WESTPAC BANKING CORP
Form 20-F
November 08, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

Or

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 2006

Or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Or

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-10167

WESTPAC BANKING CORPORATION
Australian Business Number 33 007 457 141

(Exact name of Registrant as specified in its charter)

New South Wales, Australia

(Jurisdiction of incorporation or organization)

275 Kent Street, Sydney, NSW 2000, Australia

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary shares, par value A$1.00	Listed on the New York Stock Exchange, not for trading, but only in connection with the registration of related American Depositary Shares, pursuant to the requirements of the New York Stock

	Exchange.
American Depositary Shares, each representing the right to receive five ordinary shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

4.625% Subordinated Notes Due 2018

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

A$1.00 Ordinary shares	1,839,221,164 fully paid

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer x Accelerated Filer o Non-accelerated filer o

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 x

If this is an annual report, indicate by check mark whether the registrant is a shell company.

Yes o No x

Contents

Annual Financial Report

In this Annual Financial Report references to Westpac , we , us and our are to Westpac Banking Corporation ABN 33 007 457 141. References t Westpac , Group , we , us and our under the captions Information on Westpac , Financial review , Corporate governance , Other finan information , Management s report on internal control over financial reporting , Shareholding information , Management and Additional information include Westpac Banking Corporation and its subsidiaries unless they clearly mean just Westpac Banking Corporation.

Form 20-F cross-reference index

(for the purpose of filing with the United States Securities and Exchange Commission).

Glossary of abbreviations

AASB 1	Australian Accounting Standards AASB First-time Adoption of Australian Equivalents to International Financial Reporting Standards
AASB 4	Australian Accounting Standards AASB Insurance Contracts
AASB 132	Australian Accounting Standards AASB Financial Instruments: Presentation and Disclosure
AASB 139	Australian Accounting Standards AASB Financial Instruments: Recognition and Measurement
AASB 1038	Australian Accounting Standards AASB Life Insurance Contracts
ABN	Australian Business Number
ACCO	Australian Competition and Consumer Commission
ACE	Adjusted Common Equity
ACN	Australian Company Number
ADIs	Authorised Deposit-taking Institutions
ADRs	American Depositary Receipts
ADS	American Depository Shares
AGAAP	Australian Generally Accepted Accounting Principles
AGM	Annual general meeting
A-IFRS	Australia Equivalents to International Financial Reporting Standards
AIRB	Advanced Internal Ratings Based
AIRC	Australian Industrial Relations Commission
AMA	Advanced measurement approach
ANZSIC	Australian and New Zealand Standard Industrial Classification
APCA	Australian Payments Clearing Association
APRA	Australian Prudential Regulation Authority
ARBN	Australian Registered Business Number
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
ASXCGC	Australian Stock Exchange Limited s Corporate Governance Council
ATM	Automatic teller machines
BCB	Business and Consumer Banking
BRMC	Board Risk Management Committee
BTFG	BT Financial Group
BTFG Australia	BT Financial Group Australia
BTSS	Business and Technology Solutions and Services
Capital Trust III	Westpac Capital Trust III
Capital Trust IV	Westpac Capital Trust IV
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash-generating unit
CLS	Continuous Linked Settlement
COSO	Committee of Sponsoring Organisations of the Treadway Commission
CRI	Community Corporate Responsibility Index
CRO	Chief Risk Officer
DFAT	Department of Foreign Affairs and Trade
DSP	Deferral Share Plan
EFTPoS	Electronic Funds Transfer Point of Sale
Epic	Epic Rest Group
EPO	Enterprise Program Office
ESP	Employee Share Plan
FASB	Financial Accounting Standards Board
FinSec	Finance and Information Union
FIRsTS	Fixed Interest Resettable Securities
FRA	Forward rate agreement
FRC	Financial Reporting Council
FSP	FASB Staff Position
FSU	Finance Sector Union
FTE	Full time equivalent

FUA	Funds under administration
FUM	Funds under management
Funding Trust III	Tavarua Funding Trust III
Funding Trust IV	Tavarua Funding Trust IV
FX	Foreign exchange
GMSOP	General Management Share Option Plan
GRI	Global Reporting Initiative
GRRC	Group Risk Reward Committee
Hastings	Hastings Funds Management Limited
HKD	Hong Kong dollar
HSBC	Hong Kong and Shanghai Banking Corporation
IBA	International Banking Act of 1978
IDA	Interbank Deposit Agreement
IFRS	International Financial Reporting Standards
IFSA	Investment and Financial Services Association Limited
Keycorp	Keycorp Payment Services
LIASB	Life Insurance Actuarial Standard Board
MARCO	Market Risk Committee
MTNs	Medium term notes
NYSE	New York Stock Exchange
NZ	New Zealand
NZIRD	New Zealand Inland Revenue Department
NZX	New Zealand Stock Exchange
PCT	Product and Channel Transformation
PFIC	Passive foreign investment company
PSR	Pre-settlement risk
PwC	PricewaterhouseCoopers
RBA	Reserve Bank of Australia
RBNZ	Reserve Bank of New Zealand
RWA	Risk weighted assets
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SOSPS	Senior Officers Share Purchase Scheme
SPVs	Special purpose vehicles
SRAs	Settlement Residue Auctions
STI	Short term incentive
TCDS	Transferable certificates of deposit
The Group	Westpac Banking Corporation Group
TPS 2003	Trust Preferred Securities 2003
TPS 2004	Trust Preferred Securities 2004
TPS 2006	Trust Preferred Securities 2006
Trust	Westpac Office Trust
TSR	Total shareholder return
UKSS	UK Staff Superannuation Scheme
US Federal Reserve	Federal Reserve System
US GAAP	US Generally Accepted Accounting Principles
US	United States
VaR	Value at Risk
VIE	Variable interest entity
Waratah	Waratah Receivables Corporation Pty Limited
WIB	Westpac Institutional Bank
WNZS	Westpac New Zealand Superannuation Scheme
WPP	Westpac Performance Plan
WSSP	Westpac Staff Superannuation Plan
WST program	Westpac Securitisation Trust program

Disclosure regarding forward-looking statements

This Annual Financial Report contains statements that constitute forward-looking statements within the meaning of section 21E of the US Securities Exchange Act of 1934. The US Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation so long as the information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information.

Forward-looking statements appear in a number of places in this Annual Financial Report and include statements regarding our intent, belief or current expectations with respect to our business and operations, market conditions and results of operations and financial condition, including, without limitation, future loan loss provisions and financial support to certain borrowers. We use words such as may , expect , intend , plan , estimate , anticipate , believe , probability , risk , or other similar words to identify forward-looking statements. These statements reflect our cu views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of the risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from the plans, objectives, expectations, estimates and intentions described in this Annual Financial Report as anticipated, believed, estimated, expected or intended.

The factors that may impact on forward-looking statements made by us include:

- inflation, interest rate, exchange rate, market and monetary fluctuations;
- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices and government policy;
- changes in consumer spending, saving and borrowing habits in Australia, New Zealand and in other countries in which we conduct our operations;
- the effects of competition in the geographic and business areas in which we conduct operations;
- the ability to maintain or to increase market share and control expenses;
- the timely development of and acceptance of new products and services and the perceived overall value of these products and services by users;
- technological changes;
- demographic changes and changes in political, social or economic conditions in any of the major markets in which we operate; and
- various other factors beyond our control.

The above list is not exhaustive. For certain other factors that may impact on forward-looking statements made by us, refer to the section on Risk factors in this Annual Financial Report. When relying on forward-looking statements to make decisions with respect to us, investors and others should carefully consider the foregoing factors and other uncertainties and events.

We are under no obligation, and do not intend, to update any forward-looking statements contained in this Annual Financial Report, whether as a result of new information, future events or otherwise, after the date of this Annual Financial Report.

Financial information

We have adopted the requirements of the Australian Equivalents to International Financial Reporting Standards (A-IFRS) for the first time for the purpose of preparing financial statements for the year ended 30 September 2006. In accordance with A-IFRS, we have reclassified the financial statements for our financial year ended 30 September 2005 in accordance with A-IFRS. The financial statements and other financial information for the years ended 30 September 2006 and 2005 included elsewhere in this Annual Report, unless otherwise indicated, were prepared and presented in accordance with A-IFRS.

Previously published financial statements for our financial year ended 30 September 2005, as well as all prior financial periods, were prepared in accordance with accounting principles generally accepted in Australia at the time those financial statements were prepared (AGAAP). A-IFRS differs in certain material respects from AGAAP and, accordingly, financial statements for our financial years ended 30 September 2006 and 2005 prepared in accordance with A-IFRS are not comparable to the financial statements for 2005 and prior years prepared in accordance with AGAAP. See Note 48 to the financial statements for a summary of the principal differences between A-IFRS and AGAAP affecting our financial statements.

Under applicable United States (US) disclosure requirements, we are required to include in this Annual Report certain financial and operating data covering a period of three or five years. Due to the transition to A-IFRS, such information is available prepared in accordance with A-IFRS only for the financial years ended 30 September 2006 and 2005. Accordingly, we have included in a separate section of this Annual Report under the caption Other financial information required data as of and for the financial years ended 30 September 2005, 2004, 2003 and 2002 derived from our previously published financial statements prepared in accordance with AGAAP. Because this information was prepared in accordance with AGAAP, it is not comparable to such information derived from our financial statements prepared in accordance with A-IFRS. For a more complete understanding of the financial and operating data prepared in accordance with AGAAP, see our Annual Report for the financial year ended 30 September 2005, a copy of which is available on our web site at www.westpac.com.au or on the web site maintained by the Securities and Exchange Commission (SEC) at www.sec.gov .

Currency of presentation, exchange rates and certain definitions

Financial statements means our audited consolidated balance sheet as at 30 September 2006 and 30 September 2005 and consolidated income statement, cash flows and changes in equity for each of the two years ended 30 September 2006 and 2005 together with accompanying notes which are included in this Annual Financial Report.

We publish our consolidated financial statements in Australian dollars. In this Annual Financial Report, unless otherwise stated or the context otherwise requires, references to dollar amounts , $, AUD or A$ are to Australian dollars, references to US$, USD or US dollars are to States dollars and references to NZ$, NZD or NZ dollars are to New Zealand dollars. Solely for the convenience of the reader, certain Australian dollar amounts have been translated into US dollars at specified rates. These translations should not be construed as representations that the Australian dollar amounts actually represent such US dollar amounts or have been or could be converted into US dollars at the rate indicated. Unless otherwise stated, the translations of Australian dollars into US dollars have been made at the rate of A$1.00 = US$0.7461, the noon buying rate in New York City for cable transfers in Australian dollars as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) on 30 September 2006. Unless otherwise stated, the translation of Australian dollars into NZ dollars has been made at the rate of A$1.00 = NZ$1.1446 (2005 NZ$1.0998), being the closing spot exchange rate on 30 September 2006 used in the financial statements. Refer to Exchange rates for information regarding the rates of exchange between the Australian dollar and the US dollar for the financial years ended 30 September 2002 to 30 September 2006 and for the period to 30 October 2006.

Our financial year ends on 30 September. As used throughout this Annual Financial Report, the financial year ended 30 September 2006 is referred to as 2006 and other financial years are referred to in a corresponding manner.

Any discrepancies between totals and sums of components in tables contained in this Annual Financial Report are due to rounding.

Exchange rates

For each of the years indicated, the high, low, average and year end Noon Buying Rates for Australian dollars were:

Year ended 30 September	**2007(1) (US$ per A$1.00)**	**2006**	**2005**	**2004**	**2003**	**2002**
High	0.7692	0.7781	0.7974	0.7979	0.6823	0.5748
Low	0.7434	0.7056	0.7207	0.6395	0.5422	0.4923
Average(2)	n/a	0.7473	0.7685	0.7287	0.6167	0.5329
Close (on 30 September)(3)	n/a	0.7461	0.7643	0.7244	0.6797	0.5429

For each of the months indicated, the high and low Noon Buying Rates for Australian dollars were:

Month	**October 2006(1) (US$ per A$1.00)**	**September 2006**	**August 2006**	**July 2006**	**June 2006**	**May 2006**
High	0.7692	0.7704	0.7699	0.7664	0.7527	0.7781
Low	0.7434	0.7461	0.7568	0.7407	0.7284	0.7509

(1) Through to 30 October 2006. On 30 October 2006, the Noon Buying Rate was A$1.00 = US$0.7692

(2) The average is calculated by using the average of the exchange rates on the last day of each month during the period.

(3) The Noon Buying Rate at such date may differ from the rate used in the preparation of our consolidated financial statements at such date. Refer to Note 1(a)(vi) to the financial statements.

Information on Westpac

We are one of the four major banking organisations in Australia and also one of the largest banks in New Zealand. We provide a broad range of banking and financial services in these markets, including retail, commercial and institutional banking and wealth management services.

We were founded in 1817 and were the first bank to be established in Australia. In 1850 we were incorporated as the Bank of New South Wales by an Act of the New South Wales Parliament. In 1982 we changed our name to Westpac Banking Corporation. On 23 August 2002, we were registered as a public company limited by shares under the Australian Corporations Act 2001 (Corporations Act). Our principal office is located at 275 Kent Street, Sydney, New South Wales, 2000, Australia. Our telephone number for calls within Australia is 132 032 and our international telephone number is (+61) 2 9293 9270.

We have branches, affiliates and controlled entities(1) throughout Australia, New Zealand and the Pacific region and maintain offices in some of the key financial centres around the world. As at 30 September 2006, our market capitalisation was $42 billion(2). Our operations comprise four key areas of business, through which we serve approximately 7 million customers(3). These four areas of business are:

- Business and Consumer Banking: providing retail banking and other financial services to individuals and small to medium-size businesses within Australia;
- BT Financial Group Australia: providing investment management and administration, retirement planning, income protection and life insurance services that are designed to enable customers to build, manage and protect personal wealth;
- Westpac Institutional Bank: providing banking, financial and advisory services to corporate, institutional and government customers, and supplying financial products to small and medium-size businesses primarily in Australia and New Zealand; and
- New Zealand Banking: providing a full range of retail, commercial and other financial services to customers throughout New Zealand.

Business strategy

We support our customers in achieving their financial aspirations. Our ambition is to see each generation of Australians live better than the last. Our vision is to be a great Australasian company. In keeping with this vision, our mission is to become number one in customer service.

We intend to deliver on our vision by fulfilling our service promise to customers. We are focusing on customers in our core markets of Australia, New Zealand, and the near Pacific region.

We believe superior execution of our customer focused strategy will help achieve our mission by:

- developing a deep understanding of our customers needs;
- providing value-added solutions that meet these needs; and
- building long-term relationships.

We believe that superior execution of our strategy at all points in the service-value chain can differentiate us from our competitors. By continually improving employee commitment, we can deliver an enhanced customer experience that encourages loyalty and drives sustainable shareholder value.

In realising our strategy, we are therefore seeking to continuously improve or maintain a leading position in:

- employee commitment(4);

- customer satisfaction(5);
- shareholder returns(6); and
- corporate responsibility ratings(7).

We have a specific strategic plan for each business in our portfolio. Overall, our strategy signifies an orientation towards more growth. We have three main areas of focus for growth:

(i) Increasing our front line capability

- adding additional sales professionals in our distribution businesses;
- leveraging our infrastructure investments;
- devoting more resources to branding; and
- increasing group-wide focus on cross-selling our products.

(ii) Investing in growth initiatives

- further significant investment, predominantly in our sales capabilities;
- fully resourcing growth opportunities across our portfolio; and
- opening up higher margin opportunities through innovation.

(iii) Improving productivity

- enhancing sales productivity across all channels;
- delivering on our sourcing strategy; and
- reallocating resources from back to front office.

We have confidence that our track record of executing strategies, our direct approach to addressing challenges, and our pursuit of significant growth opportunities should allow us to continue to succeed and grow in the dynamic, competitive Australasian financial services industry.

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(1) Refer to Note 42 to the financial statements for a list of our controlled entities as at 30 September 2006.

(2) Our market capitalisation is based on the closing share price of our Ordinary Shares on the Australian Stock Exchange.

(3) All customers, primary and secondary, with an active relationship (excludes channel only and potential relationships). Based on a reconciliation of various customer information systems we have revised our consolidated Group customer numbers.

(4) As measured in the Staff Perspectives Survey by International Survey Research.

(5) Ratings measured by Roy Morgan, TNS Research in Australia and AC Nielsen in New Zealand. Measures are expanded by internal metrics on customer retention/acquisition and cross-sell.

(6) Total shareholder returns (TSR) measured by Australian Stock Exchange Perpetual Registrars.

(7) As measured by the Dow Jones Sustainability Index, Australian Corporate Responsibility Index and Global Governance Ratings.

The following tables present, for each of our four key areas of business, the net profit attributable to equity holders for, and total assets at the end of the financial years ended 30 September 2006 and 2005. Refer to Note 36 to the financial statements for detailed financial disclosure of our geographic and business segments.

Net profit attributable to our equity holders(1)

Years ended 30 September	2006 $m	2005 $m
Business and Consumer Banking	1,682	1,452
BT Financial Group Australia	339	309
Westpac Institutional Bank	504	484
New Zealand Banking	423	405
Other(2)	123	48
Net profit attributable to equity holders of Westpac Banking Corporation	3,071	2,698

Assets

As at 30 September	2006 $bn	2005 $bn
Business and Consumer Banking	169	149
BT Financial Group Australia	19	17
Westpac Institutional Bank	57	47
New Zealand Banking	34	31
Other(2)	21	22
Total assets	300	266

(1) Internal charges and transfer pricing adjustments have been reflected in the net profit reported for each of our business groups.

(2) Other includes the results of Business and Technology Solutions and Services, Group Treasury, Pacific Banking and Head Office functions.

Business and Consumer Banking

Our Business and Consumer Banking (BCB) unit consists of the retail bank operations branded Westpac across Australia.

BCB is responsible for servicing and product development for our consumer and small to medium-sized business customers within Australia. Activities are conducted via our nationwide network of branches (819 including in-store branches as at 30 September 2006), call centres, automatic teller machines (ATMs), e-channel banking services, and mobile sales forces. Our front line staff provide sales and service-related functions to customers for a broad range of financial products, including savings and cheque accounts, demand and term deposits, credit cards, and personal and housing loans. A significant portion of our housing finance sales are through independent mortgage brokers. In the year ended 30 September 2006, approximately 38% (2005 32%) of mortgage loan drawdowns were arranged via this channel. Our business banking customers are also serviced by specialised relationship managers. We also provide transactional banking support and working capital solutions, processing in excess of 1 billion transactions per annum.

We are a significant lender in the housing finance market in Australia. In the year ended 30 September 2006, our residential mortgage loan portfolio in Australia increased 12% to $111.9 billion (2005 $99.9 billion) (inclusive of securitised loans) from 30 September 2005, with variable interest rate loans comprising 83% of the portfolio. In addition, we are a major provider of credit card finance in Australia. Our total credit card outstandings as at 30 September 2006 increased by 22% to $6.7 billion (2005 $5.5 billion).

We are a major lender in the business finance market in Australia. In the year ended 30 September 2006, our business finance portfolio increased by 14% to $43.8 billion (2005 $38.4 billion) with term lending increasing 15% to 36% of the portfolio bill acceptances increasing 18% to 39% of the portfolio (2005 88%); and equipment finance increasing 10% to 19% of the portfolio. The balance of the portfolio comprised revolving cash management facilities.

BT Financial Group Australia

BT Financial Group Australia (BTFG) is Westpac s wealth management business. BTFG designs, manufactures and distributes financial products that enable our customers to achieve their financial goals by accumulating, managing and protecting their wealth. These products include retail investments, personal and business superannuation (pensions), life and general insurance, discount securities broking, margin lending, client portfolio administration (Wrap platforms) and portfolio management. BTFG also provides financial planning advice.

Our retail and wholesale Funds Under Management (FUM) totalled $39 billion (2005 $37.2 billion) and Funds Under Administration (FUA) totalled $40.4 billion (2005 $34.5 billion) as at 30 September 2006.

Our Wrap product reached $26.6 billion in FUA as at 30 September 2006, and with an increase of 34% on 2005, continues to be one of our fastest growing products. According to the latest S&P data as of 30 June 2006, we are second in market share with 12.3% of the market.

Corporate Superannuation FUA increased by 18% during the financial year ended 30 September 2006 to $5.2 billion.

Margin Lending loan balances were $3.7 billion (2005 $2.5 billion) as at 30 September 2006, and according to the latest Reserve Bank of Australia Market Share Report, we are ranked second for Margin Lending with a market share of 14.9%.

Our Life Insurance business held $253 million of in-force premiums as at 30 September 2006, placing it eighth for new business in Australia with an estimated market share of 5.3% according to information published by Plan for Life in June 2006.

Westpac Institutional Bank

Westpac Institutional Bank (WIB) services the financial needs of corporate, institutional and government customers either based in, or with interests in, Australia and New Zealand. This is achieved through dedicated industry teams supported by specialists with expertise in financial, capital and debt markets, transactional banking, specialised capital and alternative investment solutions. The products and services we offer include:

Financial Markets	Capital Markets	Specialised Capital	Transactional Services
• Foreign exchange • Interest rate, currency and equity derivatives • Energy • Commodities • Debt and hybrid securities secondary market • Trade finance	• Debt securities • Securitisation • Hybrid and structured capital • Project finance • Loans and syndications • Asset finance	• Alternative assets • Structured products • Institutional funds management	• Domestic cash management and transactional services • Working capital solutions • International cash management • International payments

Within the institutional banking sector in Australia, we are the current market leader(1) in debt capital markets, syndications and transactional banking. In the global financial markets, we primarily focus on Australian and New Zealand dollar-denominated financial products and risk management.

Our Institutional Bank supports our customers through branches and subsidiaries located in Australia, New Zealand, New York, London and Asia.

New Zealand Banking

We have a long commitment to New Zealand, dating from 1861 when we commenced operating as the Bank of New South Wales. We continue to implement a customer growth strategy based on product offerings that meet our customer sneeds, more specialist customer-facing staff in consumer and business banking, increasing our branch footprint in key strategic locations, and the implementation of productivity initiatives to fund investment in the front line, with an emphasis on providing high quality customer service. Staff satisfaction levels(2) have continued to deliver top quartile results and we have shown improved independent ratings on the quality of our lending products(3).

We are one of New Zealand s largest banks and provide a full range of retail banking products, wealth management and commercial banking services to customers. As at 30 September 2006, we had approximately 5,000 staff, 196 branches including 44 in Auckland and 463 Westpac branded ATMs operating throughout the country. Our New Zealand operations have over 1.4 million New Zealand based customers(4), approximately 566,000 of whom are registered users of our online banking service.

We are the third largest lender of housing finance in New Zealand. As at 30 September 2006, our mortgage loan portfolio was NZ$25.1 billion (A$21.9 billion) (2005 NZ$22.1 billion (A$20.0 billion)) including securitised loans of NZ$0.6 billion (A$0.5 billion) (2005 NZ$0.7 billion (A$0.6 billion)). In addition, we are a major provider of wealth management services, with NZ$1.9 billion (A$1.7 billion) (2005 NZ$2.1 billion (A$1.9 billion)) in FUM as at 30 September 2006.

Other

Business and Technology Solutions and Services

Business and Technology Solutions and Services (BTSS) provides functional infrastructure support to front line businesses and comprises the following areas: Operations, Information Technology, Sourcing, Group Property, Product and Channel Transformation (PCT), Enterprise Program Office (EPO), Risk, and Strategy.

- Operations perform back office processing and settlement services for retail, corporate and institutional banking products.
- Our technology group defines our overall information technology architecture, supports and enhances software systems, and manages and implements major projects across our organisation.
- Sourcing manages relationships with third party suppliers for the Bank. In particular, it manages the IT, telecommunications, mortgage and voucher processing outsourcing contracts that we have entered into with external providers.
- Risk provides infrastructure support for fraud, physical security and records management.
- Group Property manages the existing property portfolio.
- The purpose of PCT is to deliver and maintain reliable, lower cost, reusable, intuitive business capability by understanding and optimising how people interact with technology and processes. Our Electronic Channels activity manages online banking facilities for our business, personal and private label customers.
- The Enterprise Program Office manages major programmes of work designed to improve customer experience and operational efficiency and to comply with legislative requirements.

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(1) Based on Peter Lee Associates survey (August 2006), Bloomberg League Table (September 2006) and Thomson Financial League Table (September 2006).

(2) As measured in the Staff Perspectives Survey by International Survey Research.

(3) Based on CANNEX 2006 survey of lending products. CANNEX is a consumer finance research firm who provide product information and ratings to banks and financial institutions in New Zealand and Australia.

(4) Customer is defined as someone who holds an active Westpac Product.

Group Treasury, Pacific Banking and Head Office

In addition to BTSS, our financial business segment results disclosed under Other include Group Treasury, Pacific Banking and Head Office functions. Group Treasury operations are primarily focused on management of our interest rate risk and funding requirements. Pacific Banking comprises our presence in the near Pacific, including Papua New Guinea and Fiji. Head Office includes those functions performed centrally including finance, risk, legal and human resources, with expenses incurred charged back to business units. It also includes the management of the Group s capital.

Property

We occupy premises primarily in Australia, New Zealand and the Pacific Islands including 1,063 branches (2005 1,056) as at 30 September 2006. As at 30 September 2006, we owned approximately 5% of the premises we occupy in Australia and none in New Zealand. The remainder of premises are held under commercial lease with terms generally averaging five years. As at 30 September 2006, the carrying value of our directly owned premises and sites was $79 million.

Under our sale and leaseback programme during the past three financial years, 44 properties have been sold in Australia with total proceeds of $64 million. The sale and leaseback programme in New Zealand was completed in 2004.

Westpac Place

On 7 March 2003, we executed an agreement to lease 74,000 m2 of office space with Leighton Properties Pty Limited in relation to new premises being developed at the northern end of Darling Harbour near King Street in Sydney, Australia. The new site is bounded by Kent, Erskine, Napoleon and Sussex streets. The project to fit out the building and relocate approximately 5,000 staff to the new site was called the Our Great Place project. This project resulted in the consolidation of our existing ten Sydney Central Business District offices into just two primary locations, being Westpac Place and our existing office at 60 Martin Place.

Construction of the new premises has been completed. It consists of two office towers of 21 and 32 levels linked by a common foyer and includes two levels of retail space, a retail branch, childcare facilities, an urban park, and both tenant and public parking. We have signed a 12 year lease on the building with three six year options to extend. The building was completed in July, with our employees progressively occupying the premises throughout 2006. The initial 12 year lease commitment, which will commence on completion of the licence period in November 2006, is included in the lease commitment table in Note 38 to the financial statements.

The Westpac Office Trust (Trust) was established in March 2003 to acquire the site. To fund the acquisition and construction of the office towers, the Trust initially raised $365 million from investors and borrowed $613 million via a construction loan facility from Westpac. The Trust was admitted to the official list of the Australian Stock Exchange and its securities were first quoted on 7 August 2003. Westpac Funds Management Limited, a wholly owned subsidiary of Westpac, is the Responsible Entity of the Trust.

Britomart

On 4 October 2006, we executed agreements to build and lease with members of the Britomart Group of companies in respect of approximately 16,000 m2 of office space across two buildings to be developed at the eastern end of Britomart Precinct near Customs Street in Auckland, New Zealand. The project to fit out the building and relocate approximately 1,500 staff to the new site is called Project Unity . This project will result in the consolidation of our existing Auckland, Hamilton and Wellington support and operations centres into just one location at Britomart (Charter House) in 2009. In addition, the New Zealand head office functions will move to an adjacent site (East 1 Building) in 2011.

The new buildings consist of two retail/office buildings linked by a common foyer and include one level of retail space in each building and some tenant parking in the Charter House. We will sign a 12 year lease on Charter House and a 10 year lease on the East 1 Building with two six year options to extend each lease. Options also exist to take additional space in the East 1 Building and in the adjacent East 2 Building. The Charter House is due to be delivered to Westpac in November 2008 and the East Building in October 2010 with Westpac to undertake its fitout. It is anticipated that Westpac will take a lease of the relevant buildings 150 days later.

