PROFIT AND LOSS STATEMENTS FOR THE YEARS ENDED 30 SEPTEMBER

Westpac Banking Corporation and its controlled entities

		Consolidated			Parent Entity	
	Note	**1998 $m**	1997 $m	1996 $m	**1998 $m**	1997 $m
Interest income	2	**8,896**	8,551	8,520	**7,436**	7,206
Fully tax equivalent gross up[1]		**128**	127	68	**128**	127
Interest income (including gross up)		**9,024**	8,678	8,588	**7,564**	7,333
Interest expense	2	**(5,404)**	(5,198)	(5,266)	**(5,041)**	(4,796)
Net interest income (including gross up)		**3,620**	3,480	3,322	**2,523**	2,537
Non-interest income	3	**2,003**	1,739	1,472	**2,413**	2,307
Operating income (including gross up)		**5,623**	5,219	4,794	**4,936**	4,844
Charge for bad and doubtful debts	12	**(168)**	(78)	(121)	**(58)**	(19)
Operating income after charge for bad and doubtful debts (including gross up)		**5,455**	5,141	4,673	**4,878**	4,825
Non-interest expenses	4	**(3,392)**	(3,228)	(3,049)	**(3,018)**	(2,995)
Operating profit before abnormal items (including gross up)		**2,063**	1,913	1,624	**1,860**	1,830
Abnormal items	5	**(106)**	–	–	**(106)**	–
Operating profit before income tax (including gross up)		**1,957**	1,913	1,624	**1,754**	1,830
Fully tax equivalent gross up[1]		**(128)**	(127)	(68)	**(128)**	(127)
Operating profit before income tax (excluding gross up)		**1,829**	1,786	1,556	**1,626**	1,703
Income tax attributable to operating profit	6	**(589)**	(493)	(421)	**(386)**	(233)
Income tax credit – abnormal items	5,6	**36**	–	–	**36**	–
Operating profit after income tax		**1,276**	1,293	1,135	**1,276**	1,470
Outside equity interests in operating profit after income tax		**(4)**	(2)	(3)	**–**	–
Operating profit after income tax attributable to shareholders of Westpac Banking Corporation		**1,272**	1,291	1,132	**1,276**	1,470
Retained profit at the beginning of the financial year		**1,873**	1,366	842	**1,410**	748
Aggregate of amounts transferred (to)/from reserves		**(51)**	(53)	45	**(58)**	(77)
Total available for appropriation		**3,094**	2,604	2,019	**2,628**	2,141
Dividends provided for or paid	7	**(853)**	(731)	(653)	**(853)**	(731)
Retained profits at the end of the financial year		**2,241**	1,873	1,366	**1,775**	1,410
Earnings (in cents) per ordinary share after deducting preference dividends:						
Basic – before abnormals		**70.1**	70.0	58.9		
Basic – after abnormals		**66.4**	70.0	58.9		
Fully diluted – before abnormals		**68.0**	67.8	57.1		
Fully diluted – after abnormals		**64.5**	67.8	57.1		
Weighted average number of fully paid ordinary shares (millions)		**1,879.0**	1,788.6	1,853.1		

The accompanying notes, numbered 1 to 42, form part of these financial statements for purposes of Australian reporting requirements.
A summary of material adjustments to operating profit after income tax (net income) that would be required if US GAAP had been applied is disclosed in note 43.

1 The Group has entered into various tax effective financing transactions that derive income that is subject to either a reduced or zero rate of income tax. The impact of this is reflected in lower income tax expense and interest income. In order to provide improved comparability, this income is presented on a fully tax equivalent basis at a tax rate of 36%. Previously the presentation of this income implied an operating loss on the transactions, that is, negative net interest income and net profit before tax. Prior year comparatives have been restated.

BALANCE SHEETS AS AT 30 SEPTEMBER

Westpac Banking Corporation and its controlled entities

	Note	Consolidated 1998 $m	Consolidated 1997 $m	Parent Entity 1998 $m	Parent Entity 1997 $m
Assets					
Cash and balances with central banks		**403**	321	**385**	311
Due from other financial institutions	8	**3,290**	4,002	**3,088**	3,577
Trading securities	9	**6,826**	6,243	**6,773**	6,139
Investment securities	10	**2,168**	1,633	**1,449**	994
Loans	11	**91,738**	77,874	**80,967**	68,022
Acceptances of customers		**10,325**	11,242	**10,325**	11,257
Regulatory deposits	14	**1,196**	928	**1,159**	928
Due from controlled entities		**–**	–	**5,950**	8,070
Investments in controlled entities		**–**	–	**6,158**	5,906
Fixed assets	15	**1,599**	1,672	**1,034**	932
Other assets	16	**19,774**	15,048	**18,499**	13,728
Total assets		**137,319**	118,963	**135,787**	119,864
Liabilities					
Due to other financial institutions	17	**4,343**	4,570	**4,271**	4,568
Deposits and public borrowings	18	**83,164**	72,636	**77,230**	66,077
Bonds, notes and commercial paper	20	**10,580**	6,273	**7,682**	4,834
Acceptances		**10,325**	11,242	**10,325**	11,257
Due to controlled entities		**–**	–	**7,841**	9,722
Other liabilities	19	**17,773**	14,141	**17,309**	13,311
Total liabilities excluding loan capital		**126,185**	108,862	**124,658**	109,769
Loan capital					
Subordinated bonds, notes and debentures	20	**1,778**	1,200	**1,778**	1,200
Subordinated perpetual notes	20	**745**	695	**745**	695
Total loan capital		**2,523**	1,895	**2,523**	1,895
Total liabilities		**128,708**	110,757	**127,181**	111,664
Net assets		**8,611**	8,206	**8,606**	8,200
Shareholders' equity					
Share capital	21	**1,899**	1,861	**1,899**	1,861
Reserves		**4,466**	4,466	**4,932**	4,929
Retained profits		**2,241**	1,873	**1,775**	1,410
Shareholders' equity attributable to shareholders of Westpac Banking Corporation		**8,606**	8,200	**8,606**	8,200
Outside equity interests in controlled entities		**5**	6	**–**	–
Total shareholders' equity		**8,611**	8,206	**8,606**	8,200

The accompanying notes, numbered 1 to 42, form part of these financial statements for purposes of Australian reporting requirements.
A summary of material adjustments to operating profit after income tax (net income) that would be required if US GAAP had been applied is disclosed in note 43.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 30 SEPTEMBER

Westpac Banking Corporation and its controlled entities		Consolidated			Parent Entity	
	Note	**1998 $m**	1997 $m	1996 $m	**1998 $m**	1997 $m
Cash flows from operating activities						
Interest received		**9,035**	8,585	8,505	**7,561**	7,194
Interest paid		**(5,161)**	(5,132)	(5,183)	**(4,793)**	(4,737)
Dividends received		**15**	38	16	**518**	832
Other non-interest income received		**747**	637	1,653	**733**	380
Non interest expenses paid		**(2,772)**	(2,833)	(2,768)	**(2,656)**	(2,660)
(Increase)/decrease in trading securities		**484**	(722)	1,857	**(274)**	(766)
Income taxes paid		**(360)**	(568)	(198)	**(92)**	(408)
Net cash provided by/(used in) operating activities	42	**1,988**	5	3,882	**997**	(165)
Cash flows from investing activities						
Proceeds from sale of investment securities		**928**	680	1,105	**483**	471
Proceeds from matured investment securities		**52**	1,266	731	**45**	772
Purchase of investment securities		**(656)**	(1,348)	(1,566)	**(285)**	(885)
Net (increase)/decrease in:						
loans		**(7,033)**	547	(6,062)	**(5,684)**	(12,853)
due from other financial institutions		**960**	2,483	(1,338)	**789**	2,274
regulatory deposits		**(106)**	(30)	(120)	**(71)**	(75)
investments in controlled entities		**–**	–	–	**745**	(1,647)
due from controlled entities		**–**	–	–	**2,634**	(705)
other assets		**1,191**	589	(179)	**965**	(351)
securitisation of loans		**2,412**	2,886	341	**2,412**	2,886
Purchase of fixed assets		**(398)**	(318)	(512)	**(321)**	(261)
Proceeds from disposal of fixed assets		**273**	300	200	**58**	163
Controlled entities acquired (net of cash held)	42	**(174)**	(346)	(1,360)	**(174)**	–
Net cash provided by/(used in) investing activities		**(2,551)**	6,709	(8,760)	**1,596**	(10,211)
Cash flows from financing activities						
Redemption of loan capital		**(94)**	(479)	(450)	**(94)**	(449)
Issue of loan capital		**350**	–	–	**350**	–
Proceeds from issue of shares		**89**	30	14	**89**	30
Buyback of shares		**(1,306)**	(251)	(545)	**(1,306)**	(251)
Net increase/(decrease) in:						
due to other financial institutions		**(800)**	(1,280)	(1,553)	**(859)**	(1,271)
deposits and public borrowings		**1,131**	(2,919)	5,996	**3,991**	7,138
bonds, notes and commercial paper		**2,109**	(1,103)	2,458	**2,042**	325
due to controlled entities		**–**	–	–	**(5,848)**	5,401
other liabilities		**(126)**	(113)	(339)	**(178)**	105
Payment of dividends		**(708)**	(684)	(622)	**(708)**	(684)
Payment of dividends to outside equity interests		**(1)**	(2)	(2)	**–**	–
Net cash provided by/(used in) financing activities		**644**	(6,801)	4,957	**(2,521)**	10,344
Net (decrease)/increase in cash and cash equivalents		**81**	(87)	79	**72**	(32)
Effect of exchange rate changes on cash and cash equivalents		**1**	–	(1)	**2**	–
Cash and cash equivalents at beginning of year		**321**	408	330	**311**	343
Cash and cash equivalents at year end	42	**403**	321	408	**385**	311

Details of reconciliation of net cash provided by operating activities to operating profit after income tax are provided at note 42
The accompanying notes, numbered 1 to 42, form part of these financial statements for purposes of Australian reporting requirements.
A summary of material adjustments to operating profit after income tax (net income) that would be required if US GAAP had been applied is disclosed in note 43.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 30 SEPTEMBER

Westpac Banking Corporation and its controlled entities		Consolidated			Parent Entity	
	Note	**1998 $m**	1997 $m	1996 $m	**1998 $m**	1997 $m
Share capital						
Balance at beginning of year		**1,861**	1,887	1,906	**1,861**	1,887
Shares issued:						
under the Chief Executive Share Option Agreement	21	**–**	2	–	**–**	2
under the Dividend Reinvestment Plan	21	**9**	–	–	**9**	–
under the Senior Officers' Share Purchase Scheme		**19**	6	3	**19**	6
for acquisitions of Bank of Melbourne Limited (1996 Trust Bank New Zealand Limited and Challenge Bank Limited)		**142**	–	73	**142**	–
Shares previously paid to $0.10 or $0.01, fully paid up	21	**–**	1	–	**–**	1
Shares bought back	21	**(132)**	(35)	(95)	**(132)**	(35)
Balance at year end		**1,899**	1,861	1,887	**1,899**	1,861
Reserves						
Reserve fund						
Balance at beginning of year		**663**	589	549	**663**	589
Transfer from retained profits		**64**	74	40	**64**	74
Balance at year end		**727**	663	589	**727**	663
Share premium reserve						
Balance at beginning of year		**3,470**	3,665	3,779	**3,470**	3,665
Premium on shares issued	21	**1,179**	21	336	**1,179**	21
Premium on shares bought back	21	**(1,174)**	(216)	(450)	**(1,174)**	(216)
Balance at year end		**3,475**	3,470	3,665	**3,475**	3,470
Premises revaluation reserve						
Balance at beginning of year		**202**	260	382	**161**	195
Revaluation of premises		**(33)**	(21)	(32)	**(12)**	(11)
Transfer to retained profits of realised revaluation gains on sale of premises		**(17)**	(31)	(86)	**(4)**	(23)
Other adjustments		**(8)**	(6)	(4)	**–**	–
Balance at year end		**144**	202	260	**145**	161
Investment revaluation reserve						
Balance at beginning of year		**–**	–	–	**528**	711
Revaluation of investments in controlled entities		**–**	–	–	**(49)**	(183)
Balance at year end		**–**	–	–	**479**	528
Capital redemption reserve		**135**	135	135	**131**	131
Foreign currency translation reserve						
Balance at beginning of year		**(4)**	(17)	(15)	**(24)**	(41)
Transfer from/(to) retained profits		**4**	10	1	**(2)**	26
Exchange differences on translation net of hedging		**(15)**	3	(3)	**1**	(9)
Balance at year end		**(15)**	(4)	(17)	**(25)**	(24)
Total reserves		**4,466**	4,466	4,632	**4,932**	4,929
Retained profits						
Balance at beginning of year		**1,873**	1,366	842	**1,410**	748
Aggregate of amounts transferred (to)/from reserves		**(51)**	(53)	45	**(58)**	(77)
Operating profit after tax attributable to shareholders		**1,272**	1,291	1,132	**1,276**	1,470
Dividends provided for or paid	7	**(853)**	(731)	(653)	**(853)**	(731)
Balance at year end		**2,241**	1,873	1,366	**1,775**	1,410
Total shareholders' equity attributable to shareholders of Westpac Banking Corporation at year end		**8,606**	8,200	7,885	**8,606**	8,200

The accompanying notes, numbered 1 to 42, form part of these financial statements for purposes of Australian reporting requirements.
A summary of material adjustments to operating profit after income tax (net income) that would be required if US GAAP had been applied is disclosed in note 43.

NOTE 1. SUMMARY OF THE SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES

(a) BASES OF ACCOUNTING

i. General

The financial statements are a general purpose financial report. The report complies with Accounting Standards, other mandatory professional reporting requirements, the provisions of the Deed of Settlement and the Bank of New South Wales Act of 1850 (as amended). These requirements have been applied in a manner authorised for a banking corporation under the Banking Act 1959 (as amended) and, so far as considered appropriate to Westpac Banking Corporation, in accordance with the requirements of the Corporations Law.

The report is drawn up in accordance with the historical cost convention, except where indicated otherwise. The carrying value of 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.

The accounting policies adopted are consistent with those of the previous year, unless indicated otherwise. Comparative information is restated where appropriate to enhance comparability.

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

ii. Consolidation

The consolidated financial statements comprise the financial statements of Westpac Banking Corporation (the Parent Entity) and all entities it controlled during the year ended 30 September 1998. The Parent Entity and controlled entities are referred to collectively as the "Group". The effects of all transactions between entities in the Group are eliminated in full. Controlled entities are listed in note 33.

iii. 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 of the closing rates of exchange at balance date. Income and expenses of overseas branches and controlled entities have been translated at average daily rates of exchange ruling during the year. In the financial statements of the Parent Entity, exchange differences arising on translation of the Parent Entity's net investment in overseas branches, after allowing for foreign currency 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 Parent Entity's net investment in overseas controlled entities after allowing for foreign currency hedges.

Exchange differences relating to foreign currency monetary items (other than those used to hedge the net investment in overseas branches and controlled entities) 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 assets and liabilities and consequent foreign currency exposures are not material.

(b) INCOME RECOGNITION

i. Interest income

Interest income is brought to account on an accruals basis. Interest, including premiums and discounts on trading and investment securities, is brought to account on a yield to maturity basis. Interest relating to impaired 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.

ii. Dividends on redeemable preference share finance

Dividend income is disclosed as part of interest income and is recorded in the profit and loss statement on an accruals basis.

iii. 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.

iv. Fee income

Fee income is brought to account on an accruals basis. 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 and is taken to income upon receipt.

v. Trading income

Gains and losses realised from the sale of trading securities and unrealised market value adjustments are reflected in the profit and loss statement.

Income or expense on derivative financial instruments used to hedge interest rate exposure is recorded on an accruals basis as an adjustment to the yield of the related interest rate exposures over the periods covered by the contracts. Both realised and unrealised gains and losses on trading derivative contracts are taken to the profit and loss statement.

vi. Dividend income

Dividend income is recorded in the profit and loss statement as declared.

(c) EXPENSE RECOGNITION

i. Interest expense

Interest expense is brought to account on an accruals basis. Interest, including premiums or discounts incurred on issue of securities is brought to account on a yield to maturity basis.

ii. Bad and doubtful debts

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

iii. Leasing

Operating lease payments are charged to the profit and loss statement in the periods in which they are incurred, representing the pattern of benefits derived from the leased assets. Incentives received on entering into operating leases are recognised as liabilities. Lease payments, for such leases, are allocated between interest, rental expense and reduction of the liability on a straight line basis over the term of the lease. Lease commitments are disclosed in the financial statements prior to the deduction of incentives (refer note 27).

(d) INCOME TAX

Tax effect accounting procedures under the liability method have been adopted whereby income tax expense for the year is matched with the accounting results after allowing for permanent differences. The tax effect of cumulative timing differences, which occur where items are included 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 benefit, as applicable, at current taxation rates.

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

NOTE 1. SUMMARY OF THE SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

(e) ASSETS

i. Cash and balances with central banks
Cash and balances with central banks includes cash at branches and cash at bankers. They are brought to account at the face value or the gross value of the outstanding balance where appropriate.

ii. Due from other financial institutions
Receivables from other financial institutions includes loans, nostro balances, certificates of deposit and settlement account balances due from other financial institutions. They are brought to account at the gross value of the outstanding balance.

iii. Trading and investment securities
Trading securities: are recorded at market value. Unrealised gains and losses on derivative financial instruments are included in the balance sheet under "other financial markets assets" and "other financial markets liabilities" respectively, as shown in notes 16 and 19.

Investment securities: are intended to be held to maturity. They are recorded at cost, or at cost adjusted for premium or discount amortisation. Gains and losses on the sale of investment securities are calculated using the specific identification method.

Any transfers of securities from the trading securities portfolio to the investment securities portfolio are effected at the market value of the securities at the date of transfer. Where there is no ready market in certain unlisted semi-government securities, market values are assessed by reference to interest yields.

Repurchase and reverse repurchase agreements: where trading and investment securities sold under agreements to repurchase (repurchase agreements) are, in essence, financing arrangements, they are retained within the trading or investment portfolio and the obligation to repurchase is included in the balance sheet under "other liabilities". Securities purchased under agreements to resell (reverse repurchase agreements) are included in the balance sheet under "other assets".

Trade date accounting: trading and investment securities are accounted for 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.

Short sale of securities: short trading positions are included in the balance sheet under "other liabilities" as shown in note 19.

iv. Loans, advances and other receivables
Loans, advances and other receivables include overdrafts, home loans, credit card and other personal lending, term loans, leasing, bill financing, redeemable preference share finance and leveraged leases. They are carried at recoverable amount represented by the gross value of the outstanding balance adjusted for provisions for bad and doubtful debts and unearned income.

