Westpac Accounting Workshop

April 2007

Agenda

Purpose

- To increase the understanding of Westpac's financial accounts, particularly following the introduction of A-IFRS in 2006.

Items on the agenda

- Westpac Group Treasury
- Changes in reporting for 1H07
- Our approach to New Zealand dollar hedging
- Explaining the connections between statutory and management accounts
- Drivers of A-IFRS impairment provisioning

Westpac Australia's First Bank

Westpac Group Treasury

Phil Coffey, Chief Financial Officer
Philip Chronican, Group Executive, Westpac Institutional Bank
Curt Zuber, Group Treasurer

Treasury – a core bank function

- Manages underlying balance sheet risk of the Bank
- Efficiently funds the bank
- Executes capital management strategies
- Centralises risk to allow the business units to focus on customer outcomes (pricing, service etc)
- Risk/return parameters:
  - Optimise risk within Board risk limits
  - Generate value from actively managing financial flows
  - Focus on economic returns and not be influenced by accounting standards
- A valuable source of earnings

Treasury – the Banker to the Bank

Interest Rate Risk

- Hedges the transfer priced balance sheet
- Reduces risk from absolute interest rate changes and yield curve shifts

Liquidity

- Manages risk from mismatched cash flows generated by our business
- Ensures liquidity under a wide range of market and stressed conditions

Structural FX

- Manages risk arising from investment (and earnings) outside Australia – mainly New Zealand

Wholesale Funding

- Provision of competitively priced wholesale funding within liquidity management parameters
- Builds and maintains diverse global funding sources by investor base, currency and instrument

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Underlying balance sheet risk managed down

	Interest Rate Risk	Liquidity	Structural FX	Wholesale Funding
Key risk	Sensitivity to adverse movements in Australian and NZ interest rates Repricing risk between the cash rate & 90 day bank bills	Mismatched cash flows generated by the business	Exposure to foreign currency movements	Movements in credit spreads Over reliance on any one source of wholesale funding
Indicative Size	Banking assets ~$230bn Banking deposits and capital ~$130bn	Prudential and liquid assets >$10bn	Hedging of capital deployed offshore, offshore earnings & funding raised in foreign currencies	Wholesale borrowing >$100bn

Risk arising from the Bank's day-to-day activities

Group Treasury manages risk down

Exposures managed within VaR limits, Net interest income at risk limits, liquidity limits and hedging policies

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Risks managed within approved limits

Treasury (Non-traded)		Financial Markets (Traded)
Banking Book	**Portfolio Risk**	
• Largely passive management of assumed balance sheet risk and qualifying hedges • Management of strategic interest rate risk associated with the investment of the Bank's capital	• Active management of Westpac driven balance sheet risk: – Cash vs 90 day bank bills – Wholesale funding – AUD/NZD interest rates – Capital, earnings hedging	• Active risk management of largely customer driven books: – FX – AUD/NZD Interest rates – Energy – Equities

FY06 Non-traded VaR[1, 2] ($m)	
Limit	$30m Banking Book, $15m Portfolio Risk
Average	15.0
High	32.8
Low	6.9

FY06 Traded VaR[1] ($m)	
Limit	$15m
Average	5.9
High	8.3
Low	4.2

1. 1 day holding period to a 99.0% confidence level 2. No diversification benefit taken into account

Risks managed within a comprehensive framework

	How is it managed?	What are the parameters?
Interest Rate Risk	Hedges used (mostly swaps) to manage exposure to movements in interest rates	Board approved VaR limits Net interest income at risk limit Structural limits
Liquidity	Portfolio of liquid assets maintained to meet regulatory and other requirements at minimal cost	Board approved liquidity framework APRA requirements
Structural FX	Hedges used to manage exposure to movements in foreign exchange rates	MARCO approved hedging policies MARCO oversight
Wholesale Funding	Efficiently fund gap between assets and retail deposits	Board approved Funding Plan

