



# Westpac Banking Corporation

ABN 33007457141

## PROFIT ANNOUNCEMENT FOR YEAR ENDED 30 SEPTEMBER 2000

	Twelve months to		Mov't
	30 Sept 2000	30 Sept 1999	Sept 99- Sept 00
Operating profit after income tax attributable to equity holders (\$M)	1,715	1,456	17.8%
Earnings per ordinary share (basic) <sup>1</sup>	88.8¢	77.0¢	15.3%
Return on average ordinary equity	18.4%	16.8%	1.6 percentage points
Expense to income ratio before amortisation of intangibles	54.5%	57.9%	(3.4) percentage points
Dividends per ordinary share	54¢	47¢	14.9%
Economic Profit <sup>2</sup> (\$M)	1,058	669	58.1%

<sup>1</sup> Basic earnings excludes payments to holders of other equity instruments and includes NZ Class shares which are treated as ordinary equity.

<sup>2</sup> Economic Profit is defined on page 3.

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

<b>TABLE OF CONTENTS</b>	<b>Page</b>
<b>1 Review of Group Results.....</b>	<b>3</b>
1.1 Summary.....	3
1.2 Key Developments.....	3
1.3 Progress on Strategic Initiatives .....	6
1.4 Outlook.....	6
1.5 Financial Summary .....	7
<b>2 Profit and Loss.....</b>	<b>9</b>
2.1 Profit and Loss Statements .....	9
2.2 Earnings per Share .....	10
2.3 Dividends .....	10
2.4 Interest Spread and Margin Analysis.....	11
2.5 Non-interest Income Analysis .....	15
2.6 Non-interest Expense Analysis .....	17
2.7 Income Tax.....	18
<b>3 Balance Sheet .....</b>	<b>19</b>
<b>4 Asset Quality.....</b>	<b>22</b>
4.1 Impaired Assets .....	22
4.2 Items Past Due 90 Days but Well Secured .....	22
4.3 Income on Non-accrual and Restructured Assets .....	22
4.4 Provisions for Bad and Doubtful Debts .....	23
4.5 Impaired Assets and Ratios .....	23
4.6 Charge for Bad and Doubtful Debts.....	24
<b>5 Capital Adequacy.....</b>	<b>25</b>
<b>6 Business Group Results .....</b>	<b>26</b>
6.1 Australian Retail Financial Services .....	26
6.2 Westpac Institutional Bank .....	28
6.3 New Zealand Retail .....	29
<b>7 Derivatives .....</b>	<b>30</b>
<b>8 Credit Ratings.....</b>	<b>31</b>
<b>9 Exchange Rates.....</b>	<b>31</b>
<b>10 Changes in Accounting Policies.....</b>	<b>31</b>
<b>11 Statements of Cash Flows.....</b>	<b>32</b>
<b>12 Group Financial Information for US Investors.....</b>	<b>34</b>
<b>13 Shareholder Calendar .....</b>	<b>35</b>

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.

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

### 1.1 SUMMARY

Our after tax profit increased 18% for the year ended 30 September 2000 to \$1,715 million, representing the eighth consecutive annual improvement in performance.

Earnings per share were up 15% to 88.8 cents for the year.

The Directors intend declaring a final dividend of 28 cents per ordinary share (fully franked) giving a full year dividend of 54 cents (fully franked). This represents an increase of 7 cents per share (15%) over the prior year.

Our result demonstrates how strong revenue growth, improved operating efficiency and sound credit quality combine to deliver superior growth in performance.

Key features of our result were:

- Operating income increased by 9% for the year driven by strong business fundamentals:
  - interest earning assets up 12%;
  - only a moderate decline in interest margin; and
  - continued growth in core non-interest income.
- The principal business drivers are strong growth in Australian core markets with home mortgage outstandings increasing by 17%, business loans by 15% and credit card outstandings by 25%.
- In line with commitments, adjusted<sup>2</sup> expenses have been held flat in nominal terms.
- We have driven our expense to income ratio<sup>3</sup> down to 54.5% from 57.9% last year. This improvement continued through the year with the second half expense to income ratio<sup>3</sup> at 53.5%.
- The resulting growth in core earnings was 17% for the year. Core earnings growth accelerated during the year with second half core earnings 9% up on the first half.
- The after tax result was achieved despite an increase of \$31 million in net bad debt expense, largely due to new provisions raised for exposures in the Solomon Islands and Fiji.
- Economic Profit<sup>4</sup> increased from \$669 million in 1999 to \$1,058 million (58%).

### 1.2 KEY DEVELOPMENTS

#### Revenue Growth

Our focus on deepening customer relationships continues. We have increased the number of priority customers (those with whom we have significant, typically multi-product relationships) from approximately 479,000 in October 1997 to over 1,093,000.

This increase in priority customers is the driving force behind the revenue growth that is a major feature of this result.

Total revenue growth was 9% including the full impact of the life company accounting changes.

Adjusted<sup>2</sup> revenue growth was 5% for the year as a whole. The strengthening momentum of the revenue growth was shown most clearly in the second half when adjusted<sup>2</sup> revenue was up 7% on the second half last year and up 6% on the first half this year.

Our net interest income increase was predominantly volume related, with net loans and acceptances growing particularly strongly over the year (14%) through the strong performance of our Australian businesses.

Net interest margin deteriorated by 16 bps to 3.11% in the first half of the year due to competitive pressures. The margin improved on these levels during the second half of the year.

Non-interest income grew 11% for the year. Key contributors were:

- lending fees up \$72 million (14%);
- transaction fees and commissions up \$117 million (13%); and
- insurance and funds management income up \$315 million.

Overall financial markets income (including the net interest income component) was flat for the year and improved in the second half to be 22% above the first half result. Due to the changed composition of financial markets income, the non-interest income proportion fell \$110 million.

#### Expense Management

Our operating expenses have increased 2% over the year, all of which is due to the life company accounting changes. Adjusted<sup>2</sup> expenses were held at the same nominal level as last year.

<sup>1</sup> Comparatives in this document are with the full year ended 30 September 1999 unless otherwise stated.

<sup>2</sup> Reference to adjusted amounts refers to our results prior to the impact of the re-organisation of our financial services business and the application of the new life insurance accounting standard (refer page 5).

<sup>3</sup> Excluding intangible amortisation.

<sup>4</sup> Economic Profit is the excess of adjusted profit over the minimum required rate of return (12%) on equity invested. For this purpose adjusted profit is the net profit after tax, before amortisation of intangibles, plus 70% of the face value of franking credits paid to shareholders.

As at 30 September 2000, over \$317 million of run rate expense reductions had been achieved through our cost reduction programs. Initiatives that contributed to these savings included:

- completion of the rollout of the network development program including the creation of over 169 in-store branches;
- amalgamation of back office processing centres; and
- establishment of a shared service operation for administrative activities allowing the reduction of head count in both our head office and regional areas.

These programs have allowed us to reduce our full time equivalent employees by 3,054 or 9% from September last year. The majority of this reduction (approximately 60%) was achieved through normal staff turnover.

Expenses for the year include \$45 million of restructuring costs associated with efficiency programs.

We also absorbed non-recurring expenses of over \$80 million relating to Y2K preparation, Goods and Services Tax implementation and our Olympics sponsorship.

In addition, we have been able to fund a number of investments within the overall expense base including the extension of a range of eCommerce initiatives such as discount broking and mobile telephone access to internet banking.

#### **Bad Debt Expense**

Our bad debt expense rose \$31 million (18%) over the year. The principal factors were:

- a \$19 million provision raised to cover deteriorating credit conditions in Fiji and the Solomon Islands;
- growth in funding of the general provision of \$111 million reflecting the strong loan growth over the year; and
- continued benefit from lower levels of new specific provisions (down \$90 million).

The movement from the first half was more pronounced with a net increase in bad debt expense of \$84 million. This was predominantly due to dynamic provisioning (general provision) charges driven by lending growth and incorporates the charge in the second half of 2000 for Fiji and the Solomon Islands exposures.

#### **Shareholder Value Management**

In our 2000 half yearly profit announcement we announced that we had commenced a formal Shareholder Value Management program to align internal measurement and reward systems with measures that directly drive shareholder value. This program was applied to the incentive compensation arrangements of the most senior executives during the year and will be rolled out across a broader management group during 2001.

As part of our ongoing program of upgrading our shareholder value measurement systems, we have commenced a formal review to further refine our dynamic provisioning methodology and ensure the appropriateness of our current levels of general provisions and associated expense recognition.

Our Economic Profit has increased from \$669 million in 1999 to \$1,058 million at 30 September 2000. Some \$179 million of this improvement was due to the return to full franking of dividends, with \$210 million attributable to our enhanced business performance.

#### **Capital Management**

During 1999 we outlined our target capital structure:

- a Tier 1 ratio of 6.0% to 6.5% of risk adjusted assets of which hybrid equity could comprise up to 0.9%; and
- a ratio of tangible ordinary equity to risk adjusted assets of 5.6% comprised of ordinary equity and NZ Class shares or equivalent.

Our Tier 1 ratio was 6.6% and tangible ordinary equity ratio 6.3% of risk adjusted assets at 30 September 2000.

As at 30 September 2000 we had repurchased 109 million shares at an average price of \$11.70 under our share buy-back programs.

We have a further 13 million shares to repurchase under our current program.

Our commitment to align actual and target capital levels remains unchanged and we anticipate that these levels will be reached during the first half of the next financial year. Accordingly, we expect to announce a further buy-back once the current share buy-back program has been completed.

We will continue to review our capital base, and its composition, and issue forms of equity that create value for shareholders.

## Accounting Changes and One-off Impacts

We restructured our financial services business and changed the accounting treatment of our life business during the year. The contribution to the result from the life business now includes the change in market value of our investment in the controlled entity conducting distribution of insurance and funds management products. This restructure contributed \$59 million (\$85 million pre-tax) to the result, of which \$32 million was recognised in the first half results.

The result was also impacted by a 'one-off' tax charge of \$26 million relating to the net reduction of future income tax benefits arising from the announced reduction in the corporate tax rate to 30% over the next two years.

The following table summarises the impact of the tax rate change as well as the consolidation of the Australian life business and the restructure changes:

- Non-interest income relating to the restructure of \$85 million represents the excess of net market value over net assets of the life subsidiary of \$128 million (before tax) less amortisation adjustment of \$13 million for additional business in force and less acquisition and other costs of \$30 million, which would have been deferred under the old structure.
- In addition, we have consolidated \$7.5 billion of additional assets on to the balance sheet, representing policy holders' assets in the life company.

<b>\$M</b>	<b>Net FITB Adjustment</b>	<b>Consolidation of Life Business</b>	<b>Restructure (market value basis)</b>	<b>Total</b>
Non-interest income				
Fees and commissions		(45)	-	(45)
Life insurance operating income		187	85	272
Non-interest income		142	85	227
Non-interest expenses		(74)		(74)
Operating income before tax		68	85	153
Income tax expense	(26)	(68)	(26)	(120)
Operating income after tax	(26)	-	59	33

### 1.3 PROGRESS ON STRATEGIC INITIATIVES

Our customer focused strategy has delivered strong organic growth and consistent improvement in profitability. Solid progress has also been made on our priorities of:

- implementing initiatives to address our performance gaps;
- fully realising the potential flowing from our regional bank mergers; and
- progressively tapping eCommerce opportunities.

To ensure we continue to deliver earnings improvement, we set out five strategic initiatives in the first half profit announcement, which expanded on and extended the earlier priorities. We have made considerable progress against each of these.

#### Understanding Our Strengths

We have reorganised around where and how we create value across the production chain with our investment in sales and distribution activities increasing as a result of this realignment.

We have sought the benefits of global scale in our servicing and processing activities and during the year detailed plans to outsource part of our voucher processing operations. Additionally, on 12 October 2000 we announced that we had selected IBM Global Services Australia as the preferred supplier to manage our core banking technology platforms.

#### Being More Efficient

To drive further performance improvement we are progressing:

- purchasing and eProcurement savings;
- the alignment of our Australian and New Zealand businesses to obtain additional synergy benefits;
- the redesign of our telephone call centres; and
- the eEnablement of our business processes.

