Westpac Banking Corporation

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WESTPAC REPORTS PROFIT OF $705 MILLION FOR 1994

Westpac Banking Corporation today announced an after-tax, after abnormals profit attributable to shareholders of $705 million for the year ended 30 September 1994, compared with $39 million for the previous year.

Westpac achieved an increase in net interest income, a further reduction in costs, an improvement in the efficiency ratio and in underlying performance and a significant reduction in both the bad debt charge and the size of the impaired asset portfolio. These improvements were evident both when comparing 1994 with 1993 results and second half 1994 with first half 1994 results.

Directors intend declaring an increased final dividend of 10 cents per ordinary share (unfranked) to bring the year's total dividend to 18 cents, a 50% increase on 1993.

RESULTS HIGHLIGHTS

- There has been a significant strengthening of Westpac's balance sheet with Tier 1 Capital now standing at 8.9% in comparison with 7.4% a year ago and the ratio of net impaired assets to shareholders' equity reduced from 65% a year ago to 30% at 30 September 1994. This strengthening has been brought about through increased profitability and the diligent work of the Asset Management Group in selling or rehabilitating a large portion of the impaired asset portfolio.

- In 1994 Westpac's underlying performance (total operating income less non-interest expenses) increased 13% to $ 1,745 million. The improvements were primarily the result of a 5% increase in net interest income (achieved on an average interest earning asset base that was 11% smaller than in 1993) and a 12% reduction in expenses.

- Westpac has continued to adhere to a conservative strategy in relation to provisioning coverage of non-performing loans. The ratio of specific provisions to impaired loans has increased from 34% to 45% over the last 12 months. The coverage ratio of total provisions to total impaired assets has improved from 40% to 62%.

- Westpac's efficiency ratio (non-interest expenses/income) has improved from 65.5% to 59.5% over the last 12 months. In 1994, the retail bank, institutional bank and AGC all operated at or better than the 1995 target efficiency ratio of 58% and the New Zealand division improved from 62% to 59%.

- Earnings per share after preference dividends were 36.0 cents and net tangible asset backing was $3.67.

OPERATIONAL HIGHLIGHTS

Ongoing efficiency improvements throughout Westpac

- All of Westpac's operating units expended considerable effort on improving their efficiency, on doing more with less. Evidence of the success of these efforts is found not only in the improved operating efficiency ratio (from 65.5% to 59.5%) but also in measures such as operating income per full time equivalent (FTE) employee (from $121,100 in 1993 to $133,400 in 1994) and underlying performance per FTE employee (from $41,900 to $54,100).

Disposal of non-core assets effectively completed and focus now on serving the banking needs of Australia and New Zealand

- In the 1994 financial year, the Institutional Banking Group reduced non-strategic risk-adjusted assets by $4.0 billion, further reducing lending exposures in the USA, UK, Japan and Singapore. Offshore staff numbers were reduced by 24% during the year to 840.

- The sales of Mase Westpac and banking operations in Taiwan, South Korea and Indonesia were concluded in the year to 30 September 1994. The divestment of AGC's Asian operations was successfully carried out for a profit of $112 million.

- Westpac operates major branch offices in London, New York, Tokyo, Singapore, and Hong Kong in support of the Australian and New Zealand customer banking needs and the financial markets operations. The Asian branch offices are augmented by representative offices in Beijing, Bangkok, Kuala Lumpur and Jakarta, and by Asialink, to give Westpac comprehensive Asian market coverage.

- Asialink, a comprehensive set of correspondent banking relationships in every significant Asian market, has been established to facilitate the provision of a package of banking services to Westpac's wholesale, commercial and small business customers needing access to Asia and Asian-based companies needing access to the Australian and New Zealand markets.

- Westpac created a partnership with a leading USA money centre bank, outsourcing to it Westpac's US dollar payments business and establishing with it a global payments mechanism to provide Westpac customers with integrated international electronic banking facilities.

- Westpac is the only Australian bank to have a 100% owned triple A subsidiary, Westpac Derivative Products Ltd. This subsidiary was launched in 1994 to give Westpac additional dealing access to the most highly rated domestic and international counterparties.

Reconfiguration of the Australian and New Zealand retail bank operations

- Westpac has been engaged in a retail branch restructuring program in both Australia and New Zealand. The goal is to remove major back office functions from the branches; to centralise those functions for greater efficiency, service quality and control; and to free up the time of the branch staff to better serve the needs of Westpac's customers. In both countries a reorganisation of the management and delivery of retail banking products and services is also being implemented.

- In Australia the branch restructuring was successfully tested in suburban Sydney and is currently operating in suburban Brisbane, prior to Queensland statewide implementation in 1995 and subsequent rollouts to other states later that year and in 1996.

- The Australian retail consumer banking network was reorganised into 95 local area markets designed to provide a more customer oriented structure. Seventy one regional managers were appointed to look after these 95 geographic markets. Similarly, 35 commercial banking regions were created to provide more focussed relationship management for Westpac's commercial customers.

- The New Zealand division's "Bank of the Future" retail branch model was launched in October 1993 and excellent progress has been made in carrying out the major physical, technological and personnel changes associated with its rollout. Branch function reengineering will be completed in early 1995.

Successful launch of Options loan products

- Westpac launched the Premium Option home loan in March 1994. This innovative product was widely acclaimed for the flexibility of its structure which gives customers a tax-effective means of saving and allows easy withdrawal of excess funds from their home loans. In addition, the Premium Option home loan can be taken out at a fixed or variable interest rate or can include a combination of fixed and variable rates. It is fully portable which can save customers stamp duty on mortgage documents when they change homes.

  In September, Westpac launched the Basic Option home loan, a lower price home loan without the value-added features incorporated in Premium Option loans.

- The flexible Business Options loan was added to Westpac's range of competitive business loan products and specialist business banking managers were introduced in the Australian retail bank to better service small business customers.

Asset quality continued to improve

- Westpac has reported its asset quality according to the Reserve Bank of Australia's new reporting guidelines for impaired assets, effective 30 September 1994. The reclassification required by the Reserve Bank resulted in a reduction in Westpac's total impaired assets of $121 million. See page 21 for more detailed explanation of the new reporting guidelines.

- Total gross impaired assets as at 30 September 1994 were $3,780 million (i.e. non-accrual and restructured loans and Other Real Estate Owned). After specific provisions of $1,607 million, the year end net impaired asset figure was $2,173 million. This compares with gross and net problem assets of $6,644 million and $4,661 million respectively in September 1993, as stated under the previous reporting requirements. OREO's (included in the above figures) have reduced from $783 million to $216 million.

- The charge for bad debts for the year was $695 million, a 46% reduction on 1993's charge. The 1994 charge for bad debts includes increased specific provisioning to cover the likely further emergence of impaired loans in the agricultural loan portfolio if there is no break soon in the NSW and Queensland drought and a $35 million charge for a general rural provision. The general provision (after tax) to risk adjusted assets was 0.68% at 30 September 1994 compared to 0.57% in 1993.

- Most sectors of the property market recovered in both sales volume and values during the year, allowing Westpac to accelerate its problem property sales program and enhance the value of completed developments through active leasing programs. During the year the net proceeds from property sales were $1,619 million, which represented a 7.6% surplus to book value. A further $241 million of properties (gross book value) were under contract or negotiation at 30 September 1994.

