Westpac
Australia's First Bank

# Finance

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**1 August 2002**

# Overview

- **Earnings parameters**
  - AGC divestment
  - Structural changes in margins
  - Maintaining cost momentum
  - Bad debt expense
- **Capital management**
- **Incorporation**

# Summary of medium term key drivers

| | | H1 2001/02 |
|---|---|---|
| Revenue Growth% | 5 - 7 | 7 |
| Expense Growth% | 0 - 2 | 1 |
| Underlying Profit Growth% | 11 -13 | 14 |
| Bad Debts bps | 25 - 35 | 39 |
| Tax Rate% | 29 - 31 | 27 |
| NPAT Growth% | 8 - 13 | 10 |
| Surplus Capital Growth% | 3 - 4 | 4 |

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# AGC sale impact

## *Pro-forma earnings impact of recent transactions*

| $m | 2001 | 2002* | 2003 | 2004# |
|---|---|---|---|---|
| Consensus earnings[1] | | 2,115 | 2,372 | 2,644 |
| Net AGC earnings change[2] | | -53 | -154 | -140 |
| Incremental Sagitta earnings | | 6 | 20 | 23 |
| Earnings on surplus capital | | 22 | 38 | 20 |
| Share buy-back impact on capital | | -10 | -3 | |
| Adjusted market estimates | 1,903[3] | 2,080 | 2,273 | 2,547 |
| Average shares on issue | | 1,808 | 1,790 | 1,802 |

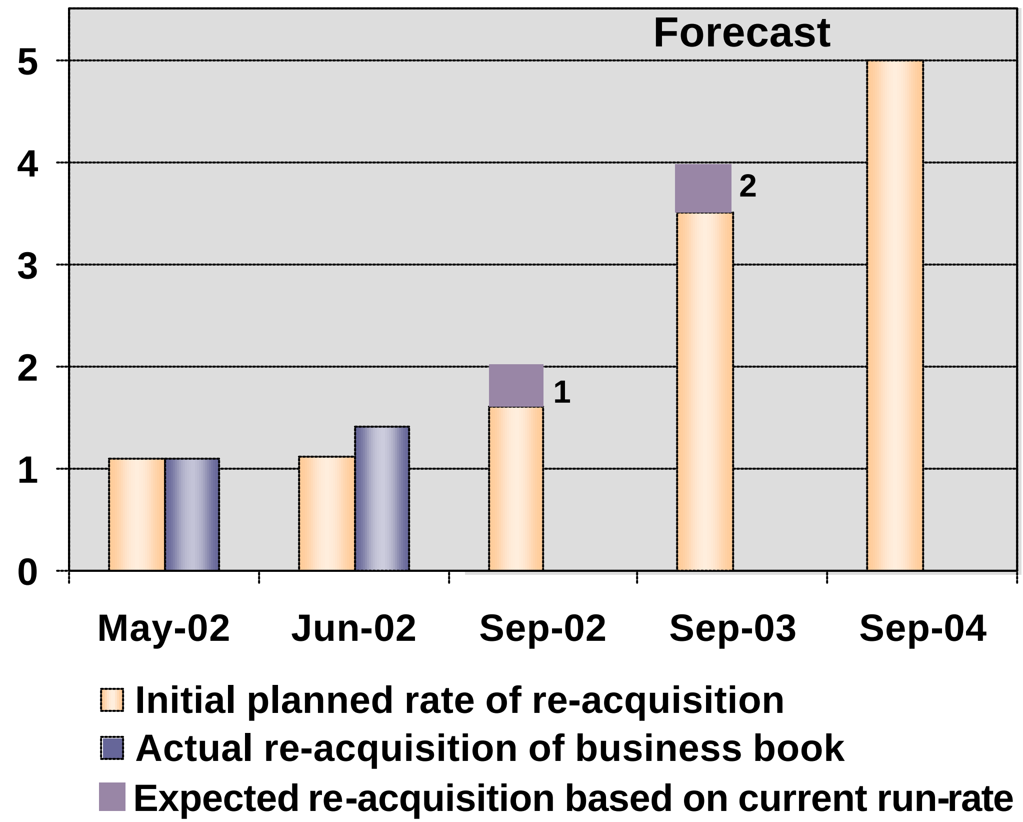
1. Consensus from nine Australian bank analysts as at 30 April 2002
2. AGC earnings forgone less earnings on the run-up of business finance portfolio from the exercise of marketing rights
3. Actual

* Excludes contribution from gain on sale of AGC.

