Westpac Banking Corporation

ARBN 007 457 141

1996

PROFIT RESULTS

Year ended 30 September 1996

HIGHLIGHTS	1996	1995	Movement % +/(-)
• Operating profit after income tax attributable to shareholders ($m)	1,132	947	19.5
• Return on average ordinary equity	14.6%	13.0%	12.3
• Earnings per ordinary share (cents)	58.9	49.8	18.3
• Dividend per ordinary share: (cents)			
- unfranked	-	13.0	
- franked	33.0	15.0	
- Total	33.0	28.0	17.9

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1 REVIEW OF GROUP RESULTS

1.1 FINANCIAL HIGHLIGHTS

Westpac Banking Corporation today announced an after tax profit attributable to shareholders of $ 1,132 million for the full year ended 30 September 1996, a 19.5 % increase over the $947 million earned in the comparable period in 1995.

Operating profit after abnormals before tax for the full year was $1,556 million, a 32.2% improvement on the 1995 full year.

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

Directors intend declaring a final dividend of 17 cents per ordinary share, fully franked, an increase of 13.3% over the 1995 final dividend of 15 cents per ordinary share (fully franked). The full year dividend of 33 cents (fully franked) represents a dividend payout ratio of 55.3% and a 17.9% increase over the 1995 full year dividend of 28 cents per ordinary share (partly franked).

In an increasingly competitive environment, interest rate margins remained under pressure across all businesses in Australia and New Zealand, resulting in the overall Group interest margin of 3.7% being slightly down from 3.8% for 1995.

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

Non-interest income increased 6.1% to $1,488 million from $1,403 million in the 1995 full year, in an environment of aggressive discounting of lending and risk fees by participants in both the housing and business markets. Excluding the impact of the Challenge Bank Limited (Challenge Bank) and Trust Bank New Zealand Limited (Trust Bank) acquisitions, non-risk fees increased by 3% in the second half reflecting the shift by customers to new, higher value products and other fee for service initiatives.

Non-interest expenses grew by 5.0% in 1996, excluding the impact of the Challenge Bank and Trust Bank acquisitions and other restructuring expenses. Whilst continuing to invest in value adding initiatives such as the Mortgage Processing Centre, back office centralisation and electronic delivery technology, management maintained the discipline of reducing the level of real recurrent expenditure. The anticipated efficiency gains and new revenue streams arising from this continued investment should assist in countering the impact of competitive pressures.

Challenge Bank and Trust Bank contributed a $1 million net loss after tax and amortisation of intangibles. As foreshadowed, these acquisitions had a minimal dilution impact on earnings per share (1.8 cents). We anticipate that the acquisitions should positively contribute to earnings per share growth in 1997 and beyond, as integration benefits are realised.

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

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

Looking forward, competition is expected to remain intense and this may lead to further pressure on interest margins. Westpac will continue to focus on managing its business to seek appropriate returns for shareholders. In such an environment, maintenance of overall net earnings growth will depend increasingly on attaining improvements in fee income generation, particularly non-lending related fees, and on improved efficiency of operations. Achieving such improvements, combined with active capital and balance sheet management, will be the keys to sustaining positive trends in earnings per share and return on ordinary equity.

1.2 KEY OPERATING DEVELOPMENTS

Challenge Bank Limited

In December 1995, Westpac acquired Challenge Bank, a major regional bank in Western Australia, for $684 million. This acquisition, together with Westpac's existing operations in that State, which date back to 1841, has placed Westpac as one of the leading banking services providers in Western Australia. The integrated operations will combine the strengths of a national bank with the focus of a strong local organisation, providing superior banking services for customers. Full integration is planned to take place during November 1996. Customers will then deal with the integrated bank and additional planned synergies should be realised progressively during 1997. Current plans suggest that the acquisition benefits should be in line with the original forecast, generating a positive earnings per share impact in 1997.

On 8 May 1996, Westpac reached an agreement with Bank of Melbourne in relation to the sale of assets, liabilities and operations of Challenge Bank in Victoria. Bank of Melbourne will pay Westpac the net asset value as at completion plus a premium of $69 million for the goodwill of the business, consistent with Westpac's original valuation. Completion of this sale is expected shortly after the Westpac/Challenge integration in Western Australia.

Trust Bank New Zealand Limited

On 24 May 1996 Westpac acquired Trust Bank for NZ$1.27 billion, making Westpac the largest banking services provider in New Zealand. This allows Westpac the opportunity to provide value added services to a growing number of New Zealand customers, as it has been doing since 1861. As the Westpac and Trust Bank operations are integrated, there will also be the opportunity to achieve economies of scale benefiting both customers and shareholders.

Whilst some of the benefits of the acquisition should be realised in 1997, the full benefits should flow from 1998 onwards, as the acquisition delivers value to shareholders through positive earnings per share contribution.

Ordinary Share Buy-backs

On 20 March 1996 Westpac announced that it would undertake a buy-back of 95 million (approximately 5%) fully paid ordinary shares, conducted as a normal on-market transaction through the Australian Stock Exchange. The buy-back was undertaken between 8 April and 1 July 1996 at an average price of $5.74 for a total cost of $545.4 million.

A second buy-back of up to 85 million fully paid ordinary shares (approximately 5%) was announced on 4 November 1996. This on-market buy-back will be conducted over a period of up to six months.

Westpac continues to be a strongly capitalised bank by world standards, with capital levels now and in the foreseeable future more than adequate to support its operating business plans. The buy-back of capital provides the opportunity to further improve returns to shareholders.

Best Bank

The Best Bank program within Australian Banking was completed in all States in September 1996, except Western Australia which will be completed during November 1996 as part of the integration of Challenge Bank. This program completes the conversion of our Australian branches to sales and service outlets, with all ‘back-office’ activity now being undertaken in centralised processing and support centres.

Securitisation of Home Mortgages

On 30 September 1996, Westpac completed the securitisation of $340 million of its Basic Option home loan portfolio. Securitisation, together with other initiatives, including the Mortgage Processing Centre, represents a leading response to structural changes in the home mortgage business. The transaction also reflects Westpac’s active management of capital and the balance sheet, in order to improve returns to shareholders.

Credit Rating

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

On 10 September 1996, Standard & Poor’s upgraded Westpac’s long term rating to AA- and short term ratings to A-1+. Standard & Poor’s stated that the upgrade considered “the bank’s continued satisfactory underlying performance, improved asset quality, good capitalisation, and strengthened position in its home markets following the acquisitions of Trust Bank and Challenge Bank”.

Mortgage Processing Centre (MPC)

Westpac launched Australia's first integrated mortgage processing centre in Adelaide in April 1996. This initiative has significantly streamlined mortgage origination and servicing processes, allowing Westpac to gain competitive advantage as a low cost service provider.

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

Purchase of AMPAC Life

Westpac announced in July 1996 its intention to exercise its option to buy AMPAC Life from the Australian Mutual Provident Society. The $342 million purchase was completed on 1 October 1996 with the entity renamed Westpac Life Insurance Services Limited. The purchase allows Westpac to integrate production, administration and sales of life insurance and superannuation products, thus being better positioned to meet rapidly changing customer needs and also regulatory changes. Westpac Life should contribute to growth in earnings per share in 1997.