Significant developments

Epic Rest Group (Epic)

On 2 June 2004, we acquired via a trust structure a 100% holding in a group of companies that own and operate three strategically placed natural gas transmission pipeline assets. As at 30 September 2004, these assets, valued at $712 million, were recorded in the statement of financial position of the Group. The assets were sold to investors by initial public offering in Australia on 14 December 2004.

Hastings Funds Management Limited (Hastings)

On 1 July 2005 we acquired the remaining 49% interest in Hastings not previously held by us. The acquisition was funded from a combination of existing financing resources and the issue of 2,585,287 ordinary shares.

Outsourcing contracts(1)

On 1 December 2005, Westpac renewed its Managed Network Service agreement with Telstra Corporation for a further five year term. Under this agreement Telstra will provide voice, data and video services for the corporate and retail banking in Australia and Pacific Region. Westpac expects to incur costs of approximately $400 million over the life of the contract.

On 10 May 2004, Westpac entered into a five year agreement with Keycorp Payment Services (Keycorp) for Electronic Funds Transfer Point of Sale (EFTPoS) terminals in Australia. Keycorp assumed responsibility for fleet services (including the provision of support and maintenance) of the EFTPoS terminals as well as all asset management functions. Keycorp is also responsible for the supply and management of the EFTPoS terminals and the Terminal Operating System and the integration with a new Terminal Application Management system. Westpac retains control over the merchant base (including contractual terms, fees and direct contact by Keycorp) as well as the decision as to what software applications are to be loaded on the EFTPoS fleet.

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(1) Details of other significant outsourcing arrangements entered into in prior years are disclosed in Note 38 to the financial statements.

Legal proceedings

We have contingent liabilities in respect of actual and potential claims and proceedings that have not been determined. An assessment of likely losses is made on a case-by-case basis for the purposes of the financial statements and specific provisions have been made where appropriate, as described in Note 40 to the financial statements.

Our entities are defendants from time-to-time in legal proceedings arising from the conduct of our business.

We are one of 20 defendant banks named in proceedings concerning the Bell Group of companies. The proceedings have been brought by the liquidators of several Bell Group companies and seek to challenge the defendant banks entitlement to receive the proceeds of realisation of Bell Group assets in the early 1990 s. The proceedings concluded recently and we are awaiting judgment. It is not possible to estimate the potential impact, however, we believe that we have good prospects of success.

The New Zealand Commerce Commission prosecuted the New Zealand Branch (NZ Branch), and has prosecuted or is prosecuting six other banks and two card services companies, under the Fair Trading Act 1986 in relation to disclosure of international currency conversion fees charged on foreign currency credit card and debit card transactions. 105 charges were laid against the NZ Branch (plus one duplicate charge). The NZ Branch has pleaded guilty to 19 charges of breaching the Fair Trading Act 1986 and 86 charges were withdrawn. On 29 September 2006, the NZ Branch was convicted and discharged in respect of 7 charges, and convicted and fined a total of NZ$570,000 (A$498,000) in respect of the remaining 12 charges. The NZ Branch has also settled civil proceedings brought against it by the Commerce Commission claiming refunds of the currency conversion fees paid by customers during the relevant periods covered by the claim for NZ$4.5 million (A$3.9 million), which will be refunded to customers in accordance with an agreed process. In addition, the Commerce Commission has served 29 charges on The Warehouse Financial Services Limited, a member of the Westpac Group. The Warehouse Financial Services Limited is a joint venture with The Warehouse Limited, a New Zealand retailer, where 51% is held by us and 49% held by The Warehouse Limited. Penalties under the Fair Trading Act 1986 could include a fine of up to $200,000 per charge. No civil proceedings have been commenced against The Warehouse Financial Services Limited.

New Zealand Inland Revenue Department Investigation

The New Zealand Inland Revenue Department (NZIRD) is reviewing a number of structured finance transactions undertaken in New Zealand and has issued reassessments in respect of seven transactions, three undertaken in the 1999 tax year, two undertaken in the 2000 tax year and two undertaken in the 2001 tax year. The maximum potential tax liability reassessed for the 1999 year is NZ$18 million (A$16 million) (NZ$25 million (A$22 million) with interest), for the 2000 year is NZ$61 million (A$53 million) (NZ$85 million (A$74 million) with interest) and for the 2001 year is NZ$90 million (A$79 million) (NZ$127 million (A$111 million) with interest).

The NZIRD is also investigating other transactions undertaken by the NZ Branch, which have materially similar features to those for which assessments have been received. Should the NZIRD take the same position across all of these transactions, for the periods up to and including 30 September 2006, the overall primary tax in dispute will be approximately NZ$611 million (A$534 million) (this includes the amounts noted above). With interest this increases to approximately NZ$793 million (A$693 million) (calculated to 30 September 2006).

Proceedings disputing the reassessments with respect to the 1999, 2000 and 2001 tax years have been commenced. We are confident that the tax treatment applied in all cases is correct. A ruling was sought from the NZIRD on an initial transaction in 1999 which, following extensive review by the NZIRD, was confirmed in early 2001. The principles underlying that ruling are applicable to, and have been followed in, all subsequent transactions.

Competition

The market for financial services in Australia has traditionally been highly concentrated among the four major banks. However, the industry has changed significantly over the last decade driven by several developments.

Customers are more knowledgeable and more active in managing their own financial affairs and, along with deregulation of the banking industry, are driving the demand for tailored and innovative solutions. Specifically, superannuation, a government-regulated employment retirement savings program for Australians, with its multiple rule changes is becoming increasingly important to customers, spurring the demand for quality financial advice and solutions. Corporate and institutional customers continue to capture global growth opportunities and, as a result of this expansion, are increasing the complexity of their financial needs. Overall, customers have higher expectations of their financial partner in regards to offerings, pricing, and service.

In a broadly supportive economic environment, the Australian financial services market is highly competitive across all business segments:

- newer entrants are aggressively pursuing growth by initially targeting profitable niche segments and then broadening their offerings;
- regional banks have set their sights nationally due to growth constraints in their home states;
- major players are pricing aggressively to achieve growth, making margin decline across the sector likely to continue;
- third party distributors, like mortgage and business lending brokers, have manifested their strong position in the market;
- corporate and institutional customers increasingly enjoy access to global capital markets to satisfy their funding needs;
- strong growth of Australia s wealth industry is attracting a large variety of new players; and
- advances in technology are reducing service delivery costs and improving customer convenience, thus reducing the need for ownership and control of all of the activities required to provide a financial service or product.

In New Zealand, we face competition principally from the locally incorporated subsidiaries of the other three major Australian banks. Australia and New Zealand Banking Group Limited completed its acquisition of The National Bank of New Zealand Limited in December 2003. This has significantly changed the banking landscape, making the merged entity the largest bank in New Zealand. In addition, there is competition from a number of smaller market participants that focus primarily on the retail and housing sectors. Kiwibank, which was established in 2002 and which promotes its 100% New Zealand ownership and low fees and interest rates to consumers and small businesses, has changed the banking landscape and is rapidly acquiring market share.

There are several implications arising out of these developments. Financial services providers are under pressure to deliver growth in their crowded core markets, continue to reduce costs, streamline customer facing processes and provide tailored and innovative products.

Economic outlook(1)

For 2007, we expect the environment to remain supportive, with economic growth improving modestly and unemployment remaining at historically low levels, despite the interest rate rises in 2006. We anticipate some easing in credit growth, however, as business credit growth returns to more sustainable levels after a very buoyant 2006. We expect housing credit growth to ease modestly in 2007 although double digit growth is still anticipated.

We expect wealth management conditions to remain positive, with the recent superannuation taxation changes to drive growth.

In New Zealand, we expect economic growth to remain subdued, as high interest rates and a strong currency continue to dampen activity, with credit growth slowing slightly into 2007 as a result.

While there are signs of a gradual trend to more normal levels in the credit cycle we are not currently seeing any signs of systemic credit deterioration in our books. We believe we remain well provisioned and failing any sharp and unexpected deterioration in economic conditions anticipate that impairment losses should continue to move higher, broadly in line with loan growth in the period ahead.

Employees

The number of employees in each area of business as at 30 September(1):	**2006**	**2005**	**2004**
Business and Consumer Banking	11,763	11,505	11,489
BT Financial Group Australia	2,894	2,696	2,722
Westpac Institutional Bank	1,501	1,528	1,486
New Zealand Banking	4,939	4,993	4,912
Business and Technology Solutions and Services	4,138	4,385	4,303
Pacific Banking	1,075	1,076	1,107
Head Office functions and other	914	955	800
Total employees	27,224	27,138	26,819

(1) The number of employees includes core and implied full time equivalent (FTE) staff. Core FTE includes overtime and pro-rata part time staff. Implied FTE includes temporary and contract staff.

Total full time equivalent (FTE) employees increased 86 on 2005 to 27,224. We have continued to realign our workforce, with additional customer facing staff employed to strengthen our network across a number of businesses, including:

- 440 additional customer facing staff in BCB. These have been employed across a number of business segments, with a primary focus in business banking as we have sought to increase our footprint in the market;
- 119 new staff in BTFG, primarily in the Advice network. We have been steadily increasing the level of financial planners to take advantage of this growing market segment; and
- 22 additional business banking staff in our New Zealand operations as we look to improve customer satisfaction and profitability of our branch network.

Increases in customer facing staff were partially offset by decreases in non-customer facing staff via increased efficiencies in our core and support processes:

- Efficiency and productivity gains in support areas has seen FTE fall by 247 in Australia; and
- Declines in project resources as key projects such as Reach and Pinnacle have neared completion.

FTE has also reduced by 65 due to the sale of our sub-custody business to HSBC with the majority of these employees relocating to HSBC.

We operate under a number of enterprise agreements which were certified by the Australian Industrial Relations Commission (AIRC) in 2002. These agreements have passed their nominal term however they remain in force until they are replaced or terminated by the AIRC. We had negotiations for new enterprise agreements in 2004 and 2005 however we did not finalise agreements. Despite not having new enterprise agreements we have paid eligible employees a 4% increase in October 2005 and October 2006. There has been no industrial action in Australia in the financial year ended 30 September 2006. In New Zealand, we maintain both individual agreements with employees who are not union members and collective agreements with the Finance and Information Union (Finsec). The current collective agreement was ratified and came into effect on 10 February 2006; this agreement expires in April 2007. Finsec employees took industrial action on 24 December 2005 during negotiations for the collective agreement; however, the impact to business operations and customer service was negligible. We continue to have a business like and professional relationship with the Finance Sector Union (FSU) in Australia and Finsec in New Zealand.

Remuneration policies

The application of all remuneration practices across the Bank is consistent with the principles underlying our executive remuneration structures (refer to Notes 27 and 45 to the financial statements for further information), acknowledging the complexity and diversity of our businesses.

Fixed remuneration is market aligned, and reviewed annually with appropriate reference to our industrial agreements. All our employees participate in short term incentive schemes, with specific reference to their role and to market competitiveness. A range of short term incentive schemes has been designed in recognition of our business needs from highly formulated incentive schemes for roles with a strong sales focus, to discretionary arrangements for roles such as corporate support, based on performance against individual and business objectives.

We offer employee share plans for permanent employees in Australia, which are designed to provide tangible recognition for improvements in our performance and gain greater staff commitment. For further details refer to Note 27 to the financial statements. We also provide superannuation (pension) plans for our employees in Australia, New Zealand and certain other countries in which we operate. Plan members are entitled to benefits on retirement, resignation, permanent disability or death. Refer to Note 39 to the financial statements for further information.

Awards of long term performance incentives are available to select employees regarded as business critical or high potential.

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(1) All data and opinions under Economic outlook are generated by our internal economists.

A highlight of 2006 was a complete review of our equity-based long term incentive plans, to deliver a stronger, more relevant relationship between executive behaviour, corporate performance, and executive reward. Other important achievements included the introduction of an enhanced performance management framework, integrating our values of teamwork, integrity and achievement into performance considerations and remuneration outcomes, and the implementation of an online system managing personal & team information, payroll, and a range of human resource functions across our Group.

The Board Remuneration Committee oversees the remuneration practices across our Group, and approves total expenditure for performance recognition.

Supervision and regulation

Australia

Within Australia we are subject to supervision and regulation by five principal agencies: the Australian Prudential Regulation Authority (APRA); the Reserve Bank of Australia (RBA); the Australian Securities and Investments Commission (ASIC); the Australian Stock Exchange (ASX); and the Australian Competition and Consumer Commission (ACCC).

APRA is responsible for the prudential supervision of Authorised Deposit-taking Institutions (ADIs), life and general insurance companies and superannuation (pension) funds. One of its roles is to protect the interests of depositors and insurance policyholders.

As an ADI, we report prudential information to APRA in relation to capital adequacy, large exposures, credit quality and liquidity. Our controlled entities in Australia involved in general insurance, superannuation and life insurance are also subject to the regulatory regime of APRA. Reporting is supplemented by consultations, on-site inspections and targeted reviews. Our external auditors also have an obligation to report on compliance with certain statutory and regulatory banking requirements, and on any matters that in their opinion may have the potential to materially prejudice the interests of depositors.

Australia s risk-based capital adequacy guidelines are generally consistent with the approach agreed upon by the Basel Committee on Banking Supervision. Refer to the section Basel Capital Accord .

The RBA is responsible for monetary policy, maintaining financial system stability and payments system regulation. The RBA is an active participant in the financial markets, manages Australia s foreign reserves, issues Australian currency notes and serves as banker to the Commonwealth Government. On 1 July 2002, the RBA transferred the responsibility for registration and categorisation of financial corporations to APRA.

ASIC is the sole national regulator of Australian companies. Its primary responsibility is for regulation and enforcement of company and financial services laws that protect consumers, investors and creditors. With respect to financial services, it promotes honesty and fairness through the provision of consumer protection, using as necessary its regulatory powers to enforce laws relating to deposit-taking activities, general insurance, life insurance, superannuation, retirement savings accounts, securities (such as shares, debentures and managed investments) and futures contracts.

The ASX operates Australia s primary national market for securities issued by listed companies. Our securities are listed on the ASX and we therefore have a contractual obligation to comply with the ASX Listing Rules that have statutory backing in the Corporations Act. Oversight of listed companies compliance with the ASX Listing Rules is shared between the ASX and ASIC.

The ACCC is an independent statutory authority responsible for the regulation and prohibition of anti-competitive and unfair market practices and mergers and acquisitions by Australian corporations. Its objectives are to ensure that corporations do not act in a way that may have the effect of eliminating or reducing competition, and to oversee product safety and liability issues, pricing practices and third party access to facilities of national significance. The ACCC s consumer protection work complements that of State and Territory consumer affairs agencies that administer the unfair trading legislation of their jurisdictions.

The Australian government s present policy is that mergers among the four major banks will not be permitted until the government is satisfied that competition from new and established participants in the financial industry, particularly in respect of small business lending, has increased sufficiently. Proposals for foreign acquisitions of Australian banks are subject to approval by the government under the Australian Foreign Acquisitions and Takeovers Act 1975.

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New Zealand

The Reserve Bank of New Zealand (RBNZ) is responsible for the supervision of the New Zealand banking industry. This is primarily achieved through the extensive disclosure regime that requires all banks to publish financial statements on a quarterly basis, which also incorporates director attestation on the Bank s risk management disciplines.

The RBNZ s policy is that all systemically important banks must incorporate as a local entity rather than operate through a branch structure. Our NZ Branch is a systemically important bank and must therefore incorporate locally.

The RBNZ allows an overseas bank to operate in New Zealand as both a branch of its overseas parent and through a subsidiary. We have determined that this type of dual registration is the most effective option for us to comply with RBNZ policy, while minimising disruption to the NZ Branch s customers.

Accordingly, we have established a locally incorporated entity, Westpac New Zealand Limited, to assume and carry on the New Zealand consumer and business banking operations of our NZ Branch. Westpac New Zealand Limited commenced business as a registered bank under the Reserve Bank of New Zealand Act 1989 on 1 November 2006 and is subject to the capital adequacy requirements of the RBNZ. In making dividend payments or capital returns to the Group, Westpac New Zealand Limited must maintain its capital ratios within the minimums specified by the RBNZ.

The existing NZ Branch structure remains in place, however, its operations are significantly reduced, largely to wholesale banking and financial markets business.

The reorganisation of our business has been facilitated by legislation, which is the only means by which our New Zealand consumer and business banking operations could be vested in the Bank efficiently, economically and without affecting the continuity of the provision of those banking services. The Westpac New Zealand Act 2006 provided for the vesting of designated NZ Branch assets and liabilities in Westpac New Zealand Limited on 1 November 2006.

The Banking Act 1959 (Australia) gives priority over our Australian assets to Australian depositors. Accordingly, unsecured creditors an depositors of the remaining New Zealand branch will rank after our Australian depositors in relation to claims against Westpac Banking Corporation s Australian assets.

Section 23 of the Westpac Banking Corporation Act 1982 (New Zealand) gave New Zealand depositors priority over our New Zealand assets. However, section 23 was repealed with effect from 1 November 2006 by the Westpac New Zealand Act 2006.

Based on the statement of financial position as at 30 September 2006, the carrying value of the New Zealand assets of the New Zealand branch of Westpac Banking Corporation was greater than its New Zealand deposit liabilities.

United States

Our New York branch is a federally licensed branch and, as such, is subject to supervision, examination and extensive regulation by the US Office of the Comptroller of the Currency and the Board of Governors of the Federal Reserve System (the US Federal Reserve) under the International Banking Act of 1978 (IBA), and related regulations. Under the IBA, we may not open any branch, agency or representative office in the US or acquire more than 5% of the voting stock of any US bank without the prior approval of the US Federal Reserve.

A federal branch must maintain, with a US Federal Reserve member bank, a capital equivalency deposit as prescribed by the US Comptroller of the Currency in an amount which is the greater of:

a. the amount of capital that would be required of a national bank organised at the same location; or

b. 5% of the total liabilities (excluding, among other things, liabilities to affiliates and liabilities of any international banking facilities) of the federal branch.

In addition, a federal branch is examined by the US Comptroller of the Currency at least once each calendar year and periodically by the US Federal Reserve. The examination covers risk management, operations, credit and asset quality and compliance with the record-keeping and reporting requirements that apply to national banks, including the maintenance of its accounts and records separate from those of the foreign bank and any additional requirements prescribed by the US Comptroller of the Currency.

A federal branch of a foreign bank is, by virtue of the IBA, subject to the receivership powers exercisable by the US Comptroller of the Currency.

At this time we have not elected to become and therefore we are not a financial holding company as defined in the Gramm-Leach-Bliley Act of 1999.

USA PATRIOT Act

The USA PATRIOT Act requires US financial institutions, including the US branches of foreign banks, to take certain steps to prevent, detect and report individuals and entities involved in international money laundering and the financing of terrorism. The required actions include verifying the identity of financial institutions, terminating correspondent accounts for foreign shell banks and obtaining information about the owners of foreign bank clients and the identity of the foreign bank s agent for service of process in the US. Many of the new anti-money laundering compliance requirements of the USA PATRIOT Act are consistent with the anti-money laundering compliance obligations previously imposed on US financial institutions, including the US branches of foreign banks, under the Bank Secrecy Act and under regulations of the applicable US bank regulatory agency such as the US Comptroller of the Currency. These include requirements to adopt and implement an effective anti-money laundering program, report suspicious transactions or activities, and implement due diligence procedures for correspondent and other customer accounts. The USA PATRIOT Act and other recent events have resulted in heightened scrutiny of Bank Secrecy Act and anti-money laundering compliance programs by federal bank regulatory and law enforcement authorities.

Financial review

Key information

Selected consolidated financial and operating data

We have derived the following selected financial information as of, and for the financial years ended, 30 September 2006 and 2005 from our audited consolidated financial statements and related notes which have been prepared in accordance with A-IFRS. The financial statements were reported on by independent auditors PricewaterhouseCoopers. We have derived the following selected financial information as of and for the financial years ended 30 September 2004, 2003 and 2002 in accordance with US GAAP from our audited consolidated financial statements and related notes for each of those financial years.

PricewaterhouseCoopers was appointed our auditor at our annual general meeting (AGM) on 12 December 2002 in accordance with the requirements of the Corporations Act.

This information should be read together with the Operating and financial review and prospects and our audited consolidated financial statements and the accompanying notes included elsewhere in this Annual Report.

We have adopted the requirements of A-IFRS for the first time for the purpose of preparing financial statements for the year ended 30 September 2006. In accordance with A-IFRS, we have reclassified the financial statements for our financial year ended 30 September 2005 in accordance with A-IFRS. Previously published financial statements for our financial year ended 30 September 2005, as well as all prior financial periods, were prepared in accordance with AGAAP. A-IFRS differs in certain material respects from AGAAP and, accordingly, financial statements for our financial years ended 30 September 2006 and 2005 prepared in accordance with A-IFRS are not comparable to the financial statements for 2005 and prior years prepared in accordance with AGAAP. Refer to Note 48 to the financial statements for a summary of the principal differences between A-IFRS and AGAAP affecting our financial statements.

We have included in a separate section of this Annual Report under the caption Other financial information additional selected consolidated financial and operating data as of and for the financial years ended 30 September 2005, 2004, 2003 and 2002 derived from our previously published financial statements prepared in accordance with AGAAP. We have set forth this data separately because this data is not comparable to data derived from financial statements prepared in accordance with A-IFRS.

Consolidated income statement

	Year Ended 30 September		
(in $millions unless otherwise indicated)	**2006**	**2006**	**2005**
	US$(1)	**A$**	**A$**
Amounts in accordance with A-IFRS			
Interest income	13,498	18,091	15,544
Interest expense	(9,288)	(12,449)	(10,285)
Net interest income	4,210	5,642	5,259
Non-interest income	2,667	3,575	3,454
Net operating income	6,877	9,217	8,713
Operating expenses	(3,204)	(4,295)	(4,159)
Impairment losses on loans	(280)	(375)	(382)
Profit before income tax	3,393	4,547	4,172
Income tax expense	(1,061)	(1,422)	(1,223)
Net profit for the year	2,332	3,125	2,949
Net profit attributable to minority interests	(40)	(54)	(251)
Net profit attributable to equity holders of Westpac Banking Corporation	2,292	3,071	2,698
Weighted average number of ordinary shares (millions)(2)	1,842	1,842	1,851
Basic earnings per ordinary share (cents)(2)	124.7	167.2	148.9
Dividends per ordinary share (cents)	87	116	100
Dividend payout ratio (%)(3)	69.4	69.4	67.2

Refer to page 18 for footnote explanations.

(in $millions unless otherwise indicated)	Year Ended 30 September 2006 US$(1)	2006 A$	2005 A$	2004 A$	2003 A$	2002 A$
Amounts in accordance with US GAAP(4)						
Net income	2,191	2,936	2,813	2,772	1,984	2,579
Non-interest expenses	3,313	4,441	4,289	3,967	3,818	3,650

Refer to page 18 for footnote explanations.

(in $millions unless otherwise stated)	Consolidated 2006 US$(1)	2006 A$	2005 A$	2004 A$	2003 A$	2002 A$
Computation of ordinary earnings per share in accordance with US GAAP						
Weighted average number of ordinary shares (millions)	1,837	1,837	1,851	1,846	1,824	1,812
Average other potential ordinary shares	60	60	71	63		
Average options and performance share rights	5	5	4	13	7	10
Average shares and share equivalents	1,902	1,902	1,926	1,922	1,831	1,822
Net income	2,191	2,936	2,813	2,772	1,984	2,579
Basic earnings per ordinary share (cents)	119.3	159.8	152.0	150.2	108.8	142.3
Fully diluted net income per share (cents)	118.3	158.6	150.2	147.5	108.4	141.5
Basic earnings per ADS (five times earnings per share in cents)	597	799	760	751	544	712

Differences between A-IFRS and US Generally Accepted Accounting Principles (US GAAP) results

Our consolidated financial statements are prepared in accordance with accounting principles and policies as summarised in Note 1 to the financial statements. These accounting principles and policies differ in some material respects from US GAAP. A reconciliation of net income, total assets, total liabilities and equity under US GAAP is included in Note 49 to the financial statements.

Consolidated net income under US GAAP for the year ended 30 September 2006 was A$2,936 million (2005 A$2,813 million). The significant adjustments between A-IFRS and US GAAP results primarily relate to a one-off change in estimate to the allowance for loan losses, superannuation expenses, debt instruments, hedging, premises and sites, effective yield adjustments and capitalised software.

Selected consolidated balance sheet data

(in $millions unless otherwise indicated)	Year Ended 30 September 2006 US$(1)	2006 A$	2005 A$
Amounts in accordance with A-IFRS			
Year end balances			
Cash and balances with central banks	1,849	2,478	2,853
Due from other financial institutions	9,599	12,865	14,355
Trading securities, other financial assets and available-for-sale (2005: Investment securities)	13,289	17,811	14,464
Loans	174,949	234,484	198,286
Acceptances of customers(5)			4,864
Due to other financial institutions	8,991	12,051	10,654
Deposits	125,152	167,741	149,252
Trading liabilities and other financial liabilities	5,594	7,497	3,154
Total assets	223,515	299,578	266,263
Total liabilities excluding loan capital	207,060	277,523	245,156
Total loan capital(6)	4,445	5,957	4,214
Net assets	12,011	16,098	16,893
Total equity attributable to equity holders of Westpac Banking Corporation (7), (8)	10,584	14,186	13,561
Minority interests	1,427	1,912	3,332
Average balances			
Total assets	210,439	282,052	256,690
Loans and other receivables	163,143	218,661	193,462
Acceptances of customers			5,235
Shareholders equity (7), (8)	9,975	13,369	12,651
Minority interests	1,099	1,473	3,507

Refer to page 18 for footnote explanations.

(in $millions unless otherwise indicated)	Year Ended 30 September 2006 US$(1)	2006 A$	2005 A$	2004 A$	2003 A$	2002 A$
Amounts in accordance with US GAAP(4)						
Total assets	222,269	297,908	265,164	251,705	221,768	191,338
Total liabilities	211,104	282,943	250,447	238,777	209,994	180,748
Equity attributable to equity holders	11,165	14,965	14,717	12,928	11,774	10,590
Average total assets	209,193	280,382	262,474	243,662	210,806	187,128
Average total equity	11,073	14,841	14,257	12,351	11,182	9,999
Average minority interest	1,099	1,473	1,040	1,407	635	481

Refer to page 18 for footnote explanations.

Summary of consolidated ratios

(in $millions unless otherwise indicated)	Year Ended 30 September 2006 US$(1)	2006 A$	2005 A$
Ratios in accordance with A-IFRS			
Profitability ratios (%)			
Net interest margin(9)	2.29	2.29	2.45
Return on average assets(10)	1.09	1.09	1.05
Return on average ordinary equity(11)	23.0	23.0	21.7
Return on average total equity(12)	20.7	20.7	16.7
Capital ratio (%)			
Average total equity to average total assets	5.3	5.3	6.3
Total capital ratio(13)	9.6	9.6	9.7
Earnings ratios			
Basic earnings per ordinary share (cents)(2)	124.7	167.2	148.9
Fully diluted earnings per ordinary share (cents)(14)	123.6	165.7	147.2
Dividends per ordinary share (cents)	87	116	100
Dividend payout ratio (%)(3)	69.4	69.4	67.2
Credit quality ratios			
Impairment losses on loans written off (net of recoveries)	198	266	331
Impairment losses on loans written off (net of recoveries) to average loans (%)	0.12	0.12	0.16

(in $millions unless otherwise indicated)	Year Ended 30 September 2006 US$(1)	2006 A$	2005 A$	2004 A$	2003 A$	2002 A$
Ratios in accordance with US GAAP(4)						
Profitability ratios (%)						
Net interest margin	2.32	2.32	2.44	2.40	2.60	2.81
Net profit attributable to equity holders to average total assets	1.05	1.05	1.07	1.14	0.94	1.38
Net profit attributable to equity holders to average total equity	19.78	19.78	19.73	22.40	17.70	25.80
Capital ratio (%)						
Average total equity to average total assets	5.3	5.3	5.4	5.2	5.3	5.3
Leverage ratio(15)	4.7	4.7	5.0	4.7	4.6	4.5
Earnings ratios						
Basic earnings per ordinary share (cents)	119.3	159.8	152.0	150.2	108.8	142.3
Fully diluted earnings per ordinary share (cents)(14)	118.3	158.6	150.2	147.5	108.4	141.5
Dividends per ordinary share (US cents)	87	87	76	62	53	38
Dividend payout ratio (%)(3)	72.8	72.8	65.8	57.3	71.7	49.2

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(1) Australian dollar amounts have been translated into US dollars solely for the convenience of the reader at the rate of A$1.00 = US$0.7461, the Noon Buying Rate on 30 September 2006. Amounts or ratios are in accordance with this conversion rate.