\# Excludes impact of any capital management initiatives.

# Re-acquisition of business portfolio

- Prior to May 02, re-acquired $1.1bn of AGC business receivables (from initial book of $5.2bn)
- Sold $4.1bn - May 02
- At June 02 balance of re-acquired book - $1.4bn
- Expect around 40% ($2.0bn[1]) of the initial book to be re-acquired by Sept 02






***Based on the current run-rate we expect over $4.0bn[2] of the initial book will be re-acquired by Sept 03, ahead of our planned schedule***

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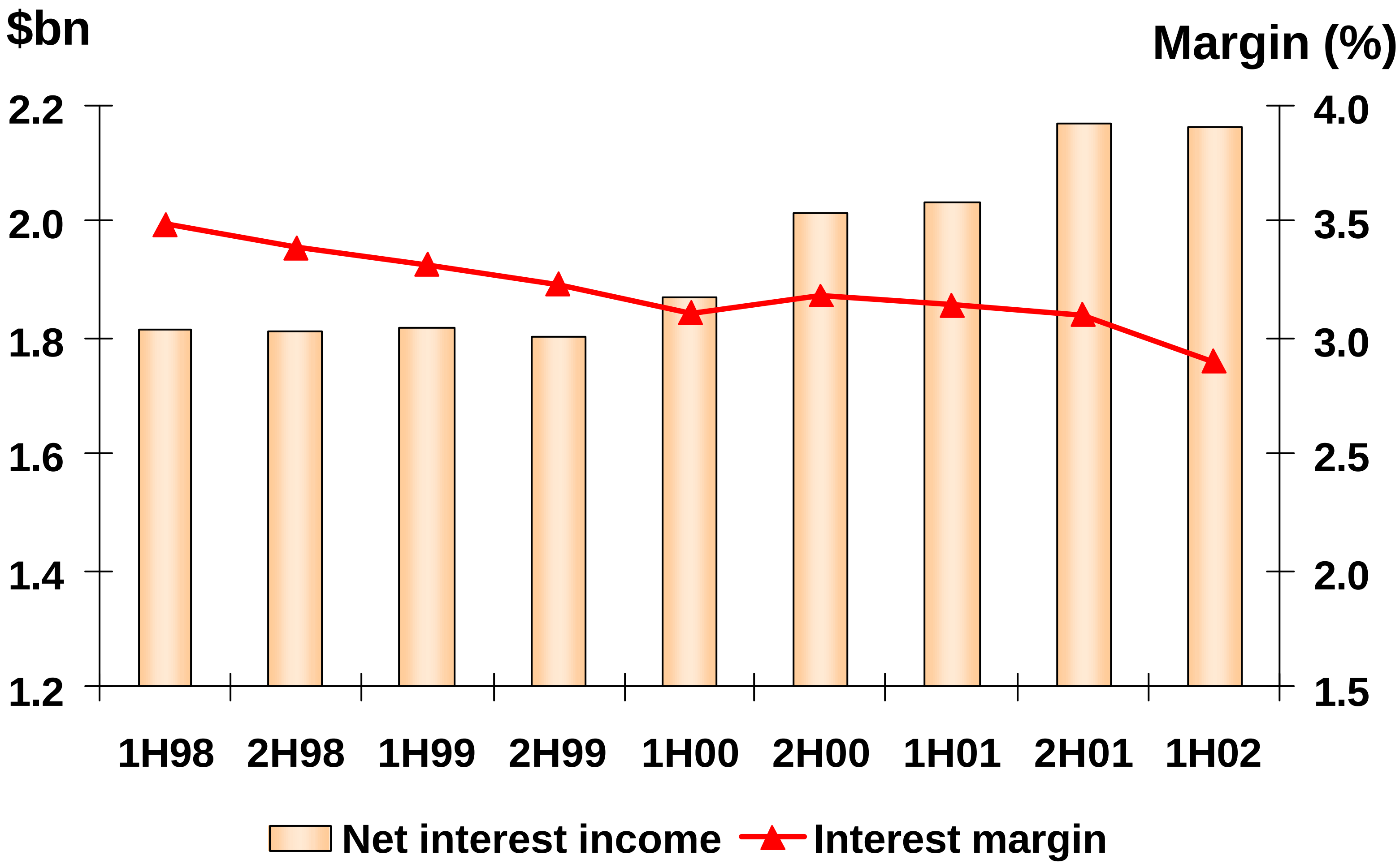
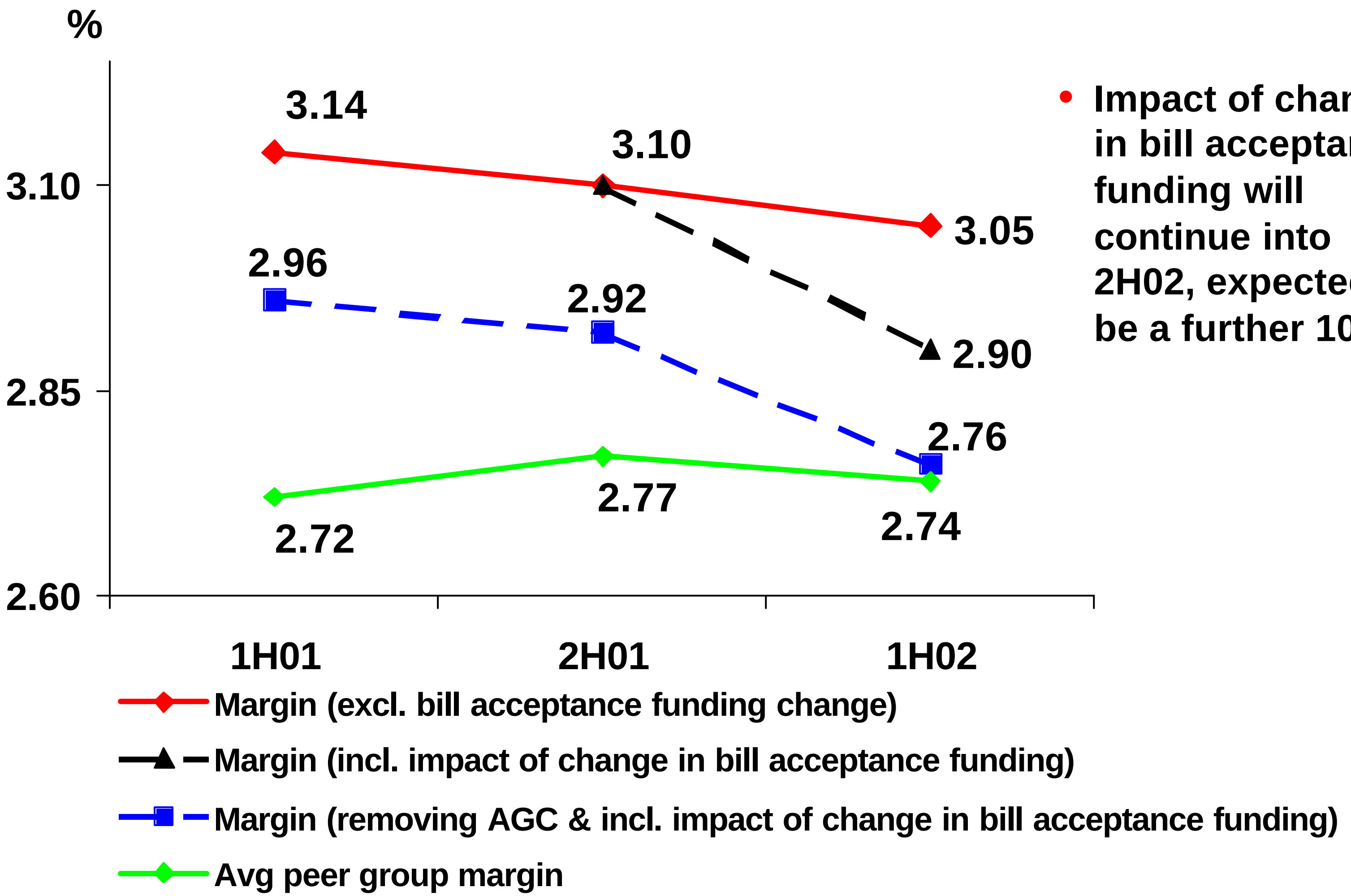
# Margins

