Westpac Banking Corporation – New Zealand Division
Disclosure Statement

For the three months ended 31 December 2011

Index

General information and definitions

Certain of the information contained in this Disclosure Statement is required by section 81 of the Reserve Bank of New Zealand Act 1989 ('**Reserve Bank Act**') and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order (No 4) 2011 ('**Order**').

In this Disclosure Statement, reference is made to five main reporting groups:

- Westpac Banking Corporation Group (otherwise referred to as the '**Overseas Banking Group**') – refers to the total worldwide business of Westpac Banking Corporation including its controlled entities;
- Westpac Banking Corporation (otherwise referred to as the '**Overseas Bank**') – refers to the worldwide activities of Westpac Banking Corporation excluding its controlled entities;
- Westpac Banking Corporation New Zealand Division (otherwise referred to as the '**NZ Banking Group**') – refers to the New Zealand operations of Westpac Banking Corporation Group including those entities whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand business. Controlled entities of the NZ Banking Group as at 30 September 2011 are set out in Note 28 to the NZ Banking Group's financial statements included in the Disclosure Statement for the year ended 30 September 2011. Except as detailed in Note 10 to the financial statements, there have been no other changes in the structure or composition of the NZ Banking Group since 30 September 2011;
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Branch**') – refers to the New Zealand Branch of Westpac Banking Corporation (trading as Westpac); and
- Westpac New Zealand Limited (otherwise referred to as '**Westpac New Zealand**') – refers to a locally incorporated subsidiary of the Overseas Bank carrying on the Overseas Bank's New Zealand consumer, business and institutional banking operations.

Words and phrases defined by the Order have the same meaning when used in this Disclosure Statement. All amounts referred to in this Disclosure Statement are in New Zealand dollars unless otherwise stated.

General matters

Registered Bank

The Overseas Bank is entered on the register maintained under the Reserve Bank Act. The NZ Branch's head office is situated at Westpac on Takutai Square, 16 Takutai Square, Auckland, New Zealand and the address for service of the NZ Branch is Westpac on Takutai Square, 53 Galway Street, Auckland, New Zealand.

Overseas Bank

The Overseas Bank was founded on 12 February 1817 and was incorporated on 23 September 1850 pursuant to the Bank of New South Wales Act 1850. In 1982 the Overseas Bank acquired The Commercial Bank of Australia Limited and the Overseas Bank changed its name to Westpac Banking Corporation. On 23 August 2002 the Overseas Bank registered as a public company limited by shares under the Australian Corporations Act 2001 and as of that date the Bank of New South Wales Act 1850 ceased to apply.

The Overseas Bank's principal office and address for service is Westpac Place, 275 Kent Street, Sydney, New South Wales 2000, Australia.

Until 1 November 2006 the Overseas Bank operated as a branch in New Zealand. Effective 1 November 2006 the Overseas Bank has operated in New Zealand through both the NZ Branch (a branch of the Overseas Bank carrying on financial markets operations, and institutional banking activities until 1 November 2011) and Westpac New Zealand. Westpac New Zealand is a member of the NZ Banking Group.

On 1 November 2011, the NZ Branch transferred additional business activities and associated employees to Westpac New Zealand (refer to Note 2 Discontinued operations and Note 43.1 Events after the reporting date – Transfer of operations to Westpac New Zealand included in the Overseas Bank's Disclosure Statement for the year ended 30 September 2011 for further details).

As a registered bank, Westpac New Zealand is required to produce its own disclosure statement. Accordingly, further information on Westpac New Zealand is available in Westpac New Zealand's Disclosure Statement for the three months ended 31 December 2011.

Directors

The Directors of the Overseas Bank at the time this Disclosure Statement was signed were:

Lindsay Philip Maxsted, Dip.Bus. (Gordon), FCA – Chairman

Gail Patricia Kelly, HigherDipEd, BA, MBA, HonDBus – Managing Director & Chief Executive Officer

John Simon Curtis, AM, BA, LLB (Hons.) – Deputy Chairman

Elizabeth Blomfield Bryan, BA (Econ.), MA (Econ.)

Gordon McKellar Cairns, MA (Hons.)

Robert George Elstone, BA (Hons.), MA (Econ.), MCom

Peter John Oswin Hawkins, BCA (Hons.), SF Fin, FAIM, ACA (NZ), FAICD

Carolyn Judith Hewson, AO, BEc (Hons.), MA (Econ.)

Ann Darlene Pickard, BA, MA

Peter David Wilson, CA

Chief Executive Officer, NZ Branch

David McLean, LLB (Hons.)

General matters (continued)

Responsible person

All the Directors named above have authorised in writing George Frazis, Chief Executive, Westpac New Zealand to sign this Disclosure Statement on the Directors' behalf in accordance with section 82 of the Reserve Bank Act.

The following changes in the composition of the Overseas Bank's Board of Directors (the '**Board**') have been effected since 30 September 2011:

- Ted Evans retired following the 2011 Annual General Meeting on 14 December 2011. Ted Evans was succeeded as Chairman by Lindsay Maxsted;
- Ann Pickard was appointed to the Board effective 1 December 2011. Ms Pickard is an independent Non-executive Director and has over 25 years of international experience as a senior manager in large organisations;
- Graham Reaney retired following the 2011 Annual General Meeting on 14 December 2011; and
- Robert Elstone was appointed to the Board effective 1 February 2012. Mr Elstone is an independent Non-executive Director. Prior to his appointment he was Managing Director and CEO of ASX Limited.

There has been no other change in the composition of the Board since 30 September 2011.

Credit ratings

The Overseas Bank has the following credit ratings with respect to its long-term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars, as at the date this Disclosure Statement was signed:

Rating Agency	Current Credit Rating	Rating Outlook
Fitch Ratings	AA-	Stable
Moody's Investors Service	Aa2	Stable
Standard & Poor's	AA-	Stable

On 30 January 2012, Fitch Ratings ('**Fitch**') placed the Overseas Bank's credit rating on 'rating watch negative'. The announcement by Fitch formed part of a broader review of their debt ratings that are applied to the largest banking institutions in the world. On 24 February 2012, the Overseas Bank's credit rating issued by Fitch was downgraded from AA to AA- with a 'stable' outlook.

There have been no other changes to any of the Overseas Bank's credit ratings or rating outlooks since those disclosed in the Disclosure Statement for the year ended 30 September 2011.

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

Disclosure statements of the Overseas Bank and the financial statements of the Overseas Bank and the Overseas Banking Group

Disclosure Statements of the Overseas Bank for the last five years are available, free of charge, at the internet address www.westpac.co.nz. A printed copy will also be made available, free of charge, upon request and will be dispatched by the end of the second working day after the day on which the request is made.

The most recently published financial statements of the Overseas Bank and the Overseas Banking Group are for the year ended 30 September 2011 and can be accessed at the internet address www.westpac.com.au.

Guarantee arrangements

As at the date this Disclosure Statement was signed, no material obligations of the Overseas Bank that relate to the NZ Branch are guaranteed.

The guaranteed material obligations of Westpac New Zealand are disclosed in Westpac New Zealand's Disclosure Statement for the three months ended 31 December 2011 which is available, free of charge, at the internet address www.westpac.co.nz.

Ranking of local creditors in liquidation

Since 30 September 2011, there have been no material changes to the legislative or regulatory restrictions in Australia (being the Overseas Bank's country of incorporation) which subordinate the claims of any class of unsecured creditors of the NZ Branch on the assets of the Overseas Bank (including a claim made or proved in an insolvent winding-up or liquidation of the Overseas Bank) to those of any other class of unsecured creditors of the Overseas Bank.