(2) Based on the weighted average number of fully paid ordinary shares outstanding, including nil New Zealand Class shares in 2006 (2005 41 million).

(3) Calculated by dividing the dividends per ordinary share by the basic earnings per ordinary share.

(4) For the reconciliation with US GAAP, refer to Note 49 to the financial statements for the financial years ended 30 September 2006 and 2005 and to the relevant note to the financial statements for the prior financial years.

(5) Acceptances of customers are included in loans in 2006.

(6) This includes 2004 TPS and FIRsTS in 2006. In 2005 these instruments were classified as minority interests.

(7) Includes New Zealand Class shares in 2005. Excludes minority interests.

(8) New Zealand Class shares were on issue until 11 July 2005. On this date they were fully exchanged for ordinary shares.

(9) Calculated by dividing net interest income (including tax equivalent gross up) by average interest earning assets.

(10) Calculated by dividing net profit attributable to our equity holders by average total assets.

(11) Calculated by dividing net profit attributable to our equity holders adjusted for distributions on New Zealand Class shares by average ordinary equity.

(12) Calculated by dividing net profit attributable to our equity holders by average ordinary equity and minority interests.

(13) For details on the calculation of this ratio refer to Note 28 to the financial statements.

(14) Based on basic earnings per share, with the weighted average number of fully paid ordinary shares outstanding adjusted for the conversion of dilutive potential ordinary shares, issued for no consideration, and after adjusting earnings for distributions on dilutive potential ordinary shares.

(15) The leverage ratio has been calculated in accordance with guidelines promulgated by the Board of Governors of the US Federal Reserve System. The ratio is calculated by dividing tier 1 capital by total average assets for leverage capital purposes in accordance with US GAAP.

Risk factors

Our business activities are subject to risks that can adversely impact our business, future performance and financial condition. You should carefully consider the risks and the other information in this annual report before investing in our securities. The risks and uncertainties described below are not the only ones we may face. Additional risks and uncertainties that we are unaware of, or that we currently deem to be immaterial, may also become important factors that affect us. If any of the following risks actually occurs, our business, results of operations or financial condition could be materially adversely affected, with the result that the trading price of our securities could decline and you could lose all or part of your investment.

Our business is substantially dependent on the Australian and New Zealand economies

Our revenues and earnings are dependent on the level of financial services our customers require. In particular, levels of borrowing are heavily dependent on customer confidence, the state of the economy, the home lending market and prevailing market interest rates from time to time in the countries in which we operate.

We currently conduct most of our business in Australia and New Zealand. Consequently, our performance is influenced by the level and cyclical nature of business and home lending activity in these countries, which is in turn impacted by both domestic and international economic and political events. There can be no assurance that a weakening in the Australian or New Zealand economies will not materially affect our financial condition and results of operations. The economic conditions of other regions where we conduct operations can also affect our future performance.

We face intense competition in all aspects of our business

We compete, both domestically and internationally, with asset managers, retail and commercial banks, non-bank mortgage brokers, private banking firms, investment banking firms, brokerage firms, and other investment service firms. In addition, the trend toward consolidation in the global financial services industry is creating competitors with broader ranges of product and service offerings, increased access to capital, and greater efficiency and pricing power. In recent years, competition has also increased as large insurance and banking industry participants have sought to establish themselves in markets that are perceived to offer higher growth potential, and as local institutions have become more sophisticated and competitive and have sought alliances, mergers or strategic relationships. We expect these trends to continue. For more detail on how we address competitive pressures refer to the section Competition .

An increase in defaults in our loan portfolio could adversely affect our results of operations and financial condition

Credit risk is our most significant risk and arises primarily from our lending activities. We hold collectively and individually assessed provisions for impairment losses on loans. If these provisions prove inadequate then this could have a material adverse effect on our results of operations and financial performance.

For a discussion of our risk management procedures, including the management of credit risk, refer to the section Risk management .

We could suffer losses due to market volatility

We are exposed to market risk as a consequence of our trading activities in financial markets and through the asset and liability management of our overall financial position. In our financial markets trading businesses, we are exposed to losses arising from adverse movements in levels and volatility of interest rates, foreign exchange rates, and commodity and equity prices. If we were to suffer substantial losses due to any such market volatility, it would adversely affect our results of operations and financial condition.

For a discussion of our risk management procedures, including the management of market risk, refer to the section Risk management .

We could suffer losses due to operational risks

As a financial services organisation we are exposed to a variety of other risks including those resulting from process error, fraud, system failure, security and physical protection, customer services, staff skills and performance, and product development and maintenance. Operational risk can directly impact our reputation and result in financial losses which could adversely affect our financial performance or financial condition.

For a discussion of our risk management procedures, including the management of operational risk, refer to the section Risk management .

Our businesses are highly regulated and we could be adversely affected by changes in regulations and regulatory policy

Compliance risk arises from the regulatory standards that apply to us as an institution. All of our businesses are highly regulated in the various jurisdictions in which we do business. We are responsible for ensuring that we comply with all applicable legal and regulatory requirements (including changes to accounting standards refer to sections Accounting standards and Critical accounting estimates) and industry codes of practice, as well as meeting our ethical standards. Our business and earnings are also affected by the fiscal or other policies adopted by various regulatory authorities of the Australian and New Zealand governments, foreign governments and international agencies. The nature and impact of future changes in such policies are not predictable and are beyond our control. Changes in regulations or regulatory policy could adversely affect one or more of our businesses and could require us to incur substantial costs to comply. The failure to comply with applicable regulations could result in fines and penalties or limitations on our ability to do business. These costs, expenses and limitations could have a material adverse affect on our business, financial performance or financial condition.

An inability to meet our payment obligations could adversely affect our financial performance or financial condition

Liquidity risk is the potential inability to meet our payment obligations, which could potentially arise as a result of mismatched cash flows generated by our business. For a more detailed description of liquidity risk, refer to the section Liquidity and funding .

We could suffer losses if we fail to syndicate or sell down underwritten equities

As a financial intermediary we underwrite listed and unlisted equities. Equity underwriting activities include developing solutions for corporate and institutional customers who have a demand for equity capital, and investor customers who have an appetite for equity-based investment products. We may guarantee the pricing and placement of these facilities. We are at risk if we fail to syndicate or sell down our risk to other market participants.

Other risks

Other risks that can impact our performance include insurance risk, interest rate risk, reputation risk and strategic risk. Refer to the section Corporate governance for more information on these risks.

Operating and financial review and prospects

The following discussion contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. Where forward-looking statements are made, our actual results may differ significantly from the results discussed. For a description of factors that may affect our results, refer to sections Disclosure regarding forward-looking statements , Risk factors and Risk management .

Accounting standards

The financial statements included in this report have been prepared in accordance with the accounting policies described in Note 1 to the financial statements, being in accordance with A-IFRS. A-IFRS differs in certain material respects from US GAAP. For a reconciliation of significant adjustments from our A-IFRS financial statements to US GAAP, refer to Note 49 to the financial statements.

Recent accounting developments Australia

In July 2002, the Financial Reporting Council (FRC) of Australia announced its formal support for Australia to adopt standards based on International Financial Reporting Standards (IFRS) for financial years beginning on or after 1 January 2005. As a result the accounting standards that apply to Australian reporting companies under the Corporations Act are based on IFRS issued by the International Accounting Standards Board for accounting periods beginning on or after 1 January 2005. We adopted A-IFRS from 1 October 2005 and certain comparatives have been reclassified on initial adoption.

For other developments in Australian accounting standards refer to Note 1(k) of the financial statements. For a discussion of the impact of the adoption of A-IFRS on our financial position and results of operations, see Note 48 to the financial statements.

Recent accounting developments United States

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) 154 Accounting Changes and Error Corrections (SFAS 154) in May 2005. The standard requires that when companies voluntarily change accounting policy, they retrospectively apply it to comparative periods in the annual report, unless it is impractical to do so. SFAS 154 also requires errors discovered after issue of the annual report to be reported as a prior period adjustment in comparatives of the next annual financial report. SFAS 154 is applicable to any changes in accounting policy and errors discovered in financial years beginning after 15 December 2005. We do not expect that adoption of the standard will have a material impact.

In February 2006 the FASB issued SFAS 155 Accounting for Certain Hybrid Financial Instruments (SFAS 155) which permits certain hybrid instruments with embedded derivatives to be carried at fair value. SFAS 155 also clarifies other aspects of accounting treatment for other hybrid instruments, which has minimal impact on us. We have early adopted the standard, as permitted, from 1 October 2005. There has been no significant impacts to our balance sheet from adopting SFAS 155.

In September 2006 the FASB issued SFAS 157 Fair Value Measurements which is applicable for financial years beginning after 15 November 2007. The standard is applicable to assets and liabilities required to be measured at fair value by other accounting standards, and requires certain disclosures in respect of these assets and liabilities. It also outlines a framework to apply when determining fair value. The Group will apply the standard from 1 October 2008, and we do not expect the standard to materially impact fair value measurement.

SFAS 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans was issued in September 2006. It changes the accounting for defined benefit plans by requiring that gains or losses relating to the plans be recognised in other comprehensive income as they arise. The Group will apply SFAS 158 from 1 October 2006, and adoption will require unrecognised actuarial losses to be recognised reducing equity by $351 million.

In June 2006 the FASB issued Interpretation 48 Accounting for Uncertainty in Income Taxes , which prescribes recognition and measurement principles for recognising income tax liability and treatment of related expenses including interest and penalties. The standard is required to beapplied for periods beginning after 15 December 2006, and the Group will apply it from 1 October 2007. We do not expect adoption of the interpretation to materially impact income tax expense or provisions.

The FASB staff issue FASB Staff Positions (FSP) to provide guidance on the application of the accounting standards and interpretations. The FASB issued FASB Staff Position FIN 46(R)-6 Determining the variability to be considered in applying FASB No.46(R) in April 2006. It addresses the application of FIN46(R) when determining whether certain contracts or arrangements with a variable interest entity (VIE) are variable interests by requiring companies to base their evaluations on an analysis of the VIE s purpose and design rather than legal form or accounting classification. The FSP on FIN46(R) is required to be applied for all reporting periods beginning after 15 June 2006. We do not expect that the FSP on FIN46(R) will have a material impact on consolidation of VIEs. The FASB issued FSP Nos. FAS 115 The meaning of other-than-temporary impairment and its application to certain investments , which provides guidance on identifying and measuring other-than-temporary impairments on debt and equity securities. The FSP requires certain disclosures about unrealised losses which are not recognised in the financial statements. The FSP is applicable for accounting periods beginning after 15 December 2005. We do not expect the adoption of FSP 115 to materially impact us.

Critical accounting estimates

Our reported results are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the income statement and the balance sheet. Our principle accounting policies are disclosed in Note 1 to the Financial Statements and Note 49 with respect to policies that differ from US GAAP. Note 1 also includes a description of our critical accounting assumptions and estimates. We have discussed the development and selection of the critical accounting estimates with our Board Audit Committee. We consider that the following areas involve our most critical accounting estimates:

Fair value of financial instruments

Financial instruments classified as held-for-trading, designated at fair value through profit or loss or financial assets classified as available-for-sale are recognised in the financial statements at fair value. All derivatives are measured and recognised at fair value. As far as possible, financial instruments are valued with reference to quoted, observable market prices or by using models which employ observable valuation parameters. Where valuation models rely on parameters for which inputs are not observable, judgements and estimation may be required.

As at 30 September 2006, the fair value of trading securities, financial assets designated at fair value through profit or loss and available-for-sale securities was $17,811 million. The fair value of trading liabilities and financial liabilities designated at fair value through profit and loss was $7,497 million. The notional value of outstanding derivatives was $1,310,044 million. The fair value of trading securities of $13,560 million is substantially based on quoted market prices. The fair value of financial assets determined by valuation models that did not use observable market prices was $484 million. The fair value of other financial assets and financial liabilities, including derivatives, is largely determined by valuation models using observable market prices and rates. Where observable market inputs are not available, day one profits or losses are not recognised.

We believe that the judgements and estimates used are reasonable in the current market, however, a change in these judgements and estimates would lead to different results as future market conditions can vary from those expected.

Provisions for impairment losses on loans

Provisions for loan impairment losses represent management s best estimate of the losses incurred in the loan portfolios as at the balance date. There are two components of our loan impairment provisions, individually assessed provisions and collectively assessed provisions.

In determining the individual component all relevant considerations that have a bearing on the expected future cash flows are taken into account, for example, the business prospects of the customer, the realisable value of collateral, our position relative to other claimants, the liability of customer information and the likely cost and duration of the work-out process. These judgements and estimates can change with time as new information becomes available or as work-out strategies evolve, resulting in revisions to the impairment provision as individual decisions are made.

The collective component is established on a portfolio basis taking into account the level of arrears, collateral, past loss experience and defaults based on portfolio trends. The most significant factors in establishing these provisions are estimated loss rates and related emergence period. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, unemployment levels, payment behaviour and bankruptcy rates.

As at 30 September 2006, gross loans and advances to customers were $235,684 million and the provision for impairment losses on loans was $1,200 million.

Goodwill

Goodwill represents the excess of purchase consideration over the fair value of the identifiable net assets of acquired businesses. The determination of the fair value of the assets and liabilities of acquired businesses requires the exercise of management judgement. Different fair values would result in changes to the goodwill and to the post-acquisition performance of the acquisitions.

Additionally, goodwill is tested for impairment annually by determining if the carrying value of the cash generating unit (CGU) that it has been allocated to is recoverable. The recoverable amount is the higher of the CGU s fair value and its value in use. Determination of appropriate cash flows and discount rates for the calculation of the value in use is subjective. As at 30 September 2006, the carrying value of goodwill was $2,403 million.

Superannuation obligations

The actuarial valuations of our defined benefit plans obligations are dependant upon a series of assumptions, the key ones being price inflation, earnings growth, mortality, morbidity and investment returns assumptions. Different assumptions could significantly alter the amount of the difference between plan assets and obligations and the superannuation cost charged to the income statement.

The superannuation deficit across all our plans as at 30 September 2006 was $110 million (2005 deficit of $23 million). This comprises net recognised liabilities of $199 million (2005 $120 million) and unrecognised actuarial gains of $89 million (2005 $97 million).

Provisions (other than loan impairment losses)

Provisions are held in respect of a range of future obligations such as employee entitlements, restructuring costs, non-lending losses and surplus lease space. Provisions carried for long service leave are supported by an independent actuarial report. Some of the provisions involve significant judgement about the likely outcome of various events and estimated future cash flows. Provisions for taxation held in respect of uncertain tax positions represents the unrecovered tax benefits associated with specific transactions. The deferral of these benefits involves the exercise of management judgements about the ultimate outcomes of the transactions. Payments which are expected to be incurred later than one year are discounted at a rate which reflects both current interest rates and the risks specific to that provision.

Related party disclosures

Details of our related party disclosures are set out in Note 44 to the financial statements and details of Directors interests in securities are set out in Note 45 to the financial statements. The related party disclosures relate principally to transactions with our Directors and Director-related parties as we do not have individually significant shareholders and our transactions with other related parties are not significant.

Other than as disclosed in Note 45 to the financial statements, if applicable, loans made to parties related to Directors and other key management personnel of Westpac are made in the ordinary course of business on normal terms and conditions (including interest rates and collateral). Loans are made on the same terms and conditions (including interest rates and collateral) as apply to other employees and certain customers in accordance with established policy. These loans do not involve more than the normal risk of collectability or present any other unfavourable features.

Auditors remuneration

Auditors remuneration, including goods and services tax, to the external auditor for the year ended 30 September 2006 is summarised from Note 37 to the financial statements as follows:

Audit fees	$12,753,000
Audit-related fees	$101,000
Tax fees	$187,000
All other fees	$165,000

The external auditor, PricewaterhouseCoopers, also provides audit and non-audit services to non-consolidated entities including trusts of which a Westpac Group entity is trustee, manager or responsible entity and non-consolidated superannuation funds or pension funds. The fees in respect of these services were approximately $4.5 million in total (2005 $3.6 million). PricewaterhouseCoopers may also provide audit and non-audit services to other entities in which Westpac holds a minority interest, and which are not consolidated. Westpac is not aware of the amount of any fees paid by those entities.

Audit related services

Of the total amount of fees paid by Westpac to PricewaterhouseCoopers in the year ended 30 September 2006, approximately 0.79% of these fees (0.46% of Audit fees) were approved by the Board Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X of the United States Securities and Exchange Commission. No other fees paid by Westpac to PricewaterhouseCoopers in that year were approved by the audit committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

Westpac Group Assurance continually monitors the application of the pre-approval process in respect of non-audit services provided by PricewaterhouseCoopers and promptly brings to the attention of the Board Audit Committee any exceptions that need to be approved pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X. Westpac Group Assurance also continually draws business unit management s attention to the importance of compliance with the pre-approval process.

Overview of performance

	2006 $m	2005 $m
Net interest income	5,642	5,259
Non-interest income	3,575	3,454
Net operating income	9,217	8,713
Operating expenses	(4,295)	(4,159)
Impairment losses on loans	(375)	(382)
Profit from ordinary activities before income tax expense	4,547	4,172
Income tax expense	(1,422)	(1,223)
Net profit attributable to minority interests	(54)	(251)
Net profit attributable to equity holders	3,071	2,698
Earnings per share (cents): Basic	167.2	148.9
Earnings per share (cents): Fully diluted	165.7	147.2

Overview of performance

Net profit attributable to equity holders was $3,071 million in 2006, an increase of $373 million or 14% over 2005. The 2006 result was driven by sound revenue growth due to improving volumes, with system market share multiples for new business improving in key products including housing, cards and business lending (source: Reserve Bank of Australia/Australian Prudential Regulation Authority statistics). Expense growth was 3% while impairment losses fell slightly. Higher tax charges were offset by lower allocations of profit to minority interests. Business and Consumer Banking contributed $230 million of the increase in net profit attributable to equity holders, Westpac Institutional Bank contributed $20 million, BTFG $30 million, while New Zealand s contribution increased $18 million. The Other segment s contribution increased $75 million.

Net interest income was $5,642 million in 2006, an increase of $383 million or 7% on 2005. The increase in 2006 was driven by a 12% increase in average interest earnings assets, partially offset by a 16 basis point decline in margins. Net loans and acceptances grew 15% in 2006, with the key drivers being strong growth in Institutional Bank lending (up 33%), BTFG margin lending (up 48%) and Personal (up 17%). Mortgage balances increased 12%. Margins declined 16 basis points due to changes in both asset and liability mix. Decreases in asset spreads were offset by increases in liability spreads following RBA rate rises during the year.

Non-interest income was $3,575 million in 2006, up $121 million or 4% on 2005. Fees and commissions fell primarily due to the impact of AASB 132 and AASB 139, which were only applicable from 1 October 2005. These standards require certain fees that we have previously taken to income statement as received, to be capitalised on the balance sheet and subsequently be recognised as part of net interest income. Trading income grew significantly in 2006 with improved performance in Treasury and Financial Markets. Other non-interest income included the proceeds from the sale of the Bank s sub-custody business to HSBC of $94 million.

Operating expenses were $4,295 million in 2006, an increase of $136 million or 3% on 2005. Increases in personnel costs due to increased staff levels and pay increases paid in October 2005 and January 2006 were the key drivers. Software amortisation also increased following recent systems investments in tools such as Pinnacle and Reach.

Impairment losses were $375 million, $7 million or 2% lower than 2005. This decrease was partly driven by the impacts of AASB 132 and AASB 139, which led to changes in the loss estimations methodology and were only applicable from 1 October 2005. The decrease in the expense relating to this adjustment was offset by higher charges related to book growth (primarily credit cards) and a slight increase in stressed loans (up 7 basis points to 81 basis points).

Income statement review

Net Interest income

	2006 $m	2005 $m
Interest income	18,091	15,544
Interest expense	(12,449)	(10,285)
Net interest income	5,642	5,259
Increase/(decrease) in net interest income		
Due to change in volume	(214)	285
Due to change in rate	597	219
Change in net interest income	383	504

Net interest income was $5,642 million in 2006, an increase of $383 million on 2005. The key drivers of this increase are discussed below. Net interest income was impacted by transitional A-IFRS standards, primarily AASB 132 and AASB 139, which were applied prospectively from 1 October 2005 (with no reclassification of comparatives). Changes included:

- the deferral and subsequent recognition of certain lending and deposit fees as interest income (classified as non interest income in 2005);
- the recognition in interest expense on distributions on hybrid instruments classified as debt (recognised in outside equity interests in 2005); and
- the recognition of interest income using the effective interest rate method.

The net impact of the changes on net interest income was an increase of $106 million.

In 2006 the increase in net interest income was also a result of an increase in average interest earning assets of 12% and average interest bearing liabilities of 15% combined with a margin decline of 16 basis points.

Growth in average net loans and acceptances of 13% was lower than the 15% growth in loans and acceptances at period end principally due to strong lending growth in the latter months of 2006, particularly in the Institutional Bank.

Growth in period end balances of Australian net loans was 20%. Total New Zealand net loans at period end increased by 12% (NZ$ terms) and by 7% in A$ terms.

Key loan and acceptance growth drivers included:

- Business and Consumer Banking net loans increased 13%, with Housing lending up 12% and Business lending up 14%;
- Institutional Bank net loans increased by 33%;
- New Zealand housing lending increased 14% while business lending increased by 11%; and
- BTFG achieved 48% growth in its margin lending portfolio driven by continued strong equity markets.

Growth in period end deposit balances across the Group increased 12% in 2006 with a 10% increase in BCB customer deposits and working capital balances and a 9% (NZ$ terms) increase in New Zealand customer deposits. Institutional Bank deposits increased 17%. However, deposit growth did not match loan growth, driving a 20% increase in treasury short term funding.

In both Australia and New Zealand, strong deposit growth was primarily due to the continued growth in high interest, on-line saver accounts. Growth in transaction accounts and term deposits was not significant.

Overall, margins were down 16 basis points to 2.29% in 2006. The introduction of A-IFRS standards increased margins by one basis point with a 17 basis point decline due to business impacts.

Key movements impacting on the Group were:

- assets - competitive pressures and our decision to meet the market on price saw spreads decline on mortgages, cards and business lending in BCB (five basis points). New Zealand contributed two basis points of the decline, mainly due to the residual impact of the switch between floating and fixed rate mortgages, which occurred in 2005. Spread contraction on Corporate lending and other assets contributed two basis points to the decline.

- liability impacts reduced the interest margin by a further basis point, mainly due to the increased reliance on wholesale funding. Whilst our online savings accounts exhibited strong growth, reducing overall interest margins, this was offset by increases in retail liability spreads on traditional deposit products;

- the correction of an overstatement of credit card income contributed two basis points;

- the effect of the roll off of our New Zealand Structured Finance portfolio in mid 2005, contributed a further two basis points; and

- the remaining three basis points were largely generated from the change in mix between net interest income and non-interest income in our Treasury business and hence had no impact on total income.

Interest spread and margin

	2006 $m	2005 $m
Group		
Net interest income	5,642	5,259
Tax equivalent gross up(1)	111	214
Net interest income (including gross up)	5,753	5,473
Average interest earning assets	250,703	223,698
Average interest bearing liabilities	233,016	203,294
Average net non-interest bearing liabilities and equity	17,687	20,404
Interest spread(2)	1.92 %	1.99 %
Benefit of net non-interest bearing liabilities and equity(3)	0.37 %	0.46 %
Net interest margin(4)	2.29 %	2.45 %
On a geographical basis, interest spread and margins were:		
Australia		
Interest spread(2)	1.87 %	1.89 %
Benefit of net non-interest bearing liabilities and equity(3)	0.30 %	0.37 %
Net interest margin(4)	2.17 %	2.26 %
New Zealand		
Interest spread(2)	2.03 %	2.30 %
Benefit of net non-interest bearing liabilities and equity(3)	0.59 %	0.58 %
Net interest margin(4)	2.62 %	2.88 %
Other overseas		
Interest spread(2)	0.72 %	0.73 %
Benefit of net non-interest bearing liabilities and equity(3)	0.41 %	0.29 %
Net interest margin(4)	1.13 %	1.02 %

(1) We have entered into various tax effective financing transactions that derive income that is subject to a reduced 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 tax equivalent basis using the applicable tax rate of the geography in which the transaction is booked.

(2) Interest spread is the difference between the average yield (including tax equivalent gross up) on all interest earning assets and the average rate paid on all interest bearing liabilities.

(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 and New Zealand take into account the interest expense/income of cross-border, intragroup borrowing/lending.

(4) Net interest margin is calculated by dividing net interest income (including tax equivalent gross up) by average interest earning assets.

Non-interest income

	2006 $m	2005 $m
Net fees and commissions	1,766	1,853
Trading income	525	332
Wealth management income	980	1,038
Other income	304	231
Total non-interest income	3,575	3,454

Non-interest income was $3,575 million in 2006, an increase of $121 million or 4% on 2005. The increase was driven by an increase in trading and other income, partially offset by a decrease in our wealth management income and fees and commissions income.

Fees and commissions decreased by $87 million or 5% on 2005. Fees and commissions are materially impacted by A-IFRS standards, primarily AASB 132 and AASB 139, which are only applicable from 1 October 2005, impacting the 2006 results for the first time. The adoption of these standards contributed $256 million to the decline in fees and commissions, primarily related to the effective interest rate adjustment. This standard requires certain lending and borrowing related fees received and costs paid, previously recognised as non-interest income as incurred, to be deferred on the balance sheet as part of loans, deposits or debt issues and subsequently recognised as a yield adjustment to interest income or expense. There was no such impact in 2005. Improved loan growth across our businesses and recalibration of some fees over the year contributed a $178 million increase to fees and commissions on 2005.

Trading income increased by $193 million over the prior year, driven by improved performance in Financial Markets and Treasury.

Wealth management income decreased by $58 million or 6% on 2005. The decrease in wealth management income was impacted by the consolidation treatment of external investors   interests in certain managed investment schemes where Westpac controls the schemes, with the outside investors interest now treated as liabilities rather than minority interests, and policyholder tax recoveries from our life insurance business. The consolidation changes related to these schemes has no impact on net profit attributable to equity holders as the other side of the consolidation entry is reflected in the tax expense line (for the policyholder tax recovery entry) or net profits attributable to minority interests (for the managed investment schemes entry). Policyholder tax recoveries in 2006 were $61 million, a decrease of $27 million or 31% on 2005 due to lower investment returns on Westpac   s life insurance statutory funds. Total movements in these consolidation entries resulted in wealth management income decreasing $121 million offset by a reduction in allocation of profit to minority interests. This decline was partially offset by growth in fees, due primarily to growth in Funds under Administration.

Other income was $304 million in 2006, an increase of $73 million or 32% on 2005. This increase included the sale proceeds of the sub-custody business in July 2006 ($94 million), the sale of part of the Group   s shareholding in MasterCard Inc. ($15 million of which $13 million was recognised in Australia and $2 million in New Zealand), and revaluation gains on financial assets in 2006 of $74 million relating to investment securities and credit derivatives. Offsetting this, 2005 results included $64 million profits on the sale of investment securities.

Wealth management operating income

	2006 $m	2005 $m
Operating income	980	1,038

Wealth management income was $980 million in 2006, a decrease of $58 million or 6% on 2005.

