Ten Year Summary

$million (unless otherwise indicated)	1996	1995	1994	1993	1992
Profit and Loss – year ended 30 September[1]					
Net interest income	**3,254**	2,982	2,761	2,628	2,592
Provisions for bad and doubtful debts	**(121)**	(330)	(695)	(1,292)	(2,802)
Net interest income after provisions for bad and doubtful debts	**3,133**	2,652	2,066	1,336	(210)
Non-interest income	**1,488**	1,403	1,555	1,841	1,756
Total operating income net of interest expense and provisions for bad and doubtful debts	**4,621**	4,055	3,621	3,177	1,546
Non-interest expenses	**(3,065)**	(2,666)	(2,637)	(2,629)	(3,169)
Operating profit/(loss) before income tax and abnormal items	**1,556**	1,389	984	548	(1,623)
Income tax (expense)/credit	**(421)**	(371)	(276)	(146)	548
Abnormal items (net of tax)	**–**	(68)	–	(358)	(485)
Outside equity interests	**(3)**	(3)	(3)	(5)	(2)
Operating profit/(loss) after income tax attributable to Shareholders	**1,132**	947	705	39	(1,562)
Balance Sheet at 30 September[1]					
Total assets	**121,513**	105,835	93,861	104,712	110,948
Loans	**81,201**	64,365	61,242	64,601	66,348
Acceptances	**11,197**	11,656	12,219	12,851	11,166
Deposits and public borrowings	**74,886**	58,198	54,925	57,669	60,261
Loan capital	**2,199**	2,881	2,929	3,333	3,261
Shareholders' equity (incl. outside equity interest)	**7,891**	7,583	7,299	7,129	6,676
Total risk adjusted assets	**86,503**	74,930	72,567	82,777	94,904
Share Information					
Earnings per share (cents) – before abnormals	**58.9**	53.5	36.0	21.1	–
– after abnormals	**58.9**	49.8	36.0	0.9	–
Dividends per ordinary share (cents)	**33.0**	28.0	18.0	12.0	18.0
Net tangible assets per ordinary share ($)[2]	**3.39**	3.81	3.67	3.51	3.56
Share price ($) – high	**6.59**	5.51	5.55	4.20	5.05
– low	**5.20**	3.90	3.83	2.39	2.73
– close	**6.54**	5.36	4.20	3.94	2.85
Ratios					
Shareholders' equity to total assets (%)	**6.5**	7.2	7.8	6.8	6.0
Risk adjusted capital ratio (%)	**10.8**	13.9	13.8	12.3	9.7
Dividend payout ratio (%)	**55.3**	56.3	50.3	large	–
Return on: – ordinary shareholders' equity – average (%)[3]	**14.58**	12.95	9.78	0.23	–
– total assets – average (%)	**0.97**	0.97	0.71	0.04	–
Expenses to income ratio (%)[4]	**64.4**	60.5	59.6	65.5	69.1
Interest margin (%)	**3.7**	3.8	3.5	3.0	2.9
Other Information					
Points of bank representation (number at period end)	**1,788**	1,547	1,616	1,827	1,946
Full time equivalent staff (number at period end)[5]	**33,832**	31,416	31,396	33,724	39,253

$million (unless otherwise indicated)	1991	1990	1989	1988	1987
Profit and Loss – year ended 30 September[1]					
Net interest income	2,874	3,160	2,873	2,619	2,307
Provisions for bad and doubtful debts	(1,119)	(1,192)	(579)	(275)	(310)
Net interest income after provisions for bad and doubtful debts	1,755	1,968	2,294	2,344	1,997
Non-interest income	1,743	1,681	1,570	1,273	1,078
Total operating income net of interest expense and provisions for bad and doubtful debts	3,498	3,649	3,864	3,617	3,075
Non-interest expenses	(3,070)	(3,060)	(2,781)	(2,486)	(2,204)
Operating profit/(loss) before income tax and abnormal items	428	589	1,083	1,131	871
Income tax (expense)/credit	(105)	(109)	(283)	(520)	(394)
Abnormal items (net of tax)	150	198	–	94	(26)
Outside equity interests	3	6	1	(12)	(42)
Operating profit/(loss) after income tax attributable to Shareholders	476	684	801	693	409
Balance Sheet at 30 September[1]					
Total assets	106,019	106,991	108,619	84,579	70,334
Loans	63,838	65,922	61,723	48,446	41,495
Acceptances	12,357	12,946	10,546	7,858	6,775
Deposits and public borrowings	60,280	62,547	62,932	48,129	42,384
Loan capital	2,611	2,628	2,684	2,091	2,212
Shareholders' equity (incl. outside equity interest)	7,245	6,871	6,355	5,499	2,986
Total risk adjusted assets	92,322	95,401	93,376	80,289	n/a
Share Information					
Earnings per share (cents) – before abnormals	26.6	43.3	79.4	83.8	63.7
– after abnormals	39.5	61.5	79.4	94.0	58.4
Dividends per ordinary share (cents)	27.5	52.5	52.5	43.0	28.5
Net tangible assets per ordinary share ($)[2]	5.66	5.80	5.87	5.58	3.87
Share price ($) – high	4.92	6.12	6.14	6.12	5.52
– low	3.16	4.00	4.60	3.22	3.53
– close	4.47	4.09	5.54	6.00	5.12
Ratios					
Shareholders' equity to total assets (%)	6.8	6.4	5.8	6.5	4.2
Risk adjusted capital ratio (%)	10.4	9.5	9.4	9.4	–
Dividend payout ratio (%)	71.5	87.2	68.1	48.1	58.6
Return on: – ordinary shareholders' equity – average (%)[3]	6.58	10.05	13.44	15.58	11.70
– total assets – average (%)	0.43	0.62	0.81	0.87	0.60
Expenses to income ratio (%)[4]	66.5	63.2	62.5	63.8	65.1
Interest margin (%)	3.4	3.7	3.8	4.4	4.3
Other Information					
Points of bank representation (number at period end)	1,968	1,987	1,955	1,949	1,954
Full time equivalent staff (number at period end)[5]	42,431	45,395	45,383	44,250	42,854

[1] The above profit and loss extracts for 1994, 1995 and 1996 and balance sheet extracts for 1995 and 1996 are derived from the consolidated financial statements included in this Report, and for prior years are derived from consolidated financial statements previously published.
[2] After deducting preference share capital, goodwill and other intangible assets.
[3] Figures for 1987-88 have been adjusted for the inclusion in reserves of the property revaluation surplus.
[4] Excluding superannuation adjustment and in 1992, Network Ten.
[5] Full time equivalent staff includes pro-rata part time staff and excludes unpaid absences (e.g. maternity leave).

The financial review is based on Westpac's consolidated financial statements, prepared in accordance with Generally Accepted Accounting Principles applicable in Australia ("Australian GAAP"). The significant differences between Australian GAAP and US GAAP are discussed in Note 41 of notes to the financial statements, which also includes reconciliations for operating profit (net income) and shareholders' equity. This review is for years ended 30 September 1996, 1995 and 1994.

Overview of Performance

Westpac Banking Corporation and subsidiaries' after tax profit attributable to shareholders was $1,132 million for the full year ended 30 September 1996, a 19.5 % increase over the $947 million earned in the comparable period in 1995, which, in turn, was 34.3% higher than the profit of $705 million recorded in 1994.

Operating profit after abnormals before tax for the full year was $1,556 million, a 32.2% improvement on the 1995 full year of $1,177 million which, in turn, was 32.1% higher than the $891 million in 1994.

Earnings per ordinary share were 58.9 cents, an increase of 18.3% over the 49.8 cents earned in the full year to 30 September 1995, and an increase of 63.6% over the 36.0 cents earned in 1994. Return on average ordinary equity increased to 14.6% from 13.0% in 1995 and 9.8% in 1994.

Net interest income was $3,254 million in 1996, up from $2,982 million in 1995, in an increasingly competitive environment across all businesses in Australia and New Zealand. Westpac's Group interest margin was 3.7% for 1996, down slightly from 3.8% for 1995 but up on 3.5% for 1994.

The bad and doubtful debt charge of $121 million or 3.7% of net interest income, was down significantly on the $330 million or 11.1% of net interest income for the 1995 year, reflecting improved asset quality. The 1995 charge was down 52.5% from the 1994 charge of $695 million. Total provisions for bad and doubtful debts decreased by $83 million to $1,847 million, in 1996, or 2% of total loans and acceptances (down from 2.5% at the end of 1995). Total provisions now represent 145.1% of total impaired loans (91.3% at year end 1995), reflecting the improvement in asset quality.

Non-interest income increased 6.1% to $1,488 million in 1996 from $1,403 million in 1995, in an environment of aggressive discounting of lending and risk fees by participants in both the housing and business markets.

Non-interest expenses grew by 15.0% in 1996, largely reflecting the impact of the Challenge Bank and Trust Bank acquisitions and other restructuring expenses. The anticipated efficiency gains and new revenue streams arising from these acquisitions together with the continued investment in value adding initiatives such as the Mortgage Processing Centre, back office centralisation and electronic delivery technology, should assist in countering the impact of competitive pressures.

Summary Consolidated Profit and Loss Statement

	1996 $m	1995 $m	1994 $m
Net interest income	**3,254**	2,982	2,761
Provisions for bad and doubtful debts	**(121)**	(330)	(695)
Non-interest income	**1,488**	1,403	1,555
Non-interest expenses	**(3,065)**	(2,666)	(2,637)
Income tax expense	**(421)**	(371)	(276)
Outside equity interests	**(3)**	(3)	(3)
Operating profit after income tax before abnormals	**1,132**	1,015	705
Abnormal items net of income tax	**–**	(68)	–
Operating profit after tax attributable to shareholders	**1,132**	947	705
Earnings per share (cents)			
– basic	**58.9**	49.8	36.0
– fully diluted	**57.1**	48.1	34.8

Total assets grew by 14.8% during the year, of which 13.1% was due to the Challenge Bank and Trust Bank acquisitions. Excluding acquisitions, net lending grew by 5.8% and return on average assets increased to 1.03% from 0.97% in 1995.

The Tier 1 capital ratio was a healthy 7.4% at year end, after allowing for the impact of 70.4 million shares issued for the acquisition of Challenge Bank and 2.6 million shares for Trust Bank, and the buy-back of 95 million shares in the second half of 1996. The total capital ratio of 10.8% remains well above the regulatory minimum requirement of 8%. Total shareholders' equity to total assets stood at 6.5% at year end.

IMPACT OF ACQUISITIONS

Challenge Bank and Trust Bank contributed a $1 million net loss after tax and amortisation of intangibles. As foreshadowed, these acquisitions had a minimal dilution impact on earnings per share (1.8 cents).

Impact of Acquisitions[1]

	Group Result 30 Sept 1996 $m	Impact of Acquisitions Challenge $m	Trust Bank $m	Adjusted Group Result 30 Sept 1996 $m	Group Result[2] 30 Sept 1995 $m
Net interest income[3]	**3,254**	**94**	**73**	**3,087**	2,982
Provision for bad and doubtful debts	**(121)**	**(6)**	**–**	**(115)**	(330)
Net interest income after provisions for bad and doubtful debts	**3,133**	**88**	**73**	**2,972**	2,652
Non-interest income	**1,488**	**21**	**32**	**1,435**	1,403
Operating income net of provisions for bad and doubtful debts	**4,621**	**109**	**105**	**4,407**	4,055
Non-interest expenses					
– Restructuring expenses	**(63)**	**–**	**–**	**(63)**	(212)
– Other staff expenses	**(1,718)**	**(36)**	**(41)**	**(1,641)**	(1,530)
– Equipment and occupancy expenses	**(483)**	**(18)**	**(17)**	**(448)**	(449)
– Other expenses[4]	**(767)**	**(19)**	**(44)**	**(704)**	(680)
– Amortisation of intangibles	**(34)**	**(14)**	**(13)**	**(7)**	(7)
Total non-interest expenses	**(3,065)**	**(87)**	**(115)**	**(2,863)**	(2,878)
Operating profit/(loss) after abnormal items before tax	**1,556**	**22**	**(10)**	**1,544**	1,177
Tax expense	**(421)**	**(12)**	**(1)**	**(408)**	(227)
Outside equity interests	**(3)**	**–**	**–**	**(3)**	(3)
Operating profit after income tax	**1,132**	**10**	**(11)**	**1,133**	947
Personnel numbers (FTE)	**33,832**	**956**	**2,997**	**29,879**	31,416
Group assets ($m)	**121,513**	**5,040**	**8,841**	**107,632**	105,835
Net loans and acceptances ($m)	**92,398**	**4,215**	**7,768**	**80,415**	76,021
Earnings per ordinary share (cents)[5]	**58.9**			**60.7**	49.8
Expense/income ratio	**64.6%**			**63.3%**	65.6%
Non-interest income/total operating income	**31.4%**			**31.7%**	32.0%
Return on average assets	**0.97%**			**1.03%**	0.97%

[1] Acquisitions comprise Challenge Bank (1-1-96) and Trust Bank (1-6-96).

[2] Group results for 1995 have been restated to include abnormal items within operating profit, for purposes of comparison.

[3] The notional funding costs of the cash component of the acquisitions have been included in the calculation of net interest income with respect to Challenge Bank and Trust Bank.

[4] Included in other expenses are integration costs incurred during the period.

[5] Adjusted for the issue of shares as part consideration for the acquisition of Challenge Bank (70.4m shares) and Trust Bank (2.6m shares).

It is anticipated that the Challenge Bank acquisition should be earnings per share positive in 1997 following completion of the integration program in November 1996 and achievement of synergies.

It is also anticipated that Trust Bank should be earnings per share positive in 1997 and the integration is scheduled to be completed in 1998.

Business Group Results

Westpac determines its business group results on a management reporting basis. As such, internal charges and transfer pricing adjustments have been reflected in the performance of each business group. In addition, the basis of reporting reflects the management of the businesses within the Westpac Group rather than the legal structure of the Group. Therefore, these results cannot be compared directly to the performance of individual legal entities within the Westpac Group.

The business groups reflect the current management structure within Westpac, resulting from an organisational restructure in May 1996. The 1995 business group management results have been restated for comparative purposes. For a discussion of the composition and activities of each business group see pages 26 to 28.

Australian Banking increased net interest income by 9.2% in 1996, reflecting the acquisition of Challenge Bank which contributed $112 million. The underlying growth in net interest income of 3.6% was achieved through managing asset growth to control the impact of margin erosion. The margin pressures were primarily in the housing and business lending sectors. Provision for bad and doubtful debts has decreased over the period, mainly due to write-backs of specific provisions no longer required and recovery of bad and doubtful debts previously written off.

Whilst non-interest income has marginally declined year on year, the benefits of improved fee collection have flowed through into the second half of 1996, partially offset by the need to respond to aggressive fee discounting in the housing and business markets. As a result, excluding Challenge Bank, non-interest income has improved by 5.4% over the first half of 1996. Non-interest expenses include $73 million of Challenge Bank costs in 1996, in addition to the amortisation of intangibles of $14 million. Underlying expenses increased by $113 million, reflecting increases in sales performance incentives, temporary staff expenses, contractor expenses and expenditure associated with systems development and process improvements. The Mortgage Processing Centre and completion of the 'Best Bank' program were the two major process improvement initiatives in 1996. These initiatives should deliver improved efficiencies in future periods. Full synergies associated with the Challenge Bank integration in Western Australia should be realised during 1997.

Australian Banking[1]

	1996 $m	1995 $m	Movt %
Net interest income	**2,166**	1,983	9.2
Provision for bad and doubtful debts	**(11)**	(79)	(86.1)
Non-interest income	**550**	554	(0.7)
Net operating income	**2,705**	2,458	10.0
Non-interest expenses	**(1,713)**	(1,513)	13.2
Operating profit before tax	**992**	945	5.0
Tax and outside equity interests	**(368)**	(319)	15.4
Profit on operations	**624**	626	(0.3)
	$bn	$bn	
Deposits and other public borrowings	**30.2**	28.8	4.9
Net loans and acceptances	**48.5**	43.1	12.5
Total assets	**54.7**	48.7	12.3
Personnel numbers (FTE)	**20,023**	20,587	
Expenses/income (before intangibles)	**62.6%**	59.6%	
Return on assets	**1.20%**	1.34%	
Non-interest income/operating income	**20.3%**	21.8%	

[1] Incorporates the combined results of the Consumer and Business Banking businesses in Australia and includes Challenge Bank and the impact of intangibles, integration and funding expenses since acquisition (1-1-96).

Institutional Banking increased net interest income by 8.4% as a result of an 11% growth in loans and acceptances, particularly in Australian corporate loans. This growth was partially offset by margin compression across the portfolio. In addition, 1995 included some significant one-off interest recoveries and the results of businesses exited in that year.

Recoveries of previous bad debt write-offs and reductions in specific provisions, primarily offshore, led to an increased net credit for provision for bad and doubtful debts. The credit quality of the current loan book improved further and the book remains strongly provisioned.

Financial markets income improved markedly over the year and was the principal contributor to the 9.6% increase in non-interest income. The $14 million increase in this area was attributable to management's increased focus on servicing institutional and corporate customers with core Australian and New Zealand dollar products. Fee income from structured and corporate finance transactions was also a significant contributor to the non-interest income improvement.

Restructuring of offshore operations continued during 1996 and contributed to expenses being held flat, the third successive year of flat or declining expenses.

Institutional Banking[1]

	1996 $m	1995 $m	Movt %
Net interest income	**555**	512	8.4
Provision for bad and doubtful debts	**73**	28	160.7
Non-interest income	**354**	323	9.6
Net operating income	**982**	863	13.8
Non-interest expenses	**(541)**	(540)	0.2
Operating profit before tax	**441**	323	36.5
Tax and outside equity interests	**(139)**	(91)	52.7
Profit on operations	**302**	232	30.2
	$bn	$bn	
Deposits and other public borrowings	**16.3**	12.2	33.6
Net loans and acceptances	**19.1**	17.2	11.0
Total assets	**35.4**	37.3	(5.1)
Personnel numbers (FTE)	**3,832**	3,910	
Expenses/income (before intangibles)	**59.6%**	64.6%	
Return on assets	**0.78%**	0.62%	
Non-interest income/operating income	**38.9%**	38.7%	

[1] Includes Pacific Regional Banking and Property Finance.

New Zealand Banking's profit on core operations, excluding Trust Bank, rose by 15% over 1995. The acquisition of Trust Bank increased net interest income by $73 million in 1996. The remaining increase of 2.8% was due to volume growth of 10% in lending offset by margin compression in deposit products. Increased write-backs and recoveries resulted in a reduced charge for bad and doubtful debts, reflecting continued improvement in asset quality. Non-interest income in 1996 included $32 million contributed by Trust Bank. Underlying non-interest income has remained stable with the non-interest income/operating income ratio, excluding Trust Bank, being at 34%. Non-interest expenses increased by 4.9% over 1995, excluding Trust Bank and the impact of integration expenses and amortisation of intangibles. Growth reflected increased advertising activity and systems development. The main benefits from the integration of Westpac and Trust Bank should begin to be realised during 1997, as the operations of both banks are integrated, and should be fully realised in the 1998 financial year.

New Zealand Banking[1]

	1996 $m	1995 $m	Movt %
Net interest income	**401**	319	25.7
Provision for bad and doubtful debts	**(15)**	(31)	(51.6)
Non-interest income	**201**	167	20.4
Net operating income	**587**	455	29.0
Non-interest expenses	**(417)**	(288)	44.8
Operating profit before tax	**170**	167	1.8
Tax and outside equity interests	**(60)**	(62)	(3.2)
Profit on operations	**110**	105	4.8
	$bn	$bn	
Deposits and other public borrowings	**13.0**	4.8	170.8
Net loans and acceptances	**16.5**	7.9	108.9
Total assets	**18.1**	8.3	118.1
Personnel numbers (FTE)	**6,429**	3,470	
Expenses/income (before intangibles)	**67.0%**	59.4%	
Return on assets	**0.95%**	1.31%	
Non-interest income/operating income	**33.4%**	34.4%	

[1] Includes Trust Bank and the impact of intangibles, integration and funding expenses since acquisition (1-6-96).

Australian Guarantee Corporation (AGC) increased net interest income by 8.9% in 1996 largely due to a 15.1% volume increase, contributed substantially by the consumer and commercial receivable portfolios. The volume increase was partially offset by margin contraction, reflecting intense levels of competition, particularly in the commercial receivables portfolio. Provision for bad and doubtful debts increased by $41 million over 1995, largely through increased write-offs in the consumer and motor finance portfolios. This is due in part to the credit cycle and to some poor performing, introducer sourced business, particularly in New Zealand. New acceptance criteria and the cancellation of some introducer accreditations should return these loss rates to normal levels in the future. The dynamic provisioning impact of volume increases, as well as revised loss factors (particularly in motor finance), is also reflected in this charge. Non-interest expenses have increased by 10.3% in 1996, reflecting an increase in personnel numbers due to the 15% growth in business volumes, developments for leasing products, as well as increased effort in debt collections. These investments in people and products should be reflected in improved returns in future periods.

Australian Guarantee Corporation

	1996 $m	1995 $m	Movt %
Net interest income	**453**	416	8.9
Provision for bad and doubtful debts	**(103)**	(62)	66.1
Non-interest income[1]	**(11)**	(12)	(8.3)
Net operating income	**339**	342	(0.9)
Non-interest expenses	**(204)**	(185)	10.3
Operating profit before tax	**135**	157	(14.0)
Tax and minority interests	**(49)**	(53)	(7.5)
Net profit after tax before abnormals	**86**	104	(17.3)
	$bn	$bn	
Deposits and other public borrowings	**6.0**	5.8	3.4
Net loans and acceptances	**7.2**	6.6	9.1
Total assets	**7.3**	6.9	5.8
Personnel numbers (FTE)	**2,409**	2,239	
Expenses/income (before intangibles)	**46.3%**	45.7%	
Return on assets	**1.21%**	1.65%	

[1] Includes commissions paid to agents.

Westpac Financial Services' non-interest income increased by 12.6% in 1996, as a result of increased sales of both general insurance products and retail investment products. General insurance premium and commission income increased by 10.8% whilst expenses were held to a 6% increase. Gross sales in retail managed funds (excluding the Westpac Money Market Trust) increased by 75% during the year, contributing significantly to the growth in funds under management. The amount of wholesale funds under management remained stable during the year. Non-interest expenses increased by $7 million over 1995, of which $3 million related to increased insurance claims partly arising from higher levels of underwriting activity. The remaining 5% increase primarily reflected incentives associated with increased sales activity and improved business performance. Following the acquisition of Westpac Life Insurance Services Limited (previously AMPAC Life) on 1 October 1996, total funds under management have increased to approximately $12.9 billion.

Westpac Financial Services

	1996 $m	1995 $m	Movt %
Net interest income	**9**	2	350.0
Non-interest income	**125**	111	12.6
Net operating income	**134**	113	18.6
Non-interest expenses	**(84)**	(77)	9.1
Operating profit before tax	**50**	36	38.9
Tax and minority interests	**(16)**	(11)	45.5
Net profit after tax before abnormals	**34**	25	36.0
	$bn	$bn	
Funds under management	**10.3**	9.8	5.1
Personnel numbers (FTE)	**599**	661	
Expenses/income (before intangibles)	**62.7%**	68.1%	

Profit and Loss Review

NET INTEREST INCOME

Net interest income increased by $272 million, or 9.1% to $3,254 million in 1996, and by $221 million, or 8.0% to $2,982 million in 1995.

Group Overall interest spread for the Group remained steady for the past three years at 2.8%, with spread compression in Australia being offset by an improvement in overseas spreads in 1996.

Interest margins for the Group in 1996 decreased slightly to 3.7% resulting from the change in the mix of funding of interest earning assets, with an increased proportion of these being funded by interest bearing liabilities. This has primarily resulted from increased use of wholesale funding to finance asset growth, acquisitions, and the buy-back of share capital. This followed a 0.3% improvement in 1995 reflecting the benefit of net free funds and equity in a rising interest rate environment.

Australia Interest spread decreased by 0.1% to 3.2%. This was principally due to a fall in spread on productive assets of 0.2% in 1996 due to competitive pressures. This was offset by the reduced impact of non-accrual loans of 0.1%, as a result of the 40% reduction in the average level of non-accrual loans in the Australian book.

Approximately 92% of interest income is earned from loans and other receivables. The average rate earned on these assets decreased by 0.1% from 1995. This decrease, in an environment of stable wholesale interest rates, resulted in compression in the interest spreads on assets of approximately 0.1%. The compression of margins on loans and receivables has been particularly noticeable in the housing and small to medium business lending markets. This was partially offset by increased consumer lending at higher average margins, and also the benefits of Westpac's active interest rate management.

The average rate paid on liabilities in 1996 increased by 0.2% over the previous period, primarily as a result of a more competitive market for deposit products, particularly term deposits. A 17% fall in the level of non-interest bearing deposits, as business customers moved into new interest bearing products, together with an increase in the proportion of wholesale funding, also contributed to the increase in the average cost of funds for the full year.

Overseas Interest spread increased by 0.2% over 1995, following a 0.3% decline that year. The increase in the average rate earned on assets of 1.0% was principally from movements in market rates. Slight increases in asset margins in the consumer, housing and business markets in New Zealand, and continued divestment of non-core assets in selected offshore locations, also contributed to the increase in the average rate earned on assets.

The smaller increase in cost of funds in 1996 of 0.8% was achieved through effective management of offshore funding requirements. This was offset by some compression in deposit product margins in New Zealand, as a result of continued competition for retail deposits and the focus on growth in the depositor base.

Interest Spread and Margin Analysis

	1996 $m	1995 $m	1994 $m
Interest margin (adjusted net interest income – see footnote 1, page 39)	**3,322**	3,026	2,823
Average interest-earnings assets	**89,332**	78,512	79,603
– including average non-accrual loans	**1,476**	2,430	2,710
Average interest-bearing liabilities	**77,504**	65,771	67,339
Average net non-interest bearing	**11,828**	12,741	12,264
Interest spread on productive assets[2]	**2.9%**	3.0%	3.0%
Impact of non-accrual loans	**(0.1)%**	(0.2)%	(0.2)%
Interest spread[1]	**2.8%**	2.8%	2.8%
Benefit of net non-interest bearing liabilities and equity[3]	**0.9%**	1.0%	0.7%
Interest margin	**3.7%**	3.8%	3.5%
On a geographical basis, interest spread and margins were:			
Australia			
Interest spread on productive assets[2]	**3.3%**	3.5%	3.5%
Impact of non-accrual loans	**(0.1)%**	(0.2)%	(0.3)%
Interest spread[1]	**3.2%**	3.3%	3.2%
Benefit of net non-interest bearing liabilities and equity[3]	**0.9%**	1.1%	0.9%
Interest margin	**4.1%**	4.4%	4.1%
Overseas			
Interest spread on productive assets[2]	**2.0%**	1.8%	2.1%
Impact of non-accrual loans	**(0.1)%**	(0.1)%	(0.1)%
Interest spread[1]	**1.9%**	1.7%	2.0%
Benefit of net non-interest bearing liabilities and equity[3]	**0.8%**	0.8%	0.4%
Interest margin	**2.7%**	2.5%	2.4%

[1] **Interest spread** is the difference between the average yield on all interest earning assets and the average rate paid on all interest bearing liabilities.

[2] **Interest spread on productive assets** is determined on the basis of the interest spread formula after excluding OREO and non-accrual loans, and the interest relating thereto, from the equation.

[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 these funds. The calculations for Australia and overseas take into account the interest expense/income of cross border, intragroup borrowing/lending.

Average Balance Sheet and Interest Rates

	1996			1995			1994		
	Average Balance $m	Average Interest $m	Average Rate %	Average Balance $m	Average Interest $m	Average Rate %	Average Balance $m	Average Interest $m	Average Rate %
Assets									
Interest earning assets									
Due from other banks									
Australia	**882**	**55**	**6.2**	618	42	6.8	309	20	6.5
Overseas	**5,310**	**501**	**9.4**	4,343	286	6.6	4,244	259	6.1
Investment and trading securities									
Australia	**4,698**	**378**	**8.0**	5,167	352	6.8	4,934	263	5.3
Overseas	**2,945**	**184**	**6.2**	3,404	226	6.6	4,127	240	5.8
Statutory deposits									
Australia	**617**	**15**	**2.4**	533	32	6.0	530	26	4.9
Overseas	**145**	**8**	**5.5**	96	6	6.3	217	12	5.5
Loans and other receivables									
Australia	**56,273**	**5,687**	**10.1**	47,930	4,865	10.2	46,647	3,991	8.6
Overseas	**16,986**	**1,694**	**10.0**	13,991	1,316	9.4	15,885	1,155	7.3
Non-accrual loans									
Australia	**1,155**	**58**	**4.6**	1,917	73	3.8	2,099	59	2.8
Overseas	**321**	**13**	**2.8**	513	20	3.9	611	23	3.8
Total interest earning assets and interest income[1]	**89,332**	**8,588**	**9.6**	78,512	7,218	9.2	79,603	6,048	7.6
Non-interest earning assets									
Cash, due from other banks and statutory deposits	**582**			561			663		
Other assets[2]	**16,055**			8,380			9,147		
Provisions for doubtful debts									
Australia	**(1,667)**			(1,851)			(2,046)		
Overseas	**(235)**			(297)			(456)		
Total non-interest earning assets	**14,735**			6,793			7,308		
Acceptances of customers									
Australia	**12,058**			11,899			12,266		
Overseas	**154**			192			447		
Total acceptances	**12,212**			12,091			12,713		
Total assets	**116,279**			97,396			99,624		

[1] Income received in the form of tax-rebateable dividends on redeemable preference shares, together with other tax-free interest income, has been grossed up to a pre-tax equivalent.

[2] Other assets in 1996 have been impacted for gross-up of derivatives transactions at 30 September 1995.

Average Balance Sheet and Interest Rates continued

	1996			1995			1994		
Liabilities	Average Balance $m	Average Interest $m	Average Rate %	Average Balance $m	Average Interest $m	Average Rate %	Average Balance $m	Average Interest $m	Average Rate %
Interest bearing liabilities									
Deposits									
Australia	**39,662**	**2,448**	**6.2**	33,838	2,040	6.0	33,582	1,468	4.4
Overseas	**16,671**	**1,178**	**7.1**	12,361	822	6.6	11,658	573	4.9
Public borrowings by subsidiary borrowing corporations									
Australia	**5,399**	**419**	**7.8**	5,023	397	7.9	4,838	385	8.0
Overseas	**531**	**45**	**8.5**	460	35	7.6	503	43	8.5
Due to other banks									
Australia	**271**	**21**	**7.7**	302	23	7.6	322	18	5.6
Overseas	**6,602**	**567**	**8.6**	7,254	474	6.5	9,098	415	4.6
Loan capital									
Australia	**2,580**	**169**	**6.6**	2,929	193	6.6	3,017	154	5.1
Other interest bearing liabilities									
Australia	**3,645**	**289**	**7.9**	1,409	67	4.8	1,566	57	3.6
Overseas	**2,143**	**130**	**6.1**	2,195	140	6.4	2,755	112	4.1
Total interest bearing liabilities and interest expense	**77,504**	**5,266**	**6.8**	65,771	4,192	6.4	67,339	3,225	4.8
Non-interest bearing liabilities									
Deposits and due to other banks									
Australia	**3,143**			3,791			4,146		
Overseas	**1,122**			1,194			1,372		
Other liabilities[1]	**14,203**			6,942			6,683		
Total non-interest bearing liabilities	**18,468**			11,927			12,201		
Acceptances									
Australia	**12,058**			11,899			12,266		
Overseas	**154**			192			447		
Total acceptances	**12,212**			12,091			12,713		
Total liabilities	**108,184**			89,789			92,253		
Ordinary shareholders' equity	**7,489**			7,002			6,754		
Preference shareholders' equity	**600**			600			600		
Outside equity interest	**6**			5			17		
Total shareholders' equity	**8,095**			7,607			7,371		
Total liabilities and shareholders' equity	**116,279**			97,396			99,624		
Interest earning assets									
Australia	**63,625**	**6,188**	**9.7**	56,165	5,364	9.6	54,519	4,359	8.0
Overseas	**25,707**	**2,400**	**9.3**	22,347	1,854	8.3	25,084	1,689	6.7
Group	**89,332**	**8,588**	**9.6**	78,512	7,218	9.2	79,603	6,048	7.6
Interest bearing liabilities									
Australia	**51,557**	**3,346**	**6.5**	43,501	2,720	6.3	43,325	2,082	4.8
Overseas	**25,947**	**1,920**	**7.4**	22,270	1,471	6.6	24,014	1,143	4.8
Group	**77,504**	**5,266**	**6.8**	65,771	4,191	6.4	67,339	3,225	4.8
Interest spread									
Australia			**3.2**			3.3			3.2
Overseas			**1.9**			1.7			2.0
Group			**2.8**			2.8			2.8

[1] Other liabilities in 1996 have been impacted by the gross-up of derivative transactions at 30 September 1995.

PROVISION FOR BAD AND DOUBTFUL DEBTS

Westpac's policy is to create specific provisions promptly for any identified probable credit losses and to create general provisions for losses that can reasonably be expected to arise from the existing loan portfolios over their remaining lives. In 1995, dynamic provisioning was introduced as a tool for guiding management in setting total provisions (see following discussion on Risk Management in Westpac). Under dynamic provisioning, the level of expected losses which may arise from the existing portfolio of credit exposures is calculated by applying a set of historically derived loss factors, supplemented by factors reflecting current and future market conditions and changes in the underlying business. The resulting level of total provisions should be sufficient to cover loan losses inherent in the current loan portfolios. As the portfolio size, composition, inherent risk and loan loss experience change, the level of total provisions is adjusted.

The total charge against profits for provisions for doubtful debts in 1996 was $121 million, a decrease of 63% from the 1995 charge of $330 million, which, in turn, was a decrease of 53% from the 1994 charge of $695 million (see Note 12 to the financial statements).

Bad and Doubtful Debt Charge

	1996 $m	1995 $m	1994 $m
New specific provisions	**200**	416	910
Specific provisions no longer required	**(463)**	(325)	(297)
Specific provisions (net)	**(263)**	91	613
General provision (net)[1]	**384**	239	82
Total charge for bad debts and provisions	**121**	330	695

[1] Addition after recognition of write-offs and recoveries.

The balance of the general provision increased by a net $336 million in 1996, from $980 million to $1,316 million of which $110 million related to general provisions for Challenge Bank, Trust Bank and the two New Zealand mortgage portfolios acquired during the year. The increase reflects additional provisioning required by application of historical loan loss factors to the growing credit portfolios, together with the following prospective factors that have been taken into account by management in determining the appropriate overall levels of general provisioning:

- future default rates may not be accurately represented by the relatively short experience history available within Westpac and Australasia for the determination of loan loss factors (less than one full credit cycle for many portfolios); and
- the capacity of borrowers to repay may deteriorate consistent with an expectation of a generally weakening credit quality environment, given such factors as historically high consumer debt levels.

Specific provisions have reduced from $950 million in 1995 to $531 million at 30 September 1996, as a result of the decrease in the level of impaired assets and reduced need to provide for new impaired loans.

The 1994 charge included increased specific provisioning to cover an expected further emergence of impaired loans in the rural loan portfolio due to the then prolonged drought in New South Wales and Queensland, supplemented by a $35 million charge for a general rural provision.

NON-INTEREST INCOME

The components of non-interest income are detailed in Note 3 to the financial statements.

Non-interest income for 1996 increased by $85 million, or 6.1%. This compared to a decline of $152 million or 9.8% from 1994 to 1995, due to reduced income from 'other real estate owned' (OREO) following disposal of a large proportion of the portfolio, and from a decline in risk fees due to slower lending growth.

Loan fees increased by 12.1% in 1996, as a result of volume growth and the acquisition of Challenge Bank and Trust Bank. Excluding the impact of Challenge Bank and Trust Bank, loan fees increased by 3.8% in 1996, with a 6.5% increase in the second half over the first half of 1996. This increase was achieved despite aggressive fee discounting in the market, which resulted in the waiving of establishment fees on housing and lending fees in commercial and business banking. Risk fees fell slightly in 1996 due to reduced usage of bills of exchange, as customers have shifted to the use of fixed rate facilities. This shift accelerated during the second half of 1996.

Excluding the impact of the Challenge Bank and Trust Bank acquisitions, non-risk fees in 1996 increased 1.8% over the prior year and increased by 3.0% in the second half of 1996 over the first half. This growth has been achieved through customers shifting to new, higher value products and other fee-for-service initiatives.

