Westpac
Australia's First Bank

Earnings Drivers, Capital & Dividends

Philip Chronican Chief Financial Officer

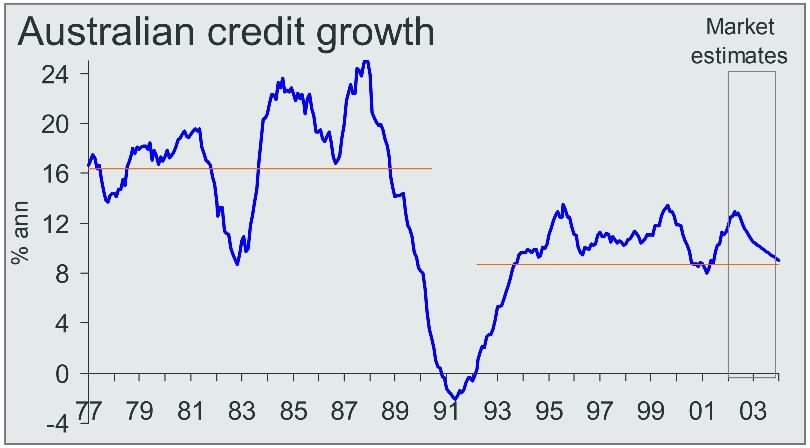
31 July 2003

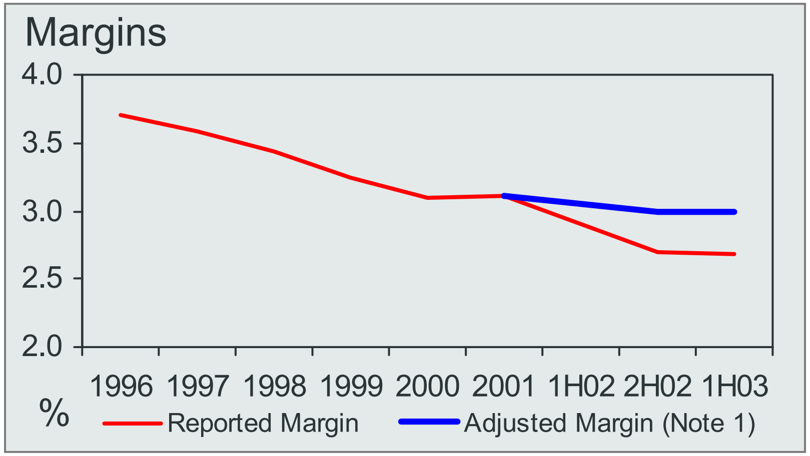
Agenda

- Earnings drivers
  - Operating income
  - Expenses
  - Tax, bad debts and gearing
- Capital & dividends
  - Sustainable payout ratios
  - Franking position
  - TOE / ACE / Tier 1 / Ratios
  - Medium term capital generation

Operating revenue parameters

- Credit growth expected to fall from recent experience of 10-13% to 7-11% growth per annum
- Margins
  - Prior guidance suggested 10-12 bps erosion per annum
  - Last 2 years performance has been more modest
  - Medium term erosion to continue, potentially in a narrower band 5-10 bps
- Non-interest income growth will continue to be volatile given, income derived from wealth management, transaction fees and financial markets
- Overall operating revenue growth potentially 5-8% in most scenarios

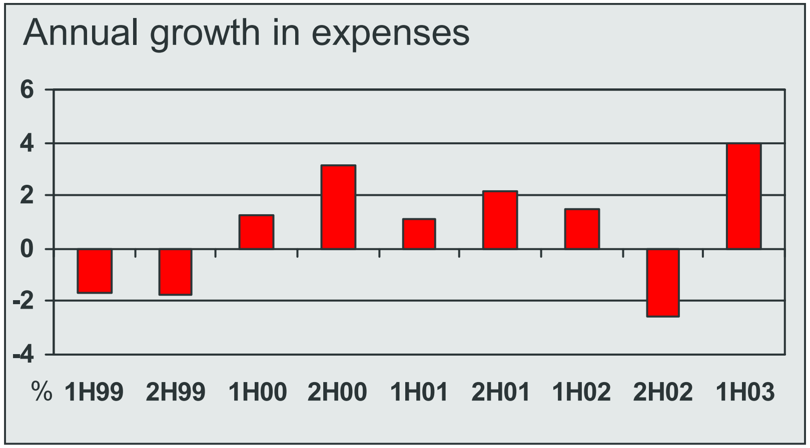




[1] Adjusted for the impact of sale of AGC and affect of bill financing

Expense outlook

- In a normal year we face
  - 4% salary increases
  - 2-4% increase in other prices (some much higher)
  - Continued volume growth
- Expense pipeline targeted at sterilising organic cost growth and creating headroom for investment
- 1999-2003 track record is 2.3% CAGR (ex M&A)
- Forward outlook is for same factors - but outcome likely to be higher, say 2-4% p.a.