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

Specific provisions: are raised as soon as a loan has been identified as doubtful 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 and are included in note 13.

A general provision: is maintained for losses that can reasonably be expected to arise, based on historical experience, from the existing overall loan portfolio over its remaining life but which are not yet identifiable. In determining the level of general provision, reference is also made to business conditions, the composition of the portfolio and industry best practices.

Impaired assets
The Group has disclosed, in note 13, components of its loan portfolio that have been classified as impaired assets. In determining the impairment classification, the Group has adopted the Australian Prudential Regulation Authority's (APRA) guidelines for classifying impaired assets, which consist of the following broad categories:

Non-accrual loans: are items where income may no longer be accrued ahead of its receipt because reasonable doubt exists as to the collectability of principal and interest. This includes exposures where contractual payments are 90 or more consecutive days in arrears where security is insufficient to ensure payment and assets acquired through security enforcement.

Restructured loans: are items where 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.

The Group also discloses interest received and estimated interest foregone during the year on the above non-accrual and restructured loans.

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.

v. 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 Parent Entity's or Group's claim against each drawer of the bills.

Bills that have been accepted by the Parent Entity or Group and are held in its own portfolio are included in the balance sheet under "loans" as shown in note 11.

vi. Regulatory deposits
In several countries in which the Group operates, the law requires that regulatory deposits be lodged with the local central bank at a rate of interest generally below that prevailing in the market. The amount of the deposit and the interest rate receivable are determined in accordance with the requirements of the local central bank.

vii. Investments in controlled entities and other investments
Investments in controlled entities are recorded by the Parent Entity 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.

Other investments, comprising unlisted shares in other companies, as shown in note 16 and listed in note 34, are generally held as long-term investments and recorded at cost. 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. For details on the investment in Westpac Life Insurance Services Limited ("Westpac Life") refer to note 1(h)vi.

viii. Fixed assets
Premises and sites are carried at cost or valuation. Valuations are undertaken every three years, supported in the case of major Australian properties and all New Zealand properties, by independent valuers' advice. The revaluation increments are not brought to account, while decrements are recognised

NOTE 1. SUMMARY OF THE SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

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, with the decrement being taken to the premises revaluation reserve. The most recent valuation of premises and sites was undertaken in July 1998.

Substantially all of the Group's premises to which the premises revaluation reserve relates have been held for many years and are thus outside the scope of Australian capital gains tax legislation. As such, any future liability for capital gains tax which might arise in the event of disposal of any of these premises is not disclosed as it would be immaterial.

Depreciation of buildings is calculated on a straight line basis at rates appropriate to their estimated useful life. The calculation 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, which ranges from 3 to 15 years.

During the current financial year the Group changed its policy on accounting for the cost of purchased and internally developed computer software. From 1 October 1997, internal and external costs directly incurred in the purchase or development of computer software, including subsequent upgrades and enhancements, are capitalised. Previously, the Group only capitalised the costs associated with major projects. The accounting policy was changed as a consequence of recent international developments in accounting for the costs of computer software developed or obtained for internal use. The effect of the change is to increase operating profit after tax by $24 million.

The capitalised software is amortised over its expected life, which is usually 3 years but no greater than 10 years. Costs incurred on computer software maintenance and modifications of existing computer software for Year 2000 compatibility are expensed as incurred.

ix. Intangible assets

Intangible assets are amortised on a straight line basis over the period in which the benefits are expected to arise, but not exceeding 20 years.

(f) LIABILITIES

i. Due to other financial institutions

Due to other financial institutions includes deposits, vostro balances and settlement account balances due to other financial institutions. They are brought to account at the gross value of the outstanding balance.

ii. Deposits and public borrowings

Deposits and public borrowings include non-interest bearing deposits repayable at call, certificates of deposit, interest bearing deposits, debentures and other funds raised publicly by borrowing corporations. They are brought to account at the gross value of the outstanding balance.

iii. Bonds, notes, commercial paper and loan capital

These are bonds, notes, commercial paper and loan capital that have been issued by the Group and are recorded at cost or amortised cost. Premiums, discounts and any issue expenses are amortised to the profit and loss statement from the date of issue until the maturity of the security.

iv. Employee entitlements

Liabilities for wages and salaries and annual leave are recognised and are measured as the amount unpaid at year end at current pay rates in respect of employees' services up to that date.

Liabilities for long service leave and other deferred employee benefits are recognised as the present value of expected future payments to be made in respect of services provided by employees up to year end. Consideration is given to expected future wage and salary levels, experience of employee departure and periods of service. Expected future payments are discounted to their net present value using rates on Commonwealth Government securities with terms that match as closely as possible the estimated future cash flows.

A liability is also carried for on-costs, including deferred payroll tax, in respect of provisions for certain employee benefits which attract such costs.

v. Restructuring provisions

Provision for restructuring costs includes provisions for expenses incurred but not yet paid and future expenses that will arise as a direct consequence of decisions already made. This includes the cost of staff retrenchments and 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 is determined on the basis of the present value of net future cash flows.

(g) SHAREHOLDERS' EQUITY

Ordinary share capital is recognised at the par value of the amount paid up. Any excess between the par value and the issue price is recorded in the share premium reserve, in accordance with the Parent Entity's Deed of Settlement.

The Parent Entity's Deed of Settlement requires that each year not less than 5% of the net profit of the Parent Entity for the year is 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 premiums on shares bought back are debited, may be used for the payment of dividends only if such dividends are satisfied by the issue of shares to the shareholders.

The premises revaluation reserve comprises unrealised revaluation increments and decrements for 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 Parent Entity'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.

As mentioned in note 1(a)iii to the financial statements, exchange differences arising on translation of the net investment in overseas branches and controlled entities 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.

NOTE 1. SUMMARY OF THE SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (CONTINUED)

(h) OTHER ACCOUNTING PRINCIPLES AND POLICIES

i. Superannuation costs

Actuarially assessed surpluses in the Group's principal employee superannuation schemes are recognised in the balance sheet as non-current assets, representing a prepayment of contributions to the schemes (see note 16).

Superannuation costs are recognised over employees' service lives so that the annual charge to the profit and loss statement 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 recorded in the profit and loss statement is based on the advice of a qualified actuary.

When the actuarial surplus in a principal employee superannuation fund is initially recognised by the Group, the surplus is booked in the profit and loss statement.

Variations in the value of the surpluses, which result from periodic actuarial valuations, are spread over the average remaining service lives of employees.

ii. Employee share and option ownership schemes

Certain employees are entitled to participate in share and option ownership schemes. Details of the schemes are described in note 21. No remuneration expense is recognised in respect of employee shares and options issued.

iii. Derivative financial instruments

Trading

Foreign exchange and interest rate forwards, futures, options and forward purchases and sales of securities entered into for trading purposes are valued at prevailing market rates. Interest rate and currency swap agreements are valued at their net present value after allowance for future costs and risk exposure.

Hedging

Foreign exchange and interest rate forwards, futures, swaps and options entered into for hedging purposes are accounted for in a manner consistent with the accounting treatment of the hedged item. To qualify as a hedge, the swap, forward, futures or option position must be designated as a hedge and be effective in reducing the market risk of an existing asset, liability, firm commitment, or anticipated transaction where there is a high probability of the transaction occurring and the extent, term and nature of the exposure is capable of being estimated. Effectiveness of the hedge is evaluated on an initial and on-going basis by comparing the correlation of the change in market or fair value of the hedge with the changes in value of the hedged item.

If an interest rate hedge contract is terminated early, any resulting gain or loss is deferred and amortised over the periods corresponding to the hedged item. Where the hedged item ceases to exist, the corresponding derivative hedge contract is settled or closed out and any resulting unrecognised gains and losses are taken to the profit and loss statement.

iv. Loan securitisation

The Group, through its loan securitisation program, packages and sells loans (principally mortgage loans) as securities to investors. In such transactions the Group receives fees for various services provided to the program on an arms-length basis, including servicing fees, management fees and trustee fees. These fees are recognised over the period in which the relevant costs are borne. The Group also provides arms-length interest rate swaps and loan facilities to the program in accordance with the APRA Prudential Guidelines. In addition, the Group is entitled to residual income from the program, comprising mortgage loan interest (net of swap payments) less interest due to investors and other expenses of the securitisation program.

The timing and amount of the swap cashflows and the residual income receipts cannot be reliably measured because of the significant uncertainties inherent in estimating future movements in the repayment rates on the underlying mortgage loans and the mortgage loan interest margins. Consequently, the swap and the residual income receivable are not recognised as assets and no gain is recognised on the sale of the loans. The swap income/expense and residual income are therefore being recognised when payable/receivable.

v. 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. These activities result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. At 30 September 1998, the value of such assets under discretionary management by the Group was approximately $20.2 billion (1997 approximately $16.2 billion). These assets are not the property of the Group and are not included in the financial statements.

Where subsidiaries, as trustees, incur liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. 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 consolidated financial statements.

vi. Life insurance business

The Group conducts life insurance business through its controlled entity Westpac Life. The Group's interest in the profits of the life insurance statutory funds have been included in the consolidated profit and loss statement. The profits have been determined in accordance with the "Margin on Services" methodology for the valuation of policy liabilities under Actuarial Standard 1.01 "Valuation of Policy Liabilities" of the Life Insurance Actuarial Standards Board. These profits are not available for distribution until the requirements of the Life Insurance Act (1995) have been met.

The Group's interest in the accumulated retained earnings of the life insurance statutory funds, together with the net assets of the shareholders' funds of Westpac Life are included within the balance sheet of the Group in other assets (note 16).

Under the provisions of the Life Insurance Act (1995), the assets and liabilities of the life insurance statutory funds attributable to policyholders are not controlled by the Group and therefore are not consolidated.

vii. Rounding of amounts

In accordance with Australian Securities and Investments Commission (ASIC) Class Order 98/0100, all amounts have been rounded to the nearest million dollars unless otherwise stated.

	Consolidated			Parent Entity	
	1998 $m	1997 $m	1996 $m	**1998 $m**	1997 $m
NOTE 2. INTEREST					
Interest income					
Loans	**7,921**	7,206	7,235	**6,336**	5,885
Deposits with other financial institutions	**282**	455	556	**271**	444
Investment securities	**130**	118	167	**99**	85
Trading securities	**451**	621	395	**445**	615
Regulatory deposits	**13**	24	23	**13**	23
Dividends on redeemable preference share finance	**46**	84	97	**42**	44
Controlled entities	**–**	–	–	**193**	95
Other	**53**	43	47	**37**	15
Total interest income	**8,896**	8,551	8,520	**7,436**	7,206
Interest expense					
Current and term deposits	**3,927**	3,672	3,627	**3,691**	3,548
Deposits from other financial institutions	**275**	391	588	**275**	390
Bonds, notes and commercial paper	**551**	396	340	**424**	291
Public borrowings by subsidiary borrowing corporations	**360**	423	464	**–**	–
Loan capital	**173**	162	169	**171**	161
Controlled entities	**–**	–	–	**460**	273
Other	**118**	154	78	**20**	133
Total interest expense	**5,404**	5,198	5,266	**5,041**	4,796

	Consolidated			Parent Entity	
NOTE 3. NON-INTEREST INCOME					
Lending fees (loan and risk)	**508**	439	423	**489**	438
Transaction fees and commissions received	**725**	594	548	**707**	594
Other non-risk fee income	**341**	278	258	**203**	155
Fees and commissions paid	**(198)**	(117)	(121)	**(193)**	(112)
Trading income:					
Foreign exchange income	**295**	182	175	**279**	177
Trading securities	**34**	26	20	**34**	26
Other financial instruments	**81**	30	23	**81**	30
Rental income	**12**	21	20	**4**	11
General insurance commissions and premiums earned (net of claims)	**44**	32	29	**19**	4
Life insurance margin on services profit (before income tax)	**90**	67	–	**–**	–
Dividends from controlled entities	**–**	–	–	**508**	797
Dividends from other entities	**15**	38	16	**10**	35
Net profit/(loss) on sale of premises	**30**	20	15	**(3)**	4
Net profit on sale of investment securities	**–**	2	6	**–**	2
Net profit/(loss) on sale of other investments	**4**	73	–	**–**	(30)
Cost of hedging overseas operations	**(13)**	(1)	14	**2**	(3)
Service and management fees	**2**	9	14	**223**	153
Other	**33**	46	32	**50**	26
Total non-interest income	**2,003**	1,739	1,472	**2,413**	2,307

	Consolidated			Parent Entity	
	1998 $m	1997 $m	1996 $m	**1998 $m**	1997 $m
NOTE 4. NON-INTEREST EXPENSES					
Salaries and other staff expenses					
Salaries and wages	**1,463**	1,428	1,350	**1,221**	1,230
Provision for employee entitlements	**27**	35	39	**21**	35
Superannuation contributions	**24**	17	14	**21**	14
Superannuation prepayment adjustment	**(57)**	16	11	**(56)**	15
Payroll tax	**88**	78	81	**79**	70
Fringe benefits tax	**41**	49	68	**38**	46
Restructuring costs	**–**	–	63	**–**	–
Other	**118**	131	168	**85**	106
Total salaries and other staff expenses	**1,704**	1,754	1,794	**1,409**	1,516
Equipment and occupancy expenses					
Operating lease rentals	**279**	222	166	**304**	255
Depreciation and amortisation:					
Premises	**14**	17	14	**5**	4
Leasehold improvements	**25**	10	13	**20**	10
Furniture and equipment	**47**	51	60	**36**	40
Technology	**158**	140	87	**145**	131
Equipment repairs and maintenance	**62**	65	54	**60**	62
Electricity, water and rates	**30**	33	36	**30**	30
Land tax	**6**	7	7	**6**	6
Other	**20**	38	46	**–**	36
Total equipment and occupancy expenses	**641**	583	483	**606**	574
Other expenses					
Amortisation of intangible assets (note 16)	**106**	62	34	**71**	29
Amortisation of deferred expenditure (note 16)	**24**	21	10	**24**	17
Non-lending losses	**25**	24	7	**24**	25
Consultancy fees, computer software maintenance and other professional services	**318**	294	265	**269**	254
Stationery	**91**	84	73	**81**	75
Postage and telecommunication costs	**203**	185	161	**188**	170
Insurance	**12**	12	16	**11**	11
Advertising	**99**	74	66	**88**	67
Transaction taxes	**12**	7	14	**6**	1
Training	**21**	19	20	**18**	15
Travel	**61**	57	59	**52**	48
Other	**75**	52	47	**171**	193
Total other expenses	**1,047**	891	772	**1,003**	905
Total non-interest expenses	**3,392**	3,228	3,049	**3,018**	2,995

	Consolidated 1998 $m	1997 $m	1996 $m	Parent Entity 1998 $m	1997 $m
NOTE 5. ABNORMAL ITEMS					
Abnormal expense item:					
Restructuring expenses	**(106)**	–	–	**(106)**	–
Total abnormal expense item	**(106)**	–	–	**(106)**	–
Income tax credit applicable to the above abnormal item:					
Restructuring expenses	**36**	–	–	**36**	–
Total income tax credit applicable to abnormal expense item:	**36**	–	–	**36**	–
Net effect of abnormal item on operating profit after income tax	**(70)**	–	–	**(70)**	–

This principally relates to the acceleration of a program of major improvements to Westpac's distribution network in Australia, providing customers and staff with an enhanced environment in which Westpac's broad range of financial services can be more effectively delivered. This progressive approach to improving service delivery will involve the introduction of new sales and service outlets and the refurbishment and restructure of existing network outlets.

NOTE 6. INCOME TAX

	Consolidated 1998 $m	1997 $m	1996 $m	Parent Entity 1998 $m	1997 $m
Reconciliation of income tax expense shown in the profit and loss statements with prima facie tax payable on pre-tax operating profit after abnormal items					
Operating profit before income tax after abnormals	**1,829**	1,786	1,556	**1,626**	1,703
Prima facie tax on operating profit based on the company tax rate of 36% in Australia	**658**	643	560	**585**	613
Add/(deduct) tax effect of permanent reconciling differences:					
Rebateable and exempt dividends	**(72)**	(75)	(47)	**(241)**	(352)
Tax losses (now)/not tax effected	**(30)**	(33)	(24)	**(29)**	(21)
Non-assessable items:					
Unit trust income	**(16)**	(8)	(2)	**(16)**	(6)
Capital profits	**(2)**	–	(6)	**–**	–
Other	**(39)**	(20)	(15)	**(24)**	(10)
Non-deductible items:					
Depreciation and amortisation	**8**	6	11	**7**	1
Other	**69**	57	20	**53**	31
Adjustment for overseas tax rates	**(14)**	(47)	(10)	**2**	(21)
Tax under/(over)provision in prior years	**(12)**	(5)	(59)	**(7)**	(6)
Other items	**3**	(25)	(7)	**20**	4
	(105)	(150)	(139)	**(235)**	(380)
Total income tax expense attributable to operating profit after abnormals	**553**	493	421	**350**	233
Income tax attributable to operating profit comprises:					
Income tax attributable to operating profit before abnormal items	**589**	493	421	**386**	233
Income tax attributable to abnormal items	**(36)**	–	–	**(36)**	–
	553	493	421	**350**	233
Income tax – abnormal items:					
Prima facie tax on abnormal items at 36%	**(38)**	–	–	**(38)**	–
Add/(deduct) tax effect of permanent reconciling differences:					
Adjustment for overseas tax rates	**2**	–	–	**2**	–
Income tax credit – abnormal items	**(36)**	–	–	**(36)**	–

	Consolidated			Parent Entity	
	1998 $m	1997 $m	1996 $m	**1998 $m**	1997 $m
NOTE 6. INCOME TAX (CONTINUED)					
Income tax analysis					
Income tax expense attributable to operating profit comprises:					
Current income tax					
Australia	**449**	240	304	**278**	89
Overseas	**(8)**	110	102	**(22)**	8
	441	350	406	**256**	97
Deferred income tax					
Australia	**63**	108	93	**52**	103
Overseas	**61**	37	(19)	**49**	36
	124	145	74	**101**	139
(Over)/under provision in prior years					
Australia	**(18)**	(2)	(52)	**(7)**	(3)
Overseas	**6**	–	(7)	**–**	–
	(12)	(2)	(59)	**(7)**	(3)
Total Australia	**494**	346	345	**323**	189
Total Overseas	**59**	147	76	**27**	44
Total income tax expense attributable to operating profit after abnormals	**553**	493	421	**350**	233

NOTE 7. DIVIDENDS PROVIDED FOR OR PAID

	Consolidated 1998 $m	1997 $m	1996 $m	Parent Entity 1998 $m	1997 $m
Converting preference share dividends provided for or paid (fully franked at 36%)	**24**	39	39	**24**	39
Interim ordinary dividend paid: 1998 21 cents per share; 1997 19 cents per share; 1996 16 cents per share (all fully franked at 36%)	**388**	338	297	**388**	338
Underprovision of dividend in prior year [1]	**23**	–	10	**23**	–
Final ordinary dividend provided for: 1998 22 cents per share; 1997 20 cents per share; 1996 17 cents per share (all fully franked at 36%)	**418**	354	307	**418**	354
Total ordinary dividends provided for or paid	**829**	692	614	**829**	692
Total dividends provided for or paid	**853**	731	653	**853**	731

1 Final ordinary dividend paid on shares issued to shareholders of Bank of Melbourne Limited (1996 Challenge Bank Limited) as part consideration for the acquisition of that bank.