Since 30 September 2011, there have been no material changes in any regulatory or legislative requirements in Australia that require the Overseas Bank to maintain sufficient assets in Australia to cover an ongoing obligation to pay deposit liabilities in Australia.

Other material matters

Certain matters relating to the business or affairs of the Overseas Bank and the NZ Banking Group have been disclosed on the New Zealand and/or Australian stock exchanges.

There are no matters relating to the business or affairs of the Overseas Bank and the NZ Banking Group which are not contained elsewhere in the Disclosure Statement and which would, if disclosed, materially affect the decision of a person to subscribe for debt securities of which the Overseas Bank or any member of the NZ Banking Group is the issuer.

Conditions of registration

The conditions of registration imposed on Westpac Banking Corporation (the '**registered bank**') in New Zealand, which applied on and after 30 September 2011, are as follows:

1. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

   In this condition of registration, the meaning of 'material' is based on generally accepted accounting practice.

2. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets.

   For the purposes of this condition of registration, the Banking Group's insurance business is the sum of the following amounts for entities in the Banking Group:

   (a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

   (b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

   In determining the total amount of the Banking Group's insurance business:

   (a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

   (b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

   For the purposes of this condition of registration:

   - 'insurance business' means the undertaking or assumption of liability as an insurer under a contract of insurance:
   - 'insurer' and 'contract of insurance' have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

3. That the business of the registered bank in New Zealand does not constitute a predominant proportion of the total business of the registered bank.

4. That no appointment to the position of the New Zealand Chief Executive Officer of the registered bank shall be made unless:

   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

   (b) the Reserve Bank has advised that it has no objection to that appointment.

5. That Westpac Banking Corporation complies with the requirements imposed on it by the Australian Prudential Regulation Authority.

6. That Westpac Banking Corporation complies with the following minimum capital adequacy requirements, as administered by the Australian Prudential Regulation Authority:

   (a) Tier One Capital of Westpac Banking Corporation is not less than 4% of risk-weighted exposures; and

   (b) capital of Westpac Banking Corporation is not less than 8% of risk-weighted exposures.

7. That liabilities of the registered bank in New Zealand, net of amounts due to related parties (including amounts due to a subsidiary or affiliate of the registered bank), do not exceed $15 billion.

8. That the retail deposits of the registered bank in New Zealand do not exceed $200 million. For the purposes of this condition retail deposits are defined as deposits by natural persons, excluding deposits with an outstanding balance which exceeds $250,000.

In these conditions of registration:

- 'Banking Group' means the New Zealand business of the registered bank and its subsidiaries as required to be reported in group financial statements for the group's New Zealand business under section 9(2) of the Financial Reporting Act 1993;
- 'business of the registered bank in New Zealand' means the New Zealand business of the registered bank as required to be reported in financial statements under section 8(2) of the Financial Reporting Act 1993;
- 'generally accepted accounting practice' has the same meaning as in section 2 of the Financial Reporting Act 1993; and
- 'liabilities of the registered bank in New Zealand' means the liabilities of the registered bank as required to be reported in financial statements under section 8(2) of the Financial Reporting Act 1993.

Directors' and the Chief Executive Officer, NZ Branch's statement

Each Director of the Overseas Bank believes and the Chief Executive Officer, NZ Branch, believes, after due enquiry, that, as at the date on which this Disclosure Statement is signed, the Disclosure Statement:

(a) contains all information that is required by the Order; and

(b) is not false or misleading.

Each Director of the Overseas Bank believes and the Chief Executive Officer, NZ Branch, believes, after due enquiry, that, over the three months ended 31 December 2011:

(a) the Overseas Bank has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank Act; and

(b) the NZ Branch had systems in place to monitor and control adequately the NZ Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement has been signed on behalf of the Directors by George Frazis, Chief Executive, Westpac New Zealand, and David McLean, Chief Executive Officer, NZ Branch.

George Frazis

David McLean

Dated this the 29th day of February 2012

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Consolidated income statement for the three months ended 31 December 2011

	Note	**NZ Banking Group** **Three Months Ended 31 December 2011 Unaudited $m**	Three Months Ended 31 December 2010 Unaudited $m	Year Ended 30 September 2011 Audited $m
Interest income		**1,000**	1,027	4,016
Interest expense		**(631)**	(680)	(2,482)
Net interest income		**369**	347	1,534
Non-interest income:				
Fees and commissions	2	**84**	79	319
Wealth management revenue	2	**25**	20	90
Trading income	2	**20**	10	54
Gains on ineffective hedges	2	**-**	2	3
Other non-interest income	2	**16**	10	43
Total non-interest income		**145**	121	509
Net operating income		**514**	468	2,043
Operating expenses		**(211)**	(206)	(845)
Impairment charges on loans	3	**(21)**	(58)	(226)
Operating profit		**282**	204	972
Share of profit of associate accounted for using equity method		**-**	-	1
Profit before income tax expense		**282**	204	973
Income tax expense on operating profit		**(76)**	(60)	(288)
Income tax expense related to New Zealand structured finance transactions		**-**	-	(19)
Profit after income tax expense		**206**	144	666
Profit after income tax expense attributable to:				
Head office account and owners of the NZ Banking Group		**205**	143	662
Non-controlling interests		**1**	1	4
		206	144	666

The accompanying notes (numbered 1 to 18) form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of comprehensive income for the three months ended 31 December 2011

	NZ Banking Group		
	Three Months Ended 31 December 2011 Unaudited $m	Three Months Ended 31 December 2010 Unaudited $m	Year Ended 30 September 2011 Audited $m
Profit after income tax expense	**206**	144	666
Other comprehensive income:			
Net unrealised gains/(losses) from changes in fair value of available-for-sale securities	**42**	(5)	6
Cash flow hedges:			
Net gains from changes in fair value of cash flow hedges	**51**	39	63
Actuarial losses on employee defined benefit superannuation schemes	**-**	-	(15)
Income tax relating to components of other comprehensive income[1]	**(24)**	(11)	(15)
Other comprehensive income, net of tax	**69**	23	39
Total comprehensive income	**275**	167	705
Total comprehensive income attributable to:			
Head office account and owners of NZ Banking Group	**274**	166	701
Non-controlling interests	**1**	1	4
	275	167	705

1 The income tax effects relating to each component of other comprehensive income are disclosed in the following table.

Tax effects relating to each component of other comprehensive income

	NZ Banking Group		
	Before Tax Amount $m	**Tax (Expense)/ Benefit $m**	**Net of Tax Amount $m**
For the three months ended 31 December 2011 (Unaudited)			
Net unrealised gains from changes in fair value of available-for-sale securities	**42**	**(10)**	**32**
Cash flow hedges:			
Net gains from changes in fair value of cash flow hedges	**51**	**(14)**	**37**
Other comprehensive income	**93**	**(24)**	**69**
For the three months ended 31 December 2010 (Unaudited)			
Net unrealised losses from changes in fair value of available-for-sale securities	(5)	-	(5)
Cash flow hedges:			
Net gains from changes in fair value of cash flow hedges	39	(11)	28
Other comprehensive income	34	(11)	23
For the year ended 30 September 2011 (Audited)			
Net unrealised gains from changes in fair value of available-for-sale securities	6	-	6
Cash flow hedges:			
Net gains from changes in fair value of cash flow hedges	63	(20)	43
Actuarial losses on employee defined benefit superannuation schemes	(15)	5	(10)
Other comprehensive income	54	(15)	39

