

# Westpac Banking Corporation

ARBN 007 457 141

## HALF YEAR PROFIT RESULTS 1999

Six months ended 31 March 1999

\$m	Six months to			% Mov't	% Mov't
	31 March 1999	30 Sept 1998	31 March 1998	Sept 98 - March 99	March 98 - March 99
Operating profit after income tax attributable to shareholders (\$m)					
before abnormals	701	676	666	3.7	5.3
after abnormals	701	606	666	15.7	5.3
Earnings per ordinary share (cents)					
fully diluted before abnormals	36.3	34.5	33.5	5.2	8.4
fully diluted after abnormals	36.3	31.0	33.5	17.1	8.4
Return on average ordinary equity before abnormals (annualised)	16.4%	15.6%	15.5%	-	-
Tangible return on tangible average ordinary equity before abnormals (annualised)	22.1%	21.4%	21.6%	-	-
Dividends per ordinary share (cents) - fully franked	23.0	22.0	21.0	4.5	9.5

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

## 1.1 THE RESULT

Westpac Banking Corporation today announced an operating profit after income tax attributable to ordinary shareholders of \$701 million, an increase of 5.3% on the 31 March 1998 half.

Earnings per share (fully diluted) increased by 8.4% to 36.3 cents.

Directors intend declaring an interim, fully franked dividend of 23 cents per ordinary share, an increase of 9.5% over the 1998 interim dividend of 21 cents per ordinary share (fully franked). This represents a payout ratio of 62.0%, up from 60.4%.

Key highlights of the results were:

- Improving returns on capital employed, with the return on ordinary equity rising to 16.4% from 15.5%. Adjusting for the accounting impacts of goodwill associated with the recent mergers, the tangible return on tangible equity rose to 22.1% from 21.6%.
- Ongoing success in managing competitive interest spread compression in Australia and New Zealand. This reflected the benefits of disciplined pricing for risk, net interest income hedging and mortgage securitisation.
- Strong volume and market share growth in attractive markets, including home mortgages, credit cards and retail funds management.
- Continued solid growth in non-interest income revenue streams, up 6.4%. The result was impacted by a \$47 million decline (23.7%) in financial markets income, following a return to more sustainable sales and trading levels post the Asian induced market volatility. This was offset, in part, by a \$28 million gain from the sale of an interest in Data Advantage.
- Growth in non-interest expenses of 1.3% on the March 1998 half and 2.0% on the September 1998 half. Adjusting for one-off accounting changes in prior periods, expenses have been flat.
- Continued sound asset quality, with net impaired loans falling to 4.0% of shareholders' equity and general provisions (from 5.7% as at 31 March 1998). Total provisions held now cover total impaired loans 2.1 times, up from 1.8 times previously. While the productive loan portfolio has grown \$3.8 billion or 4.1% since 30 September 1998, total provisions to total loans and acceptances remained constant at 1.5%.

The result represents continued progress on Westpac's key financial objective of building long-term shareholder value, anchored around delivering sustainable earnings growth. It marks the 11th successive half-yearly increase in pre-abnormal profits.

## 1.2 USE OF PRIOR TAX LOSSES

As a result of a decision to claim past tax losses in lieu of our previous strategy of claiming them over several years, it is likely that the 1999 final dividend, to be paid in January 2000, will be unfranked. Directors, however, anticipate that future dividends will be fully franked.

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<sup>1</sup> Comparatives in this section are with the half-year ended 31 March 1998 (pcp) unless otherwise stated.

This decision will not directly affect the 1999 full year profit. The decision, however, removes the risk to shareholders of a possible future adverse impact to earnings, which could arise from the current review of taxation by the Federal Government.

### **1.3 KEY INITIATIVES**

Having established a sound foundation for earnings, Westpac's focus is now on fast tracking revenue growth, lowering the cost to serve, and continuing to improve the efficiency of the capital structure.

The aim is to significantly enhance the value of Westpac's expanded customer base on the back of the recent mergers. To capture this value, a number of key initiatives are being aggressively pursued in each of above areas.

#### **Revenue Growth**

The revenue growth initiatives involve rewarding and encouraging deeper multiple product holdings and improving the profitability of core products and segments. Specific initiatives include:

- Increasing the number of consumer customers with higher value, extensive multiple product holdings. Currently, less than 8% of customers are contributing 75% of the total value derived from the consumer customer base.
- Significantly improving the profitability of those customers not currently providing positive returns, through better customer education, encouraging product bundling and providing pricing incentives. Importantly, it involves continuing to provide customers with ways to lower their cost of banking (and our cost to serve). Converting just 10% of the existing single product consumer customers into multiple core product holders, would improve the total value derived from the consumer segment by around 30%.
- Building on the recent success in cross selling retail funds management products into a wider product range, including insurance services. Westpac's advisory sales force has been expanding at a compound rate of 18%, and now totals in excess of 500 specialised staff. This also involves targeting a broader customer reach, including the business and institutional markets.
- Improving the productivity of the sales force and the value to customers of the service provided. This is being achieved through the use of available information on customer needs and their relationship value.
- Further developing the revenue opportunities of Westpac's direct sales channels. Westpac's telephone banking, internet and e-commerce platforms are amongst the fastest growing in the market. This includes Westpac's recent launch of internet-based trade finance facilities for the business market.

## Expense Containment

A number of initiatives are in place to improve unit costs, including support costs, re-engineering back office process, and capturing additional synergies across businesses. Specific initiatives include:

- Reshaping the physical branch network to deliver an estimated 30 per cent reduction in the existing floor space. The \$300 million overhaul is replacing higher cost traditional branches with lower cost retail outlets, more in-touch with specific community needs. It is anticipated that Westpac's innovative in-store branches will replace some 20% of the existing traditional branches. While the unit costs to serve are lowered, face-to-face services will be maintained in all existing communities served.
- Reducing administrative overheads by realising planned efficiencies from past investment in financial and customer information systems, and by optimising head office and administrative functions.

## Capital Efficiency

The cornerstones of Westpac's capital management to date have been careful pricing for risk, securitisation of mortgages, and on-market buy-backs. Going forward, the added focus is on diversifying equity sources.

- The first equity diversification initiative will be to incorporate a low cost hybrid tier 1 instrument into the capital structure. Such a transaction will be launched in the near future.
- On-market share buy-backs will continue to play a pivotal role and may be supplemented by off-market buy-backs, should it be beneficial to shareholders to do so.

In conjunction with these initiatives, the maintenance of sound risk management disciplines remains a priority.

Delivery on the above initiatives will be critical to Westpac meeting its financial objective to consistently create shareholder value throughout all stages of the credit cycle. In doing so, Westpac will continue to target returns well in excess of the cost of capital, and earnings per share growth above the nominal growth of the economy.

With the customer franchise in good shape, a motivated workforce, a quality loan book, and a positive economic outlook, Westpac is well positioned to achieve its financial objective to consistently create shareholder value throughout all stages of the business cycle.

## 1.4 FINANCIAL SUMMARY

	Six months to/as at			% Mov't
	31 March 1999	30 Sept 1998	31 March 1998	March 98 - March 99
<b>Shareholder value</b>				
Fully diluted earnings per ordinary share (cents)				
before abnormals	36.3	34.5	33.5	8.4
after abnormals	36.3	31.0	33.5	8.4
Tangible return on tangible average ordinary equity (annualised)				
before abnormals	22.1%	21.4%	21.6%	
after abnormals	22.1%	19.3%	21.6%	
Return on average ordinary equity (annualised)				
before abnormals	16.4%	15.6%	15.5%	
after abnormals	16.4%	14.0%	15.5%	
Fully franked dividends per ordinary share (cents)	23.0	22.0	21.0	9.5
Dividend payout ratio				
before abnormals	62.0%	61.9%	60.4%	
after abnormals	62.0%	69.1%	60.4%	
<b>Earnings</b>				
Operating profit after income tax attributable to shareholders (\$m)				
before abnormals	701	676	666	5.3
after abnormals	701	606	666	5.3
Return on average assets (annualised)				
before abnormals	1.00%	0.96%	0.97%	
after abnormals	1.00%	0.86%	0.97%	
Net interest spread	2.88%	2.79%	2.93%	
Net interest margin	3.32%	3.39%	3.49%	
Non-interest income/total operating income	36.4%	36.2%	35.0%	
<b>Productivity and efficiency</b>				
Productivity ratio <sup>(1)</sup>	3.13	3.39	3.22	
Expense to income ratio before intangibles	58.7%	57.8%	59.1%	
Personnel numbers				
Implied full time equivalent (FTE) <sup>(2)</sup>	34,764	35,512	35,613	(2.4)
Average implied FTE	34,824	35,635	35,766	(2.6)

<sup>(1)</sup> Operating income/salaries and other staff expenses

<sup>(2)</sup> Implied FTE includes core FTE, overtime, temporary staff and contractors

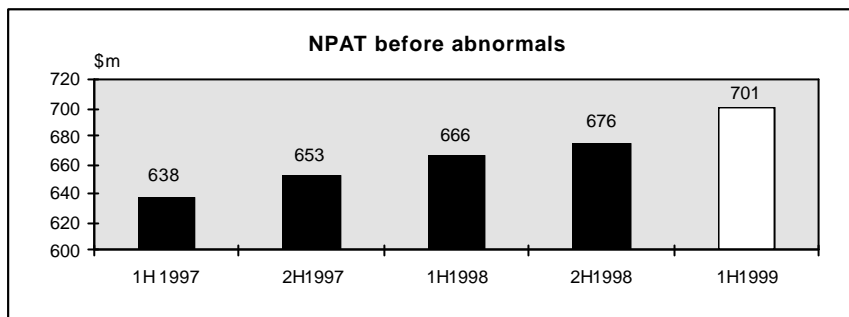
## 1.4 FINANCIAL SUMMARY (Cont'd)

	Six months to/as at			% Mov't March 98 - March 99
	31 March 1999	30 Sept 1998	31 March 1998	
<b>Capital adequacy</b>				
Capital adequacy ratios				
Total	9.1%	9.3%	9.0%	
Tier 1	6.8%	6.8%	6.8%	
Total tangible equity to total tangible assets	5.1%	5.0%	5.2%	
Total tangible equity to total risk adjusted assets	6.9%	7.0%	7.0%	
Average ordinary equity (\$m)	8,575	8,565	8,403	2.0
Average total equity (\$m)	8,575	8,788	8,935	(4.0)
<b>Assets</b>				
Total assets (\$m)	138,536	137,319	136,059	1.8
Net loans and acceptances (\$m)	106,477	102,063	101,259	5.2
Net loans and acceptances plus securitised balances (\$m)	111,707	107,702	104,715	6.7
Risk-adjusted assets (\$m)	101,412	97,430	99,839	1.6
<b>Asset quality</b>				
Impaired loans to total loans and acceptances	0.7%	0.8%	0.9%	
Specific provisions to total impaired loans	46.5%	42.5%	37.3%	
Total provisions to total impaired loans	210.3%	187.9%	179.6%	
Total provisions to total loans and acceptances	1.5%	1.5%	1.6%	
Total bad and doubtful debt charge to total loans and acceptances (basis points)	9	11	5	
Net impaired loans to shareholders' equity and general provisions	4.0%	5.0%	5.7%	

## 1.4 FINANCIAL SUMMARY (Cont'd)

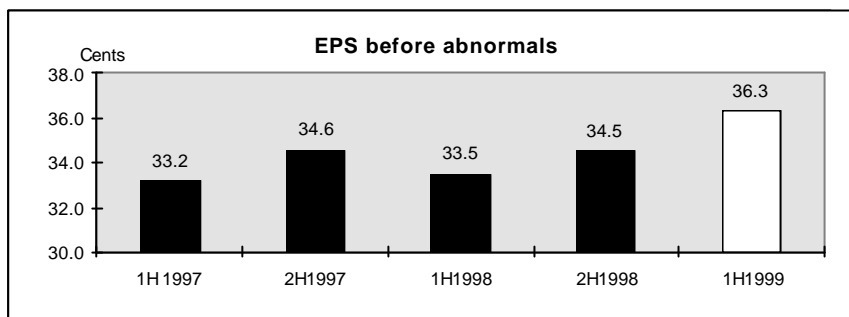
### Earnings

- Profit on operations continues its consistent growth, up 5% on the prior corresponding period to \$701m.



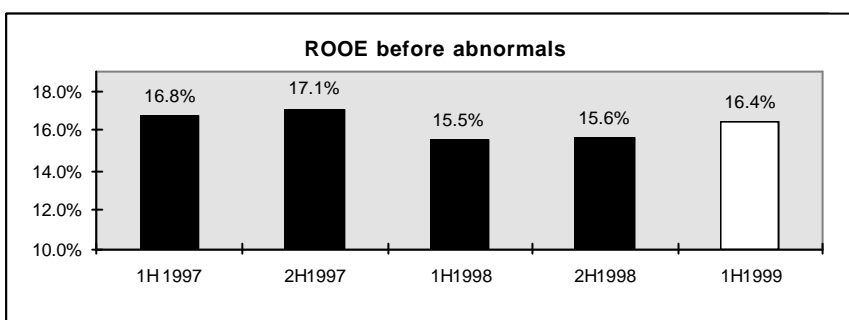
### Earnings Per Share

- Earnings per share has resumed a solid growth path, reversing the dilutive impacts of share issues for the recent mergers.



