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Westpac
Australia's First Bank

Financial Settings and Issues

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Chief Financial Officer

13 August 2001

Disclaimer

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The material contained in the following presentation is intended to be general background information on Westpac Banking Corporation and its activities as at 13 August 2001.

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

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Drivers of Medium Term Financial Performance

Medium term outlook

Drivers that will affect our business performance include:

<u>External factors</u>

- **economic growth rates**
- **the credit cycle**

<u>Internal factors</u>

- **investment decisions, and**
- **expense containment**

Economic growth rates

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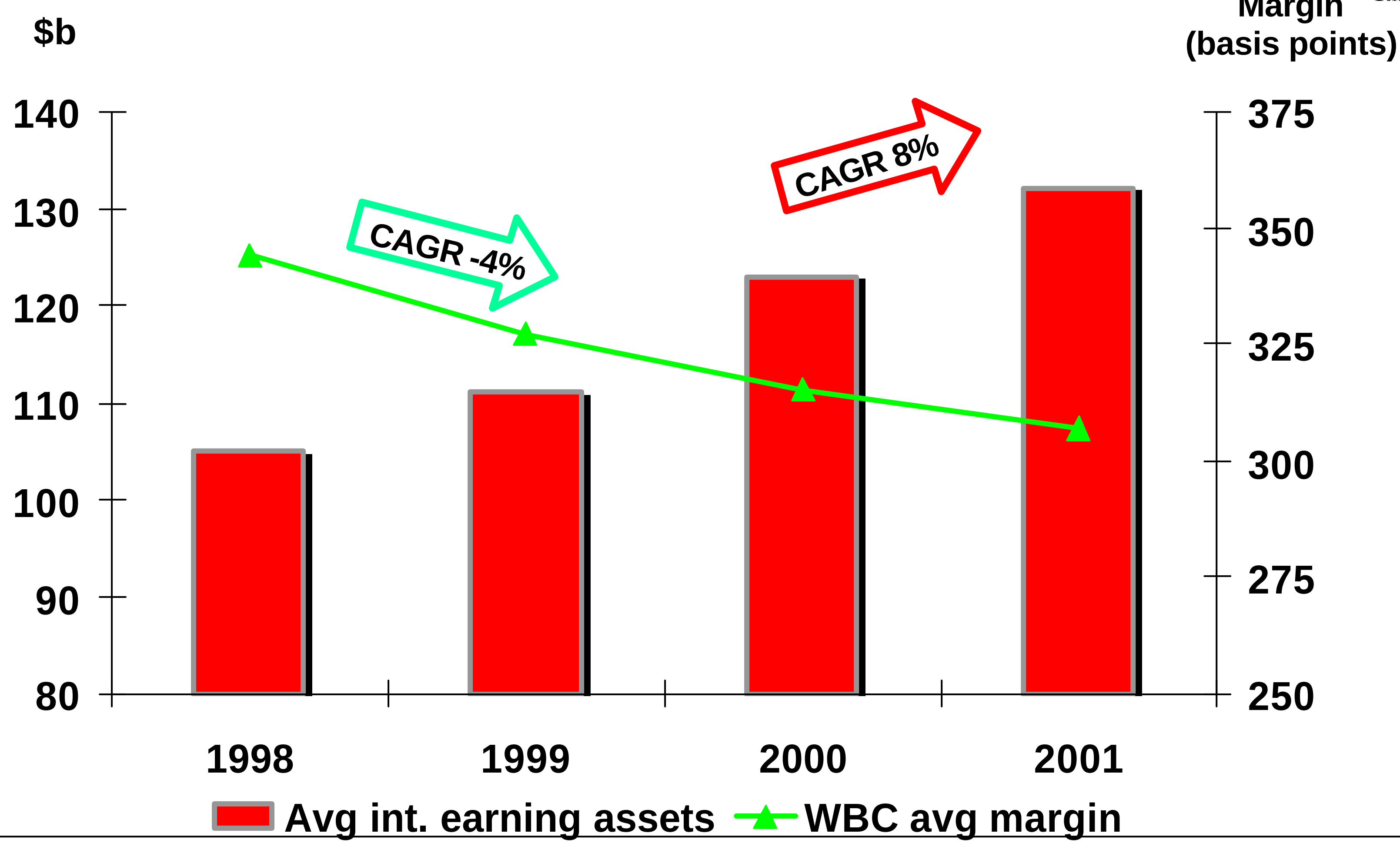
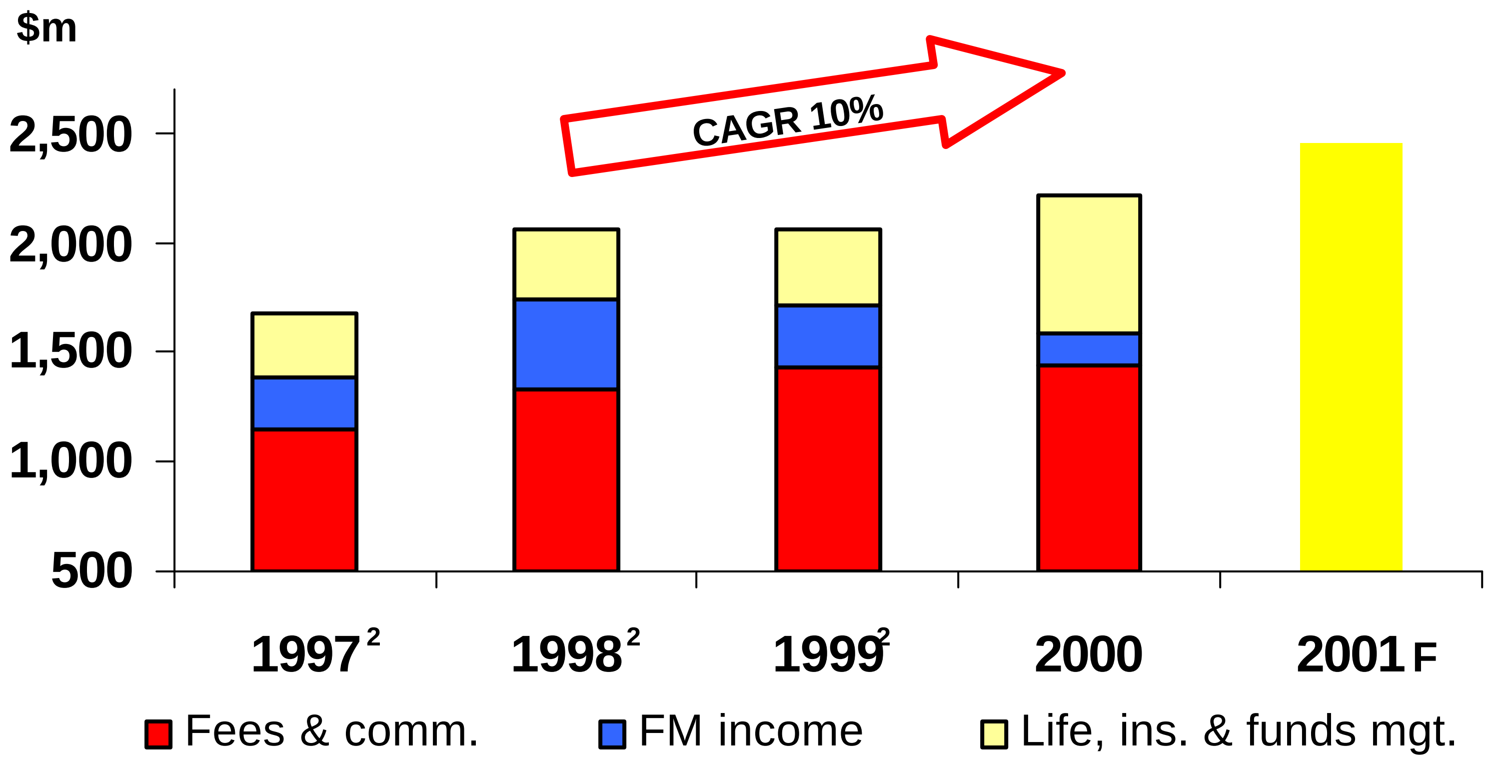
- Over the next 3 - 5 years we expect:
  - economic growth to be 3.5% - 4%; and
  - inflation around 2.5%
- Growth in nominal GDP averaging around 6%
- Credit aggregates likely to grow faster than nominal GDP at around 8-10%, driven by higher business gearing