Significant efficiency improvements have resulted from our substantial redevelopment of the Australian sales and service network, which commenced in October 1998. This has delivered the opening of 169 in-store branches (including 10 new sites where we had not previously been represented) and enabled us to amalgamate 118 locations, relocate 19 branches and refurbish 86 branches. All this has been achieved while maintaining the effective customer 'reach' of the face-to-face network around Australia.

#### Finding New Opportunities

To drive our organic growth strategy, we are extending the scope of our existing activities and creating new businesses. This has involved the rapid expansion of eCommerce capabilities across our operations.

Our progress includes:

- Entering into a strategic partnership with Metiom Inc., (formerly Intelisys Inc.), a US based Business-to-Business solutions provider. The primary focus of the partnership will be to provide eProcurement

functionality to help meet both our purchasing requirements and those of our business customers.

- We have been actively rolling out new on-line proprietary applications including: *Westpac Broking*, our discount share broking offering which now has over 51,000 customers; *eMarket*, our secure payments environment for on-line merchants; and *HealthPay*, Australia's first electronic service offering a total payroll deduction processing solution for employers and recipient funds.
- Participation in the development of specific global portals including: *Yieldbroker.com*, Australia's first online fixed income trading and research portal for institutional and professional clients; *eBonds* an online bond distribution platform; *FX Connect* a multi-bank foreign exchange product for institutional customers; and *FXall*, a global Internet-based electronic dealing system for currency products for large institutions.

We now have over 430,000 online banking customers in Australia and 55,000 in New Zealand representing around 6% of our customer base.

#### Getting Closer to Our Customers

Since October 1997, we have doubled the number of our priority customers and are now setting out to generate greater value from this customer segment.

A core element of this program will be the implementation of a Siebel customer relationship management platform which has been successfully piloted in a number of locations.

#### Backing Our People

We have a broad range of programs under way to build our capabilities and culture to deliver the necessary insights, speed, responsiveness and adaptability needed to drive our strategic initiatives. These programs recognise that future critical capabilities will be increasingly more about intellectual capital, and less about physical capital.

Our staff are being engaged in this change through innovative organisational learning and behavioural change initiatives.

### 1.4 OUTLOOK

The Australian economy continues to perform well with 2000 representing the ninth successive year of economic growth and this growth is projected to continue through 2001. Accordingly we expect any credit quality deterioration to be only moderate in its impact. Our operational focus will remain on ensuring:

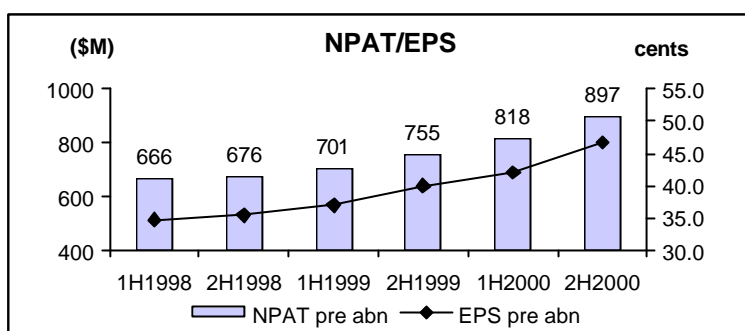
- continued strength in our revenue generation;
- minimal growth in nominal expenses; and
- we achieve target capital ratios through a capital management program.

Through these steps we expect to be able to produce further growth in earnings and earnings per share in 2001.

## 1.5 FINANCIAL SUMMARY

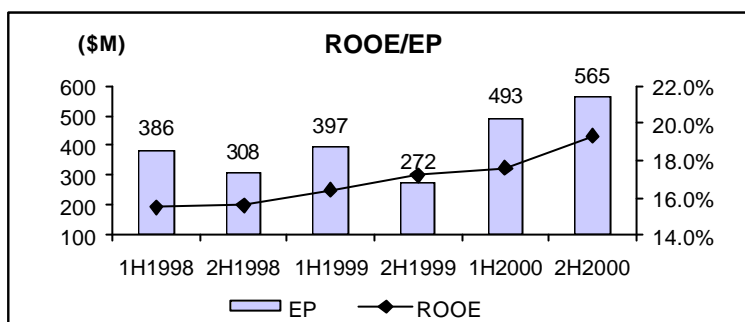
### Earnings

Growth of operating profit after income tax attributable to equity holders before abnormals (NPAT) continues to be strong, up 18% on 1999 to \$1,715 million. A similar trend is evident with earnings (before abnormals) per ordinary share (EPS) up 15% on the prior year.



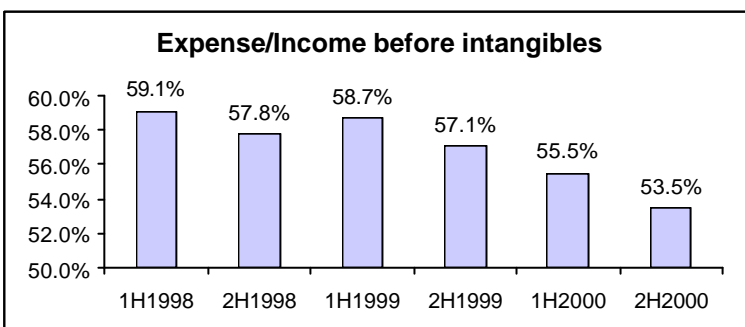
### Profitability

Return on average ordinary equity (ROOE) has increased to 19.3% in the second half (18.4% full year), continuing the steady growth since the first half of 1998. The Economic Profit (EP) has grown to \$565 million in the second half of 2000.



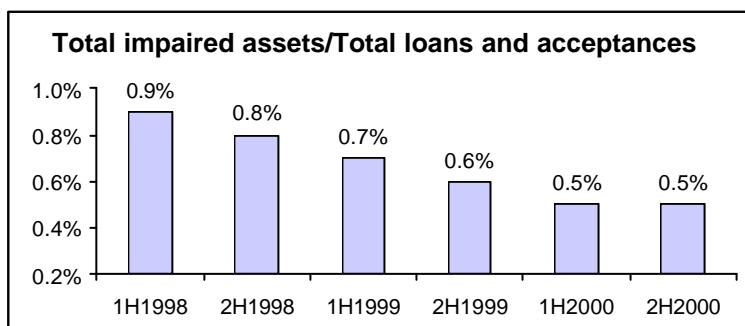
### Efficiency

The expense to income ratio before intangibles has improved by 3.6 percentage points since the second half of 1999, reflecting our effective expense containment initiatives.



### Impaired Assets

Asset quality remains strong with the improved impaired assets ratio down from 0.6% of total loans and acceptances last year to 0.5% this year.



## 1.5 FINANCIAL SUMMARY (CONT'D)

	Six months to/as at		Twelve months to/as at	
	30 Sept 2000	31 March 2000	30 Sept 2000	30 Sept 1999
<b>Shareholder value</b>				
Earnings per ordinary share <sup>1</sup> (cents)	46.7	42.1	88.8	77.0
Return on average ordinary equity (annualised)	19.3%	17.6%	18.4%	16.8%
Fully franked dividends per ordinary share (cents)	28	26	54	23
Unfranked dividends per ordinary share (cents)	-	-	-	24
Dividend payout ratio to ordinary shareholders <sup>2</sup>	60.0%	61.8%	60.8%	61.0%
<b>Earnings</b>				
Core earnings <sup>3, 4</sup> (\$M)	1,488	1,359	2,847	2,424
Operating profit after income tax attributable to equity holders (\$M)	897	818	1,715	1,456
Economic Profit <sup>5</sup> (\$M)	565	493	1,058	669
Net interest spread	2.44%	2.51%	2.47%	2.79%
Net interest margin	3.18%	3.11%	3.15%	3.27%
Non-interest income/total operating income	37.0%	38.8%	37.9%	37.1%
<b>Productivity and efficiency</b>				
Productivity ratio <sup>6</sup>	3.72	3.36	3.53	3.17
Expense to income ratio before intangibles	53.5%	55.5%	54.5%	57.9%
Implied full time equivalent staff (FTE) <sup>7</sup>	30,520	32,846	30,520	33,574
<b>Capital adequacy</b>				
Capital adequacy ratios				
Net capital ratio	9.9%	9.3%	9.9%	9.2%
Tier 1	6.6%	7.2%	6.6%	7.0%
Total tangible ordinary equity to total risk adjusted assets	6.3%	7.1%	6.3%	6.7%
Average ordinary equity (\$M)	9,087	9,053	9,070	8,609
Average total equity (\$M)	9,556	9,522	9,539	8,715
<b>Assets</b>				
Total assets (\$M)	167,618	157,401	167,618	140,220
Net loans and acceptances (\$M)	123,198	117,504	123,198	107,965
Securitised loans net of amortisation (\$M)	4,751	5,469	4,751	6,420
Risk-adjusted assets (\$M)	114,816	106,724	114,816	102,592
<b>Asset quality</b>				
Total impaired assets to total loans and acceptances	0.5%	0.5%	0.5%	0.6%
Net impaired assets to equity and general provisions	3.1%	2.5%	3.1%	3.1%
Specific provisions to total impaired assets	44.8%	54.0%	44.8%	51.2%
Total provisions to total impaired assets	249%	253%	249%	233%
Total provisions to total loans and acceptances	1.2%	1.2%	1.2%	1.4%
Total bad and doubtful debt charge to average loans and acceptances (basis points)	24	10	17	16

1 Basic earnings excludes payments to holders of other equity instruments and includes NZ Class shares are treated as ordinary equity.

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

3 Operating profit (including gross up) before charge for bad and doubtful debts, income tax, intangibles and abnormals.

4 See note 1 on page 9 for explanation of gross-up.

5 Net profit after tax attributable to ordinary equity holders before intangibles plus 70% of the face value of franking credits less the minimum rate of return (12%) on equity invested.

6 Operating income/salaries and other staff expenses less restructuring expenses.

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



## 2 PROFIT AND LOSS

### 2.1 PROFIT AND LOSS STATEMENTS

\$M	Six months to		Twelve months to/as at		% Mov't Sept 99- Sept 00
	30 Sept 2000	31 March 2000	30 Sept 2000	30 Sept 1999	
Interest income					
Deposits with banks	129	132	261	192	35.9
Investment and trading securities	331	279	610	590	3.4
Statutory deposits	18	14	32	15	113.3
Loans and other receivables	5,092	4,296	9,388	7,551	24.3
<b>Interest income</b>	<b>5,570</b>	<b>4,721</b>	<b>10,291</b>	<b>8,348</b>	<b>23.3</b>
Fully tax equivalent gross up <sup>1</sup>	91	78	169	127	33.1
<b>Interest income (including gross up)</b>	<b>5,661</b>	<b>4,799</b>	<b>10,460</b>	<b>8,475</b>	<b>23.4</b>
Interest expense					
Current and term deposits	(2,507)	(2,059)	(4,566)	(3,385)	34.9
Public borrowings	(178)	(160)	(338)	(317)	6.6
Deposits from banks	(127)	(94)	(221)	(194)	13.9
Loan capital	(162)	(108)	(270)	(175)	54.3
Other liabilities	(672)	(509)	(1,181)	(785)	50.4
<b>Interest expense</b>	<b>(3,646)</b>	<b>(2,930)</b>	<b>(6,576)</b>	<b>(4,856)</b>	<b>35.4</b>
<b>Net interest income (including gross up)</b>	<b>2,015</b>	<b>1,869</b>	<b>3,884</b>	<b>3,619</b>	<b>7.3</b>
Non-interest income					
Fees and commissions	739	704	1,443	1,333	8.3
Trading income <sup>2</sup>	81	63	144	284	(49.3)
Insurance and funds management income	296	332	628	313	100.6
Other income	67	86	153	209	(26.8)
<b>Non-interest income</b>	<b>1,183</b>	<b>1,185</b>	<b>2,368</b>	<b>2,139</b>	<b>10.7</b>
<b>Operating income (including gross up)</b>	<b>3,198</b>	<b>3,054</b>	<b>6,252</b>	<b>5,758</b>	<b>8.6</b>
Non-interest expenses					
Salaries and other staff expenses	(888)	(927)	(1,815)	(1,830)	(0.8)
Equipment and occupancy expenses	(320)	(312)	(632)	(602)	5.0
Other expenses	(502)	(456)	(958)	(902)	6.2
<b>Non-interest expenses (excluding amortisation of intangibles)</b>	<b>(1,710)</b>	<b>(1,695)</b>	<b>(3,405)</b>	<b>(3,334)</b>	<b>2.1</b>
<b>Core earnings</b>	<b>1,488</b>	<b>1,359</b>	<b>2,847</b>	<b>2,424</b>	<b>17.5</b>
Amortisation of intangibles	(49)	(49)	(98)	(100)	(2.0)
<b>Underlying profit</b>	<b>1,439</b>	<b>1,310</b>	<b>2,749</b>	<b>2,324</b>	<b>18.3</b>
Charge for bad and doubtful debts	(143)	(59)	(202)	(171)	18.1
<b>Operating profit before income tax (including gross up)</b>	<b>1,296</b>	<b>1,251</b>	<b>2,547</b>	<b>2,153</b>	<b>18.3</b>
Fully tax equivalent gross up <sup>1</sup>	(91)	(78)	(169)	(127)	33.1
<b>Operating profit before income tax (excluding gross up)</b>	<b>1,205</b>	<b>1,173</b>	<b>2,378</b>	<b>2,026</b>	<b>17.4</b>
Income tax expense	(307)	(353)	(660)	(567)	16.4
Outside equity interests	(1)	(2)	(3)	(3)	
<b>Operating profit after income tax attributable to equity holders</b>	<b>897</b>	<b>818</b>	<b>1,715</b>	<b>1,456</b>	<b>17.8</b>