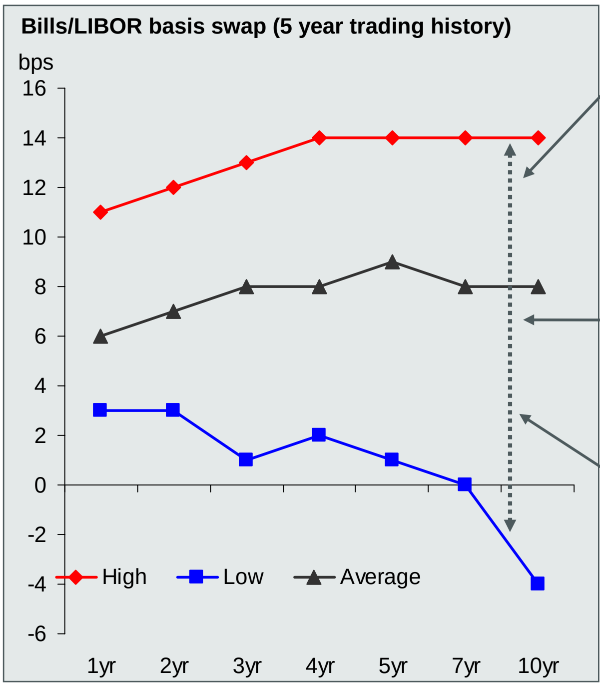
MARCO - Market Risk Committee

Value creation leveraging natural market position

Activities actively managed	Value proposition	Tools to manage
• AUD & NZ interest rate risk • Cross currency basis swap risk arising from conversion of foreign currency borrowing into AUD • AUD/NZD foreign exchange	• Balance sheet activity provides leading economic indicators e.g. credit growth, borrowing/lending flows, asset quality, capital flows • Technical knowledge of domestic and offshore market flows, drivers and structures • Clear offshore funding requirement • Investment in people and skills	Highly liquid products including: • Interest rate swaps • Currency swaps • Forwards • Options • Futures • Bonds

Activities focused on risk areas where we have a natural position derived from the balance sheet

Value creation – case study



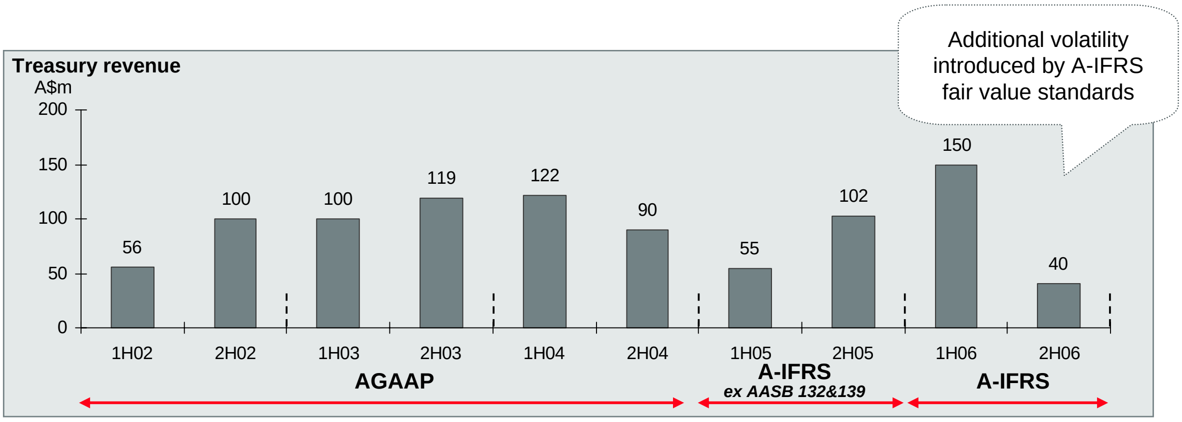
- Westpac USD borrowings converted into AUD via Bills/LIBOR basis swap
- Bills/LIBOR basis swap has traded in the range of +14bps to -4bps over last 5 years
- Largely supply/demand driven

- Need to convert offshore funding into A$ makes Westpac a regular participant in this market

- Treasury actively manages our flows within the Bills/LIBOR swap range within approved risk limits

Treasury – a valuable source of earnings

- Treasury is a valuable source of earnings– not a growth driver
- Factors impacting earnings include balance sheet size, market volatility, risk appetite and funding requirement
- Group is comfortable with risk appetite, with a healthy ROE
- Annual revenue reasonably stable, though half on half revenue more volatile under A-IFRS



Transfer pricing and income allocation rules have changed over time and prior periods have not been restated in the chart above

Treasury income composition under A-IFRS

$m	A-IFRS *ex AASB 132 &139* 1H05	2H05	A-IFRS 1H06	2H06
Net interest income	86	155	125	17
Contribution to Group margin[1]	*7bps*	*12bps*	*10bps*	*2bp*
Non interest income	(31)	(53)	25	23
Operating Income	**55**	**102**	**150**	**40**

- Under A-IFRS, the majority of Treasury revenue is reported in net interest income
- Non-interest income, predominantly Foreign Exchange earnings, which is now reported under Trading income (Note 6 of reported results)
- Treasury operating income and income composition will be separately disclosed in Westpac's Profit Announcement in 1H07, under Group Business Unit (GBU) results

1. Group margin calculation excludes impact of internally allocated capital and securitisation income, and will therefore not directly reconcile to net interest income stated above.