## *Net interest income & margin trends*

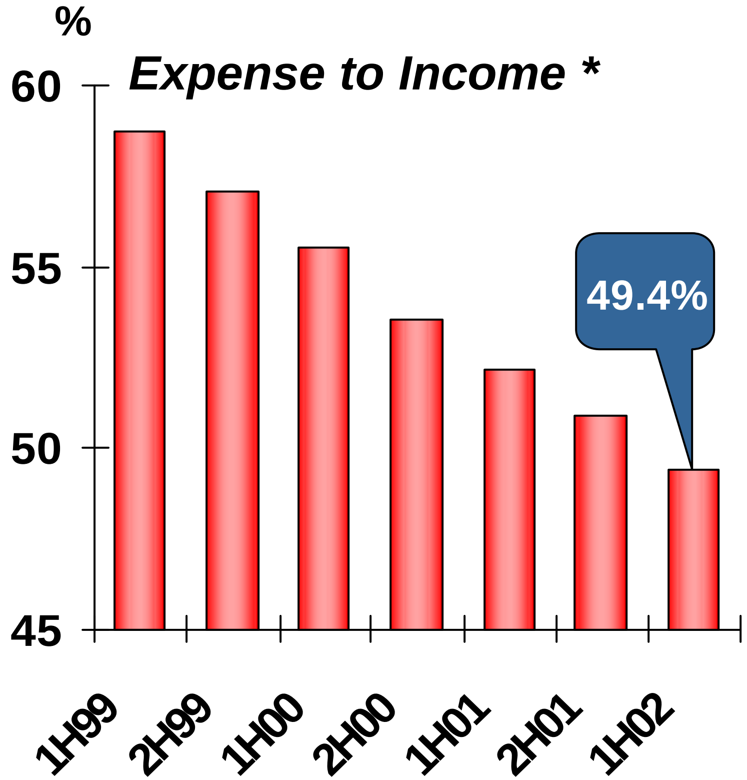


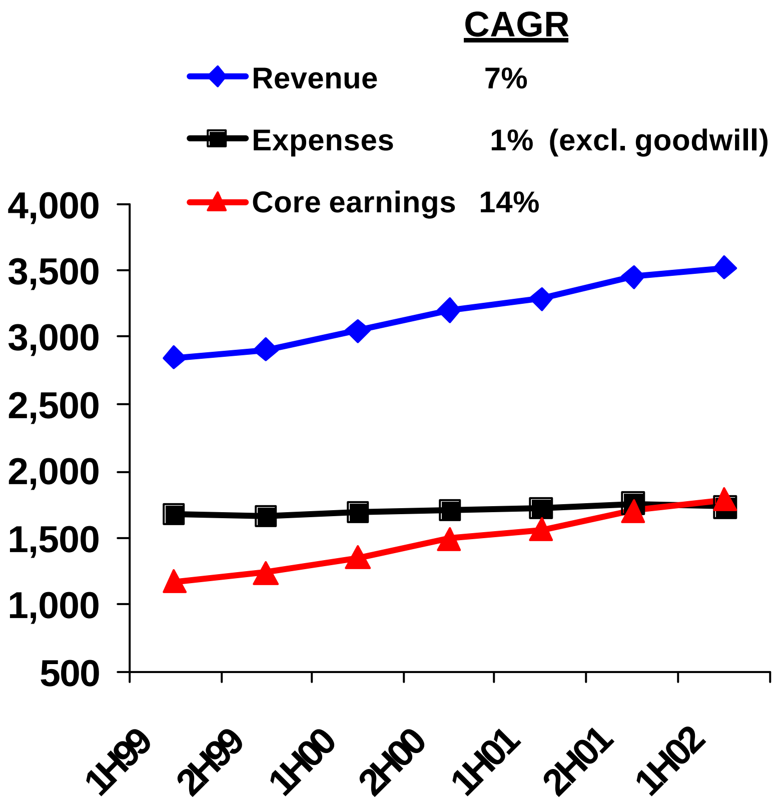
# Analysis of margin dynamics




- Impact of change in bill acceptance funding will