The decrease in wealth management income was impacted by A-IFRS driven changes to consolidation entries for certain managed investment schemes where Westpac controls the schemes and policyholder tax recoveries from our life insurance business. These consolidation entries haveno impact on net profit attributable to equity holders as the other side of the consolidation entry is reflected in the tax expense line (for the policyholder tax recovery entry) or minority interests (for the managed investment schemes entry). Policyholder tax recoveries in 2006 were $61 million, a decrease of $27 million or 31% on 2005 due to lower investment returns on Westpac s life insurance statutory funds. Managed investment schemes gross ups were zero in 2006 compared to $94 million in 2005 due to changes in charges in the consolidation treatment of external investors interests in certain managed investment schemes where Westpac controls the schemes with outside investors interests now treated as liabilities rather than minority interests. Total movements in these consolidation entries resulted in wealth management income decreasing $121 million.

The decrease from the impact from consolidation entries was partially offset by an increase in other wealth management income of $63 million in 2006. This was driven by continued growth in FUA and FUM. Top quartile investment performance (source: Intech) and increases in customer facing staff, primarily in the advice business, also assisted growth.

FUA balances grew 17% to $40 billion, while FUM balances grew 5% to $39 billion, with the majority of BTFG s flagship funds achieving top quartile performance rankings over one, two and three years. We continue to maintain good market share in platforms where we are ranked number two in the market (source: S&P data, June 2006).

Operating expenses

	2006 $m	2005 $m
Salaries and other staff expenses	2,324	2,186
Equipment and occupancy expenses	614	596
Other expenses	1,357	1,377
Total operating expenses	4,295	4,159
Productivity ratio(1)	4.01	4.00
Total operating expenses to operating income ratio	46.6 %	47.7 %

(1) Net operating income/salaries and other staff expenses net of restructuring expenses.

Operating expenses in 2006 were $4,295 million, an increase of $136 million or 3% on 2005.

The increase in 2006 was primarily the result of higher personnel costs and software amortisation charges as a number of projects have been rolled out to the business and are now being amortised. The expense to income ratio fell 110 basis points to 46.6%.

Salary and other staff expenses were $2,324 million, an increase of $138 million or 6% on 2005. The increase in salaries and wages was the result of increased staff numbers, a general pay increase of 4% made in October 2005 (as discussed under Employees) and a change in the mix of our workforce to more customer facing staff. Restructuring costs increased by $19 million over 2005, driven by costs arising from the implementation of our strategy to increase the proportion of customer facing staff across our businesses. The rollout of this initiative has resulted in a reduction in FTE across support functions with a flow on to restructuring and redundancy costs incurred over the prior year.

Equipment and occupancy costs were $614 million, an increase of $18 million or 3% on 2005. This has been driven by a $33 million increase in software amortisation expenses (including impairments) over the prior year following the completion of large projects during 2006, including Pinnacle, which has re-engineered our lending processes; Reach, an integrated customer management system; and Connect@Westpac, a new on-line system to manage various human resources functions, which has replaced a number of legacy tools and systems.

Other expenses were $1,357 million in 2006, $20 million or 1% lower than 2005. Reduced outsourcing costs from efficiencies generated with our outsource partners and lower non-lending losses were the key drivers. Stationery costs were also down as initiatives regarding customer statements and annual reports being received on-line have gained traction. In addition, 2005 included $8 million in expenses relating to the consolidation of Epic.

Impairment losses on loans

	2006 $m	2005 $m
Impairment losses on loans	375	382
Impairment losses on loans to average loans and acceptances (basis points)	17	19

Reported impairment losses on loans decreased by $7 million or 2% as at 30 September 2006 to $375 million. The result is impacted by the change in methodology under A-IFRS to the extent that the overall charge is not strictly comparable with prior periods. Impairment losses in 2006 represented 17 basis points of average gross loans and acceptances, down two basis points on 30 September 2005.

The lower charge in the current year reflects the change in calculation methodology offset by additional charges generated by the unsecured consumer portfolio (credit cards portfolio), some deterioration in the business segment in Australia, as well as some deterioration in individual exposures in the Institutional Bank.

Stressed loans as a percentage of total commitments increased 7 basis points from 30 September 2005 to 81 basis points at 30 September 2006. This was largely driven by business customers in our Australian retail division, due to a more challenging economic environment (interest rate rises and higher input costs such as fuel during the year). We track these exposures closely and have benefited in the past by early identification and monitoring of potential problem exposures together, with prompt remediation steps to avoid/minimise losses.

Total impairment asset provisions as a percentage of total impaired assets was 49% as at 30 September 2006, up from 36% as at 30 September 2005. The increase in provisioning coverage from 2005 reflects the inclusion of facilities greater than 90 days past due not well secured in line with APRA s prudential approach to the adoption of A-IFRS by ADIs. These facilities attract higher provisioning under A-IFRS.

Income tax expense

	2006 $m	2005 $m
Income tax expense	1,422	1,223
Tax as a percentage of profit from ordinary activities before tax (effective tax rate)	31.3 %	29.3 %

Tax expenses were up $199 million or 16% in 2006, resulting in an increase in the effective tax rate of 200 basis points to 31.3%. Key drivers of the increase were:

- structured finance deals during 2005 a number of structured finance deals in New Zealand were terminated. These deals generated income which was subject to a reduced rate of income tax at a Group level. The deals have not been replaced with business of a similar nature. Please refer to Note 40 to the financial statements for further discussion on proceedings currently under way with the New Zealand tax authorities; and

- life company concessional tax rates the Australian concessional tax rates applicable to earnings from life insurance companies ceased in July 2005, resulting in higher tax charges going forward. The higher tax charges impacted our 2005 results for only three months, while being in effect for all of 2006.

Balance sheet review

The detailed components of the balance sheet are set out in the notes to the financial statements.

As at 30 September	2006 $m	2005 $m
Assets		
Cash and balances with central banks	2,478	2,853
Due from other financial institutions	12,865	14,355
Derivative financial instruments	10,311	9,944
Trading securities, other financial assets and available-for-sale (2005 Investment securities)	17,811	14,464
Loans and acceptances	234,484	203,150
Life insurance assets	14,281	13,595
All other assets	7,348	7,902
Total assets	299,578	266,263
Liabilities and equity		
Due to other financial institutions	12,051	10,654
Deposits	167,741	149,252
Derivative financial instruments	9,342	10,514
Trading liabilities and other financial liabilities	7,497	3,154
Debt issues	61,476	48,754
Acceptances		4,864
Life insurance liabilities	13,476	11,717
All other liabilities	5,940	6,247
Loan capital	5,957	4,214
Total liabilities	283,480	249,370
Total equity	16,098	16,893
Total liabilities and equity	299,578	266,263

Assets

During the financial year ended 30 September 2006, total assets increased by $33.3 billion or 12.5% to $299.6 billion, from $266.3 billion in 2005. The key drivers of this growth were:

Loans and acceptances increased by $31.3 billion or 15.4% to $234.5 billion in 2006, from $203.2 billion in 2005. The major areas of growth were:

- housing loans in Australia grew by $12.0 billion or 12.1%, and
- non-housing loans in Australia grew by $10.2 billion or 29.7% particularly in business and personal lending.

Trading assets, other financial assets and available-for-sale securities increased by $3.3 billion which was mainly invested in debt securities.

The mark-to-market valuation of our derivative financial instruments resulted in an increase of $1.5 billion to net assets. These fair value movements are primarily influenced by market movements in major currencies.

These increases were partly offset by a decrease of $1.9 billion in assets due from other financial institutions and cash and balances with central banks as our holdings of certificates of deposit declined.

Liabilities and equity

Total liabilities as at 30 September 2006 were $283.5 billion which was an increase of $34.1 billion or 13.7% compared with the prior year. The key movements in liabilities are outlined below.

Deposits increased by $18.5 billion or 12.4% compared with 2005. This increase was funded by increased issuance of certificates of deposit in the Australian market of $4.2 billion. In addition, call deposits in Australia increased by $9.7 billion.

This year has seen the continuation of a long term trend of lending growth exceeding customer deposit growth. This has resulted in an increase in debt issues of $12.7 billion through our debt programmes.

As explained in Note 1 to the financial statements under the heading First-time Adoption of Australian Equivalents to International Financial Reporting Standards certain disclosures for this period may not be presented consistently with prior reported periods. The movements of trading liabilities and other financial liabilities, loan capital and life insurance liabilities are primarily due to the presentation differences as follows:

- acceptances of $4.9 billion reclassified to debt issues;
- debt issues of $3.5 billion reclassified to trading liabilities and other financial instruments designated at fair value;
- trust preferred securities of $1.3 billion reclassified to loan capital; and
- managed investment scheme minority interest of $0.8 billion reclassified to life insurance liabilities.

Equity decreased by $0.8 billion or 4.7% during 2006 to $16.1 billion.

Major movements in equity included the following:

- $1.3 billion of trust preferred securities and $0.8 billion of managed investment schemes were reclassified under liabilities due to presentation changes as explained in Note 1 to the financial statements;
- 2006 TPS was issued with a value of $0.8 billion; and
- a share buy-back of $1 billion. Refer to Note 26 to the financial statements for further details.

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Asset quality

As at 30 September	2006 $m	2005 $m
Loans		
Loans (excluding total provisions for impairment losses on loans)	235,684	200,015
Acceptances(1)		4,864
Total gross loans(2)	235,684	204,879
Average loans		
Australia	181,690	157,020
New Zealand	34,333	34,202
Other overseas	2,638	2,240
Total average loans(2)	218,661	193,462

(1) Acceptances of customers are included in loans in 2006.

(2) Gross loans are stated before related provisions for impairment of loans.

Total gross loans represent 78.7% of the total assets of the Group as at 30 September 2006 compared to 76.9% in 2005.

Gross loans increased by $30.8 billion or 15.0% to $235.7 billion in 2006, from $204.9 billion in 2005. The increase in 2006 is reflected due to strong growth in mortgage and business lending portfolios.

Approximately 25.7% of the loans at 30 September 2006 mature within one year and 22.3% mature between one year and five years. Real estate mortgage lending comprises the bulk of the loan portfolio maturing after five years.

Our lending is focussed on our core geographic markets in Australia and New Zealand. Australia and New Zealand average loans increased $24.8 billion or 13.0% to $216.0 billion in 2006, from $191.2 billion in 2005 predominantly due to the growth in mortgage and business lending. Australia and New Zealand average loans and acceptances accounted for 98.8% of the total average gross loans in 2006 which is consistent with 2005.

Other overseas average loans increased by $0.4 billion or 17.8% to $2.6 billion in 2006, from $2.2 billion in 2005.

As at 30 September	2006 $m	2005 $m
Impaired assets		
Non-accrual assets(1):		
Gross	411	421
Impaired provisions	(167)	(189)
Net	244	232
Restructured loans:		
Gross	22	68
Impaired provisions	(10)	(10)
Net	12	58
Overdrafts and revolving credit greater than 90 days:		
Gross	88	72
Impaired provisions	(80)	(3)
Net	8	69
Net impaired assets	264	359
Provisions for impairment losses		
Individually assessed provisions (2005 specific provision)	161	199
Collectively assessed provisions (2005 general provision)	1,039	1,530
Provisions for credit commitments	158	
Provisions for impairment losses	1,358	1,729

Asset quality

Total impairment asset provisions to total impaired assets	49.3	%	36.0	%
Total impaired assets to total loans(2)	0.22	%	0.27	%
Total provisions to total loans(3)	0.63	%	0.84	%
Total provisions to total impaired assets	260.7	%	308.2	%
Collectively assessed provisions to non-housing performing loans(3)	1.1	%	1.5	%

(1) Loans with individually assessed impairment provisions held against them, excluding restructured loans. The loans are classed as non-accrual for US GAAP purposes. Under A-IFRS interest income is recognised at the effective interest rate on the net balance.

(2) Loans are stated before related provisions for impairment of loans.

(3) Includes the APRA required capital deduction of $117 million (pre-tax) above A-IFRS provisioning levels at 30 September 2006 (2005 nil), which forms part of the APRA termed General Reserve for Credit Losses.

In 2006, we maintained a consistently high quality loan portfolio with 73% of our exposure to either investment grade or secured consumer mortgages (2005 74%) and 92% of our exposure is in our core markets of Australia, New Zealand and the near Pacific (2005 91%).

Potential problem loans as at 30 September 2006 amounted to $297 million, up from $186 million at 30 September 2005. The increase was predominantly driven by the downgrade of a large exposure in the Institutional Bank. Loans are considered to be potentially problematic where facilities are fully current as to interest and principal obligations and interest is being taken to profit on an accrual basis. The customer also demonstrates significant weakness in debt service or security coverage that jeopardises repayment of the debt within its current contractual terms. In the event these weaknesses are not rectified, possible loss of principal or interest could occur.

At 30 September 2006, total impaired assets as a percentage of total gross loans and acceptances were at an all time low 0.22%, down from 0.27% at 2005. Approximately $450 million or 86% of total impaired assets relate to Australian and New Zealand exposures, down marginally from $456 million or 81% of total impaired assets at 30 September 2005. Other overseas impaired exposures are $71 million at 30 September 2006, down from $105 million at 30 September 2005.

At 30 September 2006, we had two impaired counterparties with exposure greater than $50 million, collectively accounting for 24% of total impaired assets. This compares with two impaired counterparties with exposure larger than $50 million in 2005, collectively accounting for 31% of total impaired assets. There were a further 7 impaired exposures at 30 September 2006 that were less than $50 million and greater than $5 million (2005 10 impaired exposures).

At 30 September 2006, gross restructured loans were $22 million, a reduction of $46 million compared to 30 September 2005 ($68 million). The decrease in 2006 was the result of an upgrade of one large exposure.

Total impaired asset provisions to total impaired assets has increased to 49% ($257 million) compared to 36% ($202 million) at 30 September 2005. The increase in provisioning coverage from 2005 reflects the inclusion of facilities greater than 90 days past due not wellsecured in line with APRA s prudential approach to the adoption of A-IFRS by ADIs. These facilities attract higher provisioning under A-IFRS. We are satisfied that our current impaired provisioning coverage is appropriate for the underlying risks.

Total provisions as at 30 September 2006 represent 261% of impaired assets, down from 308% at 30 September 2005. Total provisions to gross loans and acceptances also reduced, down from 0.84% at 30 September 2005 to 0.63% at 30 September 2006. The reduction for both ratios is driven by the change in provisioning methodology under A-IFRS with the result not strictly comparable. Refer to Critical accounting estimates for further information.

Consumer mortgage loans 90 days past due at 30 September 2006 increased five basis points to 0.25% of outstandings (2005 0.20%). Other consumer loan delinquencies (including credit card and personal loan products) increased fourteen basis points in 2006 to 0.85% of outstandings (2005 0.71%).

Credit risk concentrations

We monitor our credit portfolio to avoid risk concentrations. At 30 September 2006, our exposure to consumers comprised 63% of our on-balance sheet loans and 51% of total credit commitments. Almost 83% of our exposure to consumers was supported by residential real estate mortgages.This category also includes investment property loans to individuals, credit cards, personal loans, overdrafts and lines of credit. Our consumer credit risks are highly diversified, with substantial consumer market share in every state and territory in Australia, New Zealand and the Pacific region. Moreover, these customers service their debts with incomes derived from a wide range of occupations, in city as well as country areas.

Exposures to businesses, government and other financial institutions are classified into a number of industry clusters based on groupings of related Australian and New Zealand Standard Industrial Classification (ANZSIC) codes and monitored against industry exposure boundaries. The level of industry risk is measured and monitored on a dynamic basis. Exposures are actively managed from a portfolio perspective, with risk mitigation techniques used to regularly re-balance the portfolio. The table below shows the assessed credit quality of our current exposures relating to these customers. The risk grades shown are aligned to the Standard and Poor s credit rating system. Based on these ratings, our exposure to business, government and other financial institution investment grade customers as at 30 September 2006 remains unchanged at 63% (2005 63%).

Assessed credit quality of exposures to businesses, governments and other financial institutions at 30 September	**2006** %	**2005** %
AAA, AA	25	27
A	13	13
BBB	25	23
BB, B+	36	36
Lower than B+	1	1
Total	100	100

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Business group results

To enable a more detailed analysis of our results, the following business group results have been presented on a management reporting basis. Internal charges and transfer pricing adjustments have been included in the performance of each of our business units, reflecting the management of the business within our organisation, rather than the legal structure. Therefore, the results below cannot be compared directly to public disclosure of the performance of individual legal entities within our organisation.

The following business results highlight the performance of our key areas of business and reconcile to our total result including the section Other. Other includes the results of Business and Technology Solutions and Services, Group Treasury, Pacific Banking and Head Office functions. Where the management reporting structure has changed or where accounting reclassifications have been made, comparatives have been reclassified and therefore may differ from results previously reported.

Business and Consumer Banking

	2006 $m	2005 $m
Net interest income	4,078	3,677
Non-interest income	1,143	1,170
Net operating income	5,221	4,847
Operating expenses	(2,534)	(2,467)
Profit before impairment losses on loans and income tax expense	2,687	2,380
Impairment losses on loans	(289)	(312)
Profit before income tax	2,398	2,068
Income tax expense	(716)	(616)
Net profit attributable to shareholders of Westpac Banking Corporation	1,682	1,452

	$bn	$bn
Deposits	92.8	84.3
Loans and acceptances	166.0	146.6
Total assets	168.6	149.5
Total operating expenses to operating income ratio	48.5 %	50.9 %

Net profit attributable to equity holders for Business and Consumer Banking (BCB) in 2006 was $1,682 million, an increase of $230 million or 16% compared to 2005. The main contributors to the 2006 result are discussed below.

Net interest income was $4,078 million in 2006, an increase of $401 million or 11% compared with 2005. The increase in net interest income in 2006 was a result of strong asset growth of 13%, partially offset by margin decline following continued competitive pressures in regards to pricing. Consumer lending increased 12% with mortgages increasing 12% and credit card outstandings rising by 21%. Business lending was up 14%.

Growth in net interest income was also assisted by impacts of AASB 132 and AASB 139, which were only applicable from 1 October 2005. These standards require certain fees, previously taken to account upfront, to be deferred on the balance sheet and amortised through net interest income over the life of the underlying product. This results in an increase in net interest income and a decrease in non-interest income.

The 2006 result was also impacted by a one off write-off to net interest income relating to the over-accrual of interest income in the credit card business. Part of the over-accrual related to prior periods.

Non-interest income for 2006 was $1,143 million, down $27 million or 2% on 2005. The main driver for the decrease was the impact of AASB 132 and AASB 139 as described above. These impacts resulted in non-interest income falling $182 million on 2005. Other non-interest income increased $155 million or 13% compared with 2005. This increase was led by strong volume growth across all key portfolios together with fee changes over 2006 and 2005 and changes to our product suite. Contributing to the increase in other non-interest income was $13 million received in 2006 on the partial sale of Westpac s shareholding in MasterCard Inc.

Operating expenses (excluding impairment losses on loans) for 2006 were $2,534 million, an increase of $67 million or 3% compared with 2005. The increase in operating expenses was largely driven by a 4% salary increase awarded to staff covered by our collective workplace labour agreements on 1 October 2005. An increase in software amortisation expenses associated with prior period investments in Pinnacle and Reach and continued investment in front line capabilities, with customer facing staff increasing, including 440 business bankers hired during the year, primarily in the Business segment, also contributed to the increase in expenses.

Impairment losses expense for 2006 was $289 million, a decrease of $23 million or 7% compared with 2005. This decrease was partly driven by the impacts of AASB 132 and AASB 139, which were only applicable from 1 October 2005. The decrease in impairment losses due to the impact of these standards was partially offset by increased charges related to loan growth and an increase in write-offs following increased delinquency rates.

Income tax expense for 2006 was $716 million, an increase of $100 million or 16% over 2005. This equates to an effective tax rate of 30% in 2006 and 30% in 2005.

BT Financial Group Australia

	2006 $m	2005 $m
Net interest income	67	31
Non-interest income	964	910
Net operating income	1,031	941
Operating expenses	(547)	(527)
Profit before impairment losses on loans and income tax expense	484	414
Impairment losses on loans		
Profit before income tax	484	414
Income tax expense	(145)	(105)
Net profit attributable to shareholders of Westpac Banking Corporation	339	309

	$bn	$bn
Total assets	18.7	17.2
Funds under management	39.0	37.2
Funds under administration	40.4	34.5
Total operating expenses to operating income ratio	53.1 %	56.0 %

Net profit attributable to equity holders for BTFG in 2006 was $339 million, an increase of $30 million or 10% compared to 2005. The key factors which contributed to the 2006 result were continued improvement in investment management performance, a positive insurance environment, and solid growth in Funds under Administration (FUA), Margin Lending and General Insurance revenues. This was further supported by top quartile investment performance across most of our flagship funds and solid growth in planner numbers and productivity. The 2005 result was impacted by a $13 million profit on sale of our shareholding in JDV Ltd. The termination of the Life Company concessionary tax rates in July 2005 has resulted in an increase to the 2006 tax expense of $15 million compared to 2005.

Net interest income for 2006 was $67 million, an increase of $36 million or 116% compared with 2005. The increase was largely driven by increased margin lending volumes, up 48%. Full year margin lending sales of $1 billion were an increase of 71% on last year driven by sales force effectiveness and a continued buoyant market.

Non-interest income for 2006 was $964 million, an increase of $54 million or 6% compared with 2005. The main drivers of the 2006 results were:

- the success of our Wrap and Corporate Super businesses resulted in an increase in FUA of 17% to $40 billion. This drove an 11% rise in fee income;

- FUM increased by 5% to $39 billion, despite the redemption of a $1 billion Institutional domestic fixed income mandate. The result was also boosted by improved investment management performance, with a number of our funds ranked in the top quartile for one, two and three year performance (source: Intech, 30 September 2006); and

- an increase of 11% in General Life Insurance income on 2005 to $112 million attributable to the majority of products experiencing strong sales growth, with major improvements coming from Lenders Mortgage insurance (up 68%) and Credit Card insurance (up 65%).

Operating expenses (excluding impairment losses) for 2006 were $547 million, an increase of $20 million or 4% compared to 2005. The increase reflects additional investment which has been redirected towards a significant ramp up in our Advice network through the hiring of planners, investment representatives and other planner force staff.

Income tax expense for 2006 was $145 million, an increase of $40 million compared with 2005. This equates to an effective tax rate of 30% in 2006 and 25% in 2005. The increase in the effective tax rate is a result of the termination of the Life Company concessionary tax rates in July 2005.

Westpac Institutional Bank

	2006 $m	2005 $m
Net interest income	474	431
Non-interest income	845	864
Net operating income	1,319	1,295
Operating expenses	(570)	(550)
Profit before impairment losses on loans and income tax expense	749	745
Impairment losses on loans	(39)	(37)
Profit before income tax	710	708
Income tax expense	(206)	(212)
Minority interests		(12)
Net profit attributable to shareholders of Westpac Banking Corporation	504	484

	$bn	$bn
Deposits	7.4	6.3
Loans and acceptances	32.1	24.1
Total assets	56.5	47.1
Total operating expenses to operating income ratio	43.2 %	42.5 %

Net profit attributable to equity holders for the Institutional Bank in 2006 was $504 million, an increase of $20 million or 4% compared to 2005. The Financial Markets and Transactional Banking businesses were the main contributors to the 2006 result. The result for the Specialised Capital Group was significant, with revenue maintained in the face of intense market competition and lower levels of suitably valued assets.

Net interest income was $474 million in 2006, an increase of $43 million or 10% compared with 2005. The impacts of AASB 132 and AASB 139, which were only applicable from 1 October 2005, contributed to the growth in net interest income. These standards require certain fees, previously taken to account upfront, to be deferred on the balance sheet and amortised through net interest income over the life of the underlying product. This results in an increase in net interest income and a decrease in non-interest income. The increase in net interest income was also due to strong asset growth over the year, and an increased contribution from Financial Markets, offset by the run-off of certain Structured Finance transactions, with the revenue contribution from this division decreasing by $69 million in 2006.

Non-interest income for 2006 was $845 million, a decrease of $19 million or 2% compared with 2005. The main driver for the decrease was the impact of AASB 132 and AASB 139 as detailed above, contributing $58 million to the decline in non-interest income. Other non-interest income increased by $39 million compared to 2005, due to the strong performance in Transactional Banking and Financial Markets. The Transactional Banking business delivered revenue growth of $14 million or 9% over the prior year. Similarly, Financial Markets delivered a strong overall result, driven by a significant lift in trading revenue in the first half. Foreign exchange (FX) earnings were up $54 million or 25% over the prior year, due to increased market volatility driving additional customer demand for FX products. These strong FX results were partially offset by lower earnings in our interest rate businesses. This was due to reduced hedging activities in the face of relatively stable monetary conditions and a changed accounting regime.

Operating expenses (excluding impairment losses) for 2006 were $570 million, an increase of $20 million or 4% compared with 2005. This was due to revenue related costs in the Specialised Capital Group and Financial Markets businesses, resulting from new growth initiatives and additional performance-based personnel costs.

Impairment losses for 2006 were $39 million, which is a $2 million increase compared with 2005. The total charge for impairment losses remains well under historic averages, which reflects a continuing benign credit environment boosted by the impact of write-backs on accounts previously provisioned.

New Zealand Banking

	2006 $m	2005 $m
Net interest income	863	785
Non-interest income	388	412
Net operating income	1,251	1,197
Operating expenses	(600)	(574)
Profit before impairment losses on loans and income tax expense	651	623
Impairment losses on loans	(29)	(33)
Profit before income tax	622	590
Income tax expense	(196)	(181)
Minority interests	(3)	(4)
Net profit attributable to shareholders of Westpac Banking Corporation	423	405

	$bn	$bn
Deposits	19.0	18.1
Loans and acceptances	32.0	29.3
Total assets	33.8	30.9
Funds under management	1.7	1.7
Total operating expenses to operating income ratio	48.0 %	48.0 %

Net profit attributable to equity holders for New Zealand Banking in 2006 was $423 million, an increase of $18 million or 4% compared to 2005. The 2006 result was impacted by the non-recurring write-off relating to an over accrual of interest income in the New Zealand credit cards business. The majority of the $8 million charge, taken up in the second half, relates to prior periods. Exchange rate movements had a $17 million positive impact on earnings.

Net interest income for 2006 was $863 million, an increase of $78 million or 10% compared with 2005. Strong volume growth was offset by a 25 basis point decline in business unit margins. The decline reflects the continued migration to lower spread products in both lending (fixed ratemortgages) and deposits (Online saver account). This decline slowed in the second half of the year as product switching within the housing portfolio stabilised. Exchange rate movements had a $36 million positive impact on net interest income.

Growth in net interest income was also assisted by impacts of AASB 132 and AASB 139, which were only applicable from 1 October 2005. These standards require certain fees, previously booked as income upfront, to be deferred on the balance sheet and amortised through net interest income over the life of the underlying product. This results in an increase in net interest income and a decrease in non-interest income.

Non-interest income for 2006 was $388 million, a decrease of $24 million or 6% compared with 2005. The main driver for the decrease was the impact of AASB 132 and AASB 139 as described above. In the first half of 2006, the non-interest income result was also impacted by a shift towards lower fee products, as customers changed their banking arrangements in response to pricing changes introduced in 2004. This structural shift has stabilised in the second half of 2006. Exchange rate movements had a $15 million positive impact on non-interest income.

Operating expenses (excluding impairment losses) for 2006 were $600 million, an increase of $26 million or 5% compared to 2005. Salary increases and an increase in the number of customer-facing employees were offset by reductions in discretionary spend and lower outsourcing costs. In 2006 we increased our branch footprint in key Auckland locations. Exchange rate movements had a $24 million negative impact on operating expenses.

Impairment losses for 2006 were $29 million, a decrease of $4 million or 12% compared to 2005. Credit quality remains strong and is reflective of a benign credit environment in New Zealand. Provisioning and impaired asset ratios have improved and delinquency ratios across all major product groups have strengthened.

Income tax expense for 2006 was $196 million, an increase of $15 million or 8% compared with 2005. This equates to an effective tax rate of 32% in 2006 and 31% in 2005.