A-IFRS Accounting Impacts

- Group Treasury's underlying activities and risk profile have not changed under the new accounting standards
  - Board limits essentially unchanged over last 4 years
- However, reported earnings are more volatile due to:
  - Decreased availability of hedge accounting with the introduction of prescriptive qualification criteria under A-IFRS
  - Increase use of fair value accounting e.g. Bills/LIBOR swaps entered into as part of wholesale funding activities
- Group Treasury is a consistent creator of shareholder value but A-IFRS makes the reported accounting outcome more volatile

Westpac Group Treasury

- An active Treasury function is vital for the effective management of risk for the Bank
- Risk profile appropriate and unchanged over recent years
- Earnings volatility from Treasury is higher under A-IFRS
- Makes a valuable contribution to earnings, with a strong return

Questions

Items on the agenda

- Westpac Group Treasury

Australia's First Bank

Changes in reporting for 1H07

Phil Coffey, Chief Financial Officer

Increasing the clarity of our reported results

Market feedback after FY06 reporting period:

- Complex linkages between management accounts and statutory accounts
- Many adjustments
- Many prior period changes

Our Response	Impact
Provide a consolidated management accounting view for the Group with a detailed reconciliation of cash earnings (at the line item level) to the statutory accounts	Improved linkage between detailed statutory accounts and management accounts
Reduced number of adjustments	Adjustment to line items will only be processed for cash earnings adjustments and accounting anomalies - other major items will continue to be noted but *not* adjusted Prior period adjustments only applied if significant and only applied once per year (unless absolutely necessary)
Selected reporting of average balance sheet by geography	Additional disclosure
Reporting of FX adjusted growth rates	Simpler presentation of the impact of movement in exchange rates
Inclusion of new wealth reconciliation	Reconciliation of BT non-interest income to wealth income in statutory accounts now focuses on business drivers
Removal of net operating income table from Section 3	Simplified presentation of results

Looking at reported results versus cash earnings

Profit Announcement Table 2.1 Reported Earnings
Reported results as per statutory accounts

$m	Half Year March 07	Half Year Sept 06	Half Year March 06
Net interest income		2,782	2,860
Non-interest income		1,872	1,703
Net operating income		4,654	4,563
Operating expenses		(2,160)	(2,135)
Core earnings		2,494	2,428
Impairment losses		(190)	(185)
Profit from ordinary activities before income tax		2,304	2,243
Income tax expense		(673)	(749)
Net profit		1,631	1,494
Net profit attributable to outside equity interests		(29)	(25)
Net profit attributable to equity holders of Westpac Banking Corporation (WBC)		1,602	1,469
Treasury shares		(3)	12
TPS revaluations		-	30
Unrealised NZ Retail earnings hedges		-	-
Sale of sub-custody business		(72)	-
Deferred tax asset write-off		41	-
Cash earnings		1,568	1,511

Adjustments will reconcile from statutory Net Profit After Tax to Cash Earnings

Profit Announcement
New Table 2.1.1 Cash Earnings
Cash Earnings adjustments reclassified to appropriate line items; Reclassifications between line items to eliminate accounting anomalies

$m	Half Year March 07	Half Year Sept 06	Half Year March 06
Net interest income		2,782	2,860
Non-interest income		1,755	1,701
Net operating income		4,537	4,561
Operating expenses		(2,160)	(2,135)
Core earnings		2,377	2,426
Impairment losses		(190)	(185)
Operating profit before tax		2,187	2,241
Income tax expense		(590)	(705)
Net profit		1,597	1,536
Net profit attributable to outside equity interests		(29)	(25)
Cash earnings		1,568	1,511

Cash Earnings the key performance measure

Westpac uses Cash Earnings because it is a more relevant indicator of performance than Net Profit After Tax

