Westpac Banking Corporation

ARBN 007 457 141

FULL YEAR PROFIT RESULTS

1998

Year ended 30 September 1998

$m	Twelve months to/as at 30 Sept 1998	30 Sept 1997	% Mov't Sept 97-Sept 98
Operating profit after income tax attributable to shareholders ($m)			
before abnormals	1,342	1,291	*4.0*
after abnormals	1,272	1,291	*(1.5)*
Core earnings [1]	2,337	2,053	*13.8*
Basic earnings per ordinary share (cents)			
before intangibles and abnormals	75.8	73.5	*3.1*
before abnormals	70.1	70.0	*0.1*
Return on average ordinary equity before abnormals	15.5%	17.0%	*(8.8)*
Tangible return on tangible average ordinary equity before abnormals	21.5%	20.9%	*2.9*
Dividends per ordinary share (cents)	43.0	39.0	*10.3*

[1] *Operating profit (including gross up) before charge for bad and doubtful debts, income tax, intangibles and abnormals*

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1 REVIEW OF GROUP RESULTS[1]

1.1 PERFORMANCE SUMMARY

The 1998 profit result represents continued steady progress on Westpac's primary objective of building long term shareholder value. It reflects the benefits of Westpac's focus on earnings quality through the full credit cycle, built on the foundations of solid risk management and a sound capital position.

Operating profit after income tax (before abnormal items) was $1,342 million, a 4% increase on the previous year. After abnormal items, 1998 operating profit after tax was $1,272 million. Core earnings increased 13.8% to $2,337 million.

This result was achieved in the context of intense competition in the Australian and New Zealand markets, increased provisioning for bad and doubtful debts to maintain coverage ratios at this stage of the credit cycle, and a higher average tax rate.

Reflecting this solid profit performance, Directors intend declaring a final dividend of 22 cents per ordinary share, fully franked, an increase of 10% over the 1997 final dividend of 20 cents per ordinary share, fully franked. The full year dividend of 43 cents (fully franked) represents a dividend payout ratio before abnormals of 61.1% and a 10.3% increase over the 1997 full year dividend of 39 cents per ordinary share (fully franked).

Earnings per share (EPS) before abnormals was stable at 70.1 cents, despite an average 5.0% increase in shares on issue due to the merger with Bank of Melbourne and the conversion of preference shares. Before intangible and abnormals EPS increased 3.1% to 75.8 cents.

The return on capital employed, adjusted for the accounting impacts of goodwill, continued to improve with the pre-abnormal tangible return on tangible equity increasing from 20.9% to 21.5% during the year.

The abnormal item of $70 million after tax principally relates to the expenditure of a non-capital nature, as part of the recently announced upgrading of the national retail branch network. The planned modernisation of the network will make branches more accessible and convenient for customers. This progressive approach to improving service delivery will involve the introduction of new sales and service outlets and the modernisation and reshaping of the existing network.

Key features of the result were:

- Continuing strong asset quality and prudent levels of provisioning. Gross impaired assets declined by 2% to $852 million, with net impaired assets down by 8% to $490 million. Total provisioning cover now stands at 187.9% of total impaired loans and 1.5% of total loans and acceptances.
- Maintenance of a strong capital position with a Tier 1 capital ratio of 6.8% and total tangible equity to tangible assets ratio of 5.0%.
- Australian Retail Financial Services profit on operations up 19.8% to $750 million.
- Institutional Banking profit on operations up 5% to $252 million.
- New Zealand and Pacific profit on operations flat, in Australian dollar terms, at $284 million.
- A 15.2% increase in non-interest income, the major contributors being fee income earned by Bank of Melbourne, financial markets income, growth in fees from retail funds under management and increased general and life insurance income.

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[1] **Comparatives in this section are with the year ended 30 September 1997 unless otherwise stated.**

- Realisation of operating efficiencies from continued investment in technology, back-office rationalisations and the integration of merger partners, with the expense to income ratio before intangibles improving to 58.4% from 60.7% and the staff productivity ratio improving to 3.30 from 2.97.

The result reflects Westpac's strategy to position its business around quality, lower risk earnings streams while building a stronger community and customer focus. A key element has been the development of the skills and commitment of our staff to enhance the quality of customer interactions with Westpac. Westpac sees the development of deeper, multiple product relationships with our customers as critical to building longer term shareholder value.

During the year, this strategy has supported good volume and market share improvements in those market segments where Westpac sees opportunities to balance growth with risk, thereby ensuring appropriate risk adjusted returns on the capital employed. This has included housing loan outstandings, which grew by 14.6% or $4.5 billion in Australia when adjusted for Bank of Melbourne and securitisation impacts, and retail funds under management, where Westpac has ranked number one in net funds inflow over the 12 months to 30 June 1998, with total funds under management increasing 24.5% in the year to 30 September 1998.

Westpac sees the deepening of its community involvement as a critical element of its strategy. As Australia's first bank, developing partnerships with the community is essential to our customer focus. This has involved backing employees with grants to the organisations they serve and providing them with paid time off work to pursue their involvement with community support and charitable organisations. Westpac also directly supports a range of community based activities such as the Westpac rescue helicopter services, disaster relief, and numerous charitable, social and medical research foundations. Additionally, during the year Westpac became the founding benefactor of the Clean Up Australia Environment Foundation.

Looking ahead, competition is expected to remain intense despite a background of recession in Asia and the slowdown in the global economy which is increasingly being felt in both Australia and New Zealand. In this environment, future earnings growth will be enhanced by:

- focusing capital resources and staff on the provision of better value solutions for customers, through continually improving operational efficiency and the way in which the needs of customers are met, thereby increasing multiple-product holdings of customers;
- achieving the full benefits from the recently completed merger with Trust Bank New Zealand and the soon to be completed Bank of Melbourne merger;
- widening the Financial Services product holdings of Westpac's larger customer base; and
- an ongoing focus on costs.

Westpac will continue to maintain its focus on the markets it knows well in Australasia, and on earnings quality built around skilled staff, pricing for risk, prudent provisioning, and a strong balance sheet and capital structure, with the aim of delivering sustainable earnings throughout the credit cycle.

1.2 KEY BUSINESS DEVELOPMENTS

1.2.1 Progress on mergers

WestpacTrust

The integration of the branch networks of Westpac and Trust Bank in New Zealand was successfully completed in August 1998. In the year ended 30 September 1998, the merger yielded synergy benefits of NZ$94 million. The completion of the merger is expected to deliver ongoing synergy benefits of NZ$121 million per annum, NZ$9 million below the previous expectation. The total integration cost was NZ$18 million lower than previously expected at NZ$166 million. Customer retention was successfully maintained during the integration.

The new company, branded “WestpacTrust”, is now well positioned as a significant player in the New Zealand market, and is able to provide better solutions to the 1.3 million New Zealand individuals and businesses it serves. WestpacTrust has the largest branch and ATM network of any bank in New Zealand, a regional structure focused on meeting the needs of customers and a strong community involvement via a wide range of sponsorship activities.

Bank of Melbourne

The merger with Bank of Melbourne is progressing as planned with full state-wide integration of branches, products and systems to be implemented in late 1998, whereby all Bank of Melbourne customers will be able to access Westpac’s full services nationally. Customer retention has been a key focus with no major losses of retail customers recorded to date.

Since the merger announcement, detailed planning has identified additional synergy benefits for marginal additional expenditure on technology and network infrastructure. Synergy benefits are now estimated at $95 million per annum with total estimated integration costs of $180 million. Synergy benefits in the period ending 30 September 1998 total $29 million with $100 million of integration costs incurred to date, of which $23 million has been expensed during the year. These synergy benefits have primarily been achieved through the centralisation of head office functions, and the rationalisation of information technology processes including the infrastructure supporting ATM’s and telephone banking.

1.2.2 Product and market developments

Financial Services

1998 saw Westpac record strong growth in the sale of retail investment products and funds under management. Westpac was number one in the market for net inflow of retail funds with a market share of 13% for the twelve months to 30 June 1998. Total funds under management in Australia have grown from $15.5 billion in September 1997 to $19.3 billion at September 1998, an increase of 24.5%.

The success of funds management products reflects Westpac’s ability to meet customer needs for broad financial services and financial advice - with 480 financial advisors now in place, and 90% of customers surveyed rating the advice they receive from Westpac to be excellent or very good.

Housing Loans

Westpac’s share of new lending in the owner occupied home loan market continued to grow and represented 24.8% of all banks and 20.6% of all lenders for the month of August 1998. Adjusting for the impact of $3.2 billion of Australian mortgages securitised during the year, Westpac's Australian housing outstandings increased by a net $4.5 billion or approximately 14.6%. This strong trend in new lending is being partially offset by the high, but declining, level of portfolio amortisation, as customers benefit from historically low interest rates.

New *Business Options* Overdraft Package

On 31 March 1998, Westpac launched a business overdraft package integrating PC, telephone banking, and card transaction services to allow businesses to better manage their cashflow. The combination of competitive pricing and electronic banking features allows Westpac to compete aggressively for the $9 billion business overdraft market, while achieving satisfactory risk-adjusted returns. This has contributed to growth of 16% in the business overdraft portfolio since the introduction of the package.

1.2.3 Enhancing the Branch Network

Westpac's strategy includes the creation of better and more flexible services for customers. This has been reflected in the continued investment in infrastructure, providing staff with improved tools, processes and training to deliver better solutions for customers. Major activities in 1998 have included:

In-Store Branches

Several in-store branches were opened in NSW, Queensland and Tasmania in pharmacies, supermarkets, general stores and newsagencies. In-store branches offer a full range of personal and business banking facilities but with the added convenience of extended hours and, in many cases, seven-day-a-week operations. They are fully supported by mobile banking staff. In Tasmania, Westpac has joined with the Tasmanian Government and is opening branches in the State Government's new one-stop-shop network called "Service Tasmania", to provide banking in remote communities.

Operational and Processing Centres

Westpac's strategy continues to focus on placing operations nearer the homes of employees and close to transport facilities, in areas where jobs are needed and in centres that improve operational efficiency.

Mortgage Processing Centre ("MPC") - Westpac continued to expand the number of loans serviced at the MPC during the year. In March 1998, the MPC commenced servicing mortgages on behalf of FAI Home Loans, its first third-party arrangement, with a portfolio of over 8,500 loans. The transfer of servicing of the Bank of Melbourne mortgage portfolio, scheduled for November 1998, will add approximately 110,000 mortgages, bringing the total number of loans serviced by the MPC to approximately 637,000. The MPC will then compare favourably on a servicing unit cost basis with US mortgage companies that are several times larger (such as Countrywide, Fleet and Bank of America).

NSW Operations Centre - In November 1997, Westpac successfully completed the implementation of the NSW Operations Centre, located at Concord West. This involved the relocation of over 900 staff in three key operational units from the Sydney CBD. The purpose built centre has the capacity to incorporate some additional interstate operations over the next 12-18 months.

Launceston Telephone Banking Centre - To further its leadership in the provision of telephone banking services, Westpac commenced operations at its fourth site, in the Launceston Technopark in Tasmania, during 1998. Approximately 50% of Westpac's Australian customers use telephone banking, conducting some 37 million calls per annum (more than any other bank in Australia), serviced from centres based in Brisbane, Sydney and Melbourne and Launceston, 85% of which are answered by the automated voice response unit. The Launceston centre represents the first stage of a two stage $5 million development which will eventually employ around 240 staff.

