Westpac Media Release

2 November, 2006

Signs of growth after challenging year

Westpac New Zealand today reported a 10% increase in normalised operating profit in the year ended 30 September 2006, after a challenging year in which the bank had worked hard to identify and remedy weaknesses in its consumer retail operation, and set about improving growth momentum.

In the year to 30 September 2006 Westpac's New Zealand operations reported a decline in after-tax operating profit of 3.5%, from $662 million to $639 million. After adjusting this figure for the introduction of IFRS and the termination of structured finance transactions in 2005, there was a 10% lift in normalised operating profit, from $579 million to $639 million.

"Flat cash earnings in the year to 30 September, with squeezed margins and customer migration to lower-fee offerings across the industry, were reflective of a competitive operating environment in New Zealand," said Westpac New Zealand Chief Executive Ann Sherry.

"We have put a great deal of effort into understanding the reasons behind customer attrition and the causes of slowing revenue growth, and have implemented a range of strategic initiatives to bring growth momentum back into our consumer operations.

"Business banking was again a strong performer, with business lending volumes up 11% to $11 billion. This growth has been driven by a market-leading approach in the middle markets and corporate areas, strong segment strategies, and agri-lending growth at 1.3 times system growth. Business customer satisfaction was up 10% in 2005/06."

Financial highlights for FY2006:

- Adjusted net interest income increased by 11.6%, after allowing for 32/39 IFRS changes.
- Deposit growth of 10% was in line with system growth, underpinned by growth in the Online Saver product.
- Overall lending volumes were strong, lifting 14%.
- Adjusted non-interest income excluding trading activities decreased by 4.8%, reflecting a customer shift towards lower-fee products.
- Operating income at Westpac Institutional Bank was up 12.5% compared with the year to September 2005, highlighted by strong financial markets sales performance across all customer segments.

"Key Initiatives included the opening of new high-profile branches at Sylvia Park and the Viaduct Basin, and greater empowerment for our front-line employees to help them better meet the full needs of their customers," said Ann Sherry

"In the final quarter of FY2006 these and other initiatives started to bear fruit. We saw net customer growth of 5,000 in the quarter, reversing a long period of decline,

and an above-market level of mortgage registrations in key regions, particularly Auckland.

"Given the cost pressures driven by a weaker kiwi dollar earlier in the year, it was pleasing that expenses remained relatively flat over the year to 30 September. Operating expenses, excluding salary-related costs, decreased by 1.4%.

"Salary increases, and an increase in the number of customer-facing employees, have been offset by reductions in discretionary spend, lower outsourcing costs and a generally rigorous approach to cost control."

The FY2006 result was also influenced by the settlement with the Commerce Commission on disclosure of foreign currency conversion fees, and an $8 million write-off relating to an over-accrual of interest income in the New Zealand credit cards business relating to prior periods.

"While these financials highlight a challenging period for Westpac in New Zealand in 2005/06, we are also doing what is necessary to re-establish growth in the business. This period has also brought a number of milestones for the business," said Ann Sherry.

"The passage of the Westpac New Zealand Bill in September paved the way for Westpac to become a locally incorporated bank on I November. Our 1.4 million customers will not be disrupted as a result of the move to local incorporation.

"The importance of the Auckland market, and our determination to give employees a first-class working environment, saw the unveiling of plans for a new operations centre and corporate office in the historic Britomart precinct in downtown Auckland.

"Other significant initiatives included the installation of dozens of talking ATM machines, allowing blind and vision-impaired New Zealanders to do their banking, and the launching of our *Managing Your Money* financial literacy programme, giving practical advice on money management and planning to our staff, customers and community partners.

"The outlook for Westpac New Zealand is improving. We are addressing the causes of attrition and other problems in our consumer banking business and have put in place the changes needed to restore growth. Business banking continues to perform strongly and we have retained our Number One market position. We have a tight rein on our cost base and are driving productivity initiatives across the business.

"We can now move with a high degree of confidence into the locally-incorporated era, giving our 1.4 million kiwi customers the very best in banking and financial services," Ann Sherry said.

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Westpac results summary for Year to 30 September, 2006

NZ$m	Year to 30 September 2006	Year to 30 September 2005	Change
	$m	**$m**	**%**
Net Interest Income	1,168	1,062	10.0%
Non-Interest Income	524	545	(3.9%)
Operating Income	1,692	1,607	5.3%
Operating Expense	(699)	(680)	(2.8%)
Core Earnings	**993**	**927**	**7.1%**
Impairment losses on loans	(31)	(44)	29.5%
Underlying Performance	**962**	**883**	**8.9%**
Income Tax Expense and Minority Interests	(323)	(221)	(46.2%)
Operating Profit After Income Tax Expense and Minority Interests	**639**	**662**	**(3.5%)**
NZ structured finance transactions now terminated	-	(39)	
Wealth management recoveries	-	(3)	
IFRS Adjustment*	-	(41)	
Normalised operating profit after income tax expense and Minority Interests	**639**	**579**	**10.4%**

*The NZ IFRS adjustment relates to the reclassification of convertible debentures considered equity under previous NZ FRS. Following adoption of NZ IFRS and in accordance with NZ IAS 32 these are now treated as liabilities. The adjustment represents the 30th September 2005 after tax interest expense of these debentures.