,705
Premises revaluation reserve	-	(1)	(8)
Goodwill (excluding funds management entities)	(1,424)	(1,449)	(1,501)
Net future income tax benefit	(159)	-	-
Estimated reinvestment under dividend reinvestment plan <sup>1</sup>	166	123	115
Retained earnings, reserves and goodwill in life and general insurance, funds management and securitisation entities	(683)	(397)	(229)
Equity in captive lenders mortgage insurance entities	(31)	(25)	(21)
<b>Total Tier 1 capital</b>	<b>8,337</b>	<b>8,439</b>	<b>8,061</b>
<b>Tier 2 capital</b>			
Premises revaluation reserve	-	1	8
Subordinated undated capital notes	717	734	793
General provision for doubtful debts	1,162	1,301	1,294
Future income tax benefit related to general provision	(348)	(381)	(389)
Eligible subordinated bonds, notes and debentures	3,260	3,299	3,599
<b>Total Tier 2 capital</b>	<b>4,791</b>	<b>4,954</b>	<b>5,305</b>
<b>Tier 1 and Tier 2 capital</b>	<b>13,128</b>	<b>13,393</b>	<b>13,366</b>
Deductions:			
Investments and capital in life insurance, funds management and securitisation activities	(1,017)	(769)	(769)
<b>Net qualifying capital</b>	<b>12,111</b>	<b>12,624</b>	<b>12,597</b>
<b>Risk adjusted assets</b>	<b>128,651</b>	<b>124,056</b>	<b>127,242</b>
Tier 1 capital ratio	6.5%	6.8%	6.3%
Tier 2 capital ratio	3.7%	4.0%	4.2%
Deductions	(0.8)%	(0.6)%	(0.6)%
<b>Net capital ratio</b>	<b>9.4%</b>	<b>10.2%</b>	<b>9.9%</b>
Tangible ordinary equity to risk adjusted assets	6.4%	6.7%	6.1%

<sup>1</sup> This amount is derived from reinvestment experience of our dividend reinvestment plan. Comparatives have been restated for actual experience.

## Year End Profit Announcement 2002

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### **8 BUSINESS GROUP RESULTS**

The following results have been presented on a management reporting basis. Internal charges and transfer pricing adjustments have been included in the performance of each business area reflecting the management of our business, rather than the legal structure. Consequently, these results cannot be compared directly to public disclosure of the performance of individual legal entities.

We have adopted an internal transfer pricing framework to attribute value between our business units. The primary attributes of this framework are:

- product groups pay the distribution areas an arms length fee based on external market benchmarks;
- product balances are fully transfer priced at inter bank rates according to the tenor of the underlying transactions;
- all overhead costs are applied to revenue generating businesses; and
- capital is allocated to business groups based on risk factors.

Where the management reporting structure has changed or where accounting re-classifications have been made, comparatives have been restated and therefore may differ from results previously reported.

The results for AGC have been excluded so as to detail our business units on an ongoing basis:

#### **8.1 AUSTRALIAN BUSINESS AND CONSUMER BANKING**

From the start of the current year we changed the way in which we measure the performance of what was previously reported as Australian Retail Financial Services. We now disclose separately the following business lines: consumer distribution, business and regional banking distribution, consumer products and business products.

The profit on operations for these activities is discussed in detail in sections 8.1.1 through to 8.1.4.

## Year End Profit Announcement 2002

### 8.1.1 AUSTRALIAN CONSUMER DISTRIBUTION

Our consumer distribution operations includes the activities of our consumer sales forces including the Financial Planner and Advisory force, our home loans sale force, and the national service network (excluding rural and regional locations). Operating income is earned from the product groups for sales and services provided to customers.

\$m	12 months to/as at 30 Sept 02	12 months to/as at 30 Sept 01	% Mov't Sept 01 - Sept 02
Net interest income	(17)	(8)	(113)
Non-interest income	1,067	971	10
Operating income	1,050	963	9
Non-interest expenses (excluding goodwill)	(718)	(707)	(2)
Core earnings	332	256	30
Amortisation - goodwill	(16)	(16)	-
Underlying performance	316	240	32
Charge for bad and doubtful debts	-	-	N/A
Operating profit before tax	316	240	32
Tax and outside equity interests	(97)	(90)	(8)
Profit on operations	219	150	46
Economic profit <sup>1</sup>	196	115	70
Expense/income (excluding goodwill)	68.4%	73.4%	
	<b>\$bn</b>	<b>\$bn</b>	
Deposits and other public borrowings	-	-	N/A
Net loans and acceptances	-	-	N/A
Total assets	0.1	0.5	(80)

<sup>1</sup> A portion of the Australian tax expense has been used in the determination of the franking value in our business unit economic profit calculations. Our equity has been allocated to business units based on key risk criteria.

#### Financial Performance

Consumer Distribution contributed \$219 million profit on operations for the year ending 30 September 2002, a 46% increase over the prior year.

Operating income has improved by 9% on the prior year with growth in all of our core product areas:

- our share of all bank new home loan lending has increased by 23 bps to 22.5%<sup>2</sup> over the year;
- retail deposits have increased market share by 85 bps to 18.0% of bank deposits at August 2002<sup>3</sup>;
- the launch of our Altitude rewards program has allowed us to continue growth in cards following the collapse of Ansett and the associated global rewards scheme; and
- our Retail Funds Inflow<sup>4</sup> market share was 6.2% in a market environment where total industry inflows have declined.

Expenses have increased by only 2% on the prior year, reflecting continuing improvements in productivity offset by higher business volumes and inflationary pressures.

#### Business Developments

Priority customers (those with whom we have significant multi-product relationships) have grown by 18% to 1.56 million customers and now comprise 30% of the Australian retail customer base.

The number of products sold across the consumer retail customer base has increased by 4%, and averaged 1.74 products per customer in September 2002.

The current year saw enhancements to our internet and on-line capabilities, the most notable being our number one ranking in online application and purchasing activity, compared against the other banks.

We process more than 30% of all housing, credit card, and personal loan applications handled in Australia over the internet.

Other significant achievements include becoming the first bank to introduce one-hour processing of home loan approvals, enabling us to deliver the fastest conditional approval in the Australian housing market.

We have substantially grown our wealth management distribution capabilities, achieving a 30% lift in risk product sales on the prior year.

In customer service benchmarking studies conducted throughout the year, our call centres ranked number one in the delivery of customer service, compared against other banks and large corporations.

<sup>2</sup> ABS August 2002

<sup>3</sup> ABA August 2002

<sup>4</sup> ASSIRT July 2002

## Year End Profit Announcement 2002

### 8.1.2 AUSTRALIAN BUSINESS & REGIONAL BANKING DISTRIBUTION

Business distribution activities include our middle market and small business sales force and service centres as well as our regional service network. Operating income is earned from the product groups for sales and services provided to customers.

\$m	12 months to/as at 30 Sept 02	12 months to/as at 30 Sept 01	% Mov't Sept 01 - Sept 02
Net interest income	59	58	2
Non-interest income	1,354	1,266	7
Operating income	1,413	1,324	7
Non-interest expenses (excluding goodwill)	(828)	(841)	2
Core earnings	585	483	21
Amortisation - goodwill	(21)	(21)	-
Underlying performance	564	462	22
Charge for bad and doubtful debts	(77)	(21)	large
Operating profit before tax	487	441	10
Tax and outside equity interests	(150)	(160)	6
Profit on operations	337	281	20
Economic profit <sup>1</sup>	269	206	31
Expense/income (excluding goodwill)	58.6%	63.5%	
	<b>\$bn</b>	<b>\$bn</b>	
Deposits and other public borrowings	-	-	N/A
Net loans and acceptances	-	-	N/A
Total assets	0.5	1.0	(50)

<sup>1</sup> A portion of the Australian tax expense has been used in the determination of the franking value in our business unit economic profit calculations. Our equity has been allocated to business units based on key risk criteria.

#### Financial Performance

The Business and Regional Bank generated profit on operations of \$337 million, a 20% improvement over the prior year.

Operating income improved by 7% on 2001 with gains across our primary business products:

- business lending outstandings increased by 9% on 2001 to \$22.2 billion;
- our market share of lending in middle markets increased by 500 bps to 21%<sup>1</sup>;
- equity market volatility increased the inflow of funds into term deposits and investor option cash management accounts resulting in total deposits increasing 24% for the full year; and
- sales of wealth management products were 47% above prior year.

Improvements in the service delivery model, has enabled expenses to be reduced when compared to prior year.

Bad debt charges have increased with the growth in business lending due to conservative provisioning; the 2001 results benefited from bad debt recoveries. Impaired assets for our business banking book continue at five year lows.

#### Business Developments

We have rebuilt the business finance book to \$2.2 billion as at 30 September. This business had previously been recorded in AGC and amounted to \$4.9 billion at January 2002.

We were the first bank to introduce a drought relief package for our regional customers. The package provides opportunities to access additional funding, restructure existing debt repayment, freeze risk margins and waive some fees and penalties.

Improving the customer experience continues to be our primary focus. We have been ranked number one of the major banks in customer satisfaction over the last three years. During the current year we:

- established a business succession group to provide succession services to our customers which may include the sale of their business
- enhanced our Business Online offering to include tailored information for our regional customers that includes news and commodity prices and added links to government sites that provide relevant information for small business. By the end of September we had issued 145,000 logons to our business portal with 34% of our business customer base enabled to use the products; and
- continued the rollout of Customer Relationship Management tools that will help us understand our customers better, actively address their needs and generally improve the experience they have with us.

We won "Business Lender of the Year" for the second year in a row<sup>2</sup>.

<sup>1</sup> Greenwich Associates date 2002

<sup>2</sup> Personal Investor Magazine Awards 2002

## Year End Profit Announcement 2002

### 8.1.3 AUSTRALIAN CONSUMER PRODUCTS

Australian consumer products comprise our retail product set including home lending, credit cards, transaction, deposit accounts, personal loans, general insurance and certain finance company products. Sales and service commissions passed to the distribution businesses are recorded as a charge against non-interest income.

\$m	12 months to/as at 30 Sept 02	12 months to/as at 30 Sept 01	% Mov't Sept 01 - Sept 02
Net interest income	1,958	1,805	8
Non-interest income	(830)	(803)	(3)
Operating income	1,128	1,002	13
Non-interest expenses (excluding goodwill)	(425)	(407)	(4)
Core earnings	703	595	18
Amortisation - goodwill	(10)	(10)	-
Underlying performance	693	585	18
Charge for bad and doubtful debts	(186)	(137)	(36)
Operating profit before tax	507	448	13
Tax and outside equity interests	(144)	(148)	3
Profit on operations	363	300	21
Economic profit <sup>1</sup>	350	296	18
Expense/income (excluding goodwill)	37.7%	40.6%	
	<b>\$bn</b>	<b>\$bn</b>	
Deposits and other public borrowings	40.7	32.8	24
Net loans and acceptances	74.4	62.9	18
Total assets	75.3	63.1	19

<sup>1</sup> A portion of the Australian tax expense has been used in the determination of the franking value in our business unit economic profit calculations. Our equity has been allocated to business units based on key risk criteria.

#### Financial Performance

A 21% improvement has been achieved by our consumer products area on the prior year with profit on operations increasing to \$363 million. This has been achieved through strong growth in our core lending products of home loans and bank issued credit cards, supported by volume growth in our retail deposit book.

Home loans have continued to perform strongly with growth in outstandings of \$7 billion or 12% in a highly competitive marketplace.

Bank issued credit card outstanding balances increased by 8% to \$4.13 billion at the end of the year<sup>2</sup>.

Growth of 24% has been achieved in our retail deposit balances as investors have migrated to safe investment options during the current period of global economic uncertainty. Offsetting the volume increase has been a 22 bps reduction in interest margin for these products following the reduction in official cash rates.

The operating income growth of 13% has been achieved while holding expenses to only 4% above the prior year despite volume growth. This improvement has driven the expense to income ratio for this business down 290 bps to 37.7%.

Bad debt charges have risen by \$49 million (36%) as a result of strong growth in our consumer lending portfolio as well as increased default rates on credit cards. We have instituted measures to help control the level of credit card bad debts.

#### Business Developments

Home loan lending has continued to be the principal driver of business growth for our Australian consumer products, despite the competitive market place. Our "Rocket Repay" loan products (which enable our customers to save 40% in interest and take ten years off their home loan) now comprise over 40% of all our new home loan lending.

We have continued our product and process innovation:

- in September 2002 we launched Westpac One, a new money management account with a single fee for customers and improved interest rates through the ability to consolidate up to six accounts into a single product;
- the 'CMA Investor Option' product, has proven to be very successful and attracting \$4 billion in new funds a 98% increase over the prior year; and
- our term deposit balances have grown \$3.7 billion year on year and continue to provide competitive rates to investors.

Our credit card operations faced significant challenges following the collapse of Ansett and the associated Global Rewards scheme. This led to the launch of our new "Altitude" credit card rewards program in November 2001 to provide our customers with a superior range of benefits while providing better protection for their loyalty points.

