



Westpac New Zealand Limited Disclosure Statement

For the three months ended 31 December 2011

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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 (New Zealand Incorporated Registered Banks) Order (No 4) 2011 ('**Order**').

In this Disclosure Statement, reference is made to:

- Westpac New Zealand Limited (otherwise referred to as the '**Bank**'); and
- Westpac New Zealand Limited and its controlled entities (otherwise referred to as the '**Banking Group**'). Controlled entities of the Bank as at 30 September 2011 are set out in Note 26 to the Bank's financial statements included in the Disclosure Statement for the year ended 30 September 2011. Except as detailed in Notes 2 and 10 to the financial statements included in this Disclosure Statement, there have been no other changes in the structure or composition of the Banking Group since 30 September 2011.

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 Bank was incorporated as Westpac New Zealand Limited under the Companies Act 1993 (Company Number 1763882) on 14 February 2006. The head office of the Bank is situated at Westpac on Takutai Square, 16 Takutai Square, Auckland 1010, New Zealand and the address for service of the Bank is Westpac on Takutai Square, 53 Galway Street, Auckland, New Zealand.

The Bank is a subsidiary of Westpac New Zealand Group Limited ('**WNZGL**'), a New Zealand company, which in turn is a wholly-owned subsidiary of Westpac Overseas Holdings No. 2 Pty Limited, an Australian company. Westpac Overseas Holdings No. 2 Pty Limited is, in turn, a wholly-owned subsidiary of Westpac Banking Corporation, an Australian company ('**Ultimate Parent Bank**'). The Ultimate Parent Bank is incorporated in Australia under the Australian Corporations Act 2001 and its address for service is Level 20, Westpac Place, 275 Kent Street, Sydney, New South Wales 2000, Australia.

WNZGL has a direct qualifying interest in 88% of the voting securities of the Bank. Westpac Overseas Holdings No. 2 Pty Limited has a direct qualifying interest in 12% of the voting securities of the Bank. The Ultimate Parent Bank has an indirect qualifying interest in 100% of the voting securities of the Bank.

WNZGL has the ability to directly appoint up to 100% of the Board of Directors of the Bank (the '**Board**') and, as indirect holding companies of the Bank, both the Ultimate Parent Bank and Westpac Overseas Holdings No. 2 Pty Limited have the ability to indirectly appoint up to 100% of the Board.

In addition, the Ultimate Parent Bank has the power under the Bank's constitution to directly appoint up to 100% of the Board from time to time by giving written notice to the Bank.

All appointments to the Board must be approved by the Reserve Bank of New Zealand ('**Reserve Bank**') (refer to the Bank's conditions of registration on page 3 of this Disclosure Statement for details of the Reserve Bank's approval process).

Until 1 November 2006, the Ultimate Parent Bank operated through a branch in New Zealand. Effective 1 November 2006, the Ultimate Parent Bank has operated in New Zealand through both a branch of the Ultimate Parent Bank ('**NZ Branch**') (carrying on institutional banking and financial markets operations) and the Bank (a locally incorporated subsidiary of the Ultimate Parent Bank carrying on the Ultimate Parent Bank's New Zealand consumer and business banking operations). On 1 November 2011, the NZ Branch transferred additional business activities and associated employees to the Bank (refer to Note 2 Business combination – transfer of operations for further details). Further information on the NZ Branch is available in Westpac Banking Corporation's most recently published Disclosure Statement.

Details of the Ultimate Parent Bank

There has been no change in the legal identity of the Ultimate Parent Bank since 30 September 2011. There have been no changes to the name or address for service of the Ultimate Parent Bank since 30 September 2011. The Westpac Banking Corporation Group (otherwise referred to as the '**Ultimate Parent Bank Group**') refers to the total worldwide business of Westpac Banking Corporation including its controlled entities.

Limits on material financial support by the Ultimate Parent Bank

Since 30 September 2011, there has been no material change in the regulations, legislation, or other restrictions of a legally enforceable nature that may materially inhibit the legal ability of the Ultimate Parent Bank to provide material financial support to the Bank.

Directors

There have been no changes in the composition of the Board of Directors of the Bank (the '**Board**') since 30 September 2011.

Credit ratings

The 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 the Directors signed this Disclosure Statement:

Rating Agency	Current Credit Rating	Rating Outlook
Fitch Ratings	AA-	Stable
Moody's Investors Service	Aa3	Stable
Standard & Poor's	AA-	Stable

On 30 January 2012, Fitch Ratings ('**Fitch**') placed the 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 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 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 Bank. Such ratings are subject to revision, qualification, suspension or withdrawal at any time by the assigning rating agency. Investors in the Bank's securities are cautioned to evaluate each rating independently of any other rating.

Guarantee arrangements

Certain material obligations of the Bank are guaranteed as at the date the Directors signed this Disclosure Statement.

Government Wholesale Guarantee

The Bank has a Wholesale Funding Guarantee Facility Deed and Wholesale Funding Guarantee with the New Zealand Government ('**Crown**'), each dated 23 February 2009 (together the '**Wholesale Guarantee**').

The Wholesale Guarantee closed on 30 April 2010 from which date no new Guarantee Eligibility Certificates can be issued. Guarantee Liabilities existing as at 30 April 2010 were not affected.

Description of Wholesale Guarantee

The following description of the Wholesale Guarantee is for general information purposes only and does not purport to be exhaustive. Further information about the Wholesale Guarantee is available from the Treasury internet site www.treasury.govt.nz.

The guarantor of the Bank's obligations under the Wholesale Guarantee is the Crown. The Crown's address for service in relation to the Wholesale Guarantee is:

- (i) Minister of Finance, Parliament Buildings, Wellington; or
 - (ii) New Zealand High Commissioner in London at the address of the New Zealand High Commission in London for the time being; or
 - (iii) New Zealand Consul and Trade Commissioner at the address of the New Zealand Consulate-General in New York for the time being;
- in each case with a copy (with delivery made by hand or facsimile) to: The Treasurer, The New Zealand Debt Management Office, 1 The Terrace, Wellington, New Zealand.

Further information about the Wholesale Guarantee is included in the Bank's Disclosure Statement for the year ended 30 September 2011. A copy of the Bank's Disclosure Statement for the year ended 30 September 2011 is 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.

Summary of obligations guaranteed

The obligations guaranteed by the Crown under the Wholesale Guarantee are obligations of the Bank to pay money to a Beneficiary (as defined below) under a Guaranteed Liability. A Guaranteed Liability is a liability to pay principal or interest in respect of which the Crown has issued a Guarantee Eligibility Certificate under the Wholesale Guarantee.

In this context, a Beneficiary means each person to whom a Guaranteed Liability is owed, excluding a 'Related Party' of the Bank as that term is defined in the Wholesale Guarantee and anyone acting as a nominee of, or trustee for, a Related Party.

The Crown has issued Guarantee Eligibility Certificates in respect of payment obligations of the Bank under certain notes issued by the Bank. The Crown has also issued Guarantee Eligibility Certificates in respect of payment obligations of the Bank as guarantor of certain notes issued by Westpac Securities NZ Limited ('**WSNZL**'), a controlled entity of the Bank. Copies of the Guarantee Eligibility Certificates issued, which provide further details of the obligations of the Bank guaranteed by the Crown under the Wholesale Guarantee, are available on the New Zealand Treasury internet site www.treasury.govt.nz.

Expiry of the Wholesale Guarantee

For each Guaranteed Liability the guarantee under the Wholesale Guarantee will expire at midnight on the date falling 30 days after the earlier of:

- (i) the scheduled maturity date of the security under which that Guaranteed Liability arises; and
- (ii) the date falling five years after the issue date of the security under which that Guaranteed Liability arises.

There is no provision for the withdrawal of the Wholesale Guarantee in respect of a Guaranteed Liability.

There have been no changes to the terms of the Wholesale Guarantee since the date of signing of the Bank's Disclosure Statement for the year ended 30 September 2011.

Pending proceedings or arbitration

There are no pending legal proceedings or arbitration as at the date this Disclosure Statement is signed involving any member of the Banking Group, whether in New Zealand or elsewhere, that may have a material adverse effect on the Banking Group or the Bank.

The contingent liabilities of the Banking Group are set out in Note 11 Commitments and contingent liabilities.

Conditions of registration

The conditions of registration imposed on the Bank, which applied on and from 31 December 2011, are as follows:

1. That the Banking Group complies with the following requirements:
 - (a) the Total Capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand ('**Reserve Bank**') document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011 is not less than 8%;
 - (b) the Tier One Capital ratio of the Banking Group calculated in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011 is not less than 4%; and
 - (c) the Capital of the Banking Group calculated in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011 is not less than \$30 million.