Capital management initiatives to increase shareholder returns

- As part of the ongoing program of minimising funding costs and optimising the capital structure to increase shareholder returns, Westpac has recently redeemed $131 million in redeemable preference shares for $147 million and terminated the Dividend Reinvestment and Dividend Bonus Plans.

Superannuation - Change in accounting policy

In 1994, Westpac continued the practice, adopted in 1991, of recording movement in its prepayment for superannuation expenses based on the now withdrawn Australian Exposure Draft ED53. This resulted in a charge to profit in 1994 of $66.3 million (1993 was a credit of $296.1 million). The 1994 net expense comprised a charge of $95.9 million in respect of the two principal superannuation schemes in Australia, offset in part by a credit of $29.6 million as a result of the inclusion of the assessed level of the prepayment available in Westpac's overseas superannuation schemes.

For the 1995 financial year, Westpac will change its accounting policy and from 1 October 1994 will account for its superannuation scheme surpluses using the principles of the U.K. accounting standard SSAP24. In the absence of either an Australian standard or a current Australian exposure draft, the adoption of a well-recognised overseas standard such as SSAP24 is seen to be an appropriate way of dealing with this issue. As a result of the change of policy, the volatility in the superannuation prepayment adjustment which has been a feature of recent results will be diminished. SSAP24 takes a long term view of the impact of changes in superannuation fund assets and liabilities. Therefore the annual charge to profit is more stable.

Westpac will continue to use the SSAP24 methodology until an appropriate Australian standard is introduced.

OUTLOOK

Westpac has now essentially moved from a recovery phase to one of striving for improved performance and growth. In 1995, Westpac will be focussing on the implementation of the retail branch restructuring program, on increased sales and on improving customer service, on the further development and launch of new consumer and business products and services, on enhanced operational efficiency and control and on continued reduction of its impaired assets.

The increased management strength and greater emphasis on staff training which Westpac instituted in 1994 will continue to show in the company's results in 1995 and onwards. With the anticipated healthy economic environment, Westpac is budgeting for profit growth in 1995.

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FINANCIAL HIGHLIGHTS

	Twelve months to/as at		Six months to/as at	
	30 Sept 1994	30 Sept 1993	30 Sept 1994	31 March 1994
Operating profit and loss				
Underlying performance (total operating income less non-interest expense) ($m)	1,745.0	1,543.5	875.0	870.0
Operating profit after tax, attributable to shareholders ($m)	704.7	39.2	383.8	320.9
Earnings per share (cents)	36.0	0.9	19.7	16.3
Dividend payout ratio	50.3%	1,395.4%	51.2%	49.3%
Dividends per share (cents)				
- unfranked	18.0	6.0	10.0	8.0
- franked	-	6.0		-
Return on equity	9.6%	0.6%	10.2%	8.9%
Return on assets	0.71%	0.04%	0.79%	0.63%
Profit/(loss) on operations (after tax), excluding superannuation prepayment adjustment, as a percentage of total operating income	17.4%	4.8%	18.9%	15.9%
Net interest margin	3.5%	3.0%	3.7%	3.4%
Efficiency (expense to income) ratio	59.5%	65.5%	59.0%	59.9%
Underlying performance per average FTE ($'000s)	54.1	41.9	55.3	52.9
Personnel numbers (spot full time equivalent)	31,396	33,724	31,396	32,031
Assets and capital				
Capital adequacy ratio				
- total	13.8%	12.3%	13.8%	13.3%
- tier 1	8.9%	7.4%	8.9%	8.4%
Shareholders' funds/assets	7.8%	6.8%	7.8%	7.3%
Group assets ($bn)	93.9	104.7	93.9	98.6
Risk-adjusted assets ($bn)	72.6	82.8	72.6	76.4
Net impaired assets (OREO and loans net of specific provisions) ($bn)	2.17	4.66	2.17	3.67
Total provisions/total impaired assets	62.0%	40.4%	62.0%	45.9%
NTA per share	$3.67	$3.51	$3.67	$3.56

BALANCE SHEET
(Based on audited results)

$m As at:	30 Sept 1994	31 March 1994	30 Sept 1993
Assets			
Cash and short-term liquid assets	324.3	748.2	717.2
Statutory deposits	753.5	777.6	896.4
Due from other banks	4,192.6	5,022.6	5,389.1
Trading securities	5,007.7	5,432.2	5,956.9
Investment securities	2,410.2	2,887.1	3,516.8
Securities sold not yet delivered	1,369.0	1,272.7	1,155.3
Securities purchased under agreements to resell	-	326.6	306.3
Other financial markets assets	1,735.5	2,370.4	3,159.9
Productive loans	60,113.3	59,340.2	60,639.3
Acceptances of customers	12,218.9	11,954.4	12,850.9
Impaired/(problem) assets	3,470.6	5,500.0	6,643.9
Provisions for bad and doubtful debts	(2,341.7)	(2,525.9)	(2,682.6)
Fixed assets	1,738.3	1,755.2	1,853.1
Future income tax benefits	1,319.5	1,595.1	1,544.7
Superannuation prepayment	736.1	765.6	802.3
Other assets	813.3	1,330.6	1,962.8
Total assets	**93,861.1**	**98,552.6**	**104,712.3**
Liabilities and equity			
Due to other banks	7,687.0	9,036.0	12,634.1
Deposits and public borrowings	54,924.9	56,528.3	57,668.9
Bonds, notes and commercial paper	2,602.7	3,247.4	3,424.4
Acceptances	12,218.9	11,954.4	12,850.9
Securities purchased not yet delivered	1,441.5	1,380.0	1,199.9
Securities sold under agreements to repurchase	91.5	533.5	604.7
Securities short sold	309.9	785.1	661.7
Other financial markets liabilities	1,463.7	1,761.3	2,185.1
Provision for income taxes	92.3	91.0	13.1
Deferred income tax liability	798.8	1,050.8	917.1
Other liabilities	2,002.7	1,932.1	2,090.8
Total liabilities excluding loan capital	83,633.9	88,299.9	94,250.7
Loan capital	2,928.6	3,068.1	3,332.5
Total liabilities	**86,562.5**	**91,368.0**	**97,583.2**
Shareholders' equity			
Share capital	1,900.7	2,011.1	1,999.4
Reserves	4,780.8	4,713.6	4,867.8
Retained profits	612.2	450.6	233.7
Outside equity interests	4.9	9.3	28.2
Shareholders' equity	**7,298.6**	**7,184.6**	**7,129.1**
Total liabilities and equity	**93,861.1**	**98,552.6**	**104,712.3**

PROFIT AND LOSS STATEMENT
(Based on audited results)