<sup>2</sup> RBA, August 2002

## Year End Profit Announcement 2002

### 8.1.4 AUSTRALIAN BUSINESS PRODUCTS

Australian business products include our business lending, deposit and transaction accounts, and working capital activities. Sales and service commissions passed to the distribution businesses are recorded as a charge against non-interest income.

\$m	12 months to/as at 30 Sept 02	12 months to/as at 30 Sept 01	% Mov't Sept 01 - Sept 02
Net interest income	845	785	8
Non-interest income	(403)	(366)	(10)
Operating income	442	419	5
Non-interest expenses (excluding goodwill)	(237)	(234)	(1)
Core earnings	205	185	11
Amortisation - goodwill	(12)	(12)	-
Underlying performance	193	173	12
Charge for bad and doubtful debts	(9)	(1)	large
Operating profit before tax	184	172	7
Tax and outside equity interests	(57)	(60)	5
Profit on operations	127	112	13
Economic profit <sup>1</sup>	98	81	21
Expense/income (excluding goodwill)	53.6%	55.8%	
	<b>\$bn</b>	<b>\$bn</b>	
Deposits and other public borrowings	20.8	20.0	4
Net loans and acceptances	25.1	23.9	5
Total assets	26.2	24.4	7

<sup>1</sup> A portion of the Australian tax expense has been used in the determination of the franking value in our business unit economic profit calculations. Our equity has been allocated to business units based on key risk criteria.

#### Financial Performance

Business products generated profits on operations of \$127 million, a 13% improvement on the prior year.

Operating income increased by 5% year on year with solid volume growth across the portfolio.

Higher business volumes have generated an increase in the commission paid to Business Distribution, which is recorded as an offset to non-interest income.

Successful cost control initiatives included a reduction in the number of non customer facing staff. Expense growth has been held to 1% above 2001 levels despite growth in business volumes and inflationary pressures.

The expense to income ratio for this business has been driven down 220 basis points to 53.6% at 30 September 2002.

#### Business Developments

Our improved results have been aided by the development of a number of new products within the Term Lending portfolio. These include the new Bank Bill Business Loan (which offers the flexibility of a traditional loan with the pricing of a bank bill) and Property Select (allowing customers to more easily obtain finance using property as security).

These new products were complimented by a joint venture with Challenger, a funding vehicle for property deals.

Our product innovations combined with strong sales force performance have delivered growth in business lending volumes while minimising margin compression.

Business products won 7 gold medals at the Personal Investor Awards for Excellence in financial Services culminating in the award for Business Lender of the Year award for the second year in a row.

Business deposit volumes have increased over the prior year. However, this portfolio has been adversely impacted by the reductions in official interest rates. Despite undertaking interest rate hedging and other risk mitigation practices our interest margin on deposits has declined year on year.

This strong drive into new product development was complemented by the successful integration of products, including equipment finance, that had been previously provided by AGC into our Australian business products area.

## Year End Profit Announcement 2002

### 8.2 AUSTRALIAN WEALTH MANAGEMENT

Our Australian wealth management business designs, manufactures and services financial products that enable customers to build, manage and protect personal wealth. These products include managed investments, life insurance, superannuation and discount broking. Distribution of wealth management products is conducted primarily through our Australian consumer distribution business.

During the year, Westpac changed its accounting policy in respect of the wealth management business with the adoption of accrual accounting<sup>1</sup>. The change reflects the decision to standardise accounting treatment across recent acquisitions and to provide more transparent information that is consistent with the underlying performance of the business. All periods have been re-based for these changes and consequently, these results cannot be compared with prior year disclosures.

\$ m	12 months to/as at 30 Sept 02	12 months to/as at 30 Sept 01	% Mov't Sept 01 - Sept 02
Net interest income	23	20	15
Non-interest income	302	312	(3)
Operating income	325	332	(2)
Non-interest expenses (excluding goodwill)	(188)	(172)	(9)
Core earnings	137	160	(14)
Amortisation - goodwill	(4)	(4)	-
Underlying performance	133	156	(15)
Charge for bad and doubtful debts	(0)	-	N/A
Operating profit before tax	133	156	(15)
Tax and outside equity interests	(26)	(24)	(8)
Profit on operations	107	132	(19)
Economic profit <sup>2</sup>	52	84	(38)
Expense/income (excluding goodwill)	57.8%	51.8%	
	<b>\$ bn</b>	<b>\$ bn</b>	
Deposits and other public borrowings	-	-	N/A
Net loans and acceptances	-	-	N/A
Total assets	8.5	8.5	-
Funds under management <sup>3</sup>	32.4	22.4	45

<sup>2</sup> A portion of the Australian tax expense has been used in the determination of the franking value in our business unit economic profit calculations. Our equity has been allocated to business units based on key risk criteria.

#### Financial Performance

Our Australian wealth management result includes the impact of a number of non recurring items. In 2002 these included the writedown of Hartleys (\$16 million) and profit on sale of units in the Investa Group (\$5 million). Prior year results included a profit of \$28 million from the sale of the management rights to our property trust.

Rothschild was also integrated into our existing wealth management business in 2002, and generated \$2 million after tax profit.

Normalising for the impact of these items, our profit on operations was 12% higher than 2001.

The ongoing business result reflects a strong performance for the wealth management business during a period of increased volatility and significant declines in investment markets around the world over the second half of the year.

#### Business Developments

The 2002 financial year saw a number of significant strategic events for the wealth management business that aim to deliver a number of key capabilities which will position the business for future growth.

In May, we acquired the Rothschild business and their rated investment management team. The acquisition provided us with a springboard for growth and strengthened our distribution capabilities by gaining access to over 1,000 external financial advisors, thereby fulfilling a key element of the overall wealth management strategy.

As at the end of September 2002, total Australian funds under management was over \$32 billion. The integration of the Rothschilds business is currently on track to achieve its revenue and expense synergy targets.

During the year, a number of product and technology enhancements were launched. These included improvements around customer reporting for the Personal Portfolio Service product, allowing customers to monitor investments on line, rather than waiting for quarterly statements.

New Wealth-point financial planning software was rolled out and our product range expanded to include a nil entry fee option for the Westpac Investor Choice managed funds.

In August, we announced an agreement to purchase most of the wealth management business of BT from the Principal Financial Group. With the acquisition, we will become the fourth largest retail funds manager in Australia with more than \$28 billion of retail funds under management. Further, it will provide us with a major leap forward in distribution reach, client servicing capabilities and scale to deliver accelerated growth in our wealth management business.

The transaction is expected to be completed early in our next financial year, and within a short period of time will be integrated into a combined open-architecture wealth management business distributing through more than 15,000 external financial advisors and our own distribution network.

<sup>1</sup> Results shown here are presented on an accruals accounting basis. 2001 figures have been restated by \$49 million after tax.

<sup>3</sup> Funds under management includes Rothschild acquired in June. At acquisition, the FUM was \$10.5 billion.

## Year End Profit Announcement 2002

### 8.3 WESTPAC INSTITUTIONAL BANK

Our Institutional Bank meets the financial needs of corporations and institutions either based in, or with interests in, Australia and New Zealand. We also provide certain services to middle-market business banking customers in Australia and New Zealand.

\$m	12 months to/as at 30 Sept 02	12 months to/as at 30 Sept 01	% Mov't Sept 01 - Sept 02
Net interest income	475	522	(9)
Non-interest income	468	511	(8)
Operating income	943	1,033	(9)
Non-interest expenses (excluding goodwill)	(383)	(398)	4
Core earnings	560	635	(12)
Amortisation - goodwill	-	-	-
Underlying performance	560	635	(12)
Charge for bad and doubtful debts	(139)	(114)	(22)
Operating profit before tax	421	521	(19)
Tax and outside equity interests	(140)	(147)	5
Profit on operations	281	374	(25)
Economic profit <sup>1</sup>	131	258	(49)
Expense/income (excluding goodwill)	40.6%	38.5%	
	<b>\$bn</b>	<b>\$bn</b>	
Deposits and other public borrowings	12.0	10.7	12
Net loans and acceptances	21.5	22.9	(6)
Total assets	49.1	51.6	(5)

<sup>1</sup> A portion of the Australian tax expense has been used in the determination of the franking value in our business unit economic profit calculations. Our equity has been allocated to business units based on key risk criteria.

#### Financial Performance

The financial performance of the institutional bank was disappointing reflecting the combined impact of weak trading income and an increase in bad debts.

In financial markets, positioning is largely designed to capitalise on domestic economic trends. Domestic market drivers were at odds with and eventually overshadowed by global events in 2002, which contributed to the reduced success of trading and an overall fall in non-interest income of 8% on 2001. Customer volumes however, continued to show healthy growth.

Interest income was adversely impacted by lower customer demand for on balance sheet lending during this period. Management focus on this area has resulted in asset levels largely recovering during the last quarter of our financial year with a strong emphasis on higher margin structured lending.

The increased bad debt expense, while significant, was confined to a small number of exposures and the average credit quality of all other exposures has improved.

Attention to expense management saw a 4% reduction in total expenses. This was achieved despite investment in financial markets and credit systems, commodity derivatives and distribution infrastructure.

The 2001 results include \$34 million from the profit on sale on, and operations of, our foreign bank note business.

#### Business Developments

The business strategy to better understand and service corporate and institutional customers has been recognised in a number of external surveys including:

- number one in AUD interest rate swaps (10+ years), number one in US/AUD cross currency swaps, number one in US/AUD currency forwards<sup>1</sup>;
- number two lead manager of domestic AUD dollar bonds<sup>2</sup>;

- best multibank FX portal<sup>3</sup>;
- cash management house of the year<sup>4</sup>; and
- top arranger of NZ syndicated loans<sup>5</sup>.

During the year the business has:

- entered into an agreement to acquire Hastings Funds Management, which will lead to a more active role in infrastructure development and investment;
- acquired soft commodity capability through employment of a team of electricity risk specialists;
- formed an alliance with Bank of America giving customers access to the US private placements market;
- added to the securitisation expertise with the completion of a number of property securities transactions; and
- employed additional industry specialists to complement the global industry teams.

Notable transactions during the year have included:

- joint lead arranger of debt facility to Vector Limited for NZ\$1.5 billion acquisition of UnitedNetworks Limited and refinancing of indebtedness of both companies, to create the largest energy distribution business in New Zealand;
- joint lead arranger on a US private placement for Crane Group Limited;
- financial advisor, arranger and underwriter of the Westpac Family Restaurant Property Trust's equity raising and subsequent retail property purchase; and
- arranger and lead manager for the largest issue of commercial mortgage backed securities into the Australian public bond market, for Challenger International Group.

<sup>1</sup> Risk Magazine, September 2002

<sup>2</sup> IFR Asia, August 2002

<sup>3</sup> Global Investor, March 2002

<sup>4</sup> Insto Magazine, January 2002

<sup>5</sup> International Financing Review, January 2002

## Year End Profit Announcement 2002

### 8.4 NEW ZEALAND RETAIL

Our New Zealand retail bank provides banking and wealth management<sup>1</sup> products and services to New Zealand consumer and business customers.

\$m	12 months to/as at 30 Sept 02	12 months to/as at 30 Sept 01	% Mov't Sept 01 - Sept 02	% Mov't in local currency
Net interest income	617	608	1	5
Non-interest income	311	318	(2)	1
Operating income	928	926	0	3
Non-interest expenses (excluding goodwill)	(450)	(455)	1	(2)
Core earnings	478	471	1	5
Amortisation - goodwill	(37)	(35)	(6)	(7)
Underlying performance	441	436	1	5
Charge for bad and doubtful debts	(46)	(25)	(84)	(93)
Operating profit before tax	395	411	(4)	(1)
Tax and outside equity interests	(138)	(140)	1	(1)
Profit on operations	257	271	(5)	(2)
Economic profit <sup>2</sup>	139	136	2	5
Expense/income (excluding goodwill)	48.5%	49.2%		
	<b>\$bn</b>	<b>\$bn</b>		
Deposits and other public borrowings	14.2	12.4	15	9
Net loans and acceptances	18.9	17.4	9	4
Total assets	19.9	18.4	8	3
Funds under management	1.4	1.4	-	(6)

<sup>2</sup> A portion of the imputation credits generated on the NZ Class shares has been included in the business unit economic profit calculation.

### Financial Performance<sup>3</sup>

The New Zealand retail business underwent a significant turn around after a disappointing first half of the year. Following a major review of operations and a revitalisation program, profit on operations increased by 50% on the first half with operating income increasing by 11% half on half.

Profit on operations<sup>2</sup> for the full year, however fell 2% over 2001.

Net interest income increased 5% in 2002 on the prior year on strong growth in consumer and business lending and deposits during the second half.

Non-interest income increased 1% in 2002 on the prior year from growth in transaction volumes.

Operating expenses have increased 2% over 2001, with inflationary pressures mostly offset by the benefits of cost saving initiatives.

Bad and doubtful debt expenses increased 93% due to more conservative provisioning raised for the business lending growth during the second half of the year.

### Business Developments

We have completed a detailed review of our New Zealand retail operations focusing on critical market representation, distribution and structural issues. Initiatives are now underway to capture the benefits identified in this review and redirect business focus towards the growth market of Auckland.