For the purposes of this condition of registration the scalar referred to in the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011 is 1.06.

1A. That:

- (a) the Bank has an internal capital adequacy assessment process ('**ICAAP**') that accords with the requirements set out in the document 'Guidelines on a bank's internal capital adequacy assessment process ('**ICAAP**')' (BS12) dated December 2007;
- (b) under its ICAAP the Bank identifies and measures its 'other material risks' defined as all material risks of the Banking Group that are not explicitly captured in the calculation of Tier One and Total Capital ratios under the requirements set out in the document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011; and
- (c) the Bank determines an internal capital allocation for each identified and measured 'other material risk'.

Conditions of registration (continued)

- 1B. That the Banking Group complies with all requirements set out in the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011.
2. 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.
3. 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.
4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the Banking Group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit rating¹	Connected exposure limit (% of the Banking Group's Tier One Capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

¹ This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service (Fitch Ratings' scale is identical to Standard & Poor's).

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the Banking Group's Tier One Capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank document entitled 'Connected exposures policy' (BS8) dated June 2011.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.
- 5A. Before and on 31 March 2012, that the Bank complies with the following corporate governance requirements:
- (a) the Board of the Bank must contain at least two independent directors. In this context an independent director is a director who is not an employee of the Bank, and who is not a director, trustee or employee of any holding company of the Bank or any other entity capable of controlling or significantly influencing the Bank;
- (b) the chairperson of the Bank's Board must not be an employee of the Bank; and
- (c) the Bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).
6. On and after 1 April 2012, that the Bank complies with the following corporate governance requirements:
- (a) the Board of the Bank must have at least five directors;
- (b) the majority of the Board members must be non-executive directors;
- (c) at least half of the Board members must be independent directors;
- (d) an alternate director:
- (i) for a non-executive director must be non-executive; and
- (ii) for an independent director must be independent;
- (e) at least half of the independent directors of the Bank must be ordinarily resident in New Zealand;
- (f) the chairperson of the Board of the Bank must be independent; and
- (g) the Bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).

For the purposes of this condition of registration, 'non-executive' and 'independent' have the same meaning as in the Reserve Bank document entitled 'Corporate Governance' (BS14) dated March 2011.

Conditions of registration (continued)

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the Bank 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.
8. On and after 1 April 2012, that a person must not be appointed as chairperson of the Board of the Bank 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.
9. On and after 1 April 2012, that the Bank has a Board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
- (a) the mandate of the committee must include: ensuring the integrity of the Bank's financial controls, reporting systems and internal audit standards;
 - (b) the committee must have at least three members;
 - (c) every member of the committee must be a non-executive director of the Bank;
 - (d) the majority of the members of the committee must be independent; and
 - (e) the chairperson of the committee must be independent and must not be the chairperson of the Bank.
- For the purposes of this condition of registration, 'non-executive' and 'independent' have the same meaning as in the Reserve Bank document entitled 'Corporate Governance' (BS14) dated March 2011.
10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.
11. That the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried on by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the Bank or of a service provider to the Bank, the following outcomes:
- (a) that the Bank's clearing and settlement obligations due on a day can be met on that day;
 - (b) that the Bank's financial risk positions on a day can be identified on that day;
 - (c) that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
 - (d) that the Bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.
- For the purposes of this condition of registration, the term 'legal and practical ability to control and execute' is explained in the Reserve Bank document entitled 'Outsourcing Policy' (BS11) dated January 2006.
12. That:
- (a) the business and affairs of the Bank are managed by, or under the direction or supervision of, the Board of the Bank;
 - (b) the employment contract of the chief executive officer of the Bank or person in an equivalent position (together 'CEO') is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the Board of the Bank; and
 - (c) all staff employed by the Bank have their remuneration determined by (or under the delegated authority of) the board or the CEO of the Bank and are accountable (directly or indirectly) to the CEO of the Bank.
13. That, for the purposes of calculating the Bank's capital ratios on a solo basis, a credit conversion factor of zero is only applied to a guarantee of a financing subsidiary's financial obligations if, in substance, the guarantee does not create a risk of loss for the Bank.
14. Subject to condition 14A, that the Banking Group complies with the following quantitative requirements for liquidity-risk management:
- (a) the one-week mismatch ratio of the Banking Group is not less than 0% at the end of each business day;
 - (b) the one-month mismatch ratio of the Banking Group is not less than 0% at the end of each business day; and
 - (c) the one-year core funding ratio of the Banking Group is not less than 70% at the end of each business day.
- For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank documents entitled 'Liquidity Policy' (BS13) dated March 2011 and 'Liquidity Policy Annex: Liquid Assets' (BS13A) dated December 2011.
- 14A. Until the date on which the Bank publishes its disclosure statement for the accounting period ending 31 December 2011, the Bank must use the following substitute definitions to calculate the ratios in condition 14:
- 'total loans and advances' is the sum of:
- (a) the amount of the banking group's loans and advances reported in its most recent month-end management accounts; and
 - (b) the amounts of loans and advances that were transferred to the Banking Group from the NZ Branch on 1 November 2011, as identified in the most recent month-end management accounts for those entities, except to the extent that this amount is included in the amount in paragraph (a):
- 'total assets' is the sum of:
- (a) the amount of the Banking Group's assets reported in its most recent month-end management accounts; and
 - (b) the amount of assets that were transferred to the Banking Group from the NZ Branch on 1 November 2011, as identified in the most recent month-end management accounts for those entities, except to the extent that this amount is included in the amount in paragraph (a):
- 'Tier One capital' is the sum of:
- (a) Tier One capital as defined in BS13; and
 - (b) The amount of Tier One capital injected into the Banking Group by Westpac New Zealand Group Limited in October 2011, except to the extent that this amount is included in the amount in paragraph (a).

Conditions of registration (continued)

15. That the Bank has an internal framework for liquidity risk management that is adequate in the Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:
- is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
 - identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
 - identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and
 - considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.
16. That no more than 10% of total assets may be beneficially owned by a SPV.
- For the purposes of this condition:
- 'total assets' means all assets of the Banking Group plus any assets held by any SPV that are not included in the Banking Group's assets:
- 'SPV' means a person:
- to whom any member of the Banking Group has sold, assigned, or otherwise transferred any asset;
 - who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
 - who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the Banking Group under a covered bond:
- 'covered bond' means a debt security issued by any member of the Banking Group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.
17. That:
- no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
 - the registered bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
 - at the time of notifying the Reserve Bank of the intended acquisition or business combination, the registered bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document 'Significant Acquisition Policy' (BS15) dated December 2011; and
 - no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:
 - the registered bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
 - at the time of notifying the Reserve Bank in writing of the intended acquisition or business combination, the registered bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document 'Significant Acquisitions Policy' (BS15) dated December 2011; and
 - the Reserve Bank has given the registered bank a notice of non-objection to the significant acquisition or business combination.

For the purposes of this condition of registration, 'qualifying acquisition or business combination', 'notification threshold' and 'non-objection threshold' have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document 'Significant Acquisitions Policy' (BS15) dated December 2011.

This condition of registration applies to acquisitions and business combinations to which a member of the Banking Group intends to give effect on or after 1 April 2012.

In these conditions of registration:

- 'Banking Group' means Westpac New Zealand Limited's financial reporting group as defined in section 2(1) of the Financial Reporting Act 1993; and
- 'generally accepted accounting practice' has the same meaning as in section 2 of the Financial Reporting Act 1993.

The following changes were made to the Bank's conditions of registration during the three months ended 31 December 2011:

- On 28 October 2011 the Bank's conditions of registration were changed to include a new condition 14A which varies the way the Bank is required to calculate the ratios referred to in condition 14. Condition 14 was also changed to make it subject to condition 14A. These changes were effective from 1 November 2011;
- On 21 November 2011 the Bank's conditions of registration were changed to reflect changes made by the Reserve Bank to 'Liquidity Policy Annex: Liquid Assets' (BS13A) so that references in the conditions of registration to "Liquidity Policy Annex: Liquid Assets (BS13A) dated March 2010" were replaced with references to "Liquidity Policy Annex: Liquid Assets (BS13A) dated November 2011." BS13A was amended to ensure that domestic currency New Zealand government securities will always qualify as primary liquid assets. These changes were effective from 25 November 2011;
- On 22 December 2011 the Bank's conditions of registration were changed to reflect further changes made by the Reserve Bank to 'Liquidity Policy Annex: Liquid Assets' (BS13A) so that references to "Liquidity Policy Annex: Liquid Assets (BS13A) dated November 2011" in the conditions of registration that applied from 25 November 2011 were replaced with references to "Liquidity Policy Annex: Liquid Assets (BS13A) dated December 2011". BS13A was revised to make changes to the treatment of securities guaranteed by the Crown and 'Kauri' securities (New Zealand dollar denominated securities issued by overseas sovereigns, supranationals and quasi-sovereign entities). These changes were effective from 31 December 2011; and
- Also on 22 December 2011 the Bank's conditions of registration were changed to include condition 17, which addresses significant acquisitions. This condition applies from 1 April 2012 and requires that the Bank notify the Reserve Bank of acquisitions above a specified threshold (as set out in 'Significant Acquisitions Policy' (BS15)) and seek the Reserve Bank's consent (a notice of non-objection) for transactions above a specified larger threshold. The policy provides for acquisitions over a 12 month period to be considered as one transaction, and also applies to acquisitions of some debt securities. These changes were effective from 31 December 2011.