Lending growth



Historically, lending growth has outstripped margin contraction

Core non-interest income[1]



Since 1997 core non-interest income has grown at around 10%pa. We expect future growth in the order of 8-10%

Notes: **1. Excludes other income including asset sales.**
2. 1997, 1998 & 1999 have been normalised for life company accounting

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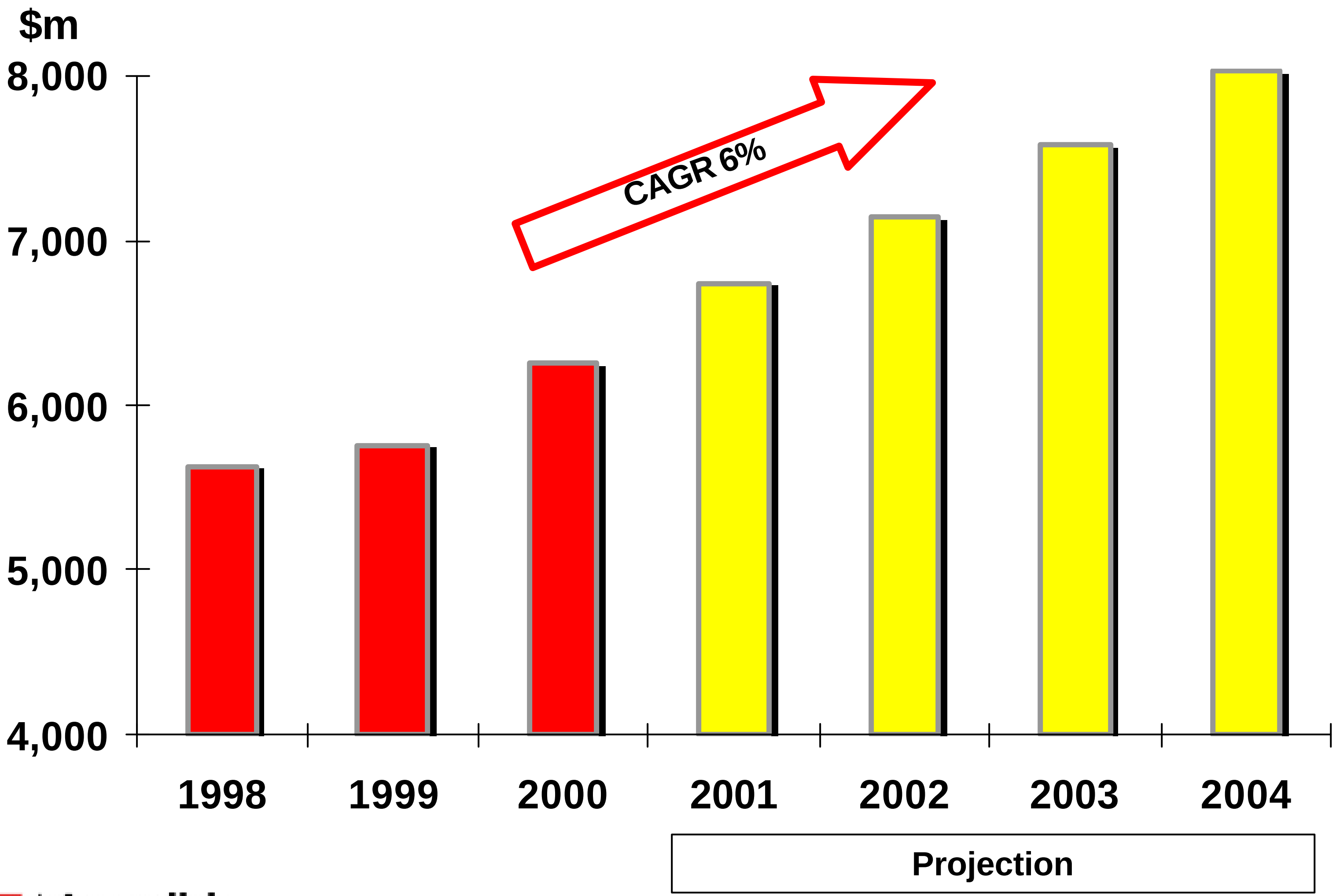
Operating income