$m	Twelve months to 30 Sept 1994	Twelve months to 30 Sept 1993	Six months to 30 Sept 1994	Six months to 31 March 1994
Interest income				
- Due from other banks	279.5	524.9	121.3	158.2
- Investment and trading securities	503.3	677.0	237.2	266.1
- Statutory deposits	37.7	26.5	19.1	18.6
- Loans and other receivables	5,166.3	5,628.1	2,602.4	2,563.9
Interest income	**5,986.8**	**6,856.5**	**2,980.0**	**3,006.8**
Interest expense				
- Savings deposits	(154.3)	(199.9)	(74.6)	(79.7)
- Other deposits	(1,886.6)	(2,278.9)	(952.6)	(934.0)
- Public borrowings	(428.7)	(539.1)	(197.4)	(231.3)
- Due to other banks	(432.5)	(820.2)	(191.0)	(241.5)
- Loan capital	(154.5)	(178.5)	(80.5)	(74.0)
- Other liabilities	(169.2)	(211.8)	(84.1)	(85.1)
Interest expense	**(3,225.8)**	**(4,228.4)**	**(1,580.2)**	**(1,645.6)**
Net interest income	**2,761.0**	**2,628.1**	**1,399.8**	**1,361.2**
Non-interest income				
- Fees and commissions	1,120.1	1,230.1	561.1	559.0
- Financial markets income	214.4	355.3	92.4	122.0
- Other income	135.3	165.3	64.1	71.2
- Income from OREO	76.3	89.9	19.0	57.3
Non-interest income	**1,546.1**	**1,840.6**	**736.6**	**809.5**
Total operating income	**4,307.1**	**4,468.7**	**2,136.4**	**2,170.7**
Non-interest expenses				
- Salaries and staff expenses	(1,367.2)	(1,507.4)	(693.9)	(673.3)
- Equipment and occupancy expenses	(478.3)	(559.5)	(231.8)	(246.5)
- Other expenses	(651.7)	(763.5)	(318.7)	(333.0)
- OREO expenses	(64.9)	(94.8)	(17.0)	(47.9)
Non-interest expenses	**(2,562.1)**	**(2,925.2)**	**(1,261.4)**	**(1,300.7)**
Underlying performance	**1,745.0**	**1,543.5**	**875.0**	**870.0**
Superannuation prepayment adjustment increase/(decrease)	(66.3)	296.1	(29.6)	(36.7)
Bad and doubtful debts	(694.9)	(1,291.5)	(315.9)	(379.0)
Operating profit before abnormal items	**983.8**	**548.1**	**529.5**	**454.3**
Tax expense	(275.9)	(146.3)	(143.9)	(132.0)
Outside equity interests	(3.0)	(4.5)	(0.6)	(2.4)
Profit on operations	**704.9**	**397.3**	**385.0**	**319.9**
Abnormal items (net of tax)	(0.2)	(358.1)	(1.2)	1.0
Operating profit after income tax, attributable to shareholders	**704.7**	**39.2**	**383.8**	**320.9**
Operating profit after tax, and before superannuation prepayment adjustment, outside equity interests and abnormal items	***752.3***	***221.2***	***405.4***	***346.9***

ABNORMAL ITEMS

$m	Twelve months to 30 Sept 1994 Gross	Tax	30 Sept 1993 Gross	Tax	Six months to 30 Sept 1994 Gross	Tax	31 March 1994 Gross	Tax
Net profit on sale of controlled entities and other investments(1)	161.6	2.3	-	-	21.8	0.4	139.8	1.9
Restructuring provisions and costs(2)	(133.6)	43.1	(340.8)	114.7	(35.2)	14.7	(98.4)	28.4
Goodwill written off(3)	(58.9)	0.5	-	-	-	-	(58.9)	0.5
Adjustments relating to prior years(4)(i)	(21.9)	7.2	-	-	(21.9)	7.2	-	-
(ii)	-	(14.4)	-	-	-	(14.4)	-	-
Provision for loss on interest rate swap contracts(5)	(40.3)	13.3	-	-	(40.3)	13.3	-	-
Taxation adjustments(6)	-	40.9	14.9	(146.9)	-	53.2	-	(12.3)
	(93.1)	92.9	(325.9)	(32.2)	(75.6)	74.4	(17.5)	18.5
Net abnormal items after tax	(0.2)		(358.1)		(1.2)		1.0	

EXPLANATORY NOTES:

Abnormal items are revenue or expense items included in the after tax profit which are considered abnormal by reason of their size and effect on the results.

(1) A net profit of $161.6 million (related tax credit $2.3 million) was realised from the sale of non-core operations overseas, specifically: the UK based bullion trader Mase Westpac Limited, banking operations in Taiwan, South Korea and Indonesia and AGC's operations in Asia.

(2) Expenditure of $133.6 million (related tax credit $43.1 million) was incurred or provided for in continuing the restructuring program commenced in 1991. Such expenditure related principally to employee redundancy costs and leased premises which have become surplus to requirements. Abnormal restructuring expenditure in 1993 amounted to $340.8 million (related tax credit $114.7 million).

(3) Goodwill associated with some of the regional offshore banking operations of $58.9 million (related tax credit $0.5 million) was written off as the future benefits are no longer probable.

(4) Two adjustments relating to prior years have been made: (i) the interest element of a balloon payment commitment not brought to account of $21.9 million (related tax credit $7.2 million); and (ii) a tax expense of $14.4 million resulting from a reassessment of future tax benefits arising from certain leveraged lease transactions.

(5) A review of the Bank's balance sheet hedging strategies revealed an over-hedged position created in a prior year with a mark-to-market net present value loss of $40.3 million (related tax credit $13.3 million). As the Bank had no other equivalent exposures to which this position could be reallocated, the loss on the excess hedge has been recognised as an abnormal item.

(6) Future income tax benefits on a portion of the losses incurred in European Division in prior years, amounting to $53.2 million have been recognised as their realisation is now considered to be virtually certain. Conversely, future income tax benefits on losses in another foreign jurisdiction amounting to $12.3 million which had previously been recorded as an asset are no longer being recognised because their realisation is uncertain.

ANALYSIS OF RESULTS BY BUSINESS GROUP
(Management accounting basis - unaudited)

RETAIL BANKING AUSTRALIA

$m	Twelve months to 30 Sept 1994	Twelve months to 30 Sept 1993	Six months to 30 Sept 1994	Six months to 31 March 1994
Underlying performance	1,069	896	537	532
Bad and doubtful debt charge	208	193	118	90
Efficiency (expense to income) ratio (%)	58	64	58	57
Operating profit after tax and before abnormals	575	412	284	291
Spot risk adjusted assets ($bn)	34	33	34	33

- 1994 NPAT increased by 40%.
- Australian retail banking operations achieved a 19% improvement in underlying performance in 1994 due to both operating income increases (3%) and expense reductions (6%).
- The expense to income ratio declined by six percentage points from 64 to 58%.
- The 8% increase in retail operations' bad debt charge reflects the Bank's conservative provisioning strategy and the increase in specific provisions relating to the rural portfolio.
- Home lending grew by 21% and personal lending by 24%.

INSTITUTIONAL BANKING

$m	Twelve months to 30 Sept 1994	Twelve months to 30 Sept 1993	Six months to 30 Sept 1994	Six months to 31 March 1994
Underlying performance	300	515	126	174
Bad and doubtful debt charge	61	191	12	49
Efficiency (expense to income) ratio (%)	57	52	60	55
Operating profit after tax and before abnormals	168	218	81	87
Spot risk adjusted assets ($bn)	19	27	19	22

- Institutional Banking Group's lower performance in 1994 reflects both the reduction in its non-core business base, so that greater concentration could be put on the core domestic operations, and the lower trading income achieved in 1994, particularly, in the second half.
- There was a 29% reduction in year end risk-adjusted assets, primarily as a result of the rundown in overseas assets.
- Despite the reduced bad debt charge, specific provision cover at year end was 57% of problem loans.