Financial markets income increased by 6.9% over 1995 as a result of customer and trading activity. Other income increased by 28.2% largely as a result of higher sales of general insurance and other financial services products, through continued focus on cross-selling to the Westpac customer base, and gains on the sale of premises offset by reduced rental income on these properties.

NON-INTEREST EXPENSE

The detailed components of non-interest expenses are set out in Note 4 to the financial statements.

Total non-interest expenses in 1996 increased by 15.0% from the 1995 full year, largely as a result of acquisitions. Restructuring expenses of $63 million have also been provided for in 1996. These expenses relate to provisions for redundancy arising in respect of ongoing restructuring in Westpac's operations during early 1997. Excluding Challenge Bank and Trust Bank expenses, as well as the restructuring expenses, underlying non-interest expenses grew by $134 million, or 5.0%. This compared to growth of 1% in 1995 over 1994.

The increase in salaries and other staff expenses in 1996 attributable to Challenge Bank and Trust Bank was $77 million. Excluding these expenses and the impact of the restructuring expenses recorded in 1996, the underlying increase in salaries and other staff expenses of $111 million was a 7.3% increase on 1995. Contract and temporary staff costs associated primarily with systems and process redevelopment accounted for $27 million of this increase. The balance of the increase of $84 million was attributable to salaries and sales performance incentive increases of $61 million and on-costs of $23 million.

The salaries and sales performance incentives represented a 5.1% increase in 1996 over 1995, principally reflecting additional costs associated with the new Enterprise Development Agreement (EDA). The EDA delivers an effective annual increase of 5.3% to eligible staff with effect from 1 January 1996 until 31 March 1998. New sales performance incentives were introduced in the 1995 financial year in the Australian Banking Group with full effect in 1996. The incentives, part of the 'Best Bank' program to refocus branch efforts, have substantially lifted sales force effectiveness, particularly in home lending products.

Increases in staff on-costs were principally attributable to the increase in fringe benefits tax (FBT) levied on staff home loans, due to an increase in the FBT benchmark rate from 8.75% to 10.5% p.a.

Salaries and other staff expenses increased by 6.8% in 1995 due in part to the duplication of certain functions associated with the implementation of the Best Bank program, and a change in the fringe benefits legislation.

Excluding $35 million from Challenge Bank and Trust Bank, equipment and occupancy expenses decreased by $1 million in 1996, following a $29 million decrease in 1995. Increased operating lease rentals (through the branch premises sale and leaseback program) and higher technology depreciation charges in 1996 were offset by efficiencies and savings in other areas of recurrent expenditure.

Other expenses include $63 million of Challenge Bank and Trust Bank. In addition, amortisation of intangibles related to these acquisitions increased expenses by $27 million. Excluding the impact of these items, other expenses increased by 3.5% during 1996.

INCOME TAX EXPENSE

Westpac's effective tax rate was 27.1% in 1996. This was below the Australian company tax rate of 36% due to a number of items, including the receipt of rebateable and exempt dividends, non-assessable income relating to specialised property financing via unit trusts, and certain non-taxable capital profits.

In 1995 and 1994 there were various abnormal tax expense and/or credit items. Significant items in 1995 included a $40 million tax credit to adjust provisions for deferred income tax and future income tax benefit balances arising from an increase in the Australian company tax rate from 33% to 36%; and a $67 million write-back of a $106 million tax provision created in 1992, following the settlement of prior years' tax issues with the US Internal Revenue Service.

For further information on income tax expense, see notes 1(p), 5 and 6 to the financial statements.

Income Tax Expense

	1996	1995	1994
Excluding abnormal items			
Income tax expense ($m)	**421**	371	276
Tax as a percentage of operating profit before tax and abnormal items (effective tax rate)	**27.1%**	26.7%	28.0%
Including abnormal items			
Income tax expense ($m)	**421**	227	183
Tax as a percentage of operating profit (including abnormal items) before tax (effective tax rate)	**27.1%**	19.3%	20.5%

Balance Sheet Review

BALANCE SHEET

During 1996, total assets grew by $15.7 billion, or 14.8%, to $121.5 billion at 30 September 1996. $13.9 billion, or 13.1%, was due to the Challenge Bank and Trust Bank acquisitions.

Assets Due from other banks increased by $1.4 billion in 1996 reflecting increased holdings of other bank certificates of deposit in Australia and New Zealand. Trading securities declined $0.6 billion due to reduced holdings of government securities.

Other financial markets assets declined by $2.3 billion due to a run down in asset levels reflecting Westpac's business strategy to focus on the Australian and New Zealand markets.

Net loans and acceptances increased by $16.4 billion in 1996, including $12.0 billion of lending acquired through Challenge Bank and Trust Bank. The residual growth of 5.8% largely reflected increased housing loan (owner occupied and investment) outstandings in Australia of $2.4 billion and in New Zealand of $1.1 billion (including the acquisition of $0.7 billion of loans from the Housing Corporation of New Zealand and the Mortgage Corporation of New Zealand).

On 30 September 1996, Westpac completed the securitisation of $340 million of home mortgage loans in Australia. Further such securitisations are anticipated during 1997, as part of a strategy to better manage the mix of balance sheet assets.

Gross impaired assets were reduced in 1996 by $0.7 billion, or 34% to $1.3 billion.

	(Decrease)/Increase	
	1996 $bn	1995 $bn
Assets		
Due from other banks	**1.4**	0.7
Trading securities	**(0.6)**	1.2
Loans	**16.8**	3.1
Acceptances of customers	**(0.5)**	(0.6)
All other assets (net)	**(1.4)**	7.6*
Net increase	**15.7**	12.0
Liabilities and shareholders' equity		
Due to other banks	**(1.8)**	(0.5)
Deposits and public borrowings	**16.7**	3.3
Acceptances	**(0.5)**	(0.6)
All other liabilities (net)	**1.0**	9.5*
Shareholders' equity	**0.3**	0.3
Net increase	**15.7**	12.0

* Includes $7 billion due to reporting trading derivatives on a gross basis.

Liabilities Deposits and public borrowings in 1996 grew $16.7 billion with $10.0 billion of the increase relating to Challenge Bank and Trust Bank. The residual increase in deposits and the $4.3 billion increase in bonds, notes and commercial paper in 1996 mainly comprises increased borrowings in Australian and overseas wholesale markets, reducing Westpac's interbank borrowing overseas. Liabilities due to other banks decreased $1.8 billion from 1995 levels.

Other financial markets liabilities decreased $2.4 billion in 1996. These items principally represent the negative mark-to-market values of derivatives and the reduction is in line with the run down in other financial market assets.

CAPITAL MANAGEMENT

Capital management in Westpac involves balancing the maintenance of a prudent level of capital, consistent with the risk undertaken, with the objective of maximising return to shareholders.

At 30 September 1996, shareholders' equity stood at $7.9 billion, up $0.3 billion from year end 1995. The buy-back of 95 million shares reduced equity by $0.5 billion, which was offset by 1996 net earnings of $1.1 billion, less dividends of $0.65 billion. New shares issued in relation to the Challenge Bank and Trust Bank acquisitions raised capital by $0.4 billion. The ratio of shareholders' equity to assets at 30 September 1996 was 6.5%, compared with 7.2% at 30 September 1995.

Reflecting Westpac's strong capital position, on 4 November 1996 the Board announced a second on-market buy-back of up to 85 million ordinary shares (approximately 5%), over a period of up to six months. The initial buy-back of 95 million ordinary shares was conducted through normal on-market transactions on the Australian Stock Exchange in the period 8 April to 1 July 1996 at an average price of $5.74.

Capital levels now and in the foreseeable future are more than adequate to support operating business plans and the buy-backs reflect Westpac's commitment to return excess capital to its shareholders.

Supported by the underlying growth in the capital base, the Board declared an increase in the final dividend on ordinary shares to 17 cents per share, taking the full year dividend to 33 cents per share, (fully franked), up from 28 cents per share (partially franked) in 1995.

Westpac is subject to risk-based capital adequacy requirements as determined by the Reserve Bank of Australia (RBA), which are generally consistent with the approach agreed upon by the Basle Committee on Banking Regulation and Supervisory Practices (Bank for International Settlements).

Australian banks are required to maintain a minimum ratio of capital to risk-weighted assets of 8.0%. At least half of this capital must be in the form of "core" or "tier 1" capital. Subject to certain limitations, core capital includes shareholders' equity, i.e. paid-up share capital, retained earnings and certain reserves. The balance of eligible capital is defined as "supplementary" or "tier 2" capital. Certain deductions, such as investments in other banks' capital instruments, are also made. Supplementary capital includes, subject to limitations, asset revaluation reserves, general provisions for doubtful debts, mandatory convertible notes, perpetual floating rate notes and like instruments, and term subordinated debt, provided such term debt is not in excess of 50% of tier 1 capital.

In determining risk-adjusted assets, assets (including off-balance-sheet assets) are weighted according to notional credit risk. Classes of asset are assigned a risk-weighting according to the amount of capital required to support them. Five categories of risk-weights (0%, 10%, 20%, 50%, 100%), are applied to the different types of assets. For example, cash, bullion, claims on the RBA and short-dated Commonwealth of Australia securities have a zero risk-weighting, meaning that no capital is required to support the holding of these assets. Loans to corporations and individuals carry a 100% risk-weighting, meaning that they must be supported by capital equal to 8.0% of the amounts outstanding. Other asset categories have intermediate weightings, e.g. loans secured by residential housing mortgages generally carry a 50% weighting and claims on other Australian and other OECD banks carry a 20% weighting. For loans secured by residential housing mortgages approved after 5 September 1994, where the loan-to-valuation ratio is in excess of 80%, a 100% risk weight applies. Off-balance-sheet exposures are taken into account by applying different categories of "credit conversion factors" to arrive at credit-equivalent amounts, which are then weighted in the same manner as balance-sheet assets according to counterparty, except that, in respect of derivatives, a maximum weighting of 50% for corporations and individuals applies.

Eligible Capital and Relevant Ratios

As at 30 September	**1996 $m**	1995 $m
Tier 1 capital		
Total shareholders' equity	**7,891**	7,583
Less: Asset revaluation reserves	**(260)**	(382)
Intangible assets	**(1,156)**	(19)
Future income tax benefit net of deferred tax liability	**(99)**	(98)
Total tier 1 capital	**6,376**	7,084
Tier 2 capital		
Asset revaluation reserves	**260**	382
Subordinated undated capital notes	**933**	981
General provision for doubtful debts	**1,316**	980
Less: Future income tax benefit related to general provision	**(474)**	(353)
Eligible subordinated bonds, notes and debentures	**1,114**	1,374
Total tier 2 capital	**3,149**	3,364
Tier 1 and tier 2 capital	**9,525**	10,448
Deductions:		
– other banks' capital instruments	**(9)**	(50)
– capital in funds management and securitisation activities[1]	**(182)**	–
Net qualifying capital	**9,334**	10,398
Risk adjusted assets	**86,503**	74,930
Tier 1 capital ratio	**7.4%**	9.5%
Tier 2 capital ratio	**3.6%**	4.5%
Deductions	**(0.2)%**	(0.1)%
Net capital ratio	**10.8%**	13.9%

[1] This deduction has been made pursuant to the Reserve Bank of Australia's Prudential Statement C2 "Funds Management and Securitisation", issued in October 1995, which requires that where a bank (or another member of a banking group) invests capital in, or provides guarantees or similar support to, a subsidiary entity which undertakes the role of manager, responsible entity, trustee or custodian, then the capital or the guarantee will for capital adequacy purposes be deducted from the bank's, and the banking group's capital base.

Differences between the Australian and United States definitions of tier 1 and tier 2 capital which would have a significant effect on Westpac are:

i) Asset revaluation reserves which qualify as tier 2 capital under the RBA's guidelines do not so qualify under United States guidelines.

ii) Under the RBA's guidelines, the general provision for doubtful debts, net of associated future income tax benefits, qualifies as tier 2 capital. Under United States guidelines, the associated future tax benefit is not deducted from the general provision but, subject to the exemption in (iii) below, is a direct deduction from tier 1 capital to the extent that the future tax benefit exceeds off-setting deferred tax liabilities.

iii) The United States guidelines allow net future tax benefits reversing within 1 year to be included in tier 1 capital up to a bank's projected annual income or 10% of core capital, whichever is less.

Certain differences between Australian GAAP and US GAAP, which are detailed in Note 41 of Notes to the financial statements, also give rise to differences between tier 1 capital calculated in accordance with Australian guidelines and tier 1 capital calculated in accordance with United States guidelines.

After adjusting for the above items and differences between Australian GAAP and US GAAP, Westpac's tier 1 and total capital, as at 30 September 1996, in accordance with United States guidelines, were 7.2% and 11.1% respectively.

Risk-adjusted Assets

	Risk Weight %	Balance 1996 $m	Balance 1995 $m	Risk-adjusted Balance 1996 $m	Risk-adjusted Balance 1995 $m
On-balance-sheet assets					
Cash, claims on RBA, Australian Commonwealth Government securities under one year, and other zero-weighted assets	0%	**13,218**	14,217	**–**	–
Other claims on Australian Commonwealth Government, claims on state governments, OECD governments and central banks, and money-market dealers	10%	**4,289**	4,356	**429**	436
Claims on OECD banks and local governments	20%	**7,968**	7,933	**1,594**	1,586
Loans secured by residential mortgages	50%	**42,168**	30,456	**21,084**	15,228
All other assets	100%	**53,870**	48,873	**53,870**	48,873
Total on-balance-sheet assets		**121,513**	105,835	**76,977**	66,123

	Contract or Notional Amount 1996 $m	Contract or Notional Amount 1995 $m	Credit Equivalent Amount[1] 1996 $m	Credit Equivalent Amount[1] 1995 $m	Risk-adjusted Balance 1996 $m	Risk-adjusted Balance 1995 $m
Off-balance-sheet exposures[2]						
Total off-balance-sheet exposures	**522,997**	560,044	**19,782**	20,581	**9,526**	8,807
Total risk-adjusted assets					**86,503**	74,930

[1] Credit equivalents are weighted in the same manner as on-balance-sheet assets, i.e. according to counterparty, but with a maximum weighting of 50% for financial markets-related transactions.
[2] For further details of off-balance-sheet exposures see Notes 25 and 26 of Notes to the financial statements.

Financial Markets Derivative Activities

Westpac uses derivative contracts in two distinct capacities; as a dealer and as an end-user as part of its asset and liability management activities.

Derivative contracts include forwards, futures, swaps and options, all of which are bilateral contracts or payment exchange agreements whose value derives from the value of an underlying asset, reference rate or index.

Derivatives are flexible and cost-effective tools for assisting customers to manage interest rate, exchange rate and commodity exposures, and for structuring finance and investment strategies. Derivatives can give customers the ability to transfer or manage risk, enhance liquidity, give access to cost effective funding, increase investment options, and enhance yield.

Derivatives Defined

A **forward** contract obliges one party to buy and the other to sell a specific underlying product/instrument at a specific price, amount and date in the future.

The basic form of a **futures** contract is similar to that of a forward contract. A futures contract obliges its owner to buy a specific underlying commodity or financial instrument at a specified price on the contract maturity date (or to settle the value for cash). Standard contract terms describe the quantity and quality, the time and place of delivery, and the method of payment. Futures are exchange traded.

A **swap** transaction obliges the two parties to the contract to exchange a series of cash-flows at specified intervals known as payment or settlement dates.

An **option** contract gives the option holder the right, but not the obligation, to buy or sell a specified amount of a given financial instrument at a specified price during a certain period or on a specific date. The writer of the option contract is obliged to perform if the holder exercises the right contained therein.

Derivatives may be transacted either "over-the-counter" or on an exchange. **Over-the-counter derivatives** are negotiated privately between the counterparties. This allows transactions to be tailored to suit each customer's requirements. The individual nature of these derivatives means that they are not traded like securities. Instead, they may be terminated or assigned to another counterparty only with the agreement of the original counterparty. Over-the-counter derivatives include forwards, swaps and options.

Exchange traded derivatives are standardised contracts transacted on a regulated exchange. Each contract has a buyer and a seller with the exchange acting as counterparty. The exchange accepts and manages credit risk through a system of margin calls. Exchange traded derivatives include futures and options.

DEALING ACTIVITIES

As a dealer, Westpac undertakes sales, market making and discretionary trading activities. The primary objective is to derive income from the sale of financial markets products to meet customer needs. Westpac acts as an intermediary for derivatives transactions based on interest rates, exchange rates and commodity prices and is a market leader in Australian and New Zealand dollar products.

To support sales activity, Westpac's market making activities involve providing price quotes to other dealers who reciprocate by providing Westpac with their price quotes. This helps maintain liquidity in Westpac's principal markets and assists in the transfer of risk. Westpac also trades on its own account in order to exploit arbitrage opportunities and market anomalies, as well as to take outright views on market direction. These activities are known as proprietary trading. Proprietary trading represents only a small part of Westpac's dealing activities.

A special feature of Westpac's derivatives dealing activities has been Westpac's credit enhanced vehicle, Westpac Derivative Products Limited (WDP). WDP was established as a wholly owned AAA rated subsidiary in May 1994 to transact with credit sensitive customers. WDP transacts only with high credit rated customers (A grade and higher). Given the improvement in the external rating of Westpac (Standard & Poor's to AA- from A+ on 9 September 1996 and Moody's to Aa3 from A1 on 31 January 1996), the decision to voluntarily wind down WDP was made on 20 September 1996. As at 30 September 1996, notional outstandings were only $0.1 billion ($2.1 billion on 30 September 1995) but subsequently all trades have been novated back to Westpac. No further trades are envisaged. WDP has performed an important and successful role as a bridging strategy enabling Westpac to maintain dealing relationships with important customers.

Westpac does not act as a broker or agent of exchange-traded futures. This means that while Westpac does not sell futures to customers, it does use futures for hedging transactions and risk management purposes. For commodity derivatives, Westpac acts as an intermediary only.

Westpac monitors dealing activity in terms of the total notional amount outstanding, the regulatory credit equivalent, and the replacement cost.

Total notional amounts outstanding is a measure of volume which may be used for examining changes in derivative activity over time. The notional amount is the face value of the contract and is used to calculate cash flows. Unlike an on-balance sheet financial instrument, the notional amount of a derivative does not reflect the amount at risk which is generally only a small fraction of this value.

Customer demand for all derivatives products has remained stable. A decline in outstandings to $455.2 billion at 30 September 1996 from $528.4 billion as at 30 September 1995 is consistent with Westpac's business strategy to focus on core customer markets.

Notional exchange traded derivatives include futures $30.6 billion ($50.0 billion) and options $8.2 billion ($14.4 billion) at 30 September 1996 (1995).

Regulatory credit equivalent is calculated for capital adequacy purposes using RBA guidelines. Credit equivalent amounts are calculated as replacement cost (positive mark-to-market) plus an add-on for potential credit exposure, based on a predetermined percentage of the notional amount. For example, for interest rate contracts with residual maturities of greater than one year the add-on percentage is 0.5% of notional amount. For exchange rate contracts the add-on percentages are 1.0% for residual maturities less than one year and 5.0% for one year or longer.

At 30 September 1996, regulatory credit equivalent was $10.0 billion ($11.7 billion at 30 September 1995).

Replacement cost (positive mark-to-market) is the cost of replacing all transactions in a favourable position to Westpac and is included as 'other assets' in the balance sheet as an asset. At inception, the market value of a derivative is generally zero. Derivatives acquire credit exposure when their market value becomes positive through movements in the underlying prices. This measure is the industry standard for the calculation of current credit risk. Total replacement cost represents the loss Westpac would suffer if every counterparty with a positive mark-to-market were to default at once, it does not represent actual or expected loss amounts. Conversely, **negative mark-to-market** represents the cost to Westpac's counterparties of replacing all Westpac's transactions and is included as 'other liabilities' the balance sheet. The mark-to-market values do not include any offsetting physical positions that may exist, including structural balance sheet positions, and they do not include any benefits from netting.

At 30 September 1996, total replacement cost was $ 6.3 billion and negative mark-to-market was $7.3 billion. Average values for the 1996 year, based on an average of spot end of month balances, were $6.8 billion and $7.6 billion respectively. (Average values for the 1995 year, based on a simple average of spot balances at 31 March, 30 June and 30 September 1995 were $9.9 billion and $10.2 billion respectively).

Derivatives Dealing Activity

	As at 30 September 1996				As at 30 September 1995			
Derivatives Outstanding	**Notional Amount $bn**	**Regulatory Credit Equivalent $bn**	**Positive Mark-to-market $bn**	**Negative Mark-to-market $bn**	Notional Amount $bn	Regulatory Credit Equivalent $bn	Positive Mark-to-market $bn	Negative Mark-to-market $bn
Interest rate								
Futures[1]	**30.6**	**–**	**–**	**–**	50.0	–	–	–
Forwards	**26.1**	**–**	**–**	**–**	35.8	0.1	0.1	0.1
Swaps	**131.4**	**3.2**	**2.7**	**2.3**	160.9	4.1	3.7	2.9
Purchased options	**14.4**	**0.1**	**–**	**–**	23.8	0.1	0.1	–
Sold options	**3.9**	**0.3**	**–**	**–**	13.6	–	–	–
Foreign exchange								
Forwards	**218.6**	**4.8**	**2.7**	**3.1**	214.7	5.5	3.4	3.8
Swaps	**18.9**	**1.5**	**0.8**	**1.8**	18.3	1.7	1.2	2.6
Purchased options	**5.2**	**0.1**	**0.1**	**–**	5.4	0.2	0.1	–
Sold options	**5.8**	**–**	**–**	**0.1**	5.6	–	–	0.1
Commodity	**0.3**	**–**	**–**	**–**	0.3	–	–	–
Total derivatives	**455.2**	**10.0**	**6.3**	**7.3**	528.4	11.7	8.6	9.5

[1] There is little credit risk associated with futures. Futures are exchange traded and the clearing house is the counterparty. The clearing house manages credit risk by a system of margin calls.

LEVERAGED TRANSACTIONS

Leveraged transactions are transactions that include an explicit leverage factor in the payment formula. The leverage factor has the effect of multiplying the notional amount such that the impact of changes in the underlying price or prices may be greater than that indicated by the notional amount alone.

Leveraged transactions do not account for a material portion of Westpac's activity and as at 30 September 1996 and 30 September 1995 there were no leveraged transactions outstanding.

END-USER ACTIVITIES

As an end-user, Westpac uses derivatives to manage its structural interest rate and foreign exchange risk. The transactions arising from these end-user activities do not, in the majority, give rise to credit risk as they are largely transacted within the Westpac Group.

Through its end-user activities gains and losses arise. These are accounted for as hedges in a manner consistent with the accounting treatment for the underlying exposures. This generally entails accrual accounting to match that of the underlying loans and deposits. (Also refer to Note 1 (m) (iii) of the Notes to the financial statements).

End-User Activity

	Notional Amount	
Derivatives Outstanding	**1996 $bn**	1995 $bn
Interest rate		
Futures	**8.7**	3.9
Forwards	**3.3**	3.7
Swaps	**24.7**	26.1
Purchased options	**0.2**	0.2
Sold options	**–**	–
Foreign Exchange		
Forwards	**2.4**	2.6
Swaps	**7.1**	4.2
Purchased options	**–**	–
Sold options	**–**	–
Total derivatives	**46.4**	40.7

Where hedge transactions are terminated prior to the maturity of the underlying exposures, gains or losses on termination are deferred and recognised over the remaining term of maturity. As at 30 September 1996, the net amount of deferred gains in relation to terminated hedge contracts was $9 million which will be amortised to profit and loss.

Net Deferred Gains from Terminated Hedge Contracts

Amounts amortised to profit and loss for year ending 30 September	$m
1997	2
1998	2
1999	2
2000	3
2001 and after	–
Total	9

Group Treasury also enters into derivatives transactions to hedge interest rate or exchange rate exposure arising from anticipated future transactions. Gains and losses are deferred on these transactions until the anticipated transactions eventuate and are recognised in the financial statements. These transactions are only accounted for as hedges where there is a high probability of the anticipated transaction occurring and the extent, term and nature of the exposure is capable of being estimated. There were no such hedges outstanding at 30 September 1996 or at 30 September 1995.

Financial Markets Income

Westpac's income includes both non-interest and interest income derived from trading and distribution of financial markets products, including derivatives. In the financial statements, net interest income earned on securities and cash balances held in the normal course of business is included in the total net interest income reported. Non-interest income is reported under either Foreign Exchange Income or Other Financial Markets Income.

Financial markets income may also be presented in terms of underlying activity. The purpose of such classification is to provide results which reflect the way the financial instruments and associated risks are managed.

Reconciliation of Financial Markets Income

Year ending 30 September	1996 $m	1995 $m	1994 $m
By accounting line			
Foreign exchange	**175**	177	165
Other financial markets income	**43**	27	49
Net interest income	**107**	94	90
Total	**325**	298	304
By business activity			
Foreign exchange (spot and options)	**142**	152	144
Interest rate contracts[1]	**183**	146	160
Total	**325**	298	304

[1] Interest rate and currency swaps, options, forward foreign exchange, forward rate agreements, financial futures, debt securities, debt-related financial futures and commodities.

Risk Management within Westpac

Westpac's exposure to risk arises directly from its role as a financial intermediary and financial markets participant. These activities involve the acceptance of credit and market risk, and give rise to liquidity risk, legal risk, regulatory and operational risk. Therefore, risk management is central to Westpac's total management processes. These risk management processes are discussed in the following sections.

CREDIT RISK MANAGEMENT

Credit risk is the potential risk of financial loss resulting from the failure of customers to settle their financial and contractual obligations to Westpac. It arises primarily from Westpac's lending activities, as well as from transactions involving certain foreign exchange and derivative transactions.

For credit risk management to be successful, it must operate within an organisational climate that understands risk, and in which is embedded the acceptance of all the responsibilities that go with shaping and safeguarding a credit portfolio. This climate is the credit culture of Westpac.

Westpac's Credit Management Principles Westpac's Credit Risk Management Principles set out, in simple terms, the philosophy and the core values by which Westpac controls credit risk. A successful credit culture has several key attributes. It requires the visible and wholehearted support of the Board of Directors and management. A sense of balance and perspective, and acceptance of personal accountability are essential. There must also be embedded in the day to day credit process an effective control environment. This is a robust system of checks and balances, which ensures objectivity in credit approval decisions, and the control and integrity of the risk management process.

Control Environment Westpac's control environment relies on independent credit and operations officers, who control the critical approval, disbursement and monitoring activities used by management to contain the risks inherent in the banking business. In order to codify and communicate this approach, Westpac has developed four core Control Principles of Credit that underpin the credit risk management process:

- *Segregation of functions* – No one person is in a position to control the processing of a credit transaction such that error or defalcation could occur without a reasonable chance of detection. The credit process is designed so that functions such as credit origination, approval, documentation and settlement of facilities, and portfolio monitoring and control are each performed by separate departments.
- *Approval of facilities* – Credit facilities are approved only after a line management officer and a credit officer have independently ensured that the credit has been evaluated against the business unit's underwriting standards, analysed and structured as appropriate for the risk.
- *Documentation and settlement of facilities* – The availability of credit facilities occurs only after an independent officer in the legal or operations area has ensured that the credit approval has been correctly granted, and that the facility documentation is in accordance with the terms of the credit approval. Customer access to credit facilities is only permitted after a similarly independent officer confirms that valid documentation has been obtained.
- *Monitoring and control* – Credit management information systems are monitored to ensure that credit data are accurately recorded and reported. Credit facilities are managed to ensure that all payments are collected in accordance with their terms and conditions, and so that any breaches or variations receive appropriate credit approval. Relationship managed facilities and product programs are regularly reviewed, normally on an annual basis, to re-assess their risk profile and compliance with expected performance.

Management Assurance The fundamental purpose of an effective control environment is to assure management that its credit risk policies and procedures are being observed, and to permit management in turn to provide such assurance to the Board of Directors.

During 1996 Westpac expanded its existing credit risk management assurance program to cover market risk, liquidity risk, legal risk, regulatory risk and operational risk. The key credit risk components of this management assurance program (provided by line managers and independent credit and operations officers) are:

- *A process quality assurance* completed by line managers to affirm their satisfaction that the credit process is being conducted in accordance with credit policy. Where this assessment is less than fully satisfactory, management prepares an action plan to resolve the issue. Such early warning signals will help business and credit managers to rectify the problem promptly.
- *A portfolio quality assurance* completed jointly by line management and credit officers to affirm their satisfaction that the credit portfolio is accurately graded, and impaired assets have been properly provisioned or written off. Officers responsible for credit management information also assess the accuracy and completeness of portfolio management information systems.
- *A control quality assurance* completed by credit and operations officers independent of line management to affirm their satisfaction that appropriate control activities are in place, and that they are adequate and effective in assuring management that their directives are being carried out. Similarly, these managers will carry out the necessary action to resolve any identified problems.

The system allows senior management, on the basis of consolidated certificates from these independent sources, to affirm their satisfaction with the quality of the processes under their responsibility, and with the effectiveness of the controls which support that assurance.

Credit Risk Review submits its reports directly to the Board Credit and Market Risk Committee, and provides an independent appraisal of the portfolio and the credit process. Group Audit, which reports directly to the Board Audit Committee, provides assurance as to the effectiveness of the overall control environment.

This system of management assurance permits the Board of Directors to be satisfied that Westpac's risk management systems are adequate, that they operate effectively, and that any deficiencies have been identified and are being addressed.

Foreign Exchange and Derivatives Credit Risk Management The credit policies for foreign exchange and derivative activities are the same as those governing traditional lending products. Credit limits are set for each customer for all trading activities and are based on Westpac's assessment of the customer's credit standing. A real time global limits system records exposure against limits.

Foreign exchange and derivatives contracts involve two distinct elements of credit risk: pre-settlement and settlement risk. Pre-settlement risk occurs when the counterparty to a transaction is unable to comply with the terms of the contract and Westpac has to replace that contract at the current market value. Settlement risk occurs when Westpac pays out funds or delivers assets, and fails to receive payment from the counterparty in the transaction.

In assessing counterparty credit exposure on foreign exchange and derivatives for internal credit management purposes, Westpac considers both the current replacement cost and potential future credit risk. Potential future credit risk is the estimated 'worst case' potential increase in replacement cost during the contract's life. This is calculated by employing a statistical methodology which uses historical price series, and assumes a one standard deviation move for the relevant period of future price exposure. This provides an 84% confidence level that the 'worst case' estimates will not be exceeded at any time over the contract's life. The sum of the current replacement cost and potential credit risk is used to measure exposure against limits.

The risk of customer default is reduced by dealing with creditworthy counterparties. Westpac's internal credit rating definitions are similar to those of the external credit rating agencies such as Standard & Poor's and Moody's. Ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB and below represent non-investment grade.

As at 30 September 1996, 99% of the credit exposure was to investment grade customers (98% at 30 September 1995).

Counterparty Credit Quality

As at 30 September 1996	Total Assessed Credit Risk Exposure (%)
AAA, AA	43
A	49
BBB	7
BB and below	1
Total	100

The majority of foreign exchange and derivatives-related transactions are short-term: 54% matures within one year and 67% matures within two years (30 September 1995 51% and 65% respectively). The shorter the maturity profile, the less likely is the risk of an unexpected downgrading of the counterparty's credit worthiness.

Credit Risk Maturity Profile

Replacement cost as at 30 September 1996	0 – 3 months $bn	3 – 6 months $bn	6 – 12 months $bn	1 – 2 years $bn	2 – 5 years $bn	5+ years $bn	**Total $bn**
Interest rate							
Futures	–	–	–	–	–	–	**–**
Forwards	–	–	–	–	–	–	**–**
Swaps	0.1	0.2	0.2	0.5	1.3	0.4	**2.7**
Purchased options	–	–	–	–	–	–	**–**
Sold options	–	–	–	–	–	–	**–**
Foreign exchange							
Forwards	1.4	0.7	0.4	0.1	0.1	–	**2.7**
Swaps	0.1	0.1	0.1	0.2	0.3	–	**0.8**
Purchased options	0.1	–	–	–	–	–	**0.1**
Sold options	–	–	–	–	–	–	**–**
Commodity	–	–	–	–	–	–	**–**
Total derivatives	**1.7**	**1.0**	**0.7**	**0.8**	**1.7**	**0.4**	**6.3**

To reduce credit risk further, Westpac enters into master netting agreements that provide for the offset of contracts with positive and negative market values in the event of default. Netting agreements provide protection from a counterparty selectively honouring only those contracts in its favour.

In the United States, the existence of master netting agreements also provides a basis for the offsetting of contracts with positive and negative market values with the same counterparty for balance sheet purposes. International Accounting Standard IAS32, however, does not permit such offsetting unless there is an intention to settle on a net basis or settle simultaneously on a gross basis. Westpac currently follows the requirements of IAS32 in reporting these items on a gross basis without regard to the existence of master netting agreements.

Portfolio Management Westpac monitors its portfolio to guard against the development of risk concentrations. It is one of Westpac's strengths that its credit risk is very well diversified throughout the Australasian economy.

Expressed in terms of commitments, 32% of the portfolio consists of consumer debt. This category includes: home loans; investment property loans to individuals; credit cards; finance company leases; and personal loans, overdrafts and lines of credit. These customers are geographically highly diverse. Westpac has a substantial market share in every state and territory in Australia, in New Zealand and in the Pacific Islands region. Moreover, these customers service their debts with income derived from an extremely wide range of occupations, in metropolitan and non-metropolitan areas.

The second major group of exposures is to the world's banking institutions, with about one sixth of the group total. Although these credit lines are mostly undrawn, they are monitored as if the funds are fully at risk, since they can be used at short notice for financial market transactions and trading activities. These exposures, to 450 banks in 50 countries, are also well diversified. However, most of this exposure, more than 90%, is to banks in Australia, Belgium, Canada, France, Germany, Japan, Switzerland, UK and USA. As with all business loans, Westpac limits these commitments according to its internal credit ratings of each bank. It has only modest exposure to those that do not have strong ratings, and has excluded others altogether.

All other exposures – to non-banking businesses and governments – constitute about half of the total committed credit risk. They are classified into one of 46 industry clusters. These clusters are based on the correlation between industries, grouping together those that are affected by the same economic factors. Thus industries that might suffer from increased risk together are monitored together. Moreover, the volatility of each cluster is used to set maximum exposure guidelines. More volatile industries have lower boundaries, having regard to the diversification they provide for the portfolio as a whole. Through this process, the industry diversification of the Group's exposure is assured.

The highest exposure to an industry cluster is to the cluster of government entities, at 7% of total Westpac Group committed credit risk. Only two industry clusters (property developers and real estate agents, and non-bank financial institutions) have exposures of between 2% and 5% of total Group exposure. All other sectors have exposures less than 2% of Group total, with the large majority less than 1%.

Dynamic Provisioning Westpac has continued to refine its process of dynamic provisioning, which is based on estimating the expected level of future credit losses which may arise from its loan portfolios, to help it ensure that an appropriate level of provisions is maintained at all times. Statistical measures based on past experience, supplemented by factors integrating current and future market conditions, are used in estimating expected future default and loss levels.

Mass-market consumer loans, such as home loans and personal loans, are analysed by product. Loans to businesses are graded into different levels of risk, and the loss experience by each risk grade is determined. Furthermore the duration of the exposure is also taken into account: the longer the term of a loan, the greater the risk and therefore the larger the amount of provisioning required.

Dynamic provisioning is fully implemented in Westpac's internal management accounts. Consequently, a business unit which takes on a lower quality mix of loans will incur a higher provisioning charge. Conversely, a shift to higher quality business will carry a positive incentive. This enables the business units to more accurately evaluate the risk versus the return of new business.

During the year, Westpac completed a comprehensive review of the severity of loss in the event that loans default. The review examined the eventual outcome of the severity of 2,800 business customer defaults which have occurred in recent years. The analysis measured the success of recovery actions that were taken to mitigate loss, recognising the time value of the money, and the costs incurred in the process. The results have been used to modify the provision estimates and are also a critical element in loan pricing.

In addition, Westpac updated other factors used in dynamic provisioning in the light of its evolving loss experience and will continue to do so annually.

MARKET RISK MANAGEMENT

Overview Market risk is the risk to earnings arising from adverse movements in levels and volatilities of interest rates, foreign exchange rates, commodity and equity prices. Westpac is exposed to market risk as a consequence of its customer focused and proprietary trading activities in financial markets and its asset and liability management of the overall balance sheet.

Within Westpac, market risk arising from trading activities and other banking activities is segregated and managed as discussed below.