Other material matters

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

Directors' statement

Each Director of the Bank 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 Bank believes, after due enquiry, that, over the three months ended 31 December 2011:

- (a) the Bank has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank Act;
- (b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
- (c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement has been signed by all the Directors:



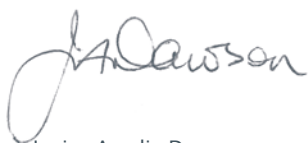
Peter David Wilson



George Frazis



Philip Matthew Coffey



Janice Amelia Dawson



Christopher John David Moller



Ralph Graham Waters

Dated this 29th day of February 2012

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Consolidated income statement for the three months ended 31 December 2011

		The 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
		Note		
Interest income			898	3,521
Interest expense			(589)	(2,205)
Net interest income			309	1,316
Non-interest income:				
Fees and commissions	3	86	74	299
Gains on ineffective hedges	3	-	1	1
Other non-interest income/(expense)	3	-	(1)	8
Total non-interest income		86	74	308
Net operating income		429	383	1,624
Operating expenses		(200)	(190)	(771)
Impairment charges on loans	4	(28)	(57)	(224)
Operating profit		201	136	629
Share of profit of associate accounted for using the equity method		-	-	1
Profit before Income tax expense		201	136	630
Income tax expense		(56)	(41)	(197)
Profit after Income tax expense		145	95	433
Profit after Income tax expense attributable to:				
Owners of the Banking Group		144	94	429
Non-controlling interests		1	1	4
		145	95	433

The accompanying notes (numbered 1 to 17) 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

	The 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	145	95	433
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/(losses) from changes in fair value of cash flow hedges	68	(8)	18
Transferred to the income statement	3	2	11
Actuarial losses on employee defined benefit superannuation schemes	-	-	(15)
Income tax relating to components of other comprehensive income ¹	(30)	2	(3)
Other comprehensive income/(expense), net of tax	83	(9)	17
Total comprehensive income	228	86	450
Total comprehensive income attributable to:			
Owners of the Banking Group	227	85	446
Non-controlling interests	1	1	4
	228	86	450

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

	The Banking Group		
	Before Tax Amount \$m	Tax Benefit/ (Expense) \$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	68	(19)	49
Transferred to the income statement	3	(1)	2
Other comprehensive income	113	(30)	83
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 losses from changes in fair value of cash flow hedges	(8)	3	(5)
Transferred to the income statement	2	(1)	1
Other comprehensive expense	(11)	2	(9)
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	18	(5)	13
Transferred to the income statement	11	(3)	8
Actuarial losses on employee defined benefit superannuation schemes	(15)	5	(10)
Other comprehensive income	20	(3)	17

The accompanying notes (numbered 1 to 17) 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

The Banking Group

	Share Capital \$m	Retained Profits \$m	Available- for-sale Securities Reserve \$m	Cash Flow Hedge Reserve \$m	Total before Non- controlling Interests \$m	Non- controlling Interests \$m	Total \$m
As at 1 October 2010	3,470	548	25	(1)	4,042	6	4,048
Three months ended 31 December 2010							
Profit after income tax expense	-	94	-	-	94	1	95
Other comprehensive expense	-	-	(5)	(4)	(9)	-	(9)
Total comprehensive income/(expense) for the three months ended 31 December 2010	-	94	(5)	(4)	85	1	86
As at 31 December 2010 (Unaudited)	3,470	642	20	(5)	4,127	7	4,134
Year ended 30 September 2011							
Profit after income tax expense	-	429	-	-	429	4	433
Other comprehensive (expense)/income	-	(10)	6	21	17	-	17
Total comprehensive income for the year ended 30 September 2011	-	419	6	21	446	4	450
Transaction with owners:							
Dividends paid on ordinary shares	-	-	-	-	-	(2)	(2)
As at 30 September 2011 (Audited)	3,470	967	31	20	4,488	8	4,496
Three months ended 31 December 2011							
Profit after income tax expense	-	144	-	-	144	1	145
Other comprehensive income	-	-	32	51	83	-	83
Total comprehensive income for the three months ended 31 December 2011	-	144	32	51	227	1	228
Transaction with owners:							
Share capital issued	1,130	-	-	-	1,130	-	1,130
Dividends paid on ordinary shares	-	(230)	-	-	(230)	-	(230)
As at 31 December 2011 (Unaudited)	4,600	881	63	71	5,615	9	5,624

The accompanying notes (numbered 1 to 17) form part of, and should be read in conjunction with, these financial statements.

Consolidated balance sheet as at 31 December 2011

		The Banking Group		
	Note	31 December 2011 Unaudited \$m	31 December 2010 Unaudited \$m	30 September 2011 Audited \$m
Assets				
Cash and balances with central banks		1,214	583	1,215
Due from other financial institutions		144	3	699
Derivative financial instruments		62	16	85
Trading securities	5	2,576	2,958	3,261
Available-for-sale securities		2,513	40	1,518
Loans	6, 7	57,583	50,072	51,250
Due from related entities		1,832	1,462	1,517
Current tax assets		-	2	-
Investment in associate		48	48	48
Goodwill and other intangible assets		573	561	567
Property, plant and equipment		156	134	154
Deferred tax assets		204	261	194
Other assets		219	153	148
Total assets		67,124	56,293	60,656
Liabilities				
Due to other financial institutions		192	-	100
Deposits	8	41,156	33,254	34,886
Derivative financial instruments		213	-	84
Debt issues	9	13,560	15,461	17,630
Current tax liabilities		80	-	45
Provisions		66	61	70
Other liabilities		591	581	569
Total liabilities excluding perpetual subordinated notes and due to related entities		55,858	49,357	53,384
Perpetual subordinated notes		970	970	970
Due to related entities		4,672	1,832	1,806
Total liabilities		61,500	52,159	56,160
Net assets		5,624	4,134	4,496
Equity				
Share capital		4,600	3,470	3,470
Retained profits		881	642	967
Available-for-sale securities reserve		63	20	31
Cash flow hedge reserve		71	(5)	20
Total equity attributable to owners of the Banking Group		5,615	4,127	4,488
Non-controlling interests		9	7	8
Total equity		5,624	4,134	4,496
Interest earning and discount bearing assets		66,184	54,997	59,737
Interest and discount bearing liabilities		56,586	47,381	52,060

The accompanying notes (numbered 1 to 17) 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

	The 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	935	906	3,527
Interest expense paid	(591)	(559)	(2,205)
Non-interest income received	48	56	306
Net decrease/(increase) in trading securities	2,642	(371)	(674)
Net movement in derivative financial instruments	157	-	16
Operating expenses paid	(207)	(172)	(682)
Income tax paid	(33)	(60)	(151)
Net cash provided by/(used in) operating activities	2,951	(200)	137
Cash flows from investing activities			
Net increase in available-for-sale securities	(953)	-	(1,468)
Net loans advanced to customers	(25)	(96)	(1,440)
Net increase in due from related entities	(315)	(632)	(687)
Purchase of capitalised computer software	(12)	(6)	(44)
Purchase of property, plant and equipment	(9)	(12)	(55)
Net cash acquired from the transfer of additional banking operations	(154)	-	-
Net cash used in investing activities	(1,468)	(746)	(3,694)
Cash flows from financing activities			
Issue of ordinary share capital	1,130	-	-
Net increase in deposits	1,210	788	2,420
Net (decrease)/increase in debt issues	(4,070)	22	2,191
Net (decrease)/increase in due to related entities	(171)	197	237
Payment of dividends	(230)	-	(2)
Net cash (used in)/provided by financing activities	(2,131)	1,007	4,846
Net (decrease)/increase in cash and cash equivalents	(648)	61	1,289
Cash and cash equivalents at beginning of the period/year	1,814	525	525
Cash and cash equivalents at end of the period/year	1,166	586	1,814
Cash and cash equivalents comprise:			
Cash and balances with central banks	1,214	583	1,215
Due to other financial institutions (net)	(48)	3	599
	1,166	586	1,814
Reconciliation of profit after income tax expense to net cash provided by/(used in) operating activities			
Profit after income tax expense	145	95	433
<i>Adjustments:</i>			
Impairment charges on loans	28	57	224
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	15
Movement in other assets	(49)	(10)	8
Movement in other liabilities	(13)	29	15
Movement in current and deferred tax	5	(19)	86
Tax losses transferred from/(to) related entities	28	-	(45)
Tax on available-for-sale reserve	(10)	-	-
Movement in trading securities	2,642	(371)	(674)
Movement in derivative financial instruments	157	1	16
Net cash provided by/(used in) operating activities	2,951	(200)	137

The accompanying notes (numbered 1 to 17) 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 consolidated financial statements have been prepared and presented in accordance with the Order and the Reserve Bank Act.