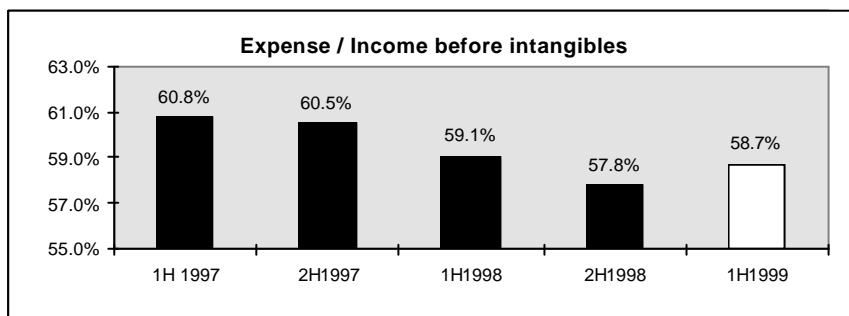
### Profitability

- Return on ordinary equity (ROOE) before abnormals increased to 16.4% due to continued performance improvement, combined with active capital management involving buy-backs of excess capital.



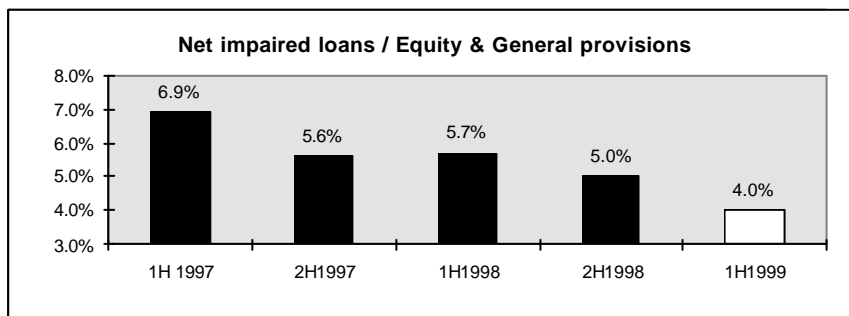
### Efficiency

- The expense to income ratio, while up slightly on the prior period was down on the prior corresponding period, reflecting successful underlying expense containment.



### Asset Quality

- Westpac's already sound asset quality continued to improve in the period.





## 2 PROFIT AND LOSS

### 2.1 PROFIT AND LOSS STATEMENTS

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

\$m	Six months to		% Mov't	
	31 March 1999	30 Sept 1998	31 March 1998	March 98 - March 99
<b>Interest income</b>				
Deposits with banks	97	159	123	(21.1)
Investment and trading securities	309	303	278	11.2
Regulatory deposits	8	7	6	33.3
Loans and other receivables	3,835	4,103	3,917	(2.1)
<b>Interest income</b>	<b>4,249</b>	<b>4,572</b>	<b>4,324</b>	<b>(1.7)</b>
<b>Fully taxable equivalent gross up (note 1)</b>	<b>59</b>	<b>59</b>	<b>69</b>	<b>(14.5)</b>
<b>Interest income (including gross up)</b>	<b>4,308</b>	<b>4,631</b>	<b>4,393</b>	<b>(1.9)</b>
<b>Interest expense</b>				
Current and term deposits	(1,740)	(2,114)	(1,813)	(4.0)
Public borrowings	(163)	(173)	(187)	(12.8)
Deposits from banks	(104)	(117)	(158)	(34.2)
Loan capital	(86)	(97)	(76)	13.2
Other liabilities	(400)	(322)	(347)	15.3
<b>Interest expense</b>	<b>(2,493)</b>	<b>(2,823)</b>	<b>(2,581)</b>	<b>(3.4)</b>
<b>Net interest income (including gross up)</b>	<b>1,815</b>	<b>1,808</b>	<b>1,812</b>	<b>0.2</b>
<b>Non-interest income</b>				
Fees and commissions	710	708	668	6.3
Financial markets income	151	212	198	(23.7)
General and life insurance income	84	68	66	27.3
Other income	93	39	44	111.4
<b>Non-interest income</b>	<b>1,038</b>	<b>1,027</b>	<b>976</b>	<b>6.4</b>
<b>Operating income (including gross up)</b>	<b>2,853</b>	<b>2,835</b>	<b>2,788</b>	<b>2.3</b>
Charge for bad and doubtful debts	(99)	(118)	(50)	98.0
<b>Operating income (including gross up) net of charge for bad and doubtful debts</b>	<b>2,754</b>	<b>2,717</b>	<b>2,738</b>	<b>0.6</b>
<b>Non-interest expenses</b>				
Salaries and other staff expenses	(915)	(836)	(868)	5.4
Equipment and occupancy expenses	(299)	(333)	(308)	(2.9)
Other expenses	(460)	(469)	(472)	(2.5)
Amortisation of intangibles	(50)	(52)	(54)	(7.4)
<b>Non-interest expenses</b>	<b>(1,724)</b>	<b>(1,690)</b>	<b>(1,702)</b>	<b>1.3</b>
<b>Operating profit before income tax (including gross up)</b>	<b>1,030</b>	<b>1,027</b>	<b>1,036</b>	<b>(0.6)</b>
<b>Fully taxable equivalent gross up (note 1)</b>	<b>(59)</b>	<b>(59)</b>	<b>(69)</b>	<b>(14.5)</b>
<b>Operating profit before income tax (excluding gross up)</b>	<b>971</b>	<b>968</b>	<b>967</b>	<b>0.4</b>
Income tax expense	(267)	(289)	(300)	(11.0)
Outside equity interests	(3)	(3)	(1)	200.0
<b>Profit on operations</b>	<b>701</b>	<b>676</b>	<b>666</b>	<b>5.3</b>
Abnormal items (net of tax)	-	(70)	-	-
<b>Operating profit after income tax attributable to shareholders</b>	<b>701</b>	<b>606</b>	<b>666</b>	<b>5.3</b>

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

\$m	Six months to/ as at			% Mov't
	31 March 1999	30 Sept 1998	31 March 1998	March 98 - March 99
Retained profits at the beginning of the financial period	2,241	2,090	1,873	19.6
Operating profit after income tax attributable to shareholders	701	606	666	5.3
Aggregate of amounts transferred to reserves	(9)	(30)	(21)	(57.1)
<b>Total available for appropriation</b>	<b>2,933</b>	<b>2,666</b>	<b>2,518</b>	<b>16.5</b>
Dividends provided for or paid	(430)	(425)	(428)	0.5
<b>Retained profits at the end of the financial period</b>	<b>2,503</b>	<b>2,241</b>	<b>2,090</b>	<b>19.8</b>

**Note 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%.

## 2.2 EARNINGS PER SHARE (cents)

Basic				
before abnormals	37.0	35.4	34.7	6.6
after abnormals	37.0	31.7	34.7	6.6
Fully diluted				
before abnormals	36.3	34.5	33.5	8.4
after abnormals	36.3	31.0	33.5	8.4
Weighted average number of fully paid ordinary shares (millions)	1,895	1,887	1,872	1.2
Spot ordinary shares (millions)	1,891	1,899	1,865	1.4

## 2.3 DIVIDENDS

Cents per share	Six months to		
	31 March 1999	30 Sept 1998	31 March 1998
<b>Ordinary dividend (fully franked @ 36%)</b>			
Interim	23.0	-	21.0
Final	-	22.0	-
<b>Total dividend provided for or paid</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Ordinary	435	418	388
Preference	-	7	17
	435	425	405
(Over)/under provision for final dividend <sup>(1)</sup>	(5)	-	23
	430	425	428
<b>Ordinary dividend payout ratio (before abnormals)</b>	<b>62.0%</b>	<b>61.9%</b>	<b>60.4%</b>

(1) The underprovision at 31 March 1998 was due to the increased number of shares on issue as a result of the merger with Bank of Melbourne. These were issued subsequent to the end of the previous financial period.

## 2.4 INTEREST SPREAD AND MARGIN ANALYSIS

### 2.4.1 Spread and Margin Analysis

% Group	Six months to		
	31 March 1999	30 Sept 1998	31 March 1998
<b>Group</b>			
Interest spread on productive assets <sup>(2)</sup>	2.92	2.83	2.98
Impact of impaired loans	(0.04)	(0.04)	(0.05)
Interest spread <sup>(1)</sup>	2.88	2.79	2.93
Benefit of net non-interest bearing liabilities and equity <sup>(3)</sup>	0.44	0.60	0.56
Interest margin	3.32	3.39	3.49
<b>Australia</b>			
Interest spread on productive assets <sup>(2)</sup>	2.99	3.00	3.28
Impact of impaired loans	(0.02)	(0.03)	(0.06)
Interest spread <sup>(1)</sup>	2.97	2.97	3.22
Benefit of net non-interest bearing liabilities and equity <sup>(3)</sup>	0.44	0.57	0.53
Interest margin	3.41	3.54	3.75
<b>New Zealand</b>			
Interest spread on productive assets <sup>(2)</sup>	2.96	2.71	2.75
Impact of impaired loans	(0.05)	(0.04)	(0.01)
Interest spread <sup>(1)</sup>	2.91	2.67	2.74
Benefit of net non-interest bearing liabilities and equity <sup>(3)</sup>	0.07	0.12	0.11
Interest margin	2.98	2.79	2.85
<b>Other Overseas</b>			
Interest spread on productive assets <sup>(2)</sup>	0.87	0.78	0.71
Impact of impaired loans	(0.08)	(0.06)	(0.03)
Interest spread <sup>(1)</sup>	0.79	0.72	0.68
Benefit of net non-interest bearing liabilities and equity <sup>(3)</sup>	0.68	0.83	0.82
Interest margin	1.47	1.55	1.50

<sup>(1)</sup> **Interest spread** is the difference between the average yield on all interest earning assets and the average rate paid on all interest bearing liabilities net of impaired loans.

<sup>(2)</sup> **Interest spread on productive assets** is determined on the basis of the interest spread formula after excluding non-accrual loans, and the interest relating thereto, from the equation.

<sup>(3)</sup> **The benefit of net non-interest bearing liabilities and equity** is determined by applying the average rate of interest paid on all interest bearing liabilities to the average level of net non-interest bearing funds as a percentage of average interest earning assets. The calculations for Australia, and New Zealand take into account the interest expense/ income of cross border, intragroup borrowing/lending.

## 2.4.2 Average Balance Sheets and Interest Rates

	Six months to 31 March 1999			Six months to 30 Sept 1998			Six months to 31 March 1998		
	Average Balance \$m	Interest \$m	Average Rate %	Average Balance \$m	Interest \$m	Average Rate %	Average Balance \$m	Interest \$m	Average Rate %
<b>Assets</b>									
<b>Interest earning assets</b>									
Due from other financial institutions									
Australia	969	16	3.3	803	20	5.0	941	14	3.0
New Zealand	1,315	29	4.4	1,655	64	7.7	1,187	51	8.6
Other Overseas	1,925	52	5.4	2,236	67	6.0	2,394	66	5.5
Investment and trading securities									
Australia	6,375	207	6.5	5,427	184	6.8	5,757	163	5.7
New Zealand	792	20	5.1	1,371	39	5.7	1,063	37	7.0
Other Overseas	2,286	82	7.2	2,170	81	7.4	2,066	77	7.5
Regulatory deposits									
Australia	-	-	-	-	-	-	-	-	-
New Zealand	-	-	-	-	-	-	-	-	-
Other Overseas	311	8	5.2	289	7	4.8	215	6	5.6
Loans and other receivables									
Australia	71,917	2,973	8.3	68,548	2,983	8.7	66,444	2,811	8.4
New Zealand	19,191	747	7.8	18,762	994	10.6	19,500	993	10.2
Other Overseas	3,721	165	8.9	4,169	177	8.5	4,019	168	8.3
Impaired loans									
Australia	458	10	4.4	805	12	3.0	335	3	1.8
New Zealand	121	-	-	114	1	1.7	130	5	7.7
Other Overseas	227	-	-	203	-	-	73	1	2.7
Intragroup receivable									
Other Overseas	11,004	292	5.3	9,186	284	6.2	8,618	252	5.8
Interest earning assets and interest income including intragroup									
	120,612	4,601	7.7	115,738	4,913	8.5	112,742	4,647	8.2
Intragroup elimination									
	(11,004)	(292)		(9,186)	(284)		(8,618)	(252)	
<b>Total interest earning assets and interest income</b>									
	<b>109,608</b>	<b>4,309</b>	<b>7.9</b>	<b>106,552</b>	<b>4,629</b>	<b>8.7</b>	<b>104,124</b>	<b>4,395</b>	<b>8.4</b>
<b>Non-interest earning assets</b>									
Cash, bullion, due from other financial institutions and regulatory deposits									
	1,209			1,240			1,266		
Other assets									
	20,911			23,846			22,590		
Provisions for bad and doubtful debts									
Australia	(1,327)			(1,365)			(1,393)		
New Zealand	(111)			(112)			(122)		
Other Overseas	(156)			(111)			(83)		
<b>Total non-interest earning assets</b>									
	<b>20,526</b>			<b>23,498</b>			<b>22,258</b>		
Acceptances of customers									
Australia	10,747			11,280			11,350		
New Zealand	12			34			52		
Other Overseas	53			89			59		
<b>Total assets</b>									
	<b>140,946</b>			<b>141,453</b>			<b>137,843</b>		