Franking account balance

	1998	1997
Franking account balance as at 30 September 1998	**(146)**	15
Franking credits arising from payment of current income tax payable	**370**	181
Franking credits utilised for payment of final dividend proposed	**(418)**	(395)
Estimated franking credits arising from the payment of income tax instalments and receipt of franked dividends	**291**	237
Estimated franking account balance as at 30 June 1999 (end of franking account year)	**97**	38

Franking of dividends for the financial year ending 30 September 1999 and subsequent financial years will be met out of franking credits arising in each of those subsequent franking account years.

	Consolidated 1998 $m	Consolidated 1997 $m	Parent Entity 1998 $m	Parent Entity 1997 $m
NOTE 8. DUE FROM OTHER FINANCIAL INSTITUTIONS				
Australia				
Interest earning	**478**	289	**478**	289
Non-interest earning	**28**	621	**28**	342
Total Australia	**506**	910	**506**	631
Overseas				
Interest earning	**2,318**	2,763	**2,154**	2,629
Non-interest earning	**466**	329	**428**	317
Total Overseas	**2,784**	3,092	**2,582**	2,946
Total due from other financial institutions	**3,290**	4,002	**3,088**	3,577

	Consolidated 1998 $m	Consolidated 1997 $m	Parent Entity 1998 $m	Parent Entity 1997 $m
NOTE 9. TRADING SECURITIES				
Listed				
Australian public securities				
Commonwealth securities	**782**	560	**782**	560
Semi-government securities	**334**	708	**334**	708
Australian equity securities	**1,006**	1,199	**1,006**	1,199
Australian debt securities	**5**	12	**5**	12
Overseas public securities	**7**	24	**7**	24
Overseas debt securities	**42**	169	**–**	134
Total listed securities	**2,176**	2,672	**2,134**	2,637
Unlisted				
Australian public securities				
Treasury notes	**3,082**	1,983	**3,082**	1,983
Semi-government securities	**48**	–	**48**	–
Australian debt securities	**524**	369	**524**	369
Overseas public securities	**925**	727	**914**	714
Overseas debt securities	**71**	492	**71**	436
Total unlisted securities	**4,650**	3,571	**4,639**	3,502
Total trading securities	**6,826**	6,243	**6,773**	6,139

	Consolidated				Parent Entity			
	1998		1997		**1998**		1997	
	Book Value $m	**Market Value $m**	Book Value $m	Market Value $m	**Book Value $m**	**Market Value $m**	Book Value $m	Market Value $m
NOTE 10. INVESTMENT SECURITIES								
Listed								
Australian public securities								
Commonwealth securities	**112**	**117**	112	110	**112**	**117**	112	110
Overseas public securities	**5**	**5**	17	17	**5**	**5**	17	17
Overseas debt securities	**43**	**43**	109	109	**43**	**43**	109	109
Total listed securities	**160**	**165**	238	236	**160**	**165**	238	236
Unlisted								
Australian debt securities	**6**	**6**	2	2	**–**	**–**	–	–
Overseas public securities	**167**	**173**	707	697	**69**	**75**	87	87
Overseas debt securities	**1,835**	**1,834**	686	685	**1,220**	**1,219**	669	668
Total unlisted securities	**2,008**	**2,013**	1,395	1,384	**1,289**	**1,294**	756	755
Total investment securities	**2,168**	**2,178**	1,633	1,620	**1,449**	**1,459**	994	991

NOTE 10. INVESTMENT SECURITIES (CONTINUED)

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

	Within 1 year $m	Over 1 year to 5 years $m	Over 5 years to 10 years $m	Over 10 years $m	Total $m
1998 Book Value					
Australian public securities					
Commonwealth securities	**–**	**–**	**112**	**–**	**112**
Australian debt securities	**–**	**–**	**6**	**–**	**6**
Overseas public securities	**62**	**110**	**–**	**–**	**172**
Overseas debt securities	**107**	**1,443**	**328**	**–**	**1,878**
Total book value by maturity	**169**	**1,553**	**446**	**–**	**2,168**
Total market value by maturity	**169**	**1,559**	**450**	**–**	**2,178**
1997 Book Value					
Australian public securities					
Commonwealth securities	–	–	112	–	112
Australian debt securities	–	–	–	2	2
Overseas public securities	222	502	–	–	724
Overseas debt securities	110	636	49	–	795
Total book value by maturity	332	1,138	161	2	1,633
Total market value by maturity	311	1,148	159	2	1,620

The following table provides an analysis of the difference between book value (amortised cost) and market value of the Group's investment securities at 30 September 1998:

	Book Value $m	Unrealised Gains $m	Unrealised Losses $m	Market Value $m
Listed				
Australian public securities				
Commonwealth securities	112	5	–	117
Overseas public securities	5	–	–	5
Overseas debt securities	43	–	–	43
Total listed securities	160	5	–	165
Unlisted				
Australian debt securities	6	–	–	6
Overseas public securities	167	6	–	173
Overseas debt securities	1,835	–	(1)	1,834
Total unlisted securities	2,008	6	(1)	2,013
Total listed and unlisted securities	2,168	11	(1)	2,178

	1998 $m	1997 $m
Details of sales of investment securities during the year were as follows:		
Proceeds from sales	**928**	680
Gross gains realised on sales	**–**	2

	Consolidated		Parent Entity	
	1998 $m	1997 $m	**1998 $m**	1997 $m
NOTE 11. LOANS				
Loans are classified as Australia or Overseas based on the location of the lending office.				
Australia				
Overdrafts	**2,664**	2,534	**2,664**	2,534
Credit card outstandings	**2,952**	2,415	**1,776**	1,451
Overnight and call money market loans	**86**	80	**86**	80
Own acceptances discounted	**2,498**	918	**2,327**	773
Term loans:				
Housing	**35,378**	26,275	**35,378**	26,275
Non-housing	**19,920**	17,790	**15,249**	13,349
Finance leases	**2,216**	2,050	**535**	551
Investments in leveraged lease and equity lease partnerships	**306**	303	**283**	274
Redeemable preference share finance	**1,175**	1,296	**1,175**	1,253
Other	**3,134**	2,163	**2,190**	1,364
Total Australia	**70,329**	55,824	**61,663**	47,904
New Zealand				
Overdrafts	**1,019**	998	**1,019**	998
Credit card outstandings	**503**	510	**451**	464
Overnight and call money market loans	**388**	332	**388**	332
Own acceptances discounted	**29**	76	**29**	60
Term loans:				
Housing	**10,396**	11,115	**9,853**	10,700
Non-housing	**6,084**	6,334	**5,732**	5,802
Finance leases	**23**	29	**–**	–
Redeemable preference share finance	**379**	304	**–**	–
Other	**110**	149	**74**	103
Total New Zealand	**18,931**	19,847	**17,546**	18,459
Other Overseas	**4,078**	3,791	**3,173**	3,106
Total Overseas	**23,009**	23,638	**20,719**	21,565
Total loans (net of unearned income)	**93,338**	79,462	**82,382**	69,469
Provisions for bad and doubtful debts (note 12)	**(1,600)**	(1,588)	**(1,415)**	(1,447)
Total net loans	**91,738**	77,874	**80,967**	68,022

Securitisation of loans

At 30 September 1998 the Group had securitised assets amounting to $7,209 million (1997 $3,534 million) via the Westpac Securitisation Trust program ("WST program") and various private placements. Outstanding securitised assets totalled $5,639 million as at 30 September 1998 (1997 $3,227 million) after allowing for amortisation of the initial assets securitised.

The securities issued by the WST program do not represent deposits or other liabilities of the Group or Parent Entity. Neither the Group or Parent Entity in any way stands behind the capital value and/or performance of the securities or the assets of the WST program except to the limited extent provided in the transaction documents for the WST program through the provision of arms length services and facilities (refer note 1(h)iv). The Group does not guarantee the payment of interest or the repayment of principal due on the securities. The Group is not obliged to support any losses that may be suffered by the investors and does not intend to provide such support. The Group has no right to repurchase any of the securitised loans and no obligation to do so, other than in certain circumstances where there is a breach of warranty within 120 days of the sale.

NOTE 12. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	Consolidated			Parent Entity	
	1998 $m	1997 $m	1996 $m	**1998 $m**	1997 $m
General provision					
Balance at beginning of year	**1,249**	1,316	980	**1,111**	1,087
Exchange rate and other adjustments	**–**	(15)	13	**(3)**	2
Provisions of controlled entities/businesses acquired	**60**	–	110	**60**	56
Charge to operating profit	**84**	145	384	**3**	87
Recoveries of debts previously written off	**89**	93	85	**64**	62
Write-offs	**(244)**	(290)	(256)	**(146)**	(183)
Balance at year end	**1,238**	1,249	1,316	**1,089**	1,111
Specific provisions					
Balance at beginning of year	**339**	531	950	**336**	459
Exchange rate and other adjustments	**(11)**	(1)	(26)	**(15)**	–
Provisions of controlled entities/businesses acquired	**17**	–	65	**17**	10
New specific provisions	**225**	146	200	**179**	131
Specific provisions no longer required	**(141)**	(213)	(463)	**(124)**	(199)
Write-offs	**(67)**	(124)	(195)	**(67)**	(65)
Balance at year end	**362**	339	531	**326**	336
Total provisions for bad and doubtful debts	**1,600**	1,588	1,847	**1,415**	1,447
Charge to operating profit for bad and doubtful debts comprises:					
General provision	**84**	145	384	**3**	87
New specific provisions	**225**	146	200	**179**	131
Specific provisions no longer required	**(141)**	(213)	(463)	**(124)**	(199)
Total charge to operating profit	**168**	78	121	**58**	19

NOTE 13. IMPAIRED ASSETS

	Consolidated					
	Non-accrual Assets		Restructured Assets		Total Impaired Assets	
	1998 $m	1997 $m	**1998 $m**	1997 $m	**1998 $m**	1997 $m
Australia						
Gross impaired items	**457**	609	**39**	38	**496**	647
Less specific provisions	**176**	205	**9**	16	**185**	221
Net impaired items	**281**	404	**30**	22	**311**	426
Overseas						
Gross impaired items	**327**	174	**29**	48	**356**	222
Less specific provisions	**172**	90	**5**	28	**177**	118
Net impaired items	**155**	84	**24**	20	**179**	104
Total Australia and Overseas						
Gross impaired items[1]	**784**	783	**68**	86	**852**	869
Less specific provisions	**348**	295	**14**	44	**362**	339
Net impaired items	**436**	488	**54**	42	**490**	530

1 Includes off-balance sheet impaired items of $36 million (1997 $36 million).

	Consolidated 1998 $m	Consolidated 1997 $m
NOTE 13. IMPAIRED ITEMS (CONTINUED)		
Accruing items past due 90 days (with adequate security)		
Australia	**181**	312
Overseas	**171**	69
Total	**352**	381
Interest received for the year on the above non-accrual and restructured items	**24**	52
Interest foregone for the year on the above non-accrual and restructured items is estimated at	**64**	102

	Consolidated		Parent Entity	
	1998 $m	1997 $m	**1998 $m**	1997 $m
NOTE 14. REGULATORY DEPOSITS				
Non-callable deposits with the RBA	**788**	634	**788**	634
Regulatory deposits with central banks overseas	**408**	294	**371**	294
Total regulatory deposits	**1,196**	928	**1,159**	928
NOTE 15. FIXED ASSETS				
Premises and sites (note 1(e)viii)				
At Directors' valuation 1998	**267**	–	**74**	–
At Directors' valuation 1997	**61**	241	**–**	14
At Directors' valuation 1996	**–**	40	**–**	–
At Directors' valuation 1995	**422**	662	**229**	299
At cost	**140**	79	**139**	68
Accumulated depreciation	**(38)**	(34)	**(21)**	(15)
	852	988	**421**	366
Leasehold improvements				
At cost	**175**	148	**128**	106
Accumulated amortisation	**(89)**	(69)	**(61)**	(44)
	86	79	**67**	62
Furniture, equipment and computer software				
At cost	**1,469**	1,349	**1,268**	1,169
Accumulated depreciation	**(808)**	(744)	**(722)**	(665)
	661	605	**546**	504
Total fixed assets	**1,599**	1,672	**1,034**	932

In July 1998, a valuation of premises and sites was undertaken, based on their estimated market value, supported by independent valuers' advice. The value was $931m. In accordance with Group policy, only the decrements for each property have been reflected in the premises revaluation reserve.

	Consolidated		Parent Entity	
	1998 $m	1997 $m	**1998 $m**	1997 $m
NOTE 16. OTHER ASSETS				
Accrued interest receivable	**412**	423	**371**	368
Future income tax benefits	**725**	831	**574**	549
Securities purchased under agreements to resell	**370**	555	**370**	555
Securities sold not delivered	**1,527**	1,072	**1,527**	1,072
Other financial markets assets	**13,007**	9,370	**13,021**	9,392
Intangible assets (after accumulated amortisation of $226m, 1997 $120m) (note 42)	**1,788**	1,029	**1,468**	666
Deferred expenditure (after accumulated amortisation of $122m, 1997 $98m)	**105**	101	**54**	63
Prepayment of superannuation fund contributions	**758**	701	**688**	632
Investment in Westpac Life	**379**	346	**–**	–
Other investments	**201**	149	**44**	39
Other	**502**	471	**382**	392
Total other assets	**19,774**	15,048	**18,499**	13,728
Future income tax benefits comprise:				
Provision for bad and doubtful debts	**547**	582	**485**	527
Provision for employee entitlements	**109**	107	**100**	97
Treasury/financial products	**229**	176	**229**	164
Depreciation	**23**	22	**15**	20
Tax losses	**326**	240	**106**	79
Other timing differences	**(509)**	(296)	**(361)**	(338)
	725	831	**574**	549
Potential future income tax benefits not brought to account as realisation is not considered virtually certain:				
Related to losses	**48**	30	**42**	23
Other	**113**	96	**111**	93
	161	126	**153**	116

The potential future income tax benefits will only be obtained if:

(i) the Group or relevant entity derives future assessable income of a nature and amount sufficient to enable the benefits from the deductions for the losses to be realised;

(ii) the Group or relevant entity continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) no changes in tax legislation adversely affect the Group or relevant entity in realising the benefits from the deductions for the losses.

	1998 $m	1997 $m	1998 $m	1997 $m
NOTE 17. DUE TO OTHER FINANCIAL INSTITUTIONS				
Australia				
Interest earning	**205**	212	**205**	212
Non-interest earning	**765**	288	**698**	288
Total Australia	**970**	500	**903**	500
Overseas				
Interest earning	**3,148**	4,001	**3,143**	3,999
Non-interest earning	**225**	69	**225**	69
Total Overseas	**3,373**	4,070	**3,368**	4,068
Total due to other financial institutions	**4,343**	4,570	**4,271**	4,568

	Consolidated		Parent Entity	
	1998 $m	1997 $m	**1998 $m**	1997 $m
NOTE 18. DEPOSITS AND PUBLIC BORROWINGS				
Deposits				
Australia				
Non-interest bearing, repayable at call	**3,663**	3,206	**3,663**	3,206
Certificates of deposit	**3,588**	2,086	**3,588**	2,086
Other interest bearing				
At call	**25,602**	20,758	**25,755**	20,522
Term [1]	**18,870**	16,017	**18,868**	16,005
Total Australia	**51,723**	42,067	**51,874**	41,819
New Zealand				
Non-interest bearing, repayable at call	**657**	1,101	**657**	1,101
Certificates of deposit	**1,836**	2,294	**1,836**	2,294
Other interest bearing				
At call	**5,920**	5,439	**5,920**	5,439
Term	**7,790**	8,383	**7,790**	8,383
Total New Zealand	**16,203**	17,217	**16,203**	17,217
Other Overseas				
Non-interest bearing, repayable at call	**519**	478	**434**	370
Certificates of deposit	**1,522**	1,523	**1,522**	1,523
Other interest bearing				
At call	**670**	586	**565**	448
Term	**6,842**	4,947	**6,632**	4,700
Total Other Overseas	**9,553**	7,534	**9,153**	7,041
Total Overseas	**25,756**	24,751	**25,356**	24,258
Total deposits	**77,479**	66,818	**77,230**	66,077
Public borrowings by subsidiary borrowing corporations				
Australia				
Secured [2]	**3,851**	4,259	**–**	–
Unsecured	**1,479**	1,126	**–**	–
Total Australia	**5,330**	5,385	**–**	–
Overseas				
Secured [2]	**347**	396	**–**	–
Unsecured	**8**	37	**–**	–
Total Overseas	**355**	433	**–**	–
Total public borrowings by subsidiary borrowing corporations	**5,685**	5,818	**–**	–
Total deposits and public borrowings	**83,164**	72,636	**77,230**	66,077

1 Includes floating rate depositary receipts of USD 500 million (AUD 842 million; 1997 AUD 695 million) and GBP 250 million (AUD 718 million; 1997 AUD 560 million) maturing in 2001 and 2002, respectively.