continue into 2H02, expected to be a further 10bps

# Superior cost and revenue momentum



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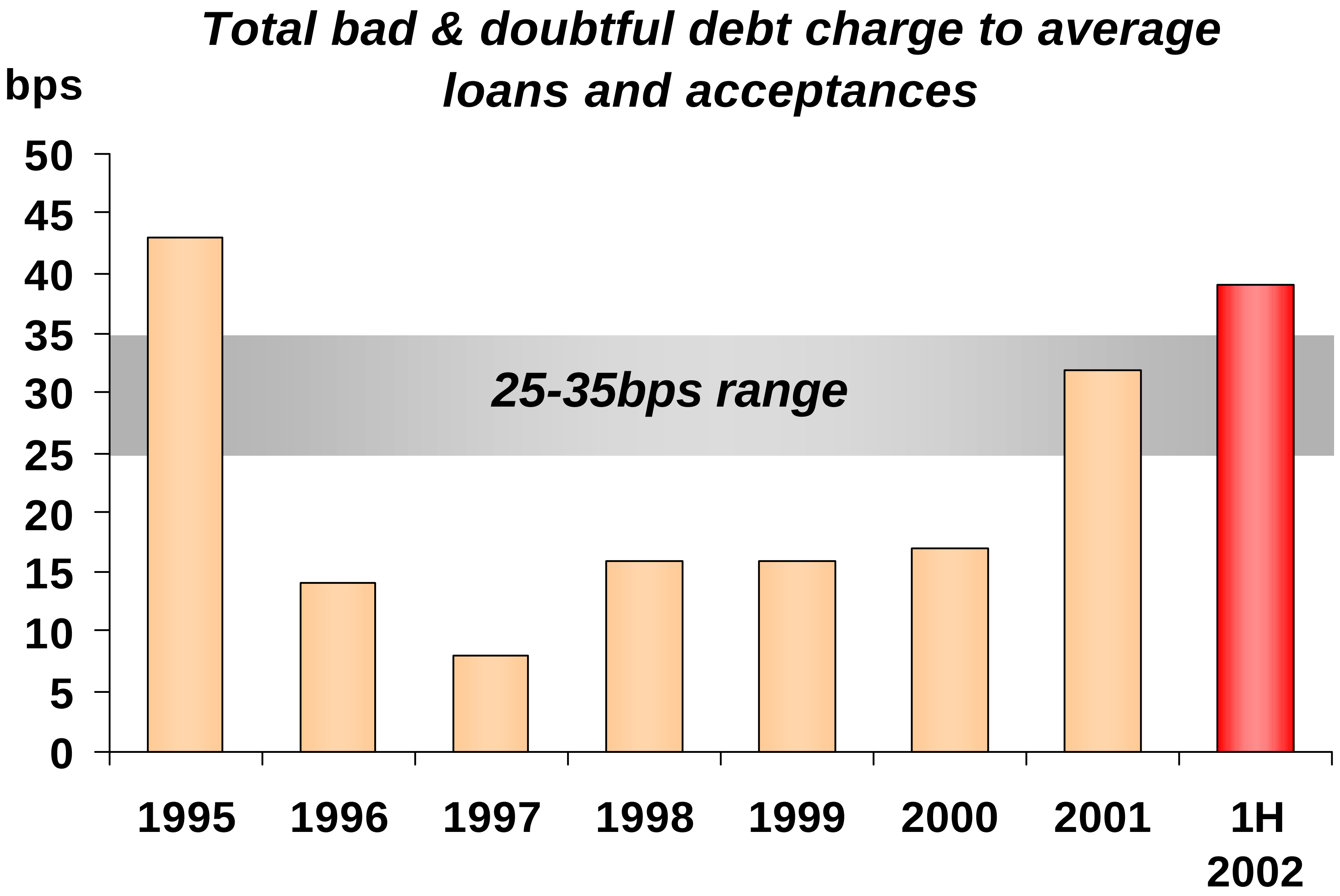
* Excludes goodwill

