

# Westpac Banking Corporation

ARBN 007 457 141

# FULL YEAR PROFIT RESULTS 1997

Full year ended 30 September 1997

HIGHLIGHTS	Twelve months to/as at		% Mov't Sept 96 - Sept 97
	30 Sept 1997	30 Sept 1996	
✍ Earnings per ordinary share (cents)	70.0	58.9	18.8
✍ Return on average ordinary equity	17.0%	14.6%	16.4
✍ Dividends per ordinary share (cents)	39.0	33.0	18.2
✍ Operating profit after income tax attributable to shareholders (\$m)	1,291	1,132	14.1

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# **1 REVIEW OF GROUP RESULTS**

## **1.1 PERFORMANCE HIGHLIGHTS**

Westpac Banking Corporation today announced an 18.8% increase in earnings per share to 70 cents for the full year ended 30 September 1997. Return on average ordinary equity increased to 17.0% from 14.6% in 1996. Operating profit after tax was \$1,291 million, a 14.1% increase over the \$1,132 million earned in 1996.

Directors intend declaring a final dividend of 20 cents per ordinary share, fully franked, an increase of 17.6% over the 1996 final dividend of 17 cents per ordinary share (fully franked). The full year dividend of 39 cents (fully franked) represents a dividend payout ratio of 55.3% and an 18.2% increase over the 1996 full year dividend of 33 cents per ordinary share (fully franked).

The results demonstrate a reduced dependence on interest income, with net interest income rising 3.0%, while non-interest income increased 18.1% through growth in financial services revenues, fees, commissions, financial markets and other non-interest income. Tight expense controls were maintained with underlying non-interest expenses remaining flat. The reported \$179 million or 5.9% increase in expenses was due to the full period impact of the Trust Bank New Zealand and Challenge Bank mergers. Staff productivity improved with income per full time equivalent employee ("FTE") rising 9.7% while average staff costs per FTE rose 1.9%.

Asset quality continued to improve with impaired loans falling 32.3% to \$862 million, as at 30 September 1997. Impaired loans now represent 1.0% of total loans and acceptances, down from 1.4% in 1996. Provisioning cover remains at a prudent level, equivalent to 1.8% of total loans and acceptances.

These results were achieved against the background of a declining interest rate and margin environment, and continuing high levels of investment to build prospective earnings. These investments have centred on: recent strategic acquisitions; new technologies to give customers better service in branches and through Westpac's extensive electronic and telephone banking networks; and centralised processing and support centres to lower unit costs and enhance responsiveness and service quality.

Looking ahead, competition in all markets is expected to remain intense. In such an environment, Westpac will continue to focus on the provision of value added banking and financial services to customers, and on improving operational efficiency and staff productivity. These actions, together with continued prudent capital and risk management, are the keys to sustaining positive trends in earnings per share and return on ordinary equity, thereby creating further value for shareholders.

## **1.2 KEY BUSINESS DEVELOPMENTS**

### **1.2.1 Regional Banking and Financial Services Strategy**

A key benefit of Westpac's capital position has been the ability to broaden the customer base through strategic mergers. The merger with the Bank of Melbourne received final legal approval on 17 October 1997 and follows the earlier mergers with Challenge Bank in Western Australia and Trust Bank New Zealand, and the acquisition of Westpac Life.

These mergers have added over two million new customers in Australia and New Zealand. Importantly, the strong regional characteristics and service values of these banks are being retained by operating the merged businesses as Challenge Bank and Bank of Melbourne in their respective markets, and combining the banks in New Zealand under the new brand name of WestpacTrust.

Westpac's regional banking strategy will continue to focus on: placing management and service delivery close to customers; providing innovative and competitively priced products and services; and lowering the cost of processing and account maintenance through centralised back-office operations. Relationships with Westpac's more than seven million customers are also being enhanced by providing access to integrated financial solutions through the extensive range of insurance, investment, superannuation, leasing and financing products and services, provided by Westpac Financial Services (including Westpac Life) and the Australian Guarantee Corporation ("AGC").

#### **Challenge Bank**

Challenge Bank was successfully integrated in November 1996 at a cost of approximately \$83 million. Efficiency benefits of some \$38 million per annum were achieved, equivalent to 45% of the original Challenge Bank cost base. Customer retention exceeded initial expectations with the core lending portfolio being held steady, while core transaction and savings accounts grew. Western Australian customers now have access to better products and services than either bank was able to provide before the merger, as recognised by Challenge being named 'Regional Bank of the Year' in the Personal Investment Magazine awards. The valuable experience gained from the Challenge merger is now being applied to the mergers with Trust Bank New Zealand and Bank of Melbourne.

#### **WestpacTrust**

The process of merging Westpac and Trust Bank New Zealand was approximately fifty percent complete at the end of September 1997, with the head offices combined, new regional management and advisory boards in place, an enhanced sales and service structure established, and the alignment of the products of the two banks to the new WestpacTrust product suite nearly complete. Full branch network integration is expected to be finalised by the end of the 1998 financial year. The merger is on track to deliver expected cost savings of NZ\$140 million (A\$125 million) per annum, with expected integration costs of NZ\$165 million (A\$147 million).

#### **Westpac Life**

The acquisition of Westpac Life (formerly "AMPAC Life") was completed on 1 October 1996. During 1997, the development of an enhanced product set for Westpac's customers was the key achievement, with administrative and product development functions integrated with those of Westpac Financial Services. Westpac Life's full year "Margin on Services" profit was \$54 million after tax, reflecting the benefits of rapid integration.

#### **Bank of Melbourne**

Planning for Westpac's merger of its Victorian operations with those of Bank of Melbourne commenced in earnest upon shareholder approval at the end of September 1997. The customers of Bank of Melbourne and Westpac in Victoria will benefit from the merger, through a broader product range and enhanced service availability. It is expected that the merger with Bank of Melbourne will deliver efficiency benefits equivalent to \$75 million per annum, at a total integration cost of approximately \$120 million.

### **1.2.2 Investment in Infrastructure**

Westpac has continued to make considerable investment in infrastructure to deliver better solutions to customers, through providing staff with improved tools. Major activities in the 1997 year have included:

#### **Branch Service Platform**

This year, Westpac completed the installation of a new Branch Service Platform involving state-of-the-art PC workstations. This technology automates many branch functions, equips staff to provide a more professional and focused customer service, and assists Westpac in responding quickly to market needs through new products and services. Enhancements to the platform during 1998 are expected to deliver additional benefits.

#### **Financial Markets Centralisation**

Within the institutional banking business, Westpac has streamlined financial markets operations around the world by centralising transaction processing and accounting. This has allowed local management to concentrate on sales and marketing, improved operational risk control, and provided around \$36 million in annualised savings through a reduction of 160 staff and significant reductions in premises and technology infrastructure costs. Westpac is the first major Australian bank to achieve this and has become one of the first banks globally to implement this for derivative products.

#### **NSW Operations Centre**

Westpac has invested \$50 million in a purpose-built, high-tech, processing and support centre located at Concord West, a site chosen as a cost-effective alternative to CBD locations. This Centre allows the integration of a number of business functions including loan and transaction enquiries, processing and branch support. The centre is scheduled to open in November 1997. Ultimately, the operation will house 1,000 employees and provide integrated staff facilities including a childcare centre, reflecting Westpac's strong commitment to creating a better workplace.

### **1.2.3 Capital and Balance Sheet Management**

#### **Asset Growth**

Westpac has actively sought to grow businesses where returns can be maintained or enhanced and risk can be fully priced, such as cards and asset backed finance. Where the market is highly competitive, requiring aggressive pricing to achieve market share growth, and the possibility exists that risk will be underpriced, Westpac has sought to maintain its marginal return on capital rather than pursue aggressive organic growth. In such circumstances, the strategy of growth through mergers is preferable, particularly when other rationalisation benefits are achievable.

A consequence of this approach has been the continued improvement in asset quality as Westpac's dynamic provisioning disciplines have directed lending away from higher risk exposures which do not provide adequate return for the risk involved. This result has been

confirmed in recent independent studies of the credit quality trends in business lending by Australian banks. The controlled growth of lending assets has also assisted in maintaining interest spreads, despite the contraction in product margins in several highly competitive market segments.

### **Asset Securitisation**

Securitisation continues to play a significant role in Westpac's active management of its balance sheet. For the customer, securitisation allows Westpac to compete head on with non-bank originators on price whilst retaining the key differential - the benefit of Westpac's diversity, accessibility and strength. For the shareholders, securitisation is desirable because it allows the balance sheet mix to be altered away from lower return assets, improves liability management by enhancing the diversity of funding sources and the liquidity of the balance sheet, and allows the more efficient use of capital to deliver improved returns. However, securitisation impacts traditional performance measures by reducing net interest income due to the assets being sold, while increasing non-interest income through continued servicing of the mortgages. The outcome is a higher expense to income ratio, a lower net profit, but a higher return on equity.

Westpac has completed the securitisation of \$3.2 billion of home loan products, \$2.9 billion during 1997, of which \$1.2 billion has been through domestic public offers, \$1 billion through private placements and \$0.7 billion through offshore public issues.

The securitisation program has also led to a reduction in deposits raised from wholesale markets.

### **Housing Loan Market Share**

The establishment of the Mortgage Processing Centre (MPC) has fundamentally changed the nature of the home mortgage business in Australia. Mortgages are now able to be processed and serviced at lower costs at a single integrated centre rather than through the branches. The MPC has also allowed Westpac to securitise mortgages efficiently. Given the scale of the changes involved, a deliberate decision was taken to reduce marketing spend while the new processes were bedded down. This impacted Westpac's market share through the year.

Adjusting for the impact of \$2.9 billion of mortgages securitised during 1997 and \$1.2 billion of loans sold as part of the sale of Challenge Bank's Victorian business, Westpac's Australian housing portfolio increased by \$500 million or approximately 2% in the year to 30 September 1997. This resulted in an estimated adjusted market share loss in the year of 1.8%.

The MPC transition is now complete and while there remains scope to further enhance cost-efficiencies and service quality, the MPC is now operating at a level that provides Westpac with a competitive advantage in the market.

The new systems in the MPC allowed Westpac to enhance its award winning First Option home loan, allowing customers the flexibility of choosing which optional facilities and services suit their requirements - a first in the Australian market. In mid August 1997 Westpac launched an integrated television and press campaign which has positively impacted business flows, with the level of housing loan approvals now some 35% up on the level at the end of the first half.

### **Ordinary Share Buy-backs**

Westpac has continued to use on-market share buy-backs to reduce capital which is surplus to its immediate needs, as part of its active management of capital to improve shareholder value.

On 4 November 1996, Westpac announced that it would undertake a buy-back of up to 85 million (approximately 5%) fully paid ordinary shares, conducted as a normal on-market transaction through the Australian Stock Exchange, with 31.1 million shares purchased at an average price of \$7.16.

On 2 May 1997, Westpac announced a further on-market buy-back scheme, effective from 19 May 1997, that enabled it to buy-back up to 50 million (approximately 3%) of fully paid ordinary shares. As at the close of trading on 28 October 1997, 21.9 million shares had been bought back at an average price of \$8.32.