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

	Six months to 31 March 1999			Six months to 30 Sept 1998			Six months to 31 March 1998		
	Average Balance \$m	Interest \$m	Average Rate %	Average Balance \$m	Interest \$m	Average Rate %	Average Balance \$m	Interest \$m	Average Rate %
<b>Liabilities and shareholders' equity</b>									
<b>Interest bearing liabilities</b>									
Deposits									
Australia	49,837	1,132	4.6	48,801	1,233	5.0	46,743	1,029	4.4
New Zealand	15,683	349	4.5	14,919	578	7.7	15,999	550	6.9
Other Overseas	9,253	259	5.6	9,930	292	5.9	8,410	246	5.9
Public borrowings by subsidiary borrowing corporations									
Australia	5,382	149	5.6	5,336	158	5.9	5,430	171	6.3
New Zealand	307	13	8.5	376	15	8.0	408	16	7.9
Other Overseas	-	-	-	1	-	-	3	-	-
Due to other financial institutions									
Australia	313	7	4.5	543	13	4.8	453	9	4.0
New Zealand	176	5	5.7	126	8	12.7	94	7	14.9
Other Overseas	3,507	93	5.3	3,299	108	6.5	4,307	130	6.1
Loan capital									
Australia	2,306	84	7.3	2,302	95	8.2	1,918	74	7.7
New Zealand	42	2	9.5	41	2	9.7	43	2	9.3
Other Overseas	27	-	-	29	-	-	1	-	-
Other interest bearing liabilities									
Australia	6,561	255	7.8	5,413	176	6.5	6,341	208	6.6
New Zealand	2,281	40	3.5	2,100	71	6.7	1,188	75	12.7
Other Overseas	4,238	105	5.0	2,467	74	6.0	2,247	64	5.7
Intragroup payable									
Australia	8,434	224	5.3	5,205	166	6.4	4,823	127	5.3
New Zealand	2,570	68	5.3	3,981	118	5.9	3,795	125	6.6
Interest bearing liabilities and interest expense including intragroup									
	110,917	2,785	5.0	104,869	3,107	5.9	102,203	2,833	5.6
Intragroup elimination									
	(11,004)	(292)		(9,186)	(284)		(8,618)	(252)	
<b>Total interest bearing liabilities and interest expense</b>									
	<b>99,913</b>	<b>2,493</b>	<b>5.0</b>	<b>95,683</b>	<b>2,823</b>	<b>5.9</b>	<b>93,585</b>	<b>2,581</b>	<b>5.5</b>
<b>Non-interest bearing liabilities</b>									
Deposits and due to other financial institutions									
Australia	3,613			3,659			3,503		
New Zealand	968			930			1,168		
Other Overseas	627			549			481		
Other liabilities	16,438			20,441			18,709		
<b>Total non-interest bearing liabilities</b>									
	<b>21,646</b>			<b>25,579</b>			<b>23,861</b>		
Acceptances of customers									
Australia	10,747			11,280			11,350		
New Zealand	12			34			52		
Other Overseas	53			89			59		
<b>Total liabilities</b>									
	<b>132,371</b>			<b>132,665</b>			<b>128,907</b>		
Ordinary shareholders' equity									
	8,575			8,565			8,403		
Preference shareholders' equity									
	-			222			532		
Outside equity interests									
	-			1			1		
<b>Total shareholders' equity</b>									
	<b>8,575</b>			<b>8,788</b>			<b>8,936</b>		
<b>Total liabilities and shareholders' equity</b>									
	<b>140,946</b>			<b>141,453</b>			<b>137,843</b>		

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

	Six months to 31 March 1999			Six months to 30 Sept 1998			Six months to 31 March 1998		
	Average Balance \$m	Interest \$m	Average Rate %	Average Balance \$m	Interest \$m	Average Rate %	Average Balance \$m	Interest \$m	Average Rate %
<b>Interest earning assets (including impaired loans)</b>									
Australia	79,719	3,206	8.1	75,583	3,199	8.4	73,477	2,993	8.2
New Zealand	21,419	796	7.5	21,901	1,098	10.1	21,881	1,085	9.9
Other Overseas	19,474	599	6.2	18,254	616	6.8	17,384	569	6.6
<b>Group</b>	<b>120,612</b>	<b>4,601</b>	<b>7.7</b>	<b>115,738</b>	<b>4,913</b>	<b>8.5</b>	<b>112,742</b>	<b>4,647</b>	<b>8.2</b>
<b>Interest bearing liabilities</b>									
Australia	72,833	1,851	5.1	67,598	1,841	5.4	65,708	1,618	4.9
New Zealand	21,059	477	4.5	21,543	792	7.3	21,527	775	7.2
Other Overseas	17,025	457	5.4	15,726	474	6.0	14,968	440	5.9
<b>Group</b>	<b>110,917</b>	<b>2,785</b>	<b>5.0</b>	<b>104,867</b>	<b>3,107</b>	<b>5.9</b>	<b>102,203</b>	<b>2,833</b>	<b>5.6</b>
<b>Interest spread</b>									
Australia			3.0			3.0			3.2
New Zealand			2.9			2.7			2.7
Other Overseas			0.8			0.7			0.7
<b>Group</b>			<b>2.9</b>			<b>2.8</b>			<b>2.9</b>

### **2.4.3 Commentary on Spreads and Margins**

#### **Group**

The improvement in interest spread to 2.88% from 2.79% for the six months to September 1998 reflects the benefits of net interest income hedging, pricing for risk, securitisation of assets (whereby lower margin assets are removed from the balance sheet), and a growth in spreads in the corporate loan market.

Group margin declined only seven basis points to 3.32% compared to 3.39% at September 1998, with the benefit of net non-interest bearing liabilities and equity falling to 0.44% from 0.60%, due to both a lower level of free funds and a reduction in the average funding cost (down to 5.0% from 5.9%).

#### **Australia**

The interest spread in Australia remained stable at 2.97%, with the average rate of interest received and paid both declining by 30 basis points.

The benefit of net non-interest bearing liabilities and equity declined to 0.44% from 0.57% for the six months to September 1998, resulting in a 13 basis point reduction in the margin.

#### **New Zealand**

The interest spread in New Zealand increased to 2.91% in the period from 2.67%, principally due to net interest income hedging in a rapidly changing interest rate environment.

The benefit of non-interest bearing liabilities and equity decreased five basis points to 0.07%, driven by a 280 basis point decrease in the cost of funds.

The interest margin increased to 2.98% from 2.79% during the half.

## 2.5 NON-INTEREST INCOME ANALYSIS

\$m	Six months to			% Movt
	31 March 1999	30 Sept 1998	31 March 1998	March 98 - March 99
<b>Fees and commissions</b>				
Lending fees	242	262	246	(1.6)
Fee and commission income	307	270	263	16.7
Other non-risk fee income	161	176	159	1.3
	<b>710</b>	<b>708</b>	<b>668</b>	<b>6.3</b>
<b>Financial markets income</b>				
Foreign exchange	119	145	150	(20.7)
Other	32	67	48	(33.3)
	<b>151</b>	<b>212</b>	<b>198</b>	<b>(23.7)</b>
<b>General and life insurance income</b>				
Westpac Life MOS <sup>(1)</sup>	61	45	45	35.6
Insurance commissions and premiums (net of claims paid)	23	23	21	9.5
	<b>84</b>	<b>68</b>	<b>66</b>	<b>27.3</b>
<b>Other income</b>				
Dividends received	17	9	6	183.3
Lease rentals	5	5	7	(28.6)
Cost of hedging overseas operations	3	(5)	(8)	137.5
Service and management fees	1	2	-	-
Net profit on sale of premises and investments	31	15	19	63.2
Other	36	13	20	80.0
	<b>93</b>	<b>39</b>	<b>44</b>	<b>111.4</b>
<b>Non-interest income</b>	<b>1,038</b>	<b>1,027</b>	<b>976</b>	<b>6.4</b>
<b>Non-interest income/total operating income</b>	<b>36.4%</b>	<b>36.2%</b>	<b>35.0%</b>	

<sup>(1)</sup> *The Margin on Services (MOS) profits have been determined in accordance with the "margin on services" methodology for the valuation of policy liabilities under professional standard 201, "Determination of Life Insurance Policy Liabilities" of the Institute of Actuaries of Australia. The result has been grossed up to a pre tax figure with the tax component included within tax expense.*



## Commentary on Non-Interest Income<sup>1</sup>

- Reflecting solid underlying core growth, non-interest income increased by \$62 million or 6.4% and now accounts for 36.4% of total operating income, up from 35.0% at the March 1998 half.
- Lending fees were marginally lower due to reduced collection of loan establishment fees during the period, in response to market and competitive pressures such as special promotions. This was largely offset by the solid growth in home loans and additional loan maintenance fees generated.
- Transaction fees and commissions increased strongly on improved volumes, up \$44 million or 16.7%:
  - \$12 million of which was due to increased credit card turnover and growth of merchant income;
  - \$7 million of additional fee income due to growth in Westpac Financial Services business in Australia;
  - \$13 million was due to strong growth in New Zealand, in Westpac Financial Services sales of managed fund products, and fee income arising from growth in the housing loan portfolio; and
  - the remainder resulted largely from consumer trends such as higher usage of foreign ATMs, with increased transaction volumes driving higher account keeping fees.
- Financial markets non-interest income<sup>(2)</sup> was down \$47 million or 23.7% due in part to market volatility returning to more normal levels during the first half of 1999.

Total financial markets income, however, as set out below, grew by \$18 million or 8.0%, with the mix of net interest income and non-interest income changing. Net interest income, generated by the mix of securities in the portfolio and movements in yields in coupon rates, increased \$65 million or 232.1%.

Financial markets income:

\$m	Six months to		% movement	
	31 March 1999	30 Sept 1998	31 March 1998	March 1998 - March 1999
Net interest income	93	47	28	232.1%
Non-interest income <sup>(2)</sup>	151	212	198	(23.7%)
Total	244	259	226	8.0%

<sup>(2)</sup> Financial markets income includes revenue from the Financial Markets and Treasury businesses.

- General and life insurance income grew 27.3%, due to increased sales and improved investment returns within Westpac Life.
- Other Income increased \$49 million with the key drivers being:
  - a change in the type of transactions undertaken in the Capital Raising and Corporate Finance businesses, resulting in increased dividends earned on capital swaps in the period (\$10m),
  - the sale of 50% of Westpac's interest in Data Advantage for \$28m, which compared to sale of properties in first half 1998 of \$16m; and
  - a net gain on hedging of overseas investments (\$11m).

<sup>1</sup> Comparatives in this section are with the half year ended 31 March 1998 (pcp) unless otherwise stated.

## 2.6 NON-INTEREST EXPENSE ANALYSIS

\$m	Six months to			% Movt
	31 March 1999	30 Sept 1998	31 March 1998	March 98 - March 99
<b>Salaries and other staff expenses</b>				
Salaries and wages	709	654	699	1.4
Other staff expenses	206	182	169	21.9
	<b>915</b>	<b>836</b>	<b>868</b>	<b>5.4</b>
<b>Equipment and occupancy expenses</b>				
Operating lease rentals	120	151	128	(6.3)
Depreciation and amortisation:				
Premises	6	5	9	(33.3)
Leasehold improvements	9	16	9	-
Furniture and equipment	23	22	25	(8.0)
Technology	77	85	73	5.5
Electricity, water, rates and land tax	16	16	20	(20.0)
Other equipment and occupancy expenses	48	38	44	9.1
	<b>299</b>	<b>333</b>	<b>308</b>	<b>(2.9)</b>
<b>Other expenses</b>				
Amortisation of intangibles	50	52	54	(7.4)
Amortisation of deferred expenditure	13	10	14	(7.1)
Non-lending losses	17	16	9	88.9
Consultancy fees, computer software and other professional services	148	144	174	(14.9)
Stationery	52	45	46	13.0
Postage and telecommunications	101	102	101	-
Advertising	47	48	51	(7.8)
Training	10	13	8	25.0
Travel	27	33	28	(3.6)
Other expenses	45	58	41	9.8
	<b>510</b>	<b>521</b>	<b>526</b>	<b>(3.0)</b>
<b>Non-interest expenses</b>	<b>1,724</b>	<b>1,690</b>	<b>1,702</b>	<b>1.3</b>
Productivity ratio <sup>(1)</sup>	3.13	3.39	3.22	
Expense/income ratio before intangibles	58.7%	57.8%	59.1%	
Total non-interest expenses				
per average implied FTE (\$000)	99	94	95	

<sup>(1)</sup> Operating income/salaries and other staff expenses

## Commentary on Expenses<sup>1</sup>

- Non-interest expenses increased by \$22 million or 1.3%, which after adjusting for a one-off \$35 million writeback in the March 1998 half (see below) represented an underlying reduction of 0.7%.
- Reported expenses were up 2% on the 30 September 1998 half, also principally due to prior period accounting impacts affecting salaries and wages (see below).
- Salaries and wages increased \$10 million or 1.4% on the prior corresponding period. This unfavourable trend was a result of:
  - a lower net surplus being recognised in the current period (\$14 million) in the Group superannuation fund, compared to the six months to March 1998 (\$23 million) and September 1998 (\$19 million); and
  - the change in accounting policy relating to the capitalisation of software development expenditure, which reduced related prior period salaries and wages expenses to a greater extent than in the current period.
- Other staff expenses increased \$37 million or 21.9%, due principally to the March 1998 results including a \$35 million write back of Group retirement allowance. After adjusting for this one-off item, other staff expenses increased by only 1%. The remainder of the increase was due to temporary staff costs incurred during the Bank of Melbourne integration completed in November 1998.
- Reflecting synergy benefits from the mergers, equipment and occupancy expenses decreased \$9 million or 2.9%. The 6.3% reduction in operating lease rentals reflected the benefits of centralising and restructuring offshore locations, particularly in Asia and London.
- Other expenses have decreased \$16 million or 3.0%. The major movements were:
  - Consultancy fees, computer software and other professional services down \$26 million, largely as a result of the cessation of merger related technology development costs in New Zealand, and lower spending on software purchases, consultancy fees and legal services in Australia.
  - Non-lending losses up \$8 million from increased credit card fraud and merchant chargeback writeoffs, as well as Bank of Melbourne related charges being included in the second half of 1998.
  - Stationery costs up \$6 million due to Bank of Melbourne integration related purchases.
  - Advertising down \$4 million or 7.8%, as costs incurred to promote Westpac's Sydney 2000 Olympic Games partnership were not repeated in the current period. Also, following the integration in New Zealand, merger related customer communication was reduced.