Expenses

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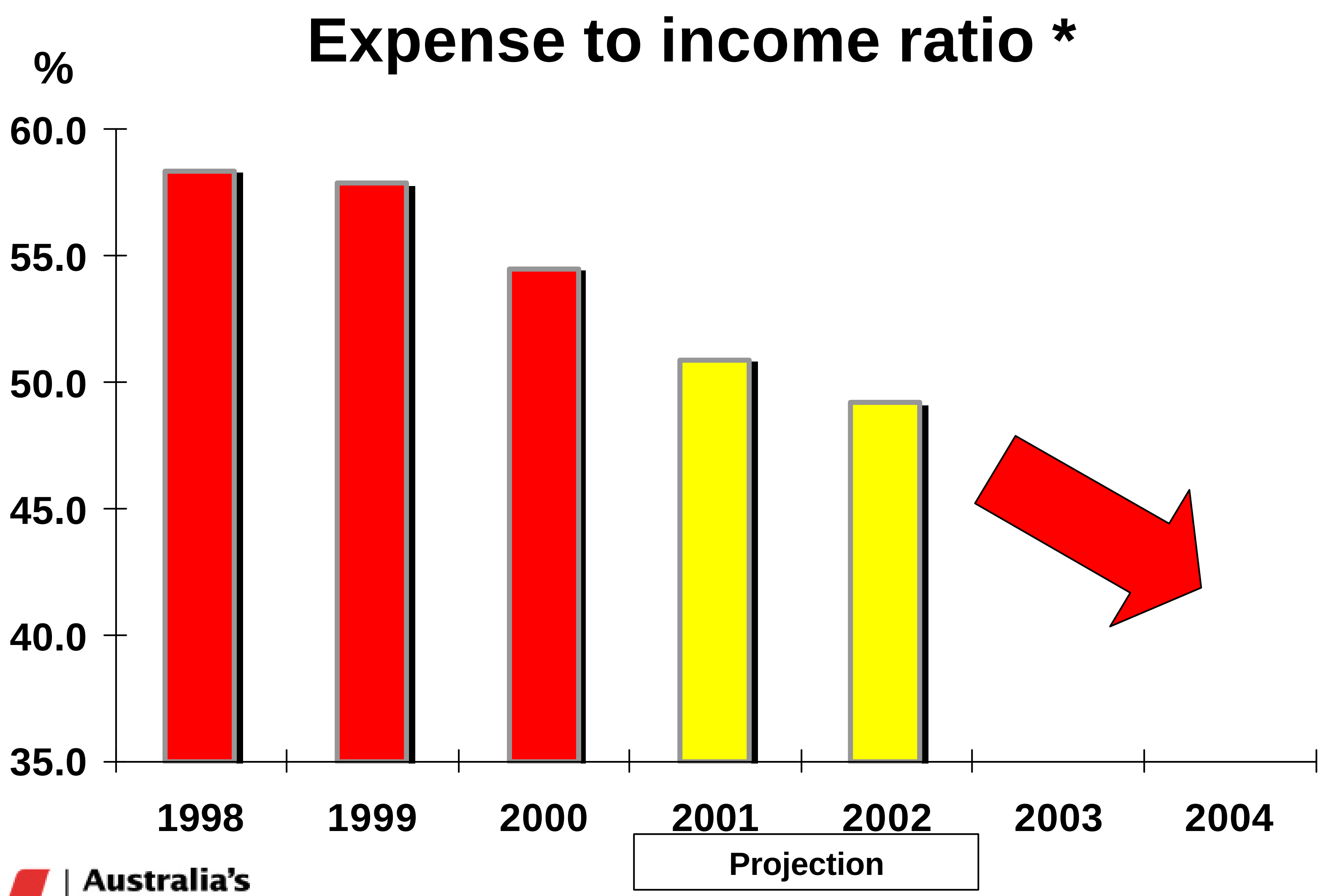
- We seek to keep our core business nominal expenses broadly flat (i.e. 0 - 2% pa)
- Efficiency gains are used to offset price and volume increases in our core businesses
- Expenses may increase marginally with a shift in business composition towards wealth products
- Other factors will include market share gains, acquisitions and divestments

