

Westpac Banking Corporation

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WESTPAC REPORTS \$565 MILLION PROFIT IN FIRST HALF 1996

Westpac Banking Corporation today announced an after-tax profit attributable to shareholders of \$565 million for the half year ended 31 March 1996, a 17.7% increase over the \$480 million earned in the comparable period in 1995. There were no abnormal items in either period.

Earnings per ordinary share were 29.2 cents, an increase of 15.9% over the 25.2 cents earned in the half year to 31 March 1995.

Directors intend declaring an interim dividend of 16.0 cents per ordinary share, fully franked, an increase of 23.1% over the 1995 interim dividend of 13.0 cents per ordinary share (unfranked) and a 6.7% increase over 1995 final dividend of 15.0 cents per ordinary share (fully franked). This interim dividend represents a payout ratio of 55.8%, reflecting Westpac's continued commitment to providing an appropriate dividend return to shareholders, balanced by the requirement to retain earnings for future business requirements.

FINANCIAL HIGHLIGHTS

Operating profit before tax for the half year was \$796 million, a 21.2% improvement on the 1995 first half. Operating profit includes the impact of dynamic provisioning, which reflects the current asset mix and stage of the economic cycle.

Net interest income after provisions for bad and doubtful debts improved by 19.7%, reflecting asset and liability growth and improving asset quality through lower bad debt provisions. In an increasingly competitive interest rate environment, the interest margin was 3.7%, compared to 3.8%, in the half year ended 31 March 1995.

Non-interest income rose by 2.4% from \$697 million to \$714 million compared to the first half of 1995, and 2.9% over the second half of 1995, reversing the previous downward trend. Fees and commissions were steady compared to first half 1995, despite a highly competitive market in lending and other risk fees. A small improvement was achieved in non-risk fees and financial markets income in comparison to the first half 1995.

Whilst non-interest expenses grew by 9.5% from the first half of 1995, they grew by only 1.4% over the second half of 1995, reflecting management focus over discretionary expenditure. Expenditure continues to be focused on value added activities such as technology development, which includes significant salary costs associated with systems development and implementation.

Annualised return on equity was 14.1% compared to 12.8% for the first half of 1995 and annualised return on assets was 1.00%, compared to 0.93% for the first half of 1995, adjusted for the impact of the derivatives gross up in that period.

The tier 1 capital ratio remained constant at 9.2% compared to the same period in 1995, including the impact of 70 million shares issued for the acquisition of Challenge Bank. The total capital ratio declined

to 13.0% as the tier 2 ratio was reduced to 4.0% from 5.0%. Total shareholders' equity to assets is 7.1%.

Total assets grew by 9.4% during the half year since 30 September 1995, of which 4.8% was due to the Challenge Bank acquisition. The balance of the growth was mainly in housing and financial markets.

Impaired assets are now 17.3% of the total shareholders; equity plus provisions, compared with 30.5% in the first half of 1995. Westpac has total provisions for bad and doubtful debts equal to 112.6% of total impaired loans (76.0% of total impaired loans in the first half of 1995). A \$180 million addition to the general provision for bad and doubtful debts was made, bringing the total of that provision to a prudent \$1,130 million or 1.4% of risk – adjusted assets. This addition, net of \$110 million net specific provisions no longer required, resulted in a bad and doubtful debt charge of \$70 million was 3.1% of operating income compared to 10.2% for the first half of 1995.

Challenge Bank contributed \$8 million to net profit after tax and after amortisation of goodwill, since being acquired in December 1995. This had a minimal dilution impact of 0.2 cents on earnings per share. As the rationalisation benefits are achieved later this year, it is anticipated that benefits of the acquisition will be realised from 1997, in accordance with expectations.

GROUP HIGHLIGHTS

Challenge bank Limited acquisition

In December 1995, Westpac acquired Challenge Bank, a major regional bank in Western Australia, for \$684 million. This acquisition, together with Westpac's existing Western Australia operations, places Westpac as one of the leading banking services providers in Western Australia.

It is intended that the merged bank will retain its unique Western Australian identity, building on Challenge Bank's strong tradition of service and Westpac's long association with Western Australia, dating back to 1841, when Westpac's predecessor in Western Australian Bank, was established. The integrated operations will combine the strengths of a national bank with the focus of a strong local organisation, thereby providing superior banking services for customers.

On 8 May 1996, Westpac reached an agreement with bank of Melbourne in relation to the sale of assets, liabilities and operations of Challenge Bank in Victoria. Bank of Melbourne will pay Westpac the net asset value as at completion plus a premium of \$69 million for the goodwill of the business, consistent with Westpac's original valuation. The completion date is expected to be 1 October 1996.

Ordinary share buyback

On 20 March 1996 Westpac announced that it would undertake a buyback of 95 million (approximately 5%) fully paid ordinary shares, conducted as a normal on-market transaction through the Australian stock exchange. To date, Westpac has bought 17.14 million shares at an average price of \$6.12. The price varied from a low of \$5.96 to a high of \$6.32, in line with the prevailing market at the time.

Westpac's recovery over the past four years has meant that its capital levels now and in the foreseeable future are more than adequate to support its business plans. This buyback is part of ensuring that Westpac's capital level and structure provides optimal returns to shareholders. Westpac continues to be a strongly capitalised bank by world standards.

Mortgage processing centre

Westpac has recently launched a new mortgage processing centre in Adelaide, which will undertake all of the Westpac's mortgage processing, allowing significant efficiencies to be achieved, whilst also providing customers with a faster and more streamlined service.

The centre also has the capability to offer mortgage origination, servicing and secondary marketing to other financial intermediaries in Australia on a fee for service basis.

Credit rating

On 1 February 1996 the rating agency, Moody's Investor Service, upgraded Westpac's long term ratings to Aa3 and confirmed its short term ratings at Prime -1. Moody's stated that the upgrade was "based on the soundness of Westpac's asset quality on the improvement in its controls over systems which should enhance its prominent domestic franchise".

Trust Bank New Zealand Limited

On 19 April 1996 Westpac' reached agreement with Trust Bank New Zealand Limited (Trust Bank) under which Westpac would make an offer to acquire 100% of the share capital of Trust Bank. The offer is conditional on Westpac obtaining at least 90% of all shares held in Trust Bank. The eight Community Trust which own approximately 76% of the share capital have agreed to support the offer.

Under the takeover offer, Westpac has offered Trust Bank shareholders NZ\$2.24 cash for each Trust Bank share, after 14 or 11 subdivision of shares, or one Westpac share for every 4 Trust Bank shares plus cash. The Westpac offer values Trust Bank at NZ\$1,274 million (approximately A\$1,120 million).

The proposed merger with Trust Bank New Zealand will mean that the merged entity will be largest banking services provider in New Zealand. This will allow Westpac the opportunity to provide value added service to a growing number of New Zealand customers, as it has been doing since 1861. As the Westpac and Trust Bank operations are integrated, there will also be the opportunity to achieve economies of scale in delivery of banking services to the market in a more efficient and effective manner, benefiting both customers and shareholders.

It is anticipated that there will be no impact on earnings per share in either 1996 or 1997. The benefits of the acquisition are anticipated to be realised from 1998 onwards, as the acquisition delivers on its strategic benefits to shareholders.