NEW ZEALAND

$m	Twelve months to 30 Sept 1994	Twelve months to 30 Sept 1993	Six months to 30 Sept 1994	Six months to 31 March 1994
Underlying performance	173	148	86	87
Bad and doubtful debt charge	53	7	15	38
Efficiency (expense to income) ratio (%)	59	62	59	58
Operating profit after tax and before abnormals	80	98	47	33
Spot risk adjusted assets ($bn)	8	7	8	7

- Underlying performance increased 17% in 1994 due to both increasing revenues and a decline in expenses.
- The increase in bad debt charge, particularly in the first half of 1994, reflects the Bank's conservative provisioning strategy.
- Year-on-year NPAT declined due to the increased bad debt charge.
- Productivity in terms of advances per retail network employee, increased by 22%.

ANALYSIS OF RESULTS BY BUSINESS GROUP (cont'd)

(Management accounting basis - unaudited)

AUSTRALIAN GUARANTEE CORPORATION

$m	Twelve months to 30 Sept 1994	Twelve months to 30 Sept 1993	Six months to 30 Sept 1994	Six months to 31 March 1994
Underlying performance	205	204	101	104
Bad and doubtful debt charge	45	31	28	17
Efficiency (expense to income) ratio (%)	50	54	48	52
Operating profit after tax and before abnormals	101	107	45	56
Spot risk adjusted assets ($bn)	6	6	6	6

- The underlying performance of the core ongoing AGC business increased from $165m to $186m and core NPAT grew from $83m to $88m. (The core business comprises motor dealer, commercial and consumer finance.) The overall underlying performance in 1994 was steady because of AGC's disposal of its Asian operations.
- AGC's process reengineering and cost reduction program resulted in 11% less FTE staff increasing the underlying performance of AGC's core business by 13%.
- The efficiency improvements resulted in the efficiency ratio moving from 54% to 50%.
- Year end assets associated with the core business grew 8% to $5.8bn in 1994.

REGIONAL OFFSHORE BANKING

$m	Twelve months to 30 Sept 1994	Twelve months to 30 Sept 1993	Six months to 30 Sept 1994	Six months to 31 March 1994
Underlying performance	59	65	30	29
Bad and doubtful debt charge	19	12	16	3
Efficiency (expense to income) ratio (%)	69	71	68	71
Operating profit after tax and before abnormals	28	30	8	20
Spot risk adjusted assets ($bn)	2	3	2	2

- Performance has been affected by the relatively stagnant economies of the countries in which the division operates and the sale of small banking operations in Indonesia and Korea.
- The improvement in the efficiency ratio has come about through expense reduction despite operating income having declined during the year.

ASSET MANAGEMENT GROUP

$m	Twelve months to 30 Sept 1994	Twelve months to 30 Sept 1993	Six months to 30 Sept 1994	Six months to 31 March 1994
Underlying performance	(86)	(218)	(23)	(63)
Bad and doubtful debt charge	276	863	102	174
Efficiency (expense to income) ratio (%)	NA	NA	NA	NA
Operating profit after tax and before abnormals	(240)	(640)	(83)	(157)
Spot risk adjusted assets ($bn)	4	6	4	6

- There was a 30% reduction in non-interest expenses which contributed to Asset Management Group's 61% improvement in underlying performance.
- Continued disposal and rehabilitation of problem assets has resulted in over $2 billion reduction in assets under management.

INTEREST SPREAD AND MARGIN ANALYSIS

	Twelve months to		Six months to	
	30 Sept 1994	30 Sept 1993	30 Sept 1994	31 March 1994
Spread and margin analysis:	%	%	%	%
Group				
Interest spread on productive assets	3.1	2.9	3.2	3.0
Impact of non-accrual loans and OREO	(0.3)	(0.6)	(0.3)	(0.3)
Interest spread	2.8	2.3	2.9	2.7
Benefit of net free liabilities and equity	0.7	0.7	0.8	0.7
Interest margin	3.5	3.0	3.7	3.4
Australia				
Interest spread on productive assets	3.6	3.5	3.6	3.5
Impact of non-accrual loans and OREO	(0.4)	(0.8)	(0.3)	(0.4)
Interest spread	3.2	2.7	3.3	3.1
Benefit of net free liabilities and equity	1.0	1.0	1.0	0.9
Interest margin	4.2	3.7	4.3	4.0
Overseas				
Interest spread on productive assets	2.2	1.9	2.2	2.0
Impact of non-accrual loans	(0.2)	(0.2)	(0.2)	(0.1)
Interest spread	2.0	1.7	2.0	1.9
Benefit of net free liabilities and equity	0.2	0.3	0.2	0.3
Interest margin	2.2	2.0	2.2	2.2

Interest spread represents the difference between the average rate on average interest earning assets and the average rate on average interest bearing liabilities.

Net interest margin is calculated by dividing net interest income by average interest earning assets.

Interest spread and margin analysis

Group interest margin improved by 0.5 to 3.5% in the year to 30 September 1994. The improvement was due primarily to the lessened impact of impaired assets in Australia and to the improved interest spread on productive assets (performing loans), particularly overseas assets.

The reduced cost of funding lower levels of impaired assets resulted in a groupwide improvement of 0.3 in 1994, with a 0.4 improvement in Australia.

The interest spread on productive **overseas** assets rose by 0.3 over the year as a result of exiting lower yielding corporate facilities in order to focus on core Australasian customer relationships.

There was 0.1 improvement in the interest spread on productive **Australian** assets over the year. In the second half of 1994, particularly in the fourth quarter, the rate of return on assets (loans) was coming under pressure, but this was counteracted by the successful management of the cost of liabilities (deposits etc). Given the competitive nature of the Australian and New Zealand banking markets, Westpac is anticipating some future erosion of the spread on productive assets.

AVERAGE BALANCE SHEET AND INTEREST RATES - AUSTRALIA

	Twelve months to 30 September 1994			Twelve months to 30 September 1993		
	Average Balance $m	Interest $m	Average Rate %	Average Balance $m	Interest $m	Average Rate %
Assets						
Interest earning assets						
Due from other banks	309	20	6.5%	266	15	5.6%
Investment and trading securities	4,934	263	5.3%	5,393	341	6.3%
Statutory deposits	530	26	4.9%	516	9	1.7%
Loans and other receivables	46,116	4,050	8.8%	43,505	4,175	9.6%
Non-accrual loans	2,099			2,833		
OREO	531			1,816		
Total interest earning assets and interest income	**54,519**	**4,359**	**8.0%**	**54,329**	**4,540**	**8.4%**
Non-interest earning assets						
Cash, bullion, due from other banks and statutory deposits	351			372		
Other assets	5,592			6,146		
Provisions for doubtful debts	(2,046)			(3,263)		
Total non-interest earning assets	**3,897**			**3,255**		
Acceptances of customers	12,266			12,197		
Total assets	**70,682**			**69,781**		
Liabilities and shareholders' equity						
Interest bearing liabilities						
Savings deposits	4,761	128	2.7%	4,964	170	3.4%
Other deposits	28,821	1,340	4.6%	29,664	1,602	5.4%
Public borrowings by subsidiary borrowing corporations	4,838	385	8.0%	5,062	476	9.4%
Due to other banks	322	18	5.6%	263	19	7.2%
Loan capital	3,017	154	5.1%	3,161	178	5.6%
Other interest bearing liabilities	1,566	57	3.6%	1,646	89	5.4%
Total interest bearing liabilities and interest expense	**43,325**	**2,082**	**4.8%**	**44,760**	**2,534**	**5.7%**
Non-interest bearing liabilities						
Deposits and due to other banks	4,146			3,656		
Intragroup liabilities	1,952			1,090		
Other liabilities	3,613			3,088		
Total non-interest bearing liabilities	**9,711**			**7,834**		
Acceptances	12,266			12,197		
Total liabilities	**65,302**			**64,791**		
Shareholders' equity	5,380			4,990		
Total liabilities and shareholders' equity	**70,682**			**69,781**		
Interest earning assets	54,519	4,359	8.0%	54,329	4,540	8.4%
Interest bearing liabilities	43,325	2,082	4.8%	44,760	2,534	5.7%
Net interest spread			3.2%			2.7%
Net free liabilities and equity	11,194		1.0%	9,569		1.0%
Net interest margin	54,519	2,277	4.2%	54,329	2,006	3.7%