Senior customer facing, product and head office functions were relocated to Auckland on 1 October 2002.

In order to gain full leverage of the Westpac brand name and to assist in standardising customer services throughout Australasia, the New Zealand WestpacTrust brand is being changed to Westpac. All signage, stationery and wardrobe will be aligned over the next few months.

The year has seen strong growth in both consumer loans and deposits and highlights the success of the combined branch network, mobile and broker distribution strategy. Business lending and deposit growth have also grown strongly.

The acquisition of BT in New Zealand will enhance our Wealth Management distribution reach as well as increasing the capability and scale of our operations. The transaction will double overall Funds Under Management in New Zealand.

Online banking customer numbers have grown 75%, reaching 230,000 at year end.

We continue to be actively involved in the community through the sponsorship of Rescue helicopters and the Life education trust.

<sup>1</sup> The figures shown here include New Zealand wealth management operations. The contribution provided by these activities is detailed in Section 9 of this announcement.

<sup>3</sup> The financial performance commentary is in local currency terms.

## Year End Profit Announcement 2002

### 9 FUNDS MANAGEMENT AND LIFE INSURANCE

The following results have been presented on a management reporting basis. Internal charges and transfer pricing adjustments have been included in the performance of each business area reflecting the management of our business, rather than the legal structure. Consequently, these results cannot be compared directly to public disclosure of the performance of individual legal entities. The impact of the restructuring of our wealth management business has been treated as a individually significant item and not included in this analysis.

Where the management reporting structure has changed or where accounting re-classifications have been made, comparatives have been restated and therefore differ from results previously reported.

#### 9.1 TOTAL FUNDS MANAGEMENT AND LIFE INSURANCE

The following table shows the consolidated full year results for our Australian and New Zealand funds management and life insurance businesses:

\$m	30 Sept 2002	Year to 30 Sept 2001	% Mov't
Operating income	483	479	1
Total expense	(330)	(308)	(7)
Operating profit before tax	153	171	(10)
Income tax expense	(26)	(25)	(6)
Operating profit after tax	127	146	(13)
Operating profit after tax is earned in the following areas:			
Australia (section 8.2)	107	132	(19)
New Zealand	20	14	43
Total	127	146	(13)

The management reporting for the businesses has been split into the funds management business, life insurance risk business and other business. Full details of the underlying results of each of these businesses are shown in the following sections.

#### Operating profit after tax is earned in the following areas:

\$m	30 Sept 2002	Year to 30 Sept 2001	% Mov't
Funds management (Australia)	105	92	14
Funds management (New Zealand)	3	5	(40)
	108	97	11
Life insurance and risk (Australia)	36	24	50
Life insurance and risk (New Zealand)	17	9	89
	53	33	61
Other - Business as usual (Australia)	(23)	(12)	(92)
- One off items (Australia)	(11)	28	large
Total	127	146	(13)

Operating income can be reconciled to the net life insurance and funds management income disclosed in note 4.1 Statement of Financial Performance and Note 4.7 Non-interest Income Analysis as follows:

\$m	30 Sept 2002	Year to 30 Sept 2001	% Mov't
Operating income (per above)	483	479	1
Transfer pricing - cost of distribution	38	35	9
Transfer pricing - cost of funds	25	26	(4)
Intercompany consolidation eliminations	(27)	(31)	(13)
Policy holders tax recoveries	(47)	(41)	15
Embedded value uplift elimination	(142)	62	large
NZ income net of commissions	0	(6)	large
Net funds management and life insurance income	330	524	(37)

## Year End Profit Announcement 2002

### 9.2 FUNDS MANAGEMENT BUSINESS

Funds management includes product management, product administration, investment management and discount broking.

\$m	30 Sept 2002	Year to 30 Sept 2001	% Mov't
Income	358	316	13
Commissions	(80)	(77)	(4)
Net income	278	239	16
Total expenses	(153)	(134)	(14)
Operating profit before tax	125	105	19
Income tax expense	(17)	(8)	(113)
Operating profit after tax	108	97	11
Operating profit after tax is earned in the following areas:			
Australia	105	92	14
New Zealand	3	5	(40)
Total	108	97	11
Expense / net income	55.2%	56.1%	

*New Zealand operating profit has been converted to AUD using average exchange rates*

#### Sources of Operating Profit - Australia

\$m	30 Sept 2002	Year to 30 Sept 2001	% Mov't
Margin on service profit after income tax is represented by:			
Planned profit margin	107	87	23
Experience variation	(2)	5	large
Operating profit after tax	105	92	14

#### Financial Performance

The funds management business contributed \$108 million to the wealth management operations. This represents an increase of 11% or \$11 million over the previous year.

The growth in income net of commissions by 16% or \$39 million reflects the acquisition of Rothschild during the second half of the year and the increase in average Australian funds under management over the prior period, despite the declines in world investment markets.

Total expenses increased 15% to \$154 million largely due to inclusion of Rothschild from June 2002.

#### Movements in funds under management (FUM)<sup>1</sup>

\$bn	FUM Sept 2001	Sales	Redns	Net Inflows	Rothschild at acqu'n	Other movem't	FUM Sept 2002	FUM March 2002	% Mov't Sept 01 to Sep 02
Retail	14.7	4.8	(4.1)	0.7	6.6	(1.2)	20.8	16.0	41
Wholesale	7.7	1.9	(2.1)	(0.2)	3.9	0.2	11.6	7.4	51
Total - Australia	22.4	6.7	(6.2)	0.5	10.5	(1.0)	32.4	23.4	45
Total - New Zealand	1.4	0.4	(0.4)	0.0	0.0	0.0	1.4	1.5	0
Total - FUM	23.8	7.1	(6.6)	0.5	10.5	(1.0)	33.8	24.9	42

*Note: Retail FUM will not reconcile to ASSIRT*

<sup>1</sup> Rothschild funds under management have been included in the movement table at acquisition date. All sales and redemption's post acquisition have been recorded under their respective headings.

## Year End Profit Announcement 2002

### 9.3 LIFE INSURANCE RISK BUSINESS (EXCLUDES GENERAL INSURANCE)

The life insurance risk business result has been determined on a Margin on Service (MoS) basis.

\$m	30 Sept 2002	Year to 30 Sept 2001	%
			Mov't
Income	155	116	34
Commissions	(39)	(36)	(8)
Net income	116	80	45
Total expenses	(43)	(39)	(10)
Operating profit before tax	73	41	78
Income tax expense	(20)	(8)	large
Operating profit after tax	53	33	61
Operating profit after tax is earned in the following areas:			
Australia	36	24	50
New Zealand	17	9	89
Total	53	33	61
Expense / net income	37.1%	48.8%	

*New Zealand operating profit has been converted to AUD using average exchange rates*

#### Sources of operating profit – Australia

\$m	30 Sept 2002	30 Sept 2001	%
			Mov't
Margin on service profit after income tax is represented by:			
Planned profit margin	24	17	41
Experience variation	12	7	71
Operating profit after tax	36	24	50

#### Financial Performance

The life insurance and risk business contributed \$53 million to the wealth management operations. This represents an increase of 61% or \$20 million over the previous year. The New Zealand operations results improved 89% to \$17 million.

The growth in income net of commissions by 45% or \$36 million reflects the continued increase in in-force premiums on the back of improved sales (up 36% over

the prior year), lower redemption rates and positive claims experience.

Despite the increase in business volumes, our cost containment program held expense increases to only \$4 million over the previous year.

#### Movements in in-force premium for risk business

\$m	In-force Sept 2001	Sales	Lapses	Net Inflows	Other movem't	In-force Sept 2002	In-force March 2002	% Mov't Sept 01 to Sep 02
Total - Australia	130.6	58.1	(23.2)	34.9	4.2	169.7	148.1	30
Total - New Zealand	27.3	6.4	(4.4)	2.0	0.0	29.3	28.3	7
Total in-force premiums	157.9	64.5	(27.6)	36.9	4.2	199.0	176.4	26

## Year End Profit Announcement 2002

### 9.4 OTHER BUSINESS

Other business includes earnings on capital and other investments, and the management of assets for and provision of custody and settlement services to external institutions including external superannuation funds and fund managers.

\$m	30 Sept 2002	Year to 30 Sept 2001	% Mov't
Income	(30)	47	<i>large</i>
Other expenses	(14)	(22)	36
Operating profit before tax	(44)	25	<i>large</i>
Income tax expense	10	(9)	<i>large</i>
Operating profit / (loss) after tax	(34)	16	<i>large</i>

### Financial Performance

Included in these results are a number of one-off items that do not represent the business as usual operations within wealth management:

- \$28 million profit on sale of property management rights in 2001;
- \$16 million write down of investments to market value in 2002; and
- \$5 million profit on sale of the remaining investment in Investa Property Group in 2002.

Adjusting for these items, a \$23 million operating loss was generated in 2002 compared to a \$12 million operating loss in the prior year. The movement between years reflects the increase in internal capital charges associated with the acquisition of Rothschild.

### 9.5 EMBEDDED VALUE AND VALUE OF NEW BUSINESS

The following table sets out the embedded value and value of new business for the Australian funds management and life insurance risk businesses, excluding discount broking. Embedded value represents the value of adjusted net assets plus the present value of expected future distributable profits from in-force business. The value of new business represents the present value of expected future distributable profits from business written in the twelve months to 30 September, 2002.

\$m	Year to 30 Sept 2002
Net Assets	404
Value of in force business	1,209
Embedded value	<u>1,613</u>
Value of new business	115

The embedded value and value of new business has been calculated using assumptions consistent with the best estimate assumptions used in calculating Margin on Services policy liabilities at 30 September 2002. The risk discount rate used was the yield on 10-year government bonds plus a margin of 5.5%. Franking credits have been valued at 70% of face value.

## Year End Profit Announcement 2002

### 10 TRADING DERIVATIVES

#### Trading Derivatives Outstandings

As at 30 September 2002 \$bn	Notional amount <sup>1</sup>	Regulatory credit equivalent <sup>2</sup>	Positive mark- to-market (replacement cost) <sup>3</sup>	Negative mark-to- market <sup>4</sup>
<b>Interest rate</b>				
Futures	28.7	-	-	-
Forwards	24.7	-	-	-
Swaps	235.3	5.4	4.3	4.0
Purchased options	13.0	0.1	0.1	-
Sold options	7.4	-	-	0.1
<b>Foreign exchange</b>				
Forwards	259.0	6.1	3.4	3.6
Swaps	53.6	5.7	3.6	3.4
Purchased options	38.4	1.2	1.0	-
Sold options	34.9	-	-	0.5
<b>Commodities</b>				
	1.0	0.2	-	-
<b>Equities</b>				
	1.5	0.1	-	-
<b>Gross derivatives</b>	<b>697.5</b>	<b>18.8</b>	<b>12.4</b>	<b>11.6</b>
<b>Less: netting benefit</b>	<b>-</b>	<b>(6.5)</b>	<b>(3.3)</b>	<b>(3.2)</b>
<b>Net derivatives</b>	<b>697.5</b>	<b>12.3</b>	<b>9.1</b>	<b>8.4</b>
<b>As at 31 March 2002</b>	<b>669.8</b>	<b>12.4</b>	<b>6.4</b>	<b>5.5</b>
<b>As at 30 September 2001</b>	<b>631.8</b>	<b>11.9</b>	<b>8.5</b>	<b>5.0</b>

The table above incorporates the impact of closeout netting. This covers derivative contracts where legally enforceable netting agreements are in place with our counterparties.

#### Maturity Profile of Trading Derivatives Outstandings in Replacement Cost Terms

As at 30 September 2002 \$bn	Less than 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	Total
<b>Interest rate</b>							
Swaps	0.2	-	0.1	0.5	1.4	2.1	4.3
Purchased options	-	-	-	-	-	0.1	0.1
<b>Foreign exchange</b>							
Forwards	1.7	0.5	0.4	0.4	0.3	0.1	3.4
Swaps	0.1	-	1.6	1.4	0.3	0.2	3.6
Purchased options	0.5	0.1	0.2	0.1	0.1	-	1.0
<b>Total derivatives</b>	<b>2.5</b>	<b>0.6</b>	<b>2.3</b>	<b>2.4</b>	<b>2.1</b>	<b>2.5</b>	<b>12.4</b>

1 Notional amount refers to the face value or the amount upon which cash flows are calculated.

2 Regulatory credit equivalent is calculated using Australian Prudential Regulation Authority guidelines for capital adequacy requirements.

3 Positive mark-to-market or replacement cost is the cost of replacing all transactions in a gain position. This measure is the industry standard for the calculation of current credit risk.

4 Negative mark-to-market represents the cost to our counterparties of replacing all transactions in a loss position.

## Year End Profit Announcement 2002

### Daily Earnings at Risk

We use earnings at risk as the primary method for measuring and monitoring market risk exposure against Board approved limits. The main types of market risk arising from our trading activities are interest rate and foreign exchange risks. Other market risks include commodity, equity, prepayment, specific issuer and capital markets underwriting risks. The table below depicts the aggregate financial markets (including capital markets underwriting) earnings at risk for the last three half years.