On 3 November 1997, Westpac announced another on-market buy-back scheme, effective from 17 November 1997, of up to 85 million shares (approximately 5%), to be conducted over a period of up to six months. This new scheme replaced the existing scheme.

#### **1.2.4 Commitment to the Sydney 2000 Olympic Games**

In January 1997, Westpac announced a major commitment to the Sydney 2000 Olympic Games. In addition to being a Sydney 2000 Olympic Games Team Millennium Partner, Westpac is the Official Bank of the 2000 Olympic Games and of the Australian Olympic Team. Westpac's involvement is far reaching, including initiatives that support business objectives and enhance Westpac's relationship with the community and its customers.

In February 1997 the Global Rewards Westpac Visa card was launched in association with Visa and Ansett, partners in sponsoring the 2000 Olympic Games. More than 100,000 cards had been issued by the end of September 1997, with a significant portion of these customers being new to Westpac, representing relationship-building opportunities. Another early initiative was the integration of the Westpac Reserved Seating Program into product and customer marketing activities during the year. Through this important customer loyalty initiative, 180 customers will win packages to attend the Sydney 2000 Olympic Games by the end of 1997. This program has helped to attract new customers and retain existing customers.

These initiatives and activities will span most business areas in the lead up to the Sydney 2000 Olympic Games and will ensure that Westpac's investment generates a return for staff, customers and shareholders alike.

#### **1.2.5 Year 2000 Project**

The origin of the Year 2000 problem ("Millennium Bug") lies in the way information in computer systems relating to calendar dates has been stored. Computer systems built when data storage was expensive saved only the last two digits of a year for date calculations, in order to reduce data storage requirements. These systems are therefore unable to differentiate, for example, between the years 1900 and 2000. This inability to differentiate between the different centuries could result in discrepancies such as erroneous interest rate calculations and inaccurate statement reporting.

In recognition of the seriousness of the problem, work within Westpac began in 1996 when a Year 2000 Project was initiated. The conversion plan for making Westpac's applications Year 2000 compliant is estimated to cost \$57 million, of which \$8 million has been spent to date. To the maximum extent possible, the project will utilise existing Westpac resources.

Westpac's objective is that all critical systems are Year 2000 compliant by September 1998, to allow adequate time for testing and to minimise resource requirements in later years. It is anticipated that the balance of the Year 2000 project conversion will be completed by December 1998.

#### **1.2.6 Asia**

During the year, Westpac established a strategic relationship with the Standard Chartered Bank to better service Westpac customers' needs in Asia. Through the Standard Chartered relationship, Westpac is able to offer its customers seamless banking services through Standard Chartered's more than 250 points of representation in Asia. Effectively, Standard Chartered becomes an extension of Westpac's branches and offices, providing customers with a distribution network in Asia unmatched by any of Westpac's domestic competitors.

In addition to serving Australasian customers in Asia, Westpac aims to assist Asian customers investing in or trading with Australia or New Zealand. Through this approach, Westpac is able to remain focused on the geographic markets it knows best, namely Australia and New Zealand, while leveraging the Asian experience of Standard Chartered Bank.

As at 30 September 1997, Westpac's loans and acceptances to Asian borrowers totalled \$2,532 million, of which 95% are investment grade in credit quality. Of this, \$1,705 million is extended to Japanese counterparties, with the remaining \$827 million extended to other Asian counterparties, 80 % of which are based in Singapore, Hong Kong, Taiwan or South Korea. Westpac's total exposure of \$2,532 million represents 2.8% of total loans and acceptances.



### 1.3 FINANCIAL SUMMARY

	Six months to/as at		Twelve months to/as at	
	30 Sept 1997	31 March 1997	30 Sept 1997	30 Sept 1996
<b>Shareholder value</b>				
Earnings per ordinary share (cents)	35.6	34.4	70.0	58.9
Return on average ordinary equity (annualised)	17.1%	16.9%	17.0%	14.6%
Dividends per ordinary share (cents)				
Franked @ 36%	20.0	19.0	39.0	33.0
Dividend payout ratio	55.8%	54.7%	55.3%	55.3%
Net tangible asset backing per ordinary share (\$)	3.69	3.54	3.69	3.39
<b>Earnings</b>				
Operating profit before income tax (\$m)	895	891	1,786	1,556
Operating profit after income tax attributable to ordinary shareholders (\$m)	653	638	1,291	1,132
Return on average assets (annualised)	1.06%	1.01%	1.03%	0.97%
Net interest margin	3.63%	3.55%	3.59%	3.72%
Non-interest income/total operating income	34.60%	33.69%	34.15%	31.14%
<b>Productivity and efficiency</b>				
Productivity ratio <sup>(1)</sup>	2.92	2.89	2.90	2.73
Efficiency (expense to income) ratio before intangibles and restructuring expenses	62.41%	62.05%	62.17%	62.47%
Personnel numbers				
Core full time equivalent (FTE)	31,608	31,779	31,608	33,832
Average core FTE	31,609	32,495	32,052	32,713
Operating income per average core FTE (\$000)	160	158	159	145
Salaries and other staff expenses (excluding restructuring expenses) per average core FTE (\$000)	55	55	55	54

(1) Operating income/ Personnel costs excluding restructuring expenses

### 1.3 FINANCIAL SUMMARY (Cont'd)

	Six months to/as at		Twelve months to/as at	
	30 Sept 1997	31 March 1997	30 Sept 1997	30 Sept 1996
<b>Capital adequacy</b>				
Capital adequacy ratio				
Total	10.5%	10.3%	10.5%	10.8%
Tier 1	8.0%	7.7%	8.0%	7.4%
Average ordinary equity (\$m)	7,424	7,336	7,380	7,489
Average total equity (\$m)	8,024	7,936	7,980	8,089
Tangible ordinary equity to total tangible assets	5.6%	5.2%	5.6%	5.1%
Tangible ordinary equity to gross loans and acceptances	7.2%	6.8%	7.2%	6.5%
<b>Assets</b>				
Group assets (\$m)	118,963	122,043	118,963	121,513
Group assets pre securitisation (\$m)	122,190	123,081	122,190	121,853
Net loans and acceptances (\$m)	89,116	90,686	89,116	92,398
Net loans and acceptances pre securitisation (\$m)	92,343	91,724	92,343	92,738
Risk-adjusted assets (\$m)	87,133	86,901	87,133	86,503
<b>Asset quality</b>				
Impaired loans to total loans and acceptances	1.0%	1.0%	1.0%	1.4%
<u>Total provisions to total impaired loans</u>	<u>184.2%</u>	<u>182.7%</u>	<u>184.2%</u>	<u>145.1%</u>

## 2 PROFIT AND LOSS

### 2.1 PROFIT AND LOSS STATEMENT (Based on audited annual results)

\$m	Six months to		Twelve months to		% Movt Sept 96 to Sept 97
	30 Sept 1997	31 March 1997	30 Sept 1997	30 Sept 1996	
Interest income					
Deposits with banks	206	249	455	556	(18.2)
Investment and trading securities	410	329	739	562	31.5
Statutory deposits	12	12	24	23	4.3
Loans and other receivables	3,492	3,841	7,333	7,379	(0.6)
<b>Interest income</b>	<b>4,120</b>	<b>4,431</b>	<b>8,551</b>	<b>8,520</b>	<b>0.4</b>
Interest expense					
Current and term deposits	(1,701)	(1,971)	(3,672)	(3,627)	1.2
Public borrowings	(203)	(220)	(423)	(464)	(8.8)
Deposits from banks	(177)	(214)	(391)	(588)	(33.5)
Loan capital	(82)	(80)	(162)	(169)	(4.1)
Other liabilities	(299)	(251)	(550)	(418)	31.6
<b>Interest expense</b>	<b>(2,462)</b>	<b>(2,736)</b>	<b>(5,198)</b>	<b>(5,266)</b>	<b>(1.3)</b>
<b>Net interest income</b>	<b>1,658</b>	<b>1,695</b>	<b>3,353</b>	<b>3,254</b>	<b>3.0</b>
Non-interest income					
Fees and commissions	627	567	1,194	1,108	7.8
Financial markets income	103	135	238	218	8.9
General and life insurance income	57	41	98	29	239.2
Other income	90	119	209	117	78.2
<b>Non-interest income</b>	<b>877</b>	<b>862</b>	<b>1,739</b>	<b>1,472</b>	<b>18.1</b>
<b>Operating income</b>	<b>2,535</b>	<b>2,557</b>	<b>5,092</b>	<b>4,726</b>	<b>7.8</b>
Provisions for bad and doubtful debts	(28)	(50)	(78)	(121)	(35.9)
<b>Operating income net of provisions for bad and doubtful debts</b>	<b>2,507</b>	<b>2,507</b>	<b>5,014</b>	<b>4,605</b>	<b>8.9</b>
Non-interest expenses					
Salaries and other staff expenses	(868)	(886)	(1,754)	(1,794)	(2.2)
Equipment and occupancy expenses	(298)	(285)	(583)	(483)	20.7
Other expenses	(416)	(413)	(829)	(738)	12.3
Amortisation of intangibles	(30)	(32)	(62)	(34)	82.4
<b>Non-interest expenses</b>	<b>(1,612)</b>	<b>(1,616)</b>	<b>(3,228)</b>	<b>(3,049)</b>	<b>5.9</b>
<b>Operating profit before income tax</b>	<b>895</b>	<b>891</b>	<b>1,786</b>	<b>1,556</b>	<b>14.8</b>
Income tax expense	(241)	(252)	(493)	(421)	17.1
Outside equity interests	(1)	(1)	(2)	(3)	(33.3)
<b>Operating profit after income tax attributable to shareholders</b>	<b>653</b>	<b>638</b>	<b>1,291</b>	<b>1,132</b>	<b>14.1</b>

**2.1 PROFIT AND LOSS STATEMENT (Cont'd)**  
(Based on audited annual results)

\$m	Six months to/ as at		Twelve months to/as at		% Movt Sept 96 to Sept 97
	30 Sept 1997	31 March 1997	30 Sept 1997	30 Sept 1996	
Retained profits at the beginning of the financial period	1,662	1,366	1,366	842	62.2
Operating profit after income tax attributable to shareholders	653	638	1,291	1,132	14.1
Aggregate of amounts transferred (to)/ from reserves	(69)	16	(53)	45	(218.2)
<b>Total available for appropriation</b>	<b>2,246</b>	<b>2,020</b>	<b>2,604</b>	<b>2,019</b>	<b>29.0</b>
Dividends provided for or paid	(373)	(358)	(731)	(653)	12.0
<b>Retained profits at the end of the financial period</b>	<b>1,873</b>	<b>1,662</b>	<b>1,873</b>	<b>1,366</b>	<b>37.1</b>
Earnings (cents) per ordinary share after deducting preference dividends					
Basic	35.6	34.4	70.0	58.9	18.8
Fully diluted	34.6	33.2	67.8	57.1	18.7
Weighted average number of fully paid ordinary shares (millions)	1,781	1,796	1,789	1,853	(3.5)

**PROFIT AND LOSS ANALYSIS**

The 1997 result was driven by a strong focus on costs, enhancement of non-interest revenues, careful attention to asset quality, and active balance sheet and capital management. The outcome was an 18.8% improvement in earnings per share and a 14.1% increase in net profit, despite net interest income rising only 3.0%.