The year ended 30 September 2000 and its component half years include the consolidation of our life insurance business in accordance with the new accounting standard AASB 1038 - Life Insurance Business. Prior periods have not been restated.

- <sup>1</sup> 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.
- <sup>2</sup> Financial markets income includes both trading income and net interest income. A full summary of both items is included in the non-interest income summary on page 16.

## 2.1 PROFIT AND LOSS STATEMENTS (Cont'd)

\$M	Six months to		Twelve months to/as at		% Mov't Sept 99- Sept 00
	30 Sept 2000	31 March 2000	30 Sept 2000	30 Sept 1999	
Retained profits at the beginning of the financial period	3,082	2,788	2,788	2,241	24.4
Operating profit after income tax attributable to equity holders	897	818	1,715	1,456	17.8
Aggregate of amounts transferred (to)/from reserves	(14)	2	(12)	(35)	(65.7)
<b>Total available for appropriation</b>	<b>3,965</b>	<b>3,608</b>	<b>4,491</b>	<b>3,662</b>	<b>22.6</b>
Dividends provided for or paid	(508)	(505)	(1,013)	(866)	17.0
Distributions on other equity instruments	(22)	(21)	(43)	(8)	
<b>Retained profits at the end of the financial period</b>	<b>3,435</b>	<b>3,082</b>	<b>3,435</b>	<b>2,788</b>	<b>23.2</b>

## 2.2 EARNINGS PER SHARE

	Six months to		Twelve months to as/at		% Mov't Sept 99- Sept 00
	30 Sept 2000	31 March 2000	30 Sept 2000	30 Sept 1999	
Earnings (cents) per ordinary share <sup>1</sup> after deducting distributions on other equity instruments:					
Basic	46.7	42.1	88.8	77.0	15.3
Fully diluted <sup>2</sup>	46.2	41.5	87.7	76.1	15.2
Weighted average number of fully paid ordinary shares (millions)	1,883	1,893	1,883	1,881	0.1

## 2.3 DIVIDENDS

Cents per share	Six months to		Twelve months to	
	30 Sept 2000	31 March 2000	30 Sept 2000	30 Sept 1999
<b>Ordinary dividend</b>				
Interim (fully franked) <sup>3</sup>	-	26	26	23
Final (unfranked)	-	-	-	24
Final (fully franked) <sup>3</sup>	28	-	28	-
	28	26	54	47
<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	512	488	1,000	871
Under/(over) provision from previous period	-	13	13	(5)
	512	501	1,013	866
<b>Ordinary dividend payout ratio</b>	60.0%	61.8%	60.8%	61.0%
<b>Distributions on other equity instruments</b>				
TOPrS <sup>SM</sup> distributions provided for or paid	22	21	43	8
<b>Total distributions on other equity instruments</b>	22	21	43	8

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

2 Fully diluted earnings per share is after adjusting for partly paid shares and options outstanding.

3 The interim and final dividends for 2000 are fully franked. The interim and final dividends for the NZ Class shares are fully imputed.

## 2.4 INTEREST SPREAD AND MARGIN ANALYSIS

Given the level of detail required for an analysis of interest spread and margin, the information disclosed on this page only, is rounded to 2 decimal places.

### 2.4.1 Spread and Margin Analysis

%	Six months to		Twelve months to	
	30 Sept 2000	31 March 2000	30 Sept 2000	30 Sept 1999
<b>Group</b>				
Interest spread on productive assets <sup>1</sup>	2.46	2.54	2.49	2.83
Impact of impaired loans	(0.02)	(0.03)	(0.02)	(0.04)
Interest spread <sup>2</sup>	2.44	2.51	2.47	2.79
Benefit of net non-interest bearing liabilities and equity <sup>3</sup>	0.74	0.60	0.68	0.48
<b>Interest margin</b>	<b>3.18</b>	<b>3.11</b>	<b>3.15</b>	<b>3.27</b>
<b>Australia</b>				
Interest spread on productive assets <sup>1</sup>	2.36	2.54	2.45	2.84
Impact of impaired loans	(0.02)	(0.02)	(0.02)	(0.02)
Interest spread <sup>2</sup>	2.34	2.52	2.43	2.82
Benefit of net non-interest bearing liabilities and equity <sup>3</sup>	0.70	0.57	0.63	0.50
<b>Interest margin</b>	<b>3.04</b>	<b>3.09</b>	<b>3.06</b>	<b>3.32</b>
<b>New Zealand</b>				
Interest spread on productive assets <sup>1</sup>	3.22	2.84	3.03	3.03
Impact of impaired loans	(0.03)	-	(0.01)	(0.02)
Interest spread <sup>2</sup>	3.19	2.84	3.02	3.01
Benefit of net non-interest bearing liabilities and equity <sup>3</sup>	0.32	0.37	0.34	0.11
<b>Interest margin</b>	<b>3.51</b>	<b>3.21</b>	<b>3.36</b>	<b>3.12</b>
<b>Other Overseas</b>				
Interest spread on productive assets <sup>1</sup>	0.44	0.55	0.50	0.83
Impact of impaired loans	-	(0.03)	(0.01)	(0.06)
Interest spread <sup>2</sup>	0.44	0.52	0.49	0.77
Benefit of net non-interest bearing liabilities and equity <sup>3</sup>	0.93	0.68	0.80	0.61
<b>Interest margin</b>	<b>1.37</b>	<b>1.20</b>	<b>1.29</b>	<b>1.38</b>

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

2 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.

3 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.

## 2.4.2 Average Balance Sheets and Interest Rates

	Twelve months to 30 Sept 2000			Twelve months to 30 Sept 1999		
	Average Balance \$M	Interest \$M	Average Rate %	Average Balance \$M	Interest \$M	Average Rate %
<b>Assets</b>						
<b>Interest earning assets</b>						
Due from other financial institutions						
Australia	1,531	71	4.6	956	30	3.1
New Zealand	1,298	70	5.4	1,120	54	4.8
Other Overseas	1,691	120	7.1	1,849	108	5.8
Investment and trading securities						
Australia	7,029	382	5.4	6,528	400	6.1
New Zealand	691	62	9.0	586	37	6.3
Other Overseas	1,923	166	8.6	2,368	153	6.5
Regulatory deposits						
Other Overseas	517	32	6.2	302	15	5.0
Loans and other receivables						
Australia	85,409	7,612	8.9	73,693	5,944	8.1
New Zealand	20,142	1,722	8.5	19,332	1,451	7.5
Other Overseas	2,645	201	7.6	3,251	261	8.0
Impaired loans						
Australia	313	7	2.2	428	16	3.7
New Zealand	102	6	5.9	114	5	4.4
Other Overseas	171	9	5.3	207	1	0.5
Intragroup receivable						
Other Overseas	12,326	717	5.8	9,988	535	5.4
Interest earning assets and interest income including intragroup	135,788	11,177	8.2	120,722	9,010	7.5
Intragroup elimination	(12,326)	(717)		(9,988)	(535)	
<b>Total interest earning assets and interest income</b>	<b>123,462</b>	<b>10,460</b>	<b>8.5</b>	<b>110,734</b>	<b>8,475</b>	<b>7.7</b>
<b>Non-interest earning assets</b>						
Cash, bullion, due from other banks and statutory deposits	486			864		
Life insurance investment assets	7,792			-		
Other assets <sup>1</sup>	15,900			19,369		
Provisions for doubtful debts						
Australia	(1,241)			(1,324)		
New Zealand	(91)			(106)		
Other Overseas	(153)			(146)		
<b>Total non-interest earning assets</b>	<b>22,693</b>			<b>18,657</b>		
Acceptances						
Australia	12,403			10,905		
New Zealand	-			4		
Other Overseas	8			50		
<b>Total assets</b>	<b>158,566</b>			<b>140,350</b>		

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

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

	Twelve months to 30 Sept 2000			Twelve months to 30 Sept 1999		
	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	53,742	3,166	5.9	50,367	2,273	4.5
New Zealand	14,002	695	5.0	15,431	647	4.2
Other Overseas	11,711	705	6.0	8,690	465	5.4
Public borrowings by subsidiary borrowing corporations						
Australia	5,912	331	5.6	5,495	298	5.4
New Zealand	96	7	7.3	247	19	7.7
Due to other financial institutions						
Australia	589	32	5.4	314	13	4.1
New Zealand	127	10	7.9	138	8	5.8
Other Overseas	3,239	181	5.6	3,264	173	5.3
Loan capital						
Australia	3,242	264	8.1	2,386	170	7.1
New Zealand	74	6	8.1	52	5	9.6
Other interest bearing liabilities						
Australia	9,811	736	7.5	6,951	501	7.2
New Zealand	5,367	332	6.2	2,662	98	3.7
Other Overseas	1,742	111	6.4	3,905	186	4.8
Intragroup payable						
Australia	11,201	654	5.8	7,862	424	5.4
New Zealand	1,125	63	5.6	2,126	111	5.2
Interest bearing liabilities and interest expense including intragroup	121,980	7,293	6.0	109,890	5,391	4.9
Intragroup elimination	(12,326)	(717)		(9,988)	(535)	
<b>Total interest bearing liabilities and interest expense</b>	<b>109,654</b>	<b>6,576</b>	<b>6.0</b>	<b>99,902</b>	<b>4,856</b>	<b>4.9</b>
<b>Non-interest bearing liabilities</b>						
Deposits and due to other banks						
Australia	3,651			3,603		
New Zealand	925			959		
Other Overseas	302			527		
Life insurance policy liabilities	6,804			-		
Other liabilities <sup>1</sup>	15,280			15,685		
<b>Total non-interest bearing liabilities</b>	<b>26,962</b>			<b>20,774</b>		
Acceptances of customers						
Australia	12,403			10,905		
New Zealand	-			4		
Other Overseas	8			50		
<b>Total liabilities</b>	<b>149,027</b>			<b>131,635</b>		
Ordinary shareholders' equity	9,070			8,609		
TOPrS	465			103		
Outside equity interests	4			3		
<b>Total equity</b>	<b>9,539</b>			<b>8,715</b>		
<b>Total liabilities and equity</b>	<b>158,566</b>			<b>140,350</b>		