Cash Earnings Principles: The following adjustments are applied to NPAT

Items that permanently affect reported earnings but do not impact returns available to shareholders Such items typically have an accounting impact on earnings but no economic impact on earnings	e.g.	Treasury shares
Items that have the potential for a material timing difference on reported earnings but would not impact returns available for shareholders An example would be where an effective hedge is in place but because hedge accounting is not available for certain transactions under A-IFRS, there may be differences in the value of the hedge verses the value of the underlying item at any point in time. We will adjust for these when they are material	e.g.	Hybrid hedging NZD hedging
Significant one off items that impact reported earnings These items are genuinely one-off in that they are unlikely to reoccur in future periods	e.g.	Sale of sub-custody business

Calculating cash earnings under A-IFRS

Net Profit After Tax (NPAT) – adjustments	Description	Line item impacted (statutory line item impacted in brackets)
+/- Treasury shares	A-IFRS requires Westpac shares held by the consolidated Group, including statutory life funds and managed investment schemes, to be derecognised. This creates an issue as we cannot recognise any change in value in Westpac's shares but need to recognise the change in policyholder liabilities. We reverse this treatment to ensure there is no impact on profits available to shareholders.	Non-interest income (Wealth management income) and tax expense
+/- Fair value changes on hedges of Westpac's hybrid equity instruments	Fair value gains/losses on hedges associated with the 2003 Trust Preferred Securities (2003 TPS), together with associated tax effects impacting the Foreign Currency Translation Reserve, are reversed in deriving cash earnings so they do not affect profits available for shareholders	Non-interest income (Hedging of overseas operations) and tax expense
+/- Timing of income associated with hedges in place to hedge Westpac's New Zealand Dollar retail earnings	Fair value gains/losses on outstanding hedges on New Zealand retail earnings are added back in deriving cash earnings as they do not impact profits available for shareholders	Non-interest income (Hedging of overseas operations) and tax expense
+/- Other items that are significant in size, one-off in nature and are not part of Westpac's ongoing operations	FY06 included gains from the sale of Westpac's sub-custody business and a $41 million write-down in the Bank's deferred tax asset maintained in the UK	Various FY06 sale of sub-custody business in non-interest income (other income) and tax (deferred tax write off in tax)

New in 1H07

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New Zealand dollar hedging

Phil Coffey, Chief Financial Officer

Managing exchange rate risk of future NZD earnings

Accounting under A-IFRS		
Hedging approach	Up to 100% of the expected earnings for the next 12 months and 50% of expected earnings for subsequent 12 months can be hedged	
Accounting treatment	Hedge accounting treatment was not available from 1 October 2006	
Implications	***As at 1 October 2006*** • Fair value of hedge contracts in place for 2007 were capitalised on the balance sheet at ($23m) • The ($23m) will be brought to account through the income statement over the term of the underlying hedge contract through 2007	***From 1 October 2006*** • Movements in the fair value of all economic hedges will be recognised immediately in the income statement (hedging of overseas operations)
Output	• Potential additional reported earnings volatility in net profit after tax due to the timing of income recognition. This volatility is reversed to derive Cash Earnings • Reduction to 2006/07 Group cash earnings of approx. 1% due to movement in the rate at which earnings have been hedged	

Translation of NZD retail earnings

Hypothetical example

Assumptions:
Hedge rate – 1.20
Average actual rate – 1.10 (assume constant)
Spot rate at period end – 1.10
Value of matured hedges – 100NZD
Value of outstanding hedges – 120NZD
NZD retail earnings before tax – 100NZD

	NZ retail earnings in NZD	Translated to AUD at average actual rate for reporting purposes	Variance between hedge rate and average actual rate on hedges maturing during period. Accounted for in GBU	Variance between hedge rate and spot rate on outstanding hedges of future earnings. Accounted for in GBU
	NZD retail earnings	**AUD equivalent of NZD retail earnings**	**Realised hedge gains/(losses)**	**Unrealised hedge gains/(losses)**
Net interest income	100	90.9 *i.e. 100NZD/1.10 (avg actual rate)*	-	-
Non-interest income	100	90.9	(7.6) *100NZD/1.20 (hedge rate) minus 100NZD/1.10 (spot rate)*	(9.1) *120NZD/1.20 (hedge rate) minus 120NZD/1.10 (spot rate)*
Expenses	(100)	(90.9)	-	-
Net profit before tax	**100**	**90.9**	**-**	**-**
Tax	(33)	(30)	2.3	2.7
Net profit after tax	**67**	**60.9**	**(5.3)**	**(6.4)**
Hedge adjustments	-	-	-	6.4
Cash earnings	**67**	**60.9**	**(5.3)**	**-**

Accounted for in non-interest income under 'Hedging of overseas operations'

After tax unrealised gains/(losses) is reversed in deriving cash earnings

After the impact of the maturing hedges, 67NZD equates to 55.6AUD (60.9 – 5.3), which in turn equates to an exchange rate of 1.20, i.e. the hedge rate.