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('**NZ GAAP**'), as appropriate for profit-oriented entities, and 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 Banking Group's reported result or financial position.

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

- Westpac New Zealand Limited and its controlled entities (otherwise referred to as the '**Banking Group**'); and
- Westpac New Zealand Limited (otherwise referred to as the '**Bank**').

Controlled entities of the Banking Group as at 30 September 2011 are set out in Note 26 to the Banking Group's financial statements included in the Disclosure Statement for the year ended 30 September 2011. Except as detailed in Notes 2 and 10 to these financial statements, there have been no other changes to the composition of the Banking Group since 30 September 2011.

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

These 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 accrual 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 Disclosure Statement 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.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries (including special purpose entities) controlled by the Bank and the results of those subsidiaries. The effects of all transactions between entities in the Banking Group are eliminated. Control exists when the parent entity has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

Subsidiaries are fully consolidated from the date on which control commences and are de-consolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Banking Group.

Notes to the financial statements

Note 1 Statement of accounting policies (continued)

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

Non-controlling interests are stated at the proportion of the net profit and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly by the Bank. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

Common control transactions

The predecessor method of accounting is used to account for business combinations between entities in the Banking Group.

Assets acquired and liabilities assumed in a common control transaction are measured initially at the acquisition date at the carrying value from the Ultimate Parent Bank's perspective. The excess of the cost of acquisition over the initial carrying values of the entity's share of the net assets acquired is recorded as part of a common control reserve.

Note 2 Business combination – transfer of operations

Until 1 November 2006, the Ultimate Parent Bank conducted its operations in New Zealand through a branch structure. On that date, and after extensive consultation with the Reserve Bank, the Ultimate Parent Bank adopted a dual operating model including a locally incorporated subsidiary, the Bank, to conduct its consumer and business banking operations in New Zealand, and the NZ Branch to conduct its institutional and financial markets operations.

Following an independent review of the structure of the operating model of the Ultimate Parent Bank's business in New Zealand, the Reserve Bank, the Bank and the Ultimate Parent Bank reached agreement on changes to the operating model. On 1 November 2011, assets and liabilities associated with certain business activities formerly conducted by the NZ Branch were transferred to the Bank. The transfer occurred pursuant to the Westpac New Zealand Act 2011.

The following business activities were transferred to the Bank:

- institutional customer deposits;
- institutional customer transactional banking;
- institutional customer lending (other than trade financing activities);
- debt capital markets activities carried out in assisting corporate customers to obtain funding, such as loan syndication and securitisation arrangements, but excluding the debt securities team activities, such as arrangement of commercial paper and bond programmes;
- corporate advisory; and
- institutional customer foreign currency accounts.

The NZ Branch has retained:

- financial markets operations for external customers, including sales and trading of capital markets products and foreign exchange for corporate and institutional customers;
- pricing and risk management for interest rate, foreign exchange and commodity products for retail, business and institutional customers of the Bank;
- trading of capital markets products and foreign exchange as principal;
- global intra-group financing functions;
- correspondent bank relationships;
- debt securities team activities, such as arrangement of commercial paper and bond programmes; and
- international business, including trade finance activities but excluding customer foreign currency accounts.

The acquisition involved the transfer to the Bank of \$6,446 million of assets consisting primarily of loans to corporate customers (\$6,336 million) and \$5,303 million of liabilities consisting primarily of deposits (\$5,060 million). For the financial year ended 30 September 2011, the business activities transferred from the NZ Branch to the Bank accounted for net operating income of \$166 million (30 September 2010: \$163 million) and profit after income tax expense of \$114 million (30 September 2010: \$103 million).

Funding of acquisition

To fund the purchase of the assets and liabilities relating to the business activities transferred from the NZ Branch (as well as the additional liquid assets required to be held by the Banking Group as a result of the transfer), a loan of \$3.1 billion was provided to the Bank by the NZ Branch and the Bank raised \$1,130 million in additional share capital.

The loan is for a period of three years and has been priced at the New Zealand Bank Bill Reference Rate plus a margin that reflected market pricing on 1 November 2011.

The Bank issued a total of 1,130 million additional ordinary shares for \$1 per share to the Bank's immediate parent company, WNZGL, in connection with the transfer. On 28 October 2011, the Bank issued 900 million ordinary shares for \$1 per share, and on 31 October 2011, the Bank issued an additional 230 million ordinary shares for \$1 per share. Immediately prior to the issuance of these additional 230 million ordinary shares, the Bank paid a dividend to WNZGL of \$230 million. These transactions were in accordance with the Banking Group's capital management policy.

Compliance with condition of registration 14 and BS13 requirements

As a result of the transfer of the business activities set out above, the Banking Group is required to hold additional liquid assets in order to comply with condition of registration 14, which relates to liquidity, and the Reserve Bank document *Liquidity Policy* (BS13). These liquid assets were acquired through a combination of on market purchases and a purchase of liquid assets from the NZ Branch. The Banking Group was compliant with both condition of registration 14 and BS13 immediately following the transfer on 1 November 2011.

Note 2 Business combination – transfer of operations (continued)

Asset and liabilities transferred from the NZ Branch to the Bank as at 1 November 2011

	Assets and Liabilities Transferred As at 1 November 2011 \$m
Assets	
Cash and balances with central banks	58
Loans	6,336
Deferred tax assets	28
Other assets	24
Total assets	6,446
Liabilities	
Due to other financial institutions	212
Deposits	5,060
Provisions	12
Other liabilities	19
Total liabilities	5,303
Net assets acquired	1,143

Contingent liabilities and commitments transferred from the NZ Branch to the Bank as at 1 November 2011

	The Bank As at 1 November 2011 \$m
Contingent liabilities and commitments	
Transaction-related contingent items	421
Short-term, self-liquidating trade-related contingent liabilities	107
Other commitments to provide financial services which have an original maturity of one year or more	3,982
Other commitments with original maturity of less than one year or which can be unconditionally cancelled at any time	2,482
Total contingent liabilities and commitments	6,992

Consideration paid for the business transferred from the NZ Branch to the Bank on 1 November 2011

	The Bank As at 1 November 2011 \$m
Consideration transferred	
Intragroup payables	3,100
Trading securities	(1,957)
Total consideration transferred	1,143

Notes to the financial statements

Note 2 Business combination – transfer of operations (continued)

Impact of the acquired business activities on the Banking Group

	Note	Banking Group		Total \$m
		Pre-existing Operations \$m	Transferred Operations ¹ \$m	
For the period ended 31 December 2011				
Interest income		856	88	944
Interest expense		(535)	(66)	(601)
Net interest income		321	22	343
Non-interest income				
Fees and commissions	3	77	9	86
Total non-interest income		77	9	86
Net operating income		398	31	429
Operating expenses		(196)	(4)	(200)
Impairment charges on loans	4	(37)	9	(28)
Profit before income tax expense		165	36	201
Income tax expense		(48)	(8)	(56)
Profit after income tax expense		117	28	145

Acquired business activities presented as though the acquisition occurred on 1 October 2011

	Note	Pre-acquisition result ² \$m	Transferred Operations ¹ \$m	Total \$m
Interest income		46	88	134
Interest expense		(30)	(66)	(96)
Net interest income		16	22	38
Non-interest income				
Fees and commissions	3	4	9	13
Total non-interest income		4	9	13
Net operating income		20	31	51
Operating expenses		(2)	(4)	(6)
Impairment charges on loans	4	2	9	11
Profit before income tax expense		20	36	56
Income tax expense		(5)	(8)	(13)
Profit after income tax expense		15	28	43

1 Represents the two month result of the acquired business operations since the acquisition date on 1 November 2011 as included in the Banking Group's consolidated income statement.