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

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

	Twelve months to 30 Sept 2000			Twelve months to 30 Sept 1999		
	Average Balance \$M	Interest \$M	Average Rate %	Average Balance \$M	Interest \$M	Average Rate %
<b>Interest earning assets (including impaired loans)</b>						
Australia	94,282	8,072	8.6	81,605	6,390	7.8
New Zealand	22,233	1,860	8.4	21,152	1,547	7.3
Other Overseas	19,273	1,245	6.5	17,965	1,073	6.0
Intragroup	(12,326)	(717)		(9,988)	(535)	
<b>Group</b>	<b>123,462</b>	<b>10,460</b>	<b>8.5</b>	<b>110,734</b>	<b>8,475</b>	<b>7.7</b>
<b>Interest bearing liabilities</b>						
Australia	84,497	5,183	6.1	73,375	3,679	5.0
New Zealand	20,791	1,113	5.4	20,656	888	4.3
Other Overseas	16,692	997	6.0	15,859	824	5.2
Intragroup	(12,326)	(717)		(9,988)	(535)	
<b>Group</b>	<b>109,654</b>	<b>6,576</b>	<b>6.0</b>	<b>99,902</b>	<b>4,856</b>	<b>4.9</b>
<b>Interest spread</b>						
Australia			2.4			2.8
New Zealand			3.0			3.0
Other Overseas			0.5			0.8
<b>Group</b>			<b>2.5</b>			<b>2.8</b>

## 2.5 NON-INTEREST INCOME ANALYSIS

\$M	Six months to		Twelve months to		% Mov't Sept 99- Sept 00
	30 Sept 2000	31 March 2000	30 Sept 2000	30 Sept 1999	
<b>Fees and commissions</b>					
Lending fees	297	287	584	512	14.1
Transaction fees and commissions received	525	487	1,012	895	13.1
Other non-risk fee income	127	104	231	228	1.3
Fees and commissions paid	(210)	(174)	(384)	(302)	27.2
	<b>739</b>	<b>704</b>	<b>1,443</b>	<b>1,333</b>	<b>8.3</b>
<b>Trading income</b>					
Foreign exchange	105	89	194	246	(21.1)
Other	(24)	(26)	(50)	38	
	<b>81</b>	<b>63</b>	<b>144</b>	<b>284</b>	<b>(49.3)</b>
<b>Insurance and funds management income</b>					
Life insurance and funds management operating income <sup>1</sup>	280	302	582	-	
Funds management income	-	-	-	159	-
Life insurance margin on services profit <sup>2</sup>	-	-	-	124	-
General insurance commissions and premiums (net of claims paid)	16	30	46	30	53.3
	<b>296</b>	<b>332</b>	<b>628</b>	<b>313</b>	<b>100.6</b>
<b>Other income</b>					
Dividends received	22	21	43	35	22.9
Lease rentals	4	4	8	10	(20.0)
Cost of hedging overseas operations	(2)	(2)	(4)	14	
Service and management fees	3	2	5	7	(28.6)
Net profit on sale of fixed assets and investments	10	26	36	69	(47.8)
Other	30	35	65	74	(12.2)
	<b>67</b>	<b>86</b>	<b>153</b>	<b>209</b>	<b>(26.8)</b>
<b>Non-interest income</b>	<b>1,183</b>	<b>1,185</b>	<b>2,368</b>	<b>2,139</b>	<b>10.7</b>
<b>Non-interest income/total operating income</b>	<b>37.0%</b>	<b>38.8%</b>	<b>37.9%</b>	<b>37.1%</b>	

### Life insurance and funds management operating income:

Premium income and management fees <sup>3</sup>	149	160	309
Funds management income	86	76	162
Claims expense (net of recoveries)	(55)	(42)	(97)
Investment revenue	381	517	898
Life insurance policy liabilities expense	(331)	(468)	(799)
Amortisation of business in force	(3)	(16)	(19)
<b>Operating income</b>	<b>227</b>	<b>227</b>	<b>454</b>
Change in excess of net market value over net assets of life insurance subsidiary before tax <sup>4</sup>	53	75	128
<b>Total life insurance and funds management operating income</b>	<b>280</b>	<b>302</b>	<b>582</b>
Split as follows:			
Australia	265	293	558
New Zealand	15	9	24

1 The requirements of Australian accounting standard AASB 1038 Life Insurance Business became operative for our operations from 1 October 1999. Life insurance assets, liabilities, revenues and expenses have been consolidated for the year to 30 September 2000.

2 The Margin on Services profits have been determined in accordance with the 'margin on services' methodology for the valuation of policy liabilities - Actuarial Standard 1.02 'Valuation Standard' of the Life Insurance Actuarial Standards Board.

3 Includes \$22 million, \$46 million and \$68 million respectively in relation to recoveries of income tax on policy holders' earnings.

4 At 1 February 2000 we restructured part of the Westpac Financial Services Group, and as a consequence of the application of the new accounting standard, the results of our financial services origination business are brought to account on a market value basis.

## Commentary on Non-interest Income

- Non-interest income increased by \$229 million or 11% to \$2,368 million in the year ended 30 September 2000.
- Fees and commissions income has increased by \$110 million or 8%. The drivers of this growth were:
  - Lending fees increased \$72 million or 14% due to an increase in loan volumes and better collection rates.
  - Transaction fees and commissions received increased \$117 million or 13%. Our retail networks in both Australia and New Zealand benefited from increased transaction activity during the year.
  - Fees and commissions paid increased by \$82 million or 27%. The increase in fees and commissions paid is largely due to higher credit card activity, but also include additional guarantee fees paid in structured finance deals.
- Non-interest income from financial markets fell by \$110 million or 33%. Overall financial markets income, however, was flat on 1999 when viewed from a total income (i.e. including net interest income) perspective.

\$M	Twelve months to		% Mov't Sept 1999- Sept 2000
	30 Sept 2000	30 Sept 1999	
Trading income	144	284	(49)
Dividend income	34	30	13
Other non-interest income	50	24	108
<b>Total non-interest income</b>	<b>228</b>	<b>338</b>	<b>(33)</b>
Net interest income	174	69	152
<b>Total financial markets income</b>	<b>402</b>	<b>407</b>	<b>(1)</b>

Our financial markets performance improved significantly on the disappointing first half.

\$M	Six months to		% Mov't Mar 2000- Sept 2000
	30 Sept 2000	30 Mar 2000	
Trading income	81	63	29
Dividend income	17	17	-
Other non-interest income	26	24	8
<b>Total non-interest income</b>	<b>124</b>	<b>104</b>	<b>19</b>
Net interest income	97	77	26
<b>Total financial markets income</b>	<b>221</b>	<b>181</b>	<b>22</b>

- Impact of the Change in Life Accounting

The application of the new life insurance accounting standard has resulted in the recognition of life insurance income and expenses on a gross basis this financial year. Also, during the first half of this year, we have restructured part of our Financial Services Group and as a consequence of the application of the new accounting standard, the results of our financial services origination business are brought to account on a market value basis.

Shown below is a comparison of our current year result to the prior year, expressed on a like-for-like basis for Australian income, to demonstrate the impact of these changes.

\$M	Twelve months to	
	30 Sept 2000	30 Sept 1999
Fees and commissions	45	-
Tax recoveries	68	-
Life company expenses	74	-
Consolidation of life business income	187	-
Funds under management income <sup>1</sup>	156	154
Westpac Life MOS	130	124
Restructure (market value basis) <sup>2</sup>	85	-
<b>Australian life insurance and funds management income</b>	<b>558</b>	<b>278</b>

- 1 The Australian funds management income of \$156 million is recognised on an accruals basis. As part of the restructure an additional \$29 million has been recognised on a mark-to-market basis. The total of these two items, \$185 million, is the total Australian funds management income.
- 2 Includes the market value of new funds management and life insurance business from 1 February 2000. The \$85 million restructuring income includes \$29 million in relation to funds management and \$56 million for life insurance business.

Income for our life insurance and funds management activities is earned through both our life company and its controlled entity. Approximately 70% of the profit on new life insurance and funds management and 10% of the profit on existing business activities at 1 February 2000 are brought to account on a market value basis. The remaining profit attributable to the servicing and maintenance activities is brought to account on an accruals basis.

The application of the new accounting standard did not have a material impact on our New Zealand life insurance business.

- Net profit on sale of properties and investments includes \$27 million from the sale of five properties in the first half of the year. 1999 included \$49 million from the sale of our investment in Data Advantage and \$16 million profit from the sale of our operations in the French Territories.



## 2.6 NON-INTEREST EXPENSE ANALYSIS

\$M	Six months to		Twelve months to		% Mov't Sept 99- Sept 00
	30 Sept 2000	31 March 2000	30 Sept 2000	30 Sept 1999	
<b>Salaries and other staff expenses</b>					
Salaries and wages	703	730	1,433	1,397	2.6
Other staff expenses	185	197	382	433	(11.8)
	<b>888</b>	<b>927</b>	<b>1,815</b>	<b>1,830</b>	<b>(0.8)</b>
<b>Equipment and occupancy expenses</b>					
Operating lease rentals	121	129	250	244	2.5
Depreciation and amortisation:					
Premises	3	5	8	12	(33.3)
Leasehold improvements	18	12	30	17	76.5
Furniture and equipment	20	23	43	45	(4.4)
Technology	98	90	188	163	15.3
Electricity, water, rates and land tax	9	11	20	33	(39.4)
Other equipment and occupancy expenses	51	42	93	88	5.7
	<b>320</b>	<b>312</b>	<b>632</b>	<b>602</b>	<b>5.0</b>
<b>Other expenses</b>					
Amortisation of intangibles	49	49	98	100	(2.0)
Amortisation of deferred expenditure	4	10	14	18	(22.2)
Non-lending losses	18	18	36	30	20.0
Consultancy fees, computer software maintenance and other professional services	197	158	355	309	14.9
Stationery	54	45	99	94	5.3
Postage and telecommunications	108	96	204	201	1.5
Insurance	5	6	11	11	-
Advertising	50	54	104	100	4.0
Transaction taxes	5	6	11	10	10.0
Training	12	10	22	23	(4.3)
Travel	29	24	53	55	(3.6)
Other expenses	20	29	49	51	(3.9)
	<b>551</b>	<b>505</b>	<b>1,056</b>	<b>1,002</b>	<b>5.4</b>
<b>Non-interest expenses</b>	<b>1,759</b>	<b>1,744</b>	<b>3,503</b>	<b>3,434</b>	<b>2.0</b>
Impact of life company consolidation	(38)	(36)	(74)	-	
Comparable non-interest expenses	<b>1,721</b>	<b>1,708</b>	<b>3,429</b>	<b>3,434</b>	<b>(0.1)</b>
Productivity ratio <sup>1</sup>	3.72	3.36	3.53	3.17	
Expense/income ratio before intangibles	53.5%	55.5%	54.5%	57.9%	
Total non-interest expenses per average implied FTE (\$000)	128	103	114	100	

1 Operating income (including gross up)/salaries and other staff expenses (excluding restructuring costs).

- Non-interest expenses increased \$69 million or 2.0%. 2000 expenses include expenses incurred in our life insurance business which was not consolidated last year. Normalising to show both years on a comparable accounting basis gives current year expenses of \$3,429 million, flat compared to last year.
- Expense management continued to be a key priority as shown by the improvement in the expense to income ratio before intangibles to 54.5% from 57.9% in 1999.
- Improvement efficiencies have accelerated in the second half of the year, with the expense to income ratio before intangibles being 53.5%. Most of the expense management initiatives are focused on back office, overhead and distribution areas.
- \$45 million in restructuring costs have been included in salaries and wages expenses in the current year.
- Equipment and occupancy expenses increased by \$30 million or 5%. The majority of this was due to increased amortisation of software consequent on our adoption of the software capitalisation policy in 1998.
- Consultancy fees and other professional services incurred as part of our Performance Enhancement Program and other re-engineering projects are the major contributors to the increase in other expenses. These project specific costs are not expected to be repeated next year.