2 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

	Consolidated 1998 $m	Consolidated 1997 $m	Parent Entity 1998 $m	Parent Entity 1997 $m
Provision for:				
proposed dividends	**418**	366	**418**	366
income taxes	**207**	150	**146**	–
deferred income tax	**256**	369	**230**	169
long service leave	**161**	140	**149**	129
holiday leave and other staff benefits	**131**	155	**117**	140
non-lending losses	**27**	24	**25**	20
restructuring expenses (note 1(f)v)	**272**	211	**267**	196
subsidiary integration costs	**15**	3	**15**	3
Unearned general insurance premiums	**54**	45	**–**	–
Outstanding general insurance claims	**24**	17	**–**	–
Accrued interest payable	**954**	711	**837**	589
Securities sold under agreements to repurchase	**139**	214	**139**	214
Securities short sold	**1,071**	1,115	**1,071**	1,115
Securities purchased not delivered	**1,119**	260	**1,119**	260
Other financial markets liabilities	**11,486**	9,276	**11,472**	9,235
Other	**1,439**	1,085	**1,304**	875
Total other liabilities	**17,773**	14,141	**17,309**	13,311
Provision for deferred income tax comprises:				
Leverage lease transactions	**311**	316	**310**	310
Finance lease transactions	**110**	107	**48**	49
Treasury/financial products	**37**	21	**35**	20
Depreciation	**58**	43	**46**	25
Other timing differences	**(260)**	(118)	**(209)**	(235)
	256	369	**230**	169

NOTE 20. DEBT ISSUES

	Consolidated 1998 $m	Consolidated 1997 $m	Parent Entity 1998 $m	Parent Entity 1997 $m
Bonds, notes and commercial paper				
Long term debt [1]				
USD	**2,288**	–	**2,288**	–
AUD	**364**	99	**300**	–
GBP	**761**	–	**761**	–
DEM	**352**	275	**352**	275
JPY	**850**	132	**850**	132
CHF	**558**	334	**558**	334
Other currencies	**365**	90	**365**	90
	5,538	930	**5,474**	831
Short term debt [2]				
USD	**4,201**	4,411	**1,367**	3,081
AUD	**381**	197	**381**	187
GBP	**181**	621	**181**	621
CHF	**30**	10	**30**	10
Other currencies	**249**	104	**249**	104
	5,042	5,343	**2,208**	4,003
Total	**10,580**	6,273	**7,682**	4,834

1 Long term debt issues consist principally of medium term notes.
2 Short term debt consists principally of commercial paper issues.
The maturity profile for bonds, notes and commercial paper is shown in note 22.

	Consolidated		Parent Entity	
	1998 $m	1997 $m	**1998 $m**	1997 $m
NOTE 20. DEBT ISSUES (CONTINUED)				
Subordinated bonds, notes and debentures				
JPY 10 billion dual currency subordinated bonds due 1999 [1]	**124**	114	**124**	114
USD 400 million 9.175% subordinated debentures due 2001 [2]	**673**	556	**673**	556
USD 350 million 7.875% subordinated debentures due 2002 [2]	**589**	486	**589**	486
NZD 50 million subordinated bonds due 2005 [3]	**42**	44	**42**	44
AUD 350 million subordinated bonds due 2008 [4]	**350**	–	**350**	–
Total subordinated bonds, notes and debentures	**1,778**	1,200	**1,778**	1,200

1 Swap arrangements (to US currency at a floating interest rate) have been entered into in respect of these bonds.
2 Swap arrangements (to US currency at a floating interest rate) have been entered into in respect of these debentures.
3 Swap arrangements (to NZ currency at a fixed interest rate of 9.05%) have been entered into in respect of these bonds.
4 Swap arrangements (to floating interest rate) have been entered into in respect of AUD 112 million of these bonds. The remainder have a fixed rate of 5.41%.

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 1998 amounted to $5 million (30 September 1997 $6 million).

Subordinated bonds, notes and debentures with an original maturity of at least seven years constitute tier 2 capital as defined by the APRA for capital adequacy purposes. The value assigned is based on the remaining years to maturity.

Subordinated perpetual notes				
USD 442.3 million (1997 USD 500 million) subordinated perpetual floating rate notes	**745**	695	**745**	695

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

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

	Parent Entity	
	1998 $m	1997 $m
NOTE 21. SHARE CAPITAL		
Authorised capital 3,100 million ordinary shares of $1 each	**3,100**	3,100
Issued and paid up capital		
1,898,993,864 (1997 1,780,618,312) ordinary shares of $1 each fully paid	**1,899**	1,781
40,000 (1997 50,000) ordinary shares of $1 each paid to $0.10	**–**	–
107,500 (1997 277,000) ordinary shares of $1 each paid to $0.01	**–**	–
Nil (1997 80,000,000) 6.5% non-cumulative converting preference shares of $1 each fully paid [1]	**–**	80
Total issued and paid up capital	**1,899**	1,861

1 All converting preference shares were converted into $1 ordinary shares by 30 June 1998.

During the year the following shares were issued:

To shareholders under terms of the Bank of Melbourne merger arrangements:
142,000,641 ordinary shares of $1 each fully paid at a premium of $7.23.

To shareholders upon conversion of 80,000,000 converting preference shares:
80,000,000 ordinary shares of $1 each fully paid at a premium of $6.50.

To shareholders in terms of the Dividend Reinvestment Plan:
9,370,524 ordinary shares of $1 each fully paid at a premium of $8.67.

To senior officers under the Senior Officers' Share Purchase Scheme upon exercise of options:
18,766,000 ordinary shares of $1 each fully paid at an average premium of $3.32.

In addition, 179,500 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 $3.47.

During the year 131,941,113 ordinary shares of $1 each were bought back 'on market' at an average premium of $8.90.

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 Parent Entity:

		Number of options				
Latest Date for Exercise of Options	Exercise Price	At 1 October 1997	Issued During the Year	Exercised During the Year	Lapsed During the Year	**At 30 September 1998**
1 July 1998	$3.73	595,000	–	555,000	40,000	**–**
11 October 1998	$4.18	770,000	–	705,000	–	**65,000**
8 November 1998	$4.10	1,000,000	–	–	–	**1,000,000**
2 February 1999	$4.21	690,000	–	425,000	–	**265,000**
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	200,000	–	200,000	–	**–**
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	555,000	–	530,000	–	**25,000**
20 December 1999	$4.05	185,000	–	185,000	–	**–**
24 January 2000	$4.20	16,887,000	–	13,022,000	735,000	**3,130,000**
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	–	450,000	–	**750,000**
5 June 2000	$5.17	80,000	–	80,000	–	**–**
20 June 2000	$5.17	1,635,000	–	840,000	100,000	**695,000**
10 July 2000	$4.94	30,000	–	–	–	**30,000**
17 July 2000	$4.87	25,000	–	–	–	**25,000**
28 August 2000	$5.07	425,000	–	25,000	25,000	**375,000**
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	–	–	85,000	**95,000**
4 December 2000	$5.48	50,000	–	–	–	**50,000**
19 December 2000	$5.51	250,000	–	–	25,000	**225,000**
21 December 2000	$5.47	100,000	–	–	–	**100,000**
29 January 2001	$5.51	12,788,000	–	380,000	590,000	**11,818,000**
1 February 2001	$5.94	50,000	–	–	–	**50,000**
19 February 2001	$5.69	460,000	–	–	90,000	**370,000**
15 April 2001	$5.58	630,000	–	–	30,000	**600,000**
15 April 2001	$5.95	100,000	–	–	–	**100,000**
29 April 2001	$6.00	225,000	–	–	–	**225,000**
24 July 2001	$5.64	370,000	–	–	–	**370,000**
27 August 2001	$5.80	350,000	–	–	–	**350,000**
28 January 2002	$7.10	12,324,000	–	120,000	510,000	**11,694,000**
7 April 2002	$7.05	315,000	–	–	40,000	**275,000**
14 April 2002	$7.08	250,000	–	–	–	**250,000**
14 April 2002	$7.05	100,000	–	–	–	**100,000**
19 May 2002	$6.85	100,000	–	–	–	**100,000**
5 August 2002	$7.84	115,000	–	–	25,000	**90,000**
29 September 2002	$7.89	1,800,000	–	–	250,000	**1,550,000**
22 December 2002	$8.60	–	11,371,000	49,000	259,000	**11,063,000**
2 March 2003	$9.92	–	335,000	–	–	**335,000**
9 March 2003	$9.91	–	20,000	–	–	**20,000**
6 April 2003	$10.24	–	30,000	–	–	**30,000**
4 May 2003	$11.04	–	100,000	–	–	**100,000**
11 May 2003	$11.04	–	50,000	–	–	**50,000**
18 May 2003	$10.60	–	180,000	–	–	**180,000**
9 June 2003	$10.61	–	315,000	–	–	**315,000**
22 June 2003	$10.41	–	60,000	–	–	**60,000**
27 July 2003	$10.00	–	680,000	–	–	**680,000**
10 August 2003	$10.67	–	120,000	–	–	**120,000**
24 August 2003	$10.50	–	70,000	–	–	**70,000**
28 August 2003	$10.04	–	125,000	–	–	**125,000**
14 September 2003	$9.94	–	75,000	–	–	**75,000**
18 September 2003	$9.30	–	20,000	–	–	**20,000**
		57,054,000	13,551,000	18,766,000	2,804,000	**49,035,000**

NOTE 21. SHARE CAPITAL (CONTINUED)

Under the SOSPS, senior officers had been able to purchase a limited number of new ordinary shares issued by the Parent Entity at market price, but paid up initially to only $0.10 or $0.01. The residual is payable when called by the Parent Entity. 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 Parent Entity has granted options to purchase ordinary shares. The option term is five years. Options are exercisable during the last two years of the term or within twelve months of retirement or death in service.

The aggregate par value of shares covered by the SOSPS shall not exceed 5% of the Parent Entity'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 Parent Entity's ordinary shares on the day before the option is offered to the officer. Upon exercising an option, the officer has the right to take up his or her entitlement in whole or in part (but in multiples of 1,000) as 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. 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 1998, 767 (1997 782) officers held partly paid ordinary shares or options under the SOSPS. Executive Director Mr R.P. Handley held 1,000,000 options at $4.10 per ordinary share exercisable by 8 November 1998 (these options were exercised on 2 October 1998), 200,000 options at $5.51 per ordinary share exercisable by 29 January 2001 and 500,000 options at $7.89 per ordinary share exercisable by 29 September 2002. Executive Director Dr D.R. Morgan held 200,000 options at $5.51 per ordinary share exercisable by 29 January 2001, 175,000 options at $7.10 per ordinary share exercisable by 28 January 2002 and 500,000 options at $7.89 per ordinary share exercisable by 29 September 2002.

Pursuant to a resolution passed at a special general meeting of the Parent Entity 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 was exercised during 1997. The second tranche is exercisable between 19 January 1997 and 19 January 1999, but only if the Parent Entity'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 Parent Entity'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 Parent Entity on 18 December 1997, Managing Director Mr R.L. Joss also holds three tranches of non-transferable options, each enabling him to subscribe for 700,000 ordinary shares at a price of $10.27 per share. The first tranche is exercisable between 27 January 1999 and 27 January 2003, but only if the Parent Entity's ordinary shares are trading on the Australian Stock Exchange at a price in excess of $10.93 per share. The second tranche is exercisable between 27 January 2000 and 27 January 2003 but only if the Parent Entity's ordinary shares are trading on the Australian Stock Exchange at a price in excess of $11.64 per share. The third tranche is exercisable between 27 January 2001 and 27 January 2003 but only if the Parent Entity's ordinary shares are trading on the Australian Stock Exchange at a price in excess of $12.40 per share.

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 Corporate Registry Services Pty Limited, 60 Carrington Street, Sydney, New South Wales.

NOTE 22. MATURITY ANALYSIS

The following maturity analysis of monetary assets and liabilities is based on contractual terms. The majority of the longer term monetary assets are variable rate products. When managing interest rate and liquidity risks, the Group adjusts this contractual profile for customer behaviour.

Consolidated Maturity Analysis as at 30 September 1998

	At Call $m	Overdrafts $m	1 day to 3 months $m	Over 3 months to 1 year $m	Over 1 year to 5 years $m	Over 5 years $m	No specific maturity $m	Total $m
Australia								
Assets								
Cash and balances with central banks	316	–	–	–	–	–	–	316
Due from other financial institutions	207	–	299	–	–	–	–	506
Trading securities	–	–	2,485	2,291	558	447	–	5,781
Investment securities	–	–	–	–	–	118	–	118
Loans	1,193	2,664	10,968	8,834	23,267	22,057	–	68,983
Acceptances of customers	640	–	7,136	650	1,791	65	–	10,282
Regulatory deposits	–	–	–	–	–	–	788	788
All other assets	997	–	1,183	367	1,261	2,769	11,003	17,580
Total assets	3,353	2,664	22,071	12,142	26,877	25,456	11,791	104,354
Liabilities								
Due to other financial institutions	970	–	–	–	–	–	–	970
Deposits and public borrowings	33,293	–	12,496	5,059	3,665	2,540	–	57,053
Bonds, notes and commercial paper	–	–	951	1,346	2,978	104	–	5,379
Acceptances of customers	640	–	7,136	650	1,791	65	–	10,282
All other liabilities	1,774	–	1,773	554	404	476	9,701	14,682
Intragroup payable	7,704	–	–	–	–	–	–	7,704
Total liabilities excluding loan capital	44,381	–	22,356	7,609	8,838	3,185	9,701	96,070
Loan capital	–	–	–	–	1,386	350	745	2,481
Total liabilities	44,381	–	22,356	7,609	10,224	3,535	10,446	98,551
Net assets Australia	(41,028)	2,664	(285)	4,533	16,771	21,803	1,345	5,803
Overseas								
Assets								
Cash and balances with central banks	87	–	–	–	–	–	–	87
Due from other financial institutions	882	–	1,064	327	291	220	–	2,784
Trading securities	–	–	558	152	323	12	–	1,045
Investment securities	–	–	66	58	862	1,064	–	2,050
Loans	816	1,208	3,096	2,159	4,108	11,368	–	22,755
Acceptances of customers	–	–	43	–	–	–	–	43
Regulatory deposits	48	–	325	–	35	–	–	408
All other assets	960	–	318	15	1	–	2,499	3,793
Intragroup receivable	7,704	–	–	–	–	–	–	7,704
Total assets	10,497	1,208	5,470	2,711	5,620	12,664	2,499	40,669
Liabilities								
Due to other financial institutions	937	–	1,056	1,218	162	–	–	3,373
Deposits and public borrowings	8,171	–	8,928	8,158	394	460	–	26,111
Bonds, notes and commercial paper	–	–	2,168	1,383	1,637	13	–	5,201
Acceptances of customers	–	–	43	–	–	–	–	43
All other liabilities	1,051	–	620	20	–	–	1,400	3,091
Total liabilities excluding loan capital	10,159	–	12,815	10,779	2,193	473	1,400	37,819
Loan capital	–	–	–	–	–	42	–	42
Total liabilities	10,159	–	12,815	10,779	2,193	515	1,400	37,861
Net assets Overseas	338	1,208	(7,345)	(8,068)	3,427	12,149	1,099	2,808
Net assets total	(40,690)	3,872	(7,630)	(3,535)	20,198	33,952	2,444	8,611

NOTE 22. MATURITY ANALYSIS (CONTINUED)

Consolidated Maturity Analysis as at 30 September 1997

	At Call $m	Overdrafts $m	1 day to 3 months $m	Over 3 months to 1 year $m	Over 1 year to 5 years $m	Over 5 years $m	No specific maturity $m	Total $m
Australia								
Assets								
Cash and balances with central banks	232	–	–	–	–	–	–	232
Due from other financial institutions	621	–	279	10	–	–	–	910
Trading securities	–	–	4,831	–	–	–	–	4,831
Investment securities	–	–	–	–	–	114	–	114
Loans	1,930	2,534	7,411	6,710	16,224	19,595	–	54,404
Acceptances of customers	503	–	7,864	1,146	1,629	41	–	11,183
Regulatory deposits	–	–	–	–	–	–	634	634
All other assets	1,008	–	767	411	1,107	1,992	7,530	12,815
Total assets	4,294	2,534	21,152	8,277	18,960	21,742	8,164	85,123
Liabilities								
Due to other financial institutions	288	–	210	2	–	–	–	500
Deposits and public borrowings	26,990	–	9,220	5,707	3,695	1,840	–	47,452
Bonds, notes and commercial paper	–	–	433	976	563	2,041	36	4,049
Acceptances of customers	503	–	7,864	1,146	1,629	41	–	11,183
All other liabilities	2,027	–	716	366	55	5	7,613	10,782
Intragroup payable	3,544	–	–	–	–	–	–	3,544
Total liabilities excluding loan capital	33,352	–	18,443	8,197	5,942	3,927	7,649	77,510
Loan capital	–	–	–	–	671	485	695	1,851
Total liabilities	33,352	–	18,443	8,197	6,613	4,412	8,344	79,361
Net assets Australia	(29,058)	2,534	2,709	80	12,347	17,330	(180)	5,762
Overseas								
Assets								
Cash and balances with central banks	89	–	–	–	–	–	–	89
Due from other financial institutions	329	–	2,253	472	38	–	–	3,092
Trading securities	–	–	1,412	–	–	–	–	1,412
Investment securities	–	–	158	174	1,138	49	–	1,519
Loans	714	1,178	3,624	2,344	4,497	11,113	–	23,470
Acceptances of customers	–	–	56	–	–	–	3	59
Regulatory deposits	36	–	257	–	1	–	–	294
All other assets	–	–	–	–	–	–	3,905	3,905
Intragroup receivable	3,544	–	–	–	–	–	–	3,544
Total assets	4,712	1,178	7,760	2,990	5,674	11,162	3,908	37,384
Liabilities								
Due to other financial institutions	69	–	3,134	867	–	–	–	4,070
Deposits and public borrowings	8,949	–	9,477	6,013	508	237	–	25,184
Bonds, notes and commercial paper	–	–	396	890	872	66	–	2,224
Acceptances of customers	–	–	56	–	–	–	3	59
All other liabilities	1,235	–	382	197	574	87	884	3,359
Total liabilities excluding loan capital	10,253	–	13,445	7,967	1,954	390	887	34,896
Loan capital	–	–	–	–	–	44	–	44
Total liabilities	10,253	–	13,445	7,967	1,954	434	887	34,940
Net assets Overseas	(5,541)	1,178	(5,685)	(4,977)	3,720	10,728	3,021	2,444
Net assets total	(34,599)	3,712	(2,976)	(4,897)	16,067	28,058	2,841	8,206

NOTE 23. AVERAGE BALANCE SHEET AND INTEREST RATES

The following table lists the average balances and related interest for the major categories of the Group's interest earning assets and interest bearing liabilites. Averages used are predominantly daily averages.