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Other

	2006 $m	2005 $m
Net interest income	160	335
Non-interest income	235	98
Net operating income	395	433
Operating expenses	(44)	(41)
Profit before impairment losses on loans and income tax expense	351	392
Impairment losses on loans	(18)	
Profit before income tax	333	392
Income tax expense	(159)	(109)
Minority interests	(51)	(235)
Net profit attributable to shareholders of Westpac Banking Corporation	123	48

The Other segment comprises Group Treasury, Pacific Banking, and Head Office. Treasury s operations are primarily focused on the management of the Group s interest rate risk and funding requirements. Pacific Banking operations comprise our presence in the near Pacific including Papua New Guinea and Fiji.

In 2006 net profit attributable to equity holders in the Other segment increased by $75 million or 156% to $123 million. This was largely a result of the sale of the Group s sub-custody business to HSBC, which generated a net profit after tax of $72 million.

Net operating income decreased $38 million or 9% to $395 million. This decrease includes the impact of various consolidation entries that have no impact on net profit attributable to equity holders. These entries include the consolidation of certain managed investment schemes where Westpac controls the schemes (down $94 million to zero in 2006), policyholder tax recoveries from our Life Insurance business (down $27 million to $61 million), and the reversal of tax gross ups from certain financing transactions from our Institutional bank ($111 million reversal in 2006, $214 million reversal in 2005). This was partially offset by higher income from Pacific Banking (up $26 million or 17%). Pacific Banking income was the result of continued balance sheet growth. 2006 also included $94 million from the sale of Westpac s sub-custody business to HSBC. These were partially offset by lower net interest income from interest paid on certain hybrid equity instruments due to the impact of transitional A-IFRS standards (primarily AASB 132 and 139). In 2005 distributions on the TPS 2004 and FIRsTS instruments were classified as minority interests, while in 2006 they were classified as a deduction to interest income.

Operating expenses increased $3 million or 7% to $44 million. The impact of movements in the NZ$ exchange rate benefited operating expenses, which were offset by an increase in expenses incurred centrally, which were not recharged to business units.

Impairment losses were $18 million in 2006, up $18 million, as a result of higher charges in Pacific Banking following the above mentioned balance sheet growth and increased charges for certain provisions taken at a Group level. There were no impairment losses in 2005.

The tax expense increased $50 million or 46% to $159 million due primarily to the write down in Westpac s deferred tax asset in the United Kingdom of $41 million.

Minority interests decreased $184 million or 78% to $51 million as 2005 included consolidation of certain managed investment schemes as well as distributions for the TPS 2004 and FIRsTS hybrid equity instruments. As mentioned above, the distributions on TPS 2004 and FIRsTS were classified as a deduction to interest income in 2006.

Liquidity and funding

Liquidity

Liquidity risk is the potential inability to meet our payment obligations, which could potentially arise as a result of mismatched cash flows generated by our business. This risk is managed through our Board Risk Management Committee (BRMC) approved liquidity framework. Responsibility for liquidity management is delegated to Group Treasury, under oversight of the Market Risk Committee (MARCO). Group Treasury manage liquidity on a daily basis and submit monthly reports to the MARCO and quarterly reports to the BRMC. Monthly reports are provided to the Australian Prudential Regulation Authority. Group Treasury is also responsible for monitoring our funding base and ensuring that it is prudently maintained and adequately diversified.

Our liquidity risk management framework models our ability to fund under both normal conditions and during a crisis situation (with models run globally and for specific geographical regions   Australia, New Zealand and offshore). This approach is designed to ensure that our funding framework is sufficiently flexible to ensure liquidity under a wide range of market conditions. The global liquidity management framework is reviewed annually to ensure it is appropriate to our current and planned activities. The annual review encompasses the funding scenarios modelled, the modelling approach, wholesale funding capacity, limit determination and minimum holdings of liquid assets. The liquidity framework is reviewed by the MARCO and the Group Risk Reward Committee (GRRC) prior to approval by the BRMC.

Group Treasury also undertakes an annual funding review that outlines the current funding strategy for the coming year. This review encompasses trends in global debt markets, funding alternatives, peer analysis, estimation of our upcoming funding requirements, estimated market funding capacity and a funding risk analysis. The annual funding plan is reviewed by the MARCO and the GRRC, prior to approval by the BRMC.

We maintain a crisis management action plan that details the broad actions to be taken in the event of a funding crisis. This document is reviewed annually and defines a committee of senior executives to manage a crisis and allocates responsibility to individuals for key tasks. A media relations strategy, contingent funding plan and detailed contact lists are also incorporated into this document.

Our liquidity risk capital model provides an estimate of liquidity risk capital consistent with measurements of credit, market and operational risk capital. This model measures the risk of loss due to increased costs of ensuring that the demands for cash are met.

Expenses associated with funding and liquidity management are allocated to business units. This approach is intended to promote appropriate behaviours in the organisation and is designed to ensure that pricing signals are consistent with the portfolio management approach.

Sources of liquidity

Principal sources of our liquidity are as follows:

- deposits;
- debt issues;
- proceeds from sale of marketable securities;
- interbank deposit agreement;
- principal repayments on loans;

- interest income; and
- fee income.

In management s opinion, liquidity is sufficient to meet our present requirements.

Deposits and due to other financial institutions

As at 30 September 2006, deposits amounted to $167.7 billion (2005 $149.3 billion) and represented 59.2% (2005 59.9%) of our total liabilities. These borrowings continue to provide a majority of our funding and represent a well-diversified and stable source of funds.

As at 30 September 2006, due to other financial institutions accounted for $12.0 billion (2005 $10.7 billion) and represented 4.3% (2005 4.3%) of total liabilities. Due to other financial institutions are taken from a wide range of counterparties. For further information refer to Note 19 to the financial statements.

Debt issues

As at 30 September 2006, debt issues amounted to $61.4 billion (2005 $48.8 billion) and represented 21.7% (2005 19.6%) of our total liabilities.

The wholesale funding base is diversified with respect to term, investor base, currency and funding instrument. Facilitating this issuance is an extensive funding infrastructure, covering short and long term debt issuance programmes in a range of key jurisdictions (US market, Euro market, Australian and New Zealand domestic markets) and niche markets (Japanese retail). The risk that a market becomes unavailable (or market pricing increases) is mitigated by our infrastructure and diversification which reduces our reliance on any one funding source and allows us to replace liquidity from a range of other sources/markets. Our wholesale debt issuance capability is enhanced through regular investor presentations (domestically and internationally), internet pages, and a dedicated page on Bloomberg screen service.

We have continued to experience good funding conditions across our wholesale funding markets over the last year. Demand for our debt issuance continued to be strong and we continue to enjoy tight funding spreads.

As at 30 September 2006 Westpac s credit ratings were:

	Short Term	Long Term
Standard & Poor s	A-1+	AA-
Moody s Investors Services	P-1	Aa3
Fitch Ratings	F1+	AA-

A credit rating is not a recommendation to buy, sell or hold our securities. Such ratings are subject to revision or withdrawal at any time by the assigning rating agency. Investors are cautioned to evaluate each rating independently of any other rating.

The following table details the current debt programmes along with programme size and current outstandings as at 30 September 2006:

Westpac debt programmes and issuing shelves

Access in a timely and flexible manner to a diverse range of debt markets and investors is provided by the following programmes and issuing shelves as at 30 September 2006:

Program/Issuing Shelf	Outstanding	Program/Issuing Shelf Type
Australia		
No limit	AUD 116 million	Debt Issuance Programme
No limit	AUD 6,175 million	Debt Issuance Programme(1)
Euro Market		
USD 2.5 billion	USD 462 million	Euro Transferable Certificate of Deposit Programme
USD 15 billion	USD 8,125 million	Euro Commercial Paper Programme(2)
USD 25 billion	USD 13,433 million(3)	Programme for the Issuance of Debt Instruments
Japan		
JPY 100 billion	Nil	Samurai shelf
JPY 300 billion	JPY 22 billion	Uridashi shelf(4)
United States		
USD 20 billion	USD 13,029 million	Commercial Paper Program(5)
USD 7.5 billion	USD 3,052 million	Commercial Paper Program(6)
USD 5 billion	USD 3,575 million	Medium Term Deposit Notes
USD 1 billion(7)	USD 350 million(8)	Securities Exchange Commission registered shelf
New Zealand		
NZD 750 million	Nil	Medium Term Note Programme
NZD 750 million	NZD 175 million	Medium Term Note Programme(9)

(1) Debt Issuance Programme for the issue of TCDs and MTNs established 18 July 2002. Other outstanding issues remain constituted by the Deeds Poll of the Debt Issuance Programme and Debt Issuance Program Subordinated Medium Term Notes Programme under which the TCDs/MTNs were issued.

(2) WestpacTrust Securities NZ Limited was also an issuer under this programme. From 1 November 2006, Westpac Securities NZ Limited, a subsidiary of Westpac New Zealand Limited, will be a new issuer under this programme.

(3) Outstandings are recorded at historical exchange rates (per programme documentation).

(4) Record of the secondary distributions under the Shelf Registration Statement as amended (outstanding amounts are also reflected under the USD$25 billion Programme for the Issuance of Debt Instruments). JPY 119 billion of the issuing shelf limit remains available.

(5) Westpac Banking Corporation is the sole issuer under this Section 4(2) United States commercial paper program.

(6) WestpacTrust Securities NZ Limited was the sole issuer under this Section 4(2) United States commercial paper program, guaranteed by Westpac Banking Corporation. From 1 November 2006, Westpac Securities NZ Limited, a subsidiary of Westpac New Zealand Limited, will be the issuer under a new Section 4(2) United States commercial paper program guaranteed by Westpac New Zealand Limited.

(7) USD227 million of the issuing shelf limit remains available.

(8) Outstanding issuance is a tier 2 instrument.

(9) Westpac Trust Securities NZ Limited was the sole issuer under this programme.

An analysis of our borrowings and outstandings from existing debt programs and issuing shelves including the maturity profile, currency and interest rate structure can be found in Note 25 to the financial statements.

Marketable Securities

We hold a portfolio of liquid assets as a buffer against unforeseen funding requirements. These assets are held either in government or semi-government securities or investment grade paper. The large majority of these assets are held domestically in Australia and New Zealand. Determination of holding levels takes account of the liquidity requirements of our statement of financial position as well as our wholesale funding capacity. The level of these holdings is reviewed annually.

Interbank Deposit Agreement (IDA)

We are a participant in an interbank deposit agreement with three other Australian banks. This agreement provides for notice to be served upon the other participants by a bank experiencing liquidity problems. The other depositors are obligated to deposit an equal amount of up to $2 billion each for a period of 30 days. At the conclusion of the 30 days the deposit holder has the option to repay the deposit in cash or by way of assignment of certain home loan mortgages to the value of the deposit. This agreement is intended to provide increased certainty of access to wholesale markets in times of crisis.

Material unused sources of liquidity include the liquid asset portfolio, IDA and unused limit under the debt programmes. The IDA and prudential liquid asset portfolio are held in reserve to provide liquidity in the event of a liquidity crisis.

Special purpose entities

We are associated with a number of special purpose entities (also known as special purpose vehicles or SPVs) in the ordinary course of business, primarily to provide funding and financial services products to our customers.

SPVs are typically set up for a single, limited purpose, have a limited life and generally are not operating entities nor do they have employees. The most common form of SPV structure involves the acquisition of financial assets by the SPV that are funded by the issuance of securities to external investors. Repayment of the securities is determined by the performance of the assets acquired by the SPV.

Under A-IFRS, an SPV is consolidated in the financial statements if it is controlled by the parent entity in line with AASB 127 Consolidated Accounts and UIG Interpretation 112 Consolidation Special Purpose Entities. The definition of control is based on the substance rather than form. Refer to Note 1 to the financial statements for information about how we apply the rules on consolidation of SPVs.

In the ordinary course of business, we have established or sponsored the establishment of SPVs in various areas, detailed below. Capital is held, as appropriate, against all SPV-related transactions and exposures.

Asset securitisation

Through our loan securitisation programmes we package an equitable interest in loans (principally housing mortgage loans) as securities which are sold to investors. We provide arm s length interest rate swaps and liquidity facilities to the programmes in accordance with APRA Prudential Guidelines. We have no obligation to repurchase any securitisation securities, other than in certain circumstances (excluding loan impairment) where there is a breach of representation or warranty within 120 days of the initial sale. We may remove interests in loans where they cease to conform with the terms and conditions of the securitisation programmes or through the programmes clean-up features to a maximum of 10% of the programmes initial value.

As at 30 September 2006, a total of $17.4 billion of assets have been securitised through a combination of private placements and public issues to Australian, New Zealand, European and United States investors. After allowing for the amortisation of the initial loans securitised, outstanding securitised loans were $4.1 billion as at 30 September 2006.

For further information on our securitisation programmes refer to Note 1 and Note 12 to the financial statements.

Customer funding conduits

We arrange financing for certain customer transactions through a commercial paper conduit that provides customers with access to the commercial paper market. As at 30 September 2006, we administered one significant conduit (2005 one), that was created prior to 1 February 2003, with commercial paper outstanding of $5.2 billion (2005 $4.7 billion). We provide a letter of credit facility as credit support to the commercial paper issued by the conduit. This facility is a variable interest in the conduit that we administer and represents a maximum exposure to loss of $536 million as at 30 September 2006 (2005 $501 million). The conduit is consolidated by the Group.

Structured finance transactions

We are involved with numerous SPVs to provide financing to customers. Any financing arrangements are entered into under normal lending criteria and are subject to our normal credit approval processes. The assets arising from these financing activities are generally included in loans, investment securities or investments in controlled entities. Exposures in the form of guarantees or undrawn credit lines are included within contingent liabilities and credit-related commitments.

Off-balance sheet arrangements

Wealth management activity

Refer to Note 41 to the financial statements for details of our wealth management activities.

Other off-balance sheet arrangements

Refer to Note 39 to the financial statements for details of our superannuation plans.

Contractual obligations and commitments

In connection with our operating activities we enter into certain contractual obligations and commitments. The following table shows our significant contractual cash obligations as at 30 September 2006:

	Less Than 1 Year $m	Between 1 and 3 Years $m	Between 3 and 5 Years $m	Over 5 Years $m	Total $m
On balance sheet long term debt(1)	6,479	8,761	6,516	2,226	23,982
Operating leases(2)	251	407	262	590	1,510
Other commitments(2)	317	466	380	111	1,274
Total contractual cash obligations	7,047	9,634	7,158	2,927	26,766

(1) Refer to Note 25 to the financial statements for details of long term debt issues.

(2) Refer to Note 38 to the financial statements for details of expenditure commitments.

The above table excludes deposits and other liabilities taken in the normal course of banking business and short term and undated liabilities.

Commercial commitments(1)

The following table shows our significant commercial commitments as at 30 September 2006:

	Less Than 1 Year $m	Between 1 and 3 Years $m	Between 3 and 5 Years $m	Over 5 Years $m	Total $m
Standby letters of credit and financial guarantees	1,370	627	227	375	2,599
Trade letters of credit	16	336		165	517
Non-financial guarantees	304	1,697	87	1,057	3,145
Undrawn loan commitments		5,305	2,123	3,420	10,848
Other commitments(2)	54	33	10	354	451
Total commercial commitments	1,744	7,998	2,447	5,371	17,560

(1) The numbers in this table are credit equivalents (refer to Note 40 to the financial statements) which are determined in accordance with APRA risk weighted capital adequacy guidelines.

(2) Other commitments include certain drawdown commitments.

Capital resources

Capital management

We pursue an active capital management strategy focused on increasing shareholder value by integrating capital allocation, performance measurement and incentive compensation. This framework is embedded in our business activities and investment decisions. Our capital management strategy seeks to find the right balance between the interests of shareholders, regulators and rating agencies. For Westpac, a target capital structure consistent with a double A senior debt rating has been chosen as striking the right balance between these interests and providing a basis for managing our capital structure including dividend policy. Details of the various capital instruments issued are included in Notes 25 and 26 to the financial statements.

Specific target ratios are based on the outputs of our internal economic capital allocation models, adjusted to take account of rating agency and regulatory requirements. In the longer term we anticipate a greater alignment of the outputs of our internal economic capital models with regulatory requirements to take place under the Basel II framework due to be implemented in full by 2008 (refer to the detailed discussion below).

We have reviewed our target capital ranges in the light of the introduction of A-IFRS, and the adoption by APRA of revised prudential standards. APRA s revised prudential standards have increased the deductions applied to tier 1 capital but they have also granted transitional relief for A-IFRS related deductions which will apply until 1 January 2008. This transitional relief has been based on the value of deductions applying as at 1 July 2006. As the transitional relief results in no immediate change to tier 1 capital, we have retained our existing tier 1 target capital ratio range of6.00% to 6.75% during the transition period.

The calculation of our Adjusted Common Equity (ACE) ratio has also been updated to incorporate APRA s new tier 1 capital deduction and the requirement to deduct capitalised expenses that was introduced in 2004. The net impact of these changes reduces our ACE capital calculation by around $1 billion which is equivalent to a deduction in ACE ratio of around 50 basis points. The changes do not however change the economic substance of our business or risk profile. Accordingly, we have elected to adjust our target ACE range to neutralise the impact of the deductions. Furthermore, given the potential additional volatility created by the introduction of A-IFRS, we have also widened the target ACE range by 25 basis points to accommodate this volatility. For a discussion of the impact of the adoption of A-IFRS on our financial position and results of operations, refer to Note 48 to the financial statements.

Our revised target ratios resulting from these changes are summarised in the table below.

Capital measure	**Target ratio**
Adjusted common equity as a percentage of Risk weighted assets (ACE/RWA)	4.00-4.75%
Group tier 1 ratio (Level 2 tier 1)	6.00-6.75%
Stand alone tier 1 ratio (Level 1 tier 1)	5.50% minimum

As at 30 September 2006, the Level 1 and Level 2 tier 1 ratios were 6.3% and 6.9% respectively and the ACE/RWA was 4.6%. Based on the mid point of our target Adjusted Common Equity range Westpac had $340 million of surplus capital at 30 September 2006. For further details on capital adequacy refer to Note 28 to the financial statements.

Adjusted common equity

Tier 1 capital is calculated in accordance with APRA capital adequacy guidelines. The determination of ACE is less prescriptive but generally calculated as tier 1 capital less hybrid equity, investments in non-banking subsidiaries and other equity instruments. The ACE ratio has become the capital measure most frequently used by analysts and rating agencies to assess a bank s capital strength. Management believes that the ACE ratio is widely accepted and is a conservative measure of the amount of ordinary equity that explicitly supports a banking business, deducting the entire investment in non-banking subsidiaries from shareholders equity.

Adjusted common equity reconciliation

(in $millions unless otherwise indicated)	2006	2005
Total tier 1 capital	13,318	12,228
Less: hybrid capital (net of excess of 25% of tier 1 capital)	(3,217)	(2,472)
Less: other deductions in relation to non-consolidated subsidiaries	(680)	(859)
Add: capitalised expenditure		312
Less: APRA transition relief	(664)	
Adjusted common equity	8,757	9,209
Risk weighted assets	192,391	170,369
Adjusted common equity to risk weighted assets	4.6%	5.4%

APRA has advised that the final implementation of the Level 3 capital adequacy requirement, originally intended to apply from 1 July 2003, has been delayed to coincide with the final adoption of Basel II in 2008. This decision reflects the significant overlap between Basel II and the economic capital methodologies that have been proposed as the basis of the Level 3 assessment. Level 3 is a measure proposed for groups deemed by APRA to have substantial non-banking business, which seeks to assess the capital requirements of the full conglomerate group (including both banking and non-banking activities) in an integrated fashion.

Purchases of equity securities

Month	Total Number of Shares Purchased	Average Price Paid per Share $	Total Number of Shares Purchased as Part of a Publicly Announced Program(1)	Maximum Number (or Approximate $ Value) of Shares That May Yet Be Purchased Under the Plans or Programs
October (2005)	6,525	21.42		n/a
November (2005)				n/a
December (2005)	53,061,892	19.17	52,273,870	n/a
January (2006)	7,136	22.48		n/a
February (2006)	99,127	23.40		n/a
March (2006)	142,182	23.70		n/a
April (2006)	278,419	21.34		n/a
May (2006)	761,790	23.70		n/a
June (2006)	467,137	23.05		n/a
July (2006)				n/a
August (2006)				n/a
September (2006)	203,109	22.91		n/a
Total	55,027,317	19.31	52,273,870	

(1) On 2 November 2005 we announced an off-market buy-back of ordinary shares with a target size of approximately $700 million. We completed the off-market buy-back on 19 December 2005 and due to strong demand we increased the buy-back to the $1,000 million limit approved by our Board of Directors. We bought back 2.8% of our ordinary shares on issue, at the buy-back price of $19.13 per ordinary share.

Other purchases of ordinary shares during the year were made on market and relate to the following:

- to deliver to employees upon exercise of options and performance share rights 1,496,578 ordinary shares;
- under our Deferral Share Plan, which enables employees to elect to receive part their annual bonus in ordinary shares and Non-executive Directors to elect to receive a percentage of their fees in ordinary shares 526,651 ordinary shares; and
- treasury shares purchased by statutory life funds and managed investment schemes or by Westpac in respect of equity derivatives sold to customers 730,218 ordinary shares.

Refer to the description of the Deferral Share Plan in Note 27 and the discussion regarding share purchases and treasury shares in Note 26 to the financial statements.

Basel capital accord

The regulatory limits applied to our capital ratios are consistent with the Bank of International Settlements capital accord, which was first released in 1988. In June 2004 the Basel Committee on Banking Supervision released the International Convergence of Capital Management and CapitalStandards: A Revised Framework also known as Basel II. This framework reflects the advances in risk management practices since the introduction of the 1988 Basel Accord, improving the sensitivity of capital calculation through a broader array of risk classes and enhanced measurement processes.

We are targeting compliance with the most sophisticated methods for both credit and operational risk. In September 2005 we submitted an application to APRA to be accredited to use the Advanced Internal Ratings Based (AIRB) approach for credit risk and the Advanced Measurement Approach (AMA) for operational risk. That submission was in the form of a self assessment against criteria outlined by APRA and the requirements of Basel II.

We believe that using the advanced approaches for risk monitoring and measurement is in the interests of all our stakeholders. Effective risk management is regarded as a key activity performed at all levels of the Group. A broad array of changes to risk management practices have been implemented across all risk classes. We recognised at the time of submission that there is still work required to embed these principles and practices into day-to-day activities of business units and to achieve the full benefits of these changes. We continue with this work in addition to addressing issues identified by APRA as they arise.

APRA have commenced the release of draft Australian Prudential Standards based on Basel II. The timeframes for release of all relevant standards is unknown. APRA has considerable discretion over the application of Basel II to the banks it regulates and has announced that Australian banks using the most sophisticated models for credit and operational risk will also be required to hold regulatory capital for the interest rate risk taken in the banking book. The models used to quantify this risk are similar to the models used today for traded market risk.

Following accreditation, any reduction in the level of regulatory capital required is subject to transitional arrangements in the first two years of operation. At present the extent of any reduction in regulatory capital is unclear.

Risk management

Our vision is to be a great Australasian company and effective risk management is key to us achieving this goal. It influences our performance, reputation and future success. We regard managing risk as a fundamental management activity, performed at all levels of the Group.

Effective risk management is all about achieving a balanced approach to risk and reward. Risk management enables us to both increase financial growth opportunities and mitigate potential loss or damage. It is important to note that both mitigation and optimisation strategies are equally important in the world of risk management.

Risk management organisation

Our risk management strategy is approved by our Board and implemented through the Chief Executive Officer (CEO) and the executive management team.

The BRMC has been delegated responsibility for approving and maintaining an effective risk management framework. For further information regarding the role and responsibilities of the BRMC and other Board committees in managing risk, refer to the Corporate governance section.

The CEO and executive management team are responsible for implementing the risk management frameworks approved by the BRMC and developing policies, controls, processes and procedures for identifying and managing risk arising from our activities.

Our Group Risk function plays a key role in our risk management framework. It is independent from the business units and reports to the Chief Risk Officer (CRO) and is accountable for the effectiveness of our risk processes. Our risk function is also responsible for coordinating our response to key regulatory developments and issues affecting risk management.

Independent risk management units operate within each business unit, reporting to the group executive for that unit and the CRO. The business unit head of risk has oversight of identifying and quantifying the particular risks arising from their business and for implementing appropriate policies, procedures and controls to manage those risks. They also ensure alignment with the Group Risk function.

An independent review of management performance is undertaken by our Group Assurance function. This function contains our portfolio risk review unit, which is responsible for reviewing credit quality and business risks, assessing credit management process quality, credit policy compliance, and adequacy of provisions. Internal audit is responsible for independently evaluating the adequacy and effectiveness of management s control of operational risk.

Categories of risk

The key risks we are subject to are specific banking risks and risks arising from the general business environment. Our risk management framework encompasses credit, market, liquidity, equity, operational and compliance risk.

Credit risk

Refer to Note 31 to the financial statements for details of our credit risk management policies.

Provisions for impairment losses on loans

For information on provisions for impairment losses on loans refer to Critical accounting estimates in Note 1 to the financial statements.

Foreign exchange and derivative credit risk management

Refer to Note 31 to the financial statements for details of our foreign exchange and derivative credit risk management.

Counterparty credit quality

The table below shows the credit quality of our credit exposure associated with foreign exchange and derivative activities. The risk grades shown below are based on Standard & Poor s credit rating system. Based on these ratings, our exposure to investment grade counterparties is 98% as at 30 September 2006 (2005 97%).

Total assessed credit risk as at 30 September	2006	2005
	%	%
AAA, AA	56	50
A	29	34
BBB	13	13
BB and below	2	3
Total	100	100

Counterparty credit risk by industry sector and country of ultimate risk

The table below shows our current credit risk exposure (not including potential future credit risk) by industry sector and by country of ultimate risk.

Current credit risk exposure (net) as at 30 September 2006(1)	Government	Banks	Non-bank Financial Institutions	Others	Total
	$bn	$bn	$bn	$bn	$bn
Australia	0.2	0.3	0.5	0.7	1.7
New Zealand				0.2	0.2
Europe		1.5	0.1		1.6
United States of America		0.6	0.5	0.1	1.2
Japan					
Other		0.3		0.3	0.6
Total	0.2	2.7	1.1	1.3	5.3

(1) Netting has been applied to counterparties with appropriate netting agreements in legally enforceable jurisdictions.

Credit risk maturity profile and settlement risk

The table below shows the maturity profile of our foreign exchange and derivative credit risk exposure in gross replacement cost terms (i.e. not including potential future credit risk). The gross replacement cost overstates our credit risk exposure at 30 September 2006 as it ignores the netting benefit of $5 billion.

Gross replacement cost as at 30 September 2006	Less Than 3 Months $bn	Between 3 Months and 1 Year $bn	Between 1 and 2 Years $bn	Between 2 and 5 Years $bn	Over 5 Years $bn	Total $bn
Interest rate						
Swaps	0.5	0.6	0.3	0.9	0.4	2.7
Options						
Forwards and futures	0.1					0.1
Foreign exchange						
Forwards	0.5	0.6	0.3	0.9	0.4	2.7
Swaps	0.8	0.9	0.4	1.3	0.8	4.2
Purchased options	0.1	0.1		0.1	0.1	0.4
Commodities			0.1	0.1		0.2
Equities and credit						
Total derivatives	2.0	2.2	1.1	3.3	1.7	10.3

Settlement risk occurs when we pay out funds before we receive payment from the counterparty to the transaction. We manage our settlement risk exposures through specific customer limits. We use Continuous Linked Settlement (CLS) to reduce our foreign exchange settlement risk to other CLS participants. CLS enables members to settle foreign exchange transactions between themselves through the simultaneous payment of the currency legs of transactions.

Cross-border outstandings

Cross-border outstandings are loans, placements with banks, acceptances, interest earning investments and monetary assets denominated in currencies other than the borrower s local currency. They are grouped on the basis of the country of domicile of the borrower or the ultimate guarantor of the risk. The table below excludes irrevocable letters of credit, amounts of which are immaterial. The relevant foreign denominated currencies have been converted at the closing spot exchange rate used in the financial statements.