At the end of the period there remains 120NZD of hedges outstanding at an average rate of 1.20. The fair value of these hedges is required to be reported in non-interest income. The after tax value is then reversed in deriving cash earnings.

GBU – Group Business Unit

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How the impact of the NZD will be reported

To assist in reconciling NZD impacts, the following table will be presented in our accounts

- NZD translation impacts have an asymmetrical impact on profit and loss lines because movements in average exchange rates are across all profit and loss line items
- Gains/losses on NZD earnings hedges only impact non-interest income (with an associated tax effect)

	1H06 - 1H07			2H06 - 1H07		
	Fx unadjusted % growth	Fx related $M	Fx adjusted % growth	Fx unadjusted % growth	Fx related $M	Fx adjusted % growth
Net interest income						
Non-interest income						
Net operating income						
Operating expenses						
Core earnings						
Impairment losses						
Operating profit before tax						
Income tax expense						
Net Profit						
Net profit attributable to outside equity interests						
Cash earnings						
	A	B	C	A	B	C

A. Cash earnings growth rates
B. Movements in average exchange rates between periods together with realised gains and losses on earnings hedges
C. Cash earnings growth rates normalised for movements in AUD/NZD exchange rates

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Statutory and management accounts

Peter King,
General Manager, Group Finance

Statutory and management accounts

Westpac's accounts are presented in two ways – on a a statutory basis and management accounting basis. 'Statutory' accounts are prepared based on our legal and legislative requirements. 'Management' accounts align with how we manage the business.

	Statutory accounts	Management accounts
Where do they appear?	Summarised in Section 2 of the Profit Announcement 'Reported Results' and detailed in Section 5	In Section 2 of the Profit Announcement, below 'Reported Results' and is detailed in Sections 3 and 4
Basis of calculation	Prepared based on statutory requirements from accounting standards and other legislative bodies (e.g APRA) Information is not impacted by internal allocations as these net to zero at a consolidated group level. As a result, statutory accounts will not: - Directly align to business unit results - Reflect underlying performance of particular profit and loss line items	'Cash Earnings' is reported on a basis consistent with how we run the business, and adjusted for a number of items that do not impact economic returns (detail provided in Appendix 1) Business unit accounts replicate internal reporting and includes actual financial data for each business unit, adjusted for: - Internal business activities between business units, for example, capturing sales commissions that eliminate at a Group level; - Cost allocations from centralised support functions to operating business units; and - Economic capital, reflecting the risk in the business unit

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What to look out for in 2007

<table>
<tr><th></th><th>Statutory accounts</th><th>Management accounts</th></tr>
<tr><td>Best uses</td><td>• Provides a more in-depth understanding of:
- Income and expense line items
- Balance sheet items</td><td>• Assessing total group performance, and major income and expense line items via cash earnings table
• Assessing business unit performance</td></tr>
<tr><td rowspan="2">What's new in 1H07?</td><td></td><td>• Reduced the number of adjustments to generate the management accounts:
- No longer adjusting for the impacts of A-IFRS on reported results
- Separately disclosing the impact of exchange rates on period on period movements
- Hybrid capital benefit</td></tr>
<tr><td colspan="2">• Appendix 1 provides a reconciliation between statutory accounts and cash earnings
• Introduction of a new Wealth management reconciliation to align non-interest income from BTFG and reported 'Wealth management income' in the statutory accounts</td></tr>
</table>

Case study - wealth income reconciliation

- Non-interest income from our wealth operations appears in both BTFG (management accounts) and in Section 5 of the Profit Announcement (statutory accounts)
- BTFG non-interest income includes:
  - BTFG non-interest income in Australia
  - Both internally and externally earned income
  - General and life insurance income
  - Amounts that are not classified as wealth management income from a statutory perspective; e.g. profits from the sale of assets
- BTFG non-interest income excludes policyholder tax recoveries and Treasury shares
- Section 5 discloses the statutory measure of wealth management income across the Group:
  - Does not include any internal income e.g. payments from BTFG to Consumer Financial Services for referrals
  - Includes both Australian and New Zealand income i.e. includes wealth and insurance income booked in the New Zealand line of business
  - Includes certain accounting gross ups (policyholder tax recoveries)

New in 1H07 accounts

- General Insurance income will be reported under wealth management income
- The wealth reconciliation table (below) will be included