In the falling interest rate environment, with historically low interest rates, and being at the bottom of the credit loss cycle, the emphasis is on maintaining risk adjusted returns rather than seeking to maintain interest income, primarily through organic asset growth. The commitment to maintain the quality of the earnings and not to dilute returns purely to achieve market share growth remains.

## 2.2. INTEREST SPREAD AND MARGIN ANALYSIS

### 2.2.1 SPREAD AND MARGIN ANALYSIS

%	Six months to		Twelve months to	
	30 Sept 1997	31 March 1997	30 Sept 1997	30 Sept 1996
<b>Group</b>				
Interest spread on productive assets <sup>(2)</sup>	2.99	2.83	2.90	2.92
Impact of impaired loans	(0.02)	(0.05)	(0.03)	(0.10)
Interest spread <sup>(1)</sup>	2.97	2.78	2.87	2.82
Benefit of net non-interest bearing liabilities and equity <sup>(3)</sup>	0.66	0.77	0.72	0.90
Interest margin	3.63	3.55	3.59	3.72
<b>Australia</b>				
Interest spread on productive assets <sup>(2)</sup>	3.30	3.21	3.26	3.34
Impact of impaired loans	(0.02)	(0.05)	(0.04)	(0.10)
Interest spread <sup>(1)</sup>	3.28	3.16	3.22	3.24
Benefit of net non-interest bearing liabilities and equity <sup>(3)</sup>	0.63	0.81	0.72	0.89
Interest margin	3.91	3.97	3.94	4.13
<b>New Zealand</b>				
Interest spread on productive assets <sup>(2)</sup>	2.94	2.65	2.80	2.88
Impact of impaired loans	(0.01)	(0.01)	(0.02)	(0.07)
Interest spread <sup>(1)</sup>	2.93	2.64	2.78	2.81
Benefit of net non-interest bearing liabilities and equity <sup>(3)</sup>	0.16	0.22	0.19	0.49
Interest margin	3.09	2.86	2.97	3.30

(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 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 New Zealand take into account the interest expense/income of cross border, intragroup borrowing/lending.

## 2.2.2 AVERAGE BALANCE SHEET AND INTEREST RATES

	Twelve months to 30 September 1997			Twelve months to 30 September 1996		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
	\$m	\$m	%	\$m	\$m	%
<b>Assets</b>						
<b>Interest earning assets</b>						
Due from other banks						
Australia	845	51	6.0	882	55	6.2
New Zealand	1,009	93	9.2	1,151	107	9.3
Other Overseas	3,773	312	8.3	4,159	394	9.5
Investment and trading securities						
Australia	6,018	566	9.4	4,698	378	8.0
New Zealand	820	49	6.0	664	56	8.4
Other Overseas	1,967	125	6.4	2,281	128	5.6
Statutory deposits						
Australia	648	7	1.1	617	15	2.4
New Zealand	1	-	-	1	-	-
Other Overseas	292	17	5.8	144	8	5.6
Loans and other receivables						
Australia	57,087	5,073	8.9	56,200	5,679	10.1
New Zealand	19,695	2,040	10.4	12,798	1,375	10.7
Other Overseas	3,820	292	7.7	4,153	316	7.6
Impaired loans						
Australia	628	39	6.2	1,230	61	5.0
New Zealand	140	12	7.9	190	9	4.7
Other Overseas	84	2	2.4	164	7	4.3
Intragroup receivable						
Other Overseas	7,992	485	6.1	6,319	412	6.5
Interest earning assets and interest income including intragroup	104,819	9,163	8.7	95,651	9,000	9.4
Intragroup elimination	(7,992)	(485)		(6,319)	(412)	
<b>Total interest earning assets and interest income</b>	<b>96,827</b>	<b>8,678</b>	<b>9.0</b>	<b>89,332</b>	<b>8,588</b>	<b>9.6</b>
<b>Non-interest earning assets</b>						
Cash, bullion, due from other banks and statutory deposits	460			582		
Other assets	17,876			16,055		
Provisions for doubtful debts						
Australia	(1,511)			(1,667)		
New Zealand	(149)			(128)		
Other Overseas	(91)			(107)		
<b>Total non-interest earning assets</b>	<b>16,585</b>			<b>14,735</b>		
Acceptances of customers						
Australia	11,298			12,058		
New Zealand	13			24		
Other Overseas	55			130		
<b>Total assets</b>	<b>124,778</b>			<b>116,279</b>		

## 2.2.2 AVERAGE BALANCE SHEET AND INTEREST RATES (Cont'd)

	Twelve months to 30 September 1997			Twelve months to 30 September 1996		
	Average Balance \$m	Interest \$m	Average Rate %	Average Balance \$m	Interest \$m	Average Rate %
<b>Liabilities and shareholders' equity</b>						
<b>Interest bearing liabilities</b>						
Deposits						
Australia	40,729	2,054	5.0	39,662	2,448	6.2
New Zealand	15,809	1,125	7.1	10,043	779	7.8
Other Overseas	8,843	492	5.6	6,628	399	6.0
Public borrowings by subsidiary borrowing corporations						
Australia	5,367	384	7.2	5,399	419	7.8
New Zealand	450	38	8.4	501	41	8.2
Other Overseas	16	2	12.5	30	4	13.3
Due to other banks						
Australia	300	19	6.3	271	21	7.7
New Zealand	81	11	13.6	82	8	9.8
Other Overseas	4,454	361	8.1	6,520	559	8.6
Loan capital						
Australia	2,001	157	7.8	2,641	168	6.4
New Zealand	52	5	9.6	(61)	-	-
Other interest bearing liabilities						
Australia	4,371	318	7.3	3,645	289	7.9
New Zealand	846	121	14.3	225	35	15.6
Other Overseas	2,096	111	5.3	1,918	96	5.0
Intragroup payable						
Australia	4,118	236	5.7	3,319	217	6.5
New Zealand	3,874	249	6.4	3,000	195	6.5
Interest bearing liabilities and interest expense including intragroup						
	93,407	5,683	6.1	83,823	5,678	6.8
Intragroup elimination						
	(7,992)	(485)		(6,319)	(412)	
<b>Total interest bearing liabilities and interest expense</b>						
	<b>85,415</b>	<b>5,198</b>	<b>6.1</b>	<b>77,504</b>	<b>5,266</b>	<b>6.8</b>
<b>Non-interest bearing liabilities</b>						
Deposits and due to other banks						
Australia	3,169			3,143		
New Zealand	1,168			686		
Other Overseas	448			436		
Other liabilities						
	15,229			14,203		
<b>Total non-interest bearing liabilities</b>						
	<b>20,014</b>			<b>18,468</b>		
Acceptances						
Australia	11,298			12,058		
New Zealand	13			24		
Other Overseas	55			130		
<b>Total liabilities</b>						
	<b>116,795</b>			<b>108,184</b>		
Ordinary shareholders' equity						
	7,380			7,489		
Preference shareholders' equity						
	600			600		
Outside equity interests						
	3			6		
<b>Total shareholders' equity</b>						
	<b>7,983</b>			<b>8,095</b>		
<b>Total liabilities and shareholders' equity</b>						
	<b>124,778</b>			<b>116,279</b>		

## 2.2.2 AVERAGE BALANCE SHEET AND INTEREST RATES (Cont'd)

	Twelve months to 30 September 1997			Twelve months to 30 September 1996		
	Average Balance \$m	Interest \$m	Average Rate %	Average Balance \$m	Interest \$m	Average Rate %
<b>Interest earning assets (including impaired loans)</b>						
Australia	65,226	5,736	8.8	63,625	6,188	9.7
New Zealand	21,665	2,194	10.1	14,804	1,547	10.4
Other Overseas	9,936	748	7.5	10,903	853	7.8
<b>Group</b>	<b>96,827</b>	<b>8,678</b>	<b>9.0</b>	<b>89,332</b>	<b>8,588</b>	<b>9.6</b>
<b>Interest bearing liabilities</b>						
Australia	56,886	3,168	5.6	54,876	3,562	6.5
New Zealand	21,112	1,549	7.3	13,851	1,058	7.6
Other Overseas	7,417	481	6.5	8,777	646	7.4
<b>Group</b>	<b>85,415</b>	<b>5,198</b>	<b>6.1</b>	<b>77,504</b>	<b>5,266</b>	<b>6.8</b>
<b>Interest spread</b>						
Australia			3.2			3.2
New Zealand			2.8			2.8
Other Overseas			1.0			0.4
<b>Group</b>			<b>2.9</b>			<b>2.8</b>

*The prior period has been restated to reflect the impact of intragroup funding and the associated notional interest within the interest spread of the appropriate geographies.*



## **2.2.3 COMMENTARY ON SPREADS AND MARGINS**

### **PROFIT AND LOSS REVIEW**

#### **NET INTEREST INCOME**

##### **Group**

During 1997, interest spread for the Group increased by 5 basis points to 2.87%, with a 7 basis point reduction in the impact of impaired loans and the interest spread on productive assets remaining relatively steady at 2.90%.

Maintaining the spread on productive assets was assisted by the securitisation strategy, through removal of lower margin assets, and the hedging of balance sheet interest rate risk. The benefits of growth through acquisition, together with active capital management, also reduced the pressure to seek organic asset growth in the current environment. Asset growth has been pursued only where risk adjusted returns meet target requirements. This balanced approach to asset growth also contributed to the improved asset quality, with the benefits of lower impaired assets flowing into the net spread.

Interest margin for the Group declined by 13 basis points to 3.59% in 1997, with the benefit of net non-interest bearing liabilities and equity declining from 0.90% in 1996 to 0.72% in 1997. This resulted from the change in the mix of funding for interest earning assets, with an increased proportion funded by interest bearing liabilities, reflecting the impact of the buy-back of share capital over the past 16 months.

##### **Australia**

Australian interest spreads remained relatively steady during 1997, declining by only 2 basis points over 1996, to 3.22%.

A number of key strategies have positively impacted spreads in Australia, allowing Westpac to continue to price products competitively in the markets. The benefits of Westpac's hedging of interest rate risk are demonstrated by the increase in the average rate earned on trading securities from 8.0% in 1996 to 9.4% in 1997. Additionally, Westpac's securitisation program has had a positive impact, by removing relatively lower interest yield loans from the balance sheet.

Spreads also benefited from a fall in the impact of impaired loans from 10 basis points in 1996 to only 4 basis points in 1997, reflecting a 37.5% reduction in the level of gross impaired assets over the period, combined with improved collections increasing the average rate earned on impaired loans from 5.0% in 1996 to 6.2% in 1997.