Efficiency improvement



* Excluding goodwill

Underlying performance

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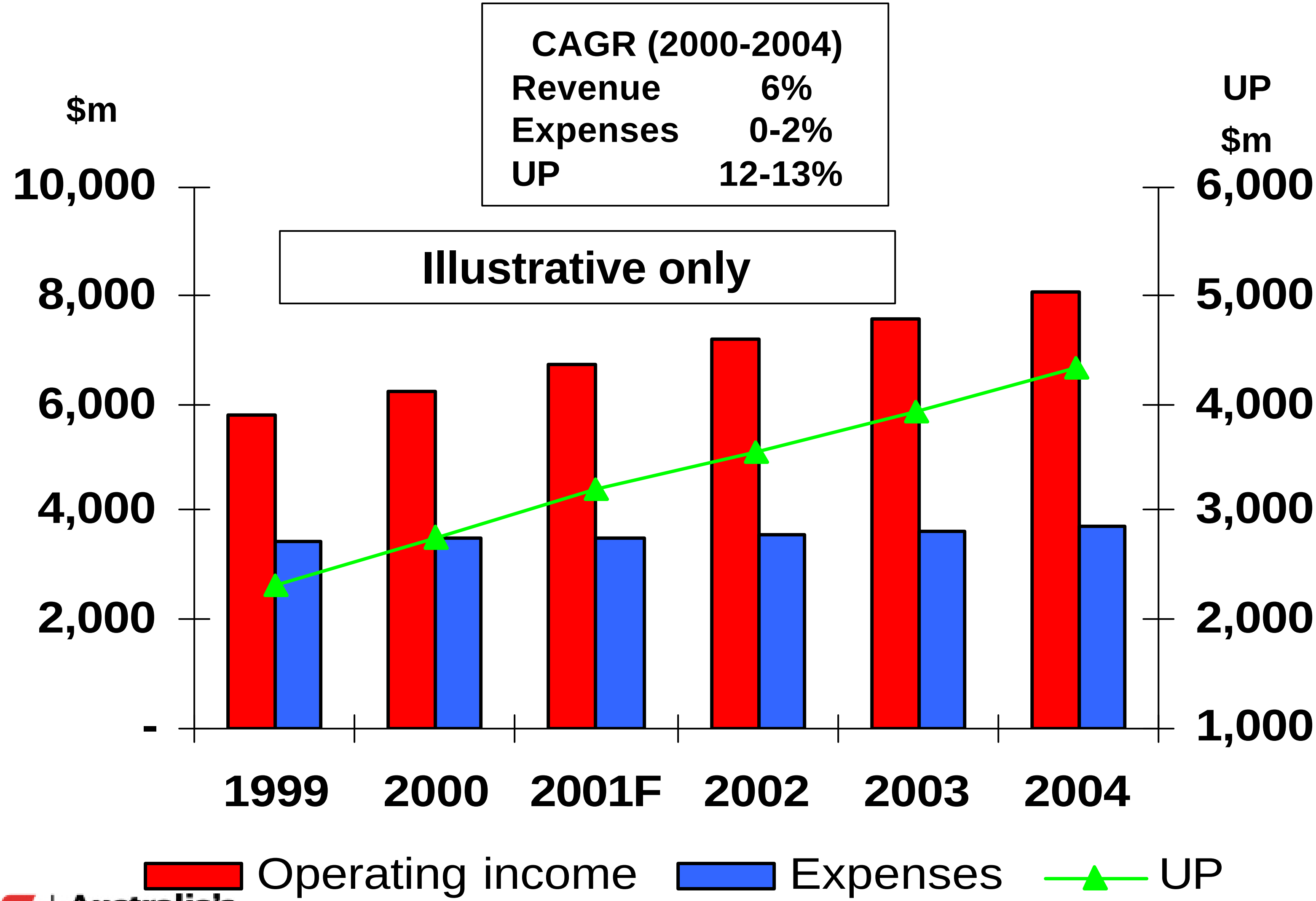

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Bad debts

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- Prudent provisioning policies accelerate recognition of credit issues
- Bad debt cycle to peak in 2001/2002 before returning to 'normal' levels
- Normal levels will be higher than the 1995-2000 levels without major upgrades and recoveries
- Range of 25 - 35 points of interest earning assets is reasonable

Tax

- **In 2002 the Corporate tax rate reduces to 30% from 34%**
- **Not all will flow directly to the tax expense line as offshore tax losses are consumed and tax effective transaction growth is constrained**
- **On average our tax expense should be in the 29 - 31% range over the foreseeable period**

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Capital outlook

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- With a ROE in the range of 20 - 22%, we expect to generate surplus equity
- 60% of earnings to fund the dividend, and
- 15% back from dividend reinvestment
- So retained capital grows at around 12% each year
- Organic growth requires around 8% retention
- Surplus capital generation of around 4% pa

Summary of drivers

Medium Term Outlook

Revenue Growth%	5.5 - 6.5
Expense Growth%	0 - 2
UP Growth%	11-13
Bad Debts bps	25 - 35
Tax Rate	29 - 31%
NPAT Growth%	8 - 13
Surplus Capital	3-4%

Resulting in business growth generating <u>double digit</u> EPS growth without stretching assumptions.

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Opportunities

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- Economic climate better than anticipated
- Basel capital adequacy framework
- Business tax reform, and
- Further market consolidation