Enterprise Development Agreement

Westpac has recently agreed a long term enterprise agreement which will deliver to eligible staff average of 5.3% per year. This is expected to give stability of employment terms for a 2½ year period. It will also enable Westpac to continue bank reengineering with Staff motivation bolstered by certainty regarding potential reward levels.

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FINANCIAL HIGHLIGHTS

	31 March 1996	Six months to/as at 30 Sept 1995	31 March 1995
Operating profit			
Operating profit before tax (\$m)			
-before abnormals	796	732	657
-after abnormals	796	520	657
Operating profit after tax, attributable To shareholders (\$m)			
-before abnormals	565	535	480
-after abnormals	565	467	480
Earnings per share (cents)			
-before abnormals	29.2	28.2	25.2
-after abnormals	29.2	24.5	25.2
Dividends per share (cents)			
-unfranked	-	-	13.0
-franked	16.0	15.0	-
Dividend payout ratio			
-before abnormals	55.8%	53.1%	51.6%
-after abnormals	55.8%	61.2%	51.6%
Return on equity (annualised)			
-before abnormals	14.1%	13.9%	12.8%
-after abnormals	14.1%	12.2%	12.8%
Return on assets (annualised)			
-before abnormals	1.00%	1.08%	1.00%*
-after abnormals	1.00%	0.94%	1.00%*
Profit on operations (after tax and before abnormals) as a percentage of total operating income	25.0%	24.1%	22.3%
Net interest margin	3.7%	3.9%	3.8%
Efficiency (expense to income) ratio	61.7%	62.1%	59.3%
Non-interest expenses/average assets (annualised)	2.48%	2.78%	2.67%
Personnel numbers (average full time equivalent)	31,947	31,422	31,458
Personnel numbers (spot full time equivalent)	32,561	31,416	31,461
Assets and capital			
Capital adequacy ratio			
-Total	13.0%	13.9%	14.2%
-Tier 1	9.2%	9.5%	9.2%
Shareholders' equity /assets	7.1%	7.2%	7.7%
Group assets (\$m)	115,746	105,835	97,739
Risk-adjusted assets (\$m)	81,409	74,930	73,306
Total provisions/total impaired loans	112.6%	91.3%	76.0%
NTA per share	3.77	3.81	3.77

* Return on assets for the half year ended 31 March 1995 is prior to gross up of derivatives. The adjusted annualised.

BALANCE SHEET (Based on results that have been subject to review by Westpac's auditors)

\$m As at:	30 March 1996	30 Sept 1995	31 March 1995	% Movt Sept 95 to March 96	% Movt March 95 to March 96
Assets					
Cash and short-term liquid assets	636	330	307	92.7%	107.2%
Statutory deposits	779	720	682	8.2%	14.2%
Due from other banks	5,056	4,932	6,176	2.5%	(18.1%)
Trading securities	6,005	6,235	6,087	(3.7%)	(1.3%)
Investment securities	2,690	2,172	2,383	23.8%	12.9%
Securities sold not yet delivered	3,765	1,286	2,405	192.8%	56.5%
Securities purchased under agreements to resell	220	55	50	300.0%	340.0%
Other financial market assets	<u>7,363</u>	<u>8,986</u>	<u>1,732</u>	(18.1%)	325.1%
Total securities and financial markets assets	20,043	18,734	12,657	7.0%	58.4%
Productive loans	71,826	64,347	61,413	11.6%	17.0%
Acceptances of customers	12,454	11,656	11,455	6.8%	8.7%
Impaired assets	1,669	1,948	2,666	(14.3%)	(37.4%)
Less: Provisions for bad and doubtful debts	<u>(1,879)</u>	<u>(1,930)</u>	<u>(2,181)</u>	(2.6%)	(13.8%)
Net loans and acceptances	84,070	76,021	73,353	10.6%	14.6%
Fixed assets	1,661	1,630	1,719	1.9%	(3.4%)
Future income tax benefits	1,011	1,313	1,163	(23.0%)	(13.1%)
Superannuation prepayments	720	725	734	(1.1%)	(1.9%)
Other assets	1,770	1,427	948	24.0%	86.7%
Total Assets	115,746	105,835	97,739	9.4%	18.4%
Liabilities and equity					
Deposits	58,837	52,394	51,328	12.3%	14.6%
Public borrowings	5,858	5,804	5,480	0.9%	6.9%
Bonds, notes and commercial paper	5,326	2,916	2,689	82.6%	98.1%
Acceptances	12,454	11,656	11,455	6.8%	8.7%
Securities purchased not yet delivered	3,794	1,852	2,047	104.9%	85.3%
Securities sold under agreements to repurchase	66	151	108	(56.3%)	(38.9%)
Securities short sold	597	395	574	51.1%	4.0%
Due to other banks	6,951	7,169	9,121	(3.0%)	(23.8%)
Other financial markets liabilities	8,055	9,778	1,545	(17.6%)	421.4%
Provision for income taxes	136	135	168	(0.7%)	(19.0%)
Deferred income tax liability	679	862	675	(21.2%)	0.6%
Other liabilities	2,188	2,259	2,043	(3.1%)	7.1%
Total liabilities excluding loan capital	104,941	95,371	87,233	10.0%	20.3%
Loan capital					
-Subordinated bonds, notes and debentures	1,656	1,900	1,973	(12.8%)	(16.1%)
-Subordinated undated capital notes	950	981	1,017	(3.2%)	(6.6%)
	2,606	2,881	2,990	(9.5%)	(12.8%)
Total Liabilities	107,547	98,252	90,223	9.5%	19.2%
Net Assets	8,199	7,583	7,516	8.1%	9.1%
Shareholders' equity					
Share capital	1,979	1,906	1,904	3.8%	3.9%
Reserves	5,067	4,830	4,927	4.9%	2.8%
Retained profits	1,147	842	679	36.2%	68.9%
Outside equity interests	6	5	6	20.0%	
Total shareholders' equity	8,199	7,583	7,516	8.1%	9.1%

BALANCE SHEET (cont'd)

Balance sheet movements

Of the \$9.9 billion increase in assets and \$9.3 billion increase in liabilities since 30 September 1995, \$5.1 billion of assets and \$4.4 billion of liabilities relate to Challenge Bank.

At 30 September 1995, the reporting of derivatives was changed from a net basis to a gross basis and this is reflected in the increases in "Other financial markets assets" and "Other financial markets liabilities" compared to the first half of 1995.

Housing loans (owner occupied and investment) by Westpac in Australia (excluding Challenge) increased by \$2.2 billion, or 9.0% during the half year to \$26.6 billion at 31 March 1996, with a further \$2.9 Billion of such lending being held by Challenge Bank.

Loans outstanding for business purposes grew by approximately \$1 billion, reflecting mostly subdued demand early in the half year and strong competition as demand has grown in recent months.

Overseas, total loans outstanding for business purposes grew by approximately \$14 billion. A modest \$0.3 billion increase in lending in New Zealand was offset by declines in New York, London and Tokyo, approximately half of which was due to exchange differences on translation, reflecting, in particular 12% strengthening of the Australian dollar against the Japanese yen during the half year.

Increased lending has been funded partly by a \$2.4 billion increase, to \$5.3 billion, in bonds, notes and commercial paper, as well as by an increase of \$2.8 billion in deposits, to \$55.2 billion, excluding \$3.6 billion relating to Challenge Bank. The increase represented principally the issuance of certificates of deposit in Australia and overseas.