AVERAGE BALANCE SHEET AND INTEREST RATES - OVERSEAS

	Twelve months to 30 September 1994			Twelve months to 30 September 1993		
	Average Balance $m	Interest $m	Average Rate %	Average Balance $m	Interest $m	Average Rate %
Assets						
Interest earning assets						
Due from other banks	4,244	259	6.1%	7,072	510	7.2%
Investment and trading securities	4,127	240	5.8%	5,895	336	5.7%
Statutory deposits	217	12	5.5%	336	18	5.4%
Loans and other receivables	15,885	1,178	7.4%	20,914	1,538	7.4%
Non-accrual loans	611			582		
Total interest earning assets and interest income	**25,084**	**1,689**	**6.7%**	**34,799**	**2,402**	**6.9%**
Non-interest earning assets						
Cash, bullion, due from other banks and statutory deposits	312			1,016		
Intragroup receivables	1,952			1,090		
Other assets	3,555			4,097		
Provisions for doubtful debts	(456)			(500)		
Total non-interest earning assets	**5,363**			**5,703**		
Acceptances of customers	447			737		
Total assets	**30,894**			**41,239**		
Liabilities and shareholders' equity						
Interest bearing liabilities						
Savings deposits	785	26	3.3%	796	30	3.8%
Other deposits	10,873	547	5.0%	12,346	677	5.5%
Public borrowings by subsidiary borrowing corporations	503	43	8.5%	638	63	9.9%
Due to other banks	9,098	415	4.6%	15,946	801	5.0%
Loan capital	-			3	-	-
Other interest bearing liabilities	2,755	112	4.1%	3,080	123	4.0%
Total interest bearing liabilities and interest expense	**24,014**	**1,143**	**4.8%**	**32,809**	**1,694**	**5.2%**
Non-interest bearing liabilities						
Deposits and due to other banks	1,372			2,093		
Other liabilities	3,070			3,842		
Total non-interest bearing liabilities	**4,442**			**5,935**		
Acceptances	447			737		
Total liabilities	**28,903**			**39,481**		
Shareholders' equity	1,974			1,731		
Outside equity interests	17			27		
Total liabilities and shareholders' equity	**30,894**			**41,239**		
Interest earning assets	25,084	1,689	6.7%	34,799	2,402	6.9%
Interest bearing liabilities	24,014	1,143	4.8%	32,809	1,694	5.2%
Net interest spread			2.0%			1.7%
Net free liabilities and equity	1,070		0.2%	1,990		0.3%
Net interest margin	25,084	546	2.2%	34,799	708	2.0%

NON-INTEREST INCOME

$m		Twelve months to 30 Sept 1994	Twelve months to 30 Sept 1993	Six months to 30 Sept 1994	Six months to 31 March 1994
Fees and commissions					
Risk fees:	Lending	191.3	210.7	96.6	94.7
	Other	309.4	336.5	152.4	157.0
Non-risk fees:	Brokerage	-	52.7	-	-
	Other	619.4	630.2	312.1	307.3
		1,120.1	1,230.1	561.1	559.0
Financial markets income					
Foreign exchange		164.8	205.6	73.4	91.4
Shares		-	2.9	-	-
Bullion		1.9	19.3	(0.1)	2.0
Other		47.7	127.5	19.1	28.6
		214.4	355.3	92.4	122.0
Income from OREO		76.3	89.9	19.0	57.3
Other income		135.3	165.3	64.1	71.2
Non-interest income		**1,546.1**	**1,840.6**	**736.6**	**809.5**

Non-interest income attributable to exited operations, including Ord Minnett (mainly brokerage), Mase Westpac (mainly bullion trading), PT Westpac Panin Bank, Seoul branch and AGC Asian operations:

Fees and commissions	6.3	69.5	0.9	5.4
Financial markets income	2.3	27.1	-	2.3
Other income	0.5	6.8	-	0.5
	9.1	103.4	0.9	8.2

Risk fees, lending primarily represent fees generated by Australian and New Zealand banking operations. However, in 1993 20% of this category was made up of fees generated in the Americas and these are not expected to recur.

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

Non-risks fees other incorporate account keeping and transaction fees, Financial Services Group's revenues and, in 1993, non-recurring advisory fees generated in the Americas.

Financial markets income primarily represents foreign exchange income and the revenues derived from the sale of risk management products. It also includes revenues from trading activities.

Other income includes rental income, net insurance commissions and premiums, service and management fees and profits on sale of investments and premises.

Trends in non-interest income

There was a $294.5 million reduction in non-interest income in 1994. Diminished revenue contributions from downsized Americas operations were responsible for $77 million of this decline and businesses sold accounted for $93 million.

Lending fees in Australian and New Zealand banking operations increased by 9.6% and 12.6% respectively and the non-risk fees generated by these units also increased slightly. Retail bill facility fees increased but there was a decline in corporate bill facility fees because of the Bank's lower level of participation in this increasingly competitive market.

Financial markets income

Westpac is a leading, active market maker in Australian interest rate markets. Since February this year there has been a sustained sell off, extreme volatility and, at times, a lack of liquidity in the international and Australian interest rate markets. This caused a decline in the revenues generated by Westpac's market making activity. Nevertheless, the financial markets business unit reported a profit for the period although the earnings were below those of previous years and below budget. While market making revenues declined, customer generated revenues were relatively steady, despite the market volatility.

Westpac's financial markets revenues have also declined as a result of the unit's refocusing its attention on the core Australian and New Zealand dollar businesses, with a decline from the previous year in Westpac's other international currency transactions. The new concentration on core currencies is also reflected in the Derivatives Outstanding figures in Table 1 on page 18 which show that overall notional amounts outstanding have declined by 12% to $581 billion in the last 12 months.

DERIVATIVES COMMENTARY

Westpac enters into derivatives transactions in the normal course of business for trading and end user purposes. Westpac's trading activities are primarily as an intermediary to meet customer's needs but also include trading on its own account.

Derivatives are an integral part of Westpac's customer-focused dealing and trading activities. The Bank has been active in the derivatives market for many years and has developed capacity, control systems, advanced risk management systems and a pool of skilled people with many years of experience. Westpac is a leading provider of Australian and New Zealand dollar-based derivative products.

Westpac's derivatives activity

Table 1 reviews Westpac's activity in the derivatives markets for trading purposes measured in notional amount, replacement cost and regulatory credit equivalent terms.