Risks

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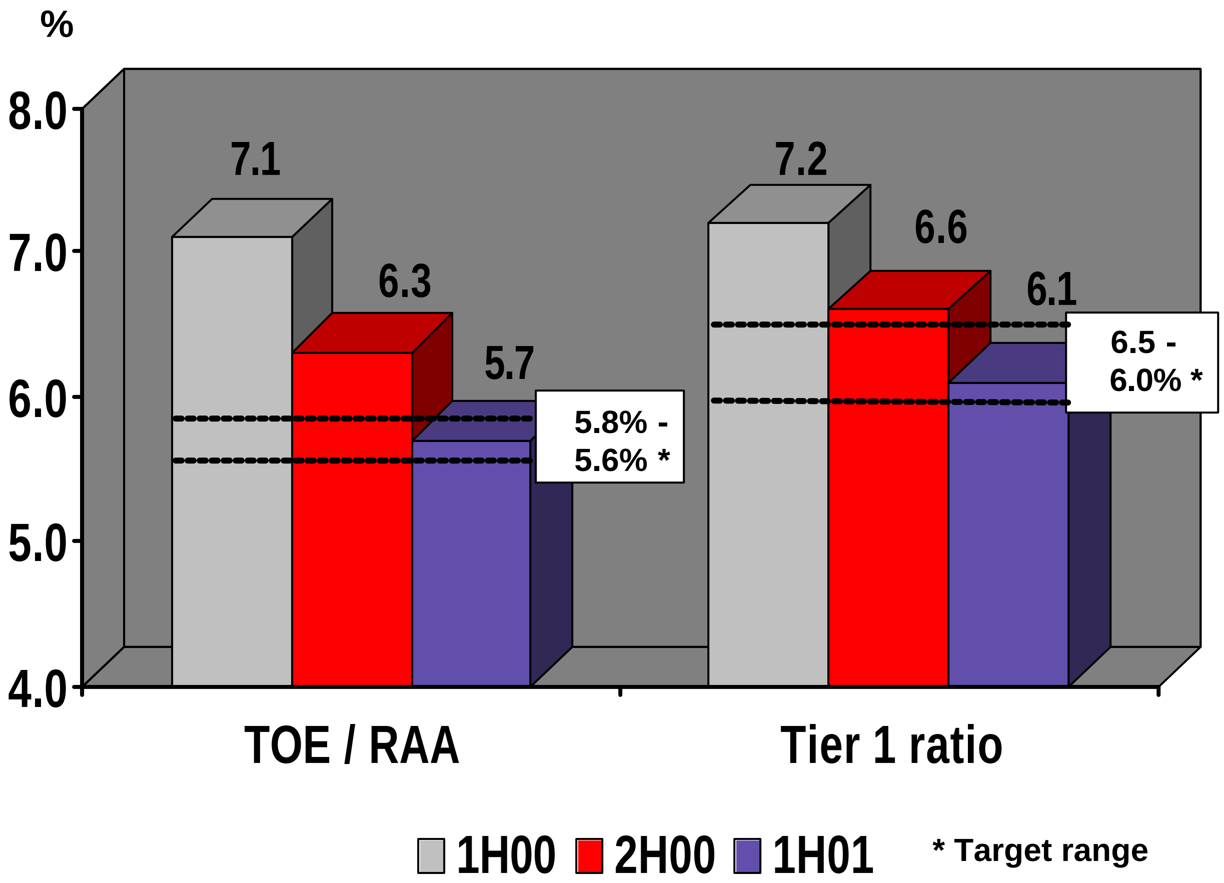
- **Economic growth not as strong as anticipated**
- **Worsening credit cycle**
- **Greater margin compression**
- **Regulatory changes**
- **Changes in business volumes may affect our flat expense objective**

Capital Management

Capital ratios



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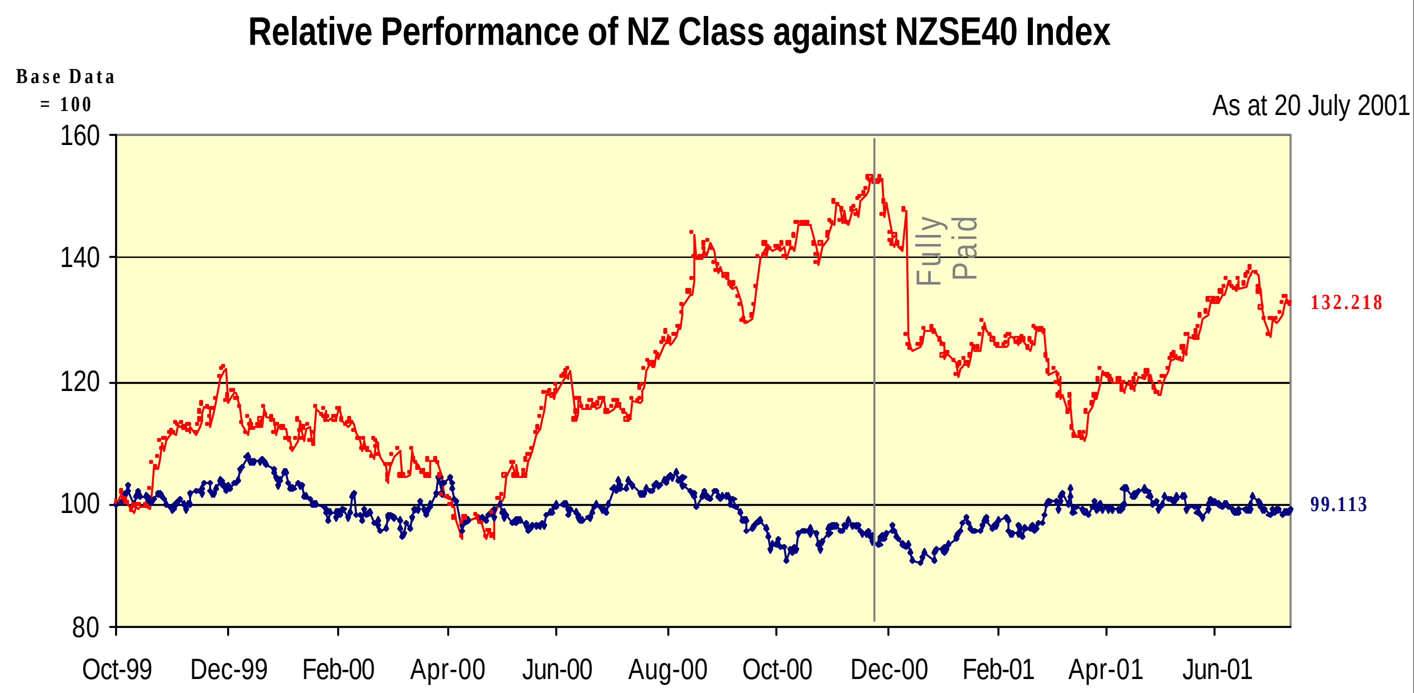
Composition of Tier 1 equity 1998 - 2001