With the benefit of net non-interest bearing liabilities and equity declining from 0.90% in 1996 to 0.72% in 1997, interest margins in Australia declined over the year to 3.94%.

## **New Zealand**

The interest spread in New Zealand fell marginally from 2.81% in 1996 to 2.78% in 1997, with the fall of 8 basis points in the spread on productive assets partially offset by a 5 basis point reduction in the impact of impaired loans.

As a proportion of New Zealand's total liabilities, funding provided by other offshore areas within Westpac declined, resulting in a fall in the interest spread due to the rate of this funding being below the average rate of New Zealand's total funding. The increased spread of 29 basis points in the second half of 1997 was principally due to wholesale funding rates in New Zealand falling by a greater amount than the fall in customer rates on fixed and variable housing loans.

With the purchase of Trust Bank New Zealand in May 1996, an increased proportion of New Zealand's interest earning assets are funded by interest bearing liabilities resulting in a fall in the interest margin of 33 basis points to 2.97% in 1997.

## 2.3 NON-INTEREST INCOME ANALYSIS

\$m	Six months to		Twelve months to		% Movt Sept 96 to Sept 97
	30 Sept 1997	31 March 1997	30 Sept 1997	30 Sept 1996	
<b>Fees and commissions</b>					
Loan fees <sup>(1)</sup>	130	111	241	202	19.3
Other fees and commissions:					
Risk fees <sup>(2)</sup>	96	102	198	221	(10.4)
Non-risk fees <sup>(3)</sup>	401	354	755	685	10.3
	<b>627</b>	<b>567</b>	<b>1,194</b>	<b>1,108</b>	<b>7.8</b>
<b>Financial markets income <sup>(4)</sup></b>					
Foreign exchange	83	99	182	175	4.0
Other	20	36	56	43	29.1
	<b>103</b>	<b>135</b>	<b>238</b>	<b>218</b>	<b>8.9</b>
<b>General and life insurance income</b>					
Westpac Life MOS <sup>(5)</sup>	42	25	67	-	-
Insurance commissions and premiums (net)	15	16	31	29	7.2
	<b>57</b>	<b>41</b>	<b>98</b>	<b>29</b>	<b>239.2</b>
<b>Other income</b>					
Dividends received	11	27	38	16	137.5
Lease rentals	8	13	21	20	5.0
Gains/(losses) on translation of overseas branch balances (net of hedging)	(7)	6	(1)	14	(107.1)
Service and management fees	1	8	9	14	(35.7)
Net profit on sale of premises and investments	35	60	95	21	350.0
Other	42	5	47	32	46.9
	<b>90</b>	<b>119</b>	<b>209</b>	<b>117</b>	<b>78.2</b>
<b>Non-interest income</b>	<b>877</b>	<b>862</b>	<b>1,739</b>	<b>1,472</b>	<b>18.1</b>
<b>Non-interest income/total operating income</b>	<b>34.6%</b>	<b>33.7%</b>	<b>34.2%</b>	<b>31.1%</b>	<b>9.7</b>

(1) **Loan fees** primarily represent 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** primarily represents 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 \$113 million (1996: \$129 million) earned on securities and cash balances held in the normal course of trading and financial markets business, is reported under net interest income.

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

## **2.3 NON-INTEREST INCOME ANALYSIS (Cont'd)**

### **Trends in non-interest income**

Non-interest income increased by \$267 million or 18.1% due to growth in loan fees, non-risk fees and the full year impact of Trust Bank New Zealand (estimated at \$64 million). Non-interest income now accounts for 34.2% of total operating income, up from 31.1% in 1996. This improvement was broad-based across business lines and is reflective of Westpac's focus on enhancing non-interest revenues. Westpac's recent acquisitions, for example, all have relatively low non-interest income to total income ratios, ranging between 16% for Bank of Melbourne and 25% for Trust Bank New Zealand. The aim is to enhance this through providing their customers with a better and more comprehensive range of products, developing new non-interest earnings streams, such as mortgage servicing, and the gradual movement to recover more of the costs of providing transactional and other services.

Loan fees increased 19.3%, reflecting continued movement towards partial cost recovery, such as the introduction of overdrawn account fees, as well as the improved collection of fees through automated collection procedures via the implementation of the Branch Service Platform. In addition, there has been a shift from risk fees to loan fees due to a change in the approach to pricing of bills of exchange.

Non-risk fees increased by \$70 million or 10.3% due to new fee initiatives, strong growth in card merchants business as a result of the successful launch of the Global Rewards Visa Card, and the full year impact of Trust Bank New Zealand (estimated at \$44 million). In addition, the retained spread over the investor margin on securitised assets has generated new non-risk fee income.

Increased customer and trading activity resulted in an 8.9% increase in financial markets non-interest income. Fluctuations in the mix of income between net interest income and non-interest income arises from changes in the mix of securities in the portfolio and movements in yields and coupon rates for these securities. The reduction in income in the second half of 1997, compared to the first half, largely reflected the impact of increased volatility in both exchange rates and interest rates.

The successful and immediate integration of Westpac Life and strong inflows of non-superannuation personal investments have seen funds under management grow from \$11.3 billion to \$16.3 billion at 30 September 1997. Westpac's Personal Portfolio Service and Fixed Term Annuity Product are two key products contributing to this growth. These products reflect our commitment to providing value adding products to our customers, and our capacity to increase customer funds through alternatives to traditional banking products. For example, customers are able to choose between term deposits and term annuities, depending on their individual investment needs.

The increase in other income resulted from the sale of equity investments, profits on sale of assets acquired through security enforcement and the sale of other properties, resulting from the continued rationalisation of Westpac's CBD property portfolio and the ongoing branch sale and leaseback program.

Westpac's strategy is to continue to improve non-interest income through initiatives aimed at providing value added products and services for the extensive customer base, and in particular focusing on the opportunity provided by recent acquisitions.

## 2.4 NON-INTEREST EXPENSES ANALYSIS

\$m	Six months to		Twelve months to		% Movt Sept 96 to Sept 97
	30 Sept 1997	31 March 1997	30 Sept 1997	30 Sept 1996	
<b>Salaries and other staff expenses</b>					
Salaries and wages	706	722	1,428	1,350	5.8
Restructuring expenses	-	-	-	63	-
Other staff expenses	162	164	326	381	(14.4)
	<b>868</b>	<b>886</b>	<b>1,754</b>	<b>1,794</b>	<b>(2.2)</b>
<b>Equipment and occupancy expenses</b>					
Operating lease rentals	118	104	222	166	33.7
Depreciation and amortisation:					
Premises	8	9	17	14	21.4
Leasehold improvements	5	5	10	13	(23.1)
Furniture and equipment	25	26	51	60	(15.0)
Technology	72	68	140	87	60.9
Electricity, water, rates and land tax	19	21	40	43	(7.0)
Other equipment and occupancy expenses	51	52	103	100	3.1
	<b>298</b>	<b>285</b>	<b>583</b>	<b>483</b>	<b>20.7</b>
<b>Other expenses</b>					
Amortisation of intangibles	30	32	62	34	82.4
Amortisation of deferred expenditure	11	10	21	10	110.0
Non-lending losses	15	9	24	7	242.9
Consultancy fees, computer software and other professional services	148	146	294	265	10.8
Stationery	39	45	84	73	15.1
Postage and telecommunications	93	92	185	161	14.9
Insurance	5	7	12	16	(28.1)
Advertising	45	29	74	66	12.1
Transaction taxes	3	4	7	14	(50.0)
Training	10	9	19	20	(5.0)
Travel	30	27	57	59	(3.4)
Other expenses	17	35	52	47	11.6
	<b>446</b>	<b>445</b>	<b>891</b>	<b>772</b>	<b>15.3</b>
<b>Non-interest expenses</b>	<b>1,612</b>	<b>1,616</b>	<b>3,228</b>	<b>3,049</b>	<b>5.9</b>
Productivity ratio <sup>(1)</sup>	2.92	2.89	2.90	2.73	
Efficiency ratio (expense/income)	63.59%	63.24%	63.39%	64.52%	
Before intangibles & restructuring expenses	62.41%	62.05%	62.17%	62.47%	
Salaries and other staff expenses (excluding restructuring expenses)					
Per average core FTE (\$000)	55	55	55	54	
Total non-interest expenses					
Per average core FTE (\$000)	102	100	101	94	

(1) Operating income/ personnel cost excluding restructuring expenses

## 2.4 NON-INTEREST EXPENSES ANALYSIS (Cont'd)

### Comments on expenses

Excluding the full year impact of the acquisition of Trust Bank New Zealand and Challenge Bank, and restructuring expenses incurred in 1996, total non-interest expenses remained flat due to tight management control across all expense categories.

The efficiency ratio improved from 64.5% to 63.4% reflecting the initial benefits arising from investment initiatives to centralise back office functions, combine core support activities to achieve economies of scale, and to further rationalise the branch network. Efficiency improvements and expense control contributed to the fall in expenses in the second half. The expense to income ratio increased marginally, principally reflecting securitisation and capital buy back impacts, and the passing on of efficiency gains to customers through competitive pricing of products.

Tight expense management, together with the commencement of benefits from merger synergies and infrastructure investments over recent years, have resulted in a 6.2% improvement in the staff productivity ratio. Excluding restructuring expenses of \$63 million in the prior year and the full year impact of Trust Bank New Zealand and Challenge Bank, staff costs have decreased by \$71 million. The effective salary rate has increased by 4% principally reflecting additional salary costs negotiated as part of the existing Enterprise Development Agreement. This has been more than offset by savings arising from the ongoing branch rationalisation program, merger synergies and the continued focus on improving efficiency. Further benefits are expected to be achieved in future periods, particularly given the potential synergies from the integration of Bank of Melbourne.

The rise in equipment and occupancy expenses reflects increases in operating lease rentals and investment in technology. The operating lease rentals increased as a result of the branch sale and lease-back program, introduced as a mechanism to use capital more efficiently. Technology depreciation expense increases reflect Westpac's continued investment in systems infrastructure throughout 1996 and 1997, in particular the Mortgage Processing Centre, the Branch Service Platform and the centralisation of offshore processing into Australia.

The level of non-lending losses in 1997 was in line with normal expectations and underlying prior year levels. The low level of 1996 losses was principally due to the write-back of provisions no longer required.

In January 1997, Westpac launched its advertising campaign promoting Westpac as an Official Partner of the Sydney 2000 Olympic Games. In the second half, this extended into product specific advertising linked to the Sydney 2000 Olympic Games.