\$M	High	Low	Average
Six months ended 30 September 2002	10.0	3.1	5.1
Six months ended 31 March 2002	8.1	3.0	4.6
Six months ended 30 September 2001	8.7	2.0	3.5

### Average Earnings at Risk by Risk Type

The following table depicts the average earnings at risk by risk types for the last three half years.

\$M	Average for the 6 months ended 30 September 2002	Average for the 6 months ended 31 March 2002	Average for the 6 months ended 30 September 2001
Interest rate risk	3.3	2.7	2.3
Foreign exchange risk	1.0	0.8	0.7
Volatility risk	0.5	0.6	0.6
Other market risk <sup>1</sup>	2.5	2.9	1.8
Diversification benefit	(2.2)	(2.4)	(1.8)
<b>Aggregate market risk</b>	<b>5.1</b>	<b>4.6</b>	<b>3.6</b>

### 11 CREDIT RATINGS<sup>2</sup>

Rating agency	Long term	Short term
Fitch IBCA	AA-	F1+
Moody's Investor Services	Aa3	P-1
Standard & Poor's	AA-	A-1+

### 12 EXCHANGE RATES

Six months to/as at Currency	30 September 2002		31 March 2002		30 September 2001	
	Average	Spot	Average	Spot	Average	Spot
USD	0.5324	0.5438	0.5150	0.5313	0.5074	0.4923
GBP	0.3621	0.3476	0.3588	0.3725	0.3470	0.3344
NZD	1.2775	1.1587	1.2256	1.2097	1.2090	1.2093

<sup>1</sup> Commodity, equity, prepayment, specific issuer, capital markets underwriting.

<sup>2</sup> As at October 2002. No changes from prior period.

## Year End Profit Announcement 2002

### 13 CHANGES IN ACCOUNTING POLICIES

#### Earnings per share

Revised Accounting Standard AASB 1027: Earnings Per Share has been applied for the year ended 30 September 2002. The standard introduces changes to the method of calculating diluted earnings per share. In previous years, diluted earnings per share included notional earnings related to dilutive options had they been exercised. This is not a requirement of the revised standard as the determination of the weighted average number of shares has been revised to include only potential ordinary shares assumed to have been issued for no consideration.

These changes have not had a material impact on earnings per share. Comparatives, where applicable have been restated to present the comparative amounts on a consistent basis with the current period.

#### Wealth Management Acquisition costs

In prior years, the Group expensed acquisition costs associated with its life insurance and funds management activities as incurred. These costs were generally incurred by a controlled entity of the life company, and hence were reported on a market value basis in accordance with AASB 1038. The accounting treatment for acquisition costs did not impact the reported results of the Group's wealth management business in a market value accounting environment.

During September 2002, the Group's wealth management business was restructured. The restructure included transferring ownership of the controlled entity of the life company to a non-life company and accordingly, into an accrual accounting environment (at 30 September 2002, the Group's life company does not have an investment in any controlled entities). As a consequence, the Group changed its accounting policy in respect of acquisition expenses, such that acquisition expenses for profitable business are deferred and amortised over a period not exceeding the expected duration of the relevant product and policy. In an accrual accounting environment, the deferral and amortisation of wealth management acquisition costs provides more relevant information about the financial performance of the underlying business. Accordingly, effective 1 October 2001 the Group recognised an asset of \$119 million in the statement of financial position, representing life insurance and funds management acquisition costs which

### 14 DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This announcement contains forward-looking statements, within the meaning of the United States Private Securities Litigation Reform Act of 1995, with respect to us, including our business operations and strategy and financial performance and condition. These statements appear under the headings 'review of group results', as well as elsewhere in this announcement. Forward-looking statements can generally be identified by the use of forward-looking words such as 'may', 'will', 'expect', 'intend', 'plan', 'estimate', 'anticipate', 'believe' or 'continue', or other similar words. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are, however, subject to risks, uncertainties and assumptions that could cause actual results to differ materially from our expectations described in such forward-looking statements.

were previously expensed. Had this policy always been applied, deferred acquisition costs of \$71 million and \$48 million would have been recognised as an asset in the years ended 30 September 2001 and 30 September 2000, respectively.

#### Superannuation

Effective 1 October 2001, the Group changed its accounting policy in respect of superannuation to adopt the principles of IAS 19. The Group's previous superannuation accounting policy was based on the principles of UK accounting standard, SSAP 24: Accounting for Pension Costs. The policy was changed after a new standard was released in the UK to replace SSAP 24. Consistent with the requirements of AASB 1001: Accounting Policies and in anticipation of the international harmonisation of Australia's accounting standards by 2005, the Group has adopted the principles of IAS 19.

The impact of the change in superannuation accounting policy was to write-down the related asset and recognise a charge of \$221 million before tax (\$160 million after tax) in the 2002 statement of financial performance. Comparatives have not been restated as it is not practical to do so.

#### Capitalised expenses

Start-up costs in relation to the outsourcing of technology operations and mortgage processing activities have previously been capitalised and amortised over a period not exceeding the life of the outsourcing contracts. Effective 1 October 2001, the accounting policy for outsourcing start-up costs was changed so that such costs are now expensed as incurred. The new policy was adopted to provide greater transparency of the Group's cost base and greater reliability in measuring the Group's financial position.

On 1 October 2001, the net carrying amount of capitalised start-up costs of \$44 million, was expensed in the statement of financial performance. During the year a further \$92 million has been expensed relating to current year start-up costs. Had this new accounting policy always been applied, additional start-up costs of \$44 million and nil would have been recognised in the years ended 30 September 2001 and 2000, respectively.

The factors that could cause this to occur include, among other things, the following:

- unanticipated changes in customer preferences;
- demographic changes;
- changes in competitive conditions in any of the major markets in which we operate;
- changes in the regulatory environment in any of the major markets in which we operate;
- changes in political, social and economic conditions in any of the major markets in which we operate;
- legislative proposals for reform of the financial services industry in any of the major markets in which we operate; and
- various other factors beyond our control.

We are under no duty to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, after the date of this announcement.

## Year End Profit Announcement 2002

### 15 RECONCILIATION TO US GAAP

Our operating profit and shareholders' equity adjusted to comply with United States generally accepted accounting principles (US GAAP) are:

Twelve months to \$m	30 Sept 2002	30 Sept 2001	30 Sept 2002	30 Sept 2001
	US\$ <sup>1</sup>	US\$ <sup>1</sup>	A\$	A\$
<b>Net profit as reported</b>	1,190	941	2,192	1,903
Premises and sites	8	27	15	54
Amortisation of goodwill	-	(8)	1	(17)
Superannuation (pension) expense adjustment	149	21	274	42
Related income tax expense	(45)	(6)	(83)	(12)
Wealth management adjustment	67	(46)	124	(93)
Related income tax (expense)/credit	(13)	10	(24)	21
Write-down of available-for-sale securities <sup>2</sup>	81	(74)	149	(149)
Employee share option compensation <sup>4</sup>	(9)	(3)	(17)	(7)
TOPrS distribution	(26)	(25)	(48)	(51)
Start up cost adjustment	13	3	24	6
Related income tax expense	(4)	(1)	(7)	(2)
Other non-financial assets <sup>3</sup>	(21)	-	(39)	-
Related income tax expense	(10)	-	(19)	-
Software capitalisation adjustment	(6)	(2)	(11)	(4)
Related income tax credit	2	1	3	1
Effect of initial application of SFAS 133	-	(43)	-	(86)
Related income tax credit	-	13	-	29
Derivative instruments (under SFAS 133)	(7)	97	(13)	196
Related income tax expense	2	(31)	4	(62)
Difference in carrying value of controlled entity sold	4	-	7	-
Restructuring costs	36	-	67	-
Related income tax expense	(11)	-	(20)	-
<b>Adjusted US GAAP net profit</b>	<b>1,400</b>	<b>874</b>	<b>2,579</b>	<b>1,769</b>
<b>Other comprehensive income</b>				
Foreign currency translation reserve	(41)	37	(76)	74
Unrealised net gain/(loss) on available-for-sale securities	(57)	-	(104)	(1)
Reclassification adjustment for (gains)/losses now included in net income	-	31	-	63
<b>Total other comprehensive income</b>	<b>(98)</b>	<b>68</b>	<b>(180)</b>	<b>136</b>
<b>Total comprehensive income according to US GAAP</b>	<b>1,302</b>	<b>942</b>	<b>2,399</b>	<b>1,905</b>
<b>Equity as reported</b>	<b>5,674</b>	<b>4,793</b>	<b>10,451</b>	<b>9,691</b>
Premises and sites	(39)	(43)	(72)	(87)
Goodwill	(6)	(6)	(12)	(13)
Superannuation (pension) asset	77	(28)	141	(57)
Wealth management assets (net of tax)	(22)	(69)	(40)	(140)
Available-for-sale securities	(57)	(74)	(105)	(150)
Final dividend provided	353	285	651	577
TOPrS	(252)	(230)	(465)	(465)
Start up costs	-	(8)	-	(17)
Other non-financial assets <sup>3</sup>	(31)	-	(58)	-
Capitalised software	(9)	(4)	(16)	(8)
Derivative instruments (under SFAS 133)	37	38	68	77
Restructuring costs	25	-	47	-
<b>Adjusted US GAAP equity</b>	<b>5,750</b>	<b>4,654</b>	<b>10,590</b>	<b>9,408</b>

There is no material difference between the level of assets at 30 September 2002 as reported and the level of assets determined in accordance with US GAAP.

- 1 Australian dollars amounts have been translated into United States dollars solely for the convenience of the reader at the rate of A\$1.00 = 0.5429, the noon buying rate for cable transfers on 30 September 2002, as published by the Federal Reserve Bank of New York.
- 2 Under Australian GAAP a write-down of \$149 million has been taken in the current year against the carrying value of certain high yield investment securities, following a change in holding intention from hold-to-maturity to available-for-sale. Under US GAAP this write-down was recognised in 2001 and the current year US GAAP adjustment to net profit reflects the reversal of this write-down.
- 3 Under Australian GAAP, the gain on sale of certain other non-financial assets has been recognised as income. Under US GAAP the sale of these non-financial assets have been accounted for in a manner consistent with the principles of a sale and leaseback transaction as prescribed by Statement of Financial Accounting Standards (SFAS) No.13 'Accounting For Leases'.
- 4 Under US GAAP, Westpac has adopted the fair value method of accounting under US accounting standard SFAS No. 123, 'Accounting for Stock-Based Compensation' in the year ended 30 September 2002. The fair value of options issued during the year under the Senior Officers' Share Purchase Scheme (SOSPS), General Management Share Option Plan (GMSOP) and Chief Executive Share Option Agreement has been measured and a charge to the profit and loss for employee share compensation expense of \$17 million is included in the year ended 30 September 2002.

## Year End Profit Announcement 2002

### 16 SHAREHOLDER CALENDAR

Westpac ordinary shares are listed on the Stock Exchanges in Australia, New Zealand, New York and Tokyo.

Important dates for shareholders to note over the following months are:

Ex-dividend date	27 November 2002	
Record date for Final dividend (Sydney)	27 November 2002	5.00pm (Sydney time)
Record date for Final dividend (New York) <sup>1</sup>	26 November 2002	5.00pm (New York time)
Record date for Final dividend (Tokyo) <sup>2</sup>	27 November 2002	3.00pm (Tokyo time) <sup>3</sup>
Record date for Final dividend (New Zealand) <sup>4</sup>	29 November 2002	5.00pm (New Zealand time)
Dividend payment date	20 December 2002	

<sup>1</sup> Dividends will be converted to local currency at the rate ruling on the date of payment of dividend.

<sup>2</sup> Dividend will be converted to local currency at the rate ruling on date of receipt of the funds by the paying and share handling agent.

<sup>3</sup> For shares registered in the books of Tokyo Stock Exchange Members' securities companies.

<sup>4</sup> Dividends payable to shareholders on the New Zealand register will be converted to local currency at the ruling buying rate for telegraphic transfers at 11.00am on 20 December 2002.

#### Share Registries:

Australia  
Computershare Investor Services  
Pty Limited  
Level 3, 60 Carrington Street  
Sydney NSW 2000

New York  
JP Morgan Chase Bank  
One Chase Manhattan Plaza  
40<sup>th</sup> Floor  
New York NY 10081 USA

Tokyo  
The Mitsubishi Trust & Banking Corporation  
1-7-7, Nishi-Ikebukuro  
Toshima-Ku  
Tokyo, 171  
Japan.