	Consolidated								
	1998			1997			1996		
	Average Balance $m	**Interest $m**	**Average Rate %**	Average Balance $m	Interest $m	Average Rate %	Average Balance $m	Interest $m	Average Rate %
Assets									
Interest earning assets									
Due from other financial institutions									
Australia	**872**	**34**	**3.9**	845	51	6.0	882	55	6.2
New Zealand	**1,421**	**115**	**8.1**	1,009	93	9.2	1,151	107	9.3
Other Overseas	**2,315**	**133**	**5.7**	3,773	312	8.3	4,159	394	9.5
Investment and trading securities									
Australia	**5,592**	**347**	**6.2**	6,018	566	9.4	4,698	378	8.0
New Zealand	**1,217**	**76**	**6.2**	820	49	6.0	664	56	8.4
Other Overseas	**2,118**	**158**	**7.5**	1,967	125	6.4	2,281	128	5.6
Regulatory deposits									
Australia	**–**	**–**		648	7	1.1	617	15	2.4
New Zealand	**–**	**–**		1	–	–	1	–	–
Other Overseas	**252**	**13**	**5.2**	292	17	5.8	144	8	5.6
Loans and other receivables									
Australia	**67,496**	**5,794**	**8.6**	57,087	5,073	8.9	56,200	5,679	10.1
New Zealand	**19,131**	**1,987**	**10.4**	19,695	2,040	10.4	12,798	1,375	10.7
Other Overseas	**4,094**	**345**	**8.4**	3,820	292	7.7	4,153	316	7.6
Impaired loans									
Australia	**570**	**15**	**2.6**	628	39	6.2	1,230	61	5.0
New Zealand	**122**	**6**	**4.9**	140	12	7.9	190	9	4.7
Other Overseas	**138**	**1**	**0.7**	84	2	2.4	164	7	4.3
Intragroup receivable									
Other Overseas	**8,902**	**536**	**6.0**	7,992	485	6.1	6,319	412	6.5
Interest earning assets and interest income including intragroup	**114,240**	**9,560**	**8.4**	104,819	9,163	8.7	95,651	9,000	9.4
Intragroup elimination	**(8,902)**	**(536)**		(7,992)	(485)		(6,319)	(412)	
Total interest earning assets and interest income	**105,338**	**9,024**	**8.6**	96,827	8,678	9.0	89,332	8,588	9.6
Non-interest earning assets									
Cash, bullion, due from other financial institutions and regulatory deposits	**1,253**			460			582		
Other assets	**23,217**			17,876			16,055		
Provisions for doubtful debts									
Australia	**(1,379)**			(1,511)			(1,667)		
New Zealand	**(117)**			(149)			(128)		
Other Overseas	**(97)**			(91)			(107)		
Total non-interest earning assets	**22,877**			16,585			14,735		
Acceptances of customers									
Australia	**11,315**			11,298			12,058		
New Zealand	**43**			13			24		
Other Overseas	**74**			55			130		
Total acceptances	**11,432**			11,366			12,212		
Total assets	**139,647**			124,778			116,279		

NOTE 23. AVERAGE BALANCE SHEET AND INTEREST RATES (CONTINUED)

	Consolidated								
	1998			1997			1996		
	Average Balance $m	**Interest $m**	**Average Rate %**	Average Balance $m	Interest $m	Average Rate %	Average Balance $m	Interest $m	Average Rate %
Liabilities									
Interest bearing liabilities									
Deposits									
Australia	**47,772**	**2,262**	**4.7**	40,729	2,054	5.0	39,662	2,448	6.2
New Zealand	**15,459**	**1,128**	**7.3**	15,809	1,125	7.1	10,043	779	7.8
Other Overseas	**9,170**	**538**	**5.9**	8,843	492	5.6	6,628	399	6.0
Public borrowings by subsidiary borrowing corporations									
Australia	**5,383**	**329**	**6.1**	5,367	384	7.2	5,399	419	7.8
New Zealand	**392**	**31**	**7.9**	450	38	8.4	501	41	8.2
Other Overseas	**2**	**–**	**–**	16	2	12.5	30	4	13.3
Due to other financial institutions									
Australia	**498**	**22**	**4.4**	300	19	6.3	271	21	7.7
New Zealand	**110**	**15**	**13.6**	81	11	13.6	82	8	9.8
Other Overseas	**3,803**	**238**	**6.3**	4,454	361	8.1	6,520	559	8.6
Loan capital									
Australia	**2,110**	**169**	**8.0**	2,001	157	7.8	2,641	168	6.4
New Zealand	**42**	**4**	**9.5**	52	5	9.6	(61)	–	–
Other Overseas	**15**	**–**	**–**	–	–	–	–	–	–
Other interest bearing liabilities									
Australia	**5,876**	**384**	**6.5**	4,371	318	7.3	3,645	289	7.9
New Zealand	**1,644**	**146**	**8.9**	846	121	14.3	225	35	15.6
Other Overseas	**2,357**	**138**	**5.9**	2,096	111	5.3	1,918	96	5.0
Intragroup payable									
Australia	**5,014**	**294**	**5.9**	4,118	236	5.7	3,319	217	6.5
New Zealand	**3,888**	**243**	**6.3**	3,874	249	6.4	3,000	195	6.5
Interest earning liabilities and interest expense including intragroup	**103,535**	**5,941**	**5.7**	93,407	5,683	6.1	83,823	5,678	6.8
Intragroup elimination	**(8,902)**	**(536)**		(7,992)	(485)		(6,319)	(412)	
Total interest bearing liabilities and interest expense	**94,633**	**5,405**	**5.7**	85,415	5,198	6.1	77,504	5,266	6.8
Non-interest bearing liabilities									
Deposits and due to other financial institutions									
Australia	**3,581**			3,169			3,143		
New Zealand	**1,049**			1,168			686		
Other Overseas	**515**			448			436		
Other liabilities	**19,575**			15,229			14,203		
Total non-interest bearing liabilities	**24,720**			20,014			18,468		
Acceptances									
Australia	**11,315**			11,298			12,058		
New Zealand	**43**			13			24		
Other Overseas	**74**			55			130		
Total acceptances	**11,432**			11,366			12,212		
Total liabilities	**130,785**			116,795			108,184		
Ordinary shareholders' equity	**8,484**			7,380			7,489		
Preference shareholders' equity	**375**			600			600		
Outside equity interests	**3**			3			6		
Total shareholders' equity	**8,862**			7,983			8,095		
Total liabilities and shareholders' equity	**139,647**			124,778			116,279		

NOTE 24. GROUP SEGMENT INFORMATION

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.

	1998		1997		1996	
	$m	**%**	$m	%	$m	%
Geographic Segments						
Assets						
Australia	**104,354**	**75.9**	85,123	71.4	86,365	71.1
New Zealand	**23,799**	**17.4**	24,157	20.4	23,328	19.2
Pacific Islands	**1,786**	**1.3**	1,629	1.4	1,560	1.3
Asia	**2,992**	**2.2**	3,736	3.2	4,598	3.8
Americas	**2,439**	**1.8**	1,746	1.5	2,580	2.1
Europe	**1,949**	**1.4**	2,572	2.1	3,082	2.5
Total	**137,319**	**100.0**	118,963	100.0	121,513	100.0
Operating revenue from outside the Group (excluding gross up)						
Australia	**7,626**	**70.0**	6,889	66.9	7,246	72.6
New Zealand	**2,538**	**23.3**	2,578	25.1	1,764	17.6
Pacific Islands	**224**	**2.1**	199	1.9	234	2.3
Asia	**204**	**1.9**	296	2.9	382	3.8
Americas	**125**	**1.1**	181	1.8	170	1.7
Europe	**182**	**1.6**	147	1.4	196	2.0
Total	**10,899**	**100.0**	10,290	100.0	9,992	100.0
Intersegment operating revenue						
Australia	**129**	**11.2**	60	6.2	59	6.7
New Zealand	**5**	**0.4**	5	0.5	6	0.7
Pacific Islands	**25**	**2.2**	21	2.2	34	3.9
Asia	**193**	**16.7**	245	25.3	430	49.1
Americas	**465**	**40.3**	486	50.2	253	28.9
Europe	**337**	**29.2**	151	15.6	93	10.7
Total	**1,154**	**100.0**	968	100.0	875	100.0
Operating profit before abnormal items and income tax (excluding gross up)						
Australia	**1,472**	**76.1**	1,198	67.1	1,208	77.6
New Zealand	**320**	**16.5**	407	22.8	172	11.1
Pacific Islands	**83**	**4.3**	52	2.9	53	3.4
Asia	**(65)**	**(3.4)**	25	1.4	24	1.5
Americas	**54**	**2.8**	50	2.8	40	2.6
Europe	**71**	**3.7**	54	3.0	59	3.8
Total	**1,935**	**100.0**	1,786	100.0	1,556	100.0
Operating profit after income tax attributable to shareholders of Westpac Banking Corporation						
Australia	**963**	**75.7**	881	65.8	869	76.8
New Zealand	**211**	**16.6**	245	21.5	114	10.1
Pacific Islands	**62**	**4.9**	37	2.9	37	3.2
Asia	**(76)**	**(6.0)**	24	1.9	16	1.5
Americas	**41**	**3.2**	50	3.8	37	3.2
Europe	**71**	**5.6**	54	4.1	59	5.2
Total	**1,272**	**100.0**	1,291	100.0	1,132	100.0

NOTE 25. CREDIT RISK CONCENTRATIONS

The following table sets out the credit risk concentrations of the Group:

	Consolidated 1998							Consolidated 1997
	Trading Securities[1] $m	Investment Securities[1] $m	Loans $m	Acceptances[1] $m	Contingent Liabilities[1,2] $m	Derivatives[1,2] $m	**Total $m**	Loans $m
Australia								
Government and other public authorities	4,246	112	328	–	1,016	470	**6,172**	472
Agriculture, forestry and fishing	–	–	1,077	830	90	37	**2,034**	1,010
Commercial and financial	1,535	6	16,811	6,339	5,806	9,787	**40,284**	16,037
Real estate – construction	–	–	1,634	1,020	651	12	**3,317**	1,357
Real estate – mortgage	–	–	38,911	1,862	832	–	**41,605**	26,223
Instalment loans and other personal lending	–	–	9,314	231	225	–	**9,770**	9,248
Lease financing	–	–	2,254	–	–	–	**2,254**	1,477
Total Australia	5,781	118	70,329	10,282	8,620	10,306	**105,436**	55,824
New Zealand								
Government and other public authorities	900	–	225	–	95	–	**1,220**	330
Agriculture, forestry and fishing	–	–	1,614	–	53	–	**1,667**	1,427
Commercial and financial	94	–	6,203	29	404	1,149	**7,879**	6,007
Real estate – construction	–	–	143	–	–	–	**143**	200
Real estate – mortgage	–	–	10,469	–	798	–	**11,267**	11,489
Instalment loans and other personal lending	19	–	253	–	–	–	**272**	366
Lease financing	–	–	24	–	–	–	**24**	28
Total New Zealand	1,013	–	18,931	29	1,350	1,149	**22,472**	19,847
Other Overseas								
Government and other public authorities	32	172	56	–	23	5	**288**	41
Agriculture, forestry and fishing	–	–	38	–	14	–	**52**	47
Commercial and financial	–	1,878	2,386	14	3,468	930	**8,676**	2,681
Real estate – construction	–	–	74	–	40	1	**115**	64
Real estate – mortgage	–	–	1,082	–	8	–	**1,090**	777
Instalment loans and other personal lending	–	–	282	–	53	–	**335**	123
Lease financing	–	–	160	–	–	–	**160**	58
Total Other Overseas	32	2,050	4,078	14	3,606	936	**10,716**	3,791
Total	6,826	2,168	93,338	10,325	13,576	12,391	**138,624**	79,462
Other risk concentrations								
Amounts due from other financial institutions							**3,290**	
Regulatory deposits							**1,196**	
Total gross credit risk							**143,110**	

1 Comparative figures for the year ended 30 September 1997 are not available as a result of the first year application of AASB 1033, "Presentation and Disclosure of Financial Instruments"

2 Credit risk concentrations for contingent liabilities and derivatives are based on definitions per notes 29 and 30.

Collateral security, in the form of real property or a floating charge, is generally taken for business credit except for major government, bank and corporate counterparties of strong financial standing. Longer term consumer finance is generally secured against real estate while revolving consumer credit is generally unsecured.

NOTE 26. AUDITORS' REMUNERATION

	Consolidated			Parent Entity	
	1998 $'000	1997 $'000	1996 $'000	**1998 $'000**	1997 $'000
Remuneration for audit or review of the financial statements					
Auditors of the Parent Entity [1]					
Messrs Lynn and Chowdry	**2,347**	2,134	1,440	**2,347**	2,134
PricewaterhouseCoopers	**1,092**	1,029	1,070	**–**	–
Other auditors of controlled entities	**30**	27	16	**–**	–
	3,469	3,190	2,526	**2,347**	2,134
Remuneration for other services by the Parent Entity auditors [1 2 3]					
Messrs Lynn and Chowdry	**202**	202	151	**202**	202
PricewaterhouseCoopers	**3,447**	2,595	2,117	**2,899**	1,881
	3,649	2,797	2,268	**3,101**	2,083

1 The auditors of the Parent Entity are Messrs Lynn and Chowdry. Their firm, PricewaterhouseCoopers (formerly Coopers & Lybrand), audited the controlled entities.
2 Other services includes $564,000 (1997 $671,000; 1996 $632,000) for regulatory and statutory reporting requirements.
3 In addition, Coopers & Lybrand LLP (USA firm) provided consultancy services of $746,000 to the Group in 1998 (1997 $4,706,000). The USA firm does not provide any auditing services to the Group.

Coopers & Lybrand and Price Waterhouse merged on 1 July 1998. The merged firm PricewaterhouseCoopers ("PwC") is the auditor of the controlled entities with effect from 1 July 1998. Auditors remuneration includes all amounts paid to Coopers & Lybrand in the nine months to 30 June 1998 and all amounts paid to PwC in the 3 months to 30 September 1998.

A small number of former Price Waterhouse partners have loans with Westpac. In order to eliminate potential conflicts of interest, Class Order 98/1869 dated 22 September 1998 was received from ASIC which "grandfathers" all indebtedness of these partners. This Class Order requires:

- Westpac to report to the ASIC within thirty days of its occurrence any event of default or any enforcement action taken on these loans;
- the Directors of Westpac to report to the ASIC within seven days after signing the Directors' Report whether, in the opinion of the Audit Committee, the class order has been complied with; and
- PwC to report to the ASIC within seven days after signing the Auditors' Report whether the audit has been influenced by the indebtedness.

NOTE 27. EXPENDITURE COMMITMENTS

	Consolidated		Parent Entity	
	1998 $m	1997 $m	**1998 $m**	1997 $m
Commitments for capital expenditure not provided for in the financial statements:				
Payable within one year	**49**	25	**35**	21
Total commitments for capital expenditure not provided for in the financial statements	**49**	25	**35**	21
Lease commitments (all leases are classified as operating leases)				
Land and buildings	**995**	852	**931**	782
Plant and equipment	**89**	22	**89**	22
Total lease commitments	**1,084**	874	**1,020**	804
Due within one year	**229**	184	**212**	164
Due within 1–2 years	**185**	156	**171**	134
Due within 2–5 years	**299**	235	**273**	214
Due after 5 years	**371**	299	**364**	292
Total lease commitments	**1,084**	874	**1,020**	804

NOTE 28. SUPERANNUATION COMMITMENTS

Numerous superannuation schemes are operated throughout the Group. 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") are defined benefit schemes and provide lump sum and pension benefits. As both schemes are in surplus, the Group's contributions for the years ended 30 September 1998, 1997 and 1996 were nominal.

The continued existence of surpluses in the two principal schemes in Australia at 30 September 1998 has been confirmed. Actuarial reviews, as at 30 June 1997, were carried out by independent actuaries; Mr G.B.K. Trahair, FIA, FIAA, in respect of the WSSP and in respect of the AGCSRF, Mr J. Mitchell, Bsc FIA FIAA. See also notes 1(h)i, 4 and 16. The next full actuarial review is expected to be undertaken at 30 June 2000.

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
(i) Present value of employees' accrued benefits	1,304	101	287	1,692
(ii) Net market value of assets held by the scheme to meet future benefit payments	2,330	196	414	2,940
Excess of assets held to meet future benefit payments over present value of employees' accrued benefits	1,026	95	127	1,248
(iii) Vested benefits	1,305	105	274	1,684

The above amounts were measured as at:
WSSP and AGCSRF item (i) 30 June 1997; items (ii) and (iii) 30 June 1998
Overseas Schemes various dates between 5 April 1997 and 30 June 1998.

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

NOTE 29. 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 and in managing its own risk profile. 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 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, both on and off-balance sheet, financial instruments with credit risk. The Group evaluates each customer's credit-worthiness 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.

Off-balance sheet credit-risk-related financial instruments are as follows:

	Consolidated				Parent Entity			
	1998		1997		**1998**		1997	
	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	**–**	**–**	28	28	**–**	**–**	28	28
Standby letters of credit and financial guarantees	**1,841**	**1,841**	2,351	2,351	**1,745**	**1,745**	2,213	2,213
Trade letters of credit[2]	**372**	**74**	368	115	**365**	**73**	362	113
Non-financial guarantees[3]	**3,293**	**1,647**	2,790	1,395	**3,286**	**1,643**	2,782	1,391
Commitments to extend credit:								
Residual maturity less than 1 year[4]	**15,428**	**–**	13,299	–	**15,428**	**–**	13,299	–
Residual maturity 1 year or more	**7,033**	**3,516**	6,486	3,243	**7,033**	**3,516**	6,482	3,241
Other commitments[5]	**6,614**	**6,498**	5,037	4,950	**7,737**	**6,547**	5,186	4,953
Total credit-risk-related instruments	**34,581**	**13,576**	30,359	12,082	**35,594**	**13,524**	30,352	11,939

1 Credit equivalents are determined in accordance with the APRA's risk-weighted capital adequacy guidelines (refer note 30).
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.

NOTE 29. CONTINGENT LIABILITIES AND CREDIT COMMITMENTS (CONTINUED)

Additional liabilities and commitments

(i) An assessed liability of $1 million (1997 $1 million) based on an actuarial assessment as at 30 September 1998, as a self-insurer under the Accident Compensation Act, 1985 (Victoria) and an assessed liability of $9 million (1997 $9 million) based on an actuarial assessment as at 30 September 1998, as a self-insurer under the Workers' Compensation Act, 1987 (New South Wales). Adequate provision has been made for these liabilities in the provision for holiday leave and other staff benefits (note 19).

(ii) A contingent liability in respect of actual and potential claims and proceedings which at the date of adoption of these financial statements has 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 the provision for doubtful debts (note 12) or provision for non-lending losses (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 1998 was $12 million (1997 $12 million).