Table 1: Derivatives trading activity (A$bn)	SEPTEMBER 1994 Notional[1] Amount	Replacement cost	Credit equivalent	SEPTEMBER 1993[2] Notional amount	Credit equivalent
Interest rate					
Futures*	83.6	-	-	58.5	-
Forwards (FRA's)	71.6	0.1	0.2	82.2	0.3
Swaps	163.7	3.6	4.1	203.3	8.5
Purchased options	22.1	0.1	0.2	27.8	0.4
Sold options*	16.6	-	-	21.0	-
Foreign exchange					
Forwards	192.0	2.9	5.0	225.5	6.7
Swaps	22.2	1.6	2.5	28.4	4.2
Purchased options	4.9	-	0.1	6.8	0.3
Sold options*	4.3	-	-	5.3	-
Commodity derivatives	0.2	-	-	0.3	-
Other	-	-	-	0.1	-
Total derivative products	**581.2**	**8.3**	**12.1**	**659.2**	**20.4**

Table 1 presents two measures of credit risk as at 30 September 1994. It is important to note that while replacement cost and credit equivalent (see next page for definitions) measure the amount at risk if all counterparties default, they do not give any indication of the probability of default or credit quality. To give some perspective, the Reserve Bank of Australia, September 1994 Bulletin disclosed that over the past five years, the total combined losses from derivatives counterparty default of 38 banks operating in Australia was $12.8 million. Westpac's portion of this was $1.9 million, in 1989.

Over 97% of Westpac's outstandings are with investment grade counterparties.

As at 30 September 1994 derivatives account for $3.0 billion or 4.1% (6% at September 1993) of Westpac's overall risk-adjusted assets.

The decline in derivatives outstandings in 1994 reflects the continued repositioning of the derivatives business to concentrate on core currencies and customers and the rundown in non-strategic portfolios. The fall in credit equivalents was due to the movement in the underlying interest and exchange rates during the period, which affects the current value of a given transaction, as well as due to the decline in the number of contracts outstanding.

Notional amount refers to the amount upon which cash flows are calculated, not the actual cash flows or exposure. Notional amounts are useful as a measure of activity of a particular class of financial instrument but are not measures of either market or credit risk.

Replacement cost or positive mark-to-market is the cost of replacing those transactions which are in a gain position, i.e. where the counterparty owes Westpac. This measure is the industry standard for the calculation of current credit risk. Replacement cost represents the loss Westpac would suffer in the unlikely event that every counterparty were to default at once. It does not represent actual or expected loss amounts.

Credit equivalent is calculated for capital adequacy purposes using Reserve Bank of Australia guidelines. Credit equivalent amounts are calculated as replacement cost (positive mark-to-market) plus an add-on for potential credit exposure based on a predetermined percentage of the notional amount. So, for example, for interest rate contracts with more than a year to maturity the add-on is 0.5% of notional amount. For exchange rate contracts with less than one year to maturity 1% of the notional amount is added and for contracts with more than one year to maturity 5% is added.

Notes accompanying Table 1

(1) The total notional principal amount outstanding as at September 1994 does not include spot foreign exchange contracts. This exclusion brings the Bank into line with accepted industry practice. The figures for 1993 have been adjusted for comparative purposes.

(2) Comparable replacement cost numbers for each individual category were not available for September 1993. The use of replacement cost has only recently emerged as an industry standard for measuring credit risk. At 31 March 1994 the total replacement cost for all portfolios was $11.2 billion.

* There is little credit risk associated with futures or sold options. Futures are exchange traded and the clearing house is the counterparty. The clearing house manages credit risk by a system of margin calls. For sold options the obligation to perform is Westpac's rather than the counterparty's.

NON-INTEREST EXPENSES

$m	Twelve months to 30 Sept 1994	Twelve months to 30 Sept 1993	Six months to 30 Sept 1994	Six months to 31 March 1994
Salaries and other staff expenses	1,367.2	1,507.4	693.9	673.3
Equipment and occupancy expenses	478.3	559.5	231.8	246.5
OREO expenses	64.9	94.8	17.0	47.9
Other expenses	651.7	763.5	318.7	333.0
Non-interest expenses	**2,562.1**	**2,925.2**	**1,261.4**	**1,300.7**
Operating income	4,307.1	4,468.7	2,136.4	2,170.7
Efficiency ratio (operating income/expenses)	59.5%	65.5%	59.0%	59.9%
Average standard assets ($bn)	99.6	109.9	97.2	102.0
Non-interest expenses/assets (annualised)	2.57%	2.66%	2.60%	2.55%
Average full time equivalent staff	32,295	36,913	31,681	32,909
Per average employee ($'000) (annualised)				
- salaries and other staff expenses	42.3	40.8	43.8	40.9
- equipment and occupancy expenses	14.8	15.2	14.6	15.0
- non-interest expenses	79.3	79.2	79.6	79.0
- operating income	133.4	121.1	134.9	131.9
- underlying performance	54.1	41.9	55.3	52.9
- average assets ($m)	3.1	3.0	3.1	3.1

Non-interest expenses attributable to exited operations, including Ord Minnett, Mase Westpac, PT Westpac Panin Bank, Seoul branch and AGC Asian operations:

Salaries and other staff expenses	11.3	67.1	0.6	10.7
Equipment and occupancy expenses	5.1	23.1	0.5	4.6
Other expenses	12.2	31.8	0.5	11.7
	28.6	122.0	1.6	27.0

Comments on expenses and productivity trends

- Salaries and other staff expenses continued to decline in 1994 as a result of the decline in FTE staff numbers. There was a small increase in this item in the second half of 1994, in part due to the higher fringe benefits tax payments required as of 1 April 1994.
- The reduction in equipment and occupancy expenses was primarily because of the continued downsizing of the operations and branch closures resulting in reduced occupancy costs.
- OREO expenses declined with sale of OREO assets.
- Productivity per full time equivalent employee has consistently been improving as a result of both cutting unnecessary costs and process reengineering. In particular, operating income and underlying performance per FTE have increased by 10% and 29% respectively between 1993 and 1994.

ASSET QUALITY
IMPAIRED ASSETS

In December 1993, the Reserve Bank of Australia ("RBA") issued new guidelines to banks for classifying and reporting impaired assets.

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

- Non-accrual loans, which are defined as assets in respect of which income may no longer be accrued ahead of its receipt because reasonable doubt exists as to the collectability of principal and interest. They include also exposures where contractual payments are 90 or more consecutive days in arrears and where security is insufficient to ensure payment. In 1993 and prior years these latter items were reported as part of a separate category of problem assets "loans past due 90 days".

- Restructured loans, which are defined as assets in which the original contractual terms have been formally modified to provide for concessions of interest or principal for reasons related to the financial difficulties of the customer.

- Assets acquired through security enforcement or where Westpac has assumed ownership of an asset in settlement of all or part of a debt. This category includes OREO.

After the inclusion of some off balance sheet assets (in the non-accrual and restructured categories) and the deletion of some problem but well secured asset categories, the new guidelines resulted in a net reduction in total impaired assets of $121 million.

Although not classified as impaired assets, items which are in arrears for 90 or more consecutive days but are well-secured with no provisions held against them are required to be reported separately. In 1993 and prior years, such items were reported as part of a separate category of problem assets "loans past due 90 days".

Also reported as a separate category of problem assets in 1993 and prior years were "potential problem loans". These were loans where, although presently fully performing, there existed doubt as to the ability of the borrower to comply fully with present loan repayment terms in the foreseeable future. Where specific provisions have been established in respect of these loans, the loans are now classified as non-accrual in accordance with the RBA's new guidelines. Otherwise they are now not considered to be impaired assets. At 30 September 1994, gross non-accrual items of $3,380 millon included $236 million in assets previously classified as "potential problem loans".