New Zealand  
Computershare Investor Services Pty Ltd  
Level 2, 159 Hurtsmere Road  
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Group Secretary and General Counsel

31 October 2002

## Year End Profit Announcement 2002

### 17 BUSINESS UNIT HALF YEARLY ANALYSIS

\$m	Six months to:			
	30 Sept 02	30 March 02	30 Sept 01	30 March 01
Australian Business and Consumer Banking	550	496	438	405
<i>Consumer Distribution</i>	113	106	81	69
<i>Business &amp; Regional Banking Distribution</i>	181	156	149	132
<i>Consumer Products</i>	198	165	148	152
<i>Business Products</i>	58	69	60	52
Wealth Management Australia	39	68	53	79
<i>Funds Management</i>	54	51	49	43
<i>Life Insurance Business</i>	21	15	12	12
<i>Other Wealth Management</i>	(36)	2	(8)	24
Westpac Institutional Bank	154	127	213	161
New Zealand	154	103	141	130
<i>New Zealand Retail</i>	144	93	135	122
<i>New Zealand Funds Management</i>	1	2	2	3
<i>New Zealand Life Insurance Risk Business</i>	9	8	4	5
Corporate Centre & Group Items	83	131	42	40
<b>Total ongoing businesses profit on operations</b>	<b>980</b>	<b>925</b>	<b>887</b>	<b>815</b>
AGC Australia	8	85	66	77
AGC New Zealand	5	8	5	4
<b>Underlying business profit on operations</b>	<b>993</b>	<b>1,018</b>	<b>958</b>	<b>896</b>
Significant Items <sup>1</sup>	181	-	21	28
<b>Total reported profit on operations</b>	<b>1,174</b>	<b>1,018</b>	<b>979</b>	<b>924</b>

## Year End Profit Announcement 2002

### 18 RECONCILIATION OF REPORTED RESULTS

#### 18.1 FULL YEAR RECONCILIATION

\$m	twelve months to: 30 Sept. 2002					twelve months to: 30 Sept. 2001				
	Reported results	Individually significant items	Underlying Business	AGC <sup>1</sup>	Ongoing business	Reported results	Accounting change	Underlying Business	AGC	Ongoing business
Interest income(incl.gross up)	9,359	-	9,359	713	8,646	10,407	-	10,407	1,105	9,302
Interest expense	(5,074)	-	(5,074)	(397)	(4,677)	(6,207)	-	(6,207)	(615)	(5,592)
Net interest income(incl. gross up)	4,285	-	4,285	316	3,969	4,200	-	4,200	490	3,710
Total non-interest income	2,978	460	2,518	49	2,469	2,537	63	2,474	59	2,415
Net operating income(incl. gross up)	7,263	460	6,803	365	6,438	6,737	63	6,674	549	6,125
Operating expenses										
Salaries and other staff expenses	(1,829)	(221)	(1,608)	(39)	(1,569)	(1,744)	-	(1,744)	(59)	(1,685)
Equipment and occupancy expenses	(589)	-	(589)	(18)	(571)	(648)	-	(648)	(33)	(615)
Other expenses	(1,477)	(222)	(1,255)	(37)	(1,218)	(1,080)	-	(1,080)	(51)	(1,029)
Total operating expenses (excl amortisation of goodwill)	(3,895)	(443)	(3,452)	(94)	(3,358)	(3,472)	-	(3,472)	(143)	(3,329)
Amortisation of goodwill	(100)	-	(100)	-	(100)	(98)	-	(98)	-	(98)
Operating profit before bad & doubtful debts (incl gross up)	3,268	17	3,251	271	2,980	3,167	63	3,104	406	2,698
Bad and doubtful debts	(461)	-	(461)	(101)	(360)	(433)	-	(433)	(158)	(275)
Profit from ordinary activities before income tax (incl. gross up)	2,807	17	2,790	170	2,620	2,734	63	2,671	248	2,423
Fully tax equivalent gross up	(139)	-	(139)	-	(139)	(149)	-	(149)	-	(149)
Profit before income tax	2,668	17	2,651	170	2,481	2,585	63	2,522	248	2,274
Income tax expense	(471)	164	(635)	(64)	(571)	(677)	(14)	(663)	(96)	(567)
Net profit attributable to outside equity interests	(5)	-	(5)	-	(5)	(5)	-	(5)	-	(5)
<b>Net profit attributable to equity holders</b>	<b>2,192</b>	<b>181</b>	<b>2,011</b>	<b>106</b>	<b>1,905</b>	<b>1,903</b>	<b>49</b>	<b>1,854</b>	<b>152</b>	<b>1,702</b>
Net profit attributable to equity holders	2,192	181	2,011	106	1,905	1,903	49	1,854	152	1,702
Goodwill	100	-	100	-	100	98	-	98	-	98
Distributions on other equity instruments	(48)	-	(48)	-	(48)	(51)	-	(51)	-	(51)
<b>Cash earnings</b>	<b>2,244</b>	<b>181</b>	<b>2,063</b>	<b>106</b>	<b>1,957</b>	<b>1,950</b>	<b>49</b>	<b>1,901</b>	<b>152</b>	<b>1,749</b>
<b>Cash earnings (cents) per ordinary share</b>	<b>123.8</b>		<b>113.9</b>		<b>108.0</b>	<b>108.3</b>		<b>105.6</b>		<b>97.1</b>

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

## Year End Profit Announcement 2002

### 18.2 HALF YEAR RECONCILIATION

6 months to:	30 Sept. 2002					31 March. 2002				
	Reported results	Individually significant items	Underlying Business	AGC	Ongoing business	Reported results	Accounting change	Underlying Business	AGC	Ongoing business
\$										
Interest income (incl. gross up)	4,688	-	4,688	178	4,510	4,671	-	4,671	535	4,136
Interest expense	(2,563)	-	(2,563)	(105)	(2,458)	(2,511)	-	(2,511)	(292)	(2,219)
Net interest income (incl. gross up)	2,125	-	2,125	73	2,052	2,160	-	2,160	243	1,917
Total non-interest income	1,616	460	1,156	12	1,144	1,362	-	1,362	37	1,325
Net operating income (incl. gross up)	3,741	460	3,281	85	3,196	3,522	-	3,522	280	3,242
Operating expenses										
Salaries and other staff expenses	(1,006)	(221)	(785)	(10)	(775)	(823)	-	(823)	(29)	(794)
Equipment and occupancy expenses	(298)	-	(298)	(5)	(293)	(291)	-	(291)	(13)	(278)
Other expenses	(852)	(222)	(630)	(10)	(620)	(625)	-	(625)	(27)	(598)
Operating expenses (excl. goodwill)	(2,156)	(443)	(1,713)	(25)	(1,688)	(1,739)	-	(1,739)	(69)	(1,670)
Amortisation of goodwill	(51)	-	(51)	-	(51)	(49)	-	(49)	-	(49)
Operating profit before bad debts	1,534	17	1,517	60	1,457	1,734	-	1,734	211	1,523
Bad and doubtful debts	(190)	-	(190)	(31)	(159)	(271)	-	(271)	(70)	(201)
Profit from ordinary activities before income tax (incl. gross up)	1,344	17	1,327	29	1,298	1,463	-	1,463	141	1,322
Fully tax equivalent gross up	(72)	-	(72)	-	(72)	(67)	-	(67)	-	(67)
Profit before income tax	1,272	17	1,255	29	1,226	1,396	-	1,396	141	1,255
Income tax expense	(95)	164	(259)	(16)	(243)	(376)	-	(376)	(48)	(328)
Net profit attributable to outside equity interests	(3)	-	(3)	-	(3)	(2)	-	(2)	-	(2)
<b>Net profit</b>	<b>1,174</b>	<b>181</b>	<b>993</b>	<b>13</b>	<b>980</b>	<b>1,018</b>	<b>-</b>	<b>1,018</b>	<b>93</b>	<b>925</b>
Net profit attributable to equity holders	1,174	181	993	13	980	1,018	-	1,018	93	925
Goodwill	51	-	51	-	51	49	-	49	-	49
Distributions on other equity instruments	(23)	-	(23)	-	(23)	(25)	-	(25)	-	(25)
Cash earnings	1,202	181	1,021	13	1,008	1,042	-	1,042	93	949
<b>Cash earnings(cents) per ordinary share</b>	<b>66.3</b>		<b>56.3</b>		<b>55.6</b>	<b>57.5</b>		<b>57.5</b>		<b>52.4</b>

## Year End Profit Announcement 2002

### 18.2 HALF YEAR RECONCILIATION CONT'D

6 months to:	30 Sept. 2001					31 March. 2001				
	Reported results	Accounting change	Underlying Business	AGC	Ongoing business	Reported results	Accounting change	Underlying Business	AGC	Ongoing business
\$										
Interest income (incl. gross up)	5,035	-	5,035	559	4,476	5,372	-	5,372	546	4,826
Interest expense	(2,867)	-	(2,867)	(306)	(2,561)	(3,340)	-	(3,340)	(309)	(3,031)
Net interest income (incl. gross up)	2,168	-	2,168	253	1,915	2,032	-	2,032	237	1,795
Total non-interest income	1,288	27	1,261	32	1,229	1,249	36	1,213	27	1,186
Net operating income (incl. gross up)	<u>3,456</u>	<u>27</u>	<u>3,429</u>	<u>285</u>	<u>3,144</u>	<u>3,281</u>	<u>36</u>	<u>3,245</u>	<u>264</u>	<u>2,981</u>
Operating expenses										
Salaries and other staff expenses	(856)	-	(856)	(30)	(826)	(888)	-	(888)	(29)	(859)
Equipment and occupancy expenses	(333)	-	(333)	(17)	(316)	(315)	-	(315)	(16)	(299)
Other expenses	(569)	-	(569)	(26)	(543)	(511)	-	(511)	(25)	(486)
Operating expenses (excl. goodwill)	<u>(1,758)</u>	<u>-</u>	<u>(1,758)</u>	<u>(73)</u>	<u>(1,685)</u>	<u>(1,714)</u>	<u>-</u>	<u>(1,714)</u>	<u>(70)</u>	<u>(1,644)</u>
Amortisation of goodwill	(49)	-	(49)	-	(49)	(49)	-	(49)	-	(49)
Operating profit before bad debts	1,649	27	1,622	212	1,410	1,518	36	1,482	194	1,288
Bad and doubtful debts	<u>(257)</u>	<u>-</u>	<u>(257)</u>	<u>(95)</u>	<u>(162)</u>	<u>(176)</u>	<u>-</u>	<u>(176)</u>	<u>(63)</u>	<u>(113)</u>
Profit from ordinary activities before income tax (incl. gross up)	1,392	-	1,392	117	1,275	1,342	-	1,342	131	1,211
Fully tax equivalent gross up	(78)	-	(78)	-	(78)	(71)	-	(71)	-	(71)
Profit before income tax	1,314	27	1,287	117	1,170	1,271	36	1,235	131	1,104
Income tax expense	(332)	(6)	(326)	(46)	(280)	(345)	(8)	(337)	(50)	(287)
Net profit attributable to outside equity	<u>(3)</u>	<u>-</u>	<u>(3)</u>	<u>-</u>	<u>(3)</u>	<u>(2)</u>	<u>-</u>	<u>(2)</u>	<u>-</u>	<u>(2)</u>
<b>Net profit</b>	<u><b>979</b></u>	<u><b>21</b></u>	<u><b>958</b></u>	<u><b>71</b></u>	<u><b>887</b></u>	<u><b>924</b></u>	<u><b>28</b></u>	<u><b>896</b></u>	<u><b>81</b></u>	<u><b>815</b></u>
Net profit attributable to equity holders	979	21	958	71	887	924	28	896	81	815
Goodwill	49	-	49	-	49	49	-	49	-	49
Distributions on other equity instruments	<u>(26)</u>	<u>-</u>	<u>(26)</u>	<u>-</u>	<u>(26)</u>	<u>(25)</u>	<u>-</u>	<u>(25)</u>	<u>-</u>	<u>(25)</u>
Cash earnings	<u><b>1002</b></u>	<u><b>21</b></u>	<u><b>981</b></u>	<u><b>71</b></u>	<u><b>910</b></u>	<u><b>948</b></u>	<u><b>28</b></u>	<u><b>920</b></u>	<u><b>81</b></u>	<u><b>839</b></u>
<b>Cash earnings(cents) per ordinary share</b>	<u><b>55.6</b></u>		<u><b>54.5</b></u>		<u><b>50.5</b></u>	<u><b>52.5</b></u>		<u><b>51.0</b></u>		<u><b>46.5</b></u>

# Appendix 4B

## Preliminary final report

Name of entity

Westpac Banking Corporation

ABN	Half yearly (tick)	Preliminary final (tick)	Half year/financial year ended ('current period')
33 007 457 141	<input type="checkbox"/>	<input checked="" type="checkbox"/>	30 September 2002

### For announcement to the market

Extracts from this report for announcement to the market (see note 1).  
millions

\$A

Revenues from ordinary activities ( <i>item 1.1</i> )	Up	8.8%	to	\$15,280
Profit (loss) from ordinary activities after tax (before amortisation of goodwill) attributable to equity holders ( <i>item 1.20</i> )	Up	14.5%	to	\$2,292
Profit (loss) from ordinary activities after tax attributable to equity holders ( <i>item 1.23</i> )	Up	15.2%	to	\$2,192
Profit (loss) from extraordinary items after tax attributable to equity holders ( <i>item 2.5(d)</i> )		-		-
Net profit (loss) for the period attributable to equity holders ( <i>item 1.11</i> )	Up	15.2%	to	\$2,192
<b>Dividends (distributions)</b>		Amount per security		Franked amount per security
Final dividend ( <i>Preliminary final report only - item 15.6</i> )		36¢		36¢
Previous corresponding period ( <i>Preliminary final report - item 15.7</i> )		32¢		32¢
Record date for determining entitlements to the dividend, (in the case of a trust, distribution) ( <i>see item 15.2</i> )	<div style="border: 1px solid black; padding: 5px; display: inline-block;">                     27 November 2002 (Sydney)                      26 November 2002 (New York)                      29 November 2002 (NZ Class Shares)                 </div>			
Brief explanation of omission of directional and percentage changes to profit in accordance with Note 1 and short details of any bonus or cash issue or other item(s) of importance not previously released to the market:				
See full year profit announcement				