# Superior cost momentum

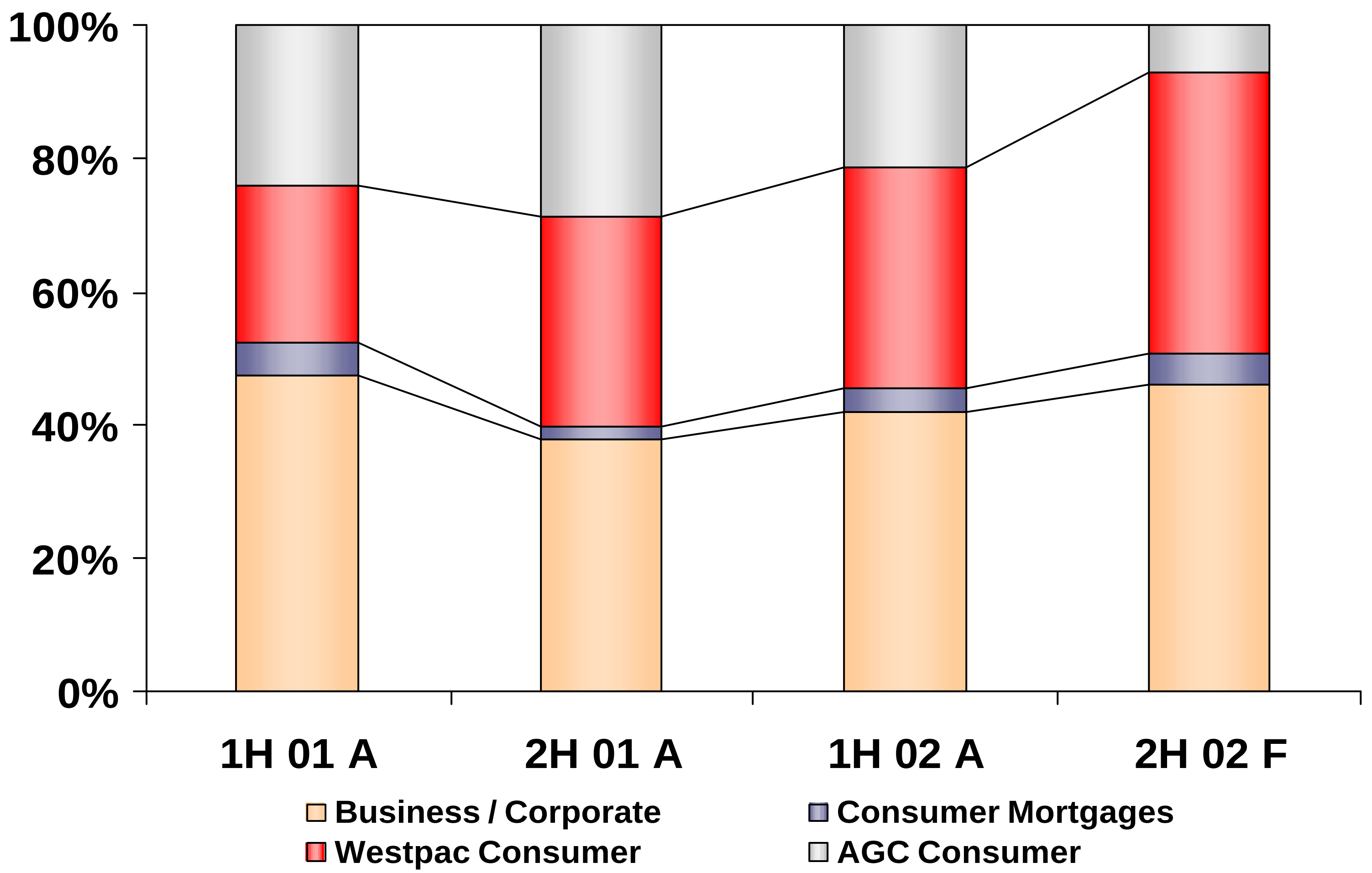
## *Completed initiatives provide a pipeline of future efficiencies*