### 3 BALANCE SHEET ANALYSIS

#### 3.1 BALANCE SHEET

(Based on audited annual results)

\$m As at:	30 Sept 1997	31 March 1997	30 Sept 1996	% Mov't Mar 97 - Sept 97	% Mov't Sept 96 - Sept 97
<b>Assets</b>					
Cash and balances with central banks	321	338	408	(5.0)	(21.3)
Statutory deposits	928	920	879	0.9	5.6
Due from other banks	4,002	5,208	6,286	(23.2)	(36.3)
<i>Trading securities</i>	6,243	7,153	5,603	(12.7)	11.4
<i>Investment securities</i>	1,633	2,134	2,080	(23.5)	(21.5)
<i>Securities sold not yet delivered</i>	1,072	1,586	761	(32.4)	40.9
<i>Securities purchased under agreements to resell</i>	554	373	243	48.5	128.0
<i>Other financial markets assets</i>	9,370	6,584	6,666	42.3	40.6
Total securities and financial markets assets	18,872	17,830	15,353	5.8	22.9
<i>Productive loans</i>	78,629	80,541	81,756	(2.4)	(3.8)
<i>Acceptances of customers</i>	11,242	10,898	11,197	3.2	0.4
<i>Impaired assets</i>	833	983	1,292	(15.3)	(35.5)
<i>Less: provisions for bad and doubtful debts</i>	(1,588)	(1,736)	(1,847)	(8.5)	(14.0)
Net loans and acceptances	89,116	90,686	92,398	(1.7)	(3.6)
Fixed assets	1,672	1,714	1,869	(2.5)	(10.5)
Intangible assets	1,029	1,058	1,156	(2.7)	(11.0)
Other assets	3,023	4,289	3,164	(29.5)	(4.5)
<b>Total assets</b>	<b>118,963</b>	<b>122,043</b>	<b>121,513</b>	<b>(2.5)</b>	<b>(2.1)</b>
<b>Liabilities and equity</b>					
Deposits	66,818	69,160	68,769	(3.4)	(2.8)
Public borrowings	5,818	5,803	6,117	0.3	(4.9)
Bonds, notes and commercial paper	6,273	7,244	7,226	(13.4)	(13.2)
Acceptances	11,242	10,898	11,197	3.2	0.4
Securities liabilities	1,589	2,438	1,374	(34.8)	15.6
Due to other banks	4,570	5,903	5,419	(22.6)	(15.7)
Other financial markets liabilities	9,276	7,098	7,405	30.7	25.3
Other liabilities	3,276	3,648	3,916	(10.2)	(16.3)
<b>Total liabilities excluding loan capital</b>	<b>108,862</b>	<b>112,192</b>	<b>111,423</b>	<b>(3.0)</b>	<b>(2.3)</b>
Subordinated bonds, notes and debentures	1,200	1,246	1,266	(3.7)	(5.2)
Subordinated perpetual notes	695	637	933	9.1	(25.5)
<b>Total loan capital</b>	<b>1,895</b>	<b>1,883</b>	<b>2,199</b>	<b>0.6</b>	<b>(13.8)</b>
<b>Total liabilities</b>	<b>110,757</b>	<b>114,075</b>	<b>113,622</b>	<b>(2.9)</b>	<b>(2.5)</b>
<b>Net assets</b>	<b>8,206</b>	<b>7,968</b>	<b>7,891</b>	<b>3.0</b>	<b>4.0</b>
<b>Shareholders' equity</b>					
Share capital	1,861	1,862	1,887	-	(1.4)
Reserves	4,466	4,439	4,632	0.6	(3.6)
Retained profits	1,873	1,662	1,366	12.7	37.1
Outside equity interests	6	5	6	10.0	(8.3)
<b>Total shareholders' equity</b>	<b>8,206</b>	<b>7,968</b>	<b>7,891</b>	<b>3.0</b>	<b>4.0</b>

### 3.1.1 LOANS

<b>\$m</b>	<b>30 Sept</b>	<b>31 March</b>	<b>30 Sept</b>
<b>As at:</b>	<b>1997</b>	<b>1997</b>	<b>1996</b>
<b>Australia</b>			
Overdrafts	2,534	2,490	3,180
Credit card outstandings	2,415	2,332	1,940
Overnight and call money market loans	80	98	112
Own acceptances discounted	926	843	830
Term loans:			
Housing	26,276	28,235	29,624
Non-housing	18,561	18,949	18,509
Finance leases	2,347	2,360	2,430
Investments in leveraged lease and equity lease partnerships	313	303	318
Redeemable preference share finance	1,296	1,630	1,586
Other	2,165	2,280	2,550
<b>Total - Australia</b>	<b>56,913</b>	<b>59,520</b>	<b>61,079</b>
<b>New Zealand</b>			
Overdrafts	998	1,041	1,004
Credit card outstandings	510	518	450
Overnight and call money market loans	332	355	360
Own acceptances discounted	76	100	157
Term loans:			
Housing	11,185	10,942	10,535
Non-housing	6,334	6,272	7,001
Finance leases	29	25	35
Redeemable preference share finance	304	206	31
Other	149	155	109
<b>Total - New Zealand</b>	<b>19,917</b>	<b>19,614</b>	<b>19,682</b>
<b>Total - Other overseas</b>	<b>3,800</b>	<b>3,771</b>	<b>3,868</b>
<b>Total gross loans</b>	<b>80,630</b>	<b>82,905</b>	<b>84,629</b>
Unearned income	(1,168)	(1,381)	(1,581)
Provisions for doubtful debts	(1,588)	(1,736)	(1,847)
<b>Total net loans</b>	<b>77,874</b>	<b>79,788</b>	<b>81,201</b>



### 3.1.2 DEPOSITS AND PUBLIC BORROWINGS

\$m As at:	30 Sept 1997	31 March 1997	30 Sept 1996
<b>DEPOSITS</b>			
<b>Australia</b>			
Non-interest bearing	3,206	2,709	3,943
Certificates of deposit	2,086	3,914	4,574
Other interest bearing			
At call	20,758	19,209	17,996
Term	16,017	17,931	16,963
<b>Total deposits in Australia</b>	<b>42,067</b>	<b>43,763</b>	<b>43,476</b>
<b>New Zealand</b>			
Non-interest bearing	1,101	1,116	1,075
Certificates of deposit	2,294	1,621	1,806
Other interest bearing			
At call	5,439	5,264	4,462
Term	8,383	8,322	9,204
<b>Total deposits in New Zealand</b>	<b>17,217</b>	<b>16,323</b>	<b>16,547</b>
<b>Other overseas</b>			
Non-interest bearing	478	429	438
Certificates of deposit	1,523	2,729	2,750
Other interest bearing			
At call	586	538	528
Term	4,947	5,378	5,030
<b>Total deposits other overseas</b>	<b>7,534</b>	<b>9,074</b>	<b>8,746</b>
<b>Total deposits</b>	<b>66,818</b>	<b>69,160</b>	<b>68,769</b>
<b>PUBLIC BORROWINGS BY SUBSIDIARY BORROWING CORPORATIONS</b>			
<b>Australia</b>			
Secured	4,259	4,299	4,435
Unsecured	1,126	1,028	1,141
<b>Total public borrowings in Australia</b>	<b>5,385</b>	<b>5,327</b>	<b>5,576</b>
<b>Overseas</b>			
Secured	396	394	492
Unsecured	37	82	49
<b>Total public borrowings overseas</b>	<b>433</b>	<b>476</b>	<b>541</b>
<b>Total public borrowings by subsidiary borrowing corporations</b>	<b>5,818</b>	<b>5,803</b>	<b>6,117</b>

### 3.2 BALANCE SHEET ANALYSIS

Westpac has maintained its disciplined approach to asset pricing to ensure appropriate marginal returns on capital and rewards for risk. The benefit of this approach can be seen in the maintenance of interest spreads.

#### **Assets**

Total assets declined by \$2.6 billion, or 2.1%, to \$119.0 billion at 30 September 1997, largely reflecting the impacts of securitisation and asset sales, as well as the reduction in prime asset requirements by the Reserve Bank of Australia.

Major asset movements in 1997 were:

- Net loans and acceptances declined by \$3.3 billion during the year reflecting the successful securitisation of an additional \$2.9 billion of housing loans and the sale of Challenge Bank's Victorian assets of \$1.2 billion.
- Excluding the impact of securitisation and asset sales, Australian housing loans grew by \$500 million or 2%. This reflected the impact of the integration of Challenge Bank, the implementation of the Mortgage Processing Centre and customers choosing to maintain higher loan repayments in the declining interest rate environment.
- Continued focus on marketing of credit card products, together with the successful launch of the Global Rewards Visa and GM cards, has resulted in a 24% growth in outstandings in Australia. The 20% decline in overdrafts in Australia reflects an increasing diversity in the range of financing products available to business customers, with increasing use of both mortgage secured and other products.
- In New Zealand, strong growth of 6% has been achieved in housing loans. Overall lending growth in New Zealand reflects the focus on maintaining core business growth, whilst completing the WestpacTrust integration.
- Gross impaired assets were reduced by \$484 million, or 36%, reflecting continued improvement in asset quality and credit management, and the benefits of Westpac's dynamic provisioning approach on the overall portfolio.
- Deposits due from other banks decreased by \$2.3 billion, principally due to Westpac's centralisation of offshore treasury and financial market operations.
- In June 1997, the Reserve Bank of Australia announced a reduction in the prime asset ratio (PAR) from 6% to 3%, enabling holdings of government securities to be reduced. This regulatory driven reduction was offset by an increase in securities held at the year end in response to trading opportunities.
- The depreciation of the A\$ against the US\$ and the decline in interest rates resulted in a significant increase in other financial market assets and liabilities principally from the revaluation impact of off-balance sheet instruments.

## **Liabilities**

- The overall level of liabilities of the Group has declined by \$2.9 billion to \$110.8 billion at 30 September 1997, reflecting the reduced funding needs of the Group as a result of the securitisation of \$2.9 billion of housing loans together with the reduction in the PAR requirements. These reduced funding needs have been reflected in the decrease in deposits raised by the Group from the wholesale markets, particularly certificates of deposit, term deposits and bonds, notes and commercial paper.
- In Australia, 15.3% growth in call deposits more than offset the decline in non-interest bearing deposits, as customers moved into interest bearing call deposit products, coupled with the continued underlying growth in core transaction and savings accounts. The strength of the growth in core deposits has been masked to some extent by the impact of the sale of Challenge Victoria, which resulted in a decline in core deposits of \$0.5 billion.

## 4 ASSET QUALITY

### 4.1 IMPAIRED ASSETS

\$m	30 September 1997			31 March 1997			30 September 1996		
	Specific			Specific			Specific		
As at	Gross	Prov	Net	Gross	Prov	Net	Gross	Prov	Net
<b>Non-accrual assets</b>									
Australia	609	(205)	404	751	(257)	494	974	(346)	628
New Zealand	104	(42)	62	88	(42)	46	178	(77)	101
Other overseas	70	(48)	22	89	(49)	40	109	(64)	45
<b>Total</b>	<b>783</b>	<b>(295)</b>	<b>488</b>	<b>928</b>	<b>(348)</b>	<b>580</b>	<b>1,261</b>	<b>(487)</b>	<b>774</b>
<b>Restructured assets</b>									
Australia	38	(16)	22	63	(16)	47	61	(17)	44
New Zealand	41	(24)	17	33	(22)	11	24	(22)	2
Other overseas	7	(4)	3	6	(4)	2	7	(4)	3
<b>Total</b>	<b>86</b>	<b>(44)</b>	<b>42</b>	<b>102</b>	<b>(42)</b>	<b>60</b>	<b>92</b>	<b>(43)</b>	<b>49</b>
<b>Total impaired Assets <sup>(1)</sup></b>	<b>869</b>	<b>(339)</b>	<b>530</b>	<b>1,030</b>	<b>(390)</b>	<b>640</b>	<b>1,353</b>	<b>(530)</b>	<b>823</b>

<sup>(1)</sup> Includes off balance sheet impaired items of \$36 million (\$47 million as at 31 March 1997, \$61 million as at 30 September 1996).