1.2.4 Preparations for Year 2000 and Euro

Westpac's commitment to ensuring no disruption to customer services is demonstrated by our advanced preparations for the Year 2000 date problem and the introduction of the euro.

Year 2000 Project

As at 30 September 1998, 95% of core systems have been rectified and the contingency planning phase has commenced.

Westpac's preparations include:

- planning and development of internal, global and industry-wide testing of payment and data exchange systems;
- working with critical suppliers, customers and other business relationships on Year 2000 preparations;
- extending existing business contingency planning to support continuity of customer service into the next millennium;
- reporting our progress regularly to the Australian Prudential Regulation Authority, the Australian Stock Exchange and liaising with governments, industry bodies and regulators around the globe.

During 1999, the focus of the Year 2000 project will increasingly concentrate on the complexities of internal, global and industry-wide testing, premises remediation and contingency measures. Westpac has increased its estimate of total remediation costs to $85 million for the Year 2000 project. To the maximum extent possible, the project continues to use existing Westpac resources.

Westpac intends to be ready for Year 2000. Information on our progress is available through our web site **www.westpac.com.au** or Westpac Helpdesk on **132 032**.

Introduction of the Euro

Westpac will be ready to trade the euro on its introduction in January 1999. With only 11% of foreign exchange related transaction volumes conducted in the existing legacy currencies, largely as a result of the strategic focus of concentrating on A$ / NZ$ flows, the impact of introduction of the euro will not be significant.

1.2.5 Asian and Emerging Markets Exposures

Westpac's total exposure to Asia was $6,874 million as at 30 September 1998, down 33% from $10,303 million as at 30 September 1997 (and down 14% from $7,960 million as at 31 March 1998).

Emerging markets exposure in Asia, with on-balance sheet loans (net of specific provisions) of $321 million represents just 3.3% of total shareholders' equity plus general provisions.

More details of Westpac's Asian and emerging market exposures are set out in Section 4.1 of this announcement.

1.2.6 Capital and Balance Sheet Management

Balance Sheet Strength

The benefits of Westpac's strategy of maintaining asset quality via controlled growth in lending assets, and the maintenance of prudent levels of provisioning cover will become increasingly important if the credit cycle in Australia and New Zealand is significantly impacted by the slowdown in the world economy.

Westpac's recent asset growth has been primarily through in-market mergers resulting in increased customers and revenues, without undue reliance on aggressive competition where risk can be inappropriately priced. This approach combined with Westpac's dynamic provisioning disciplines, has directed lending away from higher risk exposures which do not provide adequate return for the risk involved.

Asset Securitisation

Asset securitisation is a key component of Westpac's active capital and liquidity management. It involves the sale of loans, principally mortgages, to investors, thereby removing lower return assets from the balance sheet and allowing capital to be redeployed.

As at 30 September 1998, Westpac had securitised a total of $7.2 billion of assets through a combination of private placements and public issues to Australia and overseas investors, of which $3.7 billion was securitised during the year. This included a $2.2 billion (US$1.4 billion) global Mortgage Backed Securities issue. This landmark transaction was the first global asset backed issue out of Australia, the largest debt financing transaction by an Australian corporation and the first asset backed transaction involving non-US assets to be registered with the US Securities and Exchange Commission. In April, Westpac broadened its securitisation program with NZ$298 million of New Zealand residential mortgages being securitised.

These transactions highlight the maturity of Westpac's securitisation program which gives it the capability to access the deepest and most liquid capital markets in a highly efficient manner, thereby increasing the competitiveness of Westpac's mortgage products whilst increasing value to shareholders.

Outstanding securitised loans totalled $5.6 billion as at 30 September 1998, after allowing for amortisation of the initial loans securitised.

Ordinary Share Buy-backs

Westpac continues to use on-market share buy-backs, as part of its active management of total capital to improve shareholder value.

1.2.7 Staff

Westpac has continued to create workplaces of which staff can be proud. Flexibility and diversity of jobs have continued to increase, reflected by the changing mix of staff. In the management levels, 31% of the total and 61% of branch managers are now women.

These workplace improvements have contributed to Westpac's second consecutive silver award in the *Australian Financial Review* / Australian Chamber of Commerce and Industry "Corporate Work and Family" awards for its work environment, which includes paid maternity, paternity and adoption leave, mutual negotiation of hours by part-time staff and home-based staff.

1.3 FINANCIAL SUMMARY

	Six months to/as at		Twelve months to/as at	
	30 Sept 1998	31 March 1998	30 Sept 1998	30 Sept 1997
Shareholder value				
Basic earnings per ordinary share (cents)				
before intangibles and abnormals	38.2	37.6	75.8	73.5
before abnormals	35.4	34.7	70.1	70.0
after abnormals	31.7	34.7	66.4	70.0
Tangible return on tangible average ordinary equity				
before abnormals	21.4%	21.6%	21.5%	20.9%
after abnormals	19.3%	21.6%	20.4%	20.9%
Return on average ordinary equity (annualised)				
before abnormals	15.6%	15.5%	15.5%	17.0%
after abnormals	14.0%	15.5%	14.7%	17.0%
Fully franked dividends per ordinary share (cents)	22.0	21.0	43.0	39.0
Dividend payout ratio				
before abnormals	61.9%	60.4%	61.1%	55.3%
after abnormals	69.1%	60.4%	64.6%	55.3%
Earnings				
Core earnings ($m) [(1)] [(2)]	1,197	1,140	2,337	2,053
Operating profit after income tax attributable to shareholders ($m)				
before abnormals	676	666	1,342	1,291
after abnormals	606	666	1,272	1,291
Return on average assets (annualised)				
before abnormals	0.96%	0.97%	0.96%	1.03%
after abnormals	0.86%	0.97%	0.91%	1.03%
Net interest spread	2.79%	2.93%	2.86%	2.87%
Net interest margin	3.39%	3.49%	3.44%	3.59%
Non-interest income/total operating income	36.2%	35.0%	35.6%	33.3%
Productivity and efficiency				
Productivity ratio [(3)]	3.40	3.21	3.30	2.97
Expense to income ratio before intangibles	57.8%	59.1%	58.4%	60.7%
Personnel numbers				
Implied full time equivalent (FTE) [(4)]	35,512	35,613	35,512	33,477
Average implied FTE	35,398	35,766	35,582	33,860

[(1)] *Operating profit (including gross up) before charge for bad and doubtful debts, income tax, intangibles and abnormals*
[(2)] *See note 1 on page 12 for explanation of gross-up*
[(3)] *Operating income/salaries and other staff expenses*
[(4)] *Implied FTE includes core FTE, overtime, temporary staff and contractors*

1.3 FINANCIAL SUMMARY (Cont'd)

	Six months to/as at		Twelve months to/as at	
	30 Sept 1998	31 March 1998	30 Sept 1998	30 Sept 1997
Capital adequacy				
Capital adequacy ratios				
Total	9.4%	9.0%	9.4%	10.5%
Tier 1	6.8%	6.8%	6.8%	8.0%
Total tangible equity to total tangible assets	5.0%	5.2%	5.0%	6.1%
Total tangible equity to total risk adjusted assets	7.0%	7.0%	7.0%	8.2%
Average ordinary equity ($m)	8,565	8,403	8,484	7,380
Average total equity ($m)	8,789	8,935	8,862	7,983
Assets				
Total assets ($m)	137,319	136,059	137,319	118,963
Total assets pre securitisation ($m)	142,958	139,515	142,958	122,190
Net loans and acceptances ($m)	102,063	101,259	102,063	89,116
Net loans and acceptances pre securitisation ($m)	107,702	104,715	107,702	92,343
Risk-adjusted assets ($m)	97,430	99,839	97,430	87,133
Asset quality				
Impaired loans to total loans and acceptances	0.82%	0.88%	0.82%	0.96%
Specific provisions to total impaired loans	42.5%	37.3%	42.5%	39.3%
Total provisions to total impaired loans	187.9%	179.6%	187.9%	184.2%
Total provisions to total loans and acceptances	1.5%	1.6%	1.5%	1.8%
Total bad and doubtful debt expense to total loans and acceptances (basis points)	11	5	16	9
Total impaired loans to shareholders' equity and total provisions	8.3%	8.7%	8.3%	8.8%

2 PROFIT AND LOSS

2.1 PROFIT AND LOSS STATEMENTS

(Based on audited annual results)

$m	Six months to 30 Sept 1998	Six months to 31 March 1998	Twelve months to 30 Sept 1998	Twelve months to 30 Sep 1997	% Mov't Sept 97 - Sept 98
Interest income					
Deposits with banks	159	123	282	455	*(38.0)*
Investment and trading securities	303	278	581	739	*(21.4)*
Statutory deposits	7	6	13	24	*(45.8)*
Loans and other receivables	4,103	3,917	8,020	7,333	*9.4*
Interest income	**4,572**	**4,324**	**8,896**	**8,551**	***4.0***
Fully tax equivalent gross up *(note 1)*	59	69	128	127	*0.8*
Interest income (including gross up)	**4,631**	**4,393**	**9,024**	**8,678**	***4.0***
Interest expense					
Current and term deposits	(2,114)	(1,813)	(3,927)	(3,672)	*6.9*
Public borrowings	(173)	(187)	(360)	(423)	*(14.9)*
Deposits from banks	(117)	(158)	(275)	(391)	*(29.7)*
Loan capital	(97)	(76)	(173)	(162)	*6.8*
Other liabilities	(322)	(347)	(669)	(550)	*21.6*
Interest expense	**(2,823)**	**(2,581)**	**(5,404)**	**(5,198)**	***4.0***
Net interest income (including gross up)	**1,808**	**1,812**	**3,620**	**3,480**	***4.0***
Non-interest income					
Fees and commissions	708	668	1,376	1,194	*15.3*
Financial markets income	212	198	410	238	*72.3*
General and life insurance income	68	66	134	99	*35.4*
Other income	39	44	83	208	*(60.1)*
Non-interest income	**1,027**	**976**	**2,003**	**1,739**	***15.2***
Operating income (including gross up)	**2,835**	**2,788**	**5,623**	**5,219**	***7.7***
Charge for bad and doubtful debts	(118)	(50)	(168)	(78)	*115.4*
Operating income (including gross up) net of provisions for bad and doubtful debts	**2,717**	**2,738**	**5,455**	**5,141**	***6.1***
Non-interest expenses					
Salaries and other staff expenses	(836)	(868)	(1,704)	(1,754)	*(2.9)*
Equipment and occupancy expenses	(333)	(308)	(641)	(583)	*9.9*
Other expenses	(469)	(472)	(941)	(829)	*13.5*
Amortisation of intangibles	(52)	(54)	(106)	(62)	*71.0*
Non-interest expenses	**(1,690)**	**(1,702)**	**(3,392)**	**(3,228)**	***5.1***
Operating profit before income tax (including gross up)	**1,027**	**1,036**	**2,063**	**1,913**	***7.8***
Fully tax equivalent gross up *(note 1)*	(59)	(69)	(128)	(127)	*0.8*
Operating profit before income tax (excluding gross up)	**968**	**967**	**1,935**	**1,786**	***8.3***
Income tax expense	(289)	(300)	(589)	(493)	*19.5*
Outside equity interests	(3)	(1)	(4)	(2)	*100.0*
Profit on operations	**676**	**666**	**1,342**	**1,291**	***4.0***
Abnormal item (net of tax)	(70)	-	(70)	-	
Operating profit after income tax attributable to shareholders	**606**	**666**	**1,272**	**1,291**	***(1.5)***