Trading Activities Trading activities include Westpac's trading, distribution, underwriting and investment activities. Westpac's main market risk types arising from its trading activities are interest rate risk and foreign exchange risk and, to a lesser extent, commodity and equity risks.

The Board Credit and Market Risk Committee has the overall responsibility for approval of policies, methodologies and limits arising from Westpac's trading activities. At the executive level, the Trading Risk Committee (previously named the Market Risk Committee) ensures that Westpac's trading activities and new products and services are commensurate with its risk appetites.

Value-at-risk, structural limits and advice of loss procedures are used to manage market risk of the trading portfolio.

Value-at-risk is the potential loss from an adverse market movement with a specified probability over a particular period. The value at risk model is based on a 97.5% confidence level (1.96 standard deviations) and it considers correlation among 103 variables. This implies that actual daily income might deviate from expected results by an amount greater than value-at-risk approximately 2.5% of the time. Daily earnings at risk is calculated by the value-at-risk model using a one day holding period. Value-at-risk numbers disclosed by different institutions may not be the directly comparable. The use of different assumptions and data can result in substantially different value-at-risk for the same risk profile. Until a standard for parameters and a common source of historical data emerges, value-at-risk on a consolidated and diversified portfolio should be viewed as a useful measure of relative risk taken by the reporting entity over the reporting period but not as a comparative measure among banks.

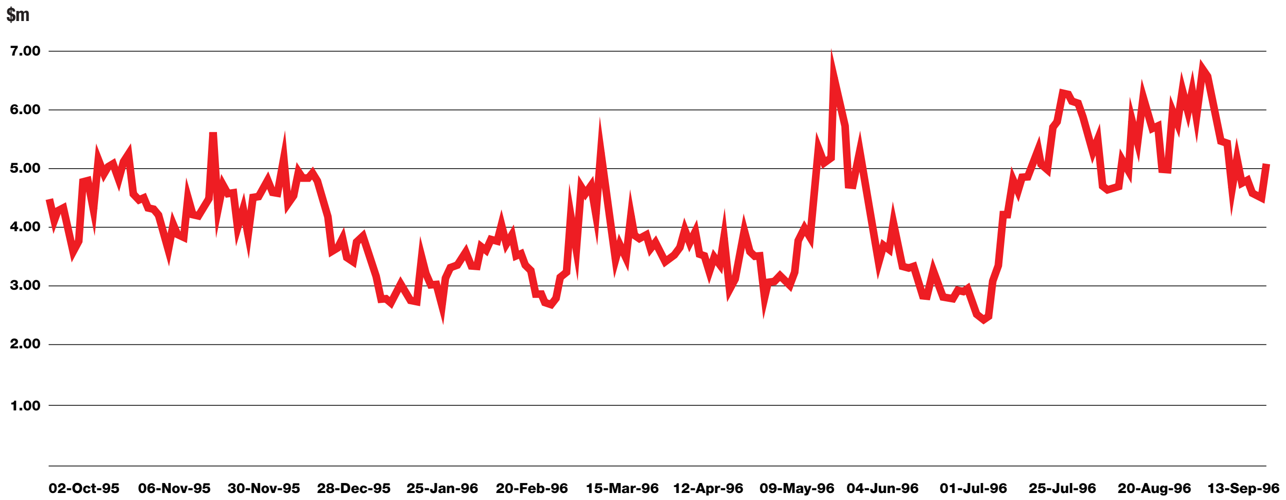
Daily Earnings-at-Risk

	High $m	Low $m	Average $m
30 September 1996	**7**	**3**	**4**
30 September 1995	12	5	8

Note: Risk level in 1996 is relatively lower than in 1995 due to differences in the method of calculation of foreign exchange option risk. In 1995 more conservative parameters were applied to the internal model.

The variability in the market risk levels reflected Westpac's view of trading opportunities and volatility in market conditions. Risk levels were relatively higher in the last quarter mainly due to an increase in our debt securities activities.

Daily Earnings-at-Risk



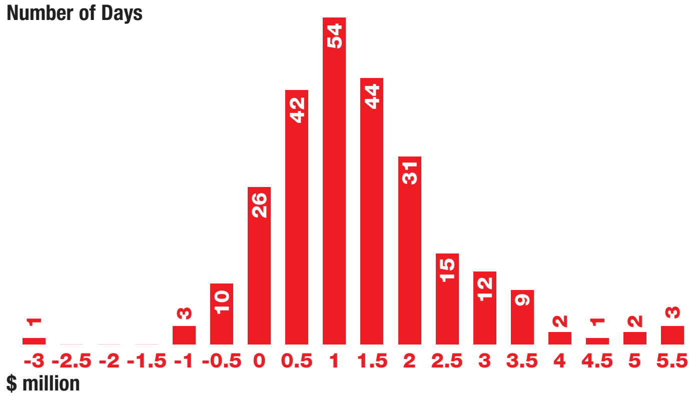
The distribution of daily market-related income shows a relatively stable income pattern consistent with Westpac's customer sales focus and moderate level of proprietary trading.

Board-approved trading limits are delegated to global business managers for functional management. A separate and independent unit monitors and reports market risk exposures against approved limits.

Value-at-risk is supplemented by stress and scenario testing. Stress testing is a useful tool to quantify the effect of extremely large moves in risk factors on the portfolio, for example, the profit and loss impact of an eight standard deviation move in Australian interest rates. Scenario testing looks at the impact of specified changes in market factors, for example, a tightening of monetary policy.

Detailed structural trading limits are used to support the value-at-risk framework. Advice of loss procedures also ensure that any losses are promptly communicated to senior management.

Distribution of Daily Income



Other Banking Activities The Group Asset and Liability Committee (Group ALCO) chaired by the Chief Financial Officer, establishes policies regarding structural balance sheet interest rate market risk, foreign exchange rate risk and liquidity risk. These risks arise principally from mismatches which occur between the cash flows or repricing profiles of the various portfolios of loans, investments, deposits and other obligations. Group ALCO also has responsibility for analysing and deploying capital within the Westpac Group.

Management of Structural Interest Rate Risk Westpac's asset and liability management function controls and manages the sensitivity of Westpac's net interest income to changes in market interest rates. The objective is to balance interest rate risk to optimise net interest income. Westpac's asset and liability management uses net gap analysis and net interest income simulations to manage interest rate risk.

Net Gap Analysis involves deriving net gap exposures by placing assets and liabilities in gap intervals based on their repricing dates. Assets and liabilities with no specific repricing dates are placed in gap intervals based on management's judgment concerning their most likely repricing behaviours. The following table summarises the repricing profiles for assets, liabilities and hedge transactions and shows the resultant interest rate sensitivity of Westpac's balance sheet at 30 September 1996.

Net Gap Exposures

	Repricing Period					
As at 30 September 1996	0 – 3 months $m	3 – 12 months $m	1 – 5 years $m	5 – 10 years $m	10+ years $m	Total $m
On Balance Sheet						
Asset	93,114	10,284	17,616	483	16	121,513
Liabilities	106,641	10,314	4,072	486	–	121,513
Gap	(13,527)	(30)	13,544	(3)	16	_
Off Balance Sheet						
Gap	13,668	(3,149)	(10,524)	5	–	–
Total Gap	141	(3,179)	3,020	2	16	–
Cumulative Gap	141	(3,038)	(18)	(16)	–	–

Net Interest Income Simulations measure the differences in timing and magnitude of customer interest rate changes as a result of market rate changes (basis risk), changes in the balance sheet mix or customer behaviour. These factors are measured by performing net interest income simulations under several market interest rate scenarios. At 30 September 1996, based on these simulations, net interest income at risk to an immediate 1% rise in market interest rates was estimated to be less than 1% of 1996 after tax net income.

Hedge transactions (primarily in the form of futures, forward rate agreements and interest rate swaps) are established to reduce the amount of interest rate risk within delegated risk limits and Group ALCO guidelines. The majority of these transactions occur within the Westpac Group.

Management of Structural Foreign Exchange Rate Risk Westpac has capital deployed in offshore branches and subsidiaries, which is denominated in currencies other than Australian dollars. As exchange rates move, the value of these amounts when translated to Australian dollars is subject to volatility.

The policy for the management of this exchange rate risk is set by Group ALCO. Management of the risk may include the establishment of hedges which are primarily in the form of forward foreign exchange transactions.

LIQUIDITY RISK MANAGEMENT

Westpac's liquidity policies are designed to ensure that it has sufficient funds available, even in adverse circumstances, to meet its obligations, including advances to customers and maturities of deposits and other liabilities, while raising deposits from a wide range of sources at acceptable cost.

Liquidity is controlled by monitoring and managing the current and future cash flows to contain the net cash outflow position during specified time intervals within acceptable parameters. The management process involves, in most circumstances, a series of limits on near term cash balances, beginning with Next Day, 8 Day, 30 Day, and 90 Day limits on maximum cash outflows.

The liquidity policies applicable to different business units recognise different underlying structural liquidity. Separate limit structures and separate management processes are in place for Westpac's operations in each of Australia, New Zealand, convertible wholesale currency areas, and non-convertible currency areas.

Funding of Westpac's operations in various jurisdictions reflects differing depths and market structure. Group ALCO reviews the funding composition and mix of the major business units to ensure there is no undue concentration of reliance upon funding from particular investor groups, geographies, tenor, type of instrument or currency.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of incurring losses or breaching regulations because of inadequate systems and controls, human error or management failure. Operational risk is managed specifically with a variety of controls encompassing formal policies, documented procedures, business practices and compliance monitoring, and more broadly through the adoption of well-defined principles governing conduct and ethics.

Westpac has a compliance program designed to mitigate operational risk within business units, with compliance being the responsibility of officers at all levels. As well, a regular and ongoing cycle of independent internal audit monitors compliance with management policy and external regulatory requirements, and examines the general standard of internal control.

Westpac maintains insurance coverage to mitigate a portion of the financial impact of operational risk on its reported results. The major insurance policies include Bankers' Blanket Bond, which covers financial loss arising from fraud, fidelity, theft, forgery and counterfeiting; professional indemnity insurance, which covers legal liability from negligence; Directors and Officers insurance which covers directors and officers from claims by third parties for wrongful acts; and Industrial Special Risks which covers property and computer equipment.

Corporate Governance

Good corporate governance establishes and maintains a legal and ethical environment which is responsible to all company stakeholders and, in particular, to shareholders. The fundamental test of good corporate governance is the generation of sustainable and enduring improvement in shareholder value.

Role of the Westpac Board of Directors The Board oversees the business and affairs of Westpac, approves the financial objectives and the strategies to be implemented by management and monitors standards of performance and issues of policy, both directly and through its committees.

In addition to participating in regular Board and committee meetings and an annual strategy conference, the Directors regularly visit the operations of the company and, from time to time, meet informally with staff and customers.

The Board also has in place a program of mid-year shareholder meetings in major cities outside Sydney which provide an open forum for shareholders to meet with the Board (through the Chairman and the Managing Director).

Board Composition and Procedures The Board determines its own size within the parameters set out in the Deed of Settlement. The Deed provides that the minimum number of Directors be seven, the maximum fifteen, only three of whom may be executive Directors. Nominations for Board appointment are considered by the Board as a whole. In selecting suitable Board candidates, the Board takes into account the experience and diversity of existing Board members and selects candidates accordingly. Details of each of the Directors are set out on pages 60 and 61. The proceedings of the Board are governed by the Deed of Settlement and, as permitted by the Deed, the Board establishes its own procedures from time to time.

Board Independence At present, Westpac has ten Directors, eight of whom are non-executive. The Chairman is a non-executive Director. Independent professional advice is available to the Board collectively, or to individual Directors, at Westpac's expense, on approval by the Chairman or, in the absence of that approval, by the Board.

Board Remuneration Non-executive Directors are remunerated by fees determined by the Board within the aggregate limit approved by shareholders in January 1996. Directors' fees are comparable with those paid to the directors of other major financial institutions and corporations. Directors also have entitlements to retirement benefits in accordance with arrangements approved by shareholders in January 1993.

Ethics The Board sees ethical business conduct as a requisite standard of conduct at all levels in Westpac. Westpac's Code of Conduct, implemented by the present Managing Director in October 1994, contains five key principles applicable to the Board and all Westpac employees:

"We act with honesty and integrity
We abide by laws and regulations
We respect confidentiality and the proper handling of information
We avoid conflicts of interest
We strive to be a good corporate citizen and achieve community respect."

Committee Structure Three committees support the work of the Board.

The Audit Committee considers all matters concerning accounting, financial reporting and internal controls. It reviews the interim and annual financial statements, reviews the activities of the company's internal and external auditors and monitors the relationship between management and the external auditors.

In particular, the Committee assists the Board in reviewing the effectiveness of Westpac's control environment in the areas of operations, financial reporting and legal/regulatory compliance. It also makes recommendations to the Board on the appointment and removal of the external auditors, reviews the terms of their engagement, and the scope and quality of the audit.

The Committee's powers and procedures are governed by the Deed of Settlement and the Committee's specific Terms of Reference.

Membership: W.B. Capp (Chairman), P.L. Baillieu, I.R.L. Harper and P.D. Ritchie were members of the Audit Committee during 1996.

The Credit and Market Risk Committee oversees matters relating to Westpac's risk-taking activities and exposures for both credit risk and market risk. It reviews Westpac's portfolio for risk exposures, its risk-management practices, its prudential policies and the adequacy of provisions, both specific and general. It delegates credit authority to the Managing Director and Chief Credit Officer and monitors the credit performance of management through management reports and the independent reports of Credit Risk Review. (Detailed discussion of credit and market risk is contained in the Financial Review.) The Committee's powers and procedures are governed by the Deed of Settlement and the Commitee's specific Terms of Reference.

Membership: J.A. Uhrig (Chairman), W.P. Hogan, S.G. Hornery and E. Mahlab were members of the Credit and Market Risk Committee during 1996.*

**S.G. Hornery resigned from the Board and Committee on 8 August 1996.*

The Remuneration Committee reviews remuneration policies and practices, approves the remuneration of the general management group, approves merit recognition arrangements and staff option grants and makes recommendations to the Board on the remuneration of Directors, including the Managing Director. Its powers and procedures are governed by the Deed of Settlement and the Committee's specific Terms of Reference.

Executive remuneration within Westpac's senior ranks is performance-based with both long term and annual incentives. Long term incentive is achieved through participation in the Senior Officers' Share Purchase Scheme; annual incentive is by way of bonus, based on the particular officer's performance over the preceding twelve months. Westpac's executive remuneration policy reflects the market move away from annual salary increases based on length of service, to longer term maintenance of a fixed base salary coupled with 'at risk' performance incentives.

Membership: J.A. Uhrig (Chairman), W.B. Capp, Sir Llewellyn Edwards and P.D. Ritchie were members of the Remuneration Committee during 1996.

Regional Advisory Boards In Western Australia, where some of Westpac's operations are conducted through the Challenge brand name, and in New Zealand, Westpac has the benefit of Advisory Boards to advise executive management. Those Boards assist in forging and maintaining relationships with the local business community, shareholders and customers, and provide an independent overview of operations.

Membership – Western Australia: R.E. Argyle (Chairman), A.E. Blanckensee and H.W. Sorensen were members of the Western Australian Advisory Board during 1996.

Membership – New Zealand: B.N. Kensington (Chairman), J.C. King, J.W. Walden, S.H. Suckling, I.F. Farrant, T.B. Layton, G.S. Pentecost and P.D. Wilson were members of the New Zealand Advisory Board during 1996.

Attendance at Board and Committee Meetings

	Regular Board Meetings		Special Board Meetings		Board Audit Committee		Board Credit and Market Risk Committee		Board Remuneration Committee		Special Committee Meetings*	
	A	B	A	B	A	B	A	B	A	B	A	B
J. A. Uhrig	11	10	1	1	–	–	4	4	5	5	10	6
P. L. Baillieu	11	11	1	1	7	6	–	–	–	–	10	5
W. B. Capp	11	11	1	1	7	7	–	–	5	4	10	1
Sir Llewellyn Edwards	11	10	1	1	–	–	–	–	5	3	10	1
I. R. L. Harper	11	10	1	1	7	6	–	–	–	–	10	3
W. P. Hogan	11	10	1	0	–	–	4	3	–	–	10	–
S. G. Hornery**	10	8	1	1	–	–	4	4	–	–	10	–
R. L. Joss	11	11	1	1	–	–	–	–	–	–	10	8
E. Mahlab	11	11	1	1	–	–	4	4	–	–	10	–
J. P. Morschel	11	10	1	1	–	–	–	–	–	–	10	4
P. D. Ritchie	11	10	1	1	7	5	–	–	5	5	10	1

Column **A** – Indicates the number of meetings held during the period the Director was a member of the Board and/or Committee.
Column **B** – Indicates the number of those meetings attended by the Director.
* The membership of special committees comprises any two Board members.
** Mr. Hornery resigned from the Board on 8 August 1996.

Directors' Holdings of Westpac shares as at 5 December 1996

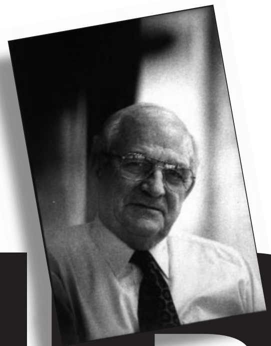
	Number of Ordinary Fully Paid Shares, Options, and Converting Preference Shares	Non-beneficial[1]
J. A. Uhrig	53,000	891,627
P. L. Baillieu	8,150	878,627
W. B. Capp	12,616	
Sir Llewellyn Edwards	8,312	
I. R. L. Harper	39,516	878,627
W. P. Hogan	14,066	
R. L. Joss	5,000,001[2]	
E. Mahlab	10,500	
J. P. Morschel	4,000	
	600,000[3]	
P. D. Ritchie	20,714	15,000

[1] Certain of the Directors are Trustees for a staff related fund and as Trustees of that fund, they are considered to have a "relevant interest" in those shares and shares subject to warrants. In 1996, 100 million shares in Westpac became the subject of warrants.
[2] Options issued under the Chief Executive Share Option Agreement.
[3] Options issued under the J. P. Morschel Share Option Deed.

Political Donations Each year the Board gives careful consideration to making political donations. It is the view of the Board that a company of Westpac's size and stature should support the democratic process and democratic institutions in Australia by providing financial contributions to political parties. Annual donations are made at both the federal and state level on an even-handed basis to parties with significant parliamentary representation. All donations are declared in accordance with the electoral laws.

John Uhrig

AO, BSc, DUniv, FAIM.
Age 68. Appointed Chairman October 1992, Director since November 1989. John Uhrig has broad industry and manufacturing experience and has participated in and contributed to a variety of government and community bodies. Chairman of CRA Limited, Santos Limited, Amdel Limited and the Australian Minerals and Energy Environment Foundation.



Barry Capp

BE(Civil), BCom, BA.
Age 63. Director since May 1993. Barry Capp was employed for many years in financial and commercial roles and has had experience in company reconstructions. Chairman of National Foods Limited and Trade Indemnity Australia Limited. Director of Freight Rail Corporation and Tassal Limited.

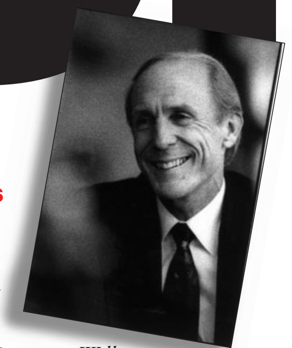
Warren Hogan

MA, PhD, DSc(h.c.). Age 67.
Director since 1986. Warren Hogan has been Professor of Economics at the University of Sydney since 1968. Adviser to business, government and international organisations including the World Bank, Harvard University Development Advisory Service and the Australian Stock Exchange.

John Morschel

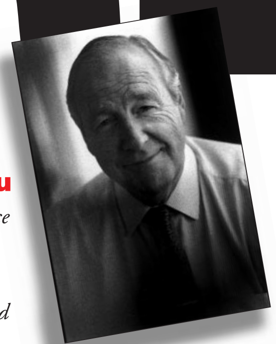
DipQS, AAIQS, FAIM.
Age 53. Director since July 1993. John Morschel has broad experience in the property and construction industries and the life insurance and financial services industry. Appointed Executive Director August 1995. Director of CSR Limited. Trustee of the Art Gallery of New South Wales.

DIRECTORS



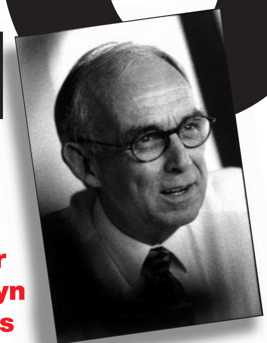
Robert Joss

BA, MBA, PhD.
Age 55. Appointed Managing Director January 1993. Robert Joss spent 22 years at Wells Fargo & Company, gaining experience in all facets of banking and financial services. He was a Vice Chairman of Wells Fargo from 1986 to 1993. Prior to Wells Fargo, he spent three years with the United States Treasury Department. President of the Australian Institute of Banking and Finance, a Trustee of the National Parks and Wildlife Foundation of New South Wales and a Director of the Clean Up Australia Foundation.



Peter Baillieu

Age 69. Director since 1974. Peter Baillieu has long term involvement with and knowledge of the Australian agricultural sector. Chairman of Schroders Australia Holdings Limited and Prudential Pastoral Company Limited. Director of Incitec Limited and other companies.



The Hon. Sir Llewellyn Edwards

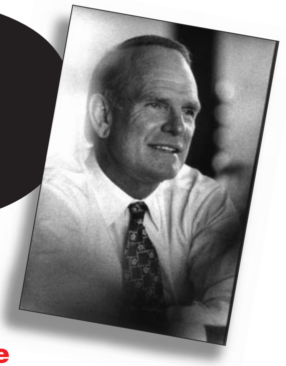
AC, MB, BS, FRACMA, LLD(h.c.), FAIM.
Age 61. Director since 1988. Sir Llewellyn Edwards has had extensive experience in Queensland state politics (including five years as Treasurer) and in community service (Chairman of World Expo 88 Authority and Chancellor of University of Queensland). Chairman of Multi Function Polis Development Corporation. Director of James Hardie Industries Limited and Peregrine Capital Australia Limited.

Ian Harper

AM, BA, LLB.
Age 64.
Director since 1987. Ian Harper, previously a partner of Allen Allen & Hemsley since 1960 and now a consultant to that firm, has practised extensively in corporations law. He has held a variety of financial service company board positions over many years. Chairman of Capcount Property Trust, President of NSW Council of Australian Institute of Company Directors, Director of Mayne Nickless Limited and other companies.

Eve Mahlab

AO, LLB. Age 59.
Director since October 1993. Eve Mahlab has practised as a solicitor, managed a family, built a successful business and served on government and community boards. She has been extensively involved in community activities particularly those relating to business education, women and social change. Director of the Walter and Eliza Hall Institute of Medical Research Superannuation Fund and other companies.



Peter Ritchie

BCom, FCPA. Age 54.
Director since January 1993. Peter Ritchie has broad consumer marketing and commercial experience. Chairman and founding director of McDonald's Australia Limited and currently a member of McDonald's Hong Kong, Malaysia and New Zealand Boards. Director of Seven Network Limited.

Directors' Report

The Directors of Westpac Banking Corporation report as follows on the affairs of the economic entity constituted by the Bank and the entities it controlled from time to time during the financial year ended 30 September 1996:

Directors The names of the Directors of the Bank in office at the date of this Report are J.A. Uhrig (Chairman), P.L. Baillieu, W.B. Capp, The Hon. Sir Llewellyn Edwards, I.R.L. Harper, Professor W.P. Hogan, R.L. Joss (Managing Director), E. Mahlab, J.P. Morschel and P.D. Ritchie. Particulars of their qualifications, experience and special responsibilities are set out under the headings "Board of Directors" on pages 60 and 61 and "Corporate Governance" on pages 57 to 59 and form part of this Report.

Directors' Meetings Particulars of the number of meetings of the Board of Directors and Committees of the Board held during the financial year which ended on 30 September 1996, together with details of attendance at those meetings by the Directors, are set out under the heading "Attendance at Board and Committee Meetings" on page 59 and form part of this Report.

Principal Activities The principal activities of the economic entity in the course of the financial year which ended on 30 September 1996 were the provision of financial services including lending, deposit taking, payments services, investment portfolio management and advice, unit trust and superannuation fund management, nominee and custodian facilities, insurance services, consumer finance, leasing, factoring, general finance, foreign exchange dealing and money market services. No significant change in the nature of those activities occurred during the financial year.

Operating Result The operating result of the economic entity for the financial year ended 30 September 1996 after tax and minority interests was a profit of $1,132 million.

The Directors' proposals as to appropriations are contained under the heading "Dividends" and in Note 7 of the financial statements.

Dividends A final dividend for the financial year ended 30 September 1995 of 15 cents per fully paid ordinary share, total amount $284 million, was paid by the Bank on 31 January 1996, as a fully franked dividend. $274 million of this dividend was provided in the financial statements for the year ended 30 September 1995.

An interim dividend for the financial year ended 30 September 1996 of 16 cents per fully paid ordinary share, total amount $297 million, was declared by the Directors and paid on 5 July 1996 as a fully franked dividend.

A final dividend for the financial year ended 30 September 1996 of 17 cents per fully paid ordinary share, estimated amount $307 million, was provided in the financial statements for the year ended 30 September 1996 and will be payable on 28 January 1997 as a fully franked dividend.

A dividend at the rate of 24.375 cents per converting preference share, total amount $19 million, was paid on 29 December 1995 as a fully franked dividend. $10 million of this dividend was provided in the financial statements for the year ended 30 September 1995.

A dividend at the rate of 24.375 cents per converting preference share, total amount $19 million, was paid on 28 June 1996 as a fully franked dividend.

A dividend at the rate of 24.375 cents per converting preference share, total amount $19 million, will be payable on 31 December 1996 as a fully franked dividend. $10 million of this dividend was provided in the financial statements for the year ended 30 September 1996.

Details of dividends provided for or paid, including preference dividends, are set out in Note 7 to the financial statements.

Review of Operations A comprehensive review of the operations of the economic entity and the results of those operations for the financial year ended 30 September 1996 is set out on pages 8 to 56 and forms part of this Report.

Significant Events In December 1995, Westpac acquired Challenge Bank Limited for a consideration of $684 million. It is expected that full integration of the two entities will be achieved towards the end of this calendar year.

In March 1996, Westpac announced that it would undertake a buy-back through the Australian Stock Exchange of 95 million, or approximately 5%, of its fully paid ordinary shares. The buy-back commenced on 4 April 1996 and was finalised on 8 July 1996.

In April 1996, Westpac Banking Corporation reached an agreement with Trust Bank New Zealand Limited (Trust Bank), under which Westpac would make an offer to acquire 100% of the share capital of Trust Bank. Under the takeover offer, Westpac offered Trust Bank shareholders NZ$2.24 cash for each Trust Bank share, after a 14 for 11 subdivision of shares, or one Westpac share for every four Trust Bank shares plus cash. The Westpac offer valued Trust Bank at NZ$1,274 million, (approximately A$1,120 million). This acquisition was finalised on 9 July 1996.

Also in April, Westpac launched Australia's first integrated mortgage processing centre in Adelaide. The centre, as well as serving Westpac's needs, has the capability to offer mortgage origination and servicing to other financial intermediaries in Australia on a fee for services basis.

In May 1996, Westpac established The Home Mortgage Company in New Zealand to manage recently acquired mortgages totalling NZ$527 million from the Housing Corporation of New Zealand and NZ$265 million from The Mortgage Corporation of New Zealand.

In July 1996, Westpac exercised its option to terminate the alliance with AMP and to purchase AMPAC Life Limited.

In September 1996, Westpac announced the securitisation of $340 million of its Basic Option home loan portfolio.

Events After End of Financial Year Other than as set out below, since 30 September 1996, no matter or circumstance has arisen that has significantly affected or may significantly affect:

- the operations of the economic entity;
- the results of those operations; or
- the state of affairs of the economic entity

after 30 September 1996.

Settlement in relation to the AMPAC purchase took place on 1 October 1996 at a provisional purchase price of $342 million. Under the settlement agreement, the purchase price may be adjusted in early December 1996, following a final valuation by an independent actuary, based on audited 30 September 1996 results.

On 4 November 1996, Westpac announced its intention to undertake a further buy-back of 85 million, or approximately 5%, of its fully paid ordinary shares by way of an on-market buy-back scheme.

Mr John Brehmer Fairfax has accepted the Board's invitation to become a Director of Westpac.

Future Developments and Results Likely developments in operations of the economic entity after 30 September 1996 and the expected results of those developments are contained in pages 8 to 10 and 12 to 28 and form part of this Report.

Directors' Shareholdings Particulars of shares in Westpac or in a related body corporate in which Directors of the Bank have relevant interests are set out on page 59 under the heading "Directors' Holdings of Westpac Shares" and form part of this Report.

Directors' Interests in Contracts As required by the Corporations Law, some Directors have given notice to Westpac that, since the date of the last Report, they hold office in specified companies and as such are to be regarded as having an interest in any contract or proposed contract which may be made between Westpac and those companies.

Share Options Information about share options granted during or since the financial year is contained in Note 21 of the financial statements and forms part of this Report.

No person holding an option has or had, by virtue of the option, a right to participate in a share issue of any other body corporate.

Directors' Benefits Since the end of the previous financial year, no Director of Westpac has received or become entitled to receive a benefit other than:

- remuneration paid to non-executive Directors within the limit fixed by a resolution passed at the Annual General Meeting held on 24 January 1996 (see Note 35 in the financial statements); or
- the fixed salary and other employee benefits, including share options, of a full time employee of Westpac; or
- normal professional fees received by a firm of solicitors of which a Director is a consultant (see Note 36 in the financial statements)

by reason of a contract made by Westpac, an entity that Westpac controlled or a related body corporate with the Director or with a firm of which he or she was a member or with an entity in which he or she has a substantial financial interest.

Rounding of Amounts All amounts shown in this Report have been rounded to the nearest million dollars.

For and on behalf of the Board of Directors

J. A. Uhrig
Chairman

R. L. Joss
Managing Director

5 December 1996

Westpac Banking Corporation and its controlled entities

	Note	Consolidated 1996 $m	1995 $m	1994 $m	Bank (Chief Entity) 1996 $m	1995 $m
Interest income	2	**8,520**	7,173	5,987	**6,685**	6,116
Less: Interest expense	2	**5,266**	4,191	3,226	**4,453**	3,803
Net interest income		**3,254**	2,982	2,761	**2,232**	2,313
Less: Provisions for bad and doubtful debts	1(e),12	**121**	330	695	**47**	313
Net interest income after provisions for bad and doubtful debts		**3,133**	2,652	2,066	**2,185**	2,000
Non-interest income	3	**1,488**	1,403	1,555	**1,520**	1,354
Total operating income net of interest expense and provisions for bad and doubtful debts		**4,621**	4,055	3,621	**3,705**	3,354
Less: Non-interest expenses	4	**3,065**	2,666	2,637	**2,668**	2,450
Operating profit before abnormal items		**1,556**	1,389	984	**1,037**	904
Abnormal items	5	**–**	(212)	(93)	**–**	(210)
Operating profit before income tax		**1,556**	1,177	891	**1,037**	694
Income tax expense attributable to operating profit before abnormal items	6	**(421)**	(371)	(276)	**(240)**	(235)
Income tax credit/(expense) – abnormal items	5,6	**–**	144	93	**–**	149
Operating profit after income tax		**1,135**	950	708	**797**	608
Outside equity interests		**(3)**	(3)	(3)	**–**	–
Operating profit after income tax attributable to shareholders of Westpac Banking Corporation		**1,132**	947	705	**797**	608
Retained profits						
– at the beginning of the financial year		**842**	612	233	**600**	537
– adjustment due to new accounting standard	1(u)	**–**	(34)	–	**–**	(32)
Aggregate of amounts transferred (to)/from reserves*		**45**	(132)	39	**4**	37
Total available for appropriation		**2,019**	1,393	977	**1,401**	1,150
Appropriations:						
Dividends provided for or paid	7	**(653)**	(551)	(365)	**(653)**	(550)
Retained profits at the end of the financial year		**1,366**	842	612	**748**	600
Earnings (in cents) per Ordinary Share after deducting preference dividends						
– basic		**58.9**	49.8	36.0		
– fully diluted		**57.1**	48.1	34.8		
Weighted average number of fully paid Ordinary Shares (millions)		**1,853.1**	1,822.9	1,801.2		

The accompanying Notes numbered 1 to 40 form part of these financial statements for purposes of Australian reporting requirements.
A summary of the material adjustments to operating profit after income tax (net income) that would be required if US GAAP had been applied is given in Note 41.
* Details of transfers to and from reserves are contained in the Statements of Changes in Shareholders' Equity.

Westpac Banking Corporation and its controlled entities

	Note	Consolidated 1996 $m	1995 $m	Bank (Chief Entity) 1996 $m	1995 $m
Assets					
Cash and balances with central banks		**408**	330	**343**	325
Due from other banks	8	**6,286**	4,932	**5,666**	4,639
Trading securities	9	**5,603**	6,235	**5,459**	6,120
Investment securities	10	**2,080**	2,172	**1,272**	1,515
Loans	11	**81,201**	64,365	**57,900**	54,010
Acceptances of customers		**11,197**	11,656	**11,465**	11,810
Statutory deposits	14	**879**	720	**834**	719
Due from controlled entities		**–**	–	**7,365**	4,358
Investments in controlled entities		**–**	–	**4,442**	3,416
Fixed assets	15	**1,869**	1,630	**1,021**	836
Other assets	16	**11,990**	13,795	**9,961**	13,189
Total assets		**121,513**	105,835	**105,728**	100,937
Liabilities					
Due to other banks	17	**5,419**	7,169	**5,408**	7,168
Deposits and public borrowings	18	**74,886**	58,198	**58,282**	51,910
Bonds, notes and commercial paper		**7,226**	2,916	**4,508**	1,835
Acceptances		**11,197**	11,656	**11,465**	11,810
Due to controlled entities		**–**	–	**4,322**	2,765
Other liabilities	19	**12,695**	15,432	**11,732**	15,010
Total liabilities excluding loan capital		**111,423**	95,371	**95,717**	90,498
Loan capital					
Subordinated bonds, notes and debentures	20	**1,266**	1,900	**1,193**	1,900
Subordinated undated capital notes	20	**933**	981	**933**	981
Total loan capital		**2,199**	2,881	**2,126**	2,881
Total liabilities		**113,622**	98,252	**97,843**	93,379
Net assets		**7,891**	7,583	**7,885**	7,558
Shareholders' equity					
Share capital*	21	**1,887**	1,906	**1,887**	1,906
Reserves*		**4,632**	4,830	**5,250**	5,052
Retained profits*		**1,366**	842	**748**	600
Shareholders' equity attributable to shareholders of Westpac Banking Corporation		**7,885**	7,578	**7,885**	7,558
Outside equity interests in controlled entities		**6**	5	**–**	–
Total shareholders' equity		**7,891**	7,583	**7,885**	7,558

The accompanying Notes numbered 1 to 40 form part of these financial statements for the purposes of Australian reporting requirements.
A summary of the material adjustments to shareholders' equity that would be required if US GAAP had been applied is given in Note 41.
Contingent liabilities and credit commitments are excluded from these balance sheets and are listed in Note 25.
* Details of movements in share capital, reserves and retained profits are contained in the Statements of Changes in Shareholders' Equity.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY for years ended 30 September

Westpac Banking Corporation and its controlled entities	Consolidated 1996 $m	Consolidated 1995 $m	Consolidated 1994 $m	Bank (Chief Entity) 1996 $m	Bank (Chief Entity) 1995 $m
Share Capital					
Balance at beginning of year	**1,906**	1,901	1,999	**1,906**	1,901
Share issues (see Note 21)					
– under the Dividend Reinvestment Plan	**–**	–	27	**–**	–
– under the Dividend Bonus Plan	**–**	–	4	**–**	–
– under the Share Rounding Scheme	**–**	3	–	**–**	3
– under the Senior Officers' Share Purchase Scheme	**3**	2	1	**3**	2
– acquisitions of Trust Bank New Zealand Limited and Challenge Bank Limited	**73**	–	–	**73**	–
Shares previously paid to $0.10, or $0.01 fully paid up	**–**	–	1	**–**	–
Buyback of shares	**(95)**	–	–	**(95)**	–
Provision for redemption of preference shares	**–**	–	(131)	**–**	–
Balance at year end	**1,887**	1,906	1,901	**1,887**	1,906
Reserves					
Reserve Fund					
Balance at beginning of year	**549**	519	493	**549**	519
Transfer from retained profits (see Commentary)	**40**	30	26	**40**	30
Balance at year end	**589**	549	519	**589**	549
Share premium reserve					
Balance at beginning of year	**3,779**	3,764	3,694	**3,779**	3,763
Premium on shares issued (see Note 21)	**336**	16	89	**336**	16
Share issue expenses	**–**	(1)	1	**–**	–
Bonus share issues	**–**	–	(4)	**–**	–
Provision for premium on redemption of preference shares	**–**	–	(16)	**–**	–
Premium on shares bought back (see Note 21)	**(450)**	–	–	**(450)**	–
Balance at year end	**3,665**	3,779	3,764	**3,665**	3,779
Premises revaluation reserve					
Balance at beginning of year	**382**	514	545	**293**	329
Revaluation of premises (see Note 1(j))	**(32)**	(104)	27	**(16)**	(22)
Transfer to retained profits of realised revaluation gains on sale of premises	**(86)**	(28)	(58)	**(82)**	(14)
Other adjustments	**(4)**	–	#	**–**	–
Balance at year end	**260**	382	514	**195**	293
Investment revaluation reserve					
Balance at beginning of year	**–**	–	21	**335**	244
Revaluation of investments in controlled entities	**–**	–	–	**338**	275
Revaluation of shares in other companies	**–**	1	(7)	**–**	–
Transfer to retained profits	**–**	(1)	(15)	**38**	(184)
Other adjustments	**–**	–	1	**–**	–
Balance at year end	**–**	–	–	**711**	335

Westpac Banking Corporation and its controlled entities	Consolidated 1996 $m	Consolidated 1995 $m	Consolidated 1994 $m	Bank (Chief Entity) 1996 $m	Bank (Chief Entity) 1995 $m
Capital redemption reserve					
Balance at beginning of year	**135**	3	2	**131**	–
Transfer from retained profits (see Commentary)	**–**	131	1	**–**	131
Other adjustments	**–**	1	#	**–**	–
Balance at year end	**135**	135	3	**131**	131
Foreign currency translation reserve					
Balance at beginning of year	**(15)**	(19)	113	**(35)**	(24)
Transfer from retained profits	**1**	–	7	**–**	–
Currency translation adjustments	**(3)**	4	(139)	**(6)**	(11)
Balance at year end	**(17)**	(15)	(19)	**(41)**	(35)
Total reserves	**4,632**	4,830	4,781	**5,250**	5,052
Net transfer (to)/from retained profits	**(45)**	132	(39)	**(4)**	(37)
Retained profits					
Balance at beginning of year	**842**	612	233	**600**	537
Adjustment due to new accounting standard (refer Note 1(u))	**–**	(34)	–	**–**	(32)
Aggregate of amounts transferred (to)/from reserves	**45**	(132)	39	**4**	37
Operating profit after income tax attributable to shareholders of the Bank	**1,132**	947	705	**797**	608
Dividends provided for or paid (refer Note 7)	**(653)**	(551)	(365)	**(653)**	(550)
Balance at year end	**1,366**	842	612	**748**	600
Total Shareholders' Equity attributable to shareholders of the Bank at year end	**7,885**	7,578	7,294	**7,885**	7,558

# Denotes amounts less than $500,000.
The investment revaluation reserve in the Bank (Chief Entity) reflects the revaluation of its investments in controlled entities (see Note 1(n)). This reserve is eliminated on consolidation in the consolidated financial statements.
As substantially all the Group's premises to which the premises revaluation reserve relates have been held for many years and are therefore outside the scope of Australian capital gains tax, the future liabilities for capital gains which might arise in the event of disposal of any or all of these premises are not material.