2.7 INCOME TAX

\$M	Six months to		Twelve months to	
	30 Sept 2000	31 March 2000	30 Sept 2000	30 Sept 1999
<b>INCOME TAX EXPENSE</b>				
<b>Operating profit before income tax (including gross up)</b>	1,296	1,251	2,547	2,153
Fully tax equivalent gross up	(91)	(78)	(169)	(127)
<b>Operating profit before income tax (excluding gross up)</b>	1,205	1,173	2,378	2,026
Prima facie income tax on operating profit before income tax (excluding gross up) based on the company tax rate of 36%	434	422	856	729
<b>Add/(deduct) tax effect of permanent differences</b>				
Change in tax rate	1	25	26	-
Rebateable and exempt dividends	(54)	(34)	(88)	(84)
Tax losses not/(now) tax effected	2	(13)	(11)	(10)
Timing differences not/(now) tax effected	(33)	(1)	(34)	(2)
Life insurance :				
Tax adjustment on policyholder's earnings <sup>1</sup>	15	29	44	-
Adjustment for life business tax rates	(20)	(22)	(42)	-
Change in excess of net market value over net assets of life insurance subsidiaries	(5)	(11)	(16)	-
Other non-assessable items	(42)	(40)	(82)	(68)
Other non-deductible items	34	31	65	70
Adjustment for overseas tax rates	(11)	(12)	(23)	(12)
Prior period adjustments	(16)	(20)	(36)	(43)
Other items	2	(1)	1	(13)
<b>Total income tax expense attributable to operating profit</b>	307	353	660	567
<b>Total income tax expense (excluding gross up)</b>	307	353	660	567
Fully taxable equivalent gross up	91	78	169	127
<b>Total income tax expense (including gross up)</b>	398	431	829	694
<b>Effective tax rate (%) (including gross up)</b>	30.7	34.5	32.5 <sup>2</sup>	32.2

1 In accordance with the requirements of Australian accounting standard AASB 1038 Life Insurance Business, our tax expense includes \$68 million of tax expense in income tax on policy holders' earnings, \$24 million of which is in the prima facie tax expense and the balance of \$44 million shown here.

2 31.5% excluding effect of tax rate change on deferred tax assets and liabilities.

### 3 BALANCE SHEET

#### 3.1 BALANCE SHEETS

As at \$M	30 Sept 2000	31 March 2000	30 Sept 1999	% Mov't Mar 2000- Sept 2000	% Mov't Sept 99- Sept 00
<b>Assets</b>					
Cash and balances with central banks	836	470	345	77.9	142.3
Regulatory deposits	620	558	398	11.0	55.6
Due from other financial institutions	3,325	2,249	4,006	47.8	(17.0)
<i>Trading securities</i>	7,174	8,118	9,057	(11.6)	(20.8)
<i>Investment securities</i>	2,731	2,458	2,208	11.1	23.7
<i>Securities sold not yet delivered</i>	2,636	3,556	3,650	(25.9)	(27.8)
<i>Securities purchased under agreements to resell</i>	289	452	174	(36.1)	66.1
<i>Other financial markets assets</i>	13,549	8,506	5,992	59.3	126.1
Total securities and financial markets assets	26,379	23,090	21,081	14.2	25.1
<i>Productive loans</i>	108,435	107,045	98,588	1.3	10.0
<i>Acceptances of customers</i>	15,665	11,367	10,249	37.8	52.8
<i>Impaired loans</i>	576	561	628	2.7	(8.3)
<i>Less: provisions for bad and doubtful debts</i>	(1,478)	(1,469)	(1,500)	0.6	(1.5)
Net loans and acceptances	123,198	117,504	107,965	4.8	14.1
Life insurance investment assets	7,547	7,563	-	(0.2)	
Fixed assets	1,175	1,351	1,527	(13.0)	(23.1)
Intangible assets	1,535	1,635	1,665	(6.1)	(7.8)
Other assets	3,003	2,981	3,233	0.8	(7.1)
<b>Total assets</b>	<b>167,618</b>	<b>157,401</b>	<b>140,220</b>	<b>6.5</b>	<b>19.5</b>
<b>Liabilities and equity</b>					
Deposits	83,805	83,410	79,687	0.5	5.2
Public borrowings	6,189	6,028	5,859	2.7	5.6
Bonds, notes and commercial paper	19,203	17,187	14,910	11.7	28.8
Acceptances	15,665	11,367	10,249	37.8	52.8
Life insurance policy liabilities	6,991	6,893	-	1.4	
Securities liabilities	2,567	4,325	4,649	(40.6)	(44.8)
Due to other financial institutions	3,972	4,276	3,562	(7.1)	11.5
Other financial markets liabilities	10,352	7,178	5,523	44.2	87.4
Other liabilities	4,720	3,995	4,092	18.1	15.3
<b>Total liabilities excluding loan capital</b>	<b>153,464</b>	<b>144,659</b>	<b>128,531</b>	<b>6.1</b>	<b>19.4</b>
Subordinated bonds, notes and debentures	4,175	2,466	2,030	69.3	105.7
Subordinated perpetual notes	717	644	662	11.3	8.3
<b>Total loan capital</b>	<b>4,892</b>	<b>3,110</b>	<b>2,692</b>	<b>57.3</b>	<b>81.7</b>
<b>Total liabilities</b>	<b>158,356</b>	<b>147,769</b>	<b>131,223</b>	<b>7.2</b>	<b>20.7</b>
<b>Net assets</b>	<b>9,262</b>	<b>9,632</b>	<b>8,997</b>	<b>(3.8)</b>	<b>2.9</b>
<b>Equity</b>					
Share capital (1,776 million ordinary shares)	1,776	1,837	1,853	(3.3)	(4.2)
NZ Class shares (54 million NZ Class shares)	482	482	-	-	-
Exchangeable trust originated preferred securities-TOPrS	465	465	465	-	-
Reserves	3,099	3,762	3,888	(17.6)	(20.3)
Retained profits	3,435	3,082	2,788	11.5	23.2
Outside equity interests	5	4	3	25.0	66.7
<b>Total equity</b>	<b>9,262</b>	<b>9,632</b>	<b>8,997</b>	<b>(3.8)</b>	<b>2.9</b>

- The bulk of the asset growth since 1999 has been in Australian loans and acceptances. We have actively moved the proportion of corporate lending from balance sheet loans to acceptances during the year.
- The remaining growth since March 2000 was due to a \$5 billion growth in other financial market assets.
- The revaluation of derivative instruments, due to the change in value of the Australian dollar against the US dollar, together with increased transaction volumes have increased both other financial markets assets and liabilities.
- The balances as at 30 September 2000 and 31 March 2000 include the consolidation of our life insurance business (\$7.5 billion) in accordance with the new accounting standard for Life Insurance Business. Prior periods have not been restated.
- The volume of loans securitised has fallen \$1,669 million (26%) as the runoff in previous securitisation programs has not been replaced by new issuance due to unfavourable market pricing.

### 3.1.1 Loans

As at \$M	30 Sept 2000	31 March 2000	30 Sept 1999	% Mov't Mar 2000- Sept 2000	% Mov't Sept 99- Sept 00
<b>Australia</b>					
Overdrafts	3,138	2,744	2,802	14.4	12.0
Credit card outstandings	4,674	4,189	3,750	11.6	24.6
Overnight and call money market loans	265	375	102	(29.3)	159.8
Own acceptances discounted	2,188	1,360	1,957	60.9	11.8
Term loans:					
Housing	47,471	44,280	40,544	7.2	17.1
Non-housing	18,260	20,303	19,482	(10.1)	(6.3)
Finance leases	2,237	2,325	2,359	(3.8)	(5.2)
Investments in leveraged lease and equity lease	284	281	285	1.1	(0.4)
Redeemable preference share finance	426	1,057	1,096	(59.7)	(61.1)
Other	7,146	6,740	5,597	6.0	27.7
<b>Total - Australia</b>	<b>86,089</b>	<b>83,654</b>	<b>77,974</b>	<b>2.9</b>	<b>10.4</b>
<b>New Zealand</b>					
Overdrafts	617	759	744	(18.7)	(17.1)
Credit card outstandings	572	587	520	(2.6)	10.0
Overnight and call money market loans	439	508	443	(13.6)	(0.9)
Own acceptances discounted	-	-	1	-	(100.0)
Term loans:					
Housing	9,404	10,339	9,845	(9.0)	(4.5)
Non-housing	5,247	6,557	5,758	(20.0)	(8.9)
Finance leases	28	30	25	(6.7)	12.0
Redeemable preference share finance	1,920	1,580	1,003	21.5	91.4
Other	1,230	779	522	57.9	135.6
<b>Total - New Zealand</b>	<b>19,457</b>	<b>21,139</b>	<b>18,861</b>	<b>(8.0)</b>	<b>3.2</b>
<b>Other Overseas</b>					
Overdrafts	175	123	102	42.3	71.6
Term loans:					
Housing	251	250	264	0.4	(4.9)
Non-housing	1,648	1,441	1,256	14.4	31.2
Finance leases	26	31	33	(16.1)	(21.2)
Other	1,365	968	726	41.0	88.0
<b>Total - Other Overseas</b>	<b>3,465</b>	<b>2,813</b>	<b>2,381</b>	<b>23.2</b>	<b>45.5</b>
<b>Total gross loans</b>	<b>109,011</b>	<b>107,606</b>	<b>99,216</b>	<b>1.3</b>	<b>9.9</b>
Provisions for bad and doubtful debts	(1,478)	(1,469)	(1,500)	0.6	(1.5)
<b>Total net loans</b>	<b>107,533</b>	<b>106,137</b>	<b>97,716</b>	<b>1.3</b>	<b>10.0</b>
<b>Securitised loans<sup>1</sup></b>	<b>4,751</b>	<b>5,469</b>	<b>6,420</b>	<b>(13.1)</b>	<b>(26.0)</b>

<sup>1</sup> Net of amortisation in loans securitised.

### 3.1.2 Deposits and Public Borrowings

As at \$M	30 Sept 2000	31 March 2000	30 Sept 1999	% Mov't Mar 2000- Sept 2000	% Mov't Sept 99- Sept 00
<b>DEPOSITS</b>					
<b>Australia</b>					
Non-interest bearing	3,423	3,549	3,522	(3.6)	(2.8)
Certificates of deposit	5,949	6,405	6,010	(7.1)	(1.0)
Other interest bearing					
At call	29,929	28,217	28,163	6.1	6.3
Term	18,995	17,605	18,058	7.9	5.2
<b>Total deposits in Australia</b>	<b>58,296</b>	<b>55,776</b>	<b>55,753</b>	<b>4.5</b>	<b>4.6</b>
<b>New Zealand</b>					
Non-interest bearing	675	753	771	(10.4)	(12.5)
Certificates of deposit	1,439	2,089	2,046	(31.1)	(29.7)
Other interest bearing					
At call	4,058	4,509	4,412	(10.0)	(8.0)
Term	7,507	8,216	8,014	(8.6)	(6.3)
<b>Total deposits in New Zealand</b>	<b>13,679</b>	<b>15,567</b>	<b>15,243</b>	<b>(12.1)</b>	<b>(10.3)</b>
<b>Other Overseas</b>					
Non-interest bearing	385	220	185	75.0	108.1
Certificates of deposit	3,607	3,754	2,771	(3.9)	30.2
Other interest bearing					
At call	381	370	321	3.0	18.7
Term	7,457	7,723	5,414	(3.4)	37.7
<b>Total deposits Other Overseas</b>	<b>11,830</b>	<b>12,067</b>	<b>8,691</b>	<b>(2.0)</b>	<b>36.1</b>
<b>Total deposits</b>	<b>83,805</b>	<b>83,410</b>	<b>79,687</b>	<b>0.5</b>	<b>5.2</b>
<b>PUBLIC BORROWINGS BY SUBSIDIARY BORROWING CORPORATIONS</b>					
<b>Australia</b>					
Secured	3,666	3,705	3,631	(1.1)	1.0
Unsecured	2,509	2,271	2,129	10.5	17.8
<b>Total public borrowings in Australia</b>	<b>6,175</b>	<b>5,976</b>	<b>5,760</b>	<b>3.3</b>	<b>7.2</b>
<b>New Zealand</b>					
Secured	14	52	99	(73.1)	(85.9)
<b>Total public borrowings in New Zealand</b>	<b>14</b>	<b>52</b>	<b>99</b>	<b>(73.1)</b>	<b>(85.9)</b>
<b>Total public borrowings by subsidiary borrowing corporations</b>	<b>6,189</b>	<b>6,028</b>	<b>5,859</b>	<b>2.7</b>	<b>5.6</b>

## 4 ASSET QUALITY

### 4.1 IMPAIRED ASSETS

The strong domestic economy, particularly in housing and credit card lending, saw our Australian loan portfolio grow 10% to \$86 billion in 2000. At the same time bankruptcies fell almost 12%, the first fall since 1993/94.