The accompanying notes (numbered 1 to 18) form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of changes in equity for the three months ended 31 December 2011

	NZ Banking Group									
	Head Office Account			NZ Banking Group Equity						
	Branch Capital $m	(Accumulated Losses)/ Retained Profits $m	Convertible Debentures $m	Share Capital $m	Retained Profits $m	Cash Flow Hedge Reserve $m	Available-for-sale Securities Reserve $m	Total Before Non-controlling Interests $m	Non-controlling Interests $m	Total Equity $m
As at 1 October 2010	1,300	(108)	1,284	139	1,599	(117)	25	4,122	6	4,128
Three months ended 31 December 2010										
Profit after income tax expense	-	68	-	-	75	-	-	143	1	144
Other comprehensive income/(expense)	-	-	-	-	-	28	(5)	23	-	23
Total comprehensive income/(expense) for the three months ended 31 December 2010	-	68	-	-	75	28	(5)	166	1	167
As at 31 December 2010 (Unaudited)	1,300	(40)	1,284	139	1,674	(89)	20	4,288	7	4,295
Year ended 30 September 2011										
Profit after income tax expense	-	267	-	-	395	-	-	662	4	666
Other comprehensive (expense)/income	-	-	-	-	(10)	43	6	39	-	39
Total comprehensive income for the year ended 30 September 2011	-	267	-	-	385	43	6	701	4	705
Transactions with owners:										
Dividends paid on convertible debentures (net of tax)	-	(70)	-	-	-	-	-	(70)	-	(70)
Dividends paid on ordinary shares	-	-	-	-	-	-	-	-	(2)	(2)
As at 30 September 2011 (Audited)	1,300	89	1,284	139	1,984	(74)	31	4,753	8	4,761
Three months ended 31 December 2011										
Profit after income tax expense	**-**	**59**	**-**	**-**	**146**	**-**	**-**	**205**	**1**	**206**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**37**	**32**	**69**	**-**	**69**
Total comprehensive income for the three months ended 31 December 2011	**-**	**59**	**-**	**-**	**146**	**37**	**32**	**274**	**1**	**275**
As at 31 December 2011 (Unaudited)	**1,300**	**148**	**1,284**	**139**	**2,130**	**(37)**	**63**	**5,027**	**9**	**5,036**

The accompanying notes (numbered 1 to 18) form part of, and should be read in conjunction with, these financial statements.

Consolidated balance sheet as at 31 December 2011

	Note	**NZ Banking Group** **31 December 2011 Unaudited $m**	31 December 2010 Unaudited $m	30 September 2011 Audited $m
Assets				
Cash and balances with central banks		**1,626**	2,111	1,871
Due from other financial institutions		**144**	528	699
Derivative financial instruments		**5,672**	4,646	6,060
Trading securities	4	**5,593**	5,105	6,065
Available-for-sale securities		**2,513**	40	1,518
Loans	5	**58,070**	56,873	58,114
Life insurance assets		**197**	152	186
Due from related entities		**1,345**	1,519	2,272
Investment in associate		**48**	48	48
Goodwill and other intangible assets		**620**	609	617
Property, plant and equipment		**157**	134	154
Current tax assets		**-**	26	-
Deferred tax assets		**216**	313	231
Other assets		**385**	219	458
Total assets		**76,586**	72,323	78,293
Liabilities				
Due to other financial institutions		**407**	771	778
Deposits	7	**41,156**	38,793	39,575
Derivative financial instruments		**5,475**	4,475	5,448
Trading liabilities	8	**670**	435	1,286
Debt issues	9	**13,560**	15,461	17,630
Current tax liabilities		**69**	-	23
Provisions		**71**	76	92
Other liabilities		**693**	645	1,223
Subordinated debentures		**774**	753	785
Due to related entities		**8,675**	6,619	6,692
Total liabilities		**71,550**	68,028	73,532
Net assets		**5,036**	4,295	4,761
Equity				
Head office account				
Branch capital		**1,300**	1,300	1,300
Retained profits/(accumulated losses)		**148**	(40)	89
Total head office account		**1,448**	1,260	1,389
Convertible debentures		**1,284**	1,284	1,284
NZ Banking Group equity				
Ordinary share capital		**139**	139	139
Retained profits		**2,130**	1,674	1,984
Cash flow hedge reserve		**(37)**	(89)	(74)
Available-for-sale securities reserve		**63**	20	31
Total equity attributable to owners of the NZ Banking Group		**2,295**	1,744	2,080
Non-controlling interests		**9**	7	8
Total equity		**5,036**	4,295	4,761
Interest earning and discount bearing assets		**68,325**	64,871	68,745
Interest and discount bearing liabilities		**60,939**	58,660	62,823

The accompanying notes (numbered 1 to 18) form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of cash flows for the three months ended 31 December 2011

	NZ Banking Group		
	Three Months Ended 31 December 2011 Unaudited $m	Three Months Ended 31 December 2010 Unaudited $m	Year Ended 30 September 2011 Audited $m
Cash flows from operating activities			
Interest income received	**992**	1,032	4,025
Interest expense paid	**(616)**	(648)	(2,488)
Non-interest income received	**138**	103	437
Net decrease/(increase) in trading securities	**562**	512	(625)
Net (decrease)/increase in trading liabilities	**(1,155)**	109	1,549
Net movement in derivative financial instruments	**466**	50	(365)
Operating expenses paid	**(227)**	(196)	(744)
Income tax paid	**(33)**	(61)	(162)
Net cash provided by operating activities	**127**	901	1,627
Cash flows from investing activities			
Net increase in available-for-sale securities	**(953)**	-	(1,468)
Net loans repaid by/(advanced to) customers	**23**	(194)	(1,602)
Net increase in life insurance assets	**(11)**	(6)	(40)
Net decrease/(increase) in due from related entities	**927**	(468)	(971)
Purchase of capitalised computer software	**(12)**	(6)	(46)
Purchase of property, plant and equipment	**(10)**	(12)	(55)
Net cash used in investing activities	**(36)**	(686)	(4,182)
Cash flows from financing activities			
Net increase in deposits	**1,581**	773	1,555
Net (decrease)/increase from debt issues	**(4,070)**	22	2,191
Net increase/(decrease) in due to related entities	**1,980**	119	(75)
Net decrease in subordinated debentures	**(11)**	(73)	(34)
Dividends paid on convertible debentures	**-**	-	(100)
Dividends paid on ordinary shares	**-**	-	(2)
Net cash (used in)/provided by financing activities	**(520)**	841	3,535
Net (decrease)/increase in cash and cash equivalents	**(429)**	1,056	980
Cash and cash equivalents at beginning of the period/year	**1,792**	812	812
Cash and cash equivalents at end of the period/year	**1,363**	1,868	1,792
Cash and cash equivalents comprise:			
Cash and balances with central banks	**1,626**	2,111	1,871
Due to other financial institutions – (net)	**(263)**	(243)	(79)
Cash and cash equivalents at end of the period/year	**1,363**	1,868	1,792
Reconciliation of profit after income tax expense to net cash provided by operating activities			
Profit after income tax expense	**206**	144	666
Adjustments:			
Impairment charges on loans	**21**	58	226
Computer software amortisation costs	**9**	12	42
Depreciation on property, plant and equipment	**7**	5	22
Gain on disposal of property, plant and equipment	**-**	-	(7)
Loss on disposal of computer software	**-**	-	2
Share-based payments	**2**	1	18
Movement in other assets	**(65)**	(36)	4
Movement in other liabilities	**(11)**	28	15
Movement in current and deferred tax	**47**	(8)	112
Tax on available-for-sale reserve	**(10)**	-	-
Tax on convertible debentures dividends	**-**	-	30
Movement in trading securities	**610**	538	(687)
Movement in trading liabilities	**(1,155)**	109	1,549
Movement in derivative financial instruments	**466**	50	(365)
Net cash provided by operating activities	**127**	901	1,627

The accompanying notes (numbered 1 to 18) form part of, and should be read in conjunction with, these financial statements.