Restrictions which Limit the Payment of Dividends

The Bank's Deed of Settlement requires that each year not less than 5% of the net profit of the Bank for the year be transferred to the Reserve Fund, until the Fund is at a level equal to half of the paid-up capital. The Reserve Fund may not be used for payments of dividends, but may be used to provide for occasional losses.

The share premium reserve, to which all premiums on the issue of new shares are credited, and share issues expenses are debited, may be used for the payment of dividends only if such dividends are satisfied by the issue of shares to the shareholders.

As mentioned in Note 1(c) to the financial statements, exchange differences arising on translation of the net investment in overseas branches and subsidiary companies are reflected in the foreign currency translation reserve. Any offsetting gains or losses on hedging of these balances together with any tax effect are also reflected in this reserve, which may be either a debit or credit balance. Any credit balance in this reserve would not normally be regarded as being available for payment of dividends until such gains are realised.

The premises revaluation reserve comprises principally the net of unrealised revaluation increments and decrements of premises and sites. The net unrealised gains reflected in this reserve would not normally be regarded as being available for payment of dividends until such gains are realised.

In accordance with the requirements of the Bank's Deed of Settlement, in 1995, $131 million was transferred from retained profits to the capital redemption reserve upon redemption of 131.2 million preference shares. This reserve may not be used for the payment of dividends.

In addition to the above restrictions, there is an overriding supervisory requirement of the Reserve Bank of Australia ("the Reserve Bank") that aggregate dividend payments by the Bank in any fiscal year may not exceed, without the approval of the Reserve Bank, the consolidated net profit of the Group for the immediately preceding fiscal year of the Group. In 1994, Westpac sought and obtained approval from the Reserve Bank for its dividend payments.

Westpac Banking Corporation and its controlled entities	Consolidated			Bank (Chief Entity)	
	1996 $m	1995 $m	1994 $m	**1996 $m**	1995 $m
Cash flows from operating activities					
Interest received	**8,505**	7,140	6,118	**6,719**	6,076
Interest paid	**(5,183)**	(4,017)	(3,322)	**(4,481)**	(3,630)
Dividends received	**16**	3	3	**257**	96
Other non-interest income received	**1,653**	2,480	2,182	**1,468**	2,328
Non-interest expenses paid	**(2,768)**	(2,331)	(2,186)	**(2,442)**	(2,200)
Decrease/(increase) in trading securities	**1,857**	(479)	701	**1,060**	(808)
Income taxes paid	**(198)**	(74)	(62)	**(73)**	(38)
Net cash provided by operating activities	**3,882**	2,722	3,434	**2,508**	1,824
Cash flows from investing activities					
Proceeds from sale of investment securities	**1,105**	286	1,417	**1,046**	165
Proceeds from matured investment securities	**731**	1,231	971	**183**	580
Purchase of investment securities	**(1,566)**	(1,420)	(1,995)	**(1,057)**	(542)
Net (increase)/decrease in:					
loans	**(5,721)**	(3,190)	(7)	**(4,172)**	(2,146)
due from other banks	**(1,338)**	(700)	(227)	**(1,285)**	(740)
statutory deposits	**(120)**	25	100	**(126)**	(12)
investments in controlled entities	**–**	–	–	**(260)**	17
due from controlled entities	**–**	–	–	**(3,048)**	(155)
other assets	**(179)**	(1,477)	(22)	**(155)**	(1,357)
Fixed assets additions	**(512)**	(197)	(136)	**(493)**	(146)
Proceeds from disposal of fixed assets	**200**	61	89	**153**	36
Controlled entities acquired	**(1,360)**	–	(5)	**–**	–
Controlled entities sold (net of cash disposed)	**–**	36	407	**–**	354
Net cash provided by/(used in) investing activities	**(8,760)**	(5,345)	592	**(9,214)**	(3,946)
Cash flows from financing activities					
Redemption of preference share capital	**–**	(148)	–	**–**	(148)
Buyback of shares	**(545)**	–	–	**(545)**	–
Proceeds from issue of shares	**14**	21	117	**14**	21
Net increase/(decrease) in:					
due to other banks	**(1,553)**	(801)	(3,338)	**(1,413)**	(368)
deposits and public borrowings	**5,996**	3,327	452	**6,730**	2,552
bonds, notes and commercial paper	**2,458**	332	(683)	**2,673**	132
due to controlled entities	**–**	–	–	**1,556**	(307)
other liabilities	**(339)**	362	(630)	**(1,218)**	706
loan capital	**(450)**	–	–	**(450)**	–
Payment of dividends	**(622)**	(463)	(285)	**(622)**	(459)
Decrease in outside equity interests	**(2)**	(2)	(6)	**–**	–
Net cash provided by/(used in) financing activities	**4,957**	2,628	(4,373)	**6,725**	2,129
Net increase/(decrease) in cash and cash equivalents	**79**	5	(347)	**19**	7
Effect of exchange rate changes on cash and cash equivalents	**(1)**	1	(46)	**(1)**	3
Cash and cash equivalents at the beginning of the year*	**330**	324	717	**325**	315
Cash and cash equivalents at the end of the year*	**408**	330	324	**343**	325

* Cash and cash equivalents comprise cash and balances with central banks as shown in the balance sheet.

Westpac Banking Corporation and its controlled entities	Consolidated			Bank (Chief Entity)	
	1996 $m	1995 $m	1994 $m	**1996 $m**	1995 $m
Reconciliation of net cash provided by operating activities to operating profit after income tax					
Operating profit after income tax	**1,132**	947	705	**797**	608
Adjustments					
Outside equity interests	**3**	3	3	**–**	–
Depreciation	**174**	149	164	**139**	121
Sundry provisions and other non–cash items	**318**	1,565	981	**388**	1,617
Bad and doubtful debts	**206**	431	846	**134**	379
(Increase)/decrease in trading securities	**1,857**	(479)	701	**1,060**	(808)
(Increase)/decrease in accrued interest receivable	**(15)**	(33)	131	**34**	(40)
Increase/(decrease) in accrued interest payable	**83**	174	(97)	**(28)**	173
Increase/(decrease) in provision for income tax	**331**	43	88	**229**	35
Increase/(decrease) in provision for deferred income tax	**(90)**	64	(114)	**(164)**	57
Increase/(decrease) in future income tax benefits	**32**	6	222	**57**	(178)
Amounts paid out of sundry provisions	**(149)**	(148)	(196)	**(138)**	(140)
Total adjustments	**2,750**	1,775	2,729	**1,711**	1,216
Net cash provided by operating activities	**3,882**	2,722	3,434	**2,508**	1,824
Non-cash operating, investing and financing activities					
Issuance of 70.4 million $1 ordinary shares fully paid at a premium of $4.45 each and 2.6 million $1 ordinary shares fully paid at a premium of $4.93 each as part consideration for acquisition of subsidiaries.	**399**	–	–	**399**	–
Entities and businesses acquired or disposed of					
Details of assets and liabilities of controlled entities and businesses acquired or disposed of are as follows:					
Acquisitions					
Due from the Westpac Group	**151**	–	–	**–**	–
Due from other banks	**40**	–	–	**–**	–
Trading securities	**1,769**	–	–	**–**	–
Investment securities	**247**	–	–	**–**	–
Statutory deposits	**50**	–	–	**–**	–
Loans	**11,491**	–	–	**–**	–
Acceptances	**133**	–	–	**–**	–
Fixed assets	**128**	–	1	**–**	–
Other assets	**200**	–	(1)	**–**	–
Deposits & public borrowings	**(11,069)**	–	5	**–**	–
Bonds, notes & commercial paper	**(1,931)**	–	–	**–**	–
Acceptances	**(133)**	–	–	**–**	–
Loan capital	**(72)**	–	–	**–**	–
Due to other banks	**(42)**	–	–	**–**	–
Due to the Westpac Group	**(108)**	–	–	**–**	–
Other liabilities	**(230)**	–	(4)	**–**	–
Intangible assets	**1,145**	–	4	**–**	–
	1,769	–	5	**–**	–
Integration costs provided, net of tax benefit	**(56)**	–	–	**–**	–
	1,713	–	5	**–**	–
Issuance of shares as part consideration	**(399)**	–	–	**–**	–
Prior period cash payment for investment	**(41)**	–	–	**–**	–
Current period cash payment for acquisition (net of cash acquired)	**1,273**	–	5	**–**	–
Cash acquired	**87**	–	–	**–**	–
Cash consideration and costs	**1,360**	–	5	**–**	–

Westpac Banking Corporation and its controlled entities

	Consolidated			Bank (Chief Entity)	
	1996 $m	1995 $m	1994 $m	**1996 $m**	1995 $m
Disposals					
Due from other banks	**–**	(94)	1,063	**–**	(144)
Trading securities	**–**	–	#	**–**	–
Investment securities	**–**	5	209	**–**	–
Other investments	**–**	–	#	**–**	–
Loans	**–**	189	1,207	**–**	179
Other assets	**–**	15	409	**–**	5
Fixed assets	**–**	3	4	**–**	#
Deposits and public borrowings	**–**	(426)	(2,019)	**–**	(21)
Due to other banks	**–**	372	(515)	**–**	9
Other liabilities	**–**	(7)	(60)	**–**	(3)
Outside equity interests	**–**	–	(20)	**–**	–
Outside equity interests preference shares held by other controlled entities	**–**	–	–	**–**	(97)
Investment in controlled entities	**–**	–	–	**–**	422
(Loss)/gain on disposal	**–**	(21)	129	**–**	3
Cash consideration (net of cash disposed)	**–**	36	407	**–**	353
Cash disposed	**–**	1	474	**–**	1
Cash consideration	**–**	37	881	**–**	354

As the Group has liquidity controls which limit the extent of cash flow mismatches and also has access to central bank facilities in certain locations in the event of market systemic difficulties, it has not obtained formal standby facilities from the commercial market.

The accompanying Notes numbered 1 to 40 form part of these financial statements for purposes of Australian reporting requirements.

A summary of the material adjustments to operating profit after income tax (net income) that would be required if US GAAP had been applied is given in Note 41.

# Denotes amounts less than $500,000.

NOTE 1. SUMMARY OF THE SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES

a) Historical Cost

The financial statements are drawn up in accordance with the historical cost convention, except where otherwise indicated.

b) Bases of Accounting

The financial statements are a general purpose financial report which has been drawn up in accordance with applicable Accounting Standards and in accordance with the provisions of and the information required by the Deed of Settlement and the Bank of New South Wales Act of 1850 (as amended) and in a manner authorised for a banking corporation under the Banking Act 1959 (as amended) and, so far as considered appropriate to banking companies, in accordance with the requirements of the Corporations Law and Schedule 5 to the Corporations Regulations (see Note 39).

The financial statements also include disclosures required by the United States Securities and Exchange Commission in respect of foreign registrants.

c) Currency

All amounts are expressed in Australian currency. Assets and liabilities of overseas branches and controlled entities have been translated to Australian dollars at the mid-point rates of exchange ruling at balance date. Income and expenses of overseas branches and controlled entities have been translated to Australian dollars at average daily rates of exchange for the year. In the financial statements of the Bank, exchange differences arising on translation of the Bank's net investment in overseas branches, after allowing for those positions covered by foreign exchange hedges, are reflected in the foreign currency translation reserve. In the consolidated financial statements, the foreign currency translation reserve also reflects exchange differences on translation of the Bank's net investment in overseas controlled entities after allowing for those positions covered by foreign exchange hedges (see Statement of Changes in Shareholders' Equity). Exchange differences relating to foreign currency monetary items (except those used to hedge the net investment in overseas branches and controlled entities) and gains and losses arising from foreign exchange dealings are included in the profit and loss statement as part of the operating results.

Foreign currency liabilities are generally matched by assets in the same currency. The total amounts of unmatched foreign currency liabilities and assets and consequent foreign currency exposures are not material.

d) Consolidation

The consolidated financial statements are a consolidation of the financial statements of the Bank (Chief Entity) and all controlled entities (collectively the "Economic Entity" or the "Group"). Controlled entities are listed in Note 28.

All intragroup accounts and transactions have been eliminated.

Investments in companies which are not controlled by the Bank are listed in Note 30 and are included in the balance sheet under "other assets" as shown in Note 16. Dividend income only is included in the results.

e) Bad and Doubtful Debts

The annual charge against profits for provisions for bad and doubtful debts reflects new specific provisions, reversals of specific provisions no longer required, and movements in the general provision.

The specific provisions are to cover all identified doubtful debts. Specific provisions are made as soon as a loan has been identified as impaired and when the estimated repayment realisable from the borrower is likely to fall short of the amount of principal and interest outstanding. Such loans are treated as impaired assets (categorised predominantly as non-accrual items) as set out and explained in Note 13. Interest relating to non-accrual loans is recognised as income only when received. When a loan is categorised as non-accrual, unpaid interest accrued since the last reporting date is reversed against income. Unpaid interest relating to prior reporting periods is either written off as a bad debt or specific provision is made as necessary.

Where repayment of a loan is dependent upon the sale of property held as security, the estimated realisable value of the loan is based on the current market value of the security property, being the amount that would be realisable from a willing buyer to a willing seller, allowing a period of up to 12 months from commencement of selling to settlement.

A general provision is made for unidentified losses that can reasonably be expected to arise from the existing overall loan portfolio over its remaining life based on relevant historical experience. In determining the level of general provision, reference is also made to business conditions, the composition of the portfolio and best industry practices. The setting of general provision in this manner necessarily involves making assumptions about currently inherent levels of losses expected to emerge from the existing portfolio.

All known bad debts are written off against provisions in the year in which they are recognised. Bad debts, in respect of which no specific provisions have been established, are charged against the general provision.

f) Fee Income

Front end fees, if material, are segregated between cost recovery and risk margin, with the risk margin being taken to income over the period of the loan or other risk. The balance of front end fees is considered to represent the recovery of costs only and is taken to income upon receipt.

g) Leasing

Finance leases are accounted for under the finance method whereby income is taken to account progressively over the life of the lease in proportion to the outstanding investment balance. The assets are included in the balance sheet under "loans" as shown in Note 11.

Investments in leveraged lease and equity lease partnerships are included in the balance sheet under "loans" as shown in Note 11. Income recognition is based on a method which yields a constant rate of return on the outstanding lease investment.

h) Redeemable Preference Share Finance

The provision of finance to customers by way of redeemable preference shares is included in the balance sheet under "loans" as shown in Note 11. Dividend income recognition is based on a method which yields a constant rate of return on the outstanding balance and is disclosed as part of interest income (see Note 2).

i) Other Real Estate Owned
Other Real Estate Owned ("OREO") includes real estate acquired as a result of a need to rely on loan security as well as former joint venture development projects where Westpac has now assumed full ownership and control. OREO is carried at the lower of cost or current market value, determined by independent valuation, and is included in the balance sheet under "loans" as shown in Note 11. Trading income and expenses on completed projects are recognised in the profit and loss statement as they arise.

j) Fixed Assets
The class of assets "premises and sites" has been revalued regularly and was last revalued at 31 March 1995 by the Directors, supported in the case of major Australian properties and all New Zealand properties, by independent valuers' advice, to reflect current market values. In addition, it is the Group's policy that whenever the recoverable value of any individual property is determined to be less than its carrying value, such property is revalued down to the recoverable value.

Depreciation of buildings is calculated on a straight line basis at rates appropriate to their estimated useful life and is based on the most recent revaluation prior to year end, or, in respect of buildings acquired subsequent to that revaluation, on cost.

The cost of improvements to leasehold premises is capitalised and amortised over the term of the initial lease, but not exceeding 10 years.

Furniture and equipment are shown at cost less depreciation which is calculated on a straight line basis at rates appropriate to their estimated useful life.

The cost of purchased and internally developed computer software related to major projects is capitalised and amortised over its expected life. The costs related to minor projects are expensed as incurred.

k) Trading and Investment Securities
(i) Trading securities
Trading securities are recorded at market value. Gains and losses realised from the sale of trading securities and unrealised market value adjustments are reflected in the profit and loss statement.

(ii) Investment securities
Investment securities are intended to be held to maturity. They are recorded at cost, or at cost adjusted for premium or discount amortisation.

Premiums and discounts are amortised from the date of purchase, so that the securities will be recorded at redemption value on maturity and the amortisation is accounted for in the profit and loss statement as interest income.

Gains and losses on the sale of investment securities are recorded using the specific identification method.

Any transfers of securities from the trading securities portfolio to the investment securities portfolio are effected at market valuation of the securities at the date of transfer.

(iii) Repurchase and reverse repurchase agreements
Where trading and investment securities sold under agreements to repurchase (repurchase agreements) are, in essence, financing arrangements, they are accounted for as such, i.e. the securities are retained within the trading or investment portfolios and the obligation to repurchase is recognised as a liability. Such liabilities are included in the balance sheet under "other liabilities" as shown in Note 19. Securities purchased under agreements to resell (reverse repurchase agreements) are included in the balance sheet under "other assets" as shown in Note 16.

(iv) Trade date accounting
Trading and investment securities are recorded on a trade date basis. Amounts receivable for securities sold but not yet delivered are included in the balance sheet under "other assets" as shown in Note 16. Amounts payable for securities purchased but not yet delivered are included in the balance sheet under "other liabilities" as shown in Note 19.

(v) Short sales of securities
Short trading positions are included in the balance sheet under "other liabilities" as shown in Note 19.

l) Acceptances
The exposure arising from the acceptance of bills of exchange that are sold into the market is brought to account as a liability. A contra asset "acceptances of customers" is recognised to reflect the Bank or Group's claim against each drawer of the bills.

Bills that have been accepted by the Bank and have been retained in its own portfolio or have been purchased from the market are included in the balance sheet under "loans" as shown in Note 11.

m) Derivative Financial Instuments
(i) Forwards, futures and options
Forward foreign exchange contracts, foreign currency futures contracts, interest rate futures contracts, forward rate agreements, forward purchases and sales of securities and options entered into for trading purposes are valued at prevailing market rates. Both realised and unrealised gains and losses on such contracts are taken to profit and loss. Contracts entered into for hedging purposes are accounted for in a manner consistent with the accounting treatment of the hedged item.

(ii) Swaps
Interest rate and currency swap agreements entered into for trading purposes are valued at their net present value after allowance for future costs and risk exposure. Both realised and unrealised gains and losses on such agreements are taken to profit and loss. Agreements entered into for hedging purposes are accounted for in a manner consistent with the accounting treatment of the hedged item.

(iii) Derivatives used for hedging purposes
Income or expense on derivative financial instruments used to hedge interest rate exposure is recorded on an accrual basis as an adjustment to the yield of the related interest rate exposures over the periods covered by the contracts. If an interest rate contract that is used to hedge interest rate risk is terminated early, any resulting gain or loss is deferred and amortised as an adjustment to the yield of the underlying interest rate exposure position over the remaining periods originally covered by the terminated contract.

n) Investments in Controlled Entities and Other Investments
Investments in controlled entities are recorded by the Bank at its share of net assets at book value, plus unamortised intangible

assets relating to the investments. Differences between book value of net assets plus unamortised intangible assets and cost of controlled entities are included in the investment revaluation reserve (see Statement of Changes in Shareholders' Equity).

Other investments, comprising unlisted shares in other companies, as shown in Note 16, are generally held as long-term investments. They are recorded at Directors' valuation which is generally based on the Group's share of net assets at book value. Net unrealised revaluation increments are reflected in the investment revaluation reserve. Gains and losses on sale are measured as the difference between the carrying value as at the date of sale and the net proceeds, and are reflected in the profit and loss statement.

o) Unearned Income
Unearned finance income, arising principally in the Australian Guarantee Corporation Limited ("AGC") group, is calculated using actuarial methods so that income earned over the term of the contract bears a constant relationship to the funds employed (see Note 11).

Unearned insurance premiums are calculated by spreading net premium income over the period of the risk (see Note 19).

p) Tax Effect Accounting
Tax effect accounting under the liability method has been adopted by the Group whereby income tax expense for the year is matched with the accounting results after allowing for permanent differences. The tax effect of timing differences, which occur where items are included or allowed for income tax purposes in a period different from that in the financial statements, is shown in the provision for deferred income tax or future income tax benefits, as applicable, at current taxation rates, adjusted in 1995 for an increase in the Australian company tax rate from 33% to 36%, effective from 1 October 1995. Adjustments were also made in 1995 for changes in company tax rates overseas (see Notes 5, 6, 16 and 19).

The future income tax benefits arising from tax losses have been recognised only where the realisation of such benefits in future years is considered virtually certain (see Note 16).

q) Intangible Assets
Intangible assets (goodwill and other intangibles, including brand values) are amortised against income on a straight-line basis over the periods in which the benefits are expected to arise, but not exceeding 20 years. To the extent that future benefits are no longer probable, unamortised intangible assets have been charged to the profit and loss statement as an abnormal item (see Note 5).

r) Deferred Expenses
Deferred expenses included in the balance sheet under "other assets" are amortised against income over the periods in which the benefits are expected to arise.

s) Funds Management and Trust Activities
The Group conducts investment management and other fiduciary activities through Westpac Financial Services Group Limited and its controlled entities and through certain other controlled entities overseas that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. At 30 September 1996, the value of such assets under discretionary management by the Group was approximately $11.3 billion (1995 approximately $10.9 billion). These assets are not the property of the Group and are not included in the financial statements.

Where Group companies, as trustee, incur liabilities in respect of these activities, they are entitled, in the ordinary course, to be indemnified out of the trust assets in respect of those liabilities. As these assets are sufficient to cover liabilities, and it is therefore not probable that the Group companies will be required to settle them, the liabilities are not included in the financial statements.

t) Superannuation Costs
Actuarially assessed surpluses in the Group's principal superannuation schemes for employees are recognised in the balance sheet as assets, representing a prepayment of contributions to the schemes (see Note 16). Up until 30 September 1994, movements each financial year in the actuarially assessed surpluses were reflected as a credit or charge to profit and loss for the year in which such movements occurred (see Note 4).

In 1995, the Group changed its policy on accounting for superannuation costs. From 1 October 1994, the superannuation costs are recognised over employees' service lives so that the annual charge to the profit and loss account is an approximately level percentage of current and expected future pensionable pay, less the anticipated benefit accruing from the existing prepayment of contributions. The amount charged to the profit and loss account is based on the advice of a qualified actuary. Variations from the regular cost which result from periodic actuarial valuations will be spread over the average remaining service lives of employees.

u) Employee Entitlements
As from 1 October 1994, the requirements of accounting standard AASB1028 "Accounting for Employee Entitlements" have been applied by the Group. This necessitated an increase in provisions for long service leave and other deferred employee benefits as at 1 October 1994. In addition, recognition of a deferred payroll tax liability in respect of provisions for certain employee benefits became necessary, where the payment of such benefits attracts payroll tax.

The after-tax impact of these adjustments, amounting to $34 million, was recorded as a deduction from retained profits as at 1 October 1994 in accordance with AASB1028.

v) Carrying Value of Non-Current Assets
The carrying value of all non-current assets does not exceed their recoverable amount. Except where otherwise indicated, recoverable amount is determined as the undiscounted amount expected to be recovered from the net cash flows arising from the assets' continued use and subsequent disposal.

w) Changes to Comparative Figures
Where necessary, comparative figures for previous years have been reclassified to accord with changes in presentation and classifications made in 1996.

x) Rounding of Amounts
In accordance with an Australian Securities Commission Class Order dated 18 August 1994, all amounts have been rounded to the nearest million dollars unless otherwise stated.

NOTE 2. INTEREST

	Consolidated 1996 $m	1995 $m	1994 $m	Bank (Chief Entity) 1996 $m	1995 $m
Interest income					
Loans	**7,235**	6,143	5,059	**5,520**	5,114
Deposits with banks	**556**	328	280	**525**	300
Investment securities*	**167**	141	165	**84**	99
Trading securities*	**395**	436	338	**378**	425
Statutory deposits	**23**	38	38	**22**	37
Dividends on redeemable preference share finance (tax rebateable)	**97**	69	90	**–**	–
Controlled entities	**–**	–	–	**149**	124
Other	**47**	18	17	**7**	17
Total interest income	**8,520**	7,173	5,987	**6,685**	6,116

* The Group does not hold any tax-exempt securities

	Consolidated 1996 $m	1995 $m	1994 $m	Bank (Chief Entity) 1996 $m	1995 $m
Interest expense					
Current and term deposits	**3,627**	2,862	2,041	**3,318**	2,828
Deposits from banks	**588**	498	432	**588**	498
Bonds, notes and commercial paper	**340**	190	134	**188**	127
Public borrowings by subsidiary borrowing corporations	**464**	432	429	**–**	–
Loan capital	**169**	193	155	**167**	193
Controlled entities	**–**	–	–	**199**	143
Other	**78**	16	35	**(7)**	14
Total interest expense	**5,266**	4,191	3,226	**4,453**	3,803

NOTE 3. NON-INTEREST INCOME

	Consolidated 1996 $m	1995 $m	1994 $m	Bank (Chief Entity) 1996 $m	1995 $m
Loan fees*	**204**	182	191	**187**	179
Other fees and commissions:					
– risk fees**	**253**	284	310	**267**	285
– non-risk fees***	**645**	602	619	**502**	496
Foreign exchange income	**175**	177	165	**163**	163
Other financial markets income	**43**	27	49	**31**	24
Rental income	**20**	32	35	**20**	24
General insurance commissions and premiums earned	**51**	41	48	**9**	8
Dividends – from controlled entities	**–**	–	–	**245**	95
– other	**16**	3	3	**12**	1
Net profit on disposal of premises	**15**	4	8	**9**	3
Net profit on sale of investment securities	**6**	#	6	**#**	–
Net profit on sale of other investments	**–**	6	1	**–**	5
Gains/(losses) on translation of overseas branch balances (net of hedging)	**14**	1	(3)	**16**	–
Service and management fees	**14**	13	17	**14**	14
Other non-interest income	**32**	31	106	**45**	57
Total non-interest income	**1,488**	1,403	1,555	**1,520**	1,354

# Denotes amounts less than $500,000.
* Loan fees represent primarily fees generated by Australian and New Zealand banking operations.
** Risk fees include banking fees associated with bill issuance and guarantees.
*** Non-risk fees incorporate account keeping and transaction fees and Financial Services' revenues.

NOTE 4. NON-INTEREST EXPENSES

	Consolidated 1996 $m	1995 $m	1994 $m	Bank (Chief Entity) 1996 $m	1995 $m
Salaries and other staff expenses					
Salaries and wages	**1,350**	1,217	1,159	**1,112**	1,064
Provision for long service leave	**22**	21	23	**21**	19
Provision for holiday leave and other staff benefits	**17**	24	13	**14**	23
Superannuation contributions	**14**	14	14	**9**	11
Superannuation prepayment adjustment (Notes 1(t),23,41)	**11**	11	66	**10**	11
Payroll tax	**81**	71	65	**72**	65
Fringe benefits tax	**68**	53	40	**61**	49
Restructuring costs	**63**	–	–	**63**	–
Other staff expenses*	**155**	119	53	**141**	109
Salaries and other staff expenses	**1,781**	1,530	1,433	**1,503**	1,351
Equipment and occupancy expenses					
Operating lease rentals	**166**	151	158	**171**	196
Depreciation and amortisation:					
Premises	**14**	15	15	**5**	5
Leasehold improvements	**13**	12	9	**9**	8
Furniture and equipment	**85**	70	71	**72**	59
Technology	**62**	52	69	**53**	49
Equipment repairs and maintenance	**54**	55	57	**50**	45
Electricity, water and rates	**36**	35	37	**32**	20
Land tax	**7**	8	9	**7**	4
Other	**46**	51	53	**32**	41
Equipment and occupancy expenses	**483**	449	478	**431**	427
Other expenses					
Amortisation of intangible assets (Note 16)	**34**	7	7	**–**	–
Amortisation of deferred expenditure (Note 16)	**10**	10	10	**10**	10
Non-lending losses	**7**	20	40	**13**	19
Consultancy fees, computer software and other professional services	**188**	171	187	**161**	152
Stationery	**73**	63	39	**65**	57
Postage and telecommunications	**136**	110	106	**115**	101
Insurance	**16**	14	17	**15**	14
Advertising	**66**	61	43	**48**	55
Transaction taxes	**14**	9	13	**6**	3
Training	**20**	16	9	**17**	13
Travel	**50**	46	39	**43**	41
Insurance claims	**16**	12	9	**–**	–
Other expenses	**171**	148	207	**241**	207
Other expenses	**801**	687	726	**734**	672
Total non-interest expenses	**3,065**	2,666	2,637	**2,668**	2,450

* Other staff expenses in 1996 and 1995 include temporary staff expenses of $57 million and $52 million respectively. In 1994, such expenses were classified as professional services and have not been restated for the change in classification.

NOTE 5. ABNORMAL ITEMS*

	Consolidated 1996 $m	Consolidated 1995 $m	Consolidated 1994 $m	Bank (Chief Entity) 1996 $m	Bank (Chief Entity) 1995 $m
Abnormal income and (expense) items:					
(i) Net profit/(loss) on sale of controlled entities and other investments	**–**	–	162	**–**	–
(ii) Write-off of intangible assets (Note 1(q))	**–**	–	(59)	**–**	–
(iii) Restructuring expenses	**–**	(212)	(134)	**–**	(210)
(iv) Interest not brought to account in prior years[1]	**–**	–	(22)	**–**	–
(v) Provision for loss on interest rate swap contracts[2]	**–**	–	(40)	**–**	–
Net total abnormal income and (expense) items	**–**	(212)	(93)	**–**	(210)
Income tax credit/(expense) applicable to the above abnormal items:					
(i)	**–**	–	2	**–**	–
(ii)	**–**	–	1	**–**	–
(iii)	**–**	37	43	**–**	36
(iv)	**–**	–	7	**–**	–
(v)	**–**	–	13	**–**	–
Net income tax credit applicable to abnormal income and (expense) items	**–**	37	66	**–**	36
Abnormal tax credit/(expense) items:					
(vi) Future income tax benefits not previously recognised on foreign losses in prior years	**–**	–	53	**–**	–
(vii) Future income tax benefits relating to foreign losses in prior years no longer recognised as an asset because recovery is uncertain	**–**	–	(12)	**–**	–
(viii) Tax adjustment relating to prior years[3]	**–**	67	(14)	**–**	67
(ix) Change in income tax rates (Note 1(p))	**–**	40	–	**–**	46
Net abnormal tax credit/(expense) items	**–**	107	27	**–**	113
Income tax credit/(expense) – abnormal items (see Note 6)	**–**	144	93	**–**	149
Net effect of all abnormal items on operating profit after income tax	**–**	(68)	(#)	**–**	(61)

# Denotes amounts less than $500,000.

* Abnormal items are defined by Australian accounting standards as items of revenue and expense included in operating profit or loss, which are considered abnormal by reason of their size and effect on the results for the financial period.

[1] Interest not brought to account in prior years relates to the interest element of a balloon payment commitment for which no provision had been made.

[2] A review of the Bank's balance sheet hedging strategies in 1994 revealed an over-hedged position created in a prior year with a mark-to-market net present value loss of $40 million (related tax credit $13 million). As the Bank had no other equivalent exposures to which this position could be reallocated, the loss on the excessive hedge was recognised as an abnormal item.

[3] The 1995 tax adjustment relating to prior years comprises a $67 million write-back of a $106 million tax provision following settlement of prior years' US tax issues with the Internal Revenue Service. The 1994 tax adjustment resulted from a reassessment of future tax benefits arising from certain leveraged lease transactions.