(iv) Commitments arising from membership in the Australian Paper Clearing System and the Bulk Electronic Clearing System. In accordance with the Regulations and Procedures governing these systems, the Parent Entity (proportionate to and in conjunction with other members) may be required, at the request of and in discussion with the RBA, to provide temporary liquidity support to another member financial institution which is unable to provide settlement. In conjunction with the RBA, member financial institutions are reviewing current arrangements with the view of eliminating these commitments. Extensions of credit by the Parent Entity to member financial institutions would be subject to appropriate credit criteria.

(v) Commitments arising from membership in the High Value Clearing System. In accordance with the Regulations and Procedures governing this system, the Parent Entity (proportionate to and in conjunction with other members) may be required, at the request of and in discussion with the RBA, to provide liquidity support to another member financial institution. This commitment arises only where the member financial institution is unable to provide settlement for items exchanged over SWIFT–PDS concurrent with a technical failure or disruption to the Real Time Gross Settlement (RTGS) system. Extensions of credit by the Parent Entity to member financial institutions would be subject to appropriate credit criteria.

Parent Entity guarantees and undertakings

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

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

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

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

(iv) Guarantee of certain liabilities of Westpac Investment Management Pty Limited to the extent of $25 million; and

(v) Guarantee of the performance of lessees under certain finance leases entered into by AGC as lessor.

NOTE 30. 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. Derivatives are flexible and cost-effective tools for assisting in the management of interest rate, exchange rate, commodity, equity and credit exposures, and for structuring finance and investment strategies. Derivatives can provide the ability to transfer or manage risk, improve liquidity, access cost effective funding, increase investment options and enhance yield. Derivative financial instruments include forward and futures contracts, swaps and options.

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. A forward rate agreement (FRA) is an agreement between two parties establishing a contract interest rate on a notional principal over a specified period commencing at a specific future date.

A ***futures*** contract is similar to 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). 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 commodity or 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.

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.

The following terms are used in the remainder of this note to describe the Group's exposure to derivatives.

The "notional amount" 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. 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.

NOTE 30. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The "regulatory credit equivalent" is calculated for capital adequacy purposes using the APRA's current exposure method. Credit equivalent amounts are calculated as replacement cost (positive mark-to-market) plus an add-on for potential credit exposure based on a credit conversion factor (percentage) of the notional amount. The credit conversion factors are as shown below:

	Less than 1 year %	Over 1 year to 5 years %	Over 5 years %
Interest rate	Nil	0.5	1.5
Foreign exchange (including gold)	1.0	5.0	7.5
Equities	6.0	8.0	10.0
Precious metals (excluding gold)	7.0	7.0	8.0
Other commodities	10.0	12.0	15.0

The "positive mark-to-market (replacement cost)" is the cost of replacing all transactions in a gain position to Westpac and is included in 'other assets' on the balance sheet. This measure is the industry standard for the calculation of current credit risk.

The "negative mark-to-market" represents the cost to Westpac's counterparties of replacing all transactions in a loss position to Westpac and is included in 'other liabilities' on 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 master netting agreements.

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 table:

Trading Derivatives Outstanding	Notional Amount $m	Regulatory Credit Equivalent $m	Positive Mark-to-market (replacement cost) $m	Negative Mark-to-market $m
1998				
Interest rate				
Futures	**15,095**	**–**	**10**	**–**
Forwards	**19,850**	**17**	**16**	**10**
Swaps	**126,747**	**3,598**	**3,030**	**3,208**
Purchased options	**4,731**	**35**	**28**	**3**
Sold options	**6,099**	**846**	**5**	**12**
Foreign exchange				
Forwards	**304,560**	**9,980**	**6,774**	**6,082**
Swaps	**26,354**	**2,691**	**1,644**	**1,505**
Purchased options	**14,398**	**1,091**	**857**	**–**
Sold options	**14,294**	**–**	**–**	**455**
Commodities	**696**	**90**	**27**	**26**
Equities	**1,016**	**59**	**–**	**265**
Total trading derivatives outstanding	**533,840**	**18,407**	**12,391**	**11,566**

NOTE 30. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Trading Derivatives Outstanding	Notional Amount $m	Regulatory Credit Equivalent $m	Positive Mark-to-market (replacement cost) $m	Negative Mark-to-market $m
1997				
Interest rate				
Futures	20,091	–	1	5
Forwards	23,593	87	12	14
Swaps	127,537	3,458	3,072	2,889
Purchased options	26,708	46	44	24
Sold options	3,243	1,141	–	20
Foreign exchange				
Forwards	241,546	6,955	4,425	4,446
Swaps	21,149	1,722	912	1,244
Purchased options	9,676	342	187	–
Sold options	10,953	–	–	177
Commodities	1,069	94	56	55
Equities	1,313	54	–	28
Total trading derivatives outstanding	486,878	13,899	8,709	8,902

Derivatives positions used in the Group's asset and liability management activities are transacted internally with the Group's independently managed dealing units. The dealing units, in turn, cover their position in the market place.

The following table shows the notional amount of such internal derivative transactions outstanding at year end. The notional amounts do not represent direct credit exposures. Credit risk does arise in respect of offsetting external transactions. The regulatory credit equivalent is included in the above table of trading derivatives.

	Notional Amount 1998 $m	Notional Amount 1997 $m
Derivatives used for asset and liability management purposes		
Interest rate		
Futures	**9,288**	14,464
Forwards	**4,200**	1,088
Swaps	**33,932**	30,757
Purchased options	**86**	61
Foreign exchange		
Forwards	**7,180**	3,271
Swaps	**14,226**	13,290
Total derivatives used for asset and liability management purposes	**68,912**	62,931

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 the maturity. As at 30 September 1998, the net amount of the deferred gains in relation to terminated hedge contracts was $6.6 million (1997 $7.0 million deferred losses) which will be amortised to the profit and loss statement.

NOTE 31. INTEREST RATE RISK

Sensitivity to interest rates arises from mismatches in the interest rate characteristics of the assets and their corresponding liability funding. One of the major causes of these mismatches is timing differences in the repricing of the asset and liabilities. These mismatches are actively managed as part of the overall interest rate risk management process which is conducted in accordance with Group policy guidelines.

The following table represents a break down of the contractual repricing, by time, of Australia and New Zealand's net asset position as at 30 September 1998. The Group uses this contractual repricing information as a base, which is then altered to take account of consumer behaviour, to manage its interest rate risk.

	Less than 1 month $m	Over 1 month to 3 months $m	Over 3 months to 1 year $m	Over 1 year to 5 years $m	Over 5 years $m	Non-interest bearing $m	Total $m	Weighted Average Rate %
Australia								
Assets								
Cash and balances with central banks	10	–	–	–	–	306	316	1.5%
Due from other financial institutions	478	–	–	–	–	28	506	3.7%
Trading securities	5,214	343	–	–	–	224	5,781	5.4%
Investment securities	118	–	–	–	–	–	118	2.5%
Loans	41,539	11,470	5,220	12,099	–	(1,345)	68,983	8.7%
Acceptances of customers	–	–	–	–	–	10,282	10,282	–
Statutory deposits	–	–	–	–	–	788	788	–
Fixed assets	–	–	–	–	–	1,268	1,268	–
Other assets	616	–	–	–	–	15,696	16,312	0.3%
Total assets	47,975	11,813	5,220	12,099	–	27,247	104,354	6.1%
Liabilities								
Due to other financial institutions	205	–	–	–	–	765	970	5.8%
Deposits and public borrowings	42,781	6,738	3,562	309	–	3,663	57,053	6.9%
Bonds, notes and commercial paper	5,379	–	–	–	–	–	5,379	3.1%
Acceptances	–	–	–	–	–	10,282	10,282	–
Other liabilities	3	41	–	–	–	14,638	14,682	5.5%
Intragroup payable	7,704	–	–	–	–	–	7,704	6.2%
Total liabilities excluding loan capital	56,072	6,779	3,562	309	–	29,348	96,070	6.3%
Loan capital	–	–	2,481	–	–	–	2,481	9.5%
Total liabilities	56,072	6,779	6,043	309	–	29,348	98,551	
Net assets	(8,097)	5,034	(823)	11,790	–	(2,101)	5,803	
Shareholders' equity	–	–	–	–	–	5,798	5,798	
Outside equity interests in controlled entities	–	–	–	–	–	5	5	
Total shareholders' equity	–	–	–	–	–	5,803	5,803	
Off balance sheet Items	1,522	(5,755)	2,741	1,994	(502)	–	–	
Net mismatch – Australia	(6,575)	(721)	1,918	13,784	(502)	(7,904)	–	
New Zealand								
Assets								
Cash and balances with central banks	–	–	–	–	–	62	62	1.5%
Due from other financial institutions	1,010	14	–	–	–	144	1,168	3.7%
Trading securities	637	203	159	14	–	–	1,013	5.4%
Loans	8,850	2,759	2,687	4,633	3	(110)	18,822	8.7%
Acceptances of customers	–	–	–	–	–	29	29	–
Fixed assets	–	–	–	–	–	242	242	–
Other assets	–	–	–	–	–	2,463	2,463	0.3%
Total assets	10,497	2,976	2,846	4,647	3	2,830	23,799	6.1%
Liabilities								
Due to other institutions	142	2	–	–	–	218	362	5.8%
Deposits and public borrowings	10,000	3,191	2,497	213	–	657	16,558	6.9%
Bonds, notes and commercial paper	929	845	520	73	–	–	2,367	3.1%
Acceptances	–	–	–	–	–	29	29	–
Other liabilities	358	–	–	–	–	1,179	1,537	5.5%
Intragroup payable	2,356	–	–	–	–	–	2,356	6.2%
Total liabilities excluding loan capital	13,785	4,038	3,017	286	–	2,083	23,209	6.2%
Loan capital	–	–	–	42	–	–	42	8.0%
Total liabilities	13,785	4,038	3,017	328	–	2,083	23,251	
Net assets	(3,288)	(1,062)	(171)	4,319	3	747	548	
Total shareholders' equity	–	–	–	–	–	548	548	
Off balance sheet Items	658	1,727	(290)	(2,095)	–	–	–	
Net mismatch – New Zealand	(2,630)	665	(461)	2,224	3	199	–	

NOTE 32. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following information represents estimates of fair values at a point in time. 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 1998.

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 bank, loans to dealers in the Australian short term money market, amounts due from other financial institutions 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.

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.

Regulatory 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 financial institutions and loans

For amounts due from other financial institutions 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 collateralised 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 $1,238 million (1997 $1,249 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 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 financial institutions; bonds, notes and commercial paper; and subordinated debt

The fair value of demand deposits is the amount payable on demand 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 1998 $29.1 billion, 1997 $24.8 billion) and non-financial guarantees, letters of credit and bill endorsements (combined contractual value 1998 $5.5 billion, 1997 $5.5 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.

The net fair value of the financial assets and liabilities are materially the same as the fair values disclosed in the table below.

NOTE 32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Estimated fair value of the Group's financial instruments at 30 September are as follows:

	1998		1997	
	Carrying Amount $m	**Estimated Fair Value $m**	Carrying Amount $m	Estimated Fair Value $m
Financial assets				
Cash and short term liquid assets	**403**	**403**	321	321
Due from other financial institutions	**3,290**	**3,290**	4,002	4,002
Trading securities	**6,826**	**6,826**	6,243	6,243
Investment securities	**2,168**	**2,178**	1,633	1,620
Regulatory deposits	**1,196**	**1,196**	928	928
Loans (net of unearned income)				
Loans and other receivables	**90,684**		76,986	
Specific provisions for bad and doubtful debts	**(357)**		(334)	
General provisions for bad and doubtful debts	**(1,238)**		(1,249)	
	89,089	**89,763**	75,403	74,569
Finance and leveraged leases	**2,654**		2,476	
Specific provisions for bad and doubtful debts	**(5)**		(5)	
	2,649	**2,663**	2,471	2,527
Acceptances of customers	**10,325**	**10,270**	11,242	11,185
Other assets				
Accrued interest receivable	**412**	**412**	423	423
Securities purchased under agreement to resell	**370**	**370**	554	554
Securities sold not delivered	**1,527**	**1,527**	1,072	1,072
Other financial markets assets	**13,007**	**13,007**	9,370	9,370
Other investments	**580**	**617**	495	495
Financial liabilities				
Due to other financial institutions	**4,343**	**4,343**	4,570	4,570
Deposits and public borrowings	**83,164**	**83,093**	72,636	72,552
Bonds, notes and commercial paper	**10,580**	**10,578**	6,273	6,254
Acceptances of customers	**10,325**	**10,270**	11,242	11,185
Other liabilities				
Accrued interest payable	**954**	**954**	711	711
Securities sold under agreement to repurchase	**139**	**139**	214	214
Securities short sold	**1,071**	**1,071**	1,115	1,115
Securities purchased not delivered	**1,119**	**1,119**	260	260
Other financial markets liabilities	**11,486**	**11,486**	9,276	9,276
Subordinated bonds, notes and debentures	**1,778**	**1,781**	1,200	1,163
Subordinated undated capital notes	**745**	**745**	695	689
Off balance sheet derivative financial instruments				
Exchange-rate and interest-rate contracts used for hedging purposes in a net receivable position	**–**	**376**	–	344

NOTE 33. GROUP ENTITIES

The consolidated financial statements at 30 September 1998 include the following controlled entities. The financial years of all controlled entities are the same as that of the Parent Entity.

Name	Notes	Country of Incorporation (b)
Westpac Banking Corporation	(a),(c)	Australia
52 Collins Street Pty Limited	(g)	Australia
A.G.C. (Advances) Limited		Australia
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
Reef International Pty Limited		Australia
Australian Guarantee Corporation Limited		Australia
Acorus Pty Limited (in liquidation)		Australia
A.G.C. (Commercial) Limited		Australia
M.A.C. Nominees Pty Limited		Australia
Mazbond Pty Limited		Australia
Palaver Pty Limited		Australia
Reveille Pty Limited		Australia
Mutual Acceptance (Insurance) Limited (in voluntary liquidation)		Australia
Runkelli Pty Limited		Australia
S.C.F. (No. 5) Limited		Australia
S.C.F. (No. 6) Limited		Australia
A.G.C. (Developments) Limited (in voluntary liquidation)		Australia
A.G.C. (Finance) Limited		Australia
A.G.C. (General Finance) Limited		Australia
A.G.C. (Industrial) Limited		Australia
A.G.C. (Industrial) Leasing Pty Limited		Australia
A.G.C. (Industrial) Victoria Limited (in liquidation)		Australia
A.G.C. (Insurance Premium Funding) Limited		Australia
A.G.C. (Properties) Limited		Australia
A.G.C. House Limited		Australia
A.G.C. (Investments) Limited (in liquidation)		Australia
A.G.C. (Leasing) Limited		Australia
A.G.C. (Pacific) Limited		Papua New Guinea
A.G.C. Finance (Vanuatu) Limited		Vanuatu
A.G.C. Projects Pty Limited (in liquidation)		Australia
A.G.C. (Securities) Limited		Australia
AOC Holdings Limited		Australia
Autodirect Pty Ltd		Australia
Fitzroy Leasing Pty Limited (in liquidation)		Australia
Colmso Pty Limited		Australia
Colmtea Pty Limited		Australia
Como Properties Pty Limited		Australia
Como Properties No. 2 Pty Limited (in liquidation)		Australia
Midland Credit Limited (in liquidation)		Australia
Ormiston Pty Limited		Australia
Broadbeach International Holding Trust		Australia
Pranbrooke Pty Limited		Australia
Hesse Pty Limited		Australia

Name	Notes	Country of Incorporation (b)
Howlong Pty Limited		Australia
PersonalDirect Limited (formerly A.G.C. Overseas Holdings Limited)		Australia
Piccadilly of Sydney Pty Limited	(f)	Australia
Jaunty Pty Limited		Australia
Piccadilly Plaza Trust		Australia
Promenade Foodhall Pty Limited (in liquidation)		Australia
Sarnia Pty Limited	(f)	Australia
The Swan Trust		Australia
Tarval Pty Limited (in liquidation)		Australia
Traders Finance Corporation Limited		Australia
Vicpac Chatswood Pty Limited	(f)	Australia
Vicpac Unit Trust		Australia
Bank of Kiribati Limited	(i)	Kiribati
Beach Hill Investments (No 2) Pty Limited	(g)	Australia
Beach Hill Investments (No 3) Pty Limited	(g)	Australia
Beach Hill Investments Pty Limited	(g)	Australia
Bill Acceptance Corporation Limited		Australia
Mortgage Management Limited		Australia
Biralo Pty Limited	(d)	Australia
Brenmar Holdings Pty Limited	(g)	Australia
BLE Capital Limited		Australia
BLE Capital Investment Pty Limited		Australia
BLE Development Pty Limited		Australia
BLE Holdings Pty Limited		Australia
BLE Capital (NZ) Limited		New Zealand
C.B.A. Limited		Australia
Belliston Pty Limited		Australia
Westpac Properties-Vic-Limited		Australia
Westpac Properties-NSW-Pty Limited		Australia
Carseldine Pty Limited		Australia
Challenge Limited		Australia
CBL Securities Limited (in liquidation)		Australia
Challenge Finance Limited		Australia
Trioba Pty Limited		Australia
Challenge Funds Management Limited		Australia
Challenge Information Technology Pty Limited		Australia
Challenge Insurance Services (Agency) Pty Limited (in liquidation)		Australia
Cold Storage Construction Pty Limited		Australia
Westman Enterprises Pty Limited (in liquidation)		Australia
Credit Caledonie et Tahitien	(i)	New Caledonia
Credit Foncier et Immobilier de la Nouvelle Caledonie et de la Polynesie		New Caledonia
Huben Holdings Pty Limited		Australia
Hull 4381 and 4382 Leasing Pty Limited		Australia
International Business Analysis Pty Limited (in liquidation)		Australia
MFS Services Pty Limited	(g)	Australia
Maracorp Financial Services Pty Limited	(g)	Australia
Partnership Pacific Limited		Australia

NOTE 33. GROUP ENTITIES (CONTINUED)