Our cross-border outstandings to countries that individually represented in excess of 0.75% of Group total assets as at 30 September in each of the past two years, were as follows:

(in $millions unless otherwise indicated)	Governments and Official Institutions	Banks and Other Financial Institutions	Other (Primarily Commercial and Industrial)	Total	Percentage of Total Assets	
2006						
United States		2,988	1,349	4,337	1.4	%
Australia		659	2,776	3,435	1.1	%
2005						
United States		2,632	1,003	3,635	1.4	%
Australia	11	1,297	1,649	2,957	1.1	%
United Kingdom		1,869	526	2,395	0.9	%

Impaired assets among the cross-border outstandings were $35 million as at 30 September 2006 (2005 $76 million).

Market risk

Market risk is the potential for losses arising from adverse movements in the level and volatility of market factors such as foreign exchange rates, interest rates, commodity prices and equity prices.

The management of market risk arising from the Financial Markets trading books (the subject of the notes below) is segregated from the market risks arising from banking activities.

Trading activities

Financial Market trading activities are controlled by a Board-approved market risk framework that incorporates Board-approved Value at Risk (VaR) limits. VaR is the primary mechanism for measuring and controlling market risk. Market risk is managed using VaR and structural risk limits (including volume limits and basis point value limits) in conjunction with scenario analysis and stress testing. Market risk limits are allocated to business management based on business strategies and experience, in addition to market liquidity and concentration risks. A separate independent Market Risk Management unit is responsible for the daily measurement and monitoring of market risk exposures.

VaR is an estimate of the worst case loss in value of trading positions, to a 99% confidence level, assuming positions were held unchanged for one day. We use a historical simulation method to calculate VaR taking into account all material market variables. Actual outcomes are monitored and the model is back-tested daily.

The following table provides a summary of VaR, by risk type, for the half years ended 30 September 2006, 31 March 2006 and 30 September 2005.

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Daily value at risk

	30 September 2006			31 March 2006			30 September 2005		
Six months ended	**High $m**	**Low $m**	**Average $m**	**High $m**	**Low $m**	**Average $m**	**High $m**	**Low $m**	**Average $m**
Interest rate risk	5.8	1.8	3.2	6.3	1.1	3.5	9.4	1.6	4.0
Foreign exchange risk	3.2	0.1	1.3	3.1	0.3	1.7	2.8	0.3	1.3
Volatility risk	1.5	0.4	0.8	1.2	0.3	0.5	0.8	0.3	0.5
Other market risks(1)	3.3	1.8	2.3	3.3	2.4	3.1	5.8	3.1	4.4
Diversification effect	n/a	n/a	(1.7)	n/a	n/a	(2.0)	n/a	n/a	(2.5)
Net market risk	8.3	4.2	5.9	11.0	4.4	6.9	11.9	4.5	7.7

(1) Commodity, Equity, Primary markets underwriting, Prepayment and Issuer Specific Risk.

The chart below shows the aggregated daily value at risk arising in the trading books for the 12 months ended 30 September 2006.

The Market Risk Management unit performs daily stress and regular scenario tests on the trading portfolios to quantify the impact of extreme or unexpected movements in market factors.

Daily value at risk position reports are produced by risk type, by product and by geographic region. These are supplemented by structural reporting, advice of profit and loss trigger levels and stress test escalation trigger points.

Distribution of daily trading income

The distribution of daily trading income for the year ended 30 September 2006 is shown in the following chart:

Energy and other commodity trading

Commodity and energy trading activity is part of our financial markets business. All trades are marked-to-market daily, using independently sourced or reviewed rates. Rates are compared to both AFMA published prices and brokers quotes. These rates are reviewed on a monthly basis by the Westpac Institutional Bank Revaluation Committee and on a random basis intra-month. These businesses are managed within market risk structural and VaR limits. Credit risk is controlled by PSR limits by counterparty.

Trading activities are limited to the major Australian nodes in electricity swaps, options, swaptions, futures and Settlement Residue Auctions (SRAs). The SRAs are valued using an internally developed model that has been reviewed and approved by the Market Risk Management unit.

The total fair value of our energy trading contracts outstanding as at 30 September 2006 was a liability of $29.1 million, a decrease of $40 million during the year.

83% of the outstanding fair value of contracts mature in less than one year and the remaining 17% have a maturity profile of between one and five years.

Non-trading risk

Management of structural interest rate risk

Refer to Note 31 to the financial statements.

Structural foreign exchange risk

Refer to Note 31 to the financial statements.

Equity underwriting and warehousing risk

As a financial intermediary we underwrite listed and unlisted equities.

Equity underwriting activities include the development of solutions for corporate and institutional customers who have a demand for equity capital and investor customers who have an appetite for equity based investment products.

Equity warehousing activities involve the acquisition of assets in anticipation of refinance through a combination of senior, mezzanine and capital market debt and listed, unlisted and privately placed equity. This varies from underwriting risk in that we will always be the principal owner of the asset for a predefined period during which we are required to structure and arrange the sell down.

To manage the risks associated with equity underwriting and warehousing, including sufficient investor demand, we have established policies that require business units to seek expressions of interest before transactions are undertaken.

Issues relating to conflicts of interest are managed via separation of duties and the establishment of Chinese Walls . All underwriting and warehousing decisions are made under the authorities approved by our Board and administered by the CRO.

Operational risk

Operational risk arises from inadequate or failed internal processes, people and systems or from external events. Operational risk has the potential to negatively impact our financial performance, or our reputation in the community or to cause other damage to our business as a result of the way we pursue business objectives.

Each business area is responsible for the identification, measurement, monitoring and mitigation of operational risk. The existence of a defined operational risk framework supports the management of operational risk. On a periodic basis, management of each of our business areas formally report on the effectiveness of their management of operational risk (key matters are reported on a quarterly basis). This process is supported by active input from key corporate centre functions such as legal, finance, human resources, risk management, operational risk and compliance and internal audit. The results of this process are reported quarterly to our Operational Risk and Compliance Management Committee and Board Risk Management Committee and annually by way of certification to the Australian Prudential Regulation Authority.

Some of the key management and control techniques include segregation of duties, clear delegation of authority, sound project management, change control disciplines and business continuity planning. Where appropriate this is supported by risk transfer mechanisms such as insurance. Our control environment is enhanced by a focus on staff competency and supervision.

Our internal audit function independently appraises the adequacy and effectiveness of the internal control environment and reports its results separately to our CEO and our Board Risk Management Committee.

Liquidity risk

Liquidity risk is the potential inability to meet our payment obligations. Management of liquidity is the responsibility of the Group Treasurer, who reports to the CFO. Group Treasury is responsible for monitoring our funding base and ensuring that this base is prudently maintained and adequately diversified. For further information refer to Liquidity and funding .

Compliance risk

Compliance risk is the risk of failing to comply with all applicable legal and regulatory requirements and industry codes of practice and to meet our ethical standards.

Our compliance program forms part of a broader integrated risk management framework and is driven by high standards of principle and practice that apply to all management and staff. A key principle is that compliance is about not only complying with the letter of the law, but also embracing the spirit of the regulatory standards that apply.

At Westpac, we assess the impact of changes in the regulatory environment on a continuous basis. We implement compliance requirements by changing the way our staff conduct themselves and the way in which our systems and processes are designed and operate.

The key components of the compliance framework are: the governance environment (including oversight, culture and accountabilities); identification of risks and controls (through monitoring and communicating regulatory and business developments, and documenting requirements in compliance plans); internal monitoring and reporting activities (such as breach escalation, management and remediationprocesses); and compliance controls (policies, procedures, training and documentation).

Primary responsibility for the implementation of compliance requirements resides with line management, who are required to demonstrate that they have effective processes in place. Further, each staff member owns compliance within their sphere of influence and activity.

Within each major business area there is a dedicated compliance function designed to guide compliance within that business. Group management oversight is provided by the Group Operational Risk and Compliance Committee, which establishes the compliance framework and policies, and oversees compliance effectiveness across the group. There is also a group compliance function, lead by the Chief Operational Risk and Compliance Officer, providing independent oversight of compliance through accountability to the relevant Board Committee.

Our regulatory compliance responsibilities have increased significantly over the last three years, and we anticipate that this will continue for the year ahead. Some of the more significant compliance requirements have arisen from the implementation of Financial Service Reform, the revised Code of Banking Practice, Sarbanes-Oxley Act, Basel II, CLERP 9, Australian Stock Exchange Corporate Governance, the New York Stock Exchange Rules, changes to financial reporting under A-IFRS and the anticipated changes to Australian anti-money laundering laws. These requirements are being implemented progressively to ensure compliance is achieved by the date required.

US Sarbanes-Oxley Act

The US Congress passed the Public Company Accounting Reform and Investor Protection Act in July 2002, which is commonly known as the Sarbanes Oxley Act 2002 (SOX). SOX is a wide ranging piece of US legislation concerned largely with financial reporting and corporate governance. We are obligated to comply with SOX by virtue of being a foreign registrant with the SEC and we have established procedures designed to ensure compliance with all applicable requirements of SOX.

Disclosure controls and procedures

Our CEO and CFO, with the participation of our management, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the US Securities Exchange Act of 1934) as of 30 September 2006.

Based upon this evaluation, our CEO and CFO have concluded that the design and operation of our disclosure controls and procedures were effective as of 30 September 2006 .

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the US Securities Exchange Act of 1934) for the year ended 30 September 2006 that has been identified that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Internal control over financial reporting

Rule 13a-15(a) under the US Securities Exchange Act of 1934 requires us to maintain an effective system of internal control over financial reporting. We and our external auditors, are required to report annually on its effectiveness for the first time at 30 September 2006. Please refer to the sections headed Management s report on internal control over financial reporting and Report of independent registered public accounting firm for those reports.

Corporate governance

1. Our approach to corporate governance

a) Framework and approach to corporate governance

Our approach to corporate governance is based on a set of values and behaviours that underpin everyday activities, ensure transparency and fair dealing, and protect stakeholder interests.

This approach includes a commitment to best practice governance standards, which our Board sees as fundamental to the sustainability of our business and performance.

In pursuing this commitment, the Board monitors local and global developments in best practice corporate governance and their implications for us.

In Australia, we have taken into account the Principles of Good Corporate Governance and Best Practice Recommendations published in March 2003 by the Australian Stock Exchange Limited s Corporate Governance Council (ASXCGC), and the Corporations Act.

In the international arena, we have responded to a range of relevant corporate governance principles.

Our corporate governance statement and practices are available in the corporate governance section on our website at www.westpac.com.au/corporateresponsibility .

b) Compliance with the ASXCGC s Best Practice Recommendations

The ASX listing rules require listed entities such as us, to include a statement in their annual report disclosing the extent to which they have followed the 28 ASXCGC Best Practice Recommendations during the reporting period, identifying any recommendations that have not been followed and providing reasons for that variance.

We believe that our governance practices comply with the ASXCGC s Best Practice Recommendations, subject to the qualification below relating to ASXCGC Best Practice Recommendation 9.4. A checklist summarising our compliance is on our website.

Recommendation 9.4 advocates that entities seek shareholder approval of equity-based reward schemes for executives. In 2006 we are seeking shareholder approval for two new equity-based reward schemes, the Westpac Reward Plan and the Restricted Share Plan. Detailed descriptions ofboth plans are provided in the 2006 Remuneration Report.

We comply with recommendation 9.4 for some of our current long-term incentive plans. Both of the Chief Executive Officer s current agreements, the Chief Executive Share Option Agreement 2001 and the Chief Executive Securities Agreement 2003, have shareholder approval.

Our current equity-based reward plans were introduced in 2002, prior to the release of the ASXCGC s Best Practice Recommendations. As the plans did not require shareholder approval under the Corporations Act and ASX listing rules, they were not put to shareholders for approval. The 2002 equity-based reward plans were however extensively disclosed to shareholders in the 2002, 2003, 2004 and 2005 Annual Reports and are set out in detail in Note 27 to the financial statements.

2. Date of this statement

This statement reflects our corporate governance framework, policies and procedures as at 2 November 2006.

3. The Board of Directors

a) Membership and expertise of the Board

The Board has a broad range of relevant financial and other skills, experience and expertise to meet its objectives. The current Board composition, with details of each Director s background, is set out below. The Board considers that between them, the Non-executive Directors bring the range of skills, knowledge and experience necessary to govern us. All Directors have extensive experience of the social and environmental context in which the business operates.

The Board s approach to selection, performance evaluation and tenure of Directors is described in sections (i) and (k) of this corporate governance statement.

Name: Leon Davis, AO, ASAIT, DSc (h.c.), FRACI, FAustIMM

Age: 67

Term of office: Director since November 1999. Chairman since December 2000.

Independent: Yes

Current Directorships: Director of each of Huysmans Pty Limited and Trouin Pty Limited, President of the Walter and Eliza Hall Institute of Medical Research; Member of Temasek International Panel, and Member of the South Australian Mineral & Petroleum Group.

Other Westpac related entities Directorships: Director of Westpac General Insurance Limited and Trustee of the Westpac Foundation.

Skills, experience and expertise: Leon has been Chairman of Westpac since December 2000. He has had many years of experience in resource management, both in Australia and overseas. He has lived and worked in senior positions in Australia, Papua New Guinea, Singapore and the United Kingdom. He was formerly Chief Executive of CRA Ltd and then Rio Tinto in the United Kingdom.

Westpac Board Committee membership: Chairman of the Nominations Committee and Member of each of the Audit, Risk Management, Remuneration, and Corporate Responsibility and Sustainability Committees.

Directorships of other listed entities over the past 3 years: Director and Deputy Chairman of Rio Tinto (June 1994-April 2005) and a Director of Codan Limited (July 2000-December 2004).

Name: David Morgan, BEc, MSc, PhD

Age: 59

Term of office: Appointed Managing Director and Chief Executive Officer in March 1999. Executive Director since November 1997.

Independent: No

Current External Directorships: Chairman of the Australian Bankers Association.

Other Westpac related entities Directorships: Director of Westpac General Insurance Limited and Chairman of Westpac New Zealand Limited.

Skills, experience and expertise: David was appointed Managing Director and Chief Executive Officer in March 1999. He has extensive experience in the financial sector, having worked in the International Monetary Fund in Washington D.C. in the 1970s and the Federal Treasury in the 1980s where he headed all major areas before being appointed Senior Deputy Secretary. Since joining Westpac in 1990, he has had responsibility for all major operating divisions including Westpac Financial Services, Retail Banking, Commercial Banking, Corporate and Institutional Banking and International Banking.

Westpac Board Committee membership: Member of the Corporate Responsibility and Sustainability Committee.

Directorships of other listed entities over the past 3 years: Nil

Name: Gordon Cairns, MA (Hons.)

Age: 56

Term of office: Director since July 2004.

Independent: Yes

Current Directorships: Director of Seven Network Limited and Centre for Independent Studies, Director of Opera Australia, Member of the Asia Pacific Advisory Board of CVC Capital Partners and Chairman of the Advisory Board of the Caliburn Partnership.

Other Westpac related entities Directorships: Nil

Skills, experience and expertise: Gordon has extensive Australian and international experience as a senior executive, most recently as Chief Executive Officer of Lion Nathan Limited. Gordon has also held a wide range of senior management positions in marketing and finance with Pepsico, Cadbury Schweppes and Nestlé (Spillers).

Westpac Board Committee membership: Member of each of the Audit and Remuneration Committees.

Directorships of other listed entities over the past 3 years: Director and Chief Executive Officer of Lion Nathan Limited (October 1997-December 2004).

Name: David Crawford, BCom, LLB, FCA, FCPA

Age: 62

Term of office: Director since May 2002.

Independent: Yes

Current Directorships: Chairman of Lend Lease Corporation Limited, Director of each BHP Billiton Limited, and Foster s Group Limited, Chairman of the Australian Ballet and Treasurer of the Melbourne Cricket Club.

Other Westpac related entities Directorships: Nil

Skills, experience and expertise: David was National Chairman of KPMG from 1998 until 2001, a member of KPMG s International Board and, prior to that, Chairman of KPMG s Southern Regional Practice (1996-1998). He was Chief Executive Officer of the Rural Finance Corporation in Victoria managing the integration and merger of the activities of the Victorian Economic Development Corporation with the Rural Finance Corporation.

Westpac Board Committee membership: Chairman of the Remuneration Committee and Member of each of the Audit, Risk Management and Nominations Committees.

Directorships of other listed entities over the past 3 years: Chairman of National Foods Limited (November 2001-June 2005).

Name: Ted Evans, AC, BEcon, DUni(Grif)

Age: 65

Term of office: Director since November 2001.

Independent: Yes

Current Directorships: Director of IBT Education Limited.

Other Westpac related entities Directorships: Director of each of Westpac General Insurance Limited and Westpac New Zealand Limited.

Skills, experience and expertise: Ted has extensive experience in the financial sector, having joined the Australian Treasury in 1969. From 1984 to 1989 he held the position of Deputy Secretary and was Secretary to the Treasury from 1993 to 2001. From 1976 to 1979 he was a member of the Australian Permanent Delegation to the OECD in Paris and, from 1989 to 1993, executive director on the Board of the International Monetary Fund, representing Australia and a number of other countries, mainly in the Asia Pacific region. He was a Director of the Reserve Bank of Australia from 1993 to 2001 and the Commonwealth Bank of Australia from 1993 to 1996.

Westpac Board Committee membership: Chairman of the Risk Management Committee and Member of each of the Audit and Nominations Committees.

Directorships of other listed entities over the past 3 years: Nil

Name: Carolyn Hewson, BEc (Hons.), MA (Econ.)

Age: 51

Term of office: Director since February 2003.

Independent: Yes

Current Directorships: Director of AGL Energy Limited, Board and advisory roles with the Royal Humane Society, YWCA NSW, the Australian Charities Fund and patron of The Neurosurgical Research Foundation.

Other Westpac related entities Directorships: Nil

Skills, experience and expertise: Carolyn has had 17 years experience in the finance sector and was an Executive Director of Schroders Australia Limited between 1989 and 1995.

Westpac Board Committee membership: Chairman of the Audit Committee and Member of each of the Risk Management, Remuneration and Nominations Committees.

Directorships of other listed entities over the past 3 years: Director, each of CSR Limited (March 1995-July 2005) and Australian Gas Light Company (October 1996 October 2006).

Name: Helen Lynch, AM

Age: 63

Term of office: Director since November 1997.

Independent: Yes

Current Directorships: Member of the Caliburn Partnership and the Mallesons Stephen Jacques External Advisory Boards

Other Westpac related entities Directorships: Chairman of the Westpac Staff Superannuation Plan Pty Limited, Director of Westpac General Insurance Limited and a Trustee of the Westpac Foundation.

Skills, experience and expertise: Helen has had 36 years experience in Westpac including membership of Westpac s executive team before retiring in 1994.

Westpac Board Committee membership: Chairman of the Corporate Responsibility and Sustainability Committee and Member of each of the Audit, Risk Management and Nominations Committees.

Directorships of other listed entities over the past 3 years: Director of each of Southcorp Limited (July 1996-May 2005), Coles Myer Limited, (October 1995-April 2003), Pacific Brands Limited (February 2004-October 2006) and Chairman of OPSM Group Limited (September 1994-October 2003).

Name: Peter Wilson, CA

Age: 65

Term of office: Director since October 2003.

Independent: Yes

Current Directorships: Chairman of Global Equities Market Securities Limited and Director of each of The Colonial Motor Company Limited, Kermadec Property Fund Limited and Hill Country Corporation Limited and Member of the New Zealand Exchange Limited Discipline body.

Other Westpac related entities Directorships: Director of Westpac New Zealand Limited.

Skills, experience and expertise: Peter is a chartered accountant and formerly a partner with Ernst & Young, with extensive experience in banking, business establishment, problem resolution, asset sale and management of change functions. Peter was a Director and (from 1991) Chairman of Trust Bank New Zealand Limited which Westpac acquired in 1996.

Westpac Board Committee membership: Member of each of the Audit, Risk Management and Corporate Responsibility and Sustainability Committees.

Directorships of other listed entities over the past 3 years: Director of Westpac (NZ) Investments Limited (August 1999-July 2005) and Chairman of Evergreen Forests Limited (July 1993-July 2006) and a Director of Urbus Properties Limited (January 2003-July 2005) (all previously listed in New Zealand).

Details of Directors interest in shares and other equity instruments are set out in Note 45 to the financial statements.

ASXCGC s Best Practice Recommendation 2.1, 2.5

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b) Board role and responsibility

The roles and responsibilities of the Board are formalised in the Board Charter. The Charter also defines the matters that are reserved for the Board and its Committees, and those that the Board has delegated to management.

In summary, the Board is accountable to shareholders for our performance and its responsibilities include:

- **strategy** providing strategic direction and approving corporate strategic initiatives;
- **board performance and composition** evaluating the performance of Non-executive Directors, and determining the size and composition of our Board as well as making recommendations to shareholders for the appointment and removal of Directors;
- **leadership selection** evaluating the performance of and selecting the CEO and the CFO;
- **succession planning** planning for Board and executive succession;
- **remuneration** setting CEO remuneration and setting Non-executive Director remuneration within shareholder approved limits;
- **financial performance** approving our budget, monitoring management and financial performance;
- **financial reporting** considering and approving our half-yearly and annual financial statements;
- **audit** selecting and recommending to shareholders the appointment of the external auditor. Determining the duration, remuneration and terms of appointment of the external auditor and evaluating their performance and ongoing independence. Maintaining a direct and ongoing dialogue with the external auditor;
- **risk management** approving our risk management strategy and monitoring its effectiveness;
- **corporate responsibility** considering the social, ethical and environmental impact of our activities, setting standards and monitoring compliance with our responsibility policies and practices; and
- **relationship with the exchanges and regulators, and continuous disclosure** maintaining a direct and ongoing dialogue with relevant regulators in Australia and offshore and ensuring that the market and our shareholders are continuously informed of material developments.

The Board has delegated a number of these responsibilities to its Committees. The responsibilities of these Committees are detailed in section 4 of this corporate governance statement.

The Board has delegated to management, responsibility for:

- **strategy** developing and implementing corporate strategies and making recommendations on significant corporate strategic initiatives;
- **senior management selection** making recommendations for the appointment of senior management, determining terms of appointment, evaluating performance, and developing and maintaining succession plans for senior management roles;

- **financial performance** developing our annual budget and managing day-to-day operations within the budget;
- **risk management** maintaining an effective risk management framework;
- **continuous disclosure** keeping the Board and market fully informed about material developments; and
- **corporate responsibility** managing day-to-day operations in accordance with standards for social, ethical and environmental practices, which have been set by the Board.

Our Board Charter is available in the corporate governance section at www.westpac.com.au/corporateresponsibility .

ASXCGC s Best Practice Recommendation 1.1

c) Board size and composition

There are seven independent Non-executive Directors and one Executive Director on the Board. Our Constitution sets a maximum of fifteen Non-executive Directors. In addition, up to three members of the Board may be Executive Directors.

The Board considers that the optimum number of Non-executive Directors is between seven and nine, with Non-executive Directors comprising the majority of the Board.

The Nominations Committee assesses the Board composition and size from time to time and recommends to the Board changes to the Board composition and size. The Nominations Committee also assesses the skills required to discharge the Board s duties, having regard to our business mix, financial position and strategic direction, including specific qualities or skills that the Nominations Committee believes are necessary for one or more of the Directors to possess.

Our Constitution is available in the corporate governance section at www.westpac.com.au/corporateresponsibility .

d) The selection and role of the Chairman

The Board elects one of the independent Non-executive Directors to be Chairman. The Chairman s role includes:

- ensuring that, when all Board members take office, they undertake appropriate induction covering the terms of their appointment, their duties and responsibilities;
- providing effective leadership on formulating the Board s strategy;
- representing the views of the Board to the public;
- ensuring the Board meets at regular intervals throughout the year, and that minutes of meetings accurately record decisions taken and, where appropriate, the views of individual Directors;
- guiding the agenda and conduct of all Board meetings; and
- reviewing the performance of Non-executive Directors.

The current Chairman, Leon Davis, is an independent Non-executive Director. He has been a Director of Westpac since November 1999 and Chairman since December 2000. The Chairman is a member of each Board Committee and Chairman of the Nominations Committee.

ASXCGC s Best Practice Recommendation 2.2, 2.3

e) Director independence

The Board assesses each Director against a range of criteria to decide whether they are in a position to exercise independent judgement.

Directors are considered to be independent if they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement. Materiality is assessed on a case-by-case basis by reference to each Director s individual circumstances rather than by applying general materiality thresholds.

In assessing independence, the Board considers whether the Director has a business or other relationship with us, directly or as a partner, shareholder or officer of a company or other entity that has an interest, or a business or other relationship, with us or another of our Group members.

Information about any such interests or relationships, including any related financial or other details, is assessed by the Board to determine whether the relationship could, or could reasonably be perceived to, materially interfere with the exercise of a director s unfettered and independent judgement.

On appointment, each Director is required to provide information for the Board to assess and confirm their independence as part of their consent to act as a Director. Directors re-affirm their independence annually. All seven Non-executive Directors are considered to be independent. Board criteria for assessing independence is available in the corporate governance section at www.westpac.com.au/corporateresponsibility .

ASXCGC s Best Practice Recommendation 2.1, 2.5

f) Avoidance of conflicts of interest by a Director

The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest (both real and apparent) between their duty to us and their own interests. The Board has adopted a procedure to ensure that conflicts and potential conflicts of interest of Directors are disclosed to theBoard.

Any Director with a material personal interest in a matter being considered by the Board must declare their interest and, unless the Board resolves otherwise, they may not participate in boardroom discussions or vote on matters on which they face a conflict.

In addition, the Director is required to disclose any actual or potential conflict of interest on appointment as a Director and is required to keep these disclosures up to date.

There are a range of policies within our business relating to the management of conflicts of interest, such as the Conflicts of Interest and the New Issues policies (see section 7e of this corporate governance statement).

g) Meetings of the Board and their conduct

The Board has ten scheduled meetings each year and meets whenever necessary between scheduled meetings to deal with specific matters needing attention. The Board discusses a particular strategy topic at most Board meetings. In July, the Board meets to discuss our strategic plan and set the overall strategic direction of our organisation. In 2006, the Board also initiated a half-year review of the organisation s strategic direction. The Board also conducts more formal workshops on specific subjects throughout the year in addition to the regular Board meetings.

The Chairman and the CEO establish meeting agendas for assessing our coverage of financial, strategic and major risk areas, throughout the year. The Directors have the opportunity to review meeting materials in advance. Directors are always encouraged to participate with a robust exchange of views and to bring their independent judgements to bear on the issues and decisions at hand.

Members of the executive management are invited to attend all Board meetings and are also available to be contacted by Directors between meetings. The Board, however, usually meets without executive management (other than the CEO) at the commencement and conclusion of each meeting. The Board meets without the CEO or any other members of executive management at least once a year or as required and, as with all other Board meetings, this is presided over by the Chairman. The Audit Committee meets with our auditor without executive management being present at each Audit Committee meeting.

Highlights in 2006

- the Board now meets at each half year to review our strategic direction and progress on achieving targets;
- the Board discusses a pre-selected strategy topic during each Board meeting to ensure adequate focus on strategic matters; and
- the Board held informal workshops on specific topics prior to Board meetings.

h) Succession planning

The Board plans succession of its own members in conjunction with the Nominations Committee. The Nominations Committee is responsible for developing and implementing succession planning for Non-executive Directors, taking into account the challenges and opportunities we face and the skills and expertise which are therefore needed on the Board in the future.

This year the Nominations Committee has overseen the creation of Principles which apply to the selection and appointment of directors to the boards of our subsidiaries and overseen the selection of directors appointed to our subsidiary boards in Australia, New Zealand and the United Kingdom.

The Board is responsible for CEO and CFO succession planning. The Board actively manages senior executive succession.

i) Review of Board performance

The Board undertakes ongoing self-assessment and review of performance of the Board, Committees and individual Directors annually. This is to ensure that the Board and Board Committees are working effectively.

The performance review process is facilitated externally and includes written surveys of Directors, Group Executives and the Group Secretary & General Counsel. These reviews are wide-ranging and include, amongst other things, each Director s contributions to Board discussions. The survey results are independently collated and the Chairman formally discusses the results with individual Directors and Committee chairs.