Line item	$m	Description
BTFG non-interest income (FY06 results)	**964**	Non-interest income per Sect. 4 of the Profit Announcement
+/- Net commission, premium & fee income	4	Included in BTFG non-interest income in Sect. 4, but does not form part of statutory wealth management income e.g. internal payments from Business Units
+/- Policyholder tax recoveries	61	Included in statutory wealth management income, but not BTFG. Included in the Group Business Unit (GBU) income in Sect. 4
+/- Treasury shares adjustment	(12)	The adjustment for treasury shares is not included in BTFG income in Sect. 4 (accounted for in GBU), but is required to be included in wealth management income per Sect. 5
+/- New Zealand wealth management & general insurance income	61	Statutory wealth management income includes funds management and insurance in New Zealand
+/- other adjustments	6	Other balances that do not form part of wealth income e.g. profit from the sale of assets
Westpac statutory wealth management & general insurance income[1]	**1,084**	Non-interest income per Sect. 5 of the Profit Announcement

[1] Represents wealth management income of $980 million and general insurance income of $104 million. For our 1H07 announcement wealth management income will include general insurance income

Australia's First Bank

Drivers of A-IFRS provisioning

Peter King,
General Manager, Group Finance

Impairment losses on loans

Provisioning – main differences	
AGAAP	**A-IFRS**
• Expected loss model • Factors based on losses through the economic cycle • Models use long run loss history to calculate factor	• Incurred loss model • Factors need to represent the current economic environment • "Evidence" of a loss event is needed before a provision can be created, e.g. Incurred But Not Reported (IBNR) concepts

Drivers of impairment losses on loans

Type of Provision / charge	Definition	Driver
Individually Assessed Provisions (IAP)	• Similar to former specific provisions except the calculation is more formulaic • Calculated on impaired Business banking and Institutional exposures > $250k	• Impaired asset movements and projected recovery rates • Type of asset (e.g. level of security)
Collectively Assessed Provision (CAP) Business and Institutional portfolio	• Impaired Business banking and Institutional exposures < $250k • Performing business banking and Institutional bank exposures where loss is incurred, but not reported	• Growth in overall exposure levels • Changes in portfolio composition (eg downgrades/ upgrades)
Collectively Assessed Provision (CAP) Consumer portfolio	• Consumer delinquent accounts • Performing consumer accounts where loss is incurred but not reported • Write-off directs are for loans not individually provisioned	• Growth in overall exposure levels • Mix of portfolio, particularly between secured (e.g. mortgages) and unsecured (e.g. cards and personal loans) • Changes in delinquency profile (calculation based on delinquency buckets (30+ days, 60+ days etc) gives greater granularity than AGAAP approach) • Current economic conditions
Write-backs and Recoveries	• Recoveries relate to previously written off loans • Write-backs relate to previously provisioned loans where provisioning no longer required	• Recovery experience • Current economic conditions

Impairment losses on loan provisions are more sensitive to current conditions and volumes, driving a P&L charge that is likely to be more volatile

Example: CAP Consumer Portfolio – credit cards

Credit cards	A-IFRS provisioning approach	
Provisioning Charge	**Delinquency outstandings X**	**Loss factor**
	Current	**Current Factor**
	30 days	**Factor 1**
	60 days	**Factor 2**
	90 days	**Factor 3**
	↓	↓
	180 days	**Factor 6**
Write-off Directs	**Assessment made of future recovery and this portion is left on the balance sheet as an asset**	
Recoveries	**Majority of recoveries are recorded against the remaining asset**	

Volatility created by:

- Different factors depending on delinquency status
- Factors updated more frequently to reflect more recent history
- Volume of delinquent accounts

GRCL adjustment to regulatory capital

What?	• In the transition to A-IFRS, Westpac established a General Reserve for Credit Losses (GRCL) adjustment to regulatory capital
Why?	• Meets the requirements of APRA's APS 220 (updated in May 2006) • Designed to include estimated losses that are not allowed under the A-IFRS 'incurred loss' standard
Valuation?	• Estimated at 30 September 2006, an additional capital adjustment of $117m (pre-tax) was calculated • Based on internal risk modelling and discussions with APRA
Accounting treatment?	• Consistent with APS 220 the GRCL adjustment is a Tier 1 capital deduction • It is not a reserve within equity in the financial statements (that is, not a balance sheet item) • Not treated as an adjustment to Cash Earnings, consistent with other regulatory capital deductions (e.g. software capitalisation)
What happens under Basel II?	• Basel II introduces a sophisticated risk assessment model that focuses on the adequacy of capital to support all risks • Under the proposed Basel II requirements, it is not clear if any GRCL capital adjustment will still be required • Further, APRA has made no commitments on the future of the GRCL post the introduction of Basel II