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<sup>1</sup> Comparatives in this section are with the half year ended 31 March 1998 (pcp) unless otherwise stated.

## 2.7 INCOME TAX

\$m	Six months to/ as at			% Mov't Mar98 - Mar99
	31 March 1999	30 Sept 1998	31 March 1998	
<b>Income tax reconciliation</b>				
Operating profit before income tax (excluding gross up)	971	968	967	0.4
Fully taxable equivalent gross up	59	59	69	(14.5)
Operating profit before income tax (including gross up)	1,030	1,027	1,036	(0.6)
Prima facie tax on operating profit before income tax (excluding gross up) based on the company tax rate in Australia of 36%	349	348	348	
Add/(deduct) reconciling items expressed on a tax effected basis:				
Rebateable and exempt dividends	(29)	(43)	(29)	-
Tax losses now tax effected	(9)	(14)	(16)	(43.8)
Timing differences not tax effected	6	19	10	(40.0)
Non-assessable items	(31)	(37)	(20)	55.0
Non-deductible items	31	38	39	(20.5)
Other permanent differences	(5)	2	(31)	(83.9)
Adjustment for overseas tax rates	(16)	(4)	(10)	60.0
Prior period adjustments <sup>(1)</sup>	(29)	(21)	9	(422.2)
	(82)	(60)	(48)	70.8
Total income tax expense attributable to operating profit <sup>(1)</sup>	267	288	300	(11.0)
Fully taxable equivalent gross up	59	59	69	(14.5)
<b>Total income tax charge (including gross up)</b>	<b>326</b>	<b>347</b>	<b>369</b>	<b>(11.7)</b>
<b>Effective tax rate (including gross up)</b>	<b>31.7%</b>	<b>33.8%</b>	<b>35.6%</b>	

<sup>(1)</sup> The March 1999 tax expense includes settlement of outstanding tax claims of \$25 million from a prior period.

### 3 BALANCE SHEET

#### 3.1 BALANCE SHEETS

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

\$m As at:	31 March 1999	30 Sept 1998	31 March 1998	% Mov't Sept 98 - March 99
<b>Assets</b>				
Cash and balances with central banks	443	403	350	9.9
Regulatory deposits	1,157	1,196	994	(3.3)
Due from other financial institutions	3,083	3,290	3,695	(6.3)
<i>Trading securities</i>	8,004	6,826	7,015	17.3
<i>Investment securities</i>	2,282	2,168	1,921	5.3
<i>Securities sold not yet delivered</i>	2,132	1,527	1,876	39.6
<i>Securities purchased under agreements to resell</i>	353	370	423	(4.6)
<i>Other financial markets assets</i>	7,991	13,007	11,489	(38.6)
Total securities and financial markets assets	20,762	23,898	22,724	(13.1)
<i>Productive loans</i>	96,320	92,522	90,468	4.1
<i>Acceptances of customers</i>	11,041	10,325	11,524	6.9
<i>Impaired assets</i>	698	816	883	(14.5)
<i>Less: provisions for bad and doubtful debts</i>	(1,582)	(1,600)	(1,616)	(1.1)
Net loans and acceptances	106,477	102,063	101,259	4.3
Fixed assets	1,633	1,599	1,599	2.1
Intangible assets	1,747	1,788	1,837	(2.3)
Other assets	3,234	3,082	3,601	4.9
<b>Total assets</b>	<b>138,536</b>	<b>137,319</b>	<b>136,059</b>	<b>0.9</b>
<b>Liabilities and equity</b>				
Deposits	78,910	77,479	77,605	1.8
Public borrowings	5,717	5,685	5,791	0.6
Bonds, notes and commercial paper	12,998	10,580	8,099	22.9
Acceptances of customers	11,041	10,325	11,524	6.9
Securities liabilities	3,673	2,329	3,642	57.7
Due to other financial institutions	4,129	4,343	4,344	(4.9)
Other financial markets liabilities	7,029	11,486	10,505	(38.8)
Other liabilities	3,608	3,958	3,784	(8.8)
<b>Total liabilities excluding loan capital</b>	<b>127,105</b>	<b>126,185</b>	<b>125,294</b>	<b>0.7</b>
Subordinated bonds, notes and debentures	2,016	1,778	1,288	13.4
Subordinated perpetual notes	687	745	693	(7.8)
<b>Total loan capital</b>	<b>2,703</b>	<b>2,523</b>	<b>1,981</b>	<b>7.1</b>
<b>Total liabilities</b>	<b>129,808</b>	<b>128,708</b>	<b>127,275</b>	<b>0.9</b>
<b>Net assets</b>	<b>8,728</b>	<b>8,611</b>	<b>8,784</b>	<b>1.4</b>
<b>Shareholders' equity</b>				
Share capital	1,891	1,899	1,925	(0.4)
Reserves	4,329	4,466	4,768	(3.1)
Retained profits	2,503	2,241	2,086	11.7
Outside equity interests	5	5	5	-
<b>Total shareholders' equity</b>	<b>8,728</b>	<b>8,611</b>	<b>8,784</b>	<b>1.4</b>

### 3.1.1 Loans

<b>\$M</b>	<b>31 March</b>	<b>30 Sept</b>	<b>31 March</b>	<b>% Mov't</b>
<b>as at</b>	<b>1999</b>	<b>1998</b>	<b>1998</b>	<b>Sept 98 -</b>
				<b>March 99</b>
<b>Australia</b>				
Overdrafts	2,595	2,664	2,452	(2.6)
Credit card outstandings	3,349	2,952	2,661	13.4
Overnight and call money market loans	181	86	143	110.5
Own acceptances discounted	1,855	2,498	1,445	(25.7)
Term loans:				
Housing <sup>(1)</sup>	37,934	35,378	35,750	7.2
Non-housing	21,342	19,920	18,758	7.1
Finance leases	2,275	2,216	1,970	2.7
Investments in leveraged lease and equity lease partnerships	295	306	316	(3.6)
Redeemable preference share finance	1,136	1,175	1,214	(3.3)
Other	2,939	3,134	3,071	(6.2)
<b>Total - Australia</b>	<b>73,901</b>	<b>70,329</b>	<b>67,780</b>	<b>5.1</b>
<b>New Zealand</b>				
Overdrafts	796	1,019	1,040	(21.9)
Credit card outstandings	532	503	508	5.8
Overnight and call money market loans	437	388	365	12.6
Own acceptances discounted	1	29	39	(96.6)
Term loans:				
Housing	10,756	10,396	10,642	3.5
Non-housing	5,912	6,084	6,119	(2.8)
Finance leases	26	23	24	13.0
Redeemable preference share finance	489	379	287	29.0
Other	533	110	145	384.5
<b>Total - New Zealand</b>	<b>19,482</b>	<b>18,931</b>	<b>19,169</b>	<b>2.9</b>
<b>Other Overseas</b>				
Overdrafts	184	188	170	(2.1)
Overnight and call money market loans	-	-	1	-
Term loans:				
Housing	685	911	922	(24.8)
Non-housing	1,884	1,983	1,997	(5.0)
Finance leases	85	104	90	(18.3)
Other	797	892	1,222	(10.7)
<b>Total - Other Overseas</b>	<b>3,635</b>	<b>4,078</b>	<b>4,402</b>	<b>(10.9)</b>
<b>Total gross loans</b>	<b>97,018</b>	<b>93,338</b>	<b>91,351</b>	<b>3.9</b>
Provisions for bad and doubtful debts	(1,582)	(1,600)	(1,616)	(1.1)
<b>Total net loans</b>	<b>95,436</b>	<b>91,738</b>	<b>89,735</b>	<b>4.0</b>
<b>Securitised loans<sup>(2)</sup></b>	<b>5,230</b>	<b>5,639</b>	<b>3,456</b>	<b>(7.3)</b>

<sup>(1)</sup> Excluding securitised loans

<sup>(2)</sup> Net of amortisation in initial loans securitised

### 3.1.2 Deposits and Public Borrowings

As at	31 March 1999	30 Sept 1998	31 March 1998	% Mov't Sept 98 - March 99
<b>\$m</b>				
<b>DEPOSITS</b>				
<b>Australia</b>				
Non-interest bearing	3,221	3,663	3,303	(12.1)
Certificates of deposit	4,420	3,588	4,268	23.2
Other interest bearing				
At call	27,302	25,602	24,971	6.6
Term	18,615	18,870	18,384	(1.4)
<b>Total deposits in Australia</b>	<b>53,558</b>	<b>51,723</b>	<b>50,926</b>	<b>3.5</b>
<b>New Zealand</b>				
Non-interest bearing	795	657	1,155	21.0
Certificates of deposit	2,008	1,836	2,196	9.4
Other interest bearing				
At call	4,774	5,920	5,089	(19.4)
Term	8,424	7,790	8,010	8.1
<b>Total deposits in New Zealand</b>	<b>16,001</b>	<b>16,203</b>	<b>16,450</b>	<b>(1.2)</b>
<b>Other Overseas</b>				
Non-interest bearing	495	519	449	(4.6)
Certificates of deposit	2,385	1,522	2,888	56.7
Other interest bearing				
At call	615	670	623	(8.2)
Term	5,856	6,842	6,269	(14.4)
<b>Total deposits Other Overseas</b>	<b>9,351</b>	<b>9,553</b>	<b>10,229</b>	<b>(2.1)</b>
<b>Total deposits</b>	<b>78,910</b>	<b>77,479</b>	<b>77,605</b>	<b>1.8</b>
<b>PUBLIC BORROWINGS BY SUBSIDIARY BORROWING CORPORATIONS</b>				
<b>Australia</b>				
Secured	3,672	3,851	4,027	(4.6)
Unsecured	1,765	1,479	1,378	19.3
<b>Total public borrowings in Australia</b>	<b>5,437</b>	<b>5,330</b>	<b>5,405</b>	<b>2.0</b>
<b>New Zealand</b>				
Secured	238	347	362	(31.4)
Unsecured	42	8	24	438.5
<b>Total public borrowings in New Zealand</b>	<b>280</b>	<b>355</b>	<b>386</b>	<b>(21.1)</b>
<b>Total public borrowings by subsidiary borrowing corporations</b>	<b>5,717</b>	<b>5,685</b>	<b>5,791</b>	<b>0.6</b>

## 3.2 BALANCE SHEET ANALYSIS<sup>1</sup>

### Assets

- In Australia, gross loans increased strongly by \$3.6 billion in the half, up 5.1% on 30 September 1998, representing 10.2% annualised growth.
  - Housing loans were up 14.4% annualised or \$2.6 billion. The securitisation impact was minimal with only \$0.3 billion of housing loans securitised during the half.
  - Credit card outstandings increased by \$0.4 billion (up 26.9% annualised), due to continued focus on the marketing of credit card products, as well as the higher level of consumer retail activity in the first half of 1999.
- In New Zealand, gross loans grew by \$0.6 billion or 5.8% annualised. The growth was largely in housing loans (up 6.9% annualised), assisted by a special housing loan campaign launched in December 1998. The impact of exchange rate fluctuations was not significant.
- Other financial markets assets reduced, primarily due to a decrease in the revaluation of off-balance sheet instruments driven by the relative stability of the AUD against the USD during the period. Contracts undertaken during the period of AUD/USD volatility in the prior period ran off during the half.

### Liabilities

- The growth in the loan portfolio has been partly funded by increased wholesale liabilities, reflected in the \$2.4 billion increase in bonds, notes and commercial paper.
- The 13.2% annualised increase in call deposits in Australia reflected continued underlying growth in core transaction and savings accounts and the benefits of marketing and promotions such as the Harvest Deposit and Bonus Saver campaigns. This increase in call deposits is in addition to the growth in the managed funds business.
- New Zealand deposits declined marginally, although market share has been maintained. This reflects the switch by retail customers from deposits to managed fund products, in line with a reduction in interest rates. The impact of exchange rate fluctuations was negligible.
- Securities liabilities (securities short sold and securities purchased not yet delivered) increased by \$1.3 billion and normally fluctuate from period to period.
- Other financial markets liabilities decreased significantly, due to a decrease in the revaluation of off-balance sheet instruments as explained above, under other financial markets assets.