Efficiency pipeline $m	**FY03F**	**FY04F**	**FY05F**
Outsourcing	115	123	132
Org simplification	73	77	77
Wealth integration	46	72	93
Lending processes	-	19	60
Other cost initiatives	115	160	169
Cumulative total	**349**	**451**	**531**
Annual increment	**257**	**102**	**80**

Other factors

	Medium Term Guidance	Recent Experience		Comments
Tax	29 - 31%	1H02 2H02 1H03	30.5% 29.0%[#] 30.5%	Excluding policy holder tax recoveries, and including gross-up
Bad Debts	25 – 35 bps of gross loans and acceptances	2001 1H02 2H02 1H03	32 bps 39 bps 26 bps 29 bps	Some volatility due principally to WIB exposures and unsecured portfolios
Gearing	Unchanged - near term organic surplus capital growth of 2-3% pa			Capital levels close to optimal – some further opportunity flowing from Basel II implementation

Adjusted for AGC sale impact

Medium term earnings scenarios

Assuming stable macro-economic environment, medium term drivers of earnings would lead to following outcomes in most scenarios

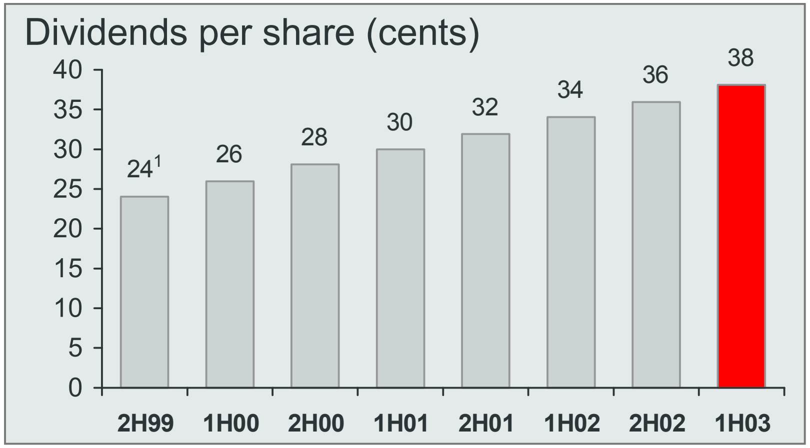
	Likely Ranges (%)
Interest Income	5-8
Non-Interest Income	5-9
Operating Revenue	5-8
Expenses	2-4
Bad debts (as a percent of risk weighted assets)	25-35 bps
Tax Rate	29-31
Post-Tax Cash Earnings	6-10

Surplus capital generation can leverage cash earnings up by 1 – 3% in cash EPS terms

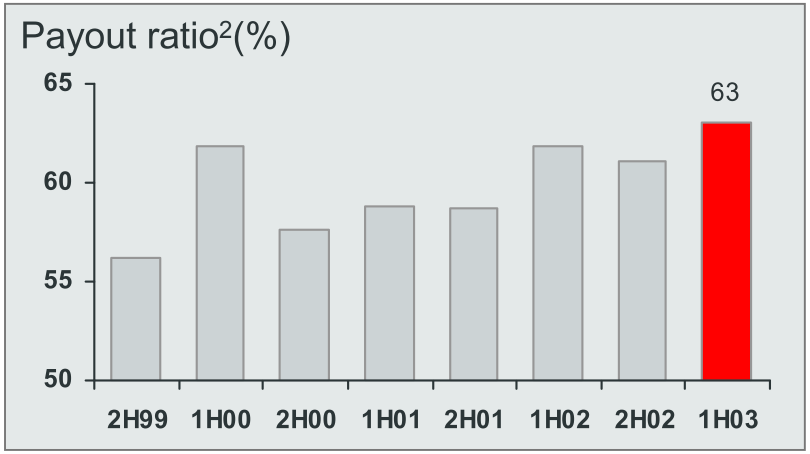
NB: This is not 2004 earnings guidance

Dividend payment considerations

- Capacity to pay – based on cash earnings
- Ensuring fully franked dividend
- Retaining sufficient capital for growth
- Consistency in dividend payment trend