NOTE 6. INCOME TAX

	Consolidated 1996 $m	Consolidated 1995 $m	Consolidated 1994 $m	Bank (Chief Entity) 1996 $m	Bank (Chief Entity) 1995 $m
Income tax reconciliation					
Prima facie tax on operating profit based on the company tax rate in Australia of 36% (1995 and 1994: 33%)	**560**	388	294	**373**	229
Add/(deduct) reconciling items expressed on a tax effected basis:					
Rebateable and exempt dividends	**(47)**	(34)	(33)	**(93)**	(32)
Tax losses not/(now) tax effected	**(24)**	(10)	2	**4**	(13)
Non-assessable items:					
Unit trust income	**(2)**	(7)	(11)	**–**	–
Capital profits	**(6)**	(1)	(4)	**(4)**	(1)
Other	**(15)**	(6)	(4)	**(4)**	(3)
Non-deductible items:					
Fringe benefits tax	**–**	–	4	**–**	–
Depreciation and amortisation	**11**	10	6	**9**	8
Other	**20**	10	12	**5**	6
Abnormal items (see below)	**–**	(74)	(62)	**–**	(80)
Adjustment for overseas tax rates	**(10)**	(4)	3	**(1)**	2
Overprovision in prior years	**(59)**	(14)	(3)	**(2)**	(14)
Other items (net)	**(7)**	(31)	(21)	**(47)**	(16)
	(139)	(161)	(111)	**(133)**	(143)
Total income tax expense attributable to operating profit	**421**	227	183	**240**	86
Income tax attributable to operating profit comprises:					
Income tax attributable to operating profit before abnormal items	**421**	371	276	**240**	235
Income tax – abnormal items (see below and Note 5)	**–**	(144)	(93)	**–**	(149)
	421	227	183	**240**	86
Income tax – abnormal items					
Prima facie tax on abnormal items at 36% (1995 and 1994: 33%)	**–**	(70)	(31)	**–**	(69)
Add/(deduct) reconciling items:					
Net (profit)/loss on sale of controlled entities and other investments (Note 5, item (i))	**–**	–	(56)	**–**	–
Write-off of intangible assets (Note 5, item (ii))	**–**	–	19	**–**	–
Restructuring expenses (Note 5, item (iii))	**–**	33	6	**–**	33
Future income tax benefits not previously recognised on foreign losses in prior years (Note 5, item (vi))	**–**	–	(53)	**–**	–
Future income tax benefits relating to foreign losses no longer recognised (Note 5, item (vii))	**–**	–	12	**–**	–
Tax adjustment relating to prior years (Note 5, item (viii))	**–**	(67)	14	**–**	(67)
Change in income tax rates (Note 5, item (ix))	**–**	(40)	–	**–**	(46)
Adjustment for overseas tax rates on abnormal items	**–**	#	(4)	**#**	#
	–	(74)	(62)	**–**	(80)
Income tax expense/(credit) – abnormal items	**–**	(144)	(93)	**–**	(149)

# Denotes amounts less than $500,000.

NOTE 6. INCOME TAX continued

	Consolidated 1996 $m	1995 $m	1994 $m	Bank (Chief Entity) 1996 $m	1995 $m
Income tax analysis					
Income tax attributable to operating profit comprises:					
Current income tax – Australia	**304**	114	5	**250**	205
– Overseas	**102**	51	81	**59**	27
	406	165	86	**309**	232
Deferred income taxes (net) – Australia	**93**	116	147	**(19)**	(89)
– Overseas	**(19)**	(40)	(47)	**(48)**	(43)
	74	76	100	**(67)**	(132)
Under/(over) provision in prior years – Australia	**(52)**	(13)	4	**4**	(15)
– Overseas	**(7)**	(1)	(7)	**(6)**	1
	(59)	(14)	(3)	**(2)**	(14)
Total Australia	**345**	217	156	**235**	101
Total Overseas	**76**	10	27	**5**	(15)
Total income tax expense attributable to operating profit	**421**	227	183	**240**	86
Deferred income taxes (net) resulted from:					
Depreciation of fixed assets	**(5)**	–	(15)	**(7)**	(3)
Lease finance transactions	**(20)**	3	(24)	**(14)**	3
Provision for doubtful debts	**111**	49	312	**70**	(20)
Tax losses	**87**	120	(33)	**1**	(20)
Other items (net)*	**(99)**	(96)	(140)	**(117)**	(92)
Total	**74**	76	100	**(67)**	(132)

* Principally Financial Markets and Treasury products.

NOTE 7. DIVIDENDS PROVIDED FOR OR PAID

	Consolidated 1996 $m	1995 $m	1994 $m	Bank (Chief Entity) 1996 $m	1995 $m
Redeemable preference dividends provided for or paid (unfranked)*	**–**	1	18	**–**	–
Converting preference dividends provided for or paid (fully franked)	**39**	39	39	**39**	39
Total redeemable preference and converting preference dividends provided for or paid	**39**	40	57	39	39
Interim ordinary dividend provided for:					
1996 16 cents per share (fully franked at 36%); 1995 13 cents per share (unfranked); 1994 8 cents per share (unfranked)	**297**	237	144	**297**	237
Under/(over)provision for dividend in prior period**	**10**	–	–	**10**	–
Less: amount forgone***	**–**	–	(10)	**–**	–
	307	237	134	**307**	237
Final ordinary dividend proposed:					
1996 17 cents per share (fully franked at 36%); 1995 15 cents per share (fully franked at 33%); 1994 10 cents per share (unfranked)	**307**	274	182	**307**	274
	614	511	316	**614**	511
Under/(over)provision for previous year's final ordinary dividend***	**–**	–	(8)	**–**	–
Total ordinary dividends provided for or paid	**614**	511	308	**614**	511
Total dividends	**653**	551	365	**653**	550

* Dividends on preference shares issued by the Bank, the owners of which were principally US residents, were paid or provided for by a controlled entity on behalf of the Bank, out of profits to which no franking credits were attached.

** The underprovision for the previous year's final ordinary dividend relates to the final 1995 dividend paid on shares issued to shareholders of Challenge Bank Limited as part consideration for the acquisition of that bank.

*** The interim ordinary dividend forgone and overprovision for the previous year's final ordinary dividend in 1994 relate to shares, the holders of which elected to forgo their dividend entitlement and in lieu thereof receive bonus shares paid up out of the share premium reserve in terms of the Dividend Bonus Plan.

NOTE 8. DUE FROM OTHER BANKS

	Consolidated 1996 $m	1995 $m	Bank (Chief Entity) 1996 $m	1995 $m
Australia				
Interest earning	**675**	106	**675**	106
Non-interest earning	**996**	894	**996**	894
Total due from other banks in Australia	**1,671**	1,000	**1,671**	1,000
Overseas				
Interest earning	**4,341**	3,796	**3,731**	3,520
Non-interest earning	**274**	136	**264**	119
Total due from other banks overseas	**4,615**	3,932	**3,995**	3,639
Total due from other banks	**6,286**	4,932	**5,666**	4,639

Non-interest earning balances due from other banks are repayable at call.

Interest earning balances due from other banks comprise principally short-term placements.

Such balances of the Group at 30 September mature as follows:

	1996 Australia $m	1996 Overseas $m	1995 Australia $m	1995 Overseas $m
1 month or less	**658**	**2,904**	87	2,113
Over 1 month to 3 months	**17**	**1,101**	12	1,073
Over 3 month to 12 months	**–**	**282**	7	546
Over 12 months	**–**	**54**	–	64
Total	**675**	**4,341**	106	3,796

NOTE 9. TRADING SECURITIES

	Consolidated 1996 $m	1995 $m	Bank (Chief Entity) 1996 $m	1995 $m
Listed				
Australian public securities				
Commonwealth securities	**1,124**	1,626	**1,124**	1,626
Semi-government securities	**118**	280	**118**	280
Other Australian securities	**18**	12	**18**	12
Overseas public securities				
New Zealand	**107**	227	**91**	166
Other countries	**76**	42	**76**	42
Other overseas securities	**126**	183	**109**	154
Total listed securities	**1,569**	2,370	**1,536**	2,280

NOTE 9. TRADING SECURITIES continued

	Consolidated 1996 $m	Consolidated 1995 $m	Bank (Chief Entity) 1996 $m	Bank (Chief Entity) 1995 $m
Unlisted				
Australian public securities				
Treasury notes	**2,433**	2,123	**2,433**	2,123
Semi-government securities	**#**	1	**–**	1
Other Australian securities*	**344**	363	**343**	363
Overseas public securities				
New Zealand	**723**	386	**723**	385
Other countries	**–**	#	**–**	–
Other overseas securities	**534**	992	**424**	968
Total unlisted securities	**4,034**	3,865	**3,923**	3,840
Total listed and unlisted securities	**5,603**	6,235	**5,459**	6,120

* Unlisted other Australian securities comprise principally bills accepted by other banks.
# Denotes amounts less than $500,000.

NOTE 10. INVESTMENT SECURITIES

	Consolidated				Bank (Chief Entity)			
	1996		1995		**1996**		1995	
	Book Value $m	**Market Value $m**	Book Value $m	Market Value $m	**Book Value $m**	**Market Value $m**	Book Value $m	Market Value $m
Listed								
Australian public securities								
Commonwealth securities	**721**	**706**	717	691	**721**	**706**	717	691
Semi-government securities	**3**	**3**	–	–	**3**	**3**	–	–
Overseas public securities	**29**	**29**	36	37	**29**	**29**	36	37
Other overseas securities	**194**	**196**	142	143	**193**	**194**	142	143
Total listed securities	**947**	**934**	895	871	**946**	**932**	895	871
Unlisted								
Australian public securities								
Semi-government securities	**45**	**45**	4	4	**45**	**44**	4	4
Other Australian securities	**10**	**10**	112	110	**–**	**–**	13	12
Overseas public securities	**617**	**599**	631	622	**53**	**54**	91	91
Other overseas securities	**461**	**462**	530	533	**228**	**229**	512	514
Total unlisted securities	**1,133**	**1,116**	1,277	1,269	**326**	**327**	620	621
Total listed and unlisted securities	**2,080**	**2,050**	2,172	2,140	**1,272**	**1,259**	1,515	1,492

Where there is no ready market in certain unlisted Australian semi-government securities, market values have been assessed by reference to interest yields.

NOTE 10. INVESTMENT SECURITIES continued

Maturities of the Group's investment securities are as follows:

	Within 1 year $m	1 – 5 years $m	5 – 10 years $m	After 10 years $m	Total $m
1996 Book Value					
Australian Commonwealth securities	**–**	**610**	**111**	**–**	**721**
Australian semi-government securities	**3**	**45**	**–**	**–**	**48**
Other Australian securities	**10**	**–**	**–**	**–**	**10**
Overseas public securities	**200**	**446**	**–**	**–**	**646**
Other overseas securities	**144**	**485**	**20**	**6**	**655**
Total book value by maturity	**357**	**1,586**	**131**	**6**	**2,080**
Total market value by maturity	**357**	**1,563**	**124**	**6**	**2,050**
1995 Book Value					
Australian Commonwealth securities	–	615	102	–	717
Australian semi-government securities	–	4	–	–	4
Other Australian securities	99	13	–	–	112
Overseas public securities	185	482	–	–	667
Other overseas securities	265	396	–	11	672
Total book value by maturity	549	1,510	102	11	2,172
Total market value by maturity	531	1,496	102	11	2,140

The following table provides an analysis of the differences between book value (amortised cost) and market value of the Group's investment securities at 30 September 1996:

	Book Value $m	Gross Unrealised Gains $m	Gross Unrealised Losses $m	Market Value $m
Listed				
Australian public securities				
Commonwealth securities	721	–	(15)	706
Semi-government securities	3	–	–	3
Overseas public securities	29	1	–	30
Other overseas securities	194	1	#	195
Total listed securities	947	2	(15)	934
Unlisted				
Australian public securities				
Semi-government securities	45	–	#	45
Other Australian securities	10	–	–	10
Overseas public securities	617	–	(18)	599
Other overseas securities	461	1	#	462
Total unlisted securities	1,133	1	(18)	1,116
Total listed and unlisted securities	2,080	3	(33)	2,050

	1996 $m	1995 $m
Details of sales of investment securities during the year were as follows:		
Proceeds from sales	**1,105**	286
Gross gains realised on sales	**6**	#
Gross losses realised on sales	**–**	–

# Denotes amounts less than $500,000.

NOTE 11. LOANS

Loans are classified as Australia or overseas based on the location of the lending office.

	Consolidated 1996 $m	Consolidated 1995 $m	Bank (Chief Entity) 1996 $m	Bank (Chief Entity) 1995 $m
Australia				
Overdrafts	**3,180**	3,433	**3,121**	3,433
Credit card outstandings	**1,940**	1,607	**1,377**	1,156
Overnight and call money market loans	**112**	78	**18**	10
Own acceptances discounted	**830**	1,368	**645**	1,318
Term loans:				
Housing – owner occupied	**22,646**	19,431	**20,592**	19,318
Housing – other	**6,978**	5,010	**6,208**	4,989
Non-housing	**18,509**	17,029	**12,836**	11,343
Finance leases	**2,430**	2,325	**595**	760
Investments in leveraged lease and equity lease partnerships	**318**	353	**294**	321
Redeemable preference share finance	**1,586**	1,219	**–**	–
Other Real Estate Owned*	**80**	82	**–**	–
Other	**2,470**	1,232	**537**	283
Total – Australia	**61,079**	53,167	**46,223**	42,931
Overseas				
Overdrafts	**1,190**	887	**890**	813
Credit card outstandings	**450**	235	**269**	235
Overnight and call money market loans	**360**	447	**360**	368
Own acceptances discounted	**157**	266	**141**	255
Term loans:				
Housing – owner occupied	**10,233**	3,591	**4,019**	3,573
Housing – other	**766**	301	**92**	127
Non-housing	**8,546**	7,731	**6,757**	6,789
Finance leases	**146**	160	**27**	28
Investments in leveraged lease and equity lease partnerships	**–**	–	**–**	–
Redeemable preference share finance	**32**	75	**–**	–
Other	**1,670**	965	**984**	914
Total – Overseas	**23,550**	14,658	**13,539**	13,102
Total gross loans	**84,629**	67,825	**59,762**	56,033
Less: Unearned income	**1,581**	1,530	**316**	291
Provisions for doubtful debts (Note 12)	**1,847**	1,930	**1,546**	1,732
Total net loans	**81,201**	64,365	**57,900**	54,010
*Other Real Estate Owned comprises:				
Cost of acquisition	**30**	36	**–**	–
Development costs	**138**	136	**–**	–
Rates and taxes capitalised	**–**	–	**–**	–
Equity share of loans in joint venture projects	**–**	2	**–**	–
Total cost of projects	**168**	174	**–**	–
Less: amounts written off	**88**	92	**–**	–
Net Other Real Estate Owned	**80**	82	**–**	–

NOTE 11. LOANS continued

Maturities of Group Loans

Total Group loans, net of unearned income, excluding Other Real Estate Owned, at 30 September, mature as follows:

	1 year or less* $m	Over 1 year to 5 years $m	Over 5 years $m	Total $m
1996				
By offices in Australia	**20,468**	**19,107**	**19,942**	**59,517**
By offices overseas	**7,915**	**6,021**	**9,515**	**23,451**
Total by maturity	**28,383**	**25,128**	**29,457**	**82,968**
1995				
By offices in Australia	17,022	17,798	16,831	51,651
By offices overseas	6,457	4,443	3,662	14,562
Total by maturity	23,479	22,241	20,493	66,213

* Included in the 1 year or less category are overdrafts which are repayable on demand. Although in many instances the overdraft facilities will extend beyond 1 year, they are generally subject to review at least annually.

Interest Rate Segmentation of Group Loans Maturing after One Year

	1996 Loans at Variable Interest Rates $m	1996 Loans at Fixed Interest Rates $m	1996 Total $m	1995 Loans at Variable Interest Rates $m	1995 Loans at Fixed Interest Rates $m	1995 Total $m
By offices in Australia	**24,521**	**14,528**	**39,049**	22,624	12,005	34,629
By offices overseas	**8,500**	**7,036**	**15,536**	7,368	737	8,105
Total loans maturing after one year	**33,021**	**21,564**	**54,585**	29,992	12,742	42,734

NOTE 11. LOANS continued

Analysis of Group Lending by Type of Borrower

Classified by lending office (after deducting unearned income)

	Consolidated	
	1996 $m	1995 $m
By offices in Australia:		
Government and other public authorities	**730**	807
Agriculture, forestry and fishing[1]	**1,103**	1,207
Commercial and financial[2]	**13,721**	12,548
Real estate – construction	**1,128**	671
Real estate – mortgage[1]	**31,428**	24,511
Instalment loans and other personal lending[1]	**8,114**	8,140
Subtotal	**56,224**	47,884
Other real estate owned	**80**	82
Lease financing	**2,472**	2,417
Own acceptances discounted	**821**	1,350
Total loans by offices in Australia	**59,597**	51,733
By offices overseas:		
Government and other public authorities	**544**	291
Agriculture, forestry and fishing	**1,492**	893
Commercial and financial	**8,498**	7,526
Real estate – construction	**372**	401
Real estate – mortgage	**10,999**	3,788
Instalment loans and other personal lending	**1,257**	1,252
Subtotal	**23,162**	14,151
Lease financing	**132**	145
Own acceptances discounted	**157**	266
Total loans by offices overseas	**23,451**	14,562
Total loans (net of unearned income)	**83,048**	66,295
Less: Provisions for doubtful debts	**(1,847)**	(1,930)
Net loans	**81,201**	64,365

[1] Real estate – mortgage loans, instalment loans and other personal lending at 30 September 1996 include a total of $1.5 billion (1995 $1.4 billion) of personal lending to the agricultural sector. In addition, at 30 September 1996 $0.9 billion (1995 $1.0 billion) of finance had been provided to the agricultural sector in the form of acceptances, which are excluded from the above table.

[2] A component of lending in the commercial and financial sectors is for the purpose of financing construction of real estate and land development projects which cannot be separately identified from other lending to these borrowers given their conglomerate structure and activities. In these circumstances, the loans have been included in the commercial and financial category.

Significant Group Concentrations of Credit Risk

The diversification and size of the group is such that its lending and other activities, both on and off-balance sheet, involving credit risk are widely spread both geographically and in terms of the types of industries served.

Note 29 provides a geographic segmentation of on-balance sheet assets.

NOTE 12. PROVISIONS FOR DOUBTFUL DEBTS

	Consolidated			Bank (Chief Entity)	
	1996 $m	1995 $m	1994 $m	**1996 $m**	1995 $m
General provision					
Balance at beginning of year	980	735	700	860	614
Exchange rate and other adjustments	13	(5)	(9)	14	(5)
Provisions of controlled entities acquired	110	–	–	–	–
Write-offs	(256)	(178)	(189)	(129)	(117)
Recoveries of debts previously written off	85	101	151	87	66
Transfer from specific provisions	–	88	–	–	88
Charge to operating profit	384	239	82	255	214
Balance at year end	1,316	980	735	1,087	860
Specific provisions					
Balance at beginning of year	950	1,607	1,983	872	1,342
Exchange rate and other adjustments	(26)	1	(64)	(22)	–
Provisions of controlled entities acquired	65	–	–	–	–
New specific provisions	200	416	910	133	358
Transfer to general provision	–	(88)	–	–	(88)
Specific provisions no longer required	(463)	(325)	(297)	(338)	(254)
Write-offs	(195)	(661)	(925)	(185)	(486)
Balance at year end	531	950	1,607	460*	872*
Total general and specific provisions	**1,847**	**1,930**	**2,342**	**1,547**	**1,732**
Charge to operating profit for bad and doubtful debts comprises:					
General provision	384	239	82	255	214
New specific provisions	200	416	910	133	358
Less specific provisions no longer required	(463)	(325)	(297)	(338)	(254)
New specific provisions – controlled entities	–	–	–	(3)	(5)
Total charge to operating profit	**121**	**330**	**695**	**47**	**313**

* In addition, in the financial statements of the Bank at 30 September 1996 there were specific provisions against amounts due from controlled entities of $98 million (1995 $99m). Such provisions are deducted from amounts due from controlled entities in the balance sheet of the Bank.

NOTE 13. IMPAIRED ASSETS

The Reserve Bank has issued guidelines to banks for classifying and reporting impaired assets.

Under the guidelines, there are three broad categories of impaired assets:

- Non-accrual items, which are defined as items in respect of which income may no longer be accrued ahead of its receipt because reasonable doubt exists as to the collectability of principal and interest. They include also exposures where contractual payments are 90 or more consecutive days in arrears and where security is insufficient to ensure payment.
- Restructured items, which are defined as items in which the original contractual terms have been formally modified to provide for concessions of interest or principal for reasons related to the financial difficulties of the customer.
- Assets acquired through security enforcement or where the Group has assumed ownership of an asset in settlement of all or part of a debt. This category includes Other Real Estate Owned (see Note 1(i)).

Although not classified as impaired assets, items which are in arrears for 90 or more consecutive days but are well-secured and against which no provisions are held, are required to be reported separately.

The following table provides an analysis of the Group's impaired assets and the related disclosures mentioned above. The specific provisions represent the amount by which realisations of securities and other sources of repayment are expected to fall short of the amount due (see Note 1(e)). The general provision provides additional cover for unidentified losses inherent in the overall loan portfolio that may emerge in the future.

NOTE 13. IMPAIRED ASSETS continued

	Non-accrual Items 1996 $m	Non-accrual Items 1995 $m	Restructured Items 1996 $m	Restructured Items 1995 $m	Assets Acquired Through Security Enforcement (OREO) 1996 $m	Assets Acquired Through Security Enforcement (OREO) 1995 $m	Total Impaired Assets 1996 $m	Total Impaired Assets 1995 $m
Australia								
Gross impaired items	**894**	1,556	**61**	77	**80**	82	**1,035**	1,715
Less specific provisions	**346**	702	**17**	20	**–**	–	**363**	722
Net impaired items	**548**	854	**44**	57	**80**	82	**672**	993
Overseas								
Gross impaired items	**287**	443	**31**	38	**–**	–	**318**	481
Less specific provisions	**142**	202	**26**	26	**–**	–	**168**	228
Net impaired items	**145**	241	**5**	12	**–**	–	**150**	253
Combined Australia and Overseas								
Gross impaired items*	**1,181**	1,999	**92**	115	**80**	82	**1,353**	2,196
Less specific provisions	**488**	904	**43**	46	**–**	–	**531**	950
Net impaired items	**693**	1,095	**49**	69	**80**	82	**822**	1,246

* Includes off-balance sheet impaired items of $61 million (1995 $248 million).

	1996 $m	1995 $m
Accruing items past due 90 days (all well-secured)		
Australia	**398**	364
Overseas	**51**	47
Total	**449**	411
Interest received for the year on the above non-accrual and restructured items	**77**	104
Interest forgone for the year on the above non-accrual and restructured items is estimated at	**177**	191

NOTE 14. STATUTORY DEPOSITS

	Consolidated 1996 $m	Consolidated 1995 $m	Bank (Chief Entity) 1996 $m	Bank (Chief Entity) 1995 $m
Non-callable deposits with the Reserve Bank*	**660**	544	**616**	544
Statutory deposits overseas	**219**	176	**218**	175
Total statutory deposits	**879**	720	**834**	719

* Non-callable deposits with the Reserve Bank are required to be maintained at a level equivalent to one per cent of the liabilities of the Bank in Australia. For the period from 1 October 1994 to 30 June 1995, interest earned on these deposits was at a rate equal to the average yield at tender in the previous month on 13-week Treasury notes. From 1 July 1995, the interest rate earned on these deposits has been set at 5 percentage points below this yield.

NOTE 15. FIXED ASSETS

	Consolidated 1996 $m	Consolidated 1995 $m	Bank (Chief Entity) 1996 $m	Bank (Chief Entity) 1995 $m
Premises and sites (see Note 1(j))				
At Directors' valuation 1996	**40**	–	**–**	–
At Directors' valuation 1995	**1,042**	1,258	**336**	511
At cost	**82**	–	**82**	–
Less: Provision for depreciation	**26**	17	**10**	8
	1,138	1,241	**408**	503
Leasehold improvements				
At cost	**165**	111	**118**	83
Less: Accumulated amortisation	**76**	59	**48**	41
	89	52	**70**	42
Furniture, equipment and computer software				
At cost	**1,675**	1,306	**1,382**	1,194
Less: Provision for depreciation	**1,033**	969	**839**	903
	642	337	**543**	291
Total fixed assets	**1,869**	1,630	**1,021**	836
Movements in the Group's premises and sites comprise:				
Balance at the beginning of the year	**1,241**	1,365		
Exchange rate adjustments	**(2)**	7		
Premises of subsidiaries acquired	**61**	–		
Additions at cost	**37**	30		
Book value of disposals	**(153)**	(42)		
Revaluation decrement	**(32)**	(104)		
Depreciation	**(14)**	(15)		
Balance at year end	**1,138**	1,241		

NOTE 16. OTHER ASSETS

	Consolidated 1996 $m	Consolidated 1995 $m	Bank (Chief Entity) 1996 $m	Bank (Chief Entity) 1995 $m
Accrued interest receivable	**457**	442	**357**	390
Future income tax benefits*	**1,352**	1,313	**1,054**	1,111
Securities purchased under agreements to resell	**243**	55	**243**	55
Securities sold not delivered	**761**	1,286	**761**	1,286
Other financial markets assets**	**6,666**	8,986	**6,540**	8,985
Intangible assets (after accumulated amortisation of $58m, 1995 $24m)	**1,156**	19	**–**	–
Deferred expenditure relating to acquisition of Defence Service Homes Corporation loan portfolio (after accumulated amortisation of $77m, 1995 $67m)	**23**	33	**23**	33
Prepayment of superannuation fund contributions	**717**	728	**647**	657
Other investments	**64**	82	**24**	54
Other assets***	**551**	851	**312**	618
Total other assets	**11,990**	13,795	**9,961**	13,189
* Includes future tax benefits related to tax losses	**185**	167	**82**	87

** Other financial markets assets comprise principally the mark-to-market value of derivative financial instruments in a favourable position to the Group.

*** Other assets includes bills receivable and remittances in transit, trade debtors and accrued income other than interest.

	Consolidated 1996 $m	Consolidated 1995 $m	Bank (Chief Entity) 1996 $m	Bank (Chief Entity) 1995 $m
NOTE 16. OTHER ASSETS continued				
Potential future tax benefits not brought to account for the reasons set out in Note 1(p):				
– related to losses	**19**	69	**31**	64
– other	**133**	126	**135**	130

The potential future tax benefits will be obtained only if:

(a) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefits from the deductions for the loss to be realised;

(b) the Group continues to comply with the conditions for deductibility imposed by tax legislation; and

(c) no changes in tax legislation adversely affect the Group in realising the benefits from the deductions for the losses.

NOTE 17. DUE TO OTHER BANKS

	Consolidated 1996 $m	Consolidated 1995 $m	Bank (Chief Entity) 1996 $m	Bank (Chief Entity) 1995 $m
Australia				
Interest bearing	**43**	377	**43**	377
Non-interest bearing	**324**	490	**314**	490
Total due to other banks in Australia	**367**	867	**357**	867
Overseas				
Interest bearing	**4,955**	6,090	**4,954**	6,090
Non-interest bearing	**97**	212	**97**	211
Total due to other banks overseas	**5,052**	6,302	**5,051**	6,301
Total due to other banks	**5,419**	7,169	**5,408**	7,168

Non-interest bearing balances due to other banks are repayable at call.

The Group's interest bearing balances due to other banks mature as follows:

	1996 Australia $m	1996 Overseas $m	1995 Australia $m	1995 Overseas $m
1 month or less	**43**	**2,508**	322	4,067
Over 1 month to 3 months	**–**	**1,534**	8	939
Over 3 month to 12 months	**–**	**911**	47	1,074
Over 12 months	**–**	**2**	–	10
Total interest bearing	**43**	**4,955**	377	6,090

NOTE 18. DEPOSITS AND PUBLIC BORROWINGS

	Consolidated 1996 $m	Consolidated 1995 $m	Bank (Chief Entity) 1996 $m	Bank (Chief Entity) 1995 $m
Deposits and public borrowings comprise:				
(a) Deposits	**68,769**	52,394	**58,282**	51,910
(b) Public borrowings by subsidiary borrowing corporations	**6,117**	5,804	**–**	–
Total deposits and public borrowings	**74,886**	58,198	**58,282**	51,910
(a) Deposits				
Australia				
Non-interest bearing	**3,943**	3,290	**2,582**	3,254
Certificates of deposit	**4,574**	2,512	**4,458**	2,512
Other interest bearing – at call	**17,996**	16,101	**18,028**	16,100
– term	**16,963**	16,872	**15,898**	16,872
Total deposits in Australia	**43,476**	38,775	**40,966**	38,738
Overseas				
Non-interest bearing	**1,512**	1,111	**982**	1,025
Certificates of deposit	**4,556**	2,612	**4,516**	2,612
Other interest bearing – at call	**4,991**	2,474	**2,814**	2,366
– term	**14,234**	7,422	**9,004**	7,169
Total deposits overseas	**25,293**	13,619	**17,316**	13,172
Total deposits	**68,769**	52,394	**58,282**	51,910

Non-interest bearing deposits are generally repayable at call.

Certificates of deposit and other interest bearing term deposits of the Group mature as follows:

	1996 Certificates of Deposits $m	1996 Other Interest Bearing Term Deposits $m	1995 Certicates of Deposits $m	1995 Other Interest Bearing Term Deposits $m
Australia				
3 months or less	**2,748**	**9,926**	1,550	9,799
Over 3 to 6 months	**627**	**2,963**	898	1,673
Over 6 to 12 months	**1,157**	**2,471**	3	2,893
Over 12 months	**42**	**1,603**	61	2,507
Total in Australia	**4,574**	**16,963**	2,512	16,872
Overseas				
3 months or less	**2,465**	**9,977**	1,841	5,547
Over 3 to 6 months	**997**	**2,383**	549	611
Over 6 to 12 months	**1,034**	**1,248**	222	706
Over 12 months	**60**	**626**	–	558
Total overseas	**4,556**	**14,234**	2,612	7,422

	Consolidated 1996 $m	Consolidated 1995 $m	Bank (Chief Entity) 1996 $m	Bank (Chief Entity) 1995 $m

NOTE 18. DEPOSITS AND PUBLIC BORROWINGS continued

(b) Public borrowings by subsidiary borrowing corporations

	1996 $m	1995 $m	1996 $m	1995 $m
Australia				
Secured*	**4,435**	4,276	**–**	–
Unsecured	**1,141**	1,042	**–**	–
Total public borrowings in Australia	**5,576**	5,318	**–**	–
Overseas				
Secured*	**492**	438	**–**	–
Unsecured	**49**	48	**–**	–
Total public borrowings overseas	**541**	486	**–**	–
Total public borrowings by subsidiary borrowing corporations	**6,117**	5,804	**–**	–
Public borrowings mature as follows:				
One year or less	**3,803**	3,414	**–**	–
Over one year to two years	**1,289**	1,400	**–**	–
Over two years to five years	**1,025**	990	**–**	–
Total	**6,117**	5,804	**–**	–

* Secured borrowings relate principally to the AGC group and are secured by floating charges over the assets of AGC and certain of its controlled entities.

NOTE 19. OTHER LIABILITIES

	1996 $m	1995 $m	1996 $m	1995 $m
Provision for:				
– proposed dividends	**317**	284	**317**	284
– income taxes	**368**	135	**311**	82
– deferred income tax	**778**	862	**574**	738
– long service leave	**143**	139	**129**	127
– holiday leave and other staff benefits	**153**	140	**133**	128
– non-lending losses	**33**	55	**24**	40
– restructuring costs*	**313**	292	**249**	288
– subsidiary integration costs	**15**	–	**15**	–
Unearned insurance premiums	**32**	29	**–**	–
Outstanding insurance claims	**17**	14	**–**	–
Accrued interest payable	**645**	563	**530**	558
Securities sold under agreements to repurchase	**147**	151	**147**	151
Securities short sold	**296**	395	**296**	385
Securities purchased not delivered	**931**	1,852	**931**	1,851
Other financial markets liabilities**	**7,405**	9,778	**7,395**	9,778
Other***	**1,102**	743	**681**	600
Total other liabilities	**12,695**	15,432	**11,732**	15,010

* Provision for restructuring costs includes provisions for the cost of staff retrenchments and for net outgoings on certain unoccupied leased premises or sub-let premises where projected rental income falls short of rental expense. The liability for premises costs has been determined on the basis of the present value of net cash flows. Included in the 1996 amount are restructuring provisions relating to Challenge Bank Limited and Trust Bank New Zealand Limited of $73 million.

** Other financial markets liabilities comprise principally the mark-to-market value of derivative financial instruments in an unfavourable position to the Group.

*** Other liabilities include unpresented cheques issued by the Bank, trade creditors and accrued expenses other than interest.

NOTE 20. LOAN CAPITAL

Subordinated bonds, notes and debentures

	Consolidated 1996 $m	Consolidated 1995 $m	Bank (Chief Entity) 1996 $m	Bank (Chief Entity) 1995 $m
Nil (1995 DEM 250 million) 5.875% subordinated bonds due 1996 – Note (i)	**–**	234	**–**	234
Nil (1995 USD 100 million) 11.25% subordinated bonds due 1996 – Note (ii)	**–**	132	**–**	132
Nil (1995 USD 90 million) 8.0% subordinated bonds due 1996 – Note (iii)	**–**	119	**–**	119
USD 106 million (1995 USD 140 million) floating rate (maximum 13.0%) subordinated notes due 1997	**133**	186	**133**	186
JPY 10 billion (1995 JPY 12 billion) dual currency subordinated bonds due 1999 – Note (i)	**114**	162	**114**	162
USD 400 million 9.125% subordinated debentures due 2001 – Note (ii)	**505**	530	**505**	530
Nil (1995 USD 55 million) floating rate subordinated loan due 2001	**–**	73	**–**	73
USD 350 million 7.875% subordinated debentures due 2002 – Note (ii)	**441**	464	**441**	464
AUD 10 million subordinated bonds due 2001	**10**	–	**–**	–
USD 15 million floating rate subordinated bonds due 2002	**19**	–	**–**	–
NZD 50 million subordinated bonds due 2005	**44**	–	**–**	–
Total subordinated bonds, notes and debentures	**1,266**	**1,900**	**1,193**	**1,900**

Notes

(i) Swap arrangements (to US currency at a floating interest rate) have been entered into in respect of these bonds.

(ii) Swap arrangements (to floating interest rate) have been entered into in respect of these bonds and debentures.

(iii) Swap arrangements were entered into in respect of these bonds, the net effect of which was to yield GBP and USD currency at floating interest rates.

Premiums and discounts, and fees and commissions paid on each issue have been deferred and are being amortised to income over the life of the respective bonds or notes. Net unamortised expenses at 30 September 1996 amounted to $8 million (1995 $7 million).

Within certain limits, subordinated bonds, notes and debentures with an original maturity of at least seven years constitute tier 2 capital as defined by the Reserve Bank for capital adequacy purposes.

	Consolidated and Bank (Chief Entity) 1996 $m	Consolidated and Bank (Chief Entity) 1995 $m
Subordinated undated capital notes		
USD 740 million subordinated perpetual floating rate notes	**933**	981

These notes have no final maturity but may, subject to the approval of the Reserve Bank and subject to certain other conditions, be redeemed at par at the option of the Bank. The rights of noteholders will, in the event of the winding up of the Bank, be subordinated in right of payment to the claims of depositors and all other creditors of the Bank including other subordinated bond and noteholders.

The notes constitute tier 2 capital as defined by the Reserve Bank for capital adequacy purposes.

	Consolidated and Bank (Chief Entity)	
	1996 $m	1995 $m
NOTE 21. SHARE CAPITAL		
Authorised capital 3,100 million shares of $1 each	**3,100**	3,100
Issued and paid up capital		
1,807,250,422 (1995 1,825,765,555) ordinary shares of $1 each fully paid	**1,807**	1,826
122,000 (1995 158,000) ordinary shares of $1 each paid to $0.10	**#**	#
673,000 (1995 517,000) ordinary shares of $1 each paid to $0.01	**#**	#
80,000,000 (1995 80,000,000) 6.5% non-cumulative converting preference shares of $1 each fully paid*	**80**	80
Total paid up capital	**1,887**	1,906

# Denotes amounts less than $500,000.

* These shares, which were issued at a premium of $6.50 per share are not redeemable, but are convertible into ordinary shares in the Bank on or before 30 June 1998. The ratio of new ordinary shares to converting preference shares to be issued on conversion is linked to the weighted average sale price of the ordinary shares sold through the Australian Stock Exchange Limited during the 20 trading days immediately before the conversion date, discounted by 5%.

During the year the following shares were issued:

To shareholders of Challenge Bank Limited as part consideration for the acquisition of that bank:
70,404,524 ordinary shares of $1 each fully paid at a premium of $4.45

To shareholders of Trust Bank New Zealand Limited as part consideration for the acquisition of that bank:
2,607,288 ordinary shares of $1 each fully paid at a premium of $4.93

To senior officers under the Senior Officers' Share Purchase Scheme upon exercise of options:
403,000 ordinary shares of $1 each paid to $0.01 at an average premium of $2.96
3,190,000 ordinary shares of $1 each fully paid at an average premium of $2.92

To a shareholder in terms of the Westpac Share Roundup offer:
55 ordinary shares of $1 each fully paid at a premium of $3.35

In addition, 283,000 shares issued in terms of the Senior Officers' Share Purchase Scheme previously paid to $0.01 or $0.10 were fully paid up at an average premium of $3.35.

During the year 95,000,000 ordinary shares of $1 each were bought back at an average premium of $4.74.