## Consolidated statement of financial performance

	Current period \$A millions	Previous corresponding period \$A millions
1.1 Revenues from ordinary activities (comprises interest income and non-interest income)	15,280	14,050
1.2 Expenses from ordinary activities	(7,538)	(5,258)
1.3 Borrowing costs (interest expense)	(5,074)	(6,207)
1.4 Share of net profit of associates and joint venture entities ( <i>see item 16.7</i> )	-	-
<b>1.5 Profit from ordinary activities before tax</b>	<b>2,668</b>	<b>2,585</b>
1.6 Income tax on ordinary activities ( <i>see Attachment</i> )	(471)	(677)
<b>1.7 Profit from ordinary activities after tax</b>	<b>2,197</b>	<b>1,908</b>
1.8 Profit from extraordinary items after tax ( <i>see item 2.5</i> )	-	-
<b>1.9 Net profit</b>	<b>2,197</b>	<b>1,908</b>
1.10 Net profit attributable to outside equity interests	(5)	(5)
<b>1.11 Net profit for the period attributable to equity holders</b>	<b>2,192</b>	<b>1,903</b>

## Non-owner transactions changes in equity

NON OWNER TRANSACTION CHANGES IN EQUITY		
	Current period \$A millions	Previous corresponding period \$A millions
1.12 Increase (decrease) in revaluation reserves	-	-
1.13 Net exchange differences recognised in equity	(76)	74
1.14 Other revenue, expense and initial adjustments recognised directly in equity	-	-
1.16 Initial adjustments from UIG transitional provisions	-	-
<b>1.17 Total changes in equity other than those resulting from transactions with non owners</b>	<b>2,116</b>	<b>1,977</b>

Earnings per security (EPS)		Current period	Previous corresponding period
1.18	Calculation of the following in accordance with AASB 1027: <i>Earnings per Share</i>	118.3¢	102.8¢
1.19	(a) Basic EPS	117.9¢	102.4¢
	(b) Diluted EPS		
	(c) Weighted average number of ordinary shares outstanding during the period used in the calculation of the Basic EPS	1,812 million	1,801 million

**Profit (loss) from ordinary activities attributable to equity holders**

	Current period \$A millions	Previous corresponding period \$A millions
1.2 Profit (loss) from ordinary activities after tax <i>(item 1.7)</i>	2,197	1,908
1.21 Less outside equity interests	(5)	(5)
<b>1.22 Profit (loss) from ordinary activities after tax, attributable to equity holders</b>	<b>2,192</b>	<b>1,903</b>

**Revenue and expenses from ordinary activities**

	Current period \$A millions	Previous corresponding period \$A millions
1.23 Details of revenue and expenses		
Interest income	9,220	10,258
Taxable equivalent gross up	139	149
Interest expense	(5,074)	(6,207)
<b>Net interest income (including gross up)</b>	<b>4,285</b>	<b>4,200</b>
Non-interest income		
Fees and commissions received	2,266	2,090
Fees and commissions paid	(560)	(485)
Revenue from sale of assets	3,594	757
Carrying value of assets sold	(2,760)	(719)
Wealth management revenue	92	575
Life insurance claims and change in policy liabilities	238	(51)
Other non-interest income	108	370
<b>Total non-interest income</b>	<b>2,978</b>	<b>2,537</b>
<b>Net operating income (including gross up)</b>	<b>7,263</b>	<b>6,737</b>
Non-interest expenses		
Salaries and other staff expenses	(1,829)	(1,744)
Equipment and occupancy expenses	(589)	(648)
Other expenses	(1,577)	(1,178)
<b>Total non-interest expenses</b>	<b>(3,995)</b>	<b>(3,570)</b>
<b>Operating profit before bad and doubtful debts (including gross up)</b>	<b>3,268</b>	<b>3,167</b>
Bad and doubtful debts	(461)	(433)
Taxable equivalent gross up	(139)	(149)
<b>Profit from ordinary activities before income tax expense</b>	<b>2,668</b>	<b>2,585</b>
Income tax expense	(471)	(677)
<b>Net profit</b>	<b>2,197</b>	<b>1,908</b>
Net profit attributable to outside equity interests	(5)	(5)
<b>Net profit attributable to equity holders of Westpac Banking Corporation</b>	<b>2,192</b>	<b>1,903</b>

**Consolidated retained profits**

	Current period \$A millions	Previous corresponding period \$A millions
1.3 Retained profits at the beginning of the financial period	4,174	3,435
1.31 Net profit (loss) attributable to equity holders ( <i>item 1.11</i> )	2,192	1,903
1.32 Net transfers to and from reserves	878	(7)
1.33 Net effect of changes in accounting policies	-	-
1.34 Dividends and other equity distributions paid or payable	(1,266)	(1,106)
1.35 Distributions on other equity instruments	(48)	(51)
<b>1.36 Retained profits at end of financial period</b>	<b>5,930</b>	<b>4,174</b>

**Intangible and extraordinary items**

	Consolidated - Current period			
	Before tax \$A millions	Related tax \$A millions	Related outside equity interests \$A millions	Amount (after tax) attributable to equity holders \$A millions
2.1 Amortisation of goodwill	(100)	-	-	(100)
2.2 Amortisation of other intangibles	-	-	-	-
<b>2.3 Total amortisation of intangibles</b>	<b>(100)</b>	<b>-</b>	<b>-</b>	<b>(100)</b>
2.4 Extraordinary items	-	-	-	-
<b>2.5 Total extraordinary items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Comparison of half year profits**

(Preliminary final report only)

	Current year - \$A millions	Previous year - \$A millions
3.1 Consolidated profit (loss) from ordinary activities after tax attributable to members reported for the <i>1st</i> half year (item 1.23 in the half yearly report)	1,018	924
3.2 Consolidated profit (loss) from ordinary activities after tax attributable to members for the <i>2nd</i> half year	1,174	979

**Consolidated statement of financial position**

	At end of current period \$A millions	As shown in last annual report \$A millions	As in last half yearly statement \$A millions
<b>Assets</b>			
Cash and balances with central banks	1,669	1,079	2,127
Due from other financial institutions	5,242	5,094	5,937
Trading securities	10,643	10,629	10,014
Investment securities	3,313	2,960	2,751
Loans	135,870	122,250	133,282
Acceptances of customers	4,788	15,700	4,793
Life insurance assets	7,566	7,352	7,843
Regulatory deposits with central banks overseas	455	482	452
Goodwill	1,754	1,501	1,449
Fixed assets	815	1,034	931
Deferred tax assets	587	441	446
Other assets	18,335	21,323	16,167
<b>Total assets</b>	<b>191,037</b>	<b>189,845</b>	<b>186,192</b>
<b>Liabilities</b>			
Due to other financial institutions	4,731	5,954	6,867
Deposits and public borrowings	110,763	96,157	109,292
Debt issues	27,575	27,989	24,856
Acceptances	4,788	15,700	4,793
Tax liabilities	617	706	658
Life insurance policy liabilities	7,163	7,123	7,538
Provisions	1,093	1,038	1,002
Other liabilities	19,327	20,635	16,418
<b>Total liabilities excluding loan capital</b>	<b>176,057</b>	<b>175,302</b>	<b>171,424</b>
Subordinated bonds, notes and debentures	3,795	4,045	3,846
Subordinated perpetual notes	717	793	734
<b>Total loan capital</b>	<b>4,512</b>	<b>4,838</b>	<b>4,580</b>
<b>Total liabilities</b>	<b>180,569</b>	<b>180,140</b>	<b>176,004</b>
<b>Net assets</b>	<b>10,468</b>	<b>9,705</b>	<b>10,188</b>
<b>Equity</b>			
Share capital	3,974	2,233	2,246
Trust originated preferred securities (TOPrS <sup>SM</sup> )	465	465	465
Reserves	82	2,819	2,915
Retained profits	5,930	4,174	4,546
<b>Equity attributable to equity holders of the parent entity</b>	<b>10,451</b>	<b>9,691</b>	<b>10,172</b>
Outside equity interests in controlled entities	17	14	16
<b>Total equity</b>	<b>10,468</b>	<b>9,705</b>	<b>10,188</b>

## Notes to the condensed consolidated statement of financial position

### Exploration and evaluation expenditure capitalised

	Current period \$A millions	Previous corresponding period - \$A millions
5.1 Opening balance		
5.2 Expenditure incurred during current period		
5.3 Expenditure written off during current period		
5.4 Acquisitions, disposals, revaluation increments, etc.		
5.5 Expenditure transferred to Development Properties		
<b>5.6 Closing balance as shown in the consolidated balance sheet (item 4.11)</b>	N/A	N/A

### Development properties

	Current period \$A millions	Previous corresponding period - \$A millions
6.1 Opening balance		
6.2 Expenditure incurred during current period		
6.3 Expenditure transferred from exploration and evaluation		
6.4 Expenditure written off during current period		
6.5 Acquisitions, disposals, revaluation increments, etc.		
6.6 Expenditure transferred to mine properties		
<b>6.7 Closing balance as shown in the consolidated balance sheet (item 4.12)</b>	N/A	N/A

**Consolidated statement of cash flows**

	Current period \$A millions	Previous corresponding period \$A millions
<b>Cash flows from operating activities</b>		
Interest received	9,130	10,080
Interest paid	(5,269)	(6,461)
Dividends received	27	51
Other non-interest income received	3,711	3,367
Operating expenses paid	(3,291)	(3,330)
Net increase in trading securities	(791)	(143)
Income taxes paid	(699)	(527)
Life insurance:		
receipts from policyholders and customers	2,531	2,427
interest and other items of similar nature	58	138
dividends received	323	362
payments to policyholders and suppliers	(1,961)	(2,249)
income tax paid	(3)	(64)
<b>Net cash provided by operating activities</b>	<b>3,766</b>	<b>3,651</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investment securities	492	508
Proceeds from matured investment securities	335	139
Purchase of investment securities	(1,873)	(866)
Proceeds from securitised loans	2,472	202
Net (increase)/decrease in:		
due from other financial institutions	(212)	(1,598)
loans	(25,501)	(13,304)
life insurance assets	(316)	134
regulatory deposits with central banks overseas	(19)	193
other assets	(967)	186
Purchase of fixed assets	(284)	(299)
Proceeds from disposal of fixed assets	262	171
Proceeds from disposal of other investments	246	-
Controlled entities acquired, net of cash acquired	(328)	5
Controlled entities and businesses disposed, net of cash held	2,136	44
<b>Net cash used in investing activities</b>	<b>(23,557)</b>	<b>(14,485)</b>

**Appendix 4B**  
**Preliminary final report**

**Consolidated statement of cash flows (continued)**

	Current period \$A millions	Previous corresponding period \$A millions
<b>Cash flows from financing activities</b>		
Issue of loan capital	-	350
Redemption of loan capital	-	(813)
Proceeds from issue of shares	91	110
Proceeds from issue of New Zealand Class shares (net of issue costs of 2001 Nil, 2000 \$16m)	-	203
Buy-back of shares	(408)	(753)
Net increase/(decrease) in:		
due to other financial institutions	(949)	1,799
deposits and public borrowings	20,095	3,553
debt issues	2,495	7,007
other liabilities	46	447
Payment of distributions and dividends	(977)	(836)
Payment of dividends to outside equity interests	(2)	(1)
<b>Cash provided by financing activities</b>	<b>20,391</b>	<b>11,066</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>600</b>	<b>232</b>
Effect of exchange rate changes on cash and cash equivalents	(10)	11
Cash and cash equivalents at beginning of the financial year	1,079	836
<b>Cash and cash equivalents at end of financial year</b>	<b>1,669</b>	<b>1,079</b>

**Non-cash financing and investing activities**

N/A
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**Reconciliation of cash**

Reconciliation of cash at the end of the period (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current period \$A millions	Previous corresponding period - \$A millions
8.1 Cash on hand and at bank	1,669	1,079
8.2 Deposits at call		
8.3 Bank overdraft		
8.4 Other (provide details)		
<b>8.5 Total cash at end of period (item 7.27)</b>	<b>1,669</b>	<b>1,079</b>

<b>Ratios</b>	Current period	Previous corresponding period
<b>Profit before tax / revenue</b> 9.1 Consolidated profit (loss) from ordinary activities before tax ( <i>item 1.5</i> ) as a percentage of revenue ( <i>item 1.1</i> )	17.5%	18.4%
<b>Profit after tax / +equity interests</b> 9.2 Consolidated net profit (loss) from ordinary activities after tax attributable to members ( <i>item 1.9</i> ) as a percentage of equity (similarly attributable) at the end of the period ( <i>item 4.33</i> )	21.0%	19.6%

**Earnings per security (EPS)**

10 Details of basic and diluted EPS reported separately in accordance with paragraph 9 and 18 of AASB 1027: Earnings Per Share

See note 1.18 and 1.19

<b>NTA backing</b> ( <i>see note 7</i> )	Current period	Previous corresponding Period
11.1 Net tangible asset backing per ordinary security	\$4.56	\$4.28

**Discontinuing Operations**

12.1 Discontinuing operations

N/A

**Control gained over entities having material effect**

13.1 Name of entity (or group of entities)

13.2 Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the entity (or group of entities) since the date in the current period on which control was acquired

13.3 Date from which such profit has been calculated

13.4 Profit (loss) from ordinary activities and extraordinary items after tax of the entity (or group of entities) for the whole of the previous corresponding period

	N/A
	\$ N/A
	N/A
	\$ N/A

## Loss of control of entities having material effect

See profit announcement and note 38 to the financial statements for details of sale of AGC.