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

(Based on audited annual results)

$m	Six months to/ as at 30 Sept 1998	31 March 1998	Twelve months to/as at 30 Sept 1998	30 Sept 1997	% Mov't Sept 97 - Sept 98
Retained profits at the beginning of the financial period	2,090	1,873	1,873	1,366	*37.1*
Operating profit after income tax attributable to shareholders	606	666	1,272	1,291	*(1.5)*
Aggregate of amounts transferred (to)/ from reserves	(30)	(21)	(51)	(53)	*(3.8)*
Total available for appropriation	**2,666**	**2,518**	**3,094**	**2,604**	***18.8***
Dividends provided for or paid	(425)	(428)	(853)	(731)	*16.7*
Retained profits at the end of the financial period	**2,241**	**2,090**	**2,241**	**1,873**	***19.6***
Earnings (cents) per ordinary share after deducting preference dividends					
Basic					
before abnormals	35.4	34.7	70.1	70.0	*0.1*
after abnormals	31.7	34.7	66.4	70.0	*(5.1)*
Fully diluted					
before abnormals	34.5	33.5	68.0	67.8	*0.3*
after abnormals	31.0	33.5	64.5	67.8	*(4.9)*
Weighted average number of fully paid ordinary shares (millions)	1,887	1,872	1,879	1,789	*5.0*

Note 1: *The Group has entered into various tax effective financing transactions that derive income that is subject to either a reduced or zero rate of income tax. The impact of this is reflected in lower income tax expense and interest income. In order to provide improved comparability, this income is presented on a fully tax equivalent basis at a tax rate of 36%. Previously the presentation of this income implied an operating loss on the transactions, that is, negative net interest income and net profit before tax. Prior year comparatives have been restated.*

IMPACT OF MERGER[1]

$m	Reported Group result 30 Sept 1998	Bank of Melbourne	Adjusted Group result 30 Sept 1998
Net interest income (including gross up) [2]	3,620	287	3,333
Non-interest income	2,003	54	1,949
Operating income (including gross up)	5,623	341	5,282
Provisions for bad and doubtful debts	(168)	(10)	(158)
Operating income (including gross up) net of provisions for bad and doubtful debts	5,455	331	5,124
Non interest expenses			
Salaries and other staff expenses	(1,704)	(94)	(1,610)
Equipment and occupancy expenses	(641)	(38)	(603)
Other expenses [3]	(1,047)	(118)	(929)
Non-interest expenses	(3,392)	(250)	(3,142)
Operating profit before income tax and abnormals (including gross up)	2,063	81	1,982
Income tax expense (including gross up)	(717)	(40)	(677)
Outside equity interests	(4)	-	(4)
Operating profit after income tax before abnormals	1,342	41	1,301
Abnormal item (net of tax)	(70)	-	(70)
Operating profit after income tax and abnormals	1,272	41	1,231
Average implied FTE	35,582	1,967	33,615
Group assets ($m)	137,319	11,513	125,806
Net loans and acceptances ($m)	102,063	10,505	91,558
Earnings per ordinary share before abnormal item (cents) [4]	70.1		72.9
Tangible return on tangible average ordinary equity before abnormals	21.5%		21.0%
Return on average ordinary equity before abnormals	15.5%		17.3%
Expenses/income ratio (before intangibles)	58.4%		58.4%
Non-interest income/total operating income	35.6%		36.9%

(1) *The funding split for the merger with Bank of Melbourne ("BML") was 87.1% equity and 12.9% debt.*

(2) *The notional funding costs of the cash component of the acquisition have been included in the net interest income of the Bank of Melbourne.*

(3) *Included in non-interest expenses is the Bank of Melbourne goodwill amortisation expense of $46 million and integration costs of $23m expensed in the year.*

(4) *EPS as at 30 September 1998 has been adjusted for the issue of 142 million shares as part of the consideration for the merger with Bank of Melbourne.*

2.2 INTEREST SPREAD AND MARGIN ANALYSIS

2.2.1 Spread and Margin Analysis

%	Six months to 30 Sept 1998	Six months to 31 March 1998	Twelve months to 30 Sept 1998	Twelve months to 30 Sept 1997
Group				
Interest spread on productive assets[(2)]	2.80	2.96	2.90	2.90
Impact of impaired loans	(0.01)	(0.03)	(0.04)	(0.03)
Interest spread[(1)]	2.79	2.93	2.86	2.87
Benefit of net non-interest bearing liabilities and equity[(3)]	0.60	0.56	0.58	0.72
Interest margin	3.39	3.49	3.44	3.59
Australia				
Interest spread on productive assets[(2)]	3.07	3.25	3.16	3.26
Impact of impaired loans	(0.06)	(0.03)	(0.04)	(0.04)
Interest spread[(1)]	3.01	3.22	3.12	3.22
Benefit of net non-interest bearing liabilities and equity[(3)]	0.56	0.53	0.54	0.72
Interest margin	3.57	3.75	3.66	3.94
New Zealand				
Interest spread on productive assets[(2)]	2.71	2.74	2.74	2.80
Impact of impaired loans	(0.04)	(0.01)	(0.03)	(0.02)
Interest spread[(1)]	2.67	2.73	2.71	2.78
Benefit of net non-interest bearing liabilities and equity[(3)]	0.11	0.12	0.11	0.19
Interest margin	2.78	2.85	2.82	2.97
Other Overseas				
Interest spread on productive assets[(2)]	0.80	0.69	0.74	0.63
Impact of impaired loans	(0.06)	(0.03)	(0.04)	(0.02)
Interest spread[(1)]	0.74	0.66	0.70	0.61
Benefit of net non-interest bearing liabilities and equity[(3)]	0.83	0.83	0.83	0.88
Interest margin	1.57	1.49	1.53	1.49

(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 net of impaired loans.*

(2) ***Interest spread on productive assets*** *is determined on the basis on 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 net non-interest bearing funds as a percentage of average interest earning assets. The calculations for Australia, New Zealand and Other Overseas take into account the interest expense/ income of cross border, intragroup borrowing/lending.*

2.2.2 Average Balance Sheets and Interest Rates

	Twelve months to 30 September 1998			Twelve months to 30 September 1997		
	Average Balance $m	Interest $m	Average Rate %	Average Balance $m	Interest $m	Average Rate %
Assets						
Interest earning assets						
Due from other financial institutions						
Australia	872	34	3.9	845	51	6.0
New Zealand	1,421	115	8.1	1,009	93	9.2
Other Overseas	2,315	133	5.7	3,773	312	8.3
Investment and trading securities						
Australia	5,592	347	6.2	6,018	566	9.4
New Zealand	1,217	76	6.2	820	49	6.0
Other Overseas	2,118	158	7.5	1,967	125	6.4
Regulatory deposits						
Australia	-	-	-	648	7	1.1
New Zealand	-	-	-	-	-	-
Other Overseas	252	13	5.2	293	17	5.8
Loans and other receivables						
Australia	67,496	5,794	8.6	57,087	5,073	8.9
New Zealand	19,131	1,987	10.4	19,695	2,040	10.4
Other Overseas	4,094	345	8.4	3,820	292	7.7
Impaired loans						
Australia	570	15	2.6	628	39	6.2
New Zealand	122	6	4.9	140	12	7.9
Other Overseas	138	1	0.7	84	2	2.4
Intragroup receivable						
Other Overseas	8,902	536	6.0	7,992	485	6.1
Interest earning assets and interest income including intragroup	114,240	9,560	8.4	104,819	9,163	8.7
Intragroup elimination	(8,902)	(536)		(7,992)	(485)	
Total interest earning assets and interest income	**105,338**	**9,024**	**8.6**	**96,827**	**8,678**	**9.0**
Non-interest earning assets						
Cash, bullion, due from other banks and statutory deposits	1,253			460		
Other assets	23,217			17,876		
Provisions for doubtful debts						
Australia	(1,379)			(1,511)		
New Zealand	(117)			(149)		
Other Overseas	(97)			(91)		
Total non-interest earning assets	**22,877**			**16,585**		
Acceptances of customers						
Australia	11,315			11,298		
New Zealand	43			13		
Other Overseas	74			55		
Total assets	**139,647**			**124,778**		

2.2.2 Average Balance Sheets and Interest Rates (Cont'd)

	Twelve months to 30 September 1998 Average Balance $m	Interest $m	Average Rate %	Twelve months to 30 September 1997 Average Balance $m	Interest $m	Average Rate %
Liabilities and shareholders' equity						
Interest bearing liabilities						
Deposits						
Australia	47,772	2,262	4.7	40,729	2,054	5.0
New Zealand	15,459	1,128	7.3	15,809	1,125	7.1
Other Overseas	9,170	538	5.9	8,843	492	5.6
Public borrowings by subsidiary borrowing corporations						
Australia	5,383	329	6.1	5,367	384	7.2
New Zealand	392	31	7.9	450	38	8.4
Other Overseas	2	-	-	16	2	12.5
Due to other financial institutions						
Australia	498	22	4.4	300	19	6.3
New Zealand	110	15	13.6	81	11	13.6
Other Overseas	3,803	238	6.3	4,454	361	8.1
Loan capital						
Australia	2,110	169	8.0	2,001	157	7.8
New Zealand	42	4	9.5	52	5	9.6
Other Overseas	15	-	-	-	-	-
Other interest bearing liabilities						
Australia	5,876	384	6.5	4,371	318	7.3
New Zealand	1,644	146	8.9	846	121	14.3
Other Overseas	2,357	138	5.9	2,096	111	5.3
Intragroup payable						
Australia	5,014	294	5.9	4,118	236	5.7
New Zealand	3,888	243	6.3	3,874	249	6.4
Interest bearing liabilities and interest expense including intragroup	103,535	5,941	5.7	93,407	5,683	6.1
Intragroup elimination	(8,902)	(536)		(7,992)	(485)	
Total interest bearing liabilities and interest expense	**94,633**	**5,405**	**5.7**	**85,415**	**5,198**	**6.1**
Non-interest bearing liabilities						
Deposits and due to other banks						
Australia	3,581			3,169		
New Zealand	1,049			1,168		
Other Overseas	515			448		
Other liabilities	19,575			15,229		
Total non-interest bearing liabilities	**24,720**			**20,014**		
Acceptances						
Australia	11,315			11,298		
New Zealand	43			13		
Other Overseas	74			55		
Total liabilities	**130,785**			**116,795**		
Ordinary shareholders' equity	8,484			7,380		
Preference shareholders' equity	375			600		
Outside equity interests	3			3		
Total shareholders' equity	**8,862**			**7,983**		
Total liabilities and shareholders' equity	**139,647**			**124,778**		

2.2.3 Commentary on Spreads and Margins

Group

During the year, interest spreads were maintained, reflecting the benefits of net interest income hedging and the full year benefit of the Group's securitisation of assets in 1997 and additional securitisation of $3.7 billion in 1998 (as securitisation removes lower margin assets from the balance sheet). In addition, offshore funding has been accessed at a lower cost during the year. These spread enhancing strategies have predominantly offset the full year impact of interest rate cuts in Australia during 1997, and margin compression resulting from competitive pressures in Australia and New Zealand.