Name	Notes	Country of Incorporation (b)
Glenunga Pty Limited		Australia
Maliny Pty Limited		Australia
Operating Lease Trust No. 4	(i)	Australia
Partnership Pacific Securities Limited		Australia
Partnership Pacific (Vic.) Pty Limited (in liquidation)		Australia
Wistow Pty Limited		Australia
Pitco Pty Limited	(d)	Australia
The Pitco Trust	(d)	Australia
RESI – Statewide Corporation Limited	(g)	Australia
RESI – Statewide Mortgage Corporation Limited	(g)	Australia
S.A.L. Financial Services Pty Limited	(g)	Australia
RESI – Statewide Nominees Limited	(g)	Australia
Sallmoor Pty Limited	(g)	Australia
Sixty Martin Place (Holdings) Pty Limited		Australia
Brooklyn Amber Pty Limited		Australia
Claremont Bond Pty Limited		Australia
Comserv (No 3011) Pty Limited		Australia
Enfield Downs Pty Limited		Australia
Faraday Arch Pty Limited		Australia
Florida Banner Pty Limited		Australia
Infrastructure (No 1) Limited		Australia
Infrastructure (No 2) Limited		Australia
Infrastructure (No 3) Limited		Australia
Infrastructure (No 4) Limited		Australia
Ivaness Pty Limited		Australia
Loy Yang B Agencies Pty Limited		Australia
Mayne Equipment Financing Pty Limited	(h)(i)	Australia
Oakjet Pty Limited		Australia
Selbourne Pty Limited		Australia
Teuton Pty Limited		Australia
Westpac Administration Pty Limited (formerly Baffsky Pty Limited)		Australia
Westpac Asian Lending Pty Limited		Australia
Westpac Debt Securities Pty Limited		Australia
Westpac Equipment Finance Limited		Australia
Westpac Equipment Finance (Vic) Pty Limited		Australia
The Mortgage Company Pty Limited		Australia
The Home Loan Partnership Pty Limited	(h)	Australia
Westpac Bank-PNG-Limited	(i)	Papua New Guinea
Westpac Capital Corporation		U.S.A.
Westpac Derivative Products Limited		Australia
Westpac Employee Assistance Foundation Pty Limited		Australia
Westpac Equity Holdings Pty Limited		Australia
Westpac Development Capital Limited		Australia
Westpac Financial Consultants Limited		Australia
Westpac Financial Services Group Limited		Australia
Westpac Financial Services Limited		Australia
Westpac Managed Funds Limited (in voluntary liquidation)		Australia
Westpac Insurance Services (Brokers) Limited		Australia
Westpac Equity Pty Limited		Australia
A.F.G. Insurance Limited		Australia
Westpac General Insurance Limited		Australia
Westpac Lenders Mortgage Insurance Limited		Australia
Westpac Investment Management Pty Limited		Australia
Westpac Life Insurance Services Limited		Australia
Westpac Securities Administration Limited		Australia
The Wales Nominees (Vic.) Pty Limited		Australia
Westpac Custodian Nominees Limited		Australia
Westpac Insurance Services Superannuation Fund Ltd		Australia
Westpac Nominees-Canberra-Pty Limited		Australia
Westpac Nominees-SA-Pty Limited		Australia
Westpac Information Technology Services Pty Limited		Australia
Westpac Retirement Plan Pty Limited		Australia
Westpac Securitisation Management Pty Limited	(h)	Australia
Westpac Training Services Pty Limited		Australia
Westpac Finance Pty Limited		Australia
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
Westpac Overseas Holdings Pty Limited		Australia
A.G.C. Finance (S.I.) Limited		Solomon Islands
Diversified Investments LLC	(h)	Cayman Islands
Westpac Americas Inc.		U.S.A.
Westpac Investment Capital Corporation		U.S.A.
Westpac USA Inc.		U.S.A.
Southern Cross Inc.		U.S.A.
Westpac Banking Corporation (Jersey) Limited		Jersey
Westpac Finance Asia Limited		Hong Kong
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
Australian Guarantee Corporation (N.Z.) Limited		New Zealand
A.G.C. Flexiloan Limited		New Zealand
Central Number Two Limited		New Zealand
Mortgage Services Limited		New Zealand
Ngauranga Gorge Limited		New Zealand
TBNZ Limited		New Zealand
TBNZ Developments Limited (formerly Westpac Developments Limited)		New Zealand
TBNZ Investments Limited (formerly Westpac Investments Limited)		New Zealand
The Home Mortgage Company Limited		New Zealand
Westpac Equity-NZ-Limited		New Zealand
Aotearoa Financial Services Ltd	(i)	New Zealand
C.B.A. Finance Nominees Limited		New Zealand
Piesse Properties Limited		New Zealand
Sfaka Investments Limited		New Zealand

NOTE 33. GROUP ENTITIES (CONTINUED)

Name	Notes	Country of Incorporation (b)
Systems and Technology Limited (formerly Trust Bank Systems and Technology Limited)		New Zealand
Westpac Communications-NZ-Limited		New Zealand
Westpac Fund Acceptances-NZ-Limited		New Zealand
Westpac Lease Discounting-NZ-Limited		New Zealand
Toliman Investments Limited		New Zealand
Westpac Finance Limited		New Zealand
Westpac Trust Financial Services-NZ-Limited (formerly Westpac Financial Services-NZ-Limited)		New Zealand
Westpac Nominees-NZ-Limited		New Zealand
Westpac Group Investment Trust		New Zealand
Westpac Trust Investment Management-NZ-Limited (formerly Westpac Investment Management-NZ-Limited)		New Zealand
Westpac Trust Life-NZ-Limited (formerly Westpac Life-NZ-Limited)		New Zealand
Westpac Trust Superannuation Nominees-NZ-Limited (formerly Westpac Superannuation Nominees-NZ-Limited)		New Zealand
Westpac Trust Unit Investments-NZ-Limited (formerly Westpac Unit Investments-NZ-Limited)		New Zealand
Westpac Trust Properties-NZ-Limited (formerly Westpac Properties-NZ-Limited)		New Zealand
Westpac Singapore Limited		Singapore
Westpac Overseas Funding Pty Limited		Australia
Westpac Properties Limited		Australia
Collins Wales Pty Limited		Australia
Westpac Property Investments Pty Limited	(e)	Australia
Westpac Syndications Management Pty Limited		Australia
Westpac Unit Trust		Australia

Notes

(a) Controlled entities shown in bold type are owned directly by the Parent Entity.
(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 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 Parent Entity.
(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 Parent Entity.
(f) 50% of equity or issued units in Piccadilly of Sydney Pty Limited, Sarnia Pty Limited, Vicpac Chatswood Pty Limited is held directly by Australian Guarantee Corporation Limited. The other 50% is held directly by the Parent Entity.
(g) Bank of Melbourne Limited and its controlled entities were acquired on 7 November 1997 for $1,343 million and its results have been included from 1 October 1997. Assets and liabilities of Bank of Melbourne Limited were transferred to the Parent Entity on 3 May 1998.
(h) Diversified Investments LLC was incorporated on 30 July 1998 with issued share capital of US$1 million. During the year Westpac Securitisation Management Pty Limited, Mayne Equipment Financing Pty Limited and The Home Loan Partnership Pty Limited were incorporated with nominal share capital.
(i) All entities listed in note 33 are wholly owned subsidiaries except the following:

		Percentage Owned	
		1998	1997
Aotearoa Financial Services Limited		**76.0%**	76.0%
Bank of Kiribati Limited		**51.0%**	51.0%
Credit Caledonie et Tahitien		**87.0%**	87.0%
Mayne Equipment Financing Pty Limited	(h)	**95.0%**	–
Operating Lease Trust No. 4		**99.0%**	99.0%
Westpac Bank-PNG-Limited		**89.9%**	89.0%

Some entities were disposed of or liquidated during the year. These entities had no or nominal assets upon disposal/liquidation.

NOTE 34. 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
Abrotar Ltd	Australia	47.0%	Property investment
Austraclear Limited	Australia	17.9%	Clearing house for bill transactions
Autobail	New Caledonia	47.9%	Consumer credit
Bank of Tonga	Tonga	30.0%	Banking
Cardlink Services Limited	Australia	16.0%	Computer bureau & authorisation centre
Colobus Pty Limited	Australia	50.0%	Corporate trustee
Electronic Transaction Services Limited	New Zealand	25.0%	Credit card processing
Havenmaze Ltd	Australia	47.0%	Property owner
Krava Nominees Pty Ltd	Australia	50.0%	Corporate trustee
Lawrence Collateral Indemnity Pty Ltd	Australia	50.0%	Corporate trustee
MLM (Properties) Ltd	Australia	47.0%	Property owner
Mondex Australia Pty Ltd	Australia	25.0%	Smart card operations
Mondex New Zealand Limited	New Zealand	16.7%	Smart card operations
Pacific Commercial Bank Limited	Western Samoa	42.7%	Banking
Runaway Bay Unit Trust	Australia	25.0%	Property development
Siap Renting	New Caledonia	47.9%	Consumer credit
Societe Caledonienne de Monetique et de Services Bancaires	New Caledonia	20.0%	Banking
Somersby Park Pty Ltd	Australia	25.0%	Property owner
The Conchi Leasing Limited Partnership	Hong Kong	50.0%	Aircraft leasing
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 35. RETIREMENT BENEFITS

The aggregate amount of "prescribed benefits" (as defined by Section 237 of the Corporations Law) given by the Group and the Parent Entity or its controlled entities was:

	Consolidated		Parent Entity	
	1998 $'000	1997 $'000	**1998 $'000**	1997 $'000
Aggregate amount of prescribed benefits	**1,137**	947	**293**	295

The benefits not pertaining to the Parent Entity were entitlements paid to former Directors of Bank of Melbourne Limited and an employee of the Group who, upon leaving service was a Director of a controlled entity. The entitlement accrued to that person in his capacity as an employee and was not related in any way to his directorship. In the circumstances, the Directors consider that it would be unreasonable to provide full particulars of those benefits.

NOTE 36. DIRECTORS

Directors of the Parent Entity during the year ended 30 September 1998 were:

Mr J.A. Uhrig (Chairman)

Mr R.P. Handley (Executive Director – appointed 12 November 1997)

Mr W.B. Capp

The Hon. Sir Llewellyn Edwards

Mr J.B. Fairfax

Mr I.R.L. Harper

Professor W.P. Hogan

Mr R.L. Joss (Managing Director)

Dr D.R. Morgan (Executive Director – appointed 12 November 1997)

Ms H.A. Lynch (appointed 12 November 1997)

Ms E. Mahlab

Mr P.D. Ritchie

Mr C.J. Stewart (appointed 12 November 1997)

Mr J.P. Morschel (resigned as an Executive Director and appointed a non-executive Director on 12 November 1997)

NOTE 37. LOANS TO DIRECTORS AND DIRECTOR-RELATED PARTIES

Loans made to Directors of the Parent Entity and controlled entities and to parties related to them are made in the ordinary course of business on normal terms and conditions. In respect of loans to Executive Directors, loans are made on the same terms and conditions as apply to other employees of the Group in accordance with established policy. Directors' loans for the year ended 30 September 1998 include director-related entities' loans. Comparative figures for the year ended 30 September 1997 have been adjusted accordingly.

	Consolidated		Parent Entity	
	1998 $'000	1997 $'000	**1998 $'000**	1997 $'000
Aggregate amount of loans to Directors	**197,988**	100,901	**197,662**	100,521
Loans advanced during the year	**96,187**	482	**95,875**	410
Loan repayments received during the year	**5,772**	34	**5,618**	–

The Directors of the Parent Entity and other controlled entities concerned in the relevant loans made and repayments received during 1998 and 1997 were:

	1998	1997		**1998**	1997
N.J. Bayliss	**5**	4	J.J. Moses	**2,4**	2,4
W.B. Capp	**1,3**	1,3	J.B. Sinclair	**1,2,4**	–
Sir L. Edwards	**1,3**	–	J.A. Uhrig	**1,2,3**	–
J.B. Fairfax	**1,3**	1,3	D. Weston	**5**	1,2,4
I.R.L. Harper	**1,2,3**	1,3	Y. Wong	**1,2,4**	–
H.A. Lynch	**1,2,3**	–	R.J. Zubielevitch	**1,2,4**	1,2,4

1 Loan advanced during the year.
2 Repayment made by this person during the year.
3 Ordinary course of business and normal terms and conditions apply, including fluctuating overdraft facilities.
4 Employee terms and conditions apply.
5 Ceased to be a Director during the year.

NOTE 38. DIRECTORS' SHARES AND SHARE OPTION TRANSACTIONS

Details of share options issued to the Managing Director Mr R.L. Joss and Executive Directors Mr R.P. Handley and Dr D.R. Morgan are set out in note 21.

	1998	1997
(i) Ordinary shares issued during the year The aggregate number of shares issued by the Parent Entity to the Directors of the Parent Entity and their Director-related entities during the year ended 30 September were:	**351,308** [1]	1,666,667 [3]
(ii) Ordinary shares disposed of during the year	**417,500**	Nil
(iii) Shares held at the end of the year The aggregate number of shares of the Parent Entity held directly, indirectly or beneficially by Directors of the Parent Entity and their Director-related entities at 30 September were:	**2,773,523** [2]	2,613,918 [4]

1 Includes 350,000 issued under the Westpac Senior Officers' Share Purchase Scheme and 1,308 issued under the Dividend Reinvestment Plan.
2 Includes 285,017 owned by staff-related benefit fund of which Directors are trustees.
3 Issued under the Chief Executive Share Option Agreement.
4 Includes 671,527 owned by staff-related benefit fund of which Directors are trustees.

NOTE 39. DIRECTORS' REMUNERATION

Income received, or due and receivable, from the Parent Entity and related entities by Directors of the Parent Entity fell within the bands below:

	1998	1997
$20,001 – 30,000	–	1
50,001 – 60,000	–	1
60,001 – 70,000	6	4
70,001 – 80,000	1	1
80,001 – 90,000	2	1
170,001 – 180,000	1	–
250,001 – 260,000	–	1
260,001 – 270,000	1	–
980,001 – 990,000	–	1
1,160,001 – 1,170,000	1	–
1,480,001 – 1,490,000	1	–
2,140,001 – 2,150,000	–	1
2,670,001 – 2,680,000	1	–
Total	**14**	11

	Directors of the Group		Directors of the Parent Entity	
	1998 $'000	1997 $'000	**1998 $'000**	1997 $'000
Income received, or due and receivable, from the Parent Entity and related entities by Directors.	**8,024**	5,452	**6,400**	3,900

In accordance with Australian Accounting Standard AASB 1017 "Related Party Disclosures", Directors' remuneration has been determined on the basis of the cost of the remuneration to the Group. Where non-monetary benefits are provided to a Director, the amount of remuneration includes the total cost to the Group of providing the benefits, including fringe benefits tax. Additional information for Executive Directors is contained in the executive team compensation summary shown in note 41.

NOTE 40. RELATED PARTY DISCLOSURES

Controlled Entities

Transactions between the Parent Entity 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. Details of amounts paid to or received from related parties, in the form of dividends or interest, are set out in notes 2 and 3. 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.

Related party financial instrument transactions

The Parent Entity and controlled entities have been exempted under the ASIC Class Order 98/0110 dated 10 July 1998 from the requirement to disclose in the financial statements regular financial instrument transactions made by the bank with related parties (other than directors), in the ordinary course of banking business and either on an arms length basis or with the approval of the shareholders of the relevant entity and its ultimate parent entity.

A condition of the Class Order is that the Parent Entity must lodge a statutory declaration, signed by two Directors, with ASIC confirming that the Parent Entity has appropriate systems of internal controls and procedures in place.

The Directors of the Parent Entity are of the opinion that there were no financial instrument transactions with Directors or related parties during the year ended 30 September 1998 which are required to be disclosed.

Directors' interests in contracts

As required by the Company Law Review Act 1998, some Directors have given notice that 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 Parent Entity and those companies.

All other transactions with Directors, director-related entities and other related parties are conducted on an arm's length basis in the normal course of business and on commercial terms and conditions. These transactions principally involve the provision of financial and investment services.

NOTE 41. EXECUTIVES' REMUNERATION

The following table shows the number of executives of the Parent Entity and Group in Australia whose income received, or due and receivable, from the Parent Entity and related entities fell within the stated bands. In accordance with the requirements of accounting standard AASB 1034 "Information to be disclosed in Financial Reports", remuneration includes any money, consideration or benefit, but does not include fringe benefits tax, other than for those individuals whose remuneration is calculated on a "total employment cost" basis.

	Consolidated		Parent Entity	
	1998	1997	**1998**	1997
$60,001 – 70,000	**1**[1]	–	**1**[1]	–
110,001 – 120,000	**1**[2]	–	**1**[2]	–
180,001 – 190,000	**1**[1]	–	**1**[1]	–
190,001 – 200,000	**1**[1]	–	**1**[1]	–
220,001 – 230,000	**1**[1]	–	**1**[1]	–
250,001 – 260,000	**2**	1	**2**	1
270,001 – 280,000	**–**	1	**–**	1
290,001 – 300,000	**2**	1	**2**	1
300,001 – 310,000	**–**	1	**–**	1
310,001 – 320,000	**–**	1[1]	**–**	1[1]
320,001 – 330,000	**–**	1	**–**	1
330,001 – 340,000	**–**	1	**–**	1
340,001 – 350,000	**1**	–	**1**	–
360,001 – 370,000	**2**	–	**2**	–
380,001 – 390,000	**1**	2	**1**	2
390,001 – 400,000	**1**	–	**1**	–
400,001 – 410,000	**1**	2	**1**	2
410,001 – 420,000	**–**	1	**–**	1
420,001 – 430,000	**–**	1	**–**	–
430,001 – 440,000	**3**	–	**3**	–
440,001 – 450,000	**1**	1	**1**	1
450,001 – 460,000	**–**	2	**–**	2
460,001 – 470,000	**–**	1	**–**	1
470,001 – 480,000	**1**	3	**1**	3
480,001 – 490,000	**1**	1	**1**	–
490,001 – 500,000	**–**	1	**–**	1
500,001 – 510,000	**–**	1	**–**	1
510,001 – 520,000	**2**	–	**2**	–
550,001 – 560,000	**1**	–	**1**	–
570,001 – 580,000	**1**	–	**1**	–
580,001 – 590,000	**–**	2	**–**	2
600,001 – 610,000	**–**	1	**–**	1
620,001 – 630,000	**–**	1	**–**	1
670,001 – 680,000	**2**	1[1]	**2**	1[1]
690,001 – 700,000	**1**	1	**1**	1
710,001 – 720,000	**–**	1	**–**	1
720,001 – 730,000	**–**	1	**–**	1
760,001 – 770,000	**1**	–	**1**	–
780,001 – 790,000	**–**	1	**–**	1
810,001 – 820,000	**1**[1]	–	**1**[1]	–
820,001 – 830,000	**1**	1	**1**	1
840,001 – 850,000	**–**	1	**–**	1
850,001 – 860,000	**1**	–	**1**	–
870,001 – 880,000	**1**	–	**1**	–
890,001 – 900,000	**–**	1	**–**	1
900,001 – 910,000	**1**	–	**1**	–
980,001 – 990,000	**–**	2	**–**	2
1,150,001 – 1,160,000	**1**	–	**1**	–
1,170,001 – 1,180,000	**1**	–	**1**	–
1,320,001 – 1,330,000	**1**[1]	–	**1**[1]	–
1,360,001 – 1,370,000	**1**	–	**1**	–
1,440,001 – 1,450,000	**–**	1	**–**	1
1,920,001 – 1,930,000	**–**	1	**–**	1
2,080,001 – 2,090,000	**1**	–	**1**	–
2,400,001 – 2,410,000	**1**	–	**1**	–
Total	**40**	39	**40**	37

1 Includes payments (other than those included in note 35) to one or more executives in this remuneration band who retired/resigned during the year.
2 Includes payments to one or more executives in this remuneration band who commenced employment with Westpac during the year.