Enterprise Development Agreement

In May 1996, Westpac negotiated a long term enterprise agreement which will deliver, to eligible staff, average increases of 5.3% per year. This is expected to give stability of employment terms for a 27 month period, backdated to January 1996. It will also enable Westpac to continue re-engineering its operations, with staff motivation bolstered by greater certainty on potential reward levels.

The Home Mortgage Company (NZ)

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

1.3 FINANCIAL SUMMARY

	Six months to/as at		Twelve months to/as at	
	30 Sept 1996	31 March 1996	30 Sept 1996	30 Sept 1995
Operating profit after abnormals before tax($m)	760	796	1,556	1,177
Operating profit after income tax attributable to ordinary shareholders ($m)	567	565	1,132	947
Earnings per ordinary share (cents)	29.7	29.2	58.9	49.8
Dividends per ordinary share (cents)				
- unfranked	-	-	-	13.0
- franked	17.0	16.0	33.0	15.0
Dividend payout ratio	56.1%	54.4%	55.3%	56.3%
Return on average ordinary equity	14.5%	14.7%	14.6%	13.0%
Return on average total equity	13.9%	14.1%	14.0%	12.5%
Return on average assets	0.95%	1.00%	0.97%	0.97%
Net interest margin	3.7%	3.7%	3.7%	3.8%
Non-interest income/total operating income	31.0%	31.8%	31.4%	32.0%
Efficiency (expense to income) ratio before intangibles, restructuring expenses and abnormals	63.6%	61.5%	62.6%	60.6%
Non-interest expenses/average assets	2.78%	2.49%	2.64%	2.74%
Personnel numbers				
- full time equivalent (FTE)	33,832	32,561	33,832	31,416
- average full time equivalent	33,479	31,947	32,713	31,440
Operating income per employee ($000)	148	142	145	139
Operating profit per employee ($000)	34	35	35	30
Assets and capital				
Capital adequacy ratio				
- Total	10.8%	13.0%	10.8%	13.9%
- Tier 1	7.4%	9.2%	7.4%	9.5%
Average ordinary equity ($m)	7,542	7,436	7,489	7,002
Average total equity ($m)	8,142	8,036	8,089	7,602
Shareholders' equity/total assets	6.5%	7.1%	6.5%	7.2%
Group assets ($m)	121,513	115,746	121,513	105,835
Risk-adjusted assets ($m)	86,503	81,409	86,503	74,930
Total provisions/total impaired loans	145.1%	112.6%	145.1%	91.3%
Net tangible asset backing per ordinary share ($)	3.39	3.77	3.39	3.81

2 PROFIT AND LOSS STATEMENT
(Based on audited annual results)

$m	Six months to 30 Sept 1996	Six months to 31 March 1996	Twelve months to 30 Sept 1996	Twelve months to 30 Sept 1995	% Movt Sept 95 to Sept 96
Interest income					
- Due from other banks	305	251	556	328	69.5
- Investment and trading securities	261	301	562	577	(2.6)
- Statutory deposits	12	11	23	38	(39.5)
- Loans and other receivables	3,931	3,448	7,379	6,230	18.4
Interest income	**4,509**	**4,011**	**8,520**	**7,173**	**18.8**
Interest expense					
- Savings deposits	(67)	(70)	(137)	(143)	(4.2)
- Other deposits	(1,864)	(1,626)	(3,490)	(2,719)	28.4
- Public borrowings	(233)	(231)	(464)	(432)	7.4
- Due to other banks	(263)	(325)	(588)	(498)	18.1
- Loan capital	(79)	(90)	(169)	(193)	(12.4)
- Other liabilities	(298)	(120)	(418)	(206)	102.9
Interest expense	**(2,804)**	**(2,462)**	**(5,266)**	**(4,191)**	**25.7**
Net interest income	**1,705**	**1,549**	**3,254**	**2,982**	**9.1**
Provision for bad and doubtful debts	(51)	(70)	(121)	(330)	(63.3)
Net interest income after provisions for bad and doubtful debts	**1,654**	**1,479**	**3,133**	**2,652**	**18.1**
Non-interest income					
- Fees and commissions	570	532	1,102	1,068	3.2
- Financial markets income	104	114	218	204	6.9
- Other income	93	75	168	131	28.2
Non-interest income	**767**	**721**	**1,488**	**1,403**	**6.1**
Operating income net of provisions for bad and doubtful debts	**2,421**	**2,200**	**4,621**	**4,055**	**14.0**
Non-interest expenses					
- Salaries and other staff expenses	(950)	(831)	(1,781)	(1,530)	16.4
- Equipment and occupancy expenses	(252)	(231)	(483)	(449)	7.6
- Other expenses	(433)	(334)	(767)	(680)	12.8
- Amortisation of intangibles	(26)	(8)	(34)	(7)	385.7
Non-interest expenses	**(1,661)**	**(1,404)**	**(3,065)**	**(2,666)**	**15.0**
Operating profit before tax and abnormal items	**760**	**796**	**1,556**	**1,389**	**12.0**
Tax expense	(191)	(230)	(421)	(371)	13.5
Outside equity interests	(2)	(1)	(3)	(3)	-
Profit on operations	**567**	**565**	**1,132**	**1,015**	**11.5**
Abnormal items (net of tax)	-	-	-	(68)	(100.0)
Operating profit after income tax attributable to shareholders	**567**	**565**	**1,132**	**947**	**19.5**

2.1 IMPACT OF ACQUISITIONS[1]

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

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

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

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

(4) *Included in other expenses are integration costs incurred during the period.*

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

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

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

2.2 ABNORMAL ITEMS

$m	Twelve months to 30 Sept 1996 Gross	Tax	30 Sept 1995 Gross	Tax
Restructuring provisions and costs[(1)]	-	-	(212)	37
Taxation adjustments[(2)]	-	-	-	107
	-	-	(212)	144
Net abnormal items after tax	-		(68)	

(1) *Restructuring expenditure, amounting to $212 million, of which $98 million related to Australia and $114 million to overseas, was incurred or provided for in 1995. Such expenditure comprised provisions for losses on leased premises which have become surplus to requirements and employee redundancy costs.*

(2) *Two taxation adjustments were made in 1995 as detailed below:*

(i) a $67 million write-back of a $106 million tax provision created in 1992 was made, following settlement of prior years' US tax issues with the Internal Revenue Service; and

(ii) future income tax benefit and deferred liability balances at 30 September 1995 were restated to reflect the change in the Australian company tax rate from 33% to 36% effective from 1 October 1995. This resulted in a gain of $40 million.

There were no abnormal items in 1996.