A \$2.5 billion increase, to \$3.8 billion in securities sold not yet delivered, and a \$1.9 billion increase to \$3.8 billion in securities purchased not yet delivered, represent increased customer-driven securities dealing activity, including the fulfilment of large orders from overseas for the purchase of Australian Government securities.

DIVIDENDS

	31 March 1996	Six months to 30 Sept 1996	31 March 1995
	c/share	c/share	c/share
Ordinary dividend			
- interim (unfranked)	-	-	13.0
- interim (franked)	16.0	-	-
- final (franked)	-	15.0	-
Total dividends provided for or paid	\$m	\$m	\$m
Ordinary	304	274	237
Preference	20	19	21
	324	293	258
Ordinary dividend payout ratio			
- before abnormals	55.8%	53.1%	51.6%
- after abnormals	55.8%	61.2%	51.6%

PROFIT AND LOSS STATEMENT

(Based on results that have been subject to review by Westpac's auditors)

\$m	Six months to			% movement March 1995 to March 1996
	31 March 1996	30 Sept 1995	31 March 1995	
Interest income				
-Due from other banks	251	179	149	68.5%
-Investment and trading securities	301	304	273	10.3%
-Statutory deposits	11	17	21	(47.6%)
-Loans and other receivables	3,448	3,268	2,962	16.4%
Interest income	4,011	3,768	3,405	17.8%
Interest expense				
-Savings deposits	(70)	(71)	(72)	(2.8%)
-Other deposits	(1,626)	(1,475)	(1,244)	30.7%
-Public borrowings	(231)	(225)	(207)	11.6%
-Due to other banks	(325)	(269)	(229)	41.9%
-Loan capital	(90)	(96)	(97)	(7.2%)
-Other liabilities	(120)	(106)	(100)	20.0%
Interest expense	(2,462)	(2,242)	(1,949)	26.3%
Net interest income	1,549	1,526	1,456	6.4%
Provisions for bad and doubtful debts	(70)	(110)	(220)	(68.2%)
Net interest income after provisions for bad and doubtful debts	1,479	1,416	1,236	19.7%
Non-interest income				
-Fees and commissions	532	537	531	0.2%
-Financial markets income	114	92	112	1.8%
-Other income	65	62	46	41.3%
-Income from OREO	3	3	8	(62.5%)
Non-interest income	714	694	697	2.4%
Total income net of interest expense and provisions for bad and doubtful debts	2,193	2,110	1,933	13.5%
Non-interest expenses				
-Salaries and staff expenses	(797)	(765)	(702)	13.5%
-Superannuation prepayment adjustment	(7)	(6)	(5)	40.0%
-Equipment and occupancy expenses	(231)	(227)	(222)	4.1%
-Other expenses	(362)	(380)		4.3%
Non-interest expenses	(1,397)	(1,378)	(1,276)	9.5%
Operating profit before abnormal items	796	732	657	21.2%
Tax expense	(230)	(196)		31.4%
			(175)	
Outside equity interests	(1)	(1)	(2)	(50.0%)
Profit in operations	565	535	480	17.7%
Abnormal items (net of tax)	-	(68)	-	-
Operating profit after income tax, attributable to shareholders	565	467	480	17.7%

Analysis of Results by Business Group

(Management reporting basis – unaudited)

BUSINESS UNIT SUMMARY

\$m			Six months to		As at	
	31 March 1996	30 Sept 1995	31 March 1995	31 March 1996	30 Sept 1995	31 March 1995
	Operating profit before tax And before abnormals (\$m)				Spot standard assets (\$bn)	
Retail Banking	297	284	338	41.2	34.6	32.7
Institutional Banking	154	67	106	35.3	32.9	27.4
New Zealand Retail	98	79	89	8.3	8.3	8.1
Regional Offshore Banking	34	28	29	1.5	1.6	1.7
Commercial Banking	181	166	166	12.4	12.6	12.6
Property Finance	48	72	22	2.9	2.8	2.4
Australian Guarantee Corporation	67	77	80	7.2	6.9	6.2
Westpac Financial Services	26	17	18	0.2	0.1	0.2
Other	(109)	(58)	(191)	6.7	6.0	6.4
	796	732	657	115.7	105.8	97.7

Other includes general provision charge, reflecting the cost of the increase in the centrally held provision for loan losses. This level reflects management's view of the provisions required to adequately cover the risks inherent in the portfolio, due to changes in credit quality, economic cycle trends and portfolio concentrations. In addition, it includes the results of the Asset Management Group, which is responsible for a managing significant impaired assets and any consequent recoveries.

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

BUSINESS GROUP HIGHLIGHTS

Retail Banking

- Operating profit declined when compared to the first half of 1995, but did show an improvement off the lower second half 1995 performance, contributed to by Challenge Bank acquisition. Whilst interest margins declined, principally due to a change in customer demand toward fixed rate and “special offer” housing loans, this was partially offset by strong growth in lending volumes, reflected in Westpac's increased market share of owner-occupied housing and investment property loan outstandings. Liability margins declined, reflecting increasing competition for retail funds.
- A range of housing product offerings are available, from the “basic” no frills home loan through to fully featured variable housing loans, all structured to meet customers' differing requirements.
- A new mortgage processing centre, the largest in Australia, was established in Adelaide, which has involved the design and installation of world class technology infrastructure, the installation of a branch PC platform in over 1,000 branches and the redesign and streamlining of all mortgage related processes.

BUSINESS GROUP HIGHLIGHTS (con'd)

Retail Banking (con'd)

- Three new transaction accounts, the Basic, the Classic and the Classic Plus were introduced. The products are designed to give customers a choice of banking features, control over costs and a range of value added benefits. Over 1.6 million customers have now taken up one of the new accounts, and the level of new customer openings indicates strong market acceptance.
- Rollout commenced of the world's first mobile EFTPOS devices. These machines provide access to the point-of – sale network for merchants who operate from remote locations, motor vehicles etc.
- The Telephone Banking service continues to grow, with over 700,000 customers now subscribing to the service.
- The Best Bank program, launched in October 1994 involving the removal and centralisation of back office functions from branches, had achieved conversion of over 72% of branches by 31 March 1996. To date, over 80% of branches have been converted. The current phase of the program will be completed Australia-wide before the end of September 1996. This will ensure that Westpac continues to increase its focus on sales and service in the branches.
- Several initiatives have been implemented in the first half of 1996 to increase sales opportunities and provide better sales management. These initiatives include:
 - continued up-skilling of sales staff to service customers' needs
 - extended trading hours at selected branches
 - new banking centres trailed at major shopping centres
 - better market segmentation to focus on the needs of different customers.
- A significant focus has been placed on the service function in the branch network, the aim of which is to provide service staff with better tools and training, enabling them to increase the level and quality of service to customers. Initiatives implemented are focused around ensuring the effectiveness of service delivery from the customer's perspective.
- Planning for the integration of the Westpac and Challenge Bank businesses in Western Australia is currently being completed. The integration, which is scheduled for late 1996, will create a regionally branded network serving customers throughout the State. Customers will be able to use the full range of products and services supported nationally by Westpac, while enjoying the benefits of the local focus provided by regional management.