In 1998, interest margin for the Group declined 15 basis points to 3.44% with the benefit of net non-interest bearing liabilities and equity falling from 0.72% to 0.58%. The reduction in the benefit of net non-interest bearing liabilities and equity reflects the full year impact of rate cuts in Australia in 1997, and the impact of the continued buy-back of share capital, which reduces the level of free funds. This has been partially offset by the benefit arising on the acquisition of Bank of Melbourne, which was predominantly funded by the issue of shares.

Australia

The interest spread in Australia declined 10 basis points to 3.12% in the year ended 30 September 1998. The spread was impacted by the merger with Bank of Melbourne which had a lower interest spread, principally due to the mix of assets in its portfolio, with a relatively higher proportion of housing loans. Excluding the impact of Bank of Melbourne, Australian interest spreads have decreased by 2 basis point to 3.20%.

With the benefit of net non-interest bearing liabilities and equity declining from 0.72% to 0.54% in 1998, the interest margin in Australia has declined to 3.66%.

New Zealand

Interest spread in New Zealand fell by 7 basis points from 2.78% in 1997 to 2.71% in 1998, principally reflecting a reduction of 6 basis points in the rate earned on productive assets.

The rate earned on loans and other receivables for 1998 remained constant at 10.4%. The cost of deposits rose from 7.1% in 1997 to 7.3% in the same period, however the diversity of funding utilised enabled this adverse impact to be offset.

The benefit of net non-interest bearing liabilities and equity decreased by 8 basis points from 0.19% to 0.11%, leading to a decline in interest margin of 15 basis points to 2.82%.

2.3 NON-INTEREST INCOME ANALYSIS

$m	Six months to 30 Sept 1998	Six months to 31 March 1998	Twelve months to 30 Sept 1998	Twelve months to 30 Sept 1997	% Movt Sept 97 - Sept 98
Fees and commissions					
Lending fees	262	246	508	439	*15.7*
Transaction fees and commissions received	270	263	533	483	*10.4*
Other non-risk fee income	176	159	335	272	*23.2*
	708	**668**	**1,376**	**1,194**	***15.3***
Financial markets income					
Foreign exchange	145	150	295	182	*62.1*
Other	67	48	115	56	*105.4*
	212	**198**	**410**	**238**	***72.3***
General and life insurance income					
Westpac Life MOS [(1)]	45	45	90	67	*34.3*
Insurance commissions and premiums (net of claims paid)	23	21	44	32	*37.5*
	68	**66**	**134**	**99**	***35.4***
Other income					
Dividends received	9	6	15	38	*(60.5)*
Lease rentals	5	7	12	21	*(42.9)*
Cost of hedging overseas operations	(5)	(8)	(13)	(1)	*large*
Service and management fees	2	-	2	9	*(77.8)*
Net profit on sale of premises and investments	15	19	34	95	*(64.2)*
Other	13	20	33	46	*(28.3)*
	39	**44**	**83**	**208**	***(60.1)***
Non-interest income	**1,027**	**976**	**2,003**	**1,739**	***15.2***
Non-interest income/total operating income	**36.2%**	**35.0%**	**35.6%**	**33.3%**	

[(1)] ***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 in Australia. The result has been grossed up to a pre-tax figure with the tax component included within tax expense.*

Commentary on Non-Interest Income[1]

Non-interest income increased by $264 million or 15.2%, resulting from the provision of a more comprehensive range of products to customers and the development of new non-interest earning streams, such as mortgage servicing. Non-interest income now accounts for 35.6% of total operating income, up from 33.3%.

Lending fees increased by $69 million or 15.7% reflecting increased lending volumes, especially in housing products. Transaction fees and commissions received increased $50 million or 10.4%, due principally to the introduction of additional product features and an increase in card merchant business and associated fee income, in particular through the success of the Global Rewards Visa card.

Other non-risk fees increased by $63 million or 23.2% due principally to volume growth, the introduction of new products and services, and the full period impact of the retained spread over the investor margin on the growing portfolio of securitised assets. In addition, management and services fee income has increased as a result of the strong growth in funds under management.

Retail financial services product sales and funds under management continued to grow strongly with total funds under management increasing during the year from $15.5 billion to $19.3 billion at 30 September 1998, an increase of 24.5%. Insurance commissions and premiums growth of $ 12 million or 37.5 % resulted from the broadening of the product range and increased sales to the extensive Westpac customer base. Overall, this focus on retail financial services reflects Westpac's capacity to provide a wide choice of products and services for customers.

Volatility created by the Asian economic environment resulted in strong sales and trading activity, particularly in risk management products. Total financial markets income is up by $106 million reflecting this increased level of activity. The composition of the financial markets income has changed on the prior year with net interest income down by $66 million and non-interest income up by $172 million.

The decline in other income principally reflects a reduction in the net profit on sales of premises and investments. The $34 million profit in 1998 reflects Westpac's continuing rationalisation of its CBD property portfolio and branch sale and leaseback program. Lease rental income has reduced in line with the sale of properties.

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[1] **Comparatives in this section are with the year ended 30 September 1997 unless otherwise stated.**

2.4 NON-INTEREST EXPENSE ANALYSIS

$m	Six months to 30 Sept 1998	Six months to 31 March 1998	Twelve months to 30 Sept 1998	Twelve months to 30 Sept 1997	% Movt Sept 97 to Sept 98
Salaries and other staff expenses					
Salaries and wages	674	732	1,406	1,428	*(1.6)*
Other staff expenses	162	136	298	326	*(8.6)*
	836	868	1,704	1,754	***(2.9)***
Equipment and occupancy expenses					
Operating lease rentals	151	128	279	222	*25.7*
Depreciation and amortisation:					
Premises	5	9	14	17	*(17.6)*
Leasehold improvements	16	9	25	10	*150.0*
Furniture and equipment	22	25	47	51	*(7.8)*
Technology	85	73	158	140	*12.9*
Electricity, water, rates and land tax	16	20	36	40	*(10.0)*
Other equipment and occupancy expenses	38	44	82	103	*(20.4)*
	333	308	641	583	***9.9***
Other expenses					
Amortisation of intangibles	52	54	106	62	*71.0*
Amortisation of deferred expenditure	10	14	24	21	*14.3*
Non-lending losses	16	9	25	24	*4.2*
Consultancy fees, computer software maintenance and other professional services	144	174	318	294	*8.2*
Stationery	45	46	91	84	*8.3*
Postage and telecommunications	102	101	203	185	*9.7*
Insurance	6	6	12	12	-
Advertising	48	51	99	74	*33.8*
Transaction taxes	7	5	12	7	*71.4*
Training	13	8	21	19	*10.5*
Travel	33	28	61	57	*7.0*
Other expenses	45	30	75	52	*44.2*
	521	**526**	**1,047**	**891**	***17.5***
Non-interest expenses	**1,690**	**1,702**	**3,392**	**3,228**	***5.1***
Productivity ratio [(1)]	3.40	3.21	3.30	2.97	
Expense/income ratio before intangibles	57.8%	59.1%	58.4%	60.7%	
Total non-interest expenses per average implied FTE ($000)	95	95	95	95	

[(1)] *Operating income/salaries and other staff expenses*

Commentary on Expenses[1]

Excluding the impact of Bank of Melbourne, non-interest expenses declined $8 6 million or 2.7% reflecting a continuing emphasis on expense control and the realisation of benefits arising from Westpac's continued focus on improving operational efficiency.

The expense to income ratio before intangibles improved from 60.7% to 58.4%, with the productivity ratio increasing from 2.97 to 3.3 0. This reflects the impact of merger synergies, the benefits arising from the centralisation of back-office functions and growth in operating income.

Operating lease rentals increased by $ 57 million to $ 279 million reflecting an increase in lease rentals in Australia, as a result of the branch sale and leaseback program, and the impact of Bank of Melbourne, partially offset by synergy benefits from mergers.

The depreciation charge for leasehold improvements increased $15 million in line with the increase in the number of operating leases following the sale and leaseback program. The increase in technology depreciation of $18 million is in line with Westpac's ongoing investment in infrastructure to improve operational efficiency.

The increase in the amortisation of intangibles reflects the impact of Bank of Melbourne.

Consulting fees, computer software maintenance and other professional services increased $24 million reflecting the integration of Bank of Melbourne, Year 2000 project costs and ongoing focus on initiatives to substantially improve productivity.

The increase in stationery, postage and telecommunication costs principally reflects merger related activity for both Bank of Melbourne and Westpac Trust.

The increase in advertising of $25 million reflects Sydney 2000 Olympic Games related home loan campaigns, the impact of Bank of Melbourne, and merger related advertising in New Zealand.

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[1] **Comparatives in this section are with the year ended 30 September 1997 unless otherwise stated.**

3 BALANCE SHEET ANALYSIS

3.1 BALANCE SHEETS

(Based on audited annual results)

$m As at:	30 Sept 1998	31 March 1998	30 Sept 1997	% Mov't Mar 98-Sept 98	% Mov't Sept 97-Sept 98
Assets					
Cash and balances with central banks	403	350	321	*15.1*	*25.5*
Regulatory deposits	1,196	994	928	*20.3*	*28.9*
Due from other financial institutions	3,290	3,695	4,002	*(11.0)*	*(17.8)*
Trading securities	*6,826*	*7,015*	*6,243*	*(2.7)*	*9.3*
Investment securities	*2,168*	*1,921*	*1,633*	*12.9*	*32.8*
Securities sold not yet delivered	*1,527*	*1,876*	*1,072*	*(18.6)*	*42.4*
Securities purchased under agreements to resell	*370*	*423*	*554*	*(12.5)*	*(33.2)*
Other financial markets assets	*13,007*	*11,489*	*9,370*	*13.2*	*38.8*
Total securities and financial markets assets	23,898	22,724	18,872	*5.2*	*26.6*
Productive loans	*92,522*	*90,468*	*78,629*	*2.3*	*17.7*
Acceptances of customers	*10,325*	*11,524*	*11,242*	*(10.4)*	*(8.2)*
Impaired assets	*816*	*883*	*833*	*(7.6)*	*(2.0)*
Less: provisions for bad and doubtful debts	*(1,600)*	*(1,616)*	*(1,588)*	*(1.0)*	*0.8*
Net loans and acceptances	102,063	101,259	89,116	*0.8*	*14.5*
Fixed assets	1,599	1,599	1,672	-	*(4.4)*
Intangible assets	1,788	1,837	1,029	*(2.7)*	*73.8*
Other assets	3,082	3,601	3,023	*(14.4)*	*2.0*
Total assets	**137,319**	**136,059**	**118,963**	***0.9***	***15.4***
Liabilities and equity					
Deposits	77,479	77,605	66,818	*(0.2)*	*16.0*
Public borrowings	5,685	5,791	5,818	*(1.8)*	*(2.3)*
Bonds, notes and commercial paper	10,580	8,099	6,273	*30.6*	*68.7*
Acceptances	10,325	11,524	11,242	*(10.4)*	*(8.2)*
Securities liabilities	2,329	3,642	1,589	*(36.1)*	*46.6*
Due to other financial institutions	4,343	4,344	4,570	-	*(5.0)*
Other financial markets liabilities	11,486	10,505	9,276	*9.3*	*23.8*
Other liabilities	3,958	3,784	3,276	*4.6*	*20.8*
Total liabilities excluding loan capital	**126,185**	**125,294**	**108,862**	***0.7***	***15.9***
Subordinated bonds, notes and debentures	1,778	1,288	1,200	*38.0*	*48.2*
Subordinated perpetual notes	745	693	695	*7.5*	*7.2*
Total loan capital	**2,523**	**1,981**	**1,895**	***27.4***	***33.1***
Total liabilities	**128,708**	**127,275**	**110,757**	***1.1***	***16.2***
Net assets	**8,611**	**8,784**	**8,206**	***(2.0)***	***4.9***
Shareholders' equity					
Share capital	1,899	1,925	1,861	*(1.4)*	*2.0*
Reserves	4,466	4,768	4,466	*(6.3)*	-
Retained profits	2,241	2,086	1,873	*7.4*	*19.6*
Outside equity interests	5	5	6	-	*(16.7)*
Total shareholders' equity	**8,611**	**8,784**	**8,206**	***(2.0)***	***4.9***