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

\$m	30 Sept 1997	30 Sept 1996
<b>As at</b>		
Australia		
Housing products	165	210
Other products	147	188
<b>Total</b>	<b>312</b>	<b>398</b>
New Zealand		
Housing products	23	18
Other products	32	24
Other overseas	14	9
<b>Total</b>	<b>69</b>	<b>51</b>
<b>Total</b>	<b>381</b>	<b>449</b>

<sup>(1)</sup> 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.

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

\$m	Twelve months to 30 Sept 1997	Twelve months to 30 Sept 1996
Interest received on non-accrual and restructured assets	52	77
Estimated interest forgone on non-accrual and restructured assets	102	177
Interest yield on average non-accrual and restructured assets	6.1%	4.9%

### 4.4 BAD AND DOUBTFUL DEBT CHARGE AND RATIOS

\$m	Six months to/ as at 30 Sept 1997	31 March 1997	Twelve months to/as at 30 Sept 1997	30 Sept 1996
New specific provisions	83	63	146	200
Specific provisions no longer required	(79)	(134)	(213)	(463)
Specific provisions (net)	4	(71)	(67)	(263)
General provision (net) <sup>(1)</sup>	24	121	145	384
<b>Total charge for bad debts and provisions</b>	<b>28</b>	<b>50</b>	<b>78</b>	<b>121</b>
Bad and doubtful debts charge to average loans and acceptances (annualised) (%)	0.06	0.12	0.08	0.14
Bad and doubtful debts charge to net interest income (%)	1.7	2.9	2.3	3.7

<sup>(1)</sup> Addition after recognition of write-offs and recoveries.

Improvements in the quality of the asset portfolio are reflected in lower levels of new impaired assets and associated new specific provisions. Westpac's policies have continued to focus on further improving the quality of new business and ensuring adequate reward for risk. Reductions in the general provision charge reflect improvements in the overall portfolio quality.

## 4.5 PROVISIONS FOR DOUBTFUL DEBTS

\$m	Six months to/ as at		Twelve months to/as at	
	30 Sept 1997	31 March 1997	30 Sept 1997	30 Sept 1996
<b>General provision</b>				
Balance at beginning of period	1,346	1,316	1,316	980
Exchange rate and other adjustments	(10)	(5)	(15)	13
Provisions of controlled entities acquired	-	-	-	110
Charge to operating profit	24	121	145	384
Recoveries of debts previously written off	48	45	93	85
Write-offs	(159)	(131)	(290)	(256)
Balance at period end	1,249	1,346	1,249	1,316
<b>Specific provisions</b>				
Balance at beginning of period	390	531	531	950
Exchange rate and other adjustments	(2)	1	(1)	(26)
Provisions of controlled entities acquired	-	-	-	65
New specific provisions	83	63	146	200
Specific provisions no longer required	(79)	(134)	(213)	(463)
Write-offs	(53)	(71)	(124)	(195)
Balance at period end	339	390	339	531
<b>Total Provisions</b>	<b>1,588</b>	<b>1,736</b>	<b>1,588</b>	<b>1,847</b>

The balance of the general provision decreased by \$67 million reflecting reduced exposures due to securitisation initiatives, and loan grade improvements as a result of the continued focus on improving credit management procedures.

Specific provisions have continued to fall as a result of the decrease in the level of impaired assets. New impaired assets fell to \$405 million from \$594 million in the prior year.

It is considered that Westpac has adequate provisioning coverage and substantial further increases in the total provisioning coverage ratio are not anticipated.

#### 4.6 IMPAIRED LOANS<sup>(1)</sup> AND RATIOS

<b>As at %</b>	<b>30 Sept 1997</b>	<b>31 March 1997</b>	<b>30 Sept 1996</b>
Impaired loans to total loans and acceptances	1.0	1.0	1.4
Specific provisions to total impaired loans	39.3	41.1	41.7
Total provisions to total impaired loans	184.2	182.7	145.1
Total provisions to total loans and acceptances	1.8	1.9	2.0
Total impaired loans to shareholders' equity and total provisions	8.8	9.8	13.1

<sup>(1)</sup> Excludes OREO

## 5 STATEMENT OF CASHFLOWS

\$m	Twelve months to/as at	
	30 Sept 1997	30 Sept 1996
<b>Cash flows from operating activities</b>		
Interest received	8,585	8,505
Interest paid	(5,132)	(5,183)
Dividends received	38	16
Other non-interest income received	637	1,653
Non-interest expenses paid	(2,833)	(2,768)
(Increase)/ decrease in trading securities	(722)	1,857
Income taxes paid	(568)	(198)
<b>Net cash provided by/(used in) operating activities</b>	<b>5</b>	<b>3,882</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investment securities	680	1,105
Proceeds from matured investment securities	1,266	731
Purchase of investment securities	(1,348)	(1,566)
Net (increase)/decrease in:		
Loans	3,433	(5,721)
Due from other banks	2,483	(1,338)
Statutory deposits	(30)	(120)
Other assets	589	(179)
Fixed assets additions	(318)	(512)
Proceeds from disposal of fixed assets	300	200
Controlled entities acquired	(346)	(1,360)
<b>Net cash provided by/(used in) investing activities</b>	<b>6,709</b>	<b>(8,760)</b>
<b>Cash flows from financing activities</b>		
Redemption of loan capital	(479)	(450)
Proceeds from issue of shares	30	14
Buyback of shares	(251)	(545)
Net increase/(decrease) in:		
Due to other banks	(1,280)	(1,553)
Deposits and public borrowings	(2,919)	5,996
Bonds, notes and commercial paper	(1,103)	2,458
Other liabilities	(113)	(339)
Payment of dividends to shareholders	(684)	(622)
Payment of dividends to outside equity interests	(2)	(2)
<b>Net cash provided by/(used in) financing activities</b>	<b>(6,801)</b>	<b>4,957</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>	<b>(87)</b>	<b>79</b>
Effect of exchange rate changes on cash and cash equivalents	-	(1)
Cash and cash equivalents at the beginning of the financial period <sup>(1)</sup>	408	330
<b>Cash and cash equivalents at the end of the financial period</b>	<b>321</b>	<b>408</b>

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



## 5 STATEMENT OF CASHFLOWS (Cont'd)

\$m	Twelve months to/as at	
	30 Sept 1997	30 Sept 1996
<b>Reconciliation of net cash provided by operating activities to operating profit after income tax</b>		
Operating profit after income tax	1,291	1,132
<b>Adjustments:</b>		
Outside equity interests	2	3
Depreciation	218	174
Sundry provisions and other non-cash items	(808)	318
Bad and doubtful debts	171	206
(Increase)/decrease in trading securities	(722)	1,857
(Increase)/decrease in accrued interest receivable	34	(15)
Increase/(decrease) in accrued interest payable	66	83
Increase/(decrease) in provision for income tax	(218)	331
Increase/(decrease) in provision for deferred income tax	(409)	(90)
(Increase)/decrease in future income tax benefits	521	32
Amounts paid out of sundry provisions	(141)	(149)
<b>Total adjustments</b>	<b>(1,286)</b>	<b>2,750</b>
<b>Net cash provided by/(used in) operating activities</b>	<b>5</b>	<b>3,882</b>
<b>Non-cash operating, investing and financing activities</b>		
Issuance of 0.3 million (70.1 million at 31 March 1996) \$1 shares fully paid at a premium of \$4.45 each and 2.6 million \$1 ordinary shares fully paid at a premium of \$4.93 each as part consideration for acquisition of subsidiaries	-	399
<b>Details of assets and liabilities of controlled entities acquired are as follows:</b>		
<b>Acquisitions</b>		
Due from the Westpac Group	-	151
Due from other banks	-	40
Trading securities	-	1,769
Investment securities	-	247
Statutory deposits	-	50
Loans	-	11,491
Acceptances	-	133
Other investments	346	7
Fixed assets	-	128
Other assets	-	193
Due to other banks	-	(42)
Due to the Westpac Group	-	(108)
Deposits and public borrowings	-	(11,069)
Bonds, notes and commercial paper	-	(1,931)
Acceptances	-	(133)
Other liabilities	-	(230)
Loan capital	-	(72)
Intangible assets	-	1,145
	346	1,769
Integration costs provided, net of tax benefit	-	(56)
	346	1,713
Issuance of shares as part consideration	-	(399)
Prior period cash payment for investment	-	(41)
Current period cash payment for acquisition (net of cash acquired)	346	1,273
Cash acquired	-	87
<b>Cash consideration and costs</b>	<b>346</b>	<b>1,360</b>

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

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

The following business results highlight the key business units, and do not sum to the total Group result. The remainder of the business group result includes the general provision charge and the result of the Asset Management Group, which is responsible for managing impaired assets and any consequent recoveries, as well as sale of equity investments.

## 6.1 AUSTRALIAN RETAIL BANKING AND FINANCIAL SERVICES

	Twelve months to/as at		% Mov't Sept 96 - Sept 97
	30 Sept 1997	30 Sept 1996	
	\$m	\$m	
Net interest income	2,368	2,529	(6.4)
Non-interest income	726	570	27.3
Operating income	3,094	3,099	(0.2)
Provision for bad and doubtful debts	(162)	(118)	37.0
Operating income net of provisions for bad and doubtful debts	2,932	2,981	(1.6)
Non-interest expenses	(1,961)	(1,962)	-
Operating profit before tax	971	1,019	(4.7)
Tax and outside equity interests	(335)	(371)	(9.7)
Profit on operations	636	648	(1.8)
	\$bn	\$bn	
Deposits and other public borrowings	34.8	34.5	0.9
Net loans and acceptances	50.0	54.1	(7.6)
Total assets	55.4	60.5	(8.4)
Funds under management	15.2	10.3	47.6
Personnel numbers - Core FTE	19,330	21,769	
Expense/income (before intangibles)	62.85%	62.83%	
Productivity ratio	2.85	2.73	
Non-interest income/operating income	23.5%	18.4%	

*Australian Retail Banking and Financial Services represents the combined results of Westpac's Regional Banks, Australian Guarantee Corporation (AGC), as well as Westpac Financial Services. The increasing disintermediation of financial services in Australia and the consequent focus on providing retail customers with a more comprehensive package of financial products, has resulted in increased product substitution and sales across traditional boundaries. Consequently, Westpac has moved progressively toward managing the portfolio in this manner.*

- Australian Retail Banking and Financial Services has continued the focus on providing retail customers with a complete financial package to meet their needs. This has been implemented via an integrated sales approach leveraged off the customer base of both the existing Westpac network and the customers acquired through Challenge Bank and Westpac Life. This has delivered strong growth in the sales of financial services and consumer finance products.