NOTE 21. SHARE CAPITAL continued

Options

The following table relates to options granted to senior officers under the Senior Officers' Share Purchase Scheme ("SOSPS") to take up ordinary shares in the Bank:

		Number of Options				
Latest date for exercise of options	Exercise Price	At 1 October 1995	Issued during the year	Exercised during the year	Lapsed during the year	**At 30 September 1996**
24 December 1995	$3.96[1]	3,068,000	–	3,003,000	65,000	**Nil**
1 July 1998	$3.73	3,585,000	–	590,000	245,000	**2,750,000**
11 October 1998	$4.18	2,588,000	–	–	155,000	**2,433,000**
8 November 1998	$4.10	1,000,000	–	–	–	**1,000,000**
1 February 1999	$4.46	10,000	–	–	–	**10,000**
2 February 1999	$4.21	2,780,000	–	–	265,000	**2,515,000**
22 February 1999	$4.79	150,000	–	–	–	**150,000**
5 April 1999	$4.75	250,000	–	–	–	**250,000**
16 May 1999	$4.57	700,000	–	–	–	**700,000**
16 May 1999	$4.65	360,000	–	–	–	**360,000**
30 May 1999	$4.65	50,000	–	–	–	**50,000**
27 July 1999	$4.20	150,000	–	–	–	**150,000**
19 September 1999	$4.41	50,000	–	–	–	**50,000**
22 September 1999	$4.36	150,000	–	–	–	**150,000**
10 October 1999	$4.30	50,000	–	–	–	**50,000**
31 October 1999	$4.07	250,000	–	–	–	**250,000**
19 December 1999	$4.20	715,000	–	–	160,000	**555,000**
20 December 1999	$4.05	185,000	–	–	–	**185,000**
24 January 2000	$4.20	19,667,000	–	–	940,000	**18,727,000**
25 January 2000	$4.22	50,000	–	–	–	**50,000**
7 February 2000	$4.35	100,000	–	–	–	**100,000**
14 February 2000	$4.37	30,000	–	–	–	**30,000**
2 March 2000	$4.50	20,000	–	–	–	**20,000**
16 March 2000	$4.63	1,200,000	–	–	–	**1,200,000**
5 June 2000	$5.17	120,000	–	–	40,000	**80,000**
20 June 2000	$5.17	1,995,000	–	–	25,000	**1,970,000**
10 July 2000	$4.94	30,000	–	–	–	**30,000**
17 July 2000	$4.87	25,000	–	–	–	**25,000**
28 August 2000	$5.07	525,000	–	–	100,000	**425,000**
25 September 2000	$4.95	150,000	–	–	–	**150,000**
3 October 2000	$5.10	–	170,000	–	–	**170,000**
23 October 2000	$5.34	–	180,000	–	–	**180,000**
13 November 2000	$5.42	–	40,000	–	–	**40,000**
4 December 2000	$5.48	–	50,000	–	–	**50,000**
19 December 2000	$5.51	–	265,000	–	15,000	**250,000**
21 December 2000	$5.47	–	100,000	–	–	**100,000**
29 January 2001	$5.51	–	13,858,000	–	290,000	**13,568,000**
1 February 2001	$5.94	–	50,000	–	–	**50,000**
19 February 2001	$5.69	–	460,000	–	–	**460,000**
15 April 2001	$5.58	–	630,000	–	–	**630,000**
15 April 2001	$5.95	–	100,000	–	–	**100,000**
29 April 2001	$6.00	–	225,000	–	–	**225,000**
24 July 2001	$5.64	–	445,000	–	–	**445,000**
27 August 2001	$5.80	–	350,000	–	–	**350,000**
Total		40,003,000	16,923,000	3,593,000	2,300,000	**51,033,000**

[1] Adjusted for 1992 3 for 10 renounceable rights issue.

NOTE 21. SHARE CAPITAL continued

Under the SOSPS, senior officers have been able to purchase a limited number of new ordinary shares issued by the Bank at market price, but paid up initially to only $0.10 or $0.01. The residual is payable when called by the Bank. Only fully paid ordinary shares qualify for the payment of dividends.

Pursuant to amendments to the SOSPS rules, approved by the shareholders in January 1988, the Bank has granted options to purchase ordinary shares. The option term is five years. Options granted before 1 July 1993 are exercisable during the last four months of the term. Options granted since that date are exercisable during the last two years of the term.

The aggregate par value of shares covered by the SOSPS shall not exceed 5% of the Bank's issued capital.

The consideration payable for grant of an option is 1 cent per share. The exercise price is equal to the closing market price of the Bank's ordinary shares on the day before the option is offered to the officer. Upon exercising an option granted before 1 July 1993, the officer had the right to take up his or her entitlement in whole or in part (but in multiples of 1,000) on the following bases:

(a) fully-paid shares – in which event the whole of the exercise price (less the 1 cent per share paid upon grant of the option) becomes payable; or

(b) partly-paid shares – in which case the 1 cent per share paid upon grant of the option is applied and credited in paying-up the shares to 1 cent. The balance of the purchase price becomes payable on:
   (i) the date on which the holder ceases to be an officer, otherwise than by death or retirement; or
   (ii) a date within 5 months after the death or retirement of the holder; or
   (iii) the date on which the employer of the holder (if other than the Bank) ceases to be a wholly-owned subsidiary of the Bank; or
   (iv) any earlier date on which the holder wishes to pay in full the outstanding balance.

Options granted since 30 June 1993, may, upon exercise, be dealt with only in accordance with paragraph (a).

If the option is not exercised, it lapses and the 1 cent per share is forfeited by the officer.

Eligibility for participation in SOSPS, as now constituted, is restricted to full-time Group employees and Executive Directors designated by the Directors from time to time to have achieved the status equal to or above senior officer. At 30 September 1996, 819 officers held partly paid ordinary shares or options under the SOSPS.

Pursuant to a resolution passed at a special general meeting of the Bank on 15 July 1993, Managing Director Mr R.L. Joss holds three tranches of non-transferable options, each enabling him to subscribe for 1,666,667 ordinary shares at a price of $2.85 per share. The first tranche is exercisable between 25 January 1996 and 25 January 1998. The second tranche is exercisable between 19 January 1997 and 19 January 1999, but only if the Bank's ordinary shares are trading on the Australian Stock Exchange at $3.90 per share or more. The third tranche is exercisable between 17 January 1998 and 17 January 2000, but only if the Bank's ordinary shares are trading on the Australian Stock Exchange at $4.41 per share or more.

Pursuant to a resolution passed at the Annual General Meeting of the Bank on 24 January 1996, Executive Director Mr J.P. Morschel holds an option to subscribe for 600,000 ordinary shares at a price of $5.12 per share, exercisable during a two year period from 24 January 1999.

The names of all persons who hold options currently on issue are entered in the Bank's register of option holders which may be inspected at KPMG Registrars Pty Limited, 55 Hunter Street, Sydney, New South Wales.

Information in this Note has been prepared by reference to relief granted by a class order issued by the Australian Securities Commission on 8 March 1994.

NOTE 22. EXPENDITURE COMMITMENTS

	Consolidated 1996 $m	Consolidated 1995 $m	Bank (Chief Entity) 1996 $m	Bank (Chief Entity) 1995 $m
Commitments for capital expenditure not provided for in the financial statements				
Payable within one year	**85**	95	**84**	92
Payable within 1-2 years	**9**	13	**9**	13
Payable within 2-5 years	**16**	33	**16**	33
Total commitments for capital expenditure not provided for in the financial statements	**110**	141	**109**	138
Lease commitments (all leases are classified as operating leases)*				
– Land and buildings	**755**	853	**666**	737
– Plant and equipment	**1**	1	**–**	#
Total lease commitments	**756**	854	**666**	737
Due within one year	**143**	143	**122**	117
Due within 1 - 2 years	**125**	121	**106**	100
Due within 2 - 5 years	**211**	251	**178**	205
Due after 5 years	**277**	339	**260**	315
Total	**756**	854	**666**	737

* Before deduction of lease incentives which are recorded as liabilities and amortised as a reduction in rental expense on a straight line basis over the term of the lease.
# Denotes amounts less than $500,000.

NOTE 23. SUPERANNUATION COMMITMENTS

Numerous superannuation schemes are operated throughout the Group world-wide. Contributions to the various schemes are at rates, reviewed from time to time, sufficient to keep the schemes solvent based on actuarial assessments.

The Group's two principal schemes for employees in Australia, the Westpac Staff Superannuation Plan ("WSSP") and the AGC Staff Retirement Fund ("AGCSRF") provide lump sum and pension benefits. As both schemes were in surplus, the Group's contributions for the years ended 30 September 1994, 1995 and 1996 were nominal.

The continued existence of surpluses in the two principal schemes in Australia at 30 September 1994 was confirmed by actuarial reviews as at that date carried out by independent actuaries; Mr G.B.K. Trahair, FIA, FIAA, in respect of the WSSP and Mr D. Drysdale, FIAA in respect of the AGCSRF. See also Notes 1(t), 4 and 16.

The financial status of the WSSP, the AGCSRF and the principal defined-benefit schemes overseas is as follows:

	WSSP $m	AGCSRF $m	Overseas Schemes $m	Total $m
Present value of employees' accrued benefits	1,359	93	258	1,710
Net market value of assets held by the scheme to meet future benefit payments	2,012	161	350	2,523
Excess of assets held to meet future benefit payments over present value of employees' accrued benefits	653	68	92	813
Vested benefits	1,302	76	244	1,622

The above amounts were measured as at: WSSP and AGCSRF – 30 June 1994
Overseas Schemes – Various dates between 1 January 1994 and 30 June 1996

At 30 June 1996, the net market value of assets of WSSP and AGCSRF was $2,074 million and $172 million respectively, and vested benefits at that date were WSSP: $1,296 million and AGCSRF: $83 million. The next full actuarial valuation is expected to be as at 30 June 1997.

The Group has no material obligations in respect of post-retirement employee benefits other than pensions.

NOTE 24. REGULATORY MATTERS

Certain areas of AGC's business are regulated by State Credit legislation. The complexity of the legislation makes compliance difficult. Non-compliance can in certain circumstances result in the loss of credit charges. Certain of the long-standing issues have been resolved during the reporting period. Proceedings have been commenced to resolve remaining issues in two of the affected States and, are soon to be commenced in the remaining affected State, for re-instatement of credit charges lost as a result of non-compliance. The resolution of AGC's difficulties with State Credit legislation is not expected to lead to a materially adverse result. Whilst the amount of credit charges is indeterminable at this time, an assessment of the Group's likely loss has been made and included in the provision for non-lending losses (see Note 19).

NOTE 25. CONTINGENT LIABILITIES AND CREDIT COMMITMENTS

The Group is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, bill endorsements, financial guarantees, standby letters of credit and underwriting facilities.

The Group's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract or notional amount of those instruments. However, some commitments to extend credit and to provide underwriting facilities can be cancelled or revoked at any time at the Group's option.

The Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The Group takes collateral where it is considered necessary to support financial instruments with credit risk both on and off balance sheet. The Group evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral taken, if deemed necessary, on the provision of a financial facility is based on management's credit evaluation of the counterparty. The collateral taken varies but may include cash deposits, receivables, inventory, plant and equipment, real estate and investments.

Details of **off-balance sheet credit-risk-related financial instruments risk** are as follows:

	Consolidated				Bank (Chief Entity)			
	1996		1995		**1996**		1995	
	Contract or Notional Amount $m	**Credit Equivalent[1] $m**	Contract or Notional Amount $m	Credit Equivalent[1] $m	**Contract or Notional Amount $m**	**Credit Equivalent[1] $m**	Contract or Notional Amount $m	Credit Equivalent[1] $m
Credit-risk-related instruments:								
Bill endorsements	**149**	**149**	28	28	**149**	**149**	28	28
Standby letters of credit and financial guarantees	**1,566**	**1,566**	1,517	1,517	**1,391**	**1,391**	1,507	1,507
Trade letters of credit[2]	**224**	**45**	387	77	**209**	**42**	376	75
Non-financial guarantees[3]	**2,203**	**1,101**	2,171	1,086	**2,167**	**1,084**	2,147	1,073
Commitments to extend credit:								
– residual maturity less than 1 year[4]	**22,990**	**–**	17,116	–	**21,587**	**–**	17,024	–
– residual maturity 1 year or more	**5,870**	**2,935**	4,217	2,108	**5,816**	**2,908**	4,208	2,104
Other commitments[5]	**4,186**	**4,093**	4,203	4,058	**4,018**	**3,931**	4,152	4,008
Total credit-risk-related instruments	**37,188**	**9,889**	29,639	8,874	**35,337**	**9,505**	29,442	8,795

[1] Credit equivalents are determined in accordance with the Reserve Bank's risk-weighted capital adequacy guidelines. These credit equivalents are then weighted in the same manner as balance sheet assets, according to counterparty, for capital adequacy purposes.

[2] Trade letters of credit are for terms up to 1 year secured against an underlying shipment of goods or backed by a confirmatory letter of credit from another bank.

[3] Non-financial guarantees include other trade-related letters of credit and obligations backing the performance of commercial contracts.

[4] The credit conversion factor is 0% for credit commitments with a residual maturity of less than one year, or which can be unconditionally cancelled by the Group at any time without notice.

[5] Other commitments include forward purchases of assets, forward forward deposits and underwriting commitments.

The Group has the following **additional liabilities and commitments**:

(i) An assessed liability of $1 million (1995 $1 million) based on an actuarial assessment as at 30 September 1996, as a self-insurer under the Accident Compensation Act, 1985 (Victoria) and an assessed liability of $7 million (1995 $6 million) based on an actuarial assessment as at 30 September 1996, as a self-insurer under the Workers' Compensation Act, 1987 (New South Wales). Adequate provision has been made for these liabilities.

(ii) A contingent liability in respect of actual and potential claims and proceedings which at the date of adoption of these financial statements have not been determined. An assessment of the Group's likely loss has been made on a case-by-case basis and provision has been made where appropriate within provision for non-lending losses (see Note 19);

(iii) A contingent liability for termination benefits under service agreements with certain Group executives. The maximum amount of such contingent liability at 30 September 1996 was $11 million (1995 $12 million);

(iv) A commitment, in accordance with the Regulations and Procedures governing the Australian Paper Clearing System, to provide liquidity support to any other member financial institution which is unable to provide settlement for cheques and other paper payment items exchanged at the Clearing House. Any such liquidity support provided would be temporary in nature with full reimbursement expected within the ensuing few days.

Bank (Chief Entity) Guarantees and Undertakings

Excluded from the consolidated amounts disclosed above are the following guarantees and undertakings to entities in the Group:

(i) The Bank has guaranteed commercial paper issued by Westpac Capital Corporation, a company incorporated in the United States of America;

(ii) The Bank has issued letters of comfort in respect of certain controlled entities in the normal course of business. The letters recognise that the Bank has a responsibility to ensure that those controlled entities continue to meet their obligations;

(iii) The Bank has guaranteed repayment of loans made by Westpac Bank-PNG-Limited to the extent that they exceed a prescribed limit;

(iv) The Bank has guaranteed certain liabilities of Westpac Investment Management Pty Limited to the extent of $25 million;

(v) The Bank has entered into an agreement with Westpac Property Investments Pty Limited ("WPI") which effectively guarantees the value of certain assets held by WPI. Full provision has been made for a probable loss in respect of this agreement; and

(vi) The Bank has guaranteed the performance of lessees under certain finance leases entered into by AGC as lessor.

NOTE 26. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are bilateral contracts or payment exchange agreements whose value derives from the value of an underlying asset, reference rate or index. Derivative financial instruments include forward and futures contracts, swaps and options. The Group engages in derivatives transactions based on interest rates, exchange rates and commodity prices and enters into derivatives transactions in the normal course of business for trading, primarily as an intermediary to meet customers' needs, and for its own balance sheet management purposes.

Details of the Group's trading derivatives outstanding in terms of notional amount, regulatory credit equivalent and mark-to-market values (both positive and negative) as at 30 September are shown in the following tables:

Trading Derivatives Outstanding	Notional Amount $m	Regulatory Credit Equivalent $m	Positive Mark-to-market (Replacement cost) $m	Negative Mark-to-market $m
1996				
Interest rate				
Futures	**30,607**	**–**	**–**	**–**
Forwards	**26,052**	**35**	**20**	**17**
Swaps	**131,419**	**3,170**	**2,702**	**2,261**
Purchased options	**14,364**	**53**	**12**	**2**
Sold options	**3,920**	**257**	**34**	**19**
Foreign exchange				
Forwards	**218,625**	**4,817**	**2,636**	**3,078**
Swaps	**18,906**	**1,512**	**832**	**1,842**
Purchased options	**5,193**	**134**	**74**	**–**
Sold options	**5,857**	**–**	**–**	**113**
Commodity	**303**	**23**	**13**	**12**
Total derivatives	**455,246**	**10,001**	**6,323**	**7,344**
1995				
Interest rate				
Futures	49,998	–	–	–
Forwards	35,766	106	71	66
Swaps	160,945	4,130	3,752	2,933
Purchased options	23,789	102	66	–
Sold options	13,553	–	–	18
Foreign exchange				
Forwards	214,741	5,470	3,372	3,757
Swaps	18,326	1,698	1,221	2,557
Purchased options	5,382	196	125	–
Sold options	5,589	–	–	147
Commodity	262	5	2	2
Total derivatives	528,351	11,707	8,609	9,480

NOTE 26. DERIVATIVE FINANCIAL INSTRUMENTS continued

Positive mark-to-market value or replacement cost represents the cost to the Group of replacing all transactions in a gain position if all the Group's counterparties were to default. This measure is the industry standard for the calculation of current credit exposure. Negative mark-to-market value represents the cost to the Group's counterparties of replacing all the Group's transactions in a loss position if the Group were to default.

The total positive and negative mark-to-market values are included in the balance sheet as part of "Other assets" and "Other liabilities" respectively.

Derivatives positions used in the Group's asset and liability management activities are established by internal transactions with independently managed dealing units within the Group. The dealing units, in turn, cover their position with offsetting transactions in the market place.

The following table shows the notional amount of such internal derivative transactions outstanding at year end. These transactions do not, in themselves, give rise to credit risk as they are arranged entirely within the Westpac Group. Credit risk does arise in respect of the offsetting transactions in the market place by the dealing units and such transactions and the related credit exposure are included in the above table of trading derivatives.

Derivatives Used for Asset and Liability Management purposes	Notional Amount 1996 $m	1995 $m
Interest rate		
Futures	**8,717**	3,945
Forwards	**3,351**	3,718
Swaps	**24,708**	26,126
Purchased options	**171**	172
Sold options	**–**	–
Foreign exchange		
Forwards	**2,388**	2,575
Swaps	**7,100**	4,164
Purchased options	**–**	–
Sold options	**–**	–
Total derivatives	**46,435**	40,700

Further information (unaudited) on the Group's derivative activities is contained in the Financial Review section of the Annual Report.

NOTE 27. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following information is presented pursuant to the requirements of US accounting standard SFAS No. 107, "Disclosures about Fair Value of Financial Instruments". SFAS No. 107 requires disclosure of fair value information about financial instruments, for which it is practicable to estimate the value, whether or not recognised on the balance sheet. Quoted market prices, when available, are used as the measure of fair values, however, for a significant portion of the Group's financial instruments, quoted market prices do not exist. For such financial instruments, fair values presented are estimates derived using net present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amount the Group could have realised in a sales transaction at 30 September 1996.

The fair value estimates were determined by application of the methods and assumptions described below.

Certain Short-Term Financial Instruments
For cash and cash at bankers, loans to dealers in the Australian short term money market, amounts due from other banks with maturities of less than three months, and other types of short-term financial instruments recognised in the balance sheet under "Other assets" or "Other liabilities", the carrying amount is a reasonable estimate of fair value.

Floating Rate Financial Instruments
For floating rate financial instruments, the carrying amount is generally a reasonable estimate of fair value.

NOTE 27. FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Trading and Investment Securities
For trading securities, the estimated fair values, which are also the carrying amounts, are generally based on quoted market prices or dealer quotes. For investment securities, fair values are also based on quoted market prices or dealer quotes, or, where there is no ready market in certain securities, fair values have been assessed by reference to interest yields.

Statutory Deposits
The Group is required by law, in Australia and in several other countries in which it operates, to lodge regulatory deposits with the local central bank at a rate of interest below that generally prevailing in that market. As the Group's ability to carry on the business of banking is conditional upon the maintenance of these deposits, their fair value is assumed to be equal to their carrying value, notwithstanding the below market rate of interest being earned thereon.

Due from Other Banks and Loans
For amounts due from other banks with maturities of three months or more and fully-performing fixed-rate loans, fair values have been estimated by reference to current rates at which similar advances would be made to banks and other borrowers with a similar credit rating and the same remaining maturities.

For variable-rate loans, excluding impaired loans, the carrying amount is generally a reasonable estimate of fair value.

The fair values of impaired loans are estimated by discounting the estimated future cash flows using current market interest rates incorporating an appropriate risk factor or, where such loans are collaterised and have been written down to the current market value of the collateral, the estimated fair-value is based on the written-down carrying value.

In arriving at the fair values for loans on the above bases, the total fair value of the entire loan portfolio has been reduced by $1,316 million, (1995: $980 million) being the carrying value of the general provision for doubtful debts which covers unidentified losses inherent in the portfolio.

Acceptances of Customers
For acceptances of customers and the contra liability acceptances, the carrying value has been discounted using current lending rates and a weighted-average period to maturity to arrive at an estimated fair value.

Other Investments
For shares in companies, the estimated fair values, which are also the carrying amounts, are based on quoted market prices or on the Group's share of net assets at book value.

Deposits and Public Borrowings; Due to Other Banks; Bonds, Notes and Commercial Paper; and Subordinated Debt
The fair value of deposits at call is the amount payable at call at the reporting date. For other liabilities with maturities of less than three months, the carrying amount is a reasonable estimate of fair value.

For liabilities with maturities of three months or longer, fair values have been based on quoted market prices, where such prices exist. Otherwise, fair values have been estimated using the rates currently offered for similar liabilities of similar remaining maturities.

Commitments to Extend Credit, Financial Guarantees, Letters of Credit and Bill Endorsements
A nil fair value has been ascribed to commitments (contractual value 1996: $33.0 billion, 1995: $25.5 billion) and financial guarantees, letters of credit and bill endorsements (combined contractual value 1996: $4.1 billion, $1995: $4.1 billion) on the basis that these financial instruments generate ongoing fees at the Group's current pricing levels which are in line with general market prices.

Exchange-Rate and Interest-Rate Contracts and Commodity-Swap Agreements
The fair value of exchange-rate and interest-rate contracts and commodity-swap agreements (used for hedging purposes) is the estimated amount the Group would receive or pay to terminate the contracts at the reporting date.

NOTE 27. FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The estimated fair values of the Group's financial instruments at 30 September, are as follows:

	1996		1995	
	Carrying Amount $m	**Estimated Fair Value $m**	Carrying Amount $m	Estimated Fair Value $m
Financial assets				
Cash and short term liquid assets	**408**	**408**	330	330
Due from other banks	**6,286**	**6,278**	4,932	4,931
Trading securities	**5,603**	**5,603**	6,235	6,235
Investment securities	**2,080**	**2,050**	2,172	2,140
Statutory deposits	**879**	**879**	721	721
Loans (net of unearned income)				
– Loans and other receivables	**80,364**		63,651	
Less: Specific provisions for doubtful debts	**(522)**		(904)	
General provision for doubtful debts	**(1,316)**		(980)	
	78,526	**78,602**	61,767	61,488
– Finance and leverage leases	**2,604**		2,561	
Less: Specific provisions for doubtful debts	**(9)**		(33)	
	2,595	**2,585**	2,528	2,534
Acceptances of customers	**11,197**	**11,144**	11,656	11,567
Other assets				
– Accrued interest receivable	**457**	**457**	442	442
– Securities purchased under agreement to resell	**243**	**243**	55	55
– Securities sold not delivered	**761**	**761**	1,287	1,287
– Other financial markets assets	**6,666**	**6,666**	8,986	8,986
– Other investments	**64**	**64**	82	82
Financial liabilities				
Due to other banks	**5,419**	**5,419**	7,169	7,168
Deposits and public borrowings	**74,886**	**74,944**	58,198	58,379
Bonds, notes and commercial paper	**7,226**	**7,199**	2,916	2,886
Acceptances	**11,197**	**11,144**	11,656	11,567
Other liabilities				
– Accrued interest payable	**645**	**645**	563	563
– Securities sold under agreement to repurchase	**147**	**147**	151	151
– Securities short sold	**296**	**296**	395	395
– Securities purchased not delivered	**931**	**931**	1,852	1,852
– Other financial markets liabilities	**7,405**	**7,405**	9,778	9,778
Subordinated bonds, notes and debentures	**1,266**	**1,293**	1,900	1,941
Subordinated undated capital notes	**933**	**984**	981	1,033
Unrecognised derivative financial instruments				
Exchange-rate and interest-rate contracts used for hedging purposes in a net receivable/(payable) position	**–**	**18**	–	(141)

NOTE 28. GROUP ENTITIES

		(b) Country of Incorporation	Book Value of Each Parent Entity's Investment **1996 $m**	1995 $m	Contribution to Consolidated Profit **1996 $m**	1995 $m
Westpac Banking Corporation	(c)	Australia	**–**	–	**506**	514
A.G.C. (Advances) Limited		Australia	**70**	50	**13**	7
General Credits Holdings Limited		Australia	**–**	–	**–**	–
General Credits Limited		Australia	**–**	–	**#**	(#)
G.C.L. Investments Limited		Australia	**–**	–	**–**	–
Island Princess Holdings Pty Limited		Australia	**–**	–	**–**	–
The Airlie Trust		Australia	**–**	–	**–**	(8)
Reef International Pty Limited		Australia	**–**	–	**–**	–
Australian Guarantee Corporation Limited		Australia	**1,147**	1,041	**61**	42
Acorus Pty Limited		Australia	**–**	–	**–**	–
A.G.C. (Commercial) Limited		Australia	**66**	66	**#**	4
M.A.C. Nominees Pty Limited		Australia	**14**	14	**#**	1
Mazbond Pty Limited		Australia	**–**	–	**–**	–
Palaver Pty Limited		Australia	**–**	–	**–**	–
Reveille Pty Limited		Australia	**–**	–	**–**	–
Mutual Acceptance (Insurance) Limited (in voluntary liquidation)		Australia	**9**	9	**–**	–
Runkelli Pty Limited		Australia	**14**	14	**–**	–
S.C.F. (No. 5) Limited		Australia	**5**	5	**–**	–
S.C.F. (No. 6) Limited		Australia	**5**	5	**–**	–
A.G.C. (Developments) Limited (in voluntary liquidation)		Australia	**#**	#	**–**	–
A.G.C. (Finance) Limited		Australia	**1**	1	**1**	#
A.G.C. Finance (S.I.) Limited		Solomon Islands	**#**	#	**1**	#
A.G.C. (General Finance) Limited		Australia	**3**	3	**#**	#
A.G.C. (Industrial) Limited		Australia	**21**	21	**2**	2
A.G.C. (Industrial) Leasing Pty Limited		Australia	**2**	2	**#**	1
A.G.C. (Industrial) Victoria Limited		Australia	**#**	#	**–**	–
A.G.C. (Insurance Premium Funding) Limited		Australia	**#**	#	**–**	–
A.G.C. (Properties) Limited		Australia	**–**	–	**1**	1
A.G.C. House Limited		Australia	**20**	20	**1**	1
A.G.C. (Investments) Limited		Australia	**#**	#	**3**	24
A.G.C. (Leasing) Limited		Australia	**250**	250	**1**	14
A.G.C. Overseas Holdings Limited		Australia	**–**	–	**–**	–
A.G.C. (Pacific) Limited		Papua New Guinea	**5**	5	**#**	1
A.G.C. Finance (Vanuatu) Limited		Vanuatu	**1**	1	**#**	#
A.G.C. Projects Pty Limited		Australia	**9**	9	**–**	–
A.G.C. (Securities) Limited		Australia	**#**	#	**#**	#
AOC Holdings Limited		Australia	**#**	#	**–**	(#)
Colmso Pty Limited		Australia	**–**	–	**1**	2
Colmtea Pty Limited		Australia	**–**	–	**#**	–
Como Properties Pty Limited		Australia	**–**	–	**35**	(#)
Como Properties No. 2 Pty Limited		Australia	**–**	–	**–**	–
Fitzroy Finance Company Pty Limited		Australia	**1**	1	**–**	–
Fitzroy Leasing Pty Limited		Australia	**#**	#	**–**	–
Midland Credit Limited		Australia	**4**	4	**–**	–
Ormiston Pty Limited		Australia	**–**	–	**8**	–
Broadbeach International Holding Trust		Australia	**–**	–	**–**	1
Pranbrooke Pty Limited		Australia	**–**	–	**10**	–
Hesse Pty Limited		Australia	**–**	–	**–**	–
Howlong Pty Limited		Australia	**–**	–	**–**	–
Promenade Foodhall Pty Limited		Australia	**1**	1	**–**	–
Tarval Pty Limited		Australia	**–**	–	**–**	–
Traders Finance Corporation Limited		Australia	**11**	11	**24**	26
Bank of Kiribati Limited	(i)	Kiribati	**1**	1	**1**	#
Bill Acceptance Corporation Limited		Australia	**63**	38	**28**	19
B.A.C. Financial Services Limited (in liquidation)		Australia	**#**	#	**–**	–
Bill Acceptance Corporation (Securities) Limited (in liquidation)		Australia	**#**	#	**–**	–
Central Bill Clearances Limited (in liquidation)		Australia	**#**	#	**–**	–
Mortgage Management Limited		Australia	**8**	8	**–**	(1)
Biralo Pty Limited	(d)	Australia	**#**	#	**#**	#
BLE Capital Limited	(g)	Australia	**6**	–	**4**	–
BLE Capital Investment Pty Limited	(g)	Australia	**–**	–	**–**	–
BLE Development Pty Limited	(g)	Australia	**–**	–	**–**	–
BLE Finance Pty Limited	(g)	Australia	**–**	–	**–**	–

NOTE 28. GROUP ENTITIES continued

		(b) Country of Incorporation	Book Value of Each Parent Entity's Investment		Contribution to Consolidated Profit	
			1996 $m	1995 $m	1996 $m	1995 $m
BLE Holdings Pty Limited	(g)	Australia	–	–	–	–
BLE Capital (NZ) Limited	(g)	New Zealand	–	–	–	–
C.B.A. Limited		Australia	205	202	(1)	4
Belliston Pty Limited		Australia	196	8	1	3
Westpac Properties-Vic-Limited		Australia	–	–	–	–
Westpac Properties-NSW-Pty Limited		Australia	–	–	#	–
Carseldine Pty Limited		Australia	–	–	–	(6)
Challenge Bank Limited	(g)	Australia	713	–	36	–
CBL Financial Services Limited (in liquidation)	(g)	Australia	–	–	–	–
CBL Securities Limited	(g)	Australia	1	–	#	–
Challenge Finance Limited	(g)	Australia	17	–	#	–
Trioba Pty Limited	(g)	Australia	–	–	#	–
Challenge Funds Management Limited	(g)	Australia	#	–	–	–
Challenge Information Technology Pty Limited	(g)	Australia	–	–	–	–
Challenge Insurance Services (Agency) Pty Limited	(g)	Australia	#	–	–	–
Cold Storage Construction Pty Limited	(g)	Australia	#	–	(#)	–
Herston Pty Limited	(g)	Australia	#	–	–	–
National Permanent Management Services Pty Limited	(g)	Australia	1	–	(#)	–
Olsona Limited	(g)	Australia	–	–	–	–
Westman Enterprises Pty Limited	(g)	Australia	#	–	–	–
Credical S.A.	(i)	New Caledonia	9	9	2	1
Credit Foncier et Immobilier de la Nouvelle Caledonie et de la Polynesie	(i)	New Caledonia	7	9	#	1
Huben Holdings Pty Limited		Australia	5	5	#	#
Hull 4381 and 4382 Leasing Pty Limited		Australia	–	–	–	–
International Business Analysis Pty Limited		Australia	1	1	(#)	–
Partnership Pacific Limited		Australia	17	28	39	16
Allestree Pty Limited		Australia	–	–	–	–
Baroren Pty Limited		Australia	15	15	–	–
Dungay Pty Limited		Australia	–	–	–	–
Fintos Pty Limited		Australia	–	–	–	–
Fountain Holdings Pty Limited	(h)	Australia	–	–	–	–
Glenunga Pty Limited		Australia	–	–	–	–
Harlaxton Pty Limited		Australia	19	19	–	–
Maliny Pty Limited		Australia	3	3	–	#
Mooloolah Pty Limited		Australia	10	10	–	–
Niga Pty Limited	(h)	Australia	–	–	–	–
Operating Lease Trust No. 4	(i)	Australia	–	–	–	–
Partnership Pacific Investments Pty Limited	(h)	Australia	5	5	–	–
Partnership Pacific Nominees Pty Limited (in liquidation)		Australia	#	#	–	–
Partnership Pacific Securities Limited		Australia	–	–	–	#
Partnership Pacific (Vic.) Pty Limited (in liquidation)		Australia	–	–	–	–
Wistow Pty Limited		Australia	3	3	–	#
Piccadilly of Sydney Pty Limited	(f)	Australia	(#)	29	#	10
Jaunty Pty Limited		Australia	–	–	–	–
Piccadilly Plaza Trust		Australia	–	2	–	–
Pitco Pty Limited	(d)	Australia	–	–	–	–
The Pitco Trust	(d)	Australia	11	20	2	2
Sarnia Pty Limited	(f)	Australia	–	–	–	–
Sixty Martin Place (Holdings) Pty Limited		Australia	512	490	38	(7)
Baffsky Pty Limited		Australia	–	–	–	–
Brooklyn Amber Pty Limited		Australia	8	8	#	#
Calypso Way Pty Limited		Australia	–	–	–	–
Claremont Bond Pty Limited		Australia	–	–	–	–
Comserv (No 3011) Pty Limited		Australia	#	–	6	6
Enfield Downs Pty Limited		Australia	#	–	41	42
Faraday Arch Pty Limited		Australia	#	–	2	–
Florida Banner Pty Limited		Australia	–	–	–	–
Infrastructure (No 1) Limited	(g)	Australia	#	–	2	–
Infrastructure (No 2) Limited	(g)	Australia	#	–	#	–
Infrastructure (No 3) Limited	(g)	Australia	#	–	#	–
Ivaness Pty Limited		Australia	–	–	–	–
Karumba Pty Limited	(h)	Australia	–	–	–	–