These factors, combined with a strong risk management culture have assisted in further reducing our impaired assets exposure. Impaired assets at September 2000 represent just 0.5% of gross loans and acceptances compared to 0.6% last year.

As at \$M	30 Sept 2000			31 March 2000			30 Sept 1999		
	Gross	Specific Prov'n	Net	Gross	Specific Prov'n	Net	Gross	Specific Prov'n	Net
<b>Non-accrual assets</b>									
Australia	291	(115)	176	282	(131)	151	347	(149)	198
New Zealand	95	(22)	73	107	(29)	78	100	(32)	68
Other Overseas	146	(118)	28	171	(150)	21	172	(144)	28
<b>Total</b>	<b>532</b>	<b>(255)</b>	<b>277</b>	<b>560</b>	<b>(310)</b>	<b>250</b>	<b>619</b>	<b>(325)</b>	<b>294</b>
<b>Restructured assets</b>									
Australia	34	(9)	25	10	(1)	9	13	(1)	12
New Zealand	16	-	16	-	-	-	1	-	1
Other Overseas	11	(2)	9	12	(3)	9	11	(4)	7
<b>Total</b>	<b>61</b>	<b>(11)</b>	<b>50</b>	<b>22</b>	<b>(4)</b>	<b>18</b>	<b>25</b>	<b>(5)</b>	<b>20</b>
<b>Total impaired assets <sup>(1)</sup></b>	<b>593</b>	<b>(266)</b>	<b>327</b>	<b>582</b>	<b>(314)</b>	<b>268</b>	<b>644</b>	<b>(330)</b>	<b>314</b>

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

As at \$M	30 Sept 2000	31 March 2000	30 Sept 1999
Australia			
Housing products	74	71	72
Other products	80	95	84
<b>Total</b>	<b>154</b>	<b>166</b>	<b>156</b>
New Zealand			
Housing products	31	13	17
Other products	9	9	13
Other Overseas	11	3	4
<b>Total</b>	<b>51</b>	<b>25</b>	<b>34</b>
<b>Total</b>	<b>205</b>	<b>191</b>	<b>190</b>

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

\$M	Twelve months to 30 Sept 2000	Twelve months to 30 Sept 1999
Interest received on non-accrual and restructured assets	22	22
Estimated interest forgone on non-accrual and restructured assets	30	40
Interest yield on average non-accrual and restructured assets (annualised)	3.8%	2.9%

1 Includes off-balance sheet items of \$17 million (\$21 million as at 31 March 2000, \$16 million as at 30 September 1999).

2 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, primarily by residential property, and are spread across a range of customer and product groups, including housing, overdraft and bill acceptance facilities.

#### 4.4 PROVISIONS FOR BAD AND DOUBTFUL DEBTS

\$M	Six months to		Twelve months to	
	30 Sept 2000	31 March 2000	30 Sept 2000	30 Sept 1999
<b>General provision</b>				
Balance at beginning of period	1,155	1,170	1,170	1,238
Exchange rate and other adjustments	(6)	(1)	(7)	(12)
Provisions of controlled entities acquired/(disposed)	-	-	-	(14)
Charge to operating profit	161	69	230	119
Recoveries of debts previously written off	50	40	90	75
Write-offs	(148)	(123)	(271)	(236)
Balance at period end	<u>1,212</u>	<u>1,155</u>	<u>1,212</u>	<u>1,170</u>
<b>Specific provisions</b>				
Balance at beginning of period	314	330	330	362
Exchange rate and other adjustments	12	13	25	(8)
Provisions of controlled entities acquired/(disposed)	(2)	-	(2)	(10)
New specific provisions	43	32	75	165
Specific provisions no longer required	(61)	(42)	(103)	(113)
Write-offs <sup>1</sup>	(40)	(19)	(59)	(66)
Balance at period end	<u>266</u>	<u>314</u>	<u>266</u>	<u>330</u>
<b>Total provisions</b>	<b><u>1,478</u></b>	<b><u>1,469</u></b>	<b><u>1,478</u></b>	<b><u>1,500</u></b>
<sup>1</sup> <i>Write-offs from specific provisions comprised:</i>				
<i>Australian Retail Financial Services</i>	8	12	20	38
<i>Westpac Institutional Bank</i>	30	1	31	11
<i>WestpacTrust and Pacific Banking</i>	2	6	8	17
	<u>40</u>	<u>19</u>	<u>59</u>	<u>66</u>

#### 4.5 IMPAIRED ASSETS AND RATIOS

As at %	30 Sept 2000	31 March 2000	30 Sept 1999
Impaired assets to total loans and acceptances	0.5	0.5	0.6
Specific provisions to total impaired assets	44.8	54.0	51.2
Total provisions to total impaired assets	249	253	233
Total provisions to total loans and acceptances	1.2	1.2	1.4
Total impaired assets to equity and total provisions	5.5	5.2	6.1
Net impaired assets to equity and general provisions	3.1	2.5	3.1

#### 4.6 CHARGE FOR BAD AND DOUBTFUL DEBTS

\$M	Six months to		Twelve months to	
	30 Sept 2000	31 March 2000	30 Sept 2000	30 Sept 1999
<b>SPECIFIC PROVISIONS:</b>				
<b>New provisions</b>				
Australian Retail Financial Services	26	17	43	51
Westpac Institutional Bank	1	8	9	81
WestpacTrust and Pacific Banking	16	7	23	33
	<u>43</u>	<u>32</u>	<u>75</u>	<u>165</u>
<b>No longer required</b>				
Australian Retail Financial Services	(25)	(22)	(47)	(58)
Westpac Institutional Bank	(25)	(14)	(39)	(27)
WestpacTrust and Pacific Banking	(11)	(6)	(17)	(28)
	<u>(61)</u>	<u>(42)</u>	<u>(103)</u>	<u>(113)</u>
<b>Specific provisions net charge to operating profit</b>	<b>(18)</b>	<b>(10)</b>	<b>(28)</b>	<b>52</b>
<b>GENERAL PROVISION:</b>				
<b>Write-off direct against profit</b>				
Australian Retail Financial Services	123	101	224	207
Westpac Institutional Bank	8	7	15	1
WestpacTrust and Pacific Banking	13	19	32	28
	<u>144</u>	<u>127</u>	<u>271</u>	<u>236</u>
<b>Recoveries of debts previously written off</b>				
Australian Retail Financial Services	(40)	(35)	(75)	(62)
Westpac Institutional Bank	(5)	(1)	(6)	(3)
WestpacTrust and Pacific Banking	(5)	(4)	(9)	(10)
	<u>(50)</u>	<u>(40)</u>	<u>(90)</u>	<u>(75)</u>
Dynamic provisioning debit/(credit)	<u>67</u>	<u>(18)</u>	<u>49</u>	<u>(42)</u>
<b>General provision net charge to operating profit</b>	<b>161</b>	<b>69</b>	<b>230</b>	<b>119</b>
<b>Charge for bad and doubtful debts</b>	<b>143</b>	<b>59</b>	<b>202</b>	<b>171</b>
Bad and doubtful debts charge to average loans and acceptances annualised (basis points)	24	10	17	16



## 5 CAPITAL ADEQUACY

As at \$M	30 Sept 2000	31 March 2000	30 Sept 1999
<b>Tier 1 capital</b>			
Total equity	9,262	9,632	8,997
Less: Receivable in respect of New Zealand Class shares	(190)	(190)	-
Asset revaluation reserves	(36)	(110)	(113)
Estimated reinvestment under dividend reinvestment plan <sup>1</sup>	33	-	-
Intangible assets	(1,535)	(1,635)	(1,665)
<b>Total Tier 1 capital</b>	<b>7,534</b>	<b>7,697</b>	<b>7,219</b>
<b>Tier 2 capital</b>			
Premises revaluation reserve	36	110	113
Subordinated undated capital notes	717	644	662
General provision for doubtful debts	1,212	1,155	1,170
Future income tax benefit related to general provision	(374)	(362)	(421)
Eligible subordinated bonds, notes and debentures	3,310	1,818	1,536
<b>Total Tier 2 capital</b>	<b>4,901</b>	<b>3,365</b>	<b>3,060</b>
<b>Tier 1 and Tier 2 capital</b>	<b>12,435</b>	<b>11,062</b>	<b>10,279</b>
Deductions:			
Other banks' capital instruments	(9)	(9)	(9)
Investments and capital in life insurance, funds management and securitisation activities <sup>2</sup>	(1,091)	(1,079)	(790)
<b>Net qualifying capital</b>	<b>11,335</b>	<b>9,974</b>	<b>9,480</b>
<b>Risk adjusted assets</b>	<b>114,816</b>	<b>106,724</b>	<b>102,592</b>
Tier 1 capital ratio	6.6%	7.2%	7.0%
Tier 2 capital ratio	4.3%	3.1%	3.0%
Deductions	(1.0)%	(1.0)%	(0.8)%
<b>Net capital ratio</b>	<b>9.9%</b>	<b>9.3%</b>	<b>9.2%</b>

- Our net capital ratio has risen from 9.3% in March 2000 to 9.9% in September 2000. Over the same period, Tier 1 capital has fallen from 7.2% to 6.6%. This decline in Tier 1 capital is due to the share buy-backs undertaken in the second half.
- The growth in Tier 2 capital can be attributed to the revaluation of our non-Australian dollar subordinated debt and additional subordinated debt issued to fund business initiatives.
- The \$190 million receivable in NZ Class shares due on 20 December 2000 will become Tier 1 capital from that date.
- In line with previous commitments, we expect to achieve capital ratios broadly in line with our target ratios during the first half of the next financial year. This will include a reduction in the net capital ratio to levels similar to that held at 31 March 2000.

<sup>1</sup> This amount is derived from reinvestment experience of our dividend reinvestment plan.

## 6 BUSINESS GROUP RESULTS

To enable a more detailed analysis of our results the results of our business operations have been presented on a management reporting basis. Internal charges and transfer pricing adjustments have been included in the performance of each business group reflecting the management of our business, rather than our legal structure. Therefore these results cannot be compared directly to public disclosure of the performance of our individual legal entities or geographic disclosures elsewhere in this document.

The following business results highlight the key business units and do not add to our total result. The remainder of our result includes smaller business units and certain group financial transactions. Where the management reporting structure has changed or where accounting reclassification have been made, comparatives have been restated and therefore may differ from results previously reported.

### 6.1 AUSTRALIAN RETAIL FINANCIAL SERVICES

Our Australian Retail Financial Services operations consists of the combined results of Australian Retail Banking, Australian Guarantee Corporation, Westpac Financial Services, and Global Transactional Services.