	Consolidated		Parent Entity	
	1998 $'000	1997 $'000	**1998 $'000**	1997 $'000
Total income received, or due and receivable, from the Parent Entity and related entities by Executive Officers whose income exceeded $100,000	**25,521**	23,152	**25,521**	22,245

The above table discloses data in respect of only those officers who are responsible for the strategic direction and operational management ("Executive Officers") of the Parent Entity and related entities. No value has been ascribed to any options issued to any of those officers.

There are also 63 (1997 74) 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 Parent Entity, serve as Directors of wholly-owned Australian controlled entities. Total income received, or due and receivable, by these employees amounted to $14,493,000 (1997 $15,786,000).

NOTE 42. STATEMENTS OF CASH FLOWS

	Consolidated			Parent Entity	
	1998 $m	1997 $m	1996 $m	**1998 $m**	1997 $m
Reconciliation of net cash provided by operating activities to operating profit after income tax					
Operating profit after income tax	**1,272**	1,291	1,132	**1,276**	1,470
Adjustments:					
Outside equity interests	**4**	2	3	**–**	–
Depreciation	**244**	218	174	**206**	185
Sundry provisions and other non cash items	**(466)**	(808)	318	**(670)**	(846)
Bad and doubtful debts	**257**	171	206	**122**	81
(Increase)/decrease in trading securities	**484**	(722)	1,857	**(274)**	(766)
(Increase)/decrease in accrued interest receivable	**11**	34	(15)	**(3)**	(12)
Increase/(decrease) in accrued interest payable	**243**	66	83	**248**	59
Increase/(decrease) in provision for income tax	**57**	(218)	331	**146**	(311)
Increase/(decrease) in provision for deferred income tax	**(113)**	(409)	(90)	**61**	(405)
(Increase)/decrease in future income tax benefits	**106**	521	32	**(25)**	505
Amounts paid out of sundry provisions	**(111)**	(141)	(149)	**(90)**	(125)
Total adjustments	**716**	(1,286)	2,750	**(279)**	(1,635)
Net cash provided by/(used in) operating activities	**1,988**	5	3,882	**997**	(165)
Non cash operating, investing and financing activities					
Entities and businesses acquired					
Details of assets and liabilities of controlled entities and businesses acquired are as follows:					
Due from the Westpac Group	**–**	–	151	**35**	–
Due from other financial institutions	**47**	–	40	**120**	–
Trading securities	**707**	–	1,769	**–**	–
Investment securities	**652**	–	247	**–**	–
Regulatory deposits	**109**	–	50	**104**	–
Loans	**9,972**	–	11,491	**10,238**	–
Acceptances of customers	**–**	–	133	**–**	–
Other investments	**–**	346	7	**5**	–
Fixed assets	**49**	–	128	**63**	–
Other assets	**60**	–	193	**588**	–
Deposits and public borrowings	**(8,904)**	–	(11,069)	**(6,567)**	–
Bonds, notes and commercial paper	**(1,885)**	–	(1,931)	**(875)**	–
Acceptances of customers	**–**	–	(133)	**–**	–
Loan capital	**–**	–	(72)	**–**	–
Due to other financial institutions	**(10)**	–	(42)	**–**	–
Due to the Westpac Group	**–**	–	(108)	**(2,893)**	–
Other liabilities	**(329)**	–	(230)	**(350)**	–
	468	346	624	**468**	–
Integration costs provided, net of tax benefit	**(63)**	–	(56)	**(63)**	–
Fair value of net assets acquired	**405**	346	568	**405**	–
Intangible assets[1] (note 16)	**913**	–	1,145	**913**	–
	1,318	346	1,713	**1,318**	–
Issuance of shares as part consideration[1]	**(1,169)**	–	(399)	**(1,169)**	–
Prior period cash payment for investment	**–**	–	(41)	**–**	–
Current period cash payment for acquisition (net of cash acquired)	**149**	346	1,273	**149**	–
Cash acquired	**25**	–	87	**25**	–
Cash consideration and costs	**174**	346	1,360	**174**	–

1 For details, see notes on the following page.

NOTE 42. STATEMENTS OF CASH FLOWS (CONTINUED)

Acquisitions

On acquisition of BML a provision for integration costs of $63 million, net of tax benefits, was included in the determination of intangible assets. This provision consisted of the costs of integrating the BML operations, including branch rationalisation, computer system integration and staff redundancies. The costs associated with restructuring the Westpac operations as a consequence of the BML acquisition were expensed as incurred.

Issuance of 142 million $1 ordinary shares fully paid at a premium of $7.23 each as part consideration for acquisition of BML amounted to $1,169 million. (1996 Challenge Bank and Trust Bank New Zealand, issuance of 70.4 million and 2.6 million, respectively, $1 ordinary shares fully paid up at premiums of $4.45 and $4.93 each, respectively, amounted to $399 million.)

Equity transactions

Shares issued under the Dividend Reinvestment Plan amounted to $91 million in the year ended 30 September 1998 (1997 nil). All 80,000,000 $1 converting preference shares were converted into 80,000,000 $1 ordinary shares by 30 June 1998 with no cash consideration.

Cash and cash equivalents

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

Formal commercial standby facilities have not been obtained as the Group has liquidity controls limiting the extent of cash flow mismatch and has access to central bank facilities in certain locations in the event that market difficulties arise.

The statements of cashflows comply with International Accounting Standard No. 7.

NOTE 43. RECONCILIATION WITH US 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 following are reconciliations of the consolidated financial statements, for any significant adjustments, to comply with US GAAP:

		1998 $m	1997 $m	1996 $m
Profit and loss statement				
Net profit as reported		**1,272**	1,291	1,132
Adjustments: (see following commentary for details)				
Item No.				
1	Depreciation on buildings	**8**	10	7
2	Gains on sale of properties (including amortisation of gains on sale of properties subject to leaseback arrangements)	**(11)**	52	25
3	Amortisation of goodwill	**(15)**	(15)	(16)
4	Superannuation (pension) expense adjustment	**8**	58	80
	Related income tax expense	**(2)**	(21)	(32)
6	Adjustment re provision for employee redundancy benefits	**51**	–	(98)
	Related income tax expense	**(18)**	–	35
7	Life insurance adjustment (net of tax)	**8**	(12)	–
	Adjusted net income according to US GAAP	**1,301**	1,363	1,133
	Adjusted net income per share			
	Primary and fully diluted – in cents	**68.0**	74.0	59.0
	Weighted average number of shares (in millions)	**1,879.0**	1,788.6	1,853.1
Non-interest expenses as reported		**3,392**	3,228	3,049
Adjustments: (see following commentary for details)				
Item No.				
1	Depreciation on buildings	**(8)**	(10)	(7)
3	Amortisation of goodwill	**15**	15	16
4	Superannuation (benefit)/expense	**(65)**	(42)	(69)
4	Superannuation prepayment adjustment	**57**	(16)	(11)
6	Adjustment re provision for employee redundancy benefits	**(51)**	–	98
10	Abnormal items	**106**	–	–
	Non-interest expenses according to US GAAP	**3,446**	3,175	3,076

NOTE 43. RECONCILIATION WITH US GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP) (CONTINUED)

		1998 $m	1997 $m	1996 $m
Shareholders' equity as reported		**8,606**	8,200	7,885
Adjustments: (see following commentary for details)				
Item No.				
1	Elimination of asset revaluation reserves	**(144)**	(202)	(260)
1	Depreciation on buildings	**48**	40	30
2	Deferred gains on sale of properties subject to leaseback arrangements	**(76)**	(40)	(64)
3	Goodwill not recognised on acquisitions (less amortisation)	**40**	55	70
3	Restoration of previously deducted goodwill (less amortisation and amounts written-off)	**5**	5	5
4	Superannuation (pension) expense adjustment	**(97)**	(103)	(140)
6	Adjustment re provision for employee redundancy benefits	**33**	–	3
7	Life insurance adjustment (net of tax)	**4**	(12)	–
8	Investment securities fair value adjustment (including life company investment)	**3**	(1)	(19)
9	Final dividend provided	**418**	354	307
	Adjusted equity according to US GAAP	**8,840**	8,296	7,817

The following is a summary of the significant adjustments made to consolidated net profit and shareholders' equity to reconcile the Australian GAAP 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 (income statement) 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.

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.

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 income 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 income 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:

	1998 $m	1997 $m
Total deferred tax assets	**886**	957
Total valuation allowances recognised for deferred tax assets[1]	**(161)**	(126)
Deferred tax assets (future income tax benefits as per note 16)	**725**	831
Total deferred tax liabilities (note 19)	**(256)**	(369)
Net deferred tax assets	**469**	462
Net (decrease)/increase in the total valuation allowance during the year	**(35)**	26

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

NOTE 43. RECONCILIATION WITH US GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP) (CONTINUED)

6 The provision for restructuring costs as at 30 September 1998 of $106 million (refer note 5) includes staff redundancy costs of $51 million and a liability for premises costs of $55 million. The provision for restructuring principally covers the costs of the redevelopment of the distribution network in Australia and New Zealand and rationalisation of Westpac's operations in Asia. US GAAP requires that the plan of termination specifically identifies the number of employees to be terminated, their job classifications or functions, their locations and communication of the benefits to the affected employees. The staff redundancy provisions have not been recognised as a US GAAP expense as the communication was not completed in the financial year.

7 For Australian GAAP the assets of the statutory funds of Westpac Life and the liabilities of the funds to the policy holders are excluded from the consolidated balance sheet. Under US GAAP, the amount of these funds and the related liabilities are included in consolidated assets and liabilities of the Group. The amount of the statutory funds and their related liabilities at 30 September 1998 is $6,405 million (1997 $5,353 million) which includes the shareholders' interest in these funds of $331 million (1997 $249 million). This amount forms part of the Group's investment in the life company. All related investments in the funds are reflected at market value.

Under Australian GAAP, in accordance with the applicable Insurance Commissioner's rules, both fixed and variable acquisition costs can be deferred and recognised over the estimated life of the policy. US GAAP limits the deferral of acquisition costs to direct variable costs. Additionally, under Australian GAAP, investments included in shareholders' funds are reflected at market value with the corresponding gain or loss recognised in income under the applicable Insurance Commissioner's rules. In accordance with US GAAP, these investments would be classified as available for sale and the unrealised gain or loss reflected as a separate component of shareholders' equity.

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 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 proposed 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 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. While such abnormal items do not meet the criteria for extraordinary treatment pursuant to US GAAP, there is no effect on net income or shareholders' equity.

11 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 US accounting standard SFAS No. 123, "Accounting for Stock-Based Compensation", net income according to US GAAP in the year ended 30 September 1998, would have reduced by $13 million or 0.7 cents per share. (1997 $7 million or 0.4 cents per share; 1996 $3 million or 0.2 cents per share). The options have been calculated using the dividend adjusted Black & Scholes pricing model assuming an average life of 4 years and 19% volatility.

12 In accordance with US accounting standard SFAS 114 "Accounting by Creditors for Impairment of a Loan" the measurement of impaired loans is 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, that is, 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.

NOTE 43. RECONCILIATION WITH US GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP) (CONTINUED)

Consolidated statement of changes in US GAAP shareholders' equity

	1998 $m	1997 $m	1996 $m
Balance at beginning of year	**8,296**	7,817	7,438
(Decrease)/increase in share capital	**38**	(26)	(18)
Premium on shares issued	**1,179**	21	336
Premium on shares bought back	**(1,174)**	(216)	(450)
Currency translation adjustments (net of hedging gains/losses)	**(15)**	3	(3)
Net income	**1,301**	1,363	1,133
Dividends provided for or paid	**(853)**	(731)	(653)
US GAAP adjustments for:			
Final dividend proposed	**418**	354	307
Final dividend for prior year	**(354)**	(307)	(274)
Investment securities fair value adjustment (including life company investment)	**4**	18	1
Balance at year end	**8,840**	8,296	7,817

Superannuation (pension) expense

For the purpose of calculating net income in accordance with US GAAP, the Group has adopted SFAS No. 87 in respect of the Group's two principal pension plans for employees of the Parent Entity 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 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 1998, 1997 and 1996 includes superannuation (pension) expense adjustments after tax of $6 million (credit), $37 million (credit) and $48 million (credit) respectively.

	1998 $m	1997 $m	1996 $m
These adjustments comprise:			
Elimination of superannuation expense/(benefit) for Australian accounting purposes	**(57)**	16	11
Income tax applicable	**21**	(6)	(4)
	(36)	10	7
Recognition of a pension benefit calculated in accordance with US GAAP	**65**	42	69
Income tax applicable	**(23)**	(15)	(25)
	42	27	44
Adjustment to reflect change in the Australian company income tax rate	**–**	–	(3)
Net adjustment	**6**	37	48
The pension benefit calculated in accordance with SFAS No.87 comprises:			
Service cost	**(97)**	(102)	(90)
Interest cost	**(106)**	(126)	(133)
Return on assets	**294**	483	242
Net amortisation and deferral	**(56)**	(235)	30
Net periodic pension benefit	**35**	20	49
Employee contributions	**30**	22	20
Net Group periodic pension benefit	**65**	42	69

NOTE 43. RECONCILIATION WITH US GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (US GAAP) (CONTINUED)

	1998 $m	1997 $m	1996 $m
The following table presents the estimated status of the Group's two principal pension plans at 30 September:			
Accumulated benefit obligation:			
Vested	**1,510**	1,438	1,406
Non-vested	**48**	62	10
Total accumulated benefit obligation	**1,558**	1,500	1,416
Projected benefit obligation	**1,723**	1,600	1,541
Market value of plan assets[1]	**2,526**	2,387	2,246
Plan assets in excess of projected benefit obligation	**803**	787	705
Amounts not yet recognised:			
Balance of transitional asset	**574**	669	765
Prior service cost	**(61)**	(86)	(112)
Net loss	**(315)**	(336)	(446)
Total amounts not yet recognised	**198**	247	207
Prepaid pension contributions at 30 September for the purposes of US GAAP	**605**	540	498
Reconciliation of prepaid pension contributions:			
Prepaid pension contributions at beginning of year	**540**	498	429
Pension benefit for the year	**65**	42	69
Prepaid pension contributions	**605**	540	498

1 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 1998 are deposits with Westpac Banking Corporation totalling $15 million (1997 $15 million) and 5.2 million (1997 4.1 million) Westpac Banking Corporation ordinary shares having a total market value at that date of $48 million (1997 $36 million).

Assumptions used in determining the projected benefit obligation at 30 September 1998, 1997 and 1996 and in determining the pension benefit for the year ended on those dates included the following:

	1998	1997	1996
Pension benefit			
Assumed rate of return on plan assets	**8.0%**	8.5%	9.0%
Projected benefit obligation			
Average increase in future compensation levels[1]	**4.0%**	4.5%	5.0%
Discount rate	**5.5%**	6.5%	8.0%

1 plus promotional scales equivalent to approximately 1.5%

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

Proforma consolidation information

The following table presents the proforma financial data in respect of the acquisition of Bank of Melbourne Limited assuming the acquisition had occurred on 1 October 1996.

	As reported		Proforma consolidated	
Year ended 30 September 1997	Australian GAAP	US GAAP	Australian GAAP	US GAAP
Operating profit after income tax ($millions)	1,291	1,363	1,322	1,394
Earnings per share (cents)	70.0	74.0	67.0	70.7

Recent Accounting Pronouncements

There are a number of recently released United States accounting pronouncements which are not applicable to the financial year ended 30 September 1998. The requirements of SFAS No. 130 "Reporting Comprehensive Income", SFAS No. 131 "Disclosures About Segments of an Enterprise and Related Information", SFAS No. 132 "Employers' Disclosures about Pensions and Other Post-retirement Benefits" have not been applied prior to their application date. The Group does not believe that these accounting pronouncements will have a material effect on the Group's financial position and results. In addition, the Group has not applied the requirements of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities", which applies to financial years beginning after 15 June 1999, and is yet to determine its impact on the Group's financial position and results.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Westpac Banking Corporation ("the Parent Entity"), the Directors declare that:

(a) the financial statements of the Parent Entity and consolidated financial statements of Westpac Banking Corporation ("the Group") are drawn up:

(i) so as to give a true and fair view of the performance of the Parent Entity and Group for the year ended 30 September 1998 and the financial position of the Parent Entity and Group as at 30 September 1998;

(ii) in accordance with applicable Accounting Standards and other mandatory professional reporting requirements; and

(iii) in accordance with the Corporations Law;

(b) at the date of this declaration there are reasonable grounds to believe that the Parent Entity will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 11th day of November 1998.

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 report of Westpac Banking Corporation ("the Parent Entity") and the consolidated financial report of Westpac Banking Corporation Group ("the Group") for the year ended 30 September 1998, 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 86 to 136. The Parent Entity's Directors are responsible for the preparation and presentation of the financial report and the information they contain. We have conducted an independent audit of these financial reports in order to express an opinion on them to the shareholders of the Parent Entity.

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 report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, 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 report is presented fairly by the Directors in accordance with applicable Accounting Standards, other mandatory professional reporting requirements 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 of 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 Parent Entity's and of the Group's financial position, the results of their operations and their cash flows.

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

Audit Opinion

In our opinion, the financial reports of the Parent Entity and the Group is in accordance with:

a) the Corporations Law, including:

   (i) giving a true and fair view of the Parent Entity's and the Group's state of affairs as at 30 September 1998 and 1997 and of the Parent Entity's results of operations and its cash flows for each of the two years ended 30 September 1998 and the Group's results of operations and its cash flows for each of the three years ended 30 September 1998; and

   (ii) complying with Accounting Standards and the Corporations Regulations;

b) 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) other mandatory professional reporting requirements.

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

Generally accepted accounting principles 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 43 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 years ended 30 September 1998 and the determination of consolidated shareholders' equity at 30 September 1998, 1997 and 1996 to the extent summarised in note 43 to the financial statements.

R.S. Lynn

R. Chowdry

Chartered Accountants
Sydney, Australia
11 November 1998