2 Represents the pre-acquisition result of the transferred business operations from 1 October 2011 through 31 October 2011.

Notes to the financial statements

Note 3 Non-interest income

	The 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	57	53	210
Lending fees (loan and risk)	14	13	55
Management fees received from related entities	1	1	3
Insurance commissions received	8	7	30
Other non-risk fee income	6	-	1
Total fees and commissions	86	74	299
Gains on ineffective hedges	-	1	1
Other non-interest income			
Net unrealised losses on derivatives held for risk management purposes	-	(1)	(4)
Dividend income	-	-	3
Gains on disposal of property, plant and equipment	-	-	7
Other	-	-	2
Total other non-interest income	-	(1)	8
Total non-interest income	86	74	308

Note 4 Impairment charges on loans

	The 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 provisions	2	3	(11)	(6)
Individually assessed provisions	8	-	17	25
Bad debt write-off directly to the income statement	(1)	11	7	17
Interest adjustments	(1)	(2)	(5)	(8)
Total impairment charges on loans	8	12	8	28
Three months ended 31 December 2010 (Unaudited)				
Collectively assessed provisions	(2)	-	-	(2)
Individually assessed provisions	23	-	32	55
Bad debt write-off directly to the income statement	1	11	3	15
Interest adjustments	(2)	(4)	(5)	(11)
Total impairment charges on loans	20	7	30	57
Year ended 30 September 2011 (Audited)				
Collectively assessed provisions	(14)	(35)	(33)	(82)
Individually assessed provisions	80	-	187	267
Bad debt write-off directly to the income statement	5	44	23	72
Interest adjustments	(6)	(12)	(15)	(33)
Total impairment charges on loans	65	(3)	162	224

Notes to the financial statements

Note 5 Trading securities

	The Banking Group		
	31 December 2011 Unaudited \$m	31 December 2010 Unaudited \$m	30 September 2011 Audited \$m
Trading securities			
Listed:			
NZ Government securities	686	1,772	1,035
Total listed securities	686	1,772	1,035
Unlisted:			
NZ corporate securities:			
Certificates of deposit	1,578	1,186	2,007
Corporate bonds	206	-	209
NZ Government securities	106	-	10
Total unlisted securities	1,890	1,186	2,226
Total trading securities	2,576	2,958	3,261

As at 31 December 2011 no trading securities in the Banking Group (31 December 2010: nil, 30 September 2011: nil) were encumbered through repurchase agreements.

Note 6 Loans

	The Banking Group		
	31 December 2011 Unaudited \$m	31 December 2010 Unaudited \$m	30 September 2011 Audited \$m
Overdrafts	1,144	907	945
Credit card outstandings	1,332	1,305	1,270
Money market loans	918	597	571
Term loans:			
Housing	35,108	34,302	35,086
Non-housing	19,272	13,454	13,743
Other	477	256	208
Total gross loans	58,251	50,821	51,823
Provisions for impairment charges on loans	(668)	(749)	(573)
Total net loans	57,583	50,072	51,250

Movements in impaired assets and provisions for impairment charges on loans are outlined in Note 7.

On 22 November 2010, Westpac NZ Covered Bond Limited ('**WNZCBL**') was incorporated, as part of the Banking Group's global covered bond programme, to hold a portion of the Banking Group's housing loans and to provide guarantees of the covered bonds issued from time to time by WSNZL. WSNZL is an indirect, wholly-owned subsidiary company of the Bank. 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 the Bank's financial statements in accordance with the accounting policies outlined in Note 1 to the financial statements for the year ended 30 September 2011.

Note 7 Credit quality, impaired assets and provisions for impairment charges on loans

	The 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	-	-	7,458	7,458
Good/Satisfactory	33,570	1,668	11,127	46,365
Weak	-	-	1,501	1,501
Total neither past due nor impaired	33,570	1,668	20,086	55,324
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 assets¹	1,359	149	510	2,018
Individually impaired assets²				
Balance at beginning of the period	195	-	598	793
Additions	59	-	46	105
Amounts written off	(8)	-	(12)	(20)
Individually impaired assets acquired in business combination	-	-	118	118
Returned to performing or repaid	(67)	-	(20)	(87)
Balance at end of the period	179	-	730	909
Restructured assets				
Balance at beginning of the period	1	-	-	1
Deletions	(1)	-	-	(1)
Balance at end of the period	-	-	-	-
Total impaired assets	179	-	730	909
Total gross loans³	35,108	1,817	21,326	58,251
Individually assessed provisions				
Balance at beginning of the period	64	-	160	224
Impairment charges on loans:				
New provisions	18	-	19	37
Recoveries	(1)	-	-	(1)
Reversals of previously recognised impairment charges on loans	(9)	-	(2)	(11)
Amounts written off	(9)	-	(5)	(14)
Interest adjustments	-	-	1	1
Individually assessed provisions acquired in business combination	-	-	40	40
Balance at end of the period	63	-	213	276
Collectively assessed provisions				
Balance at beginning of the period	66	69	240	375
Impairment movements on loans	2	3	(11)	(6)
Collectively assessed provisions acquired in business combination	-	-	57	57
Balance at end of the period	68	72	286	426
Total provision for impairment charges on loans and credit commitments	131	72	499	702
Provision for credit commitments	-	-	(34)	(34)
Total provision for impairment charges on loans	131	72	465	668
Total net loans	34,977	1,745	20,861	57,583

As at 31 December 2011, the Banking Group had no other interest bearing assets that would be required to be disclosed as non-accrual⁴, past due, restructured or potential problem loans⁴, if such assets were loans.

1 Past due assets are not impaired assets under NZ IFRS.

2 The Banking Group has an undrawn balance of \$4 million on individually impaired assets under loans for business purposes as at 31 December 2011.

3 The Banking Group did not have other assets under its administration or any financial, real estate or other assets acquired through security enforcement as at 31 December 2011.

4 Loans with individually assessed impairment provisions held against them, excluding restructured loans, are classified as non-accrual for US Securities and Exchange Commission reporting purposes. Potential problem loans are facilities that are performing and no loss is expected, but the customer demonstrates significant weakness in debt servicing or security cover that could jeopardise repayment of debt on current terms if not rectified.

Notes to the financial statements

Note 8 Deposits

	The 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
Total deposits at fair value	1,319	1,939	1,556
Deposits at amortised cost			
Non-interest bearing, repayable at call	3,066	2,649	2,699
Other interest bearing:			
At call	15,636	10,439	11,403
Term	21,135	18,227	19,228
Total deposits at amortised cost	39,837	31,315	33,330
Total deposits	41,156	33,254	34,886

Priority of financial liabilities in the event of liquidation

In the unlikely event that the Bank was put into liquidation or ceased to trade, claims of secured creditors and those creditors set out in the Seventh Schedule of the Companies Act 1993 would rank ahead of the claims of unsecured creditors. Deposits from customers are unsecured and rank equally with other unsecured liabilities of the Bank, and such liabilities rank ahead of any subordinated instruments issued by the Bank.

Note 9 Debt issues

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

Note 10 Related entities

There have been no changes to the structure or composition of the Banking Group since 30 September 2011. On 1 November 2011, the NZ Branch transferred additional business activities and associated employees to the Bank, which was accounted for as a business combination (refer to Note 2 Business combination – transfer of operations for further details).

Controlled entities of the Banking Group as at 30 September 2011 are set out in Note 26 to the Banking Group's financial statements included in the Disclosure Statement for the year ended 30 September 2011.

Note 11 Commitments and contingent liabilities

	The 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	108	77	113
Loan commitments with certain drawdown	145	142	164
Transaction-related contingent items	691	257	257
Short-term, self liquidating trade-related contingent liabilities	503	407	339
Other commitments to provide financial services	16,785	10,610	11,403
Total other contingent liabilities and commitments	18,232	11,493	12,276

The Banking Group is 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, bill endorsements, financial guarantees, standby letters of credit and underwriting facilities.

The 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 Banking Group's option.

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

The Banking Group takes collateral where it is considered necessary to support both on and off-balance sheet financial instruments with credit risk. The 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.

The 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 Westpac NZ Securitisation Limited ('WNZSL') (pursuant to its securitisation programme) where the securitised loans cease to conform to certain terms and conditions of the WNZSL securitisation programme;
- (c) held by WNZCBL (pursuant to the WSNZL Global Covered Bond Programme) 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 Banking Group will arise from these obligations.

The Bank 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 the Bank. 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). As the proceeds of the debt issuances are immediately on-lent to the Bank, the aggregate amount guaranteed by the Bank is already reflected in the Bank's balance sheet as part of the amounts due to related entities.