<b>\$M</b>	<b>12 months to/as at 30 Sept 00</b>	<b>12 months to/as at 30 Sept 99</b>	<b>% Mov't Sept 99 - Sept 00</b>
Net interest income	2,883	2,751	4.8
Non-interest income	1,688	1,284	31.5
Operating income	4,571	4,035	13.3
Non-interest expenses (excluding intangibles)	(2,646)	(2,467)	7.3
Core earnings	1,925	1,568	22.8
Amortisation - intangibles	(63)	(63)	-
Underlying performance	1,862	1,505	23.7
Provision for bad and doubtful debts	(188)	(130)	44.6
Operating profit before tax	1,674	1,375	21.7
Tax and outside equity interests	(599)	(475)	26.1
Profit on operations	1,075	900	19.4
Economic profit <sup>1</sup>	700	595	17.6
Expense/income (excluding intangibles)	57.9%	61.1%	
	<b>\$Bn</b>	<b>\$Bn</b>	
Deposits and other public borrowings	52.4	49.6	5.6
Net loans and acceptances	85.6	73.6	16.3
Total assets	101.0	81.6	23.8
Funds under management	23.7	22.7	4.4

<sup>1</sup> 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

- Lending volumes have risen over the year reflecting both market growth and improved market share. Our Australian on-balance sheet housing outstandings increased by a net \$7.5 billion or 18% in the year to 30 September 2000. Despite this balance sheet growth, net interest income grew by only 5% as margins continued to decline, through competitive pressures especially in the home lending market.
- Non-interest income continues to grow both in absolute terms and as a percentage of total income. After adjusting for the life company accounting change, non-interest income grew by \$177 million or 14%. Major contributors to this increase include:
  - increased lending fees due to higher volumes (\$61 million);
  - increased volumes on credit cards (\$50 million);
  - transaction fees for both retail and business customers as a result of increased transactional activity (\$30 million).
- Growth in non-interest expenses was primarily due to business growth in key areas such as financial services and credit cards, one-off costs associated with the 2000 Olympics, Y2K remediation work and the introduction of the Goods and Services Tax, as well as \$74 million due to the impact of the accounting changes for the life company.
- The increase in bad debts provision is due to higher dynamic (general) provisioning in line with the increase in lending levels.
- The growth in profit on operations includes \$59 million from the restructure of the funds management and life businesses.
- Economic Profit has increased by 18% reflecting our strong increase in core earnings.

## **Business Developments**

Our focus has been on growing the number of priority customers. These customers, who have significant, multi-product relationships with us, grew to over one million in September, an increase of 128% since October 1997.

### Branch Network Initiatives

We have completed the network development program outlined in 1998. This has seen an investment of over \$120 million to reposition and modernise the retail branch network. The work completed includes 118 branch amalgamations and the creation of 169 in-store branches. This number includes 10 locations where we were not previously represented.

The modernisation program has seen the introduction of a common service operating model across the whole branch network, new cash handling initiatives for business customers, and a greater emphasis on helping customers migrate their transactions from the branch to more cost effective electronic channels.

### eCommerce

We are progressively eEnabling our business and customers.

- Internet banking registrations have increased to over 430,000 by October 2000 an increase of 236% on September 1999.
- We introduced 'pay others' functionality to our internet banking site in June 2000 and now process over 70,000 transactions per month by this means.
- Westpac Broking, which was launched in January 2000, now has over 51,000 accounts. During October, over 30,000 trades were processed, with over 93% of these originated via the internet.

### Housing

More effective distribution from our sales force and brokers, has further improved the performance of the housing products. We continue to write over 20% of new loans in the market (all lenders) and our market share of outstandings (for all banks) is now at 21%. Higher margin variable products make up 78% of mortgage outstandings, up from 75% in 1999.

### Credit Cards

Outstanding balances on credit cards grew by 25% to \$5 billion, the number of cards on issue grew by 14%, and the value of purchases made on our cards by 42%. Our

market share of bank issued credit cards outstanding balances has remained stable at 16% and share of spending has increased from 21% to 22%.

### Business Banking

The number of business customers grew by 4%, with business lending and business deposits growing by 15% and 5% respectively. During the year we centralised various transaction and business loan processing functions and plan to introduce new technology to further streamline credit functions. We have also begun to realign our sales force around our customer needs.

### Funds Under Management

Funds under management for the year rose by a net \$1 billion (4%) to \$23.7 billion. This growth had three components:

- revaluation of existing funds under management \$1.2 billion;
- net fund inflows of \$1.1 billion; and
- the retirement of a significant wholesale mandate of \$1.3 billion.

The rate of net fund inflow fell due to lower retail sales performance in the first six months of the year. In the second half of the year our sales performance greatly improved.

### Insurance

Sales of our general insurance products continue to grow with the number of policies in force increasing by 15%.

### Training

During the year most of our internal training has been on increasing customer service, better understanding of our customer needs and on how to help our customers choose which product or service is best for them.

In addition, we have conducted a number of customer seminars including estate planning, women in business and transactional services for business customers. We have also held educational seminars for pensioners on how to use the newer electronic channels.

### Olympics

Through our sponsorship of the Sydney 2000 Olympics, over 15,000 of our customers attended the Games. Also over 12,000 of our staff experienced the Olympic Games through our staff reward programs, volunteer programs or by working at a banking site within the Olympic precinct.

## 6.2 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.

<b>\$M</b>	<b>12 months to/as at 30 Sept 00</b>	<b>12 months to/as at 30 Sept 99</b>	<b>% Mov't Sept 99 - Sept 00</b>
Net interest income	484	326	48.5
Non-interest income	254	377	(32.6)
Operating income	738	703	5.0
Non-interest expenses (excluding intangibles)	(303)	(308)	(1.6)
Core earnings	435	395	10.1
Amortisation - intangibles	-	-	-
Underlying performance	435	395	10.1
Provision for bad and doubtful debts	6	(11)	(154.5)
Operating profit before tax	441	384	14.8
Tax and outside equity interests	(135)	(136)	(0.7)
Profit on operations	306	248	23.4
Economic profit	226	166	36.1
Expense/income (excluding intangibles)	41.1%	43.8%	
	<b>\$Bn</b>	<b>\$Bn</b>	
Deposits and other public borrowings	7.0	7.2	(2.8)
Net loans and acceptances	21.8	18.4	18.5
Total assets	48.1	36.0	33.6

### Financial Performance

Operating income increased by 5% to \$738 million over the last year. Operating income in the Corporate Finance business increased by 19% as a result of a significant increase in deal volumes. This was offset by a small decrease in Financial Markets income as a result of a poor trading environment in the first half of the year. Continued focus on cost control led to a \$5 million reduction in non-interest expenses.

Careful credit risk management and a favourable environment reduced the bad debt expense, with a net credit to earnings of \$6 million compared to a charge of \$11 million in the prior corresponding period.

Return on fully allocated equity was 25% and Economic Profit was \$226 million, up 36% on 1999.

### Business Developments

We are recognised as the principal corporate banker to 23% of Australia's top 500 companies<sup>1</sup> providing services in the areas of advice, funding (Corporate Finance) and market risk management (financial markets).

In an environment of increasing competitiveness, our market share and customer satisfaction rankings<sup>1</sup> have improved over the 12-month period to March 2000.

During the year a number of eCommerce initiatives were implemented including:

- In partnership with three other major wholesale financial institutions, we launched Australia's and New Zealand's first internet-based trading and

research site for fixed income securities, called *yieldbroker.com*. This service provides our clients with a faster and more efficient alternative to the current telephone ordering system for fixed income products, such as Australian government and semi-government bonds, selected Australian corporate bonds and New Zealand government bonds.

- Internally, we introduced a new customer contacts database for our relationship managers. This new system enables our managers to leverage customer information, coordinate sales efforts and identify new business opportunities.

Some of our notable transactions in the past year were:

- co-led the first domestic issue of eBonds;
- joint underwriter of NZ\$1,400 million acquisition and bridge financing deal, United Network Ltd;
- co-lead manager in the financing of rolling stock for Swanston and Bayside metropolitan rail service franchises in Victoria. This is a first for such a long term non-government/non-indexed bonds;
- arranger and lead manager of A\$224 million commercial mortgage backed issue for Macquarie Office Trust (a first in Australia for a listed property trust);
- sole manager of a A\$200 million cross-border domestic and Asian medium term note issue for Contact Energy (first deal of its kind for a NZ entity in the Australian market); and
- advisor to OSI International Foods on the acquisition of Woolworths' Chisholm meat business.

<sup>1</sup> East and Partners, *Corporate Banking Markets Report, April 2000*.

## 6.3 NEW ZEALAND RETAIL

<b>\$M</b>	<b>12 months to/as at 30 Sept 00</b>	<b>12 months to/as at 30 Sept 99</b>	<b>% Mov't Sept 99 - Sept 00</b>	<b>% Mov't in local currency</b>
Net interest income	567	647	(12.4)	(8.2)
Non-interest income	295	270	9.3	14.7
Operating income	862	917	(6.0)	(1.5)
Non-interest expenses (excluding intangibles)	(437)	(488)	(10.5)	(5.9)
Core earnings	425	429	(0.9)	3.5
Amortisation - intangibles	(35)	(37)	(5.4)	-
Underlying performance	390	392	(0.5)	3.9
Provision for bad and doubtful debts	(21)	12	n/a	n/a
Operating profit before tax	369	404	(8.7)	(4.8)
Tax and outside equity interests	(119)	(146)	(18.5)	(13.8)
Profit on operations	250	258	(3.1)	0.3
Economic profit <sup>1</sup>	114	122	(6.6)	
Expense/income (excluding intangibles)	50.7%	53.2%		
	<b>\$Bn</b>	<b>\$Bn</b>		
Deposits and other public borrowings	10.3	11.1	(7.2)	(0.7)
Net loans and acceptances	14.4	15.0	(4.0)	2.1
Total assets	15.4	16.3	(5.5)	-
Funds under management	1.4	1.1	27.3	28.6

1 A portion of the imputation credits generated on the NZ Class shares have been included in the business unit Economic Profit calculation.

### Financial Performance

Operating income for our New Zealand Retail operations has declined by 6% on the prior year. 4.5% of this deterioration is due to the fall in the New Zealand dollar relative to the Australian dollar between 1999 and 2000.

Margin compression in the retail housing and deposit markets, following five increases in the official New Zealand cash rate during the year, coupled with low levels of new lending activity in the market has caused net interest income to decline by 8% in local currency terms.

Strong growth in sales of our funds management (funds under management has increased by 29% in local currency terms on 1999) and insurance products has helped drive our improved non-interest income. Increased transaction volumes, fee repricing and the introduction of some new fees, such as for the use of non-WestpacTrust ATMs has also contributed to this increase.

Non-interest expenses have fallen 6% in local currency terms against the prior year. This reflects the continuing initiatives to reduce expenditure and restructure the New Zealand operations. Our re-engineering and delivery channel reconfiguration program has included significant investments in areas such as Online banking and item-image processing.

The current year bad and doubtful debt expense reflects a higher level of consumer credit write-offs. The prior year included write-backs of provisions no longer required.

Deposit volumes remained fairly in local currency terms. This reflected the general market movement as customers continued to move to broader funds management products.

Economic Profit has declined 7% on a flat local currency profit largely due to the movement in the New Zealand dollar.

### Business Developments

During the year we have accredited over 900 investment consultants who operate through the branch network to sell both superannuation and unit trust products. This has contributed to WestpacTrust being number one for net funds inflow in New Zealand for the year ended 30 June 2000.

Our focus remains on leveraging our substantial customer base of 1.2 million by increasing the number of products sold to each customer. As part of this initiative we have introduced a number of new packaged solutions to meet the needs of specific customer segments including high value home loan customers, new entrants to the work force and travellers.

Our online banking service was launched in April 2000 and has exceeded expectations, with the signing up of over 55,000 online customers in less than seven months. We continue to develop the capability of this new channel.

We have continued to build our electronic banking network. ATMs have been upgraded and we now have the largest network in New Zealand with 487 machines.

A new mortgage broker unit was established in September 2000 to enable a specialised group of staff to focus solely on this home lending channel. Almost one third of new loans in New Zealand are now originated via a broker.

## 7 DERIVATIVES

### Derivatives Outstandings

As at 30 September 2000 \$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	40.9	-	-	-
Forwards	26.6	-	-	-
Swaps	161.0	2.5	1.7	1.7
Purchased options	10.2	-	-	-
Sold options	4.7	-	-	-
<b>Foreign exchange</b>				
Forwards	212.5	10.6	8.7	6.1
Swaps	37.4	3.7	2.2	1.8
Purchased options	21.6	1.3	1.0	-
Sold options	19.8	-	-	0.6
<b>Commodities</b>				
	1.3	0.2	-	0.1
<b>Equities</b>				
	5.8	0.4	-	-
<b>Gross derivatives</b>	<b>541.8</b>	<b>18.7</b>	<b>13.6</b>	<b>10.3</b>
<b>Less: netting benefit</b>		<b>(4.8)</b>	<b>(3.0)</b>	<b>(3.0)</b>
<b>Net derivatives</b>	<b>541.8</b>	<b>13.9</b>	<b>10.6</b>	<b>7.3</b>
<b>As at 31 March 2000</b>	<b>509.3</b>	<b>13.4</b>	<b>8.3</b>	<b>6.9</b>
<b>As at 30 September 1999</b>	<b>485.2</b>	<b>9.9</b>	<b>5.3</b>	<b>5.8</b>

The table above incorporates the impact of close-out netting. This covers derivative contracts where legally enforceable netting agreements are in place with our counterparties. Comparatives have not been restated on a net basis.