3 DIVIDENDS

	Six months to 30 Sept 1996	Six months to 31 March 1996	Twelve months to 30 Sept 1996	Twelve months to 30 Sept 1995
	c/share	c/share	c/share	c/share
Ordinary dividend				
- interim (unfranked)	-	-	-	13.0
- interim (franked)	-	16.0	16.0	-
- final (franked)	17.0	-	17.0	15.0
- total	17.0	16.0	33.0	28.0
Total dividend provided for or paid	**$m**	**$m**	**$m**	**$m**
Ordinary	307	297	604	511
Preference	19	20	39	40
	326	317	643	551
Underprovision for 1995 final dividend	-	10	10	-
	326	327	653	551
Ordinary dividend payout ratio	**56.1%**	**54.4%**	**55.3%**	**56.3%**

4 BALANCE SHEET

(Based on audited annual results)

$m As at:	30 Sept 1996	31 Mar 1996	30 Sept 1995	% Movt Mar 96 to Sept 96	% Movt Sept 95 to Sept 96
Assets					
Cash and balances with central banks	408	636	330	(35.8)	23.6
Statutory deposits	879	779	720	12.8	22.1
Due from other banks	6,286	5,056	4,932	24.3	27.5
Trading securities	*5,603*	*6,005*	*6,235*	*(6.7)*	*(10.1)*
Investment securities	*2,080*	*2,690*	*2,172*	*(22.7)*	*(4.2)*
Securities sold not yet delivered	*761*	*3,765*	*1,286*	*(79.8)*	*(40.8)*
Securities purchased under agreements to resell	*243*	*220*	*55*	*10.5*	*341.8*
Other financial markets assets	*6,666*	*7,363*	*8,986*	*(9.5)*	*(25.8)*
Total securities and financial markets assets	15,353	20,043	18,734	(23.4)	(18.0)
Productive loans	*81,756*	*71,826*	*64,347*	*13.8*	*27.1*
Acceptances of customers	*11,197*	*12,454*	*11,656*	*(10.1)*	*(3.9)*
Impaired assets	*1,292*	*1,669*	*1,948*	*(22.6)*	*(33.7)*
Less: provisions for bad and doubtful debts	*(1,847)*	*(1,879)*	*(1,930)*	*(1.7)*	*(4.3)*
Net loans and acceptances	92,398	84,070	76,021	9.9	21.5
Fixed assets	1,869	1,661	1,630	12.5	14.7
Intangible assets	1,156	426	19	171.4	large
Other assets	3,164	3,075	3,449	2.9	(8.3)
Total assets	**121,513**	**115,746**	**105,835**	**5.0**	**14.8**
Liabilities and equity					
Deposits	68,769	58,837	52,394	16.9	31.3
Public borrowings	6,117	5,858	5,804	4.4	5.4
Bonds, notes and commercial paper	7,226	5,326	2,916	35.7	147.8
Acceptances	11,197	12,454	11,656	(10.1)	(3.9)
Securities liabilities	1,374	4,457	2,398	(69.2)	(42.7)
Due to other banks	5,419	6,951	7,169	(22.0)	(24.4)
Other financial markets liabilities	7,405	8,055	9,778	(8.1)	(24.3)
Other liabilities	3,916	3,003	3,256	30.4	20.3
Total liabilities excluding loan capital	**111,423**	**104,941**	**95,371**	**6.2**	**16.8**
Subordinated bonds, notes and debentures	1,266	1,656	1,900	(23.6)	(33.4)
Subordinated undated capital notes	933	950	981	(1.8)	(4.9)
Total loan capital	**2,199**	**2,606**	**2,881**	**(15.6)**	**(23.7)**
Total liabilities	**113,622**	**107,547**	**98,252**	**5.6**	**15.6**
Net assets	**7,891**	**8,199**	**7,583**	**(3.8)**	**4.1**
Shareholders' equity					
Share capital	1,887	1,979	1,906	(4.6)	(1.0)
Reserves	4,632	5,067	4,830	(8.6)	(4.1)
Retained profits	1,366	1,147	842	19.1	62.2
Outside equity interests	6	6	5	-	20.0
Total shareholders' equity	**7,891**	**8,199**	**7,583**	**(3.8)**	**4.1**

Balance sheet movements

Total assets grew by $15.7 billion, or 14.8%, to $121.5 billion during the year. $13.9 billion, or 13.1%, was due to the Challenge Bank and Trust Bank acquisitions.

Major balance sheet movements were:

<u>Assets</u>

Due from other banks	+ $1.4 billion to $6.3 billion
Trading securities	- $0.6 billion to $5.6 billion

Reflects increased holdings of other bank certificates of deposit in Australia and New Zealand, partly offset by reduced holdings of government securities, as part of Westpac's liquidity management.

Other financial markets assets	- $2.3 billion to $6.7 billion

These items principally represent the positive mark-to-market values of derivatives. Run down in asset levels reflects Westpac's business strategy to focus towards the Australian and New Zealand markets.

Net loans and acceptances	+ $16.4 billion to $92.4 billion

Includes $12.0 billion of lending by Challenge Bank and Trust Bank. The residual growth of 5.8% largely reflects an increase in housing loan (owner occupied and investment) outstandings in Australia of $2.4 billion and in New Zealand by $1.1 billion (including the acquisition of $0.7 billion of loans from the Housing Corporation of New Zealand and the Mortgage Corporation of New Zealand).

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

<u>Liabilities</u>

Deposits	+ $16.4 billion to $68.8 billion
Bonds, notes and commercial paper	+ $4.3 billion to $7.2 billion
Due to other banks	- $1.8 billion to $5.4 billion

$10.0 billion of the $16.4 billion increase in deposits relates to Challenge Bank and Trust Bank. The residual increase in deposits and the increase in bonds, notes and commercial paper mainly comprises increased borrowings in Australian and overseas wholesale markets, reducing Westpac's interbank borrowing overseas.

Other financial markets liabilities	- $2.4 billion to $7.4 billion

These items principally represent the negative mark-to-market values of derivatives. Reduction is in line with the run down in other financial market assets.

Other liabilities	+ $0.7 billion to $3.9 billion

Includes accrued interest, provisions for current and deferred taxes and sundry other provisions.

5 BUSINESS GROUP RESULTS

(Management reporting basis[1] unaudited)

$m	Twelve months to 30 Sept 1996	Twelve months to 30 Sept 1995	As at 30 Sept 1996	As at 30 Sept 1995
	Profit on operations ($m)		**Standard assets ($bn)**	
Australian Banking	624	626	54.7	48.7
Westpac Financial Services	34	25	0.2	0.1
Australian Banking Group	658	651	54.9	48.8
Institutional Banking	302	232	35.5	37.3
New Zealand Banking	110	105	18.1	8.3
Institutional and International Banking Group	412	337	53.6	45.6
Australian Guarantee Corporation	86	104	7.3	6.9
Other[2]	(24)	(77)	5.7	4.5
	1,132	1,015	121.5	105.8

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

(2) *Other includes the general provision charge and the results of the Asset Management Group, which is responsible for managing impaired assets (Australia only) and any consequent recoveries. Also included in this category is a restructuring provision of $63 million in 1996.*

The above business group breakdown reflects the current management structure within Westpac, resulting from an organisational restructure in May 1996. The 1995 business group management results have been restated for comparative purposes.

