Westpac
Australia's First Bank

1. PRESS RELEASE

WESTPAC REPORTS RECORD ANNUAL PROFIT

2006 Highlights: (All comparisons are with 2005 full year result, A-IFRS basis)

- Record net profit of $3,071 million, up 14%
- Record cash earnings of $3,079 million, up 10%
- Record cash earnings per share of $1.67, up 10%
- Record dividend $1.16, fully franked, up 16%, with higher payout ratio of 69%
- Return on equity (cash basis) 23%
- Expense to income ratio down 110 basis points to 47%
- Solid loan growth, up 15% and deposit growth, up 12%
- Sound asset quality with net impaired assets down 40 basis points to 1.5% as a proportion of equity and provisions

2nd Half 2006 Highlights: (All comparisons are with 2006 interim result)

- Net profit of $1,602 million, up 9% for the six months
- Cash earnings of $1,568 million, up 4% for the six months
- Expense to income ratio of 46%, down 40 basis points
- Loans up 9% and deposits up 9% for the six months

Selected Financial Information	Full Year 2006	Full Year 2005	% Change
Earnings			
Cash earnings per share	$1.67	$1.52	10
Cash earnings	$3,079m	$2,804m	10
Net profit	$3,071m	$2,698m	14
Returns			
Return on equity	23.0%	21.7%	130bps

2006 Performance Overview

Westpac Banking Corporation today announced a record profit of $3,071 million, for the 12 months ended 30 September 2006, up 14%. Cash earnings[1] increased 10% to $3,079 million.

Westpac also announced a final dividend of 60 cents fully franked, up 18% on the prior corresponding period. This takes the full year dividend to a record $1.16, up 16% on 2005, with a higher dividend payout ratio of 69%.

As previously disclosed, however, the result was disappointingly affected by a one-off credit card accrual error. This issue has been thoroughly investigated and rectified.

Westpac's Chief Executive Officer, David Morgan said: "This is a sound result. We have again delivered a record profit with good lending, deposit and wealth management growth.

"For the 8th year in a row Westpac has achieved double-digit earnings growth on a like-for-like basis[2], driven by sound revenue growth and disciplined expense growth.

"While our 2006 performance was sound, it was nevertheless below our potential. However, operational momentum has successfully picked-up, particularly in the second half where our core businesses performed strongly. Our major investments over recent years in leading-edge sales and service platforms are beginning to pay dividends.

[1] *Cash earnings are calculated as net profit after tax less distorting and one-off items (including Treasury shares impacts, NZ Class share distributions in 2005, fair value changes of hedges on hybrid equity and significant one-off non core items).*
[2] *Cash earnings with the 2002 to 2003 growth normalised for the sale of AGC in 2002.*

"As a result, revenue was up 9% to $9,184 million, on an adjusted basis[1]. This reflected robust loan growth, up 15%, and sound deposit growth, up 12%, in the year. Good loan growth was delivered in mortgages and cards and business lending was particularly strong in the second half of the year.

"BT remains a profitable growth engine, with wealth management an increasingly important performer for us. It is an increasingly significant contributor to our bottom line as we capitalise on superannuation and insurance opportunities.

"The rebuilding of volumes is pleasing and provides good momentum into 2007," Dr Morgan said.

Increased volume growth was accompanied by a 10 basis points decline in underlying margins (16 basis points decline on a reported basis) which was at the top end of our medium term expectations. Pricing at competitive levels, changes in the asset mix and strong growth in high yielding deposit accounts contributed to the margin decline.

Expenses were up 4% on an adjusted basis for the year. The expense to income ratio is now at 46.6%, down 110 basis points for the year.

Credit quality remained sound with total impaired assets as a ratio of gross loans and acceptances falling to a low of 0.22% at year end from 0.27% at year end 2005.

"We will continue to drive future growth by taking full advantage of our unique competitive advantage in sales and service platforms. Our Reach, Pinnacle, Corporate On-line and Wrap platforms give our people smarter ways to drive cross-sell.

"Adding to this we've employed an additional 581 front-line sales and service staff in the year, while adding 11 new branches and business banking centres and refurbished 188 of our 819 Australian branches in the last 12 months.

"We've also put on over 70 new agribusiness and regional managers to continue to grow this successful business and assist rural producers through this severe drought.

"Our decision to embrace sustainable and responsible business practices was the right one. It is now translating from workplace gains into business gains and positions us well to deliver future growth. We're a bank people want to work for and one that people want to deal with given our stance on sustainable development and strong communities," Dr Morgan said.

Business Unit Performance

Cash earnings (in A$ millions)	Full Year 2006	Full Year 2005	% Change
Business and Consumer Banking	$1,682m	$1,517m	11
Institutional Banking (ex Structured Finance)	$433m	$361m	20
New Zealand	$423m	$405m	4
BT Financial Group	$339m	$309m	10
Pacific Banking	$76m	$65m	17

Business unit performance was strong, with the exception of the New Zealand consumer business.

In terms of cash earnings:

- Australian Business and Consumer Banking was up 11%:
  - Consumer segment up 16%
  - Business segment up 7%
- Institutional Bank delivered a solid 20% growth. This excluded structured finance (down 42%) which was impacted by the previously announced exiting of the New Zealand structured finance activity. Including structured finance, cash earnings were up 4%;
- New Zealand was up 4% in A$ terms but flat in NZ$ terms;

[1] *Adjusted results remove impacts that distort inter-period comparisons (including certain accounting standards and reclassifications and one-off significant items that don't reflect ongoing underlying performance).*

- BT Financial Group up 21% on an underlying basis (after adjusting for the 2005 impact of the sale of JDV and the termination of the Life Company concessional tax rates) and up 10% on a reported basis. It delivered a strong ROE of 16%. The business achieved significant double digit growth in major portfolios including Wrap (34%), Margin Lending (48%), Advice sales (32%) and Corporate Super (18%). A strong pipeline for institutional flows means BT is exceptionally well positioned for 2007; and
- Pacific Banking result up 17%.

Outlook

Despite interest rates continuing to rise, the economic environment should remain supportive for 2007 with growth expected to improve modestly and unemployment remaining at historically low levels.

"Overall, we expect a slight easing in housing credit growth in 2007, while still remaining in double digits. Business credit should return to more sustainable levels after a very buoyant 2006. We also expect wealth management conditions to remain very positive, with the recent superannuation taxation changes assisting in driving growth," Dr Morgan said.

In New Zealand, economic growth is expected to remain subdued, as high interest rates and a strong currency continue to dampen activity. As a result, credit growth should slow slightly in 2007. Performance improvement in the New Zealand consumer segment remains a priority in this challenging environment.

"In 2007, we will be looking to take advantage of our improved operational momentum, our new branding campaign, and our orientation towards top line growth. We are targeting loan growth at least in line with system growth and, given current competitive intensity, expect margin decline to again be towards the upper end of our medium term expectations of 5 to10 basis points.

"Added to this our leading-edge sales and service platforms and infrastructure enhancements give us a further edge that others find hard to match. That's why we are confident that our straightforward strategy of putting more 'feet on the street', investing in our growth businesses and further enhancing our productivity is one that offers attractive top and bottom line growth upside.

"We go into 2007 in good shape. With our improved performance momentum we expect strong cash earnings growth in 2007," Dr Morgan said.