INSTITUTIONAL BANKING

- Operating profit improved significantly, mainly from reductions in bad debt provisioning and stronger financial markets income. The result was particularly good when compared to the first half of 1995, which included one off interest recoveries and the results of businesses exited during that period .
- A leading independent market survey of Institutional Banking customers shows that Westpac's customer satisfaction rating leads the major banks in Australia and is pulling away from the rest of the market.
- Westpac's market share continued to improve, consolidating share leadership in most corporate and institutional banking segments.

BUSINESS GROUP HIGHLIGHTS (con'd)

INSTITUTIONAL BANKING (con'd)

- Westpac continues to perform strongly in market performance awards, winning the BRW interest rate risk management poll, International Financing Review Australian dollar loan syndications, and Euromoney Australian dollar foreign exchange awards.
- Trade finance capabilities were complemented with a Windows-based letter of credit initiation capability for DeskBank. Fully integrated with new processing platform, BankTrade, the new DeskBank module provides initiation, reporting and cash management capabilities for letters of credit.
- Institutional banking customers can now control international accounts, payments and cash positions through DeskBank from Australia. By adding to its international cash management capabilities in US dollars, Westpac extended the range of currencies to include European and Asian currencies offered through London, as well as electronic payments capability in New Zealand.
- The offshore rationalisation program is progressing well with targeted expense reductions being achieved and risks reduced as processing and risk management functions are centralised in Sydney.

NEW ZEALAND RETAIL

- Operating profit improved over both the first and second halves of 1995, due to both net interest income growth and lower bad debts, resulting from an improvement in asset quality.
- New product launches and sales initiatives resulted in a significant increase in retail deposits. The main product initiatives were:
 - relaunch of bonus saver and ready access accounts
 - introduction of Westpac active deposit account
 - introduction of a capped housing lending product
 - piloting of stored value cards

REGIONAL OFFSHORE BANKING

- Operating profit improved over both halves of 1995. It was a satisfactory result, given a backdrop of strong local competition and only nominal economic growth throughout the region.

COMMERCIAL BANKING

- Operating profit grew strongly over the first half of 1995 and in particular over the second half of 1995. Despite significant market pressure on both interest margins and fee income, there have been some gains in both net and non-interest income, as well as reduced bad debts.
- A number of sales tools have been developed to assist line managers to improve sales productivity including:
 - Sales Pipeline System – developed to track the progress of individual deals through the sales cycle and track overall business activity
 - Sales management System – PC based tools developed to provide customer screening capability, sales planning and prospect tracking
 - Pricing Hotline-established to assist line managers in the structure and pricing of complex business. It enables a centralised focus on reward for risk and monitoring of competitor activity.

BUSINESS GROUP HIGHLIGHTS (con'd)

- The development and improvement of our exciting customer relationship remains a key focus of

- Commercial banking. To this end a number of initiatives have been introduced to improve our customer service capability:
 - establishment of dedicated customer service teams in the Customer Service Centres currently being trialed in Queensland
 - Telephone Banking services for commercial customers are being developed.

PROPERTY FINANCE

- Property Finance continues to show strong growth over both halves of 1995, reflecting the benefits from establishing this specialist property unit. Underlying profit growth remains good, even against the second half of 1995, which was affected by a large bad debt write-back in that period.
- Property Finance continues to enjoy asset growth through an increased sales and marketing effort. The use of a portfolio management approach has enabled Property Finance to take advantage of property segment cycles and to build on the specialist capabilities developed during 1995. This has resulted in accepted new lending approvals of \$756 million for the first six months of 1996, three times the level of the first half of 1995 and twice the level of the second half of 1995.

AUSTRALIAN GUARANTEE CORPORATION

- Operating profit declined over both halves of last year. The decline was solely due to higher bad debts charges, which includes the cost of introducing dynamic provisioning, as well as a higher level of write-offs in the motor vehicle and consumer loan portfolios, coming off a low in the bad debt cycle. The underlying business shows continued solid profit growth.
- All business segments have shown good growth, with the most significant increases being achieved in the commercial and consumer segments in Australia and New Zealand.
- AGC continued to focus on customer service and introduced a number of new products and efficiencies including:
 - AGC Mastercard
 - fleet operating lease, an operating lease for motor vehicle fleets
 - the platinum lease product for luxury motor vehicles
 - equipment finance sales and service centres to handle all document printing and back office functions
 - enhancements to point of sale technology to continue AGC's leadership in providing fast approvals at its third party introducer network.

WESTPAC FINANCIAL SERVICES

- Operating profit grew significantly over both halves of 1995. This reflects both significant improvements in the underlying business, as well as the profit on existing the master custody business.
- Retail funds under management continued to grow strongly increasing 6.6% over the last six months to \$3.8 billion. The superannuation, rollover and allocated pension components of the Westpac Personal Portfolio Service introduced last year, has contributed almost 60% of the growth in funds under management.
- During the last six months, ASSIRT Pty Ltd assessed Westpac Financial Services Limited under its ASSIRT ratings process. This resulted in the manager of all its rated funds being rated as "Investment Grade". The ASSIRT Ratings process has four categories of assessment viz operating capability, investment management, customer service and propriety. Westpac Financial Services achieved the highest numerical rating ever granted by ASSIRT in three of the four categories and the second highest rating in the fourth category.

REVIEW OF OPERATIONS BY GEOGRAPHIC SEGMENTS

	Six Months to			As at		
	31 March 1996	30 Sept 1995	31 March 1995	31 March 1996	30 Sept 1995	31 March 1995
	Operating profit before abnormals (\$m)			Spot standard assets (\$bn)		
Australia	423	441	358	87.2	76.9	71.9
New Zealand	62	55	5	13.2	12.1	11.3
Pacific Islands	16	17	15	1.6	1.7	1.8
Asia	8	(2)	12	5.8	6.1	6.3
Americas	15	9	19	3.2	2.9	2.1
Europe	41	15	23	4.7	6.1	4.3
Total	565	535	480	115.7	105.8	97.7

Operating profit after tax and before abnormals

Australia

Improved result over the corresponding period in 1995 reflects higher net interest and lower bad and doubtful debts expense.

New Zealand

Increase over the corresponding period in 1995 reflects improved net interest and non-interest income, and lower tax expense.

Pacific Islands

Profit in each of the three main areas, i.e. Papua New Guinea, Fiji and the French Territories, has remained steady over the three half years to 31 March 1996.

Asia

Results for the march 1995 half year included \$4 million profit in Taiwan where operations have now ceased. In each of the other Asian centres, contribution to profit has been steady compared with the March 1995 half year.

Americas

Decrease of \$4 million from the corresponding 1995 half year reflects lower net interest income on a reduced level of loans.

Europe

Increase of \$18 million on the corresponding 1995 half year reflects the benefit of bad debt recoveries and the write back of specific provisions no longer required.

Spot standard assets

Australia

Increase of 13.4% over 30 September 1995 reflects Challenge Bank acquisition, growth in lending, particularly for housing, and increased financial markets activity.

New Zealand

A modest \$0.3 billion growth in lending and increased money market activity accounted for the \$1.1 billion, or 9.1% increase over 30 September 1995

Asia

Decrease of 4.9% over 30 September 1995 is attributable to exchange rate differences on translation, reflecting a stronger Australian dollar relative to the US dollar and Asian currencies.

Americas

Increase of 10.3% over 30 September 1995 reflects increased interbank money market activity, partly offset by a reduction in lending.