In addition, the Banking Group (through WNZCBL) guarantees covered bonds issued by WSNZL (refer to Note 6 for further details).

Other contingent liabilities

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

Notes to the financial statements

Note 11 Commitments and contingent liabilities (continued)

Westpac (NZ) Investments Limited ('WNZIL'), a subsidiary of the Bank, leases the majority of the properties the Bank occupies. As is normal practice, the lease agreements contain 'make good' provisions, which require WNZIL, upon termination of the 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 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 Banking Group had commitments in respect of interest rate swap transactions, provision of credit, underwriting facilities and other arrangements entered into in the normal course of business. The Banking Group has management systems and operational controls in place to manage interest rate, currency and credit risks. Accordingly, it is not envisaged that any liability resulting in a material loss to the Banking Group will arise from these transactions to the extent that a provision has not been provided for under the Banking Group's usual practices.

Note 12 Segment information

The Banking Group operates predominantly in the consumer, business, 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 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 Banking Group does not rely on any single major customer for its revenue base.

The Banking Group's operating segments are defined by the customers they serve and the services they provide. The 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.¹

Retail Banking and Wealth have been aggregated and disclosed as the Consumer Banking reportable segment. Business Banking and Institutional Banking are separate 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 of the results, assets and liabilities of the Banking Group's controlled entities in the preparation of the consolidated financial statements of the Banking Group;
- results of certain entities included for management reporting purposes, but excluded from the consolidated financial statements of the Banking Group for statutory financial reporting purposes; and
- results of certain business units excluded for management reporting purposes, but included within the consolidated financial statements of the Banking Group for statutory financial reporting purposes.

¹ On 1 November 2011, the NZ Branch transferred additional institutional banking business activities and associated employees to the Bank (refer to Note 2 Business combination – transfer of operations for further details). Further information on the NZ Branch is available in Westpac Banking Corporation's most recently published Disclosure Statement.

Note 12 Segment information (continued)

	The Banking Group				Total Consolidated \$m
	Business Banking \$m	Consumer Banking \$m	Institutional Banking \$m	Reconciling Items \$m	
Three months ended 31 December 2011 (Unaudited)					
Revenue from external customers ¹	467	846	97	(380)	1,030
Internal revenue	1	-	-	(1)	-
Total segment revenue	468	846	97	(381)	1,030
Profit before income tax expense	106	203	36	(144)	201
Income tax expense	(30)	(54)	(8)	36	(56)
Profit after income tax expense	76	149	28	(108)	145
Profit after income tax expense attributable to:					
Owners of the Banking Group	76	148	28	(108)	144
Non-controlling interests	-	1	-	-	1
	76	149	28	(108)	145
Total gross loans	21,350	30,673	6,435	(207)	58,251
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	-	(377)	972
Internal revenue	1	-	-	(1)	-
Total segment revenue	478	872	-	(378)	972
Profit before income tax expense	82	172	-	(118)	136
Income tax expense	(25)	(50)	-	34	(41)
Profit after income tax expense	57	122	-	(84)	95
Profit after income tax expense attributable to:					
Owners of the Banking Group	57	121	-	(84)	94
Non-controlling interests	-	1	-	-	1
	57	122	-	(84)	95
Total gross loans	21,039	29,980	-	(198)	50,821
Total deposits	9,509	21,715	-	2,030	33,254
Year ended 30 September 2011 (Audited)					
Revenue from external customers ¹	1,850	3,404	-	(1,425)	3,829
Internal revenue	4	1	-	(5)	-
Total segment revenue	1,854	3,405	-	(1,430)	3,829
Profit before income tax expense	310	766	-	(446)	630
Income tax expense	(90)	(214)	-	107	(197)
Profit after income tax expense	220	552	-	(339)	433
Profit after income tax expense attributable to:					
Owners of the Banking Group	220	548	-	(339)	429
Non-controlling interests	-	4	-	-	4
	220	552	-	(339)	433
Total gross loans	21,421	30,625	-	(223)	51,823
Total deposits	10,387	22,908	-	1,591	34,886

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

Notes to the financial statements

Note 13 Securitisation, funds management and other fiduciary activities

There have been no material changes since 30 September 2011 in the nature of the Banking Group's 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.

Risk management

Since 30 September 2011, there has been no material change in the Banking Group's risk management framework which has been put in place to help minimise the possibility that any difficulties arising from the above activities would impact adversely on the Banking Group.

Furthermore, during the three months ended 31 December 2011:

- financial services provided by any member of the Banking Group to entities which conduct the trust, custodial, securitisation, funds management and other fiduciary activities, or on whose behalf insurance products are marketed or distributed, have been provided on arm's length terms and conditions and at fair value; and
- assets purchased by any member of the Banking Group from entities which conduct the trust, custodial, securitisation, funds management and other fiduciary activities specified above, or on whose behalf insurance products are marketed or distributed, have been purchased on arm's length terms and conditions and at fair value.

Note 14 Insurance business

The Banking Group does not conduct any insurance business (as that term is defined in the Order).

Note 15 Capital adequacy

The information contained in this note has been derived in accordance with the Banking Group's conditions of registration which relate to capital adequacy and the document 'Capital adequacy framework (internal models based approach)' (BS2B) issued by the Reserve Bank.

The Banking Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Banking Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Reserve Bank in supervising the Banking Group.

During the three months ended 31 December 2011, the Banking Group complied in full with all its externally imposed capital requirements.

Summary of ICAAP

The Banking Group's Internal Capital Adequacy Assessment Process ('ICAAP') outlines the Banking Group's approach to ensuring it has sufficient available capital to meet minimum capital requirements, even under stressed scenarios. The Reserve Bank document 'Guidelines on a bank's internal capital adequacy assessment process (ICAAP)' (BS12) reinforces this internal discipline by incorporating a specific requirement that the board of a New Zealand incorporated bank has a duty to ensure that capital held by the bank is commensurate with the level and extent of its risks.

The Banking Group's ICAAP is founded on the core principle that its target level of capital is directly related to its risk appetite and corresponding risk profile. The connection between these two concepts is provided by economic capital. The economic capital requirement is calibrated to the Banking Group's target senior debt rating, which is one of the key parameters defined in the risk appetite statement. In addition to the economic capital based principles outlined above, the ICAAP also takes account of stress testing, minimum prudential capital ratios, thin capitalisation requirements and peer group comparatives.

The Banking Group's capital summary

	The Banking Group
	31 December 2011 Unaudited \$m
Tier One Capital	
Issued and fully paid up ordinary share capital	4,600
Revenue and similar reserves ¹	871
Non-controlling interests	9
Less deductions from Tier One Capital	
Goodwill	(477)
Other intangible assets	(96)
Cash flow hedge reserve	(71)
Expected loss excess over eligible allowance	(64)
Total Tier One Capital	4,772
Tier Two Capital	
Upper Tier Two Capital	
Perpetual subordinated notes	970
Current period's unaudited retained profits	144
B Voting shares	-
Total Upper – Tier Two Capital	1,114
Less deductions from Tier Two Capital	
Expected loss excess over eligible allowance	(64)
Lower Tier Two Capital	-
Total Tier Two Capital	1,050
Total Capital	5,822

¹ Revenue and similar reserves consist of cash flow hedge reserve, available-for-sale securities reserve and prior periods' retained profits net of dividend paid (refer to page 10).

Note 15 Capital adequacy (continued)

Capital structure

Ordinary shares

In accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) ordinary share capital is classified as Tier One Capital.

The ordinary shares have no par value. Subject to the constitution of the Bank, each ordinary share of the Bank carries the right to one vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Board and the right to an equal share in the distribution of the surplus assets of the Bank in the event of liquidation.

B Voting shares

There are 20,000 B Voting shares on issue as at 31 December 2011 (31 December 2010: 20,000, 30 September 2011: 20,000) with an aggregate par value of \$0.02 million (31 December 2010: \$0.02 million, 30 September 2011: \$0.02 million).

The B Voting shares are classified as Upper Tier Two Capital. The holder of each B Voting share is entitled to cast 31,250 votes (which, as at the date of issue, carried an entitlement to 20% of the voting rights entitled to be cast on a poll at a meeting of shareholders of the Bank). No dividends are payable on B Voting shares. In the event of liquidation of the Bank, a holder of a B Voting share is entitled to receive the amount of the issue price of each B Voting share held, and in priority to amounts paid to holders of ordinary shares, but is not entitled to any further amount of any surplus assets.