### Equity

- Shareholder's equity increased by \$0.1 billion, with accumulated earnings being offset by the net impact of share buy-backs and dividend payments.

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<sup>1</sup> Comparatives in this section are with the half year ended 30 September 1998 (pp) unless otherwise stated.



## 4 ASSET QUALITY

### 4.1 IMPAIRED ASSETS

As at	31 March 1999			30 Sept 1998			31 March 1998		
	Gross	Specific Prov'n	Net	Gross	Specific Prov'n	Net	Gross	Specific Prov'n	Net
<b>\$m</b>									
<b>Non-accrual assets</b>									
Australia	413	(170)	243	457	(176)	281	517	(204)	313
New Zealand	110	(43)	67	121	(43)	78	104	(35)	69
Other Overseas	195	(132)	63	206	(129)	77	204	(75)	129
<b>Total</b>	<b>718</b>	<b>(345)</b>	<b>373</b>	<b>784</b>	<b>(348)</b>	<b>436</b>	<b>825</b>	<b>(314)</b>	<b>511</b>
<b>Restructured assets</b>									
Australia	15	(2)	13	39	(9)	30	50	(9)	41
New Zealand	3	0	3	8	(1)	7	25	(9)	16
Other Overseas	16	(3)	13	21	(4)	17	7	(4)	3
<b>Total</b>	<b>34</b>	<b>(5)</b>	<b>29</b>	<b>68</b>	<b>(14)</b>	<b>54</b>	<b>82</b>	<b>(22)</b>	<b>60</b>
<b>Total impaired assets <sup>(1)</sup></b>	<b>752</b>	<b>(350)</b>	<b>402</b>	<b>852</b>	<b>(362)</b>	<b>490</b>	<b>907</b>	<b>(336)</b>	<b>571</b>

<sup>(1)</sup> Includes off-balance sheet impaired items of \$54 million (\$36 million as at 30 September 1998, \$24 million as at 31 March 1998).

### 4.2 ITEMS PAST DUE 90 DAYS BUT WELL SECURED <sup>(1)</sup>

As at	31 March 1999	30 Sept 1998	31 March 1998
<b>\$m</b>			
<b>Australia</b>			
Housing products	94	107	148
Other products	82	74	100
<b>Total</b>	<b>176</b>	<b>181</b>	<b>248</b>
<b>New Zealand</b>			
Housing products	36	35	28
Other products	30	31	21
Other Overseas	4	105	87
<b>Total</b>	<b>70</b>	<b>171</b>	<b>136</b>
<b>Total</b>	<b>246</b>	<b>352</b>	<b>384</b>

<sup>(1)</sup> Under the Australian Prudential Regulatory Authority (APRA) guidelines, loans which are 90 or more days past due are not classified as impaired assets where the estimated net realisable value of the security is sufficient to cover the repayment of all principal, interest amounts due and an additional six months interest. These loans need to be reported as a memorandum item only, and are reported separately above.

No losses are anticipated from these loans as they are well secured, primarily by residential property, and are spread across a range of customer and product groups, including housing, overdraft and bill acceptance facilities.

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

\$m	Six months to		
	31 March 1999	30 Sept 1998	31 March 1998
Interest received on non-accrual and restructured assets	10	9	15
Estimated interest forgone on non-accrual and restructured assets	30	45	19
Interest yield on average non-accrual and restructured assets	3.5%	4.7%	3.5%

### 4.4 PROVISIONS FOR BAD AND DOUBTFUL DEBTS

\$m	Six months to/ as at			% Mov't March 98 - March 99
	31 March 1999	30 Sept 1998	31 March 1998	
<b>General provision</b>				
Balance at beginning of period	1,238	1,280	1,249	(0.9)
Exchange rate and other adjustments	(11)	8	(8)	37.5
Provisions of controlled entities acquired	-	-	60	-
Charge to operating profit	75	31	53	41.5
Recoveries of debts previously written off	38	42	47	(19.1)
Write-offs	(108)	(123)	(121)	(10.7)
Balance at period end	1,232	1,238	1,280	(3.8)
<b>Specific provisions</b>				
Balance at beginning of period	362	336	339	6.8
Exchange rate and other adjustments	(1)	(8)	(3)	(66.7)
Provisions of controlled entities acquired	-	-	17	-
New specific provisions	78	143	82	(4.9)
Specific provisions no longer required	(54)	(56)	(85)	(36.5)
Write-offs <sup>(1)</sup>	(35)	(53)	(14)	150.0
Balance at period end	350	362	336	4.2
<b>Total provisions</b>	<b>1,582</b>	<b>1,600</b>	<b>1,616</b>	<b>(2.1)</b>

<sup>(1)</sup> Write-offs from specific provisions comprised:

Australian Retail Financial Services	24	22	10	140.0
Institutional Banking	3	13	2	50.0
WestpacTrust and Pacific Regional Banking	8	18	2	300.0
	35	53	14	150.0

#### 4.5 IMPAIRED LOANS AND RATIOS

<b>As at %</b>	<b>31 March 1999</b>	<b>30 Sept 1998</b>	<b>31 March 1998</b>
Impaired loans to total loans and acceptances	0.7	0.8	0.9
Specific provisions to total impaired loans	46.5	42.5	37.3
Total provisions to total impaired loans	210.3	187.9	179.6
Total provisions to total loans and acceptances	1.5	1.5	1.6
Total bad and doubtful debt charge to total loans and acceptances (basis points)	9	11	5
Net impaired loans to shareholders' equity and general provisions	4.0	5.0	5.7

Asset quality continues to improve, reflecting economic trends in Westpac's major markets in Australasia. Impaired assets are at the low est level in ten years. Total impaired assets of \$752 million represent 0.7% of gross loans and acceptances compared with 0.8% at September 1998 and 0.9% at March 1998.

These improvements in asset quality are indicative of the strong credit culture throughout the Westpac Group. It also reflects an ongoing commitment to achieve sustainable improvements in the returns earned on the risks taken across the credit cycle.

## 4.6 CHARGE FOR BAD AND DOUBTFUL DEBTS

\$m	Six months to/ as at			
	31 March 1999	30 Sept 1998	31 March 1998	March 98 - March 99
<b>SPECIFIC PROVISIONS:</b>				
<b>New provisions</b>				
Australian Retail Financial Services	26	40	28	(7.1)
Institutional Banking	35	78	36	(2.8)
WestpacTrust and Pacific Regional Banking	17	25	18	(5.6)
	<u>78</u>	<u>143</u>	<u>82</u>	<u>(4.9)</u>
<b>No longer required</b>				
Australian Retail Financial Services	(30)	(20)	(38)	(21.1)
Institutional Banking	(8)	(13)	(15)	(46.7)
WestpacTrust and Pacific Regional Banking	(16)	(23)	(32)	(50.0)
	<u>(54)</u>	<u>(56)</u>	<u>(85)</u>	<u>(36.5)</u>
<b>Specific provisions (net)</b>	<u>24</u>	<u>87</u>	<u>(3)</u>	<u>(900.0)</u>
<b>GENERAL PROVISION:</b>				
<b>Write-off direct against profit</b>				
Australian Retail Financial Services	97	99	105	(7.6)
Institutional Banking	-	7	2	-
WestpacTrust and Pacific Regional Banking	11	17	14	(21)
	<u>108</u>	<u>123</u>	<u>121</u>	<u>(10.7)</u>
<b>Recoveries of debts previously written off</b>				
Australian Retail Financial Services	(32)	(36)	(31)	3.2
Institutional Banking	(1)	(2)	(9)	(88.9)
WestpacTrust and Pacific Regional Banking	(5)	(4)	(7)	(29)
	<u>(38)</u>	<u>(42)</u>	<u>(47)</u>	<u>(19.1)</u>
Dynamic provisioning debit/(credit)	5	(50)	(21)	(123.8)
<b>General provision (net)</b>	<u>75</u>	<u>31</u>	<u>53</u>	<u>41.5</u>
<b>Charge for bad and doubtful debts</b>	<u>99</u>	<u>118</u>	<u>50</u>	<u>98.0</u>
Bad and doubtful debts charge to average loans and acceptances annualised(%)	0.19	0.23	0.10	

#### 4.7 ASIAN AND EMERGING MARKETS EXPOSURE

As at 31 March 1999					31 March	30 Sept	31 March
\$m	Government	Banks & NBFIs <sup>(1)</sup>	Corporate	Project Finance	1999 Total	1998 Total	1998 Total
<b>Asia</b>							
Indonesia	15	29	26	98	168	197	202
South Korea	-	-	104	108	212	356	421
Thailand	-	21	25	28	74	80	141
Malaysia	-	7	95	-	102	106	80
Philippines	-	-	-	1	1	2	2
<b>Sub-total</b>	<b>15</b>	<b>57</b>	<b>250</b>	<b>235</b>	<b>557</b>	<b>741</b>	<b>846</b>
China	-	98	-	12	110	132	120
Hong Kong	-	418	289	30	737	991	959
Taiwan	2	24	4	1	31	44	57
Singapore	61	415	263	41	780	855	967
Japan	13	1,224	667	8	1,912	4,097	5,005
Other	-	-	-	3	3	14	6
<b>Total Asia</b>	<b>91</b>	<b>2,236</b>	<b>1,473</b>	<b>330</b>	<b>4,130</b>	<b>6,874</b>	<b>7,960</b>
<b>Emerging Markets</b>							
Eastern Europe	-	-	-	3	3	7	7
Latin America	-	-	-	6	6	10	10
Middle East/Other	-	11	5	3	19	34	35
<b>Total Emerging Markets</b>	<b>-</b>	<b>11</b>	<b>5</b>	<b>12</b>	<b>28</b>	<b>51</b>	<b>52</b>

<sup>(1)</sup> NBFIs - non-bank financial institutions

#### Asian and Emerging Markets Exposure by Category

As at 31 March 1999					31 March	30 Sept	31 March
\$m	On-balance sheet loans	Off-balance sheet outstanding	Pre-settlement risk	Undrawn commitment	1999 Total	1998 Total	1998 Total
<b>Asia</b>							
Indonesia	109	38	-	21	168	197	202
South Korea	126	28	5	53	212	356	421
Thailand	74	-	-	-	74	80	141
Malaysia	15	38	-	49	102	106	80
Philippines	1	-	-	-	1	2	2
<b>Sub-total</b>	<b>325</b>	<b>104</b>	<b>5</b>	<b>123</b>	<b>557</b>	<b>741</b>	<b>846</b>
China	50	-	57	3	110	132	120
Hong Kong	618	38	10	71	737	991	959
Taiwan	9	4	2	16	31	44	57
Singapore	505	68	167	40	780	855	967
Japan	664	79	806	363	1,912	4,097	5,005
Other	3	-	-	-	3	14	6
<b>Total Asia</b>	<b>2,174</b>	<b>293</b>	<b>1,047</b>	<b>616</b>	<b>4,130</b>	<b>6,874</b>	<b>7,960</b>
<b>Emerging Markets</b>							
Eastern Europe	3	-	-	-	3	7	7
Latin America	6	-	-	-	6	10	10
Middle East/Other	13	2	1	3	19	34	35
<b>Total Emerging Markets</b>	<b>22</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>28</b>	<b>51</b>	<b>52</b>

#### 4.7 ASIAN AND EMERGING MARKETS EXPOSURE (Cont'd)

- Total Asian and emerging markets exposure continued to fall sharply and now totals just \$4,158 million, down 40% from 30 September 1998 and 48% from 31 March 1998.
- Exposure as at 31 March 1999 comprised:
  - \$2,196 million in on-balance sheet loans,
  - \$295 million in off-balance sheet outstandings (principally guarantee and trade transactions),
  - \$1,048 million in unfunded, pre-settlement risk exposure arising from foreign exchange and interest rate business, of which \$719 million represents the replacement cost (positive mark-to-market) of amounts owed to Westpac by counterparties, and \$329 million represents an estimate of potential credit risk exposure arising from future movements in currency and interest rates over the life of the counterparty contracts. Virtually all of the exposure is with major banks in Japan and Singapore, and
  - \$619 million in off-balance sheet legally committed but undrawn loan commitments.
- The quality of exposures has been maintained, with 78% of exposures being to investment grade customers and 46% to Japanese customers (64% of this to banks). Exposures are also of relatively short duration, with 85% contractually maturing in 12 months and 13% in 6 months.
- Exposure to Japan is now only \$1,912 million, down 53% from the \$4,097 million as at 30 September 1998, mainly due to a 68% reduction in pre-settlement risk, reflecting the benefits of netting.
- Some 38% or \$1.6 billion of the on-balance sheet Asian exposures relates to exposures booked outside Asia, generally supported by assets in Australia and New Zealand.
- Exposure to Indonesia, South Korea, Thailand, Malaysia and the Philippines, represents only 13% of total Asian exposure. On-balance sheet loans to these countries (net of specific provisions) represent just 2% of total shareholders' equity plus general provisions.
- Non-Asian emerging markets exposure (Eastern Europe, Latin America, and Middle East/Other) of \$28 million relates principally to supporting Australasian trade flows.