Europe

Decrease of 23% reflects a reduced level of money market activity and the impact of a 7% stronger Australian dollar relative to the British pound since 30 September 1995.

INTEREST SPREAD AND MARGIN ANALYSIS

	Six months to		
	31 March 1996	30 Sep 1995	31 March 1995
Spread and margin analysis	%	%	%
Group			
Interest spread on productive assets	2.8	2.9	3.0
Impact of non-accrual loans and OREO	(0.1)	(0.1)	(0.2)
Interest spread	2.7	2.8	2.8
Benefit of net non-interest bearing liabilities and equity	1.0	1.1	1.0
Interest margin	3.7	3.9	3.8
Australia			
Interest spread on productive assets	3.2	3.4	3.6
Impact of non-accrual loans and OREO	(0.2)	(0.2)	(0.3)
Interest spread	3.0	3.2	3.3
Benefit of net non-interest bearing liabilities and equity	1.1	1.2	1.1
Interest margin	4.1	4.4	4.4
Overseas			
Interest spread on productive assets	2.0	1.9	1.7
Impact of non-accrual loans	(0.1)	(0.1)	(0.1)
Interest spread	1.9	1.8	1.6
Benefit of net non-interest bearing liabilities and equity	0.6	0.7	0.9
Interest margin	2.5	2.5	2.5

See page 27 for definitions.

The average rate on interest earning assets in Australia was down 0.2 percentage points from September 1995 half to 9.6%, with no commensurate reduction in overall borrowing rates. The average rate on interest bearing liabilities in Australia remained steady at 6.6%, resulting in a 0.2 percentage point reduction in the interest spread.

Growth in fixed rate and “special offer” housing lending at narrower spreads, together with competitive pressure in respect of overall lending, contributed to the 0.2 percentage point and 0.3 percentage point declines in the interest spread in Australia, compared with the September 1995 half year and March 1995 half year respectively.

The reduction in levels of non-interest bearing deposits, as a customer respond to increased interest rates and flexibility in products, as well as increased competition for retail deposits, have also contributed to the decline in interest spreads and margins.

Overseas, interest spreads improved, reflecting a slight improvement in New Zealand, which represents an increasing proportion of Westpac’s overseas total lending, as well as higher earnings on interbank lending. However, the interest margin has remained steady at 2.5% as improved interest spreads were offset by a declining benefit from net non-interest bearing liabilities and equity.

AVERAGE BALANCE SHEET AND INTEREST RATES – AUSTRALIA

	Six months to 31 March 1996			Six months to 30 September 1995			Six months to 31 March 1995		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
Assets									
Interest earning assets									
Due from other banks	493	19	7.7%	740	24	6.5%	496	18	7.3%
Investment and trading securities	5,468	187	6.8%	5,334	184	6.9%	5,000	168	6.7%
Statutory deposits	588	8	2.7%	537	13	4.8%	529	19	7.2%
Loans and other receivables	54,170	2,758	10.2%	48,518	2,529	10.4%	47,072	2,336	9.9%
Non-accrual loans	1,287	22	3.4%	1,688	43	5.1%	2,146	30	2.8%
OREO	81			100			170		
Total interest earning assets and interest income	62,087	2,994	9.6%	56,917	2,793	9.8%	55,413	2,571	9.3%
Non-interest earning assets									
Cash, bullion, due from other banks and statutory deposits				384			373		
Other assets	9,628			5,683			5,511		
Provisions for doubtful debts	(1,683)			(1,804)			(1,898)		
Total non-interest earning assets	8,329			4,234			3,986		
Acceptances of customers	12,021			11,938			11,860		
Total assets	82,437			73,089			71,259		
Liabilities and shareholders' equity									
Interest bearing liabilities									
Savings deposits	3,686	55	3.0%	4,005	56	2.8%	4,445	60	2.7%
Other deposits	34,808	1,184	6.8%	29,993	1,037	6.9%	29,233	887	6.1%
Public borrowing's by subsidiary borrowing corporations	5,309	208	7.8%	5,145	205	8.0%	4,901	192	7.8%
Due to other banks	310	12	7.7%	269	10	7.4%	335	13	7.8%
Loan capital	2,813	90	6.4%	2,982	97	6.5%	2,876	96	6.7%
Other interest bearing liabilities	1,789	65	7.3%	1,408	31	4.4%	1,410	36	5.1%
Total interest bearing liabilities and interest expense	48,715	1,614	6.6%	43,802	1,436	6.6%	43,200	1,284	6.0%
Non-interest bearing liabilities									
Deposits and due to other banks	3,352			3,554			4,028		
Intragroup liabilities	4,450			3,744			3,042		
Other liabilities	8,001			4,598			3,650		
Total non-interest bearing liabilities	15,803			11,896			10,720		
Acceptances	12,021			11,938			11,860		
Total liabilities	76,539			67,636			65,780		
Shareholders' equity	5,898			5,453			5,479		
Total liabilities and shareholders' equity	82,437			73,089			71,259		
Interest earning assets	62,087	2,994	9.6%	56,917	2,793	9.8%	55,413	2,305	8.6%
Interest bearing liabilities	48,715	1,614	6.6%	43,802	1,436	6.6%	43,200	1,329	6.0%
Net interest spread			3.0%			3.2%			3.3%
Net free liabilities and equity	8,922		1.1%	9,371		1.2%	9,171		1.1%
Intragroup adjustment	4,450	(95)		3,744	(99)		3,042	(78)	
Net interest margin	62,087	1,285	4.1%	56,917	1,258	4.4%	55,413	1,209	4.4%

AVERAGE BALANCE SHEET AND INTEREST RATES – OVERSEAS

	Six months to 31 March 1996			Six months to 30 September 1995			Six months to 31 March 1995		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
Assets									
Interest earning assets									
Due from other banks	4,924	232	9.4%	4,312	155	7.2%	4,374	131	6.0%
Investment and trading securities	3,807	113	5.9%	3,541	122	6.9%	3,267	104	6.4%
Statutory deposits	117	3	5.1%	111	3	5.4%	81	3	7.4%
Loans and other receivables	14,408	689	9.6%	14,376	706	9.8%	13,606	610	9.0%
Non-accrual loans	350	7	4.0%	458	9	3.9%	568	11	3.9%
Total interest earning assets and interest income	23,606	1,044	8.8%	22,798	995	8.7%	21,896	859	7.8%
Non-interest earning assets									
Cash, bullion, due from other banks and statutory deposits	194			220			174		
Intragroup receivable	4,450			3,744			3,042		
Other assets	6,654			3,063			2,503		
Provisions for doubtful debts	(219)			(267)			(327)		
Total non-interest earning assets	11,079			6,760			5,392		
Acceptances of customers	159			146			238		
Total assets	34,844			29,704			27,526		
Liabilities and shareholders' equity									
Interest bearing liabilities									
Savings deposits	727	15	4.1%	743	15	4.0%	739	12	3.2%
Other deposits	12,344	443	7.2%	12,076	438	7.3%	11,164	357	6.4%
Public borrowings by subsidiary borrowing corporations	527	23	8.7%	521	20	7.7%	399	15	7.5%
Due to other banks	7,637	313	8.2%	7,531	257	6.8%	6,977	217	6.2%
Loan capital	-	-	-	-	-	-	-	-	-
Other interest bearing liabilities	3,387	54	3.2%	2,313	76	6.6%	2,077	65	6.3%
Total interest bearing liabilities and interest expense	24,622	848	6.9%	23,184	806	6.9%	21,356	666	6.2%
Non-interest bearing liabilities									
Deposits and due to other banks	1,149			889			1,499		
Other liabilities	6,770			3,248			2,388		
Total non-interest bearing liabilities	7,919			4,137			3,887		
Acceptances	159			146			238		
Total liabilities	32,700			27,467			25,481		
Shareholders' equity	2,138			2,232			2,040		
Outside equity interests	6			5			5		
Total liabilities and shareholders' equity	34,844			29,704			27,526		
Interest earning assets	23,606	1,044	8.8%	22,798	995	8.7%	21,896	859	7.8%
Interest bearing liabilities	24,622	848	6.9%	23,184	806	6.9%	21,356	666	6.2%
Net interest spread			1.9%			1.8%			1.6%
Net non-interest bearing liabilities and equity	3,434		0.6%	3,358		0.7%	3,582		0.9%
Net free liabilities and equity	(4,450)	95		(3,744)	99		(3,042)	78	
Net interest margin	23,606	291	2.5%	22,798	288	2.5%	21,896	271	2.5%