Questions

Items on the agenda

- Changes in reporting for 1H07
- Our approach to New Zealand dollar hedging
- Explaining the connections between statutory and management accounts
- Drivers of A-IFRS impairment provisioning

Australia's First Bank

Appendices

Appendix 1.
Reconciliation of reported results to cash earnings

To assist understand the accounting impact of cash earnings adjustments, the following table will continue to appear in the profit announcement

Six months to 30 September 2006 $m	Reported Results	Policyholder Tax Recoveries	Hybrid Revaluations	Treasury Shares	Unrealised NZ Retail Earnings Hedges	Sale of Sub-Custody Business	Deferred Tax Asset Write -Off	Cash Earnings
Net interest income:	2,782	-	-	-	-	-	-	2,782
Fees & commissions	924	-	-	-	-	-	-	924
Wealth management and insurance income	543	(3)	-	(1)	-	-	-	539
Trading income	197	-	-	-	-	-	-	197
Other income[1]	208	-	(19)	-	-	(94)	-	95
Non-interest income	1,872	(3)	(19)	(1)	-	(94)	-	1,755
Net operating income	4,654	(3)	(19)	(1)	-	(94)	-	4,537
Operating expenses	(2,160)	-	-	-	-	-	-	(2,160)
Core earnings	2,494	(3)	(19)	(1)	-	(94)	-	2,377
Impairment losses	(190)	-	-	-	-	-	-	(190)
Operating profit before tax	2,304	(3)	(19)	(1)	-	(94)	-	2,187
Income tax expense	(673)	3	19	(2)	-	22	41	(590)
Net profit	1,631	-	-	(3)	-	(72)	41	1,597
Net profit attributable to outside equity interests	(29)	-	-	-	-	-	-	(29)
Net Profit attributable to equity holders of WBC	1,602	-	-	(3)	-	(72)	41	1,568
Treasury shares	(3)	-	-	3	-	-	-	-
TPS revaluations	-	-	-	-	-	-	-	-
Unrealised NZ retail earnings hedges	-	-	-	-	-	-	-	-
Sale of sub-custody business	(72)	-	-	-	-	72	-	-
Deferred tax asset write-off	41	-	-	-	-	-	(41)	-
Cash earnings	1,568	-	-	-	-	-	-	1,568

[1] Hybrid revaluations are included in hedging of overseas operations together with the reporting of any future revaluations on future earnings hedges. Proceeds from the sale of the sub-custody business is contained in other income

Appendix 2a.
Key statutory details: non-interest income and line items

Line item	Description
Fees and Commissions	
Banking and credit related fees	Fees and commissions earned from providing banking and credit related services to clients. It excludes fees that are part of the effective interest rate of a loan (i.e. effective yield adjustment). Examples include fees from extending lines of credit to customers, holding fees, switching fees, top up fees, fees for dishonoured cheques, overdraw fees, guarantee fees and loan maintenance fees.
Transaction fees and commissions received	Fees and commissions earned from providing transactional services to clients. Examples include ATM withdrawal fees, account transaction fees, ATM cash advance fees, account keeping fees, interchange fees, merchant service fees, card late payment fees and over the counter fees.
Service and management fees	Fees earned for providing portfolio and other management advisory services to clients. It includes management and service fees earned by the Hastings and Quadrant businesses.
Other non-risk fee income	Other fees and commissions not classified in the above line items. Examples include brokerage and B-pay fees
Wealth management income	Non-interest income earned from the Group's wealth management operations, including general and life insurance Examples include management fees from FUM and FUA balances and premium income from life and general insurance businesses (net of claims paid).
Trading income	Realised/unrealised gains/(losses) on physical assets/liabilities excluding interest income/expense. Includes realised/unrealised gains/(losses) on derivatives and FX including spread earned from facilitating customer transactions. Does not include gains/(losses) from derivatives designated as hedging instruments. Trading income includes income from WIB financial markets (largest contributor), Treasury (primarily FX trades) and Pacific Banking (primarily FX and facilitating customer transactions).
Other income	
Dividends received	Dividends received from equity investments held by the Group. These relate primarily to share holdings in WIB (equities business) for various trading activities.
Rental income	Rental income from sub-leasing excess office space. For example American Express foreign exchange offices in Westpac branches
Net gain/(loss) on ineffective hedges	Net gains/(losses) on hedges that do not qualify for hedge accounting under AASB 132 or 139. Includes the net ineffectiveness in respect of net investment hedges of overseas branches and subsidiaries.
Hedging of overseas operations	Gains/losses (realised and unrealised) from hedges on our overseas operations including hybrid equity instruments, that are not recognised in the foreign currency translation reserve. Examples include gains/(losses) from our New Zealand future earnings hedges, forward points on hedges of overseas capital, revaluation gains/(losses) of an interest rate swap hedging 2003 TPS. Note - unrealised gains/(losses) on the swap hedging the TPS 2003 instrument and New Zealand future earnings hedges are reversed in deriving cash earnings.
Gain on disposal of assets	Gains from sale of controlled entities and businesses and on the sale of property, plant and equipment.
Net gain/(loss) on financial assets designated at fair value	Represents realised and unrealised gain/(losses), net of interest earned/(paid), on financial assets that are designated at fair value through profit and loss at inception. Examples include gains/(losses) on investment grade portfolios, and gains losses on certain credit derivatives held as part of normal business activities.
Other	Other items of non-interest income not classified in the above line items. 2006 included the gain on the sale of the sub-custody business.