## 5 CAPITAL

### 5.1 CAPITAL ADEQUACY

As at \$m	31 March 1999	30 Sept 1998	31 March 1998	% Mov't March 98 - March 99
<b>Tier 1 capital</b>				
Total shareholders' equity	8,728	8,611	8,784	(0.6)
Premises revaluation reserve	(135)	(144)	(178)	(24.2)
Intangible assets	(1,747)	(1,788)	(1,837)	(4.9)
Future income tax benefit net of deferred tax liability	-	(24)	-	-
<b>Total tier 1 capital</b>	<b>6,846</b>	<b>6,655</b>	<b>6,769</b>	<b>1.1</b>
<b>Tier 2 capital</b>				
Premises revaluation reserve	135	144	178	(24.2)
Subordinated undated capital notes	687	745	693	(0.9)
General provision for doubtful debts	1,232	1,238	1,280	(3.8)
Future income tax benefit related to general provision	(444)	(446)	(461)	(3.7)
Eligible subordinated bonds, notes and debentures	1,525	1,390	1,097	39.0
<b>Total tier 2 capital</b>	<b>3,135</b>	<b>3,071</b>	<b>2,787</b>	<b>12.5</b>
<b>Tier 1 and tier 2 capital</b>	<b>9,981</b>	<b>9,726</b>	<b>9,556</b>	<b>4.4</b>
Deductions:				
Other banks' capital instruments	(9)	(9)	(9)	-
Investment in controlled entities or associates <sup>(1)</sup>	(392)	(380)	(346)	13.3
Capital in funds management (2)	(352)	(276)	(233)	51.1
<b>Net qualifying capital</b>	<b>9,228</b>	<b>9,061</b>	<b>8,968</b>	<b>2.9</b>
<b>Risk adjusted assets</b>	<b>101,412</b>	<b>97,430</b>	<b>99,839</b>	<b>1.6</b>
Tier 1 capital ratio	6.8%	6.8%	6.8%	
Tier 2 capital ratio	3.1%	3.2%	2.8%	
Deductions	(0.8%)	(0.7%)	(0.6%)	
<b>Net capital ratio</b>	<b>9.1%</b>	<b>9.3%</b>	<b>9.0%</b>	

<sup>(1)</sup> This deduction represents the Group's investment in Westpac Life Insurance Services.

<sup>(2)</sup> This deduction has been made pursuant to the APRA'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.

## 5.2 CAPITAL MANAGEMENT

Since 1996, Westpac has been at the forefront of active capital management within constraints that include maintaining its strong credit rating, conforming to regulatory capital requirements and ensuring that capital not required to support near term business needs is returned to shareholders.

The cornerstones of the strategy to date have been:

- careful pricing for risk;
- the use of securitisation techniques; and
- on market share buy-backs.

Westpac's disciplined approach to balance sheet management has permitted it to run the business on less capital than might otherwise be the case.

Since 1996 Westpac has returned over \$2.7 billion of equity to shareholders by way of on-market share buy-backs. The share buy-backs have significantly enhanced shareholders' return on equity and earnings per share.

Going forward, Westpac intends to diversify its equity sources and has added this objective to its capital management strategy. To this end, Westpac has developed a number of alternative equity instruments designed to present shareholders with the form of equity participation most suitable to their needs. This will facilitate access to new sources of demand for Westpac equity.

The first initiative will be to incorporate a low cost hybrid tier 1 instrument into the capital structure. Provided market conditions remain favourable, we expect to launch such a transaction in the second half.

Westpac has delayed issuing tier 1 hybrid equity so as to benefit from changes in the regulatory environment and from improvements in investor sentiment in global capital markets. These more favourable circumstances are expected to provide Westpac with opportunities to issue these securities at lower cost than was previously possible.

Although Westpac is increasingly focused on altering the mix of its equity base, share buy-backs will continue to play a pivotal role in managing our capital requirements in the foreseeable future. These on-market buy-backs may be supplemented by off-market buy-backs in the form approved at the 1998 Annual General Meeting, should it be beneficial to do so.

Overall, we believe this active approach to capital management will increasingly serve to enhance shareholder returns and distinguish Westpac from its peer group.



### 5.3 SECURITISATION

Asset securitisation is a key capital and liability management tool utilised by Westpac to increase its competitiveness, while continuing to increase value to shareholders. It involves the sale of loans, principally mortgages, to investors, thereby removing lower return assets from the balance sheet and releasing capital for either share buy-backs or redeployment within the Group.

Westpac has now established a mature, flexible securitisation program, with the capacity to access the deepest and most liquid capital markets in a highly efficient manner. As at 31 March 1999, a total of \$7.6 billion of assets had been securitised through a combination of private placements and public issues to Australian, European, Asian and USA investors.

In the half year, Westpac securitised \$342 million through private placements.

After allowing for the amortisation of the initial loans securitised, outstanding securitised loans were \$5.2 billion as at 31 March 1999.

On 13 May 1999, Westpac securitised an additional \$1.4 billion into the European and USA markets.

## **6 BUSINESS GROUP RESULTS (Unaudited)**

To enable a more in depth analysis of Westpac's results, the following business group results have been presented on a management reporting basis. Internal charges and transfer pricing adjustments have been reflected in the performance of each business group, with the basis of reporting reflecting the management of the business within the Westpac Group, rather than the legal structure of the Group. Therefore, these results cannot be compared directly to public disclosure of the performance of individual legal entities within Westpac.

The following business results highlight the key business units, and do not add to the total Group result. The remainder of the business group result includes, among other items, the general provision charge. Where the management reporting structure has changed or where accounting re-classifications have been made, comparatives have been restated and therefore differ from results previously reported.

## 6.1 AUSTRALIAN RETAIL FINANCIAL SERVICES

*Australian Retail Financial Services represents the combined results of Westpac's Regional Banks, Australian Guarantee Corporation (AGC), and Westpac Financial Services.*

\$m	Six months to/as at			% Mov't March 98 -March 99
	31 March 1999	30 Sept 1998	31 March 1998	
Net interest income	1,256	1,273	1,271	(1.2)
Non-interest income	551	486	467	18.0
Operating income	1,807	1,759	1,738	4.0
Provision for bad and doubtful debts	(53)	(91)	(53)	-
Operating income net of provisions for bad and doubtful debts	1,754	1,668	1,685	4.1
Non-interest expenses	(1,160)	(1,115)	(1,120)	3.6
Operating profit before tax	594	553	565	5.1
Tax and outside equity interests	(205)	(188)	(194)	5.7
Profit on operations	389	366	371	4.9
	<b>\$bn</b>	<b>\$bn</b>	<b>\$bn</b>	
Deposits and other public borrowings	42.1	41.9	41.2	2.2
Net loans and acceptances	67.2	63.5	62.2	8.0
Total assets	75.4	69.9	68.3	10.4
Funds under management	22.0	19.3	17.6	25.0
Expense/income before intangibles	62.5%	61.6%	62.7%	
Productivity ratio	2.91	2.99	2.88	
Non-interest income/operating income	30.5%	27.6%	26.9%	

### Financial Performance

- Profit on operations was up 4.9% largely on the back of an 18% growth in non-interest income and strong volume growth.
- Net Interest Income
  - Lending volumes have risen strongly over the year reflecting both market growth and improved market share. Total lending grew 8% (or \$4.5 billion) with the largest single component being housing and property lending which grew 7% (or \$2.7 billion) in the year to March 1999. This was after allowing for securitisation of \$1.8 billion of Australian mortgages over the period.
  - This growth has not been reflected in interest income as margins remain under pressure from the competitive environment. In addition, the lower level of interest rates overall has a negative impact on interest income because of the inability in many cases to adjust deposit rates down by the full amount of rate falls.
- Non-interest income continues to grow solidly. Major contributors are Westpac Financial Services, transaction fees and the growth in the credit card business, offsetting the impact of increased discounting of home loan establishment fees due to competitive pressure. Profit from the sale of investments and property sales totalled \$29 million during the period compared to \$19 million in the prior corresponding period. The 1999 figure includes \$28 million from the sale of 50% of an interest in Data Advantage.

- Non-interest expenses grew 3.6%, due mainly to additional resources required in high growth businesses such as cards and financial services and continued growth in new channels.

## Business Developments

- The primary focus of the Australian Retail Financial Services units has been growing the number of customers who have significant, multi-product relationships with Westpac (Priority Customers). This strategy is being effected through a variety of packaged solutions designed to meet the needs of various customer segments. An example is Westpac's "Professionals Package" which provides customers with access to a variety of lending, deposit, transaction, credit card, financial planning and insurance products for a single fee. Similar packages are in place for shareholders as well as dedicated packages for business and farming customers.
- The success of this approach has been evidenced by Westpac lifting its share of new housing lending (all lenders) from 13% a year ago to 20% now, increasing the retail funds under management by 24% over the last year, achieving a growth of 24% in credit card outstandings and a 35% lift in general insurance sales.
- The conversion of the Bank of Melbourne's 200 Victorian branches and 755,000 accounts was completed successfully in November 1998. Costs and benefits of the merger remain in line with expectations and customer attrition has been less than projected. There is now a significant opportunity to increase sales of credit card, investments and insurance products to the Bank of Melbourne customer base, where penetration of these products is lower than for the rest of the Westpac customer base.
- Westpac announced a major branch refurbishment and distribution modernisation program in November 1998. This foreshadowed an investment program of up to \$300 million over the next three years to invest in new channels, reshape the branch network to fit changing customer patterns and rationalise surplus floor space. The initial group of remodelled branches will be completed by September 1999.
- Westpac is responding to concerns in rural communities by embarking on a program of consultation, education and the exploration of alternative banking options for customers in country areas. These solutions include instore branches, internet banking and other electronic delivery channels tailored to the individual needs of local communities. Customer reaction to this approach has been very positive, with instore branches, by virtue of their flexibility in operating hours and facilities, competing successfully against branch based services provided by competitors.
- Westpac's Internet Online Banking service continues to grow rapidly and over 55,000 customers have registered since the June 1998 launch. Westpac's service was ranked equal first in the 1998 KPMG Internet Home Banking Survey and internal surveys show exceptionally high levels of customer satisfaction, reflected in the increasing number of on-line originations of new accounts, including loans and credit cards.
- The Mortgage Company (TMC), which operates Australia's first national mortgage processing centre in Adelaide, continued to grow strongly. Over 650,000 loans are now being serviced at a productivity level comparable to USA mortgage bank best practice. TMC, through its focus on sound service levels, the support of customer business needs, and the realisation of cost efficiencies and quality initiatives, is a major reason for the significant increase in new housing lending market share.
- AGC continued to enhance the CreditLine product by providing ATM and EFTPOS access, and has increased its push into the motor vehicle market. Major product initiatives during this period include Insurance Premium Funding and RentWise, an equipment rental product targeting small to medium businesses.

- Considerable effort has gone into improving the ability of staff to provide quality service to customers. External benchmarks indicate that staff morale now ranks in the top quartile of Australian companies and we expect this to continue to reflect in improved customer satisfaction rankings. Many of the staff programs lever off Westpac's sponsorship of the Sydney 2000 Olympic Games.

## 6.2 INSTITUTIONAL BANKING

*Institutional Banking provides commercial and investment banking products and services to corporate and institutional customers either based, or with significant operations or interests, in Australia and New Zealand in the areas of financing, financial markets, transactional services (cash management, trade, and payment products) and corporate finance. Institutional Banking also supplies products to the middle market segment within Australian Retail Financial Services.*

\$m	Six months to/as at			% Mov't
	31 March 1999	30 Sept 1998	31 March 1998	March 98 -March 99
Net interest income	227	208	186	22.0
Non-interest income	236	273	266	(11.3)
Operating income	463	481	452	2.4
Provision for bad and doubtful debts	(1)	(83)	(1)	-
Operating income net of provisions for bad and doubtful debts	462	398	451	2.4
Non-interest expenses	(223)	(211)	(238)	(6.3)
Operating profit before tax	239	187	213	12.2
Tax and outside equity interests	(84)	(80)	(79)	6.3
Profit on operations	155	107	134	15.7
	<b>\$bn</b>	<b>\$bn</b>	<b>\$bn</b>	
Deposits and other public borrowings	14.1	14.7	13.7	2.9
Net loans and acceptances	21.3	20.7	21.5	(0.9)
Total assets	40.4	43.6	43.9	(8.0)
Expense/income before intangibles	48.2%	43.9%	52.6%	
Productivity ratio	3.71	4.70	3.50	
Non-interest income/operating income	51.0%	56.8%	58.8%	

### Financial Performance

- Profit on operations was up 15.7%, benefiting from a 6.3% reduction in expenses.
- Operating income of \$463 million for the six months ended 31 March 1999 increased over the prior corresponding period, notwithstanding a change in the composition of financial markets income, with net interest income up by \$41 million and non-interest income down by \$30 million. Fluctuations in the mix between net interest income and non-interest income arise from changes in the mix of securities in the portfolio, and movements in yields and coupon rates for these securities.
- The very strong performance of the financial markets in 1998 (buoyed by the volatility created by the economic conditions in Asia) eased in 1999, with a consequent decline in non-interest income. The corresponding period in 1998 also included income from the packaging and syndication of a significant, one-off property finance transaction. Despite this, total operating income for the Institutional Bank is up \$11 million driven by the change in mix of net interest income and non-interest income mentioned above, as well as increased spreads in the corporate loan market.
- Expense control remains a primary focus and the reduction in non-interest expenses of 6% compared to the prior corresponding period, is evidence that initiatives such as the global centralisation of the back-office and finance functions to Sydney are contributing to significant ongoing savings.