5.1 AUSTRALIAN BANKING[1]

	Twelve months to/as at 30 Sept 1996	30 Sept 1995	% Movt
	$m	$m	
Net interest income	2,166	1,983	9.2
Provision for bad and doubtful debts	(11)	(79)	(86.1)
Non-interest income	550	554	(0.7)
Net operating income	2,705	2,458	10.0
Non-interest expenses	(1,713)	(1,513)	13.2
Operating profit before tax	992	945	5.0
Tax and outside equity interests	(368)	(319)	15.4
Profit on operations	624	626	(0.3)
	$bn	$bn	
Deposits and other public borrowings	30.2	28.8	4.9
Net loans and acceptances	48.5	43.1	12.5
Total assets	54.7	48.7	12.3
Personnel numbers (FTE)	20,023	20,587	
Expenses/income (before intangibles)	62.6%	59.6%	
Return on assets	1.20%	1.34%	
Non-interest income/operating income	20.3%	21.8%	

(1) *Includes Challenge Bank and the impact of intangibles, integration and funding expenses since acquisition (1/1/96). Commercial Banking is now included in Australian Banking as a result of the management restructure of the Group.*

- Net interest income increased by 9.2% for the period, reflecting the acquisition of Challenge Bank which has contributed $112 million. The underlying growth in net interest income of 3.6% has been achieved through managing asset growth to control the impact of margin erosion. The margin pressures have been primarily in the housing and business lending sectors.
- Provision for bad and doubtful debts has decreased over the period, mainly due to write-backs of specific provisions no longer required and recovery of bad and doubtful debts previously written off.
- Whilst non-interest income has marginally declined year on year, the benefits of improved fee collection have flowed through into the second half of 1996, partially offset by the need to respond to aggressive fee discounting in the housing and business markets. As a result non-interest income, excluding Challenge Bank, has improved by 5.4% over the first half of 1996.
- Non-interest expenses include $73 million of Challenge Bank costs, in addition to the amortisation of intangibles of $14 million. The increase in underlying expenses of $113 million reflects increases in sales performance incentives, temporary staff expenses, contractor expenses and expenditure associated with systems development and process improvements. The Mortgage Processing Centre and completion of Best Bank were the two major process improvement initiatives in 1996. These initiatives should deliver improved efficiencies in future periods. Full synergies associated with the Challenge Bank integration in Western Australia should be realised during 1997.

5.2 INSTITUTIONAL BANKING[1]

	Twelve months to/as at 30 Sept 1996	30 Sept 1995	% Movt
	$m	$m	
Net interest income	555	512	8.4
Provision for bad and doubtful debts	73	28	160.7
Non-interest income	354	323	9.6
Net operating income	982	863	13.8
Non-interest expenses	(541)	(540)	0.2
Operating profit before tax	441	323	36.5
Tax and outside equity interests	(139)	(91)	52.7
Profit on operations	302	232	30.2
	$bn	$bn	
Deposits and other public borrowings	16.3	12.2	33.6
Net loans and acceptances	19.1	17.2	11.0
Total assets	35.4	37.3	(5.1)
Personnel numbers (FTE)	3,832	3,910	
Expenses/income (before intangibles)	59.6%	64.6%	
Return on assets	0.78%	0.62%	
Non-interest income/operating income	38.9%	38.7%	

(1) *Includes Pacific Regional Banking and Property Finance*.

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

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

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

- Restructuring of offshore operations continued during 1996 and contributed to a decline in real terms in overall expenses, the third successive year of flat or declining expenses.

5.3 NEW ZEALAND BANKING[1]

	Twelve months to/as at 30 Sept 1996	30 Sept 1995	% Movt
	$m	$m	
Net interest income	401	319	25.7
Provision for bad and doubtful debts	(15)	(31)	(51.6)
Non-interest income	201	167	20.4
Net operating income	587	455	29.0
Non-interest expenses	(417)	(288)	44.8
Operating profit before tax	170	167	1.8
Tax and outside equity interests	(60)	(62)	(3.2)
Profit on operations	110	105	4.8
	$bn	$bn	
Deposits and other public borrowings	13.0	4.8	170.8
Net loans and acceptances	16.5	7.9	108.9
Total assets	18.1	8.3	118.1
Personnel numbers (FTE)	6,429	3,470	
Expenses/income (before intangibles)	67.0%	59.4%	
Return on assets	0.95%	1.31%	
Non-interest income/operating income	33.4%	34.4%	

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

- Profit on core business operations, excluding Trust Bank, rose by 15% over the previous year.

- The acquisition of Trust Bank increased net interest income by $73 million. The remaining increase of 2.8% was due to volume growth of 10% in lending offset by margin compression in deposit products.

- Increased write-backs and recoveries resulted in a reduced charge for bad and doubtful debts, reflecting continued improvement in asset quality.

- Non-interest income includes $32 million contributed by Trust Bank. Underlying non-interest income has remained stable with the non-interest income/operating income ratio, excluding Trust Bank, at 34%.

- Non-interest expenses increased by 4.9%, excluding Trust Bank and the impact of integration expenses and amortisation of intangibles. Growth reflects increased advertising activity and systems development. The main benefits from the integration of Westpac and Trust Bank should begin to be realised during 1997, as the operations of both banks are integrated, and should be fully realised in the 1998 financial year.

5.4 AUSTRALIAN GUARANTEE CORPORATION

	Twelve months to/as at 30 Sept 1996	30 Sept 1995	% Movt
	$m	$m	
Net interest income	453	416	8.9
Provision for bad and doubtful debts	(103)	(62)	66.1
Non-interest income[(1)]	(11)	(12)	(8.3)
Net operating income	339	342	(0.9)
Non-interest expenses	(204)	(185)	10.3
Operating profit before tax	135	157	(14.0)
Tax and minority interests	(49)	(53)	(7.5)
Net profit after tax before abnormals	86	104	(17.3)
	$bn	$bn	
Deposits and other public borrowings	6.0	5.8	3.4
Net loans and acceptances	7.2	6.6	9.1
Total assets	7.3	6.9	5.8
Personnel numbers (FTE)	2,409	2,239	
Expenses/income (before intangibles)	46.3%	45.7%	
Return on assets	1.21%	1.65%	

(1) *Includes commissions paid to agents.*

- Net interest income increased by 8.9% largely due to a 15.1% volume increase, contributed substantially by the consumer and commercial receivable portfolios. The volume increase was partially offset by margin contraction reflecting intense levels of competition, particularly in the commercial receivables portfolio.

- Provision for bad and doubtful debts increased by $41 million over the prior period, largely through increased write-offs in the consumer and motor finance portfolios. This is due in part to the credit cycle and to some poor performing, introducer sourced business, particularly in New Zealand. New acceptance criteria and the cancellation of some introducer accreditations should return these loss rates to normal levels in the future. The dynamic provisioning impact of volume increases, as well as revised loss factors (particularly in motor finance), is also reflected in this charge.

- Non-interest expenses have increased by 10.3%, reflecting an increase in personnel numbers due to the 15% growth in business volumes, as well as increased effort in debt collections and developments for leasing products. These investments in people and product should be reflected in improved returns in future periods.