Also, the Board has delegated to the Chairman of the Audit Committee the responsibility for reviewing the results of the annual performance review of the Board Chairman. Following this review, the Chairman of the Audit Committee reports to the Board without the Board Chairman being present.

ASXCGC s Best Practice Recommendation 8.1

j) Nomination and appointment of new Directors

Recommendations for nominations of new Directors are made by the Nominations Committee and considered by the Board as a whole.

The Nominations Committee reviews Director appointments from time to time, with eligibility criteria having regard to a proposed candidate s broad commercial experience and other qualities. External consultants may from time to time be used to access a wide base of potential Directors.Those nominated are assessed by the Board against a range of criteria including background, experience, professional skills, personal qualities, whether their skills and experience will complement the existing Board and their availability to commit themselves to the Board s activities.

New Directors receive a Letter of Appointment, which sets out their duties, their terms and conditions of appointment including expected term of appointment, and the expectations of the role and remuneration.

If the Board appoints a new Director during the year, that person will stand for election by shareholders at the next AGM. Shareholders are provided with relevant information on the candidates for election. The Nominations Committee reviews appointment criteria from time to time and makes recommendations concerning the re-election of any Director by shareholders. As part of the process of considering whether to support the re-election of a Director, the Nominations Committee takes into account the results of the peer review conducted during the year.

ASXCGC s Best Practice Recommendation 2.5

k) Term in office and retirement and re-election of Directors

Our Constitution states that at each AGM one-third of its Directors (excluding the CEO) and any Director who has held office for three or more years since their last election must retire. As noted above, any Director who has been appointed during the year must stand for election at the next AGM.

Eligible Directors who retire as required may offer themselves for re-election by shareholders at the next AGM. Directors offering themselves for re-election are expected to give a short presentation to the AGM in support of re-election.

The Board has a policy to limit the number of terms of office that any Non-executive Director may serve. Non-executive Directors (other than the Chairman) should not hold office as a Director for more than three consecutive terms. The Board s policy is that the maximum tenure of the Chairman is to be no more than four terms or twelve years (inclusive of any term as a Director prior to being elected as Chairman), from the date of first election by shareholders.

l) Director education

When appointed to the Board, all new Directors are offered an induction program appropriate to their experience to familiarise them with matters relating to our business, strategy and any current issues before the Board. The induction program includes meetings with the Chairman, the CEO, each Chairman of the respective Board Committees, each Group Executive and the Group Secretary & General Counsel.

The Board encourages Directors to continue their education by participating in formal workshops (held at least four times a year) and attending relevant site visits. Directors are also encouraged to undertake relevant external education where they wish to do so.

Our Group Secretary & General Counsel provides Directors with ongoing guidance on matters such as corporate governance, our Constitution and the law.

Highlights in 2006

- the Board undertakes regular development workshops to enhance the Directors knowledge of key issues we face; and

- over the past year these included workshops on our succession planning, International Financial Reporting Standards, organisational strategy, Australian economic conditions, treasury operations, remuneration policies, the New Zealand business, financial results, risk reward and trends in international practice.

m) Board access to information and advice

All Directors have unrestricted access to company records and information and receive regular detailed financial and operational reports from executive management to enable them to carry out their duties. Each Director enters into an Access and Indemnity Deed with us to ensure seven-year access to documents after retirement as a Director.

The Chairman and other Non-executive Directors regularly consult with the CEO, the CFO, the Group Secretary & General Counsel, the General Manager Group Assurance, the Chief Compliance and Operational Risk Officer, the CRO, and the General Manager Stakeholder Communications, and may consult with, and request additional information from, any of our employees.

The Board collectively, and each Director individually, has the right to seek independent professional advice, at our expense, to help them carry out their responsibilities. While the Chairman s prior approval is needed, it may not be unreasonably withheld and, in the Chairman s absence, Board approval may be sought.

ASXCGC s Best Practice Recommendation 2.5

n) Company Secretary

Our company secretaries are Richard Willcock and Anna O Connell. Richard Willcock is our Group Secretary & General Counsel. Anna O Connell is Head of Group Secretariat.

Richard Willcock joined us in 1997 and was appointed to his present role in February 2003 with responsibility for the management and delivery of company secretarial, legal and governance advice and support to our Board, executive and business. Richard s qualifications include LLB, BA (Hons), MBA and FCIS.

Prior to Richard s current appointment he was General Manager Risk for BT Financial Group. Richard previously practised law in private practice from 1982 and was a partner at law firm Abbott Tout.

Anna O Connell joined us in 2001 and was appointed to her current role in February 2006. Anna s qualifications include B.Ec. Grad Dip. (CSP) and FCIS. She has eight years experience as a company secretary in various large public companies.

Responsibilities for the secretarial function include providing advice to Directors and officers on corporate governance and regulatory matters, developing and implementing our governance framework and giving practical effect to the Board s decisions.

All Directors have access to advice from the Group Secretary & General Counsel and Head of Group Secretariat.

4. Board Committees

a) Board Committees and membership

We have five standing Board Committees. The Committee charters describe their roles and powers, as approved by the Board.

The five Board Committees and their membership at 2 November 2006 are set out in the table below:

	Leon Davis	**David Morgan**	**Gordon Cairns**	**David Crawford**	**Ted Evans**	**Carolyn Hewson**	**Helen Lynch**	**Peter Wilson**
Audit Committee	P		P	P	P	Chair P	P	P
Risk Management Committee	P			P	Chair P	P	P	P
Nominations Committee	Chair P			P	P	P	P	
Remuneration Committee	P		P	Chair P		P		
Corporate Responsibility and Sustainability Committee	P	P					Chair P	P

Other Committees of the Board are established from time to time to consider matters of special importance or to exercise the delegated authority of the Board.

b) Committee Charters

The roles and responsibilities of each Committee are set out in the respective Committee Charters which are reviewed at least annually. Copies of the Committee Charters are available in the corporate governance section at www.westpac.com.au/corporateresponsibility .

Highlights in 2006

- all Committee Charters were reviewed in 2006 and updated where required to take into account the changes to the respective areas.

c) *Committee procedures*

Operation of the Committees and reporting to the Board

The Board Committees meet quarterly and at other times as necessary. Each Committee is entitled to the resources and information it requires and has direct access to our employees and advisers. The CEO, senior executives and other selected employees are invited to attend Committee meetings as necessary. All Directors receive all Committee papers and can attend all Committee meetings, subject to there not being any conflict of interest.

Composition and independence of the Committees

Committee members are chosen for the skills, experience and other qualities they bring to the Committees. Four of the five Committees are required to be, and are currently, composed of only independent Non-executive Directors. The CEO is a member of the Corporate Responsibility and Sustainability Committee.

How the Committees report to the Board

Following each Committee meeting, generally at the next Board meeting, the Board is given a verbal report by the Chair of each Committee. All Committee minutes are tabled at Board meetings.

How Committees performance is evaluated

The performance of Committees is discussed and reviewed initially within each Committee and then reviewed as part of the Board s performance review.

The performance of each Committee member (other than the CEO) is evaluated as part of the annual peer review of each Director.

ASXCGC s Best Practice Recommendation 4.5, 7.3, 8.1, 9.5

d) Audit Committee

Role of the Committee

Our Board shares oversight responsibility for risk management between the Audit Committee and the Risk Management Committee.

The Audit Committee, as delegated by the Board, oversees all matters concerning:

- integrity of the financial statements and financial reporting systems;
- making recommendations to the Board for the appointment of the external auditor;
- external auditor s qualifications, performance, independence and fees;
- performance of the internal audit function; and
- compliance with financial reporting and related regulatory requirements.

The Board approves the internal audit plan on the recommendations from the Audit Committee.

Integrity of the financial statements

The Audit Committee considers whether the accounting methods applied by management are consistent and comply with applicable accounting standards and concepts.

The Committee reviews and assesses:

- any significant estimates and judgements in financial reports and monitors the methods used to account for unusual transactions;
- the processes used to monitor and ensure compliance with laws, regulations and other requirements relating to external reporting of financial and non-financial information; and
- the major financial risk exposures and the process surrounding the disclosures made by the CEO and CFO in connection with their personal certifications of the half-year and annual financial statements.

External audit

The Audit Committee is responsible for making recommendations to the Board concerning the appointment of our external auditor and the terms of engagement. The Committee reviews the performance of the external auditor and regularly reviews the independence of the external auditor in accordance with its policy. This evaluation includes an annual review of the external auditor s internal quality control procedures and consideration of any inquiry or investigation by governmental or professional authorities, within the preceding five years in respect of assignments carried out by the external auditor. As well, the capabilities of the lead audit engagement staff are reviewed.

For permitted non-audit services, use of the external audit firm must be assessed in accordance with our pre-approval policy which is set out in Section 5e.

The external auditor receives all Audit Committee papers and attends all meetings. The Committee meets with the external auditor without management being present, and also meets with management without the external auditor being present. Committee members are able to contact the external auditor directly at any time.

Internal audit

The Audit Committee approves the appointment and replacement of the General Manager Group Assurance (Head of Internal Audit) and reviews the internal audit responsibilities, budget and staffing. At each meeting, the Audit Committee meets with the General Manager Group Assurance without management being present. The Audit Committee Chairman also meets separately with the General Manager Group Assurance.

Compliance with financial reporting and related regulatory requirements

The Audit Committee is responsible for ensuring compliance with applicable financial reporting and related regulatory requirements.

The Audit Committee, among other things:

- discusses with the members of the Risk Management Committee, the Chief Compliance and Operational Risk Officer, management and the external auditor, our major financial risk exposures and the steps management has taken to monitor and control such exposures, including our risk assessment and risk management policies. In 2005/06 the Audit Committee has spent a significant amount of time reviewing the impact of the introduction of International Financial Reporting Standards and the implementation of section 404 of SOX;

- discusses with the external auditor their report regarding significant findings in the conduct of their audit and the adequacy of management s response;

- discusses with management and the external auditor the half-yearly and annual financial statements, including disclosures in the operating and financial review and prospects of the Annual Report on Form 20-F;

- discusses with management and the external auditor correspondence with regulators or government agencies and reports which raise issues of a material nature;

- discusses with the Group Secretary & General Counsel, legal matters that may have a material impact on the financial statements and/or our compliance with financial reporting and related regulatory policies; and

- establishes procedures for the receipt, retention and treatment of financial complaints, including accounting, internal accounting controls or auditing matters and the confidential or anonymous reporting by employees of concerns regarding accounting or auditing matters.

Financial knowledge of Committee members

The Audit Committee includes members who have appropriate financial experience and an understanding of the industry in which we operate. All members of the Audit Committee satisfy the independence requirements that we are currently required to comply with under the ASXCGC Best Practice Recommendations, the US Securities Exchange Act of 1934 and the rules of the New York Stock Exchange (NYSE).

The Board has determined that David Crawford, a member (and former Chair) of the Audit Committee, is an audit committee financial expert and is independent as defined in the Listing Standards of the NYSE. David Crawford is not an auditor or an accountant with respect to us, does not perform field work and is not a full-time employee. Under the US laws, an audit committee member who is designated as an audit committee financial expert will not be deemed to be an expert for any purpose other than as a result of being identified as an audit committee financial expert . Although the Board has determined that David Crawford has the requisite financial expert attributes defined under the rules of the SEC, his responsibilities are the same as those of other Audit Committee members.

The Audit Committee relies on the information provided by management and the external auditor. Management determines that our financial statements and disclosures are complete and accurate. The external auditor has the duty to plan and conduct audits.

Further information on audit governance and independence is included in section 5 of this corporate governance statement.

ASXCGC s Best Practice Recommendation 4.2, 4.3, 4.4, 4.5

Highlights in 2006

- reviewed International Financial Reporting Standards impacts;
- received status and effectiveness updates on the SOX impact; and
- recommended to the Board the process for non-audit service fees provided by the external auditor.

e) Risk Management Committee

Role of the Committee

The Risk Management Committee oversees our risk profile within the context of the risk-reward strategy determined by the Board. The determination of this strategy includes recommendations from the Risk Management Committee, CEO and senior management on the parameters of our risk-reward profile and appropriate strategy.

The Risk Management Committee, as delegated by the Board, monitors the alignment of our risk profile with current and future capital requirements and oversees the risks inherent in our operations. The Risk Management Committee:

- reviews and approves the frameworks for managing our credit, market, liquidity, operational and compliance risk;
- determines, approves and reviews the limits and conditions that apply to the taking of risk, including the authority delegated by the Board to the CEO, CFO and CRO;
- monitors the risk profile, performance, capital levels, exposures against limits and management and control of our risks;
- monitors changes anticipated for the economic and business environment and other factors considered relevant to our risk profile;
- oversees the development and ongoing review of appropriate policies that support our frameworks for managing risk; and

- reviews significant issues that may be raised by internal audit as well as the length of time and action taken to resolve such issues.

From the perspective of specific types of risk, the Risk Management Committee role includes:

- for credit risk monitoring of the risk profile, performance and management of our credit portfolio and development and review of credit risk policies;

- for market and liquidity risk monitoring of the market risk profile, approving the Group Value at Risk and Net Interest Income at Risk limits and reviewing our funding plan and liquidity requirements;

- for operational risk monitoring of the operational risk profile, performance of operational risk management and controls and development and ongoing review of operational risk policies; and

- for compliance risk overseeing our compliance with applicable laws, regulations and regulatory requirements, reviewing and discussing with management and the external auditor any correspondence with regulators or government agencies and any published reports that raise material issues for the Group, and monitoring where appropriate, complaints and whistleblower concerns.

The Risk Management Committee regularly updates the Board about its activities. It refers to the Audit Committee any matters that have come to its attention that are relevant to the Audit Committee and provides relevant periodical assurances to the Audit Committee.

The Risk Management Committee s charter was subject to an annual review in February 2006, with one amendment to clarify management s responsibility to approve policies and processes within the approved risk management framework.

ASXCGC s Best Practice Recommendation 7.1, 7.3

Highlights in 2006

- reviewed all risk management frameworks including the new Equity Risk Management Framework;

- consideration and enhancements to the way we manage industry concentration risk; and

- ongoing consideration of the requirements and changes under Basel II and International Financial Reporting Standards.

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f) Nominations Committee

Role of the Committee

The primary function of the Nominations Committee is performing review procedures to assist the Board in fulfilling its oversight responsibility to shareholders. The Nominations Committee, as delegated by the Board, is responsible for:

- developing and reviewing policies on Board composition, strategic function and size;
- performance review process of the Board, its Committees and individual Directors;
- succession planning for the Board;
- developing and implementing induction programs for new Directors and ongoing education for existing Directors;
- developing eligibility criteria for nominating Directors;
- recommending appointment of Directors to the Board;
- considering candidates for appointment to the boards of relevant subsidiaries; and
- reviewing our corporate governance policies to meet international corporate governance standards.

ASXCGC s Best Practice Recommendation 2.4, 2.5

Highlights in 2006

- developed principles for the composition of subsidiary boards.

g) Remuneration Committee

Role of the Committee

The Remuneration Committee assists the Board by reviewing and approving our remuneration policies and practices. The Remuneration Committee s consideration of reward structures is based on fairness, business performance, legal obligations and high standards of corporate governance.

The Remuneration Committee, as delegated by the Board:

- reviews and approves executive remuneration policy;
- reviews and makes recommendations to the Board on corporate goals and objectives relevant to the CEO, and the performance of the CEO in light of these objectives;
- makes recommendations to the Board on the remuneration of the CEO;
- makes recommendations to the Board on the remuneration of Non-executive Directors (Westpac and subsidiary boards), taking into account the shareholder approved fee pool;
- approves contracts and remuneration packages for positions reporting directly to the CEO;

- reviews and makes recommendations to the Board on equity-based plans;
- approves all performance recognition expenditure; and
- oversees general remuneration practices across our Group.

The Remuneration Committee also reviews and recommends to the Board on the recruitment, retention, termination, and succession planning policies and procedures for the CEO and senior positions reporting directly to the CEO.

Independent remuneration consultants are engaged by the Remuneration Committee to ensure that Westpac s reward practices and levels are consistent with market practice.

ASXCGC s Best Practice Recommendation 8.1, 9.2, 9.5

Highlights in 2006

- a complete review of equity-based long term incentive plans to deliver a stronger, more relevant relationship between executive behaviour, corporate performance, and executive reward, including recommending new plans to shareholders for approval at the 2006 AGM; and
- resolution of fee principles for Non-executive Directors on subsidiary companies boards, anticipating changing corporate governance standards and ensuring consistency and appropriate governance across the our Group.

h) Corporate Responsibility and Sustainability Committee

Role of the Committee

The Corporate Responsibility and Sustainability Committee oversees and drives our commitment to operate our business ethically, responsibly and sustainably, consistent with evolving community expectations.

The Corporate Responsibility and Sustainability Committee, as delegated by the Board:

- reviews our social, environmental and ethical impacts, both direct and indirect;
- oversees initiatives to enhance our sustainability;
- sets standards for our corporate responsibility and sustainability policies and practices and monitors compliance with these policies and practices;
- monitors and oversees our reputational risks (along with the Risk Management Committee); and
- reviews and approves the independent assurance of our corporate responsibility systems and non-financial reporting including the annual Stakeholder Impact Report.

Further information on our approach to corporate responsibility and sustainability is included in section 9 of this corporate governance statement.

Highlights in 2006

- enhanced non-financial reporting, including the social and environmental assurance process; commissioning a new reporting systems database; and adoption of the new Global Reporting Initiative G3 framework;
- committed to systematic communication with mainstream financial markets on the shareholder value gained from responsible business practices including a dedicated market briefing and integration of non-financial lead indicators into half year and annual financial reporting;
- recommitted to the revised Equator Principles including reassessment of sector and issue-specific policies for corporate and institutional lending;
- founding member of the Australian Business Roundtable on Climate Change;
- broad contribution to the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into corporate responsibility; and
- establishment of our New Zealand Community Consultative Council.

5. Audit governance and independence

a) Approach to audit governance

The Board is committed to three core principles:

- that our financial reports present a true and fair view;

- that our accounting methods are comprehensive and relevant and comply with applicable accounting rules and policies; and

- that the external auditor is independent and serves shareholder interests.

Australian and international developments are monitored and practices reviewed accordingly.

b) Engagement and rotation of the external auditor

Our independent external auditor is PricewaterhouseCoopers (PwC). PwC was appointed by shareholders at the 2002 AGM in accordance with the provisions of the Corporations Act.

The Board has adopted a policy that the responsibilities of the lead audit partner and review audit partner cannot be performed by the same people for longer than five years. The present PwC lead audit partner for our audit is David Armstrong, who assumed this responsibility in 2003. The present PwC review audit partner is David Prothero, who assumed this responsibility in 2005. The Board requires a minimum five-year cooling off period before the lead audit partner or review audit partner are allowed back onto the audit team.

ASXCGC s Best Practice Recommendation 4.5

c) Certification and discussions with the external auditor on independence

The Audit Committee requires the external auditor to confirm quarterly that they have maintained their independence and have complied with the independence standards as promulgated by Australian and international regulators and professional bodies. The Audit Committee meets separately with the external auditor without executive management being present at each meeting.

d) Relationship with the external auditor

Our current policies on employment and other relationships with our external auditor include the following:

- the audit partners and any employee of the external audit firm on our audit are prohibited from being an officer of our organisation;

- an immediate family member of an audit partner or any employee of the external audit firm on the our audit is prohibited from being a Director or an officer in a significant position within our organisation;

- any former external audit partner or external audit firm s former employees who have participated on our audits are prohibited from becoming a Director or officer in a significant position in our organisation for at least five years, and after the five years can have no continuing financial relationship with the audit firm;

- members of the audit team and audit firm are prohibited from having a business relationship with us or any of our officers unless the relationship is clearly insignificant to both parties;

- the external audit firm, its partners and its employees who are members of the audit team on our audit and their immediate family members are prohibited from having loans or guarantees with us or from having a direct or material indirect investment in our organisation;

- our officers are prohibited from receiving any remuneration from the external audit firm;

- the external audit firm is prohibited from having a financial interest in any entity with a controlling interest in us; and

- the audit team in any given year cannot include a person who had been an officer of our organisation during that year.

e) Restrictions on non-audit services by the external auditor

To avoid possible independence or conflict issues, the external auditor is not permitted to carry out certain types of non-audit services for us, including:

- preparation of accounting records and financial statements;
- financial information systems design and implementation;
- appraisal or valuation services and other corporate finance activities;
- internal audit services;
- temporary or permanent staff assignments, or performing any decision-making or ongoing monitoring or management functions;
- broker or dealer, investment adviser or investment banking;
- legal, litigation or other expert services;
- actuarial services;
- recruitment services for managerial, executive or Director positions; and
- certain taxation services to individual employees involved in a financial reporting oversight role of the preparation of the financial statements.

For all other non-audit services, use of the external audit firm must be assessed in accordance with our pre-approval policy, which requires that all non-audit services be pre-approved by the Audit Committee, by delegated authority to a sub-committee consisting of one or more members where appropriate.

The breakdown of the aggregate fees billed by the external auditor in respect of each of the two most recent financial years for audit, audit-related, tax and other services is provided in Note 37 to the financial statements.

The SEC, through its Division of Enforcement, is currently conducting an investigation of certain Australian registrants and public accounting firms in relation to aspects of compliance with the SEC s auditor independence requirements. As a part of this investigation, we have furnished information to the SEC regarding the services rendered by PwC, our external auditor since 1 October 2000, including information regarding services that the SEC staff may view as the secondment of PwC personnel to entities in our Group. We are continuing to examine the matters covered by the SEC s investigation.

We cannot predict the nature of any action the SEC might take as a result of the SEC s ongoing investigation. If the SEC determines that any of the other services provided by PwC to the our Group did not comply with applicable rules, the SEC could impose or negotiate a range of possible sanctions, such as fines, the entry of cease-and-desist orders or injunctions, or a requirement to engage a different accounting firm to perform procedures and report on aspects of the relevant accounts or financial statements that may have been impacted by auditor independence concerns. However, based on the information currently available, we consider that it is unlikely that the outcome of the SEC s investigation will have a material adverse financial effect on our Group.

f) Attendance at the Annual General Meeting

Our external auditor attends the AGM and is available to answer questions from shareholders on:

- the conduct of the audit;

- the preparation and content of the audit report;
- the accounting policies adopted by us in relation to the preparation of the financial statements; and
- the independence of the auditor in relation to the conduct of the audit.

ASXCGC s Best Practice Recommendation 6.2

g) Internal audit

Group Assurance includes an independent and objective internal audit review function charged with evaluating, testing and reporting on the adequacy and effectiveness of management s control of operational risk. Group Assurance has access to all entities in our Group and conducts audits and reviews following a risk-based planning approach.

The General Manager Group Assurance has a reporting line to the Chairman of the Audit Committee. Group Assurance provides reports to both the Audit Committee and the Risk Management Committee.

Audit and review reports are discussed widely in the Group and significant issues are reviewed at the Audit Committee and the Risk Management Committee.

6. Controlling and managing risk

a) Approach to risk management

We approach risk management by identifying, assessing and managing the risks that affect our business in accordance with a set of core risk management values. This approach enables the risks to be balanced against appropriate rewards and reflects our vision and values, objectives and strategies, and procedures and training.

We distinguish four main types of risk:

- **credit risk** the risk of financial loss where a customer or counterparty fails to meet their financial obligations;
- **market risk** the risk to earnings from changes in market factors, such as foreign exchange rates, interest rates, commodity prices and equity prices;
- **operational risk** the risk that arises from inadequate or failed internal processes, people and systems or from external events; and
- **compliance risk** the risk of failing to comply with our obligations under the law, based on the letter and spirit of a range of regulatory standards expected of us and the risk of failure to meet our ethical standards.

In addition to and linked to these four main types of risk, we allocate resources to manage the following types of risks:

- **equity risk** the potential for financial loss arising from movements in the value of our direct and indirect equity investments;
- **insurance risk** the risk of not being able to meet insurance claims (related to insurance subsidiaries);
- **interest rate risk** the risk associated with being forced to liquidate or unwind the balance sheet hedge portfolio;
- **liquidity risk** the risk of failing to adequately fund cash demand in the short term;
- **reputation risk** the risk of negative experiences and perceptions impacting our standing with stakeholders; and
- **strategic risk** the risk associated with the vulnerability of a line of business to changes in the strategic environment.

As these risks are interlinked, we take an integrated approach to managing them.

We aspire to the advanced internal-ratings based approach for managing credit risk and advanced management approach for operational risk under Basel II.

A description of our approach to risk management is available in the corporate governance section at www.westpac.com.au/corporateresponsibility .

ASXCGC s Best Practice Recommendation 7.1, 7.3

b) Risk management roles and responsibilities

The Board is responsible for reviewing and approving our risk management strategy, frameworks and key risk parameters, including determining our appetite for risk. Our risk management governance structure is set out in the table below.

Approval of our risk management frameworks and significant policies resides with the Risk Management Committee under powers delegated by the Board. These frameworks and policies for managing risk are reviewed and discussed by the relevant Executive Risk Committee and submitted for discussion and approval to the Risk Management Committee.

Executive management is responsible for implementing the Board-approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of our activities.

Our business model recognises that the responsibility for managing risks inherent in our business lies with the business units. This responsibility includes developing business unit specific policies, controls, procedures and monitoring and reporting capability, and is aligned with the Group Risk frameworks approved by the Risk Management Committee and Group policies developed by the Group Risk function.

Our risk management governance structure:

Board	Considers and approves the risk-reward strategy of the Group				
Board Committee	**Risk Management Committees** • Risk profile and risk management	**Audit Committee** • Integrity of financial statements and systems	**Corporate Responsibility and Sustainability Committee** • Social, environmental and ethical responsibility and reputation risk	**Nominations Committee** • Board skills, succession and governance	**Remuneration Committee** • Responsible reward practices in line with performance
Independent Internal Review	**Group Assurance** Adequacy and effectiveness of management controls for risk				

Executive Risk Committees	**Group Risk Reward Committee** • Sets and leads the risk optimisation agenda for the Group • Recommends to the Board Risk Management Committee the appropriate risk-reward positioning and integrates decisions on overall capital levels and earnings profile • Initiates and oversees strategies of the Group s ofile and boundaries for risk appetite and earnings volatility risk-reward profile and boundaries for risk appetite and earnings volatility within parameters set by the Board • Oversees the risk governance framework, including the performance, role and membership of the executive risk committees		
	Group Credit Risk Committee	**Group Market Risk Committee**	**Group Operational Risk and Compliance Committee**
	• Optimises credit risk-reward	• Optimises market risk-reward for traded and non-traded market risk	• Optimises operational risk-reward and compliance
	• Oversees portfolio performance • Determines limits and authority levels within	• Oversees portfolio performance • Determines limits within Board-approved	• Oversees the governance of operational risk and compliance, including the framework and policies • Oversees the operational and reputation risk profile

	Board-approved parameters parameters
Group Risk	• Drives enterprise-wide risk management culture, frameworks and decisioning for maximum performance in line with risk appetite • Ensures risk management is a competitive advantage, delivers better solutions for customers, protects and grows earnings, and builds shareholder value • Forges a partnership with the business, which shares the vision and the responsibility for superior risk management
Business Units	• Manage risks inherent in the business including the development of business-specific policies, controls, procedures and reporting in respect of the risk classes

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c) CEO and CFO assurance

The Board receives regular reports about our financial condition and operational results and those of our controlled entities. The CEO and the CFO annually provide formal statements to the Board that in all material respects:

- the financial records of the company for the financial year have been properly maintained in that they:
- correctly record and explain its transactions and financial position and performance;
- enable true and fair financial statements to be prepared and audited; and
- are retained for seven years after the transactions covered by the records are completed.
- the financial statements, and notes required by the accounting standards for the financial year comply with the accounting standards;
- the financial statements and notes for the financial year give a true and fair view of the company s and consolidated entity s financial position and of their performance;
- any other matters that are prescribed by the Corporations regulations as they relate to the financial statements and notes for the financial year are satisfied; and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

ASXCGC s Best Practice Recommendation 4.1, 7.2

d) Compliance Risk Management Framework

Our Compliance Risk Management Framework reflects the following core principles and practices:

- compliance is about our responsibilities as employees, our culture and the systems and processes we use every day;
- complying with the letter and spirit of regulatory standards is an essential part of the Group s DNA and is critical to its success as a leading Australian financial services organisation;
- ensuring that the letter and spirit of regulatory standards are embedded into how we do business, how we conduct ourselves, how our systems and processes are designed and how they operate;
- compliance with regulatory standards are the responsibility of everyone at every level of the Group. Visibility and accountability of senior management ensures a strong compliance culture;
- the role of the compliance function is to guide the organisation in embedding compliance into how we do business; and
- actively engaging with regulatory bodies and industry forums to ensure the maintenance of high standards across the industry.