NOTE 28. GROUP ENTITIES continued

		(b) Country of Incorporation	Book Value of Each Parent Entity's Investment		Contribution to Consolidated Profit	
			1996 $m	1995 $m	1996 $m	1995 $m
Lockyer Pty Limited	(h)	Australia	#	100	#	7
Loy Yang B Agencies Pty Limited		Australia	#	#	–	–
Lutwiche Pty Limited	(h)	Australia	#	100	#	7
Mayne Finance Limited	(i)	Australia	1	1	1	1
Oakjet Pty Limited		Australia	#	#	18	45
Rousell Pty Limited		Australia	#	#	–	–
Selbourne Pty Limited		Australia	#	#	11	#
Teuton Pty Limited		Australia	#	#	–	–
Westpac Asian Lending Pty Limited		Australia	798	#	54	29
Westpac Equipment Finance Limited		Australia	118	23	3	9
Westpac Equipment Finance (Vic) Pty Limited		Australia	–	7	#	(1)
Westpac Fixed Interest Securities Pty Limited		Australia	#	#	–	–
The Swan Trust	(f)	Australia	2	#	#	#
Exchange Plaza Property Trust (formerly Gem Esplanade Property Trust)		Australia	164	164	–	1
The Mortgage Company Pty Limited	(g)	Australia	–	–	–	–
Vicpac Chatswood Pty Limited	(f)	Australia	–	–	–	–
Vicpac Unit Trust	(f)	Australia	#	#	–	#
Westpac Bank-PNG-Limited	(i)	Papua New Guinea	21	18	17	12
Westpac Capital Corporation		U.S.A.	#	#	#	#
Westpac Derivative Products Limited		Australia	155	148	8	7
Westpac Equity Holdings Pty Limited		Australia	256	222	(#)	#
Westpac Development Capital Limited		Australia	–	–	#	–
Westpac Equipment Limited (in liquidation)	(h)	Australia	–	–	–	–
Westpac Financial Consultants Limited		Australia	1	3	(#)	(2)
Westpac Financial Services Group Limited		Australia	106	125	2	1
Westpac Financial Services Limited		Australia	2	2	6	5
Westpac Managed Funds Limited (in voluntary liquidation)		Australia	1	1	–	#
Westpac Insurance Services (Brokers) Limited		Australia	5	5	6	5
Westpac Equity Pty Limited		Australia	3	3	–	–
A.F.G. Insurances Limited		Australia	–	7	#	#
Westpac General Insurance Limited		Australia	10	10	3	4
Westpac Lenders Mortgage Insurance Limited	(g)	Australia	3	–	#	–
Westpac Investment Management Pty Limited		Australia	#	#	2	4
Westpac Securities Administration Limited		Australia	#	#	16	15
The Wales Nominees (Vic.) Pty Limited		Australia	#	#	–	–
Westpac Custodian Nominees Limited		Australia	5	5	–	–
Westpac Insurance Services Superannuation Fund Limited (formerly Westpac Custodian Nominees-Vic-Limited)		Australia	#	#	–	–
Westpac Nominees-Canberra-Pty Limited		Australia	#	#	–	–
Westpac Nominees-SA-Pty Limited		Australia	#	#	–	–
Westpac Information Technology Services Pty Limited		Australia	(2)	(3)	#	#
Westpac Retirement Plan Pty Limited		Australia	–	–	–	–
Westpac Training Services Pty Limited		Australia	(7)	(7)	–	–
Westpac Finance Pty Limited		Australia	12	(12)	(#)	#
Westpac Investment Holdings Pty Limited		Australia	#	#	#	(#)
Westpac Leasing (UK) No.2 Limited		Australia	–	–	–	–
Westpac Leasing Nominees Pty Limited		Australia	–	–	–	–
Westpac Leasing Nominees-Vic.-Pty Limited		Australia	–	–	–	–
Westpac Leasing Pty Limited		Australia	–	#	#	–
Westpac OMG Holdings Pty Limited		Australia	38	38	#	(1)
Westpac Overseas Holdings Pty Limited		Australia	1,061	970	8	–
Westpac Americas Inc.		U.S.A.	407	432	#	#
Westpac Investment Capital Corporation		U.S.A.	44	44	1	1
Westpac USA Inc.		U.S.A.	387	386	10	11
Southern Cross Inc.		U.S.A.	#	#	–	#
Westpac Banking Corporation (Jersey) Limited		Jersey	–	–	1	1
Westpac Finance Asia Limited		Hong Kong	85	81	7	7
Westpac Asia (Securities) Limited		Hong Kong	–	–	–	–
Westpac Fund Managers (Jersey) Limited		Jersey	–	–	#	#
Westpac Group Investment-NZ-Limited		New Zealand	–	–	–	–
Westpac Holdings-NZ-Limited		New Zealand	654	474	(10)	2
Australian Guarantee Corporation (N.Z.) Limited		New Zealand	–	7	3	4

NOTE 28. GROUP ENTITIES continued

		(b) Country of Incorporation	Book Value of Each Parent Entity's Investment 1996 $m	1995 $m	Contribution to Consolidated Profit 1996 $m	1995 $m
A.G.C. Flexiloan Limited		New Zealand	**64**	64	**–**	–
Home Mortgage Company Limited	(g)	New Zealand	**685**	–	**13**	–
Mortgage Services Limited	(g)	New Zealand	**–**	–	**#**	–
Trust Bank New Zealand Limited	(g)	New Zealand	**1,244**	–	**–**	–
Ballig Investments Limited	(g)	New Zealand	**–**	–	**–**	–
Bewley Holdings Limited	(g)	New Zealand	**–**	–	**–**	–
Blue & Gold Holdings Limited	(g)	New Zealand	**7**	–	**#**	–
Camden Properties Limited	(g)	New Zealand	**16**	–	**#**	–
Canterbury Centre Holdings Limited	(g)	New Zealand	**14**	–	**#**	–
Central Number One Limited	(g)	New Zealand	**–**	–	**–**	–
Central Number Two Limited	(g)	New Zealand	**1**	–	**#**	–
Don Investments Limited	(g)	New Zealand	**3**	–	**(#)**	–
Golanga Investments Limited	(g)	New Zealand	**–**	–	**–**	–
Greenwood Tauranga Limited	(g)	New Zealand	**–**	–	**–**	–
Pukerua Investments Limited	(g)	New Zealand	**2**	–	**(#)**	–
Ridings Investments Limited	(g)	New Zealand	**2**	–	**#**	–
Riverland Investments Limited	(g)	New Zealand	**3**	–	**#**	–
Rustwell One Hundred & Twenty Limited	(g)	New Zealand	**10**	–	**–**	–
Sfaka Investments Limited	(g)	New Zealand	**22**	–	**–**	–
TBNZ Finance Limited	(g)	New Zealand	**–**	–	**10**	–
The Retirement Savings Plan Limited	(g)	New Zealand	**–**	–	**–**	–
Trust Bank Central Travel Limited	(g)	New Zealand	**#**	–	**–**	–
Trust Bank Investment Administration Limited	(g)	New Zealand	**#**	–	**–**	–
Trust Bank Property Holdings Limited	(g)	New Zealand	**11**	–	**–**	–
Trust Bank Realty Limited	(g)	New Zealand	**27**	–	**8**	–
Trust Bank Systems and Technology Limited	(g)	New Zealand	**10**	–	**19**	–
Westpac Equity-NZ-Limited		New Zealand	**166**	148	**8**	10
Aotearoa Financial Services Ltd	(i)	New Zealand	**#**	–	**#**	#
C.B.A. Finance Nominees Limited		New Zealand	**#**	#	**#**	#
Piesse Properties Limited		New Zealand	**–**	#	**(#)**	#
Westpac Communications-NZ-Limited		New Zealand	**–**	–	**1**	–
Westpac Energy-NZ-Limited		New Zealand	**#**	(#)	**–**	#
Westpac Fund Acceptances-NZ-Limited		New Zealand	**39**	38	**3**	(2)
Westpac Lease Discounting-NZ-Limited		New Zealand	**–**	–	**(#)**	–
New Zealand Unit Investment Limited		New Zealand	**–**	–	**–**	–
Westpac Livestock Finance-NZ-Limited		New Zealand	**#**	(#)	**(#)**	(#)
Westpac Preference-NZ-Limited		New Zealand	**–**	2	**#**	–
Westpac Financial Services-NZ-Limited		New Zealand	**29**	39	**#**	14
Westpac Investment Management-NZ-Limited		New Zealand	**3**	5	**#**	(1)
Westpac Life-NZ-Limited		New Zealand	**22**	22	**6**	(6)
Westpac Nominees-NZ-Limited		New Zealand	**2**	3	**1**	(#)
Westpac Superannuation Nominees-NZ-Limited		New Zealand	**#**	#	**–**	–
Westpac Unit Investments-New Zealand		New Zealand	**1**	1	**#**	(#)
Westpac Merchant Finance Limited		New Zealand	**76**	67	**1**	5
Westpac Finance Limited		New Zealand	**(#)**	(#)	**3**	3
Westpac Securities Limited		New Zealand	**46**	45	**4**	(5)
Ngauranga Gorge Ltd		New Zealand	**–**	–	**–**	–
Westpac Properties-NZ-Limited		New Zealand	**144**	138	**4**	6
Westpac Group Investment Trust		New Zealand	**–**	–	**–**	–
Westpac Singapore Limited		Singapore	**107**	106	**5**	6
Westpac Properties Limited		Australia	**95**	98	**11**	8
Collins Wales Pty Limited		Australia	**–**	–	**3**	3
Westpac Property Investments Pty Limited	(e)	Australia	**33**	11	**(#)**	6
Westpac Syndications Management Pty Limited		Australia	**–**	–	**–**	–
Westpac Training Pty Limited (In liquidation)		Australia	**#**	#	**–**	–
Consolidated operating profit					**1,132**	947

# Denotes amounts less than $500,000.

NOTE 28. GROUP ENTITIES continued

Notes

(a) Controlled entities shown in bold type are owned directly by the Bank.

(b) Overseas companies carry on business in the country of incorporation. For unincorporated entities, "Country of Incorporation" refers to the country where business is carried on.

(c) Westpac Banking Corporation carries on business in various countries throughout the world.

(d) 50% of equity or issued units in each of Pitco Pty Limited, Biralo Pty Limited and The Pitco Trust is held directly by Westpac Property Investments Pty Limited. The other 50% is held directly by the Bank.

(e) 50% of equity in Westpac Property Investments Pty Limited is held directly by Westpac Properties Limited. The other 50% is held directly by the Bank.

(f) 50% of equity or issued units in each of Piccadilly of Sydney Pty Limited, Sarnia Pty Limited, Vicpac Chatswood Pty Limited, The Swan Trust and Vicpac Unit Trust is held directly by Australian Guarantee Corporation Limited. The other 50% is held directly by the Bank.

(g) Entities acquired during the year:

Name	Consideration $m	Net Tangible Assets $m
BLE Capital Limited and its controlled entities*	2	–
Challenge Bank Limited and its controlled entities**	684	309
Home Mortgage Company Limited	#	–
The Mortgage Bank Pty Limited	#	–
Trust Bank New Zealand Limited and its controlled entities***	1,124	349
Westpac Development Capital Limited	#	–

# Denotes amounts less than $500,000

* Previously, a 40% non-controlling interest was held in BLE Capital Limited

** Challenge Bank Limited was acquired in December 1995 and its results have been included from 1 January 1996. Assets and liabilities of Challenge Bank Limited were transferred to the Bank on 1 October 1996

*** Trust Bank New Zealand Limited was acquired in May 1996 and its results have been included from 1 June 1996. Assets and liabilities of Trust Bank New Zealand Limited were transferred to the Bank on 18 November 1996

(h) Entities were disposed of or liquidated during the year. These entities had no or nominal assets upon disposal/liquidation.

(i) All entities listed in Note 28 are wholly owned subsidiaries except the following:

	Percentage Owned 1996	1995
Aotearoa Financial Services Limited	**50.1%**	50.1%
Bank of Kiribati Limited	**51.0%**	51.0%
Credical S.A.	**86.4%**	86.4%
Mayne Finance Limited	**70.0%**	70.0%
Operating Lease Trust No. 4	**99.0%**	99.0%
Westpac Bank-PNG-Limited	**89.9%**	89.9%

(j) The auditors of the Bank have not acted as auditors of other Group entities. See Independent Audit Report to the Shareholders.

NOTE 29. GROUP SEGMENT INFORMATION

	1996 $m	1996 %	1995 $m	1995 %	1994 $m	1994 %
Geographic Segments						
Assets						
Australia	**86,365**	**71.1**	76,939	72.7	69,951	74.5
New Zealand	**23,328**	**19.2**	12,046	11.4	10,566	11.3
Pacific Islands	**1,560**	**1.3**	1,696	1.6	1,759	1.9
Asia	**4,598**	**3.8**	6,073	5.7	5,356	5.7
Americas	**2,580**	**2.1**	2,932	2.8	2,721	2.9
Europe	**3,082**	**2.5**	6,149	5.8	3,508	3.7
Total	**121,513**	**100.0**	105,835	100.0	93,861	100.0
Operating revenue from outside the Group						
Australia	**7,262**	**72.6**	6,400	74.6	5,478	72.7
New Zealand	**1,764**	**17.6**	1,266	14.8	924	12.3
Pacific Islands	**234**	**2.3**	234	2.7	242	3.2
Asia	**382**	**3.8**	244	2.8	372	4.9
Americas	**170**	**1.7**	161	1.9	232	3.1
Europe	**196**	**2.0**	271	3.2	285	3.8
Total	**10,008**	**100.0**	8,576	100.0	7,533	100.0
Intersegment operating revenue (see Note 37)						
Australia	**295**	**21.3**	311	24.9	301	34.1
New Zealand	**195**	**14.1**	188	15.0	67	7.6
Pacific Islands	**34**	**2.5**	37	3.0	29	3.3
Asia	**513**	**37.1**	532	42.5	333	37.8
Americas	**253**	**18.3**	68	5.4	55	6.3
Europe	**93**	**6.7**	115	9.2	96	10.9
Total	**1,383**	**100.0**	1,251	100.0	881	100.0
Operating profit before income tax						
Australia	**1,208**	**77.6**	1,104	79.5	678	68.9
New Zealand	**172**	**11.1**	163	11.7	155	15.8
Pacific Islands	**53**	**3.4**	48	3.5	45	4.6
Asia	**24**	**1.5**	6	0.4	62	6.3
Americas	**40**	**2.6**	29	2.1	26	2.6
Europe	**59**	**3.8**	39	2.8	18	1.8
Total before abnormal items	**1,556**	**100.0**	1,389	100.0	984	100.0
Abnormal items	**–**		(212)		(93)	
Total after abnormal items	**1,556**		1,177		891	
Operating profit after income tax attributable to shareholders of Westpac Banking Corporation						
Australia	**869**	**76.8**	799	78.7	488	69.2
New Zealand	**114**	**10.1**	108	10.6	102	14.5
Pacific Islands	**37**	**3.2**	32	3.2	28	4.0
Asia	**16**	**1.5**	10	1.0	46	6.5
Americas	**37**	**3.2**	28	2.8	24	3.4
Europe	**59**	**5.2**	38	3.7	17	2.4
Total before abnormal items	**1,132**	**100.0**	1,015	100.0	705	100.0
Abnormal items	**–**		(68)		#	
Total after abnormal items	**1,132**		947		705	

# Denotes amount less than $500,000.

Segmentation of assets, revenue and profit is based on the location of the office in which these items are booked.

The Group operates predominantly in the financial services industry.

NOTE 30. OTHER GROUP INVESTMENTS

The Group has a significant non-controlling shareholding in the following entities:

	Country Where Business is Carried On	Westpac Banking Corporation Beneficial Interest	Nature of Business
Austraclear Limited	Australia	16.9%	Clearing house for bill transactions
Bank of Tonga	Tonga	30.0%	Banking
Electronic Transaction Services Limited	New Zealand	25.0%	Credit card processing
Merchant Bank of Fiji Limited	Fiji	30.0%	Finance
New Zealand Bankcard Associates Limited	New Zealand	50.0%	Service company for credit card operations
Pacific Commercial Bank Limited	Western Samoa	42.7%	Banking
Colobus Pty Limited	Australia	50.0%	Corporate trustee
Krava Nominees Pty Ltd	Australia	50.0%	Corporate trustee
Challase Pty Ltd	Australia	50.0%	Cheque processing
Eraring Power Company of NSW Ltd	Australia	20.0%	Nominee company
Mondex Australia Pty Ltd	Australia	25.0%	Smart card operations
Abrotar Ltd	Australia	47.0%	Property investment
Havenmaze Ltd	Australia	47.0%	Property owner
MLM (Properties) Ltd	Australia	47.0%	Property owner
Societe Caledonienne de Monetique et de Services Bancaires	New Caledonia	20.0%	Banking
Somersby Park Pty Ltd	Australia	25.0%	Property owner
Westpac Staff Superannuation Plan Pty Ltd	Australia	50.0%	Corporate trustee

In terms of the amount of the Group's interest and their contribution to the results of the Group, the above investments are not material either individually or in aggregate.

NOTE 31. AUDITORS' REMUNERATION

	Consolidated 1996 $m	Consolidated 1995 $m	Consolidated 1994 $m	Bank (Chief Entity) 1996 $m	Bank (Chief Entity) 1995 $m
Amounts received, or due and receivable by:					
Auditors of the Bank					
– Auditing services	**1,440**	1,566	1,874	**1,440**	1,566
– Other services*	**151**	220	230	**151**	220
Other Group auditors					
– Auditing services	**1,086**	770	1,177	**–**	–
– Other services*	**3,026**	3,053	2,887	**2,363**	2,315
Total auditors' remuneration**	**5,703**	5,609	6,168	**3,954**	4,101

* 1995 and 1996 figures for Other Group auditors – other services exclude share registry services previously provided by the partnership of KPMG, but now provided by a corporate vehicle that maintains trading links with that firm.

** 1996 consolidated figures include a total of $2,510,000 (1995: $2,310,000;1994: $2,943,000) received, or due and receivable by the auditors of the Bank, Messrs Ullmer and Lynn, and their firm, Coopers & Lybrand, for auditing services, a total of $632,000 (1995: $765,000;1994: $614,000) for regulatory and other statutory reporting requirements and $1,636,000 (1995: $1,660,000; 1994: $468,000) for other services.

NOTE 32. RETIREMENT BENEFITS

The aggregate amount of "prescribed benefits" (as defined by Section 237 of the Corporations Law) given by the Group in connection with the retirement of persons from a prescribed office in the Bank or of its controlled entities was $1,418,000 (1995 $4,300,000). This includes retiring allowances paid to Directors of the Bank, pursuant to contracts entered into with those Directors, the terms of which were submitted to and approved in general meeting by shareholders of the Bank on 27 January 1989, of:

	1996	1995
Mr S.G. Hornery	$101,850	
MR R.W. Reid		$192,016
Mr R.A. Johnston		$103,729

The remaining benefits were entitlements paid to employees of the Bank upon leaving the Bank's service, who at the time of separation were, co-incidentally, directors of one or more controlled entities of the Bank. Those entitlements accrued to those persons in their capacity as employees of the Bank and were not related in any way to their directorships benefits of those controlled entities. In the circumstances, the Directors consider that it would be unreasonable to provide full particulars of those benefits.

This information is presented in accordance with Schedule 5 to the Corporations Law. The Bank has been relieved from compliance with the corresponding requirements of Accounting Standard AASB1017: "Related Party Disclosures" by Class Order 96/1171 issued by the Australian Securities Commission on 25 July 1996.

NOTE 33. DIRECTORS

Directors of the Bank during the year ended 30 September 1996 were:

Mr J.A. Uhrig (Chairman)
Mr. R.L. Joss (Managing Director)
Mr P.L. Baillieu
Mr W.B. Capp
The Hon. Sir Llewellyn Edwards
Mr I.R.L. Harper
Professor W.P. Hogan
Mr S.G. Hornery (resigned 8 August, 1996)
Ms Eve Mahlab
Mr J.P. Morschel (Executive Director)
Mr P.D. Ritchie

NOTE 34. DIRECTORS' LOANS

Loans made to Directors of the Bank and Group and to parties related to them are made in the ordinary course of business on normal terms and conditions or, in respect of loans to Executive Directors, on the same terms and conditions as apply to other employees of the Bank and Group in accordance with established policy.

A class order issued by the Australian Securities Commission on 6 August 1993 grants limited relief from the disclosure requirements of Schedule 5 of the Corporations Regulations and accounting standard AASB1017 concerning loans to directors of corporations within a group and to parties related to such directors. Applied to consolidated accounts of the economic entity of which the Bank is the chief entity, the class order limits disclosure in such a way that the aggregates to be disclosed are determined by reference to:

(a) each loan made, guaranteed or secured by the Bank or any of its banking subsidiaries where the borrower is a Director of the Bank at the end of the financial year; and

(b) each loan made, guaranteed or secured by another Group company where the borrower is a Director of any Group company at the end of the financial year or a party related to such a director.

The aggregate amount of relevant loans as at 30 September 1996 was $1,540,000 (1995 $2,931,000). The aggregate amount of relevant loans made during the year was $30,000 (1995 $660,000). The aggregate amount of repayments received during the year in respect of relevant loans was $255,000 (1995 $195,000). The Directors of the Bank and other Group companies concerned in the relevant loans made and repayments received during 1996 and 1995 were:

	1996	1995
B.J. Andrew	**–**	1,2,4
P.L. Baillieu	**2,3**	1,2,3
N.J. Bayliss	**4**	4
A.W. Brown	**2,4**	2,4
W.B. Capp	**1,2,3**	1,2,3
R.A. Channells	**–**	2,4
P.E. Evans	**4**	2,4
D.N. Farmer	**–**	1,2,4
I.R.L. Harper	**1,2,3**	1,2,3
S.G. Hornery	**–**	1,2,3
R.E. Mathews	**–**	1,2,4
J.J. Moses	**1,4**	–
P.C. Tangney	**–**	2,4
A.R. Wilkins	**–**	1,2,4
K.L. Young	**–**	2,4
R.J. Zubielevitch	**2,4**	2,4

(1) Loan made to this person during the year.
(2) Repayment made by this person during the year.
(3) Ordinary course of business and normal terms and conditions apply.
(4) Employee terms and conditions apply.

NOTE 35. DIRECTORS' REMUNERATION

	1996 $000	1995 $000
Total income, excluding fringe benefits tax, received, or due and receivable, from the Bank and related entities by Directors of the Bank. For Executive Directors, figures reflect bonuses accrued but not yet paid in respect of year ending 30 September 1996. Bonus figures for 1995 have been adjusted accordingly for comparative purposes.	**2,738**	2,741
The number of Directors whose income, excluding fringe benefits tax, received, or due and receivable, from the Bank and related entities fell within the bands below.		
$ 10,001 – $ 20,000	**–**	1*
$ 40,001 – $ 50,000	**–**	2*
$ 50,001 – $ 60,000	**1***	8
$ 60,001 – $ 70,000	**6**	–
$ 70,001 – $ 80,000	**1**	–
$ 110,001 – $ 120,000	**–**	1
$ 130,001 – $ 140,000	**–**	1
$ 230,001 – $ 240,000	**1**	–
$ 870,001 – $ 880,000	**1**	–
$1,870,001 – $1,880,000	**1**	–
$1,930,001 – $1,940,000	**–**	1
	11	14
Total income, excluding fringe benefits tax, received, or due and receivable, from the Bank and related entities by Directors of Group companies.	**3,639**	3,913

* Includes payments (other than payments included in Note 32) to a Director in this remuneration band who resigned/retired during the year.

Directors' remuneration has been disclosed in accordance with Class Order 96/1171 issued by the Australian Securities Commission on 25 July 1996.

NOTE 36. TRANSACTIONS WITH DIRECTORS

a) Financial instrument transactions

Australian banks and their parent and controlled entities have been exempted under the Australian Securities Commission Class Order 93/837 dated 6 August 1993 from providing details of certain financial instrument transactions made with related parties (other than Directors) in the ordinary course of banking business and either on an arm's length basis or with the approval of shareholders of the relevant entity and its ultimate chief entity (if any).

The Class Order does, however, not apply to, and therefore requires the disclosure of, any financial instrument transaction:

(1) which is made by the Bank or any of its bank subsidiaries with Directors of the Bank and is not trivial or domestic in nature; or

(2) of which any Director of the Bank should reasonably be aware, that, if not disclosed, would have the potential to adversely affect the decisions about the allocation of scarce resources made by users of these financial statements.

A condition of the Class Order is that the Bank must lodge a statutory declaration, signed by two Directors, with the Australian Securities Commission, confirming that the Bank has systems of internal controls and procedures which are designed to bring to the attention of Directors those financial instrument transactions which must be disclosed.

The Directors of the Bank are of the opinion that there were no financial instrument transactions during the year ended 30 September 1996 which are required so to be disclosed.

b) Share and share option transactions

Details of share options issued to the Managing Director Mr R.L. Joss and Executive Director Mr J.P. Morschel are set out in Note 21.

The aggregate number of shares issued by the Bank to Directors of the Bank and their director-related entities (including in 1995, Australian Mutual Provident Society (AMP), Lend Lease Corporation Limited and their respective subsidiaries which were deemed to be director-related entities in that year, but not in 1996) during the year ended 30 September were:

	1996	1995
Ordinary shares	**Nil**	37*

* Issued under the Share Rounding Scheme

NOTE 36. TRANSACTIONS WITH DIRECTORS continued

The aggregate numbers of shares of the Bank held directly, indirectly or beneficially by the Directors of the Bank and their Director-related entities (including, in 1995, AMP, Lend Lease Corporation Limited and their respective subsidiaries) at 30 September were:

	1996	1995
Ordinary shares	**1,197,762**[1]	458,010,707[2]
Converting preference shares	**Nil**	7,570,300[3]

[1] Includes 998,888 owned by a staff-related benefit fund of which Directors are trustees.

[2] Includes 238,610,840 owned by AMP, 209,275,788 owned by subsidiaries of Lend Lease Corporation Limited and 1,337,777 owned by a staff-related benefit fund of which Directors are trustees.

[3] Includes 7,235,300 owned by AMP. (None were owned by Lend Lease Corporation Limited or its subsidiaries).

c) Other transactions

In previous financial years in circumstances where Mr J.P. Morschel and Mr S.G. Hornery were directors of both Lend Lease Corporation Limited and the Bank, the Directors considered it prudent to set out details of all transactions with Lend Lease Corporation Limited (see AASB1017 "directors – related entities"). Over the year ending 30 September 1996 Mr Morschel was not a director of Lend Lease Corporation Limited and Mr Hornery resigned as a director of the Bank on 8 August 1996. In these circumstances, it is the view of the Directors that transactions between the Bank and Lend Lease Corporation Limited no longer require disclosure.

In previous financial years, because of Mr I.R.L. Harper's partnership and consultancy in the law firm Allen Allen & Hemsley, the Directors considered it prudent to disclose fees paid to that firm. Mr Harper retired as a partner of that firm in March 1995. The Directors have reviewed the position and are of the view that it cannot be said that the firm and the Bank are "director-related entities", and, therefore, there is no longer any disclosure obligation.

In previous financial years, under terms of a strategic alliance between the Bank and AMP, two directors of the Bank, namely Mr P.L. Baillieu and Professor W.P. Hogan, served as directors of AMP, and two directors of AMP, namely Mr R.A. Johnston and Mr J.W. Utz, served as Directors of the Bank. No cross directorships have been in place during the year ending 30 September 1996 and it is accordingly the view of the Directors that transactions between AMP and the Bank no longer require disclosure.

The following information relates to the 1995 and 1994 financial years.

During the 1995 financial year the Bank made payments totalling $810,000 (1994: $1,290,000) to Lend Lease Corporation Limited or its subsidiaries for renovations to Westpac owned premises and rent. The Group also provided various financial services to Lend Lease Corporation Limited and its subsidiaries, as well as various advisory, consultancy and building services to that Group, all of which are considered to be "trivial" as defined by AASB1017.

During the 1995 financial year fees for legal services paid to Allen Allen & Hemsley were $7,063,000 (1994: $6,400,000).

During the 1995 financial year in respect of AMP:

- the Bank occupied certain premises owned by AMP or its subsidiaries for which it paid rent amounting to $2,840,000 (1994 $2,920,000);
- the Bank provided computer processing facilities to an AMP subsidiary, AMPAC Life Limited, for a fee of $2,759,000 (1994 $2,064,000);
- the Bank received fees of $13,400,000 (1994 $20,451,000) from AMPAC Life Limited for the marketing of certain superannuation and life insurance products;
- Westpac Financial Consultants Limited received commissions of $13,896,000 (1994 $8,297,000) from AMPAC Life Limited for the sale of the latter company's insurance products;
- Westpac Financial Services Group Limited earned $4,200,000 and $1,000,000 (1994 $4,028,000 and nil) from AMPAC Life Limited for the administration of the AMPAC Superannuation Masterplan and sale of insurance products respectively; and
- the Group provided various financial services to AMP and its subsidiaries and they provided various insurance services to the Group, all of which, in relation to the Group, are considered to be "trivial" as defined by AASB1017.

These transactions were on normal commercial terms and conditions.

NOTE 37. OTHER RELATED PARTY DISCLOSURES

Transactions between the Bank and its controlled entities during the year have included the provision of a wide range of banking and other financial facilities, some of which have been on commercial terms and conditions, others have been on terms and conditions which represented a concession to the controlled entities. Other intra-Group transactions, which may or may not be on commercial terms, include the provision of management and administration services, staff training, data processing facilities and leasing of properties, plant and equipment.

Similar transactions between Group entities and other related parties have been almost invariably on commercial terms and conditions as agreed between the parties. Such transactions are not considered to be material, either individually or in aggregate.

NOTE 38. EXECUTIVES' REMUNERATION

The number of executives of the Bank and Group in Australia whose income received, or due and receivable, from the Bank and related entities, including, where remuneration was calculated on a 'total employment cost' basis, fringe benefits tax, fell within the bands below. For Executive Officers, figures reflect bonuses accrued but not yet paid in respect of year ending 30 September 1996. Bonus figures for 1995 have been adjusted accordingly for comparative purposes.

	Consolidated		Bank (Chief Entity)	
	1996	1995	1996	1995
$ 150,001 – $ 160,000	1*	1	1*	1
$ 200,001 – $ 210,000	1*	2	1*	2
$ 210,001 – $ 220,000	–	1	–	1
$ 220,001 – $ 230,000	–	3	–	3
$ 230,001 – $ 240,000	–	1*	–	1*
$ 240,001 – $ 250,000	–	1	–	1
$ 260,001 – $ 270,000	1	–	1	–
$ 270,001 – $ 280,000	1	–	1	–
$ 290,001 – $ 300,000	1	–	1	–
$ 300,001 – $ 310,000	–	1	–	1
$ 320,001 – $ 330,000	2	1	2	1
$ 330,001 – $ 340,000	–	1	–	–
$ 340,001 – $ 350,000	1	–	1	–
$ 360,001 – $ 370,000	2	–	2	–
$ 370,001 – $ 380,000	1	1	1	1
$ 380,001 – $ 390,000	1	–	1	–
$ 390,001 – $ 400,000	1	1 *	1	1*
$ 400,001 – $ 410,000	2	–	2	–
$ 420,001 – $ 430,000	3	2	2	2
$ 430,001 – $ 440,000	–	1	–	1
$ 440,001 – $ 450,000	2	1	2	1
$ 450,001 – $ 460,000	1	–	1	–
$ 460,001 – $ 470,000	1	1	1	1
$ 470,001 – $ 480,000	–	1	–	–
$ 480,001 – $ 490,000	1	–	1	–
$ 490,001 – $ 500,000	2	–	2	–
$ 500,001 – $ 510,000	1	–	1	–
$ 520,001 – $ 530,000	1	–	1	–
$ 550,001 – $ 560,000	1	2	1	2
$ 570,001 – $ 580,000	1	1	1	1
$ 610,001 – $ 620,000	–	1	–	1
$ 630,001 – $ 640,000	–	1	–	1
$ 640,001 – $ 650,000	2	1	2	1
$ 650,001 – $ 660,000	–	1*	–	1 *
$ 670,001 – $ 680,000	–	1	–	1
$ 680,001 – $ 690,000	2	–	2	–
$ 730,001 – $ 740,000	1	–	1	–
$ 750,001 – $ 760,000	–	1	–	1
$ 840,001 – $ 850,000	1	–	1	–
$ 870,001 – $ 880,000	1	–	1	–
$ 890,001 – $ 900,000	–	1*	–	1*
$ 910,001 – $ 920,000	1	–	1	–
$ 1,000,001 – $ 1,010,000	1	1	1	1
$ 1,030,001 – $ 1,040,000	–	1	–	1
$ 1,060,001 – $ 1,070,000	–	1 *	–	1 *
$ 1,870,001 – $ 1,880,000	1	–	1	–
$ 1,930,001 – $ 1,940,000	–	1	–	1
Total	**39**	34	**38**	32

* Includes payments (other than payments included in Note 32) to one or more executives in this remuneration band who retired/resigned during the year.

	Consolidated		Bank (Chief Entity)	
	1996 $000	1995 $000	1996 $000	1995 $000
Total income, including, where remuneration was calculated on a 'total employment cost' basis, fringe benefits tax, received, or due and receivable, from the Bank and related entities by Executive Officers whose income exceeded $100,000.	**20,517**	17,347	**20,092**	16,532

The above table discloses data in respect of only those officers who are responsible for the strategic directions and operational management ("Executive Officers") of the Bank and related entities. No value has been ascribed to any options issued to any of those officers. Of the Executive Officers referred to in the above table, there are 25 in respect of whom full year 1995 and full year 1996 remuneration has been reported. Their income has, on average, increased by 1% year on year.

There are also 85 (1995:63) other employees whose remuneration individually exceeds $100,000 per annum who are not Executive Officers but who, in the discharge of their duties in Australia as employees of the Bank, serve as directors of wholly-owned Australian subsidiaries. Total income received, or due and receivable, by these employees amounted to $17,279,000 (1995 $13,608,000).

NOTE 39. BALANCE SHEET FORMAT

A class order issued by the Australian Securities Commission on 24 June 1992 gives to any Australian bank that is a chief entity, relief from the provisions of Schedule 5 of the Corporations Law which require assets and liabilities of a company to be grouped according to whether they are current or non-current and to be described as current or non-current in the consolidated balance sheet of the company. This relief has been granted on condition that:

(i) disclosure of the assets and liabilities in the consolidated balance sheet of the bank complies with the requirements of International Accounting Standard 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions", ("IAS30"); and

(ii) the Notes to the balance sheet specify the amount of the total assets and the total liabilities disclosed in the consolidated balance sheet that are attributable to controlled entities which are not prescribed corporations. (At 30 September 1996 the only entity controlled by the Bank which was a prescribed corporation was Challenge Bank Limited).

IAS30 recognises that the grouping of assets and liabilities into current and non-current classifications is inappropriate for a bank. The standard requires that a bank should present a balance sheet that groups assets and liabilities by nature and lists them in an order that reflects their relative liquidity. The Bank's practice is in accordance with this requirement.

The amounts of assets and liabilities referred to in condition (ii) above at 30 September were:

	1996 $m	1995 $m
Assets	**22,944**	12,672
Liabilities	**16,883**	7,639

NOTE 40. EVENTS SUBSEQUENT TO BALANCE DATE

(i) On 1 October 1996, pursuant to the termination of its strategic alliance with AMP, Westpac acquired AMPAC Life Limited, (now renamed Westpac Life Insurance Services Limited) from AMP at a cost of $342 million which is subject to a final adjustment based on the audited 30 September 1996 results.

(ii) On 4 November 1996 Westpac announced that it would undertake a buyback of 85 million (approximately 5%) fully paid ordinary shares, conducted as a normal on-market transaction through the Australian Stock Exchange Limited. The buyback is to be conducted over a period of up to six months commencing on 18 November 1996.

The financial effect of the above events has not been brought to account.

NOTE 41. RECONCILIATION WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP)

The consolidated financial statements of the Group are prepared in accordance with accounting principles and policies as summarised in Note 1. These principles and policies differ in some respects from generally accepted accounting principles applicable in the United States (US GAAP). The Statements of Cash Flows comply with International Accounting Standard No. 7.

The following are reconciliations of the consolidated financial statements, for any significant adjustments, to comply with US GAAP:

	1996 $m	1995 $m	1994 $m
Profit and Loss Statement			
Net profit as reported	**1,132**	947	705
Adjustments:			
Item No. (see Commentary)			
1. Depreciation on buildings	**7**	5	7
2. Gains on sale of properties (including amortisation of gains on sale of properties subject to leaseback arrangements)	**25**	34	67
2 . Gain on sale of investments	**–**	–	15
3. Amortisation of goodwill	**(16)**	(16)	(15)
3. Adjustment (for unamortised goodwill) to profit on sale of entities	**–**	–	(40)
4. Superannuation (pension) expense adjustment	**80**	111	84
Less related income tax expense	**(32)**	(25)	(28)
6. Adjustment re provision for employee redundancy benefits	**(98)**	43	55
Less related income tax expense	**35**	(14)	(18)
7. Initial application of an accounting standard	**–**	(51)	–
Less related income tax expense	**–**	17	–
Adjusted net income according to US GAAP	**1,133**	1,051	832
Comprising:			
Income from discontinued operations	**–**	–	17
Profit on disposal of discontinued operations	**–**	–	124
Total income from discontinued operations*	**–**	–	141
Income from continuing operations	**1,133**	1,051	691
Adjusted net income	**1,133**	1,051	832
Adjusted net income per share (cents):			
(both primary and fully diluted)			
– discontinued operations	**–**	–	7.1
– continuing operations	**57.1**	53.3	34.1
Total adjusted net income per share	**57.1**	53.3	41.2

* Discontinued operations in 1994 comprise mainly:
– Mase Westpac Limited
– Banking Operations in Taiwan, South Korea and Indonesia
– AGC operations in Asia

NOTE 41. RECONCILIATION WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP) continued

	1996 $m	1995 $m	1994 $m
Non-interest expenses as reported	**3,065**	2,666	2,637
Abnormal items (Note 5)	**–**	212	233
Depreciation adjustment (item 1)	**(7)**	(5)	(7)
Amortisation of goodwill (item 3)	**16**	16	15
Superannuation expense/(benefit) (item 4)	**(69)**	(100)	(18)
Superannuation prepayment adjustment (Note 4)	**(11)**	(11)	(66)
Adjustment re provision for redundancy benefits (item 6)	**98**	(43)	(55)
Initial application of an accounting standard (item 7)	**–**	51	–
Non-interest expenses according to US GAAP	**3,092**	2,786	2,739
Shareholders' Equity			
Equity as reported	**7,885**	7,578	7,294
Adjustments:			
Item No. (see Commentary)			
1. Elimination of asset revaluation reserves	**(260)**	(382)	(514)
1. Depreciation on buildings	**30**	23	18
2. Deferred gains on sale of properties subject to leaseback arrangements	**(64)**	(3)	(7)
3. Goodwill not recognised on acquisitions, less amortisation	**70**	85	100
3. Restoration of previously deducted goodwill, less amortisation and amounts written-off	**5**	6	6
4. Superannuation (pension) expense adjustment	**(140)**	(188)	(274)
6. Adjustment re provision for employee redundancy benefits	**3**	66	37
8 Investment securities fair value adjustment	**(19)**	(21)	–
9. Final dividend provided	**307**	274	182
Adjusted equity according to US GAAP	**7,817**	7,438	6,842

The following is a summary of the significant adjustments made to consolidated net profit/(loss) and shareholders' equity to reconcile the Australian results with US GAAP.