5.5 WESTPAC FINANCIAL SERVICES[1]

	Twelve months to/as at 30 Sept 1996	30 Sept 1995	% Movt
	$m	**$m**	
Net interest income	9	2	350.0
Non-interest income	125	111	12.6
Net operating income	134	113	18.6
Non-interest expenses	(84)	(77)	9.1
Operating profit before tax	50	36	38.9
Tax and minority interests	(16)	(11)	45.5
Net profit after tax before abnormals	34	25	36.0
	$bn	**$bn**	
Funds under management	10.3	9.8	5.1
Personnel numbers (FTE)	599	661	
Expenses/income (before intangibles)	62.7%	68.1%	

(1) *Excludes Westpac Life Insurance Services (previously AMPAC Life), see Subsequent Events.*

- Non-interest income increased by 12.6% as a result of increased sales of both general insurance products and retail investment products. General insurance premium and commission income increased by 10.8% whilst expenses were held to a 6% increase. Gross sales in retail managed funds, excluding the Westpac Money Market Trust, increased by 75% during the year, contributing significantly to the growth in funds under management. The amount of wholesale funds under management remained stable during the year.

- Non-interest expenses increased by $7 million, of which $3 million related to increased insurance claims partly arising from higher levels of underwriting activity. The remaining 5% increase primarily reflected incentives associated with increased sales activity and improved business performance.

- Following the acquisition of Westpac Life Insurance Services Limited (previously AMPAC Life) on 1 October 1996, total funds under management have increased to approximately $12.9 billion.

6 GEOGRAPHIC SEGMENT RESULTS

	Twelve months to		As at	
	30 Sept 1996	30 Sept 1995	30 Sept 1996	30 Sept 1995
	Profit on operations ($m)		Standard assets ($bn)	
Australia	869	799	86.4	76.9
New Zealand	114	108	23.3	12.1
Pacific Islands	37	32	1.5	1.7
Asia	16	10	4.6	6.1
Americas	37	28	2.6	2.9
Europe	59	38	3.1	6.1
Total	1,132	1,015	121.5	105.8

Profit on operations

Australia Improved result reflects higher net interest income from increased asset levels, lower bad and doubtful debts expense, and improved fee income as a result of new transaction accounts, offset by the impact of margin compression and competitive pressure on fee income.

New Zealand Increase reflects higher net interest income from asset growth in the underlying portfolio and reduced levels of bad and doubtful debts.

Pacific Islands Contribution to profit by Papua New Guinea increased strongly as a result of favourable market conditions. Elsewhere, overall profits were steady.

Asia There has been an improved financial markets performance in Tokyo and a steady contribution from each of the other Asian wholesale operations.

Americas Improved result reflects an increase in financial markets income and lower expenses, following rationalisation of operations.

Europe Lower operating costs have more than offset a reduction in income following rationalisation of operations.

Standard assets

Australia Increase of $9.5 billion reflects the Challenge Bank acquisition ($5 billion) and growth in lending, particularly for housing.

New Zealand Increase of $11.2 billion reflects the Trust Bank acquisition ($8.8 billion), new housing lending and the acquisition of $0.7 billion of housing loans.

Asia Decrease reflects reduced derivatives activities through Asian offices, as a result of the centralisation of trading in Australia.

Americas Assets principally relate to financial markets activities, as the corporate loan book continues to be managed down.

Europe Decrease reflects lower interbank and financial markets activity, and the transfer of certain derivatives trading to Australia.

7 INTEREST SPREAD AND MARGIN ANALYSIS

7.1 SPREAD AND MARGIN ANALYSIS

%	Six months to 30 Sept 1996	Six months to 31 March 1996	Twelve months to 30 Sept 1996	Twelve months to 30 Sept 1995
Group				
Interest spread on productive assets[(2)]	3.0	2.8	2.9	3.0
Impact of non-accrual loans	(0.1)	(0.1)	(0.1)	(0.2)
Interest spread[(1)]	2.9	2.7	2.8	2.8
Benefit of net non-interest bearing liabilities and equity[(3)]	0.8	1.0	0.9	1.0
Interest margin	3.7	3.7	3.7	3.8
Australia				
Interest spread on productive assets[(2)]	3.5	3.2	3.3	3.5
Impact of non-accrual loans	(0.1)	(0.2)	(0.1)	(0.2)
Interest spread[(1)]	3.4	3.0	3.2	3.3
Benefit of net non-interest bearing liabilities and equity[(3)]	0.7	1.1	0.9	1.1
Interest margin	4.1	4.1	4.1	4.4
Overseas				
Interest spread on productive assets[(2)]	2.0	2.0	2.0	1.8
Impact of non-accrual loans	(0.1)	(0.1)	(0.1)	(0.1)
Interest spread[(1)]	1.9	1.9	1.9	1.7
Benefit of net non-interest bearing liabilities and equity[(3)]	1.0	0.6	0.8	0.8
Interest margin	2.9	2.5	2.7	2.5

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

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

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

7.2 AVERAGE BALANCE SHEET AND INTEREST RATES

	Twelve months to 30 September 1996			Twelve months to 30 September 1995		
	Average Balance $m	Interest $m	Average Rate %	Average Balance $m	Interest $m	Average Rate %
Assets						
Interest earning assets						
Due from other banks						
- Australia	882	55	6.2	618	42	6.8
- Overseas	5,310	501	9.4	4,343	286	6.6
Investment and trading securities						
- Australia	4,698	378	8.0	5,167	352	6.8
- Overseas	2,945	184	6.2	3,404	226	6.6
Statutory deposits						
- Australia	617	15	2.4	533	32	6.0
- Overseas	145	8	5.5	96	6	6.3
Loans and other receivables						
- Australia	56,273	5,682	10.1	47,930	4,865	10.2
- Overseas	16,986	1,694	10.0	13,991	1,316	9.4
Non-accrual loans						
- Australia	1,155	58	5.0	1,917	73	3.8
- Overseas	321	13	4.0	513	20	3.9
Total interest earning assets and interest income	89,332	8,588	9.6	78,512	7,218	9.2
Non-interest earning assets						
Cash, bullion, due from other banks and statutory deposits	582			561		
Other assets[(1)]	16,055			8,380		
Provisions for doubtful debts						
- Australia	(1,667)			(1,851)		
- Overseas	(235)			(297)		
Total non-interest earning assets	14,735			6,793		
Acceptances of customers						
- Australia	12,058			11,899		
- Overseas	154			192		
Total assets	116,279			97,396		

(1) *Other assets in 1996 have been impacted by the gross up of derivatives transactions at 30 September 1995.*