Appendix 2b.
Key statutory details: operating expense items

Line item	Description
Salaries and other staff expenses	
Salaries and wages	Salaries and wages paid directly to employees, including bonuses. It also includes payments made to temporary staff (excluding external consultants, which are included in Purchased Services).
Other staff expenses	Employee entitlements (annual leave, long service leave and maternity leave), payroll tax, fringe benefits tax, superannuation costs and share based compensation costs.
Restructuring costs	Termination benefits paid or payable to employees due to business restructures.
Equipment and occupancy costs	
Operating lease rentals	Mainly lease rentals paid on office space (including Westpac Place), branches, call centres, data centres and other premises and sites.
Depreciation, amortisation and impairment	Depreciation of premises, leasehold improvements, furniture and equipment and technology and amortisation of capitalised software. Impairment relates to the write down of these items if, after depreciation and amortisation, the carrying value exceeds the recoverable amount.
Equipment repairs and maintenance	As stated.
Electricity, water and rates	As stated.
Land tax	As stated.
Other	Other equipment and occupancy costs not classified in the above line items. Includes general cleaning costs, small furniture and fittings expenses, general building repairs and other equipment costs primarily relating to the ATM network and back up recovery costs.
Other expenses	
Amortisation of deferred expenditure	Relates primarily to the amortisation of customer acquisition costs in the life insurance business.
Non-lending losses	Losses incurred by the Group that are not credit losses, includes items such as theft, fraud, litigation, workers compensation and process errors.
Purchased services	Purchased services in respect of technology and information services, legal services and other professional services. Technology Purchased services includes the purchase of software used by Westpac including licenses.
Stationery	Supply and printing of stationery.
Postage and freight	As stated.
Telecommunication costs	As stated.
Insurance	Insurance coverage purchased by the Group.
Advertising	As stated.
Transaction taxes	Stamp duty, ASIC fees and other Government fees.
Training	As stated.
Travel	As stated.
Outsourcing costs	Includes mortgage and cheque processing costs, IBM and Telstra outsource contract payments and costs associated with property management and accounting services (branches and other offices).
Other expenses	Other costs not classified in the above line items. Includes items such as auditor remuneration, donations, conference expenses, entertainment, subscriptions and other publications.

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The information is supplied in summary form and is therefore not necessarily complete. Also, it is not intended that it be relied upon as advice to investors or potential investors, who should consider seeking independent professional advice depending upon their specific investment objectives, financial situation or particular needs.

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The financial information contained in this presentation includes non-GAAP financial measures. For a reconciliation of these measures to the most comparable GAAP measure, please refer to our 2006 Reg G (US) financial statements filed with the Securities Exchange Commission and Australian Stock Exchange.

Investor Relations contacts

Westpac's Investor Relations Team

Andrew Bowden
Head of Investor Relations
61 2 8253 4008
andrewbowden@westpac.com.au

Hugh Devine
Senior Manager, Investor Relations
61 2 8253 1047
hdevine@westpac.com.au

Jacqueline Boddy
Manager, Investor Relations
61 2 8253 3133
jboddy@westpac.com.au

Natasha O'Reilly
Coordinator, Investor Relations
61 2 8253 3143
noreilly@westpac.com.au

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