3.1.1 Loans

$m As at:	30 Sept 1998	31 March 1998	30 Sept 1997
Australia			
Overdrafts	2,664	2,452	2,534
Credit card outstandings	2,952	2,661	2,415
Overnight and call money market loans	86	143	80
Own acceptances discounted	2,498	1,445	918
Term loans:			
Housing	35,378	35,750	26,275
Non-housing	19,920	18,758	17,790
Finance leases	2,216	1,970	2,050
Investments in leveraged lease and equity lease partnerships	306	316	303
Redeemable preference share finance	1,175	1,214	1,296
Other	3,134	3,071	2,163
Total - Australia	70,329	67,780	55,824
New Zealand			
Overdrafts	1,019	1,040	998
Credit card outstandings	503	508	510
Overnight and call money market loans	388	365	332
Own acceptances discounted	29	39	76
Term loans:			
Housing	10,396	10,642	11,115
Non-housing	6,084	6,119	6,334
Finance leases	23	24	29
Redeemable preference share finance	379	287	304
Other	110	145	149
Total - New Zealand	18,931	19,169	19,847
Other Overseas			
Overdrafts	188	170	181
Overnight and call money market loans	-	1	1
Term loans:			
Housing	911	922	594
Non-housing	1,983	1,997	1,733
Finance leases	104	90	96
Other	892	1,222	1,186
Total - Other Overseas	4,078	4,402	3,791
Total gross loans	**93,338**	**91,351**	**79,462**
Provisions for bad and doubtful debts	(1,600)	(1,616)	(1,588)
Total net loans	**91,738**	**89,735**	**77,874**
Securitised loans[(1)]			
Housing loans			
Australia	5,206	3,231	3,227
New Zealand	208	-	-
Other loans	225	225	-
	5,639	**3,456**	**3,227**

[(1)] *Net of amortisation in initial loans securitised*

3.1.2 Deposits and Public Borrowings

$m As at:	30 Sept 1998	31 March 1998	30 Sept 1997
DEPOSITS			
Australia			
Non-interest bearing	3,663	3,303	3,206
Certificates of deposit	3,588	4,268	2,086
Other interest bearing			
At call	25,602	24,971	20,758
Term	18,870	18,384	16,017
Total deposits in Australia	51,723	50,926	42,067
New Zealand			
Non-interest bearing	657	1,155	1,101
Certificates of deposit	1,836	2,196	2,294
Other interest bearing			
At call	5,920	5,089	5,439
Term	7,790	8,010	8,383
Total deposits in New Zealand	16,203	16,450	17,217
Other Overseas			
Non-interest bearing	519	449	478
Certificates of deposit	1,522	2,888	1,523
Other interest bearing			
At call	670	623	586
Term	6,842	6,269	4,947
Total deposits Other Overseas	9,553	10,229	7,534
Total deposits	**77,479**	**77,605**	**66,818**
PUBLIC BORROWINGS BY SUBSIDIARY BORROWING CORPORATIONS			
Australia			
Secured	3,851	4,027	4,259
Unsecured	1,479	1,378	1,126
Total public borrowings in Australia	5,330	5,405	5,385
New Zealand			
Secured	347	362	396
Unsecured	8	24	18
Total public borrowings in New Zealand	355	386	414
Other Overseas			
Unsecured	-	-	19
Total public borrowings Other Overseas	-	-	19
Total public borrowings by subsidiary borrowing corporations	**5,685**	**5,791**	**5,818**

3.2 BALANCE SHEET ANALYSIS

Westpac's balance sheet movements reflect a disciplined approach to asset pricing to ensure appropriate returns on capital and rewards for risk.

Assets

Total assets increased by $18. 4 billion or 15.4 % to $137.3 billion at 30 September 1998. This increase excludes additional net securitised assets of $2.4 billion for the year. The growth includes assets acquired through the merger with Bank of Melbourne which contributed $11.5 billion or 8.4% of total assets.

In Australia, gross loans increased by $14.5 billion including Bank of Melbourne loans of $10.6 billion. This principally comprises an increase in housing loans of $9.1 billion and $2.1 billion in non-housing loans. Continued focus on marketing of credit card products, together with the continued success of the Global Rewards Visa card, has resulted in a 22% growth ($0.5 billion) in outstandings in Australia. Adjusting for the impact of $3.2 billion of securitisation during the year, total adjusted housing loans increased by $12.3 billion.

In New Zealand, the impact of exchange rate fluctuations has reduced total assets by approximately $1.0 billion. Year on year, the gross level of loans in local currency increased by 2% reflecting the economic slowdown. Adjusting for the impact of exchange rate fluctuations and NZ $298 million of loans securitised during the year, total adjusted housing loans remained stable.

The depreciation of the A$ against the US$ and the decline in interest rates resulted in a significant increase in other financial market assets, principally from the revaluation impact of off-balance sheet instruments.

Liabilities

Liabilities increased by $17.9 billion or 16.2 % at 30 September 1998, with $7.6 billion resulting from the merger with Bank of Melbourne.

The growth in the lending portfolio, including the merger with Bank of Melbourne, has resulted in increased wholesale funding of approximately $4.3 billion, as reflected in the increase in bonds, notes and commercial paper.

In Australia, the 23.3% ($4.8 billion) growth in call deposits reflects the continued underlying growth in core transaction and savings accounts, including the impact of Bank of Melbourne ($2.8 billion).

In New Zealand, the movement in total liabilities is almost entirely attributable to the impact of exchange rate fluctuations which have reduced total liabilities by approximately $1.0 billion.

The depreciation of the A$ against the US$ and the decline in interest rates has also resulted in a significant increase in other financial market liabilities principally from the revaluation impact of off-balance sheet instruments.

Shareholders' Equity

Shareholders' Equity increased by $0.4 billion, mainly due to the issue of shares for the Bank of Melbourne merger, partially offset by share buy-backs.

[1] **Comparatives in this section are with the year ended 30 September 1997 unless otherwise stated.**

4 ASSET QUALITY

4.1 ASIAN AND EMERGING MARKETS EXPOSURE

Total Asian exposure was $6,874 million; down 33% from $10,303 million as at 30 September 1997 and down 14% from $7,960 million as at 31 March 1998, comprising:

- $2,351 million in on-balance sheet loans;
- $1,013 million in off-balance sheet legally committed but undrawn loan commitments;
- $614 million in off-balance sheet outstandings (principally guarantee and trade transactions); and
- $2,896 million in unfunded, pre-settlement risk exposure arising from foreign exchange and interest rate business, of which $1,425 million represents the replacement cost (positive mark-to-market) of amounts owed to Westpac by counterparties and $1,471 million represents an estimate of potential credit risk exposure arising from future movements in currency and interest rates over the life of the counterparty contracts. Virtually all of the exposure is with major banks in Japan, Singapore and Hong Kong.

The quality of the exposures has been maintained with 81% of exposures being to investment grade customers and 59% to Japanese customers (75% of this to banks). Exposures are also of relatively short duration with 75% contractually maturing in 12 months and 40% in 6 months.

Some 29% of the on-balance sheet Asian exposures relates to exposures booked outside Asia, generally supported by assets in Australia and New Zealand.

Emerging markets exposure in Asia (Indonesia, South Korea, Thailand, Malaysia and the Philippines) represents only 11% of total Asian exposure ($741 million) with on-balance sheet loans (net of specific provisions) of $321 million representing just 3.3% of total shareholders' equity plus general provisions.

The slight increase in exposures in Malaysia and China (including Hong Kong) is largely due to movements in the A$/US$ exchange rate against the prior periods.

On-balance sheet loans to Asia represented just 2.3% of the total Westpac loan portfolio.

Non-Asian emerging markets exposure (Eastern Europe, Latin America, and Middle East/Other) totalled $51 million and relates principally to supporting Australasian trade flows.

Asian and Emerging Markets Exposure by Customer Type

As at	30 Sept 98					31-Mar-98	30-Sep-97
A$m	Government	Banks & NBFIs[1]	Corporate	Project Finance	Total	Total	Total
Asia							
Indonesia	29	39	23	106	197	202	197
South Korea	-	18	227	111	356	421	437
Thailand	-	21	25	34	80	141	190
Malaysia	-	7	97	2	106	80	90
Philippines	-	2	-	-	2	2	3
Sub-total	**29**	**87**	**372**	**253**	**741**	**846**	**917**
China (incl H.K.)	-	696	385	42	1,123	1,079	907
Taiwan	-	32	11	1	44	57	44
Singapore	82	415	311	47	855	967	894
Japan	-	3,088	1,002	7	4,097	5,005	7,529
Other	-	10	-	4	14	6	12
Total Asia	**111**	**4,328**	**2,081**	**354**	**6,874**	**7,960**	**10,303**
Emerging Markets							
Eastern Europe	-	-	7	-	7	7	not
Latin America	-	-	10	-	10	10	available
Middle East/Other	-	25	9	-	34	35	
Total Emerging Markets	**-**	**25**	**26**	**-**	**51**	**52**	

[1] *NBFIs - non-bank financial institutions*

Asian and Emerging Markets Exposure by Category

As at	30 Sept 98					31-Mar-98	30-Sep-97
A$m	On-balance sheet loans	Off-balance sheet outstandings	Pre-settlement risk	Undrawn commitment	Total	Total	Total
Asia							
Indonesia	119	49	-	29	197	202	197
South Korea	201	34	13	108	356	421	437
Thailand	80	-	-	-	80	141	190
Malaysia	22	21	-	63	106	80	90
Philippines	-	-	2	-	2	2	3
Sub-total	**422**	**104**	**15**	**200**	**741**	**846**	**917**
China (incl H.K.)	853	38	123	108	1,122	1,079	907
Taiwan	33	5	3	3	44	57	44
Singapore	266	318	217	54	855	967	894
Japan	764	149	2,537	648	4,098	5,005	7,529
Other	13	-	1	-	14	6	12
Total Asia	**2,351**	**614**	**2,896**	**1,013**	**6,874**	**7,960**	**10,303**
Emerging Markets							
Eastern Europe	7	-	-	-	7	7	not
Latin America	10	-	-	-	10	10	available
Middle East/Other	22	5	7	-	34	35	
Total Emerging Markets	**39**	**5**	**7**	**-**	**51**	**52**	