- The provision for bad and doubtful debts for the half year to September 1998 of \$83 million included provisions for Asian exposures. A further prudent provision of \$16 million has been recorded against Asian exposures in the current half year. However, improvements in the overall risk profile of the Institutional Bank's credit exposure has reduced the net level of new provisioning to just \$1 million.

## **Business Developments**

- Westpac's Institutional Bank is a leading financial institution to Australia's major corporations and institutions and the leading principal corporate banker to the top 500 corporations in the Australian market. It continues to be a market leader in the relationship management of its core customers, with their satisfaction rated well ahead of the market average. (*East & Partners Australian Corporate Banking Report, Top 500 Corporations, 1999*).
- The strength in this first half performance is the result of a strategy which focuses on building better 'customer intimacy' and having a strong regional (Australia and New Zealand) focus. The Institutional Bank's core strategy is to deliver innovative and tailored services to its customers, by gaining an intimate knowledge of their business and adding value to their operations. It is able to do so by having access to significant research capabilities, a leading global financial markets team of 400, and a customer sales force of 350 people across Australia and New Zealand.
- Westpac's Institutional Bank is positioning itself to be the best banking provider in the Australian and New Zealand regions. To provide its business customers with offshore banking services, it has offices in New York, London and Asia through a strategic relationship with Standard Chartered Bank. This relationship provides Asian banking services to Westpac customers through a network of 250 service points.
- While the intensity of competition in the property market eases, as a result of expected cyclical peaks and a weaker credit outlook, price competition continues to remain strong. The Property Finance Group is focusing on opportunities to selectively generate new business and capitalise on new, expanding areas such as the provision of property advisory services.
- The introduction of Euro trading was successfully implemented in January 1999, with Westpac being one of the first banks in the world to launch the new currency.
- As part of Westpac's Year 2000 program, the Institutional Bank provided its customers with a comprehensive Year 2000 information booklet and series of workshops to share information with Australia's largest corporations. This initiative was the first of its kind following the introduction of the Commonwealth Government's "Good Samaritan" legislation.
- The two-year strategy to establish Institutional Banking as a value-orientated transactional banking provider is now complete. By introducing leading edge technology to bring about more efficient processes at a competitive price, Westpac has won a number of transactional banking mandates this year, including State Government tenders. Insourcing cheque preparation for the purpose of dividend payment runs, has also broadened the group's capacity in a market that is growing significantly.
- Though margins are improving on the financing products, the ongoing challenge is to continue to improve the economics of products while meeting customer needs. This is being addressed through maximising valuable cross-sell opportunities, increasing the efficiency of delivery, and active management of the loan book, including the use of credit derivatives.
- The first half of 1999 was positive in terms of the volume and diversity of deals secured through the Corporate Finance group. Typical of this diversity was the Inter-American Development Bank (IADB) and Asian Development Bank (ADB) deals in the "kangaroo" market; the Fairfax deal in the domestic corporate bond market; the Sydney Airports Corporation (SACL) deal in the capital markets; and the project finance transaction for Victorian Plantations.

### 6.3 WESTPAC TRUST AND PACIFIC REGIONAL BANKING

Westpac Trust and Pacific Regional Banking provide retail financial services in New Zealand and the Pacific respectively.

\$m	Six months to/as at			% Mov't March 98 -March 99
	31 March 1999	30 Sept 1998	31 March 1998	
Net interest income	390	399	390	-
Non-interest income	180	170	168	7.1
Operating income	570	569	558	2.2
Provision for bad and doubtful debts	23	(14)	4	475.0
Operating income net of provisions for bad and doubtful debts	593	555	562	5.5
Non-interest expenses	(329)	(333)	(358)	(8.1)
Operating profit before tax	264	222	204	29.4
Tax and outside equity interests	(94)	(69)	(73)	28.8
Profit on operations	170	153	131	29.8
	<b>\$bn</b>	<b>\$bn</b>	<b>\$bn</b>	
Deposits and other public borrowings	13.7	14.0	13.5	1.5
Net loans and acceptances	17.4	17.1	17.1	1.8
Total assets	19.4	18.9	18.9	2.6
Funds under management	1.0	0.9	0.9	11.1
Expense/income before intangibles	54.3%	55.3%	60.7%	
Productivity ratio	3.70	3.99	3.46	
Non-interest income/operating income	31.6%	29.8%	30.1%	

#### Financial Performance

- Profit on operations was up 29.8%, reflecting an 8.1% reduction in non-interest expenses and improvements in the level of bad debt provisioning required.

#### New Zealand

- After adjusting for the amortisation of fair value adjustments which arose upon the acquisition of Trust Bank in 1996, net interest income increased by 1% compared to first half 1998.
- Non-interest income increased by 7% over the prior corresponding period, largely as a result of increased fee income from strong growth in the housing loan portfolio, together with an improved performance from Westpac Trust Financial Services. The latter is due to a concentrated program to increase penetration of financial services products within the branch network.
- Merger benefits are continuing to strengthen the overall performance. This is particularly evident in the non-interest expense savings of 8% compared to first half 1998.
- The provision for bad and doubtful debts reflects reduced provisioning requirements due to improvement in the credit portfolio, together with higher than anticipated write-backs.
- The launch of the home loan promotion campaign in first half 1999 has provided the impetus for renewed, stronger balance sheet growth.



## **Pacific Regional Bank**

- Markets within the Pacific region continue to experience subdued economic growth. Despite this background, Pacific Regional Banking has maintained second half 1998 income levels.
- Net interest income grew by 3% in the period, following on from an 11% growth in the second half of 1998. The improvement in margins in 1998 has been maintained and loan growth has been achieved.
- The positive trend in non-interest income in 1998 has been sustained into 1999, through foreign exchange income and a continued focus on fees on existing services and new products.
- Expenses have been held relatively flat, despite high levels of inflation in a number of locations.
- The continued focus on the overall quality of the credit portfolio continued to deliver low levels of new specific provisions and strong debt recoveries, resulting in another bad and doubtful debt credit.

## **Business Developments**

### **New Zealand**

- The WestpacTrust merger was completed in July 1998 and staff are now completely focused on providing WestpacTrust customers with a superior quality of experience, as well as increasing sales to drive greater value from the franchise.
- WestpacTrust has launched several product initiatives during the first half of 1999, many supporting the relationship with Team New Zealand in its defence of the America's Cup in 2000.
- WestpacTrust Investment Management is performing strongly. An independent research house in New Zealand reported that WestpacTrust achieved the second highest net inflow of funds under management for the year to March 1999.
- In line with the vision of providing a quality experience for customers every time, services provided to the business customer segment have been reviewed. New initiatives specific to customer needs have been launched, such as a customer call centre where a business manager is available between 7am and 9pm Monday to Friday.
- An independent study by Dun and Bradstreet concluded that WestpacTrust was the standard amongst New Zealand banks in terms of the quality of business credit risk exposures.

### **Pacific Regional Bank**

- Investment in electronic delivery in the Pacific Region continued to improve the quality and accessibility of services for customers.
- Agreement has been reached with Societe Generale in relation to the sale of Westpac's businesses in the French Territories. No financial impact of the sale is included in these accounts.

## 7 GEOGRAPHIC SEGMENT RESULTS

	Six months to			As at		
	31 March 1999	30 Sept 1998	31 March 1998	31 March 1999	30 Sept 1998	31 March 1998
	Profit on operations (\$m)			Total assets (\$bn)		
Australia	506	525	496	106	104	101
New Zealand	121	120	96	24	24	24
Pacific Islands	27	35	27	2	2	2
Asia	3	(58)	(11)	3	3	4
Americas	19	21	20	2	2	2
Europe	25	33	38	2	2	3
<b>Total</b>	<b>701</b>	<b>676</b>	<b>666</b>	<b>139</b>	<b>137</b>	<b>136</b>

### Profit on operations

- Australia** The deterioration in performance in the six months from September 1998 to March 1999 was driven by a \$45 million increase in general provisioning charges held at Group level in Australia. Underlying performance has remained steady, highlighted by a strong contribution from Westpac Life and solid growth in volumes offset by a slight reduction in interest spreads.
- New Zealand** The improvement in spreads and margins in the first half of 1999, as well as improved housing volumes has contributed to a steady growth in revenues. Merger synergies are flowing through and are particularly evident in lower operating costs. Bad debt expense and income tax is marginally higher in first half 1999, offsetting slightly the above mentioned growth in underlying performance.
- Pacific Islands** The flat profit disguises the growth in underlying performance driven by increased foreign exchange income, which was offset slightly by the impact on expenses of the appreciation of the French franc. The bad debt position has also improved due to lower new specific provisions and increased write-backs and recoveries.
- Asia** Asia's result in 1998 was impacted by the decision to prudently increase bad debt provisioning. The March 1999 result includes the benefits of centralising back office reporting functions and the resultant reduction in operating costs of 43% compared to March 1998.
- Americas & Europe** The performance in Americas and Europe has largely been influenced by trends in financial markets income. The prior corresponding period in Europe also included a one-off bad debt recovery.

### Total assets

- Australia** Total assets in Australia have increased \$2 billion since 30 September 1998, reflecting growth in the loan portfolio, particularly housing. This has been partly offset by the reduced impact of the mark-to-market revaluation of off-balance sheet instruments and the successful reduction of corporate exposures.
- New Zealand** Total asset levels have remained constant in both NZD and AUD equivalents.
- Pacific Islands, Asia, Americas & Europe** Asset levels have remained steady period on period.

## 8 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 based on interest rates, exchange rates, commodity prices and equities and enters into derivatives transactions in the normal course of business for trading, primarily as an intermediary to meet customers' needs, and for its own balance sheet management purposes.

### Derivatives Outstandings

As at 31 March 1999 \$bn	Notional amount <sup>(1)</sup>	Regulatory credit equivalent <sup>(2)</sup>	Positive mark- to-market (replacement cost) <sup>(3)</sup>	Negative mark-to- market <sup>(4)</sup>
<b>Interest rate</b>				
Futures	12.8	-	-	-
Forwards	23.2	-	-	-
Swaps	125.6	3.3	2.7	2.6
Purchased options	5.0	-	-	-
Sold options	3.0	0.1	-	-
<b>Foreign exchange</b>				
Forwards	221.2	5.4	3.0	3.1
Swaps	25.0	1.9	0.9	1.2
Purchased options	8.7	0.6	0.4	-
Sold options	9.4	-	-	0.2
<b>Commodity</b>				
	0.6	0.1	-	-
<b>Equity</b>				
	0.7	-	-	-
<b>Total derivatives</b>	<b>435.2</b>	<b>11.4</b>	<b>7.0</b>	<b>7.1</b>
<b>As at 30 Sept 1998</b>	<b>533.8</b>	<b>18.4</b>	<b>12.4</b>	<b>11.6</b>
<b>As at 31 March 1998</b>	<b>459.0</b>	<b>15.0</b>	<b>10.7</b>	<b>10.4</b>

<sup>(1)</sup> *Notional amount* refers to the face value or the amount upon which cash flows are calculated.

<sup>(2)</sup> *Regulatory credit equivalent* is calculated using APRA guidelines for capital adequacy requirements.

<sup>(3)</sup> *Positive mark-to-market or replacement cost* is the cost of replacing all transactions in a gain position. This measure is the industry standard for the calculation of current credit risk.

<sup>(4)</sup> *Negative mark-to-market* represents the cost to Westpac's counterparties of replacing all transactions in a loss position.

## Maturity profile of derivatives outstandings in replacement cost terms

As at 31 March 1999 \$bn	0-3 months	3-6 months	6-12 months	1-2 years	2-5 years	> 5 years	Total
<b>Interest rate</b>							
Futures	-	-	-	-	-	-	-
Forwards	-	-	-	-	-	-	-
Swaps	0.1	0.1	0.2	0.5	1.2	0.6	2.7
Purchased options	-	-	-	-	-	-	-
Sold options	-	-	-	-	-	-	-
<b>Foreign exchange</b>							
Forwards	1.6	0.8	0.3	0.1	0.2	-	3.0
Swaps	0.3	0.1	0.1	0.2	0.1	0.1	0.9
Purchased options	0.2	0.1	0.1	-	-	-	0.4
Sold options	-	-	-	-	-	-	-
<b>Commodity</b>							
	-	-	-	-	-	-	-
<b>Equity</b>							
	-	-	-	-	-	-	-
<b>Total derivatives</b>	<b>2.2</b>	<b>1.1</b>	<b>0.7</b>	<b>0.8</b>	<b>1.5</b>	<b>0.7</b>	<b>7.0</b>

- 69% of credit risk matures within one year and 79% within two years.
- 97% of credit exposure was to investment grade customers.

### Daily earnings at risk

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

\$m	High	Low	Average
Six months ended 31 March 1999	10.44	4.10	6.38
Six months ended 30 September 1998	9.24	3.98	6.27

The following table depicts the average EAR by risk types for the last two half years.

### Average Earnings at Risk by Risk Type

\$m	Average for the Six Months ended 31 March 1999	Average for the Six Months ended 30 September 1998
Interest rate risk	3.30	1.90
Foreign exchange risk	2.47	1.90
Volatility risk	0.50	0.37
Other market risk <sup>1</sup>	2.80	2.10
Diversification benefit <sup>2</sup>	(2.69)	-
Aggregate market risk	6.38	6.27

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

<sup>2</sup> Diversification benefit was allocated across risk types for previous half year

### Daily earnings at risk

Westpac uses earnings-at-risk (EAR) as the primary method for measuring and monitoring market risk exposure against Board approved limits. EAR is an estimate of the potential loss in earnings from an adverse market movement with a 99% one-tailed confidence level and a one day time horizon. This means that the actual daily loss can be greater than the EAR on average 1% of the time if Westpac's trading positions are held unchanged for one business day. EAR takes into account all material market variables that may cause a change in the value of the trading portfolio, including interest rate, foreign exchange rate, and their volatilities as well as correlation among these market variables.