| Initiative $m | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|
| Outsourcing | 58 | 75 | 82 | 103 |
| Organisational simplification | nom | 65 | 65 | 65 |
| Other programs | 5 | 59 | 100 | 110 |
| **Progressive cost savings** | **63** | **199** | **247** | **278** |

# Bad debts


Total bad & doubtful debt charge to average loans and acceptances
bps
50
45
40
35
30
25
20
15
10
5
0
25-35bps range
1995
1996
1997
1998
1999
2000
2001
1H 2002

# Bad debts – change in composition








1 - Westpac Consumer includes credit cards and personal loans
2 - AGC Consumer includes CreditLine and Motor Retail

# Setting the right capital mix

**Regulators (APRA)**

Primarily focussed on depositors' interests – Tier 1 ratio

**Economic Capital**

Capital determined by a detailed assessment of all company risks - $ measure of risk/capital required

**Rating Agencies**

Focussed on creditors' interests/capacity to repay debt – TOE/RAA or ACE

**Basel II – common metrics will facilitate calibration of capital ratios**

**Achieving optimal capital mix**

# Capital ratios – our perspective

| Measure | Target | Actual<br>Mar 01  Mar 02 | Strengths | Weaknesses |
|---|---|---|---|---|
| Tier 1 | 6.0-6.5% | 6.14% / 6.80% | • Recognises hybrid equity<br>• Internationally consistent | • Many deductions appear inconsistent<br>• Not a useful measure when applied to companies with a significant wealth management business |
| TOE/RAA | 5.6-5.8% | 5.72% / 6.67% | • Conservative – strips out hybrids/ intangibles<br>• Looks at capital required by the business as a whole | • Peer comparison difficult due to differing banking/wealth management mix<br>• No consideration of solvency protection of hybrid instruments |
| ACE | N/A | 4.55% / 5.50% | • Very conservative measure of TOE available to the banking business | • Blunt tool – draws no distinction between relative quality of items being deducted<br>• Incomplete measure as fails to account for capacity of wealth mgmt to service debt<br>• Definitions not clear – differing applications |

# Incorporation - almost there

- **Westpac is currently incorporated under an Act of NSW and our Deed of Settlement (1850)**
- **New constitution expected to be in place by the end of August 2002**
- **Major implications:**
  - **Adjustment to capital accounts**
  - **Gain benefits of incorporating under the Corporations Act 2001**

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