	1998	1999	2000	2001*
Core Equity	100%	93%	89%	87%
TOPrS	0%	7%	7%	6%
NZ Class	0%	0%	4%	7%

* Forecast 2001

NZ Class shares



Note: based on closing share price on respective stock exchanges

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NZ Class shares

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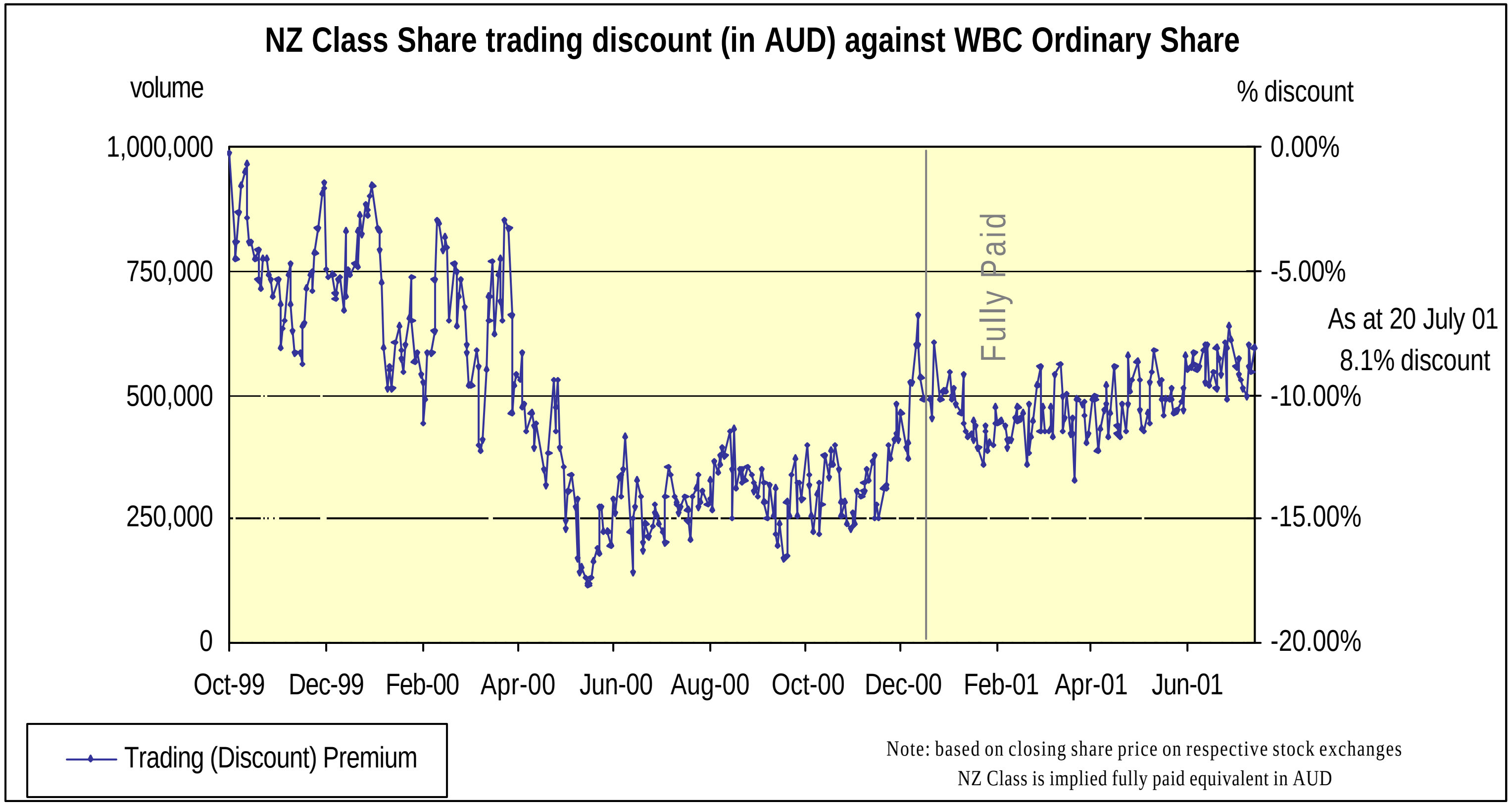

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Impact of Structural Foreign Exchange Risk & Interest Rate Risk