The main types of market risk arising from Westpac's trading activities are interest rate and foreign exchange risks. Other market risks include commodity, equity, prepayment, specific issuer and capital markets underwriting risks. Westpac uses historical simulation for measuring interest rate and foreign exchange risks, but uses the standard regulatory methods for other types of market risk.

## 9 YEAR 2000

Externally, Westpac is more specifically targeting its Year 2000 communications to customer groupings with a number of initiatives, the focus being on helping our customers to determine and pursue their preparations for the Year 2000 transition.

A detailed progress report was submitted to the Australian Stock Exchange Limited on 26 March 1999. As at 31 March 1999, 100% of Westpac's core critical applications had been Year 2000 remediated. Across Westpac there are additional applications deemed critical to the business but not core applications. These had achieved 96% remediation by 31 March 1999, and are on track for completion by 30 June 1999 for all but two, which are expected to be completed during July 1999. A number of these outstanding projects are dependent upon third parties/vendors, and are subject to very close management.

Westpac has been actively involved in interbank testing, involving the five payment streams - Cheque Clearing, Direct Entry, ATM/POS, RTGS and Bpay, and we have completed 100% of our testing with those direct clearing banks nominated to us by the Australian Payments Clearing Association (APCA). Other external testing is progressing to schedule including Westpac's participation in the industry-wide program being coordinated by the Australian Stock Exchange Limited. Virtually all external testing is expected to be completed by 30 June 1999.

Westpac intends to actively manage the Year 2000 transition period to ensure that it can provide continuity of normal banking services to customers through critical timeframes. The transition process involves ensuring that there is as stable a business and technology environment as possible, that appropriate contingency plans are in place, that specific event plans are developed for each critical timeframe, and that our normal processes to manage problems are able to cope with any unexpected events. Draft event and contingency plans are scheduled for completion by 30 June 1999, with draft situation management plans to be finalised by the end of July 1999.

Westpac is committed to a strong communications program to reassure customers that it will be ready for Year 2000 and that their deposits, account details and transactions will be safe. The recent leadership series publication, "Year 2000 - The Final Phase", demonstrates Westpac's commitment to its corporate customers by sharing Westpac's Year 2000 knowledge, and stressing the need for all businesses to focus on the continuity of their business activity. Further details of Westpac's readiness are on our web site - [westpac.com.au](http://westpac.com.au).

## 10 CREDIT RATINGS\*

Rating agency	Long term senior	Short term/ commercial paper
Fitch IBCA	AA-	A1+
Moody's	Aa3	P-1
Standard & Poor's	AA-	A-1+

\* No changes from prior period.

## 11 CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the six months ended 31 March 1999.

## 12 EXCHANGE RATES

Six month to/ as at	31 March 1999		30 September 1998		31 March 1998	
	Average	Spot	Average	Spot	Average	Spot
USD	0.6285	0.6294	0.6469	0.5940	0.6801	0.6628
GBP	0.3799	0.3906	0.3913	0.3480	0.4114	0.3953
NZD	1.1814	1.1824	1.1577	1.1859	1.1373	1.1970

## 13 STATEMENTS OF CASHFLOWS

\$m	Six months to /as at		
	31 March 1999	30 Sept 1998	31 March 1998
<b>Cash flows from operating activities</b>			
Interest received	4,300	4,650	4,385
Interest paid	(2,628)	(2,635)	(2,526)
Dividends received	17	9	6
Other non-interest income received	1,398	555	192
Non-interest expenses paid	(1,531)	(1,249)	(1,523)
(Increase)/ decrease in trading securities	(555)	(509)	993
Income taxes paid	(296)	(146)	(214)
<b>Net cash provided by operating activities</b>	<b>705</b>	<b>675</b>	<b>1,313</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investment securities	95	11	917
Proceeds from matured investment securities	103	(23)	75
Purchase of investment securities	(361)	108	(764)
Net (increase)/decrease in:			
Loans	(4,447)	(3,442)	(3,591)
Due from other financial institutions	65	468	492
Regulatory deposits	21	(165)	59
Other assets	(797)	683	508
Securitisation of loans	342	1,758	654
Fixed assets additions	(194)	(254)	(144)
Proceeds from disposal of fixed assets	34	124	149
Controlled entities acquired	-	-	(174)
<b>Net cash (used in) investing activities</b>	<b>(5,139)</b>	<b>(732)</b>	<b>(1,819)</b>
<b>Cash flows from financing activities</b>			
Redemption of loan capital	(111)	(38)	(56)
Issue of loan capital	300	209	141
Proceeds from issue of shares	175	60	29
Buyback of shares	(315)	(493)	(813)
Net increase/(decrease) in:			
Due to other financial institutions	149	(173)	(627)
Deposits and public borrowings	2,052	(1,285)	2,416
Bonds, notes and commercial paper	2,509	2,240	(131)
Other liabilities	129	(101)	(25)
Payment of dividends to shareholders	(413)	(309)	(399)
Payment of dividends to outside equity interests	(2)	-	(1)
<b>Net cash provided by financing activities</b>	<b>4,473</b>	<b>110</b>	<b>534</b>
<b>Net (decrease)/ increase in cash and cash</b>	<b>39</b>	<b>53</b>	<b>28</b>
Effect of exchange rate changes on cash and cash equivalents	1	-	1
Cash and cash equivalents at the beginning of the financial period <sup>(1)</sup>	403	350	321
<b>Cash and cash equivalents at the end of the financial period</b>	<b>443</b>	<b>403</b>	<b>350</b>

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



## 13 STATEMENTS OF CASHFLOWS (Cont'd)

\$m	Six months to /as at		
	31 March 1999	30 Sept 1998	31 March 1998
<b>Reconciliation of net cash provided by operating activities to operating profit after income tax</b>			
Operating profit after income tax	701	606	666
<b>Adjustments:</b>			
Outside equity interests	2	3	1
Depreciation	115	128	116
Sundry provisions and other non-cash items	626	27	(493)
Bad and doubtful debts	137	207	50
(Increase)/decrease in trading securities	(555)	(509)	993
(Increase)/decrease in accrued interest receivable	(8)	19	(8)
Increase/(decrease) in accrued interest payable	(135)	187	56
Increase/(decrease) in provision for income tax	(173)	136	(79)
Increase/(decrease) in provision for deferred income tax	(49)	(436)	323
(Increase)/decrease in future income tax benefits	153	369	(263)
Amounts paid out of sundry provisions	(109)	(62)	(49)
<b>Total adjustments</b>	<b>4</b>	<b>69</b>	<b>647</b>
<b>Net cash provided by/(used in) operating activities</b>	<b>705</b>	<b>675</b>	<b>1,313</b>
<b>Non-cash operating, investing and financing activities</b>			
<b>Details of assets and liabilities of controlled entities acquired are as follows:</b>			
<b>Acquisitions</b>			
Due from other financial institutions	-	-	47
Trading securities	-	-	707
Investment securities	-	-	652
Regulatory deposits	-	-	109
Loans	-	-	9,972
Fixed assets	-	-	49
Other assets	-	-	60
Due to other financial institutions	-	-	(10)
Deposits and public borrowings	-	-	(8,904)
Bonds, notes and commercial paper	-	-	(1,885)
Other liabilities	-	-	(329)
	-	-	468
Integration costs provided, net of tax benefit	-	-	(63)
Fair value of net assets acquired	-	-	405
Intangible assets	-	-	913
	-	-	1,318
Issuance of shares as part consideration	-	-	(1,169)
Current period cash payment for acquisition (net of cash acquired)	-	-	149
Cash acquired	-	-	25
<b>Cash consideration and costs</b>	<b>-</b>	<b>-</b>	<b>174</b>

## 14 GROUP FINANCIAL INFORMATION FOR US INVESTORS

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

<b>Six months to:</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>
<b>\$m</b>	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
	<b>* USD</b>	<b>*USD</b>	<b>AUD</b>	<b>AUD</b>
<b>Net profit as reported</b>	441	453	701	666
Depreciation on buildings	2	4	3	7
Gain on sale of properties (including amortisation of gains on sale of properties subject to lease back arrangements)	7	6	12	9
Adjustment for provision for employee redundancy	(3)	-	(4)	-
Adjustment re goodwill on acquisition and	(8)	(5)	(13)	(8)
Superannuation (pension) expense adjustment	7	4	11	6
Life insurance adjustment (net of tax)	(5)	(2)	(9)	(3)
<b>Adjusted US GAAP net profit</b>	<b>441</b>	<b>460</b>	<b>701</b>	<b>677</b>
<b>Other comprehensive income</b>				
Foreign currency translation reserve	(3)	5	(5)	8
Unrealised net gain/(loss) on available for sale	(4)	8	(6)	11
Total other comprehensive income	(7)	13	(11)	19
<b>Total comprehensive income according to US GAAP</b>	<b>434</b>	<b>473</b>	<b>690</b>	<b>696</b>

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

Six months ended 31 March 1999: AUD1 = USD0.62850

Six months ended 31 March 1998: AUD1 = USD0.68010

<b>As at:</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>	<b>31 March</b>
<b>\$m</b>	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
	<b>*USD</b>	<b>* USD</b>	<b>AUD</b>	<b>AUD</b>
<b>Shareholders' equity as reported</b>	5,494	5,822	8,728	8,784
Outside equity interests	(3)	(3)	(5)	(5)
	5,491	5,819	8,723	8,779
Elimination of asset revaluation reserve	(85)	(118)	(135)	(178)
Depreciation on buildings	32	31	52	47
Deferred gains on sale of properties subject to lease back arrangements	(35)	(36)	(56)	(55)
Adjustment re provision for employee redundancy benefits	17	-	28	-
Adjustment re goodwill on acquisition	17	31	27	47
Restoration of previously deducted goodwill less amortisation and amounts written-off	3	2	4	4
Life insurance adjustment (net of tax)	(8)	(1)	(13)	(3)
Investment securities fair value adjustment (including life company investment)	(2)	2	(4)	4
Superannuation (pension) expense adjustment	(55)	(64)	(87)	(97)
Final dividend provided	274	259	435	392
<b>Adjusted US GAAP equity</b>	<b>5,649</b>	<b>5,925</b>	<b>8,974</b>	<b>8,940</b>

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

Six months ended 31 March 1999: AUD1 = USD0.62940

Six months ended 31 March 1998: AUD1 = USD0.66280

There is no material difference between the level of assets at 31 March 1999 and 31 March 1998 as reported and the level of assets determined as at these dates in accordance US GAAP.

## 15 SHAREHOLDER CALENDAR

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

### **Record date:**

#### **Australian and New Zealand Registers**

At 5.00pm, 10 June 1999 (Sydney time) at:

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

(Dividends payable to shareholders on the New Zealand register will be converted to local currency at the ruling buying rate for telegraphic transfers at 11.00am on 10 June 1999.)

#### **New York**

For American Depository Receipts, at 5.00pm, 9 June 1999 (New York time) at:

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

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

#### **Tokyo**

At 3.00pm, 10 June 1999 (Tokyo time), for shares registered in the books of Tokyo Stock Exchange Members' securities companies.

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

**Ex-dividend date:** 4 June 1999

**Dividend payment date:** 2 July 1999

BA McNee  
Group Secretary and General Counsel

18 May 1999

For further information contact:

#### **Media:**

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Trevor Berthold, Manager Group Investor Relations (02) 9226 4008

## 16 DIRECTORS' REPORT

The Directors of Westpac Banking Corporation report as follows on the affairs of the Group constituted by the Parent Entity and all the entities it controlled from time to time during the accounting period consisting of the six months ended 31 March 1999.

### DIRECTORS

The names of the Directors of the Parent Entity holding office at anytime during the half year or up to the date of this Report together with the length of time served as a Director are set out below :

**John Uhrig.** Appointed Chairman October 1992, Director since November 1989.

**David Morgan.** Executive Director since November 1997. Appointed Managing Director March 1999.

**Barry Capp.** Director since May 1993.

**The Hon. Sir Llewellyn Edwards.** Director since November 1988.

**John Fairfax.** Director since December 1996.

**Patrick Handley.** Executive Director since November 1997.

**Ian Harper.** Director since July 1987.

**Warren Hogan.** Director since August 1986.

**Robert Joss.** Appointed Executive Director March 1999. Managing Director from January 1993 until March 1999.

**Helen Lynch.** Director since November 1997.

**Eve Mahlab.** Director since October 1993.

**John Morschel.** Director since July 1993.

**Peter Ritchie.** Director since January 1993.

**Christopher Stewart.** Director since November 1997.

### REVIEW AND RESULTS OF THE BANKS' OPERATIONS DURING THE HALF-YEAR

The operating result of the Group for the accounting period after tax and outside equity interests was a profit of \$701 million.

A review of the operations of the Group and the results of those operations for the accounting period is set out on pages 3 to 43 and forms part of this Report.

For and on behalf of the Board of Directors.

J A Uhrig  
Chairman

18 May 1999