4.2 Impaired Assets

$m As at	30 September 1998 Gross	Specific Prov'n	Net	31 March 1998 Gross	Specific Prov'n	Net	30 September 1997 Gross	Specific Prov'n	Net
Non-accrual assets									
Australia	457	(176)	281	517	(204)	313	609	(205)	404
New Zealand	121	(42)	79	104	(35)	69	104	(42)	62
Other Overseas	206	(130)	76	204	(75)	129	70	(48)	22
Total	784	(348)	436	825	(314)	511	783	(295)	488
Restructured assets									
Australia	39	(9)	30	50	(9)	41	38	(16)	22
New Zealand	8	(1)	7	25	(9)	16	41	(24)	17
Other Overseas	21	(4)	17	7	(4)	3	7	(4)	3
Total	68	(14)	54	82	(22)	60	86	(44)	42
Total impaired assets[1]	**852**	**(362)**	**490**	**907**	**(336)**	**571**	**869**	**(339)**	**530**

[1] *Includes off-balance sheet impaired items of $36 million ($24million as at 31 March 1998, $36 million as at 30 September 1997).*

4.3 Items Past Due 90 Days But Well Secured [1]

$m As at	30 Sept 1998	31 March 1998	30 Sept 1997
Australia			
Housing products	107	148	165
Other products	74	100	147
Total	181	248	312
New Zealand			
Housing products	35	28	23
Other products	31	21	32
Other Overseas	105	87	14
Total	171	136	69
Total	**352**	**384**	**381**

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

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

4.4 Income on Non-Accrual and Restructured Assets

$m	Twelve months to 30 Sept 1998	Twelve months to 30 Sept 1997
Interest received on non-accrual and restructured assets	24	52
Estimated interest forgone on non-accrual and restructured assets	64	102
Interest yield on average non-accrual and restructured assets	2.9%	6.1%

4.5 Bad and Doubtful Debt Charge and Ratios

	Six months to/ as at		Twelve months to/as at	
$m	30 Sept 1998	31 March 1998	30 Sept 1998	30 Sept 1997
New specific provisions	143	82	225	146
Specific provisions no longer required	(56)	(85)	(141)	(213)
Specific provisions (net)	87	(3)	84	(67)
General provision (net)[1]	31	53	84	145
Total charge for bad and doubtful debts	118	50	168	78
Bad and doubtful debts charge to average loans and acceptances (%)	0.11	0.05	0.16	0.08

[1] *Addition after recognition of write-offs and recoveries.*

4.6 PROVISIONS FOR DOUBTFUL DEBTS

$m	Six months to/ as at 30 Sept 1998	31 March 1998	Twelve months to/as at 30 Sept 1998	30 Sept 1997
General provision				
Balance at beginning of period	1,280	1,249	1,249	1,316
Exchange rate and other adjustments	8	(8)	-	(15)
Provisions of controlled entities acquired	-	60	60	-
Charge to operating profit	31	53	84	145
Recoveries of debts previously written off	42	47	89	93
Write-offs	(123)	(121)	(244)	(290)
Balance at period end	1,238	1,280	1,238	1,249
Specific provisions				
Balance at beginning of period	336	339	339	531
Exchange rate and other adjustments	(8)	(3)	(11)	(1)
Provisions of controlled entities acquired	-	17	17	-
New specific provisions	143	82	225	146
Specific provisions no longer required	(56)	(85)	(141)	(213)
Write-offs	(53)	(14)	(67)	(124)
Balance at period end	362	336	362	339
Total provisions	**1,600**	**1,616**	**1,600**	**1,588**

Ongoing portfolio reviews during the second half of 1998 resulted in a decision to increase provisioning cover against Asian exposure by a net $30 million to $160 million, to protect against further possible negative developments. This is largely the result of a deterioration in the global economic outlook. Provisions held against Asian exposures now total $101 million of specific provisions, with a further $59 million of general provisions. Continued reductions in impaired assets in the non-Asian portfolio have partially offset the impact of increased provisioning for Asia. Total provisions to total impaired loans remain at prudent levels of 187.9% at 30 September 1998 (179.6% at 31 March 1998 and 184.2% at 30 September 1997).

In determining the general provision level for September 1998, $20 million has been allocated to cover risks arising from potential customer defaults in meeting credit obligations because of inadequate preparation for Year 2000 problems. Westpac will continue to re-assess the adequacy of this provision allocation as the millennium draws nearer.

5 STATEMENTS OF CASHFLOWS

(Based on audited annual results)

$m	Twelve months to 30 Sept 1998	30 Sept 1997
Cash flows from operating activities		
Interest received	9,035	8,585
Interest paid	(5,161)	(5,132)
Dividends received	15	38
Other non-interest income received	747	637
Non-interest expenses paid	(2,772)	(2,833)
(Increase)/ decrease in trading securities	484	(722)
Income taxes paid	(360)	(568)
Net cash provided by/(used in) operating activities	**1,988**	**5**
Cash flows from investing activities		
Proceeds from sale of investment securities	928	680
Proceeds from matured investment securities	52	1,266
Purchase of investment securities	(656)	(1,348)
Net (increase)/decrease in:		
Loans	(7,033)	547
Due from other financial institutions	960	2,483
Regulatory deposits	(106)	(30)
Other assets	1,191	589
Securitisation of loans	2,412	2,886
Fixed assets additions	(398)	(318)
Proceeds from disposal of fixed assets	273	300
Controlled entities acquired	(174)	(346)
Net cash provided by/(used in) investing activities	**(2,551)**	**6,709**
Cash flows from financing activities		
Redemption of loan capital	(94)	(479)
Issue of loan capital	350	-
Proceeds from issue of shares	89	30
Buyback of shares	(1,306)	(251)
Net increase/(decrease) in:		
Due to other financial institutions	(800)	(1,280)
Deposits and public borrowings	1,131	(2,919)
Bonds, notes and commercial paper	2,109	(1,103)
Other liabilities	(126)	(113)
Payment of dividends to shareholders	(708)	(684)
Decrease in outside equity interests	(1)	(2)
Net cash provided by/(used in) financing activities	**644**	**(6,801)**
Net (decrease)/ increase in cash and cash equivalents	**81**	**(87)**
Effect of exchange rate changes on cash and cash equivalents	1	-
Cash and cash equivalents at the beginning of the financial period [1]	321	408
Cash and cash equivalents at the end of the financial period	**403**	**321**

[1] *Cash and cash equivalents comprise cash and balances with central banks as shown in the balance sheet*

5 STATEMENTS OF CASHFLOWS (Cont'd)

	Twelve months to	
	30 Sept	30 Sept
$m	**1998**	**1997**
Reconciliation of net cash provided by operating activities to operating profit after income tax		
Operating profit after income tax	1,272	1,291
Adjustments:		
Outside equity interests	4	2
Depreciation	244	218
Sundry provisions and other non-cash items	(466)	(808)
Bad and doubtful debts	257	171
(Increase)/decrease in trading securities	484	(722)
(Increase)/decrease in accrued interest receivable	11	34
Increase/(decrease) in accrued interest payable	243	66
Increase/(decrease) in provision for income tax	57	(218)
Increase/(decrease) in provision for deferred income tax	(113)	(409)
(Increase)/decrease in future income tax benefits	106	521
Amounts paid out of sundry provisions	(111)	(141)
Total adjustments	716	(1,286)
Net cash provided by/(used in) operating activities	1,988	5
Non-cash operating, investing and financing activities		
Issuance of 142 million $1 ordinary shares fully paid at a premium of $7.23 each as part consideration for acquisition of Bank of Melbourne Limited	(1,169)	-
Details of assets and liabilities of controlled entities acquired are as follows:		
Acquisitions		
Due from other financial institutions	47	-
Trading securities	707	-
Investment securities	652	-
Regulatory deposits	109	-
Loans	9,972	-
Other investments	-	346
Fixed assets	49	-
Other assets	60	-
Deposits and public borrowings	(8,904)	-
Bonds, notes and commercial paper	(1,885)	-
Due to other financial instititutions	(10)	-
Other liabilities	(329)	-
Intangible assets	913	-
	1,381	346
Integration costs provided, net of tax benefit	(63)	-
	1,318	346
Issuance of shares as part consideration	(1,169)	-
Current period cash payment for acquisition (net of cash acquired)	149	346
Cash acquired	25	-
Cash consideration and costs	174	346

6 BUSINESS GROUP RESULTS (Unaudited)

To enable a more in depth analysis of Westpac's results, the following business group results have been presented on a management reporting basis. 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 add 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 the sale of equity investments. Where the management reporting structure has changed or where accounting re-classifications have been made, comparatives have been restated and will therefore differ from results previously reported.

6.1 AUSTRALIAN RETAIL FINANCIAL SERVICES

$m	12 months to/as at 30 Sept 98	12 months to/as at 30 Sept 97	% Mov't Sept 97 - Sept 98
Net interest income	2,574	2,375	*8.4*
Non-interest income	944	729	*29.5*
Operating income	3,518	3,104	*13.3*
Provision for bad and doubtful debts	(143)	(159)	*(10.1)*
Operating income net of provisions for bad and doubtful debts	3,375	2,945	*14.6*
Non-interest expenses	(2,235)	(1,990)	*12.3*
Operating profit before tax	1,140	955	*19.4*
Tax and outside equity interests	(390)	(329)	*18.5*
Profit on operations	750	626	*19.8*
	$bn	**$bn**	
Deposits and other public borrowings	41.9	34.8	*20.4*
Net loans and acceptances	62.7	50.2	*24.9*
Total assets	68.9	55.7	*23.7*
Funds under management	19.3	15.5	*24.5*
Expense/income (before intangibles)	61.8%	63.6%	
Productivity ratio	3.05	2.74	
Non-interest income/operating income	26.8%	23.5%	

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

Commentary

In 1998, profit on operations increased by approximately 20%, reflecting growth in the portfolio via increased product penetration and cross selling to a larger customer base.

Growth has been achieved by utilising an integrated sales approach leveraging off the customer base of both the existing Westpac network and new customers gained through Westpac Life, Challenge Bank, and Bank of Melbourne. Product cross selling continues to deliver strong growth in sales of financial services and consumer finance products. The continued focus on reducing the cost base via investment in infrastructure, increased skilling of staff and other projects focused on improving productivity, has directly benefited customers via a portfolio of competitively priced products.

Whilst Bank of Melbourne has contributed incremental net interest income, strong competition and record low interest rates have seen continuing pressure placed on net interest income. This has been particularly evident in business lending, deposit products, personal loans and some transaction accounts. Additionally, the full period impact of securitisation completed in prior years, together with additional securitisation during 1998, reduced net interest income (but increased non-interest income).

Non-interest income increased $215 million or 29.5%. The major contributors to this increase being fee income earned by Bank of Melbourne, growth in fees from retail funds under management and increased general and life insurance income. Credit card merchant business and associated fee income, particularly the highly successful Global Rewards Visa product and the additional opportunities that flow from the sponsorship of the Sydney 2000 Olympic Games, have also contributed to the growth.

Non-interest expenses were flat on the prior year, excluding the $250 million related to Bank of Melbourne.

The lower provision for bad and doubtful debts reflects a reduction in impaired assets, lower levels of new specific provisions, and higher recoveries of debts written off in previous periods.

Customer Outcomes

Westpac’s focus on meeting its customer’s needs is the foundation for continuing to build market share and returns for shareholders.

In the personal customer market, customer satisfaction ratings are improving in line with a corresponding improvement in staff morale. Customer satisfaction has also improved in the business customer market as a result of strengthened relationship management and the introduction of initiatives and products such as Westpac’s Business Options Overdraft.