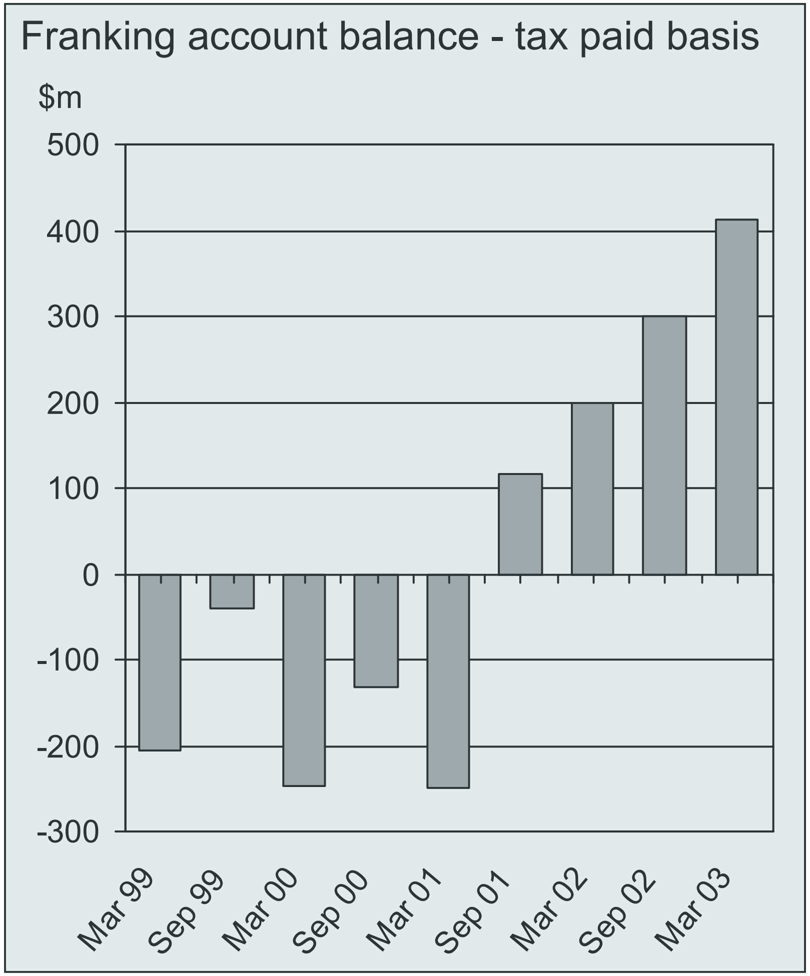
[1] Unfranked



[2] Based on underlying cash earnings

Franking capacity – no longer a constraint

- Franking generated from Australian tax paid - not tax provided
- Switch to a consistent franking surplus has been assisted by:
  - Run-off of prior year revenue losses increased tax paid
  - Reduction in the corporate tax rate to 30%
  - Higher proportion of revenues in Australia
- Franking surplus now exceeds $400 million



Determining dividend payments

- A key determinant of the pay-out ratio is now growth in Risk Weighted Assets (RWA)
- Given likely risk asset growth, and incorporating a buffer for potential variances, cash pay-out is only expected to rise moderately (ie from current 63%)

Illustrative pay-out ratio analysis[1]

RWA Growth Scenarios	Implied capital growth	Derived Maximum Pay-out ratio
8%	6.4%	75%
9%	7.2%	72%
10%	8.0%	69%
11%	8.8%	67%
12%	9.6%	64%
13%	10.4%	61%
14%	11.1%	58%

1 Assumptions:
- Return on equity 21%
- Capital required based on RWA growth. In this illustration we have included a small buffer to cover growth requirements for wealth/insurance subsidiaries and other volatility
- 27% Dividend Reinvestment Plan participation

First half 2003 – actual capital outcome

- Organic growth opportunities exceeded expectations without eroding returns. This, combined with a higher payout to shareholders, resulted in no excess capital being accumulated in H1 2003