Perpetual subordinated notes

Perpetual subordinated notes have been issued to WNZGL and constitute Upper Tier Two Capital of the Banking Group. The notes have no final maturity date, but may be redeemed at par only at the option of the Bank. The notes pay quarterly distributions provided that at the time payment is made the Bank will be solvent immediately after payment. The notes are direct and unsecured obligations of the Bank and are subordinated to the claims of all creditors (including depositors) of the Bank other than those creditors whose claims against the Bank are expressed to rank equally with or after the claims of the note holder.

Reserves

Available-for-sale securities reserve

The available-for-sale securities reserve comprises the changes in the fair value of available-for-sale securities, net of tax. These changes are recognised in the income statement as other income when the asset is either derecognised or impaired.

Cash flow hedge reserve

The cash flow hedge reserve comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments.

Basel II

The Basel II Framework is built on three mutually reinforcing pillars. Pillar 1 sets out the mechanics for minimum capital adequacy requirements for credit, traded market and operational risks. Pillar 2 relates to the internal assessment of capital adequacy and the supervisory review process. Pillar 3 deals with market disclosure and market discipline.

The table below is disclosed in accordance with Clause 1 of Schedule 12 to the Order and represents the capital adequacy calculation based on the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B).

	The Banking Group	
	31 December 2011 Unaudited %	31 December 2010 Unaudited %
Capital adequacy ratios		
Tier One Capital ratio	11.1	9.7
Total Capital ratio	13.6	12.7
Reserve Bank minimum ratios		
Tier One Capital ratio ¹	4.0	4.0
Total Capital ratio	8.0	8.0

¹ Locally incorporated registered banks having the benefit of the Wholesale Funding Guarantee Facility are required to maintain an additional 2% Tier One Capital ratio buffer. Further information about the Wholesale Guarantee is included in the Bank's Disclosure Statement for the year ended 30 September 2011.

Notes to the financial statements

Note 15 Capital adequacy (continued)

The Banking Group's Pillar 1 total capital requirement

	The Banking Group		
	As at 31 December 2011 (Unaudited)		
	Total Exposure After Credit Risk Mitigation \$m	Risk-weighted Exposure or Implied Risk-weighted Exposure (scaled) ¹ \$m	Total Capital Requirement \$m
Credit risk			
Exposures subject to the internal ratings based approach	77,668	32,049	2,563
Exposures not subject to the internal ratings based approach			
Equity exposures	57	171	14
Specialised lending subject to the slotting approach	4,640	4,660	372
Exposures subject to the standardised approach	2,891	1,073	86
Total exposures not subject to the internal ratings based approach	7,588	5,904	472
Total credit risk	85,256	37,953	3,035
Operational risk	N/A	4,013	321
Market risk	N/A	909	74
Total	85,256	42,875	3,430

¹ As disclosed in the Bank's conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06. The full details of the Bank's conditions of registration are included on pages 2 to 5.

Pillar 2 capital for other material risk

The Banking Group's ICAAP identifies and measures all 'other material risk', which is a combination of business risk, liquidity risk and other asset risk. These risks are defined as:

- Business risk – reflects the risk associated with the vulnerability of a line of business to changes in the business environment.
- Liquidity risk – is the potential inability to meet payment obligations as they come due, without incurring unacceptable losses.
- Other asset risk – reflects the strategic risk associated with the composition of the balance sheet that is not reflected in other risk categories.

The Banking Group's internal capital allocation for 'other material risk' is:

	The Banking Group	
	31 December 2011 Unaudited \$m	31 December 2010 Unaudited \$m
Internal capital allocation		
Other material risk	311	349

Basel I

The table below represents the capital adequacy calculation based on the Basel I Capital adequacy framework.

For the purposes of calculating the capital adequacy ratios for the Bank, wholly-owned and wholly-funded subsidiaries of the Banking Group are consolidated with the Bank. In this context, wholly-funded by the Bank means there are no liabilities (including off-balance sheet obligations) to anyone other than the Bank, the Inland Revenue or trade creditors, where aggregate exposure to trade creditors does not exceed 5% of the subsidiary's shareholders' equity. Wholly-owned by the Bank means that all equity issued by the subsidiary is held by the Bank.

	The Bank	
	31 December 2011 Unaudited %	31 December 2010 Unaudited %
Capital adequacy ratios		
Tier One Capital ratio	8.5	7.4
Total Capital ratio	10.5	9.8

Note 15 Capital adequacy (continued)

Ultimate Parent Bank Group Basel II capital adequacy ratios

	31 December 2011 Unaudited %	31 December 2010 Unaudited %
Ultimate Parent Bank Group¹		
Tier One Capital ratio	9.8	9.2
Total Capital ratio	11.0	10.5
Ultimate Parent Bank (Extended Licensed Entity)^{1, 2}		
Tier One Capital ratio	9.7	9.4
Total Capital ratio	11.3	11.2

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

2 The capital ratios of the Ultimate Parent Bank (Extended Licensed Entity) are publicly available in the Ultimate Parent Bank Group's Basel II Pillar 3 report. This information is made available to users via the Ultimate Parent Bank's website (www.westpac.com.au).

Basel II came into effect on 1 January 2008. The Ultimate Parent Bank Group is accredited by APRA to apply the Advanced Internal Ratings Based ('Advanced IRB') approach for credit risk, the Advanced Measurement Approach ('AMA') for operational risk and the internal model approach for interest rate risk in the banking book 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 Basel II (internal models based) approach. With this accreditation the Ultimate Parent Bank 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 Ultimate Parent Bank's website (www.westpac.com.au). The aim is to allow the market to better assess the Ultimate Parent Bank Group's risk and reward assessment process and hence increase the scrutiny of these processes.

The Ultimate Parent Bank Group, and the Ultimate Parent 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 Ultimate Parent Bank Group, which is not made publicly available.

Note 16 Risk management

The 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 Banking Group has adjusted the emphasis assigned to long-standing inputs to the capital model.

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

16.1 Operational risk

The Banking Group's operational risk capital requirement

	The Banking Group As at 31 December 2011 (Unaudited)	
	Implied Risk-weighted Exposure \$m	Total Operational Risk Capital Requirement \$m
Methodology implemented		
Advanced measurement approach		
Operational risk	4,013	321

16.2 Credit risk

Credit risk mitigation

The Banking Group evaluates each customer's credit risk on a case-by-case basis and also takes collateral where it is considered necessary to mitigate credit risk. The amount of collateral taken is based on management's credit evaluation of the counterparty. The collateral taken may vary, but could include cash deposits, receivables, inventory, plant and equipment, real estate and/or investments.

The Banking Group includes the effect of credit risk mitigation through eligible guarantees within the calculation applied to Loss Given Default. The value of the guarantee is not separately recorded, and therefore not available for disclosure.

The Banking Group has not obtained any financial or non-financial assets by taking possession of collateral it holds as security or calling on other credit enhancements.

Risk reduction by way of current account set-offs is recognised for exposures to creditworthy customers domiciled in New Zealand only. Customers are required to enter into formal agreements giving the Banking Group the unfettered right to set-off gross credit and debit balances in their nominated accounts to determine the Bank's net exposure within New Zealand. Cross-border set-offs are not permitted.

Payment and close-out netting is undertaken for off-balance sheet financial market transactions with counterparties with whom the Banking Group has entered into legally enforceable master dealing agreements which allow such netting in specified jurisdictions. Payment netting allows the Bank to net settlements on any day to reduce cash flow exchanges between counterparties. Close-out netting effectively aggregates pre-settlement risk exposure at the time of default, thus reducing overall exposure.

Notes to the financial statements

Note 16 Risk management (continued)

Definitions of PD, LGD, EAD and TCE

(i) Probability of Default ('PD')

PD is a through the cycle assessment of the likelihood of a customer defaulting on its financial obligations within one year.

(ii) Loss Given Default ('LGD')

LGD represents an estimate of the expected severity of a loss to the Banking Group should a customer default occur during an economic downturn.

(iii) Exposure at Default ('EAD')

EAD represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default.

(iv) Total Committed Exposure ('TCE')

TCE represents the sum of on-and off-balance sheet exposures.