The following table provides an analysis of Westpac's impaired assets and the related disclosures mentioned above. The specific provisions represent the amount by which realisations of securities and other sources of repayment are expected to fall short of the amount due. The general provision provides additional cover for risks that may emerge in the future. Comparative figures for 1993 are as stated in the 1993 financial statements. It has not been practicable to adjust these figures to conform with the changes in presentation and classifications made in 1994.

IMPAIRED ASSETS (cont'd)

As at 30 September 1994: $m	**Non-accrual assets**	**Restructured assets**	**Assets acquired through security enforcement i.e. OREO**	**Total impaired assets**
Australia, New Zealand and other overseas				
Gross impaired assets	3,380.3	184.0	215.6	3,779.9*
Less specific provisions	(1,563.8)	(42.9)	-	(1,606.7)
Net impaired assets	1,816.5	141.1	215.6	2,173.2

* *Includes off balance sheet impaired assets of $309.3 million.*

Net impaired assets				
Australia	1,461.5	63.7	215.6	1,740.8
New Zealand	146.4	50.6	-	197.0
Other overseas	208.6	26.8	-	235.4

The following amounts are not classified as impaired assets and therefore are not included above:

$m	**Australia**	**New Zealand**	**Overseas**	**Total**
Assets past due 90 days (well secured)	161	20	5	186

As at 30 September 1993: $m	**Non-accrual assets**	**Restructured assets**	**OREO**	**Assets past due 90 days**	**Potential problem loans**	**Total problem assets**
Australia, New Zealand and other overseas						
Gross problem assets	3,000.0	1,323.8	783.2	193.4	1,343.5	6,643.9
Less specific provisions	(1,241.3)	(326.5)	-	(41.6)	(373.2)	(1,982.6)
Net problem assets	1,758.7	997.3	783.2	151.8	970.3	4,661.3
Net problem assets						
Australia	1,541.3	836.4	783.2	99.6	601.6	3,862.1
New Zealand	40.5	103.5	-	8.8	11.1	163.9
Other overseas	176.9	57.4	-	43.4	357.6	635.3

$m	**1994**	**1993**
Interest received for the year on the above non-accrual and restructured assets is estimated at	82.1	45.5
Interest forgone for the year on the above non-accrual and restructured assets is estimated at	295.8	526.0

IMPAIRED ASSETS (PROBLEM ASSETS) AND RATIOS

As at: **$m**	**30 Sept 1994***	**31 March 1994**	**30 Sept 1993**	**31 March 1993****
Total impaired assets	3,779.9	5,500.0	6.643.9	7,574.7
Total loans and acceptances	75,802.8	76,794.6	80,134.1	81,382.4
Impaired assets/total loans and acceptances	5.0%	7.2%	8.3%	9.3%
Specific provisions	1,606.7	1,825.9	1,982.6	2,174.4
Specific provisions to total impaired loans	45.1%	38.2%	33.8%	32.0%
Specific provisions to total impaired assets	42.5%	33.2%	29.8%	28.7%
Net impaired assets	2,173.2	3,674.1	4,661.3	5,400.3
Shareholders' equity	7,298.6	7,184.6	7,129.1	6,253.9
Net impaired assets to equity	29.8%	51.1%	65.4%	86.3%
Total provisions including $735m general provisions at September 1994 ($700m in prior periods)	2,341.7	2,525.9	2,682.6	2,874.4
Total provisions to total impaired loans	65.7%	52.8%	45.8%	42.3%
Total provisions to total impaired assets	62.0%	45.9%	40.4%	37.9%
General provision after tax to risk-adjusted assets	0.68%	0.61%	0.57%	0.52%
Bad debt charge to average risk-adjusted assets (annualised)	0.8%	1.0%	1.1%	1.7%
Bad debt charge to total operating income	14.8%	17.5%	21.8%	36.2%

* *The September 1994 column reflects the new RBA guidelines for classifying and reporting impaired assets. The comparative prior period figures reflect the previous problem assets' classification.*

** *The March 1993 column has been restated to show OREO net of specific provisions ($992m) to put it on a comparable basis to subsequent periods.*

MOVEMENT IN IMPAIRED ASSET PORTFOLIO

Six months to: **$m**	**30 Sept** **1994**	**31 March** **1994**	**30 Sept** **1993**	**31 March** **1993**
Opening balance	5,500	6,644	8,567	9,084
Adjustment to conform with RBA guidelines*	**(121)**			
Additions:				
New impaired assets	327	444	724	716
Increases to existing impaired assets	59	63	207	169
OREO funding	22	81	90	131
Total additions	**408**	**588**	**1,021**	**1,016**
Reductions:				
Property sales	(406)	(471)	(478)	(185)
Property write-offs	(210)	(84)	(266)	(92)
OREO sales	(522)	(123)	-	(26)
OREO write-offs	-	(26)	(1,081)	(131)
Other reductions and write-offs**	(867)	(938)	(1,239)	(1,015)
Total reductions	**(2,005)**	**(1,642)**	**(3,064)**	**(1,449)**
Exchange rate adjustment	(2)	(90)	120	(84)
Closing balance	**3,780**	**5,500**	**6,644**	**8,567**
Specific provisions	1,607	1,826	1,983	3,166***
General provision	735	700	700	700
Total provisions	**2,342**	**2,526**	**2,683**	**3,866**

* This adjustment represents the change to conform with the new RBA guidelines for reporting impaired assets. The comparative prior period figures reflect the previous problem assets' classification.

Impact of guidelines at initial implementation:

Additions:	
- off balance sheet committed but unused	174
- off balance sheet contingents	103
	277
Deletions:	
- past due and well secured	(106)
- substandard but fully performing	(292)
	(398)
Net reduction	(121)

** These figures represent the paydowns, risk category upgrades and write-offs relating to all non-property impaired loans.

*** Includes OREO specific provisions of $992 million which were subsequently offset in writing down the related assets.

PROVISIONS FOR DOUBTFUL DEBTS

$m	Twelve months to 30 Sept 1994	Twelve months to 30 Sept 1993	Six months to 30 Sept 1994	Six months to 31 March 1994
General provision				
Balance at beginning of year	700.0	700.0	700.0	700.0
Exchange rate and other adjustments	(9.0)	3.2	0.7	(9.7)
Write-offs	(189.2)	(194.3)	(94.8)	(94.4)
Recoveries of debts previously written off	151.2	77.2	95.9	55.3
Charge to operating profit	82.0	113.9	33.2	48.8
Balance at year end	735.0	700.0	735.0	700.0
Specific provisions				
Balance at beginning of period	1,982.6	3,016.7	1,825.9	1,982.6
Exchange rate and other adjustments	(63.6)	24.5	(12.9)	(50.7)
New provisions for loans	910.3	1,511.8	433.6	476.7
Provisions no longer required	(297.4)	(334.2)	(150.9)	(146.5)
Bad debts written off	(925.2)	(2,236.2)	(489.0)	(436.2)
Balance at year end	1,606.7	1,982.6	1,606.7	1,825.9

BAD AND DOUBTFUL DEBT CHARGE

$m	Twelve months to 30 Sept 1994	Twelve months to 30 Sept 1993	Six months to 30 Sept 1994	Six months to 31 March 1994
General provision:				
Write-offs	189.2	194.3	94.8	94.4
Recoveries	(151.2)	(77.2)	(95.9)	(55.3)
Other	44.0	(3.2)	34.3	9.7
Net charge to profit and loss for bad debts	**82.0**	**113.9**	**33.2**	**48.8**
New specific provisions	910.3	1,511.8	433.6	476.7
Specific provisions no longer required	(297.4)	(334.2)	(150.9)	(146.5)
Specific provisions (net)	**612.9**	**1,177.6**	**282.7**	**330.2**
Total charge for bad debts and provisions	**694.9**	**1,291.5**	**315.9**	**379.0**