NON-INTEREST INCOME

\$m	Six months to		
	31 March 1996	30 Sept 1995	31 March 1995
Fees and commissions			
Risk fees: Lending	94	96	86
Other	132	141	143
Non-risk fees:	306	300	302
	532	537	531
Financial markets income			
Foreign exchange	96	97	80
Other	18	(5)	32
	114	92	112
Income from OREO (Other Real Estate Owned)	3	3	8
Other income			
Dividends received	3	2	1
Insurance commissions and premiums, less claims	16	14	15
Lease rentals	10	16	16
Gains/(losses) on translation of overseas branch balances (net of hedging)	-	3	(2)
Service and management fees	7	6	7
Net profit/(loss) on sale of premises & Investments	9	5	5
Other	20	16	4
	65	62	46
Non-interest income	714	694	697

Risk fees, lending primarily represents fees generated by Australian and New Zealand banking operations.

Risk fees, other include banking fees associated with bill issuance, guarantees etc.

Non-risks fees incorporate account keeping and transaction fees and Financial Services' revenue

Financial markets income represents primarily foreign exchange income the revenues derived from the sale of risk management products. It also includes revenues from controlled discretionary trading activities. Movements in interest rates can have a significant impact on the potential to generate this type of income. This can give rise to considerable volatility between reporting periods.

Trends in non-interest income

Non-interest income increased by \$17 million, or 2.4%, over the corresponding 1995 half year and 2.9% over the second half of 1995, reversing the previous downward trend.

Fees and commissions income overall remained steady. Modest increases in lending and non-risk fees were offset by reduced other risk fee income, principally related to bill acceptance facilities.

Increased foreign exchange income, reflecting improved customer demand, was offset by lower other financial markets income. However, financial markets income improved significantly over the second half of 1995, as a result of focus on the core businesses.

Other income in the first half of 1996 included profits of \$4 million from the sale of assets acquired in loan workouts, as well as \$7 million profits from the sale of branch premises.

Financial markets income in aggregate

Financial markets income includes both interest and non-interest income derived from trading and distribution of financial markets products, including derivatives. In the financial statements, net interest income earned on securities and cash balances in the total net interest income reported.

Non-interest income earned on these products is reported under either foreign exchange income or other financial markets income.

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

Both approaches are shown in the table below:

\$m	Six months to		
	31 March 1996	30 Sept 1995	31 March 1995
By accounting line:			
Foreign exchange	96	97	80
Other financial markets income	18	(5)	32
Net interest income	55	56	39
Total	169	148	151
By business activity:			
Foreign exchange (spot and options)	82	81	71
Interest rate (interest rate and currency swaps, options, forward foreign exchange, forward rate agreements, financial futures, debt securities, debt-related financial futures and commodities)	87	67	80
Total	169	148	151

(Forward foreign exchange is included in interest rate activity, given the underlying nature of the risk and how the risk is managed)

DERIVATIVES

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

Derivatives

Details of derivatives outstandings in terms of notional amount, regulatory credit equivalent and mark-to-market values (both positive and negative) are shown in the following tables:

As at 31 March 1996				
Derivatives Outstandings (\$bn)	Notional amount	Regulatory Credit Equivalent	Positive Mark-to-market (Replacement cost)	Negative mark-to-market
Interest rate				
Futures	53.4	-	-	-
Forwards	28.5	0.1	-	-
Swaps	144.7	3.4	3.0	2.4
Purchased options	20.4	0.1	0.1	-
Sold options	7.1	-	-	-
Foreign exchange				
Forwards	208.5	5.2	3.1	3.3
Swaps	15.0	1.3	1.0	2.0
Purchased options	5.0	0.2	0.1	-
Sold options	5.2	-	-	0.1
Commodity				
	0.2	-	-	-
Total derivatives	488.0	10.3	7.3	7.8
As at 30 Sept 1995				
Total derivatives	528.4	11.7	8.6	9.5
As at 31 March 1995				
Total derivatives	564.8	14.0	10.5	10.4

Notional amount refers to the face value or the amount upon which cash flows are calculated.

Regulatory credit equivalent is calculated using Reserve Bank of Australia guidelines for capital adequacy requirements. **Replacement cost or positive mark-to-market** is the cost of replacing all transactions in gain position. This measure is the industry standard for the calculation of current credit risk. **Negative mark-to-market** represents the amount Westpac owes its counterparts in respect of these types of transactions.

The following table shows the maturity profile of derivatives outstanding as at 31 March 1996 in replacement cost terms. 53.4% of credit risk matures within one year and 67.1% within two years. As at 31 March 1996 96% of credit exposure was to investment grade customers.

As at 31 March 1996 (\$bn)	0-3 months	3-6 months	6-12 months	1-2 years	2-5 years	5+ years	Total
Interest Rate							
Futures	-	-	-	-	-	-	-
Forwards	-	-	-	-	-	-	-
Swaps	0.1	0.1	0.2	0.7	1.5	0.4	3.0
Purchased Options	-	-	-	-	0.1	-	0.1
Sold Options	-	-	-	-	-	-	-
Foreign Exchange							
Forwards	1.8	0.7	0.4	0.1	0.1	-	3.1
Swaps	0.2	0.1	0.2	0.2	0.3	-	1.0
Purchased Options	0.1	-	-	-	-	-	0.1
Sold Options	-	-	-	-	-	-	-
Commodity							
	-	-	-	-	-	-	-
Total derivatives	2.2	0.9	0.8	1.0	2.0	0.4	7.3

Market risk is measured and monitored against trading limits using a value at risk methodology. The value at risk model is based on 97.5% confidence level, 1.96 standard deviations and one day holding period. Value at risk for six months to 31 March 1996 follows:

\$m	High	Low	Average
Daily earnings at risk	5.7	2.6	3.9

End-user derivatives

The following table shows the notional amount of derivative transactions outstanding used for Westpac's balance sheet management purposes.