## Dividends

15.1 Date the dividend is payable

20 December 2002

15.2 Record date to determine entitlements to the dividend (ie, on the basis of proper instruments of transfer received by 5.00 pm if securities are not CHESSE approved, or security holding balances established by 5.00 pm or such later time permitted by the SCH Business Rules if securities are CHESSE approved)

27 November 2002  
(Sydney)

26 November 2002  
(New York)

29 November 2002  
(NZ Class Shares)

15.3 If it is a final dividend, has it been declared?  
(Preliminary final report only)

Yes

## Amount per security

		Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend (NZ Class Shares)
15.4	<i>(Preliminary final report only)</i> <b>Final dividend:</b> Current year	36¢	36¢	36¢
15.5	Previous year	32¢	32¢	32¢
15.6	<i>(Half yearly and preliminary final reports)</i> <b>Interim dividend:</b> Current year	34¢	34¢	34¢
15.7	Previous year	30¢	30¢	30¢

## Total dividend (distribution) per security (interim plus final)

(Preliminary final report only)

15.8 Ordinary securities

70¢

Previous year

62¢

15.9 Preference securities

US 206.64¢

US 194.63¢

**Preliminary final report- final dividend on all**

	Current period \$A millions	Previous corresponding period - \$A millions
15.10 Ordinary securities(includes NZ Class Shares)	1,266	1,113
15.11 Preference securities	48	51
15.12 Under/(over) provision from previous period	-	(7)
<b>15.13 Total</b>	<b>1,314</b>	<b>1,157</b>

The dividend or distribution plans shown below are in operation.

Dividend Reinvestment Plan is available to holders of fully paid ordinary shares who are resident in, or whose address on the register of shareholders is in, Australia or New Zealand (excluding NZ Class Shares).

The last date(s) for receipt of election notices for the dividend or distribution plans

5pm 27 November 2002

Any other disclosures in relation to dividends (distributions)

N/A

**Details of aggregate share of profits (losses) of associates and joint venture entities**

	Current period \$A millions	Previous corresponding period - \$A millions
16.1 Profit (loss) from ordinary activities before income tax	N/A	N/A
16.2 Income tax on ordinary activities	N/A	N/A
<b>16.3 Profit (loss) from ordinary activities after income tax</b>	N/A	N/A
16.4 Extraordinary items net of tax	N/A	N/A
<b>16.5 Net profit (loss)</b>	N/A	N/A
16.6 Outside equity interests	N/A	N/A
<b>16.7 Net profit (loss) attributable to members</b>	N/A	N/A

**Material interests in entities which are not controlled entities**

*The economic entity has an interest (that is material to it) in the following entities. If the interest was acquired or disposed of during either the current or previous corresponding period, indicate date of acquisition (“from xx/xx/xx”) or disposal (“to xx/xx/xx”).*

<i>Name of entity</i>	Percentage of ownership interest held at end of period or date of disposal		Contribution to net profit (loss) (item 1.9)	
	Current period	Previous corresponding period	Current period - \$A millions	Previous corresponding period- \$A millions
<b>17.1 Equity accounted associates and joint venture entities</b>				
<b>17.2 Total</b>	N/A	N/A	N/A	N/A
17.3 Other material interests				
<b>17.4 Total</b>	N/A	N/A	N/A	N/A

### Issued and quoted securities at end of current period

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

Category of securities	Total number millions	Number quoted millions	Issue price per security) cents	Amount paid up per security cents
<b>18.1 Preference securities</b> Trust originated preferred securities (TOPrS <sup>sm</sup> ) of US\$25 each fully paid with non-cumulative quarterly distributions in arrears at the annual rate of 8%. The TOPrS convert into 8% non-cumulative preference shares in the parent entity on 16 July 2049 or in the event a distribution is not made or if certain other events occur.	13	-	US\$25.00	US\$25.00
18.2 Changes during current period (a) Increases through issues (b) Decreases through returns of capital, buybacks, redemptions	-	-		
<b>18.3 Ordinary securities</b> 18.4 Changes during current period (a) Increases through issues During the year \$1 ordinary shares were issued <ul style="list-style-type: none"> <li>• 17,146,447 Dividend Reinvestment Plan;</li> <li>• 8,708,246 under the Senior Officers' Share Purchase Scheme (SOSPS);</li> <li>• 1,034,521 under the General Management Share Option Plan (GMSOP); and</li> <li>• 13,000 in terms of the SOSPS previously paid to \$0.01 were fully paid up.</li> </ul> (b) Decreases through returns of capital, buybacks	1,807	1,807	100	100
	27	27		
	(25)	(25)		
<b>18.5 Convertible debt securities</b> <i>(description and conversion factor)</i>	N/A	N/A		
18.6 Changes during current period (a) Increases through issues (b) Decreases through securities matured, converted	N/A	N/A		

**Appendix 4B**  
**Preliminary final report**

<b>Options</b> ( <i>description and conversion factor</i> )	Number issued millions	Number quoted millions	Exercise price (\$)	Expiry date
Options held by staff under the:	0.90	-	8.60	22-12-02
- General Management Share Option Plan	0.07	-	9.92	02-03-03
- Senior Officers' Share Purchase Scheme	0.04	-	10.50	24-08-03
- Chief Executive Share Option Agreement	2.15	-	9.56	21-12-03
	2.92	-	10.83	01-03-09
	0.05	-	10.85	01-03-09
	0.10	-	10.60	06-04-09
	0.07	-	11.56	10-05-09
	0.25	-	9.99	03-08-09
	0.01	-	10.10	30-08-09
	0.04	-	9.55	05-10-09
	6.60	-	9.53	29-12-09
	1.81	-	9.57	29-12-09
	0.02	-	10.10	24-01-10
	0.03	-	10.42	06-03-10
	0.14	-	10.70	06-03-10
	0.04	-	10.51	03-04-10
	0.10	-	10.75	03-04-10
	0.05	-	10.43	29-05-10
	0.15	-	12.20	04-09-10
	1.15	-	12.39	04-09-10
	6.93	-	13.26	08-01-11
	3.45	-	13.32	08-01-11
	0.05	-	13.54	15-01-11
	0.10	-	13.72	22-01-11
	0.01	-	12.87	05-02-11
	0.05	-	13.61	19-03-11
	0.20	-	13.85	19-03-11
	0.02	-	13.76	02-04-11
	0.04	-	13.85	09-04-11
	0.10	-	13.50	23-04-11
	0.10	-	13.67	23-04-11
	0.07	-	12.35	14-05-11
	0.05	-	12.80	25-06-11
	0.07	-	14.23	07-08-11
	0.20	-	14.37	07-08-11
	0.01	-	12.05	05-11-11
	1.03	-	12.75	05-11-11
	8.60	-	14.65	09-01-12
	4.98	-	14.70	09-01-12
	0.05	-	15.63	18-02-12
	1.10	-	16.71	29-02-12
	0.30	-	15.73	07-03-12
	0.27	-	15.40	29-04-12

<b>Options</b> <i>(continued)</i>	Number issued millions	Number quoted millions	Exercise price (\$)	Expiry date
Options held by staff under the:	0.10	-	16.21	27-05-12
- General Management Share Option Plan	0.02	-	16.15	03-06-12
- Senior Officers' Share Purchase Scheme	0.52	-	16.24	22-07-12
- Chief Executive Share Option Agreement	0.15	-	16.40	22-07-12
	0.10	-	16.21	29-07-12
	0.14	-	16.15	06-08-12
	0.08	-	16.15	12-08-12
18.8 Issued during current period	0.01	-	12.05	05-11-11
- General Management Share Option Plan	1.03	-	12.75	05-11-11
- Senior Officers' Share Purchase Scheme	9.02	-	14.65	09-01-12
- Chief Executive Share Option Agreement	5.23	-	14.70	09-01-12
	0.05	-	15.63	18-02-12
	1.10	-	16.71	29-02-12
	0.30	-	15.73	07-03-12
	0.27	-	15.40	29-04-12
	0.10	-	16.21	27-05-12
	0.12	-	16.15	03-06-12
	0.15	-	16.40	22-07-12
	0.56	-	16.24	22-07-12
	0.10	-	16.21	29-07-12
	0.14	-	16.15	06-08-12
	0.08	-	16.15	12-08-12
18.9 Exercised during current period	0.83	-	7.10	28-01-02
- General Management Share Option Plan	0.20	-	7.05	07-04-02
- Senior Officers' Share Purchase Scheme	0.10	-	7.05	14-04-02
	0.02	-	7.84	05-08-02
	0.50	-	7.89	29-09-02
	1.71	-	8.60	22-12-02
	0.02	-	9.92	02-03-03
	0.15	-	10.60	18-05-03
	0.03	-	10.61	09-06-03
	0.14	-	10.00	27-07-03
	0.12	-	10.67	10-08-03
	0.04	-	10.50	24-08-03
	0.13	-	10.04	28-08-03
	0.08	-	9.94	14-09-03
	0.02	-	9.30	18-09-03
	3.47	-	9.56	21-12-03
	0.20	-	10.22	04-01-04
	0.11	-	10.63	01-03-09
	0.07	-	10.28	08-03-09
	0.25	-	10.60	06-04-09
	0.10	-	11.45	19-04-09
	0.49	-	9.53	29-12-09
	0.50	-	9.57	29-12-09
	0.01	-	12.39	04-09-10

**Appendix 4B**  
**Preliminary final report**

	Number issued millions	Number quoted millions	Exercise price (\$)	Expiry date
<b>Options (continued)</b>				
18.9 Exercised during current period	0.23	-	13.26	08-01-11
- General Management Share Option Plan	0.15	-	13.32	08-01-11
- Senior Officers' Share Purchase Scheme	0.04	-	14.70	09-01-12
	0.01	-	13.50	23-04-11
	0.06	-	14.65	09-01-12
18.10 Expired during current period	0.17	-	7.10	28-01-02
- General Management Share Option Plan	0.14	-	8.60	22-12-02
- Senior Officers' Share Purchase Scheme	0.29	-	9.56	21-12-03
	0.002	-	10.63	01-03-09
	0.08	-	10.83	01-03-09
	0.002	-	10.28	08-03-09
	0.01	-	10.85	01-03-09
	0.01	-	10.60	06-04-09
	0.004	-	11.45	19-04-09
	0.05	-	11.56	10-05-09
	0.39	-	9.57	29-12-09
	0.25	-	9.53	29-12-09
	0.06	-	10.31	20-01-10
	0.02	-	10.42	06-03-10
	0.02	-	10.43	29-05-10
	0.01	-	12.39	04-09-10
	0.07	-	12.20	04-09-10
	0.02	-	12.72	09-10-10
	0.83	-	13.32	08-01-11
	0.45	-	13.26	08-01-11
	0.05	-	13.71	26-03-11
	0.01	-	13.76	02-04-11
	0.04	-	13.50	23-04-11
	0.02	-	12.54	25-06-11
	0.34	-	14.65	09-01-12
	0.21	-	14.70	09-01-12
	0.10	-	16.15	03-06-12
	0.04	-	16.24	22-07-12
18.11 Debentures (totals only)	N/A	N/A		
18.12 Unsecured notes (totals only)	N/A	N/A		

**Segment reporting – See attached**

(Information on the business and geographical segments of the entity must be reported for the current period in accordance with *AASB 1005: Segment Reporting* and for half year reports, *AASB 1029 Interim Financial Reporting*. Because entities employ different structures a pro forma cannot be provided. Segment information in the layout employed in the entity's <sup>+</sup>accounts should be reported separately and attached to this report.)

**Comments by directors**

See accompanying current full year profit announcement

**Basis of accounts preparation**

Material factors affecting the revenues and expenses of the economic entity for the current period

See full year profit announcement

A description of each event since the end of the current period which has had a material effect and is not related to matters already reported, with financial effect quantified (if possible)

The first two tranches of the tax consolidation legislation became substantively enacted on 21 October 2002 when the New Business Tax System (Consolidation, Value Shifting, Demergers and Other Measures) Bill 2002 was passed by the Senate. The financial effect of the legislation has not been recognised in this financial report in accordance with UIG 39 Effect of Proposed Tax Consolidation Legislation on Deferred Tax Balances. It is not possible to disclose the financial effect of the legislation as it cannot yet be reliably estimated.