7.2 AVERAGE BALANCE SHEET AND INTEREST RATES (cont'd)

	Twelve months to 30 September 1996			Twelve months to 30 September 1995		
	Average Balance $m	Interest $m	Average Rate %	Average Balance $m	Interest $m	Average Rate %
Liabilities and shareholders' equity						
Interest bearing liabilities						
Deposits						
- Australia	39,662	2,448	6.2	33,838	2,040	6.0
- Overseas	16,671	1,178	7.1	12,361	822	6.6
Public borrowings by subsidiary borrowing corporations						
- Australia	5,399	419	7.8	5,023	397	7.9
- Overseas	531	45	8.5	460	35	7.6
Due to other banks						
- Australia	271	21	7.7	302	23	7.6
- Overseas	6,602	567	8.6	7,254	474	6.5
Loan capital - Australia	2,580	169	6.6	2,929	193	6.6
Other interest bearing liabilities						
- Australia	3,645	289	7.9	1,409	67	4.8
- Overseas	2,143	130	6.1	2,195	140	6.4
Total interest bearing liabilities and interest expense	77,504	5,266	6.8	65,771	4,191	6.4
Non-interest bearing liabilities						
Deposits and due to other banks						
- Australia	3,143			3,791		
- Overseas	1,122			1,194		
Other liabilities(1)	14,203			6,942		
Total non-interest bearing liabilities	18,468			11,927		
Acceptances						
- Australia	12,058			11,899		
- Overseas	154			192		
Total liabilities	108,184			89,789		
Ordinary shareholders' equity	7,489			7,002		
Preference shareholders' equity	600			600		
Outside equity interests	6			5		
Total shareholders' equity	8,095			7,607		
Total liabilities and shareholders' equity	116,279			97,396		
Interest earning assets (including non-accrual loans)						
Australia	63,625	6,188	9.7	56,165	5,364	9.6
Overseas	25,707	2,400	9.3	22,347	1,854	8.3
Group	89,332	8,588	9.6	78,512	7,218	9.2
Interest bearing liabilities						
Australia	51,557	3,346	6.5	43,501	2,720	6.3
Overseas	25,947	1,920	7.4	22,270	1,471	6.6
Group	77,504	5,266	6.8	65,771	4,191	6.4
Interest spread						
Australia			3.2			3.3
Overseas			1.9			1.7
Group			2.8			2.8

(1) *Other liabilities in 1996 have been impacted by the gross up of derivatives transactions at 30 September 1995.*

7.3 COMMENTARY ON SPREADS AND MARGINS

Group

Interest spread for the Group has remained steady for the year at 2.8%, with spread compression in Australia being offset by an improvement in overseas spreads.

Interest margins for the Group have decreased slightly to 3.7% resulting from the change in the mix of funding of interest earnings assets, with an increased proportion of these being funded by interest bearing liabilities. This has primarily resulted from the increased wholesale funding to finance asset growth, acquisitions and the buy-back of share capital.

Australia

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

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

The average rate paid on liabilities increased by 0.2% over the previous period, primarily as a result of a more competitive market for deposit products, particularly term deposits. The average rate paid on liabilities increased by 0.4% in the first half, before falling by 0.3% in the second half. The fall in the second half was due principally to lower average rates on term deposits, as a result of management focus on pricing. A 17% fall in the level of non-interest bearing deposits, as business customers moved into new interest bearing products, together with an increase in the proportion of wholesale funding, also contributed to the increase in the average cost of funds for the full year.

Overseas

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

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

8 NON-INTEREST INCOME

$m	Six months to 30 Sept 1996	Six months to 31 March 1996	Twelve months to 30 Sept 1996	Twelve months to 30 Sept 1995	% Movt Sept 95 to Sept 96
Fees and commissions					
Loan fees(1)	110	94	204	182	12.1
Other fees and commissions:					
- risk fees(2)	121	132	253	284	(10.9)
- non-risk fees(3)	339	306	645	602	7.1
	570	532	1,102	1,068	3.2
Financial markets income(4)					
Foreign exchange	79	96	175	177	(1.1)
Other	25	18	43	27	59.3
	104	114	218	204	6.9
Other income					
Dividends received	13	3	16	3	large
Insurance commissions and premiums	28	23	51	41	24.4
Lease rentals	10	10	20	32	(37.5)
Gains/(losses) on translation of overseas branch balances (net of hedging)	14	-	14	1	large
Service and management fees	7	7	14	13	7.7
Net profit on sale of premises and investments	12	9	21	10	110.0
Other	9	23	32	31	3.2
	93	75	168	131	28.2
Non-interest income	**767**	**721**	**1,488**	**1,403**	**6.1**
Non-interest income/total operating income	**31.0%**	**31.8%**	**31.4%**	**32.0%**	

(1) ***Loan fees*** *represent primarily fees generated by Australian and New Zealand banking operations.*

(2) ***Risk fees*** *include banking fees associated with bill issuance and guarantees.*

(3) ***Non-risks fees*** *incorporate account keeping and transaction fees and Financial Services' revenues.*

(4) ***Financial markets income*** *represents primarily foreign exchange income and the revenues derived from the sale of risk management products. It also includes revenues from controlled discretionary trading activities. Income of $85 million earned on securities and cash balances held in the normal course of trading and financial markets business, is reported under net interest income.*

8 NON-INTEREST INCOME (cont'd)

Trends in non-interest income

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

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

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

9 NON-INTEREST EXPENSES

$m	Six months to 30 Sept 1996	Six months to 31 March 1996	Twelve months to 30 Sept 1996	Twelve months to 30 Sept 1995	% Movt Sept 95 to Sept 96
Salaries and other staff expenses					
Salaries and wages	693	657	1,350	1,217	10.9
Restructuring expenses(1)	63	-	63	-	-
Other staff expenses	194	174	368	313	17.6
	950	**831**	**1,781**	**1,530**	**16.4**
Equipment and occupancy expenses					
Operating lease rentals	89	77	166	151	9.9
Depreciation and amortisation:					
- premises	7	7	14	15	(6.7)
- leasehold improvements	7	6	13	12	8.3
- furniture and equipment	46	39	85	70	21.4
- technology	36	26	62	52	19.2
Electricity, water, rates and land tax	21	22	43	43	-
Other equipment and occupancy expenses	46	54	100	106	(5.7)
	252	**231**	**483**	**449**	**7.6**
Other expenses					
Amortisation of intangibles	26	8	34	7	large
Amortisation of deferred expenditure	5	5	10	10	-
Non-lending losses	11	(4)	7	20	(65.0)
Consultancy fees, computer software and other professional services	104	84	188	171	9.9
Stationery	38	35	73	63	15.9
Postage and telecommunications	72	64	136	110	23.6
Insurance	9	7	16	14	14.3
Advertising	41	25	66	61	8.2
Transaction taxes	7	7	14	9	55.6
Training	11	9	20	16	25.0
Travel	28	22	50	46	8.7
Insurance claims	9	7	16	12	33.3
Other expenses	98	73	171	148	15.5
	459	**342**	**801**	**687**	**16.6**
Non-interest expenses	**1,661**	**1,404**	**3,065**	**2,666**	**15.0**

(1) *Included in abnormals in 1995*

	30 Sept 1996	31 March 1996	30 Sept 1996	30 Sept 1995
Efficiency ratio (expense/income)				
- before abnormals	67.2%	61.9%	64.6%	60.8%
- before intangibles, restructuring expenses and abnormals	63.6%	61.5%	62.6%	60.6%
- before intangibles, restructuring expenses and abnormals, excluding impact of acquisitions	62.0%	61.4%	61.8%	60.6%
Non-interest expenses/average assets	2.78%	2.49%	2.64%	2.74%
Per average employee ($'000)				
- salaries and other staff expenses	57	52	54	49
- equipment and occupancy expenses	15	14	15	14
- total non-interest expenses	99	88	94	85

9 NON-INTEREST EXPENSES (cont'd)

Comments on expenses

Restructuring expenses of $63 million have been provided for in 1996. These expenses relate to provisions for redundancy arising in respect of ongoing restructuring in Westpac's operations during early 1997. This provision is in addition to expenses to be incurred in relation to the integration of Challenge Bank and Trust Bank.