Derivatives used for asset and liability Management purposes (\$bn)	Notional amount		
	31 March 1996	30 Sept 1995	31 March 1995
Interest Rate			
Futures	13.2	3.9	10.4
Forwards	3.4	3.7	5.3
Swaps	21.7	26.1	34.5
Purchased options	0.2	0.2	0.3
Sold options	-	-	0.1
Foreign exchange			
Forwards	2.2	2.6	2.3
Swaps	3.8	4.2	3.1
Purchased options	-	-	-
Sold options	-	-	-
Total derivatives	44.5	40.7	56.0

NON-INTEREST EXPENSES

\$m	Six months to		
	31 March 1996	30 Sept 1995	31 March 1995
Salaries and other staff expenses			
Salaries and wages	657	630	587
Other expenses	140	135	115
	797	765	702
Superannuation prepayment adjustment	7	6	5
Equipment and occupancy expenses			
Operating lease rentals	77	77	74
Depreciation and amortisation			
-premises	7	6	9
-leasehold improvements	6	7	5
-furniture and equipment	65	61	61
Other equipment and occupancy expenses	76	76	73
	231	227	222
Other expenses			
Amortisation of goodwill	8	4	3
Amortisation of deferred expenditure	5	5	5
Consultancy fees, computer software and other purchased services	111	121	102
Postage, stationary and telecommunications	99	90	84
Other expenses	139	160	153
	362	380	347
Non-interest expenses	1,397	1,378	1,276
Efficiency ratio (operating expenses/income)	61.7%	62.1%	59.3%
Non-interest expenses/average assets (annualised)	2.48%	2.78%	2.67%
Average full time equivalent staff	31,947	31,422	31,458
Spot full time equivalent staff	32,561	31,422	31,461
Per average employee (\$,000) (annualised)			
-salaries and other staff expenses	50	49	45
-equipment and occupancy expenses	14	14	14
-total non-interest expenses	87	88	81
-operating income	142	141	137
-average assets (\$m)	3.5	3.2	3.0

NON-INTEREST EXPENSES (con'd)

Comments on expenses

- The increase in salaries and other staff expenses reflects the increased technology development spend, the acquisition of Challenge Bank, which accounted for \$11 million of the increase (including almost 1,200 staff), salary increases and bonus/incentive payments to sales staff. It also reflects overtime and temporary costs associated with the Best Bank and Mortgage Processing Centre projects. Overall, excluding Challenge Bank, permanent staff numbers continued to reduce, whilst salaries and other expenses grew by 2.7% over the last six months, which includes the impact of the recent Enterprise Development Agreement.
- After allowing for \$5 million of expenses relating to Challenge Bank, equipment and occupancy expenses decreased marginally over the September 1995 half year and increased marginally over the March 1995 half year.
- Other expenses includes \$9 million relating to Challenge. With the development of new products and services, consultancy fees, computer software and other purchased services continue to be major factors in this category.
- Challenge Bank incurred total non-interest expenses of \$25 million since acquisition. Excluding these costs, Westpac's total non-interest expenses declined to \$1,372 million, reflecting the continuing focus on expenditure control.

ASSET QUALITY

SUMMARY OF IMPAIRED ASSETS

\$m	31 March 1996			30 Sept 1995			31 March		
	Gross	Specific Provision	Net	Gross	Specific Provision	Net	Gross	Specific Provision	Net
Non-accrual loans	1,561	(703)	858	1,999	(904)	1,095	2,705	(1,250)	1,455
Restructured loans	107	(46)	61	115	(46)	69	166	(45)	121
Assets acquired through security enforcement i.e. OREO	79	-	79	82	-	82	83	-	83
Total impaired assets	1,747*	(749)	998	2,196*	(950)	1,246	2,954*	(1,295)	1,659
Assets past due 90 days	479	-	479	411	-	411	330	-	330
Total impaired assets and assets past due 90 days	2,226	(749)	1,477	2,607	(950)	1,657	3,284	(1,295)	1,989

* Includes off balance sheet impaired assets of \$78million (\$248 million as at 30 September 1995, \$228 million as at 31 March 1995)

Under Reserve Bank of Australia guidelines, loans which are 90 or more days past due must be classified as impaired assets except where the estimated net realisable value of the security is sufficient to cover the repayment of all principal, interest amounts due and an additional six months interest. These loans need to be reported as a memorandum item only, and are separately reported above.

Westpac's level of loans from \$330 million to \$479 million. These loans are located primarily in Australia and mostly involve housing and investment property loans which are secured by mortgages. Westpac believes that this worsening experience, which is based broadly geographically, is associated with the increasing general indebtedness of Australian consumers. Westpac does not believe that this will lead to any significant increase in losses.

\$m	March 31 1996	March 31 1995
Estimated interest received on the above non-accrual and restructured assets	32	47
Estimated interest forgone on the above non-accrual and restructured assets	87	102
Interest yield on average non-accrual and restructured assets	3.6%	3.3%

BAD AND DOUBTFUL DEBT CHARGE

Six months to: \$m	31 March 1996	30 Sept 1995	31 March 1995
New specific provisions	88	236	180
Specific provisions no longer required	(198)	(195)	(130)
Specific Provisions (net)	(110)	41	50
General Provision (net)	180	69	170
Total charge for bad debts and provisions	70	110	220

PROVISION FOR DOUBTFUL DEBTS

Six months to: \$m	31 March 1996	30 Sept 1995	31 March 1995
General provision			
Balance at beginning of period	980	886	735
Exchange rate and other adjustments	9	(1)	(4)
Provision of subsidiary acquired	27	-	-
Bad debts written off	(106)	(113)	(65)
Recoveries of debts previously written off	40	51	50
Transfer from specific provisions	-	88	-
Charge to operating profit	180	69	170
Balance at period end	1,130	980	886
Specific provisions			
Balance at beginning of period	950	1,295	1,607
Exchange rate and other adjustments	(20)	(24)	25
Provision of subsidiary acquired	47	-	-
New provisions for loans	88	236	180
Transfer to general provision	-	(88)	-
Provisions no longer required	(198)	(195)	(130)
Bad debts written off	(118)	(274)	(387)
Balance at period end	749	950	1,295

PROVISIONS FOR DOUBTFUL DEBTS (con'd)

In 1995 dynamic provisioning was introduced as a tool for guiding management in setting total provisions. Under dynamic provisioning, the level of expected losses which may arise from the existing portfolio of credit exposures is calculated by applying a set of historically derived loss factors, adjusted to reflect changes in the underlying business. The resulting level of total provisions should be sufficient to cover loan losses inherent in the current loan portfolios. As a portfolio size, composition, inherent risk and loan loss experience change, the level of total provisions will be adjusted.