Notes to the financial statements

Note 1 Statement of accounting policies

Statutory base

These financial statements have been prepared and presented in accordance with the Order and the Reserve Bank Act.

These financial statements have also been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('**NZ GAAP**'), as appropriate for profit-oriented entities, which includes the New Zealand Equivalent to International Accounting Standard ('**NZ IAS**') 34 *Interim Financial Reporting* and should be read in conjunction with the Disclosure Statement for the year ended 30 September 2011.

These financial statements comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

As a result of the new and revised accounting standards which became operative for the annual reporting period commencing 1 October 2011, the following standards, interpretations and amendments have been adopted with effect from 1 October 2011 in the preparation of these financial statements:

- NZ IFRS 7 *Financial Instruments: Disclosures* ('**NZ IFRS 7**'):
  - The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, certain disclosure requirements have been amended and removed.
  - *Amendments to NZ IFRS 7 Disclosures – Transfers of Financial Assets* – The amendments require additional disclosures about the transfer of financial assets, including in respect of the nature of the financial assets involved and the risks associated with them.
- NZ IAS 1 *Presentation of Financial Statements* ('**NZ IAS 1**') – The amendments clarify that an analysis of other comprehensive income by item is required to be disclosed either in the statement of changes in equity or in the notes to the financial statements.
- NZ IAS 24 *Related Party Disclosures* – The main changes to the standard simplify the definition of a related party and clarify its intended meaning.
- NZ IAS 34 *Interim Financial Reporting* – The amendments add examples to the list of events or transactions that require disclosure under NZ IAS 34.
- New Zealand Equivalent to International Financial Reporting Interpretations Committee ('**NZ IFRIC**') 13 *Customer Loyalty Programmes* – The amendments clarify the fair value of award credits and take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits.
- NZ IFRIC 14 NZ IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* – The amendments remove the unintended consequence arising from the treatment of prepayments when there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense.
- *Amendments to NZ IFRS 7: Disclosure Amendments to Appendix E New Zealand-specific additional disclosure requirements applicable to financial institutions* – The amendments replaced the term 'financial institutions' with the term 'deposit takers'. The amendments also remove registered banks from its scope as the disclosure requirements have been relocated to the Order.
- *Amendments to NZ IFRSs to Harmonise with IFRS and Australian Accounting Standards* – The amendments remove certain New Zealand-specific disclosures and relocate certain disclosure requirements to a new standard.
- Financial Reporting Standard 44 *New Zealand Additional Disclosures* – This new standard is applicable only to New Zealand and is a consequence of the joint Trans-Tasman Convergence project of the Australian Accounting Standards Board and Financial Reporting Standards Board. This standard relocates certain New Zealand specific disclosures from other NZ IFRS and also revises certain disclosures.

Adoption of these new and revised accounting standards has not resulted in any material change to the NZ Banking Group's reported result or financial position.

In these financial statements reference is made to the following reporting entities:

- Westpac Banking Corporation Group (otherwise referred to as the '**Overseas Banking Group**') – refers to the total worldwide business of Westpac Banking Corporation including its controlled entities;
- Westpac Banking Corporation (otherwise referred to as the '**Overseas Bank**') – refers to the worldwide activities of Westpac Banking Corporation excluding its controlled entities;
- Westpac Banking Corporation New Zealand Division (otherwise referred to as the '**NZ Banking Group**') – refers to the New Zealand operations of Westpac Banking Corporation including those entities whose business is required to be reported in the financial statements of the Overseas Banking Group's New Zealand business; and
- Westpac Banking Corporation New Zealand Branch (otherwise referred to as the '**NZ Branch**') – refers to the New Zealand Branch of Westpac Banking Corporation (trading as Westpac).

These financial statements were authorised for issue by the Board on 29 February 2012. The Board has the power to amend the financial statements after they are authorised for issue.

Basis of preparation

The financial statements are based on the general principles of historical cost accounting, as modified by fair value accounting for available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and all financial derivative contracts. The going concern concept and the accruals basis of accounting have been adopted. All amounts are expressed in New Zealand dollars unless otherwise stated.

The same accounting policies and methods of computation have been followed in preparing these financial statements as were used in preparing the financial statements for the year ended 30 September 2011, except as amended for the changes required due to the adoption of the new and revised accounting standards as explained in the 'Statutory base' section above.

Certain comparative information has been restated to ensure consistent treatment with the current reporting period. Where there has been a material restatement of comparative information the nature of, and the reason for, the restatement is disclosed in the relevant note.

Basis of aggregation

The NZ Banking Group as at 31 December 2011 has been aggregated by combining the sum of the capital and reserves of the NZ Branch, Hastings Forestry Investments Limited, St.George New Zealand Limited and the consolidated capital and reserves of BT Financial Group (NZ) Limited, Westpac Financial Services Group-NZ-Limited, Westpac Group Investment-NZ-Limited, Westpac New Zealand Group Limited and their controlled entities. For New Zealand entities acquired by the Overseas Banking Group, capital and reserves at acquisition are netted and recognised as capital contributed to the NZ Banking Group.

Notes to the financial statements

Note 1 Statement of accounting policies (continued)

The NZ Banking Group may invest in or establish special purpose entities to enable it to undertake specific types of transactions. Where the NZ Banking Group controls such entities, they are consolidated into the NZ Banking Group's financial results.

All transactions and balances between entities within the NZ Banking Group have been eliminated.

Note 2 Non-interest income

	NZ Banking Group		
	Three Months Ended 31 December 2011 Unaudited $m	Three Months Ended 31 December 2010 Unaudited $m	Year Ended 30 September 2011 Audited $m
Fees and commissions			
Transaction fees and commissions	**56**	60	238
Lending fees (loan and risk)	**16**	15	62
Insurance commissions received	**4**	3	9
Other non-risk fee income	**8**	1	10
Total fees and commissions	**84**	79	319
Wealth management revenue			
Fees from trust and other fiduciary activities	**35**	34	133
Net life insurance income and change in policy liabilities	**(10)**	(14)	(43)
Total wealth management revenue	**25**	20	90
Trading income			
Foreign exchange trading	**24**	18	76
Interest rate trading	**(4)**	(8)	(22)
Total trading income[1]	**20**	10	54
Gains on ineffective hedges	**-**	2	3
Other non-interest income			
Net gains on derivatives held for risk management purposes	**15**	8	28
Dividend income	**-**	-	3
Rental income	**-**	-	1
Gains on disposal of property, plant and equipment	**-**	-	7
Other	**1**	2	4
Total other non-interest income	**16**	10	43
Total non-interest income	**145**	121	509

1 Total trading income includes a credit risk expense adjustment of $8 million for the three months ended 31 December 2011 (31 December 2010: nil, 30 September 2011: income $5 million).