Total non-interest expenses increased by 15.0% from the 1995 full year, largely as a result of acquisitions. Excluding the Challenge Bank and Trust Bank expenses, as well as the restructuring expenses, underlying non-interest expenses grew by $134 million, or 5.0%.

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

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

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

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

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

10 ASSET QUALITY

10.1 IMPAIRED ASSETS

$m As at 30 September	Non-accrual assets 1996	Non-accrual assets 1995	Restructured assets 1996	Restructured assets 1995	Assets acquired through security enforcement (OREO) 1996	Assets acquired through security enforcement (OREO) 1995	Total impaired assets 1996	Total impaired assets 1995
Australia								
Gross impaired assets	894	1,556	61	77	80	82	1,035	1,715
Less specific provisions	(346)	(702)	(17)	(20)	-	-	(363)	(722)
Net impaired assets	548	854	44	57	80	82	672	993
New Zealand								
Gross impaired assets	178	196	24	22	-	-	202	218
Less specific provisions	(77)	(91)	(22)	(18)	-	-	(99)	(109)
Net impaired assets	101	105	2	4	-	-	103	109
Other overseas								
Gross impaired assets	109	247	7	16	-	-	116	263
Less specific provisions	(65)	(111)	(4)	(8)	-	-	(69)	(119)
Net impaired assets	44	136	3	8	-	-	47	144
Combined Australia, New Zealand and Other overseas								
Gross impaired assets(1)	1,181	1,999	92	115	80	82	1,353	2,196
Less specific provisions	(488)	(904)	(43)	(46)	-	-	(531)	(950)
Net impaired assets	693	1,095	49	69	80	82	822	1,246

(1) *Includes off balance sheet impaired items of $61 million ($248 million as at 30 September 1995)*

10.2 ITEMS PAST DUE 90 DAYS BUT WELL SECURED(1)

$m	1996	1995
Australia	398	364
New Zealand	42	32
Other overseas	9	15
Total	449	411

(1) *Under Reserve Bank of Australia 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.

10.3 INCOME ON NON -ACCRUAL AND RESTRUCTURED ASSETS

$m	30 Sept 1996	30 Sept 1995
Interest received on the above non-accrual and restructured assets	77	104
Estimated interest forgone on the above non-accrual and restructured assets	177	191
Interest yield on average non-accrual and restructured assets	4.9%	4.3%

10.4 BAD AND DOUBTFUL DEBT CHARGE

$m	Six months to 30 Sept 1996	31 March 1996	Twelve months to 30 Sept 1996	30 Sept 1995
New specific provisions	112	88	200	416
Specific provisions no longer required	(265)	(198)	(463)	(325)
Specific provisions (net)	(153)	(110)	(263)	91
General provision (net)[1]	204	180	384	239
Total charge for bad debts and provisions	**51**	**70**	**121**	**330**

(1) *Addition after recognition of write-offs and recoveries.*

10.5 PROVISIONS FOR DOUBTFUL DEBTS

$m	Six months to 30 Sept 1996	31 March 1996	Twelve months to 30 Sept 1996	30 Sept 1995
General provision				
Balance at beginning of year	1,130	980	980	735
Exchange rate and other adjustments	4	9	13	(5)
Provisions of subsidiaries acquired	83	27	110	-
Bad debts written off	(150)	(106)	(256)	(178)
Recoveries of debts previously written off	45	40	85	101
Transfer from specific provision	-	-	-	88
Charge to operating profit	204	180	384	239
Balance at year end	1,316	1,130	1,316	980
Specific provisions				
Balance at beginning of year	749	950	950	1,607
Exchange rate and other adjustments	(6)	(20)	(26)	1
Provisions of subsidiaries acquired	18	47	65	-
New provisions for loans	112	88	200	416
Transfer to general provision	-	-	-	(88)
Provisions no longer required	(265)	(198)	(463)	(325)
Bad debts written off	(77)	(118)	(195)	(661)
Balance at year end	531	749	531	950
Total Provisions	**1,847**	**1,879**	**1,847**	**1,930**

10.5 PROVISIONS FOR DOUBTFUL DEBTS (CONT)

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

- future default rates may not be accurately represented by the relatively short experience history available within Westpac and Australasia for the determination of loan loss factors (less than one full credit cycle for many portfolios); and

- the capacity of borrowers to repay may deteriorate consistent with an expectation of a generally weakening credit quality environment, given such factors as historically high consumer debt levels.

Specific provisions have reduced as a result of the decrease in the level of impaired assets and reduced need to provide for new impaired loans.

10.6 IMPAIRED LOANS[1] AND RATIOS

As at: %	30 Sept 1996	31 March 1996	30 Sept 1995
Impaired loans to total loans and acceptances	1.4	1.9	2.7
Specific provisions to total impaired loans	41.7	44.9	44.9
Total provisions to total impaired loans	145.1	112.6	91.3
Total provisions to total loans and acceptances	2.0	2.2	2.5
Total impaired loans to shareholders' equity and total provisions	13.1	16.6	22.2
Bad and doubtful debts charge to average loans and acceptances (annualised)	0.14	0.17	0.43
Bad and doubtful debts charge to net interest income	3.7	4.5	11.1

(1) *Excludes OREO*

11 CAPITAL ADEQUACY

As at: $m	30 Sept 1996	31 March 1996	30 Sept 1995
Tier 1 capital			
Total shareholders' equity	7,891	8,199	7,583
Less: Asset revaluation reserves	(260)	(296)	(382)
Intangible assets	(1,156)	(426)	(19)
Future income tax benefit net of deferred tax liability	(99)	-	(98)
Total tier 1 capital	**6,376**	**7,477**	**7,084**
Tier 2 capital			
Asset revaluation reserves	260	296	382
Subordinated undated capital notes	933	950	981
General provision for doubtful debts	1,316	1,130	980
Less: Future income tax benefit related to general provision	(474)	(407)	(353)
Eligible subordinated bonds, notes and debentures	1,114	1,280	1,374
Total tier 2 capital	**3,149**	**3,249**	**3,364**
Tier 1 and tier 2 capital	**9,525**	**10,726**	**10,448**
Deductions:			
- other banks' capital instruments	(9)	(9)	(50)
- capital in funds management and securitisation activities[(1)]	(182)	(130)	-
Net qualifying capital	**9,334**	**10,587**	**10,398**
Risk adjusted assets	**86,503**	**81,409**	**74,930**
Tier 1 capital ratio	7.4%	9.2%	9.5%
Tier 2 capital ratio	3.6%	4.0%	4.5%
Deductions	(0.2%)	(0.2%)	(0.1%)
Net capital ratio	**10.8%**	**13.0%**	**13.9%**

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

Based on current earnings and net asset growth projections and anticipated timing of the buy-back, it is expected that the Tier 1 ratio will remain above 7.0%.