Franking credits available and prospects for paying fully or partly franked dividends for at least the next year

See full year profit announcement

Changes in accounting policies since the last annual report are disclosed as follows.

#### Earnings per share

Revised Accounting Standard AASB 1027: Earnings Per Share has been applied for the year ended 30 September 2002. The standard introduces changes to the method of calculating diluted earnings per share. In previous years, diluted earnings per share included notional earnings related to dilutive options had they been exercised. This is not a requirement of the revised standard as the determination of the weighted average number of shares has been revised to include only potential ordinary shares assumed to have been issued for no consideration.

These changes have not had a material impact on earnings per share. Comparatives, where applicable have been restated to present the comparative amounts on a consistent basis with the current period.

#### Wealth management acquisition costs

In prior years, the Group expensed acquisition costs associated with its life insurance and funds management activities as incurred. These costs were generally incurred by a controlled entity of the life company, and hence were reported on a market value basis in accordance with AASB 1038:Life Insurance Business. The accounting treatment for acquisition costs did not impact the reported results of the Group's wealth management business in a market value accounting environment.

During September 2002, the Group's wealth management business was restructured. The restructure included transferring ownership of the controlled entity of the life company to a non-life company and accordingly, into an accrual accounting environment (at 30 September 2002, the Group's life company does not have an investment in any controlled entities). As a consequence, the Group changed its accounting policy in respect of acquisition expenses, such that acquisition expenses for profitable business are deferred and amortised over a period not exceeding the expected duration of the relevant product or policy sold. In an accrual accounting environment, the deferral and amortisation of wealth management acquisition costs provides more relevant information about the financial performance of the underlying business. Accordingly, effective 1 October 2001 the Group recognised an asset of \$119 million in the statement of financial position, representing life insurance and funds management acquisition costs which were previously expensed. Had this policy always been applied, deferred acquisition costs of \$71 million and \$48 million would have been recognised as an asset in the years ended 30 September 2001 and 30 September 2000, respectively.

#### Superannuation

Effective 1 October 2001, the Group changed its accounting policy in respect of superannuation to adopt the principles of International Accounting Standard: Employee Benefits (IAS 19). The Group's previous

Superannuation (continued)

superannuation accounting policy was based on the principles of UK accounting standard, SSAP 24: Accounting for Pension Costs. The policy was changed after a new standard was released in the UK to replace SSAP 24. Consistent with the requirements of AASB 1001: Accounting Policies and in anticipation of the international harmonisation of Australia's accounting standards by 2005, the Group has adopted the principles of IAS 19.

The impact of the change in superannuation accounting policy was to writedown the related asset and recognise a charge of \$221 million before tax (\$160 million after tax) in the 2002 statement of financial performance. Comparatives have not been restated as it is not practical to do so.

Capitalised expenses

Start-up costs in relation to the outsourcing of technology operations and mortgage processing activities have previously been capitalised and amortised over a period not exceeding the life of the outsourcing contracts. Effective 1 October 2001, the accounting policy for outsourcing start-up costs was changed so that such costs are now expensed as incurred. The new policy was adopted to provide greater transparency of the Group's cost base and greater reliability in measuring the Group's financial position.

On 1 October 2001, the net carrying amount of capitalised start-up costs of \$44 million, was expensed in the statement of financial performance. During the year a further \$92 million has been expensed relating to current year start-up costs. Had this new accounting policy always been applied, an additional start-up cost of \$44 million and nil would have been recognised in the years ended 30 September 2001 and 2000, respectively.

**Additional disclosure for trusts**

19.1 Number of units held by the management company or responsible entity or their related parties.

N/A

19.2 A statement of the fees and commissions payable to the management company or responsible entity.

Identify:

- initial service charges
- management fees
- other fees

N/A

**Annual meeting**

*(Preliminary final report only)*

The annual meeting will be held as follows:

Place

John Batman Theatre,  
Melbourne Convention Centre

Date

Thursday 12 December 2002

Time

1.30pm

Approximate date the annual report will be available

8<sup>th</sup> November 2002



## Compliance statement

1 This report has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 12).

Identify other standards used

N/A
-----

2 This report, and the accounts upon which the report is based (if separate), use the same accounting policies.

3 This report does give a true and fair view of the matters disclosed (see note 2).

4 This report is based on accounts to which one of the following applies.

(Tick one)

The accounts have been audited.

The accounts have been subject to review.

The accounts are in the process of being audited or subject to review.

The accounts have *not* yet been audited or reviewed.

5 If the audit report or review by the auditor is not attached, details of any qualifications are attached/will follow immediately they are available\* (*delete one*). (*Half yearly report only - the audit report or review by the auditor must be attached to this report if this report is to satisfy the requirements of the Corporations Act.*)

6 The entity has a formally constituted audit committee.

Sign here: ..... Date: .....  
(Director/Company Secretary)

Print name: .....

**INCOME TAX NOTE**

	Current period \$A millions	Previous corresponding period \$A millions
<b>Income tax reconciliation</b>		
Operating profit before abnormal items and before income tax	2,668	2,585
Prima facie tax on operating profit based on the company tax rate in Australia of 30% (2001 @ 34%)	800	879
Add/(deduct) reconciling items expressed on a tax effected basis:		
Change in tax rate	-	1
Rebateable and exempt dividends	(127)	(97)
Tax losses not/(now) tax effected	69	(28)
Timing differences not/(now) tax effected	-	1
Life insurance :		
Tax adjustment on policyholders' earnings <sup>1</sup>	(33)	(27)
Adjustment for life business tax rates	(25)	(19)
Change in excess of net market value over net assets of life insurance controlled entity	18	(16)
Gain on sale of controlled entities and businesses	(226)	-
Other non-assessable items	(47)	(30)
Other non-deductible items	44	29
Adjustment for overseas tax rates	19	(17)
Prior period adjustments	(24)	2
Other items	3	(1)
	(329)	(202)
<b>Total income tax expense attributable to operating profit</b>	<b>471</b>	<b>677</b>

1 In accordance with the requirements of AASB 1038: Life Insurance Business, the Group's tax expense includes a credit of \$47 million (2001 credit of \$41 million) in respect of income tax on policyholders' earnings, \$14 million (2001 \$14 million) of which is in the prima facie income tax above and the balance of \$33 million (2001 \$27 million) shown here.

	Current period \$A millions	Previous corresponding period \$A millions
<b>Franking account balance</b>		
Franking account balance at the end of the financial year at 30% (2001 30%)	104	2
Franking credits arising from payment of current income tax payable	<b>466</b>	353
Franking credits utilised for payment of proposed final dividend	<b>(270)</b>	(240)
<b>Adjusted franking account balance at the end of the financial year at 30% (2001 30%)</b>	<b>300</b>	115

Under legislation that will be effective from 1 July 2002, the franking account is to be maintained on an Australian income tax paid basis rather than on Australian taxed profit basis as was previously the case. In accordance with this legislation, the franking account balances as at 30 June 2002 are converted so that the opening balances on 1 July 2002 reflects the Australian income tax paid amounts. Amounts debited to the franking account in respect of dividends paid after 30 June 2002 are the franking credits attaching to those dividends rather than the gross amount of the dividends. The 2002 and 2001 franking account balances disclosed above have been determined on an Australian income tax paid basis.

**Appendix 4B**  
**Preliminary final report**

**ATTACHMENT - REPORTS FOR BUSINESS SEGMENTS**

**Year end**  
**30 September 2002**

	Business and Consumer Banking \$A millions	Wealth Mangement \$A millions	Institutional Banking \$A millions	New Zealand Retail \$A millions	Other \$A millions	<b>Total</b> \$A millions
Revenue from external customers	9,423	62	1,656	2,599	1,540	<b>15,280</b>
Internal revenue	279	37	519	34	(869)	-
<b>Total segment revenue</b>	<b>9,702</b>	<b>99</b>	<b>2,175</b>	<b>2,633</b>	<b>671</b>	<b>15,280</b>
Interest income <sup>1</sup>	6,811	-	1,072	1,273	203	<b>9,359</b>
Interest expense	(3,084)	-	(499)	(629)	(862)	<b>(5,074)</b>
Internal charges <sup>2</sup>	(600)	23	(98)	7	668	-
Net interest income	3,127	23	475	651	9	<b>4,285</b>
Net non-interest income	1,771	360	243	402	202	<b>2,978</b>
Internal charges <sup>2</sup>	123	(200)	33	2	42	-
<b>Total operating income</b>	<b>5,021</b>	<b>183</b>	<b>751</b>	<b>1,055</b>	<b>253</b>	<b>7,263</b>
Depreciation and goodwill amortisation	(73)	(13)	(10)	(75)	(202)	<b>(373)</b>
Other non-cash expenses	(75)	(5)	(11)	(3)	(297)	<b>(391)</b>
Other operating expenses	(1,491)	(226)	(278)	(407)	(829)	<b>(3,231)</b>
Internal charges <sup>2</sup>	(746)	(34)	(84)	(16)	880	-
<b>Total operating expenses</b>	<b>(2,385)</b>	<b>(278)</b>	<b>(383)</b>	<b>(501)</b>	<b>(448)</b>	<b>(3,995)</b>
Bad and doubtful debts	(368)	-	(96)	(51)	54	<b>(461)</b>
Operating profit before income tax	2,268	(95)	272	503	(141)	2,807
Income tax expense <sup>1</sup>	(494)	33	(140)	(140)	131	<b>(610)</b>
Outside equity interest	-	-	-	(1)	(4)	<b>(5)</b>
<b>Net profit<sup>3</sup></b>	<b>1,774</b>	<b>(62)</b>	<b>132</b>	<b>362</b>	<b>(14)</b>	<b>2,192</b>
Total assets	102,164	8,541	49,123	19,944	11,265	<b>191,037</b>
Total liabilities	76,526	7,330	37,358	21,403	37,952	<b>180,569</b>
Acquisition of fixed assets and goodwill	200	333	6	74	1	<b>614</b>

1 Interest income and income tax expense includes tax equivalent gross up of \$139 million.

2 Internal charges are eliminated on consolidation.

3 Includes the net profit on sale of shares in Australian Guarantee Corporation Limited of \$662 million in Business Consumer Banking, and \$92 million in New Zealand Retail for the sale of certain assets of Australian Guarantee Corporation (N.Z.) Limited.

**ATTACHMENT - REPORTS FOR BUSINESS SEGMENTS (Continued)**

**Year end**  
**30 September 2001**

	Business and Consumer Banking \$A millions	Wealth Mangement \$A millions	Institutional Banking \$A millions	New Zealand Retail \$A millions	Other \$A millions	Total \$A millions
Revenue from external customers	7,905	550	2,413	1,931	1,251	<b>14,050</b>
Internal revenue	754	70	726	72	(1,622)	-
<b>Total segment revenue</b>	<b>8,659</b>	<b>620</b>	<b>3,139</b>	<b>2,003</b>	<b>(371)</b>	<b>14,050</b>
Interest income <sup>1</sup>	7,588	-	1,383	1,550	(114)	<b>10,407</b>
Interest expense	(4,135)	-	(653)	(964)	(455)	<b>(6,207)</b>
Internal charges <sup>2</sup>	(362)	20	(208)	61	489	-
Net interest income	3,091	20	522	647	(80)	<b>4,200</b>
Net non-interest income	1,068	519	501	322	127	<b>2,537</b>
Internal charges <sup>2</sup>	54	(144)	10	-	80	-
<b>Total operating income</b>	<b>4,213</b>	<b>395</b>	<b>1,033</b>	<b>969</b>	<b>127</b>	<b>6,737</b>
Depreciation and goodwill amortisation	(95)	(14)	(11)	(71)	(202)	<b>(393)</b>
Other non-cash expenses	(81)	(5)	(12)	(3)	(48)	<b>(149)</b>
Other operating expenses	(1,357)	(103)	(274)	(429)	(865)	<b>(3,028)</b>
Internal charges <sup>2</sup>	(834)	(54)	(101)	(11)	1,000	-
<b>Total operating expenses</b>	<b>(2,367)</b>	<b>(176)</b>	<b>(398)</b>	<b>(514)</b>	<b>(115)</b>	<b>(3,570)</b>
Bad and doubtful debts	(311)	-	(114)	(31)	23	<b>(433)</b>
Operating profit before income tax	1,535	219	521	424	35	<b>2,734</b>
Income tax expense <sup>1</sup>	(549)	(38)	(147)	(144)	52	<b>(826)</b>
Outside equity interest	-	-	-	-	(5)	<b>(5)</b>
<b>Net profit</b>	<b>986</b>	<b>181</b>	<b>374</b>	<b>280</b>	<b>82</b>	<b>1,903</b>
Total assets	98,474	8,491	51,621	18,509	12,750	<b>189,845</b>
Total liabilities	72,883	7,266	39,492	19,301	41,198	<b>180,140</b>
Acquisition of fixed assets and goodwill	107	-	6	48	148	<b>309</b>

1 Interest income and income tax expense includes tax equivalent gross up of \$149 million.

2 Internal charges are eliminated on consolidation.