Note 3 Impairment charges on loans

	NZ Banking Group			
	Residential Mortgages $m	**Other Loans for Consumer Purposes $m**	**Loans for Business Purposes $m**	**Total $m**
Three months ended 31 December 2011 (Unaudited)				
Collectively assessed provision	**2**	**3**	**(14)**	**(9)**
Individually assessed provisions	**8**	**-**	**15**	**23**
Bad debt write-off direct to the income statement	**(1)**	**11**	**7**	**17**
Interest adjustments	**(1)**	**(2)**	**(7)**	**(10)**
Total impairment charges on loans	**8**	**12**	**1**	**21**
Three months ended 31 December 2010 (Unaudited)				
Collectively assessed provision	(2)	-	-	(2)
Individually assessed provisions	23	-	34	57
Bad debt write-off direct to the income statement	1	11	3	15
Interest adjustments	(2)	(4)	(6)	(12)
Total impairment charges on loans	20	7	31	58
Year ended 30 September 2011 (Audited)				
Collectively assessed provision	(14)	(35)	(30)	(79)
Individually assessed provisions	80	-	191	271
Bad debt write-off direct to the income statement	5	44	23	72
Interest adjustments	(6)	(12)	(20)	(38)
Total impairment charges on loans	65	(3)	164	226

Note 4 Trading securities

	NZ Banking Group		
	31 December 2011 Unaudited $m	31 December 2010 Unaudited $m	30 September 2011 Audited $m
Trading securities			
Listed:			
NZ Government securities	**1,527**	2,737	2,576
NZ corporate securities	**39**	23	16
Total listed securities	**1,566**	2,760	2,592
Unlisted:			
NZ corporate securities:			
Certificates of deposit	**2,076**	1,683	2,157
Commercial paper	**451**	128	282
Corporate bonds	**316**	118	328
Mortgage-backed securities	**6**	9	7
Offshore securities	**9**	21	2
NZ Government securities	**106**	-	10
Total unlisted securities	**2,964**	1,959	2,786
Securities purchased under agreement to resell	**1,063**	386	687
Total trading securities	**5,593**	5,105	6,065

As at 31 December 2011 the NZ Banking Group had $45 million of trading securities (31 December 2010: $147 million, 30 September 2011: $507 million) that were encumbered through repurchase agreements as part of standard terms of transactions with other banks.

Note 5 Loans

	NZ Banking Group		
	31 December 2011 Unaudited $m	31 December 2010 Unaudited $m	30 September 2011 Audited $m
Overdrafts	**1,144**	1,181	1,258
Credit card outstandings	**1,332**	1,305	1,270
Money market loans	**918**	926	1,082
Term loans:			
Housing	**35,061**	34,223	35,044
Non-housing	**19,300**	19,240	19,163
Other	**984**	832	962
Total gross loans	**58,739**	57,707	58,779
Provisions for impairment charges on loans	**(669)**	(834)	(665)
Total net loans	**58,070**	56,873	58,114

Movements in impaired assets and provisions for impairment charges on loans are outlined in Note 6.

On 22 November 2010, Westpac NZ Covered Bond Limited ('**WNZCBL**') was incorporated, as part of the NZ Banking Group's global covered bond programme, to hold a portion of the NZ Banking Group's housing loans and to provide guarantees of the covered bonds issued from time to time by Westpac Securities NZ Limited ('**WSNZL**'). WSNZL is an indirect, wholly-owned subsidiary company of Westpac New Zealand. Each guarantee provided by WNZCBL is secured by the housing loans from time to time held by WNZCBL. As at 31 December 2011, the value of covered bonds issued by WSNZL was €1.0 billion ($1.7 billion) (31 December 2010: €Nil, $Nil, 30 September 2011: €1.0 billion, $1.8 billion). As at 31 December 2011, the value of the assets held by WNZCBL (being the underlying collateral for those guarantees) was $2.75 billion (31 December 2010: $250 million, 30 September 2011: $2.75 billion). These assets have not been derecognised from Westpac New Zealand's financial statements in accordance with the accounting policies outlined in Note 1 to the financial statements for the year ended 30 September 2011.

Notes to the financial statements

Note 6 Credit quality, impaired assets and provisions for impairment charges on loans

	NZ Banking Group			
	Three Months Ended 31 December 2011 (Unaudited)			
	Residential Mortgages $m	Other Loans for Consumer Purposes $m	Loans for Business Purposes $m	Total $m
Neither past due nor impaired				
Strong	-	-	7,643	7,643
Good/Satisfactory	33,523	1,668	11,415	46,606
Weak	-	-	1,561	1,561
Total neither past due nor impaired	33,523	1,668	20,619	55,810
Past due assets				
Less than 30 days past due	1,062	99	288	1,449
At least 30 days but less than 60 days past due	138	22	35	195
At least 60 days but less than 90 days past due	65	11	22	98
At least 90 days past due	94	17	165	276
Total past due assets[1]	1,359	149	510	2,018
Individually impaired assets[2]				
Balance at beginning of the period	195	-	723	918
Additions	59	-	46	105
Amounts written off	(8)	-	(17)	(25)
Returned to performing or repaid	(67)	-	(20)	(87)
Balance at end of the period	179	-	732	911
Restructured assets				
Balance at beginning of the period	1	-	-	1
Deletions	(1)	-	-	(1)
Total restructured assets	-	-	-	-
Total impaired assets	179	-	732	911
Total gross loans[3]	35,061	1,817	21,861	58,739
Individually assessed provisions				
Balance at beginning of the period	64	-	202	266
Impairment charges on loans:				
New provisions	18	-	17	35
Recoveries	(1)	-	-	(1)
Reversal of previously recognised impairment charges on loans	(9)	-	(2)	(11)
Amounts written off	(9)	-	(6)	(15)
Interest adjustments	-	-	2	2
Balance at end of the period	63	-	213	276
Collectively assessed provisions				
Balance at beginning of the period	66	69	302	437
Impairment movement on loans	2	3	(14)	(9)
Balance at end of the period	68	72	288	428
Total provision for impairment charges on loans and credit commitments	131	72	501	704
Less: Provision for credit commitments	-	-	(35)	(35)
Total provisions for impairment charges on loans	131	72	466	669
Total net loans	34,930	1,745	21,395	58,070

1 Past due assets are not impaired assets.
2 The NZ Banking Group had an undrawn balance of $7 million on individually impaired assets under loans for business purposes as at 31 December 2011.
3 The NZ Banking Group did not have other assets under administration or any financial, real estate or other assets acquired through security enforcement as at 31 December 2011.

Note 7 Deposits

	NZ Banking Group		
	31 December 2011 Unaudited $m	31 December 2010 Unaudited $m	30 September 2011 Audited $m
Deposits at fair value			
Certificates of deposit	**1,319**	1,939	1,556
Call and term deposits	**-**	436	-
Total deposits at fair value	**1,319**	2,375	1,556
Deposits at amortised cost			
Non-interest bearing, repayable at call	**3,066**	2,767	2,753
Other interest bearing:			
At call	**15,636**	13,388	14,386
Term	**21,135**	20,263	20,880
Total deposits at amortised cost	**39,837**	36,418	38,019
Total deposits	**41,156**	38,793	39,575

The NZ Branch held no retail deposits from individuals as at 31 December 2011 (31 December 2010: nil, 30 September 2011: nil).