- The successful and immediate integration of Westpac Life and strong inflows of non-superannuation personal investments, have seen funds under management in Australia grow from \$10.3 billion to \$15.2 billion at 30 September 1997. Westpac's Personal Portfolio Service and Fixed Term Annuity Product are two key products contributing to this growth. These products reflect Westpac's commitment to providing value adding products to customers, and the capacity to increase customer funds through alternatives to traditional banking products. For example, customers are able to choose between term deposits and term annuities, depending on their individual investment needs.
- Westpac Financial Services further enhanced its insurance product set during the year with the formation of Westpac Lenders Mortgage Insurance, an alternative supplier for mortgage insurance to customers. Strong sales of consumer credit insurance and other general and life insurance products reflected the continued growth opportunities in these markets and the benefit of targeted cross selling initiatives.
- Fee income growth reflects the impact of the gradual movement to recover more of the costs of providing transactional and other services. In addition, significant improvements have been made in processes for collecting transaction and special services fees automatically through the implementation of the new Branch Service Platform.
- Strong marketing efforts achieved an increase in the number of credit cards on issue, and an increase in merchant business and associated fee income. This growth is expected to continue due to the significant success of the Global Rewards Visa Card, one of the most successful Westpac product launches of recent times. Further benefits in this area will arise through Westpac's role as Official Partner of the 2000 Olympic Games which is expected to provide competitive advantages for Westpac.
- The strategy of growth through acquisition has continued with the approval by shareholders of the merger with the Bank of Melbourne. The experience gained from the Challenge Bank merger will provide an invaluable benefit in ensuring an efficient integration process. This strategy is considered appropriate in the current low interest environment, where there is a risk that high levels of organic volume growth would require aggressive pricing and may result in increased bad debts when the interest rate cycle reverses. In recognition of this, Westpac has continued to price products competitively while improving the quality of the loan portfolio and focusing on appropriate return for risk. In addition the sale of Challenge Bank's Victorian lending assets (\$1.2 billion) and deposits (\$0.5 billion), has contributed to the decline in net interest income (\$30 million).
- The provision for bad and doubtful debts at 0.3% of net loans and acceptances reflects the quality of the portfolio. The increase in the provision at 30 September 1997 resulted from higher levels of write backs of provisions no longer required in the year ended 30 September 1996. The level of new specific and general provisions declined by \$20 million.

- Consistent with the Group focus on managing capital as efficiently as possible to improve shareholder value, strategies within the Regional Bank have included the securitisation of assets, particularly low margin loans, and the branch sale and lease back program. Westpac securitised a total of \$2.9 billion of lending assets in 1997, through a mixture of private placements and public issues of securities to investors. This had the impact of reducing net interest income and increasing non-interest income through servicing income and retention of the excess over the investor margin. The branch sale and lease back program, whilst increasing leasing costs, has released capital to be directed to more efficient uses.
- The Australian Regional Bank has continued to invest in infrastructure and projects designed to improve customer service, increase revenue streams and improve productivity and efficiency in the future, such as the Branch Service Platform and the NSW Operations Centre.
- The improvement in the productivity ratio principally reflects the significant reduction in staff members achieved through ongoing rationalisation of delivery channels, enhanced efficiencies and merger synergies.

## 6.2 INSTITUTIONAL BANKING

	Twelve months to/as at		% Mov't Sept 96 - Sept 97
	30 Sept 1997	30 Sept 1996	
		<b>\$m</b>	
Net interest income	445	490	(9.2)
Non-interest income	405	332	22.0
Operating income	850	822	3.4
Provision for bad and doubtful debts	18	68	(72.8)
Operating income net of provisions for bad and doubtful debts	868	890	(2.4)
Non-interest expenses	(495)	(476)	4.0
Operating profit before tax	373	414	(9.8)
Tax and outside equity interests	(134)	(135)	(0.9)
Profit on operations	240	279	(14.1)
	<b>\$bn</b>	<b>\$bn</b>	
Deposits and other public borrowings	13.7	13.1	4.5
Net loans and acceptances	20.1	19.4	3.8
Total assets	38.6	35.4	9.2
Personnel numbers - Core FTE	2,431	2,566	
Expense/income (before intangibles)	58.28%	57.91%	
Productivity ratio	3.48	3.55	
Non-interest income/operating income	47.6%	40.4%	

*Institutional Banking provides services to institutional customers both in Australia and overseas in the areas of financing, transactional business, financial markets and corporate finance.*

- Core earnings excluding bad debts have increased by \$9 million before tax. Lower levels of bad debt recoveries and reduced write-backs of provisions for doubtful debts have resulted in the reduction in profit in 1997 over 1996.
- Operating income increased by \$28 million predominantly due to continued growth in financial markets and corporate finance, offsetting the impact of declining margins in traditional corporate lending activities.
- Income in the financial markets business increased by \$20 million, or 8%, through increased customer and trading activity. There was a change in composition of financial markets income with net interest income down by \$32 million and total non-interest income up by \$52 million. Fluctuations in the mix between net interest income and non-interest income arise from changes in the mix of securities in the portfolio and movements in yields and coupon rates for these securities.

- Corporate finance has grown income by \$20 million, or 23%, following the successful involvement in several major transactions and the continued development of new products, targeted at the creation of innovative solutions for customers.
- Contracting margins due to competitive pressures and the impact of cuts in official interest rates on corporate deposit products, have reduced net interest income in lending and transactional businesses.
- Despite the less attractive margins, targeted lending to corporate customers continues to be an important element of the overall customer relationship. Westpac continue to be selective in our lending to ensure that the total customer relationship profitability provides an adequate return to shareholders.
- The restructure of the offshore operations was completed during the year with financial markets processing and trading operations now centralised in Sydney. This makes Westpac one of the few banks in the world, and the first in Australia, to operate with this cost competitive advantage.
- The total expenses increase has been restricted to 4%, despite the impact of one-off costs associated with the operations centralisation strategy (\$7 million), and investment in infrastructure and technology platforms (\$14 million), including RTGS and transactional services developments, and the upgrade of front office platforms. This investment and the centralisation will enhance efficiency and improve service delivery to customers.
- The loan book remains strongly provisioned and its overall quality has continued to improve over the year. The credit for provisions for bad and doubtful debts in 1997, while not involving the same magnitude of write-backs as 1996, reflects this improvement in loan quality.

### 6.3 NEW ZEALAND RETAIL AND PACIFIC REGIONAL BANKING

	Twelve months to/as at		% Mov't Sept 96 - Sept 97
	30 Sept 1997	30 Sept 1996	
	\$m	\$m	
Net interest income	784	513	52.9
Non-interest income	331	262	26.4
Operating income	1,115	775	43.9
Provision for bad and doubtful debts	(29)	(6)	384.4
Operating income net of provisions for bad and doubtful debts	1,086	769	41.3
Non-interest expenses	(664)	(526)	26.3
Operating profit before tax	422	243	73.7
Tax and outside equity interests	(140)	(81)	72.8
Profit on operations	282	162	74.1
	\$bn	\$bn	
Deposits and other public borrowings	14.1	14.3	(1.4)
Net loans and acceptances	18.0	17.6	2.5
Total assets	19.9	19.6	1.4
Funds under management	1.1	1.0	10.0
Personnel numbers - Core FTE	7,899	8,214	
Expense/income (before intangibles)	56.01%	66.22%	
Productivity ratio	3.41	3.04	
Non-interest income/operating income	29.7%	33.8%	

*New Zealand Retail (WestpacTrust) and Pacific Regional Banking provide retail financial services in New Zealand and the Pacific.*

- In November 1996, WestpacTrust was announced as the new identity of the merged bank in New Zealand. The merger and full integration is progressing ahead of schedule with merger efficiencies already arising as reflected in lower FTE and personnel costs, and the significant improvement in the expense to income ratio. Full branch network integration is expected to be finalised by the end of the 1998 financial year.
- The improvement in operating profit for New Zealand resulted in part from the full year impact of Trust Bank New Zealand, growth in the underlying business and the savings achieved as a result of merger synergies (approximately \$60m) partially offset by the integration expenses (approximately \$25m). This has been achieved in a challenging operating environment (resulting from the merger process) and reflects management's focus on customer retention.
- In addition to the full year impact on net interest income of Trust Bank New Zealand (estimated at \$224 million), growth was also achieved through higher loan volumes,



with core deposit levels maintained. The efficiencies achieved through the merger process assisted WestpacTrust in providing competitively priced products to the market, with some reduction in net interest income resulting.

- After allowing for the impact of the merger with Trust Bank New Zealand (estimated at \$64 million), non-interest income has increased by \$5 million through enhanced sales to the larger customer base.
- Pacific Regional Banking experienced a decline in net interest income due to the continued impact of increasing competition. This reduction was partially offset by expense savings arising from ongoing rationalisation and efficiency gains.

## 7 GEOGRAPHIC SEGMENT RESULTS

	Twelve months to		As at	
	30 Sept 1997	30 Sept 1996	30 Sept 1997	30 Sept 1996
	Profit on operations (\$m)		Total assets (\$bn)	
Australia	849	869	85.1	86.4
New Zealand	277	114	24.2	23.3
Pacific Islands	37	37	1.6	1.5
Asia	24	16	3.7	4.6
Americas	50	37	1.7	2.6
Europe	54	59	2.7	3.1
<b>Total</b>	<b>1,291</b>	<b>1,132</b>	<b>119.0</b>	<b>121.5</b>

### Profit on operations

*Australia* Results have been impacted by the continued investment in the business, securitisation and share capital buybacks and lower write-backs of specific provisions in 1996, combined with the sale of Challenge Bank's Victorian assets and liabilities.

*New Zealand* The substantial increase in profit is due to the full period impact of Trust Bank New Zealand, coupled with the partial delivery of synergies associated with the merger. Additionally, the sale of equity investments positively impacted the 1997 result.

*Pacific Islands* 1997 results remained flat despite the margin compression experienced throughout most areas, due to strong local competition.

*Asia, Americas and Europe* Fluctuations in profit have largely been influenced by trends in financial markets income.

### Total assets

*Australia* The decrease of \$1.3 billion in Australia reflects the sale of Challenge Bank's Victorian assets (\$1.2 billion) and the securitisation of housing loans (\$2.9 billion), partially offset by the underlying growth in the portfolio.

*New Zealand* Assets in New Zealand have increased slightly, principally reflecting the underlying growth in housing loans.

*Asia* While growing sales activities in Asia, the centralisation of treasury functions to Australia has resulted in a lower level of assets in Asia.

*Americas and Europe* The decrease reflects lower interbank and financial markets assets through the centralisation of offshore treasury functions and the transfer of certain derivatives trading to Australia.