1. Premises and sites and certain equity investments have been revalued and the amount of such revaluation is included in the Group's reserves. Depreciation of buildings is based on revalued amounts. Under US GAAP, such revaluations are not permitted and depreciation is based on historical cost.
2. Where properties and equity investments are sold, the Group's policy of periodically revaluing such assets results in only the difference between net sale proceeds and the revalued amount of the assets sold being recorded in the profit and loss statement. Under US GAAP, the profit on sale of such assets to be reflected in the profit and loss statement (statement of income) is calculated by reference to cost (less depreciation in respect of properties). Also under US GAAP, where properties are sold with a leaseback arrangement, the profit on sale is spread over the term of the initial lease.
3. Contrary to US GAAP, Westpac did not assign market values to the shares it issued in respect of certain acquisitions prior to 1982. The adjusted profit and loss statement and adjusted shareholders' equity statement reflect the assignment of market values to the shares issued by Westpac and the goodwill which emerges as a consequence.

   Up until 1987, goodwill arising in connection with the acquisition of entities was written off as an extraordinary item in the year the acquisition took place. US GAAP requires goodwill to be amortised on the basis of its estimated life but not exceeding 25 years for financial institutions. For the purposes of the US GAAP reconciliation, a write-off period of 20 years has been assumed.

   The 1994 Australian GAAP results include profits on the sale of certain of these pre-1987 acquisitions. For US GAAP purposes, such profits have been reduced by the amount of unamortised goodwill at the date of sale which had arisen from the acquisitions.

   Since 1987, the Group's accounting policies have complied with Australian accounting standards in relation to goodwill which are similar to US GAAP except that the maximum amortisation period is restricted to 20 years.
4. Surpluses in the Group's principal pension plans for employees have been recognised as assets of the Group.

NOTE 41. RECONCILIATION WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP) continued

Under US GAAP, such surpluses are not recognised immediately as assets. SFAS No. 87 "Employers' Accounting for Pensions" requires upon its initial application, such previously unrecognised surpluses to be amortised to income, as an adjustment to pension expense, on a straight-line basis over the average remaining service period of members of the plans. If this period is less than 15 years, a 15 year amortisation period may be adopted.

5. Future tax benefits have been recognised where realisation of the benefits through future income is virtually certain. US GAAP (SFAS No. 109 "Accounting for Income Taxes") is not materially different from Australian GAAP except that in relation to the criteria for recognition of future tax benefits, Australian GAAP requires a "virtual certainty" test, while SFAS No. 109 adopts a lower level of probability, namely a "more likely than not" threshold. Application of SFAS No. 109 does not materially impact Westpac and no adjustment is required to either shareholders' equity or to net profit.

   At 30 September, net deferred tax assets under US GAAP comprise:

	1996 $m	1995 $m
Total deferred tax assets	**1,504**	1,508
Less: Total valuation allowances recognised for deferred tax assets*	**(152)**	(195)
Deferred tax assets (future income tax benefits as per Note 16)	**1,352**	1,313
Total deferred tax liabilities (Note 19)	**(778)**	(862)
Net deferred tax assets	**574**	451
Net increase/(decrease) in the total valuation allowance during the year	**(43)**	(20)

* This item comprises potential future tax benefits not brought to account under Australian GAAP because realisation is uncertain. See footnote to Note 16.

6. In 1994 and 1995 provision was made for expected employee redundancy benefits, pursuant to Westpac's restructuring program. In those years, US GAAP required that a liability in respect of such benefits be recognised only when the terms of the redundancy were communicated to the potentially affected individual employees so that each individual employee knew that he or she might become redundant and, if so, what benefits he or she would receive. In 1996 US GAAP requires that the plan of termination specifically identifies the number of employees to be terminated, their job classifications or functions, and their locations. The provisions have therefore been recognised as a US GAAP expense in 1996.
7. Under Australian GAAP, where the requirements of an accounting standard are first applied and such application gives rise to initial revenue or expense adjustments, the net amount of those adjustments is adjusted against retained profits or accumulated losses at the beginning of the financial year to which the standard is first applied. Under US GAAP such adjustments are generally treated as adjustments to the profit or loss for the current financial period.
8. Subject to the constraints of prudential and regulatory requirements, Westpac's investment securities are generally available-for-sale securities as defined by US GAAP (SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities"). Such securities have been reported at cost, adjusted for premium or discount amortisation. SFAS No. 115, which became applicable to Westpac in 1995, requires that such securities be reported at fair value, with unrealised gains and losses, net of tax effects, excluded from earnings and reported as a separate component of equity.
9. Dividends declared after the end of each financial year are recorded in the period to which they relate. Under US GAAP, dividends are recorded in the period in which they are declared.
10. Other Real Estate Owned is classified on the balance sheet as loans (see Note 11). Under US GAAP such assets would be classified on the balance sheet separately as "Other Real Estate Owned" or included with Other Assets where such amounts would be disclosed in the Notes thereto as Other Real Estate Owned.
11. In accordance with Australian GAAP, abnormal items (defined as items of revenue and expense included in operating profit or loss, which are considered abnormal by reason of their size and effect on the results for the financial period) are disclosed separately (Note 5) and are included in the profit and loss statement after income before abnormal items and income tax. While such abnormal items do not meet the criteria for extraordinary treatment pursuant to US GAAP, there is no effect on net income or shareholder's equity.
12. Westpac has not attributed any cost to options granted to senior officers under the Senior Officers' Share Purchase Scheme (see Note 21) in either its profit and loss statement prepared in accordance with Australian GAAP or in the statement reconciled to US GAAP. Had Westpac adopted the requirements of the new US accounting standard SFAS No 123, "Accounting for Stock-Based Compensation", net income according to US GAAP in 1996, would have reduced by $3 million or 0.2 cents per share.

NOTE 41. RECONCILIATION WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP) continued

13. For the purposes of reconciling the financial statements prepared in accordance with Australian GAAP with financial statements prepared in accordance with US GAAP, US accounting standard SFAS No. 114 "Accounting by Creditors for Impairment of a Loan" became applicable to Westpac for the year ending 30 September 1996. SFAS No. 114 requires the measurement of impaired loans to be based on the present value of expected future cash flows discounted at the loan's effective interest rate; or based on a loan's observable market price; or on the fair value of the collateral if the loan is collateral dependent, i.e., repayment of the loan is expected to be provided solely by the underlying collateral.

    A significant portion of Westpac's portfolio of impaired loans is collateral dependent and the net carrying value, after deducting specific provisions, is based on the estimated market value of the collateral. Moreover, to the extent that the carrying value of non-collateral dependent impaired loans, after deduction of specific provisions, may exceed the present value of expected future cash flows relating to such loans, adequate provision has been made for the shortfall within the general provision for doubtful debts. Accordingly, application of SFAS No. 114 does not give rise to a US GAAP reconciliation adjustment.

Consolidated Statement Of Changes In US GAAP Shareholders' Equity

	1996 $m	1995 $m	1994 $m
Balance at beginning of year	**7,438**	6,842	6,468
Increase/(decrease) in share capital	**(18)**	5	33
Less: Issue of shares under the dividend bonus plan out of share premium reserve	**–**	–	(4)
Provision for redemption of preference shares	**–**	–	(131)
Premium on shares issued	**336**	16	89
Premium on shares bought back	**(450)**	–	–
Premium on redemption of preference shares	**–**	–	(16)
Share issue expenses	**–**	(1)	1
Currency translation adjustments (net of hedging gains/losses)	**(3)**	5	(139)
Net income	**1,133**	1,051	832
Dividends provided for or paid	**(653)**	(551)	(365)
US GAAP adjustments for:			
– final dividend proposed	**307**	274	182
– final dividend for prior year	**(274)**	(182)	(107)
Investment securities fair value adjustment	**1**	(21)	–
Other adjustments	**–**	–	(1)
Balance at year end	**7,817**	7,438	6,842

Superannuation (Pension) Expense

For the purpose of calculating net income in accordance with US GAAP, effective October 1, 1989, the Group has adopted SFAS No. 87 in respect of the Group's two principal pension plans for employees of the Bank and AGC in Australia. Other pension plans operated by the Group are not material.

In accordance with SFAS No. 87, the amount by which assets of the pension plans exceeded the actuarial present value of projected benefit obligations at the date of adoption (the "transitional asset") is being applied as a reduction of net pension cost over fifteen years.

The reconciliation of net income calculated in accordance with Australian GAAP to net income calculated in accordance with US GAAP for the years ended 30 September 1996, 1995 and 1994 includes superannuation (pension) expense adjustments after tax of $48 million (credit), $86 million (credit) and $56 million (credit) respectively.

NOTE 41. RECONCILIATION WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP) continued

	1996 $m	1995 $m	1994 $m
These adjustments comprise:			
Elimination of superannuation expense for Australian accounting purposes	**11**	11	66
Less: income tax applicable	**(4)**	(4)	(22)
	7	7	44
Recognition of a pension benefit calculated in accordance with US GAAP	**69**	100	18
Less: income tax applicable	**(25)**	(33)	(6)
	44	67	12
Adjustment to reflect change in the Australian company income tax rate	**(3)**	12	–
Net adjustment	**48**	86	56
The pension benefit calculated in accordance with SFAS No. 87 comprises:			
Service cost	**90**	78	99
Interest cost	**133**	116	99
Return on assets	**(242)**	(204)	(144)
Net amortisation and deferral	**(30)**	(70)	(51)
Net periodic pension cost/(benefit)	**(49)**	(80)	3
Employee contributions	**(20)**	(20)	(21)
Net Group periodic pension benefit	**(69)**	(100)	(18)
The following table presents the estimated funded status of the Group's two principal pension plans at 30 September.			
Accumulated benefit obligation:			
– vested	**1,406**	1,392	1,346
– non-vested	**10**	10	10
Total accumulated benefit obligation	**1,416**	1,402	1,356
Projected benefit obligation	**1,541**	1,456	1,397
Market value of plan assets*	**2,246**	2,229	2,171
Plan assets in excess of projected benefit obligation	**705**	773	774
Amounts not yet recognised:			
Balance of transitional asset	**765**	861	956
Prior service cost	**(112)**	(138)	(164)
Net gain/(loss)	**(446)**	(379)	(347)
Total amounts not yet recognised	**207**	344	445
Pension liability/(prepaid pension cost) at 30 September for the purposes of US GAAP	**(498)**	(429)	(329)
Reconciliation of pension liability/(prepaid pension cost):			
Pension liability/(prepaid pension cost) at beginning of the year	**(429)**	(329)	(309)
Pension benefit for the year	**(69)**	(100)	(18)
Refund to the Group	**–**	–	(2)
Pension liability/(prepaid pension cost)	**(498)**	(429)	(329)

* Plan assets are invested primarily in fixed-interest securities, listed Australian and overseas stocks and real estate. Included in the plan assets at 30 September 1996 are deposits with Westpac Banking Corporation totalling $5 million (1995 $4 million) and 5.8 million (1995 6.9 million) Westpac Banking Corporation ordinary shares having a total market value at that date of $38 million (1995 $37 million).

NOTE 41. RECONCILIATION WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP) continued

Assumptions used in determining the projected benefit obligation at 30 September 1996, 1995 and 1994 and in determining the pension benefit for the year ended on those dates included the following:

	1996	1995	1994
Pension benefit			
Assumed rate of return on plan assets	10.0%	10.5%	8.5%
Projected benefit obligation			
Average increase in future compensation levels	5.0%*	5.0%*	4.5%*
Discount rate	8.0%	9.0%	8.5%

* plus promotional scales equivalent to approximately 1.5%.

The Group has no material obligations in respect of post-retirement employee benefits other than pensions.

STATUTORY STATEMENTS

DIRECTORS' STATEMENT

In accordance with a resolution of the Directors of Westpac Banking Corporation ("the Bank"), in the opinion of the Directors:

(a) the financial statements of the Bank and consolidated financial statements of Westpac Banking Corporation Group ("the Group") are drawn up in accordance with Divisions 4, 4A and 4B of Part 3.6 of the Corporations Law and so as to give a true and fair view of

(i) the profit and cash flows of the Bank and Group for the year ended 30 September 1996 and the state of affairs of the Bank and Group as at 30 September 1996; and

(ii) the other matters with which they deal;

(b) at the date of this statement there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they fall due.

The Bank and consolidated financial statements have been made out in accordance with applicable accounting standards and other mandatory professional reporting requirements.

Dated at Sydney this 5th day of December 1996.

For and on behalf of the Board

J.A. Uhrig
Chairman

R.L. Joss
Managing Director

INDEPENDENT AUDIT REPORT TO THE SHAREHOLDERS OF WESTPAC BANKING CORPORATION

Scope

We have audited the financial statements of Westpac Banking Corporation ("the Bank") and the consolidated financial statements of Westpac Banking Corporation Group ("the Group") for the year ended 30 September 1996, consisting of the balance sheets, statements of profit and loss, changes in shareholders' equity and cash flows and the accompanying Notes to the financial statements as set out on pages 66 to 120. The Bank's Directors are responsible for the preparation and presentation of the financial statements and the information they contain. We have conducted an independent audit of these financial statements in order to express an opinion on them to the shareholders of the Bank.

Our audit has been conducted in accordance with Australian Auditing Standards (which are substantially the same as auditing standards generally accepted in the United States of America) to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly by the Directors in accordance with applicable Accounting Standards, and other mandatory professional reporting requirements (Urgent Issues Group consensus views), and are in accordance with the provisions of, and provide the information required by, the Deed of Settlement and the Bank of New South Wales Act 1850 (as amended) and other statutory requirements in a manner authorised for a banking corporation under the Banking Act, 1959 (as amended) so as to present a view which is consistent with our understanding of the Bank's and of the Group's financial position, the results of their operations and their cash flows.

We have not acted as auditors of the controlled entities listed in Note 28. We have, however, received sufficient information and explanations concerning these controlled entities to enable us to form an opinion on the Group financial statements.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial statements of the Bank and the Group are properly drawn up:

(a) so as to give a true and fair view of

(i) the Bank's and the Group's state of affairs as at 30 September 1996 and 1995 and of the Bank's results of operations and its cash flows for each of the two years ended 30 September 1996 and the Group's results of operations and its cash flows for each of the three years ended 30 September 1996; and

(ii) the other matters required by Divisions 4, 4A and 4B of Part 3.6 of the Australian Corporations Law to be dealt with in the financial statements;

(b) in accordance with the provisions of and provide the information required by the Deed of Settlement, the Bank of New South Wales Act of 1850 (as amended), and the Corporations Law in the manner authorised for a banking corporation under the Banking Act, 1959 (as amended); and

(c) in accordance with applicable Accounting Standards and other mandatory professional reporting requirements.

We have obtained all the information and explanations we have required.

Accounting principles generally accepted in Australia vary in certain respects from generally accepted accounting principles in the United States. An explanation of the major differences between the two sets of principles is presented in Note 41 to the financial statements. The application of the United States principles would have affected the determination of consolidated net income for each of the three years in the period ended 30 September 1996 and the determination of consolidated shareholders' equity at 30 September 1996, 1995 and 1994 to the extent summarised in Note 41 to the financial statements.

M.J. Ullmer
Chartered Accountants
Coopers & Lybrand
Sydney, Australia

R.S. Lynn

5 December 1996

Information for Shareholders

ANNUAL GENERAL MEETING

The meeting will be held in the Auditorium, Level 2, Sydney Convention Centre, Darling Drive, Darling Harbour, Sydney, NSW on 20 January 1997 at 2pm.

SHAREHOLDERS' CALENDAR 1997

Books close for final dividend	6 January*
Annual General Meeting	20 January†
Final dividend payable	28 January
Half year end	31 March
Interim results and dividend announcement	early May
Books close for interim dividend	mid June**
Payment of converting preference share dividend	30 June
Interim dividend payable	early July**
Year end	30 September
Final results and dividend announcement	early November
Payment of converting preference share dividend	31 December

* New York 3 January 1997
† Details regarding this meeting, including the business to be dealt with, are contained in the separate Notice of Meeting.
** Actual dates are to be fixed at the time of announcing 1997 interim results.

VOTING RIGHTS

Ordinary Shares

On a show of hands, each shareholder present in person, each proxy who is not a shareholder and each duly appointed corporate representative who is not a shareholder, shall have one vote.

On a poll, each shareholder shall have:
- one vote for each fully paid share held;
- one vote for each ten shares held which are paid to ten cents; and
- one vote for each one hundred shares held which are paid to one cent.

Converting Preference Shares

Shareholders may vote as a class on any resolution:
- to reduce the capital of the Bank; or
- that the Bank sell all its undertaking; or
- that directly affects the rights or privileges attaching to the converting preference shares

and together with the holders of ordinary shares on any resolution:
- for the winding up of the Bank; or
- if, at the time of any general meeting, any dividend payable on the converting preference shares is in arrears for more than six months, on all matters.

In such cases, shareholders have the same rights as to the manner of attendance and as to voting in respect of each converting preference share as those conferred on holders of each fully paid ordinary share.

DIVIDENDS PAYMENT

Holders of shares traded on Australian Stock Exchange Limited may elect, by written notification to the Share Registry in Sydney, to receive their Westpac ordinary share and/or converting preference share dividends by cheque or by direct credit to an account with Westpac or any other bank in Australia, New Zealand, or the United Kingdom, or with any building society or credit union in Australia. Any change to direct credit details should be notified to the Share Registry in Sydney, promptly, in writing.

STOCK EXCHANGE LISTINGS AND SHARE REGISTRY INFORMATION

STOCK EXCHANGE LISTINGS

Westpac ordinary shares are listed on:
Australian Stock Exchange Limited (code WBC), New York Stock Exchange (code WBK), Tokyo Stock Exchange and New Zealand Stock Exchange.

The converting preference shares are listed on Australian Stock Exchange Limited (code WBCPA) only.

SHARE REGISTRIES

For information about your shareholding you should contact the appropriate share registry:

Australia
KPMG Registrars Pty Ltd, Level 4, 55 Hunter Street
Postal address: GPO Box 1486, Sydney NSW 2001

Shareholder Serviceline:
Telephone: (02) 9232 4211 or 1800 804 255 (toll free in Australia)
Facsimile: (02) 9232 3719

New Zealand
Share Register
Westpac Banking Corporation, 12th Floor, 318 Lambton Quay
Postal address: PO Box 691, Wellington, New Zealand
Telephone: (04) 498 1449 Facsimile: (04) 498 1462

Depositary in USA for American Depositary Shares (ADS)* listed on New York Stock Exchange (code WBK – CUSIP 961214301)
Morgan Guaranty Trust Company
60 Wall Street, New York NY 10260-0060, USA
Telephone: (212) 648 3213 Facsimile: (212) 648 5104

*Each ADS equals five, fully paid ordinary shares.

Paying and share handling agent in Japan for shares listed on Tokyo Stock Exchange
The Mitsubishi Trust and Banking Corporation
1-7-7 Nishi-Ikebukuro, Toshima-ku, Tokyo 171, Japan
Telephone: (3) 5391 7029 Facsimile: (3) 5391 1911

Shareholders should notify any change of address to the appropriate share registry promptly, in writing, quoting their previous address. It is not necessary for shareholders to return their share certificate(s) when notifying a change of address.

CHESS

CHESS stands for "Clearing House Electronic Subregister System" and is an electronic subregister of a company's principal share register. Sponsorship in CHESS by a stockbroker requires shareholders to surrender their share certificate(s) and convert to an uncertificated holding for which the stockbroker issues the client a unique holder identification number (HIN). Further information on CHESS can be obtained from any office of the Australian Stock Exchange.

Westpac continues to offer share certificates to those shareholders who want them.

SOURCES OF INFORMATION FOR SHAREHOLDERS

ANNUAL REPORT

The main source of information is the Annual Report (or the Short Form Annual Report) which is mailed to shareholders in December.

Shareholders who do not want to receive the Annual Report, or who are receiving more than one copy, or who would prefer to receive a Short Form Annual Report, should notify the Share Registry in Sydney in writing, including the shareholder number with the notification. Regardless of receipt of the Annual Report or Short Form Annual Report, all shareholders will continue to receive all other shareholder information.

OTHER INFORMATION

Other sources of information produced during the year include:
- the Chairman's Address to the Annual General Meeting mailed to shareholders with dividend statements in January;
- an annual Summary of Performance published in Japanese for shareholders in Japan;
- a review of the half yearly performance mailed to shareholders with dividend statements in July;
- documents lodged from time to time in the USA to comply with that country's regulatory requirements (such documents are submitted concurrently to Australian Stock Exchange Limited); and
- annual reports and information booklets produced by subsidiary companies and operating divisions of Westpac Banking Corporation.

WESTPAC INVESTOR RELATIONS

Further information other than that relating to your shareholdings (see Share Registries) can be obtained from:

Group Investor Relations
Level 15, 60 Martin Place, Sydney NSW 2000 Australia
Australia: Telephone: (02) 9226 3143, Facsimile: (02) 9226 1539
Overseas: Telephone: 61 2 9226 3143, Facsimile: 61 2 9226 1539; or

Westpac's Internet Address
http://www.westpac.com.au

LIMIT ON SIZE OF SHAREHOLDINGS

Under the Deed of Settlement, no person (including corporations) may hold more than ten per cent of the total number of ordinary shares allotted unless the Board of Directors is satisfied that it is in the interest of Westpac to allow some greater percentage not exceeding fifteen per cent in all and that the person is not precluded by the Banks (Shareholdings) Act from owning ordinary shares accordingly.

ANALYSIS OF SHAREHOLDINGS AS AT 31 OCTOBER 1996

SHAREHOLDINGS BY CLASS

	Converting Preference Shares Fully Paid	%	Ordinary Shares Fully Paid	%	Ordinary Shares Partly Paid to 10¢	Ordinary Shares Partly Paid to 1¢	Options to Subscribe for Ordinary Shares*
1 – 1,000	7,236	51.7	57,010	41.4	–	–	1
1,001 – 5,000	5,600	40.0	59,092	42.9	3	2	85
5,001 – 10,000	716	5.1	12,355	9.0	6	15	24
10,001 – 100,000	400	2.9	8,755	6.3	3	19	553
100,001 & over	42	0.3	516	0.4	–	–	126
TOTALS	13,994	100.0	137,728	100.0	12	36	789

* Issued under Senior Officers' Share Purchase Scheme, Chief Executive Share Option Agreement or J.P. Morschel Share Option Deed.

	Converting Preference Shares Fully Paid	%	Ordinary Shares Fully Paid	%	Ordinary Shares Partly Paid to 10¢	Ordinary Shares Partly Paid to 1¢	Options to Subscribe for Ordinary Shares*
Percentage of total securities held by Top 20 holders in each class	54.30		60.13		100.00	85.16	27.27
Holdings less than a marketable parcel	15		3,349				

SHAREHOLDINGS BY DOMICILE

	No. of Holdings*	% of Holdings	No. of Issued Shares & Options (000s)	% of Issued Shares & Options
Australia	125,557	87.29	1,869,598	96.15
New Zealand	11,476	7.98	26,568	1.37
United Kingdom	2,214	1.54	8,577	0.44
Japan	3,004	2.09	9,165	0.47
United States	531	0.37	22,373	1.15
Other Overseas	1,061	0.73	8,147	0.42
TOTALS	143,843	100.00	1,944,428	100.00

* Some registered holders own more than one class of security.

TOP TWENTY ORDINARY SHAREHOLDERS

	No. of Fully Paid Ordinary Shares	% Held
Australian Mutual Provident Society	208,827,876	11.55
Lend Lease Custodian Pty Ltd	165,000,100	9.13
Westpac Custodian Nominees Ltd	147,704,114	8.17
Chase Manhattan Nominees Ltd	146,456,577	8.10
National Nominees Ltd	89,309,634	4.94
ANZ Nominees Ltd	80,465,579	4.45
State Authorities Superannuation Board	39,388,286	2.18
Queensland Investment Corporation	28,620,300	1.58
MLC Life Ltd	23,118,289	1.28
Perpetual Trustees Nominees Ltd	20,402,578	1.13
Barclays Australia Custodian Services Ltd	20,264,691	1.12
Cede & Co	19,968,430	1.10
The National Mutual Life Association of Australasia Ltd	18,006,457	1.00
Citicorp Nominees Pty Ltd	17,571,842	0.97
Commonwealth Custodial Services Limited	13,164,107	0.73
Mercantile Mutual Life Insurance Co Ltd	11,832,680	0.65
Perpetual Trustee Company Ltd	11,068,582	0.61
NRMA Investments Pty Ltd	10,258,600	0.57
Commonwealth Superannuation Board of Trustees No 2	8,075,576	0.45
Permanent Trustee Australia Ltd	7,464,915	0.41
	1,086,969,213	60.13

Top Twenty Shareholders hold 60.13 per cent of total fully paid ordinary shares issued.

TOP TWENTY CONVERTING PREFERENCE SHAREHOLDERS

	No. of Fully Paid Converting Preference Shares	% Held
Chase Manhattan Nominees Limited	17,644,470	22.06
Australian Mutual Provident Society	6,426,000	8.03
Australian Foundation Investment Company Ltd	3,994,935	4.99
The National Mutual Life Association of Australasia Ltd	3,352,307	4.19
Queensland Investment Corporation	2,400,000	3.00
Buttonwood Nominees Pty Ltd	2,376,400	2.97
Permanent Nominees (Aust) Ltd	1,457,000	1.82
Djerriwarrh Investments Ltd	1,100,000	1.38
Permanent Trustee Co Ltd	701,205	0.88
Norwich Union Life Australia Ltd	638,210	0.80
Perpetual Trustees Vic Ltd	462,700	0.58
Western Underwriters Insurance Ltd	400,000	0.50
Austrust Limited	385,620	0.48
JMB Pty Ltd	368,900	0.46
Legal and General Financial Services Ltd	327,559	0.41
National Nominees Limited	306,800	0.38
Brispot Nominees Pty Ltd	299,584	0.37
Westpac Custodian Nominees Ltd	293,025	0.37
Hevea Pty Ltd	258,700	0.32
SGIC Life Limited	250,000	0.31
	43,443,415	54.30

Top Twenty Shareholders hold 54.30 per cent of total fully paid converting preference shares issued.

SUBSTANTIAL SHAREHOLDERS

	No. of Shares Held	% of Shares Held
Shareholders appearing on the Register of Substantial Shareholders as at 31 October 1996 are:		
Fully Paid Ordinary Shares		
Australian Mutual Provident Society (and its associates)	243,513,368	13.47
Associates of Lend Lease Corporation Limited	209,287,363	11.58[1]
The Capital Group of Companies	115,265,048	6.38
Natwest Markets Australia Limited	114,214,930	6.32[1]

[1] County Natwest Securities Australia Limited holds a relevant interest in 100,000,000 shares held in the name of Lend Lease Custodians Pty Limited in connection with County 2000 Westpac Banking Corporation Warrants.

Westpac Information

EXECUTIVE TEAM

Robert Joss
Managing Director &
Chief Executive Officer

Patrick Handley
Group Executive &
Chief Financial Officer

David Morgan
Group Executive Institutional &
International Banking (IIBG)

John Morschel
Executive Director
Australian Banking

Robert Nimmo
Group Executive &
Chief Credit Officer

OTHER PRINCIPAL OFFICERS

Avery Duff, Group Executive, Human Resources
Bettie McNee, Group Secretary & General Counsel
Helen Nugent, Director of Strategy
Matthew Slatter, Deputy Chief Financial Officer

BUSINESS EXECUTIVES

Bruce Alexander, Chief Executive, Pacific Regional Banking
Tony Aveling, Chief Executive Officer, The Mortgage Company
Rob Bishop, General Manager, Cards/ATMs
Michael Cannon-Brookes, Chief Operations Officer, IIBG
David Fite, Managing Director, Westpac Financial Services
Loran Fite, Chief Information Officer, IT/Teleservicing
Mike Hawker, General Manager, Financial Markets, IIBG
Tony Howarth, Chief Executive Officer, Challenge Bank
David Liddy, Chief Executive, Queensland
Harry Price, Chief Executive, New Zealand
Barry Robertson, Chief Executive, Vic/Tas/SA&NT
Garry Rothwell, General Manager, Property Finance, IIBG
Drew Tanzman, General Manager, Business Banking & Investments
Richard Thomas, Managing Director, AGC
Owen van der Wall, Chief Executive, NSW
Jake Williams, General Manager, Corporate & International, IIBG
David Willis, Global Head of Corporate Finance, IIBG

GENERAL MANAGERS

Ruta Asimus, Human Resources, Corporate Centre & Finance
Bruce Auty, Group Credit Policy
Ashley Ayre, Asset Management
John Best, Institutional Banking, Victoria
Iain Blacklaw, Australian Banking Operations
John Brodie, Finance, Australian Banking Group
Susan Brooks, Public Relations & Communication
David Burrill, Credit Risk Review
Mary Carryer, Consumer Marketing & Product Development
John Charters, Loan Centres
Phil Chronican, Finance, IIBG
Jim Coleman, Credit, IIBG
Howard Dudgeon, Complex Credit, Australian Banking Group
Bill Evans, Economic Strategy
David Fletcher, Group Finance
Joy Griffiths, Chief Operating Officer, The Mortgage Company
Richard Harpham, Credit, Australian Banking Group
Tim Jenkins, Chief Executive, Superannuation & Insurance Products
Michael Johnston, Policy & Employee Relations
Geoff Kimpton, Sales & Marketing, The Mortgage Company
Paul Lilley, Human Resources, Australian Banking Group
Ian Macoun, Westpac Investment Management
John Malouf, Commercial, AGC
Lesley Martin, Transactional Business, IIBG
Tony Mathers, Asia
Michael Norton, Europe/Americas
Noel Purcell, Group Investor Relations
Trevor Russell, Technology Operations
Malcolm Sandy, Group Audit
Ann Sherry, Human Resources, IIBG
Diane Sias, Operational Services, Australian Banking Group
Garry Tierney, Legal Services
Marten Touw, Group Treasurer
Mark Veyret, Marketing, IIBG
Richard Wilks, Institutional Banking Group (NZ)
Brett Young, Technology & Operations, IIBG
Sam Zweig, Corporate Sponsorship

WESTPAC CREDIT RATINGS (NOVEMBER 1996)

	Short term	Long term
IBCA	A1+	AA-
Moody's Investor Services	P-1	Aa3
Standard & Poors	A-1+	AA-

WESTPAC REPRESENTATION (including ATMs) SEPTEMBER 1996

	Australia	New Zealand	Other	Total
Branches, sub-branches, agencies and service centres	1,097	412	106	1,615
Business banking units	56	–	–	56
Commercial banking/agribusiness centres	74	–	–	74
International business centres	7	–	–	7
Financial planning centres	33	–	–	33
Private banks	3	–	–	3
Handybanks (ATMs)	968	444	2	1,414
	2,238	856	108	3,202

CUSTOMER INFORMATION & ASSISTANCE

TELEPHONE ASSISTANCE

Australia

Customer account enquiries & general information

– personal customers	**13 2032**
– business customers	**13 2142**
Cardholder enquiries	**1800 230 144**
Home loan enquiries	**13 1900**
ATM enquiries & service difficulties	**1800 022 022**
Financial Services enquiries	**13 1817**

New Zealand

Customer service line	**0800 801 331**
Cardholder enquiries	**0800 808 877**
Financial Services enquiries	**04 801 1000**

INTERNET SITE

Westpac's expanded internet site, **http://www.westpac.com.au**, provides information on our products and services, economic updates, community sponsorships, a chronical of Westpac and Australian banking since 1817, media releases and financial results.

Directory

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Facsimile: (02) 9226 4128

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Telephone: (06) 275 5111
Facsimile: (06) 275 5297

Victoria
360 Collins Street
Melbourne Vic 3000
Telephone: (03) 9608 3222
Facsimile: (03) 9670 3157

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260 Queen Street
Brisbane Qld 4000
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Facsimile: (07) 3227 2497

South Australia
2 King William Street
Adelaide SA 5000
Telephone: (08) 210 3311
Facsimile: (08) 210 3673

Northern Territory
49 Woods Street
Darwin NT 0800
Telephone: (089) 46 1781
Facsimile: (089) 46 1716

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109 St George's Terrace
Perth WA 6000
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Facsimile: (09) 426 2382

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28 Elizabeth Street
Hobart Tas 7000
Telephone: (002) 30 4111
Facsimile: (002) 30 4494

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Level 6 Two Exchange Square
8 Connaught Road
Central, Hong Kong
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Level 8 Imperial Tower
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Chiyoda-ku Tokyo 100
Japan
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Facsimile: (81 3) 3501 4100

Malaysia
11th Floor
Menara Bank Pembangunan
Jalan Sultan Ismail
50250 Kuala Lumpur
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22 Jianguomenwai Da Jie
Beijing 100004
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Republic of Indonesia
12th Floor Lippo Plaza
Jalan Jend Sudirman No 25
Jakarta 12920 Indonesia
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65 Chulia Street
Singapore 049513
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Bangkok 10500 Thailand
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63 St Mary Axe
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NEW ZEALAND

Chief Office
318-324 Lambton Quay
Wellington New Zealand
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Facsimile: (64 4) 498 1158

Westpac Financial Services -NZ-Limited
Westpac Life House
Cnr Willis and Manners Streets
PO Box 27-031
Wellington New Zealand
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Facsimile: (64 4) 801 1010

PACIFIC ISLANDS

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6th Floor Civic House
Town Hall Road Suva Fiji
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Facsimile: (679) 30 0718

Cook Islands
Main Road Avarua
Rarotonga
Cook Islands
Telephone: (682) 22014
Facsimile: (682) 20802

Fiji
1 Thomson Street Suva Fiji
Telephone: (679) 30 0666
Facsimile: (679) 30 1838

French Polynesia
2 Place Notre Dame
BP 120
Papeete Tahiti
French Polynesia
Telephone: (689) 46 7979
Facsimile: (689) 43 1333

Republic of Kiribati
Bank of Kiribati Ltd
Bairiki Tarawa
Republic of Kiribati
Telephone Bairiki:
(686) 21095
Facsimile: (686) 21200

New Caledonia
44 Rue Alma Noumea
New Caledonia
Telephone: (687) 256 300
Facsimile: (687) 256 306

Niue
Main Street Alofi Niue
Telephone: (683) 4221
Facsimile: (683) 4043

Solomon Islands
721 Mendana Avenue
Honiara
Solomon Islands
Telephone: (677) 21222
Facsimile: (677) 23419

Tonga
Bank of Tonga
Railway Road Nuku'alofa
Tonga
Telephone: (676) 23933
Facsimile: (676) 23634

Vanuatu
Kumul Highway Port Vila
Vanuatu
Telephone: (678) 22084
Facsimile: (678) 24773

Western Samoa
Pacific Commercial
Bank Limited
Beach Road Apia
Western Samoa
Telephone: (685) 20000
Facsimile: (685) 22848

PAPUA NEW GUINEA

Westpac Bank-PNG-Limited
5th Floor Mogoru Moto Building
Champion Parade
Port Moresby PNG
Telephone: (675) 322 0800
Facsimile: (675) 321 3367

UNITED STATES OF AMERICA

New York
39th Floor 575 Fifth Avenue
New York
NY 10017-2422 USA
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Facsimile: (1 212) 551 2800

WESTPAC FINANCIAL SERVICES GROUP LIMITED

50 Pitt Street
Sydney NSW 2000
Telephone: (02) 9226 4211
Facsimile: (02) 9260 7442

WESTPAC INSURANCE SERVICES (BROKERS) LIMITED

11th Floor 50 Pitt Street
Sydney NSW 2000
Telephone: (02) 9260 7044
Facsimile: (02) 9241 4039

AUSTRALIAN GUARANTEE CORPORATION LIMITED

Head Office
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130 Phillip Street
Sydney NSW 2000
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Facsimile: (02) 9234 1225