Note 8 Trading liabilities

	NZ Banking Group		
	31 December 2011 Unaudited $m	31 December 2010 Unaudited $m	30 September 2011 Audited $m
Held for trading			
Securities sold short	**625**	288	779
Securities sold under agreements to repurchase	**45**	147	507
Total trading liabilities	**670**	435	1,286

Note 9 Debt issues

	NZ Banking Group		
	31 December 2011 Unaudited $m	31 December 2010 Unaudited $m	30 September 2011 Audited $m
Short-term debt			
Commercial paper	**3,640**	6,953	7,229
Total short-term debt	**3,640**	6,953	7,229
Long-term debt			
Non-domestic medium-term notes	**8,625**	6,318	8,803
Domestic medium-term notes	**1,295**	2,190	1,598
Total long-term debt	**9,920**	8,508	10,401
Total debt issues	**13,560**	15,461	17,630
Debt issues at amortised cost	**9,426**	8,508	9,903
Debt issues at fair value	**4,134**	6,953	7,727
Total debt issues	**13,560**	15,461	17,630

	31 December 2011 Unaudited $m	31 December 2010 Unaudited $m	30 September 2011 Unaudited $m
Movement in debt issues			
Balance at beginning of the period/year	**17,630**	15,439	15,439
Issuance during the period/year	**2,283**	4,273	17,788
Repayments during the period/year	**(6,127)**	(3,578)	(15,120)
Effect of foreign exchange movements during the period/year	**(270)**	(578)	(534)
Effect of fair value movements during the period/year	**44**	(95)	57
Balance at end of the period/year	**13,560**	15,461	17,630

As at 31 December 2011, the NZ Banking Group had New Zealand Government guaranteed debt on issue of $4,034 million (31 December 2010: $4,041 million, 30 September 2011: $4,073 million). Refer to Guarantee arrangements on page 2 for further information.

Note 10 Related entities

TBNZ Investments (UK) Limited ceased to be a controlled entity of the NZ Banking Group on 4 January 2012. TBNZ Investments (UK) Limited was dissolved and removed from the Register of companies for England and Wales on 27 December 2011. The entity did not have a significant impact on the NZ Banking Group's financial position as at 31 December 2011 or the results of operations for the three months ended 31 December 2011.

On 1 November 2011, the NZ Branch transferred additional business activities and associated employees to Westpac New Zealand, which was accounted for as a discontinued operation (refer to Note 2 Discontinued operations and Note 43.1 Events after the reporting date – Transfer of operations to Westpac New Zealand in the notes to the NZ Branch's financial statements included in the Overseas Bank's Disclosure Statement for the year ended 30 September 2011 for further details).

There have been no other changes to the structure or composition of the NZ Banking Group since 30 September 2011. Controlled entities of the NZ Banking Group as at 30 September 2011 are set out in Note 28 to the NZ Banking Group's financial statements included in the Overseas Bank's Disclosure Statement for the year ended 30 September 2011.

The total liabilities of the NZ Branch, net of amounts due to related entities as at 31 December 2011, amounted to $6,267 million (31 December 2010: $11,293 million, 30 September 2011: $12,688 million).

Note 11 Commitments and contingent liabilities

	NZ Banking Group		
	31 December 2011 Unaudited $m	31 December 2010 Unaudited $m	30 September 2011 Audited $m
Commitments for capital expenditure			
Due within one year	**1**	22	2
Other expenditure commitments:			
One year or less	**86**	68	89
Between one and five years	**307**	71	306
Over five years	**14**	4	34
Total other expenditure commitments	**407**	143	429
Lease commitments (all leases are classified as operating leases)			
Premises and sites	**209**	198	225
Motor vehicles	**4**	6	5
Total lease commitments	**213**	204	230
Lease commitments are due as follows:			
One year or less	**42**	46	45
Between one and five years	**103**	88	108
Over five years	**68**	70	77
Total lease commitments	**213**	204	230
Other contingent liabilities and commitments			
Direct credit substitutes	**361**	353	368
Loan commitments with certain drawdown	**145**	142	164
Transaction related contingent items	**691**	681	700
Underwriting and sub-underwriting facilities	**-**	57	300
Short-term, self liquidating trade related contingent liabilities	**503**	514	443
Other commitments to provide financial services	**16,839**	16,436	17,336
Total other contingent liabilities and commitments	**18,539**	18,183	19,311

The NZ Banking Group is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers and in managing its own risk profile. These financial instruments include commitments to extend credit, financial guarantees, standby letters of credit and underwriting facilities.

The NZ Banking Group's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract or notional amount of those instruments. However, some commitments to extend credit and provide underwriting facilities can be cancelled or revoked at any time at the NZ Banking Group's option.

The NZ Banking Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet financial instruments.

The NZ Banking Group takes collateral where it is considered necessary to support both on and off-balance sheet financial instruments with credit risk. The NZ Banking Group evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral taken, if deemed necessary, on the provision of a financial facility is based on management's credit evaluation of the counterparty. The collateral taken varies, but may include cash deposits, receivables, inventory, plant and equipment, real estate and investments.

Note 11 Commitments and contingent liabilities (continued)

The NZ Banking Group is obliged to repurchase securitised loans:

(a) held by the Westpac Home Loan Trust ('**HLT**') where it is discovered within 120 days of sale that those loans were not eligible for sale when sold;

(b) held by the Westpac NZ Securitisation Limited securitisation programme where the securitised loans cease to conform to certain terms and conditions of the Westpac NZ Securitisation Limited securitisation programme;

(c) held by WNZCBL (pursuant to the WSNZL Global Covered Bond Programme of the NZ Banking Group) where:

  (i) it is discovered that there has been a material breach of a sale warranty (or any such sale warranty is materially untrue);

  (ii) the securitised loan becomes materially impaired or is enforced prior to the second monthly covered bond payment date falling after the assignment of such securitised loan; or

  (iii) at the cut-off date relating to the securitised loan there were arrears of interest and that securitised loan subsequently becomes a delinquent loan prior to the second monthly covered bond payment date falling after the assignment of the securitised loan.

It is not envisaged that any liability resulting in material loss to the NZ Banking Group will arise from these obligations.

Westpac New Zealand guarantees the due and punctual payment of all sums payable to the holders of the debt securities issued by its indirect, wholly-owned subsidiary WSNZL, the proceeds of which are immediately on-lent to Westpac New Zealand. The aggregate amount of outstanding principal and interest as at 31 December 2011 was $12,157 million (31 December 2010: $13,324 million, 30 September 2011: $15,945 million).

In addition, the NZ Banking Group (through WNZCBL) guarantees covered bonds issued by WSNZL (refer to Note 5 for further details).

Other contingent liabilities

The NZ Banking Group has other contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the NZ Banking Group's likely loss in respect of these claims has been made on a case-by-case basis and provision has been made in these financial statements, where appropriate.

Westpac (NZ) Investments Limited ('**WNZIL**'), a subsidiary of Westpac New Zealand, leases the majority of the properties occupied by the NZ Banking Group. As is normal practice, the lease agreements contain 'make good' provisions, which require WNZIL, upon termination of a lease, to return the premises to the lessor in the original condition. The maximum amount payable by WNZIL upon vacation of all leased premises subject to these provisions as at 31 December 2011 was estimated to be $22 million (31 December 2010: $22 million, 30 September 2011: $22 million). No amount has been recognised for the $22 million in estimated maximum vacation payments as the NZ Banking Group believes it is highly unlikely that WNZIL would incur a material operating loss as a result of such 'make good' provisions in the normal course of its business operations.