Structural foreign exchange risk

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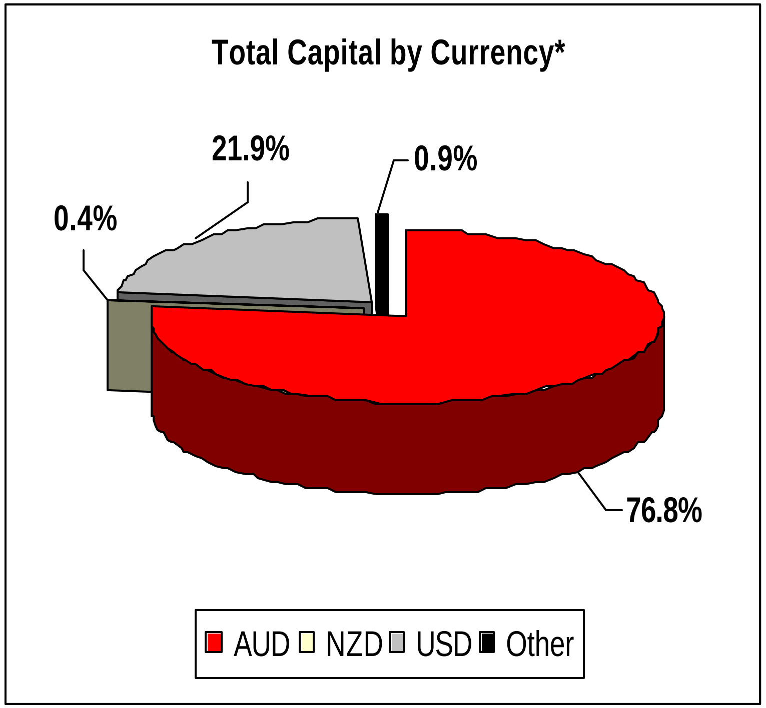
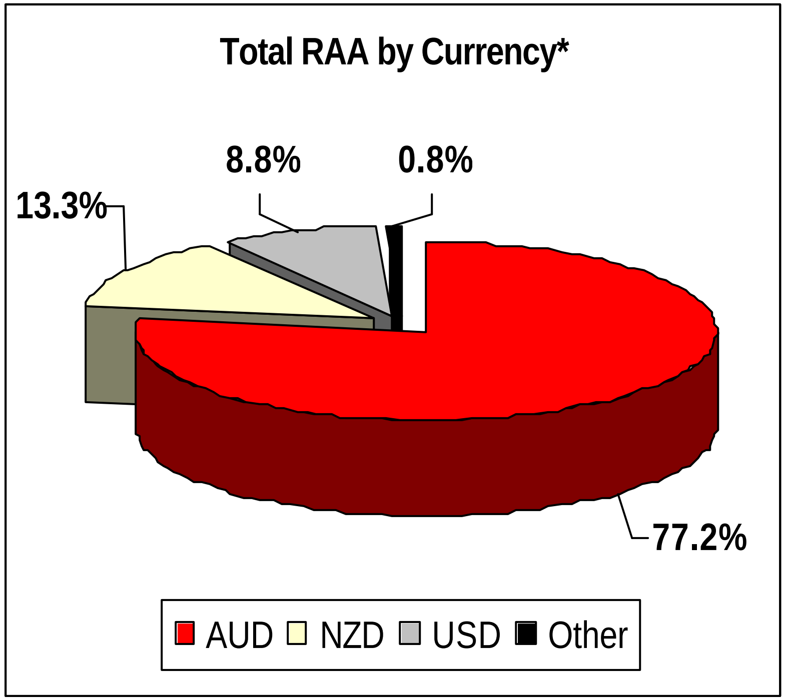
- **Arises from the impact of a weak AUD on the value of foreign currency denominated assets**
- **Special case where FX Forwards and Derivatives books revalue disproportionately as in March 2001.**
- **May cause capital adequacy ratios to decline, BUT:**
  - **capital itself is not lost;**
  - **reverses with a strengthening AUD; and**
  - **main issue is currency composition of Tier 1 and 2**

Structural foreign exchange risk





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*** Figures stated as at 30 June 2001**

Structural interest rate risk

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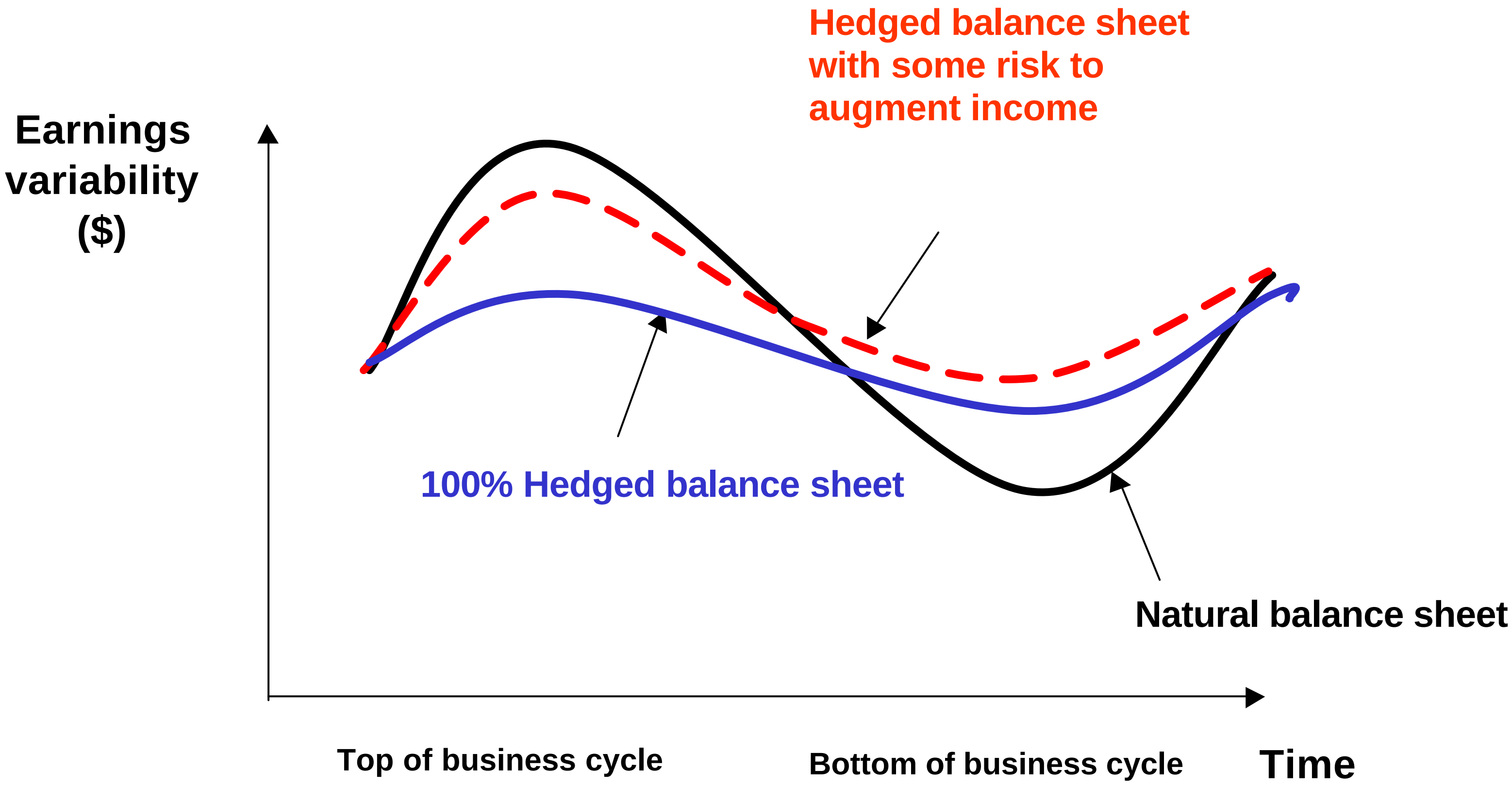
Combination of:

- Direct rate risk; and
- Rate risk to earnings and value arising from customer behaviour and capital usage

Managed by:

- Structured approach
- Regular updates and rigorous information tests
- Continued investment in data collection, behavioural research, training, internal practices and risk management systems

Hedging policy



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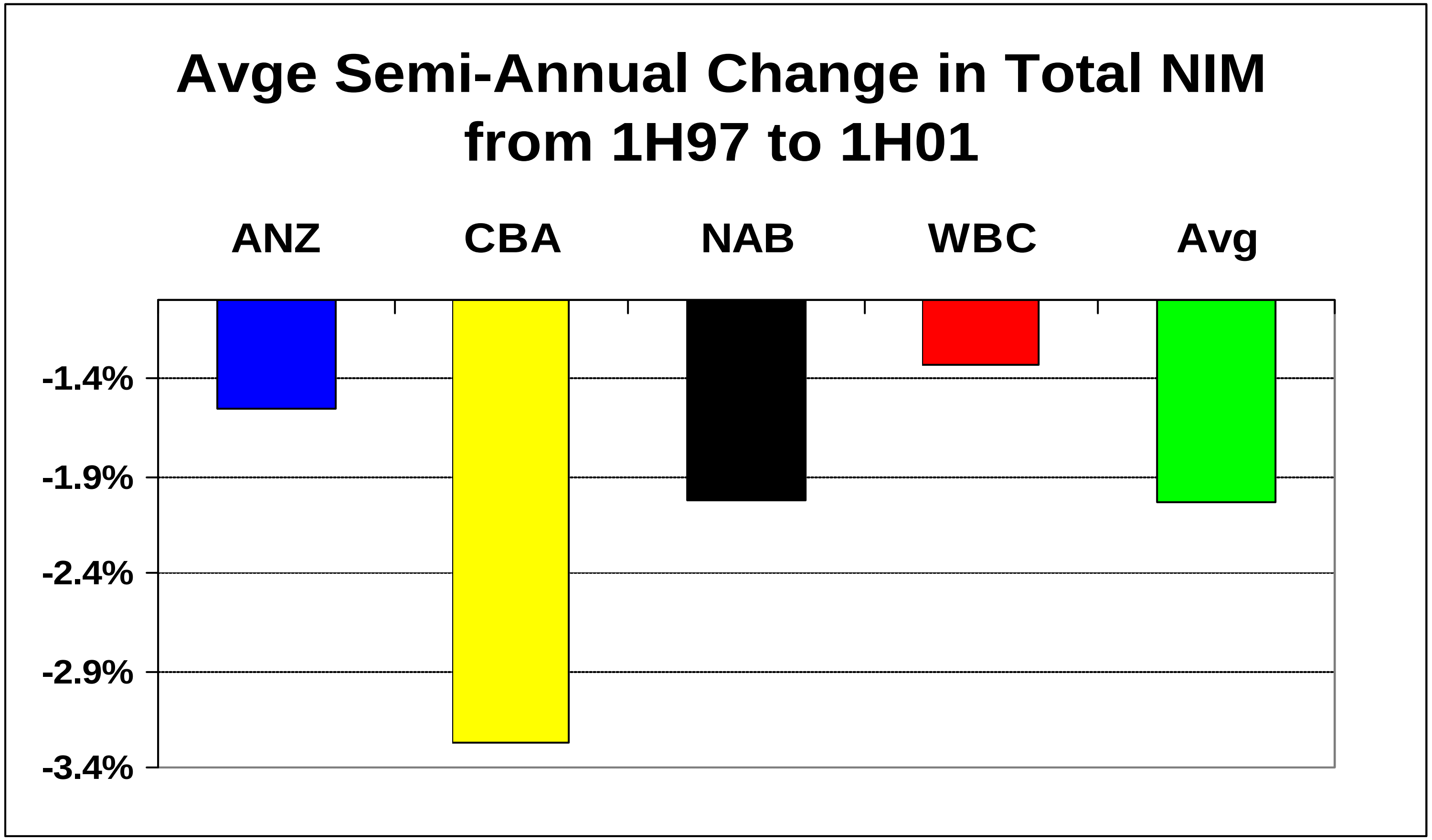
Net interest margin variance



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In summary...

- Our growth strategy is capable of delivering double digit EPS growth over the medium term.
- Sound risk management practices in place around structural foreign exchange and interest rate risk

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