The Banking Group's credit risk exposures by asset class as at 31 December 2011 (Unaudited)

PD Band (%)	TCE \$m	EAD \$m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled) ¹ \$m	Required Regulatory Capital \$m
Residential mortgages							
0.00 to 0.10	-	-	-	-	-	-	-
0.10 to 0.25	2,142	1,839	-	22	8	156	12
0.25 to 1.0	19,821	18,987	1	22	19	3,699	296
1.0 to 2.5	14,581	14,233	1	22	36	5,092	407
2.5 to 10.0	4,047	3,998	5	22	70	2,810	225
10.0 to 99.99	-	-	-	-	-	-	-
Default	597	595	100	22	205	1,221	98
Total	41,188	39,652	3	22	33	12,978	1,038
Other retail (credit cards, personal loans, personal overdrafts)							
0.00 to 0.10	-	-	-	-	-	-	-
0.10 to 0.25	659	454	-	41	14	63	5
0.25 to 1.0	1,817	1,098	-	63	40	434	35
1.0 to 2.5	1,316	1,157	2	67	94	1,087	87
2.5 to 10.0	350	337	5	82	130	438	35
10.0 to 99.99	231	230	19	69	151	348	28
Default	29	27	100	66	378	102	8
Total	4,402	3,303	4	64	75	2,472	198
Small business							
0.00 to 0.10	-	-	-	-	-	-	-
0.10 to 0.25	273	199	-	74	26	52	4
0.25 to 1.0	783	780	1	23	22	171	14
1.0 to 2.5	-	-	-	-	-	-	-
2.5 to 10.0	2,037	2,005	3	19	29	580	46
10.0 to 99.99	40	41	21	26	59	24	2
Default	127	127	100	23	276	350	28
Total	3,260	3,152	7	24	37	1,177	94

¹ As disclosed in the Bank's conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06. The full details of the Bank's conditions of registration are included on pages 2 to 5.

Note 16 Risk management (continued)

PD Grade	TCE \$m	EAD \$m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled) ¹ \$m	Required Regulatory Capital \$m
Banking Group – Corporate/ Business lending							
AAA	371	371	-	21	8	30	2
AA	1,371	1,308	-	36	14	182	15
A	3,048	3,023	-	50	25	759	61
BBB	5,767	5,678	-	46	49	2,785	223
BB	8,439	8,423	2	36	82	6,866	548
B	180	180	3	32	89	160	13
Other	1,273	1,270	23	44	235	2,986	239
Default	416	566	100	44	192	1,088	87
Total	20,865	20,819	5	41	71	14,856	1,188
Sovereign							
AAA	-	-	-	-	-	-	-
AA	4,339	4,183	-	6	3	105	9
A	800	800	-	20	11	91	7
BBB	328	328	-	20	11	36	3
BB	46	46	2	35	13	6	-
B	1	1	3	60	100	1	-
Other	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	-
Total	5,514	5,358	-	9	4	239	19
Bank							
AAA	510	510	-	9	5	26	2
AA	1,705	1,703	-	57	16	266	21
A	142	142	-	60	19	27	2
BBB	77	76	-	20	11	8	1
BB	2	2	-	60	-	-	-
B	2	1	-	60	-	-	-
Other	1	1	-	60	-	-	-
Default	-	-	-	-	-	-	-
Total	2,439	2,435	-	46	13	327	26

The Banking Group's equity as at 31 December 2011 (Unaudited)

Equity	TCE \$m	EAD \$m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled) ¹ \$m	Required Regulatory Capital \$m
Equity holdings (not deducted from capital) that are publicly traded	57	57	-	-	300	171	14

¹ As disclosed in the Bank's conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06. The full details of the Bank's conditions of registration are included on pages 2 to 5.

Notes to the financial statements

Note 16 Risk management (continued)

The following table summarises the Banking Group's credit risk exposures by asset class arising from undrawn commitments and other off-balance sheet exposures. These amounts are included in the previous tables.

	Undrawn Commitments and Other Off-balance Sheet Amounts		Market Related Contracts	
	Value \$m	EAD \$m	Value \$m	EAD \$m
Residential mortgages	6,200	4,663	-	-
Other retail (Credit cards, personal loans, personal overdrafts)	2,639	1,541	-	-
Small business	1,002	894	-	-
Corporate/Business lending	6,684	6,519	-	-
Sovereign	1,115	960	-	-
Bank	295	294	-	-
Total	17,935	14,871	-	-

The Banking Group's Specialised lending: Project and property finance credit risk exposures as at 31 December 2011 (Unaudited)

Supervisory slotting grade	TCE \$m	EAD \$m	Average Risk Weight %	Risk-weighted Assets (scaled) ¹ \$m	Required Regulatory Capital \$m
Strong	791	791	70	554	44
Good	2,141	2,142	90	1,927	154
Satisfactory	934	934	115	1,074	86
Weak	442	442	250	1,105	88
Default	332	459	-	-	-
Total	4,640	4,768	98	4,660	372

The following table summarises the Banking Group's Specialised lending: Project and property finance credit risk exposures arising from undrawn commitments and other off-balance sheet exposures. These amounts are included in the above table.

	TCE \$m	EAD \$m	Average Risk Weight %	Risk-weighted Assets (scaled) ¹ \$m	Required Regulatory Capital \$m
Undrawn commitments and other off-balance sheet amounts	269	269	103	277	22

The Banking Group's credit risk exposures subject to the standardised approach as at 31 December 2011 (Unaudited)

	TCE \$m	EAD \$m	Average Risk Weight %	Risk-weighted Exposure \$m	Required Regulatory Capital \$m
Property, plant and equipment and other assets	375	375	100	375	30
Related parties	1,880	1,880	27	510	41
Total on-balance sheet exposures	2,255	2,255		885	71

	Total Principal Amount \$m	Credit Equivalent Amount \$m	Average Risk Weight %	Risk-weighted Exposure \$m	Required Regulatory Capital \$m
Market related contracts subject to the standardised approach					
Foreign exchange contracts	12,346	401	20	80	6
Interest rate contracts	38,934	235	20	47	4
Total market related contracts subject to the standardised approach	51,280	636		127	10
Total credit risk exposures subject to the standardised approach	53,535	2,891		1,012	81
After adjustment for scalar¹				1,073	86

¹ As disclosed in the Bank's conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06. The full details of the Bank's conditions of registration are included on pages 2 to 5.

Note 16 Risk management (continued)

The Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 31 December 2011 (Unaudited)

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 Bank 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 as required under Clause 7 of Schedule 12 to the Order. For these loans, the Bank 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.

LVR range	Does not Exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and not 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
On-balance sheet exposures	12,970	5,638	7,758	5,485	3,137	34,988
Undrawn commitments and other off-balance sheet exposures	3,789	911	881	385	234	6,200
Value of exposures (\$m)	16,759	6,549	8,639	5,870	3,371	41,188

The Banking Group's reconciliation of residential mortgage-related amounts

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

	The Banking Group 31 December 2011 Unaudited \$m
Term loans – Housing (as disclosed in Note 6) and Residential mortgages – total gross loans (as disclosed in Note 7)	35,108
<i>Reconciling items:</i>	
Unamortised deferred fees and expenses	(46)
Fair value hedge adjustments	(74)
Undrawn commitments and other off-balance sheet exposures	6,200
Residential mortgages by LVR	41,188

16.3 Market risk

Market risk notional capital charges

The Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) and is determined for the three-month period ended 31 December 2011. The end-of-period aggregate market risk exposure is calculated from the period end balance sheet information. The peak end-of-day exposure is derived by taking the largest daily internal risk measure (Value-at-Risk ('VaR')) during the quarter, comparing this to the current and previous period end VaRs and calculating the peak risk by using the ratio of the peak to the period ends. This method is approximate only as the two methods differ in the assumed repricing characteristics of the balance sheet. For each category of market risk, the Banking Group's peak end-of-day capital charge is the aggregate capital charge for that category of market risk derived in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B).

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

	The Banking Group 31 December 2011 (Unaudited)	
	Implied Risk-weighted Exposure \$m	Aggregate Capital Charge \$m
End-of-period		
Interest rate risk	795	64
Foreign currency risk	57	5
Equity risk	57	5
Peak end-of-day		
Interest rate risk	1,183	95
Foreign currency risk	57	5
Equity risk	57	5

Notes to the financial statements

Note 16 Risk management (continued)

16.4 Liquidity risk

Liquid assets

The table below shows the 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 Banking Group's liquidity requirements. In management's opinion, liquidity is sufficient to meet the Banking Group's present requirements.

	The Banking Group
	31 December 2011
	Unaudited
	\$m
Cash	1,214
Supranational securities	326
NZ Government securities	4,022
NZ public securities	138
NZ corporate securities	1,784
Residential mortgage-backed securities	3,992
Total liquid assets	11,476

Note 17 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 Banking Group has an aggregate credit exposure that equals or exceeds 10% of the 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 Banking Group has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Banking Group's equity:

- as at 31 December 2011 was one counterparty with a credit rating of A- or A3 or above, or its equivalent, having an aggregate credit exposure between 10%-14%; and
- for the three months ended 31 December 2011 was one counterparty with a credit rating of A- or A3 or above, or its equivalent, having a peak end-of-day aggregate credit exposure between 10%-14%.

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 by the 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 exclude exposures to connected persons, 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 Banking Group and were calculated net of individually assessed provisions.