Primary responsibility for managing compliance risk resides with business line management, who are required to demonstrate that they have effective processes in place consistent with our Compliance Risk Management Framework. Within each major business area there is a dedicated operational risk and compliance function, with specific responsibilities designed to guide compliance within that business as part of the business unit risk management team.

The Compliance Risk Management Framework utilises a range of mechanisms, including audit, file reviews, mystery shopping, customer surveys and operational risk assessments to measure the effectiveness of our compliance program. There is also a Group Operational Risk and Compliance function, led by the Chief Operational Risk and Compliance Officer, which supports the Compliance Risk Management Framework. This team provides the infrastructure to facilitate compliance planning and reporting, provides specialist advice to business unit Compliance and Risk in implementing regulatory initiatives and policies and establishing compliance programs. It also provides analytical tools and advice for independent oversight of areas of strategic compliance risk and reports on potential weaknesses across the Group.

The Compliance Risk Management Framework is maintained by our Group Operational Risk and Compliance Committee and overseen by the Risk Management Committee, which receives regular reports from the Chief Operational Risk and Compliance Officer on the status of compliance across our Group.

Key components of the framework established to support these principles include:

- environment - board and management oversight and accountability, culture and independent review;
- identification - identifying obligations, developing and maintaining compliance plans and implementing change;
- controls - policies, processes, procedures, communication and training and documentation; and
- monitoring and reporting - monitoring, incident and breach escalation, reporting, issue management and managing regulatory relationships.

Our Compliance Risk Management Framework is available in the corporate governance section at www.westpac.com.au/corporateresponsibility .

7. Promoting ethical and responsible behaviour

a) Our Principles for Doing Business and Code of Conduct

Our Principles for Doing Business set out the principles that govern our conduct and the behaviours that stakeholders can expect from us.

The Principles apply without exception to all Directors, executives, management and employees, and are aligned to our core values of teamwork, integrity and achievement. Our Code of Conduct sets out the seven foundation principles, namely:

- act with honesty and integrity;
- respect the law and act accordingly;
- respect confidentiality and do not misuse information;
- value and maintain professionalism;
- act as a team;
- manage conflicts of interest responsibly; and
- strive to be a good corporate citizen and achieve community respect.

Our Principles for Doing Business, our Code of Conduct and other responsibility policies and codes are available in the corporate governance section at www.westpac.com.au/corporateresponsibility .

ASXCGC s Best Practice Recommendation 3.1, 3.3, 10.1

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b) Code of ethics for senior finance officers

Due to the nature of their function within our organisation, the CEO and principal financial officers are subject to our Code of Accounting Practice and Financial Reporting. This Code addresses the specific responsibilities that are borne by such officers in addition to their general responsibilities under our Code of Conduct. Our Code of Accounting Practice and Financial Reporting is in accordance with the requirements of SOX.

The Code of Accounting Practice and Financial Reporting is available in the corporate governance section at www.westpac.com.au/corporateresponsibility .

ASXCGC s Best Practice Recommendation 3.1, 3.3

c) Internal policies and procedures

Beyond our Principles for Doing Business, we comply with a range of external industry codes, such as the Code of Banking Practice and the Electronic Funds Transfer Code of Conduct.

In addition, we have a number of key policies to manage our compliance and human resource requirements. There is a range of guidelines, communications and training processes and tools to support these policies. These tools include an online learning module Doing the Right Thing (revised 2006) which incorporates training for a range of key compliance requirements. Individual business units also have systems and procedures in place to support Group policies.

ASXCGC s Best Practice Recommendation 3.1, 3.3

d) Concern reporting and whistleblowing

Employees are actively encouraged to bring any problems to the attention of management, the human resources team (People and Performance) or the compliance team. This includes activities or behaviour that may not be in accord with the Principles for Doing Business, the Code of Conduct, Code of Accounting Practice and Financial Reporting, Insider Trading Policy, other policies, or other regulatory requirements or laws.

We provide a range of mechanisms to raise issues, including:

- raising issues concerning fraud directly with our Financial Crime Control team;
- making suggestions for more efficient processes via the online Ask Once program; and
- raising concerns about people issues such as harassment or discrimination directly with People and Performance through P&P Connect.

Concerns about breaches of our regulatory obligations or internal policies or procedures can be raised anonymously with the Chief Operational Risk and Compliance Officer through our internet-based whistleblowing reporting system, Concern Online, or by telephone or email through the Concern Hotline, which is a service provided by an external service provider. We have a Whistleblower Protection Policy to protect individuals who make reports about suspected breaches of our policies through these channels. The concern reporting system complies with the whistleblower provisions of all relevant legislative requirements and the Australian Standard AS 8004 (Whistleblower Protection Programs for Entities).

The concern reporting and whistleblower policy is available in the corporate governance section at www.westpac.com.au/corporateresponsibility .

ASXCGC s Best Practice Recommendation 3.1, 3.3, 10.1

e) Insider trading policy and trading in our shares

Directors and employees are restricted from dealing in our shares (and certain other financial products), if they are in possession of inside information.

To ensure compliance with these requirements and to ensure high standards of conduct, we have an Insider Trading Policy which applies to all employees. In addition, for Directors and any employees who, because of their seniority or the nature of their position, come into contact with key financial or strategic information about us all or most of the time (known as Prescribed Employees), additional restrictions apply. Those restrictions limit the periods in which the Directors and Prescribed Employees can trade in our shares or other securities. A register of Prescribed Employees is maintained by the Group Operational Risk and Compliance team and regularly updated and notified to the relevant staff.

The periods in which Directors and Prescribed Employees can trade (Trading Windows) commence two business days after the release of our half yearly and annual results. The Trading Windows are normally 56 days in length. However, the Chief Operational Risk and Compliance Officer has the discretion to extend each Trading Window by up to seven days if having a 56 day Trading Window would unreasonably restrict the exercise of employee scheme entitlements. Directors and Prescribed Employees must also notify Compliance of their intention to trade during those periods and confirm they do not have any inside information. Any trading remains subject to legal obligations to not trade while in the possession of inside information. Group Operational Risk and Compliance monitors the trading of our shares by Directors and Prescribed Employees on a daily basis.

Under the Conflicts of Interest Policy there are specific rules applying to employee personal investments that may give rise to a conflict of interest, including personal investments held prior to employment with us.

All employees are also subject to the New Issues Policy. Companies in our Group are regularly involved in developing, structuring, funding and distributing financial products through a new issue. Employees cannot participate in these new issues where their position puts them in a real or perceived position of conflict with the interests of other customers. The procedure established identifies employees in a position of direct conflict, avoids the conflict by, where possible, limiting information flows and the people involved in decision making processes, and where it is not possible to avoid the conflict, manages it by restricting participation in new issues.

In addition to the policies which apply across our Group, where appropriate, further policies apply in specific businesses. For example:

- employees in WIB (including WIB New Zealand), and BT Financial Group are subject to comprehensive restrictions and procedures applicable to buying or selling other securities and financial products. These include seeking consent before dealing in Australian or New Zealand securities listed on the ASX and/or New Zealand Stock Exchange (NZX), and a restriction on dealing in securities in which employees have close working relationships with specific companies. In addition to these employees, the restrictions apply to their immediate family members and entities in which the employees and/or their spouse have a beneficial interest or control or investment influence;

- WIB employees are prohibited from personal account trading in securities issued by customers if they advise, originate, structure, trade, distribute, sell or research the securities; and

- employees in Hastings are also subject to an Insider Trading Policy. In addition to that policy, Hastings maintains a prescribed financial products list and employee trading is confined to securities that do not appear on the list except during a four week Trading Window following the announcement of half and full year results and the AGM of the named company.

A copy of our insider trading policy is available in the corporate governance section at www.westpac.com.au/corporateresponsibility .

ASXCGC s Best Practice Recommendation 3.2, 3.3

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8. Remuneration framework

Details of our remuneration framework are included in Note 45 to the financial statements.

ASXCGC s Best Practice Recommendation 8.1, 9.1, 9.3, 9.4, 9.5

9. Corporate responsibility and sustainability

a) Approach to corporate responsibility and sustainability

We view sustainable and responsible business practices as an important long-term driver of capacity, performance and shareholder value. As a result, we aim to produce positive outcomes for all stakeholders in the way we conduct our business and to maximise financial as well as social and environmental value from our activities.

This means being committed to transparency and fair dealing, treating employees and customers responsibly, and having solid and transparent links with the community. Such practices reduce operational and reputation risk, and enhance operational efficiency, while contributing to a more sustainable society.

Our corporate responsibility and sustainability approach goes beyond ASXCGC s Best Practice Recommendations 3.1 and 10.1.

ASXCGC s Best Practice Recommendation 3.1, 3.3, 10.1

b) Reporting on our corporate responsibility and sustainability performance

We report on our social, ethical and environmental performance through our annual Stakeholder Impact Report. Our transparent and comprehensive reporting on all dimensions of our performance is a component of our governance and responsibility management.

The Stakeholder Impact Report aims to address the issues that matter most to customers, employees, shareholders and the community using the widely accepted reporting framework, the Global Reporting Initiative (GRI).

The Stakeholder Impact Report is also independently assured against the AA1000 Assurance Standards. This goes beyond testing the integrity of the data, to the effectiveness of our underlying systems and processes more broadly and the extent that corporate responsibility and sustainability policies and processes are embedded across the organisation.

In addition, we actively participate in various independent external assessments by authoritative sustainability and governance rating organisations benchmarking against best practice.

Our Stakeholder Impact Report and performance in external sustainability assessments are available in the corporate responsibility section at www.westpac.com.au/corporateresponsibility .

ASXCGC s Best Practice Recommendation 3.1, 3.3

Highlights in 2006

Our recent external sustainability and governance ratings include:

- number one rating for banks globally in the Dow Jones Sustainability Index for 2006/2007 for the fifth year running;
- number one in the 2005 Business in the Community Corporate Responsibility Index (CRI) in Australia the third consecutive Best Performer award;
- one of only 38 companies out of approximately 3,800 companies assessed globally to be awarded the

maximum score for corporate governance by Governance Metrics International in September 2006. We have achieved the maximum score in six consecutive ratings from 2004 to 2006;

- the number one company and only AAA rated organisation in the RepuTex Social Responsibility Ratings for 2005/2006, for the third year running;
- included in the Global 100 Most Sustainable Companies in the World Index 2006; and
- awarded special awards for Continuous Disclosure, Communication and Corporate Governance in the 2006 Australasian Reporting Awards.

10. Market disclosure

We are committed to maintaining a level of disclosure that meets the highest standards and provides all investors with timely and equal access to information. In achieving these standards we maintain a Board-approved Market Disclosure Policy, governing how we communicate with our shareholders and the investment community.

The policy reflects the ASX continuous disclosure requirements and the requirements of other exchanges where our securities are listed. The policy spells out that information which a reasonable person would expect to have a material effect on the price of our securities, must be immediately disclosed.

The Disclosure Committee is chaired by the CFO and involves the CEO, senior executives, Group Secretary & General Counsel and General Manager Stakeholder Communications. The Disclosure Committee is responsible for making decisions on what should be disclosed publicly under the market disclosure policy, and for developing and maintaining relevant guidelines, including guidelines on information that may be price sensitive. The Group Secretary & General Counsel has responsibility for ensuring compliance with the continuous disclosure requirements of the listing rules of the ASX, NZX, NYSE and other exchanges, relevant securities and corporations legislation, and overseeing and coordinating information disclosure to regulators, analysts, brokers, shareholders, the media and the public.

All market announcements are released to each stock exchange where we have ordinary shares or debt securities listed - ASX, NYSE, NZX, Tokyo Stock Exchange Inc., the London, Singapore and Swiss stock exchanges.

We also publish on our website the Concise Annual and the Annual Financial Reports, profit announcements, CEO and executive briefings (including webcasts), the Stakeholder Impact Report, economic updates, notices of meetings, media releases and meeting transcripts.

Our Market Disclosure Policy is available in the corporate governance section at www.westpac.com.au/corporateresponsibility .

ASXCGC s Best Practice Recommendation 5.1, 5.2, 6.1

11. Shareholder communications and participation

We are committed to giving all shareholders comprehensive, timely and equal access to information about our activities so that they can make informed investment decisions.

A wide range of communication approaches are employed including: direct communications with shareholders; publication of all relevant company information in the Investor Centre section of our website; and access to all market briefings and shareholder meetings via webcasting and teleconferencing facilities. Shareholders are also given the option to receive company information in print or electronic format.

A Shareholder Newsletter is also sent to all shareholders with the half year and annual dividend notices, which provides information on our performance and developments plus details on where to access further information. In addition, all shareholders are provided with contact numbers for both the Investor Relations Unit and the share registries should they require any information.

Full participation of shareholders at the AGM is encouraged to ensure a high level of involvement and to deepen understanding of our strategy and goals. Proceedings of the AGM are also webcast live to maximise communication with shareholders. The proceedings can also be viewed on demand at a later time from our website.

Shareholders are invited to put forward questions that they would like addressed at the AGM at the time of receipt of the Notice of Meeting.

All relevant shareholder information can be accessed at www.westpac.com.au/corporateresponsibility .

ASXCGC s Best Practice Recommendation 6.1

Highlights in 2006

- online proxy voting introduced for the 2005 AGM; and
- improved access to the AGM proceedings for visually and hearing impaired shareholders.

12. Comparison of our corporate governance practices with NYSE listing rules

Under the NYSE listing rules, foreign private issuers that have American Depository Shares (ADS) traded on the NYSE (such as us), are permitted to follow home country practice in lieu of the NYSE listing rules. We are required, however, to comply with and be in compliance with certain audit committee and additional notification requirements.

We are in compliance with NYSE listing rules in all material respects.

Under the NYSE listing rules foreign private issuers are required to disclose any significant ways in which their corporate governance practices differ from those followed by domestic US companies. We have compared our corporate governance practices to the corporate governance requirements of the NYSE listing rules and note the following potential significant difference:

- equity compensation plans

The NYSE listing rules require shareholders be given the opportunity to vote on equity-compensation plans and material revisions thereto, with limited exemptions.

We are seeking shareholder approval at the 2006 AGM for two new equity-based reward schemes, the Westpac Reward Plan and the Restricted Share Plan.

For existing plans, we comply with the equivalent domestic requirements in that we are not required under Australian law to provide shareholders with the opportunity to vote on new equity-compensation plans or material revisions to existing plans such as the 2002 equity-based reward plans. However, these plans were extensively disclosed to shareholders in prior corporate governance statements since 2002 and for 2005 and this year, set out in detail in Note 45 to the financial statement.

13. NZX corporate governance rules and principles

As an overseas listed issuer, we are deemed to satisfy and comply with the NZX listing rules, provided that we remain listed on the ASX. The ASX, through ASXCGC Best Practice Recommendations, and the NZX have adopted a similar comply or explain general approach to corporate governance. However, the ASX corporate governance rules and principles may materially differ from the NZX Corporate Governance Best Practice Code.

Further details about the ASXCGC Best Practice Recommendations can be found on the ASX website www.asx.com.au .

Financial summary

(in $millions unless otherwise indicated)	2006	2005
Income statement year ended 30 September(1)		
Net interest income	5,642	5,259
Non-interest income	3,575	3,454
Net operating income	9,217	8,713
Operating expenses	(4,295)	(4,159)
Impairment losses on loans	(375)	(382)
Profit from ordinary activities before income tax expense	4,547	4,172
Income tax expense	(1,422)	(1,223)
Net profit attributable to minority interests	(54)	(251)
Net profit attributable to equity holders	3,071	2,698
Balance sheet at 30 September(1)		
Total assets	299,578	266,263
Loans	234,484	198,286
Acceptances		4,864
Deposits	167,741	149,252
Loan capital	5,957	4,214
Total equity	16,098	16,893
Total risk weighted assets	193,417	170,369
Share information		
Earnings per ordinary share (cents)	167.2	148.9
Dividends per ordinary share (cents)	116	100
Net tangible assets per ordinary share ($)(2)	6.12	5.69
Share price ($):		
High	25.35	21.40
Low	21.31	17.52
Close	22.71	21.10
Ratios		
Total equity to total assets (%)	5.4	6.3
Total equity to total average assets (%)	5.7	6.6
Total capital ratio (%)(3)	9.6	9.7
Dividend payout ratio (%)	69.4	67.2
Return on average ordinary equity (%)	23.0	21.7
Productivity ratio(4)	4.01	4.00
Operating expenses to operating income ratio (%)	46.6	47.7
Net interest margin	2.29	2.45
Other information		
Points of bank representation (number at financial year end)	1,068	1,060
Core full time equivalent staff (number at financial year end)(5)	25,363	25,583

(1) **The above balance sheet and income statement extracts are derived from the consolidated financial statements included in this report.**

(2) **After deducting preference equity and goodwill and other intangible assets.**

(3) **For details on the calculation of this ratio refer to Note 28 to the financial statements.**

(4) **Net operating income/salaries and other staff expenses (net of restructuring expenses).**

(5) **Core full-time equivalent staff includes overtime and pro-rata part time staff. It excludes staff on unpaid absences (e.g. maternity leave), temporary and contract staff.**

Other financial information

Selected consolidated financial and operating data (prepared in accordance with AGAAP)

Under applicable US disclosure requirements, we are required to include in this Annual Report certain financial and operating data covering a period of three or five years. Due to the transition to A-IFRS, such information is available prepared in accordance with A-IFRS only for the financial years ended 30 September 2006 and 2005. Accordingly, we have set forth below the required data as of and for the financial years ended 30 September 2005, 2004, 2003 and 2002, derived from our previously published financial statements prepared in accordance with AGAAP. The financial statements for 2005, 2004 and 2003 were reported on by independent auditors PricewaterhouseCoopers and the financial statements for 2002 were reported on by independent auditors Messrs. R Chowdry and M.J. Codling.

Because the financial and operating data set forth below is derived from our previously published financial statements prepared in accordance with AGAAP, it is not comparable to such data derived from our financial statements prepared in accordance with A-IFRS. For a more complete understanding of the financial and operating data derived from our financial statements prepared in accordance with AGAAP, see our Annual Report on Form 20-F for the financial year ended 30 September 2005, the following portions of which are incorporated into this Annual Financial Report by reference: the information under the caption Operating and financial review and prospects on pages 18 to 41 and our audited consolidated financial statements (and accompanying notes) as of and for the financial years ended 30 September 2005 and 2004. A copy of our Annual Report for the financial year ended 30 September 2005 is available on our web site at www.westpac.com.au or on the web site maintained by the SEC at www.sec.gov. We encourage you to refer to such information in connection with your review of the AGAAP financial information presented below.

Consolidated statement of financial performance

(in $millions unless otherwise stated)	Year Ended 30 September 2005 A$	2004 A$	2003 A$	2002 A$
Amounts in accordance with AGAAP				
Interest income	15,113	12,939	10,885	9,789
Interest expense	(9,868)	(8,184)	(6,559)	(5,584)
Net interest income	5,245	4,755	4,326	4,205
Non-interest income	3,560	3,255	3,004	2,919
Net operating income	8,805	8,010	7,330	7,124
Operating expenses	(4,105)	(3,940)	(3,763)	(3,895)
Amortisation of goodwill	(168)	(164)	(163)	(100)
Bad and doubtful debts	(382)	(414)	(485)	(461)
Profit from ordinary activities before income tax expense	4,150	3,492	2,919	2,668
Income tax expense	(1,222)	(913)	(728)	(471)
Net profit	2,928	2,579	2,191	2,197
Net profit attributable to outside equity interests:				
Managed investment schemes	(90)	(30)		
Other	(20)	(10)	(8)	(5)
Net profit attributable to equity holders	2,818	2,539	2,183	2,192
Weighted average number of ordinary shares (millions)(1)	1,851	1,846	1,824	1,812
Basic earnings per ordinary share (cents)(1)	144.8	129.2	115.6	118.3
Dividends per ordinary share (cents)	100	86	78	70
Distributions on other equity instruments	137	154	75	48
Dividend payout ratio (%)(2)	69.0	66.6	67.5	59.2

Refer to page 68 for footnote explanations.

Differences between Australian and US Generally Accepted Accounting Principles (GAAP) results

The consolidated financial statements for each of the years ended 30 September 2005, 2004, 2003 and 2002 were prepared in accordance with AGAAP. These accounting principles and policies differ in some material respects from US GAAP. A reconciliation of net income, total assets, total liabilities and equity under US GAAP is included in Note 45 to the 2005 financial statements.

Consolidated net income under US GAAP for the year ended 30 September 2005 was A$2,813 million (2004 A$2,772 million, 2003 A$1,984, 2002 A$2,579). The significant adjustments between AGAAP and US GAAP results primarily relate to premises and sites, superannuation expenses, a one-off change in estimate to the allowance for loan losses, hedging, debt instruments and effective yield adjustments.

Consolidated statement of financial position data

	Year Ended 30 September			
(in $millions unless otherwise stated)	**2005**	**2004**	**2003**	**2002**
	A$	**A$**	**A$**	**A$**
Amounts in accordance with AGAAP				
Year end balances				
Cash and balances with central banks	1,844	1,800	1,786	1,669
Due from other financial institutions	10,896	9,538	6,035	5,242
Trading and investment securities	11,827	13,412	12,449	13,956
Loans	195,589	182,471	160,473	135,870
Acceptances of customers	4,864	5,534	3,788	4,788
Deposits and public borrowings(3)	149,454	146,533	129,071	110,763
Due to other financial institutions	10,654	7,071	3,831	4,731
Total assets	259,753	245,079	221,339	191,037
Total liabilities excluding loan capital	238,327	224,331	202,799	176,057
Total loan capital	4,214	4,431	4,544	4,512
Net assets	17,212	16,317	13,996	10,468
Ordinary equity (4),(5),(6)	13,892	12,416	11,713	9,986
Trust Originated Preferred Securities (TOPrSSM)			465	465
Fixed Interest Resettable Trust Securities (FIRsTS)	655	655	655	
Trust Preferred Securities (2003 TPS)	1,132	1,132	1,132	
Trust Preferred Securities (2004 TPS)	685	685		
Outside equity interests	848	1,429	31	17
Average balances				
Total assets	254,355	237,036	210,377	186,827
Loans	188,073	170,863	149,896	132,472
Acceptances of customers	5,235	4,502	4,402	7,707
Total equity(4)	15,440	14,421	12,097	10,355
Ordinary equity (4),(5),(6)	12,968	11,979	10,972	9,890
Trust Originated Preferred Securities (TOPrS)		320	465	465
Fixed Interest Resettable Trust Securities (FIRsTS)	655	655	511	
Trust Preferred Securities (2003 TPS)	1,132	1,132	149	
Trust Preferred Securities (2004 TPS)	685	335		
Outside equity interests	1,040	1,406	21	16

Refer to page 68 for footnote explanations.

Summary of consolidated ratios

(in $millions unless otherwise stated)	Year Ended 30 September 2005 A$	2004 A$	2003 A$	2002 A$
Ratios in accordance with AGAAP				
Profitability ratios (%)				
Net interest margin(7)	2.50	2.53	2.62	2.81
Return on average assets(8)	1.11	1.07	1.04	1.17
Return on average ordinary equity(4)	20.7	19.9	19.2	21.7
Return on average total equity(10)	18.3	17.6	18.0	21.2
Capital ratio (%)				
Average total equity to average total assets	6.1	6.1	5.8	5.5
Total capital ratio(11)	9.7	9.7	10.5	9.6
Earnings ratios				
Basic earnings per ordinary share (cents)(1)	144.8	129.2	115.6	118.3
Fully diluted earnings per ordinary share (cents)(12)	143.3	127.7	115.3	117.9
Dividends per ordinary share (cents)	100	86	78	70
Dividend payout ratio (%)(2)	69.0	66.6	67.5	59.2
Credit quality ratios				
Bad debt write-offs (net of recoveries)	331	251	336	457
Bad debt write-offs (net of recoveries) to average loans (%)	0.18	0.15	0.22	0.34

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(1) Based on the weighted average number of fully paid ordinary shares outstanding, including 41 million New Zealand Class shares in 2005 (2004 53 million, 2003 54 million, 2002 54 million), and after deducting distributions on other equity instruments of $137 million in 2005 (2004 $154 million, 2003 $75 million, 2002 $48 million).

(2) Calculated by dividing the dividends per ordinary share by the basic earnings per ordinary share.

(3) Public borrowings balances were only held until 2002. They related to Australian Guarantee Corporation Limited and Augusta (1962) Limited (formerly Australian Guarantee Corporation (NZ) Limited).

(4) Includes total parent entity interest and New Zealand Class shares. Excludes outside equity interests (minority interest).

(5) Excludes TOPrS, FIRsTS, 2003 TPS and 2004 TPS.

(6) New Zealand Class shares were on issue until 11 July 2005. On this date they were fully exchanged for ordinary shares.

(7) Calculated by dividing net interest income (including tax equivalent gross up) by average interest earning assets.

(8) Calculated by dividing net profit attributable to our equity holders by average total assets.

(9) Calculated by dividing net profit attributable to our equity holders less distributions on other equity instruments by average ordinary equity.

(10) Calculated by dividing net profit attributable to our equity holders by average total equity.

(11) For details on the calculation of this ratio refer to previously published financial statements.

(12) Based on basic earnings per share, with the weighted average number of fully paid ordinary shares outstanding adjusted for the conversion of dilutive potential ordinary shares, issued for no consideration, and after adjusting earnings for distributions on dilutive potential ordinary shares.

Computation of ordinary earnings per share

	Consolidated			
(in $millions unless otherwise stated)	**2005 A$**	**2004 A$**	**2003 A$**	**2002 A$**
AGAAP				
Net income after deducting distributions on other equity instruments	2,681	2,385	2,108	2,144
Weighted average number of ordinary shares (millions)	1,851	1,846	1,824	1,812
Basic earnings per ordinary share (cents)	144.8	129	116	118
Distributions on other equity instruments	137	154	75	48

Cross-border outstandings

Cross-border outstandings are loans, placements with banks, acceptances, interest earning investments and monetary assets denominated in currencies other than the borrower s local currency. They are grouped on the basis of the country of domicile of the borrower or the ultimate guarantor of the risk. The table below excludes irrevocable letters of credit, amounts of which are immaterial. The relevant foreign denominated currencies have been converted at the closing spot exchange rate used in the financial statements.

Our cross-border outstandings to countries that individually represented in excess of 0.75% of Group total assets as at 30 September as at 2005 and 2004 were as follows:

(in $millions unless otherwise indicated)	Governments and Official Institutions	Banks and Other Financial Institutions	Other (Primarily Commercial and Industrial)	Total	Percentage of Total Assets	
2005 AGAAP						
United States		2,632	1,003	3,635	1.4	%
Australia	11	1,297	1,649	2,957	1.1	%
United Kingdom		1,869	526	2,395	0.9	%
2004 AGAP						
United States	1	2,105	1,171	3,277	1.3	%
United Kingdom		1,701	478	2,179	0.9	%
Netherlands		1,857	168	2,025	0.8	%

Impaired assets among the cross-border outstandings were $76 million as at 30 September 2005 (2004 $188 million).

Loans

	Consolidated AGAAP 2005 $m	2004 $m	2003 $m	2002 $m
Loans by type of customer				
Australia				
Government and other public authorities	223	167	119	205
Agriculture, forestry and fishing(1)	2,210	1,707	1,614	1,523
Commercial and financial(2)	32,994	28,675	22,795	14,502
Real estate - construction	2,487	1,348	1,054	936
Real estate - mortgage(1)	82,182			