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

Growth in loans and acceptances June quarter 2003 4.6%, 20% annualised

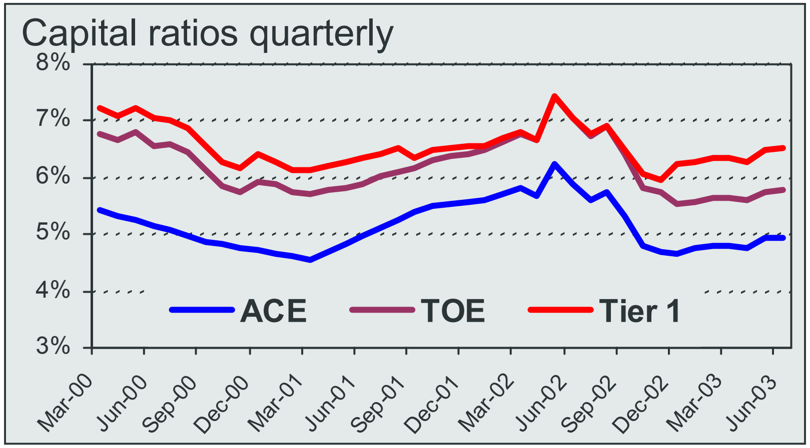
Setting capital levels

- Ensure shareholders equity aligns with economic capital
- Maintain AA rating
- Experience provides a guide to potential and acceptable ranges

eg. March 2001

TOE	5.6%
Tier 1	6.0%
ACE	4.5%

- Relativities have changed with changed APRA definitions and hybrid mix



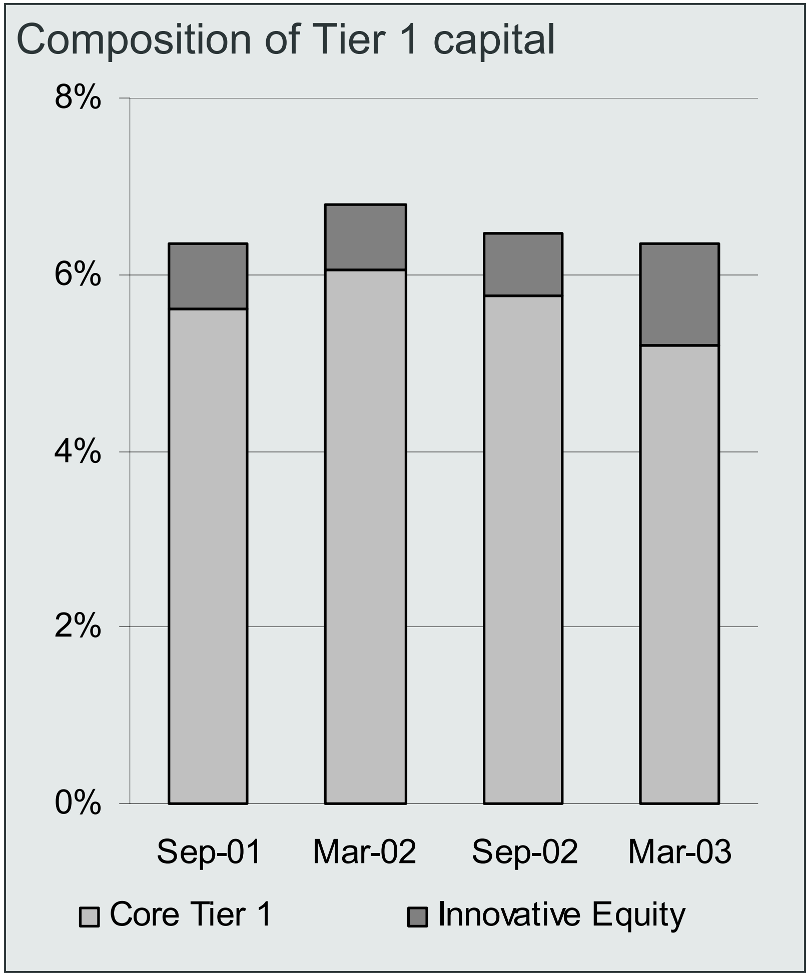
- Estimated Impact of proposed requirements for deducting deferred expenditure - 15bps reduction off capital ratios
- Westpac subject to APRA Level 3 capital requirements
  - APRA has requested details of internal capital models
  - No impact on capital levels anticipated

