Westpac

Media Release

3 May 2007

WESTPAC REPORTS RECORD INTERIM PROFIT

Highlights: (All comparisons are with 2006 interim result)

- Record net profit of $1,641 million, up 12%
- Cash earnings of $1,678 million, up 11%
- Cash earnings per share of 91 cents, up 11%
- Economic profit of $1,281 million, up 13%
- Interim dividend of 63 cents, fully franked, up 13%
- Return on equity (cash basis) 24%
- Expense to income ratio (cash basis), down 90 basis points to 46%

Interim Profit Result

Westpac Banking Corporation today announced a net profit of $1,641 million for the six months ended 31 March 2007, up 12 per cent. Cash earnings were up 11 per cent to a record $1,678 million and cash earnings per share was also up 11 per cent.

Westpac also announced an interim fully franked dividend of 63 cents, up 13 per cent on the prior corresponding period, reflecting confidence in the Group's outlook.

Westpac Chief Executive Officer David Morgan said Westpac had delivered a strong performance with solid earnings growth and a 24 per cent return on equity.

"This is a high quality result. We have once again achieved double digit earnings per share growth and excellent returns, which demonstrates the strength of Westpac's operating model and our ability to deliver over the long-term for shareholders.

"This record result was driven by a good performance across Australian banking and an outstanding performance in our wealth management business.

"Operating momentum was particularly evident in the latest half with cash earnings up seven per cent on the second half 2006, built on loan growth of eight per cent for the six months.

"Revenue compared to the first half of last year was up seven per cent, comfortably above expense growth of four per cent, taking almost one percentage point off our cost to income ratio. This was despite employing nearly 400 new front-line employees over the half in Australia and launching a new brand advertising campaign.

"Balance sheet growth was strong with loans up 17 per cent and deposits up 15 per cent on the first half 2006, accompanied by a decline in margins consistent with Westpac's expectations."

Dr Morgan said that credit quality remained sound with loan losses moving towards more normal long-term levels. Reflecting strong loan growth and higher delinquencies, impairment losses increased 25 per cent from a low base.

"We have maintained our risk disciplines and remain well provisioned," he said.

While performances were strong across the Australian banking and wealth management businesses, the New Zealand and Pacific businesses continued to face difficult trading environments.

"We are in the early stages of turning around our New Zealand business," Dr Morgan said.

"The Australian financial services sector remains a high growth sector. Westpac's consistently solid earnings growth and high returns, together with the improved momentum in our banking business and the first class performance of BT, leaves us well placed to continue on our growth path," Dr Morgan added.

Business Unit Performance

	Half Year 2007	Half Year 2006	% Change
Cash earnings (AUD millions)			
Business and Consumer Banking	$932m	$835m	12
Westpac Institutional Bank	$281m	$251m	12
BT Financial Group	$201m	$165m	22
New Zealand (NZD)	$221m	$227m	(3)
Pacific Banking	$34m	$36m	(6)

- Business and Consumer Banking delivered a 12 per cent increase in cash earnings, profitably growing its balance sheet broadly in line with system. Strong volume growth was recorded in business lending (14 per cent), mortgages (12 per cent), cards (16 per cent) and deposits (13 per cent). Volume growth was accompanied by an 11 basis point margin decline and increased impairment losses.

- Westpac Institutional Bank (WIB) delivered a solid 12 per cent growth in cash earnings, with a lift in customer activity driving returns. Excluding structured finance, cash earnings increased 17 per cent. WIB has been particularly successful in assisting customers to meet short-term financing requirements and then satisfying their longer term needs with capital markets solutions. Specialised Capital Group continued to build momentum with total funds under management up 21 per cent to $6.4 billion.

- BT Financial Group continues to be a major driver of growth, increasing its share in a fast growing market and delivering an outstanding 22 per cent increase in cash earnings. Funds under administration grew 23 per cent, driven by a 34 per cent increase in Wrap and a 14 per cent increase in Corporate Super. The group's insurance operations also delivered a much stronger performance, with earnings up 23 per cent.

- Despite a six per cent growth in core earnings, New Zealand recorded a three per cent decline in cash earnings. Sectors of the NZ economy experienced increased stress and this is showing up in increased delinquencies and higher loan impairment losses.

- Pacific Banking recorded a six per cent decline in cash earnings reflecting the economic and political instability in the region that has led to an increase in provisioning.

Outlook

The first half of the 2007 year has started solidly, with good operational momentum across all our businesses.

For the remainder of 2007, the Australian operating environment is expected to remain positive with credit growth broadly remaining at around current levels.

Westpac's Australian consumer and business banking operations are expected to continue to perform well, particularly given the momentum achieved in the first half of the year.

In the Institutional Bank, momentum is also good and existing lending growth is expected to translate into solid capital markets activity. Transactions already in the pipeline within the Specialised Capital Group should also add to revenue growth in the second half of the year.

Wealth management will continue to be a key growth driver, particularly as the recent superannuation tax changes lead to increased activity and solid fund growth.

New Zealand remains a turnaround challenge. High interest rates and a strong currency are expected to flow into some slowing in growth through the remainder of 2007. Additionally, a lower rate at which NZD earnings are being translated back to AUD will detract at least one percentage point in growth from 2007 full year group earnings.

The credit cycles in Australia and New Zealand are returning to more normal levels as we see the anticipated effects of the recent interest rate increases. In light of this, it is anticipated impairment losses will increase at a rate above loan growth.

However, there are no signs of any systemic credit issues. Overall, risk across the portfolio is expected to remain relatively low and will be supported by appropriate provisioning.

Strategically, Westpac's focus will remain on sustainable revenue growth and high returns while maintaining a prudent approach to risk combined with continued expense discipline.

Westpac remains confident it can continue to deliver strong results for shareholders. Solid earnings growth, combined with high returns on equity, will continue to underpin a high quality and sustainable performance.

Ends.

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