PROPERTY EXPOSURE OVERVIEW

Property disposals

Six months to: $m	30 Sept 1994	31 March 1994	30 Sept 1993	31 March 1993
Gross book value	1,137.8	818.7	743.9	352.0
Net value after provisions	927.5	576.6	476.9	209.0
Net proceeds	1,025.2	593.8	478.2	222.0
Surplus	97.7	17.2	1.3	13.0
Surplus as % over NBV	10.5	3.0	0.3	6.2

Property sales in progress

As at: $m	30 Sept 1994	31 March 1994	30 Sept 1993	31 March 1993
Gross book value	240.7	890.8	762.2	261.0

Credit exposures to commercial property (>$1m)

As at: $bn	30 Sept 1994	31 March 1994	30 Sept 1993	31 March 1993
Top 500 Australian exposures	4.7	5.4	6.2	6.8
Other Australian exposures	1.5	1.6	1.6	1.8
Exposures Australia	6.2	7.0	7.8	8.6
Exposures overseas	2.5	2.6	3.3	2.9
Exposures worldwide	8.7	9.6	11.1	11.5
Total gross impaired property loans	1.3	2.0	2.8	3.3
Net impaired property loans	0.8	1.4	2.0	2.2
Net OREO	0.2	0.7	0.8	0.8

The problem property portfolio was revalued progressively throughout the year. All valuations were undertaken on the basis of the amount that would be realisable from a willing buyer to a willing seller allowing a period of up to 12 months from commencement of selling to settlement.

At year end, independent valuations had been obtained for 223 of the problem properties still held by the Asset Management Group. In aggregate the current market value of these properties was $830 million, which was 5.5% over their book value.

The general practice has been that where individual valuations or reviews showed a decrease from the previous assessment, appropriate adjustments to provisions are made; where an increase is shown, no adjustments are made to provisions.

The surplus to net book value from the proceeds of properties sold in 1994 was $114.9 million or 7.6%.

CAPITAL ADEQUACY

As at: $m	30 Sept 1994	31 March 1994	30 Sept 1993
Tier 1 capital			
Total shareholders' equity	7,298.6	7,184.6	7,129.1
Amount estimated to be reinvested pursuant to the Bank's Dividend Reinvestment Plan	-	72.4	55.2
Less: Asset revaluation reserves	(513.7)	(498.5)	(566.0)
Goodwill	(34.9)	(38.3)	(98.2)
Future income tax benefit net of deferred tax liability	(289.7)	(313.3)	(396.6)
Total tier 1 capital	**6,460.3**	**6,406.9**	**6,123.5**
Tier 2 capital			
Asset revaluation reserves	513.7	498.5	554.6
Subordinated undated capital notes	1,000.0	1,055.8	1,145.9
General provision for doubtful debts*	700.0	700.0	700.0
Less: Future income tax benefit related to general provision	(231.0)	(231.0)	(231.0)
Eligible subordinated bonds, notes and debentures	1,563.5	1,748.0	1,927.8
Total tier 2 capital	**3,546.2**	**3,771.3**	**4,097.3**
Tier 1 and tier 2 capital	**10,006.5**	**10,178.2**	**10,220.8**
Other banks' capital instruments	(9.1)	(9.8)	(17.5)
Net qualifying capital	**9,997.4**	**10,168.4**	**10,203.3**
Risk-adjusted assets	**72,567.0**	**76,386.2**	**82,776.7**
Tier 1 capital ratio	8.9%	8.4%	7.4%
Tier 2 capital ratio	4.9%	4.9%	4.9%
Deduction	-	-	-
Net capital ratio	**13.8%**	**13.3%**	**12.3%**

* Provision for potential rural losses of $35 million is excluded from tier 2 capital.

GROUP FINANCIAL INFORMATION FOR US INVESTORS

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

Twelve months to: $m	30.9.94 USD*	30.9.93 USD*	30.9.94 AUD	30.9.93 AUD
Net profit as reported	**521.5**	**26.9**	**704.7**	**39.2**
Depreciation on buildings	5.6	0.6	7.5	0.9
Gain on sale of properties (including amortisation of gains on sale of properties subject to lease back arrangements)	49.7	16.5	67.1	24.0
Sale of investments	10.9	-	14.7	-
Adjustment to redundancy provision	27.4	-	37.0	-
Goodwill amortisation and write-off	(41.1)	(21.5)	(55.5)	(31.3)
Deferral and amortisation of non-refundable fees	-	4.4	-	6.4
Staff superannuation funds adjustment	41.8	(107.1)	56.5	(155.9)
Adjusted US GAAP net profit/(loss)	**615.8**	**(80.2)**	**832.0**	**(116.7)**

* USD amounts are calculated using the following average exchange rates:
Year ended 30 September 1993: AUD1 = USD0.68730
Year ended 30 September 1994: AUD1 = USD0.74000

As at: $m	30.9.94 USD**	30.9.93 USD**	30.9.94 AUD	30.9.93 AUD
Shareholders' equity as reported	**5,400.9**	**4,604.0**	**7,298.6**	**7,129.1**
Less outside equity interests	(3.6)	(18.2)	(4.9)	(28.2)
	5,397.3	4,585.8	7,293.7	7,100.9
Elimination of asset revaluation reserve	(380.0)	(365.6)	(513.5)	(566.0)
Adjustment to redundancy provision	27.4	-	37.0	-
Depreciation on buildings	13.4	6.8	18.1	10.6
Deferred gains on sale of properties subject to lease back arrangements	(5.7)	(10.5)	(7.7)	(16.2)
Goodwill not recognised on acquisitions less amortisation	74.2	74.6	100.3	115.5
Restoration of previously deducted goodwill, less amortisation and amounts written off	4.5	30.0	6.1	46.4
Staff superannuation funds adjustment	(202.7)	(213.4)	(274.0)	(330.5)
Dividend proposed	134.7	69.3	182.1	107.3
Adjusted US GAAP equity	**5,063.1**	**4,177.0**	**6,842.1**	**6,468.0**

** USD amounts are calculated using the following spot exchange rates:
30 September 1993: AUD1 = USD0.64580
30 September 1994: AUD1 = USD0.74000

BOOKS CLOSING

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

Books close for determination of dividend entitlement on ordinary shares:

Australian and New Zealand Registers

At 5.00pm, 29 December 1994 (Sydney time) at:

KPMG Peat Marwick, 44 Market 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 29 December 1994).

New York

For American Depositary Receipts, at 5.00pm, 28 December 1994 (New York time) at:

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

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

Tokyo

At 3.00pm, 29 December 1994 (Tokyo time), for shares registered in the books of Tokyo Stock Exchange Members' securities companies. (Dividends will be converted to local currency at the rate ruling on date of receipt of the funds by the paying agent, The Mitsubishi Trust and Banking Corporation, 7-7, Nishi-Ikebukuro 1-chome, Toshima-ku, Tokyo, 171, Japan.)

The date proposed for the payment of the final dividend is 24 January 1995.

R I Barrett
Group Secretary and General Counsel

8 November 1994

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