Capital ratios – consideration of targets

Included	Tier 1	TOE	ACE
Shareholder equity	Yes	Yes	Yes
Hybrid equity	Yes	No	No
Key Deductions			
Goodwill	Yes	Yes	Yes
Net FITB	Yes	Yes	Yes
Tangible investment in non-consol subs	No	No	Yes
Intangible investment in non-consol subs	Yes	Yes	Yes
Retained earnings – non-consol subs	Yes	No	Yes
Self generated EV	Yes	Yes	Yes
Acquisition based EV	No	No	Yes
Comments	Focus of APRA to protect depositors in case of severe event	Conservative measure of core capital strength adjusting for intangible components of non-bank subs	Developed by S&P. More conservative measure of capital strength implying no gearing of investments in non-consolidated subs. ie deducting both tangible and intangible components

Tier 1 Composition

- Further scope for hybrid issuance
  - Proportion of hybrid in Tier 1 currently 9%
  - First TOPrS call date Jul 04
  - Seek to opportunistically tap markets
- Move to international accounting standards may see some changes in capital definitions

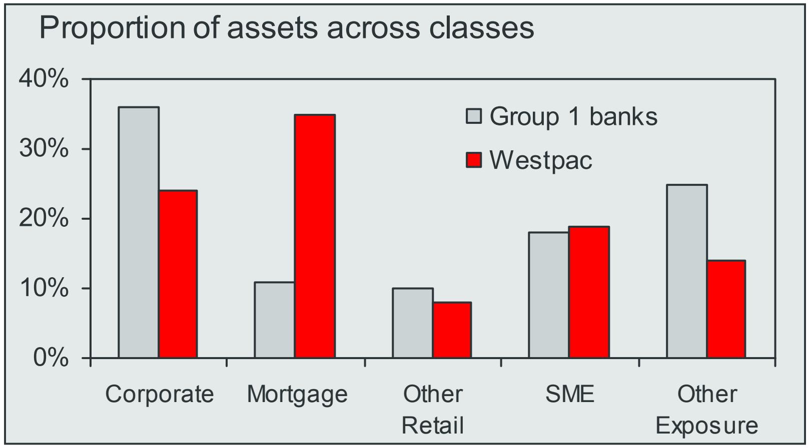


Basel II

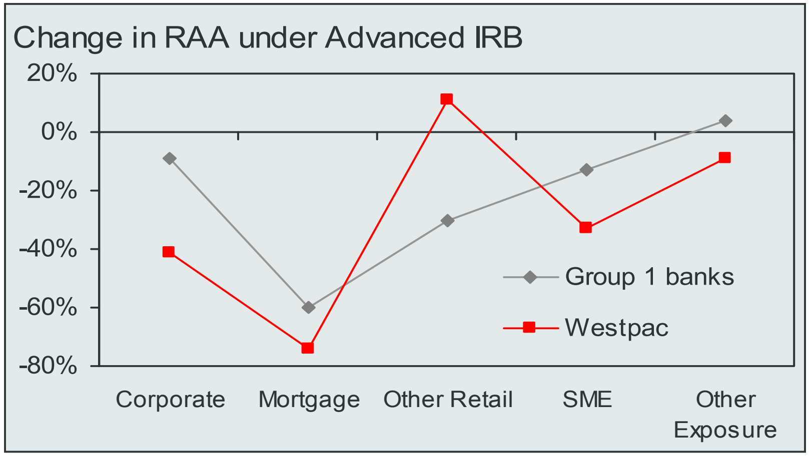
- Important step in better understanding and managing risk
- Under the common framework Australian banks recognised as being at the low end of the risk spectrum compared to similarly rated peers
- Any potential reduction in capital contingent upon agreement with APRA and the rating agencies
- Full impact still uncertain although some capital release likely in time

Basel II highlights the low risk of balance sheet

- Westpac has more of its balance sheet in assets with a high average reduction in risk weight than the average Group 1 banks



- Across asset classes, Westpac has a lower average risk weight (except for other retail) than Group 1 banks leading to a larger reduction in risk assets



Group 1 banks are large, diversified and internationally active with Tier 1 capital in excess of Euro 3bn

Actively managing the capital base

- Strong capital returns will continue to see
  - Organic funding of growth
  - Sustainably high fully franked dividend payout
  - Buy-backs an ongoing feature
  - Near term risk asset growth precludes any 2003 buy-back
- Further scope for enhancing capital mix
- Basel II will provide medium term gearing benefits

Disclaimer

The material contained in this presentation is intended to be general background information on Westpac Banking Corporation and its activities as at 31 July 2003.

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.