Strategies and programs for retail customer growth, recognition and reward are focused on delivery of key strategies including:

- the establishment of tiered personal relationship management for priority customers to deliver the best level of service possible;
- a range of marketing initiatives to support staff in offering proactive advice on how customers might manage their banking more efficiently to save time and money;
- exclusive offers for the Sydney 2000 Olympic Games;
- the introduction of banking channel privileges for priority customers, including preferential Telephone Banking services; and
- streamlining processes to make it easier for priority customers to do their banking.

This year saw the introduction of a number of banking packages designed to meet needs of market segments. These include a professionals package (tailored to eligible professionals, executives and investors), a Shareholders First package (available to Australian resident shareholders holding 500 or more Westpac ordinary shares), an Agripac package (providing a range of products and services for agribusiness customers), a Farmwide Banking Package (established for member organisations of the National Farmers Federation) and the introduction of Smartpay which allows customers to have their salary paid directly into their Premium Option home loan account, with easy access to these funds via direct transfers to a transaction or credit card account. These packages have been well accepted by customers, recognising the benefits of segment specific advice and financial services solutions, and delivering market share increases.

Retail investment product sales and funds under management have continued to grow strongly reflecting the increased penetration of the large customer base. For the twelve months to June 1998 Westpac ranked first for net inflow in retail funds with a market share of 13.0%. The Westpac Personal Portfolio Service was the number one discretionary master fund with an increase in funds under administration of $1billion for the year to June 1998.

The success of funds management products reflects Westpac’s ability to meet customers needs for broad financial services and financial advice - with 480 financial advisers now in place, and 90% of customers surveyed rating the advice they receive from Westpac to be excellent or very good.

Delivery Channels

Westpac recently announced an infrastructure program to accelerate the existing strategy for developing in-store branches in a range of locations, and the modernisation and reshaping of its national retail and business banking network, to better meet the needs and lifestyle changes of its customers. It is anticipated that the magnitude of this program could be as much as $300 million.

Electronic delivery channels have been strengthened throughout the year in response to the changing needs of customers. Over 70% of all transactions are now conducted electronically. On 1 June 1998, Westpac released its Internet on-line banking service and by the end of September 1998 there were in excess of 20,000 customers registered. The July 1998 KPMG Internet Home Banking Survey rated Westpac's service equal first in Australia.

Staff Initiatives

Westpac recognises the strong link between customer satisfaction and staff satisfaction and has put considerable effort into initiatives to improve staff morale. These include increased emphasis on training, communication and staff involvement in Sydney 2000 Olympic Games related programs.

A 10.5% increase in training expenditure has focused on improving skills in coaching and support, and enhancing the clarification of role definitions and responsibilities, resulting in productivity improvements through all levels of management and staff.

6.2 INSTITUTIONAL BANKING

$m	12 months to/as at 30 Sept 98	12 months to/as at 30 Sept 97	% Mov't Sept 97 - Sept 98
Net interest income	417	445	*(6.3)*
Non-interest income	541	405	*33.6*
Operating income	958	850	*12.7*
Provision for bad and doubtful debts	(84)	18	*566.7*
Operating income net of provisions for bad and doubtful debts	874	868	*0.7*
Non-interest expenses	(463)	(495)	*(6.5)*
Operating profit before tax	411	373	*10.2*
Tax and outside equity interests	(159)	(134)	*18.7*
Profit on operations	252	240	*5.0*
	$bn	**$bn**	
Deposits and other public borrowings	18.6	13.7	*35.8*
Net loans and acceptances	20.7	20.1	*3.0*
Total assets	44.6	38.6	*15.5*
Expense/income (before intangibles)	48.3%	58.3%	
Productivity ratio	4.01	3.48	
Non-interest income/operating income	56.5%	47.6%	

Institutional Banking provides commercial and investment banking products and services to corporate and institutional customers either based, or with significant operations, in Australia and New Zealand in the areas of financing, financial markets, transactional services (cash management, trade, and payment products), and corporate finance.

Institutional Banking's goal is to be the pre-eminent wholesale bank in Australasia. Its core strategy of customer intimacy aims to deliver innovative and tailored products, solutions and service to a clearly defined market, and it continues to be a market leader in the relationship management of its core customers.

The general downturn in the global economy, the increased globalisation of financial services, and the rising commitment of global investment banks to Australasia, has increased competition in all business units within Institutional Banking. As a result, 1998 has seen a significant compression in margins, a commoditisation of core product sets, and a significant increase in volatility in credit exposures, revenues and returns across all business units.

Despite this backdrop, operating profit before tax increased by $38 million or 10.2% over 1997. Declining market conditions in Asia however, have resulted in the bad debt charge increasing by $102 million. Core earnings increased by $140 million on the prior year.

Total expenses have fallen by $32 million or 6.5%, inclusive of costs related to the completion of the Real Time Gross Settlement system and the global centralisation project during the year. Significant system expenditure was also incurred to ensure Year 2000 capability. These projects will provide the opportunity for further cost savings in future years and ensure that the requirements of customers continue to be met. The expense to income ratio improved to 48.3%.

The majority of the growth in operating income was generated in financial markets, with operating income increasing by $98 million over the prior year. Volatility in the world's financial markets has continued through the second half of the year and resulted in strong sales and trading activity, particularly in risk management products. The composition of the financial markets income has changed on the prior year with net interest income down by $33 million and non-interest income up by $131 million.

Corporate Finance had a solid year with the second half performance benefiting from the sale of infrastructure bonds and an increase in the advisory activities provided to customers.

Competitive pressures and historically low interest rates contributed to contracting margins and reductions in net interest income in the traditional lending products. Transactional businesses have also experienced contracting margins but these have been offset through growth in business volumes and deposit levels.

The Property Finance business performance has been sustained, while the overall quality of the portfolio has improved over the year, reflecting the focus on maintaining the level of risk adjusted returns.

The bad debt charge of $84 million compares to net write backs of $18 million recorded in the prior year. The impact of the Asian economic conditions has resulted in increases in doubtful debt provisions through the dynamic provisioning process.

Asset levels have increased from $38.6 billion to $44.6 billion. This is predominantly due to revaluations of forward contracts arising from the fall in the spot value of the A$ against the US$ in the current year. Balance sheet management remains an area of focus and Westpac continues to be selective in providing lower margin corporate lending to customer relationships that provide an adequate overall return on shareholders funds.

6.3 WESTPACTRUST AND PACIFIC REGIONAL BANKING

$m	12 months to/as at 30 Sept 98	12 months to/as at 30 Sept 97	% Mov't Sept 97 - Sept 98
Net interest income	789	791	*(0.3)*
Non-interest income	338	331	*2.1*
Operating income	1,127	1,122	*0.4*
Provision for bad and doubtful debts	(10)	(30)	*(66.7)*
Operating income net of provisions for bad and doubtfu	1,117	1,092	*2.3*
Non-interest expenses	(691)	(667)	*3.6*
Operating profit before tax	426	425	*0.2*
Tax and outside equity interests	(142)	(140)	*1.4*
Profit on operations	284	285	*(0.4)*
	$bn	**$bn**	
Deposits and other public borrowings	14.0	14.1	*(0.7)*
Net loans and acceptances	17.1	18.0	*(5.0)*
Total assets	19.0	20.0	*(5.0)*
Funds under management	0.9	1.1	*(18.2)*
Expense/income (before intangibles)	58.0%	56.0%	
Productivity ratio	3.71	3.41	
Non-interest income/operating income	30.0%	29.5%	

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

WestpacTrust

Profit on operations decreased $21 million in the year. After adjusting for the impact of exchange rate fluctuations, profit on operations decreased by $15 million, reflecting a one-off increase in non-interest expenses over the prior year due to integration costs resulting from the merger.

Net interest income increased by $10 million (adjusted for exchange rate variances) over the prior year with increased loan volumes partially offset by lower margins. WestpacTrust also securitised NZ$298 million in housing loans during the year, the first transaction of this type for the New Zealand operation.

Non-interest income increased by $3 million (adjusted for exchange rate variances) on the prior year in line with the growth in lending and the extension of financial services products to the broader WestpacTrust customer base.

The bad and doubtful debts charge increased over the prior year. The 1997 result benefited from a higher level of recoveries than experienced in the current year.

Details on the recently completed merger are included in section 1.2.1.

Pacific Regional Banking

During 1998 all markets within the Pacific region were impacted by the global economic downturn, and there have been considerable economic challenges confronting the regional governments over the past few years, resulting in subdued economic growth. Despite this, Pacific Regional Banking recorded a 51% improvement in overall profit on operations in the current year due to growth in operating income and further bad debt recoveries. This excellent performance was achieved against a background of flat economic growth and market volatility, following substantial currency movements in the Fiji dollar and PNG kina.

Net interest income grew by $6 million or 6% due to a combination of increased lending across most locations and maintenance of margins through active balance sheet management. Weak economic activity throughout the region continues to dampen growth opportunities. Overall balance sheet totals have been adversely impacted in Australian dollar terms by the 20% devaluation of the Fiji dollar in January 1998 and the substantial depreciation of the PNG and Solomon Islands currencies during the year.

Non-interest income has increased by $11 million or 18.5% on the prior year. This improvement was enhanced through growth in foreign exchange income in PNG, Fiji and Solomon Islands due to greater turnover and market volatility.

Expenses have been held flat in local currency terms with the expense to income ratio improving from 65.7% to 60.2%.

Significant improvements have been made in overall portfolio quality with low levels of new specific provisions required and strong recoveries of bad and doubtful debts. The strategy has continued to focus on establishing a risk profile in selected market segments, consistent with the emerging economic cycle.

7 GEOGRAPHIC SEGMENT RESULTS

	Twelve months to		As at	
	30 Sept 1998	30 Sept 1997	30 Sept 1998	30 Sept 1997
	Profit on operations ($m)		Total assets ($bn)	
Australia	1,021	881	104.4	85.1
New Zealand	216	245	23.8	24.2
Pacific Islands	62	37	1.8	1.6
Asia	(69)	24	3.0	3.7
Americas	41	50	2.4	1.7
Europe	71	54	1.9	2.7
Total	**1,342**	**1,291**	**137.3**	**119.0**

Profit on operations

Australia Results have been impacted by the merger with Bank of Melbourne, securitisation, continued investment in infrastructure to provide benefits to customers and costs in relation to the Year 2000 project. The 1997 profit also included higher profits on the sale of investments and property.

New Zealand The New Zealand result reflects the difficult domestic economic conditions which have resulted in a slowdown in the rate of growth in the portfolio. Merger related expenditure and exchange rate variances have also impacted results. The sale of equity investments positively impacted the 1997 result.

Pacific Islands The increase in profit is attributable to growth in foreign exchange income, growth in lending and improved bad debts due to lower levels of new specific provisions and increased write backs.

Asia The decrease in Asia's profit on operations is a result of the increase in bad debt provisioning due to the economic slowdown experienced in this region.

Americas and Europe Fluctuations in profit have largely been influenced by trends in financial markets income and the transfer of offshore treasury operations from New York to London.

Total Assets

Australia The increase of $19.3 billion in Australia reflects the merger with Bank of Melbourne, growth in the loan portfolio (in particular housing), and the increase in the positive mark-to-market value of off-balance sheet instruments. Adjusting for securitisation undertaken during the year, total assets increased by $22.8 billion.

New Zealand In New Zealand, the impact of exchange rate fluctuations has reduced total assets. Year on year asset growth was minimal reflecting the economic conditions and intense competition.