## 8 CAPITAL ADEQUACY

As at \$m	30 Sept 1997	31 March 1997	30 Sept 1996
<b>Tier 1 capital</b>			
Total shareholders' equity	8,206	7,968	7,891
Asset revaluation reserves	(202)	(229)	(260)
Intangible assets	(1,029)	(1,058)	(1,156)
Future income tax benefit net of deferred tax liability	(11)	-	(99)
<b>Total tier 1 capital</b>	<b>6,964</b>	<b>6,681</b>	<b>6,376</b>
<b>Tier 2 capital</b>			
Asset revaluation reserves	202	229	260
Subordinated undated capital notes	695	637	933
General provision for doubtful debts	1,249	1,346	1,316
Future income tax benefit related to general provision	(450)	(485)	(474)
Eligible subordinated bonds, notes and debentures	1,021	1,098	1,114
<b>Total tier 2 capital</b>	<b>2,717</b>	<b>2,825</b>	<b>3,149</b>
<b>Tier 1 and tier 2 capital</b>	<b>9,681</b>	<b>9,506</b>	<b>9,525</b>
Deductions:			
Other banks' capital instruments	(9)	(9)	(9)
Investment in controlled entities or associates (1)	(346)	(343)	-
Capital in funds management and securitisation activities (2)	(209)	(214)	(182)
<b>Net qualifying capital</b>	<b>9,117</b>	<b>8,940</b>	<b>9,334</b>
<b>Risk adjusted assets</b>	<b>87,133</b>	<b>86,901</b>	<b>86,503</b>
Tier 1 capital ratio	8.0%	7.7%	7.4%
Tier 2 capital ratio	3.1%	3.3%	3.6%
Deductions	(0.6%)	(0.7%)	(0.2%)
<b>Net capital ratio</b>	<b>10.5%</b>	<b>10.3%</b>	<b>10.8%</b>

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

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

## 9 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 1997 \$bn	Notional Amount	Regulatory Credit Equivalent	Positive Mark- to-market (replacement cost)	Negative Mark-to- market
<b>1997</b>				
<b>Interest rate</b>				
Futures	20.1	-	-	-
Forwards	23.6	0.1	-	-
Swaps	127.5	3.5	3.1	2.9
Purchased options	26.7	-	-	-
Sold options	3.2	1.1	-	-
<b>Foreign exchange</b>				
Forwards	241.5	7.0	4.4	4.4
Swaps	21.1	1.7	0.9	1.2
Purchased options	9.7	0.3	0.2	-
Sold options	11.0	-	-	0.2
<b>Commodity</b>				
	1.1	0.1	0.1	0.1
<b>Equities</b>				
	1.3	0.1	-	-
<b>Total derivatives</b>	<b>486.8</b>	<b>13.9</b>	<b>8.7</b>	<b>8.9</b>
<b>As at 31 Mar 1997</b>	<b>461.2</b>	<b>10.1</b>	<b>6.4</b>	<b>7.3</b>
<b>As at 30 Sept 1996</b>	<b>455.2</b>	<b>10.0</b>	<b>6.3</b>	<b>7.3</b>

- (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) **Positive mark-to-market or replacement cost** is the cost of replacing all transactions in a gain position. This measure is the industry standard for the calculation of current credit risk.
- (4) **Negative mark-to-market** represents the cost to Westpac's counterparties of replacing all transactions in a loss position.

## 9 DERIVATIVES (Cont'd)

### Maturity profile of derivatives outstandings in replacement cost terms

As at 30 September 1997 \$bn	0-3 months	3-6 months	6-12 months	1-2 years	2-5 years	> 5 years	Total
<b>Interest rate</b>							
Futures	-	-	-	-	-	-	-
Forwards	-	-	-	-	-	-	-
Swaps	0.1	0.2	0.3	0.6	1.2	0.7	3.1
Purchased options	-	-	-	-	-	-	-
Sold options	-	-	-	-	-	-	-
<b>Foreign exchange</b>							
Forwards	2.6	0.9	0.8	0.1	-	-	4.4
Swaps	0.2	-	0.2	0.3	0.1	0.1	0.9
Purchased options	0.1	-	0.1	-	-	-	0.2
Sold options	-	-	-	-	-	-	-
<b>Commodity</b>							
	-	-	-	-	0.1	-	0.1
<b>Total derivatives</b>	<b>3.0</b>	<b>1.1</b>	<b>1.4</b>	<b>1.0</b>	<b>1.4</b>	<b>0.8</b>	<b>8.7</b>

63% of credit risk matures within one year and 75% within two years.  
98% of credit exposure was to investment grade customers.

### Daily earnings at risk<sup>(1)</sup>

\$m	High	Low	Average
Year ended 30 September 1997	10.88	4.94	7.43
Year ended 30 September 1996 <sup>(2)</sup>	7.46	2.63	4.66

<sup>(1)</sup> Market risk is measured and monitored against trading limits using an earnings at risk methodology, which measures the potential loss from an adverse movement within a specified probability over a particular period. The earnings at risk model is based on 99% confidence level (2.326 standard deviations) and a one day holding period.

<sup>(2)</sup> The 1996 figures have been restated using a 99% confidence level (previously 97.5%)

## 9 DERIVATIVES (Cont'd)

### Derivatives used for asset and liability management purposes<sup>(1)</sup> (End-user derivatives)

	Notional amount		
	30 Sept 1997 \$bn	31 Mar 1997 \$bn	30 Sept 1996 \$bn
<b>Interest rate</b>			
Futures	14.4	9.9	8.7
Forwards	1.1	-	3.3
Swaps	30.7	23.1	24.7
Purchased options	0.1	0.1	0.2
Sold options	-	-	-
<b>Foreign exchange</b>			
Forwards	3.3	2.4	2.4
Swaps	13.3	11.1	7.1
Purchased options	-	-	-
Sold options	-	-	-
<b>Total derivatives</b>	<b>62.9</b>	<b>46.6</b>	<b>46.4</b>

<sup>(1)</sup> *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.

## 10 CREDIT RATINGS

Rating Agency	Long Term Senior	Short Term / Commercial Paper
IBCA	AA-	A1+
Moody's	Aa3	P-1
Standard & Poor's	AA-	A-1+
Thomson BankWatch	AA-	TBW-1

## 11 DIVIDENDS

	Six months to		Twelve months to	
	30 Sept 1997	31 March 1997	30 Sept 1997	30 Sept 1996
	c/share	c/share	c/share	c/share
<b>Ordinary dividend (fully franked @ 36%)</b>				
Interim	-	19.0	19.0	16.0
Final	20.0	-	20.0	17.0
<b>Total dividend provided for or paid</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Ordinary	354	338	692	604
Preference	19	20	39	39
	373	358	731	643
Underprovision for 1995 final dividend	-	-	-	10
	373	358	731	653
<b>Ordinary dividend payout ratio</b>	55.8%	54.7%	55.3%	55.3%

## 12 CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the year ended 30 September 1997.

## 13 EXCHANGE RATES

Currency	Average	Spot
USD	0.7701	0.7197
GBP	0.4715	0.4466
NZD	1.1240	1.1270

## 14 INCOME TAX

\$m	Six months to/ as at		Twelve months to/as at	
	30 Sept 1997	31 March 1997	30 Sept 1997	30 Sept 1996
<b>Income tax reconciliation</b>				
Operating profit before income tax	895	891	1,786	1,556
Prima facie tax on operating profit based on the company tax rate in Australia of 36%	322	321	643	560
Add/(deduct) reconciling items expressed on a tax effected basis:				
Rebateable and exempt dividends	(35)	(40)	(75)	(47)
Tax losses (now)/not tax effected	(19)	(14)	(33)	(24)
Non-assessable items	-	(28)	(28)	(23)
Non-deductible items	33	30	63	31
Adjustment for overseas tax rates	(34)	(13)	(47)	(10)
Prior period adjustments and other items (net)	(26)	(4)	(30)	(66)
	(81)	(69)	(150)	(139)
<b>Total income tax expense attributable to operating profit</b>	<b>241</b>	<b>252</b>	<b>493</b>	<b>421</b>
<b>Effective tax rate</b>	<b>26.9%</b>	<b>28.3%</b>	<b>27.6%</b>	<b>27.1%</b>



## 15 GROUP FINANCIAL INFORMATION FOR US INVESTORS

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

Twelve months to:	30 Sept	30 Sept	30 Sept	30 Sept
\$m	1997	1996	1997	1996
	* USD	*USD	AUD	AUD
<b>Net profit as reported</b>	<b>994</b>	873	<b>1,291</b>	1,132
Depreciation on buildings	8	5	10	7
Gain on sale of properties (including amortisation of gains on sale of properties subject to lease back arrangements)	40	19	52	25
Provision for employee redundancy benefits not previously recognised under US GAAP	-	(48)	-	(63)
Amortisation of goodwill based on 20 year life	(12)	(12)	(15)	(16)
Superannuation (pension) expense adjustment	29	37	37	48
Life insurance adjustment	(9)	-	(12)	-
<b>Adjusted US GAAP net profit</b>	<b>1,050</b>	874	<b>1,363</b>	1,133

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

Year ended 30 September 1996: AUD1 = USD0.7716

Year ended 30 September 1997: AUD1 = USD0.7701

As at:	30 Sept	30 Sept	30 Sept	30 Sept
\$m	1997	1996	1997	1996
	*USD	* USD	AUD	AUD
<b>Shareholders' equity as reported</b>	<b>5,906</b>	6,256	<b>8,206</b>	7,891
Outside equity interests	(4)	(5)	(6)	(6)
	<b>5,902</b>	6,251	<b>8,200</b>	7,885
Elimination of asset revaluation reserve	(145)	(206)	(202)	(260)
Depreciation on buildings	29	24	40	30
Deferred gains on sale of properties subject to lease back arrangements	(29)	(51)	(40)	(64)
Adjustment re provision for employee redundancy benefits	-	2	-	3
Goodwill not recognised on acquisitions	39	56	55	70
Restoration of previously deducted goodwill less amortisation and amounts written-off	3	4	5	5
Life insurance adjustment	(9)	-	(12)	-
Investment securities fair value adjustment (including life company investment)	(1)	(15)	(1)	(19)
Superannuation (pension) expense adjustment	(74)	(111)	(103)	(140)
Final dividend provided	255	243	354	307
<b>Adjusted US GAAP equity</b>	<b>5,970</b>	6,197	<b>8,296</b>	7,817

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

Year ended 30 September 1996: AUD1 = USD0.7928

Year ended 30 September 1997: AUD1 = USD0.7197

There is no material difference between the level of assets at 30 September 1997 and 30 September 1996 as reported and the level of assets determined in accordance US GAAP

## **16 RECORD DATE**

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

Record date for determination of dividend entitlement on ordinary shares:

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

At 5.00pm, 10 December 1997 (Sydney time) at:

Corporate Registry Services 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 10 December 1997).

### **New York**

For American Depository Receipts, at 5.00pm, 9 December 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, 10 December 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: 2 December 1997.**

**The date proposed for the payment of the final dividend is 5 January 1998.**

B A McNee  
Group Secretary and General Counsel

12 November 1997

For further information contact:

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