IMPAIRED ASSET RATIOS

As at:	31 March 1996	30 Sept 1995	31 March 1995
\$m			
Impaired assets to total loans and acceptances	2.0%	2.8%	3.9%
Impaired assets and assets past due 90 days to total loans and acceptances	2.6%	3.3%	4.3%
Specific provisions to total impaired loans	44.9%	44.9%	45.1%
Total provisions to total impaired loans	112.6%	91.3%	76.0%
Total provisions to total loans and acceptances	2.19%	2.48%	2.89%
Total provisions to total impaired assets and assets past due 90 days	84.4%	74.0%	66.4%
Total impaired assets to shareholders' equity and total provisions	17.3%	23.1%	30.5%
Total impaired assets and assets past due 90 days to shareholders' equity and total provisions	22.1%	27.4%	33.9%
Bad debt charge to average loans and acceptances (annualised)	0.17%	0.29%	0.58%
Bad debt charge to total operating income	3.1%	5.0%	10.2%

CAPITAL ADEQUACY

As at: \$m	31 March 1996	30 Sept 1995	31 March 1995
Tier 1 capital			
Total shareholders' equity	8,199	7,583	7,516
Less: Asset revaluation reserves	(296)	(382)	(507)
Goodwill	(426)	(19)	(32)
Future income tax benefit net of deferred tax liability	-	(98)	(196)
Total tier 1 capital	7,477	7,084	6,781
Tier 2 capital			
Asset revaluation reserves	296	382	507
Subordinated undated capital notes	950	981	1,017
General provision for doubtful debts	1,130	980	886
Less: Future income tax benefit related to general provision	(407)	(353)	(292)
Eligible subordinated bonds, notes and debentures	1,280	1,374	1,572
Total tier 2 capital	3,249	3,364	3,690
Tier 1 and tier 2 capital	10,726	10,448	10,471
Deductions:			
- Other banks' capital instruments	(9)	(50)	(9)
- Capital in funds management and securitisation activities*	(130)		
Net qualifying capital	10,587	10,398	10,462
Risk – adjusted assets	81,409	74,930	73,306
Tier 1 capital ratio	9.2%	9.5%	9.2%
Tier 2 capital ratio	4.0%	4.5%	5.0%
Deductions	(0.2%)	(0.1%)	
Net capital ratio	13.0%	13.9%	14.2%

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

The decrease in the tier 2 capital ratio to 4.0% from 5.0% in March 1995 is due to a reduction in the

asset revaluation reserves as a result of sales of premises, and the run-off of eligible subordinated debt.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the half year ended 31 March 1996.

INTEREST SPREAD AND MARGIN ANALYSIS – DEFINITIONS

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

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

The benefit of net non-interest bearing liabilities and equity is determined by applying the average rate of interest paid on all interest bearing liabilities to the average level of these funds. The calculations for Australia and overseas take into account the interest expense/income of cross border, intragroup borrowing/lending.

Comparatives for previous periods have been recalculated on this basis.

SUBSEQUENT EVENTS

Trust bank New Zealand Limited

On 19 April 1996, Westpac announced it had reached an agreement with Trust Bank New Zealand Limited (Trust Bank) under which Westpac would make an offer to acquire all the share in Trust Bank at a cost of NZ\$1,274 million (approximately A\$1,120 million).

Ordinary share buyback

The previously announced share buyback commenced on 4 April 1996. 17.14 million shares have been purchased at a total cost of \$105 million up to and including 29 April 1996, at which point purchases were suspended until after the release of Westpac's half year results on 14 May 1996. It is intended that the buyback will continue after this on the same basis as previously.

GROUP FINANCIAL INFORMATION FOR US INVESTORS

Group operating profit, shareholders' equity and assets adjusted to comply with United States generally accepted accounting principles (US GAAP) are:

Six Months to:	31.3.96	31.3.95	31.3.96	31.3.95
\$m	USD*	USD*	AUD	AUD
Net profit as reported	425	361	565	480
Depreciation on buildings	3	3	4	4
Gain on sale of properties (including amortisation) of gains on sale of properties subject to lease back arrangements	21	10	28	13
Provision for employee redundancy benefits not previously recognised under US GAAP	(47)	(10)	(63)	(14)
Amortisation of goodwill	(6)	(6)	(8)	(8)
Superannuation (pension) expense adjustment	19	27	26	36
Initial application of an accounting standard	-	(26)	-	(34)
Adjusted US GAAP net profit	415	359	552	477

*USD amounts are calculated using the following average exchange rates:

Six months ended 31 March 1995: AUD1 = USD0.7515

Six months ended 31 March 1996: AUD1 = USD0.7525

As at:	31.3.96	31.3.95	31.3.96	31.3.95
\$m	USD**	USD**	AUD	AUD
Shareholders' equity as reported	6,387	5,470	8,199	7,516
Less outside equity interest	(5)	(4)	(6)	(6)
	6,382	5,466	8,193	7,510
Elimination of asset revaluation reserve	(231)	(369)	(296)	(507)
Depreciation on buildings	20	16	26	22
Deferred gains on sale of properties subject to lease back arrangements	(38)	(4)	(49)	(5)
Adjustment to provision for employee redundancy benefits	2	17	3	24
Restoration of previously deducted goodwill less amortisation and amounts written off	4	4	5	6
Goodwill not recognised on acquisitions	61	68	78	93
Investment securities fair value adjustments	(22)	(42)	(29)	(58)
Superannuation pension (expense) adjustments	(126)	(172)	(162)	(237)
Interim dividend provided	237	173	304	237
Adjusted US GAAP equity	6,289	5,157	8,073	7,085

**USD amounts are calculated using the following spot exchange rates:

31 March 1995: AUD1=USD0.7278

31 March 1996: AUD1=USD0.7790

GROUP FINANCIAL INFORMATION FOR US INVESTORS (con'd)

As at:	31.3.96	31.3.95	31.3.96	31.3.95
\$m	USD**	USD**	AUD	AUD
Assets as reported	90,166	71,134	115,746	97,739
Revaluation surplus of properties	(231)	(369)	(296)	(507)
Depreciation on buildings revalued	20	16	26	22
Goodwill	65	72	83	99
Superannuation (pension) funds adjustment	(126)	(172)	(162)	(237)
Investment securities fair value adjustment	(22)	(42)	(29)	(58)
Gross-up of market value of derivatives**	-	6,404	-	8,800
Adjusted US GAAP equity	6,289	5,157	8,073	7,085

*USD amounts are calculated using the following spot exchange rates.

31 March 1995: AUD1=USD0.7278

31 March 1996:AUD1=USD0.7790

**Westpac's policy at 31 March 1995, consistent with industry practice in Australia and as previously permitted under US GAAP, was to offset the fair value of derivatives in a loss position against the fair value of derivatives in a gain position for balance sheet presentation purposes. US GAAP now forbids offsetting, unless a right of set exists. Westpac changed its accounting policy on 30 September 1995 and now complies with US GAAP in respect of the balance sheet presentation of derivatives.

BOOKS CLOSING

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

Books close for determination of dividend entitlement on ordinary shares:

Australian and New Zealand Registers

**At 5.00pm, 13 June 1996 (Sydney time) at:
KPMG Registrars Pty Ltd, 55 Hunter Street, Sydney, NSW 2000**

(Dividends payable to shareholders on the New Zealand register will be converted to local currency at the ruling buying rate for telegraphic transfers at 11.00am on 13 June 1996).

New York

For American Depositary Receipts, at 5.00pm, 12 June 1996 (New York time) at:

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

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

Tokyo

At 3.00pm, 13 June 1996 (Tokyo time), for shares registered in the books of Tokyo Stock Exchange Members' securities companies. (Dividends will be converted to local currency at the rate ruling on date of receipt of the funds by the paying agent, The Mitsubishi Trust and banking Corporation, 7-7, Nishi-Ikebukuro 1-chome, Toshima-ku, Tokyo, 171, Japan.)

Ex-dividend date: 4 June 1996.

The date proposed for the payment of the interim dividend is 5 July 1996.

BA McNee
Group Secretary and General Counsel

14 May 1996

For further information contact:

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