Other commitments

As at 31 December 2011, the NZ Banking Group had commitments in respect of forward purchases and sales of foreign currencies, interest rate and currency swap transactions, futures and options contracts, provision of credit, underwriting facilities and other arrangements entered into in the normal course of business. The NZ Banking Group has management systems and operational controls in place to manage interest rate, currency and credit risk. Accordingly, it is not envisaged that any liability resulting in a material loss to the NZ Banking Group will arise from these transactions to the extent that a provision has not been provided for under the NZ Banking Group's usual practices.

Note 12 Segment information

The NZ Banking Group operates predominantly in the consumer banking, business banking and institutional banking sectors within New Zealand. On this basis, no geographical segment information is provided.

The basis of segment reporting reflects the management of the business, rather than the legal structure of the NZ Banking Group. There is no difference in accounting measurement between the management and legal structures. The operating segment results have been presented on a management reporting basis and consequently internal charges and transfer pricing adjustments have been reflected in the performance of each operating segment. Intersegment pricing is determined on an arm's length basis.

The NZ Banking Group does not rely on any single major customer for its revenue base.

The NZ Banking Group's operating segments are defined by the customers they serve and the services they provide. The NZ Banking Group has identified the following main operating segments:

- Business Banking provides financial services for small to medium sized enterprise customers, corporates and agricultural businesses. Business Banking also provides domestic transactional banking to the New Zealand Government;
- Retail Banking provides financial services for private individuals;
- Wealth provides financial services for high net worth individuals, funds management and insurance distribution; and
- Institutional Banking provides a broad range of financial services to large corporate, institutional and government customers and the supply of derivatives and risk management products to the entire Westpac customer base in New Zealand.

Retail Banking and Wealth have been aggregated and disclosed as the Consumer Banking reportable segment. Business Banking and Institutional Banking are separately reportable segments.

Reconciling items primarily represent:

- non-material segments that do not meet the definition of operating segments under NZ IFRS 8;
- elimination entries on consolidation/aggregation of the results, assets and liabilities of the NZ Banking Group's controlled entities in the preparation of the financial statements of the NZ Banking Group; and
- results of certain business units excluded for management reporting purposes, but included within the financial statements of the NZ Banking Group for statutory financial reporting purposes.

Note 12 Segment information (continued)

	NZ Banking Group				
	Business Banking $m	Consumer Banking $m	Institutional Banking $m	Reconciling Items $m	Total $m
Three months ended 31 December 2011 (Unaudited)					
Revenue from external customers[1]	**467**	**846**	**210**	**(378)**	**1,145**
Internal revenue	**1**	**-**	**-**	**(1)**	**-**
Total segment revenue	**468**	**846**	**210**	**(379)**	**1,145**
Profit before income tax expense	**106**	**203**	**93**	**(120)**	**282**
Income tax expense	**(30)**	**(54)**	**(26)**	**34**	**(76)**
Profit after income tax expense	**76**	**149**	**67**	**(86)**	**206**
Profit after income tax expense attributable to:					
Head office account and owners of NZ Banking Group	**76**	**148**	**67**	**(86)**	**205**
Non-controlling interests	**-**	**1**	**-**	**-**	**1**
	76	**149**	**67**	**(86)**	**206**
Total gross loans	**21,350**	**30,673**	**6,973**	**(257)**	**58,739**
Total deposits	**10,559**	**23,522**	**5,756**	**1,319**	**41,156**
Three months ended 31 December 2010 (Unaudited)					
Revenue from external customers[1]	477	872	168	(369)	1,148
Internal revenue	1	-	(1)	-	-
Total segment revenue	478	872	167	(369)	1,148
Profit before income tax expense	82	172	53	(103)	204
Income tax expense	(25)	(50)	(16)	31	(60)
Profit after income tax expense	57	122	37	(72)	144
Profit after income tax expense attributable to:					
Head office account and owners of NZ Banking Group	57	121	37	(72)	143
Non-controlling interests	-	1	-	-	1
	57	122	37	(72)	144
Total gross loans	21,039	29,980	6,966	(278)	57,707
Total deposits	9,509	21,715	5,103	2,466	38,793
Year Ended 30 September 2011 (Audited)					
Revenue from external customers[1]	1,850	3,404	717	(1,446)	4,525
Internal revenue	4	1	(4)	(1)	-
Total segment revenue	1,854	3,405	713	(1,447)	4,525
Profit before income tax expense	310	766	251	(354)	973
Income tax expense	(90)	(214)	(78)	75	(307)
Profit after income tax expense	220	552	173	(279)	666
Profit after income tax expense attributable to:					
Head office account and owners of NZ Banking Group	220	548	173	(279)	662
Non-controlling interests	-	4	-	-	4
	220	552	173	(279)	666
Total gross loans	21,421	30,625	6,998	(265)	58,779
Total deposits	10,387	22,908	4,689	1,591	39,575

1 Revenue from external customers comprises interest income and non-interest income.

Note 13 Securitisation, funds management and other fiduciary activities

Since 30 September 2011, there have been no material changes in the nature of the NZ Banking Group's risk involvement in the following activities:

- establishment, marketing, or sponsorship of trust, custodial, funds management, and other fiduciary activities;
- origination of securitised assets, and the marketing or servicing of securitisation schemes; or
- marketing and distribution of insurance products;

including arrangements that help minimise the possibility that any difficulties arising from the above activities would impact adversely on the NZ Banking Group.

Note 14 Insurance business

The NZ Banking Group conducts an insurance business through one of its controlled entities, Westpac Life-NZ-Limited. Its primary insurance activities are the development, underwriting and management of products under life insurance legislation which provide insurance cover against the risks of death and disability. It also manages general insurance agency arrangements whereby general insurance products are made available to NZ Banking Group customers, and underwrites some redundancy and bankruptcy risks. The insurance business comprises less than one percent of the total assets of the NZ Banking Group.

The following table presents the aggregate amount of the NZ Banking Group's insurance business calculated in accordance with the Overseas Bank's conditions of registration as at the reporting date:

	NZ Banking Group
	31 December 2011 Unaudited $m
Total assets	170
As a percentage of total assets of the NZ Banking Group	0.22%

The Overseas Bank does not conduct any insurance or non-financial activities in New Zealand outside of the NZ Banking Group.

There have been no material changes in the NZ Banking Group's approach to managing its insurance business since 30 September 2011.

Note 15 Risk management

The NZ Banking Group has completed its annual review of the operational risk model and has revised its AMA methodology for calculating operational risk capital from 31 December 2011. The NZ Banking Group has adjusted the emphasis assigned to long-standing inputs to the capital model.

There have been no other material changes in the risk management policies and no new categories of risk to which the NZ Banking Group has become exposed since 30 September 2011.

15.1 Credit risk

Additional mortgage information

The information below relates to the residential mortgage loan-to-value ratios ('**LVR**') reflected in the capital calculation.

In order to calculate origination LVR, the current exposure is that used in the internal ratings based approach for mortgage lending. For loans originated from 1 January 2008, the NZ Banking Group utilises its loan origination system. For loans originated prior to 1 January 2008, the origination LVR is not separately recorded, and therefore not available for disclosure. For these loans, the NZ Banking Group utilises its dynamic LVR process to calculate an origination LVR. Exposures for which no LVR is available have been included in the 'Exceeds 90%' category in accordance with the requirements of the Order.