Asia The decrease in assets reflects the downsizing of Asian operations, particularly Japan, given the current economic climate.

Americas and Europe During the year offshore treasury operations were transferred from New York to London. The movement in asset levels reflects the investment activity undertaken and exchange rate fluctuations.

8 CAPITAL ADEQUACY

As at $m	30 Sept 1998	31 March 1998	30 Sept 1997
Tier 1 capital			
Total shareholders' equity	8,611	8,784	8,206
Asset revaluation reserves	(144)	(178)	(202)
Intangible assets	(1,788)	(1,837)	(1,029)
Future income tax benefit net of deferred tax liability	(24)	-	(11)
Total tier 1 capital	**6,655**	**6,769**	**6,964**
Tier 2 capital			
Asset revaluation reserves	144	178	202
Subordinated undated capital notes	745	693	695
General provision for doubtful debts	1,238	1,280	1,249
Future income tax benefit related to general provision	(446)	(461)	(450)
Eligible subordinated bonds, notes and debentures	1,390	1,097	1,021
Total tier 2 capital	**3,071**	**2,787**	**2,717**
Tier 1 and tier 2 capital	**9,726**	**9,556**	**9,681**
Deductions:			
Other banks' capital instruments	(9)	(9)	(9)
Investment in controlled entities or associates [(1)]	(380)	(346)	(346)
Capital in funds management and securitisation activities [(2)]	(198)	(233)	(209)
Net qualifying capital	**9,139**	**8,968**	**9,117**
Risk adjusted assets	**97,430**	**99,839**	**87,133**
Tier 1 capital ratio	6.8%	6.8%	8.0%
Tier 2 capital ratio	3.2%	2.8%	3.1%
Deductions	(0.6)%	(0.6)%	(0.6)%
Net capital ratio	**9.4%**	**9.0%**	**10.5%**

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

(2) *This deduction has been made pursuant to the APRA 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, commodity prices and equities and enters into derivatives transactions in the normal course of business for trading, primarily as an intermediary to meet customers' needs, and for its own balance sheet management purposes.

Derivatives positions used in the Group's asset and liability management activities are transacted internally with the Group's independently managed dealing units. The dealing units, in turn, cover their positions externally in the market place. Any such external transactions are reflected in the table of trading derivatives below.

Trading Derivatives Outstandings

As at 30 September 1998 $bn	Notional amount[(1)]	Regulatory credit equivalent[(2)]	Positive mark-to-market (replacement cost)[(3)]	Negative mark-to-market[(4)]
1998				
Interest rate				
Futures	15.1	-	-	-
Forwards	19.8	-	-	-
Swaps	126.7	3.6	3.0	3.2
Purchased options	4.7	-	-	-
Sold options	6.1	0.8	-	-
Foreign exchange				
Forwards	304.6	10.0	6.8	6.1
Swaps	26.4	2.7	1.7	1.5
Purchased options	14.4	1.1	0.9	-
Sold options	14.3	-	-	0.5
Commodities	0.7	0.1	-	-
Equities	1.0	0.1	-	0.3
Total derivatives	**533.8**	**18.4**	**12.4**	**11.6**
As at 31 Mar 1998	**459.0**	**15.0**	**10.7**	**10.4**
As at 30 Sept 1997	**486.9**	**13.9**	**8.7**	**8.9**

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

(2) ***Regulatory credit equivalent*** *is calculated using APRA 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.*

Maturity profile of derivatives outstandings in replacement cost terms

As at 30 September 1998 $bn	0-3 months	3-6 months	6-12 months	1-2 years	2-5 years	> 5 years	Total
Interest rate							
Swaps	0.1	0.1	0.2	0.5	1.4	0.7	3.0
Foreign exchange							
Forwards	3.8	1.4	0.9	0.3	0.2	0.2	6.8
Swaps	0.1	0.2	0.5	0.2	0.6	0.1	1.7
Purchased options	0.4	0.1	0.1	0.1	0.1	0.1	0.9
Total derivatives	4.4	1.8	1.7	1.1	2.3	1.1	12.4

64% of credit risk matures within one year and 73% within two years.

97% of credit exposure was to investment grade customers.

Daily earnings at risk [(1)]

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

Westpac has previously used an EAR model which was based on a variance - covariance approach. The EAR over the past two years using this method are presented in Table 1.

Table 1

$m	High	Low	Average
Year ended 30 September 1998	12.63	4.27	7.71
Year ended 30 September 1997	10.88	4.94	7.43

From 2 January 1998, Westpac has implemented a new internal model using historical simulation, for the calculation of EAR on its entire interest rate and foreign exchange trading portfolio. However, Westpac uses a standard regulatory model approach for its commodity and equity portfolios. These models are now used for internal modelling and regulatory purposes. Table 2 depicts EAR during the six months ended 30 September 1998 using the historical simulation approach. This method will be the primary monitoring and reporting method going forward. Any variation in the results reflect differences in methodology. The primary difference represents the benefits of a larger portfolio diversification effect under the historic simulation method.

Table 2

$m	High	Low	Average
Six months ended 30 September 1998	9.24	3.98	6.27

The increase in market risk levels in 1998 is consistent with Westpac's overall strategy of increasing risk income from financial markets business within prudent exposure limits.

10 CREDIT RATINGS

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

11 DIVIDENDS

	Six months to		Twelve months to	
cents per share	**30 Sept 1998**	**31 Mar 1998**	**30 Sept 1998**	**30 Sept 1997**
Ordinary dividend (fully franked @ 36%)				
Interim	-	21.0	21.0	19.0
Final	22.0	-	22.0	20.0
Total dividend provided for or paid	**$m**	**$m**	**$m**	**$m**
Ordinary	418	388	806	692
Preference	7	17	24	39
	425	405	830	731
Underprovision for 1997 final dividend [1]	-	23	23	-
	425	428	853	731
Ordinary dividend payout ratio (before abnormals)	61.9%	60.4%	61.1%	55.3%

[1] *Underprovision due to the increased number of shares on issue as a result of the merger with Bank of Melbourne. These shares were issued subsequent to the end of the previous financial year.*

12 CHANGES IN ACCOUNTING POLICIES

During the current financial year the Group changed its policy on accounting for the cost of purchased and internally developed computer software. From 1 October 1997, internal and external costs incurred in the purchase or development of computer software including subsequent upgrades and enhancements, are capitalised. Previously, the Group only capitalised the costs associated with major projects. The accounting policy was changed as a consequence of recent international developments in accounting for the costs of computer software developed or obtained for internal use. The effect of the change is to increase operating profit after tax by $24 million.

The capitalised software is amortised over its expected life, which is usually 3 years but no greater than 10 years. Costs incurred on computer software maintenance and modifications of existing computer software for Year 2000 compatibility are expensed as incurred.

13 EXCHANGE RATES

	30 September 1998	
Currency	**Average**	**Spot**
US$	0.6469	0.5940
GB£	0.3913	0.3480
NZ$	1.1577	1.1859

14 INCOME TAX

$m	Six months to/ as at 30 Sept 1998	31 March 1998	Twelve months to/as at 30 Sept 1998	30 Sept 1997
Income tax reconciliation				
Operating profit before abnormal items and before income tax (excluding gross up)	968	967	1,935	1,786
Fully taxable equivalent gross up	59	69	128	127
Operating profit before income tax (including gross up)	1,027	1,036	2,063	1,913
Prima facie tax on operating profit before income tax (excluding gross up) based on the company tax rate in Australia of 36%	348	348	697	643
Add/(deduct) reconciling items expressed on a tax effected basis:				
Rebateable and exempt dividends	(43)	(29)	(72)	(75)
Tax losses now tax effected	(14)	(16)	(30)	(33)
Timing differences not tax effected	19	10	29	1
Non-assessable items	(37)	(20)	(57)	(28)
Non-deductible items	38	39	77	63
Other permanent differences	2	(31)	(29)	(25)
Adjustment for overseas tax rates	(4)	(10)	(14)	(47)
Prior period adjustments	(21)	9	(12)	(6)
	(60)	(48)	(108)	(150)
Total income tax expense attributable to operating profit	**288**	**300**	**589**	**493**
Fully taxable equivalent gross up	59	69	128	127
Total income tax charge (including gross up)	**347**	**369**	**717**	**620**
Effective tax rate (including gross up)	**33.8%**	**35.6%**	**34.8%**	**32.4%**

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: **$m**	**30 Sept 1998**	**30 Sept 1997**	**30 Sept 1998**	**30 Sept 1997**
	*** USD**	***USD**	**AUD**	**AUD**
Net profit as reported	**823**	994	**1,272**	1,291
Depreciation on buildings	**5**	8	**8**	10
Gain on sale of properties (including amortisation of gains on sale of properties subject to lease back arrangements)	**(7)**	40	**(11)**	52
Amortisation of goodwill not recognised based on 20 year life	**(9)**	(12)	**(15)**	(15)
Superannuation (pension) expense adjustment	**3**	29	**6**	37
Adjustment re provision for employee redundancy benefits	**21**	-	**33**	-
Life insurance adjustment (net of tax)	**5**	(9)	**8**	(12)
Adjusted US GAAP net profit	**841**	1,050	**1,301**	1,363

*USD amounts are calculated using the follow ing average exchange rates:
Year ended 30 September 1997: AUD1 = USD0.7701
Year ended 30 September 1998: AUD1 = USD0.6469

As at: **$m**	**30 Sept 1998**	**30 Sept 1997**	**30 Sept 1998**	**30 Sept 1997**
Shareholders' equity as reported	**5,115**	5,906	**8,611**	8,206
Outside equity interests	**(3)**	(4)	(5)	(6)
	5,112	5,902	**8,606**	8,200
Elimination of asset revaluation reserve	**(86)**	(145)	**(144)**	(202)
Depreciation on buildings	**29**	29	**48**	40
Deferred gains on sale of properties subject to lease back arrangements	**(46)**	(29)	**(76)**	(40)
Adjustment re provision for employee redundancy benefits	**19**	-	**33**	-
Goodwill not recognised on acquisitions	**24**	39	**40**	55
Restoration of previously deducted goodwill less amortisation and amounts written-off	**2**	3	**5**	5
Life insurance adjustment (net of tax)	**2**	(9)	**4**	(12)
Investment securities fair value adjustment (including life company investment)	**2**	(1)	**3**	(1)
Superannuation (pension) expense adjustment	**(58)**	(74)	**(97)**	(103)
Final dividend provided	**249**	255	**418**	354
Adjusted US GAAP equity	**5,249**	5,970	**8,840**	8,296

*USD amounts are calculated using the follow ing spot exchange rates
Year ended 30 September 1997: AUD1 = USD0.7197
Year ended 30 September 1998: AUD1 = USD0.5940

There is no material difference between the level of assets at 30 September 1998 and 30 September 1997 as reported and the level of assets determined as at these dates 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, 9 December 1998 (Sydney time) at:

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

(Dividends payable to shareholders on the New Zealand register will be converted to local currency at the ruling buying rate for telegraphic transfers at 11.00am on 9 December 1998.)

New York

For American Depository Receipts, at 5.00pm, 8 December 1998 (New York time) at:

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

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

Tokyo

At 3.00pm, 9 December 1998 (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: 1 December 1998.

The date proposed for the payment of the final dividend is 4 January 1999.

BA McNee
Group Secretary and General Counsel

11 November 1998

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