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

As at 30 September 2000 \$Bn	Over 6						Total
	Less than 3 months	Over 3 months to 6 months	months to 1 year	Over 1 year to 2 years	Over 2 years to 5 years	Over 5 years	
<b>Interest rate</b>							
Swaps	0.1	0.1	0.1	0.2	0.7	0.5	1.7
<b>Foreign exchange</b>							
Forwards	4.3	2.3	1.2	0.4	0.4	0.1	8.7
Swaps	0.1	0.3	0.2	0.3	1.0	0.3	2.2
Purchased options	0.3	0.1	0.3	0.1	0.2	-	1.0
<b>Total derivatives</b>	<b>4.8</b>	<b>2.8</b>	<b>1.8</b>	<b>1.0</b>	<b>2.3</b>	<b>0.9</b>	<b>13.6</b>

- 69% of credit risk matures within one year and 76% within two years.

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.

## Daily Earnings at Risk

Trading risk strategies, which focus on servicing our Australian and New Zealand customer franchise, are reflected in the stable average earnings at risk numbers.

\$M	High	Low	Average
Six months ended 30 September 2000	9.2	3.4	5.2
Six months ended 31 March 2000	9.7	2.8	5.7
Six months ended 30 September 1999	10.7	3.2	6.3

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

### Average Earnings at Risk by Risk Type

\$M	Average for the 6 months ended 30 Sept 2000	Average for the 6 months ended 31 March 2000	Average for the 6 months ended 30 Sept 1999
Interest rate risk	3.2	4.2	4.5
Foreign exchange risk	0.9	1.6	1.9
Volatility risk	0.6	0.4	0.5
Other market risk <sup>1</sup>	2.0	1.6	1.7
Diversification benefit	(1.5)	(2.1)	(2.3)
Aggregate market risk	5.2	5.7	6.3

## 8 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+

## 9 EXCHANGE RATES

Six months to/as at	30 September 2000		31 March 2000		30 September 1999	
Currency	Average	Spot	Average	Spot	Average	Spot
	0.6103	0.5442	0.6379	0.6057	0.6402	0.6533
	0.3904	0.3717	0.3939	0.3801	0.3932	0.3972
	1.2643	1.3397	1.2621	1.2202	1.2015	1.2617

## 10 CHANGES IN ACCOUNTING POLICIES

Accounting standard AASB 1038 'Life Insurance Business' became operative for us from 1 October 1999. The standard requires the consolidation of all life insurance assets, liabilities, revenues and expenses. Assets of the life insurer are measured at net market value and all liabilities at net present value. In addition, the standard requires that the excess of the net market values of an interest in a controlled entity over the net amount of the controlled entity's recognised net assets must be recognised in the consolidated financial statements with any subsequent movements included in profit and loss.

The adoption of the standard has resulted in an increase in our assets and liabilities of \$7 billion. There was no adjustment to opening retained earnings.

During the half year we undertook an internal reorganisation which resulted in Westpac Life Insurance Services Limited acquiring Westpac Custodian Nominees Limited to manage our financial services origination business. Under the new accounting standard that investment is carried at net market value.

The application of the accounting standard for the year ended 30 September 2000 has resulted in an increase in operating profit after tax of \$59 million.

Future earnings will continue to be impacted by this change in accounting policy.

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

<sup>2</sup> As at October 2000. No changes from prior period.

## 11 STATEMENTS OF CASH FLOWS

<b>\$M</b>	Twelve months to	
	30 Sept 2000	30 Sept 1999
<b>Cash flows from operating activities</b>		
Interest received	10,135	8,345
Interest paid	(6,232)	(5,018)
Dividends received	43	35
Other non-interest income received	655	2,954
Non-interest expenses paid	(3,174)	(3,091)
Decrease/(increase) in trading securities	764	(2,204)
Income taxes paid	(497)	(520)
Life insurance:		
receipts from policyholders and customers	3,366	-
interest and other items of similar nature	135	-
dividends received	430	-
payments to policyholders, suppliers and employees	(3,428)	-
income tax paid	(27)	-
<b>Net cash provided by operating activities</b>	<b>2,170</b>	<b>501</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investment securities	1,441	147
Proceeds from matured investment securities	94	148
Purchase of investment securities	(1,907)	(444)
Proceeds from securitised loans	245	2,568
Net (increase)/decrease in:		
loans	(11,312)	(11,124)
due from other financial institutions	778	(898)
regulatory deposits	(135)	752
life business investments	(118)	-
other assets	410	(554)
Purchase of fixed assets	(418)	(362)
Proceeds from disposal of fixed assets	525	119
Controlled entities acquired/disposed (net of cash held and sale costs)	139	58
<b>Net cash used in investing activities</b>	<b>(10,258)</b>	<b>(9,590)</b>
<b>Cash flows from financing activities</b>		
Issue of loan capital	1,924	460
Redemption of loan capital	(112)	(147)
Proceeds from issue of shares	91	95
Proceeds from issue of New Zealand Class shares, net of issue costs of \$16m	279	-
Buyback of shares	(1,273)	(933)
Proceeds from issue of exchangeable trust originated preferred securities, net of issue costs paid of \$20 million	-	465
Net increase/(decrease) in:		
due to other financial institutions	379	(266)
deposits and public borrowings	3,909	5,113
other liabilities	179	419
bonds, notes and commercial paper	3,962	4,450
Payment of distributions and dividends	(761)	(627)
Payment of dividends to outside equity interests	(3)	(4)
<b>Net cash provided by financing activities</b>	<b>8,574</b>	<b>9,025</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>486</b>	<b>(64)</b>
Effect of exchange rate changes on cash and cash equivalents	5	6
Cash and cash equivalents at the beginning of the financial period <sup>1</sup>	345	403
<b>Cash and cash equivalents at the end of the financial period</b>	<b>836</b>	<b>345</b>

<sup>1</sup> Cash and cash equivalents comprise cash and balances with central banks as shown in the balance sheet.



11 STATEMENTS OF CASH FLOWS (CONT'D)

\$M	Twelve months to	
	30 Sept 2000	30 Sept 1999
<b>Reconciliation of net cash provided by operating activities to operating profit after income tax</b>		
Operating profit after income tax	1,715	1,456
<b>Adjustments:</b>		
Outside equity interests	3	3
Depreciation	270	237
Sundry provisions and other non-cash items	2,247	(177)
Bad and doubtful debts	292	246
(Increase)/decrease in other financial market items	(3,148)	1,052
(Increase)/decrease in trading securities	764	(2,204)
(Increase)/decrease in accrued interest receivable	(156)	(3)
Increase/(decrease) in accrued interest payable	344	(162)
Increase/(decrease) in provision for income tax	9	(3)
Increase/(decrease) in provision for deferred income tax	98	(19)
(Increase)/decrease in future income tax benefits	61	202
	(128)	-
Change in excess of net market value over net assets of life insurance subsidiaries		
Amounts paid out of sundry provisions	(201)	(127)
<b>Total adjustments</b>	<b>455</b>	<b>(955)</b>
<b>Net cash provided by/(used in) operating activities</b>	<b>2,170</b>	<b>501</b>
<b>Disposals</b>		
Due from other financial institutions	-	15
Statutory deposits	-	14
Loans	290	785
Due from Westpac Group	-	33
Fixed assets	-	38
Other assets	3	23
Deposits & public borrowings	(156)	(815)
Due to other financial institutions	-	(20)
Other liabilities	-	(31)
<b>Net assets of entities and businesses disposed</b>	<b>137</b>	<b>42</b>
Gain/(loss) on disposal	2	16
<b>Cash consideration (net of sale costs)</b>	<b>139</b>	<b>58</b>

## 12 GROUP FINANCIAL INFORMATION FOR US INVESTORS

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 2000	30 Sept 1999	30 Sept 2000	30 Sept 1999
	US\$ <sup>1</sup>	US\$ <sup>1</sup>	A\$	A\$
<b>Net profit as reported</b>	<b>929</b>	788	<b>1,715</b>	1,456
Premises and sites	(29)	11	(54)	20
Amortisation of goodwill	(7)	(15)	(13)	(28)
Superannuation (pension) expense adjustment	4	1	8	2
Adjustment re provision for employee redundancy benefits	-	(18)	-	(33)
Life insurance adjustment (net of tax)	(32)	-	(60)	-
TOPrS adjustment	(23)	(4)	(43)	(8)
Start up costs <sup>2</sup>	(11)	-	(21)	-
Software capitalisation adjustment	(3)	-	(5)	-
<b>Adjusted US GAAP net profit</b>	<b>828</b>	763	<b>1,527</b>	1,409
<b>Other comprehensive income</b>				
Foreign currency translation reserve	62	(7)	115	(13)
Unrealised net gain/(loss) on available for sale securities	(20)	(15)	(37)	(28)
Reclassification adjustment for (gains)/losses included in net income	(1)	-	(1)	-
<b>Total other comprehensive income</b>	<b>41</b>	(22)	<b>77</b>	(41)
<b>Total comprehensive income according to US GAAP</b>	<b>869</b>	741	<b>1,604</b>	1,368
<b>Equity as reported (excluding outside equity interests)</b>	<b>5,013</b>	4,870	<b>9,257</b>	8,994
Premises and sites	(76)	(61)	(141)	(112)
Goodwill	2	9	4	17
Investment securities fair value adjustments	(34)	(14)	(63)	(25)
Superannuation (pension) expense adjustment	(47)	(51)	(87)	(95)
Life insurance adjustment (net of tax)	(37)	(4)	(68)	(8)
TOPrS adjustment	(252)	(252)	(465)	(465)
Start up cost adjustment	(11)	-	(21)	-
Software capitalisation adjustment	(3)	-	(5)	-
Final dividend provided	277	241	512	445
NZ Class shares	(103)	-	(190)	-
<b>Adjusted US GAAP equity</b>	<b>4,730</b>	4,738	<b>8,733</b>	8,751

There is no material difference between the level of assets at 30 September 2000 as reported and the level of assets determined in accordance 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 = US\$0.5415, the noon buying rate for cable transfers on 30 September 2000, published by the Federal Reserve Bank of New York.

2 Comprises the cumulative after tax effect of the initial application of SOP 98-5 'Reporting of Start-Up Activities' of \$24 million less reduction in current period amortisation of \$3 million.

## 13 SHAREHOLDER CALENDAR

**Annual General Meeting: 15 December 2000**

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

**Record date for final dividend:**

*Australian and New Zealand Registers*

At 5.00pm, 6 December 2000 (Sydney time) at:

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

(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 6 December 2000.)

*New York*

For American Depository Receipts, at 5.00pm, 5 December 2000 (New York time) at:

Morgan Guaranty Trust Company, 60 Wall Street, New York, NY 10260-0060, USA

(Dividends will be converted to local currency at the rate ruling on the date of payment of dividend.)

*Tokyo*

At 3.00pm, 6 December 2000 (Tokyo time), for shares registered in the books of Tokyo Stock Exchange Members' securities companies.

(Dividends will be converted to local currency at the rate ruling on date of receipt of the funds by the paying agent, The Mitsubishi Trust and Banking Corporation, 1-7-7, Nishi-Ikebukuro, Toshima-ku, Tokyo, 171, Japan.)

**Ex-dividend date: 30 November 2000**

**Dividend payment date: 2 January 2001**

Group Secretary and General Counsel

3 November 2000

For further information contact:

**Media:**

David Lording, Head of Media Relations, (02) 9226 3510

**Analysts:**

Hugh Devine, Senior Manager, Group Investor Relations (02) 9226 1047