12 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 and commodity prices and enters into derivatives transactions in the normal course of business for trading, primarily as an intermediary to meet customers' needs, and for its own balance sheet management purposes.

Derivatives outstandings

As at 30 September 1996 ($bn)	Notional amount[1]	Regulatory credit equivalent[2]	Positive mark-to-market (Replacement cost)[3]	Negative mark-to-market[4]
Interest rate				
Futures	30.6	-	-	-
Forwards	26.1	-	-	-
Swaps	131.4	3.2	2.7	2.3
Purchased options	14.4	0.1	-	-
Sold options	3.9	0.3	-	-
Foreign exchange				
Forwards	218.6	4.8	2.7	3.1
Swaps	18.9	1.5	0.8	1.8
Purchased options	5.2	0.1	0.1	-
Sold options	5.8	-	-	0.1
Commodity	0.3	-	-	-
Total derivatives	**455.2**	**10.0**	**6.3**	**7.3**
As at 30 September 1995				
Total derivatives	**528.4**	**11.7**	**8.6**	**9.5**

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

(2) ***Regulatory credit equivalent*** *is calculated using Reserve Bank of Australia guidelines for capital adequacy requirements*.

(3) ***Replacement cost or positive mark-to-market*** *is the cost of replacing all transactions in a gain position. This measure is the industry standard for the calculation of current credit risk.*

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

12 DERIVATIVES (cont'd)

Maturity profile of derivatives outstandings in replacement cost terms

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

54% of credit risk matures within one year and 67% within two years.
99% of credit exposure was to investment grade customers.

Earnings at risk[1] for the year ended 30 September 1996

$m	High	Low	Average
Daily earnings at risk	6.76	2.36	4.17

(1) *Market risk is measured and monitored against trading limits using a value at risk methodology, which measures the potential loss from an adverse movement within a specified probability over a particular period. The value at risk model is based on 97.5% confidence level, 1.96 standard deviations and one day holding period.*

12 DERIVATIVES (cont'd)

Derivatives used for asset and liability management purposes[1] (End-user derivatives)

	Notional amount	
($bn)	**30 September 1996**	**30 September 1995**
Interest rate		
Futures	8.7	3.9
Forwards	3.3	3.7
Swaps	24.7	26.1
Purchased options	0.2	0.2
Sold options	-	-
Foreign exchange		
Forwards	2.4	2.6
Swaps	7.1	4.2
Purchased options	-	-
Sold options	-	-
Total derivatives	**46.4**	**40.7**

(1) *Derivatives positions used in the Group's asset and liability management activities are established by internal transactions with independently managed dealing units within the Group. The dealing units, in turn, cover their position with offsetting transactions in the market place. These transactions do not, in themselves, give rise to credit risk as they are arranged entirely within the Westpac Group. Credit risk does arise in respect of the offsetting transactions in the market place by the dealing units and such transactions and the related credit exposure are included in the table of derivatives outstandings.*

The notional amount of derivatives used for asset and liability management purposes, has increased as a result of transactions undertaken during the period to manage the Group's sensitivity to movements in interest rates, and to manage the impact of exchange rate fluctuations on offshore borrowings. This has resulted in a lowering in the overall sensitivity of the Group to adverse interest rate and currency movements.

13 CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the year ended 30 September 1996.

14 SUBSEQUENT EVENTS

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

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

15 GROUP FINANCIAL INFORMATION FOR US INVESTORS

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

Twelve months to: **$m**	**30.9.96** **USD***	**30.9.95** **USD***	**30.9.96** **AUD**	**30.9.95** **AUD**
Net profit as reported	**873**	**703**	**1,132**	**947**
Depreciation on buildings	5	4	7	5
Gain on sale of properties (including amortisation of gains on sale of properties subject to lease back arrangements)	19	25	25	34
Provision for employee redundancy benefits not previously recognised under US GAAP	(48)	22	(63)	29
Amortisation of goodwill based on 20 year life	(12)	(12)	(16)	(16)
Superannuation (pension) expense adjustment	37	64	48	86
Initial application of an accounting standard	-	(25)	-	(34)
Adjusted US GAAP net profit/(loss)	**874**	**781**	**1,133**	**1,051**

* *USD amounts are calculated using the following average exchange rates:*
Year ended 30 September 1995: AUD1 = USD0.7428
Year ended 30 September 1996: AUD1 = USD0.7716

As at: **$m**	**30.9.96** **USD****	**30.9.95** **USD****	**30.9.96** **AUD**	**30.9.95** **AUD**
Shareholders' equity as reported	**6,256**	**5,720**	**7,891**	**7,583**
Less outside equity interests	(5)	(4)	(6)	(5)
	6,251	5,716	7,885	7,578
Elimination of asset revaluation reserve	(206)	(288)	(260)	(382)
Depreciation on buildings	24	17	30	23
Deferred gains on sale of properties subject to lease back arrangements	(51)	(2)	(64)	(3)
Adjustment re provision for employee redundancy benefits	2	50	3	66
Goodwill not recognised on acquisitions	56	64	70	85
Restoration of previously deducted goodwill less amortisation and amounts written-off	4	5	5	6
Investment securities fair value adjustment	(15)	(16)	(19)	(21)
Superannuation (pension) expense adjustment	(111)	(142)	(140)	(188)
Final dividend provided	243	207	307	274
Adjusted US GAAP equity	**6,197**	**5,611**	**7,817**	**7,438**

** *USD amounts are calculated using the following spot exchange rates:*
30 September 1995: AUD1 = USD0.7543
30 September 1996: AUD1 = USD0.7928

There is no material difference between the level of assets at 30-9-96 and 30-9-95 as reported and the level of assets determined in accordance with US GAAP.

16 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, 6 January 1997 (Sydney time) at:

KPMG Registrars Pty Limited, 55 Hunter Street, Sydney, NSW 2000

(Dividends payable to shareholders on the New Zealand register will be converted to local currency at the ruling buying rate for telegraphic transfers at 11.00am on 6 January 1997).

New York

For American Depositary Receipts, at 5.00pm, 3 January 1997 (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, 6 January 1997 (Tokyo time), for shares registered in the books of Tokyo Stock Exchange Members' securities companies. (Dividends will be converted to local currency at the rate ruling on date of receipt of the funds by the paying agent, The Mitsubishi Trust and Banking Corporation, 7-7, Nishi-Ikebukuro 1-chome, Toshima-ku, Tokyo, 171, Japan.)

Ex-dividend date: 24 December 1996.

The date proposed for the payment of the final dividend is 28 January 1997.

B A McNee
Group Secretary and General Counsel

12 November 1996

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