	NZ Banking Group			
	31 December 2011 (Unaudited)			
LVR range ($m)	**Does not Exceed 80%**	**Exceeds 80% and not 90%**	**Exceeds 90%**	**Total**
On-balance sheet exposures	26,366	5,485	3,137	34,988
Undrawn commitments and other off-balance sheet exposures	5,581	385	234	6,200
Value of exposures	**31,947**	**5,870**	**3,371**	**41,188**

Reconciliation of residential mortgage-related amounts

The table below provides the NZ Banking Group's reconciliation between any amounts disclosed in this Disclosure Statement that relate to mortgages on residential property.

	NZ Banking Group
	31 December 2011 Unaudited $m
Term loans – Housing (as disclosed in Note 5) and Residential mortgages – total gross loans (as disclosed in Note 6)	35,061
Reconciling items:	
Unamortised deferred fees and expenses	(46)
Fair value hedge adjustments	(27)
Value of undrawn commitments and other off-balance sheet expenses	6,200
Residential mortgages by LVR	**41,188**

Note 15 Risk management (continued)

15.2 Market risk

Market risk notional capital charges

The NZ Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank document 'Capital adequacy framework (standardised approach) (BS2A)'. The peak end-of-day exposures below have been calculated by determining the maximum end-of-day aggregate market risk exposure over the three month-period ended 31 December 2011. The end-of-period exposures below have been calculated by determining the end-of-day aggregate market risk as at 31 December 2011.

For each category of market risk, the peak end-of-day notional capital charge is the aggregate capital charge for that category of market risk derived in accordance with the Reserve Bank document 'Capital adequacy framework (standardised approach) (BS2A)'.

The following table provides a summary of the NZ Banking Group's notional capital charges by risk type as at the reporting date and the peak end-of-day notional capital charges by risk type for the three month-period ended 31 December 2011:

	NZ Banking Group	
	31 December 2011 (Unaudited)	
	Implied Risk-weighted Exposure $m	Notional Capital Charge $m
End-of-period		
Interest rate risk	2,010	161
Foreign currency risk	64	5
Equity risk	57	5
Peak end-of-day		
Interest rate risk	3,379	270
Foreign currency risk	172	14
Equity risk	57	5

15.3 Liquidity risk

Liquid assets

The table below shows the NZ Banking Group's holding of liquid assets and represents the key liquidity information provided to management. Liquid assets include high quality assets readily convertible to cash to meet the NZ Banking Group's liquidity requirements. In management's opinion, liquidity is sufficient to meet the NZ Banking Group's present requirements.

	NZ Banking Group
	31 December 2011 Unaudited $m
Cash	1,572
Supranational securities	326
NZ Government securities	4,022
NZ public securities	138
NZ corporate securities	2,283
Residential mortgage-backed securities	3,992
Total liquid assets	12,333

Note 16 Concentration of credit exposures to individual counterparties

The following credit exposures are based on actual credit exposures to individual counterparties and groups of closely related counterparties.

The number of individual bank counterparties (which are not members of a group of closely related counterparties), and groups of closely related counterparties of which a bank is the parent, to which the NZ Banking Group has an aggregate credit exposure that equals or exceeds 10% of the Overseas Banking Group's equity:

- as at 31 December 2011 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 December 2011 was nil.

The number of individual non-bank counterparties (which are not members of a group of closely related counterparties), and groups of closely related counterparties of which a bank is not the parent, to which the NZ Banking Group has an aggregate credit exposure that equals or exceeds 10% of the Overseas Banking Group's equity:

- as at 31 December 2011 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 December 2011 was nil.

The peak end-of-day aggregate credit exposures have been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure over the relevant three-month period, and then dividing that amount by the Overseas Banking Group's equity as at the end of the period.

Credit exposures to individual counterparties (not being members of a group of closely related counterparties), and to groups of closely related counterparties do not include exposures to the central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or to any bank with a long-term credit rating of A- or A3 or above, or its equivalent. These calculations relate only to exposures held in the financial records of the NZ Banking Group (excluding exposures booked outside New Zealand) and were calculated net of individually assessed provisions.

Note 17 Overseas Bank and Overseas Banking Group capital adequacy

	31 December 2011 Unaudited %	31 December 2010 Unaudited %
Overseas Banking Group[1]		
Tier One Capital ratio	**9.8**	9.2
Total Capital ratio	**11.0**	10.5
Overseas Bank (Extended Licensed Entity)[1]		
Tier One Capital ratio	**9.7**	9.4
Total Capital ratio	**11.3**	11.2

1 The capital ratios represent information mandated by Australian Prudential Regulation Authority ('**APRA**').

Basel II came into force on 1 January 2008. The Overseas Banking Group received accreditation from APRA to apply the Advanced Internal Ratings Based ('**Advanced IRB**') and Advanced Measurement Approach ('**AMA**') methodologies for calculating regulatory capital (known as 'Advanced Accreditation') and is required by APRA to hold minimum capital at least equal to that specified under the Advanced IRB and AMA methodologies. Under New Zealand regulations, this methodology is referred to as the Basel II (internal models based) approach. With this accreditation, the Overseas Banking Group is required to disclose additional detailed information on its risk management practices and capital adequacy on a quarterly and a semi-annual basis. This information is made available to users via the Overseas Banking Group website (www.westpac.com.au). The aim is to allow the market to better assess the Overseas Banking Group's risk and reward assessment process and hence increase the scrutiny on these processes.

The Overseas Banking Group, and the Overseas Bank (Extended Licensed Entity) as defined by APRA, exceeded the minimum capital adequacy requirements as specified by APRA as at 31 December 2011. APRA specifies a minimum prudential capital ratio for the Overseas Banking Group, which is not made publicly available.

The Overseas Banking Group's approach seeks to balance the fact that capital is an expensive form of funding with the need to be adequately capitalised as an ADI. The Overseas Banking Group considers the need to balance efficiency, flexibility and adequacy when determining sufficiency of capital and when developing capital management plans.

The Overseas Banking Group details these considerations through an Internal Capital Adequacy Assessment Process, the key features of which include:

- the development of a capital management strategy including target capital ratios, capital buffers and contingency plans which guide the development of specific capital plans;
- consideration of both economic and regulatory capital requirements;
- a process which challenges the capital measures, coverage and requirements which incorporates a comparison of economic and regulatory requirements and the use of the Quantitative Scenario Analysis (stress testing) framework that considers amongst others, the impact of adverse economic scenarios that threaten the achievement of planned outcomes; and
- consideration of the perspectives of external stakeholders such as regulators, rating agencies and equity investors.

Note 18 Other information on the Overseas Banking Group

Other information on the Overseas Banking Group is from the most recently published financial statements of the Overseas Banking Group for the year ended 30 September 2011.

Profitability	**30 September 2011 Audited**
Net profit after tax for the year ended 30 September 2011 (A$m)	**7,059**
Net profit after tax (for the year ended 30 September 2011) as a percentage of average total assets	**1.1%**

Total assets and equity	**As at 30 September 2011 Audited**
Total assets (A$m)	**670,228**
Percentage change in total assets for the year ended 30 September 2011	**8.4%**
Total equity (A$m)	**43,808**

Asset quality	**As at 30 September 2011 Audited**
Total individually impaired assets[1, 2] (A$m)	**4,200**
As a percentage of total assets	**0.6%**
Total individual credit impairment allowance (A$m)	**1,461**
As a percentage of total individually impaired assets	**34.8%**
Total collective credit impairment allowance (A$m)	**2,953**

1 Total individually impaired assets are before allowances for credit impairment loss and net of interest held in suspense.
2 Non-financial assets have not been acquired through the enforcement of security.

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